

Hana Micron (067310 KQ)

Semiconductor

Lukewarm earnings have already been priced in

Cut TP to W12,500 to reflect likelihood of lackluster earnings

We maintain our Buy call on Hana Micron but lower our target price to W12,500 (from W15,000) to reflect our projections for sluggish 1Q results. We used a sum-of-the-parts methodology to derive our target price. In calculating the value of Hana Micron's operations, we applied a P/E of 10.0x to our 2012 net profit estimate for the company and applied respective P/Es of 15x, 12x, and 10x to our 2012 net profit estimates for subsidiaries Hana Silicon (ownership stake of 41%), HT Micron (50%), and HILA (50%).

We project that the combined net profits (W17.6bn) of the aforementioned three subsidiaries will exceed Hana Micron's parent-based net profit (W15.7bn) in 2012. However, Hana Micron's non-consolidated K-IFRS-based financial statements do not include the earnings of these subsidiaries. Factoring in the subsidiaries' earnings, we estimate Hana Micron's 2012F P/E to reach the 8.9x level.

What's New?: Earnings to turn around after bottoming in 1Q

Hana Micron's earnings have fallen short of market expectations since 2H11. We project the company's 1Q earnings to remain sluggish, with revenues of W61.2bn (down 14.7% QoQ; down 6.3% YoY) and an operating loss of W900mn. These tepid results should be attributable to the fact that the company's capacity utilization has not yet normalized since its capacity ramp-up in 2011.

However, we anticipate that Hana Micron's earnings will turn around after hitting bottom in 1Q. In particular, we expect sales of high-margin NAND-related packaging services (e.g., for embedded multi media cards) to expand starting in 2Q, aided by growing mobile demand.

In 2012, we forecast Hana Micron to generate revenues of W317.3bn (up 8.1%) and an operating profit of W19.5bn (up 19.1%; OP margin of 6.1%). The company's 2012 performance should be dented by sluggishness in 1Q. However, we expect Hana Micron to display stronger growth in 2013, recording revenues of W373bn (up 17.6%) and an operating profit of W22.4bn (up 14.8%).

Catalyst: Subsidiaries likely to take off this year

We expect Hana Micron's major subsidiaries including HT Micron and HILA to show full-swing earnings growth this year.

1) Among the subsidiaries, Hana Silicon posted the strongest performance, delivering revenues of W37.2bn (up 48%) and an operating profit of W5.6bn (up 140%; OP margin of 15%) in 2011. We project the silicon parts producer's earnings to improve in 2012, with revenues of W57.7bn (up 55%) and an operating profit of W9.4bn (up 67%).

2) HT Micron began to generate revenues in 2H11. We forecast this Latin America-based memory module producer to record revenues of W75bn and an operating profit of W6.3bn (OP margin of 8%) this year.

› Earnings & Valuation Metrics

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	265	31	11.6	24	1,608	54	-43	30.1	6.8	1.9	5.7
12/11	294	16	5.6	10	528	46	-6	7.8	21.6	1.6	7.3
12/12F	317	20	6.2	16	726	46	-14	9.7	14.0	1.3	7.3
12/13F	373	22	6.0	18	790	56	-3	10.0	12.9	1.3	6.3
12/14F	429	32	7.4	25	1,103	68	12	12.7	9.2	1.1	5.2

Note: 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

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Buy (Maintain)

Target Price (12M, W)	12,500
Share Price (04/05/12, W)	10,150
Expected Return (%)	23.2
EPS Growth (12F, %)	37.6
Market EPS Growth (12F, %)	16.7
P/E (12F, x)	14.0
Market P/E (12F, x)	10.1
KOSDAQ	503.34
Market Cap (Wbn)	211
Shares Outstanding (mn)	21
Avg Trading Volume (60D, '000)	425
Avg Trading Value (60D, Wbn)	5
Dividend Yield (12F, %)	1.0
Free Float (%)	58.0
52-Week Low (W)	6,910
52-Week High (W)	17,300
Beta (12M, Daily Rate of Return)	1.8
Price Return Volatility (12M Daily, %, SD)	4.6
Foreign Ownership (%)	4.8

Major Shareholder(s)

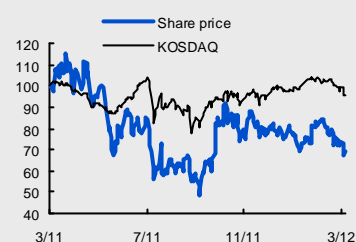
C.H. Choi et al. (41.81%)

Price Performance

(%)	1M	6M	12M
Absolute	-16.1	44.2	-30.0
Relative	-16.8	22.4	-25.2

Key Business

Hana Micron provides semiconductor packages for memory and non-memory products and produces USB flash drives and SSDs.



Valuation and investment recommendation

Cut TP to W12,500 to reflect likelihood of lackluster earnings

Lower TP to W12,500

We maintain our Buy call on Hana Micron but lower our target price to W12,500 (from W15,000) to reflect our projections for sluggish 1Q results.

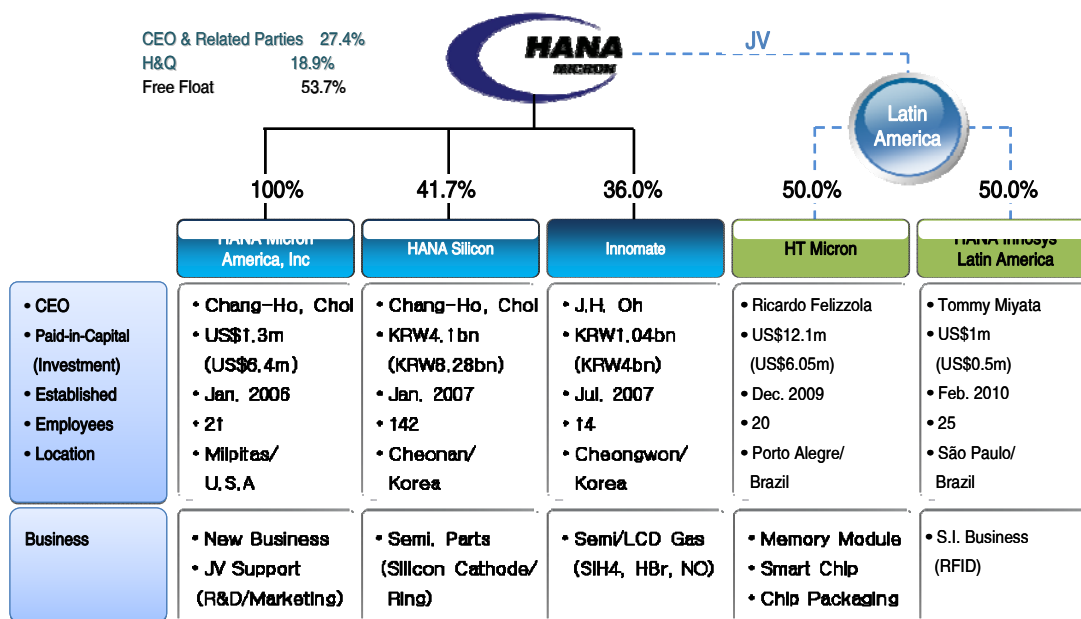
Valuations based on sum-of-the-parts methodology to reflect subsidiary earnings

We used a sum-of-the-parts methodology to derive our target price. In calculating the value of Hana Micron's operations, we applied a P/E of 10.0x to our 2012 net profit estimate for the company and applied respective P/Es of 15x, 12x, and 10x to our 2012 net profit estimates for subsidiaries Hana Silicon (ownership stake of 41%), HT Micron (50%), and HILA (50%).

Subsidiaries' earnings forecast to pick up full swing beginning this year

In 2012, we anticipate that Hana Silicon, HT Micron and HILA to deliver respective net profits of W8.4bn, W5.6bn and W3.6bn. Thus, the combined net profits of these subsidiaries should exceed Hana Micron's parent-based net profit of W15.7bn. However, Hana Micron's non-consolidated K-IFRS-based financial statements do not include the earnings of these subsidiaries. Factoring in the subsidiaries' earnings, we estimate Hana Micron's 2012F P/E to reach the 8.9x level.

Chart 1. Hana Micron's major shareholders and subsidiaries



Source: Company data

Figure 1. Sum-of-the-parts valuation

(Wmn, x, W)

	Shares	12F NP	P/E	EV	Target Price
Hana Micron		15,676	10.0	156,759	
Hana Silicon	41%	3,450	15.0	51,749	
HT Micron	50%	2,813	12.0	33,750	
HILA	50%	1,800	10.0	18,000	
Total				260,258	12,500

Source: Company data, KDB Daewoo Securities Research estimates

Table 2. Hana Silicon's earnings trend and forecast

(Wbn, %)

	2007	2008	2009	2010	2011	2012F	2013F
Revenues	0.5	7.3	16.0	25.1	37.2	57.7	75.0
Cost of goods sold	0.6	7.2	13.3	20.4	28.0	43.2	56.2
Gross profit	0.0	0.2	2.7	4.7	9.2	14.4	18.7
SG&A	1.0	1.8	2.0	2.4	3.6	5.0	6.5
Operating profit	-1.0	-1.6	0.7	2.3	5.6	9.4	12.2
OP margin (%)	-193.5	-22.2	4.5	9.3	15.1	16.3	16.3
Net profit	-1.6	-5.1	-1.1	0.6	4.5	8.4	11.2
NP margin (%)	38.3	38.3	43.5	43.5	41	41	41
Hana Micron's equity equity method income	-0.60	-1.94	-0.49	0.27	1.86	3.45	4.61

Source: Company data, KDB Daewoo Research estimates

Table 3. Earnings consensus of global packaging companies

(Wbn, %)

Company	Market value	Revenues			Operating profit			OP margin			Net profit		
		11	12F	13F	11	12F	13F	11	12F	13F	11	12F	13F
STS	368	423	514	632	22	39	52	5.3	7.5	8.2	14	31	49
Signetics	282	277	345	418	20	35	46	7.4	10.1	10.9	15	30	40
Hana Micron	211	294	317	373	16	20	22	5.6	6.2	6.0	10	16	18
ASE	7,702	7,070	7,439	8,298	-	707	910	-	9.5	11.0	524	567	721
SPIIL	4,339	2,336	2,530	2,788	184	246	319	7.9	9.7	11.4	184	219	284
PTI	1,737	1,505	1,538	1,527	273	243	279	19.7	15.8	18.3	244	201	236
Amkor	1,113	3,123	3,274	3,494	215	282	315	7.0	8.6	9.0	102	181	234
Chipbond	807	429	536	560	69	94	105	16.1	17.6	18.7	67	81	93

Source: Thomson Reuters, Bloomberg, KDB Daewoo Research estimates

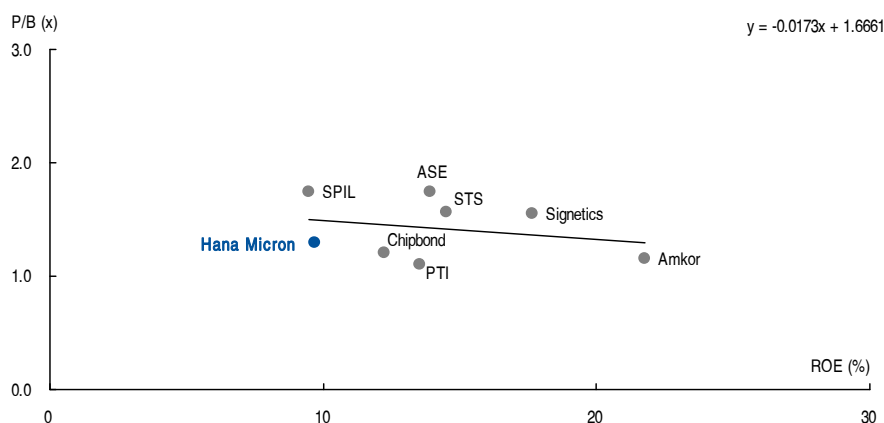
Table 4. Valuation comparison of global packaging companies

(Wbn, x, %)

Company	Market value	ROE			P/E			P/B			EV/EBITDA		
		11	12F	13F	11	12F	13F	11	12F	13F	11	12F	13F
STS	368	8.1	14.5	19.5	22.7	11.2	7.2	1.7	1.6	1.3	6.8	9.6	8.0
Signetics	282	10.4	17.7	19.3	19.0	9.5	7.3	1.9	1.5	1.3	5.6	5.0	4.2
Hana Micron	211	7.8	9.7	10.0	21.6	14.0	12.9	1.6	1.3	1.3	7.3	7.3	6.3
ASE	7,702	14.5	13.9	16.0	12.8	13.6	10.7	1.9	1.8	1.6	10.3	5.9	4.8
SPIIL	4,339	8.1	9.5	11.9	17.5	19.9	15.5	1.8	1.8	1.8	8.3	6.7	6.0
PTI	1,737	13.6	13.5	14.9	8.1	8.9	7.6	1.3	1.1	1.1	3.0	2.9	2.4
Amkor	1,113	13.9	21.8	-	10.1	8.7	6.5	1.4	1.2	1.0	2.1	3.2	-
Chipbond	807	11.1	12.3	13.0	-	10.1	8.8	1.3	1.2	1.2	5.2	4.1	3.5

Source: Thomson Reuters, Bloomberg, KDB Daewoo Research estimates

Fig 2. P/B-ROE comparison of global packaging companies (based on 2012F consensus)



Source: Thomson Reuters, Bloomberg, KDB Daewoo Research estimates

Earnings forecast

Earnings to turn around after bottoming in 1Q

High-margin NAND-related packaging services likely to expand starting in 2Q

We project the company's 1Q earnings to remain sluggish, with revenues of W61.2bn (down 14.7% QoQ; down 6.3% YoY) and an operating loss of W900mn. These tepid results should be attributable to the fact that the company's capacity utilization has not yet normalized since its capacity ramp-up in 2011. However, we anticipate that Hana Micron's earnings will turn around after hitting bottom in 1Q. In particular, we expect sales of high-margin NAND-related packaging products (e.g., for embedded multi media cards) to expand starting in 2Q, aided by growing mobile demand.

Growth potential to steadily recover after 2012

In 2012, we forecast Hana Micron to generate revenues of W317.3bn (up 8.1%) and an operating profit of W19.5bn (up 19.1%; OP margin of 6.1%). The company's 2012 performance should be dented by sluggishness in 1Q. However, we expect Hana Micron to display stronger growth in 2013, recording revenues of W373bn (up 17.6%) and an operating profit of W22.4bn (up 14.8%).

Table 5. Earnings forecasts

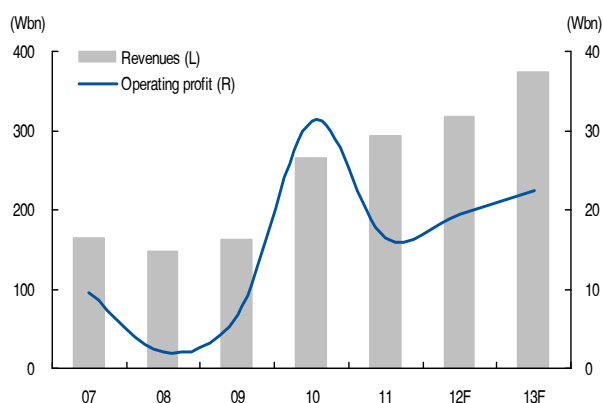
(Wbn, %)

	1Q11	2Q11	3Q11	4Q11	1Q12F	2Q12F	3Q12F	4Q12F	2010	2011	2012F	2013F
Revenues	65.3	79.5	77.1	71.7	61.2	74.7	89.7	91.7	264.9	293.6	317.3	373.0
QoQ	3.5	21.7	-3.1	-6.9	-14.7	22.1	20.0	2.3				
YoY	19.9	15.1	-1.6	13.7	-6.3	-6.0	16.4	27.9	62.3	10.8	8.1	17.6
Packaging	58.8	72.4	70.1	65.5	54.7	67.9	80.5	81.8	227.9	266.9	284.9	337.4
Memory	44.1	52.4	47.1	48.0	39.7	47.4	54.5	51.8	175.7	191.7	193.4	227.6
Non-memory	14.7	20.0	23.0	17.5	15.0	20.5	26.0	30.0	52.1	75.2	91.5	109.8
Storage (USB, SSD, etc.)	6.5	7.0	6.9	6.1	6.4	6.8	7.7	8.0	37.0	26.5	28.9	29.6
COGS	57.4	70.5	69.1	68.4	59.2	66.9	78.9	80.6	221.3	265.4	285.6	332.0
GP margin	7.9	9.0	8.0	3.3	2.0	7.8	10.7	11.2	43.6	28.2	31.7	41.0
SG&A	2.9	3.4	2.5	3.1	2.9	3.1	3.0	3.2	12.4	11.8	12.2	18.7
Operating profit	5.0	5.6	5.5	0.3	-0.9	4.7	7.7	8.0	31.2	16.4	19.5	22.4
QoQ	-16.7	12.4	-1.3	-94.6	TTR	TTB	65.2	3.5				
YoY	-10.5	-28.3	-53.4	-95.0	TTR	-16.3	40.1	2,590.7	367.4	-47.5	19.1	14.8
Net profit	3.7	3.7	3.3	-0.8	-1.7	3.6	6.4	7.5	24.5	9.9	15.7	17.7
QoQ	20.7	-0.1	-10.3	TTR	RIR	TTB	78.7	23.6				
YoY	-6.5	-43.1	-66.6	TTR	TTR	-0.7	97.8	TTB	TTB	-62.1	78.6	20.1
GP margin	12.1	11.3	10.4	4.7	3.3	10.4	12.0	12.2	16.5	9.6	10.0	11.0
OP margin	7.6	7.0	7.2	0.4	-1.5	6.3	8.6	8.7	11.8	5.6	6.1	6.0
NP margin	5.7	4.7	4.3	-1.1	-2.9	4.9	7.3	8.9	9.3	3.2	5.2	5.4

Note: Non-consolidated K-IFRS basis; TTB refers to 'turning to black', TTR refers to 'turning to red', RIR refers to 'remaining in red'

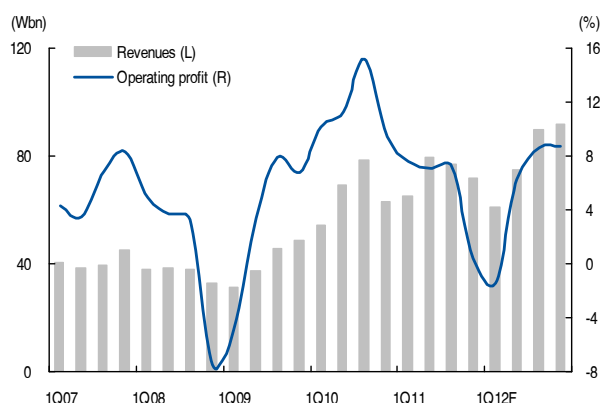
Source: Company data, KDB Daewoo Securities Research estimates

Figure 3. Annual revenues and operating profit trend and forecast



Source: Company data, KDB Daewoo Securities Research estimates

Figure 4. Quarterly revenues and OP margin trend and forecast



Source: Company data, KDB Daewoo Securities Research estimates

Hana Micron (067310 KS/Buy/TP: W12,500)

Comprehensive Income Statement (Summarized)				
(Wbn)	12/11	12/12F	12/13F	12/14F
Revenues	294	317	373	429
Cost of Sales	265	286	332	382
Gross Profit	28	32	41	47
SG&A Expenses	13	12	19	15
Operating Profit (Adj)	15	20	22	32
Operating Profit	16	20	22	32
Non-Operating Profit	-7	-4	-5	-6
Net Financial Income	7	5	7	8
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	9	16	17	26
Income Tax	-1	0	-1	1
Profit from Continuing Operations	10	16	18	25
Profit from Discontinued Operations	0	0	0	0
Net Profit	10	16	18	25
Controlling Interests	10	16	18	25
Non-Controlling Interests	0	0	0	0
Total Comprehensive Profit	9	15	17	24
Controlling Interests	9	15	17	24
Non-Controlling Interests	0	0	0	0
EBITDA	46	46	56	68
FCF (Free Cash Flow)	-6	-14	-3	12
EBITDA Margin (%)	15.6	14.4	14.9	15.8
Operating Profit Margin (%)	5.6	6.2	6.0	7.4
Net Profit Margin (%)	3.4	4.9	4.7	5.8

Cash Flows (Summarized)				
(Wbn)	12/11	12/12F	12/13F	12/14F
Cash Flows from Op Activities	45	37	50	61
Net Profit	10	16	18	25
Non-Cash Income and Expense	40	30	38	43
Depreciation	30	25	32	35
Amortization	1	1	1	1
Others	-3	1	1	1
Chg in Working Capital	-1	-9	-6	-5
Chg in AR & Other Receivables	0	-8	-6	-6
Chg in Inventories	-1	-5	-4	-4
Chg in AP & Other Payables	7	5	6	7
Income Tax Paid	-3	0	1	-1
Cash Flows from Inv Activities	-60	-54	-55	-54
Chg in PP&E	-53	-50	-50	-50
Chg in Intangible Assets	-1	-1	-1	-1
Chg in Financial Assets	-2	0	0	0
Others	-4	-3	-4	-3
Cash Flows from Fin Activities	19	24	3	-4
Chg in Financial Liabilities	-26	5	5	5
Chg in Equity	53	0	0	0
Dividends Paid	-3	0	-2	-2
Others	-5	-5	-8	-8
Increase (Decrease) in Cash	3	7	-2	4
Beginning Balance	3	6	13	11
Ending Balance	6	13	11	15

Source: Company data, KDB Daewoo Securities Research estimates

Statement of Financial Condition (Summarized)				
(Wbn)	12/11	12/12F	12/13F	12/14F
Current Assets	64	84	93	107
Cash and Cash Equivalents	6	13	11	15
AR & Other Receivables	27	34	40	47
Inventories	18	23	28	32
Other Current Assets	2	2	3	3
Non-Current Assets	242	273	299	320
Investments in Associates	12	12	12	12
Property, Plant and Equipment	206	231	249	263
Intangible Assets	3	3	3	4
Total Assets	307	357	392	427
Current Liabilities	106	112	119	126
AP & Other Payables	31	37	43	50
Short-Term Financial Liabilities	73	73	73	73
Other Current Liabilities	2	3	4	4
Non-Current Liabilities	45	75	88	95
Long-Term Financial Liabilities	42	71	84	91
Other Non-Current Liabilities	1	2	2	2
Total Liabilities	152	188	208	221
Controlling Interests	155	169	184	206
Capital Stock	10	10	10	10
Capital Surplus	85	85	85	85
Retained Earnings	51	66	82	104
Non-Controlling Interests	0	0	0	0
Stockholders' Equity	155	169	184	206

Forecasts/Valuations (Summarized)				
	12/11	12/12F	12/13F	12/14F
P/E (x)	21.6	14.0	12.9	9.2
P/CF (x)	5.3	5.2	4.5	3.8
P/B (x)	1.6	1.3	1.3	1.1
EV/EBITDA (x)	7.3	7.3	6.3	5.2
EPS (W)	528	726	790	1,103
CFPS (W)	2,150	1,935	2,272	2,705
BPS (W)	7,301	7,702	8,073	9,030
DPS (W)	100	100	100	100
Payout ratio (%)	0.0	13.3	11.8	8.4
Dividend Yield (%)	0.9	1.0	1.0	1.0
Revenue Growth (%)	10.8	8.1	17.6	15.0
EBITDA Growth (%)	-14.9	-0.5	21.8	21.7
Operating Profit Growth (%)	-46.6	19.1	14.8	41.9
EPS Growth (%)	-67.2	37.6	8.7	39.7
Accounts Receivable Turnover (x)	12.1	11.4	11.0	10.9
Inventory Turnover (x)	16.4	15.2	14.7	14.5
Accounts Payable Turnover (x)	19.3	15.3	15.6	15.4
ROA (%)	3.4	4.7	4.7	6.0
ROE (%)	7.8	9.7	10.0	12.7
ROIC (%)	7.5	8.0	7.8	10.7
Liability to Equity Ratio (%)	98.0	110.6	112.8	107.7
Current Ratio (%)	60.6	74.9	77.9	85.0
Net Debt to Equity Ratio (%)	61.9	70.0	72.5	66.3
Interest Coverage Ratio (x)	2.1	3.2	3.0	3.9

Important Disclosures & Disclaimers

Disclosures

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Stock Ratings	Buy	Relative performance of 20% or greater	
	Trading Buy	Relative performance of 10% or greater, but with volatility	
	Hold	Relative performance of -10% and 10%	
	Sell	Relative performance of -10%	
Industry Ratings	Overweight	Fundamentals are favorable or improving	
	Neutral	Fundamentals are steady without any material changes	
	Underweight	Fundamentals are unfavorable or worsening	

* Ratings and Target Price History (Share price (—), Target price (---), Not covered (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

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

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* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

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