

COMPANY UPDATE

Sunplus Technology (2401.TW)

Sell

3Q below expectations, no visibility on weak consumer demand**What's changed**

Sunplus reported 3Q08 EPS NT\$0.31, 42% lower than our estimate. The company missed our sales forecast by 22%; however, the main upside for its operating profit (NT\$218 mn vs. our estimate of NT\$160 mn) comes from the better GM (46.9% vs. our estimate of 40.8%) – mostly contributed by higher Silicon Image royalty income, FX gains, and better product mix. The non-operating loss of NT\$15 mn was well below our estimate of operating income of NT\$203 mn due to the investment loss from its subsidiaries. Management did not provide clear 4Q08 guidance, but was generally more cautious on weak consumer demand visibility.

Implications

We believe Sunplus is a direct victim of weak consumer demand globally, as the company is 100% geared toward the consumer electronic segment. Its core DVD chipset business seemed to show severe deceleration, yet new product cycles—including digital TV and set-top box—are not strong enough to make up the shortfall. The royalty income from Broadcom should start to contribute in 2009E (about US\$25 mn), but this would at best help Sunplus strengthen its balance sheet to weather the macro storm, in our view. We revised down our 08E-10E EPS estimates by 50%-58% to reflect lackluster core business and subsidiaries. Sunplus is still trading at demanding valuation at 12X 2009E EPS, and we do not see any fundamental reason to change our current bearish view. Maintain Sell.

Valuation

We cut our 12-month target price to NT\$11 (from NT\$24) and 12-month GDR target to US\$0.73 (from US\$1.60), still based on 10X 2009E GAAP EPS.

Key risks

Stronger than expected end demand.

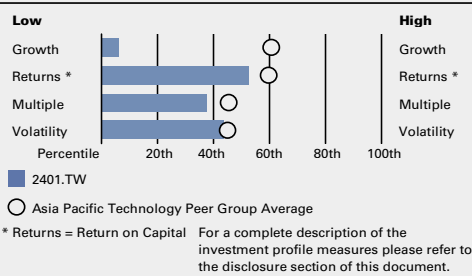
INVESTMENT LIST MEMBERSHIP

Asia Pacific Sell List

Coverage View: NeutralTaiwan:
Semiconductors

Joey Cheng
+886(2)2730-4186 | joey.cheng@gs.com Goldman Sachs (Asia) L.L.C., Taipei Branch

Jeffrey W. Chen
+886(2)2730-4190 | jeffrey.w.chen@gs.com Goldman Sachs (Asia) L.L.C., Taipei Branch

Investment Profile: Sunplus Technology

Key data	Current
Price (NT\$)	13.05
12 month price target (NT\$)	11.00
2401q.L Price (\$)	2.33
2401q.L 12 month price target (\$)	0.73
Market cap (NT\$ mn / US\$ mn)	7,627.2 / 228.0
Foreign ownership (%)	4.8

	12/07	12/08E	12/09E	12/10E
EPS (NT\$) New	3.56	0.67	1.14	1.29
EPS revision (%)	0.00	(50.16)	(52.07)	(58.48)
EPS growth (%)	(25.1)	(81.1)	69.3	13.4
EPS (dil) (NT\$) New	3.56	0.67	1.14	1.29
P/E (X)	3.7	19.4	11.5	10.1
P/B (X)	0.6	0.8	0.7	0.7
EV/EBITDA (X)	14.6	5.2	6.9	NM
Dividend yield (%)	27.1	18.2	3.7	7.0
ROE (%)	13.6	3.4	6.5	7.0

Price performance chart

Share price performance (%)	3 month	6 month	12 month
Absolute	(57.5)	(67.7)	(77.7)
Rel. to Taiwan SE Weighted Index	(32.4)	(34.8)	(50.4)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 10/29/2008 close.

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Exhibit 1: Disappointing 3Q result from Sunplus

Sunplus Technology (2401.TW) Summary P&L (NT\$m)	3Q2008 (GAAP)			3Q2008 (non-GAAP)			2Q2008 (QoQ)		3Q2007 (YoY)	
	Actual	GS est.	Diff.	Actual	GS est.	Diff.	Actual	%	Actual	%
Revenues	1,534	1,976	-22%	1,534	1,976	-22%	1,781	-14%	2,075	-26%
Gross profits	720	805	-11%	720	806	-11%	686	5%	861	-16%
Operating profits	218	160	36%	218	234	-7%	144	51%	231	-6%
Non-operating income	(15)	203	-107%	(15)	203	-107%	(129)	-88%	483	-103%
Pretax earnings	202	363	-44%	202	437	-54%	15	1248%	714	-72%
Net earnings	179	308	-42%	179	372	-52%	7	2493%	696	-74%
EPS (NT\$)	0.31	0.53	-42%	0.31	0.64	-52%	0.01	2493%	1.20	-75%
Ratio analysis										
Gross margin (%)	46.9%	40.8%		46.9%	40.8%		38.5%		41.5%	
EBIT margin (%)	14.2%	8.1%		14.2%	11.8%		8.1%		11.1%	
Tax expense (as % of EBT)	11.7%	15.0%		11.7%	14.9%		54.1%		2.5%	
Net margin (%)	11.7%	15.6%		11.7%	18.8%		0.4%		33.5%	
Return analysis										
ROA (% annualized)	5.2%	9.0%		5.2%	10.9%		0.2%		16.5%	
ROE (% annualized)	6.8%	11.7%		6.8%	14.0%		0.2%		22.2%	

Source: Company data, Goldman Sachs Research estimates.

Exhibit 2: We revised down 08E-10E EPS forecasts by 50%-58% to reflect lackluster core business and subsidiaries

Top: non-GAAP; bottom: GAAP

Sunplus Technology (2401.TW)

P&L (non-GAAP, NT\$m)	2008E New	2008E Old	Diff.	2009E New	2009E Old	Diff.	2010E New	2010E Old	Diff.
Revenues	6,264	7,640	-18%	5,647	9,706	-42%	5,596	11,222	-50%
Gross profits	2,488	2,925	-15%	2,540	3,344	-24%	1,932	4,047	-52%
Operating profits	432	664	-35%	498	989	-50%	(178)	1,505	NM
Non-operating income	63	444	-86%	468	1,033	-55%	1,319	1,247	6%
Pretax earnings	495	1,109	-55%	966	2,022	-52%	1,141	2,752	-59%
Net earnings	420	932	-55%	796	1,660	-52%	894	2,153	-58%
EPS (NT\$)	0.72	1.60	-55%	1.36	2.84	-52%	1.53	3.68	-58%
Ratio analysis									
Gross margin (%)	39.7%	38.3%		45.0%	34.4%		34.5%	36.1%	
EBIT margin (%)	6.9%	8.7%		8.8%	10.2%		-3.2%	13.4%	
Tax expense (as % of EBT)	15.1%	15.9%		17.6%	17.9%		21.6%	21.8%	
Net margin (%)	6.7%	12.2%		14.1%	17.1%		16.0%	19.2%	
Return analysis									
ROA (% annualized)	3.0%	6.4%		6.0%	11.7%		6.3%	13.6%	
ROE (% annualized)	3.7%	8.0%		7.7%	14.9%		8.3%	17.6%	

Sunplus Technology (2401.TW)

P&L (GAAP, NT\$m)	2008E New	2008E Old	Diff.	2009E New	2009E Old	Diff.	2010E New	2010E Old	Diff.
Revenues	6,264	7,640	-18%	5,647	9,706	-42%	5,596	11,222	-50%
Gross profits	2,488	2,924	-15%	2,539	3,341	-24%	1,930	4,044	-52%
Operating profits	399	494	-19%	339	657	-48%	(357)	1,074	NM
Non-operating income	63	444	-86%	468	1,033	-55%	1,319	1,247	6%
Pretax earnings	462	938	-51%	807	1,690	-52%	962	2,322	-59%
Net earnings	393	788	-50%	665	1,387	-52%	754	1,816	-58%
EPS (NT\$)	0.67	1.35	-50%	1.14	2.37	-52%	1.29	3.11	-58%
Ratio analysis									
Gross margin (%)	39.7%	38.3%		45.0%	34.4%		34.5%	36.0%	
EBIT margin (%)	6.4%	6.5%		6.0%	6.8%		-6.4%	9.6%	
Tax expense (as % of EBT)	15.1%	16.0%		17.6%	17.9%		21.6%	21.8%	
Net margin (%)	6.3%	10.3%		11.8%	14.3%		13.5%	16.2%	
Return analysis									
ROA (% annualized)	2.8%	5.4%		5.0%	9.8%		5.3%	11.5%	
ROE (% annualized)	3.4%	6.7%		6.5%	12.5%		7.0%	14.9%	

Source: Goldman Sachs Research estimates.

Exhibit 3: Sunplus' quarterly profit model (parent; NT\$ mn)

Non-GAAP basis

Summary P&L (non-GAAP)	3Q2008	4Q2008E	1Q2009E	2Q2009E	3Q2009E	4Q2009E	1Q2010E	2Q2010E	2007	2008E	2009E	2010E
Net sales	1,534	1,298	1,432	1,368	1,402	1,445	1,199	1,266	9,214	6,264	5,647	5,596
Cost of goods sold (COGS)	(814)	(817)	(786)	(746)	(766)	(809)	(787)	(826)	(5,302)	(3,776)	(3,107)	(3,665)
Gross profits	720	481	646	623	636	636	411	440	3,912	2,488	2,540	1,932
Operating expenses	(502)	(446)	(494)	(488)	(514)	(546)	(453)	(480)	(2,306)	(2,056)	(2,042)	(2,110)
SG&A	(118)	(105)	(105)	(101)	(105)	(112)	(93)	(96)	(580)	(457)	(423)	(430)
R&D	(384)	(341)	(390)	(387)	(409)	(434)	(360)	(384)	(1,726)	(1,599)	(1,619)	(1,679)
Operating profits	218	35	152	135	122	90	(41)	(40)	1,606	432	498	(178)
Non-operating income/(losses)	(15)	159	181	114	96	77	321	338	690	63	468	1,319
Earnings before tax (EBT)	202	194	332	248	218	167	279	298	2,296	495	966	1,141
Income tax credit/(expense)	(24)	(31)	(55)	(43)	(40)	(32)	(56)	(63)	(235)	(75)	(170)	(247)
Extraordinary gain/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
Earnings after tax (EAT)	179	163	277	205	178	135	223	235	2,062	420	796	894
EPS (NT\$)	0.31	0.28	0.47	0.35	0.31	0.23	0.38	0.40	3.56	0.72	1.36	1.53
EPS (fully diluted, NT\$)	0.31	0.28	0.47	0.35	0.31	0.23	0.38	0.40	3.56	0.72	1.36	1.53
Ratio analysis and assumptions												
As % of sales												
Gross margin	46.9%	37.1%	45.1%	45.5%	45.4%	44.0%	34.3%	34.7%	42.5%	39.7%	45.0%	34.5%
Operating expense	-32.7%	-34.4%	-34.5%	-35.7%	-36.7%	-37.8%	-37.8%	-37.9%	-25.0%	-32.8%	-36.2%	-37.7%
Operating margin	14.2%	2.7%	10.6%	9.8%	8.7%	6.2%	-3.5%	-3.2%	17.4%	6.9%	8.8%	-3.2%
Pretax margin	13.2%	14.9%	23.2%	18.2%	15.6%	11.6%	23.3%	23.5%	24.9%	7.9%	17.1%	20.4%
Tax rate (as % of EBT)	11.7%	15.8%	16.5%	17.4%	18.2%	19.1%	20.1%	21.1%	10.2%	15.1%	17.6%	21.6%
Net margin	11.7%	12.6%	19.4%	15.0%	12.7%	9.4%	18.6%	18.5%	22.4%	6.7%	14.1%	16.0%
Qoq growth (%)												
Sales	-13.9%	-15.4%	10.3%	-4.5%	2.5%	3.0%	-17.0%	5.6%				
Gross profits	4.9%	-33.2%	34.3%	-3.6%	2.2%	-0.1%	-35.3%	6.9%				
Operating profits	51.5%	-84.0%	335.7%	-11.3%	-9.4%	-26.2%	NM	NM				
Non-operating profits	NM	NM	13.6%	-36.9%	-15.4%	-19.9%	315.4%	5.3%				
Pre-tax profits	1248.3%	-4.3%	71.5%	-25.2%	-12.2%	-23.4%	67.2%	6.5%				
Net profits	2493.2%	-8.7%	69.9%	-25.9%	-13.1%	-24.3%	65.2%	5.2%				
EPS (weighted averaged)	2493.2%	-8.7%	69.9%	-25.9%	-13.1%	-24.3%	65.2%	5.2%				
Yoq growth (%)												
Sales	-26.1%	-37.5%	-13.3%	-23.2%	-8.6%	11.4%	-16.3%	-7.4%	-46.0%	-32.0%	-9.8%	-0.9%
Gross profits	-16.4%	-39.0%	7.5%	-9.3%	-11.6%	32.2%	-36.3%	-29.3%	-31.7%	-36.4%	2.1%	-24.0%
Operating profits	-5.8%	-78.2%	322.4%	-6.4%	-44.0%	158.4%	NM	NM	-26.2%	-73.1%	15.2%	NM
Non-operating profits	NM	39.6%	277.2%	NM	NM	-51.4%	77.7%	196.5%	-26.9%	-90.9%	644.3%	181.8%
Pretax profits	-71.6%	-29.2%	296.5%	1554.5%	7.8%	-13.7%	-15.9%	19.8%	-26.4%	-78.4%	95.2%	18.1%
Net profits	-74.3%	-3.4%	289.0%	2878.3%	-0.2%	-17.2%	-19.5%	14.4%	-30.7%	-79.6%	89.5%	12.3%
EPS	-74.5%	-4.2%	289.0%	2878.3%	-0.2%	-17.2%	-19.5%	14.4%	-25.6%	-79.8%	89.5%	12.3%
Dividend policies												
Cash dividends (NT\$ per share)									3.5	2.4	0.5	0.9
Payout ratio (%)									68.9%	67.4%	67.4%	67.4%

Source: Company data, Goldman Sachs Research estimates.

Exhibit 4: Sunplus' quarterly profit model (parent; NT\$ mn)

GAAP basis

Summary P&L (GAAP)	3Q2008	4Q2008E	1Q2009E	2Q2009E	3Q2009E	4Q2009E	1Q2010E	2Q2010E	2007	2008E	2009E	2010E
Net sales	1,534	1,298	1,432	1,368	1,402	1,445	1,199	1,266	9,214	6,264	5,647	5,596
Cost of goods sold (COGS)	(814)	(817)	(787)	(746)	(767)	(810)	(788)	(827)	(5,302)	(3,776)	(3,109)	(3,666)
Gross profits	720	481	645	622	636	635	411	439	3,912	2,488	2,539	1,930
Operating expenses	(502)	(479)	(549)	(529)	(550)	(573)	(497)	(527)	(2,351)	(2,088)	(2,200)	(2,287)
SG&A	(118)	(107)	(108)	(103)	(108)	(114)	(96)	(99)	(583)	(459)	(433)	(442)
R&D	(384)	(371)	(441)	(425)	(442)	(459)	(401)	(428)	(1,768)	(1,629)	(1,767)	(1,845)
Operating profits	218	2	96	93	86	63	(86)	(87)	1,561	399	339	(357)
Non-operating income/(losses)	(15)	159	181	114	96	77	321	338	690	63	468	1,319
Earnings before tax (EBT)	202	161	277	207	183	140	235	251	2,251	462	807	962
Income tax credit/(expense)	(24)	(25)	(46)	(36)	(33)	(27)	(47)	(53)	(231)	(70)	(142)	(208)
Extraordinary gain/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
Earnings after tax (EAT)	179	136	231	171	149	113	188	198	2,020	393	665	754
EPS (GAAP, NT\$)	0.31	0.23	0.40	0.29	0.26	0.19	0.32	0.34	3.48	0.67	1.14	1.29
EPS (GAAP, fully diluted, NT\$)	0.31	0.23	0.40	0.29	0.26	0.19	0.32	0.34	3.48	0.67	1.14	1.29
Ratio analysis and assumptions												
As % of sales												
Gross margin	46.9%	37.0%	45.1%	45.5%	45.3%	44.0%	34.3%	34.7%	42.5%	39.7%	45.0%	34.5%
Operating expense	-32.7%	-36.9%	-38.4%	-38.6%	-39.2%	-39.6%	-41.5%	-41.6%	-25.5%	-33.3%	-39.0%	-40.9%
Operating margin	14.2%	0.2%	6.7%	6.8%	6.1%	4.4%	-7.2%	-6.9%	16.9%	6.4%	6.0%	-6.4%
Pretax margin	13.2%	12.4%	19.3%	15.2%	13.0%	9.7%	19.6%	19.8%	24.4%	7.4%	14.3%	17.2%
Tax rate (as % of EBT)	11.7%	15.8%	16.5%	17.4%	18.2%	19.1%	20.1%	21.1%	10.3%	15.1%	17.6%	21.6%
Net margin	11.7%	10.5%	16.1%	12.5%	10.6%	7.8%	15.6%	15.6%	21.9%	6.3%	11.8%	13.5%
Qoq growth (%)												
Sales	-13.9%	-15.4%	10.3%	-4.5%	2.5%	3.0%	-17.0%	5.6%				
Gross profits	4.9%	-33.2%	34.2%	-3.6%	2.2%	0.0%	-35.3%	6.9%				
Operating profits	51.5%	-99.0%	4355.4%	-2.8%	-7.8%	-27.0%	NM	NM				
Non-operating profits	NM	NM	13.6%	-36.9%	-15.4%	-19.9%	315.4%	5.3%				
Pre-tax profits	1248.3%	-20.4%	71.8%	-25.1%	-12.0%	-23.2%	67.6%	6.8%				
Net profits	2493.2%	-24.1%	70.2%	-25.8%	-12.9%	-24.1%	65.6%	5.4%				
EPS (weighted averaged)	2493.2%	-24.1%	70.2%	-25.8%	-12.9%	-24.1%	65.6%	5.4%				
Yoy growth (%)												
Sales	-26.1%	-37.5%	-13.3%	-23.2%	-8.6%	11.4%	-16.3%	-7.4%	-46.0%	-32.0%	-9.8%	-0.9%
Gross profits	-16.4%	-39.0%	7.4%	-9.4%	-11.7%	32.2%	-36.3%	-29.4%	-31.6%	-36.4%	2.1%	-24.0%
Operating profits	0.9%	-98.6%	167.9%	-35.0%	-60.4%	2813.1%	NM	NM	14.2%	-74.4%	-15.2%	NM
Non-operating profits	NM	39.6%	277.2%	NM	NM	-51.4%	77.7%	196.5%	-26.9%	-90.9%	644.3%	181.8%
Pretax profits	-71.0%	-40.3%	230.4%	1281.0%	-9.9%	-13.0%	-15.2%	20.9%	-2.6%	-79.5%	74.5%	19.3%
Net profits	-73.8%	-18.6%	224.1%	2386.1%	-16.5%	-16.5%	-18.8%	15.4%	-7.8%	-80.6%	69.3%	13.4%
EPS	-74.0%	-19.3%	224.1%	2386.1%	-16.5%	-16.5%	-18.8%	15.4%	0.5%	-80.7%	69.3%	13.4%
Dividend policies												
Cash dividends (NT\$ per share)									3.5	2.4	0.5	0.9
Payout ratio (%)									68.9%	67.4%	67.4%	67.4%

Source: Company data, Goldman Sachs Research estimates.

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The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

Quantum

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There are no company-specific disclosures for: Sunplus Technology (NT\$13.05) and Sunplus Technology (GDR) (\$2.33)

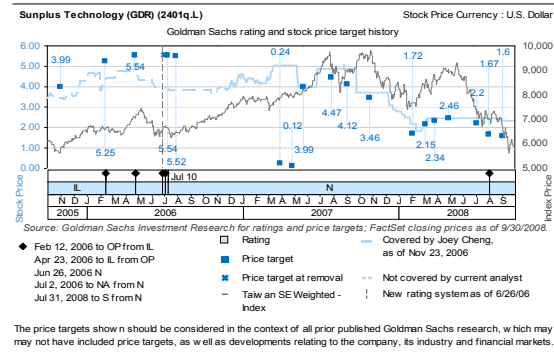
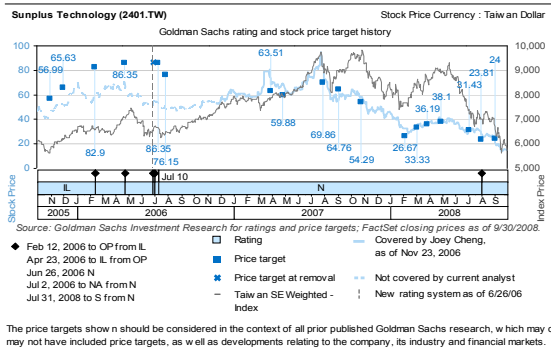
Distribution of ratings/investment banking relationships

Goldman Sachs Investment Research global coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	26%	57%	17%	52%	47%	37%

As of October 1, 2008, Goldman Sachs Global Investment Research had investment ratings on 3,165 equity securities. Goldman Sachs assigns stocks as Buys and Sells on various regional Investment Lists; stocks not so assigned are deemed Neutral. Such assignments equate to Buy, Hold and Sell for the purposes of the above disclosure required by NASD/NYSE rules. See 'Ratings, Coverage groups and views and related definitions' below.

Price target and rating history chart(s)



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