



EARNINGS REVIEW  
**Mediatek (2454.TW)**

Neutral

**Above expectations; lacks mid-term catalysts for a sustained rally**

**What surprised us**

Mediatek reported 4Q08 rev of NT\$20.7bn, above GS: NT\$19.2bn, but EPS of NT\$2.70, well below GS: NT\$3.58 mainly due to a LT investment impairment loss of NT\$1.20/share. Mediatek guided 1Q09 rev of NT\$17.4-19.0bn, in-line with GS: NT\$18.5bn. Highlights: 1) Consistent with our checks, Mediatek observed that China handset sales were above expectation and channel inventory is healthy post CNY. Handset should represent 65-70% of total sales in 1Q09, from 60-65% in 4Q08. 2) Mediatek guided flat to slightly up gross margin and expects normal cost down in wafer/packaging. 3) Mediatek plans to cut its non-GAAP OPEX to NT\$4.5-4.7bn in 1Q09 from a NT\$5bn run rate, through reducing executive salary and prioritizing overseas R&D programs. 4) Inventory has decreased 38% qoq in 4Q08. 5) Mediatek expects its FY09 dividend payout ratio to increase from the 58% level in FY08. 6) Mediatek shipped approximately 220mn handset chips in 2008 and expects handset shipments to increase yoy in 2009. 7) After taking numerous impairment/inventory/investment losses in 4Q08, Mediatek expects minimal additional charges in 2009. 8) Mediatek expects to ship its W-CDMA and Smart-phone chips in 2H09. Our checks indicate that China Unicom is evaluating one of its W-CDMA handsets and should complete the review in May. 9) Mediatek is still negotiating with Qualcomm for 3G license.

**What to do with the stock**

We expect short-term stock upside due to re-stocking demand in 1H09. While Mediatek's W-CDMA, smart phone, and BD-DVD products are potential strong growth drivers in 2010E, its handset shipment growth should be muted in 2009 and subject to the following uncertainties: 1) market share gain of CDMA in China, 2) customers' shift to village netbook, 3) increasing group purchase of Chinese carriers, and 4) royalty payment to Qualcomm. We adjust our '09E-'11E rev/eps by 4%-16%. We maintain our Neutral rating, but raise our 12-m TP from NT\$225 to NT\$265 based on 1X '09E-'12E PEG (implying 15X '09E P/E). Key risks: prolonged inventory correction and weaker than we expected end demand in China.

**INVESTMENT LIST MEMBERSHIP**

Neutral

**Coverage View: Neutral**

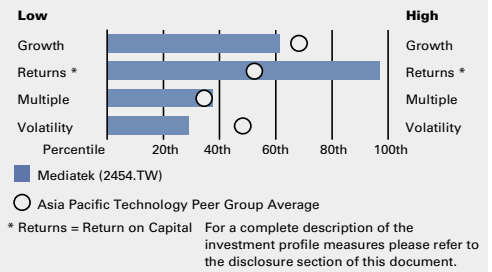
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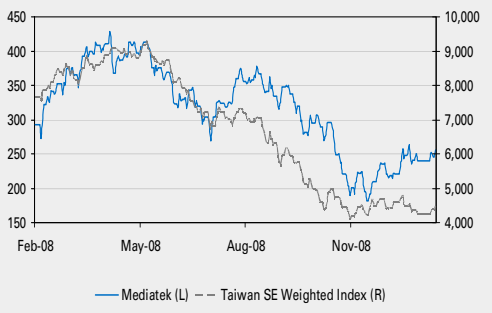
**Investment Profile**



Key data	Current
Price (NT\$)	255.50
12 month price target (NT\$)	265.00
Market cap (NT\$ mn / US\$ mn)	269,200.9 / 7,992.4
Foreign ownership (%)	44.5

	12/08	12/09E	12/10E	12/11E
<b>EPS (NT\$) New</b>	<b>18.21</b>	<b>17.36</b>	<b>19.83</b>	<b>22.57</b>
EPS revision (%)	(4.4)	15.7	6.7	9.5
EPS growth (%)	(44.2)	(4.7)	14.2	13.8
<b>EPS (dil) (NT\$) New</b>	<b>18.21</b>	<b>17.36</b>	<b>19.83</b>	<b>22.57</b>
P/E (X)	14.0	14.7	12.9	11.3
P/B (X)	3.3	3.0	2.7	2.4
EV/EBITDA (X)	11.2	8.9	7.2	5.9
Dividend yield (%)	7.3	5.6	5.2	5.9
ROE (%)	22.9	21.5	22.2	22.4

**Price performance chart**



Share price performance (%)	3 month	6 month	12 month
Absolute	(1.9)	(26.4)	(12.8)
Rel. to Taiwan SE Weighted Index	3.0	15.7	49.6

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

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Research written by Donald Lu on companies listed in Taiwan is written by him in his capacity as consultant to Goldman Sachs (Asia) L.L.C. Any other research is written in his capacity as employee of Beijing Gao Hua Securities Company Limited.

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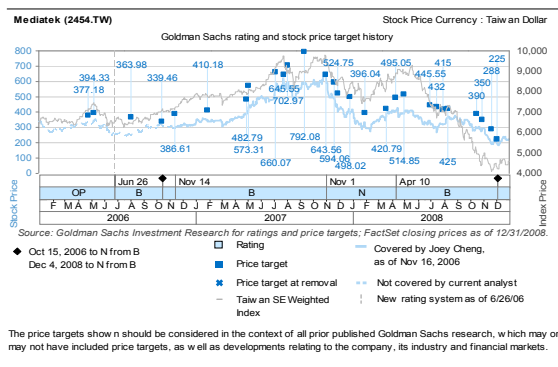
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	Rating Distribution			Investment Banking Relationships		
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## Price target and rating history chart(s)



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