

Time to Prove the Power of Multi Business

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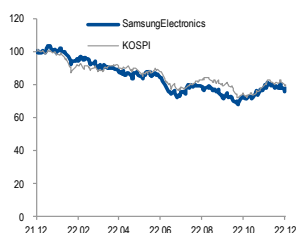
Share price (Dec 09)	60,400
Upside (%)	29.1
Market cap (KRW bn)	360,575
Shares outstanding	5,969,783
Paid-in capital/Face value	898/100
52-week high/low (KRW)	80,500/52,600
60-day avg. daily T/O (KRW bn)	859
Foreign ownership (%)	49.93
Major shareholders (%)	Samsung Life Insurance Co., Ltd and 15 others 20.75

Price performance	1M	3M	6M
Absolute (%)	-2.6	8.6	-7.4
Relative (%p)	-1.1	8.4	1.8

K-IFRS, consolidated

(KRW)	EPS(22F)	EPS(23F)	T/P
Previous	6,057	5,314	78,000
Revised	6,044	5,311	78,000
Consensus	5,487	3,967	77,125
Difference(%)	10.2%	33.9%	1.1%

12-month price performance



Source: FnGuide, Hyundai Motor Securities

Investment highlights

We maintain BUY and our six-month-forward target price of KRW 78,000 (1.5 x P/B applied to BPS in 2023). Fourth quarter sales and operating profit should come in lower than our previous estimates due to unfavorable exchange rates and lower-than-expected memory semiconductor prices. Reflecting the aforementioned, we revise our sales and operating profit estimates to KRW78.5tn and KRW7.45tn, which are 3.2% and 4.8% lower than our previous estimates, respectively. By business unit, operating profit is KRW2.3tn for semiconductors, KRW1.9tn for SDC, KRW2.6tn for MX/NW, KRW360bn for VD/home appliances, and KRW270bn for Harman. Based on its excellent financials, the company will boost its capex YoY compared to FY22. Considering the reduction in capex by competing memory companies, Samsung's market share in the memory semiconductor market should expand. The company's DRAM market share based on sales slipped from 45.8% to 42.4% this year compared to 2017, but should rise to 45.7% in 2024. NAND also declined from 36.5% to 33.8%, but should climb to 35.7% in 2024. Meanwhile, there are concerns about the company's North American foundry client switching to rival TSMC. Despite growing concerns about the possibility, all North American customers favor multi-sourcing strategies. In that sense, Samsung's status should remain relatively unscathed. However, some symbolic products which are essential for drawing the demand of potential customers should definitely be enhanced. Volume mass production of the company's 3nm 2nd generation GAA product will be visible at the end of 2023, earlier than expected. In addition, its early entry into Tier 1 should have a positive impact on stock revaluation.

Major issues and earnings outlook

The company's leadership position in the memory semiconductor market is expected to strengthen in this downturn. The company is the only IDM that simultaneously operates memory production, foundry, and LSI. We expect its diverse semiconductor portfolio to have a positive impact on competitiveness in the current technology environment, where the combination of heterogeneous semiconductors is important. However, it is important to recognize that leading companies that focus on a single business have recently become more competitive. In particular, sales of TSMC, which leads the 5nm semiconductor market, is setting new records every quarter and its OPM rose to 50%. Sony, the leading CIS player, whose market share fell, has seen its sales and profitability rise sharply this year. Qualcomm, the leading player in mobile AP market, is also posting strong growth despite anemic demand for smartphones and the growth of Apple's Bionic Chip. It is time for Samsung to prove that having multiple semiconductor businesses is an advantage compared to its single-business competitors.

Share price outlook and valuation

Given the attractiveness of its valuation and the potential of the advanced foundry process, a bottom-fishing strategy is valid.

Earnings forecasts and valuations

	Sales (KRW bn)	OP (KRW bn)	NP (KRW bn)	EBITDA (KRW bn)	EPS (KRW)	Growth (%)	P/E (x)	P/B (x)	EV/EBITDA (x)	ROE (%)	Div. yield (%)
2020	236,807	35,994	26,091	66,329	3,958	16.2	20.5	2.1	6.7	10.0	3.7
2021	279,605	51,634	39,244	85,881	6,375	61.1	12.3	1.8	5.0	13.9	1.8
2022F	310,259	46,521	37,269	87,465	6,044	-5.2	10.2	1.2	3.5	11.7	2.4
2023F	328,839	40,943	32,894	87,156	5,311	-12.1	11.6	1.2	3.3	9.4	2.4
2024F	356,004	58,414	46,489	106,721	7,588	42.9	8.1	1.0	2.4	12.2	2.4

Note: K-IFRS, consolidated

Fig 1. Key assumptions

(KRW bn)		2021	1Q22	2Q22	3Q22	4Q22F	2022F	1Q23F	2Q23F	3Q23F	4Q23F	2023F	
Industry demand	PC shipments growth, by volume (YoY)	19.4%	-4.5%	-24.5%	-24.6%	-28.1%	-20.8%	-18.2%	-3.7%	-3.6%	-0.8%	-7.1%	
	Smartphone shipments growth, by volume (YoY)	10.4%	-8.1%	-8.4%	-3.5%	-9.8%	-7.5%	-2.0%	1.0%	7.0%	8.0%	3.6%	
	Server shipments growth, by volume (YoY)	5.4%	5.4%	3.9%	4.3%	6.9%	5.1%	1.9%	2.8%	4.4%	5.4%	3.7%	
Samsung	DS	DRAM bit growth	24.5%	1.5%	6.5%	-17.0%	13.4%	-0.9%	-1.8%	2.9%	12.8%	16.6%	13.2%
		DRAM ASP change (USD, QoQ)	13.3%	-2.9%	-1.2%	-20.0%	-16.3%	-12.4%	-2.9%	1.7%	8.4%	10.7%	-18.6%
		NAND bit growth	37.7%	8.3%	-8.0%	-8.0%	7.0%	2.2%	-5.0%	10.0%	15.0%	15.0%	12.9%
		NAND ASP change (USD, QoQ)	-8.1%	-5.5%	2.0%	-20.0%	-18.0%	-14.0%	-8.0%	-4.0%	5.0%	8.0%	-28.7%
	SDC	OLED sales (KRW bn)	30,114	7,535	7,585	9,297	9,175	33,592	8,851	8,477	9,828	9,023	36,180
	MX	Smartphone shipments ('000 units)	271,589	74,100	62,000	64,000	65,000	265,100	72,500	64,500	72,000	68,000	277,000
		Tablet shipments ('000 units)	30,000	8,000	7,000	7,000	7,500	29,500	7,500	7,600	7,650	7,700	30,450
	VD	LCD TV shipments ('000 units)	42,112	10,830	8,123	8,935	11,606	39,493	8,500	8,041	10,275	12,070	38,887
	USD-KRW		1,143.0	1,205.0	1,261.0	1,340.0	1,380.0	1,296.5	1,400.0	1,380.0	1,350.0	1,300.0	1,357.5

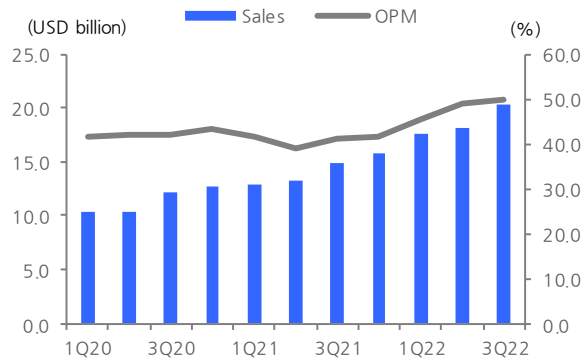
Source: Company data, Hyundai Motor Securities

Fig 2. Quarterly earnings forecasts

(KRW bn)		2021	1Q22	2Q22	3Q22	4Q22F	2022F	1Q23F	2Q23F	3Q23F	4Q23F	2023F
Sales	DS	94,750	26,870	28,500	23,020	21,829	100,219	20,197	21,206	25,044	29,333	95,779
	Memory	72,590	20,090	21,080	15,230	13,539	69,939	12,389	13,020	16,425	20,010	61,844
	System LSI, Foundry, and others	22,160	6,780	7,420	7,790	8,290	30,280	7,808	8,186	8,618	9,324	33,936
	SDC	31,710	7,970	7,710	9,390	9,266	34,336	8,921	8,537	9,878	9,063	36,400
	MX/NW	109,250	32,370	29,340	32,210	32,983	126,903	36,470	33,358	39,085	34,972	143,885
	MX (Mobile, Tablet)	104,670	31,230	28,000	30,920	31,983	122,133	35,273	31,951	37,785	33,572	138,581
	VD/Consumer Electronics	55,840	15,470	14,830	14,750	16,573	61,623	14,580	15,322	17,184	18,093	65,180
	VD	31,503	8,720	7,540	7,861	10,062	34,183	7,878	8,087	9,012	9,763	34,740
	Harman	10,040	2,670	2,980	3,630	3,944	13,224	3,257	3,424	3,840	3,901	14,423
	Intercompany adjustments	-21,985	-7,569	-6,156	-6,218	-6,102	-26,045	-7,796	-6,341	-6,405	-6,285	-26,827
	Total	279,605	77,781	77,204	76,782	78,492	310,259	75,630	75,506	88,626	89,078	328,839
OP	DS	29,190	8,450	9,980	5,120	2,292	25,842	2,083	2,339	5,238	7,608	17,267
	Memory	27,781	7,705	8,947	4,211	1,421	22,284	1,271	1,342	3,994	6,411	13,018
	System LSI, Foundry, and others	1,409	745	1,033	909	871	3,558	812	997	1,244	1,197	4,249
	SDC	4,583	1,087	1,082	1,980	1,927	6,076	1,558	1,326	2,137	1,875	6,897
	MX/NW	13,691	3,820	2,620	3,221	2,620	12,281	3,472	2,991	4,001	3,025	13,490
	MX (Mobile, Tablet)	13,047	3,713	2,533	3,052	2,530	11,828	3,365	2,879	3,858	2,913	13,014
	VD/Consumer Electronics	3,637	800	361	251	362	1,774	280	402	845	799	2,326
	VD	2,293	608	226	212	301	1,348	158	202	539	487	1,385
	Harman	590	100	100	310	268	778	221	271	334	371	1,197
	Total	51,634	14,121	14,097	10,852	7,450	46,521	7,478	7,283	12,524	13,658	40,943
OPM (%)	DS	30.8%	31.4%	35.0%	22.2%	10.5%	25.8%	10.3%	11.0%	20.9%	25.9%	18.0%
	Memory	38.3%	38.4%	42.4%	27.6%	10.5%	31.9%	10.3%	10.3%	24.3%	32.0%	21.0%
	System LSI, Foundry, and others	6.4%	11.0%	13.9%	11.7%	10.5%	11.8%	10.4%	12.2%	14.4%	12.8%	12.5%
	SDC	14.5%	13.6%	14.0%	21.1%	20.8%	17.7%	17.5%	15.5%	21.6%	20.7%	18.9%
	MX/NW	12.5%	11.8%	8.9%	10.0%	7.9%	9.7%	9.5%	9.0%	10.2%	8.6%	9.4%
	MX (Mobile, Tablet)	12.5%	11.9%	9.0%	9.9%	7.9%	9.7%	9.5%	9.0%	10.2%	8.7%	9.4%
	VD/Consumer Electronics	6.5%	5.2%	2.4%	1.7%	2.2%	2.9%	1.9%	2.6%	4.9%	4.4%	3.6%
	VD	7.3%	7.0%	3.0%	2.7%	3.0%	3.9%	2.0%	2.5%	6.0%	5.0%	4.0%
	Total	18.5%	18.2%	18.3%	14.1%	9.5%	15.0%	9.9%	9.6%	14.1%	15.3%	12.5%
	Pretax profit	53,352	15,070	14,461	11,855	8,095	49,480	8,160	7,981	13,206	14,369	43,717
	Corporate tax	13,444	3,745	3,362	2,466	1,891	11,464	1,882	1,805	2,966	3,287	9,941
	Net profit (CI)	39,244	11,129	10,955	9,144	6,042	37,269	6,114	6,015	9,972	10,792	32,894

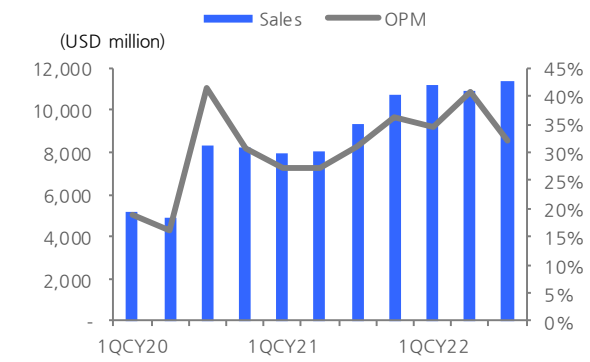
Source: Company data, Hyundai Motor Securities

Fig 1. TSMC earnings trend



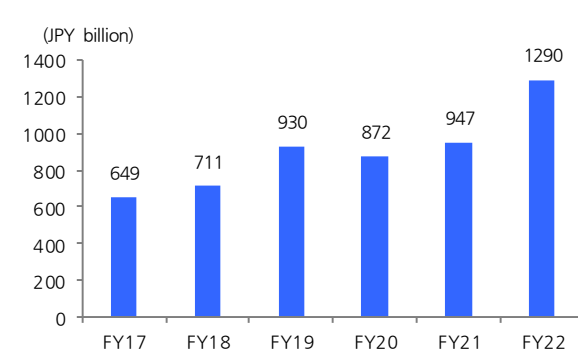
Source: TSMC, Hyundai Motor Securities

Fig 2. Qualcomm earnings trend (GAAP)



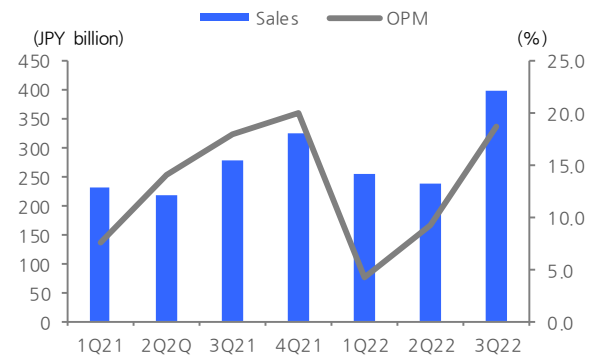
Source: Qualcomm, Hyundai Motor Securities

Fig 3. Sony CIS sales prospect



Source: Sony, Hyundai Motor Securities

Fig 4. Sony I&SS division earnings trend



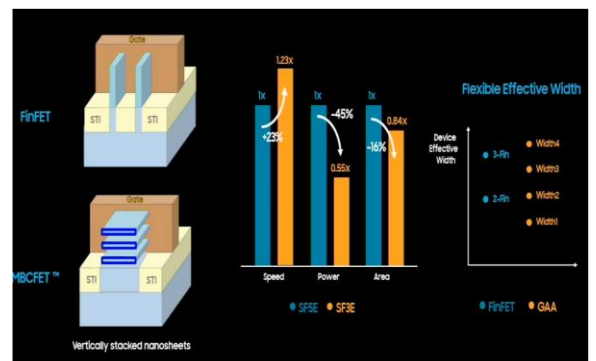
Source: Sony, Hyundai Motor Securities, Imaging & Sensing Solution

Fig 5. Sony CIS sales prospect



Source: Hyundai Motor Securities

Fig6. MBCFET vs FinFet competitiveness



Source: Samsung Electronics, Hyundai Motor Securities

Income statement

(KRW bn)	2020	2021	2022F	2023F	2024F
Sales	236,807	279,605	310,259	328,839	356,004
Change (%)	2.8	18.1	11.0	6.0	8.3
Cost of goods sold	144,488	166,411	194,166	213,562	216,683
of sales	61.0	59.5	62.6	64.9	60.9
Gross profit	92,319	113,193	116,093	115,277	139,321
Gross margin (%)	39.0	40.5	37.4	35.1	39.1
Change (%)	11.0	22.6	2.6	-0.7	20.9
SG&A expenses	56,325	61,560	69,572	74,334	80,908
of sales	23.8	22.0	22.4	22.6	22.7
EBITDA	66,329	85,881	87,465	87,156	106,721
EBITDA margin (%)	28.0	30.7	28.2	26.5	30.0
Change (%)	15.6	29.5	1.8	-0.4	22.4
Operating profit	35,994	51,634	46,521	40,943	58,414
Operating margin (%)	15.2	18.5	15.0	12.5	16.4
Change (%)	29.6	43.5	-9.9	-12.0	42.7
Non-operating profit	-155	988	2,155	2,774	3,355
Interest income	12,268	8,543	16,447	3,450	4,031
Interest expenses	11,318	7,705	14,435	676	676
Other non-operating income	-1,105	150	143	0	0
Subsidiaries/affiliate	507	730	805	0	0
Pretax profit from cont ops	36,345	53,352	49,480	43,717	61,768
Pretax margin (%)	15.3	19.1	15.9	13.3	17.4
Change (%)	19.4	46.8	-7.3	-11.6	41.3
Income tax	9,937	13,444	11,464	9,941	14,032
Profit from continuing ops	26,408	39,907	38,016	33,776	47,736
Profit from discontinuing ops	0	0	0	0	0
Net profit	26,408	39,907	38,016	33,776	47,736
Net margin (%)	11.2	14.3	12.3	10.3	13.4
Change (%)	21.5	51.1	-4.7	-11.2	41.3
NP from controlling interest	26,091	39,244	37,269	32,894	46,489
NP from non-controlling interest	317	664	747	882	1,247
Other comprehensive income	-3,674	10,002	15,554	0	0
Total comprehensive income	22,734	49,910	53,570	33,776	47,736

Cash flow statement

(KRW bn)	2020	2021	2022F	2023F	2024F
Operating cash flow	65,287	65,105	66,417	79,877	95,972
Net profit	26,408	39,907	38,016	33,776	47,736
Depreciation on tangible assets	27,116	31,285	37,732	43,096	45,662
Amortization on intangible assets	3,220	2,962	3,212	3,117	2,646
FX-related profit	0	0	0	0	0
Dec (inc) in working capital	122	-16,287	-16,680	-112	-72
Others	8,421	7,238	4,136	0	0
Investing cash flow	-53,629	-33,048	-57,676	-68,343	-64,219
Dec (inc) in investment assets	-1,328	1,354	1,296	-1,235	-798
Decrease in tangible assets	377	358	191	0	0
Increase in tangible assets (capex)	-37,592	-47,122	-53,571	-54,435	-55,234
Others	-15,086	12,362	-5,590	-12,673	-8,187
Financing cash flow	-8,328	-23,991	-17,137	-9,809	-9,809
Increase (decrease) in debt	2,160	-2,864	-6,065	0	0
Increase (decrease) in bond	-27	-440	106	0	0
Increase in capital	0	0	0	0	0
Dividend	-9,677	-20,510	-9,811	-9,809	-9,809
Others	-784	-177	-1,367	0	0
Other cash flow	-834	1,582	4,553	0	0
Increase (decrease) in cash	2,497	9,649	-3,843	1,725	21,943
Beginning cash	26,886	29,383	39,031	35,189	36,914
Ending cash	29,383	39,031	35,189	36,914	58,857

Note: K-IFRS, consolidated

Balance sheet

(KRW bn)	2020	2021	2022F	2023F	2024F
Current assets	198,216	218,163	239,502	268,693	308,382
Cash and cash equivalents	29,383	39,031	35,189	36,914	58,857
Short-term investment	92,442	81,709	93,965	106,638	114,825
Accounts receivable	30,965	40,713	48,042	54,521	58,707
Inventory assets	32,043	41,384	47,592	54,011	58,157
Other current assets	10,555	11,915	14,060	15,956	17,181
Non-current assets	180,020	208,458	227,317	236,774	244,498
Tangible assets	128,953	149,929	170,821	182,159	191,731
Intangible assets	18,469	20,236	20,623	17,506	14,860
Investment assets	21,855	24,423	21,944	23,179	23,977
Other non-current assets	10,744	13,870	13,929	13,929	13,929
Other financial assets	0	0	0	0	0
Total assets	378,236	426,621	466,818	505,467	552,880
Current liabilities	75,604	88,117	83,610	93,717	100,246
Short-term debt	16,553	13,688	7,616	7,616	7,616
Accounts payable	9,739	13,453	13,792	15,652	16,854
Current portion of long-term debt	716	1,330	1,056	1,056	1,056
Other current debt	48,596	59,646	61,147	69,393	74,721
Non-current liabilities	26,683	33,604	34,550	39,125	42,081
Bonds	948	508	614	614	614
Long-term debt	0	2	9	9	9
LT financial debt (incl. lease)	0	0	0	0	0
Other non-current debt	25,735	33,094	33,927	38,503	41,459
Other financial liabilities	0	0	0	0	0
Total liabilities	102,288	121,721	118,160	132,842	142,328
Owners of parent equity	267,670	296,238	339,060	362,144	398,824
Paid-in capital	898	898	898	898	898
Capital surplus	4,404	4,404	4,404	4,404	4,404
Capital adjustment, etc.	27	87	88	88	88
Other accum earnings and	-8,726	-2,215	13,191	13,191	13,191
Retained earnings	271,068	293,065	320,480	343,564	380,244
Non-controlling interest	8,278	8,662	9,599	10,481	11,728
Total equity	275,948	304,900	348,658	372,625	410,552

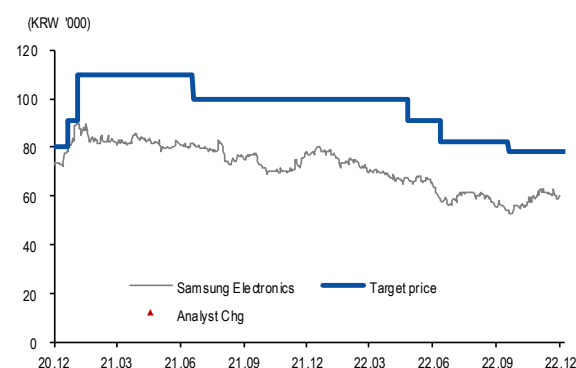
Key financial data

(KRW, x, %)	2020	2021	2022F	2023F	2024F
EPS (based on net profit)	4,011	6,486	6,169	5,459	7,797
EPS (based on parent net profit)	3,958	6,375	6,044	5,311	7,588
BPS (based on total equity)	40,624	44,887	51,329	54,857	60,440
BPS (based on owners of parent equity)	39,406	43,611	49,916	53,314	58,714
DPS	2,994	1,444	1,444	1,444	1,444
P/E (based on net profit)	20.2	12.1	10.0	11.2	7.9
P/E (based on parent net profit)	20.5	12.3	10.2	11.6	8.1
P/B (based on total equity)	2.0	1.7	1.2	1.1	1.0
P/B (based on owners of parent equity)	2.1	1.8	1.2	1.2	1.0
EV/EBITDA (reported)	6.7	5.0	3.5	3.3	2.4
Dividend yield	3.7	1.8	2.4	2.4	2.4
Growth (%)					
EPS (based on net profit)	16.4	61.7	-4.9	-11.5	42.8
EPS (based on parent net profit)	16.2	61.1	-5.2	-12.1	42.9
Profitability (%)					
ROE (based on net profit)	9.8	13.7	11.6	9.4	12.2
ROE (based on parent net profit)	10.0	13.9	11.7	9.4	12.2
ROA	7.2	9.9	8.5	6.9	9.0
Stability (%)					
Total liabilities/equity	37.1	39.9	33.9	35.7	34.7
Net debt/equity	net cash	net cash	net cash	net cash	net cash
Interest coverage	61.7	119.7	70.7	60.5	86.4

Investment rating and target price history

Date	Rating	TP	Difference (%)	
			Average	High/Low
2020.12.04	BUY	80,000	-7.65	-1.63
2020.12.29	BUY	91,000	-6.94	0.00
2021.01.12	BUY	110,000	-24.86	-18.45
2021.06.28	BUY	100,000	-24.45	-17.10
2021.12.28	AFTER 6M	100,000	-28.06	-21.10
2022.05.04	BUY	91,000	-28.26	-25.16
2022.06.21	BUY	82,500	-28.70	-24.97
2022.09.27	BUY	78,000	-24.56	-19.36
2022.12.12	BUY	78,000		

Two-year price chart



Compliance note

Hyundai Motor Securities has not disclosed the material contained in this report to any institutional investor or third party prior to its publication.

The author(s) of this report does(do) not own more than 1 of the shares of the company(ies) covered in this report.

Hyundai Motor Securities has not taken part in securities issuance (DR, CB, IPO, and market making of the company(ies) covered in this report as lead manager for the past six months.

The author(s) of this report does(do) not have any interests in the company(ies) covered herein.

This report accurately reflects the author(s)'s professional views and was written without any undue external influence or interference.

Investment rating

Hyundai Motor Securities offers three sector investment ratings based on six-month forward fundamentals and share price outlook.

- OVERWEIGHT: Sector-wide fundamentals and share prices are expected to turn up.
- NEUTRAL: No meaningful fundamental improvement is expected.
- UNDERWEIGHT: Sector-wide fundamentals and share prices are expected to turn down.

Hyundai Motor Securities offers three company investment ratings based on the relative return expected in the following six months, based on the closing price on the date of rating declaration.

- BUY: Excess return of +15p or more
- MARKETPERFORM (M.PERFORM): Excess return of between -15p and +15p
- SELL: Excess return of -15p or less

Stock ratings distribution (2021.10.01-2022.09.30)

Rating	Count	% of rating category
BUY	168	90.8
MARKETPERFORM	17	9.2
SELL	0	0

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