

## Seoul Semiconductor (046890)

### Hold

TP W30,000  
Price(8/25) W26,200

#### Turning more cautious on overall 3Q11F earnings outlook

- Our latest chatter with the company indicates that the expected 3Q11F revenue is approx. low-W200bn, which is flattish or slight increase from W208.1bn revenue in 2Q11.
- The company has softened its bullish stance from late July mainly due to 1) deterioration of US and European economy which accounts for more than 50% of Seoul Semi's general lighting business, and 2) order delays from most of its TV customers (incl. LGE) due to weak TV demand and high inventory.
- The company expects general lighting business to carry 2H11F earnings – with 55~60% of revenue contribution from general lighting, while remainders would be evenly split by TV BLU and other applications (incl. PC monitor BLU and handsets).

#### General lighting LED outlook: Cautious view due to weak macro conditions

- Seoul Semi remains rather speculative on the near term general lighting business outlook, largely due to weak macro conditions in the developed markets. Despite solid revenue growth from Asian region YTD, developed markets (e.g. US and Europe) remain more important to Seoul Semi's general lighting profitability as these segments are relatively more high-end.
- Also majority of Seoul Semi's general lighting business are carried out at B2B level – of which some unspecified portion would be B2G (i.e. sales to government-related institutions). Hence unfavorable macro headwind is a negative to Seoul Semi's overall general lighting business.
- Domestic sales are on a steady rise – Approx. over 10% of Seoul Semi's general lighting revenue are now coming from domestic sales (e.g. Hyundai Department Store). The company is also in talks to supply LED lighting to Posco Group.
- General lighting business breakdown by application (2Q11): General lighting accounted for 41% of Seoul Semi's total revenue (W208.1bn) in 2Q11 – Of this 41%, approx. 29% came from "pure" general lighting demand, 6% from autos, and the remaining 6% from home appliances and other applications. Of all general lighting products, auto LED headlamp is by far the most profitable.

#### Seoul Opto Device continues to improve its product mix by allocating more capacity to general lighting LEDs

- Seoul Opto Device (Seoul Opto) utilization has slowed down mildly in Aug, after maintaining solid level in July (utilization at end 2Q11: mid-70%)
- During 3Q11F, Seoul Opto has been allocating approx. 60% of its capacity to general lighting LED chips (vs. 50% in June). The remaining 40% is for TV BLUs.
- Chip internalization (full vertical integration from chip manufacturing to packaging) has risen to approx. 60% in 3Q11F. For general lighting packages only, internalization ratio has reached to about roughly 30~40% (otherwise outsourced from Cree, etc.).
- Due to weak TV demand and to maintain Seoul Opto's utilization, Seoul Semi has started using Taiwanese chip makers to source LED chips for TV BLUs.
- Seoul Opto IPO: Planning IPO as early as in end 2012
- Seoul Opto capex execution YTD: Investment on new MOCVDs has been minimal, which may lead to lower capex execution in 2011F (vs. original guidance of W80bn).

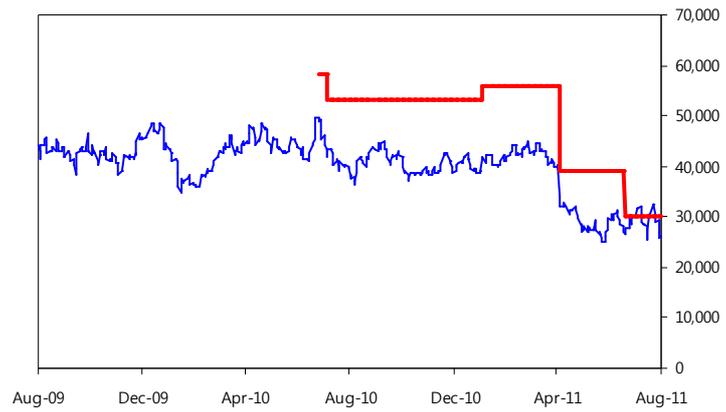
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**Changes to recommendation and price target**

Company (Code)	Date	Recommendation	Price target
Seoul Semiconductor (046890)	07-20-10	BUY	W58,300
	07-30-10	BUY	W53,000
	01-28-11	BUY	W56,000
	04-29-11	Hold	W39,000
	07-14-11	Hold	W30,000



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- Hold: Expected to give a return between -15% and 15%
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