

- Our earlier downgrade (to HOLD) on Oct 1st was mainly because of inventory built-up in emerging market and demand slow-down.
- Upgrade to BUY; we are becoming less cautious on its inventory as we see demand for MTK's chipsets improving.

Net Profit 09 TWD21.3b
.....(From TWD18.8b)

Diff from Consensus.... 6.7%
Consensus (mean) TWD20.0b
Consensus (momentum) ↓

Target Price... TWD328.00
.....(From TWD230.00)

Diff from Consensus ..28.7%
Consensus (median) ... TWD254.8
Consensus (momentum)..... ↓

Current Price.. TWD255.50
Upside/(Downside).....28.4%

BUY
(From Hold)

Recs in the Market

Positive **14**
Neutral **6**
Negative **4**
Consensus (momentum)..... ↓

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

- Upgrade to BUY: We were cautious on market inventory, now see inventory bottoming out and demand improving.
- Trend becomes favourable as: 1) inventory gets healthier, 2) demand picks-up in 2Q09, and 3) single-chip is released.
- Our target price of TWD328 is based on 16x 12-month forward P/E, in line with global-handset IC makers.

Bottom out sign!

Upgrade to BUY with a target price of TWD328
We upgrade MediaTek to BUY from Hold. Our target price is TWD 328 (TWD230 earlier), based on a 16x 12-month forward earnings (12.5x earlier). We use similar valuations as global handset IC makers (Qualcomm, Broadcom, and Infineon) because MediaTek is now the second-largest handset IC maker globally.

Revenue momentum picking up; inventory low
We are turning positive now that we see signs of inventory bottoming out, thanks to lower inventory levels held by MediaTek itself and channel customers. Our channel checks indicate December was the trough month for MediaTek's handset IC shipments (we forecast its handset IC shipments will reach 17m units in Feb, which is 10% higher than 15m shipments of Dec).

1Q09 EPS expected to rebound by 16% q-q
We maintain our 1Q09 revenue forecast for MediaTek at 17% q-q down. However, we expect 1Q09 EPS to be 19% q-q up, on the back of its improved OPEX and non-operating income.

Becoming more upbeat on 2Q09 revenue outlook
Our 2Q09 revenue forecast for MediaTek is 23% q-q up (MediaTek's handset IC shipments jumped by 45% q-q in 2Q07 and 35% q-q in 2Q08), driven by its new single-chip release, demand recovery in China and other emerging markets.

Inventory depletion in emerging markets
From Oct 2008 to January 2009, we note small retailers in emerging markets have suffered from slower demand, currency depreciation, and inventory build-up. Both demand and local currency-exchange rates (dynamic in 4Q08) have stabilized now.

Single-chip release will help to increase market share
MediaTek's new 65nm single chip is a more integrated solution (SRAM, VGA and power management) than Infineon's and should help MTK gain a greater share in the emerging markets in '09. Our handset IC shipments forecast for MTK is 320m units in 2009, up 28% y-y.

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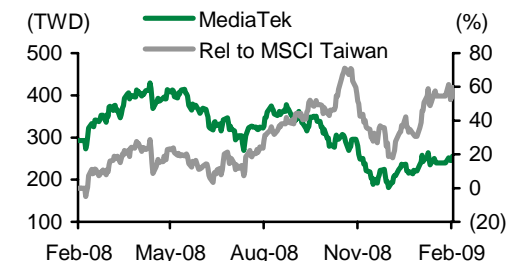
(Full BNP Paribas technology research team list inside)

Earnings Estimates And Valuation Ratios

YE Dec (TWD m)	2008	2009E	2010E	2011E
Revenue	90,402	98,217	114,914	126,635
Reported net profit	19,190	21,323	27,333	31,678
Recurring net profit	19,190	21,323	27,333	31,678
Previous rec net profit	19,000	18,846	23,121	—
Chg from previous (%)	1.0	13.1	18.2	—
Recurring EPS (TWD)	18.01	19.87	25.47	29.52
Prev rec EPS (TWD)	18.23	18.06	22.16	—
Rec EPS growth (%)	(44.7)	10.3	28.2	15.9
Recurring P/E (x)	14.2	12.9	10.0	8.7
Dividend yield (%)	7.2	4.2	4.7	6.0
EV/EBITDA (x)	10.8	9.4	7.1	5.9
Price/book (x)	3.4	3.2	2.8	2.5
ROE (%)	22.9	25.3	29.4	30.3
Net debt/equity (%)	(70.4)	(68.4)	(67.4)	(66.0)

Sources: MediaTek; BNP Paribas estimates

Share Price Daily vs MSCI



Next results/event	May 2009
Market cap (USD m)	7,620
12m avg daily turnover (USD m)	101.9
Free float (%)	92
Major shareholder	Tsai Ming Che (4%)
12m high/low (TWD)	429.21/181.50
ADR (USD)	Nil
Avg daily turnover (USD m)	Nil
Discount/premium (%)	Nil
Disc/premium vs 52-wk avg (%)	Nil

Source: Datastream

Upgrade to BUY with a target price of TWD360

We upgrade MediaTek to BUY from Hold. Our target price is TWD 328 (TWD230 earlier), based on a 16x 12-month forward earnings (12.5x earlier). We are using similar valuations as global handset IC makers (Qualcomm, Broadcom, and Infineon) because MediaTek is now the second-largest handset IC maker globally.

We are turning positive now that we see: 1) healthier inventory level in emerging markets, 2) in-house inventory is at healthy levels (TWD5.5bn at end-4Q08, down from TWD 9.0bn at end-3Q08), and 3) Chinese New Year demand was quite good (after double checking with China channel makers). In addition, we see MediaTek moving into an upward trend. Its handset IC shipments will gradually increase from March (for Labour Day), and we believe its market share will keep increasing in emerging markets – following its single chip release in 2Q09. We believe it is the time to upgrade!

Healthier inventory levels and seasonality to push revenue further...

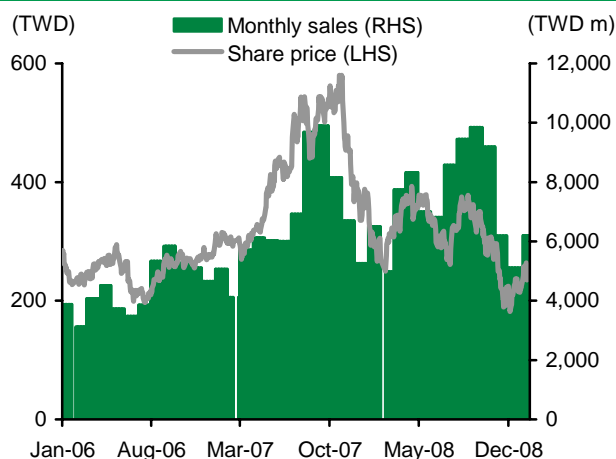
Our previous downgrade (to HOLD) on 1 October 2008 was mainly the result of inventory build-ups in emerging markets and slow down in demand (our earlier upgrade to BUY on 8 August 2008 was because of upbeat 3Q08 revenue outlook). Now, inventory depletion in emerging markets is almost done. In addition, demand will recover from 2Q09, following seasonality. We upgrade MediaTek to BUY.

Bottom has already arrived

Our channel checks indicate the December was the trough for MediaTek's handset IC shipments (we forecast its handset IC shipments will reach 17m units in Feb, which is 10% higher than 15m shipments of Dec). We believe the revenue pattern will continue going up until 3Q09, in line with historic patterns. This is attributed to seasonality, new product releases (mainly single chip), and better inventory levels in China and in emerging markets.

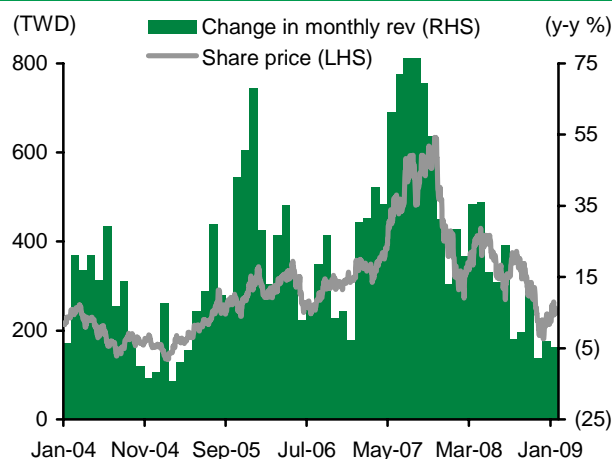
Bottom already behind us?

Exhibit 1: MediaTek's Share Price Is Highly Correlated To Monthly Revenue



Sources: Company reports; BNP Paribas estimates

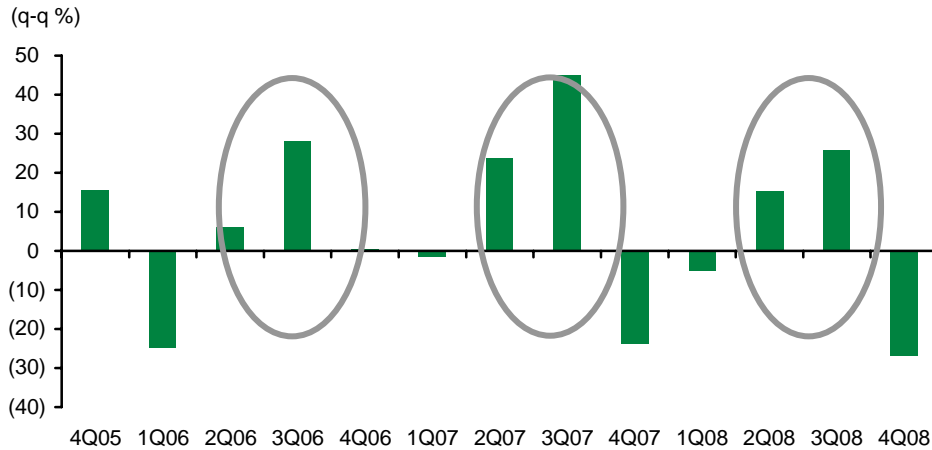
Exhibit 2: MediaTek's Share Price Is Also Correlated To Y-Y Change In Monthly Revenue



Sources: Company reports; BNP Paribas estimates

Higher expectations on 2Q09 revenue outlook

Our 2Q09 revenue forecast for MediaTek is up 23% q-q (MediaTek's handset IC shipments jumped by 45% q-q in 2Q07 and jumped by 35% q-q in 2Q08), driven by its new single-chip release, recovered demand in China, and recovered demand from emerging markets (preparing for '09 Christmas season). MediaTek's second quarter revenue momentum has consistently been stronger since the company took on the handset IC business. We therefore have high expectations on its 2Q09 revenue.

Exhibit 3: Quarterly Revenue Growth Cycle

MediaTek's revenue has always bounced back in 2nd quarter (revenue is generated from handsets ICs from 2006)

Sources: Company reports; BNP Paribas

1Q09 EPS expected to rebound by 24% q-q

We maintain our 1Q09 revenue forecast for MediaTek at 17% q-q down. However we have raised our 1Q09 EPS to TWD3.34, as a reflection of its improved OPEX (TWD5.6bn in 1Q09, down from TWD6.5bn in 4Q08) and improved non-operating income (TWD 6M in 1Q09, up from -TWD1.6bn in 4Q08). Our update 1Q09 EPS indicates a 24% q-q increase of its bottom line. In other words: its EPS trough was in 4Q08.

Exhibit 4: 4Q08 Results Review And 1Q09 Estimates

Year-end 31 Dec	4Q08 (TWD m)	4Q08BNPPE (TWD m)	Difference (%)	1Q09E (TWD m)
Net sale	20,654	20,496	0.01	17,068
Gross profit	11,252	11,191	0.01	9,336
Gross margin (%)	54.5	54.6	(10) bps	54.7
Operating profit	4,732	4,641	0.02	3,736
Pre-tax profit	3,102	2,991	0.04	3,670
Net profit	2,881	2,691	0.07	3,584
EPS (TWD)	2.70	2.58	0.05	3.34

Note: We included the following assumptions into our forecast:
 1) 40% ADI related expense is allocated in COGS, 60% in SG&A;
 2) ADI acquisition cost is amortized within THREE years;
 3) Earning dilution of 25% of net income is allocated in SG&A
 Sources: MediaTek; BNP Paribas estimates

Inventory depletion largely in emerging markets

We attribute MediaTek's volatile handset IC shipments to its clients (retailers) structure in emerging markets and in China. Therefore, the health inventory adjustment among these clients/retailers has been critical to coming demand. From Oct to January 2009, we note small retailers in emerging markets have suffered from slower demand, currency depreciation, and inventory build-up. After our survey, we believe the inventory adjustment is becoming healthy. In addition, the currency exchange rate (dynamic in 4Q08) is stabilizing. In short, we believe MediaTek's handset IC shipments will rebound from March, following healthier inventory levels.

MediaTek's handset IC shipments expected to rebound from March

Single-chip release aids market-share gain in emerging markets

We notice MediaTek's GSM/GPRS handset single chip (targeted at ultra low cost handset market) is on schedule for commercial shipment in 1Q09. This new single chip (based at 65nm process) is a higher-integrated solution (than Infineon) on SRAM, VGA, and power management solution. We believe this new single-chip will help MediaTek gain market share in the emerging handset IC market in 2009 (over 40% of handset IC market is dominated by ULC single chip in emerging markets). We forecast

MediaTek's handset IC market share will reach 24% in 2009, up from 15% in 2008. Our handset IC shipments forecast for MediaTek is 320m units in 2009, indicating 28% y-y growth. MediaTek, next to Qualcomm, is one of few global handset IC makers to show high growth in 2009.

Exhibit 5: Valuation Comparison Table – TW IC Design Houses

Companies	Share price* (TWD)	EPS		P/E	
		2008E (TWD)	2009E (TWD)	2008E (x)	2009E (x)
MediaTek	255.50	18.01	19.87	14.2	12.9
Sunplus	12.95	1.03	1.07	12.6	12.1
Realtek	37.00	2.96	3.52	12.5	10.5
Novatek	38.10	7.79	7.12	4.9	5.4
Richtek	138.00	11.27	12.23	12.2	11.3
Ralink	72.70	8.95	9.95	8.1	7.3
GUC	134.00	6.45	6.87	20.8	19.5
Sonix	42.60	4.35	3.65	9.8	11.7
Holtek	23.80	2.81	2.11	8.5	11.3
Phison	88.40	4.12	4.70	21.4	18.8
Ali	22.20	1.23	1.46	18.0	15.3
Faraday	31.20	2.09	1.94	14.9	16.1
Average				13.2	12.7

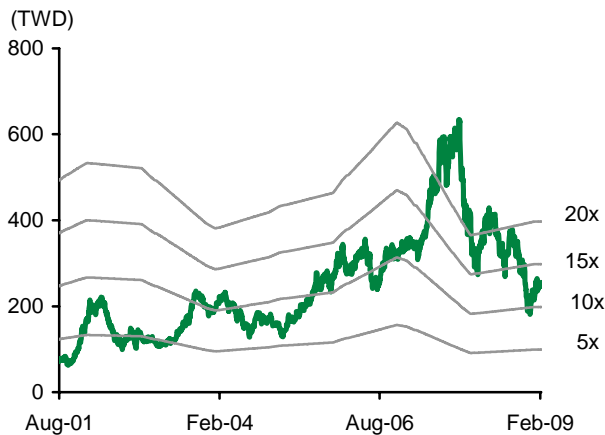
*Share Price in the above table are as on 6 Feb '09; Earnings estimate accounted for employee bonus expense for 2008 & going forward
Sources: Bloomberg; BNP Paribas estimates

Exhibit 6: Valuation Comparison Table – Global major handset IC makers

Company	Ticker	Revenue 2007 (USD m)	Share price* (USD)	SPS 2007 (USD)	P/S 2007 (x)	EPS		P/E		Market cap (USD b)
						2008E (USD)	2009E (USD)	2008E (x)	2009E (x)	
Qualcomm	QCOM US	8,871	33.83	5.3	6.3	2.03	1.77	16.7	19.1	57.8
Infineon	IFX GR	5,415	0.85	7.2	0.1	0.12	neg	7.3	na	0.7
Xilinx Inc	XLNX US	1,841	17.19	6.2	2.8	1.29	1.23	13.4	14.0	5.0
Altera	ALTR US	1,264	15.89	3.7	4.3	1.17	0.65	13.6	24.4	5.0
TI	TXN US	13,835	16.84	9.8	1.7	1.47	0.27	11.5	61.9	21.3
MediaTek*	2454 TT	2,219	7.58	2.1	3.6	0.53	0.59	14.2	12.9	7.6
Average								13.0	17.6	

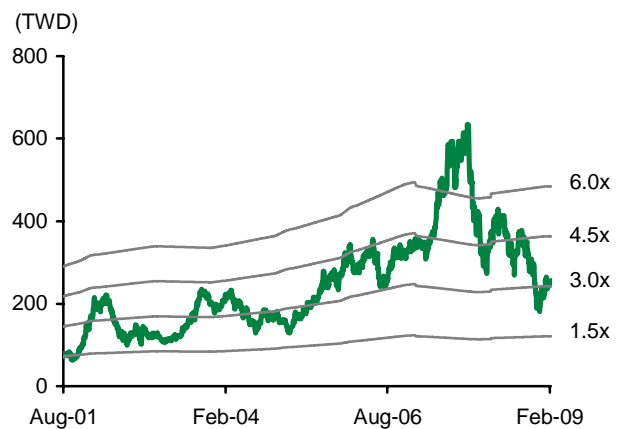
*Share prices in the above table are as on 4 Feb '09 except MediaTek which is as on 6 Feb '09; MediaTek & Infineon nos. are converted to USD; TI not included in avg. calculations.
Sources: Bloomberg; BNP Paribas estimates

Exhibit 7: Forward P/E Band Chart



Sources: Company reports; BNP Paribas estimates

Exhibit 8: Forward P/BV Band Chart



Sources: Company reports; BNP Paribas estimates

FINANCIAL STATEMENTS

MediaTek

Profit and Loss (TWD m)					
Year Ending December	2007A	2008A	2009E	2010E	2011E
Revenue	74,779	90,402	98,217	114,914	126,635
Cost of sales ex depreciation	(32,173)	(41,415)	(44,757)	(53,645)	(57,707)
Gross profit ex depreciation	42,606	48,987	53,460	61,269	68,928
Other operating income	-	-	-	-	-
Operating costs	(10,800)	(26,275)	(30,542)	(32,211)	(35,205)
Operating EBITDA	31,806	22,712	22,918	29,058	33,723
Depreciation	(380)	(404)	(470)	(437)	(454)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	31,426	22,308	22,448	28,621	33,269
Net financing costs	1,042	1,252	630	601	701
Associates	-	(8)	2	3	4
Recurring non operating income	2,366	(2,438)	148	647	647
Non recurring items	-	-	-	-	-
Profit before tax	34,834	21,114	23,228	29,872	34,621
Tax	(1,240)	(1,924)	(1,905)	(2,539)	(2,943)
Profit after tax	33,594	19,190	21,323	27,333	31,678
Minority interests	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	33,594	19,190	21,323	27,333	31,678
Non recurring items & goodwill (net)	-	-	-	-	-
Recurring net profit	33,594	19,190	21,323	27,333	31,678
Per share (TWD)					
Recurring EPS *	32.59	18.01	19.87	25.47	29.52
Reported EPS	32.59	18.01	19.87	25.47	29.52
DPS	14.85	18.43	10.81	11.92	15.28
Growth					
Revenue (%)	41.2	20.9	8.6	17.0	10.2
Operating EBITDA (%)	31.6	(28.6)	0.9	26.8	16.1
Operating EBIT (%)	32.0	(29.0)	0.6	27.5	16.2
Recurring EPS (%)	38.9	(44.7)	10.3	28.2	15.9
Reported EPS (%)	38.9	(44.7)	10.3	28.2	15.9
Operating performance					
Gross margin inc depreciation (%)	56.5	53.7	54.0	52.9	54.1
Operating EBITDA margin (%)	42.5	25.1	23.3	25.3	26.6
Operating EBIT margin (%)	42.0	24.7	22.9	24.9	26.3
Net margin (%)	44.9	21.2	21.7	23.8	25.0
Effective tax rate (%)	3.6	9.1	8.2	8.5	8.5
Dividend payout on recurring profit (%)	45.6	102.3	54.4	46.8	51.8
Interest cover (x)	na	na	na	na	na
Inventory days	73.7	66.3	50.2	50.3	53.1
Debtor days	22.8	22.0	24.3	26.7	27.7
Creditor days	61.9	48.5	49.0	57.3	60.8
Operating ROIC (%)	412.2	296.7	569.8	434.4	335.0
Operating ROIC - WACC (%)	403.2	287.7	560.8	425.4	326.0
ROIC (%)	95.1	55.9	80.2	89.2	88.7
ROIC - WACC (%)	86.1	46.9	71.2	80.2	79.7
ROE (%)	43.8	22.9	25.3	29.4	30.3
ROA (%)	37.5	18.4	20.1	23.5	24.6

Turning positive on back of healthy, in house and emerging markets, inventory levels

One of the few global handset IC makers to show high growth in 2009

Sources: MediaTek; BNP Paribas estimates

Cash Flow (TWD m)					
Year Ending December	2007A	2008A	2009E	2010E	2011E
Recurring net profit	33,594	19,190	21,323	27,333	31,678
Depreciation	380	404	470	437	454
Associates & minorities	2	-	(50)	(50)	(51)
Other non-cash items	281	1,658	131	(357)	(344)
Recurring cash flow	34,257	21,252	21,874	27,363	31,737
Change in working capital	(1,474)	(217)	(1,861)	1,438	(697)
Capex - maintenance	-	-	-	-	-
Capex - new investment	(2,421)	(1,706)	(1,983)	(2,091)	(2,286)
Free cash flow to equity	30,362	19,329	18,030	26,709	28,754
Net acquisitions & disposals	(14,828)	-	-	-	-
Dividends paid	(15,462)	(19,776)	(11,598)	(12,794)	(16,400)
Non recurring cash flows	6,289	12,324	(4,972)	(5,967)	(7,160)
Net cash flow	6,361	11,876	1,459	7,949	5,194
Equity finance	0	0	-	-	-
Debt finance	-	-	-	-	-
Movement in cash	6,361	11,876	1,459	7,949	5,194
Per share (TWD)					
Recurring cash flow per share	33.23	19.95	20.38	25.50	29.57
FCF to equity per share	29.45	18.14	16.80	24.89	26.79
Balance Sheet (TWD m)					
Year Ending December	2007A	2008A	2009E	2010E	2011E
Working capital assets	16,895	13,566	17,140	20,058	21,804
Working capital liabilities	(11,286)	(17,232)	(20,439)	(21,360)	(21,626)
Net working capital	5,609	(3,666)	(3,299)	(1,302)	178
Tangible fixed assets	5,222	6,503	7,695	8,964	10,333
Operating invested capital	10,831	2,837	4,396	7,661	10,512
Goodwill	-	-	-	-	-
Other intangible assets	1,479	12,029	13,232	14,555	16,011
Investments	27,977	9,382	9,851	10,344	10,861
Other assets	-	-	-	-	-
Invested capital	40,287	24,248	27,479	32,560	37,383
Cash & equivalents	(45,718)	(57,594)	(59,203)	(67,152)	(72,346)
Short term debt	-	-	-	-	-
Long term debt *	-	-	-	-	-
Net debt	(45,718)	(57,594)	(59,203)	(67,152)	(72,346)
Deferred tax	-	-	-	-	-
Other liabilities	67	83	83	83	83
Total equity	85,938	81,759	86,599	99,629	109,646
Minority interests	-	-	-	-	-
Invested capital	40,287	24,248	27,479	32,560	37,383
<i>* Includes convertibles and preferred stock which is being treated as debt</i>					
Per share (TWD)					
Book value per share	82.56	76.18	80.69	92.83	102.17
Tangible book value per share	81.14	64.97	68.36	79.27	87.25
Financial strength					
Net debt/equity (%)	(53.2)	(70.4)	(68.4)	(67.4)	(66.0)
Net debt/total assets (%)	(47.0)	(58.1)	(55.3)	(55.5)	(55.1)
Current ratio (x)	5.5	4.1	3.7	4.1	4.4
CF interest cover (x)	na	na	na	na	na
Valuation					
2007A	2008A	2009E	2010E	2011E	
Recurring P/E (x) *	7.8	14.2	12.9	10.0	8.7
Recurring P/E @ target price (x) *	10.1	18.2	16.5	12.9	11.1
Reported P/E (x)	7.8	14.2	12.9	10.0	8.7
Dividend yield (%)	5.8	7.2	4.2	4.7	6.0
P/CF (x)	7.7	12.8	12.5	10.0	8.6
P/FCF (x)	8.7	14.1	15.2	10.3	9.5
Price/book (x)	3.1	3.4	3.2	2.8	2.5
Price/tangible book (x)	3.1	3.9	3.7	3.2	2.9
EV/EBITDA (x) **	6.3	10.8	9.4	7.1	5.9
EV/EBITDA @ target price (x) **	8.4	14.6	12.7	9.7	8.2
EV/invested capital (x)	5.5	8.9	7.8	6.4	5.4
<i>* Pre exceptional, pre-goodwill and fully diluted</i>					
<i>** EBITDA includes associate income and recurring non-operating income</i>					

Sources: MediaTek; BNP Paribas estimates

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*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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