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HTC Files Complaint in Taiwan Against Citigroup Employee (1)
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(Adds Citigroup report in third paragraph, analyst ratings in ninth paragraph.)

By Tim Culpan and Adela Lin

Dec. 13 (Bloomberg) -- HTC Corp., the biggest seller of smartphones in the U.S., filed a complaint in Taiwan against a Citigroup Inc. employee after the broker downgraded its recommendation on the company, preceding a 59 percent drop in the handset maker's shares.

"HTC submitted the case in August against a person at Citigroup Global Markets" in relationship to alleged violations of the Securities and Exchange Act, Huang Mou-hsin, deputy chief prosecutor at the Taipei District Prosecutors Office, said by phone today. He declined to identify the person and said investigations are continuing. Annie Lu, a spokeswoman for Taoyuan, Taiwan-based HTC, declined to comment.

Citigroup, the best-performing broker covering HTC, on July 7 cut the stock to "sell" from "buy," citing corporate governance concerns over its purchase of S3 Graphics Co., competition from Samsung Electronics Co. and slowing demand. HTC last month cut its sales forecast citing competition and prompting at least six brokers to downgrade the stock.

"Given the matter is being reviewed by the authorities, it would be inappropriate for us to provide any comments,"

Citibank said in an e-mailed response to queries today. HTC hasn't publicly named the Citigroup employee or cited what information it has concerns over.

HTC Vs Citi

HTC climbed 2.7 percent to close at NT\$426 today in Taipei, stemming its decline to 50 percent this year. The benchmark Taiex index lost 0.8 percent today taking it to a drop of 23 percent for the year.

HTC filed a suit against an analyst at Citigroup, alleging the person disseminated false information that affected the handset maker's share price, the Taipei-based Commercial Times reported today, without saying where it got the information.

The handset maker's close relationship with operators, and customers delaying purchases of Apple Inc.'s latest iPhone, helped HTC become the leading seller of smartphones in the U.S. last quarter, according to researcher Strategy Analytics Inc.

HTC shares have dropped 59 percent since July 6, the day before Citigroup Taipei-based analysts Kevin Chang and Jonathan Gu published a report outlining their downgrade and cut their 12 month price target by 37 percent.

They revised their recommendation to "hold" in September, after the stock had dropped more than 30 percent, and then again rated it "sell" on Nov. 23.

100% Return

Investors who followed Citigroup's recommendations on HTC would have netted a 100 percent return on the stock over the past year, ahead of a 64 percent return on calls made by HSBC Holdings Plc analysts, according to Bloomberg data. Seven brokers now advise investors to sell the stock compared with five who say "buy" and 24 "hold" recommendations.

HTC's \$300 million acquisition of 3S Graphics, announced July 6, "will almost certainly raise concerns given the potential conflict of interest" because its Chairwoman Cher Wang is also a significant shareholder in the target company, the Citigroup analysts wrote then.

Chief Financial Officer Winston Yung disagreed in a July 7 interview, saying the deal is transparent and the valuation was independently assessed.

Competition from Samsung may also hurt HTC because the Seoul-based company's Galaxy handsets are outperforming HTC's Sensation in benchmark tests conducted by professional Websites, the analysts wrote.

Spreading Rumors

On June 29, HTC filed a statement to the Taiwan Stock Exchange over a Bloomberg News report citing a Deutsche Bank AG sales note that said there's market speculation the company may not meet its second-quarter shipment guidance.

"If we find that someone is trying to spread rumors or false information with the intent to influence our stock price, we will take necessary legal actions to protect the rights of our shareholders and ourselves," HTC said in the filing.

HTC on Nov. 23 cut its fourth-quarter sales guidance by about 20 percent, less than a month after forecasting revenue may climb to a record, citing competition and the global economy. That move prompted at least six brokers including Citi and Credit Suisse Group AG to cut their ratings on the stock.

"We think HTC's product offering is no longer ahead of its global peers, which is leading to muted shipments growth and market share decline in coming quarters," KGI Securities Co. Taipei-based analyst Richard Ko wrote the following day.

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--With reporting by Janet Ong in Taipei. Editors: Anand Krishnamoorthy, Frank Longid

To contact the reporter on this story:

Tim Culpan in Taipei at +886-2-77191541 or tculpan1@bloomberg.net

Adela Lin in Taipei at +886-2-7719-1536 or alin95@bloomberg.net

To contact the editors responsible for this story:

Michael Tighe at +852-2977-2109 or

mtighe4@bloomberg.net.

Douglas Wong at +852-2977-6451 or

dwong19@bloomberg.net;

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