



# Around the Markets: Taiwanese parts makers surge on \$100 laptop giveaway

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**TAIPEI:** A plan to give laptop computers to 100 million poor children is enriching parts makers more than the principal manufacturer, prompting share prices of Taiwanese suppliers to surge.

Quanta Computer, the lead contractor on the One Laptop Per Child program, faces more pressure than its suppliers, like ENE Technology and Simplo Technology, to keep prices down in a program that envisions computers priced at \$100 each.

"Parts suppliers will enjoy high growth as this initiative reaches a global scale," said Bevan Yeh, who manages assets at Prudential Securities Investment Trust in Taipei. "Quanta's mission is to make laptops at the lowest possible price, so its profit will not be as rosy."

Yeh recently bought shares of ENE, a maker of chips used in the computers. He is considering buying Simplo, which builds batteries for the devices, and Shin Zu Shing, which makes the hinges that attach the screen to the main body. He does not own Quanta, the world's largest producer of notebook computers.

The nonprofit plan was unveiled in January 2005 by Nicholas Negroponte, a founder of the Media Laboratory at the Massachusetts Institute of Technology.

It calls for providing notebook computers to children starting in seven countries: China, India, Brazil, Argentina, Egypt, Nigeria and Thailand.

The laptop will use a free operating system based on Linux and it will be efficient enough to allow hand-cranking power generation in places where electricity is scarce.

Google is to provide Internet software.

Participating governments, which include Brazil, Libya, Nigeria, Rwanda and Uruguay, will help finance the program. The first shipments are expected in June, Tim Li, chief financial officer at Quanta, said last month.

Since Quanta won the contract in December 2005, its shares have risen 3.2 percent, well below the 21 percent gain for Taiwan's benchmark Taiex index.

But shares of ENE and Shin Zu Shing have almost doubled since then and are among the top 100 gainers of the 1,160 stocks traded on the two main Taiwan exchanges. Simplo has climbed 77 percent and Sunrex Technology, which makes keyboards for the computers, has added 34 percent over the period.

"The program will bring lucrative opportunities for Taiwanese laptop computer component makers, and its large scale means high growth potential for these suppliers," said Angela Hsiang, an analyst at KGI Securities in Taipei.

Hsiang predicts the program will account for more than 10 percent of profits for Shin Zu Shing and Sunrex. She estimates that 2007 profit at Sunrex will rise 44 percent, while Shin Zu Shing should post a 55 percent increase.

"Part suppliers enjoy higher profit margins, and their relatively smaller sizes will allow their shares to outperform Quanta," Hsiang said.

And shares in the parts makers do not seem expensive relative to earnings, according to Johnson Chen, an analyst at Polaris Securities.

Simplo, Sunrex and Quanta are traded at about 14 times estimated earnings. On average, companies in the Taiex fetch 21 times earnings.

"People may have underestimated the growth momentum this program will bring for Taiwan's laptop parts makers," Chen said.

Shipments of chips used in the laptop will rise "more significantly in 2008," said Dylan Chung, a spokesman for ENE. He declined to give financial forecasts, since "sales volume very much depends on Quanta's actual shipments," he said.

Negroponte plans to begin the program with shipments of five million to 10 million laptops, Li said. Quanta will initially charge \$150 per unit to cover development costs, and plans to lower prices as the program continues.

He said the company had selected Taiwanese companies with plants in China in a bid to help lower costs, since Quanta anticipated gross profit of less than \$10 on each laptop.

"We will ensure adequate returns for our shareholders," Li said, adding that he expected the program to boost profit in 2007 and 2008.

