

## Parts makers surge on US\$100 laptops

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By George Hsu TAIPEI, Bloomberg

Nicholas Negroponte's plan to give [laptop computers](#) to 100 million poor children is enriching parts makers more than the principal manufacturer.

Taipei, Taiwan-based Quanta Computer Inc., the lead contractor on the One Laptop Per Child program, faces more pressure than suppliers ENE Technology Co. and Simplo Technology Co. to keep prices down, said Bevan Yeh, who helps manage US\$3 billion at Prudential Securities Investment Trust Co. The program [envisions](#) paying US\$100 each for the [computers](#).

"Parts suppliers will enjoy high growth as this initiative reaches a global scale," said Yeh, who's based 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, and he's considering adding Simplo, which builds batteries for the devices, and Shin Zu Shing Co., which makes the hinges that attach the screen to the main body. He doesn't own Quanta, the world's largest notebook-computer producer.

The plan by Negroponte, a founder of the Massachusetts Institute of Technology's Media Laboratory, has attracted partnership from companies such as [Google](#) Inc., Advanced Micro Devices Inc., EBay Inc., and News Corp.

Participating governments, which include Brazil, Libya, Nigeria, Rwanda and Uruguay, will help finance the program. The first shipments are expected in June, Quanta's Chief Financial Officer Tim Li said in an interview on Feb. 16.

Since Quanta won the contract in December 2005, its shares have climbed 3.2 percent, while Taiwan's benchmark Taiex index has gained 21 percent. The company also makes [laptops](#) for Hewlett-Packard Co. and Dell Inc.

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 Taiwan's two main exchanges. Simplo has climbed 77 percent and Sunrex Technology Corp., a keyboard maker for the computers, has added 34 percent in 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 Co. in Taipei.

Quanta will oversee production and is free to choose its parts suppliers. It has selected Taiwanese firms with plants in China in a bid to help lower costs, Li said.

The company will book US\$10 gross profit for each laptop computer it makes under the charity program, the Taipei-based Commercial Times reported on Feb. 7, without citing anyone. Li said the company's per unit profit will be less than that, though he declined to give a specific number.

Hsiang predicts the program will account for more than 10 percent of profits for Shin Zu Shing and Sunrex. She estimates Sunrex's 2007 profit will rise 44 percent and Shin Zu Shing's to increase 55 percent. Hsiang recommends investors buy the two stocks. Her company has a "neutral" rating on Quanta.

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

Of the 17 analysts who cover Quanta, just four recommend investors buy the shares, according to Bloomberg data.

"The program will mean a bigger deal for component suppliers," said Kirk Yang, a Hong Kong-based [technology](#) analyst at Citigroup Inc. Yang estimated the One Laptop Per Child program will account for 5 percent of sales for Quanta.

The combined market value of Shin Zu Shing, Sunrex, ENE Technology, and Simplo is less than a third of the NT\$169.9 billion (US\$5.2 billion) value of Quanta shares.

The parts makers' shares don't appear 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, according to [Bloomberg](#) data. Companies in the Taiex on average fetch 21 times earnings.

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

Even the higher valuations of Shin Zu Shing and ENE, which trade at 17 times and 23 times earnings, don't concern analysts.

Chen has a "buy" recommendation on ENE. Of the 15 analysts who cover Shin Zu Shing, all recommend investors buy the stock.

The nonprofit One Laptop per Child program was announced by Negroponte in January 2005. 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 Linux-based [operating system](#) and be energy-efficient to allow hand-cranking power generation in places where electricity is scarce. It will have about one tenth of the memory capacity used in models that Microsoft Corp. recommends is needed to run its Windows Vista operating system. Google will

provide pre-loaded Internet software.

Shipments of chips used in the laptop will rise "more significantly in 2008," Dylan Chung, ENE Technology spokesman, said in an interview on Feb. 26. Chung declined to give financial forecasts. "Sales volume very much depends on Quanta's actual shipments," he said.

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

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

[Investors](#) betting on shares linked to the program prefer the parts suppliers in part because Quanta's profit margin is shrinking. It fell to 5.1 percent in the third quarter from 6 percent a year earlier, according to a company statement.

"The product certainly looks bigger to smaller companies, which also means their per share earnings growth will be more attractive," said Phil Chen, who manages US\$154 million at Grand Cathay [Securities](#) Investment Trust Co. in Taipei. "For investors, profits are in the laptop's details."



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