

Asia Taiwan

Technology Semiconductor & Semiconductor Equipment

Deutsche Bank



15 December 2008

SAS Wafer

Reuters: 5483.TWO Bloomberg: 5483 TT Exchange: TWO Ticker: 5483

Structural headwinds remain; retain Hold

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Estimate and TP cuts

We lower our EPS forecasts by 15% for 2009 and 32% for 2010 to reflect worsening solar end demand and rising margin pressure. Our surveys suggest that SAS may experience sharper ASP/margin erosion due to commoditized products, intensified pricing competition and further demand weakness. As the industry should face more oversupply in 2009-10, SAS' plans of vertical integration may have limited synergy. We reduce our TP from NT\$70 to NT\$53 and maintain Hold.

Weaker 1Q09 outlook

We cut our sales forecast to a 13% QoQ decline from a 3% decline for 1Q09 to factor in weaker demand driven by a continued global economic slowdown and tightening credit market. Our latest channel checks show that ingot/wafer makers are cutting prices more aggressively due to gloomy demand. We thus lower our gross margin forecasts by 1.4 and 2.0ppt for 2009 and 2010, respectively. We expect gross margin to decline to 25.1% in 2009 and 21.8% in 2010 from 28.5% in 2008.

Limited synergy from vertical integration in 2009 and beyond

We expect the solar industry to face an even more excessive supply in 2009 and 2010. This could trigger more material price cuts, which may offset the positive impact of its vertical integration plan in 2009-10. The company has invested in polysilicon maker (Silfab) and cell maker (Sunrise Global Solar Energy), which we expect to have limited contribution to SAS in 2009.

Valuation & Risks

Our TP is based on 8x 2009E EPS, which is lower than 9x which we applied previously and the 2005-07 average of 13.8x. We believe this can be justified by its 2009-10E earnings CAGR of -25%, which is below our previous forecast of 9% growth for 2009-10 and the 91% growth in 2005-07. Upside risks include faster vertical integration and stronger end demand. Downside risks are sharper ASP erosion in ingot/wafer and weaker end demand. (See page 3 for more details.)

Forecasts and ratios

Year End Dec 31	2006A	2007A	2008E	2009E	2010E
Sales (TWDm)	4,246.7	6,718.3	9,294.8	9,140.3	8,174.7
EBITDA (TWDm)	1,061.5	2,142.3	2,540.9	2,078.0	1,571.4
Reported NPAT (TWDm)	887.7	1,805.7	1,951.7	1,457.6	1,104.0
Reported EPS FD(TWD)	4.03	8.19	8.85	6.61	5.01
DB EPS FD(TWD)	3.25	6.22	8.85	6.61	5.01
DB EPS growth (%)	358.4	91.3	42.2	-25.3	-24.3
PER (x)	22.5	33.6	6.7	9.0	11.8
EV/EBITDA (x)	11.0	19.0	4.9	6.1	8.2
DPS (net) (TWD)	3.19	6.00	5.70	4.40	3.20
Yield (net) (%)	4.4	2.9	9.6	7.4	5.4

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Forecast change

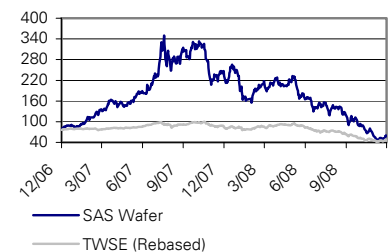
Hold

Price at 12 Dec 2008 (TWD)	59.20
Price target - 12mth (TWD)	53.00
52-week range (TWD)	265.00 - 44.65
TWSE	4,481

Key changes

Price target	70.00 to 53.00	↓	-24.3%
Sales (FYE)	9,318 to 9,295	↓	-0.3%
Op prof margin (FYE)	21.6 to 21.4	↓	-1.0%
Net profit (FYE)	1,951.9 to 1,951.7	↓	-0.0%

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-6.0	-50.3	-76.0
TWSE	-2.9	-29.0	-47.2

Stock data

Market cap (TWDm)	13,052
Market cap (USDm)	392
Shares outstanding (m)	212.5
Major shareholders	Ming-Kou Lou (3.01%)
Free float (%)	75
Avg daily value traded (USDm)	11.9

Key indicators (FY1)

ROE (%)	28.7
Net debt/equity (%)	-7.3
Book value/share (TWD)	33.86
Price/book (x)	1.7
Net interest cover (x)	56.4
Operating profit margin (%)	21.4

Deutsche Bank AG/Hong Kong

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Model updated: 14 December 2008

Running the numbers**Asia****Taiwan, Province of China****Semiconductor & Semiconductor****SAS Wafer**

Reuters: 5483.TWO

Bloomberg: 5483 TT

Hold

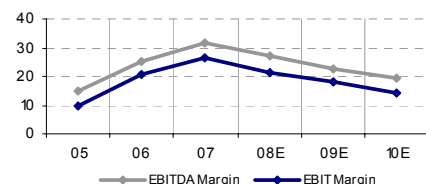
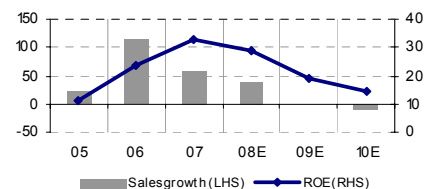
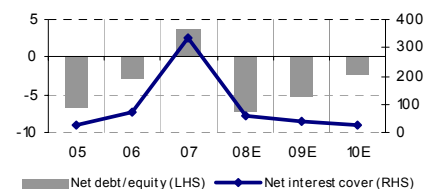
Price (12 Dec 08) TWD 59.20

Target price TWD 53.00

52-week Range TWD 44.65 - 265.00

Market Cap (m) TWDm 13,052
USDm 392**Company Profile**

Set up in 1981, Sino-American Silicon Products Inc (SAS) manufactures silicon wafers and ingots. The company offers silicon ingots, solar ingots/chips, diffused wafers, polished wafers, non-polished wafers, epitaxial wafers, silicon-on-insulator (SOI) wafers and other non-silicon products. The company also produces substrate for LED substrate. SAS is currently the No. 1 solar ingot/wafer provider in Taiwan in terms of output and revenue.

Price Performance**Margin Trends****Growth & Profitability****Solvency**

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Fiscal year end 31-Dec

	2005	2006	2007	2008E	2009E	2010E
Financial Summary						
DB EPS (TWD)	0.71	3.25	6.22	8.85	6.61	5.01
Reported EPS (TWD)	1.04	4.03	8.19	8.85	6.61	5.01
DPS (TWD)	1.00	3.19	6.00	5.70	4.40	3.20
BVPS (TWD)	11.8	22.5	27.8	33.9	34.7	34.8
Weighted average shares (m)	123	161	194	213	220	220
Average market cap (TWDm)	4,494	11,768	40,514	13,052	13,052	13,052
Enterprise value (TWDm)	4,319	11,628	40,750	12,510	12,646	12,864
Valuation Metrics						
P/E (DB) (x)	51.6	22.5	33.6	6.7	9.0	11.8
P/E (Reported) (x)	35.1	18.2	25.5	6.7	9.0	11.8
P/BV (x)	4.61	3.98	9.54	1.75	1.71	1.70
FCF Yield (%)	nm	nm	0.9	15.6	12.9	10.1
Dividend Yield (%)	2.7	4.4	2.9	9.6	7.4	5.4
EV/Sales (x)	2.2	2.7	6.1	1.3	1.4	1.6
EV/EBITDA (x)	14.8	11.0	19.0	4.9	6.1	8.2
EV/EBIT (x)	22.4	13.2	23.1	6.3	7.7	10.9

Income Statement (TWDm)

	2005	2006	2007	2008E	2009E	2010E
Sales revenue	1,992	4,247	6,718	9,295	9,140	8,175
Gross profit	498	1,332	2,459	3,194	2,734	2,169
EBITDA	293	1,061	2,142	2,541	2,078	1,571
Depreciation	100	177	378	549	441	387
Amortisation	0	0	0	0	0	0
EBIT	193	884	1,764	1,992	1,637	1,185
Net interest income/(expense)	-7	-12	-5	-35	-45	-50
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	64	228	338	235	61	100
Profit before tax	251	1,100	2,097	2,192	1,653	1,235
Income tax expense	20	212	292	240	196	131
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	230	888	1,806	1,952	1,458	1,104
DB adjustments (including dilution)	-74	-170	-434	0	0	0
DB Net profit	156	717	1,372	1,952	1,458	1,104

Cash Flow (TWDm)

	2005	2006	2007	2008E	2009E	2010E
Cash flow from operations	149	373	1,619	3,182	1,971	1,513
Net Capex	-625	-1,312	-1,256	-1,213	-290	-200
Free cash flow	-476	-938	363	1,969	1,681	1,313
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-97	-152	-597	-1,195	-1,257	-970
Net inc/(dec) in borrowings	286	156	287	2,751	0	0
Other investing/financing cash flows	777	1,055	-142	3	-560	-561
Net cash flow	489	120	-89	3,528	-136	-218
Change in working capital	49	-555	-224	484	145	114

Balance Sheet (TWDm)

	2005	2006	2007	2008E	2009E	2010E
Cash and other liquid assets	651	771	681	4,209	4,073	3,855
Tangible fixed assets	1,160	2,236	3,134	3,725	3,632	3,433
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	790	1,571	1,934	2,800	3,360	3,921
Other assets	1,062	1,915	4,968	6,625	6,461	6,342
Total assets	3,662	6,493	10,718	17,360	17,526	17,551
Interest bearing debt	475	631	917	3,667	3,667	3,667
Other liabilities	586	899	3,675	6,227	6,209	6,204
Total liabilities	1,061	1,529	4,592	9,895	9,876	9,871
Shareholders' equity	2,601	4,964	6,125	7,465	7,650	7,679
Minorities	0	0	0	0	0	0
Total shareholders' equity	2,601	4,964	6,125	7,465	7,650	7,679
Net debt	-176	-140	236	-542	-406	-187

Key Company Metrics

	2005	2006	2007	2008E	2009E	2010E
Sales growth (%)	20.7	113.2	58.2	38.3	-1.7	-10.6
DB EPS growth (%)	-20.1	358.4	91.3	42.2	-25.3	-24.3
EBITDA Margin (%)	14.7	25.0	31.9	27.3	22.7	19.2
EBIT Margin (%)	9.7	20.8	26.3	21.4	17.9	14.5
Payout ratio (%)	53.3	57.8	64.5	62.1	66.6	63.9
ROE (%)	11.2	23.5	32.6	28.7	19.3	14.4
Capex/sales (%)	33.8	31.2	18.7	13.2	3.2	2.4
Capex/depreciation (x)	6.8	7.5	3.3	2.2	0.7	0.5
Net debt/equity (%)	-6.8	-2.8	3.8	-7.3	-5.3	-2.4
Net interest cover (x)	27.5	71.5	333.4	56.4	36.4	23.8

Source: Company data, Deutsche Bank estimates

Figure 1: Earnings downward revisions

NT\$m	New		Previous		Diff. (%; New/Previous)	
	2009E	2010E	2009E	2010E	2009E	2010E
Net sales	9,140	8,175	9,777	10,328	-7%	-21%
Gross Profit	2,293	1,782	2,591	2,456	-12%	-27%
Operating Profit	1,637	1,185	1,920	1,755	-15%	-32%
PBT	1,653	1,235	1,943	1,823	-15%	-32%
PAT	1,458	1,104	1,710	1,627	-15%	-32%
EPS (NT\$)	6.61	5.01	7.76	7.38	-15%	-32%
					Diff. (% pt)	
Gross Margin	25.1%	21.8%	26.5%	23.8%	-1.4%	-2.0%
Operating Margin	17.9%	14.5%	19.6%	17.0%	-1.7%	-2.5%
Net Margin	15.9%	13.5%	17.5%	15.8%	-1.5%	-2.3%

Source: Deutsche Bank estimates

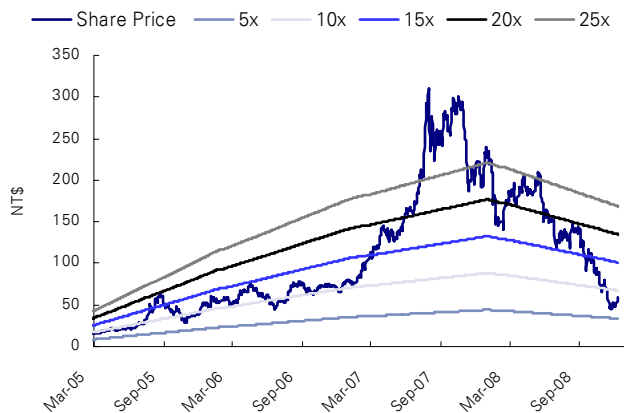
TP basis and risks

- New TP of NT\$53** - Our TP is based on 8x 2009E EPS – lower than 9x which we applied previously and the 2005-07 average of 13.8x. We believe this can be justified by its 2009-10E earnings CAGR of -25%, which is below our previous forecast of 9% growth for 2009-10 and the 91% growth in 2005-07. In addition, the -25% earnings CAGR during 2009-10 for SAS is at the high end of -47% to -22% for the mid/downstream Asian solar companies under our coverage with the 7-8x TP PE multiple which we applied.
- Upside risks include faster vertical integration and stronger end demand** – If the contribution from polysilicon and cell makers which SAS has invested can kick in at a faster pace than we expect, this should result in earnings upside risks. Better-than-expected demand can also lead us to adjust our ASP and shipment assumptions.
- Downside risks are sharper ASP erosion in ingot/wafer and weaker end demand** – A deeper ASP decline may trigger more margin downside risk. We model 28-30% ingot/wafer ASP YoY decrease in 2009-10. Our scenario analysis shows that every 5-10% ingot/wafer ASP YoY contraction may cause 1-1.5ppt gross margin erosion. In addition, weaker-than-expected demand may cause more downside risks to our ASP/shipment assumptions.

TP sensitivity analysis

Our TP of NT\$53 assumes a sales decline of 2% and a gross margin of 25.1% in 2009. Our analysis shows that every incremental increase of 5ppt in sales and 1ppt in gross margin would generate an additional EPS of NT\$0.75-0.85. This would cause our valuation to expand by NT\$8-10. For instance, we would derive a valuation of NT\$71 based on 8% sales growth (10ppt above our base case) and a 27.1% gross margin (2ppt above our base case) for 2009. In contrast, if we assume sales decline of 12% (10ppt below our base case) and 23.1% gross margin (2ppt below our base case) for 2009, we derive a valuation of NT\$37.

Figure 2: Forward PE band for SAS – US GAAP



Source: Deutsche Bank estimates, company data

Figure 3: TP sensitivity for SAS

2009 gross margin (%)	2009 sales growth (%)				
	-12%	-7%	-2%	3%	8%
23.1%	37	40	44	47	51
24.1%	42	45	49	52	56
25.1%	46	50	53	57	61
26.1%	50	54	57	61	65
27.1%	55	59	62	66	71

Source: Deutsche Bank estimates

Figure 4: Earnings model for SAS – US GAAP

NT\$mnn	1Q08	2Q08	3Q08	4Q08E	2008E	1Q09E	2Q09E	3Q09E	4Q09E	2009E
Net Sales	2,130	2,199	2,456	2,510	9,295	2,196	2,207	2,327	2,410	9,140
Gross Profit	609	660	686	690	2,645	582	568	580	563	2,293
Operating Profit	465	519	484	525	1,992	424	408	414	391	1,637
PBT	436	593	606	556	2,192	430	411	420	393	1,653
Tax	(50)	(37)	(80)	(72)	(240)	(54)	(49)	(49)	(44)	(196)
PAT	386	556	526	484	1,952	376	362	371	349	1,458
EPS	1.75	2.52	2.39	2.19	8.85	1.70	1.64	1.68	1.58	6.61
Margin (%)										
Gross Margin	28.6%	30.0%	27.9%	27.5%	28.5%	26.5%	25.7%	24.9%	23.4%	25.1%
Operating Margin	21.8%	23.6%	19.7%	20.9%	21.4%	19.3%	18.5%	17.8%	16.2%	17.9%
Net Margin	18.1%	25.3%	21.4%	19.3%	21.0%	17.1%	16.4%	15.9%	14.5%	15.9%
Growth (%)										
Sales YoY	55%	43%	37%	25%	38%	3%	0%	-5%	-4%	-2%
PAT YoY	69%	56%	37%	20%	42%	-3%	-35%	-29%	-28%	-25%
Sales QoQ	6%	3%	12%	2%		-13%	1%	5%	4%	
PAT QoQ	-5%	44%	-5%	-8%		-22%	-4%	2%	-6%	

Source: Deutsche Bank estimates, company data

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
SAS Wafer	5483.TWO	59.20 (TWD) 12 Dec 08	NA

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

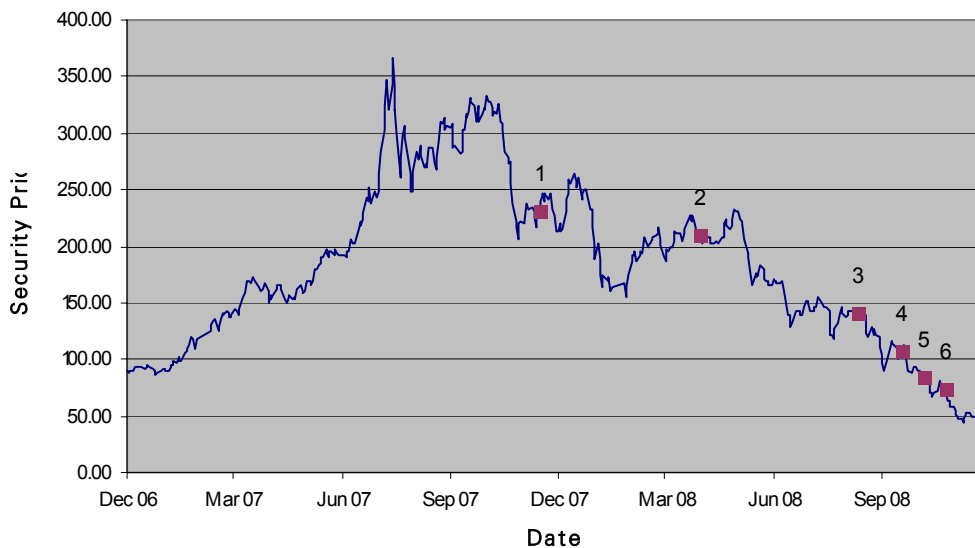
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Historical recommendations and target price: SAS Wafer (5483.TWO)

(as of 12/12/2008)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

1.	2/12/2007:	Hold, Target Price Change TWD235.00	4.	4/10/2008:	Hold, Target Price Change TWD115.00
2.	17/4/2008:	Hold, Target Price Change TWD225.00	5.	23/10/2008:	Hold, Target Price Change TWD88.00
3.	28/8/2008:	Hold, Target Price Change TWD154.00	6.	10/11/2008:	Hold, Target Price Change TWD70.00

Equity rating key Equity rating dispersion and banking relationships

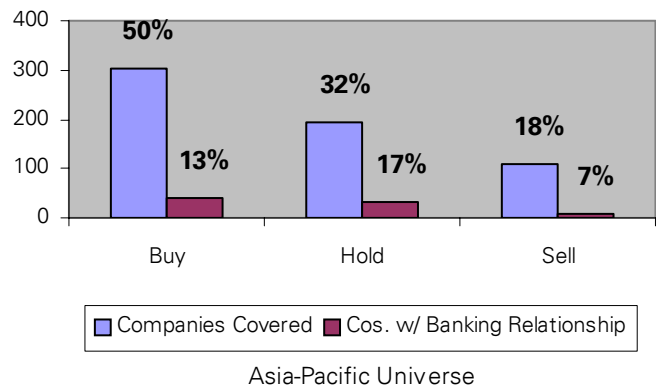
Buy: Based on a current 12-month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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1. Newly issued research recommendations and target prices always supersede previously published research.
2. Ratings definitions prior to 27 January, 2007 were:
 - Buy: Expected total return (including dividends) of 10% or more over a 12-month period
 - Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period
 - Sell: Expected total return (including dividends) of -10% or worse over a 12-month period



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