



RoyalTek (3306 TT)

GPS

HOLD

Initiation

ML Research Team

Tech Analyst

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Recommendation

HOLD
Date: October 05, 2005
Share Price (NT\$): 54.40
Price Target (NT\$): 51.60
Percent Change: -5.1%
52-wk range (NT\$): 71.7-25.7
TWSE: 6135.01

Company Data

Capital Size (NT\$): 446mn
Market Cap (NT\$): 2.4bn
Market Cap (US\$): 73mn
Outstanding Shrs: 44.6mn
Free Floating Shrs: 43.6mn
PER ('05E): 21.1X
PBR ('05E): 4.4X
Foreign Ownership: 0.16%
Major Shareholder: ETEN Corp. 33.15%

Performance	1-m	3-m	6-m
Absolute (%)	7.25	113.26	N/A
Relative to TAIEX	6.50	116.38	N/A

Key Changes	Current	Prev.
Recommendation	HOLD	N/A
Price Target (NT\$)	51.6	N/A
Revenue (NT\$bn)	1.4	N/A
Gross Margin (%)	23.3	N/A
Oper. Margin (%)	11.9	N/A
EPS (NT\$)	2.58	N/A

Price Catalysts (+,-)

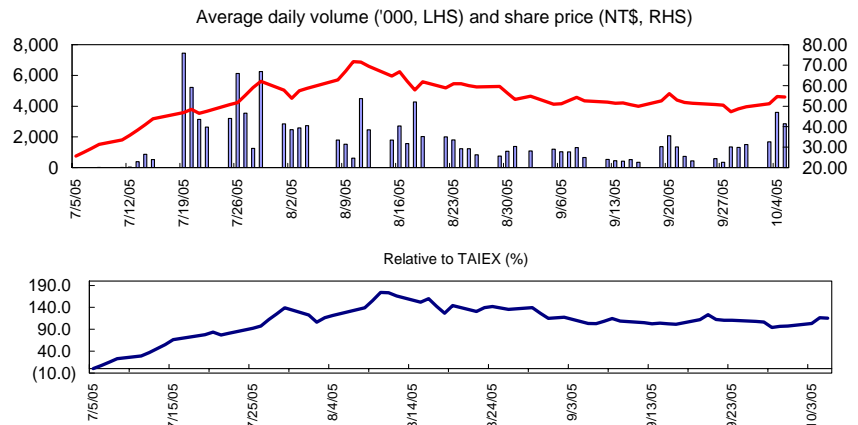
- (+) Annual sales to reach record-highs
- (+) Strong gross margin by new product mix
- (-) Price already capped future potential

Related Research

N/A

On the bandwagon of GPS

- **Strong potentiality in market growth.** The improving precision of GPS technology has imposed a strong potential in the consumer application business. Research institute ABI shows that the global market is currently at a US\$16.7 billion scale, and is forecasted to reach US\$21.5 billion by 2008, with CAGR of 8.8%.
- **Gross margin improvement by production restructuring.** Accounting for nearly 50% of the percentage sales, the down sliding ASP for the handheld PNA (PDA + GPS) has imposed a negative effect on RoyalTek's overall gross margin. The production restructure starting 3Q05 intend to enhance the sales percentage for the higher margin "SiRFIII" embedded products.
- **GPS module dominates the future growth.** Starting 2004, the non-GPS embedded PDA shipment from Taiwan has undergone a gradual decline in the percentage of the total PDA shipped. RoyalTek is currently cooperating with world-class brands, such as Acer, for the embedded GPS development on handheld devices. GPS modules are expected to generate an average gross margin of 25% in 2005, along with a strong increase in the sales percentage up to nearly 30%.
- **HOLD as the current price has already capped future potential.** The price of RoyalTek has appreciated 228% since the IPO on July 5th, 2005. With a forward EPS of NT\$2.58 and a fair PER of 20X, we arrive at a target share price of NT\$51.6. We think such increase in stock price has already capped future potential and put a HOLD recommendation for RoyalTek at the current share value.



Investment Keynotes

RoyalTek Overview

Being a professional developer of Global Positioning System (GPS) technology, RoyalTek designs, manufacturers, and markets GPS products for worldwide ODM/OEM demands. The revenue structure can be represented by three major product lines: the Handheld PNA (PDA + GPS), the GPS module, and the external BT-GPS devices.

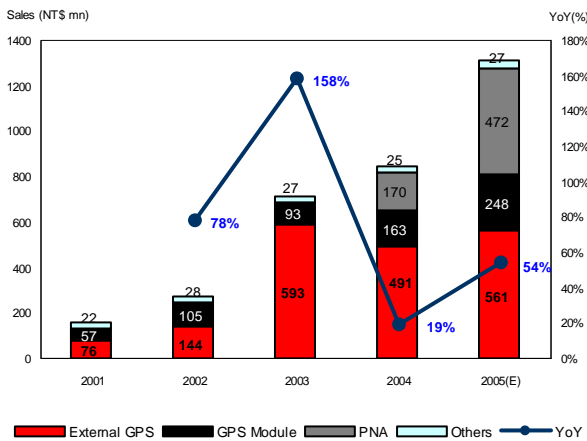
Figure 1: RoyalTek Product Lines



Source: RoyalTek

The company has experienced continuous growth since 2000 and a substantial sales boost in 2003, where the primary contribution was made by Medion (MDN, €\$12.92, NR). As a leading European consumer electronic distributor, Medion weighted 58.15% of the 2003 annual revenue of RoyalTek.

Figure 2: RoyalTek Product Mix vs. Sales Growth

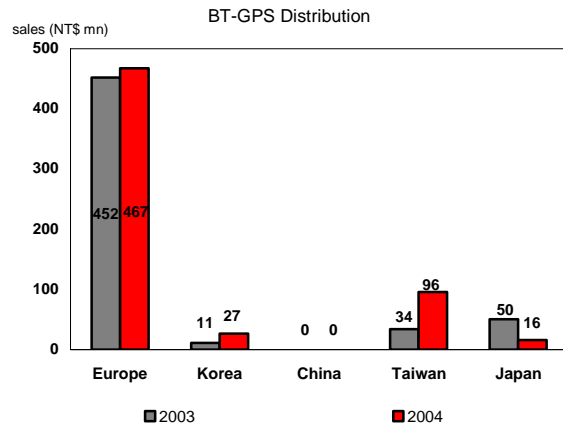
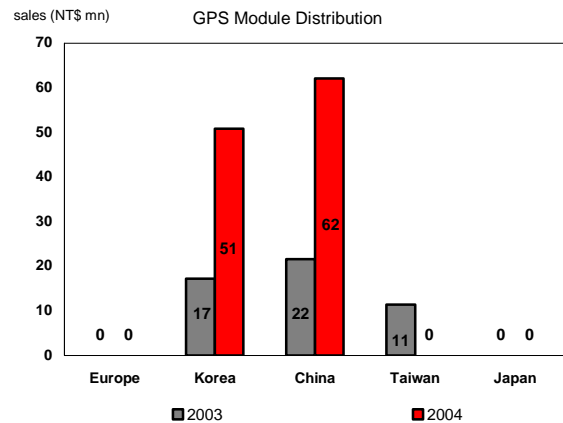


Source: RoyalTek, MasterLink Securities

To avoid the risk of single customer dependency, RoyalTek acquired new sources of income in 2004; major customers as TomTom (tom2, €\$37.55, NR) and Acer (2353TT, NT\$72.0, BUY), have each occupied nearly 10% of the annual sales. RoyalTek has presented a 18.8% sales YoY last year, while the revenue from Medion has decreased 14.4% and its percentage weight of total sales has dropped to 41.9%.

By cross-examining the product mix and the customer geographical distribution, the result displays a regional distinction based on the different functions of the products. The differentiation lies between the final consumer good and the to-be integrated devices. The integration-oriented devices, the GPS module, are primarily sold in the Asia-Pacific region where most of the GPS ODM and OEM manufacturers are located. The external BT-GPS, the final consumer product, is targeted at the European market, the region where most of the sales revenue is generated.

Figure 3: RoyalTek Product Mix vs. Geographical Distribution

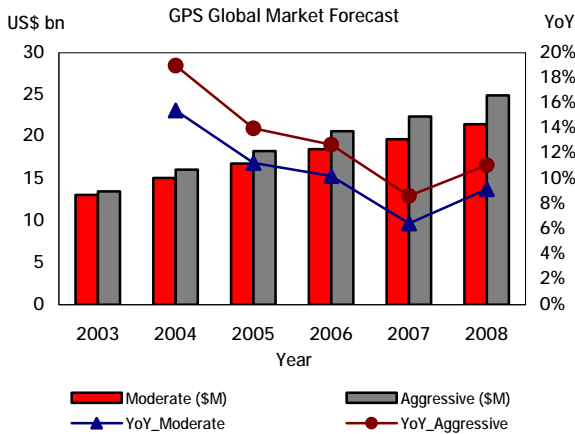


Source: RoyalTek, MasterLink Securities

Sector Overview

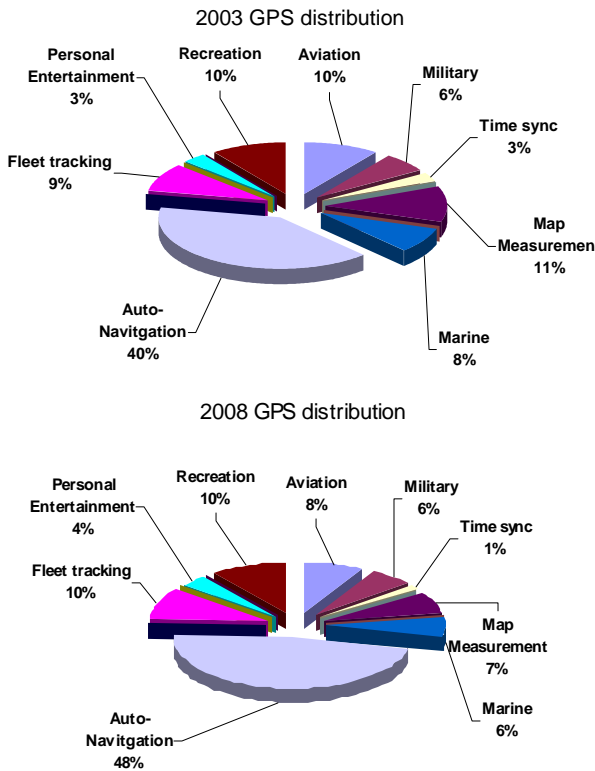
The improving precision of GPS technology has imposed a strong potential in the consumer application business. Research Institute ABI shows that the global market is currently at a US\$16.7 billion scale, and is forecasted to reach US\$21.5 billion by 2008, with CAGR of 8.8%. The source of dynamic comes from the In-Vehicle Navigation System (IVNS). IVNS currently has a market share of 40% and is predicted to rise up to 46% market share of the overall GPS market in 2008.

Figure 4: Global GPS Market Forecast



Source: ABI, MasterLink Securities

Figure 5: Global GPS Market Forecast



Source: ABI, MasterLink Securities

The underlying potential: Auto-navigation in China

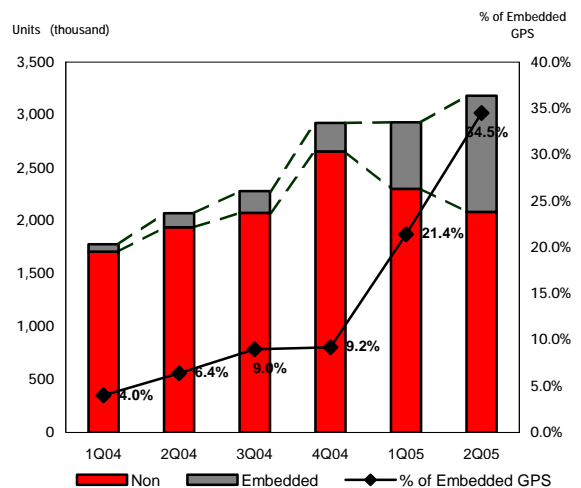
The Chinese auto-navigation market is the gem that investors ought to keep a close eye on it. In preparation for the 2008 summer Olympic game, the Chinese government requires that all public transportations, including taxis and buses, are to be equipped with GPS

navigation functions, thus to provide better services for foreign visitors. The complete the GPS infrastructure in Beijing is estimated to generate a demand worth RMB\$20bn: RMB\$1.9bn to equip the buses, RMB\$680mn to equip the taxis and RMB\$19.2bn for the logistic transportation system. Currently, the majority of RoyalTek's module applications in China are for fleet-tracking purposes. The potential business opportunity in China's IVNS may boost the future growth rate of the GPS module revenue.

GPS module dominates the future growth

Starting 2004, the non-GPS embedded PDA shipment from Taiwan has undergone a gradual decline in the percentage of the total PDA shipped. The all-integrated product trend is inevitable and will compress the future market for external GPS devices.

Figure 6: PDA Shipment from Taiwan: GPS Embedded vs. Non-Embedded



Source: MIC, MasterLink Securities

Considering the significant percentage of external GPS to RoyalTek's annual sales, the blooming embedded GPS market will impose pressure on the company's future profitability as customer's preference leaning toward the embedded system. To maintain the competitive advantage, custom designed module is the solution that the RoyalTek relies on for higher sales and gross margin.

RoyalTek is currently cooperating with world-class brands, such as Acer, for the embedded GPS development on handheld devices. GPS modules are expected to generate an average gross margin of 25% in 2005, along with a strong increase in sales percentage up to nearly 30%. We believe the module will dominate in both the sales and gross margin in 2H05 and 2006.

Gross margin improvement by production restructuring

Accounting for nearly 50% sales, the down sliding ASP for the handheld PNA has imposed a negative effect on RoyalTek's overall gross margin. The PNA price has declined almost 10% since 4Q04. With the current gross margin of approximately 12%, the significant weight of sales made it difficult to maintain a 20% minimum overall margin.

The production restructure starting 3Q05 intends to enhance the sales percentage for the higher margin "SiRFIII" embedded products. The new generation of BT-GPS is expected to benefit from distributor's Christmas promotion and is believed to generate good sales figures in the 4Q05.

We believe the new product mix will make a positive effect on the gross margin starting 3Q05. The projected gross margins are 25.1% and 26.5% for 3Q05 and 4Q05 respectively, which leads to an annual figure of 23.2%.

Figure 7: RoyalTek 2005 Gross Margin Estimation (%)

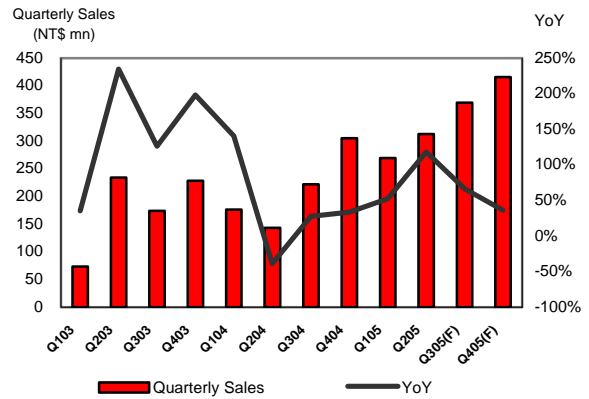
	1Q05	2Q05	3Q05(E)	4Q05(E)	2005 (E)
PNA	15.7	14.0	12.0	11.0	13.5
BT-GPS	22.0	28.6	32.0	32.0	29.9
GPS Module	17.0	20.0	28.0	30.0	26.5
Others	25.0	22.0	23.0	25.0	23.8

Source: RoyalTek; MasterLink Securities

Valuations and recommendation

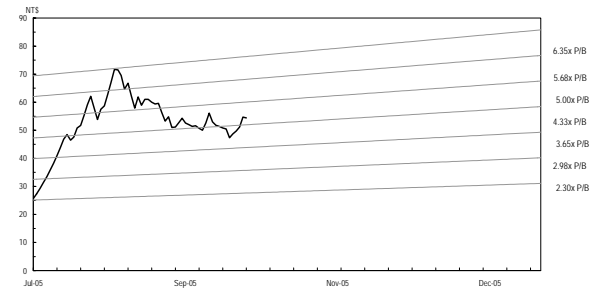
Given the growth prospects in RoyalTek's GPS module business and the auto-navigation sector, we believe there are potential dynamic to its current standing. With a forward EPS of NT\$2.58 and a fair PER of 20X, we arrive at a target share price of NT\$51.6. The share has appreciated 228% since the IPO on July 5th, 2005 and we think such increase in stock price has already capped future potential. We put a HOLD recommendation for RoyalTek at its current share value.

Figure 8: RoyalTek Quarterly Sales



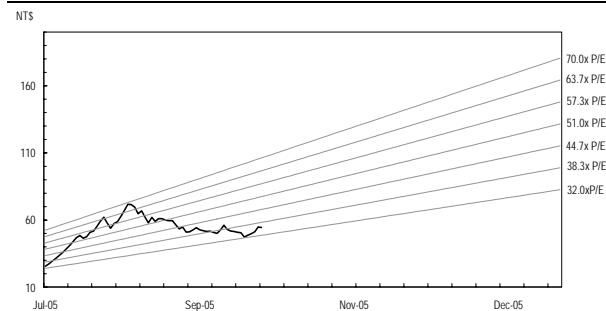
Source: TEJ; MasterLink Securities

Figure 9: RoyalTek's P/B Band



Source: TEJ; MasterLink Securities

Figure 10: RoyalTek's P/E Band



Source: TEJ; MasterLink Securities

Figure 11: Non-consolidated Statement of Operations (NT\$ thousands)

Year to December	2002	2003	2004	2005E
Revenue	276,436	713,465	847,440	1,368,044
Cost of Goods Sold	196,243	451,084	608,166	1,026,612
Gross Profit	80,193	262,381	239,274	318,279
Operating Exp.	73,702	127,498	144,480	163,149
Operating Income	6,491	134,883	94,794	147,783
Non-op. Income	4,116	11,807	10,542	9,874
Non-op. Exp.	6,020	10,158	1,368	5,000
Pretax Income	4,587	136,532	20,568	152,247
Net Income	8,381	162,507	29,877	115,093
Adjusted EPS (NT\$)	0.21	4.1	0.75	2.58

Source: MasterLink Securities

Figure 12: Income Statement (%)

Year to December	2002	2003	2004	2005E
Gross Profit	29.01	36.78	28.23	23.27
Operating Exp.	26.66	17.87	17.05	11.93
Operating Income	2.35	18.91	11.19	10.80
EBIT	1.66	19.14	2.43	11.13

Source: MasterLink Securities

Figure 13: Income Statement (% Growth)

Year to December	2002	2003	2004	2005E
Revenue	N/A	158.09	18.78	61.43
Pretax Income	N/A	2876.50	-84.94	640.21
Net Income	N/A	1838.99	-81.61	285.22

Source: MasterLink Securities

Figure 14: Non-consolidated Statement of Operations (NT\$ thousands)

Year to December	1Q05	2Q05	3Q05E	4Q05E
Revenue	269,582	312,937	369,762	415,763
Cost of Goods Sold	221,615	245,624	276,946	282,426
Gross Profit	47,967	67,313	92,815	110,184
Operating Exp.	33,500	40,472	43,425	45,752
Operating Income	14,467	26,841	49,390	57,085
Non-op. Income	0	4,568	0	5,306
Non-op. Exp.	0	2,934	0	2,066
Pretax Income	14,575	28,246	50,840	58,585
Net Income	14,652	18,700	37,872	43,869
Adjusted EPS (NT\$)	0.37	0.47	0.85	0.99

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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