

SO WHAT? THE BNP PARIBAS ANGLE

INDUSTRY OUTLOOK: ← →

- Our 1Q09 revenue forecast is down 32% q-q, after declining 31% q-q in 4Q08.
- We are the first on the Street to point out that inventory turnover days are still at a high level, even though the absolute number declined.

Net Profit 09 TWD29.7b
..... (Unchanged)

Diff from Consensus (39.4%)
Consensus (mean) TWD49.0b
Consensus (momentum) ↓

Target Price TWD42.00
..... (Unchanged)

Diff from Consensus . (7.5%)
Consensus (median) TWD45.40
Consensus (momentum)..... ↓

Current Price TWD41.70
Upside/(Downside).....0.7%

HOLD
(Unchanged)

Recs in the Market

Positive **16**
Neutral **9**
Negative **1**
Consensus (momentum)..... ↓

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

- HOLD TSMC; weak demand in near term, no visibility of client orders after February.**
- Upside to share price capped by slow-down in 1H09 outlook and expensive valuation.**
- Our 1Q09 utilization rate forecast for TSMC is 38%, which will be lowest in its history.**

4Q08 Result Preview

Maintain HOLD; TP at TWD42

We maintain our HOLD rating on TSMC as we do not have a clear visibility into its client orders (after February). Our 1Q09 utilization rate forecast for TSMC is 38% for 1Q09, which is the lowest in its history. On the other hand, TSMC's valuation is also not too attractive. Our TP on TSMC is TWD42, based on a 1.8x P/BV.

1Q09 will make few historic lows

Our 1Q09 revenue growth forecast for TSMC is 32% q-q down. The utilization rate will hit a historic low of 38% (35% in January, 35% in February, and 46% in March) in 1Q09, which is lower than its breakeven utilization rate of 40%. We believe TSMC will suffer a minor loss, which will be its new historic low. The major wafer order coming to TSMC in March is from Qualcomm's rush orders (on handset IC). However, we are doubtful of such specific order being consistent. We note the inventory turnover days have still not declined too much being negatively affected by reduced demand.

4Q08 preview: No expectation

1) We expect gross margin to be 30.9% in 4Q08 (46.3% in 3Q08), vs its revised guidance of 30-32%, following a decline in utilization rate. Our 4Q08 utilization rate forecast for TSMC is 58%. 2) We believe its 4Q08 operating margin to be ~ 18%. We forecast its opex/revenue to rise to 13.1% in 4Q08, up from 10.9% in 3Q08 (OPEX declined by 17% q-q), driven by weaker economies of scale. 3) Our 4Q08 EPS forecast for TSMC is TWD0.47. 4) We note its 12-inch fab utilisation rate is below 50% in 4Q08 and set to decline to an even lower level of 30% in 1Q09.

4Q08 Results Preview

Year-end 31 Dec	4Q08E (TWD m)	3Q08 (TWD m)	Change (q-q %)	1Q09E (TWD m)
Net sale	64,563	92,979	(30.6)	44,170
Gross profit	19,963	43,094	(53.7)	6,334
Gross margin (%)	30.9	46.3		14.3
Operating profit	11,538	32,917	(64.9)	(256)
Pre-tax profit	13,372	34,430	(61.2)	1,001
Net profit	12,035	30,574	(60.6)	901
EPS (TWD)	0.47	1.18	(60.2)	0.04

Sources: TSMC; BNP Paribas estimates

BNP Paribas research is available on Thomson Reuters, Bloomberg, and on <http://equities.bnpparibas.com>. Please contact your salesperson for authorisation. Please see the important notice on the back page.

Eric Chen (886 2) 2175 7057

BNP Paribas Securities (Taiwan) Co Ltd
eric.chen@asia.bnpparibas.com

Tapan Joshi (91 22) 6628 2408

BNP Paribas Securities India Pvt Ltd
tapan.joshi@asia.bnpparibas.com

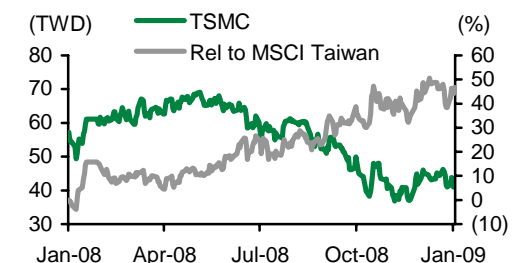
(Full BNP Paribas technology research team list inside)

Earnings Estimates And Valuation Ratios

YE Dec (TWD m)	2007	2008E	2009E	2010E
Revenue	322,630	333,159	225,905	259,791
Reported net profit	109,177	98,733	29,679	38,200
Recurring net profit	109,177	98,733	29,679	38,200
Previous rec net profit	109,177	98,367	29,672	38,191
Chg from previous (%)	—	0.4	—	—
Recurring EPS (TWD)	4.15	3.85	1.16	1.48
Prev rec EPS (TWD)	4.15	3.84	1.16	1.48
Rec EPS growth (%)	(16.3)	(7.3)	(69.9)	27.4
Recurring P/E (x)	10.0	10.8	36.0	28.3
Dividend yield (%)	7.0	7.2	7.2	7.3
EV/EBITDA (x)	5.2	5.3	9.3	8.3
Price/book (x)	2.2	2.0	2.2	2.2
ROE (%)	21.8	19.1	5.7	7.8
Net debt/equity (%)	(16.8)	(19.5)	(13.9)	(4.6)

Sources: TSMC; BNP Paribas estimates

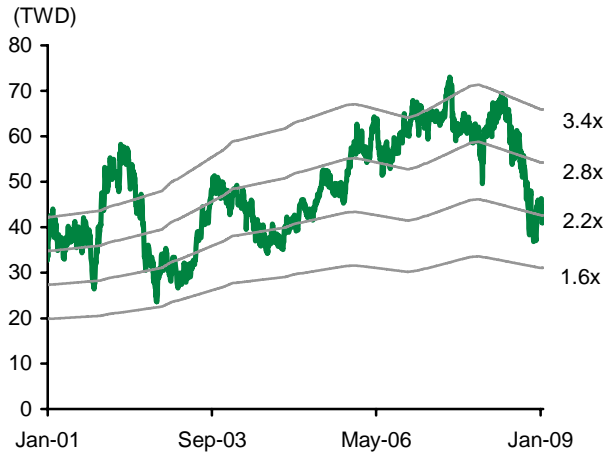
Share Price Daily vs MSCI



Next results/event	January 2009
Market cap (USD m)	31,481
12m avg daily turnover (USD m)	111.8
Free float (%)	86
Major shareholder	National Development Fund (6%)
12m high/low (TWD)	69.05/36.80
ADR (USD)	0.0
Avg daily turnover (USD m)	0.0
Discount/premium (%)	0.0
Disc/premium vs 52-wk avg (%)	0.0

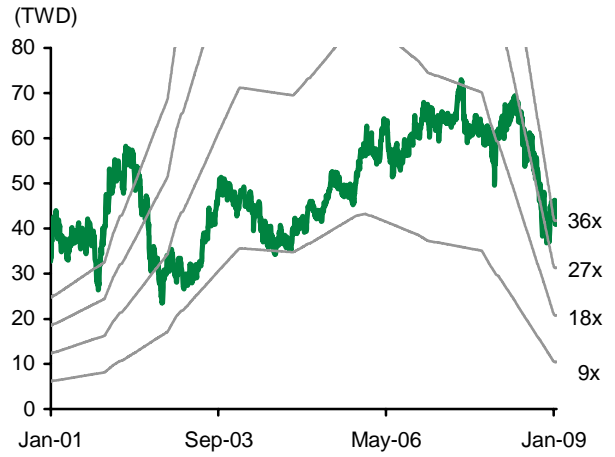
Source: Datastream

Exhibit 1: Forward P/BV Band Chart



Sources: TSMC; BNP Paribas estimates

Exhibit 2: Forward P/E Band Chart



Sources: TSMC; BNP Paribas estimates

FINANCIAL STATEMENTS

TSMC

Profit and Loss (TWD m)					
Year Ending December	2006A	2007A	2008E	2009E	2010E
Revenue	317,407	322,630	333,159	225,905	259,791
Cost of sales ex depreciation	(91,832)	(102,003)	(111,237)	(92,360)	(103,478)
Gross profit ex depreciation	225,575	220,627	221,922	133,545	156,313
Other operating income	-	-	-	-	-
Operating costs	(28,546)	(30,628)	(37,566)	(31,530)	(35,859)
Operating EBITDA	197,029	189,999	184,356	102,015	120,454
Depreciation	(69,765)	(78,277)	(80,405)	(75,344)	(85,138)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	127,264	111,722	103,951	26,672	35,316
Net financing costs	1,219	6,142	4,941	3,305	3,702
Associates	2,347	2,508	1,691	2,200	2,464
Recurring non operating income	2,532	1,270	378	800	880
Non recurring items	-	-	-	-	-
Profit before tax	133,362	121,642	110,961	32,977	42,362
Tax	(7,876)	(11,709)	(11,834)	(3,298)	(4,162)
Profit after tax	125,486	109,933	99,127	29,679	38,200
Minority interests	-	(756)	(394)	-	-
Preferred dividends	-	-	-	-	-
Other items	1,607	-	-	-	-
Reported net profit	127,093	109,177	98,733	29,679	38,200
Non recurring items & goodwill (net)	-	-	-	-	-
Recurring net profit	127,093	109,177	98,733	29,679	38,200
Per share (TWD)					
Recurring EPS *	4.96	4.15	3.85	1.16	1.48
Reported EPS	4.96	4.15	3.85	1.16	1.48
DPS	2.39	2.93	3.00	3.00	3.03
Growth					
Revenue (%)	20.0	1.6	3.3	(32.2)	15.0
Operating EBITDA (%)	22.4	(3.6)	(3.0)	(44.7)	18.1
Operating EBIT (%)	36.8	(12.2)	(7.0)	(74.3)	32.4
Recurring EPS (%)	29.2	(16.3)	(7.3)	(69.9)	27.4
Reported EPS (%)	29.2	(16.3)	(7.3)	(69.9)	27.4
Operating performance					
Gross margin inc depreciation (%)	49.1	44.1	42.5	25.8	27.4
Operating EBITDA margin (%)	62.1	58.9	55.3	45.2	46.4
Operating EBIT margin (%)	40.1	34.6	31.2	11.8	13.6
Net margin (%)	40.0	33.8	29.6	13.1	14.7
Effective tax rate (%)	5.9	9.6	10.7	10.0	9.8
Dividend payout on recurring profit (%)	48.3	70.6	77.8	259.0	205.3
Interest cover (x)	na	na	na	na	na
Inventory days	74.9	81.0	65.8	79.0	86.6
Debtor days	39.1	41.9	39.9	54.0	53.0
Creditor days	41.9	40.9	40.5	48.5	47.4
Operating ROIC (%)	39.1	30.9	27.4	6.9	9.1
Operating ROIC - WACC (%)	30.4	22.2	18.8	(1.7)	0.4
ROIC (%)	32.2	26.9	24.0	6.6	8.4
ROIC - WACC (%)	23.6	18.3	15.3	(2.1)	(0.3)
ROE (%)	26.6	21.8	19.1	5.7	7.8
ROA (%)	23.0	17.9	15.8	4.3	5.9

Margins under pressure due to declining utilization rates

* Pre exceptional, pre-goodwill and fully diluted

Sources: TSMC; BNP Paribas estimates

Cash Flow (TWD m)					
Year Ending December	2006A	2007A	2008E	2009E	2010E
Recurring net profit	127,093	109,177	98,733	29,679	38,200
Depreciation	69,765	78,277	80,405	75,344	85,138
Associates & minorities	1,710	755	778	-	-
Other non-cash items	(391)	(785)	212	12,017	6,590
Recurring cash flow	198,177	187,424	180,127	117,039	129,928
Change in working capital	8,427	(3,658)	18,574	(6,729)	(772)
Capex - maintenance	-	-	-	-	-
Capex - new investment	(84,500)	(83,103)	(58,500)	(64,350)	(70,785)
Free cash flow to equity	122,104	100,664	140,201	45,960	58,370
Net acquisitions & disposals	(1)	-	-	-	-
Dividends paid	(61,743)	(77,387)	(76,779)	(76,876)	(77,645)
Non recurring cash flows	(35,223)	12,413	(5,214)	(2,200)	(1,975)
Net cash flow	25,137	35,690	58,208	(33,116)	(21,249)
Equity finance	0	-	(30,427)	-	-
Debt finance	(2,040)	(12,610)	(4,164)	11,012	(22,935)
Movement in cash	23,097	23,080	23,617	(22,104)	(44,184)

Capex cut ensures better gross margin and reflects better industry discipline

Per share (TWD)					
Recurring cash flow per share	7.74	7.13	7.03	4.57	5.02
FCF to equity per share	4.77	3.83	5.47	1.79	2.26

Balance Sheet (TWD m)					
Year Ending December	2006A	2007A	2008E	2009E	2010E
Working capital assets	142,480	154,836	209,151	286,088	301,719
Working capital liabilities	(39,857)	(48,425)	(43,874)	(51,605)	(55,476)
Net working capital	102,623	106,411	165,278	234,483	246,243
Tangible fixed assets	254,094	260,252	225,475	143,928	155,442
Operating invested capital	356,717	366,663	390,752	378,411	401,685
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Investments	53,895	36,461	24,131	26,331	28,306
Other assets	19,179	24,330	41,874	41,874	45,015
Invested capital	429,791	427,454	456,757	446,616	475,006
Cash & equivalents	(117,837)	(94,986)	(118,602)	(96,499)	(51,574)
Short term debt	7,004	281	8,086	4,537	4,877
Long term debt *	12,500	12,500	4,500	23,000	24,725
Net debt	(98,333)	(82,205)	(106,017)	(68,962)	(21,972)
Deferred tax	-	-	-	-	-
Other liabilities	18,986	18,973	18,943	18,943	20,364
Total equity	509,138	490,686	543,831	496,634	476,614
Minority interests	-	-	-	-	-
Invested capital	429,791	427,455	456,757	446,616	475,006

* Includes convertibles and preferred stock which is being treated as debt

Per share (TWD)					
Book value per share	19.72	18.57	21.22	19.38	18.60
Tangible book value per share	19.72	18.57	21.22	19.38	18.60

Financial strength					
Net debt/equity (%)	(19.3)	(16.8)	(19.5)	(13.9)	(4.6)
Net debt/total assets (%)	(16.7)	(14.4)	(17.1)	(11.6)	(3.8)
Current ratio (x)	5.6	5.1	6.3	6.8	5.9
CF interest cover (x)	na	na	na	na	na

Valuation	2006A	2007A	2008E	2009E	2010E
Recurring P/E (x) *	8.4	10.0	10.8	36.0	28.3
Recurring P/E @ target price (x) *	8.5	10.1	10.9	36.3	28.5
Reported P/E (x)	8.4	10.0	10.8	36.0	28.3
Dividend yield (%)	5.7	7.0	7.2	7.2	7.3
P/CF (x)	5.4	5.8	5.9	9.1	8.3
P/FCF (x)	8.7	10.9	7.6	23.3	18.5
Price/book (x)	2.1	2.2	2.0	2.2	2.2
Price/tangible book (x)	2.1	2.2	2.0	2.2	2.2
EV/EBITDA (x) **	4.8	5.2	5.3	9.3	8.3
EV/EBITDA @ target price (x) **	4.9	5.2	5.4	9.4	8.3
EV/invested capital (x)	2.3	2.4	2.1	2.2	2.2

* Pre exceptional, pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non-operating income

Sources: TSMC; BNP Paribas estimates

BNP Paribas Technology Research Team

Johnny Chen

Head of Technology Research
BNP Paribas Securities (Taiwan) Co Ltd
(886 2) 2175 7059
johnny.c.chen@asia.bnpparibas.com

Peter Yu, CFA

Semiconductors, Displays, Handsets
BNP Paribas Securities Korea Co Ltd
(82 2) 2125 0535
peter.yu@asia.bnpparibas.com

Nick Ahn

Downstream Technology
BNP Paribas Securities Korea Co Ltd
(82 2) 2125 0537
nick.ahn@asia.bnpparibas.com

Abhiram Eleswarapu

Software & Services
BNP Paribas Securities India Pvt Ltd
(91 22) 6650 1684
abhiram.eleswarapu@asia.bnpparibas.com

Rick Chen

Research Associate
BNP Paribas Securities (Taiwan) Co Ltd
(886 2) 2175 7065
rick.chen@asia.bnpparibas.com

Eric Chen

Foundry, IC Design, DRAM
BNP Paribas Securities (Taiwan) Co Ltd
(886 2) 2175 7057
eric.chen@asia.bnpparibas.com

Skye Chen

Handsets/LED/DRAM
BNP Paribas Securities (Taiwan) Co Ltd
(886 2) 2175 7052
skye.chen@asia.bnpparibas.com

Patty Liu

PC/Downstream
BNP Paribas Securities (Taiwan) Co Ltd
(886 2) 2175 7049
patty.liu@asia.bnpparibas.com

Christie Lai

Research Associate
BNP Paribas Securities (Taiwan) Co Ltd
(886 2) 2175 7058
christie.lai@asia.bnpparibas.com

Sara Lim

Research Associate
BNP Paribas Securities Korea Co Ltd
(82 2) 2125 0541
sara.lim@asia.bnpparibas.com

Szeho Ng, CFA

Packaging & Testing, Foundry, Displays
BNP Paribas Securities (Asia) Ltd
(852) 2825 1167
szeho.ng@asia.bnpparibas.com

Frederick Wong, CFA

Handsets
BNP Paribas Securities (Asia) Ltd
(852) 2825 1801
frederick.wong@asia.bnpparibas.com

Damien Chua, CFA

Electronic Equipment
BNP Paribas Securities (Singapore) Pte Ltd
Co. Reg. No. 199801966C
(65) 6210 1958
damien.chua@asia.bnpparibas.com

Chris Lin

Research Associate
BNP Paribas Securities (Taiwan) Co Ltd
(886 2) 2175 7056
chris.lin@asia.bnpparibas.com

Tapan Joshi

Research Associate
BNP Paribas Securities India Pvt Ltd
(91 22) 6628 2408
tapan.joshi@asia.bnpparibas.com

DISCLAIMERS & DISCLOSURES

This report was produced by a member company of the BNP Paribas Group ("Group"). This report is for the use of intended recipients only and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without our prior written consent. By accepting this report, the recipient agrees to be bound by the terms and limitations set out herein.

The information contained in this report has been obtained from public sources believed to be reliable and the opinions contained herein are expressions of belief based on such information. No representation or warranty, express or implied, is made that such information or opinions is accurate, complete or verified and it should not be relied upon as such. This report does not constitute a prospectus or other offering document or an offer or solicitation to buy or sell any securities or other investments. Information and opinions contained in this report are published for reference of the recipients and are not to be relied upon as authoritative or without the recipient's own independent verification or taken in substitution for the exercise of judgement by the recipient. All opinions contained herein constitute the views of the analyst(s) named in this report, they are subject to change without notice and are not intended to provide the sole basis of any evaluation of the subject securities and companies mentioned in this report. Any reference to past performance should not be taken as an indication of future performance. No member company of the Group accepts any liability whatsoever for any direct or consequential loss arising from any use of the materials contained in this report.

The analyst(s) named in this report certifies that (i) all views expressed in this report accurately reflect the personal views of the analyst(s) with regard to any and all of the subject securities and companies mentioned in this report and (ii) no part of the compensation of the analyst(s) was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed herein.

This report is prepared for professional investors and is being distributed in Hong Kong by BNP Paribas Securities (Asia) Limited to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent. BNP Paribas Securities (Asia) Limited, a subsidiary of BNP Paribas, is regulated by the Securities and Futures Commission for the conduct of dealing in securities and advising on securities. This report is being distributed in the United Kingdom by BNP Paribas London Branch to persons who are not private customers as defined under U.K. securities regulations. BNP Paribas London Branch, a branch of BNP Paribas, is regulated by the Financial Services Authority for the conduct of its designated investment business in the U.K. This report is being distributed in the United States by BNP Paribas Securities (Asia) Limited and is intended for distribution in the United States only to "major institutional investors" (as such term is defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) and is not intended for the use of any person or entity that is not a major institutional investor. Major institutional investors receiving this report should effect transactions in securities discussed in the report through BNP Paribas Securities Corp. BNP Paribas Securities Corp. is a member of the New York Stock Exchange, the National Association of Securities Dealers and the Securities Investor Protection Corporation. Reproduction, distribution or publication of this report in any other places or to persons to whom such distribution or publication is not permitted under the applicable laws or regulations of such places is strictly prohibited.

Information on Taiwan listed stocks is distributed in Taiwan by BNP Paribas Securities (Taiwan) Co., Ltd.

Distribution or publication of this report in any other places to persons which are not permitted under the applicable laws or regulations of such places is strictly prohibited.

Recommendation structure

All share prices are as at market close on 16 January 2009 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as $(\text{target price}^* - \text{current price}) / \text{current price}$. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

© 2009 BNP Paribas Group