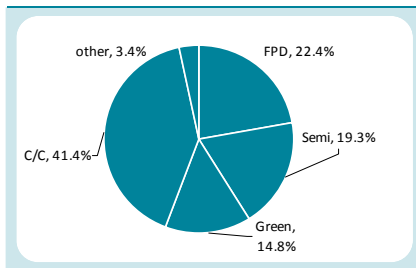


Fubon Research

March 28, 2014

Add

Price	Target
NT\$59.10	NT\$72.00
<ul style="list-style-type: none"> ○ Visit notes ○ Company update ○ Earnings preview 	<ul style="list-style-type: none"> ● Initiating coverage ○ Earnings revision ○ Rating change
Share outs. (m)	231.0
Market cap (NT\$m)	13,510.0
Market cap (US\$m)	441
FINI Holding (%)	18.35
Local IM Holding (%)	0.06
Directors Holding (%)	12.76
52-week high (NT\$)	58.40
52-week low (NT\$)	39.35

FY14F sales mix forecast


Source: Fubon Research

Financial summary		Year-end: Dec 31		
NT\$m	FY13F	FY14F	FY15F	
Net sales	34,398	38,457	41,122	
Op. Profit	997	1,341	1,572	
EBITDA	1,701	1,934	1,955	
Net Profit	1,159	1,282	1,500	
EPS (NT\$)	5.00	5.54	6.48	
BVPS (NT\$)	39.93	41.43	44.05	
DPS (NT\$)	3.00	3.32	3.89	
PER (x)	11.7	10.5	9.0	
PBR (x)	1.5	1.4	1.3	
EV/EBITDA (x)	9.8	8.4	8.1	
Div. yield (%)	5.1	5.7	6.7	
ROE (%)	13.0	13.6	15.2	
ROCE (%)	15.2	16.6	18.1	

Source: Fubon Research

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Wah Lee (3010 TT)
Market share gains in all product lines

Initiate with Add: We initiate coverage on Wah Lee Industrial Corp. (Wah Lee) with an Add rating and TP of NT\$72, based on 12x average FY14F EPS of NT\$5.54 and FY15F EPS of NT\$6.48. Wah Lee's historical PE range is 5.0-12.5x. We believe the company will have strong growth potentials in its green energy, semi and FPD businesses due to the market share gain story from Taiwan's foundry players, as well as Chinese panel makers and solar battery makers. We believe Wah Lee's growth potential lies in copper slurry, photo resister, time controller IC, solar wafer, and aluminum paste businesses. We project that these drivers will contribute to 11.8% revenue growth YoY to Wah Lee in FY14 and 6.9% growth YoY in FY15.

Market share gain in large panel time controller ICs: Kawasaki is the world's leading panel time controller IC provider in the high performance segment of the large panel industry. Wah Lee is the sole agent of Kawasaki's time controller ICs and has broken into the supply chain of Chinese larger panel makers in FY14. Its FPD business grew 28% YoY to NT\$7.6bn in FY13, and we estimate a further 10~15% YoY growth this year.

Photo resister, slurry materials penetrate supply chain of Taiwan's high-end foundries: We believe that FY14 will be a growth year for Wah Lee as JSR's photo resist and copper slurry passed the qualification of Taiwan's advanced foundries, a development that will help JSR regain the copper slurry and PR market share in 1H14. Its semiconductor business grew 15% YoY to NT\$6bn in FY13, and we estimate new copper slurry and photo resist products to drive another 20% YoY growth in sales this year.

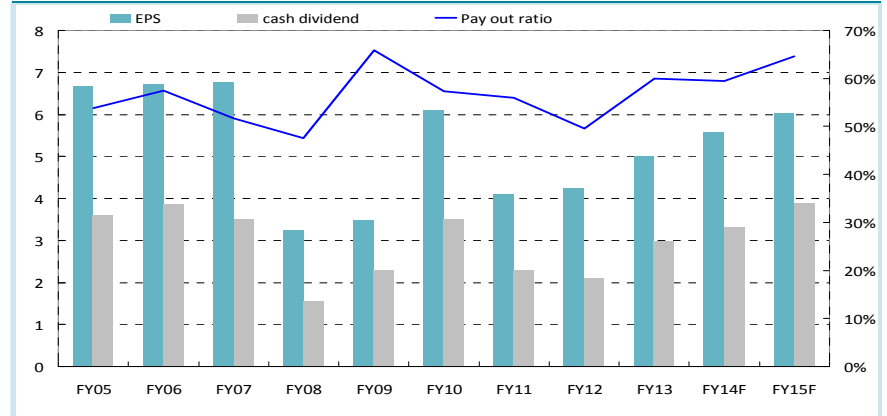
Green energy (solar and LED) business: Solar and LED sales climbed 9% YoY to NT\$4.5bn in FY13, and we project a more robust growth of 24% YoY this year. We estimate the green energy business to account for 14.8% of total revenue in FY14, up from 13.1% in FY13, growing to NT\$5.6bn. Meanwhile, its solar products, including wafer (GCL-Poly energy), aluminum paste (Giga solar materials), solar battery module, and LED lead frame materials, have a sales weight of 70%.

Stable, high dividends paid in past five years: Wah Lee has paid out cash dividends steadily at >55% of EPS over the past five years. In FY13, Wah Lee posted EPS of NT\$5.01 and distributed 60% or NT\$3 cash dividend. According to our FY14 EPS forecast of NT\$5.54 and 60% payout ratio, the current yield is over 5.7%. Given to Wah Lee's long-term growth and stable dividends, we recommend that investors overweigh this stock.

Valuation

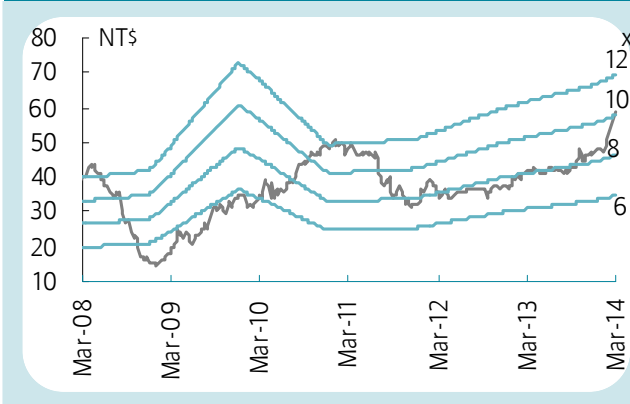
We initiate coverage on Wah Lee with Add and TP of NT\$72, based on 12x average FY14F EPS of NT\$5.54 and FY15F EPS of NT\$6.48. Wah Lee's historical PE range is 5.0-12.5x. Considering its growth potential in FY14 and FY15, we believe that the company should be reasonably traded between 11~13x PE due to the consistent growth in FPD, semi and Green energy businesses, leading to better cost structure and ROE.

Figure 1: Wah Lee's payout ratio, EPS trend



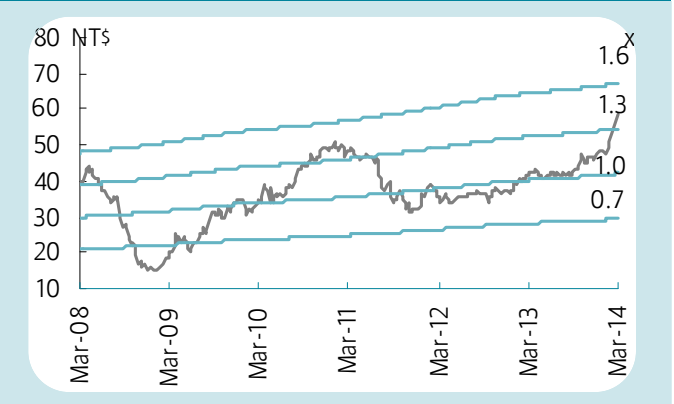
Source: Fubon Research

Figure 2: PE chart



Source: Fubon Research

Figure 3: PB chart



Source: Fubon Research

Figure 4: Taiwan's upstream tech valuation table

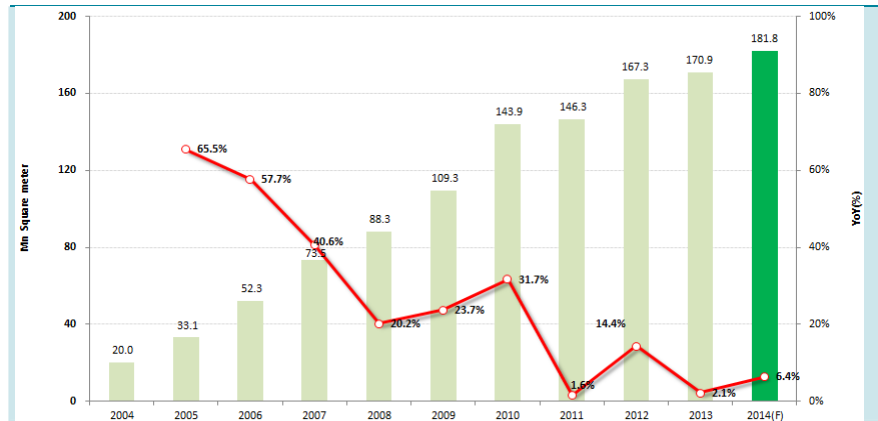
Company	Ticker	MktCap (US\$m)	Fubon Rating	Price (NT\$)	TP (NT\$)	EPS (NT\$)		PE (x)		PB (x)		ROE		Yield	
						FY14F	FY15F	FY14F	FY15F	FY14F	FY15F	FY14F	FY15F	FY14F	FY15F
Wah Lee	3010 TT	448	Add	59.1	72	5.54	6.48	10.5	9.0	1.4	1.3	13.6%	15.2%	5.7%	6.7%
Topco	5434 TT	299	Add	59.3	56	6.17	5.8	7.9	10.2	1.2	1.7	20.6%	18%	7.3%	N.A
WPG	3702 TT	1,996	Not Rated	36.8	N.A	3.2	3.6	11.4	10.3	1.5	1.4	13%	14%	9%	9%
Promate	6189 TT	205	Not Rated	34.9	N.A	3.4	3.5	10.3	10.0	N.A	N.A	N.A	18%	8%	8%
WT Microelec.	3036 TT	431	Not Rated	39.0	N.A	4.4	4.7	8.9	8.2	1.1	1.0	12%	12%	8%	8%

Source: Bloomberg

Market share gain from time control IC market

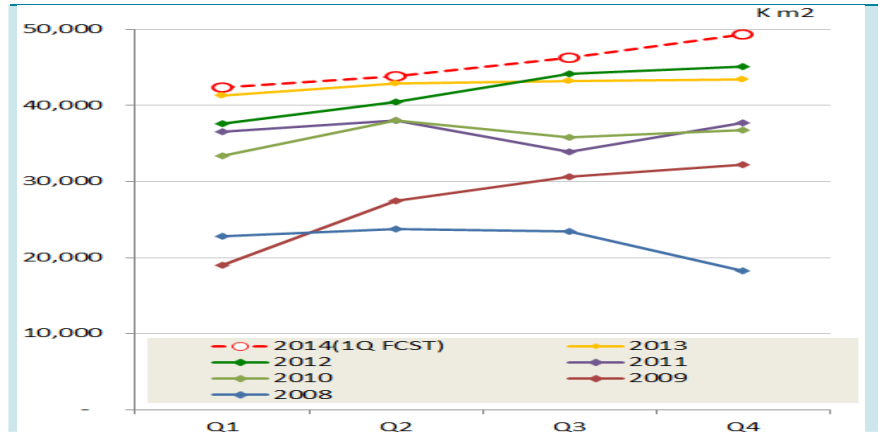
Based on our checks, Wah Lee breaks into the time controller IC supply chain of Chinese panel makers BOE and CSOT in FY14. Wah Lee's FPD business accounted for 22.2% of total revenue in FY13 and sales growth is expected at 11% YoY in FY14. We estimate that the FPD business will account for 22.5% of Wah Lee's FY14 revenue. As Figure 4 shows, worldwide large-size panel glass input by area will grow 6.4% YoY in 2014, with China-based 8.5G plants' new capacity as the main driver. Accordingly, we forecast Wah Lee's Chinese customers in the PFD business will grow 11% YoY in FY14.

Figure 5: LCD large size panel glass input by area



Source: WitsView, Fubon Research,

Figure 6: Quarterly Large-size TFT-LCD glass input by area



Source: WitsView, Fubon Research,

Figure 7: China-based 8.5G plants new capacity launch schedule

Vendor	Plant	MG size	Gen.	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
BOE	Hefei	2200 x 2500	8.5		5	15	30	60	60	60	60	90
BOE	Chongqing	2200 x 2500	8.5							15	40	80
Panda	Nanjing	2200 x 2500	8.5						15	30	40	40
LG	Guangzhou	2200 x 2500	8.5		5	15	30	70	70	70	70	70
CSOT	Shenzhen	2200 x 2500	8.5							15	30	45
Samsung	Suzhou	2200 x 2500	8.5	17	17	30	55	55	55	55	55	110

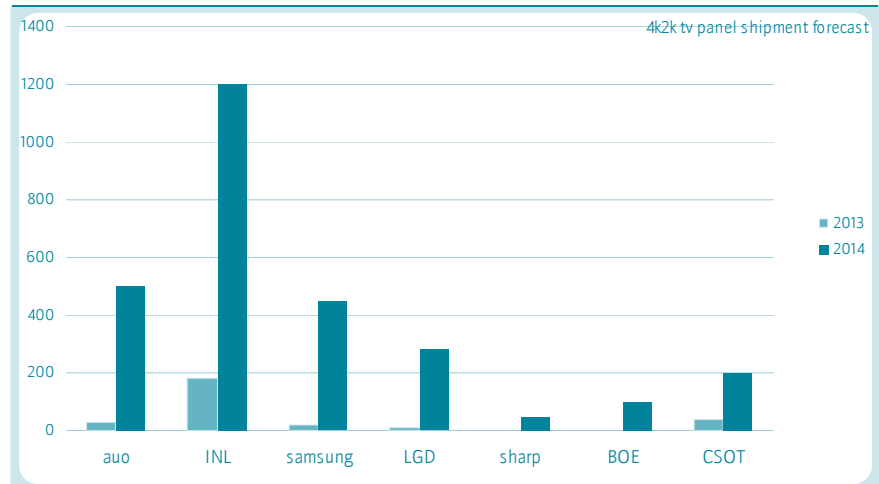
Source: Fubon Research

Advanced time controller IC design capability of Taiwanese, Chinese panel players helps maintain stable relationship between Wah Lee and Kawasaki:

Kawasaki is a tier-1 global panel timing controller IC provider with strong performance and technology, especially in large-size panels. Kawasaki’s timing controller IC technology was licensed from National Semiconductor’s point-to-point differential signaling (PPDS) to provide globally advanced LCD panel makers a cost effective technology that supports true 10-bit colors. As a result of increased pricing pressure, LCD panel and television manufacturers need to be able to develop improved products without extra cost. Kawasaki’s products allow panel makers to offer superior motion picture performance by reducing motion artifacts such as blur and judder at significantly lower cost than before.

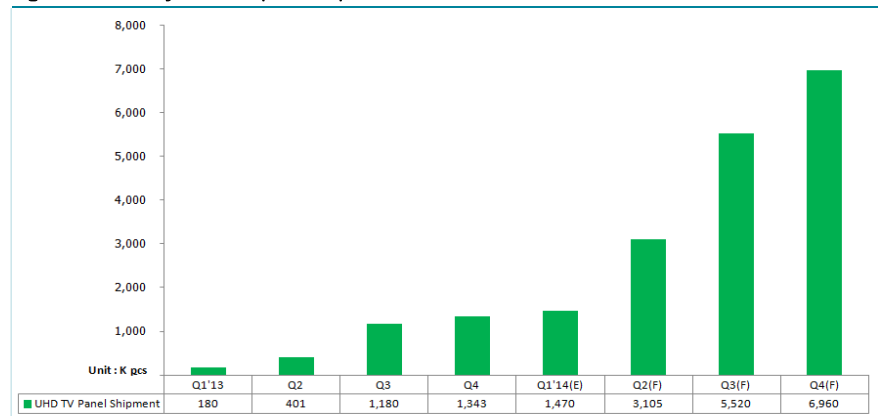
In our view, we expect advanced timing controller IC demand to ramp up very quickly as LCD TV makers are looking for technologies that can generate a vivid colors and high resolutions in the homes of end users. Kawasaki is the main global supplier of larger-size panels. Wah Lee has established a strong relationship with Kawasaki by providing timely and excellent technical support to customers and help their customers design these high-end time controller ICs into their large panel products. We believe Wah Lee will benefit from this relationship not only because of its sole agent position, but also its R&D capability, which creates entry barriers for competitors.

Figure 8: 4K2K TV panel shipment forecast by panel makers



Source: Fubon Research

Figure 9: Quarterly 4K2K TV panel shipment forecast

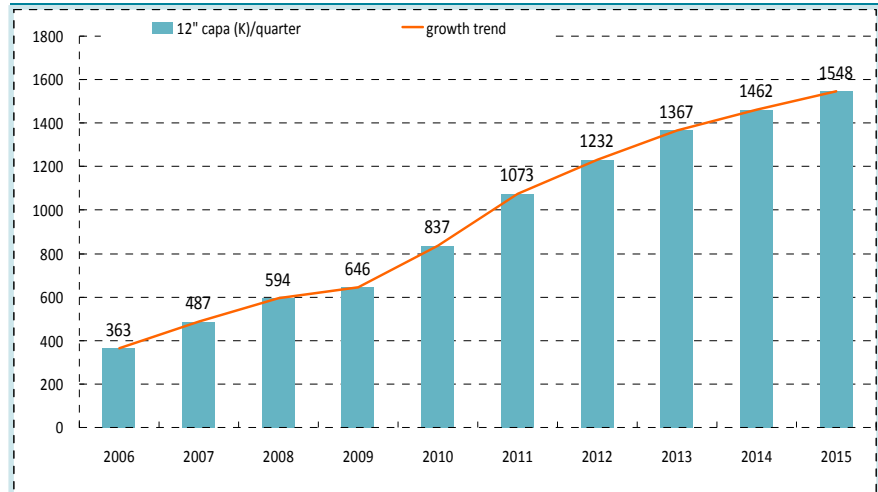


Source: WitsView, Fubon Research

Strong growth of PR, copper slurry to spur revenue growth

We forecast that Wah Lee's semiconductor revenue will see a 21% YoY growth this year, driven by slurry and photo resist products. We estimate the sales weight of its semi business to grow from 17.6% in FY13 to 19.3% in FY14. For the longer term, we expect FY14 to be an exciting year for Wah Lee due to TSMC and UMC's advanced capacity ramp-up. We are positive toward Wah Lee's long-term growth potential as we believe the new high-end capacity will be a strong and stable demand for semi material distributors, making Wah Lee a direct beneficiary of stable advanced semi materials consumption demand. Also, Wah Lee's make-to-order semi business implies a low inventory level and high ASP from unique capacity expansion. As a result, we believe this is a very low risk business model for Wah Lee and will make the company a long-term winner in the growing semi industry.

Figure 10: Taiwan's 12-inch quarterly capacity forecast



Source: Gartner, Fubon Research

Photo resist business expected to grow

We forecast the Wah Lee's advanced JSR photo resist will contribute to revenue growth in FY14 and support the overall semi business to grow 21% YoY this year. We derive such biz growth estimate from the high-end capacity expansion at Taiwan's foundries, assuming a 75% utilization rate for the new capacity and JSR's 20% market share in Taiwan's PR market. Also, Gartner's capacity forecast data are in line with the new capacity plans at TSMC and UMC. More specifically, Gartner projects Taiwan's overall 12-inch capacity to be ~1462k/quarter and 1548 k/quarter in 2014/2015 respectively.

Figure 11: Key parameters

Mask layers	Scrap	Non-production ratio	Utilization	Mask layers
46	95%	6%	75%	46
Usage (cc)	GAL cc	ASP-CR	ASP-NON	Market share
1.5~2.2	3,785	3.0x of 8-inch	1.3x of 8-inch	20%

Source: Fubon Research

High-generation tech nodes lead to increasing Litho/CMP process and PR/slurry consumption:

Compared to 8-inch semi materials, the 12-inch copper slurry ASP will be 1x~1.2x higher and the PR ASP will be 3~9x or even higher, especially in some special high-end nodes. Moreover, compared to the unit usage of the normal 12-inch tech node, the slurry and PR usage also increases as 28nm products require more than ~10% mask layers vs. 40/60nm and higher 2.25x measure square vs. 8", factors which will also lead to the consumption of more materials. Aside from the rising production usage, the non-production usage, which is used to maintain the CMP and photo equipment for normal operations, will also rise, especially at the beginning, as these new fabs will need significant supplies of slurry/PR to fine-tune the new equipment.

Figure 12: Mask layers

Tech node	28/20nm	40nm	>60nm
Mask layer#	>45	~42 to 45	~40 to 43

Source: Fubon research

Figure 13: PR's ASP increase compared to 8 inch products

Layer type	CR-layers			Non CR-layers		
	28/20nm	40nm	>60nm	28/20nm	40nm	>60nm
ASP (x)	>5.0x	~4.0x to 6.0x	~4.0x to 5.0x	~3.0x to 5.0x	~3.0x to 5.0x	~3.0x to 5.0x

Source: Fubon research

As shown below, we expect an obvious uptrend in TSMC and UMC's 12-inch capacity due to unexpectedly strong global demand for smartphone ICs. Both TSMC and UMC have mass production plans for their 28/20nm capacity in order to meet strong smartphone SoC/APU demand.

Figure 14: JSR's global market share by product line

Product	Photo resist	Wafer	Target	Chemical	Special gas
Global share	20%	60%	20%	15~20%	15~20%
Main competitors	Shin-Etsu, TOK	SUMCO, LG, MEMC	KFMC, Sumitronics, Solar, Honeywell	BASF	Air product, Showa, BASF

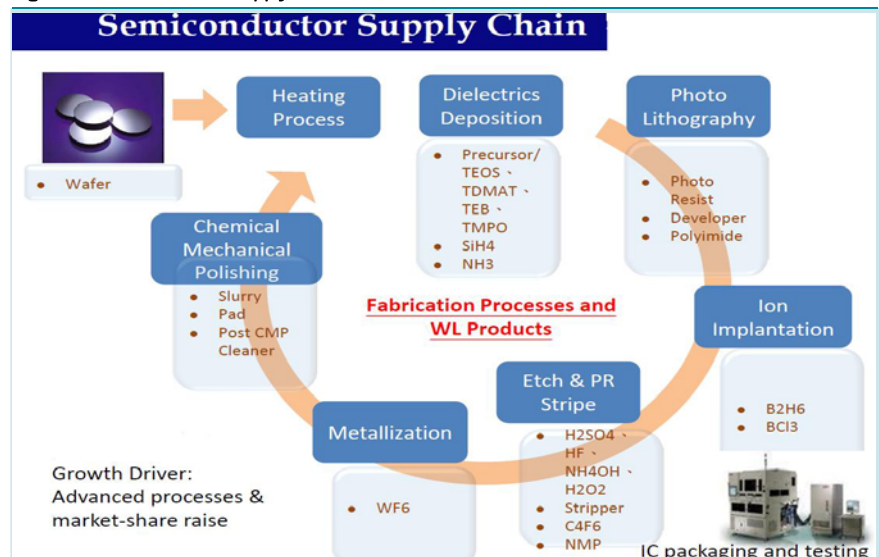
Source: Fubon Research

Additional 20% in layers for 20nm vs. 28nm to be growth driver:

We note that the upcoming 20nm products will increase layer numbers by an additional 15-20%, another key catalyst for Wah Lee's long-term growth. In general, photo resists make up nearly 30% of a foundry's regular semi material input cost and the total cost of photo resists is highly correlated to a product's layer numbers. That is to say, higher layer numbers lead to higher photo resist costs and this will benefit Wah Lee more in the longer term. Furthermore, we note that TSMC's upcoming 3 Giga Fabs are mainly for 20nm and 16nm FinFet nodes. They incorporate increasing layer numbers and greater use of photo resists and other expensive semi materials. We expect the increasing development of advanced technology in the coming 2 years to be key catalysts that will secure Wah Lee's long-term growth.

Wah Lee's product line in semiconductor:

Wah Lee guided to 30% YoY growth in its photo resist business, and 60% YoY growth in copper slurry. Its semi product line includes JSR photo resist (40%), chemical material (30%), Dupont-EKC photo resist stripper, polymer remover and electronic grade chemicals. Its major customers are TSMC, UMC, ProMOS, Powerchip, Inotera, Wind, Nanya, and VIS.

Figure 15: Semiconductor supply chain


Source: Company, Fubon Research

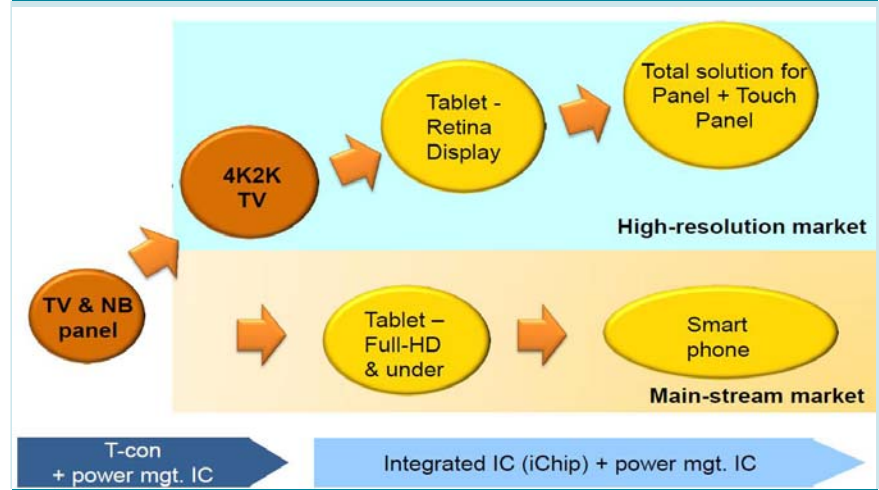
Figure 16: Wah Lee's products in C/C


Source: Company, Fubon Research

Wah Lee's product line in FPD

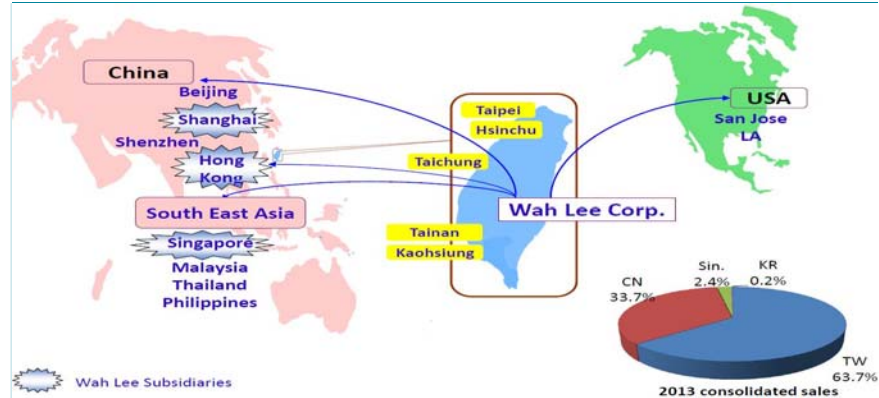
Wah Lee's product line in FPD includes power management IC, T-con IC (42%), driver IC, color photo resist (20%), light guide sheet for TFT-LCD backlight module, diffusion sheet for LCD-TV, polarizer sheet, touch panel materials, and TFT panel manufacturing equipment. Wah Lee provides over 90% of the materials used in the LCD TV panel, and over 70% of the materials used in tablets and cell phone panels. It has a diversified customer base in China (25%) and Taiwan (75%), including AUO, Innolux, CPT, Hannstar, BOE, CSOT, Radiant, Kenmos, TSMT, CTX, Forhouse and other customers.

Figure 17: FPD business development



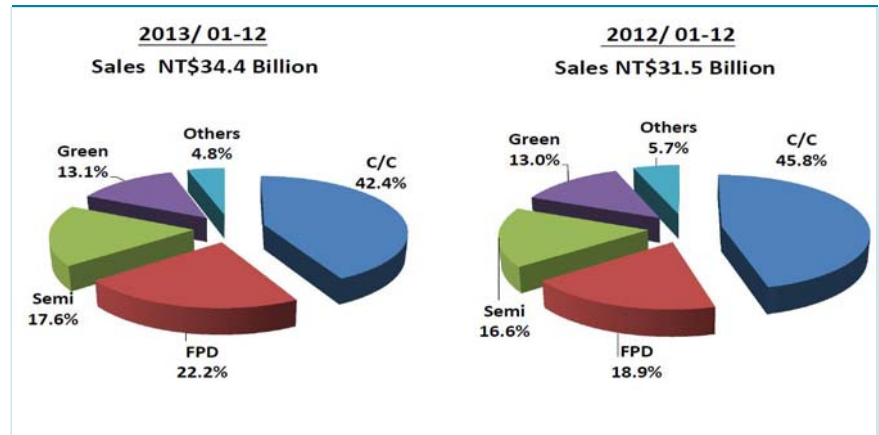
Source: Company, Fubon Research

Figure 18: Wah Lee's global sales offices



Source: Company, Fubon Research

Figure 19: Wah Lee's sales breakdown by industry



Source: Company, Fubon Research



P&L Statement						Balance Sheet					
Year end 31/12	FY11E	FY12	FY13	FY14F	FY15F		FY11E	FY12	FY13	FY14F	FY15F
Net sales	31,225	31,545	34,398	38,457	41,122	Cash & bank deposits	2,112	3,257	2,503	3,060	3,620
Cost of goods sold	28,403	28,646	31,264	35,025	37,453	A/R & N/R	7,793	8,542	9,514	9,354	7
Gross profits	2,822	2,858	3,098	3,432	3,669	Inventory	3,229	2,650	2,834	2,795	2,812
Operating expense	1,882	2,023	2,101	2,091	2,097	Other current assets	954	554	1,104	1,195	1,254
Operating profit	940	834	997	1,341	1,572	Total current assets	14,088	15,002	15,955	16,404	7,693
EBITDA	1,527	1,448	1,701	1,934	1,955	LT investment	3,486	3,813	3,890	3,967	4,047
Net interest inc/(exp)	(48)	(30)	(31)	(31)	(32)	Fixed assets	898	947	764	744	723
Investment Income	264	340	260	305	350	Other long-term assets	418	361	953	860	10,239
Exchange gain (loss)	118	12	21	24	24	Total assets	18,890	20,123	21,563	21,976	22,702
Other non-operate inc.	101	26	381	161	127	Short-term borrow	3,354	3,632	4,012	4,213	4,423
Total non-operate inc.	435	348	632	459	469	Bills Issued	585	327	330	334	337
Pre-tax profit	1,376	1,315	1,568	1,801	2,041	A/P & N/P	3,548	4,402	5,378	5,412	5,436
Income tax	336	275	220	459	481	Other current liab.	1,081	888	340	109	109
Minority Interest	62	46	60	60	60	Total current liab.	8,568	9,249	10,060	10,067	10,305
Net profit	956	981	1,159	1,282	1,500	Long-term borrow	1,569	1,561	1,686	1,602	1,522
Basic EPS (NT\$)	4.11	4.24	5.00	5.54	6.48	Other L-T liab.	644	697	519	661	528
Fully-diluted EPS (NT\$)	4.11	4.24	5.00	5.54	6.48	Total Liabilities	10,781	11,508	12,265	12,330	12,355
Stock Dividends (%)	-	-	-	-	-	Common Stocks	2,314	2,314	2,314	2,314	2,314
Cash Dividends (NT\$)	2.30	2.10	3.00	3.32	3.89	Reserves	1,268	1,304	1,264	1,268	1,272
						Retained earnings	3,922	4,371	4,836	5,348	5,948
						Total Equity	8,109	8,616	9,239	9,587	10,194
						Total Liab. & Equity	18,890	20,123	21,504	21,917	22,549

YoY (%)					
Net sales	15.5	1.0	9.0	11.8	6.9
Gross profit	-11.8	1.3	8.4	10.8	6.9
Operating profit	-19.8	-11.2	19.4	34.6	17.2
Net profit	-31.8	2.7	18.1	10.6	17.1
Basic EPS	-32.6	3.2	18.0	10.7	17.1

Margin (%)					
Gross	9.0	9.1	9.0	8.9	8.9
Operating	3.0	2.6	2.9	3.5	3.8
Net	3.1	3.1	3.4	3.3	3.6
EBDITDA	4.9	4.6	4.9	5.0	4.8

Quarterly P&L					
Year end 31/12	4Q13F	1Q14F	2Q14F	3Q14F	4Q14F
Net sales	8,907	8,891	9,611	10,058	9,897
Gross profits	802	791	865	895	881
Operating profit	231	290	341	353	357
Investment Income	65	110	110	110	110
Total non-operate profit	124	114	115	115	115
Pre-tax profit	355	405	456	468	472
Income tax	40	91	120	123	125
Net profit	300	299	321	330	332
Basic EPS (NT\$)	1.29	1.29	1.39	1.43	1.43

YoY (%)					
Net sales	13.9	16.6	10.0	10.2	11.1
Gross profit	25.4	17.9	11.8	5.2	9.9
Operating profit	72.9	41.0	25.7	22.2	54.8
Net profit	33.5	4.3	23.5	5.5	10.7

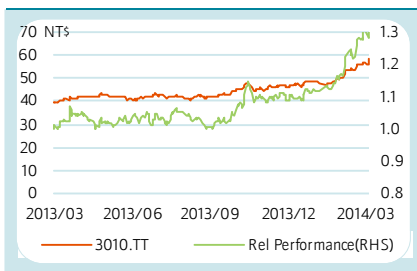
QoQ (%)					
Net sales	(2.4)	(0.2)	8.1	4.7	(1.6)
Gross profit	(5.8)	(1.3)	9.3	3.5	(1.6)
Operating profit	(20.2)	25.9	17.5	3.6	1.0
Net profit	(4.3)	(0.3)	7.5	2.8	0.4

Margin (%)					
Gross	9.0	8.9	9.0	8.9	8.9
Operating	2.6	3.3	3.5	3.5	3.6
Net	3.4	3.4	3.3	3.3	3.4

Statement of Cash Flow					
	FY11E	FY12	FY13	FY14F	FY15F
Net income	956	981	1,159	1,282	1,500
Dep. & Amort.	103	103	103	103	103
Investment income	(140)	(137)	(132)	(120)	(139)
Changes in W/C	(592)	239	264	233	9,354
Others	204	(83)	(742)	(452)	(324)
Cash flow - operations	531	1,103	651	1,045	1,157
Capex	(11)	(20)	(38)	(32)	(32)
Changes in L-T inv.	(529)	(327)	(76)	(78)	(79)
Others	130	196	(249)	(48)	(31)
Cash flow - investment	(411)	(151)	(363)	(158)	(142)
Free cash flow	941	1,254	1,014	1,203	1,299
Inc. (Dec.) debt	1,149	271	504	116	131
Cash Dividend	(810)	(486)	(694)	(769)	(900)
Bonds Issued	0	0	0	0	0
Bonds Redeemed	0	0	0	0	0
Common stock issue	0	0	0	0	0
Others	0	0	294	321	314
Cash flow - financing	339	(215)	104	(332)	(456)
Exchange influence	1.0	0.0	1.0	1.0	1.0
Change in cash	460	737	393	557	560

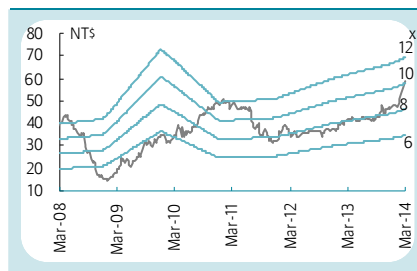
Ratios & Valuations					
	FY11E	FY12	FY13	FY14F	FY15F
ROA (%)	5.3	5.0	5.6	5.9	6.7
ROE (%)	12.0	11.7	13.0	13.6	15.2
ROCE (%)	15.4	13.5	15.2	16.6	18.1
P/E (x)	14.2	13.8	11.7	10.5	9.0
P/S (x)	0.4	0.4	0.4	0.4	0.3
P/BV (x)	1.7	1.6	1.5	1.4	1.3
EV/EBITDA (x)	10.7	10.7	9.8	8.4	8.1
Dividend yield (%)	3.9	3.6	5.1	5.7	6.7

Relative Performance



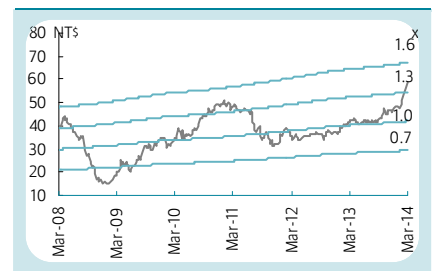
Source: Fubon Research

12-month Forward PE Bands



Source: Fubon Research

12-month Forward PB Bands



Source: Fubon Research



* For more information, please input "FBRS" in your Bloomberg system

Disclaimer

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Rating	Definition
Buy	Expected absolute return to be over 30% within the next 6 months
Add	Expected absolute return to 10-30% within the next 6 months
Neutral	Expected absolute return to be level within the next 6 months
Reduce	Expected absolute return to be negative 10-30% within the next 6 months
Sell	Expected absolute return to be over negative 30% within the next 6 months
Not Rated (NR)	Pursuant to Fubon acting in deals involving the company or there is not a sufficient fundamental basis for determining an investment rating
Under Review	Fubon is in the process of determining an investment rating and will assign a rating within the 3- to 6-month horizon

Sector Rating	Definition
Overweight	Sector expected to outperform the broader market indexes within the next 6-12 months
Market Weight	Sector expected to perform in line with the broader market averages within the next 6-12 months
Underweight	Sector expected to underperform the broader market indexes within the next 6-12 months.