

# 4Q disappoints, Story intact

## Strong growth despite reduced estimates, Buy

We cut our FY08 earnings estimate by 16% to factor in disappointing 4Q services growth and delayed shipments in its 3G protocol stack deal with a global Tier one vendor. Maintain Buy on strong forecast EPS CAGR of 72% over FY07-09E, given improving product pipeline and resultant margin leverage in FY08e and FY09e. Based on rolled forward FY09 sum-of parts we are cutting our PO by 4% to Rs630.

## 4Q disappoints, but services should rebound in FY08

4Q PAT declined 1% qoq, missing MLe by 18% due to disappointing flat revenue growth in services due to consolidation issues in the telecom OEM industry. Muted revenue growth and Rupee appreciation resulted in 200bps sequential decline in its services margin. With issues at telecom OEM clients likely to get resolved in the next couple of quarters and inorganic growth from Botnia, we forecast 34% FY08 growth. This is supported by the gross hiring target of 1000.

## Product pipeline improves but could miss FY08 breakeven

Sasken further enhanced its product pipeline through its second multimedia (S series) win with a global tier one and breakthrough in E series deal with Lenovo. However, EBIT margins could continue to be negative during FY08 given likely delays in 3G protocol stack shipment, E series shipments & Rupee appreciation.

## Valuations attractive though stock may languish near term

Our sum-of-parts based target price implies FY09E P/E of 14x, attractive given the strong forecast growth of 72% (FY07-09E). Significant expansion of management bandwidth also reflects confidence in business outlook. However we expect the stock to be rangebound until key product shipments start in 2H FY08.

### Estimates (Mar)

(Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	228	229	443	784	1,313
EPS	7.69	10.01	14.94	26.43	44.29
EPS Change (YoY)	NA	30.3%	49.2%	77.0%	67.5%
Dividend / Share	3.00	3.00	4.66	8.25	13.82
Free Cash Flow / Share	(0.568)	(13.86)	(72.02)	0.472	34.82

### Valuation (Mar)

	2005A	2006A	2007E	2008E	2009E
P/E	68.37x	52.48x	35.18x	19.88x	11.86x
Dividend Yield	0.571%	0.571%	0.887%	1.57%	2.63%
EV / EBITDA*	43.76x	31.26x	20.51x	11.51x	7.40x
Free Cash Flow Yield*	-0.064%	-2.59%	-13.71%	0.090%	6.63%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 9.



Pratish Krishnan >> +91 22 6632 8679

Research Analyst  
DSP Merrill Lynch (India)  
pratish\_krishnan@ml.com

Mitali Ghosh >> +91 22 6632 8661

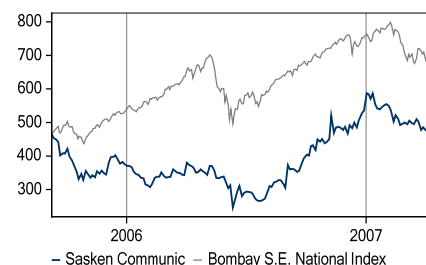
Research Analyst  
DSP Merrill Lynch (India)  
mitali\_b\_ghosh@ml.com

Prasad Deshmukh >> +91 22 6632 8678

Research Analyst  
DSP Merrill Lynch (India)  
prasad\_deshmukh@ml.com

### Stock Data

Price	Rs525.40
Price Objective	Rs650.00 to Rs630.00
Date Established	23-Apr-2007
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs240.15-Rs624.00
Mrkt Val / Shares Out (mn)	US\$359 / 28.5
Average Daily Volume	32,200
ML Symbol / Exchange	SKNCF / BSE
Bloomberg / Reuters	SACT IN / SKCT.BO
ROE (2007E)	11.0%
Net Dbt to Eqty (Mar-2006A)	-3.6%
Est. 5-Yr EPS / DPS Growth	25.0% / 25.0%
Free Float	73.0%



>> Employed by a non-US affiliate of MLPF&S and is not registered/qualified as a research analyst under the NYSE/NASD rules.

Refer to "Other Important Disclosures" for information on certain Merrill Lynch entities that take responsibility for this report in particular jurisdictions.

Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Refer to important disclosures on page 10 to 11. Analyst Certification on page 8. Price Objective Basis/Risk on page 8.

23 April 2007

# *iQprofile*<sup>SM</sup> Sasken Communication Technologies Ltd.

## Key Income Statement Data (Mar)

(Rs Millions)	2005A	2006A	2007E	2008E	2009E
Sales	2,418	3,081	4,771	6,626	8,415
Gross Profit	1,109	1,193	1,796	2,663	3,732
Sell General & Admin Expense	(532)	(574)	(843)	(1,126)	(1,431)
Operating Profit	213	303	491	941	1,625
Net Interest & Other Income	32	63	53	24	(4)
Associates	NA	NA	NA	NA	NA
Pretax Income	245	365	543	965	1,621
Tax (expense) / Benefit	(17)	(69)	(101)	(182)	(308)
Net Income (Adjusted)	228	229	443	784	1,313
Average Fully Diluted Shares Outstanding	30	30	30	30	30

## Key Cash Flow Statement Data

Net Income (Reported)	228	297	443	784	1,313
Depreciation & Amortization	142	194	267	409	476
Change in Working Capital	(124)	(306)	142	(636)	(193)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(17)	(101)	(281)	140	(153)
Cash Flow from Operations	229	85	571	697	1,442
Capital Expenditure	(239)	(472)	(2,624)	(683)	(450)
(Acquisition) / Disposal of Investments	23	(1,800)	1,497	0	0
Other Cash Inflow / (Outflow)	0	0	0	0	0
Cash Flow from Investing	(215)	(2,271)	(1,127)	(683)	(450)
Shares Issue / (Repurchase)	105	2,291	0	0	0
Cost of Dividends Paid	(43)	(58)	(151)	(268)	(449)
Cash Flow from Financing	68	2,229	753	932	(449)
Free Cash Flow	(10)	(387)	(2,053)	13	992
Net Debt	(94)	(140)	567	822	278
Change in Net Debt	(81)	(43)	707	255	(543)

## Key Balance Sheet Data

Property, Plant & Equipment	877	1,011	1,146	1,633	1,738
Other Non-Current Assets	6	2,008	2,559	2,448	2,344
Trade Receivables	541	653	1,108	1,542	1,824
Cash & Equivalents	109	151	349	1,294	1,838
Other Current Assets	239	419	755	533	533
Total Assets	1,772	4,243	5,917	7,451	8,277
Long-Term Debt	15	12	916	2,116	2,116
Other Non-Current Liabilities	NA	NA	NA	NA	NA
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	338	381	778	662	750
Total Liabilities	353	392	1,694	2,778	2,866
Total Equity	1,419	3,850	4,218	4,674	5,410
Total Equity & Liabilities	1,772	4,243	5,912	7,451	8,277

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	15.1%	11.2%	9.9%	13.2%	18.8%
Return On Equity	17.8%	8.7%	11.0%	17.6%	26.0%
Operating Margin	8.8%	9.8%	10.3%	14.2%	19.3%
EBITDA Margin	14.7%	16.1%	15.9%	20.4%	25.0%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	1.0x	0.4x	1.3x	0.9x	1.1x
Asset Replacement Ratio	1.7x	2.6x	12.0x	2.2x	1.3x
Tax Rate (Reported)	7.1%	18.8%	18.5%	18.8%	19.0%
Net Debt-to-Equity Ratio	-6.6%	-3.6%	13.4%	17.6%	5.1%
Interest Cover	45.1x	NM	11.0x	21.4x	36.9x

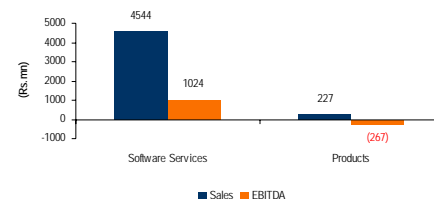
## Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 9.

## Company Description

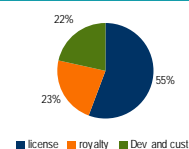
Incorporated in 1989, Sasken is a communication software company with a strong focus on the broadband and wireless software space. Its expertise lies in developing embedded communication software for companies across the communication value chain i.e., network equipment manufacturers, semiconductor vendors and mobile terminal vendors. It follows a hybrid model, offering both products and services to telecom clients.

## Chart 1: Revenue trends- services & products



Source: Company

## Chart 2: Product revenues breakup



Source: Company

## Stock Data

Price to Book Value 3.6x

## 4Q disappoints but story intact, Buy Maintain BUY on strong growth, despite reduced estimates

We are reducing FY08 EPS estimates by 13% to factor lower services revenue, shipment delays in its 3G protocol stack deal with a leading Global Tier one vendor & in its E series deal with Lenovo. We maintain our FY09 estimates, forecasting 2yr EPS CAGR of 72%

We retain our Buy rating given a strong earnings CAGR of 72% over FY07-09E, improving product pipeline (announced its second S series win with a Global Tier one), and likely positive margin swing in FY08e and FY09e.

Based on rolled forward FY09E target multiples we are cutting our PO by 4%, to 630.

### Attractive valuations, but could languish near term

We have used target EV/EBITDA as the key valuation parameter, using Subex as the key comp on the product side and leading mid-tier companies like Hexaware, MphasiS on the IT services side.

Our sum-of-the-parts valuation is at Rs632, which offers 20% upside potential from current levels.

**Table 1: Sum-of-the-parts analysis**

<b>Software</b>	FY09e
EV/ EBITDA multiple	9.5
EBITDA -IT	1692.2
EV Derived	16076.1
<b>Products</b>	
EV/ EBITDA multiple	7.0
EBITDA- Products	408.2
EV derived	2857.3
<b>Total EV</b>	18933.4
Market Capitalisation (Derived)	18734.2
<b>Price / Share</b>	632.0
Upside Potential	20%

Source: Merrill Lynch Estimates

## Product pipeline improves...

Additions to the product pipeline were encouraging, though likely shipment delays in a few deals could push out breakeven. Key updates on deal wins/shipment delays during the quarter are below, with a consolidated product pipeline in [Table 3](#).

**Table 2: What's new in the products business**

Key Positives	Key Negatives
<ul style="list-style-type: none"> <li>First sign up of E series with Lenovo with high royalty/ low licensing mode</li> <li>Another win in its S series with a leading Tier one vendor</li> <li>Shipment commenced for another Japan Tier 1 in April</li> <li>Shipment to commence for S series from a Global Tier one in May</li> </ul>	<ul style="list-style-type: none"> <li>Delay in shipments in its M series deal by a quarter (from 2Q to Early 3QFY08)</li> <li>Delay in shipments in its E series (Likely in 3Q/4Q FY08)</li> </ul>

Source: Company, Merrill Lynch

**Table 3: Bulging product pipeline (April 07)**

Milestones	2.5 G E Series	2.5 G M Series	3G M Series	3G S Series
No of Platform Design-ins as of date	✓ First E series win	5	2	Another Tier one win
No of Phone Models Shipped ( as of dated)	None	None	None	✓ 5 in 4Q vs 4 in 3Q.
No of Phone Models Shipped ( Expected)	Shipment in 3Q/4Q FY08	Shipment in 2Q FY08	☒ Global Tier 1 in 3Q FY08 Global Tier 2 in 3Q FY08	✓ 4 in 4Q vs 3 in 3Q Japan Tier 1- shipping ✓ Second Japan Tier 1 commenced shipping ☒ Global Tier 1- to ship in May 07 Wistron-1Q FY08

Source: Company

Note : ✓ represents new wins, ☒ represents delays in shipments

## ... But could miss breakeven

With delay in shipments from global Tier One and high royalty bearing/low licensing deal from Lenovo, we believe Sasken could miss breakeven in its product business.

While we expect EBITDA from product business to be positive, EBIT margins (post depreciation, amortization) could still be negative during the year.

## Cutting FY08 estimates

### Services business drags

**Management commented that budget decisions of a few of its Telecom Equipment clients got pushed to 4Q**, due to merger related integration issues at the clients' end. This led to subdued (2% US\$) growth rates in IT services division.

With nearly 50% of IT services revenues from Telecom Equipment services and a few clients still evaluating offshore plans, we are cutting down our estimates for services business by 10% each for FY08E and FY09E. We expect services revenues to grow at a CAGR of 28% during FY07-09E as against our earlier estimate of 31% growth.

**Table 4: Revised Estimates**

	Earlier FY08	Revised FY08	Variance (%)	Earlier FY09	Revised FY09	Variance (%)	CAGR New
Sales	7,241	6,626	-8	8,911	8,415	-6	33%
EBITDA	1,644	1,351	-18	2,228	2,100	-6	67%
PAT	900	784	-13	1,329	1,313	-1	72%
EBITDA %	23	20		25	25		
EPS (Rs)	30	26		45	44		72%

Source: Merrill Lynch Estimates

**Fund raising for capex delayed:** Sasken expects capex of Rs 400-450mn for FY08, but highlighted that it is not likely to raise funds, as earlier planned. We believe this implies a shift in strategy from owned to leased property.

Our services growth assumption for FY08 is **more than supported by the gross headcount addition** target of 1000.

## Shipment delays in products to impact FY08

We have also reduced our FY08 revenue estimates on the product segment by 19% to factor in delay in shipments in M Series (3G deal with Tier one), Lenovo deal and rupee appreciation. Sasken product business remains more vulnerable to appreciating rupee as it has high exposure to dollar revenues and has negligible dollar exps.

## 4Q disappoints; Services, Rupee main culprit

Sasken's 4Q results fell short of our expectations. Revenues grew 3.3% qoq, lower than MLe by 9%; profit declined by 1.4%, lower than MLe by 18%.

Key disappointment centered around its services business, where revenue growth was flat and operating margins declined by 200 bps due to the Rupee and higher G&A.

Product business, however, improved, with revenue growth of 110% qoq and recovery in EBITDA margins.

Table 5: 4Q results analysis

Rs m	Q3FY07	Q4 FY07	QoQ	Q4FY06	YoY	MLe	Var%
Net Sales	1310	1354	3.3%	781	73.5%	1487	-8.9%
Cost of Revenues	827	828	0.2%	514	61.2%	911	-9.1%
% to net sales	63.1%	61.2%		65.8%		61.3%	
R&D	50	74	47.1%	22	232.0%	44	67.7%
SG&A	239	242	1.1%	139	73.3%	253	-4.4%
Total Expenditure	1,116	1,144	2.5%	675	69.4%	1208	-5.3%
EBITDA	194	210	8.2%	105	99.9%	278	-24.5%
EBITDA Margin %	14.8%	15.5%	4.7%	13.5%		18.7%	
Depreciation & Amortization	61	103	68.4%	48	112.0%	78	32.2%
EBIT	133	107	-19.3%	57	89.5%	201	-46.5%
EBIT Margin %	10.2%	7.9%	-21.9%	7.3%		13.5%	
Other Income	31	47	52.1%	17	175.9%	3	1359.4%
Interest	10	11	1.0%	0	2952.3%	24	-55.4%
PBT	154	144	-6.2%	73	96.3%	180	-20.0%
Tax	35	27	-22.6%	11	155.7%	38	-28.3%
PAT	119	117	-1.4%	63	86.3%	143	-17.8%
Recurring Profit	119	117	-1.4%	63	86.3%	143	-17.8%
			bps		bps		bps
EBITDA margin	14.8%	15.5%	70	13.5%	205	18.7%	-321
EBIT margin	10.2%	7.9%	-223	7.3%	67	13.5%	-557
PAT margin	9.1%	8.6%	-41	8.1%	60	9.6%	-94

Source: Company, Merrill Lynch

## Financial Tables

**Table 6: Profit and Loss statement**

(Rs.mn)	FY05	FY06	FY07E	FY08E	FY09E
Revenues	2,418	3,081	4,771	6,626	8,415
Cost of Revenues	1,297	1,888	2,976	3,963	4,682
SG&A	532	574	843	1,126	1,431
Total Expenditure	1,829	2,462	3,818	5,089	6,113
EBITDA	355	497	758	1,351	2,100
less Depreciation	142	185	218	305	345
EBIT	213	303	491	941	1,625
Less Interest	5	1	45	44	44
PBT	245	365	543	965	1,621
Income Tax	17	69	101	182	308
Exceptional Items	0	68	0	0	0
Profit after tax	228	229	443	784	1,313
Profit after tax (adj)	228	297	443	784	1,313

Source: Company , Merrill Lynch

**Table 7: Balance Sheet**

<b>SOURCES OF FUNDS</b>					
Share Capital	168	279	285	285	285
Share Application Money	3	0	0	0	0
Reserves and Surplus	1,248	3,571	3,933	4,389	5,125
<b>Total Shareholders fund</b>	<b>1,419</b>	<b>3,850</b>	<b>4,218</b>	<b>4,674</b>	<b>5,410</b>
Loan Funds					
Secured Loans	5	12	909	2,109	2,109
Unsecured Loans	10	0	7	7	7
Total Borrowings	15	12	916	2,116	2,116
<b>Total Sources</b>	<b>1,434</b>	<b>3,862</b>	<b>5,134</b>	<b>6,790</b>	<b>7,526</b>
<b>APPLICATION OF FUNDS</b>					
Fixed Assets					
Good Will	0	0	1,850	1,850	1,850
Gross Block	1,603	1,895	2,326	3,025	3,475
Net Block	870	977	1,095	1,599	1,703
Capital Work in Progress including capital advances	8	34	50	34	34
<b>Total</b>	<b>877</b>	<b>1,011</b>	<b>2,996</b>	<b>3,483</b>	<b>3,588</b>
Capitalised software product costs (net of amortization)	0	141	333	228	124
Investments	6	1,865	368	368	368
<b>Current Assets, Loans and Advances</b>					
Inventories	2	33	8	33	33
Sundry Debtors	541	653	1,108	1,542	1,824
Cash and Bank Balances	109	151	349	1,294	1,838
Loans and Advances	237	385	747	500	500
Gross Current Assets	889	1,223	2,212	3,370	4,195
<b>Less: Current Liabilities and Provisions</b>					
Current Liabilities	254	266	502	547	636
Provisions	84	115	276	115	115
<b>Total</b>	<b>338</b>	<b>381</b>	<b>776</b>	<b>662</b>	<b>750</b>
Net Current Assets	551	842	1,436	2,708	3,444
<b>Total Applications</b>	<b>1,434</b>	<b>3,862</b>	<b>5,134</b>	<b>6,790</b>	<b>7,526</b>

Source: Company , Merrill Lynch

**Table 8: Cash flow Statement**

	FY05	FY06	FY07E	FY08E	FY09E
<b>A. Cash flow from operating activities:</b>					
Net Profit before tax	245	298	543	965	1,621
Adjustments for:					
Depreciation	142	185	218	305	345
Operating profit before working capital changes	380	484	762	1,270	1,966
Adjustments for:					
(Increase)/decrease in Sundry Debtors	-196	-134	-455	-434	-281
(Increase)/decrease in Work in Progress	4	-32	0	0	0
(Increase)/decrease in Loans & Advances	-69	-142	362	-247	0
Increase/(decrease) in Current Liabilities and Provisions	137	1	236	45	89
Cash generated from operations	256	178	672	879	1,750
Direct taxes (paid) / refund received	-27	-94	-101	-182	-308
<b>Net cash from operating activities</b>	<b>229</b>	<b>85</b>	<b>571</b>	<b>697</b>	<b>1,442</b>
<b>B. Cash flow from investing activities:</b>					
Purchase of fixed assets	-239	-331	-447	-683	-450
Acquisitions	0	0	-1,914	0	0
Capitalization of Software product development expenses	0	-141	-263	0	0
Treasury investments	0	-1,803	1,497	0	0
<b>Net cash used in investing activities</b>	<b>-215</b>	<b>-2,271</b>	<b>-1,127</b>	<b>-683</b>	<b>-450</b>
<b>C. Cash flow from financing activities:</b>					
Proceeds from issue of shares (includes share application money)	105	2,291	0	0	0
Dividend paid (inclusive of dividend tax)	-43	-58	-151	-268	-449
Borrowing	0	0	904	1,200	0
<b>Net cash used in financing activities</b>	<b>68</b>	<b>2,229</b>	<b>753</b>	<b>932</b>	<b>-449</b>
Net increase / (decrease) in Cash and Bank balances (A+B+C)	81	43	197	945	543
Cash and Bank balances at the beginning of the year	27	109	151	349	1,294
Cash and Bank balances at the end of the year	109	151	349	1,294	1,838
Free Cash Flow	-10	-387	-2,053	13	992

Source: Company , Merrill Lynch

**Table 9: Ratios**

Key Metrics	FY3/05	FY3/06	FY3/07E	FY3/08E	FY3/09E
Revenue (INR mn)	2,418	3,081	4,771	6,626	8,415
Revenue (USD mn)	54	70	104	149	195
Revenue Growth	45.5%	27.4%	54.8%	38.9%	27.0%
EBIT Growth	36%	42%	62%	92%	73%
EPS (INR)	7.7	7.7	14.9	26.4	44.3
EPS Growth	24.2%	30.3%	49.2%	77.0%	67.5%
EBIT %	8.8%	9.8%	10.3%	14.2%	19.3%
NPM %	9.4%	9.4%	9.2%	11.8%	15.5%
RONW %	20.4%	9.5%	11.8%	18.8%	27.6%
Offshore Revenue	56.0%	73.0%	81.0%	82.0%	82.0%
Rs/USD	45	44	45	42	41

Source: Company , Merrill Lynch

## Price Objective Basis & Risk

Our PO of Rs 630 is based on sum-of-the parts valuation using an EV/EBITDA multiple of 9.5x for services and 7x for products on a FY09E basis. We believe this is fair, given mid tier services companies (Hexaware, Mphasis) trade at target EV/EBITDA of 8-10x on FY09E and product companies such as Subex at 7x.

Company-specific risks: Delays in product shipments, rising employee attrition, Rupee appreciation and possible risk of equity dilution to fund capex plans.  
Industry wide risks: Global slowdown in telecom and growing competition.

## Analyst Certification

I, Pratish Krishnan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## Special Disclosures

In accordance with the SEBI (Foreign Institutional Investors) Regulations and with guidelines issued by the Securities and Exchange Board of India (SEBI), foreign investors (individuals as well as institutional) that wish to transact the common stock of Indian companies must have applied to, and have been approved by SEBI and the Reserve Bank of India (RBI). Each investor who transacts common stock of Indian companies will be required to certify approval as a foreign institutional investor or as a sub-account of a foreign institutional investor by SEBI and RBI. Certain other entities are also entitled to transact common stock of Indian companies under the Indian laws relating to investment by foreigners. Merrill Lynch reserves the right to refuse copy of research on common stock of Indian companies to a person not resident in India. American Depositary Receipts (ADR) representing such common stock are not subject to these Indian law restrictions and may be transacted by investors in accordance with the applicable laws of the relevant jurisdiction. Global Depositary Receipts (GDR) and the Global Depositary Shares of Indian companies, Indian limited liability corporations, have not been registered under the U.S. Securities Act of 1933, as amended, and may only be transacted by persons in the United States who are Qualified Institutional Buyers (QIBs) within the meaning of Rule 144A under the Securities Act. Accordingly, no copy of any research report on Indian companies' GDRs will be made available to persons who are not QIBs.



23 April 2007

**iQmethod<sup>SM</sup> Measures Definitions**

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

*iQmethod<sup>SM</sup>* is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

*iQdatabase<sup>®</sup>* is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Merrill Lynch.

*iQprofile<sup>SM</sup>*, *iQmethod<sup>SM</sup>* are service marks of Merrill Lynch & Co., Inc. *iQdatabase<sup>®</sup>* is a registered service mark of Merrill Lynch & Co., Inc.

## Important Disclosures

### SKNCF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of March 31, 2007 or such later date as indicated.

### Investment Rating Distribution: Technology Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	114	41.76%	Buy	21	20.39%
Neutral	146	53.48%	Neutral	31	22.79%
Sell	13	4.76%	Sell	1	9.09%

### Investment Rating Distribution: Global Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1562	45.16%	Buy	415	30.09%
Neutral	1615	46.69%	Neutral	446	30.65%
Sell	282	8.15%	Sell	49	19.76%

\* Companies in respect of which MLPS&S or an affiliate has received compensation for investment banking services within the past 12 months.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium, and C - High. **INVESTMENT RATINGS**, indicators of expected total return (price appreciation plus yield) within the 12-month period from the date of the initial rating, are: 1 - Buy (10% or more for Low and Medium Volatility Risk Securities - 20% or more for High Volatility Risk securities); 2 - Neutral (0-10% for Low and Medium Volatility Risk securities - 0-20% for High Volatility Risk securities); 3 - Sell (negative return); and 6 - No Rating. **INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure); 8 - same/lower (dividend not considered to be secure); and 9 - pays no cash dividend.

In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale: Sasken Communic.

The country in which this company is organized has certain laws or regulations that limit or restrict ownership of the company's shares by nationals of other countries: Sasken Communic.

The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

## Other Important Disclosures

UK readers: MLPF&S or an affiliate is a liquidity provider for the securities discussed in this report.

---

### Information relating to Non-U.S. affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S):

MLPF&S distributes research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Global (Taiwan) Limited; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (KL) Sdn. Bhd.; Merrill Lynch (Malaysia); Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-U.S. affiliates. MLPF&S is the distributor of this research report in the U.S. and accepts full responsibility for research reports of its non-U.S. affiliates distributed in the U.S. Any U.S. person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

This research report has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited, which is authorized and regulated by the Financial Services Authority; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co, Ltd, a registered securities dealer under the Securities and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC; is issued and distributed in Taiwan by Merrill Lynch Global (Taiwan) Ltd or Merrill Lynch, Pierce, Fenner & Smith Limited (Taiwan Branch); is issued and distributed in Malaysia by Merrill Lynch (KL) Sdn. Bhd., a licensed investment adviser regulated by the Malaysian Securities Commission; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd (Company Registration No.'s F 06872E and 198602883D respectively). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited, (ABN 65 006 276 795), AFS License 235132, provides this report in Australia. No approval is required for publication or distribution of this report in Brazil.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.

### Copyright, User Agreement and other general information related to this report:

Copyright 2007 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. This research report is prepared for the use of Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Merrill Lynch. Merrill Lynch research reports are distributed simultaneously to internal and client websites eligible to receive such research prior to any public dissemination by Merrill Lynch of the research report or information or opinion contained therein. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) prior to Merrill Lynch's public disclosure of such information. The information herein (other than disclosure information relating to Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. Merrill Lynch makes no representations or warranties whatsoever as to the data and information provided in any third party referenced website and shall have no liability or responsibility arising out of or in connection with any such referenced website.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch Research policies relating to conflicts of interest are described at <http://www.ml.com/media/43347.pdf>.

Fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.

iQmethod, iQmethod 2.0, iQprofile, iQtoolkit, iQworks are service marks of Merrill Lynch & Co., Inc. iQanalytics®, iQcustom®, iQdatabase® are registered service marks of Merrill Lynch & Co., Inc.