

Silicon Works (108320)

Hold

TP N/A
Stock (May 23) ₩26,600

LG to become major shareholder

Comet Network agrees to sell 16.52% stake

On May 23, LG announced it would buy a 16.52% stake from Comet Network, the major shareholder of Silicon Works. As LG will also acquire a 2.88% stake from LG Display, LG's total ownership will reach 20%, making Silicon Works a part of the LG group. The Comet Network sale will be executed once it is approved by the Fair Trade Commission.

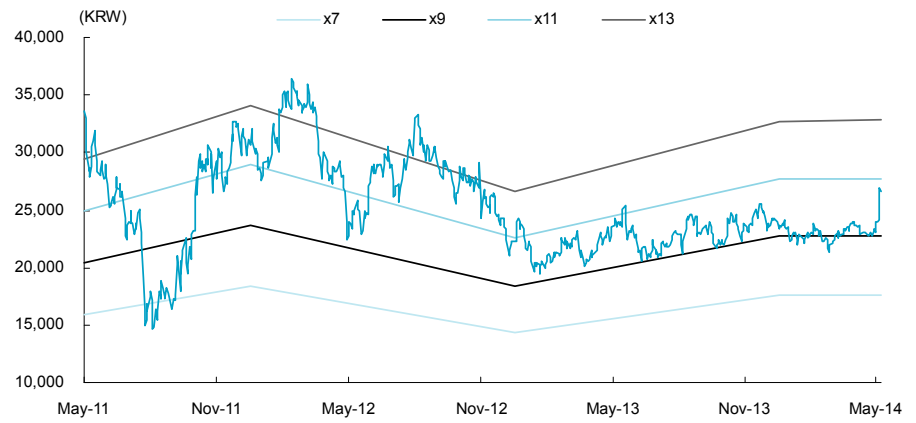
Mid- to long-term synergies more likely than short-term changes

Silicon Works focuses on display-related semiconductor chip manufacturing. While the company has developed by producing chips for the Apple iPad panel, such as driver ICs, Silicon Works has lost growth momentum as iPad sales have been relatively weak recently. Furthermore, efforts to expand its business portfolio into new products, such as LED driver ICs and mobile one-chips, have yet to secure visibility. As part of the LG group, Silicon Works should secure more growth catalysts through cooperation with LG Electronics and Lusem. While we do not expect any short-term benefits given the difficulties in developing new products over the near term, we believe mid- to long-term synergies are likely.

Valuation

Silicon Works currently trades around 11x 2014 PE. Given a historical peak of 11x PE, upside appears minimal. Of note, we maintain Hold until Silicon Works secures a new growth driver to replace the iPad.

Figure 1. Silicon Works PE band



Source: Company data, Korea Investment & Securities

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target
Silicon Works (108320)	07-10-12	BUY	W38,000
	01-08-13	BUY	W32,000
	09-30-13	Hold	-



■ **Guide to Korea Investment & Securities Co., Ltd. stock ratings based on absolute 12-month forward share price performance**

- BUY: Expected to give a return of +15% or more
- Hold: Expected to give a return between -15% and 15%
- Underweight: Expected to give a return of -15% or less
- Korea Investment & Securities does not offer target prices for stocks with Hold or Underweight ratings.

■ **Guide to Korea Investment & Securities Co., Ltd. sector ratings for the next 12 months**

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the Kospi (Kosdaq) based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.

■ **Analyst Certification**

I/We, as the research analyst/analysts who prepared this report, do hereby certify that the views expressed in this research report accurately reflect my/our personal views about the subject securities and issuers discussed in this report. I/We do hereby also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

■ **Important Disclosures**

As of the end of the month immediately preceding the date of publication of the research report or the public appearance (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), Korea Investment & Securities Co., Ltd., or its affiliates does not own 1% or more of any class of common equity securities of Silicon Works.

There is no actual, material conflict of interest of the research analyst or Korea Investment & Securities Co., Ltd., or its affiliates known at the time of publication of the research report or at the time of the public appearance.

Korea Investment & Securities Co., Ltd., or its affiliates has not managed or co-managed a public offering of securities for Silicon Works in the past 12 months;

Korea Investment & Securities Co., Ltd., or its affiliates has not received compensation for investment banking services from Silicon Works in the past 12 months; Korea Investment & Securities Co., Ltd., or its affiliates does not expect to receive or intend to seek compensation for investment banking services from Silicon Works in the next 3 months.

Korea Investment & Securities Co., Ltd., or its affiliates was not making a market in Silicon Works's securities at the time that the research report was published.

Korea Investment & Securities Co., Ltd. does not own over 1% of Silicon Works shares as of May 26, 2014.

Korea Investment & Securities Co., Ltd. has not provided this report to various third parties.

Neither the analyst/analysts who prepared this report nor their associates own any shares of the company/companies covered in this report as of May 26, 2014.

Prepared by: Jay Yoo

This report was written by Korea Investment & Securities Co., Ltd. to help its clients invest in securities. This material is copyrighted and may not be copied, redistributed, forwarded or altered in any way without the consent of Korea Investment & Securities Co., Ltd. This report has been prepared by Korea Investment & Securities Co., Ltd. and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. We make no representation as to its accuracy or completeness and it should not be relied upon as such. The company accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. The final investment decision is based on the client's judgment, and this report cannot be used as evidence in any legal dispute related to investment decisions.