Hon Hai Precision 2317 TT

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Technology/Technology Hardware & Equipment
Change in Recommendation
16 June 2009

SO WHAT? THE BNP PARIBAS ANGLE — INDUSTRY OUTLOOK: ← →

- Our 2010 earnings is 21% higher than consensus to reflect better margin outlook and potential PC demand recovery in 2010E.
- Share price corrected 21.5% in two weeks. We believe our upgrade is timely for a good entry point.

Net Profit 09 .... TWD60b
........................(From TWD49.7b)

Diff from Consensus..21.4%
Consensus (mean) TWD49.4b
Consensus (momentum) .... ↑

Target Price ... TWD120.00
..........................(From TWD96.00)

Diff from Consensus ..21.3%
Consensus (median)....TWD98.93
Consensus (momentum) .... ↑

Current Price TWD96.20
Upside/(Downside).............24.7%

BUY
(From Hold)

Recs in the Market
Positive 8
Neutral 7
Negative 2
Consensus (momentum) .... ↑

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

- **Upgrade to BUY and raise TP to TWD120.00 (16x 12-m fwd P/E, average of trading range since 1999) from TWD96.**
- **Beneficiary of a more open cross-strait relationship; a key target for China capital on market weight and leadership.**
- **Fundamentals improving with the new iPhone and Palm Pre smartphone + PC/server corporate replacement in 2010E.**

A stronger EMS leader: u/g to BUY

Upgrade to BUY; TP TWD120.00

Hon Hai's recent share-price correction provides a good opportunity to accumulate: It is gaining market share, has improved its cost structure and has enhanced its R&D since late 2008. For global OEMs, it is the best partner to tap into the fast-growing China domestic market, given its superiority in supply-chain management and local know-how. Our target price represents 16x 12-month forward P/E, which has been its average historic trading range since 1999.

Rising LCD TV and smartphone outsourcing

FIH has invested heavily in R&D, which will allow it to benefit from increased smartphone outsourcing. The new iPhone and Palm Pre should be key growth drivers for Hon Hai in the near term. Furthermore, with Sony closing its TV plants and LG selling 50% of its assembly lines, we believe Hon Hai is poised to gain market share in LCD TV. Hon Hai/Innolux plans to invest RMB 30b in Xiamen for LCD TV module production and assembly.

Fundamentals looking better

We also expect market share gains in the PC segment, with orders coming in from Apple (iMAC) and HP (printers, desktops and potentially cartridge orders). Furthermore, the launch of Windows 7 in October 2009 will boost corporate replace demand for desktop and servers, which will have a significant impact on Hon Hai's 2010 earnings. As the key supplier to Cisco and HP, Hon Hai should benefit. Hon Hai surprised the market on the upside with its margin expansion in 1Q09, which was mainly due to better product mix and cost savings from inland migration. We believe Hon Hai will be able to make further cost savings together with better operating leverage in 2010E.

Beneficiary of open cross-strait policy

We believe a more open cross-strait relationship will allow more capital inflow into the Taiwan stock market to trigger a liquidity rally. It will also help Hon Hai to continue to enhance its cost structure through more favorable terms in various China industrial zones such as Wu Han, Shen Dong and ShenXi and Xiamen investment.

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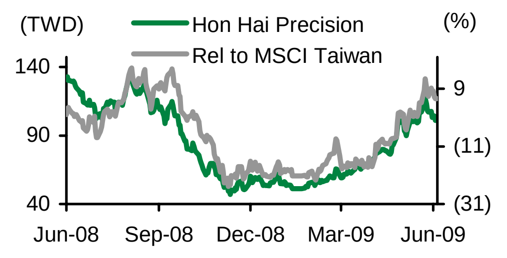
Earnings Estimates And Valuation Ratios

YE Dec (TWD b)	2008	2009E	2010E	2011E
Revenue	1,950	1,794	2,066	2,472
Reported net profit	55	60	72	90
Recurring net profit	55	60	72	90
Previous rec net profit	55.1	49.7	57.8	72.1
Chg from previous (%)	0.0	20.6	25.4	24.7
Recurring EPS (TWD)	6.47	6.99	8.45	10.48
Prev rec EPS (TWD)	7.44	6.70	7.80	9.72
Rec EPS growth (%)	(31.0)	8.1	20.9	24.0
Recurring P/E (x)	14.9	13.8	11.4	9.2
Dividend yield (%)	2.3	1.0	1.3	0.9
EV/EBITDA (x)	7.6	7.1	5.7	4.6
Price/book (x)	2.1	1.8	1.6	1.4
ROE (%)	14.2	14.3	15.2	16.4
Net debt/equity (%)	7.2	(7.6)	(16.6)	(17.2)

Sources: Hon Hai Precision; BNP Paribas estimates

Share Price Daily vs MSCI Taiwan



Next results/event	August 2009
Market cap (USD m)	25,172
3m avg daily turnover (USD m)	158.9
Free float (%)	71
Major shareholder	Terry Gou (11%)
12m high/low (TWD)	133.83/46.96
ADR (USD)	Nil
Avg daily turnover (USD m)	Nil
Discount/premium (%)	Nil
Disc/premium vs 52-wk avg (%)	Nil

Sources: Datastream; Bloomberg

BNP PARIBAS CORPORATE & INVESTMENT BANKING

Upgrade Hon Hai Precision (TWD120.00; BUY) to BUY

We upgrade Hon Hai from Hold to BUY and raise our target price to TWD120.00 (16x 12-mo forward P/E) from TWD96. We believe Hon Hai will come out of the economic downturn as a stronger EMS player, with continued market share gains and a better cost structure, given its relocation of production facilities to China and its operational leverage. It is the best local partner for global OEMs to tap into the fast-growing China domestic market, given its local know-how and supply-chain management expertise. We expect Hon Hai to benefit from:

1) LCD TV (SONY and LG) and smartphone (iPhone and Palm Pre) outsourcing.
2) The launch of Windows 7, which will trigger server and PC upgrades in 2010E.
3) A more open cross-strait relationship, which will trigger a liquidity-driven rally supported by an improvement in fundamentals.

Benefit from smartphone outsourcing

Expect FIH to be aggressive with smartphone outsourcing opportunities

Smartphones should outpace the growth of feature-phones in the coming years. FIH has invested heavily in smartphone R&D, recently hiring engineers from global top-tier handset makers to boost its R&D capabilities. We believe increased smartphone outsourcing will present business opportunities for the industry. Hon Hai/FIH, as the existing partner for top-tier handset makers, should be well-positioned to capture these opportunities. New iPhone and Palm Pres will be one of the key growth drivers in 2H09, as these are the most popular smartphones in the market right now.

Exhibit 1: Smartphone Market Forecast

	Units				Growth		Market share	
	2007 ('000)	2008 ('000)	2009E ('000)	2010E ('000)	2009E (%)	2010E (%)	2009E (%)	2010E (%)
Symbian	77,684	76,244	88,089	114,185	15.5	29.6	52.2	49.4
RIM	11,768	23,699	29,032	40,853	22.5	40.7	17.2	17.7
Microsoft Windows Mobile	14,698	16,565	19,684	28,409	18.8	44.3	11.7	12.3
Mac OS X	3,303	12,104	15,087	21,746	24.6	44.1	8.9	9.4
Linux	11,757	11,120	13,592	23,113	22.2	70.0	8.0	10.0
Palm OS	1,763	3,272	2,673	2,272	(18.3)	(15.0)	1.6	1.0
Others	1,344	1,561	698	548	(55.3)	(21.5)	0.4	0.2
Grand total	**122,316**	**144,565**	**168,855**	**231,125**	**16.8**	**36.9**	**100.0**	**100.0**

Sources: Gartner; BNP Paribas estimates

LCD TV outsourcing on the rise

Sony and LG to outsourcing LCD TV manufacturing

Both Sony and LG Electronics(KRW116,000.00; HOLD) announced they would reduce in house LCD TV production. This coincided with Hon Hai/Innolux's plan to invest RMB30b in Xiamen for LCD TV module production and assembly.

Sony to shut down eight plants

Sony announced it will shut down eight manufacturing sites as part of its realignment plan on 14 May 2009. Four of these are in Japan, with the remainder in the US, France, Mexico and Indonesia (plants in Pittsburgh, Pennsylvania and the Baja California Mexicali are for LCD TV production). The US plant has ceased production in February 2009 and the Japan and Mexico LCD TV plants will cease manufacturing in June and September 2009, respectively.

Sony currently outsources about 15% of its LCD TVs. As one of its largest partners, we believe Hon Hai will be one of the key beneficiaries of this realignment with its long term relationship. It currently manufactures game consoles, DSC and NB for Sony.

LG plans to sell 50% of TV assembly lines

LGE plans to sell its LCD TVs to discount stores, starting with Costco in 2009. We expect it to increase its outsourcing of low-end TV manufacturing, which is a big change from it concentrating on premium channels. To improve the ROIC of its display business unit, it plans to sell about half of its 13 TV assembly lines globally and increase outsourcing. Its outsourcing should rise from 13% of total sales in 2008 to 30% in 2009 and 50% by 2010. Its current outsourcing partner is TPV; it is also considering Amtram and Innolux.

With Sony closing three of its TV plants and LG announcing it would sell 50% of its assembly lines, we believe Hon Hai is poised to gain more business in this area, through its manufacturing and global logistics capability.

Exhibit 2: LCD TV OEM Outsource Percentage Matrix

Brand to OEM order	LGE (%)	Samsung (%)	Sharp (%)	Sony (%)	Toshiba (%)	Vizio (%)	2008 ('000 units)	2009E ('000 units)
TPV	13.0	0.3	2.1	0.2		14.1	5,900	9,000
Amtran	Potential					78.1	2,500	4,500
Wistron				6.6	2H09		1,700	2,500
Tatung	Potential						500	1,200
Compal					27.0		1,800	4,000
HH/Innolux	Potential			4.3		7.8	900	800
Others	Small	0.3	6.1	Small	9.8	0.0		
Total outsourced (%)	**13**	**<1**	**8**	**12**	**39**	**100**		
Total shipment – 2008 ('000 units)	10,700	21,000	9,596	14,630	6,773	3,106		

Sources: Display Search; BNP Paribas estimates

Fundamentals are looking better

With global economies stabilizing, we expect market-share gains in the PC segment, with orders coming in from Apple (iMAC) and HP (printers, desktops and potentially cartridge orders). Earlier, investors were worried about Hon Hai's heavy exposure to the desktop segment, which is related to corporate IT budgets. However, the launch of Windows 7 in early 4Q09 should stimulate corporate PC upgrade demand, which will have significant impact in 2010E. We expect 2010E desktop sales to grow 3%, after a 6.1% and 15.1% decline in 2008 and 2009E, respectively. In addition to desktops, the corporate upgrade cycle will include serves. As the top server supplier to Cisco and HPQ, this should provide another source of revenue growth for Hon Hai.

Exhibit 3: BNP PC Unit Forecast 2005-2010E

(m units)	2005	2006	2007	2008	2009E	2010E
Desktop	**137.1**	**146.0**	**152.1**	**142.9**	**121.4**	**125.1**
Change (y-y %)	9.4	6.5	4.2	(6.1)	(15.1)	3.1
% of total PC market	67.7	63.9	58.6	49.7	43.9	41.8
Notebook (> 10")	**65.3**	**82.4**	**107.1**	**133.6**	**134.2**	**147.7**
Change (y-y %)	33.0	26.3	29.9	24.8	0.4	10.0
% of total PC market	32.3	36.1	41.3	46.4	48.5	49.4
Netbooks (<10")	**0.0**	**0.0**	**0.3**	**11.2**	**21.1**	**26.4**
Change (y-y %)	na	na	na	nm	88.6	25.0
% of total PC market	0.0	0.0	0.1	3.9	7.6	8.8
Total NB & netbook	**65.3**	**82.4**	**107.4**	**144.8**	**155.3**	**174.1**
Change (y-y %)	33.0	26.3	30.3	34.9	7.2	12.1
% of total PC market (%)	32.3	36.1	41.4	50.3	56.1	58.2
Total PC (units mn)	**202.3**	**228.4**	**259.5**	**287.8**	**276.7**	**299.2**
Change (y-y %)	16.0	12.9	13.6	10.9	(3.8)	8.1

Source: BNP Paribas estimates

1Q09 upside from higher gross margin; expect opex to trend down

Hon Hai earlier reported 1Q09 EPS of TWD1.8, up 43% q-q but down 17% y-y. Its gross margin of 9.5% was an upside surprise, and an improvement on 8.3% in 4Q08 and 9.1% in 1Q08. We believe its better-than-expected gross margin was due to 1) product mix as PC full-system assembly orders were slow in 1Q09 and 2) better cost control on workforce reduction and the impact of inland migration.

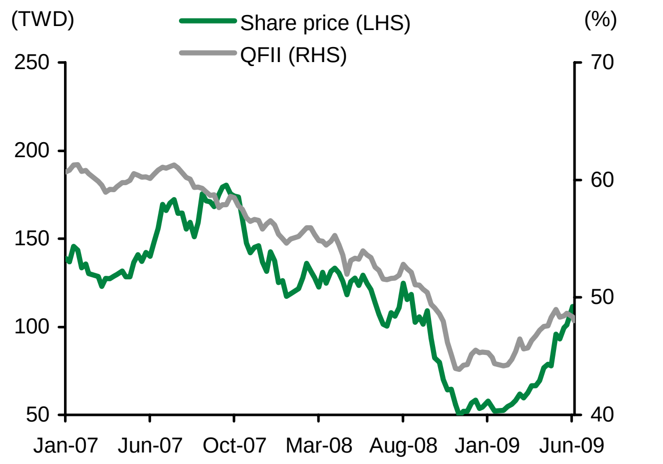
We expect its gross margin will decline slightly as its product mix changes. Nevertheless, opex should to a greater extent from sales growth in 2Q09 and more inland migration, which will save costs. During the shareholder's meeting in March, Chairman Gou said he expected the impact of cost savings to show in 2010E.

Beneficiary of an open cross strait policy

Share price has high correlation with QFII holding

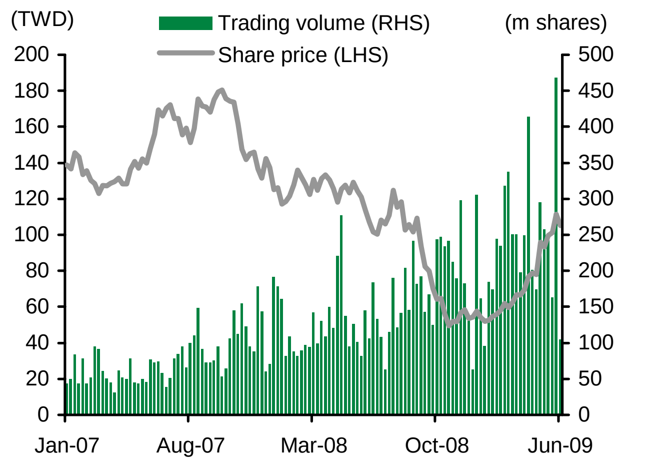
A more open China cross-strait policy will benefit Hon Hai in terms of share price due to better market sentiment. With a better cross strait relationship and a more open China policy from the Taiwan government, we believe Hon Hai will be a key target for China QDII funds, drive up the share price. Hon Hai's QFII holding has risen to 48% in June, from 44% in February 2009, but is still far from its peak of 61% in 1H07. We believe its share price will provide further upside if more capital inflow is allowed. Hon Hai is likely to be a key target due to its market weighting and leadership position.

Exhibit 4: Hon Hai Share Price vs QFII Holding



Source: BNP Paribas estimates

Exhibit 5: Hon Hai Share Price Vs Trading Volume



Source: BNP Paribas estimates

A better relationship with China will also allow Hon Hai to expand its manufacturing facilities in China at more favorable terms, which will help it to save costs. We believe Hon Hai's diversified manufacturing base in China makes it attractive to global OEMs as the best partner to capture the growth opportunities in the China domestic market. .

Earnings revision

Factoring in a higher gross margin and opex improvement in 09-10E, we raise our EPS by 4.3% in 2009 to TWD6.99 and 8.4% in 2010E to TWD8.45. We expect gross margin to decline slightly and be offset by lower opex due to the positive impact of inland migration and plant relocation. With the global economy poised to further recover in 2010E, we expect the impact on operating leverage to be even more significant in 2010E.

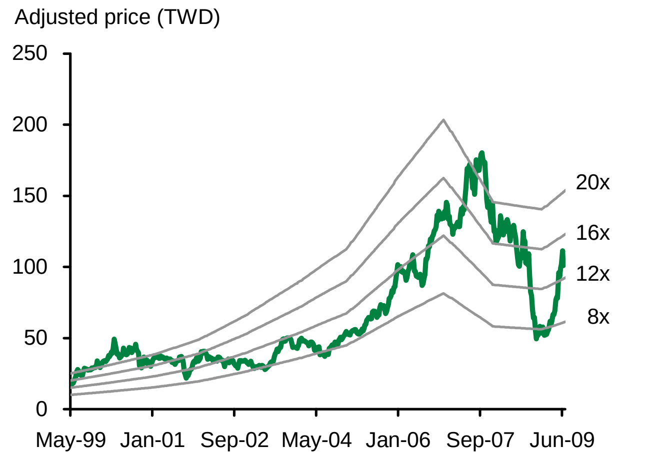
We raise our target price from TWD96 to TWD120.00, which is 16x 12-month forward P/E (the average of its trading range since 1999). Our earlier target multiple was set at 13-14x 12-month forward P/E. We raise our target multiple as we believe the worst times have passed and market sentiment has turned more positive with regards to the demand outlook for PCs and consumer electronics. We believe average trading range is reasonable in the early period of recovery.

Exhibit 6: Earnings Revision

Year-end 31-Dec	Old forecast 2009E (TWD m)	Old forecast 2010E (TWD m)	New forecast 2009E (TWD m)	New forecast 2010E (TWD m)	% revision 2009E (%)	% revision 2010E (%)
Net sales	1,830,290	2,023,845	1,793,815	2,065,739	(2.0)	2.1
Gross profits	147,915	157,459	167,809	190,419	13.5	20.9
Op profits	60,731	70,407	68,751	83,235	13.2	18.2
Net profits	49,694	57,817	59,949	72,482	20.6	25.4
EPS (TWD)	6.70	7.80	6.99	8.45	4.3	8.4
Gross margin (%)	8.1	7.8	9.4	9.2		
Op expense (%)	4.8	4.3	5.5	5.2		
Op margin (%)	3.3	3.5	3.8	4.0		
Net margin (%)	2.7	2.9	3.3	3.5		

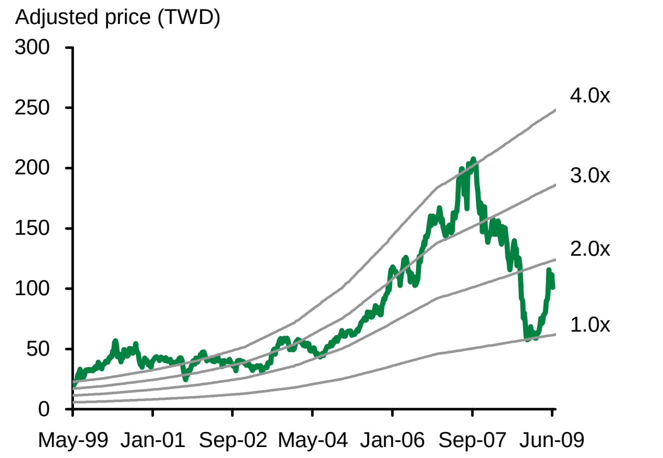
Source: BNP Paribas estimates

Exhibit 7: Hon Hai P/E Band Chart



Source: BNP Paribas estimates

Exhibit 8: Hon Hai P/BV Band Chart



Source: BNP Paribas estimates

Exhibit 9: Hon Hai Consolidated Quarterly Income Statement

(TWD m)	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09E	3Q09E	4Q09E	2009E
Net revenues	415,196	395,837	573,589	565,859	**1,950,481**	378,329	398,380	479,272	537,834	**1,793,815**
Total cost of good sold	377,395	363,109	520,338	518,844	**1,779,686**	342,462	360,923	434,698	487,924	**1,626,006**
Gross profit	37,800	32,728	53,251	47,015	**170,795**	35,868	37,458	44,574	49,910	**167,809**
R&D	4,641	5,445	6,194	7,380	**23,660**	5,889	5,767	6,591	7,026	**25,273**
SG&A	14,838	13,684	20,870	24,445	**73,837**	16,131	16,647	19,426	21,582	**73,786**
Total operating expense	19,479	19,129	27,064	31,825	**97,497**	22,020	22,413	26,017	28,608	**99,059**
Operating profit	18,321	13,599	26,187	15,190	**73,297**	13,847	15,044	18,557	21,302	**68,751**
Int & other inc/(exp)	3,315	4,264	(3,404)	(4,879)	**(704)**	1,751	453	49	934	**3,187**
Pre-tax profit	21,636	17,863	22,783	10,311	**72,593**	15,598	15,497	18,607	22,236	**71,938**
Taxes or tax credit	4,711	5,202	4,364	1,627	**15,904**	2,202	2,789	2,977	3,335	**11,304**
Minority interest	851	727	599	-621	**1,556**	51	654	539	-559	**685**
Net profit	**16,074**	**11,934**	**17,820**	**9,305**	**55,133**	**13,346**	**12,053**	**15,090**	**19,459**	**59,949**
EPS	1.89	1.40	2.09	1.09	**6.47**	1.56	1.40	1.76	2.27	**6.99**
Fully diluted shares (m)	8,527	8,527	8,527	8,527	**8,527**	8,579	8,579	8,579	8,579	**8,579**
Gross margin (%)	9.1	8.3	9.3	8.3	**8.8**	9.5	9.4	9.3	9.3	**9.4**
R&D	1.1	1.4	1.1	1.3	**1.2**	1.6	1.4	1.4	1.3	**1.4**
SG&A	3.6	3.5	3.6	4.3	**3.8**	4.3	4.2	4.1	4.0	**4.1**
Operating expense	4.7	4.8	4.7	5.6	**5.0**	5.8	5.6	5.4	5.3	**5.5**
Operating margin	**4.4**	**3.4**	**4.6**	**2.7**	**3.8**	**3.7**	**3.8**	**3.9**	**4.0**	**3.8**
Tax rate	21.8	29.1	19.2	15.8	**21.9**	14.1	18.0	16.0	15.0	**15.7**
Net margin	3.9	3.0	3.1	1.6	**2.8**	3.5	3.0	3.1	3.6	**3.3**
Change (y-y %)										
Net revenues	18	10	34	0	**15**	(9)	1	(16)	(5)	**(8.0)**
Gross profit	8	(7)	26	(15)	**2**	(5)	14	(16)	6	**(1.7)**
Operating income	(9)	(31)	12	(50)	**(22)**	(24)	11	(29)	40	**(6.2)**
Net income	3	(24)	(10)	(65)	**(29)**	(17)	1	(15)	109	**8.7**
Fully diluted EPS	0	(26)	(13)	(66)	**(31)**	(17)	0	(16)	108	**8.1**
Change (q-q %)										
Net revenues	(26)	(5)	45	(1)		(33.1)	5.3	20.3	12.2	
Gross profit	(31)	(13)	63	(12)		(23.7)	4.4	19.0	12.0	
Operating income	(39)	(26)	93	(42)		(8.8	8.6	23.4	14.8	
Net income	(39)	(26)	49	(48)		43.4	(9.7)	25.2	29.0	
Fully diluted EPS	(41)	(26)	49	(48)		42.6	(9.7)	25.2	29.0	

Source: BNP Paribas estimates

FINANCIAL STATEMENTS

Hon Hai Precision

Profit and Loss (TWD b) Year Ending Dec	2007A	2008A	2009E	2010E	2011E
Revenue	1,703	1,950	1,794	2,066	2,472
Cost of sales ex depreciation	(1,509)	(1,747)	(1,585)	(1,829)	(2,193)
Gross profit ex depreciation	**194**	**204**	**209**	**237**	**279**
Other operating income	0	0	0	0	0
Operating costs	(74)	(97)	(99)	(107)	(125)
Operating EBITDA	**120**	**106**	**110**	**130**	**154**
Depreciation	(26)	(33)	(41)	(47)	(51)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	**93**	**73**	**69**	**83**	**103**
Net financing costs	(3)	(2)	(2)	(1)	(1)
Associates	4	2	3	2	2
Recurring non operating income	7	(1)	2	2	3
Non recurring items	0	0	0	0	0
Profit before tax	**101**	**73**	**72**	**86**	**107**
Tax	(16)	(16)	(11)	(13)	(16)
Profit after tax	**85**	**57**	**61**	**73**	**91**
Minority interests	(7)	(2)	(1)	(1)	(1)
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
Reported net profit	**78**	**55**	**60**	**72**	**90**
Non recurring items & goodwill (net)	0	0	0	0	0
Recurring net profit	**78**	**55**	**60**	**72**	**90**
Per share (TWD)					
Recurring EPS *	9.37	6.47	6.99	8.45	10.48
Reported EPS	9.37	6.47	6.99	8.45	10.48
DPS	3.74	2.21	0.95	1.23	0.88
Growth					
Revenue (%)	29.0	14.6	(8.0)	15.2	19.7
Operating EBITDA (%)	28.7	(11.4)	3.7	18.1	18.7
Operating EBIT (%)	24.0	(21.6)	(6.2)	21.1	23.3
Recurring EPS (%)	26.8	(31.0)	8.1	20.9	24.0
Reported EPS (%)	26.8	(31.0)	8.1	20.9	24.0
Operating performance					
Gross margin inc depreciation (%)	9.8	8.8	9.4	9.2	9.2
Operating EBITDA margin (%)	7.0	5.4	6.1	6.3	6.2
Operating EBIT margin (%)	5.5	3.8	3.8	4.0	4.2
Net margin (%)	4.6	2.8	3.3	3.5	3.6
Effective tax rate (%)	16.3	21.9	15.7	15.0	15.0
Dividend payout on recurring profit (%)	39.9	34.2	13.6	14.6	8.4
Interest cover (x)	37.7	38.0	29.9	60.3	133.1
Inventory days	34.4	34.0	36.7	32.7	32.1
Debtor days	51.2	49.1	52.2	46.7	52.4
Creditor days	58.3	56.4	58.6	52.2	51.3
Operating ROIC (%)	30.0	17.2	16.0	19.6	21.9
Operating ROIC – WACC (%)	(30.0)	(17.2)	(16.0)	(19.6)	(21.9)
ROIC (%)	26.5	14.3	14.6	17.3	19.5
ROIC – WACC (%)	14.5	14.1	14.1	14.2	14.3
ROE (%)	23.2	14.2	14.3	15.2	16.4
ROA (%)	11.6	6.7	7.1	8.0	8.7

** Pre exceptional, pre-goodwill and fully diluted*

Expect revenue growth to resume in 2010E

Expect EBIT margin to trend up due to cost saving from relocation

Revenue By Division (TWD b)	2007A	2008A	2009E	2010E	2011E
PC	788	893	789	869	1,045
Networking	190	234	262	315	376
Handset (FIH)	347	307	232	281	356
Consumer	258	308	285	355	431
Others	118	209	226	246	264

Sources: Hon Hai Precision; BNP Paribas estimates

Cash Flow (TWD b) Year Ending Dec	2007A	2008A	2009E	2010E	2011E
Recurring net profit	78	55	60	72	90
Depreciation	26	33	41	47	51
Associates & minorities	3	0	(3)	(1)	(1)
Other non-cash items	(7)	(1)	(1)	(1)	(1)
Recurring cash flow	**100**	**86**	**98**	**117**	**139**
Change in working capital	(3)	(19)	12	(15)	(111)
Capex - maintenance	(28)	(24)	(11)	(11)	0
Capex – new investment	(64)	(56)	(26)	(25)	0
Free cash flow to equity	**5**	**(13)**	**74**	**66**	**28**
Net acquisitions & disposals	(24)	31	3	2	2
Dividends paid	(31)	(19)	(8)	(11)	(8)
Non recurring cash flows	(12)	(15)	(7)	(7)	(5)
Net cash flow	**(62)**	**(16)**	**62**	**51**	**17**
Equity finance	51	(25)	0	0	0
Debt finance	66	(5)	(28)	(15)	(13)
Movement in cash	**56**	**(46)**	**35**	**35**	**4**
Per share (TWD)					
Recurring cash flow per share	12.06	10.08	11.39	13.66	16.24
FCF to equity per share	0.58	(1.50)	8.57	7.71	3.25

Balance Sheet (TWD b) Year Ending Dec	2007A	2008A	2009E	2010E	2011E
Working capital assets	434	459	421	485	668
Working capital liabilities	(339)	(345)	(319)	(368)	(440)
Net working capital	**95**	**114**	**102**	**117**	**228**
Tangible fixed assets	203	254	254	249	203
Operating invested capital	**297**	**368**	**356**	**366**	**431**
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Investments	21	31	32	34	34
Other assets	21	31	32	34	34
Invested capital	**382**	**434**	**424**	**435**	**500**
Cash & equivalents	(146)	(100)	(135)	(170)	(174)
Short term debt	105	78	49	41	35
Long term debt *	29	51	52	44	37
Net debt	**(12)**	**28**	**(34)**	**(85)**	**(102)**
Deferred tax	0	0	0	0	0
Other liabilities	11	12	12	12	12
Total equity	384	394	446	508	590
Minority interests	0	0	0	0	0
Invested capital	**382**	**434**	**424**	**435**	**500**

** includes convertibles and preferred stock which is being treated as debt*

Per share (TWD)					
Book value per share	46.26	46.24	52.00	59.22	68.82
Tangible book value per share	46.26	46.24	52.00	59.22	68.82
Financial strength					
Net debt/equity (%)	(3.2)	7.2	(7.6)	(16.6)	(17.2)
Net debt/total assets (%)	(1.4)	3.2	(3.9)	(8.7)	(9.1)
Current ratio (x)	1.3	1.3	1.5	1.6	1.8
CF interest cover (x)	26.1	22.8	40.8	63.7	36.0

Expect net cash position in 2009 and 2010E

Valuation	2007A	2008A	2009E	2010E	2011E
Recurring P/E (x) *	10.3	14.9	13.8	11.4	9.2
Recurring P/E @ target price (x) *	12.8	18.6	17.2	14.2	11.5
Reported P/E (x)	10.3	14.9	13.8	11.4	9.2
Dividend yield (%)	3.9	2.3	1.0	1.3	0.9
P/CF (x)	8.0	9.5	8.4	7.0	5.9
P/FCF (x)	165.2	(64.2)	11.2	12.5	29.6
Price/book (x)	2.1	2.1	1.8	1.6	1.4
Price/tangible book (x)	2.1	2.1	1.8	1.6	1.4
EV/EBITDA (x) **	5.9	7.6	7.1	5.7	4.6
EV/EBITDA @ target price (x) **	7.4	9.5	8.9	7.2	5.9
EV/invested capital (x)	2.1	2.0	1.9	1.7	1.4

** Pre exceptional, pre-goodwill and fully diluted*
*** EBITDA includes associate income and recurring non-operating income*

Sources: Hon Hai Precision; BNP Paribas estimates

DISCLAIMERS & DISCLOSURES

Recommendation structure

All share prices are as at market close on 15 June 2009 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as (target price* - current price) / current price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

*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.