

Samsung Electronics (005930.KS)

Conviction Buy: Sustaining Solid Market Leadership Despite Macro Demand Uncertainty

- Company Update
- Estimate Change

- **2Q results: Semiconductor shortfall offset by TV/panel** — Semiconductor OP of W1.1tr was much lower than our estimated W1.7tr due to ongoing ramp-up cost burden at new LSI fab, sharper NAND price erosion, and slower memory cost reductions amid soft demand seasonality in 2Q. Telecom OP of W4.2tr was also slightly lower due to weaker non-handset (network/IT) sales. However, TV/display panel was stronger than our estimate thanks to strong product leadership in high-end TV market amid less competition from Japan TV makers despite soft demand.
- **2H12E: Record-high quarterly OP on S3 full contribution/semi recovery** — For 3Q12E, we expect another record-high quarterly OP of W8.6tr (28% QoQ, 102% YoY) on seasonal/cyclical recovery in semiconductor division and full quarter contribution of Galaxy S3 sales. For 4Q12E, we forecast OP to decline sequentially to W8.1tr (-6% QoQ, 53% YoY), mainly from OP decline in telecom division from higher year-end marketing spend amid iPhone 5 competition despite solid recovery in semiconductor division. Versus consensus, we have more bullish expectation about GS3 operating leverage effect and semiconductor recovery momentum despite volatile macro/demand outlook in 2H.
- **Tweaking estimates; conviction Buy as a top pick in Korea technology** — While we slightly revise down our '12E OP estimate by 3% mainly on shortfalls in semiconductor division despite stronger TV/display panel outlook, our '13E/'14E OP estimates are largely unchanged. We expect Samsung shares to continue to re-rate as the market sees an improved cross-cycle ROE profile and multiple growth options, with enhanced earnings power through maximum synergies as a fully integrated technology company. We believe Samsung is the best and simplest way to play the secular smart mobile growth theme. Maintain Buy with W1,970,000 target price, derived from '12E/'13E average EBITDA-based SOTP valuation.

Buy	1
Price (27 Jul 12)	W1,233,000
Target price	W1,970,000
Expected share price return	59.8%
Expected dividend yield	0.8%
Expected total return	60.6%
Market Cap	W181,620,086M
	US\$158,403M

Price Performance (RIC: 005930.KS, BB: 005930 KS)



Statistical Abstract

Year to 31 Dec	Sales (Wbn)	OP (Wbn)	NP (Wbn)	EPS (Won)	EPS Growth (%)	P/E (x)	P/B (x)	ROE (%)
2010	154,630	17,297	15,799	107,258	65.1	11.5	2.1	20.4
2011	165,002	16,250	13,359	90,695	-15.4	13.6	1.9	14.6
2012E	198,647	29,274	23,634	160,447	76.9	7.7	1.5	21.8
2013E	216,313	36,758	29,826	202,482	26.2	6.1	1.2	22.2
2014E	228,993	39,976	32,252	218,958	8.1	5.6	1.0	19.7

Source: Company Data, Citi Research estimates

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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005930.KS: Fiscal year end 31-Dec						Price: W1,233,000; TP: W1,970,000; Market Cap: W181,620,086m; Recomm: Buy					
Profit & Loss (Wb)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	154,630	165,002	198,647	216,313	228,993	PE (x)	11.5	13.6	7.7	6.1	5.6
Cost of sales	-102,667	-112,145	-123,813	-129,090	-135,593	PB (x)	2.1	1.9	1.5	1.2	1.0
Gross profit	51,964	52,857	74,835	87,223	93,400	EV/EBITDA (x)	5.7	5.4	3.4	2.6	2.2
Gross Margin (%)	33.6	32.0	37.7	40.3	40.8	FCF yield (%)	1.2	0.5	3.4	5.8	7.1
EBITDA (Adj)	28,144	29,184	44,893	54,375	59,167	Dividend yield (%)	0.8	0.4	0.8	0.8	0.8
EBITDA Margin (Adj) (%)	18.2	17.7	22.6	25.1	25.8	Payout ratio (%)	9	6	6	5	5
Depreciation	-10,847	-12,934	-15,619	-17,618	-19,191	ROE (%)	20.4	14.6	21.8	22.2	19.7
Amortisation	0	0	0	0	0	Cashflow (Wb)	2010	2011	2012E	2013E	2014E
EBIT (Adj)	17,297	16,250	29,274	36,758	39,976	EBITDA	28,144	29,184	44,893	54,375	59,167
EBIT Margin (Adj) (%)	11.2	9.8	14.7	17.0	17.5	Working capital	-5,668	-4,057	-7,020	-5,853	-5,993
Net interest	-23	61	127	120	120	Other	1,351	-2,209	-6,632	-12,933	-15,296
Associates	2,267	1,399	1,310	1,304	1,370	Operating cashflow	23,827	22,918	31,241	35,590	37,878
Non-op/Except	-212	-551	-397	-400	-400	Capex	-21,619	-21,966	-25,000	-25,000	-25,000
Pre-tax profit	19,329	17,159	30,314	37,782	41,066	Net acq/disposals	1,100	279	-931	-2,507	-2,889
Tax	-3,182	-3,425	-6,280	-7,556	-8,213	Other	-3,466	575	575	575	575
Extraord./Min.Int./Pref.div.	-347	-375	-400	-400	-600	Investing cashflow	-23,985	-21,113	-25,356	-26,932	-27,314
Reported net profit	15,799	13,359	23,634	29,826	32,252	Dividends paid	-1,918	-875	-937	-1,702	-1,702
Net Margin (%)	10.2	8.1	11.9	13.8	14.1	Financing cashflow	-152	3,110	-1,916	-2,608	-2,540
Core NPAT	15,799	13,359	23,634	29,826	32,252	Net change in cash	-359	4,900	3,091	5,584	7,354
Per share data	2010	2011	2012E	2013E	2014E	Free cashflow to s/holders	2,208	952	6,241	10,590	12,878
Reported EPS (W)	107,258	90,695	160,447	202,482	218,958						
Core EPS (W)	107,258	90,695	160,447	202,482	218,958						
DPS (W)	10,000	5,500	10,000	10,000	10,000						
CFPS (W)	161,758	155,587	212,093	241,617	257,148						
FCFPS (W)	14,987	6,465	42,371	71,895	87,425						
BVPS (W)	580,248	661,784	813,389	1,007,029	1,218,503						
Wtd avg ord shares (m)	147	147	147	147	147						
Wtd avg diluted shares (m)	147	147	147	147	147						
Growth rates	2010	2011	2012E	2013E	2014E						
Sales revenue (%)	13.4	6.7	20.4	8.9	5.9						
EBIT (Adj) (%)	58.3	-6.1	80.1	25.6	8.8						
Core NPAT (%)	65.1	-15.4	76.9	26.2	8.1						
Core EPS (%)	65.1	-15.4	76.9	26.2	8.1						
Balance Sheet (Wb)	2010	2011	2012E	2013E	2014E						
Cash & cash equiv.	22,480	26,878	32,524	42,741	56,195						
Accounts receivables	19,153	21,882	27,398	31,326	34,821						
Inventory	13,365	15,717	17,352	19,901	22,994						
Net fixed & other tangibles	52,965	62,044	71,425	78,807	84,616						
Goodwill & intangibles	3,903	4,969	5,137	5,313	5,498						
Financial & other assets	22,423	24,142	25,101	29,322	34,192						
Total assets	134,289	155,631	178,937	207,410	238,316						
Accounts payable	9,149	10,277	12,372	12,799	12,872						
Short-term debt	9,554	9,684	9,201	8,743	8,307						
Long-term debt	1,222	4,963	4,466	4,020	3,618						
Provisions & other liab	25,016	28,863	27,693	26,810	25,898						
Total liabilities	44,940	53,786	53,733	52,371	50,694						
Shareholders' equity	85,590	97,600	119,931	148,454	179,604						
Minority interests	3,760	4,246	5,273	6,585	8,018						
Total equity	89,349	101,845	125,204	155,039	187,622						
Net debt	-11,705	-12,231	-18,857	-29,979	-44,271						
Net debt to equity (%)	-13.1	-12.0	-15.1	-19.3	-23.6						

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For definitions of the items in this table, please click [here](#).

Telecoms

Firm handset performance in 2Q12 despite sequential decline in IT/network

Telecom OP sequentially declined by about 2% QoQ, mainly due to sequential revenue/OP decline in network (LTE) and IT products despite solid handset revenue/OP growth in 2Q12. We estimate handset revenue and OP have sequentially increased thanks to double-digit % smartphone shipment growth.

Maximum operating leverage from full contribution of Galaxy S3 in 3Q12E

Looking into 3Q12E, we expect a sequential OP/OPM improvement thanks to operating leverage from full contribution of Galaxy S3 shipments. Galaxy S3 shipments have broken the 10mn units level during July in just five months since the initial launch in late May. Given the very positive initial sell-through trend and increasing carriers' order forecasts, we estimate Galaxy S3 shipments could increase 15~20mn in 3Q12E from 6~7mn in 2Q12, depending on availability of key components. We also expect Samsung will introduce refreshed low-end smartphone platform during 3Q12E to monetize rapid growth in emerging market smartphone growth.

Unique competitiveness with vertical integration and positive synergy

Samsung is a unique full smartphone segment provider, from Galaxy S/Note series at the high end, to Galaxy Y/Pocket at the low end. We believe Samsung should sustain HW innovation leadership with synergies in the in-house leading edge components division, as well as cost leadership with strong bargaining power over supply chain companies helped by increasing market dominance as a global No.1 smartphone maker. Along with Apple, we expect Samsung to continue to squeeze out marginal smartphone makers, with aggressive share gain from about 20% last year to ~30% this year. Samsung should be better positioned to mitigate any impact from intensifying industry competition by transferring margin pressure to supply-chain companies.

Semiconductor

Weaker on a new LSI line start-up burden, sharper NAND price erosion in 2Q12

Despite stronger NAND volume shipment growth of mid-30% with some inventory destocking, 2Q12 OP was much worse due to on-going ramp-up cost burden of the under-utilized new LSI line, along with some 45nm AP demand decline, sharper NAND price erosion of high-teen %, and slower DRAM price recovery.

Support for our supply-driven memory recovery thesis with limited (mid single digit %) supply growth expectation in 2H12

Management comments sync with our supply-driven memory (both DRAM and NAND) recovery view, with limited supply growth expectation of just mid-single-digit % in 3Q12E. Samsung's DRAM supply growth should also remain at mid-single-digit % on slower 2xnm technology migration and secular mobile DRAM shift in 3Q12E. We expect NAND supply growth will slight outpace industry growth in 3Q12E. We expect memory dynamics will turn more positive from mid-Aug when broad seasonal restocking demand kicks in amid sub-normal industry supply growth.

Normalization of a new LSI line ramp-up along with 28nm foundry introduction /32nm mobile AP business

Given the strong sell-through of in-house quad-core Exynos AP-adopted Galaxy S3, sell-in production of Apple's iPhone 5 AP and increasing 28nm foundry business, we expect Samsung LSI will start full wafer loadings, and profitability should improve to about 20% in 2H12E. Management in particular guided 28nm foundry wafer output (we suspect, to Qualcomm) will reach about 20~30% of total wafer capacity by the end of the year, and Samsung LSI hasn't see any critical yield issues until now, unlike TSMC's 28nm ramp-up case.

Display panel

TFT-LCD turnaround / ongoing strength in AMOLED

Despite sharp 15% QoQ price decline in LCD TV panel due to increasing cell business portion, Samsung's TFT-LCD division turned to operating profit thanks to stabilized production yield and mix improvement to high value-added products in 2Q12. AMOLED division continued to enjoy strong OPM of high-teen % thanks to

strong demand for captive high-end smartphone models such as Galaxy S3/Galaxy Note. Given stable LCD panel pricing and normalizing in new AMOLED technology (non-glass polyimide substrate), we expect OP to continue to improve into 3Q12E ahead of a seasonal correction in 4Q12E. With the merger of three display panel subsidiaries (Samsung Display, S-LCD and Samsung Mobile Display), we expect Samsung to maximize internal efficiency such as technology cooperation in TFT substrate (LTPS/Oxide), large-sized LCD capacity conversion for AMOLED production and customer co-marketing in coming quarters.

Figure 1. SEC — 2Q12 Earnings Results (Consolidated, Wbn)

Year to Dec 31	2Q12P	1Q12	2Q11	QoQ	YoY	CIR est	Diff	Cons.	Diff
Total Sales	47,597	45,271	39,439	5.1%	21%	51,128	-7%	49,926	-5%
Semicon	8,600	7,980	9,160	7.8%	-6%	10,154	-15%		
Display panel	8,250	8,540	7,090	-3.4%	16%	9,080	-9%		
Telecom	24,040	23,220	16,030	3.5%	50%	25,779	-7%		
Media& Appliance	12,150	10,670	11,230	13.9%	8%	11,796	3%		
Semicon	18%	18%	23%			20%			
Display panel	17%	19%	18%			18%			
Telecom	51%	51%	41%			50%			
Media& Appliance	26%	24%	28%			23%			
Total OP	6,724	5,850	3,752	14.9%	79%	7,072	-5%	6,486	4%
Semicon	1,110	760	1,790	46.1%	-38%	1,736	-36%		
Display panel	750	280	(210)	167.9%	NM	579	30%		
Telecom	4,190	4,270	1,710	-1.9%	145%	4,322	-3%		
Media& Appliance	760	530	470	43.4%	62%	435	75%		
OP Breakdown									
Semicon	17%	13%	48%			25%			
Display panel	11%	5%	-6%			8%			
Telecom	62%	73%	46%			61%			
Media& Appliance	11%	9%	13%			6%			
OP margin	14%	13%	10%			14%		13%	
Semicon	13%	10%	20%			17%			
Display panel	9%	3%	-3%			6%			
Telecom	17%	18%	11%			17%			
Media& Appliance	6%	5%	4%			4%			
Net Profit*	5,194	5,049	3,506	2.9%	48%	5,337	-3%	5,552	-6%
Net margin	11%	11%	9%			10%		11%	

*Net profit includes Min. Int.

Source: Company Data, Citi Research estimates

Figure 2. SEC — Company Guidance vs. Citi View

		2Q12A	2Q12 Initial Guidance	2Q12 Citi est	3Q12 Guidance	3Q12 Citi est	2012 Guidance	2012 Citi est
DRAM	Shipment		Mkt mid single % up		Mkt mid single % up		Mkt mid 20% up	
	ASP	High single % up Flat	SEC outgrow mkt	8% up Flat	SEC similar to mkt	4% up 2% up	SEC similar to mkt	24% up 22% down
NAND	Shipment		Mkt mid teen % up		Mkt mid single % up		Mkt low 60% up	
	ASP	Mid 30% up High teen % down	SEC outgrow mkt	35% up 18% down	SEC outgrow mkt	12% up 1% up	SEC similar to mkt	54% up 32% down
Display Panel	Shipment		Mkt mid teen % up					
	ASP	Flat for large size, TV mid single % up IT mid single % up TV mid teen % down	SEC outgrow	0% up 6% down	Low single % up	3% up 3% down		8% up 10% down
Handset	Shipment		Market low single % up		Mkt 10% up		Market mid single % up	
	ASP	SEC similar to mkt Increase	SEC outgrow mkt	2% up 6% up	SEC similar to mkt Increase	3% up 9% up	SEC outgrow mkt	18% up 37% up

Source: Company data, Citi Research estimates

Figure 3. SEC — 3Q12E Preview (Consolidated, Wbn)

Year to Dec 31	3Q12E	2Q12P	3Q11	QoQ %	YoY %
FX Rate (Won/US\$)	1,110	1,152	1,085	-3.7%	2.3%
Sales	50,961	47,597	41,274	7.1%	23.5%
Semiconductor	10,643	8,600	9,480	23.8%	12.3%
Display panel	7,879	8,250	7,080	-4.5%	11.3%
Telecom	26,515	24,040	17,940	10.3%	47.8%
Media& Appliance	12,222	12,150	11,320	0.6%	8.0%
Operating profit	8,575	6,724	4,253	27.5%	101.6%
Semiconductor	1,941	1,110	1,590	74.8%	22.0%
Display panel	844	750	-90	12.5%	NM
Telecom	5,280	4,190	2,420	26.0%	118.2%
Media& Appliance	510	760	340	-32.8%	50.1%
Net Non-OP Items	251	6	-121	4088.5%	NM
EBT	8,826	6,730	4,132	31.1%	113.6%
Taxes	1,765	1,537	691	14.9%	155.6%
Net Profit	6,961	5,094	3,300	36.7%	110.9%
Profitability					
OP Margin	17%	14%	10%		
Semiconductor	18%	13%	17%		
Display panel	11%	9%	-1%		
Telecom	20%	17%	13%		
Media& Appliance	4%	6%	3%		
EBT Margin	17%	14%	10%		
Net Margin	14%	11%	8%		

Source: Citi Research estimates

Figure 4. SEC — Estimate Revisions (Consolidated)

	Sales (Wbn)			OP (Wbn)			NP (Wbn)			EPS (Wbn)		
	New	Old	Chg	New	Old	Chg	New	Old	New	Old	Chg	
2012E	198,647	207,794	-4.4%	29,274	30,029	-2.5%	23,634	24,087	160,447	163,526	-1.9%	
2013E	216,313	225,989	-4.3%	36,758	37,003	-0.7%	29,826	30,136	202,482	204,591	-1.0%	
2014E	228,993	240,355	-4.7%	39,976	40,077	-0.3%	32,252	32,454	218,958	220,324	-0.6%	

Source: Citi Research estimates

Figure 5. SEC — CIRA vs. Consensus Estimates

(Wbn)	3Q12E			2012E			2013E		
	CIR est	Cons	Diff	CIR est	Cons	Diff	CIR est	Cons	Diff
Sales	50,961	52,772	-3%	198,647	202,190	-2%	216,313	226,600	-5%
OP	8,575	7,615	13%	29,274	28,290	3%	36,758	32,709	12%
NP	6,961	6,240	12%	23,634	23,419	1%	29,826	27,183	10%

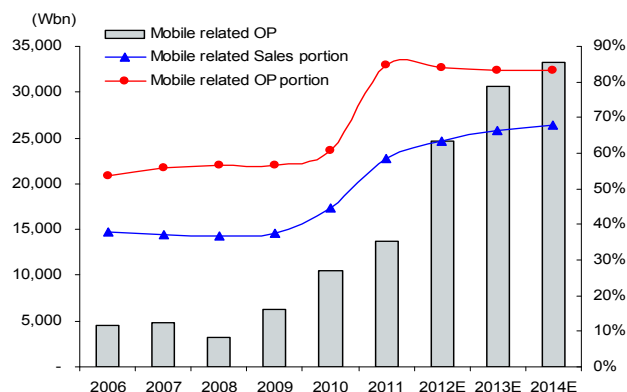
Source: Bloomberg Consensus, Citi Research estimates

Figure 6. SEC — Key Assumption Changes (Consolidated)

		New		Old		Chg	
		2012E	2013E	2012E	2013E	2012E	2013E
Currency	KRW/US\$	1,118	1,018	1,116	1,018	0.2%	0.0%
DRAM	YoY Shipment growth %	24%	27%	23%	31%	0.8%p	-4.0%p
	YoY ASP chg (256Mb)	-22%	-3%	-15%	-3%	-7.2%p	0.0%p
	OP Margin (%)	20.8%	34.8%	28.1%	42.0%	-7.3%p	-7.2%p
NAND	YoY Shipment growth %	54%	55%	41%	63%	12.9%p	-8.0%p
	YoY ASP chg (1Gb)	-32%	-7%	-32%	-21%	-0.5%p	14.4%p
	OP Margin (%)	13.2%	28.3%	12.1%	17.7%	1.2%p	10.6%p
Handset	Shipment (mn)	383	430	382	431	0.5%	-0.1%
	ASP (US\$)	191	212	196	212	-2.5%	-0.2%
	OP Margin (%)	20.3%	18.3%	20.0%	17.8%	0.3%p	0.5%p
Display panel	YoY Shipment growth	8%	7%	14%	6%	-6.0%p	1.4%p
	ASP Chg (US\$/sqm)	-10%	-11%	-3%	-8%	-7.1%p	-2.5%p
	OP Margin (%)	8.0%	10.8%	6.2%	9.3%	1.8%p	1.5%p
Sales	Total	198,647	216,313	207,794	225,989	-4.4%	-4.3%
	Semiconductor	39,347	50,812	42,079	52,366	-6.5%	-3.0%
	Display	32,435	30,114	35,505	34,405	-8.6%	-12.5%
	Telecom	101,974	114,155	107,392	120,971	-5.0%	-5.6%
	Appliance/Media	49,226	53,022	48,128	51,476	2.3%	3.0%
EBIT	Total	29,274	36,758	30,029	37,003	-2.5%	-0.7%
	Semiconductor	6,526	12,943	8,019	13,248	-18.6%	-2.3%
	Display	2,589	3,249	2,203	3,183	17.5%	2.1%
	Telecom	17,841	18,301	18,134	18,389	-1.6%	-0.5%
	Appliance/Media	2,317	2,264	1,673	2,182	38.4%	3.8%
NP	Total	23,634	29,826	24,087	30,136	-1.9%	-1.0%

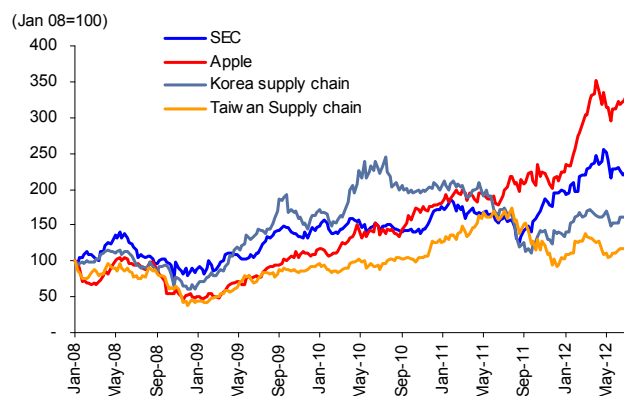
Source: Citi Research estimates

Figure 7. Mobile-Related Sales/OP Contribution Trend, 2006~2014E



Source: Citi Research estimates

Figure 8. SEC, Apple, KR/TW Supply Chain – Stock Performance

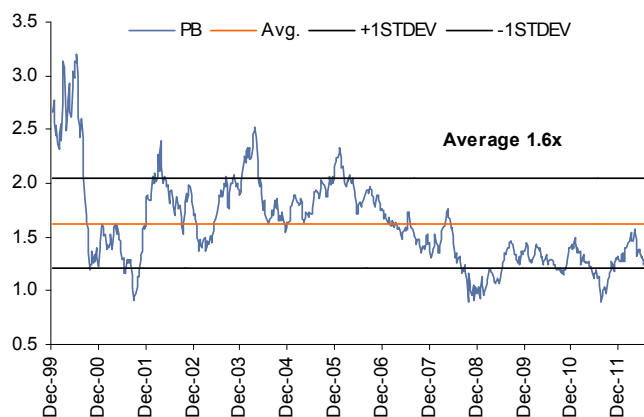


Korea Supply Chain: LGD, Hynix, SEMCO, Samsung SDI and LG Innotek

Taiwan Supply Chain: Hon Hai, TPK, Largan and Catcher

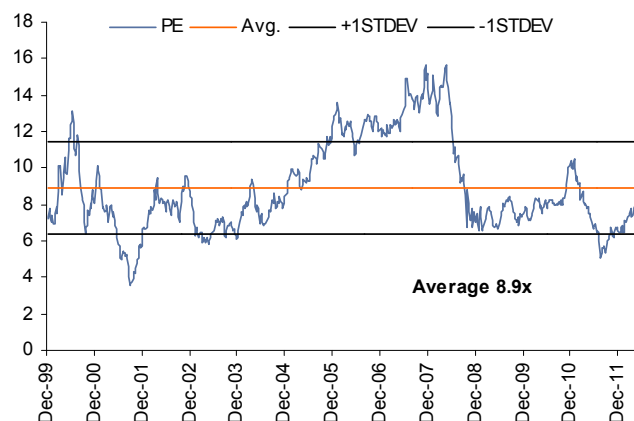
Source: Citi Research, Bloomberg

Figure 9. SEC — 12-Month Forward P/B



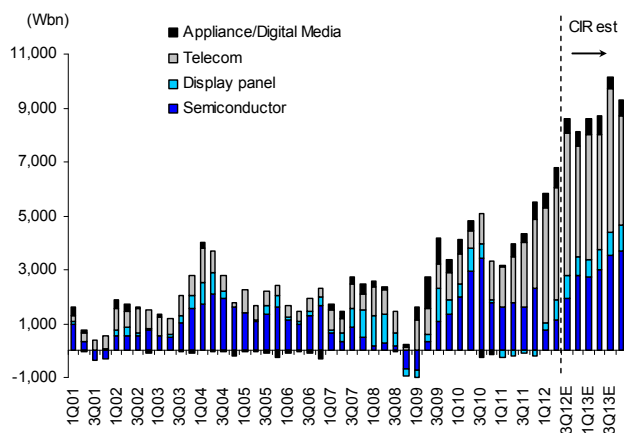
Source: Citi Research, Bloomberg

Figure 10. SEC — 12-Month Forward P/E



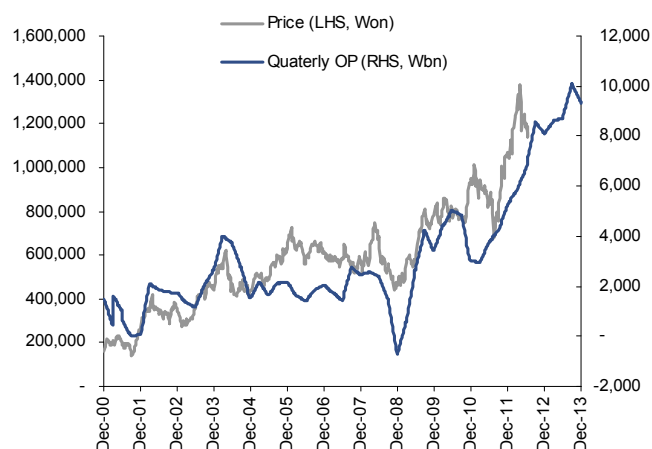
Source: Citi Research, Bloomberg

Figure 11. SEC — Divisional OP Breakdown (Wbn)



Source: Company Data, Citi Research

Figure 12. SEC — Stock Price vs. Quarterly OP Trend



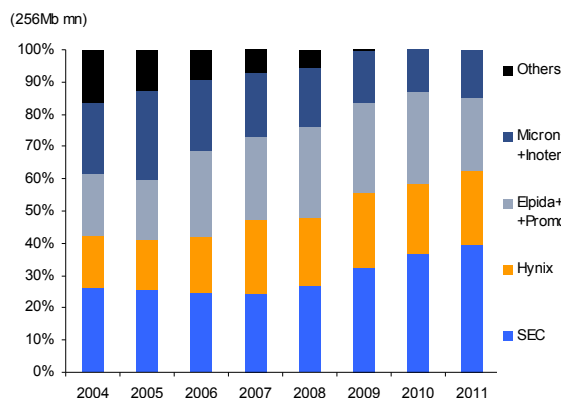
Source: Citi Research, Bloomberg

Figure 13. SEC — SOTP Valuation

(Wbn)	12E - 13E Avg. EBITDA	Target Multiple	EV		Details	
Semiconductor	21,202	7.2	152,942	47%	30% premium to Hynix's target price implied multiple	
Display panel	7,190	3.2	22,891	7%	30% premium to LG Display's target price implied multiple	
Telecom	18,520	5.6	103,525	32%	30% premium to HTC's target price implied multiple	
DM & DA	2,723	4.8	13,095	4%	Global peer average	
Total Operating Value	49,634	5.9	292,454	90%		
Net Cash	20,571	-	20,571	6%	2012E - 13E Avg.	
Net Treasury Value	-	-	7,501	2%	BV as of Mar 31-12	
Equity Method Investment Asset Value	11,167	-	5,583	2%	50% discount to 2012E - 13E Avg.	
Total Equity Value	-	-	326,109	100%		
Pref. Shares Value	-	-	35,872	-		
Pref. Shares Adjusted Value	-	-	290,237	-		
No of Shares (mn)	-	-	147	-		
Fair Value (Won)	-	-	1,970,395	-		

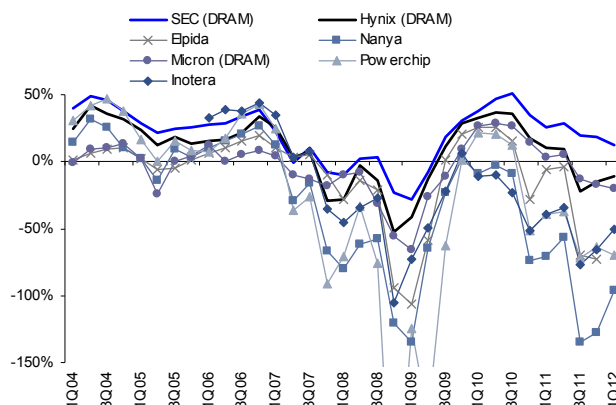
Source: Citi Research estimates

Figure 14. Global DRAM Market Share



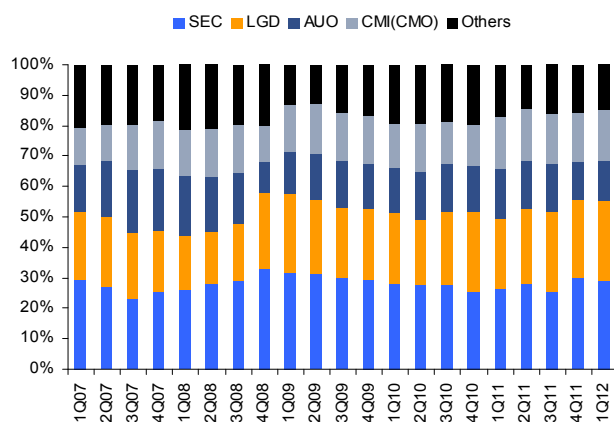
Source: Citi Research

Figure 15. Global DRAM OPM by Player



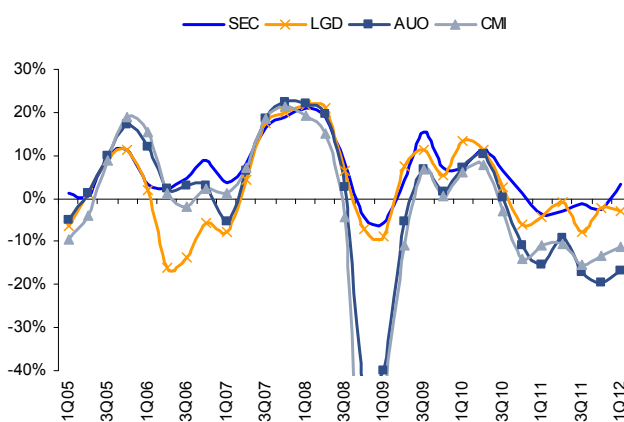
Source: Citi Research

Figure 16. Global TFT-LCD Revenue Market Share



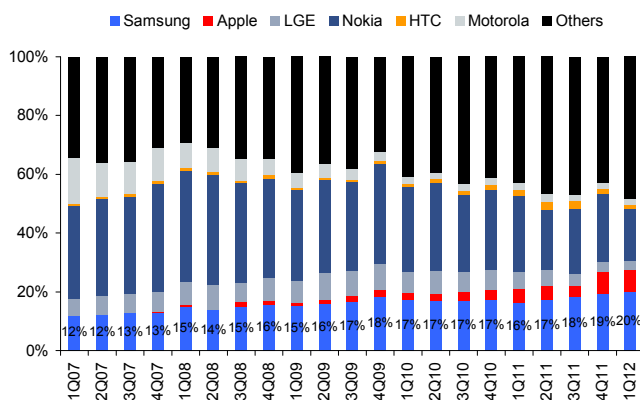
Source: Displaysearch

Figure 17. Display Panel OPM by Player



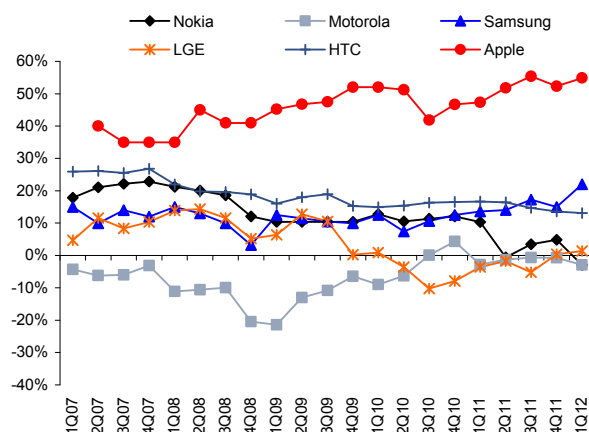
Source: Citi Research

Figure 18. Global Handset Market Share



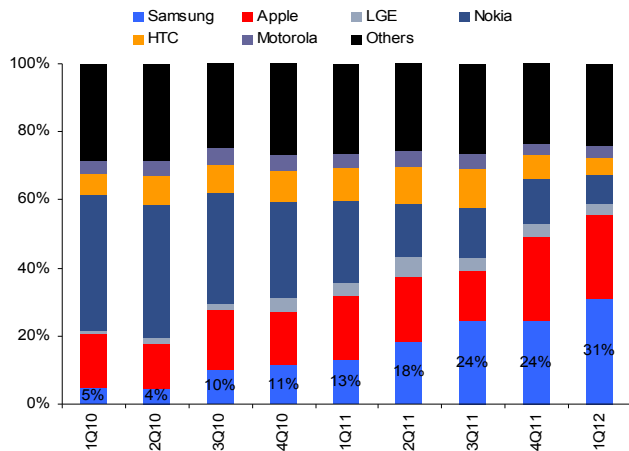
Source: Citi Research

Figure 19. Global Handset OPM by Player



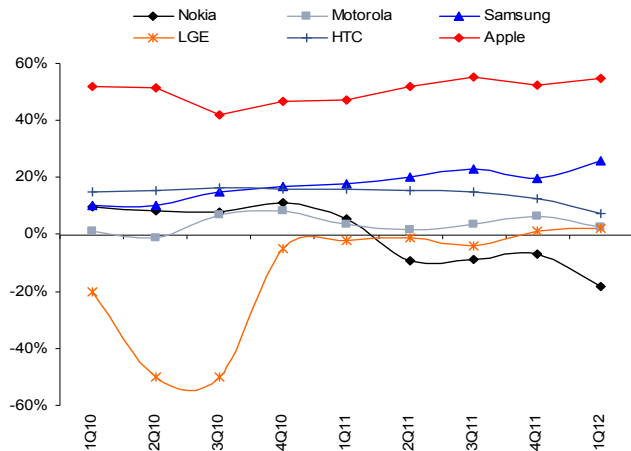
Source: Citi Research

Figure 20. Global Smartphone Market Share



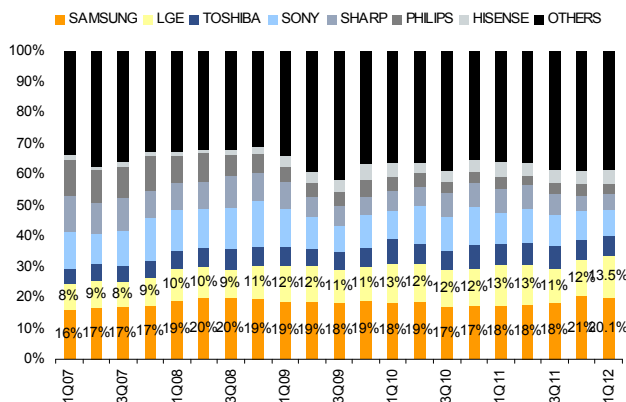
Source: Citi Research

Figure 21. Global Smartphone OPM by Player



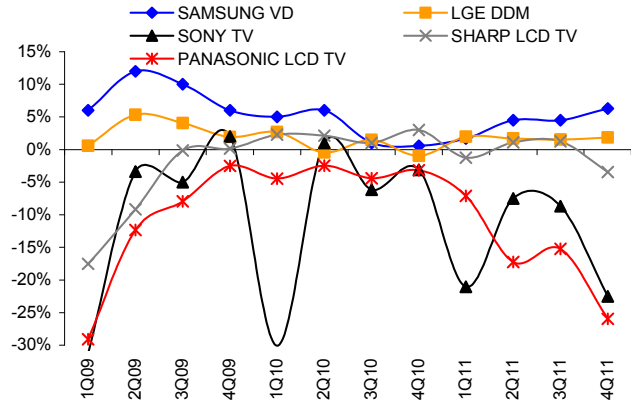
Source: Citi Research

Figure 22. Global LCD TV Market Share



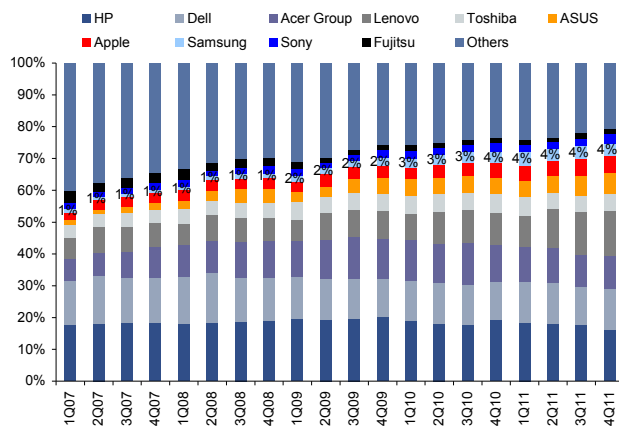
Source: Displaysearch

Figure 23. Global LCD TV OPM by Player



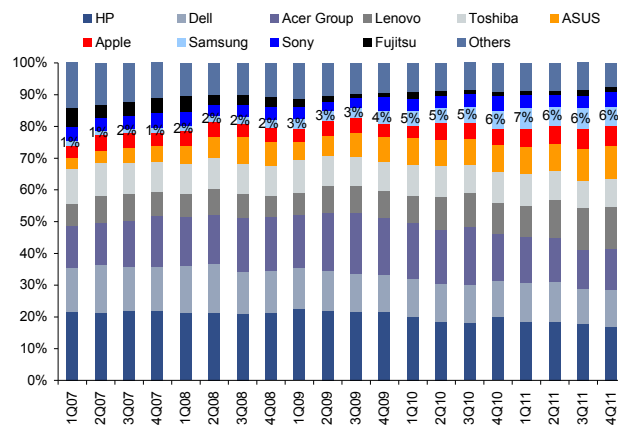
Source: Citi Research

Figure 24. Global PC Market Share



Source: IDC

Figure 25. Global NB Market Share



Source: IDC

Figure 26. SEC — Peer Valuations

Code	Company	CCY	Rating	Target Price	2012-07-27		P/E		P/B		ROE		EV/EBITDA	
					Close Price		2012E	2013E	2012E	2013E	2012E	2013E	2012E	2013E
005930.KS	SEC	KRW	1	1,970,000	1,233,000		7.7	6.1	1.5	1.2	22%	22%	3.7	2.9
000660.KS	Hynix	KRW	1	39,000	21,150		21.5	4.9	1.4	1.1	7%	25%	4.6	2.4
006400.KS	Samsung SDI	KRW	3	100,000	144,000		22.4	17.2	1.1	1.0	5%	6%	8.9	7.7
066570.KS	LGE	KRW	1	68,000	61,900		16.2	10.1	0.7	0.7	5%	7%	6.0	5.9
034220.KS	LG Display	KRW	1	32,000	23,500		38.1	11.0	0.8	0.8	2%	7%	2.0	1.5
009150.KS	SEMCO	KRW	1	125,000	101,500		20.2	19.5	2.0	1.9	10%	10%	5.9	5.0
001300.KS	Cheil Industries	KRW	1	125,000	94,700		15.7	12.5	1.3	1.2	9%	10%	9.4	7.6
012450.KS	Samsung Techwin	KRW	1	94,000	72,400		20.5	14.0	2.4	2.1	12%	16%	14.4	10.3
KOREA Tech Average							20.3	11.9	1.4	1.2	9%	13%	6.9	5.4
000660.KS	Hynix	KRW	1	39,000	21,150		21.5	4.9	1.4	1.1	7%	25%	4.6	2.4
MU.O	Micron	USD	1H	12.00	5.96		NM	14.2	0.8	0.7	-13%	5%	4.2	2.5
Global Memory Average							21.5	9.5	1.1	0.9	-3%	15%	4.4	2.5
NOK1V.HE	Nokia	EUR	2	1.80	1.60		NM	23.8	0.7	0.8	-21%	-2%	3.6	1.2
2498.TW	HTC	TWD	3	250.00	290.00		9.2	11.2	2.7	2.5	28%	23%	4.9	6.0
Global Handset Average							9.2	17.5	1.7	1.7	3%	11%	4.2	3.6
034220.KS	LG Display	KRW	1	32,000	23,500		38.1	11.0	0.8	0.8	2%	7%	2.0	1.5
2409.TW	AU Optonics	TWD	2	10.90	9.07		NM	NM	0.5	0.6	-24%	-20%	6.2	4.1
3481.TW	Chimei Innolux	TWD	3	10.00	9.10		NM	NM	0.4	0.4	-11%	-9%	4.6	3.5
TFT-LCD Average							38.1	11.0	0.5	0.6	-11%	-7%	4.3	3.1
6753.T	Sharp Corp	JPY	3	340	255		NM	24.2	0.5	0.6	-23%	2%	7.9	4.3
6752.T	Panasonic	JPY	1	770	523		20.2	8.1	0.6	0.6	3%	7%	4.2	3.7
PHG.AS	Philips	EUR	3	12.00	17.91		14.9	13.4	1.3	1.3	5%	6%	6.2	5.6
Digital Media Average							69.4	14.1	0.7	0.7	-4%	5%	4.8	3.6
HPQ.N*	HPQ	USD	NR	NC	18.01		4.4	4.2	0.8	0.8	19%	17%	3.7	3.6
INTC.O	Intel	USD	1	34.00	25.50		10.8	10.0	2.5	2.4	25%	25%	7.2	7.0
2330.TW	TSMC	TWD	1	104.00	79.30		12.7	11.2	2.9	2.5	24%	24%	6.5	5.5
AAPL.O*	Apple	USD	NR	NC	574.88		13.0	10.8	4.6	3.4	40%	37%	6.3	7.2
Global Leading Tech Avg							10.2	9.0	2.7	2.3	27%	26%	5.9	5.8

Source: Citi Research estimates, Bloomberg Consensus for Non-covered stocks*

Figure 27. SEC — Quarterly Earnings Forecasts (Consolidated)

(Wbn)	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12P	3Q12E	4Q12E	1Q13E	2Q13E	3Q13E	4Q13E	2011	2012E	2013E	2014E
Sales																
Semiconductor	9,180	9,160	9,480	9,170	7,980	8,600	10,643	11,967	11,617	12,293	13,223	13,678	36,990	39,347	50,812	57,661
Display panel	6,510	7,090	7,080	8,550	8,540	8,250	7,879	7,765	7,157	7,298	7,725	7,933	29,230	32,435	30,114	30,920
Telecom	13,690	16,030	17,940	20,780	23,220	24,040	26,515	28,199	25,471	26,699	30,073	31,912	68,440	101,974	114,155	121,295
Appliance/Digital Media	10,470	11,230	11,320	14,000	10,670	12,150	12,222	14,184	11,854	12,850	12,901	15,417	47,020	49,226	53,022	56,395
Total	36,985	39,439	41,274	47,304	45,271	47,597	50,961	54,662	49,367	52,044	55,613	59,289	165,002	198,647	216,313	228,993
OP																
Semiconductor	1,640	1,790	1,590	2,310	760	1,110	1,941	2,766	2,719	3,022	3,526	3,676	7,330	6,526	12,943	14,692
Display panel	-230	-210	-90	-220	280	750	844	715	659	740	880	970	-750	2,589	3,249	3,880
Telecom	1,460	1,710	2,420	2,540	4,270	4,190	5,280	4,102	4,662	4,272	5,297	4,071	8,130	17,841	18,301	18,854
Appliance/Digital Media	80	470	340	660	530	760	510	516	583	687	426	569	1,550	2,317	2,264	2,550
Total	2,949	3,752	4,253	5,296	5,850	6,724	8,575	8,099	8,623	8,720	10,129	9,286	16,250	29,274	36,758	39,976
Operating Margin																
Semiconductor	18%	20%	17%	25%	10%	13%	18%	23%	23%	25%	27%	27%	20%	17%	25%	25%
Display panel	-4%	-3%	-1%	-3%	3%	9%	11%	9%	9%	10%	11%	12%	-3%	8%	11%	13%
Telecom	11%	11%	13%	12%	18%	17%	20%	15%	18%	16%	18%	13%	12%	17%	16%	16%
Appliance/Digital Media	1%	4%	3%	5%	5%	6%	4%	4%	5%	5%	3%	4%	3%	5%	4%	5%
Total	8%	10%	10%	11%	13%	14%	17%	15%	17%	17%	18%	16%	10%	15%	17%	17%
Net non-operating income	439	413	-121	178	500	6	251	283	224	199	283	318	909	1,040	1,024	1,090
Net equity-method gain	376	411	292	321	367	269	321	353	294	269	353	388	1,399	1,310	1,304	1,370
Net Financial Income	64	2	-413	-143	133	-263	-70	-70	-70	-70	-70	-70	-490	-270	-280	-280
Net Interest income	12	17	10	23	30	36	30	30	30	30	30	30	61	127	120	120
Net FX transaction gains	70	-15	-557	-202	229	-369	-100	-100	-100	-100	-100	-100	-704	-340	-400	-400
Net Other Financial Inc.	-18	0	134	36	-127	70	0	0	0	0	0	0	152	-57	0	0
Pretax Profit	3,388	4,165	4,132	5,474	6,350	6,730	8,826	8,382	8,846	8,919	10,412	9,604	17,159	30,314	37,782	41,066
RP Margin%	9%	11%	10%	12%	14%	14%	17%	15%	18%	17%	19%	16%	10%	15%	17%	18%
Income taxes	603	658	691	1,473	1,302	1,537	1,765	1,676	1,769	1,784	2,082	1,921	3,425	6,280	7,556	8,213
Effective tax rate(%)	18%	16%	17%	27%	20%	23%	20%	20%	20%	20%	20%	20%	20%	21%	20%	20%
Net Profit	2,715	3,457	3,300	3,887	4,949	5,094	6,961	6,606	6,977	7,035	8,230	7,583	13,359	23,634	29,826	32,252
NP Margin%	7%	9%	8%	8%	11%	11%	14%	12%	14%	14%	15%	13%	8%	12%	14%	14%

Source: Company Data, Citi Research estimates

Figure 28. SEC — Key Assumptions

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12P	3Q12E	4Q12E	1Q13E	2Q13E	3Q13E	4Q13E	2011	2012E	2013E	2014E
FX Rate (Won/US\$)	1,119	1,083	1,085	1,145	1,130	1,152	1,110	1,080	1,040	1,020	1,010	1,000	1,107	1,118	1,018	1,000
Total Sales (Wbn)	36,985	39,439	41,274	47,304	45,271	47,597	50,961	54,662	49,367	52,044	55,613	59,289	165,002	198,647	216,313	228,993
% Chg	-12%	7%	5%	15%	-4%	5%	7%	7%	-10%	5%	7%	7%	7%	20%	9%	6%
Operating Profit (Wbn)	2,949	3,752	4,253	5,296	5,850	6,724	8,575	8,099	8,623	8,720	10,129	9,286	16,250	29,274	36,758	39,976
% Chg	-2%	27%	13%	25%	10%	15%	28%	-6%	6%	1%	16%	-8%	-6%	80%	26%	9%
OP Margin (%)	8%	10%	10%	11%	13%	14%	17%	15%	17%	17%	18%	16%	10%	15%	17%	17%
DRAM																
Shipments (mn Units, 256Mb Equiv)	7,559	7,879	8,510	9,181	9,347	10,095	10,499	11,234	11,908	12,622	13,380	14,183	33,129	41,176	52,093	71,888
QoQ ASP chg (256Mb Equiv)	-21%	0%	-18%	-12%	-9%	0%	2%	10%	-4%	-4%	-4%	-4%	-44%	-22%	-3%	-24%
Revenue (Wbn)	3,578	3,600	3,194	3,201	2,927	3,223	3,293	3,771	3,695	3,688	3,716	3,744	13,574	13,214	14,844	15,305
Operating Profit (Wbn)	904	1,037	612	588	377	572	677	1,116	1,286	1,316	1,292	1,269	3,141	2,742	5,163	5,139
OP Margin (%)	25%	29%	19%	18%	13%	18%	21%	30%	35%	36%	35%	34%	23%	21%	35%	34%
NAND																
Shipments (mn Units, 1Gb Equiv)	10,691	11,690	13,895	13,830	13,860	18,726	20,969	23,405	23,840	26,224	31,638	37,361	50,105	76,960	119,063	201,285
QoQ ASP chg (1Gb Equiv)	-8%	-9%	-14%	-7%	-10%	-18%	1%	7%	-3%	-3%	-3%	-4%	-34%	-32%	-7%	-29%
Revenue (Wbn)	2,168	2,089	2,139	2,086	1,857	2,097	2,284	2,655	2,526	2,643	3,063	3,438	8,482	8,893	11,670	13,792
Operating Profit (Wbn)	535	462	393	362	137	163	293	583	552	675	927	1,150	1,752	1,176	3,304	4,295
OP Margin (%)	25%	22%	18%	17%	7%	8%	13%	22%	22%	26%	30%	33%	21%	13%	28%	31%
Display panel																
Large Panel Shipments (K sqm)	6,891	7,986	8,114	8,218	8,211	8,237	8,458	8,828	8,441	8,860	9,335	9,482	31,208	33,734	36,119	39,066
Large Panel ASP (US\$/sqm)	714	699	656	715	716	640	606	591	591	589	588	579	695	637	587	566
Revenue (Wbn)	6,510	7,090	7,080	8,550	8,540	8,250	7,879	7,765	7,157	7,298	7,725	7,933	29,230	32,435	30,114	30,920
Operating Profit (Wbn)	- 230	- 210	- 90	- 220	280	750	844	715	659	740	880	970	- 750	2,589	3,249	3,880
OP Margin (%)	-4%	-3%	-1%	-3%	3%	9%	11%	9%	9%	10%	11%	12%	-3%	8%	11%	13%
Handset																
Shipments (mn Units)	69	75	90	95	93	95	96	100	96	101	113	121	329	383	430	486
ASP (US\$)	125	139	142	149	172	179	202	210	210	212	214	212	140	191	212	199
Revenue (Wbn)	10,140	11,690	14,420	17,180	18,900	20,520	22,889	24,465	22,110	23,170	26,191	27,719	53,430	86,774	99,191	105,134
Operating Profit (Wbn)	1,379	1,642	2,493	2,577	4,061	4,189	5,280	4,102	4,628	4,236	5,258	4,029	8,092	17,632	18,151	18,692
OP Margin (%)	14%	14%	17%	15%	21%	20%	23%	17%	21%	18%	20%	15%	15%	20%	18%	18%

Source: Company Data, Citi Research estimates

Samsung Electronics

Company description

Samsung Electronics (SEC) is a global leader in semiconductor, telecommunications, and digital convergence technology. It is the world's leading producer of memory semiconductors, display panels, mobile phones, monitors and TVs. SEC has four main business units: 1) Semiconductor; 2) Display Panel; 3) Telecommunications; and 4) Media & Appliances.

Investment strategy

We rate Samsung Electronics shares Buy (1). We expect Samsung shares to continue to re-rate as the market sees an improved cross-cycle ROE profile and multiple growth options, with enhanced earnings power through maximum synergies as a fully integrated technology company. We believe Samsung is the best and simplest way to play the secular smart mobile growth theme.

Valuation

Our 12-month target price of W1,970,000 is derived using a sum-of-the-parts methodology, based on 2012E -13E Avg. EBITDA. In calculating total operating value, we reference global peers in assigning fair-value EV/EBITDA multiples for the four main divisions (7.2x for Semiconductor, 3.2x for Display panel, 5.6x for Handset, and 4.8x for Media & Appliance). On the non-operating side, we employ Mar-2012 book value to value treasury shares and our 2012E-13E average estimate for equity-method investment assets. The 7.2x EV/EBITDA multiple for Semiconductors represents a 30% premium to Hynix's (000660.KS; W21,150; 1) target price implied multiple, justified in our view given SEC's superior market position through: 1) a rising market share; 2) outstanding profitability; and 3) healthier financial status. The 3.2x multiple for Display panels represents a 30% premium to LGD's (034220.KS; W23,500; 1) target price implied multiple, backed by SEC's AMOLED technology leadership. The 5.6x target multiple for Handset represents a 30% premium to HTC's (2498.TW; NT\$290.00; 3) target price implied multiple, given the sustainable HW leadership from vertical integration (AMOLED, mobile CPU and memory). For Media & Appliance division, we apply the implied target price multiples of the global peer average.

Risks

Downside risks that could prevent the shares from reaching our target price include: 1) PC sales weaken more than our forecast and NAND oversupply proves worse than our forecast; 2) Aggressive investment by competitors in the highly cyclical memory semiconductor/TFT-LCD industries could have a negative impact on prices; 3) Competition in the handset market intensifies, reducing SEC's handset margin; and 4) Any major appreciation of the won would hit SEC's earnings.

Appendix A-1

Analyst Certification

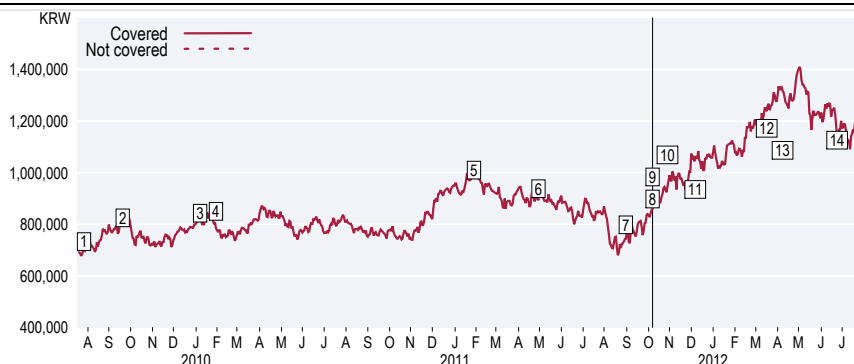
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Samsung Electronics (005930.KS)

Ratings and Target Price History Fundamental Research

Analyst: Henry H Kim, CFA



Date	Rating	Target Price	Closing Price
1 28-Jul-09	1L	*900,000.00	700,000.00
2 21-Sep-09	1L	*1,030,000.00	798,000.00
3 7-Jan-10	1L	*1,100,000.00	813,000.00
4 29-Jan-10	1L	*1,160,000.00	784,000.00
5 28-Jan-11	1L	*1,200,000.00	1,010,000.00

* Indicates change

Date	Rating	Target Price	Closing Price
6 29-Apr-11	1L	*1,250,000.00	893,000.00
7 31-Aug-11	1L	*1,200,000.00	744,000.00
8 7-Oct-11	Stock rating system changed		
9 7-Oct-11	*1	1,200,000.00	860,000.00
10 28-Oct-11	1	*1,300,000.00	945,000.00

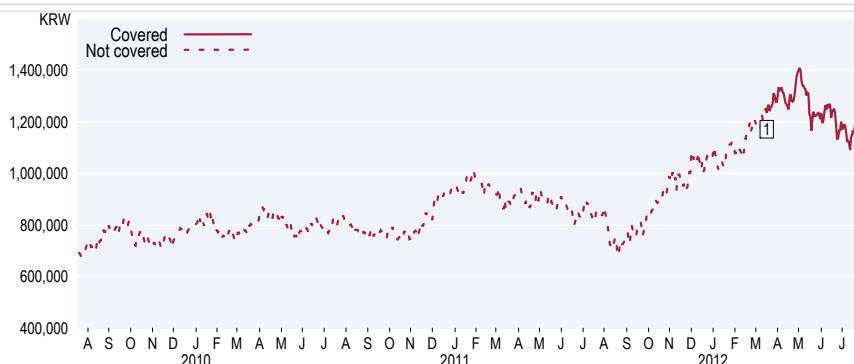
Date	Rating	Target Price	Closing Price
11 7-Dec-11	1	*1,400,000.00	1,056,000.00
12 16-Mar-12	1	*1,800,000.00	1,238,000.00
13 9-Apr-12	1	*1,900,000.00	1,317,000.00
14 25-Jun-12	1	*1,970,000.00	1,132,000.00

Rating/target price changes above reflect Eastern Standard Time

Samsung Electronics (005930.KS)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Henry H Kim, CFA



Date	Rating	Target Price	Closing Price
1 16-Mar-12	*ADD MP	-	1,238,000.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of LG Electronics, AU Optronics, HTC Corporation. This position reflects information available as of the prior business day.

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Samsung Electronics, Intel Corp, Philips Electronics NV.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Samsung Electronics, LG Display, AU Optronics, Panasonic, Sharp, Intel Corp, Micron Technology Inc, Nokia Oyj, Philips Electronics NV.

Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from LG Electronics, HTC Corporation.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Samsung Electronics, SK Hynix, Cheil Industries, Samsung SDI, Samsung Electro-Mechanics, Samsung Techwin, LG Display, LG Electronics, TSMC, AU Optronics, HTC Corporation, Chimei Innolux, Panasonic, Sharp, Intel Corp, Micron Technology Inc, Nokia Oyj, Philips Electronics NV in the past 12 months.

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