

Company Focus

30 April 2008 | 8 pages

Amkor Technology Inc (AMKR)

Estimate change ☒

Here Comes The Inventory (And Revenue Declines); Maintain Sell

- Stock summary** — While results were a little better than we expected, we think the stage is set for AMKR to ultimately miss CQ2 guidance followed by a poor CQ3 in which revenue will be down Q/Q against broad expectations of an increase. Chip inventory build is being pulled forward due to weaker demand rather than too much supply and this – combined with IC units which are likely to continue decelerating Y/Y until late Summer – should outweigh any favorable impact from leading edge mix shift. So, while the stock recently got close to our \$8 target, we think it will ultimately retrench again to that level or maybe lower as fundamentals deteriorate the next 6mos. We would be more neutral around this \$8 level. C2008 from \$0.75 to \$0.83, but C2009 unchanged. Target remains \$8, rating remains Sell.
- What happened** — GAAP EPS \$0.30 (excl. forex gain) ahead of our \$0.24/consensus \$0.26 owing to better revs and margins partially offset by higher opex. Guidance in-line w/consensus but ahead of our model and commentary on CQ3 was also upbeat (and very aggressive in our view).
- Positives** — 1) Mix shift to higher-end flip-chip parts could be a partial offset to intensifying unit headwinds (although mix has not helped ASP much the past ~2years); 2) margins remain solid; 3) cash flow and balance sheet remains much improved and liquidity is a now a minor concern.
- Negatives** — 1) Potential liability from TSRA litigation; 2) adding fixed cost (to regain some share) right into what we think will be a nasty (and unexpected) correction; 3) decelerating Y/Y IC units is a tough headwind to AMKR revs.

Sell/Speculative	\$S
Price (30 Apr 08)	US\$9.55
Target price	US\$8.00
Expected share price return	-16.2%
Expected dividend yield	0.0%
Expected total return	-16.2%
Market Cap	US\$1,736M

Price Performance (RIC: AMKR.O, BB: AMKR US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2007A	0.15A	0.22A	0.26A	0.45A	1.08A	1.15A
2008E	0.30A	0.21E	0.09E	0.23E	0.83E	1.17E
Previous	0.24E	0.13E	0.10E	0.28E	0.75E	na
2009E	na	na	na	na	1.11E	1.36E
Previous	na	na	na	na	1.11E	na
2010E	na	na	na	na	0.14E	0.13E
Previous	na	na	na	na	0.13E	na

Source: Powered by dataCentral. FC Cons: First Call Consensus.

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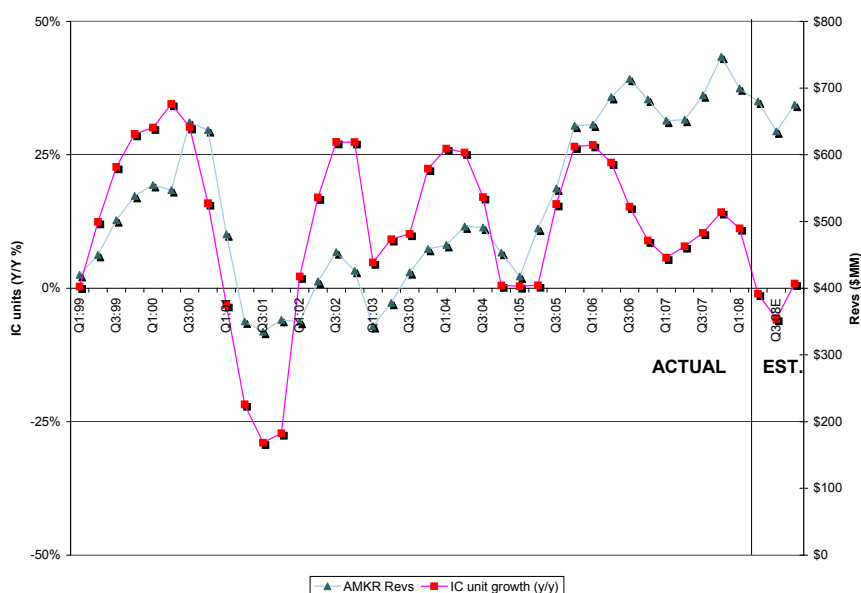
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Fiscal year end 31-Dec	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	9.6	8.8	11.4	8.6	68.0
EV/EBITDA adjusted (x)	5.3	4.8	5.1	4.1	20.6
P/BV (x)	4.8	3.0	2.3	1.8	1.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Per Share Data (US\$)					
EPS adjusted	1.00	1.08	0.83	1.11	0.14
EPS reported	0.85	1.05	0.93	1.11	0.14
BVPS	1.98	3.13	4.23	5.22	5.20
DPS	0.00	0.00	0.00	0.00	0.00
Profit & Loss (US\$M)					
Net sales	2,729	2,739	2,689	2,958	2,515
Operating expenses	-2,342	-2,352	-2,388	-2,552	-2,375
EBIT	386	387	302	406	140
Net interest expense	-175	-140	-111	-102	-95
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	211	247	191	305	44
Tax	-11	-18	-16	-61	-9
Extraord./Min.Int./Pref.div.	-30	-9	19	-4	-4
Reported net income	170	220	194	240	32
Adjusted earnings	199	226	175	240	32
Adjusted EBITDA	660	670	594	720	140
Growth Rates (%)					
Sales	29.9	0.4	-1.8	10.0	-15.0
EBIT adjusted	366.7	0.2	-22.0	34.6	-65.6
EBITDA adjusted	99.3	1.6	-11.3	21.2	-80.6
EPS adjusted	293.4	8.4	-22.8	32.5	-87.3
Cash Flow (US\$M)					
Operating cash flow	524	603	396	525	92
Depreciation/amortization	274	283	292	314	0
Net working capital	24	72	-94	-33	57
Investing cash flow	-315	-231	-347	-444	-377
Capital expenditure	-316	-236	-348	-444	-377
Acquisitions/disposals	1	5	0	0	0
Financing cash flow	-169	-208	-113	-89	-43
Borrowings	-174	-242	-119	-89	-43
Dividends paid	0	0	0	0	0
Change in cash	38	165	-60	-8	-328
Balance Sheet (US\$M)					
Total assets	3,041	3,193	3,231	3,406	3,377
Cash & cash equivalent	245	413	353	345	340
Accounts receivable	387	398	408	446	379
Net fixed assets	1,444	1,455	1,538	1,668	1,722
Total liabilities	2,643	2,531	2,336	2,267	2,203
Accounts payable	292	359	284	304	282
Total Debt	2,005	1,764	1,649	1,560	1,517
Shareholders' funds	399	662	895	1,138	1,174
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	24.2	24.5	22.1	24.4	5.6
ROE adjusted	64.4	43.1	22.7	23.8	2.7
ROIC adjusted	16.6	16.4	12.5	14.1	5.2
Net debt to equity	441.8	204.2	144.9	106.7	100.3
Total debt to capital	83.4	72.7	64.8	57.8	56.4

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Figure 1. AMKR Revs vs. Y/Y IC Units



Source: SIA, Citi Investment Research

Amkor Technology Inc

Company description

Amkor is a leading provider of packaging and test services to the global semiconductor industry with over 300 customers and 1,000 different package types/sizes, from traditional leadframe packages to advanced chip-scale (CSP), ball-grid array (BGA) and flip chip packages. The company maintains more than 5 million sq ft of manufacturing floor space in the U.S., Korea, Japan, China, Taiwan, Singapore, and the Philippines, and has one of the broadest global test and assembly infrastructures in the world. With among the industry's most balanced revenue streams in terms of end-market applications, the company is focusing on broadening its capabilities to include more test, as well as its customer base to include more fabless chipmakers.

Investment strategy

We believe Amkor - one of the world's leading provider of integrated circuit (IC) packaging and test services - remains one of the few pure-plays on semiconductor units. To that end, we believe peaking year-over-year IC unit trends will prove to be a significant headwind for revenue in coming Qs, in addition to earnings power as AMKR's large fixed cost structure means margins fluctuate with volumes. Additionally, gross margins are particularly a concern

due to minimal pricing leverage, falling utilization, and depreciation issues. We therefore rate the stock a Sell, Speculative Risk (3S).

Valuation

We rate AMKR Sell, Speculative Risk (3S) with a target of \$8. Given that AMKR carries a considerable debt load and operates a fairly capital-intensive model (which results in high depreciation expense), we think it appropriate to value the stock on an enterprise value (EV) to forward EBITDA basis. As a result, we look at EV/2008 EBITDA multiples for comps (ASX, SPIL) that we note currently average ~5x. Given a number of factors including, but not limited to: 1) AMKR's weaker financial position, 2) our view that the company is nearing a cyclical peak in profitability (i.e. gross margins), and 3) the risk of additional fundraising (potentially dilutive), we feel it appropriate to value AMKR in-line with the average of the comp range. Applying this ~5x multiple to our F2008 EBITDA estimate of ~\$595MM results in an \$8 price target.

As a secondary valuation methodology, we note that on a price-to-trailing-sales basis the 10-year historical average (excluding the 2000 bubble period) is roughly 1.0x, with a normalized trough value of approximately 0.4x and a range of 0.2x-2.9x. Given our model for long-term growth in revenue (especially with the IBM supply agreement kicking in), but likely under-growth of competitors, we conservatively select a 0.5x multiple. Applying this multiple to our TTM sales estimate of ~\$2,800MM, we arrive at a price target of ~\$7.

We prefer EV/forward EBITDA as our primary valuation methodology and as a result, we derive a target of \$8.

Risks

We rate AMKR Speculative Risk primarily due to the company's low earnings stability, high stocks volatility, and highly leveraged balance sheet.

Additional risk factors include: 1) AMKR has heavy exposure to the cyclical semiconductor industry that typically has limited visibility and a high degree of uncertainty regarding the timing and duration of cycles. Since AMKR is heavily dependent on the industry's overall chip unit production and commitment to outsource a significant percentage of test and packaging to OSAT subcontractors, AMKR's business model is highly dependent on both factors, 2) Despite advancing technology in packaging, the industry may act more like a commodity than in any prior cycle, thus making capital spending the only true differentiator. As AMKR has a highly leveraged balance sheet and large fixed assets, we recognize that the company could have limitations on free cash flow, particularly in downturns to fund capacity expansions, 3) AMKR's balance sheet carries significant debt. Particularly in down-cycles, we recognize the financial burden that this risk can bring and the resulting potential impact to share prices, 4) AMKR shares could continue to outperform our price target if the semiconductor industry undergoes a much stronger chip unit growth cycle, or outsourcing to OSAT subcontractors accelerates at a much faster rate, or if AMKR improves its long-term debt situation earlier than our expectations

Appendix A-1

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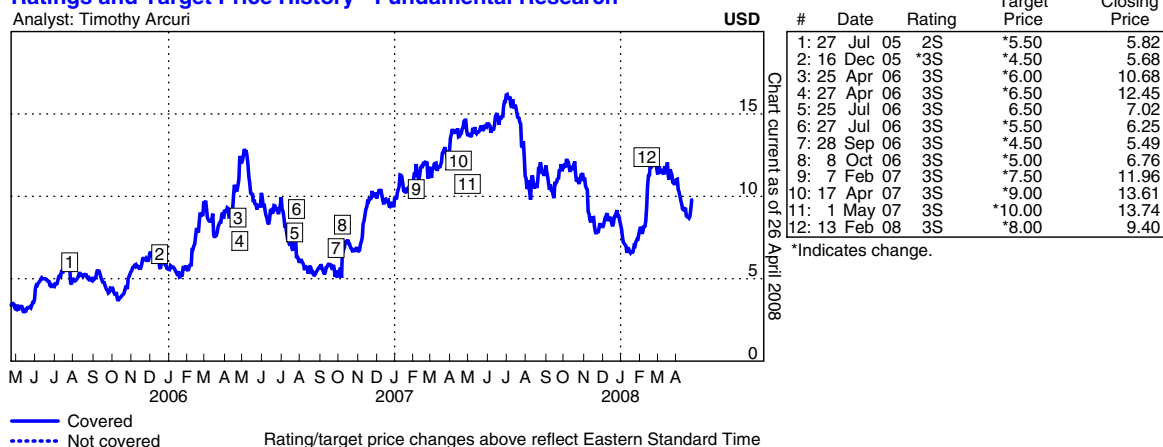
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Analyst: Timothy Arcuri



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