

Equities

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Taiwan Equity Strategy

The TWD Party's Over

- **TWD strength to abate** — TWD strength has been the defining factor of the market in 4Q10, driving the Taïex to handily beat regional markets and the Financials and Domestic Demand sectors to outperform. We expect a stable TWD for the next quarter or two will cool down the market, as will disappointing earnings results due to previous TWD appreciation. Longer term, however, we believe rising inflationary pressures will result in a shift in CBC policy in favor of a stronger TWD.
- **Downgrade Banks to Neutral** — We downgrade the Banks sector to Neutral weighting given their strong performance in 4Q10 and the deceleration of drivers such as capex-driven loan growth and currency strength. M&A, another driver, won't come into full swing until after next year's elections, in our view.
- **Reweighting back into Tech** — With Semiconductors being our highest conviction Buys, we are reweighting back into Tech. We also favor Hon Hai and HTC given strength from Apple and smartphone demand, as well as support from a more stable currency.
- **Market downside supported by underweights** — Investors at all levels are underweight the market, whether measured by GEM country weightings, cash weightings in Taiwan financial markets, or put-to-call ratio. Thus, we see limited downside risk, but our 10,000 index target won't likely be hit until closer to year end when the political season heats up in front of 2012 national elections.
- **Buy Chemicals, Sell Airlines** — We also remain positive on the Chemicals sector, with Formosa Plastics and Nanya Plastics both regional top picks, and reiterate our Sell on the Airlines, especially given their high correlation to the currency.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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The TWD Party's Over

Investment Thesis

TWD strength, a key market driver, may be over

The strength of the TWD over the past four months, up 10% vs. 4% for the rest of the region, was the single biggest factor in driving market and sector performance over that time. Taiwan was the best performing market in the region by a long shot, up 20% in dollar terms vs. 2.5% for the rest of the region. This helped drive the outperformance of the Banks, Airlines, and Property sectors. However, the TWD is 5% above its 3-yr MA, a level beyond which CIRA economist Cheng-Mount Cheng doesn't expect further appreciation, at least not for another quarter or two.

Downgrade Banks, Switch into Hon Hai

Thus, we have turned more cautious on these sectors in favor of Semiconductors, selected IT Hardware names like Hon Hai (2317.TW; NT\$117.50; 1L) and HTC (2498.TW; NT\$888.00; 1L), and Chemicals. We also downgrade our weighting on the Banks sector from Overweight to Neutral.

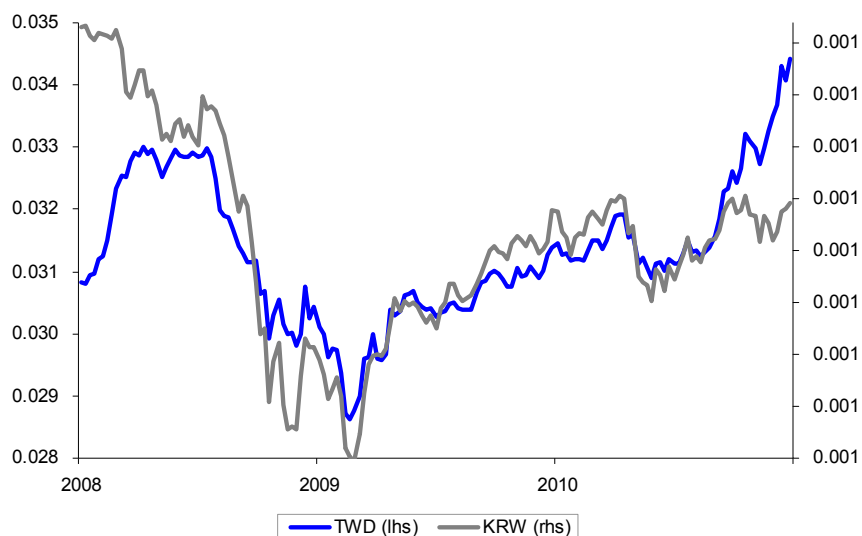
Figure 1. Taiwan — Top Buys & Sells

Stock	Price 20-Jan (NT\$)	Target Price (NT\$)	Market Cap (US\$M)	ADT (US\$M)	Stock Code	CIRA Rating
BUYS						
TSMC	78.0	84	63,165	151	2330.TW	1L
Hon Hai Precision	117.0	148	35,578	72	2317.TW	1L
HTC Corporation	890.0	1,100	22,739	120	2498.TW	1L
Nan Ya Plastics	78.0	84	19,419	21	1303.TW	1L
Mega FHC	22.1	24	7,759	19	2886.TW	1L
ASE	37.6	44	7,101	41	2311.TW	1L
SELLS						
MediaTek	401.5	243	13,932	100	2454.TW	3L
Quanta Computer	61.6	53	7,422	12	2382.TW	3L
Eva Airways	32.1	27	3,024	29	2618.TW	3M

Source: Citi Investment Research and Analysis Estimates

Meanwhile, the recent currency move has clearly constrained profitability. On balance, the 4Q10 earnings results have been disappointing, and as a consequence we have, over the course of the past quarter, lowered our earnings growth forecast for the market from 14% to just 8% for 2011. Index performance itself was also enhanced by the strong currency, thus we also expect less ST upside, particularly as we see fewer political catalysts in 1H11. All in all, we expect a lackluster 1H11 with Tech outperforming and our index target of 10,000 not likely to be achieved until later in 2H11.

Figure 2. Currencies: TWD vs. KRW

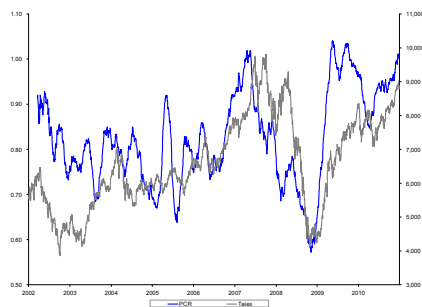


Source: Bloomberg, Citi Investment Research and Analysis

Market Outlook

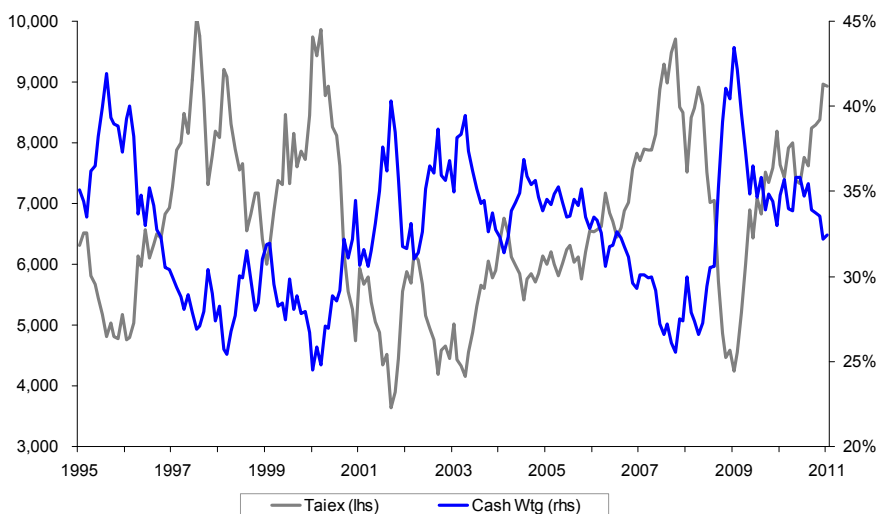
The consensus is strongly positive for the Taiwan market this year and that's what worries us the most. Still, it appears that while pundits are talking positive markets, they're not positioned so. Our put-to-call ratio shows near record high put trading volume versus calls in the Taifex market, suggesting that investors are still cautiously positioned – either short the market or at least under-invested. Our cash weighting index also shows that investors have declining but nonetheless sufficient cash positions relative to their equity weightings.

Figure 3. Put-to-Call Ratio



Source: Citi Investment Research and Analysis

Figure 4. Cash Weightings of Market



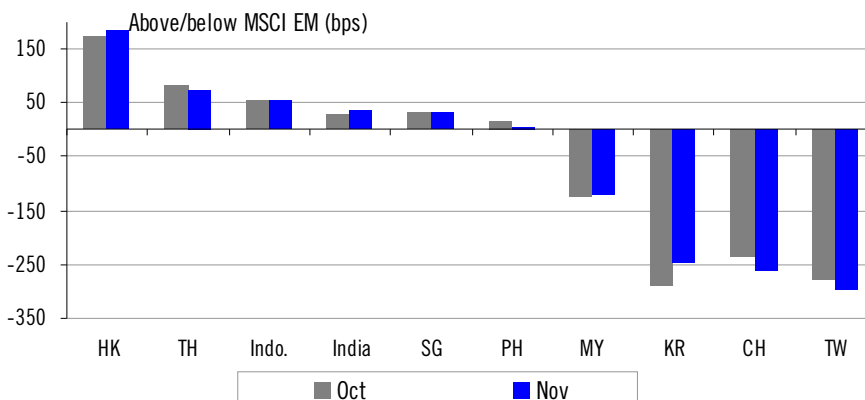
Source: Citi Investment Research and Analysis

Note: Cash weightings = $M1b / (M1b + \text{Market Cap})$

**Most investor classes still underweight
Taiwan market**

FINI (Foreign Institutional Investors) have net invested only US\$12bn in the past four years, 10% of that in just the first two weeks of 2011, versus an average net investment of US\$20bn in each of 2005 and 2006. GEM funds are currently near historic underweight levels in Taiwan, at 296 basis points.

Figure 5. GEM Fund Over/Underweights by Country



Source: EPFR Global, MSCI, Citi Investment Research and Analysis

Thus, while downside risk is minimal, the possibility of further index upside in this quarter is low.

Economy: TWD Ascendant

The 9.9% rise in the TWD since September 2010 can be explained in part by FINI flows which have risen noticeably since September 2010. But capital inflows by residents may well have slowed, or perhaps even reversed, during this same period given the significant widening of the interest rate gap between the TWD and the USD – the primary determinant of cross-border flows by Taiwan residents (see Figure 6).

It may well be the case, too, that the strength in the TWD is a reflection of changing policy attitudes at the Central Bank of China (Taiwan). CIRA economist Cheng-Mount Cheng notes that¹:

“...The CBC only defended TWD from breaking below 30 at the end of 2010 but has since allowed TWD to close higher against the USD in order to narrow the gap between intra-day actually trading prices and the daily close prices. Another thing we notice is the smaller amount of net NCD issuance, a sign that showed the CBC had less sterilization efforts during this period. One explanation for CBC’s inactiveness may be from rising domestic interest rates that increase intervention costs of the CBC. Another reason may come from rising inflation pressure as import prices rose to 11.57% yoy in Dec from 9.67% yoy in Nov in dollar terms, but the increase moderated to only 3.42% yoy in Dec from 2.93% yoy in Nov in TWD terms. This suggests that the CBC may be willing to tolerate more TWD appreciation to cool rising imported inflation pressure. Given the positive correlation of CPI inflation and the TWD strength, we believe further rising CPI inflation could trigger more upside for the TWD.”

Figure 6. USD vs. TWD 5yr Interest Rates

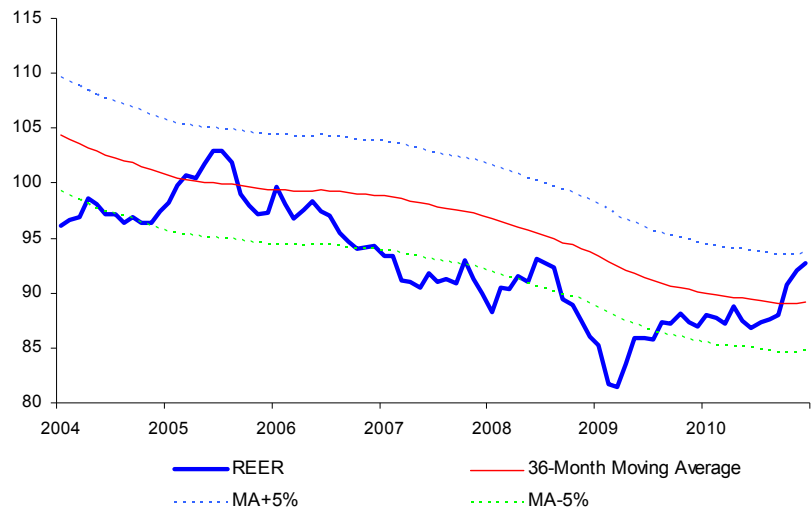


Source: Citi Investment Research and Analysis

¹ See ‘Taiwan Macro Flash — Thoughts on Recent TWD Strength’, CIRA report, 12 January 2011 (<https://www.citigroupgeo.com/pdf/SAP43225.pdf>)

In other words, the CBC may now be shifting away from a policy which in the past has always leaned toward a weaker TWD in order to support the export sector toward a policy of greater currency strength to offset inflation and support domestic capital formation and consumption. However, Cheng-Mount goes on to point out that the TWD in terms of its real effective exchange rate, may be at the top of its probable trading range for now.

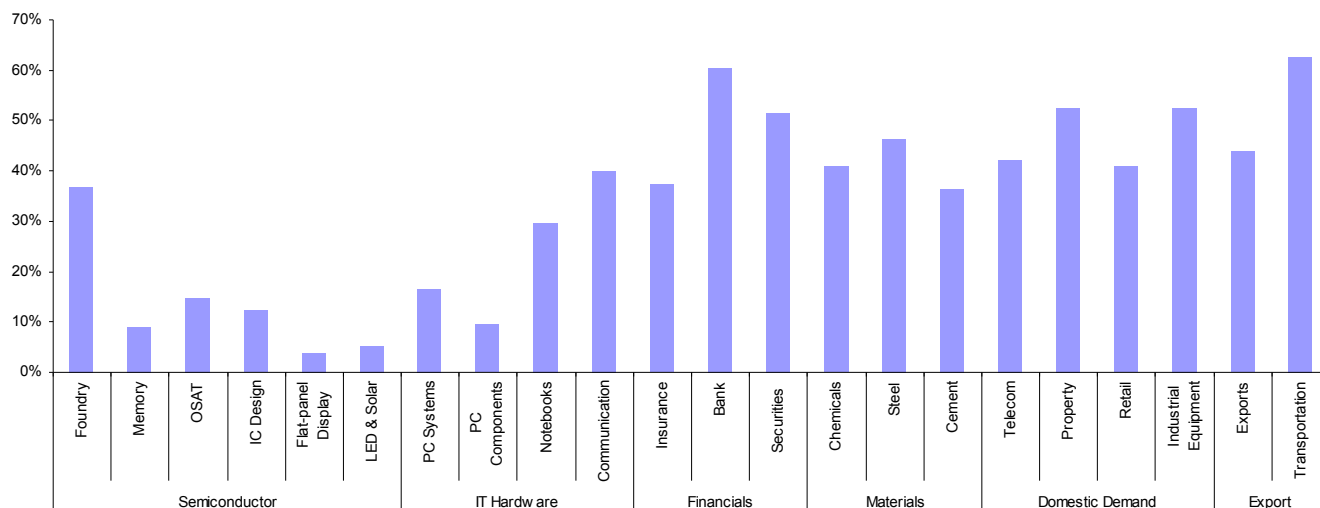
Figure 7. Real Effective Exchange Rate



Source: Citi Investment Research and Analysis

Thus, given the widening interest rate gap between the USD and the TWD, and given Cheng-Mount's view that the TWD may be at the top of its sustainable trading range, the TWD may have little room for further appreciation in the short term and indeed may even weaken over the next quarter or two despite the fact that policy may have shifted in favor of a strong currency in the longer term. Tech and exporters in general have been negatively affected by the currency strength, although interestingly Foundry less so, while Display, Solar and Memory are much more directly affected.

Figure 8. Sector Correlation to the TWD



Source: Citi Investment Research and Analysis

The implication, therefore, of a reversal in TWD strength is for a short-term weakening of the market and relative outperformance of Tech.

Exports Return as GDP Driver

While we expect domestic demand to become a far more significant driver to growth, Cheng-Mount Cheng forecasts that net exports, along with private consumption, will return as a primary growth driver for the economy this year as capital spending growth slows in response to the base effect of last year's surge. Capital spending surged last year, catalyzed by ECFA and the need to re-orient the economy toward Asia and China-derived demand. By next year, consumer spending should begin to accelerate in response to higher wages engendered by capital spending, not to mention the stimulus to domestic demand from the strengthening currency. But for this year, it will be net exports that lead growth.

Figure 9. CIRA Economic Forecasts for Taiwan

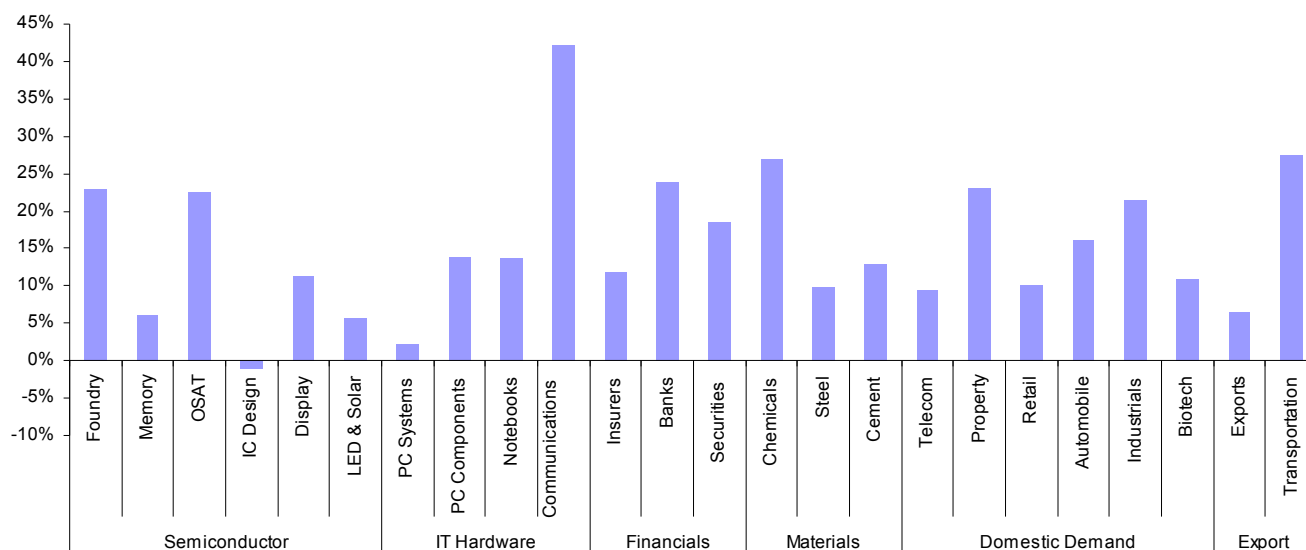
	Growth (% YoY)			Weights (% of GDP)		
	2010F	2011F	2012F	2010F	2011F	2012F
GDP	10.3	4.3	5.0	100.0	100.0	100.0
Private Consumption	4.0	3.8	4.2	54.5	54.2	53.8
Public Consumption	0.9	0.8	-0.5	11.2	10.8	10.3
Gross Capital Formation	23.7	2.6	6.5	19.5	19.0	18.7
Exports	25.7	6.9	8.1	74.6	76.5	78.7
Imports	29.2	5.7	6.5	59.8	60.6	61.5
Net Exports				14.8	15.9	17.2

Source: Citi Investment Research and Analysis Estimates

Sector Strategy

The peaking, in our view, of the TWD implies a return to outperformance by Tech, a sector which has undergone significant weighting reductions. As a result, Semiconductors are now our highest conviction sector overweight. For the same reason, we have reduced our weighting on Banks and Property from Overweight to Neutral and maintain our Underweight on the Airlines, the best performing sector in 2010. We have also reduced PC Components and Telecoms to Neutral weightings.

Figure 10. Sector Performance since September 2010



Source: Citi Investment Research and Analysis

Semiconductors: Top Pick

The semiconductor sector continues to benefit from continued demand for advanced manufacturing technologies generated by the migration to smartphones, tablet PC, advanced game consoles, and 3G and 4G telecom build-out. Moreover, we view that the factor which caused the greatest amount of concern for this sector last year – the surge in capital spending – is peaking this year and next. The capex-to-sales ratio peaked last year at 37% and is expected to fall to 29% this year. Thus, we Overweight Foundries and have further raised our weightings on the OSAT sector from Neutral to Overweight.

Figure 11. Semiconductor Sector Capex-to-Sales Ratio



Source: Citi Investment Research and Analysis

CIRA analyst Roland Shu notes that TSMC (2330.TW; NT\$76.30; 1L) has now a virtual monopoly as a credible supplier in the 40nm and 28nm technologies while ASE (2311.TW; NT\$37.20; 1L), his top pick in the semiconductor sector, is equally unmatched in copper wire bonding. Substrates are more of a mixed story, but Kinsus (3189.TW; NT\$97.50; 1L) should benefit from becoming part of the Apple (AAPL.O; US\$338.84; 1H) supply chain by supporting the A4 processor.

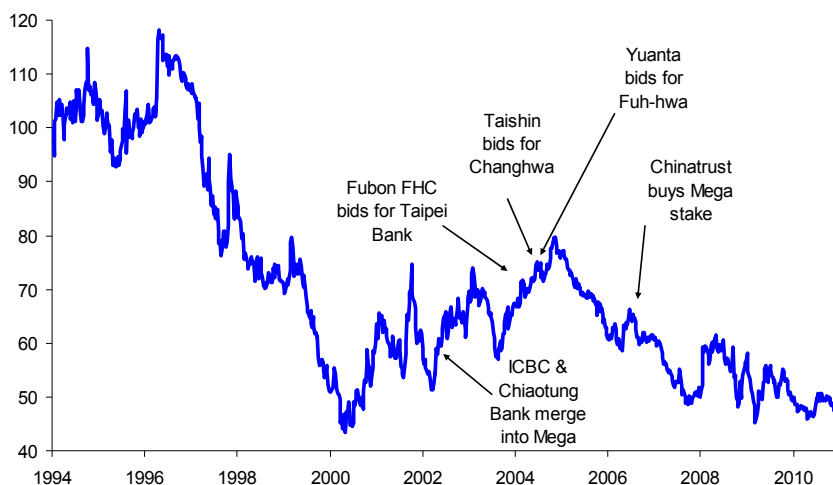
Banks: Downgrade to Neutral

We had overweighted the Banks since August 2010 but are concerned that some key drivers to the sector – capex & loan growth recovery and the strong TWD – will temporarily lose momentum in the first half of this year. Given the sector's strong outperformance over the past three months, we now lower our recommended weighting to Neutral.

Bank consolidation a 2012 story

Bank consolidation was another driver, wherein the government is, in our view, promoting bank consolidation in response to the opening of direct competition from PRC banks. We suspect that the Taiwan government has purposely slowed the pace of opening cross-strait financial services while re-initiating a bank consolidation policy. Historically, the banking sector has outperformed during periods when the government promoted consolidation. However, it is likely that the government will wait until after the 2012 presidential election to launch a drive to consolidate the banks. Alleged corruption in previous rounds of consolidation has rendered the issue politically sensitivity.

Figure 12. Taiwan Financials Index Relative to Taiex



Source: Citi Investment Research and Analysis

IT Hardware: Upgrade to Neutral – Mostly about Hon Hai

Figure 13. FINI Holdings in Hon Hai



Source: TEJ

CIRA analyst Wei Chen initiated coverage of the NB sector with a negative view². He sees 1Q11 as weaker than market expectation and weaker than ODM guidance as tablet PCs and smartphones continue to attract consumer expenditure at the expense of NB. CIRA analyst Kevin Chang remains quite positive on Hon Hai. He believes that the point of maximum margin compression is behind us while revenue growth in 2011 will remain strong due to the strength of Apple product sales, with iPhones and iPads in continued shortage. The stock is widely disliked by the market with weightings having fallen from their 30 April 2010 peak as the market belatedly reacted to declining margins. Thus, we shift our recommended weightings from the Banks in favor of PC Systems and Hon Hai in particular.

Kevin Chang also likes HTC, if perhaps with a shorter term outlook, as he expects strong 1Q11 smartphones shipments driven by pent up demand from 4Q10 due to the component shortage and US operators' aggressive 4G push. For whitebox handset food chain, he expects 1Q11 shipment momentum to fall below expectation due to whitebox inventory correction in India and continuing price competition between MTK (2454.TW; NT\$399.50; 3L) and Spreadtrum (SPRD.O; US\$20.16; Not Rated).

Materials: Prefer Chemicals

Chemicals continue to feature in our momentum analysis, driven by strong commodity price rises. CIRA analyst Oscar Yee rates Nanya Plastics (1303.TW; NT\$78.30; 1L) and Formosa Plastics (1301.TW; NT\$96.50; 1L) as top regional picks, particularly given the former's exposure to mono-ethylene glycol (MEG). Oscar points out that demand for polyester remains robust on cotton substitution but we prefer exposure towards the feedstock chain (PX, MEG) due to low entry barriers for polyester in China.

² See 'Taiwan Notebook ODMs — A Challenging Year for Notebook ODMs', CIRA report, 5 January 2011 (<https://www.citigroupgeo.com/pdf/SAP43010.pdf>).

Domestic Demand

Downgrading Telecom and Property to Neutral

We expect that the Telecom stocks will encounter a period of consolidation after unusually frothy trading around the dividend payout and, in our view, as a result of the raising of the RRR for bank deposits held by FINIs to 90%. This policy had the effect of forcing money that may have been speculating on the currency into safer, fixed income-like equities, of which the Telecom stocks are most prominent. Thus, we have downgraded the Telecom sector from Overweight to Neutral.

The Property sector stocks must also absorb the impact of government policy directed against property market speculation. Taiwan banks report that due to CBC policy initiatives, mortgage rates have risen by a full percent over the past half year and other policies may still be pending. Thus, again, while we favor this sector longer term, we have downgraded to a Neutral weighting for the time being.

Transportation

Airlines still a Sell

We reiterate our Underweight on the Airline sector for several reasons, not the least of which is its high correlation to the currency – revenues are almost entirely TWD-based while fuel and capital costs are USD-based. However, CIRA analyst Timothy Chen notes cargo traffic and yields have fallen sharply in 4Q10 while PRC tourist arrivals, and pax traffic in general, have declined significantly, too. Moreover, we note that the Transportation sector has the highest correlation to the TWD of any sector in the market and thus is most vulnerable to any deceleration or pullback of the currency.

Figure 14. Sector Recommendation

Sector	Recommended Wtg	Neutral Wtg (%)	3mo Perf (%)	Comments	Momentum	Valuation	Growth
Semiconductor							
Foundry	Over	16.5	28.9	Better than expected take up of advanced process nodes	●	●	●
Memory		1.7	9.9				
OSAT	Over	3.1	27.0	Rising demand for HDI at packaging level	●	●	●
IC Design	Under	16.5	28.9	Maturing product cycle and competition from US & China	●	●	●
Flat-panel Display		0.7	0.1				
LED & Solar	Under	5.2	15.3	Capacity increases & pending subsidy cuts but prices near floor	●	●	●
IT Hardware							
PC Systems	Neutral	8.1	5.0	Apple demand key driver	●	●	●
PC Components	Neutral	4.7	15.1	Diversified product mix - green energy, game consoles	●	●	●
Notebooks	Under	6.3	11.2	iPad substitution risk; Android not likely to support tablets til 2H11	●	●	●
Communications	Over	6.3	32.8	Smartphone penetration strong; competition limited	●	●	●
Financials							
Banks	Neutral	8.7	22.9	Recovering corporate loan growth boosting NIMs	●	●	●
Insurers	Under	5.2	15.3	Asset quality concerns remain	●	●	●
Securities	Under	1.9	21.0	Market outlook more subdued	●	●	●
Materials							
Chemicals	Over	9.4	19.3	Cotton prices driving demand for PX/PTA/MEG	●	●	●
Steel	Neutral	3.3	6.5	Raw material pricing moderating but stocks still high	●	●	●
Cement		1.4	3.3				
Domestic Demand							
Telecom	Neutral	4.1	2.2	Overbought from 2H10, but yields still attractive	●	●	●
Property	Neutral	2.5	10.8	Interest rate increases likely suspended by capital influx	●	●	●
Retail	Over	3.3	5.4	Rising wages boosting demand	●	●	●
Export							
Transportation	Under	1.7	15.5	Freight yields and margins falling	●	●	●

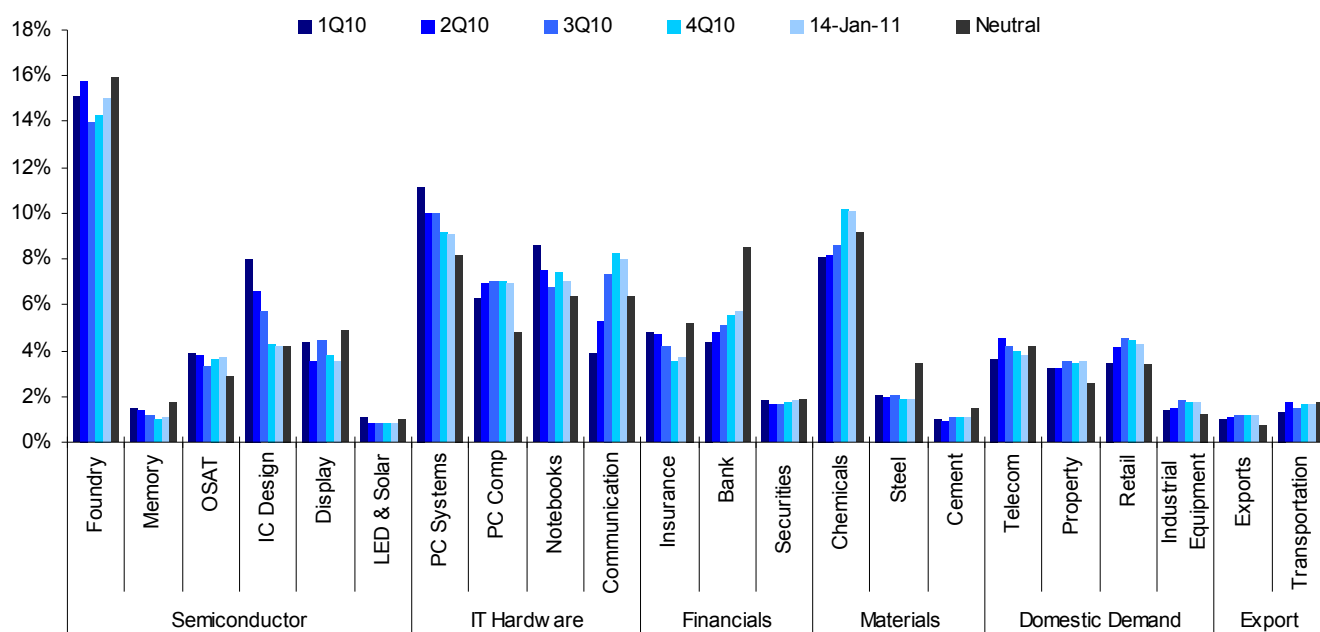
Source: Citi Investment Research and Analysis

Note: Weightings based on MSCI Taiwan universe

Current FINI Weightings

FINI weightings have continued to reduce their underweights in Foundry and Banks and extended their overweight in Chemicals. In fact, outside of Foundry, the FINIs either reduced or at most maintained positions in every Tech category since the end, or in some cases the beginning, of last year. Yet Foundry remains a significant underweight by FINIs, particularly given FINI proclivity to overweight this sector.

Figure 15. FINI Weightings by Sector



Source: Citi Investment Research and Analysis

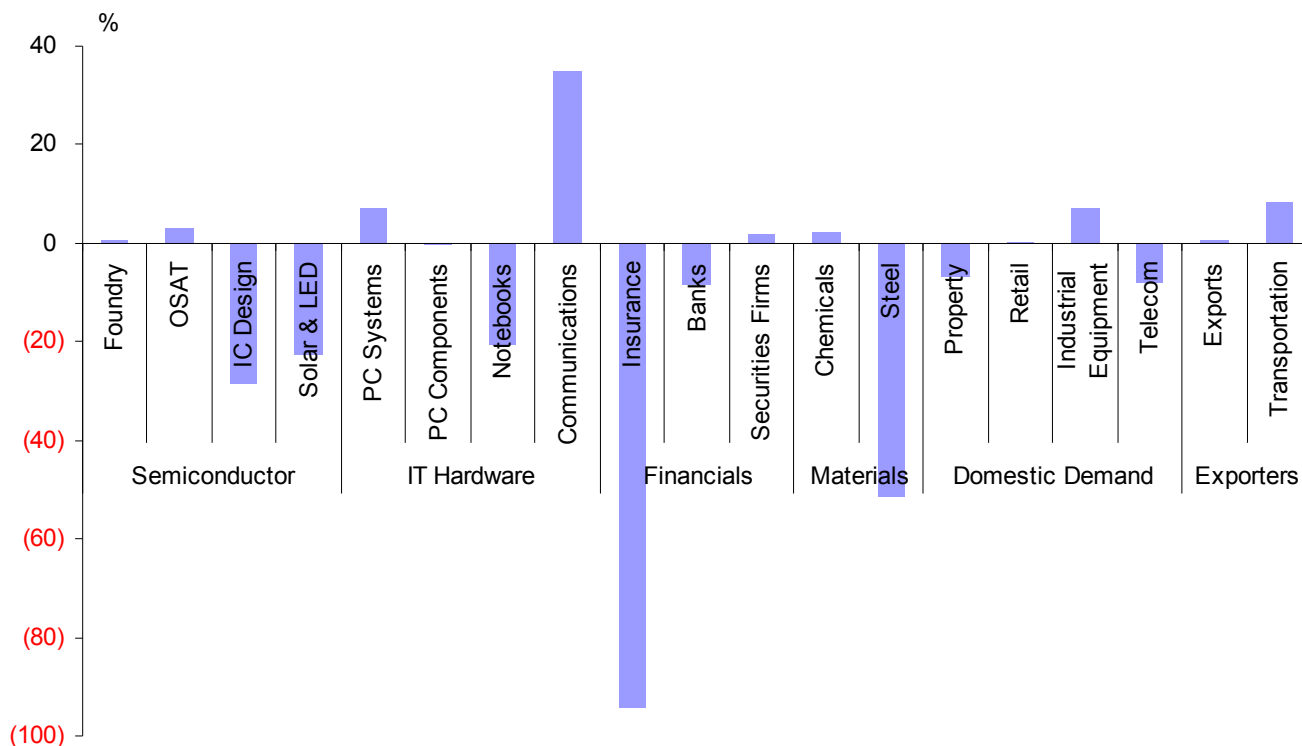
The NB ODMs have risen in FINI portfolio weightings where, again, Wei Chen is negative while PC Systems (primarily Hon Hai) weightings have fallen to their lowest levels since 3Q09. Banks remain the deepest underweight, although mostly because FINIs have few positions in the government banks.

Earnings

Margin pressure from currency and commodities

We have gradually been reducing our earnings growth forecast for 2011 since September last year, from 14% to 8.0% currently. The primary sectors causing this forecast decline have been the Insurance, Steel, IC Design, and Notebook sectors. But we have also been trimming Banks and Property earnings forecasts.

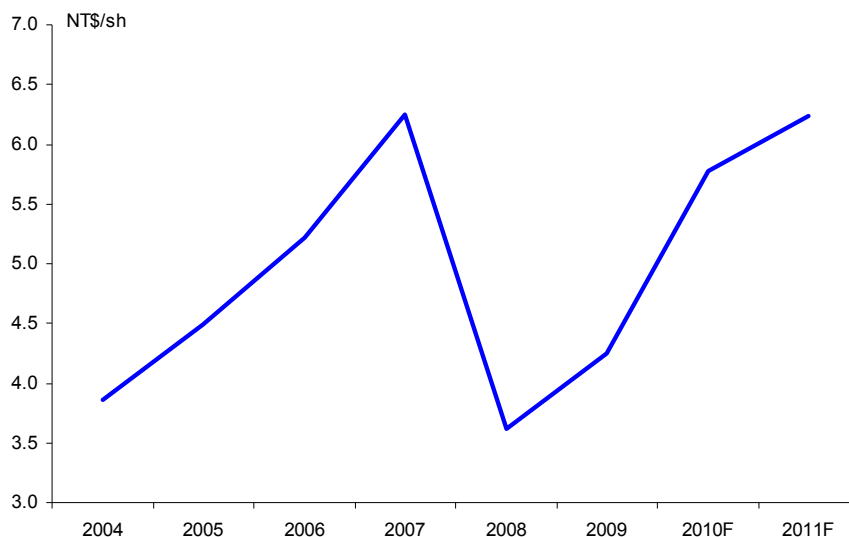
Figure 16. CIRA Earnings Adjustments since August 2010



Source: Citi Investment Research and Analysis

Nonetheless, we expect the listed share market to regain peak earnings this year, with the market EPS exactly equaling the peak 2007 level of NT\$6.24.

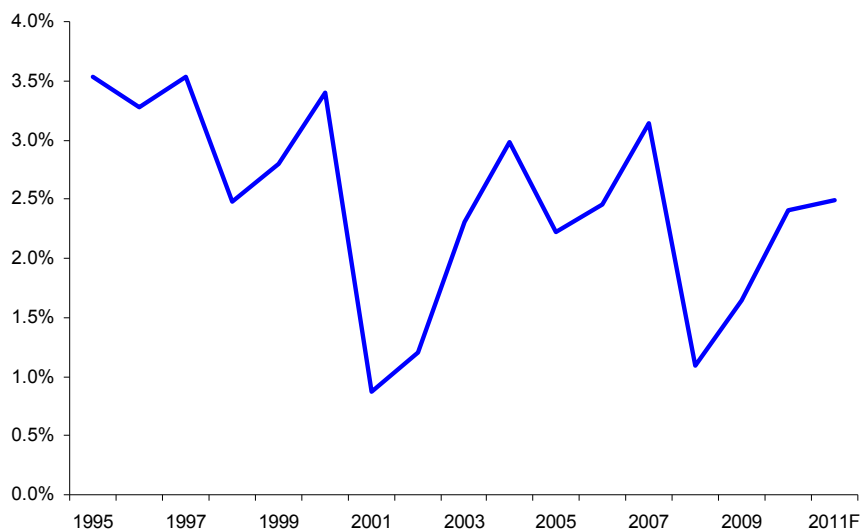
Figure 17. Taiwan Market EPS



Source: Citi Investment Research and Analysis

The recovery in earnings has come despite lagging profitability, as shown in the RoA trend chart below. Rising commodity prices and a rising TWD are the two primary drivers to declining profit margins. Of course, one is an offset to the other, but net net, gross margins appear to have contracted substantially in 4Q10. Thus, the earnings recovery has been driven by top-line revenue growth, leaving earnings vulnerable to either a deceleration in global GDP recovery or a continued rise in the TWD.

Figure 18. Taiwan Market Return on Assets (RoA)



Source: Citi Investment Research and Analysis

We have set our index target for 10,000 this year, which represents 11% upside from the YE2010 close, implying a slight uptick in our forward PER forecasts from 13.7x to 14.1x. 10,000 is a psychologically difficult barrier to cross as well, with four failures in the past 20 years. We would expect heavy profit taking at that level.

Politics

DPP to seek LY gains

Politics will certainly be a positive driver for the market in the long run, but we expect most of the positive drivers will be backloaded in 2H11 so as to have the greatest impact in supporting the incumbent KMT government in the 2012 presidential elections. We note that it is still uncertain as to exactly when the presidential and legislative elections are to take place. The former has historically been in March while the latter has been in either December or January. The government is reportedly considering combining the two on a possible January date. We note, too, that the opposition DPP is more likely to focus on boosting their representation in the Legislative Yuan (LY), currently only around 25%, rather than spending too much political capital trying to beat the incumbent Ma Ying-jeou in the presidential election. In other words, the upcoming election is not a binary function, but one in which the DPP could still make unexpected gains in the LY even if they lose the presidential election.

We expect, too, that Beijing will be supportive of the KMT's election effort, particularly after the scare in the November 2010 local elections wherein for a period before the election it appeared that the DPP could make significant inroads. Beijing may be more forthcoming with concessions in front of the next election.

**Beijing to be more supportive, but
positive catalysts backloaded in 2H11**

However, Taiwan's top x-strait negotiator Straits Exchange Foundation Chairman said x-strait engagements are likely to become more difficult this year as "the easier part has been completed." The investment protection agreement that was shelved in the sixth cross-strait meeting last December is expected to be signed in May or June, but this underscores how banal the agenda has become. Talks of an ECFA II round of talks is probably premature although, again, may be revived in 2H11.

Appendix: Valuation Tables

Figure 19. Citi Taiwan Universe Valuation by Sector

Sector Name	Mkt Cap NT\$ (Mn)	Number of Companies	PE (x)				PB (x)				EV/EBITDA (x)			
			2008	2009	2010E	2011E	2008	2009	2010E	2011E	2008	2009	2010E	2011E
Taiwan Coverage	14,826,126	71	31.9	23.6	14.8	13.7	2.79	2.51	2.28	2.11	11.6	11.5	8.3	7.3
Technology	6,938,558	34	21.6	19.3	13.3	12.1	3.26	2.95	2.55	2.31	9.9	9.5	7.3	6.1
Semiconductor	3,570,239	16	24.7	21.3	12.6	12.6	3.32	3.04	2.71	2.49	9.2	9.4	6.9	6.2
Foundry	2,282,405	3	28.6	24.5	12.1	11.6	3.32	3.09	2.74	2.47	8.6	9.1	6.4	5.5
OSAT	566,254	6	19.6	21.8	14.6	13.1	2.59	2.45	2.19	2.00	7.4	8.6	6.7	5.8
IC Design	619,276	4	22.1	12.9	13.6	17.9	4.72	3.74	3.41	3.49	16.5	10.3	10.7	13.2
Solar & LED	102,305	3	12.4	nm	10.2	11.1	2.61	2.62	2.35	2.05	12.9	35.6	7.4	7.6
IT Hardware	3,368,318	18	19.1	17.5	14.1	11.7	3.20	2.85	2.41	2.15	10.8	9.5	7.9	6.0
PC Systems	1,360,770	3	21.9	16.7	13.8	11.2	3.06	2.61	2.03	1.80	9.2	8.1	7.6	6.4
PC Components	241,172	4	17.7	17.2	15.2	13.4	3.73	2.94	2.59	2.29	10.0	9.3	8.4	7.0
Notebooks	716,572	4	13.2	11.7	10.8	10.7	1.93	1.79	1.68	1.57	8.1	6.1	4.3	2.2
Communications	1,049,803	7	22.8	29.1	18.4	12.9	6.09	5.97	4.99	4.21	18.4	20.4	12.5	8.5
Financials	2,211,835	10	nm	31.9	24.7	21.8	2.06	1.74	1.70	1.63				
Insurance	673,634	2	nm	54.1	85.7	40.9	3.43	2.32	2.34	2.24				
Banks	1,350,231	7	42.4	27.3	18.1	17.5	1.75	1.56	1.51	1.44				
Securities Firms	187,969	1	113.8	25.7	26.6	24.6	1.74	1.61	1.61	1.56				
Materials	3,120,724	5	40.1	23.4	15.1	13.7	3.02	2.62	2.39	2.29	18.4	17.3	11.9	11.2
Chemicals	2,670,245	4	53.0	23.7	15.7	13.7	3.44	2.84	2.57	2.45	22.5	17.1	12.7	11.6
Steel	450,479	1	16.4	21.7	12.1	13.4	1.75	1.79	1.69	1.63	8.5	18.6	8.5	9.4
Domestic Demand	2,062,504	15	23.1	21.0	17.6	16.6	2.41	2.34	2.31	2.08	10.1	10.2	9.8	9.5
Property	457,255	7	88.0	53.9	22.1	19.4	2.15	2.04	2.03	1.97	38.6	35.5	30.5	26.1
Retail	493,421	4	41.4	24.9	21.4	18.3	3.64	3.32	3.15	2.91	31.3	27.9	22.9	19.3
Industrial Equipment	21,961	1	35.7	12.6	11.9	10.5	2.16	1.93	1.81	1.78	11.5	6.8	7.0	5.8
Telecom	1,089,867	3	15.2	16.0	15.3	15.3	2.19	2.19	2.18	1.89	6.5	6.8	6.8	6.8
Exporters	492,505	7	nm	nm	7.2	8.2	2.26	2.26	1.77	1.50	18.7	65.7	6.0	5.9
Exports	19,410	1	34.5	31.1	21.6	18.8	10.18	9.14	7.93	7.29	23.1	19.6	15.0	13.1
Transportation	473,095	6	nm	nm	7.0	8.0	2.19	2.19	1.72	1.45	18.6	70.2	5.9	5.8

Source: Citi Investment Research and Analysis

Figure 20. Citi Taiwan Universe Earnings Growth by Sector

Sector Name	Mkt Cap NT\$ (Mn)	Number of Companies	Earnings Growth (%)				ROE (%)				Dividend Yield (%)				Free Cash Flow Yield (%)			
			2008	2009	2010E	2011E	2008	2009	2010E	2011E	2008	2009	2010E	2011E	2008	2009	2010E	2011E
Taiwan Coverage	14,826,126	71	-51.8	36.6	58.8	8.2	8.2	11.3	16.1	16.2	2.4	3.3	4.2	4.5	4.4	4.5	6.4	5.0
Technology	6,938,558	34	-24.2	14.3	42.1	10.5	14.9	15.7	20.1	20.1	2.8	3.1	4.0	4.5	4.3	5.3	6.8	4.6
Semiconductor	3,570,239	16	-39.5	18.8	70.3	1.0	12.8	15.0	22.9	20.7	3.3	3.9	4.4	4.4	6.6	4.6	0.4	3.7
Foundry	2,282,405	3	-39.7	18.5	101.5	4.1	11.0	13.1	24.1	22.4	3.4	3.7	4.7	4.8	7.2	3.6	1.7	3.0
OSAT	566,254	6	-43.4	-11.0	52.4	13.5	12.9	11.6	15.9	16.0	2.8	3.0	3.4	3.8	4.9	4.9	-4.3	6.3
IC Design	619,276	4	-43.1	76.6	-4.1	-21.2	21.6	33.5	26.8	19.8	3.4	5.6	4.9	3.9	8.5	9.4	-0.2	4.7
Solar & LED	102,305	3	77.0	-94.4	3025.5	-7.4	22.4	1.1	26.3	19.9	2.0	1.1	2.3	2.3	-8.0	-3.6	0.1	1.2
IT Hardware	3,368,318	18	-5.2	10.9	18.9	21.7	17.1	16.4	17.5	19.4	2.3	2.3	3.5	4.5	1.9	6.1	13.6	5.9
PC Systems	1,360,770	3	-12.2	22.8	8.0	23.5	13.2	14.7	14.8	17.1	0.8	1.5	2.3	3.0	-0.7	6.2	5.6	-3.7
PC Components	241,172	4	8.5	5.4	9.6	14.0	20.2	19.4	17.6	17.7	1.5	1.8	2.3	2.6	3.4	9.5	3.2	8.2
Notebooks	716,572	4	-1.1	18.9	10.6	2.0	18.3	16.4	16.2	15.3	5.0	3.8	5.5	6.0	3.6	7.9	43.3	17.9
Communications	1,049,803	7	0.2	-18.4	67.1	43.7	28.5	21.3	29.6	35.5	2.6	2.6	4.0	5.9	3.6	3.8	6.0	8.2
Financials	2,211,835	10	-88.4	431.5	30.2	13.3	1.2	6.1	7.1	7.8	0.6	2.4	2.1	2.4				
Insurance	673,634	2	-152.7	nm	-36.2	111.6	-8.0	5.2	2.7	5.6	0.0	0.8	0.5	1.2				
Banks	1,350,231	7	-57.1	65.3	51.3	3.7	3.9	6.2	8.7	8.6	0.8	3.0	2.9	3.0				
Securities Firms	187,969	1	-72.8	342.6	-3.1	8.1	1.6	6.9	6.3	6.8	0.8	3.9	1.9	2.0				
Materials	3,120,724	5	-73.0	77.6	56.7	10.3	6.5	12.0	16.7	17.1	1.6	3.7	5.5	5.9	5.6	4.4	5.9	6.5
Chemicals	2,670,245	4	-77.5	123.4	51.0	14.7	5.5	13.1	17.2	18.3	1.2	3.8	5.5	6.0	6.1	4.3	6.7	7.2
Steel	450,479	1	-53.1	-18.4	90.0	-9.8	10.4	8.1	14.6	12.4	3.9	3.0	5.6	5.1	2.7	5.1	1.4	2.3
Domestic Demand	2,062,504	15	-26.6	8.6	20.6	2.1	10.4	11.2	13.2	13.8	4.4	4.7	5.6	5.4	5.6	6.3	6.2	6.6
Property	457,255	7	-74.9	35.3	153.2	13.9	2.9	3.8	9.2	10.2	1.9	2.4	3.2	3.4	1.2	6.2	3.1	4.0
Retail	493,421	4	-46.6	74.6	22.3	16.3	8.5	14.3	15.5	16.5	1.3	2.5	2.8	3.6	2.6	3.6	5.2	4.4
Industrial Equipment	21,961	1	-46.0	191.8	9.6	22.3	6.2	16.4	16.0	17.8	0.7	3.4	3.6	4.1	0.5	7.5	6.0	9.3
Telecom	1,089,867	3	-6.1	-4.9	4.7	-6.2	14.0	13.4	14.3	14.5	6.9	6.7	8.0	7.1	8.9	7.6	7.9	8.6
Exporters	492,505	7	-252.5	nm	nm	-12.3	-14.7	-12.6	28.3	19.9	1.2	1.0	2.2	1.8	-6.8	-13.4	5.5	-4.0
Exports	19,410	1	5.6	11.1	44.2	14.5	30.6	31.0	39.4	40.3	2.1	2.7	3.9	4.5	3.9	3.7	1.9	5.5
Transportation	473,095	6	-258.8	nm	nm	-12.7	-15.1	-13.0	28.2	19.7	1.2	0.9	2.1	1.7	-7.3	-14.1	5.6	-4.4

Source: Citi Investment Research and Analysis

Appendix A-1

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