LEADING

Samsung Electro-Mechanics (009150)

Remember, BGA?

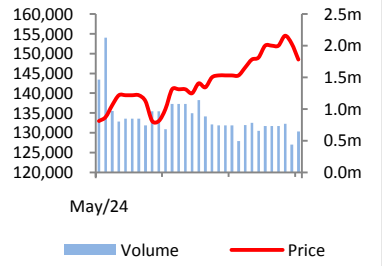
24 Jun 2010 **₩ 148,000**

Sector: Electronic Component

Reason for report: Company Visit

Shares Out	74.7 bn KOSDAQ		1,725.8 pt
M. Cap	11,092.0 M. Cap $		9,338.3 mn
Foreign	21.1 % Daily Vol		142.9 bn
Par	5,000 Return 1M		9.2 %
1yr High	154,500	6M	46.3 %
1yr Low	58,800		

Price/Volume

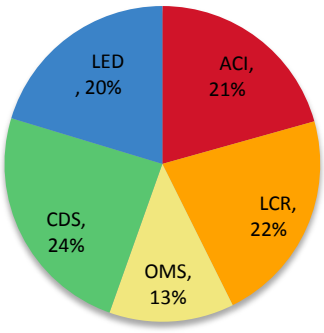


Source : FnGuide

Shareholdings

	Share(K)	(%)
Samsung Electronics	17,697	23.69
Mirae Asset	5,379	7.20
National Pension Ser.	5,311	7.11
Treasury Shares	242	0.33

Business Mix (2010 1Q)



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Summary

Strong BGA (Ball Grid Area, part of ACI division) sales are to lead an improvement in the overall operating margin to the 12% range in 2Q'10 (vs. 8.5% for 1Q'10) – thanks to the strong demand for memory in its captive market(Samsung Electronics), in 2Q'10 BGA sales are likely to increase to 19% QoQ (18% YoY). Henceforth, as been broadly known, the explosive earnings momentum of Samsung Electro Mechanics' (SEMCO) indeed seems to be, due to the strong sales of MLCC and LED, but yet also, due to the BGA business as well – which has not been paid enough attention thus far. We find trends of strength in BGA to remain intact throughout the end of 2010.

Catalyst

Given the strong demand for IT applications (e.g., tablet PCs, smart-phones), we expect SEMCO's utilization rate in the BGA and the MLCC segment to reach above 95% in 2H10FY. Accounting for 43% of total sales in 1Q'10, via its captive market's memory expansion, along with growth also in TVs/notebooks, the ACI (Advanced Circuit Interconnection) and LCR (MLCC) divisions are expected to lead its overall sales and operating profit in 2Q10. For HDI, which accounts for 40% of the ACI divisions, once again as well known, in order to cut down on costs (especially in labor), all its plants are to be in China. Therefore, though the actual impact of the cost cutting effect is difficult to determine for now, we expect 10% of total HDI production to come from its plants in China 2010FY – which is to grow, up to 30% by 2011FY. Hence, the improved operating margin in the HDI division is to eventually generate a more positive outcome to 2011FY SEMCO's overall earnings.

₩		Sales	yoy	OP	yoy	NP	yoy	EPS	P/E	P/B	ROE	Net Debt
FY 31/12		bn	%	bn	%	bn	%	bn	x	x	%	bn
2007	A	2,690	12.4	88	1,498.4	113	15.2	1,454	34	1.9	6.0	2,473
2008	A	3,100	15.2	84	-4.6	48	-57.4	620	54	1.3	2.5	2,320
2009	A	3,192	3.0	216	155.8	278	479.2	3,589	30	3.2	12.3	2,084
2010	E	3,922	22.9	413	91.1	527	89.3	6,885	22	3.7	18.6	2,391
2011	E	4,348	10.9	477	15.6	611	15.9	7,998	19	3.1	18.0	2,490
2012	E	4,569	5.1	502	5.3	651	6.5	8,535	17	2.6	16.2	2,582

Source: FnGuide Consensus

Earnings

The strong top-line is to maintain healthy 2Q'10. Due to the sequential growth in sales of MLCC, LED and the upturn in BGA, we expect the consolidated revenue and the operating profit for 2Q10 to be well above the market consensus (2Q sales QoQ +7%, OP QoQ +19%). Divisionally, MLCC and LED sales are expected to grow 13% QoQ and 25% QoQ, while operating margins are 20% and 21% respectively. Moreover, as the smart-phone CSP demands are on a positive turn upwards, the FC-CSP revenue is also showing growth at 30% QoQ.

Table 1: Sales Contribution in key business

Business Mix		09.2Q (bn ₩, %)		10.1Q (bn ₩, %)		10.2QF (bn ₩, %)		YoY	QoQ
ACI		339	26%	335	21%	356	20%	5%	6%
	BGA(CSP)	135	10%	134	8%	160	9%	18%	19%
	FC-BGA	51	4%	67	4%	68	4%	33%	1%
	HDI(PCB)	152	12%	134	8%	128	7%	-16%	-4%
LCR		293	22%	357	22%	430	24%	47%	20%
	MLCC	205	16%	268	16%	344	19%	68%	28%
	Etc	88	7%	89	5%	86	5%	-2%	-4%
LED		60	5%	330	20%	400	22%	567%	21%
	LCD-TV	26	2%	198	12%	300	17%	1036%	52%
	Handset	19	1%	66	4%	40	2%	115%	-39%
	Lighting	9	1%	33	2%	40	2%	344%	21%
	Notebook	6	0%	33	2%	20	1%	233%	-39%

Important Disclosures can be found on the last page of this document

Table 2: Global Peer Valuation

Company	Sales (mn ￥,$)		OP m. (mn ￥,$)		P/E (x)		P/B (X)		EV/EBITDA(x)		ROE (%)	
	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E
Ibiden	311	330	36	42	17.3	14.0	1.4	1.3	-7.7	-6.1	8.6	9.7
Nan ya PCB	37,158	46,169	4,280	7,607	20.5	12.1	2.4	2.2	-1.8	-2.3	12.1	18.8
Shinko	162	173	16	19	19.3	16.0	1.3	1.2	-4.8	-4.3	6.7	7.3
Murata	599	643	68	83	20.9	17.3	1.2	1.2	-5.3	-4.9	5.8	6.5
TDK	887	937	66	80	14.7	12.1	1.2	1.1	17.5	115.6	8.1	9.2
Taiyo Yuden	220	233	14	18	20.5	15.3	1.1	1.0	14.6	23.9	5.6	6.4
Cree	867	1,231	232	343	41.3	30.0	3.7	3.3	-0.3	-0.5	10.5	12.4
Toyoda Gosei	526	553	34	41	16.5	13.5	1.4	1.3	-18.2	-11.3	8.4	9.6
Average					21.4	16.3	1.7	1.6			8.2	10.0

source : Datastream I/B/E/S

Table 3: Quarterly Earnings Summary (K-IFRS)

(bn ₩)	09.1Q	09.2Q	09.3Q	09.4Q	10.1Q
Sales	**1,157**	**1,316**	**1,548**	**1,553**	**1,623**
ACI	271	338	391	340	335
LCR	214	292	352	352	357
OMS	363	356	402	450	207
CDS	307	328	402	410	393
LED	47	60	77	105	330
OP	**-7**	**129**	**207**	**136**	**119**
ACI	-2	40	61	31	8
LCR	4	52	86	59	52
OMS	3	20	34	32	-1
CDS	-12	15	25	12	6
LED	2	9	20	27	54
Op. m %	**-0.7%**	**9.8%**	**13.4%**	**8.8%**	**8.5%**
ACI	-1.0%	11.9%	15.6%	9.4%	2.6%
LCR	2.0%	18.0%	24.5%	17.0%	14.6%
OMS	0.8%	5.8%	8.5%	7.2%	-0.4%
CDS	-4.0%	4.6%	6.3%	3.0%	1.4%
LED	5.4%	15.0%	26.9%	25.6%	16.3%

Source: SEMCO, Leading Investment & Securities research center

Fig.1 P/B Band

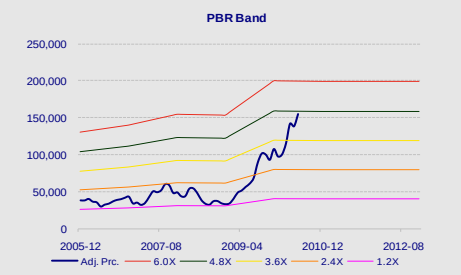
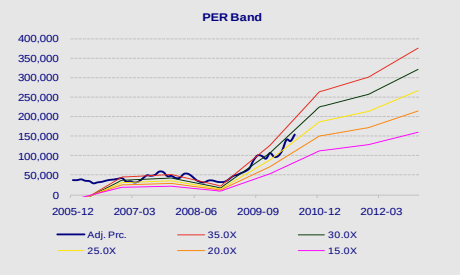


Fig.2 P/E BAND



Source: Leading Investment & Securities research center

Financial Statement & Ratio

Unit: W bn,Won

Balance Sheet	200612	200712	200812	200912
Current Asset	674	720	768	1,353
Cash&ST Financial Instr.	194	211	204	815
ST Investment Securities	0	0	0	0
Trade Receivables	216	196	217	278
Inventories	160	221	245	174
Other CurrentAssets	104	92	102	85
Fixed Assets	2,402	2,470	2,426	2,856
Invest. securities	519	629	470	900
Invest. Securities on VEM	311	377	466	686
Depreciable Assets	1,078	1,134	1,118	994
Other Fixed Assets	495	330	372	275
Assets	3,077	3,190	3,193	4,210
Current Liability	847	473	575	1,114
Trade Payables	149	214	193	177
ST Debt., Cur.Por. of LT Debt	399	50	150	620
Other Current Liabilities	299	209	232	317
Fixed Liabilities	428	749	664	521
Debentures, LT Borrowings	300	600	500	349
Other Fixed Liabilities	128	149	164	172
Liabilities	1,275	1,223	1,239	1,635
Capital Stock	388	388	388	388
Capital Surplus	1,080	1,078	1,077	1,132
Capital Adjustments	18	-5	-5	-10
Accum. Other Compr. Income	41	158	138	450
Retained Earnings	274	348	356	615
Stockholders' Equity	1,801	1,967	1,954	2,574

Income Statement	200612	200712	200812	200912
Sales	2,394	2,690	3,100	3,192
Cost of Sales	1,966	2,168	2,544	2,520
Gross Profit	428	523	556	672
SG&A Expenses	422	434	472	456
Personnel Expenses	105	123	129	134
Depreciation	13	16	12	11
Amortization of Intan.Assets	1	1	2	0
R&D Expenses	190	177	205	183
Others	113	117	124	128
Operating Profit	6	88	84	216
Non-operating I/E	110	67	-14	148
Interest Income	10	8	9	14
Interest Expenses	32	32	37	49
Dividend Income	15	6	11	8
G/L on Securities	0	3	-1	-4
G/L on Foreign Currencies Trar	2	-1	1	-4
G/L on FX Translation	4	-3	-9	0
G/L on VEM	96	67	20	137
Others	16	19	-8	46
Pretax Continued Income	116	156	70	364
Taxes on Continued Operation	18	43	22	86
Continued Operation Income	98	113	48	278
Disontinued Operation Income	0	0	0	0
Tax Effect	0	0	0	0
Net Income	98	113	48	278
EPS	1,261	1,452	618	3,588

Cash Flow Statement	200612	200712	200812	200912
Operating Cashflow	257	437	241	402
Net Profit(Loss)	98	113	48	278
Expenses Without CF	224	294	336	89
Dep.& Amor.	230	247	232	208
Others	-6	46	104	-120
Operating A/L Chg.	-64	31	-143	34
Incr.(Decr.) in Tr.Receiv.	-48	13	-44	-101
Incr.(Decr.) in Invent.	-30	-61	-51	73
Incr.(Decr.) in Tr. Payables	11	62	-5	29
Others	2	17	-43	33
Investong Cashflow	-349	-222	-233	-133
Disp.(Acq.) of Tan. Assets	-339	-229	-259	-126
Decr.(Incr.) in Intan. Assets	-5	-4	-5	-9
Decr.(Incr.) in Invest. Assets	-1	13	32	-4
Others	-4	-3	0	5
Financing Cashflow	125	-202	-18	346
Incr.(Decr.) in Debts	50	-50	0	20
Incr.(Decr.) in Bonds	0	0	0	299
Incr.(Decr.) in Shareholders'	0	-61	-39	-41
Dividend	0	-39	-39	-19
Incr.(Decr.) in Capital Adj.	0	-23	0	-22
Others	75	-91	21	68
Net Cashflow	33	12	-9	614
Cash at the Beginning	151	184	197	187
Cash at the End	184	197	187	801

Financial Ratio (%)	200612	200712	200812	200912
Growth(%)				
Sales Growth Rate	7.3%	12.4%	15.2%	3.0%
Operating Income Growth Rate	TB	1498.4%	-4.6%	155.8%
EBIT Growth Rate	TB	200.7%	-25.5%	201.7%
EBITDA Growth Rate	67.1%	35.6%	-12.4%	47.5%
EPS Growth Rate	TB	15.1%	-57.4%	479.2%
Stability(%)				
Current Ratio	79.6%	152.1%	133.4%	121.4%
Net Int. Liab. to Equity	28.1%	22.3%	22.8%	6.0%
Debt to Equity Ratio	70.8%	62.1%	63.4%	63.5%
Interest Coverage Ratio (X)	0.2	2.7	2.3	4.4
Profitability(%)				
Operating Income Margin	0.2%	3.3%	2.7%	6.8%
EBIT Margin	1.6%	4.3%	2.8%	8.2%
EBITDA Margin	11.2%	13.5%	10.3%	14.7%
ROA	3.3%	3.6%	1.5%	7.5%
ROE	5.6%	6.0%	2.5%	12.3%
ROIC	2.3%	6.2%	4.5%	20.8%
Activity(Times)				
Trade Receiv. Turnover	12.3	13.1	15.0	12.9
Inventory Turnover	12.8	11.4	10.9	12.0
Trade Payable Turnover	13.7	12.0	12.5	13.6
Asset Turnover	0.8	0.9	1.0	0.9
Stockholders' Equity Turnover	1.4	1.4	1.6	1.4
Invested Capital Turnover	1.6	1.9	2.2	2.5

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