Samsung Electro-Mechanics

3Q beat; entering AI MLCC/ABF pricing and earnings upgrade cycle; raise PT/estimates and remain OW

Overweight

009150.KS, 009150 KS
Price (28 Oct 26):W1,309,000
▲**Price Target (Dec-27):W2,600,000**
Prior (Dec-27):W2,400,000

We came back with a positive impression of SEMCO's 3Q26 result beat with two notable points: stronger margin profile from core operations (MLCC/Substrate) and clear evidence of longer and higher AI-led component up-cycle. Following 9-23% FY26E-28E EPS upward revision, we raise our Dec-27 PT to W2.6mn using 25x FY28E EPS. We continue to view SEMCO's shares as risk-reward favorable and recommend investors accumulate.

- **Stronger MLCC pricing and margin, AI-led growth cycle drives Ax profit expansion in the next two years.** Management highlighted multiple key industry trends beyond tightening S-D cycles; rising power consumption in AI chips and doubling the number of dies in SiP translating into robust AI MLCC consumption (demand) and capacity loss and constraints from rising AI MLCC production (supply). Both factors provide a favorable pricing environment and we expect a 87%/38% USD-based blended ASP increase (four rounds of price hikes from 4Q26E to 4Q28E) in FY27E-28E supporting component solution OPM expanding to 36-43% in the next two years (vs. the previous cycle peak of 30% in 2018). It is worth noting that datacenter grade MLCC (incl. 1005-47uF) sales mix should be near mid-30% by year-end, which could grow to 40-50% within the next year.
- **Greater ABF order traction amidst favorable S-D, BT substrate margin also gradually improving.** Management conveyed healthy substrate S-D fundamentals (AI DC-led demand outstripping the supply increase across the industry) and reiterated its market-in-line growth outlook. It is worth noting that the substrate business OPM reached a low-20% (highest level since 3Q22) and we expect its margin profile to break out to historical high levels starting 2H27E. Material cost inflation passthrough is smoothly on track for both ABF and BT substrate (BT margin recovering to 8-10% OPM level after long-standing low-single % margin trend, in our estimates) and there appears to be additional price hike opportunity upon product mix improvement. We assume 30%/20% ASP hikes in the ABF business for FY27E-28E upon product mix improvement and like-for-like ASP hikes supporting OPM expansion above 30%. Lastly, SEMCO is witnessing strong order pickup in the embedded substrate (ABF substrate with silicon/ceramic capacitor) business, which could further improve its server computing product mix (near 60% of total ABF substrate sales at the moment), in our view.
- **EPS upgrades likely to continue in the next 3-6M supporting share price recovery.** Reflecting the 3Q26 beat, we make 13-23% OP upward revision (higher revision from substrate vs. MLCC) and maintain street high-end of estimates (JPMe 25-33% ahead of consensus EPS for FY27E-28E). On the valuation multiple side, we have applied a slightly more conservative valuation (25x FY28E EPS vs. previously 27x FY28E EPS) and our PT is revised up to W2.6mn (from previously W2.4mn). EPS upgrade remains the foremost important share price driver and we would like to note that both MLCC/ Substrate remain our preferred sub-sector for next year from a top-down tech strategy angle (both sub-sectors will meaningfully outgrow the AI capex spending increase of 60-70% y-y). Key risks are: i) unexpected AI capex

Technology - Semiconductors

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Key Changes (FYE Dec)

	Prev	Cur	Δ
Adj. EPS - 26E (W)	20,053	21,765	8.5%
Adj. EPS - 27E (W)	48,910	59,342	21.3%

Quarterly Forecasts (FYE Dec)

Adj. EPS (W)

	2025A	2026E	2027E
Q1	1,776	3,212A	11,143
Q2	1,605	3,982A	13,339
Q3	2,836	6,044A	15,764
Q4	2,837	8,528	19,097
FY	9,054	21,765	59,342

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	75	70	49	45	50
Growth	20	55	62	66	29
Momentum	2	3	30	70	66
Quality	57	56	49	31	19
Low Vol	91	56	31	30	21
ESGQ	8	90	98	14	11

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

See page 15 for analyst certification and important disclosures, including non-US analyst disclosures.

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Price Performance



	YTD	1m	3m	12m
Abs	412.3%	-12.7%	20.1%	463.0%
Rel	378.5%	5.5%	26.5%	422.4%

Company Data

Shares O/S (mn)	78
52-week range (W)	2,417,000-200,500
Market cap ($ mn)	76,479
Exchange rate	1,327.28
Free float (%)	63.7%
3M ADV (mn)	1.30
3M ADV ($ mn)	1,307.9
Volatility (90 Day)	113
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	14,400	21,681	29,276
Adj. EBIT	913	2,288	6,073	10,160
Adj. EBITDA	1,775	3,304	7,512	12,156
Adj. net income	702	1,688	4,602	7,751
Adj. EPS	9,054	21,765	59,342	99,952
BBG EPS	8,885	21,246	45,491	71,207
Cashflow from operations	1,394	2,320	4,181	8,512
FCFF	246	257	(677)	4,041
Margins and Growth				
Revenue Growth Y/Y (%)	9.9%	27.3%	50.6%	35.0%
EBIT margin	8.1%	15.9%	28.0%	34.7%
EBIT Growth Y/Y (%)	24.3%	150.5%	165.4%	67.3%
EBITDA margin	15.7%	22.9%	34.7%	41.5%
EBITDA Growth Y/Y (%)	18.5%	86.1%	127.4%	61.8%
Net margin	6.2%	11.7%	21.2%	26.5%
Adj. EPS growth	3.9%	140.4%	172.7%	68.4%
Ratios				
Adj. tax rate	18.3%	21.2%	20.4%	20.4%
Interest cover	449.1	105.5	144.6	324.1
Net debt/Equity	NM	NM	0.0	NM
Net debt/EBITDA	NM	NM	0.0	NM
ROE	8%	17%	35%	41%
Valuation				
FCFF yield	0.2%	0.3%	-0.7%	4.0%
Dividend yield	0.2%	0.2%	0.2%	0.2%
EV/Revenue	8.9	7.0	4.7	3.4
EV/EBITDA	56.9	30.6	13.6	8.1
Adj. P/E	144.6	60.1	22.1	13.1

Summary Investment Thesis and Valuation

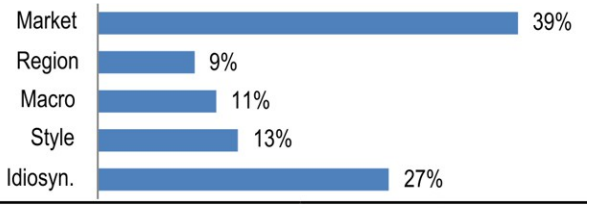
Investment Thesis

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 W2.6M is based on 25x FY28E P/E (vs. previously W2.4M at 27x) based on a ~20% premium to the previous cycle FTM P/E peak of 21x+ to reflect AI business transition, supply disruption and historical 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.

deceleration resulting in slower key component (MLCC/ABF substrate) build for AI chips and unfavorable pricing environment, ii) sharp KRW appreciation below W1,300/1USD, and iii) unexpected production yield challenges.

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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	**14,400**	**21,681**	**29,276**	**14,256**	**20,324**	**27,616**	**1.0**	**6.7**	**6.0**
Package Solutions	3,429	4,872	6,827	3,406	4,603	6,192	0.7	5.8	10.3
Component Solutions	7,149	13,055	18,744	6,906	11,982	17,689	3.5	9.0	6.0
Module	3,822	3,754	3,705	3,944	3,739	3,735	-3.1	0.4	-0.8
EBIT	**2,288**	**6,073**	**10,160**	**2,024**	**4,950**	**8,241**	**13.0**	**22.7**	**23.3**
Package Solutions	600	1,232	2,016	568	1,146	1,586	5.5	7.5	27.2
Component Solutions	1,553	4,720	8,022	1,328	3,688	6,537	16.9	28.0	22.7
Module	135	121	122	128	116	118	5.9	4.3	3.2
Operating Margin (%)	***15.9***	***28.0***	***34.7***	***14.2***	***24.4***	**29.8**	***1.7%p***	***3.7%p***	***4.9%p***
Package Solutions	*17.5*	*25.3*	*29.5*	*16.7*	*24.9*	*25.6*	*0.8%p*	*0.4%p*	*3.9%p*
Component Solutions	*21.7*	*36.2*	*42.8*	*19.2*	*30.8*	*37.0*	*2.5%p*	*5.4%p*	*5.8%p*
Module	*3.5*	*3.2*	*3.3*	*3.2*	*3.1*	*3.2*	*0.3%p*	*0.1%p*	*0.1%p*
Net Profit	**1,688**	**4,602**	**7,751**	**1,555**	**3,793**	**6,315**	**8.5**	**21.3**	**22.7**
NP margin (%)	*11.7*	*21.2*	*26.5*	*10.9*	*18.7*	22.9	*0.8%p*	*2.6%p*	*3.6%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			
	4Q26E	2026E	2027E	2028E	4Q26E	2026E	2027E	2028E	4Q26E	2026E	2027E	2028E
Sales	3,970	14,400	21,681	29,276	4,019	14,502	19,477	26,040	-1%	-1%	11%	12%
OP	876	2,288	6,073	10,160	761	2,142	4,772	7,678	15%	7%	27%	32%
NP	661	1,688	4,602	7,751	571	1,673	3,686	5,849	16%	1%	25%	33%

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	38,947
Module	8,007	9,589	8,935	10,901	11,281
Substrate	4,463	4,388	5,818	6,054	15,128
Others	0	0	0	0	0
Sum total	**18,310**	**23,072**	**27,308**	**30,518**	**65,356**
Capex-to-Sales					
Component	19%	21%	11%	8%	12%
Module	8%	8%	2%	2%	3%
Substrate	20%	11%	22%	20%	42%
Sum total	**17%**	**15%**	**11%**	**9%**	**18%**
OP					
Component	405	1,867	2,239	1,427	14,294
Module	157	356	426	353	378
Substrate	(182)	(167)	789	507	3,848
Sum total	**391**	**2,058**	**3,457**	**2,288**	**18,521**
OP Mix, %					
Component	104%	91%	65%	62%	77%
Module	40%	17%	12%	15%	2%
Substrate	-47%	-8%	23%	22%	21%
Sum total	100%	100%	100%	100%	100%
OPM, %					
Component	7%	21%	18%	11%	37%
Module	2%	4%	5%	3%	3%
Substrate	-4%	-4%	14%	8%	25%
Sum total	**2%**	**9%**	**13%**	**7%**	**28%**
ROE, %	**4%**	**9%**	**14%**	**7%**	**31%**
EBITDA margin, %	**12%**	**18%**	**22%**	**15%**	**35%**
FCF	**(1,079)**	**126**	**2,017**	**1,512**	**7,526**

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**	**14,400**	**21,681**	**29,276**
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	7,149	13,055	18,744
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	3,822	3,754	3,705
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	3,429	4,872	6,827
Others (incl. R&D)																	
Capex-to-Sales, %	10%	11%	14%	19%	17%	16%	15%	14%	9%	10%	16%	11%	6%	10%	18%	22%	15%
Component	15%	13%	11%	20%	25%	10%	26%	24%	11%	11%	11%	4%	4%	14%	17%	14%	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%	55%	37%
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%	24%	23%	22%
Industrial	15%	20%	21%	16%	19%	18%	19%	20%	30%	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**	**4.9**	**6.8**
FC-CSP (BT)	0.5	0.7	0.8	1.1	1.3	0.9	1.1	1.1	1.3	1.3	1.4
FC-BGA (ABF)	0.2	0.3	0.4	0.6	0.8	0.8	0.9	1.2	2.2	3.5	5.4
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**	**1.2**	**2.0**
OPM, %	-8%	3%	6%	11%	22%	11%	9%	7%	17%	25%	30%

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

Table 7: SEMCO 3Q26 earnings review

Wbn, %

	3Q25	2Q26	3Q26 Actual	3Q26 JPMe	*Diff (%)*	*Q/Q (%)*	*Y/Y (%)*	Consensus	Diff (%)
Revenue	**2,889**	**3,457**	**3,763**	**3,708**	***1.5***	***8.9***	***30.3***	**3,814**	*(1.3)*
Package Solutions	593	772	939	916	*2.5*	*21.7*	*58.3*		
Component Solutions	1,381	1,649	1,883	1,846	*2.0*	*14.2*	*36.3*		
Module	915	1,036	941	946	*-0.5*	*-9.2*	*2.9*		
Operating profit	**260**	**440**	**691**	**604**	***14.5***	***56.9***	***165.5***	**660**	*4.7*
OP margin (%)	*9.0*	*12.7*	*18.4*	*16.3*				*17.3*	
Net profit	**220**	**309**	**469**	**462**	***1.4***	***51.8***	***113.1***	**496**	*-5.6*
NP margin (%)	*7.6*	*8.9*	*12.5*	*12.5*				*13.0*	

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

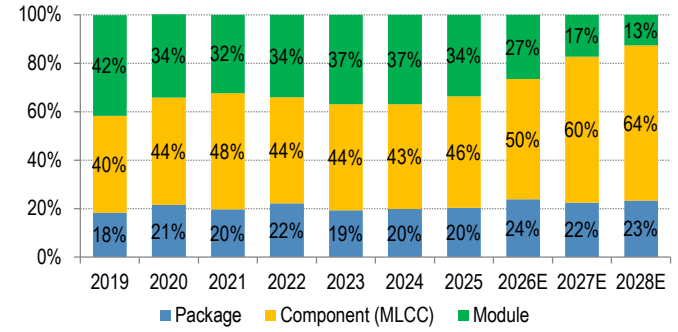
Key business and share price charts

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Figure 1: SEMCO: Sales mix by division

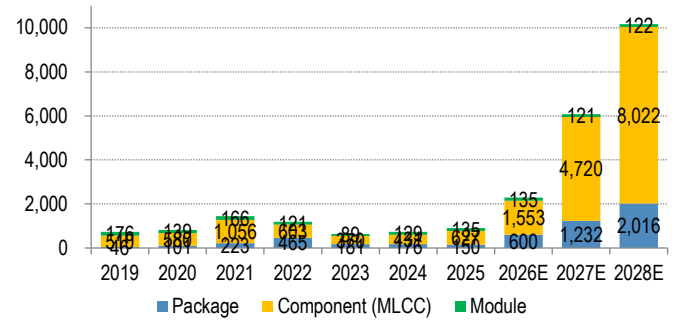
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Source: Company data, J.P. Morgan estimates.

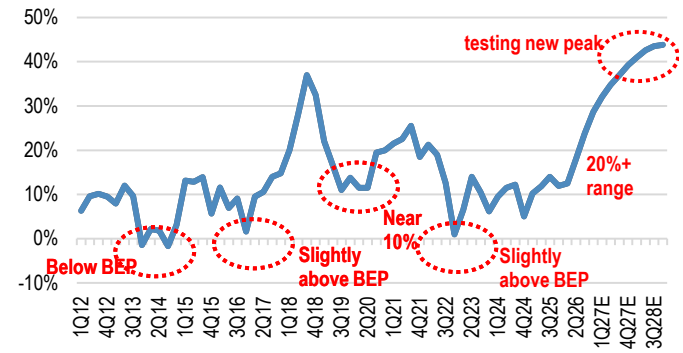
Figure 2: SEMCO: OP contribution by division

Won in billions



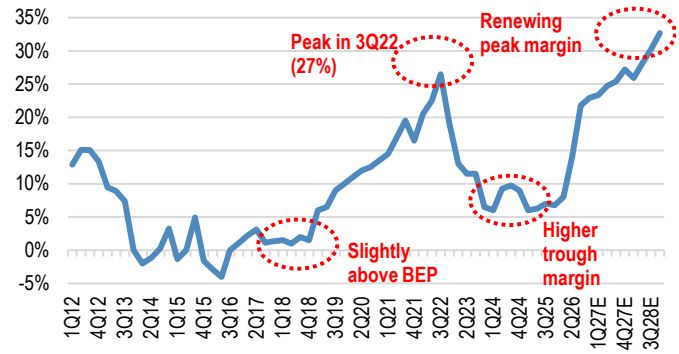
Source: Company data, J.P. Morgan estimates.

Figure 3: SEMCO: Component solution OPM trend



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

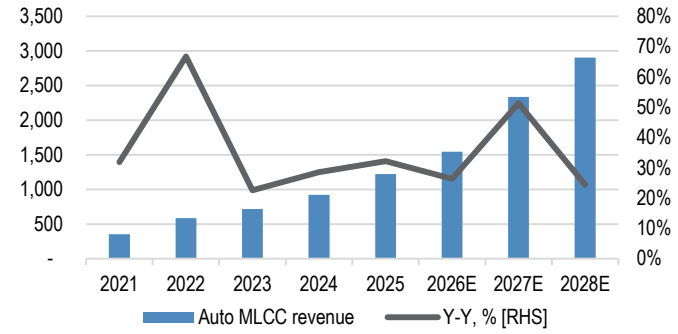
Figure 4: SEMCO: Package substrate OPM trend



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

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

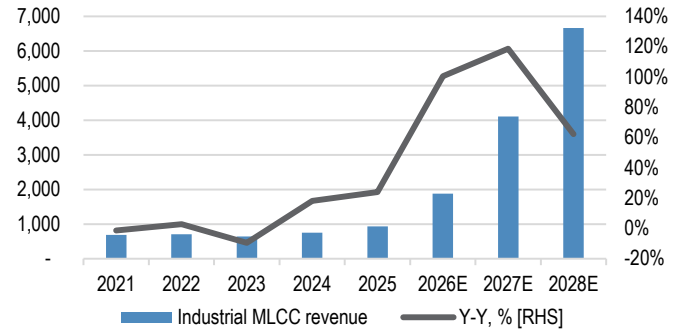
Wbn, %



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

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

Wbn, %



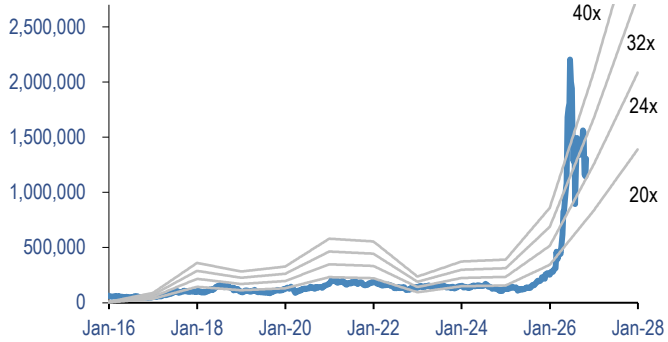
Source: Company data, J.P. Morgan estimates. Note: Industrial MLCC includes Datacenter-grade MLCC (AI/non-AI) and Networking/Equipment related grade MLCC.

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Figure 7: SEMCO – FTM P/E band

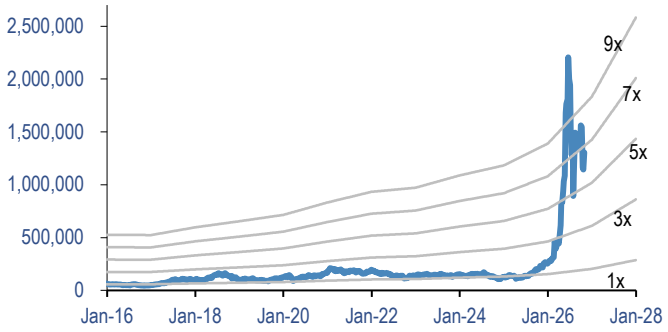
Share price (Won), Multiple (x)



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

Figure 8: SEMCO – FTM P/B band

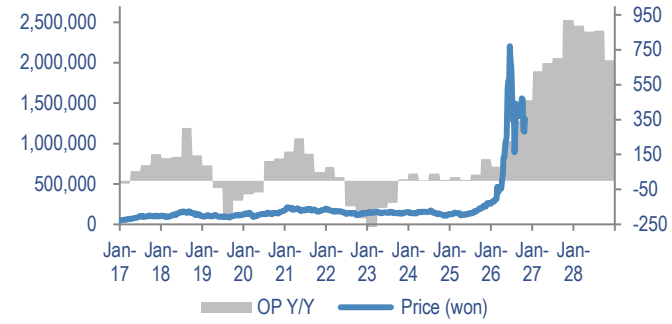
Share price (Won), Multiple (x)



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

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

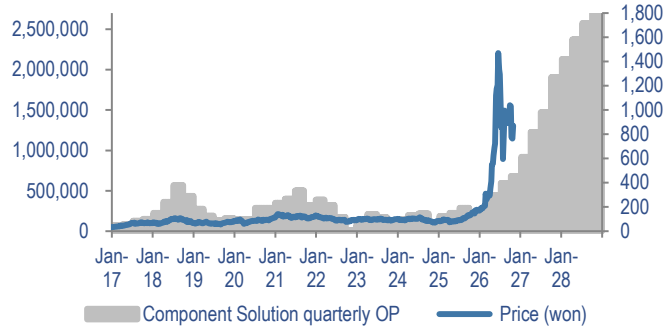
Won, Won in billions



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

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

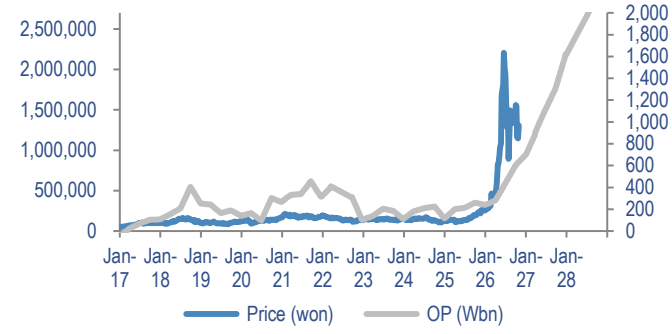
Won, Won in billions



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

Figure 11: SEMCO: Share price vs. quarterly OP

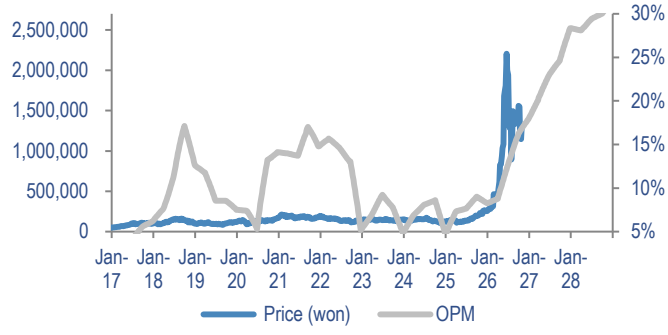
Won, Won in billions



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

Figure 12: SEMCO: Share price vs. quarterly OPM

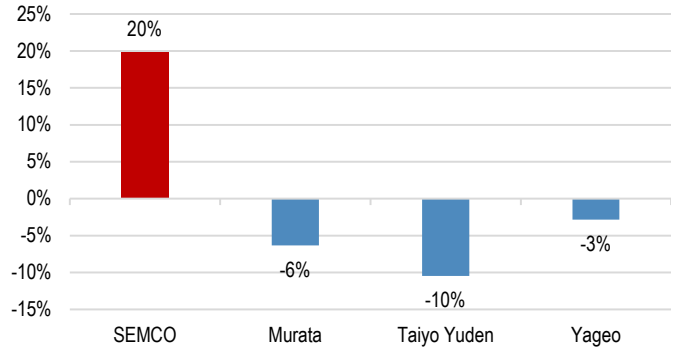
Won, OPM (%)



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

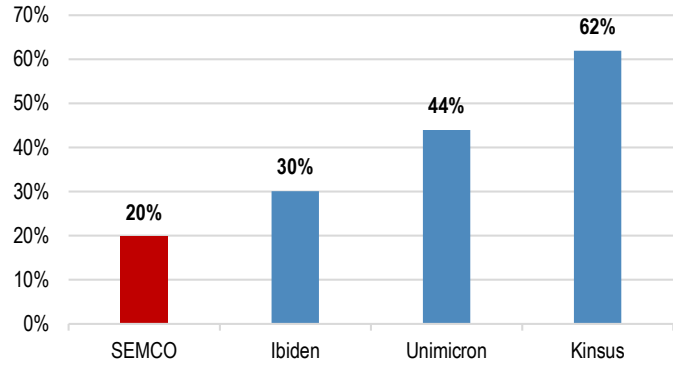
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Figure 13: Past 3M price performance: SEMCO vs. MLCC peers



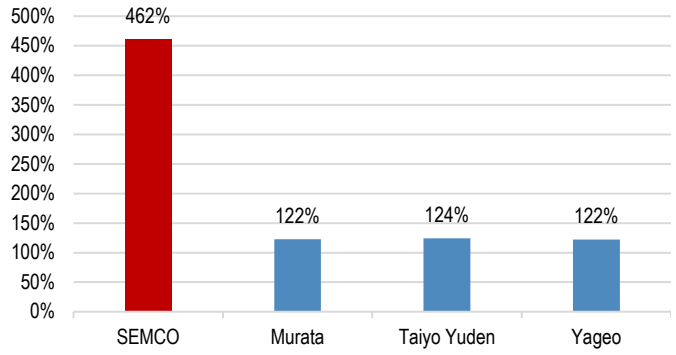
Source: Bloomberg Finance L.P.

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



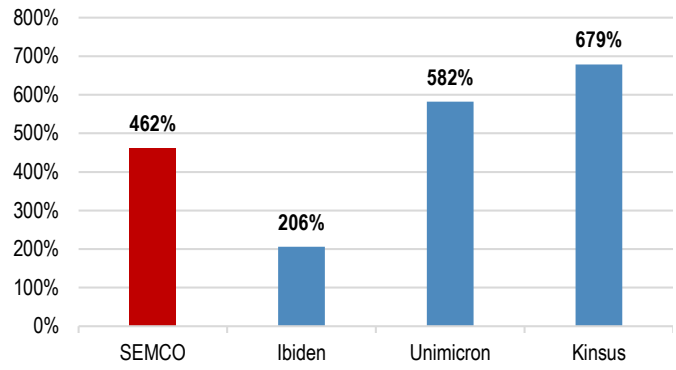
Source: Bloomberg Finance L.P.

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.

3Q26 earnings call recap

Q. [MLCC] LTA progress? Future LTAs?
We continued signing LTAs with key accounts in 3Q, especially for 1005 47uF and 1608 100uF (cutting-edge MLCC used in DC). We have signed or are signing LTAs with about 50 customers for high-end MLCC in tight supply, and expect more than 50% of MLCC sales to come from LTAs. This secures customers early and lets us plan production and prepare next-gen projects smoothly, boosting mid- to long-term growth.

Q. [MLCC] 3Q shipments / inventory / ASP and 4Q guidance?
Revenue and shipments increased across all applications (industrial/IT/automotive), driven by DC-related AI accelerators and power infrastructure, the launch of new customers, and continued xEV and ADAS upgrades. Shipments increased and overall inventory decreased. Blended ASP rose by double digits Q/Q on a higher share of high-end applications such as industrial/auto, increased supply of 1005 uF for AI, and higher sales of ultra-high-capacitance 0603 10uF and 1608 100uF, improving the product mix.

4Q is usually slow due to inventory adjustments and seasonality. This year, we expect demand to keep growing in 4Q, supported by cutting-edge MLCC demand including DC. A higher share of high-end products combined with ASP growth should drive a significant revenue increase in 4Q.

Q. [PKG] W6.8T investment plan in Sejong/Vietnam: scale and schedule of mass production, and expected revenue upside from new capacity?
Larger, higher-layer package substrate applications have intensified capacity consumption, and only a few companies have the technology to supply them. Customers now see packaging substrates as a strategic component and want a resilient, long-term supply. SEMCO has steadily increased its AI DC share and market presence. Recognizing our technical expertise and supply capability, key big tech companies signed LTAs with SEMCO to expand FCBGA capacity in Sejong/Busan and Vietnam.

The project targets AI DC applications, with mass production starting in stages from 2027 and meaningful revenue contribution from 2028. The new capacity will drive meaningful earnings. Even this large-scale expansion won't be enough to meet customer demand, and we continue to receive orders. We will carefully size and time further investment.

Q. [MLCC] Given strong AI MLCC demand, update on line operations and capacity expansion?
AI-related MLCC demand remains strong, and key AI server customers are signing LTAs. We are investing pre-emptively to capture AI DC demand and continue to increase capacity vs. last year. The new plant under construction is scheduled to begin production next year, focusing on cutting-edge high-end MLCC. The Philippines plant leverages autonomous robots for next-level competitiveness. Cutting-edge MLCC requires not only advanced technology but also supply know-how, and capacity expansion takes a long time, so we expect supply to remain tight for the time being.

Q. [Camera module] The importance of camera modules has been increasing. How much growth do you expect going forward?
EV demand has been increasing with upgrades, autonomous driving, and wider adoption of services like robotaxis. We have been strengthening our high-tech platform and leadership in autonomous driving by winning design-ins from key customers. Robotics is a growing sector: we began mass production of humanoid camera modules for a global customer in 3Q and are developing new products, including sensing, for the next model. Robotics requires specialized technology depending on use case and environment. We are collaborating with top-tier companies on next-gen technology, including integrated modules, to claim first-mover advantage and solidify our leadership.

Q. [PKG] SEMCO is differentiated in supplying both substrates and passives, used together in embedded substrates. Current supply status and expected expansion of this business?
Embedded substrates place passive components inside the substrate, shortening the power supply path for better power efficiency and shortening the signal path between component and chip for better high-speed signal quality. This has emerged as a core solution for high-end chips, and the market is growing. SEMCO is the only company that supplies both passives and embedded FCBGA, a key differentiator. We are supplying industry-leading embedded substrates to key big tech companies and plan to expand further in 2027. High-spec embedded substrates will embed not only passives but also active components. We are increasing collaboration to develop this new product and maintain our leading position.

Q. [Capex] With strong AI demand continuing, do you expect capex to rise further? Including the W6.8T plan announced in September, what is updated

capex for this year?
This year we are executing an active capacity expansion and a supplementary investment program to capture explosive demand for AI core components, including high-capacitance, high-voltage, and high-temperature MLCC and high-end FCBGA for XPU/network. Our active investment program also covers silicon capacitors (W1.5T supply contract received last May) and glass substrates, targeting full operation in 2028. We are collaborating with customers on new capacity to meet AI DC-related MLCC and FCBGA demand. Given the upfront investment in land and infrastructure, capex is expected to exceed the original plan. We will continue to invest in line with customer demand and market conditions, not only in high-growth areas but also in areas that secure future growth.

Q. [Guidance] 4Q26 and 2027 guidance? Earnings were strong despite unfavorable FX.
In 3Q, despite the FX impact, strong AI DC component growth and ADAS growth drove a record quarter. In 4Q, the supply shortage will deepen vs. 3Q as big tech customers add infrastructure, raising the bar for component procurement and specifications. We plan to actively supply high-end MLCC for AI server CPUs, optical modules, and converters, and continue signing LTAs with global big tech customers, including hyperscalers and semiconductor companies. We will focus on strategic operations and pricing in line with tight supply to continue MLCC growth.

For FCBGA, we plan to actively expand supply of new high-end products such as embedded substrates for multi-core CPUs and reflect pricing to maintain topline momentum. 4Q is expected to deliver exceptional Q/Q growth, with volume growth combined with higher ASPs in both MLCC and FCBGA.

The momentum we see in 4Q will continue into next year. Tight MLCC/FCBGA supply will persist, with high-end product demand continuing and ASPs trending upward. For MLCC, we will strengthen market dominance by developing new high-capacitance products for new applications and raising the share of ultra-high-capacitance, high-voltage, and high-end MLCC for EV/ADAS. We will leverage LTAs and market-sensitive pricing, and grow silicon capacitor revenue and profitability by adding new applications and customers. For package substrates, we will increase penetration of new high-end substrates, such as embedded substrates for AI accelerators, across our big tech base.Capacity expansion for mid- to long-term growth will be executed as planned to build our foundation. 2027 is expected to be a record-setting year with significant growth.

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Figure 17: SEMCO: Earnings model

Wbn, year-end December

	2025				2026E				2027E				2028E				2024	2025	2026E	2027E	2028E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE					
Revenue	**2,739**	**2,785**	**2,889**	**2,902**	**3,209**	**3,457**	**3,763**	**3,970**	**4,760**	**5,113**	**5,679**	**6,128**	**6,770**	**7,038**	**7,636**	**7,832**	**10,294**	**11,314**	**14,400**	**21,681**	**29,276**
Substrate	499	565	593	645	725	772	939	993	1,063	1,133	1,295	1,381	1,441	1,580	1,821	1,986	2,035	2,302	3,429	4,872	6,827
MLCC	1,216	1,281	1,381	1,320	1,409	1,649	1,883	2,208	2,637	3,078	3,404	3,936	4,266	4,572	4,851	5,054	4,462	5,198	7,149	13,055	18,744
Module	1,023	939	915	937	1,076	1,036	941	769	1,059	902	981	812	1,063	886	964	792	3,797	3,814	3,822	3,754	3,705
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)	(265)	(292)	(316)	(342)	(371)	(409)	(443)	(483)	(517)	(553)	(764)	(862)	(1,016)	(1,439)	(1,996)
COGS	(2,230)	(2,219)	(2,289)	(2,300)	(2,549)	(2,613)	(2,695)	(2,665)	(3,105)	(3,192)	(3,466)	(3,521)	(3,877)	(3,872)	(4,131)	(4,102)	(8,335)	(9,037)	(10,522)	(13,284)	(15,983)
Gross Profit	**509**	**565**	**601**	**603**	**660**	**845**	**1,068**	**1,305**	**1,655**	**1,921**	**2,213**	**2,607**	**2,893**	**3,166**	**3,504**	**3,730**	**1,959**	**2,277**	**3,878**	**8,396**	**13,293**
Operating Expense	(308)	(352)	(340)	(363)	(380)	(404)	(377)	(429)	(516)	(548)	(602)	(658)	(726)	(753)	(816)	(839)	(1,224)	(1,364)	(1,590)	(2,323)	(3,133)
EBIT	**201**	**213**	**260**	**239**	**281**	**440**	**691**	**876**	**1,139**	**1,373**	**1,612**	**1,949**	**2,167**	**2,414**	**2,688**	**2,891**	**735**	**913**	**2,288**	**6,073**	**10,160**
Substrate	30	35	42	44	58	109	205	228	248	280	329	376	373	444	550	649	176	150	600	1,232	2,016
MLCC	125	152	193	157	176	297	448	632	846	1,070	1,258	1,546	1,748	1,946	2,113	2,215	431	627	1,553	4,720	8,022
Module	46	25	26	38	49	32	38	16	45	24	25	27	46	24	25	27	129	135	135	121	122
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)	(12)	(10)	(10)	(12)	(15)	(16)	(16)	(13)	(8)	(1)	(1)	(4)	(31)	(52)	(38)
Net Other Income	(23)	(36)	23	23	38	1	(69)	(9)	(10)	(12)	(13)	(14)	(15)	(17)	(18)	(19)	63	(14)	(40)	(49)	(69)
Pre Tax Profit	174	171	282	269	316	433	610	857	1,120	1,349	1,584	1,919	2,136	2,384	2,663	2,871	797	896	2,216	5,973	10,054
Tax	(32)	(34)	(57)	(41)	(64)	(105)	(125)	(175)	(229)	(276)	(324)	(392)	(437)	(487)	(545)	(587)	(132)	(164)	(469)	(1,221)	(2,056)
Net Profit	**138**	**124**	**220**	**220**	**249**	**309**	**469**	**661**	**864**	**1,034**	**1,222**	**1,481**	**1,648**	**1,833**	**2,055**	**2,216**	**676**	**702**	**1,688**	**4,602**	**7,751**
EPS (W)	**1,895**	**1,785**	**3,025**	**3,026**	**3,426**	**4,342**	**6,447**	**9,097**	**11,887**	**14,323**	**16,816**	**20,372**	**22,670**	**25,304**	**28,268**	**30,477**	**9,342**	**9,731**	**23,312**	**63,398**	**106,719**
Margins (%)																					
Gross Margin	19	20	21	21	21	24	28	33	35	38	39	43	43	45	46	48	19	20	27	39	45
Operating Margin	7	8	9	8	9	13	18	22	24	27	28	32	32	34	35	37	7	8	16	28	35
EBITDA Margin	15	15	17	16	16	20	25	29	31	34	35	38	39	41	42	44	15	16	23	35	42
Net Margin	5	4	8	8	8	9	12	17	18	20	22	24	24	26	27	28	7	6	12	21	26
Divisional Margin (%)																					
Substrate	6	6	7	7	8	14	22	23	23	25	25	27	26	28	30	33	9	7	17	25	30
MLCC	10	12	14	12	13	18	24	29	32	35	37	39	41	43	44	44	10	12	22	36	43
Module	5	3	3	4	5	3	4	2	4	3	3	3	4	3	3	3	3	4	4	3	3
Sequential Growth (%)																					
Revenue	10	2	4	0	11	8	9	5	20	7	11	8	10	4	8	3	16	10	27	51	35
Gross Profit	16	11	6	0	10	28	26	22	27	16	15	18	11	9	11	6	14	16	70	117	58
EBIT	74	6	22	(8)	17	57	57	27	30	21	17	21	11	11	11	8	15	24	151	165	67
Net Profit	(34)	(10)	77	0	13	24	52	41	31	20	18	21	11	11	12	8	59	4	140	173	68
EPS	(34)	(6)	70	0	13	27	48	41	31	20	17	21	11	12	12	8	58	4	140	172	68

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

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Investment Thesis, Valuation and Risks

Samsung Electro-Mechanics *(Overweight; Price Target: W2,600,000)*

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 W2.6M is based on 25x FY28E P/E (vs. previously W2.4M at 27x) based on a ~20% premium to the previous cycle FTM P/E peak of 21x+ to reflect AI business transition, supply disruption and historical 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**	**14,400**	**21,681**
COGS	(6,423)	(7,571)	(8,175)	(9,506)	(11,845)
Gross profit	**1,721**	**1,959**	**2,277**	**3,878**	**8,396**
SG&A	(281)	(331)	(388)	(417)	(576)
Adj. EBITDA	**1,405**	**1,499**	**1,775**	**3,304**	**7,512**
D&A	(765)	(764)	(862)	(1,016)	(1,439)
Adj. EBIT	**639**	**735**	**913**	**2,288**	**6,073**
Net Interest	(15)	(1)	(4)	(31)	(52)
Adj. PBT	**543**	**797**	**896**	**2,216**	**5,973**
Tax	(85)	(132)	(164)	(469)	(1,221)
Minority Interest	(28)	14	(25)	(53)	(143)
Adj. Net Income	**425**	**676**	**702**	**1,688**	**4,602**
Reported EPS	5,477	8,713	9,054	21,765	59,342
Adj. EPS	**5,477**	**8,713**	**9,054**	**21,765**	**59,342**
DPS	**2,100**	**2,100**	**2,100**	**2,100**	**2,100**
Payout ratio	38.3%	24.1%	23.2%	9.6%	3.5%
Shares outstanding	78	78	78	78	78

Balance Sheet	FY23A	FY24A	FY25A	FY26E	FY27E
Cash and cash equivalents	1,669	2,013	2,701	4,120	3,187
Accounts receivable	1,235	1,484	1,855	2,361	3,644
Inventories	2,120	2,251	2,413	2,500	3,591
Other current assets	185	143	128	280	432
Current assets	**5,208**	**5,892**	**7,098**	**9,261**	**10,854**
PP&E	5,603	5,933	6,222	7,293	10,754
LT investments	695	822	1,124	990	990
Other non current assets	151	146	152	159	159
Total assets	**11,658**	**12,792**	**14,596**	**17,702**	**22,756**
Short term borrowings	1,305	1,558	2,003	3,143	3,143
Payables	1,283	1,157	1,412	1,659	2,176
Other short term liabilities	312	342	404	457	457
Current liabilities	**2,900**	**3,057**	**3,819**	**5,259**	**5,776**
Long-term debt	217	0	0	200	200
Other long term liabilities	511	720	979	1,062	1,062
Total liabilities	**3,628**	**3,777**	**4,799**	**6,522**	**7,039**
Shareholders' equity	7,848	8,789	9,542	10,845	15,240
Minority interests	183	227	256	335	478
Total liabilities & equity	**11,658**	**12,792**	**14,596**	**17,702**	**22,756**
BVPS	**98,845**	**110,417**	**119,749**	**135,526**	**190,359**
y/y Growth	*3.8%*	*11.7%*	*8.5%*	*13.2%*	*40.5%*
Net debt/(cash)	(148)	(455)	(698)	(777)	156

Cash Flow Statement	FY23A	FY24A	FY25A	FY26E	FY27E
Cash flow from operating activities	**1,051**	**993**	**1,394**	**2,320**	**4,181**
o/w Depreciation & amortization	765	764	862	1,016	1,439
o/w Changes in working capital	(173)	(436)	(201)	(444)	(2,009)
Cash flow from investing activities	**(1,106)**	**(1,215)**	**(1,460)**	**(1,959)**	**(4,900)**
o/w Capital expenditure	(1,133)	(1,094)	(1,151)	(2,087)	(4,900)
as % of sales	*12.7%*	*10.6%*	*10.2%*	*14.5%*	*22.6%*
Cash flow from financing activities	**47**	**566**	**754**	**1,059**	**(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	1,423	0
Net change in cash	**(8)**	**344**	**688**	**1,419**	**(933)**
Adj. Free cash flow to firm	**(70)**	**(100)**	**246**	**257**	**(677)**
y/y Growth	*-44.5%*	*42.2%*	*-346.1%*	*4.5%*	*-363.4%*

Ratio Analysis	FY23A	FY24A	FY25A	FY26E	FY27E
Gross margin	19.3%	19.0%	20.1%	26.9%	38.7%
EBITDA margin	15.8%	14.6%	15.7%	22.9%	34.7%
EBIT margin	7.2%	7.1%	8.1%	15.9%	28.0%
Net profit margin	4.8%	6.6%	6.2%	11.7%	21.2%
ROE	6%	8%	8%	17%	35%
ROA	3.7%	5.5%	5.1%	10.5%	22.7%
ROCE	5.9%	6.2%	6.8%	14.0%	29.5%
SG&A/Sales	3.2%	3.2%	3.4%	2.9%	2.7%
Net debt/Equity	NM	NM	NM	NM	0.0
Net debt/EBITDA	NM	NM	NM	NM	0.0
Sales/Assets (x)	0.8	0.8	0.8	0.9	1.1
Assets/Equity (x)	1.5	1.5	1.5	1.6	1.6
Interest cover (x)	96.2	2,190.5	449.1	105.5	144.6
Operating leverage	840.6%	96.2%	244.8%	551.9%	327.2%
Tax rate	15.6%	16.6%	18.3%	21.2%	20.4%
Revenue y/y Growth	-5.5%	15.5%	9.9%	27.3%	50.6%
EBITDA y/y Growth	-29.4%	6.7%	18.5%	86.1%	127.4%
EPS y/y Growth	-57.7%	59.1%	3.9%	140.4%	172.7%

Valuation	FY23A	FY24A	FY25A	FY26E	FY27E
P/E (x)	239.0	150.2	144.6	60.1	22.1
P/BV (x)	13.2	11.9	10.9	9.7	6.9
EV/EBITDA (x)	72.3	67.6	56.9	30.6	13.6
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