



Tue Sep 05 18:34:28 EDT 2006

ASE TEST LTD (ASTSF)
Semiconductor Equipment



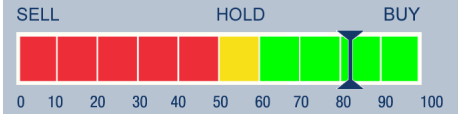
Overall Grade: ASTSF 82.5

Market Grader

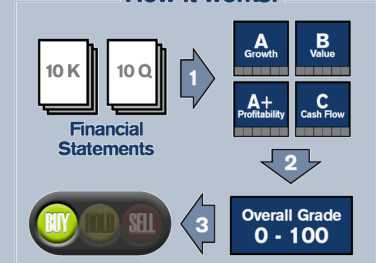
ASTSF Overview

Company Scores Remarkable Fundamental Grades - MarketGrader currently has a BUY rating on ASE TEST LTD (ASTSF), based on a final overall grade of 82.5 scored by the company's fundamental analysis. ASE TEST LTD scores at the 99th percentile among all 5641 U.S. listed equities currently followed by MarketGrader. Our present rating dates to May 2, 2006, when it was upgraded from a HOLD. With an overall grade of 82.5, ASE TEST LTD is the highest graded company in the Semiconductor Equipment sub-industry, followed by INTEVAC INC (IVAC), with an overall grade of 81.7. The stock has performed poorly in the last six months in relative terms, down 4.36% compared with the Semiconductor Equipment sub-industry, down 3.0% and the S&P 500 Index, up 3.05%. Please go to pages two and three of this report for a complete breakdown of ASTSF's fundamental analysis.

Stock Price	09/01/2006	\$8.78
Earnings Estimates		
Last Earnings Release	08/02/2006	
Last Qtr. Actual vs. Est.	\$0.36 / \$0.24	
Next Release	10/27/2006	\$0.32
Year Ending	12/31/2006	\$0.95
Year Ending	12/31/2007	\$1.21

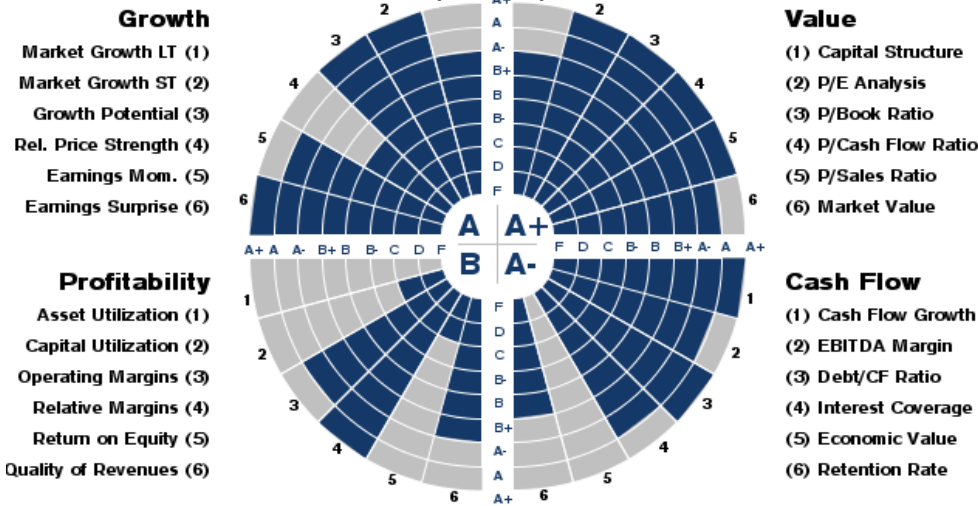


How it works:

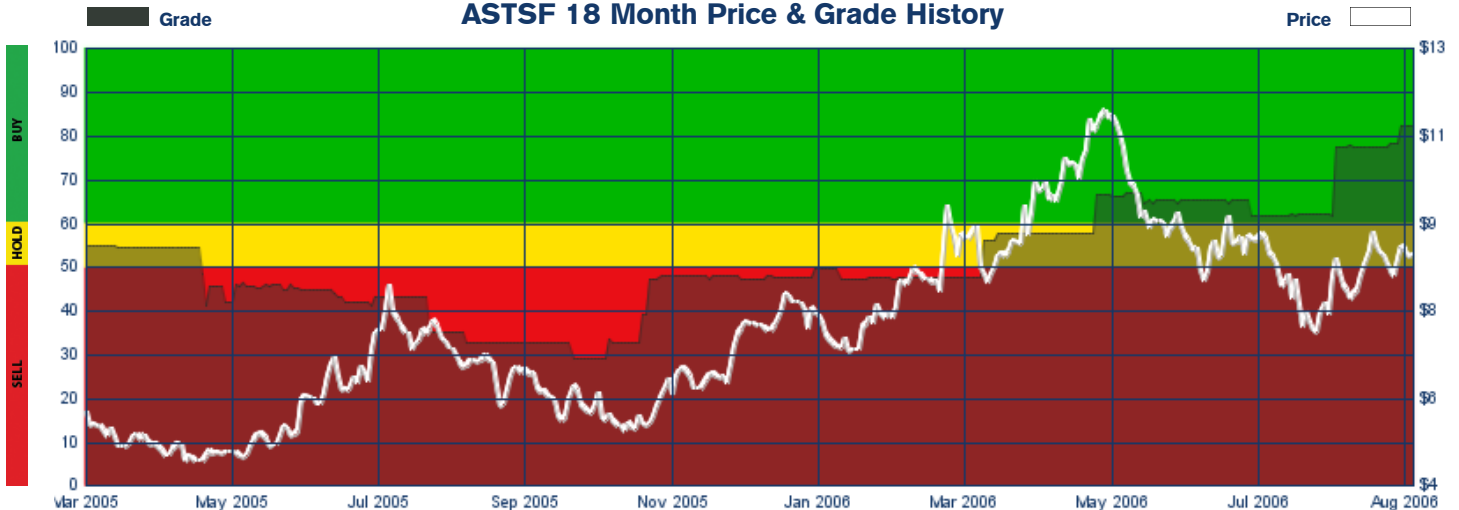


The picture above illustrates, in a simple way, how the MarketGrader stock rating system works. Every day the system gathers up to five years of historical financial data from each company it covers. All data compiled is from annual and quarterly company reports and it does not include any analyst estimates, price targets or any other form of forward looking information. All numbers are then broken down into four unique grading categories: Growth, Value, Profitability and Cash Flow. Each category contains six fundamental indicators, determined by the company's industry. Some of the figures used in the creation of these indicators (for example earnings from operations or cash flow), are not incorporated in the analysis as reported by the companies, but built by the MarketGrader system from its own methodology to ensure identical accounting standards across all companies. Each of the 24 fundamental indicators is individually graded based on a nine letter scale of A+ to F. The grade composition chart on the left breaks down the analysis of the company presented in this report, allowing you to see the indicators used. It provides a bird's eye view of the company's strengths and weaknesses. Pages two and three of the report explain the factors contributing to each indicator's grade. Finally, the MarketGrader system compiles all 24 fundamental indicators into an overall company grade, on a 0 to 100 scale. This final grade determines the MarketGrader Buy, Hold or Sell rating, illustrated by the traffic light on the upper right corner of every page on this report.

ASTSF Grade Composition



ASTSF 18 Month Price & Grade History





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Overall Grade: **ASTSF 82.5**

Market Grader

Fundamental Analysis

Growth: Remarkable Growth Trend

ASE TEST LTD continues to demonstrate outstanding top and bottom line growth performance. Compared to full year results published three years before, the company's annual revenue grew 39.4% during its fiscal year ended December 31, 2005 while year to year quarterly sales increased 50.1% in its most recently reported quarter. During its most recent quarter the company reversed a loss posted in the same quarter a year ago with a \$53.2 million profit; its annual results for the most recent fiscal year close reduced its losses by 43. ASTSF's ability to exceed earnings estimates with its latest earnings release on August 2, 2006 generated momentum for the stock, reflected by a 14.1% price increase in the days surrounding the announcement. The company is averaging a 240.2% earnings surprise (difference between expected and actual earnings) over its last six reported quarterly figures, which means it's consistently managing to beat quarterly Wall Street estimates, an important driver of stock price momentum.

Grades

Growth **A**

Market Growth LT **A-**

Market Growth ST **A+**

Growth Potential **A+**

Rel. Price Str. **B**

Earnings Momentum **A**

Earnings Surprise **A+**

Value: Exceptional Value Indicators

ASTSF trades at about 9.05 times earnings per basic share (excluding extraordinary items); this compares very favorably to the MarketGrader-calculated optimum PE ratio of 20.2, based on a historical 9.48% EPS growth rate, suggesting the stock is significantly undervalued. Our optimum PE Analysis assigns each stock the highest possible valuation afforded by its long term EPS growth rate; this historical growth rate measures the average year-to-year change in earnings per share for the company's last eight quarters (when available). Given the company's strong revenue and earnings per share growth rates, ASTSF may be gaining market share without sacrificing profitability. The stock trades at 1.63 times tangible book value per share (tangible book value is based on the company's common equity minus intangibles such as goodwill); this is an attractive valuation were management to undertake steps in an attempt to unlock the true value of assets on the balance sheet. It trades also at 3.53 times cash flow per share, a sign that investors are assigning relatively little value to the company's non-cash assets and its earnings potential. ASTSF trades favorably at 1.74 times trailing 12-month sales, a 32.52% discount to the Semiconductor Equipment industry average price to sales ratio of 2.58. The company's market capitalization of \$878.58 million is 10.55 times its latest quarterly net income (including depreciation), representing a very attractive valuation.

Value **A+**

Capital Structure **A-**

P/E Analysis **A+**

Price/Book Ratio **A+**

Price/Cash Flow **A+**

Price/Sales Ratio **A+**

Market Value **A**



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Fundamental Analysis

Profitability: Average Operating Results

ASE TEST LTD exhibits acceptable operating performance with a weak 15.7% return on equity. The company's leverage, with long term debt accounting for a minimal 17.55% of total capital, seems prudent at these levels, especially considering its unimpressive return on equity. The balance sheet looks exceptionally sound considering the company had \$178.62 million in cash on hand in the most recent quarter and \$247.49 million in total debt. The company's latest annual net income of -\$35.5 million (for fiscal year ended December 31, 2005) compared to its \$ 940.3 million in assets is an indication of very poor operating efficiency from the perspective of our Asset Utilization indicator. Especially important are ASTSF's operating margins of 49.3%, 165.8% higher than the 18.54% Semiconductor Equipment Industry average.

Grades

Profitability **B**

Asset Utilization	F
Capital Utilization	C
Operating Margins	A
Relative Margins	A+
Return on Equity	C
Quality of Revenues	A-

Cash Flow: Strong Cash Position Suggests Healthy Outlook

ASTSF displays very robust year-to-year cash flow growth reversing a year earlier negative and a very remarkable EBITDA (earnings before interest, taxes, depreciation and amortization) margin of 49.3%. The company maintains a somewhat conservative capital structure considering it only has \$247.49 million in debt and it generated \$83.3 million in cash flow in its last quarter ended June 30, 2006; this compares to -\$26.1 million for the same quarter a year before. ASTSF's economic value added is very unacceptable based on a moderate cost of debt and high cost of equity, when compared to a -5.77% return on investment. The company is financing its robust growth at least in part organically supported by an average 15.69% reinvestment rate over the last four quarters.

Cash Flow **A-**

Cash Flow Growth	A+
EBITDA Margin	A
Debt/Cash Flow	A+
Interest Coverage	A
Economic Value	F
Retention Rate	B+



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Profile

ASE Test Ltd. believes that it is one of the world's largest independent semiconductor testing companies, providing a complete range of testing services, including: front-end engineering testing at the company's facilities in the Silicon Valley area in California and Austin, TX, near many of the major semiconductor design houses in the U.S.; final testing of complex, high-performance logic/mixed-signal semiconductors at the company's facilities in Taiwan, Malaysia, Singapore, the Silicon Valley area in California and Austin, TX; and turnkey services, which include drop shipment of tested and packaged semiconductors to end users designated by the company's customers. In addition, the company also provides a broad range of leadframe and laminate-based semiconductor packaging services, including ball grid array (BGA), quad flat packages (QFP), and thin quad flat packages (TQFP) at the company's facilities in Malaysia. The company has a close working relationship with ASE Inc., its parent company, and its facilities in Kaohsiung are located close to the facilities of ASE Inc., which enables the company to provide value-added services to its customers. A substantial majority of its net revenues from testing services performed at the company's Kaohsiung facilities has historically been, and is expected to continue to be, derived from customers who are also customers of ASE Inc. The company focuses primarily on testing complex, high-performance logic/mixed-signal semiconductors and packaging high pin-count semiconductors. In 2004, approximately 98% of its net testing revenues was derived from testing complex, high-performance logic/mixed-signal semiconductors and approximately 51% of its net packaging revenues was derived from packaging high pin-count semiconductors. Semiconductors tested and packaged by the company are used in diverse end-use markets, including communications, consumer electronic, personal computer and industrial products and other applications.

Financials **Last Qtr.** **Last Fiscal Yr.**
(06/30/2006) (12/31/2005)

Income Statement

Revenue	\$143.87	\$420.93
Net Income	\$53.20	(\$35.48)
EPS	\$0.53	(\$0.46)
Cash Flow	\$83.28	\$107.98

Balance Sheet

Total Assets	\$1,094.34	\$940.34
Total Debt	\$247.49	\$295.05

All numbers in millions except for EPS

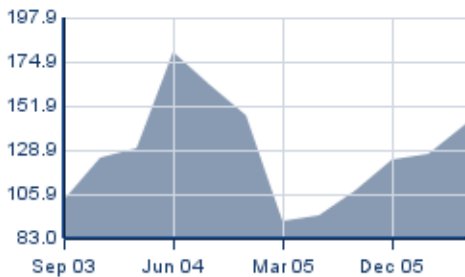
Ratios **Grades**

Price/Earnings	9.1	A+
Price/Book	1.6	A+
Price/Cash Flow	3.5	A+
Price/Sales	1.7	A+
Debt/Cash Flow	1.9	A+
Return On Equity	15.7%	C
Operating Margin	49.3%	A

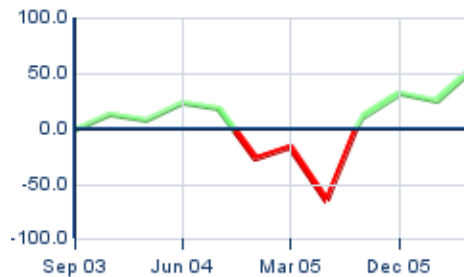
Share Data

Price (09/01/2006)	\$8.78
52 Week High	\$11.59
52 Week Low	\$5.37
Average 3 Month Volume	299,846
Market Cap.	\$878.58 M
Shares Outstanding	99,068,000
Float	N/A

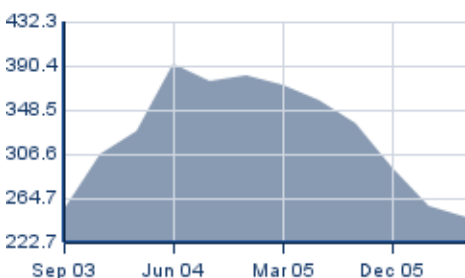
Revenue - 3Y



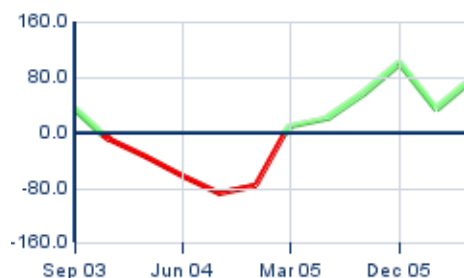
Net Income - 3Y



Total Debt - 3Y



Free Cash Flow* - 3Y



* Calculated as Net Cash Flow Minus Cash Dividends



Market Grader

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Stock Performance - 1 Year (%)



50 & 200 Day Moving Average - 1 Year



10 YR Stock Price



Market Share

Share%	Company (total 65)	1Y%	3Y%	Grade
1 21.1	APPLIED MATERIALS INC	22.9	23.3	78.6
2 9.0	ASML HOLDING NV	9.5	9.5	73.8
3 6.5	ADVANTEST CORP	6.4	3.7	64.7
4 6.3	AMKOR TECHNOLOGY INC	5.4	6.5	66.8
5 6.3	KLA-TENCOR CORP	4.3	7.5	43.7
6 5.0	LAM RESEARCH CORP	4.3	3.5	75.1
7 4.0	NOVELLUS SYSTEMS INC	3.9	3.9	62.0
8 3.3	MEMC ELECTRONIC MATRIALS INC	2.9	3.2	70.0
9 3.2	TERADYNE INC	5.1	5.6	66.8
20 1.3	ASE TEST LTD-[20/65]	1.8	1.4	82.5

Peer Comparison

Company (total 65)	Grade Rating	Revenue* in millions	EPS*	Earnings Surprise**	PE Ratio	ROE	Market Cap in millions
ASE TEST LTD-[1/65]	82.5 ●	\$143.9	\$0.53	240.2%	9.1	15.7%	\$878.6
INTEVAC INC	81.7 ●	\$59.5	\$0.44	106.3%	11.1	30.1%	\$366.9
EAGLE TEST SYSTEMS INC	80.0 ●	\$36.8	\$0.47	74.0%	12.5	21.4%	\$355.7
APPLIED MATERIALS INC	78.6 ●	\$2,543.4	\$0.33	10.0%	26.3	15.2%	\$25,831.1
LAM RESEARCH CORP	75.1 ●	\$525.6	\$0.87	14.7%	17.4	24.0%	\$5,390.5
MKS INSTRUMENTS INC	74.0 ●	\$198.4	\$0.44	28.5%	19.5	7.1%	\$1,180.6
ASML HOLDING NV	73.8 ●	\$1,243.7	\$0.46	16.7%	24.8	20.2%	\$10,576.0
ICOS VISION SYSTEM NV	73.5 ●	\$40.2	\$0.91	17.5%	12.6	24.4%	\$400.8
ADVANCED ENERGY INDS INC	71.8 ●	\$104.6	\$0.40	50.2%	20.6	10.7%	\$646.8
MEMC ELECTRONIC MATRIALS INC	70.0 ●	\$370.5	\$0.37	2.0%	27.4	34.0%	\$8,329.0

*As reported for most recent quarter **Average of last six quarters

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