

**Bright LED Electronics Corp. (3031 TT)****BUY**

LED Packaging

Company Update

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**Tech Analyst**

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**Recommendation**

Date:	October 12, 2005
Share Price (NT\$):	33.00
Price Target (NT\$):	40.50
Percent Change:	22.7%
52-wk range (NT\$):	40.2-24.2
TWSE:	5897.40

**Company Data**

Capital Size (NT\$):	1.25bn
Market Cap (NT\$):	4.13bn
Market Cap (US\$):	123.0mn
Outstanding Shrs:	0.13bn
PER ('05E):	11.6x
PBR ('05E):	2.02x
Foreign Ownership:	0.75%
Major Shareholder:	Chairman Liao (10.6%)

Performance	1-m	3-m	6-m
Absolute (%)	18.83	(6.82)	(14.23)
Relative to TAIEX	22.35	(1.04)	(14.14)

Key Changes	Current	Prev.
Recommendation	BUY	N/A
Price Target (NT\$)	40.5	N/A
Revenue (NT\$bn)	2.6	N/A
Gross Margin (%)	23.67	N/A
Oper. Margin (%)	18.03	N/A
EPS (NT\$)	2.89	N/A

**Price Catalysts (+,-)**

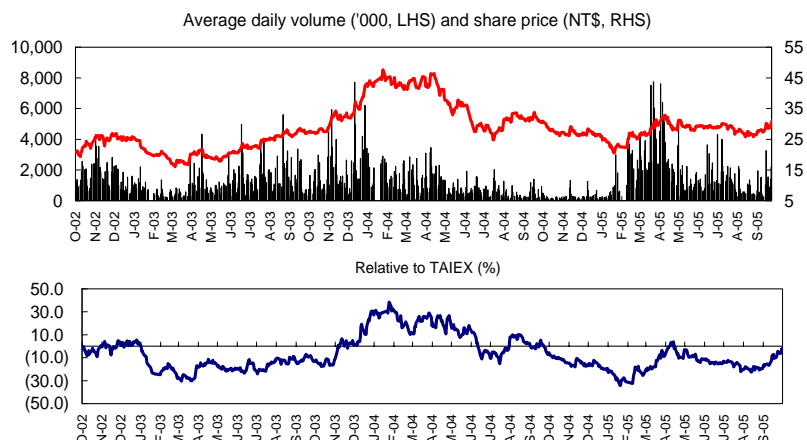
- (+) Strong handsets keypad LED demand
- (+) Scale economies improves margin

**Related Research**

N/A

**Future Light Up**

- **3Q05 YTD results: getting brighter.** BLE's September revenue reached NT\$260.7mn, up 6.3% MoM and up 34.1% YoY. Its 3Q05 revenue of NT\$699.9mn also grew 14.6% QoQ, and 30.2% YoY. Accumulated revenue in the first three quarters is NT\$1.8bn, reaching 68.3% of our 2005 revenue forecast of NT\$2.6bn. With the strong demand from handsets SMD LED and the coming of 4Q05 high season, BLE should be able to reach our 2005 forecast.
- **Oversupply relieved by increasing handsets demand.** The booming handsets demand in 2005 has fulfilled the idle capacity in the LED industry, and major LED packagers' capacities have been fully utilized. We estimate the handsets-related LED capacity to increase by 10% in 2005, while the potential order will increase by 40% in the same period. This reduction in supply-demand gap has 1) helped to improve revenue growth of BLE in 3Q05, and 2) enhanced BLE's ASP sustainability.
- **Gross margin enhancing.** Currently, BLE's SMD LED capacity is fully utilized, and for Lamp and Display devices' utilization rate has reached 80%. In addition to benefiting from economies of scale, BLE also can enhance its gross margin by selecting more profitable orders, and therefore we expect its gross margin in 3Q05 to improve to 26%, higher than 2Q05's 19.5%. In 4Q05, we expect its gross margin to continue to improve to 27.0% and ending with 2005 gross margin of 24.0%.
- **BUY with 22.7% upside.** BLE was traded within 7.4x to 9.6x PER band in the past 6 months. Looking at improving demand and industry's growing potential, we set 11x to be BLE's fair PER and target its price at NT\$40.5 based on our NT\$3.68 for 2006 EPS forecast, indicating a 22.7% upside potential. We recommend to BUY on its shares.



## Investment Keynotes

### Interim results in line with our forecast

Established in 1981, Bright LED Electronics (BLE) has been a major player in LED's (Light Emitting Diode) packaging market. BLE's LED product series range from Surface Mount Device (SMD), Lamp, Display, to Infrared (or Invisible LED) Device. In addition, BLE also partakes in LED-related government tender projects, mostly related to mass transportation signaling system. BLE's major competitors in Taiwan are Everlight Corp. (2393TT, NT\$53.0, BUY), Harvatek (6168TT, NT\$27.25, NR), and Taiwan Lite-On (2301TT, NT\$37.9, NR).

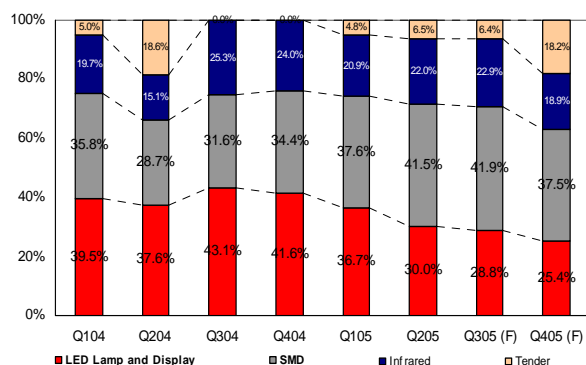
Figure 1: BLE's Major LED Product



Source: Company data

Among the BLE's product range, SMD on average takes up 40% of its revenue, with major demand from handset makers (for keypad photo-sensing device) and from color laser printers maker (for Red/Green/Blue light source device), and DVD players.

Figure 2: BLE's Revenue Breakdown



Source: Company data; MasterLink Securities

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Figure 3: BLE's SMD LED Major Customers

Customer	% of BLE Revenue	Application
HP	8.0%	Laser Printer Light Source
Ningbo Bird CO (China)	6.0%	Handsets
Samsung	3.5%	DVD Player
Pantech (Korea)	30%	Handsets

Source: Company data; MasterLink Securities

### LED oversupply relieved by strong handsets demand in 2005

The forecast form market demand of global handsets has changed substantially in 2Q05. In the beginning 2005, most market research institutes foresaw a less-than-10% YoY growth for handsets. This figure later was revised up to 10%-20% upon witnessing the hot selling of entry-level handsets in 2Q05, mostly driven by the market growth in China and India. This has brought unexpected orders to the OEM/ODM handsets makers in Taiwan, and in turn led to the higher LED product demand.

Suffering from the oversupply in 2004, Taiwan's LED makers had no major capacity expansion plans in 1H05. However, the booming handsets demand in 2005 has fulfilled the idle capacity and thus major LED downstream players' capacities have been fully utilized. We estimate the handsets-related LED capacity to increase by 10% in 2005, while the potential orders (keypad, back-light unit, and flash light) will increase by 40% in the same period. This reduction in supply-demand gap has 1) helped to improve revenue growth of BLE in 3Q05, and 2) enhanced BLE's ASP sustainability. To catch up the SMD demand increase, BLE will expand its SMD monthly capacity to 150mn units in 4Q05, from the current 120mn units. As for Lamp (150mn units per month), Display (10mn) and Infrared (60mn), BLE still holds a conservative view and has no expansion plans yet.

**Gross margin will improve to 26% level on 3Q05, from 19.5% in 2Q05**

Currently, BLE's SMD LED capacity is fully utilized, and for Lamp and Display products' utilization rate has reached 80%. In addition to the benefit from scale economies, BLE also can enhance its gross margin by selecting more profitable orders, and therefore we expect its gross margin in 3Q05 to improve to 26.3%, compared with 19.4% in 2Q05. In 4Q05, we expect its gross margin to be 27.0%, ending up a 2005 gross margin of 24.0 %.

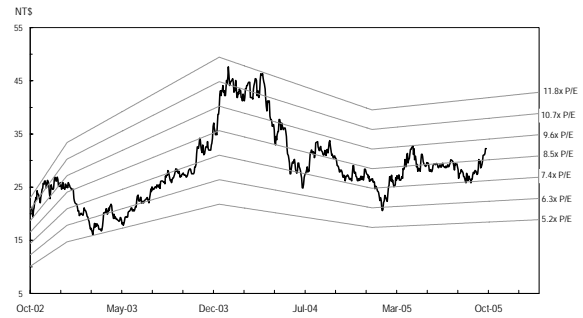
In terms of gross margin by products, SMD has the highest margin of 35.0%, compared with Lamp's 25.0%, Display's 23.0%, and Infrared's 25.4%. The increasing weighting in SMD has therefore made solid profit contribution to BLE.

For the government tender, BLE is expected to recognize NT\$65mn in 3Q05 and NT\$55mn in 4Q05 upon project completion. Gross margin of these tenders, however, leaves only 10% to BLE due to bidding price competition. Such profit contribution is insignificant to BLE.

**Valuations and Recommendation**

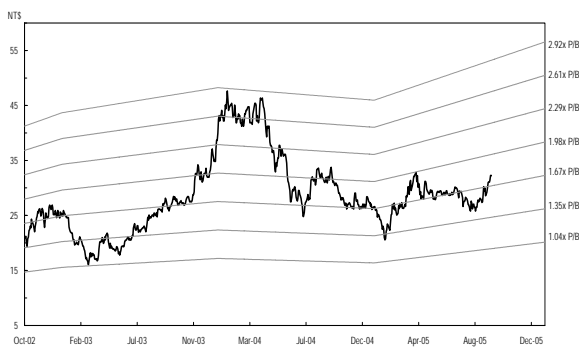
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Figure 5: P/E Band



Source: Company data; MasterLink Securities

Figure 4: P/B Band



Source: TEJ; MasterLink Securities

**Figure 6: Consolidated Statement of Operations (NT\$ mn)**

Year to December	2002	2003	2004	2005E
Revenue	1,227	1,832	2,256	2,614
Cost of Goods Sold	899	1,322	1,674	1,995
Gross Profit	329	511	582	619
Operating Exp.	93	126	137	147
Operating Income	235	384	445	471
Non-op. Income	31	61	44	22
Non-op. Exp.	5	11	42	36
Pretax Income	262	434	447	458
Net Income	204	344	351	362
Adjusted EPS (NT\$)	2.83	4.19	3.35	2.89

Source: MasterLink Securities

**Figure 7: Income Statement (%)**

Year to December	2002	2003	2004	2005E
Gross Profit	26.78	27.86	25.80	23.67
Operating Exp.	7.61	6.89	6.07	5.63
Operating Income	19.16	20.98	19.73	18.03
EBIT	21.33	23.70	19.82	17.52

Source: MasterLink Securities

**Figure 8: Income Statement (% Growth)**

Year to December	2002	2003	2004	2005E
Revenue	40.99	49.32	23.13	15.84
Pretax Income	69.30	65.90	3.00	2.38
Net Income	65.60	68.78	2.08	3.07

Source: MasterLink Securities

**Figure 9: Consolidated Statement of Operations (NT\$ mn)**

Quarter	1Q05	2Q05	3Q05E	4Q05E
Revenue	494	611	719	790
Cost of Goods Sold	389	492	531	582
Gross Profit	104	119	188	208
Operating Exp.	33	35	38	41
Operating Income	72	83	150	167
Non-op. Income	3	9	5	5
Non-op. Exp.	28	-8	9	6
Pretax Income	46	100	146	166
Net Income	36	76	117	133
Adjusted EPS (NT\$)	0.29	0.61	0.93	1.06

Source: MasterLink Securities

**MasterLink Securities – Stock Rating System****BUY:** Total return expected to appreciate 10% or more over a 3-month period.**HOLD:** Total return expected to be between 10% to -10% over a 3-month period.**SELL:** Total return expected to depreciate 10% or more over a 3-month period.

Additional Information Available on Request

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