



ACTION
Sell

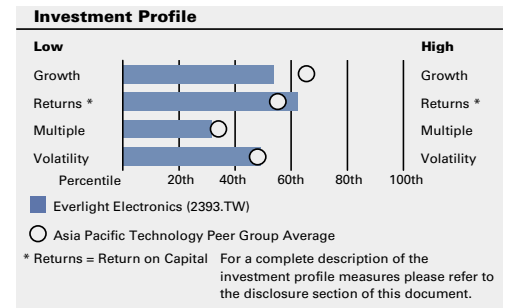
Everlight Electronics (2393.TW)

Return Potential: (21%)

Neo Neon profit warning: Negative implication for LED supply chain

Source of opportunity

Neo Neon (1868.HK; NC), the world's largest LED decorative lighting maker, on January 9 announced a profit warning suggesting considerably lower net profit in 2008 than 2007. We note that 1H08 net profit grew 30% yoy, which implies likely very weak 2H08 results. We believe this echoes our view that consumer-oriented LED products are experiencing severe pressure in this downturn. Moreover, we now believe it is possible that Everlight may book a non-operating loss in 4Q08 (equity investment loss and write-off of convertible bond revaluation gains from previous quarters), which would pose downside risk to our estimates and consensus. Reiterate Sell.



Catalyst

Neo Neon attributed the profit warning to a decrease in gross margins resulting from a sharp rise in raw material costs, rising labor costs and Rmb appreciation. Aside from these, we believe end demand weakness may serve as the root cause for weaker sector growth in 2009.

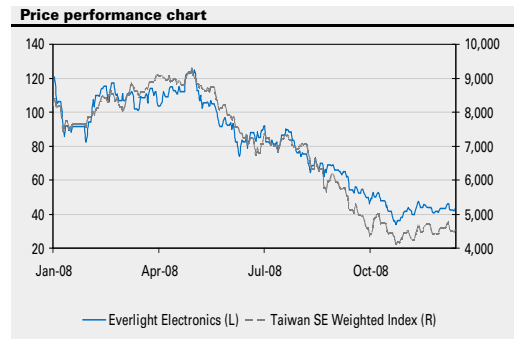
Everlight's actual 4Q08 sales were in line with our forecast, -17% qoq, on the back of weak end demand and unexpected order cancellations at customers. However, a non-operating loss in 4Q08 would have a significant impact on the bottom line, representing severe erosion from the 35% contribution of non-operating income to net earnings in 3Q08. This potential loss scenario is not reflected in our model or consensus yet, and may bring downside pressure on the share price, in our view. We expect 1Q09 sales to dip 21% qoq on limited order visibility and seasonal effect.

Key data	Current
Price (NT\$)	43.35
12 month price target (NT\$)	34.10
Market cap (NT\$ mn / US\$ mn)	15,674.7 / 471.7
Foreign ownership (%)	20.6

	12/07	12/08E	12/09E	12/10E
EPS (NT\$)	6.67	4.68	3.58	3.95
EPS growth (%)	12.4	(29.8)	(23.7)	10.6
EPS (diluted) (NT\$)	6.50	4.29	3.26	3.60
EPS (basic pre-ex) (NT\$)	6.67	4.68	3.58	3.95
P/E (X)	6.5	9.3	12.1	11.0
P/B (X)	1.4	1.4	1.4	1.4
EV/EBITDA (X)	15.9	6.6	8.3	7.2
Dividend yield (%)	9.4	9.9	7.5	5.8
ROE (%)	23.8	16.0	11.9	12.8

Valuation

Everlight currently trades at 12x/11x 2009E/2010E P/E on ROE of 12%13%. Our 12-month target price of NT\$34.1 is based on DCF valuation, which translates into 9.5x 2009E P/E and 1.1x 2009E P/B.



Key risks

Better end demand in LED market and more stable pricing trend.

INVESTMENT LIST MEMBERSHIP

Asia Pacific Sell List

Coverage View: Neutral

Taiwan:
Hardware

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Everlight Electronics: 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
Total revenue	9,852.7	11,299.6	9,334.6	10,663.3	Cash & equivalents	4,279.6	2,924.1	1,894.7	1,730.7
Cost of goods sold	(6,820.4)	(7,712.4)	(6,597.6)	(7,595.4)	Accounts receivable	2,966.5	3,402.2	2,810.5	3,210.6
SG&A	(664.7)	(1,409.7)	(1,133.6)	(1,255.3)	Inventory	767.9	874.2	672.6	774.1
R&D	(304.8)	(299.2)	(200.2)	(231.6)	Other current assets	1,196.6	1,196.6	1,196.6	1,196.6
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	9,337.2	8,523.6	6,701.0	7,038.6
ESO expense	--	(259.1)	(199.7)	(220.8)	Net PP&E	1,848.8	4,096.4	4,195.0	4,371.6
EBITDA	2,452.7	2,568.6	2,000.0	2,277.0	Net intangibles	0.0	0.0	0.0	0.0
Depreciation & amortization	(389.8)	(949.3)	(796.5)	(916.7)	Total investments	5,563.3	5,563.3	5,563.3	5,563.3
EBIT	2,062.9	1,619.3	1,203.5	1,360.3	Other long-term assets	250.7	250.7	250.7	250.7
Interest income	64.2	90.5	89.3	89.3	Total assets	17,000.0	18,433.9	16,710.0	17,224.2
Interest expense	(29.2)	(123.8)	(131.8)	(131.8)	Accounts payable	2,462.4	2,127.2	1,818.5	2,093.0
Income/(loss) from uncons. subs.	263.6	0.0	0.0	0.0	Short-term debt	0.0	1,469.7	0.0	0.0
Others	103.4	367.4	320.0	320.0	Other current liabilities	777.9	613.7	631.6	677.8
Pretax profits	2,464.9	1,953.4	1,481.0	1,637.9	Total current liabilities	3,240.3	4,210.6	2,450.1	2,770.9
Income tax	(254.9)	(259.4)	(177.7)	(196.5)	Long-term debt	2,924.6	2,729.4	2,648.4	2,312.8
Minorities	0.0	0.0	0.0	0.0	Other long-term liabilities	576.5	576.5	576.5	576.5
Net income pre-preferred dividends	2,210.0	1,694.0	1,303.3	1,441.3	Total long-term liabilities	3,501.1	3,305.9	3,224.9	2,889.3
Preferred dividends	0.0	0.0	0.0	0.0	Total liabilities	6,741.4	7,516.4	5,675.0	5,660.2
Net income (pre-exceptionals)	2,210.0	1,694.0	1,303.3	1,441.3	Preferred shares	0.0	0.0	0.0	0.0
Post-tax exceptionals	0.0	0.0	0.0	0.0	Total common equity	10,258.6	10,917.5	11,035.0	11,564.0
Net income	2,210.0	1,694.0	1,303.3	1,441.3	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, pre-exception) (NT\$)	6.67	4.68	3.58	3.95	Total liabilities & equity	17,000.0	18,433.9	16,710.0	17,224.2
EPS (basic, post-exception) (NT\$)	6.67	4.68	3.58	3.95	BVPS (NT\$)	30.97	30.19	30.28	31.73
EPS (diluted, post-exception) (NT\$)	6.50	4.29	3.26	3.60					
EPS excl. ESO expense (basic) (NT\$)	6.67	5.31	4.06	4.49					
EPS excl. ESO expense (dil.) (NT\$)	6.50	4.86	3.70	4.09					
DPS (NT\$)	4.06	4.31	3.25	2.50					
Dividend payout ratio (%)	60.8	91.9	91.0	63.3					
Free cash flow yield (%)	3.3	(7.7)	12.3	8.4					
					Ratios	12/07	12/08E	12/09E	12/10E
Growth & margins (%)	12/07	12/08E	12/09E	12/10E	ROE (%)	23.8	16.0	11.9	12.8
Sales growth	23.9	14.7	(17.4)	14.2	ROA (%)	14.9	9.6	7.4	8.5
EBITDA growth	16.4	4.7	(22.1)	13.9	ROACE (%)	30.6	16.3	11.2	12.4
EBIT growth	18.5	(21.5)	(25.7)	13.0	Inventory days	36.9	38.9	42.8	34.8
Net income growth	16.8	(23.3)	(23.1)	10.6	Receivables days	95.8	102.9	121.5	103.1
EPS growth	12.1	(29.8)	(23.7)	10.6	Payable days	116.5	108.6	109.1	94.0
Gross margin	30.8	31.7	29.3	28.8	Net debt/equity (%)	(13.2)	11.7	6.8	5.0
EBITDA margin	24.9	22.7	21.4	21.4	Interest cover - EBIT (X)	NM	48.6	28.4	32.0
EBIT margin	20.9	14.3	12.9	12.8					
					Valuation	12/07	12/08E	12/09E	12/10E
Cash flow statement (NT\$ mn)	12/07	12/08E	12/09E	12/10E	P/E (analyst) (X)	6.5	9.3	12.1	11.0
Net income pre-preferred dividends	2,210.0	1,694.0	1,303.3	1,441.3	P/B (X)	1.4	1.4	1.4	1.4
D&A add-back	389.8	949.3	796.5	916.7	EV/EBITDA (X)	15.9	6.6	8.3	7.2
Minorities interests add-back	0.0	0.0	0.0	0.0	Dividend yield (%)	9.4	9.9	7.5	5.8
Net (inc)/dec working capital	(348.7)	(877.1)	484.6	(227.1)					
Other operating cash flow	170.7	252.6	298.1	329.6					
Cash flow from operations	2,158.1	2,018.8	2,882.4	2,460.6					
Capital expenditures	(866.6)	(3,196.9)	(895.1)	(1,093.4)					
Acquisitions	(1,624.0)	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	(1,231.9)	134.4	0.0	0.0					
Cash flow from investments	(3,722.5)	(3,062.6)	(895.1)	(1,093.4)					
Dividends paid (common & pref)	(1,344.5)	(1,556.9)	(1,185.8)	(912.3)					
Inc/(dec) in debt	3,000.0	1,274.5	(1,550.6)	(335.6)					
Common stock issuance (repurchase)	0.0	134.8	(298.1)	(329.6)					
Other financing cash flows	(166.9)	(164.2)	17.9	46.2					
Cash flow from financing	1,488.6	(311.7)	(3,016.6)	(1,531.3)					
Total cash flow	(75.8)	(1,355.5)	(1,029.3)	(164.1)					

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

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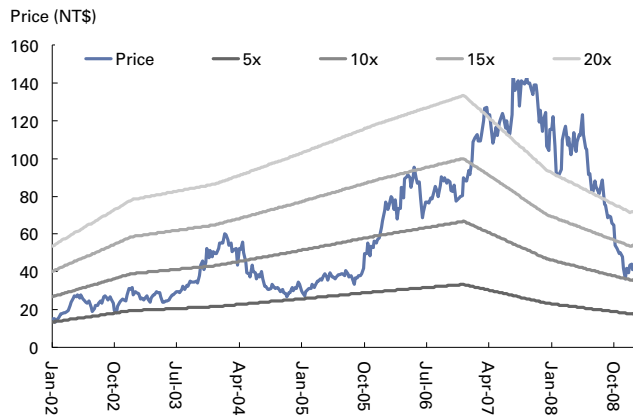
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Exhibit 1: GS vs. consensus estimates

Everlight (2393.TW) Summary P&L (NT\$m)	4Q08E			1Q09E		
	GSe	Consensus	Diff.	GSe	Consensus	Diff.
Revenues	2,536	2,695	-6%	2,011	2,579	-22%
Operating profits	327	311	5%	249	342	-27%
Net earnings	341	343	-1%	280	324	-14%

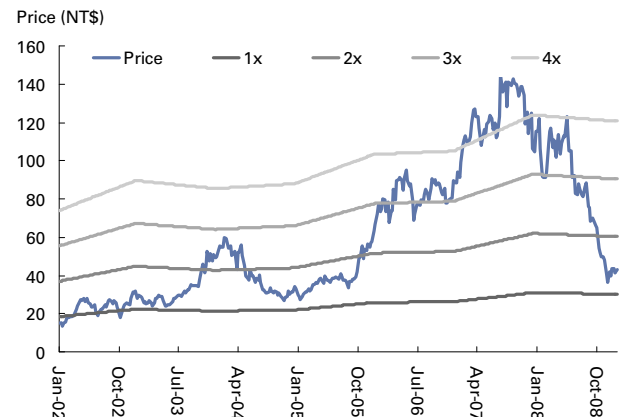
Source: Bloomberg, Goldman Sachs Research estimates.

Exhibit 2: Everlight's forward P/E band



Source: Company data, Goldman Sachs Research estimates.

Exhibit 3: Everlight's trailing P/B band



Source: Company data, Goldman Sachs Research estimates.

Exhibit 4: Everlight's P/L assumptions (in NT\$m)

Summary P&L	1Q2008	2Q2008	3Q2008	4Q2008E	1Q2009E	2Q2009E	3Q2009E	4Q2009E	2007	2008E	2009E	2010E
Net sales	2,827	2,878	3,059	2,536	2,011	2,159	2,438	2,727	9,853	11,300	9,335	10,663
Cost of good sold (COGS)	(1,826)	(2,060)	(2,126)	(1,752)	(1,440)	(1,540)	(1,730)	(1,927)	(6,820)	(7,764)	(6,638)	(7,640)
Gross profits	1,001	819	933	783	571	619	707	800	3,032	3,535	2,697	3,024
Operating expenses	(429)	(481)	(550)	(456)	(322)	(345)	(390)	(436)	(969)	(1,916)	(1,494)	(1,663)
SG&A	(336)	(373)	(440)	(365)	(261)	(281)	(317)	(354)	(665)	(1,513)	(1,213)	(1,344)
R&D	(93)	(108)	(110)	(91)	(60)	(65)	(73)	(82)	(305)	(403)	(280)	(320)
Operating profits	571	338	383	327	249	273	317	364	2,063	1,619	1,203	1,360
Non-operating income/(loss)	(132)	227	170	69	69	69	69	69	402	334	278	278
Earnings before tax (EBT)	439	565	553	397	318	343	387	433	2,465	1,953	1,481	1,638
Income tax credit/(expense)	(80)	(58)	(66)	(56)	(38)	(41)	(46)	(52)	(255)	(259)	(178)	(197)
Extraordinary gain/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
Earnings after tax (EAT)	359	506	487	341	280	302	340	381	2,210	1,694	1,303	1,441
EPS (NT\$)	1.02	1.39	1.34	0.94	0.77	0.83	0.93	1.05	6.67	4.68	3.58	3.95
EPS (fully diluted, NT\$)	0.95	1.27	1.22	0.85	0.70	0.75	0.85	0.95	6.50	4.29	3.26	3.60
Ratio analysis and assumptions												
Gross margin	35.4%	28.4%	30.5%	30.9%	28.4%	28.7%	29.0%	29.3%	30.8%	31.3%	28.9%	28.4%
Operating expense ratio	-15.2%	-16.7%	-18.0%	-18.0%	-16.0%	-16.0%	-16.0%	-16.0%	-9.8%	-17.0%	-16.0%	-15.6%
Operating margin	20.2%	11.7%	12.5%	12.9%	12.4%	12.7%	13.0%	13.3%	20.9%	14.3%	12.9%	12.8%
Pre-tax margin	15.5%	19.6%	18.1%	15.6%	15.8%	15.9%	15.9%	15.9%	25.0%	17.3%	15.9%	15.4%
Tax rate (as % of EBT)	18.2%	10.4%	11.9%	14.0%	12.0%	12.0%	12.0%	12.0%	10.3%	13.3%	12.0%	12.0%
Net margin	12.7%	17.6%	15.9%	13.5%	13.9%	14.0%	14.0%	14.0%	22.4%	15.0%	14.0%	13.5%

Note: COGS excludes employee bonus expense

Source: Company data, Goldman Sachs Research estimates.

Reg AC

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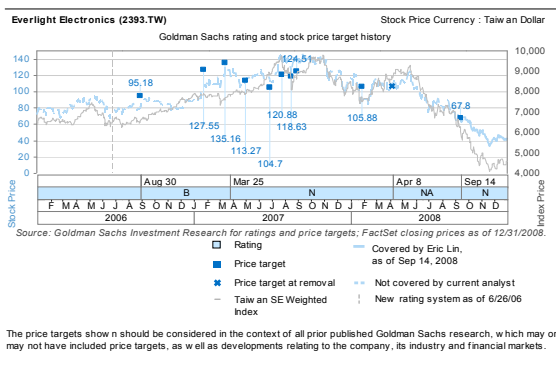
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Price target and rating history chart(s)



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Definitions

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