

**18TH
MAR
2022**

Stock Report

SAMSUNG ELECTRONICS
TICKER: SMSN



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A REPORT BY AP
CAPITAL RESEARCH
Samsung Electronics

Business model and overview

SAMSUNG ELECTRONICS

Samsung Electronics Co. Ltd. is a South Korean multinational electronics corporation headquartered in Suwon. The company was founded in 1969 by Lee Byung-Chul and has become one of the most valuable technology brands in the world. It is the largest company in South Korea by revenue and accounts for approximately one-fifth of South Korea's total exports. Samsung is a market leader across various categories, notably, TV, mobile phones, smartphones and memory (DRAM, NAND-Flash, SSD, Digital Signature, Refrigerators, Sim Card IC and Display Driver IC). The company has 267,937 employees (2020) working across Samsung's global network of 74 countries and 230 international bases. Beyond its ventures in the technology and IT services space, Samsung has initiated educational/ development programmes as part of its corporate social responsibility initiatives. These include training programmes for students within the STEM field, aiming at cultivating human capital and bringing about innovation.

Additionally, the company has applied green initiatives within its business model and taken climate action through its business activities. This entails providing customers with new eco-conscious products and technologies. According to Samsung's reports, it accomplished to operate on 100% renewable energy within the US, Europe, and China (2020); reduced 301m tonnes of CO₂e emissions (cumulative from 2009) through more energy-efficient products; recycled 95% of waste from manufacturing sites.

Business Areas

DX (Device eXperience) Division:

- Visual Display Business
- Digital Appliances Business
- MX (Mobile eXperience) Business
- Network Business
- Health and Medical Equipment Business

DS (Device Solutions) Division:

- Memory Business
- System Large-scale Integration (LSI) Business
- Semiconductor Foundry Business

Research and Development:

- Artificial Intelligence
- 5G and 6G
- Automotive Electronics
- Robotics

₩279.6T \$382.4BN ₩113.2T

Revenue (2021)

Market Cap

Gross Profit (2021)

Management Team

SAMSUNG ELECTRONICS



Hyun-Suk Kim - President & CEO (Samsung Consumer Electronics)

- M.S. Electrical Engineering - Portland State University
- B.S. Electrical Engineering - Hanyang University

Mr Kim joined Samsung in 2009, starting as the Head of the R&D within the Visual Display business division. He quickly ranked up to the general Head of the Visual Display business by 2011. By 2017, he was officially announced as President and Head of Samsung Digital Appliance business and Samsung Consumer Electronics.



Dong-Jin Koh - President & CEO (Samsung IT & Mobile Communications)

- M.S. Technology Policy - University of Sussex
- B.S. Industrial Engineering - Sungkyunkwan University

Mr Koh joined Samsung in 2007 as Head of the Development Management team of the Mobile Communications division. By 2011 he switched to Head of the Technology Strategy team of the same division. By 2015 Mr Koh became President & Head of the Mobile Communications business and soon in 2017 earned president and Head of the General IT & Mobile Communications.



Ki-Nam Kim - Vice-chairman & CEO (Samsung Device solutions)

- PhD. Electrical Engineering - University of California, Los Angeles
- M.S. Electrical Engineering - Korea Advanced Institute of Science and Technology
- B.S. Electrical Engineering - Seoul National University

Mr Kim joined Samsung in 2010 as President and Head of the Samsung Advanced Institute of Technology. By 2012 he was CEO of Samsung Display Co Ltd (currently 100% owned by Samsung Electronics). He worked his way as President and Head of Memory business, Semiconductor business and now President and Head of Device Solutions.

12.4M

TWITTER
FOLLOWERS

700K

INSTAGRAM
FOLLOWERS

3.6M

LINKEDIN
FOLLOWERS

Financials + Institutions

SAMSUNG ELECTRONICS

Overall, Samsung has averaged \$215.2bn in revenue over the last 5 financial years. This was met with an average net income of \$30.7bn per year. The most considerable revenue by segment is currently IT & Mobile Communications, bringing in 40% of the revenue, followed by Semiconductor 28% and Consumer Electronics 18%.

YOY revenue fell during 2017–2018 partly due to Samsung's involvement in the news under labour malpractice and deliberate slowing of devices together with Apple. Declines in revenue continued YOY with another 7% decrease in 2019, mainly with the onset of the pandemic. There has been a relatively strong recovery in 2020 by introducing Samsung's foldable phone, which came out with relative success. Samsung is committed to increasing capacity on foldable phones; however, it will need to be met with healthy demand to justify the expenses.

2021, with YOY revenue growth of 21.8% met with a 14.3% net profit margin, up 55.9% YOY. This was driven mainly by revenue from their semiconductor production, which saw a 38% increase 21Q1–21Q3. The USA currently accounts for around 35% of Samsung revenue – Bidens latest announcement to ramp up the US semiconductor industry may contest this growth throughout 2022 onwards, potentially pressuring revenues on its second–largest revenue source. Further on, its largest revenue source, IT and mobiles, have been relatively stagnant for the last 5 years – most recently attributed to supply chain constraints. Samsung, however, remains optimistic for the 22' outlook with plans to increase market share by pursuing innovation in key products.

Samsung has proven consistent with its short–term debt management showing a current ratio of 2.5% over the last 5 years. Notably, short debts make up 30% of its total debts, indicating potential resilience in the event of a downturn over the next 6–12 months. However, D/E suggests the company is well leveraged. Even though its cash has been steadily growing, its liabilities – notably account payables and borrowings have also been increasing, which may squeeze its cash availability on higher rates – dividend pay–outs could decrease in the Q1 22 announcement.

(USD\$ - Millions)	2021	2020	2019	2018	2017
Revenue	244,389	200,606	197,691	221,568	211,812
COGS	145,452	122,400	126,336	120,336	114,308
Gross profit	98,937	78,206	71,355	101,232	97,504
SG&A	53,806	47,714	47,529	47,709	50,076
Operating income	45,131	30,492	23,826	53,523	47,428
EBT	46,632	317,670	26,112	55,589	48,684
Net income	34,881	22,371	18,653	40,306	37,298
Revenue YOY	21.8%	1.5%	-10.8%	4.6%	4.9%
SG&A/Revenue	22.0%	23.8%	24.0%	21.5%	23.6%
Gross Margin	40.5%	39.0%	36.1%	45.7%	46.0%
Operating margin	18.5%	15.2%	12.1%	24.2%	22.4%
Net profit margin	14.3%	11.2%	9.4%	18.2%	17.6%
Debt to equity ratio	6.00%	7.00%	7.00%	6.00%	9.00%
Current Ratio	2.48	2.62	2.84	2.53	2.19
Return on equity	13.09%	9.57%	8.27%	17.90%	19.67%
EPS	5.05	3.25	2.72	5.87	265.12
Cash and equivalents	34,115	24,891	23,069	27,577	27,005

\$5.05

FY21 EPS

2.92%

Dividend Yield

11.70

P/E Ratio

Competitors

SAMSUNG ELECTRONICS



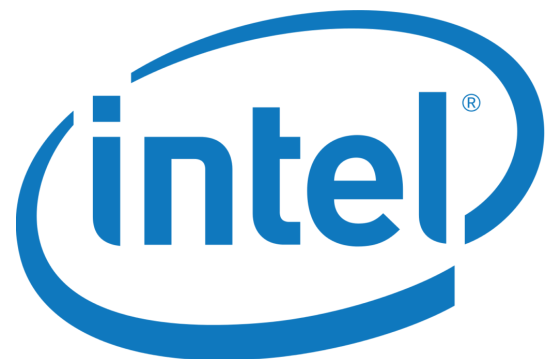
Apple - Revenue (2021): \$365.8bn

Apple Inc. is a multinational electronics company that specialises in Consumer Electronics software and online services; and is headquartered in California, United States. Following the release of Apple's iPhone 13- the company's flagship smartphone- the company, took the lead in terms of global smartphone market share during the fourth quarter of 2021 with a share of 23.4%. In contrast, Samsung was the leading smartphone vendor in the first three quarters of 2021 with its Galaxy S22 smartphone. However, Apple iPhone sales tend to be very cyclical, peaking in the fourth quarter and tapering off in subsequent quarters. This gives space for Samsung to occupy the leading position, as seen in 2021.



Xiaomi - Revenue (2021): ¥242.7bn (trailing 9-months)

Xiaomi Corporation or Xiaomi Inc. is an electronics company headquartered in Beijing, China. It manufactures and designs consumer electronics and related software, home appliances and household items. As of late 2020, Xiaomi has consistently held the position of the third-largest smartphone vendor in the world. The fourth quarter of 2021 made up 12.4% (3rd) of global smartphone shipments. Huawei, which previously was a strong competitor to Apple and Samsung, dropped out of the top five vendors and was replaced by Xiaomi. Furthermore, the company appears to have been resilient to the US-China trade ban.



Intel - Revenue (2021): \$79bn

Intel Corporation is an American multinational corporation and technology company headquartered in California, United States. It delivers computer, data storage, networking, and communications platforms. Intel competes with Samsung in the semiconductor (fabless) industry. It was the second-largest semiconductor vendor in 2021 with 12.5% of the market share, only 0.5% below Samsung, which holds the top position. Intel was the industry leader in 2020, occupying 15.6% of the market share.

13%

Samsung's share of the global semiconductor (fabless) market (2021)

₩27.21T

Revenue FY 2021

12TH

Largest company in the world by Market Cap (2020)

SWOT Analysis

SAMSUNG ELECTRONICS

Strengths

- **Dominates the smartphone market:** Samsung has been in head-to-head competition with Apple over smartphone leadership and the majority market share. Most recently, Samsung holds 27% against Apple's 28%. Notably, this is almost 3X the third-largest competitor Xiaomi, which has an 11% market share.
- **Diversification in products:** Samsung offers a wide range of services and products. While Samsung is known mainly for its key products, Smartphones, it is also currently one of the largest semiconductor companies by sales revenue. In 2021, Samsung brought in \$83.09 billion in sales volume.
- Samsung strives to be the leader in research and development. As of 2020, Samsung spent \$19 billion in its research and development expenditure. While this is in line with Apple's R&D expenditure, Samsung has been utilising its expenditures more by offering new products such as foldable phones, smart fridges, and smart TVs.

Weaknesses

- **Poor marketing relative to Apple:** Samsung has continued to increase its spending on advertising and marketing; however, this has not reached the potential of Apple. Currently, Apple holds 27 million followers on Instagram against Samsung's 700,000. If Samsung was to increase its customer reach, especially younger generations, it might be worthwhile to adjust its social branding. This may be especially worthwhile given non-Apple products are always viewed as inferior.
- **Remains well dependent on American markets:** America accounts for 33% of total revenue as of 2020. However, roughly 70% of the smartphones, its largest revenue source, are sold in America. Given that the American economy is experiencing inflation rates of 7.9% and energy prices taking up a significant portion of consumer disposable income, sales revenue for Samsung smartphones may remain relatively stagnant over the next 6-12 months.

Opportunities

- **Chip production:** Samsung holds a substantial segment of its business in semiconductor memory chip production. It has seen production costs decrease to significant efficiency improvements. It also has plans to compete directly with TSM - the largest semiconductor producer currently owning 50% of the market. Announcements in November 2021 have been made of Samsung's \$17 billion investment in Texas, US. This will vastly improve supply chain resilience and compete directly with US semiconductor producers.
- **Strong presence in the Asian market.** Samsung has a strong position in the Asian market, particularly in India and China. Currently, China and Asia markets account for 30% of the revenue, and India especially may prove a high potential market as a fast-growing economy. Further on, while the US is likely to hike up rates, Asian countries less affected by the Russian-Ukraine conflict may hold up demand for Samsung products.

Threats

Samsung has more than often been involved in legal issues:

- Samsung former Chairman Lee Sang Hoon, who previously served as CFO at Samsung, was sentenced to 18 months in prison in 2019 for sabotaging labour union activities and violating labour laws. Other 26 Samsung executives also were charged.
- In 2018, Samsung had lost its legal battle with Apple over patent infringement. The company suffered losses when issued to pay out \$1.049 billion in damages.
- Samsung heir Jay Y. Lee was recently released from prison under embezzlement and bribery charges. Further charges have also risen with the heir accused of stock market manipulation. However, what remains uncertain is the company's continued involvement with Jay Lee.

Given its scandals, investors may lose confidence in the company under poor leadership.

27%

Samsung's smartphone
market share

33%

of Samsung's total
revenue is from America

\$19BN

Samsung's Global R&D

Technical Analysis

SAMSUNG ELECTRONICS



Samsung's (SMSN) stock performance over a six-month time frame indicates a decline of approximately 13.2% in its price. Additionally, the stock has declined 10.64% from a year-to-date perspective and almost 20% from a one-year perspective. The company's GDRs on the London exchange is trading at \$1473.50 (17.03.2022). The price was close to reaching the lower bound of its 52-week range this week. The stark contrast between the current price level and its all-time high of \$2065 at the beginning of 2021 implies a clear bearish trend.

Since its peak, the stock price has reached consecutively lower troughs and peaks, presenting a downtrend. Within the six-month time frame, we can identify a key support level at approximately \$1480. After a rapid decline in late September 2021, the stock reached a period of consolidation between October and November before surging in December. Within this period, the support at \$1480 was tested repeatedly but without any major breakouts. This level was again tested once in late January 2022 and once in late February 2022. However, in early March 2022, the support did not hold, and the price declined sharply to its current level. The company's two most recent earnings reports presented results below analyst expectations. The most recent was on January 26th, in which earnings reported were nearly 5% below expectations. The general market response to this news appears to have been negative, as the stock proceeded to decline by about 11%.

A bearish flag pattern can form at the current price level, reversing the current trend for a short period. Over the past three days, we see a rebound off the lower bound channel, with the price breaking above the 20 EMA and closing at \$1473.50. However, the price is at an area of confluence as it has approached the upper bound of the bearish channel and a new resistance level. The price could break out of the channel and test the 50EMA or 100EMA if the \$1480 level does not hold. Otherwise, we could see a continuation in the bearish trend to potentially \$1350.

\$1462.90 20-day Moving Average
49.24 RSI
\$1473.50 Current Share Price

Final Thoughts

SAMSUNG ELECTRONICS

Manav Chenganda

The perception of large tech stocks as growth stocks attracted many to direct capital towards them at the height of the coronavirus pandemic. Especially as global economies faced downturns and interest rates reached all-time lows. However, the surge in investor appetite for investing in tech stocks throughout 2020 and late 2019 seems to have waned. As per the technical analysis, Samsung's stock has been trading in a downwards channel since the beginning of 2021, similar to the channel indicated in the chart above. The share price is also below the 200-day and 500-day moving averages. It could be said that the stock is facing a prolonged correction. This swing seems to be attributed to large-scale macroeconomic developments rather than inefficiencies in the business. Samsung has been posting record quarterly results, driven by strong pricing and output in its semiconductor business, high demand for consumer electronics products, and its memory business. However, some investors expect that the memory market could be peaking. Ongoing component shortages are also affecting smartphone sales.

Moreover, as workforces return to working in-person, the consumer electronics business' growth has diminished. Samsung's low stock performance has also been caused by broader economic trends and the Russia-Ukraine conflict. These include rising inflation rates in the US and Europe, rising interest rates, a surge in oil prices and rising commodity prices (raw materials). Hence, the stock can be expected to decline further in the near term, and investors should most likely sell now to minimise immediate losses.

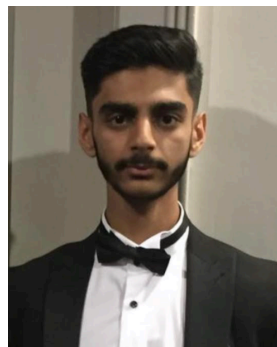
Mantas Klungys

Overall, the company has shown sluggish growth over the last 5 years. However, it has remained profitable, averaging a net income of \$3 billion. Net profit margin has remained consistent around 15%, however, improvements could be made in the efficiency in their COGS, taking up almost 60% of the sales revenue. Samsung's behemoth size may indicate a limited capacity for growth as it has struggled to increase its mobile sales revenue. In the next 6-12 months, the prominent focus of Samsung will be on its semiconductor output competing directly against Intel, TSM and NVidia. However, the Q1 outlook may be stunned due to current geopolitical events. While 2021 has shown improvements, the current price is down 23% 1Yr, against Apple's upside of 25% 1Yr. In terms of capital growth, there is little optimism over the next 6-12 months; however, Samsung has consistently paid out an average dividend yield of 2.72% for common stockholders over the last 5 years, against Apple's 0.5%.

Finally, given expectations of continued declines, I recommend holding out and buying in at a lower price. As macroeconomics conditions begin to stable, Samsung may prove to be undervalued.



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SAMSUNG ELECTRONICS

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