

**SO WHAT? THE BNP PARIBAS ANGLE**

- Stock price is down over short-term concerns; a good entry point
- Long term, MediaTek's handset business will see big upside from its significant presence in the white-brand handset.

**Net Profit 08 .... TWD28.8b**  
 ..... (From TWD40.9b)

**Diff from Consensus (16.2%)**  
 Consensus (mean) ..... TWD34.4b  
 Consensus (momentum) ..... ↓

**Target Price ... TWD586.00**  
 ..... (From TWD660.00)

**Diff from Consensus..(2.5%)**  
 Consensus (median) . TWD601.12  
 Consensus (momentum)..... ↓

**Current Price.. TWD410.00**  
 Upside/(Downside)..... 42.9%

**BUY**  
 (Unchanged)

**Recs in the Market**

 Positive..... **14**  
 Neutral..... **5**  
 Negative..... **2**  
 Consensus (momentum) ..... ↓

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

**Lower TP to TWD586. We forecast 1Q08 revenue will decline 12% q-q (after factoring in ADI handset division revenue). We believe integrators and retailers' inventory in China will be absorbed in January. New products from MediaTek will boost the global white-brand (grey) handset market. Maintain BUY.**

## Supply chain will recover soon

### BUY; fair value estimate is TWD586

We have lowered our target price to TWD586, (21x 2008 US GAAP earnings, from 23x 2008 US GAAP earnings) to reflect the correction in the valuation of global IC design houses. We rate MediaTek as a long-term investment, as we believe its valuation is attractive and the global white-brand handset will continue to grow fast in 2008. We suggest investors accumulate MediaTek in 1Q08 on weakness during the slow season. Maintain BUY.

### Supply chain messed up in 4Q07

We are disappointed at 4Q07 China grey (white-brand) handset market supply chain, which was disturbed by an earlier component shortage (PA, LCD, speakers shortage) and inventory built-up (overbooking in 3Q07). We estimate that white-brand handset shipments in 4Q07 were down by 30-40% q-q in China (vs Nokia's 25% q-q down on its 4Q07 handset shipments in China).

### Inventory likely to be absorbed

After channel checks, we believe the inventory has built up among integrators and retailers side (Exhibit 1), due to earlier overbooking and slower-than-expected 4Q07 demand. However, China handset IC players believe that the inventory is likely to be absorbed in January Chinese new year demand; PA shortage has not been an issue since early December.

### 12% q-q reduction expected for 1Q08 revenue

MediaTek's handset IC shipments will decline around 15% q-q in 1Q08, as the industry is digesting inventory. We forecast MediaTek's 1Q08 revenue will decline 12% q-q (after factoring in ADI handset division revenue), which is lower than consensus of 5-10% q-q down.

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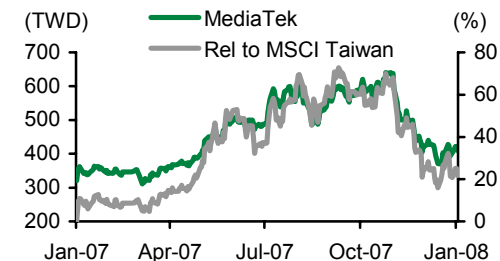
(Full BNP Paribas technology research team list inside)

### Earnings Estimates And Valuation Ratios

YE Dec (TWD m)	2007E	2008E	2009E	2010E
Revenue	80,016	103,119	120,352	150,440
Reported net profit	35,546	28,755	31,134	37,077
Recurring net profit	35,546	28,755	31,134	37,077
Previous rec net profit	37,199	40,913	45,601	53,500
Chg from previous (%)	(4.4)	(29.7)	(31.7)	(30.7)
Recurring EPS (TWD)	34.51	27.92	30.23	36.00
Prev rec EPS (TWD)	36.12	39.72	44.27	51.94
Rec EPS growth (%)	47.1	(19.1)	8.3	19.1
Recurring P/E (x)	11.9	14.7	13.6	11.4
Dividend yield (%)	3.7	5.1	4.1	4.4
EV/EBITDA (x)	10.0	12.7	11.5	9.7
Price/book (x)	5.3	4.6	4.2	3.8
ROE (%)	48.1	33.3	32.3	35.0
Net debt/equity (%)	(54.1)	(54.1)	(49.4)	(44.6)

Sources: MediaTek; BNP Paribas estimates

### Share Price Daily vs MSCI



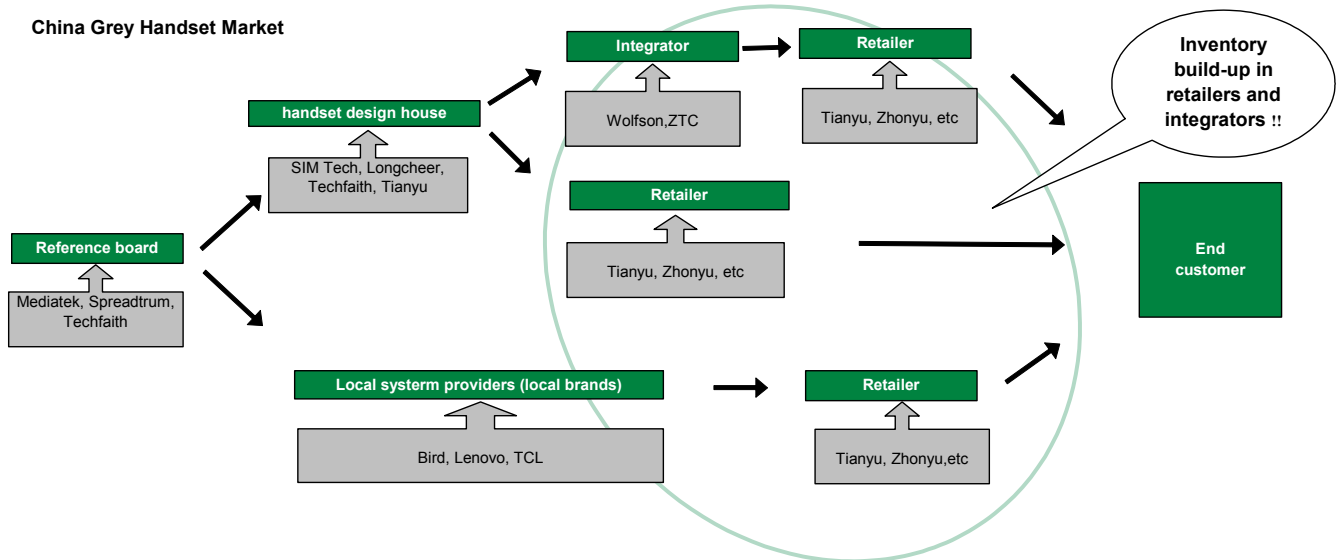
Next results/event	April 2008
Market cap (USD m)	13,371
12m avg daily turnover (USD m)	120.1
Free float (%)	92
Major shareholder	Tsai Ming Che (4%)
12m high/low (TWD)	640.00/310.95
ADR (USD)	Nil
Avg daily turnover (USD m)	Nil
Discount/premium (%)	Nil
Disc/premium vs 52-wk avg (%)	Nil

Source: Datastream

## 2008 global white-brand handset shipments continue to grow fast

In 2008, MediaTek is scheduled to release its GPS handset IC solution, blue-tooth, and mobile TV for the global white-brand handset market (MediaTek will release a single chip (baseband embedded with RF IC) solution for the global ULC chip market). We believe the next trend for grey handset IC market is GPS in 2008, pushed by MediaTek, after its popular touch-panel solution in 2007 (MediaTek is at least 9-months ahead of its peers). We forecast global grey handset shipments will reach 180m units in 2008, up from 120m units in 2007, and 70m units in 2006 (MediaTek at 210m units in 2008, up from 150m in 2007 and 66m units in 2006). We believe the global white-brand (grey) handset market is still growing fast.

### Exhibit 1: Food Chain- China Grey (White-Brand) Handset Market



Sources: BNP Paribas

### Exhibit 2: Valuation Comparison Table – TW IC Design Houses

Companies	Share price* (TWD)	EPS			P/E		
		2007E (TWD)	2008E (TWD)	2009E (TWD)	2007E (x)	2008E (x)	2009E (x)
MediaTek	410.00	34.5	27.9	30.2	11.9	14.7	13.6
Sunplus	48.40	4.5	3.6	3.9	10.7	13.5	12.6
Realtek	114.50	8.4	7.1	7.5	13.6	16.2	15.3
Novatek	121.00	14.2	12.0	13.1	8.5	10.1	9.3
Faraday	72.80	4.0	4.5	4.8	18.0	16.2	15.2
GUC	216.00	4.9	8.8	16.2	43.8	24.5	13.4
Sonix	76.10	5.5	5.5	5.8	13.7	13.9	13.0
Holtek	48.00	4.2	4.2	4.6	11.4	11.5	10.5
Phison	225.00	13.1	18.1	20.0	17.2	12.4	11.3
ALi	64.00	2.9	3.8	4.8	22.3	16.8	13.3
<b>Average</b>					<b>14.1</b>	<b>15.0</b>	<b>12.7</b>

Earning estimate accounted for employee bonus expense for 2008 going forward. Excluded GUC in the calculation of 2007 US GAAP P/E.

\* Share prices are as at 2 January 2008

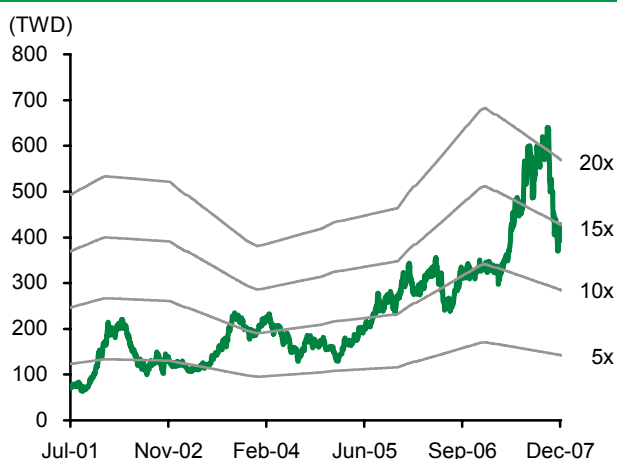
Sources: IBES; BNP Paribas estimates

## Exhibit 3: Valuation Comparison Table – Global Fabless Companies

Company	Ticker	Revenue	Share	SPS	P/S	EPS		P/E		Market cap
		2006 (USD m)	price (USD)	2006 (USD)	2006 (x)	2008E (USD)	2009E (USD)	2008E (x)	2009E (x)	
Qualcom	QCOM	8,871	39.35	5.4	7.3	2.1	2.3	18.6	16.8	64.4
Broadcom	BRCM	3,668	26.14	7.8	3.4	1.2	1.4	22.6	19.1	14.1
SanDisk Corp	SNDK	3,258	33.17	14.2	2.3	1.7	2.5	19.9	13.2	7.6
Nvidia Corp	NVDA	3,069	34.02	5.5	6.2	1.5	1.7	22.3	19.6	18.9
LSI Logic	LSI	1,982	5.31	2.8	1.9	0.2	0.4	24.4	14.2	3.7
Xilinx Inc	XLNX	1,843	21.87	6.3	3.5	1.3	1.5	17.5	14.7	6.4
Marvell Technology	MRVL	2,238	13.98	3.8	3.7	0.3	0.7	40.1	20.7	8.3
<b>MediaTeK</b>	<b>2454 TT</b>	<b>1,604</b>	<b>12.40</b>	<b>1.5</b>	<b>8.1</b>	<b>0.8</b>	<b>0.9</b>	<b>14.7</b>	<b>13.6</b>	<b>13.3</b>
Altera	ALTR	1,286	19.32	3.8	5.0	0.9	1.1	22.1	18.2	6.5
Spreadtrum	SPRD	107	12.26	2.6	4.7	0.4	0.7	27.8	18.5	0.5
<b>Average</b>								<b>21.1</b>	<b>16.9</b>	

Share price as of 31 December 2007. We excluded Marvell in the calculation of average 2007 P/E  
Sources: Bloomberg; BNP Paribas estimates

## Exhibit 4: P/E Band Chart



Source: BNP Paribas estimates

## Exhibit 5: P/BV Band Chart



Source: BNP Paribas estimates

## FINANCIAL STATEMENTS

## MediaTek

Profit and Loss (TWD m)					
Year Ending December	2006A	2007E	2008E	2009E	2010E
Revenue	52,942	80,016	103,119	120,352	150,440
Cost of sales ex depreciation	(21,934)	(34,556)	(46,933)	(54,376)	(69,471)
<b>Gross profit ex depreciation</b>	<b>31,008</b>	<b>45,460</b>	<b>56,186</b>	<b>65,977</b>	<b>80,969</b>
Other operating income	-	-	-	-	-
Operating costs	(6,839)	(11,174)	(28,292)	(35,163)	(43,935)
<b>Operating EBITDA</b>	<b>24,169</b>	<b>34,286</b>	<b>27,894</b>	<b>30,814</b>	<b>37,034</b>
Depreciation	(354)	(401)	(415)	(612)	(514)
Goodwill amortisation	-	-	-	-	-
<b>Operating EBIT</b>	<b>23,815</b>	<b>33,884</b>	<b>27,478</b>	<b>30,201</b>	<b>36,520</b>
Net financing costs	695	500	620	530	601
Associates	-	-	1	2	3
Recurring non operating income	(167)	2,681	1,699	1,698	1,498
Non recurring items	-	-	-	-	-
<b>Profit before tax</b>	<b>24,343</b>	<b>37,065</b>	<b>29,798</b>	<b>32,431</b>	<b>38,622</b>
Tax	(1,794)	(1,520)	(1,043)	(1,297)	(1,545)
<b>Profit after tax</b>	<b>22,549</b>	<b>35,546</b>	<b>28,755</b>	<b>31,134</b>	<b>37,077</b>
Minority interests	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
<b>Reported net profit</b>	<b>22,549</b>	<b>35,546</b>	<b>28,755</b>	<b>31,134</b>	<b>37,077</b>
Non recurring items & goodwill (net)	-	-	-	-	-
<b>Recurring net profit</b>	<b>22,549</b>	<b>35,546</b>	<b>28,755</b>	<b>31,134</b>	<b>37,077</b>
<b>Per share (TWD)</b>					
Recurring EPS *	23.46	34.51	27.92	30.23	36.00
Reported EPS	23.46	34.51	27.92	30.23	36.00
DPS	10.82	15.00	20.71	16.75	18.14
<b>Growth</b>					
Revenue (%)	13.9	51.1	28.9	16.7	25.0
Operating EBITDA (%)	38.6	41.9	(18.6)	10.5	20.2
Operating EBIT (%)	38.0	42.3	(18.9)	9.9	20.9
Recurring EPS (%)	10.1	47.1	(19.1)	8.3	19.1
Reported EPS (%)	10.1	47.1	(19.1)	8.3	19.1
<b>Operating performance</b>					
Gross margin inc depreciation (%)	57.9	56.3	54.1	54.3	53.5
Operating EBITDA margin (%)	45.7	42.8	27.1	25.6	24.6
Operating EBIT margin (%)	45.0	42.3	26.6	25.1	24.3
Net margin (%)	42.6	44.4	27.9	25.9	24.6
Effective tax rate (%)	7.4	4.1	3.5	4.0	4.0
Dividend payout on recurring profit (%)	46.1	43.5	74.2	55.4	50.4
Interest cover (x)	na	na	na	na	na
Inventory days	56.0	48.8	50.0	51.7	49.4
Debtor days	27.2	23.7	26.2	26.7	26.0
Creditor days	76.9	57.1	57.5	59.2	56.2
Operating ROIC (%)	453.3	343.1	173.8	135.9	121.1
Operating ROIC - WACC (%)	445.1	334.9	165.6	127.7	113.0
ROIC (%)	83.7	101.2	66.8	61.0	60.9
ROIC - WACC (%)	75.5	93.0	58.6	52.8	52.7
ROE (%)	37.5	48.1	33.3	32.3	35.0
ROA (%)	31.4	41.6	28.2	27.4	29.6

We have factored-in 25% of net income as employee bonus expense

Margins dragged down by expenses related to the acquisition of ADI

\* Pre exceptional, pre-goodwill and fully diluted

Sources: MediaTek; BNP Paribas estimates

<b>Cash Flow (TWD m)</b>					
<b>Year Ending December</b>	<b>2006A</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Recurring net profit	22,549	35,546	28,755	31,134	37,077
Depreciation	354	401	415	612	514
Associates & minorities	(55)	(1,700)	(1,600)	(1,500)	(1,501)
Other non-cash items	1,119	(981)	(99)	(198)	3
<b>Recurring cash flow</b>	<b>23,967</b>	<b>33,266</b>	<b>27,472</b>	<b>30,049</b>	<b>36,093</b>
Change in working capital	(756)	(1,766)	(669)	(2,685)	(4,039)
Capex - maintenance	-	-	-	-	-
Capex - new investment	(1,986)	(2,505)	(4,218)	(5,629)	(7,161)
<b>Free cash flow to equity</b>	<b>21,225</b>	<b>28,995</b>	<b>22,585</b>	<b>21,734</b>	<b>24,894</b>
Net acquisitions & disposals	-	(14,828)	-	-	-
Dividends paid	(10,454)	(15,450)	(21,327)	(17,253)	(18,680)
Non recurring cash flows	(5,499)	8,026	5,396	(4,972)	(5,967)
<b>Net cash flow</b>	<b>5,272</b>	<b>6,744</b>	<b>6,654</b>	<b>(491)</b>	<b>247</b>
Equity finance	0	0	0	-	-
Debt finance	(48)	-	-	-	-
<b>Movement in cash</b>	<b>5,224</b>	<b>6,744</b>	<b>6,654</b>	<b>(491)</b>	<b>247</b>

**Per share (TWD)**

Recurring cash flow per share	24.94	32.30	26.67	29.17	35.04
FCF to equity per share	22.09	28.15	21.93	21.10	24.17

**Balance Sheet (TWD m)**

<b>Year Ending December</b>	<b>2006A</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Working capital assets	10,842	15,939	19,218	21,712	26,764
Working capital liabilities	(9,080)	(10,354)	(11,485)	(12,421)	(15,053)
<b>Net working capital</b>	<b>1,762</b>	<b>5,585</b>	<b>7,733</b>	<b>9,290</b>	<b>11,710</b>
Tangible fixed assets	4,815	6,781	10,417	15,236	21,644
<b>Operating invested capital</b>	<b>6,577</b>	<b>12,366</b>	<b>18,151</b>	<b>24,526</b>	<b>33,355</b>
Goodwill	-	-	-	-	-
Other intangible assets	2,081	2,605	3,260	4,080	5,107
Investments	22,274	23,388	24,557	25,785	27,074
Other assets	-	-	5	-	-
<b>Invested capital</b>	<b>30,932</b>	<b>38,358</b>	<b>45,973</b>	<b>54,391</b>	<b>65,536</b>
Cash & equivalents	(36,655)	(43,391)	(50,045)	(49,554)	(49,800)
Short term debt	-	-	-	-	-
Long term debt *	-	-	6	-	-
<b>Net debt</b>	<b>(36,655)</b>	<b>(43,391)</b>	<b>(50,039)</b>	<b>(49,554)</b>	<b>(49,800)</b>
Deferred tax	-	-	-	-	-
Other liabilities	61	1,580	3,560	3,560	3,560
Total equity	67,526	80,169	92,452	100,385	111,776
Minority interests	-	-	-	-	-
<b>Invested capital</b>	<b>30,932</b>	<b>38,358</b>	<b>45,973</b>	<b>54,391</b>	<b>65,536</b>

\* Includes convertibles and preferred stock which is being treated as debt

**Per share (TWD)**

Book value per share	69.74	77.83	89.76	97.46	108.52
Tangible book value per share	67.59	75.31	86.59	93.50	103.56

**Financial strength**

Net debt/equity (%)	(54.3)	(54.1)	(54.1)	(49.4)	(44.6)
Net debt/total assets (%)	(47.8)	(47.1)	(46.5)	(42.6)	(38.2)
Current ratio (x)	5.2	5.7	6.0	5.7	5.1
CF interest cover (x)	na	na	na	na	na

<b>Valuation</b>	<b>2006A</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Recurring P/E (x) *	17.5	11.9	14.7	13.6	11.4
Recurring P/E @ target price (x) *	25.0	17.0	21.0	19.4	16.3
Reported P/E (x)	17.5	11.9	14.7	13.6	11.4
Dividend yield (%)	2.6	3.7	5.1	4.1	4.4
P/CF (x)	16.4	12.7	15.4	14.1	11.7
P/FCF (x)	18.6	14.6	18.7	19.4	17.0
Price/book (x)	5.9	5.3	4.6	4.2	3.8
Price/tangible book (x)	6.1	5.4	4.7	4.4	4.0
EV/EBITDA (x) **	14.2	10.0	12.7	11.5	9.7
EV/EBITDA @ target price (x) **	21.0	14.8	18.8	17.0	14.4
EV/invested capital (x)	11.6	9.9	8.1	6.9	5.7

\* Pre exceptional, pre-goodwill and fully diluted

\*\* EBITDA includes associate income and recurring non-operating income

Sources: MediaTek; BNP Paribas estimates

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**Recommendation structure**

All share prices are as at market close on 2 January 2008 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as  $(\text{target price}^* - \text{current price}) / \text{current price}$ . If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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