

Equities

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Asia Pacific Hardware PC

It's a Structural Problem

- **Consumer NB unlikely to grow in 2011E** — We reiterate our view that consumer NB may see a Y/Y decline in 2011. Mobile PC (NB + tablet PC) grew only 20% Y/Y in 2H10 and roughly 18% in 1Q11. Assuming 20% Y/Y mobile PC growth in 2011, mobile PC shipments would go up from 215M in 2010 to 258M units in 2011. Assuming 50M units of tablet PCs, NB shipments would only reach 208M units, implying 4% growth Y/Y. Assuming corporate NB to grow 15% Y/Y, consumer NB could potentially decline 2% Y/Y.
- **Both Acer and Asus look vulnerable** — Given Acer's 70-75% consumer NB exposure, it's not a surprise that Acer has the worst Y/Y NB decline among NB companies. Asustek did better than Acer in 2H10 thanks to its higher China exposure and margin recovery. However, with China PC demand slowing and weak demand in Europe, we believe that Asustek's current shipment guidance also is subject to meaningful downside risk. Given Lenovo's conservative guidance (15% shipment Q/Q decline in 1Q11) and high corporate exposure, we expect Lenovo to do relatively better than Acer / Asustek.
- **Supply chain will also likely suffer** — Given NB shipment expectations (10-15% Y/Y) may still be subject to meaningful downside, we see no catalyst to upgrade the NB ODM sector here despite cheap valuations. While most ODM and component companies have raised prices with PC OEMs, we suspect such price hike could be rather short-lived. With Acer's OPM tumbling to 2%, it's hard to see sustained the NB ODM / component margin recovery.
- **Hon Hai, our top pick in downstream** — Hon Hai (2317.TW; NT\$105.50; 1L) has less than 5% NB exposure and over 70% of HH's revenue is Apple and corporate IT spending, both seeing very robust demand. We expect HH's OPM to recover in 2Q11. We maintain our Sell on Acer, Asustek, Pegatron and Quanta and Hold rating on Compal. We downgrade Chicony from Buy to Hold due to its very high NB exposure and margin erosion in 2011. We maintain our Buy ratings on Lenovo (corporate) and Simplo (high tablet PC exposure).

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Ticker	Rating		Target Price		Current Year Earnings Estimates		Next Year Earnings Estimates	
	Old	New	Old	New	Old	New	Old	New
0992.HK	1M	1M	HK\$6.30	HK\$6.30	US\$2.5	US\$2.4	US\$3.9	US\$3.6
2324.TW	2L	2L	NT\$39.00	NT\$34.00	NT\$5.28	NT\$5.28	NT\$4.79	NT\$4.37
2353.TW	3M	3M	NT\$60.00	NT\$49.00	NT\$5.60	NT\$5.60	NT\$6.03	NT\$3.80
2357.TW	3H	3H	NT\$245.00	NT\$230.00	NT\$25.68	NT\$26.30	NT\$22.26	NT\$20.93
2382.TW	3L	3L	NT\$53.00	NT\$48.00	NT\$5.58	NT\$5.51	NT\$5.87	NT\$5.45
2385.TW	1M	2L	NT\$78.00	NT\$55.00	NT\$5.51	NT\$6.27	NT\$5.68	NT\$5.29
4938.TW	3M	3M	NT\$35.00	NT\$30.00	NT\$2.71	NT\$2.60	NT\$2.97	NT\$2.43
6121.TWO	1L	1L	NT\$228.00	NT\$220.00	NT\$13.07	NT\$13.06	NT\$16.00	NT\$14.54

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

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Consumer NB Unlikely to Grow in 2011E

With continuingly strong demand for smartphones and tablet PCs, we believe consumer NB is unlikely to stage a big comeback in 2H11. We don't have enough evidence to suggest the consumer is replacing NB with smartphones or tablets. However, it's very clear that consumers are not buying NBs because they have already spent money on new tablet PCs or on upgrading their handsets from feature phones to smartphones, which involves much higher monthly subscription fees. Except for wealthy consumers, very few can afford to buy a new smartphone, a new tablet PC and a new NB in the same year. Given the substantial growth for both smartphones (from 300M units in 2010 to 460-470M units in 2011E) and tablet PCs (from 15M units to over 50M units), we believe most consumers are likely to postpone their NB demand to 2012E.

Figure 1. NB/ Smartphone/ Tablet Shipments

Units in millions	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11E
WW NB shipments	23	23	29	33	32	32	39	40	34	36	46	52	48	46	52	54	49
WW tablet shipments														3	4	8	8
WW Smartphone shipments	25	28	33	37	32	32	37	38	37	41	41	54	54	62	81	99	98
Y/Y % - WW NB	29%	32%	38%	35%	39%	38%	36%	20%	7%	15%	17%	32%	40%	28%	13%	3%	2%
Y/Y % - WW Smartphone	46%	55%	58%	50%	30%	16%	12%	4%	13%	27%	12%	41%	49%	50%	96%	85%	81%
Y/Y % - WW Tablet																	
YoY % - NB + tablet	29%	32%	38%	35%	39%	38%	36%	20%	7%	15%	17%	32%	40%	37%	22%	18%	18%
YoY % - NB + tablet + Smartphone	38%	43%	48%	43%	34%	26%	23%	12%	10%	21%	15%	36%	44%	44%	57%	52%	52%

Source: IDC, and Citi Investment Research and Analysis estimates

Smartphone plays a big role in NB growth slowdown

The conventional wisdom is that NB slowed down sharply because of the cannibalization of iPad. However, we note that iPad was launched in 2Q10 but we did not see much Y/Y slowdown in 2Q10. iPad shipments in 3Q10 were pretty similar to 2Q10 but NB shipments slowed down sharply starting 3Q10. In our view, smartphone shipments may also be playing a big role in NB growth deceleration. The sharp smartphone acceleration from 50% in 2Q10 to 96% in 3Q10 also plays a major role in NB growth slowdown. We don't think consumers use smartphone to replace NB but we do believe smartphones and NBs are competing for consumers' wallet share. Compared with the ever-improving smartphone performance, there is very little reason for most consumers to buy a new NB.

Tablet does not lead to higher growth for mobile PC market

Many investors argue that tablet PC will lead to higher mobile PC (tablet PC + NB) market growth as many use anecdotal stories like senior citizens who did not use NB are now using iPads. While such arguments seem to make sense, there's no empirical / concrete evidence to support this argument. In fact, prior to tablet PC launch, NB growth normally was 20-30% a year (excluding the financial crisis period). After the tablet PC launch, mobile PC growth has actually slowed to 20% or below. Again, we believe that tablet PC fails to stimulate overall mobile PC demand because consumers are moving their wallet share to both tablet PCs and smartphones at the expense of NBs.

Figure 2. NB Growth Scenario Analysis

Unit: mn	2010	2011E					
		Bear		Base		Bull	
Mobile PC total (Tablet+NB)	215.1	258.2	268.9	258.2	268.9	258.2	268.9
% Y/Y		20%	25%	20%	25%	20%	25%
Tablet	14.8	60.0	60.0	50.0	50.0	40.0	40.0
Notebook	200.3	198.2	208.9	208.2	218.9	218.2	228.9
% Y/Y		-1%	4%	4%	9%	9%	14%
Consumer Notebook*	130.2	117.5	128.3	127.5	138.3	137.5	148.3
% Y/Y		-10%	-1%	-2%	6%	6%	14%

*assuming 35% of 2010 NB shipment is corporate NB, and 2011 corporate NB to grow 15% Y/Y

Source: Citi Investment Research and Analysis estimates

2011E consumer NB could decline Y/Y

Mobile PC (NB + tablet PC) grew only 20% Y/Y in 2H10 and roughly 18% in 1Q11. Assuming 20% Y/Y mobile PC growth in 2011, mobile shipments would go up from 215M in 2010 to 258M units in 2011E. Assuming 50M units of tablet PCs, NB shipments would only reach 208M units, implying 4% growth Y/Y. Assuming corporate NB grows 15% Y/Y, consumer NB could potentially decline 2% Y/Y.

What about 2012? Depends on the “Apple scenario”

We don't know and can't quantify whether consumers are just postponing NB purchases (due to wallet share moving to tablet PCs / smartphones) or are starting to replace NBs with tablet PCs. Those who work in the financial industry feel it's impossible to replace NBs with tablets due to the need for “content creation”. We are not so sure about this argument because many consumers do not seem to “create content” often when they are using their personal PC. We note that consumer NB did not really become a big theme until 2007 / 2008 when data card and WIFI became widely available at affordable prices. Basically, most consumers buy NB to get connected, for casual usage such as surfing the internet and watching video. They create content in the office with corporate PCs (NB or DT) and consume content with their personal PCs (used to be mainly NB). With the launch of tablet PCs, it can easily replace NB in terms of content consumption.

Before the launch of tablet PCs, the investment community felt that everyone (especially in the developed market) would eventually have his / her own NB. In the future, maybe each household would have a DT that is shared by the family and each household member has his/her own tablet PC. We are not sure which scenario will eventually unfold. However, we feel that the only way tablet PC will become a bigger market than NB (as per Apple's view) is for tablet PC to replace NB in a very meaningful way.

We continue to believe the best-case scenario for consumer NB companies like Acer and Asus is for tablet PCs to severely disappoint and plateau at around 50M units a year after 2011 when consumers realize tablet PCs can't fulfill data creation demand (assuming data creation actually matters for many consumers, which is a big question mark). With much of consumer NB demand being postponed into 2012E, Acer / Asus could both have a strong 2012 given their overwhelming exposure to consumer market. However, if Apple is right about tablet PC becoming a bigger segment than the total NB segment in the next few years, many consumer NB companies like Acer and Asus could potentially become much smaller companies in the next few years.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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Sell/Medium Risk	3M
Price (25 Mar 11)	NT\$72.80
Target price	NT\$49.00
from NT\$60.00	
Expected share price return	-32.7%
Expected dividend yield	6.1%
Expected total return	-26.6%
Market Cap	NT\$196,708M
	US\$6,683M

Price Performance (RIC: 2353.TW, BB: 2353 TT)



Acer Inc (2353.TW) Just When You Think It Can't Get Any Worse

- **Another guidance miss** — Acer revised down its 1Q11 revenue guidance from +3% Q/Q to a 10% decline. It guided 2Q11 PC shipments to be flat Q/Q (vs. market expectation of 10% Q/Q growth. Acer blamed the guidance revision on weak US & Europe PC demand. We note that Acer also missed its 4Q10 guidance (guiding 5-10% Q/Q revenue growth & delivered 11% Q/Q decline). With Acer's high fixed OPEX structure, we expect OPM to decline sharply to around 2% in 1H11. We maintain Sell (3M), cutting our 2011E/2012E earnings by 37%/32% and revise down our TP from NT\$60 to NT\$49 (5-year avg P/E).
- **Guidance miss is more of a concern than weak results** — We are not surprised by Acer's weak results. We have highlighted in our previous reports that Acer is the biggest victim to tablet PC cannibalization of consumer NB in developed markets (refer to our 27 January note, "The Worst Has Not Even Begun"). Being the biggest consumer NB player in the developed market, it is no surprise that Acer continues to do worse than its peers (Acer had the worst Y/Y NB growth decline among major NB brand in 2H10). What concerned us more than the weak results is Acer's continuous guidance miss. With Acer's outstanding execution track record, it should have seen this coming and made necessary adjustments such as a lower inventory level or aggressive cost reduction rather than setting up aggressive internal target/external guidance.
- **Tablet is not the solution** — We continue to believe the best-case scenario for Acer is for tablet PC to disappoint and plateau at around 50M units a year after 2011. With lots of consumer NB demand being postponed into 2012, Acer could have a very strong 2012 given its overwhelming exposure to the consumer market. However, if tablet PC becomes a bigger market than NB (as Apple indicated), Acer could become a much smaller company in the next few years. With the stock trading at 18x 2011E earnings, the risk is too high for investors to buy on the best-case scenario. After all, Apple does not often get it wrong.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(NT\$M)	(NT\$)	(%)	(x)	(x)	(%)	(%)
2008A	11,742	4.44	-17.5	16.4	2.3	14.8	4.4
2009A	11,353	4.22	-4.9	17.2	2.1	13.0	2.7
2010E	15,075	5.60	32.6	13.0	2.0	15.9	4.2
2011E	10,229	3.80	-32.2	19.2	2.0	10.5	6.1
2012E	12,683	4.71	24.0	15.5	1.9	12.7	4.1

Source: Powered by dataCentral

Fiscal year end 31-Dec	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	16.4	17.2	13.0	19.2	15.5
EV/EBITDA adjusted (x)	9.1	7.5	6.1	9.1	7.5
P/BV (x)	2.3	2.1	2.0	2.0	1.9
Dividend yield (%)	4.4	2.7	4.2	6.1	4.1
Per Share Data (NT\$)					
EPS adjusted	4.44	4.22	5.60	3.80	4.71
EPS reported	4.44	4.22	5.60	3.80	4.71
BVPS	31.15	34.37	36.30	36.04	38.31
DPS	3.23	1.94	3.05	4.43	2.96
Profit & Loss (NT\$M)					
Net sales	546,274	573,983	629,658	602,488	648,588
Operating expenses	-532,202	-558,643	-611,458	-589,277	-632,502
EBIT	14,072	15,339	18,200	13,211	16,086
Net interest expense	-98	-260	-697	-821	-833
Non-operating/exceptionals	832	-96	1,386	600	600
Pre-tax profit	14,807	14,983	18,889	12,990	15,853
Tax	-3,169	-3,630	-3,816	-2,762	-3,171
Extraord./Min.Int./Pref.div.	105	1	1	0	0
Reported net income	11,742	11,353	15,075	10,229	12,683
Adjusted earnings	11,742	11,353	15,075	10,229	12,683
Adjusted EBITDA	15,028	16,186	18,916	13,944	16,819
Growth Rates (%)					
Sales	18.2	5.1	9.7	-4.3	7.7
EBIT adjusted	38.2	9.0	18.6	-27.4	21.8
EBITDA adjusted	39.5	7.7	16.9	-26.3	20.6
EPS adjusted	-17.5	-4.9	32.6	-32.2	24.0
Cash Flow (NT\$M)					
Operating cash flow	-6,412	36,332	-11,246	7,254	12,519
Depreciation/amortization	956	846	715	733	733
Net working capital	-16,410	23,508	-27,035	-3,707	-896
Investing cash flow	5,806	-1,788	430	-1,000	-1,000
Capital expenditure	-1,471	-697	-569	-400	-400
Acquisitions/disposals	3,536	-1,626	607	0	0
Financing cash flow	-17,955	-5,725	7,497	-10,800	-6,588
Borrowings	-8,709	-552	15,965	0	0
Dividends paid	-8,545	-5,215	-8,211	-11,930	-7,966
Change in cash	-19,990	29,614	-3,319	-4,546	4,932
Balance Sheet (NT\$M)					
Total assets	243,442	291,025	297,801	324,218	336,537
Cash & cash equivalent	24,111	55,272	51,276	46,730	51,661
Accounts receivable	108,668	112,459	123,052	142,930	147,565
Net fixed assets	9,336	8,676	9,207	8,875	8,542
Total liabilities	160,565	198,147	199,683	226,671	232,895
Accounts payable	72,116	106,064	93,527	109,210	112,798
Total Debt	13,472	12,920	28,885	28,885	28,885
Shareholders' funds	82,878	92,878	98,118	97,547	103,642
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	2.8	2.8	3.0	2.3	2.6
ROE adjusted	14.8	13.0	15.9	10.5	12.7
ROIC adjusted	40.8	61.9	71.9	29.5	34.5
Net debt to equity	-12.8	-45.6	-22.8	-18.3	-22.0
Total debt to capital	14.0	12.2	22.7	22.8	21.8

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791



Figure 3. Earning revisions

NT\$m	FY11E			FY12E		
	New	Old	Chg	New	Old	Chg
Net Sales	602,488	698,138	-14%	648,588	773,266	-16%
Gross profit	57,310	67,661	-15%	61,590	76,035	-19%
OPEX	44,099	46,934	-6%	45,504	52,653	-14%
Operating profit	13,211	20,727	-36%	16,086	23,382	-31%
Pre-tax profit	12,990	20,505	-37%	15,853	23,175	-32%
Net profit	10,229	16,240	-37%	12,683	18,540	-32%
EPS	3.80	6.03	-37%	4.71	6.88	-32%
Ratio	New	Old	diff	New	Old	diff
Gross margin (%)	9.5	9.7	-0.2	9.5	9.8	-0.3
OPEX to Sales ratio(%)	7.3	6.7	0.6	7.0	6.8	0.2
Operating margin (%)	2.2	3.0	-0.8	2.5	3.0	-0.5
Net margin (%)	1.7	2.3	-0.6	2.0	2.4	-0.4

Source: Citi Investment Research and Analysis estimates

Figure 4. IDC Top 10 Vendors, Worldwide Portable PC Shipments, 2009H2 vs. 2010 H2

UNITS (000)	2009H2	2010H2	H/H Growth
HP	21,332	20,586	-3.5%
Acer Group	18,298	17,488	-4.4%
Dell	11,564	12,263	6.0%
Toshiba	8,818	9,954	12.9%
Lenovo	8,417	10,748	27.7%
ASUS	7,797	8,908	14.2%
Samsung	3,466	5,502	58.8%
Apple	4,380	5,508	25.8%
Sony	3,689	4,502	22.1%
Fujitsu	1,515	1,479	-2.4%
Others	9,039	9,040	0.0%
Total	98,315	105,980	7.8%

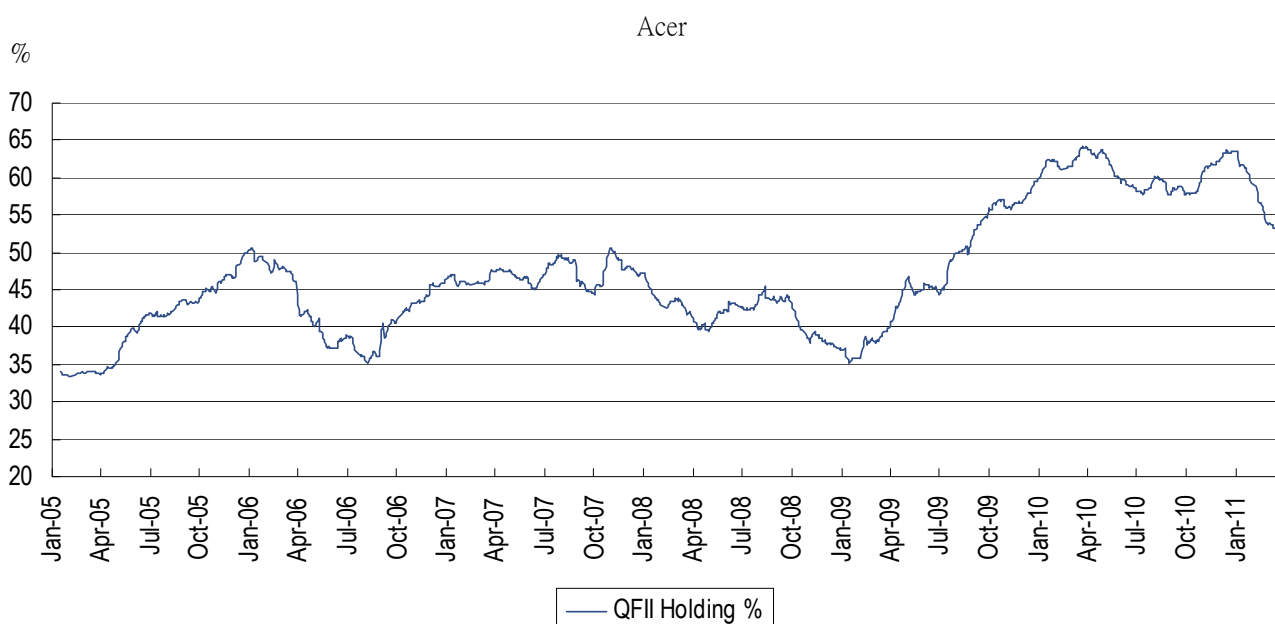
Source: IDC and Citi Investment Research and Analysis

Figure 5. IDC Top 10 Vendors, Worldwide Total Portable PC Shipments, 4Q 2010 Preliminary Data

UNITS (000)	2009Q1	2009Q2	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4
HP	6,835	7,964	9,914	11,418	9,551	8,551	9,454	11,132
Acer Group	5,801	6,614	8,863	9,435	8,572	8,037	9,561	7,928
Dell	4,331	4,570	5,446	6,118	5,704	5,520	6,113	6,151
Toshiba	3,553	3,434	4,056	4,762	4,628	4,431	4,654	5,300
Lenovo	2,320	3,072	3,961	4,457	4,085	4,826	5,473	5,275
ASUS	1,940	2,228	3,479	4,318	4,088	3,900	4,308	4,600
Samsung	1,084	1,118	1,422	2,043	2,214	2,192	2,558	2,944
Apple	1,434	1,778	2,252	2,129	1,790	2,422	2,649	2,859
Sony	1,246	1,033	1,393	2,296	1,928	1,808	2,095	2,407
Fujitsu	935	689	700	815	996	679	645	834
Others	4,656	3,708	4,275	4,765	4,356	4,081	4,390	4,650
Total	34,137	36,208	45,760	52,555	47,912	46,446	51,902	54,079
YoY GROWTH %	2009Q1	2009Q2	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4
HP	13.3%	19.0%	21.5%	34.3%	39.7%	7.4%	-4.6%	-2.5%
Acer Group	17.1%	35.9%	32.7%	37.7%	47.8%	21.5%	7.9%	-16.0%
Dell	-7.5%	-6.7%	3.6%	18.7%	31.7%	20.8%	12.2%	0.5%
Toshiba	15.4%	8.8%	7.7%	28.9%	30.2%	29.0%	14.8%	11.3%
Lenovo	2.5%	20.8%	37.2%	68.1%	76.0%	57.1%	38.2%	18.4%
ASUS	5.8%	10.5%	6.8%	43.6%	110.7%	75.0%	23.8%	6.5%
Samsung	90.9%	108.7%	88.6%	120.7%	104.2%	96.1%	79.9%	44.1%
Apple	-0.3%	14.1%	33.4%	18.8%	24.9%	36.3%	17.7%	34.3%
Sony	-11.7%	-12.1%	-10.0%	38.5%	54.7%	74.9%	50.4%	4.9%
Fujitsu	-40.7%	-29.1%	-43.4%	-32.7%	6.5%	-1.5%	-7.8%	2.3%
Others	40.8%	18.1%	10.4%	13.5%	-6.5%	10.1%	2.7%	-2.4%
Total	6.8%	14.8%	17.0%	32.6%	40.4%	28.3%	13.4%	2.9%

Source: IDC

Figure 6. Acer QFII holding chart



Source: TEJ

Figure 7. Acer P&L

NT\$mnn	1Q10	2Q10	3Q10	4Q10E	1Q11E	2Q11E	3Q11E	4Q11E	1Q12E	2Q12E	3Q12E	4Q12E	2008	2009	2010E	2011E	2012E
Net sales	162,130	150,262	167,552	149,713	134,583	136,684	157,323	173,898	155,714	147,028	166,309	179,537	546,274	573,983	629,658	602,488	648,588
Gross profit	15,714	15,048	16,742	14,908	12,935	13,000	14,856	16,518	14,805	14,024	15,768	16,993	57,286	58,328	62,413	57,310	61,590
OPEX	11,328	10,910	11,451	10,523	10,415	10,317	11,172	12,195	11,092	10,748	11,540	12,124	43,213	42,988	44,213	44,099	45,504
Operating profit	4,385	4,138	5,291	4,385	2,520	2,684	3,684	4,324	3,713	3,275	4,228	4,869	14,072	15,339	18,200	13,211	16,086
Total Non-OP	(227)	336	146	434	(59)	(46)	(42)	(74)	(71)	(55)	(44)	(63)	734	(356)	689	(221)	(233)
Pre-tax profit	4,159	4,474	5,437	4,819	2,461	2,637	3,643	4,250	3,642	3,220	4,185	4,806	14,807	14,983	18,889	12,990	15,853
Income tax	864	848	1,140	964	492	691	729	850	728	644	837	961	3,169	3,630	3,816	2,762	3,171
Net profit	3,294	3,626	4,299	3,855	1,968	1,946	2,914	3,400	2,914	2,576	3,348	3,845	11,742	11,353	15,075	10,229	12,683
Post EB EPS (NT\$)	1.23	1.35	1.60	1.43	0.73	0.72	1.08	1.26	1.08	0.96	1.24	1.43	4.44	4.22	5.60	3.80	4.71
Margins (%)																	
Gross profit	9.7	10.0	10.0	10.0	9.6	9.5	9.4	9.5	9.5	9.5	9.5	9.5	10.5	10.2	9.9	9.5	9.5
OPEX to Sales Ratio	7.0	7.3	6.8	7.0	7.7	7.5	7.1	7.0	7.1	7.3	6.9	6.8	7.9	7.5	7.0	7.3	7.0
Operating profit	2.7	2.8	3.2	2.9	1.9	2.0	2.3	2.5	2.4	2.2	2.5	2.7	2.6	2.7	2.9	2.2	2.5
Pre-tax profit	2.6	3.0	3.2	3.2	1.8	1.9	2.3	2.4	2.3	2.2	2.5	2.7	2.7	2.6	3.0	2.2	2.4
Net profit	2.0	2.4	2.6	2.6	1.5	1.4	1.9	2.0	1.9	1.8	2.0	2.1	2.1	2.0	2.4	1.7	2.0
Y/Y(%)																	
Net sales					(17.0)	(9.0)	(6.1)	16.2	15.7	7.6	5.7	3.2		5.1	9.7	(4.3)	7.7
Gross profit					(17.7)	(13.6)	(11.3)	10.8	14.5	7.9	6.1	2.9		1.8	7.0	(8.2)	7.5
OPEX					(8.1)	(5.4)	(2.4)	15.9	6.5	4.2	3.3	(0.6)		(0.5)	2.8	(0.3)	3.2
Operating profit					(42.5)	(35.1)	(30.4)	(1.4)	47.4	22.0	14.8	12.6		9.0	18.6	(27.4)	21.8
Pre-tax profit					(40.8)	(41.1)	(33.0)	(11.8)	48.0	22.1	14.9	13.1		1.2	26.1	(31.2)	22.0
Net profit					(40.3)	(46.3)	(32.2)	(11.8)	48.0	32.4	14.9	13.1		(3.3)	32.8	(32.1)	24.0
Q/Q(%)																	
Net sales		(7.3)	11.5	(10.6)	(10.1)	1.6	15.1	10.5	(10.5)	(5.6)	13.1	8.0					
Gross profit		(4.2)	11.3	(11.0)	(13.2)	0.5	14.3	11.2	(10.4)	(5.3)	12.4	7.8					
Operating profit		(5.6)	27.9	(17.1)	(42.5)	6.5	37.3	17.4	(14.1)	(11.8)	29.1	15.2					
Pre-tax profit		7.6	21.5	(11.4)	(48.9)	7.2	38.1	16.7	(14.3)	(11.6)	29.9	14.8					
Net profit		10.1	18.5	(10.3)	(48.9)	(1.1)	49.7	16.7	(14.3)	(11.6)	29.9	14.8					

Source: Citi Investment Research and Analysis estimates

Acer Inc

Valuation

Our target price for Acer of NT\$49 is based on 13x FY11E EPS, which is the 5-year avg P/E to reflect a slowing in the company's earnings growth momentum relative to that period. We see Acer as the major victim of a deceleration in consumer NB growth as a result of the cannibalization from tablet PC. We use a P/E-based valuation methodology, as we believe the market will be primarily focused on Acer's earnings performance and outlook as the dynamics of the NB sector change to its disadvantage.

Risks

Our quantitative risk-rating system, which tracks 260-day historical share price volatility, assigns a Low Risk rating to Acer. However, we use a Medium Risk flag given low visibility for end-demand in the NB sector. Upside risks to our target price include: 1) stronger-than-expected global PC/NB demand; 2) stronger-than-expected Acer tablet sell-through; and 3) rapid market-share gains.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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Sell/High Risk	3H
Price (25 Mar 11)	NT\$253.50
Target price	NT\$230.00
from NT\$245.00	
Expected share price return	-9.3%
Expected dividend yield	8.2%
Expected total return	-1.1%
Market Cap	NT\$156,414M
	US\$5,314M

Price Performance (RIC: 2357.TW, BB: 2357 TT)



ASUSTeK Computer (2357.TW) Share Gain Unlikely to Be Sustainable

- **Asus unlikely to continue to be immune** – Driven by improving execution and relatively higher China and lower US exposure, Asus has outperformed Acer both in terms of market share and stock price in the past few months. However, given a slowdown of China PC demand, Asus' high European exposure (40%) and lack of corporate PC exposure, we do not expect Asus' robust performance to continue. In fact, Asus' NB shipments (including netbook) have slowed from almost 100% Y/Y in 1H10 to 19% in 3Q10 and to only 2% in 4Q10. We estimate that Asus' NB shipments could fall to zero growth Y/Y in 1Q11. Asus is guiding 18% Y/Y NB growth in 2011, suggesting a sharp NB growth acceleration starting 2Q11. Given the continuing strong demand for smartphones and tablet PCs, which crowd out the NB spending, we do not expect NB demand to come back in 2H11. We are modeling Asus' total NB shipments to grow 5% Y/Y to 17.8M units vs. guidance of 20M units.
- **Tablet PC unlikely to be a driver** – Asus just launched its Transformer tablet PC in Taiwan with a retail price of 16GB WIFI-only model at NT\$14,900 (US\$500) without keyboard and NT\$17,900 (US\$600) with keyboard. As we stated several times in our previous report, higher cost structure and Apple's willingness to take low margin prevent the Android tablet PC player to price below iPad. Without exception, Asus' tablet PC is almost the same price as that of Apple. It will be difficult to sell many units based on such a price point.
- **Earnings revision** – We cut our 2011E/2012E earnings by 6%/8% respectively and revise down our TP from NT\$245 to NT\$230, implying the same TP multiple. We note that our negative view on Asus is mainly driven by our bearish view toward the consumer NB sector. We did notice Asus' substantial improvement on execution and expectation management. If the company can keep this up, we would expect the valuation gap between Asus and Acer to narrow in a meaningful way in the future.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(NT\$M)	(NT\$)	(%)	(x)	(x)	(%)	(%)
2008A	16,457	3.88	-47.0	65.4	6.4	10.1	0.9
2009A	12,479	2.94	-24.2	86.3	6.2	7.3	0.8
2010E	16,488	26.30	794.9	9.6	1.5	11.8	5.6
2011E	13,126	20.93	-20.4	12.1	1.5	12.3	8.2
2012E	13,294	21.20	1.3	12.0	1.4	12.1	6.5

Source: Powered by dataCentral

Fiscal year end 31-Dec	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	65.4	86.3	9.6	12.1	12.0
EV/EBITDA adjusted (x)	4.1	3.8	3.1	3.2	2.8
P/BV (x)	6.4	6.2	1.5	1.5	1.4
Dividend yield (%)	0.9	0.8	5.6	8.2	6.5
Per Share Data (NT\$)					
EPS adjusted	3.88	2.94	26.30	20.93	21.20
EPS reported	3.88	2.94	26.30	20.93	21.20
BVPS	39.40	40.78	169.49	171.94	179.08
DPS	2.20	1.99	14.22	20.81	16.39
Profit & Loss (NT\$M)					
Net sales	664,239	610,120	432,717	359,236	393,359
Operating expenses	-643,593	-594,386	-415,107	-345,145	-378,732
EBIT	20,645	15,734	17,610	14,091	14,626
Net interest expense	294	-48	8	199	273
Non-operating/exceptionals	3,597	3,610	3,775	1,269	553
Pre-tax profit	24,537	19,296	21,393	15,559	15,452
Tax	-5,612	-3,041	-3,278	-2,388	-2,113
Extraord./Min.Int./Pref.div.	-2,468	-3,776	-1,626	-45	-45
Reported net income	16,457	12,479	16,488	13,126	13,294
Adjusted earnings	16,457	12,479	16,488	13,126	13,294
Adjusted EBITDA	30,894	28,861	23,347	16,826	17,362
Growth Rates (%)					
Sales	-12.1	-8.1	-29.1	-17.0	9.5
EBIT adjusted	-28.0	-23.8	11.9	-20.0	3.8
EBITDA adjusted	-12.0	-6.6	-19.1	-27.9	3.2
EPS adjusted	-47.0	-24.2	794.9	-20.4	1.3
Cash Flow (NT\$M)					
Operating cash flow	21,466	53,530	69,518	15,425	16,225
Depreciation/amortization	10,248	13,127	5,737	2,735	2,735
Net working capital	-8,814	31,042	45,667	-480	151
Investing cash flow	-17,528	-12,189	-11,988	21,154	-1,200
Capital expenditure	-12,690	-7,844	-4,500	-800	-800
Acquisitions/disposals	-3,965	-5,135	11,983	0	0
Financing cash flow	2,586	-23,907	-125,069	-11,632	-8,864
Borrowings	16,427	-3,716	-16,839	0	0
Dividends paid	-9,352	-8,440	-8,918	-13,048	-10,279
Change in cash	6,133	16,535	-67,539	24,946	6,161
Balance Sheet (NT\$M)					
Total assets	358,288	370,007	222,232	224,325	252,263
Cash & cash equivalent	63,530	90,123	76,852	101,799	107,959
Accounts receivable	89,894	87,486	23,740	23,707	29,067
Net fixed assets	70,852	64,717	9,212	7,277	5,342
Total liabilities	170,106	172,356	115,656	116,211	139,675
Accounts payable	84,892	98,635	40,192	40,836	50,121
Total Debt	38,532	26,437	9,598	9,598	9,598
Shareholders' funds	188,182	197,651	106,576	108,114	112,588
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	4.7	4.7	5.4	4.7	4.4
ROE adjusted	10.1	7.3	11.8	12.3	12.1
ROIC adjusted	10.9	10.0	24.5	163.0	nm
Net debt to equity	-13.3	-32.2	-63.1	-85.3	-87.4
Total debt to capital	17.0	11.8	8.3	8.2	7.9

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

Figure 8. Earning revision table

NT\$m	FY11E			FY12E		
	New	Old	Chg	New	Old	Chg
Net Sales	359,236	374,645	-4%	393,359	409,238	-4%
Gross profit	46,369	47,668	-3%	49,522	51,053	-3%
OPEX	32,278	32,853	-2%	34,895	35,154	-1%
Operating profit	14,091	14,814	-5%	14,626	15,899	-8%
Pre-tax profit	15,559	16,133	-4%	15,452	16,576	-7%
Net profit	13,126	13,956	-6%	13,294	14,519	-8%
EPS	20.93	22.26	-6%	21.20	23.16	-8%
Ratio	New	Old	diff	New	Old	diff
Gross margin (%)	12.9	12.7	0.2	12.6	12.5	0.1
OPEX to Sales ratio(%)	9.0	8.8	0.2	8.9	8.6	0.3
Operating margin (%)	3.9	4.0	0.0	3.7	3.9	-0.2
Net margin (%)	3.7	3.7	-0.1	3.4	3.5	-0.2

Source: Citi Investment Research and Analysis estimates

Figure 9. Asus Brand only P&L

NT\$m	1Q10	2Q10	3Q10	4Q10E	1Q11E	2Q11E	3Q11E	4Q11E	2008	2009	2010E	2011E	2012E
Net sales	80,077	75,231	82,303	83,687	75,236	79,059	80,993	83,970	266,880	248,178	321,298	319,258	352,267
Gross profit	10,721	8,985	11,400	12,646	10,712	10,818	11,012	11,232	37,014	28,832	43,752	43,774	46,884
OPEX	(7,300)	(6,084)	(7,937)	(8,790)	(6,968)	(7,357)	(7,773)	(7,859)	(25,609)	(24,327)	(30,111)	(29,956)	(32,509)
Operating profit	3,421	2,901	3,463	3,856	3,744	3,462	3,239	3,373	11,405	4,505	13,641	13,817	14,375
Total Non-OP	2,278	998	1,298	531	308	335	328	348	9,179	8,339	5,105	1,319	673
Pre-tax profit	5,698	3,899	4,761	4,387	4,052	3,796	3,567	3,721	20,585	12,844	18,745	15,136	15,047
Net profit	4,939	3,320	4,208	4,021	3,639	3,128	3,112	3,247	16,457	12,479	16,488	13,126	13,294
Margins (%)													
Gross profit	13.4	11.9	13.9	15.1	14.2	13.7	13.6	13.4	13.9	11.6	13.6	13.7	13.3
OPEX to Sales Ratio	(9.1)	(8.1)	(9.6)	(10.5)	(9.3)	(9.3)	(9.6)	(9.4)	(9.6)	(9.8)	(9.4)	(9.4)	(9.2)
Operating profit	4.3	3.9	4.2	4.6	5.0	4.4	4.0	4.0	4.3	1.8	4.2	4.3	4.1
Pre-tax profit	7.1	5.2	5.8	5.2	5.4	4.8	4.4	4.4	7.7	5.2	5.8	4.7	4.3
Net profit	6.2	4.4	5.1	4.8	4.8	4.0	3.8	3.9	6.2	5.0	5.1	4.1	3.8
Y/Y(%)													
Net sales					(6.0)	5.1	(1.6)	0.3		(7.0)	29.5	(0.6)	10.3
Gross profit					(0.1)	20.4	(3.4)	(11.2)		(22.1)	51.7	0.1	7.1
OPEX					(4.6)	20.9	(2.1)	(10.6)		(5.0)	23.8	(0.5)	8.5
Operating profit					9.5	19.3	(6.5)	(12.5)		(60.5)	202.8	1.3	4.0
Pre-tax profit					(28.9)	(2.6)	(25.1)	(15.2)		(37.6)	45.9	(19.3)	(0.6)
Net profit					(26.3)	(5.8)	(26.1)	(19.3)		(24.2)	32.1	(20.4)	1.3
Q/Q(%)													
Net sales		(6.1)	9.4	1.7	(10.1)	5.1	2.4	3.7					
Gross profit		(16.2)	26.9	10.9	(15.3)	1.0	1.8	2.0					
Operating profit		(15.2)	19.4	11.3	(2.9)	(7.5)	(6.4)	4.2					
Pre-tax profit		(31.6)	22.1	(7.9)	(7.6)	(6.3)	(6.0)	4.3					
Net profit		(32.8)	26.8	(4.5)	(9.5)	(14.0)	(0.5)	4.3					

Source: Citi Investment Research and Analysis

Figure 10. Asus consolidated P&L

NT\$mnn	1Q10	2Q10	3Q10	4Q10E	1Q11E	2Q11E	3Q11E	4Q11E	2008	2009	2010E	2011E	2012E
Net sales	159,987	85,848	92,697	94,185	84,787	89,233	91,162	94,053	664,239	610,120	432,717	359,236	393,359
Gross profit	19,240	11,904	12,055	13,307	11,327	11,479	11,672	11,892	72,732	62,015	56,506	46,369	49,522
OPEX	12,564	8,343	8,589	9,400	7,522	7,947	8,364	8,445	52,087	46,281	38,896	32,278	34,895
Operating profit	6,676	3,560	3,466	3,908	3,805	3,531	3,308	3,447	20,645	15,734	17,610	14,091	14,626
Total Non-OP	1,198	678	1,337	570	343	372	366	386	3,891	3,562	3,782	1,467	825
Pre-tax profit	7,874	4,239	4,803	4,478	4,148	3,904	3,674	3,833	24,537	19,296	21,393	15,559	15,452
Income tax	1,919	404	583	372	498	765	551	575	5,612	3,041	3,278	2,388	2,113
Net profit	4,939	3,320	4,208	4,021	3,639	3,128	3,112	3,247	16,457	12,479	16,488	13,126	13,294
Post EB EPS (NT\$)	1.16	5.21	6.71	6.41	5.80	4.99	4.96	5.18	3.88	2.94	26.30	20.93	21.20
Margins (%)													
Gross profit	12.0	13.9	13.0	14.1	13.4	12.9	12.8	12.6	10.9	10.2	13.1	12.9	12.6
OPEX to Sales Ratio	7.9	9.7	9.3	10.0	8.9	8.9	9.2	9.0	7.8	7.6	9.0	9.0	8.9
Operating profit	4.2	4.1	3.7	4.1	4.5	4.0	3.6	3.7	3.1	2.6	4.1	3.9	3.7
Pre-tax profit	4.9	4.9	5.2	4.8	4.9	4.4	4.0	4.1	3.7	3.2	4.9	4.3	3.9
Net profit	3.1	3.9	4.5	4.3	4.3	3.5	3.4	3.5	2.5	2.0	3.8	3.7	3.4
Y/Y(%)													
Net sales					(47.0)	3.9	(1.7)	(0.1)		(8.1)	(29.1)	(17.0)	9.5
Gross profit					(41.1)	(3.6)	(3.2)	(10.6)		(14.7)	(8.9)	(17.9)	6.8
OPEX					(40.1)	(4.7)	(2.6)	(10.2)		(11.1)	(16.0)	(17.0)	8.1
Operating profit					(43.0)	(0.8)	(4.6)	(11.8)		(23.8)	11.9	(20.0)	3.8
Pre-tax profit					(47.3)	(7.9)	(23.5)	(14.4)		(21.4)	10.9	(27.3)	(0.7)
Net profit					(26.3)	(5.8)	(26.1)	(19.3)		(24.2)	32.1	(20.4)	1.3
Q/Q(%)													
Net sales		(46.3)	8.0	1.6	(10.0)	5.2	2.2	3.2					
Gross profit		(38.1)	1.3	10.4	(14.9)	1.3	1.7	1.9					
Operating profit		(46.7)	(2.6)	12.7	(2.6)	(7.2)	(6.3)	4.2					
Pre-tax profit		(46.2)	13.3	(6.8)	(7.4)	(5.9)	(5.9)	4.3					
Net profit		(32.8)	26.8	(4.5)	(9.5)	(14.0)	(0.5)	4.3					

Source: Citi Investment Research and Analysis estimates

ASUSTeK Computer

Valuation

Our target price for ASUSTek of NT\$230 is based on 11x FY11E EPS, which is set at a slight discount to an adjusted 5-year average P/E of 11.7x. Our discount reflects sharply slowing growth in NB shipments, though this is mitigated somewhat by the company's execution strengths (as shown in market-share gains and inventory management in 2H10).

Risks

Our quantitative risk-rating system, which tracks 260-day historical share price volatility, assigns a High Risk rating to ASUSTeK. Upside risks that could sustain the shares above our target price include: 1) stronger-than-expected PC demand; and 2) higher-than-expected market share gains, especially in China.

Company Focus

- Company Update
- Estimate Change

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Buy/Medium Risk	1M
Price (25 Mar 11)	HK\$4.45
Target price	HK\$6.30
Expected share price return	41.6%
Expected dividend yield	1.0%
Expected total return	42.6%
Market Cap	HK\$44,509M US\$5,710M

Price Performance (RIC: 0992.HK, BB: 992 HK)



Lenovo Group (0992.HK) Maintaining Growth During PC Industry Slowdown

- **Reiterate Buy with TP of HK\$6.3** — We fine tune our EPS estimate for FY12/13E by -7%/+1% respectively, to reflect a more conservative corporate notebook growth rate in 2011 (to around 15% y/y from 20% y/y), leaving TP unchanged at HK\$6.3.
- **Expect to meet FY4Q (March) guidance** — We expect Lenovo to meet its 1Q guidance of 15% q/q sales decline. We estimate that Lenovo's sales to be down 13% q/q and 2Q sales to be up 12% q/q.
- **Better expectation management, indicating normalized China PC growth early on** — Lenovo has managed expectations well, in our view. In 4Q last year, Lenovo's management has been highlighting that China's PC growth has started to normalize (15-20% y/y) instead of going through another year of hyper growth (30-40% y/y). During the same time, its Asia peers (Asus and Acer) were being very bullish on 4Q10/1Q11 notebook demand indicating better-than-seasonal growth driven by stronger PC demand from China. That resulted in continuous guidance miss. This gives us strong confidence in Lenovo that it understands the PC market and knows how to maneuver through the consumer notebook downturn. We stay positive on Lenovo and believe it will outperform its competitors in 2011.
- **Favorable regional exposure and product mix** — The reason PC growth is slowing down this year is due to tablet PC cannibalization taking toll on the consumer NB. We see very little adoption of tablet PC in the emerging market and corporate segment. Lenovo has >60% of the product mix from corporate and over 70% of revenue from emerging market, leading us to believe that it is not affected by the tablet PC cannibalization. We expect Lenovo to show shipment growth in both notebooks (20% y/y) and desktops (18% y/y) in 2011.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(US\$M)	(US¢)	(%)	(x)	(x)	(%)	(%)
2009A	-226	-2.5	-145.1	nm	4.0	-15.5	0.7
2010A	129	1.3	153.8	43.2	3.5	8.9	1.0
2011E	230	2.4	79.9	24.0	3.1	13.5	0.6
2012E	352	3.6	53.4	15.7	2.6	18.0	0.0
2013E	457	4.7	29.8	12.1	2.1	19.3	0.0

Source: Powered by dataCentral

Fiscal year end 31-Mar	2009	2010	2011E	2012E	2013E
Valuation Ratios					
P/E adjusted (x)	nm	43.2	24.0	15.7	12.1
EV/EBITDA adjusted (x)	nm	11.3	8.9	6.2	4.1
P/BV (x)	4.0	3.5	3.1	2.6	2.1
Dividend yield (%)	0.7	1.0	0.6	0.0	0.0
Per Share Data (US¢)					
EPS adjusted	-2.5	1.3	2.4	3.6	4.7
EPS reported	-2.5	1.3	2.4	3.6	4.7
BVPS	14.2	16.4	18.5	22.1	26.9
DPS	0.4	0.6	0.3	0.0	0.0
Profit & Loss (US\$M)					
Net sales	14,901	16,605	21,768	24,106	31,003
Operating expenses	-15,111	-16,386	-21,444	-23,624	-30,379
EBIT	-210	219	324	483	624
Net interest expense	22	-43	-14	-13	-14
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	-188	176	310	470	610
Tax	-38	-47	-80	-117	-152
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	-226	129	230	352	457
Adjusted earnings	-226	129	230	352	457
Adjusted EBITDA	17	390	497	719	883
Growth Rates (%)					
Sales	-8.9	11.4	31.1	10.7	28.6
EBIT adjusted	-142.1	204.1	48.3	48.8	29.3
EBITDA adjusted	-97.6	nm	27.5	44.8	22.7
EPS adjusted	-145.1	153.8	79.9	53.4	29.8
Cash Flow (US\$M)					
Operating cash flow	-97	918	-636	808	1,208
Depreciation/amortization	227	171	173	237	258
Net working capital	-175	499	-833	22	37
Investing cash flow	432	-255	92	-250	-250
Capital expenditure	-194	-80	-153	-250	-250
Acquisitions/disposals	-10	1	-2	0	0
Financing cash flow	-62	-217	-341	0	0
Borrowings	0	-107	-274	0	0
Dividends paid	-179	-12	0	0	0
Change in cash	266	375	-825	558	958
Balance Sheet (US\$M)					
Total assets	6,622	8,956	7,446	8,518	10,769
Cash & cash equivalent	1,877	2,452	1,471	2,030	3,177
Accounts receivable	1,125	1,408	1,722	1,981	2,596
Net fixed assets	367	277	288	387	395
Total liabilities	5,311	7,350	5,661	6,380	8,174
Accounts payable	2,025	3,236	2,545	2,934	3,837
Total Debt	904	797	523	523	523
Shareholders' funds	1,311	1,606	1,786	2,138	2,595
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	0.1	2.3	2.3	3.0	2.8
ROE adjusted	-15.5	8.9	13.5	18.0	19.3
ROIC adjusted	-35.4	25.1	24.4	27.7	49.0
Net debt to equity	-74.2	-103.0	-53.1	-70.5	-102.3
Total debt to capital	40.8	33.2	22.6	19.6	16.8

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

Figure 11. Earnings Revision Table

NT\$mnn	FY2Q11E			FY11E			FY12E			FY13E		
	New	Old	Chg	New	Old	Chg	New	Old	Chg	New	Old	Chg
Net Sales	5,760	5,760	0%	21,768	21,897	-1%	24,106	26,214	-8%	31,003	31,003	0%
Gross profit	593	593	0%	2,322	2,270	2%	2,596	2,835	-8%	3,327	3,327	0%
OPEX	486	486	0%	1,956	1,893	3%	2,113	2,297	-8%	2,703	2,703	0%
Operating profit	107	107	0%	367	377	-3%	483	538	-10%	624	624	0%
Pre-tax profit	102	102	0%	353	357	-1%	470	509	-8%	610	606	1%
Net profit (reported)	77	77	0%	272	272	0%	352	382	-8%	457	454	1%
EPS	0.79	0.79	0%	2.38	2.54	-6%	3.65	3.93	-7%	4.73	4.68	1%
Ratio	New	Old	diff	New	Old	diff	New	Old	diff	New	Old	diff
Gross margin (%)	10.3	10.3	0.0	10.7	10.4	0.3	10.8	10.8	0.0	10.7	10.7	0.0
OPEX to Sales ratio(%)	8.4	8.4	0.0	9.0	8.6	0.3	8.8	8.8	0.0	8.7	8.7	0.0
Operating margin (%)	1.9	1.9	0.0	1.7	1.7	0.0	2.0	2.1	0.0	2.0	2.0	0.0
Net margin (%)	1.3	1.3	0.0	1.3	1.2	0.0	1.5	1.5	0.0	1.5	1.5	0.0

Source: Citi Investment Research and Analysis estimates

Figure 12. Lenovo P&L

Quarterly Financials (US\$m)	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11E	4Q11E	FY09	FY10	FY11E	FY12E	FY13E
Sales	4,213	4,326	3,592	2,771	3,457	4,099	4,784	4,264	5,147	5,760	5,808	5,053	14,901	16,605	21,768	24,106	31,003
Gross profit	601	545	354	242	380	433	531	445	523	593	648	558	1,742	1,790	2,322	2,596	3,327
Other Income (expenses)	1	(0)	0	-	2	38	43	-	0	0	0	-	1	83	0	-	-
Operating Profit	133	30	(102)	(271)	13	78	100	28	81	107	125	54	(210)	219	324	483	624
Depreciation	26	25	26	67	26	24	27	23	20	20	20	24	143	101	85	151	174
Amortisation	17	15	17	34	14	18	19	20	19	25	22	22	84	70	88	86	85
EBITDA	176	70	(58)	(171)	54	120	146	70	120	152	167	101	17	390	497	719	883
Net interest income	5	9	5	3	(15)	(14)	(6)	(7)	(6)	(5)	(4)	1	22	(43)	(14)	(13)	(14)
Total Non-Op	4	9	6	3	(15)	(13)	(6)	(8)	(6)	(5)	(4)	1	22	(42)	(14)	(13)	(14)
Pre-tax profit	137	39	(96)	(268)	(2)	65	94	20	75	102	121	55	(188)	176	310	470	610
Tax	(26)	(16)	(1)	4	(14)	(12)	(14)	(7)	(21)	(25)	(21)	(14)	(38)	(47)	(80)	(117)	(152)
Profit after tax	110	23	(97)	(264)	(16)	53	80	13	55	77	100	41	(226)	129	230	352	457
Preferred dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Minority interest	-	-	-	(0)	-	-	-	-	-	-	-	-	(0)	-	-	-	-
Extraordinaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Profit	110	23	(97)	(264)	(16)	53	80	13	55	77	100	41	(226)	129	230	352	457
EPS (US\$cents)	1.20	0.25	(1.05)	(2.86)	(0.17)	0.56	0.84	0.13	0.56	0.79	1.03	0.43	(2.46)	1.32	2.38	3.65	4.73
Share Outstanding	9,202	9,211	9,211	9,211	9,212	9,505	9,518	9,788	9,759	9,711	9,659	9,659	9,211	9,788	9,659	9,659	9,659
DPS (HK\$cents)	-	-	-	-	-	-	-	-	-	-	-	-	3.0	4.5	2.6	-	-
Key Ratios	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11E	4Q11E	FY09	FY10	FY11E	FY12E	FY13E
Sales qoq growth (%)	-	2.7	(17.0)	(22.8)	24.8	18.6	16.7	(10.9)	20.7	11.9	0.8	(13.0)	-	-	-	-	-
Gross Profit qoq growth (%)	-	(9.3)	(35.1)	(31.7)	57.5	14.0	22.4	(16.1)	17.5	13.4	9.3	(14.0)	-	-	-	-	-
EBITDA qoq growth (%)	-	(60.3)	(183.0)	194.7	(131.4)	124.1	21.3	(52.0)	72.2	26.0	9.8	(39.7)	-	-	-	-	-
EBIT qoq growth (%)	-	(77.7)	(443.4)	166.0	(104.8)	508.3	27.3	(72.4)	195.1	31.5	16.5	(56.5)	-	-	-	-	-
Pretax qoq growth (%)	-	(71.4)	(345.2)	179.5	(99.1)	(2,788.8)	44.3	(78.7)	277.4	34.7	18.9	(54.5)	-	-	-	-	-
Net Profit qoq growth (%)	-	(78.8)	(512.6)	172.6	(93.9)	(431.6)	49.8	(83.9)	329.5	39.6	30.1	(58.7)	-	-	-	-	-
Gross margin (%)	14.3	12.6	9.8	8.7	11.0	10.6	11.1	10.4	10.2	10.3	11.2	11.0	11.7	10.8	10.7	10.8	10.7
EBITDA margin (%)	4.2	1.6	(1.6)	(6.2)	1.6	2.9	3.0	1.6	2.3	2.6	2.9	2.0	0.1	2.3	2.3	3.0	2.8
EBIT margin (%)	3.2	0.7	(2.8)	(9.8)	0.4	1.9	2.1	0.6	1.6	1.9	2.1	1.1	(1.4)	1.3	1.5	2.0	2.0
Pretax margin (%)	3.2	0.9	(2.7)	(9.7)	(0.1)	1.6	2.0	0.5	1.5	1.8	2.1	1.1	(1.3)	1.1	1.4	1.9	2.0
Net margin (%)	2.6	0.5	(2.7)	(9.5)	(0.5)	1.3	1.7	0.3	1.1	1.3	1.7	0.8	(1.5)	0.8	1.1	1.5	1.5
Sales yoy growth (%)	-	-	-	-	(17.9)	(5.2)	33.2	53.9	48.9	40.5	21.4	18.5	(8.9)	11.4	31.1	10.7	28.6
Gross Profit yoy growth (%)	-	-	-	-	(36.7)	(20.5)	50.1	84.3	37.5	36.8	22.2	25.3	(28.9)	2.8	29.8	11.8	28.2
EBITDA yoy growth (%)	-	-	-	-	(69.5)	72.3	(351.9)	(141.0)	124.6	26.3	14.3	43.7	(97.6)	2,210.5	27.5	44.8	22.7
EBIT yoy growth (%)	-	-	-	-	(90.3)	164.4	(198.0)	(110.2)	530.8	36.3	24.8	96.6	(142.1)	(204.1)	48.3	48.8	29.3
Pretax yoy growth (%)	-	-	-	-	(101.8)	66.1	(197.8)	(107.5)	(3,219.5)	56.3	28.8	174.6	(136.6)	(193.8)	75.8	51.5	29.8
Net Profit yoy growth (%)	-	-	-	-	(114.5)	126.4	(182.2)	(104.8)	(442.7)	44.3	25.3	222.2	(146.7)	(157.1)	77.5	53.4	29.8

Source: Citi Investment Research and Analysis estimates

Lenovo Group

Valuation

Our DCF-based target price is HK\$6.3. We assume sustainable revenue growth of 4.8% until 2019E and apply a cost of capital of 8.2%, assuming a risk-free rate of 2.6%, a market risk premium of 5.4%, borrowing cost of 8%, and an equity beta of 1.1. At our target price, the stock would trade at 3.7x FY11E BVPS, the mid range of its normal forward P/B band of 1x-7x, which we think is reasonable given the company's operating margin expansion and our view of solid growth prospects for its business. We use DCF to value Lenovo as we see the company generating sustainable cash flow in the long term.

Risks

Our quantitative risk-rating system, which tracks 260-day historical share price volatility, assigns Lenovo a Low Risk. However, we rate Lenovo Medium Risk as the company is still expanding market share in emerging markets and could be subject to higher expenses and lower margins. Downside risks that may cause the shares to fail to reach our target price include: 1) weaker-than-expected global PC demand; 2) worse-than-expected operating margin performance due to irrational price competition from leading PC OEMs; 3) slow market-share gains in consumer segment; 4) disappointing cost control if restructuring and resource integration are protracted; 5) rising component prices or shortage could potentially impact its gross margin and shipment schedule; and 6) intensifying competition in the China PC market.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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Hold/Low Risk	2L
Price (25 Mar 11)	NT\$32.70
Target price	NT\$34.00
from NT\$39.00	
Expected share price return	4.0%
Expected dividend yield	9.4%
Expected total return	13.4%
Market Cap	NT\$144,990M
	US\$4,926M

Price Performance (RIC: 2324.TW, BB: 2324 TT)



Compal Electronics (2324.TW)

Earnings Revision on Weaker Acer Notebook Shipment Outlook

- **Earning's change; TP changed to NT\$34 (from NT\$39)** — We trim 2011/12E EPS by -9%/-8% reflecting a weaker Acer notebook shipment outlook and overall weakness in consumer notebook growth in 2011. We also change our TP to NT\$34, implying about 8x 2011E EPS and maintain our Hold rating.
- **Likely to miss 1Q guidance** — Compal will likely miss its 1Q guidance of 10% q/q NB shipment decline. We forecast Compal's notebook shipment to decline around 15% q/q.
- **2Q outlook doesn't look promising** — Although Compal has not provided 2Q guidance, it is largely expected to have seasonal growth of 10-15% q/q. We believe it's unlikely to achieve this with its major notebook customer Acer providing flattish 2Q shipment guidance. Instead, we forecast Compal's notebook shipments to be up about 8% q/q in 2Q even though Acer will be weaker but we should see strength from Lenovo and Dell's corporate notebook demand.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(NT\$M)	(NT\$)	(%)	(x)	(x)	(%)	(%)
2008A	12,639	3.25	-8.1	10.0	1.6	16.2	7.2
2009A	19,208	4.66	43.1	7.0	1.4	21.9	4.3
2010E	22,958	5.28	13.4	6.2	1.2	21.5	7.1
2011E	19,303	4.37	-17.4	7.5	1.2	16.2	9.4
2012E	22,531	5.10	16.7	6.4	1.1	17.3	7.8

Source: Powered by dataCentral

Fiscal year end 31-Dec	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	10.0	7.0	6.2	7.5	6.4
EV/EBITDA adjusted (x)	4.3	3.7	1.3	-1.6	-2.3
P/BV (x)	1.6	1.4	1.2	1.2	1.1
Dividend yield (%)	7.2	4.3	7.1	9.4	7.8
Per Share Data (NT\$)					
EPS adjusted	3.25	4.66	5.28	4.37	5.10
EPS reported	3.25	4.66	5.28	4.37	5.10
BVPS	20.04	23.71	26.53	27.86	30.96
DPS	2.36	1.39	2.34	3.07	2.54
Profit & Loss (NT\$M)					
Net sales	478,748	675,305	884,900	931,424	1,034,253
Operating expenses	-461,283	-652,757	-861,245	-908,569	-1,008,986
EBIT	17,465	22,548	23,655	22,855	25,267
Net interest expense	1,119	342	211	1,277	1,524
Non-operating/exceptionals	-1,557	-904	3,982	683	1,175
Pre-tax profit	17,027	21,986	27,848	24,816	27,967
Tax	-3,474	-2,190	-4,906	-5,671	-5,593
Extraord./Min.Int./Pref.div.	-914	-588	16	158	158
Reported net income	12,639	19,208	22,958	19,303	22,531
Adjusted earnings	12,639	19,208	22,958	19,303	22,531
Adjusted EBITDA	22,321	28,338	29,128	28,561	30,973
Growth Rates (%)					
Sales	-3.9	41.1	31.0	5.3	11.0
EBIT adjusted	-13.2	29.1	4.9	-3.4	10.6
EBITDA adjusted	-7.6	27.0	2.8	-1.9	8.4
EPS adjusted	-8.1	43.1	13.4	-17.4	16.7
Cash Flow (NT\$M)					
Operating cash flow	13,670	-3,344	150,796	45,050	35,298
Depreciation/amortization	4,856	5,790	5,472	5,706	5,706
Net working capital	-7,855	-31,131	122,382	20,199	7,219
Investing cash flow	-10,707	-12,109	-8,052	-5,400	-3,750
Capital expenditure	-6,077	-3,060	-4,911	-6,000	-4,000
Acquisitions/disposals	-272	-1,228	-198	0	0
Financing cash flow	-19,771	16,912	-10,882	-11,271	-8,634
Borrowings	-5,505	19,925	-4,359	0	0
Dividends paid	-9,162	-5,753	-10,148	-13,587	-11,224
Change in cash	-16,370	732	131,863	28,379	22,915
Balance Sheet (NT\$M)					
Total assets	195,416	335,290	470,086	565,025	608,843
Cash & cash equivalent	46,586	47,673	179,535	207,914	230,829
Accounts receivable	75,045	170,209	182,968	232,952	249,901
Net fixed assets	18,164	14,243	13,682	13,976	12,270
Total liabilities	109,398	228,755	346,732	433,798	463,877
Accounts payable	77,716	178,068	175,787	223,742	240,559
Total Debt	15,896	31,651	27,292	27,292	27,292
Shareholders' funds	86,018	106,535	123,354	131,227	144,967
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	4.7	4.2	3.3	3.1	3.0
ROE adjusted	16.2	21.9	21.5	16.2	17.3
ROIC adjusted	47.8	41.6	nm	na	na
Net debt to equity	-35.7	-15.0	-123.4	-137.6	-140.4
Total debt to capital	15.6	22.9	18.1	17.2	15.8

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

Figure 13. Earnings Revision Table

NT\$m	FY11E			FY12E		
	New	Old	Chg	New	Old	Chg
Net Sales	931,424	1,032,631	-10%	1,034,253	1,136,189	-9%
Gross profit	46,467	51,157	-9%	51,522	56,233	-8%
OPEX	23,612	26,146	-10%	26,254	28,811	-9%
Operating profit	22,855	25,010	-9%	25,267	27,422	-8%
Pre-tax profit	24,816	27,155	-9%	27,967	30,369	-8%
Net profit	19,303	21,174	-9%	22,531	24,453	-8%
EPS	4.37	4.79	-9%	5.10	5.53	-8%
Ratio	New	Old	diff	New	Old	diff
Gross margin (%)	5.0	5.0	0.0	5.0	4.9	0.0
OPEX to Sales ratio(%)	2.5	2.5	0.0	2.5	2.5	0.0
Operating margin (%)	2.5	2.4	0.0	2.4	2.4	0.0
Net margin (%)	2.1	2.1	0.0	2.2	2.2	0.0

Source: Citi Investment Research and Analysis estimates

Figure 14. Compal P&L

Quarterly P&L

Compal	1Q10	2Q10	3Q10	4Q10E	1Q11E	2Q11E	3Q11E	4Q11E	2009	2010E	2011E	2012E	2013E
NT\$mnn													
Net sales	228,951	227,062	214,135	214,753	188,819	219,715	249,470	273,420	675,305	884,900	931,424	1,034,253	1,194,605
Pre EB Gross profit	12,288	11,821	10,262	10,398	9,441	11,117	12,202	13,708	41,508	44,769	46,467	51,522	59,972
Gross profit	12,288	11,821	10,262	10,398	9,441	11,117	12,202	13,708	41,508	44,769	46,467	51,522	59,972
OPEX	5,276	5,126	5,317	5,394	4,791	5,582	6,303	6,937	18,960	21,114	23,612	26,254	30,404
Operating profit	7,012	6,694	4,945	5,004	4,650	5,535	5,899	6,771	22,548	23,655	22,855	25,267	29,567
Total Non-OP	2,579	1,342	125	147	427	456	501	577	(562)	4,193	1,960	2,699	3,650
Pre-tax profit	9,591	8,036	5,070	5,151	5,077	5,991	6,400	7,347	21,986	27,848	24,816	27,967	33,217
Income tax	1,027	1,586	1,264	1,030	1,015	1,906	1,280	1,469	2,190	4,906	5,671	5,593	6,643
Net profit	8,515	6,437	3,845	4,160	4,101	4,125	5,160	5,917	19,208	22,958	19,303	22,531	26,731
Post EB EPS (NT\$)	2.00	1.50	0.87	0.94	0.93	0.93	1.17	1.34	4.66	5.28	4.37	5.10	6.05
Y/Y(%)													
Net sales					(17.5)	(3.2)	16.5	27.3	41.1	31.0	5.3	11.0	15.5
Gross profit					(23.2)	(6.0)	18.9	31.8	23.8	7.9	3.8	10.9	16.4
OPEX					(9.2)	8.9	18.5	28.6	18.0	11.4	11.8	11.2	15.8
Operating profit					(33.7)	(17.3)	19.3	35.3	29.1	4.9	(3.4)	10.6	17.0
Pre-tax profit					(47.1)	(25.5)	26.2	42.6	29.1	26.7	(10.9)	12.7	18.8
Net profit					(51.8)	(35.9)	34.2	42.2	52.0	19.5	(15.9)	16.7	18.6
Q/Q(%)													
Net sales		(0.8)	(5.7)	0.3	(12.1)	16.4	13.5	9.6					
Gross profit		(3.8)	(13.2)	1.3	(9.2)	17.8	9.8	12.3					
Operating profit		(4.5)	(26.1)	1.2	(7.1)	19.0	6.6	14.8					
Pre-tax profit		(16.2)	(36.9)	1.6	(1.4)	18.0	6.8	14.8					
Net profit		(24.4)	(40.3)	8.2	(1.4)	0.6	25.1	14.7					

Source: Citi Investment Research and Analysis estimates

Compal Electronics

Valuation

Our DCF-based target price NT\$34 implies 8x 2011E EPS. At our target price, the stock would trade at the middle of its forward P/E trading band of 6x-12x, which we view as justified given limited earnings growth expected in the next 1-2 years. We apply a cost of capital of 9.38%, which assumes a risk-free rate of 1.4%, a market risk premium of 7%, borrowing cost of 3%, and an equity beta of 1.3.

Risks

We rate Compal Low Risk according to our quantitative risk rating system, which tracks 260-day historical share price volatility. Upside risks that may cause the shares to trade above our target price include: 1) Stronger-than-expected global PC demand and 2) Better-than-expected margin performance due to more rational price competition from peers. Downside risks to our target include: 1) Larger-than-expected non-operating losses from equity method LT investments, and 2) Slower-than-expected ramp for its non-NB business.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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Sell/Low Risk	3L
Price (25 Mar 11)	NT\$54.30
Target price	NT\$48.00
from NT\$53.00	
Expected share price return	-11.6%
Expected dividend yield	6.6%
Expected total return	-5.0%
Market Cap	NT\$208,432M
	US\$7,081M

Price Performance (RIC: 2382.TW, BB: 2382 TT)



Quanta Computer (2382.TW)

Reiterate Sell, More Headwinds Ahead on Weaker Consumer Notebook Demand

- **Earnings revision, TP changed to NT\$48 from NT\$53** — We reiterate our Sell rating on Quanta reducing our TP to NT\$48 from NT\$53, which implies 9x 2011E EPS after adjusting earnings to reflect lower revenue contribution from HP's and weaker consumer notebook business in 2011. Our 2011 adjusted EPS estimate is NT\$5.46 (from NT\$5.87) versus market consensus of NT\$6.00.
- **Will likely miss 1Q guidance** — Quanta will likely miss its 1Q guidance of 10% decline q/q on notebook shipments. We forecast Quanta to be down 17% q/q in 1Q. Although Quanta has not guided 2Q, it is largely expected for NB to grow 10-15% q/q. Instead, we estimate that 2Q should fall below expectations, growing between 5-10% q/q.
- **HP's lowered consumer PC guidance will put pressure on Quanta's notebook business** — Quanta is the biggest notebook ODM for HP, where HP notebook accounts for 30% of Quanta's notebook mix in 2011. In February 2011, HP revised down the full year revenue guidance by \$2bn reflecting weaker consumer PC outlook. We believe it could reduce Quanta's notebook shipments by 2-3mn units.
- **Quanta's exposure to consumer notebook is a big downside risk** — We believe that consumer notebook will be significantly cannibalized by tablet PC in 2011. This could be a huge downside risk to Quanta because it has the highest exposure to consumer notebook compared to its ODM peers. We estimate 70-80% of its notebook business is from the consumer segment. We revised down Quanta's notebook shipments (from up 8% y/y to flattish y/y) to reflect a weaker consumer notebook outlook in 2011.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(NT\$M)	(NT\$)	(%)	(x)	(x)	(%)	(%)
2008A	20,219	5.54	4.4	9.8	2.3	23.3	6.4
2009A	22,313	5.90	6.5	9.2	1.9	23.2	6.4
2010E	21,070	5.51	-6.7	9.9	1.8	19.1	7.0
2011E	20,880	5.45	-1.1	10.0	1.7	17.6	6.5
2012E	23,902	6.24	14.5	8.7	1.5	18.3	6.4

Source: Powered by dataCentral

Fiscal year end 31-Dec	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	9.8	9.2	9.9	10.0	8.7
EV/EBITDA adjusted (x)	7.6	6.1	4.4	1.5	0.5
P/BV (x)	2.3	1.9	1.8	1.7	1.5
Dividend yield (%)	6.4	6.4	7.0	6.5	6.4
Per Share Data (NT\$)					
EPS adjusted	5.54	5.90	5.51	5.45	6.24
EPS reported	5.54	5.90	5.51	5.45	6.24
BVPS	23.59	28.19	29.79	32.27	35.75
DPS	3.48	3.46	3.83	3.55	3.45
Profit & Loss (NT\$M)					
Net sales	818,738	839,791	1,101,172	1,100,070	1,236,585
Operating expenses	-800,271	-817,767	-1,082,586	-1,080,217	-1,214,589
EBIT	18,466	22,024	18,586	19,853	21,996
Net interest expense	-568	-445	-83	2,062	2,343
Non-operating/exceptionals	9,711	6,837	9,707	5,700	6,383
Pre-tax profit	27,610	28,415	28,210	27,615	30,722
Tax	-6,485	-5,074	-6,375	-6,060	-6,144
Extraord./Min.Int./Pref.div.	-906	-1,028	-766	-675	-675
Reported net income	20,219	22,313	21,070	20,880	23,902
Adjusted earnings	20,219	22,313	21,070	20,880	23,902
Adjusted EBITDA	22,607	26,783	23,601	25,050	27,193
Growth Rates (%)					
Sales	5.3	2.6	31.1	-0.1	12.4
EBIT adjusted	-6.5	19.3	-15.6	6.8	10.8
EBITDA adjusted	-7.3	18.5	-11.9	6.1	8.6
EPS adjusted	4.4	6.5	-6.7	-1.1	14.5
Cash Flow (NT\$M)					
Operating cash flow	42,544	22,001	137,600	39,948	42,411
Depreciation/amortization	4,140	4,759	5,015	5,197	5,197
Net working capital	14,039	-7,582	110,750	13,196	12,637
Investing cash flow	-25,820	-15,344	-9,682	-8,200	-8,200
Capital expenditure	-7,627	-5,348	-10,573	-8,000	-8,000
Acquisitions/disposals	-18,011	-6,882	368	0	0
Financing cash flow	-4,625	-553	79,479	-11,869	-11,223
Borrowings	13,506	12,537	93,627	0	0
Dividends paid	-12,704	-13,092	-14,641	-13,596	-13,220
Change in cash	12,942	5,576	207,396	19,879	22,988
Balance Sheet (NT\$M)					
Total assets	303,595	377,404	661,140	726,312	792,195
Cash & cash equivalent	87,204	101,777	308,997	328,876	351,863
Accounts receivable	102,504	153,208	176,044	201,874	226,062
Net fixed assets	39,032	38,448	44,182	46,985	49,788
Total liabilities	210,961	263,395	539,882	595,368	647,896
Accounts payable	119,787	162,499	195,838	224,270	251,465
Total Debt	56,995	64,803	158,430	158,430	158,430
Shareholders' funds	92,634	114,009	121,258	130,944	144,298
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	2.8	3.2	2.1	2.3	2.2
ROE adjusted	23.3	23.2	19.1	17.6	18.3
ROIC adjusted	23.3	32.7	nm	na	na
Net debt to equity	-32.6	-32.4	-124.2	-130.2	-134.1
Total debt to capital	38.1	36.2	56.6	54.7	52.3

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Figure 15. Earnings Revision Table

	FY10E			FY11E			FY12E		
NT\$m	New	Old	Chg	New	Old	Chg	New	Old	Chg
Net Sales	1,101,172	1,108,671	-1%	1,100,070	1,188,202	-7%	1,236,585	1,305,707	-5%
Gross profit	40,530	40,990	-1%	40,708	43,852	-7%	45,411	47,720	-5%
OPEX	21,944	22,099	-1%	20,855	22,508	-7%	23,415	24,703	-5%
Operating profit	18,586	18,891	-2%	19,853	21,343	-7%	21,996	23,017	-4%
Pre-tax profit	28,210	28,553	-1%	27,615	29,633	-7%	30,722	32,200	-5%
Net profit	21,070	21,344	-1%	20,880	22,487	-7%	23,902	25,085	-5%
EPS	5.51	5.58	-1%	5.45	5.87	-7%	6.24	6.54	-5%
Ratio	New	Old	diff	New	Old	diff	New	Old	diff
Gross margin (%)	3.7	3.7	0.0	3.7	3.7	0.0	3.7	3.7	0.0
OPEX to Sales ratio(%)	2.0	2.0	0.0	1.9	1.9	0.0	1.9	1.9	0.0
Operating margin (%)	1.7	1.7	0.0	1.8	1.8	0.0	1.8	1.8	0.0
Net margin (%)	1.9	1.9	0.0	1.9	1.9	0.0	1.9	1.9	0.0

Source: Citi Investment Research and Analysis

Figure 16. Quanta P&L

Quarterly P&L

Quanta	1Q10	2Q10	3Q10E	4Q10E	1Q11E	2Q11E	3Q11E	4Q11E	2008	2009	2010E	2011E	2012E	2013E
NT\$mnn														
Net sales	252,601	295,039	276,961	276,570	238,012	259,410	285,498	317,150	818,738	839,791	1,101,172	1,100,070	1,236,585	1,344,090
Gross profit	10,325	10,099	10,137	9,969	8,442	9,502	10,732	12,032	42,030	45,703	40,530	40,708	45,411	49,937
OPEX	5,157	6,378	5,229	5,180	4,490	4,911	5,422	6,031	23,564	23,679	21,944	20,855	23,415	25,501
Operating profit	5,168	3,721	4,907	4,789	3,951	4,591	5,310	6,000	18,466	22,024	18,586	19,853	21,996	24,436
Total Non-OP	1,887	3,219	3,094	1,425	1,770	1,847	1,969	2,177	9,144	6,391	9,625	7,762	8,725	9,544
Pre-tax profit	7,055	6,940	8,001	6,214	5,721	6,437	7,279	8,177	27,610	28,415	28,210	27,615	30,722	33,980
Income tax	1,463	1,672	1,997	1,243	1,144	1,824	1,456	1,635	6,485	5,074	6,375	6,060	6,144	6,796
Net profit	5,328	5,103	5,835	4,803	4,408	4,444	5,654	6,373	20,219	22,313	21,070	20,880	23,902	26,509
Post EB EPS (NT\$)	1.40	1.33	1.52	1.25	1.15	1.16	1.48	1.66	5.54	5.90	5.51	5.45	6.24	6.92
Margins (%)														
Pre EB Gross profit	4.1	3.4	3.7	3.6	3.5	3.7	3.8	3.8	5.1	5.4	3.7	3.7	3.7	3.7
Gross profit	4.1	3.4	3.7	3.6	3.5	3.7	3.8	3.8	5.1	5.4	3.7	3.7	3.7	3.7
OPEX to Sales Ratio	2.0	2.2	1.9	1.9	1.9	1.9	1.9	1.9	2.9	2.8	2.0	1.9	1.9	1.9
Pre EB Operating profit	2.3	1.4	2.0	1.9	1.9	2.0	2.1	2.1	2.3	2.6	1.9	2.0	2.0	2.0
Operating profit	2.0	1.3	1.8	1.7	1.7	1.8	1.9	1.9	2.3	2.6	1.7	1.8	1.8	1.8
Pre-tax profit	2.8	2.4	2.9	2.2	2.4	2.5	2.5	2.6	3.4	3.4	2.6	2.5	2.5	2.5
Net profit	2.1	1.7	2.1	1.7	1.9	1.7	2.0	2.0	2.5	2.7	1.9	1.9	1.9	2.0
Y/Y(%)														
Net sales					(5.8)	(12.1)	3.1	14.7		2.6	31.1	(0.1)	12.4	8.7
Gross profit					(18.2)	(5.9)	5.9	20.7		8.7	(11.3)	0.4	11.6	10.0
OPEX					(12.9)	(23.0)	3.7	16.4		0.5	(7.3)	(5.0)	12.3	8.9
Operating profit					(23.5)	23.4	8.2	25.3		19.3	(15.6)	6.8	10.8	11.1
Pre-tax profit					(18.9)	(7.2)	(9.0)	31.6		2.9	(0.7)	(2.1)	11.2	10.6
Net profit					(17.3)	(12.9)	(3.1)	32.7		10.4	(5.6)	(0.9)	14.5	10.9
Q/Q(%)														
Net sales		16.8	(6.1)	(0.1)	(13.9)	9.0	10.1	11.1						
Gross profit		(2.2)	0.4	(1.7)	(15.3)	12.6	12.9	12.1						
Operating profit		(28.0)	31.9	(2.4)	(17.5)	16.2	15.7	13.0						
Pre-tax profit		(1.6)	15.3	(22.3)	(7.9)	12.5	13.1	12.3						
Net profit		(4.2)	14.3	(17.7)	(8.2)	0.8	27.2	12.7						

Source: Citi Investment Research and Analysis estimates

Quanta Computer

Valuation

Our DCF-based target price NT\$48 implies 9x 2011E EPS. At our target price, the stock would trade at the mid end of its forward P/E trading band of 6x-12x, which we view as justified given limited earnings growth expected in the next 1-2 years. We apply a cost of capital of 8.77%, which assumes a risk-free rate of 1.4%, a market risk premium of 7%, borrowing cost of 3%, and an equity beta of 1.2.

Risks

We rate Quanta Low Risk according to our quantitative risk rating system, which tracks 260-day historical share price volatility. Upside risks that may cause the shares to trade above our target price include: 1) Stronger-than-expected global PC demand; 2) Better-than-expected margin performance due to more rational price competition from peers; 3) Quicker-than-expected ramp in non-NB business; and 4) Market share gain in its NB business.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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Sell/Medium Risk	3M
Price (25 Mar 11)	NT\$33.80
Target price	NT\$30.00
	from NT\$35.00
Expected share price return	-11.2%
Expected dividend yield	4.6%
Expected total return	-6.6%
Market Cap	NT\$76,265M
	US\$2,591M

Price Performance (RIC: 4938.TW, BB: 4938 TT)



Pegatron (4938.TW)

Reiterate Sell: We Do Not See Near-Term Recovery

- **Cutting earnings; change TP to NT\$30 (from NT\$35)** — We cut 2011/12E EPS to reflect an iPhone 4 business that is breaking even and lower than expected notebook shipments. We change our target price to NT\$30, implying P/E multiple of 12x based on 2011E earnings.
- **Volume on new notebook orders could have downside** — We believe there is downside risk to Pegatron's new notebook orders (Acer and Toshiba). With Acer missing 1Q guidance and indicating a flattish 2Q, we think the outlook on new Acer orders could be negatively impacted.
- **iPhone 4 business breaking even is the best outcome in 2011** — Hon Hai manufactures about 90% of all iPhone and is making slightly higher than breaking even margin on assembly. Most of the profits are generated by supplying components through vertical integration. From our checks, Pegatron does not supply components to iPhone 4 and is doing purely assembly. This makes us believe that it is unlikely Pegatron can generate profits from iPhone 4 business if Hon Hai (with much larger scale) is just about breaking even.
- **Will Pegatron be a profitable iPhone second source longer term?** Street is expecting Apple to have a meaningful second source next to Hon Hai (building 90% of all iPhone) to diversify supplier risk, with Pegatron being the most anticipated candidate. We believe the bigger question is if Pegatron can be a profitable second source. To gain larger iPhone share will be difficult given Hon Hai's scale, experience on iPhone assembly, vertical integration and lower labor cost. It would take years for Pegatron to bring up the capabilities to compete with Hon Hai, in our view, thus Pegatron might not be profitable in the next 1-2 years on the iPhone business.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(NT\$M)	(NT\$)	(%)	(x)	(x)	(%)	(%)
2008A	5,526	2.93	na	11.5	0.7	na	4.2
2009A	6,752	2.95	0.7	11.4	0.8	7.3	3.4
2010E	5,940	2.60	-12.0	13.0	0.8	6.2	8.5
2011E	5,552	2.43	-6.5	13.9	0.8	5.7	4.4
2012E	6,085	2.66	9.6	12.7	0.7	6.0	3.9

Source: Powered by dataCentral

Fiscal year end 31-Dec	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	11.5	11.4	13.0	13.9	12.7
EV/EBITDA adjusted (x)	na	3.7	2.6	1.4	1.0
P/BV (x)	0.7	0.8	0.8	0.8	0.7
Dividend yield (%)	4.2	3.4	8.5	4.4	3.9
Per Share Data (NT\$)					
EPS adjusted	2.93	2.95	2.60	2.43	2.66
EPS reported	2.93	2.95	2.60	2.43	2.66
BVPS	47.74	41.89	41.96	43.40	45.27
DPS	1.41	1.16	2.88	1.49	1.32
Profit & Loss (NT\$M)					
Net sales	513,294	538,082	538,002	539,273	581,856
Operating expenses	-505,500	-527,507	-528,005	-528,840	-570,942
EBIT	7,794	10,575	9,997	10,433	10,914
Net interest expense	192	-33	-73	33	54
Non-operating/exceptionals	1,159	2,360	3,332	2,800	2,800
Pre-tax profit	9,145	12,902	13,255	13,266	13,768
Tax	-1,218	-2,355	-2,513	-2,846	-2,754
Extraord./Min.Int./Pref.div.	-2,401	-3,796	-4,803	-4,868	-4,929
Reported net income	5,526	6,752	5,940	5,552	6,085
Adjusted earnings	5,526	6,752	5,940	5,552	6,085
Adjusted EBITDA	14,622	18,879	17,814	18,194	18,675
Growth Rates (%)					
Sales	na	4.8	0.0	0.2	7.9
EBIT adjusted	na	35.7	-5.5	4.4	4.6
EBITDA adjusted	na	29.1	-5.6	2.1	2.6
EPS adjusted	na	0.7	-12.0	-6.5	9.6
Cash Flow (NT\$M)					
Operating cash flow	128	16,147	52,791	18,497	18,936
Depreciation/amortization	6,828	8,304	7,818	7,761	7,761
Net working capital	-16,386	-32	34,231	317	161
Investing cash flow	-13,715	-6,346	-4,655	-5,400	-5,400
Capital expenditure	-9,683	-5,313	-5,519	-5,000	-5,000
Acquisitions/disposals	-3,260	-1,693	1,045	0	0
Financing cash flow	36,044	-6,308	-1,512	-7,132	-6,742
Borrowings	15,802	-3,564	7,593	0	0
Dividends paid	-2,650	-2,648	-6,585	-3,418	-3,010
Change in cash	24,971	3,266	46,624	5,965	6,794
Balance Sheet (NT\$M)					
Total assets	215,165	224,555	302,894	311,561	326,278
Cash & cash equivalent	30,236	40,205	86,743	92,708	99,502
Accounts receivable	63,850	67,812	35,300	36,588	38,966
Net fixed assets	59,281	54,667	52,455	49,694	46,933
Total liabilities	104,990	104,401	181,233	186,612	197,057
Accounts payable	64,507	66,043	60,468	62,440	66,593
Total Debt	22,620	19,056	26,648	26,648	26,648
Shareholders' funds	110,176	120,154	121,661	124,949	129,221
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	2.8	3.5	3.3	3.4	3.2
ROE adjusted	na	7.3	6.2	5.7	6.0
ROIC adjusted	na	9.4	11.1	16.0	18.3
Net debt to equity	-6.9	-17.6	-49.4	-52.9	-56.4
Total debt to capital	17.0	13.7	18.0	17.6	17.1

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Figure 17. Earnings Revision Table

	FY10E			FY11E			FY12E		
NT\$m	New	Old	Chg	New	Old	Chg	New	Old	Chg
Net Sales	538,002	543,698	-1%	539,273	617,737	-13%	581,856	660,320	-12%
Gross profit	30,932	31,472	-2%	28,844	33,075	-13%	30,731	35,077	-12%
OPEX	20,935	21,151	-1%	18,410	21,059	-13%	19,817	22,475	-12%
Operating profit	9,997	10,320	-3%	10,433	12,016	-13%	10,914	12,602	-13%
Pre-tax profit	13,255	13,579	-2%	13,266	14,853	-11%	13,768	16,172	-15%
Net profit	5,940	6,192	-4%	5,552	6,784	-18%	6,085	7,915	-23%
EPS	2.60	2.71	-4%	2.43	2.97	-18%	2.66	3.46	-23%
Ratio	New	Old	diff	New	Old	diff	New	Old	diff
Gross margin (%)	5.7	5.8	0.0	5.3	5.4	0.0	5.3	5.3	0.0
OPEX to Sales ratio(%)	3.9	3.9	0.0	3.4	3.4	0.0	3.4	3.4	0.0
Operating margin (%)	1.9	1.9	0.0	1.9	1.9	0.0	1.9	1.9	0.0
Net margin (%)	1.1	1.1	0.0	1.0	1.1	-0.1	1.0	1.2	-0.2

Source: Citi Investment Research and Analysis estimates

Figure 18. Pegatron P&L

NT\$m	1Q10	2Q10	3Q10	4Q10E	1Q11E	2Q11E	3Q11E	4Q11E	2009	2010E	2011E	2012E	2013E
Net sales	130,105	128,392	139,458	140,047	122,943	132,616	138,556	145,157	538,082	538,002	539,273	581,856	627,928
Gross profit	8,418	8,121	7,409	6,984	6,382	7,117	7,527	7,817	32,366	30,932	28,844	30,731	32,709
OPEX	5,161	5,692	5,218	4,865	4,187	4,530	4,738	4,956	21,791	20,935	18,410	19,817	21,333
Operating profit	3,257	2,429	2,191	2,119	2,196	2,587	2,789	2,861	10,575	9,997	10,433	10,914	11,376
Total Non-OP	673	756	1,154	676	707	709	708	710	2,327	3,258	2,833	2,854	2,876
Pre-tax profit	3,930	3,185	3,345	2,795	2,902	3,296	3,497	3,571	12,902	13,255	13,266	13,768	14,252
Income tax	1,132	192	630	559	580	852	699	714	2,355	2,513	2,846	2,754	2,850
Net profit	1,775	1,698	1,448	1,018	1,253	1,171	1,516	1,613	6,752	5,940	5,552	6,085	6,417
Post EB EPS (NT\$)	0.78	0.74	0.63	0.45	0.55	0.51	0.66	0.71	2.95	2.60	2.43	2.66	2.81
Margins (%)													
Gross profit	6.5	6.3	5.3	5.0	5.2	5.4	5.4	5.4	6.0	5.7	5.3	5.3	5.2
Operating profit	2.5	1.9	1.6	1.5	1.8	2.0	2.0	2.0	2.0	1.9	1.9	1.9	1.8
Pre-tax profit	3.0	2.5	2.4	2.0	2.4	2.5	2.5	2.5	2.4	2.5	2.5	2.4	2.3
Net profit	1.4	1.3	1.0	0.7	1.0	0.9	1.1	1.1	1.3	1.1	1.0	1.0	1.0
Y/Y(%)													
Net sales					(5.5)	3.3	(0.6)	3.6	4.8	(0.0)	0.2	7.9	7.9
Gross profit					(24.2)	(12.4)	1.6	11.9	19.8	(4.4)	(6.8)	6.5	6.4
OPEX					(18.9)	(20.4)	(9.2)	1.9	13.4	(3.9)	(12.1)	7.6	7.7
Operating profit					(32.6)	6.5	27.3	35.0	35.7	(5.5)	4.4	4.6	4.2
Pre-tax profit					(26.2)	3.5	4.5	27.8	41.1	2.7	0.1	3.8	3.5
Net profit					(29.4)	(31.1)	4.7	58.4	22.2	(12.0)	(6.5)	9.6	5.4
Q/Q(%)													
Net sales		(1.3)	8.6	0.4	(12.2)	7.9	4.5	4.8					
Gross profit		(3.5)	(8.8)	(5.7)	(8.6)	11.5	5.8	3.8					
Operating profit		(25.4)	(9.8)	(3.3)	3.6	17.8	7.8	2.6					
Net profit		(4.4)	(14.7)	(29.7)	23.0	(6.6)	29.5	6.4					

Source: Citi Investment Research and Analysis estimates

Pegatron

Valuation

Our DCF-based target price NT\$30 implies 12x 2011E EPS. At our target price, the stock would trade at the mid-to-low end of its forward P/E trading band of 10x-16x, which we view as justified given limited earnings growth expected in 2011E. We apply a cost of capital of 8.78%, which assumes a risk-free rate of 1.4%, a market risk premium of 7%, borrowing cost of 3%, and an equity beta of 1.3.

Risks

We rate Pegatron Medium Risk according to our quantitative risk rating system, which tracks 260-day historical share price volatility. Upside risks that may cause the shares to trade above our target price include: 1) Stronger-than-expected global PC demand; 2) Better-than-expected margin performance due to more rational price competition from peers; 3) Quicker-than-expected ramp in non-PC business; and 4) Better-than-expected margin performances for its non-PC products.

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

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Hold/Low Risk	2L
<i>from Buy/Medium Risk</i>	
Price (25 Mar 11)	NT\$55.20
Target price	NT\$55.00
<i>from NT\$78.00</i>	
Expected share price return	-0.4%
Expected dividend yield	7.2%
Expected total return	6.8%
Market Cap	NT\$34,534M
	US\$1,173M

Price Performance (RIC: 2385.TW,
BB: 2385 TT)

Chicony Electronics (2385.TW)

Downgrade to Hold: Gloomy Notebook Demand in 2011E

- **Downgrade to Hold; TP NT\$55** — We're downgrading Chicony to Hold (2L) from Buy (1M) as we expect the share performance to be capped by the weak consumer NB outlook in 2011E. Although the stock seems to have already priced in recent muted demand expectations, we don't see any near-term growth catalyst. As a result, we cut our 11E/12E operating profit by 20% and 11%, and lower our TP to NT\$55 (from NT\$78). Our new TP is based on DCF valuation, implying 10x 2011 P/E. The potential earnings support from LT investment disposal gain can help support the EPS (but not the share price, in our view) and dividend payment. (The company is guiding more than NT\$4 cash dividend per share this year.) Risk rating revised to Low from Medium.
- **Limited growth for 2011E** — Chicony has achieved high market share in each of its major product lines (Keyboard (32%), Web Cam (25%), NB camera module (36%), and CMOS DV (38%)), and we believe room for further share gain is limited. In addition, even though the market is already expecting a low teen Y/Y traditional NB growth, we believe market expectations are still subject to meaningful downside (to below 10% Y/Y growth). Therefore, we are not only seeing limited growth, but also potential downside for Chicony's PC related businesses.
- **Margins continue to be under pressure** — Although we believe Chicony will transfer the cost to PC OEMs by raising prices (company guided 8~12%), we suspect such price hike could be rather short-lived. Recently, Acer revised down its guidance, due to weak consumer NB demand. The sluggish NB demand creates a huge operating margin pressure for Acer, and we expect Acer to transfer the pressure to their suppliers. Given sharp NB growth slowdown, we believe other PC OEMs might have similar margin pressure as well. Therefore, the price stability may not be sustainable.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(NT\$M)	(NT\$)	(%)	(x)	(x)	(%)	(%)
2008A	2,901	5.79	81.2	9.5	3.3	36.3	4.1
2009A	3,331	6.20	7.1	8.9	2.5	32.8	5.8
2010E	3,650	6.27	1.2	8.8	2.2	27.1	7.2
2011E	3,075	5.29	-15.7	10.4	2.1	20.2	6.0
2012E	3,349	5.76	8.9	9.6	1.9	20.7	7.3

Source: Powered by dataCentral

Fiscal year end 31-Dec	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	9.5	8.9	8.8	10.4	9.6
EV/EBITDA adjusted (x)	8.4	7.3	8.3	9.1	7.8
P/BV (x)	3.3	2.5	2.2	2.1	1.9
Dividend yield (%)	4.1	5.8	7.2	6.0	7.3
Per Share Data (NT\$)					
EPS adjusted	5.79	6.20	6.27	5.29	5.76
EPS reported	5.79	6.20	6.27	5.29	5.76
BVPS	16.55	22.38	25.67	26.68	28.88
DPS	2.27	3.18	3.98	3.30	4.04
Profit & Loss (NT\$M)					
Net sales	48,406	53,948	60,454	64,613	67,377
Operating expenses	-44,716	-49,912	-57,271	-61,878	-64,128
EBIT	3,690	4,036	3,183	2,735	3,249
Net interest expense	-240	-129	-80	-65	-62
Non-operating/exceptionals	-185	248	1,210	970	760
Pre-tax profit	3,265	4,155	4,312	3,639	3,947
Tax	-388	-868	-467	-400	-434
Extraord./Min.Int./Pref.div.	24	44	-195	-164	-164
Reported net income	2,901	3,331	3,650	3,075	3,349
Adjusted earnings	2,901	3,331	3,650	3,075	3,349
Adjusted EBITDA	4,656	5,175	4,261	3,857	4,470
Growth Rates (%)					
Sales	18.1	11.4	12.1	6.9	4.3
EBIT adjusted	9.9	9.4	-21.1	-14.1	18.8
EBITDA adjusted	13.9	11.1	-17.7	-9.5	15.9
EPS adjusted	81.2	7.1	1.2	-15.7	8.9
Cash Flow (NT\$M)					
Operating cash flow	1,780	7,410	3,434	3,265	4,498
Depreciation/amortization	966	1,139	1,078	1,122	1,221
Net working capital	-1,872	975	-1,270	-1,393	-263
Investing cash flow	-2,529	-4,317	-2,798	-1,490	-1,490
Capital expenditure	-1,891	-2,711	-1,487	-1,490	-1,490
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	1,342	-3,680	2,842	-2,489	-2,066
Borrowings	3,641	-2,791	4,566	0	0
Dividends paid	-1,666	-1,330	-1,922	-2,489	-2,066
Change in cash	776	-727	3,370	-714	942
Balance Sheet (NT\$M)					
Total assets	28,204	33,185	43,008	46,054	47,959
Cash & cash equivalent	2,945	3,747	9,079	8,365	9,307
Accounts receivable	9,902	11,616	13,083	15,039	15,424
Net fixed assets	6,581	8,089	8,629	9,072	9,390
Total liabilities	19,534	20,113	26,772	29,232	29,854
Accounts payable	6,961	10,239	12,273	14,098	14,494
Total Debt	9,332	5,593	10,159	10,159	10,159
Shareholders' funds	8,670	13,073	16,236	16,822	18,105
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	9.6	9.6	7.0	6.0	6.6
ROE adjusted	36.3	32.8	27.1	20.2	20.7
ROIC adjusted	26.3	23.4	19.1	14.7	16.8
Net debt to equity	73.7	14.1	6.7	10.7	4.7
Total debt to capital	51.8	30.0	38.5	37.7	35.9

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

Figure 19. Earning revision table

NT\$m	FY11E			FY12E		
	New	Old	Chg	New	Old	Chg
Revenue	64,613	67,009	-4%	67,377	72,248	-7%
Gross profit	8,775	9,413	-7%	9,443	10,114	-7%
OPEX	6,040	5,980	1%	6,194	6,446	-4%
Operating profit	2,735	3,432	-20%	3,249	3,668	-11%
Net profit (reported)	3,075	3,552	-13%	3,349	3,774	-11%
Ratio	New	Old	diff (pct points)	New	Old	diff (pct points)
Gross margin (%)	13.6	14.0	-0.5	14.0	14.0	0.0
OPEX to Sales ratio(%)	9.3	8.9	0.4	9.2	8.9	0.3
Operating margin (%)	4.2	5.1	-0.9	4.8	5.1	-0.3
Net margin (%)	4.8	5.3	-0.5	5.0	5.2	-0.3

Source: Citi Investment Research and Analysis estimates

Figure 20. Chicony P&L

Quarterly Financials (NT\$m)	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10E	1Q11E	2Q11E	3Q11E	4Q11E	2008	2009	2010E	2011E	2012E
Sales	10,429	11,491	16,063	15,965	13,792	15,052	15,809	15,801	13,048	15,636	17,765	18,164	48,406	53,948	60,454	64,613	67,377
Gross profit	1,937	2,169	2,814	2,908	2,227	2,119	2,227	2,204	1,602	2,122	2,488	2,563	8,640	9,827	8,777	8,775	9,443
Operating Profit	695	907	1,345	1,090	913	766	809	695	305	645	866	919	3,690	4,036	3,183	2,735	3,249
Total Non-Op	(85)	35	83	87	218	185	272	454	382	179	177	167	(425)	119	1,130	904	698
Pre-tax profit	610	942	1,427	1,176	1,131	950	1,081	1,149	687	824	1,043	1,086	3,265	4,155	4,312	3,639	3,947
Tax	(158)	(153)	(233)	(323)	(192)	(106)	(72)	(98)	(76)	(91)	(115)	(119)	(388)	(868)	(467)	(400)	(434)
Net Profit	477	793	1,166	894	910	800	929	1,011	570	692	887	926	2,901	3,331	3,650	3,075	3,349
Reported EPS (NT\$)	0.96	1.47	2.18	1.66	1.66	1.38	1.60	1.74	0.98	1.19	1.52	1.59	5.79	6.20	6.27	5.29	5.76
DPS (NT\$)													2.5	3.5	4.0	3.3	4.0
Key Ratios	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10E	1Q11E	2Q11E	3Q11E	4Q11E	2008	2009	2010E	2011E	2012E
Sales qoq growth (%)	(15.3)	10.2	39.8	(0.6)	(13.6)	9.1	5.0	(0.0)	(17.4)	19.8	13.6	2.2					
Gross Profit qoq growth (%)	(9.7)	12.0	29.7	3.4	(23.4)	(4.9)	5.1	(1.0)	(27.3)	32.5	17.2	3.0					
EBITDA qoq growth (%)	(9.9)	11.4	45.1	(18.1)	(11.8)	(13.8)	4.0	(10.2)	(40.1)	60.0	24.6	5.3					
EBIT qoq growth (%)	(20.1)	30.5	48.3	(19.0)	(16.2)	(16.1)	5.7	(14.1)	(56.1)	111.3	34.2	6.2					
Net Profit qoq growth (%)	(22.3)	66.2	47.0	(23.3)	1.8	(12.1)	16.1	8.8	(43.6)	21.4	28.1	4.4					
Gross margin (%)	18.6	18.9	17.5	18.2	16.1	14.1	14.1	14.0	12.3	13.6	14.0	14.1	17.9	18.2	14.5	13.6	14.0
EBITDA margin (%)	9.8	9.9	10.3	8.5	8.7	6.8	6.8	6.1	4.4	5.9	6.5	6.7	9.6	9.6	7.0	6.0	6.6
EBIT margin (%)	6.7	7.9	8.4	6.8	6.6	5.1	5.1	4.4	2.3	4.1	4.9	5.1	7.6	7.5	5.3	4.2	4.8
Pretax margin (%)	5.9	8.2	8.9	7.4	8.2	6.3	6.8	7.3	5.3	5.3	5.9	6.0	6.7	7.7	7.1	5.6	5.9
Net margin (%)	4.6	6.9	7.3	5.6	6.6	5.3	5.9	6.4	4.4	4.4	5.0	5.1	6.0	6.2	6.0	4.8	5.0
Sales yoy growth (%)	8.9	2.6	4.8	29.7	32.2	31.0	(1.6)	(1.0)	(5.4)	3.9	12.4	15.0	18.1	11.4	12.1	6.9	4.3
Gross Profit yoy growth (%)	19.4	8.7	(2.2)	35.5	15.0	(2.3)	(20.9)	(24.2)	(28.1)	0.2	11.7	16.3	23.0	13.7	(10.7)	(0.0)	7.6
EBITDA yoy growth (%)	42.6	5.5	(3.8)	19.4	16.8	(9.6)	(35.3)	(29.0)	(51.8)	(10.5)	7.2	25.7	13.9	11.1	(17.7)	(9.5)	15.9
EBIT yoy growth (%)	38.8	4.1	(7.2)	25.3	31.4	(15.6)	(39.8)	(36.2)	(66.6)	(15.8)	7.0	32.3	9.9	9.4	(21.1)	(14.1)	18.8
Net Profit yoy growth (%)	(23.3)	30.3	10.5	45.4	90.6	0.9	(20.3)	13.0	(37.3)	(13.5)	(4.5)	(8.4)	7.8	14.8	9.6	(15.7)	8.9

Source: Company and Citi Investment Research and Analysis estimates

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Data as of: 18-Mar-11

Radar Screen Quadrant Definitions

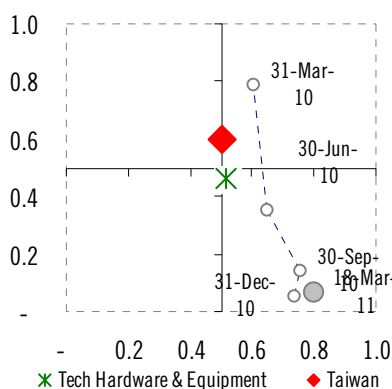
Glamor <i>Poor relative value but superior relative momentum</i>	Attractive <i>Superior relative value and superior relative momentum</i>
Unattractive <i>Poor relative value and poor relative momentum</i>	Contrarian <i>Superior relative value but poor relative momentum</i>

Quants View – Contrarian

Chicony currently lies in the Extreme corner of the Contrarian quadrant of our Value-Momentum map with relatively weak momentum but strong value scores. It has been a resident there since the past 9 months. Compared to its peers in the Tech Hardware & Equipment sector, Chicony fares better on the valuation metric but worse on the momentum metric. Similarly, compared to its peers in its home market of Taiwan, Chicony fares better on the valuation metric but worse on the momentum metric.

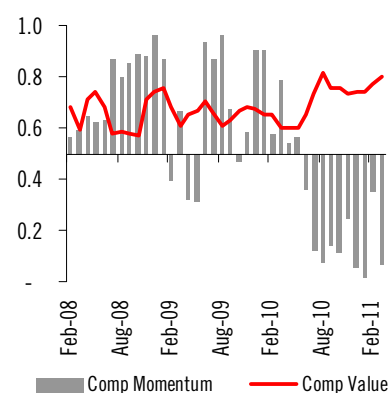
From a macro perspective, Chicony is likely to benefit from tightening US credit spreads, falling Commodity (ex-oil) prices, and a tightening Asian interest rates, and a weaker US Dollar.

Figure 21. Radar Quadrant Chart History



Source: CIRA

Figure 22. Radar Valuation and Momentum Scores



Source: CIRA

Figure 23. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	4.89	Implied Trend Growth (%)	4.04
FY(-1)	5.26	Trailing PE (x)	8.44
FY0	5.84	Implied Cost of Debt (%)	3.38
FY1	5.76	Standardised MCap	(0.12)
FY2	5.74		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 24. Stock Performance Sensitivity to Key Macro Factors

Region	1.00	Commodity ex Oil	(0.31)
Local Market	0.65	Rising Oil Prices	0.13
Sector	0.41	Rising Asian IR's	(0.33)
Growth Outperforms Value	(0.71)	Rising EM Yields	0.10
Small Caps Outperform Large Caps	0.76	Weaker US\$ (vs Asia)	1.45
Widening US Credit Spreads	(0.25)	Weaker ¥ (vs US\$)	0.27

Source: Citi Investment Research and Analysis

Chicony Electronics

Valuation

Our DCF-based target price of NT\$55 implies 10x FY11E EPS. We are using a DCF-based valuation to reflect Chicony's capability to generate stable cash inflows. Our DCF assumes Chicony's multiple product lines will sustain revenue momentum at 4.5% in 2020E when growth in PC/consumer market becomes saturated. We apply a cost of capital of 7.35%, which assumes a risk-free rate of 1.4%, a market risk premium of 7.0%, funding cost of 1.4%, and an equity beta of 0.97.

Risks

Our quantitative risk rating system, which tracks 260-day historical share price volatility, assigns Chicony a Low Risk. Upside risks that may cause the shares to trade above the current share price include: 1) Better-than-expected end demand for notebook PCs and Netbooks; 2) Fast progress in finding next growth driver or sharp increase in desktop/consumer business; and 3) LED and special power business grow stronger than expected.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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Buy/Low Risk	1L
Price (25 Mar 11)	NT\$186.00
Target price	NT\$220.00
from NT\$228.00	
Expected share price return	18.3%
Expected dividend yield	3.7%
Expected total return	22.0%
Market Cap	NT\$47,389M
	US\$1,610M

Price Performance (RIC: 6121.TWO, BB: 6121 TT)



Simplo Technology (6121.TWO)

Tablet PC the Life Saver

- **Reiterate Buy; TP at NT\$220** – We believe Simplo will benefit from the tablet PC cannibalization effect because of its much higher battery pack market share in tablet PC (around 70%) versus notebook (around 25%). However, due to the recent NTD strength, higher raw material and rising labor cost, we revise down our 2011E/ 2012E earnings by 9%/ 14% and target price from NT\$228 to NT\$200 based on our DCF valuation which implies a 15x 2011E P/E, while maintaining our Buy rating.
- **Soft 1Q11 guidance** – Simplo guided 1Q11 parent sales of NT\$9.3~9.5b, implying -8% Q/Q and +14% Y/Y and earnings of NT\$582~603m, -30% Q/Q and -2% Y/Y. The company also guided a conservative 1Q11 margin of 12% (parent level) compared to 4Q10 of 13.4% and 15% in 1Q10. We believe that the weaker 1Q11 margin was mainly driven by higher NTD in late 2010 when the input materials were purchased. With the reversal of NT dollars in 2011, we expect margins to improve after 1Q11.
- **Looking good into 2Q11** – We believe that 1Q11 margin is likely to bottom and expect margin to expand in 2Q11 given product efficiency improvement (especially iPad 2) and stabilization of NTD. In addition, we should see stronger top line growth in 2Q, with estimated 20% Q/Q sequential growth, due new massive product launches (tablet PC, iPad 2, RIM playbook, and potential new Sony orders) in 2Q.
- **Japan Sendai earthquake impact is limited** – Simplo indicated the quake impact is very limited with majority of their battery cell suppliers from outside Japan (90%+ of cells from ATL, BAK, Samsung SDI and LG Chemical).

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(NT\$M)	(NT\$)	(%)	(x)	(x)	(%)	(%)
2008A	2,354	9.32	43.3	19.9	4.7	25.6	2.7
2009A	2,458	9.65	3.5	19.3	4.1	22.9	2.7
2010E	3,329	13.06	35.4	14.2	3.6	26.9	3.3
2011E	3,703	14.54	11.3	12.8	3.1	25.8	3.7
2012E	4,186	16.43	13.0	11.3	2.6	25.1	4.2

Source: Powered by dataCentral

Fiscal year end 31-Dec	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	19.9	19.3	14.2	12.8	11.3
EV/EBITDA adjusted (x)	13.3	12.2	9.6	8.6	7.5
P/BV (x)	4.7	4.1	3.6	3.1	2.6
Dividend yield (%)	2.7	2.7	3.3	3.7	4.2
Per Share Data (NT\$)					
EPS adjusted	9.32	9.65	13.06	14.54	16.43
EPS reported	9.32	9.65	13.06	14.54	16.43
BVPS	39.48	45.02	52.17	60.60	70.20
DPS	5.00	5.00	6.10	6.83	7.72
Profit & Loss (NT\$M)					
Net sales	30,736	34,253	38,699	46,365	54,339
Operating expenses	-27,856	-30,927	-34,701	-41,995	-49,412
EBIT	2,880	3,326	3,999	4,370	4,927
Net interest expense	117	53	40	17	29
Non-operating/exceptionals	178	14	123	14	40
Pre-tax profit	3,175	3,392	4,162	4,401	4,995
Tax	-830	-961	-874	-698	-809
Extraord./Min.Int./Pref.div.	8	27	41	0	0
Reported net income	2,354	2,458	3,329	3,703	4,186
Adjusted earnings	2,354	2,458	3,329	3,703	4,186
Adjusted EBITDA	3,307	3,566	4,395	4,786	5,425
Growth Rates (%)					
Sales	33.1	11.4	13.0	19.8	17.2
EBIT adjusted	5.8	15.5	20.2	9.3	12.7
EBITDA adjusted	12.8	7.8	23.3	8.9	13.4
EPS adjusted	43.3	3.5	35.4	11.3	13.0
Cash Flow (NT\$M)					
Operating cash flow	1,966	2,579	4,000	2,436	3,749
Depreciation/amortization	426	240	397	417	499
Net working capital	-752	-1,709	-540	-2,585	-1,719
Investing cash flow	-1,298	-220	-925	-1,000	-1,000
Capital expenditure	-1,256	-500	-801	-1,000	-1,000
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	-553	-1,016	-451	-1,525	-1,640
Borrowings	329	-8	626	0	0
Dividends paid	-928	-1,043	-1,158	-1,554	-1,741
Change in cash	262	1,214	2,267	-89	1,110
Balance Sheet (NT\$M)					
Total assets	18,171	20,068	24,544	29,924	35,018
Cash & cash equivalent	3,783	4,760	7,228	7,140	8,249
Accounts receivable	5,837	6,829	8,029	10,092	11,956
Net fixed assets	3,021	3,265	3,699	4,282	4,783
Total liabilities	8,051	8,469	11,172	14,403	17,051
Accounts payable	5,547	5,303	6,368	8,601	10,309
Total Debt	329	320	946	946	946
Shareholders' funds	10,120	11,599	13,372	15,521	17,967
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	10.8	10.4	11.4	10.3	10.0
ROE adjusted	25.6	22.9	26.9	25.8	25.1
ROIC adjusted	34.6	33.2	41.6	42.3	39.1
Net debt to equity	-34.1	-38.3	-47.0	-39.9	-40.6
Total debt to capital	3.1	2.7	6.6	5.7	5.0

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

Figure 25. Earning revision table (consolidated)

NT\$m	FY11E			FY12E		
	New	Old	Chg	New	Old	Chg
Revenue	46,365	47,159	-2%	54,339	55,648	-2%
Gross profit	7,630	8,287	-8%	8,790	9,861	-11%
OPEX	3,260	3,362	-3%	3,863	4,004	-4%
Operating profit	4,370	4,924	-11%	4,927	5,858	-16%
Net profit (reported)	3,703	4,076	-9%	4,186	4,844	-14%
EPS	14.54	16.00	-9%	16.43	19.01	-14%
Ratio	New	Old	diff (pct points)	New	Old	diff (pct points)
Gross margin (%)	16.5	17.6	-1.1	16.2	17.7	-1.5
OPEX to Sales ratio(%)	7.0	7.1	-0.1	7.1	7.2	-0.1
Operating margin (%)	9.4	10.4	-1.0	9.1	10.5	-1.5
Net margin (%)	8.0	8.6	-0.7	7.7	8.7	-1.0

Source: Citi Investment Research and Analysis estimates

Figure 26. Guidance comparison table (Parent)

NT\$m	Mid point of 1Q11 Guidance	4Q10 Self-assessed by Simplo	QoQ %	1Q10A	YoY %
Sales	9,400	10,258	-8%	8,211	14%
Gross profit	1,128	1,375	-18%	1,230	-8%
Operating Profit	658	785	-16%	748	-12%
Pre Tax Profit	698	1,019	-32%	872	-20%
Net Profit	593	848	-30%	602	-2%
Margins					
Gross margin	12.0%	13.4%	-1.4%	15.0%	-3.0%
Op margin	7.0%	7.7%	-0.7%	9.1%	-2.1%
Pre Tax Margin	7.4%	9.9%	-2.5%	10.6%	-3.2%
Net margin	6.3%	8.3%	-2.0%	7.3%	-1.0%

Source: Company and Citi Investment Research and Analysis

Figure 27. Simplo P&L

Quarterly Financials (NT\$mn)	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11E	2Q11E	3Q11E	4Q11E	2008	2009	2010	2011E	2012E
Sales	6,850	8,252	9,546	9,605	8,289	9,853	10,273	10,284	9,200	11,106	12,916	13,143	30,736	34,253	38,699	46,365	54,339
Gross profit	1,160	1,418	1,607	1,717	1,502	1,875	1,769	1,851	1,429	1,821	2,170	2,210	5,570	5,902	6,998	7,630	8,790
Operating Profit	638	814	872	1,001	825	1,170	1,023	980	764	1,016	1,294	1,296	2,880	3,326	3,999	4,370	4,927
Total Non-Op	18	(31)	60	20	47	39	69	7	(11)	16	16	11	295	66	164	31	69
Pre-tax profit	656	783	932	1,022	873	1,209	1,093	988	753	1,032	1,309	1,307	3,175	3,392	4,162	4,401	4,995
Tax	(254)	(191)	(230)	(287)	(272)	(218)	(203)	(182)	(151)	(155)	(196)	(196)	(830)	(961)	(874)	(698)	(809)
Net Profit	421	586	716	734	602	991	887	848	602	877	1,113	1,111	2,354	2,458	3,329	3,703	4,186
EPS (NT\$)	1.67	2.32	2.81	2.88	2.36	3.89	3.48	3.33	2.36	3.44	4.37	4.36	9.32	9.65	13.06	14.54	16.43
DPS (NT\$)													5.0	5.0	6.1	6.8	7.7
Key Ratios	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11E	2Q11E	3Q11E	4Q11E	2008	2009	2010	2011E	2012E
Sales qoq growth (%)	(21.4)	20.5	15.7	0.6	(13.7)	18.9	4.3	0.1	(10.5)	20.7	16.3	1.8					
Gross Profit qoq growth (%)	(23.7)	22.2	13.3	6.9	(12.5)	24.9	(5.7)	4.6	(22.8)	27.5	19.1	1.8					
EBIT qoq growth (%)	(13.7)	27.6	7.1	14.8	(17.6)	41.7	(12.5)	(4.2)	(22.1)	33.0	27.3	0.2					
Net Profit qoq growth (%)	(35.1)	39.1	22.2	2.5	(18.0)	64.6	(10.5)	(4.5)	(29.0)	45.6	26.9	(0.2)					
Gross margin (%)	16.9	17.2	16.8	17.9	18.1	19.0	17.2	18.0	15.5	16.4	16.8	16.8	18.1	17.2	18.1	16.5	16.2
EBIT margin (%)	9.3	9.9	9.1	10.4	10.0	11.9	10.0	9.5	8.3	9.1	10.0	9.9	9.4	9.7	10.3	9.4	9.1
Pretax margin (%)	9.6	9.5	9.8	10.6	10.5	12.3	10.6	9.6	8.2	9.3	10.1	9.9	10.3	9.9	10.8	9.5	9.2
Net margin (%)	6.2	7.1	7.5	7.6	7.3	10.1	8.6	8.2	6.5	7.9	8.6	8.5	7.7	7.2	8.6	8.0	7.7
Sales yoy growth (%)	3.8	18.1	13.1	10.2	21.0	19.4	7.6	7.1	11.0	12.7	25.7	27.8	33.1	11.4	13.0	19.8	17.2
Gross Profit yoy growth (%)	(1.5)	9.1	2.3	12.9	29.4	32.3	10.1	7.8	(4.9)	(2.9)	22.6	19.4	28.2	6.0	18.6	9.0	15.2
EBIT yoy growth (%)	21.8	9.4	(0.0)	35.4	29.3	43.7	17.4	(2.1)	(7.4)	(13.1)	26.4	32.2	5.8	15.5	20.2	9.3	12.7
Net Profit yoy growth (%)	(9.2)	6.5	3.9	13.0	42.9	69.2	23.9	15.5	(0.0)	(11.5)	25.4	31.1	14.4	4.4	35.4	11.3	13.0

Source: Company, Citi Investment Research and Analysis estimates

Simple Technology

Valuation

Our DCF-based target price is NT\$220, implying 15x FY11E EPS. At our target price, the stock would trade at the mid-to-high end of Simple's employee-adjusted 5-year forward P/E trading band of 6x-17x, which we view as not stretched given its stable margin performance and solid growth prospects. We also believe the stock has a significant re-rating opportunity from the growth potential from EV. Our DCF assumes revenue growth is sustained at 7% until 2020E, as Simple should be able to leverage its R&D capability to expand product lines. We apply a cost of capital of 9.3%, which assumes a risk-free rate 1.4%, a market risk premium of 7.0%, borrowing cost of 8.0%, and an equity beta of 1.14.

Risks

We rate Simple Low Risk according to our quantitative risk rating system, which tracks 260-day historical share price volatility. Downside risks that may cause the shares to trade below our target price include: 1) Weaker-than-expected tablet demand; 2) Worse-than-expected operating margin performance due to irrational price competition from local battery pack makers; 3) 2011 March Japan Sendai earthquake impact extends longer for the supply chain and stronger than expected; and 4) Supply chain disruption in the event of fire accidents at cell makers.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Acer Inc (2353.TW)

Ratings and Target Price History Fundamental Research

Analyst: Kevin Chang

Covered since July 30 2010

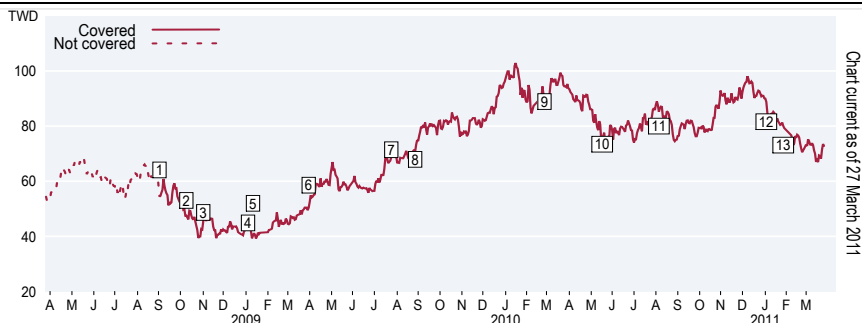


Chart current as of 27 March 2011

	Date	Rating	Target Price	Closing Price
1	2-Sep-08	*1M	*73.19	54.40
2	9-Oct-08	1M	*67.26	47.53
3	2-Nov-08	1M	*71.22	42.48
4	4-Jan-09	1M	*49.46	42.14
5	12-Jan-09	1M	*47.48	40.26

* Indicates change

	Date	Rating	Target Price	Closing Price
6	31-Mar-09	1M	*61.32	50.44
7	24-Jul-09	1M	*81.92	68.73
8	27-Aug-09	1M	*87.91	70.73
9	25-Feb-10	1M	*109.89	90.11
10	18-May-10	1M	*99.90	75.92

	Date	Rating	Target Price	Closing Price
11	5-Aug-10	1M	*97.00	85.20
12	4-Jan-11	*3M	*75.00	88.80
13	27-Jan-11	3M	*60.00	80.10
14	27-Mar-11	3M	*49.00	72.80

Rating/target price changes above reflect Eastern Standard Time

Acer Inc (2353.TW)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Kevin Chang

Covered since July 30 2010

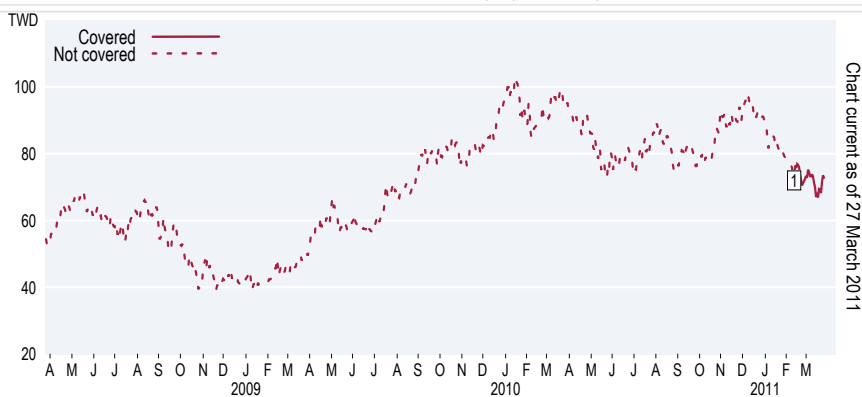


Chart current as of 27 March 2011

	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD LP	-	73.70

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Lenovo Group (0992.HK)

Ratings and Target Price History

Fundamental Research

Analyst: Wei Chen
Covered since January 26 2011

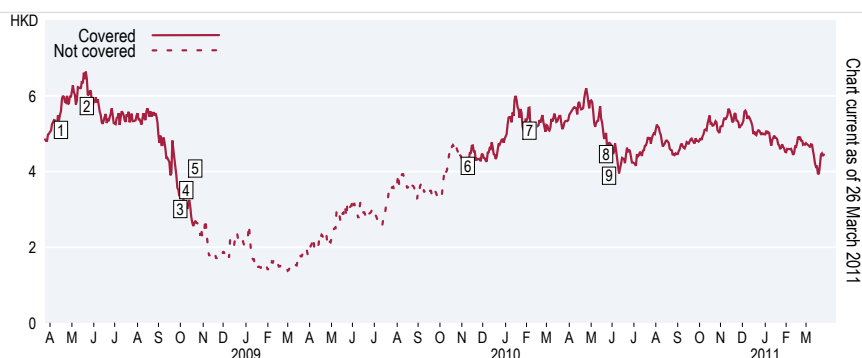


Chart current as of 26 March 2011

	Date	Rating	Target Price	Closing Price
1	16-Apr-08	1L	*7.50	5.59
2	22-May-08	1L	*8.00	6.45
3	1-Oct-08	1L	*5.50	3.35

* Indicates change

	Date	Rating	Target Price	Closing Price
4	9-Oct-08	1L	*4.90	3.17
5	22-Oct-08	Coverage terminated		
6	10-Nov-09	*1M	*5.60	4.15

	Date	Rating	Target Price	Closing Price
7	4-Feb-10	1M	*6.90	5.69
8	24-May-10	1M	*6.50	5.02
9	27-May-10	1M	*6.30	4.77

Rating/target price changes above reflect Eastern Standard Time

Lenovo Group (0992.HK)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Wei Chen
Covered since January 26 2011

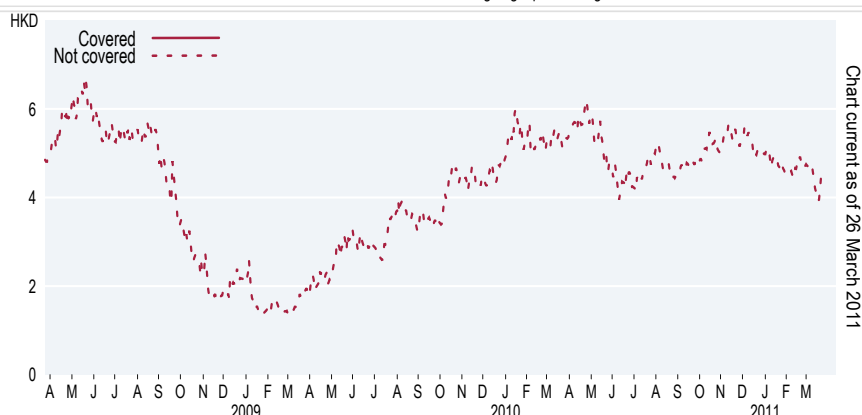


Chart current as of 26 March 2011

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Compal Electronics (2324.TW)

Ratings and Target Price History

Fundamental Research

Analyst: Wei Chen
Covered since January 5 2011

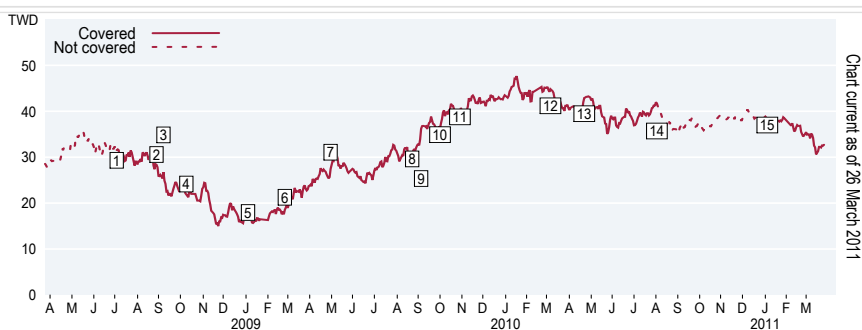


Chart current as of 26 March 2011

	Date	Rating	Target Price	Closing Price
1	3-Jul-08	1M	*36.89	31.55
2	28-Aug-08	1M	36.89	28.35
3	8-Sep-08	1M	*33.18	26.74
4	9-Oct-08	*2M	*23.42	21.86
5	4-Jan-09	*3M	*15.61	16.83

* Indicates change

	Date	Rating	Target Price	Closing Price
6	25-Feb-09	3M	*16.59	18.54
7	30-Apr-09	*2M	*29.27	27.42
8	24-Aug-09	*1M	*39.23	30.40
9	4-Sep-09	1M	*44.13	36.19
10	1-Oct-09	1M	*47.07	36.28

	Date	Rating	Target Price	Closing Price
11	29-Oct-09	1M	*49.03	39.23
12	5-Mar-10	1M	*54.92	44.82
13	22-Apr-10	1M	*56.88	42.90
14	3-Aug-10	Coverage terminated		
15	5-Jan-11	*2L	*39.00	37.75

Rating/target price changes above reflect Eastern Standard Time

Compal Electronics (2324.TW)

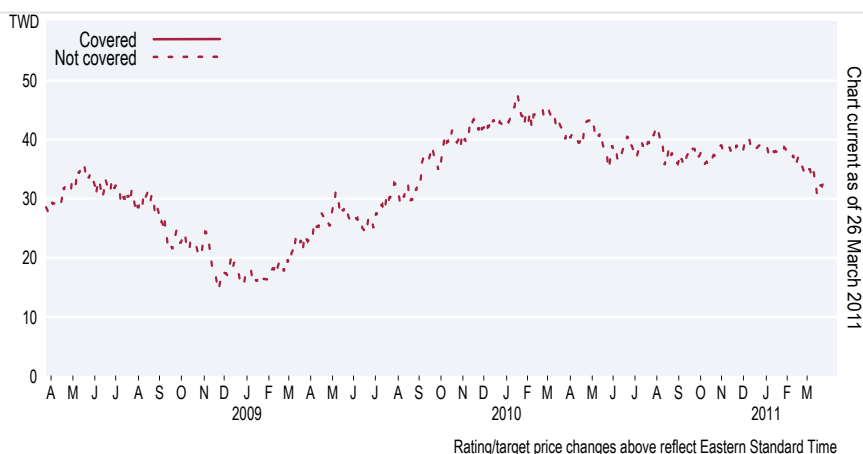
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Wei Chen

Covered since January 5 2011



* Indicates change

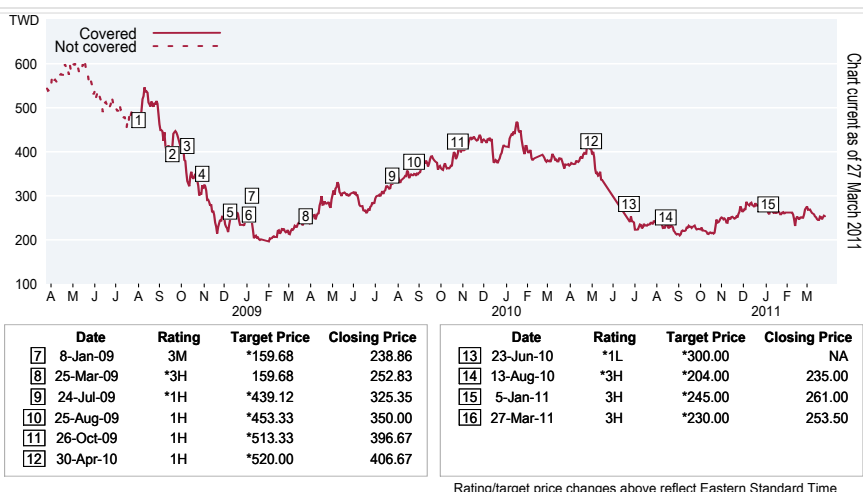
ASUSTeK Computer (2357.TW)

Ratings and Target Price History

Fundamental Research

Analyst: Kevin Chang

Covered since July 30 2010



	Date	Rating	Target Price	Closing Price
1	1-Aug-08	*3M	*459.81	477.96
2	18-Sep-08	*1M	*492.35	412.51
3	9-Oct-08	1M	*452.43	333.33
4	30-Oct-08	1M	*385.89	323.69
5	9-Dec-08	1M	*332.67	245.51
6	4-Jan-09	*3M	*186.29	244.84

* Indicates change

	Date	Rating	Target Price	Closing Price
7	8-Jan-09	3M	*159.68	238.86
8	25-Mar-09	*3H	159.68	252.83
9	24-Jul-09	*1H	*439.12	325.35
10	25-Aug-09	1H	*453.33	350.00
11	26-Oct-09	1H	*513.33	396.67
12	30-Apr-10	1H	*520.00	406.67

	Date	Rating	Target Price	Closing Price
13	23-Jun-10	*1L	*300.00	NA
14	13-Aug-10	*3H	*204.00	235.00
15	5-Jan-11	3H	*245.00	261.00
16	27-Mar-11	3H	*230.00	253.50

Rating/target price changes above reflect Eastern Standard Time

ASUSTeK Computer (2357.TW)

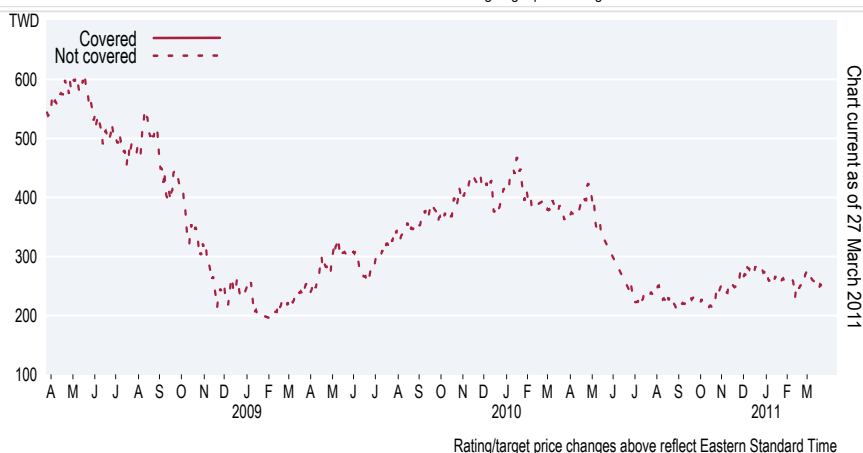
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Kevin Chang

Covered since July 30 2010



* Indicates change

Quanta Computer (2382.TW)

Ratings and Target Price History

Fundamental Research

Analyst: Wei Chen

Covered since January 5 2011



	Date	Rating	Target Price	Closing Price
1	3-Jul-08	1M	*62.48	43.26
2	31-Aug-08	1M	*55.45	47.33
3	9-Oct-08	1M	*41.58	33.12
4	31-Oct-08	1M	*44.55	34.06

* Indicates change

	Date	Rating	Target Price	Closing Price
5	4-Jan-09	*2M	*34.65	34.26
6	30-Apr-09	*1M	*57.43	48.91
7	24-Aug-09	1M	*75.00	62.80
8	10-Dec-09	1M	*81.00	66.70

	Date	Rating	Target Price	Closing Price
9	22-Apr-10	1M	*70.00	61.00
10	26-Apr-10	1M	*72.00	61.50
11	3-Aug-10	Coverage terminated		
12	5-Jan-11	*3L	*53.00	59.50

Rating/target price changes above reflect Eastern Standard Time

Quanta Computer (2382.TW)

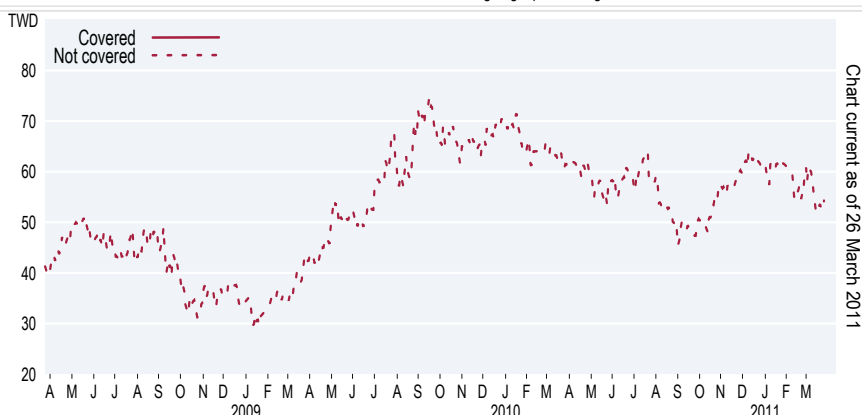
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Wei Chen

Covered since January 5 2011



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

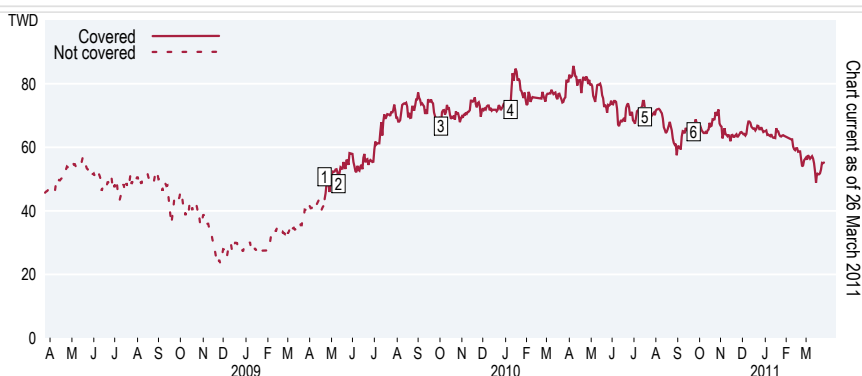
Chicony Electronics (2385.TW)

Ratings and Target Price History

Fundamental Research

Analyst: Jonathan Gu

Covered since February 18 2011



	Date	Rating	Target Price	Closing Price
1	22-Apr-09	*1M	*59.90	43.66
2	12-May-09	1M	59.90	48.56

* Indicates change

	Date	Rating	Target Price	Closing Price
3	2-Oct-09	1M	*59.90	67.33
4	8-Jan-10	1M	*93.33	73.71

	Date	Rating	Target Price	Closing Price
5	16-Jul-10	1M	*88.00	72.20
6	23-Sep-10	1M	*78.00	66.60

Rating/target price changes above reflect Eastern Standard Time

Chicony Electronics (2385.TW)

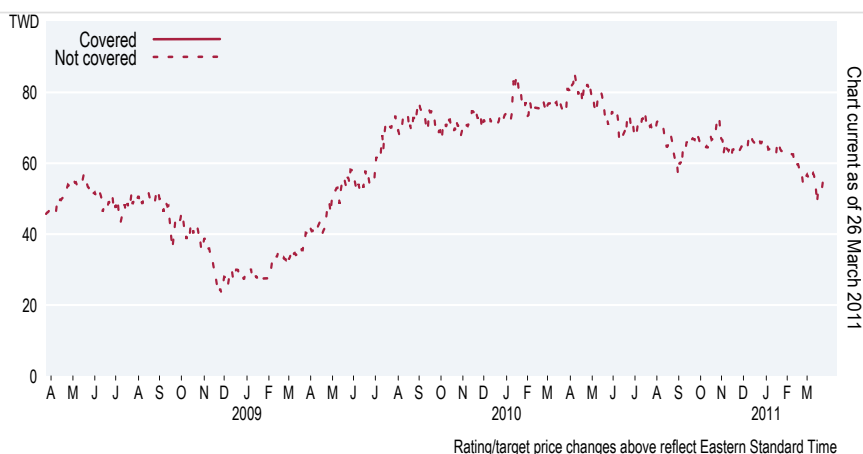
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Jonathan Gu

Covered since February 18 2011



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Chicony Electronics (2385.TW)

Rating History

Global Quantitative Research

Asia Radar Screen

Analyst: Paul R Chanin



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Chicony Electronics (2385.TW)

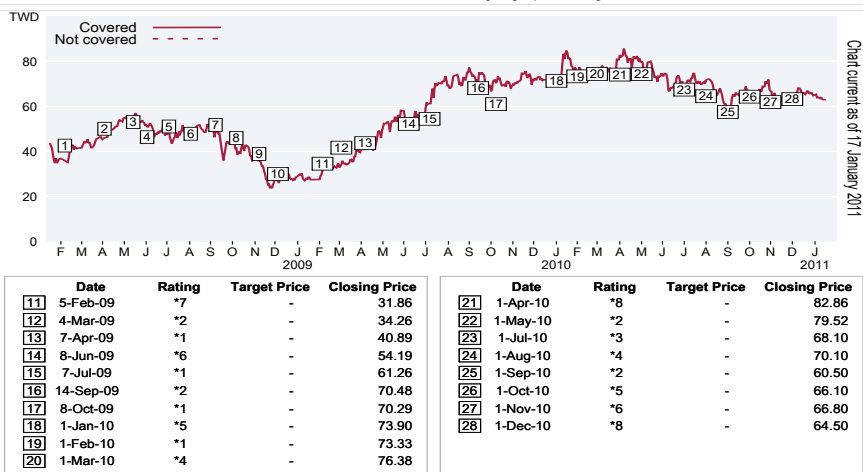
Rating History

Global Quantitative Research

World Radar Screen

Analyst: Chris Montagu

Covered since May 23 2009



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

	Date	Rating	Target Price	Closing Price
1	18-Feb-08	*2	-	42.58
2	12-May-08	*1	-	53.44
3	23-Feb-09	*2	-	33.36
4	6-Mar-09	*3	-	34.76
5	27-Mar-09	*2	-	40.39
6	10-Apr-09	*1	-	42.02
7	15-May-09	*3	-	53.46
8	5-Jun-09	*2	-	52.19
9	12-Jun-09	*1	-	54.46
10	19-Jun-09	*3	-	56.09

	Date	Rating	Target Price	Closing Price
11	3-Jul-09	*1	-	60.90
12	29-Sep-09	*2	-	69.14
13	27-Nov-09	*1	-	69.62
14	19-Feb-10	*3	-	NA
15	26-Feb-10	*2	-	74.38
16	5-Mar-10	*1	-	76.95
17	19-Mar-10	*2	-	75.90
18	2-Apr-10	*3	-	81.81
19	30-Apr-10	*2	-	79.52
20	7-May-10	*1	-	74.29

	Date	Rating	Target Price	Closing Price
21	18-Jun-10	*3	-	68.10
22	25-Jun-10	*4	-	70.00
23	9-Jul-10	*3	-	70.67
24	23-Jul-10	*4	-	70.70
25	20-Aug-10	*3	-	68.00
26	27-Aug-10	*2	-	60.80
27	3-Sep-10	*3	-	60.40
28	24-Sep-10	*4	-	67.40
29	19-Nov-10	*3	-	63.30
30	3-Dec-10	*4	-	64.20

	Date	Rating	Target Price	Closing Price
1	7-Feb-08	*3	-	36.86
2	3-Apr-08	*2	-	45.98
3	14-May-08	*3	-	54.20
4	3-Jun-08	*2	-	50.98
5	3-Jul-08	*4	-	49.54
6	3-Aug-08	*3	-	50.74
7	8-Sep-08	*2	-	49.47
8	7-Oct-08	*5	-	41.48
9	7-Nov-08	*4	-	35.94
10	4-Dec-08	*1	-	26.78

	Date	Rating	Target Price	Closing Price
11	5-Feb-09	*7	-	31.86
12	4-Mar-09	*2	-	34.26
13	7-Apr-09	*1	-	40.89
14	8-Jun-09	*6	-	54.19
15	7-Jul-09	*1	-	61.26
16	14-Sep-09	*2	-	70.48
17	8-Oct-09	*1	-	70.29
18	1-Jan-10	*5	-	73.90
19	1-Feb-10	*1	-	73.33
20	1-Mar-10	*4	-	76.38

	Date	Rating	Target Price	Closing Price
21	1-Apr-10	*8	-	82.86
22	1-May-10	*2	-	79.52
23	1-Jul-10	*3	-	68.10
24	1-Aug-10	*4	-	70.10
25	1-Sep-10	*2	-	60.50
26	1-Oct-10	*5	-	66.10
27	1-Nov-10	*6	-	66.80
28	1-Dec-10	*8	-	64.50

Pegatron (4938.TW)

Ratings and Target Price History

Fundamental Research

Analyst: Wei Chen

Covered since January 5 2011



	Date	Rating	Target Price	Closing Price
1	5-Jan-11	*3M	*35.00	41.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Pegatron (4938.TW)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Wei Chen

Covered since January 5 2011



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Simplo Technology (6121.TWO)

Ratings and Target Price History

Fundamental Research

Analyst: Jonathan Gu

Covered since February 18 2011



	Date	Rating	Target Price	Closing Price
1	22-Apr-09	*1M	*119.83	94.21
2	29-Apr-09	1M	119.83	97.93

* Indicates change

	Date	Rating	Target Price	Closing Price
3	8-Jan-10	1M	*204.55	170.00
4	28-Apr-10	1M	*209.09	162.73

	Date	Rating	Target Price	Closing Price
5	12-Aug-10	1M	*200.00	164.50
6	27-Oct-10	*1L	*228.00	197.00

Rating/target price changes above reflect Eastern Standard Time

Simple Technology (6121.TWO)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Jonathan Gu

Covered since February 18 2011



* Indicates change

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Citi Investment Research & Analysis Asia Quantitative Radar Screen Model Coverage	20%	60%	20%			
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