

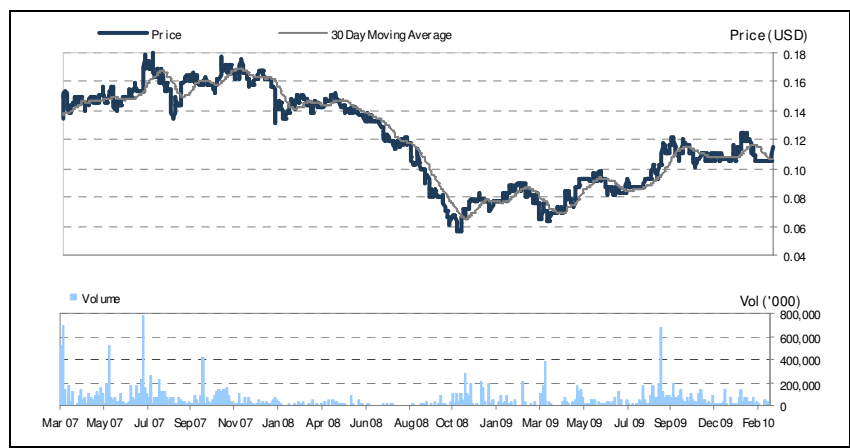
Hotung Investment Holdings

Bloomberg: HIH SP

Reuters: HOTSI

Price: USD0.12

Date: March 2, 2010

GICS: Financials/Asset Management & Custody Banks**Business Summary:** Hotung Investment Holdings' (Hotung) primary businesses are venture capital investment and fund management.**Country of Incorporation:** Bermuda**Head Office Location:** 10 Floor, 261 Sung Chiang Road, Taipei, Taiwan, R.O.C.**Place of Operations:** Taiwan**Website:** www.hotung.com.tw**IR Contact:** Frieda Tseng | frieda@equity.com.tw | 886-2-2500-6700**Analyst:** Lorraine Tan, CFA

Results Review

- Hotung's 4Q09 results were above expectations, with net profit for the year of TWD432.5 mln exceeding our forecast of TWD315.7 mln. This was largely on account of higher-than-expected investment gains.
- Revenue in 4Q09 was supported primarily by the listing of Coxon Precise Industrial (3607 TT, TWD79.60, Not Ranked) as well as further investment gains as a result of buoyant capital markets. Revenue for the year of TWD928 mln was supported by seven new listings and two trade sales. Correspondingly, 2008 saw the listing of just two companies. The seven IPOs in 2009 comprised one listing on the Hong Kong Stock Exchange, five on the Taiwan Stock Exchange and one on the Taiwan OTC market.
- With the rebound in capital markets, group earnings were also supported by lower impairment charges on investments of TWD352 mln in 2009 vs. TWD963 mln in 2008. We estimate that 4Q09 saw impairment provisions on two or three of Hotung's U.S. investments.
- Hotung's balance sheet remains solid, with a net cash position of TWD2.3 bln. Separately, management has proposed a final tax-exempt DPS of TWD0.24.

Earnings Outlook / Estimates Revision

- We expect 2010 revenue to be supported by potentially 10 new listings and bolstered primarily by the listing of MStar Semiconductor, presently the largest investment in Hotung's portfolio.
- While we expect capital markets to be robust, we are of the view that there could be greater market volatility this year, and that listing gains are unlikely to be as sharp as they were in 2009. We also estimate lower trading gains in 2010.
- Overall, we lift our 2010 net profit forecast by 11.5%, primarily on the assumption of higher capital gains on its prospective new listings this year.

Investment Risks

- A key risk is earnings volatility, for the group's performance is very much dictated by capital market activity. Hotung's prospects are also tied to the economic and political risks of the countries in which it invests. Separately, the lack of a track record (since the bulk of Hotung's investee companies are either in the start-up or expansion phase) renders investment risks high. Additionally, there may not be a liquid trading market for these companies which are typically unlisted.

Key Stock Statistics

52-week Share Price Range (USD)	0.06 - 0.13
Avg Vol - 12 months ('000 shares)	653.6
Price Performance (%)	
- 1 month	4.5
- 3 month	4.5
- 12 month	64.3
No. of Outstanding Shares (mln)	1,106.8
Free Float (%)	72.3
Market Cap (USD mln)	127.3
Enterprise Value (USD mln)	61.9
Major Shareholders (%)	
Tai Lung Capital Inc.	14.6
Third Avenue Global Value (Master) Fund	13.1

Per Share Data

	2008	2009	2010E	2011E
FY Dec.				
Book Value (TWD)	5.68	6.95	6.55	7.20
Cash Flow (TWD)	-0.43	0.39	0.35	0.28
Reported Earnings (TWD)	-0.43	0.39	0.35	0.28
Dividend (TWD)	0.00	0.24	0.22	0.18
Payout Ratio (%)	0.0	62.2	65.0	65.0
PER (x)	NM	9.4	10.6	13.2
P/Cash Flow (x)	NM	9.4	10.6	13.2
P/Book Value (x)	0.6	0.5	0.6	0.5
Dividend Yield (%)	0.0	6.6	6.1	4.9
ROE (%)	-6.7	5.9	5.1	4.1
Net Gearing (%)	0.0	0.0	0.0	0.0

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Page 1 of 3

Quarterly Performance

FY Dec. / TWD mln	4Q09	4Q08	% Change
Reported Revenue	265.3	53.5	>100
Reported Operating Profit	154.9	-596.6	NM
Depreciation & Amortization	0.0	0.0	NA
Net interest Income / (Expense)	0.0	0.0	NA
Reported Pre-tax Profit	160.9	-600.8	NM
Reported Net profit	126.6	-598.8	NM
Reported Operating Margin (%)	58.4	>-100	-
Reported Pre-tax Margin (%)	60.7	>-100	-
Reported Net Margin (%)	47.7	>-100	-

Source: Company data

Profit & Loss

FY Dec. / TWD mln	2008	2009	2010E	2011E
Reported Revenue	654.2	928.0	919.0	837.6
Reported Operating Profit	-539.3	454.2	404.1	320.6
Depreciation & Amortization	0.0	0.0	0.0	0.0
Net interest Income / (Expense)	38.2	10.0	16.8	23.1
Reported Pre-tax Profit	-525.4	472.2	423.6	341.7
Effective Tax Rate (%)	NM	8.4	9.6	9.6
Reported Net profit	-538.7	432.5	382.9	308.8
Reported Operating Margin (%)	-82.4	48.9	44.0	38.3
Reported Pre-tax Margin (%)	-80.3	50.9	46.1	40.8
Reported Net Margin (%)	-82.3	46.6	41.7	36.9

Source: Company data, S&P Equity Research

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