

COMPANY UPDATE

Nanya PCB (8046.TW)

Sell

Likely bottom in 1Q; outlook shadowed by key swing factors

What's changed

Nanya PCB reported dismal Jan-09 sales result at NT\$967mn (down 49% mom and 74% yoy), representing only 16% of our original 1Q09 revenue estimate. On the other hand, Nanya PCB's alliance partner NGK Spark Plug recently has cut its guidance and suggested that its flip chip (FC) line may see widened operating loss to ¥8 bn for the Mar-09 quarter.

Implications

Our industry checks suggest that Nanya's FC shipment may have dropped to about 10mn or below for January (vs. normal run rate of 20mn+/mth), mainly driven by dormant order flow for CPU and chipset lines. Expecting also sluggish Feb-09, however, we think its fundamentals are bottoming in 1Q09, as we believe the shipment volume has largely undershot real demand and should start to rebound in 2Q09. However, we continue to consider NGK's moves as the key swing factors to Nanya's performance and outlooks – we believe NGK has reduced outsourcing to Nanya and will continue such a strategy to protect its own utilization level, and our Japan tech component analyst Daiki Takayama also continues to expect NGK management to announce exit strategies for its FC business, which (if it does so) would largely impact Nanya's FC business outlook. Even with the absence of NGK's restructuring plans, we expect Intel's 2nd-gen. Nehalem platform launch (likely end '09 or early '10) will drain Nanya's Northbridge FC revenue and its CPU FC business is likely to be capped by its alliance agreement with NGK.

Valuation

We maintain our '08E estimates but cut our '09E-'11E sales and EPS forecasts by 2%-19% upon the poor Jan-09 result and potentially longer than we originally expected recovery. We maintain our Sell rating and 12m TP of NT\$50, based on 7X next-12-month P/E.

Key risks

Risks: Faster and greater than we originally expected order recovery.

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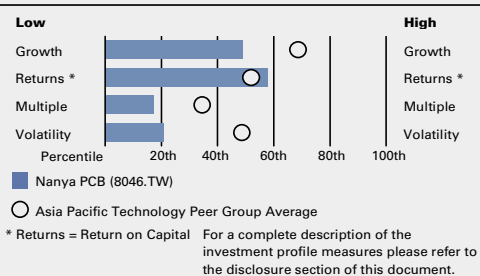
Asia Pacific Sell List

Coverage View: Neutral

Taiwan:
Semiconductors

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Investment Profile



Key data	Current
Price (NT\$)	63.00
12 month price target (NT\$)	50.00
Market cap (NT\$ mn / US\$ mn)	38,943.2 / 1,154.7
Foreign ownership (%)	8.1

	12/07	12/08E	12/09E	12/10E
EPS (NT\$) New	13.94	10.53	5.75	6.80
EPS revision (%)	0.0	0.0	(18.9)	(2.2)
EPS growth (%)	(19.0)	(24.4)	(45.4)	18.2
EPS (dil) (NT\$) New	13.91	10.52	5.74	6.79
P/E (X)	4.5	6.0	11.0	9.3
P/B (X)	1.0	1.1	1.1	1.0
EV/EBITDA (X)	11.2	3.7	5.5	4.7
Dividend yield (%)	19.9	8.4	6.4	8.6
ROE (%)	21.6	17.6	9.9	11.4

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(18.3)	(58.3)	(59.4)
Rel. to Taiwan SE Weighted Index	(14.2)	(34.4)	(30.2)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2/06/2009 close.

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Nanya PCB: 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	38,703.9	37,298.8	24,868.3	27,131.2	Cash & equivalents	5,107.1	5,375.0	5,617.6	8,256.7
Cost of goods sold	(29,355.9)	(29,745.0)	(20,525.5)	(22,365.7)	Accounts receivable	9,407.6	6,289.3	7,827.7	7,373.3
SG&A	(1,410.0)	(1,273.1)	(1,060.4)	(1,017.3)	Inventory	2,871.7	2,324.9	3,169.0	2,881.4
R&D	0.0	0.0	0.0	0.0	Other current assets	8,352.3	8,093.7	7,963.3	8,049.8
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	25,738.6	22,082.9	24,577.6	26,561.2
ESO expense	0.0	(1.9)	(3.6)	(4.2)	Net PP&E	9,735.8	8,935.9	6,961.2	5,367.2
EBITDA	10,693.6	8,956.1	6,003.2	6,427.4	Net intangibles	24.6	78.5	78.5	78.5
Depreciation & amortization	(2,755.6)	(2,675.3)	(2,720.8)	(2,679.3)	Total investments	0.0	0.0	0.0	0.0
EBIT	7,938.1	6,280.8	3,282.4	3,748.2	Other long-term assets	1.7	1.7	1.7	1.7
Interest income	407.2	326.1	339.6	369.5	Total assets	44,677.2	40,117.9	41,180.0	42,511.1
Interest expense	(102.6)	(2.6)	(4.0)	(4.0)	Accounts payable	2,520.3	1,687.8	2,371.4	2,142.9
Income/(loss) from uncons. subs.	1,301.0	977.2	542.1	941.4	Short-term debt	0.0	0.0	0.0	0.0
Others	511.9	360.0	200.0	160.0	Other current liabilities	2,409.0	1,346.4	1,424.8	1,272.0
Pretax profits	10,055.6	7,941.6	4,360.1	5,215.1	Total current liabilities	4,929.3	3,034.2	3,796.1	3,414.9
Income tax	(1,521.1)	(1,431.4)	(804.8)	(1,014.2)	Long-term debt	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	Other long-term liabilities	1,238.4	1,427.7	1,427.7	1,427.7
Net income pre-preferred dividends	8,534.5	6,510.2	3,555.3	4,201.0	Total long-term liabilities	1,238.4	1,427.7	1,427.7	1,427.7
Preferred dividends	0.0	0.0	0.0	0.0	Total liabilities	6,167.7	4,462.0	5,223.9	4,842.6
Net income (pre-exceptionals)	8,534.5	6,510.2	3,555.3	4,201.0	Preferred shares	0.0	0.0	0.0	0.0
Post-tax exceptionals	0.0	0.0	0.0	0.0	Total common equity	38,509.5	35,656.0	35,956.2	37,668.4
Net income	8,534.5	6,510.2	3,555.3	4,201.0	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, pre-except) (NT\$)	13.94	10.53	5.75	6.80	Total liabilities & equity	44,677.2	40,117.9	41,180.0	42,511.1
EPS (basic, post-except) (NT\$)	13.94	10.53	5.75	6.80	BVPS (NT\$)	62.88	57.68	58.17	60.94
EPS (diluted, post-except) (NT\$)	13.91	10.52	5.74	6.79					
EPS excl. ESO expense (basic) (NT\$)	13.94	10.54	5.76	6.80					
EPS excl. ESO expense (dil.) (NT\$)	13.91	10.52	5.75	6.79					
DPS (NT\$)	12.54	5.27	4.03	5.44					
Dividend payout ratio (%)	90.0	50.0	70.0	80.0					
Free cash flow yield (%)	5.0	21.5	9.8	14.1					
Growth & margins (%)	12/07	12/08E	12/09E	12/10E	Ratios	12/07	12/08E	12/09E	12/10E
Sales growth	6.2	(3.6)	(33.3)	9.1	ROE (%)	21.6	17.6	9.9	11.4
EBITDA growth	(18.5)	(16.2)	(33.0)	7.1	ROA (%)	18.5	15.4	8.7	10.0
EBIT growth	(24.9)	(20.9)	(47.7)	14.2	ROACE (%)	25.1	19.4	10.6	12.8
Net income growth	(16.7)	(23.7)	(45.4)	18.2	Inventory days	33.6	31.9	48.8	49.4
EPS growth	(19.0)	(24.4)	(45.4)	18.2	Receivables days	81.0	76.8	103.6	102.3
Gross margin	24.2	20.3	17.5	17.6	Payable days	34.2	25.8	36.1	36.8
EBITDA margin	27.6	24.0	24.1	23.7	Net debt/equity (%)	(16.3)	(15.7)	(16.2)	(22.5)
EBIT margin	20.5	16.8	13.2	13.8	Interest cover - EBIT (X)	NM	NM	NM	NM
					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)	4.5	6.0	11.0	9.3
Net income pre-preferred dividends	8,534.5	6,510.2	3,555.3	4,201.0	P/B (X)	1.0	1.1	1.1	1.0
D&A add-back	2,755.6	2,675.3	2,720.8	2,679.3	EV/EBITDA (X)	11.2	3.7	5.5	4.7
Minorities interests add-back	0.0	0.0	0.0	0.0	Dividend yield (%)	19.9	8.4	6.4	8.6
Net (inc)/dec working capital	(2,433.4)	2,832.6	(1,699.0)	513.6					
Other operating cash flow	(689.8)	(2,129.5)	(333.4)	(1,180.7)					
Cash flow from operations	8,141.1	9,869.8	4,243.7	6,213.1					
Capital expenditures	(2,107.6)	(1,827.5)	(746.0)	(1,085.2)					
Acquisitions	(217.4)	(805.2)	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	171.3	(249.2)	0.0	0.0					
Cash flow from investments	224.3	(1,921.8)	(746.0)	(1,085.2)					
Dividends paid (common & pref)	(9,045.8)	(7,672.3)	(3,255.1)	(2,488.7)					
Inc/(dec) in debt	(1,088.0)	0.0	0.0	0.0					
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0					
Other financing cash flows	(16.3)	(18.4)	0.0	0.0					
Cash flow from financing	(11,387.7)	(7,690.7)	(3,255.1)	(2,488.7)					
Total cash flow	(3,015.5)	268.0	242.5	2,639.1					

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

Analyst Contributors

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Exhibit

Exhibit 1: Goldman Sachs forecast revisions

Parent-only financials (NT\$ mn)	Revised 2009E	Original 2009E	Difference
Revenue	24,868	30,313	-18.0%
Gross profits	4,343	5,360	-19.0%
Operating profits	3,282	4,271	-23.1%
Pretax earnings	4,360	5,374	-18.9%
Net earnings	3,555	4,381	-18.9%
Basic EPS (NT\$)	5.75	7.09	-18.9%
Gross margin	17.5%	17.7%	
Operating margin	13.2%	14.1%	
Net margin	14.3%	14.5%	

Parent-only financials (NT\$ mn)	Revised 2010E	Original 2010E	Difference
Revenue	27,131	28,444	-4.6%
Gross profits	4,765	4,821	-1.2%
Operating profits	3,748	3,859	-2.9%
Pretax earnings	5,215	5,333	-2.2%
Net earnings	4,201	4,296	-2.2%
Basic EPS (NT\$)	6.80	6.95	-2.2%
Gross margin	17.6%	17.0%	
Operating margin	13.8%	13.6%	
Net margin	15.5%	15.1%	

Parent-only financials (NT\$ mn)	Revised 2011E	Original 2011E	Difference
Revenue	29,080	30,175	-3.6%
Gross profits	4,858	4,885	-0.6%
Operating profits	3,792	3,886	-2.4%
Pretax earnings	5,244	5,362	-2.2%
Net earnings	4,119	4,211	-2.2%
Basic EPS (NT\$)	6.66	6.81	-2.2%
Gross margin	16.7%	16.2%	
Operating margin	13.0%	12.9%	
Net margin	14.2%	14.0%	

Source: Goldman Sachs Research estimates.

Reg AC

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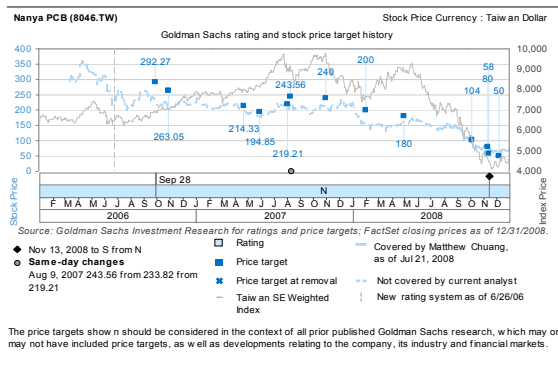
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