

Morgan Stanley Asia Limited+

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Stock Rating
Underweight

Industry View
In-Line

Realtek Semiconductor Upside to 1Q Guidance, but We See Limited Catalysts for 2009

Investment conclusion: Although 1Q09 revenue guidance was better than expected, we remain Underweight on Realtek shares. We believe 1Q guidance is aggressive, margin will continue to erode, and we see downside to full-year 2009 estimates.

What's new: Realtek reported 4Q08 revs of NT\$3.08 million and EPS of -NT\$0.24. EPS downside surprise relative to our forecast of NT\$0.43 was a result of non-op losses from overseas subsidiaries and an inventory write-off. The company guided for 1Q09 revenues to be flat to up, better than expectations, with margins back down from the fourth quarter's level of 44%.

Where we differ: Although 1Q09 revenue guidance is better than our expectations (and consensus'), we note three facts. 1. Realtek missed its 4Q08 guidance significantly and the 1Q09 guidance requires steep M/M growth from reported January sales. 2. Realtek saw one of the worst 4Q08 declines and thus 1Q is off of easy comps. 3. Even if the company makes guidance, 1Q09 would still decline by 30% Y/Y, one of the worst in our coverage. Given that pricing pressure persists, we do not have confidence in the new products, and the stock looks expensive at 22.8x our 2009 EPS estimate; hence, we remain Underweight on the stock.

Key Ratios and Statistics

Reuters: 2379.TW Bloomberg: 2379 TT

Taiwan IC Design

Price target	NT\$22.00
Upside to price target (%)	(38)
Shr price, close (Feb 3, 2009)	NT\$35.70
52-Week Range	NT\$102.94-27.10
Sh out, dil, curr (mn)	469
Mkt cap, curr (mn)	NT\$16,730
EV, curr (mn)	NT\$3,401
Avg daily trading volume (mn)	NT\$465

Fiscal Year ending	12/07	12/08e	12/09e	12/10e
ModelWare EPS (NT\$)	2.06	1.91	1.56	2.00
Prior ModelWare EPS (NT\$)	-	2.57	1.57	1.73
Consensus EPS (NT\$)§	3.46	2.80	3.01	3.07
Revenue, net (NT\$ mn)	15,709	16,744	12,908	13,194
EBITDA (NT\$ mn)	3,659	2,823	1,589	1,557
ModelWare net inc (NT\$ mn)	1,193	884	725	931
P/E	53.7	16.6	22.8	17.8
P/BV	3.0	0.9	1.0	1.0
RNOA (%)	41.9	55.7	18.3	21.4
ROE (%)	5.8	5.4	4.5	5.7
EV/EBITDA	10.0	1.2	2.8	2.6
Div yld (%)	2.3	9.2	4.7	4.4
FCF yld ratio (%)	7.2	5.8	8.8	5.7
Leverage (EOP) (%)	(80.7)	(71.0)	(75.8)	(76.5)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

§ = Consensus data is provided by FactSet Estimates.

e = Morgan Stanley Research estimates

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Realtek Semiconductor

Realtek Semiconductor: Financial Summary

NT\$ million; Years Ending December

Income Statements

NT\$m (Years End Dec)	2007	2008E	2009E	2010E
Net sales	15,709	16,744	12,908	13,194
COGS	(8,299)	(9,663)	(7,685)	(7,999)
Gross profit	7,410	7,082	5,223	5,195
Operating expenses	(3,844)	(4,713)	(4,088)	(4,073)
Operating income	3,566	2,369	1,135	1,123
Non-operating income	(1,597)	(1,453)	(350)	(100)
Pre-tax income	1,969	915	785	1,023
Income tax	(92)	208	136	159
Net Income bf. emp. bonus	1,877	1,123	921	1,182
Employee bonus expense	683	239	196	251
Reported net income	1,877	884	725	931
Adj.wtd.avg.shrs(m)	580	464	464	464
Reported EPS (NT\$)	3.23	1.91	1.56	2.00
Modelware EPS (HK\$)	2.06	1.91	1.56	2.00

Balance Sheets

NT\$m (Years End Dec)	2007	2008E	2009E	2010E
Cash	5,204	7,351	8,218	8,676
Mkt Securities	1,943	743	743	743
AR/NR	2,064	2,064	1,591	1,627
Inventory	1,481	2,661	2,051	2,097
Other	333	333	333	333
Current Assets	11,024	13,152	12,936	13,475
Long-term investments	6,183	3,333	3,333	3,333
Fixed assets	2,363	2,620	2,618	2,580
Deffered assets	959	959	959	959
Other assets	505	505	505	505
Total Assets	21,033	20,568	20,351	20,852
S/T borrowings	0	0	0	0
AP/NP	1,754	1,721	1,369	1,424
Other ST liabilities	2,614	2,614	2,614	2,614
LT debt	0	0	0	0
Other LT liabilities	147	147	147	147
Common shares	4,525	4,525	4,525	4,525
Total Liabilities	4,515	4,482	4,130	4,186
Additional capital	6,949	6,949	6,949	6,949
Retained earning	468	36	171	616
Other shareholders' equity	4,576	4,576	4,576	4,576
Total Equity	16,518	16,086	16,221	16,666
Total Liab. & Shrhldr's Equity	21,033	20,568	20,351	20,852

Reported EPS do not include the employee bonus before 2008

E = Morgan Stanley Research Estimates

Source: Morgan Stanley Research, Company Data

Cash Flow Statements

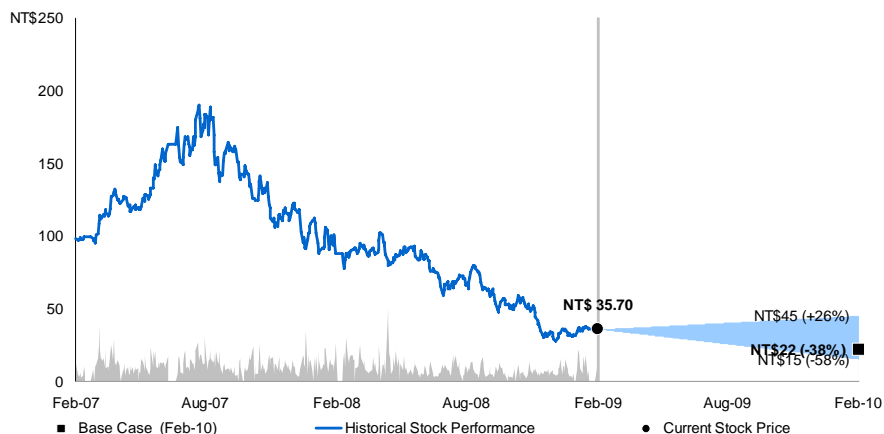
NT\$m (Years End Dec)	2007	2008E	2009E	2010E
Cashflow from Operations	4,780	3,172	2,105	1,591
Net profits	1,877	1,123	921	1,182
Depreciation	502	454	454	434
Working Capital Change	157	(1,214)	730	(25)
Other adjustments	2,244	2,808	0	0
Cashflow from Investing	(1,491)	530	(452)	(396)
Capex	(659)	(670)	(452)	(396)
Change of LT Investment	(1,081)	0	0	0
Change of ST Investment	440	1,200	0	0
Other adjustments	(192)	0	0	0
Cashflow from financing	(5,732)	(1,555)	(786)	(737)
Increase in L/T debt	0	0	0	0
Increase in S/T debt	0	0	0	0
Cash Dividend Paid	(1,463)	(1,358)	(786)	(737)
Dir& Emp Bonus Paid	(88)	(197)	0	0
Issuance of stock	(4,181)	0	0	0
Other adjustments	0	0	0	0
Exchange rate adjustment	0	0	0	0
Net change in cash	-2,443	2,147	867	458

Financial Ratios

	2007	2008E	2009E	2010E
Growth(%)				
Turnover	26.4	6.6	-22.9	2.2
Operating profits	28.0	-33.6	-52.1	-1.1
Pretax profits	-28.3	-53.5	-14.2	30.2
Net profits	-30.8	-52.9	-18.0	28.3
EPS	24.1	-7.3	-18.0	28.3
Margins (%)				
Gross Margin	47.2	42.3	40.5	39.4
Operating Margin	22.7	14.1	8.8	8.5
Pretax Margin	12.5	5.5	6.1	7.8
Net Profit	11.9	5.3	5.6	7.1
Return (%)				
ROAE	10.1	5.4	4.5	5.7
ROAA	8.6	4.3	3.5	4.5
Gearing (%)				
Net Debt/Equity	(31.5)	(45.7)	(50.7)	(52.1)
Liabilities/Equity	27.3	27.9	25.5	25.1
Ratios (X)				
Current ratio	2.5	3.0	3.2	3.3
Quick ratio	1.7	2.2	2.5	2.6
Others				
AR/NR Turnover (days)	44	45	45	45
Inventory Turnover (days)	63	58	58	58
AP Turnover (days)	67	65	65	65
Cash Conversion (days)	40	38	38	38

Risk-Reward Snapshot: Realtek (2379.TW, NT\$35.7, UW, PT NT\$22.00)

Risk/Reward Not Attractive: Limited Scope for Core/New Business



Investment Thesis

- Realtek is a leader in several types of PC-related chips, and market share gains in the past few years have been impressive. However, we believe opportunities in its core business are now limited and we see little traction for new products. We view the large exposure to PC-related products as a negative, given the weaker PC demand forecast for 2009.
- The downside risk to estimates is a further negative.
- Given the weak macro environment expected in 2009, we think some cost savings will be offset by ASP erosion due to margin pressure from customers.

Key Value Drivers

- PC industry growth.
- Market share gains in PC segments.
- Gross margin improvement.
- Diversification into non-PC markets.

Potential Catalysts

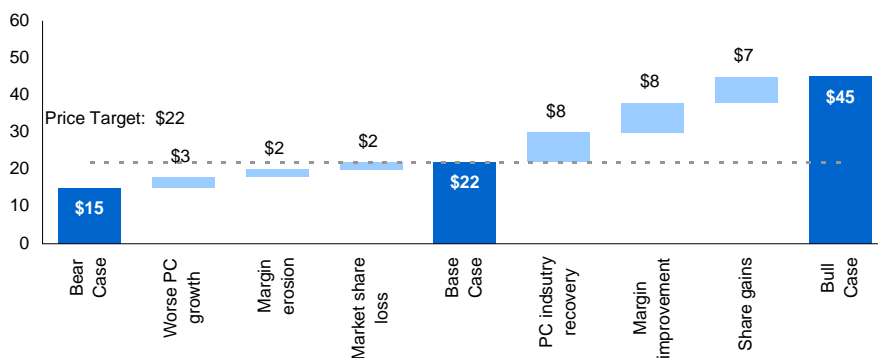
- Recovery in PC industry.
- Margin improvement.
- New design wins.

Upside Risks

- Better or earlier than expected recovery in PC demand.
- Market share gains in new products and/or successful protection of Ethernet and audio codec market shares.
- Less severe margin erosion because of more effective cost-cutting and a healthy pricing environment.
- Successful diversification into handset and consumer applications.

Price Target NT\$22.00	Derived from Residual Income model	
Bull Case NT\$45.00	RI model	Sustainable growth momentum; PC industry flat in 2009. Realtek is able to protect its current market shares and gain more orders for gigabit. Ethernet, WLAN, and LCD monitors. Gross margin is sustained above 43%. Realtek successfully diversifies into other consumer electronics markets.
Base Case NT\$22.00	RI model	Market saturated; PC industry contracts 10% Y/Y in 2009. There is not much upside in market share. Gross margin narrows to 39% because cost-reduction initiatives cannot totally offset price competition. For Realtek to generate significant revenue from non-PC segments would be a long shot.
Bear Case NT\$15.00	RI model	Market share loss; PC industry declines 20% Y/Y in 2009. Intense competition from both global and local competitors results in significant share loss and ASP erosion. Gross margin drops to 35%. Realtek is constrained to PC market, being unable to diversify into other consumer electronics markets.

Margin Growth and Market Share Gains on New Design Wins Are Key



Source: Morgan Stanley estimates.

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Realtek Semiconductor

Investment Case

Summary & Conclusions

Although 1Q09 revenue guidance was better than expected, we remain Underweight on Realtek shares. We believe 1Q guidance is aggressive, margin will continue to erode, and we see downside to full-year 2009 estimates.

4Q08 posts net loss due to non-op while 1Q09 guidance better than expected

Realtek reported 4Q08 revs of NT\$3.08 million and EPS of -NT\$0.24. EPS downside surprise relative to our forecast of NT\$0.43 was a result of non-op losses from overseas subsidiaries and an inventory write-off. Margins were better than expected, rising from 41% to 44% due to product mix. The company guided for 1Q09 revenues to be flat to up, better than expected due to customer inventory restocking in January and February. See Exhibit 1 for a summary of 4Q08 results.

Exhibit 1

Realtek 4Q08 MS Estimates vs. Actual

NT\$ mn	4Q08	3Q08	4Q07	QoQ	YoY	4Q08E	Diff.
Net sales	3,081	4,790	3,715	-2%	26%	3,107	-1%
COGS	1,725	2,807	2,000			1,822	
Gross profit (before bonus)	1,355	1,983	1,714	-2%	13%	1,285	5%
Operating expenses	995	1,359	1,042			1,020	
Operating profit (before bonus)	360	624	672	22%	13%	265	36%
Non-op. income (expense)	(477)	(81)	(1631)			(55)	
Pretax income	(117)	543	(959)	-119%	-89%	210	NM
Taxes	(7)	13	10			13	
Net income (excl. emp. bonus)	(139)	674	(968)	-121%	-85%	251	NM
Employee bonus expense	(30)	143	0			53	
Net income (incl. emp. bonus)	(110)	530	(968)	-121%	-88%	198	NM
Reported EPS	(0.24)	1.14	(1.67)	-121%	-85%	0.43	NM

Margins

	4Q08	3Q08	4Q07	4Q08
Gross margin	44.0%	41.4%	46.1%	41.4%
Operating margin	11.7%	13.0%	18.1%	8.5%
Pretax margin	-3.8%	11.3%	-25.8%	6.8%
Net margin	-4.5%	14.1%	-26.1%	8.1%
Opex %	32.3%	28.4%	28.1%	32.8%
Emp. bonus % of sales	-1.0%	3.0%	0.0%	1.7%

Source: Company data, Morgan Stanley Research

Limited progress so far on 11n

The company completed its single chip 1x2 802.11n WLAN chip in 4Q08 and indicated that it already has several design wins. Realtek has had an 11n offering since 1H08, although it is not competitive and has had limited design wins. The new single chip solution will compete against Atheros and Ralink's 1x1 11n chip, at a similar price point. Our view remains that penetration will be limited as many of the design wins have already taken place and competitors are now also very aggressive on pricing. Overall, we estimate that Realtek's market share in Wi-Fi can edge up slightly as the base was very low in 2008 for 802.11n (<3%).

1Q09 guidance not a reason to get positive

Although 1Q09 revenue guidance is better than our expectations (and consensus'), we note three facts.

1. Realtek missed its 4Q08 guidance significantly and the 1Q09 guidance requires a steep M/M growth from reported January sales.
2. Realtek had one of the worst 4Q08 declines among the IC design names and thus 1Q is off of easy comps.
3. Even if the company makes guidance, 1Q09 still declines by 30% Y/Y, one of the worst in our coverage. Given that pricing pressure persists, we do not have confidence in the new products, and the stock looks expensive at 22.8x our 2009 EPS estimate; hence, we remain Underweight on the stock.

Reiterate target price and Underweight rating

Our estimate revisions can be found in the table below. We maintain a 2009 EPS estimate of about NT\$1.56. We expect continued non-operating losses to offset the recent gross margin upside (a result of better mix). We continue to expect a slow recovery in 2H09, despite a slightly better 1Q09. For 2010, we revise our EPS estimates from NT\$1.73 to NT\$2.00 on improved margins from product mix and further cost reduction efforts. We maintain our target price of NT\$22, which represents 14x 2009E P/E.

Exhibit 2

Realtek 2009E MS Estimate Revisions

NT\$ mn	New '08E	Old '08E	Diff.	New '09E	Old '09E	Diff.
Net sales	16,744	16,771	-0.2%	12,908	12,991	-0.6%
COGS	9,663	9,760		7,685	7,854	
Gross profit	7,082	7,011	1.0%	5,223	5,137	1.7%
Operating expenses	4,713	4,737		4,088	4,127	
Operating profit	2,369	2,274	4.2%	1,135	1,010	12.3%
Non-op. income (expense)	(1,453)	(1,031)		(350)	(220)	
Pretax Income	915	1,242	-26.3%	785	790	-0.7%
Taxes	31	51		60	60	
Net income (excl. emp. bonus)	1,123	1,513	-25.8%	921	928	-0.7%
Employee bonus expense	239	322		196	197	
Net income (incl. emp. bonus)	884	1,192	-25.8%	725	730	-0.7%
Reported EPS	1.91	2.57	-25.8%	1.56	1.57	-0.7%

Margins

	New '08E	Old '08E	New '09E	Old '09E
Gross margin	42.3%	41.8%	40.5%	39.5%
Operating margin	14.1%	13.6%	8.8%	7.8%
Pretax margin	5.5%	7.4%	6.1%	6.1%
Net margin	6.7%	9.0%	7.1%	7.1%
Opex %	28.1%	28.2%	31.7%	31.8%
Emp. bonus % of sales	1.4%	1.9%	1.5%	1.5%

Source: Company data, Morgan Stanley Research

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Exhibit 3

Realtek: P&L Statement

NT\$ in million	1Q08	2Q08	3Q08	4Q08E	1Q09E	2Q09E	3Q09E	4Q09E	2005	2006	2007	2008E	2009E	2010E
Total Revenues	4,200	4,674	4,790	3,081	2,943	3,230	3,751	2,984	10,636	12,423	15,709	16,744	12,908	13,194
Sequential Change	13.1%	11.3%	2.5%	-35.7%	-4.5%	9.7%	16.1%	-20.5%						
Change vs Year Ago	29.5%	22.9%	-3.2%	-17.1%	-29.9%	-30.9%	-21.7%	-3.1%	14.2%	16.8%	26.4%	6.6%	-22.9%	2.2%
Cost of Sales	2,400	2,731	2,807	1,725	1,708	1,905	2,249	1,823	5,901	6,559	8,299	9,663	7,685	7,999
Percent of Revenues	57%	58%	59%	56%	58%	59%	60%	61%	55%	53%	53%	58%	60%	61%
Gross Margin	1,800	1,943	1,983	1,355	1,235	1,325	1,502	1,161	4,735	5,864	7,410	7,082	5,223	5,195
Percent of Revenues	42.9%	41.6%	41.4%	44.0%	42.0%	41.0%	40.0%	38.9%	44.5%	47.2%	47.2%	42.3%	40.5%	39.4%
Incremental Margin	18%	30%	34%	NM	NM	31%	34%	NM	65%	63%	47%	-32%	NM	-10%
Total Opex	1,175	1,184	1,359	995	969	1,015	1,112	992	2,612	3,078	3,844	4,713	4,088	4,073
Percent of Revenues	28.0%	25.3%	28.4%	32.3%	32.9%	31.4%	29.6%	33.3%	24.6%	24.8%	24.5%	28.1%	31.7%	30.9%
R&D	780	689	937	718	701	721	771	721	1,591	1,900	2,507	3,124	2,913	2,912
Percent of Revenues	18.6%	14.7%	19.6%	23.3%	23.8%	22.3%	20.5%	24.2%	15.0%	15.3%	16.0%	18.7%	22.6%	22.1%
General & administrative	135	217	119	86	82	90	105	84	298	384	291	557	361	343
Percent of Revenues	3.2%	4.6%	2.5%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	3.1%	1.9%	3.3%	2.8%	2.6%
Selling & marketing	260	278	303	191	185	203	236	188	723	793	1,046	1,032	813	818
Percent of Revenues	6.2%	5.9%	6.3%	6.2%	6.3%	6.3%	6.3%	6.3%	6.8%	6.4%	6.7%	6.2%	6.3%	6.2%
Operating Income	625	760	624	360	266	310	390	169	2,123	2,786	3,566	2,369	1,135	1,123
Percent of Revenues	14.9%	16.2%	13.0%	11.7%	9.0%	9.6%	10.4%	5.7%	20%	22%	23%	14%	9%	9%
Total Non-operating Income(Loss)	(31)	(865)	(81)	(477)	(135)	(105)	(55)	(55)	(214)	(39)	(1,597)	(1,453)	(350)	(100)
Profit Before Taxes	594	(105)	543	(117)	131	205	335	114	1,909	2,748	1,969	915	785	1,023
Percent of Revenues	14%	-2%	11%	-4%	4%	6%	9%	4%	18%	22%	13%	5%	6%	8%
Taxes	17	8	13	(7)	8	21	23	8	31	36	92	31	60	92
Tax Rate	2.9%	-7.6%	2.4%	6.0%	6.0%	10.0%	7.0%	7.0%	2%	1%	5%	3%	8%	9%
Net Income, Cont Ops	577	(113)	530	(110)	123	185	311	106	1,878	2,712	1,877	884	725	931
Percent of Revenues	14%	-2%	11%	-4%	4%	6%	8%	4%	18%	22%	22%	5%	6%	7%
Employee bonus expense	156	(31)	143	(30)	33	50	84	29	892	1,972	683	239	196	251
Reported Income (TW GAAP)	577	(113)	530	(110)	123	185	311	106	1,878	2,712	1,877	884	725	931
Percent of Revenues	14%	-2%	11%	-4%	4%	6%	8%	4%	18%	22%	12%	5%	6%	7%
Change vs Year Ago									11%	44%	-31%	-53%	-18%	28%
Reported EPS (NT\$, TW GAAP)	1.24	(0.24)	1.14	(0.24)	0.27	0.40	0.67	0.23	4.44	6.07	3.23	1.91	1.56	2.00
Change vs Year Ago	5%	-116%	-49%	-86%	-79%	-263%	-41%	-197%	10%	37%	-47%	-41%	-18%	28%

Source: Company data, Morgan Stanley Research

Exhibit 4

Realtek: RI model

Intrinsic Value Model	Inputs:	Outputs:	Value Breakdown	Residual Income (operating):	DCF (operating):									
Cost of equity	11.0%	WACC	19.5%	Beginning NOA	3,189									
Long-term ROE on new investments	12.5%	Long-term RNOA on new investments	14.4%	Sum of PVRI	1,210									
Explicit forecast period (years)	5	Price	35.70	Beginning NNOAL	9,123									
Years to reach steady-state growth	15	Conv. factor - Model to t	1.00	ROI equity value	12,489									
Steady-state revenue growth rate (%)	4%	Conv. factor - Millions	1,000	Residual Income (equity):										
Shares Outstanding	469	IV per share (Current)	Feb-09 21.61	Beginning equity	11,845									
Steady-state borrowing cost (net of tax)	-5.0%	IV Per Share (12 Month), Ex. Div	Feb-10 21.59	Sum of PVRI	1,677									
Steady-state leverage (Net debt/Equity)	-10%	Expected share price return	-39.54%	RI equity value	12,489									
Price target horizon (months)	12	Expected dividend yield	6.64%											
Fiscal Year Ending	12	Expected total return	-32.89%											
Option: Sum-Of-The-parts (SOTP) Valuation														
	F2008e	F2009e	F2010e	F2011e	F2012e	F2013e	F2014e	F2015e	F2016e	F2017e	F2018e	F2019e	F2020e	F2021e
Operating Level														
Operating revenue	16,993	13,918	14,206	14,134	16,181	18,355	20,628	22,967	25,330	27,671	29,938	32,077	34,033	35,751
Operating revenue growth		-18.1%	2.1%	-0.5%	14.5%	13.4%	12.4%	11.3%	10.3%	9.2%	8.2%	7.1%	6.1%	5.0%
Operating asset turnover	5.33	2.96	3.46	3.44	4.00	4.19	3.92	3.89	3.87	3.85	3.83	3.82	3.80	3.80
NOPAT	1,752	938	917	844	906	969	1,131	1,249	1,369	1,488	1,602	1,711	1,810	1,897
NOPAT margin	10.3%	6.7%	6.5%	6.0%	5.6%	5.3%	5.5%	5.4%	5.4%	5.4%	5.4%	5.3%	5.3%	5.3%
Net operating assets	4,696	4,111	4,104	4,040	4,385	5,260	5,903	6,552	7,196	7,819	8,407	8,945	9,418	9,811
RNOA	54.9%	20.0%	22.3%	20.6%	22.4%	22.1%	21.5%	21.2%	20.9%	20.7%	20.5%	20.3%	20.2%	20.1%
FCFO	245	1,523	925	908	561	94	488	600	725	864	1,014	1,173	1,337	1,504
PVFCFO	205	1,067	542	445	230	32	140	144	146	146	143	139	132	124
Residual income (operating)	1,131	23	116	44	119	115	106	99	92	85	79	73	67	62
PVRI (operating)	946	16	68	22	49	40	30	24	19	14	11	9	7	5
Financing and Other														
Net financial expense (income)	(155)	(158)	(173)	(173)	(173)	382	366	331	296	262	227	193	158	123
Other nonoperating expense (income)	(1,406)	(180)	(180)	(154)	(166)	(166)	(166)	(166)	(166)	(166)	(166)	(166)	(166)	(166)
Net debt (cash)	(7,182)	(7,865)	(7,960)	(7,898)	(7,648)	(7,325)	(6,615)	(5,926)	(5,240)	(4,549)	(3,852)	(3,154)	(2,460)	(1,780)
Other nonoperating liabilities (assets) (ONOLA)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leverage EOP (net debt/equity)	-60%	-66%	-66%	-66%	-64%	-58%	-53%	-47%	-42%	-37%	-31%	-26%	-21%	-15%
Equity Level														
Net income	3,313	1,276	1,271	1,171	1,245	753	931	1,085	1,239	1,392	1,541	1,684	1,818	1,940
Equity	11,878	11,976	12,064	11,938	12,032	12,585	12,518	12,478	12,435	12,368	12,260	12,093	11,878	11,591
ROE	28.0%	10.7%	10.6%	9.7%	10.4%	6.3%	7.4%	8.7%	9.9%	11.2%	12.5%	13.7%	15.0%	16.3%
Dividends and net rep	1,358	1,112	1,210	1,298	1,172	200	998	1,125	1,282	1,459	1,649	1,845	2,040	2,227
PV div and net rep	1,223	902	885	855	696	107	481	488	501	514	523	527	525	517
Residual income	88	(97)	(19)	(155)	(47)	(570)	(454)	(292)	(134)	24	181	336	488	634
PVRI	79	(78)	(14)	(102)	(28)	(305)	(219)	(127)	(52)	8	57	96	126	147

Source: Company data, Morgan Stanley Research

Company Description

Realtek Semiconductor is a fabless IC design company focused on the design of ICs for consumer electronics, computer systems/peripherals, and networking hardware. Its products include gigabit Ethernet controllers, wireless LAN ICs, audio codecs, and LCD monitor controllers. It is currently the leader in audio codecs, with 65% market share, a segment that is highly correlated to PC/NB growth.


Taiwan IC Design

Industry View: In-Line

MSCI Country: Taiwan

Asia Strategist's Recommended Weight: 10.9%

MSCI Asia/Pac All Country Ex Jp Weight: 11.0%

	<p>Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.</p>
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(as of January 31, 2009)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	773	33%	223	37%	29%
Equal-weight/Hold	1044	44%	266	44%	25%
Not-Rated/Hold	33	1.4%	8	1.3%	24.2%
Underweight/Sell	498	21%	101	17%	20%
Total	2,348		598		

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Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

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Industry Coverage: Taiwan IC Design

Company (Ticker)	Rating (as of)	Price (02/03/2009)
Charlie Chan		
Global Mixed-mode Technology (8081.TW)	U (09/30/2008)	NT\$100.5
Richtek (6286.TW)	E (12/03/2008)	NT\$140
Bill Lu		
MediaTek (2454.TW)	O (08/20/2007)	NT\$250
Ralink Technology (3534.TW)	E (12/05/2008)	NT\$71.6
Realtek Semiconductor (2379.TW)	U (12/05/2008)	NT\$35.7
Sunplus Technology (2401.TW)	U (03/27/2008)	NT\$12.7

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