

Cautious on new acquisition; retain Underperform



Magellan to be acquired by Mitac

On 15 December 2008, Mitac announced it had signed an agreement with Magellan Navigation Inc. to acquire the latter's consumer product division for US\$96mn. The deal will give Mitac control over Magellan's brand, software, intellectual property, management team, customers, and retail channels. The transaction is likely to be closed in January 2009, when detailed financial terms are likely to be disclosed.

Background of Magellan

Magellan is the third largest GPS/PND brand in North America, trailing Garmin and TomTom. However, its market share has shrunk to 7% in 3Q08 from around 20% a year ago, according to Canalys. Magellan shipped ~1mn GPS/PND during 1Q-3Q08, with Wistron (3231 TT) as the major ODM supplier.

Increasing business uncertainties

Mitac's new acquisition will further exacerbate its execution difficulties on account of its current unclear multi-brand strategy and lead to a short-term increase in consolidation expenses, in our view. The transaction value of US\$96mn (around 40% of its current cash position) should also increase its B/S burden. Adding to Mitac's woes is the fact that the GPS/PND industry itself is confronting a host of problems: (1) a sudden decline in ASPs offset volume growth, (2) competition and cannibalization from GPS phones, and (3) excess inventory in channels and supply chain.

Retain Underperform; revisit at end-1Q09

We retain our Underperform rating on Mitac and NT\$10.0 PO. Current valuation at 0.6x BVPS and 8.5x P/E looks cheap, but the stock lacks fundamental catalysts to drive the share price. We suggest revisiting at end-1Q09, when Mitac (1) reveals detailed financial terms of the Magellan transaction, (2) provides clear multi-brand strategy, and (3) supply chain inventory digestion into the end.

Estimates (Dec)

(NT\$)	2006A	2007A	2008E	2009E	2010E
Net Income (mn) Taiwan GAAP	5,384	5,648	2,314	2,086	2,157
EPS (Pre Bonus)	3.51	3.68	1.58	1.42	1.47
EPS (Post Bonus)	2.87	3.35	1.51	1.36	1.41
EPS Change (YoY)	10.3%	16.7%	-55.0%	-9.8%	3.4%
Dividend / Share	1.20	1.40	0.600	0.600	0.600
Free Cash Flow / Share	2.75	3.31	1.76	1.61	0.772

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

Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E (Post Bonus)	3.89x	3.33x	7.40x	8.21x	7.93x
Dividend Yield	10.76%	12.56%	5.38%	5.38%	5.38%
Free Cash Flow Yield*	24.63%	29.70%	15.79%	14.46%	6.93%

* For full definitions of *iQmethod*SM measures, see page 8.

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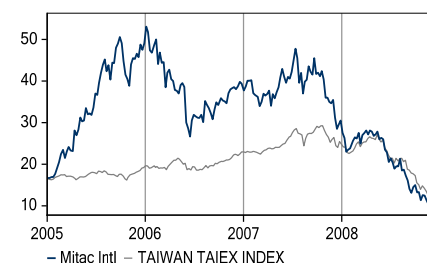
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Stock Data

Price	NT\$11.15
Price Objective	NT\$10.00
Date Established	2-Nov-2008
Investment Opinion	C-3-8
Volatility Risk	HIGH
52-Week Range	NT\$9.50-NT\$31.83
Mrkt Val / Shares Out (mn)	US\$526 / 1,535.0
Average Daily Volume	7,191,304
ML Symbol / Exchange	MTCXF / TAI
Bloomberg / Reuters	2315 TT / 2315.TW
ROE (2008E)	6.8%
Net Dbt to Eqty (Dec-2007A)	-4.2%
Est. 5-Yr EPS / DPS Growth	5.0% / 5.0%
Free Float	60.0%



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iQprofileSM Mitac International

Key Income Statement Data (Dec)	2006A	2007A	2008E	2009E	2010E
(NT\$ Millions)					
Sales	82,882	82,074	63,669	61,786	63,477
Gross Profit	9,080	10,131	6,773	6,345	6,532
Sell General & Admin Expense	(2,485)	(3,788)	(3,194)	(3,138)	(3,174)
Operating Profit	4,958	4,575	1,780	1,539	1,644
Net Interest & Other Income	1,172	1,918	812	858	864
Associates	NA	NA	NA	NA	NA
Pretax Income	6,131	6,492	2,592	2,397	2,508
Tax (expense) / Benefit	(747)	(844)	(279)	(312)	(351)
Net Income (Adjusted)	5,384	5,648	2,314	2,086	2,157
Average Fully Diluted Shares Outstanding	1,535	1,535	1,535	1,535	1,535

Key Cash Flow Statement Data

Net Income	5,384	5,648	2,314	2,086	2,157
Depreciation & Amortization	487	569	560	452	370
Change in Working Capital	(1,317)	145	576	779	(461)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(176)	(1,128)	(620)	(718)	(754)
Cash Flow from Operations	4,378	5,233	2,829	2,599	1,312
Capital Expenditure	(163)	(150)	(127)	(124)	(127)
(Acquisition) / Disposal of Investments	47	(1,632)	(816)	(1,224)	(1,020)
Other Cash Inflow / (Outflow)	(293)	(31)	(213)	0	0
Cash Flow from Investing	(410)	(1,812)	(1,157)	(1,347)	(1,147)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(1,633)	(1,822)	(1,900)	(810)	(730)
Cash Flow from Financing	(516)	(1,620)	(2,443)	(1,310)	(1,730)
Free Cash Flow	4,215	5,084	2,702	2,475	1,185
Net Debt	509	(1,429)	(1,415)	(1,856)	(1,292)
Change in Net Debt	(2,713)	(2,136)	228	(442)	565

Key Balance Sheet Data

Property, Plant & Equipment	2,220	2,240	1,807	1,479	1,236
Other Non-Current Assets	19,454	24,137	25,573	27,515	29,289
Trade Receivables	16,585	17,108	13,606	13,542	13,913
Cash & Equivalents	8,369	9,972	9,415	9,356	7,792
Other Current Assets	11,164	8,822	9,184	8,226	8,411
Total Assets	57,792	62,278	59,585	60,118	60,641
Long-Term Debt	5,000	1,500	1,500	1,500	1,500
Other Non-Current Liabilities	955	597	597	597	597
Short-Term Debt	3,878	7,043	6,500	6,000	5,000
Other Current Liabilities	20,244	19,176	16,612	16,369	16,465
Total Liabilities	30,077	28,316	25,210	24,467	23,562
Total Equity	27,716	33,962	34,376	35,652	37,079
Total Equity & Liabilities	57,792	62,278	59,585	60,118	60,641

iQmethodSM - Bus Performance*

Return On Capital Employed	12.8%	10.3%	4.0%	3.4%	3.5%
Return On Equity	21.3%	18.3%	6.8%	6.0%	5.9%
Operating Margin	6.0%	5.6%	2.8%	2.5%	2.6%
EBITDA Margin	6.6%	6.3%	3.7%	3.2%	3.2%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	0.8x	0.9x	1.2x	1.2x	0.6x
Asset Replacement Ratio	0.3x	0.3x	0.2x	0.3x	0.3x
Tax Rate (Reported)	12.2%	13.0%	10.7%	13.0%	14.0%
Net Debt-to-Equity Ratio	1.8%	-4.2%	-4.1%	-5.2%	-3.5%
Interest Cover	24.4x	22.6x	24.4x	19.4x	20.6x

Key Metrics

Analyst ROIC	10.9%	9.7%	3.8%	3.2%	3.3%
Analyst ROE	17.4%	16.7%	6.5%	5.7%	5.7%
Stock comp adj EPS	2.87	3.35	1.51	1.36	1.41
Stock comp adj P/E	3.89x	3.33x	7.40x	8.21x	7.93x

* For full definitions of iQmethodSM measures, see page 8.

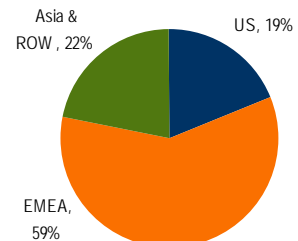
Company Description

In addition to its solid lines in both desktop PC and server, Mitac has diversified into the largest GPS/PND (Personal Navigation Device) provider in Taiwan over the past two years. Its key customers include Dell for DT PC and server, Sun and HP for server, and Medion (Germany), Magellan (US) and Mio (brand under its group in Taiwan) for GPS. Its key affiliates include Mitac Technology (for notebook PC) and Synnex USA (IC/system distributor).

Investment Thesis

We see headwinds ahead in Mitac's business, given the cautious GPS/PND outlook in US/Europe, increasing competition from leading players TomTom/Garmin, and longer transitions in the DT PC and server business. In addition, we expect Mitac's margins to face substantial downward pressure in 2008-09 as its cost-efficiencies ability will be unlikely to keep pace with ASP erosion. Given this, we believe Mitac's share price will underperform the hardware sector over the next 12 months.

Chart 1: Mitac GPS/PND revenue breakdown



Source: Mitac, Merrill Lynch estimates

Stock Data

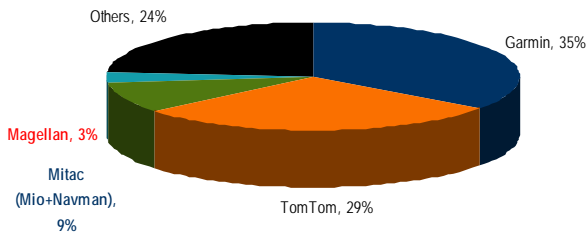
Price to Book Value 0.5x

Background of Magellan

Magellan is third largest GPS/PND brand in North America, after Garmin and TomTom. However, its market share shrunk to 7% in 3Q08 from around 20% a year ago. Magellan shipped ~1mn GPS/PND during 1Q-3Q08, with Wistron (3231 TT) as the major ODM supplier.

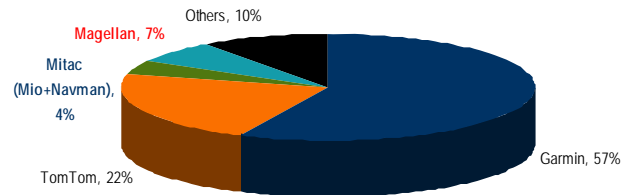
Mitac's acquisition of Magellan's Consumer Product Division will provide the company access to (1) 'RoadMate' and 'Maestro' brands for PNDs and (2) 'Triton' brand for the handheld GPS devices.

Chart 2: Global GPS/PND market share, 3Q08



Source: Canalis, Mitac, Merrill Lynch

Chart 3: US GPS/PND market share, 3Q08



Source: Canalis, Mitac, Merrill Lynch

One + One = Two? Not necessary...

We are not sure if Mitac's new acquisition will provide the thrust the company requires. Recall Mitac's acquisition of Navman – which had a strong brand presence in the UK, Australia, and New Zealand – in March 2007. The deal did not create much synergy due to unclear dual-brand strategy. Post the deal, Mitac's PND market share shrunk from 14% in 2007 to 10-11% in 2008, due to stiff competition from tier-one brands (Garmin, TomTom). The consolidation of Magellan's operations is likely to increase Mitac's execution difficulties on its unclear multi-brand strategy (Mio, Navman, Magellan), in our view.

Table 1: Geographic presence for Mio/ Navman/ Magellan

Brand	Geographic presence
Mio	Europe, Asia, Emerging market, US
Navman	UK, Australia, New Zealand
Magellan	US

Source: Merrill Lynch

Short-term impact: Higher consolidation expenses

Our check with Mitac has revealed that the management is expecting a tough couple of quarters on account of the increase in consolidated expenses (following Magellan's acquisition). The acquisition is likely to further deteriorate Mitac's future cash flow, more so as the company has been posting negative operating cash flow in the last two quarters (2Q08 and 3Q08). In addition, the transaction value of US\$96mn accounts for about 40% of Mitac's current cash position (NT\$7.7bn as of 3Q08), which should further increase Mitac's balance sheet burden.

Retain Underperform; revisit at end-1Q09

We retain our Underperform rating on Mitac and NT\$10.0 PO. The current valuation at 0.6x BVPS and 8.5x P/E looks cheap, but the stock lacks fundamental catalysts to drive its price. We suggest revisiting at end-1Q09, when Mitac (1) discloses detailed financial terms of the Magellan transaction, (2) provides clear multi-brand strategy, and (3) supply chain inventory digestion into the end.

Chart 4: Mitac- P/E bands



Source: Merrill Lynch estimates, TEJ

Chart 5: Mitac- P/B bands



Source: Merrill Lynch estimates, TEJ

Table 2: Valuation comparison table

	ML Symbol	ML Rating	Price 22-Dec-08	Mkt Cap (US\$mn)	EPS (Local)		EPG		PER(x)		PBR(x)	ROE (%)		Cash Mkt Cap	Cash Yield	Price YTD
					2008E	2009E	2008E	2009E	2008E	2009E	3Q08	2008E	2009E			
Acer	ASIYF	C-1-7 Buy	42.0	3,352	5.1	6.0	2%	16%	8.2	7.0	1.3	16%	18%	15%	9%	-28%
Compal	CMPLF	C-1-7 Buy	17.5	2,149	3.4	3.4	-2%	0%	5.1	5.1	0.8	17%	16%	44%	14%	-46%
Simplo	SPLOF	C-1-7 Buy	84.1	547	11.3	11.9	14%	5%	7.4	7.1	1.9	26%	23%	19%	6%	-40%
Alpha Networks	AHNWF	C-2-7 Neutral	17.5	245	3.0	2.5	-9%	-17%	5.9	7.1	1.0	16%	13%	29%	10%	-34%
SZS	SZUSF	C-2-7 Neutral	80.5	312	10.3	10.8	5%	5%	7.8	7.4	1.9	26%	24%	12%	5%	-54%
Wistron	WICOF	C-2-7 Neutral	24.8	1,173	4.8	4.6	10%	-4%	5.2	5.4	1.0	20%	18%	-46%	10%	-54%
Silitech	SLKCF	C-2-7 Neutral	44.2	237	6.4	6.1	-19%	-4%	6.9	7.2	1.8	25%	22%	9%	9%	-59%
FTC	FXTCF	C-2-8 Neutral	75.2	1,990	8.5	8.0	-22%	-6%	8.8	9.4	1.6	14%	12%	-10%	3%	-67%
Merry	MMECF	C-2-7 Neutral	23.4	116	4.7	4.0	-17%	-14%	5.0	5.8	0.9	16%	12%	24%	11%	-74%
Quanta	QUCPF	C-3-7 Underpe	35.5	4,049	5.0	4.5	-1%	-10%	7.1	7.9	1.4	19%	16%	29%	10%	-13%
HTC	HTCCF	C-3-7 Underpe	337.0	7,951	38.0	34.0	-1%	-10%	8.9	9.9	4.5	48%	42%	26%	8%	-22%
Gemtek	GKTF	C-3-7 Underpe	40.4	326	4.6	3.4	18%	-25%	8.8	11.8	1.5	14%	12%	10%	9%	-20%
Chicony	CCNYF	C-3-8 Underpe	31.0	540	5.4	4.7	12%	-12%	5.7	6.5	1.8	35%	27%	-38%	11%	-40%
Inventec	IVCJF	C-3-8 Underpe	9.3	740	2.0	1.6	-8%	-19%	4.6	5.6	0.6	14%	11%	-89%	14%	-44%
Largan	LGANF	C-3-7 Underpe	217.0	882	24.3	19.2	17%	-21%	8.9	11.3	2.5	29%	20%	16%	4%	-47%
Asustek	AKCPF	C-3-7 Underpe	36.7	4,863	5.8	4.4	-19%	-24%	6.3	8.3	0.8	13%	9%	19%	5%	-56%
IAC	IVAPF	C-3-8 Underpe	21.4	342	5.0	3.2	-30%	-36%	4.3	6.7	0.8	18%	11%	63%	18%	-60%
Hon Hai	HNHAF	C-3-7 Underpe	64.0	14,829	8.5	7.7	-19%	-10%	7.5	8.3	1.2	16%	13%	-6%	3%	-62%
Mitac	MTCXF	C-3-8 Underpe	11.2	535	1.5	1.4	-59%	-10%	7.4	8.2	0.5	7%	6%	21%	5%	-65%
Catcher	CHERF	C-3-8 Underpe	56.0	1,049	7.8	7.6	-35%	-3%	7.2	7.4	1.2	17%	15%	-2%	4%	-70%
CCI	CPCMF	C-3-7 Underpe	17.3	331	2.1	1.4	-69%	-33%	8.1	12.1	1.0	10%	6%	101%	7%	-75%
FIH	FXCNF	C-3-9 Underpe	2.7	2,538	0.37	0.33	-52%	-10%	7.3	8.2	0.7	10%	8%	-	0%	-85%
Average							-13%	-11%	6.9	7.9	1.4				8%	

Source: Merrill Lynch estimates, BBG

22 December 2008

Table 3: Mitac quarterly income statement (Parent)

NT\$m	1Q08A	2Q08	3Q08P	4Q08E	1Q09E	2Q09E	3Q09E	4Q09E	2007A	2008E	2009E	2010E
Sales	15,132	15,586	16,287	16,664	14,355	14,901	15,706	16,824	82,074	63,669	61,786	63,477
Cost of Sales	(13,473)	(13,905)	(14,597)	(14,921)	(12,886)	(13,371)	(14,101)	(15,084)	(71,943)	(56,896)	(55,442)	(56,945)
Gross Profit	1,659	1,681	1,690	1,744	1,469	1,530	1,605	1,741	10,130	6,773	6,345	6,532
Operating Expense	(1,142)	(1,222)	(1,313)	(1,316)	(1,105)	(1,147)	(1,241)	(1,312)	(5,555)	(4,993)	(4,806)	(4,888)
Oper. Exp. Promotion	(618)	(648)	(700)	(717)	(617)	(641)	(707)	(740)	(3,221)	(2,683)	(2,705)	(2,730)
Operating Exp.-ADM	(114)	(124)	(140)	(133)	(100)	(104)	(110)	(118)	(566)	(511)	(433)	(444)
Operat. Expense-R&D	(410)	(450)	(472)	(467)	(388)	(402)	(424)	(454)	(1,768)	(1,799)	(1,668)	(1,714)
Operating Profit	517	459	377	427	364	383	364	428	4,575	1,780	1,539	1,644
Non-operating Income	308	107	178	220	174	201	228	255	1,917	812	858	864
Net Interest Income	14	22	20	20	15	15	15	15	(26)	76	60	60
Investment Income	247	73	131	170	139	166	193	220	1,829	620	718	754
Exchange Gain	(29)	74	-	-	-	-	-	-	88	45	-	-
Others	76	(62)	27	30	20	20	20	20	26	71	80	50
Pre-tax Profit	825	566	555	647	538	584	592	683	6,492	2,592	2,397	2,508
Tax Expense	(106)	(80)	(28)	(65)	(70)	(76)	(77)	(89)	(843)	(279)	(312)	(351)
Net Profit	718	486	527	582	468	508	515	595	5,649	2,314	2,086	2,157
Not Profit- Bonus adj	718	486	527	582	468	508	515	595	5,141	2,314	2,086	2,157
EPS (NT\$)	0.47	0.32	0.34	0.38	0.30	0.33	0.34	0.39	3.68	1.51	1.36	1.41
Gross Margin	11.0%	10.8%	10.4%	10.5%	10.2%	10.3%	10.2%	10.3%	12.3%	10.6%	10.3%	10.3%
Operating Expense	-7.5%	-7.8%	-8.1%	-7.9%	-7.7%	-7.7%	-7.9%	-7.8%	-6.8%	-7.8%	-7.8%	-7.7%
Operating Margin	3.4%	2.9%	2.3%	2.6%	2.5%	2.6%	2.3%	2.5%	5.6%	2.8%	2.5%	2.6%
Pre-tax Margin	5.5%	3.6%	3.4%	3.9%	3.7%	3.9%	3.8%	4.1%	7.9%	4.1%	3.9%	4.0%
Net Margin	4.7%	3.1%	3.2%	3.5%	3.3%	3.4%	3.3%	3.5%	6.9%	3.6%	3.4%	3.4%
Tax Rate	-13%	-14%	-5%	-10%	-13%	-13%	-13%	-13%	-13%	-11%	-13%	-14%
Net Margin- Bonus Adj	4.7%	3.1%	3.2%	3.5%	3.3%	3.4%	3.3%	3.5%	6.3%	3.6%	3.4%	3.4%
Sequential Growth												
Sales	-29%	3%	4%	2%	-14%	4%	5%	7%	-1%	-22%	-3%	3%
Cost of Sales	-28%	3%	5%	2%	-14%	4%	5%	7%	-3%	-21%	-3%	3%
Gross Profit	-36%	1%	1%	3%	-16%	4%	5%	8%	12%	-33%	-6%	3%
Operating Expense	-31%	7%	7%	0%	-16%	4%	8%	6%	35%	-10%	-4%	2%
Operating Profit	-46%	-11%	-18%	13%	-15%	5%	-5%	18%	-8%	-61%	-14%	7%
Non-operating Income	-65%	-65%	66%	23%	-21%	16%	13%	12%	64%	-58%	6%	1%
Pre-Tax Profit	-55%	-31%	-2%	16%	-17%	9%	1%	15%	6%	-60%	-8%	5%
Tax Expense	-56%	-25%	-65%	133%	8%	9%	1%	15%	13%	-67%	12%	13%
Net Profit	-55%	-32%	9%	10%	-20%	9%	1%	15%	5%	-59%	-10%	3%
YoY%												
Sales	-15%	-23%	-28%	-22%	-5%	-4%	-4%	1%	-1%	-22%	-3%	3%
Cost of Sales	-16%	-22%	-25%	-20%	-4%	-4%	-3%	1%	-3%	-21%	-3%	3%
Gross Profit	-10%	-30%	-48%	-33%	-11%	-9%	-5%	0%	12%	-33%	-6%	3%
Operating Expense	17%	-2%	-22%	-20%	-3%	-6%	-5%	0%	35%	-10%	-4%	2%
Operating Profit	-41%	-60%	-76%	-55%	-30%	-17%	-3%	0%	-8%	-61%	-14%	7%
Non-operating Income	-6%	-74%	-38%	-75%	-44%	88%	28%	16%	64%	-58%	6%	1%
Pre-Tax Profit	-31%	-64%	-70%	-65%	-35%	3%	7%	6%	6%	-60%	-8%	5%
Tax Expense	-32%	-61%	-89%	-73%	-34%	-5%	177%	37%	13%	-67%	12%	13%
Net Profit	-31%	-65%	-68%	-64%	-35%	5%	-2%	2%	5%	-59%	-10%	3%
Net Profit- Bonus Adj	-24%	-61%	-65%	-60%	-35%	5%	-2%	2%	17%	-55%	-10%	3%

Source: TEJ, Merrill Lynch estimates

Price objective basis & risk

Mitac Intl (MTCXF)

Our PO of NT\$10.0 is based on 7x 09E bonus-adjusted EPS, which is below its Taiwan hardware downstream peers' average P/E. We believe Mitac will be derated by the market to its P/E trough cycle in 2004-2008, given its downward ROE and declining earnings for 2008/09E. Upside risks to our PO are: (1) faster ramping up and larger contribution from new GPS products and (2) a significant recovery in the IT business. Downside risks to our PO are: (1) further GPS/PND market slowdown, and (2) larger GPS/PND share loss to competitors (ie, TomTom/Garmin).

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
	BYD	BYDDF	1211 HK	Daniel Kim, CFA
	Cheil Industries	CLFUF	001300 KS	Simon Dong-je Woo, CFA
	Compal Electron	CMPLF	2324 TT	Tina Chang, CFA
	Coretronic	CCOCF	5371 TT	Jeffrey Su
	Delta Elect	DLTEF	2308 TT	Jeffrey Su
	Ju Teng Intl	JUTGF	3336 HK	Ronnie Ho
	LG Electronics	LGEAF	066570 KS	Daniel Kim, CFA
	Samsung Techwin	SGTWF	012450 KS	Simon Dong-je Woo, CFA

22 December 2008

APR - Technology Hardware Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
	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
NEUTRAL				
	Alpha Networks I	AHNWF	3380 TT	Laura Chen
	AU Optronics	AUO	AUO US	Jeffrey Su
	AU Optronics	AUOPF	2409 TT	Jeffrey Su
	Foxconn Tech	FXTCF	2354 TT	Tony Tseng, CFA
	Kingboard	KBDCF	148 HK	Ronnie Ho
	Lenovo Group	LNVGF	992 HK	Daniel Kim, CFA
	Lenovo Group	LNVGY	LNVGY US	Daniel Kim, CFA
	Lite-On Tech	LOTZF	2301 TT	Jeffrey Su
	Merry Electron	MMECF	2439 TT	Laura Chen
	Oisda Corp	BNOCF	2352 TT	Jeffrey Su
	Shin Zu Shing	SZUSF	3376 TT	Tina Chang, CFA
	Sillitech	SLKCF	3311 TT	Laura Chen
	Wistron	WICOF	3231 TT	Tony Tseng, CFA
	Yageo Corp	YGEQF	2327 TT	Ronnie Ho
UNDERPERFORM				
	Asustek	AKCPF	2357 TT	Tony Tseng, CFA
	Catcher Tech	CHERF	2474 TT	Tony Tseng, CFA
	Chi Mei Opto	CMEOF	3009 TT	Jeffrey Su
	Chicony Elect	CCNYF	2385 TT	Tina Chang, CFA
	Compal Comm	CPCMF	8078 TT	Laura Chen
	Epistar Corp	EPIPF	2448 TT	Jeffrey Su
	Everlight Elec	EVLEF	2393 TT	Jeffrey Su
	Foxconn Intl Hld	FXCNF	2038 HK	Tony Tseng, CFA
	Gemtek Technology	GTKTF	4906 TT	Laura Chen
	Hon Hai Prec.	HNHAF	2317 TT	Tony Tseng, CFA
	HTC Corp.	HTCCF	2498 TT	Tony Tseng, CFA
	InnoLux	INXDF	3481 TT	Jeffrey Su
	Inventec	IVCJF	2356 TT	Tina Chang, CFA
	Inventec Applian	IVAPF	3367 TT	Tina Chang, CFA
	Largan Precision	LGANF	3008 TT	Laura Chen
	LG Display Co., Ltd.	LPHLF	034220 KS	Daniel Kim, CFA
	LG Display Co., Ltd.-A	LPL	LPL US	Daniel Kim, CFA
	Mitac Intl	MTCXF	2315 TT	Tina Chang, CFA
	Quanta Computer	QUCPF	2382 TT	Tony Tseng, CFA
	Radiant	ROPTF	6176 TT	Jeffrey Su
	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
	Wellypower	XTTWF	3080 TT	Jeffrey Su
	ZTE Corp - H	ZTCOF	763 HK	Ronnie Ho

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
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
Quality of Earnings		
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
Valuation Toolkit		
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

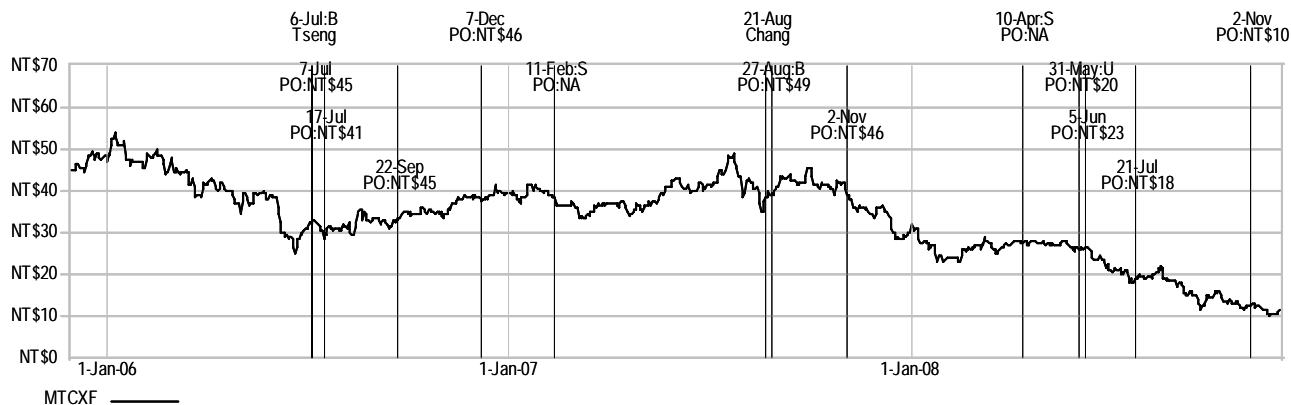
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MTCXF Price Chart



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 November 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.

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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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