

- We are the first to point out that Realtek is suitable as a value-pick investment.
- We are the first to highlight Realtek has a better chance to survive in the longer-term because of strong industry position and cash position.

**Net Profit 09** . TWD1,595m  
.....(From TWD2,199m)

**Diff from Consensus** (18.3%)  
Consensus (mean) ...TWD1,952m  
Consensus (momentum) ..... ↓

**Target Price** ..... TWD36.00  
.....(From TWD66.00)

**Diff from Consensus** (28.6%)  
Consensus (median) ...TWD50.43  
Consensus (momentum)..... ↓

**Current Price** ..... TWD31.95  
**Upside/(Downside)**.....12.7%

**BUY**  
(Unchanged)

**Recs in the Market**  
Positive ..... **9**  
Neutral ..... **4**  
Negative ..... **7**  
Consensus (momentum)..... ↓

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

- **BUY: We believe that Realtek is currently being oversold.**
- **We believe Realtek as a long-term investment target, due to attractive valuation and leading networking IC providing.**
- **Our new TP is TWD36.00 (10x 12-month forward P/E; in line with average de-rating P/E of global IC design houses).**

## A long-term investment target

New target price is TWD36.00

We believe Realtek is a long-term investment target, as it will be one of the few IC survivors and its valuation (share price factoring into slow down PC industry) is attractive. We lower our target price to TWD36 (TWD66 earlier), based on 10x 12-month forward earnings (from 12x earlier). The lower valuation is in line with Taiwan IC design houses' average P/E of 10x.

8% y-y down on 2009 revenue; net income up 19% y-y  
We lower our 2009 revenue forecast for Realtek to 8% y-y down (from 2% y-y down earlier). Our 2009 EPS forecast for Realtek is 19% y-y up (after 29% y-y down in 2008 and 34% y-y down in 2007) without potential royalty/lawsuit payment.

One of the few survivors in the market

We believe Realtek is likely to be one of few survivors during the downturn because of its cash position and its leading-edge industry position. First, Realtek's cash position is the third largest among the Taiwan IC design houses. Second, Realtek's core competence in networking IC industry with 1,400 engineers is quite solid (without product overlap with Mediatek).

UWB IC business is spun-off

Realtek planned to spin-off its UWB IC division (100 engineer team) and to look for a strategy partner for its upcoming UWB IC subsidiary. We note its spun-off strategy is mainly triggered by Intel's cancellation plan on UWB design effort. That indicated Realtek does not have any revenue contribution and cost from UWB IC business going forward.

802.11n is the most exciting product for Realtek in 2009  
Realtek is scheduled to sample out its 802.11n single chip by year-end. On one side, we notice Realtek uses 65nm process (ahead of Ralink's 90nm process) on its 802.11n single chip with better cost structure. On the other hand, we notice Realtek further integrated PA (USD 0.5-0.6 cost saving) into its single chip (MAC/Baseband/RF). We believe the revenue from WLAN ICs will contribute 12% of total revenue, up from 10% in 2008, indicating nearly 20% y-y growth.

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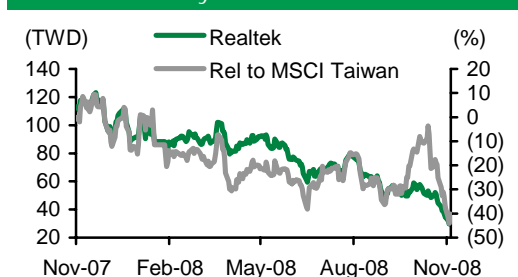
BNP Paribas Technology Research Team  
(Team list inside)

### Earnings Estimates And Valuation Ratios

YE Dec (TWD m)	2007	2008E	2009E	2010E
Revenue	15,709	17,444	16,049	18,456
Reported net profit	1,877	1,339	1,595	1,873
Recurring net profit	1,877	1,339	1,595	1,873
Previous rec net profit	1,877	2,036	2,199	3,354
Chg from previous (%)	—	(34.2)	(27.5)	(44.2)
Recurring EPS (TWD)	4.15	2.96	3.52	4.14
Prev rec EPS (TWD)	4.15	4.50	4.86	7.41
Rec EPS growth (%)	(33.7)	(28.6)	19.0	17.4
Recurring P/E (x)	7.7	10.8	9.1	7.7
Dividend yield (%)	11.0	7.3	5.2	6.2
EV/EBITDA (x)	3.5	5.2	3.9	3.1
Price/book (x)	0.9	0.8	0.8	0.7
ROE (%)	10.1	8.0	9.0	9.9
Net debt/equity (%)	(31.5)	(28.9)	(36.7)	(35.7)

Sources: Realtek; BNP Paribas estimates

### Share Price Daily vs MSCI



Next results/event	January 2009
Market cap (USD m)	407
12m avg daily turnover (USD m)	20.0
Free float (%)	91
Major shareholder	Franklin Resources (3%)
12m high/low (TWD)	123.04/29.90
ADR (USD)	Nil
Avg daily turnover (USD m)	Nil
Discount/premium (%)	Nil
Disc/premium vs 52-wk avg (%)	Nil

Source: Datastream

BNP Paribas research is available on Thomson Reuters, Bloomberg, and on <http://equities.bnpparibas.com>. Please contact your salesperson for authorisation. Please see the important notice on the back page.

**Exhibit 1: Valuation Comparison – TW IC Design Houses**

Companies	Share price* (TWD)	EPS		P/E	
		2008E (TWD)	2009E (TWD)	2008E (x)	2009E (x)
MediaTek	203.00	21.44	24.32	9.5	8.3
Sunplus	11.25	1.03	1.07	10.9	10.6
<b>Realtek</b>	<b>31.95</b>	<b>2.96</b>	<b>3.52</b>	<b>10.8</b>	<b>9.1</b>
Richtek	111.50	11.27	12.23	9.9	9.1
Ralink	63.40	8.95	9.95	7.1	6.4
GUC	87.90	6.96	8.66	12.6	10.2
Phison	42.00	5.50	4.71	7.6	8.9
ALi	15.90	1.64	1.68	9.7	9.5
Faraday	24.00	2.33	2.11	10.3	11.4
<b>Average</b>				<b>9.8</b>	<b>9.3</b>

Note: Earning estimate accounted for employee bonus expense for 2008 going forward.

\* Share prices in the above table are as on 19 November 2008

Sources: IBES; BNP Paribas estimates

**2009 revenue and EPS revised**

We lowered our 2009 revenue forecast for Realtek as 8% y-y down (from 2% y-y down earlier), to reflect our conservative view on 2009 global PC industry. Our PC analyst, Patty Liu, believes the global desktop shipments will decline by 5% y-y. We note Realtek's 2009 revenue will suffer from slow-down in IC shipments and average selling price (ASP). Our 2009 EPS forecast for Realtek is 19% y-y up (after 29% y-y down in 2008 and 34% y-y down in 2007) without potential royalty/lawsuit payment. (Note Realtek paid to 3Com USD45m in 2007 and USD25m in 2008).

**One of the few survivors in the market**

We believe Realtek is likely to be one of few survivors during downturn because of its cash position and its leading-edge industry position. First, Realtek's cash position is the third largest among Taiwan IC design houses. Besides, its net cash/market cap and cash ration are quite solid. Second, Realtek's core competence in networking IC industry with 1,400 engineers is quite solid (without product overlap with Mediatek).

**Exhibit 2: Taiwan IC Design Houses' Financial And Operating Competitiveness**

BBG ticker	IC fabless	Cash			Net cash/mkt cap 1H08 (TWD m)	Cash ratio 1H08 (x)	Cash conversion cycle 1H08 (days)
		1H06 (TWD m)	1H07 (TWD m)	1H08 (TWD m)			
2454 TT	Mediatek	35,507	55,127	48,323	0.27	1.5	62
3034 TT	Novatek	8,785	9,700	15,716	0.57	0.9	96
2401 TT	Sunplus	4,805	1,453	868	0.19	0.5	102
<b>2379 TT</b>	<b>Realtek</b>	<b>2,113</b>	<b>6,886</b>	<b>6,917</b>	<b>0.56</b>	<b>1.5</b>	<b>23</b>
6286 TT	Richtek	387	933	725	0.16	1.1	65
3035 TT	Faraday	2,117	2,423	1,863	0.23	0.8	31
3443 TT	GUC	245	619	968	0.09	0.5	47
3534 TT	Ralink	893	1,427	4,018	0.53	2.3	66
5471 TT	Sonix	529	530	422	0.26	1.0	68
6202 TT	Holtek	933	1,192	1,205	0.48	1.5	63
8299 TT	Phison	778	1,932	1,049	0.20	0.4	39
3041 TT	Ali	221	1,128	1,956	0.61	2.6	74
<b>Total</b>		<b>57,313</b>	<b>83,351</b>	<b>84,031</b>			

Cash Ratio = (Cash + Marketable Securities) / Current Liabilities

Net Cash = Cash + Marketable Securities - Short-Term Debts - Long-Term Debts

Cash Conversion Cycle = AR days + Inventory days - AP days

Sources: Company data; BNP Paribas estimates

Realtek is likely to benefit from industry consolidation

We believe Realtek will benefit from the semiconductor consolidation trend in 2008-2009. We note sector leaders with better scale are likely to consolidate in the industry to follow accelerated requirements on SOC and IP products. We believe Realtek, as Asia's largest networking IC maker, is likely continue to benefit from increased chip local outsourcing trend (gained from Marvell and Broadcom).

### Exhibit 3: Realtek Is The Most Decent Networking IC Solution Provider In Asia

Sector	Sub-sector	MediaTek 2454	Sunplus 2401	Mstar Non IPO	VIA 2388	Realtek 2379	Novatek 3034	SIS 2363	Richtek 6286
Handset IC	Baseband IC	✓	✓*	✓	✓*				
	RF IC	✓							
	Camera	✓	✓*	✓					
	GPS	✓		✓					
	BlueTooth	✓							
	TouchPanel	✓							
	Power Management	✓		✓					
	WLAN	✓	✓*						
TV IC	Scaler/Deinterlacer	✓	✓	✓		✓			
	Video Decoder	✓	✓	✓		✓			
	Demodulator/MPEG2	✓	✓	✓		✓			
	Turner	✓							
	RF	✓							
PC IC	CPU				✓				
	Chipset				✓			✓	
	Graphic				✓			✓	
Optical driver IC	ROM IC	✓	✓*		✓				
	Front End (RF Amplifier)	✓	✓*						
	Back End (Dec+Enc)	✓	✓*						
Power Management	PWM (AC-DC)								✓
	PWM (DC-DC)								✓
	LDO								✓
Panel	Driver IC (larger)		✓*				✓		
	Driver IC (Smaller)		✓*				✓		
Networking	NIC IC				✓*	✓			
	Home Gateway	✓	✓*			✓			
	WLAN	✓				✓			
	ADSL					✓			
	Switch					✓			
	Router					✓			

\* Manufactured at subsidiary  
Source: BNP Paribas estimates

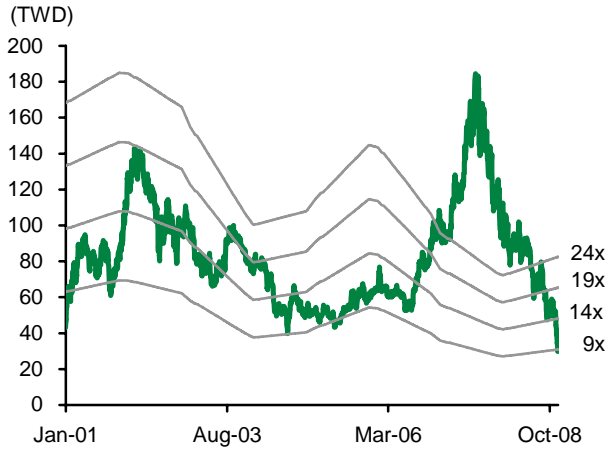
802.11n is the most exciting product for Realtek in 2009

Realtek is scheduled to sample out its 802.11n single chip by year-end. We believe Realtek will be one of the global major 802.11n single chip player, based on its competitive cost structure and higher integration. On one side, we notice Realtek uses 65nm process (ahead of Ralink's 90nm process) on its 802.11n single chip, which help it on price war. On the other hand, we notice Realtek further integrated PA (USD 0.5-0.6 cost saving) into its single chip (MAC/Baseband/RF). Realtek initially plans to target at USB 802.11n market. We believe the market share in 802.11n will be around 7% of WLAN IC market in 2009. We believe its revenue from WLAN ICs will contribute 12% of total revenue, up from 10% in 2008, indicating nearly 20% y-y growth.

UWB IC business is spun-off

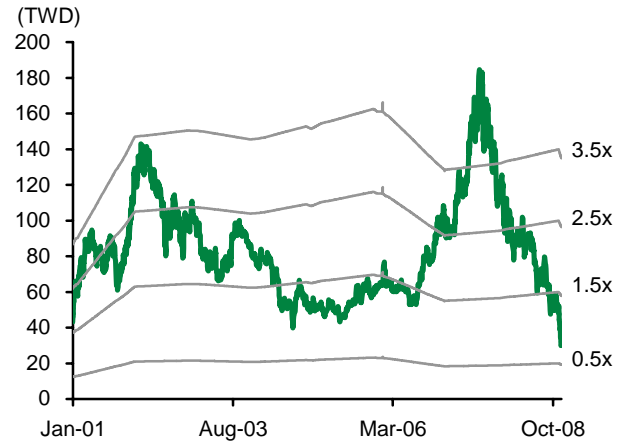
Realtek announced it plans to spin-off its UWB IC division (100 engineer team) and look for a strategy partner for its upcoming UWB IC subsidiary. We note its spun-off strategy is mainly triggered by Intel's cancellation plan on UWB design effort, who was the most important sponsor. That indicated Realtek does not have any revenue contribution and cost from UWB IC business going forward.

Exhibit 4: Forward P/E Band Chart



Sources: Realtek; BNP Paribas estimates

Exhibit 5: Forward P/BV Band Chart



Sources: Realtek; BNP Paribas estimates

## FINANCIAL STATEMENTS

## Realtek

<b>Profit and Loss (TWD m)</b>					
<b>Year Ending December</b>	<b>2006A</b>	<b>2007A</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Revenue	12,423	15,709	17,444	16,049	18,456
Cost of sales ex depreciation	(6,032)	(7,797)	(9,576)	(8,826)	(10,150)
<b>Gross profit ex depreciation</b>	<b>6,391</b>	<b>7,912</b>	<b>7,869</b>	<b>7,222</b>	<b>8,305</b>
Other operating income	-	-	-	-	-
Operating costs	(3,078)	(3,844)	(4,799)	(4,433)	(5,632)
<b>Operating EBITDA</b>	<b>3,313</b>	<b>4,068</b>	<b>3,070</b>	<b>2,789</b>	<b>2,674</b>
Depreciation	(527)	(502)	(607)	(735)	(772)
Goodwill amortisation	-	-	-	-	-
<b>Operating EBIT</b>	<b>2,786</b>	<b>3,566</b>	<b>2,462</b>	<b>2,054</b>	<b>1,902</b>
Net financing costs	82	184	210	240	276
Associates	7	-	227	86	114
Recurring non operating income	(127)	(1,781)	(1,488)	(641)	(300)
Non recurring items	-	-	-	-	-
<b>Profit before tax</b>	<b>2,748</b>	<b>1,969</b>	<b>1,410</b>	<b>1,739</b>	<b>1,992</b>
Tax	(36)	(92)	(70)	(144)	(119)
<b>Profit after tax</b>	<b>2,712</b>	<b>1,877</b>	<b>1,339</b>	<b>1,595</b>	<b>1,873</b>
Minority interests	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
<b>Reported net profit</b>	<b>2,712</b>	<b>1,877</b>	<b>1,339</b>	<b>1,595</b>	<b>1,873</b>
Non recurring items & goodwill (net)	-	-	-	-	-
<b>Recurring net profit</b>	<b>2,712</b>	<b>1,877</b>	<b>1,339</b>	<b>1,595</b>	<b>1,873</b>
<b>Per share (TWD)</b>					
Recurring EPS *	6.26	4.15	2.96	3.52	4.14
Reported EPS	6.26	4.15	2.96	3.52	4.14
DPS	1.75	3.50	2.32	1.66	1.97
<b>Growth</b>					
Revenue (%)	16.8	26.5	11.0	(8.0)	15.0
Operating EBITDA (%)	28.7	22.8	(24.5)	(9.1)	(4.1)
Operating EBIT (%)	31.2	28.0	(31.0)	(16.6)	(7.4)
Recurring EPS (%)	35.9	(33.7)	(28.6)	19.0	17.4
Reported EPS (%)	35.9	(33.7)	(28.6)	19.0	17.4
<b>Operating performance</b>					
Gross margin inc depreciation (%)	47.2	47.2	41.6	40.4	40.8
Operating EBITDA margin (%)	26.7	25.9	17.6	17.4	14.5
Operating EBIT margin (%)	22.4	22.7	14.1	12.8	10.3
Net margin (%)	21.8	11.9	7.7	9.9	10.1
Effective tax rate (%)	1.3	4.7	5.0	8.3	6.0
Dividend payout on recurring profit (%)	28.0	84.4	78.5	47.0	47.7
Interest cover (x)	na	na	na	na	na
Inventory days	77.2	66.8	65.2	73.3	62.0
Debtor days	58.1	43.8	58.1	70.1	62.9
Creditor days	75.5	71.1	72.2	81.6	83.5
Operating ROIC (%)	35.0	71.1	59.2	57.2	68.3
Operating ROIC - WACC (%)	26.0	62.1	50.2	48.2	59.3
ROIC (%)	18.6	13.9	9.6	11.4	13.2
ROIC - WACC (%)	9.6	4.8	0.6	2.4	4.1
ROE (%)	14.0	10.1	8.0	9.0	9.9
ROA (%)	12.2	7.8	5.1	5.7	6.1

Revenue forecast lowered to reflect slowdown in PC industry

Weaker economies of scale adversely affecting EPS growth

\* Pre exceptional, pre-goodwill and fully diluted

Sources: Realtek; BNP Paribas estimates

<b>Cash Flow (TWD m)</b>					
<b>Year Ending December</b>	<b>2006A</b>	<b>2007A</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Recurring net profit	2,712	1,877	1,339	1,595	1,873
Depreciation	527	502	607	735	772
Associates & minorities	23	307	(227)	(86)	(114)
Other non-cash items	(320)	275	100	100	100
<b>Recurring cash flow</b>	<b>2,942</b>	<b>2,961</b>	<b>1,820</b>	<b>2,344</b>	<b>2,630</b>
Change in working capital	425	2	(1,599)	1,023	(439)
Capex - maintenance	-	-	-	-	-
Capex - new investment	(822)	(660)	(547)	(574)	(603)
<b>Free cash flow to equity</b>	<b>2,545</b>	<b>2,303</b>	<b>(326)</b>	<b>2,793</b>	<b>1,588</b>
Net acquisitions & disposals	-	-	-	-	-
Dividends paid	(1,192)	(1,281)	(1,051)	(750)	(892)
Non recurring cash flows	2,940	811	1,131	(285)	(392)
<b>Net cash flow</b>	<b>4,293</b>	<b>1,833</b>	<b>(246)</b>	<b>1,757</b>	<b>304</b>
Equity finance	0	(4,180)	0	0	0
Debt finance	161	(87)	-	-	-
<b>Movement in cash</b>	<b>4,454</b>	<b>(2,434)</b>	<b>(246)</b>	<b>1,757</b>	<b>304</b>
<b>Per share (TWD)</b>					
Recurring cash flow per share	6.79	6.54	4.02	5.18	5.81
FCF to equity per share	5.87	5.09	(0.72)	6.17	3.51
<b>Balance Sheet (TWD m)</b>					
<b>Year Ending December</b>	<b>2006A</b>	<b>2007A</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Working capital assets	5,619	5,820	7,921	7,015	8,537
Working capital liabilities	(2,031)	(4,368)	(6,139)	(6,657)	(7,777)
<b>Net working capital</b>	<b>3,588</b>	<b>1,452</b>	<b>1,782</b>	<b>358</b>	<b>760</b>
Tangible fixed assets	2,156	2,363	2,303	2,142	1,973
<b>Operating invested capital</b>	<b>5,744</b>	<b>3,815</b>	<b>4,085</b>	<b>2,500</b>	<b>2,733</b>
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Investments	7,349	7,646	8,230	9,243	10,051
Other assets	-	-	-	1	1
<b>Invested capital</b>	<b>13,093</b>	<b>11,461</b>	<b>12,315</b>	<b>11,744</b>	<b>12,786</b>
Cash & equivalents	(7,647)	(5,204)	(4,958)	(6,715)	(7,018)
Short term debt	-	-	-	-	-
Long term debt *	-	-	-	-	-
<b>Net debt</b>	<b>(7,647)</b>	<b>(5,204)</b>	<b>(4,958)</b>	<b>(6,715)</b>	<b>(7,018)</b>
Deferred tax	-	-	-	-	-
Other liabilities	157	147	147	147	147
Total equity	20,583	16,518	17,125	18,312	19,656
Minority interests	-	-	-	-	-
<b>Invested capital</b>	<b>13,093</b>	<b>11,461</b>	<b>12,315</b>	<b>11,744</b>	<b>12,786</b>
<i>* Includes convertibles and preferred stock which is being treated as debt</i>					
<b>Per share (TWD)</b>					
Book value per share	45.24	36.51	37.85	40.47	43.44
Tangible book value per share	45.24	36.51	37.85	40.47	43.44
<b>Financial strength</b>					
Net debt/equity (%)	(37.2)	(31.5)	(28.9)	(36.7)	(35.7)
Net debt/total assets (%)	(33.6)	(24.7)	(21.2)	(26.7)	(25.4)
Current ratio (x)	6.5	2.5	2.1	2.1	2.0
CF interest cover (x)	na	na	na	na	na
<b>Valuation</b>					
<b>2006A</b>	<b>2007A</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>	
Recurring P/E (x) *	5.1	7.7	10.8	9.1	7.7
Recurring P/E @ target price (x) *	5.8	8.7	12.2	10.2	8.7
Reported P/E (x)	5.1	7.7	10.8	9.1	7.7
Dividend yield (%)	5.5	11.0	7.3	5.2	6.2
P/CF (x)	4.7	4.9	7.9	6.2	5.5
P/FCF (x)	5.4	6.3	neg	5.2	9.1
Price/book (x)	0.7	0.9	0.8	0.8	0.7
Price/tangible book (x)	0.7	0.9	0.8	0.8	0.7
EV/EBITDA (x) **	2.6	3.5	5.2	3.9	3.1
EV/EBITDA @ target price (x) **	3.2	4.3	6.2	4.7	3.8
EV/invested capital (x)	0.5	0.8	0.8	0.7	0.6
<i>* Pre exceptional, pre-goodwill and fully diluted</i>					
<i>** EBITDA includes associate income and recurring non-operating income</i>					

Sources: Realtek; BNP Paribas estimates

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Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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