

TAIWAN

Lite-On Tech

30 October 2008

2301 TT **Outperform**

Stock price as of 29 Oct 08	NT\$	18.40
12-month target	NT\$	25.00
Upside/downside	%	+35.9
Valuation	NT\$	25.00
- PER		

GICS sector	technology hardware & equipment	
Market cap	NT\$m	41,053
30-day avg turnover	NT\$m	179.3
Market cap	US\$m	1,223
Foreign ownership	%	44.4
Number shares on issue	m	2,231

Investment fundamentals

Year end 31 Dec		2007A	2008E	2009E	2010E
Total revenue	bn	261.9	234.6	203.9	218.5
Reported profit	bn	8.5	5.5	5.9	6.8
Profit bonus exp	bn	6.0	5.5	5.9	6.8
Bon exp/rep prof	%	29.1	0.0	0.0	0.0
Adjusted profit	bn	8.5	5.5	5.9	6.8
EPS rep	NT\$	4.53	2.52	2.74	3.13
EPS rep growth	%	3.7	-44.5	8.7	14.4
EPS bonus exp	NT\$	3.21	2.52	2.74	3.13
EPS bonus growth	%	3.3	-21.6	8.7	14.4
PE rep	x	4.1	7.3	6.7	5.9
PE bonus exp	x	5.7	7.3	6.7	5.9
Total DPS	NT\$	2.94	1.55	1.75	2.50
Total div yield	%	16.0	8.4	9.5	13.6
ROA	%	5.8	5.0	5.7	6.2
ROE	%	10.7	7.7	8.9	10.0
EV/EBITDA	x	1.9	1.8	1.7	1.5
Net debt/equity	%	-9.9	-0.2	-3.3	-9.7
Price/book	x	0.5	0.6	0.6	0.6

2301 TT rel Taix performance, & rec history



Source: Datastream, Macquarie Research, TEJ, company data, October 2008 (all figures in NT\$ unless noted)

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Positive momentum

Event

- Lite-On Tech (LOT) announced great results. 3Q08 EPS was 30% above our EPS estimate at NT\$0.94 (+50% QoQ, -8% YoY, bonus adjusted).
- Perlos also substantially beat expectations, its operating margin improved from 2.6% in 2Q08 to 6.7%, compared to our estimate of 3.0%.
- A second buyback of 40m shares was announced. In total, LOT will buy back 70m shares or 3% of the total outstanding shares, for employee bonuses.

Impact

- 3Q08 standalone operating margin jumped to 4.9%**, up from 2.7% in 2Q08 and beat company guidance of 3.5–4.1% and our aggressive estimate of 4.1%. As a result, operating income sprang to NT\$1.9bn (+88% QoQ, +38% YoY, bonus adjusted). This was due to changes in product mix (the LCD monitor assembly business was divested) and higher margins for power supplies and casings due to lower commodity prices.
- Looking ahead**, LOT guides for 4Q08 standalone operating margins to improve further to 5.5–6.2% and sales to decline by 20–25% QoQ and 40–45% YoY. Sales excluding LCD monitors on a pro forma basis should be flattish QoQ. This is mainly due to product mix as 4Q08 will be the first full quarter without the LCD monitor business (3Q08 still had two months of LCD monitor sales). Even with weak demand, LOT has pricing power as the industry is essentially dominated by Delta (2308 TT, NT\$77, Outperform, TP: NT\$94) and LOT. For the 2009 outlook, visibility remains low. However, management guides that power supplies should continue to be the main growth driver, driven by non-PC power supply products.

Earnings revision

- We raise 2008 earnings by 10% to reflect better than expected 3Q08 results. We conservatively lower 2009 and 2010 earnings by 21 and 22%, respectively, given macroeconomic concerns.

Price catalyst

- 12-month price target: NT\$25.00 based on a PER methodology.
- Catalyst: Operating margin improvement.

Action and recommendation

- We maintain our Outperform and lower our target price to NT\$25 based on 9x 2009E PER from NT\$40.
- Our view vs consensus:** LOT is one of our top, long picks in Taiwan given its solid balance sheet, healthy cashflows, improving fundamentals, and cheap valuations. Despite macroeconomic headwinds, we are happy to see LOT execute well in a difficult environment and encourage investors to notice the positive changes taking place at this company.

Please refer to the important disclosures and analyst certification on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.

Analyst meeting highlights

Share buyback

- LOT has announced another buyback of 40m shares at NT\$13.0–37.1 between 29 October and 28 December. The shares bought back will not be cancelled but used instead for employee bonuses. After its first share buyback of 30m shares announced in its August conference, LOT has bought back 60~70% so far. In total, LOT will buy back 70m shares or 3% of the total outstanding shares. We see this as a good use of LOT's net cash position.
- The total shares that LOT is buying back will cost LOT approximately 5% of its net cash position.

Power supplies

- Power supplies have been the major growth and earnings driver for 2008 and will continue to fuel growth and earnings for 2009.
- Management indicates that LOT's pricing power in power supplies remains very sturdy.
- Growth for 2009 will be fuelled by further growth in non-PC markets. Non-PC power supplies currently 20% of power supply revenues, this number should reach 30% in 2009
- LCD TV power supplies have been growing slower than expected. Management said LCD TV brand makers have been reluctant to outsource mainstream models. However, LOT expects that as LCD TV pricing continues to fall, the pressure will increase. LOT forecasts its market share should grow from 3% in 2008 to 10% in 2009.
- Margins should stabilize or slightly show improvements as commodity pricing keeps falling and given LOT's continued effort in vertical integration including transformers, inverters, casings and metal parts, etc. Pricing pressure is normal for power supplies after the price hikes in July. With a sharper fall in commodity costs, we expect margins to at least hold steady if not rise further.

LED

- The strategy in LEDs is to diversify product offerings. LOT is involved with both visible LEDs and invisible LEDs.
- Visible LEDs are showing successful penetration into NB backlights. LOT currently is manufacturing for 8.9" and 10" netbook backlights. Revenues from NB backlights should account for 10% of overall LED sales in 2009, up from 5% in 2008. LOT is one of the only two LED packagers in Taiwan that are approved to make LED NB backlights so far.
- Invisible LEDs are also growing as LOT integrates Avago's IrDA business unit. In addition to existing sensor business, LOT is also winning qualification for automotive and medical related devices that use LED sensors.
- LEDs will be a major growth driver in 2009. The biggest challenge would be ASP erosion. LOT's strategy is to work with patent and technology owners to differentiate from low-end LED suppliers.
- LOT is developing LCD TV-related products. However, there would be little or no revenue contribution until a year or two later.

Casings

- This business is undergoing a major transformation where LOT is actively lowering exposure to DT PCs and instead provides services to its other businesses.
- It currently makes metal chassis for its other products such as power supplies and casings for its adapters, printers, etc.
- LOT will continue to sharpen its plastic injection molding and metal stamping capacity. Customers so far appreciate the vertical integration.
- Management indicated that competition in casings is decreasing. There have been many tooling and injection shops going out of business.
- Management expects this business to be flattish in 4Q08 and showing little growth in the next two years.

Imaging

- The Imaging business saw deteriorating revenue and scale in the past two years given that the printer market overall was shrinking and its main customer Lexmark was losing market share.
- LOT has changed the strategy for the imaging business starting from 2008 to design and manufacture low-end consumer printers in addition to its existing mid-to-high-end exposure.
- LOT is also developing its own printer engines to help secure profitability.

Perlos

- 3Q08 results beat its guidance and our expectations. Operating margin was 6.7% compared to the company's guidance of 3-4% and our estimate of 3%. Revenues grew 18% QoQ, also higher than the company's guidance of 10–15% sequential growth and our estimate of 8%.
- Operating expense ratio was lowered substantially from 13.2% to 12.6% due to multiple cost reduction programs. Management provided that cost reductions will continue and operating margins should stabilize around 5–6%.
- The shipment ramp-up was stronger than our conservative forecasts. Management provided that the relationship with its largest customer, Nokia, is progressing well. In addition, Perlos has started small shipments to new customers.
- Management guides 4Q08 to see 10% revenue growth QoQ with operating margin stabilizing at 5–6%.
- Perlos now contributes 9% to LOT's total earnings; we expect this number to continue growing.

Others

- Management guided that there is no more outstanding liabilities for LOT from the transaction with Wistron.
- Despite lower visibility in demand and increasing credit risk globally, LOT's management indicated that the dividend payout policy will remain unchanged at 70%.
- After the buyback, the rest of the cash including the syndicated loan proceeds will be used to fund working capital requirements and potential strategic investment targets. Management said all the considered targets are for synergies with the company's core businesses.

Fig 1 Standalone income statement, reported

Year end 31 Dec	2004A	2005A	2006A	2007A	2008E	2009E	2010E	1Q08A	2Q08A	3Q08A	4Q08E
Net sales	163,803	168,538	163,849	184,517	144,318	109,200	119,950	40,866	37,587	38,315	27,550
Gross profit	15,298	17,817	18,081	18,102	15,738	15,140	17,125	3,551	3,760	4,634	3,793
Operating expenses	10,264	11,146	10,360	11,272	10,424	9,150	10,300	2,691	2,750	2,753	2,230
Operating income	5,034	6,672	7,721	6,830	5,314	5,990	6,825	860	1,010	1,881	1,563
Net non-operating income	3,135	3,287	1,832	3,042	1,538	1,571	1,869	44	673	539	282
Pre-tax income	8,169	9,959	9,553	9,873	6,852	7,561	8,694	904	1,683	2,420	1,845
Income tax (credit)	612	1,227	1,151	1,383	1,307	1,621	1,853	266	314	332	395
Net income	7,557	8,732	8,402	8,490	5,545	5,940	6,841	638	1,369	2,088	1,451
Shares, wgt avg (m)	1,790	1,814	1,923	1,874	2,204	2,171	2,186	2,191	2,191	2,231	2,201
EPS (NT\$)	4.22	4.81	4.37	4.53	2.52	2.74	3.13	0.29	0.62	0.94	0.66
% ch YoY/QoQ											
Net sales	52	3	-3	13	-22	-24	10	-23	-8	2	-28
Gross profit	25	16	1	0	-13	-4	13	-30	6	23	-18
Operating income	51	33	16	-12	-22	13	14	-55	17	86	-17
Net non-operating income	-38	5	-44	66	-49	2	19	-87	1,430	-20	-48
Net income	4	16	-4	1	-35	7	15	-68	115	52	-31
EPS	2	14	-9	4	-44	9	14	-63	115	50	-30
Margins (%)											
Gross	9.3	10.6	11.0	9.8	10.9	13.9	14.3	8.7	10.0	12.1	13.8
Operating	3.1	4.0	4.7	3.7	3.7	5.5	5.7	2.1	2.7	4.9	5.7
Tax	7.5	12.3	12.1	14.0	19.1	21.4	21.3	29.5	18.6	13.7	21.4
Net	4.6	5.2	5.1	4.6	3.8	5.4	5.7	1.6	3.6	5.4	5.3

As per ROC GAAP reporting, financials from and including 2008 include bonus expenses while financials before 2008 exclude bonus expenses.

Source: Macquarie Research, TEJ, company data, October 2008

Fig 2 Standalone income statement, bonus adjusted

Year end 31 Dec (NT\$m)	2004A	2005A	2006A	2007A	2008E	2009E	2010E	1Q08A	2Q08A	3Q08A	4Q08E
Net sales	163,803	168,538	163,849	184,517	144,318	109,200	119,950	40,866	37,587	38,315	27,550
Gross profit	15,298	17,817	18,081	18,102	15,738	15,140	17,125	3,551	3,760	4,634	3,793
Operating expenses	12,226	13,531	12,787	13,743	10,424	9,150	10,300	2,691	2,750	2,753	2,230
Non-bonus expenses	10,264	11,146	10,360	11,272	9,293	7,888	8,847	2,524	2,412	2,410	1,912
Bonus at market value	1,962	2,386	2,427	2,471	1,131	1,262	1,453	167	339	343	318
Operating income	3,073	4,286	5,294	4,359	5,314	5,990	6,825	860	1,010	1,881	1,563
Net non-operating income	3,135	3,287	1,832	3,042	1,538	1,571	1,869	44	673	539	282
Pre-tax income	6,208	7,574	7,127	7,401	6,852	7,561	8,694	904	1,683	2,420	1,845
Income tax (credit)	612	1,227	1,151	1,383	1,307	1,621	1,853	266	314	332	395
Net income	5,595	6,347	5,975	6,019	5,545	5,940	6,841	638	1,369	2,088	1,451
Shares, wgt avg, adj (m)	1,790	1,814	1,923	1,874	2,204	2,171	2,186	2,191	2,191	2,231	2,201
EPS, adj (NT\$)	3.13	3.50	3.11	3.21	2.52	2.74	3.13	0.29	0.62	0.94	0.66
Net income before bonus	7,557	8,732	8,402	8,490	6,677	7,202	8,294	804	1,708	2,431	1,769
Bonus as % of profit pre bonus	26	27	29	29	17	18	18	21	20	14	18
% ch YoY/QoQ											
Sales	52	3	-3	13	-22	-24	10	-23	-8	2	-28
Gross profit	25	16	1	0	-13	-4	13	-30	6	23	-18
Operating income	95	39	24	-18	22	13	14	-36	17	86	-17
Net income	1	13	-6	1	-8	7	15	-54	115	52	-31
EPS	-1	12	-11	3	-22	9	14	-48	115	50	-30
Margins (%)											
Gross	9.3	10.6	11.0	9.8	10.9	13.9	14.3	8.7	10.0	12.1	13.8
Operating	1.9	2.5	3.2	2.4	3.7	5.5	5.7	2.1	2.7	4.9	5.7
Net	3.4	3.8	3.6	3.3	3.8	5.4	5.7	1.6	3.6	5.4	5.3

For income statement data, financials from and including 2008 are reported while financials before 2008 are pro-forma.

Source: Macquarie Research, TEJ, company data, October 2008

Fig 3 Sales mix, standalone

Sales growth YoY (%)	2004A	2005A	2006A	2007A	2008E	2009E	2010E	1Q08A	2Q08A	3Q08A	4Q08E
Displays	85	-7	0	13	-56			6	-41	-65	
Power supplies	24	2	18	43	13	10	14	40	27	6	-6
Casings		20	54	39	-28	-13	2	-23	-34	-24	-29
Imaging	18	44	-16	-25	20	6	8	-15	40	40	15
LEDs	34	2	14	15	4	10	15	14	7	5	-6
Others	9	-2	-38	-6	23	-15	2	13	34	34	10
Total sales	52	3	-3	13	-22	-24	10	7	-11	-25	-48
Sales growth QoQ (%)											
Displays								-28	-37	-25	
Power supplies								-17	-3	17	1
Casings								-25	13	6	-21
Imaging								-24	43	20	-12
LEDs								-17	3	10	1
Others								-7	35	7	-19
Total sales								-23	-8	2	-28
Sales breakdown (%)											
Displays	48	44	45	45	25			43	29	21	
Power supplies	13	13	15	20	28	41	43	24	25	28	40
Casings	5	6	9	11	11	12	11	9	11	11	12
Imaging	12	16	14	9	14	20	20	9	14	16	20
LEDs	5	5	6	6	8	11	12	6	7	8	11
Others	17	16	10	9	14	15	14	10	14	15	17
Total	100	100	100	100	100	100	100	100	100	100	100

Source: Macquarie Research, TEJ, company data, October 2008

Fig 4 Consolidated income statement, reported

Year end 31 Dec (NT\$m)	2004A	2005A	2006A	2007A	2008E	2009E	2010E	1Q08A	2Q08A	3Q08E	4Q08E
Net sales	214,552	227,506	222,200	261,876	234,584	203,889	218,549	64,709	59,218	61,500	49,157
Gross profit	25,143	27,829	28,359	32,530	32,683	32,816	35,423	7,035	8,889	9,200	7,559
Operating expenses	15,300	17,364	18,216	22,147	23,979	23,839	25,340	5,371	7,036	6,245	5,328
Operating income	9,843	10,465	10,144	10,383	8,703	8,976	10,084	1,664	1,854	2,955	2,231
Net non-operating income	526	2,046	529	2,454	666	841	862	-250	681	55	180
Pre-tax income	10,369	12,511	10,673	12,836	9,369	9,818	10,946	1,415	2,534	3,010	2,411
Income tax (credit)	1,297	1,937	1,512	2,291	2,267	2,477	2,705	440	644	572	610
Minority interest	1,515	1,842	760	2,056	1,557	1,400	1,400	337	520	350	350
Net income	7,557	8,732	8,402	8,490	5,545	5,940	6,841	638	1,369	2,088	1,451
Shares, wgt avg, adj (m)	1,790	1,814	1,923	1,874	2,204	2,171	2,186	2,191	2,191	2,231	2,201
EPS, adj (NT\$)	4.22	4.81	4.37	4.53	2.52	2.74	3.13	0.29	0.62	0.94	0.66
% ch YoY/QoQ											
Sales	48	6	-2	18	-10	-13	7	-56	-8	4	-20
Gross profit	23	11	2	15	0	0	8	-62	26	3	-18
Operating income	43	6	-3	2	-16	3	12	-74	11	59	-25
Net income	4	16	-4	1	-35	7	15	-86	115	52	-31
EBITDA	36	12	0	8	4	6	10	-64	12	32	-15
EPS	2	14	-9	4	-44	9	14	-86	115	50	-30
Margins (%)											
Gross	11.7	12.2	12.8	12.4	13.9	16.1	16.2	10.9	15.0	15.0	15.4
Operating	4.6	4.6	4.6	4.0	3.7	4.4	4.6	2.6	3.1	4.8	4.5
Net	3.5	3.8	3.8	3.2	2.4	2.9	3.1	1.0	2.3	3.4	3.0
EBITDA	5.7	6.0	6.2	5.7	6.6	8.0	8.2	4.9	6.0	7.6	8.1

As per ROC GAAP reporting, financials from and including 2008 include bonus expenses while financials before 2008 exclude bonus expenses.

Source: Macquarie Research, TEJ, company data, October 2008

Fig 5 Consolidated income statement, bonus adjusted

Year end 31 Dec (NT\$m)	2004A	2005A	2006A	2007A	2008E	2009E	2010E	1Q08A	2Q08A	3Q08E	4Q08E
Net sales	214,552	227,506	222,200	261,876	234,584	203,889	218,549	64,709	59,218	61,500	49,157
Gross profit	25,143	27,829	28,359	32,530	32,683	32,816	35,423	7,035	8,889	9,200	7,559
Operating expenses	17,261	19,750	20,643	24,619	23,979	23,839	25,340	5,371	7,036	6,245	5,328
Non-bonus expenses	15,300	17,364	18,216	22,147	22,812	22,536	23,838	5,204	6,697	5,902	5,010
Bonus at market value	1,962	2,386	2,427	2,471	1,167	1,304	1,502	167	339	343	318
Operating income	7,882	8,079	7,717	7,911	8,703	8,976	10,084	1,664	1,854	2,955	2,231
Net non-operating income	526	2,046	529	2,454	666	841	862	-250	681	55	180
Pre-tax income	8,407	10,125	8,246	10,365	9,369	9,818	10,946	1,415	2,534	3,010	2,411
Income tax (credit)	1,297	1,937	1,512	2,291	2,267	2,477	2,705	440	644	572	610
Minority interest	1,515	1,842	760	2,056	1,557	1,400	1,400	337	520	350	350
Net income	5,595	6,347	5,975	6,019	5,545	5,940	6,841	638	1,369	2,088	1,451
Shares, wgt avg, adj (m)	1,790	1,814	1,923	1,874	2,204	2,171	2,186	2,191	2,191	2,231	2,201
EPS (NT\$)	3.13	3.50	3.11	3.21	2.52	2.74	3.13	0.29	0.62	0.94	0.66
Net income before bonus	7,557	8,732	8,402	8,490	6,712	7,244	8,343	804	1,708	2,431	1,769
Bonus at market value as % of											
Net income before bonus	26	27	29	29	17	18	18	21	20	14	18
Net income	35	38	41	41	21	22	22	26	25	16	22
Pre-tax income before bonus	19	19	23	19	11	12	12	11	12	10	12
Pre-tax income	23	24	29	24	12	13	14	12	13	11	13
Operating income pre bonus	20	23	24	24	12	13	13	9	15	10	12
Operating income	25	30	31	31	13	15	15	10	18	12	14
Gross profit	8	9	9	8	4	4	4	2	4	4	4
Sales	1	1	1	1	0	1	1	0	1	1	1
% ch YoY/QoQ											
Sales	48	6	-2	18	-10	-13	7	-56	-8	4	-20
Gross profit	23	11	2	15	0	0	8	-62	26	3	-18
Operating expenses	12	14	5	19	-3	-1	6	-60	31	-11	-15
Operating income	53	3	-4	3	10	3	12	-67	11	59	-25
Net income	1	13	-6	1	-8	7	15	-80	115	52	-31
EBITDA	42	10	0	10	24	6	10	-57	12	32	-15
EPS	-1	12	-11	3	-22	9	14	-80	115	50	-30
Margins (%)											
Gross	11.7	12.2	12.8	12.4	13.9	16.1	16.2	10.9	15.0	15.0	15.4
Operating	3.7	3.6	3.5	3.0	3.7	4.4	4.6	2.6	3.1	4.8	4.5
Net	2.6	2.8	2.7	2.3	2.4	2.9	3.1	1.0	2.3	3.4	3.0
EBITDA	4.8	5.0	5.1	4.7	6.6	8.0	8.2	4.9	6.0	7.6	8.1

For income statement data, financials from and including 2008 are reported while financials before 2008 are pro-forma. For return ratios, all data are pro-forma.

Source: Macquarie Research, TEJ, company data, October 2008

Fig 6 Income statement, Perlos

Year end 31 Dec (Euro, m)	2004A	2005A	2006A	2007A	2008E	2009E	2010E	1Q08A	2Q08A	3Q08A	4Q08E
Net sales	563.5	666.7	699.0	453.8	400.9	445.0	490.0	88.3	93.0	109.6	110.0
Gross profit					66.7	65.3	76.8	13.3	14.7	21.1	17.6
Operating expenses	526.5	653.5	730.6	487.6	48.9	42.5	46.8	10.7	12.3	13.8	12.1
Operating income	-526.5	-653.5	-730.6	-487.6	17.8	22.8	30.0	2.6	2.4	7.3	5.5
Net non-operating income	-5.4	-7.0	-11.0	-13.2				-2.7			
Pre-tax income	-531.9	-660.5	-741.6	-500.8				-0.1			
Income tax (credit)	6.7	-2.2	1.2	9.1				1.8			
Extraordinary items	0.0	0.0	0.0	0.0				0.0			
Net income	-538.6	-658.3	-742.8	-509.9				-1.9			
% ch YoY/QoQ											
Sales		18	5	-35	-12	11	10	-15	5	18	0
Gross profit						-2	18		11	44	-17
Operating expenses		24	12	-33	-90	-13	10	-89	15	12	-12
Operating income		nmf	nmf	nmf	nmf	28	32	-43	-8	204	-25
Net income		nmf	nmf	nmf	nmf			nmf	nmf		
Margins relative to sales (%)											
Gross					16.6	14.7	15.7	15.1	15.8	19.3	16.0
Operating expenses					12.2	9.6	9.6	12.1	13.2	12.6	11.0
Operating income	-93.4	-98.0	-104.5	-107.4	4.4	5.1	6.1	2.9	2.6	6.7	5.0
Taxes	-1.3	0.3	-0.2	-1.8							
Net	-95.6	-98.7	-106.3	-112.4							
NT\$/Euro					46.6	45.4	45.4	48.0	47.8	45.4	45.4

Source: Macquarie Research, TEJ, company data, Bloomberg, October 2008

Lite-On Technology Corp (2301 TT, Outperform, Target price: NT\$25.00)

Quarterly Results					Profit & Loss						
		2Q/08A	3Q/08E	4Q/08E	1Q/09E		2007A	2008E	2009E	2010E	
Revenue	m	59,218	61,500	49,157	45,592	Revenue	m	261,876	234,584	203,889	218,549
Gross Profit	m	8,889	9,200	7,559	7,254	Gross Profit	m	32,530	32,683	32,816	35,423
Operating Expenses	m	-7,036	-6,245	-5,328	-5,355	Operating Expenses	m	-22,147	-23,979	-23,839	-25,340
Operating Income	m	1,854	2,955	2,231	1,899	Operating Income	m	10,383	8,703	8,976	10,084
Net Non-operating income	m	681	55	180	201	Net Non-operating income	m	2,454	666	841	862
Pre-Tax Income	m	2,534	3,010	2,411	2,100	Pre-Tax Income	m	12,836	9,369	9,818	10,946
Tax Expense	m	-644	-572	-610	-551	Tax Expense	m	-2,291	-2,267	-2,477	-2,705
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Minority Interests	m	-520	-350	-350	-350	Minority Interests	m	-2,056	-1,557	-1,400	-1,400
Reported Earnings	m	1,369	2,088	1,451	1,199	Reported Earnings	m	8,490	5,545	5,940	6,841
Reported Earnings (bonus exp)	m	1,369	2,088	1,451	1,199	Reported Earnings (bonus exp)	m	6,019	5,545	5,940	6,841
Bonus exp / Reported Earnings	%	0.0	0.0	0.0	0.0	Bonus exp / Reported Earnings	%	29.1	0.0	0.0	0.0
Adjusted Earnings	m	1,369	2,088	1,451	1,199	Adjusted Earnings	m	8,490	5,545	5,940	6,841
EBITDA	m	3,552	4,672	3,977	3,676	EBITDA	m	14,836	15,386	16,263	17,850
EPS (rep)	NT\$	0.62	0.94	0.66	0.55	EPS (rep)	NT\$	4.53	2.52	2.74	3.13
EPS pcp growth (rep)	%	-38.0	-26.0	-47.9	90.6	EPS growth (rep)	%	3.7	-44.5	8.7	14.4
EPS (rep bonus exp)	NT\$	0.62	0.94	0.66	0.55	EPS (rep bonus exp)	NT\$	3.21	2.52	2.74	3.13
EPS pcp growth (rep bonus exp)	%	-12.6	4.4	-26.5	90.6	EPS growth (rep bonus exp)	%	3.3	-21.6	8.7	14.4
EPS (adj)	NT\$	0.62	0.94	0.66	0.55	EPS (adj)	NT\$	4.55	2.51	2.73	3.13
EPS pcp growth (adj)	%	-38.0	-26.0	-47.9	90.6	EPS growth (adj)	%	4.1	-44.8	8.9	14.4
Revenue pcp growth	%	2.8	-16.1	-33.0	-29.5	PE (rep)	x	4.1	7.3	6.7	5.9
Operating Income pcp growth	%	-7.4	-7.3	-30.1	14.1	PE (rep bonus adj)	x	5.7	7.3	6.7	5.9
Reported Earnings pcp growth	%	-29.7	-9.1	-36.9	88.0	PE (adj)	x	4.0	7.3	6.7	5.9
Gross Profit Margin	%	15.0	15.0	15.4	15.9	Total DPS	NT\$	2.94	1.55	1.75	2.50
Operating Income Margin	%	3.1	4.8	4.5	4.2	Total Div Yield	%	16.0	8.4	9.5	13.6
Reported Earnings Margin	%	2.3	3.4	3.0	2.6	Weighted Average Shares	m	1,874	2,204	2,171	2,186
EBITDA Margin	%	6.0	7.6	8.1	8.1	Period End Shares	m	2,191	2,201	2,181	2,191
Profit and Loss Ratios					Cashflow Analysis						
		2007A	2008E	2009E	2010E		2007A	2008E	2009E	2010E	
Revenue Growth	%	17.9	-10.4	-13.1	7.2	Reported Earnings	m	8,490	5,545	5,940	6,841
Gross Profit Growth	%	14.7	0.5	0.4	7.9	Depreciation & Amortisation	m	4,454	6,682	7,287	7,767
Operating Income Growth	%	2.4	-16.2	3.1	12.3	Chgs in Working Cap	m	2,948	-6,267	-2,232	-1,238
Reported Earnings Growth	%	1.1	-34.7	7.1	15.2	Other	m	3,451	1,594	0	-0
EBITDA Growth	%	8.4	3.7	5.7	9.8	Operating Cashflow	m	19,343	7,554	10,995	13,370
Gross Profit Margin	%	12.4	13.9	16.1	16.2	Acquisitions	m	0	0	0	0
Operating Income Margin	%	4.0	3.7	4.4	4.6	Capex	m	-8,236	-4,480	-4,000	-4,000
Reported Earnings Margin	%	3.2	2.4	2.9	3.1	Asset Sales	m	1,944	-699	0	0
EBITDA Margin	%	5.7	6.6	8.0	8.2	Other	m	-18,869	-465	0	0
Payout Ratio	%	64.6	61.7	64.0	79.9	Investing Cashflow	m	-25,161	-5,644	-4,000	-4,000
EV/EBITDA	x	1.9	1.8	1.7	1.5	Dividend (Ordinary)	m	-6,984	-6,582	-3,381	-3,834
EV/EBIT	x	2.6	3.2	3.1	2.7	Equity Raised	m	-8,731	-900	-960	0
Balance Sheet Ratios						Debt Movements	m	30,124	-4,357	0	0
ROE	%	10.7	7.7	8.9	10.0	Other	m	-18,484	-2,541	-627	-1,034
ROA	%	5.8	5.0	5.7	6.2	Financing Cashflow	m	-4,075	-14,380	-4,967	-4,868
ROIC	%	18.7	9.3	10.2	11.7	Net Chg in Cash/Debt	m	-8,844	-14,079	2,027	4,501
Net Debt/Equity	%	-9.9	-0.2	-3.3	-9.7	Free Cashflow	m	11,107	3,075	6,995	9,370
Interest Cover	x	nfm	178.0	nfm	nfm	FCF per Share	NT\$	5.93	1.40	3.22	4.29
Price/Book	x	0.5	0.6	0.6	0.6	P/FCF	x	3.1	13.2	5.7	4.3
Book Value per Share	NT\$	35.8	30.0	30.8	31.5	Balance Sheet		2007A	2008E	2009E	2010E
						Cash	m	39,912	25,833	27,860	32,362
						Receivables	m	49,642	41,143	45,106	47,493
						Inventories	m	29,133	16,639	18,056	18,996
						Investments	m	29	42	42	42
						Fixed Assets	m	38,910	34,490	31,204	27,437
						Intangibles	m	14,302	14,244	14,244	14,244
						Other Assets	m	22,054	23,735	23,735	23,735
						Total Assets	m	193,981	156,125	160,246	164,307
						Payables	m	74,470	54,588	57,735	59,824
						Short Term Debt	m	15,338	10,408	10,408	10,408
						Long Term Debt	m	16,791	15,269	15,269	15,269
						Provisions	m	0	0	0	0
						Other Liabilities	m	8,980	9,738	9,738	9,738
						Total Liabilities	m	115,578	90,002	93,150	95,238
						Total S/H Equity	m	78,403	66,123	67,096	69,069
						Total Liab & S/H Funds	m	193,981	156,125	160,246	164,307

All figures in NT\$ unless noted.

Source: Macquarie Research, TEJ, company data, October 2008

Important disclosures:

Recommendation definitions	Volatility index definition*	Financial definitions
<p>Macquarie - Australia/New Zealand Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts) Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts) Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)</p> <p>Macquarie – Asia/Europe Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie First South - South Africa Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie – Canada Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return</p> <p>Macquarie – USA Outperform (Buy) – return >5% in excess of benchmark return Neutral (Hold) – return within 5% of benchmark return Underperform (Sell) – return >5% below benchmark return</p> <p>Recommendations – 12 months</p> <p>Note: Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>This is calculated from the volatility of historic price movements.</p> <p>Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p>High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p>Medium – stock should be expected to move up or down at least 30–40% in a year.</p> <p>Low–medium – stock should be expected to move up or down at least 25–30% in a year.</p> <p>Low – stock should be expected to move up or down at least 15–25% in a year.</p> <p>* Applicable to Australian/NZ stocks only</p>	<p>All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests</p> <p>EPS = adjusted net profit / epowa* ROA = adjusted ebit / average total assets ROA Banks/Insurance = adjusted net profit / average total assets ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>

Recommendation proportions – For quarter ending 30 September 2008

	AU/NZ	Asia	RSA	USA	CA	EUR
Outperform	43.17%	61.57%	63.08%	53.60%	71.54%	43.00%
Neutral	41.37%	16.43%	30.77%	37.60%	24.61%	48.00%
Underperform	15.47%	22.00%	6.15%	8.80%	3.85%	9.00%

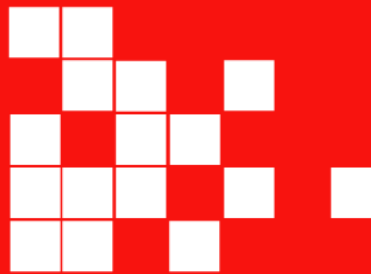
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