

Global Tech Daily

US Version 03/19

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Sector Update

US Semiconductors

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(Extracted from note published on March 19; see original note for pricing dates)

Entering Phase 3 of the Semi Rally, Our Manifesto on the Four Phases of the Rally

We believe we are in Phase 3 of the semi rally; please see our note published on January 28 titled “Bear Market Rally Redux. Our Picks to Click and Why We Retest the Lows in 2H09.”

- **Improving fundamentals driving the rally.** We believe semiconductor stocks are rallying because of an expected bottoming/improvement in fundamentals due to inventory replenishment in 2Q09. We would note the SOX index has outperformed the S&P 500 by 20% since the beginning of the year.
- **We are now in the third of four phases of the rally.** We believe we are in the third of the following four phases of the rally:
- **Phase 1: Positive data points from companies in Taiwan talking about “rush orders” and bottoming of order rates.** This phase occurred roughly during January/February.
- **Phase 2: Positive data points from US semiconductor companies talking about “rush orders” and bottoming of order rates.** Several companies stated during late Feb./March they experienced stabilization in order rates.
- **Phase 3: Raising of guidance amid longer-term improvement of order rates from companies in Taiwan.** Several Taiwanese companies have raised guidance over the past week including TSMC, Compal, and MediaTek.
- **Phase 4: Raising of guidance amid longer-term improvement or order rates from US semiconductor companies.** We expect this to happen some time during 2Q09.
- **Then rally’s over.** We expect the optimism over higher order rates will lead to inventory builds in 2Q09 amid an expectation for seasonal demand

during 2H09. We believe end demand will remain below seasonal during 2H09 and will result in another leg down in inventory and utilization rates and estimates.

- **XLNX and ONNN likely to move the most in a rally.** We believe Neutral-rated Xilinx and ON Semi are likely to have the strongest performance during such a rally due to superior leverage resulting from aggressive cost-cutting.
- **Stay away from ALTR and MXIM.** We believe Altera and Maxim should underperform during a rally as we believe both of these stocks have the least amount of leverage in our coverage universe.
- **Within SMID semis, we favor ISIL/FCS/MRVL.** We expect to hear positive data points on the PC food chain which should help ISIL, FCS, and MRVL. We would avoid LSI as we believe enterprise storage chip orders are softening.
- **Remain cautious on semis.** Despite our belief in a short-term rally, we expect semiconductor stocks to go back to the lows during 2H09, hence we are not upgrading. In order to consider becoming bullish, we would need to see low inventory and stable demand. We believe these factors could occur some time during 2H09.

Asia Pacific Electronics

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(Extracted from note published on March 19; see original note for pricing dates)

Display market update: 2H-March panel price update: Losing momentum of recent panel price recovery - ALERT

- **Downward pressure on large-size TV panel prices intact:** *DisplaySearch* just released 2H-March panel prices. As we mentioned in our latest *Global TFT-LCD market* report (published on March 8, 2009), divergence in price movement is still going on, as NBPC and LCD monitors are very close to or below the cash cost level, whereas large size LCD TV panels are still at profitable levels, implying further downside room. An analysis of cash cost and panel prices can be found in our global TFT-LCD market report’s “ASP vs. cash cost analysis” section.
- **Unclear 2Q09 demand outlook, despite improved shipment:** In March, small-to-medium-size panel shipments (i.e. wide screen LCD monitor and 32-inch and 26-inch LCD TVs) improved, maintaining

their February momentum, largely driven by rush orders from China and the US. Hence, some expect higher utilization rate for panel makers. We believe if supply discipline is maintained, the industry could be more balanced. In case of any increase in the utilization rate, especially in Taiwan, the market could see a significant rise in oversupply, given an unclear 2Q09 demand outlook.

- **Flat NBPC prices, despite a moderate demand recovery:** According to *DisplaySearch*, demand for 10.2"+ NBPC has recovered slightly in developed markets (NA and Western EU). However, prices stayed flat due to high inventory and competition issues in the market. Assuming an increase in netbook PC penetration rate, we maintain our conservative view on upside room for NBPC panel prices.
- **Trading on utilization rate and panel prices:** Although we still believe that LGD and SEC would likely outperform global peers due to their strong customer bases as well as a favorable FX rate and deserve a premium over global peers, panel makers' share prices will likely move along ASP changes. Given a potential increase in the UT rate and unclear end-demand, panel prices could experience downward pressure. Hence, we recommend that investors take profit on the recent strong share price rebound.

- **Companies whose results are likely to be somewhat weak:** Ushio sees some indications of a rebound in utilization in the LCD equipment market, but thinks it may take some time for the manufacturing cost ratio to improve and boost profits, owing to reduced output of UV lamps. The projector business (data and digital cinema projectors) is looking weak in January–March.
- **SPE orders still weak:** SPE companies' financials are generally in line with expectations, but orders are still trending low and flat. A key factor is likely to be when the current industry news flow and expressions of interest lead to actual deal negotiations. We think Intel has continued to steadily invest in equipment, but from now until 2H 2009, it remains to be seen whether TSMC places orders and when Samsung Electronics, Nanya, and Inotera start to invest in equipment for finer line widths. Orders from these companies will be a key factor for SPE companies' FY2009 earnings, in our view.
- **LCD equipment orders have started to rebound:** We think Tokyo Electron is likely to get several billion yen worth of FPD equipment orders in January– March, versus management's expectation of none. Some LCD equipment orders have started to come in from China, South Korea, and Japan.

Japan Precision Instruments

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(Extracted from note published on March 18; see original note for pricing dates)

Precision Instruments Industry (Vol. 88): Update on January-March Trends (2)

- **Second day of company calls:** We summarize below our findings from our second day of calls, to nine companies.
- **Companies whose results are likely to be in line:** This group consists of Nikon, Tokyo Seimitsu, Disco, Advantest, Yokogawa Electric, Dainippon Screen Mfg., Tokyo Electron, and Olympus. We think inspection/acceptance may be postponed for two or three of Nikon's immersion steppers, but even so, profits are unlikely to be hurt much. Yokogawa Electric's overseas automation and control system orders have been somewhat weak and may be weak in FY2009 also.

Company update

US Internet: Expedia, Inc. (EXPE), US\$8.16, Neutral

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Increased Competition and Pricing Wars in the US; Downgrading to Neutral

- We are downgrading Expedia to Neutral from Overweight as we believe increased competition and pricing wars will cut into prior revenue streams and limit further market share gains. As a result, we are also lowering our F'09 revenue, EBITDA, and EPS est's. We are also reducing our Price Target to \$9 from \$12.
- **We believe the recent decision to waive air booking fees will not result in significant offsetting market share gains.** Unlike when Priceline cut its booking fees and made massive market share gains, no-booking fee air tickets have become somewhat the industry norm today. In addition to air suppliers and Priceline, a recent WSJ article suggests that Travelocity might also follow suit. Thus, based on PhocusWright data, we estimate that over 90% of the airline tickets booked online will now be offered on a no-fee basis.
- **We estimate that the removal of booking fees will result in a ~\$90M decline in revenue in F'09.** In 2Q'08, management commented that air accounted for less than 15% of revenue. Assuming that this proportion has fallen to 12% given Priceline market share gains, and that booking fees account for one-third of the revenue, we are lowering our F'09 revenue est. by \$91M. Although, this promotion has only been offered through May 31st, we think it is likely to become a permanent change and our assumptions reflect this. As mentioned above, we now find it unlikely that this program will result in market share gains to offset this decline.
- **Progress has not been seen in int'l markets.** Despite significant investment in increasing int'l hotel inventory and the acquisition of Venere, we have not seen any increase in market share in Europe. In fact, PhoCusWright data suggests Expedia's market share was roughly flat in Europe in 2007, vs. a 3 percentage point gain by Priceline. This trend

does not seem to be turning as Expedia reported only 18% Y/Y growth in European gross bookings vs. Priceline's 61% growth in int'l gross bookings.

- **Lowering our Price Target and Downgrading to Neutral.** EXPE is trading at 5.2x our F'09E EV/EBITDA vs. the peer group ave. of 7.3x. We think this valuation accurately reflects the cyclical challenges the company faces in addition to new pricing pressure in the industry. Given our lowered EBIT expectations, we are reducing the price target to \$9 from \$12. As we think other stocks in our coverage universe provide better upside potential, we are downgrading EXPE to Neutral.

US Computer Services & IT Consulting: Cardtronics, Inc (CATM), US\$1.38, Neutral

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(Extracted from note published on March 18; prices as of March 18)

Announces CEO Departure – ALERT

- This morning Cardtronics announced that Jack Antonini, the company's CEO, left the company and its board of directors effective March 17, 2009. Fred Lummis, chairman of the board, has agreed to serve as interim CEO while the board conducts a formal search for a permanent successor.
- **Surprise Announcement, But Should Not Impact Day-to-Day Operations.** The announcement was a surprise, but we do not believe the departure signals any ethical or financial issues at the company and anticipate minimal operational hiccups, as we believe Michael Clinard, president of Global Services, and Rick Updyke, president of Global Development, will remain heavily involved with the day-to-day operations of the company. We note Chris Brewster will remain CFO.
- As noted in the release, Antonini oversaw several key acquisitions, which transitioned Cardtronics from a small private company to the largest nonbank ATM operator in the world. The company's IPO took place in late 2007. We think the company could explore candidates with international/emerging market business development experience as it looks to enhance its strategy and grow the business.

US Computer Services & IT Consulting: Automatic Data Processing (ADP), US\$36.63, Overweight

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*(Extracted from note published on March 18; prices as of
March 17)*

Analyst Day Preview - Expect Mgmt to Remain Comfortable with 09 Outlook & Durability of Model

- ADP will host its annual analyst conference on March 25 in NYC (PAYX reports F3Q09 results that night after the close). We remain Overweight ADP shares going into the event. We expect the tone to be reasonably upbeat considering the tough macro backdrop, and anticipate management will emphasize the durability of ADP's business. While we don't expect that the macro headwinds have moderated, we do expect management to remain confident in ADP's business model and the outlook for producing above-market results.
- **Expect management confidence and maintained guidance.** We are comfortable recommending that investors own the stock into the Analyst Conference as (1) we believe market expectations remain low and (2) we expect no major change in tone. Specifically, we expect mgmt to maintain FY09 guidance (2-3% Rev growth and 10-14% EPS growth vs. cons of 2.2% Rev growth and 9.6% EPS growth) as we think fiscal QTD is tracking at least in line with the plan.
- **Watching the revenue waterfall at work; should help alleviate contraction concerns.** We expect mgmt to review the revenue waterfall for Employer Services and PEO. We don't expect mgmt to give point guidance for FY10 ES revenue growth, but we do expect to get some clarity on the potential range of outcomes for some key inputs (e.g., new sales, retention, pricing) and we remain confident that FY10 ES growth should be positive (JPM at 3% for FY10). The important takeaway is that the key drivers of revenue growth are new sales (bookings) and retention. While new sales growth is expected to be down in FY09 and could be soft again in FY10, new sales are still additive to revenues. With retention, not all retention is within ADP's control – business closures will be a drag but we expect mgmt to indicate that retention appears unlikely to track worse than 100 bps.
- **Deep dive into float management.** Last year, ADP took investors through a detailed review of its float

investment strategy which, in part, involves using CP borrowing to offset some of ADP's short-term investment exposure to falling interest rates. We expect another review of the strategy with an emphasis on conservatism and prudence. We believe ~20% of the L-T portion of the portfolio is up for reinvestment annually. Assuming funds are reinvested in agency paper at about 2.5%, we estimate that net float-related income will contribute about \$0.03 less to EPS in FY10 than in FY09. We forecast a 3.8% interest rate on float for FY10.

US Software: Oracle Corp. (ORCL), US\$15.83, Overweight

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All Boxes Checked

Oracle reported impressive results in the face of the obvious (a deteriorating macro backdrop and increasingly negative currency effects since guidance was given) and the expected (resulting demand softness in both its applications and infrastructure software businesses).

- **All boxes checked.** ORCL did everything it needed to and more in regards to what we believe most were looking for: 1) license was better than most expected, 2) maintenance grew nicely, both year-over-year and sequentially, and 3) the bottom line was solid. Strong cash flow was up 17%.
- **Strong Feb-Q.** Non-GAAP EPS was \$0.35 (with \$0.01 from a one-time tax benefit) on license of \$1.52B (-6%, +3% cc) and total revenue of \$5.45B (+2%, +11% cc), versus consensus of \$0.32, about \$1.45B, and \$5.46B. The results are probably even better than appears, since we believe most investors expected results below the official estimates.
- **Prudent (and conservative) guidance.** We believe that guidance assumes close rates at the low end of the range experienced for the F4Qs over the last ten years. Even with this assumption, guidance was probably better than what the collective investor base was looking for. We're reducing our estimates to come in line with guidance.
- **In a time of dividend cuts, ORCL announces a new dividend** that reflects its confidence in the sustainability of its free cash flow. We view this as a very strong statement, in stark contrast to the announced dividend cuts by what have historically been stalwart institutions. We do not believe that this

will restrict Oracle's ability to continue its strategic acquisition strategy at appropriate prices.

- **Derivative effects.** While we do NOT view ORCL as a good gauge on the software sector, we do believe the stocks in the space will benefit for at least the short term from ORCL's results, given its position as the second largest pure software company in the world.
- **Reiterate Overweight and \$23 price target based on our DCF.**

South Korea Consumer Electronics: LG Electronics (066570.KS), W88,800, Underweight

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Better 1Q09 outlook should lead to short-term share price rebound; handset margins to contract in 2Q09

- **Mid-term update:** We expect LGE's 1Q09 earnings to be in line with revised-up consensus estimates, largely driven by a favorable FX rate and lower costs. Similar to Samsung Electronics, the upside surprise should be driven by its handset margin. However, we believe that the expected improvement in its handset margin will not be sustainable given potential Won weakness, normalized marketing costs, and increasing competition. Of note, LGE's share price is highly correlated to its handset OP margin (Figure 2).
- **We expect profitless growth in flat panel TV segment:** LGE's LCD TV market share in the US increased to 9% in Feb-09 from 6% in Feb-08. Despite the meaningful market share gain, its earnings contribution will likely remain low due to severe price competition in the FP TV market. Due to the ongoing losses in the PDP module business, we expect LGE's display division to report a loss throughout 2009.
- **Apple could become a serious competitor for LGE's high-end handsets:** Apple launched its new iPhone OS 3.0 with 100 new features for consumers. Due to the relatively high price points, the iPhone's impact on Korean handset makers has not been significant so far. Given 800 million downloads of iPhone apps and potential price cuts from lower component costs, however, Apple could become a serious competitor in the high-end handset market. High-end handsets account for 50%+ of LGE's total OP.

- **We expect the stock to remain resilient only in the short term:** Due to the better-than-expected 1Q09 earnings outlook and a series of earnings estimate and PT increases by the Street, the stock should be resilient in the near term. However, given the lack of earnings momentum (Y/Y decline), potential Won appreciation, and demanding valuations, we recommend that investors sell into strength. In line with our earnings estimate changes, we raise our P/BV-based, Dec-09 PT to W74,000 (1.5x 12-month forward book) and maintain our UW rating on the stock.

Japan Industrial Electronics: Toshiba (6502), ¥258, Neutral

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(Extracted from note published on March 19; prices as of March 18)

Company Names New CEO

- **Vice President Norio Sasaki tapped as new CEO:** Toshiba announced on March 18 that Vice President Norio Sasaki will become the company's next CEO. Sasaki will be appointed officially by the board of directors following the company's general shareholders' meeting in June. Current CEO Atsutoshi Nishida will become chairman of the board. Sasaki spearheaded Toshiba's acquisition of Westinghouse in 2006 and currently heads up the social infrastructure business group.
- **We view the move positively:** We view this as a positive development, mainly for the following reasons: (1) we think the promotion of Sasaki, who has been in charge of Toshiba's nuclear power business for many years, will help accelerate the growth pace of the core nuclear power business; (2) Sasaki is only 59 years of age, 10 years younger than Hitachi's new CEO; (3) current CEO Atsutoshi Nishida, who has promoted a strategy of business selection and concentration at Toshiba, will continue to be involved in management as chairman of the board of directors; and (4) if Toshiba were to request an injection of public funds from the government, its position would probably be strengthened by the fact that its new CEO has an extensive background in the nuclear power business.
- **We reaffirm Neutral rating:** We maintain our view that concerns about equity financing risk and the possibility of a slow earnings recovery will continue to counterbalance optimism about Toshiba's restructuring of its semiconductor business and

growth potential in the SSD and nuclear power businesses. Our December 2009 price target remains ¥250. This corresponds to a P/B of 1.7x on our FY2009 BPS forecast, reflecting a 0.7-point premium over the sector average. This premium accounts for the longer-term growth potential of the nuclear power and NAND flash memory businesses. Risks that could keep the stock from falling to our price target include sharp recoveries in NAND flash memory prices and the system LSI market.

Japan Precision Instruments: FUJIFILM Holdings (4901), ¥2,055, Overweight

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(Extracted from note published on March 19; prices as of March 18)

Upgrade to Overweight: Risk of Severe Damage to Net Assets Has Abated

- **January-March conditions**

On the whole, conditions appear to be in line with our outlook. While trends for individual products show signs of strength and weakness, the marked recovery in electronic materials for LCD panels is particularly encouraging. The company has scaled back production in the quarter to reduce inventories, but rising operating rates at panel makers may have hastened those adjustments more quickly than the company expected.

- **Structural reform gives insight to level of net asset damage**

Our previous Underweight rating on Fujifilm was based on (1) a perceived significant downside risk to electronic materials, and (2) concerns about damage to net assets from asset impairments in imaging-related businesses. In light of current conditions, we think the first issue is now being resolved. We also have a good reading on the level of net assets after impairment write-offs, which had been unclear until recently. Fujifilm had net assets of ¥1,798.6 billion as of end- 3Q and we determined that, even if we factor in our FY2009 operating loss forecast of ¥150 billion, net assets will reach a bottom of around ¥1,603 billion. This is because even if more than half of the roughly ¥90 billion in fixed assets in imaging-related businesses (mainly color paper) is written off, we expect net assets to fall within the range we forecast.

- **Raising our price target to ¥2,800 (from ¥1,600)**

We raise our price target from ¥1,600 to ¥2,800, which corresponds to a P/B of 0.85x on our FY2009 BPS forecast. This is a 0.15-point discount to the

sector average P/B of 1.0x because we project an operating loss for FY2009.

- **Upgrading our rating to Overweight from Underweight**

We raise our rating to Overweight from Underweight because our price target implies upside potential of 36% from the current level. The risk of not knowing the extent to which net asset value will ultimately be impaired that was behind our Underweight rating should be cleared up upon the scheduled release of FY2008 results on April 30, after which we expect the stock's valuation (P/B) to recover as the risks that caused the stock to trade at a discount are resolved. We extend our price target timeframe out to one year, from September 2009 to March 2010. Risks to our price target include a rapid rise in the value of the yen and a further marked slowdown in the economy.

Japan Precision Instruments: Casio Computer (6952), ¥740, Neutral

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(Extracted from note published on March 19; prices as of March 18)

Guidance Lowered to Reflect Declining Digital Camera Pricing and Impairment Losses

- **Guidance lowered:** Casio Computer lowered guidance on March 18. It now expects to post a net loss of ¥23.0 billion in FY2008 as a result of declining digital camera prices and recognition of impairment losses. We think this comes as a negative surprise in the short term. New guidance cuts projected sales from ¥540.0 billion to ¥520.0 billion, operating profit from ¥14.0 billion to ¥4.0 billion, recurring profit from ¥8.0 billion to a loss of ¥2.0 billion, and net profit from ¥1.5 billion to a loss of ¥23.0 billion.

- **We expect spending on structural improvements now to lower the breakeven point in FY2009:**

Casio is looking to lower its breakeven point from FY2009 onwards by recognizing in FY2008 impairment losses on fixed assets & asset write-offs of about ¥10 billion, as well as non-recurring depreciation of about ¥10 billion on the mobile phone business. We look for earnings to improve again once the benefits of new models of digital cameras and mobile phones start to come through.

- **Maintain Neutral rating, ¥600 price target:** We will review our estimates after checking details with the company. We continue to base our March 2010 price target on a P/B multiple of 0.8x on our FY2009 BPS forecast, awarding a 0.1pt premium to the

consumer electronics sector average of 0.7x in recognition of the potential of new digital camera models. Upside risks to our price target include a recovery in the mobile phone and digital camera markets and inventory adjustment trends.

Japan Precision Instruments: HOYA (7741), ¥1,999, Overweight

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(Extracted from note published on March 19; prices as of March 18)

Suspension of Talks with Showa Denko to Merge Hard Disk Media-Related Businesses Should Have Neutral Impact

- **Reason talks with Showa Denko to merge hard disk media-related businesses were suspended:** After reaching a basic agreement in September last year, the two companies have decided that the sudden deterioration in economic conditions and increasingly bleak outlook for the sector made it difficult to establish a joint venture as originally planned. We think Hoya came to the conclusion that the merger benefits it had initially anticipated would not materialize. With the downturn in the macroeconomy eroding demand for HDDs and Showa Denko announcing a merger with Fujitsu, the scenario that Hoya had originally drawn up was ever-changing, and we think this also influenced its decision.
- **No impact on earnings:** Hoya said the decision to abort the merger would not affect its earnings outlook for FY2008, as it had not factored the impact into its estimates.
- **Reiterating Overweight rating and ¥2,600 price target:** Our price target corresponds to a P/E of 35.6x on our FY2009 EPS forecast. This represents a 3.3-point premium to the 32.3x P/E average (on our FY2009 forecasts) for the nine precision instruments companies we cover. This premium reflects three key factors: (1) we expect Hoya to post an operating profit in FY2009 thanks in part to recent improvements to its earnings structure; (2) we expect FY2009 operating profit to decline by just 32.2%, far less than the 92.7% average decline we forecast for the sector; and (3) the company's balance sheet is healthy, with ¥31.1 billion in net cash at end-3Q. Additionally, we expect the company to boost its share of the endoscope market. The time horizon for our price target remains January 2010. Risks to our price target include a further slowdown in the economy and yen appreciation.

Japan Precision Instruments: DAINIPPON SCREEN MFG. (7735), ¥161, Overweight

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(Extracted from note published on March 19; prices as of March 18)

Upgrade to Overweight: Light at the End of the Tunnel

- **Funding problems resolved:** DNS completed ¥15.0 billion in short and long-term financing on February 9 in line with its 3Q results announcement and another ¥10.5 billion so far in 4Q. It will also establish a ¥30 billion line of credit in April via a syndicate loan from main bank Bank of Tokyo-Mitsubishi UFJ and major regional banks ahead of ¥15 billion in bond redemptions this September. We accordingly think it has the funds it needs to continue operations and now see very little going-concern risk.
- **Restructuring plan could enhance profitability:** DNS held a presentation on the management environment on February 27 at which it revised down FY2008 guidance (to a net loss of ¥38 billion from a net loss of ¥4 billion) and unveiled a restructuring project aimed at lifting profitability through FY2010. The plan includes ¥40 billion in cost reductions over the next two years aimed at lowering the breakeven point to ¥150 billion in sales from the current ¥225 billion.
- **Rising market share in cleaning equipment; strong in basic technologies:** DNS is the global market leader in semiconductor cleaning equipment, which we expect will become increasingly important in line with further chip miniaturization. The company will announce its 2008 market share in singlewafer cleaning equipment next month, and we think this could show a 10ppt improvement. We think DNS also has growth potential in product areas with longer-term promise. These include digital ink jet printers geared toward the printing machine market's migration to digital (the company has a long history in printing technology) and manufacturing systems for organic EL displays.
- **Price target and rating:** We lower our price target to ¥210 from ¥250 but raise our rating from Neutral to Overweight. As noted above, DNS has a solid relationship with financial institutions. Our new price target roughly equals our FY2009 BPS forecast (the sector's average P/B is 1x) and still applies through March 2010. Risks to our price target include a failure to pursue radical production reforms aimed at lifting profitability.

Telecom Services Sector update

South Korea Wireline Services/Incumbents

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(Extracted from note published on March 18; see original note for pricing dates)

Korean telecom: KCC's approval of the KT-KTF merger - ALERT

- **No surprise on the conditions granted by KCC:** The regulator approved the KT-KTF merger, on the condition that K; 1) helps improve competitors' accessibility to KT's essential network facilities such as telephone poles and ducts; 2) amends the process of VoIP number portability; and 3) opens wireless internet platform to external websites. A strict mandate to separate the essential network facilities and/or to heavily invest in WiBro was not included in the condition.

[Click here for the full report](#)

India Telecom

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(Extracted from note published on March 19; see original note for pricing dates)

Competitive intensity continues to increase – Maxis commits \$10bn for Aircel expansion, some Greenfield operators getting their act together – ALERT

- **Aircel, one of the regional operators in India, announced recently that they are expanding operations and will extend coverage to 18 circles by April 2009.** Aircel is an existing modest-sized operator with operations in 14 circles (out of a total of 22 circles) and 17 million subscribers as of Feb-09. Aircel launched Kerala and Karnataka in Feb-09 and has recently launched its services in Andhra Pradesh and Delhi.

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Company update

US Telecom Services: Level 3 Communications, Inc. (LVLT), US\$0.67, Underweight

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(Extracted from note published on March 19; prices as of March 18)

Takeaways from Management Meeting

- **Economy causing customers to defer purchasing decisions.** Management expects revenue in its Wholesale and Content groups to be impacted in 1H09 as customers continue to take longer to make purchasing decisions. Customers are opting to run their networks “hotter”, suggesting customer willingness to modestly sacrifice network quality to preserve capital. However, the company maintains that the overall demand funnel remains strong.

[Click here for the full report](#)

US Telecom Services: tw telecom inc. (TWTC), US\$8.24, Neutral

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(Extracted from note published on March 19; prices as of March 18)

Takeaways from Management Meeting

- **Economy causing delayed decision-making.** tw telecom has seen customers deciding to push back purchasing decisions in light of macro concerns. In addition, some customers are choosing to purchase less bandwidth today, despite an expectation that they will need additional capacity down the line. Management noted that it has a full pipeline of demand, but it is likely that some of that demand will not result in revenue in the near term.

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US Telecom Services: Qwest Communications (Q), US\$3.50, Neutral

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Takeaways from Management Meeting

- **Focusing on business market churn.** Management noted that the impact of the economy has not abated as the size of deals has become smaller and decisionmaking has slowed. In addition, bankruptcies, particularly among smaller customers, have increased. However, management has placed more focus on controllable churn, putting more emphasis on retention rather than just new business opportunities. Business Market churn is approximately 3-4%.

[Click here for the full report](#)

Europe Telecom Services: Virgin Media (VMED), \$4.82, Overweight

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5 catalysts for the next 3-6 months

- *We maintain our OW rating, but raise our Dec-09E TP to \$10.0 (from \$7.4), now offering 107% upside. At TP, VMED would trade on 4.7x EV/EBITDA in Dec-10E, in-line with the Telco sector average. We believe that VMED merits a sector average rating. Recent results demonstrate strong recession resilience, something likely to be sustained by pricing power and increasing product differentiation. Exaggerated concerns about credit default risk should ease, in our view, as VMED starts to refinance 2012 maturities this year.*

[Click here for the full report](#)

Europe Telecom Services, Alternative Carriers/Emerging Wireline: Versatel (VTWGn.DE), €6.11, Neutral

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Q4 results justify recent sell-off – ALERT

- *Q4 results and 2009 guidance are weak, however the company expects to generate at least €40m of free cash flow in 2009, which is in line with our current forecasts and should keep the company afloat while the market consolidates. The stock underperformed materially ahead of these disappointing results.*

[Click here for the full report](#)

China Wireless Services: China Mobile Ltd (0941.HK), HK\$66.60 (intraday), Neutral

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FY08 result first cut: slightly more negatives than positives – ALERT

- **FY08 result first cut.** China Mobile reported net profit of Rmb112.95bn up 30% y/y, 1.5% below our estimate of Rmb114.6bn. The result was in-line with the Bloomberg consensus estimate of Rmb112.7bn. The result was principally driven by a strong top-line (sub growth) and a lower corporate tax rate versus last year. If we look to normalize out the impact of lower corporate tax rate, pre-tax profit rose 16% y/y. At the financial level, the result was generally inline however there were slightly more negatives than positives at the operating level.

[Click here for the full report](#)

Malaysia Wireless Services: DiGi.Com (DSOM.KL), M\$21.00, Overweight

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(Extracted from note published on March 18; prices as of March 17)

Key takeaways from management: On a firm capital management path

- We met with Digi officials recently to discuss capital management sustainability and any tell tale signs of foreign worker repatriation impact. We came away maintaining our previous outlook. Overweight maintained.

[Click here for the full report](#)

Malaysia Wireline Services/Incumbents: Telekom Malaysia (TLMM.KL), M\$3.52, Neutral

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(Extracted from note published on March 18; prices as of March 18)

Key takeaways from management: Additional capital management buffers

- We met with TM officials recently to discuss capital management sustainability and risks and the high speed broadband (HSBB) project.

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Calendar of Events

Mar 09				
2	3	4	5	6
NORTEL NETWORKS: earnings ROXBORO GROUP: earnings	TECH DATA CORP: earnings ADC TELECOM INC: earnings	Semtech Corp: earnings	CIENA CORP: earnings US Factory Orders (January)	FOXCONN INTL HLD: earnings
9	10	11	12	13
	THOMSON (EX-TMM): earnings	Laird Group: earnings	US Retail Sales (February)	Snapshot to be published
16	17	18	19	20
	BenQ: earnings		ZTE: earnings	Snapshot to be published
23	24	25	26	27
	JABIL CIRCUIT: earnings	TCL Multimedia: earnings Advanced Semi: earnings Solomon Systech: earnings US Durable Goods (February)	Fittech Intl Group: earnings Smart Modular: earnings Synnex Corp: earnings	Snapshot to be published

Source: Bloomberg, Street Events, Companies, J.P. Morgan. Note: some of the dates can be estimates, and subject to change.

All prices are as of the previous day's close unless otherwise indicated.

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Key Statistics

Table 1: DRAM / NAND Flash prices

	Item	Price (US\$)	Change (d/d) (%)	TW: 18Mar-09	
				Change (m/m) (%)	Change (y/y) (%)
1Gb DDR2 (Taiwan)	DDR2 128x8 667Mhz	0.80	0.0		
	667Mhz Contract Price 1H Mar (DRAMeXchange)	0.88	0.00 *		
	667Mhz Contract Price 1H Mar (inSpectrum)	0.80	(1.23) #	(14.0)	(58.8)
1Gb DDR2	eTT Price (Spot)	0.84	0.0	(10.6)	(50.3)
512Mb DDR2 (Taiwan)	DDR2 64x8 667Mhz	0.40	0.00		
	667Mhz Contract Price 1H Mar (DRAMeXchange)	0.41	0.00 *		
	667Mhz Contract Price 1H Mar (inSpectrum)	0.72	(1.37) #	(16.7)	(57.0)
512Mb DDR2	eTT Price (Spot)	0.47	0.0	(16.1)	(43.4)
NAND Flash (Taiwan)	16G 2Gx8 (MLC)	3.55	0.3	6.9	(28.6)
	8G 1024Mx8 (MLC)	3.07	(0.3)	7.3	19.5
	4G 512Mx8 (MLC)	1.60	(0.6)	10.3	(15.8)

Note: * - from 1H Mar (DRAMeXchange)

- from 1H Mar (inSpectrum)

eTT Prices as of 18Mar-09

Table 2: Indices

Price Index	% chg in index			
	Last	1 day	1 mth	12 mths
MSCI World Tech HW/Equip. Index	56.4	1.2	3.2	-38.6
MSCI USA Tech HW/Equip Index	57.9	1.5	2.4	-34.1
MSCI Euro Tech HW/Equip Index	48.5	2.1	2.6	-64.6
MSCI Europe Tech HW/Equip Index	42.7	1.3	4.6	-54.1
S&P Europe 350 Tech HW/Equip Index	731.7	1.0	4.8	-54.4
S&P Global 1200 Tech HW/Equip Index	967.2	1.7	4.0	-37.8
NASDAQ	1,491.2	2.0	1.6	-34.3
S&P 500	794.4	2.1	0.8	-40.3
Philadelphia Semiconductor	228.5	3.4	10.5	-34.7

Source: Datastream, J.P. Morgan.

Table 3: Top Movers

	RIC	Price	1 day % chg
Top Gainers			
SUN MICROSYSTEMS	JAVA	8.89	78.9%
POWER - ONE	PWER	0.68	41.7%
INFINEON TECHNOLOGIES	IFXGn.DE	0.641	19.1%
QUANTUM	QTM	0.45	15.4%
MATTSON TECHNOLOGY	MTSN	0.73	12.3%
Top Losers			
CHARTERED SEMICON.ADR 1:10	CHRT	0.61	-10.3%
KEMET	KEM	0.12	-7.7%
PHILIPS ELTN.KONINKLIJKE	PHG.AS	11.83	-2.8%
HEWLETT - PACKARD	HPQ	28.99	-2.6%
SPIRENT COMMUNICATIONS	SPT.L	48.5	-2.5%

Source: Datastream.

Tech news roundup

Worldwide Sources

- 1) Touch panel makers to increase supply to China market in 2H09(Digitimes)
 - Several Taiwan-based touchscreen makers, including Young Fast Optoelectronics and Emerging Display Technologies (EDT), are expected to see their shipment volume to the China white-box handset market increase significantly in the second half of the year, according to market sources.
 - <http://www.digitimes.com/news/a20090319PD215.html>
- 2) Taiwan market: CHT to acquire 30% stake in So-net Entertainment subsidiary(Digitimes)
 - Chunghwa Telecom (CHT) on March 18 signed with So-net Entertainment Taiwan to take an about 30% stake in the subsidiary of So-net Entertainment Corporation under the Sony Group, according to CHT.
 - <http://www.digitimes.com/news/a20090319PD204.html>
- 3) Samsung and LGE reportedly placing handset rush orders(Digitimes)
 - First-tier handset vendors Samsung Electronics and LG Electronics (LGE) have been placing rush orders with Taiwan ODM handset makers and handset component suppliers, according to industry sources.
 - <http://www.digitimes.com/news/a20090319PD208.html>
- 4) Quanta to make Adamo notebook for Dell, says paper(Digitimes)
 - Quanta Computer has landed orders for Dell's new ultra-thin 13.4-inch Adamo notebook, according to a Chinese-language Apply Daily report today. Previously market sources claimed that Foxconn Electronics (Hon Hai Precision Industry) would be the maker for the Dell notebook.
 - <http://www.digitimes.com/news/a20090319PB206.html>
- 5) Taiwan market: Second-tier vendors cutting prices further for 22-inch LCD TVs(Digitimes)
 - Second-tier vendors in Taiwan such as Sampo and Teco are aggressively attempting to gain share in the local market for 22-inch LCD TVs by cutting prices down to NT\$6,999 (US\$207.09), although panel prices for the segment have started to increase, according to market sources.
 - <http://www.digitimes.com/news/a20090319PD213.html>
- 6) US lagging in solar panel production, says The Information Network(Digitimes)
 - Although global solar panel production went up 48% worldwide to 5.6 gigawatts (GW) in 2008, market research firm The Information Network laments that the US is lagging in the market. In posing the

question, "What's worse, buying solar panels from Eurasia or oil from OPEC?" the market research firm noted that less than 14% of solar panel production - 750 megawatts (MW) - was produced in the US last year.

- <http://www.digitimes.com/news/a20090319VL200.html>
- 7) Samsung starts shipping 16GB DDR3 modules for servers (Digitimes)
 - Samsung Electronics has announced that shipments of what it claims to be the world's first and smallest high-density memory modules based on 2Gb, 50nm-class DDR3 have kicked off.
 - <http://www.digitimes.com/news/a20090319PR201.html>
- 8) VIA unveils Surfboard for mini-notebooks (Digitimes)
 - VIA Technologies has announced the VIA Surfboard C855 reference design, an ultra-compact mainboard incorporating the VIA C7-M ULV processor, the new VIA VX855 unified IGP chipset, and VIA multimedia and connectivity silicon. It has been specifically designed for easy integration into devices targeted at the rapidly growing mini-notebook market.
 - <http://www.digitimes.com/news/a20090318PR208.html>

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Companies Recommended in This Report (all prices in this report as of market close on 18 March 2009, unless otherwise indicated)

Altera (ALTR/\$17.81/Neutral), Casio Computer (6952) (6952.T/¥640 [19-March-2009]/Neutral), DAINIPPON SCREEN MFG. (7735) (7735.T/¥164 [19-March-2009]/Overweight), Fairchild Semiconductor (FCS/\$3.81/Neutral), FUJIFILM Holdings (4901) (4901.T/¥2,110 [19-March-2009]/Overweight), HOYA (7741) (7741.T/¥1,923 [19-March-2009]/Overweight), Intersil Corporation (ISIL/\$12.07/Neutral), LG Electronics (066570.KS/W84,000 [19-March-2009]/Underweight), Marvell Technology Group (MRVL/\$9.46/Overweight), Maxim Integrated Products (MXIM/\$13.14/Underweight), ON Semiconductor Corporation (ONNN/\$4.60/Neutral), Samsung Electronics (005930.KS/W541,000 [19-March-2009]/Neutral), Toshiba (6502) (6502.T/¥261 [19-March-2009]/Neutral), Xilinx (XLNX/\$20.11/Neutral)

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