

Taiwan: Chemicals

Formosa: Mixed sales performance but outlook remains negative

Mixed sales performance but negative outlook remains; Sell

FPC (1301.TW) and NYPC (1303.TW) reported mom sales declines in Jan. of 9.1% and 14.2%, respectively mainly due to sales volumes declining during the Chinese New Year (CNY). FCFC (1326.TW) and FPCC (6505.TW) reported mom sales increases in Jan. of 6.2% and 29.7%, respectively as prices rebounded for some chemical and oil products as well as the end of the CDU maintenance shutdown at FPCC. We think the price increases were mainly driven by inventory re-stocking rather than demand driven, as well as some U.S. cracker shutdowns. However, as these idle capacities may resume production any time, we maintain our negative view on the Formosa group given our belief that the chemical cycle is still trending down, that new capacities are coming on line across the Middle East, and overall demand remains weak.

Recent product price rebounds not sustainable; remain negative

We attribute the mom sales decrease for FPC and NYPC to the lower sales volumes across all products during CNY. We believe the positive sales momentum for FCFC in Jan. is due to price rebounds in PX and SM driven by inventory re-stocking while PTA margins fell 82% during the period. We see the most significant sales improvement in FPCC among all four Formosa companies. We believe the mom sales increase is mainly due to the end of the CDU maintenance shutdown as well as the 45% mom increase in the price of naphtha during the period, while ethylene-naphtha spread declined 11% during the period. We continue to see price and margin pressure across all chemical and oil products given new capacities across the Middle East, falling oil prices, and weak global demand.

Risks

Potential sequential earnings improvement in 1Q09 from a low earnings base in 4Q08 (due, as expected, to a substantial inventory write-down) could trigger a short-term rebound in share prices, in our view.

Best Sell idea

While we believe FPC may see a structural margin improvement in PVC, providing a more sustainable operating profit, we believe NYPC, FCFC and FPCC will continue to face margin pressure from new supply competition over the next 12 months.

GS RATINGS AND 12-M PRICE TARGETS

| Company | Ticker | GS Rating | 12-m TP |
|-----------------------|---------|-----------|---------|
| Formosa Plastics | 1301.TW | Sell | 34 |
| Nan Ya Plastics | 1303.TW | Sell | 29 |
| Formosa Chem & Fibre | 1326.TW | Sell | 32 |
| Formosa Petrochemical | 6505.TW | Sell | 33 |

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Source: Goldman Sachs Research estimates.

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Exhibit 1: Formosa group January sales

| NT\$ mn | Jan-09 | mom (%) | yoy (%) | Full year achievement rate (%) |
|-----------------------|---------------|----------------|----------------|---------------------------------------|
| Formosa Plastics | 8,798 | -9.1% | -49.7% | 5.6% |
| Nan Ya Plastics | 8,493 | -14.2% | -60.6% | 4.8% |
| Formosa Chem & Fibre | 11,481 | 6.2% | -51.6% | 5.2% |
| Formosa Petrochemical | 39,965 | 29.7% | -49.7% | 6.5% |

Source: Company data, Goldman Sachs Research estimates.

Reg AC

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The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

Quantum

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Taiwan Mid-Caps: Asia Cement, Taiwan Cement, Taiwan Fertilizer.

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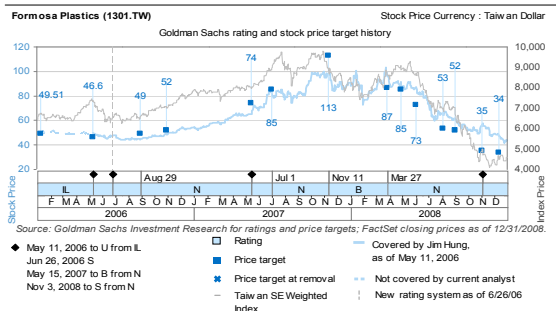
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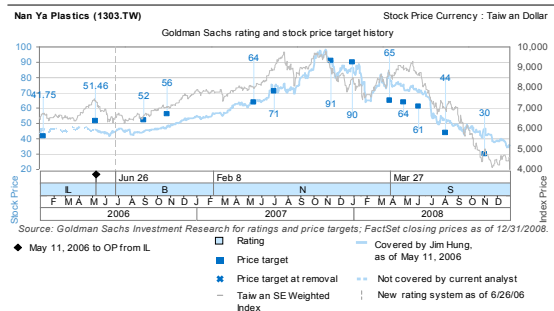
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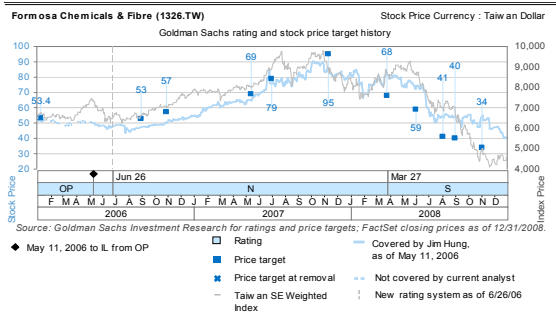
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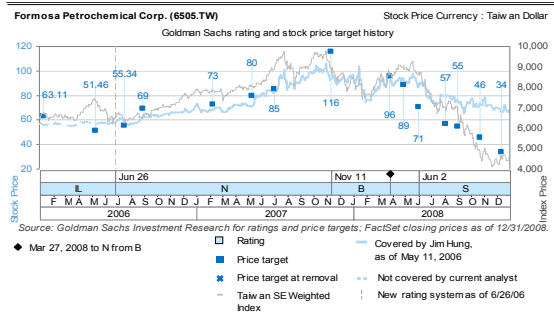
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