

Looking beyond the trough; retain Buy



RESEARCH

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Lower estimates and PO, but retain Buy rating

2008 was a tough year for Compal, dragged down by the NB market slowdown and poor results from its LT holding affiliates. Hence, we lower our 2008/09 EPS by 8%/21% respectively, and reduce our 12-month PO to NT\$22.5 (8x P/E, 1x BVPS) from NT\$27.5. Although 1Q09 momentum should remain weak, we think it is a good opportunity for investors to Buy the stock before its shipments resume in 2Q09 (Netbook and Toshiba share gain). Currently, it is trading at 0.8x P/BV and offers ~10% cash yield.

Tough year in 2008, but share gains in 2009

Compal's 2008 sales declined 5% YoY and we expect earnings to fall 9%, negatively impacted by softened corporate NB demand. However, we expect Compal's momentum to resume in 2Q09 (sales +7% QoQ) when it starts to ship Netbook (to Acer) and new models to Toshiba. We estimate Compal's NB units to grow 10% YoY (to 28mn) in 2009 – outperforming the industry (BAS-MLe: +7%).

Low risk from balance sheet

In our view, Compal is one of the downstream names with a less risky BS – low possibility of inventory write-downs and low financial leverage. Our check shows that Compal's inventory has reduced to two weeks currently (vs. 1 month usually) and has stated it plans to cut 2009 capex by 50% to reserve cash. Abundant net cash (NT\$8/share) should provide support for its R&D strengthening and cash payout.

Conservative assumptions for non-op

We expect Compal's investment losses from TPO (25%-owned) and VIBO (36%-owned) could widen in 2009. CCI (47%-owned) also faces deteriorating low-end phone business and profits. Overall, we forecast Compal's investment income to decline 40% YoY to NT\$1.7bn in 2009 (from NT\$2.8bn in 2008).

Estimates (Dec)

(NT\$)	2006A	2007A	2008E	2009E	2010E
Net Income (mn) Taiwan GAAP	8,752	13,683	12,386	10,664	11,358
EPS (Pre Bonus)	2.25	3.52	3.71	3.19	3.40
EPS (Post Bonus)	1.95	3.00	3.19	2.75	2.92
EPS Change (YoY)	3.1%	53.7%	6.3%	-13.9%	6.5%
Dividend / Share	1.70	2.40	1.59	1.65	2.05
Free Cash Flow / Share	3.70	2.97	1.86	2.66	1.78

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

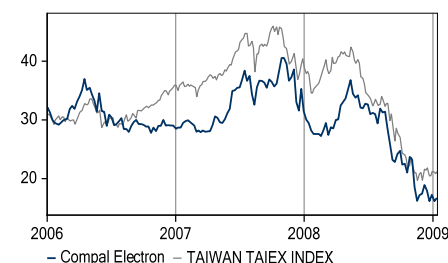
Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E (Post Bonus)	8.55x	5.56x	5.24x	6.08x	5.71x
Dividend Yield	10.18%	14.37%	9.55%	9.87%	12.26%
Free Cash Flow Yield*	22.15%	17.79%	11.17%	15.91%	10.67%

* For full definitions of *iQmethod*SM measures, see page 10.

Stock Data

Price	NT\$16.70
Price Objective	NT\$27.50 to NT\$22.50
Date Established	14-Jan-2009
Investment Opinion	C-1-8
Volatility Risk	HIGH
52-Week Range	NT\$14.65-NT\$37.61
Mrkt Val / Shares Out (mn)	US\$1,950 / 3,883.0
Average Daily Volume	15,243,470
ML Symbol / Exchange	CMPLF / TWO
Bloomberg / Reuters	2324 TT / 2324.TW
ROE (2008E)	15.5%
Net Dbt to Eqty (Dec-2008A)	-27.7%
Est. 5-Yr EPS / DPS Growth	5.0% / 5.0%
Free Float	70.0%



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Refer to important disclosures on page 11 to 13. Analyst Certification on Page 8. Price Objective Basis/Risk on page 8.

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iQprofileSM Compal Electronics

Key Income Statement Data (Dec)	2006A	2007A	2008E	2009E	2010E
(NT\$ Millions)					
Sales	303,071	427,460	404,993	412,592	418,580
Gross Profit	14,433	20,630	20,324	19,653	19,505
Sell General & Admin Expense	(5,197)	(6,269)	(9,382)	(9,591)	(9,376)
Operating Profit	9,236	14,361	10,942	10,062	10,129
Net Interest & Other Income	1,156	2,184	3,784	2,633	3,392
Associates	NA	NA	NA	NA	NA
Pretax Income	10,392	16,545	14,726	12,695	13,521
Tax (expense) / Benefit	(1,640)	(2,862)	(2,340)	(2,031)	(2,163)
Net Income (Adjusted)	8,752	13,683	12,386	10,664	11,358
Average Fully Diluted Shares Outstanding	3,883	3,883	3,883	3,883	3,883

Key Cash Flow Statement Data

Net Income	8,752	13,683	12,386	10,664	11,358
Depreciation & Amortization	360	551	528	538	546
Change in Working Capital	5,755	(5,296)	(2,484)	1,157	(2,111)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(287)	2,827	(2,869)	(1,713)	(2,542)
Cash Flow from Operations	14,580	11,765	7,560	10,645	7,250
Capital Expenditure	(218)	(232)	(320)	(326)	(331)
(Acquisition) / Disposal of Investments	(1,456)	(2,689)	(500)	(500)	(500)
Other Cash Inflow / (Outflow)	562	111	0	0	0
Cash Flow from Investing	(1,112)	(2,810)	(820)	(826)	(831)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(5,552)	(6,674)	(9,109)	(6,369)	(6,955)
Cash Flow from Financing	(5,552)	(6,674)	(9,109)	(6,369)	(6,955)
Free Cash Flow	14,362	11,533	7,240	10,319	6,919
Net Debt	(34,072)	(21,699)	(24,352)	(25,519)	(29,378)
Change in Net Debt	(7,916)	(2,281)	2,369	(3,450)	536

Key Balance Sheet Data

Property, Plant & Equipment	2,402	2,158	2,478	2,804	3,134
Other Non-Current Assets	44,403	45,666	49,000	51,226	54,277
Trade Receivables	62,065	64,836	61,026	62,171	61,927
Cash & Equivalents	34,072	31,443	34,096	35,263	39,122
Other Current Assets	11,638	13,587	10,667	10,893	9,969
Total Assets	154,580	157,690	157,268	162,357	168,429
Long-Term Debt	0	9,744	9,744	9,744	9,744
Other Non-Current Liabilities	216	511	511	511	511
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	83,131	69,185	65,682	66,686	68,584
Total Liabilities	83,347	79,440	75,937	76,941	78,839
Total Equity	71,233	78,249	81,332	85,423	89,609
Total Equity & Liabilities	154,580	157,689	157,269	162,363	168,448

iQmethodSM - Bus Performance*

Return On Capital Employed	10.8%	15.8%	10.8%	9.6%	9.2%
Return On Equity	12.9%	18.3%	15.5%	12.8%	13.0%
Operating Margin	3.0%	3.4%	2.7%	2.4%	2.4%
EBITDA Margin	3.2%	3.5%	2.8%	2.6%	2.6%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	1.7x	0.9x	0.6x	1.0x	0.6x
Asset Replacement Ratio	0.6x	0.4x	0.6x	0.6x	0.6x
Tax Rate (Reported)	15.8%	17.3%	15.9%	16.0%	16.0%
Net Debt-to-Equity Ratio	-47.8%	-27.7%	-29.9%	-29.9%	-32.8%
Interest Cover	46.2x	NM	NA	NA	NA

Key Metrics

Stock comp. adjusted ROIC	8.7%	14.9%	9.6%	8.6%	8.2%
Stock comp. adjusted ROE	11.2%	15.6%	14.0%	11.5%	11.7%
Stock comp. adjusted EPS	1.95	3.00	3.19	2.75	2.92
Stock comp. adjusted P/E	8.55x	5.56x	5.24x	6.08x	5.71x

* For full definitions of iQmethodSM measures, see page 10.

Company Description

Compal is the second largest manufacturer of notebook PCs in the world with about 15-20% share in 2006. NB PCs account for 85% of revenue and the balance comes from handsets, monitors, and flat TVs. Top customers include Dell, HP, Toshiba, and Acer. Compal has three key affiliates-Compal Communication (for handsets), Toppoly (for LCD panels), and VIBO (Telecom operator).

Investment Thesis

We expect Compal to show solid growth in 2008-09, given its leverage to the solid growth in the notebook PC industry. Among notebook ODMs, Compal has a good track record of margin retention. In addition, we see higher contributions from its long-term investments starting from 2008, given the potential breakeven of Toppoly (s/m-size LCD panels). Compal's commitment to increase dividend payout (70 pct) makes its share price more attractive to investors, in our view.

Stock Data

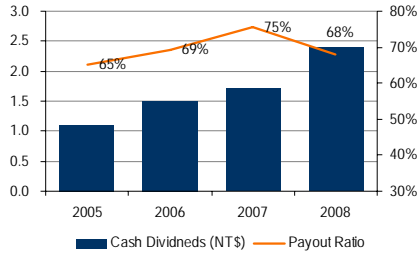
Price to Book Value 0.8x

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Looking beyond the trough; Buy

Although Compal is one of Taiwan's top-tier NB ODMs, with solid execution and a strong balance sheet, it is not immune from the overall tech slowdown. 2008 was a tough year for the company. It reported a revenue decline of 5% YoY, and we expect earnings to fall 9% YoY, negatively impacted by the soft corporate NB segment and poor results from its LT holding affiliates (VIBO, TPO, CCI). We reduce Compal's 2008 and 2009 EPS estimates by 8% and 21%, respectively.

Chart 1: Compal's historical dividend payout



Source: Compal, BAS-ML

However, we expect 1Q09 will be the trough for Compal and it will regain momentum in 2Q09 when it starts to ship Netbook (10-inch Aspire One to Acer) and new models to Toshiba. Some investors have voiced concerns that dividend play names may not sustain their high dividend yields due to deteriorated ability to generate earnings. However, from our scenario analysis on earnings and payout (see Table 1) we believe Compal will still be able to offer decent cash dividend yields (5%~15%) for 2009.

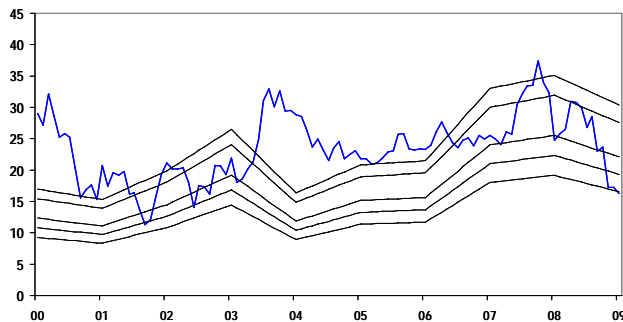
Compal's current valuation at 0.8x P/BV and ~10% cash yield looks attractive to us and we retain our Buy rating on the stock. Our new PO of NT\$22.5 is based on 8x P/E and 1x BVPS.

Table 1: Compal's cash dividend scenario

Cash dividends		2008 Earning YoY %			
		-20%	-15%	-9%	-5%
Payout					
30%		0.8	0.9	1.0	1.0
40%		1.1	1.2	1.3	1.3
50%		1.4	1.5	1.6	1.7
60%		1.7	1.8	1.9	2.0
70%		2.0	2.1	2.2	2.3
Dividend yield		2008 Earning YoY %			
Payout					
30%		5.1%	5.4%	5.7%	6.0%
40%		6.8%	7.2%	7.6%	8.0%
50%		8.4%	9.0%	9.6%	10.0%
60%		10.1%	10.8%	11.5%	12.0%
70%		11.8%	12.6%	13.4%	14.0%

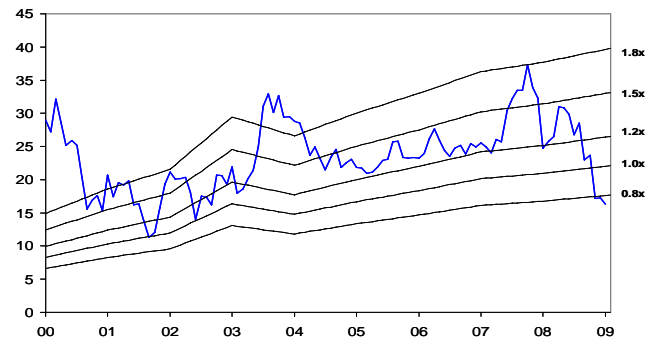
Source: BAS-ML estimates

Chart 2: Compal historical P/E band



Source: BAS-ML estimates, TEJ

Chart 3: Compal historical P/B band



Source: BAS-ML estimates, TEJ

Tough year in 2008, but share gain in 2009

Compal's 2008 revenues declined 5% YoY (NB unit +13% YoY) and we expect earnings to fall 9% YoY, negatively impacted by softened corporate NB segment demand (25% of Compal's shipments). With 1Q09 momentum remaining muted, Compal is guiding another 20-30% QoQ sales decline (BAS-MLe:-24% QoQ). However, we expect Compal to resume momentum in 2Q09 (BAS-MLe: sales +7% QoQ), when it starts to ship Netbooks (10-inch Aspire One to Acer) and new models to Toshiba.

With order bidding wins for 2009, Compal's chairman indicated that 2009 NB shipments could grow by at least 25% YoY to 32mn units (from 25.5mn in 2008). However, we think this target could be a bit optimistic under the current soft macro environment and with unclear demand visibility ahead. Currently, we forecast Compal's NB units to grow 10% YoY to 28mn units (including 4mn Netbooks) in 2009 – outperforming the industry growth rate (BAS-MLe: +7% YoY).

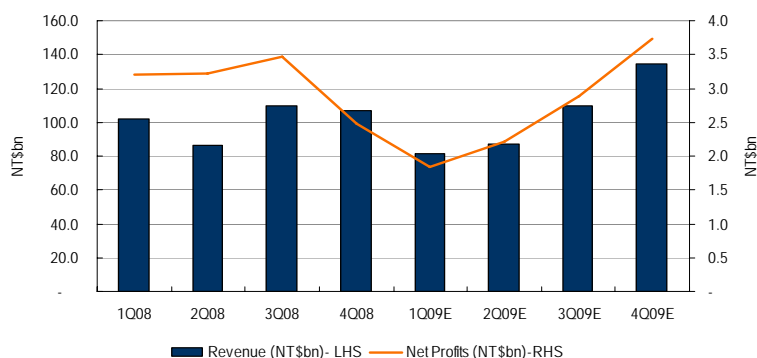
On LCD TV business, we also expect substantial YoY growth for 2009, benefiting from Toshiba's increasing outsourcing ratio (30% outsourcing in 2008). We forecast Compal's LCD TV ODM units could reach 3mn for 2009 (from 1.9mn in 2008).

Table 2: Compal – shipment and revenue assumptions

Unit (mn)	2007A	2008A	2009E	YoY %
Notebook	22.6	25.5	28.0	10%
Regular-NB	22.6	25.0	24.0	-4%
Netbook	0.0	0.5	4.0	700%
LCD TV	0.2	1.9	3.0	61%
Revenue (NT\$bn)	2007A	2008A	2009E	YoY %
Notebook	406.1	368.1	367.3	0%
Regular-NB	406.1	363.3	328.9	-9%
Netbook	0.0	4.8	38.4	700%
LCD TV	7.4	28.4	39.6	39%

Source: BAS-ML estimates, Compal

Chart 4: Compal – quarterly revenues and net profits



Source: BAS-ML estimates, TEJ

Low risk from balance sheet

In our view, Compal is one of the downstream names with a less risky balance sheet – low possibility of inventory write-downs and low financial leverage. Our check shows that Compal's inventory has reduced to two weeks currently (vs. one month usually) in order to lower the impact from Taiwan GAAP Article 10 (effective from January 2009). Also, management indicated that it's reviewing its investments in China and Vietnam currently, and plans to cut 2009 capex by 50% (to NT\$4bn) to reserve more cash on-hand. In our view, abundant net cash (NT\$8 per share) will provide support for Compal's R&D strengthening and cash payout.

Table 3: Compal – historical capex

	2006	2007	2008E	2009E
Capex (NT\$mn)	-4,114	-3,764	-8,000	-4,000
Capex/ Sales	-1%	-1%	-2%	-1%
YoY%		-9%	113%	-50%

Source: TEJ, BAS-ML estimates

Table 4: Compal – balance sheet comparison (as of 1-3Q08)

	Compal	Quanta	Wistron	Inventec
Inventory days	30	36	34	25
CCC days	14	13	18	23
Net Cash/ share	\$7.9	\$10.4	\$-11.4	\$-8.3
Net Cash / Equity	36%	41%	-48%	-56%

Source: TEJ, BAS-ML

Conservative assumptions for non-op

In terms of Compal's LT investments, we expect TPO (25%-owned) and VIBO (36%-owned) could widen their losses in 2009, impacted by the slowdown in the macro economy. Compal Communication's profits should also shrink, given continuously muted handset demand. Overall, we forecast Compal's investment income will decrease 40% YoY to NT\$1.7bn in 2009 (from NT\$2.8bn in 2008).

TPO (3195 TT; Not Rated) supplies small- and medium-size panels for handset and DSC applications. We expect TPO's net losses recognized by Compal to widen to ~NT\$200mn in 4Q08. Furthermore, we expect TPO's earnings to be continuously negatively impacted by panel utilization and pricing volatility in 2009.

VIBO (3157 TT, Not Rated) is a 3G telecomm operator in Taiwan. VIBO continued to expand its revenue pool by adding subscribers, but increasing subsidies could widen its losses in 4Q08/2009, in our view. Overall, we forecast Compal is likely to book NT\$550-600mn investment losses per quarter from VIBO for 2009.

Compal Communication (8078 TT, Underperform) While CCI's Smartphone for Motorola ramped up in late December 2008, we expect the company to face declining QoQ profits in 1Q09 due to deteriorating low-end phone business. Our handset analyst, Laura Chen, expects CCI's net profits to fall 33% YoY in 2009.

Table 5: Compal – investment income breakdown

NT\$bn	Holding	BAS-ML estimate			YoY %	
		2007A	2008E	2009E	2008E	2009E
Compal Comm	47%	1.8	0.7	0.4	-64%	-37%
Toppoly	25%	-1.4	-0.5	-0.7	62%	-24%
VIBO	36%	-0.9	-1.9	-2.2	-120%	-18%
China operation	100%	1.6	3.4	3.2	111%	-8%
Others	-	-0.1	1.2	1.0	n.m.	-15%
Investment Gain		1.2	2.9	1.7	148%	-40%

Source: BAS-ML estimates

Earning revision for 2008/09

We reduce our 2008 and 2009 EPS forecast by 8% and 21% respectively, to reflect lower revenue assumptions, larger OP margin deterioration and a more conservative view on Compal's non-op investment income.

We now forecast EPS of NT\$3.19 for 2008 (-9% YoY) and NT\$2.75 for 2009 (-14% YoY). The seasonal momentum will likely be back-end loaded, with net profits down 37% YoY in 1H09, but up 11% YoY in 2H09.

Table 6: Compal's earnings revision table

NT\$m	New		YoY %		Old		Diff %	
	2008E	2009E	2008E	2009E	2008E	2009E	2008E	2009E
Sales	404,993	412,592	-5%	2%	416,040	446,957	-3%	-8%
Gross Profit	20,324	19,653	-1%	-3%	20,910	21,290	-3%	-8%
Operating Profit	10,942	10,062	-24%	-8%	11,532	11,874	-5%	-15%
Non-Op	3,789	2,633	n.m.	-30%	4,382	4,337	-14%	-39%
Investment Inc	2,875	1,713	n.m.	-40%	3,458	3,337	-17%	-49%
Others	915	920			925	1,000		
Pre-tax Profit	14,731	12,695	-11%	-14%	15,914	16,211	-7%	-22%
Net Profit	12,390	10,664	-9%	-14%	13,402	13,455	-8%	-21%
EPS (NT\$)	3.2	2.8			3.5	3.5		
GPM	5.0%	4.8%			5.0%	4.8%		
Opex	-2.3%	-2.3%			-2.3%	-2.1%		
OPM	2.7%	2.4%			2.8%	2.7%		
NM	3.1%	2.6%			3.2%	3.0%		
Tax Rate	-15.9%	-16.0%			-15.8%	-17.0%		

Source: BAS-ML estimates

Table 7: Valuation comparison table

	ML Symbol	ML Rating	Price 14-Jan-09	Mkt Cap (US\$m)	EPS (Local)		EPG		PER(x)		PBR(x) 3Q08	ROE (%)		Cash Yield	Price YTD
					2008E	2009E	2008E	2009E	2008E	2009E		2008E	2009E		
Acer	ASIYF	C-1-7 Buy	41.0	3,272	4.8	5.0	-4%	4%	8.5	8.2	1.3	15%	16%	9%	-4%
Compal	CMPLF	C-1-7 Buy	16.7	2,056	3.2	2.7	-9%	-14%	5.2	6.1	0.8	16%	13%	10%	-3%
Simplo	SPLOF	C-1-7 Buy	82.2	534	11.3	11.9	14%	5%	7.3	6.9	1.8	26%	23%	7%	4%
SZS	SZUSF	C-2-7 Neutral	83.5	324	10.3	10.8	5%	5%	8.1	7.7	1.9	26%	24%	5%	2%
Wistron	WICOF	C-2-7 Neutral	26.3	1,246	4.8	4.6	10%	-4%	5.5	5.7	1.1	20%	18%	10%	6%
FTC	FXTCF	C-2-8 Neutral	79.3	2,099	8.5	8.0	-22%	-6%	9.3	9.9	1.7	14%	12%	3%	3%
Quanta	QUCPF	C-3-7 Underpe	32.0	3,650	5.0	4.5	-1%	-10%	6.4	7.1	1.3	19%	16%	11%	-8%
Chicony	CCNYF	C-3-8 Underpe	31.2	542	5.4	4.7	12%	-12%	5.8	6.6	1.8	35%	27%	11%	-2%
Inventec	IVCJF	C-3-8 Underpe	9.3	744	2.0	1.6	-8%	-19%	4.6	5.7	0.6	14%	11%	14%	1%
Asustek	AKCPF	C-3-7 Underpe	31.5	4,180	3.8	2.0	-47%	-48%	8.2	15.8	0.7	9%	4%	6%	-14%
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%	3%	0%
Catcher	CHERF	C-3-8 Underpe	59.0	1,106	7.8	7.6	-35%	-3%	7.5	7.8	1.3	17%	15%	4%	8%

Source: BAS-ML estimates, BBG

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Table 8: Compal – Quarterly income statement (parent)

NT\$mnn	1Q08A	2Q08A	3Q08A	4Q08E	1Q09E	2Q09E	3Q09E	4Q09E	2007A	2008E	2009E	2010E
Sales	101,641	86,418	110,087	106,847	81,200	86,816	110,048	134,528	427,460	404,993	412,592	418,580
Cost of Sales	(96,833)	(81,853)	(104,419)	(101,563)	(77,261)	(82,686)	(104,833)	(128,159)	(406,830)	(384,669)	(392,939)	(399,075)
Gross Profit	4,808	4,565	5,668	5,283	3,939	4,130	5,215	6,369	20,630	20,324	19,653	19,505
Operating Expense	(2,078)	(2,241)	(2,478)	(2,586)	(2,111)	(2,170)	(2,498)	(2,812)	(6,269)	(9,382)	(9,591)	(9,376)
Oper. Exp. Promotion	(462)	(512)	(550)	(556)	(447)	(434)	(517)	(619)	(2,230)	(2,081)	(2,017)	(1,967)
Operating Exp.-ADM	(586)	(691)	(717)	(748)	(609)	(608)	(660)	(713)	(1,139)	(2,742)	(2,590)	(2,511)
Operat. Expense-R&D	(1,029)	(1,037)	(1,211)	(1,282)	(1,056)	(1,129)	(1,321)	(1,480)	(2,900)	(4,559)	(4,985)	(4,897)
Operating Profit	2,730	2,324	3,190	2,698	1,828	1,960	2,717	3,557	14,361	10,942	10,062	10,129
Non-operating Income	1,229	1,402	820	333	357	677	719	880	2,183	3,784	2,633	3,392
Net Interest Income	194	194	112	100	150	150	150	150	826	600	600	600
Investment Income	1,025	963	699	183	127	447	489	650	1,155	2,869	1,713	2,542
Disposal Gain	-	-	-	-	-	-	-	-	101	-	-	-
Exchange Gain	(63)	187	(48)	-	-	-	-	-	(28)	76	-	-
Others	73	59	57	50	80	80	80	80	129	239	320	250
Pre-tax Profit	3,959	3,726	4,010	3,030	2,185	2,637	3,437	4,437	16,544	14,726	12,695	13,521
Tax Expense	(750)	(511)	(533)	(545)	(350)	(422)	(550)	(710)	(2,861)	(2,340)	(2,031)	(2,163)
Net Profit	3,209	3,215	3,477	2,485	1,835	2,215	2,887	3,727	13,683	12,386	10,664	11,358
EPS (NT\$)	0.83	0.83	0.90	0.64	0.47	0.57	0.74	0.96	3.52	3.19	2.75	2.92
%												
Gross Margin	4.7%	5.3%	5.1%	4.9%	4.9%	4.8%	4.7%	4.7%	4.8%	5.0%	4.8%	4.7%
Operating Expense	-2.0%	-2.6%	-2.3%	-2.4%	-2.6%	-2.5%	-2.3%	-2.1%	-1.5%	-2.3%	-2.3%	-2.2%
Operating Margin	2.7%	2.7%	2.9%	2.5%	2.3%	2.3%	2.5%	2.6%	3.4%	2.7%	2.4%	2.4%
Pre-tax Margin	3.9%	4.3%	3.6%	2.8%	2.7%	3.0%	3.1%	3.3%	3.9%	3.6%	3.1%	3.2%
Net Margin	3.2%	3.7%	3.2%	2.3%	2.3%	2.6%	2.6%	2.8%	3.2%	3.1%	2.6%	2.7%
Tax Rate	19%	14%	13%	18%	16%	16%	16%	16%	17%	16%	16%	16%
Sequential Growth												
Sales	-13%	-15%	27%	-3%	-24%	7%	27%	22%	41%	-5%	2%	1%
Cost of Sales	-12%	-15%	28%	-3%	-24%	7%	27%	22%	41%	-5%	2%	2%
Gross Profit	-16%	-5%	24%	-7%	-25%	5%	26%	22%	43%	-1%	-3%	-1%
Operating Expense	20%	8%	11%	4%	-18%	3%	15%	13%	21%	50%	2%	-2%
Operating Profit	-32%	-15%	37%	-15%	-32%	7%	39%	31%	55%	-24%	-8%	1%
Non-operating Income	17%	14%	-42%	-59%	7%	89%	6%	22%	89%	73%	-30%	29%
Pre-Tax Profit	-22%	-6%	8%	-24%	-28%	21%	30%	29%	59%	-11%	-14%	7%
Tax Expense	-17%	-32%	4%	2%	-36%	21%	30%	29%	74%	-18%	-13%	7%
Net Profit	-23%	0%	8%	-29%	-26%	21%	30%	29%	56%	-9%	-14%	7%
Key Assumptions												
Notebook (mn)	6.2	6.2	7.0	6.2	4.9	5.6	7.7	10.0	22.6	25.5	28.1	30.9
LCD Monitor (mn)	0.5	0.7	0.4	0.3	0.3	0.3	0.4	0.5	2.8	2.0	1.5	1.5
LCD TV (000)	0.2	0.4	0.6	0.7	0.6	0.7	0.8	0.9	0.2	1.9	3.0	3.6

Source: BAS-ML estimates, Compal

Price objective basis & risk

Compal Electron (CMPLF)

Our PO of NT\$22.5 equates to a P/E of 8x 2009E bonus-adjusted EPS, which is at the mid end of Compal's historical P/E band since 2005. Given its quality balance sheet and strong cash flow position, we believe Compal should trade at a premium to some tier-two NB ODM makers (ie, Inventec). Risks to our price objective: (1) Further weakness in NB PC demand, (2) larger-than-expected competition in pricing leading to larger margin decline and (3) retention of key customers.

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
	Simplo Tech	SPLOF	6121 TT	Tina Chang, CFA
	TPV	TPVTF	903 HK	Daniel Kim, CFA
	Venture Corp.	VEMLF	VMS SP	Ronnie Ho

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APR - Technology Hardware Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
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
	Qisda Corp	BNQCF	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
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	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

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***iQmethod*SM 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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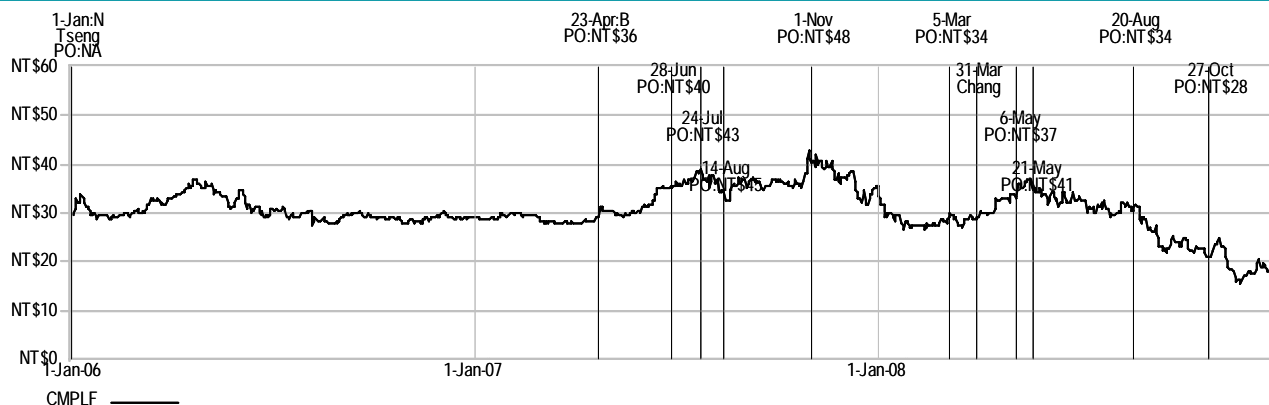
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CMPLF Price Chart



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 December 31, 2008 or such later date as indicated.

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Investment Rating Distribution: Electronics Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	26	24.76%	Buy	6	24.00%
Neutral	33	31.43%	Neutral	4	14.29%
Sell	46	43.81%	Sell	3	7.32%

Investment Rating Distribution: Global Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1297	38.46%	Buy	314	26.81%
Neutral	859	25.47%	Neutral	210	28.23%
Sell	1216	36.06%	Sell	229	20.71%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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