ANCHOR REPORT

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Buy smartphones, components for 2Q

Make hay while the sun shines: polarising demand and component shortages

Demand polarisation becoming even more focused, as smartphones and tablets win over PCs.

Component shortage in 2H11F. Inventory looks adequate but, as stocks are wound down, we can see buyers getting nervous and we anticipate high ASPs.

Stock picks: SEC and LGE are our top picks, and we like HTC, AAC, Nuvoton, Simplo, GCL Poly, Suntech, HCL Tech, Asus, SEMCO and LGD. Mediatek and Young Fast are our top REDUCEs.

Key analysis in this anchor report includes:

- Upgrade LGD rating from Neutral to BUY on panel price rebound amid supply falls and technological competitiveness.
- Upgrade HTC's price target to TWD1,500 to reflect higher confidence in its ability to secure market share gains and sustain margins post the launch of 'Sensation'.

April 20, 2011

Research analysts

Asia Technology

James Kim - NFIK
james.kim@nomura.com
+852 2252 6203

CW Chung - NFIK
cwchung@nomura.com
+82 2 3783 2312

Asia Technology Team

Dr Richard Windsor, CFA – NI plc
Richard.windsor@nomura.com
+852 2252 1419

April 20, 2011

Buy smartphones, components for 2Q

Make hay while the sun shines: polarising demand and component shortages

Action: Buy smartphone and components for 2Q11F

While we expect demand polarisation to continue to strengthen from 2Q11F onward, we believe competition in the smartphone and tablet PC markets will intensify in 2H11F. As such, we continue to expect tightening supply of smartphone- and tablet PC-related components in 2H11F, exacerbated by the supply chain impact of the Japan earthquake for key electronic materials and equipment. We believe May and June will be the best time to accumulate our recommended tech names (Fig. 1) as we expect inventory to be used up during the period, while resumption of the damaged production lines will likely take one to two months.

Catalyst #1: Demand polarisation

Demand polarisation is likely to become even more acute as consumers opt to spend scarce dollars on smartphones and tablet PCs rather than on PCs and other consumer electronics. Thus, we further pare our PC growth forecast for FY11F to just 3% y-y, in contrast to our recent upgrades for smartphone market growth of 52% y-y (from 40% y-y) and for tablet PC shipments of 52mn units (from 50mn units).

Catalyst #2: Component shortages in 2H11F

We expect supply tightness in electronic materials and equipment such as wafers, semiconductor equipment, semiconductor packaging materials and driver ICs for ODD, among others. We think that inventories are sufficient at set makers to prevent any stoppages for 1-2 months, but as stocks are wound down, we see component supply as the major swing factor in the IT industry in 2Q11F. In this respect, we believe the supply of components related to smartphones and tablet PCs will tighten in 2H11F, and hence, we believe the time to buy is in 2Q11F.

Top BUY: LGE and SEC

We are Bullish on component companies related to memory, LCD panels, smartphones and tablet PCs, as we believe they have bottomed. We remain Bearish on the PC and solar industries. For stock picks, SEC and LGE are our top picks, with BUYs on HTC, AAC, Nuvoton, Simplo, GCL Poly, Suntech, HCL Tech, Asus, SEMCO and LGD. Mediatek and Young Fast are our top REDUCEs.

Fig. 1: Coverage/ratings summary

Stock	Rating	Price	Price target	Stock	Rating	Price	Price target
Most preferred				**Most preferred**			
Samsung Elec (005930 KS)	BUY	W88,8000	W1,350,000	GCL Poly (3800 HK)	BUY	HK$4.95	HK$5.3
LG Elec. (066570 KS)	BUY	W101,000	W147,000	Suntech (STP US)	BUY	US$9.32	US$11
HTC (2498 TT)	BUY	NT$1,220	NT$1,500↑	HCL Tech. (HCLT IN)	BUY	Rs483	Rs580
AAC (2018 HK)	BUY	HK$20.0	HK$23.7	Asus (2357 TT)	BUY	NT$238	NT$310
Nuvoton (4919 TT)	BUY	NT$44.9	NT$73	SEMCO (009150 KS)	BUY	W114,500	W148,000
Simplo (6121 TT)	BUY	NT$181	NT$220	LGD (034220 KS)	BUY↑	W36,300	W47,000↑
Least preferred							
Mediatek (2454 TT)	REDUCE	NT$336	NT$220				
Young Fast (3622 TT)	REDUCE	NT$210	NT$183				

Source: pricing as of 15 April, 2011; local currency

Rating: *See report end for details of Nomura's rating system.*

Research analysts

Asia Technology

James Kim - NFIK
james.kim@nomura.com
+852 2252 6203

CW Chung - NFIK
cwchung@nomura.com
+822 3783 2312

Aaron Jeng, CFA - NITB
aaron.jeng@nomura.com
+886 2 2176 9962

Peter Liao - NITB
peter.liao@nomura.com
+886 2 2176 9964

Eve Jung - NITB
eve.jung@nomura.com
+886 2 2176 9975

Nitin Kumar - NITB
nitin.kumar@nomura.com
+886 2 2176 9968

Anne Lee, CFA - NITB
anne.lee@nomura.com
+886 2 2176 9966

Ashwin Mehta - NFASL
ashwin.mehta@nomura.com
+91 22 4037 4465

Greg Kang - NFIK
greg.kang@nomura.com
+82 2 3783 2336

Marcello Ahn - NFIK
marcello.ahn@nomura.com
+82 2 3783 2317

Dr Richard Windsor, CFA – NI plc
richard.windsor@nomura.com
+852 2252 1419

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Buy tech in 2Q11F on component shortage in 2H11F

In this report, we provide the Asian tech sector outlook and recommend action for 2Q11F. We expect changes in the overall industry condition, as the earthquake in Japan is expected to play an important role, affecting both demand and supply.

We think demand polarisation will continue to intensify in 2Q11, as the demand for new IT applications including smartphones and tablet PCs seems stronger than we previously expected, while the demand for conventional IT applications including PCs and TVs is still weak, in our view. In our PC report, *2011: A tough year for PC industry*, by Eve Jung, published 20 April, 2011, we revised our forecast on y-y demand growth for smartphones to 52%, from 40%, and tablet shipments by 5% to 52mn units, from 50mn units. We also lowered our forecast on y-y PC demand growth to 3%, from 5%.

We recommend Asian handset players that look likely to gain from a demand boom for smartphones, chiefly SEC, LGE and HTC, which we rate BUY; European players such as Nokia are witnessing weakness (our European telecom analyst Stuart Jeffery has a REDUCE rating on the stock). In particular, we recommend LGE as our top BUY given its rapid smartphone market share gains. However, we believe the profitability of smartphone players will weaken in 2H11F due to intensified competition. We now believe more players than we earlier expected will enter the market.

Meanwhile, we believe the demand boom in smartphones and tablet PCs will, in May and June, exert pressure on the supply of related components, which are likely to be constricted following the Japan earthquake. As a result, we anticipate tighter supply and high ASP of components for the rest of the year. As such, we recommend a BUY on related component makers. We think the shipment of mobile DRAM, NAND flash, touch panels, MLCC and AP (application processor) will increase on the demand boom in smartphones and tablet PCs and we recommend SEMCO, Simplo, AAC as BUY. We believe SEMCO will be a beneficiary of smartphone and tablet PC demand given its strength in the MLCC business. Nevertheless, we believe the buy timing should be delayed to May or June, as the company could see a supply bottleneck in raw materials including BT resin and copper foil for FC-CSPs. We recommend a BUY on Simplo on its dominant position in the table PC battery pack market with a 65-70% global market share, and additional revenue upside from Japanese PC OEMs' rising outsourcing needs on Simplo's cost advantages and diversified battery cell source. Lastly, AAC is the first vendor of high-end acoustic for Apple, RIM, and Motorola.

Demand for TVs and PCs is significantly lower than expected. The Japan earthquake has had a negative impact on near-term demand, in our view. Moreover, with consumers being hard-pressed to find any attractive selling points for TVs, we believe they are more likely to purchase smartphones or tablet PCs before investing in a TV. As such, demand for LCD panels and PC DRAM is weaker than expected. We note, however, that demand and supply conditions seem to have improved owing to disciplined supply, which has seen PC DRAM and LCD panel prices bottom out. Given strong demand and better profitability for specialty DRAM, makers are shifting production to specialty DRAM and away from PC DRAM, helping to tighten PC DRAM supply. For LCD panel makers, we believe their profitability will improve rapidly from 2Q11F as we estimate that Sharp's recent line suspension will reduce global panel utilization by 11pp to 73% in April and 13pp to 74% in May. This should result in an inventory burn-out and an earlier-than expected panel price rebound. In this respect, we believe profitability of panel makers will improve rapidly from 2Q11F. Among LCD panel makers, we recommend investors should accumulate LGD, given its improved earnings momentum and technological competitiveness, which we see leading to further profitability improvement.

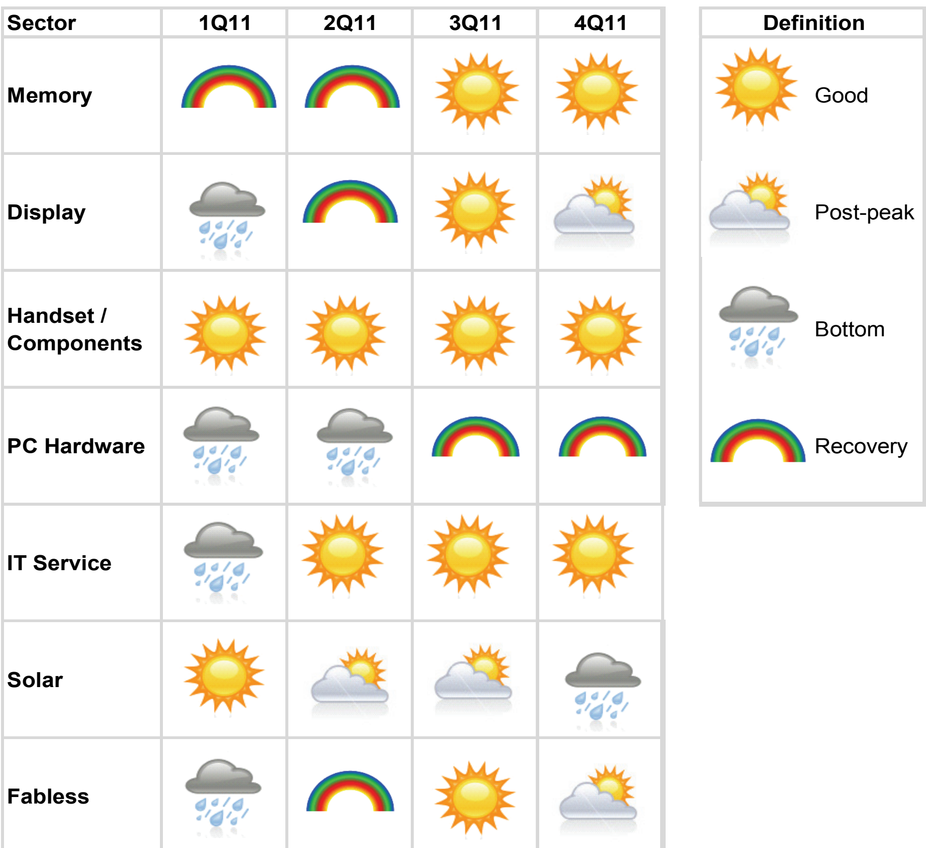
The impact of the earthquake in Japan will likely act as another variable to market conditions, in our view. Based on our channel checks, we expect supply shortages in electronic materials and equipment such as wafers, semiconductor equipment, semiconductor packaging materials and driver ICs for ODD. While our channel checks show that set makers have component inventories of 1-2 months, resumption of normal operations will likely take at least three months. Thus, we think the IT industry will face tight supply of components in 2Q11F, which we view as the major swing factor for the IT sector in the short term. For components related to smartphones and tablet PCs, we expect supply to tighten in 2H11F, and thus we think the time to buy is in 2Q11F.

For solar, companies have given earnings growth guidance of 50-60% y-y on average for FY11F. However, we see downside risks to the guidance, given: 1) policy changes in Italy and Germany, with the magnitude of cuts a function of installations; and 2) continued supply expansions at established as well as new entrants, with demand likely to disappoint. While we await clarity on policies, we expect ASPs and margins to come under pressure across the chain. We recommend BUY on GCL and Suntech, where we expect: 1) better cost management, which favours companies with vertical integration; 2) geographical diversification to capture new growth markets as demand growth from Europe slows; and 3) R&D investments to enable faster cost reduction.

In the IT services segment, we advise gaining exposure through stocks that benefit from: 1) greater presence in discretionary services and possible mix-based pricing upticks (HCL Tech, Infosys); 2) positioning to compete with MNCs (HCL Tech); and 3) greater operational scope to limit the impact of supply-side pressure/growth investments (HCL Tech, Infosys).

In sum, we are Bullish on component companies related to memory, LCD panels, smartphones and tablet PCs, as they appear to be passing a trough. Meanwhile, we remain Bearish on the PC and solar industries. For stock picks, we recommend SEC and LGE as our top picks, given our positive outlook on smartphones and their strength in smartphone among peers. We also like HTC, AAC, Nuvoton, Simplo, GCL Poly, Suntech, HCL Tech, Asustek, SEMCO and LGD. On the flip side, we choose Mediatek and Young Fast as our top REDUCE calls.

Fig. 2: IT sector weather forecast for 2011F



Source: Nomura research

Fig. 3: Asia technology: top BUYs / top REDUCEs in 2Q11F

Company	PT (LC)	Rating	Analyst comment	Analyst
Top BUY				
Samsung Elec.	1,350,000	BUY	After bottoming in 1Q11, we expect SEC's quarterly OP to regain momentum with growth of 20% q-q in both 2Q11F and 3Q11F, given: 1) we believe the memory market has completely bottomed out in 1Q11 and faces a recovery curve; 2) the handset and display operations are likely to recover at a faster pace than before as the 5.5G AMOLED fab is slated to ramp up in 2Q11; and 3) we expect the home appliance operations to return to profitability from 2Q11F.	CW Chung +82 2 3783 2312 cwchung@nomura.com
LG Elec.	147,000	BUY	LGE is quickly reducing its operating losses in the handset biz by increasing smartphone shipments and retiring loss-making feature-phone models. We recently raised our smartphone shipment assumption for 2011F by 11% to 24.5mn units. We estimate LGE is reducing the number of feature-phone models to 31 this year, from 80 last year, by retiring loss making models.	James Kim +852 2252 6203 james.kim@nomura.com
BUY				
HTC	1,500	BUY	We like HTC's efforts on s ftware and user interface, which should help to differentiate its products. HTC remains a beneficiary of the smartphone trend and is a leading Android vendor with good relationships with telecom carriers.	Aaron Jeng +886 2176 9962 aaron.jeng@nomura.com
AAC	23.7	BUY	We see AAC as a key component beneficiary of the smartphone and tablet PC trends, given: 1) the growing acoustic dollar-content in smartphones (2-3x vs feature phone) and tablets (1.5-2x vs NB); 2) broadening product lines – from acoustic, to antenna, haptics and image; and 3) the company's solid relationships with top-tier customers such as Apple, Nokia, RIM, Moto and HTC.	Anne Lee +886 2 2176 9966 anne.lee@nomura.com
Nuvoton	73	BUY	We expect 2Q11F sales growth of 25% q-q, the strongest among IC design players, while margin expands on increasing consumer electronics demand and full utilization in its foundry fabs. In the long run, we believe the demand for 32-bit MCU will remain and we forecast volume will more than double over the next three years.	Peter Liao +886 2176 9964 peter.liao@nomura.com
Simplo	220	BUY	We expect Simplo's sales to grow by 23% y-y in 2011F on rising battery pack shipments to Apple, Asustek, Toshiba, Sony and Lenovo. In particular, Simplo should benefit from Apple's strong iPad and Macbook growth. Given its leading position in polymer battery packs, we expect Simplo to be the dominant player in the tablet PC market with a 65-70% global market share in 2011F. Moreover, Simplo's cooperation with China's Potevio to expand into the EV business should provide quick access to the China EV battery system market.	Eve Jung +886 2 2176 9975 eve.jung@nomura.com
GCL Poly	5.3	BUY	We await confirmation of continued execution at GCL Poly and see further upside to our earnings forecasts and PT if no issues arise in 1Q11F results. In our view, GCL has achieved the lowest cost of wafers given its lowest cost of in-house poly. This allows it to price wafers at 10-15% discounts to peers, thus enabling it to gain market share.	Nitin Kumar +886 2 2176 9968 nitin.kumar@nomura.com
Suntech	11	BUY	We expect meaningful improvements in 1Q11F gross margin backed by expansion of in-house wafer production and increased sourcing from GCL Poly. We await details on cost structure at its wafer subsidiary and see upside to our numbers.	Nitin Kumar +886 2 2176 9968 nitin.kumar@nomura.com
HCL Tech.	580	BUY	We expect margin improvement trends at HCL Tech to become visible in 3Q FY11F. We continue to like HCL Tech for its favourable growth skew, unutilized operating levers and best-in-class earnings growth (29% over FY11-13F).	Ashwin Mehta +91 22 4037 4465 ashwin.mehta@nomura.com
Asus	310	BUY	Although we hold a cautious view on the PC sector due to sluggish demand, we like Asustek for its margin restructuring and market share gains. After increasing outsourcing production to Quanta to 20% in 4Q10, Asustek's operating margin improved by 0.4pp to 4.6% in 4Q10. With a favourable product mix and improving cost competitiveness, the operating margin should trend up from the high base in 4Q10 in the coming quarters. On the improving cost structure, we believe Asustek still has much room for margin improvements in 2011 by outsourcing 50% production to Quanta and Compal by year's end, with risk to our earnings forecast on the upside. Moreover, the MB business should serve as another catalyst given our expectations of milder competition and demand recovery in China.	Eve Jung +886 2 2176 9975 eve.jung@nomura.com
SEMCO	148,000	BUY	We believe SEMCO's MLCC business is a beneficiary of the smartphone and tablet PC demand boom as we expect supply of smartphone and tablet PC related components to be tight in 2H11F given our outlook of demand boom. The company is one of the most competitive manufacturers in ultra-small MLCCs with high capacitance, which are essential components for smartphones and table PCs.	James Kim +852 2252 6203 james.kim@nomura.com

Company	PT (LC)	Rating	Analyst comment	Analyst
LGD	47,000	BUY	We upgraded LGD to BUY from Neutral (20 April, 2011). We expect an earlier-than-expected panel price rebound following Sharp's line suspension, improving profitability of panel makers and improved profitability thanks to its technological competitiveness evident by FPR 3D technology and IPS panels.	James Kim +852 2252 6203 james.kim@nomura.com
Top Sell				
Mediatek	220	REDUCE	Continuation of a consensus earnings downgrade cycle triggered by intensifying ASP pressure, falling market share and slow new roduct launch.	Aaron Jeng +886 2176 9962 aaron.jeng@no ura.c m
Young Fast	183	REDUCE	A rapid decline in demand and ASP/margin contraction for resistive touch is hurting Young Fast. Together with weak shipments for Nokia (strategic shift) and tablets (competition from iPad 2), we believe Young Fast will undergo further de-rating this year.	Anne Lee +886 2 2176 9966 anne.lee@nomura.com

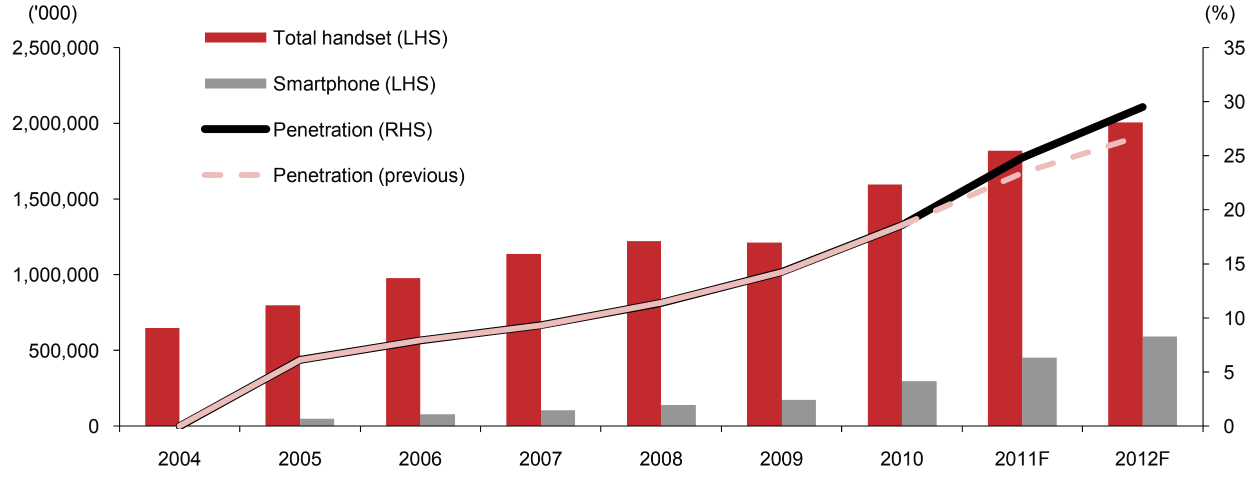
Source: Nomura research

Fig. 4: 2Q11F sector outlook summary

	Position in cycle*	Investment opinion	Competitiveness gap	Current inventory vs normal	Demand outlook vs 3-year average	Supply outlook vs 3-year average	Key catalyst within 6 months	Risks to our view
Memory	Bottoming out	Buy only top-tier with cost competitiveness and larger exposure to specialty DRAM and NAND	Widening	Normal	Weaker than before for PC DRAM; much stronger than before for specialty DRAM and NAND	Normal level for PC DRAM; much tighter than before for specialty DRAM and NAND. However, for specialty DRAM, we recently note that the extent of supply tightness is easing.	Stronger-than-expected shipments of tablet PC	Weaker-than-expected shipment of tablet PC, supply shortage of lateral component/material of memory end-applications
LCD	Bottoming out	BUY	Wide	Declining	Very weak. Demand transition to smartphone and tablet PCs, from TV. Weak demand in developed markets, weaker-than-expected demand in China	We estimate area-based supply capacity growth of 16% y-y and area-based demand growth of 12% y-y for 2011. However, actual supply growth is estimated at 9% y-y due to utilization cut	Demand recovery, further utilization cut	Utilization increase
TV	Middle of a downturn	BUY vertically integrated companies in 2Q11F	Widening	Normal	Slowdown due to saturation	Slow but still higher than demand growth	Aggressive price cut	Further delay of demand recovery
Handset components	Middle of a downturn	BUY companies with leading technology and higher exposure to smartphones and tablets	Very wide	Normal	Growing, due to smartphone and tablet growth	Tight for certain components, like touch panel, high-end HDI, FC CSP, and cameras	Better-than-expected demand from smartphone and tablet PC	Weaker macro demand or key upstream raw material shortages after Japan earthquake may weigh on component industry
Solar	Middle of downturn	BUY vertically integrated companies in 2011	Low	Normal	Demand to grow 9% y-y in FY11F	Higher, capacity increasing 40~60% y-y	Subsidy changes in key markets, cost management and faster-than-expected utility adoption	Weaker demand from new centres, further subsidy cuts, faster-than-expected ASP decline
Taiwan IC design	Growth	Neutral	By case	Low	Mediocre	Wafer supply will be sufficient with growing foundry competition	Market share gain and new products	Increasing competition lowers ASP and margin
Taiwan Smartphone	Growth	BUY	Gradually narrowing	Low	Growing	Growing	Market share gain	Component shortage
PC hardware	Middle of a downturn	Neutral. Be selective and focus on names with margin expansion opportunities	Asian PC brands suffering from cannibalisation by tablets; China is the only bright spot for 2011F; NB ODM: top-2 players enjoyed 50%+ MS	Normal	Softening consumer demand	Potential production bottleneck due to tight component supply after earthquake in Japan could delay shipment schedule in coming months	Market share gains; continued OP margin expansion; growth in China; and progress in tablet PC market.	Weaker-than-expected global PC demand post Japan earthquake
PC/NB component	Middle of a downturn	Neutral. Be selective and focus on names with margin expansion opportunities	Widening	Normal	Softening	Aggressive capex increase in 2010 could lead to lowering of utilisation rates if demand remains weak	Market share gain and new products	Weaker-than-expected global PC demand post Japan earthquake and increasing competition
IT Service	Not a cyclical play	Buy companies that have better growth skew and operational flexibility key trends to play	Widening	Not applicable	Higher	Tightening on increased industry-wide hiring	Increase in discretionary spending momentum can take stocks higher	Weakness in macro-environment and GDP growth in US/Europe can lead to lower demand.

Source: Nomura research

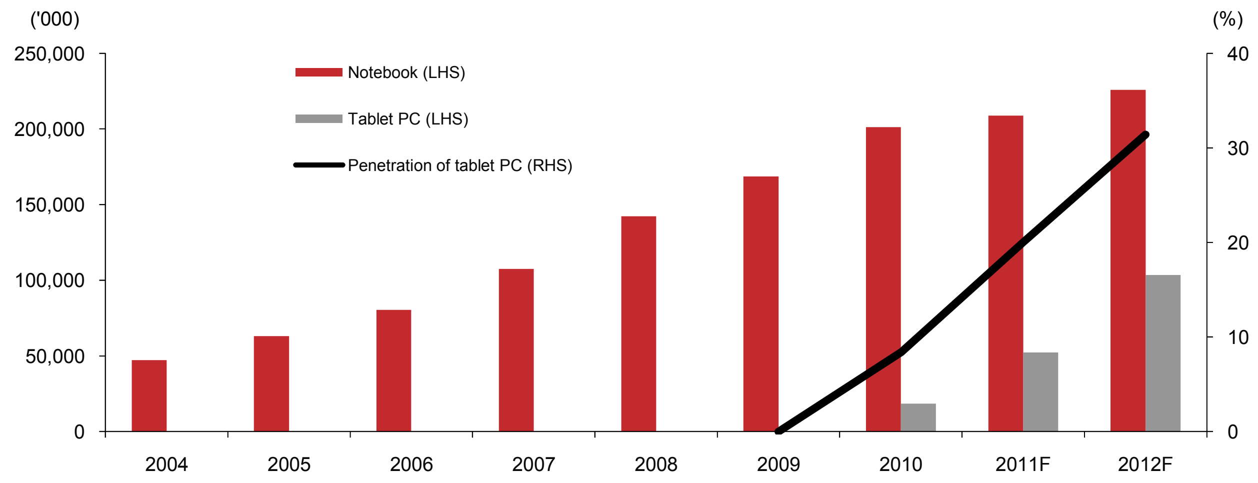
Fig. 5: Global mobile vs smartphone demand



('000)	2004	2005	2006	2007	2008	2009	2010	2011F	2012F
Total handset	**647,800**	**797,500**	**978,000**	**1,137,000**	**1,222,253**	**1,211,240**	**1,596,802**	**1,819,323**	**2,004,098**
y-y	505%	23%	23%	16%	7%	-1%	32%	14%	10%
Smart Phone		**48,800**	**77,500**	**106,000**	**139,288**	**172,376**	**296,647**	**451,873**	**590,872**
y-y			59%	37%	31%	24%	72%	52%	31%
Smart Phone penetration	**0%**	**6%**	**8%**	**9%**	**11%**	**14%**	**19%**	**25%**	**29%**
Normal feature phone		**748,700**	**900,500**	**1,031,000**	**1,082,965**	**1,038,864**	**1,300,156**	**1,367,450**	**1,413,225**
y-y			20%	14%	5%	-4%	25%	5%	3%
(Previous)									
Total handset	**647,800**	**797,500**	**978,000**	**1,137,000**	**1,222,253**	**1,211,240**	**1,596,802**	**1,769,000**	**1,943,000**
Smart Phone		**48,800**	**77,500**	**106,000**	**139,288**	**172,376**	**296,647**	**414,000**	**523,000**
Smart Phone penetration	**0%**	**6%**	**8%**	**9%**	**11%**	**14%**	**19%**	**23%**	**27%**

Source: IDC, Nomura estimates

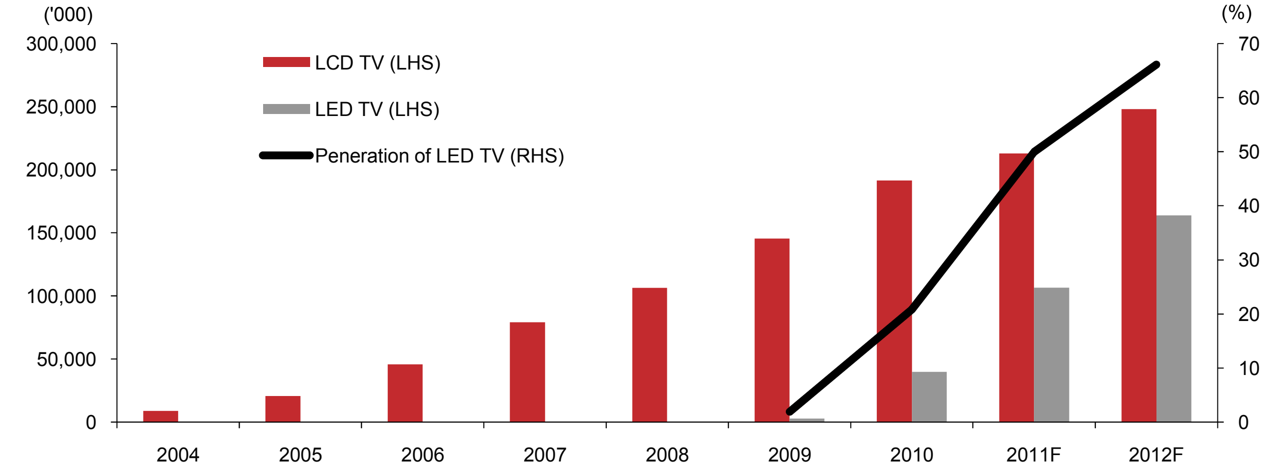
Fig. 6: Global notebook vs tablet PC demand



('000)	2004	2005	2006	2007	2008	2009	2010	2011F	2012F
PC Total	**180,487**	**211,445**	**234,023**	**272,210**	**300,509**	**311,259**	**354,518**	**366,026**	**387,250**
y-y	15.7%	17.2%	10.7%	16.3%	10.4%	3.6%	13.9%	3.2%	5.8%
Desktops	**127,651**	**141,829**	**146,622**	**157,100**	**150,488**	**136,170**	**145,867**	**149,500**	**153,200**
y-y	12.8%	11.1%	3.4%	7.1%	-4.2%	-9.5%	7.1%	2.5%	2.5%
Notebooks	**47,146**	**63,142**	**80,434**	**107,566**	**142,253**	**168,707**	**201,208**	**208,757**	**225,900**
y-y	23.7%	33.9%	27.4%	33.7%	32.2%	18.6%	19.3%	3.8%	8.2%
Netbooks				**132**	**11,517**	**34,285**	**37,891**	**21,300**	**13,900**
y-y					8625.0%	197.7%	10.5%	-43.8%	-34.7%
Ex. Netbooks	**47,146**	**63,142**	**80,434**	**107,434**	**130,736**	**134,422**	**163,317**	**187,457**	**212,000**
y-y	23.7%	33.9%	27.4%	33.6%	21.7%	2.8%	21.5%	14.8%	13.1%
Netbook Ratio	0.0%	0.0%	0.0%	0.0%	3.8%	11.0%	10.7%	5.8%	3.6%
x86 Servers	**5,689**	**6,473**	**6,966**	**7,544**	**7,767**	**6,382**	**7,442**	**7,769**	**8,150**
y-y	20.2%	13.8%	7.6%	8.3%	3.0%	-17.8%	16.6%	4.4%	4.9%
Enterprise Servers		**915**	**1,045**	**1,134**	**1,138**	**1,141**	**1,420**	**1,635**	**1,870**
y-y			14.2%	8.5%	0.4%	0.3%	24.5%	15.1%	14.4%
Workstations		**2,040**	**2,325**	**2,622**	**3,041**	**2,591**	**3,025**	**3,395**	**3,750**
y-y			14.0%	12.8%	16.0%	-14.8%	16.7%	12.2%	10.5%
Tablet PC							**18,401**	**52,307**	**103,484**
								184%	98%
(Previous)									
PC Total	**180,487**	**211,445**	**234,023**	**272,210**	**300,509**	**311,259**	**354,518**	**373,419**	**400,177**
Desktops	**127,651**	**141,829**	**146,622**	**157,100**	**150,488**	**136,170**	**145,867**	**149,760**	**154,700**
Notebooks	**47,146**	**63,142**	**80,434**	**107,566**	**142,253**	**168,707**	**201,208**	**216,090**	**237,677**
Netbooks				**132**	**11,517**	**34,285**	**37,891**	**21,700**	**13,900**
Ex. Netbooks	**47,146**	**63,142**	**80,434**	**107,434**	**130,736**	**134,422**	**163,317**	**194,390**	**223,777**
x86 Servers	**5,689**	**6,473**	**6,966**	**7,544**	**7,767**	**6,382**	**7,442**	**7,569**	**7,800**
Enterprise Servers		**915**	**1,045**	**1,134**	**1,138**	**1,141**	**1,420**	**1,635**	**1,870**
Workstations		**2,040**	**2,325**	**2,622**	**3,041**	**2,591**	**3,025**	**3,395**	**3,750**
Tablet PC							**18,401**	**52,307**	**103,484**

Source: IDC, Nomura estimates

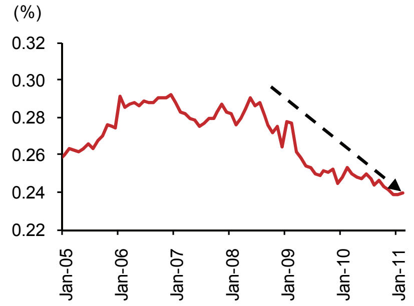
Fig. 7: Global LCD-TV vs LED-TV shipments and LED-TV penetration



('000)	2004	2005	2006	2007	2008	2009	2010	2011F	2012F
LCD TV	**9,000**	**20,700**	**45,990**	**79,194**	**106,417**	**145,506**	**191,563**	**213,000**	**248,000**
y-y	200%	130%	122%	72%	34%	37%	32%	11%	16%
LED TV						**2,806**	**39,944**	**106,500**	**163,880**
y-y							1324%	167%	54%
LED penetration						**2%**	**21%**	**50%**	**66%**

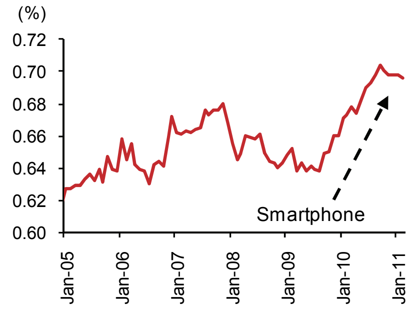
Source: Displaysearch, Nomura estimates

Fig. 8: US: TV spending as % of total consumer spending



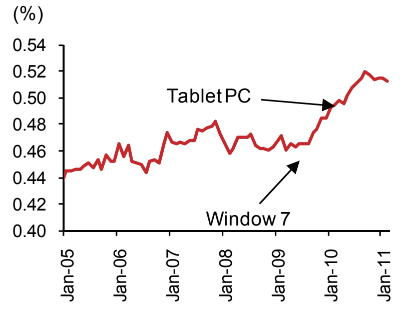
Source: CEIC

Fig. 9: US: mobile device spending as % of total consumer spending



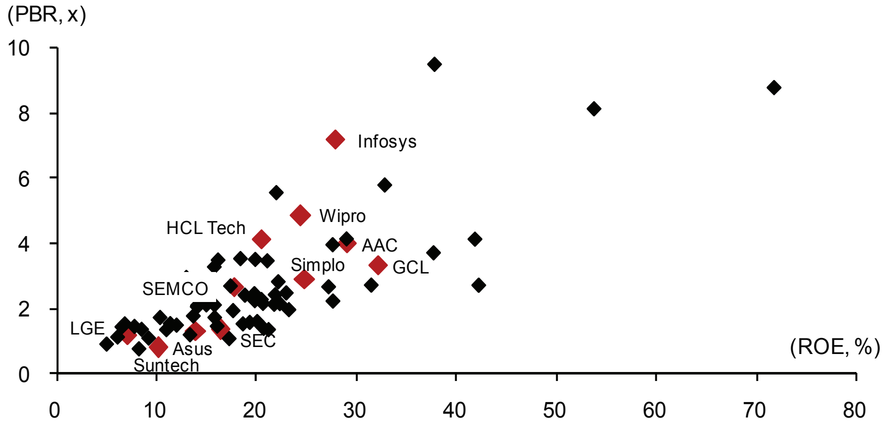
Source: CEIC

Fig. 10: US: PC spending as % of total consumer spending



Source: CEIC

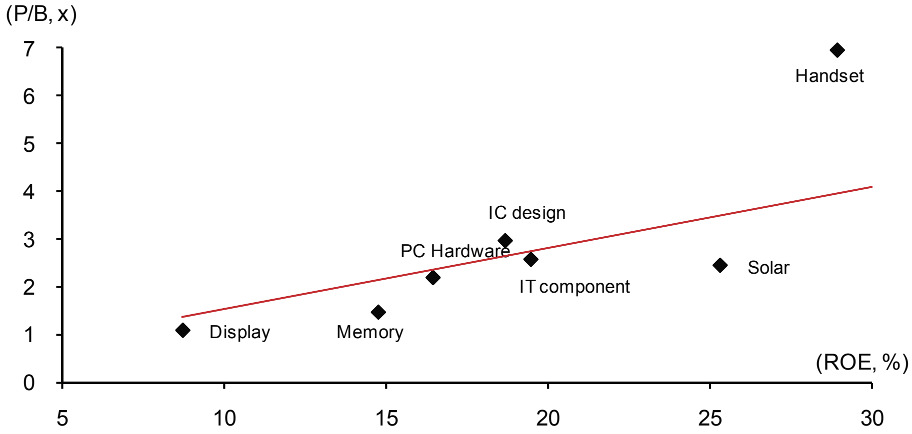
Fig. 11: Company P/BV / ROE comparison



Note: As of 15 April

Source: Bloomberg, Nomura estimates

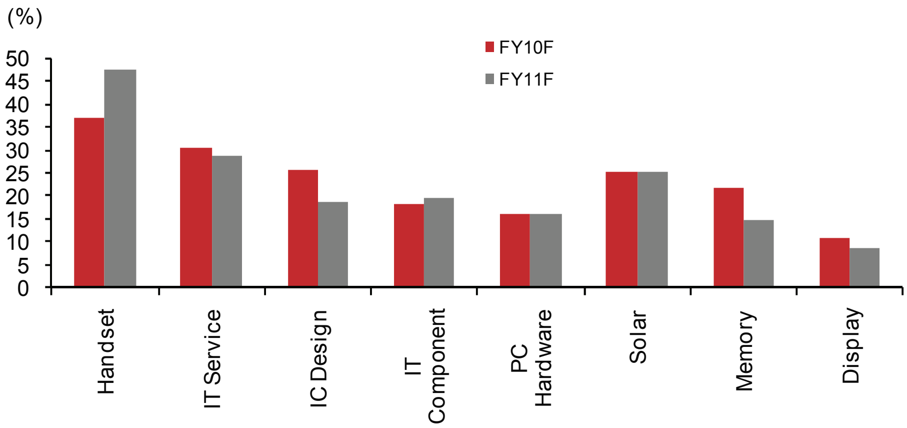
Fig. 12: Sector P/BV / ROE comparison



Note: As of 15 April

Source: Bloomberg, Nomura estimates

Fig. 13: Sector ROE comparison



Note: As of 15 April

Source: Bloomberg, Nomura estimates

Fig. 14: Nomura technology universe: valuation comparison

Sector	Company	Code	M/Caps (USD mn)	Nomura rating	Current price (Local) 15-Apr-11	EPS growth (%) FY10	EPS growth (%) FY11F	P/E (x) FY10	P/E (x) FY11F	P/BV (x) FY10	P/BV (x) FY11F	EV/EBITDA (x) FY10	EV/EBITDA (x) FY11F	ROE (%) FY10	ROE (%) FY11F
BUY															
Handset	LG Electronics	066570 KS	13,394	Buy	101,000	(46.4)	(25.1)	13.3	17.8	1.3	1.2	10.2	6.5	10.1	7.0
Handset	BYD Electronic	285 HK	1,417	Buy	5	37.7	14.1	9.0	7.4	1.2	1.0	5.2	4.0	14.8	14.7
Handset	HTC	2498 TT	34,360	Buy	1,220	72.4	79.5	23.3	13.0	12.6	7.9	19.2	10.2	56.3	75.0
Handset	TCL	2618 HK	1,046	Buy	7	2,882.1	56.9	11.9	7.6	3.7	2.7	11.1	6.9	42.4	42.2
Handset	Largan Precision	3008 TT	3,937	Buy	852	62.8	46.6	28.2	19.3	7.0	5.8	20.0	14.6	26.9	32.8
Display	LG Display	034220 KS	11,908	Buy	36,300	3.9	(13.9)	11.2	13.0	1.2	1.1	3.5	3.6	11.0	8.7
IC design	Tripod	3044 TT	2,169	Buy	133	57.2	18.5	12.6	10.6	3.1	2.7	5.6	4.9	26.5	27.2
IC design	Richtek	6286 TT	927	Buy	189	40.2	15.1	12.3	10.7	4.4	3.7	9.1	7.8	39.4	37.7
IC design	Nuvoton	4919 TT	321	Buy	45	118.3	16.9	10.8	9.3	3.1	2.7	6.6	5.6	31.4	31.4
IT Component	Samsung Techwin	012450 KS	3,994	Buy	82,000	11.7	33.2	18.6	14.0	3.4	2.8	11.9	9.1	19.9	22.1
IT Component	SEMCO	009150 KS	7,841	Buy	114,500	76.3	11.0	18.1	16.3	3.1	2.7	7.5	6.9	17.5	17.8
IT Component	AAC Acoustic	2018 HK	3,158	Buy	20	60.5	37.7	21.2	15.2	5.0	4.0	15.7	10.8	25.6	29.1
IT Component	Wintek	2384 TT	2,712	Buy	53	0.0	153.1	31.6	12.5	2.4	2.2	10.7	5.8	7.9	19.8
IT Component	Venture	VMS SP	2,075	Buy	9	17.9	7.9	14.0	12.9	1.4	1.4	9.7	8.5	10.1	10.9
IT Component	TXC	3042 TT	591	Buy	58	48.7	18.2	14.2	12.6	2.5	2.3	7.5	6.1	19.2	20.5
IT Component	Merry Electronics	2439 TT	270	Buy	49	48.6	17.4	10.0	8.5	1.6	1.5	5.9	4.8	16.9	18.6
IT Component	Synnex	2347 TT	3,754	Buy	72	0.7	20.6	19.6	16.3	3.0	2.7	19.4	15.5	16.2	17.4
IT Component	Lite-On	2301 TT	2,845	Buy	36	25.8	1.4	9.2	9.0	1.2	1.2	4.8	4.6	13.6	13.3
IT Component	Simplo	6121 TT	1,588	Buy	181	23.1	10.5	13.9	12.5	3.4	2.9	9.0	8.0	26.3	24.8
IT Component	Kinsus Interconnect	3189 TT	1,324	Buy	86	28.2	36.5	15.6	11.4	1.9	1.7	7.6	5.9	12.6	15.8
IT Service	Infosys	INFO IN	42,651	Buy	3,306	4.7	11.6	30.8	27.6	8.2	7.2	22.8	19.1	30.3	27.8
IT Service	HCL Tech	HCLT IN	7,662	Buy	483	(2.6)	30.5	29.1	22.3	4.8	4.1	14.6	14.0	19.1	20.4
Material	OCI Materials	036490 KS	1,364	Buy	141,000	18.3	53.8	24.8	16.1	5.4	4.1	12.7	9.2	24.1	29.0
Memory	Samsung Electronics	005930 KS	119,919	Buy	888,000	64.7	(6.2)	9.4	10.0	1.6	1.3	4.2	3.9	20.7	16.4
Memory	Hynix	000660 KS	18,497	Buy	34,150	0.0	(47.4)	7.6	14.4	2.5	2.1	4.0	4.9	37.7	15.8
Networking	D-Link	2332 TT	607	Buy	27	138.2	18.0	14.4	12.2	1.1	1.1	8.3	6.6	8.0	9.2
PC Hardware	Asustek	2357 TT	5,058	Buy	238	36.4	(7.6)	8.9	9.6	1.4	1.3	5.4	5.8	11.8	13.9
PC Hardware	Wistron	3231 TT	3,104	Buy	45	23.9	(7.4)	7.5	8.1	1.6	1.4	4.7	5.1	21.9	18.7
PC Hardware	Catcher	2474 TT	3,619	Buy	158	33.4	95.7	23.7	12.1	3.2	2.7	14.9	8.2	13.7	24.3
Solar	Suntech Power	STP US	1,679	Buy	9	20.4	73.7	14.6	8.4	0.9	0.8	7.6	6.1	15.0	10.1
Solar	Trina Solar	TSL US	2,330	Buy	30	101.1	(13.1)	7.3	8.4	1.7	1.4	4.6	5.2	33.7	20.7
Solar	GCL Poly Energy	3800 HK	9,491	Buy	5.0	0.0	53.0	18.4	12.0	4.6	3.3	12.4	7.3	29.0	32.1
NEUTRAL															
Battery	BYD	1211 HK	8,412	Neutral	29	(37.3)	40.5	21.9	15.6	3.0	2.5	13.7	10.0	14.4	17.5
Handset	China Wireless	2369 HK	884	Neutral	3	110.7	36.6	15.5	11.3	5.2	4.1	12.2	8.0	41.9	41.8
Handset	Asiainfo-Linkage	ASIA US	1,455	Neutral	19	28.5	6.0	13.3	12.6	1.6	1.5	20.2	10.6	9.1	6.8
IC design	Unimicron	3037 TT	2,438	Neutral	46	59.3	5.1	10.0	9.5	1.6	1.5	4.8	4.2	16.8	16.0
IC design	Novatek	3034 TT	1,740	Neutral	85	13.4	5.9	11.0	10.4	2.4	2.1	7.9	7.0	22.1	21.7
IT Component	Epistar	2448 TT	3,080	Neutral	106	140.0	9.8	17.2	15.7	2.2	2.1	9.2	8.0	13.9	14.0
IT Component	Hon Hai Precision	2317 TT	34,942	Neutral	105	(13.4)	18.4	13.7	11.6	2.2	1.9	8.4	6.9	16.3	17.6
IT Component	Samsung SDI	006400 KS	7,727	Neutral	185,000	63.3	32.2	25.0	18.9	1.5	1.5	8.6	7.9	6.5	7.7
IT Component	Pegatron Corp	4938 TT	2,639	Reduce	34	(6.8)	(6.0)	12.3	13.1	0.8	0.8	3.2	3.3	6.7	6.3
IT Component	LG Innotek	011070 KS	2,124	Neutral	115,000	177.4	(46.7)	12.3	23.1	1.6	1.4	4.5	3.5	16.0	6.5
IT Component	Silitech	3311 TT	451	Neutral	73	13.5	(1.4)	8.9	9.0	2.2	2.0	3.6	3.9	26.2	23.2
IT Component	Nan Ya PCB	8046 TT	2,090	Neutral	97	(4.0)	74.0	30.0	17.2	1.8	1.7	12.7	8.9	6.0	10.3
IT Component	Mstar	3697 TT	4,004	Neutral	240	35.7	11.0	17.0	15.4	4.6	4.0	12.5	10.4	30.2	27.6
IT Service	Tata Consultancy	TCS IN	53,217	Neutral	1,210	33.6	26.2	34.5	27.3	11.3	9.5	27.2	20.9	37.5	37.8
IT Service	Wipro	WPRO IN	26,051	Neutral	472	17.6	15.0	25.4	22.0	5.9	4.8	19.4	17.9	26.6	24.5
IT Service	Tech Mahindra	TECHM IN	2,078	Neutral	734	(41.5)	18.5	17.7	14.7	3.1	2.5	9.2	10.1	22.1	19.8
IT Service	Cognizant	CTSH US	24,574	Neutral	81	33.7	18.5	34.0	28.8	6.8	5.5	23.1	17.8	23.5	21.9
IT Service	Digital China	861 HK	2,178	Neutral	16	28.7	6.4	18.3	17.2	3.8	3.5	11.3	12.3	22.5	21.0
Material	Technosemichem	036830 KS	560	Neutral	41,600	37.8	26.3	17.5	13.8	2.8	2.4	11.0	9.5	17.5	18.8
Networking	Zinwell Corp	2485 TT	573	Neutral	52	24.9	8.3	11.8	10.9	2.4	2.2	8.9	8.3	20.8	20.6
PC Hardware	Quanta	2382 TT	6,971	Neutral	53	(12.7)	3.2	9.9	9.6	1.8	1.7	8.2	8.3	18.7	18.0
PC Hardware	Delta Electronics	2308 TT	10,333	Neutral	125	27.3	10.0	19.0	17.3	3.7	3.5	11.0	9.6	18.8	18.4
PC Hardware	Acer Inc	2353 TT	5,138	Neutral	55	32.1	(34.5)	9.9	15.1	1.5	1.5	6.5	8.5	15.9	10.1
PC Hardware	Lenovo Group	992 HK	5,759	Neutral	4	na	105.0	41.1	20.0	3.3	3.0	11.0	7.0	8.9	15.7
PC Hardware	Compal Electronics	2324 TT	4,553	Neutral	30	10.2	(29.7)	5.8	8.3	1.2	1.1	3.5	3.9	21.4	13.8
Semi-Equip	Jusung Engineering	036930 KS	518	Neutral	16,750	1,815.6	51.2	13.9	9.2	2.9	2.2	13.7	6.7	22.6	27.6
Solar	Canadian Solar Inc	CSIQ US	436	Neutral	10	345.8	(33.4)	4.6	6.8	0.8	0.7	4.9	5.5	10.1	11.5
Solar	Motech Industries	6244 TT	1,539	Neutral	118	10,912.0	8.7	9.7	8.9	1.9	1.6	5.4	4.9	25.2	19.3
REDUCE															
Handset	Young Fast	3622 TT	1,026	Reduce	210	(14.3)	(7.0)	10.7	11.5	2.8	2.5	6.1	7.0	30.4	22.9
Handset	Foxconn International	2038 HK	4,382	Reduce	5	(644.2)	0.0	0.0	0.0	1.2	1.3	26.1	43.2	(6.1)	(2.0)
IC design	Realtek	2379 TT	941	Reduce	56	(21.7)	18.3	16.3	13.8	1.6	1.5	6.5	5.7	9.8	11.3
IC design	MediaTek	2454 TT	12,615	Reduce	336	(16.9)	(43.1)	11.8	20.8	3.2	3.5	7.9	13.3	27.8	16.1
IT Component	Everlight	2393 TT	1,187	Reduce	82	12.1	2.4	16.5	16.1	2.2	2.1	9.7	9.1	15.5	14.9
IT Component	Seoul Semi	046890 KS	2,160	Reduce	40,400	246.0	24.6	23.9	19.1	4.2	3.5	16.7	12.7	19.3	19.8
IT Component	Ralink Technology	3534 TT	578	Reduce	96	63.2	(31.2)	14.7	21.4	2.2	2.5	10.3	10.6	16.1	12.2
IT Component	Chicony Electronics	2385 TT	1,185	Reduce	55	(2.1)	(0.7)	10.0	10.0	2.3	2.1	8.7	8.9	25.8	22.3
IT Service	Mphasis	MPHL IN	2,119	Reduce	449	19.6	(28.0)	8.7	12.1	2.9	2.4	7.3	8.7	38.7	21.8
IT Service	Patni Computer	PATNI IN	1,433	Reduce	478	19.3	(19.8)	11.3	14.1	2.0	1.8	9.8	9.9	17.4	13.6
Memory	Nanya	2408 TT	2,070	Reduce	15	0.0	0.0	0.0	0.0	1.6	2.5	17.8	42.7	(27.5)	(42.9)
Memory	Inotera	3474 TT	2,266	Reduce	14	0.0	0.0	0.0	0.0	1.2	1.7	6.0	5.8	(21.9)	(28.9)
Networking	Gemtek Technology	4906 TT	365	Reduce	37	(36.7)	50.6	24.8	16.4	1.4	1.4	12.5	7.6	5.5	8.5
PC Hardware	Foxconn	2354 TT	4,562	Reduce	119	15.8	9.7	17.1	15.5	2.3	2.0	10.5	10.4	14.6	14.0
PC Hardware	Ju Teng International	3336 HK	379	Reduce	3	(53.7)	(5.5)	8.8	9.3	0.7	0.6	5.4	5.5	7.9	7.1
Solar	E-Ton Solar	3452 TT	656	Reduce	40	0.0	0.0	0.0	18.8	1.0	0.9	41.5	14.7	(26.6)	5.0

Source: Company data, Bloomberg, Nomura estimates

Tight component supply in 2H11F in aftermath of Japan earthquake

While the impact of the recent earthquake on the IT sector seems limited so far, we expect the situation to worsen in May-June, given that IT companies generally hold 1-2 months of inventory. We expect a supply shortage in some critical components from May since: 1) most inventories will be depleted around end-April; 2) damage from the nuclear plant explosion could exacerbate the supply situation as time passes; and 3) utilisation at Japan fabs will be limited due to water and power shortages.

We believe that DRAM, battery, MLCC and LCD players outside Japan are likely to benefit, since these products previously faced oversupply and there are a plenty of alternative supply routes other than Japan.

However, since smartphones and PCs require hundreds of different parts, supply shortage for a single part could lead to oversupply of other parts. Parts that we expect will see significant shortages and might potentially lead to the above-mentioned situation include driver IC and pick-up pixel lens for ODDs, BT resin and copper foil for FC-SCP used in baseband chipset for smartphones and tablet PCs. If set makers cannot find alternative suppliers for these parts, other parts will suffer oversupply.

Currently, there is no clear solution to this problem for potential ODD driver IC and BT resin shortages, and set makers are striving to secure exclusive supply of these parts from second and third vendors. Nevertheless, we believe set production can proceed to some extent as material suppliers, component makers and set makers hold inventories. However, the inventories are likely to run out in May or June, thus having a potential impact on set production thereafter.

All in, we think May and June will be the toughest months of supply shortage for some critical parts. We believe inventory restocking will be insufficient on high seasonal demand in 2H11F. We believe this will likely result in price hikes for components. In particular, we believe supply of smartphone and tablet PC related components will be insufficient in 2H11F.

Fig. 15: LCD: summary of earthquake impact

Primary component	Sub-component/ material	Description	Latest position (as of 24 Mar)
LCD panel	**Fab operation**	LCD supply affected by around 2% due to the earthquake. Panasonic's 6G and 4.5G lines ceased operation but resumed shortly after.	No serious damage electricity supply.
	ACF	While Sony and Hitachi account for 70% of ACF (anisotropic conductive film) supply, production at both companies was resumed	No serious damage
Glass		One Asahi factory located in the earthquake epicentre; operation there suspended	Physical damage on building or equipment
Equipment	**Lithography equipment**	Nikon and Canon factories affected by the earthquake; likely to result in delayed ramp-up of upcoming LCD lines	Physical damage on building or equipment

Source: Company data

Fig. 16: Handset: summary of earthquake impact

Primary component	Sub-component/ material	Description	Latest position (as of 24 Mar)
PCB	**BT-resin**	BT-resin, high-end resin for package substrate (FC-CSP) in handset chipset, is currently supplied by Mitsubishi Gas Chemical (MGC), which has market share of around 60%. Its factories were impacted by the earthquake and ceased operation. It has resumed operation, but with less than 50% capacity	Physical damage on building or equipment
	Copper foil	Mitsui Mining & Smelting has a 95% global market share of ultra-thin copper foil, a material for smartphone IC substrates. Its facility in Ageo was shut down due to rolling blackout. As a stable power supply is pivotal or copper foil production, the company has not decided when to resume production	Production problems from sho tages of water and electricity
	Glass yarn	Along with BT-resin and copper foil, glass yarn is key material for CCL and Nittobo in Japan, which has large market share in glass yarn. According to our analyst, Okazaki Yu, the operations have not faced a serious problem, aside from some decrease in yield. However, since the company's glass yarn facility is located only around 60km from the nuclear plant, in a worst-case scenario, the su p y constraint may be more severe than our base case	Potential nuclear co tamination

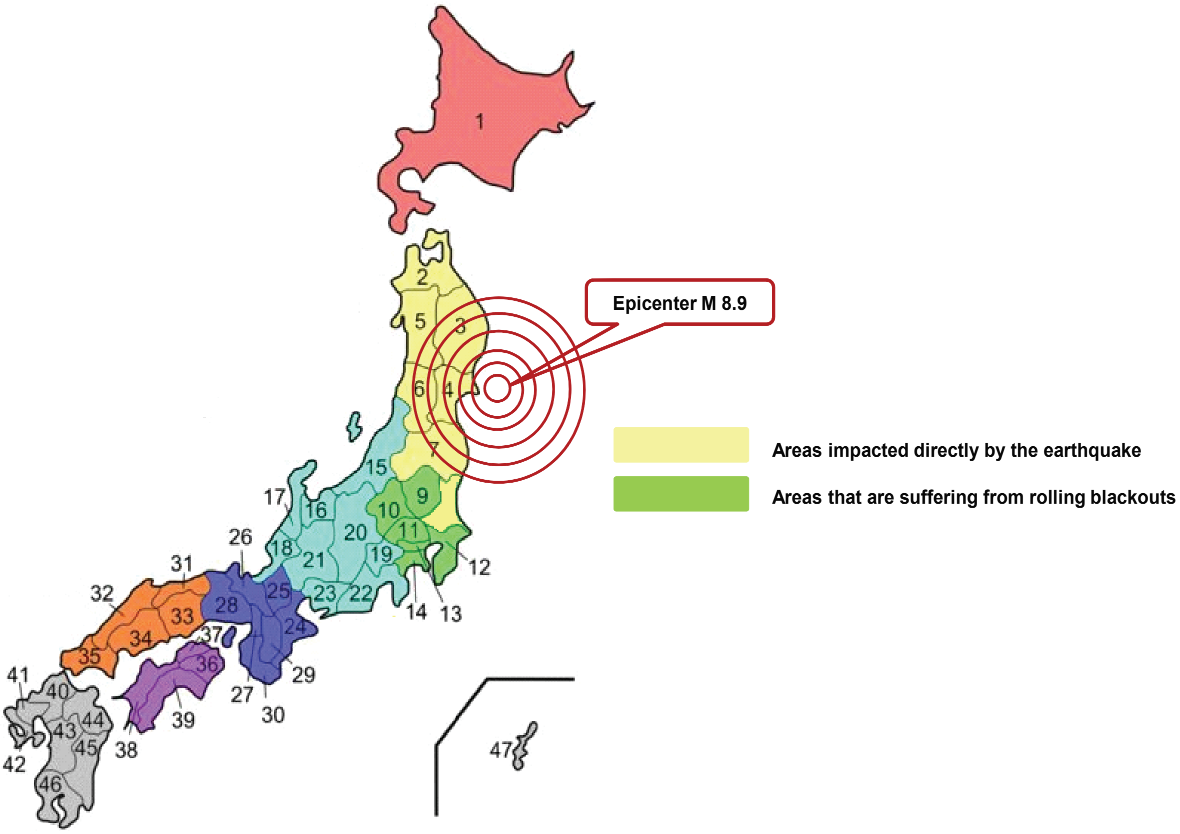
Source: Company data

Fig. 17: Desktop/notebook: summary of earthquake impact

Primary component	Sub-component/ material	Description	Latest position (as of 24 Mar)
DRAM	**Fab operation**	Elpida's DRAM fab was temporarily halted, but subsequently resumed. No serious damage.	No serious damage
	Silicon wafer	Before the quake, global wafer supply stood at 4,200kpm vs global demand of 3,500kpm. However, the quake resulted in Shin Etsu halting 700kpm of capacity in Hukushima and putting global supply/demand in balance. From here, we forecast semiconductor wafer demand will grow by c.10% by 2H11F. Hence, should the shutdown of Shin Etsu's affected factory continue or should there be no more wafer capacity expansion, we see some risk of wafer supply shortage.	Physical damage on building or equipment
SSD / NAND	**Fab operation**	Toshiba's NAND fab was temporarily shut down and the impact was more severe than at Elpida.	No serious damage
ODD	**Driver IC**	TI's analog IC fab in Miyagi is currently out of work. The company holds 90% market share in ODD motor driver IC. As the facility is damaged, our analyst Tetsuya Wadaki says it should take around three weeks to repair the infrastructure systems for materials, water and air-conditioning. We understand ODD makers now have 1.5-2 months of inventory. However, given that the TI fab in question is not likely to resume operation before May, we see potential risk of supply constraints. According to our channel checks, TI is considering re-allocation of the ODD driver IC production into the company's US fab or outsourcing to UMC, a Taiwanese foundry. Considering 2-3 months of lead time, we may see a temporary supply constraint around June.	Physical damage on building or equipment
	Laser Diode	The components for OPU are mostly based in North-East Japan and may face production disruption due to power outage. We understand Sony's production site in Furushiku (mainly produces laser diode in OPU) has been physically damaged due to the earthquake.	Production problems from water and electricity shortages
	Pick up head lens	The AGC Electronics plant was damaged by the earthquake. The plant is located in Koriyama, Fukushima, but far from the nuclear plants. The company announced that several facilities are damaged and are in the recovery process.	Physical damage on building or equipment
Batteries	**Li-ion battery cell**	From an industry perspective, we expect potential production disruption of battery cells caused by Sony's production halt at two cell production sites in Fukushima-ken and Tochigi-ken. We think battery cell cost is likely to rise due to the concerns on production disruption if Sony cannot resume production in the coming 1-2 months. Although Sony supplies ~30% of the global battery cell demand, we believe the battery cell production disruption from Sony should bring in limited impact to the supply chain as the cell industry is still in oversupply, coupled with aggressive capacity expansion from Samsung SDI and LG Chem. (According to the company, Sony resumed partial capacity in Fukushima from 22 March)	Physical damage on building or equipment
	Polymer cell	Since Sony has limited exposure in lithium polymer and the polymer cells are mainly for in-house demand, the impact to the supply chain should not be significant.	Physical damage on building or equipment
Passive Components	**Aluminium Electrolytic Capacitors**	Main suppliers Chemi-con, Nichicon and Rubycon reported limited damage post earthquake. While most of the capacities far from the epicenter (some located overseas), the impact should be limited if production can resume in 1-2 months (ex, for Chemi-con, more than 60% of its aluminium capacitor capacity is overseas.)	Production problems from water and electricity shortages
	MLCC	While neither Murata nor TDK (Japan-based suppliers) were affected by the earthquake or tsunami, their operations have still been forced to shut down because of power failures and the two firms have not yet set a schedule on the recovery of operations. Since Japan-based passive component makers mainly manufacture high-end products, as opposed to Taiwan's mid-range and entry-level models, PC manufacturers may see production bottleneck due to difficulties to find replacement components for the high-end products.	Production problems from water and electricity shortages
	Power Choke	Despite partial physical damage on building or equipment at Murata, other passive components vendors like TDK reported production disruption owing to water and electricity shortages. However, as Taiwan-based suppliers had aggressive capacity expansion in 2010, and most of the Japan-based suppliers' capacities are far from the epicenter (some located overseas), the impact should be limited if the production can resume in 1-2 months.	Production problems from water and electricity shortages

Source: Company data

Fig. 18: Status of factories affected by the Japan earthquake and tsunami



Code	Company	Facility	Location	Function	Latest position (as of 24 March)
Group 3, Iwate					
6502	Toshiba	Iwate Toshiba Electronics	Iwate, Kitakami	MOS logic L I	Limited operations
6702	Fujitsu	Fujitsu Semiconductor Iwate Plant	Iwate, Isawa	Front-end processing of SoCs	Operation suspended
680	Hirose Electric	Ichinoseki Hirose Electri	Iwate, Ichinoseki	Multipole connectors, coaxial connectors, other	Minor damage to building and equipment, but production resumed
6762	TDK	TDK-MCC Kitakami plant	Iwate, Kitakami	MLCC (multilayer ceramic chip capacitor)	Prod. resumed, but affected by the rolling blackouts
Group 4, Miyagi					
6758	Sony	Sendai technology center	Miyagi, Tagajo	Recording Media/electronics parts manufacture, research	Operation suspended owing to voluntary power cuts
6758	Sony	Sony Shiroishi Semiconductor	Miyagi, Shiroishi	Semiconductor prod ct on	Operation suspended
6752	Panasonic	Sendai Factory	Miyagi, Natori	Audiovisual parts production	Operation suspended
3407	Asahi Kasei		Miyagi, Ishimaki	Electronic devices	Operation suspended
6703	Fujitsu	Fujitsu integrated Microtechnology Miyagi plant	Miyagi, Shiroishi	Bank-end processing of SoCs	Operation suspended
6963	Rohm	Oki Semiconductor Miyagi	Miyagi, Kurokawa	Monolithic Ics (front-end processing)	Operation suspended
TXN	Texas Instrument	Miura Plant	Miyagi, Inashiki	SLPs, analog Ics (power supply Ics etc)	Some damage, Operation suspended
6787	Meiko Electronics	Miyagi plant	Miyagi	Build-up boards, PKG boards, module boards	Assessing the damage to production facilities at the Miyagi plant.
6997	Nippon Chemi-Con	Chemi-Con Miyagi	Miyagi	Aluminum electrolytic capacitors	Resumed production, but affected by rolling blackouts, lack of gasoline and heavy oil supply, and concern about chemical and material supply shortages.
Group 6, Yamagata					
6752	Panasonic	Yamagata Factory	Yamagata, Tendo	Audiovisual parts production	Operation suspended
4042	Tosoh		Yamagata, Yamagata	Sputtering targets (thin-film molding materials)	Operation suspended
6723	Renesas	Renesas Yamagata Semiconductor	Yamagata, Tsuruoka	Front-end semiconductor processing	Operation suspended
6723	Renesas	Renesas Northern Japan Semicon Yonezawa plant	Yamagata, Yonezawa	Bank-end semiconductor processing	Some damage, Operation suspended
6724	Seiko Epson	Sakata works/Tohoku Epson	Yamagata, Sakata	Ink heads, semiconductor front-end processing	Operation suspended
3436	Sumco	Yonezawa plant	Yamagata, Yonezawa	Silicon wafers	Expecting to restart after inspection of damage

Group 7, Fukushima					
6758	Sony	Sony Energy Device	Fukushima, Koriyama	Battery productions	Partially restored at Tochigi plant
6758	Sony	Sony Energy Device	Fukushima, Motomiya	Battery productions	Operation suspended
4063	Shin-Etsu Chemical	Shirakawa Plant (Shin-Etsu Handotai)	Fukushima, Nishishirakawa	Semiconductor silicon production	Suspended, early resumption of operations unlikely
4182	Mitsubishi Gas Chemical		Fukushima, Nishishirakawa	BT materials for semiconductor packages	Partial resumption from early April, but aiming for production volume of ¼ of the normal
4217	Hitachi Chemical		Fukushima, Futaba	Carbon products	Operation suspended
3402	Toray Industries		Fukushima, Iwase	Film processing	Operation suspended
4023	Kureha	Iwaki Plant	Fukushima, Iwaki	Polyphenylene sulfide, polyvinylidene sulfide, pich-based carbon fiber, battery negative electrode materials	Damaged
6796	Clarion		Fukushima, Koriyama	Car navigation systems, car audio, press parts	
6816	Alpine Electrnics		Fukushima, Iwaki	Car navigation systems, car audio	
6702	Fujitsu	Fujitsu Semiconductor Aizuwakamatsu plant	Fukushima, Aizuwakamatsu	Front-end processing of SoCs	Operation suspended
6703	Fujitsu	Fujitsu Semiconductor Technology	Fukushima, Aizuwakamatsu	Front-end processing of microcontrollers/flash memory	Operation suspended
6703	Fujitsu	Fujitsu integrated Microtechnology Head office/ Aizu plant	Fukushima, Aizuwakamatsu	Bank-end processing of SoCs	Operation suspended
6724	Seiko Epson	Epson Toyocom Fukushima works	Fukushima, Soma	Quartz oscillators	Some damages, Nuclear impact
6806	Hirose Electric	Koriyama Hirose Electric	Fukushima, Koriyama	Multipole connectors	Damaged, but have mostly been restored.
6976	Taiyo Yuden	That's Fukushima	Fukushima	Optical recordable media	Some damaged, some products have been resumed
6787	Meiko Electronics	Fukushima plant	Fukushima	Dual-sided boards, multilayer pierced boards(2-8 layers)	Operation suspended
6997	Nippon Chemi-Con	Chemi-Con Fukushima	Fukushima	Aluminum electrolytic capacitors	Resumed, but affected by rolling blackout
Group 8, Ibaraki					
6501	Hitachi	Hitachi Works	Ibaraki, Hitachi	Power equipment production	Normal operations
6501	Hitachi	Urban Planning and Development Systems	Ibaraki, Hitachinaka	Elevator/escalator production	Some damage, operations suspended
6501	Hitachi	Information & Control Systems	Ibaraki, Hitachi	Powre distribution board/computer control systems production	Some damage, operations suspended
6501	Hitachi	Hidaka Plant(Hitachi Cable)	Ibaraki, Hitachi	Wire/cable production	Some damage, operations suspended
6501	Hitachi	Yamazaki Works(Hitachi Chemical)	Ibaraki, Hitachi	Semiconductor materials production	Some damage, operations suspended
5201	Asahi Glass	Kashima Plant	Ibaraki, Kamisu	Chemicals/flat glass production	Operations suspended
5201	Asahi Glass	Kashima Factory(AGC Glass Products)	Ibaraki, Kamisu	Construction-use processed glass production	Some damage
4005	Sumitomo Chemical		Ibaraki, Tsukuba	Electroni parts materials	Operations suspended
4063	Shin-Etsu Chemical		Ibaraki, Kashima	PVC, synthetic quartz products, flexible copper-clade laminate	Operations suspended
4118	Kaneka		Ibaraki, Kashima	PVC, polystyrene foam	Operations suspended
4182	Mitsubishi Gas Chemical		Ibaraki, Kashima	Hydrogen peroxide, polycarbonate resin	Operations suspended
4188	Mitsubishi Chemical Holdings		Ibaraki, Inashiki	Optoelectronics plastics, LiB negative electrode materials	Operations suspended
4217	Hitachi Chemical		Ibaraki, Hitachi	Semiconductor materials , LiB negative electrode materials, PCB substrates	Operations suspended
6758	Sony		Ibaraki, Naka	CD, DVD etc	Operations suspended
6871	Micronics Japan		Ibaraki, Chikusei	Advanced probe cards	
8036	Hitachi High-Technologies	Naka plant	Ibaraki, Hitachinaka	Medical analysis system, analysis equipment, CD-SEMs	Damaged
8036	Hitachi High-Technologies	Hitachi High-tech Manufacturing Service	Ibaraki, Hitachinaka	Medical units, PCBs, precision units	Damaged
6723	Renesas	Naka plant	Ibaraki, Hitachinaka	Front-end processing of SoCs/memory	Some damage, Operation suspended
6963	Rohm	Rohm Tsukuba	Ibaraki, Tsukuba	Transistors, diodes, SiC	Operation suspended
7751	Canon	Toride Plant	Ibaraki, Toride	Imaging office equipment, chemicals	Operation suspended
4203	Sumitomo Bakelite	Utsunomiya plant	Ibaraki, Utsunomiya	Semiconductor wafer coating resin, die bonding paste	Operation suspended
4401	Adeka	Kashima plant	Ibaraki, Kamisu	Semiconductor materials, etching materials	Some damage to equipment, but some products have resumed
WFR	MEMC	Utsunomiya plant	Ibaraki, Utsunomiya	Silicon wafers	Operation suspended
6997	Nippon Chemi-Con	Takahagi plant	Ibaraki, Takahagi	Aluminum electrolytic capacitors	No severe damage, but production with the effect of rolling blackouts, lack of gasoline and heavy oil supply, and concern about chemical and material supply shortages.

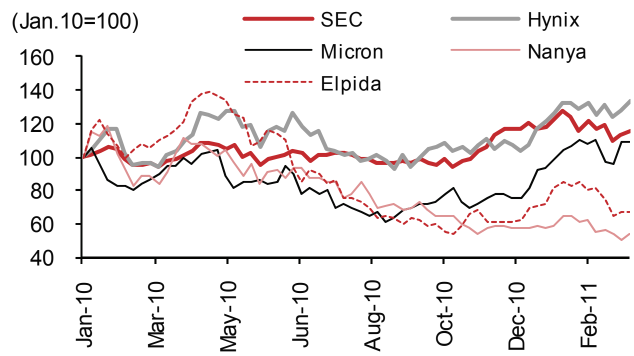
Group 9, Tochigi					
7751	Canon	Utsunomuya Plant	Tochigi, Utsunomiya	Lithography equipment, interchangeable lenses for digital cameras	Operati n suspended
3402	Toray Industries		Tochigi, Tsuchiura	Film processing	Operation suspended

3403	Toray Industries		Tochigi, Nasu	Battery separator film	Operation suspended
6758	Sony		Tochigi, Kanuma	Anisotropic conductive film (ACF)	Resumed, but affected by rolling blackouts
6753	Sharp		Tochigi, Yaita	LCD production	Resumed, but affected by rolling blackouts
7731	Nikon	Tochigi Nikon	Tochigi, Otawara	Interchangeable lenses, various optical lenses	Operation suspended
7731	Nikon	Tochigi Nikon Precision	Tochigi, Otawara	LCD and semiconductor lithography units	Operation suspended
5801	Furukawa Electric	Nikko works	Tochigi, Nikko	Rolled copper, aluminum substrates	Some damage
Group 10, Gunma					
6752	Panasonic		Gunma, Ora	Cleaning/drying equipment, etc	Partially resumed
6723	Renesas	Gunma	Gunma, Takasaki	"Semiconductor technology deveopment, front-end	Some damage, Operation suspended
Group 11, Saitama					
6971	Kyocera	Kyocera Chemical	Saitama, Kawaguchi	Electronics parts material production	Opera ion suspended
7731	Nikon	Kumagai plant	Saitama, Kumagai	Semiconductor lithography units	Affected by rolling blackouts
Group 12, Chiba					
6752	Panasonic	IPS Alpha Technology	Chiba, Mobara	LCD panel production	Affected by rolling blackouts
6501	Hit chi	Hitachi Displays	Chiba, Mobara	LCD production	Affected by rolling blackouts
5201	Asahi Glass	Chiba Plant	Chiba, Ichihara	Chemical production	Access to plant restricted owing to fire at Cosmo Oil plant
5202	Asahi Glass	Shirasato Plant (Ise Chemicals)	Chiba, Sanbugun, other	Iodine production	Affected by rolling blackouts
3401	Teijin		Chiba, Chiba	PC resin, etc	Affected by rolling blackouts
6502	Toshiba	Toshiba components	Chiba, Mobara	Discrete semiconductors and parts	Some damage to ventilation ducts
5801	Furukawa Electric	Chiba works	Chiba, Ichihara	Optical fiber, other	Damage to facilities and buildings from liquefaction
Group 13, Tokyo					
6971	Kyocera	Kyocera Kinseki	Tokyo, Komae	Electronic parts production	Operation suspended
Group 14, K nagawa					
6758	Sony	Atsugi technology center	Kanagawa, Atsugi	"Semiconductor/broadcasting & commercial video equipment production and research"	Operation suspended owing to voluntary power cuts
6503	Mitsubishi Electric	Kamakura Works	Kanagawa, Kama ura	Electronic equipment production	Affected by rolling blackouts
6503	Mitsubishi Electric	Kamakura Plant (Mitsubishi Precision)	Kanagawa, Kamakura	Electronic equipment production	Affected by rolling blackouts
6501	Hitachi	Information & Telecommunication Systems	Kanagawa, Kawasaki	System development equipment/general-purpose	Affected by rolling blackouts

Source: Company data

Fig. 19: Tech sector: share performance since 2010

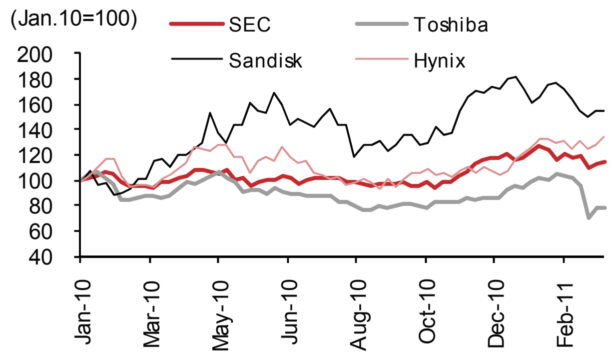
Memory DRAM



Among DRAM players, we find those with higher exposure to specialty DRAM – especially mobile DRAM – have outperformed vs those without.

In 2011, we believe the polarisation between those with finer line-width (ie, faster migration) and already large exposure to specialty DRAM versus those without will further widened.

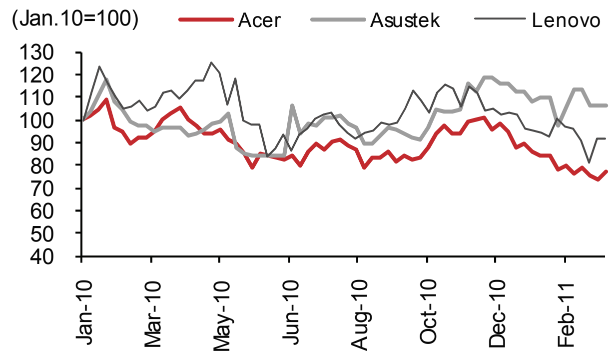
Memory NAND



The balance in NAND market share within the group has been largely maintained. Yet, it is noteworthy that the capacity of Hynix is growing at a faster pace than for others, leading to gradually higher market share in 2011.

As for NAND demand, we forecast continuously strong demand for NAND, owing to: 1) wider use of tablet PCs and smartphones; and 2) the adoption of solid state disks.

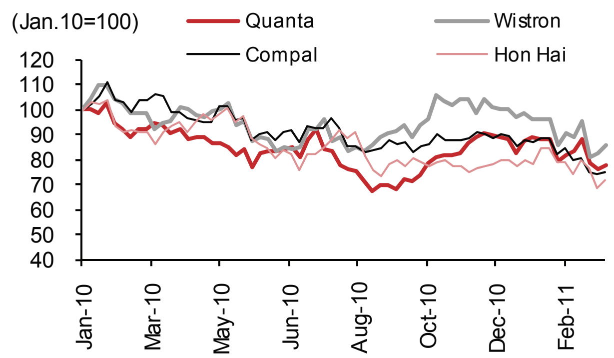
PC OEM



We retain our cautious view on the 2Q growth outlook due to remaining lacklustre end demand in Europe and the US. In addition, production disruptions due to the earthquake in Japan could have a negative impact on shipment schedules in 2Q.

As 2011 PC shipment growth is likely to slow, we suggest investors stick with quality names with margin improvements through cost control or adjusting product and client portfolios. While Acer is undergone business restructuring, Asustek is our preferred name in PC sector as its improving cost structure and further market share gains in global NB market.

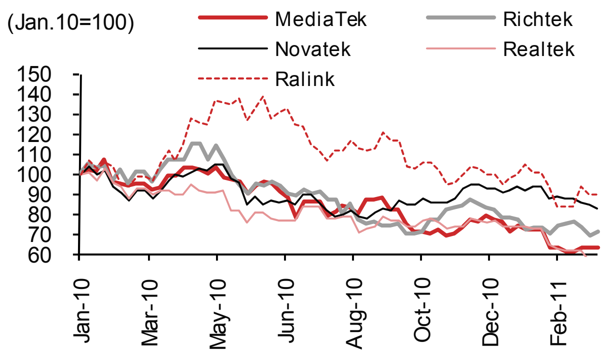
PC ODM/EMS



Despite strong NB shipment growth in 2010, NB ODMs generally saw margin erosion in the past five quarters due to their over-aggressive pricing strategy and increases in component and labour costs.

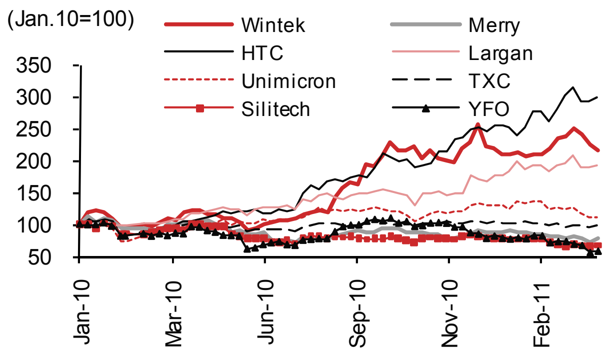
Looking into 2011, as NB ODMs have limited incentives to cut prices for marginal market share gains to defend their margins in 2011, coupled with rising possibility for price hikes to reflect cost pressure, we believe this should be positive to NB ODMs in terms of margin performance in the coming quarters.

Fabless



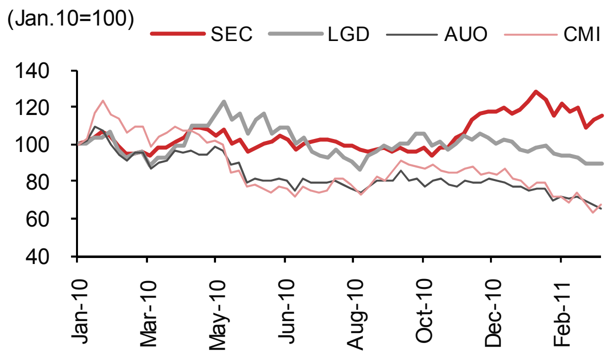
Taiwan fabless companies have missed out the mobile device trend since FY10, which pulled the share price down even though the TAIEX index went up in FY10. Looking into FY11F, we remain Neutral on the sector and believe companies that gain share and maintain margin will stand out.

Taiwan handset



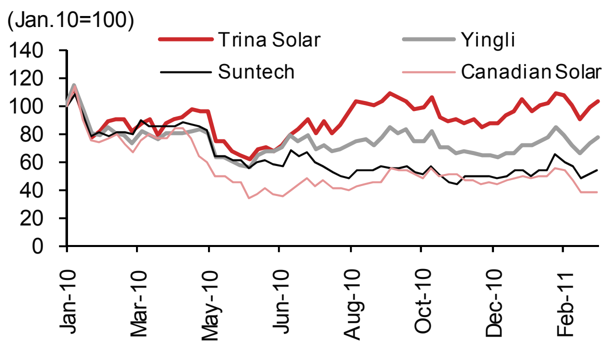
With strong growth momentum of smartphones, the share price of Taiwan handset companies with higher exposure to smartphones outperformed those with major shares in feature phone in 2010. Looking forward, we believe the strength in the smartphone industry will continue to support growth in 2011F.

Display



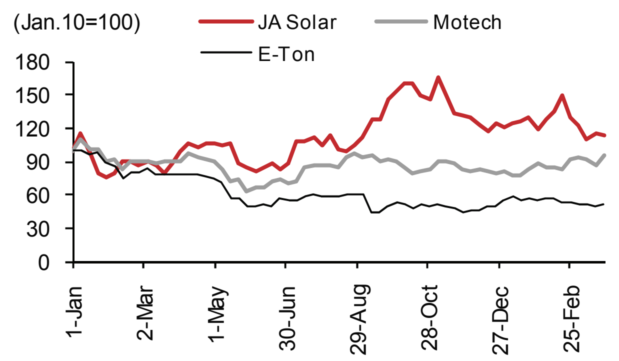
The share price of LCD panel makers has been weak over the past six months due to weak TV demand, leading to deteriorating profitability. We think panel makers is likely to see a rapid share price rebound as the supply and demand condition has improved significantly on Sharp's recent line suspension. We now expect an earlier-than expected panel price rebound and improved profitability of panel makers from 2Q11F

Solar vertically integrated



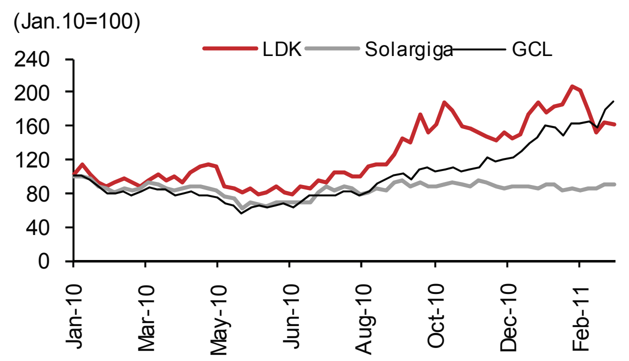
Trina, Yingli and Suntech are strongly placed due to: 1) vertical integration; 2) superior cost structure; 2) R&D roadmap; and 4) investments into improving brand name.

Solar cell



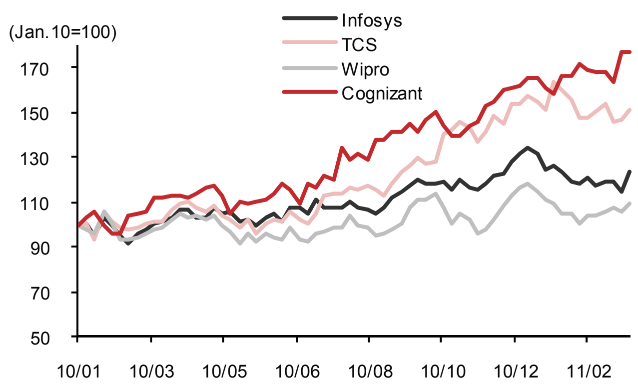
Larger scale and increasing vertical integration by JA Solar has helped it outperform its pure-play cell peers.

Solar wafer



GCL has benefited from its lowest cost structure and expanding contract base.

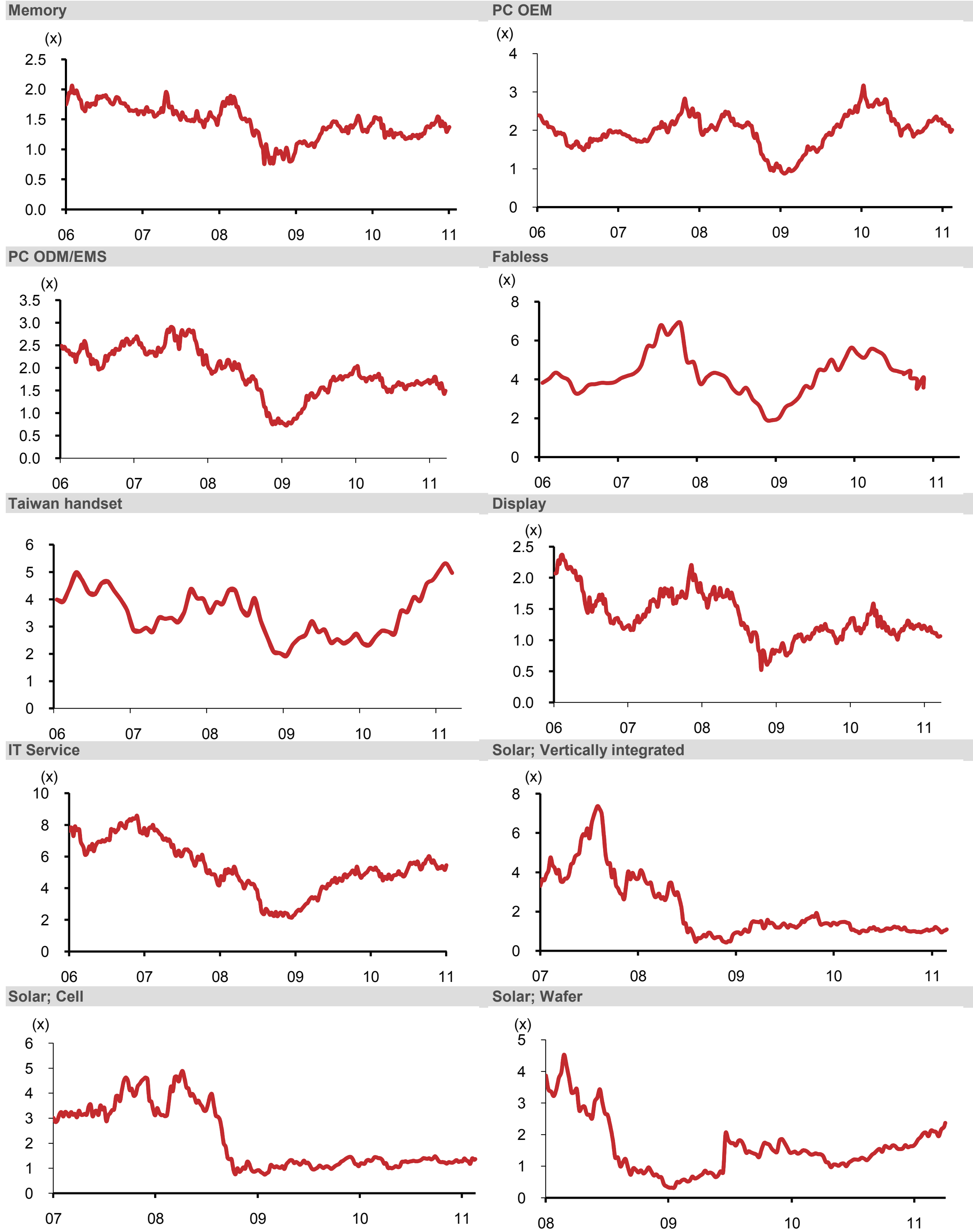
IT services



While demand rebounded for all the tier-1 IT companies during 1HFY11, TCS and Cognizant outperformed on account of revenue out-performance and better/sustained operating margin performance.

Source: Bloomberg, Nomura research

Fig. 20: Tech: sector historical P/BV chart



Source: Bloomberg, Nomura research

Memory — Demand to recover in 2Q11F

CW Chung / Marcello Ahn

Demand likely to pick up from 2Q11F

Having bottomed in 1Q11, we forecast the memory market will recover from 2Q11F, to be headed by NAND rather than by DRAM. In our view, new smartphone and tablet models are likely to be launched in 2Q11, which could cause the demand for NAND to grow faster than supply.

For PC demand, the market has lowered its expectations, and we believe PC demand recovery will fall short of our previous expectations. Although we expect supply growth of PC DRAM to be much slower than we previously estimated, we forecast PC dram prices to show an “L-shape” trend, stabilising at US$1/Gb. Thanks to new smartphones and tablet PCs, however, we expect the demand for mobile DRAM to be strong, albeit with prices progressively lower, as we see supply growing at a faster pace. Meantime, wider adoption of the “cloud” system will bode well for server DRAM demand, in our view.

Potential concerns over IT supply chains in Japan

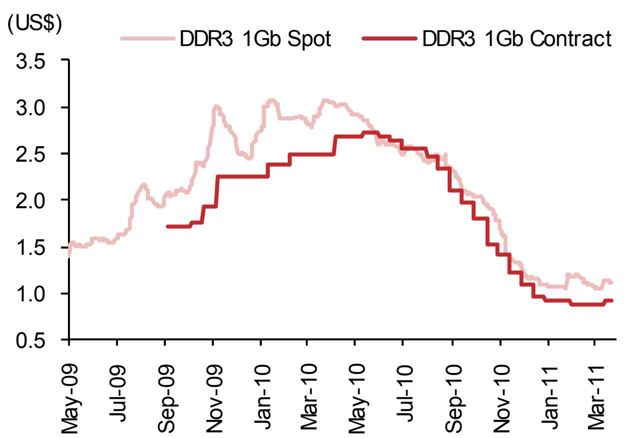
Although Shin-Etsu’s wafer plant and several equipment companies are affected by the Tohoku earthquake, we find the impact on memory supply not material enough to pose a short-term supply constraint. However, if the affected plants delay resuming their operations for a prolonged period, the supply of memory in 2H11F could face an upstream bottleneck, in our view.

We would also advise to keep an eye on memory’s lateral upstream chains of PCs and handsets. This is because if other components or materials are in serious shortages, it is possible that they will limit demand for lateral components such as DRAM and NAND.

Remain positive on Samsung and Hynix

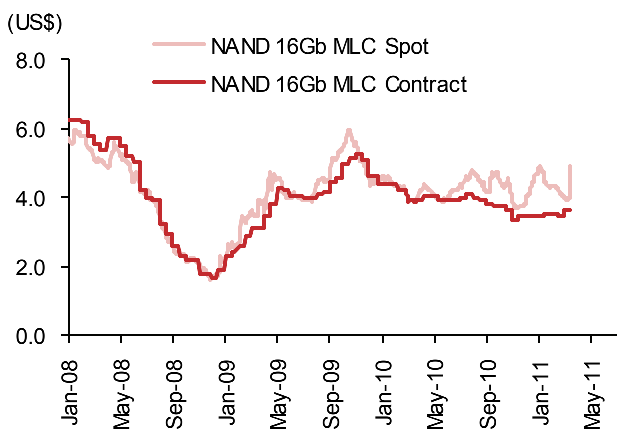
We remain positive on first-tier memory names – Samsung Electronics and Hynix. For Samsung, we expect stabilising memory prices to improve the profitability of the memory division, while earnings contributions from key components of booming smartphones and tablet PCs – mobile DRAM, application processor, NAND and AMOLED – should surface from 2Q11F. For Hynix, we believe its expanding shipment proportion of mobile DRAM and NAND should continue to provide upside momentum for its operating profit throughout the year.

Fig. 21: DDR3 1,333MHz price trend



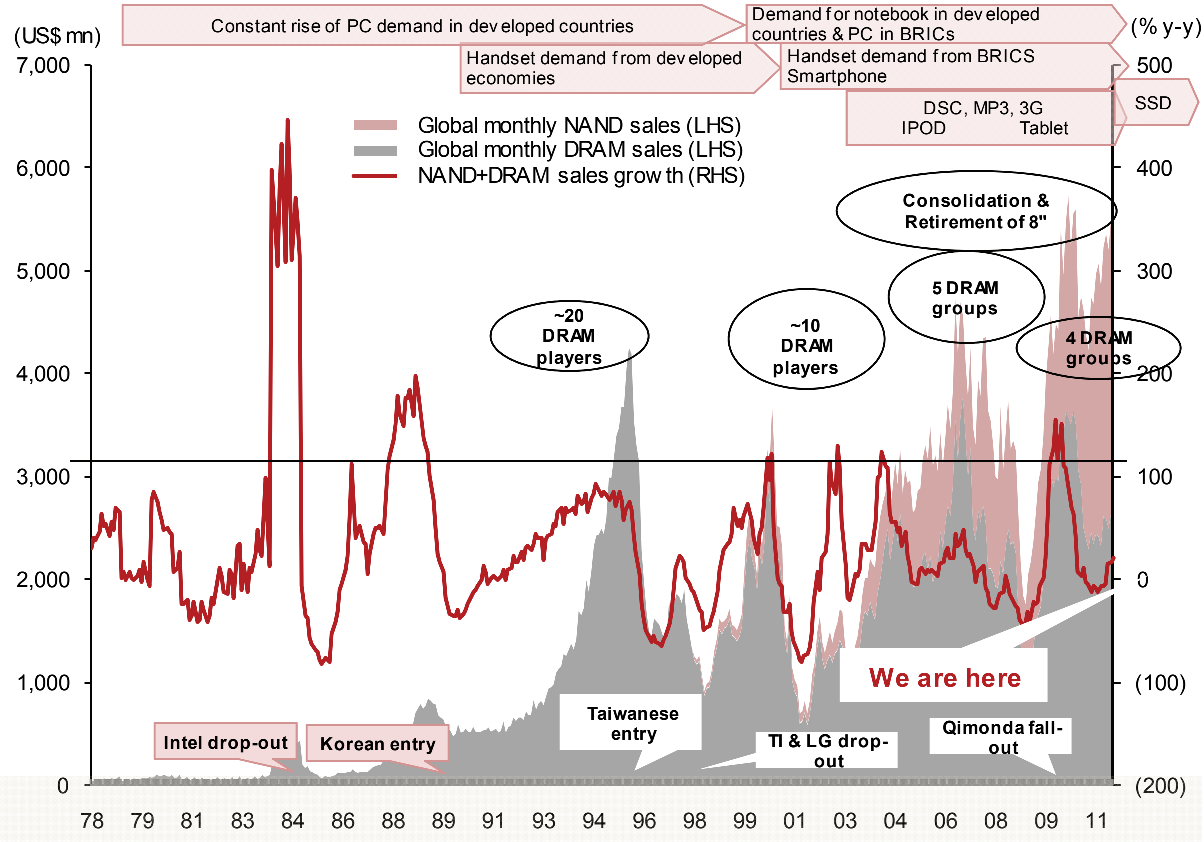
Source: DRAMeXchange

Fig. 22: NAND 16Gb price trend



Source: DRAMeXchange

Fig. 23: Memory (DRAM & NAND) revenue trend and forecast



Source: Nomura estimates, WSTS

Display — Global utilization estimate for April cut by 11pp

James Kim / Greg Kang

According to our channel checks, Sharp has suspended operations at its 8G and 10G lines, and plans to resume operations in two to three months. We estimate Sharp accounts for c.9% of global panel capacity, and its average utilisation is around 70%. We believe the main reasons for Sharp's suspension of its line operations are: 1) a significant decline in TV set sales; 2) high inventory, and; 3) supply chain issues post the earthquake in Japan. We also believe it will take some time for the company to fully recover its business after resuming operations.

Overall, we believe Sharp's line suspension will be positive for the LCD industry. We now estimate global utilisation in April will be 73%, 11pp lower than our previous estimate of 84%, and will be 74% in May, 13pp lower than our previous expectation of 87%. This should result in an inventory burn-out, and a faster-than-expected and sharp rebound in prices, in our view. We now expect panel prices to rebound in April, resulting in improved profitability for panel makers.

The main reasons why we expect lower global utilisation in April are:

We estimate that Sharp currently accounts for 9% of global panel capacity and ran its fabs at 70% utilisation. Hence, on our estimates, the line suspension will impact global utilisation by c.6pp.

We believe Japanese set makers have lowered their TV panel orders placed with Taiwanese panel makers owing to weak demand, especially Sony, resulting in a drop in Taiwanese panel makers' utilisation by 5pp in April.

We also believe that Japanese set makers have lowered their TV panel orders placed with Korean panel makers. Hence, Korean panel makers are likely to increase the captive portion and reduce orders to Taiwanese panel makers, rather than cut their utilization. This will likely affect utilization of Taiwanese panel makers as well. Generally, global utilisation picks up in April on account of seasonality. We had previously expected global utilisation of 84% in April and 87% in May. However, we now believe global utilisation will drop significantly with Sharp's line suspension.

Our view on global panel prices has also changed. We had previously expected a mild rebound in panel prices from May. However, due to the event, we now expect panel prices to rebound faster than we previously expected from April.

We upgrade our rating on the LCD industry to Bullish, from Neutral to reflect our more positive view on the LCD industry. We look for an earlier-than expected panel price rebound following Sharp's line suspension, improving profitability of panel makers. We believe share prices of panel makers will pick up rapidly on the improved earnings momentum. In addition, we now recommend investors accumulate LGD. Along with the panel price rebound, we believe LGD could improve profitability further thanks to its technological competitiveness evident by FPR (film patterned retarder) 3D technology and IPS panels. We have upgraded LGD to BUY from Neutral, and revised up our FY11F operating profit forecast by 44% to W1,235bn to reflect the positives (20 April, 2011).

Fig. 24: Monthly utilisation ratio (revised)

Monthly utilization ratio (Revised)

	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
LGD	98%	98%	100%	98%	100%	100%	100%	93%	92%	88%	88%	88%
SEC	98%	98%	100%	100%	100%	100%	100%	92%	89%	88%	88%	88%
AUO	90%	88%	90%	91%	92%	95%	90%	85%	78%	67%	64%	75%
CMI	89%	88%	90%	93%	95%	95%	85%	77%	67%	62%	80%	80%
Sharp	90%	92%	95%	100%	100%	90%	85%	70%	65%	65%	70%	73%
Average utilisation	**93%**	**93%**	**94%**	**95%**	**96%**	**95%**	**92%**	**85%**	**80%**	**76%**	**79%**	**84%**
Oversupply ratio	**3%**	**2%**	**4%**	**10%**	**12%**	**12%**	**7%**	**-1%**	**-7%**	**-29%**	**-26%**	**-21%**

	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
LGD	84%	84%	85%	88%	90%	95%	95%	95%	95%	95%	95%	95%
SEC	86%	85%	85%	88%	90%	95%	95%	95%	95%	95%	95%	95%
AUO	75%	75%	75%	71%	70%	75%	80%	80%	85%	85%	85%	80%
CMI	84%	85%	86%	75%	75%	80%	80%	85%	87%	90%	85%	80%
Sharp	73%	72%	72%	0%	0%	0%	50%	60%	65%	70%	70%	65%
Average utilisation	**79%**	**79%**	**80%**	**73%**	**74%**	**78%**	**85%**	**86%**	**89%**	**89%**	**88%**	**86%**
Oversupply ratio	**-4%**	**-4%**	**-3%**	**-12%**	**-11%**	**-5%**	**-4%**	**-2%**	**1%**	**-17%**	**-18%**	**-21%**

Source: All numbers based on Nomura estimates

Fig. 25: Monthly utilisation (previous)

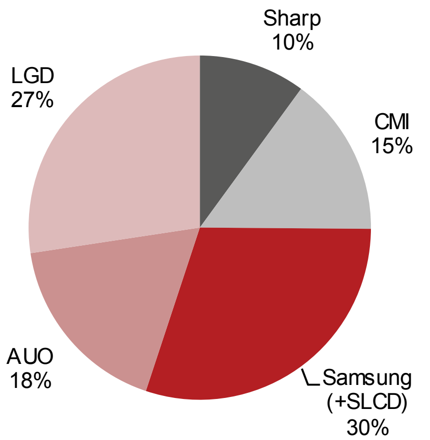
Monthly utilization ratio (previous)

	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
LGD	98%	98%	100%	98%	100%	100%	100%	93%	92%	88%	88%	88%
SEC	98%	98%	100%	100%	100%	100%	100%	92%	89%	88%	88%	88%
AUO	90%	88%	90%	91%	92%	95%	90%	85%	78%	67%	64%	75%
CMI	89%	88%	90%	93%	95%	95%	85%	77%	67%	62%	80%	80%
Sharp	90%	92%	95%	100%	100%	90%	85%	70%	65%	65%	70%	73%
Average utilisation	**93%**	**93%**	**94%**	**95%**	**96%**	**95%**	**92%**	**85%**	**80%**	**76%**	**79%**	**84%**
Oversupply ratio	**3%**	**2%**	**4%**	**10%**	**12%**	**12%**	**7%**	**-1%**	**-7%**	**-31%**	**-28%**	**-24%**

	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
LGD	84%	84%	86%	90%	95%	100%	100%	100%	100%	100%	95%	95%
SEC	86%	85%	88%	92%	95%	100%	100%	100%	100%	100%	95%	95%
AUO	75%	75%	75%	83%	85%	85%	90%	90%	92%	95%	90%	85%
CMI	84%	85%	86%	87%	88%	90%	90%	90%	92%	95%	85%	85%
Sharp	73%	72%	72%	73%	75%	75%	75%	80%	80%	75%	70%	70%
Average utilisation	**79%**	**79%**	**80%**	**84%**	**87%**	**91%**	**93%**	**93%**	**94%**	**95%**	**89%**	**88%**
Oversupply ratio	**-4%**	**-4%**	**-1%**	**3%**	**7%**	**11%**	**6%**	**6%**	**8%**	**-12%**	**-17%**	**-18%**

Source: All numbers based on Nomura estimates

Fig. 26: Global panel capacity proportion by maker (2Q11F)



Source: Nomura estimates

Fig. 27: LCD – Area basis supply / demand model (base case)

	1Q10	2Q10	3Q10	4Q10	1Q11F	2Q11F	3Q11F	4Q11F	1Q12F	2Q12F	3Q12F	4Q12F	2010	2011F	2012F
Sufficiency	**11%**	**17%**	**18%**	**-5%**	**24%**	**23%**	**14%**	**-7%**	**24%**	**22%**	**11%**	**-15%**	**9%**	**11%**	**8%**
Demand Side Analysis- By Area ('000M²)															
Notebook	2,821	2,848	3,174	3,583	3,380	3,445	4,033	4,749	4,260	4,379	4,971	5,615	12,426	15,607	19,225
PC Monitor	5,353	5,532	5,746	5,820	5,427	5,588	5,864	5,815	5,440	5,496	5,843	6,112	22,451	22,694	22,891
TV	13,373	13,854	14,943	21,283	14,962	15,692	17,516	24,815	17,212	18,052	20,151	28,547	63,453	72,984	83,961
Public display	75	113	175	167	112	170	252	229	161	232	292	322	530	765	1,008
Others	646	667	716	921	713	742	822	1,061	807	838	929	1,208	2,950	3,339	3,782
Total Area Demand	**22,269**	**23,014**	**24,754**	**31,773**	**24,594**	**25,637**	**28,488**	**36,669**	**27,881**	**28,996**	**32,186**	**41,805**	**101,810**	**115,389**	**130,867**
% q-q	**-15%**	**3%**	**8%**	**28%**	**-23%**	**4%**	**11%**	**29%**	**-24%**	**4%**	**11%**	**30%**			
% y-y	41%	34%	22%	21%	10%	11%	15%	15%	13%	13%	13%	14%	28%	13%	13%
% to Total Demand															
Notebook	13%	12%	13%	11%	14%	13%	14%	13%	15%	15%	15%	13%	12%	14%	15%
PC Monitor	24%	24%	23%	18%	22%	22%	21%	16%	20%	19%	18%	15%	22%	20%	17%
TV	60%	60%	60%	67%	61%	61%	61%	68%	62%	62%	63%	68%	62%	63%	64%
Others	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Supply Side Analysis- Realistic Area Capacity (,000M²)															
2G	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2.5G	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
3G	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
3.5G	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
4G	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
4.5G	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
5G	23%	22%	20%	20%	19%	19%	18%	18%	17%	17%	17%	17%	21%	19%	17%
5.5G	3%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
6G	21%	20%	19%	19%	19%	19%	19%	18%	18%	18%	18%	18%	20%	19%	18%
7G	10%	10%	10%	9%	10%	9%	9%	9%	8%	8%	8%	8%	10%	9%	8%
7.5G	16%	15%	14%	14%	14%	13%	13%	12%	12%	12%	12%	12%	15%	13%	12%
8G	22%	25%	28%	29%	30%	31%	33%	35%	36%	38%	38%	38%	26%	32%	38%
10G	2%	4%	5%	4%	4%	5%	5%	4%	4%	4%	4%	4%	4%	5%	4%
Total Area Supply	**24,696**	**26,958**	**29,157**	**30,127**	**30,467**	**31,522**	**32,509**	**33,950**	**34,668**	**35,386**	**35,626**	**35,626**	**110,939**	**128,449**	**141,305**
% q-q	**2%**	**9%**	**8%**	**3%**	**1%**	**3%**	**3%**	**4%**	**2%**	**2%**	**1%**	**0%**			
% y-y	31%	31%	27%	24%	23%	17%	11%	13%	14%	12%	10%	5%	28%	16%	10%

Source: Displaysearch, Witsview, Nomura estimates

Fig. 28: LCD – Area basis supply / demand model (Utilization-adjusted)

	1Q10	2Q10	3Q10	4Q10	1Q11F	2Q11F	3Q11F	4Q11F	1Q12F	2Q12F	3Q12F	4Q12F	2010	2011F	2012F
Sufficiency	**4%**	**12%**	**1%**	**-24%**	**-2%**	**-7%**	**0%**	**-18%**	**7%**	**14%**	**4%**	**-20%**	**-4%**	**-8%**	**-1%**
Industry average utilisation	**93%**	**96%**	**86%**	**80%**	**79%**	**75%**	**88%**	**89%**	**86%**	**93%**	**93%**	**93%**	**88%**	**82%**	**95%**
Demand Side Analysis- By Area ('000M²)															
Notebook	2,821	2,848	3,174	3,583	3,380	3,445	4,033	4,749	4,260	4,379	4,971	5,615	12,426	15,607	19,225
PC Monitor	5,353	5,532	5,746	5,820	5,427	5,588	5,864	5,815	5,440	5,496	5,843	6,112	22,451	22,694	22,891
TV	13,373	13,854	14,943	21,283	14,962	15,692	17,516	24,815	17,212	18,052	20,151	28,547	63,453	72,984	83,961
Public display	75	144	175	167	112	170	252	229	161	232	292	322	561	765	1,008
Others	646	667	716	921	713	742	822	1,061	807	838	929	1,208	2,950	3,339	3,782
Total Area Demand	**22,269**	**23,045**	**24,754**	**31,773**	**24,594**	**25,637**	**28,488**	**36,669**	**27,881**	**28,996**	**32,186**	**41,805**	**101,841**	**115,389**	**130,867**
% q-q	-15%	3%	7%	28%	-23%	4%	11%	29%	-24%	4%	11%	30%			
% y-y	**41%**	**34%**	**22%**	**21%**	**10%**	**11%**	**15%**	**15%**	**13%**	**13%**	**13%**	**14%**	**28%**	**13%**	**13%**
% to Total Demand															
Notebook	13%	12%	13%	11%	14%	13%	14%	13%	15%	15%	15%	13%	12%	14%	15%
PC Monitor	24%	24%	23%	18%	22%	22%	21%	16%	20%	19%	18%	15%	22%	20%	17%
TV	60%	60%	60%	67%	61%	61%	61%	68%	62%	62%	63%	68%	62%	63%	64%
Public display	0%	1%	1%	1%	0%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Others	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Supply Side Analysis- Realistic Area Capacity (,000M²)															
2G	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2.5G	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
3G	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
3.5G	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
4G	1%	1%	1%	1%	1%	0%	1%	1%	1%	1%	1%	1%	1%	1%	1%
4.5G	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
5G	23%	21%	20%	19%	19%	20%	19%	18%	17%	17%	17%	17%	21%	19%	17%
5.5G	3%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
6G	20%	20%	18%	18%	18%	19%	19%	18%	18%	17%	17%	17%	19%	19%	17%
7G	11%	10%	11%	11%	10%	11%	10%	9%	9%	9%	9%	9%	11%	10%	9%
7.5G	16%	15%	14%	14%	14%	14%	13%	12%	12%	12%	12%	12%	15%	13%	12%
8G	23%	26%	29%	31%	31%	32%	33%	36%	38%	39%	39%	39%	27%	33%	39%
10G	2%	4%	4%	4%	4%	0%	3%	4%	3%	4%	4%	4%	4%	3%	4%
Total Area Supply	**23,095**	**25,843**	**25,028**	**24,119**	**24,093**	**23,772**	**28,558**	**30,107**	**29,962**	**32,957**	**33,348**	**33,348**	**98,085**	**106,530**	**129,614**
% q-q	**3%**	**12%**	**-3%**	**-4%**	**0%**	**-1%**	**20%**	**5%**	**0%**	**10%**	**1%**	**0%**			
% y-y	75%	38%	18%	8%	4%	-8%	14%	25%	24%	39%	17%	11%	30%	9%	22%

Source: Displaysearch, Witsview, Nomura estimates

We expect utilisation of Taiwanese panel makers to drop

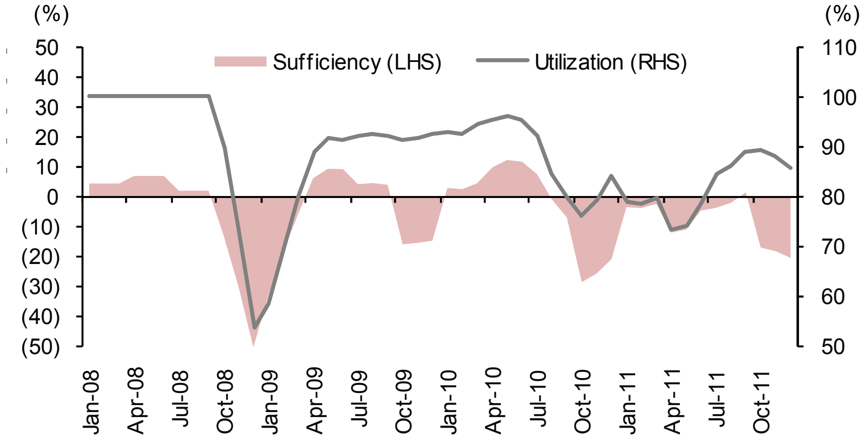
We expect utilisation of Taiwanese panel makers to drop by more than 5pp from April due to the following:

1) According to our channel checks, Sony has piled some inventory after the promotion of its new products. More importantly, we expect weak LCD TV demand in Japan, owing to: 1) termination of the Eco-point programme by the Japanese government; and
2) demand contraction post the earthquake. Therefore, we think panel orders from Japan to Taiwan will likely drop.

2) Given the above, we believe Sony will reduce its orders to Samsung, which will likely lead to Samsung's increasing its proportion of captive panels. As such, we think panel orders from Korea to Taiwan will also likely drop. LGE is likely to see a similar trend, in our view.

Meanwhile, we believe Korean panel makers will have to slow their ramp-up schedules for new lines. While Samsung is scheduled to ramp up its 8G line in 1Q11, LGD is scheduled to ramp up its 8G line in 2Q11, according to the management teams.

Fig. 29: Display monthly supply/demand



Source: Nomura estimates

Still weak demand

In light of the event, we think: 1) panel makers' utilisation levels will drop, 2) global panel inventory will become tighter, and 3) panel prices will rebound faster than expected. However, the drop in utilisation levels can be attributed to weak demand. We are currently witnessing weaker-than-expected demand in China and weak demand in Japan, North America and Europe.

Smartphones — Selling like hotcakes

Aaron Jeng / Anne Lee

Strong Android momentum benefits HTC, LGE and Samsung

Android smartphone momentum keeps surprising the market on the upside in terms of market share and Android app numbers. Nokia's collaboration with Microsoft will further increase potential upside for Android, in our view. We have raised our Android volume forecast to capture the strong momentum. As for the global low-end smartphone market, we expect global-tier smartphone makers to win at the US$300-retail-price segment (beneficiaries will be HTC, Samsung and LGE, in our opinion) and China's tier-one brands to win at the US$150-US$250-price segment.

We prefer touch, acoustic, high-end PCB, and FC CSP names

As for handset component makers, we prefer touch panel, acoustic component and high-end HDI and FC CSP makers, and consider these three sub-sectors the key beneficiaries of smartphone mania. Touch panel is now the preferable user interface over keypad, and we see growing touch panel adoption in mid- to low-end smartphones going forward. Also, high-end acoustic component makers (such as AAC) will likely benefit from the trend, since we see top-tier handset makers more willing to adopt high-end acoustic products in smartphones. We like high-end HDI PCB and FC CSP makers, given increased complexity on handset functions.

HTC and AAC are our top picks

HTC and AAC Acoustic are our top picks in the handset sector. We like HTC and recently raised our price target to NT$1,500 (20 April, 2011) given our view that further upside remains driven by expected market share gains on its leading technology in hardware and software, as well as on rising brand awareness "Sense experience", which in our view, will become an important differentiator as the market matures in 2012F. AAC is our preferred name in the handset component sector, given its rising acoustic dollar content in smartphones, broadening addressable product lines from acoustic to haptics and image, and close relationship with global handset giants such as Apple, Nokia, RIM, Moto, and HTC. We regard AAC's current valuation attractive post the recent share price correction and think the recent share price pullback a good entry point. We maintain BUY on AAC, with a price target of HK$23.7.

2011F handset outlook

Android smartphone will keep on its growing trend into FY11, benefiting Samsung, LGE and HTC

We forecast the global handset market will grow 14% to 1,819mn units in 2011F and 10% to 2,004mn units in 2012F, from 1,597mn in 2010. The trend in 2011F will largely follow the 2010 pattern, in our view, with smartphones growing 52% to 452mn units and the penetration rate rising to 25% from 18.6% in 2010. We forecast that smartphone revenue will exceed 50% of industry revenue in 2011F (from 45% in 2010), driven by North America and Western Europe, and that mid- to low-end smartphones (driven by Asia Pacific) will take off to sustain smartphone growth beyond 2011F. In terms of smartphone OS, we expect Android and iOS to deliver 151% and 60%, respectively, volume growth in 2011F. We estimate the Android market share will rise from 23% in 2010 to 37% in 2011F and 44% in 2012F, at the expense of Symbian and RIM.

In our handset vendor coverage universe, we prefer Samsung Electronics, LG Electronics and HTC, since these three names are key Android beneficiaries in 2011F, in our opinion. Although Samsung came late to the Android smartphone market, its brand name and high quality have made it the number 1 Android smartphone vendor with a share of 30% in 4Q10. According to management, Samsung plans to launch 60 smartphone models in 2011, which will provide a complete smartphone product portfolio to users from high-end to low-end. LG Electronics' smartphone strategy is to gain market share in the mid- to low-end segments first and then gain market share in the high-end segment. We think LG Electronics is moving to the second stage. Meanwhile, we believe HTC will continue to gain share in the smartphone market, helped by its strong differentiated products within the Android space. In contrast, Nokia, RIM and Motorola will likely face headwinds from intensifying competition with Android and iOS, in our view.

On the component side, touch panel, higher-end acoustic components, camera, higher-end HDI and FC CSP are key beneficiaries of smartphone trends

From the component side, we prefer touch panel, acoustic component, camera and high-end HDI and FC CSP makers and consider these three sub-sectors the key beneficiaries of smartphone mania. Touch is now a preferable user interface over keypad and has a much higher penetration rate in high-end smartphones, and we see the addressable market for touch panel makers continuing to expand beyond 2011F as the touch panel adoption rate starts to take off in mid- to low-end smartphones. The smartphone trend also bodes well for acoustic makers with expertise in high-end acoustic components. We see increasing addressable dollar content in smartphones, which remains a boost for leading acoustic component makers, such as AAC. In addition, we like leading HDI PCB and FC CSP makers, as the need for thinner and lighter design will likely raise the adoption of high-end HDI PCBs and increased complexity of handset functions also increases the use of FC CSP IC substrates. In the Asian handset supply chain, we expect Kinsus, Largan and AAC to be the key smartphone component beneficiaries.

Investment Strategy

We like HTC and have raised our price target to NT$1,500, given our view that further upside remains driven by expected market share gains on its leading technology in hardware and software, as well as on rising brand awareness. We believe the company is well-positioned within its industry to benefit from the trend of device convergence. We like its strategy to keep strengthening the “sense experience”, which in our view will become an important differentiator as the market matures in 2012F.

We have a BUY rating on AAC with a price target of HK$23.7, owing to its rising acoustic dollar content in smartphones, broadening addressable product lines from acoustic to haptics and image, and close relationship with global handset giants such as Apple, Nokia, RIM, Moto and HTC. Helped by its expertise in the high-end acoustic component market and consistent market share gains in the global top-tier customers, AAC is our preferred name in the handset component coverage universe. We regard AAC’s current valuation attractive (around 15x FY11F EPS of RMB1.11 vs. other leading smartphone component player such as Largan’s 18x, on our estimates) post the recent share price correction.

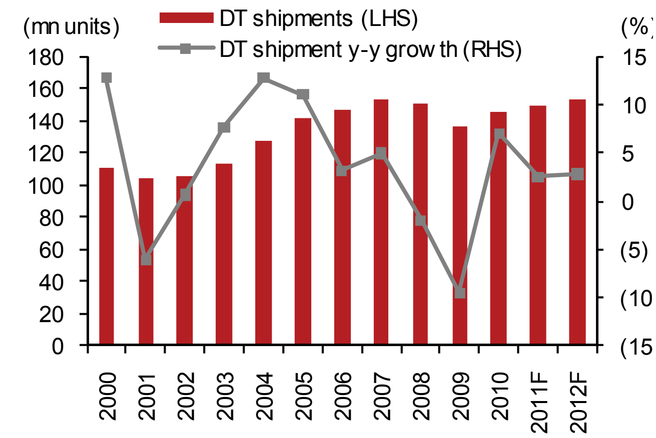
PC Hardware — 2011: Cautious on growth outlook

Eve Jung / Ariana Kuo

We forecast 2011F client PC shipment growth will reach 3% vs. 14% in 2010 with NB shipment (including traditional NB and netbook) growth of 4%. We believe 2011F will be a gloomy year for netbooks, as we expect it to continue to be cannibalized by tablet PCs. Accordingly, netbook shipments could decline 44% in 2011F, while traditional NB shipments could be supported by a rising adoption rate in emerging markets and a recovery in corporate demand.

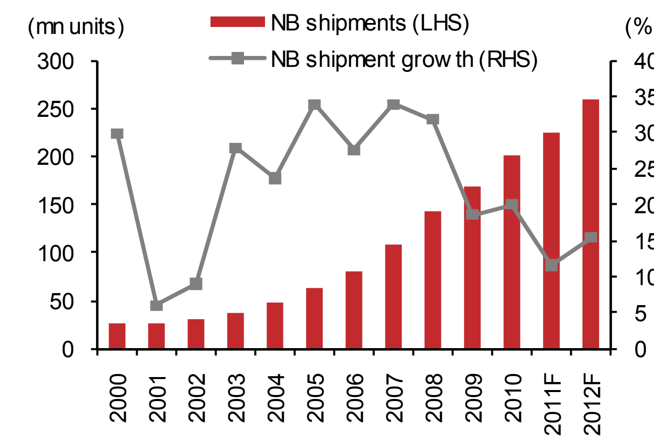
We believe tablet PCs, compared to PC shipment growth of 3% in 2011F, will be the brightest spot given the very low base in 2010. We estimate global tablet PC shipments will reach 52mn units in 2011F, up 184% from 18mn units in 2010. The iPad cannibalization seems faster than we previously expected following the price cut in the iPad and the launch of the iPad 2, and coupled with a potential production disruption post the earthquake, we revise down our NB shipment growth forecast for the top-5 NB ODMs in 2Q11 from 13% q-q to 6% q-q. In the competition of tablets, we believe PC OEMs still need time to improve their software capability and expect Apple to retain its dominant position in 2011F with a 60%-plus market share (we expect the remaining 30-40% to be shared among handset OEMs and PC OEMs).

Fig. 30: DT shipments and y-y growth



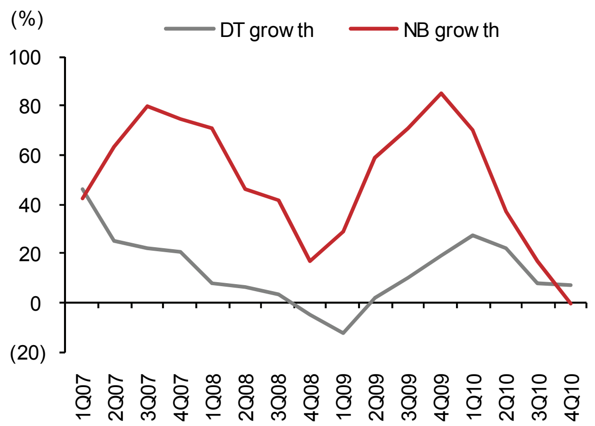
Source: IDC, Nomura estimates

Fig. 31: NB shipments and y-y growth



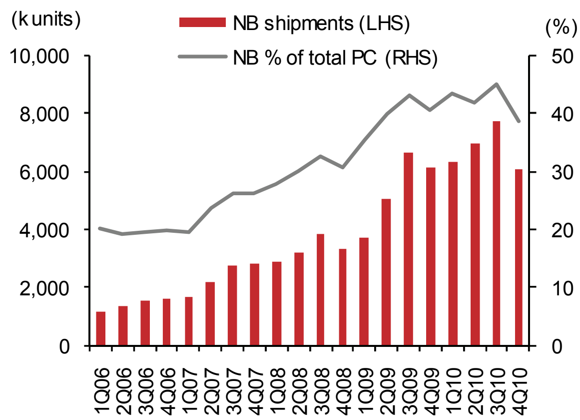
Source: IDC, Nomura estimates

Fig. 32: China DT and NB growth comparison



Source: IDC; Nomura research

Fig. 33: NB mix in China market



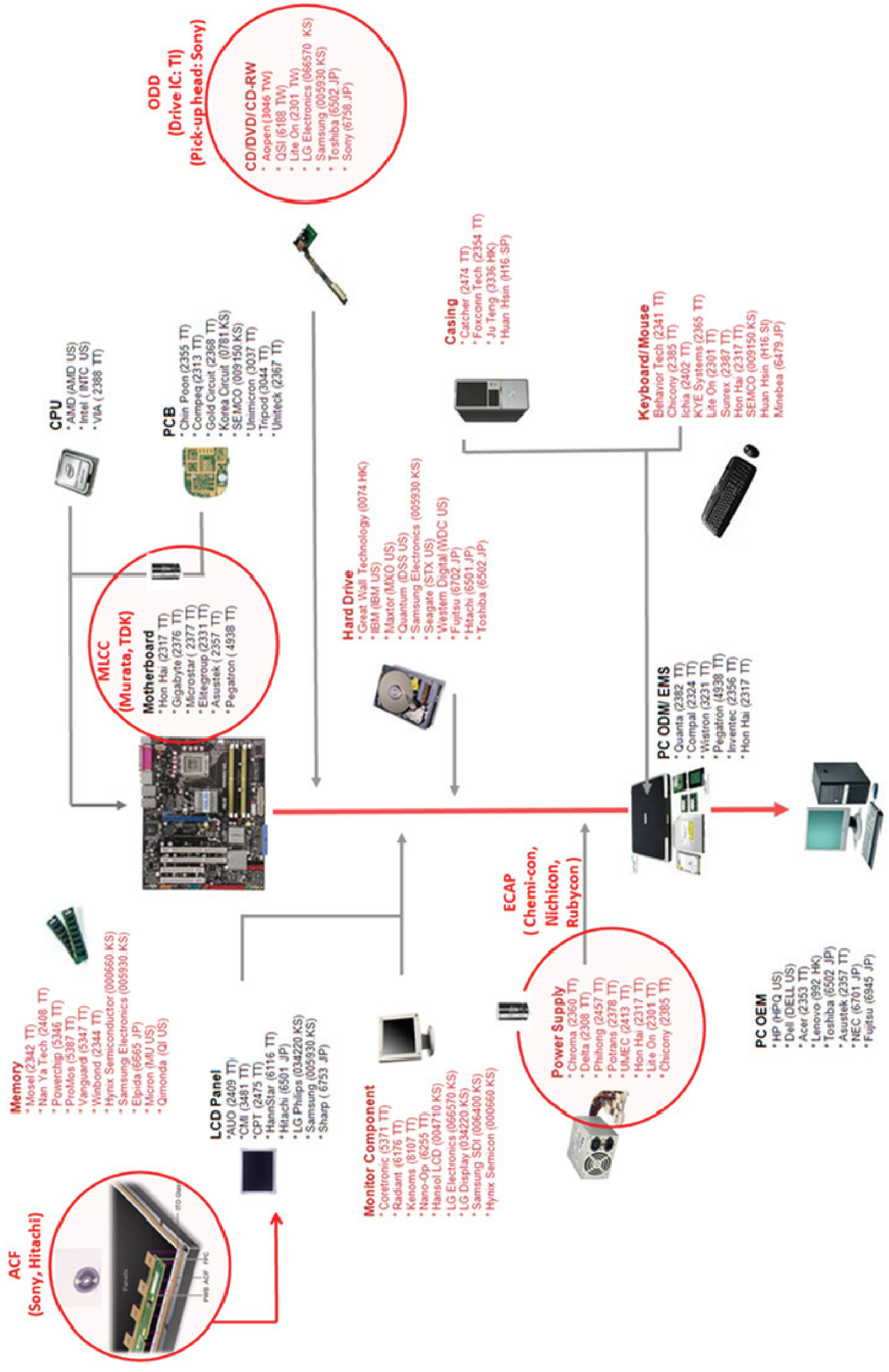
Source: IDC; Nomura research

Earthquake impact on PC supply chain

Previously, the market was positive on Intel's new platform launched in January to support PC demand. However, due to chipset design flaws, many PC OEMs have postponed the debut of new products supporting Sandy Bridge CPUs. Though Intel launched a new version chipset to fix bugs at the end of Feb., new problems happened across the supply chain post Japan's earthquake. Looking into 2Q, we don't expect positive surprise from traditional NB and netbook sales on remaining lukewarm end-demand in mature markets and potential production disruption after the earthquake in Japan. Although China demand should be boosted by upcoming golden week sales, it may not be able to offset weakness in the mature markets. We retain our cautious view on the PC growth outlook in 2Q and lower our 2Q NB shipments projection of the top-five NB ODMs from 13% q-q, to 6% q-q growth.

Following up on Japan's earthquake impact, our channel checks indicate that there has been some disruption to the supply of ACF, MLCC, batteries, motor driver IC and pick-up head for ODD etc. Among these components, we are more concerned about the supply constraints of ODD. According to our channel checks, production at Texas Instrument's (TI) analog IC fab in Miyagi has been disrupted following the earthquake. As TI holds a ~90% market share in ODD motor driver IC and the damage recovery may take around three weeks, our analyst Tetsuya Wadaki believes a full-restart before May is unlikely. Currently, ODD makers hold 1.5-2 months of inventory on hand. As TI's fabs impacted by the earthquake are not likely to resume operation before May (and further, it should be around September to reach pre-quake production levels), we see a potential risk of a supply constraint, even if TI is able to switch production to other fabs smoothly. Considering 2-3 months of lead time, we may see a temporary supply constraint starting in June.

Fig. 34: PC supply chain: Potential production disruption

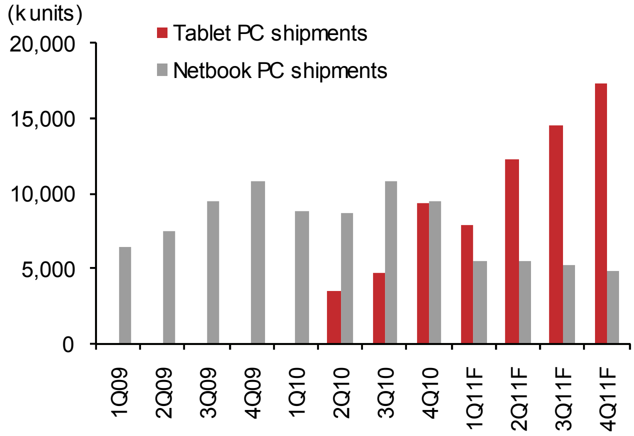


Source: Nomura research

PC OEMs have not found ways to compete with Apple in tablet PC area

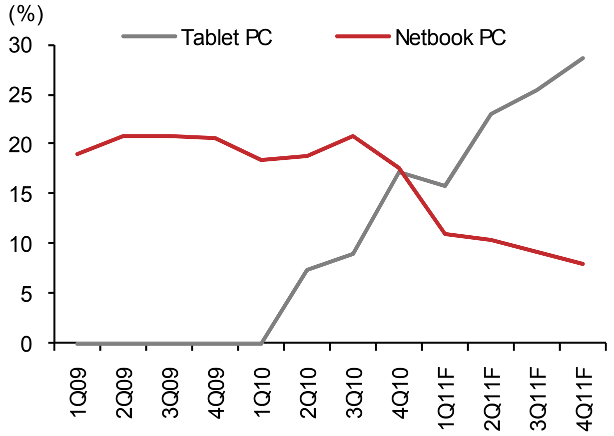
While Acer reiterated its tablet PC shipments of 5-7mn units for 2011, we think it will be challenging to achieve the target given the tightening supply of key components after the earthquake in Japan. Moreover, as PC OEMs still find difficulties in competing with Apple in terms of product design and lack of bargaining power over key component suppliers, we believe Apple should retain its dominant position in global tablet PC market with a 60%-plus worldwide market share. Although PC OEMs are aggressive in expanding into the tablet PC market due to their slow progress and the component tight supply (ex. BT Resin) post Japan's earthquake, we expect this to further delay PC OEM's shipment schedule of tablet PCs as we believe Apple will be in a better position to get the key components earlier from suppliers. Thus, we hold the view that PC OEMs could only compete in the entry-level segment and the shipment contribution from tablet PC is likely to be small in 2011F.

Fig. 35: Tablet PC and Netbook shipments



Source: IDC; Nomura research estimates

Fig. 36: Tablet PC/ Netbook to total portable PC



Source: IDC; Nomura research estimates

IT Service — Back the discretionary demand plays

Ashwin Mehta / Pinku Pappan

Better growth skew and operational flexibility key trends to play

We advise investing in the sector through stocks that benefit from: 1) greater presence in discretionary services and possible mix-based pricing upticks (Infosys, HCLT); 2) positioning to compete with MNCs (HCLT), and; 3) greater operational scope to limit the impact of supply-side pressures/growth investments (Infosys, HCLT).

Near-term demand outlook robust

Tier-1 companies under our coverage are seeing a positive bias in client budgets, an increase in discretionary spending, and marginal increase in pricing. The momentum seen in consulting and package implementation service lines is likely to improve as both SAP and Oracle reported in excess of 30% y-y growth in license signings in the last reported quarter. The trend is corroborated by Accenture's 2QFY11 result commentary highlighting: 1) an increase in package implementation work due to global rollouts, M&A and regulations; and 2) strong traction in financial services, the largest vertical for Indian IT services companies. We see tier-1 IT companies benefitting from the above demand trends; our estimates build in US$ revenue growth of 21-31% in FY12F with Cognizant and Infosys leading and Wipro lagging on growth.

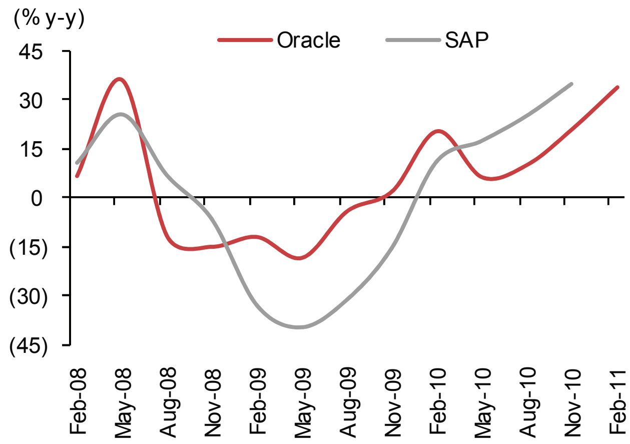
Supply pressures to continue in FY12F

The supply pressures that affected the industry in the latter half of FY11 – above-trend attrition rates, above-trend lateral hiring and double-digit wage inflation – are likely to continue in FY12F, in our view. Strong hiring will keep wage inflation elevated in the 12-15% range, on our estimates. We see Wipro's margins more at risk from supply-side pressures, given higher-than-peer group attrition and no wage hikes in FY11F.

Top picks: HCL Tech

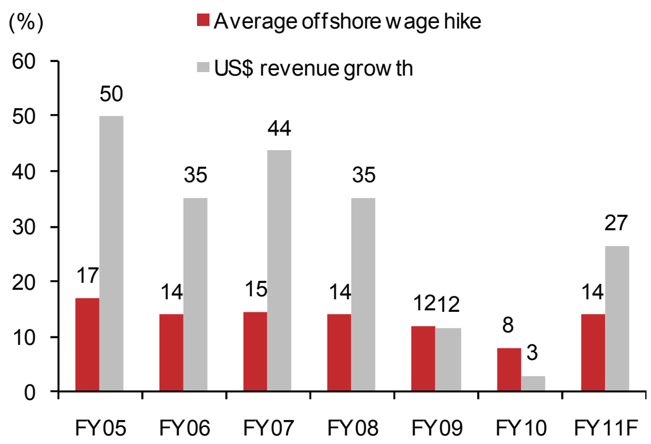
HCL Tech is our top large-cap pick on its ability to compete with MNC players in large deal rebids, best-in-class earnings growth and attractive valuations. We prefer Infosys to TCS on greater discretionary services presence and better operational scope. Wipro remains our least preferred stock within tier-1 IT on slower comparable growth and higher supply-side risks. Our top REDUCE calls are Patni and Mphasis owing to slower growth and higher supply-side pressures.

Fig. 37: Oracle and SAP application license signings growth in excess of 30% y-y in last quarter



Source: Company data, Nomura research

Fig. 38: Offshore wage hike for Infosys, in double digits for five of the past six years



Source: Company data, Nomura estimates

Fig. 39: Operational scope better at Infosys and HCLT

	Utilization (incl. trainees) (%)				Fixed price proportion (%)		Offshore revenue mix (%)	
	Latest qtr	Average	Max	Current	Latest qtr	LTM change	Latest qtr	LTM change
Infosys	72.6	69.5	74.3	1.7	41.2	2.9	50.7	(3.2)
TCS	77.1	74.5	77.7	0.6	49.7	1.7	56.3	(1.2)
Wipro	75.6	75.4	80.7	5.1	46.3	3.8	48.2	(1.5)
HCLT	70.1	72.6	76.4	6.3	41.5	1.9	41.9	1.0

Note: Latest quarter is Dec 2010

Source: Company, Nomura research

Fig. 40: Stock views in order of preference

BUY	NEUTRAL	REDUCE
HCL Tech: Best positioned to compete with MNCs, high discretionary delta, better operational scope and higher than peer group earnings growth	**Cognizant:** Positive on growth investments, however smaller presence in service lines likely to accelerate in the medium term to reduce outperformance. Would wait for better entry points.	**Patni:** Two mid tier-IT companies don't make a tier-I IT company. See limited synergy benefits with iGate
Infosys: Play on discretionary demand sustenance, better operational scope and higher earnings growth vs TCS and Wipro	**TCS:** Exhausted operational scope and high street expectations leave limited room for disappointment **Wipro:** Least preferred on slower comparable growth, higher supply side risks and need to invest to catch up with tier I growth and lowest earnings growth among tier-I IT **Tech Mahindra:** Lagging telecom vertical exposure, growth skew towards lower margin services and long road towards recovery at Satyam	**Mphasis:** Premature end to the MNC offshoring story and loss of management credibility

Source: Nomura research

Fig. 41: Relative valuations

			P/E (x)		EV/EBITDA (x)		EPS growth (%)	
Company	**Ticker**	**Rating**	**FY12**	**FY13**	**FY12**	**FY13**	**FY12**	**FY13**
TCS	TCS IN	NEUTRAL	23.4	20.4	16.8	14.6	15.2	14.6
Infosys	INFO IN	BUY	21.4	17.4	14.7	11.9	17.2	22.7
Wipro	WPRO IN	NEUTRAL	18.8	16.9	13.3	11.7	11.9	11.2
Cognizant	CTSH US	NEUTRAL	28.1	23.2	17.3	13.4	18.2	21.2
HCL Tech.	HCLT IN	BUY	15.6	13.0	9.9	8.1	38.7	19.8
Mphasis	MPHL IN	REDUCE	12.1	11.5	8.7	7.3	(28.0)	5.4
Tech Mahindra	TECHM IN	NEUTRAL	13.9	12.3	9.5	9.1	5.7	12.9
Patni	PATNI IN	REDUCE	14.0	12.7	9.8	8.2	(19.8)	10.2

Note: Pricing date 15 April, 2011; FY12 indicates year ending Oct 2011 for Mphasis, Dec 2011 for Patni and Cognizant, Mar 2012 for Infosys, Wipro, TCS and Tech Mahindra and Jun 2012 for HCL Tech. Also, Tech Mahindra EBITDA figures are standalone, while EPS is consolidated.

Source: Bloomberg, Nomura estimates

Solar — Reiterate preference for vertical integration as ASPs deteriorate post policy changes in Europe

Nitin Kumar / Ivan Lee / Raghvendra Divekar

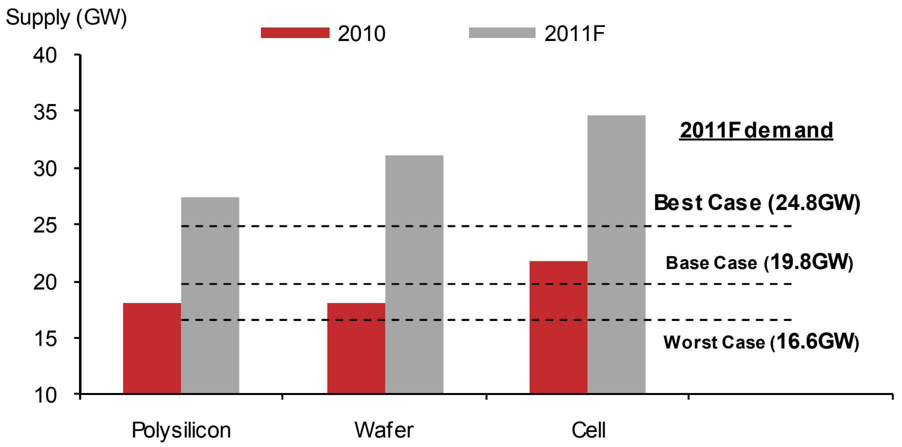
Investment summary

In our latest update *Risks Remain* dated 5 April 2011, we reiterated our preference for vertically integrated companies which have strong control over their cost structures and companies where we see strong geographic sales diversification. Over the past three months, we have seen a spate of subsidy reductions at practically all European countries coming faster and deeper than our expectations. While we believe that most of the negative news from Europe is likely behind us, we remain cautious on two counts:

- **2H11F module ASPs likely to drop to US$1.3~1.4/W levels**

  We now expect 2H11F ASPs to be in the US$1.3-1.4/W range, down from our previous expectations of US$1.4-1.5/W and from 1Q11F levels of US$1.7-1.8/W. While oversupply conditions will likely be exacerbated given potential slower demand from Italy and Germany (63% of FY10 demand), we believe faster ASP deterioration will be limited by IRRs reaching 6-7% in Germany as ASPs reach US$1.3/W levels. That said, 2012F will likely be a tough year, where we now see ASPs falling to US$1.15-1.3/W, from US$1.25- 1.35/W previously, given further subsidy reductions in Germany and Italy. In our view, as ASPs decline, companies need to migrate towards vertical integration to maintain profitability, and thus we prefer companies which have already integrated to a large extent. Amidst our coverage, we see GCL Poly (poly + wafer), Trina (wafer to module), Yingli (wafer to module) and Suntech (wafer to module) as best positioned.

Fig. 42: Oversupply across the value chain



Source: Nomura research

- **2012F demand to be flattish post a 9% y-y increase in 2011F**

  We believe that most of the negative policy changes in Europe are now behind us. That said, given that Europe accounts for ~72% of 2011F demand, we believe demand will only grow 9% y-y in 2011F followed by 1% y-y in 2012F in our base-case scenario. Here, we have maintained a strong demand outlook from Japan in 2011F, which could be at risk if Japan decides to divert subsidies towards economic reconstruction post the devastating earthquake and tsunami in March 2011. In such a scenario, we believe companies best placed to benefit from changes in demand need to focus on diversifying their geographic sales. Amidst our coverage, we see Suntech with ~47% of sales from outside Europe in 2011F as best placed to gain share, followed closely by

Trina (33% of 2011F shipments ex-Europe) and Yingli (30~35% of 2011F shipments ex-Europe) with strong shipments to US and China, respectively.

With a sharper ASP decline and slower demand growth in 2011-12F, we reiterate our preference for companies with three key characteristics: 1) better cost management, which favours companies with vertical integration; 2) geographical sales diversification to capture demand from new growth markets as demand growth from Europe diminishes; and 3) continued investments in R&D to enable faster cost reduction.

Fig. 43: Base case: Share of Europe to reduce to 42% by 2013F

	Market Size (MW)					y-y chg (%)					Breakdown (%)				
	2009	2010	2011F	2012F	2013F	2009	2010	2011F	2012F	2013F	2009	2010	2011F	2012F	2013F
Germany	3,502	7,644	6,497	3,898	3,509	88	118	(15)	(40)	(10)	47	42	33	19	14
Spain	98	375	450	495	500	(96)	281	20	10	1	1	2	2	2	2
Italy	690	3,822	6,115	4,586	5,045	187	454	60	(25)	10	9	21	31	23	20
France	103	719	500	650	800	211	600	(30)	30	23	1	4	3	3	3
Greece	76	150	250	300	360	154	97	67	20	20	1	1	1	1	1
Rest of Europe	281	2,032	300	319	390	14	622	(85)	6	22	4	11	2	2	2
Japan	482	910	1,274	1,529	2,140	110	89	40	20	40	7	5	6	8	9
USA	485	910	1,729	3,112	4,668	35	88	90	80	50	7	5	9	15	19
Korea	98	145	152	198	297	(65)	48	5	30	50	1	1	1	1	1
China	95	323	581	1,510	2,266	229	238	80	160	50	1	2	3	8	9
India	54	125	200	802	1,202	75	131	60	300	50	1	1	1	4	5
Rest of World	563	300	720	1,296	1,685	276	(47)	140	80	30	8	2	4	6	7
Total Grid installations	**6,430**	**17,455**	**18,769**	**18,695**	**22,862**	**8**	**171**	**8**	**(0)**	**22**	**87**	**96**	**95**	**93**	**92**
Off-grid installations	948	745	1,043	1,408	2,112	5	(21)	40	35	50	13	4	5	7	8
Total demand	**7,378**	**18,200**	**19,812**	**20,103**	**24,974**	**8**	**147**	**9**	**1**	**24**	**100**	**100**	**100**	**100**	**100**

Source: Solarbuzz, Nomura estimates

Vertically integrated model – the winning strategy

We reiterate our preference for vertically integrated companies, where we see better margin sustainability given cost control over more value-chain areas. Here, we see Trina, Suntech and Yingli as best positioned to benefit from integration from wafers to modules; and GCL as best positioned to leverage its lowest cost structure in poly and wafer to accelerate market-share gains in the wafer space.

Despite the relatively better stock performance versus that of peers YTD (as shown in our valuation summary), we believe the four companies highlighted above have further upside potential given valuations remain attractive, despite our conservative FY11F shipment expectations for the companies. We maintain our BUY on Suntech, Trina, Yingli and GCL Poly. We believe the pure-play makers currently under transition to increase vertical integration will see margin declines in their primary business segment, partially offset by benefits from increased integration. As such, we await evidence of improved execution before we review our call and thus reiterate our NEUTRAL call on JA Solar, Motech, LDK and Canadian Solar. The majority stake acquisition by Inventec into E-Ton, in our view, will help improve the balance sheet and enable investments into commercializing R&D, creating scale efficiencies and cost reduction. That said, we continue to see E-Ton as one of the weakest in the sector given its highest cost structure. We reaffirm our REDUCE call on E-Ton.

What to expect from stocks in our coverage universe

The following discussion shows the relative stock performance of the three stock baskets in our stock universe that we suggested in our previous report:

- Vertically integrated companies, where we highlighted BUY on Suntech, Trina and Yingli Solar. To this list, we added GCL with our 14 March upgrade. Year to date, Suntech, Trina, Yingli and GCL have each risen by 12.7%, 24.0%, 8.5% and 73.1%, vs a 5.9% gain for the MSCI China and a 2.3% gain for the MSCI HK.
- Pure-play companies in the process of increasing vertical integration, where we highlighted NEUTRAL on JA Solar, Canadian Solar, Motech and LDK. Year to date, Motech and LDK have each risen by 9.3% and 10.8%, while Canadian Solar and JA Solar have fallen by 19.0% and 9.5%, respectively compared to a 5.9% gain in the MSCI China and a 3.5% fall in the MSCI Taiwan.

- The third basket includes pure-play stocks where we await increased vertical integration. In our coverage, this basket contains E-Ton, which has since had a meaningful change in business structure through M&A. E-Ton saw a 50% stake acquisition by Inventec, which we believe will help to alleviate near-term debt concerns. We await new strategy changes before re-evaluating our numbers. Year to date, E-Ton has fallen 16.8% vs a 3.5% fall in the MSCI Taiwan.

That said, we believe stock performance over the next six months will remain focused on two key concerns: 1) the impact on ASPs, margins and demand from policy changes in European countries (81% of 2010 demand); and 2) potential upside from demand pickup in the US and China as ASPs decline.

Channel inventories likely to expand, steep ASP deterioration
We believe that most of negative news on policy changes is now behind us. That said, the stocks will likely continue to underperform over the next three months on uncertainty over rising channel inventories and thus ASP and margin deterioration. Recent supply chain checks suggest that contracts signed in 4Q10 and 1Q11 for delivery in 2Q11 are seeing negative corrections, with some companies noting potential channel inventory builds. ASPs are being revised down but the magnitude in 3Q11F is still an unknown. As such, we believe concerns are likely to peak by 1Q11F earnings releases in mid-May.

New demand creation in US and China, but unlikely to offset oversupply
We believe, as ASPs come down, IRRs in China and the US will become more attractive and thus we expect some level of demand upside surprise from the US and China. Even Germany and Italy, where we understand there are no caps on installations in 2011, could see positive surprises. Amidst this scenario, companies with the lowest cost structure and best geographical diversification will likely see faster increases in market share as consolidation starts to manifest, with volume increases helping to offset margin reductions, in our opinion. However, companies where either costs are higher or sales diversification is slow, will likely see slower volume growth amidst margin declines.

Fig. 44: Peer valuation comparison

Company	Bloomberg Code	Rating	PE (x)			PBV (x)			ROE (%)		
			FY10	FY11F	FY12F	FY10	FY11F	FY12F	FY10	FY11F	FY12F
Poly peer group											
OCI	010060 KS	Not Rated	31.1	14.2	11.9	6.1	4.3	3.2	19.8	30.3	26.9
Wacker Chemie	WCH GR	Not Rated	16.0	13.6	11.5	3.4	2.8	2.4	21.1	20.6	20.5
Poly + Wafer peer group											
GCL Polysilicon*	3800 HK	BUY	19.1	12.5	10.9	4.7	3.6	2.8	29.0	32.1	27.4
LDK Solar*	LDK US	NEUTRAL	5.1	6.1	6.9	1.5	1.2	1.0	30.4	22.4	15.6
MEMC	WFR US	Not Rated	78.9	10.4	9.1	1.2	1.2	1.1	1.5	11.4	11.9
REC	REC NO	Not Rated	16.2	15.4	15.0	0.8	0.7	0.7	4.8	4.9	4.7
Renesola	SOL US	Not Rated	4.7	4.3	4.3	1.4	1.1	1.0	28.6	25.4	21.9
Wafer peer group											
Green Energy Technology	3519 TT	Not Rated	13.9	9.0	8.2	2.0	1.9	1.5	14.4	18.6	18.0
Sino American Solar	5483 TT	Rating Suspended	12.1	9.7	10.7	3.1	2.3	1.9	25.4	23.7	17.5
PV Crystalox	PVCS LN	Not Rated	9.4	7.9	8.4	0.8	0.7	0.7	8.7	8.8	7.8
Comtec	712 HK	Not Rated	19.8	9.1	7.1	3.2	2.5	1.9	16.1	28.6	26.2
Solargiga	757 HK	REDUCE	19.1	12.1	9.7	2.9	1.9	1.6	15.4	15.7	16.4
Cell peer group											
JA Solar*	JASO US	NEUTRAL	4.0	5.2	5.0	1.0	0.9	0.7	31.2	19.1	17.0
E-Ton Solar*	3452 TT	REDUCE	(20.1)	18.8	13.7	1.0	0.9	0.9	(26.6)	5.0	6.4
Motech*	6244 TT	NEUTRAL	9.6	8.3	8.0	1.8	1.5	1.4	23.6	20.1	18.1
China Sunergy	CSUN US	Not Rated	2.9	6.6	6.9	0.7	0.7	0.7	23.1	10.6	10.0
Q-Cells	QCE GR	Not Rated	19.7	17.2	17.0	0.6	0.6	0.5	3.0	3.3	3.2
Gintech	3514 TT	Not Rated	6.1	7.4	6.6	1.5	1.4	1.2	24.8	18.3	18.4
Neo Solar	3576 TT	Not Rated	6.5	6.8	6.4	1.2	1.1	1.1	18.8	16.7	17.9
Vertically integrated peer group											
Suntech*	STP US	BUY	14.2	8.2	6.7	0.9	0.8	0.7	15.0	10.1	11.1
Trina*	TSL US	BUY	7.2	8.2	7.1	1.7	1.4	1.1	33.7	20.7	19.6
Yingli*	YGE US	BUY	8.7	8.6	8.0	1.2	1.1	1.0	18.8	16.2	14.7
Canadian Solar*	CSIQ US	NEUTRAL	4.6	6.6	5.5	0.8	0.7	0.6	10.1	11.5	12.2
Solarworld	SWV GR	Not Rated	13.8	14.9	14.6	1.3	1.2	1.2	9.4	8.4	8.0
First Solar	FSLR US	Not Rated	17.6	14.6	12.2	3.4	2.8	2.3	21.9	21.0	20.3
Solarfun	HSOL US	Not Rated	3.8	5.3	5.0	0.6	0.7	0.6	16.7	12.5	12.2
SunPower	SPWRA US	Not Rated	9.0	8.8	7.3	0.9	0.9	0.8	10.2	10.2	11.1
Evergreen Solar	ESLR US	Not Rated	(0.1)	(0.4)	(1.4)	(1.0)	(0.8)	(0.5)	NM	NM	NM

Note: Pricing as of 15 April 2011, * - Nomura rated companies

Source: Bloomberg consensus estimates (for unrated stocks), Nomura estimates

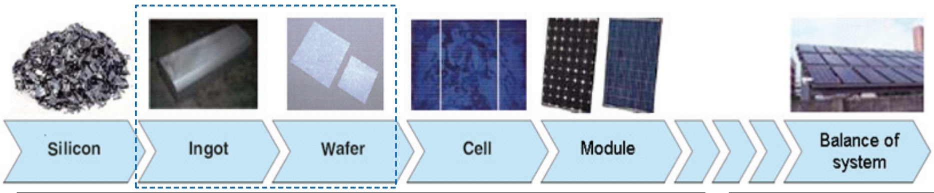
Fig. 45: Valuation summary

	GCL Holdings	Suntech Power	Trina Solar	Yingli Green	Canadian Solar	JA Solar	Motech	E-Ton	LDK
Bloomberg Code	3800 HK	STP US	TSL US	YGE US	CSIQ US	JASO US	6244 TT	3452 TT	LDK US
Price	4.95	9.03	29.04	12.03	10.04	6.26	117.5	39.75	11.21
Issued Shared (mn)	15,473	180	79	148	43	168	380	480	131
Market Cap (US$b)	9.9	1.6	2.3	1.8	0.4	1.1	1.5	0.7	1.5
Primary Business Model	Poly and Wafer	PV Cells and Module	Vertically Integrated	Vertically Integrated	PV Cells and Module	PV Cells	PV Cells	PV Cells	Poly and Wafer
Rating	BUY	BUY	BUY	BUY	NEUTRAL	NEUTRAL	NEUTRAL	REDUCE	NEUTRAL
Price Target	5.3	11.0	39.0	15.0	12.0	8.5	119.0	37.0	14.0
Upside / Downside (%)	7.1	21.8	34.3	24.7	19.5	35.8	1.3	(6.9)	24.9
Target 2011 PER (x)	13.3	9.9	9.7	10.4	8.0	6.7	9.0	17.5	7.6
Implied Target 2011 PBV (x)	3.7	0.9	1.8	1.6	0.9	1.2	1.6	0.85	1.4
PER (x)									
2010	19.1	14.1	7.2	8.7	4.6	4.0	9.6	(20.1)	5.1
2011F	12.5	8.1	8.2	8.6	6.6	5.2	8.3	18.8	6.1
2012F	10.9	6.7	7.1	8.0	5.5	5.0	8.0	13.7	6.9
PBV (x)									
2010	4.7	0.9	1.7	1.2	0.8	1.0	1.8	1.0	1.5
2011F	3.6	0.8	1.4	1.1	0.7	0.9	1.5	0.9	1.2
2012F	2.8	0.7	1.1	1.0	0.6	0.7	1.4	0.9	1.0
Gross Margin (%)									
2010	36.9	17.4	31.5	33.2	15.3	21.7	20.0	7.3	22.2
2011F	39.9	17.9	25.0	27.8	12.8	15.5	18.8	5.2	24.0
2012F	35.1	18.4	26.3	26.6	13.0	15.8	17.5	5.7	21.8
EBIT Margin (%)									
2010	30.2	9.5	22.5	22.2	8.0	16.8	13.8	4.0	17.3
2011F	35.0	10.1	13.5	17.3	5.0	10.1	11.8	2.5	16.7
2012F	30.4	10.5	14.8	16.1	5.1	10.4	10.7	3.1	14.1
Net Margin (%)									
2010	21.8	9.0	16.8	11.4	3.4	14.9	10.9	(12.9)	11.6
2011F	23.8	6.3	10.9	9.7	3.2	7.5	9.7	1.9	9.9
2012F	20.6	7.2	12.2	8.4	3.5	7.8	8.8	2.4	7.6
Net Profit (mn)	HK$	US$	US$	RMB	US$	US$	NT$	NT$	US$
2010	4,024	262	311	1,419	51	266	4,259	(2,311)	290
2011F	6,157	202	271	1,474	65	208	4,967	433	278
2012F	7,049	246	314	1,568	78	216	5,102	596	247
ROE (%)									
2010	29.0	15.0	33.7	18.8	10.1	31.2	23.6	(26.6)	30.4
2011F	32.1	10.1	20.7	16.2	11.5	19.1	20.1	5.0	22.4
2012F	27.4	11.1	19.6	14.7	12.2	17.0	18.1	6.4	15.6
Share price performance (y-y %)									
2008	(83.7)	(85.8)	(82.7)	(84.2)	(77.1)	(81.2)	(64.4)	(55.4)	(72.1)
2009	280.3	42.1	480.9	159.2	346.1	30.4	135.6	18.8	(46.6)
2010	23.3	(51.8)	(13.2)	(37.5)	(57.0)	21.4	(28.6)	(41.3)	44.4
YTD2011	73.1	12.7	24.0	8.5	(19.0)	(9.5)	9.3	(16.8)	10.8

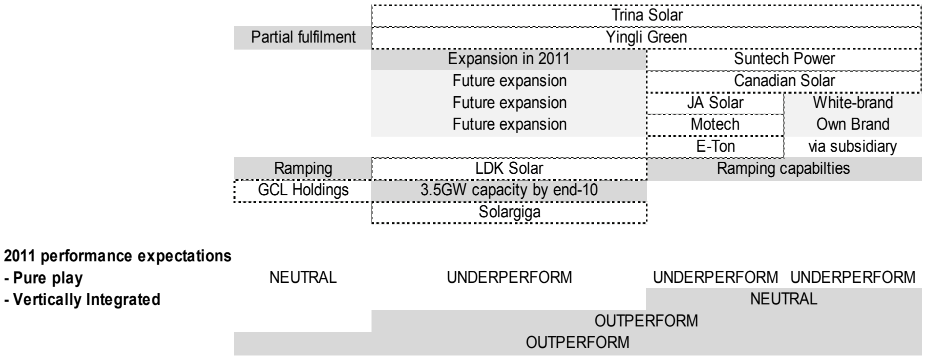
Note: JA Solar (JASO US) PT is under review; pricing as of 15 April 2011, FY10 numbers for E-Ton are Nomura estimates

Source: Bloomberg, Nomura research

Fig. 46: Value chain exposure of companies under coverage



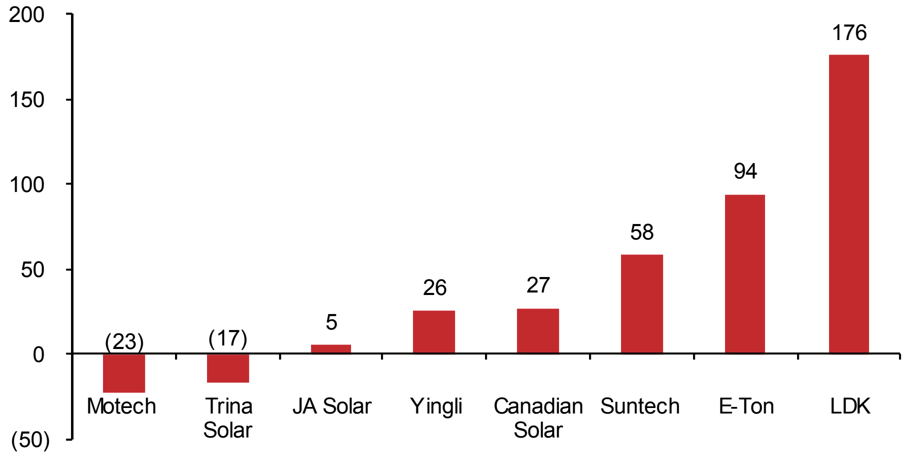
	Solar panel (45~55% of system ASP)				Balance of System (45~55% of system ASP)	
	Silicon	**Ingot/Wafer**	**Cell**	**Module**	**Inverters**	**Installation**
System ASP breakdown (%)	10~12%	12~15%	8~10%	15~18%	8~10%	35~45%
Typical Cost (US$/W)	0.12~0.20	0.30~0.35	0.20~0.25	0.30~0.35	0.25~0.35	N/A
Gross margins* (%)	40~60%	15~25%	15~25%	5~10%	35~40%	N/A



Note: * 2011 forecast

Source: Nomura research

Fig. 47: Net debt/equity (recent quarter)



Fabless — Who are structural winners or losers?

Aaron Jeng / Peter Liao

Continuous share gainers will stand out

For FY10F, we think Taiwan IC design companies miss out on the mobile device trend including smartphones and tablet. Looking into FY11F-12F, we expect some new products such as USB3.0 chips. However, few Taiwan fabless companies can really benefit from these new products, in our view, due mainly to the severe competition before the market picks up. In the power IC space, we prefer Richtek to TI as we hold the opposite view from the market consensus: 1) Richtek's cost saving from 6" to 8" is similar to TI's from 8" to 12; 2) Richtek gains share in the panel sector at the expense of TI; and 3) expectation on TI's expansion in the analog IC market is over optimistic, in our opinion. On the other hand, we expect Nuvoton to benefit from the strong-growing ARM 32-bit MCU trend and we expect Nuvton's 32-bit MCU shipment to more than double every year until FY13F.

Structural concerns unresolved in China handset IC market

We believe the white box handset story has paused (after significant growth over the past five years) in the transition from 2G to 3G and from feature phone to smartphone on structural changes, including lack of 3G licenses, weak consumer profile to support smartphone demand, saturation of emerging market demand and a persistent pricing war among chip vendors. MediaTek has the biggest handset exposure among Taiwan fabless companies, in our view. However, we think it is a disappointment that its advanced 3G chips are not ready yet, which makes it hard to benefit from the uptrend in converging devices.

BUY Richtek and Nuvoton; SELL MediaTek

Given continuous market share gains and cost-down efforts into FY11-12F, we maintain BUY on Richtek and Nuvoton. On the other hand, we continue to keep our REDUCE ratings on MediaTek, given our view that: 1) MediaTek will continue to encounter fierce competition from Spreadtrum and MStar, which will continue to have an adverse impact on its margin; 2) there will likely be a lack of growth catalysts for 2011-12; 3) MediaTek will see severe earnings decline in FY11F and no recovery in FY12F, in our view; and 4) valuation remains too high vs. its poor earnings growth outlook.

Samsung Electronics 005930.KS 005930 KS

MEMORY

NOMURA
EQUITY RESEARCH

Bottomed out, recovery ahead

CONVICTION CALL: Preparing to hit the recovery curve

April 20, 2011

Rating Remains	**Buy**
Target price Remains	KRW 1,350,000
Closing price April 15, 2011	KRW 888,000
Potential upside	+55.7%

Action: BUY reaffirmed

We expect to see a rebound in share price as both (a) earnings are expected to improve thanks to DRAM's cyclical recovery and (b) new growth engines is to come into play. We believe constant high-teen ROE that Samsung is capable of yet to be fully reflected in the share price. We are Buy on Samsung with PT of W1,350,000.

Catalyst: New growth engines – OLED, NAND and S-LSI

We expect Samsung's earnings to bottom in 1Q11F. In addition, new growth engines – OLED, NAND, S-LSI, and tablet/smartphones – should begin to contribute meaningfully, in our view.

Strategic positioning: Best placed to benefit from IT demand shift

In our view, SEC is best prepared among its peers for "rising technology", such as OLED display, specialty DRAM, NAND and smartphones. Given its competitiveness in these segments, we believe Samsung should recover from the current down-cycle ahead of peers.

Valuation: TP of KRW1,350,000

Our target price remains KRW1,350,000, based on 2.0x P/BV and a 12-month forward BVPS of KRW672,000. Given our forecast for continued high-teen ROEs in FY11F and FY12F, we believe our target multiple of 2.0x is justified.

31 Dec	FY10		FY11F		FY12F
Currency (KRW)	Actual	Old	New	Old	New
Revenue (bn)	154,630	162,294	162,294	187,138	187,138
Reported net profit (bn)	15,799	15,114	15,114	19,683	19,683
Normalised net profit (bn)	15,799	15,114	15,114	19,683	19,683
Normalised EPS	105,718.0	100,662.7	100,662.7	130,513.5	130,513.5
Norm. EPS growth (%)	62.2	-6.2	-4.8	29.7	29.7
Norm. P/E (x)	9.6	10.0	10.0	7.7	7.7
EV/EBITDA	4.3	3.9	3.9	2.8	2.8
Price/book (x)	1.6	1.3	1.3	1.2	1.2
Dividend yield (%)	1.1	1.1	1.1	1.5	1.5
ROE (%)	20.4	16.4	16.4	18.3	18.3
Net debt/equity (%)	1.1	net cash	net cash	net cash	net cash

Source: Nomura estimates

Key company data: *See page 2 for company data, and detailed price/index chart.*
Rating: *See report end for details of Nomura's rating system.*

Anchor themes

We are seeing a long-lasting shift in IT demand towards smartphones and tablet PCs. We believe Samsung is best positioned to benefit.

Nomura vs consensus

We are more positive than the street on Samsung's ability to differentiate itself in cost competitiveness and market share. Our TP is higher than the consensus figure by 13%.

Research analysts

Asia Technology/Memory

CW Chung - NFIK
cwchung@nomura.com
+82 2 3783 2312

Marcello Ahn - NFIK
marcello.ahn@nomura.com
+82 2 3783 2317

Key data on Samsung Electronics

Income statement (KRWbn)

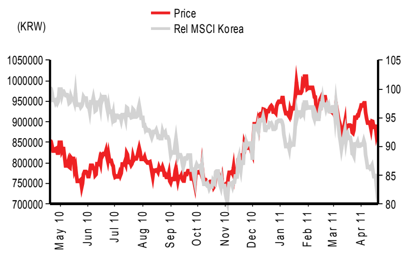
Year-end 31 Dec	FY09	FY10	FY11F	FY12F
Revenue	**136,323**	**154,630**	**162,294**	**187,138**
Cost of goods sold	-94,593	-102,667	-108,586	-122,315
Gross profit	**41,730**	**51,964**	**53,708**	**64,823**
SG&A	-30,747	-35,342	-38,014	-43,277
Employee share expense	-80	676	400	400
Operating profit	**10,903**	**17,297**	**16,094**	**21,946**
EBITDA	**22,063**	**28,690**	**30,450**	**39,265**
Depreciation	-10,911	-10,847	-13,861	-16,810
Amortisation	-248	-547	-495	-508
EBIT	10,903	17,297	16,094	21,946
Net interest expense	-203	-23	195	340
Associates & JCEs	1,713	2,267	2,189	2,311
Other income	-222	-212	-98	-98
Earnings before tax	**12,191**	**19,329**	**18,380**	**24,499**
Income tax	-2,431	-3,182	-3,014	-4,410
Net profit after tax	**9,760**	**16,147**	**15,367**	**20,089**
Minority interests	-188	-347	-253	-406
Other items				
Preferred dividends				
Normalised NPAT	**9,572**	**15,799**	**15,114**	**19,683**
Extraordinary items				
Reported NPAT	**9,572**	**15,799**	**15,114**	**19,683**
Dividends	-1,176	-1,400	-1,411	-1,871
Transfer to reserves	**8,396**	**14,400**	**13,702**	**17,813**
Valuation and ratio analysis				
FD normalised P/E (x)	15.8	9.6	10.0	7.7
FD normalised P/E at price target (x)	24.0	14.5	15.2	11.7
Reported P/E (x)	13.6	8.4	8.8	6.8
Dividend yield (%)	0.9	1.1	1.1	1.5
Price/cashflow (x)	7.9	6.3	5.1	4.1
Price/book (x)	1.9	1.6	1.3	1.2
EV/EBITDA (x)	5.5	4.3	3.9	2.8
EV/EBIT (x)	10.3	6.7	7.0	4.8
Gross margin (%)	30.6	33.6	33.1	34.6
EBITDA margin (%)	16.2	18.6	18.8	21.0
EBIT margin (%)	8.0	11.2	9.9	11.7
Net margin (%)	7.0	10.2	9.3	10.5
Effective tax rate (%)	19.9	16.5	16.4	18.0
Dividend payout (%)	12.3	8.9	9.3	9.5
Capex to sales (%)	6.3	14.0	14.5	13.7
Capex to depreciation (x)	0.8	2.0	1.7	1.5
ROE (%)	15.0	20.4	16.4	18.3
ROA (pretax %)	12.7	17.2	13.9	16.9
Growth (%)				
Revenue	12.4	13.4	5.0	15.3
EBITDA	36.8	30.0	6.1	28.9
EBIT	80.8	58.6	-7.0	36.4
Normalised EPS	73.3	62.2	-4.8	29.7
Normalised FDEPS	73.2	65.1	-4.3	30.2
Per share				
Reported EPS (KRW)	65,182.50	105,717.96	100,662.67	130,513.53
Norm EPS (KRW)	65,182.50	105,717.96	100,662.67	130,513.53
Fully diluted norm EPS (KRW)	56,259.58	92,862.94	88,835.20	115,692.89
Book value per share (KRW)	475,568.92	572,585.28	658,198.39	769,881.75
DPS (KRW)	8,000.00	10,000.00	10,000.00	13,000.00

Source: Nomura estimates

Notes

New growth engines to kick in fully from 2H11F.

Price and price relative chart (one year)



(%)	1M	3M	12M
Absolute (KRW)	3.3	-4.8	3.9
Absolute (USD)	8.0	-2.7	5.8
Relative to index	-7.4	-6.2	-19.0
Market cap (USDmn)	120,012.4		
Estimated free float (%)	82.0		
52-week range (KRW)	1014000/735000		
3-mth avg daily turnover (USDmn)	339.26		
Major shareholders (%)			
Samsung Life Insurance	7.5		
Samsung Corp.	5.6		

Cashflow (KRWbn)

Year-end 31 Dec	FY09	FY10	FY11F	FY12F
EBITDA	22,063	28,690	30,450	39,265
Change in working capital	6,202	8	4,290	-5,742
Other operating cashflow	-9,079	-4,873	-5,266	3,680
Cashflow from operations	**19,186**	**23,826**	**29,474**	**37,202**
Capital expenditure	-8,525	-21,619	-23,594	-25,573
Free cashflow	**10,660**	**2,207**	**5,880**	**11,629**
Reduction in investments	-2,705	-5,569	-1,445	-2,530
Net acquisitions				
Reduction in other LT assets	-6,283	-786	-202	-219
Addition in other LT liabilities	-3,078	3,600	-3,570	-2,363
Adjustments	6,167	390	5,014	4,892
Cashflow after investing acts	**4,762**	**-158**	**5,678**	**11,410**
Cash dividends	-871	-606	-1,408	-1,415
Equity issue	331	42	0	0
Debt issue	-3,078	3,600	-3,570	-2,363
Convertible debt issue				
Others	192	-3,237	60	60
Cashflow from financial acts	**-3,427**	**-201**	**-4,917**	**-3,717**
Net cashflow	**1,335**	**-359**	**761**	**7,693**
Beginning cash	8,815	10,149	9,791	10,551
Ending cash	10,149	9,791	10,552	18,244
Ending net debt	-530	914	-3,416	-13,472

Source: Nomura estimates

Notes

Likely to continue generating positive operating cashflows while new growth engines – OLED, NAND, and S-LSI – lead to substantial cash flow growth in 2012F.

Balance sheet (KRWbn)

As at 31 Dec	FY09	FY10	FY11F	FY12F
Cash & equivalents	10,149	9,791	10,551	18,244
Marketable securities	9,612	12,365	11,418	11,418
Accounts receivable	17,818	19,153	20,732	22,441
Inventories	9,839	13,364	13,473	13,583
Other current assets	6,793	7,708	4,631	11,558
Total current assets	**54,211**	**62,381**	**60,806**	**77,244**
LT investments	8,985	11,801	14,192	16,722
Fixed assets	43,560	53,940	65,764	64,794
Goodwill				
Other intangible assets	1,256	2,780	2,893	3,040
Other LT assets	4,168	4,426	4,791	5,186
Total assets	**112,180**	**135,328**	**148,446**	**166,987**
Short-term debt	5,946	9,459	6,318	4,236
Accounts payable	8,235	9,148	9,902	10,718
Other current liabilities	17,694	22,565	24,712	26,900
Total current liabilities	**31,876**	**41,173**	**40,933**	**41,854**
Long-term debt	3,673	1,245	817	536
Convertible debt				
Other LT liabilities	3,587	3,581	3,665	3,752
Total liabilities	**39,135**	**45,999**	**45,414**	**46,142**
Minority interest	3,211	3,759	4,208	4,736
Preferred stock	119	119	119	119
Common stock	778	778	778	778
Retained earnings	65,181	85,014	98,299	116,111
Proposed dividends				
Other equity and reserves	3,756	-341	-373	-901
Total shareholders' equity	**69,834**	**85,570**	**98,824**	**116,108**
Total equity & liabilities	**112,180**	**135,328**	**148,446**	**166,987**
Liquidity (x)				
Current ratio	1.70	1.52	1.49	1.85
Interest cover	53.7	752.7	na	na
Leverage				
Net debt/EBITDA (x)	net cash	0.03	net cash	net cash
Net debt/equity (%)	net cash	1.1	net cash	net cash
Activity (days)				
Days receivable	40.0	43.6	44.9	42.2
Days inventory	37.3	41.2	45.1	40.5
Days payable	26.7	30.9	32.0	30.9
Cash cycle	50.6	54.0	57.9	51.8

Source: Nomura estimates

Notes

Net cash status to continue.

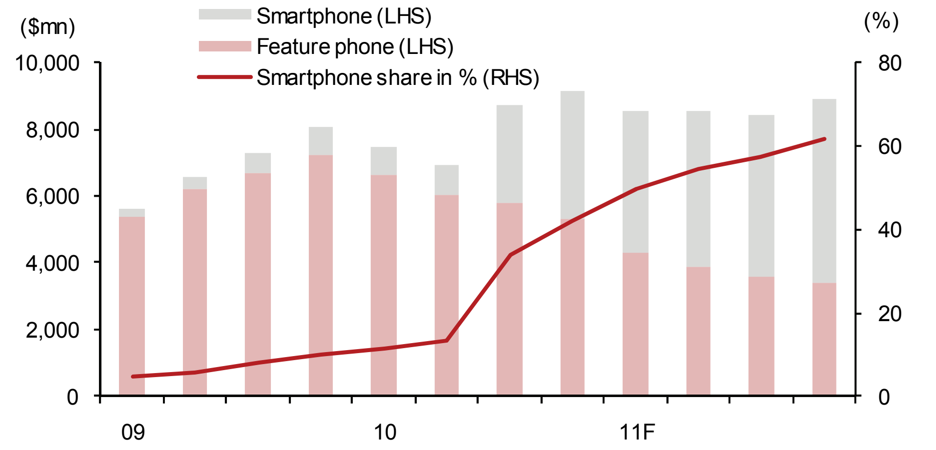
1Q11 – Technology shift in LCD dents earnings

Samsung's 1Q11 preliminary OP was KRW2.9tn, below our estimate by KRW90bn. Samsung's LCD fab underwent a conversion from aluminium electrode to copper electrode, which dented utilisation and resulted in lower profitability. This is likely to be temporary, in our view. The quarterly performance of other segments was in line with our estimates.

Ready to enter recovery trajectory

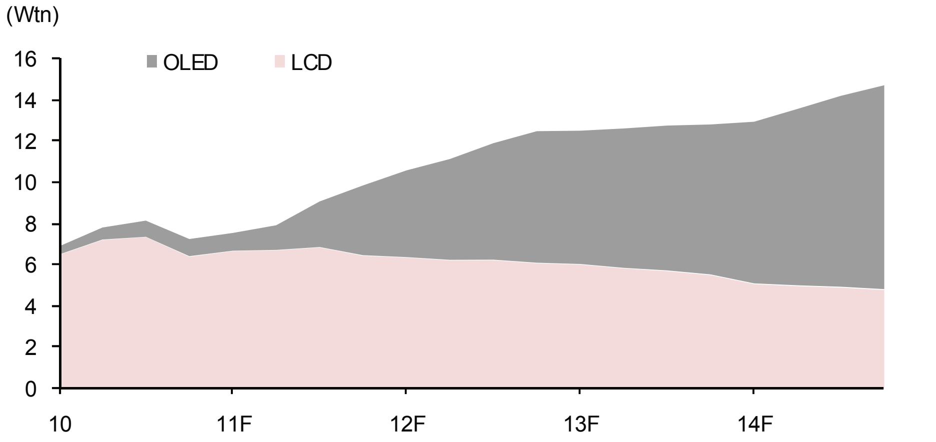
We forecast Samsung's quarterly OP will regain growth momentum, rising 20% q-q in each of 2Q11F and 3Q11F. This reflects our view that: 1) the memory market likely bottomed out in 1Q11 and is facing a recovery curve; 2) performance of both the handset and display operations is likely to recover at a faster pace as the 5.5G AMOLED fab ramps up in 2Q11F; and 3) its home appliances operations, which have been in the red, will move into profitability in 2Q11F.

Fig. 48: Samsung's handset revenue split



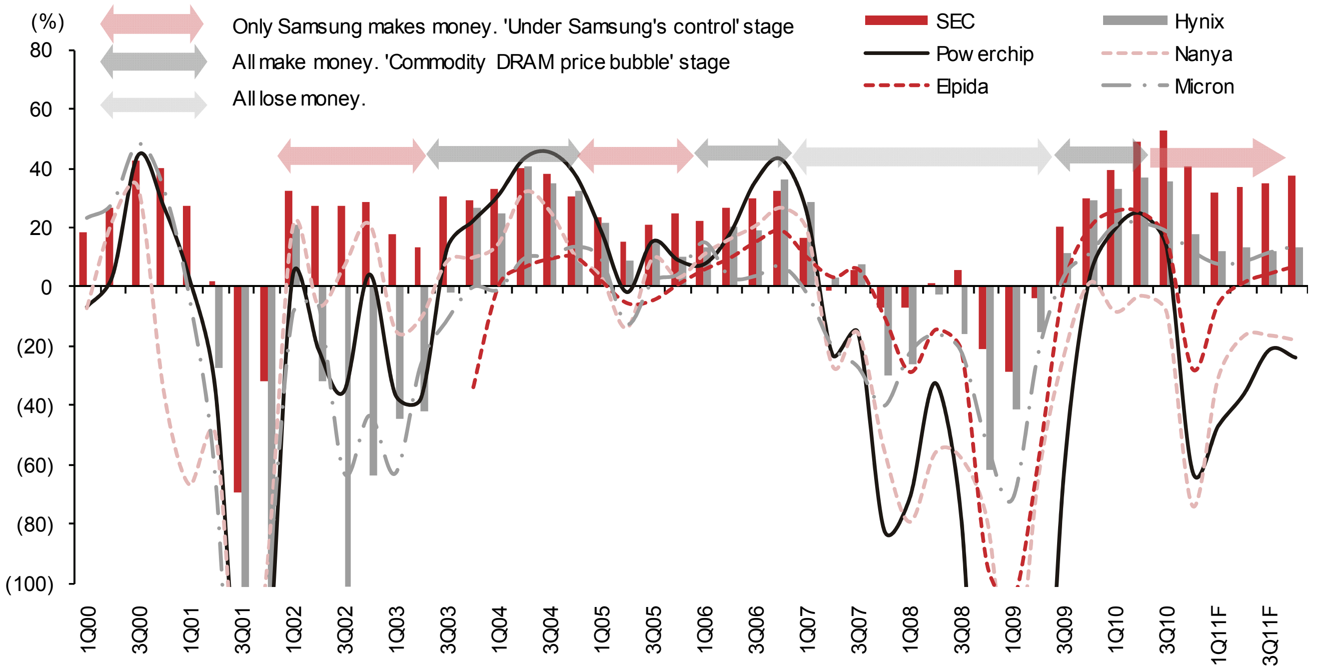
Source: Company data, Nomura estimates

Fig. 49: Samsung's display revenue split



Source: Company data, Nomura estimates

Fig. 50: Memory – Samsung's golden price strategy to remain in play

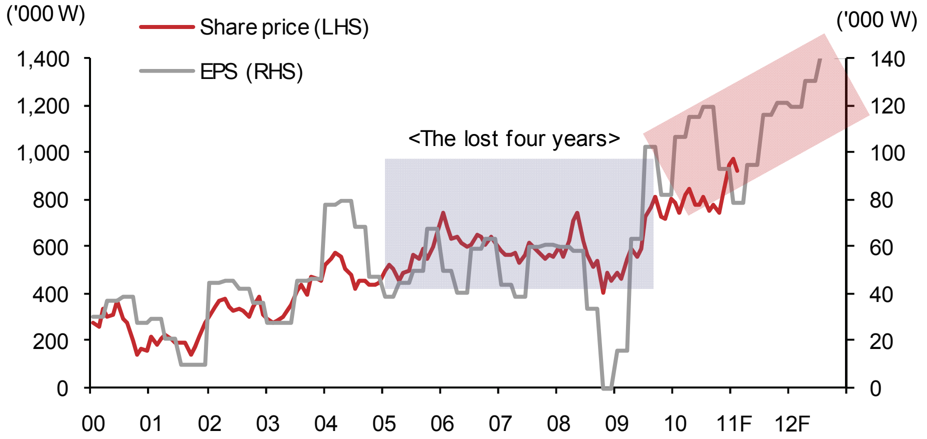


Source: Each company data, Nomura estimates

Maintain BUY with TP of KRW1,350,000

We find the shares are trading at 9.5x FY11F EPS of KRW100,700 and 1.4x one-year forward BVPS. We expect the share price to turn around in 2Q11F, accompanied by earnings improvement. We reaffirm our BUY call and TP of KRW1,350,000.

Fig. 51: EPS vs. Share price



Source: Bloomberg, Nomura estimates

Valuation methodology and risks to our call

Our target price of KRW1,350,000 is based on 2.0x P/BV (given continued high-teen ROE) and a 12-month forward BVPS of KRW672,000. Given our forecast for continued high-teen ROEs in FY11F and FY12F, we believe our target multiple of 2.0x is justified. Risks to our view include: 1) faster-than-expected KRW appreciation; 2) increased competition in the smartphone space; and 3) excessive industry-wide capex in NAND.

LG Electronics 066570.KS 066570 KS

HANDSETS

NOMURA
EQUITY RESEARCH

April 20, 2011

Rating Remains	**Buy**
Target price Remains	KRW 147,000
Closing price April 15, 2011	KRW 101,000
Potential upside	+45.5%

Faster recovery in handsets

CONVICTION CALL: Increasing smartphone shipments and retiring loss-making feature

Action: BUY on recovery in handset biz

We reiterate our BUY rating to reflect the rapid recovery in handset momentum (spurred by an attractive smartphone lineup). We believe the handset business is key to LGE's stock price, and with the company having launched a competitive smartphone lineup, including the *Optimus 2x*, and upcoming models such as the *Optimus Black* and other mid- to low-end models in the pipeline, we are positive.

Catalyst: Handset margin turnaround

We think LGE's handset business is showing signs of a turnaround. We believe LGE is recovering its business momentum. We estimate that operating profit at the handset business will turn to profit in May.

Valuation:

To derive our price target of W147,000, we apply EV/EBITDA SOTP, using annualised 2H11F EBITDA of the handset segment while using 2011F EBITDA for others. We believe using annualised 2H11F EBITDA of the handset segment is more reasonable, as we expect a recovery likely in 2H11F. Moreover, applied EV/EBITDA of the handset segment is the average between HTC's multiple and the average of others, as LGE is approaching HTC in terms of handset competitiveness. Our price target is equivalent to FY12F P/E of 12.2x and P/BV of 1.5x.

31 Dec	FY10	FY11F		FY12F	
Currency (KRW)	Actual	Old	New	Old	New
Revenue (bn)	55,754	61,098	61,098	67,343	67,343
Reported net profit (bn)	1,227	919	933	1,955	1,949
Normalised net profit (bn)	1,227	919	933	1,955	1,949
Normalised EPS	7,581.6	5,676.1	5,766.6	12,081.6	12,044.8
Norm. EPS growth (%)	-46.4	-25.1	-23.9	112.8	108.9
Norm. P/E (x)	13.5	18.1	17.8	8.5	8.5
EV/EBITDA	10.0	6.6	7.4	5.1	5.4
Price/book (x)	1.3	1.2	1.2	1.1	1.1
Dividend yield (%)	0.2	1.4	1.4	1.4	1.4
ROE (%)	10.1	7.0	7.1	13.4	13.5
Net debt/equity (%)	36.1	40.3	41.6	40.2	40.2

Source: Nomura estimates

Key company data: *See page 2 for company data, and detailed price/index chart.*
Rating: *See report end for details of Nomura's rating system.*

Anchor themes

Mr. Koo's leadership has helped resolve problems that plagued LGE prior to his appointment. We expect his extensive experience will help in addressing shortcomings in product development.

Nomura vs consensus

Consensus is more bullish on the non-handset business. However, handset margin is the key share price driver, in our view, and our bullish view on this business is enough for our BUY call.

Research analysts

Asia Technology/Displays

James Kim - NFIK
james.kim@nomura.com
+82 2 3783 2341

Greg Kang - NFIK
greg.kang@nomura.com
+82 2 3783 2336

Key data on LG Electronics

Income statement (KRWbn)

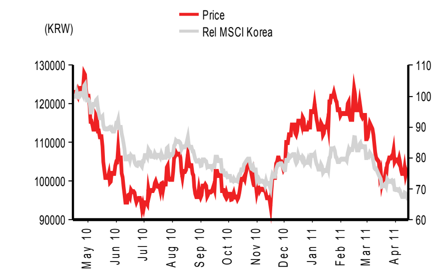
Year-end 31 Dec	FY09	FY10	FY11F	FY12F
Revenue	**55,491**	**55,754**	**61,098**	**67,343**
Cost of goods sold	-41,341	-43,724	-47,800	-51,657
Gross profit	**14,151**	**12,030**	**13,298**	**15,686**
SG&A	-11,470	-11,854	-12,342	-13,603
Employee share expense				
Operating profit	**2,681**	**176**	**956**	**2,083**
EBITDA	**4,020**	**1,466**	**2,351**	**3,397**
Depreciation	-1,339	-1,290	-1,395	-1,314
Amortisation				
EBIT	2,681	176	956	2,083
Net interest expense	-251	-219	-260	-304
Associates & JCEs	435	477	422	485
Other income	0	0	20	113
Earnings before tax	**2,865**	**435**	**1,138**	**2,377**
Income tax	-589	0	-205	-428
Net profit after tax	**2,276**	**434**	**933**	**1,949**
Minority interests	-63	-55	0	0
Other items	74	848		
Preferred dividends				
Normalised NPAT	**2,287**	**1,227**	**933**	**1,949**
Extraordinary items	0	0	0	0
Reported NPAT	**2,287**	**1,227**	**933**	**1,949**
Dividends	-308	-33	-236	-236
Transfer to reserves	**1,979**	**1,194**	**698**	**1,714**
Valuation and ratio analysis				
FD normalised P/E (x)	7.3	13.5	17.8	8.5
FD normalised P/E at price target (x)	10.4	19.4	25.5	12.2
Reported P/E (x)	7.3	13.5	17.8	8.5
Dividend yield (%)	1.9	0.2	1.4	1.4
Price/cashflow (x)	2.7	1,947.6	20.9	16.1
Price/book (x)	1.4	1.3	1.2	1.1
EV/EBITDA (x)	4.1	10.0	7.4	5.4
EV/EBIT (x)	5.8	29.7	14.9	8.2
Gross margin (%)	25.5	21.6	21.8	23.3
EBITDA margin (%)	7.2	2.6	3.8	5.0
EBIT margin (%)	4.8	0.3	1.6	3.1
Net margin (%)	4.1	2.2	1.5	2.9
Effective tax rate (%)	20.5	0.0	18.0	18.0
Dividend payout (%)	13.5	2.7	25.2	12.1
Capex to sales (%)	3.2	3.1	3.8	3.0
Capex to depreciation (x)	1.3	1.4	1.6	1.5
ROE (%)	22.9	10.1	7.1	13.5
ROA (pretax %)	9.1	2.2	4.2	7.2
Growth (%)				
Revenue	-12.3	0.5	9.6	10.2
EBITDA	-48.0	-63.5	60.4	44.5
EBIT	-33.9	-93.4	441.9	117.9
Normalised EPS	421.6	-46.4	-23.9	108.9
Normalised FDEPS	421.6	-46.4	-23.9	108.9
Per share				
Reported EPS (KRW)	14,134.78	7,581.62	5,766.57	12,044.84
Norm EPS (KRW)	14,134.78	7,581.62	5,766.57	12,044.84
Fully diluted norm EPS (KRW)	14,134.78	7,581.62	5,766.57	12,044.84
Book value per share (KRW)	72,940.12	78,130.40	84,487.72	94,924.86
DPS (KRW)	1,904.99	204.36	1,455.31	1,456.31

Source: Nomura estimates

Notes

OP to improve significantly in 2012F driven by smartphone business

Price and price relative chart (one year)



(%)	1M	3M	12M
Absolute (KRW)	-3.3	-8.9	-13.9
Absolute (USD)	0.3	-6.7	-11.2
Relative to index	-12.3	-10.5	-38.4
Market cap (USDmn)	13,639.1		
Estimated free float (%)	65.2		
52-week range (KRW)	130000/91 400		
3-mth avg daily turnover (USDmn)	99.44		
Major shareholders (%)			
LG Corp	34.8		
NPS	6.1		

Cashflow (KRWbn)

Year-end 31 Dec	FY09	FY10	FY11F	FY12F
EBITDA	4,020	1,466	2,351	3,397
Change in working capital	2,362	-965	-833	-1,039
Other operating cashflow	-232	-493	-726	-1,328
Cashflow from operations	**6,150**	**9**	**792**	**1,031**
Capital expenditure	-1,785	-1,745	-2,300	-2,000
Free cashflow	**4,365**	**-1,737**	**-1,508**	**-969**
Reduction in investments	-3,355	-1,604	-901	-1,036
Net acquisitions	-1,050	322	7	-42
Reduction in other LT assets				
Addition in other LT liabilities				
Adjustments	2,827	1,358	1,042	1,349
Cashflow after investing acts	**2,787**	**-1,661**	**-1,360**	**-699**
Cash dividends	-71	-308	-195	-236
Equity issue	0	0	0	0
Debt issue	-5,893	284	1,330	1,172
Convertible debt issue				
Others	1,671	1,206	31	59
Cashflow from financial acts	**-4,293**	**1,182**	**1,166**	**996**
Net cashflow	**-1,505**	**-480**	**-194**	**297**
Beginning cash	3,929	2,424	1,944	1,750
Ending cash	2,424	1,944	1,750	2,047
Ending net debt	3,399	4,567	5,687	6,168

Source: Nomura estimates

Balance sheet (KRWbn)

As at 31 Dec	FY09	FY10	FY11F	FY12F
Cash & equivalents	2,424	1,944	1,750	2,047
Marketable securities				
Accounts receivable	7,637	7,002	9,970	10,133
Inventories	4,899	5,872	5,975	6,455
Other current assets	1,950	1,696	1,792	1,976
Total current assets	**16,910**	**16,515**	**19,487**	**20,611**
LT investments	4,404	6,008	6,909	7,946
Fixed assets	7,709	6,500	6,507	6,465
Goodwill				
Other intangible assets	804	763	802	842
Other LT assets	2,288	2,532	2,659	2,791
Total assets	**32,115**	**32,318**	**36,363**	**38,655**
Short-term debt	3,221	3,327	4,214	4,847
Accounts payable	5,316	5,824	7,890	6,926
Other current liabilities	7,631	6,242	6,511	7,263
Total current liabilities	**16,169**	**15,394**	**18,615**	**19,036**
Long-term debt	2,602	3,184	3,223	3,369
Convertible debt				
Other LT liabilities	919	881	615	628
Total liabilities	**19,689**	**19,459**	**22,453**	**23,032**
Minority interest	621	215	237	261
Preferred stock	86	86	86	86
Common stock	723	723	723	723
Retained earnings	9,214	10,108	10,806	12,519
Proposed dividends				
Other equity and reserves	1,781	1,727	2,058	2,033
Total shareholders' equity	**11,804**	**12,644**	**13,673**	**15,362**
Total equity & liabilities	**32,115**	**32,318**	**36,363**	**38,655**
Liquidity (x)				
Current ratio	1.05	1.07	1.05	1.08
Interest cover	10.7	0.8	3.7	6.9
Leverage				
Net debt/EBITDA (x)	0.85	3.11	2.42	1.82
Net debt/equity (%)	28.8	36.1	41.6	40.2
Activity (days)				
Days receivable	45.2	47.9	50.7	54.6
Days inventory	50.1	45.0	45.2	44.0
Days payable	43.1	46.5	52.4	52.5
Cash cycle	52.2	46.4	43.6	46.2

Source: Nomura estimates

Expecting OP of W128bn in 1Q11F

According to our analysis and channel checks, LGE is quickly reducing its operating loss in the handset business by increasing smartphone shipments and retiring loss-making feature phone models. We expect LGE to post a -3% handset operating margin in 1Q11F, vs. -7.9% in 4Q10 and -10.2% in 3Q10. We also expect a -1% handset operating margin in 2Q11, revised up from -1.5%, and reckon a handset profit turnaround will be seen from May 2011F.

We maintain our previous profit forecast for the home appliance business but expect slightly better profit at the TV business. We expect a 0% operating margin for the TV business vs. -1% previously. As a result, we forecast total operating profit in 1Q11F to be W128bn, 2.2 times our previous expectation. We expect 2011F operating profit to be W955bn.

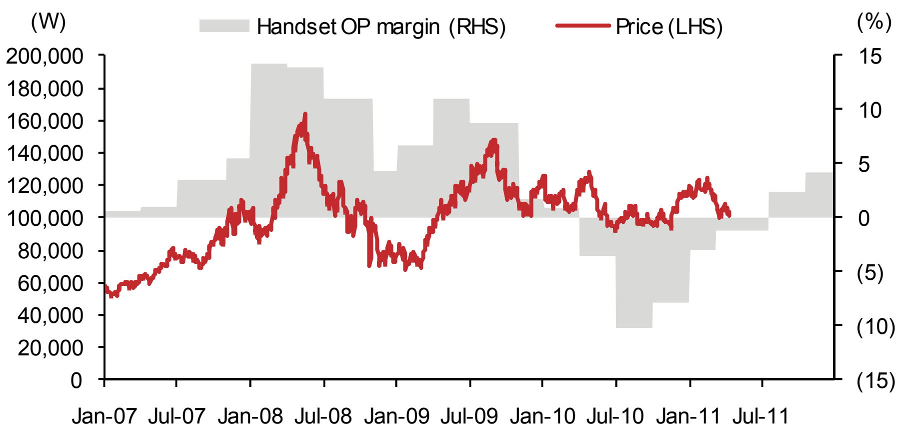
We maintain our BUY rating on LGE and our price target of 147,000 (upside potential of 43%). Our price target translates to 2011F P/B of 1.7x and 2012F P/B of 1.5x, and 2011F P/E of 25.5x and 2012F P/E of 12.2x. We apply EV/EBITDA SOTP, using annualised 2H11F EBITDA of the handset segment while using 2011F EBITDA for others. We believe using annualised 2H11F EBITDA of the handset segment is more reasonable to be applied as we expect a recovery likely in 2H11F. We recommend to investors that now is the best time to buy LGE, as the share price has dropped 15% since the last peak in February due to the earthquake and issues in MENA. LGE is oversold, in our view.

Fig. 52: Nomura vs. consensus

Nomura	NEUTRAL with PT of W147,000		
Street consensus	BUY	NEUTRAL	REDUCE
# of recommendation on street	28	4	2
PT range (W)	124,000 - 180,000	100,000 - 120,000	80,000 - 116,000

Source: Bloomberg

Fig. 53: Handset margin vs. share price



Source: Company data, Bloomberg, Nomura estimates

Fig. 54: LGE sales and operating profit trends and forecasts

(Wbn)	1Q10	2Q10	3Q10	4Q10	2010	1Q11F	2Q11F	3Q11F	4Q11F	2011F	2012F
Sales	**13,217**	**14,410**	**13,429**	**14,698**	**55,754**	**13,987**	**15,088**	**15,617**	**16,406**	**61,098**	**67,343**
Operating Profit	**481**	**126**	**-185**	**-246**	**176**	**128**	**207**	**268**	**354**	**956**	**2,083**
Equity Method Valuation	**219**	**210**	**123**	**-74**	**477**	**-110**	**70**	**235**	**227**	**422**	**485**
Recurring profit	**759**	**66**	**-17**	**-374**	**435**	**28**	**257**	**483**	**353**	**1,120**	**2,384**
Net profit	**675**	**856**	**8**	**-256**	**1,282**	**23**	**213**	**401**	**282**	**919**	**1,955**
Operating Margin	**3.6%**	**0.9%**	**-1.4%**	**-1.7%**	**0.3%**	**0.9%**	**1.4%**	**1.7%**	**2.2%**	**1.6%**	**3.1%**
Recurring Margin	**5.7%**	**0.5%**	**-0.1%**	**-2.5%**	**0.8%**	**0.2%**	**1.7%**	**3.1%**	**2.2%**	**1.8%**	**3.5%**
Net Margin	**5.1%**	**5.9%**	**0.1%**	**-1.7%**	**2.3%**	**0.2%**	**1.4%**	**2.6%**	**1.7%**	**1.5%**	**2.9%**
% q-q growth											
Sales	-8%	9%	-7%	9%		-5%	8%	4%	5%		
Operating Profit	323%	-74%	NA	NA		NA	62%	30%	32%		
Recurring Profit	132%	-91%	NA	NA		NA	829%	88%	-27%		
Net Profit	27%	27%	-99%	NA		NA	829%	88%	-30%		
Sales Breakdown											
Appliance	**3,553**	**4,350**	**3,830**	**3,732**	**15,465**	**3,919**	**4,232**	**3,724**	**3,575**	**15,450**	**16,532**
Air Conditioning	1,172	1,628	1,107	913	4,820	1,597	1,885	1,319	1,121	5,923	**6,278**
HE + BS	**6,417**	**6,526**	**6,523**	**7,420**	**26,886**	**6,826**	**7,099**	**7,454**	**7,753**	**29,132**	**31,172**
Mobile Handset	**3,140**	**3,373**	**2,971**	**3,328**	**12,811**	**3,036**	**3,539**	**4,224**	**4,858**	**15,657**	**18,759**
Telecom Equipment	282	246	254	247	1,029	235	233	226	230	924	**942**
Total	**13,217**	**14,410**	**13,429**	**14,698**	**55,754**	**13,987**	**15,088**	**15,617**	**16,406**	**61,098**	**67,343**
% growth q-q											
Appliance	15%	22%	-12%	-3%		5%	8%	-12%	-4%		
Air Conditioning	93%	39%	-32%	-18%		75%	18%	-30%	-15%		
HE + BS	-11%	2%	0%	14%		-8%	4%	5%	4%		
Mobile Handset	-20%	7%	-12%	12%		-9%	17%	19%	15%		
Telecom Equipment	6%	-13%	3%	-2%		-5%	-1%	-3%	2%		
Total	-8%	9%	-7%	9%		-5%	8%	4%	5%		
Sales Contribution (by division)											
Appliance	27%	30%	29%	25%	28%	28%	28%	24%	22%	25%	25%
Air Conditioning	9%	11%	8%	6%	9%	11%	12%	8%	7%	10%	9%
HE + BS	49%	45%	49%	50%	48%	49%	47%	48%	47%	48%	46%
Mobile Handset	24%	23%	22%	23%	23%	22%	23%	27%	30%	26%	28%
Telecom Equipment	2%	2%	2%	2%	2%	2%	2%	1%	1%	2%	1%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Operating Profit											
Appliance	**250**	**245**	**15**	**88**	**597**	**161**	**195**	**104**	**93**	**553**	**678**
Air Conditioning	43	59	-52	10	60	30	47	-20	-21	36	**94**
HE + BS	**216**	**12**	**116**	**-75**	**270**	**61**	**57**	**67**	**62**	**247**	**561**
Mobile Handset	**28**	**-120**	**-304**	**-262**	**-658**	**-91**	**-42**	**101**	**204**	**172**	**844**
Telecom Equipment	-4	-13	-22	-12	-51	0	0	0	0	0	**0**
Others	-9	2	10	15	18	-3	-2	-5	-5	-16	**0**
Total	**481**	**126**	**-185**	**-246**	**176**	**128**	**207**	**268**	**354**	**956**	**2,083**
Operating Margin											
Appliance	7.0%	5.6%	0.4%	2.3%	3.9%	4.1%	4.6%	2.8%	2.6%	3.6%	4.1%
Air Conditioning	3.7%	3.6%	-4.7%	1.1%	1.2%	1.9%	2.5%	-1.5%	-1.9%	0.6%	1.5%
HE + BS	3.4%	0.2%	1.8%	-1.0%	1.0%	0.9%	0.8%	0.9%	0.8%	0.8%	1.8%
Mobile Handset	0.9%	-3.5%	-10.2%	-7.9%	-5.1%	-3.0%	-1.2%	2.4%	4.2%	1.1%	4.5%
Telecom Equipment	-1.5%	-5.3%	-8.6%	-4.8%	-5.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	3.6%	0.9%	-1.4%	-1.7%	0.3%	0.9%	1.4%	1.7%	2.2%	1.6%	3.1%
% growth q-q											
Appliance	NA	-2%	-94%	493%		83%	21%	-46%	-11%		
Air Conditioning	NA	38%	NA	NA		213%	55%	NA	NA		
HE + BS	54%	-94%	843%	NA		NA	-8%	18%	-8%		
Mobile Handset	208%	NA	NA	NA		NA	NA	NA	101%		
Telecom Equipment	NA	NA	NA	NA		NA	NA	NA	NA		
Total	323%	-74%	NA	NA		NA	62%	30%	32%		

Source: Company data, Nomura estimates

BUY on handset profit turnaround from May

LGE's smartphone strategy is to gain market share in the mid- to low-end segments first and then gain market share in the high-end segment.

We think LGE is moving to the second stage. The company is firming its position and gaining market share in the mid- to low-end segment by launching second-generation models, while entering aggressively into the high-end segment with dual-core processor-adopted phones, 3D phone enhancements, and the world's lightest phones.

We summarise our more positive assumption on LGE handset business below.

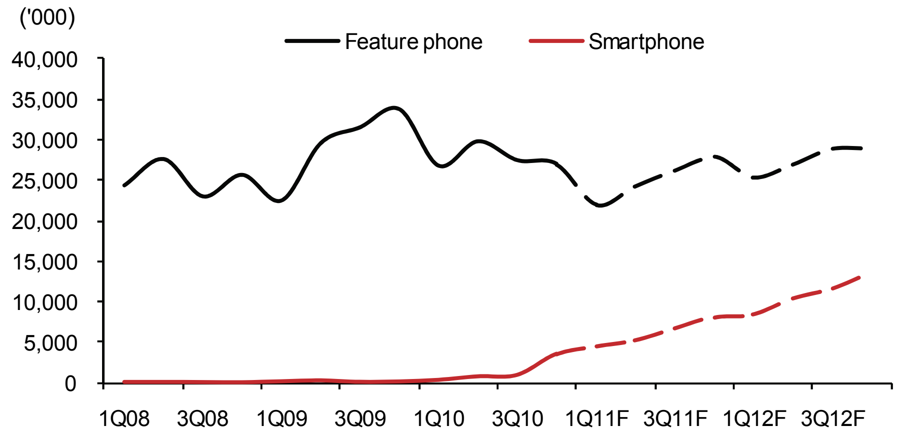
1) We have raised our smartphone shipment assumption for 2011 by 11% to 24.5mn units, but keep total handset shipments at 124.9mn units, which means a smaller feature phone portion.

2) Retiring loss-making feature phone models, such as models in India, while increasing smartphone shipments, is improving handset margin rapidly. LGE is reducing the number of feature phone models to 31 this year, from 80 last year, and targets to have 18 smartphone models.

3) We expect *Optimus Black* to be launched in April and the handset business to turn profitable in May. We believe that *Optimus Black*, with the lightest weight in the world and a brighter screen, will become a popular smartphone model, which will drive LGE to become a major smartphone player, in our view.

4) We anticipate LGE will add two more smartphone models in the relatively mid-low-end segment this year. This implies that the company could build up a full smartphone lineup in late 2Q11F, which could quickly increase the growth of shipments and profitability.

Fig. 55: LGE: smartphone shipment vs. Feature phones



Source: Company data, Nomura estimates

Fig. 56: LGE handset shipments by region

(k units)	1Q10	2Q10	3Q10	4Q10	2010	1Q11F	2Q11F	3Q11F	4Q11F	2011F	2012F
Feature phone	26,770	29,798	27,458	27,002	111,028	21,901	24,291	26,302	27,882	100,377	96,845
Smartphone	328	764	943	3,552	5,587	4,500	5,200	6,700	8,100	24,500	46,000
Total Units	**27,098**	**30,562**	**28,401**	**30,554**	**116,615**	**26,401**	**29,491**	**33,002**	**35,982**	**124,877**	**142,845**
Total Sales (Wbn)	**3,140**	**3,373**	**2,971**	**3,328**	**12,811**	**3,036**	**3,539**	**4,224**	**4,858**	**15,657**	**18,759**
ASP (W k)	**116**	**110**	**105**	**109**	**110**	**115**	**120**	**128**	**135**	**125**	**131**
Sales by Customers/Region											
(k units)	**1Q10**	**2Q10**	**3Q10**	**4Q10**	**2010**	**1Q11F**	**2Q11F**	**3Q11F**	**4Q11F**	**2011F**	**2012F**
North America	5,909	6,504	6,931	8,097	27,441	7,060	7,783	8,621	9,048	32,511	38,879
Latin America	5,452	6,418	6,706	7,493	26,068	6,519	7,627	8,771	9,648	32,566	41,659
India	1,084	1,528	1,584	1,617	5,813	1,051	1,103	1,313	1,457	4,924	6,804
Greater China	1,582	1,488	1,878	2,028	6,976	1,623	1,769	1,928	2,217	7,536	9,359
Europe	4,878	4,584	3,966	4,785	18,213	4,163	4,787	5,506	6,166	20,622	25,776
CIS	1,355	1,528	1,607	1,315	5,805	920	976	985	1,104	3,985	4,829
Domestic	1,084	1,222	1,395	1,079	4,780	1,130	1,206	1,363	1,532	5,230	5,918
Others	5,755	7,290	4,334	4,140	21,519	3,933	4,247	4,502	4,817	17,500	19,734
Total	**27,098**	**30,562**	**28,401**	**30,554**	**116,615**	**26,401**	**29,491**	**33,002**	**35,982**	**124,877**	**142,845**
% of Total											
North America	22	21	24	27	24	27	26	26	25	26	27
Latin America	20	21	24	25	22	25	26	27	27	26	29
India	4	5	6	5	5	4	4	4	4	4	5
Greater China	6	5	7	7	6	6	6	6	6	6	7
Europe	18	15	14	16	16	16	16	17	17	17	18
CIS	5	5	6	4	5	3	3	3	3	3	3
Domestic	4	4	5	4	4	4	4	4	4	4	4
Others	21	24	15	14	18	15	14	14	13	14	14
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**107.1**
q-q growth					y-y growth					y-y growth	y-y growth
North America	-35.3%	10.1%	6.6%	16.8%	-15%	-12.8%	10.2%	10.8%	5.0%	18%	20%
Latin America	-26.9%	17.7%	4.5%	11.7%	18%	-13.0%	17.0%	15.0%	10.0%	25%	28%
India	-48.5%	41.0%	3.7%	2.0%	-10%	-35.0%	5.0%	19.0%	11.0%	-15%	38%
Greater China	5.2%	-5.9%	26.2%	8.0%	32%	-20.0%	9.0%	9.0%	15.0%	8%	24%
Europe	-24.3%	-6.0%	-13.5%	20.7%	-13%	-13.0%	15.0%	15.0%	12.0%	13%	25%
CIS	-0.1%	12.8%	5.2%	-18.2%	58%	-30.0%	6.0%	1.0%	12.0%	-31%	21%
Domestic	4.1%	12.8%	14.1%	-22.7%	-29%	4.7%	6.7%	13.1%	12.4%	9%	13%
Others	18.3%	26.7%	-40.5%	-4.5%	6%	-5.0%	8.0%	6.0%	7.0%	-19%	13%
Total	-20%	13%	-7%	8%	-1%	-14%	12%	12%	9%	7%	14%

Source: Company data, Nomura estimates

Fig. 57: SOTP valuation

Global basis	**2011F**	**EV/EBITDA**	**Range**		**Value**	
(W bn)	**EBITDA**	**Peer Avg.**	**Discount**	**High discount**	**No Discount**	**Discount**
Home Appliance	1,009	7.6	No Discount	10% premium	7,675	8,443
Display & Media	811	4.6	No Discount	No Discount	3,731	3,731
Telecom Equipment (including handset)	791	9.9	No Discount	No Discount	7,838	7,838
Total Firm Value					**19,244**	**20,012**
Net Debt					2,151	2,151
Implied Equity Value					**17,093**	**17,861**
Management discount					0%	0%
Value of Investment Holdings (No discount)					**5,892**	**5,892**
LG Display			No Discount	No Discount	4,923	4,923
LG Innotek			No Discount	No Discount	970	970
Total Equity Value					**22,986**	**23,753**
All Listed Shares Outstanding (mn)					162	162
Implied Share Price					**142,032**	**146,775**

Source: Company data, Nomura estimates

Fig. 58: Peer comparison

Appliance

Company	Code	M/Caps US$ mn	Rating	Price 4/15/2011	EPS growth (%) FY11F	EPS growth (%) FY12F	PER (x) FY11F	PER (x) FY12F	PBR (x) FY11F	PBR (x) FY12F	EV/EBITDA (x) FY11F	EV/EBITDA (x) FY12F	ROE (%) FY11F	ROE (%) FY12F
GE	GE US	212,370	Not rated	20	19.9	21.9	14.9	12.2	1.7	1.6	15.1	13.8	8.8	13.4
Whirlpool	WHR US	6,444	Not rated	85	(4.1)	1.2	9.2	9.1	n.a.	n.a.	4.5	4.0	n.a.	n.a.
Philips	PHIA NA	30,462	BUY	21	(1.9)	14.5	11.9	10.4	1.3	1.2	5.6	5.1	10.6	11.7
Electrolux	ELUXB SS	67,954	BUY	157	(5.5)	13.6	10.3	9.1	1.9	1.7	5.3	4.8	19.3	19.9
Average							11.6	10.2	1.6	1.5	7.6	7.0	12.9	15.0

Display

Company	Code	M/Caps US$ mn	Rating	Price 4/15/2011	EPS growth (%) FY11F	EPS growth (%) FY12F	PER (x) FY11F	PER (x) FY12F	PBR (x) FY11F	PBR (x) FY12F	EV/EBITDA (x) FY11F	EV/EBITDA (x) FY12F	ROE (%) FY11F	ROE (%) FY12F
SEC	005930 KS	119,919	BUY	888,000	(6.2)	29.7	10.0	7.7	1.3	1.2	3.9	2.8	16.4	18.3
LGD	034220 KS	11,908	NEUTRAL	36,300	(41.0)	51.9	19.0	12.5	1.1	1.0	4.3	3.2	6.0	8.6
Sharp	6753 JP	10,159	NEUTRAL	761	396.4	(14.1)	29.3	34.2	0.8	0.8	4.3	4.7	2.8	2.6
Sony	6758 JP	29,716	BUY	2,461	n.a.	79.9	29.8	16.6	0.8	0.8	3.9	3.5	2.8	4.9
Panasonic	6752 JP	29,897	BUY	1,014	n.a.	7.2	22.3	20.8	0.8	0.8	5.6	5.6	3.5	3.6
Philips	PHIA NA	253	BUY	21	(1.9)	14.5	11.9	10.4	1.3	1.2	5.6	5.1	10.6	11.7
Average							20.4	17.0	1.0	1.0	4.6	4.2	7.0	8.3

Handset

Company	Code	M/Caps US$ mn	Rating	Price 4/15/2011	EPS growth (%) FY11F	EPS growth (%) FY12F	PER (x) FY11F	PER (x) FY12F	PBR (x) FY11F	PBR (x) FY12F	EV/EBITDA (x) FY11F	EV/EBITDA (x) FY12F	ROE (%) FY11F	ROE (%) FY12F
HTC	2498 TT	34,360	Buy	1,220	67.5	6.2	14.7	13.9	8.8	7.6	11.7	10.7	71.8	58.8
Nokia	NOK1V FH	32,489	REDUCE	6	(22.0)	21.4	13.6	11.2	1.6	1.6	5.4	4.6	9.2	11.6
Motorola	MMI US	6,839	NEUTRAL	23	n.a.	112	27.4	13.0	1.4	1.3	11.8	7.0	6.1	13.9
Average							18.6	12.7	3.9	3.5	9.7	7.4	29.0	28.1

Note: SEC, LGD, and HTC is based on Nomura estimates, others are based on Bloomberg estimates

We exclude SEC in the handset category as investors value the stock as more of memory and LCD makers.

Source: Bloomberg, Nomura estimates

AAC Acoustic Technology 2018.HK 2018 HK

HANDSETS

NOMURA
EQUITY RESEARCH

Right time, right trend

Our preferred name in the Asia handset component space

April 20, 2011

Rating Remains	**Buy**
Target price Remains	HKD 23.70
Closing price April 15, 2011	HKD 19.98
Potential upside	+18.6%

Action: AAC our top pick in the Asia handset component space

We like AAC and believe it will benefit from the smartphone and tablet PC trend due to: 1) enlarged acoustic dollar content in smartphones (2-3x vs feature phone) and tablets (1.5-2x vs NB); 2) broadening product lines – from acoustic to antenna, haptics and image; and 3) solid relationships with top-tier customers such as Apple, Nokia, RIM, Moto and HTC.

Catalyst: Extending from handset to tablet PC and TV

AAC is dedicated to expanding its business from handsets to tablets and LED-TVs. Currently, handset components contribute about 90% of total sales. We expect to see more diversification into non-handset products in 2011-12F by leveraging its close relationships with customers.

FY10-12F sales CAGR of 28%

We forecast a 28% sales CAGR for AAC in FY10-12F. Despite labour cost hikes, we forecast a 44-46% GM over FY10-12F on rising automation and strong growth from margin-accretive speaker boxes. As AAC's addressable dollar content per box rises and it gains share from industry giants NXP and Knowles, we expect 38% y-y earnings growth in FY11F.

BUY reaffirmed with PT of HKD23.7

Our PT is based on an 18x FY11F P/E — the mid-range of 14-24x over 2006-07 when AAC re-rated on bright growth prospects and execution. Risks: 1) smaller-than-expected share gains in handset customers, 2) slower-than-expected expansion into non-acoustic/non-handset business, and 3) worse-than-expected smartphone industry growth.

31 Dec	FY09		FY10F		FY11F		FY12F
Currency (CNY)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	2,203	3,349	3,349	4,589	4,589	5,488	5,488
Reported net profit (mn)	615	987	987	1,359	1,359	1,584	1,584
Normalised net profit (mn)	615	987	987	1,359	1,359	1,584	1,584
Normalised EPS	0.5	0.8	0.8	1.1	1.1	1.3	1.3
Norm. EPS growth (%)	4.3	60.5	60.5	37.7	37.7	16.6	16.6
Norm. P/E (x)	36.5	21.9	21.9	15.8	15.8	13.5	13.5
EV/EBITDA	25.8	16.3	16.3	11.3	11.3	9.2	9.2
Price/book (x)	6.3	5.2	5.2	4.1	4.1	3.5	3.5
Dividend yield (%)	0.9	1.5	1.5	1.8	1.8	2.5	2.5
ROE (%)	18.5	25.6	25.6	29.1	29.1	27.8	27.8
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash	net cash	net cash

Source: Nomura estimates

Key company data: *See page 2 for company data, and detailed price/index chart.*
Rating: *See report end for details of Nomura's rating system.*

Anchor themes

We see smartphones and tablets as two rapidly growing subsegments. Given their high performance requirements and greater design efforts, we believe the trend will benefit top component makers with cost advantages.

Nomura vs consensus

Our FY11F earnings are 2% higher than consensus, reflecting our positive view on AAC to re-rate on its solid positioning amid smartphone and PC tablet trends.

Research analysts

Taiwan Technology/Hardware

Anne Lee - NITB
anne.lee@nomura.com
+886 2 2176 9966

Eason Hung - NITB
eason.hung@nomura.com
+886 2 2176 9965

Key data on AAC Acoustic Technology

Income statement (CNYmn)

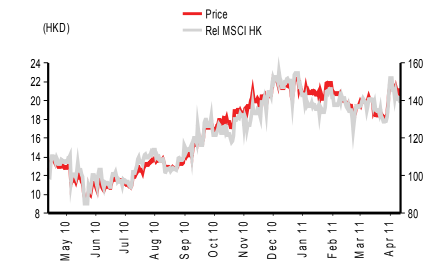
Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Revenue	**2,256**	**2,203**	**3,349**	**4,589**	**5,488**
Cost of goods sold	-1,316	-1,214	-1,839	-2,520	-3,081
Gross profit	**940**	**989**	**1,510**	**2,069**	**2,407**
SG&A	-347	-342	-451	-578	-663
Employee share expense					
Operating profit	**594**	**647**	**1,060**	**1,491**	**1,744**
EBITDA	**720**	**810**	**1,249**	**1,774**	**2,120**
Depreciation	-126	-163	-189	-283	-376
Amortisation					
EBIT	594	647	1,060	1,491	1,744
Net interest expense	-10	-4	-3	-4	-4
Associates & JCEs					
Other income	32	33	43	40	40
Earnings before tax	**616**	**676**	**1,099**	**1,527**	**1,780**
Income tax	-26	-67	-112	-168	-196
Net profit after tax	**591**	**610**	**987**	**1,359**	**1,584**
Minority interests	0	5	-1	0	0
Other items					
Preferred dividends					
Normalised NPAT	**590**	**615**	**987**	**1,359**	**1,584**
Extraordinary items					
Reported NPAT	**590**	**615**	**987**	**1,359**	**1,584**
Dividends	0	-196	-317	-395	-544
Transfer to reserves	**590**	**419**	**670**	**964**	**1,040**
Valuation and ratio analysis					
FD normalised P/E (x)	38.1	36.5	21.9	15.8	13.5
FD normalised P/E at price target (x)	43.5	41.7	25.1	18.0	15.5
Reported P/E (x)	38.1	36.5	21.9	15.8	13.5
Dividend yield (%)	na	0.9	1.5	1.8	2.5
Price/cashflow (x)	28.2	27.3	24.1	15.2	12.1
Price/book (x)	7.2	6.3	5.2	4.1	3.5
EV/EBITDA (x)	29.7	25.8	16.3	11.3	9.2
EV/EBIT (x)	36.0	32.3	19.2	13.4	11.2
Gross margin (%)	41.7	44.9	45.1	45.1	43.9
EBITDA margin (%)	31.9	36.8	37.3	38.6	38.6
EBIT margin (%)	26.3	29.4	31.6	32.5	31.8
Net margin (%)	26.2	27.9	29.5	29.6	28.9
Effective tax rate (%)	4.2	9.9	10.2	11.0	11.0
Dividend payout (%)	0.0	31.9	32.1	29.0	34.3
Capex to sales (%)	16.4	8.3	16.4	16.3	13.7
Capex to depreciation (x)	2.9	1.1	2.9	2.7	2.0
ROE (%)	20.7	18.5	25.6	29.1	27.8
ROA (pretax %)	na	26.1	33.3	34.6	33.6
Growth (%)					
Revenue		-2.3	52.0	37.0	19.6
EBITDA		12.6	54.1	42.0	19.5
EBIT		9.0	63.7	40.7	17.0
Normalised EPS		4.3	60.5	37.7	16.6
Normalised FDEPS		4.3	60.5	37.7	16.6
Per share					
Reported EPS (CNY)	0.48	0.50	0.80	1.11	1.29
Norm EPS (CNY)	0.48	0.50	0.80	1.11	1.29
Fully diluted norm EPS (CNY)	0.48	0.50	0.80	1.11	1.29
Book value per share (CNY)	2.54	2.88	3.40	4.21	5.06
DPS (CNY)	0.00	0.16	0.26	0.32	0.44

Source: Nomura estimates

Notes

Strong sales growth momentum

Price and price relative chart (one year)



(%)	1M	3M	12M
Absolute (HKD)	3.2	-0.5	56.5
Absolute (USD)	3.5	-0.4	56.2
Relative to index	-0.5	2.1	40.0
Market cap (USDmn)	3,279.3		
Estimated free float (%)	50.0		
52-week range (HKD)	22.95/9.05		
3-mth avg daily turnover (USDmn)	9.14		
Major shareholders (%)			
CEO/family	45.1		
JP Morgan Chase & Co.	16.9		

Cashflow (CNYmn)

Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
EBITDA	720	810	1,249	1,774	2,120
Change in working capital		-349	349	-19	447
Other operating cashflow	78	359	-700	-345	-791
Cashflow from operations	**798**	**821**	**897**	**1,409**	**1,776**
Capital expenditure	-369	-183	-550	-750	-750
Free cashflow	**429**	**639**	**347**	**659**	**1,026**
Reduction in investments		53	-88	-50	-50
Net acquisitions					
Reduction in other LT assets		31	-196	-30	0
Addition in other LT liabilities		0	0	0	0
Adjustments	-142	-40	30	30	0
Cashflow after investing acts	**287**	**684**	**93**	**609**	**976**
Cash dividends	0	-196	-317	-395	-544
Equity issue	-66	0	0	0	0
Debt issue	30	-13	314	0	0
Convertible debt issue					
Others	-10	-5	-90	0	0
Cashflow from financial acts	**-46**	**-214**	**-94**	**-395**	**-544**
Net cashflow	**241**	**469**	**-1**	**215**	**432**
Beginning cash	1,025	1,266	1,735	1,735	1,949
Ending cash	1,266	1,735	1,735	1,949	2,382
Ending net debt		-1,548	-1,264	-1,479	-1,912

Source: Nomura estimates

Notes

Positive operating cashflow

Balance sheet (CNYmn)

As at 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Cash & equivalents	1,266	1,735	1,735	1,949	2,382
Marketable securities	98	17	29	29	29
Accounts receivable	563	729	1,293	1,514	1,811
Inventories	296	230	343	504	616
Other current assets	32	21	4	4	4
Total current assets	**2,254**	**2,733**	**3,402**	**4,000**	**4,841**
LT investments	0	28	104	154	204
Fixed assets	1,289	1,364	1,752	2,219	2,592
Goodwill	5	5	7	7	7
Other intangible assets					
Other LT assets	155	124	319	349	349
Total assets	**3,704**	**4,254**	**5,584**	**6,728**	**7,993**
Short-term debt	200	187	470	470	470
Accounts payable	366	482	857	1,008	1,232
Other current liabilities	23	50	80	80	80
Total current liabilities	**589**	**719**	**1,408**	**1,559**	**1,783**
Long-term debt	0	0	0	0	0
Convertible debt					
Other LT liabilities	0	0	0	0	0
Total liabilities	**589**	**719**	**1,408**	**1,559**	**1,783**
Minority interest					
Preferred stock					
Common stock	100	100	100	100	100
Retained earnings	3,008	3,435	4,075	5,069	6,109
Proposed dividends					
Other equity and reserves	7	0	1	1	1
Total shareholders' equity	**3,115**	**3,535**	**4,176**	**5,170**	**6,210**
Total equity & liabilities	**3,704**	**4,254**	**5,584**	**6,728**	**7,993**
Liquidity (x)					
Current ratio	3.83	3.80	2.42	2.57	2.72
Interest cover	59.2	160.4	323.9	355.7	416.0
Leverage					
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable		107.0	110.2	111.6	110.9
Days inventory		79.1	56.9	61.3	66.5
Days payable		127.4	132.9	135.1	133.1
Cash cycle	0.0	58.7	34.1	37.9	44.4

Source: Nomura estimates

Notes

Cash rich; low debt

Nuvoton Technology Corp 4919.TW 4919 TT

IC DESIGN

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32-bit MCU growth on track

Uncommon exposure to high-end MCU

April 20, 2011

Rating Remains	**Buy**
Target price Remains	TWD 73.0
Closing price April 15, 2011	TWD 44.9
Potential upside	+62.6%

Actions: Maintain BUY given MCU growth on track

We believe Nuvoton's expertise in high-end MCU makes it a strong play on the consumer electronics boom in greater China. It is the only independent 32-bit MCU vendor in Asia ex-Japan with design wins in high-growth areas such as touch panels and automotive. We forecast a 30% earnings CAGR over FY10-12F and maintain our BUY call and NT$73 target price, implying 63% potential upside.

Catalysts : Over 20% sequential sales growth

We believe the strong sequential sales (over 20% q-q) and margin growth in 2Q/3Q and the rising design-wins in its 32-bit MCU business will be the main growth drivers of the company's share price.

Strong growth projected in 32-bit MCU business

While the Taiwan fabless sector is seeing a de-rating for missing out on the mobile device trend, we expect Nuvoton to show strong earnings growth momentum (FY10-12F earnings CAGR of 30%) on its 32-bit MCU share gain story. The stock is under-researched, in our view, but exposed to high-growth stories such as touch panels, medical and automotive, which are driving ARM forecasts of a 30% CAGR in 32-bit ARM MCU demand to a projected US$3bn in FY13F from US$1bn in FY09.

Margin improvement into FY12

We expect Nuvoton's margin will improve to 43% in FY12F from 39% in FY09 given 1) its improving sales in consumer applications, 2) increasing high-margin orders in the foundry segment.

31 Dec	FY09	FY10F		FY11F		FY12F	
Currency (TWD)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	7,092	7,941	7,941	8,722	8,722	10,147	10,147
Reported net profit (mn)	427	853	853	1,006	1,006	1,444	1,444
Normalised net profit (mn)	427	853	853	1,006	1,006	1,444	1,444
Normalised EPS	1.9	4.1	4.1	4.8	4.8	7.0	7.0
Norm. EPS growth (%)	na	118.3	118.3	16.9	16.9	43.6	43.6
Norm. P/E (x)	21.0	10.8	10.9	9.3	9.3	6.5	6.5
EV/EBITDA	11.3	6.6	6.6	5.6	5.6	3.7	3.7
Price/book (x)	3.6	3.1	3.1	2.7	2.7	2.3	2.3
Dividend yield (%)	na	6.7	6.7	9.0	9.0	11.4	11.4
ROE (%)	16.6	31.4	31.4	31.4	31.4	38.1	38.1
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash	net cash	net cash

Source: Nomura estimates

Key company data: *See page 2 for company data, and detailed price/index chart.*
Rating: *See report end for details of Nomura's rating system.*

Anchor themes

We expect fabless companies with 1) continuous market share gains, 2) stronger growth momentum and 3) sustained margins to stand out. Nuvoton is one of the companies fulfilling all these requirements.

Nomura vs consensus

We are the only foreign broker covering Nuvoton, and we believe its value is relatively undiscovered.

Research analysts

Taiwan Technology/IC Design

Peter Liao - NITB
peter.liao@nomura.com
+886 2 2176 9964

Aaron Jeng, CFA - NITB
aaron.jeng@nomura.com
+886 2 2176 9962

Key data on Nuvoton Technology Corp

Income statement (TWDmn)

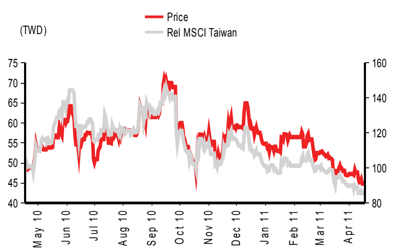
Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Revenue	**3,530**	**7,092**	**7,941**	**8,722**	**10,147**
Cost of goods sold	-2,187	-4,306	-4,589	-5,085	-5,768
Gross profit	**1,343**	**2,786**	**3,353**	**3,637**	**4,379**
SG&A	-426	-589	-612	-626	-705
Employee share expense	-1,045	-1,800	-1,841	-1,915	-2,051
Operating profit	**-128**	**396**	**900**	**1,097**	**1,623**
EBITDA	**19**	**679**	**1,136**	**1,320**	**1,854**
Depreciation	-106	-207	-181	-185	-193
Amortisation	-41	-77	-55	-38	-39
EBIT	-128	396	900	1,097	1,623
Net interest expense	1	-1	6	6	7
Associates & JCEs	22	40	46	33	30
Other income	78	-14	-1	-5	0
Earnings before tax	**-28**	**422**	**950**	**1,130**	**1,660**
Income tax	-41	6	-98	-124	-216
Net profit after tax	**-69**	**427**	**852**	**1,006**	**1,444**
Minority interests	0	0	0	0	0
Other items	0	0	1	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	**-69**	**427**	**853**	**1,006**	**1,444**
Extraordinary items	0	0	0	0	0
Reported NPAT	**-69**	**427**	**853**	**1,006**	**1,444**
Dividends	0	0	-623	-838	-1,058
Transfer to reserves	**-69**	**427**	**230**	**168**	**386**
Valuation and ratio analysis					
FD normalised P/E (x)	na	21.0	10.9	9.3	6.5
FD normalised P/E at price target (x)	na	34.2	17.8	15.1	10.5
Reported P/E (x)	na	23.6	10.8	9.3	6.5
Dividend yield (%)	na	na	6.7	9.0	11.4
Price/cashflow (x)	36.9	9.6	11.4	9.6	6.6
Price/book (x)	4.2	3.6	3.1	2.7	2.3
EV/EBITDA (x)	209.2	11.3	6.6	5.6	3.7
EV/EBIT (x)	na	18.7	8.3	6.7	4.2
Gross margin (%)	38.0	39.3	42.2	41.7	43.2
EBITDA margin (%)	0.5	9.6	14.3	15.1	18.3
EBIT margin (%)	-3.6	5.6	11.3	12.6	16.0
Net margin (%)	-2.0	6.0	10.7	11.5	14.2
Effective tax rate (%)	na	-1.3	10.3	11.0	13.0
Dividend payout (%)	na	0.0	73.0	83.3	73.3
Capex to sales (%)	3.3	0.8	1.1	0.1	0.1
Capex to depreciation (x)	1.1	0.3	0.5	0.1	0.1
ROE (%)	-2.6	16.6	31.4	31.4	38.1
ROA (pretax %)	-5.5	14.5	29.6	30.9	41.6
Growth (%)					
Revenue	14.0	100.9	12.0	9.8	16.3
EBITDA	17.0	3,550.4	67.2	16.2	40.5
EBIT	18.0	na	127.4	21.9	48.0
Normalised EPS	16.5	na	118.3	16.9	43.6
Normalised FDEPS	16.3	na	92.3	17.9	43.6
Per share					
Reported EPS (TWD)	-0.41	1.90	4.15	4.85	6.96
Norm EPS (TWD)	-0.41	1.90	4.15	4.85	6.96
Fully diluted norm EPS (TWD)	-0.28	2.14	4.11	4.85	6.96
Book value per share (TWD)	10.67	12.37	14.28	16.54	19.94
DPS (TWD)	0.00	0.00	3.00	4.04	5.10

Source: Nomura estimates

Notes

We expect strong earnings growth in FY12F

Price and price relative chart (one year)



(%)	1M	3M	12M
Absolute (TWD)	-5.1	-15.3	-8.4
Absolute (USD)	-3.3	-15.3	-1.1
Relative to index	-10.2	-11.5	-14.2
Market cap (USDmn)	321.0		
Estimated free float (%)	35.0		
52-week range (TWD)	73/44.2		
3-mth avg daily turnover (USDmn)	1.38		
Major shareholders (%)			
Winbond	61.0		
Nuvoton Technology Employees Fund	4.8		

Cashflow (TWDmn)

Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
EBITDA	19	679	1,136	1,320	1,854
Change in working capital		649	-7	-299	-174
Other operating cashflow	286	-388	-315	-51	-278
Cashflow from operations	**304**	**940**	**814**	**969**	**1,403**
Capital expenditure	-116	-60	-88	-12	-12
Free cashflow	**188**	**880**	**726**	**957**	**1,391**
Reduction in investments		-35	-25	-3	-4
Net acquisitions	0	0	0	0	0
Reduction in other LT assets	32	104	9	0	0
Addition in other LT liabilities	0	0	0	0	0
Adjustments	-55	-67	-49	0	0
Cashflow after investing acts	**165**	**883**	**661**	**954**	**1,387**
Cash dividends	0	0	0	-623	-838
Equity issue	0	0	0	0	0
Debt issue	462	-659	-149	0	0
Convertible debt issue	0	0	0	0	0
Others	888	-558	-216	-26	-30
Cashflow from financial acts	**1,350**	**-1,217**	**-365**	**-648**	**-868**
Net cashflow	**1,515**	**-334**	**296**	**306**	**519**
Beginning cash	0	1,515	1,181	1,477	1,783
Ending cash	1,515	1,181	1,477	1,783	2,301
Ending net debt	-914	-1,181	-1,477	-1,783	-2,301

Source: Nomura estimates

Notes

Stable cash inflow

Balance sheet (TWDmn)

As at 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Cash & equivalents	1,515	1,181	1,477	1,783	2,301
Marketable securities	2	5	7	7	7
Accounts receivable	793	878	859	1,134	1,288
Inventories	851	700	936	1,107	1,259
Other current assets	288	227	278	278	278
Total current assets	**3,450**	**2,991**	**3,558**	**4,309**	**5,133**
LT investments	0	40	86	89	93
Fixed assets	901	661	602	615	627
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Other LT assets	472	508	422	421	420
Total assets	**4,823**	**4,199**	**4,668**	**5,434**	**6,273**
Short-term debt	601	0	0	0	0
Accounts payable	437	741	512	829	981
Other current liabilities	877	780	984	964	945
Total current liabilities	**1,915**	**1,521**	**1,496**	**1,793**	**1,926**
Long-term debt	0	0	0	0	0
Convertible debt	0	0	0	0	0
Other LT liabilities	241	204	208	208	208
Total liabilities	**2,156**	**1,725**	**1,704**	**2,001**	**2,134**
Minority interest	0	0	0	0	0
Preferred stock	0	0	0	0	0
Common stock	2,500	2,001	2,076	2,076	2,076
Retained earnings	166	474	888	1,357	2,063
Proposed dividends	0	0	0	0	0
Other equity and reserves	0	0	0	0	0
Total shareholders' equity	**2,666**	**2,475**	**2,964**	**3,432**	**4,139**
Total equity & liabilities	**4,823**	**4,199**	**4,668**	**5,433**	**6,273**
Liquidity (x)					
Current ratio	1.80	1.97	2.38	2.40	2.67
Interest cover	na	494.1	na	na	na
Leverage					
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable	43.0	43.0	39.9	41.7	43.7
Days inventory	60.0	65.8	65.1	73.3	75.1
Days payable	50.0	49.9	49.8	48.1	57.4
Cash cycle	53.0	58.8	55.2	66.9	61.3

Source: Nomura estimates

Notes

Zero debt operation

GCL Poly Energy 3800.HK 3800 HK

SOLAR

NOMURA
EQUITY RESEARCH

Consolidating its lead position

Industry-leading costs in poly and wafer give GCL pricing power and thus share gains

April 20, 2011

Rating Remains	**Buy**
Target price Remains	HKD 5.30
Closing price April 15, 2011	HKD 4.95
Potential upside	+7.1%

Action: BUY on faster share gains on better capital efficiency

While the stock is up 54% since 8 February 2011 (49% relative to the MSCI HK), we see the rally continuing, with further market share gains likely to yield positive earnings surprises. We see GCL differentiating itself from wafer and poly peers in three areas: 1) leveraging its cost advantage to gain preferred supplier positions at Tier-1 cell makers globally; 2) co-location strategy enabling a win-win situation with customers; and 3) in-house IP development enabling ~50% lower capex requirements vs. peers. All in, we reiterate our view of GCL as the Intel of the solar industry.

Catalysts: Faster industry deterioration a positive for GCL

Unlike solar industry players, where we see margin concerns amid weak volume growth, we believe faster industry deterioration works in favour of GCL, enabling it to outprice competitors for faster share gains. In 4Q10, poly and wafer processing costs fell 9.8% and 14.8% q-q and by end-FY11F GCL targets to further lower costs by 12.7% and 13.0%, respectively. As such, we see GCL maintaining a 30-35% cost advantage over pure-play wafer maker peers.

Valuations: Share gains priced in; upside from downstream projects

We see support for further upside: 1) short lead times in poly and wafer capacity enables further share gains; and 2) upside from ~200MW of downstream project sales is not yet imputed in our and consensus estimates given a lack of meaningful details. Our PT of HKD5.3 is based on a target FY11F P/BV of 3.7x, an implied target P/E of 13.3x. Downside risks could come from a worse-than-expected slowdown in global demand not offset by a drop in ASPs, resulting in: 1) lower-than expected shipments; and 2) faster ASP decline resulting in margin squeeze.

31 Dec	FY10	FY11F		FY12F		FY13F	
Currency (HKD)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	18,472	25,857	25,857	34,169	34,169	42,802	42,802
Reported net profit (mn)	4,024	6,157	6,157	7,049	7,049	7,722	7,722
Normalised net profit (mn)	4,024	6,157	6,157	7,049	7,049	7,722	7,722
Normalised EPS	0.3	0.4	0.4	0.5	0.5	0.5	0.5
Norm. EPS growth (%)	na	53.0	53.0	14.5	14.5	9.5	9.5
Norm. P/E (x)	19.1	12.5	12.5	10.9	10.9	9.9	9.9
EV/EBITDA	12.9	7.6	7.6	6.5	6.6	5.7	5.8
Price/book (x)	4.7	3.5	3.6	2.6	2.8	2.1	2.2
Dividend yield (%)	1.0	na	1.0	na	1.0	na	1.0
ROE (%)	29.0	32.1	32.8	27.4	28.8	23.3	24.8
Net debt/equity (%)	45.1	62.1	68.0	48.5	57.0	21.8	30.2

Source: Company data, Nomura estimates

Key company data: *See page 2 for company data, and detailed price/index chart.*
Rating: *See report end for details of Nomura's rating system.*

Anchor themes

Vertically integrated companies have better cost-control management, and we see them as capable of sustaining margins and expanding market share. Pure-play makers unable to increase integration are likely to underperform.

Nomura vs consensus

We are 10% below on FY11F earnings given the industry environment, but see significant upside potential.

Research analysts

Asia Solar

Nitin Kumar - NITB
nitin.kumar@nomura.com
+886 2 2176 9968

Ivan Lee, CFA - NIHK
ivan.lee@nomura.com
+852 2252 6213

Raghvendra Divekar - NFASL
raghvendra.divekar@nomura.com
+91 22 6723 4335

Key data on GCL Poly Energy

Income statement (HKDmn)

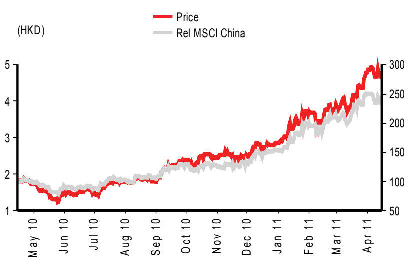
Year-end 31 Dec	FY09	FY10	FY11F	FY12F	FY13F
Revenue	**4,944**	**18,472**	**25,857**	**34,169**	**42,802**
Cost of goods sold	-3,453	-11,661	-15,531	-22,174	-29,236
Gross profit	**1,491**	**6,811**	**10,326**	**11,995**	**13,566**
SG&A	-575	-1,230	-1,278	-1,606	-2,440
Employee share expense	0	0	0	0	0
Operating profit	**915**	**5,581**	**9,048**	**10,389**	**11,126**
EBITDA	**1,310**	**6,511**	**11,961**	**14,029**	**14,969**
Depreciation	-394	-930	-2,913	-3,639	-3,843
Amortisation	0	0	0	0	0
EBIT	915	5,581	9,048	10,389	11,126
Net interest expense	-349	-606	-841	-951	-841
Associates & JCEs	10	11	2	2	2
Other income	-633	563	413	431	526
Earnings before tax	**-57**	**5,547**	**8,622**	**9,871**	**10,813**
Income tax	-93	-1,159	-1,811	-2,073	-2,271
Net profit after tax	**-150**	**4,388**	**6,811**	**7,798**	**8,542**
Minority interests	-49	-364	-654	-749	-820
Other items	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	**-199**	**4,024**	**6,157**	**7,049**	**7,722**
Extraordinary items	0	0	0	0	0
Reported NPAT	**-199**	**4,024**	**6,157**	**7,049**	**7,722**
Dividends					
Transfer to reserves	**-199**	**4,024**	**6,157**	**7,049**	**7,722**
Valuation and ratio analysis					
FD normalised P/E (x)	na	19.1	12.5	10.9	9.9
FD normalised P/E at price target (x)	na	20.4	13.3	11.7	10.6
Reported P/E (x)	na	19.0	12.4	10.9	9.9
Dividend yield (%)	na	1.0	1.0	1.0	1.0
Price/cashflow (x)	1.6	10.5	11.1	7.1	6.6
Price/book (x)	0.0	4.7	3.6	2.8	2.2
EV/EBITDA (x)	60.5	12.9	7.6	6.6	5.8
EV/EBIT (x)	86.3	15.0	10.1	8.9	7.8
Gross margin (%)	30.2	36.9	39.9	35.1	31.7
EBITDA margin (%)	26.5	35.2	46.3	41.1	35.0
EBIT margin (%)	18.5	30.2	35.0	30.4	26.0
Net margin (%)	-4.0	21.8	23.8	20.6	18.0
Effective tax rate (%)	na	20.9	21.0	21.0	21.0
Dividend payout (%)	na	0.0	0.0	0.0	0.0
Capex to sales (%)	48.7	47.8	52.5	33.4	13.9
Capex to depreciation (x)	6.1	9.5	4.7	3.1	1.5
ROE (%)	-3.7	29.0	32.8	28.8	24.8
ROA (pretax %)	6.4	20.4	22.2	19.6	18.4
Growth (%)					
Revenue	25.3	273.7	40.0	32.1	25.3
EBITDA	-51.7	397.2	83.7	17.3	6.7
EBIT	-65.1	509.6	62.1	14.8	7.1
Normalised EPS	-180.4	na	53.0	14.5	9.5
Normalised FDEPS	-180.4	na	53.0	14.5	9.5
Per share					
Reported EPS (HKD)	-1.78	0.26	0.40	0.46	0.50
Norm EPS (HKD)	-1.78	0.26	0.40	0.46	0.50
Fully diluted norm EPS (HKD)	-1.78	0.26	0.40	0.45	0.50
Book value per share (HKD)	104.12	1.04	1.38	1.79	2.24
DPS (HKD)	0.00	0.05	0.05	0.05	0.05

Source: Nomura estimates

Notes

We expect sales to grow 40.0% y-y in FY11F as the company ramps up wafer capacity

Price and price relative chart (one year)



(%)	1M	3M	12M
Absolute (HKD)	28.2	52.3	170.5
Absolute (USD)	28.6	52.3	170.0
Relative to index	20.3	50.7	164.3
Market cap (USDmn)	9,848.9		
Estimated free float (%)	47.5		
52-week range (HKD)	5.03/1.2		
3-mth avg daily turnover (USDmn)	46.91		
Major shareholders (%)			
Boulina Investment (Chairman)	30.5		
CIC	20.1		

Cashflow (HKDmn)

Year-end 31 Dec	FY09	FY10	FY11F	FY12F	FY13F
EBITDA	1,310	6,511	11,961	14,029	14,969
Change in working capital	-3,932	-15	-2,622	-434	-339
Other operating cashflow	2,975	794	-2,419	-2,767	-3,028
Cashflow from operations	**352**	**7,290**	**6,921**	**10,828**	**11,602**
Capital expenditure	-2,409	-8,838	-13,580	-11,419	-5,936
Free cashflow	**-2,056**	**-1,547**	**-6,659**	**-591**	**5,666**
Reduction in investments	0	0	0	0	0
Net acquisitions	34	-331	368	378	464
Reduction in other LT assets	-102	0	0	0	0
Addition in other LT liabilities	0	0	0	0	0
Adjustments	916	-1,393	0	0	0
Cashflow after investing acts	**-1,209**	**-3,272**	**-6,291**	**-213**	**6,130**
Cash dividends	0	0	0	0	0
Equity issue	9,086	0	0	0	0
Debt issue	5,948	5,235	2,813	798	-5,021
Convertible debt issue	0	0	0	0	0
Others	-10,499	-770	-788	-789	-789
Cashflow from financial acts	**4,535**	**4,465**	**2,025**	**9**	**-5,810**
Net cashflow	**3,326**	**1,194**	**-4,266**	**-205**	**320**
Beginning cash	1,986	5,311	6,505	2,239	2,035
Ending cash	5,311	6,505	2,239	2,035	2,354
Ending net debt	3,261	7,285	14,551	15,756	10,436

Source: Nomura estimates

Notes

GCL requires less than 50% of capex needed by peers for poly expansion, enabling better capital efficiencies

Balance sheet (HKDmn)

As at 31 Dec	FY09	FY10	FY11F	FY12F	FY13F
Cash & equivalents	5,311	6,505	2,239	2,035	2,354
Marketable securities	0	0	0	0	0
Accounts receivable	1,569	2,370	5,313	7,021	8,795
Inventories	727	1,647	2,127	3,038	4,005
Other current assets	918	2,121	2,121	2,121	2,121
Total current assets	**8,526**	**12,643**	**11,801**	**14,215**	**17,276**
LT investments	238	345	345	345	345
Fixed assets	15,574	23,662	34,196	41,975	44,069
Goodwill	545	1,036	1,036	1,036	1,036
Other intangible assets	41	110	110	110	110
Other LT assets	1,254	2,555	2,555	2,555	2,555
Total assets	**26,179**	**40,352**	**50,043**	**60,236**	**65,391**
Short-term debt	5,033	6,411	6,411	6,411	6,411
Accounts payable	2,396	4,193	5,106	7,290	9,692
Other current liabilities	686	1,797	1,686	1,686	1,686
Total current liabilities	**8,114**	**12,401**	**13,203**	**15,387**	**17,789**
Long-term debt	3,540	7,379	10,379	11,379	6,379
Convertible debt	0	0	0	0	0
Other LT liabilities	2,306	3,192	3,192	3,192	3,192
Total liabilities	**13,961**	**22,973**	**26,774**	**29,959**	**27,361**
Minority interest	603	1,227	1,881	2,630	3,450
Preferred stock	0	0	0	0	0
Common stock	1,547	1,547	1,547	1,547	1,547
Retained earnings	10,068	14,605	19,840	26,100	33,033
Proposed dividends	0	0	0	0	0
Other equity and reserves	0	0	0	0	0
Total shareholders' equity	**11,615**	**16,152**	**21,388**	**27,648**	**34,581**
Total equity & liabilities	**26,179**	**40,352**	**50,043**	**60,236**	**65,391**
Liquidity (x)					
Current ratio	1.05	1.02	0.89	0.92	0.97
Interest cover	2.6	9.2	10.8	10.9	13.2
Leverage					
Net debt/EBITDA (x)	2.49	1.12	1.22	1.12	0.70
Net debt/equity (%)	28.1	45.1	68.0	57.0	30.2
Activity (days)					
Days receivable	62.2	38.9	54.2	66.1	67.4
Days inventory	42.5	37.2	44.4	42.6	44.0
Days payable	165.8	103.1	109.3	102.3	106.0
Cash cycle	-61.1	-27.0	-10.7	6.4	5.4

Source: Nomura estimates

Notes

Gearing to rise given aggressive capacity additions, but strong cashflow generation should enable faster improvements

Suntech Power STP.N STP US

SOLAR

NOMURA
EQUITY RESEARCH

Profitability improvements ahead

Vertical integration, R&D and sales diversification to enable profitable market-share gains

April 20, 2011

Rating Remains	**Buy**
Target price Remains	USD 11.00
Closing price April 15, 2011	USD 9.03
Potential upside	+21.8%

Action: BUY for cost reductions and attractive valuations

In FY11F, Suntech looks on track to benefit from increasing its internal wafer consumption to 40-50%. With Suntech actively diversifying out of Europe and looking at newer markets in APMEA, we reaffirm BUY given: 1) increased vertical integration driving cost-structure improvements; and 2) brand leadership enabling market share gains. In our view, valuations look attractive at FY11F P/E of 8.2x and FY11F P/BV of 0.8x.

Catalysts: Balance sheet and faster cost-reduction improvements

On 28 March, 2011, Suntech appointed David King as its new CFO, replacing Amy Zhang. We believe Mr King is the right fit for Suntech, as his experience suggests a strong focus on cost and balance-sheet management. While we await tangible changes, we see this as a step forward in resolving investor concerns regarding the balance sheet.

Valuation: ASP pressure priced in, cost reduction not

We reaffirm BUY on: 1) increased vertical integration and ramp-up of high efficiency cells to drive cost-structure improvements; and 2) market share gains from brand leadership. Our PT of USD11 is based on FY11F target P/E of 9.9x. Risks: 1) slower market share gains in new regions; and 2) demand at new centres failing to offset lower demand from Germany.

Internal wafers to drive cost structure improvements

Suntech plans to source 50% wafers in-house by 3Q11F (30% in 1Q11F). We estimate this will lower its wafer costs by ~15% q-q in 1Q11F and help improve margins. We expect further margin improvements in FY11F from: 1) a 12% decline in non-silicon costs by end-FY12F; and 2) Pluto ramp-up. We see margins as sustainable at 17~19% in FY11-12F.

31 Dec	FY10	FY11F		FY12F		FY13F	
Currency (USD)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	2,902	3,186	3,186	3,411	3,411	3,736	3,736
Reported net profit (mn)	262	202	202	246	246	272	272
Normalised net profit (mn)	116	202	202	246	246	272	272
Normalised EPS	0.6	1.1	1.1	1.4	1.4	1.5	1.5
Norm. EPS growth (%)	20.4	73.7	73.7	22.3	22.3	10.2	10.2
Norm. P/E (x)	14.2	8.2	8.2	6.7	6.7	6.1	6.1
EV/EBITDA	7.4	6.0	6.0	4.9	4.9	4.3	4.3
Price/book (x)	0.9	0.8	0.8	0.7	0.7	0.6	0.6
Dividend yield (%)	na	na	na	na	na	na	na
ROE (%)	15.0	10.1	10.1	11.1	11.1	11.0	11.0
Net debt/equity (%)	65.7	50.4	50.4	33.0	33.0	20.9	20.9

Source: Nomura estimates

Key company data: *See page 2 for company data, and detailed price/index chart.*
Rating: *See report end for details of Nomura's rating system.*

Anchor themes

Vertically integrated companies have better cost-control management, and we see them capable of sustaining margins and expanding market share. Pure-play makers unable to increase integration are likely to underperform.

Nomura vs consensus

Our FY12F earnings are 20% above consensus on faster cost reductions.

Research analysts

Asia Solar

Nitin Kumar - NITB
nitin.kumar@nomura.com
+886 2 2176 9968

Ivan Lee, CFA - NIHK
ivan.lee@nomura.com
+852 2252 6213

Raghvendra Divekar - NFASL
raghvendra.divekar@nomura.com
+91 22 6723 4335

Key data on Suntech Power

Income statement (USDmn)

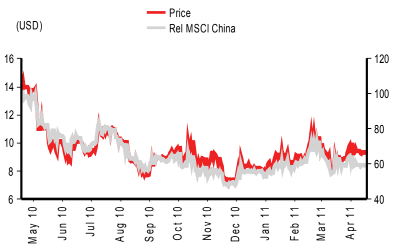
Year-end 31 Dec	FY09	FY10	FY11F	FY12F	FY13F
Revenue	**1,693**	**2,902**	**3,186**	**3,411**	**3,736**
Cost of goods sold	-1,355	-2,398	-2,614	-2,785	-3,078
Gross profit	**339**	**504**	**571**	**626**	**659**
SG&A	-165	-227	-249	-266	-292
Employee share expense					
Operating profit	**174**	**277**	**322**	**360**	**367**
EBITDA	**240**	**362**	**446**	**491**	**510**
Depreciation	-66	-85	-123	-131	-143
Amortisation	0	0	0	0	0
EBIT	174	277	322	360	367
Net interest expense	-83	-92	-105	-93	-73
Associates & JCEs	0	24	0	0	0
Other income	11	-94	0	0	0
Earnings before tax	**102**	**115**	**218**	**266**	**294**
Income tax	-3	2	-16	-20	-22
Net profit after tax	**100**	**117**	**202**	**246**	**272**
Minority interests	0	-1	0	0	0
Other items	-3	0	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	**96**	**116**	**202**	**246**	**272**
Extraordinary items	-11	146	0	0	0
Reported NPAT	**86**	**262**	**202**	**246**	**272**
Dividends	0	0	0	0	0
Transfer to reserves	**86**	**262**	**202**	**246**	**272**
Valuation and ratio analysis					
FD normalised P/E (x)	17.1	14.2	8.2	6.7	6.1
FD normalised P/E at price target (x)	20.8	17.3	9.9	8.1	7.4
Reported P/E (x)	18.9	6.2	8.0	6.6	6.0
Dividend yield (%)	na	na	na	na	na
Price/cashflow (x)	5.6	5.1	4.1	4.2	4.1
Price/book (x)	1.0	0.9	0.8	0.7	0.6
EV/EBITDA (x)	9.4	7.4	6.0	4.9	4.3
EV/EBIT (x)	12.9	9.5	8.3	6.7	5.9
Gross margin (%)	20.0	17.4	17.9	18.4	17.6
EBITDA margin (%)	14.2	12.5	14.0	14.4	13.7
EBIT margin (%)	10.3	9.5	10.1	10.5	9.8
Net margin (%)	5.1	9.0	6.3	7.2	7.3
Effective tax rate (%)	2.5	-2.1	7.5	7.5	7.5
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Capex to sales (%)	8.4	11.6	8.6	3.3	4.7
Capex to depreciation (x)	2.1	4.0	2.2	0.8	1.2
ROE (%)	6.1	15.0	10.1	11.1	11.0
ROA (pretax %)	na	8.0	7.3	8.1	8.1
Growth (%)					
Revenue	-12.0	71.4	9.8	7.1	9.5
EBITDA	-13.9	50.5	23.2	10.1	4.0
EBIT	-26.8	59.1	16.5	11.5	2.0
Normalised EPS	-55.5	20.4	73.7	22.3	10.2
Normalised FDEPS	-51.6	20.4	73.7	22.3	10.2
Per share					
Reported EPS (USD)	0.48	1.47	1.13	1.38	1.52
Norm EPS (USD)	0.54	0.65	1.13	1.38	1.52
Fully diluted norm EPS (USD)	0.53	0.64	1.11	1.35	1.49
Book value per share (USD)	8.93	10.57	11.70	13.07	14.59
DPS (USD)	0.00	0.00	0.00	0.00	0.00

Source: Nomura estimates

Notes

Our sales forecast of 9.8% y-y has potential upside from faster market share gains

Price and price relative chart (one year)



(%)	1M	3M	12M
Absolute (USD)	-0.8	-1.2	-41.2
Absolute (USD)	-0.8	-1.2	-41.2
Relative to index	-9.0	-3.0	-47.7
Market cap (USDmn)	1,626.7		
Estimated free float (%)	180.1		
52-week range (USD)	/		
3-mth avg daily turnover (USDmn)	50.25		
Major shareholders (%)			
Dr. Zhengrong Shi	29.5		
Capital International	3.1		

Cashflow (USDmn)

Year-end 31 Dec	FY09	FY10	FY11F	FY12F	FY13F
EBITDA	240	362	446	491	510
Change in working capital	126	-175	-54	-43	-69
Other operating cashflow	-73	135	13	-53	-38
Cashflow from operations	**293**	**322**	**404**	**395**	**403**
Capital expenditure	-141	-336	-274	-111	-175
Free cashflow	**151**	**-14**	**131**	**284**	**228**
Reduction in investments	-141	-135	102	26	20
Net acquisitions	-5	-80	0	0	0
Reduction in other LT assets	25	108	0	0	0
Addition in other LT liabilities	21	51	32	34	37
Adjustments	-200	-312	-78	-60	-58
Cashflow after investing acts	**-149**	**-382**	**187**	**284**	**227**
Cash dividends	0	0	0	0	0
Equity issue	279	0	0	0	0
Debt issue	294	626	-200	-200	0
Convertible debt issue	-111	-189	0	0	-551
Others	12	-15	0	0	0
Cashflow from financial acts	**474**	**422**	**-200**	**-200**	**-551**
Net cashflow	**325**	**39**	**-14**	**84**	**-324**
Beginning cash	508	833	872	859	943
Ending cash	833	872	859	943	619
Ending net debt	622	1,243	1,056	772	545

Source: Nomura estimates

Notes

Slower capacity expansions and cost reductions to enable fee cashflow generation ahead

Balance sheet (USDmn)

As at 31 Dec	FY09	FY10	FY11F	FY12F	FY13F
Cash & equivalents	833	872	859	943	619
Marketable securities	326	143	143	143	143
Accounts receivable	424	516	566	606	664
Inventories	280	558	609	648	717
Other current assets	293	325	326	325	329
Total current assets	**2,156**	**2,414**	**2,502**	**2,666**	**2,472**
LT investments	494	813	711	685	665
Fixed assets	778	1,326	1,484	1,472	1,511
Goodwill	86	252	252	252	252
Other intangible assets	167	215	151	143	136
Other LT assets	303	195	195	195	195
Total assets	**3,984**	**5,214**	**5,295**	**5,412**	**5,230**
Short-term debt	800	1,401	801	601	601
Accounts payable	264	457	501	534	590
Other current liabilities	453	488	491	495	499
Total current liabilities	**1,518**	**2,346**	**1,793**	**1,630**	**1,690**
Long-term debt	138	163	563	563	563
Convertible debt	517	551	551	551	0
Other LT liabilities	198	249	280	315	352
Total liabilities	**2,371**	**3,309**	**3,188**	**3,059**	**2,605**
Minority interest	15	13	13	13	13
Preferred stock	0	0	0	0	0
Common stock	1,117	1,893	1,893	1,893	1,893
Retained earnings	417	0	181	403	647
Proposed dividends	0	0	0	0	0
Other equity and reserves	65	0	20	45	72
Total shareholders' equity	**1,598**	**1,893**	**2,094**	**2,340**	**2,612**
Total equity & liabilities	**3,984**	**5,214**	**5,295**	**5,412**	**5,230**
Liquidity (x)					
Current ratio	1.42	1.03	1.40	1.64	1.46
Interest cover	2.1	3.0	3.1	3.9	5.0
Leverage					
Net debt/EBITDA (x)	2.59	3.44	2.37	1.57	1.07
Net debt/equity (%)	38.9	65.7	50.4	33.0	20.9
Activity (days)					
Days receivable	73.7	59.1	62.0	62.9	62.1
Days inventory	69.0	63.8	81.5	82.6	81.0
Days payable	51.4	54.9	66.9	68.0	66.7
Cash cycle	91.2	68.0	76.6	77.5	76.3

Source: Nomura estimates

Notes

With a new CFO joining, we expect balance-sheet overhangs to ease further

Simplo Technology 6121.TWO 6121 TT

PC HARDWARE

NOMURA
EQUITY RESEARCH

Fully charged for the tablet boom

Solid growth outlook on market share gains and additional client wins

April 20, 2011

Rating Remains	**Buy**
Target price Remains	TWD 220.0
Closing price April 15, 2011	TWD 181.0
Potential upside	+21.5%

Action: Reiterate BUY on solid growth and dominant position

Simplo is our preferred name in the NB component sector. We expect Simplo to be the dominant player in the tablet PC battery pack market with 65-70% share in 2011 given its leading position in the global polymer battery pack market. Reiterate BUY and DCF-based price target of NT$220.

Catalyst: Growth from tablet PCs and EV penetration

We see shipment growth from tablet PCs, rising outsourcing orders from Japanese PC OEMs and strong growth in the EV business as potential positive catalysts. Progress in EV battery should provide the re-rating story for Simplo, in our view.

- **Solid growth with market share gains:** While we are conservative on global NB shipment growth, we expect Simplo's sales to grow 23% in 2011F on rising battery pack shipments to Apple, Asustek, Toshiba, Sony and Lenovo. In particular, Simplo should benefit from Apple's strong growth in iPad and Macbook; as Simplo supplies 70% of Macbook Air and iPad battery demand, we believe it is well positioned to benefit from strong growth of Apple's products.
- **Riding on EV battery growth:** Simplo's progress in the EV battery business should serve as the next growth opportunity, in our view. We estimate the EV battery system will account for 3-5% of Simplo's revenues in 2011F. Its cooperation with China's Potevio to expand into the EV business should provide quick access to the China EV battery system market. Since China is more aggressive in developing the EV industry, we believe Simplo is well positioned to benefit from the trend given its early entry.

31 Dec	FY09		FY10F		FY11F		FY12F
Currency (TWD)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	34,253	38,699	38,699	47,714	47,714	54,670	54,670
Reported net profit (mn)	2,458	3,329	3,329	3,679	3,679	4,271	4,271
Normalised net profit (mn)	2,458	3,329	3,329	3,679	3,679	4,271	4,271
Normalised EPS	10.6	13.1	13.1	14.4	14.4	16.8	16.8
Norm. EPS growth (%)	3.5	23.1	23.1	10.5	10.5	16.1	16.1
Norm. P/E (x)	17.3	14.0	14.0	12.7	12.7	10.9	10.9
EV/EBITDA	12.0	9.1	9.1	8.1	8.1	6.6	6.6
Price/book (x)	3.7	3.4	3.4	3.0	3.0	2.5	2.5
Dividend yield (%)	2.7	3.2	3.2	3.5	3.5	4.0	4.0
ROE (%)	22.9	26.3	26.6	24.8	25.1	24.8	25.0
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash	net cash	net cash

Source: Nomura estimates

Key company data: *See page 2 for company data, and detailed price/index chart.*
Rating: *See report end for details of Nomura's rating system.*

Anchor themes

We lower our 2011 global PC shipment forecast to 3%, which is below Street forecast of 5-10% y-y growth.

Nomura vs consensus

Our earnings forecast for FY11/12 is 2%/3% lower than market consensus, as we factor in our expectations of lower 1Q11 results.

Research analysts

Taiwan Technology/PC Hardware

Eve Jung - NITB
eve.jung@nomura.com
+886 2 2176 9975

Ariana Kuo - NITB
ariana.kuo@nomura.com
+886 2 2176 9963

Key data on Simplo Technology

Income statement (TWDmn)

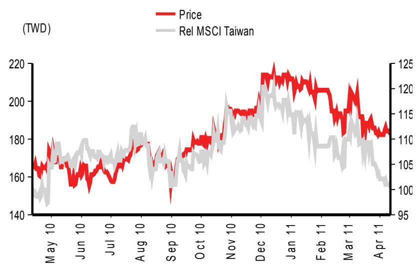
Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Revenue	**30,736**	**34,253**	**38,699**	**47,714**	**54,670**
Cost of goods sold	-25,540	-28,351	-31,702	-39,899	-45,565
Gross profit	**5,197**	**5,902**	**6,998**	**7,815**	**9,105**
SG&A	-2,690	-2,576	-2,548	-2,717	-3,186
Employee share expense	0	0	-452	-682	-803
Operating profit	**2,507**	**3,326**	**3,998**	**4,415**	**5,117**
EBITDA	**2,933**	**3,566**	**4,437**	**5,018**	**5,829**
Depreciation	-426	-240	-439	-602	-712
Amortisation	0	0	0	0	0
EBIT	2,507	3,326	3,998	4,415	5,117
Net interest expense	117	53	36	16	29
Associates & JCEs	0	0	62	0	0
Other income	551	14	66	-60	0
Earnings before tax	**3,175**	**3,392**	**4,162**	**4,371**	**5,145**
Income tax	-830	-961	-874	-692	-875
Net profit after tax	**2,345**	**2,431**	**3,288**	**3,679**	**4,271**
Minority interests	8	27	40	0	0
Other items	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	**2,354**	**2,458**	**3,329**	**3,679**	**4,271**
Extraordinary items	0	0	0	0	0
Reported NPAT	**2,354**	**2,458**	**3,329**	**3,679**	**4,271**
Dividends	-928	-1,043	-1,158	-1,515	-1,619
Transfer to reserves	**1,426**	**1,415**	**2,171**	**2,164**	**2,652**
Valuation and ratio analysis					
FD normalised P/E (x)	17.9	17.3	14.0	12.7	10.9
FD normalised P/E at price target (x)	21.4	20.7	16.8	15.2	13.1
Reported P/E (x)	17.9	17.3	14.0	12.7	10.9
Dividend yield (%)	2.7	2.7	3.2	3.5	4.0
Price/cashflow (x)	21.4	16.5	12.3	17.9	10.4
Price/book (x)	4.2	3.7	3.4	3.0	2.5
EV/EBITDA (x)	15.0	12.0	9.1	8.1	6.6
EV/EBIT (x)	17.5	12.9	10.1	9.2	7.6
Gross margin (%)	16.9	17.2	18.1	16.4	16.7
EBITDA margin (%)	9.5	10.4	11.5	10.5	10.7
EBIT margin (%)	8.2	9.7	10.3	9.3	9.4
Net margin (%)	7.7	7.2	8.6	7.7	7.8
Effective tax rate (%)	26.1	28.3	21.0	15.8	17.0
Dividend payout (%)	39.4	42.4	34.8	41.2	37.9
Capex to sales (%)	4.1	1.5	2.3	2.1	1.8
Capex to depreciation (x)	2.9	2.1	2.0	1.7	1.4
ROE (%)	25.3	22.9	26.6	25.1	25.0
ROA (pretax %)	18.6	21.6	23.8	20.5	19.8
Growth (%)					
Revenue	33.1	11.4	13.0	23.3	14.6
EBITDA	0.1	21.6	24.4	13.1	16.2
EBIT	-7.9	32.7	20.2	10.4	15.9
Normalised EPS	1.8	3.5	23.1	10.5	16.1
Normalised FDEPS	1.8	3.5	23.1	10.5	16.1
Per share					
Reported EPS (TWD)	10.26	10.61	13.06	14.44	16.76
Norm EPS (TWD)	10.26	10.61	13.06	14.44	16.76
Fully diluted norm EPS (TWD)	10.26	10.61	13.06	14.44	16.76
Book value per share (TWD)	43.43	49.52	53.39	61.89	72.30
DPS (TWD)	5.00	5.00	5.94	6.35	7.38

Source: Nomura estimates

Notes

Solid sales growth with stable margin

Price and price relative chart (one year)



(%)	1M	3M	12M
Absolute (TWD)	-4.4	-11.4	11.2
Absolute (USD)	-2.3	-10.7	21.1
Relative to index	-7.9	-10.3	2.1
Market cap (USDmn)	1,614.3		
Estimated free float (%)	57.1		
52-week range (TWD)	221.5/153		
3-mth avg daily turnover (USDmn)	8.73		
Major shareholders (%)			
HYIELD VENTURE CAPIT	4.4		
PAO HSIN INTERNATION	4.2		

Cashflow (TWDmn)

Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
EBITDA	2,933	3,566	4,437	5,018	5,829
Change in working capital	-854	-484	-50	-1,676	-466
Other operating cashflow	-114	-503	-587	-737	-846
Cashflow from operations	**1,966**	**2,579**	**3,799**	**2,605**	**4,517**
Capital expenditure	-1,256	-500	-897	-1,000	-1,000
Free cashflow	**709**	**2,079**	**2,902**	**1,605**	**3,517**
Reduction in investments	18	247	-47	0	0
Net acquisitions	0	0	0	0	0
Reduction in other LT assets	-59	33	91	0	0
Addition in other LT liabilities					
Adjustments	147	-128	-37	0	0
Cashflow after investing acts	**814**	**2,230**	**2,909**	**1,605**	**3,517**
Cash dividends	-928	-1,043	-1,158	-1,515	-1,619
Equity issue	0	0	0	0	0
Debt issue	329	-8	546	0	0
Convertible debt issue	0	0	0	0	0
Others	46	35	98	87	108
Cashflow from financial acts	**-553**	**-1,016**	**-514**	**-1,427**	**-1,511**
Net cashflow	**262**	**1,214**	**2,395**	**178**	**2,006**
Beginning cash	2,846	3,108	4,322	6,717	6,895
Ending cash	3,108	4,322	6,717	6,895	8,901
Ending net debt	-2,779	-4,002	-5,850	-6,029	-8,034

Source: Nomura estimates

Notes

Stable dividend payout

Balance sheet (TWDmn)

As at 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Cash & equivalents	3,108	4,322	6,717	6,895	8,901
Marketable securities	676	438	460	460	460
Accounts receivable	5,837	6,829	7,873	11,241	12,181
Inventories	4,239	4,712	5,685	8,252	8,960
Other current assets	1,044	297	356	509	551
Total current assets	**14,904**	**16,598**	**21,092**	**27,357**	**31,053**
LT investments	72	59	144	144	144
Fixed assets	3,021	3,265	3,718	4,116	4,404
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Other LT assets	174	147	82	82	82
Total assets	**18,171**	**20,068**	**25,036**	**31,698**	**35,682**
Short-term debt	329	320	867	867	867
Accounts payable	5,547	5,303	6,438	9,344	10,146
Other current liabilities	1,993	2,470	3,362	4,866	5,289
Total current liabilities	**7,869**	**8,093**	**10,666**	**15,077**	**16,301**
Long-term debt	0	0	0	0	0
Convertible debt					
Other LT liabilities	182	377	629	717	825
Total liabilities	**8,051**	**8,469**	**11,296**	**15,794**	**17,126**
Minority interest	154	129	137	137	137
Preferred stock	0	0	0	0	0
Common stock	2,086	2,316	2,548	2,548	2,548
Retained earnings	3,863	4,834	6,442	8,239	10,463
Proposed dividends					
Other equity and reserves	4,017	4,319	4,613	4,981	5,408
Total shareholders' equity	**9,966**	**11,470**	**13,603**	**15,767**	**18,419**
Total equity & liabilities	**18,171**	**20,068**	**25,036**	**31,698**	**35,682**
Liquidity (x)					
Current ratio	1.89	2.05	1.98	1.81	1.90
Interest cover	na	na	na	na	na
Leverage					
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable	65.6	67.5	69.3	73.1	78.4
Days inventory	51.5	57.6	59.9	63.8	69.1
Days payable	71.0	69.8	67.6	72.2	78.3
Cash cycle	46.2	55.3	61.6	64.7	69.3

Source: Nomura estimates

Notes

Abundant net cash position

Asustek Computer 2357.TW 2357 TT

PC HARDWARE

NOMURA
EQUITY RESEARCH

Every dog has its day

Positive changes in margin structure

April 20, 2011

Rating Remains	**Buy**
Target price Remains	TWD 310.0
Closing price April 15, 2011	TWD 238.0
Potential upside	+30.3%

Action: Misplaced concern presents attractive entry point

Asustek's shares have underperformed the TAIEX by 5% since Acer lowered its 1Q11 sales and margin guidance on 25 March 2011. Investors appear to be concerned that Asustek could also suffer margin erosion and weakening end-demand. However, we expect Asustek's operating margin to surprise on the upside on positive changes in margin structure. Reiterate BUY on attractive valuation and improving fundamental.

Catalyst: Structural changes in margin secure earnings outlook

After increasing outsourcing production to Quanta to 20% in 4Q10, Asustek's operating margin improved to 4.6%. We believe Asustek has room for further improvement in 2011 by outsourcing 50% production to Quanta and Compal by year-end. Also, we believe Asustek's MB margins could rise further on easing competition and demand recovery in China.

Attractive valuation with market share gains in traditional NB

Asustek trades at 9.6/8.4x FY11/12F EPS. In our view, valuation appears attractive compared with other PC OEMs. After improving its cost competitiveness and adjusting its product offering, Asustek saw growth from the traditional NB business, despite weakening netbook shipment growth. Asustek has become the No. 2 player in the China NB market. With widening channel network support, we believe Asustek is well positioned to benefit from rising PC penetration in China. In addition, we view Asustek's Eee Pad as an extra catalyst for its share price performance. After the official launch of Eee Pad in late March, order forecasts have reached 200K+ in April.

31 Dec	FY09	FY10F		FY11F		FY12F	
Currency (TWD)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	248,178	321,298	321,298	358,683	358,683	417,636	417,636
Reported net profit (mn)	12,479	16,488	16,488	15,242	15,242	17,416	17,416
Normalised net profit (mn)	12,479	16,488	16,488	15,242	15,242	17,416	17,416
Normalised EPS	19.6	26.7	26.7	24.7	24.7	28.2	28.2
Norm. EPS growth (%)	-24.2	36.4	36.4	-7.6	-7.6	14.3	14.3
Norm. P/E (x)	12.1	na	8.9	na	9.6	na	8.4
EV/EBITDA	4.5	5.3	5.4	5.7	5.8	4.8	4.9
Price/book (x)	0.9	1.4	1.4	1.3	1.3	1.2	1.2
Dividend yield (%)	5.9	5.6	5.6	5.2	5.2	5.9	5.9
ROE (%)	7.3	11.8	11.8	13.9	13.9	14.8	14.8
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash	net cash	net cash

Source: Nomura estimates

Key company data: *See page 2 for company data, and detailed price/index chart.*
Rating: *See report end for details of Nomura's rating system.*

Anchor themes

We lower our 2011 PC shipment forecast to 3%, which is below consensus of 5-10% y-y growth. As tablet PCs continue to cannibalize netbooks, we expect combined shipments of NB and netbooks to grow 4% y-y in 2011F, vs. 19% in 2010.

Nomura vs consensus

Our FY11F/FY12F earnings estimates are 3%/5% higher than consensus. We expect a re-rating in 2011F on improved profitability and execution.

Research analysts

Taiwan Technology/PC Hardware

Eve Jung - NITB
eve.jung@nomura.com
+886 2 2176 9975

Ariana Kuo - NITB
ariana.kuo@nomura.com
+886 2 2176 9963

Key data on Asustek Computer

Income statement (TWDmn)

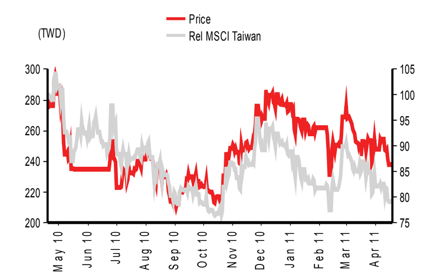
Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Revenue	**266,880**	**248,178**	**321,298**	**358,683**	**417,636**
Cost of goods sold	-229,866	-219,346	-277,547	-310,578	-366,068
Gross profit	**37,015**	**28,831**	**43,751**	**48,104**	**51,568**
SG&A	-24,606	-23,558	-29,293	-30,611	-32,061
Employee share expense	-1,004	-768	-818	-1,266	-1,455
Operating profit	**11,405**	**4,505**	**13,641**	**16,228**	**18,051**
EBITDA	**21,653**	**17,632**	**19,400**	**19,284**	**21,476**
Depreciation	-10,248	-13,127	-5,760	-3,057	-3,424
Amortisation	0	0	0	0	0
EBIT	11,405	4,505	13,641	16,228	18,051
Net interest expense	98	4	37	104	104
Associates & JCEs	4,594	6,905	3,297	1,600	2,334
Other income	4,487	1,430	1,771	0	0
Earnings before tax	**20,585**	**12,845**	**18,745**	**17,932**	**20,489**
Income tax	-4,128	-366	-2,258	-2,690	-3,073
Net profit after tax	**16,457**	**12,479**	**16,488**	**15,242**	**17,416**
Minority interests	0	0	0	0	0
Other items	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	**16,457**	**12,479**	**16,488**	**15,242**	**17,416**
Extraordinary items	0	0	0	0	0
Reported NPAT	**16,457**	**12,479**	**16,488**	**15,242**	**17,416**
Dividends	-9,352	-8,440	-8,918	-8,244	-7,621
Transfer to reserves	**7,105**	**4,039**	**7,570**	**6,998**	**9,795**
Valuation and ratio analysis					
FD normalised P/E (x)	9.2	12.1	8.9	9.6	8.4
FD normalised P/E at price target (x)	12.0	15.8	11.6	12.5	11.0
Reported P/E (x)	9.2	12.1	8.9	9.6	8.4
Dividend yield (%)	5.6	5.9	5.6	5.2	5.9
Price/cashflow (x)	2.8	5.0	na	16.2	11.6
Price/book (x)	0.9	0.9	1.4	1.3	1.2
EV/EBITDA (x)	4.9	4.5	5.4	5.8	4.9
EV/EBIT (x)	8.0	9.7	7.2	6.8	5.7
Gross margin (%)	13.9	11.6	13.6	13.4	12.3
EBITDA margin (%)	8.1	7.1	6.0	5.4	5.1
EBIT margin (%)	4.3	1.8	4.2	4.5	4.3
Net margin (%)	6.2	5.0	5.1	4.2	4.2
Effective tax rate (%)	20.1	2.8	12.0	15.0	15.0
Dividend payout (%)	56.8	67.6	54.1	54.1	43.8
Capex to sales (%)	-22.2	0.4	0.1	0.1	0.1
Capex to depreciation (x)	-5.8	0.1	0.1	0.1	0.1
ROE (%)	10.1	7.3	11.8	13.9	14.8
ROA (pretax %)	5.8	5.5	9.5	10.8	10.9
Growth (%)					
Revenue	na	-7.0	29.5	11.6	16.4
EBITDA	na	-18.6	10.0	-0.6	11.4
EBIT	na	-60.5	202.8	19.0	11.2
Normalised EPS	na	-24.2	36.4	-7.6	14.3
Normalised FDEPS	na	-24.2	36.4	-7.6	14.3
Per share					
Reported EPS (TWD)	25.84	19.59	26.72	24.70	28.23
Norm EPS (TWD)	25.84	19.59	26.72	24.70	28.23
Fully diluted norm EPS (TWD)	25.84	19.59	26.72	24.70	28.23
Book value per share (TWD)	261.92	271.87	171.50	182.85	198.72
DPS (TWD)	13.33	14.00	13.36	12.35	14.11

Source: Nomura estimates

Notes

Improving margins could support core earnings growth

Price and price relative chart (one year)



(%)	1M	3M	12M
Absolute (TWD)	-3.6	-10.9	-12.0
Absolute (USD)	-1.9	-10.9	-4.9
Relative to index	-8.7	-7.0	-17.7
Market cap (USDmn)	5,139.8		
Estimated free float (%)	83.7		
52-week range (TWD)	296.41/209		
3-mth avg daily turnover (USDmn)	27.30		
Major shareholders (%)			
HSU HSIH CHANG	3.1		
HSIEH WEI-CHI	2.4		

Cashflow (TWDmn)

Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
EBITDA	21,653	17,632	19,400	19,284	21,476
Change in working capital	3,684	18,819	-18,200	-6,446	-5,068
Other operating cashflow	28,911	-5,960	-4,313	-3,769	-3,787
Cashflow from operations	**54,249**	**30,491**	**-3,113**	**9,069**	**12,621**
Capital expenditure	59,216	-1,053	-292	-273	-273
Free cashflow	**113,465**	**29,438**	**-3,405**	**8,796**	**12,348**
Reduction in investments	13,412	0	0	0	0
Net acquisitions	0	0	0	0	0
Reduction in other LT assets	3,684	-2,333	2,612	0	0
Addition in other LT liabilities	0	0	0	0	0
Adjustments	-99,297	-4,933	71,860	0	0
Cashflow after investing acts	**31,264**	**22,172**	**71,067**	**8,796**	**12,348**
Cash dividends	-9,352	-8,116	-8,918	-8,244	-7,621
Equity issue	0	0	0	0	0
Debt issue	-25,170	0	0	0	0
Convertible debt issue	0	0	0	0	0
Others	-16,624	1,999	-74,933	0	0
Cashflow from financial acts	**-51,146**	**-6,117**	**-83,851**	**-8,244**	**-7,621**
Net cashflow	**-19,882**	**16,055**	**-12,784**	**552**	**4,727**
Beginning cash	43,586	23,704	39,759	26,975	27,527
Ending cash	23,704	39,759	26,975	27,527	32,254
Ending net debt	-20,969	-38,084	-26,975	-27,527	-32,254

Source: Nomura estimates

Notes

2008 cash flow statement was not available due to the spin-off of Pegatron in 2008

Balance sheet (TWDmn)

As at 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Cash & equivalents	23,704	39,759	26,975	27,527	32,254
Marketable securities	0	0	0	0	0
Accounts receivable	43,221	33,148	54,110	66,697	76,584
Inventories	41,821	38,231	31,141	39,298	45,674
Other current assets	10,888	8,674	16,341	20,143	23,128
Total current assets	**119,634**	**119,812**	**128,567**	**153,665**	**177,640**
LT investments	111,496	116,429	44,569	44,569	44,569
Fixed assets	3,736	4,536	4,554	4,554	4,554
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Other LT assets	1,608	3,941	1,329	1,329	1,329
Total assets	**236,474**	**244,718**	**179,019**	**204,117**	**228,092**
Short-term debt	0	0	0	0	0
Accounts payable	27,469	36,499	36,591	46,175	53,666
Other current liabilities	39,448	33,360	36,607	45,123	51,812
Total current liabilities	**66,917**	**69,859**	**73,198**	**91,298**	**105,478**
Long-term debt	2,735	1,675	0	0	0
Convertible debt	0	0	0	0	0
Other LT liabilities	0	0	0	0	0
Total liabilities	**69,652**	**71,534**	**73,198**	**91,298**	**105,478**
Minority interest	0	0	0	0	0
Preferred stock	0	0	0	0	0
Common stock	42,461	42,468	6,170	6,170	6,170
Retained earnings	75,739	77,615	74,651	80,125	88,178
Proposed dividends	0	0	0	0	0
Other equity and reserves	48,623	53,101	25,000	26,524	28,266
Total shareholders' equity	**166,822**	**173,184**	**105,821**	**112,819**	**122,614**
Total equity & liabilities	**236,474**	**244,718**	**179,019**	**204,117**	**228,092**
Liquidity (x)					
Current ratio	1.79	1.72	1.76	1.68	1.68
Interest cover	na	na	na	na	na
Leverage					
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable	118.2	56.2	49.6	61.5	62.8
Days inventory	115.6	66.6	45.6	41.4	42.5
Days payable	134.6	53.2	48.1	48.6	49.9
Cash cycle	99.2	69.5	47.1	54.2	55.3

Source: Nomura estimates

Notes

Abundant net cash position on hand

Valuation methodology / risks

Our DCF-based target price of NT$310 implies a valuation of 12.6x and 11.0x our FY11F and FY12F EPS of NT$24.70 and NT$28.23, respectively. At our target price, the stock would trade at the mid- to high range of Asustek's adjusted three-year forward P/E trading band of 7-15x. We are using a DCF-based valuation to reflect PC OEMs' capability to generate stable cash inflows. Our DCF assumes revenue growth remains at 1.0% in 2018F, as growth in the global NB market gradually hits saturation. We apply a cost of equity of 7.7%, which assumes a risk-free rate of 2.6%, a market risk premium of 6.0% and an equity beta of 1.2. Asustek currently trades at 9.4x and 8.2x 2011F and 2012F EPS, respectively, lower than its peers. On the back of continuous market share gains, improving execution and abundant room for margin expansion, we believe Asustek should see its P/E multiples moving closer to its peers.

Downside risks that could cause the shares to trade below 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; and 4) disappointing earnings performance from Pegatron as Asustek still holds a 24% shareholding in Pegatron.

SEMCO 009150.KS 009150 KS

TECHNOLOGY

NOMURA
EQUITY RESEARCH

Benefit from smartphone and tablet PC boom

BUY on MLCC

April 20, 2011

Rating Remains	**Buy**
Target price Remains	KRW 148,000
Closing price April 15, 2011	KRW 114,500
Potential upside	+29.3%

Action

We reiterate our BUY rating on SEMCO with price target of W148,000. While LED is likely to bottom in 1Q11F, we think the focus should be on its MLCC competitiveness. MLCC has become the key growth driver for SEMCO, in our view. The company is one of the most competitive manufacturers in ultra-small MLCCs with high capacitance, which are essential components for smartphones.

Catalysts

Backed by demand for smartphones, SEMCO should enjoy material growth in MLCC sales and OP. Moreover, SEMCO has shifted MLCC production toward handsets from other applications. Meanwhile, components related to smartphones and tablet PCs will become tighter in 2H11F given our outlook on demand for smartphones and table PCs and impact of Japan earthquake on component supply, leading to a price hike in components. As such, we think SEMCO will benefit from this trend.

Valuation

We maintain our price target of W148,000 to reflect our positive view on the company in 2H11F. Our price target is based on EV/EBITDA SOTP, using annualised 2H11F EBITDA, as we expect a recovery in 2H11F. Our price target is equivalent to an FY11F P/E of 21.1x and a P/BV of 2.5x.

31 Dec	FY10		FY11F		FY12F
Currency (KRW)	Actual	Old	New	Old	New
Revenue (bn)	6,969	7,722	7,722	9,152	9,152
Reported net profit (bn)	555	545	545	724	724
Normalised net profit (bn)	555	545	545	724	724
Normalised EPS	7,147.5	7,018.6	7,023.1	9,335.5	9,329.8
Norm. EPS growth (%)	95.4	11.0	-1.7	33.0	32.8
Norm. P/E (x)	16.4	16.7	16.7	12.6	12.6
EV/EBITDA	7.6	7.0	6.9	5.5	5.4
Price/book (x)	2.4	2.7	2.0	2.3	1.6
Dividend yield (%)	0.6	0.6	0.6	0.6	0.6
ROE (%)	16.8	17.8	13.0	20.1	14.3
Net debt/equity (%)	26.7	26.8	17.1	22.2	11.3

Source: Nomura estimates

Key company data: *See page 2 for company data, and detailed price/index chart.*
Rating: *See report end for details of Nomura's rating system.*

Anchor themes

LED is approaching a bottom in terms of profitability. We recommend investors focus on SEMCO's MLCC competitiveness and benefits derived from the demand boom for smartphones and tablet PCs

Nomura vs consensus

We are slightly bearish on SEMCO in terms of earnings. However, we have a positive outlook on the stock, especially in 2H11F. Reflecting its MLCC competitiveness, we reiterate BUY

Research analysts

Asia Technology/Displays

James Kim - NFIK
james.kim@nomura.com
+822 3783 2341

Greg Kang - NFIK
greg.kang@nomura.com
+82 2 3783 2336

Key data on SEMCO

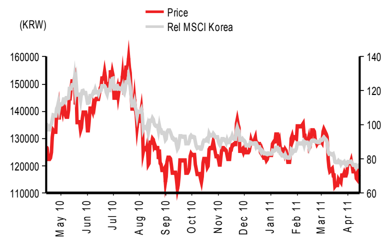
Income statement (KRWbn)

Year-end 31 Dec	FY09	FY10	FY11F	FY12F
Revenue	**5,551**	**6,969**	**7,722**	**9,152**
Cost of goods sold	-4,370	-5,277	-5,255	-6,077
Gross profit	**1,181**	**1,691**	**2,467**	**3,075**
SG&A	-699	-913	-1,636	-1,939
Employee share expense				
Operating profit	**482**	**778**	**831**	**1,136**
EBITDA	**853**	**1,286**	**1,370**	**1,744**
Depreciation	-371	-508	-539	-608
Amortisation				
EBIT	482	778	831	1,136
Net interest expense	-48	-48	-50	-47
Associates & JCEs	0	0	9	9
Other income	7	101	16	19
Earnings before tax	**441**	**831**	**806**	**1,117**
Income tax	-115	-164	-219	-303
Net profit after tax	**325**	**667**	**587**	**814**
Minority interests	-41	-112	-42	-90
Other items				
Preferred dividends				
Normalised NPAT	**284**	**555**	**545**	**724**
Extraordinary items	0	0	0	0
Reported NPAT	**284**	**555**	**545**	**724**
Dividends	-19	-58	-54	-54
Transfer to reserves	**264**	**497**	**491**	**670**
Valuation and ratio analysis				
FD normalised P/E (x)	32.1	16.4	16.7	12.6
FD normalised P/E at price target (x)	40.5	20.7	21.1	15.9
Reported P/E (x)	32.1	16.4	16.7	12.6
Dividend yield (%)	0.2	0.6	0.6	0.6
Price/cashflow (x)	12.3	9.4	5.4	7.8
Price/book (x)	3.2	2.4	2.0	1.6
EV/EBITDA (x)	11.0	7.6	6.9	5.4
EV/EBIT (x)	19.5	12.6	11.4	8.2
Gross margin (%)	21.3	24.3	31.9	33.6
EBITDA margin (%)	15.4	18.5	17.7	19.1
EBIT margin (%)	8.7	11.2	10.8	12.4
Net margin (%)	5.1	8.0	7.1	7.9
Effective tax rate (%)	26.2	19.7	27.2	27.1
Dividend payout (%)	6.8	10.5	9.9	7.5
Capex to sales (%)	13.5	13.9	10.7	10.4
Capex to depreciation (x)	2.0	1.9	1.5	1.6
ROE (%)	11.8	16.8	13.0	14.3
ROA (pretax %)	12.1	14.6	13.1	16.2
Growth (%)				
Revenue	29.5	25.6	10.8	18.5
EBITDA	95.2	50.7	6.6	27.3
EBIT	252.1	61.4	6.8	36.7
Normalised EPS	424.6	95.4	-1.7	32.8
Normalised FDEPS	424.6	95.4	-1.7	32.8
Per share				
Reported EPS (KRW)	3,657.01	7,147.54	7,023.13	9,329.82
Norm EPS (KRW)	3,657.01	7,147.54	7,023.13	9,329.82
Fully diluted norm EPS (KRW)	3,657.01	7,147.54	7,023.13	9,329.82
Book value per share (KRW)	36,322.03	49,005.23	59,579.72	71,271.67
DPS (KRW)	249.22	749.21	695.87	695.87

Source: Nomura estimates

Notes

Price and price relative chart (one year)



(%)	1M	3M	12M
Absolute (KRW)	-0.4	-6.7	-6.7
Absolute (USD)	3.3	-4.5	-3.9
Relative to index	-9.4	-8.4	-31.2
Market cap (USDmn)	8,073.7		
Estimated free float (%)	76.3		
52-week range (KRW)	160000/107000		
3-mth avg daily turnover (USDmn)	121.66		
Major shareholders (%)			
Samsung Electronics	23.7		
NPF	7.1		

Cashflow (KRWbn)

Year-end 31 Dec	FY09	FY10	FY11F	FY12F
EBITDA	853	1,286	1,370	1,744
Change in working capital	124	-325	-340	-12
Other operating cashflow	-236	4	670	-570
Cashflow from operations	**740**	**965**	**1,700**	**1,162**
Capital expenditure	-751	-970	-830	-950
Free cashflow	**-11**	**-5**	**870**	**212**
Reduction in investments	-274	-614	-202	-229
Net acquisitions				
Reduction in other LT assets	-71	-23	-19	-117
Addition in other LT liabilities	-43	139	-26	-24
Adjustments	422	135	-239	341
Cashflow after investing acts	**23**	**-368**	**384**	**184**
Cash dividends	-24	-68	-58	-54
Equity issue	-28	-3	0	0
Debt issue	222	62	-135	-84
Convertible debt issue				
Others	565	-16	60	102
Cashflow from financial acts	**736**	**-25**	**-133**	**-36**
Net cashflow	**759**	**-393**	**251**	**148**
Beginning cash	330	1,089	695	946
Ending cash	1,089	696	946	1,094
Ending net debt	631	1,014	792	623

Source: Nomura estimates

Notes

Balance sheet (KRWbn)

As at 31 Dec	FY09	FY10	FY11F	FY12F
Cash & equivalents	1,089	695	946	1,094
Marketable securities	0	0	0	0
Accounts receivable	764	839	931	1,003
Inventories	487	752	846	965
Other current assets	63	189	266	256
Total current assets	**2,403**	**2,476**	**2,989**	**3,318**
LT investments	943	1,557	1,759	1,988
Fixed assets	2,104	2,619	2,628	2,971
Goodwill				
Other intangible assets	60	90	93	107
Other LT assets	71	94	113	230
Total assets	**5,581**	**6,836**	**7,581**	**8,614**
Short-term debt	1,111	757	605	484
Accounts payable	849	956	749	783
Other current liabilities	71	106	236	372
Total current liabilities	**2,032**	**1,819**	**1,589**	**1,638**
Long-term debt	608	953	1,133	1,233
Convertible debt				
Other LT liabilities	123	262	235	212
Total liabilities	**2,763**	**3,033**	**2,958**	**3,083**
Minority interest				
Preferred stock	15	15	15	15
Common stock	373	373	373	373
Retained earnings	470	721	1,212	1,882
Proposed dividends				
Other equity and reserves	1,961	2,694	3,024	3,261
Total shareholders' equity	**2,819**	**3,803**	**4,623**	**5,531**
Total equity & liabilities	**5,581**	**6,836**	**7,581**	**8,614**
Liquidity (x)				
Current ratio	1.18	1.36	1.88	2.03
Interest cover	10.0	16.1	16.6	24.2
Leverage				
Net debt/EBITDA (x)	0.74	0.79	0.58	0.36
Net debt/equity (%)	22.4	26.7	17.1	11.3
Activity (days)				
Days receivable	37.4	42.0	41.8	38.7
Days inventory	40.7	42.9	55.5	54.5
Days payable	51.4	62.4	59.2	46.1
Cash cycle	26.7	22.4	38.1	47.1

Source: Nomura estimates

Notes

Passing bottom

In 2011, we foresee an increasing polarisation within the technology sector. We are bullish on smartphones and tablet PCs and reckon SEMCO will be a beneficiary of the boom. For example, high-end MLCCs such as 0603-size and 0402-size MLCCs are the basic components for smartphones. Only select companies, including SEMCO, can provide such high-end products. According to our channel checks, one smartphone consumes two times more MLCCs than a feature phone. We expect the MLCC business to account for 23% of SEMCO's total revenue in 2011, which is the same proportion as LED. However, we forecast MLCCs to contribute 48% of 2011 operating profit vs. LED's 14%. Our summarised views are as below.

- **LED passing the bottom:** We forecast the LED industry to experience a very challenging time in 1H11, due to weak demand from the TV side and the very fast growth of LED makers' production capacity. However, we expect the industry to increase utilisation from 2Q11F in response to the increasing LED TV penetration. We anticipate a much better supply-demand situation in 2H11. Still, though, we don't expect high margins in the business.
- **SEMCO's MLCC operation is a beneficiary of the boom in smartphones and tablet PCs:** We expect operating profit growth of MLCCs in 2011 to jump by 39% to W395bn. Moreover, SEMCO won the case of MLCC's patent lawsuit vs. Murata. We think this is a very critical win for SEMCO. SEMCO now can secure more customers.

We expect SEMCO's other businesses to recover from 2Q11 and SEMCO's profitability to rapidly recover from 2Q11. Our target price is derived by using EV/EBITDA SOTP to incorporate the company's diverse earnings sources (methodology unchanged). Our price target is equivalent to an FY11F P/E of 21.1x and a P/BV of 2.5x.

Fig. 59: Nomura vs. consensus

Nomura	BUY with PT of W148,000		
Street consensus	BUY	NEUTRAL	REDUCE
# of recommendation on street	26	7	-
PT range (W)	'135,000 - 180,000	'115,000 - 135,000	-

Source: Bloomberg

MLCC boom

We are bullish on smartphones and tablet PCs. We expect smartphone demand to grow 52% y-y and tablet PCs by at least more than three-fold y-y to 52mn as many other PC and electronics companies are planning to launch their tablet PCs. In particular, one smartphone uses about 400 units of MLCCs vs. 180 units for a feature phone. A tablet PC uses about 500 units of MLCCs. Moreover, smartphones are using smaller but higher-capacitance MLCCs, which only select companies, such SEMCO and Murata, are capable of producing.

Previously, PC application accounted for 50% of SEMCO's MLCCs. However, this portion has declined to 40% and the handset portion has almost doubled to 30% over the past year. We estimate the operating margin of MLCCs for handset application is almost twice of PC application in our view. We estimate that MLCC sales will grow 43% y-y in 2011 thanks to the smartphone and tablet PC boom in the rest of 2011 and 2012.

Fig. 60: Quarterly sales and operating profit

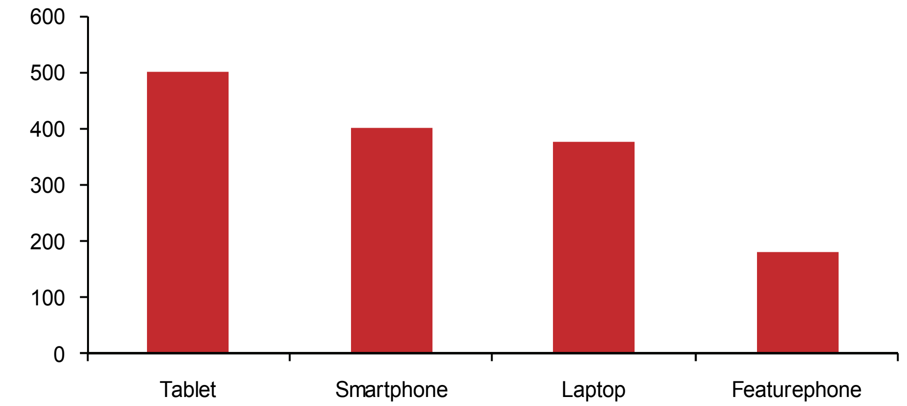
	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11F	2Q11F	3Q11F	4Q11F	FY09	FY10	FY11F
Sales	**1,132**	**1,316**	**1,549**	**1,552**	**1,624**	**1,907**	**1,846**	**1,593**	**1,648**	**1,869**	**2,083**	**2,123**	**5,549**	**6,969**	**7,722**
(% q-q)	(3)	16	18	0	5	17	(3)	(14)	3	13	11	2			
(% y-y)	28	27	30	33	43	45	19	3	2	(2)	13	33	30	26	11
ACI	**272**	**339**	**392**	**340**	**335**	**366**	**380**	**362**	**345**	**376**	**410**	**415**	**1,343**	**1,443**	**1,546**
HDI	130	130	152	129	115	120	121	102	120	127	133	123	541	458	502
FC	35	70	75	73	86	89	67	69	50	50	52	52	253	311	205
BGA	107	139	165	139	134	156	192	192	176	199	225	240	549	674	839
Chip Comp.	**214**	**293**	**352**	**351**	**357**	**433**	**448**	**398**	**401**	**494**	**539**	**525**	**1,210**	**1,637**	**1,958**
MLCC	176	250	280	282	303	365	388	356	354	438	479	469	988	1,412	1,739
Other	38	43	72	69	54	68	60	42	47	56	60	56	222	225	219
RF	**307**	**329**	**403**	**409**	**394**	**439**	**443**	**441**	**379**	**395**	**419**	**395**	**1,448**	**1,717**	**1,589**
OS	**339**	**356**	**402**	**451**	**538**	**666**	**570**	**393**	**523**	**603**	**715**	**788**	**1,548**	**2,172**	**2,630**
CM	187	145	140	152	131	158	146	121	134	139	133	140	624	555	546
LED	80	147	183	225	330	431	346	211	310	384	502	566	635	1,318	1,762
Other	72	64	79	73	77	77	78	61	80	80	81	81	289	299	321
Operating Profit	**(6)**	**129**	**207**	**155**	**118**	**311**	**264**	**84**	**102**	**199**	**280**	**250**	**484**	**778**	**831**
(% q-q)	n.a.	n.a.	61	(25)	(23)	163	(15)	(68)	22	94	41	(10)			
(% y-y)	n.a.	433	235	291	n.a.	141	28	(46)	(14)	(36)	6	199	253	61	7
ACI	**(7)**	**36**	**66**	**32**	**8**	**49**	**47**	**22**	**22**	**39**	**51**	**49**	**128**	**127**	**161**
Chip Comp.	**(3)**	**45**	**77**	**70**	**47**	**95**	**98**	**57**	**69**	**103**	**129**	**106**	**189**	**297**	**407**
RF	**(4)**	**25**	**26**	**11**	**7**	**33**	**49**	**15**	**11**	**32**	**42**	**28**	**58**	**104**	**113**
OS	**7**	**24**	**37**	**41**	**56**	**134**	**70**	**(10)**	**0**	**24**	**57**	**68**	**110**	**250**	**150**
OP margin (%)	**(0.5)**	**9.8**	**13.4**	**10.0**	**7.3**	**16.3**	**14.3**	**5.3**	**6.2**	**10.6**	**13.4**	**11.8**	**8.7**	**11.2**	**10.8**

Sales Mix (%)

(%)	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11F	2Q11F	3Q11F	4Q11F	FY09	FY10	FY11F
ACI	**24**	**26**	**25**	**22**	**21**	**19**	**21**	**23**	**21**	**20**	**20**	**20**	**24**	**21**	**20**
HDI	11	10	10	8	7	6	7	6	7	7	6	6	10	7	7
FC	3	5	5	5	5	5	4	4	3	3	3	2	5	4	3
BGA	9	11	11	9	8	8	10	12	11	11	11	11	10	10	11
Chip Comp.	**19**	**22**	**23**	**23**	**22**	**23**	**24**	**25**	**24**	**26**	**26**	**25**	**22**	**23**	**25**
MLCC	16	19	18	18	19	19	21	22	21	23	23	22	18	20	23
Other	3	3	5	4	3	4	3	3	3	3	3	3	4	3	3
RF	**27**	**25**	**26**	**26**	**24**	**23**	**24**	**28**	**23**	**21**	**20**	**19**	**26**	**25**	**21**
OS	**30**	**27**	**26**	**29**	**33**	**35**	**31**	**25**	**32**	**32**	**34**	**37**	**28**	**31**	**34**
CM	17	11	9	10	8	8	8	8	8	7	6	7	11	8	7
LED	7	11	12	15	20	23	19	13	19	21	24	27	11	19	23
Other	6	5	5	5	5	4	4	4	5	4	4	4	5	4	4

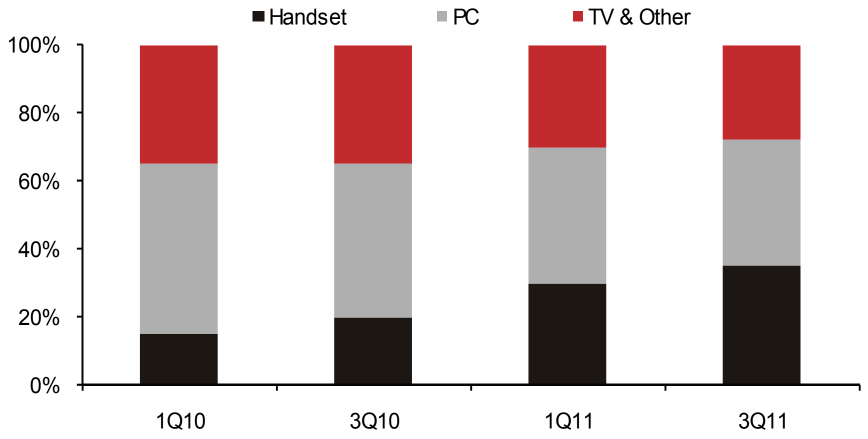
Source: Company data, Nomura estimates

Fig. 61: # of MLCCs for tablet PCs and smartphones



Source: Nomura estimates

Fig. 62: MLCC sales portion breakdown by application



Source: Nomura estimates

Component shortage in 2H11F

The earthquake in Japan will likely act as another variable to market conditions, in our view. We believe supply of components will be tight in 2Q11F due to the earthquake, which will become the major swing factor in the IT sector in the short term. In particular, components related to smartphones and tablet PCs will become tighter in 2H11F given the demand outlook on smartphones and table PCs and impacted supply by the earthquake. Hence, we think buy timing is 2Q11F. May and June will see supply shortage of some critical parts. We believe inventory restocking will be insufficient on high seasonal demand in 2H11F, which would result in price hikes for components. In particular, supply of smartphone- and tablet PC-related components will be insufficient in 2H11, in our view.

LG Display 034220.KS 034220 KS

DISPLAYS

NOMURA
EQUITY RESEARCH

BUY on panel price rebound

Weather changing to sunshine

April 20, 2011

Rating Up from Neutral — **Buy**

Target price Increased from 36,000 — **KRW 47,000**

Closing price April 19, 2011 — **KRW 38,600**

Potential upside — **+21.8%**

Action: Upgrade to BUY, from Neutral, and raise TP to W47,000

We upgrade our rating on LGD to BUY from Neutral to reflect the recent positive trend in the LCD industry and LGD's technological competitiveness. We believe LGD's earnings momentum will rapidly improve from 2Q11F on earlier-than-expected panel price rebound and increased portion of high-end products.

On this, we raise our price target by 31% to W47,000 (implying an upside potential of 22%) from W36,000 to reflect our positive shift in view. Our price target is derived by using a target P/B of 1.4x, revised from 1.1x. We believe LGD should trade between 1.0-1.4x P/B given the industry cycle and ROE of around 10%, and we think applying 1.4x is reasonable, considering improved earnings momentum and technological competitiveness.

Catalysts: Panel price rebound and technological competitiveness

We are anticipating an earlier-than-expected panel price rebound following Sharp's line suspension, resulting in improved profitability of panel makers (we previously had discussed this in our report, "Sharp's line suspension lower global utilization significantly" published on 7 April 2011). We also believe LGD could improve profitability further thanks to its technological competitiveness, evident from its FPR (film patterned retarder) 3D technology and IPS panels.

This note is excerpted from a note published on 20 April.

31 Dec	FY10		FY11F		FY12F
Currency (KRW)	Actual	Old	New	Old	New
Revenue (bn)	25,511	28,248	27,478	30,589	28,747
Reported net profit (bn)	1,161	684	1,000	1,038	1,271
Normalised net profit (bn)	1,161	684	1,000	1,038	1,271
Normalised EPS	3,245.8	1,910.4	2,795.1	2,902.1	3,552.3
Norm. EPS growth (%)	3.9	-41.0	-13.9	51.9	27.1
Norm. P/E (x)	11.1	18.8	12.8	12.4	10.1
EV/EBITDA	3.5	4.3	3.5	3.1	2.8
Price/book (x)	1.2	1.1	1.1	1.0	1.0
Dividend yield (%)	1.4	0.9	1.3	1.4	1.7
ROE (%)	11.0	6.0	8.7	8.6	10.2
Net debt/equity (%)	18.5	43.9	29.8	27.0	22.0

Source: Nomura estimates

Key company data: *See page 2 for company data, and detailed price/index chart.*
Rating: *See report end for details of Nomura's rating system.*

Anchor themes

We believe the LCD industry momentum has improved significantly on Sharp's line suspension. Moreover, LGD has improved its technological competitiveness to differenciate itself from others

Nomura vs consensus

We are in line with consensus. We think profitability of LGD will improve rapidly on panel price rebound in 2Q11F and high margin from high-end products.

Research analysts

Asia Technology/Displays

James Kim - NFIK
james.kim@nomura.com
+852 2252 6203

Greg Kang - NFIK
greg.kang@nomura.com
+82 2 3783 2336

Key data on LG Display

Income statement (KRWbn)

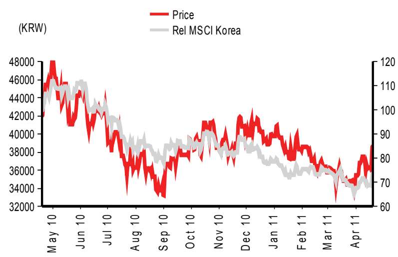
Year-end 31 Dec	FY09	FY10	FY11F	FY12F
Revenue	**20,038**	**25,511**	**27,478**	**28,747**
Cost of goods sold	-17,477	-21,781	-23,179	-24,010
Gross profit	**2,561**	**3,730**	**4,299**	**4,738**
SG&A	-1,550	-2,420	-3,065	-3,206
Employee share expense				
Operating profit	**1,010**	**1,310**	**1,235**	**1,531**
EBITDA	**3,852**	**4,235**	**4,641**	**5,550**
Depreciation	-2,842	-2,925	-3,406	-4,019
Amortisation	0	0	0	0
EBIT	1,010	1,310	1,235	1,531
Net interest expense	-11	-47	-105	-160
Associates & JCEs	20	18	18	18
Other income	-6	-16	33	49
Earnings before tax	**1,013**	**1,265**	**1,181**	**1,439**
Income tax	105	-106	-181	-168
Net profit after tax	**1,118**	**1,159**	**1,000**	**1,271**
Minority interests	0	3	0	
Other items				
Preferred dividends				
Normalised NPAT	**1,118**	**1,161**	**1,000**	**1,271**
Extraordinary items				
Reported NPAT	**1,118**	**1,161**	**1,000**	**1,271**
Dividends	-179	-179	-170	-216
Transfer to reserves	**939**	**982**	**830**	**1,055**
Valuation and ratio analysis				
FD normalised P/E (x)	11.5	11.1	12.8	10.1
FD normalised P/E at price target (x)	15.0	14.5	16.8	13.2
Reported P/E (x)	11.5	11.1	12.8	10.1
Dividend yield (%)	1.4	1.4	1.3	1.7
Price/cashflow (x)	3.1	2.6	2.9	2.3
Price/book (x)	1.3	1.2	1.1	1.0
EV/EBITDA (x)	3.8	3.5	3.5	2.8
EV/EBIT (x)	14.4	11.2	13.1	10.1
Gross margin (%)	12.8	14.6	15.6	16.5
EBITDA margin (%)	19.2	16.6	16.9	19.3
EBIT margin (%)	5.0	5.1	4.5	5.3
Net margin (%)	5.6	4.6	3.6	4.4
Effective tax rate (%)	-10.3	8.4	15.3	11.6
Dividend payout (%)	16.0	15.4	17.0	17.0
Capex to sales (%)	19.5	19.2	18.2	15.7
Capex to depreciation (x)	1.4	1.7	1.5	1.1
ROE (%)	11.6	11.0	8.7	10.2
ROA (pretax %)	5.9	6.5	5.4	6.4
Growth (%)				
Revenue	23.2	27.3	7.7	4.6
EBITDA	-9.9	9.9	9.6	19.6
EBIT	-41.8	29.6	-5.7	24.0
Normalised EPS	2.8	3.9	-13.9	27.1
Normalised FDEPS	2.8	3.9	-13.9	27.1
Per share				
Reported EPS (KRW)	3,123.89	3,245.81	2,795.15	3,552.29
Norm EPS (KRW)	3,123.89	3,245.81	2,795.15	3,552.29
Fully diluted norm EPS (KRW)	3,123.89	3,245.81	2,795.15	3,552.29
Book value per share (KRW)	28,058.44	30,842.85	33,308.93	36,266.68
DPS (KRW)	500.00	500.00	475.18	603.89

Source: Nomura estimates

Notes

Despite heavy operating loss in 1Q11F, we expect LGD to record W1.2tn operating profit in 2011F

Price and price relative chart (one year)



(%)	1M	3M	12M
Absolute (KRW)	-6.8	-13.6	-0.8
Absolute (USD)	-7.8	-12.5	1.2
Relative to index	-2.1	-14.9	-23.7
Market cap (USDmn)	11,500.4		
Estimated free float (%)	48.9		
52-week range (KRW)	48100/32600		
3-mth avg daily turnover (USDmn)	83.25		
Major shareholders (%)			
LG Electronics	37.9		

Cashflow (KRWbn)

Year-end 31 Dec	FY09	FY10	FY11F	FY12F
EBITDA	3,852	4,235	4,641	5,550
Change in working capital	-219	2,143	-912	-99
Other operating cashflow	519	-1,495	642	50
Cashflow from operations	**4,153**	**4,884**	**4,371**	**5,502**
Capital expenditure	-3,916	-4,900	-5,000	-4,500
Free cashflow	**238**	**-16**	**-629**	**1,002**
Reduction in investments	-238	20	-31	34
Net acquisitions				
Reduction in other LT assets	-437	997	-236	-182
Addition in other LT liabilities	512	364	-19	-117
Adjustments	-507	-959	-455	250
Cashflow after investing acts	**-433**	**405**	**-1,370**	**987**
Cash dividends	-179	-179	-179	-170
Equity issue	0	0	0	0
Debt issue	94	1,179	1,011	-670
Convertible debt issue				
Others	-32	-592	-50	10
Cashflow from financial acts	**-117**	**408**	**783**	**-830**
Net cashflow	**-550**	**813**	**-588**	**157**
Beginning cash	1,368	818	1,631	1,043
Ending cash	818	1,631	1,043	1,200
Ending net debt	2,029	2,041	3,557	2,850

Source: Nomura estimates

Notes

Stable cash from operation

Balance sheet (KRWbn)

As at 31 Dec	FY09	FY10	FY11F	FY12F
Cash & equivalents	818	1,631	1,043	1,200
Marketable securities	0	0	0	0
Accounts receivable	2,950	3,001	3,237	3,150
Inventories	1,668	2,215	2,258	2,205
Other current assets	2,790	1,994	2,267	2,474
Total current assets	**8,226**	**8,840**	**8,805**	**9,030**
LT investments	428	409	440	406
Fixed assets	9,596	12,815	13,909	13,891
Goodwill				
Other intangible assets	352	540	556	573
Other LT assets	1,100	1,253	1,554	1,725
Total assets	**19,703**	**23,858**	**25,265**	**25,625**
Short-term debt	771	1,213	1,600	1,485
Accounts payable	2,031	2,962	4,572	4,642
Other current liabilities	3,693	4,706	2,737	2,635
Total current liabilities	**6,495**	**8,882**	**8,910**	**8,763**
Long-term debt	2,076	2,459	3,000	2,565
Convertible debt				
Other LT liabilities	1,092	1,456	1,437	1,321
Total liabilities	**9,664**	**12,797**	**13,347**	**12,648**
Minority interest	0	25	0	0
Preferred stock				
Common stock	1,789	1,789	1,789	1,789
Retained earnings	6,051	7,031	7,861	8,916
Proposed dividends				
Other equity and reserves	2,200	2,216	2,268	2,271
Total shareholders' equity	**10,040**	**11,036**	**11,918**	**12,977**
Total equity & liabilities	**19,703**	**23,858**	**25,265**	**25,625**
Liquidity (x)				
Current ratio	1.27	1.00	0.99	1.03
Interest cover	90.7	27.6	11.8	9.6
Leverage				
Net debt/EBITDA (x)	0.53	0.48	0.77	0.51
Net debt/equity (%)	20.2	18.5	29.8	22.0
Activity (days)				
Days receivable	45.5	42.6	41.4	40.7
Days inventory	29.3	32.5	35.2	34.0
Days payable	56.0	41.8	59.3	70.2
Cash cycle	18.8	33.3	17.3	4.5

Source: Nomura estimates

Notes

Healthy debt ratio

Raise PT to W47k, implying an upside potential of 22%

We upgrade our rating on LGD to BUY from Neutral to reflect the recent positive trend in the LCD industry and LGD's technological competitiveness.

- As discussed in our previous report, "Sharp's line suspension lower global utilization significantly" published on 7 April 2011, we anticipate an earlier-than-expected panel price rebound following Sharp's line suspension, improving profitability of panel makers.
- We believe LGD could improve profitability further thanks to its technological competitiveness, evident from its FPR (film patterned retarder) 3D technology and IPS panels. We turned more positive following 1Q11 earnings conference call, "Agree on positive guidance".

Meanwhile, we maintain our assumption of only 11% y-y growth in LCD TV demand in 2011F. As such, the shift in our view on LGD was premised on 1) the improved supply and demand condition on the utilisation cut, leading to earlier-than-expected panel price rebound, 2) increased portion of LGD's high-end products driven by technological competitiveness and 3) our upward revision of 2011F operating profit by 44% to W1,235bn. On this, we raise our price target by 31% to W47,000 (implying an upside potential of 22%) from W36,000 to reflect the positive shift in our view. Our price target is derived by using a target P/B of 1.4x, revised from 1.1x. We believe LGD should trade between 1.0-1.4x P/B given the industry cycle and ROE of around 10%, and we think applying 1.4x is reasonable, considering improved earnings momentum and technological competitiveness.

Our view has changed as follows

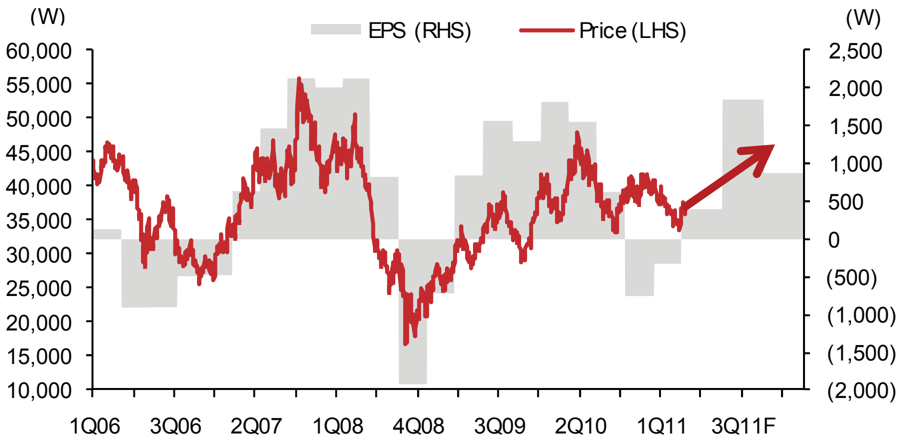
1) **Global utilisation cut:** Following Sharp's recent line suspension, we estimate global utilisation in April will be 73%, 11pp lower than our previous expectation of 84%, and 74% in May, 13pp lower than our previous expectation of 87%.

2) **Earlier-than-expected panel price rebound:** We think the global utilisation cut should result in an inventory burn out, leading to an earlier-than-expected panel price rebound. We now expect panel prices to rebound in April, vs. our prior expectation of May.

3) **Increased portion of high-end products:** As per LGD's management, 1) high-end IT portion will increase to 40% in 2Q11F from 30% in 1Q11, and 2) FPR portion in TV panel will mark 15% in 2Q11 and 50% in 4Q11. This should result in improved profitability.

4) **Earnings revision:** We raise 2011F estimated operating profit by 44% to W1,235bn from W856bn as we anticipate an earlier-than-expected panel price rebound and increased portion of high-end product. For 2Q11F, we revise up operating profit by 16% to W200bn from W172bn.

Fig. 63: LGD: share price vs. EPS



Source: Company data, Bloomberg, Nomura estimates

Fig. 64: Nomura vs. consensus

Nomura		**BUY with PT of W47,000**	
Street consensus	BUY	NEUTRAL	REDUCE
# of recommendations on street	27	9	1
PT range (W)	W43,000-56,000	W36,000-44,000	W32,000

Source: Bloomberg

Global utilisation cut by 11pp in April

We believe Sharp's line suspension will be positive for the LCD industry. We now estimate global utilisation in April will be 73%, 11pp lower than our previous expectation of 84%, and 74% in May, 13pp lower than our previous expectation of 87%. This should result in an inventory burn out, and a faster-than-expected sharp rebound in prices, in our view. We now expect panel prices to rebound in April, resulting in improved profitability for panel makers.

The main reasons why we expect lower global utilisation in April are:

1) We estimate that Sharp currently accounts for 9% of global panel capacity and runs its fabs at 70% utilisation. Hence, on our estimates, the line suspension will impact global utilisation by c.6%.

2) We believe Japanese set makers have lowered their TV panel orders placed with Taiwanese panel makers owing to weak demand, especially Sony, resulting in a drop in Taiwanese panel makers' utilisation by much more than 5% in April.

3) We also believe that Japanese set makers have lowered their TV panel orders placed with Korean panel makers. Hence, Korean panel should increase captive portion and reduce orders to Taiwan panel makers, rather than cut their utilisation. This will impact Taiwanese panel makers' utilisation as well. We had previously expected global utilisation of 84% in April and 85% in May. However, we now believe global utilisation will drop significantly with Sharp's line suspension. In addition, we believe it will take some time for Sharp to fully recover its business after resuming operations as we think the line suspension would likely deteriorate relationship with customers.

Fig. 65: Monthly utilisation ratio (revised)

	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
LGD	98%	98%	100%	98%	100%	100%	100%	93%	92%	88%	88%	88%
SEC	98%	98%	100%	100%	100%	100%	100%	92%	89%	88%	88%	88%
AUO	90%	88%	90%	91%	92%	95%	90%	85%	78%	67%	64%	75%
CMO	89%	88%	90%	93%	95%	95%	85%	77%	67%	62%	80%	80%
Sharp	90%	92%	95%	100%	100%	90%	85%	70%	65%	65%	70%	73%
Average utilisation	**93%**	**93%**	**94%**	**95%**	**96%**	**95%**	**92%**	**85%**	**80%**	**76%**	**79%**	**84%**
Oversupply ratio	**3%**	**2%**	**4%**	**10%**	**12%**	**12%**	**7%**	**-1%**	**-7%**	**-29%**	**-26%**	**-21%**

	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
LGD	84%	84%	85%	88%	90%	95%	95%	95%	95%	95%	95%	95%
SEC	86%	85%	85%	88%	90%	95%	95%	95%	95%	95%	95%	95%
AUO	75%	75%	75%	71%	70%	75%	80%	80%	85%	85%	85%	80%
CMO	84%	85%	86%	75%	75%	80%	80%	85%	87%	90%	85%	80%
Sharp	73%	72%	72%	0%	0%	0%	50%	60%	65%	70%	70%	65%
Average utilisation	**79%**	**79%**	**80%**	**73%**	**74%**	**78%**	**85%**	**86%**	**89%**	**89%**	**88%**	**86%**
Oversupply ratio	**-4%**	**-4%**	**-3%**	**-12%**	**-11%**	**-5%**	**-4%**	**-2%**	**1%**	**-17%**	**-18%**	**-21%**

Source: All numbers based on Nomura estimates

Fig. 66: Monthly utilisation (previous)

	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
LGD	98%	98%	100%	98%	100%	100%	100%	93%	92%	88%	88%	88%
SEC	98%	98%	100%	100%	100%	100%	100%	92%	89%	88%	88%	88%
AUO	90%	88%	90%	91%	92%	95%	90%	85%	78%	67%	64%	75%
CMO	89%	88%	90%	93%	95%	95%	85%	77%	67%	62%	80%	80%
Sharp	90%	92%	95%	100%	100%	90%	85%	70%	65%	65%	70%	73%
Average utilisation	**93%**	**93%**	**94%**	**95%**	**96%**	**95%**	**92%**	**85%**	**80%**	**76%**	**79%**	**84%**
Oversupply ratio	**3%**	**2%**	**4%**	**10%**	**12%**	**12%**	**7%**	**-1%**	**-7%**	**-31%**	**-28%**	**-24%**

	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
LGD	84%	84%	86%	90%	95%	100%	100%	100%	100%	100%	95%	95%
SEC	86%	85%	88%	92%	95%	100%	100%	100%	100%	100%	95%	95%
AUO	75%	75%	75%	83%	85%	85%	90%	90%	92%	95%	90%	85%
CMO	84%	85%	86%	87%	88%	90%	90%	90%	92%	95%	85%	85%
Sharp	73%	72%	72%	73%	75%	75%	75%	80%	80%	75%	70%	70%
Average utilisation	**79%**	**79%**	**80%**	**84%**	**87%**	**91%**	**93%**	**93%**	**94%**	**95%**	**89%**	**88%**
Oversupply ratio	**-4%**	**-4%**	**-1%**	**3%**	**7%**	**11%**	**6%**	**6%**	**8%**	**-12%**	**-17%**	**-18%**

Source: All numbers based on Nomura estimates

Fig. 67: LCD – Area basis supply / demand model (base case)

	1Q10	2Q10	3Q10	4Q10	1Q11F	2Q11F	3Q11F	4Q11F	1Q12F	2Q12F	3Q12F	4Q12F	2010	2011F	2012F
Sufficiency	**11%**	**17%**	**18%**	**-5%**	**24%**	**23%**	**14%**	**-7%**	**24%**	**22%**	**11%**	**-15%**	**9%**	**11%**	**8%**
Demand Side Analysis- By Area ('000M²)															
Notebook	2,821	2,848	3,174	3,583	3,380	3,445	4,033	4,749	4,260	4,379	4,971	5,615	12,426	15,607	19,225
PC Monitor	5,353	5,532	5,746	5,820	5,427	5,588	5,864	5,815	5,440	5,496	5,843	6,112	22,451	22,694	22,891
TV	13,373	13,854	14,943	21,283	14,962	15,692	17,516	24,815	17,212	18,052	20,151	28,547	63,453	72,984	83,961
Public display	75	113	175	167	112	170	252	229	161	232	292	322	530	765	1,008
Others	646	667	716	921	713	742	822	1,061	807	838	929	1,208	2,950	3,339	3,782
Total Area Demand	**22,269**	**23,014**	**24,754**	**31,773**	**24,594**	**25,637**	**28,488**	**36,669**	**27,881**	**28,996**	**32,186**	**41,805**	**101,810**	**115,389**	**130,867**
% QoQ	**-15%**	**3%**	**8%**	**28%**	**-23%**	**4%**	**11%**	**29%**	**-24%**	**4%**	**11%**	**30%**			
% YoY	41%	34%	22%	21%	10%	11%	15%	15%	13%	13%	13%	14%	28%	13%	13%
% to Total Demand															
Notebook	13%	12%	13%	11%	14%	13%	14%	13%	15%	15%	15%	13%	12%	14%	15%
PC Monitor	24%	24%	23%	18%	22%	22%	21%	16%	20%	19%	18%	15%	22%	20%	17%
TV	60%	60%	60%	67%	61%	61%	61%	68%	62%	62%	63%	68%	62%	63%	64%
Others	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Supply Side Analysis- Realistic Area Capacity (,000M²)															
2G	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2.5G	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
3G	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
3.5G	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
4G	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
4.5G	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
5G	23%	22%	20%	20%	19%	19%	18%	18%	17%	17%	17%	17%	21%	19%	17%
5.5G	3%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
6G	21%	20%	19%	19%	19%	19%	19%	18%	18%	18%	18%	18%	20%	19%	18%
7G	10%	10%	10%	9%	10%	9%	9%	9%	8%	8%	8%	8%	10%	9%	8%
7.5G	16%	15%	14%	14%	14%	13%	13%	12%	12%	12%	12%	12%	15%	13%	12%
8G	22%	25%	28%	29%	30%	31%	33%	35%	36%	38%	38%	38%	26%	32%	38%
10G	2%	4%	5%	4%	4%	5%	5%	4%	4%	4%	4%	4%	4%	5%	4%
Total Area Supply	**24,696**	**26,958**	**29,157**	**30,127**	**30,467**	**31,522**	**32,509**	**33,950**	**34,668**	**35,386**	**35,626**	**35,626**	**110,939**	**128,449**	**141,305**
% QoQ	**2%**	**9%**	**8%**	**3%**	**1%**	**3%**	**3%**	**4%**	**2%**	**2%**	**1%**	**0%**			
% YoY	31%	31%	27%	24%	23%	17%	11%	13%	14%	12%	10%	5%	28%	16%	10%

Source: DisplaySearch, WitsView, Nomura estimates

Fig. 68: LCD – Area basis supply / demand model (Utilization-adjusted)

	1Q10	2Q10	3Q10	4Q10	1Q11F	2Q11F	3Q11F	4Q11F	1Q12F	2Q12F	3Q12F	4Q12F	2010	2011F	2012F
Sufficiency	**4%**	**12%**	**1%**	**-24%**	**-2%**	**-7%**	**0%**	**-18%**	**7%**	**14%**	**4%**	**-20%**	**-4%**	**-8%**	**-1%**
Industry average utilisation	**93%**	**96%**	**86%**	**80%**	**79%**	**75%**	**88%**	**89%**	**86%**	**93%**	**93%**	**93%**	**88%**	**82%**	**95%**
Demand Side Analysis- By Area ('000M²)															
Notebook	2,821	2,848	3,174	3,583	3,380	3,445	4,033	4,749	4,260	4,379	4,971	5,615	12,426	15,607	19,225
PC Monitor	5,353	5,532	5,746	5,820	5,427	5,588	5,864	5,815	5,440	5,496	5,843	6,112	22,451	22,694	22,891
TV	13,373	13,854	14,943	21,283	14,962	15,692	17,516	24,815	17,212	18,052	20,151	28,547	63,453	72,984	83,961
Public display	75	144	175	167	112	170	252	229	161	232	292	322	561	765	1,008
Others	646	667	716	921	713	742	822	1,061	807	838	929	1,208	2,950	3,339	3,782
Total Area Demand	**22,269**	**23,045**	**24,754**	**31,773**	**24,594**	**25,637**	**28,488**	**36,669**	**27,881**	**28,996**	**32,186**	**41,805**	**101,841**	**115,389**	**130,867**
% QoQ	-15%	3%	7%	28%	-23%	4%	11%	29%	-24%	4%	11%	30%			
% YoY	**41%**	**34%**	**22%**	**21%**	**10%**	**11%**	**15%**	**15%**	**13%**	**13%**	**13%**	**14%**	**28%**	**13%**	**13%**
% to Total Demand															
Notebook	13%	12%	13%	11%	14%	13%	14%	13%	15%	15%	15%	13%	12%	14%	15%
PC Monitor	24%	24%	23%	18%	22%	22%	21%	16%	20%	19%	18%	15%	22%	20%	17%
TV	60%	60%	60%	67%	61%	61%	61%	68%	62%	62%	63%	68%	62%	63%	64%
Public display	0%	1%	1%	1%	0%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Others	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Supply Side Analysis- Realistic Area Capacity (,000M²)															
2G	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2.5G	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
3G	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
3.5G	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
4G	1%	1%	1%	1%	1%	0%	1%	1%	1%	1%	1%	1%	1%	1%	1%
4.5G	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
5G	23%	21%	20%	19%	19%	20%	19%	18%	17%	17%	17%	17%	21%	19%	17%
5.5G	3%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
6G	20%	20%	18%	18%	18%	19%	19%	18%	18%	17%	17%	17%	19%	19%	17%
7G	11%	10%	11%	11%	10%	11%	10%	9%	9%	9%	9%	9%	11%	10%	9%
7.5G	16%	15%	14%	14%	14%	14%	13%	12%	12%	12%	12%	12%	15%	13%	12%
8G	23%	26%	29%	31%	31%	32%	33%	36%	38%	39%	39%	39%	27%	33%	39%
10G	2%	4%	4%	4%	4%	0%	3%	4%	3%	4%	4%	4%	4%	3%	4%
Total Area Supply	**23,095**	**25,843**	**25,028**	**24,119**	**24,093**	**23,772**	**28,558**	**30,107**	**29,962**	**32,957**	**33,348**	**33,348**	**98,085**	**106,530**	**129,614**
% QoQ	**3%**	**12%**	**-3%**	**-4%**	**0%**	**-1%**	**20%**	**5%**	**0%**	**10%**	**1%**	**0%**			
% YoY	75%	38%	18%	8%	4%	-8%	14%	25%	24%	39%	17%	11%	30%	9%	22%

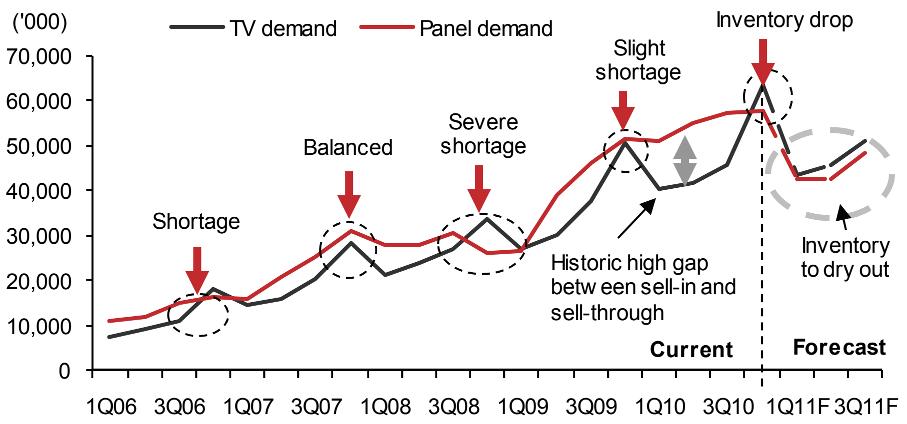
Source: DisplaySearch, WitsView, Nomura estimates

Investment timing is now

As an inventory indicator, we look at actual TV demand for sell-through and panel demand for sell-in (see Fig 7). As panel demand includes industrial-use panels, it is usual that panel demand is around 7-8% higher than actual TV demand. As a result, LCD panel demand (sell-in) should always be higher than TV demand line (sell-through), in general. When sell-through demand line is higher than or similar to LCD sell-in line (as circles shown in Fig 7), the industry is reducing inventory and becoming very healthy, which we think is a good time for investors to look closely at the industry.

Based on our outlook on the LCD industry, we expect much healthier supply and demand condition in 2011F, as utilisation cutting reduce panel production, resulting in inventory burn out throughout 2011F. Looking at the past trend, the inventory correction period is typically one quarter. However, we expect panel supply will be constrained due to the industry utilisation cut. We believe now is a good timing to buy LGD

Fig. 69: Finding bottom and timing for revisiting LGD



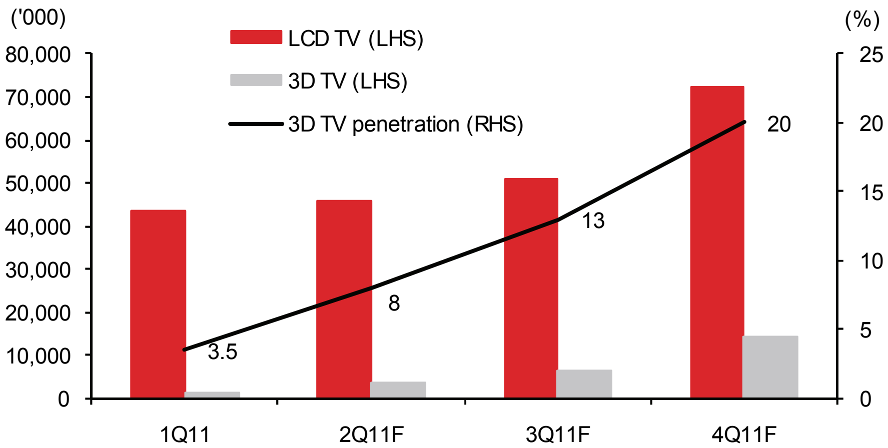
Source: DisplaySearch, Nomura estimates

FPR leading 3D TV market

We think LGD is the current leader in the 3D TV market. LGD has developed a passive-type 3D technology with films, which reduces flicker, increases brightness and requires much cheaper glasses than those required for active-type 3D technology (shutter glasses). We like this technology. However, the question is whether demand for 3D TVs is high. It is also important to demonstrate to end users the difference of this technology from active-type 3D technology.

Given the technological competitiveness, LGD's management forecast that 3D TV demand will grow to 25-30mn units in 2011F with penetration of 25% in 4Q11F. We understand LGD is targeting 50-70% market share in 4Q11F. We believe LGD's FPR 3D panel will drive the market growth of 3D TVs. We estimate 3D TV penetration in LCD TV will reach 20% in 4Q11F, which is equivalent to 14.5mn units based on our forecast of LCD TV demand. In 2011F, we expect 26mn units of 3D TVs, which is within LGD's forecast.

Fig. 70: 3D TV demand and penetration



Source: LGD, Nomura estimates

Revising up 2011F operating profit by 44% to W1,235bn

We raise our 2011F operating profit forecast by 44% to W1,235 from W856bn given we anticipate an earlier-than-expected panel price rebound and increased portion of high-end products. For 2Q11F, we revise up operating profit by 16% to W200bn from W172bn. We expect 1) shipment to increase 15% q-q in 2Q11F, 2) ASP to increase 5% q-q, 3) portion of high-end products (mostly for Apple) to increase to 40% from 30% in 1Q11 and 4) shipment of FPR to account for 15% of total TV panels, quadrupling the FRP shipment q-q.

Fig. 71: Quarterly earnings trend and forecast

(Wbn)	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11F	3Q11F	4Q11F	2011F	2012F
Sales	**5,876**	**6,454**	**6,698**	**6,483**	**25,511**	**5,366**	**6,334**	**7,748**	**8,030**	**27,478**	**28,747**
Operating profit	**789**	**726**	**182**	**-387**	**1,310**	**-239**	**200**	**759**	**514**	**1,235**	**1,531**
OPM	13%	11%	3%	-6%	5%	-4%	3%	10%	6%	4%	5%
Depreciation	632	707	804	783	2,926	816	830	860	900	3,406	4,019
EBITDA	1,421	1,433	986	396	4,236	577	1,030	1,619	1,414	4,641	5,550
EBITDA Margin	24%	22%	15%	6%	17%	11%	16%	21%	18%	17%	19%
Net Profit	**649**	**555**	**224**	**-268**	**1,159**	**-115**	**142**	**660**	**313**	**1,000**	**1,271**
NPM	11%	9%	3%	-4%	5%	-2%	2%	9%	4%	4%	4%
q-q growth (%)											
Sales	0%	10%	4%	-3%		-17%	18%	22%	4%		
Operating profit	152%	-8%	-75%	-313%		-38%	-184%	280%	-32%		
EBITDA	30%	1%	-31%	-60%		46%	79%	57%	-13%		
Net profit	29%	12%	14%	-3%		-57%	2%	4%	5%		
y-y growth (%)											
Sales	66%	35%	15%	10%	27%	-9%	-2%	16%	24%	8%	5%
Operating profit	NA	106%	-73%	-224%	30%	NA	-72%	317%	NA	-6%	24%
EBITDA	500%	34%	-32%	-64%	10%	-59%	-28%	64%	257%	10%	20%
Net profit	NA	51%	-62%	-153%	4%	NA	-74%	195%	NA	-14%	27%

Source: Company data, Nomura estimates

Fig. 72: Global display demand

TV

(mn units)	2003	2004	2005	2006	2007	2008	2009	2010	2011F	2012F
CRT	161	181	158	130	107	86	51	36	10	4
PDP	2	3	7	9	11	14	14	18	18	16
Projection	5	6	6	4	2	0	1	-	-	-
LCD	3	9	21	46	79	106	146	192	213	248
Total	**173**	**200**	**190**	**190**	**199**	**208**	**212**	**246**	**241**	**261**

Market share	2003	2004	2005	2006	2007	2008	2009	2010	2011F	2012F
CRT	93%	91%	83%	69%	54%	42%	24%	15%	4%	2%
PDP	1%	2%	4%	5%	6%	7%	7%	7%	7%	6%
Projection	3%	3%	3%	2%	1%	0%	1%	0%	0%	0%
LCD	2%	5%	11%	24%	40%	51%	69%	78%	88%	95%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Growth y-y	2003	2004	2005	2006	2007	2008	2009	2010	2011F	2012F
CRT	-1%	12%	-13%	-17%	-18%	-19%	-41%	-30%	-72%	-60%
PDP	12%	50%	133%	32%	22%	28%	-2%	28%	0%	-11%
Projection	125%	20%	0%	-33%	-54%	-76%	N/A	N/A	N/A	N/A
LCD	128%	200%	130%	122%	72%	34%	37%	32%	11%	16%
Total	**1%**	**16%**	**-5%**	**0%**	**5%**	**4%**	**2%**	**16%**	**-2%**	**8%**

Monitor

(mn units)	2003	2004	2005	2006	2007	2008	2009	2010	2011F	2012F
CRT Monitor	68	68	45	33	18	9	1	0	-	-
LCD Monitor	49	71	101	133	166	170	172	183	187	189
Total	**117**	**139**	**146**	**166**	**184**	**179**	**173**	**183**	**187**	**189**

Market share	2003	2004	2005	2006	2007	2008	2009	2010	2011F	2012F
CRT Monitor	58%	49%	31%	20%	10%	5%	1%	0%	0%	0%
LCD Monitor	42%	51%	69%	80%	90%	95%	99%	100%	100%	100%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Growth y-y	2003	2004	2005	2006	2007	2008	2009	2010	2011F	2012F
CRT Monitor	-19%	0%	-34%	-27%	-45%	-52%	-84%	-85%		
LCD Monitor	59%	45%	42%	32%	24%	3%	1%	7%	2%	1%
Total	**2%**	**19%**	**5%**	**14%**	**11%**	**-3%**	**-3%**	**6%**	**2%**	**1%**

Notebook

(mn units)	2003	2004	2005	2006	2007	2008	2009	2010	2011F	2012F
Notebooks	38	47	63	80	107	131	134	164	201	245
Netbooks					-	-	34	38	25	16
Tablet PC					-	-	-	15	50	80
Total	**38**	**47**	**63**	**80**	**107**	**131**	**169**	**217**	**276**	**340**

Market share	2003	2004	2005	2006	2007	2008	2009	2010	2011F	2012F
Notebooks	100%	100%	100%	100%	100%	100%	80%	76%	73%	72%
Netbooks	0%	0%	0%	0%	0%	0%	20%	17%	9%	5%
Tablet PC	0%	0%	0%	0%	0%	0%	0%	7%	18%	23%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Growth y-y	2003	2004	2005	2006	2007	2008	2009	2010	2011F	2012F
Notebooks	27%	24%	34%	27%	34%	22%	3%	22%	22%	22%
Netbooks								11%	-34%	-37%
Tablet PC									233%	60%
Total	**27%**	**24%**	**34%**	**27%**	**34%**	**22%**	**29%**	**29%**	**27%**	**23%**

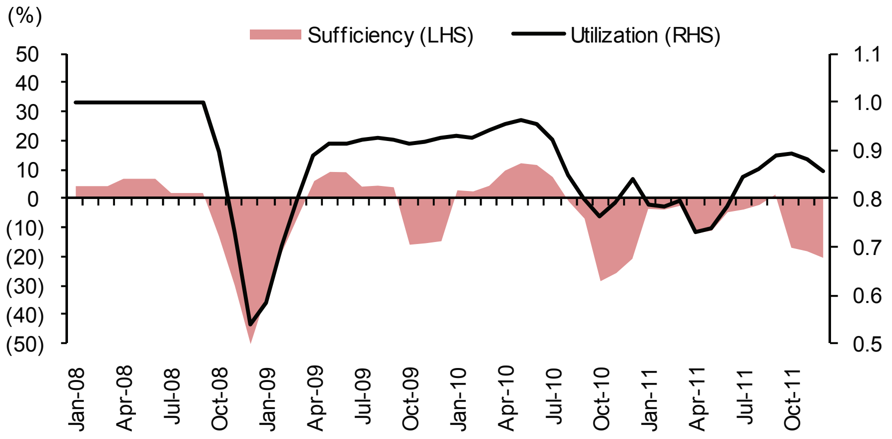
Public Display

(mn units)	2003	2004	2005	2006	2007	2008	2009	2010	2011F	2012F
Public Display						0.6	1.1	1.6	2.2	2.9
y-y growth								45%	38%	32%

Total (mn units)	**328**	**386**	**399**	**436**	**490**	**518**	**520**	**595**	**631**	**697**
y-y growth	4%	18%	3%	9%	13%	6%	1%	14%	6%	11%

Source: DisplaySearch, Nomura estimates

Fig. 73: Display monthly supply and demand



Source: All is based on Nomura estimates

HTC Corporation 2498.TW 2498 TT

HANDSETS

NOMURA
EQUITY RESEARCH

"Sensation" to expand the lead

Enhanced user experience to boost shares; differentiation to defy competition

April 20, 2011

Rating Remains	**Buy**
Target price Remains	TWD 1,500.0
Closing price April 19, 2011	TWD 1,205.0
Potential upside	+24.5%

Actions: Reiterate BUY on HTC with NT$1,500 target price

We reiterate our BUY on HTC and maintain our price target at NT$1500 to reflect our high confidence in HTC's ability to secure market share gains and sustain margins post the launch of 'Sensation'. We expect 'Sensation' to be among 2011's top-5 selling models for HTC. Our price target is based on 14x 2012F EPS of NT$106.

Catalysts: "Sensation" to demonstrate software optimisation and user experience enhancement, likely to drive share expansion

Android keeps surprising the market on the upside on both market share and the number of Android apps. Nokia's collaboration with Microsoft further increases the upside potential of Android, in our view. We maintain our Android volume forecasts largely to capture this momentum, and we expect HTC to gain market share in tandem with the growth of the Android market.

We believe HTC will leverage its "Sense experience" (Sense UI+ Sence.com) to differentiate itself from the competition; its increasing investment in content should help on that front, in our view. We also believe the brand recognition HTC has accumulated in the high-end market will help it gain volume share in the low-end market.

We maintain our shipment forecast at 50mn and 73mn for HTC in FY11-12, as we believe HTC's expansion into the low-end segment, strength in software optimisation and track record of offering the best user experience will spur market share expansion.

This note is excerpted from a note published on 20 April.

31 Dec	FY09		FY10F		FY11F		FY12F
Currency (TWD)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	144,881	278,506	278,506	513,297	513,297	645,901	645,901
Reported net profit (mn)	22,583	39,525	39,525	72,562	72,562	86,627	86,627
Normalised net profit (mn)	22,583	39,525	39,525	72,562	72,562	86,627	86,627
Normalised EPS	28.7	49.4	49.4	88.7	88.7	105.9	105.9
Norm. EPS growth (%)	-24.4	72.4	72.4	79.5	79.5	19.4	19.4
Norm. P/E (x)	40.1	23.3	23.3	13.0	13.0	10.9	10.9
EV/EBITDA	35.0	19.2	19.2	10.2	10.2	8.1	8.1
Price/book (x)	13.8	12.6	12.6	7.9	7.9	6.4	6.4
Dividend yield (%)	2.1	3.5	3.5	6.5	6.5	7.9	7.9
ROE (%)	35.8	56.3	56.3	75.0	75.0	65.1	65.1
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash	net cash	net cash

Source: Nomura estimates

Key company data: *See page 2 for company data, and detailed price/index chart.*
Rating: *See report end for details of Nomura's rating system.*

Anchor themes

Converging devices are a prominent and long-term trend, in our view. We favour companies with proven knowledge in both hardware and software design for advanced mobile devices.

Nomura vs consensus

We are now nearly in line with consensus numbers.

Research analysts

Taiwan Technology/IC Design

Aaron Jeng, CFA - NITB
aaron.jeng@nomura.com
+886 2 2176 9962

Peter Liao - NITB
peter.liao@nomura.com
+886 2 2176 9964

Key data on HTC Corporation

Income statement (TWDmn)

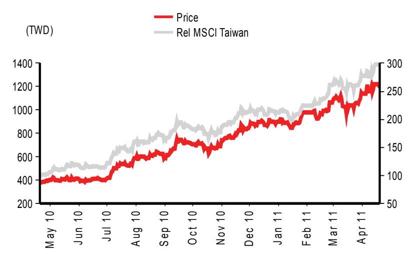
Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Revenue	**152,559**	**144,881**	**278,506**	**513,297**	**645,901**
Cost of goods sold	-101,917	-99,018	-195,101	-365,249	-468,159
Gross profit	**50,642**	**45,862**	**83,406**	**148,047**	**177,741**
SG&A	-10,809	-13,113	-26,776	-46,409	-54,975
Employee share expense	-9,618	-8,600	-12,914	-21,736	-24,904
Operating profit	**30,215**	**24,149**	**43,716**	**79,902**	**97,863**
EBITDA	**30,820**	**24,823**	**44,616**	**80,938**	**98,939**
Depreciation	-568	-634	-809	-922	-960
Amortisation	-36	-40	-92	-114	-116
EBIT	30,215	24,149	43,716	79,902	97,863
Net interest expense	1,368	349	301	330	417
Associates & JCEs	-58	267	368	1,298	1,292
Other income	24	422	544	0	0
Earnings before tax	**31,549**	**25,187**	**44,930**	**81,531**	**99,571**
Income tax	-2,955	-2,604	-5,405	-8,968	-12,944
Net profit after tax	**28,594**	**22,583**	**39,525**	**72,562**	**86,627**
Minority interests	0	0	0	0	0
Other items	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	**28,594**	**22,583**	**39,525**	**72,562**	**86,627**
Extraordinary items	0	0	0	0	0
Reported NPAT	**28,594**	**22,583**	**39,525**	**72,562**	**86,627**
Dividends	-20,396	-18,731	-33,255	-61,413	-73,859
Transfer to reserves	**8,199**	**3,852**	**6,270**	**11,150**	**12,768**
Valuation and ratio analysis					
FD normalised P/E (x)	30.3	40.1	23.3	13.0	10.9
FD normalised P/E at price target (x)	39.6	52.3	30.3	16.9	14.2
Reported P/E (x)	30.3	40.1	23.3	13.0	10.9
Dividend yield (%)	2.3	2.1	3.5	6.5	7.9
Price/cashflow (x)	23.1	32.9	22.8	13.6	10.7
Price/book (x)	14.3	13.8	12.6	7.9	6.4
EV/EBITDA (x)	28.6	35.0	19.2	10.2	8.1
EV/EBIT (x)	29.1	36.0	19.6	10.3	8.2
Gross margin (%)	33.2	31.7	29.9	28.8	27.5
EBITDA margin (%)	20.2	17.1	16.0	15.8	15.3
EBIT margin (%)	19.8	16.7	15.7	15.6	15.2
Net margin (%)	18.7	15.6	14.2	14.1	13.4
Effective tax rate (%)	9.4	10.3	12.0	11.0	13.0
Dividend payout (%)	71.3	82.9	84.1	84.6	85.3
Capex to sales (%)	3.0	1.0	0.9	0.3	0.3
Capex to depreciation (x)	8.0	2.2	3.1	1.6	1.8
ROE (%)	47.1	35.8	56.3	75.0	65.1
ROA (pretax %)	56.5	44.0	51.0	58.8	56.4
Growth (%)					
Revenue	28.7	-5.0	92.2	84.3	25.8
EBITDA	-1.1	-19.5	79.7	81.4	22.2
EBIT	-1.1	-20.1	81.0	82.8	22.5
Normalised EPS	-1.2	-24.4	72.4	79.5	19.4
Normalised FDEPS	-1.2	-24.4	72.4	79.5	19.4
Per share					
Reported EPS (TWD)	37.92	28.68	49.43	88.74	105.95
Norm EPS (TWD)	37.92	28.68	49.43	88.74	105.95
Fully diluted norm EPS (TWD)	37.92	28.68	49.43	88.74	105.95
Book value per share (TWD)	80.30	83.20	91.37	145.23	180.05
DPS (TWD)	27.00	23.74	40.67	75.11	90.33

Source: Nomura estimates

Notes

Strong earnings growth in FY11-12 based on our forecasts

Price and price relative chart (one year)



(%)	1M	3M	12M
Absolute (TWD)	11.1	31.1	206.1
Absolute (USD)	13.1	30.7	231.7
Relative to index	9.6	34.5	199.4
Market cap (USDmn)	32,335.0		
Estimated free float (%)	75.0		
52-week range (TWD)	1220/367.62		
3-mth avg daily turnover (USDmn)	207.90		
Major shareholders (%)			
Capital World	7.9		
Fedelity	6.1		

Cashflow (TWDmn)

Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
EBITDA	30,820	24,823	44,616	80,938	98,939
Change in working capital	-5,670	1,555	870	-13,518	-7,197
Other operating cashflow	12,445	1,164	-5,208	1,661	-3,551
Cashflow from operations	**37,594**	**27,542**	**40,278**	**69,082**	**88,191**
Capital expenditure	-4,570	-1,423	-2,489	-1,493	-1,680
Free cashflow	**33,025**	**26,119**	**37,788**	**67,589**	**86,511**
Reduction in investments	0	-2,494	2,083	-65	-35
Net acquisitions	0	0	0	0	0
Reduction in other LT assets	0	0	0	0	0
Addition in other LT liabilities	-2,109	-1,164	-588	0	0
Adjustments	-24	-73	-391	0	0
Cashflow after investing acts	**30,892**	**22,387**	**38,893**	**67,523**	**86,476**
Cash dividends	-19,487	-20,126	-20,122	-33,255	-61,413
Equity issue	-3,410	-2,407	-7,700	-3,800	-4,000
Debt issue	0	0	-79	0	0
Convertible debt issue	0	0	0	0	0
Others	-1,204	-5	2,232	-1,500	-1,500
Cashflow from financial acts	**-24,101**	**-22,538**	**-25,669**	**-38,555**	**-66,913**
Net cashflow	**6,791**	**-150**	**13,224**	**28,969**	**19,563**
Beginning cash	55,036	61,827	61,676	74,900	103,869
Ending cash	61,827	61,676	74,900	103,869	123,432
Ending net debt	-61,827	-61,676	-74,900	-103,869	-123,432

Source: Nomura estimates

Notes

Increasing cashflow from operations in FY11-12 by our forecast

Balance sheet (TWDmn)

As at 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Cash & equivalents	61,827	61,676	74,900	103,869	123,432
Marketable securities	0	2,516	401	401	401
Accounts receivable	29,799	27,571	61,610	91,581	110,169
Inventories	7,418	4,739	26,410	40,300	49,673
Other current assets	2,228	4,524	10,111	10,111	10,111
Total current assets	**101,272**	**101,025**	**173,432**	**246,262**	**293,786**
LT investments	5,161	6,506	794	860	895
Fixed assets	7,376	8,314	11,894	13,387	15,067
Goodwill	0	0	0	0	0
Other intangible assets	0	0	676	624	575
Other LT assets	1,418	3,298	3,583	3,626	3,670
Total assets	**115,226**	**119,143**	**190,380**	**264,759**	**313,993**
Short-term debt	0	0	0	0	0
Accounts payable	27,907	24,882	66,513	97,305	118,507
Other current liabilities	26,651	28,619	49,156	48,708	48,269
Total current liabilities	**54,558**	**53,502**	**115,669**	**146,013**	**166,776**
Long-term debt	0	0	0	0	0
Convertible debt	0	0	0	0	0
Other LT liabilities	6	1	1	1	1
Total liabilities	**54,565**	**53,503**	**115,670**	**146,014**	**166,777**
Minority interest	0	0	0	0	0
Preferred stock	0	0	0	0	0
Common stock	7,554	7,889	8,177	8,177	8,177
Retained earnings	53,108	57,751	66,533	110,569	139,039
Proposed dividends	0	0	0	0	0
Other equity and reserves	0	0	0	0	0
Total shareholders' equity	**60,661**	**65,640**	**74,710**	**118,745**	**147,215**
Total equity & liabilities	**115,226**	**119,143**	**190,380**	**264,759**	**313,993**
Liquidity (x)					
Current ratio	1.86	1.89	1.50	1.69	1.76
Interest cover	na	na	na	na	na
Leverage					
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable	58.0	72.3	58.4	54.5	57.2
Days inventory	21.0	22.4	29.1	33.3	35.2
Days payable	77.0	97.3	85.5	81.9	84.4
Cash cycle	2.0	-2.6	2.1	5.9	8.0

Source: Nomura estimates

Notes

Zero debt operation

Valuation method

Our target price of NT$1,500 is based on 14x our 2012 EPS forecast of NT$106. Our unchanged target 14x P/E multiple is at the high-end of historical P/E range, which, we believe should be reachable on its continuous record-high earnings and strong earnings growth in FY11-12.

Risks that may impede the achievement of the target price

In our view, HTC will see upside surprises in shipments, market-share gains and earnings in FY11F, but key risks include: 1) technology evolution slowdown; 2) weak acceptance in the mid- to low-end smartphone market, and; 3) too-high expectations for smartphones.

HCL Technologies HCLT.BO HCLT IN

SOFTWARE & SERVICES

NOMURA
EQUITY RESEARCH

Best of both worlds

HCL Tech gains from both discretionary uptick and impending deal rebids

April 20, 2011

Rating Remains	**Buy**
Target price Remains	INR 580
Closing price April 15, 2011	INR 483
Potential upside	+20.1%

Action: Reiterate top pick status

We expect margin improvement trends at HCL Tech to become visible in 3Q FY11F. We continue to like HCL Tech for its favourable growth skew, un-utilised operating levers and best-in-class earnings growth (29% over FY11-13F). We maintain BUY and reiterate the stock as a top pick in the IT services sector.

Catalyst: Margin improvement trend and sustainability beyond

Continuation of the margin improvement trajectory over the remainder of FY11F and sustainability beyond remain the key upside triggers.

Favourable growth skew; best operational scope

HCL Tech has a favourable growth skew, in our view, with 60%+ of its FY11F revenue likely to come from infrastructure management (the fastest-growing service line for the Indian IT industry) and discretionary segments (package implementation / engineering services). Further, with significant operational scope across: 1) utilisation; 2) SGA; and 3) employee pyramid, we expect HCL Tech to be the only tier-1 Indian IT player to show margin improvements over FY11-13F.

Valuation discount to narrow on higher EPS growth

We expect HCL Tech to post USD revenue growth comparable to the tier-1 IT universe (22% CAGR) and deliver a better-than-peer-group EPS CAGR of 29% over FY11-13F. We expect its valuation discount of 30%+ to Infosys to narrow to the historical level of ~20%. We reiterate BUY and our PT of INR580, based on 16.5x one-year forward earnings.

30 Jun	FY10	FY11F		FY12F		FY13F	
Currency (INR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	125,650	157,144	157,144	192,344	192,344	222,479	222,479
Reported net profit (mn)	12,138	15,558	15,558	21,693	21,693	26,115	26,115
Normalised net profit (mn)	11,766	15,558	15,558	21,693	21,693	26,115	26,115
Normalised EPS	17.5	22.8	22.8	31.6	31.6	37.9	37.9
Norm. EPS growth (%)	-2.6	30.5	30.5	38.6	38.6	19.8	19.8
Norm. P/E (x)	28.2	21.6	21.6	15.6	15.6	13.0	13.0
EV/EBITDA	14.2	13.6	13.6	9.9	9.9	8.1	8.1
Price/book (x)	4.6	4.0	4.0	3.4	3.4	2.8	2.8
Dividend yield (%)	0.8	1.6	1.6	1.7	1.7	1.7	1.7
ROE (%)	19.1	20.4	20.4	24.2	24.2	24.4	24.4
Net debt/equity (%)	31.2	24.7	24.7	11.5	11.5	net cash	net cash

Source: Nomura estimates

Key company data: *See page 2 for company data, and detailed price/index chart.*
Rating: *See report end for details of Nomura's rating system.*

Anchor themes

Participate in sector through companies that possess higher discretionary delta and better operating scope to tide over supply-side pressure/ growth investments.

Nomura vs consensus

Our target price is 3.5% higher than Bloomberg consensus on marginally higher margin estimates.

Research analysts

India Technology/Services & Software

Ashwin Mehta - NFASL
ashwin.mehta@nomura.com
+91 22 4037 4465

Pinku Pappan - NFASL
pinku.pappan@nomura.com
+91 22 4037 4360

Key data on HCL Technologies

Income statement (INRmn)

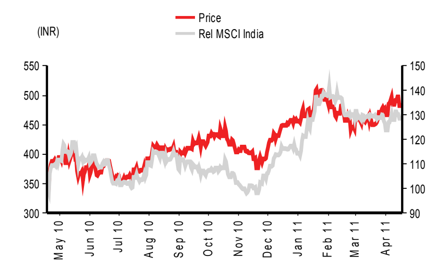
Year-end 30 Jun	FY09	FY10	FY11F	FY12F	FY13F
Revenue	**106,014**	**125,650**	**157,144**	**192,344**	**222,479**
Cost of goods sold	-70,324	-87,391	-112,083	-135,505	-157,192
Gross profit	**35,690**	**38,259**	**45,061**	**56,839**	**65,287**
SG&A	-17,811	-18,466	-24,295	-28,429	-31,964
Employee share expense					
Operating profit	**17,879**	**19,793**	**20,766**	**28,409**	**33,323**
EBITDA	**22,372**	**24,802**	**25,824**	**34,495**	**40,349**
Depreciation	-4,493	-5,009	-5,058	-6,085	-7,026
Amortisation					
EBIT	17,879	19,793	20,766	28,409	33,323
Net interest expense	0	0	-790	-1,453	-1,225
Associates & JCEs					
Other income	-3,387	-5,302	-30	1,587	2,264
Earnings before tax	**14,492**	**14,491**	**19,945**	**28,543**	**34,362**
Income tax	-2,514	-2,724	-4,389	-6,850	-8,247
Net profit after tax	**11,978**	**11,767**	**15,556**	**21,693**	**26,115**
Minority interests	0	0	2	0	0
Other items	30	-1	0	0	0
Preferred dividends					
Normalised NPAT	**12,008**	**11,766**	**15,558**	**21,693**	**26,115**
Extraordinary items	0	372	0	0	0
Reported NPAT	**12,008**	**12,138**	**15,558**	**21,693**	**26,115**
Dividends	-5,475	-3,153	-5,989	-6,419	-6,445
Transfer to reserves	**6,533**	**8,985**	**9,568**	**15,274**	**19,670**
Valuation and ratio analysis					
FD normalised P/E (x)	27.1	28.2	21.6	15.6	13.0
FD normalised P/E at price target (x)	32.6	33.9	26.0	18.7	15.6
Reported P/E (x)	26.9	26.7	21.1	15.3	12.7
Dividend yield (%)	1.5	0.8	1.6	1.7	1.7
Price/cashflow (x)	17.7	18.6	25.5	14.4	11.6
Price/book (x)	5.7	4.6	4.0	3.4	2.8
EV/EBITDA (x)	15.9	14.2	13.6	9.9	8.1
EV/EBIT (x)	19.9	17.8	16.9	12.0	9.8
Gross margin (%)	33.7	30.4	28.7	29.6	29.3
EBITDA margin (%)	21.1	19.7	16.4	17.9	18.1
EBIT margin (%)	16.9	15.8	13.2	14.8	15.0
Net margin (%)	11.3	9.7	9.9	11.3	11.7
Effective tax rate (%)	17.3	18.8	22.0	24.0	24.0
Dividend payout (%)	45.6	26.0	38.5	29.6	24.7
Capex to sales (%)	6.6	6.1	4.9	4.2	4.2
Capex to depreciation (x)	1.6	1.5	1.5	1.3	1.3
ROE (%)	22.0	19.1	20.4	24.2	24.4
ROA (pretax %)	17.9	15.6	15.0	18.6	20.0
Growth (%)					
Revenue	38.8	18.5	25.1	22.4	15.7
EBITDA	40.1	10.9	4.1	33.6	17.0
EBIT	38.2	10.7	4.9	36.8	17.3
Normalised EPS	15.2	-2.6	30.5	38.6	19.8
Normalised FDEPS	17.4	-4.0	30.7	38.7	19.8
Per share					
Reported EPS (INR)	17.96	18.05	22.83	31.65	37.92
Norm EPS (INR)	17.96	17.49	22.83	31.65	37.92
Fully diluted norm EPS (INR)	17.81	17.09	22.34	31.00	37.15
Book value per share (INR)	85.02	104.61	120.46	142.07	169.97
DPS (INR)	7.00	4.01	7.51	8.00	8.00

Source: Nomura estimates

Notes

We look for 23.7% and 20% USD revenue growth in FY12 and FY13, respectively

Price and price relative chart (one year)



(%)	1M	3M	12M
Absolute (INR)	6.0	2.6	35.3
Absolute (USD)	8.1	5.0	35.6
Relative to index	-0.3	0.4	29.5
Market cap (USDmn)	7,464.7		
Estimated free float (%)	25.0		
52-week range (INR)	517.5/343		
3-mth avg daily turnover (USDmn)	11.61		
Major shareholders (%)			
Shiv Nadar	65.2		

Cashflow (INRmn)

Year-end 30 Jun	FY09	FY10	FY11F	FY12F	FY13F
EBITDA	22,372	24,802	25,824	34,495	40,349
Change in working capital	2,078	-3,156	-6,542	-2,249	-603
Other operating cashflow	-6,029	-3,757	-6,109	-8,861	-10,488
Cashflow from operations	**18,421**	**17,889**	**13,172**	**23,384**	**29,258**
Capital expenditure	-7,038	-7,633	-7,733	-7,983	-9,405
Free cashflow	**11,383**	**10,256**	**5,439**	**15,401**	**19,853**
Reduction in investments	5,718	-5,278	-361	0	0
Net acquisitions	-35,740	2,203	1,201	0	0
Reduction in other LT assets	0	0	0	0	0
Addition in other LT liabilities	0	0	0	0	0
Adjustments					
Cashflow after investing acts	**-18,639**	**7,181**	**6,279**	**15,401**	**19,853**
Cash dividends	-5,475	-3,153	-5,989	-6,419	-6,445
Equity issue	-1,908	4,524	2,168	9	3
Debt issue	29,771	-3,139	-1,853	-2,912	-3,727
Convertible debt issue					
Others	-3,386	-4,930	-821	134	1,039
Cashflow from financial acts	**19,002**	**-6,698**	**-6,495**	**-9,188**	**-9,130**
Net cashflow	**363**	**483**	**-216**	**6,213**	**10,723**
Beginning cash	3,840	4,203	4,686	4,470	10,684
Ending cash	4,203	4,686	4,470	10,684	21,406
Ending net debt	25,568	21,946	20,308	11,183	-3,266

Source: Nomura estimates

Balance sheet (INRmn)

As at 30 Jun	FY09	FY10	FY11F	FY12F	FY13F
Cash & equivalents	4,203	4,686	4,470	10,684	21,406
Marketable securities	14,792	19,733	18,045	18,045	18,045
Accounts receivable	27,083	30,496	37,068	45,370	52,479
Inventories	0	0	0	0	0
Other current assets	10,699	8,845	12,787	15,050	17,572
Total current assets	**56,777**	**63,760**	**72,370**	**89,149**	**109,502**
LT investments	370	707	2,756	2,756	2,756
Fixed assets	15,862	18,486	21,161	23,059	25,438
Goodwill	45,325	43,122	41,921	41,921	41,921
Other intangible assets					
Other LT assets	8,608	9,640	11,362	13,372	15,613
Total assets	**126,942**	**135,715**	**149,570**	**170,257**	**195,230**
Short-term debt					
Accounts payable	32,675	31,329	35,701	42,781	49,587
Other current liabilities	7,637	7,386	6,985	8,221	10,443
Total current liabilities	**40,312**	**38,715**	**42,687**	**51,003**	**60,030**
Long-term debt	29,771	26,632	24,779	21,867	18,140
Convertible debt					
Other LT liabilities	0	0	0	0	0
Total liabilities	**70,083**	**65,347**	**67,465**	**72,870**	**78,170**
Minority interest	16	0	0	0	0
Preferred stock	0	0	0	0	0
Common stock					
Retained earnings	56,843	70,368	82,105	97,388	117,060
Proposed dividends					
Other equity and reserves					
Total shareholders' equity	**56,843**	**70,368**	**82,105**	**97,388**	**117,060**
Total equity & liabilities	**126,942**	**135,715**	**149,570**	**170,257**	**195,230**
Liquidity (x)					
Current ratio	1.41	1.65	1.70	1.75	1.82
Interest cover	na	na	26.3	19.6	27.2
Leverage					
Net debt/EBITDA (x)	1.14	0.88	0.79	0.32	net cash
Net debt/equity (%)	45.0	31.2	24.7	11.5	net cash
Activity (days)					
Days receivable	79.2	83.6	78.5	78.4	80.3
Days inventory	0.0	0.0	0.0	0.0	0.0
Days payable	142.3	133.7	109.1	106.0	107.2
Cash cycle	-63.0	-50.0	-30.7	-27.6	-27.0

Source: Nomura estimates

Notes

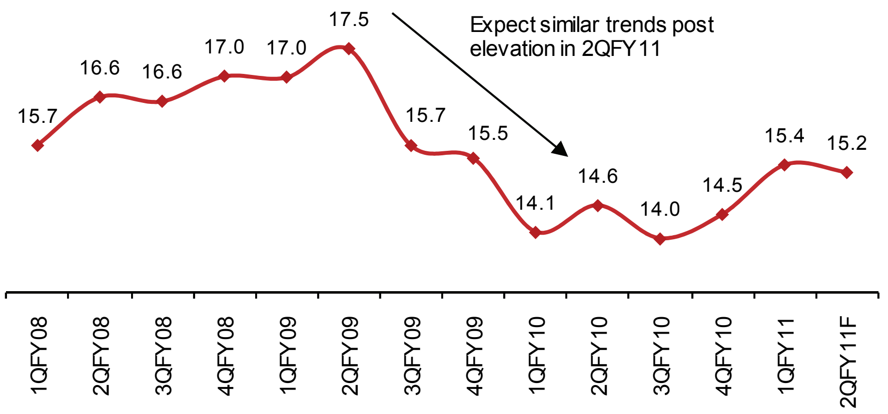
Cash levels are increasing

Fig. 74: Operational scope comparison

	Utilization (incl. trainees) (%)				Fixed price proportion (%)		Offshore revenue mix (%)	
	Latest qtr	Average	Max	Max - Current	Latest qtr	LTM change	Latest qtr	LTM change
Infosys	72.6	69.5	74.3	1.7	41.2	2.9	50.7	(3.2)
TCS	77.1	74.5	77.7	0.6	49.7	1.7	56.3	(1.2)
Wipro	75.6	75.4	80.7	5.1	46.3	3.8	48.2	(1.5)
HCLT	70.1	72.6	76.4	6.3	41.5	1.9	41.9	1.0

Source: Company, Nomura research

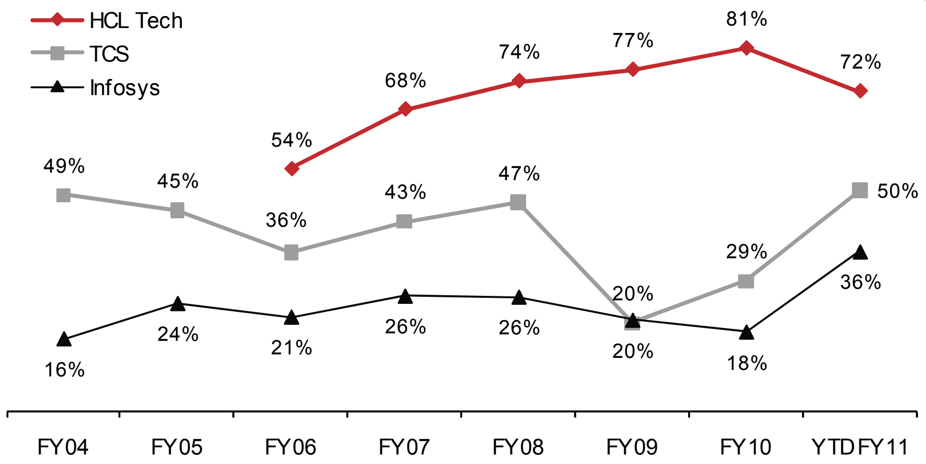
Fig. 75: HCL Tech: SGA trend



Source: Company, Nomura research

HCL Tech SGA as a percentage of sales likely to trend down

Fig. 76: Lateral as percentage of gross headcount addition



Source: Company, Nomura research

Elevated lateral hiring levels likely to fall as more fresh graduates are inducted

Valuation methodologies and risk

Our price target of INR580 is based on 16.5x one-year rolling forward earnings (INR35.3). Our valuation multiple for HCL Tech is a 20% discount to our target multiple for Infosys. Risks include: 1) lower-than-expected revenue ramp-up in the core software and infrastructure services divisions and 2) lower-than-anticipated margin improvements could delay a re-rating of the stock.

MediaTek 2454.TW 2454 TT

IC DESIGN

NOMURA
EQUITY RESEARCH

US$100 smartphone – so what?

Transition takes time

April 20, 2011

Rating Remains	**Reduce**
Target price Remains	TWD 220.0
Closing price April 15, 2011	TWD 336.0
Potential downside	-34.5%

Actions: Maintain REDUCE; sell into strength

We maintain our REDUCE rating and TWD220 TP (based on an ex-cash target P/E of 8x, a 10% discount to its average range of 5-13x in the past cycle, as we expect two consecutive years of earnings declines). While we see potential near-term share upside from 1) the launch of MT6252; 2) announcement of a share buyback; and 3) a seasonal volume pick-up, we advise to use any strength to REDUCE.

Catalysts: We see triggers to the downside

We see the continuation of a downward-revision cycle for consensus earnings triggered by intensifying ASP pressure, falling market share and slow new product launch as the key catalysts.

Still a global-tier fabless company with strong R&D capability, but...

We do not question MediaTek's chip design capability, but 3G and smartphones have changed the game. Its 3G license with QCOM has restricted "white-box opportunities" at China handset makers. MediaTek's weak consumer profile has limited the possibility of smartphone popularity, in our view, given the nature and cost structure of smartphones; we believe that even a retail price of US$100 is unlikely to trigger the popularity of white-box smartphones.

We see two solutions to save MediaTek from structural downturn:

1) Direct smartphone chip shipment to global-tier handset brands; or 2) a viable US$70-80 smartphone. We see neither as likely until 2013, at the earliest.

31 Dec	FY09		FY10F		FY11F		FY12F
Currency (TWD)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	115,512	113,522	113,522	95,620	95,620	104,246	104,246
Reported net profit (mn)	36,884	30,961	31,099	17,619	17,610	18,213	18,206
Normalised net profit (mn)	36,884	30,961	31,099	17,619	17,610	18,213	18,206
Normalised EPS	34.3	28.4	28.5	16.2	16.2	16.7	16.7
Norm. EPS growth (%)	87.0	-16.9	-16.9	-43.1	-43.4	3.4	3.4
Norm. P/E (x)	10.3	12.5	12.4	21.9	21.9	21.2	21.2
EV/EBITDA	7.4	8.5	8.6	14.2	14.4	13.6	13.8
Price/book (x)	3.5	3.4	3.4	3.7	3.7	3.6	3.6
Dividend yield (%)	7.3	6.2	6.3	3.7	3.7	3.7	3.7
ROE (%)	38.7	27.8	28.0	16.1	16.1	17.1	17.1
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash	net cash	net cash

Source: Nomura estimates

Key company data: *See page 2 for company data, and detailed price/index chart.*
Rating: *See report end for details of Nomura's rating system.*

Anchor themes

With competition intensifying in China's 2G integrated circuit market and the fast transition to the 3G wireless system, companies that can benefit from (or avoid) pricing competition in 2G chips and grow market share are likely to have the advantage in the supply chain, and vice versa.

Nomura vs consensus

Our FY11-12F EPS forecasts are 17% and 12% below market consensus on our structurally Bearish view.

Research analysts

Taiwan Technology/IC Design

Aaron Jeng, CFA - NITB
aaron.jeng@nomura.com
+886 2 2176 9962

Peter Liao - NITB
peter.liao@nomura.com
+886 2 2176 9964

Key data on MediaTek

Income statement (TWDmn)

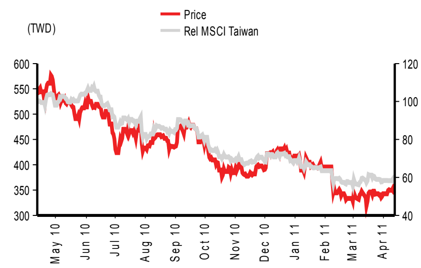
Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Revenue	**90,402**	**115,512**	**113,522**	**95,620**	**104,246**
Cost of goods sold	-41,819	-47,694	-52,614	-50,871	-56,758
Gross profit	**48,583**	**67,817**	**60,908**	**44,748**	**47,488**
SG&A	-5,000	-7,245	-6,518	-6,165	-7,028
Employee share expense	-21,275	-24,185	-23,311	-20,650	-21,800
Operating profit	**22,308**	**36,387**	**31,079**	**17,933**	**18,660**
EBITDA	**25,603**	**39,632**	**34,049**	**20,974**	**21,749**
Depreciation	-3,295	-3,245	-1,101	-1,182	-1,229
Amortisation	0	0	-1,869	-1,860	-1,860
EBIT	22,308	36,387	31,079	17,933	18,660
Net interest expense	174	198	150	-7	-6
Associates & JCEs	145	208	269	282	308
Other income	-1,345	826	957	43	104
Earnings before tax	**21,283**	**37,619**	**32,456**	**18,251**	**19,066**
Income tax	-1,924	-725	-1,350	-639	-858
Net profit after tax	**19,359**	**36,894**	**31,105**	**17,612**	**18,207**
Minority interests	-16	-10	-6	-2	-1
Other items	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	**19,343**	**36,884**	**31,099**	**17,610**	**18,206**
Extraordinary items	0	0	0	0	0
Reported NPAT	**19,343**	**36,884**	**31,099**	**17,610**	**18,206**
Dividends	-15,024	-28,099	-24,252	-14,331	-14,331
Transfer to reserves	**4,319**	**8,785**	**6,847**	**3,280**	**3,875**
Valuation and ratio analysis					
FD normalised P/E (x)	19.3	10.3	12.4	21.9	21.2
FD normalised P/E at price target (x)	12.0	6.4	7.7	13.6	13.2
Reported P/E (x)	19.3	10.3	12.4	21.9	21.2
Dividend yield (%)	4.0	7.3	6.3	3.7	3.7
Price/cashflow (x)	10.5	6.9	12.2	24.6	22.9
Price/book (x)	4.7	3.5	3.4	3.7	3.6
EV/EBITDA (x)	13.1	7.4	8.6	14.4	13.8
EV/EBIT (x)	15.0	8.1	9.4	16.8	16.1
Gross margin (%)	53.7	58.7	53.7	46.8	45.6
EBITDA margin (%)	28.3	34.3	30.0	21.9	20.9
EBIT margin (%)	24.7	31.5	27.4	18.8	17.9
Net margin (%)	21.4	31.9	27.4	18.4	17.5
Effective tax rate (%)	9.0	1.9	4.2	3.5	4.5
Dividend payout (%)	77.7	76.2	78.0	81.4	78.7
Capex to sales (%)	3.2	2.7	1.6	2.1	1.9
Capex to depreciation (x)	0.9	0.9	1.7	1.7	1.6
ROE (%)	180.2	38.7	28.0	16.1	17.1
ROA (pretax %)	48.8	81.3	69.2	37.4	36.6
Growth (%)					
Revenue	12.1	27.8	-1.7	-15.8	9.0
EBITDA	-30.0	54.8	-14.1	-38.4	3.7
EBIT	-30.0	63.1	-14.6	-42.3	4.1
Normalised EPS	-42.8	87.0	-16.9	-43.4	3.4
Normalised FDEPS	-42.8	87.0	-16.9	-43.4	3.4
Per share					
Reported EPS (TWD)	18.36	34.33	28.53	16.15	16.70
Norm EPS (TWD)	18.36	34.33	28.53	16.15	16.70
Fully diluted norm EPS (TWD)	18.36	34.33	28.53	16.15	16.70
Book value per share (TWD)	76.05	99.87	104.10	96.54	99.25
DPS (TWD)	14.00	25.78	22.25	13.15	13.15

Source: Nomura estimates

Notes

We expect a 43% y-y earnings decline in FY11F

Price and price relative chart (one year)



(%)	1M	3M	12M
Absolute (TWD)	2.6	-11.1	-36.3
Absolute (USD)	4.9	-10.4	-30.6
Relative to index	-0.9	-10.0	-45.4
Market cap (USDmn)	13,444.4		
Estimated free float (%)	68.8		
52-week range (TWD)	577.84/312.5		
3-mth avg daily turnover (USDmn)	90.10		
Major shareholders (%)			
Li Tsui-Hsin	4.6		
Ming-Chieh Tsai	3.7		

Cashflow (TWDmn)

Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
EBITDA	25,603	39,632	34,049	20,974	21,749
Change in working capital	2,438	8,663	-8,678	1,924	-1,591
Other operating cashflow	7,558	6,946	6,352	-7,240	-3,294
Cashflow from operations	**35,599**	**55,240**	**31,722**	**15,658**	**16,864**
Capital expenditure	-2,898	-3,064	-1,851	-2,000	-2,000
Free cashflow	**32,701**	**52,176**	**29,871**	**13,658**	**14,864**
Reduction in investments	2,965	4,085	857	-318	-331
Net acquisitions	-1,666	-1,572	-1,795	-319	-332
Reduction in other LT assets	-1,400	-99	-328	0	0
Addition in other LT liabilities	0	0	0	0	0
Adjustments	-7,484	2,418	1,048	2,000	2,000
Cashflow after investing acts	**25,116**	**57,009**	**29,653**	**15,021**	**16,202**
Cash dividends	-22,906	-14,915	-30,057	-25,868	-15,250
Equity issue	0	0	0	0	0
Debt issue	0	0	0	0	0
Convertible debt issue	0	0	55	0	0
Others	223	-467	-663	123	127
Cashflow from financial acts	**-22,682**	**-15,383**	**-30,665**	**-25,745**	**-15,124**
Net cashflow	**2,434**	**41,626**	**-1,012**	**-10,724**	**1,078**
Beginning cash	50,588	53,022	94,648	93,636	82,912
Ending cash	53,022	94,648	93,636	82,912	83,990
Ending net debt	-53,022	-94,648	-93,636	-82,912	-83,990

Source: Nomura estimates

Notes

Cashflow from operations looks set to decline in FY11F on declining earnings

Balance sheet (TWDmn)

As at 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Cash & equivalents	53,022	94,648	93,636	82,912	83,990
Marketable securities	4,573	2,199	2,285	2,285	2,285
Accounts receivable	5,429	7,267	7,487	6,558	7,085
Inventories	5,547	8,173	9,518	9,799	10,661
Other current assets	2,656	1,751	5,408	5,727	6,073
Total current assets	**71,226**	**114,038**	**118,334**	**107,281**	**110,093**
LT investments	8,970	6,662	5,691	8,156	8,487
Fixed assets	6,504	6,889	5,848	8,166	8,498
Goodwill	0	0	0	0	0
Other intangible assets	12,029	10,623	9,954	9,562	9,185
Other LT assets	346	382	468	506	548
Total assets	**99,074**	**138,593**	**140,294**	**133,672**	**136,811**
Short-term debt	0	0	0	0	0
Accounts payable	4,907	11,794	8,740	11,015	11,812
Other current liabilities	12,326	17,660	17,257	16,577	15,924
Total current liabilities	**17,232**	**29,454**	**25,998**	**27,593**	**27,736**
Long-term debt	0	0	0	0	0
Convertible debt	0	0	0	0	0
Other LT liabilities	83	248	784	816	849
Total liabilities	**17,316**	**29,703**	**26,782**	**28,409**	**28,586**
Minority interest	148	21	27	27	27
Preferred stock	0	0	0	0	0
Common stock	10,732	10,901	10,999	10,999	10,999
Retained earnings	71,209	98,379	104,928	96,679	99,642
Proposed dividends	0	0	0	0	0
Other equity and reserves	-329	-411	-2,442	-2,442	-2,442
Total shareholders' equity	**81,611**	**108,869**	**113,485**	**105,236**	**108,199**
Total equity & liabilities	**99,074**	**138,593**	**140,294**	**133,672**	**136,811**
Liquidity (x)					
Current ratio	4.13	3.87	4.55	3.89	3.97
Interest cover	na	na	na	2,701.4	2,965.7
Leverage					
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable	24.2	20.1	23.7	26.8	24.0
Days inventory	54.3	52.5	61.4	69.3	66.0
Days payable	48.0	63.9	71.2	70.9	73.6
Cash cycle	30.5	8.7	13.9	25.2	16.3

Source: Nomura estimates

Notes

Zero debt operation

Young Fast Optoelectronics 3622.TW 3622 TT

TECHNOLOGY

NOMURA
EQUITY RESEARCH

Structural challenges ahead

Our least preferred stock in the handset component space

April 20, 2011

Rating Remains	**Reduce**
Target price Remains	TWD 183.0
Closing price April 15, 2011	TWD 210.0
Potential downside	-12.9%

Action: Top sell idea in the handset component space

We reaffirm our REDUCE rating on Young Fast Optoelectronics (YFO) with PT unchanged at TWD183, as a rapid decline in demand and an ASP/margin contraction for resistive touch will likely continue to weigh on YFO's share price, in our opinion. Together with slower-than-expected customer diversification and weak non-iPad tablet shipments, we expect a further de-rating of the stock.

Catalyst: Competition from glass-based touch and super AMOLED poses long-term risks

We maintain our conservative view and believe structural challenges ahead will continue to weigh on the stock: 1) faster-than-expected decline in resistive touch; 2) rising competition from glass-based touch; and 3) slower customer diversification.

Valuation: Price target unchanged at TWD183

Our price target of TWD183.0 is based on 10x FY11F EPS of TWD18.3 (methodology unchanged). Our 10x P/E multiple is at the low-end of the stock's historical trading P/E range (10-20x), as we think the stock will be de-rated on a deteriorating earnings outlook.

31 Dec	FY09		FY10F		FY11F		FY12F
Currency (TWD)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	12,757	17,385	17,385	21,603	21,603	26,809	26,809
Reported net profit (mn)	2,977	2,667	2,667	2,609	2,609	2,852	2,852
Normalised net profit (mn)	2,977	2,667	2,667	2,609	2,609	2,852	2,852
Normalised EPS	23.0	19.7	19.7	18.3	18.3	20.0	20.0
Norm. EPS growth (%)	131.9	-14.3	-14.3	-7.0	-7.0	9.3	9.3
Norm. P/E (x)	9.3	10.9	10.9	11.7	11.7	10.7	10.7
EV/EBITDA	7.4	6.3	6.3	7.2	7.2	6.6	6.6
Price/book (x)	4.1	2.9	2.9	2.5	2.5	2.2	2.2
Dividend yield (%)	2.2	4.2	4.4	3.9	4.1	4.2	3.9
ROE (%)	56.8	30.4	30.4	22.9	22.9	22.1	22.1
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash	net cash	net cash

Source: Company data, Nomura estimates

Key company data: *See page 2 for company data, and detailed price/index chart.*
Rating: *See report end for details of Nomura's rating system.*

Anchor themes

We forecast touch phone volumes will post a 45% CAGR over 2009-12F, from 204mn in 2009 to 622mn in 2012F, and we expect touch penetration in handsets to rise to 35% in 2011F, from 17% in 2009 and 27% in 2010.

Nomura vs consensus

Our forecast for YFO's FY11F earnings is 20% below consensus,as we forecast slower revenue growth and higher margin pressure.

Research analysts

Taiwan Technology/Hardware

Anne Lee, CFA - NITB
anne.lee@nomura.com
+886 2 2176 9966

Eason Hung - NITB
eason.hung@nomura.com
+886 2 2176 9965

Key data on Young Fast Optoelectronics

Income statement (TWDmn)

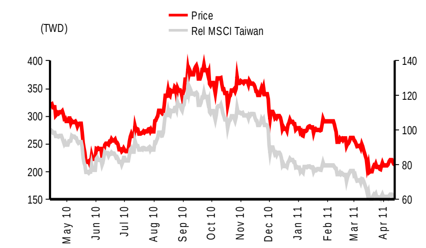
Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Revenue	**6,886**	**12,757**	**17,385**	**21,603**	**26,809**
Cost of goods sold	-4,966	-8,228	-12,500	-17,017	-21,842
Gross profit	**1,921**	**4,529**	**4,885**	**4,587**	**4,966**
SG&A	-611	-1,270	-1,510	-1,640	-1,724
Employee share expense					
Operating profit	**1,309**	**3,259**	**3,376**	**2,946**	**3,242**
EBITDA	**1,501**	**3,534**	**3,736**	**3,446**	**3,802**
Depreciation	-192	-275	-360	-500	-560
Amortisation					
EBIT	1,309	3,259	3,376	2,946	3,242
Net interest expense	-2	3	4	2	2
Associates & JCEs	-2	0	-33	52	85
Other income	-4	52	-229	-20	-20
Earnings before tax	**1,302**	**3,314**	**3,118**	**2,981**	**3,310**
Income tax	-146	-330	-445	-372	-458
Net profit after tax	**1,156**	**2,984**	**2,673**	**2,609**	**2,852**
Minority interests	4	-7	-6	0	0
Other items					
Preferred dividends					
Normalised NPAT	**1,160**	**2,977**	**2,667**	**2,609**	**2,852**
Extraordinary items					
Reported NPAT	**1,160**	**2,977**	**2,667**	**2,609**	**2,852**
Dividends	-47	-634	-1,326	-1,263	-1,174
Transfer to reserves	**1,113**	**2,343**	**1,341**	**1,346**	**1,678**
Valuation and ratio analysis					
FD normalised P/E (x)	21.6	9.3	10.9	11.7	10.7
FD normalised P/E at price target (x)	18.4	8.0	9.3	10.0	9.1
Reported P/E (x)	21.6	9.3	10.9	11.7	10.7
Dividend yield (%)	0.2	2.2	4.4	4.1	3.9
Price/cashflow (x)	13.5	9.3	8.3	13.0	12.3
Price/book (x)	6.3	4.1	2.9	2.5	2.2
EV/EBITDA (x)	19.0	7.4	6.3	7.2	6.6
EV/EBIT (x)	21.7	8.0	6.9	8.4	7.7
Gross margin (%)	27.9	35.5	28.1	21.2	18.5
EBITDA margin (%)	21.8	27.7	21.5	16.0	14.2
EBIT margin (%)	19.0	25.5	19.4	13.6	12.1
Net margin (%)	16.8	23.3	15.3	12.1	10.6
Effective tax rate (%)	11.2	10.0	14.3	12.5	13.8
Dividend payout (%)	4.1	21.3	49.7	48.4	41.2
Capex to sales (%)	6.4	7.5	7.6	11.6	5.6
Capex to depreciation (x)	2.3	3.5	3.7	5.0	2.7
ROE (%)	43.6	56.8	30.4	22.9	22.1
ROA (pretax %)	39.6	70.1	47.1	28.8	23.2
Growth (%)					
Revenue	911.3	85.3	36.3	24.3	24.1
EBITDA	1,101.1	135.5	5.7	-7.7	10.3
EBIT	1,093.7	148.9	3.6	-12.7	10.0
Normalised EPS	10.5	131.9	-14.3	-7.0	9.3
Normalised FDEPS	10.5	131.9	-14.3	-7.0	9.3
Per share					
Reported EPS (TWD)	9.92	23.00	19.72	18.33	20.04
Norm EPS (TWD)	9.92	23.00	19.72	18.33	20.04
Fully diluted norm EPS (TWD)	9.92	23.00	19.72	18.33	20.04
Book value per share (TWD)	34.11	52.07	75.06	84.82	96.61
DPS (TWD)	0.44	4.80	9.33	8.87	8.25

Source: Nomura estimates

Notes

The gross margin deteriorates due to structural issues.

Price and price relative chart (one year)



(%)	1M	3M	12M
Absolute (TWD)	-17.5	-23.8	-25.7
Absolute (USD)	-17.9	-23.0	-20.0
Relative to index	-13.0	-18.6	-33.1
Market cap (USDmn)	1,027.0		
Estimated free float (%)	65.0		
52-week range (TWD)	399.85/205		
3-mth avg daily turnover (USDmn)	21.80		
Major shareholders (%)			
Sol Young Enterprise Co. Ltd.	13.9		
Hold-Key Electric Wire Cable Co. Ltd.	9.9		

Cashflow (TWDmn)

Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
EBITDA	1,501	3,534	3,736	3,446	3,802
Change in working capital	500	-448	593	-710	-852
Other operating cashflow	-149	-120	-840	-390	-476
Cashflow from operations	**1,852**	**2,965**	**3,489**	**2,346**	**2,475**
Capital expenditure	-441	-962	-1,326	-2,500	-1,500
Free cashflow	**1,411**	**2,003**	**2,163**	**-154**	**975**
Reduction in investments	63	-11	-447	-532	-565
Net acquisitions					
Reduction in other LT assets	27	-81	-36	-26	29
Addition in other LT liabilities	13	54	71	0	0
Adjustments	-67	-57	-108	78	56
Cashflow after investing acts	**1,447**	**1,908**	**1,643**	**-634**	**495**
Cash dividends	-47	-634	-1,326	-1,263	-1,174
Equity issue	770	886	2,448	0	0
Debt issue	-653	1	-30	0	0
Convertible debt issue					
Others	-51	51	243	29	29
Cashflow from financial acts	**19**	**303**	**1,335**	**-1,234**	**-1,145**
Net cashflow	**1,466**	**2,212**	**2,978**	**-1,867**	**-650**
Beginning cash	508	1,973	4,185	7,163	5,296
Ending cash	1,973	4,185	7,163	5,296	4,646
Ending net debt	-1,931	-4,142	-7,150	-5,283	-4,633

Source: Nomura estimates

Notes

Negative new cashflow after 2010F

Balance sheet (TWDmn)

As at 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Cash & equivalents	1,973	4,185	7,163	5,296	4,646
Marketable securities	0	6	6	6	6
Accounts receivable	1,083	2,248	2,434	3,673	4,826
Inventories	793	1,420	2,082	2,638	3,495
Other current assets	359	484	484	484	484
Total current assets	**4,208**	**8,341**	**12,168**	**12,095**	**13,455**
LT investments	32	37	484	1,017	1,582
Fixed assets	1,050	1,625	2,591	4,591	5,531
Goodwill	0	0	0	0	0
Other intangible assets					
Other LT assets	41	122	158	184	155
Total assets	**5,331**	**10,126**	**15,402**	**17,887**	**20,723**
Short-term debt	42	43	13	13	13
Accounts payable	1,100	2,318	3,000	4,084	5,242
Other current liabilities	560	810	1,570	1,570	1,570
Total current liabilities	**1,703**	**3,172**	**4,583**	**5,667**	**6,825**
Long-term debt	0	0	0	0	0
Convertible debt					
Other LT liabilities	22	77	148	148	148
Total liabilities	**1,725**	**3,248**	**4,731**	**5,815**	**6,973**
Minority interest					
Preferred stock					
Common stock	1,057	1,316	1,422	1,423	1,423
Retained earnings	2,525	5,599	9,303	10,649	12,327
Proposed dividends					
Other equity and reserves	23	-38	-53	0	0
Total shareholders' equity	**3,605**	**6,877**	**10,671**	**12,072**	**13,750**
Total equity & liabilities	**5,331**	**10,126**	**15,402**	**17,887**	**20,723**
Liquidity (x)					
Current ratio	2.47	2.63	2.66	2.13	1.97
Interest cover	694.5	na	na	na	na
Leverage					
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable	62.0	47.7	49.1	51.6	58.0
Days inventory	66.1	49.1	51.1	50.6	51.4
Days payable	71.7	75.8	77.6	76.0	78.1
Cash cycle	56.4	20.9	22.6	26.2	31.3

Source: Nomura estimates

Notes

No long-term debt

Reaffirm REDUCE with PT unchanged at TWD183

We reaffirm our REDUCE rating on YFO. We maintain our conservative view and believe structural challenges ahead will continue to weigh on the stock:

- Faster-than-expected decline in resistive touch: the legacy resistive touch still accounts for 40-50% of sales. Since the aggressive shift to capacitive touch by handset vendors, even for low-end touch phones, we see the trend as very negative for YFO, because more than 60% of gross profits still came from resistive touch in 2010.
- Rising competition from glass-based touch: although YFO's small-size film capacitive touch business will likely pick up this year, we believe the long-term concerns remains, as we expect YFO's addressable market to be squeezed by glass-based touch and super AMOLED from the high- end segment and touch on cover glass from the low-end segment.
- Slower customer diversification: Given the rapid transition from resistive to capacitive touch, we expect revenue contributions from two of its major customers, LGE and SEC (~60% sales in 2010), to decline in 2011F. Also, its diversification to Nokia may take a longer time due to Nokia's strategic shift.

Valuation methodology and risks

Our price target of TWD183.0 is based on 10x FY11F EPS of TWD18.3 (methodology unchanged). Our 10x P/E multiple is at the low-end of the stock's historical trading P/E range (10-20x), as we think the stock will be de-rated on a deteriorating earnings outlook. Risks to our view include: 1) higher-than-expected market share gains at Nokia and other handset vendors; 2) better-than-expected ASPs and margins on capacitive touch modules; and 3) higher-than-expected growth from mid-size touch panels.

Appendix A-1

Analyst Certification

We, James Kim, Changwon Chung, Aaron Jeng, Peter Liao, Eve Jung, Nitin Kumar, Anne Lee, Ashwin Mehta, Greg Kang, Marcello Seongsoo Ahn and Richard Windsor, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Issuer Specific Regulatory Disclosures

Mentioned companies

Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
AAC Acoustic Technology	2018 HK	20.90	20-Apr-2011	Buy	Not rated	
Asustek Computer	2357 TT	241.5	20-Apr-2011	Buy	Not rated	
GCL Poly Energy	3800 HK	4.84	20-Apr-2011	Buy	Not rated	4,58
HCL Technologies	HCLT IN	477	19-Apr-2011	Buy	Not rated	49
HTC Corporation	2498 TT	1,265.0	20-Apr-2011	Buy	Not rated	
LG Display	034220 KS	40,050	20-Apr-2011	Buy	Not rated	4,116,123
LG Electronics	066570 KS	109,000	20-Apr-2011	Buy	Not rated	109
MediaTek	2454 TT	308.0	20-Apr-2011	Reduce	Not rated	
Nuvoton Technology Corp	4919 TT	43.7	20-Apr-2011	Buy	Not rated	
SEMCO	009150 KS	119,000	20-Apr-2011	Buy	Not rated	128
Samsung Electronics	005930 KS	916,000	20-Apr-2011	Buy	Not rated	106
Simplo Technology	6121 TT	190.0	20-Apr-2011	Buy	Not rated	
Young Fast Optoelectronics	3622 TT	193.0	20-Apr-2011	Reduce	Not rated	
Suntech Power	STP US	8.65	19-Apr-2011	Buy	Not rated	123

Disclosures required in the U.S.

49 **Possible IB related compensation in the next 3 months**
Nomura Securities International, Inc. and/or its affiliates expects to receive or intends to seek compensation for investment banking services from the company in the next three months.

123 **Market Maker - NSI**
Nomura Securities International Inc. makes a market in securities of the company.

Disclosures required in the European Union

4 **Market maker**
Nomura International plc or an affiliate in the global Nomura group is a market maker or liquidity provider in the securities / related derivatives of the issuer.

Disclosures required in Hong Kong

58 **Nomura financial interest/business relationships disclosures:**
Nomura International (Hong Kong) Limited or an affiliate in the global Nomura group is a market maker or liquidity provider in the securities / related derivatives of the issuer.

Disclosures required in Korea

106 **Liquidity Provider for Equity Linked Warrant**
Nomura Financial Investment (Korea) Co., Ltd. is a liquidity provider (LP) or LP & issuer for ELW which the underlying is Samsung Electronics (005930.KS), and holds 71,514,720 warrants as of 20-Apr-2011.

109 **Liquidity Provider for Equity Linked Warrant**
Nomura Financial Investment (Korea) Co., Ltd. is a liquidity provider (LP) or LP & issuer for ELW which the underlying is LG Electronics (066570.KS), and holds 72,872,120 warrants as of 20-Apr-2011.

116 **Liquidity Provider for Equity Linked Warrant**
Nomura Financial Investment (Korea) Co., Ltd. is a liquidity provider (LP) or LP & issuer for ELW which the underlying is LG Display (034220.KS), and holds 35,331,740 warrants as of 20-Apr-2011.

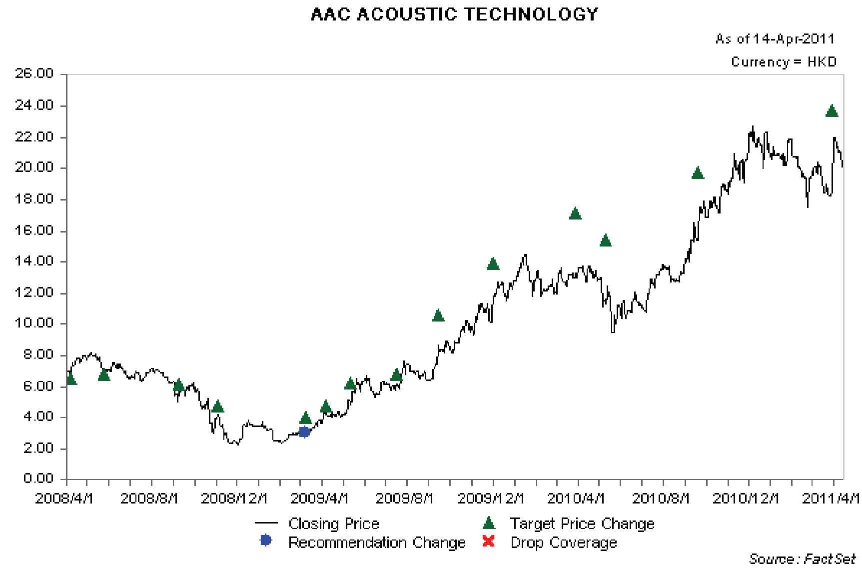
128 **Liquidity Provider for Equity Linked Warrant**
Nomura Financial Investment (Korea) Co., Ltd. is a liquidity provider (LP) or LP & issuer for ELW which the underlying is SEMCO (009150.KS), and holds 39,707,400 warrants as of 20-Apr-2011.

Previous Rating

Issuer name	Previous Rating	Date of change
AAC Acoustic Technology	Neutral	09-Mar-2009
Asustek Computer	Reduce	01-Dec-2010
GCL Poly Energy	Neutral	14-Feb-2011
HCL Technologies	Neutral	10-Sep-2009
HTC Corporation	Neutral	26-Feb-2010
LG Display	Neutral	18-Apr-2011
LG Electronics	Neutral	22-Feb-2011
MediaTek	Neutral	25-Feb-2010
Nuvoton Technology Corp	Not Rated	10-Feb-2011
SEMCO	Neutral	28-Jul-2009
Samsung Electronics	Neutral	03-Jul-2009
Simplo Technology	Not Rated	17-Dec-2008
Young Fast Optoelectronics	Neutral	14-Mar-2011
Suntech Power	Neutral	08-Mar-2010

AAC Acoustic Technology (2018 HK) **20.90 (20-Apr-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
30-Mar-2011		23.70	19.70
20-Sep-2010		19.80	16.08
11-May-2010		15.40	11.36
29-Mar-2010		17.18	13.26
02-Dec-2009		13.97	11.52
14-Sep-2009		10.61	8.48
17-Jul-2009		6.76	6.04
13-May-2009		6.26	4.90
08-Apr-2009		4.76	4.27
09-Mar-2009		4.05	3.00
09-Mar-2009	Buy		3.00
04-Nov-2008		4.75	4.12
09-Sep-2008		6.18	5.70
26-May-2008		6.83	6.90
08-Apr-2008		6.51	6.44

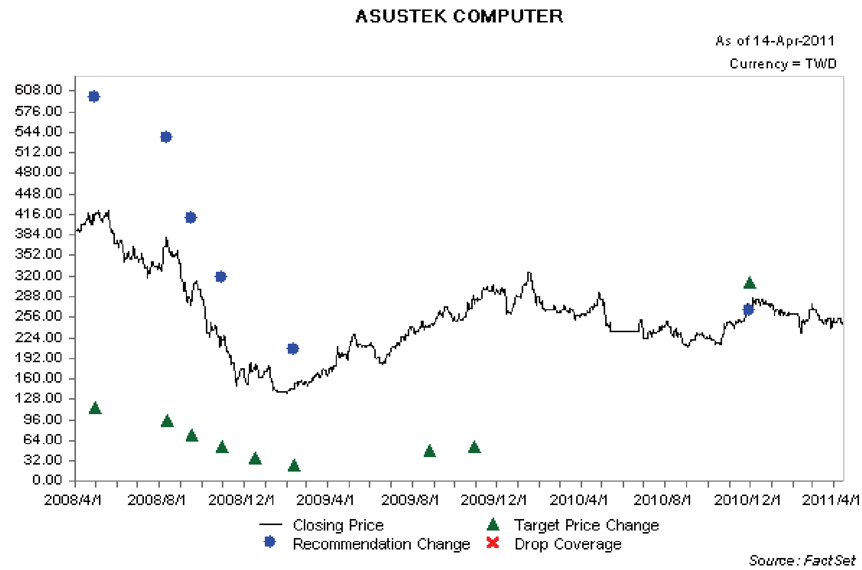
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price is based on 18x FY11F EPS of CNY1.11. Our target P/E is at the mid-range of 14-24x P/E during 2006-2007, at which time the stock was re-rated on bright growth prospects and solid execution. We believe the shares will continue to be re-rated given AAC's solid positioning amid the smartphone and tablet trends.

Risks that may impede the achievement of the target price Downside risks to our investment view include: 1) smaller-than-expected market share gains in handset customers, 2) slower-than-expected expansion into the non-acoustic/non-handset business, and 3) worse-than-expected smartphone industry growth.

Asustek Computer (2357 TT) **241.5 (20-Apr-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
01-Dec-2010		310.00	265.50
01-Dec-2010	Buy		265.50
30-Oct-2009		55.00	406.67
26-Aug-2009		49.00	349.33
12-Feb-2009		26.00	206.25
12-Feb-2009	Reduce		206.25
17-Dec-2008		36.00	250.17
31-Oct-2008		54.50	316.70
31-Oct-2008	Neutral		316.70
17-Sep-2008		72.00	409.85
17-Sep-2008	Buy		409.85
14-Aug-2008		95.00	534.23
14-Aug-2008	Neutral		534.23
01-May-2008		115.00	597.76
01-May-2008	Buy		597.76

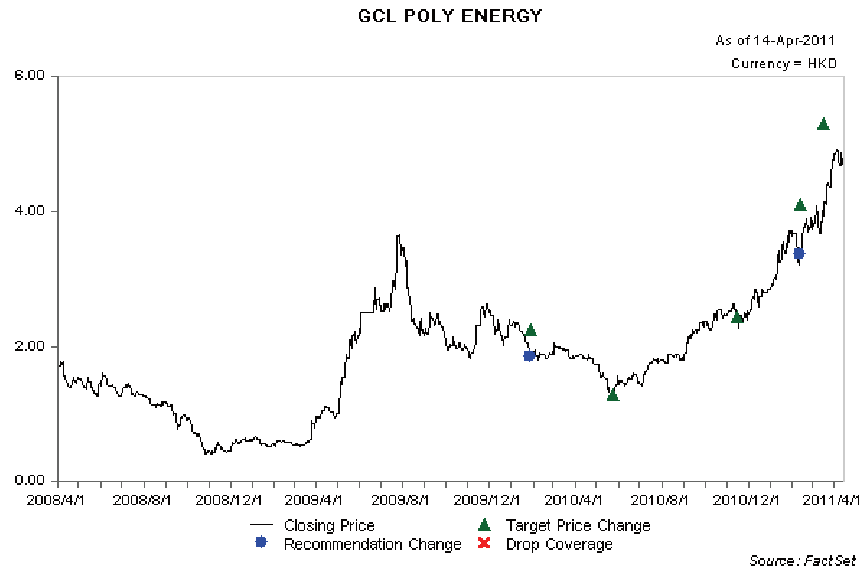
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our DCF-based target price of NT$310 implies 12.6 x/11.0x our FY11F/12F EPS of NT$24.70/NT$28.23. At our target price, the stock would trade at the mid- to high range of Asustek's adjusted three-year forward P/E trading band of 7-15x. We are using a DCF-based valuation to reflect PC OEMs' capability to generate stable cash inflows. Our DCF assumes revenue growth remains at 1.0% in 2018F, as growth in the global NB market gradually hits saturation. We apply a cost of equity of 7.7%, which assumes a risk-free rate of 2.6%, a market risk premium of 6.0% and an equity beta of 1.2.

Risks that may impede the achievement of the target price Downside risks that may cause the shares to trade below 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; and 4) disappointing earnings performance from Pegatron, as Asustek still holds a 24% shareholding in Pegatron.

GCL Poly Energy (3800 HK) **4.84 (20-Apr-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
17-Mar-2011		5.30	3.94
14-Feb-2011		4.10	3.36
14-Feb-2011	Buy		3.36
15-Nov-2010		2.45	2.50
24-May-2010		1.30	1.33
29-Jan-2010		2.25	1.84
29-Jan-2010	Neutral		1.84

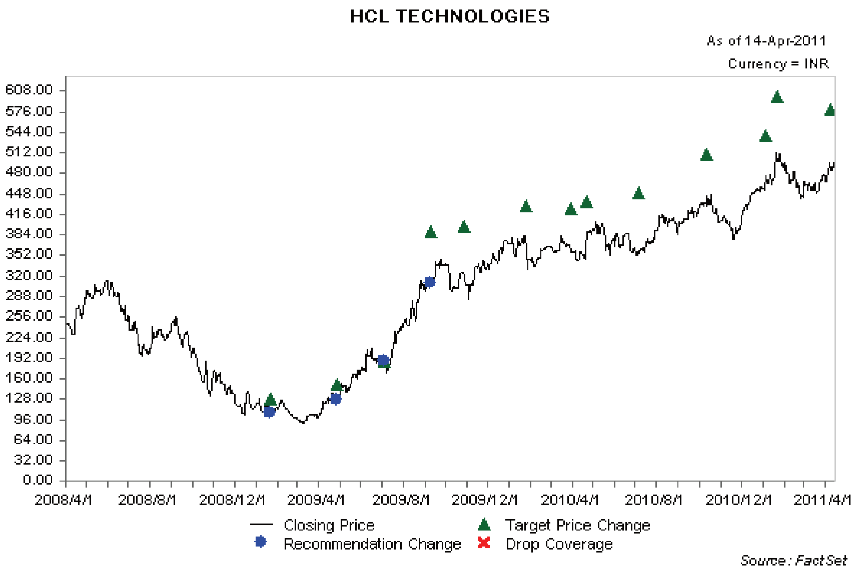
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We use the peer average ROE adjusted FY11F P/BV [average PBV(x) / ROE(%)] to value GCL for a target FY11F P/BV of 3.7x. On an FY11F BV of HK$1.4, we set our price target at HK$5.3.

Risks that may impede the achievement of the target price A worse-than-expected slowdown in demand in global markets not being offset by a drop in ASPs, as this may result in: 1) lower-than expected volume shipments and 2) faster ASP declines resulting in margin squeeze.

HCL Technologies (HCLT IN) **477 (19-Apr-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
08-Apr-2011		580.00	484.35
21-Jan-2011		600.00	499.20
05-Jan-2011		540.00	471.15
13-Oct-2010		510.00	444.40
07-Jul-2010		450.00	356.00
22-Apr-2010		435.00	380.80
31-Mar-2010		425.00	357.80
26-Jan-2010		430.00	361.15
28-Oct-2009		397.00	313.50
10-Sep-2009		389.00	309.10
10-Sep-2009	Buy		309.10
06-Jul-2009		187.00	186.90
06-Jul-2009	Neutral		186.90
28-Apr-2009		152.00	125.85
28-Apr-2009	Buy		125.85
23-Jan-2009		130.00	107.00
23-Jan-2009	Reduce		107.00

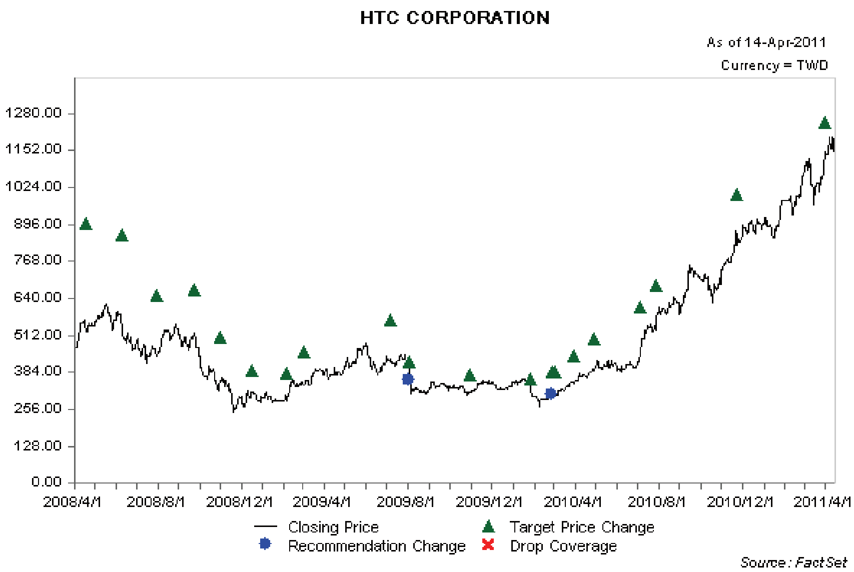
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our price target of INR580 is based on 16.5x one-year rolling forward earnings (INR35.3). Our valuation multiple for HCL Tech is a 20% discount to our target multiple for Infosys.

Risks that may impede the achievement of the target price Key downside risks are 1) lower-than-expected revenue ramp-up in the core software and infrastructure services divisions and 2) lower-than-anticipated margin improvements could delay a re-rating of the stock.

HTC Corporation (2498 TT) **1,265.0 (20-Apr-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
01-Apr-2011		1250.00	1140.00
23-Nov-2010		1000.00	863.00
29-Jul-2010		687.00	570.00
06-Jul-2010		609.00	471.43
29-Apr-2010		500.00	395.71
31-Mar-2010		438.70	353.33
03-Mar-2010		384.70	308.10
26-Feb-2010		385.00	308.57
26-Feb-2010	Buy		308.57
27-Jan-2010		359.70	318.57
30-Oct-2009		374.50	314.29
03-Aug-2009	Neutral		354.76
03-Aug-2009		420.70	354.76
06-Jul-2009		566.00	419.05
02-Mar-2009		456.00	341.04
06-Feb-2009		382.00	299.32
17-Dec-2008		390.00	315.19
31-Oct-2008		504.00	356.92
24-Sep-2008		670.00	508.84
31-Jul-2008		652.00	440.82
11-Jun-2008		860.00	519.10
18-Apr-2008		900.00	527.47

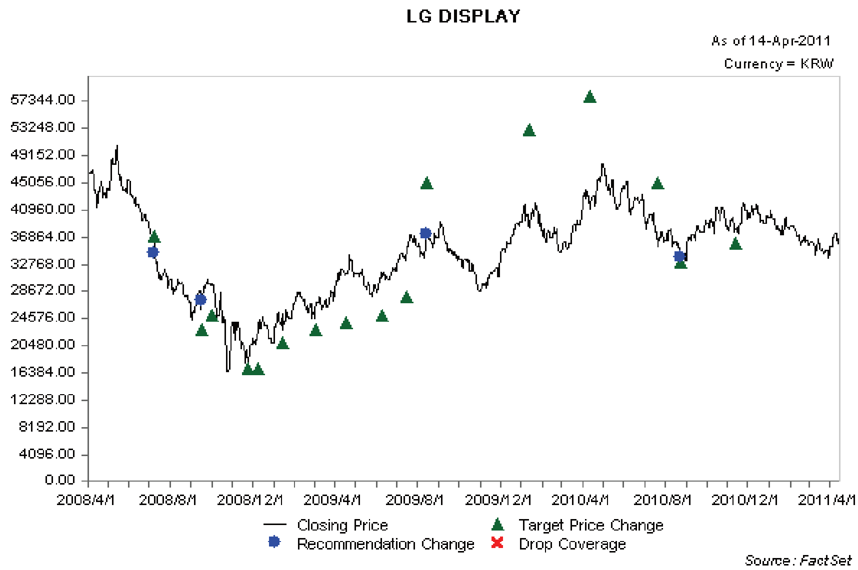
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of NT$1,500 is based on 14x our FY12F EPS forecast of NT$106. Our target 14x P/E multiple is at the high-end of HTC's historical P/E range, which we believe should be reachable on our expectation of continued record-high earnings and strong earnings growth in FY11-12F.

Risks that may impede the achievement of the target price In our view, HTC will see upside surprises in shipments, market share gains and earnings in FY11F, but key downside risks include: 1) technology evolution slowdown; 2) weak acceptance in the mid- to low-end smartphone market and 3) too-high expectations for smartphones.

LG Display (034220 KS) **40,050 (20-Apr-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
12-Nov-2010		36000.00	38000.00
24-Aug-2010		33000.00	33750.00
24-Aug-2010	Neutral		33750.00
21-Jul-2010		45000.00	36500.00
13-Apr-2010		58000.00	41800.00
13-Jan-2010		53000.00	38350.00
14-Aug-2009		45000.00	37200.00
14-Aug-2009	Buy		37200.00
16-Jul-2009		28000.00	34800.00
09-Jun-2009		25000.00	30950.00
17-Apr-2009		24000.00	31450.00
05-Mar-2009		23000.00	26700.00
14-Jan-2009		21000.00	25300.00
10-Dec-2008		17000.00	23500.00
25-Nov-2008		17000.00	18500.00
02-Oct-2008		25000.00	29550.00
17-Sep-2008		23000.00	27300.00
17-Sep-2008	Reduce		27300.00
09-Jul-2008		37000.00	34350.00
09-Jul-2008	Neutral		34350.00

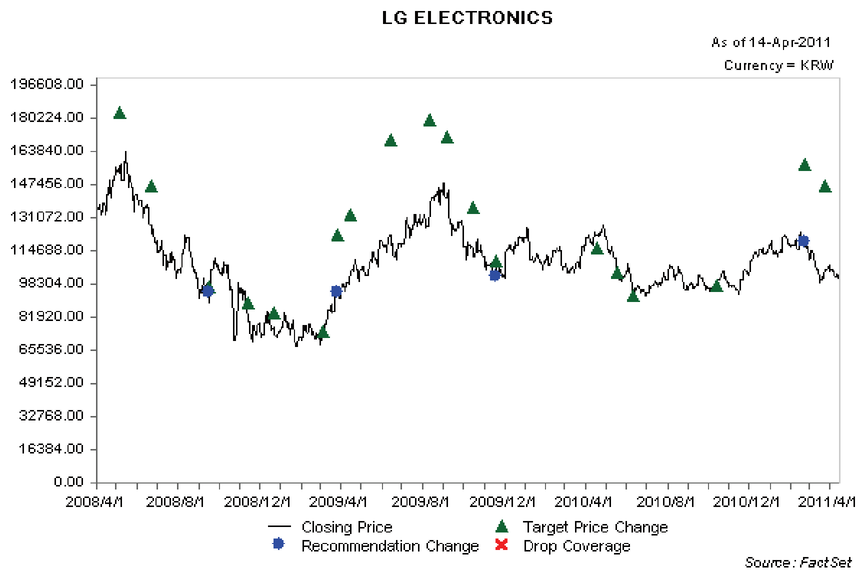
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our price target of W47,000 is derived by using a target P/B of 1.4x. We believe LGD should trade between 1.0-1.4x P/B given the industry cycle and ROE of around 10%, and we think applying 1.4x is reasonable, considering improved earnings momentum and technological competitiveness.

Risks that may impede the achievement of the target price If panel makers decide to increase utilisation it could have a negative impact on LGD's profitability and slow the panel price rebound.

LG Electronics (066570 KS) **109,000 (20-Apr-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
25-Mar-2011		147000.00	106000.00
22-Feb-2011		158000.00	119000.00
22-Feb-2011	Buy		119000.00
15-Oct-2010		98000.00	100500.00
11-Jun-2010		93000.00	94600.00
18-May-2010		104000.00	105000.00
19-Apr-2010		116400.00	122500.00
18-Nov-2009		110000.00	102000.00
18-Nov-2009	Neutral		102000.00
15-Oct-2009		136000.00	116500.00
07-Sep-2009		171000.00	142500.00
11-Aug-2009		180000.00	133500.00
15-Jun-2009		170000.00	122500.00
16-Apr-2009		133000.00	104500.00
27-Mar-2009		123000.00	94000.00
27-Mar-2009	Buy		94000.00
05-Mar-2009		75000.00	73000.00
22-Dec-2008		84000.00	77100.00
13-Nov-2008		89000.00	82900.00
17-Sep-2008		97000.00	94600.00
17-Sep-2008	Neutral		94600.00
23-Jun-2008		147000.00	123500.00
07-May-2008		183000.00	153500.00

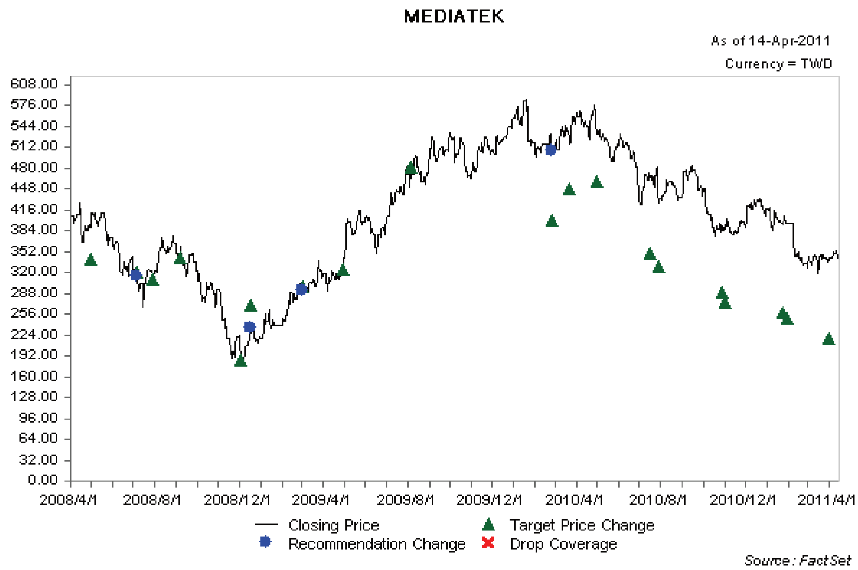
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology To derive our price target of W147,000, we apply EV/EBITDA SOTP, using annualised 2H11F EBITDA of the handset segment while using 2011F EBITDA for others. We believe using annualised 2H11F EBITDA of the handset segment is more reasonable as we expect a recovery likely in 2H11F. Moreover, applied EV/EBITDA of the handset segment is the average between HTC's multiple and average of others as LGE is approaching HTC in terms of handset competitiveness. Our price target is equivalent to FY12F P/E of 12.2x and P/BV of 1.5x

Risks that may impede the achievement of the target price Risks to our price target include weaker-than-expected end-demand for handsets and TVs, which could hurt the company's shipments. Upside risks include a successful product launch in 2Q11 and onward.

MediaTek (2454 TT) **308.0 (20-Apr-2011)** Reduce (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
01-Apr-2011		220.00	343.00
31-Jan-2011		250.00	396.00
25-Jan-2011		260.00	396.00
01-Nov-2010		275.00	393.50
28-Oct-2010		290.00	391.00
30-Jul-2010		330.00	433.50
16-Jul-2010		350.00	468.06
30-Apr-2010		460.00	532.93
22-Mar-2010		450.00	528.94
25-Feb-2010		400.00	505.99
25-Feb-2010	Reduce		505.99
05-Aug-2009		483.00	473.05
30-Apr-2009		325.00	343.13
03-Mar-2009		299.00	293.33
03-Mar-2009	Neutral		293.33
18-Dec-2008		271.00	236.05
18-Dec-2008	Buy		236.05
04-Dec-2008		187.00	194.22
08-Sep-2008		342.00	360.56
30-Jul-2008		309.00	317.23
07-Jul-2008		320.00	314.09
07-Jul-2008	Neutral		314.09
01-May-2008		340.00	389.53

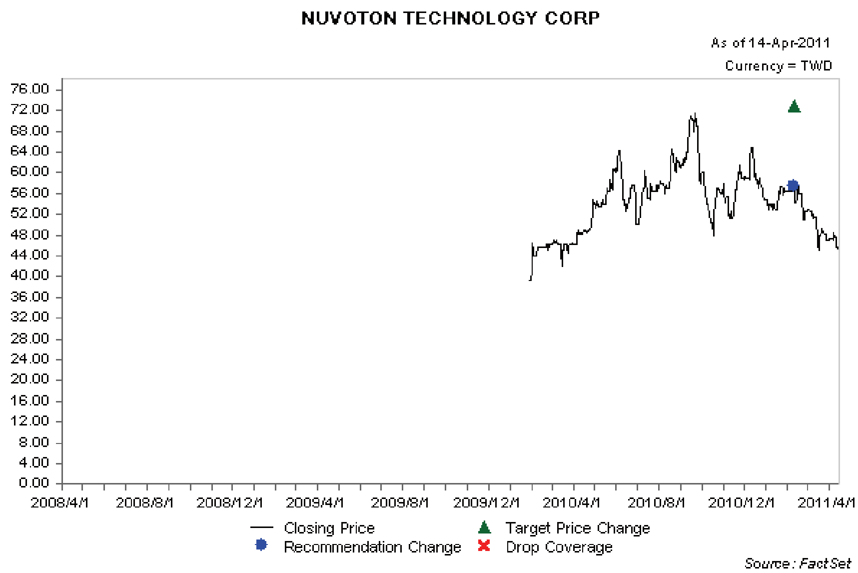
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We set our TP at NT$220 by adding the end-FY10F cash value of about NT$90/share to the non-cash market value of NT$130, which we derive by applying an ex-cash target P/E of 8x to our FY12F EPS estimate of TWD16.7. Our ex-cash target P/E of 8x is equivalent to a 10% discount to its average ex-cash P/E range of 5-13x in the past cycle, as we expect MediaTek to record two consecutive years of earnings declines (the worst performance in the company's history.)

Risks that may impede the achievement of the target price We believe upside risks include: 1) better-than-expected handset IC shipment growth, particularly from emerging market demand; 2) earlier-than-expected launch of next generation 3G and smartphone chips, and; 3) better-than-expected acceptance of MediaTek's EDGE Android smartphone.

Nuvoton Technology Corp (4919 TT) **43.7 (20-Apr-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
10-Feb-2011		73.00	57.20
10-Feb-2011	Buy		57.20

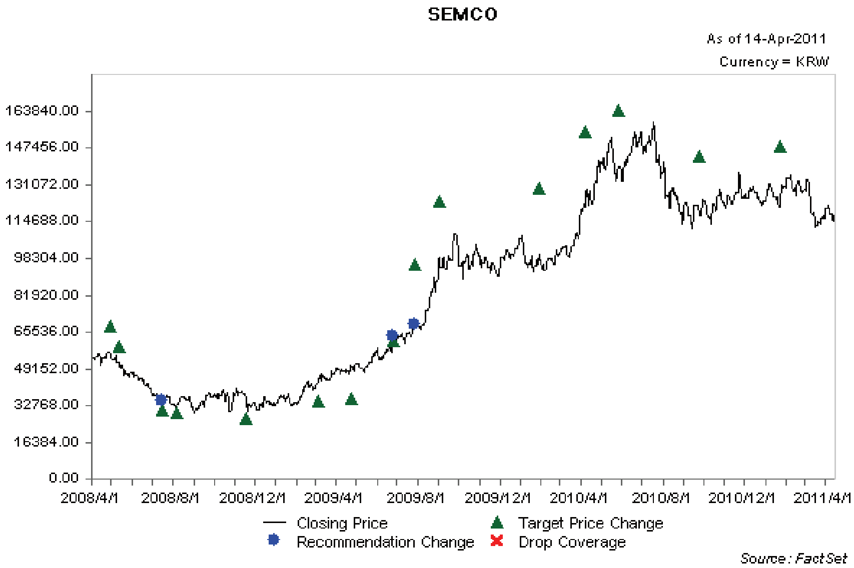
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of NT$73 is based on 15x FY11F EPS of NT$4.8.

Risks that may impede the achievement of the target price In our view, the main risks to our target price include: 1) stronger-than-expected NTD appreciation may erode both sales growth and margin; 2) slower-than-expected PC growth may pull down sales in PC applications; and 3) profit-taking by large shareholders could put pressure on the share price.

SEMCO (009150 KS) **119,000 (20-Apr-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
24-Jan-2011		148000.00	124500.00
24-Sep-2010		144000.00	117500.00
28-May-2010		164000.00	139500.00
08-Apr-2010		155000.00	128000.00
29-Jan-2010		130000.00	97500.00
03-Sep-2009		124000.00	94400.00
28-Jul-2009		96000.00	69000.00
28-Jul-2009	Buy		69000.00
26-Jun-2009		62000.00	64000.00
26-Jun-2009	Neutral		64000.00
24-Apr-2009		36000.00	50100.00
05-Mar-2009		35000.00	43200.00
19-Nov-2008		27000.00	33500.00
08-Aug-2008		30000.00	33600.00
16-Jul-2008		31000.00	35200.00
16-Jul-2008	Reduce		35200.00
13-May-2008		59000.00	51500.00
29-Apr-2008		68000.00	55800.00

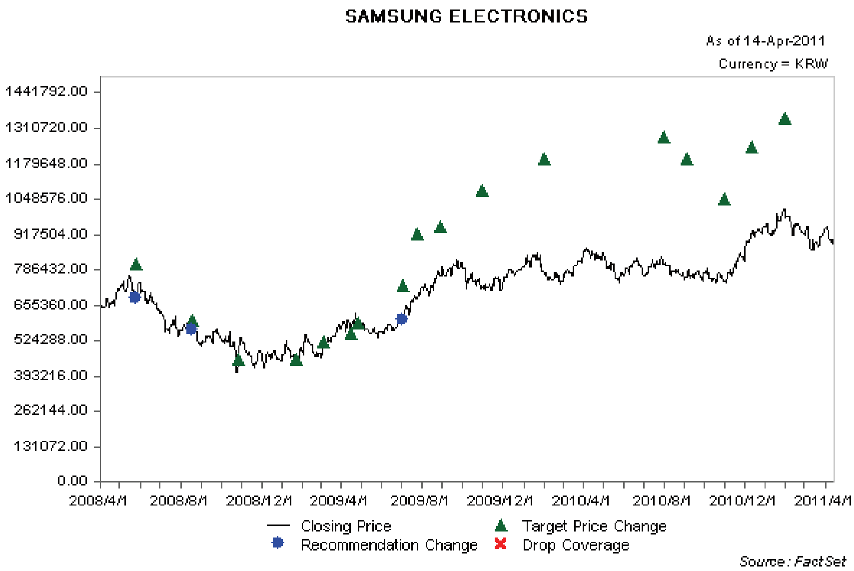
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our price target of W148,000 is based on EV/EBITDA SOTP, using annualised 2H11F EBITDA as we expect a recovery in 2H11F. Our price target is equivalent to an FY11F P/E of 21.1x and a P/BV of 2.5x.

Risks that may impede the achievement of the target price The won/US dollar exchange rate is the biggest earnings risk for SEMCO, which translates to higher earnings volatility, both to the upside and downside, depending on currency movements. In addition, downside risks to our price target include the possibility of aggressive MLCC capacity expansion by Japanese manufacturers.

Samsung Electronics (005930 KS) **916,000 (20-Apr-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
31-Jan-2011		1350000.00	981000.00
13-Dec-2010		1240000.00	930000.00
01-Nov-2010		1050000.00	747000.00
06-Sep-2010		1200000.00	780000.00
02-Aug-2010		1280000.00	810000.00
01-Feb-2010		1200000.00	777000.00
30-Oct-2009		1080000.00	723000.00
28-Aug-2009		950000.00	764000.00
24-Jul-2009		920000.00	683000.00
03-Jul-2009	Buy		601000.00
03-Jul-2009		730000.00	601000.00
27-Apr-2009		590000.00	585000.00
15-Apr-2009		550000.00	585000.00
05-Mar-2009		520000.00	503000.00
23-Jan-2009		454000.00	442000.00
27-Oct-2008		454000.00	438000.00
19-Aug-2008		600000.00	564000.00
19-Aug-2008	Neutral		564000.00
26-May-2008		810000.00	679000.00
26-May-2008	Buy		679000.00

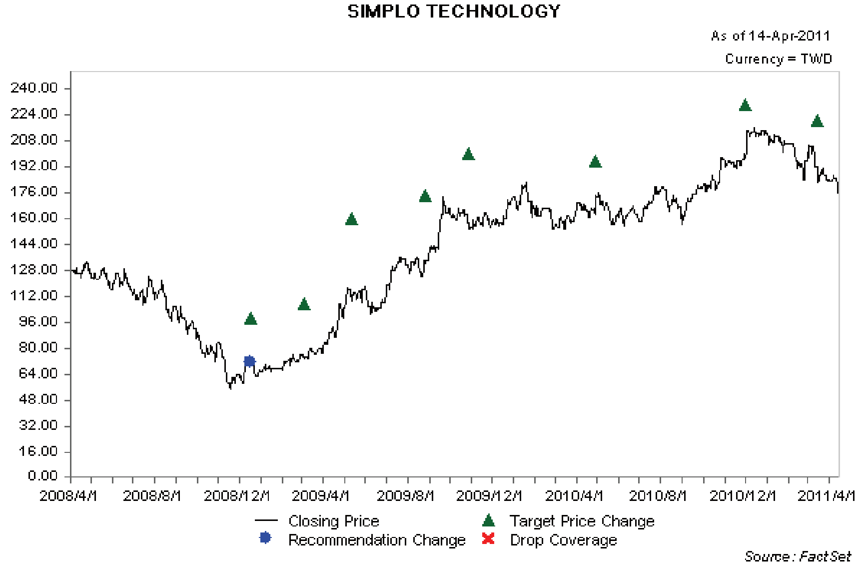
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of KRW1,350,000 is based on 2.0x P/BV at 12M forward BVPS of KRW672,000. Given our forecast for continued high-teen ROEs in FY11F and FY12F, we believe our target multiple of 2.0x is justified.

Risks that may impede the achievement of the target price Risks to our view include: 1) faster-than-expected KRW appreciation; 2) increased competition in the smartphone space; and 3) excessive industry-wide capex in NAND.

Simplo Technology (6121 TT) **190.0 (20-Apr-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
15-Mar-2011		220.00	182.00
01-Dec-2010		230.00	199.00
29-Apr-2010		195.45	174.09
28-Oct-2009		200.00	153.18
26-Aug-2009		174.00	134.09
13-May-2009		160.00	112.40
04-Mar-2009		107.00	74.63
17-Dec-2008		98.00	70.33
17-Dec-2008	Buy		70.33

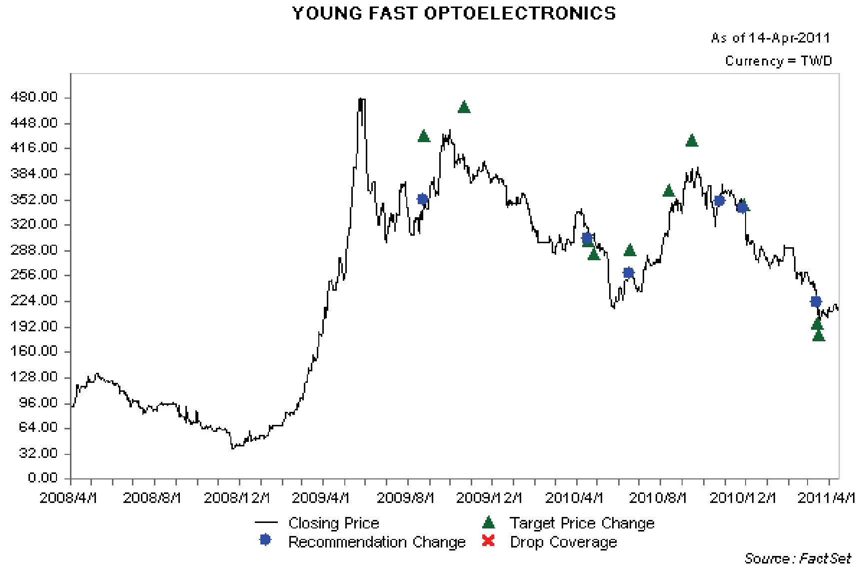
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our DCF-based price target of NT$220 implies 15.2x/13.1x FY11F/12F EPS of NT$14.44/NT$16.76. At our price target, the stock would trade at the mid-to-higher range of its adjusted five-year forward P/E trading band of 6.0-20.0x. We use a DCF-based valuation to reflect Simplo's capability to generate stable cash inflows. Our DCF assumes revenue growth would continue at 1% after FY18F, given saturating PC growth. We apply a cost of equity of 9.9%, which assumes a risk-free rate of 2.6%, a market risk premium of 6.0% and an equity beta of 1.2. The cashflows are discounted back to FY11F.

Risks that may impede the achievement of the target price Downside risks to our price target include: 1) weaker-than-expected global PC and tablet demand; 2) worse-than-expected operating margin performance due to irrational price competition; 3) slower-than-expected market share gains; 4) slower-than-forecast progress in the EV business and 5) supply shortages in NB battery cells.

Young Fast Optoelectronics (3622 TT) **193.0 (20-Apr-2011)** Reduce (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
16-Mar-2011		183.00	214.00
14-Mar-2011		197.00	222.50
14-Mar-2011	Reduce		222.50
29-Nov-2010		346.00	340.00
29-Nov-2010	Neutral		340.00
27-Oct-2010	Buy		350.00
16-Sep-2010		428.00	385.52
12-Aug-2010		363.00	320.27
17-Jun-2010		290.00	258.99
17-Jun-2010	Neutral		258.99
27-Apr-2010		284.00	303.96
19-Apr-2010		300.00	301.49
19-Apr-2010	Reduce		301.49
22-Oct-2009		469.00	391.45
24-Aug-2009		432.00	350.42
24-Aug-2009	Buy		350.42

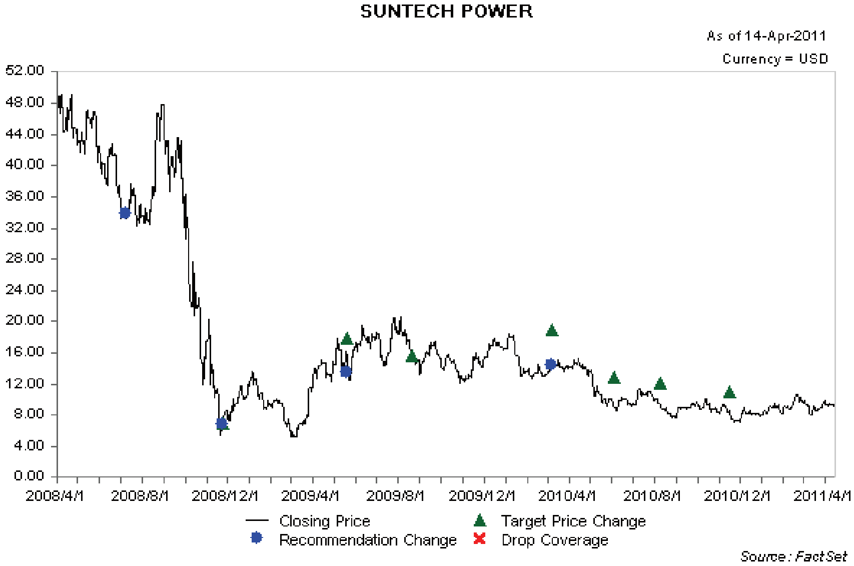
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our PT of TWD183.0 is based on 10x FY11F EPS of TWD18.3. Our 10x P/E multiple is at the low-end of the stock's historical trading P/E range (10-20x), as we think the stock will be de-rated on a deteriorating earnings outlook.

Risks that may impede the achievement of the target price 1) higher-than-expected market share gains at Nokia and other handset vendors; 2) better-than-expected ASPs and margins on capacitive touch modules; and 3) higher-than-expected growth from mid-size touch panels.

Suntech Power (STP US) **8.65 (19-Apr-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
15-Nov-2010		11.00	8.55
09-Aug-2010		12.20	9.30
04-Jun-2010		12.80	9.06
08-Mar-2010		19.00	14.25
08-Mar-2010	Buy		14.25
21-Aug-2009		15.68	15.30
21-May-2009		17.85	13.47
21-May-2009	Neutral		13.47
24-Nov-2008		7.00	6.69
24-Nov-2008	Buy		6.69
10-Jul-2008	Not Rated		33.86

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We use the YTD average FY11F P/E of the module peer group, to which we assign a 10% discount to reflect market concerns about slowing growth. We derive a target P/E of 9.9x applied to FY11F EPS of USD1.1 for a TP of USD11.

Risks that may impede the achievement of the target price Downside risks to our price target: 1) slower market share gains in new regions; and 2) demand at new growth centres failing to offset lower demand from Germany.

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STOCKS

A rating of '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months.
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SECTORS

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A '**Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months.
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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

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A **'Buy'** recommendation indicates that potential upside is 15% or more.
A **'Neutral'** recommendation indicates that potential upside is less than 15% or downside is less than 5%.
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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 (and ratings in Europe, Middle East and Africa, US and Latin America published prior to 27 October 2008)

STOCKS

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price)/Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

A **'Strong buy'** recommendation indicates that upside is more than 20%.
A **'Buy'** recommendation indicates that upside is between 10% and 20%.
A **'Neutral'** recommendation indicates that upside or downside is less than 10%.
A **'Reduce'** recommendation indicates that downside is between 10% and 20%.
A **'Sell'** recommendation indicates that downside is more than 20%.

SECTORS

A **'Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.
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