



## COMPANY UPDATE

# ASUSTeK Computer (2357.TW)

Sell

### “Crowding out” effect on MB may further dampen 2009 earnings

#### What's changed

We think ASUSTeK has three potential risks in its brand business and one potential risk in ODM. The brand business may face: 1) high A/R, which could raise default risk; 2) high inventory, which may need another full quarter to digest; and 3) crowding-out effect on MB: inventory hikes in NBs and Eee PCs could start to hit MB demand, based on our channel checks. On the ODM side, our supply chain checks indicate ASUSTeK subsidiary Pegatron could lose market share to Hon Hai for HP's 2009 DT order and Sony's PS3 order. Based on these four issues, we lower our 1Q/2009/2010 profit forecasts by 90%/26%/5% to NT\$0.3bn/NT\$10bn/NT\$15bn. ASUSTeK will hold a conf call on January 21 to update business outlook but will not report detailed 4Q08 results until Feb 12, when it will also hold an analyst meeting.

#### Implications

Based on our industry and channel checks, we believe that ASUSTeK's high inventory in NBs and Eee PCs has started to negatively impact its MB business. Some channel distributors, particularly in Russia, Ukraine and some other Eastern European countries indicated that they have overbuilt inventories on NBs and Eee PCs, and are unable to build inventories for MBs. We believe ASUSTeK's MB business is relatively better than NBs and Eee PCs in terms of inventory management and profit margin, but think its MB business is being crowded out by ASUSTeK's diversification into NBs, Eee PCs and all-in-one DTs. We believe investors need to factor in all the potential risks ASUSTeK may have before concluding that ASUSTeK has reached a bottom. We maintain our Sell (Conviction list) rating.

#### Valuation

We lower our 12-mth target price to NT\$25 (from NT\$30), based on SOTP valuation (10X '09E OBM EPS, 6X '09E ODM EPS, discounted Kinsus MV).

#### Key risks

Faster-than-expected macro recovery and market share gain.

#### INVESTMENT LIST MEMBERSHIP

Asia Pacific Sell List  
Asia Pacific Conviction Sell List

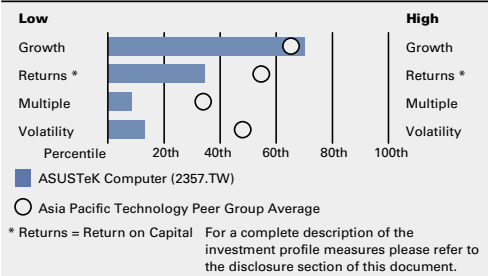
**Coverage View:** Neutral

Taiwan:  
Hardware

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#### Investment Profile



Key data	Current
Price (NT\$)	30.25
12 month price target (NT\$)	25.00
Market cap (NT\$ mn / US\$ mn)	128,443.1 / 3,850.8
Foreign ownership (%)	24.9

	12/07	12/08E	12/09E	12/10E
EPS (NT\$) New	6.84	3.87	2.48	3.58
EPS revision (%)	0.0	0.0	(26.0)	(5.0)
EPS growth (%)	39.7	(43.4)	(36.0)	44.4
EPS (dil) (NT\$) New	6.76	3.87	2.48	3.58
P/E (X)	4.4	7.8	12.2	8.5
P/B (X)	0.8	0.7	0.7	0.7
EV/EBITDA (X)	8.0	2.7	1.9	1.7
Dividend yield (%)	7.5	3.2	2.1	3.2
ROE (%)	18.8	9.7	5.9	8.1

#### Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(40.6)	(56.8)	(59.0)
Rel. to Taiwan SE Weighted Index	(32.5)	(32.6)	(23.2)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/19/2009 close.

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# ASUSTeK Computer: Summary financials

Profit model (NT\$ mn)	12/07	12/08E	12/09E	12/10E	Balance sheet (NT\$ mn)	12/07	12/08E	12/09E	12/10E
<b>Total revenue</b>	<b>755,360.7</b>	<b>766,671.2</b>	<b>651,670.8</b>	<b>692,226.9</b>	Cash & equivalents	43,585.8	72,688.9	97,633.2	88,530.5
Cost of goods sold	(680,591.8)	(681,919.2)	(587,337.1)	(623,502.6)	Accounts receivable	129,134.5	58,931.7	49,865.7	64,470.1
SG&A	(36,995.8)	(58,191.5)	(45,692.7)	(43,160.2)	Inventory	103,423.8	85,320.9	62,129.7	95,989.0
R&D	(9,102.2)	(12,273.0)	(7,971.0)	(8,253.7)	Other current assets	25,590.2	28,603.0	27,561.8	28,145.3
Other operating profit/(expense)	0.0	0.0	0.0	0.0	<b>Total current assets</b>	<b>301,734.2</b>	<b>245,544.5</b>	<b>237,190.4</b>	<b>277,135.0</b>
ESO expense	--	--	--	--	Net PP&E	63,176.7	66,493.0	65,968.4	64,137.7
<b>EBITDA</b>	<b>36,780.0</b>	<b>23,307.5</b>	<b>20,617.8</b>	<b>28,012.5</b>	Net intangibles	1,986.8	2,473.1	2,473.1	2,473.1
Depreciation & amortization	(8,109.1)	(9,020.1)	(9,947.8)	(10,702.2)	Total investments	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>28,670.9</b>	<b>14,287.4</b>	<b>10,670.0</b>	<b>17,310.3</b>	Other long-term assets	6,645.3	6,504.4	6,504.4	6,504.4
Interest income	1,636.0	1,050.0	1,040.0	1,250.0	<b>Total assets</b>	<b>385,742.0</b>	<b>332,868.7</b>	<b>323,990.0</b>	<b>362,103.8</b>
Interest expense	(804.1)	(557.1)	(519.1)	(477.7)	Accounts payable	141,564.9	81,712.3	70,330.7	97,213.9
Income/(loss) from uncons. subs.	422.9	483.1	0.0	0.0	Short-term debt	7,165.9	7,165.9	7,165.9	7,165.9
Others	8,658.3	6,859.5	3,550.0	3,400.0	Other current liabilities	37,263.4	32,926.9	29,669.6	28,990.8
<b>Pretax profits</b>	<b>38,584.1</b>	<b>22,122.9</b>	<b>14,740.9</b>	<b>21,482.7</b>	<b>Total current liabilities</b>	<b>185,994.3</b>	<b>121,805.1</b>	<b>107,166.2</b>	<b>133,370.7</b>
Income tax	(7,828.4)	(4,377.0)	(2,727.9)	(4,138.8)	Long-term debt	16,389.0	17,061.7	17,061.7	17,061.7
Minorities	(3,132.4)	(1,647.7)	(1,707.6)	(2,465.4)	Other long-term liabilities	22,409.5	22,409.5	22,409.5	22,409.5
<b>Net income pre-preferred dividends</b>	<b>27,623.3</b>	<b>16,098.2</b>	<b>10,305.4</b>	<b>14,878.5</b>	Total long-term liabilities	38,798.5	39,471.2	39,471.2	39,471.2
Preferred dividends	0.0	0.0	0.0	0.0	<b>Total liabilities</b>	<b>224,792.8</b>	<b>161,276.3</b>	<b>146,637.4</b>	<b>172,841.9</b>
<b>Net income (pre-exceptionals)</b>	<b>27,623.3</b>	<b>16,098.2</b>	<b>10,305.4</b>	<b>14,878.5</b>	<b>Preferred shares</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Post-tax exceptionals	0.0	0.0	0.0	0.0	<b>Total common equity</b>	<b>160,949.2</b>	<b>171,592.4</b>	<b>177,352.6</b>	<b>189,262.0</b>
<b>Net income</b>	<b>27,623.3</b>	<b>16,098.2</b>	<b>10,305.4</b>	<b>14,878.5</b>	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, pre-except) (NT\$)	6.84	3.87	2.48	3.58	<b>Total liabilities &amp; equity</b>	<b>385,742.0</b>	<b>332,868.7</b>	<b>323,990.0</b>	<b>362,103.8</b>
EPS (basic, post-except) (NT\$)	6.84	3.87	2.48	3.58	<b>BVPS (NT\$)</b>	<b>39.83</b>	<b>41.27</b>	<b>42.66</b>	<b>45.52</b>
EPS (diluted, post-except) (NT\$)	6.76	3.87	2.48	3.58					
<b>EPS excl. ESO expense (basic) (NT\$)</b>	<b>6.84</b>	<b>4.19</b>	<b>2.57</b>	<b>3.74</b>					
<b>EPS excl. ESO expense (dil.) (NT\$)</b>	<b>6.76</b>	<b>4.19</b>	<b>2.57</b>	<b>3.74</b>					
DPS (NT\$)	2.26	0.97	0.64	0.97					
Dividend payout ratio (%)	33.1	25.0	26.0	27.0					
Free cash flow yield (%)	4.4	24.9	25.2	(2.9)					
<b>Growth &amp; margins (%)</b>	<b>12/07</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>	<b>Ratios</b>	<b>12/07</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>
Sales growth	34.8	1.5	(15.0)	6.2	ROE (%)	18.8	9.7	5.9	8.1
EBITDA growth	40.0	(36.6)	(11.5)	35.9	ROA (%)	7.4	4.5	3.1	4.3
EBIT growth	40.9	(50.2)	(25.3)	62.2	ROACE (%)	23.5	13.1	10.2	14.6
Net income growth	43.7	(41.7)	(36.0)	44.4	Inventory days	57.3	50.5	45.8	46.3
EPS growth	39.7	(43.4)	(36.0)	44.4	Receivables days	63.2	44.8	30.5	30.1
Gross margin	9.9	11.1	9.9	9.9	Payable days	82.7	59.8	47.2	49.0
EBITDA margin	4.9	3.0	3.2	4.0	Net debt/equity (%)	(20.4)	(36.1)	(49.0)	(41.1)
EBIT margin	3.8	1.9	1.6	2.5	Interest cover - EBIT (X)	NM	NM	NM	NM
					<b>Valuation</b>	<b>12/07</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>
<b>Cash flow statement (NT\$ mn)</b>	<b>12/07</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>	P/E (analyst) (X)	4.4	7.8	12.2	8.5
Net income pre-preferred dividends	27,623.3	16,098.2	10,305.4	14,878.5	P/B (X)	0.8	0.7	0.7	0.7
D&A add-back	8,109.1	9,020.1	9,947.8	10,702.2	EV/EBITDA (X)	8.0	2.7	1.9	1.7
Minorities interests add-back	0.0	0.0	0.0	0.0	Dividend yield (%)	7.5	3.2	2.1	3.2
Net (inc)/dec working capital	(15,373.2)	28,453.1	20,875.6	(21,580.6)					
Other operating cash flow	11,571.8	(10,791.7)	(2,216.1)	(1,262.2)					
<b>Cash flow from operations</b>	<b>28,405.1</b>	<b>41,432.3</b>	<b>38,912.6</b>	<b>2,737.9</b>					
Capital expenditures	(14,868.5)	(10,503.4)	(7,590.0)	(7,038.4)					
Acquisitions	0.0	(1,375.4)	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	(2,941.9)	(1,192.3)	(1,683.1)	(1,683.1)					
<b>Cash flow from investments</b>	<b>(17,810.4)</b>	<b>(13,071.1)</b>	<b>(9,273.2)</b>	<b>(8,721.5)</b>					
Dividends paid (common & pref)	(6,244.5)	(9,146.5)	(4,024.5)	(2,679.4)					
Inc/(dec) in debt	818.6	(6.3)	0.0	0.0					
Common stock issuance (repurchase)	3,049.3	308.5	0.0	0.0					
Other financing cash flows	838.0	9,589.9	(670.7)	(439.7)					
<b>Cash flow from financing</b>	<b>(1,538.5)</b>	<b>745.6</b>	<b>(4,695.2)</b>	<b>(3,119.0)</b>					
<b>Total cash flow</b>	<b>8,894.4</b>	<b>29,103.2</b>	<b>24,944.3</b>	<b>(9,102.7)</b>					

Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

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**Exhibit 1: Goldman Sachs forecast revisions**

<b>Consolidated financials</b>	<b>Revised</b>	<b>Original</b>	
<b>(NT\$ mn)</b>	<b>(fully-loaded)</b>	<b>(fully-loaded)</b>	<b>Difference</b>
	<b>1Q09E</b>	<b>1Q09E</b>	
Revenue	150,917	152,345	-0.9%
Gross profits	14,038	15,130	-7.2%
Operating profits	-450	3,552	-112.7%
Pretax earnings	430	4,432	-90.3%
Net earnings	299	3,080	-90.3%
Basic EPS (NT\$)	0.07	0.74	-90.3%
Gross profit margin	9.3%	9.9%	
Operating margin	-0.3%	2.3%	
Net margin	0.2%	2.0%	

<b>Consolidated financials</b>	<b>Revised</b>	<b>Original</b>	
<b>(NT\$ mn)</b>	<b>(fully-loaded)</b>	<b>(fully-loaded)</b>	<b>Difference</b>
	<b>2009E</b>	<b>2009E</b>	
Revenue	651,671	658,141	-1.0%
Gross profits	64,334	65,701	-2.1%
Operating profits	10,670	15,866	-32.7%
Pretax earnings	14,741	19,937	-26.1%
Net earnings	10,305	13,908	-25.9%
Basic EPS (NT\$)	2.48	3.35	-25.9%
Gross profit margin	9.9%	10.0%	
Operating margin	1.6%	2.4%	
Net margin	1.6%	2.1%	

<b>Consolidated financials</b>	<b>Revised</b>	<b>Original</b>	
<b>(NT\$ mn)</b>	<b>(fully-loaded)</b>	<b>(fully-loaded)</b>	<b>Difference</b>
	<b>2010E</b>	<b>2010E</b>	
Revenue	692,227	698,866	-0.9%
Gross profits	68,724	69,139	-0.6%
Operating profits	17,310	18,472	-6.3%
Pretax earnings	21,483	22,645	-5.1%
Net earnings	14,878	15,680	-5.1%
Basic EPS (NT\$)	3.58	3.77	-5.1%
Gross profit margin	9.9%	9.9%	
Operating margin	2.5%	2.6%	
Net margin	2.1%	2.2%	

Source: Goldman Sachs Research estimates.

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