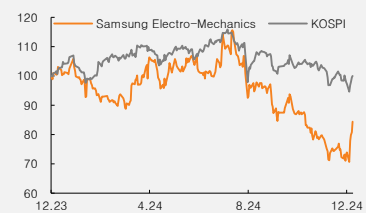


(Maintain)	Buy
Target price	₩200,000
Current price (12/13/24)	₩126,100
Upside	58.6%

OP (24F, Wbn)	748
Consensus OP (24F, Wbn)	776
EPS growth (24F, %)	20.1
Market EPS growth (24F, %)	74.0
P/E (24F, x)	19.3
Market P/E (24F, x)	10.1
KOSPI	2,494.46

Market cap (Wbn)	9,419
Shares (mn)	75
Free float (%)	73.5
Foreign ownership (%)	32.7
Beta (12M)	0.87
52-week low (W)	105,600
52-week high (W)	172,700

(%)	1M	6M	12M
Absolute	18.1	-14.8	-16.1
Relative	14.4	-5.9	-15.6



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Samsung Electro-Mechanics

MLCC business to benefit from rising demand for powerful APs

Generative AI adoption to benefit MLCC suppliers

The emergence of more powerful APs should benefit competitive MLCC players. Compared to previous models such as the Snapdragon 8 Gen 3, APs for AI-enabled devices will likely require 30% higher MLCC capacitance, while also driving demand for high-end MLCCs that can reduce signal noise. APs for smartphones are now being specifically optimized for generative AI, leading to rapid performance improvements (as reflected in benchmarks like AnTuTu and Geekbench 6). This marks a fundamental shift in smartphone hardware priorities; while past upgrades centered on enhancing camera performance, the emphasis is now on boosting AP performance to power on-device AI.

4Q24 preview: Seasonal weakness likely, but inventory conditions to remain relatively benign

For 4Q24, we expect Samsung Electro-Mechanics (SEMCO) to record revenue of ₩2.29tr (-0.4% YoY; 5% below consensus) and operating profit of ₩134.5bn (+22% YoY; 5% above consensus). Despite some seasonal weakness (4Q is typically a period of inventory adjustments at customers), we expect SEMCO's utilization to decline only slightly and its inventory levels to remain relatively low (at four to five weeks) thanks to robust demand for AI and automotive MLCCs. By unit, we expect revenue to grow 11% YoY for component solutions (aided by business portfolio diversification) and 20.4% YoY for package solutions (on solid FC-BGA demand). Meanwhile, we see optics/communications revenue declining 14.9% YoY.

Maintain TP; retain as our top pick

Although some inventory adjustments are likely in 4Q24, we recommend Buy on SEMCO, as we see ample momentum ahead (adoption of higher-performance APs for AI, etc.). The stock is trading at a 2024F P/B of 1.1x and 2025F P/B of 1.1x. Given that the five-year average is 1.5x, we see greater upside than downside at the current levels.

Additional momentum is likely to come from: 1) silicon capacitors; 2) oxide-based solid-state battery production; and 3) AI-use substrates. Order wins for silicon capacitors are likely to be confirmed by year-end, earlier than scheduled. For all-solid-state batteries, adoption should initially be focused on small electronics (wearables) before expanding to EVs; SEMCO plans to start mass production by 2026. Meanwhile, AI-use substrates are set to begin mass production in 2H24, and additional customer acquisitions are expected. As for the next-generation glass substrate business, the company is targeting equipment installation in 2H24, pilot production in 1H25, and mass production in 2026.

(Dec.)	2022	2023	2024F	2025F	2026F
Revenue (Wbn)	9,425	8,909	10,118	10,693	11,365
OP (Wbn)	1,183	639	748	919	1,030
OP margin (%)	12.6	7.2	7.4	8.6	9.1
NP (Wbn)	981	423	508	679	781
EPS (W)	12,636	5,450	6,545	8,748	10,066
ROE (%)	13.8	5.5	6.2	7.7	8.3
P/E (x)	10.3	28.1	19.3	14.4	12.5
P/B (x)	1.3	1.5	1.1	1.1	1.0
Dividend yield (%)	1.6	0.8	1.2	1.5	1.5

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

Table 1. 3Q24 review

(Wbn, %, %p)

	3Q23	2Q24	3Q24			Estimates			
			Actual	QoQ	YoY	Mirae Asset	Diff.	Consensus	Diff.
Revenue	2,360.9	2,580.1	2,615.3	1.4	10.8	2,681.70	-2.5	2,614.8	0.0
OP	184.0	208.1	224.9	8.1	22.2	223.1	0.8	222.4	1.1
OP margin	7.8	8.1	8.6	0.5	0.8	8.3	0.3	8.5	0.1
Pretax profit	196.2	229.8	142.5	-38.0	-27.4	263.4	-45.9	248.2	-42.6
NP attr. to owners	155.5	172.4	114.9	-33.4	-26.1	202.4	-43.2	184.4	-37.7
Net margin	6.6	6.7	4.4	-2.3	-2.19	7.5	-3.1	7.1	-2.7

Source: Company data, FnGuide, Mirae Asset Securities Research

Table 2. Quarterly and annual earnings

(Wbn, %)

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24F	2023	2024F	2025F
Revenue	2,021.8	2,220.5	2,360.9	2,306.2	2,624.3	2,580.1	2,615.3	2,298.1	8,909.4	10,117.9	10,692.8
QoQ	2.7	9.8	6.3	-2.3	13.8	-1.7	1.4	-12.1			
YoY	-22.7	-9.6	-1.0	17.2	29.8	16.2	10.8	-0.4	-5.5	13.6	5.7
Component solutions	826	1,007	1,096	975	972	1,102	1,197	1,009	3,903	4,280	4,604
Optics/comm.	799	777	825	888	1,173	921	860	756	3,289	3,710	3,739
Package solutions	398	437	440	443	428	499	558	533	1,717	2,019	2,350
OP	140.1	205.0	184.0	110.4	180.3	208.1	224.9	134.5	639.4	747.8	918.8
QoQ	38.3	46.3	-10.2	-40.0	63.3	15.4	8.1	-40.2			
YoY	-65.9	-43.1	-40.8	9.1	28.7	1.5	22.2	21.8	-45.9	16.9	22.9
Component solutions	55.9	128.0	116.4	61.3	96.9	141.8	162.3	95.1	361.6	496.2	563.2
Optics/comm.	34.4	24.9	19.3	22.7	62.7	24.7	17.3	8.4	101.2	113.1	122.7
Package solutions	49.8	52.1	48.3	26.4	20.7	41.6	45.2	31.0	176.6	138.5	232.9
OP margin	6.9	9.2	7.8	4.8	6.9	8.1	8.6	5.9	7.2	7.4	8.6
Component solutions	6.8	12.7	10.6	6.3	10.0	12.9	13.6	9.4	9.3	11.6	12.2
Optics/comm.	4.3	3.2	2.3	2.6	5.3	2.7	2.0	1.1	3.1	3.0	3.3
Package solutions	12.5	11.9	11.0	6.0	4.8	8.3	8.1	5.8	10.3	6.9	9.9
Pretax profit	140.6	142.9	196.2	55.6	219.3	229.8	142.5	47.7	542.2	639.2	850.4
NP attr. to owners	111.4	112.6	155.5	43.4	183.1	172.4	114.9	37.5	423.0	507.9	679.1
Net margin	5.5	5.1	6.6	1.9	7.0	6.7	4.4	1.6	4.7	5.0	6.4

Source: Company data, Mirae Asset Securities Research

Samsung Electro-Mechanics (009150)

Income statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
Revenue	8,909	10,118	10,693	11,365
Cost of revenue	7,189	8,241	8,781	9,289
GP	1,720	1,877	1,912	2,076
SG&A expenses	1,081	1,129	993	1,045
OP (adj.)	639	748	919	1,030
OP	639	748	919	1,030
Non-operating profit	-96	-107	-69	-56
Net financial income	-15	-15	-19	-12
Net income from associates	-5	-11	4	3
Pretax profit	543	641	850	974
Income tax	85	108	143	160
Profit from continuing operations	458	533	707	814
Profit from discontinued operations	-8	-2	0	0
NP	450	531	707	814
Attributable to owners	423	508	679	781
Attributable to minority interests	28	23	28	33
Total comprehensive income	497	705	707	814
Attributable to owners	468	676	672	773
Attributable to minority interests	29	29	36	41
EBITDA	1,476	1,558	1,743	1,846
FCF	-29	777	479	790
EBITDA margin (%)	16.6	15.4	16.3	16.2
OP margin (%)	7.2	7.4	8.6	9.1
Net margin (%)	4.7	5.0	6.3	6.9

Cash flow statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
Operating cash flow	1,180	1,584	1,345	1,603
NP	450	531	707	814
Non-cash income/expenses	1,165	1,011	961	963
Depreciation	789	763	778	781
Amortization	48	47	47	35
Other	328	201	136	147
Chg. in working capital	-301	33	-253	-97
Chg. in AR & other receivables	-229	116	-197	-83
Chg. in inventory	-283	30	-370	-156
Chg. in AP & other payables	111	-112	104	44
Income tax	-186	-46	-143	-160
Cash flow from investing activities	-1,023	-878	-903	-796
Chg. in PP&E	-1,204	-807	-866	-813
Chg. in intangible assets	-47	-50	-44	0
Chg. in financial assets	5	0	-14	-6
Other	223	-21	21	23
Cash flow from financing activities	-173	358	265	-515
Chg. in financial liabilities	91	608	470	-277
Chg. in equity	0	0	0	0
Dividends	-160	-89	-113	-144
Other	-104	-161	-92	-94
Chg. in cash	-8	1,147	700	290
Beginning balance	1,677	1,669	2,816	3,516
Ending balance	1,669	2,816	3,516	3,805

Source: Company data, Mirae Asset Securities Research estimates

Balance sheet (summarized)

(Wbn)	2023	2024F	2025F	2026F
Current assets	5,208	6,343	7,660	8,200
Cash & equivalents	1,669	2,816	3,516	3,805
AR & other receivables	1,235	1,231	1,446	1,527
Inventory	2,120	2,112	2,482	2,638
Other current assets	184	184	216	230
Non-current assets	6,449	6,606	6,706	6,709
Investments in associates	66	66	78	83
PP&E	5,603	5,754	5,842	5,874
Intangible assets	151	150	147	112
Total assets	11,658	12,948	14,367	14,910
Current liabilities	2,900	3,478	3,902	3,741
AP & other payables	984	980	1,152	1,225
Short-term financial liabilities	1,330	1,913	2,063	1,787
Other current liabilities	586	585	687	729
Non-current liabilities	727	750	1,151	1,185
Long-term financial liabilities	267	292	612	612
Other non-current liabilities	460	458	539	573
Total liabilities	3,628	4,229	5,053	4,926
Equity attributable to owners	7,847	8,507	9,072	9,709
Capital stock	388	388	388	388
Capital surplus	1,054	1,054	1,054	1,054
Retained earnings	5,873	6,294	6,859	7,497
Minority interests	183	213	241	274
Shareholders' equity	8,030	8,720	9,313	9,983

Key valuation metrics/ratios

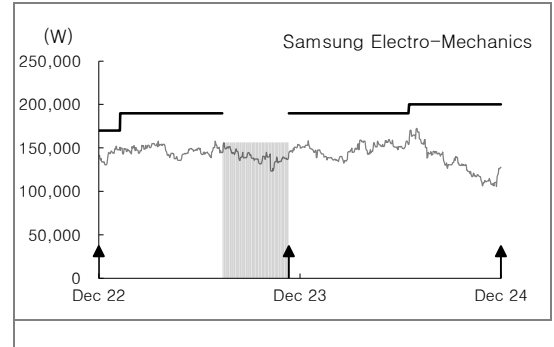
	2023	2024F	2025F	2026F
P/E (x)	28.1	19.3	14.4	12.5
P/CF (x)	7.4	6.3	5.9	5.5
P/B (x)	1.5	1.1	1.1	1.0
EV/EBITDA (x)	7.9	5.9	5.1	4.5
EPS (W)	5,450	6,545	8,748	10,066
CFPS (W)	20,819	19,876	21,503	22,893
BPS (W)	103,020	111,510	118,796	127,011
DPS (W)	1,150	1,500	1,900	1,900
Dividend payout ratio (%)	18.6	20.5	19.5	17.0
Dividend yield (%)	0.8	1.2	1.5	1.5
Revenue growth (%)	-5.5	13.6	5.7	6.3
EBITDA growth (%)	-28.4	5.5	11.9	5.9
OP growth (%)	-45.9	16.9	22.9	12.1
EPS growth (%)	-56.9	20.1	33.6	15.1
AR turnover (x)	8.4	9.0	8.8	8.4
Inventory turnover (x)	4.4	4.8	4.7	4.4
AP turnover (x)	14.7	13.9	13.6	12.9
ROA (%)	4.0	4.3	5.2	5.6
ROE (%)	5.5	6.2	7.7	8.3
ROIC (%)	7.0	7.8	9.2	10.1
Debt-to-equity ratio (%)	45.2	48.5	54.3	49.3
Current ratio (x)	179.6	182.4	196.3	219.2
Net debt-to-equity ratio (%)	-1.6	-7.7	-9.8	-14.8
Interest coverage ratio (x)	9.4	10.6	10.1	10.8

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (W)
Samsung Electro-Mechanics (009150)	07/03/24	Buy	200,000
	11/28/23	Buy	190,000
	07/31/23	No Coverage	
	01/26/23	Buy	190,000
	10/17/22	Buy	170,000



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	82.38%	10.23%	7.39%	0%
Investment banking services	84.21%	5.26%	10.53%	0%

* Based on recommendations in the last 12-months (as of September 30, 2024)

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