

Morgan Stanley Asia Limited+

**Bill Lu**

Bill.Lu@morganstanley.com  
+852 2848 5214

**Charlie Chan**

Charlie.Chan@morganstanley.com  
+852 2848 5636

February 9, 2009

Stock Rating  
**Overweight**

Industry View  
**In-Line**

## MediaTek

### Finding Growth in a Tough Year; PT Up; Remain OW

#### What's Changed

Price Target	<b>NT\$280.00 to NT\$300.00</b>
ModelWare EPS 09/10e	<b>+9%/+4%</b>

**Investment conclusion:** We continue to like MediaTek, the only company in our coverage with EPS growth expected in 2009 yet trading at similar valuations to peers. Focus on China handsets is a big part of the growth story but also the main reason for lack of visibility and high revenue volatility. We believe much of the negative news flow and volatility is priced in the shares and it is time to focus on growth potential. We raise our price target to NT\$300 and remain Overweight.

**What's new:** MediaTek reported 4Q08 revenue of NT\$20.65 billion, down 26.4% Q/Q but slightly better than the preannounced range of 30-33% decline. Management guided for 1Q09 revenues to fall by 8-16%, at high end of expectations for a 15% drop but worse than our Street-high expectation of down 5%. We believe the guidance is conservative.

**Raising estimates slightly:** We maintain our 2009 revenue estimate but increase our EPS estimate by 9%. The increase in EPS is a result of lower opex as guided by management.

**Where we differ:** We are positive long term, as China handset growth should continue, 3G adoption should pick up in 2010, and other new products could begin to contribute in 2H09. In addition, our analysis of handset supply and demand shows that MediaTek is due to see a pickup as it catches up with subscriber growth.

**China handset subscription monthly net adds:** Monthly subscriber sales have risen close to net adds (see Exhibit 1). Historical correlation suggests that when sales fall below net adds, the stock should be bought, and in our view, we are right there.

#### Key Ratios and Statistics

Reuters: 2454.TW Bloomberg: 2454 TT

##### Taiwan IC Design

Price target	NT\$300.00
Upside to price target (%)	17
Shr price, close (Feb 6, 2009)	NT\$255.50
52-Week Range	NT\$440.10-177.00
Sh out, dil, curr (mn)	1,030
Mkt cap, curr (mn)	NT\$263,216
EV, curr (mn)	NT\$202,758
Avg daily trading volume (mn)	NT\$3,204

Fiscal Year ending	12/07	12/08e	12/09e	12/10e
ModelWare EPS (NT\$)	23.86	18.08	18.78	21.14
Prior ModelWare EPS (NT\$)	-	18.55	17.18	20.33
Consensus EPS (NT\$)§	29.78	19.03	17.65	22.54
Revenue, net (NT\$ mn)	80,410	90,402	89,000	96,979
EBITDA (NT\$ mn)	24,814	25,592	25,451	27,914
ModelWare net inc (NT\$ mn)	24,583	19,191	20,241	22,777
P/E	17.5	12.2	13.6	12.1
P/BV	5.0	2.9	3.0	2.7
RNOA (%)	53.0	65.4	67.9	62.0
ROE (%)	36.4	22.3	24.8	24.8
EV/EBITDA	14.9	6.9	7.9	7.1
Div yld (%)	3.4	8.5	4.9	5.1
FCF yld ratio (%)	5.4	11.8	6.7	6.3
Leverage (EOP) (%)	(70.3)	(70.4)	(68.2)	(64.4)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

§ = Consensus data is provided by FactSet Estimates.

e = Morgan Stanley Research estimates

Morgan Stanley does and seeks to do business with companies covered in Morgan Stanley Research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of Morgan Stanley Research. Investors should consider Morgan Stanley Research as only a single factor in making their investment decision.

**For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.**

+ = Analysts employed by non-U.S. affiliates are not registered with FINRA, may not be associated persons of the member and may not be subject to NASD/NYSE restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

February 9, 2009

MediaTek

## MediaTek: Financial Summary

### Income Statements

NT\$m (Years End Dec)	2007	2008	2009E	2010E
<b>Net sales</b>	<b>80,410</b>	<b>90,402</b>	<b>89,000</b>	<b>96,979</b>
COGS	(35,186)	(41,819)	(41,456)	(45,995)
Gross profit	45,224	48,583	47,544	50,984
Operating expenses	(13,231)	(19,871)	(18,870)	(19,471)
<b>Operating income</b>	<b>31,993</b>	<b>28,712</b>	<b>28,674</b>	<b>31,513</b>
Non-operating income	3,068	(1,194)	1,100	1,300
Pre-tax income	35,060	27,518	29,774	32,813
Income tax	(1,468)	(2,133)	(2,882)	(2,953)
<b>Net income (excl. emp. bonus)</b>	<b>33,592</b>	<b>25,385</b>	<b>26,892</b>	<b>29,860</b>
Employee Bonus Expense	9,009	6,404	6,723	7,465
<b>Net income (incl. emp. bonus)</b>	<b>24,583</b>	<b>19,190</b>	<b>20,241</b>	<b>22,645</b>
Adj.wtd.avg.shrs (m)	1,030	1,061	1,078	1,078
<b>Reported EPS (NT\$)</b>	<b>32.6</b>	<b>18.1</b>	<b>18.8</b>	<b>21.0</b>
<b>Modelware EPS (NT\$)</b>	<b>23.9</b>	<b>18.1</b>	<b>18.8</b>	<b>21.0</b>

### Cash Flow Statements

NT\$m (Years End Dec)	2007	2008	2009E	2010E
<b>Cash flow from Operations</b>	<b>27,157</b>	<b>35,824</b>	<b>20,929</b>	<b>21,771</b>
Net profits	33,592	19,190	20,241	22,645
Depreciation	1,830	3,283	3,500	3,716
Equity investment losses (income)	(2,440)	2,438	0	0
Other adjustments	(5,826)	10,913	(2,812)	(4,591)
<b>Cash flow from Investing</b>	<b>(8,952)</b>	<b>(10,694)</b>	<b>(2,485)</b>	<b>(4,531)</b>
Capex	(1,122)	(1,667)	(1,300)	(1,300)
Change of LT Investment	(4,055)	1,407	(2,500)	(2,500)
Change of ST Investment	(2,969)	0	0	0
Other adjustments	(805)	(10,434)	1,315	(731)
<b>Cash flow from financing</b>	<b>(4,359)</b>	<b>(22,899)</b>	<b>(13,433)</b>	<b>(14,169)</b>
Increase in L/T debt	0	0	0	0
Increase in S/T debt	0	0	0	0
Cash Dividend Paid	(14,525)	(19,776)	(13,433)	(14,169)
Dir& Emp Bonus Paid	(1,038)	(3,276)	0	0
Issuance of stock	0	0	0	0
Other adjustments	11,204	153	0	0
Exchange rate adjustment	87	203	0	0
<b>Net change in cash</b>	<b>13,933</b>	<b>2,434</b>	<b>5,012</b>	<b>3,070</b>

### Balance Sheets

NT\$m (Years End Dec)	2007	2008	2009E	2010E
Cash	50,588	53,022	58,034	61,104
Mkt Securities	9,971	4,573	4,573	4,573
AR/NR	7,192	5,429	9,147	9,967
Inventory	10,540	5,547	8,061	8,943
Other	1,624	2,589	1,780	1,940
<b>Current Assets</b>	<b>79,915</b>	<b>71,160</b>	<b>81,595</b>	<b>86,528</b>
Long-term investments	7,477	8,970	8,970	8,970
Fixed assets	5,128	6,504	7,804	9,104
Other assets	6,201	12,440	13,350	14,547
<b>Total Assets</b>	<b>98,721</b>	<b>99,074</b>	<b>111,719</b>	<b>119,148</b>
S/T borrowings	25	0	0	0
AP/NP	7,508	4,907	8,521	9,327
Other ST liabilities	5,062	12,325	11,322	7,788
LT debt	9	0	0	0
Other LT liabilities	67	83	83	83
<b>Total Liabilities</b>	<b>12,671</b>	<b>17,315</b>	<b>19,926</b>	<b>17,198</b>
Common shares	10,409	10,732	10,732	10,732
Retained earning	75,176	71,208	78,016	86,492
Other shareholders' equity	465	(181)	3,044	4,726
<b>Total Equity</b>	<b>86,049</b>	<b>81,759</b>	<b>91,792</b>	<b>101,950</b>
<b>Total Liab. &amp; Shrhldr's Equity</b>	<b>98,721</b>	<b>99,074</b>	<b>111,719</b>	<b>119,148</b>

### Financial Ratios

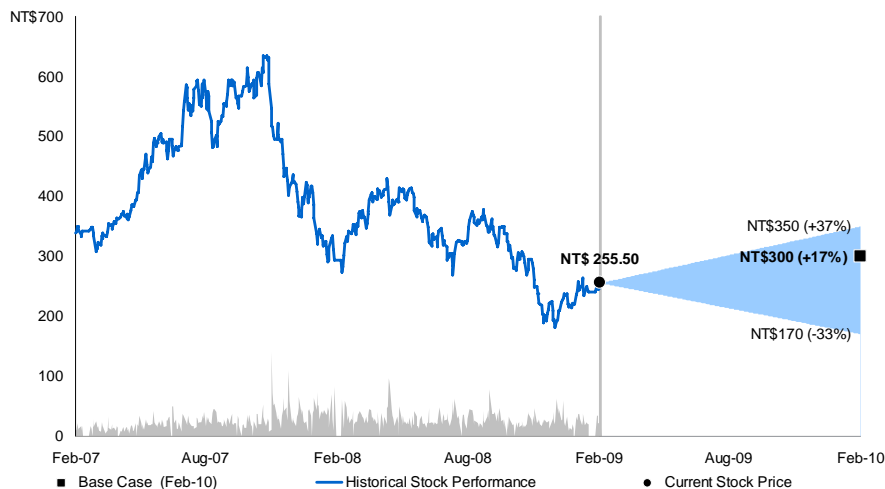
	2007	2008	2009E	2010E
<b>Growth(%)</b>				
Turnover	51.9	12.4	-1.6	9.0
Operating profits	34.3	-10.3	-0.1	9.9
Pretax profits	43.8	-21.5	8.2	10.2
Net profits	48.8	-24.4	5.9	11.0
EPS	150.6	-24.2	3.9	11.9
<b>Margins (%)</b>				
Gross Margin	56.2	53.7	53.4	52.6
Operating Margin	39.8	31.8	32.2	32.5
Pretax Margin	43.6	30.4	33.5	33.8
Net Profit	41.8	28.1	30.2	30.8
<b>Return (%)</b>				
ROAA	38.3	25.7	25.5	25.9
ROAE	43.7	30.3	31.0	30.8
<b>Gearing (%)</b>				
Net Debt/Equity	(58.8)	(64.9)	(63.2)	(59.9)
Liabilities/Equity	14.7	21.2	21.7	16.9
<b>Ratios (X)</b>				
Current ratio	6.3	4.1	4.1	5.1
Quick ratio	4.6	3.4	3.4	4.2
<b>Others</b>				
AR/NR Turnover (days)	32	22	37	37
Inventory Turnover (days)	-108	-48	-70	-70
AP Turnover (days)	77	42	74	73
Cash Conversion (days)	-152	-68	-107	-106

E = Morgan Stanley Research Estimates

Source: Morgan Stanley Research, Company Data

## Risk-Reward Snapshot: MediaTek (2454.TW, NT\$255.5, OW, PT NT\$300)

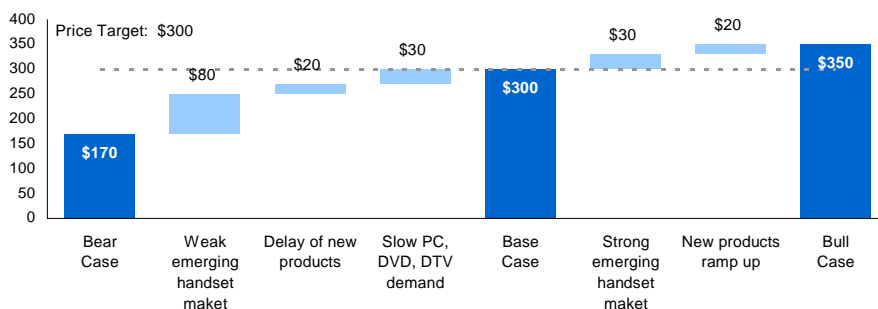
### Risk-Reward View: Skewed to Upside



Source: Company data, Morgan Stanley Research

Price Target NT\$300		Derived Residual Income model
<b>Bull Case</b> NT\$350	RI valuation	20% unit growth of the wireless business, because of quick expansion of overseas business, and penetration into top OEMs (such as Moto, Nokia, etc). New products start to contribute significant revenue in '09. Wireless penetration increases quickly in China and other emerging markets.
<b>Base Case</b> NT\$300	RI valuation	China domestic handset units decline 5% Y/Y, while total units (including export) grow 5%-10% Y/Y. New businesses such as 3G, Smartphone, Blu-ray, are ramping up in 2H09. Continuous wireless penetration in China other emerging markets.
<b>Bear Case</b> NT\$170	RI valuation	With weak emerging handset market demand, handset units decline 20% Y/Y. New business development does not ramp up smoothly and contributes minimal revenue in '09. Bleak demand for PC ODD, DVD players, and DTV products

### Bear to Bull: Emerging Handset Growth Is the Key Value Driver



Source: Morgan Stanley, FactSet

### Investment Thesis

- We continue like MediaTek as it is the only company in our coverage universe with EPS growth expected in 2009 and yet trading at similar valuation to peers.
- Focus on China handsets is a big part of the growth story, but also the core cause for lack of visibility and high revenue volatility.
- We are positive long-term, as China handset growth should continue, 3G adoption should pick-up in 2010, and other new products could begin to contribute in 2H09.

### Key Value Drivers

- Emerging handset market growth.
- Introduction of new products such as 3G, Smartphone, and Blu-ray.
- Wireless penetration outside of China, in other emerging markets.
- Demand for PC ODD, DVD players, and DTV products

### Potential Catalysts

- Recovery in emerging handset market demand.
- New design wins from top OEMs.

### Risks

- Worse-than-expected China handset demand.
- Additional competitive threats in the wireless segment.
- Lack of adoption of the company's new products.

## Investment Case

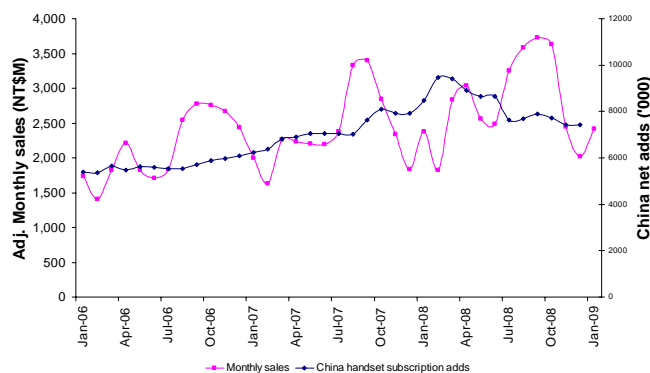
### Summary & Conclusions

We continue to like MediaTek, which is the only company in our coverage universe with EPS growth expected in 2009 and yet is trading at a similar valuation to its peers. A focus on China handsets is a big part of the growth story but also the main reason for lack of visibility and high revenue volatility. In our view, a lot of the negative news flow and volatility have been priced into the shares, and it is time to focus on growth potential. We have raised our 2009 earnings estimates by 9% and increased our price target from NT\$280 to NT\$300.

While near-term news on MediaTek is always hard to judge, Exhibit 1 is our attempt to make sense of it and predict where monthly sales might go. As shown, the historical correlation between subscriber net adds and monthly sales has been strong, except that monthly sales are more volatile. However, when monthly sales fall below net adds, we believe the stock should be bought, and we are right there. Historically, MediaTek share price correlated to monthly sales, and thus the up-cycle of monthly sales imply potential share price upside in the near-term.

Exhibit 1

### MediaTek Monthly Sales vs. China Net Handset Subscription Additions



Source: Company data, Morgan Stanley Research

### 4Q08 Results

MediaTek reported 4Q revenue of NT\$20.6 billion, down 26.4% Q/Q. Sales of all products declined Q/Q due to the macro slowdown, but the company's share of the handset market continues to increase, and handset revenues rose Y/Y. ASP rose slightly due to changes in the mix (to higher-end feature phone), and the gross margin widened by 20 bps Q/Q thanks to depreciation in the NT dollar, a better mix, and cost

reduction efforts. Fourth-quarter GAAP EPS were NT\$2.7, down 60% Q/Q (Exhibit 2).

For the whole year, MediaTek reported revenue of NT\$90.4 billion, up 12.5% Y/Y, with GM of 53.7%, down 2.6% Y/Y (although 4Q08 GM was up Y/Y).

Inventory ended the quarter at 71 days, down from 73 days in 3Q08. This is lower than we expected, mainly, we guess, because results were slightly better than the negative preannounced results because of quick adjustments at the suppliers.

Revenue mix by product was as follows: handsets 60-65%, ODD 15-20%, DVD/TV: 5-10% each. Handset continue to outperform the rest of the company's product lines.

Exhibit 2

### MediaTek 4Q08 Earnings Results vs. MS Estimates

NT\$ mn	4Q08	3Q08	4Q07	QoQ	YoY	4Q08E	Diff.
Net sales	20,654	28,052	20,380	-26.4%	1.3%	20,289	1.8%
COGS	9,402	12,833	9,232			9,279	
Gross profit	11,252	15,219	11,148	-26.1%	0.9%	11,011	2.2%
Operating expenses	5,659	5,027	4,691			5,163	
Operating profit	5,593	10,192	6,457	-45.1%	-13.4%	5,847	-4.3%
Non-op. income (expense)	(1,629)	(72)	300			(1,150)	
Pretax income	3,964	10,120	6,757	-60.8%	-41.3%	4,697	-15.6%
Taxes	239	448	443			282	
Net income before bonus	3,725	9,672	6,314	-61.5%	-41.0%	4,415	-15.6%
Employee bonus expense	862	2,553	2,252			1,104	
<b>Reported net income</b>	<b>2,881</b>	<b>7,182</b>	<b>4,062</b>	<b>-59.9%</b>	<b>-29.1%</b>	<b>3,382</b>	<b>-14.8%</b>
<b>Reported EPS</b>	<b>2.71</b>	<b>6.74</b>	<b>6.13</b>	<b>-59.7%</b>	<b>-55.7%</b>	<b>3.19</b>	<b>-14.8%</b>
<b>Margins</b>							
Gross margin	54.5%	54.3%	54.7%			54.3%	
Operating margin	27.1%	36.3%	31.7%			28.8%	
Pretax margin	19.2%	36.1%	33.2%			23.2%	
Net margin	18.0%	34.5%	31.0%			21.8%	
Opex %	27.4%	17.9%	23.0%			25.4%	

Source: Company data, Morgan Stanley Research

### 1Q09 Guidance

Management guided for 1Q09 revenue to decline by 8-16%. We believe the consensus was for around a 15% decline. Management stated that Chinese New Year demand was solid and thus January sales were strong; given the macro environment, however, customers are still unwilling to build inventory and thus February/March sales are uncertain. By product, handsets should continue to outperform and will make up 65-70% of revenues.

On the cost/margin side, the company expects GM to be flat or up slightly and operating expenses to return to 1H08 levels (NT\$4.5-4.7 billion non-GAAP), as MediaTek continues to cut costs based on project assessments, salary cuts, and lower expenses in foreign offices.

February 9, 2009

MediaTek

Management also guided for a 2009 dividend payout ratio to exceed those of 2007 and 2008, which implies a ratio of over 58%.

## Handset Update

Management's comments on the China handset market are generally in line with our own thoughts (see our report *China Handset Quarterly Update: Key Trends in 2009*, February 4, 2009). MediaTek shipped around 220 million handsets in 2008. Below, we summarize some of management's key points;

**2009 handset shipment outlook:** Management expects unit shipments to rise in 2009 (from 220 mn units in 2008) but did not provide an exact magnitude as visibility remains limited. Export handset shipments have stabilized and are expected to make a similar revenue contribution as in 2008 (>30%). We currently estimate that the China handset market will decline by 5% Y/Y in 2009; including export handsets, however, we project Y/Y growth of 5-10%.

**3G in China:** In line with our view, management sees a slow 3G ramp in China and stated that its WCDMA solution will not be in mass production until 2H09. The company expects 3G chipsets to carry higher gross margins than 2G initially.

**New products:** The company expects both the single chip SoC product and the smartphone chipset to be ready by 2H09. Management estimates that the smartphone market in China is less than 10% of the total, while the low-end (which the single-chip SoC addresses) is likely 10-15%.

## Earnings Revisions

We fine-tune our 2009 revenue estimate up from NT\$87 billion to NT\$89 billion based on better-than-expected 1Q numbers. We are also increasing our EPS estimate, to NT\$18.8 from NT\$17.2 as a result of the lower opex guided by management and higher expected gross margins (Exhibit 3).

## Valuation

We maintain our Overweight rating on MediaTek. Concurrent with our earnings revision, we increase our residual income-based stock price target from NT\$280 to NT\$300 (Exhibit 4), which implies a 16x 2009E P/E. We assume 9% cost of equity and terminal growth of 4% for MediaTek's RI model.

Risks to our price target include worse-than-expected China handset demand, additional competitive threats in the wireless segment, and the lack of adoption of the company's new products.

Exhibit 3

### MediaTek 2009 Earnings Revisions Summary

	2/6/2009			2/6/2009		
	Current	Previous	Diff. %	Current	Previous	Diff. %
NT\$ mn	2008E	2008E		2009E	2009E	
Net sales	90,402	90,037	0%	89,000	87,041	2%
COGS	41,819	41,696		41,456	40,830	
Gross profit	48,583	48,342	0%	47,544	46,212	3%
Operating expenses	19,871	19,375		18,870	20,942	
Operating profit	28,712	28,966	-1%	28,674	25,270	13%
Non-op. income (expense)	(1,194)	(715)		1,100	1,700	
Pretax income	27,518	28,251	-3%	29,774	26,970	10%
Taxes	2,133	2,176		2,882	2,658	
Net income before emp. Bonu:	25,385	26,075	-3%	26,892	24,313	11%
Reported net income	19,190	19,691	-3%	20,241	18,514	9%
Reported EPS	18.08	18.55	-3%	18.78	17.18	9%
<b>Margins</b>						
Gross margin	53.7%	53.7%		53.4%	53.1%	
Operating margin	31.8%	32.2%		32.2%	29.0%	
Pretax margin	30.4%	31.4%		33.5%	31.0%	
Net margin	28.1%	29.0%		30.2%	27.9%	

Wireless chipsets (mn units) 231 245

Source: Company data, Morgan Stanley Research Estimates

## Company Description

MediaTek designs and markets optical disk drive chipsets, wireless communication chipsets, and digital consumer products such as DVD player/recorder chipsets and HDTV ICs. MediaTek was ranked as Taiwan's No. 1 fabless IC design house in terms of revenues in 2007. Of total sales, handset chipsets account for 55-60%, digital TV 10-15%, PC ODD 10-15%, consumer DVD 10%, and others <5%.

## Taiwan IC Design

### Industry View: In-Line

Taiwan fabless design houses face risks in relation to volatility in end-demand, intensified price competition, and foundry supply.

### MSCI Country: Taiwan

Asia Strategist's Recommended Weight: 11.3%  
MSCI Asia/Pac All Country Ex Jp Weight: 11.4%



February 9, 2009

MediaTek

Exhibit 5

## MediaTek: Quarterly P&L

<i>NT\$ in million</i>	1Q08	2Q08	3Q08	4Q08	1Q09E	2Q09E	3Q09E	4Q09E	2007	2008	2009E	2010E
<b>Total revenues</b>	<b>19,378</b>	<b>22,318</b>	<b>28,052</b>	<b>20,654</b>	<b>18,869</b>	<b>20,080</b>	<b>23,416</b>	<b>26,635</b>	<b>80,410</b>	<b>90,402</b>	<b>89,000</b>	<b>96,979</b>
<i>Sequential Change</i>	-4.9%	15.2%	25.7%	-26.4%	-8.6%	6.4%	16.6%	13.7%				
<i>Change vs. Year Ago</i>	29.8%	21.2%	5.1%	1.3%	-2.6%	-10.0%	-16.5%	29.0%	51.9%	12.4%	-1.6%	9.0%
<b>Cost of Sales</b>	<b>9,276</b>	<b>10,308</b>	<b>12,833</b>	<b>9,402</b>	<b>8,560</b>	<b>9,299</b>	<b>10,992</b>	<b>12,605</b>	<b>35,186</b>	<b>41,819</b>	<b>41,456</b>	<b>45,995</b>
<i>Percent of Revenues</i>	47.9%	46.2%	45.7%	45.5%	45.4%	46.3%	46.9%	47.3%	43.8%	46.3%	46.6%	47.4%
<b>Gross Profit</b>	<b>10,102</b>	<b>12,010</b>	<b>15,219</b>	<b>11,252</b>	<b>10,309</b>	<b>10,781</b>	<b>12,425</b>	<b>14,030</b>	<b>45,224</b>	<b>48,583</b>	<b>47,544</b>	<b>50,984</b>
<i>Percent of Revenues</i>	52.1%	53.8%	54.3%	54.5%	54.6%	53.7%	53.1%	52.7%	56.2%	53.7%	53.4%	52.6%
<i>Incremental Margin</i>	NM	65%	56%	NM	NM	39%	49%	50%	53%	34%	NM	43%
<b>Total Opex</b>	<b>4,667</b>	<b>4,518</b>	<b>5,027</b>	<b>5,659</b>	<b>4,541</b>	<b>4,613</b>	<b>4,781</b>	<b>4,934</b>	<b>13,231</b>	<b>19,871</b>	<b>18,870</b>	<b>19,471</b>
<i>Percent of Revenues</i>	24.1%	20.2%	17.9%	27.4%	24.1%	23.0%	20.4%	18.5%	16.5%	22.0%	21.2%	20.1%
R&D	3,618	3,593	3,927	4,705	3,650	3,700	3,800	3,900	9,096	15,843	15,050	15,517
<i>Percent of Revenues</i>	18.7%	16.1%	14.0%	22.8%	19.3%	18.4%	16.2%	14.6%	11.3%	17.5%	16.9%	16.0%
General & Adm Exp.	602	451	563	574	544	554	574	584	2,577	2,190	2,256	2,335
<i>Percent of Revenues</i>	3.1%	2.0%	2.0%	2.8%	2.9%	2.8%	2.5%	2.2%	3.2%	2.4%	2.5%	2.4%
Selling Expenses	447	474	537	380	347	359	407	450	1,558	1,838	1,564	1,619
<i>Percent of Revenues</i>	2.3%	2.1%	1.9%	1.8%	1.8%	1.8%	1.7%	1.7%	1.9%	2.0%	1.8%	1.7%
<b>Operating Income</b>	<b>5,435</b>	<b>7,492</b>	<b>10,192</b>	<b>5,593</b>	<b>5,768</b>	<b>6,167</b>	<b>7,643</b>	<b>9,096</b>	<b>31,993</b>	<b>28,712</b>	<b>28,674</b>	<b>31,513</b>
<i>Percent of Revenues</i>	28.0%	33.6%	36.3%	27.1%	30.6%	30.7%	32.6%	34.2%	39.8%	31.8%	32.2%	32.5%
<b>Total Non-operating Income (loss)</b>	<b>174</b>	<b>333</b>	<b>-72</b>	<b>-1,629</b>	<b>200</b>	<b>250</b>	<b>300</b>	<b>350</b>	<b>3,068</b>	<b>-1,194</b>	<b>1,100</b>	<b>1,300</b>
Net Interest Inc.	316	368	307	298	200	200	200	200	1,554	1,289	800	800
Net Investment Inc.	167	107	-2	-280	0	50	100	150	1,572	-8	300	500
Disposal of Investment	0	0	0	0	0	0	0	0	-2	0	0	0
Disposal of Fixed Assets	0	0	0	0	0	0	0	0	0	0	0	0
Exchange Gain (Loss)	-168	160	131	-160	0	0	0	0	-94	-37	0	0
Other Income (Loss)	-141	-302	-508	-1,487	0	0	0	0	38	-2,438	0	0
<b>Profit Before Taxes</b>	<b>5,609</b>	<b>7,825</b>	<b>10,120</b>	<b>3,964</b>	<b>5,968</b>	<b>6,417</b>	<b>7,943</b>	<b>9,446</b>	<b>35,060</b>	<b>27,518</b>	<b>29,774</b>	<b>32,813</b>
<i>Percent of Revenues</i>	28.9%	35.1%	36.1%	19.2%	31.6%	32.0%	33.9%	35.5%	43.6%	30.4%	33.5%	33.8%
<i>Change vs. Year Ago</i>	-45%	-23%	-21%	-42%	9%	-9%	-6%	85%	-5.3%	-30.2%	9.9%	1.1%
<b>Taxes</b>	<b>317</b>	<b>1,129</b>	<b>448</b>	<b>239</b>	<b>477</b>	<b>1,013</b>	<b>635</b>	<b>756</b>	<b>1,468</b>	<b>2,133</b>	<b>2,882</b>	<b>2,953</b>
<i>Tax Rate</i>	5.7%	14.4%	4.4%	6.0%	8.0%	15.8%	8.0%	8.0%	4.2%	7.8%	9.7%	9.0%
<b>Net Income (excl. emp. bonus expense)</b>	<b>5,292</b>	<b>6,696</b>	<b>9,672</b>	<b>3,725</b>	<b>5,490</b>	<b>5,404</b>	<b>7,308</b>	<b>8,690</b>	<b>33,592</b>	<b>25,385</b>	<b>26,892</b>	<b>29,860</b>
<i>Percent of Revenues</i>	27.3%	30.0%	34.5%	18.0%	29.1%	26.9%	31.2%	32.6%	41.8%	28.1%	30.2%	30.8%
Employee Bonus Expense	1,323	1,666	2,553	862	1,373	1,351	1,827	2,173	9,009	6,404	6,723	7,465
<b>Total Net Income (incl. emp. bonus expense)</b>	<b>4,031</b>	<b>5,096</b>	<b>7,182</b>	<b>2,881</b>	<b>4,136</b>	<b>4,071</b>	<b>5,499</b>	<b>6,536</b>	<b>24,583</b>	<b>19,190</b>	<b>20,241</b>	<b>22,645</b>
<i>Percent of Revenues</i>	20.8%	22.8%	25.6%	13.9%	21.9%	20.3%	23.5%	24.5%	30.6%	21.2%	22.7%	23.4%
<b>EPS (NT\$, excl. emp. bonus expense)</b>	<b>5.12</b>	<b>6.48</b>	<b>9.08</b>	<b>3.51</b>	<b>5.09</b>	<b>5.01</b>	<b>6.78</b>	<b>8.06</b>	<b>32.6</b>	<b>24.2</b>	<b>25.0</b>	<b>27.7</b>
<i>Change vs. Year Ago</i>	-33%	-12%	-21%	-43%	0%	-23%	-25%	130%	47%	-26%	3%	11%
<b>ModelWare EPS (NT\$, US GAAP)</b>	<b>3.90</b>	<b>4.93</b>	<b>6.74</b>	<b>2.71</b>	<b>3.84</b>	<b>3.78</b>	<b>5.10</b>	<b>6.06</b>	<b>23.9</b>	<b>18.1</b>	<b>18.8</b>	<b>21.0</b>
<i>Change vs. Year Ago</i>	-28%	-5%	-28%	-31%	-2%	-23%	-24%	123%	151%	-24%	4%	12%
<i>Earning dilution by employee bonus</i>	33%	33%	36%	30%	33%	33%	33%	33%	37%	33%	33%	33%
<b>Reported EPS (NT\$, TW GAAP)</b>	<b>3.90</b>	<b>4.93</b>	<b>6.74</b>	<b>2.71</b>	<b>3.84</b>	<b>3.78</b>	<b>5.10</b>	<b>6.06</b>	<b>32.6</b>	<b>18.1</b>	<b>18.8</b>	<b>21.0</b>
<i>Change vs. Year Ago</i>	-49%	-33%	-41%	-56%	-2%	-23%	-24%	123%	47%	-45%	4%	12%
Adj.wtd.avg.shrs (mil)	1,034	1,034	1,066	1,061	1,078	1,078	1,078	1,078	1,030	1,061	1,078	1,078

E = Morgan Stanley Research Estimates Source: Company data, Morgan Stanley Research



**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

## Disclosure Section

The information and opinions in Morgan Stanley Research were prepared or are disseminated by Morgan Stanley Asia Limited (which accepts the responsibility for its contents) and/or Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z, regulated by the Monetary Authority of Singapore, which accepts the responsibility for its contents), and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H, regulated by the Monetary Authority of Singapore, which accepts the responsibility for its contents), and/or Morgan Stanley Taiwan Limited and/or Morgan Stanley & Co International plc, Seoul Branch, and/or Morgan Stanley Australia Limited (A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents), and/or Morgan Stanley India Company Private Limited and their affiliates (collectively, "Morgan Stanley").

For important disclosures, stock price charts and rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures), or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Equity Research Management), New York, NY, 10036 USA.

### Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Bill Lu.

Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

### Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at [www.morganstanley.com/institutional/research/conflictolicies](http://www.morganstanley.com/institutional/research/conflictolicies).

### Important US Regulatory Disclosures on Subject Companies

In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from MediaTek. Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: MediaTek.

The research analysts, strategists, or research associates principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

### STOCK RATINGS

Morgan Stanley uses a relative rating system using terms such as Overweight, Equal-weight, Not-Rated or Underweight (see definitions below). Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold and sell. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst's views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

### Global Stock Ratings Distribution

(as of January 31, 2009)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>773</b>	<b>33%</b>	<b>223</b>	<b>37%</b>	<b>29%</b>
<b>Equal-weight/Hold</b>	<b>1044</b>	<b>44%</b>	<b>266</b>	<b>44%</b>	<b>25%</b>
<b>Not-Rated/Hold</b>	<b>33</b>	<b>1.4%</b>	<b>8</b>	<b>1.3%</b>	<b>24.2%</b>
<b>Underweight/Sell</b>	<b>498</b>	<b>21%</b>	<b>101</b>	<b>17%</b>	<b>20%</b>
<b>Total</b>	<b>2,348</b>		<b>598</b>		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

### Analyst Stock Ratings

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

February 9, 2009

MediaTek

Not-Rated/Hold (NA or NAV) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months. Please note that NA or NAV may also be used to designate stocks where a rating is not currently available for policy reasons. For the current list of Not-Rated/Hold stocks as counted above in the Global Stock Ratings Distribution Table, please email [morganstanley.research@morganstanley.com](mailto:morganstanley.research@morganstanley.com).

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

### Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

### Other Important Disclosures

Morgan Stanley produces a research product called a "Tactical Idea." Views contained in a "Tactical Idea" on a particular stock may be contrary to the recommendations or views expressed in this or other research on the same stock. This may be the result of differing time horizons, methodologies, market events, or other factors. For all research available on a particular stock, please contact your sales representative or go to Client Link at [www.morganstanley.com](http://www.morganstanley.com).

For a discussion, if applicable, of the valuation methods used to determine the price targets included in this summary and the risks related to achieving these targets, please refer to the latest relevant published research on these stocks.

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities/instruments discussed in Morgan Stanley Research may not be suitable for all investors. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The "Important US Regulatory Disclosures on Subject Companies" section in Morgan Stanley Research lists all companies mentioned where Morgan Stanley owns 1% or more of a class of common securities of the companies. For all other companies mentioned in Morgan Stanley Research, Morgan Stanley may have an investment of less than 1% in securities or derivatives of securities of companies and may trade them in ways different from those discussed in Morgan Stanley Research. Employees of Morgan Stanley not involved in the preparation of Morgan Stanley Research may have investments in securities or derivatives of securities of companies mentioned and may trade them in ways different from those discussed in Morgan Stanley Research. Derivatives may be issued by Morgan Stanley or associated persons.

Morgan Stanley and its affiliate companies do business that relates to companies/instruments covered in Morgan Stanley Research, including market making and specialized trading, risk arbitrage and other proprietary trading, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Research on a principal basis.

With the exception of information regarding Morgan Stanley, research prepared by Morgan Stanley Research personnel are based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley Research personnel conduct site visits from time to time but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits.

The value of and income from your investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in your securities transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. Unless otherwise stated, the cover page provides the closing price on the primary exchange for the subject company's securities/instruments.

To our readers in Taiwan: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. Information on any securities/instruments issued by a company owned by the government of or incorporated in the PRC and listed in on the Stock Exchange of Hong Kong ("SEHK"), namely the H-shares, including the component company stocks of the Stock Exchange of Hong Kong ("SEHK")'s Hang Seng China Enterprise Index; or any securities/instruments issued by a company that is 30% or more directly- or indirectly-owned by the government of or a company incorporated in the PRC and traded on an exchange in Hong Kong or Macau, namely SEHK's Red Chip shares, including the component company of the SEHK's China-affiliated Corp Index is distributed only to Taiwan Securities Investment Trust Enterprises ("SITE"). The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.

To our readers in Hong Kong: Information is distributed in Hong Kong by and on behalf of, and is attributable to, Morgan Stanley Asia Limited as part of its regulated activities in Hong Kong. If you have any queries concerning Morgan Stanley Research, please contact our Hong Kong sales representatives.

Certain information in Morgan Stanley Research was sourced by employees of the Shanghai Representative Office of Morgan Stanley Asia Limited for the use of Morgan Stanley Asia Limited.

Morgan Stanley Research is disseminated in Japan by Morgan Stanley Japan Securities Co., Ltd.; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents); in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore, which accepts responsibility for its contents; in Australia by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services licence No. 233742, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited; in Canada by Morgan Stanley Canada Limited, which has approved of, and has agreed to take responsibility for, the contents of Morgan Stanley Research in Canada; in Germany by Morgan Stanley Bank AG, Frankfurt am Main, regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin); in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that Morgan Stanley Research has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the United States by Morgan Stanley & Co. Incorporated, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized and regulated by Financial Services Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. Private U.K. investors should obtain the advice of their Morgan Stanley & Co. International plc representative about the investments concerned. In Australia, Morgan Stanley Research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. RMB Morgan Stanley (Proprietary) Limited is a member of the JSE Limited and regulated by the Financial Services Board in South Africa. RMB Morgan Stanley (Proprietary) Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at wholesale customers only, as defined by the DFSA. This research will only be made available to a wholesale customer who we are satisfied meets the regulatory criteria to be a client.

February 9, 2009

MediaTek

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA.

As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided in accordance with a contract of engagement on investment advisory concluded between brokerage houses, portfolio management companies, non-deposit banks and clients. Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations.

The trademarks and service marks contained in Morgan Stanley Research are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data. The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property of MSCI and S&P.

Morgan Stanley has based its projections, opinions, forecasts and trading strategies regarding the MSCI Country Index Series solely on publicly available information. MSCI has not reviewed, approved or endorsed the projections, opinions, forecasts and trading strategies contained herein. Morgan Stanley has no influence on or control over MSCI's index compilation decisions.

Morgan Stanley Research, or any portion hereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

Morgan Stanley Research is disseminated and available primarily electronically, and, in some cases, in printed form.

**Additional information on recommended securities/instruments is available on request.**

**The Americas**

1585 Broadway  
New York, NY 10036-8293  
**United States**  
Tel: +1 (1) 212 761 4000

**Europe**

20 Bank Street, Canary Wharf  
London E14 4AD  
**United Kingdom**  
Tel: +44 (0) 20 7 425 8000

**Japan**

4-20-3 Ebisu, Shibuya-ku  
Tokyo 150-6008  
**Japan**  
Tel: +81 (0) 3 5424 5000

**Asia/Pacific**

1 Austin Road West  
Kowloon  
**Hong Kong**  
Tel: +852 2848 5200

**Industry Coverage: Taiwan IC Design**

<b>Company (Ticker)</b>	<b>Rating (as of)</b>	<b>Price (02/06/2009)</b>
<b>Charlie Chan</b>		
Global Mixed-mode Technology (8081.TW)	U (09/30/2008)	NT\$98
Richtek (6286.TW)	E (12/03/2008)	NT\$138
<b>Bill Lu</b>		
MediaTek (2454.TW)	O (08/20/2007)	NT\$255.5
Ralink Technology (3534.TW)	E (12/05/2008)	NT\$72.7
Realtek Semiconductor (2379.TW)	U (12/05/2008)	NT\$37
Sunplus Technology (2401.TW)	U (03/27/2008)	NT\$12.95

Stock Ratings are subject to change. Please see latest research for each company.