

Morgan Stanley Asia Limited+

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June 11, 2009

Stock Rating
Overweight

Industry View
In-Line

TSMC Management Reshuffle

Quick Comment - Morris Chang back as CEO.

TSMC announced today that Morris Chang, founder and Chairman of the company, would resume the CEO position and take a more active role in the company. Current CEO Rick Tsai will serve as President of the New Business Development Organization, with a focus on green energy. Some of the details given at the press conference:

Semi industry slowing. TSMC did US\$10 billion in revenues in 2008. Given the state of the industry and expectations for semi growth, management expects 2018 revenues to only reach US\$14 billion. This is a CAGR of less than 4% and thus management sees a need to enter new businesses.

Plans for new businesses. TSMC now plans to evaluate business opportunities in green energy more actively, and expects revenues from LED and solar to contribute another US\$2 billion by 2018. The company may also get into other forms of green energy besides solar and LED. TSMC may also consider M&A in these areas.

Succession uncertain. Questions were asked about an eventual successor. The company's answer is that there is not one right now.

Our take: Morris Chang is one of the most respected leaders in business and we view his taking on a more active role positively. However, our concerns are: 1. Future leadership when Morris decides to retire, and 2. Future growth. We note that long-term growth has been an issue for us (please see Asia Pacific Foundry: "Beyond the Cycle: Stepping Back for a LT Look at the Foundries" dated April 9, 2009 for details). Even with the green energy potential, we estimate CAGR for next ten years is still below 5%. Additionally, TSMC typically does 40-45% GM at the peak, whereas LED and solar GM is typically below 20%.

Key Ratios and Statistics

Reuters: 2330.TW Bloomberg: 2330 TT ADR: TSM.N

Taiwan Foundry

Price target	NT\$70.00
Upside to price target (%)	20
Shr price, close (Jun 11, 2009)	NT\$58.30
52-Week Range	NT\$66.37-36.40
Sh out, dil, curr (mn)	25,625
Mkt cap, curr (mn)	NT\$1,493,963
EV, curr (mn)	NT\$1,288,902
Avg daily trading value (mn)	NT\$3,612

Fiscal Year ending	12/08	12/09e	12/10e	12/11e
ModelWare EPS (NT\$)	3.85	3.07	4.17	5.10
Prior ModelWare EPS (NT\$)	-	-	-	-
Consensus EPS (NT\$)§	3.86	2.34	3.45	4.10
Revenue, net (NT\$ mn)	333,158	285,431	330,856	370,547
EBITDA (NT\$ mn)	185,948	165,755	190,378	210,854
ModelWare net inc (NT\$ mn)	99,933	78,811	107,237	131,147
P/E	11.5	19.0	14.0	11.4
P/BV	2.4	3.1	3.0	2.7
RNOA (%)	24.5	27.9	40.7	50.8
ROE (%)	20.5	16.5	22.4	25.8
EV/EBITDA	5.0	7.7	6.5	5.7
Div yld (%)	6.8	5.1	5.7	6.9
FCF yld ratio (%)	18.0	6.1	8.9	7.8
Leverage (EOP) (%)	(43.9)	(46.8)	(51.3)	(52.9)

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

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	<p>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.</p>
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(as of May 31, 2009)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	690	31%	214	35%	31%
Equal-weight/Hold	1022	45%	288	47%	28%
Not-Rated/Hold	32	1%	7	1%	22%
Underweight/Sell	510	23%	99	16%	19%
Total	2,254		608		

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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.

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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.

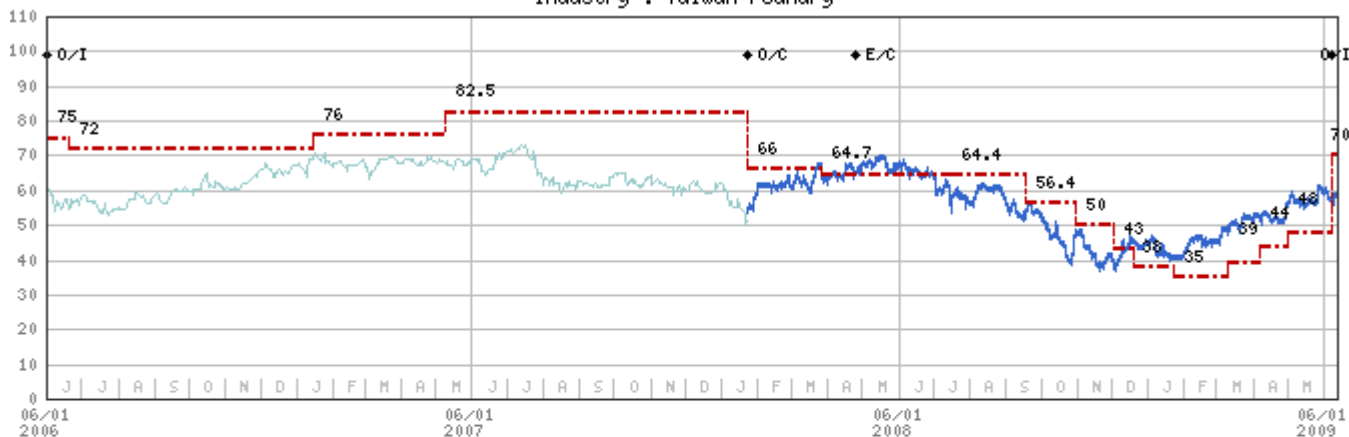
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Stock Price, Price Target and Rating History (See Rating Definitions)

TSMC (2330.TW) - As of 6/11/09 in TWD
Industry : Taiwan Foundry



Volatility shading indicates "more volatile" (U) flag. As of Nov-14-2008 the U flag has been discontinued.

Stock Rating History: 6/1/06 : O/I; 1/24/08 : O/C; 4/25/08 : E/C; 6/8/09 : O/I

Price Target History: 5/22/06 : 75; 6/20/06 : 72; 1/16/07 : 76; 5/9/07 : 82.5; 1/24/08 : 66; 3/27/08 : 64.7;
7/17/08 : 64.4; 9/18/08 : 56.4; 10/31/08 : 50; 12/3/08 : 43; 12/19/08 : 38; 1/23/09 : 35; 3/11/09 : 39;
4/7/09 : 44; 5/1/09 : 48; 6/8/09 : 70

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) --- Stock Price (Covered by Current Analyst) ---
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (U) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Industry Coverage: Taiwan Foundry

Company (Ticker)	Rating (as of)	Price (06/11/2009)
Bill Lu		
TSMC (2330.TW)	O (06/08/2009)	NT\$58.3
UMC (2303.TW)	E (01/25/2008)	NT\$12.25

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