

# Hanmi Semiconductor

(042700 KS)

## Earnings growth to gather steam

### Technology

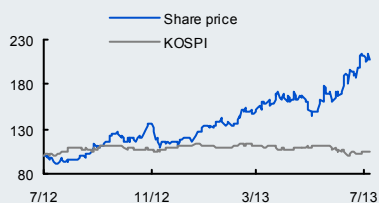
#### Earnings Preview

July 22, 2013

(Maintain)	<b>Buy</b>
Target Price (12M, W)	<b>15,000</b>
Share Price (07/19/13, W)	12,100
Expected Return	24%

OP (13F, Wbn)	30
Consensus OP (13F, Wbn)	
EPS Growth (13F, %)	-1.3
Market EPS Growth (13F, %)	19.1
P/E (13F, x)	12.5
Market P/E (13F, x)	9.2
KOSPI	1,871.41
Market Cap (Wbn)	308
Shares Outstanding (mn)	25
Free Float (%)	42.3
Foreign Ownership (%)	11.8
Beta (12M)	0.64
52-Week Low (W)	5,250
52-Week High (W)	12,800

(%)	1M	6M	12M
Absolute	16.9	56.1	112.7
Relative	17.8	62.0	110.0



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### What's new: 2Q13 earnings to display meaningful growth

2Q13 robust earnings: We forecast Hanmi Semiconductor's 2Q consolidated revenue and operating profit to come in at W57bn (+35% QoQ) and W8.8bn (+306% QoQ; OP margin of 15.5%), respectively. This would represent significant earnings growth compared to 1Q13 (revenue of W42.2bn, operating profit of W2.2bn and OP margin of 5.1%). We expect growth to continue into 2H and estimate revenue at W65.4bn for 3Q and W58.5bn for 4Q.

Earnings drivers: We attribute the strong 2Q earnings to increased equipment demand from major foreign back-end process providers like ASE, AMKOR and SPIL. In addition to top-line growth from existing equipments, such as sawing & replacement (S&P), we believe the firm's new growth engine, flip chip (FC) bonders, have begun to generate sales in 2Q. Another contributing factor was the weak yen, which drove down the import prices of major components (saw engines, etc.).

### Catalyst: FC bonder sales to take off in 2H

TSMC's capex: TSMC, a major global foundry for smartphone application processors and baseband chips, plans to invest W10tr this year. This, in turn, is driving an increase in capital spending by foreign back-end process suppliers.

FC bonder market growth: According to Gartner, the global FC bonder market is forecast to sharply expand to US\$340mn in 2014 from US\$270mn in 2013. Chipsets embedded in smartphones are becoming increasingly slimmer, lighter, and faster and require more stacking, fueling demand for FC packaging, and subsequently, for equipments like FC bonders.

Superior competitiveness: Major FC bonder suppliers include BE Semiconductor, Panasonic Factory Solution, Toray Engineering and ASM. We believe Hanmi's FC bonders have 30-40% higher productivity than these foreign makers. We expect Hanmi to gain approval from foreign non-memory chipmakers in 1H, which should enable Hanmi to expand its market share.

### Valuation: Full-fledged earnings growth; Raise TP by 25% to W15,000

Annual earnings forecast: For full-year 2013, we estimate revenue and operating profit at W223.1bn (+29% YoY) and W29.7bn (+40.5% YoY; OP margin of 13.3%), respectively. For 2014, we project W258.5bn (+16% YoY) and W39.1bn (+31% YoY; OP margin of 15.1%), respectively.

Lifting target price: Currently, the stock is trading at a 2013F P/E of 12.5x and P/B of 1.5x. The stock has been buoyed in 1H by recent stake investments by private equity funds (Jin Daeje Fund and Peter Thiel) and the firm's new growth engine (FC bonders). In light of the full-fledged earnings growth anticipated from 2Q onwards, we raised our target price from W12,000 to W15,000, using a 2014F P/E of 12x and 12 month-forward P/B of 1.8x.

FY (Dec.)	12/10	12/11	12/12	12/13F	12/14F	12/15F
Revenue (Wbn)	222	176	173	223	259	298
OP (Wbn)	29	17	21	30	39	49
OP margin (%)	13.1	9.7	12.2	13.3	15.1	16.5
NP (Wbn)	36	17	25	25	32	40
EPS (W)	1,404	665	977	965	1,248	1,564
ROE (%)	24.5	10.1	14.2	13.1	15.2	16.5
P/E (x)	5.8	9.4	6.9	12.5	9.7	7.7
P/B (x)	1.3	1.0	0.9	1.5	1.3	1.2

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

# Valuations

Table 1. Global back-end equipment companies' peer valuations

(Wbn, %, x)

	Market cap.	Revenue		OP		NP		ROE		P/E		P/B		EV/EBITDA	
		13F	14F	13F	14F	13F	14F	13F	14F	13F	14F	13F	14F	13F	14F
EO Technics	522	239	241	38	40	31	35	13.0	14.2	16.7	15.1	2.3	2.0	16.5	13.3
Hanmi Semi.	308	223	259	30	39	25	32	13.1	15.2	12.5	9.7	1.5	1.3	9.1	6.1
BESI	525	416	499	47	73	37	55	-	-	14.6	8.6	1.2	1.1	6.9	4.4
ASM-PT	4,886	1,657	2,016	220	352	170	276	17.5	23.6	29.4	16.9	4.6	4.1	18.1	12.0
Shinkawa	162	191	275	-4	22	-3	22	-1.0	2.7	-	6.8	0.5	0.5	-	3.2
TOWA	193	211	231	19	29	18	20	9.7	-	10.9	9.7	-	-	5.5	3.9
DISCO	2,348	1,151	1,240	175	210	121	142	9.5	10.4	19.7	16.7	1.8	1.6	8.6	7.7
Dai-ichi	246	487	521	19	32	15	20	3.6	5.1	17.1	12.3	0.5	0.5	2.1	1.6
Average								9.3	11.9	17.3	12.0	1.8	1.6	9.5	6.5

Source: Bloomberg, KDB Daewoo Securities Research estimates

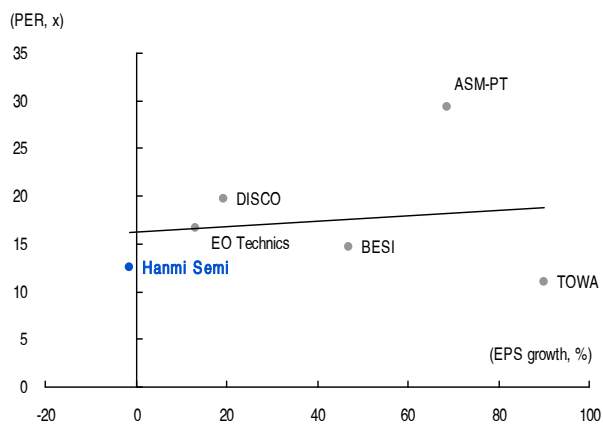
Table 2. Global packaging companies' peer valuations

(Wbn, %, x)

	Market cap.	Revenue		OP		NP		ROE		P/E		P/B		EV/EBITDA	
		13F	14F	13F	14F	13F	14F	13F	14F	13F	14F	13F	14F	13F	14F
Hana Micron	145	315	390	21	31	17	26	10.3	14.5	8.8	5.5	-	-	-	-
Signetics	242	353	421	31	39	25	33	13.9	15.2	9.8	7.3	1.2	1.0	4.8	4.1
ASE	6,974	7,930	8,442	780	883	583	667	13.0	13.5	12.4	10.7	1.5	1.4	5.5	5.1
SPIL	3,757	2,586	2,837	291	347	220	293	9.6	12.1	17.2	12.9	1.6	1.6	5.4	4.8
PTI	1,685	1,541	1,616	191	220	138	157	9.2	9.6	12.2	10.6	1.1	1.1	3.3	3.4
Chipbond	1,351	656	794	142	178	126	155	16.8	19.0	10.8	9.3	1.8	1.7	6.4	5.3
Amkor	769	3,402	3,599	275	319	142	161	18.0	13.7	8.3	6.7	1.0	0.9	2.8	2.6
Average								13.0	13.9	11.3	9.0	1.4	1.3	4.7	4.2

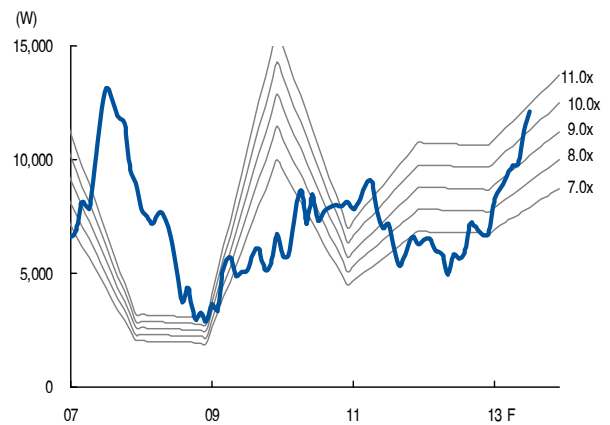
Source: Bloomberg, KDB Daewoo Securities Research estimates

Figure 1. P/E-EPG of backend equipment companies (2013F)



Source: Bloomberg, KDB Daewoo Securities Research estimates

Figure 2. 12-month forward P/E band



Source: Company data, KDB Daewoo Securities Research estimates

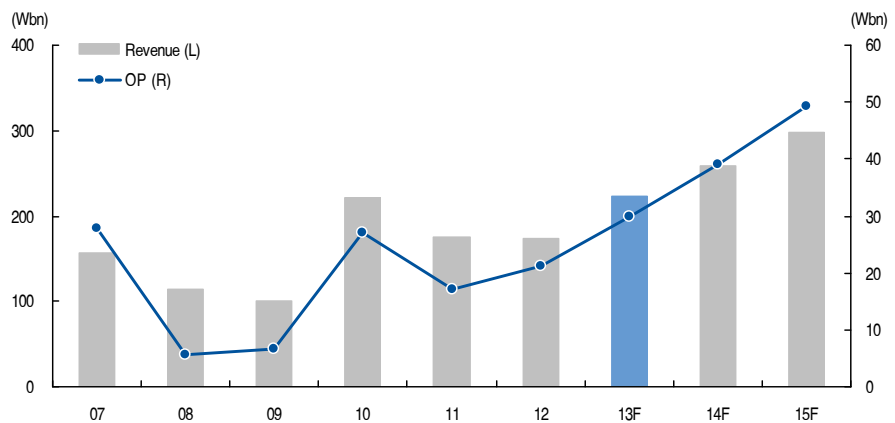
# Earnings outlook

Table 3. Quarterly and annual earnings

	1Q13	2Q13F	3Q13F	4Q13F	1Q14F	2Q14F	3Q14F	4Q14F	11	12	13F	14F
<b>Revenue</b>	<b>42.2</b>	<b>57.0</b>	<b>65.4</b>	<b>58.5</b>	<b>53.1</b>	<b>67.2</b>	<b>73.2</b>	<b>65.0</b>	<b>175.8</b>	<b>173.4</b>	<b>223.1</b>	<b>258.5</b>
QoQ (%)	-14.7	35.0	14.7	-10.6	-9.2	26.6	8.9	-11.2				
YoY (%)	15.3	5.4	26.8	18.2	25.8	17.9	11.9	11.1	-20.8	-1.4	28.7	15.9
<b>COGS</b>	<b>31.4</b>	<b>39.4</b>	<b>45.1</b>	<b>41.0</b>	<b>37.7</b>	<b>47.0</b>	<b>50.5</b>	<b>46.8</b>	<b>124.4</b>	<b>118.3</b>	<b>156.9</b>	<b>182.0</b>
Gross profit	10.9	17.6	20.3	17.6	15.4	20.2	22.7	18.2	51.4	55.1	66.2	76.5
SG&A	8.7	8.7	9.8	9.3	8.7	9.1	10.0	9.6	34.4	33.9	36.5	37.4
<b>Operating profit</b>	<b>2.2</b>	<b>8.9</b>	<b>10.5</b>	<b>8.3</b>	<b>6.7</b>	<b>11.1</b>	<b>12.7</b>	<b>8.6</b>	<b>17.0</b>	<b>21.2</b>	<b>29.7</b>	<b>39.1</b>
QoQ (%)	-37.6	308.6	18.3	-21.2	-18.8	65.1	14.8	-32.2				
YoY (%)	-29.9	0.8	19.3	137.5	209.0	24.9	21.2	4.2	-37.3	24.4	40.5	31.3
<b>Net profit</b>	<b>3.3</b>	<b>6.6</b>	<b>8.3</b>	<b>10.2</b>	<b>5.5</b>	<b>8.9</b>	<b>10.2</b>	<b>7.0</b>	<b>16.5</b>	<b>24.4</b>	<b>24.5</b>	<b>31.7</b>
QoQ (%)	-67.0	103.7	24.9	23.3	-45.8	61.2	14.4	-31.5				
YoY (%)	39.5	-10.2	20.8	3.6	70.1	34.6	23.3	-31.5	-52.1	47.9	0.4	29.4
GP margin (%)	25.7	30.8	31.0	30.0	29.0	30.0	31.0	28.0	29.2	31.8	29.7	29.6
OP margin (%)	5.1	15.5	16.0	14.1	12.6	16.5	17.3	13.2	9.7	12.2	13.3	15.1
NP margin (%)	7.7	11.7	12.7	17.5	10.5	13.3	14.0	10.8	9.4	14.1	11.0	12.3

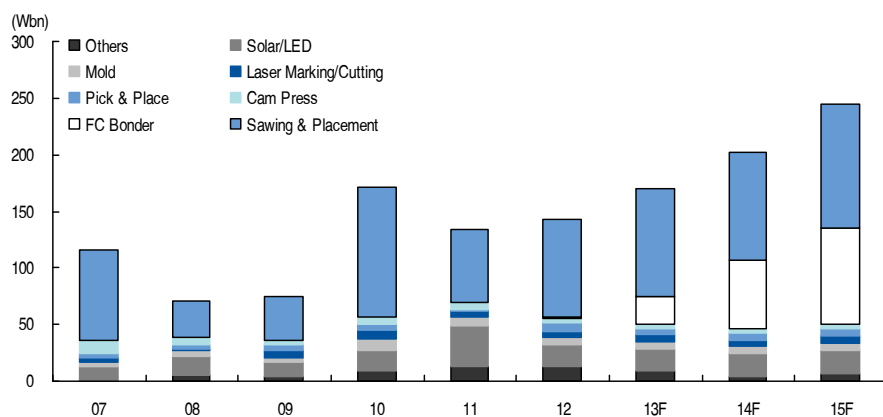
Source: Company data, KDB Daewoo Securities Research estimates

Figure 3. Mid- to long-term growth continues after 2013



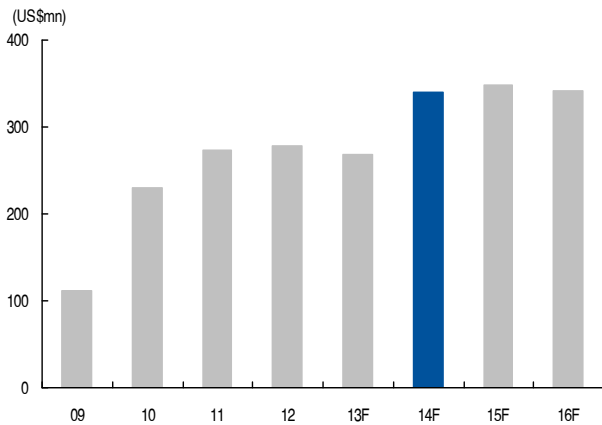
Source: Company data, KDB Daewoo Securities Research estimates

Figure 4. Robust sales of S&P and expansion of new growth driver, FC bonder



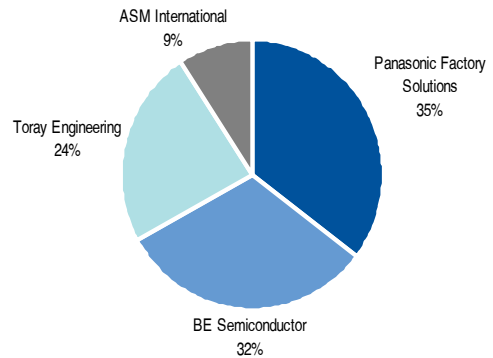
Source: Company data, KDB Daewoo Securities Research estimates

Figure 5. Global FC-Bonder market to expand from 2014



Source: Gartner

Figure 6. Global major FC-Bonder players



Source: Gartner

[Appendix] Hanmi Semiconductor’s major equipments

Figure 7. S&P (Sawing & Placement)



Machine for Singulation process; CSP packages (QFN, MLF, BGA, CABGA, BOC, Flip-Chip, etc) are bladed (with diamond blade), dried, inspected, sorted and off-loaded automatically

- Covers even less than 2x2 mm package
- Estimated global M/S: more than 70%

- \*Models
- 1)3500D - Standard
  - 2)20000D - Dual Chuck table
  - 3)3800L - Flip-over dry function
  - 4)3500F - For wafer level package (WLP)

Source: Company data

Figure 8. FC (Flip Chip) Bonder



For flip-chip package with dual picker and dual bonder inside

Figure 9. Auto Molding



Molding equipment for the protection of wire-bonded chips with thermosetting resin from external environment (high temperature, humidity and mechanical and electric shocks)

Figure 10. Cam Press Trim & Form



For LP's (leaded package) filtering, lead-forming, cutting, inspecting, sorting and off-loading processes (fabricated mold & automated CAM press device applied)

Figure 11. PCB Sawing Sorter



For singulation of big size PCB panels(Max. 510x510mm); Covers all process from singulation, dry, inspection, and sorting to off-loading of PCB panel

Source: Company data

## Hanmi Semiconductor (042700 KS/Buy/TP: W15,000)

## Comprehensive Income Statement (Summarized)

(Wbn)	12/12	12/13F	12/14F	12/15F
<b>Revenue</b>	<b>173</b>	<b>223</b>	<b>259</b>	<b>298</b>
<b>Cost of Sales</b>	<b>118</b>	<b>157</b>	<b>182</b>	<b>206</b>
<b>Gross Profit</b>	<b>55</b>	<b>66</b>	<b>77</b>	<b>92</b>
<b>SG&amp;A Expenses</b>	<b>34</b>	<b>37</b>	<b>37</b>	<b>43</b>
<b>Operating Profit (Adj)</b>	<b>21</b>	<b>30</b>	<b>39</b>	<b>49</b>
<b>Operating Profit</b>	<b>21</b>	<b>30</b>	<b>39</b>	<b>49</b>
<b>Non-Operating Profit</b>	<b>10</b>	<b>1</b>	<b>1</b>	<b>1</b>
Net Financial Income	-1	0	0	0
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	32	31	40	51
Income Tax	7	7	9	11
Profit from Continuing Operations	<b>24</b>	<b>25</b>	<b>32</b>	<b>40</b>
Profit from Discontinued Operations	0	0	0	0
<b>Net Profit</b>	<b>24</b>	<b>25</b>	<b>32</b>	<b>40</b>
Controlling Interests	25	25	32	40
Non-Controlling Interests	0	0	0	0
<b>Total Comprehensive Profit</b>	<b>24</b>	<b>25</b>	<b>32</b>	<b>40</b>
Controlling Interests	24	25	32	40
Non-Controlling Interests	0	0	0	0
EBITDA	26	31	44	54
FCF (Free Cash Flow)	45	-1	16	16
EBITDA Margin (%)	15.0	13.9	17.0	18.3
Operating Profit Margin (%)	12.2	13.3	15.1	16.5
Net Profit Margin (%)	14.3	11.0	12.3	13.3

## Cash Flows (Summarized)

(Wbn)	12/12	12/13F	12/14F	12/15F
<b>Cash Flows from Op Activities</b>	<b>37</b>	<b>10</b>	<b>29</b>	<b>33</b>
Net Profit	24	25	32	40
Non-Cash Income and Expense	5	9	12	15
Depreciation	4	1	5	5
Amortization	0	0	0	0
Others	6	-1	1	1
Chg in Working Capital	10	-18	-7	-11
Chg in AR & Other Receivables	-1	-16	-7	-10
Chg in Inventories	5	-18	-8	-9
Chg in AP & Other Payables	4	8	4	5
Income Tax Paid	-2	-6	-9	-11
<b>Cash Flows from Inv Activities</b>	<b>-29</b>	<b>13</b>	<b>-13</b>	<b>-17</b>
Chg in PP&E	7	-9	-13	-17
Chg in Intangible Assets	-1	0	0	0
Chg in Financial Assets	-36	22	0	0
Others	0	0	0	0
<b>Cash Flows from Fin Activities</b>	<b>-7</b>	<b>-15</b>	<b>-4</b>	<b>-4</b>
Chg in Financial Liabilities	4	-3	0	0
Chg in Equity	-8	0	0	0
Dividends Paid	-3	-12	-4	-4
Others	0	0	0	0
<b>Increase (Decrease) in Cash</b>	<b>0</b>	<b>9</b>	<b>12</b>	<b>13</b>
Beginning Balance	14	15	23	36
Ending Balance	15	23	36	48

Source: Company data, KDB Daewoo Securities Research estimates

## Statement of Financial Condition (Summarized)

(Wbn)	12/12	12/13F	12/14F	12/15F
<b>Current Assets</b>	<b>128</b>	<b>148</b>	<b>175</b>	<b>207</b>
Cash and Cash Equivalents	15	24	36	49
AR & Other Receivables	44	61	67	78
Inventories	34	52	60	69
Other Current Assets	2	0	0	0
<b>Non-Current Assets</b>	<b>103</b>	<b>110</b>	<b>118</b>	<b>130</b>
Investments in Associates	10	10	10	10
Property, Plant and Equipment	58	59	67	79
Intangible Assets	3	3	3	3
<b>Total Assets</b>	<b>231</b>	<b>258</b>	<b>292</b>	<b>336</b>
<b>Current Liabilities</b>	<b>40</b>	<b>53</b>	<b>61</b>	<b>69</b>
AP & Other Payables	17	26	30	34
Short-Term Financial Liabilities	6	4	4	4
Other Current Liabilities	17	23	27	31
<b>Non-Current Liabilities</b>	<b>8</b>	<b>9</b>	<b>8</b>	<b>7</b>
Long-Term Financial Liabilities	0	0	0	0
Other Non-Current Liabilities	5	5	4	3
<b>Total Liabilities</b>	<b>48</b>	<b>62</b>	<b>69</b>	<b>76</b>
<b>Controlling Interests</b>	<b>181</b>	<b>194</b>	<b>222</b>	<b>259</b>
Capital Stock	13	13	13	13
Capital Surplus	22	22	22	22
Retained Earnings	159	171	199	236
<b>Non-Controlling Interests</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>Stockholders' Equity</b>	<b>183</b>	<b>196</b>	<b>224</b>	<b>260</b>

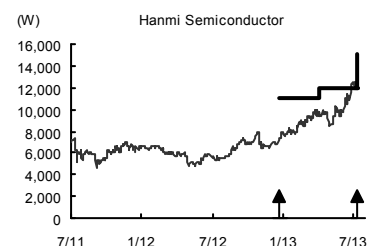
## Forecasts/Valuations (Summarized)

	12/12	12/13F	12/14F	12/15F
P/E (x)	6.9	12.5	9.7	7.7
P/CF (x)	5.8	11.9	8.4	6.8
P/B (x)	0.9	1.5	1.3	1.2
EV/EBITDA (x)	5.2	9.1	6.1	4.7
EPS (W)	977	965	1,248	1,564
CFPS (W)	1,165	1,013	1,442	1,768
BPS (W)	7,447	7,952	9,062	10,489
DPS (W)	500	150	150	150
Payout ratio (%)	47.4	14.4	11.1	8.9
Dividend Yield (%)	7.4	1.2	1.2	1.2
Revenue Growth (%)	-1.4	28.7	15.9	15.3
EBITDA Growth (%)	21.2	19.4	42.0	23.6
Operating Profit Growth (%)	24.4	40.5	31.3	25.9
EPS Growth (%)	47.0	-1.3	29.4	25.3
Accounts Receivable Turnover (x)	4.0	4.4	4.2	4.3
Inventory Turnover (x)	4.7	5.2	4.7	4.6
Accounts Payable Turnover (x)	15.5	14.8	12.8	12.8
ROA (%)	11.2	10.0	11.5	12.6
ROE (%)	14.2	13.1	15.2	16.5
ROIC (%)	14.2	20.2	23.2	25.7
Liability to Equity Ratio (%)	26.2	31.5	30.6	29.3
Current Ratio (%)	316.9	280.4	288.7	298.7
Net Debt to Equity Ratio (%)	-22.5	-16.2	-19.6	-21.8
Interest Coverage Ratio (x)	38.7	421.0	947.7	1,193.2

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

\* 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.

\* Although it is not part of the official ratings at Daewoo Securities, we may call a trading opportunity in case there is a technical or short-term material development.

\* 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.

The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

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