

# Expect slower 2H; price correction may continue



## RESEARCH

**Tina Chang, CFA >>** +886 2 2376 3725  
Research Analyst  
Merrill Lynch (Taiwan)  
tina\_chang@ml.com

**Tony Tseng, CFA >>** +886 2 2376 3727  
Research Analyst  
Merrill Lynch (Taiwan)  
tony\_tseng@ml.com

**Jeffrey Su >>** +886 2 2376 3731  
Research Analyst  
Merrill Lynch (Taiwan)  
jeffrey\_su@ml.com

### Fine tune estimates, retain our cautious view

We fine tune our estimates for Inventec's 2009/10 earnings (with quarterly forecasts for 2010), with PO at NT\$15.0 (rollover to 2009/10E mid-cycle P/E of 8x). With potential earnings downside in 2Q and slower momentum in 2H, we expect further share price correction. We retain our Underperform rating for the stock and will revisit when see improvement in earnings quality.

### 2Q09 could only meet low-end guidance

Our recent check shows Inventec could only meet the low-end of its 10-15% QoQ sales and NB unit growth guidance for 2Q, due to a delay in new model shipments (despite a double-digit MoM rebound in June). In addition, we are also concerned about potential FX losses due to significant currency swings in 2Q09 (Inventec usually incurs huge FX losses when the NTD appreciates by over 2% per quarter).

### Expect slower momentum in 2H09

We expect Inventec to face more even 1H/2H splits (47%/53%) this year, as its project wins from Acer and Dell can't offset the share loss at Toshiba NB in 2H09. Although market expects the upcoming launch of E-book/MID in 3Q09 (with Android O/S and Lenovo to be the potential customer) to be the next catalyst, we think its contribution could be quite minimal initially.

### Share price correction may continue

Inventec's share price has corrected ~15% from its recent peak in May due to revenue shortfall in the past two months; we think this correction may continue given Inventec's potential earnings downside in 2Q and slower momentum in 2H09. Our PO suggests the share price should head back to the historical mid-cycle P/E (8x 2009/10E EPS) and around 1x forward BVPS (NT\$15.8).

### Estimates (Dec)

(NT\$)	2007A	2008A	2009E	2010E	2011E
Net Income (mn) Taiwan GAAP	5,638	5,335	4,785	4,909	5,192
EPS (Pre Bonus)	2.202	2.240	2.009	2.061	2.180
EPS (Post Bonus)	1.959	2.083	1.868	1.917	2.027
EPS Change (YoY)	0%	6.3%	-10.3%	2.6%	5.8%
Dividend / Share	1.30	1.00	1.31	1.34	1.42
Free Cash Flow / Share	2.09	(2.27)	0.257	3.43	0.889

\* Taiwan GAAP changed from Pre Bonus to Post Bonus earnings from 2008.

### Valuation (Dec)

	2007A	2008A	2009E	2010E	2011E
P/E (Post Bonus)	9.14x	8.59x	9.58x	9.34x	8.83x
Dividend Yield	7.26%	5.59%	7.31%	7.50%	7.93%
Free Cash Flow Yield*	11.67%	-12.70%	1.44%	19.17%	4.96%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 7.

### Stock Data

Price	NT\$17.90
Price Objective	NT\$13.00 to NT\$15.00
Date Established	18-Jun-2009
Investment Opinion	C-3-8
Volatility Risk	HIGH
52-Week Range	NT\$7.70-NT\$21.20
Mrkt Val / Shares Out (mn)	US\$1,394 / 2,561.0
Average Daily Volume	19,053,100
ML Symbol / Exchange	IVCJF / TWO
Bloomberg / Reuters	2356 TT / 2356.TW
ROE (2009E)	12.1%
Net Dbt to Eqty (Dec-2007A)	23.3%
Est. 5-Yr EPS / DPS Growth	5.0% / 5.0%
Free Float	60.0%



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Refer to important disclosures on page 8 to 10. Analyst Certification on Page 6. Price Objective Basis/Risk on page 6.

18 June 2009

# iQprofile<sup>SM</sup> Inventec Company Ltd.

Key Income Statement Data (Dec)	2007A	2008A	2009E	2010E	2011E
<b>(NT\$ Millions)</b>					
Sales	239,175	350,652	396,506	439,286	484,343
Gross Profit	11,683	12,587	12,357	13,713	14,480
Sell General & Admin Expense	(7,375)	(8,897)	(8,512)	(9,164)	(9,687)
Operating Profit	4,308	3,690	3,845	4,550	4,793
Net Interest & Other Income	2,018	1,827	1,247	700	790
Associates	NA	NA	NA	NA	NA
Pretax Income	6,325	5,518	5,092	5,250	5,583
Tax (expense) / Benefit	(687)	(183)	(307)	(341)	(391)
Net Income (Adjusted)	5,638	5,335	4,785	4,909	5,192
Average Fully Diluted Shares Outstanding	2,561	2,561	2,561	2,561	2,561

## Key Cash Flow Statement Data

Net Income	5,638	5,335	4,785	4,909	5,192
Depreciation & Amortization	628	823	760	836	919
Change in Working Capital	5,233	(8,300)	(3,038)	4,451	(1,775)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(3,847)	(2,134)	(548)	293	(561)
Cash Flow from Operations	7,652	(4,276)	1,959	10,490	3,776
Capital Expenditure	(2,300)	(1,545)	(1,300)	(1,700)	(1,500)
(Acquisition) / Disposal of Investments	(299)	(1,410)	(275)	(263)	(269)
Other Cash Inflow / (Outflow)	(342)	(545)	(465)	(465)	(465)
Cash Flow from Investing	(2,941)	(3,500)	(2,040)	(2,428)	(2,234)
Shares Issue / (Repurchase)	0	0	0	0	(1)
Cost of Dividends Paid	(3,451)	(3,155)	(2,561)	(3,698)	(3,996)
Cash Flow from Financing	(3,787)	6,522	541	(7,571)	(2,327)
Free Cash Flow	5,352	(5,821)	659	8,790	2,276
Net Debt	(2,283)	8,987	12,016	8,026	10,540
Change in Net Debt	(922)	11,261	3,029	(3,991)	2,786

## Key Balance Sheet Data

Property, Plant & Equipment	3,718	4,739	5,399	5,984	6,487
Other Non-Current Assets	15,787	17,523	18,244	19,263	20,294
Trade Receivables	61,887	80,265	95,596	105,910	114,119
Cash & Equivalents	2,285	1,025	1,484	1,974	1,460
Other Current Assets	2,134	2,433	9,337	3,341	7,733
Total Assets	85,811	105,985	130,059	136,472	150,093
Long-Term Debt	0	7,855	10,500	8,000	10,000
Other Non-Current Liabilities	582	920	826	960	983
Short-Term Debt	2	2,157	3,000	2,000	2,000
Other Current Liabilities	48,733	56,469	75,315	84,261	94,999
Total Liabilities	49,317	67,401	89,642	95,221	107,981
Total Equity	36,495	38,585	40,418	41,251	42,112
Total Equity & Liabilities	85,812	105,986	130,059	136,472	150,093

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	11.1%	7.7%	6.8%	7.7%	8.1%
Return On Equity	15.9%	14.2%	12.1%	12.0%	12.5%
Operating Margin	1.8%	1.1%	1.0%	1.0%	1.0%
EBITDA Margin	2.1%	1.3%	1.2%	1.2%	1.2%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	1.4x	-0.8x	0.4x	2.1x	0.7x
Asset Replacement Ratio	3.7x	1.9x	1.7x	2.0x	1.6x
Tax Rate (Reported)	10.9%	3.3%	6.0%	6.5%	7.0%
Net Debt-to-Equity Ratio	-6.3%	23.3%	29.7%	19.5%	25.0%
Interest Cover	NA	12.7x	15.4x	18.2x	19.2x

## Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 7.

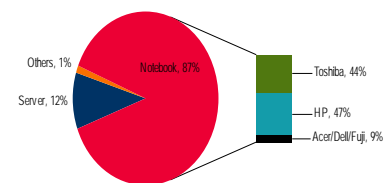
## Company Description

Inventec is one of the leading manufacturers for both notebook PCs and servers in Taiwan. Key customers include HP and Toshiba. One of its key affiliates, Inventec Appliance, focuses on branded handsets, MP3 (for Apple), PDA (for Palm) and electronic calculators (for TI).

## Investment Thesis

We expect Inventec to be de-rated to its trough-cycle valuation, given its poor margin execution and stretched balance sheet. Inventec's slow product diversification and conservative growth strategy make its earnings outlook weaker than other ODM peers in the industry.

Chart 1: Revenue breakdown, 2009E



Source: BAS-ML estimates

## Stock Data

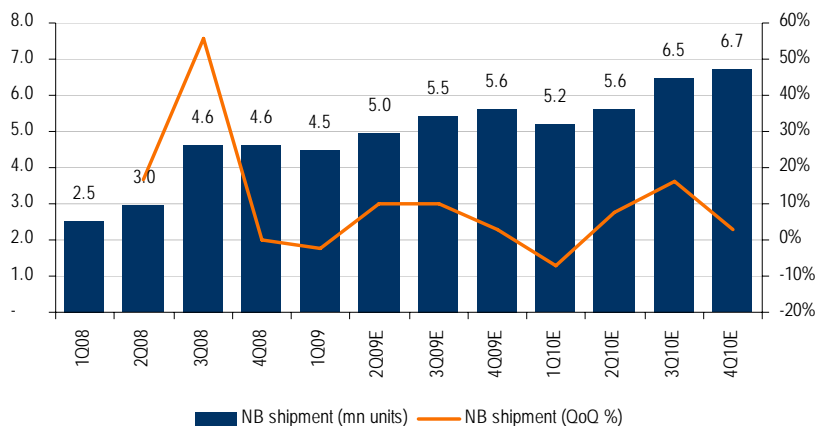
Price to Book Value 1.1x

Table 1: Inventec: Earning revision for 2009E and 2010E

NT\$m	New		YoY%		Old		Diff	
	2009E	2010E	2009E	2010E	2009E	2010E	2009E	2010E
Sales	396,506	439,286	13%	11%	392,398	422,592	1%	4%
Gross Profit	12,357	13,713	-2%	11%	12,242	12,993	1%	6%
Operating Profit	3,845	4,550	4%	18%	3,819	3,696	1%	23%
Non-Op	1,247	700	-32%	-44%	1,287	821	-3%	-15%
FX	688	-			688	-		
Others	559	700			599	821		
Pre-tax Profit	5,092	5,250	-8%	3%	5,106	4,517	0%	16%
Net Profit	4,785	4,909	-10%	3%	4,798	4,223	0%	16%
<b>EPS (NT\$)</b>	<b>1.87</b>	<b>1.92</b>			<b>1.87</b>	<b>1.65</b>		
GPM	3.1%	3.1%			3.1%	3.1%		
Opex	-2.1%	-2.1%			-2.1%	-2.2%		
OPM	1.0%	1.0%			1.0%	0.9%		
NM	1.2%	1.1%			1.2%	1.0%		

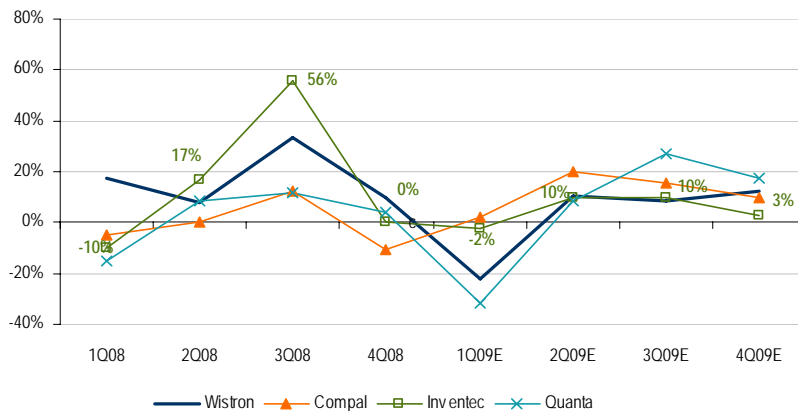
Source: Banc of America Securities - Merrill Lynch estimates

Chart 2: Inventec: Quarterly notebook shipments and QoQ trend



Source: Compal, Banc of America Securities - Merrill Lynch estimates

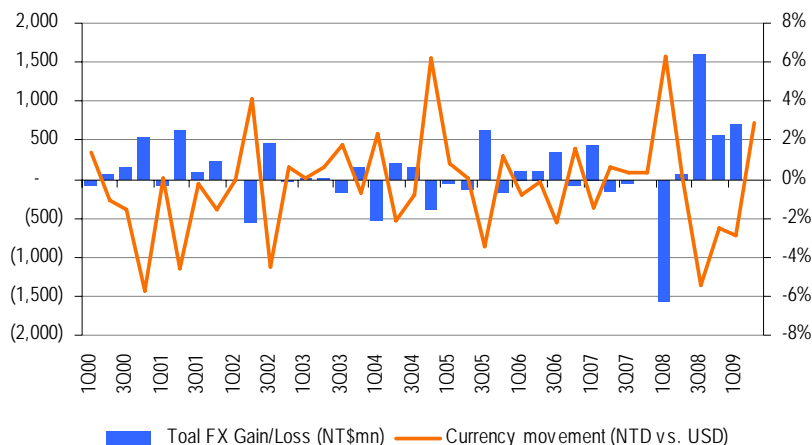
Chart 3: Taiwan notebook ODMs: QoQ shipment trend



Source: Companies, Banc of America Securities - Merrill Lynch estimates

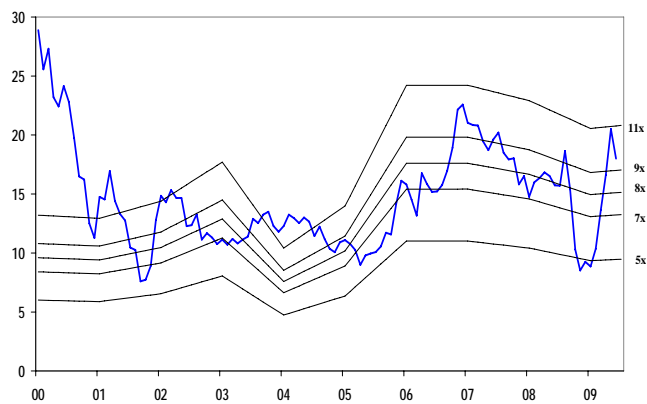
18 June 2009

Chart 4: Inventec: Huge FX gain/loss from currency swings



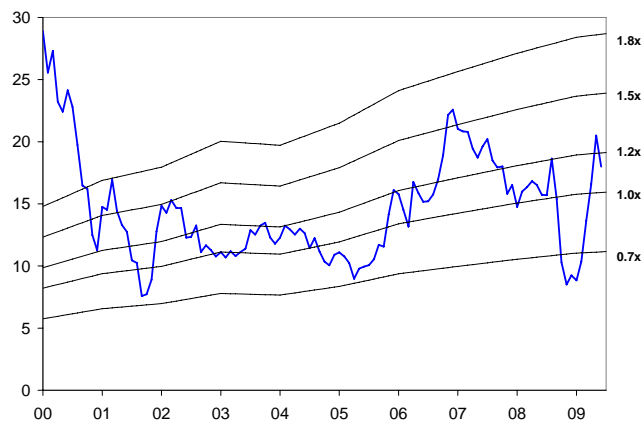
Source: TEJ, Bloomberg

Chart 5: Inventec: Forward P/E bands



Source: TEJ, Banc of America Securities - Merrill Lynch estimates

Chart 6: Inventec: Forward P/B bands



Source: TEJ, Banc of America Securities - Merrill Lynch estimates

Table 2: Valuation comparison table

	ML Symbol	ML Rating	Price 18-Jun-09	Mkt Cap (US\$m)	EPS (Local)		EPG		PER(x)		PBR(x)	ROE (%)		Cash Yield	Price YTD
					2009E	2010E	2009E	2010E	2009E	2010E	2009E	2009E	2010E		
Acer	ASIYF	C-3-8 Un	58.0	4,484	4.4	5.2	-7%	16%	13.0	11.2	1.7	13%	14%	4%	36%
Asustek	AKCPF	C-3-7 Un	39.2	5,195	1.1	2.1	-77%	90%	35.6	18.7	0.9	2%	5%	4%	6%
Lenovo	LNVEF	C-3-8 Un	2.9	3,470	-0.1	0.1	-48%	-186%	n.m.	n.m.	2.5	-10%	9%	0%	38%
<b>PC Brand Avg.</b>							<b>n.m.</b>	<b>n.m.</b>	<b>24.3</b>	<b>15.0</b>	<b>1.7</b>	<b>2%</b>	<b>9%</b>	<b>3%</b>	<b>27%</b>
Compal	CMPLF	C-2-7 Neutral	24.9	3,021	3.4	3.7	11%	8%	7.2	6.7	1.1	16%	16%	6%	44%
Wistron	WICOF	C-2-7 Neutral	53.5	2,535	4.9	5.2	7%	6%	11.0	10.4	1.9	18%	17%	2%	115%
Quanta	QUCPF	C-3-8 Un	51.0	5,816	4.8	4.8	-13%	0%	10.6	10.6	1.9	18%	18%	7%	47%
Inventec	IVCJF	C-3-8 Un	17.9	1,433	1.9	1.6	-10%	-12%	9.6	10.9	1.1	12%	12%	6%	94%
Hon Hai	HNHAF	C-3-8 Un	97.8	26,217	6.2	6.7	-3%	7%	15.7	14.6	2.0	13%	13%	1%	77%
<b>PC ODM Avg.</b>							<b>-2%</b>	<b>2%</b>	<b>10.8</b>	<b>10.6</b>	<b>1.6</b>	<b>16%</b>	<b>15%</b>	<b>4%</b>	<b>75%</b>

Source: Banc of America Securities - Merrill Lynch estimates, Bloomberg

**Table 3: Inventec: Quarterly income statement (Parent)**

NT\$mnn	1Q08A	2Q08A	3Q08A	4Q08A	1Q09A	2Q09E	3Q09E	4Q09E	1Q10E	2Q10E	3Q10E	4Q10E	2007A	2008A	2009E	2010E	2011E	
Sales	66,024	71,302	107,893	105,434	89,485	97,824	103,798	105,399	95,194	102,957	118,696	122,438	239,175	350,652	396,506	439,286	484,343	
COGS	(62,744)	(68,126)	(105,079)	(102,116)	(86,750)	(94,762)	(100,504)	(102,131)	(92,215)	(99,723)	(114,989)	(118,645)	(227,492)	(338,065)	(384,149)	(425,573)	(469,863)	
Gross Profit	3,280	3,177	2,813	3,318	2,734	3,062	3,293	3,268	2,979	3,234	3,707	3,793	11,683	12,587	12,357	13,713	14,480	
Operating Expense	(2,033)	(2,272)	(2,334)	(2,258)	(1,869)	(2,103)	(2,232)	(2,308)	(1,999)	(2,162)	(2,493)	(2,510)	(7,375)	(8,897)	(8,512)	(9,164)	(9,687)	
Oper. Exp. Promotion	(825)	(913)	(971)	(763)	(426)	(685)	(706)	(738)	(571)	(721)	(831)	(857)	(3,417)	(3,472)	(2,554)	(2,980)	(3,148)	
Operating Exp. -ADM	(375)	(428)	(338)	(590)	(456)	(489)	(519)	(527)	(476)	(463)	(534)	(551)	(1,368)	(1,731)	(1,991)	(2,024)	(2,180)	
Operat. Expense-R&D	(833)	(932)	(1,025)	(905)	(987)	(929)	(1,007)	(1,043)	(952)	(978)	(1,128)	(1,102)	(2,590)	(3,695)	(3,967)	(4,160)	(4,359)	
Operating Profit	1,247	904	480	1,060	866	958	1,062	959	980	1,072	1,214	1,283	4,308	3,690	3,845	4,550	4,793	
Net Non-oper. Inc.	(962)	679	1,676	434	641	138	202	266	130	160	180	230	2,018	1,827	1,247	700	790	
Net Interest Income	(4)	(45)	(75)	(130)	(29)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	168	(254)	(179)	(200)	(200)	
Investment Income	(219)	706	-100	59	61	88	172	236	130	160	180	230	1,438	446	557	700	790	
Exchange Gain	(576)	51	1,598	564	688								233	1,637	688	0	0	
others	(163)	(33)	253	(59)	(79)	100	80	80	50	50	50	50	179	(2)	181	200	200	
Pre-tax Profit	285	1,583	2,156	1,494	1,507	1,096	1,264	1,225	1,110	1,232	1,394	1,513	6,325	5,518	5,092	5,250	5,583	
Tax Expense	226	(130)	(240)	(39)	(95)	(88)	(63)	(61)	(67)	(100)	(84)	(91)	(687)	(183)	(307)	(341)	(391)	
<b>Net Profit</b>	<b>511</b>	<b>1,453</b>	<b>1,915</b>	<b>1,456</b>	<b>1,412</b>	<b>1,009</b>	<b>1,201</b>	<b>1,164</b>	<b>1,043</b>	<b>1,132</b>	<b>1,311</b>	<b>1,422</b>	<b>5,638</b>	<b>5,335</b>	<b>4,785</b>	<b>4,909</b>	<b>5,192</b>	
<b>EPS (NT\$)</b>	<b>0.20</b>	<b>0.57</b>	<b>0.75</b>	<b>0.57</b>	<b>0.55</b>	<b>0.39</b>	<b>0.47</b>	<b>0.45</b>	<b>0.41</b>	<b>0.44</b>	<b>0.51</b>	<b>0.56</b>	<b>2.20</b>	<b>2.08</b>	<b>1.87</b>	<b>1.92</b>	<b>2.03</b>	
<b>Margins</b>																		
Gross Margin	5.0%	4.5%	2.6%	3.1%	3.1%	3.1%	3.2%	3.1%	3.1%	3.1%	3.1%	3.1%	4.9%	3.6%	3.1%	3.1%	3.0%	
Operating Expense	-3.1%	-3.2%	-2.2%	-2.1%	-2.1%	-2.2%	-2.2%	-2.2%	-2.1%	-2.1%	-2.1%	-2.1%	-3.1%	-2.5%	-2.1%	-2.1%	-2.0%	
Operating Margin	1.9%	1.3%	0.4%	1.0%	1.0%	1.0%	1.0%	0.9%	1.0%	1.0%	1.0%	1.0%	1.8%	1.1%	1.0%	1.0%	1.0%	
Tax Rate	NA	-8%	-11%	-3%	-6%	-8%	-5%	-5%	-6%	-8%	-6%	-6%	-10.9%	-3.3%	-6.0%	-6.5%	-7.0%	
Net Margin	0.8%	2.0%	1.8%	1.4%	1.6%	1.0%	1.2%	1.1%	1.1%	1.1%	1.1%	1.2%	2.4%	1.5%	1.2%	1.1%	1.1%	
<b>Seq. Growth</b>																		
Sales	-14%	8%	51%	-2%	-15%	9%	6%	2%	-10%	8%	15%	3%	1%	47%	13%	11%	10%	
Cost of Sales	-15%	9%	54%	-3%	-15%	9%	6%	2%	-10%	8%	15%	3%	2%	49%	14%	11%	10%	
Gross Profit	-4%	-3%	-11%	18%	-18%	12%	8%	-1%	-9%	9%	15%	2%	-3%	8%	-2%	11%	6%	
Operating Expense	5%	12%	3%	-3%	-17%	13%	6%	3%	-13%	8%	15%	1%	5%	21%	-4%	8%	6%	
Operating Profit	-15%	-27%	-47%	121%	-18%	11%	11%	-10%	2%	9%	13%	6%	-14%	-14%	4%	18%	5%	
Non-operating Income	-262%	-171%	147%	-74%	48%	-78%	46%	32%	-51%	23%	13%	28%	53%	-9%	-32%	-44%	13%	
Pre-Tax Profit	-86%	456%	36%	-31%	1%	-27%	15%	-3%	-9%	11%	13%	9%	0%	-13%	-8%	3%	6%	
Tax Expense	-179%	-157%	85%	-84%	145%	-8%	-28%	-3%	9%	50%	-16%	9%	3%	-73%	68%	11%	15%	
Net Profit	-71%	185%	32%	-24%	-3%	-29%	19%	-3%	-10%	9%	16%	9%	0%	-5%	-10%	3%	6%	
<b>YoY</b>																		
Sales	13%	52%	90%	37%	36%	37%	-4%	0%	6%	5%	14%	16%	1%	47%	13%	11%	10%	
Cost of Sales	14%	53%	95%	38%	38%	39%	-4%	0%	6%	5%	14%	16%	2%	49%	14%	11%	10%	
Gross Profit	11%	33%	-5%	-3%	-17%	-4%	17%	-2%	9%	6%	13%	16%	-3%	8%	-2%	11%	6%	
Operating Expense	14%	26%	26%	16%	-8%	-7%	-4%	2%	7%	3%	12%	9%	5%	21%	-4%	8%	6%	
Operating Profit	7%	54%	-56%	-28%	-31%	6%	121%	-9%	13%	12%	14%	34%	-14%	-14%	4%	18%	5%	
Non-operating Income	-228%	124%	354%	-27%	-167%	-80%	-88%	-39%	-80%	16%	-11%	-14%	53%	-9%	-32%	-44%	13%	
Pre-Tax Profit	-85%	78%	47%	-27%	429%	-31%	-41%	-18%	-26%	12%	10%	23%	0%	-13%	-8%	3%	6%	
Tax Expense	-178%	-1429%	93%	-86%	-142%	-32%	-74%	58%	-30%	14%	32%	48%	3%	-73%	68%	11%	15%	
Net Profit	-69%	62%	43%	-18%	176%	-31%	-37%	-20%	-26%	12%	9%	22%	0%	-5%	-10%	3%	6%	
<b>Assumptions</b>																		
NB units (mn)	2.5	3.0	4.6	4.6	4.5	5.0	5.5	5.6	5.2	5.6	6.5	6.7	8.1	14.7	20.5	24.0	27.6	
Server (K)	260	260	280	250	240	255	270	290	290	330	360	380	890	1,050	1,055	1,360	1,496	

Source: TEJ, Banc of America Securities - Merrill Lynch estimates

## Price objective basis & risk

### Inventec (IVCJF)

Our PO of NT\$15.0 is based on 8x 2009/10E EPS and 1.0x P/BV, which is a discount to leading NB ODM peers'. Our PO is based on the mid-cycle of the company's historical P/E (5-11x since 2001), given its slower YoY earning momentum for 2009/10E and stretched balance sheet and cash position. Upside risks to our PO are: (1) better-than-expected margins and (2) better NB PC industry growth. Downside risks: (1) further weakness in the NB PC industry and (2) loss of key customers.

## Analyst Certification

I, Tina Chang, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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### APR - Technology Hardware Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	AU Optronics	AUO	AUO US	Jeffrey Su
	AU Optronics	AUOPF	2409 TT	Jeffrey Su
	Cheil Industries	CLFUF	001300 KS	Simon Dong-je Woo, CFA
	Coretronic	CCOCF	5371 TT	Jeffrey Su
	Delta Elect	DLTEF	2308 TT	Jeffrey Su
	HTC Corp.	HTCCF	2498 TT	Laura Chen
	LG Display Co., Ltd.	LPHLF	034220 KS	Jeffrey Su
	LG Display Co., Ltd.-A	LPL	LPL US	Jeffrey Su
	LG Electronics	LGEAF	066570 KS	Laura Chen
	Samsung Techwin	SGTWF	012450 KS	Simon Dong-je Woo, CFA
	Simplo Tech	SPLOF	6121 TT	Tina Chang, CFA
	TPV	TPVTF	903 HK	Simon Dong-je Woo, CFA
<b>NEUTRAL</b>				
	Alpha Networks I	AHNWF	3380 TT	Laura Chen
	Compal Electron	CMPLF	2324 TT	Tina Chang, CFA

18 June 2009

APR - Technology Hardware Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
	Lite-On Tech	LOTZF	2301 TT	Jeffrey Su
	Merry Electron	MMECF	2439 TT	Laura Chen
	Oisda Corp	BNOCF	2352 TT	Jeffrey Su
	Shin Zu Shing	SZUSF	3376 TT	Tina Chang, CFA
	Sillitech	SLKCF	3311 TT	Laura Chen
	Wistron	WICOF	3231 TT	Tony Tseng, CFA
<b>UNDERPERFORM</b>				
	Acer, Inc	ASIYF	2353 TT	Tony Tseng, CFA
	Asustek	AKCPF	2357 TT	Tony Tseng, CFA
	Catcher Tech	CHERF	2474 TT	Tina Chang, CFA
	Chi Mei Opto	CMEOF	3009 TT	Jeffrey Su
	Chicony Elect	CCNYF	2385 TT	Tina Chang, CFA
	Compal Comm	CPCMF	8078 TT	Laura Chen
	Epistar Corp	EPIPF	2448 TT	Jeffrey Su
	Everlight Elec	EVLEF	2393 TT	Jeffrey Su
	Foxconn Intl Hld	FXCNF	2038 HK	Laura Chen
	Foxconn Tech	FXTCF	2354 TT	Tony Tseng, CFA
	Gemtek Technology	GTKTF	4906 TT	Laura Chen
	Hon Hai Prec.	HNHAF	2317 TT	Tony Tseng, CFA
	InnoLux	INXDF	3481 TT	Jeffrey Su
	Inventec	IVCJF	2356 TT	Tina Chang, CFA
	Inventec Applan	IVAPF	3367 TT	Tina Chang, CFA
	Largan Precision	LGANF	3008 TT	Laura Chen
	Lenovo Group	LNVGF	992 HK	Daniel Heyler
	Lenovo Group	LNVGY	LNVGY US	Daniel Heyler
	Mitac Intl	MTCXF	2315 TT	Tina Chang, CFA
	Quanta Computer	QUCPF	2382 TT	Tony Tseng, CFA
	Radiant	ROPTF	6176 TT	Jeffrey Su
	Samsung Elec M	SSEMF	009150 KS	Masashi Kubota
	Samsung SDI	SSDIF	006400 KS	Simon Dong-je Woo, CFA
	Seoul Semicon	SLSOF	046890 KS	Simon Dong-je Woo, CFA
	Wellypower	XTTWF	3080 TT	Jeffrey Su

iQmethod<sup>SM</sup> Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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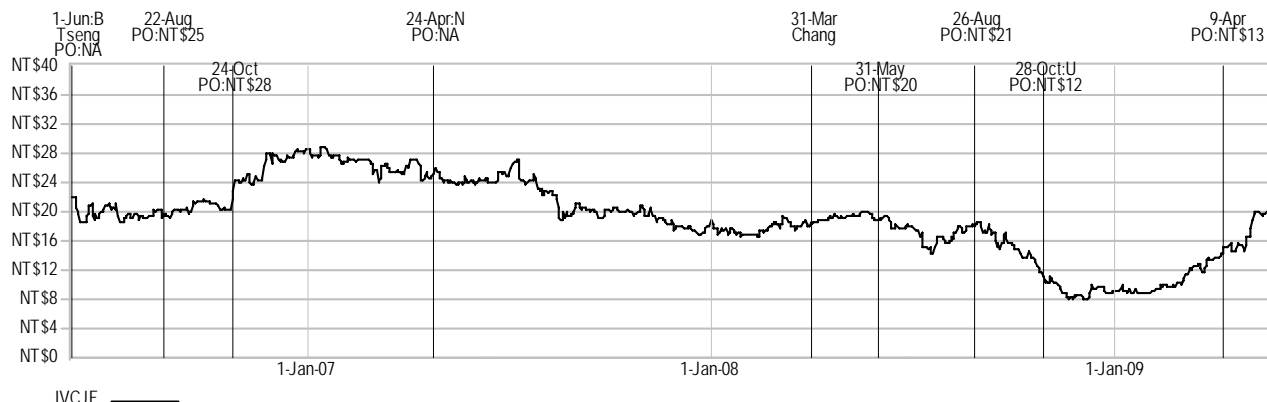
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### IVCJF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

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### Investment Rating Distribution: Electronics Group (as of 01 Apr 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	17	23.29%	Buy	4	30.77%
Neutral	15	20.55%	Neutral	1	7.14%
Sell	41	56.16%	Sell	3	8.33%

### Investment Rating Distribution: Global Group (as of 01 Apr 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1243	38.21%	Buy	520	46.39%
Neutral	841	25.85%	Neutral	349	47.04%
Sell	1169	35.94%	Sell	388	36.30%

\* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

\* Ratings dispersions may vary from time to time where BAS-ML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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