



COMPANY UPDATE
HTC Corp. (2498.TW)

Neutral

Samsung's new product launch: near/long-term implication for HTC

What's changed

At the pre-CommunicAsia2009 event on June 15, Samsung rolled out several Windows Mobile smartphones (the OMNIA family), and rolled out the Samsung "Jet" —the next generation feature phone—during its "Samsung Unpacked" global launch event. Samsung Jet appears to be running on a feature phone operating system (O/S), but carries impressive hardware specs (such as the 800Mhz CPU), an upgraded user interface (UI), strong multimedia capability, and unique mobile internet experiences. Official dates for the availability of these devices have not been released.

Implications

We think Samsung's product launch may have limited impact on HTC's near-term growth driver—the Android platform. Samsung's Windows Mobile product launch will likely intensify the competition in this space, but we think this should have already been factored into the Street's estimate on HTC's decelerating Windows Mobile smartphone growth (unless Samsung engages in aggressive pricing that could cause downside risk to consensus). Further, the "Jet" launch would seem to help Samsung strengthen its position in the feature phone space rather than positioning it to gain share in the content/software-expansibility driven smartphone market, thus limiting the impact on HTC's current competitive landscape. Longer term, however, we see negative implications for HTC if the company seeks to leverage its proprietary UI and mobile internet applications to enter the low-end smartphone market, as Samsung, also without its proprietary smartphone O/S, seems to have leveraged these two key features to create its market leadership. We think Samsung has pushed the feature phone to another level, further blurring the line between smartphones and feature phones.

Valuation

Our 12-m TP of NT\$510 is based on 12X NTM EPS. Maintain Neutral.

Key risks

Downside: intense competition; upside: competitors' product rollout delay.

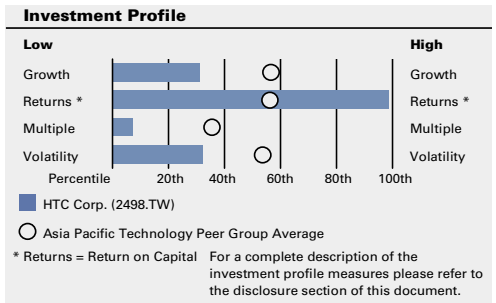
INVESTMENT LIST MEMBERSHIP

Neutral

Coverage View: Neutral

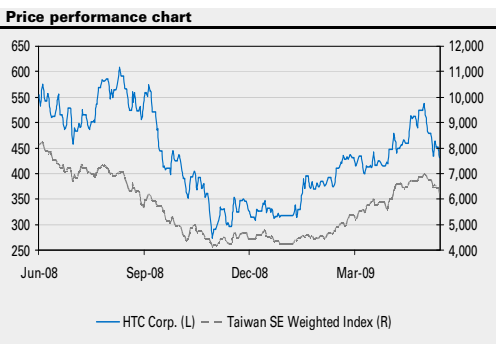
Taiwan:
 Communications Technology

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Key data	Current
Price (NT\$)	432.00
12 month price target (NT\$)	510.00
Market cap (NT\$ mn / US\$ mn)	317,690.2 / 9,691.9
Foreign ownership (%)	55.7

	12/08	12/09E	12/10E	12/11E
EPS (NT\$)	38.70	39.73	44.27	47.06
EPS growth (%)	(1.3)	2.6	11.4	6.3
EPS (diluted) (NT\$)	38.70	39.73	44.27	47.06
EPS (basic pre-ex) (NT\$)	38.70	39.73	44.27	47.06
P/E (X)	11.2	10.9	9.8	9.2
P/B (X)	5.3	4.2	3.4	2.8
EV/EBITDA (X)	9.8	7.5	6.1	5.3
Dividend yield (%)	6.1	6.3	6.4	7.2
ROE (%)	49.1	43.0	38.4	33.3



Share price performance (%)	3 month	6 month	12 month
Absolute	5.2	24.3	(22.0)
Rel. to Taiwan SE Weighted Index	(17.2)	(7.9)	1.6

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

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HTC Corp.: 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
Total revenue	152,558.8	174,456.5	201,369.0	221,214.4	Cash & equivalents	61,826.9	79,857.9	96,320.6	113,141.6
Cost of goods sold	(101,875.9)	(120,025.0)	(140,076.9)	(156,148.3)	Accounts receivable	30,046.0	32,643.8	38,010.4	39,794.3
SG&A	(10,808.7)	(12,663.4)	(13,882.1)	(14,577.0)	Inventory	7,418.5	8,707.5	10,409.1	11,226.2
R&D	(9,617.8)	(10,802.9)	(12,288.6)	(13,318.6)	Other current assets	1,980.7	3,338.2	3,463.0	3,843.5
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	101,272.0	124,547.5	148,203.1	168,005.6
ESO expense	--	--	--	--	Net PP&E	7,375.7	10,366.9	14,339.2	18,306.3
EBITDA	30,860.6	31,719.0	36,131.9	38,433.2	Net intangibles	0.0	0.0	0.0	0.0
Depreciation & amortization	(604.2)	(753.8)	(1,010.6)	(1,262.7)	Total investments	5,160.9	5,955.2	6,501.0	7,000.7
EBIT	30,256.4	30,965.2	35,121.4	37,170.5	Other long-term assets	1,417.8	1,509.2	1,671.8	1,843.3
Interest income	1,368.3	701.9	1,066.8	1,855.2	Total assets	115,226.4	142,378.8	170,715.1	195,155.9
Interest expense	(0.2)	(0.4)	(0.5)	(0.6)	Accounts payable	27,907.1	38,511.5	44,807.6	46,797.4
Income/(loss) from uncons. subs.	(57.3)	634.3	545.8	499.7	Short-term debt	0.0	37.3	37.3	37.3
Others	23.3	206.9	0.0	0.0	Other current liabilities	26,651.3	28,474.7	31,433.3	34,676.6
Pretax profits	31,590.5	32,508.0	36,733.5	39,524.7	Total current liabilities	54,558.5	67,023.5	76,278.2	81,511.3
Income tax	(2,955.1)	(3,292.1)	(4,174.8)	(4,920.5)	Long-term debt	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	Other long-term liabilities	6.4	4.2	5.2	5.7
Net income pre-preferred dividends	28,635.3	29,215.9	32,558.7	34,604.2	Total long-term liabilities	6.4	4.2	5.2	5.7
Preferred dividends	0.0	0.0	0.0	0.0	Total liabilities	54,564.9	67,027.8	76,283.4	81,517.0
Net income (pre-exceptionals)	28,635.3	29,215.9	32,558.7	34,604.2	Preferred shares	0.0	0.0	0.0	0.0
Post-tax exceptionals	0.0	0.0	0.0	0.0	Total common equity	60,661.5	75,351.0	94,431.7	113,638.9
Net income	28,635.3	29,215.9	32,558.7	34,604.2	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, pre-except) (NT\$)	38.70	39.73	44.27	47.06	Total liabilities & equity	115,226.4	142,378.8	170,715.1	195,155.9
EPS (basic, post-except) (NT\$)	38.70	39.73	44.27	47.06	BVPS (NT\$)	81.99	102.46	128.41	154.53
EPS (diluted, post-except) (NT\$)	38.70	39.73	44.27	47.06					
EPS excl. ESO expense (basic) (NT\$)	46.29	47.41	52.68	55.86					
EPS excl. ESO expense (dil.) (NT\$)	46.29	47.41	52.68	55.86					
DPS (NT\$)	26.34	27.00	27.81	30.99					
Dividend payout ratio (%)	68.1	68.0	62.8	65.9					
Free cash flow yield (%)	9.1	12.0	11.7	12.5					
Growth & margins (%)	12/08	12/09E	12/10E	12/11E	Ratios	12/08	12/09E	12/10E	12/11E
Sales growth	28.7	14.4	15.4	9.9	ROE (%)	49.1	43.0	38.4	33.3
EBITDA growth	(2.3)	2.8	13.9	6.4	ROA (%)	27.8	22.7	20.8	18.9
EBIT growth	(2.5)	2.3	13.4	5.8	ROACE (%)	NM	NM	NM	NM
Net income growth	(1.0)	2.0	11.4	6.3	Inventory days	24.3	24.5	24.9	25.3
EPS growth	(1.3)	2.6	11.4	6.3	Receivables days	59.6	65.6	64.0	64.2
Gross margin	33.2	31.2	30.4	29.4	Payable days	89.4	101.0	108.6	107.1
EBITDA margin	20.2	18.2	17.9	17.4	Net debt/equity (%)	(101.9)	(105.9)	(102.0)	(99.5)
EBIT margin	19.8	17.7	17.4	16.8	Interest cover - EBIT (X)	NM	NM	NM	NM
					Valuation	12/08	12/09E	12/10E	12/11E
Cash flow statement (NT\$ mn)	12/08	12/09E	12/10E	12/11E	P/E (analyst) (X)	11.2	10.9	9.8	9.2
Net income pre-preferred dividends	28,635.3	29,215.9	32,558.7	34,604.2	P/B (X)	5.3	4.2	3.4	2.8
D&A add-back	604.2	753.8	1,010.6	1,262.7	EV/EBITDA (X)	9.8	7.5	6.1	5.3
Minorities interests add-back	0.0	0.0	0.0	0.0	Dividend yield (%)	6.1	6.3	6.4	7.2
Net (inc)/dec working capital	(5,727.2)	6,470.5	(772.1)	(611.2)					
Other operating cash flow	14,081.9	5,437.5	9,261.1	9,757.1					
Cash flow from operations	37,594.2	41,877.7	42,058.3	45,012.9					
Capital expenditures	(4,569.6)	(3,789.4)	(4,954.4)	(5,201.2)					
Acquisitions	(2,108.8)	(279.9)	(191.0)	(200.0)					
Divestitures	0.0	0.0	0.0	0.0					
Others	(57.1)	80.4	0.0	0.0					
Cash flow from investments	(6,735.5)	(3,988.8)	(5,145.4)	(5,401.3)					
Dividends paid (common & pref)	(19,486.5)	(19,855.6)	(20,451.1)	(22,791.1)					
Inc/(dec) in debt	0.0	37.3	0.0	0.0					
Common stock issuance (repurchase)	(3,410.3)	(956.4)	0.0	0.0					
Other financing cash flows	(1,204.2)	917.0	0.9	0.5					
Cash flow from financing	(24,101.0)	(19,857.8)	(20,450.2)	(22,790.6)					
Total cash flow	6,757.6	18,031.0	16,462.7	16,821.0					

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

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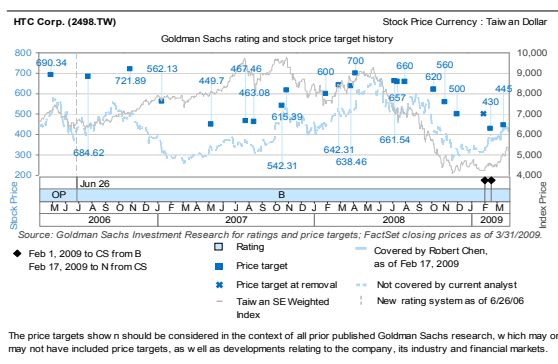
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