

Mirae Asset Securities Co., Ltd.

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006400 KS · EV Batteries

Samsung SDI

Earnings to recover after bottoming in 1Q24

(Maintain)

Buy

Target price

W520,000 ▼

Upside

38.9%

Current price (1/30/24)

W374,500

KOSPI	2,498.81	Market cap (Wbn)	25,752	Shares outstanding (mn)	69	Foreign ownership (%)	43.5
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Report summary

Lower TP to W520,000; valuation unlikely to contract further

We lowered our 2024F EBITDA for Samsung SDI by 19%, as we revised down our 1H24 earnings forecasts due to further declines in metal prices at end-2023. With the stock trading at a historically low valuation (2024F P/B of 1.2x and 2025F P/B of 1.1x), concerns appear to be sufficiently priced in.

EV battery margins remain above 6% (without AMPC); earnings to bottom out in 1Q24

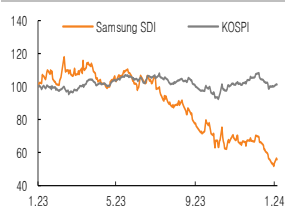
Samsung SDI's EV battery earnings remain stable relative to competitors, thanks to: 1) a solid customer portfolio centered on high-end automakers (e.g., BMW and Audi); and 2) continuous product mix improvements (from P4 to P5/P6 batteries).

Meaningful capex growth in 2024 (+46% QoQ to W6.3tr) to support market share gains in 2025

Unfavorable battery market conditions have constrained capex at competitors. As such, we believe Samsung SDI's move to expand capex will set the stage for a market share recovery.

Key data

Price performance



(%)	1M	6M	12M
Absolute	-20.7	-43.5	-45.5
Relative	-15.7	-41.0	-46.5

Earnings and valuation metrics

(Dec.)	2021	2022	2023F	2024F	2025F
Revenue (Wbn)	13,553	20,124	22,708	23,968	30,197
OP (Wbn)	1,068	1,808	1,633	1,824	3,062
OP margin (%)	7.9	9.0	7.2	7.6	10.1
NP (Wbn)	1,170	1,952	2,007	2,195	3,021
EPS (W)	16,621	27,736	28,513	31,186	42,924
ROE (%)	8.5	12.5	11.3	10.8	13.3
P/E (x)	39.4	21.3	16.6	12.0	8.7
P/B (x)	3.1	2.5	1.7	1.2	1.1
Dividend yield (%)	0.2	0.2	0.2	0.3	0.3

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent
Source: Company data, Mirae Asset Securities Research estimates

Cut TP to W520,000; earnings to bottom in 1Q24

Cut TP to W520,000

We lowered our 2024F EBITDA by 19%, reflecting: 1) a downward revision to our ASP estimate due to the rapid decline in metal prices at end-2023; and 2) the delayed recovery in cylindrical battery demand. Accordingly, we cut our target price for Samsung SDI to W520,000 (from W650,000).

That said, we forecast quarterly earnings to gradually recover after bottoming in 1Q24, with profit growth accelerating in 2H24 on improving spreads. The stock is now trading at a historically low valuation (2024F P/B of 1.2x and 2025F P/B of 1.1x). Moreover, the company plans to sharply increase capex in 2024, which should support market share gains over the medium to long term. Against this backdrop, we believe the stock presents a good buying opportunity at the current price.

Table 1. Quarterly and annual earnings

(Wbn, %)

	1Q23	2Q23	3Q23	4Q23F	1Q24F	2Q24F	3Q24F	4Q24F	2023F	2024F	2025F
Revenue	5,355	5,841	5,948	5,565	5,095	5,397	6,227	7,250	22,708	23,968	30,197
Batteries	4,798	5,270	5,340	4,998	4,557	4,846	5,612	6,573	20,406	21,588	27,619
Small-sized (IT)	1,923	2,009	1,961	1,688	1,530	1,617	1,981	2,360	7,580	7,488	9,070
Mid/large-sized (EV, ESS)	2,875	3,261	3,379	3,310	3,028	3,230	3,631	4,212	12,826	14,100	18,549
EM	557	570	608	567	537	550	615	677	2,302	2,379	2,578
OP	375	450	496	312	253	362	525	684	1,633	1,824	3,062
Batteries	316	388	412	226	205	301	436	586	1,342	1,527	2,114
Small-sized (IT)	143	199	160	36	60	83	177	220	538	540	752
Mid/large-sized (EV, ESS)	173	189	252	190	145	217	259	366	805	988	1,362
EM	59	62	84	86	48	61	89	98	291	297	381
Other									0	0	567
OP margin	7.0	7.7	8.3	5.6	5.0	6.7	8.4	9.4	7.2	7.6	10.1
Batteries	6.6	7.4	7.7	4.5	4.5	6.2	7.8	8.9	6.6	7.1	7.7
Small-sized (IT)	7.5	9.9	8.2	2.1	3.9	5.2	8.9	9.3	7.1	7.2	8.3
Mid/large-sized (EV, ESS)	6.0	5.8	7.5	5.8	4.8	6.7	7.1	8.7	6.3	7.0	7.3
EM	10.6	10.9	13.8	15.1	8.9	11.2	14.5	14.5	12.6	12.5	14.8

Source: Company data, Mirae Asset Securities Research

Table 2. Valuation table

(Wbn, x, ' 000 shares, W)

	2024F EBITDA	EV/EBITDA	EV	Notes
Small-sized (IT)	1,127	10.5	11,831	Cut target EV/EBITDA by 19%
Mid/large-sized (EV, ESS)	2,138	10.5	22,449	
EM	465	10.0	4,653	
Operating value (A)			38,932	
Net borrowings (C)			3,430	End-2024F
Equity value (A)+(B)-(C)+(D)			35,502	
No. of shares			68,765	
Value per share			516,284	

Source: Company data, Mirae Asset Securities Research

Increased capex to set the stage for a gradual market share recovery

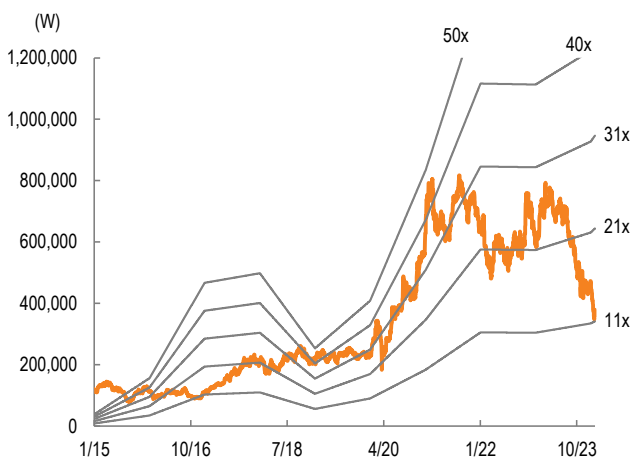
Amid a series of downward revisions to EV demand projections, a number of global competitors that had initially planned aggressive capex are now scaling back their investments. We expect 2024 capex for LG Energy Solution (LGES) and SK Innovation to remain at the 2023 levels (W10tr each). On the other hand, Samsung SDI is pushing to expand capex sharply (+46% YoY) to W6.3tr.

Notably, the company has secured orders from new customers that were previously exclusive to competitors (e.g., GM, Hyundai Motor/Kia, and Volvo). Meanwhile, we think the decision in September to build a second joint battery plant with Stellantis is positive in terms of expanding market share over the medium to long term. We expect the valuation gap with rivals to gradually close.

Downside appears limited at current valuation (2024F P/B of 1.2x, 2025F P/B of 1.1x)

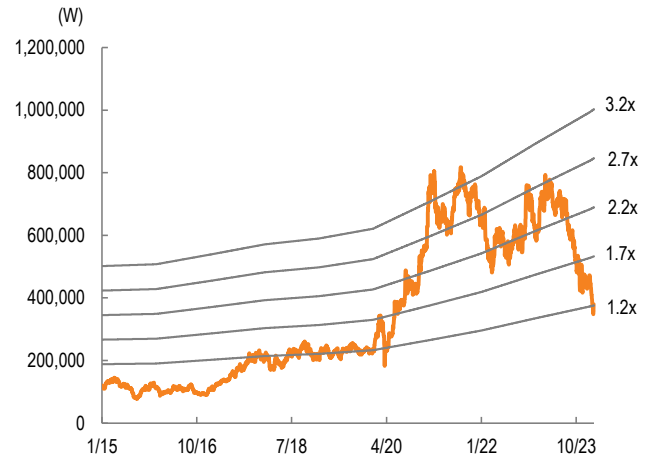
Valuation is still attractive even after our downward earnings forecast revisions. Notably, most valuation metrics are close to the levels seen during the early stages of the pandemic (Mar. 2020), when many plants faced shutdowns.

Figure 1. 12-month forward P/E band chart



Source: WISEfn, Mirae Asset Securities Research

Figure 2. 12-month forward P/B band chart



Source: WISEfn, Mirae Asset Securities Research

Samsung SDI (006400 KS)

Income statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Revenue	20,124	22,708	23,968	30,197
Cost of revenue	15,903	18,577	19,043	23,371
GP	4,221	4,131	4,925	6,826
SG&A expenses	2,413	2,498	3,101	3,763
OP (adj.)	1,808	1,633	1,824	3,062
OP	1,808	1,633	1,824	3,062
Non-operating profit	844	850	902	914
Net financial income	-47	-179	-236	-386
Net income from associates	1,040	996	1,164	1,339
Pretax profit	2,652	2,483	2,726	3,976
Income tax	613	420	463	676
Profit from continuing operations	2,039	2,064	2,263	3,300
Profit from discontinued operations	0	0	0	0
NP	2,039	2,064	2,263	3,300
Attributable to owners	1,952	2,007	2,195	3,021
Attributable to minority interests	87	57	68	279
Total comprehensive income	1,899	2,423	2,263	3,300
Attributable to owners	1,848	2,333	2,208	3,219
Attributable to minority interests	51	90	55	80
EBITDA	3,271	3,361	3,730	5,080
FCF	-168	-2,132	-1,292	-948
EBITDA margin (%)	16.3	14.8	15.6	16.8
OP margin (%)	9.0	7.2	7.6	10.1
Net margin (%)	9.7	8.8	9.2	10.0

Cash flow statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Operating cash flow	2,641	2,217	5,008	5,052
NP	2,039	2,064	2,263	3,300
Non-cash income/expenses	1,284	1,387	1,499	1,807
Depreciation	1,408	1,663	1,856	1,979
Amortization	55	65	50	38
Other	-179	-341	-407	-210
Chg. in working capital	-369	-694	1,933	995
Chg. in AR & other receivables	-673	-312	-504	-444
Chg. in inventory	-678	60	81	-1,404
Chg. in AP & other payables	851	-15	702	845
Income tax	-279	-425	-463	-676
Cash flow from investing activities	-2,946	-4,384	-6,392	-6,059
Chg. in PP&E	-2,789	-4,338	-6,300	-6,000
Chg. in intangible assets	-3	-7	0	0
Chg. in financial assets	-301	-64	-92	-59
Other	147	25	0	0
Cash flow from financing activities	629	132	939	2,441
Chg. in financial liabilities	552	299	1,008	2,509
Chg. in equity	0	0	0	0
Dividends	-69	-69	-69	-69
Other	146	-98	0	1
Chg. in cash	289	119	-1,876	-348
Beginning balance	2,326	2,614	2,733	857
Ending balance	2,614	2,733	857	509

Source: Company data, Mirae Asset Securities Research estimates

Balance sheet (summarized)

(Wbn)	2022	2023F	2024F	2025F
Current assets	9,652	10,123	8,803	10,460
Cash & equivalents	2,614	2,733	857	509
AR & other receivables	2,709	3,177	3,763	4,306
Inventory	3,205	3,126	3,045	4,449
Other current assets	1,124	1,087	1,138	1,196
Non-current assets	20,606	23,742	30,753	37,836
Investments in associates	8,940	8,339	10,864	13,906
PP&E	8,965	12,546	16,990	21,011
Intangible assets	815	823	773	735
Total assets	30,258	33,865	39,556	48,296
Current liabilities	8,007	8,698	10,435	12,528
AP & other payables	3,447	3,364	4,383	5,610
Short-term financial liabilities	2,879	2,985	2,993	3,002
Other current liabilities	1,681	2,349	3,059	3,916
Non-current liabilities	5,033	5,045	6,805	10,221
Long-term financial liabilities	2,341	2,534	3,534	6,034
Other non-current liabilities	2,692	2,511	3,271	4,187
Total liabilities	13,040	13,743	17,240	22,749
Equity attributable to owners	16,486	19,171	21,298	24,250
Capital stock	357	357	357	357
Capital surplus	5,002	5,002	5,002	5,002
Retained earnings	10,468	12,406	14,532	17,485
Minority interests	732	951	1,018	1,297
Shareholders' equity	17,218	20,122	22,316	25,547

Key valuation metrics/ratios

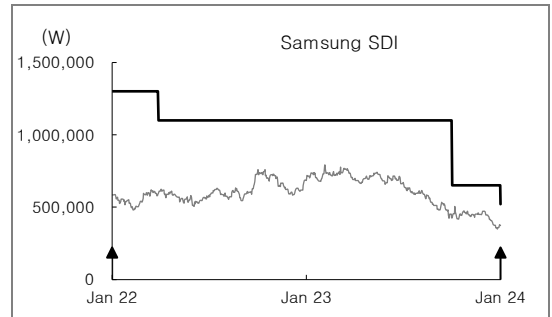
	2022	2023F	2024F	2025F
P/E (x)	21.3	16.6	12.0	8.7
P/CF (x)	12.5	9.6	7.0	5.2
P/B (x)	2.5	1.7	1.2	1.1
EV/EBITDA (x)	13.4	10.7	8.6	7.0
EPS (W)	27,736	28,513	31,186	42,924
CFPS (W)	47,216	49,020	53,453	72,557
BPS (W)	239,134	277,292	307,498	349,443
DPS (W)	1,030	1,030	1,030	1,030
Dividend payout ratio (%)	3.3	3.3	3.0	2.0
Dividend yield (%)	0.2	0.2	0.3	0.3
Revenue growth (%)	48.5	12.8	5.5	26.0
EBITDA growth (%)	41.0	2.8	11.0	36.2
OP growth (%)	69.4	-9.7	11.7	67.9
EPS growth (%)	66.9	2.8	9.4	37.6
AR turnover (x)	9.2	8.5	7.6	8.3
Inventory turnover (x)	7.1	7.2	7.8	8.1
AP turnover (x)	9.2	8.2	7.1	6.8
ROA (%)	7.3	6.4	6.2	7.5
ROE (%)	12.5	11.3	10.8	13.3
ROIC (%)	12.9	9.0	12.3	15.7
Debt-to-equity ratio (%)	75.7	68.3	77.3	89.0
Current ratio (%)	120.5	116.4	84.4	83.5
Net debt-to-equity ratio (%)	11.8	11.0	22.9	31.2
Interest coverage ratio (x)	20.1	6.2	6.2	7.1

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (₩)
Samsung SDI (006400)	01/31/24	Buy	520,000
	11/01/23	Buy	650,000
	04/28/23	One year	1,100,000
	04/28/22	Buy	1,100,000
	11/03/21	Buy	1,300,000



Stock ratings

Buy	Expected 12-month performance: +20% or greater
Trading Buy	Expected 12-month performance: +10% to +20%
Hold	Expected 12-month performance: -10% to +10%
Sell	Expected 12-month performance: -10% or worse

Sector ratings

Overweight	Expected to outperform the market over 12 months
Neutral	Expected to perform in line with the market over 12 months
Underweight	Expected to underperform the market over 12 months

Rating and TP history: Share price (—), TP (—), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

* Our investment rating is a guide to the expected return of the stock over the next 12 months.

* Outside of the official ratings of Mirae Asset Securities Co., Ltd., analysts may call trading opportunities should technical or short-term material developments arise.

* The TP was determined by the research analyst through valuation methods discussed in this report, in part based on estimates of future earnings.

* TP achievement may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Ratings distribution and investment banking services

	Buy	Trading Buy	Hold	Sell
Ratings distribution	88.55%	6.63%	4.22%	0.6%
Investment banking services	84.62%	15.38%	0%	0%

* Based on recommendations in the last 12-months (as of December 31, 2023)

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