

# Another solid quarter; Buy

## Solid fundamentals; top pick in NB component sector

We have raised Simplo's 2008E EPS by 7% post its better 3Q results. However, we have reduced its 2009E EPS by 5% to factor in slower NB industry growth, and also cut the PO to NT\$131 (based on 11x 09E P/E). Simplo remains our top pick in the NB component space, given its compelling P/E of 8x, consistent earnings delivery and solid balance sheet (zero debt, high net cash position).

## 3Q results beat estimates helped by core earnings, non-OP

Simplo's 3Q08 net profit of NT\$689mn (EPS NT\$3.3; +25% QoQ, +27% YoY) has exceeded our estimates and company guidance. The upside came from maintained gross margins (18.6%; helped by scale and TWD depreciation), and non-OP gains (NT\$100mn) from FX and fire insurance reimbursement.

## 4Q guidance in line; but mgmt stays conservative for 2009

Simplo has guided 3-5% QoQ sales growth for 4Q, which is largely in line with Merrill Lynch estimate, on the back of a steady ramp-up in sales at Apple and Acer's NB. However, with limited visibility, management stays conservative in its 2009 outlook; it expects the NB industry to grow only by 10-15% YoY units (vs MLe: +20%) and the gross margin to trend down 1-2% YoY.

## Outpaces industry growth; B/S provides support

We expect Simplo to outpace industry growth in 2009, given its solid customer base and high requirement for batteries despite varied form factors. By factoring in the conservative assumptions on shipment and margins, we still forecast Simplo to deliver 5% YoY earnings growth into 2009. Also, Simplo's strong B/S will support its business growth well during the economic downturn, in our view.

## Estimates (Dec)

(NT\$)	2006A	2007A	2008E	2009E	2010E
Net Income (mn) Taiwan GAAP	1,390	2,057	2,354	2,478	2,718
EPS (Pre Bonus)	6.68	9.89	14.15	14.89	16.33
EPS (Post Bonus)	4.44	6.09	11.32	11.91	13.07
EPS Change (YoY)	-9.4%	37.2%	85.7%	5.3%	9.7%
Dividend / Share	4.60	5.00	5.40	5.20	5.50
Free Cash Flow / Share	2.76	6.17	2.91	7.16	5.61

\* Taiwan GAAP changed from Pre Bonus to Post Bonus earnings from 2008.

## Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E (Post Bonus)	21.66x	15.79x	8.50x	8.08x	7.36x
Dividend Yield	4.78%	5.20%	5.61%	5.41%	5.72%
Free Cash Flow Yield*	2.87%	6.41%	3.02%	7.44%	5.83%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 9.



Tina Chang, CFA >> +886 2 2376 3725

Research Analyst  
Merrill Lynch (Taiwan)  
tina\_chang@ml.com

Tony Tseng, CFA >> +886 2 2376 3727

Research Analyst  
Merrill Lynch (Taiwan)  
tony\_tseng@ml.com

Daniel Kim, CFA >> +852 2536 3443

Research Analyst  
Merrill Lynch (Hong Kong)  
daniel\_kim@ml.com

## Stock Data

Price	NT\$96.20
Price Objective	NT\$162.00 to NT\$131.00
Date Established	24-Oct-2008
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	NT\$89.00-NT\$175.45
Mrkt Val / Shares Out (mn)	US\$607 / 208.0
Average Daily Volume	2,004,433
ML Symbol / Exchange	SPLOF / TWO
Bloomberg / Reuters	6121 TT / 6121.TWO
ROE (2008E)	25.7%
Net Dbt to Eqty (Dec-2007A)	-41.6%
Est. 5-Yr EPS / DPS Growth	10.0% / 10.0%
Free Float	NA



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Refer to important disclosures on page 10 to 11. Analyst Certification on Page 7. Price Objective Basis/Risk on page 7.

24 October 2008

# iQprofile<sup>SM</sup> Simplo Technology Co Ltd.

Key Income Statement Data (Dec)	2006A	2007A	2008E	2009E	2010E
<b>(NT\$ Millions)</b>					
Sales	16,977	23,086	30,825	34,868	40,132
Gross Profit	3,100	4,345	5,652	6,098	6,845
Sell General & Admin Expense	(753)	(1,152)	(1,784)	(1,954)	(2,267)
Operating Profit	1,825	2,723	3,017	3,152	3,474
Net Interest & Other Income	59	1	183	152	150
Associates	NA	NA	NA	NA	NA
Pretax Income	1,884	2,723	3,200	3,304	3,624
Tax (expense) / Benefit	(467)	(664)	(847)	(826)	(906)
Net Income (Adjusted)	1,390	2,057	2,354	2,478	2,718
Average Fully Diluted Shares Outstanding	208	208	208	208	208

## Key Cash Flow Statement Data

Net Income (Reported)	1,390	2,057	2,354	2,478	2,718
Depreciation & Amortization	163	208	258	334	422
Change in Working Capital	(763)	(684)	(910)	(242)	(729)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	449	430	(142)	0	0
Cash Flow from Operations	1,239	2,010	1,561	2,570	2,411
Capital Expenditure	(665)	(727)	(956)	(1,081)	(1,244)
(Acquisition) / Disposal of Investments	(246)	(226)	645	(24)	(23)
Other Cash Inflow / (Outflow)	17	43	0	0	0
Cash Flow from Investing	(894)	(910)	(311)	(1,104)	(1,267)
Shares Issue / (Repurchase)	716	1,434	0	0	0
Cost of Dividends Paid	(529)	(730)	(928)	(1,106)	(1,065)
Cash Flow from Financing	(291)	683	(928)	(1,106)	(1,065)
Free Cash Flow	574	1,283	605	1,490	1,167
Net Debt	(1,432)	(3,513)	(3,310)	(3,670)	(3,749)
Change in Net Debt	(314)	(1,783)	(322)	(360)	(79)

## Key Balance Sheet Data

Property, Plant & Equipment	1,695	2,144	2,841	3,588	4,410
Other Non-Current Assets	255	265	286	310	333
Trade Receivables	3,943	5,179	6,756	7,451	8,576
Cash & Equivalents	1,432	3,513	3,310	3,670	3,749
Other Current Assets	2,302	3,670	4,509	5,051	5,732
Total Assets	9,627	14,770	17,703	20,069	22,799
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	96	194	194	194	194
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	3,888	6,122	7,628	8,624	9,700
Total Liabilities	3,984	6,316	7,822	8,818	9,894
Total Equity	5,643	8,454	9,880	11,252	12,904
Total Equity & Liabilities	9,627	14,770	17,703	20,069	22,799

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	27.7%	29.4%	24.2%	22.2%	21.5%
Return On Equity	29.2%	29.2%	25.7%	23.5%	22.5%
Operating Margin	10.7%	11.8%	9.8%	9.0%	8.7%
EBITDA Margin	11.7%	12.7%	10.6%	10.0%	9.7%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	0.9x	1.0x	0.7x	1.0x	0.9x
Asset Replacement Ratio	4.1x	3.5x	3.7x	3.2x	2.9x
Tax Rate (Reported)	24.8%	24.4%	26.5%	25.0%	25.0%
Net Debt-to-Equity Ratio	-25.4%	-41.6%	-33.5%	-32.6%	-29.0%
Interest Cover	NM	NM	NM	NM	NM

## Key Metrics

Stock comp. adjusted ROIC	21.6%	23.1%	20.8%	18.8%	18.3%
Stock comp. adjusted ROE	19.4%	18.0%	20.5%	18.8%	18.0%
Stock comp. adjusted EPS	4.44	6.09	11.32	11.91	13.07
Stock comp. adjusted P/E	21.66x	15.79x	8.50x	8.08x	7.36x

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 9.

## Company Description

Simplo Technology, founded in 1992, specializes in designing and making Li-ion battery packs for notebook PCs. Simplo is Taiwan's leading notebook pack supplier, with an estimated market share of 20% in 2006. Notebook battery packs make up 97% of total 2006 revenues. Following a production shift in 2H05, Simplo's entire capacity is now based in China. Major customers include HP, Dell, Apple, Quanta and Acer.

## Investment Thesis

Simplo is one of the fastest-growing companies in the notebook component subsector. We expect Simplo to sustain its leadership in the battery pack industry (20pct global market share), given its diversified cell sourcing and breakthrough into non-notebook battery area. Simplo will be the major beneficiary of the tight cell supply environment, in our view. Given its higher bargaining power (to PC brands), we are positive on Simplo's margin sustainability in 2008-09.

## Stock Data

Price to Book Value 2.0x

## 3Q results better than expectation

Simplo's 3Q08 net profit of NT\$689mn (EPS NT\$3.3; +25% QoQ, +27% YoY) has exceeded our estimates and the company's guidance. The upside has come from maintained gross margins (18.6%; helped by scale and TWD depreciation), as well as non-OP gains (NT\$100mn) from FX and fire insurance reimbursement.

Table 1: Simplo: 3Q08 result vs. ML estimates

NT\$m	3Q08A	QoQ	YoY	3Q08E	Diff %	BBG	Diff %	ML comment
Sales	8,440	21%	39%	8,283	2%	8,309	2%	High-end of the company's guidance
Gross Profit	1,572	21%	32%	1,477	6%			
Opex	(699)	26%	68%	(754)	-7%			
Operating Profit	873	17%	13%	723	21%			Better Gross margins and Opex saving from China operation
Non-Op	60	n.m.	-218%	60				NT\$100mn gains from FX and fire insurance reimbursement
Pre-tax Profit	933	26%	29%	783	19%			
Net Profit	689	25%	27%	587	17%	631	9%	Slightly higher tax rate at 26%
<b>EPS (NT\$)</b>	<b>3.31</b>			<b>2.82</b>		<b>3.01</b>		
Gross Margin	18.6%			17.8%				
Opex	-8.3%			-9.1%				
Operating Margin	10.3%			8.7%				
Pre-tax Margin	11.1%			9.5%				
Net Margin	8.2%			7.1%				
Tax Rate	-26%			-25%				

Source: Merrill Lynch estimates, Simplo

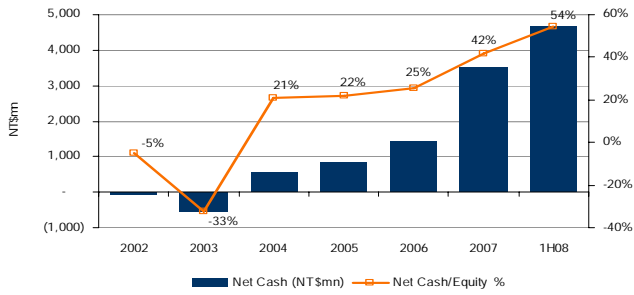
## Summary from analyst meeting

- 2009 outlook:** Management expects the NB industry to grow only at 10-15% YoY into 2009. However, Simplo believes it will continue to outpace the industry growth, due to its increasing shares from its solid customer base (HP, Dell, Acer, and Apple). However, management's outlook is conservative, anticipating gross margins to trend down 1-2% YoY into 2009 due to margin pressures from customers.
- Battery cell's supply-demand situation:** The price of NB battery cell/pack has been cut in 4Q08 (starting from October), due to sharp declines in cobalt (Co) price. With new capacity ramping up from Japan and Korean cell makers, Simplo's management expects about 5-10% battery cell oversupply in 2H09, which is still at a healthy level, in our view.
- Netbook impact:** Simplo points out that Netbook batteries account for 8% of its total shipments in 2H08, and that it may increase to 10-15% in 2009. However, Simplo sees limited impact from ASP dilution, as Netbooks are increasing their cells' usage per pack (4-6 cells, vs 6 cells for regular NB battery pack).

## Solid balance sheet and cash

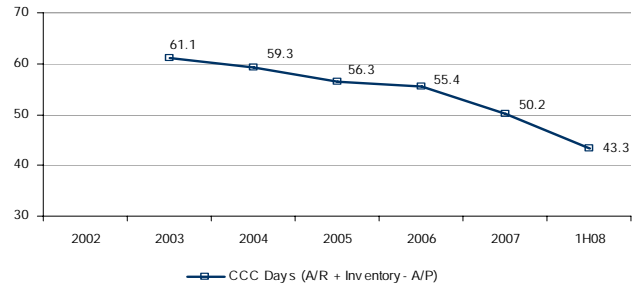
By reviewing Simplo's B/S in the past six years, we have noted that Simplo consistently has devoted itself to improving its balance sheet quality. Chart 1 & 2 show Simplo's solid net cash position and working capital management (CCC days improved to 43 days in 1H08). We believe Simplo's solid cash position will support its business growth well during the economic downturn.

Chart 1: Simplo: Abundant net cash on-hand



Source: TEJ; Merrill Lynch

Chart 2: Simplo: Improving working capital management efficiency



Source: TEJ; Merrill Lynch

## Earnings revision; reiterate Buy

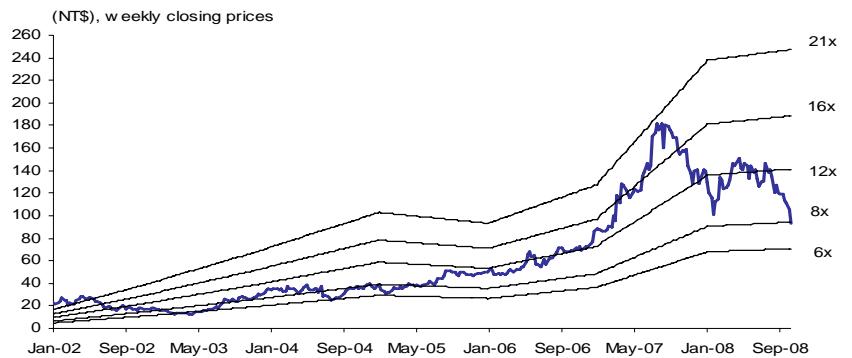
We have raised Simplo's 2008E EPS by 7% post its better 3Q results and in-line 4Q guidance. However, we have reduced 2009E EPS by 5% to factor in slower NB PC industry growth. Given the earning revisions and period rolling-over into 2009, we have cut our PO for the company from NT\$162 to NT\$131 (based on 11x 09E P/E; implying 36% upside potential). Simplo remains our top pick in the NB component space, given its compelling 8x P/E, consistent earnings delivery and solid B/S support (zero debt, strong net cash/market cap).

Table 2: Simplo earning revision: New vs. Old

NT\$m	New		YoY		Old		Diff.	
	2008E	2009E	2008E	2009E	2008E	2009E	2008E	2009E
Sales	30,825	34,868	32%	13%	30,956	38,565	0%	-10%
Gross Profit	5,652	6,098	34%	8%	5,488	6,650	3%	-8%
Opex	(2,634)	(2,946)	63%	12%	(2,878)	(3,399)	-8%	-13%
Operating Profit	3,017	3,152	16%	4%	2,610	3,251	16%	-3%
Non-Op	183	152	44%	-17%	332	240	NM	NM
Pre-tax Profit	3,200	3,304	18%	3%	2,942	3,491	9%	-5%
Net Profit	2,354	2,478	14%	5%	2,205	2,618	7%	-5%
<b>EPS (NT\$)</b>	<b>11.32</b>	<b>11.91</b>			<b>10.60</b>	<b>12.59</b>		
Gross Margin	18.3%	17.5%			17.7%	17.2%		
Opex	-8.5%	-8.4%			-9.3%	-8.8%		
Operating Margin	9.8%	9.0%			8.4%	8.4%		
Net Margin	7.6%	7.1%			7.1%	6.8%		

Source: Merrill Lynch estimates

Chart 3: Simplo: P/E bands



Source: Merrill Lynch estimates, TEJ

24 October 2008

**Table 3: Valuation comparison table**

	ML Symbol	ML Rating	Price 23-Oct-08	Mkt Cap (US\$mn)	EPS (Local)		EPG		PER(x)		PBR(x) 1H08	Net Cash / Mkt Cap	CCC (days)	Price YTD	
					2008E	2009E	2008E	2009E	2008E	2009E					
Brand	Acer	ASIYF	C-1-7 Buy	44.4	3,539	5.0	5.4	28%	8%	9.0	8.3	1.6	8%	48.1	-24%
	Asustek	AKCPF	C-1-7 Buy	50.3	6,889	6.4	6.4	11%	1%	7.9	7.8	1.2	20%	46.4	-40%
NB ODM	Compal	CMPLF	C-1-7 Buy	21.8	2,771	3.3	3.7	12%	11%	6.6	5.9	1.1	46%	11.9	-33%
	Quanta	QUCPF	C-3-7 Underpe	32.7	3,844	5.0	4.5	19%	-10%	6.5	7.3	1.4	18%	22.4	-20%
	Wistron	WICOF	C-2-7 Neutral	29.6	1,448	4.8	5.5	38%	15%	6.2	5.4	1.4	-13%	25.0	-45%
	Inventec	IVCJF	C-2-7 Neutral	12.2	1,008	2.1	2.4	8%	14%	5.7	5.0	0.9	-30%	21.9	-26%
Component	FTC	FXTCF	C-1-8 Buy	74.1	2,025	7.6	9.2	-7%	20%	9.7	8.1	1.7	-11%	49.5	-68%
	Catcher	CHERF	C-3-8 Underpe	82.3	1,590	8.0	8.0	-29%	0%	10.3	10.3	2.0	0%	167.5	-49%
	SZS	SZUSF	C-1-7 Buy	114.0	456	9.8	12.4	12%	27%	11.7	9.2	3.0	14%	95.0	-35%
	Chicony	CCNYF	C-1-7 Buy	46.4	834	5.2	6.1	131%	17%	8.9	7.6	3.1	-19%	67.1	-11%
	Simplo	SPLOF	C-1-7 Buy	96.2	645	11.3	11.9	86%	5%	8.5	8.1	2.3	23%	43.3	-31%
	Juteng	JUTGF	C-1-9 Buy	2.2	271	0.6	0.8	52%	28%	3.5	2.8	0.8	-11%	60.0	-8%

Source: Merrill Lynch estimates, BBG

24 October 2008

**Table 4: Simplo: Quarterly income statement (Consolidated)**

NT\$m	1Q08A	2Q08A	3Q08A	4Q08E	1Q09E	2Q09E	3Q09E	4Q09E	2007A	2008E	2009E	2010E
Sales	6,598	6,986	8,440	8,800	7,667	8,013	9,268	9,920	23,327	30,825	34,868	40,132
Cost of Sales	(5,421)	(5,686)	(6,869)	(7,198)	(6,303)	(6,604)	(7,661)	(8,202)	(19,112)	(25,173)	(28,770)	(33,287)
Gross Profit	1,177	1,301	1,572	1,602	1,364	1,408	1,608	1,718	4,215	5,652	6,098	6,845
Operating Expense	(653)	(556)	(699)	(726)	(659)	(689)	(774)	(823)	(1,620)	(2,634)	(2,946)	(3,371)
Oper.Exp.Promotion	(251)	(224)	(279)	(286)	(238)	(248)	(278)	(298)	(636)	(1,039)	(1,062)	(1,244)
OperatingExp.-ADM	(198)	(151)	(194)	(202)	(199)	(208)	(236)	(248)	(414)	(745)	(892)	(1,023)
Operat.Expense-R&D	(205)	(182)	(226)	(238)	(222)	(232)	(260)	(278)	(571)	(850)	(992)	(1,104)
Operating Profit	524	745	873	876	704	719	834	895	2,595	3,017	3,152	3,474
Non-operating Income	137	(4)	60	(10)	38	38	38	38	127	183	152	150
Net Interest Income	24	18	6	5	8	8	8	8	16	53	32	30
Exchange Gain	2	-	60	-	-	-	-	-	11	62	-	-
Others	111	(22)	(6)	(15)	30	30	30	30	100	68	120	120
Pre-tax Profit	661	741	933	866	742	757	872	933	2,722	3,200	3,304	3,624
Tax Expense	(197)	(190)	(243)	(217)	(186)	(189)	(218)	(233)	(666)	(847)	(826)	(906)
Minority	-	-	-	-	-	-	-	-	-	-	-	-
Net Profit	464	551	689	650	557	568	654	700	2,056	2,354	2,478	2,718
Not Profit- Bonus adj	464	551	689	650	557	568	654	700	1,267	2,354	2,478	2,718
EPS (NT\$)	2.23	2.65	3.31	3.12	2.68	2.73	3.14	3.36	9.89	11.32	11.91	13.07
<b>Margin %</b>												
Gross Margin	17.8%	18.6%	18.6%	18.2%	17.8%	17.6%	17.3%	17.3%	18.1%	18.3%	17.5%	17.1%
Operating Expense	-9.9%	-8.0%	-8.3%	-8.3%	-8.6%	-8.6%	-8.4%	-8.3%	-6.9%	-8.5%	-8.4%	-8.4%
Operating Margin	7.9%	10.7%	10.3%	10.0%	9.2%	9.0%	9.0%	9.0%	11.1%	9.8%	9.0%	8.7%
Pre-tax Margin	10.0%	10.6%	11.1%	9.8%	9.7%	9.4%	9.4%	9.4%	11.7%	10.4%	9.5%	9.0%
Net Margin	7.0%	7.9%	8.2%	7.4%	7.3%	7.1%	7.1%	7.1%	8.8%	7.6%	7.1%	6.8%
Tax Rate	-30%	-26%	-26%	-25%	-25%	-25%	-25%	-25%	-24%	-26%	-25%	-25%
Net Margin- Bonus Adj	7.0%	7.9%	8.2%	7.4%	7.3%	7.1%	7.1%	7.1%	5.4%	7.6%	7.1%	6.8%
<b>Sequential Growth %</b>												
Sales	-13%	6%	21%	4%	-13%	5%	16%	7%	37%	32%	13%	15%
Cost of Sales	-13%	5%	21%	5%	-12%	5%	16%	7%	38%	32%	14%	16%
Gross Profit	-15%	11%	21%	2%	-15%	3%	14%	7%	36%	34%	8%	12%
Operating Expense	7%	-15%	26%	4%	-9%	5%	12%	6%	27%	63%	12%	14%
Operating Profit	-32%	42%	17%	0%	-20%	2%	16%	7%	42%	16%	4%	10%
Non-operating Income	-13%	-103%	-1600%	-117%	-480%	0%	0%	0%	115%	44%	-17%	-1%
Pre-Tax Profit	-29%	12%	26%	-7%	-14%	2%	15%	7%	45%	18%	3%	10%
Tax Expense	-7%	-4%	28%	-11%	-14%	2%	15%	7%	43%	27%	-2%	10%
Net Profit	-35%	19%	25%	-6%	-14%	2%	15%	7%	48%	14%	5%	10%
<b>YoY Growth %</b>												
Sales	49%	35%	39%	16%	16%	15%	10%	13%	37%	32%	13%	15%
Cost of Sales	50%	30%	40%	16%	16%	16%	12%	14%	38%	32%	14%	16%
Gross Profit	44%	58%	32%	16%	16%	8%	2%	7%	36%	34%	8%	12%
Operating Expense	125%	85%	68%	19%	1%	24%	11%	13%	27%	63%	12%	14%
Operating Profit	0%	42%	13%	14%	34%	-3%	-4%	2%	42%	16%	4%	10%
Non-operating Income	-491%	-107%	-218%	-106%	-72%	-1050%	-37%	-480%	115%	44%	-17%	-1%
Pre-Tax Profit	35%	27%	29%	-7%	12%	2%	-7%	8%	45%	18%	3%	10%
Tax Expense	36%	42%	38%	3%	-6%	0%	-10%	8%	43%	27%	-2%	10%
Net Profit	34%	23%	27%	-10%	20%	3%	-5%	8%	48%	14%	5%	10%

Source: Merrill Lynch estimates, Simplo

## Price objective basis & risk

### Simplo Tech (SPLOF)

Simplo's PO of NT\$131 is based on 11x 2009E bonus adjusted EPS, using trough-cycle P/E valuation methodology. This compares with Simplo's P/E cycle trading range of 9-21x diluted P/E in 2005-08. Risks: (1) Larger-than-expected oversupply to hurt the company's margins and (2) Slower-than-expected growth in NB PC market.

## Analyst Certification

I, Tina Chang, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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### APR - Technology Hardware Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY				
	Acer, Inc	ASIYF	2353 TT	Tony Tseng, CFA
	Asustek	AKCPF	2357 TT	Tony Tseng, CFA
	BYD	BYDDF	1211 HK	Daniel Kim, CFA
	Cheil Industries	CLFUF	001300 KS	Simon Dong-je Woo, CFA
	Chicony Elect	CCNYF	2385 TT	Tina Chang, CFA
	Compal Electron	CMPLF	2324 TT	Tina Chang, CFA
	Coretronic	CCOCF	5371 TT	Jeffrey Su
	Delta Elect	DLTEF	2308 TT	Jeffrey Su
	Foxconn Tech	FXTCF	2354 TT	Tony Tseng, CFA
	InnoLux	INXDF	3481 TT	Jeffrey Su
	Ju Teng Intl	JUTGF	3336 HK	Ronnie Ho
	Kingboard	KBDCF	148 HK	Ronnie Ho
	Largan Precision	LGANF	3008 TT	Laura Chen

24 October 2008

**APR - Technology Hardware Coverage Cluster**

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
	LG Electronics	LGEAF	066570 KS	Daniel Kim, CFA
	Samsung Techwin	SGTWF	012450 KS	Simon Dong-je Woo, CFA
	Shin Zu Shing	SZUSF	3376 TT	Tina Chang, CFA
	Simplo Tech	SPLOF	6121 TT	Tina Chang, CFA
	SSCP CO LTD	SSCPF	071660 KS	Daniel Kim, CFA
	TPV	TPVTF	903 HK	Daniel Kim, CFA
	Venture Corp.	VEMLF	VMS SP	Ronnie Ho
<b>NEUTRAL</b>				
	AU Optronics	AUO	AUO US	Jeffrey Su
	AU Optronics	AUOPF	2409 TT	Jeffrey Su
	Foxconn Intl Hld	FXCNF	2038 HK	Tony Tseng, CFA
	Hon Hai Prec.	HNHAF	2317 TT	Tony Tseng, CFA
	HTC Corp.	HTCCF	2498 TT	Tony Tseng, CFA
	Inventec	IVCJF	2356 TT	Tina Chang, CFA
	Inventec Applian	IVAPF	3367 TT	Tina Chang, CFA
	Lenovo Group	LNVGF	992 HK	Daniel Kim, CFA
	Lenovo Group	LNVGY	LNVGY US	Daniel Kim, CFA
	Oisda Corp	BNOCF	2352 TT	Jeffrey Su
	Radiant	ROPTF	6176 TT	Jeffrey Su
	Sillitech	SLKCF	3311 TT	Laura Chen
	Wistron	WICOF	3231 TT	Tony Tseng, CFA
	Yageo Corp	YGEQF	2327 TT	Ronnie Ho
<b>UNDERPERFORM</b>				
	Alpha Networks I	AHNWF	3380 TT	Laura Chen
	Catcher Tech	CHERF	2474 TT	Tony Tseng, CFA
	Chi Mei Opto	CMEOF	3009 TT	Jeffrey Su
	Compal Comm	CPCMF	8078 TT	Laura Chen
	Epistar Corp	EPIPF	2448 TT	Jeffrey Su
	Everlight Elec	EVLEF	2393 TT	Jeffrey Su
	Gemtek Technolog	GTKTF	4906 TT	Laura Chen
	LG Display Co., Ltd.	LPHLF	034220 KS	Daniel Kim, CFA
	LG Display Co., Ltd.-A	LPL	LPL US	Daniel Kim, CFA
	Lite-On Tech	LOTZF	2301 TT	Jeffrey Su
	Merry Electron	MMECF	2439 TT	Laura Chen
	Mitac Intl	MTCXF	2315 TT	Tina Chang, CFA
	Quanta Computer	QUCPF	2382 TT	Tony Tseng, CFA
	Samsung Elec M	SSEMF	009150 KS	Daniel Kim, CFA
	Samsung SDI	SSDIF	006400 KS	Daniel Kim, CFA
	Seoul Semicon	SLSOF	046890 KS	Simon Dong-je Woo, CFA
	Unisteel Tech	UNSGF	USTL SP	Ronnie Ho
	Wellypower	XTTWF	3080 TT	Jeffrey Su
	ZTE Corp - H	ZTCOF	763 HK	Ronnie Ho

24 October 2008

**iQmethod<sup>SM</sup> Measures Definitions**

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

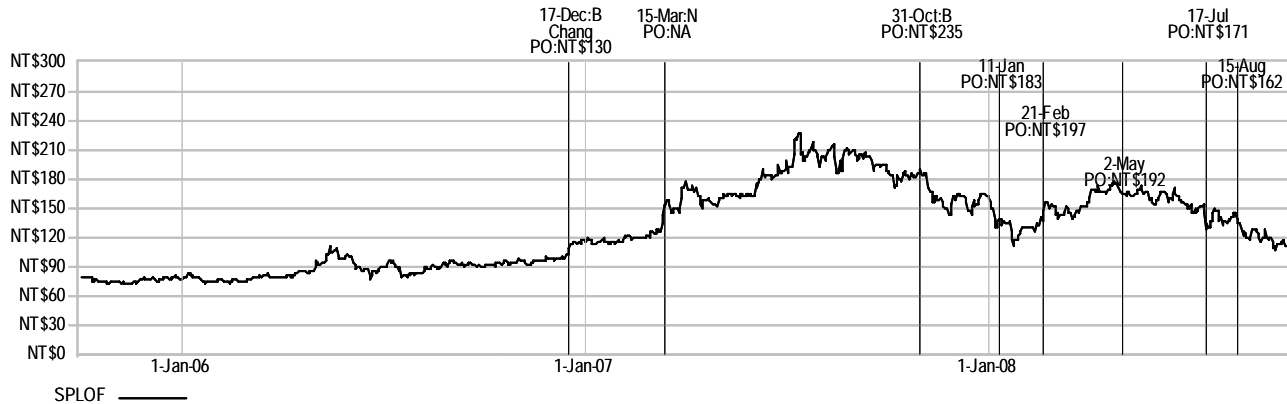
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### SPLOF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of September 30, 2008 or such later date as indicated.

### Investment Rating Distribution: Electronics Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	42	40.00%	Buy	8	20.51%
Neutral	32	30.48%	Neutral	3	11.11%
Sell	31	29.52%	Sell	2	7.41%

### Investment Rating Distribution: Global Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1647	45.31%	Buy	429	28.83%
Neutral	858	23.60%	Neutral	240	31.41%
Sell	1130	31.09%	Sell	227	22.02%

\* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

\* Ratings dispersions may vary from time to time where Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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