



## COMPANY UPDATE

# Wistron (3231.TW)

Buy

## Focus on fundamentals after GDR issuance; still Conviction Buy

### What's changed

Wistron's share price has been volatile since peaking June 1 at NT\$54.5. We believe this is a technical and seasonal pullback, and may also reflect market uncertainty related to the 150 mn GDR share issuance on June 15 at NT\$49, representing a 2% discount to Wistron's last close; the total offering size was approximately US\$223.5 million. In addition to the nine reasons to buy Wistron we discussed in our June 1 note, our industry checks indicate that HP will be awarding 1H10 orders to major ODMs in the near future, of which Wistron may gain share from peers, in our view. Also, Wistron has said the handset/push mail device from a US OEM may contribute 5% of its 2010 revenues in its conference call with investors on June 12, indicating 3mn units for 2010 if we assume an ASP of US\$300.

### Implications

We visited the Taipei International Optoelectronics Exposition last week. We noted that all LCD panel makers, including AUO, CMO, CPT, etc. displayed different 3D technologies, indicating that 3D display looks likely product trend for the next generation. However, 3D technology currently requires content either already in 3D or converted from 2D in advance, whereas Wistron's solution is real time 2D to 3D conversion. Wistron remains our top pick in NB ODMs and we expect accelerating momentum for various products, including NB, TV and handset/push mail handheld devices. Because of increasing new orders across different products, we think there is potential upside to our 2010 earnings which may offset EPS dilution of 10% from recent GDR issuance.

### Valuation

We maintain our Buy rating (Conviction List) and 12 month NT\$62 target price (on 10X 2010E EPS). Wistron currently trades at 8.0X 2010E EPS (historical range: 4.0X-15.6X since 2005).

### Key risks

Key risks include technical/seasonal pullbacks and forex losses.

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Asia Pacific Buy List  
Asia Pacific Conviction Buy List

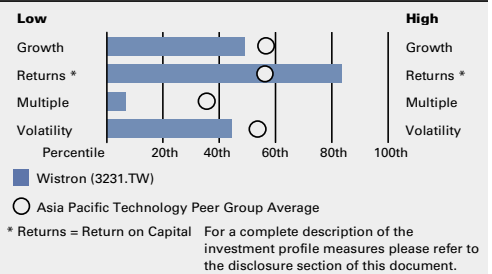
**Coverage View:** Neutral

Taiwan:  
Hardware

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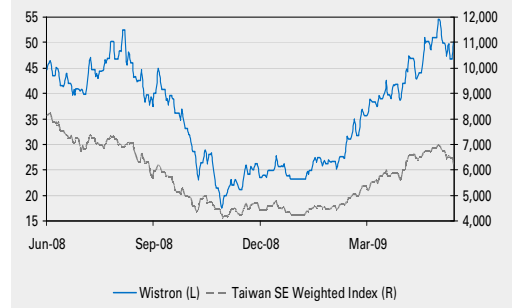
### Investment Profile



Key data	Current
Price (NT\$)	50.00
12 month price target (NT\$)	62.00
Market cap (NT\$ mn / US\$ mn)	75,831.8 / 2,313.4
Foreign ownership (%)	49.0

	12/08	12/09E	12/10E	12/11E
EPS (NT\$)	4.66	5.02	6.24	6.70
EPS growth (%)	1.8	7.8	24.2	7.4
EPS (diluted) (NT\$)	4.60	4.99	6.09	6.43
EPS (basic pre-ex) (NT\$)	4.66	5.02	6.24	6.70
P/E (X)	10.7	10.0	8.0	7.5
P/B (X)	2.0	1.8	1.6	1.5
EV/EBITDA (X)	5.0	6.2	4.8	4.4
Dividend yield (%)	2.2	4.8	6.0	6.4
ROE (%)	19.8	19.4	21.4	20.5

### Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	60.8	94.9	12.0
Rel. to Taiwan SE Weighted Index	26.5	44.5	45.8

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 6/15/2009 close.

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# Wistron: Summary financials

Profit model (NT\$ mn)	12/08	12/09E	12/10E	12/11E	Balance sheet (NT\$ mn)	12/08	12/09E	12/10E	12/11E
<b>Total revenue</b>	<b>445,117.7</b>	<b>540,844.2</b>	<b>628,240.6</b>	<b>751,281.0</b>	Cash & equivalents	13,174.0	8,599.1	8,518.4	8,484.4
Cost of goods sold	(420,252.2)	(513,345.3)	(595,745.5)	(713,921.8)	Accounts receivable	63,718.1	62,328.3	73,608.7	91,412.8
SG&A	(9,824.7)	(10,860.1)	(12,102.6)	(14,218.9)	Inventory	31,891.9	38,996.2	45,242.7	45,052.0
R&D	(6,428.2)	(8,190.1)	(9,253.9)	(10,919.8)	Other current assets	4,780.7	5,133.5	4,726.9	5,330.8
Other operating profit/(expense)	0.0	0.0	0.0	0.0	<b>Total current assets</b>	<b>113,564.8</b>	<b>115,057.2</b>	<b>132,096.8</b>	<b>150,280.1</b>
ESO expense	(1,043.6)	(800.4)	(1,009.5)	(1,083.2)	Net PP&E	17,420.7	16,452.2	17,410.8	18,265.9
<b>EBITDA</b>	<b>12,065.2</b>	<b>12,279.1</b>	<b>15,834.2</b>	<b>17,375.7</b>	Net intangibles	2,579.2	2,446.2	2,446.2	2,446.2
Depreciation & amortization	(3,452.5)	(3,830.3)	(4,695.6)	(5,155.2)	Total investments	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>8,612.7</b>	<b>8,448.8</b>	<b>11,138.7</b>	<b>12,220.6</b>	Other long-term assets	830.1	868.9	868.9	868.9
Interest income	277.7	362.8	488.4	524.4	<b>Total assets</b>	<b>139,461.1</b>	<b>140,212.6</b>	<b>158,467.3</b>	<b>177,820.8</b>
Interest expense	(939.4)	(208.8)	(122.9)	(131.0)	Accounts payable	77,960.9	79,513.7	91,899.0	106,496.5
Income/(loss) from uncons. subs.	239.4	239.4	256.5	315.1	Short-term debt	2,875.2	2,529.1	2,529.1	2,529.1
Others	666.6	717.7	200.0	0.0	Other current liabilities	9,582.3	8,140.0	8,527.8	8,078.8
<b>Pretax profits</b>	<b>8,856.9</b>	<b>9,559.8</b>	<b>11,960.7</b>	<b>12,929.1</b>	<b>Total current liabilities</b>	<b>90,418.4</b>	<b>90,182.9</b>	<b>102,956.0</b>	<b>117,104.4</b>
Income tax	(1,958.5)	(1,944.8)	(2,491.1)	(2,762.1)	Long-term debt	9,858.0	6,105.1	6,105.1	6,105.1
Minorities	(20.5)	0.6	(12.8)	(6.8)	Other long-term liabilities	1,401.9	1,468.4	1,468.4	1,468.4
<b>Net income pre-preferred dividends</b>	<b>6,877.9</b>	<b>7,615.6</b>	<b>9,456.8</b>	<b>10,160.2</b>	Total long-term liabilities	11,259.9	7,573.5	7,573.5	7,573.5
Preferred dividends	0.0	0.0	0.0	0.0	<b>Total liabilities</b>	<b>101,678.3</b>	<b>97,756.4</b>	<b>110,529.5</b>	<b>124,677.9</b>
<b>Net income (pre-exceptionals)</b>	<b>6,877.9</b>	<b>7,615.6</b>	<b>9,456.8</b>	<b>10,160.2</b>	<b>Preferred shares</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Post-tax exceptionals	0.0	0.0	0.0	0.0	<b>Total common equity</b>	<b>36,871.2</b>	<b>41,545.2</b>	<b>47,014.1</b>	<b>52,212.4</b>
<b>Net income</b>	<b>6,877.9</b>	<b>7,615.6</b>	<b>9,456.8</b>	<b>10,160.2</b>	Minority interest	911.6	911.0	923.8	930.6
EPS (basic, pre-exception) (NT\$)	4.66	5.02	6.24	6.70	<b>Total liabilities &amp; equity</b>	<b>139,461.1</b>	<b>140,212.6</b>	<b>158,467.3</b>	<b>177,820.8</b>
EPS (basic, post-exception) (NT\$)	4.66	5.02	6.24	6.70	<b>BVPS (NT\$)</b>	<b>24.96</b>	<b>27.39</b>	<b>31.00</b>	<b>34.43</b>
EPS (diluted, post-exception) (NT\$)	4.60	4.99	6.09	6.43					
<b>EPS excl. ESO expense (basic) (NT\$)</b>	<b>5.30</b>	<b>5.37</b>	<b>6.77</b>	<b>7.27</b>					
<b>EPS excl. ESO expense (dil.) (NT\$)</b>	<b>5.24</b>	<b>5.33</b>	<b>6.61</b>	<b>6.98</b>					
DPS (NT\$)	1.08	2.41	2.99	3.22					
Dividend payout ratio (%)	23.2	48.0	48.0	48.0					
Free cash flow yield (%)	13.2	1.8	5.1	6.5					
<b>Growth &amp; margins (%)</b>	<b>12/08</b>	<b>12/09E</b>	<b>12/10E</b>	<b>12/11E</b>	<b>Ratios</b>	<b>12/08</b>	<b>12/09E</b>	<b>12/10E</b>	<b>12/11E</b>
Sales growth	55.2	21.5	16.2	19.6	ROE (%)	19.8	19.4	21.4	20.5
EBITDA growth	12.2	1.8	29.0	9.7	ROA (%)	5.5	5.4	6.3	6.0
EBIT growth	7.4	(1.9)	31.8	9.7	ROACE (%)	20.5	18.7	20.1	19.3
Net income growth	4.1	10.7	24.2	7.4	Inventory days	23.8	25.2	25.8	23.1
EPS growth	1.8	7.8	24.2	7.4	Receivables days	48.5	42.5	39.5	40.1
Gross margin	5.6	5.1	5.2	5.0	Payable days	58.8	56.0	52.5	50.7
EBITDA margin	2.7	2.3	2.5	2.3	Net debt/equity (%)	(1.2)	(0.5)	(0.2)	(0.1)
EBIT margin	1.9	1.6	1.8	1.6	Interest cover - EBIT (X)	13.0	NM	NM	NM
					<b>Valuation</b>	<b>12/08</b>	<b>12/09E</b>	<b>12/10E</b>	<b>12/11E</b>
<b>Cash flow statement (NT\$ mn)</b>	<b>12/08</b>	<b>12/09E</b>	<b>12/10E</b>	<b>12/11E</b>	P/E (analyst) (X)	10.7	10.0	8.0	7.5
Net income pre-preferred dividends	6,877.9	7,615.6	9,456.8	10,160.2	P/B (X)	2.0	1.8	1.6	1.5
D&A add-back	3,452.5	3,830.3	4,695.6	5,155.2	EV/EBITDA (X)	5.0	6.2	4.8	4.4
Minorities interests add-back	0.0	0.0	0.0	0.0	Dividend yield (%)	2.2	4.8	6.0	6.4
Net (inc)/dec working capital	2,451.7	(4,161.7)	(5,141.6)	(3,015.9)					
Other operating cash flow	2,159.2	(1,865.9)	537.9	(1,368.1)					
<b>Cash flow from operations</b>	<b>14,941.3</b>	<b>5,418.3</b>	<b>9,548.6</b>	<b>10,931.4</b>					
Capital expenditures	(6,852.7)	(4,056.3)	(5,654.2)	(6,010.2)					
Acquisitions	(633.5)	(142.1)	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	(1,870.6)	(8.1)	0.0	0.0					
<b>Cash flow from investments</b>	<b>(8,694.9)</b>	<b>(4,065.4)</b>	<b>(5,654.2)</b>	<b>(6,010.2)</b>					
Dividends paid (common & pref)	(3,731.2)	(1,595.1)	(3,655.5)	(4,539.3)					
Inc/(dec) in debt	2,664.2	(4,099.0)	0.0	0.0					
Common stock issuance (repurchase)	1,134.5	0.0	0.0	0.0					
Other financing cash flows	(462.8)	(271.0)	(319.7)	(415.9)					
<b>Cash flow from financing</b>	<b>(395.3)</b>	<b>(5,965.1)</b>	<b>(3,975.2)</b>	<b>(4,955.1)</b>					
<b>Total cash flow</b>	<b>5,719.8</b>	<b>(4,574.9)</b>	<b>(80.7)</b>	<b>(34.0)</b>					

Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

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## Reg AC

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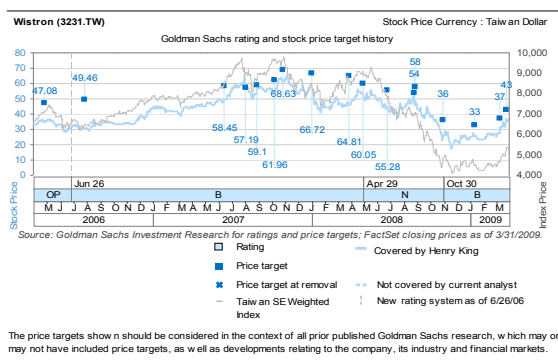
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