HTC Corp.

Price Objective Change UNDERPERFORM

Equity | Taiwan | Electronics Manufacturing Services
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Bank of America Merrill Lynch

RESEARCH

1Q worse; cautious on its targets

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Lower PO to NT$295; non-consensus Underperform rating

We cut our 2009 EPS estimate and PO for HTC by 4% each to NT$32.7 (-14% YoY) and NT$295 (11% downside) post its earnings call. Earnings revisions come from lower assumptions for GPM/interest Inc., despite better Opex. We retain Underperfrom rating as we anticipate worse 1Q EPS (-34% YoY), pricing competition, and downside risks to its revenue growth target.

Worse-than-expected for 1Q

1Q sales target of NT$33bn (-30% QoQ/1% YoY) is inline with our lowered estimate. 1Q OPM guidance of 15% is a negative surprise, sharply down from 18.2% in 4Q08 and 22.8% in 1Q08, due to a limited bounce in GPM (30%, up only 20bp QoQ) and earlier/expanded marketing costs (15% of sales). Inventory write-down of NT$0.6bn is offset by another reversal. 1Q EPS could decline 34% YoY.

Cautious on its sales and margins targets

HTC reiterates its sales target of over 10% YoY for 2009 (BAS-MLe: 8%) with an accelerating YoY growth from 2Q, given its earlier model launch and wider portfolio. HTC expects ASP to decline by a mid-single digit YoY in 2009 (+6% in 2008) due to more aggressive pricing and stable mix (2/3G). YoY flat Opex target (13.5% of sales) is positive while cash div. proposal is inline with our estimate.

Potential catalysts to become less negative

In our view, catalysts that could become less negative for HTC include (1) the completion of inventory adjustment for itself and even the industry, (2) the on-schedule launch of new models, (3) margin improvement for the Andriod smartphones (~20% of 4Q08 sales with GPM of below 25%), and (4) stable pricing/margins as a result of competition/currency.

Estimates (Dec)

(NT$)	2006A	2007A	2008E	2009E	2010E
Net Income (mn) Taiwan GAAP	25,387	28,941	28,628	24,764	26,878
EPS (Pre Bonus)	33.63	38.33	45.14	39.05	42.38
EPS (Post Bonus)	24.47	28.75	37.92	32.80	35.60
EPS Change (YoY)	118.0%	17.5%	31.9%	-13.5%	8.5%
Dividend / Share	20.49	25.80	28.00	28.00	30.00
Free Cash Flow / Share	31.63	51.10	35.74	29.79	29.58

* Taiwan GAAP changed from Pre Bonus to Post Bonus earnings from 2008.

Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E (Post Bonus)	13.48x	11.48x	8.70x	10.06x	9.27x
Dividend Yield	6.21%	7.82%	8.48%	8.48%	9.09%
Free Cash Flow Yield*	9.58%	15.49%	10.83%	9.03%	8.96%
Price/Book Value	6	4	4	4	4

* For full definitions of *iQmethod* SM measures, see page 9.

Stock Data

Price	NT$330.00
Price Objective	NT$306.00 to NT$295.00
Date Established	6-Feb-2009
Investment Opinion	C-3-7
Volatility Risk	HIGH
52-Week Range	NT$256.00-NT$683.08
Mrkt Val / Shares Out (mn)	US$7,397 / 755.0
Average Daily Volume	6,468,902
ML Symbol / Exchange	HTCCF / TWO
Bloomberg / Reuters	2498 TT / 2498.TW
ROE (2008E)	48.2%
Net Dbt to Eqty (Dec-2007A)	-98.1%
Est. 5-Yr EPS / DPS Growth	5.0% / 10.0%
Free Float	70.0%

Refer to important disclosures on page 10 to 12. Analyst Certification on Page 7. Price Objective Basis/Risk on page 7.

iQprofile℠ HTC Corp.

Key Income Statement Data (Dec)	2006A	2007A	2008E	2009E	2010E
(NT$ Millions)					
Sales	104,817	118,580	152,564	164,165	189,458
Gross Profit	34,037	45,700	50,673	49,862	56,359
Sell General & Admin Expense	(4,391)	(10,808)	(10,964)	(12,459)	(14,994)
Operating Profit	26,692	31,026	30,244	27,248	29,907
Net Interest & Other Income	406	1,127	1,348	570	620
Associates	NA	NA	NA	NA	NA
Pretax Income	27,098	32,153	31,592	27,818	30,527
Tax (expense) / Benefit	(1,711)	(3,212)	(2,963)	(3,053)	(3,649)
Net Income (Adjusted)	25,387	28,941	28,628	24,764	26,878
Average Fully Diluted Shares Outstanding	755	755	755	755	755
Key Cash Flow Statement Data					
Net Income	25,387	28,941	28,628	24,764	26,878
Depreciation & Amortization	632	556	1,831	1,970	2,273
Change in Working Capital	(2,050)	4,243	939	1,596	471
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	907	6,041	(2,618)	(3,842)	(4,990)
Cash Flow from Operations	24,876	39,781	28,780	24,488	24,633
Capital Expenditure	(996)	(1,200)	(1,800)	(2,000)	(2,300)
(Acquisition) / Disposal of Investments	45	5	0	0	0
Other Cash Inflow / (Outflow)	44	(50)	0	0	0
Cash Flow from Investing	(907)	(1,245)	(1,800)	(2,000)	(2,300)
Shares Issue / (Repurchase)	(243)	(1,747)	0	0	0
Cost of Dividends Paid	(4,997)	(14,134)	(21,909)	(24,753)	(23,417)
Cash Flow from Financing	(5,241)	(15,881)	(21,909)	(24,753)	(23,417)
Free Cash Flow	23,880	38,581	26,980	22,488	22,333
Net Debt	(34,397)	(55,036)	(59,707)	(57,880)	(58,261)
Change in Net Debt	(18,728)	(22,655)	(5,071)	2,265	1,083
Key Balance Sheet Data					
Property, Plant & Equipment	2,910	3,717	5,517	7,517	9,817
Other Non-Current Assets	1,273	3,555	4,744	6,117	7,249
Trade Receivables	21,812	21,291	26,811	28,256	32,331
Cash & Equivalents	34,397	55,036	59,707	57,880	58,261
Other Current Assets	5,602	6,845	9,500	10,251	11,448
Total Assets	65,994	90,444	106,278	110,021	119,106
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	1	1	1	1	1
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	23,421	34,367	43,481	47,273	53,016
Total Liabilities	23,422	34,368	43,482	47,274	53,017
Total Equity	42,574	56,077	62,796	62,747	66,089
Total Equity & Liabilities	65,996	90,445	106,278	110,021	119,106
iQmethod*℠ - Bus Performance					
Return On Capital Employed	74.5%	58.1%	47.7%	39.4%	41.8%
Return On Equity	77.4%	58.7%	48.2%	39.5%	41.7%
Operating Margin	25.5%	26.2%	19.8%	16.6%	15.8%
EBITDA Margin	26.1%	26.6%	21.0%	17.8%	17.0%
iQmethod*℠ - Quality of Earnings					
Cash Realization Ratio	1.0x	1.4x	1.0x	1.0x	0.9x
Asset Replacement Ratio	1.6x	2.2x	1.0x	1.0x	1.0x
Tax Rate (Reported)	6.3%	10.0%	9.4%	11.0%	12.0%
Net Debt-to-Equity Ratio	-80.8%	-98.1%	-95.1%	-92.2%	-88.2%
Interest Cover	NA	NA	NA	NM	NM
Key Metrics					
Stock comp. adjusted ROIC	76.3%	50.3%	42.3%	33.1%	36.1%
Stock comp. adjusted ROE	56.5%	44.0%	40.5%	33.2%	35.1%
Stock comp. adjusted EPS	24.47	28.75	37.92	32.80	35.60
Stock comp. adjusted P/E	13.48x	11.48x	8.70x	10.06x	9.27x

* For full definitions of *iQmethod*℠ measures, see page 9.

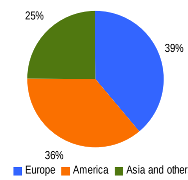
Company Description

HTCis a leading brand for converged devices (PDA and smart phones) in Taiwan. Products are sold under channels and telecom carriers. % of sales from ODMs (ie Palm) dropped to below 10% in 4Q07. HTC generated about 40% of sales each from Europe and America and 20% from the restof the world.

Investment Thesis

Our investment thesis is based on (1) secular growth for smartphones, (2) HTC's strong product cycle, (3) HTC's rising brand recognition, (4) potential upside from Google projects, (5) less impact from increase in labor costs in China and strength in currency (RMB/TWD), (6) attractive PE/ROE vs global peers, and (7) increase in cash payout.

Chart 1: HTC- revenue by region for 2008



Source: HTC

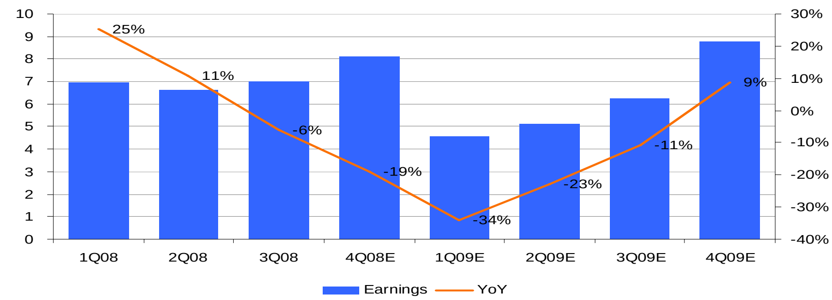
Stock Data

Price to Book Value	4.0x

Lower PO to NT$295; Underperform

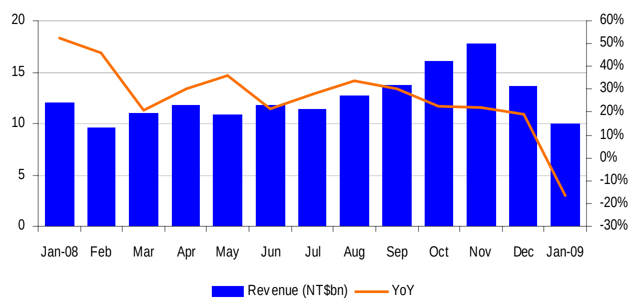
We cut our 2009 EPS estimate and PO for HTC by 4% each to NT$32.7 (-14% YoY) and NT$295 (11% downside) post its earnings call. Earnings revisions come from lower assumptions for GPM/interest Inc., despite better Opex. We retain Underperfrom rating as we anticipate worse 1Q EPS (-34% YoY), pricing competition, and downside risks to its revenue growth target. In our view, HTC's 10x PE for 2009E seems unattractive yet given its earnings decline of 14% and lower PE multiple for other hardware companies.

Chart 2: HTC: Quarterly earnings (NT$bn) and YoY growth



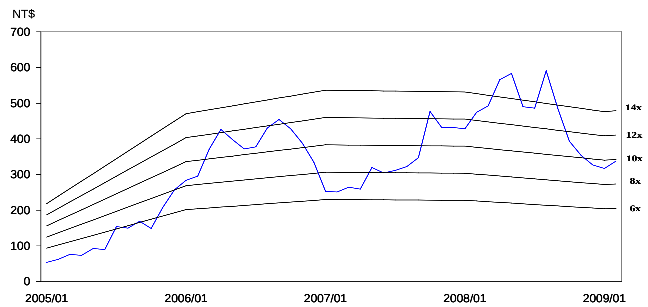
Source: Banc of America Securities-Merrill Lynch estimates

Chart 3: HTC: Monthly revenue (NT$bn) and YoY growth



Source: HTC

Chart 4: HTC: P/E bands



Source: Banc of America Securities-Merrill Lynch estimates

Table 1: HTC- Valuation comparison

	BAS-ML Symbol	BAS-ML Rating	Price 6-Feb-09	Mkt Cap (US$mn)	EPS (Local) 2008E	EPS (Local) 2009E	EPG 2008E	EPG 2009E	PER (x) 2008E	PER (x) 2009E	PBR (x) 2008E	ROE (%) 2008E	ROE (%) 2009E	Net Cash / Mkt Cap	Cash Yield	Price YTD
HTC	HTCCF	C-3-7 Underpe	NT$330.0	7,550	37.9	32.8	-1%	-13%	8.7	10.1	4.0	48%	39%	24%	8%	1%
Acer	ASIYF	C-1-7 Buy	43.3	3,242	4.8	5.0	-4%	4%	9.0	8.6	1.4	15%	16%	8%	8%	2%
Asustek	AKCPF	C-3-7 Underpe	31.1	4,002	3.8	2.0	-47%	-48%	8.1	15.6	0.7	9%	4%	22%	6%	-15%
Hon Hai	HNHAF	C-3-7 Underpe	63.5	14,267	8.5	7.7	-19%	-10%	7.4	8.2	1.1	16%	13%	-7%	4%	-1%
Lenovo	LNVGF	C-2-7 Neutral	HK$1.6	1,846	0.4	-0.2	164%	-147%	4.3	-9.0	8.8	-16%	1%	11%	1%	-23%
Dell	DELL	C-2-9 Neutral	US$9.4	18,667	1.2	1.4	-26%	21%	8.1	6.7	5.6	62%	77%	38%	0%	-8%
HPQ	HPQ	B-1-7 Buy	35.1	89,558	2.9	3.6	32%	24%	12.0	9.7	2.3	21%	24%	-9%	1%	-3%
APPLE	AAPL	C-1-9 Buy	96.5	87,594	5.4	5.3	36%	-2%	18.0	18.4	4.1	27%	21%	14%	0%	13%
Palm	PALM	C-2-9 Neutral	8.1	873	-0.7	-1.8	NM	NM	NM	NM	2.3	-10%	-229%	-25%	0%	163%
RIMM	RIMM	C-1-9 Buy	56.8	32,650	2.3	3.4	104%	51%	25.1	16.6	8.1	40%	40%	3%	0%	40%
Nokia	NOK	B-1-7 Buy	13.1	48,257	2.1	1.0	1%	-51%	6.3	13.0	2.4	37%	19%	4%	4%	-16%
Motorola	MOT	C-2-9 Neutral	3.7	8,295	0.0	-0.1	-92%	-600%	184.0	-36.8	0.9	0%	-2%	-12%	5%	-17%

Source: Banc of America Securities-Merrill Lynch estimates

Cut 2009E EPS by 4%

We cut our already conservative 2009 EPS estimate by 4% to NT$32.7 (-14% YoY) due to lower assumptions for gross margin and interest income (much lower interest rate at 0.3% for deposit), despite better-managed Opex.

Table 2: HTC- Reducing estimates for 2009/2010

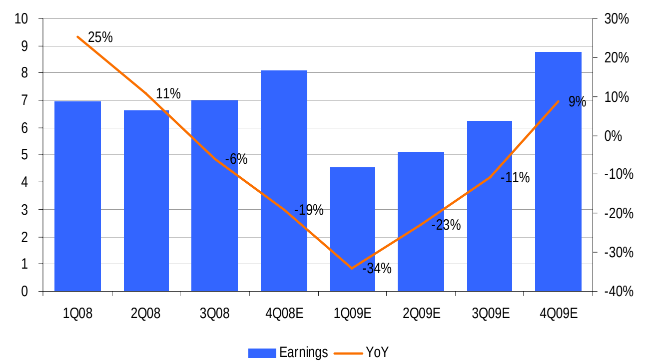
	New		YoY		Old		Diff.	
NT$mn	2009E	2010E	2009E	2010E	2009E	2010E	2009E	2010E
Sales	164,165	189,458	8%	15%	164,017	189,694	0%	0%
Gross Profit	49,862	56,359	-2%	13%	51,272	57,850	-3%	-3%
Opex	(22,614)	(26,452)	11%	17%	(23,522)	(27,990)	-4%	-5%
Operating Profit	27,248	29,907	-10%	10%	27,750	29,860	-2%	0%
Non-Op	510	500	-62%	-2%	1,120	1,220	-54%	-59%
Pre-tax Profit	27,758	30,407	-12%	10%	28,870	31,080	-4%	-2%
Net Profit (adj)	24,704	26,758	-14%	8%	25,694	27,350	-4%	-2%
EPS (NT$)	32.72	35.44			34.03	36.23		
Gross Margin	30.4%	29.7%			31.3%	30.5%		
Opex	-13.8%	-14.0%			-14.3%	-14.8%		
Operating Margin	16.6%	15.8%			16.9%	15.7%		
Net Margin	15.0%	14.1%			15.7%	14.4%		
Tax Rate	-11.0%	-12.0%			-11.0%	-12.0%		

Source: Banc of America Securities-Merrill Lynch estimates

Worse than expected EPS projection for 1Q

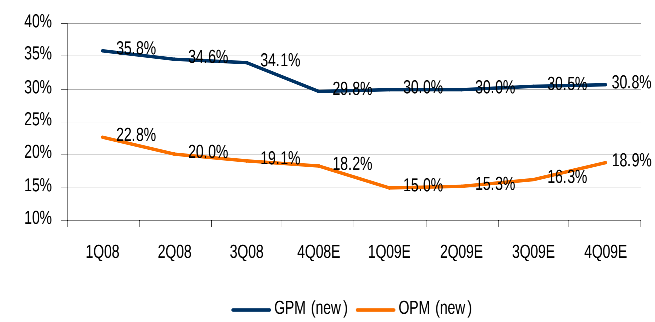
1Q sales target of NT$33bn (-30% QoQ/1% YoY) is inline with our already lowered estimate. 1Q OPM guidance of 15% is a negative surprise, sharply down from 18.2% in 4Q08 and 22.8% in 1Q08, due to a limited bounce in GPM (30%, up only 20bp QoQ) and earlier/expanded marketing costs (15% of sales). Inventory write-down of NT$0.6bn is offset by the reversal of sales warrant. 1Q EPS could decline 34% YoY.

Chart 5: HTC: Quarterly earnings (NT$bn) and YoY growth



Source: Banc of America Securities-Merrill Lynch estimates

Chart 6: HTC: Further downward margins from 4Q08



Source: Banc of America Securities-Merrill Lynch estimates

Inline 4Q but with lower GPM/OPM

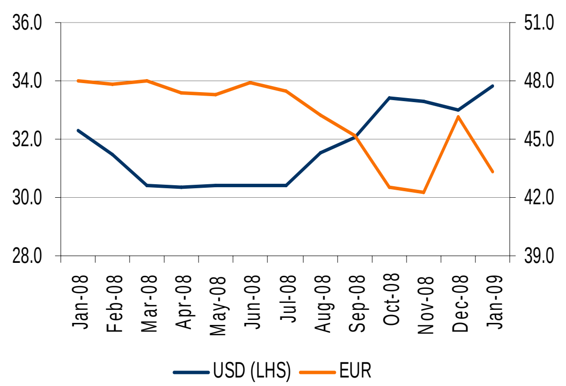
4Q gross margin of 29.8% is lower than our estimate and below its official guidance of 31%+-1%. However, Opex of 11.5% is much lower than our estimate and down from 15% in 3Q08.

Table 3: HTC- Review of 4Q08 results

NT$mn	4Q08P	4Q08E	Diff.	3Q08	QoQ	4Q07	YoY
Sales	47,381	47,353	0%	37,859	25%	39,010	21%
Gross Profit	14,103	14,478	-3%	12,899	9%	16,477	-14%
Operating Expense	(5,458)	(6,085)	-10%	(5,672)	-4%	(6,032)	-10%
Operating Profit	8,645	8,393	3%	7,227	20%	10,445	-17%
Non-operating Income	295	588	-50%	474	-38%	424	-30%
Pre-tax Profit	8,940	8,981	0%	7,701	16%	10,869	-18%
Net Profit	8,083	8,119	0%	6,985	16%	9,992	-19%
EPS (NT$)	10.71	10.75		9.25		13.23	
Gross Margin	29.8%	30.6%		34.1%		42.2%	
Opex	-11.5%	-12.9%		-15.0%		-15.5%	
Operating Margin	18.2%	17.7%		19.1%		26.8%	
Pre-tax Margin	18.9%	19.0%		20.3%		27.9%	
Net Margin	17.1%	17.1%		18.5%		25.6%	
Tax Rate	-9.6%	-9.6%		-9.3%		-8.1%	

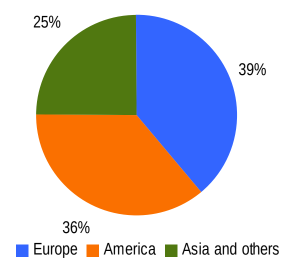
Source: Banc of America Securities-Merrill Lynch estimates

Chart 7: HTC: Euro/USD vs TWD



Source: Bloomberg

Chart 8: HTC: Revenue by region for 2008



Source: HTC

Table 4: HTC- Quarterly Parent Income Statement (bonus-adjusted from 1Q08)

NT$mn	1Q08A	2Q08A	3Q08A	4Q08P	1Q09E	2Q09E	3Q09E	4Q09E	2007A	2008P	2009E	2010E
Sales	32,703	34,621	37,859	47,381	33,173	36,486	42,313	52,192	118,580	152,564	164,165	189,458
Cost of Sales	(21,001)	(22,652)	(24,960)	(33,278)	(23,236)	(25,527)	(29,424)	(36,116)	(72,880)	(101,891)	(114,303)	(133,099)
Gross Profit	11,702	11,969	12,899	14,103	9,937	10,959	12,889	16,077	45,700	50,673	49,862	56,359
Operating Expense	(4,246)	(5,054)	(5,672)	(5,458)	(4,976)	(5,393)	(6,008)	(6,237)	(14,665)	(20,429)	(22,614)	(26,452)
Promotion	(1,653)	(2,198)	(2,831)	(2,450)	(2,289)	(2,518)	(2,835)	(2,714)	(9,872)	(9,131)	(10,355)	(12,550)
ADM	(422)	(458)	(456)	(497)	(448)	(474)	(529)	(652)	(927)	(1,833)	(2,103)	(2,444)
R&D	(2,171)	(2,398)	(2,385)	(2,511)	(2,239)	(2,401)	(2,645)	(2,871)	(3,866)	(9,465)	(10,155)	(11,458)
Operating Profit	7,456	6,915	7,227	8,645	4,961	5,567	6,880	9,840	31,023	30,244	27,248	29,907
Non-operating Income	199	380	474	295	125	135	135	115	1,128	1,348	510	500
Net Interest Income	313	395	349	170	100	110	130	120	816	1,227	460	550
Investment Income	(229)	(66)	122	120	(50)	(50)	(70)	(80)	104	(53)	(250)	(300)
Disposal Gain									1	0	0	0
Exchange Gain	51	166	(277)	(166)					658	(226)	0	0
Others	64	(115)	280	171	75	75	75	75	(452)	400	300	250
Pre-tax Profit	7,655	7,295	7,701	8,940	5,086	5,702	7,015	9,955	32,151	31,592	27,758	30,407
Tax Expense	(710)	(680)	(716)	(857)	(514)	(599)	(779)	(1,163)	(3,212)	(2,963)	(3,053)	(3,649)
Net Profit	6,945	6,615	6,985	8,083	4,572	5,103	6,237	8,792	28,939	28,628	24,704	26,758
EPS	9.20	8.76	9.25	10.71	6.06	6.76	8.26	11.64	38.33	37.92	32.72	35.44
Gross Margin	35.8%	34.6%	34.1%	29.8%	30.0%	30.0%	30.5%	30.8%	38.5%	33.2%	30.4%	29.7%
Operating Expense	-13.0%	-14.6%	-15.0%	-11.5%	-15.0%	-14.8%	-14.2%	-12.0%	-12.4%	-13.4%	-13.8%	-14.0%
Operating Margin	22.8%	20.0%	19.1%	18.2%	15.0%	15.3%	16.3%	18.9%	26.2%	19.8%	16.6%	15.8%
Pre-tax Margin	23.4%	21.1%	20.3%	18.9%	15.3%	15.6%	16.6%	19.1%	27.1%	20.7%	16.9%	16.0%
Net Margin	21.2%	19.1%	18.5%	17.1%	13.8%	14.0%	14.7%	16.8%	24.4%	18.8%	15.0%	14.1%
Tax Rate	9.3%	9.3%	9.3%	9.6%	10.1%	10.5%	11.1%	11.7%	10.0%	9.4%	11.0%	12.0%
Sequential Growth												
Sales	-16%	6%	9%	25%	-30%	10%	16%	23%	13%	29%	8%	15%
Cost of Sales	-7%	8%	10%	33%	-30%	10%	15%	23%	3%	40%	12%	16%
Gross Profit	-29%	2%	8%	9%	-30%	10%	18%	25%	34%	11%	-2%	13%
Operating Expense	-30%	19%	12%	-4%	-9%	8%	11%	4%	100%	39%	11%	17%
Operating Profit	-29%	-7%	5%	20%	-43%	12%	24%	43%	17%	-3%	-10%	10%
Non-operating Income	-53%	91%	25%	-38%	-58%	8%	0%	-15%	178%	20%	-62%	-2%
Pre-Tax Profit	-30%	-5%	6%	16%	-43%	12%	23%	42%	19%	-2%	-12%	10%
Tax Expense	-19%	-4%	5%	20%	-40%	17%	30%	49%	88%	-8%	3%	20%
Net Profit	-30%	-5%	6%	16%	-43%	12%	22%	41%	15%	-1%	-14%	8%

Source: Banc of America Securities-Merrill Lynch estimates

Price objective basis & risk

HTC Corp. (HTCCF)

Our price objective of NT$295 is based on a P/E of 9x 2009E, which is at the mid-end of its three-year P/E band. Though comparable to other brands in Taiwan, the stock is trading at a premium to NB PC ODMs. We believe HTC deserves to trade at a premium to the sector as it has partially completed its transitions (ie, clientele and brand) and has a large net cash position (>20% of market cap). Risks: Execution of model transition to the HTC/Dopod brand, product development, relationship with key customers and competition from leading handset brands, and Research in Motion and Apple. Upside risks are stronger demand on products, particularly for G1, bounce in euro vs TWD, and greater efforts in cost reductions.

Analyst Certification

I, Tony Tseng, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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APR - Technology Hardware Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY				
	Acer, Inc	ASIYF	2353 TT	Tony Tseng, CFA
	AU Optronics	AUO	AUO US	Jeffrey Su
	AU Optronics	AUOPF	2409 TT	Jeffrey Su
	BYD	BYDDF	1211 HK	Daniel Kim, CFA
	Cheil Industries	CLFUF	001300 KS	Simon Dong-je Woo, CFA
	Compal Electron	CMPLF	2324 TT	Tina Chang, CFA
	Coretronic	CCOCF	5371 TT	Jeffrey Su
	Delta Elect	DLTEF	2308 TT	Jeffrey Su

APR - Technology Hardware Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
	Ju Teng Intl	JUTGF	3336 HK	Ronnie Ho
	LG Display Co., Ltd.	LPHLF	034220 KS	Jeffrey Su
	LG Display Co., Ltd.-A	LPL	LPL US	Jeffrey Su
	LG Electronics	LGEAF	066570 KS	Daniel Kim, CFA
	Samsung Techwin	SGTWF	012450 KS	Simon Dong-je Woo, CFA
	Simplo Tech	SPLOF	6121 TT	Tina Chang, CFA
	TPV	TPVTF	903 HK	Daniel Kim, CFA
	Venture Corp.	VEMLF	VMS SP	Ronnie Ho
NEUTRAL				
	Alpha Networks I	AHNWF	3380 TT	Laura Chen
	Foxconn Tech	FXTCF	2354 TT	Tony Tseng, CFA
	Kingboard	KBDCF	148 HK	Ronnie Ho
	Lenovo Group	LNVGF	992 HK	Daniel Kim, CFA
	Lenovo Group	LNVGY	LNVGY US	Daniel Kim, CFA
	Lite-On Tech	LOTZF	2301 TT	Jeffrey Su
	Merry Electron	MMECF	2439 TT	Laura Chen
	Qisda Corp	BNQCF	2352 TT	Jeffrey Su
	Shin Zu Shing	SZUSF	3376 TT	Tina Chang, CFA
	Silitech	SLKCF	3311 TT	Laura Chen
	Wistron	WICOF	3231 TT	Tony Tseng, CFA
	Yageo Corp	YGEQF	2327 TT	Ronnie Ho
UNDERPERFORM				
	Asustek	AKCPF	2357 TT	Tony Tseng, CFA
	Catcher Tech	CHERF	2474 TT	Tony Tseng, CFA
	Chi Mei Opto	CMEOF	3009 TT	Jeffrey Su
	Chicony Elect	CCNYF	2385 TT	Tina Chang, CFA
	Compal Comm	CPCMF	8078 TT	Laura Chen
	Epistar Corp	EPIPF	2448 TT	Jeffrey Su
	Everlight Elec	EVLEF	2393 TT	Jeffrey Su
	Foxconn Intl Hld	FXCNF	2038 HK	Tony Tseng, CFA
	Gemtek Technolog	GTKTF	4906 TT	Laura Chen
	Hon Hai Prec.	HNHAF	2317 TT	Tony Tseng, CFA
	HTC Corp.	HTCCF	2498 TT	Tony Tseng, CFA
	InnoLux	INXDF	3481 TT	Jeffrey Su
	Inventec	IVCJF	2356 TT	Tina Chang, CFA
	Inventec Applian	IVAPF	3367 TT	Tina Chang, CFA
	Largan Precision	LGANF	3008 TT	Laura Chen
	Mitac Intl	MTCXF	2315 TT	Tina Chang, CFA
	Quanta Computer	QUCPF	2382 TT	Tony Tseng, CFA
	Radiant	ROPTF	6176 TT	Jeffrey Su
	Samsung Elec M	SSEMF	009150 KS	Daniel Kim, CFA
	Samsung SDI	SSDIF	006400 KS	Daniel Kim, CFA
	Seoul Semicon	SLSOF	046890 KS	Simon Dong-je Woo, CFA
	Wellypower	XTTWF	3080 TT	Jeffrey Su
	ZTE Corp - H	ZTCOF	763 HK	Ronnie Ho

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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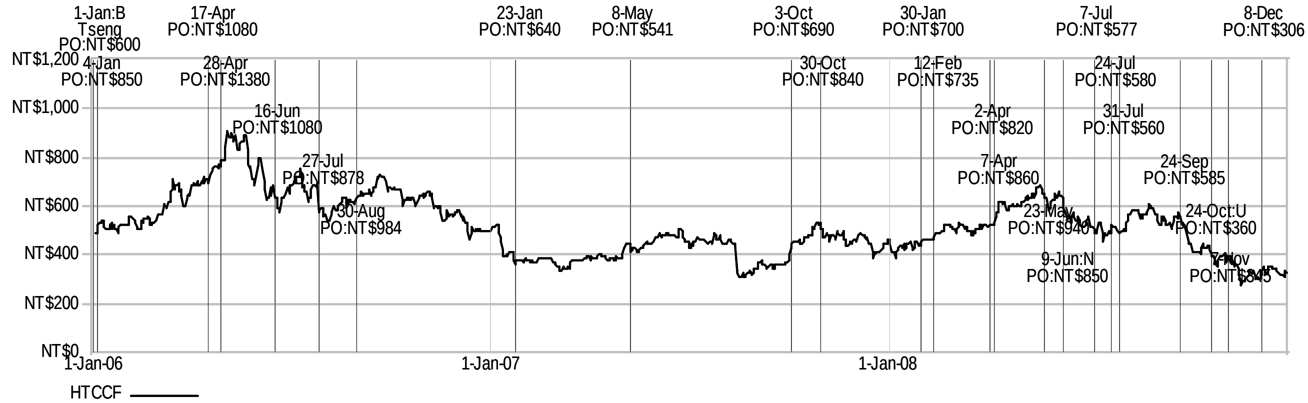
HTCCF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

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Investment Rating Distribution: Electronics Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	26	24.76%	Buy	6	24.00%
Neutral	33	31.43%	Neutral	4	14.29%
Sell	46	43.81%	Sell	3	7.32%

Investment Rating Distribution: Global Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1297	38.46%	Buy	314	26.81%
Neutral	859	25.47%	Neutral	210	28.23%
Sell	1216	36.06%	Sell	229	20.71%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Underperform	N/A	≥ 20%

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