

Telecom equipment

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Buy (Maintain)**Target Price (12M, W) 130,000**

Share Price (07/26/12, W) 99,100

Expected Return (%) 31.2

EPS Growth (12F, %) 18.1

Market EPS Growth (12F, %) 16.3

P/E (12F, x) 18.6

Market P/E (12F, x) 9.0

KOSPI 1,782.47

Market Cap (Wbn) 7,402

Shares Outstanding (mn) 78

Avg Trading Volume (60D, '000) 586

Avg Trading Value (60D, Wbn) 60

Dividend Yield (12F, %) 0.8

Free Float (%) 76.2

52-Week Low (W) 59,200

52-Week High (W) 112,500

Beta (12M, Daily Rate of Return) 1.13

Price Return Volatility (12M Daily, %, SD) 2.7

Foreign Ownership (%) 17.7

Major Shareholder(s)

SEC et al. (23.71%)

CRMC et al. (11.46%)

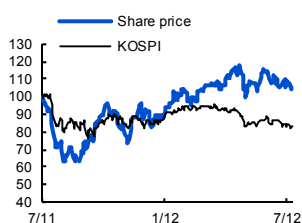
NPS (6.07%)

Price Performance

(%)	1M	6M	12M
Absolute	-2.4	10.6	10.2
Relative	-0.4	19.5	28.0

Key Business

Samsung Electro-Mechanics manufactures and sells electronic components

**Samsung Electro-Mechanics (009150 KS)****Strong earnings stability****Maintain Buy call with TP of W130,000**

We maintain our Buy call on Samsung Electro-Mechanics (SEMCO) with a 12-month target price of W130,000. We arrived at our target price by applying a P/B of 2.6x to our 2012F BPS of W50,113 (under consolidated K-IFRS). Considering that the company's five-year average P/B is 2.2x, our target P/B might not appear undemanding. However, we believe that our multiple is justifiable, given that: 1) SEMCO's 3Q earnings are likely to expand in light of margin expansion at the multi-layer ceramic chip capacitor (MCLL) unit, 2) the company's earnings should continue to grow, thanks to Samsung Electronics' (SEC) robust smartphone sales, and 3) the FC-CSP and FC-BGA businesses should become the company's new growth drivers. Our target price implies an upside of 31.2% from the current price.

2Q Review: Strong top and bottom lines; 3Q Revenues likely to exceed W2tr mark

For 2Q, SEMCO's revenues came in at W1.91tr (up 36.3% YoY). This result marks the second-highest figure in the company's history (a record high when the LED unit is excluded). 2Q Operating profit reached W156.2bn, up 128.0% YoY and up 46.4% QoQ. SEMCO's results beat both our estimates (W1.85tr for revenues; W140.5bn for operating profit) and the consensus (W1.9tr; W134.4bn).

SEMCO's strong 2Q results were largely driven by its robust substrate (ACI division) business. SEC's strong smartphone sales are positively affecting the HDI substrate unit. And the FC-CSP unit is showing top-line growth alongside the expansion of the smartphone market. SEMCO became the global FC-CSP market share leader in 2010 and has steadily improved its position since then. Furthermore, the proportion of high-end substrate product (e.g., FC-CSP, CPU-use FC-BGA, rigid-flexible PCB) sales (out of overall substrate revenues) increased QoQ to 61% in 2Q (from 55%), contributing to overall margin growth. The LCR division (including the MLCC unit) also delivered margin growth. The division posted revenue growth of 7.4% QoQ (OP margin: up 2.5%p QoQ) on the back of greater IT product demand. We believe that this trend should continue through 3Q. The camera module division remained stable. The division's 2Q revenues came in at W300bn on the back of SEC's robust smartphone sales. OP margin stabilized at 5%.

For 3Q, we expect SEMCO's revenues to exceed the W2tr mark for the first time, reaching W2.03tr. And operating profit is forecast to climb 11.7% QoQ to W174.5bn, driven by the MLCC unit. We project the LCR division's 3Q OP margin to be in the double digits (10.6%) for the first time in five quarters. However, growing downward pricing pressure and potential yen depreciation may have negative impacts on SEMCO. Still, given that only Murata (Japan) and SEMCO have achieved

FY	Revenues (Wbn)	OP (Wbn)	OP Margin (%)	NP (Wbn)	EPS (Won)	EBITDA (Wbn)	FCF (Wbn)	ROE (%)	P/E (X)	P/B (X)	EV/EBITDA (X)
12/10	5,651	498	8.8	555	7,148	985	-439	18.3	17.4	2.8	10.8
12/11	6,032	321	5.3	350	4,504	942	-504	10.0	17.3	1.8	7.8
12/12F	7,651	578	7.6	413	5,318	1,119	621	10.9	18.6	2.0	7.8
12/13F	8,261	679	8.2	498	6,422	1,300	181	11.3	15.4	1.7	6.7
12/14F	8,945	742	8.3	543	6,997	1,453	137	10.7	14.2	1.5	6.1

Notes: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests

Source: Company data, KDB Daewoo Securities Research estimates

economies of scale in the MLCC segment, SEMCO's MLCC unit should be able to gradually display further improvement (unless the yen depreciates sharply).

Table 1. Earnings forecast revisions

(Wbn, W, %p)

	2011	Previous			Revised			% chg		
		12F	13F	14F	12F	13F	14F	12F	13F	14F
Revenues	6,988	7,555	8,291	9,075	7,651	8,261	8,945	1.3	-0.4	-1.4
Operating profit	347	565	688	759	578	678	742	2.3	-1.3	-2.3
Pretax profit	364	556	660	731	521	621	684	-6.2	-6.0	-6.4
Net profit	349	415	500	547	413	498	543	-0.6	-0.4	-0.8
EPS	4,503	5,352	6,447	7,051	5,318	6,422	6,997	-0.6	-0.4	-0.8
OP margin (%)	5.0	7.5	8.3	8.4	7.6	8.2	8.3	0.1	-0.1	-0.1
Pretax margin (%)	5.2	7.4	8.0	8.1	6.8	7.5	7.6	-0.5	-0.5	-0.4
Net margin (%)	5.0	5.5	6.0	6.0	5.4	6.0	6.1	-0.1	0.0	0.0

Notes: Under consolidated K-IFRS; Excluding Samsung LED's earnings

Source: SEMCO, KDB Daewoo Securities Research