

## Hon Hai Precision

2009 operating environment stays tough; capital raising an added concern

- 2009 to be another tough year; stay Neutral:** With high exposure to corporate market (desktops, networking) and discretionary consumer products (MP3 player, game console, DSC), we expect Hon Hai's earnings to decline sharply in 2009. In addition, weaker end markets and loosening labor supply in China should make the benefits of new low-cost locations less attractive. Working capital issues also continue to weigh down the near-term outlook, leading to potential dilutive fund raising. We cut FY09/10E EPS by 13/12% and reduce our DCF based Jun-09 PT to NT\$58. Key risk is sharp recovery in end markets.
- The cash flow conundrum:** Hon Hai should cut capex sharply and turn free cash flow positive from 2009. We feel Hon Hai should (1) pay more cash dividends, (2) invest in new growth markets to take growth back to 30% levels or (3) pay down its debt. We do not expect growth to return to the pre-2008 levels and hence believe increased dividend payout or lowering debt levels are realistic solutions. In this backdrop, we are concerned by Hon Hai's intention to raise more capital (potential GDR issue/CBs) and worry it imply a worsening working capital environment.
- Recovery slow, to settle at much lower growth post downturn:** We also expect the recovery to remain slow, since Hon Hai's relatively weaker balance sheet may not enable them to capitalize on new opportunities as fast as peers. Particularly, we expect cash rich notebook ODMs to enhance their vertical integration footprint and narrow the gap. We also do not see significant new end markets which could take the growth rates back to the 30+% rates seen before 2008.
- Execution issues weigh down in the near-term:** Our checks indicate multiple execution issues with key customers in the past few months due to relocation and enforcement of stricter working capital norms. Relocation of facilities, when the OEMs are trying to shorten the supply chain could result in more execution issues, in our view.

**Neutral**

2317.TW, 2317 TT

Price: NT\$63.50

▼ **Price Target: NT\$58.00**  
Previous: NT\$60.00

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Price Performance

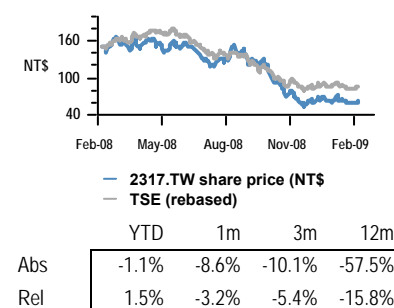


Table 1: Share price: NT\$63.5 (06 Feb 09) (Reuters: 2317.TW, Bloomberg: 2317 TT)

	FY07	FY08E	FY09E	FY10E		FY07	FY08E	FY09E	FY10E		
Sales	1,703	1,941	1,799	1,881	ROE (%)	18.7	17.1	12.7	12.4	52-Week range	NT\$54.0-167.0
Operating Profit	93.5	79.8	69.4	76.5	CORE ROIC (%)	21.4	14.4	11.5	11.8	Shares Outstg (Com)	6,291Mn
EBITDA	120.8	113.2	110.1	121.0	DPS (cash, NT\$)	2.2	2.6	2.3	2.2	Avg daily volume	39.0Mn
Pre-Tax Profit	101.1	85.5	70.7	78.8	Quarterly EPS (NT\$)	1Q	2Q	3Q	4Q	Free float	78%
Reported Net profit	77.7	63.5	52.1	58.2	EPS (FY07)	1.57	1.65	1.95	2.80	Market Cap (US\$)	11.9B
MV of Employee Bonus	24.4	4.2	4.4	4.9	EPS (FY08) E	2.22	1.65	2.44	2.38	2008E Div yield (%)	4.1%
Adjusted Net Profit	57.3	63.5	52.1	58.2	EPS (FY09) E	1.62	1.38	1.90	2.06	Exchange rate	NT\$33.7/US\$1
New Taiwan GAAP EPS (NT\$)*	7.99	8.70	6.96	7.76	sales growth	29%	14%	-7%	5%	Market Cap (NT\$)	399B
New Taiwan GAAP P/E (x)	8.0	7.3	9.1	8.2	EPS growth	21%	9%	-20%	11%	QFII Holding %	49%
P/B (x)	1.3	1.2	1.1	1.0	Norm. OP growth	24%	-10%	-12%	10%	Index	4,471.25
Y/E BPS (NT\$)	48.5	53.0	57.1	62.8	Fair value (Jun 09)		58			Avg daily value (US\$)	114.5Mn
Net Debt		net cash (14.2)	(3.4)	net cash	Jun-09 PT		Local	58		Date of Price	6 Feb-09

Source: Bloomberg, JP Morgan estimates, Company data \* Retroactive adjustment for employee bonus expense is done for like-to-like comparison;

See page 12 for analyst certification and important disclosures, including non-US analyst disclosures.

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## The cash flow conundrum

Following the company's guidance, Hon Hai should be able to turn meaningfully free cash flow positive from 2009. This is coming mainly from much lower CAPEX budget compared to previous years. Since Hon Hai already has idle capacity in its new plants, we do not anticipate high capex investments even in 2010. As a result, we expect Hon Hai to generate sustainable free cash flow, but with lower growth outlook.

Table 1: Cash flow for Hon Hai and use of Cash

NT\$bn	2002	2003	2004	2005	2006	2007	2008E	2009E	2010E
Net Income	18.9	25.2	29.8	40.8	59.9	77.7	63.5	52.1	58.2
Depreciation	6.3	6.6	10.7	13.2	18.3	27.3	33.4	40.6	44.4
% change in WC	-2	-8	-28	-13	-23	-5	-20	-34	-28
Operating Cashflow	23	24	13	44	62	107	80	62	78
Capex	-7	-23	-21	-43	-62	-97	-75	-37	-43
FCF	16	2	-9	-5	-26	-26	15	27	38
Dividend Payout Ratio	16%	18%	21%	28%	31%	29%	35%	38%	34%
Net Debt	-11	-8	5	-20	-21	-11	14	3	-18
Cash Dividend per share	0.8	0.9	1.3	1.8	2.2	2.6	2.3	2.2	2.4
Cash div Yield							4.0%	3.8%	4.2%
Revenue Growth (%)	63%	43%	34%	68%	45%	29%	14%	-7%	5%
EPS Growth (%)	28%	31%	2%	33%	47%	21%	9%	-20%	11%

Source: Company Reports, J.P. Morgan estimates

Hon Hai should turn FCF positive in 2009 due to cut in CAPEX

Hon Hai should either use it to:

1. Increase cash dividend payout, which remains much lower than peers

2. Invest in new end markets or technology.

However, growth trajectory is likely to slow compared to previous years

3. Pay down debt

In this context, we remain puzzled about Hon Hai's plans to raise fresh funds.

In such a situation, we feel Hon Hai should either

- (1) Reinvest in new areas of growth. OR
- (2) Increase its low cash dividend payout ratio. OR
- (3) Pay down debt.

Firstly, we feel that Hon Hai may not find many incremental revenue opportunities in its existing end markets, since Hon Hai already occupies significant market share in Top 3 vendors, except for networking. Since Hon Hai has sufficiency excess capacity, we do not think growth in existing end markets will be capex intensive.

Hon Hai has been attempting to enter the automotive components market for the last 3-4 years and have made sporadic efforts in this segment. This is an area which could require significant investments. However, we do not feel that it is an area that would yield immediate results, given the closed nature of the food chain and the slump in the automotive market.

As a result, Hon Hai's growth trajectory may not stay at the 25-30% in the past years and hence may not merit continuous high capex investments.

Secondly, we also do not have any indication from the company regarding any increase in cash payout ratio. (currently at ~35%), even if Hon Hai should turn cash flow positive.

Thirdly, the company could choose to pay down its debt from its free cash flow.

**Capital raising plans are surprising**

Given this backdrop, we are surprised by the company’s announcement to raise capital through a GDR issue (Hon Hai has sought shareholder approval for a \$650M GDR issue and moved up its AGM to April 16th) and also recent efforts to raise money through CB and syndicated loans. We remain cautious that this may point to worsening working capital environment for Hon Hai.

Hence, we stay Neutral on the stock even at compelling valuations and would wait on more clarity from the company on plans to deploy the cash flow freed from significant capex cut from 2009. We prefer other downstream peers like Quanta, which payout much higher ratio of earnings in cash and trade at similarly cheap valuations.

**Need to see improvement in working capital metrics**

Hon Hai’s ROE is likely to remain depressed due to revenue decline in 2009 and slower kick off in OPEX efficiencies.

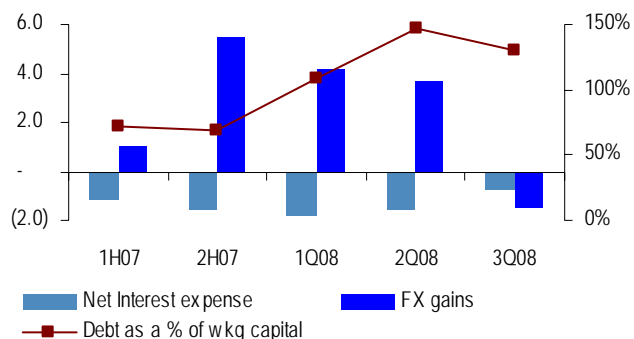
While high level of CAPEX should abate in 2009, it is not enough to improve asset turns significantly, in our view, due to the sharp revenue decline and depressed OP margins.

**Relocation benefits likely to take longer to realize**

Cost arbitrage from moving to new locations also may be deferred into late 2010, as operating costs in coastal China have come down, with labor supply easing in the downturn.

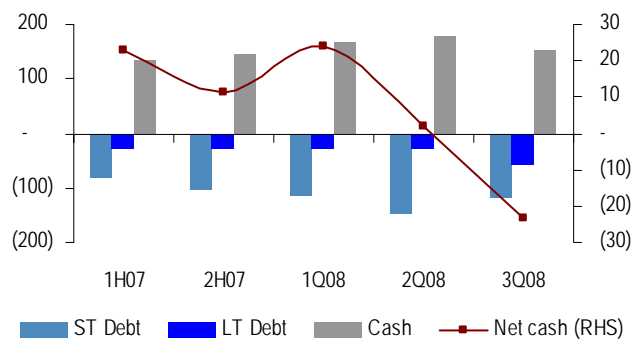
Heavy reliance on short term finance to maintain high ROE turns unfavorable with increase in borrowing cost. Hon Hai has also is actively seeking funding through capital markets to shore up working capital requirement.

Figure 1: Debt still high as a % of working capital



Source: Company reports and J.P. Morgan estimates.

Figure 2: Net cash position worsening



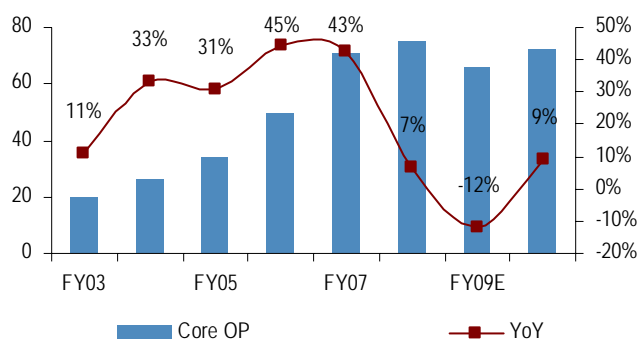
Source: Company reports and J.P. Morgan estimates.

## OP profit to decline in 2009 as margin improvement gets deferred to 2010

We expect cost down from Hon Hai's relocation to new areas to come through only in late 2010 and do not expect significant margin improvement until 2010. At the same time, decline in top line could lead to some margin compression in 1H09. In addition, we also anticipate that execution issues could continue to crop up as a result of relocation to new factories.

Figure 3: Core OP growth - Hon Hai

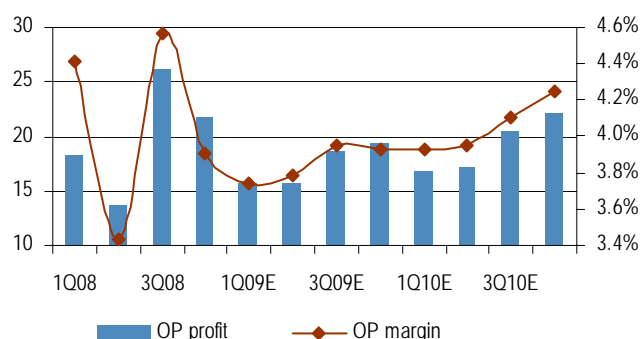
NT\$ bn, %



Source: Company reports and J.P. Morgan estimates.

Figure 4: OP margin trend

NT\$ bn, %



Source: Company reports and J.P. Morgan estimates.

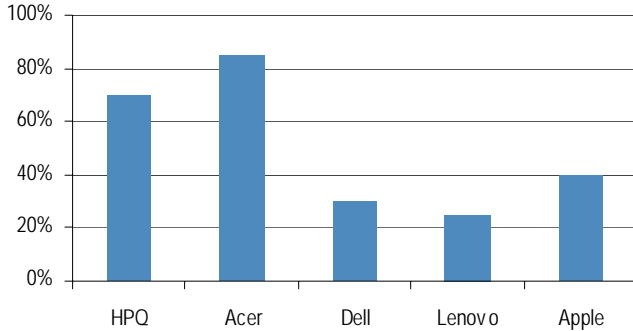
## Slowdown in enterprise desktops could drag Computing down in 09

Growth in computing is likely to slow sharply in 2009 due to: (1) End market weakness in desktops (2) Limited penetration into notebook ODM (resource constraints), except for sub notebooks and heavier exposure to corporate desktops where replacement demand is likely to slow significantly.

We expect computing revenues to decline 16% in 2009 as enterprise desktop business shrinks significantly. OP margins may remain stable as loss of scale may be compensated by cost savings from relocating to new plants

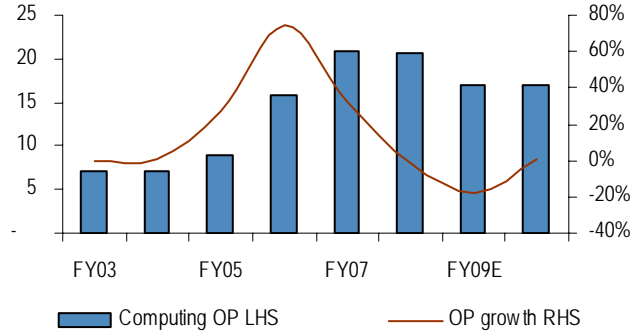
We believe that Hon Hai's desktop market share in major PC OEMs have already saturated, except for Dell. With the sharp decline in corporate desktops, we do not expect a huge spurt in outsourcing even from Dell in 2009.

Figure 5: Desktop - Hon Hai's EMS market share in different vendors



Source J.P. Morgan estimates.

Figure 6: Computing OP growth to go negative in 2009



Source: Company reports and J.P. Morgan estimates.

### Networking: Slowing in 09, post downturn shakeout could be positive to Hon Hai

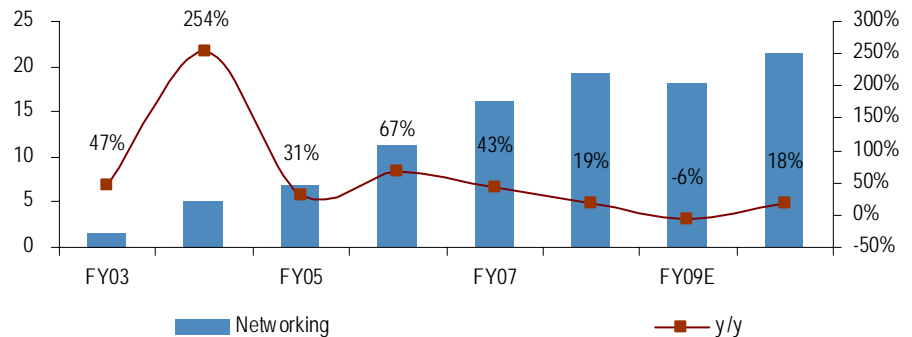
We expect networking segment OP profit to slow by 6% as enterprise IT spending decline puts the brakes on customer COGS growth. Hon Hai's market share gains in Cisco are already saturating and may not grow much faster than Cisco's COGS in the next 2 years.

Post downturn, we expect Hon Hai to take more share in other networking vendors (like Alcatel, Nokia Siemens). Hon Hai is also likely to break into Huawei in 2009 but margins in this business are likely to remain low.

We feel that networking is likely to grow the fastest after the downturn, but for now, likely to remain muted.

Figure 1: Networking Operating Profit, Hon Hai

NT\$bn



Source: Company reports and J.P. Morgan estimates.

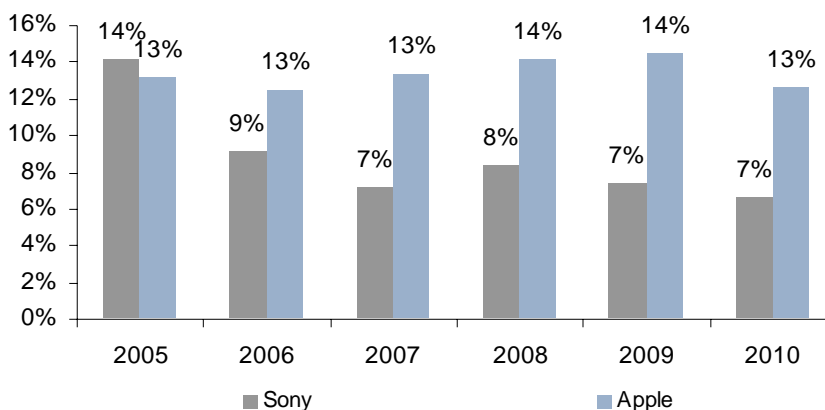
## CE, for long a growth engine, slows in 2009

After 5 years of 50+% OP growth in consumer electronics, we expect this segment to also show negative growth in 2009. (we are forecasting 5% OP decline in 2009). We feel that discretionary nature of these CE products (DSC, game consoles) to reduce TAM even more than other end markets.

Apple market share to increase due to iPhone and some share gains in Macbook assembly, but overall COGS is likely to remain under pressure. iPhone momentum also seems to have come down significantly and revenue momentum should take time to recover. Growth in Sony to be limited due to slower ramp in LCD TV due to design quality issues, while game consoles and DSCs are likely to decline significantly in 2009.

Post downturn, the CE space may open up new outsourcing opportunities from Japanese CE vendors. Many of these vendors, like Panasonic, have traditionally kept ~100% production in-house, but losses in the downturn could cause a change in strategy.

Figure 2: Apple and Sony as a % of revenues



Source: J.P. Morgan estimates.

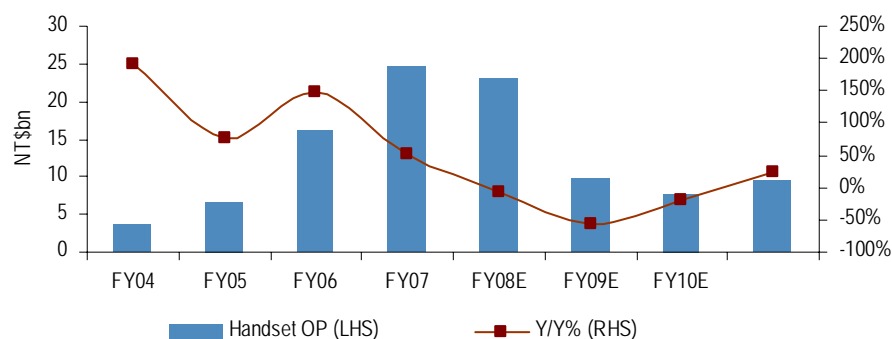
## Handsets to remain in limbo

We expect handset OP to decline another 20% in 09 after a sharp slowdown in 2008. Revenues (at FIH) are likely to decline in 2009 –as market share gains in Nokia, Motorola and Sony Ericsson should saturate in 2008. Competition from BYD to intensify in mainstream models also, resulting in margin erosion.

Contribution from Samsung is likely to remain low and poor handset market could result in slower outsourcing. For example, Nokia is likely to in source PCBA in an effort to shore up in-house utilization rates. LGE outsourcing may also be hit by weaker handset market outlook, since LGE still manufactures majority of its phones in house.

Smart phones does provide a window of opportunity, now that FIH has also improved its ODM capability, but we feel that it may not be sufficient to negate the decline seen in Top 3 customers (Nokia, SEMC and MOT) in 2009.

Figure 3: Growth slowdown for handset OP



Source: J.P. Morgan estimates.

## Earning Revision

Table 2: Earning Revision Table

Earnings Revision	Revised				Prior				Change			
	4Q08E	1Q09E	2008E	2009E	4Q08E	1Q09E	2008E	2009E	4Q08E	1Q09E	2008E	2009E
Revenues	556.8	418.2	1,941.4	1,798.9	581.0	438.3	1,965.7	1,897.9	-4%	-5%	-1%	-5%
Gross Profit	47.0	35.1	170.8	150.9	51.2	39.3	174.9	168.0	-8%	-11%	-2%	-10%
Gross Margin (%)	8.4%	8.4%	8.8%	8.4%	8.8%	9.0%	8.9%	8.9%	-36 bps	-57 bps	-10 bps	-46 bps
OP Profit	21.7	15.7	79.8	69.4	24.1	18.3	82.2	79.1	-10%	-14%	-3%	-12%
OP margins (%)	3.9%	3.7%	4.1%	3.9%	4.2%	4.2%	4.2%	4.2%	-25 bps	-43 bps	-7 bps	-31 bps
Net Income	17.7	12.0	63.5	52.1	19.6	12.9	65.5	59.6	-10%	-7%	-3%	-13%
EPS (NT\$)	2.38	1.62	8.70	6.96	2.65	1.73	8.97	7.98	-10%	-7%	-3%	-13%

Source: J.P. Morgan estimates.

## Valuation: Maintain Neutral with PT of NT\$ 58

We remain Neutral on the stock with a DCF based PT of NT\$ 58 and remain cautious on Hon Hai's earnings prospects for 2009. We are also concerned about prospect of further dilution due to Hon Hai's efforts to raise capital.

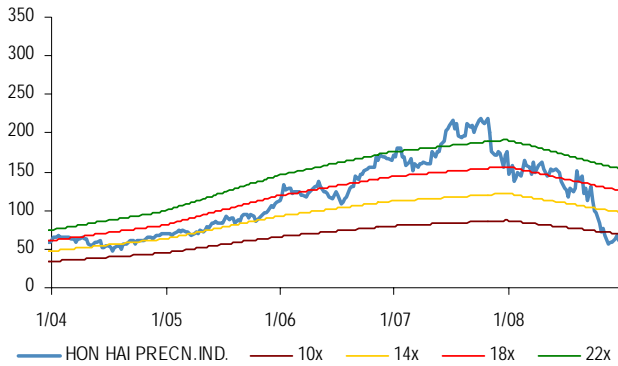
We believe that downward pressure on earnings and fund raising / working capital concerns are likely to drag down the stock in the near term.

We would turn more positive on the stock after (A) we gain more clarity on the Hon Hai's working capital position and on the use of free cash flow that Hon Hai should start earning from 2009 (due to reduced capex) or (B) at a meaningful discount to book value (or below NT\$ 50).

Key risks are greater than expected cost down benefits from relocation or an end market recovery.

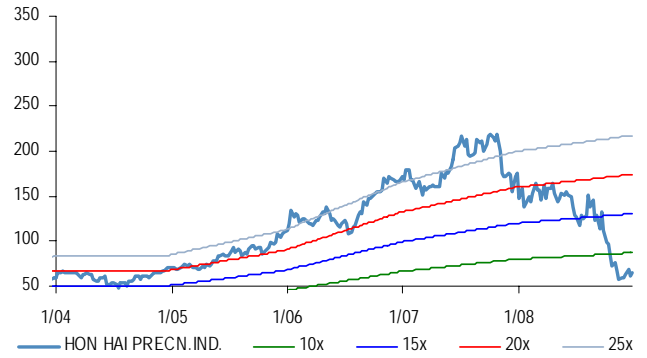
**PE PB bands**

Figure 1: 12M Forward P/E



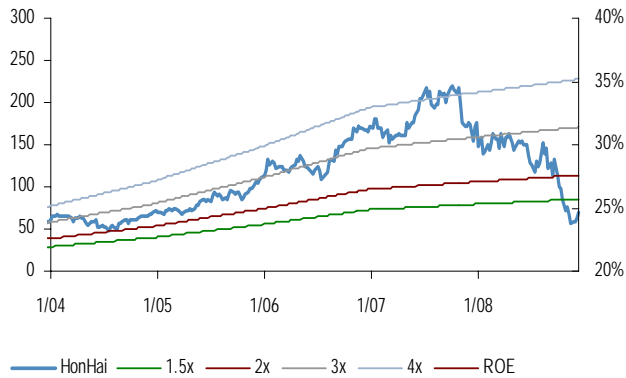
Source: Company reports, DataStream, and J.P. Morgan estimates.

Figure 2: 12M Trailing P/E



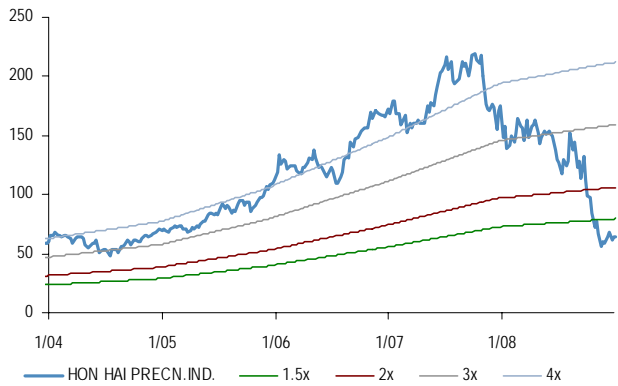
Source: Company reports, DataStream, and J.P. Morgan estimates.

Figure 3: 12M Forward P/BV



Source: Company reports and J.P. Morgan estimates.

Figure 4: 12M Trailing P/BV



Source: Company reports and J.P. Morgan estimates.

Table 3: Quarterly Earnings Model

(NT\$ in bn, year-end Dec)	2007				2008E				2009E				2007E	2008E	2009E	2010E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	1Q	2Q	3Q	4QE				
Revenue	351.4	359.9	448.2	543.2	415.2	395.8	573.6	556.8	418.2	415.2	473.3	492.1	1,702.7	1,941.4	1,798.9	1,880.9
COGS	316.3	324.7	403.3	490.9	377.4	363.1	520.3	509.7	383.1	380.6	433.3	450.9	1,535.1	1,770.6	1,648.0	1,723.0
Gross Profit	35.0	35.2	44.9	52.3	37.8	32.7	53.2	47.0	35.1	34.6	40.0	41.1	167.5	170.8	150.9	157.9
Operating Expense	15.6	14.8	19.4	24.3	19.5	19.1	27.1	25.3	19.4	18.9	21.3	21.8	74.1	91.0	81.5	81.4
EBIT	19.4	20.5	25.5	28.1	18.3	13.6	26.2	21.7	15.7	15.7	18.7	19.3	93.5	79.8	69.4	76.5
Net Interest Income	-0.4	-0.7	-0.8	-0.8	-1.0	-0.6	-0.2	-0.6	-0.7	-0.6	-0.5	-0.7	-2.8	-2.4	-2.4	-1.5
Net Other Income	1.0	0.8	-0.3	6.2	3.3	4.3	-3.4	1.5	-0.2	0.5	0.0	0.9	10.4	8.0	3.7	3.8
Pre Tax Profit	20.4	21.3	25.2	34.3	21.6	17.9	22.8	23.2	15.4	16.3	18.7	20.3	101.1	85.5	70.7	78.8
Tax	3.8	3.5	4.8	4.4	4.7	5.2	4.4	4.2	2.8	5.2	3.7	4.1	16.4	18.5	15.8	17.3
Minority interests	1.4	1.7	1.5	2.4	0.9	0.7	0.6	1.4	0.6	0.7	0.7	0.8	7.0	3.5	2.8	3.3
Net Profit	15.2	16.0	18.9	27.5	16.1	11.9	17.8	17.7	12.0	10.4	14.3	15.4	77.7	63.5	52.1	58.2
Net Profit (TW GAAP)	11.2	11.7	14.0	20.3	16.1	11.9	17.8	17.7	12.0	10.4	14.3	15.4	57.3	63.5	52.1	58.2
New Taiwan GAAP EPS (NT\$)	1.57	1.65	1.95	2.80	2.22	1.65	2.44	2.38	1.62	1.38	1.90	2.06	7.99	8.70	6.96	7.76
<b>Margins (%)</b>																
Gross Margin	10.0%	9.8%	10.0%	9.6%	9.1%	8.3%	9.3%	8.4%	8.4%	8.3%	8.4%	8.4%	9.8%	8.8%	8.4%	8.4%
Operating Margin	5.5%	5.7%	5.7%	5.2%	4.4%	3.4%	4.6%	3.9%	3.7%	3.8%	4.0%	3.9%	5.5%	4.1%	3.9%	4.1%
Net Margin	4.3%	4.5%	4.2%	5.1%	3.9%	3.0%	3.1%	3.2%	2.9%	2.5%	3.0%	3.1%	4.6%	3.3%	2.9%	3.1%
<b>Sequential Growth (%)</b>																
Revenue	-22.1	2.4	24.5	21.2	-23.6	-4.7	44.9	-2.9	-24.9	-0.7	14.0	4.0	29.0	14.0	-7.3	4.6
Gross Profit	-17.2	0.7	27.5	16.5	-27.8	-13.4	62.7	-11.7	-25.4	-1.3	15.4	2.9	29.9	2.0	-11.7	4.7
EBIT	-23.9	5.5	24.7	9.9	-34.7	-25.8	92.5	-17.0	-28.0	0.5	18.9	3.4	24.0	-14.6	-13.1	10.3
Net Profit	-31.0	5.3	18.1	45.1	-41.5	-25.8	49.3	-0.9	-32.1	-13.6	37.6	8.3	29.8	-18.3	-18.0	11.7
New Taiwan GAAP EPS	10.7	4.7	18.5	43.6	-20.7	-25.8	47.8	-2.3	-32.1	-14.6	37.7	8.2	21.1	8.9	-19.9	11.4

Source: Company reports and J.P. Morgan estimates

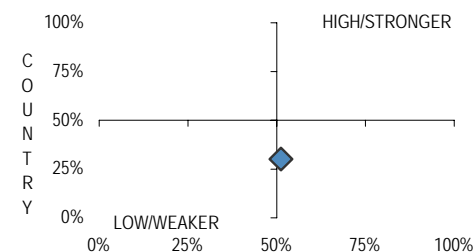
All Data As Of 06-Feb-09

## Q-Snapshot: Hon Hai Precision Industry Co. Ltd.

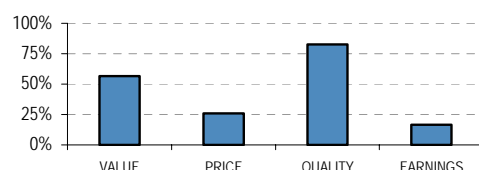
Quant Return Drivers (a Score >50% indicates company ranks 'above average')

Score 0% (worst) to 100% (best)	vs Country	vs Industry	Raw Value
<b>Value</b>			
P/E Vs Market (12mth fwd EPS)	83%	92%	0.4x
P/E Vs Sector (12mth fwd EPS)	24%	41%	0.7x
EPS Growth (forecast)	49%	49%	-15.9%
<b>Value Score</b>	57%	77%	
<b>Price Momentum</b>			
12 Month Price Momentum	20%	28%	-58.6%
1 Month Price Reversion	76%	79%	-11.8%
<b>Momentum Score</b>	26%	37%	
<b>Quality</b>			
Return On Equity (forecast)	69%	78%	18.2%
Earnings Risk (Variation in Consensus)	94%	85%	0.06
<b>Quality Score</b>	83%	82%	
<b>Earnings &amp; Sentiment</b>			
Earnings Momentum 3mth (risk adjusted)	13%	30%	-163.0
1 Mth Change in Avg Recom.	42%	28%	-0.02
Net Revisions FY2 EPS	21%	38%	-100%
<b>Earnings &amp; Sentiment Score</b>	17%	28%	
<b>COMPOSITE Q-SCORE* (0% To 100%)</b>	<b>30%</b>	<b>51%</b>	

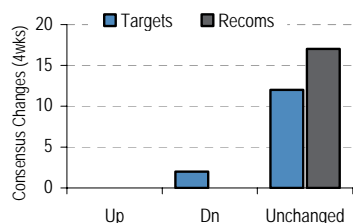
J.P. Morgan Composite Q-Score



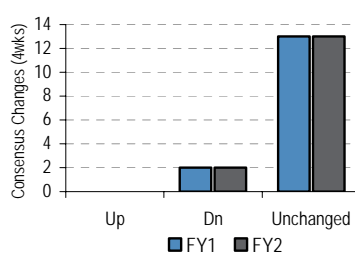
INDUSTRY Quant Return Drivers Summary (vs Country)



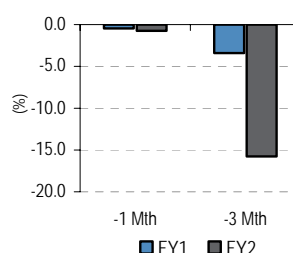
Targets & Recommendations\*\*



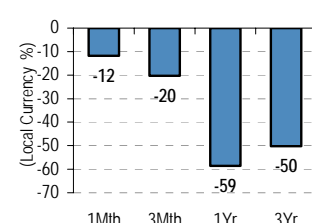
EPS Revisions\*\*



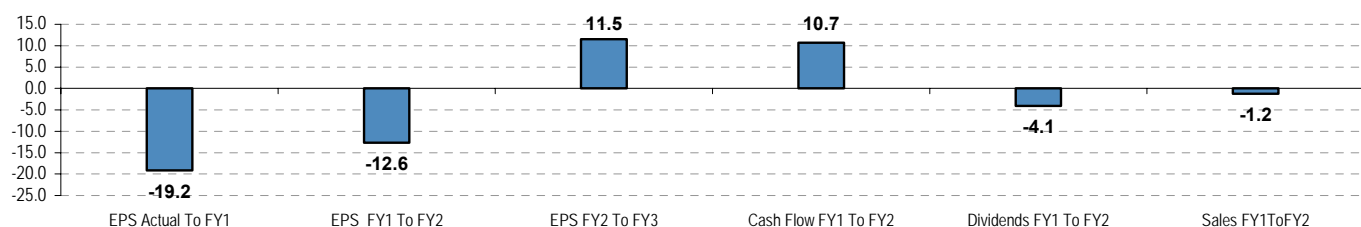
EPS Momentum (%)



Historical Total Return (%)



Consensus Growth Outlook (%)



Closest in Country by Size (Consensus. ADV = average daily value traded in US\$m over the last 3 mths)

Code	Name	Industry	USD MCAP	ADV	PE FY1	Q-Score*
2330-TW	Taiwan Semiconductor Manufacturing Co. Ltd.	Semiconductors	32,619	70.33	11.0	15%
2412-TW	Chunghwa Telecom Co. Ltd.	Major Telecommunications	17,603	46.41	11.6	86%
6505-TW	Formosa Petrochemical Corp.	Oil Refining/Marketing	15,779	9.57	10.0	65%
<b>2317-TW</b>	<b>Hon Hai Precision Industry Co. Ltd.</b>	<b>Computer Peripherals</b>	<b>13,420</b>	<b>73.79</b>	<b>7.0</b>	<b>30%</b>
2882-TW	Cathay Financial Holding Co. Ltd.	Financial Conglomerates	8,781	32.28	63.1	21%
2002-TW	China Steel Corp.	Steel	8,140	32.04	9.1	17%
1301-TW	Formosa Plastics Corp.	Chemicals: Specialty	8,045	19.90	9.6	69%
2454-TW	MediaTek Inc.	Semiconductors	7,776	57.80	13.1	75%
2498-TW	HTC Corp.	Telecommunications Equipment	7,576	69.08	8.2	91%
1303-TW	Nan Ya Plastics Corp.	Chemicals: Specialty	7,544	10.89	17.8	21%
2409-TW	AU Optonics Corp.	Electronic Equipment/Instruments	6,435	38.63	7.8	7%

Source: Factset, Thomson and J.P. Morgan Quantitative Research. For an explanation of the Q-Snapshot, please visit <http://jpmorgan.hk.acrobat.com/qsnapshot/>  
Q-Snapshots are a product of J.P. Morgan's Global Quantitative Analysis team and provide quantitative metrics summarized in an overall company 'Q-Score.'  
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\* The Composite Q-Score is calculated by weighting and combining the 10 Quant return drivers shown. The higher the Q-Score the higher the one month expected return. On a 14 Year back-test the stocks with the highest Q-Scores have been shown (on average) to significantly outperform those stocks with the lowest Q-Scores in this universe. \*\* The number of up, down and unchanged target prices, recommendations or EPS forecasts that make up consensus.

## Hon Hai Summary of Financial Statements

Income statement					Ratio Analysis				
NT\$ in billions, year-end Dec	FY07	FY08E	FY09E	FY10E	% , year-end Dec	FY07	FY08E	FY09E	FY10E
Revenues	1,702.7	1,941.4	1,798.9	1,880.9	Gross Margin	9.8	8.8	8.4	8.4
Cost of Goods Sold	1,535.1	1,770.6	1,648.0	1,723.0	EBITDA margin	7.1	5.8	6.1	6.4
Gross Profit	167.5	170.8	150.9	157.9	Operating margin	5.5	4.1	3.9	4.1
R&D Expenses	15.4	22.3	19.5	19.4	Net profit margin	4.6	3.3	2.9	3.1
SG&A Expenses	58.6	65.5	58.5	58.1	R&D/sales	0.9	1.1	1.1	1.0
Operating Profit (EBIT)	93.5	79.8	69.4	76.5	SG&A/Sales	3.4	3.4	3.2	3.1
EBITDA	120.8	113.2	110.1	121.0	Sales growth	29.0	14.0	-7.3	4.6
Interest Income	2.7	4.4	5.1	5.9	EBIT growth	24.0	(14.6)	(13.1)	10.3
Interest Expense	-5.4	-6.7	-7.5	-7.5	Net profit growth	29.8	(18.3)	(18.0)	11.7
Investment Income (Exp.)	3.9	2.2	1.9	1.9	EPS (Reported) growth	15.4	(19.7)	(19.9)	11.4
Other Non-Op Income (Exp.)	6.6	5.8	1.8	1.9	EPS (TW GAAP) growth	21.1	8.9	(19.9)	11.4
Earnings before tax	101.1	85.5	70.7	78.8	Interest coverage (x)	44	48	45	79
Tax	-16.4	-18.5	-15.8	-17.3	Net debt to total capital	-2.3	2.5	0.6	-2.8
Net Income (Reported)	77.7	63.5	52.1	58.2	Net debt to equity	-3.2	3.6	0.8	-3.9
Net Income (Adjusted)	57.3	63.5	52.1	58.2	Asset Turnover	196.3	186.5	177.5	177.2
EPS (Reported, NT\$)	10.84	8.70	6.96	7.76	Working Capital Turns (X)	12.3	12.8	9.4	7.8
EPS (Adjusted, NT\$)	7.99	8.70	6.96	7.76	ROE	18.7	17.1	12.7	12.4
BPS (NT\$)	48.48	52.96	57.12	62.80	ROIC	14.6	12.4	9.2	8.9
DPS (NT\$)	2.17	2.61	2.31	2.19	ROIC (net of cash)	18.1	16.0	12.0	12.2
Shares Outstanding (bn)	7.17	7.30	7.48	7.50					
Balance sheet					Cash flow statement				
NT\$ in billions, year-end Dec	FY07	FY08E	FY09E	FY10E	NT\$ in billions, year-end Dec	FY07	FY08E	FY09E	FY10E
Cash and Cash Equivalents	144.4	160.0	181.9	213.4	Net Income	77.7	63.5	52.1	58.2
Account Receivables	248.2	353.9	323.6	343.5	Depr. & Amortisation	27.3	33.4	40.6	44.4
Inventory	158.4	183.0	172.6	171.7	Change in working capital	-4.6	-20.2	-33.5	-27.5
Total Other Current Assets	28.9	24.7	21.9	23.2	Other	7.0	3.5	2.8	3.3
Total Current Assets	579.9	721.7	699.9	751.9	Cash flow from operations	107.5	80.2	62.0	78.4
LT investments	64.5	43.4	33.6	23.8	Capex	-97.4	-74.9	-36.6	-42.6
Net fixed assets	202.6	244.0	240.0	238.2	Disposal/ (purchase)	-35.8	9.7	1.8	1.8
Others	20.3	31.7	39.7	47.7	Cash flow from investing	-133.2	-65.2	-34.8	-40.8
Total assets	867.3	1,040.9	1,013.3	1,061.7	Free cash flow	10.1	5.4	25.4	35.7
ST Debt and Current Portion of LT Debt	104.6	108.9	115.8	121.8	Equity raised/ (repaid)	43.9	8.7	1.6	0.8
Accounts Payable	274.0	356.2	289.3	291.3	Debt raised/ (repaid)	64.0	41.0	11.1	9.6
Other Current Liabilities	65.3	89.1	78.7	69.7	Other	-5.5	-26.7	2.0	3.3
Total Current Liabilities	443.9	554.2	483.9	482.8	Dividends paid	-22.5	-22.4	-20.0	-19.7
Long Term Debt	28.6	65.3	69.5	73.1	Cash flow from financing	79.9	0.6	-5.3	-6.0
Other Long Term Liabilities	44.1	28.7	31.5	34.8	Net change in cash	54.1	15.6	21.9	31.5
Total liabilities	516.6	648.2	584.9	590.7	Beginning cash	90.2	144.4	160.0	181.9
Shareholders' equity	350.7	392.7	428.4	471.0	Ending cash	144.4	160.0	181.9	213.4

Source: Company reports and J.P. Morgan estimates

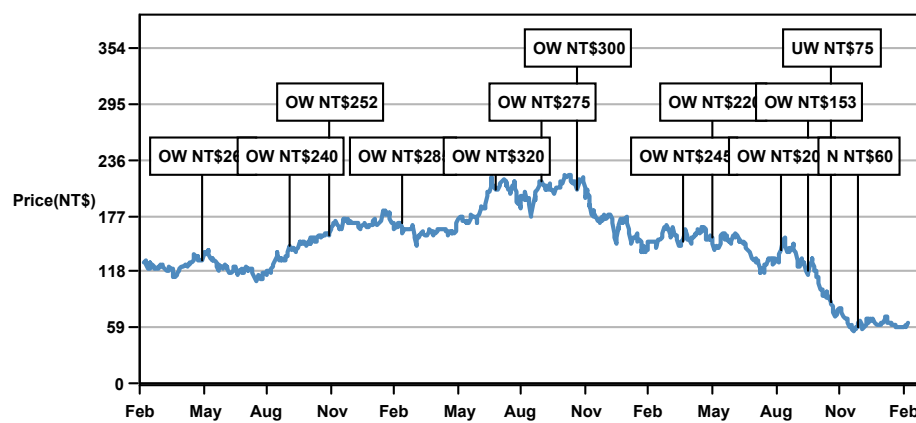
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**Hon Hai Precision (2317.TW) Price Chart**



Date	Rating	Share Price (NT\$)	Price Target (NT\$)
02-May-06	OW	130.74	268.00
05-Sep-06	OW	145.29	240.00
01-Nov-06	OW	156.16	252.00
12-Feb-07	OW	168.84	285.00
27-Jun-07	OW	204.71	320.00
30-Aug-07	OW	213.91	275.00
22-Oct-07	OW	205.22	300.00
21-Mar-08	OW	149.13	245.00
01-May-08	OW	153.48	220.00
10-Aug-08	OW	141.74	200.00
18-Sep-08	OW	118.00	153.00
19-Oct-08	UW	87.00	75.00
27-Nov-08	N	58.40	60.00

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.  
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IB clients*	54%	52%	43%
JPM SI Equity Research Coverage	37%	49%	14%
IB clients*	76%	71%	62%

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