

Company Flash

SMALL &
MID CAP

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Amkor Technology Inc (AMKR)

Why AMKR Can Go Back to \$8; Reiterate Sell

- The wrong part of the cycle** — During the past 10 years, decelerating Y/Y growth in chip units almost always means revenue contraction for AMKR. While we often point this out, we think it is particularly notable today as chip units – which peaked at +14% Y/Y in CQ4:07 – are apt to decline significantly through at least CQ2:08, and most likely CQ3. While some may argue our estimate for chip units to grow only ~1-2% Y/Y in C2008 is too bearish, it only takes chip units to decline ~2-5% Q/Q in each of CQ1 and CQ2:08 (benign relative to ~10%+ declines during other recessions (ex. '01)), flat in CQ3 and big improvement in CQ4 for this to occur. While a mix shift toward higher-ASP flip chip applications could insulate AMKR's revs from chip unit trends, the Street is expecting AMKR to grow revenue Q/Q through all of C2008 – very tough to see given what is apt to be decelerating 1H:08 units.
- Back-end tool orders growing again** — While capacity adds have been disciplined in recent years, AMKR, for one, has guided capital intensity up in '08. Indeed, overall back-end tool orders have grown ~5-10% month/month in both Jan and Feb.
- Customer exposure a mixed bag at best** — Given current pockets of weakness, AMKR's exposure (heavy consumer and handset) appears, on the surface, unfavorable. Indeed, for every tailwind from Mediatek, BRCM, XLNX and ALTR, there appear to be strong headwinds from Freescale, TXN, AMD and Sony.
- Comps are tracking down below guidance** — Through Feb, ASE and SPIL are cumulatively tracking down ~15% Q/Q (NT\$), or ~3-4% below CQ1:08 guide. While this doesn't necessarily mean a miss for AMKR and a weaker dollar is competitively + for AMKR, the margin for error appears low as AMKR was already guiding CQ1:08 ~4-5% better than most peers.

Sell/Speculative	3S
Price (19 Mar 08)	US\$11.24
Target price	US\$8.00
Expected share price return	-28.8%
Expected dividend yield	0.0%
Expected total return	-28.8%
Market Cap	US\$2,043M

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	0.24E	0.13E	0.10E	0.28E	0.75E	1.22E
Previous	0.24E	0.13E	0.10E	0.28E	0.75E	na
2009E	na	na	na	na	1.11E	1.39E
Previous	na	na	na	na	1.11E	na
2010E	na	na	na	na	0.13E	0.13E
Previous	na	na	na	na	0.13E	na

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

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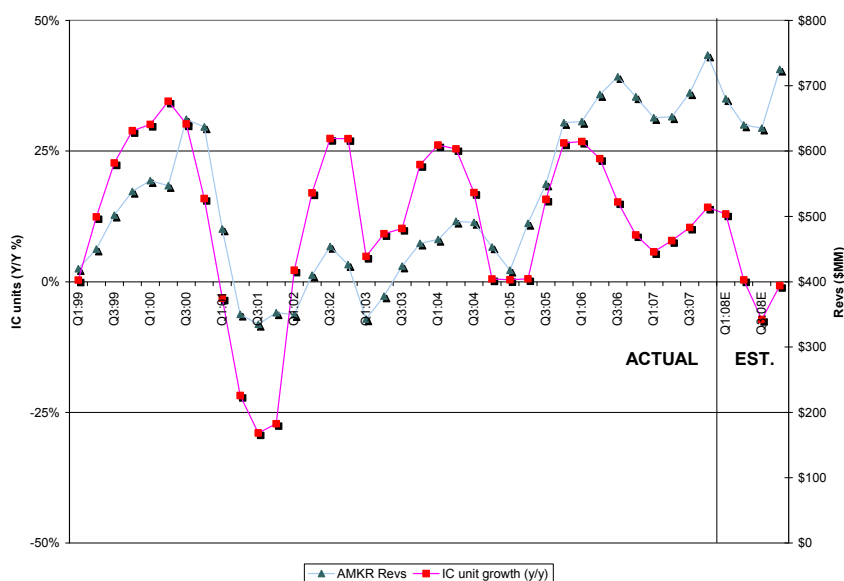
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Figure 1. Y/Y IC Units vs. AMKR Revs



Source: Company information, 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 ~\$585MM 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 ~\$2,700MM, 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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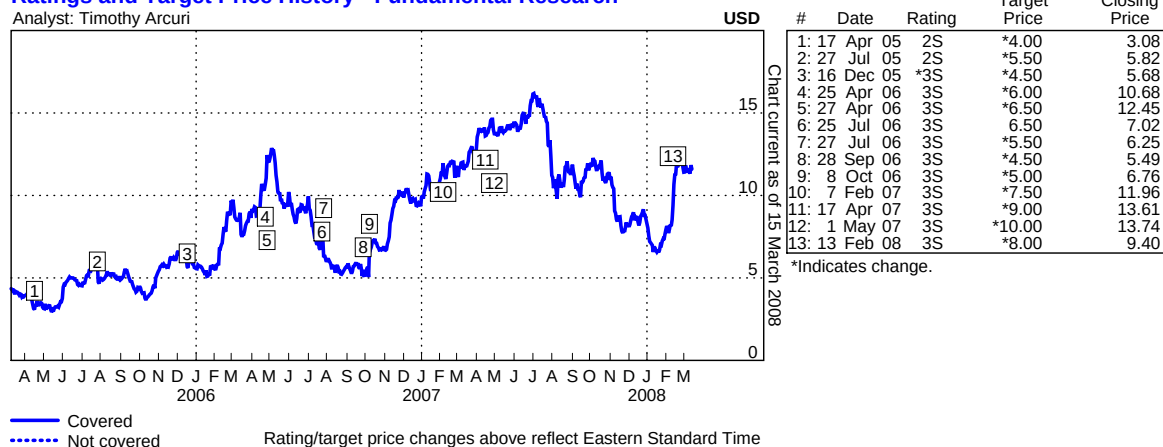
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Ratings and Target Price History - Fundamental Research

Analyst: Timothy Arcuri



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