

COMPANY UPDATE

D-Link Corp. (2332.TW)

Neutral

Struck by slowing emerging markets and FX, maintain Neutral

What's changed

Our channel checks show a steady worsening of end demand, even in the Christmas season, and D-Link mgmt now expects Dec sales to continue to trend down. As a result, we now expect a high teens qoq decline in D-Link's 4Q sales and a deteriorating operating margin, and forecast a 5.5% sales decline in 2009.

Implications

We attribute D-Link's weak 4Q sales to the following (1) customers in emerging markets have been extending project completion (from six to nine months) (2) FX fluctuation: As D-Link pays COGS in US dollars, both emerging market currency and Euro depreciation and US dollar appreciation will put greater pressure on D-Link's sales and margins (3) worsening demand in Europe and North America. We think prolonged emerging market projects are an indication of a slowdown in emerging markets, so we do not think they can continue to help D-Link to mitigate sluggish end demand from developed markets. We therefore expect ASP and margin erosion over the next six months. We assume D-Link's sales will bottom in 2Q09 and have trimmed our 08E/09E/10E sales forecasts by 3%/8%/6% respectively to factor in worsening end demand. We have also revised down 08E/09E/10E earnings by 8%/17%/13% to reflect margin pressure. We maintain our Neutral rating given D-Link's recent share price correction and its global brand recognition but suggest investors stay on the sidelines until 2H09.

Valuation

D-Link is traded at 8X/9X 08E/09E GAAP EPS. Our new 12-m 1X PEG based TP moves to NT\$22 (from NT\$27), implying 7% upside from D-Link's share price on 12/22.

Key risks

Intensified pricing competition from global peers.

INVESTMENT LIST MEMBERSHIP

Neutral

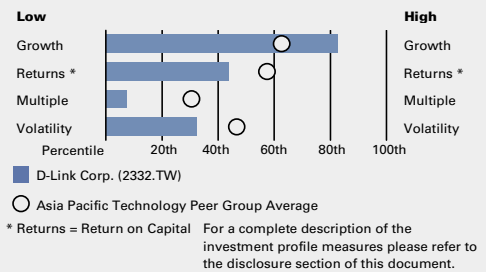
Coverage View: Neutral

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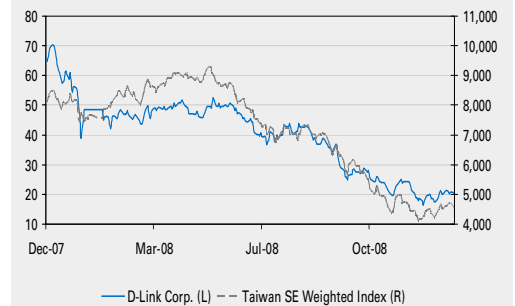
Investment Profile



Key data	Current
Price (NT\$)	20.55
12 month price target (NT\$)	22.00
Market cap (NT\$ mn / US\$ mn)	11,576.1 / 355.9
Foreign ownership (%)	18.3

	12/07	12/08E	12/09E	12/10E
EPS (NT\$) New	5.72	2.69	2.19	2.96
EPS revision (%)	0.0	(7.5)	(17.4)	(12.9)
EPS growth (%)	31.8	(52.9)	(18.8)	35.3
EPS (dil) (NT\$) New	5.72	2.69	2.19	2.96
P/E (X)	3.6	7.6	9.4	6.9
P/B (X)	0.8	0.8	0.8	0.7
EV/EBITDA (X)	15.5	3.7	4.4	2.7
Dividend yield (%)	12.7	11.8	6.1	5.2
ROE (%)	22.1	10.3	8.5	10.9

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(23.2)	(53.7)	(68.1)
Rel. to Taiwan SE Weighted Index	3.5	(19.4)	(44.1)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 12/22/2008 close.

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Exhibit 1: We trimmed D-Link 08E/09E/10E forecast to factor in the worse than expected macro condition and the ASP and margin pressure.

Top: Non GAAP basis Bottom: GAAP basis

D-Link Corp (2332.TW)									
P&L (non-GAAP, NT\$m)	2008E New	2008E Old	Diff.	2009E New	2009E Old	Diff.	2010E New	2010E Old	Diff.
Revenues	32,664	33,562	-3%	30,853	33,422	-8%	36,691	38,979	-6%
Gross profits	10,758	11,081	-3%	9,899	10,729	-8%	11,806	12,535	-6%
Operating profits	1,815	1,978	-8%	1,208	1,550	-22%	1,734	2,069	-16%
Non-operating income	202	196	3%	406	401	1%	543	547	-1%
Pretax earnings	2,016	2,174	-7%	1,613	1,951	-17%	2,277	2,616	-13%
Net earnings	1,651	1,786	-8%	1,344	1,626	-17%	1,810	2,080	-13%
EPS (NT\$)	2.93	3.17	-8%	2.39	2.89	-17%	3.21	3.69	-13%
Ratio analysis									
Gross margin (%)	32.9%	33.0%		32.1%	32.1%		32.2%	32.2%	
EBIT margin (%)	5.6%	5.9%		3.9%	4.6%		4.7%	5.3%	
Tax and minorities (as % of EBT)	18.1%	17.9%		16.7%	16.6%		20.5%	20.5%	
Net margin (%)	5.1%	5.3%		4.4%	4.9%		4.9%	5.3%	
Return analysis									
ROA (% , annualized)	6.5%	6.9%		5.2%	6.2%		6.4%	7.0%	
ROE (% , annualized)	11.2%	12.0%		9.3%	11.0%		11.8%	13.2%	

D-Link Corp (2332.TW)									
P&L (GAAP, NT\$m)	2008E New	2008E Old	Diff.	2009E New	2009E Old	Diff.	2010E New	2010E Old	Diff.
Revenues	32,664	33,562	-3%	30,853	33,422	-8%	36,691	38,979	-6%
Gross profits	10,758	11,081	-3%	9,899	10,729	-8%	11,806	12,535	-6%
Operating profits	1,650	1,800	-8%	1,073	1,387	-23%	1,553	1,861	-17%
Non-operating income	202	196	3%	406	401	1%	543	547	-1%
Pretax earnings	1,852	1,997	-7%	1,479	1,788	-17%	2,096	2,408	-13%
Net earnings	1,517	1,640	-8%	1,232	1,491	-17%	1,666	1,914	-13%
EPS (NT\$)	2.69	2.91	-8%	2.19	2.65	-17%	2.96	3.40	-13%
Ratio analysis									
Gross margin (%)	32.9%	33.0%		32.1%	32.1%		32.2%	32.2%	
EBIT margin (%)	5.1%	5.4%		3.5%	4.1%		4.2%	4.8%	
Tax and minorities (as % of EBT)	18.1%	17.9%		16.7%	16.6%		20.5%	20.5%	
Net margin (%)	4.6%	4.9%		4.0%	4.5%		4.5%	4.9%	
Return analysis									
ROA (% , annualized)	6.0%	6.3%		4.8%	5.7%		5.9%	6.5%	
ROE (% , annualized)	10.3%	11.1%		8.5%	10.1%		10.9%	12.1%	

Source: Company data, Goldman Sachs Research estimates.

Exhibit 2: D-Link's quarterly profit model (brand consolidated; NT\$mnn)

Non-GAAP basis

Summary P&L (non-GAAP)	1Q2008	2Q2008	3Q2008	4Q2008E	1Q2009E	2Q2009E	3Q2009E	4Q2009E	2007	2008E	2009E	2010E
Net sales	8,493	8,507	8,628	7,037	6,618	6,459	8,228	9,548	33,230	32,664	30,853	36,691
Cost of goods sold (COGS)	(5,629)	(5,655)	(5,808)	(4,815)	(4,496)	(4,400)	(5,613)	(6,444)	(21,845)	(21,907)	(20,954)	(24,884)
Gross profits	2,864	2,852	2,820	2,222	2,122	2,058	2,615	3,104	11,385	10,758	9,899	11,806
Operating expenses	(2,348)	(2,465)	(2,218)	(1,911)	(1,851)	(1,824)	(2,299)	(2,718)	(9,081)	(8,943)	(8,691)	(10,072)
SG&A	(2,201)	(2,281)	(2,088)	(1,793)	(1,737)	(1,712)	(2,159)	(2,556)	(8,390)	(8,363)	(8,164)	(9,475)
R&D	(147)	(185)	(130)	(118)	(115)	(112)	(140)	(162)	(691)	(580)	(528)	(597)
Operating profits	516	387	602	310	271	235	316	386	2,304	1,815	1,208	1,734
Non-operating income/(losses)	(49)	38	76	136	97	108	100	101	1,268	202	406	543
Earnings before tax (EBT)	467	425	678	446	368	343	416	487	3,572	2,016	1,613	2,277
Income tax credit/(expense)	(65)	(56)	(178)	(65)	(56)	(55)	(71)	(87)	(233)	(365)	(269)	(466)
Extraordinary gain/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
Minority interest	0	(0)	0	(0)	(0)	(0)	(0)	(0)	(0)	0	(1)	(1)
Earnings after tax (EAT)	402	368	500	381	311	288	345	400	3,339	1,651	1,344	1,810
EPS (NT\$)	0.71	0.65	0.89	0.68	0.55	0.51	0.61	0.71	5.72	2.93	2.39	3.21
EPS (fully diluted, NT\$)	0.71	0.65	0.89	0.68	0.55	0.51	0.61	0.71	5.72	2.93	2.39	3.21
Ratio analysis and assumptions												
As % of sales												
Gross margin	33.7%	33.5%	32.7%	31.6%	32.1%	31.9%	31.8%	32.5%	34.3%	32.9%	32.1%	32.2%
Operating expense	-27.7%	-29.0%	-25.7%	-27.2%	-28.0%	-28.2%	-27.9%	-28.5%	-27.3%	-27.4%	-28.2%	-27.5%
Operating margin	6.1%	4.5%	7.0%	4.4%	4.1%	3.6%	3.8%	4.0%	6.9%	5.6%	3.9%	4.7%
Pretax margin	5.5%	5.0%	7.9%	6.3%	5.6%	5.3%	5.1%	5.1%	10.7%	6.2%	5.2%	6.2%
Tax rate (as % of EBT)	14.0%	13.3%	26.3%	14.6%	15.4%	16.1%	16.9%	17.8%	6.5%	18.1%	16.7%	20.5%
Net margin	4.7%	4.3%	5.8%	5.4%	4.7%	4.5%	4.2%	4.2%	10.0%	5.1%	4.4%	4.9%
Qoq growth (%)												
Sales	-4.4%	0.2%	1.4%	-18.4%	-5.9%	-2.4%	27.4%	16.0%				
Gross profits	-1.1%	-0.4%	-1.1%	-21.2%	-4.5%	-3.0%	27.0%	18.7%				
Operating profits	21.4%	-25.0%	55.5%	-48.4%	-12.8%	-13.4%	34.9%	22.0%				
Non-operating profits	NM	NM	99.7%	78.4%	-28.8%	12.1%	-8.0%	0.8%				
Pre-tax profits	-35.2%	-9.0%	59.5%	-34.2%	-17.6%	-6.6%	21.3%	16.9%				
Net profits	-34.1%	-8.3%	35.7%	-23.8%	-18.4%	-7.5%	20.1%	15.7%				
EPS (weighted averaged)	-31.6%	-8.4%	35.7%	-23.8%	-18.4%	-7.5%	20.1%	15.7%				
Yoq growth (%)												
Sales	13.0%	8.6%	-4.1%	-20.8%	-22.1%	-24.1%	-4.6%	35.7%	11.4%	-1.7%	-5.5%	18.9%
Gross profits	9.1%	5.0%	-10.4%	-23.3%	-25.9%	-27.8%	-7.3%	39.7%	13.2%	-5.5%	-8.0%	19.3%
Operating profits	-13.4%	-35.2%	-12.3%	-26.9%	-47.5%	-39.4%	-47.4%	24.4%	0.2%	-21.2%	-33.4%	43.6%
Non-operating profits	NM	-51.1%	-72.2%	-54.1%	NM	184.3%	31.0%	-26.0%	75.5%	-84.1%	101.2%	33.8%
Pretax profits	-61.6%	-37.1%	-29.4%	-38.1%	-21.3%	-19.3%	-38.6%	9.1%	18.2%	-43.6%	-20.0%	41.1%
Net profits	-65.3%	-52.2%	-37.5%	-37.6%	-22.7%	-21.9%	-30.9%	5.0%	32.5%	-50.5%	-18.6%	34.7%
EPS	-64.0%	-50.4%	-35.2%	-35.3%	-22.7%	-21.9%	-30.9%	5.0%	31.8%	-48.7%	-18.6%	34.7%
Dividend policies												
Cash dividends (NT\$ per share)									2.6	2.4	1.3	1.1
Payout ratio (%)									60.5%	41.0%	43.0%	45.0%

Source: Company data, Goldman Sachs Research estimates.

Exhibit 3: D-Link's quarterly profit model (brand consolidated; NT\$mn)**GAAP basis**

Summary P&L (GAAP)	1Q2008	2Q2008	3Q2008	4Q2008E	1Q2009E	2Q2009E	3Q2009E	4Q2009E	2007	2008E	2009E	2010E
Net sales	8,493	8,507	8,628	7,037	6,618	6,459	8,228	9,548	33,230	32,664	30,853	36,691
Cost of goods sold (COGS)	(5,629)	(5,655)	(5,808)	(4,815)	(4,496)	(4,400)	(5,613)	(6,444)	(21,845)	(21,907)	(20,954)	(24,884)
Gross profits	2,864	2,852	2,820	2,222	2,122	2,058	2,615	3,104	11,385	10,758	9,899	11,806
Operating expenses	(2,384)	(2,499)	(2,274)	(1,949)	(1,883)	(1,853)	(2,333)	(2,758)	(9,415)	(9,107)	(8,826)	(10,253)
SG&A	(2,218)	(2,296)	(2,113)	(1,810)	(1,751)	(1,725)	(2,175)	(2,573)	(8,539)	(8,437)	(8,224)	(9,556)
R&D	(167)	(203)	(161)	(139)	(132)	(128)	(159)	(184)	(876)	(671)	(602)	(697)
Operating profits	479	353	546	272	240	206	282	346	1,970	1,650	1,073	1,553
Non-operating income/(losses)	(49)	38	76	136	97	108	100	101	1,268	202	406	543
Earnings before tax (EBT)	431	391	622	408	336	314	382	447	3,238	1,852	1,479	2,096
Income tax credit/(expense)	(60)	(52)	(183)	(60)	(52)	(51)	(65)	(79)	(216)	(335)	(247)	(429)
Extraordinary gain/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
Minority interest	0	(0)	0	(0)	(0)	(0)	(0)	(0)	(0)	0	(1)	(1)
Earnings after tax (EAT)	371	339	459	348	285	263	317	367	3,022	1,517	1,232	1,666
EPS (GAAP, NT\$)	0.66	0.60	0.81	0.62	0.51	0.47	0.56	0.65	5.17	2.69	2.19	2.96
EPS (GAAP, fully diluted, NT\$)	0.66	0.60	0.81	0.62	0.51	0.47	0.56	0.65	5.17	2.69	2.19	2.96
Ratio analysis and assumptions												
As % of sales												
Gross margin	33.7%	33.5%	32.7%	31.6%	32.1%	31.9%	31.8%	32.5%	34.3%	32.9%	32.1%	32.2%
Operating expense	-28.1%	-29.4%	-26.4%	-27.7%	-28.4%	-28.7%	-28.4%	-28.9%	-28.3%	-27.9%	-28.6%	-27.9%
Operating margin	5.6%	4.1%	6.3%	3.9%	3.6%	3.2%	3.4%	3.6%	5.9%	5.1%	3.5%	4.2%
Pretax margin	5.1%	4.6%	7.2%	5.8%	5.1%	4.9%	4.6%	4.7%	9.7%	5.7%	4.8%	5.7%
Tax rate (as % of EBT)	14.0%	13.3%	26.3%	14.6%	15.4%	16.1%	16.9%	17.8%	6.7%	18.1%	16.7%	20.5%
Net margin	4.4%	4.0%	5.3%	4.9%	4.3%	4.1%	3.9%	3.8%	9.1%	4.6%	4.0%	4.5%
Qoq growth (%)												
Sales	-4.4%	0.2%	1.4%	-18.4%	-5.9%	-2.4%	27.4%	16.0%				
Gross profits	-1.1%	-0.4%	-1.1%	-21.2%	-4.5%	-3.0%	27.0%	18.7%				
Operating profits	31.8%	-26.4%	54.6%	-50.1%	-12.0%	-14.1%	36.9%	22.8%				
Non-operating profits	NM	NM	99.7%	78.4%	-28.8%	12.1%	-8.0%	0.8%				
Pre-tax profits	-34.7%	-9.2%	59.0%	-34.4%	-17.6%	-6.6%	21.4%	17.0%				
Net profits	-33.8%	-8.6%	35.3%	-24.1%	-18.3%	-7.4%	20.2%	15.8%				
EPS (weighted averaged)	-31.3%	-8.6%	35.3%	-24.1%	-18.3%	-7.4%	20.2%	15.8%				
Yoy growth (%)												
Sales	13.0%	8.6%	-4.1%	-20.8%	-22.1%	-24.1%	-4.6%	35.7%	11.4%	-1.7%	-5.5%	18.9%
Gross profits	9.1%	5.0%	-10.4%	-23.3%	-25.9%	-27.8%	-7.3%	39.7%	13.2%	-5.5%	-8.0%	19.3%
Operating profits	0.0%	-32.2%	-10.0%	-25.2%	-50.0%	-41.7%	-48.3%	27.1%	15.6%	-16.2%	-35.0%	44.7%
Non-operating profits	NM	-51.1%	-72.2%	-54.1%	NM	184.3%	31.0%	-26.0%	75.5%	-84.1%	101.2%	33.8%
Pretax profits	-60.8%	-34.7%	-29.4%	-38.1%	-21.9%	-19.6%	-38.6%	9.4%	33.4%	-42.8%	-20.1%	41.7%
Net profits	-64.6%	-50.3%	-37.5%	-37.8%	-23.3%	-22.3%	-30.9%	5.4%	49.8%	-49.8%	-18.8%	35.3%
EPS	-63.2%	-48.4%	-35.1%	-35.5%	-23.3%	-22.3%	-30.9%	5.4%	49.1%	-48.0%	-18.8%	35.3%
Dividend policies												
Cash dividends (NT\$ per share)									2.6	2.4	1.3	1.1
Payout ratio (%)									60.5%	41.0%	43.0%	45.0%

Source: Company data, Goldman Sachs Research estimates.

Reg AC

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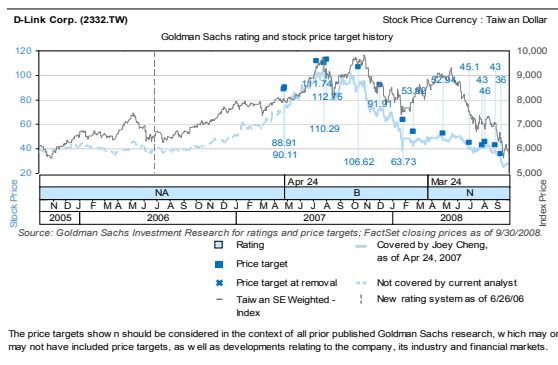
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Global	26%	57%	17%	52%	47%	37%

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Price target and rating history chart(s)



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