

# Samsung SDS

(018260 KS)

## A platform for sustainable growth

### IT services

Initiation Report  
November 14, 2014

(Initiate)	<b>Buy</b>
Target Price (12M, W)	<b>450,000</b>
Offering price	190,000

OP (14F, Wbn)	578
Consensus OP (14F, Wbn)	620
EPS Growth (14F, %)	26.0
Market EPS Growth (14F, %)	2.5
P/E (14F, x)	-
Market P/E (14F, x)	12.7
KOSPI	1,960.51
Market Cap (Wbn)	0
Shares Outstanding (mn)	77.4
Free Float (%)	0.0
Foreign Ownership (%)	0.0
Beta (12M)	0.00
52-Week Low	0
52-Week High	0
<b>(%)</b>	
	<b>1M      6M      12M</b>
Absolute	-      -      -
Relative	-      -      -

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### Stable captive market and diversified business portfolio

#### 1) IT services: Continued captive revenue & telecom network business expansion

Samsung SDS is the IT services arm of Samsung Group, in charge of IT operations of most affiliates, including Samsung Electronics (SEC). We believe revenue from affiliates will continue, given the increasing importance of information security. In addition, group affiliates are likely to increase their IT spending to enhance their competitiveness and efficiency, which should help accelerate top-line growth.

The company diversified its business portfolio into telecommunications networks through mergers with Samsung Networks in 2010 and Samsung SNS in 2013. We expect the telecom network business to gather traction going forward, benefiting from synergies with SEC's network equipment business.

#### 2) Logistics BPO: IT-based 4PL services; 2012-2017F CAGR of 44.9%

The company began its fourth-party logistics (4PL) business in 2012 with the opening of overseas subsidiaries. The company's logistics business process outsourcing (BPO) service provides IT solutions optimized to affiliates, and manages the entire logistical process by taking over operations previously handled between the individual affiliate and its logistics providers.

The logistics BPO business has grown considerably in a short period of time on the back of strong demand from SEC's overseas subsidiaries. The division's revenue, which was initially around W627.6bn in 2012, surged 192.5% to W1.8tr in 2013, and is expected to grow 24.9% YoY to W2.3tr in 2014. Looking ahead to 2015, Samsung SDS plans to expand its business network in order to handle SEC's logistics across all regions. In the long term, the company is also planning to broaden its customer base to non-SEC affiliates, and ultimately to non-group affiliates, which should support revenue growth. Furthermore, as overseas logistics subsidiaries get back on track, the logistics BPO division could see its OP margin improve to around 5%.

#### Initiate coverage with Buy and TP of W450,000

We initiate our coverage on Samsung SDS with a Buy recommendation and target price of W450,000. We used a sum-of-the-parts (SOTP) analysis to derive our target price, which consists of the operating values of the IT services division (28.8x 2015F EBITDA) and the logistics BPO division (10x 2015F EBITDA). Our target EV/EBITDA represents the multiple of SK C&C for IT services, and the average multiple of global logistics service providers for logistics BPO.

Our target multiple for IT services reflects, to a certain extent, the premium related to Samsung Group's ownership restructuring. Following its IPO, we believe Samsung SDS will not only see continued growth in existing business, but also gain additional growth through new businesses and M&As, which should gradually ease valuation pressures.

FY (Dec.)	12/11	12/12	12/13	12/14F	12/15F	12/16F
Revenue (Wbn)	4,765	6,106	7,047	8,096	10,258	11,404
OP (Wbn)	414	558	506	578	807	878
OP margin (%)	8.7	9.1	7.2	7.1	7.9	7.7
NP (Wbn)	327	396	312	394	511	562
EPS (W)	4,523	5,478	4,312	5,433	7,058	7,762
ROE (%)	12.0	13.1	8.9	9.9	11.7	11.5
P/E (x)	-	-	-	-	-	-
P/B (x)	-	-	-	-	-	-

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

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## Valuation

### Initiate coverage with Buy and TP of W450,000

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Table 1. Target price calculation for Samsung SDS (Wbn)

	Valuation	Notes
<b>1. Operating value</b>	<b>33,792</b>	
IT services	32,797	- 28.8x EV/EBITDA based on 2015F EBITDA
Logistics BPO	995	- 9.8x 2015F EV/EBITDA (average of global logistics peers)
<b>2. Value of investment assets</b>	<b>40</b>	
Listed subsidiaries	0	
Unlisted subsidiaries	7	- Reflects book value
Investment in affiliated companies	33	- Reflects book value
<b>3. Total asset value (1 + 2)</b>	<b>33,832</b>	
4. Net liabilities	-666	- As of 3Q14
5. Net asset value (3 - 4)	34,498	
6. Number of shares outstanding ('000 shares)	77,350	- Excludes preferred shares
<b>7. Target price</b>	<b>450,000</b>	

Source: KDB Daewoo Securities Research

Table 2. Calculation of EV/EBITDA multiple for IT services: Multiple of SK C&C (Wbn)

	Appraised value	Notes
Market cap	11,575	(A) Based on November 13 <sup>th</sup> closing price
Adj. market cap (deduction)	2,511	(B)
Applied market cap	9,064	(C) = (A) - (B)
Net borrowing	979	(D)
Enterprise value (EV)	10,044	(E) = (C) + (D)
EBITDA (2015F)	348	(F)
Operating profit (2015F)	294	
Depreciation costs	40	
Amortization costs	14	
EV/EBITDA multiple	28.8	G = E / F

Source: KDB Daewoo Securities Research

Table 3. Calculation of EV/EBITDA multiple for logistics BPO: Average multiple of global peers (Wbn, x)

Company	Market cap	Revenue			Operating profit			P/E			EV/EBITDA		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
C.H. Robinson Worldwide	11,508	13,961	14,655	15,630	747	814	885	24.7	23.7	21.4	13.6	14.0	12.9
Ryder System	5,385	7,028	7,002	7,349	537	626	723	17.9	16.6	14.2	6.7	6.8	6.3
Nippon Yusen	4,884	24,379	22,091	22,790	490	616	723	15.7	13.8	9.7	9.2	8.5	7.8
Toll Holdings	3,810	8,636	8,347	8,571	376	424	450	13.9	13.4	12.7	9.4	9.1	9.8
Panalpina Welttransport	3,503	7,983	7,848	8,243	150	145	200	164.6	33.2	23.1	13.5	14.7	13.4
JSL SA	1,234	2,418	2,215	2,519	181	176	215	43.1	36.9	28.7	8.5	8.8	8.7

Source: KDB Daewoo Securities Research

# Investment points

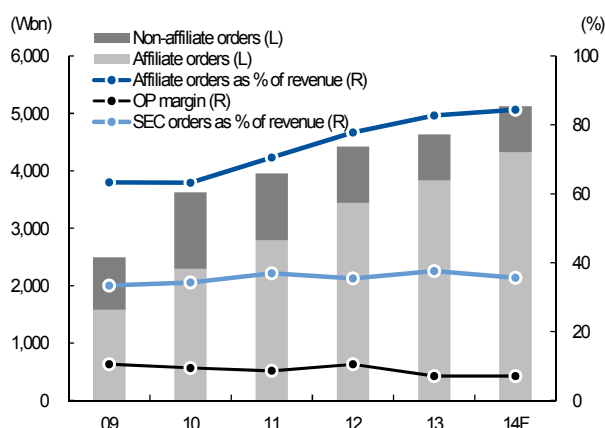
## 1. Stable captive market and diversified business portfolio

### 1) Domestic IT services (parent basis)

Samsung SDS is the IT services arm of Samsung Group, in charge of IT operations of most affiliates, including SEC. It derives a significant portion of its revenue from group affiliates (51.0% in 2011, 56.4% in 2012, and 65.5% in 2013). Companies which, like Samsung SDS, have captive customers are able to enjoy a steady flow of orders even when market conditions deteriorate. As captive markets tend to guarantee higher margins than competitive markets, such companies can afford to sign contracts at relatively lower margins when entering competitive markets, thus gaining an advantage in winning non-captive customers, as well.

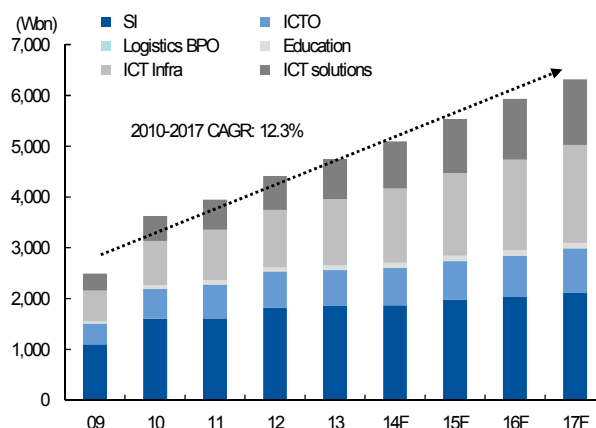
We believe revenue from affiliates will continue, given the increasing importance of information security. In addition, group affiliates are likely to increase their IT spending to enhance their competitiveness and efficiency, which should help accelerate top-line growth.

**Figure 1. Samsung SDS's revenue from affiliates/non-affiliates**



Notes: Based on non-consolidated K-IFRS  
Source: KDB Daewoo Securities Research

**Figure 2. Samsung SDS's revenue by segment**



Notes: Based on non-consolidated K-IFRS  
Source: Dart, KDB Daewoo Securities Research

The company diversified its business portfolio into telecommunications networks through mergers with Samsung Networks in 2010 and Samsung SNS in 2013. We expect the telecom network business to gather traction going forward, benefiting from synergies with SEC's network equipment business.

**Table 4. Telecommunications network business**

Company/division	Annual revenue	Business	Notes
Samsung Networks	100	Network solutions, etc.	Merger in Jan. 2010
Samsung SNS	500	Establishment/maintenance of network equipment	Merger in Dec. 2013
SEC's network division	4,000	Production/manufacturing of network equipment	

Source: KDB Daewoo Securities Research

**Table 5. Earnings of Samsung Networks and Samsung SNS before mergers with Samsung SDS**

Samsung Networks	2007	2008	2009	Samsung SNS	2010	2011	2012
Revenue	651	745	795	Revenue	482	500	509
Operating profit	56	61	85	Operating profit	24	22	54
OP margin	8.7	8.2	10.6	OP margin	5.1	4.4	10.6
Pretax profit	64	72	93	Pretax profit	26	24	55
Net profit	50	57	72	Net profit	19	17	41

Source: KDB Daewoo Securities Research

## 2) Overseas IT services

After launching a US subsidiary in 1997 and Chinese and European subsidiaries in 2000, Samsung SDS has steadily broadened its overseas business in tandem with the growing overseas presence of SEC and other major group affiliates. The company's overseas subsidiaries were established with the sole purpose to provide IT services to group affiliates, and thus we expect stable top- and bottom-line growth for the overseas business to continue going forward.

**Table 6. Samsung SDS America (SDSA)** (Wbn, %)

	2010	2011	2012	2013	2014F	2015F	2016F	2017F
Revenue	146	165	218	493	892	1,141	1,282	1,441
YoY growth (%)		13.1	32.3	125.8	80.9	27.9	12.4	12.4
Cost of sales	120	123	175	424	755	973	1,094	1,233
Cost of sales (%)	82.1	74.5	79.9	86.0	84.6	85.3	85.3	85.5
Gross profit	26	42	44	69	138	168	189	208
SG&A expenses	9	14	16	30	62	68	75	84
SG&A expenses/revenue (%)	6.3	8.5	7.4	6.0	6.9	5.9	5.9	5.9
Operating profit	17	28	28	40	76	101	114	124
OP margin (%)	11.6	17.0	12.6	8.0	8.5	8.8	8.9	8.6

Source: KDB Daewoo Securities Research estimates

**Table 7. Samsung SDS Europe (SDSE)** (Wbn, %)

	2010	2011	2012	2013	2014F	2015F	2016F	2017F
Revenue	133	150	147	221	230	268	301	339
YoY growth (%)		12.3	-1.4	49.8	4.1	16.4	12.6	12.6
Cost of sales	110	117	116	173	185	214	241	274
Cost of sales (%)	82.6	78.2	78.8	78.5	80.5	79.8	79.8	80.6
Gross profit	23	33	31	47	45	54	61	66
SG&A expenses	9	11	10	16	19	21	25	29
SG&A expenses/revenue (%)	7.0	7.2	6.5	7.4	8.1	7.8	8.1	8.6
Operating profit	14	22	22	31	26	33	36	37
OP margin (%)	10.4	14.6	14.8	14.0	11.4	12.3	12.0	10.8

Source: KDB Daewoo Securities Research estimates

**Table 8. Samsung SDS China (SDSC)** (Wbn, %)

	2010	2011	2012	2013	2014F	2015F	2016F	2017F
Revenue	109	148	176	264	234	258	279	302
YoY growth (%)		36.0	19.5	49.7	-11.4	10.4	8.1	8.1
Cost of sales	99	135	156	236	210	229	246	265
Cost of sales (%)	91.1	91.7	88.6	89.5	89.6	88.6	88.0	87.7
Gross profit	10	12	20	28	24	29	34	37
SG&A expenses	5	8	10	11	10	11	11	13
SG&A expenses/revenue (%)	5.0	5.2	5.5	4.0	4.1	4.1	4.1	4.2
Operating profit	4	5	10	17	15	19	22	24
OP margin (%)	3.9	3.1	5.9	6.5	6.2	7.3	8.0	8.1

Source: KDB Daewoo Securities Research estimates

**Table 9. Samsung SDS Asia Pacific (SDSAP)** (Wbn, %)

	2010	2011	2012	2013	2014F	2015F	2016F	2017F
Revenue	31	38	45	192	325	360	392	426
YoY growth (%)		21.7	19.4	325.5	69.0	10.8	8.8	8.8
Cost of sales	26	32	38	155	261	290	315	344
Cost of sales (%)	83.9	85.3	83.4	80.7	80.5	80.5	80.5	80.6
Gross profit	5	6	8	37	63	70	76	83
SG&A expenses	3	3	3	14	23	26	28	32
SG&A expenses/revenue (%)	9.6	7.0	7.4	7.4	7.2	7.1	7.2	7.5
Operating profit	2	3	4	23	40	45	48	51
OP margin (%)	6.5	7.6	9.2%	11.9	12.4	12.4	12.3	11.9

Source: KDB Daewoo Securities Research estimates

## 2. Logistics BPO

The company began its 4PL business in 2012 with the opening of overseas subsidiaries. The company's logistics BPO service provides IT solutions optimized to affiliates, and manages the entire logistical process by taking over operations previously handled between the individual affiliate and its logistics providers.

The logistics BPO business has grown considerably in a short period of time on the back of strong demand from SEC's overseas subsidiaries. The division's revenue, which was initially around W627.6bn in 2012, surged 192.5% to W1.8tr in 2013, and is expected to grow 24.9% YoY to W2.3tr in 2014. Looking ahead to 2015, Samsung SDS plans to expand its business network in order to handle SEC's logistics across all regions. In the long term, the company is also planning to broaden its customer base to non-SEC affiliates, and ultimately to non-group affiliates, which should support revenue growth. Furthermore, as overseas logistics subsidiaries get back on track, the logistics BPO division could see its OP margin improve to around 5%.

**Table 10. Revenue from logistics BPO**

(Wbn, %)

		2012	2013	2014F	2015F	2016F	2017F
Revenue		628.9	1,835.9	2,292.6	2,765.3	3,352.6	4,014.7
YOY growth (%)		-	191.9	24.9	20.6	21.2	19.8
Captive revenue	Revenue from SEC	628.9	1,835.9	2,292.6	2,765.3	3,352.6	4,014.7
	YoY growth (%)	-	191.9	24.9	20.6	21.2	19.8
	Proportion (%)	100.0	100.0	100.0	100.0	100.0	100.0
	SEC's overseas logistics expenses (estimates)	3,128.9	3,383.3	3,484.8	3,624.2	3,805.4	4,014.7
	YoY growth (%)	0.1	8.1	3.0	4.0	5.0	5.5
	Samsung SDS revenue as % of SEC's overseas logistics expenses	20.1	54.3	65.8	76.3	88.1	100.0
	1) GSCL Vietnam's logistics BPO revenue	143.0	397.4	416.3	464.5	532.3	603.7
	Proportion (%)	22.7	21.6	18.2	16.8	15.9	15.0
	2) GSCL Beijing's logistics BPO revenue	363.6	634.1	609.4	686.4	806.3	913.5
	Proportion (%)	57.8	34.5	26.6	24.8	24.1	22.8
3) Other GSCL subsidiaries' logistics BPO revenue	120.0	513.5	1,004.2	1,237.6	1,581.0	2,006.4	
Proportion (%)	19.1	28.0	43.8	44.8	47.2	50.0	
4) Other overseas subsidiaries' logistics BPO revenue	2.4	290.9	262.7	376.8	432.9	491.1	
Proportion (%)	0.4	15.8	11.5	13.6	12.9	12.2	

Source: Dart, KDB Daewoo Securities Research

**Table 11. Details and revenue of logistics BPO subsidiaries**

(Wbn)

No.	Established	Name	Location	2012	2013	2014F	2015F	2016F	2017F
1	9/30/2011	Samsung SDS Global SCL Philippines	Philippines	7.9	10.5	13.9	18.6	24.8	33.0
2	8/26/2011	Samsung SDS Global SCL Malaysia	Malaysia	33.8	96.3	82.5	88.3	94.5	101.1
3	9/14/2011	Samsung SDS Global SCL Thailand	Thailand	59.8	159.5	171.9	185.2	199.6	215.1
4	8/22/2011	Samsung SDS Global SCL Beijing	China	349.8	634.1	609.4	686.4	806.3	913.5
5	10/26/2011	Samsung SDS Global SCL Netherlands Coöperatief U.A.	Netherland	2.8	13.9	23.3	39.0	0.0	0.0
6	10/17/2011	Samsung SDS Global SCL Indonesia	Indonesia	23.1	60.7	104.9	181.0	0.0	0.0
7	11/25/2011	Samsung SDS Global SCL Vietnam	Vietnam	142.3	397.4	416.3	464.5	532.3	603.7
8	11/29/2011	Samsung SDS Global SCL Hong Kong	Hong Kong	4.5	28.3	28.7	29.1	29.6	30.0
9	4/18/2013	Samsung SDS Global SCL Egypt	Egypt		5.9	44.6	46.8	49.2	51.6
10	4/17/2013	Samsung SDS Global SCL Russia	Russia		36.9	85.8	90.1	94.6	99.3
11	6/11/2013	Samsung SDS Global SCL Hungary	Hungary		8.1	29.1	30.6	32.1	33.7
12	6/3/2013	Samsung SDS Global SCL Slovakia	Slovakia		28.5	127.6	134.0	140.7	147.7
13	3/11/2014	Samsung SDS Global SCL Poland	Poland			10.4	10.9	11.5	12.0
14	4/9/2014	Samsung SDS Global SCL Turkey	Turkey			5.6	5.9	6.2	6.5
15	4/16/2014	Samsung SDS Global SCL South Africa	South Africa			3.8	4.0	4.2	4.4
16	7/19/2014	Samsung SDS Global SCL Panama, S.A.	Panama			2.1	2.2	2.3	2.4
17		Other overseas subsidiaries (engaged in both IT services and logistics BPO)		3.7	355.8	532.7	748.6	1,324.8	1,098.4

Source: Dart, KDB Daewoo Securities Research

## Earnings outlook

Table 12. Quarterly and annual earnings and forecasts

(Wbn, %)

	1Q14	2Q14	3Q14P	4Q14F	1Q15F	2Q15F	3Q15F	4Q15F	2013	2014F	2015F
<b>Revenue</b>	<b>1,866.9</b>	<b>2,059.4</b>	<b>1,802.4</b>	<b>2,367.1</b>	<b>2,230.2</b>	<b>2,535.3</b>	<b>2,509.1</b>	<b>2,983.1</b>	<b>7,046.8</b>	<b>8,095.7</b>	<b>10,257.8</b>
IT services	1,382.1	1,430.5	1,281.8	1,708.7	1,645.4	1,858.7	1,808.8	2,179.6	5,211.0	5,803.1	7,492.5
Consulting/SI	570.6	590.5	431.7	705.4	656.8	742.0	722.0	870.1	2,000.1	2,298.2	2,991.0
Outsourcing	811.5	840.0	850.1	1,003.3	988.6	1,116.7	1,086.7	1,309.5	3,210.9	3,504.9	4,501.5
Logistics BPO	484.8	628.9	520.5	658.4	584.8	676.6	700.3	803.5	1,835.9	2,292.6	2,765.3
GSCL Beijing	141.3	150.8	115.9	201.4	145.2	168.0	173.8	199.5	634.1	609.4	686.4
GSCL Vietnam	91.2	98.2	94.6	132.3	98.2	113.7	117.6	135.0	397.4	416.3	464.5
GSCL (other)	252.2	380.0	310.0	324.7	341.4	395.0	408.8	469.1	804.4	1,266.9	1,614.3
<b>Revenue portion</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
IT services	74.0	69.5	71.1	72.2	73.8	73.3	72.1	73.1	73.9	71.7	73.0
Consulting/SI	30.6	28.7	24.0	29.8	29.5	29.3	28.8	29.2	28.4	28.4	29.2
Outsourcing	43.5	40.8	47.2	42.4	44.3	44.0	43.3	43.9	45.6	43.3	43.9
Logistics BPO	26.0	30.5	28.9	27.8	26.2	26.7	27.9	26.9	26.1	28.3	27.0
GSCL Beijing	7.6	7.3	6.4	8.5	6.5	6.6	6.9	6.7	9.0	7.5	6.7
GSCL Vietnam	4.9	4.8	5.2	5.6	4.4	4.5	4.7	4.5	5.6	5.1	4.5
GSCL (other)	13.5	18.5	17.2	13.7	15.3	15.6	16.3	15.7	11.4	15.6	15.7
<b>Operating profit</b>	<b>102.4</b>	<b>172.8</b>	<b>131.5</b>	<b>171.6</b>	<b>187.0</b>	<b>221.9</b>	<b>195.1</b>	<b>202.6</b>	<b>505.6</b>	<b>578.2</b>	<b>806.6</b>
OP margin (%)	5.5	8.4	7.3	7.2	8.4	8.8	7.8	6.8	7.2	7.1	7.9
IT Services	94.0	158.7	125.7	156.2	173.6	204.6	174.9	178.0	482.5	534.7	731.1
OP margin (%)	6.8	11.1	9.8	9.1	10.6	11.0	9.7	8.2	9.3	9.2	9.8
Logistics BPO	8.3	14.1	5.8	15.4	13.4	17.3	20.2	24.5	23.1	43.6	75.4
OP margin (%)	1.7	2.2	1.1	2.3	2.3	2.6	2.9	3.1	1.3	1.9	2.7
Pretax profit	115.3	191.4	145.9	177.1	192.9	223.7	199.5	202.1	497.0	629.7	818.2
Net profit	76.3	125.5	97.3	118.1	127.8	148.2	132.2	133.9	326.0	417.3	542.2
<b>Attributable to contr. interests</b>	<b>71.9</b>	<b>120.1</b>	<b>91.1</b>	<b>110.5</b>	<b>120.5</b>	<b>139.8</b>	<b>124.7</b>	<b>126.3</b>	<b>312.4</b>	<b>393.5</b>	<b>511.3</b>
YoY growth											
<b>Revenue</b>	<b>24.6</b>	<b>18.1</b>	<b>2.4</b>	<b>15.7</b>	<b>19.5</b>	<b>23.1</b>	<b>39.2</b>	<b>26.0</b>	<b>25.5</b>	<b>14.9</b>	<b>26.7</b>
IT services	14.8	9.7	-2.3	22.9	19.1	29.9	41.1	27.6	4.5	11.4	29.1
Consulting/SI	22.9	17.4	-14.0	32.8	15.1	25.6	67.2	23.4	-5.1	14.9	30.1
Outsourcing	9.7	4.8	4.9	16.7	21.8	32.9	27.8	30.5	11.5	9.2	28.4
Logistics BPO	64.5	43.2	16.3	0.6	20.6	7.6	34.5	22.0	192.5	24.9	20.6
GSCL Beijing	12.5	-6.0	-24.8	3.9	2.7	11.4	50.0	-1.0	81.3	-3.9	12.6
GSCL Vietnam	4.0	7.1	-4.8	11.5	7.7	15.8	24.4	2.0	179.3	4.8	11.6
GSCL (other)	210.1	103.1	59.8	-5.0	35.4	3.9	31.9	44.5	493.5	57.5	27.4
<b>Operating profit</b>	<b>-19.1</b>	<b>73.8</b>	<b>-9.3</b>	<b>27.3</b>	<b>82.7</b>	<b>28.4</b>	<b>48.4</b>	<b>18.0</b>	<b>-8.3</b>	<b>14.4</b>	<b>39.5</b>
Pretax profit	-8.0	82.7	4.7	38.9	67.3	16.9	36.7	14.1	-10.1	26.7	29.9
Net profit	-13.9	80.5	9.1	50.2	67.5	18.1	35.8	13.4	-19.9	28.0	29.9
<b>Attributable to contr. interests</b>	<b>-14.8</b>	<b>84.0</b>	<b>6.7</b>	<b>42.7</b>	<b>67.7</b>	<b>16.4</b>	<b>36.9</b>	<b>14.3</b>	<b>-21.1</b>	<b>26.0</b>	<b>29.9</b>

Source: KDB Daewoo Securities Research estimates

## Samsung SDS (018260 KS/Buy/TP: W450,000)

## Comprehensive Income Statement (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
<b>Revenue</b>	<b>7,047</b>	<b>8,096</b>	<b>10,258</b>	<b>11,404</b>
<b>Cost of Sales</b>	<b>5,915</b>	<b>6,792</b>	<b>8,567</b>	<b>9,538</b>
<b>Gross Profit</b>	<b>1,132</b>	<b>1,304</b>	<b>1,691</b>	<b>1,866</b>
<b>SG&amp;A Expenses</b>	<b>626</b>	<b>726</b>	<b>884</b>	<b>988</b>
<b>Operating Profit (Adj)</b>	<b>506</b>	<b>578</b>	<b>807</b>	<b>878</b>
<b>Operating Profit</b>	<b>506</b>	<b>578</b>	<b>807</b>	<b>878</b>
<b>Non-Operating Profit</b>	<b>-9</b>	<b>52</b>	<b>11</b>	<b>22</b>
Net Financial Income	16	24	20	22
Net Gain from Inv in Associates	9	3	7	5
Pretax Profit	497	630	818	900
Income Tax	171	212	276	304
Profit from Continuing Operations	326	417	542	596
Profit from Discontinued Operations	0	0	0	0
<b>Net Profit</b>	<b>326</b>	<b>417</b>	<b>542</b>	<b>596</b>
Controlling Interests	312	394	511	562
Non-Controlling Interests	14	24	31	34
<b>Total Comprehensive Profit</b>	<b>236</b>	<b>366</b>	<b>542</b>	<b>596</b>
Controlling Interests	224	347	516	567
Non-Controlling Interests	12	19	26	29
EBITDA	869	992	1,239	1,332
FCF (Free Cash Flow)	214	419	558	705
EBITDA Margin (%)	12.3	12.3	12.1	11.7
Operating Profit Margin (%)	7.2	7.1	7.9	7.7
Net Profit Margin (%)	4.4	4.9	5.0	4.9

## Cash Flows (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
Cash Flows from Op Activities	512	737	826	972
Net Profit	326	417	542	596
Non-Cash Income and Expense	629	646	688	736
Depreciation	269	285	301	317
Amortization	95	128	132	136
Others	265	233	255	283
Chg in Working Capital	-316	-188	-148	-79
Chg in AR & Other Receivables	-157	-241	-330	-175
Chg in Inventories	0	1	-11	-6
Chg in AP & Other Payables	-15	54	116	61
<b>Income Tax Paid</b>	<b>-144</b>	<b>-162</b>	<b>-276</b>	<b>-304</b>
Cash Flows from Inv Activities	-346	-441	-372	-329
Chg in PP&E	-286	-283	-209	-242
Chg in Intangible Assets	-79	0	0	0
Chg in Financial Assets	-103	-70	-133	-71
<b>Others</b>	<b>122</b>	<b>-88</b>	<b>-30</b>	<b>-16</b>
Cash Flows from Fin Activities	-20	-34	-18	-18
Chg in Financial Liabilities	11	-13	0	0
Chg in Equity	406	0	0	0
Dividends Paid	-19	-20	-18	-18
<b>Others</b>	<b>-418</b>	<b>-1</b>	<b>0</b>	<b>0</b>
Increase (Decrease) in Cash	138	241	433	625
Beginning Balance	579	717	958	1,392
<b>Ending Balance</b>	<b>717</b>	<b>958</b>	<b>1,392</b>	<b>2,016</b>

Source: Company data, KDB Daewoo Securities Research estimates

## Statement of Financial Condition (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
<b>Current Assets</b>	<b>2,929</b>	<b>3,518</b>	<b>4,618</b>	<b>5,597</b>
Cash and Cash Equivalents	717	958	1,392	2,016
AR & Other Receivables	1,595	1,846	2,327	2,582
Inventories	36	42	52	58
Other Current Assets	581	672	847	941
<b>Non-Current Assets</b>	<b>2,371</b>	<b>2,329</b>	<b>2,164</b>	<b>1,982</b>
Investments in Associates	31	36	46	51
Property, Plant and Equipment	1,059	1,037	946	871
Intangible Assets	1,057	1,018	910	784
<b>Total Assets</b>	<b>5,300</b>	<b>5,848</b>	<b>6,782</b>	<b>7,579</b>
<b>Current Liabilities</b>	<b>1,219</b>	<b>1,415</b>	<b>1,777</b>	<b>1,970</b>
AP & Other Payables	449	520	655	727
Short-Term Financial Liabilities	16	22	22	22
Other Current Liabilities	754	873	1,100	1,221
<b>Non-Current Liabilities</b>	<b>197</b>	<b>203</b>	<b>251</b>	<b>277</b>
Long-Term Financial Liabilities	37	18	18	18
Other Non-Current Liabilities	160	185	233	259
<b>Total Liabilities</b>	<b>1,417</b>	<b>1,618</b>	<b>2,028</b>	<b>2,247</b>
<b>Controlling Interests</b>	<b>3,802</b>	<b>4,127</b>	<b>4,620</b>	<b>5,164</b>
Capital Stock	39	39	39	39
Capital Surplus	1,297	1,297	1,297	1,297
Retained Earnings	2,657	3,031	3,524	4,068
<b>Non-Controlling Interests</b>	<b>81</b>	<b>103</b>	<b>134</b>	<b>168</b>
<b>Stockholders' Equity</b>	<b>3,883</b>	<b>4,230</b>	<b>4,754</b>	<b>5,332</b>

## Forecasts/Valuations (Summarized)

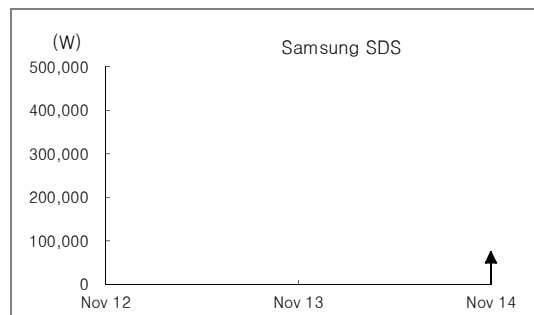
	12/13	12/14F	12/15F	12/16F
P/E (x)	-	-	-	-
P/CF (x)	-	-	-	-
P/B (x)	-	-	-	-
EV/EBITDA (x)	-	-	-	-
EPS (W)	4,312	5,433	7,058	7,762
CFPS (W)	13,182	14,678	16,982	18,392
BPS (W)	49,166	53,355	59,730	66,763
DPS (W)	250	250	250	250
Payout ratio (%)	5.9	4.6	3.3	3.0
Dividend Yield (%)	-	-	-	-
Revenue Growth (%)	15.4	14.9	26.7	11.2
EBITDA Growth (%)	0.3	14.2	24.9	7.5
Operating Profit Growth (%)	-9.3	14.2	39.6	8.8
EPS Growth (%)	-21.3	26.0	29.9	10.0
Accounts Receivable Turnover (x)	7.2	6.9	7.2	6.8
Inventory Turnover (x)	319.9	208.7	218.0	206.1
Accounts Payable Turnover (x)	15.4	16.4	17.1	16.2
ROA (%)	6.7	7.5	8.6	8.3
ROE (%)	8.9	9.9	11.7	11.5
ROIC (%)	12.4	13.1	18.2	20.2
Liability to Equity Ratio (%)	36.5	38.2	42.7	42.1
Current Ratio (%)	240.2	248.7	259.8	284.1
Net Debt to Equity Ratio (%)	-26.3	-31.5	-39.4	-47.9
Interest Coverage Ratio (x)	154.3	195.8	258.9	289.5

# APPENDIX 1

## Important Disclosures & Disclaimers

### 2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Samsung SDS(018260)	11/14/2014	Buy	450,000



### 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.

\* 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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