KDB Daewoo Securities

# Samsung Electronics

(005930 KS)

## At the forefront of component innovation

**Technology**

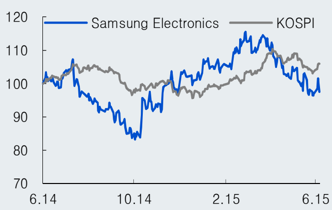
Earnings Preview

June 26, 2015

| (Maintain) | **Buy** |
|---|---|
| Target Price (12M, W) | **1,800,000** |
| Share Price (06/25/15, W) | 1,269,000 |
| Expected Return | 42% |

| | |
|---|---|
| OP (15F, Wbn) | 27,543 |
| Consensus OP (15F, Wbn) | 28,265 |
| EPS Growth (15F, %) | -3.8 |
| Market EPS Growth (15F, %) | 37.7 |
| P/E (15F, x) | 9.7 |
| Market P/E (15F, x) | 10.8 |
| KOSPI | 2,085.06 |
| Market Cap (Wbn) | 186,923 |
| Shares Outstanding (mn) | 170 |
| Free Float (%) | 70.1 |
| Foreign Ownership (%) | 51.8 |
| Beta (12M) | 1.02 |
| 52-Week Low | 1,083,000 |
| 52-Week High | 1,503,000 |

| (%) | 1M | 6M | 12M |
|---|---|---|---|
| Absolute | -6.0 | -5.5 | -3.9 |
| Relative | -3.2 | -11.8 | -8.6 |




*Daewoo Securities Co., Ltd.*

[Semiconductor]

Jonathan Hwang
+822-768-4140
j.hwang@dwsec.com

Joon-ho Jang
+822-768-3241
joonho.jang@dwsec.com

### 2Q15 preview: Revenue of W51.2tr and OP of W7.03tr

For 2Q, we forecast Samsung Electronics (SEC) to report consolidated revenue and operating profit of W51.2tr (+9% QoQ, -2% YoY) and W7tr (+18% QoQ, -2% YoY), respectively, the latter slightly missing the recently lowered consensus (OP of W7.3tr).

**Semiconductor:** We project 2Q revenue of W11.3tr (+16% YoY) and operating profit of W3.3tr (+76% YoY). DRAM shipments should expand 8% QoQ, while ASP should fall 8% QoQ. The DRAM market recovery is likely to be somewhat delayed as a result of tepid PC demand in 1H and elevated DRAM inventory. NAND shipments should climb 16% QoQ, while ASP should slide 7% QoQ. The system LSI (logic) business is likely to swing to a small profit, helped by increased shipments of 14nm FinFET application processors (AP). Overall, NAND and system LSI should be the main earnings drivers in semiconductor.

**Display panel (DP):** We forecast 2Q revenue of W6.6tr (+5% YoY) and operating profit of W0.5tr (+160% YoY). The LCD business should deliver a better-than-expected performance, thanks to a 6% QoQ rise in shipment area and stable panel prices. In contrast, operating profit from small/mid-sized OLEDs is likely to decline QoQ, affected by weaker smartphone shipments and higher depreciation costs due to the operation of the A3 line. Utilization should start to pick up in 3Q with the conversion of the A2 line.

**IT & mobile communications (IM):** We forecast 2Q revenue of W26.3tr (-8% YoY) and operating profit of W3tr (-31% YoY). Smartphone shipments are likely to be weaker than previously anticipated at 75.4mn units (-9% QoQ, +1% YoY), dragged down by a sharp fall in mid/low-end smartphone shipments following the discontinuation of less profitable, aging models. ASP, however, should jump 15% QoQ due to an increased mix of high-end models. Looking ahead in 2H, we expect the IM unit to maintain stable earnings, supported by the rollout of the (tentatively named) Galaxy S6 Edge Plus and the Galaxy Note 5.

**Consumer electronics (CE):** We anticipate 2Q revenue of W12.3tr (-6% YoY) and operating profit of W0.2tr (-74% YoY). Operating profit should pick up QoQ on seasonally strong demand for air conditioners, but margins are likely to continue to underperform previous years. However, the operating environment for set makers appears to be gradually improving, with the euro and emerging market currencies turning favorable and TV panel prices now moving lower.

### Differentiated components to become key areas of strength

We believe SEC's components business—most notably 3D NAND, flexible OLED, and logic chips—deserves close attention. In a highly competitive smartphone market, SEC is adding value by internally producing a variety of differentiated components and chips, which are now considered the company's biggest competitive advantage. Looking forward, we think 3D NAND (48 layers) and foldable OLED will become SEC's key areas of strength.

### Reiterate Buy, but Trim TP by 3% to W1,800,000

We slightly lowered our target price to W1,800,000 (from W1,850,000) to reflect our revisions to IM and DP earnings. Still, we believe the company is deeply undervalued at its current share price, trading at a more than 20% discount due to uncertainties regarding Samsung Group's restructuring. In our view, the stock's current P/B of 0.1x offers an attractive entry point.

| FY (Dec.) | 12/12 | 12/13 | 12/14 | 12/15F | 12/16F | 12/17F |
|---|---|---|---|---|---|---|
| Revenue (Wbn) | 201,104 | 228,693 | 206,206 | 203,328 | 211,558 | 218,962 |
| OP (Wbn) | 29,049 | 36,785 | 25,025 | 27,543 | 30,814 | 31,231 |
| OP margin (%) | 14.4 | 16.1 | 12.1 | 13.5 | 14.6 | 14.3 |
| NP (Wbn) | 23,185 | 29,821 | 23,082 | 22,197 | 25,457 | 25,689 |
| EPS (W) | 136,278 | 175,282 | 135,673 | 130,468 | 149,628 | 150,995 |
| ROE (%) | 21.6 | 22.8 | 15.1 | 13.0 | 13.3 | 12.0 |
| P/E (x) | 11.2 | 7.8 | 9.8 | 9.7 | 8.5 | 8.4 |
| P/B (x) | 2.1 | 1.5 | 1.3 | 1.1 | 1.0 | 0.9 |

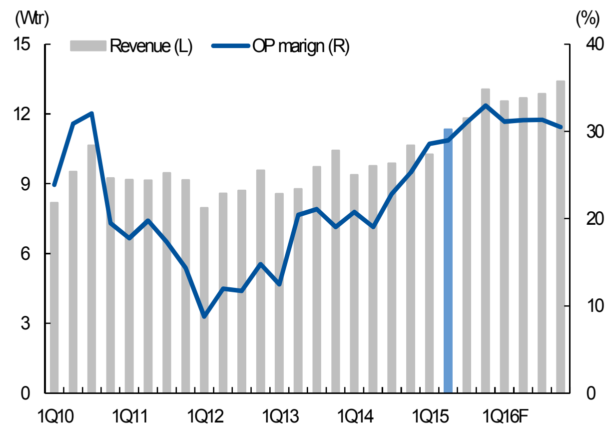
Notes: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests
Source: Company data, KDB Daewoo Securities Research estimates

## Semiconductor: 3D NAND to drive up margins in 2H

We project 2Q revenue of W11.3tr (+11% QoQ, +16% YoY) and operating profit of W3.3tr (+12% QoQ, +76% YoY). DRAM shipments should expand 8% QoQ, while blended ASP should fall 8% QoQ due to the sharper-than-expected decline in PC DRAM prices. For 2Q, DRAM operating profit is estimated at W2.6tr (-6% QoQ, +47% YoY) on revenue of W5.7tr (-1% QoQ, +21% YoY). NAND shipments should climb 16% QoQ, while blended ASP should slide 7% QoQ. We expect NAND revenue and operating profit to come in at W3.3tr (+8% QoQ, +20% YoY) and W0.7tr (34% QoQ, +59% YoY), respectively, in 2Q. The system LSI (logic) business is likely to swing to a small profit for the first time in five quarters.

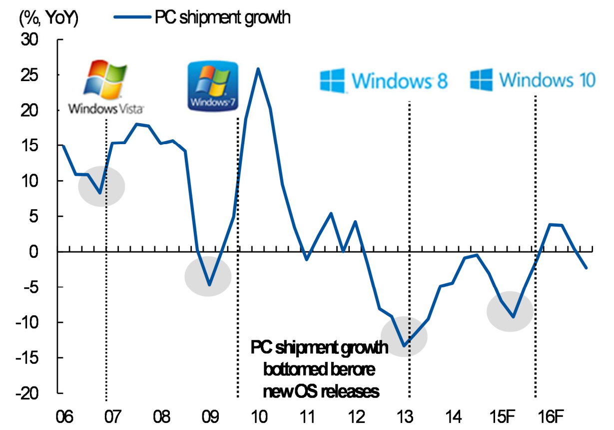
PC sales volume is anticipated to decline 10% YoY in 2Q after contracting 7% YoY to 68.28mn units (based on IDC data) in 1Q. In our view, there is growing pent-up demand for Microsoft's new OS (Windows 10), to be launched in July, and Intel's new CPU (Skylake), to be launched in August. Meanwhile, sluggish PC sales have been boosting DRAM inventory. Accordingly, DRAM prices will likely remain on the decline through 3Q. Historically, PC demand has deteriorated before the launch of each new OS, with YoY growth hitting a bottom. We believe PC demand will recover after the new OS and CPU are introduced in 2H. In particular, DDR4 sales will likely take off, as Intel's Skylake supports the DDR4 interface. For the full year, PC sales volume is projected to decrease 5.4% YoY to 292mn units.

Figure 1. Semiconductor division revenue and OP margin



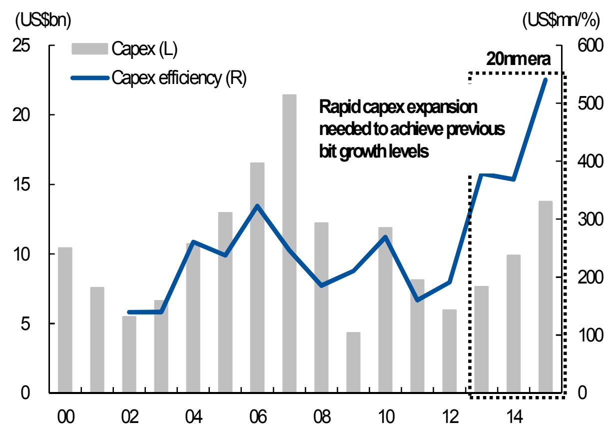

Source: KDB Daewoo Securities Research

Figure 2. PC shipment growth and Windows release timeline



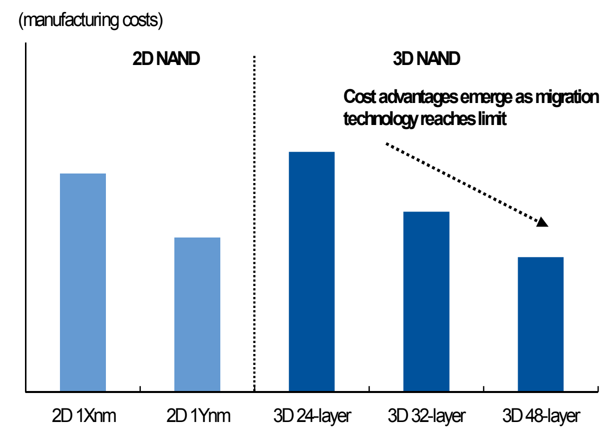

Source: KDB Daewoo Securities Research

Figure 3. DRAM capex and capex efficiency




Source: KDB Daewoo Securities Research

Figure 4. Cost comparison: 2D NAND vs. 3D NAND




Source: KDB Daewoo Securities Research

We believe 3D NAND will drive up SEC's overall semiconductor earnings from 2H15 through 1H16. Currently, SEC is the only producer of 3D NAND (32-layer) in the world. However, the memory is not cost-effective compared to 2D due to the heavy initial investment costs. However, the mass production of 48-layer NAND should become visible in 2H thanks to the company's recent commencement of the second-phase investment in the Xian plant. Accordingly, 3D NAND should become more competitive than the latest 2D process technology (1Ynm). In particular, 3D NAND is more cost-effective in the production of large-capacity storage systems. Thus, SSDs are expected to eventually switch to 3D NAND in the future.

We project the semiconductor unit's 3Q revenue and operating profit at W11.8tr (4% QoQ, +20% YoY) and W3.7tr (+12% QoQ, +63% YoY). Annual DRAM and NAND shipment growth is estimated at 30% and 51%, respectively. System LSI earnings and capacity utilization will likely pick up in 2H thanks to shipments for the Apple A9.

Figure 5. Global DRAM players' tech-migration roadmap

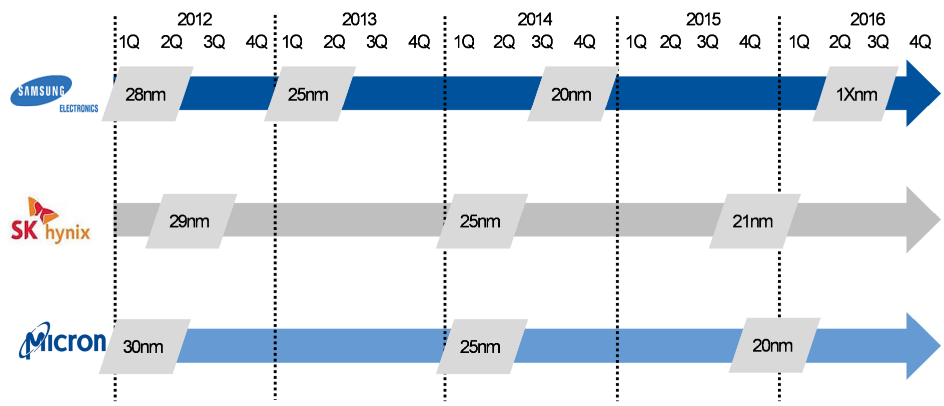
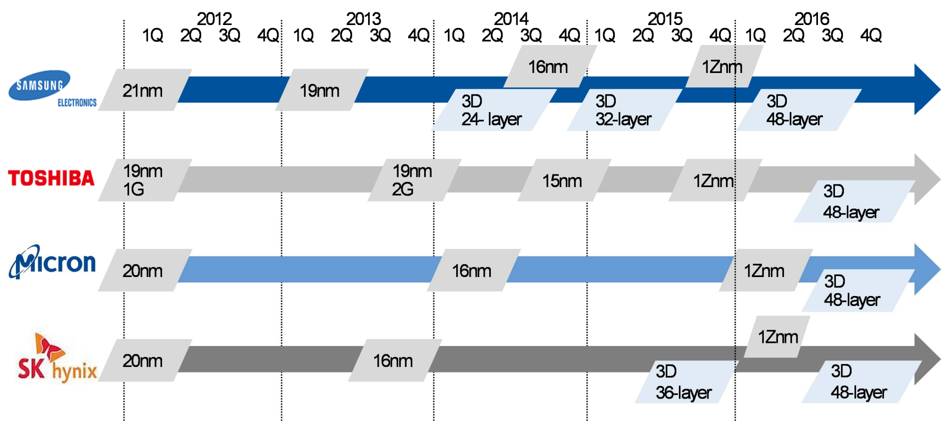



Figure 6. Global NAND players' tech-migration roadmap




Source: KDB Daewoo Securities Research

Table 1. SEC's semiconductor investment plan

| Company | Line | Specifications | 1Q15 | 2Q15F | 3Q15F | 4Q15F | 1Q16F | 2Q16F | 3Q16F | 4Q16F |
|---|---|---|---|---|---|---|---|---|---|---|
| Samsung Electronics | 17 Line | DRAM extension | | | | | | | | |
| | | System LSI extension | | | | | | | | |
| | 11/13/15 Line | DRAM migration | | | | | | | | |
| | 16 Line | NAND migration | | | | | | | | |
| | Xian, China | 3D NAND supplement | | | | | | | | |
| | | 3D NAND 48L migration | | | | | | | | |
| | | 3D NAND 48L extension | | | | | | | | |
| | S1/S2 | System LSI migration | | | | | | | | |
| | Pyeongtaek | Undecided | | | | | | | | |

Source: KDB Daewoo Securities Research

## Display panel (DP): LCD earnings to be solid; OLED earnings to remain weak

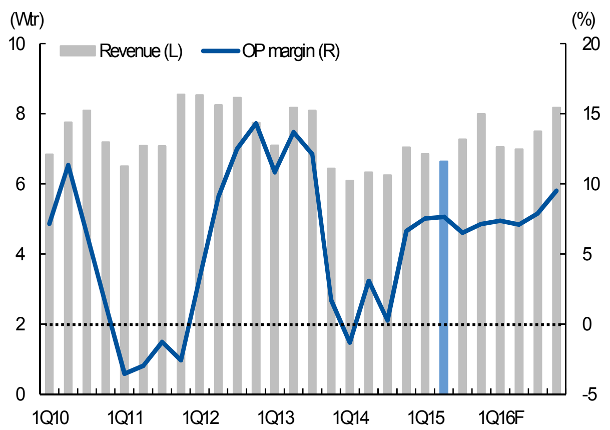
We forecast 2Q revenue of W6.6tr (-3% QoQ, +5% YoY) and operating profit of W0.5tr (-2% QoQ, +160% YoY). The LCD business should deliver a better-than-expected performance, thanks to a 6% QoQ rise in shipment area and stable panel prices. In contrast, operating profit from small/mid-sized OLEDs is likely to decline QoQ, affected by weaker smartphone shipments and higher depreciation costs due to the operation of the A3 line.

The growth potential of flexible OLEDs has recently been confirmed, as demand for the Galaxy S6 Edge has been exceeding expectations. With smartphones becoming increasingly commoditized, a small differentiating feature can make a big difference to demand. As such, we believe SEC has a strong competitive edge thanks to its superior smartphone component technology. Going forward, flexible OLED demand will likely continue to rise. SEC is planning to convert the A2 line, which currently displays low utilization, to a flexible OLED line. In addition, the company is planning to build an A3 line committed to flexible OLEDs. We anticipate that flexible OLEDs, which are currently just edge-bending, will eventually become foldable.

Although SEC still has many technical challenges to overcome before commercially launching foldable OLEDs, core factors, including curvature and durability, have recently been improving markedly. For commercialization, foldable OLEDs need to overcome vulnerability to high humidity and temperature and be produced via atomic layer deposition (ALD) to lower production costs. However, we think SEC will be able to address these challenges by 2017.

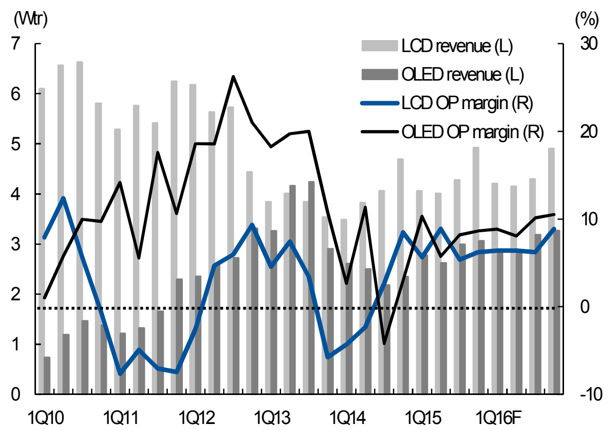
For 3Q, we project the DP unit to post revenue of W7.3tr (+9% QoQ, +16% YoY) and operating profit of W474bn (-7% QoQ, +2,850% YoY). The LCD business will likely see profitability decline on a fall in panel prices, while the OLED businesses should deliver higher earnings thanks to new product launches.

Figure 7. Display division revenue and OP margin



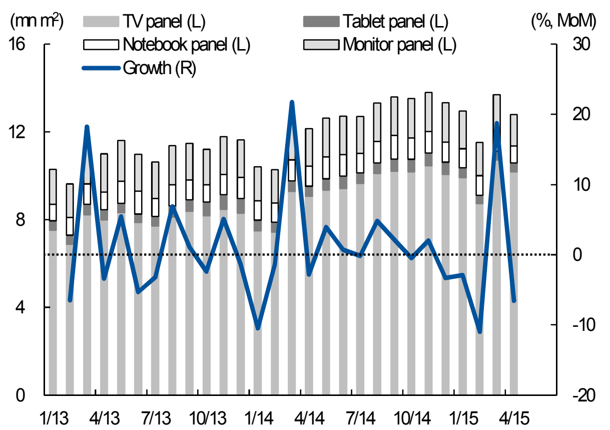

Source: KDB Daewoo Securities Research

Figure 8. LCD and OLED revenue and OP margin



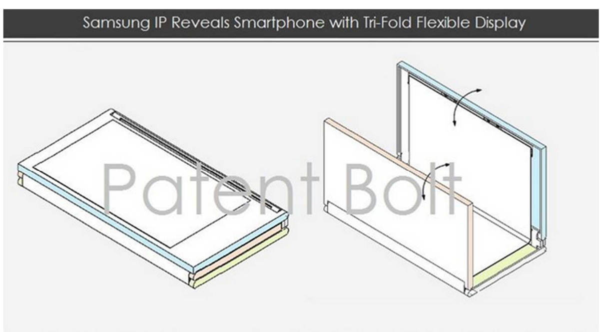

Source: KDB Daewoo Securities Research

Figure 9. Monthly global LCD panel shipments by area




Source: KDB Daewoo Securities Research

Figure 10. SEC's foldable smartphone patent




Source: Patent Bolt

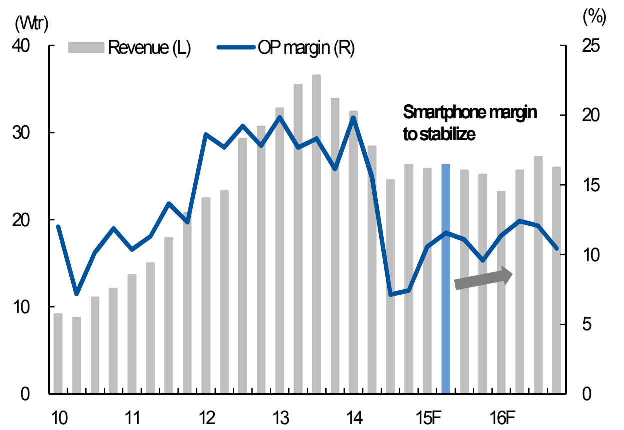
## IM (smartphones): Rapid shift towards higher-end models

We forecast the IM unit to post 2Q revenue of W26.3tr (-8% YoY) and operating profit of W3tr (-31% YoY). Smartphone shipments are likely to be weaker than previously anticipated at 75.4mn units (-9% QoQ, +1% YoY), dragged down by a sharp fall in mid/low-end smartphone shipments following the discontinuation of less profitable, aging models. We estimate that SEC shipped roughly 17mn Galaxy S6 smartphones (including the Galaxy S6 Edge), which is slightly below our initial forecast of 18mn, but still a solid number that could dispel heightened market concerns. ASP should jump 15% QoQ due to an increased mix of high-end models.

This year, SEC has employed a two-pronged strategy for its smartphone business: 1) seeking higher profitability rather than higher volume growth, and 2) generating added value via in-house production of components. Under its profit-oriented strategy, the firm ended the production of lower-priced models and has instead focused on the higher-end category with differentiated hardware features. The Galaxy S6 Edge, featuring a dual-edged flexible OLED display, has been well-received by the market. Production has failed to keep up with demand, but the company ramped up capacity early in June. Annual smartphone shipments are projected to decline slightly YoY, to 310mn units.

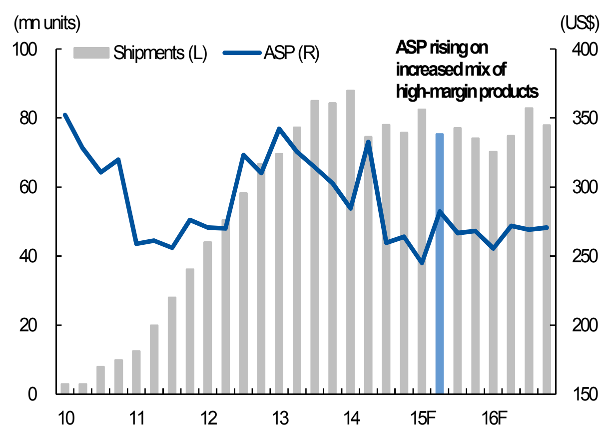
In 2H, SEC plans to roll out the Galaxy S6 Edge Plus (tentatively named) and the Galaxy Note 5. The new models are anticipated to feature bigger displays and mobile payment functions. Apple plans to release a new iPhone model at end-September, which will likely deliver higher DRAM content, higher-resolution cameras, and the "Force Touch" technology. The IM division is forecast to report 3Q revenue of W25.7tr (-2% QoQ, +5% YoY), and operating profit of W2.8tr (-6% QoQ, +63% YoY).

Figure 11. IM (handset) division revenue and OP margin



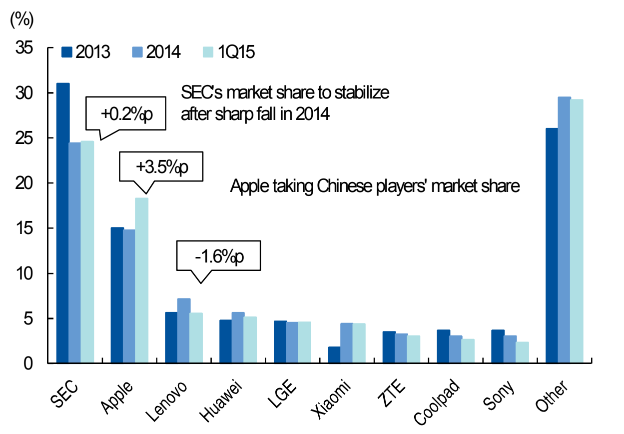

Source: KDB Daewoo Securities Research

Figure 12. Smartphone shipment and ASP trend and forecast



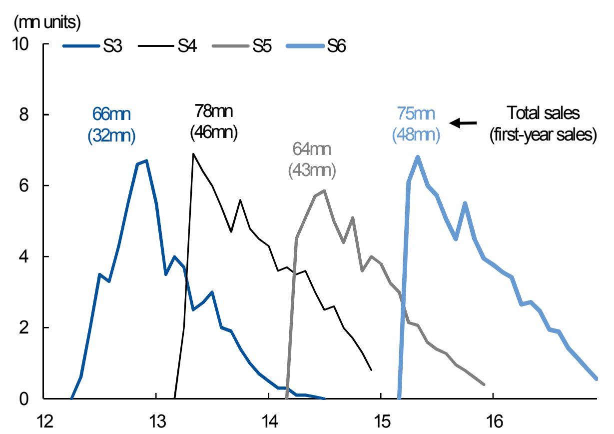

Source: KDB Daewoo Securities Research

Figure 13. Global smartphone market share trend




Source: IDC, KDB Daewoo Securities Research

Figure 14. Galaxy S series monthly sales trend and forecast




Source: Counterpoint, KDB Daewoo Securities Research

Looking ahead, profitability is likely to trend down amid smartphone commoditization and intensifying competition. SEC is increasingly relying on in-house-produced parts and chips to prop up profitability. The Galaxy S6 sourced 60% of chips internally, an impressive increase from just 6-24% in the previous model. Chips produced internally include RF transceiver and connectivity

Table 2. Core chip makers for Samsung Galaxy S5, S6, and Apple iPhone 6

| Major component | Galaxy S5 (Snapdragon) | Galaxy S5 (Exynos) | Galaxy S6 | iPhone 6 |
|---|---|---|---|---|
| AP (application processor) | Qualcomm (Snapdragon 801) | Samsung (Exynos 5422) | Samsung (Exynos 7420) | Apple (A8) |
| DRAM | Elpida (LPDDR2 2GB) | Samsung (LPDDR3 2GB) | Samsung (LPDDR4 3GB) | Micron, Hynix (LPDDR3 1GB) |
| NAND | Samsung (eMMC 16/32GB) | Samsung (eMMC 16/32GB) | Samsung (eMMC 32/64/128GB) | Toshiba, SanDisk, Hynix |
| Baseband modem | Qualcomm (Snapdragon 801) | Intel (X-G636) | Samsung (Shannon 333) | Qualcomm (MDM9625) |
| Multimode multiband | Avago (ACPM-7617) | Skyworks (SKY77615) | Skyworks (SKY78042) | Avago, Skyworks |
| Power management | Qualcomm (PM8974) | Samsung (S2MPS11) | Samsung (S2MPS15) | Qualcomm (PM8019) |
| RF transceiver | Qualcomm (WTR1625L) | Intel (PMB5745) | Samsung (Shannon 928) | Qualcomm (WTR1625L) |
| Envelope tracking | Qualcomm (QFE1100) | - | Samsung (Shannon 710) | Qualcomm (QFE1100) |
| GNSS (global navigation) | Broadcom (BCM47531) | Broadcom (BCM47531) | Broadcom (BCM4773) | Broadcom (BCM4339) |
| Gryo/accelerometer | InvenSense (MP65M) | InvenSense (MP65M) | InvenSense (MPU-6500) | InvenSense (MP67B) |
| Image processor | - | - | Samsung (C2N8B6) | - |
| WiFi/Bluetooth module | Broadcom (BCM4354) | Broadcom (BCM4354) | Samsung (3853B5) | Broadcom (BCM4354) |
| NFC controller | NXP (PN547) | NXP (PN547) | Samsung (N5DDPS2) | NXP (PN548) |
| Audio codec | Qualcomm (WCD9320) | Wolfson (WM5110E) | Wolfson (WM1840) | Cirrus Logic (338S1201) |
| Power receiver | Maxim (MAX77804) | Maxim (MAX77804) | Texas Instruments (BQ51221) | Dialog |
| Antenna switch | RF Micro (RF1119) | RF Micro (RF1119) | Skyworks (SKY13415) | RF Micro (RF5159) |
| Touchscreen controller | Synaptics (S5100A) | Synaptics (S5100A) | STMicro (FT6BH) | Broadcom (BCM5976) |

Source: IHS, Chipworks, KDB Daewoo Securities Research

Table 3. Major smartphone lineup (to be launched in 2H15)

| Producer | SEC | SEC | Apple | LG Electronics |
|---|---|---|---|---|
| Product | Galaxy S6 Edge Plus | Galaxy Note 5 | iPhone 6S/6S+ or 7/7+ | G4 Note or G Pro 3 |
| |  |  |  |  |
| Processor | Hexa-core Snapdragon 808 | All-in-one Octa-core Exynos 7422 | Apple A9 (14nm FinFET) | 2GHz Quad & 1.5GHz Quad-core (Snapdragon 810) |
| OS | Android 5.0 Lollipop | Android 6 Macadamia | iOS 9 | Android 6 Macadamia |
| Display | 5.5" Super-AMOLED capacitive | 5.9" Super-AMOLED capacitive | 4.7" / 5.5" IPS LCD (Force Touch) | 5.8" True HD-IPS + LCD capacitive |
| Resolution | 1440 x 2560 | 2160 x 3840 (4K) | 750x1334 / 1080x1920 | 1620 x 2280 (3K) |
| DRAM | 3GB | 4GB | 2GB | 4GB |
| Storage | 32/64/128 GB | 32/64/128 GB | 32/64/128 GB | 32GB |
| External memory | No | No | No | Micro SD card (up to 128GB) |
| Wireless | 4G LTE, WiFi, Bluetooth v4.1 | 4G, WiFi, Bluetooth v4.1 | 4G LTE, WiFi, Bluetooth v4.1 | 4G LTE, WiFi, Bluetooth v4.1 |
| Camera | Front: 5MP<br>Back: 16MP | Front: 8MP<br>Back: 16MP | Front: 3.2MP<br>Back: 13MP | Front: 8MP<br>Back: 16MP |
| Battery | - | 4100mAh | - | - |
| Size (HxWxD) | 154.5 x 75.8 x 6.9 mm | - | - | - |
| Weight | - | - | - | - |
| Price | - | Mid W900,000 range | 16GB: $199 / $299<br>64GB: $299 / $399<br>128GB: $399 / $499 | High W800,000 range |
| Release date | July 2015 | September 2015 | September 2015 | - |

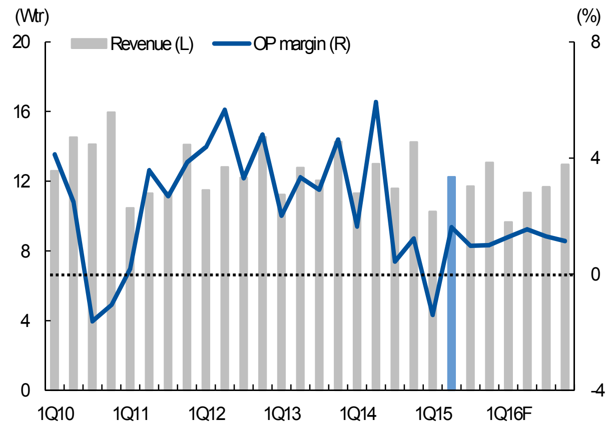
Source: GSMArena, KDB Daewoo Securities Research

### Consumer electronics (CE): Likely to stabilize, albeit slowly

We anticipate 2Q revenue of W12.3tr (-6% YoY, +20% QoQ) and operating profit of W198bn (-74% YoY, turning to profit QoQ). In 1Q, the CE division reported a quarterly operating loss for the first time since 2010, hurt by intense TV market competition and the unfavorable F/X environment (e.g., the won's strength and the weakness of the euro and emerging market currencies such as the Brazilian real and Russian ruble). Also, strong TV panel prices since 2H14 led to increased costs. In 2Q, operating profit should pick up QoQ on seasonally strong demand for air conditioners, but margins are likely to continue to underperform previous years.

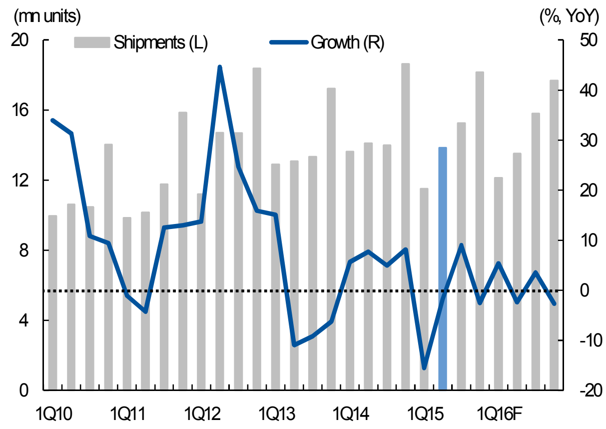
However, the operating environment for set makers appears to be gradually improving, with the euro and emerging market currencies turning favorable and TV panel prices now moving lower. For 3Q, we expect the CE unit to generate revenue of W11.7tr (+1% YoY, -4% QoQ) and an operating profit of W115bn (+128% YoY, -42% QoQ).

Figure 15. CE division revenue and OP margin



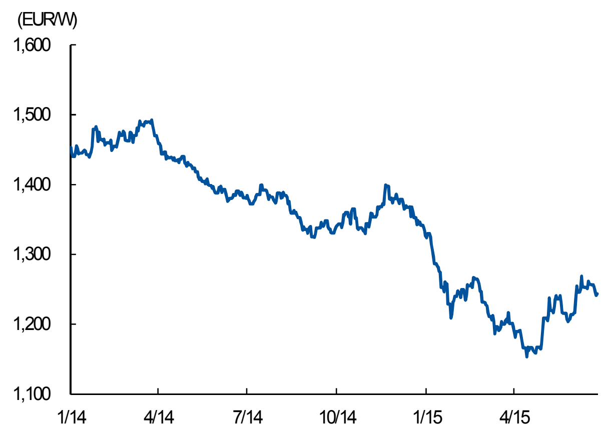

Source: KDB Daewoo Securities Research

Figure 16. Quarterly TV shipment trend and forecast



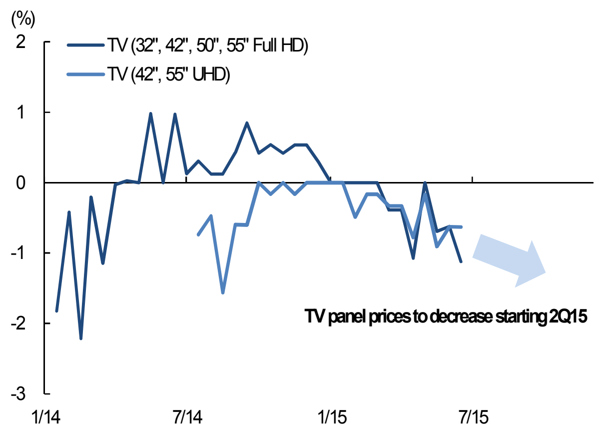

Source: KDB Daewoo Securities Research

Figure 17. EUR/W rate trend




Source: Bloomberg, KDB Daewoo Securities Research

Figure 18. TV panel (open-cell) price trend



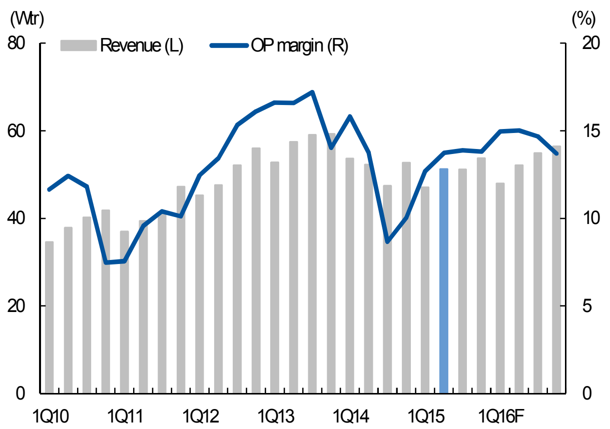

Source: KDB Daewoo Securities Research

Table 4. Quarterly and annual earnings (Wbn, %)

| | 1Q15 | 2Q15F | 3Q15F | 4Q15F | 1Q16F | 2Q16F | 3Q16F | 4Q16F | 2013 | 2014 | 2015F | 2016F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | **47,120** | **51,239** | **51,216** | **53,755** | **48,040** | **52,140** | **54,926** | **56,451** | **228,693** | **206,206** | **203,330** | **211,558** |
| QoQ growth (%) | -10.6 | 8.7 | 0.0 | 5.0 | -10.6 | 8.5 | 5.3 | 2.8 | | | | |
| YoY growth (%) | -12.2 | -2.1 | 7.9 | 1.9 | 2.0 | 1.8 | 7.2 | 5.0 | 13.7 | -9.8 | -1.4 | 4.0 |
| - IM | 25,890 | 26,313 | 25,696 | 25,194 | 23,216 | 25,673 | 27,231 | 26,001 | 138,819 | 111,760 | 103,093 | 102,121 |
| - CE | 10,260 | 12,257 | 11,734 | 13,082 | 9,671 | 11,358 | 11,687 | 12,961 | 50,346 | 50,175 | 47,333 | 45,676 |
| - Semiconductor | 10,270 | 11,347 | 11,829 | 13,064 | 12,563 | 12,692 | 12,877 | 13,419 | 37,530 | 39,724 | 46,511 | 51,550 |
| - DP | 6,852 | 6,644 | 7,276 | 7,998 | 7,055 | 6,996 | 7,498 | 8,181 | 29,830 | 25,739 | 28,770 | 29,730 |
| COGS | 28,960 | 31,478 | 30,897 | 33,080 | 28,718 | 31,815 | 33,009 | 35,113 | 137,696 | 128,232 | 124,415 | 128,656 |
| Gross profit | 18,160 | 19,761 | 20,319 | 20,674 | 19,322 | 20,324 | 21,918 | 21,338 | 90,996 | 77,974 | 78,914 | 82,902 |
| Gross margin (%) | 38.5 | 38.6 | 39.7 | 38.5 | 40.2 | 39.0 | 39.9 | 37.8 | 39.8 | 37.8 | 38.8 | 39.2 |
| SG&A | 12,180 | 12,728 | 13,211 | 13,252 | 12,132 | 12,497 | 13,854 | 13,606 | 54,211 | 52,943 | 51,371 | 52,088 |
| **Operating profit** | **5,980** | **7,033** | **7,108** | **7,422** | **7,190** | **7,827** | **8,064** | **7,733** | **36,785** | **25,031** | **27,544** | **30,814** |
| QoQ growth (%) | 13.0 | 17.6 | 1.1 | 4.4 | -3.1 | 8.9 | 3.0 | -4.1 | | | | |
| YoY growth (%) | -29.6 | -2.1 | 73.1 | 40.2 | 20.2 | 11.3 | 13.4 | 4.2 | 26.6 | -32.0 | 10.0 | 11.9 |
| - IM | 2,735 | 3,039 | 2,849 | 2,414 | 2,636 | 3,185 | 3,284 | 2,714 | 24,962 | 14,555 | 11,037 | 11,820 |
| - CE | -144 | 198 | 115 | 131 | 124 | 175 | 152 | 147 | 1,664 | 1,181 | 300 | 599 |
| - Semiconductor | 2,932 | 3,288 | 3,670 | 4,305 | 3,909 | 3,971 | 4,036 | 4,093 | 6,903 | 8,766 | 14,194 | 16,009 |
| - DP | 517 | 508 | 474 | 573 | 521 | 496 | 592 | 778 | 2,979 | 598 | 2,071 | 2,387 |
| **OP margin** | **12.7** | **13.7** | **13.9** | **13.8** | **15.0** | **15.0** | **14.7** | **13.7** | **16.1** | **12.1** | **13.5** | **14.6** |
| IM | 10.6 | 11.6 | 11.1 | 9.6 | 11.4 | 12.4 | 12.1 | 10.4 | 18.0 | 13.0 | 10.7 | 11.6 |
| CE | -1.4 | 1.6 | 1.0 | 1.0 | 1.3 | 1.5 | 1.3 | 1.1 | 3.3 | 2.4 | 0.6 | 1.3 |
| Semiconductor | 28.5 | 29.0 | 31.0 | 33.0 | 31.1 | 31.3 | 31.3 | 30.5 | 18.4 | 22.1 | 30.5 | 31.1 |
| DP | 7.5 | 7.6 | 6.5 | 7.2 | 7.4 | 7.1 | 7.9 | 9.5 | 10.0 | 2.3 | 7.2 | 8.0 |
| Pretax profit | 6,223 | 7,648 | 7,697 | 7,748 | 7,767 | 8,539 | 8,743 | 8,194 | 38,364 | 27,889 | 29,316 | 33,244 |
| QoQ growth (%) | 11.3 | 22.9 | 0.6 | 0.7 | 0.2 | 9.9 | 2.4 | -6.3 | | | | |
| YoY growth (%) | -35.5 | -1.8 | 58.3 | 38.5 | 24.8 | 11.6 | 13.6 | 5.8 | 28.2 | -27.3 | 5.1 | 13.4 |
| Pretax margin (%) | 13.2 | 14.9 | 15.0 | 14.4 | 16.2 | 16.4 | 15.9 | 14.5 | 16.8 | 13.5 | 14.4 | 15.7 |
| **Net profit** | **4,519** | **5,874** | **5,888** | **5,915** | **5,955** | **6,539** | **6,691** | **6,271** | **29,821** | **23,083** | **22,196** | **25,457** |
| QoQ growth (%) | -14.5 | 30.0 | 0.2 | 0.5 | 0.7 | 9.8 | 2.3 | -6.3 | | | | |
| YoY growth (%) | -39.6 | -4.9 | 42.4 | 11.9 | 31.8 | 11.3 | 13.6 | 6.0 | 28.6 | -22.6 | -3.8 | 14.7 |
| Net margin (%) | 9.6 | 11.5 | 11.5 | 11.0 | 12.4 | 12.5 | 12.2 | 11.1 | 13.0 | 11.2 | 10.9 | 12.0 |

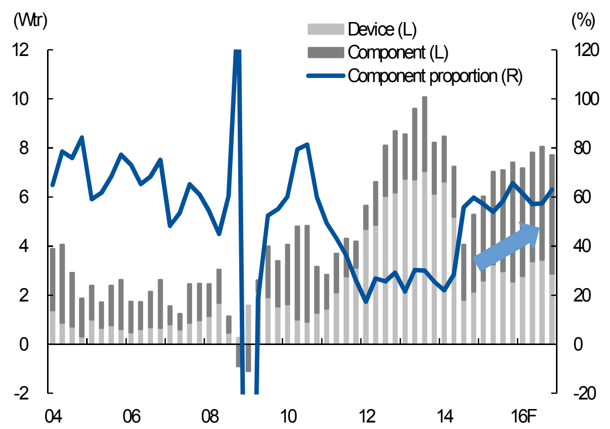
Source: KDB Daewoo Securities Research estimates

Figure 19. Quarterly revenue and OP margin




Source: KDB Daewoo Securities Research

Figure 20. Operating profits of device and component businesses




Source: KDB Daewoo Securities Research

Table 5. Earnings forecast revisions (Wbn, %, %p, W)

| | Previous | | Revised | | % chg. | |
|---|---|---|---|---|---|---|
| | 2015F | 2016F | 2015F | 2016F | 2015F | 2016F |
| **Revenue** | **210,646** | **218,775** | **203,330** | **211,558** | **-3.5** | **-3.3** |
| IM | 109,787 | 109,557 | 103,093 | 102,121 | -6.1 | -6.8 |
| CE | 47,333 | 45,676 | 47,333 | 45,676 | 0.0 | 0.0 |
| Semiconductor | 46,819 | 50,807 | 46,511 | 51,550 | -0.7 | 1.5 |
| DP | 29,844 | 30,840 | 28,770 | 29,730 | -3.6 | -3.6 |
| **Operating profit** | **28,239** | **31,149** | **27,544** | **30,814** | **-2.5** | **-1.1** |
| IM | 11,355 | 12,291 | 11,037 | 11,820 | -2.8 | -3.8 |
| CE | 300 | 599 | 300 | 599 | 0.0 | 0.0 |
| Semiconductor | 14,261 | 15,492 | 14,194 | 16,009 | -0.5 | 3.3 |
| DP | 2,383 | 2,767 | 2,071 | 2,387 | -13.1 | -13.8 |
| **OP margin** | **13.4** | **14.2** | **13.5** | **14.6** | **0.1** | **0.3** |
| IM | 10.3 | 11.2 | 10.7 | 11.6 | 0.4 | 0.4 |
| CE | 0.6 | 1.3 | 0.6 | 1.3 | 0.0 | 0.0 |
| Semiconductor | 30.5 | 30.5 | 30.5 | 31.1 | 0.1 | 0.6 |
| DP | 8.0 | 9.0 | 7.2 | 8.0 | -0.8 | -0.9 |
| Pretax profit | 30,011 | 33,579 | 29,316 | 33,244 | -2.3 | -1.0 |
| **Net profit (controlling interests)** | **23,511** | **25,713** | **22,196** | **25,457** | **-5.6** | **-1.0** |
| Net margin | 11.2 | 11.8 | 10.9 | 12.0 | -0.2 | 0.3 |
| **EPS** | **138,194** | **151,137** | **130,468** | **149,628** | **-5.6** | **-1.0** |

Source: KDB Daewoo Securities Research estimates

Table 6. Revisions to key assumptions

| | Previous | | Revised | | % chg. | |
|---|---|---|---|---|---|---|
| | 2015F | 2016F | 2015F | 2016F | 2015F | 2016F |
| Avg. US$/W rate | 1,081 | 1,078 | 1,088 | 1,085 | 0.6 | 0.6 |
| **IM** | | | | | | |
| Shipments (mn units) | 431 | 434 | 401 | 391 | -7.1 | -9.8 |
| Smartphone | 340 | 348 | 309 | 306 | -9.0 | -12.1 |
| Feature phone | 57 | 50 | 57 | 50 | 0.0 | 0.0 |
| Tablet PC | 35 | 36 | 35 | 36 | 0.0 | 0.0 |
| ASP (US$) | 224 | 223 | 226 | 230 | 0.8 | 2.9 |
| Smartphone | 261 | 256 | 266 | 269 | 2.2 | 5.0 |
| Feature phone | 31 | 30 | 32 | 30 | 0.3 | 0.9 |
| Tablet PC | 184 | 167 | 185 | 168 | 0.4 | 0.8 |
| **Semiconductor** | | | | | | |
| DRAM | | | | | | |
| Shipments (mn units, 1Gb eq.) | 26,596 | 33,287 | 26,841 | 34,636 | 0.9 | 4.1 |
| ASP (US$) | 0.8 | 0.7 | 0.8 | 0.7 | -2.8 | -3.4 |
| NAND | | | | | | |
| Shipments (mn units, 16Gb eq.) | 16,237 | 20,666 | 17,001 | 22,929 | 4.7 | 10.9 |
| ASP (US$) | 0.7 | 0.6 | 0.7 | 0.6 | 1.1 | 1.5 |
| System LSI | | | | | | |
| Shipments (mn units) | 386 | 582 | 372 | 549 | -3.6 | -5.6 |
| ASP (US$) | 15.7 | 13.4 | 15.7 | 13.4 | 0.0 | 0.0 |
| **DP** | | | | | | |
| LCD | | | | | | |
| Shipments ('000 $m^2$) | 37,457 | 39,657 | 37,457 | 39,657 | 0.0 | 0.0 |
| ASP (US$/ $m^2$) | 11,422 | 14,117 | 10,887 | 13,221 | -4.7 | -6.3 |
| OLED | | | | | | |
| Shipments (mn units) | 254 | 292 | 224 | 258 | -11.6 | -11.6 |
| ASP (US$/unit) | 41.0 | 39.1 | 41.3 | 39.4 | 0.6 | 0.9 |
| **CE** | | | | | | |
| FPD TV | | | | | | |
| Shipments (mn units) | 59 | 59 | 59 | 59 | 0.0 | 0.0 |
| ASP (US$) | 454 | 409 | 454 | 409 | 0.0 | 0.0 |

Source: KDB Daewoo Securities Research estimates

Table 7. IM division's earnings (Wbn, %, mn units, US$)

| | 1Q15 | 2Q15F | 3Q15F | 4Q15F | 1Q16F | 2Q16F | 3Q16F | 4Q16F | 2013 | 2014 | 2015F | 2016F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | **25,890** | **26,313** | **25,696** | **25,194** | **23,216** | **25,673** | **27,231** | **26,001** | **138,819** | **111,760** | **103,093** | **102,121** |
| QoQ growth | -1.5 | 1.6 | -2.3 | -2.0 | -7.9 | 10.6 | 6.1 | -4.5 | | | | |
| YoY growth | -20.2 | -7.5 | 4.5 | -4.2 | -10.3 | -2.4 | 6.0 | 3.2 | 31.2 | -19.5 | -7.8 | -0.9 |
| Smartphone | 22,157 | 22,986 | 22,189 | 21,699 | 19,936 | 22,401 | 23,889 | 22,575 | 110,916 | 94,892 | 89,032 | 88,801 |
| Feature phone | 563 | 495 | 453 | 426 | 421 | 409 | 390 | 378 | 6,763 | 3,402 | 1,937 | 1,598 |
| Tablet PC | 1,886 | 1,641 | 1,668 | 1,718 | 1,556 | 1,556 | 1,615 | 1,723 | 12,070 | 8,332 | 6,913 | 6,450 |
| **Operating profit** | **2,735** | **3,039** | **2,849** | **2,414** | **2,636** | **3,185** | **3,284** | **2,714** | **24,962** | **14,555** | **11,037** | **11,820** |
| QoQ growth | 39.8 | 11.1 | -6.3 | -15.3 | 9.2 | 20.8 | 3.1 | -17.4 | | | | |
| YoY growth | -57.5 | -31.2 | 62.8 | 23.4 | -3.6 | 4.8 | 15.3 | 12.4 | 28.6 | -41.7 | -24.2 | 7.1 |
| Smartphone | 2,627 | 2,956 | 2,808 | 2,324 | 2,563 | 3,104 | 3,262 | 2,644 | 23,820 | 13,647 | 10,714 | 11,573 |
| Feature phone | 15 | 16 | 14 | 17 | 11 | 13 | 12 | 15 | 231 | 129 | 62 | 52 |
| Tablet PC | 86 | 49 | 38 | 55 | 55 | 47 | 21 | 38 | 572 | 365 | 228 | 160 |
| **OP margin** | **10.6** | **11.6** | **11.1** | **9.6** | **11.4** | **12.4** | **12.1** | **10.4** | **18.0** | **13.0** | **10.7** | **11.6** |
| Smartphone | 11.9 | 12.9 | 12.7 | 10.7 | 12.9 | 13.9 | 13.7 | 11.7 | 21.5 | 14.4 | 12.0 | 13.0 |
| Feature phone | 2.7 | 3.2 | 3.2 | 4.0 | 2.7 | 3.2 | 3.2 | 4.0 | 3.4 | 3.8 | 3.2 | 3.2 |
| Tablet PC | 4.5 | 3.0 | 2.3 | 3.2 | 3.5 | 3.0 | 1.3 | 2.2 | 4.7 | 4.4 | 3.3 | 2.5 |
| Shipments | 108 | 98 | 99 | 96 | 91 | 96 | 104 | 100 | 488 | 448 | 401 | 391 |
| QoQ growth | 1.8 | -9.0 | 1.1 | -3.2 | -5.1 | 5.2 | 9.1 | -4.0 | | | | |
| YoY growth | -17.2 | -7.6 | -6.7 | -9.3 | -15.5 | -2.4 | 5.3 | 4.5 | 14.7 | -8.2 | -10.6 | -2.4 |
| Smartphone | 83 | 75 | 77 | 74 | 70 | 75 | 83 | 78 | 316 | 317 | 309 | 306 |
| Feature phone | 16 | 15 | 13 | 13 | 13 | 12 | 12 | 12 | 133 | 93 | 57 | 50 |
| Tablet PC | 9 | 8 | 9 | 9 | 8 | 8 | 9 | 10 | 39 | 39 | 35 | 36 |
| ASP | 209 | 235 | 229 | 232 | 223 | 236 | 230 | 229 | 243 | 226 | 226 | 230 |
| QoQ growth | -3.0 | 12.7 | -2.5 | 1.4 | -4.0 | 5.7 | -2.4 | -0.5 | | | | |
| YoY growth | -5.8 | -8.5 | 8.4 | 8.0 | 6.9 | 0.3 | 0.4 | -1.4 | 22.8 | -6.9 | 0.0 | 1.6 |
| Smartphone | 245 | 280 | 269 | 273 | 263 | 277 | 267 | 269 | 320 | 285 | 266 | 269 |
| Feature phone | 32 | 32 | 31 | 31 | 30 | 30 | 29 | 29 | 47 | 35 | 32 | 30 |
| Tablet PC | 191 | 187 | 182 | 176 | 174 | 170 | 165 | 160 | 282 | 203 | 185 | 168 |
| Smartphone sales mix | | | | | | | | | | | | |
| Premium | 30.9 | 37.2 | 34.6 | 33.9 | 30.9 | 31.3 | 32.7 | 32.0 | 41.7 | 38.0 | 34.1 | 31.8 |
| Mid-end | 20.3 | 20.1 | 21.5 | 21.7 | 22.7 | 22.4 | 21.6 | 21.9 | 15.4 | 16.2 | 20.9 | 22.1 |
| Low-end | 48.8 | 42.7 | 43.8 | 44.4 | 46.4 | 46.4 | 45.7 | 46.2 | 42.9 | 45.8 | 45.0 | 46.1 |

Source: KDB Daewoo Securities Research estimates

Table 8. CE division's earnings (Wbn, %)

| | 1Q15 | 2Q15F | 3Q15F | 4Q15F | 1Q16F | 2Q16F | 3Q16F | 4Q16F | 2013 | 2014 | 2015F | 2016F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | **10,260** | **12,257** | **11,734** | **13,082** | **9,671** | **11,358** | **11,687** | **12,961** | **50,346** | **50,175** | **47,333** | **45,676** |
| QoQ growth | -28.1 | 19.5 | -4.3 | 11.5 | -26.1 | 17.4 | 2.9 | 10.9 | | | | |
| YoY growth | -9.3 | -5.7 | 1.3 | -8.3 | -5.7 | -7.3 | -0.4 | -0.9 | -1.5 | -0.3 | -5.7 | -3.5 |
| FPD TV | 6,218 | 7,084 | 7,284 | 8,251 | 5,456 | 6,017 | 6,944 | 7,677 | 32,004 | 31,538 | 28,837 | 26,093 |
| **Operating profit** | **-144** | **198** | **115** | **131** | **124** | **175** | **152** | **147** | **1,664** | **1,181** | **300** | **599** |
| QoQ growth | -182.5 | -237.8 | -42.2 | 13.9 | -5.1 | 41.4 | -13.3 | -3.2 | | | | |
| YoY growth | -177.6 | -74.3 | 128.4 | -25.1 | -186.1 | -11.6 | 32.6 | 12.7 | -28.7 | -29.0 | -74.6 | 99.7 |
| **OP margin** | **-1.4** | **1.6** | **1.0** | **1.0** | **1.3** | **1.5** | **1.3** | **1.1** | **3.3** | **2.4** | **0.6** | **1.3** |
| FPD TV | | | | | | | | | | | | |
| Shipments (mn units) | 12 | 14 | 15 | 18 | 12 | 14 | 16 | 18 | 57 | 60 | 59 | 59 |
| QoQ/YoY growth | -38.2 | 20.3 | 10.1 | 19.1 | -33.2 | 11.4 | 16.8 | 11.9 | -4.1 | 6.7 | -2.6 | 0.6 |
| ASP (US$) | 493 | 469 | 446 | 424 | 416 | 412 | 408 | 404 | 517 | 496 | 454 | 409 |
| QoQ/YoY growth | 11.7 | -4.9 | -4.9 | -4.9 | -2.0 | -1.0 | -1.0 | -1.0 | -1.3 | -4.2 | -8.4 | -9.9 |

Source: KDB Daewoo Securities Research estimates

Table 9. Semiconductor division's earnings (Wbn, %)

| | 1Q15 | 2Q15F | 3Q15F | 4Q15F | 1Q16F | 2Q16F | 3Q16F | 4Q16F | 2013 | 2014 | 2015F | 2016F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | **10,270** | **11,347** | **11,829** | **13,064** | **12,563** | **12,692** | **12,877** | **13,419** | **37,530** | **39,724** | **46,511** | **51,550** |
| QoQ growth | -3.7 | 10.5 | 4.2 | 10.4 | -3.8 | 1.0 | 1.5 | 4.2 | | | | |
| YoY growth | 9.4 | 16.0 | 19.6 | 22.5 | 22.3 | 11.9 | 8.9 | 2.7 | 7.6 | 5.8 | 17.1 | 10.8 |
| DRAM | 5,776 | 5,758 | 5,879 | 6,100 | 6,148 | 6,257 | 6,213 | 6,440 | 14,558 | 20,405 | 23,512 | 25,059 |
| NAND | 3,036 | 3,289 | 3,327 | 3,546 | 3,540 | 3,526 | 3,605 | 3,507 | 11,113 | 11,360 | 13,199 | 14,179 |
| System LSI | 1,950 | 2,791 | 3,104 | 3,899 | 3,361 | 3,395 | 3,543 | 3,955 | 13,629 | 10,416 | 11,745 | 14,252 |
| **Operating profit** | **2,932** | **3,288** | **3,670** | **4,305** | **3,909** | **3,971** | **4,036** | **4,093** | **6,903** | **8,766** | **14,194** | **16,009** |
| QoQ growth | 8.7 | 12.1 | 11.6 | 17.3 | -9.2 | 1.6 | 1.6 | 1.4 | | | | |
| YoY growth | 50.5 | 76.4 | 62.5 | 59.7 | 33.3 | 20.8 | 10.0 | -4.9 | 65.6 | 27.0 | 61.9 | 12.8 |
| DRAM | 2,800 | 2,628 | 2,670 | 2,702 | 2,744 | 2,776 | 2,713 | 2,705 | 4,313 | 8,111 | 10,801 | 10,939 |
| NAND | 504 | 677 | 778 | 1,002 | 924 | 911 | 922 | 844 | 2,500 | 1,886 | 2,961 | 3,601 |
| System LSI | -304 | 32 | 270 | 649 | 290 | 333 | 449 | 592 | 805 | -1,363 | 647 | 1,663 |
| **OP margin** | **28.5** | **29.0** | **31.0** | **33.0** | **31.1** | **31.3** | **31.3** | **30.5** | **18.4** | **22.1** | **30.5** | **31.1** |
| DRAM | 48.5 | 45.7 | 45.4 | 44.3 | 44.6 | 44.4 | 43.7 | 42.0 | 29.6 | 39.7 | 45.9 | 43.7 |
| NAND | 16.6 | 20.6 | 23.4 | 28.3 | 26.1 | 25.8 | 25.6 | 24.1 | 22.5 | 16.6 | 22.4 | 25.4 |
| System LSI | -15.6 | 1.1 | 8.7 | 16.6 | 8.6 | 9.8 | 12.7 | 15.0 | 5.9 | -13.1 | 5.5 | 11.7 |
| **DRAM** | | | | | | | | | | | | |
| Shipments (mn units, 1Gb eq.) | 5,984 | 6,479 | 6,947 | 7,431 | 7,811 | 8,368 | 8,767 | 9,690 | 13,482 | 20,738 | 26,841 | 34,636 |
| QoQ/YoY growth | 3.1 | 8.3 | 7.2 | 7.0 | 5.1 | 7.1 | 4.8 | 10.5 | 23.6 | 53.8 | 29.4 | 29.0 |
| ASP (US$) | 0.9 | 0.8 | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 | 0.6 | 1.0 | 0.9 | 0.8 | 0.7 |
| QoQ/YoY | -5.0 | -7.5 | -3.0 | -3.0 | -5.0 | -5.0 | -5.0 | -6.0 | -0.2 | -5.4 | -13.3 | -17.2 |
| **NAND** | | | | | | | | | | | | |
| Shipments (mn units, 16Gb eq.) | 3,562 | 4,147 | 4,498 | 4,794 | 5,210 | 5,522 | 6,020 | 6,178 | 7,586 | 11,286 | 17,001 | 22,929 |
| QoQ/YoY growth | 10.6 | 16.4 | 8.5 | 6.6 | 8.7 | 6.0 | 9.0 | 2.6 | 65.5 | 48.8 | 50.6 | 34.9 |
| ASP (US$) | 0.8 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.5 | 1.3 | 1.0 | 0.7 | 0.6 |
| QoQ/YoY | -8.0 | -6.5 | -5.0 | 0.0 | -9.0 | -6.0 | -6.0 | -5.0 | -20.7 | -28.5 | -24.9 | -20.2 |
| **System LSI** | | | | | | | | | | | | |
| Shipments (mn units) | 50 | 79 | 98 | 144 | 120 | 124 | 136 | 169 | 353 | 255 | 372 | 549 |
| QoQ/YoY growth | -18.2 | 57.1 | 24.4 | 46.8 | -16.7 | 3.1 | 9.8 | 23.9 | 18.1 | -27.8 | 46.0 | 47.5 |
| ASP (US$) | 16.3 | 15.9 | 15.6 | 15.3 | 14.5 | 13.8 | 13.1 | 12.5 | 21.0 | 17.8 | 15.7 | 13.4 |
| QoQ/YoY growth | -2.0 | -2.0 | -2.0 | -2.0 | -5.0 | -5.0 | -5.0 | -5.0 | -14.5 | -15.1 | -12.1 | -14.5 |

Source: KDB Daewoo Securities Research estimates

Table 10. DP division's earnings (Wbn, %)

| | 1Q15 | 2Q15F | 3Q15F | 4Q15F | 1Q16F | 2Q16F | 3Q16F | 4Q16F | 2013 | 2014 | 2015F | 2016F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | **6,852** | **6,644** | **7,276** | **7,998** | **7,055** | **6,996** | **7,498** | **8,181** | **29,830** | **25,739** | **28,770** | **29,730** |
| QoQ growth | -2.8 | -3.0 | 9.5 | 9.9 | -11.8 | -0.8 | 7.2 | 9.1 | | | | |
| YoY growth | 12.3 | 4.9 | 16.3 | 13.5 | 3.0 | 5.3 | 3.1 | 2.3 | -9.6 | -13.7 | 11.8 | 3.3 |
| LCD | 4,067 | 4,016 | 4,281 | 4,925 | 4,214 | 4,157 | 4,306 | 4,909 | 15,242 | 16,078 | 17,290 | 17,586 |
| OLED | 2,785 | 2,628 | 2,995 | 3,073 | 2,841 | 2,839 | 3,192 | 3,272 | 14,588 | 9,662 | 11,480 | 12,145 |
| **Operating profit** | **517** | **508** | **474** | **573** | **521** | **496** | **592** | **778** | **2,979** | **598** | **2,071** | **2,387** |
| QoQ growth | 10.5 | -1.7 | -6.6 | 20.7 | -9.0 | -4.8 | 19.4 | 31.5 | | | | |
| YoY growth | -741.9 | 160.4 | 2,853.3 | 22.4 | 0.8 | -2.4 | 24.7 | 36.0 | -6.8 | -79.9 | 246.3 | 15.2 |
| LCD | 230 | 357 | 230 | 307 | 270 | 267 | 269 | 435 | 401 | 266 | 1,123 | 1,241 |
| OLED | 287 | 151 | 245 | 266 | 251 | 229 | 323 | 343 | 2,578 | 332 | 948 | 1,146 |
| **OP margin** | **7.5** | **7.6** | **6.5** | **7.2** | **7.4** | **7.1** | **7.9** | **9.5** | **10.0** | **2.3** | **7.2** | **8.0** |
| LCD | 5.7 | 8.9 | 5.4 | 6.2 | 6.4 | 6.4 | 6.2 | 8.9 | 2.6 | 1.7 | 6.5 | 7.1 |
| OLED | 10.3 | 5.7 | 8.2 | 8.6 | 8.8 | 8.1 | 10.1 | 10.5 | 17.7 | 3.4 | 8.3 | 9.4 |
| **LCD** | | | | | | | | | | | | |
| Shipments ('000 $m^2$) | 8,575 | 9,042 | 9,179 | 10,661 | 9,106 | 9,584 | 9,694 | 11,273 | 28,627 | 34,013 | 37,457 | 39,657 |
| QoQ/YoY growth | -10.7 | 5.5 | 1.5 | 16.1 | -14.6 | 5.3 | 1.1 | 16.3 | -5.9 | 18.8 | 10.1 | 5.9 |
| ASP (US$/$m^2$) | 433 | 411 | 433 | 424 | 417 | 394 | 415 | 407 | 12,478 | 9,887 | 10,887 | 13,221 |
| QoQ/YoY growth | -3.7 | -5.1 | 5.2 | -2.0 | -1.6 | -5.4 | 5.3 | -1.9 | -0.1 | -20.8 | 10.1 | 21.4 |
| **OLED** | | | | | | | | | | | | |
| Shipments (mn units) | 52 | 50 | 60 | 63 | 60 | 57 | 69 | 72 | 199 | 166 | 224 | 258 |
| QoQ/YoY growth | 25.0 | -4.0 | 20.0 | 5.0 | -4.9 | -4.0 | 20.0 | 5.0 | 50.0 | -16.7 | 35.1 | 15.1 |
| ASP (US$/unit) | 49.1 | 48.4 | 46.9 | 45.8 | 44.1 | 45.9 | 43.1 | 42.2 | 49.9 | 44.1 | 41.3 | 39.4 |
| QoQ/YoY growth | -5.9 | -1.3 | -3.3 | -2.3 | -3.6 | 4.0 | -6.1 | -2.2 | 3.3 | -11.5 | -6.5 | -4.4 |

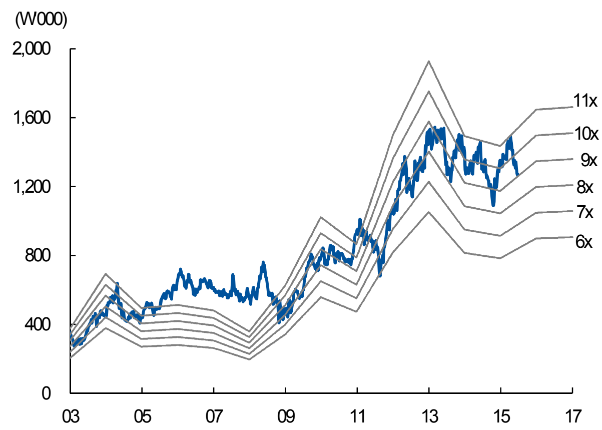
Source: KDB Daewoo Securities Research estimates

Table 11. SOTP valuation (Wbn)

| | 12-month forward EBITDA | Target EV/ EBITDA | EV | % of total EV | Notes |
|---|---|---|---|---|---|
| IM | 13,461 | 7.2 | 97,235 | 33% | 20% discount to global peer average multiple |
| Semiconductor | 26,383 | 4.7 | 125,098 | 42% | Global peer average multiple |
| DP | 6,565 | 2.4 | 15,887 | 5% | Global peer average multiple |
| CE | 1,207 | 6.7 | 8,065 | 3% | Global peer average multiple |
| Operating value ① | 47,616 | 5.2 | 246,284 | 83% | |
| Investment asset value ② | | | 3,673 | 1% | 50% discount to market value |
| Net cash ③ | | | 47,343 | 16% | |
| Equity value (① + ② + ③) | | | 297,300 | 100% | |
| Value of preferred shares | | | 31,916 | | |
| EV (ex-preferred shares) | | | 265,384 | | |
| No. of shares ('000 shares) | | | 147,299 | | |
| Fair price (W) | | | 1,801,662 | | |
| **Target price (W)** | | | **1,800,000** | | |
| Current price (W) | | | 1,269,000 | | As of June 25, 2015 |
| Upside | | | 41.8% | | |

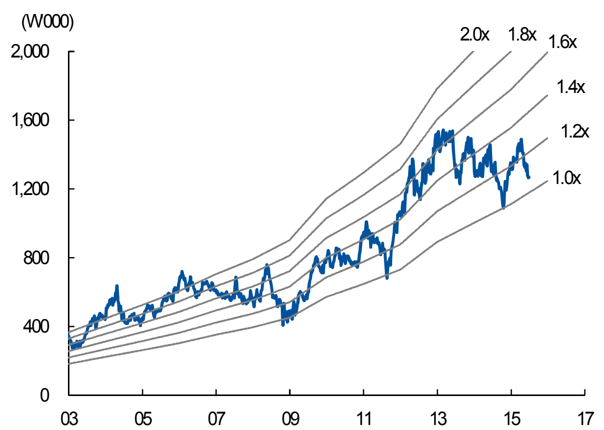
Source: KDB Daewoo Securities Research

Figure 21. 12-month forward P/E band



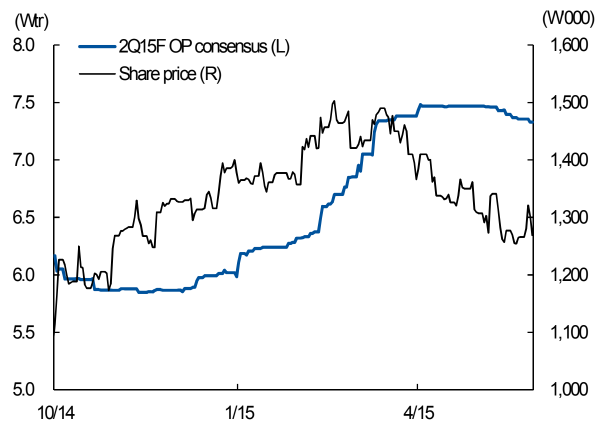

Source: KDB Daewoo Securities Research

Figure 22. 12-month forward P/B band



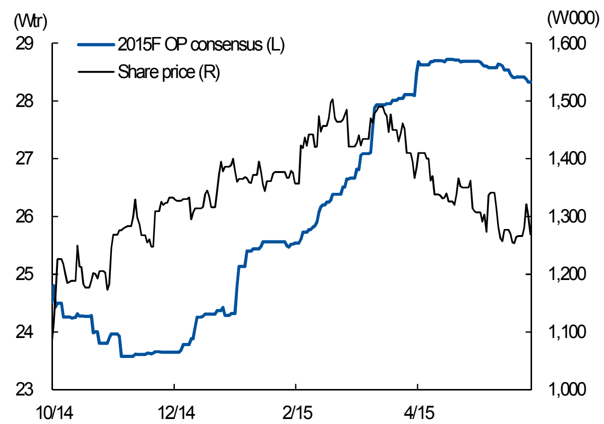

Source: KDB Daewoo Securities Research

Figure 23. 2Q15F OP consensus and share price trend




Source: Bloomberg, KDB Daewoo Securities Research

Figure 24. 2015F OP consensus and share price trend




Source: Bloomberg, KDB Daewoo Securities Research

## Samsung Electronics (005930 KS/Buy/TP: W1,800,000)

### Comprehensive Income Statement (Summarized)

| (Wbn) | 12/14 | 12/15F | 12/16F | 12/17F |
|---|---|---|---|---|
| **Revenue** | **206,206** | **203,328** | **211,558** | **218,962** |
| **Cost of Sales** | **128,279** | **124,411** | **128,656** | **131,896** |
| **Gross Profit** | **77,927** | **78,917** | **82,902** | **87,066** |
| **SG&A Expenses** | **52,902** | **51,374** | **52,088** | **55,835** |
| **Operating Profit (Adj)** | **25,025** | **27,543** | **30,814** | **31,231** |
| **Operating Profit** | **25,025** | **27,543** | **30,814** | **31,231** |
| **Non-Operating Profit** | **2,850** | **1,769** | **2,430** | **2,336** |
| Net Financial Income | 1,240 | 1,309 | 1,794 | 2,336 |
| Net Gain from Inv in Associates | 343 | -109 | -140 | 0 |
| Pretax Profit | 27,875 | 29,312 | 33,244 | 33,567 |
| Income Tax | 4,481 | 6,442 | 6,981 | 7,049 |
| Profit from Continuing Operations | 23,394 | 22,870 | 26,263 | 26,518 |
| Profit from Discontinued Operations | 0 | 0 | 0 | 0 |
| **Net Profit** | 23,394 | 22,870 | 26,263 | 26,518 |
| Controlling Interests | 23,082 | 22,197 | 25,457 | 25,689 |
| Non-Controlling Interests | 312 | 673 | 806 | 829 |
| **Total Comprehensive Profit** | **21,401** | **22,050** | **26,263** | **26,518** |
| Controlling Interests | 20,991 | 21,350 | 25,430 | 25,677 |
| Non-Controlling Interests | 410 | 699 | 833 | 841 |
| EBITDA | 43,078 | 46,941 | 51,183 | 52,393 |
| FCF (Free Cash Flow) | 14,932 | 13,304 | 20,434 | 20,210 |
| EBITDA Margin (%) | 20.9 | 23.1 | 24.2 | 23.9 |
| Operating Profit Margin (%) | 12.1 | 13.5 | 14.6 | 14.3 |
| Net Profit Margin (%) | 11.2 | 10.9 | 12.0 | 11.7 |

### Statement of Financial Condition (Summarized)

| (Wbn) | 12/14 | 12/15F | 12/16F | 12/17F |
|---|---|---|---|---|
| **Current Assets** | **115,146** | **125,556** | **145,493** | **164,721** |
| Cash and Cash Equivalents | 16,841 | 25,340 | 40,250 | 55,794 |
| AR & Other Receivables | 28,234 | 28,783 | 30,227 | 31,285 |
| Inventories | 17,318 | 17,654 | 18,540 | 19,189 |
| Other Current Assets | 52,753 | 53,779 | 56,476 | 58,453 |
| **Non-Current Assets** | **115,277** | **122,142** | **128,770** | **135,664** |
| Investments in Associates | 5,232 | 5,334 | 5,602 | 5,798 |
| Property, Plant and Equipment | 80,873 | 88,338 | 94,953 | 101,899 |
| Intangible Assets | 4,785 | 4,517 | 3,614 | 2,892 |
| **Total Assets** | **230,423** | **247,698** | **274,263** | **300,385** |
| **Current Liabilities** | **52,014** | **51,406** | **53,564** | **55,146** |
| AP & Other Payables | 18,233 | 18,587 | 19,520 | 20,203 |
| Short-Term Financial Liabilities | 9,808 | 8,380 | 8,380 | 8,380 |
| Other Current Liabilities | 23,973 | 24,439 | 25,664 | 26,563 |
| **Non-Current Liabilities** | **10,321** | **10,503** | **10,956** | **11,288** |
| Long-Term Financial Liabilities | 1,458 | 1,468 | 1,468 | 1,468 |
| Other Non-Current Liabilities | 8,863 | 9,035 | 9,488 | 9,820 |
| **Total Liabilities** | **62,335** | **61,909** | **64,521** | **66,434** |
| **Controlling Interests** | **162,182** | **179,199** | **202,346** | **225,727** |
| Capital Stock | 898 | 898 | 898 | 898 |
| Capital Surplus | 4,404 | 4,404 | 4,404 | 4,404 |
| Retained Earnings | 169,530 | 188,709 | 211,856 | 235,236 |
| **Non-Controlling Interests** | **5,906** | **6,590** | **7,396** | **8,224** |
| **Stockholders' Equity** | **168,088** | **185,789** | **209,742** | **233,951** |

### Cash Flows (Summarized)

| **(Wbn)** | 12/14 | 12/15F | 12/16F | 12/17F |
|---|---|---|---|---|
| Cash Flows from Op Activities | 36,975 | 39,669 | 46,516 | 47,595 |
| Net Profit | 23,394 | 22,870 | 26,263 | 26,518 |
| Non-Cash Income and Expense | 22,324 | 24,666 | 25,556 | 25,875 |
| Depreciation | 16,910 | 18,270 | 19,466 | 20,440 |
| Amortization | 1,143 | 1,128 | 902 | 722 |
| Others | 4,271 | 5,268 | 5,188 | 4,713 |
| Chg in Working Capital | -3,837 | -3,122 | -116 | -85 |
| Chg in AR & Other Receivables | -879 | 317 | -1,263 | -925 |
| Chg in Inventories | 267 | -806 | -886 | -649 |
| Chg in AP & Other Payables | 787 | 202 | 405 | 297 |
| **Income Tax Paid** | **-7,493** | **-6,289** | **-6,981** | **-7,049** |
| Cash Flows from Inv Activities | -32,806 | -27,657 | -29,029 | -29,545 |
| Chg in PP&E | -21,657 | -26,271 | -26,081 | -27,385 |
| Chg in Intangible Assets | -1,293 | -420 | 0 | 0 |
| Chg in Financial Assets | -13,194 | -1,120 | -2,948 | -2,160 |
| **Others** | **3,338** | **154** | **0** | **0** |
| Cash Flows from Fin Activities | -3,057 | -2,699 | -2,309 | -2,309 |
| Chg in Financial Liabilities | 105 | -1,418 | 0 | 0 |
| Chg in Equity | 0 | 0 | 0 | 0 |
| Dividends Paid | -2,234 | -75 | -2,309 | -2,309 |
| **Others** | **-928** | **-1,206** | **0** | **0** |
| Increase (Decrease) in Cash | 556 | 8,499 | 14,910 | 15,544 |
| Beginning Balance | 16,285 | 16,841 | 25,340 | 40,250 |
| **Ending Balance** | **16,841** | **25,340** | **40,250** | **55,794** |

### Forecasts/Valuations (Summarized)

| | 12/14 | 12/15F | 12/16F | 12/17F |
|---|---|---|---|---|
| P/E (x) | 9.8 | 9.7 | 8.5 | 8.4 |
| P/CF (x) | 4.9 | 4.5 | 4.2 | 4.1 |
| P/B (x) | 1.3 | 1.1 | 1.0 | 0.9 |
| EV/EBITDA (x) | 4.1 | 3.3 | 2.7 | 2.3 |
| EPS (W) | 135,673 | 130,468 | 149,628 | 150,995 |
| CFPS (W) | 268,720 | 279,406 | 304,580 | 307,953 |
| BPS (W) | 1,002,811 | 1,110,612 | 1,246,667 | 1,384,089 |
| DPS (W) | 20,000 | 15,500 | 17,725 | 17,893 |
| Payout ratio (%) | 11.4 | 8.8 | 8.7 | 8.7 |
| Dividend Yield (%) | 1.5 | 1.2 | 1.4 | 1.4 |
| Revenue Growth (%) | -9.8 | -1.4 | 4.0 | 3.5 |
| EBITDA Growth (%) | -19.1 | 9.0 | 9.0 | 2.4 |
| Operating Profit Growth (%) | -32.0 | 10.1 | 11.9 | 1.4 |
| EPS Growth (%) | -22.6 | -3.8 | 14.7 | 0.9 |
| Accounts Receivable Turnover (x) | 8.3 | 8.2 | 8.2 | 8.1 |
| Inventory Turnover (x) | 11.3 | 11.6 | 11.7 | 11.6 |
| Accounts Payable Turnover (x) | 15.7 | 15.6 | 15.6 | 15.3 |
| ROA (%) | 10.5 | 9.6 | 10.1 | 9.2 |
| ROE (%) | 15.1 | 13.0 | 13.3 | 12.0 |
| ROIC (%) | 19.4 | 18.9 | 20.3 | 19.4 |
| Liability to Equity Ratio (%) | 37.1 | 33.3 | 30.8 | 28.4 |
| Current Ratio (%) | 221.4 | 244.2 | 271.6 | 298.7 |
| Net Debt to Equity Ratio (%) | -30.1 | -33.0 | -37.5 | -40.9 |
| Interest Coverage Ratio (x) | 42.2 | 43.4 | 49.5 | 50.1 |

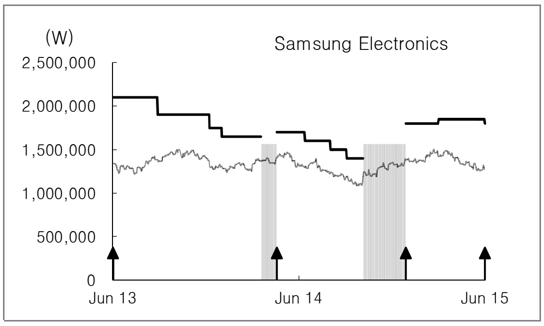
Source: Company data, KDB Daewoo Securities Research estimates

# APPENDIX 1

## Important Disclosures & Disclaimers

**2-Year Rating and Target Price History**

| Company (Code) | Date | Rating | Target Price |
|---|---|---|---|
| Samsung Electronics(005930) | 06/26/2015 | Buy | 1,800,000 |
| | 03/27/2015 | Buy | 1,850,000 |
| | 01/22/2015 | Buy | 1,800,000 |
| | | No Coverage | |
| | 09/28/2014 | Buy | 1,400,000 |
| | 08/27/2014 | Buy | 1,500,000 |
| | 07/08/2014 | Buy | 1,600,000 |
| | 05/14/2014 | Buy | 1,700,000 |
| | | No Coverage | |
| | 01/26/2014 | Buy | 1,650,000 |
| | 01/02/2014 | Buy | 1,750,000 |
| | 09/22/2013 | Buy | 1,900,000 |
| | 06/17/2013 | Buy | 2,100,000 |




| 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.

**Equity Ratings Distribution**

| Buy | Trading Buy | Hold | Sell |
|---|---|---|---|
| 71.9% | 13.8% | 14.3% | 0% |

* Based on recommendations in the last 12-months (as of March 31, 2015)

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| **Daewoo Securities (Europe) Ltd.**<br>41st Floor, Tower 42<br>25 Old Broad St.<br>London EC2N 1HQ<br>United Kingdom<br>Tel: 44-20-7982-8000 | **Daewoo Securities (Singapore) Pte. Ltd.**<br>Six Battery Road #11-01<br>Singapore, 049909<br>Tel: 65-6671-9845 | **Tokyo Branch**<br>7th Floor, Yusen Building<br>2-3-2 Marunouchi, Chiyoda-ku<br>Tokyo 100-0005<br>Japan<br>Tel: 81-3- 3211-5511 |
| **Beijing Representative Office**<br>2401A, 24th Floor, East Tower, Twin Towers<br>B-12 Jianguomenwai Avenue<br>Chaoyang District, Beijing 100022<br>China<br>Tel: 86-10-6567-9299 | **Shanghai Representative Office**<br>Room 38T31, 38F SWFC<br>100 Century Avenue<br>Pudong New Area, Shanghai 200120<br>China<br>Tel: 86-21-5013-6392 | **Ho Chi Minh Representative Office**<br>Suite 2103, Saigon Trade Center<br>37 Ton Duc Thang St,<br>Dist. 1, Ho Chi Minh City,<br>Vietnam<br>Tel: 84-8-3910-6000 |
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