Samsung Electro-Mechanics

Entering MLCC price hike cycle; OW with PT of W2.4mn

Overweight

009150.KS, 009150 KS
Price (17 Sep 26):W1,343,000
Price Target (Dec-27):W2,400,000

We highlight more evidence of stronger business momentum from two of SEMCO's core operations: MLCC price hikes (towards direct customers) and tighter ABF supply-demand(server CPU driving demand upside). Despite F/X headwinds, we see SEMCO's earnings momentum trending stronger and revise up our FY27E-28E OP estimates by 24-29%. On the other hand, we keep our PT unchanged at W2.4mn, after rolling forward to Dec-27, to reflect a more realistic valuation approach (using 27x FY28E P/E, a 30% premium to the previous peak cycle vs the previous 35x). As price momentum materializes, we expect share price sentiment to continue improving (SEMCO stock recovered 50% from the YTD-low in July but is still down 34% in the last 3M vs. Kospi -24% and MLCC/ Substrate peers -45%/-5%). We recommend investors accumulate.

- **How much MLCC ASP upside can we expect in 2027E?** SEMCO has already raised MLCC ASP from channel customers twice this year, and we expect a direct customer MLCC ASP hike starting in 4Q26E (20-25% increase to customers with successful negotiation) with multiple potential hikes in 2027E onwards. The automotive MLCC ASP hike (usually a once-per-year negotiation and hike starting at the beginning of the year) could be similar. We also note that side-forming mix increase is driving product mix improvement. Additionally, Murata's (covered by Akinori Kanemoto) MLCC product end-of-life announcement (link) could set up a favorable 2028 supply-demand environment, similar to that of the 2017-18 cycle. Considering the overall S-D shortage situation, we think the magnitude of price hikes could be greater than in the past upcycle (we estimate a 140% increase in the next two years vs. 80% increase during 2017-19 cycle). Including side-forming specialty AI-server grade MLCC, as well as silicon capacitor operation, we estimate overall component solution OPM at 31% next year followed by 38% in FY28E, higher than the previous peak of 30% in 2018. This remains a key reason for our bullish OP projection over the next two years (102% CAGR and19-21% ahead of consensus in 27E-28E).
- **Exploring fair multiple: 25-30x EPS still an achievable range.** Based on our conversations with investors, many consider SEMCO's valuation more compelling after the share price reset (-40% from 2026 peak in June vs. Kospi -26%). Compared to the 2Q26 rally, which was largely driven by expectation, we see real evidence of EPS upward revisions on MLCC price hikes. Stronger MLCC demand is well explained by its greater valuation contribution in the AI H/W ecosystem from a power efficiency gain and performance upgrade standpoint. Datacenter customers are turning aggressive on securing high-performance MLCC for their AI server rack supply chain management and we sense a little price pushback relative to upstream semiconductors. As highlighted in our Asia Technology Strategy report (link), we believe MLCC/ Substrate could be one of the areas with continued price appreciation and EPS growth potential, and we note SEMCO's unique positioning to offer comprehensive solutions for all areas. We believe assigning a higher multiple vs. the past upcycle is warranted by a better return profile, strengthened technology and market share leadership, and we derive our Dec-27 PT W2.4mn based on 27x FY28E EPS (30% premium to previous cycle FTM P/E

Technology - Semiconductors

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Key Changes (FYE Dec)

	Prev	Cur	Δ
Adj. EPS - 27E (W)	41,174	48,910	18.8%

Quarterly Forecasts (FYE Dec)

Adj. EPS (W)

	2025A	2026E	2027E
Q1	1,776	3,212A	9,027
Q2	1,605	3,982A	10,967
Q3	2,836	5,958	12,915
Q4	2,837	6,902	16,001
FY	9,054	20,053	48,910

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	84	56	47	42	65
Growth	25	60	52	65	22
Momentum	3	15	67	56	78
Quality	71	46	34	33	14
Low Vol	90	32	27	31	30
ESGQ	6	97	98	13	12

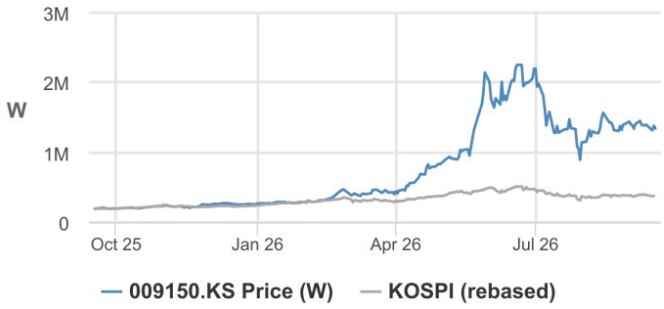
Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

See page 13 for analyst certification and important disclosures, including non-US analyst disclosures.

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Price Performance



	YTD	1m	3m	12m
Abs	425.6%	-14.3%	-33.6%	599.1%
Rel	366.2%	-10.6%	-9.4%	502.3%

Company Data

Shares O/S (mn)	78
52-week range (W)	2,417,000-188,600
Market cap ($ mn)	75,665
Exchange rate	1,376.41
Free float (%)	63.7%
3M ADV (mn)	1.53
3M ADV ($ mn)	1,727.4
Volatility (90 Day)	134
Index	KOSPI
BBG ANR (Buy | Hold | Sell)	30|0|0

Key Metrics (FYE Dec)

W in billions	FY25A	FY26E	FY27E	FY28E
Financial Estimates				
Revenue	11,314	14,256	20,324	27,616
Adj. EBIT	913	2,024	4,950	8,241
Adj. EBITDA	1,775	3,047	6,370	10,215
Adj. net income	702	1,555	3,793	6,315
Adj. EPS	9,054	20,053	48,910	81,433
BBG EPS	8,885	20,244	42,157	65,068
Cashflow from operations	1,394	1,805	3,341	6,974
FCFF	246	(581)	(1,529)	2,518
Margins and Growth				
Revenue Growth Y/Y (%)	9.9%	26.0%	42.6%	35.9%
EBIT margin	8.1%	14.2%	24.4%	29.8%
EBIT Growth Y/Y (%)	24.3%	121.6%	144.5%	66.5%
EBITDA margin	15.7%	21.4%	31.3%	37.0%
EBITDA Growth Y/Y (%)	18.5%	71.6%	109.1%	60.4%
Net margin	6.2%	10.9%	18.7%	22.9%
Adj. EPS growth	3.9%	121.5%	143.9%	66.5%
Ratios				
Adj. tax rate	18.3%	21.6%	21.0%	21.0%
Interest cover	449.1	103.0	167.6	182.1
Net debt/Equity	NM	NM	0.1	NM
Net debt/EBITDA	NM	NM	0.2	NM
ROE	8%	15%	29%	35%
Valuation				
FCFF yield	0.2%	-0.6%	-1.5%	2.4%
Dividend yield	0.2%	0.2%	0.2%	0.2%
EV/Revenue	9.4	7.5	5.3	3.9
EV/EBITDA	59.8	35.0	17.0	10.4
Adj. P/E	148.3	67.0	27.5	16.5

Summary Investment Thesis and Valuation

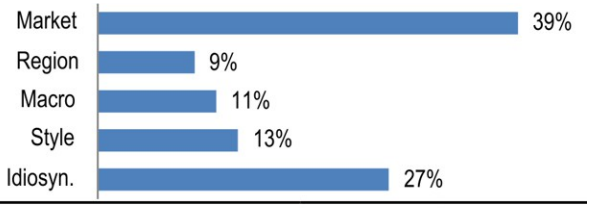
Investment Thesis

Our OW rating on SEMCO is based on: (1) MLCC product mix improvement toward Auto/Industrial, which should help generate higher margins in the mid- to long term; (2) an improving consumer (Mobile/PC) portion of MLCC demand after a year of de-stocking; and (3) business structure enhancement from substrate (more server) and camera modules (more automotive) to minimize cyclicality.

Valuation

Our Dec-27 PT of W2.4M is based on 27x FY28E EPS (30% premium to the previous cycle FTM P/E peak of 21x+) to reflect more evidence of MLCC price hikes, supply disruption (both MLCC and substrate) and a historically high ROE profile.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI Asia Pac ex JP	0.67	0.63
Region: Korea	0.51	0.40
Macro:		
Generic 1st 'CO' Future	0.46	0.43
JPM Global Equity Sentiment	-0.24	-0.21
US 10 Year Yield	-0.21	-0.18
Quant Styles:		
Size	0.65	0.57
Momentum	0.49	0.35
Growth	0.36	0.28

Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

peak of 21x+). SEMCO remains one of our preferred AI hardware picks in Korea.

- **Key catalysts and risks.** Confirmation of price hikes and improving S-D are relevant data points for SEMCO' business and share price outlook. Key catalysts are: 1) MLCC/ABF pricing negotiation updates with key customers (ad hoc, over next 1-3months); 2) AI-grade MLCC/ABF order allocation and specs roadmap update (3-6 months); 3) MLCC margin and capacity expansion plan update from competitors (every quarter); and 4) overall AI hardware ecosystem investment cycle update (frontier model labs' annual revenue run-rate, CSP capex/cloud revenue quarterly trend, and AI DC power capacity buildout trend update). Key risks are: a) slower AI hardware capex cycle unexpectedly impacting key component order trends and S-D (mid- to long-term); and b) F/X volatility (Won appreciation negatively impacting earnings, short-term).

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Estimate revisions

Table 1: SEMCO: Estimate revisions

Won in billions, year-end December

	Revised			Previous			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	**14,256**	**20,324**	**27,616**	**14,045**	**18,916**	**24,512**	**1.5**	**7.4**	**12.7**
Package Solutions	3,406	4,603	6,192	3,296	4,360	6,245	3.4	5.6	-0.8
Component Solutions	6,906	11,982	17,689	6,819	10,669	14,425	1.3	12.3	22.6
Module	3,944	3,739	3,735	3,931	3,887	3,843	0.3	-3.8	-2.8
EBIT	**2,024**	**4,950**	**8,241**	**1,817**	**3,982**	**6,376**	**11.4**	**24.3**	**29.2**
Package Solutions	568	1,146	1,586	509	1,081	1,605	11.7	6.0	-1.2
Component Solutions	1,328	3,688	6,537	1,184	2,781	4,651	12.1	32.6	40.6
Module	128	116	118	127	120	120	0.8	-2.6	-1.8
Operating Margin (%)	***14.2***	***24.4***	***29.8***	***12.9***	***21.0***	**26.0**	***1.3%p***	***3.3%p***	***3.8%p***
Package Solutions	*16.7*	*24.9*	*25.6*	*15.4*	*24.8*	*25.7*	*1.2%p*	*0.1%p*	*-0.1%p*
Component Solutions	*19.2*	*30.8*	*37.0*	*17.4*	*26.1*	*32.2*	*1.9%p*	*4.7%p*	*4.7%p*
Module	*3.2*	*3.1*	*3.2*	*3.2*	*3.1*	*3.1*	*0.0%p*	*0.0%p*	*0.0%p*
Net Profit	**1,555**	**3,793**	**6,315**	**1,518**	**3,193**	**5,050**	**2.5**	**18.8**	**25.0**
NP margin (%)	*10.9*	*18.7*	*22.9*	*10.8*	*16.9*	20.6	*0.1%p*	*1.8%p*	*2.3%p*

Source: J.P. Morgan estimates.

Table 2: SEMCO: J.P. Morgan vs. consensus estimates

Won in billions, year-end December

	JPM estimates				Market consensus				Difference			
	3Q26E	2026E	2027E	2028E	3Q26E	2026E	2027E	2028E	3Q26E	2026E	2027E	2028E
Sales	3,708	14,256	20,324	27,616	3,796	14,409	18,892	24,849	-2%	-1%	8%	11%
OP	604	2,024	4,950	8,241	597	1,976	4,097	6,910	1%	2%	21%	19%
NP	462	1,555	3,793	6,315	503	1,545	3,510	5,774	-8%	1%	8%	9%

Source: Bloomberg Finance L.P. and J.P. Morgan estimates.

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Table 3: SEMCO: Capex/sales and FCF comparison across cycles

W bn

	14-16	17-19	20-22	23-25	26E-28E
Capex					
Component	1,089	1,899	1,367	1,026	4,500
Module	621	760	137	191	300
Substrate	887	484	1,262	1,181	6,400
Others/R&D	486	368	372	388	500
Sum total	**3,084**	**3,512**	**3,139**	**2,786**	**11,700**
Mix					
Component	35%	54%	44%	37%	38%
Module	20%	22%	4%	7%	3%
Substrate	29%	14%	40%	42%	55%
Others/R&D	16%	10%	12%	14%	4%
Revenue					
Component	5,839	9,095	12,555	13,564	36,577
Module	8,007	9,589	8,935	10,901	11,418
Substrate	4,463	4,388	5,818	6,054	14,201
Others	0	0	0	0	0
Sum total	**18,310**	**23,072**	**27,308**	**30,518**	**62,196**
Capex-to-Sales					
Component	19%	21%	11%	8%	12%
Module	8%	8%	2%	2%	3%
Substrate	20%	11%	22%	20%	45%
Sum total	**17%**	**15%**	**11%**	**9%**	**19%**
OP					
Component	405	1,867	2,239	1,427	11,553
Module	157	356	426	353	362
Substrate	(182)	(167)	789	507	3,300
Sum total	**391**	**2,058**	**3,457**	**2,288**	**15,215**
OP Mix, %					
Component	104%	91%	65%	62%	76%
Module	40%	17%	12%	15%	2%
Substrate	-47%	-8%	23%	22%	22%
Sum total	100%	100%	100%	100%	100%
OPM, %					
Component	7%	21%	18%	11%	32%
Module	2%	4%	5%	3%	3%
Substrate	-4%	-4%	14%	8%	23%
Sum total	**2%**	**9%**	**13%**	**7%**	**24%**
ROE, %	**4%**	**9%**	**14%**	**7%**	**27%**
EBITDA margin, %	**12%**	**18%**	**22%**	**15%**	**32%**
FCF	**(1,079)**	**126**	**2,017**	**1,512**	**4,716**

Source: Company data, J.P. Morgan estimates.

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Table 4: SEMCO: Capex/sales trend

W bn

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Capex	**754**	**944**	**836**	**1,196**	**1,052**	**1,113**	**1,252**	**1,147**	**720**	**927**	**1,491**	**1,019**	**612**	**1,155**	**2,600**	**4,800**	**4,300**
Component	291	245	211	396	483	230	911	758	419	509	439	141	163	722	1,200	1,800	1,500
Module	133	187	278	289	54	416	124	220	70	27	41	48	28	116	100	100	100
Substrate	277	440	273	386	229	330	92	62	146	223	894	747	259	175	1,200	2,700	2,500
Others (incl. R&D)	53	73	75	125	287	137	125	107	86	169	118	84	162	142	100	200	200
Sales	**7,913**	**8,257**	**6,100**	**6,176**	**6,033**	**6,838**	**8,193**	**8,041**	**8,209**	**9,675**	**9,425**	**8,909**	**10,294**	**11,314**	**14,256**	**20,324**	**27,616**
Component	1,876	1,895	1,883	2,028	1,929	2,338	3,545	3,212	3,645	4,778	4,132	3,903	4,462	5,198	6,906	11,982	17,689
Module	3,941	4,498	2,588	2,631	2,788	3,054	3,176	3,358	2,802	2,929	3,204	3,289	3,797	3,814	3,944	3,739	3,735
Substrate	2,096	1,865	1,630	1,517	1,317	1,447	1,472	1,470	1,761	1,968	2,088	1,717	2,035	2,302	3,406	4,603	6,192
Others (incl. R&D)																	
Capex-to-Sales, %	10%	11%	14%	19%	17%	16%	15%	14%	9%	10%	16%	11%	6%	10%	18%	24%	16%
Component	15%	13%	11%	20%	25%	10%	26%	24%	11%	11%	11%	4%	4%	14%	17%	15%	8%
Module	3%	4%	11%	11%	2%	14%	4%	7%	2%	1%	1%	1%	1%	3%	3%	3%	3%
Substrate	13%	24%	17%	25%	17%	23%	6%	4%	8%	11%	43%	43%	13%	8%	35%	59%	40%
Others (incl. R&D)																	

Source: Company data, J.P. Morgan estimates.

Table 5: SEMCO: MLCC sales mix trends by application

Sales mix	2018	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
IT	61%	54%	55%	77%	66%	61%	59%	54%	46%	36%	29%
Auto	5%	9%	8%	8%	16%	21%	23%	26%	27%	23%	22%
Industrial	15%	20%	21%	16%	19%	18%	19%	20%	26%	41%	50%

Source: Company data, J.P. Morgan estimates.

Table 6: SEMCO: Packaging solution revenue breakdown OP/OPM

Wtrn, %

	2018	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Revenue	**1.5**	**1.5**	**1.8**	**2.0**	**2.1**	**1.7**	**2.0**	**2.3**	**3.4**	**4.6**	**6.2**
FC-CSP (BT)	0.5	0.7	0.8	1.1	1.3	0.9	1.1	1.1	1.2	1.3	1.3
FC-BGA (ABF)	0.2	0.3	0.4	0.6	0.8	0.8	0.9	1.2	2.2	3.3	4.9
Others	0.7	0.5	0.5	0.3	-	-	-	-	-	-	-
OP	**(0.1)**	**0.0**	**0.1**	**0.2**	**0.5**	**0.2**	**0.2**	**0.2**	**0.6**	**1.1**	**1.6**
OPM, %	-8%	3%	6%	11%	22%	11%	9%	7%	17%	25%	26%

Source: Company data, J.P. Morgan estimates.

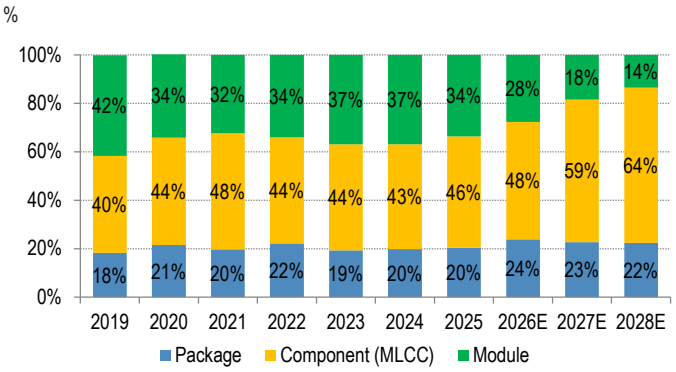
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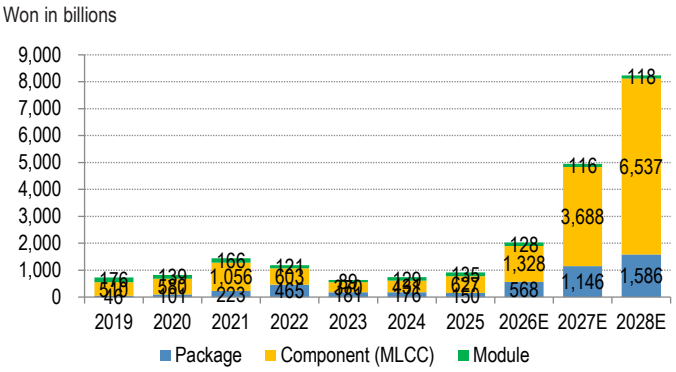
Key business and share price charts

Figure 1: SEMCO: Sales mix by division



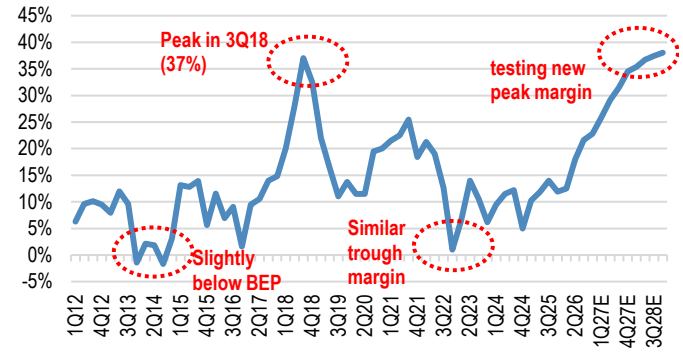
Source: Company data, J.P. Morgan estimates.

Figure 2: SEMCO: OP contribution by division



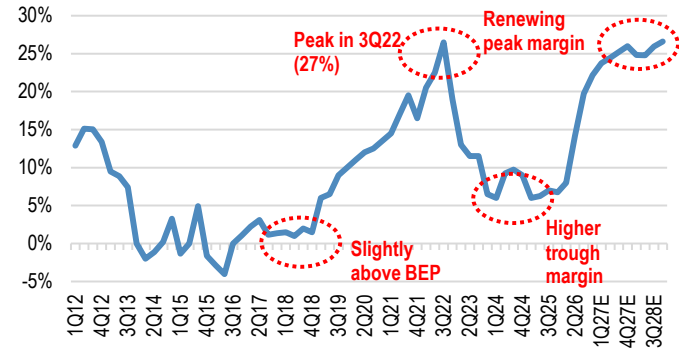
Source: Company data, J.P. Morgan estimates.

Figure 3: SEMCO: Component solution OPM trend



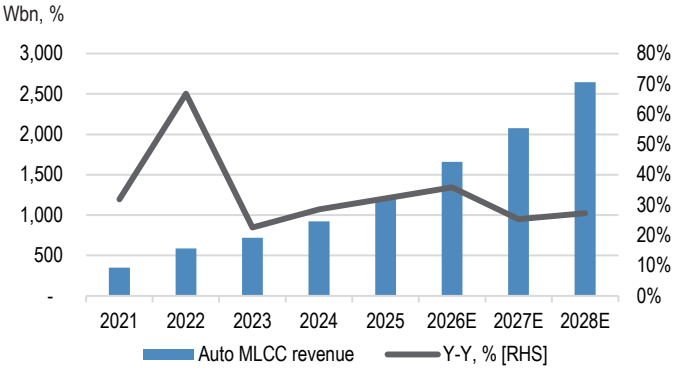
Source: Company data, J.P. Morgan estimates.

Figure 4: SEMCO: Package substrate OPM trend



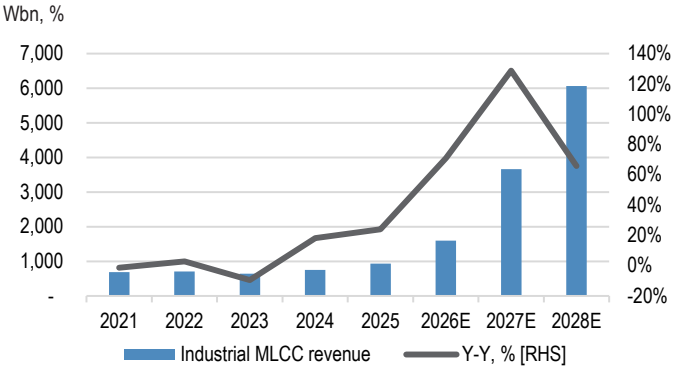
Source: Company data, J.P. Morgan estimates.

Figure 5: SEMCO: Auto MLCC sales and Y/Y % growth



Source: Company data, J.P. Morgan estimates.

Figure 6: SEMCO: Industrial MLCC sales and Y/Y % growth



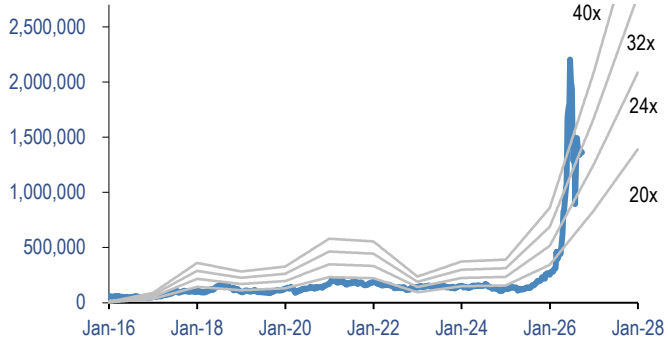
Source: Company data, J.P. Morgan estimates. Note: Industrial MLCC includes Datacenter-grade MLCC (AI/non-AI) and Networking/Equipment related grade MLCC.

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Figure 7: SEMCO – FTM P/E band

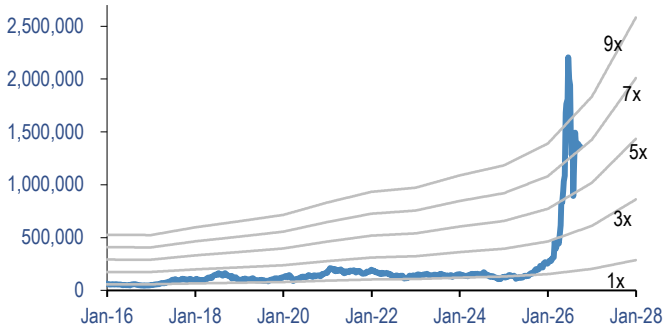
Share price (Won), Multiple (x)



Source: Bloomberg Finance L.P., J.P. Morgan estimates.

Figure 8: SEMCO – FTM P/B band

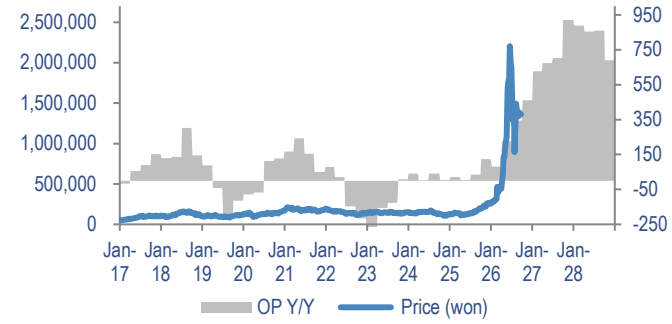
Share price (Won), Multiple (x)



Source: Bloomberg Finance L.P., J.P. Morgan estimates.

Figure 9: SEMCO: Share price vs. quarterly OP y/y trend

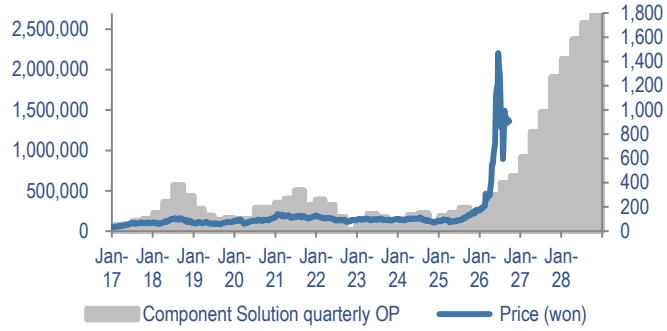
Won, Won in billions



Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates.

Figure 10: SEMCO: Share price vs. component solution quarterly OP

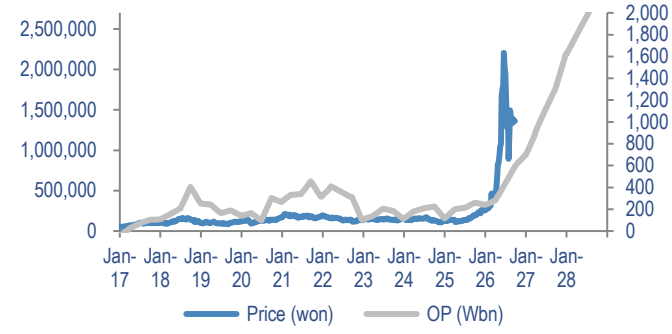
Won, Won in billions



Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates.

Figure 11: SEMCO: Share price vs. quarterly OP

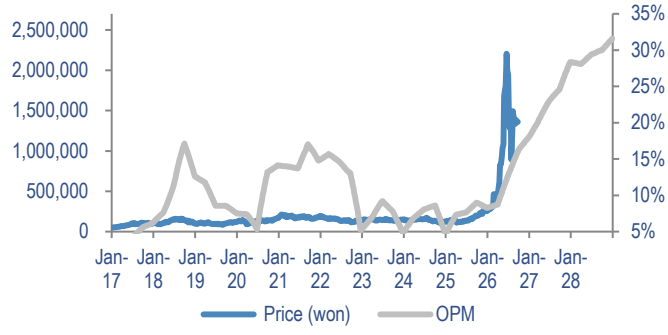
Won, Won in billions



Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates.

Figure 12: SEMCO: Share price vs. quarterly OPM

Won, OPM (%)

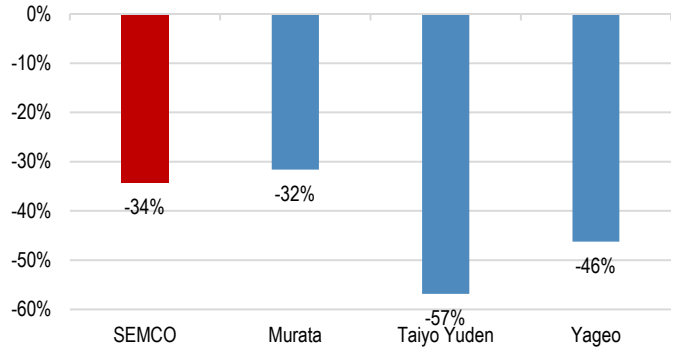


Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates.

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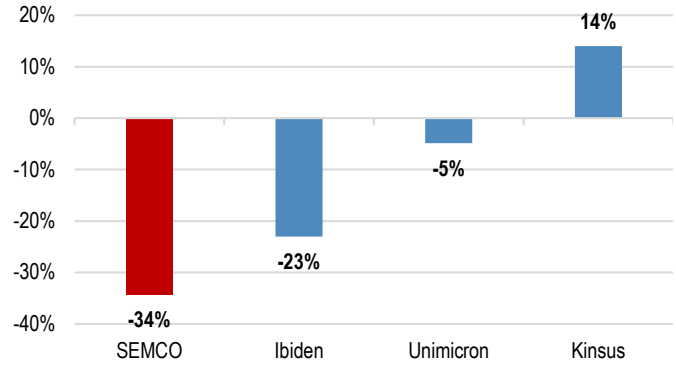
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Figure 13: Past 3M price performance: SEMCO vs. MLCC peers



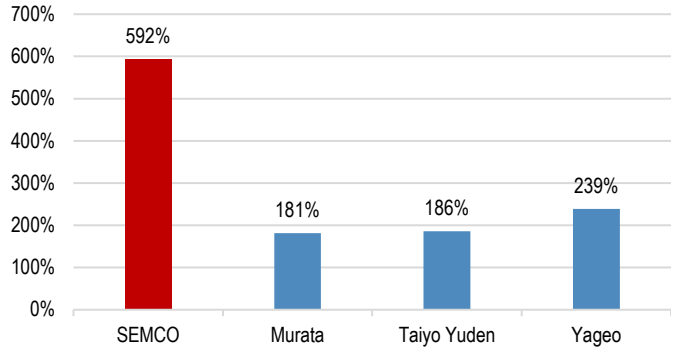
Source: Bloomberg Finance L.P.

Figure 14: Past 3M price performance: SEMCO vs. substrate peers



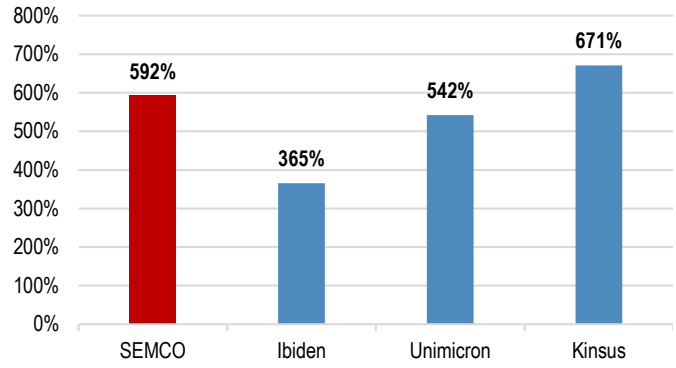
Source: Bloomberg Finance L.P.

Figure 15: Past 12M price performance: SEMCO vs. MLCC peers



Source: Bloomberg Finance L.P.

Figure 16: Past 12M price performance: SEMCO vs. substrate peers



Source: Bloomberg Finance L.P.

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Table 7: SEMCO: Earnings model

Won in billions, year-end December

	2025				2026E				2027E				2028E				2024	2025	2026E	2027E	2028E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE					
Revenue	**2,739**	**2,785**	**2,889**	**2,902**	**3,209**	**3,457**	**3,708**	**3,882**	**4,453**	**4,847**	**5,311**	**5,713**	**6,398**	**6,689**	**7,217**	**7,311**	**10,294**	**11,314**	**14,256**	**20,324**	**27,616**
Substrate	499	565	593	645	725	772	916	993	1,053	1,121	1,196	1,233	1,332	1,468	1,647	1,744	2,035	2,302	3,406	4,603	6,192
MLCC	1,216	1,281	1,381	1,320	1,409	1,649	1,846	2,002	2,372	2,813	3,121	3,676	4,020	4,313	4,583	4,773	4,462	5,198	6,906	11,982	17,689
Module	1,023	939	915	937	1,076	1,036	946	886	1,029	913	993	804	1,046	908	988	794	3,797	3,814	3,944	3,739	3,735
Others	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0
Dep. & Amor. Expenses	(204)	(212)	(220)	(227)	(223)	(237)	(276)	(288)	(314)	(340)	(371)	(409)	(453)	(500)	(540)	(578)	(764)	(862)	(1,024)	(1,435)	(2,071)
COGS	(2,230)	(2,219)	(2,289)	(2,300)	(2,549)	(2,613)	(2,662)	(2,719)	(3,010)	(3,151)	(3,368)	(3,408)	(3,834)	(3,919)	(4,187)	(4,125)	(8,335)	(9,037)	(10,542)	(12,937)	(16,065)
Gross Profit	**509**	**565**	**601**	**603**	**660**	**845**	**1,047**	**1,163**	**1,443**	**1,696**	**1,943**	**2,305**	**2,564**	**2,770**	**3,031**	**3,186**	**1,959**	**2,277**	**3,715**	**7,387**	**11,550**
Operating Expense	(308)	(352)	(340)	(363)	(380)	(404)	(443)	(463)	(535)	(581)	(636)	(684)	(767)	(802)	(865)	(876)	(1,224)	(1,364)	(1,690)	(2,437)	(3,310)
EBIT	**201**	**213**	**260**	**239**	**281**	**440**	**604**	**700**	**908**	**1,115**	**1,307**	**1,620**	**1,797**	**1,969**	**2,166**	**2,310**	**735**	**913**	**2,024**	**4,950**	**8,241**
Substrate	30	35	42	44	58	109	181	220	250	274	302	320	331	364	427	464	176	150	568	1,146	1,586
MLCC	125	152	193	157	176	297	399	456	614	820	983	1,270	1,422	1,583	1,717	1,816	431	627	1,328	3,688	6,537
Module	46	25	26	38	49	32	24	23	44	21	22	30	45	21	22	30	129	135	128	116	118
Others	(0)	1	(0)	1	(2)	3	0	0	0	0	0	0	0	0	0	0	(1)	1	0	0	0
Net Interest Income	(4)	(5)	(1)	7	(2)	(8)	(9)	(11)	(5)	(9)	(13)	(16)	(18)	(22)	(22)	(19)	(1)	(4)	(30)	(42)	(80)
Net Other Income	(23)	(36)	23	23	38	1	9	9	10	11	12	13	14	16	17	18	63	(14)	56	46	65
Pre Tax Profit	174	171	282	269	316	433	603	698	913	1,118	1,306	1,618	1,793	1,963	2,161	2,309	797	896	2,051	4,954	8,226
Tax	(32)	(34)	(57)	(41)	(64)	(105)	(127)	(147)	(192)	(235)	(274)	(340)	(376)	(412)	(454)	(485)	(132)	(164)	(442)	(1,040)	(1,727)
Net Profit	**138**	**124**	**220**	**220**	**249**	**309**	**462**	**535**	**700**	**850**	**1,001**	**1,239**	**1,374**	**1,497**	**1,656**	**1,769**	**676**	**702**	**1,555**	**3,790**	**6,296**
EPS (W)	**1,895**	**1,785**	**3,025**	**3,026**	**3,426**	**4,342**	**6,356**	**7,359**	**9,626**	**11,782**	**13,767**	**17,051**	**18,898**	**20,693**	**22,779**	**24,340**	**9,342**	**9,731**	**21,482**	**52,226**	**86,709**
Margins (%)																					
Gross Margin	19	20	21	21	21	24	28	30	32	35	37	40	40	41	42	44	19	20	26	36	42
Operating Margin	7	8	9	8	9	13	16	18	20	23	25	28	28	29	30	32	7	8	14	24	30
EBITDA Margin	15	15	17	16	16	20	24	25	27	30	32	36	35	37	37	39	15	16	21	31	37
Net Margin	5	4	8	8	8	9	12	14	16	18	19	22	21	22	23	24	7	6	11	19	23
Divisional Margin (%)																					
Substrate	6	6	7	7	8	14	20	22	24	24	25	26	25	25	26	27	9	7	17	25	26
MLCC	10	12	14	12	13	18	22	23	26	29	31	35	35	37	37	38	10	12	19	31	37
Module	5	3	3	4	5	3	3	3	4	2	2	4	4	2	2	4	3	4	3	3	3
Sequential Growth (%)																					
Revenue	10	2	4	0	11	8	7	5	15	9	10	8	12	5	8	1	16	10	26	43	36
Gross Profit	16	11	6	0	10	28	24	11	24	18	15	19	11	8	9	5	14	16	63	99	56
EBIT	74	6	22	(8)	17	57	37	16	30	23	17	24	11	10	10	7	15	24	122	145	66
Net Profit	(34)	(10)	77	0	13	24	50	16	31	21	18	24	11	9	11	7	59	4	121	144	66
EPS	(34)	(6)	70	0	13	27	46	16	31	22	17	24	11	9	10	7	58	4	121	143	66

Source: Company data, J.P. Morgan estimates.

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Investment Thesis, Valuation and Risks

Samsung Electro-Mechanics *(Overweight; Price Target: W2,400,000)*

Investment Thesis
Our OW rating on SEMCO is based on: (1) MLCC product mix improvement toward Auto/ Industrial, which should help generate higher margins in the mid- to long term; (2) an improving consumer (Mobile/PC) portion of MLCC demand after a year of de-stocking; and (3) business structure enhancement from substrate (more server) and camera modules (more automotive) to minimize cyclicality.

Valuation
Our Dec-27 PT of W2.4M is based on 27x FY28E EPS (30% premium to the previous cycle FTM P/E peak of 21x+) to reflect more evidence of MLCC price hikes, supply disruption (both MLCC and substrate) and a historically high ROE profile.

Risks to Rating and Price Target
Key downside risks include: (1) greater competition in Auto/IT MLCC, translating into ASP declines and margin deterioration; (2) slower-than-expected Vietnam substrate ramp progress; and (3) a weaker-than-expected IT MLCC and substrate order recovery from China.

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Samsung Electro-Mechanics: Summary of Financials

Income Statement	FY23A	FY24A	FY25A	FY26E	FY27E
Revenue	**8,909**	**10,294**	**11,314**	**14,256**	**20,324**
COGS	(6,423)	(7,571)	(8,175)	(9,519)	(11,517)
Gross profit	**1,721**	**1,959**	**2,277**	**3,715**	**7,387**
SG&A	(281)	(331)	(388)	(478)	(713)
Adj. EBITDA	**1,405**	**1,499**	**1,775**	**3,047**	**6,370**
D&A	(765)	(764)	(862)	(1,022)	(1,420)
Adj. EBIT	**639**	**735**	**913**	**2,024**	**4,950**
Net Interest	(15)	(1)	(4)	(30)	(38)
Adj. PBT	**543**	**797**	**896**	**2,051**	**4,958**
Tax	(85)	(132)	(164)	(442)	(1,041)
Minority Interest	(28)	14	(25)	(47)	(118)
Adj. Net Income	**425**	**676**	**702**	**1,555**	**3,793**
Reported EPS	5,477	8,713	9,054	20,053	48,910
Adj. EPS	**5,477**	**8,713**	**9,054**	**20,053**	**48,910**
DPS	**2,100**	**2,100**	**2,100**	**2,100**	**2,100**
Payout ratio	38.3%	24.1%	23.2%	10.5%	4.3%
Shares outstanding	78	78	78	78	78

Balance Sheet	FY23A	FY24A	FY25A	FY26E	FY27E
Cash and cash equivalents	1,669	2,013	2,701	3,105	1,332
Accounts receivable	1,235	1,484	1,855	2,589	3,811
Inventories	2,120	2,251	2,413	2,854	3,950
Other current assets	185	143	128	186	274
Current assets	**5,208**	**5,892**	**7,098**	**8,734**	**9,366**
PP&E	5,603	5,933	6,222	7,608	11,088
LT investments	695	822	1,124	1,133	1,133
Other non current assets	151	146	152	159	159
Total assets	**11,658**	**12,792**	**14,596**	**17,633**	**21,745**
Short term borrowings	1,305	1,558	2,003	2,792	2,792
Payables	1,283	1,157	1,412	1,736	2,145
Other short term liabilities	312	342	404	486	486
Current liabilities	**2,900**	**3,057**	**3,819**	**5,014**	**5,423**
Long-term debt	217	0	0	0	0
Other long term liabilities	511	720	979	1,062	1,062
Total liabilities	**3,628**	**3,777**	**4,799**	**6,076**	**6,485**
Shareholders' equity	7,848	8,789	9,542	11,228	14,813
Minority interests	183	227	256	329	447
Total liabilities & equity	**11,658**	**12,792**	**14,596**	**17,633**	**21,745**
BVPS	**98,845**	**110,417**	**119,749**	**140,540**	**185,263**
y/y Growth	*3.8%*	*11.7%*	*8.5%*	*17.4%*	*31.8%*
Net debt/(cash)	(148)	(455)	(698)	(313)	1,460

Cash Flow Statement	FY23A	FY24A	FY25A	FY26E	FY27E
Cash flow from operating activities	**1,051**	**993**	**1,394**	**1,805**	**3,341**
o/w Depreciation & amortization	765	764	862	1,022	1,420
o/w Changes in working capital	(173)	(436)	(201)	(827)	(1,996)
Cash flow from investing activities	**(1,106)**	**(1,215)**	**(1,460)**	**(2,424)**	**(4,900)**
o/w Capital expenditure	(1,133)	(1,094)	(1,151)	(2,409)	(4,900)
as % of sales	*12.7%*	*10.6%*	*10.2%*	*16.9%*	*24.1%*
Cash flow from financing activities	**47**	**566**	**754**	**1,023**	**(214)**
o/w Dividends paid	(159)	(87)	(136)	(179)	(214)
o/w Shares issued/(repurchased)	0	0	0	0	0
o/w Net debt issued/(repaid)	169	246	705	872	0
Net change in cash	**(8)**	**344**	**688**	**404**	**(1,773)**
Adj. Free cash flow to firm	**(70)**	**(100)**	**246**	**(581)**	**(1,529)**
y/y Growth	*-44.5%*	*42.2%*	*-346.1%*	*-335.9%*	*163.2%*

Ratio Analysis	FY23A	FY24A	FY25A	FY26E	FY27E
Gross margin	19.3%	19.0%	20.1%	26.1%	36.3%
EBITDA margin	15.8%	14.6%	15.7%	21.4%	31.3%
EBIT margin	7.2%	7.1%	8.1%	14.2%	24.4%
Net profit margin	4.8%	6.6%	6.2%	10.9%	18.7%
ROE	6%	8%	8%	15%	29%
ROA	3.7%	5.5%	5.1%	9.6%	19.3%
ROCE	5.9%	6.2%	6.8%	12.4%	24.7%
SG&A/Sales	3.2%	3.2%	3.4%	3.3%	3.5%
Net debt/Equity	NM	NM	NM	NM	0.1
Net debt/EBITDA	NM	NM	NM	NM	0.2
Sales/Assets (x)	0.8	0.8	0.8	0.9	1.0
Assets/Equity (x)	1.5	1.5	1.5	1.6	1.5
Interest cover (x)	96.2	2,190.5	449.1	103.0	167.6
Operating leverage	840.6%	96.2%	244.8%	467.8%	339.6%
Tax rate	15.6%	16.6%	18.3%	21.6%	21.0%
Revenue y/y Growth	-5.5%	15.5%	9.9%	26.0%	42.6%
EBITDA y/y Growth	-29.4%	6.7%	18.5%	71.6%	109.1%
EPS y/y Growth	-57.7%	59.1%	3.9%	121.5%	143.9%

Valuation	FY23A	FY24A	FY25A	FY26E	FY27E
P/E (x)	245.2	154.1	148.3	67.0	27.5
P/BV (x)	13.6	12.2	11.2	9.6	7.2
EV/EBITDA (x)	75.9	71.0	59.8	35.0	17.0
Dividend Yield	0.2%	0.2%	0.2%	0.2%	0.2%

Source: Company reports and J.P. Morgan estimates.
Note: W in billions (except per-share data).Fiscal year ends Dec. o/w - out of which