

Antecedents of Growth in Market Share of Samsung, a Financial Analysis

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Abstract

In this case study researcher discussed about financial ratio analysis of Samsung by using the financial statements of Samsung. Also focused on industry and competitor analysis of Samsung. The objective of this paper is find the profitability, liquidity and financial position of the Samsung to check the impact of these determinants on the market share of Samsung. This paper discuss the relationships of the different items in financial statements by conducting ratio, time series, and DuPont analysis. Although Samsung have several segments but this paper concentrated on the telecommunication segment of the Samsung Electronics because it generate major portion of Samsung's revenue. To conduct this research the financial data of the Samsung up to 10 years is analyzed. The data is taken from the Annual Reports Samsung. Ratios are calculated for 10 years to check the trends in profitability, liquidity and return on equity. The results of this analysis shows that Samsung's liquidity is positive and growing trend. The earnings are positive and profitability has positive trend. Samsung is less leveraged. Further research can be conducted on the rising issue of Samsung and its effect on the performance of the firm. The limitation of the research case is that it only focused on the financial aspects of Samsung performance. This research will be helpful for the managers of the Samsung to analyze the financial performance of the firm, for investors who want to invest in the stocks of the Samsung and students of finance will also benefited from this paper for their better understanding financial analysis and its practical implication.

Keywords: Financial Analysis of Samsung, Liquidity Position, Profitability Position, Capital Structure and Operations Management.

1. Introduction

Samsung is a South Korean multinational giant organization and it's headquartered in Samsung Town, Seoul. It comprises of a few subsidiaries and co-partnered organizations, a large portion of them united. Under the Samsung item, and is the greatest Southern Japanese chaebol (business aggregate).

Samsung was found by Lee Byung-chul in 1938 as an export business in Korea. Throughout the following three years the group shifted into industries, for example, selling fish, vegetables, and fruit to China. Within a decade Samsung had flour mills and confectionary machines and became a co-operation in 1951. Samsung joined the electronic component industry in the late Sixties and financial, media, chemicals and ship building throughout the 1970's; these industries might drive its taking after development. Taking after Lee's misfortune of life later, Samsung was separated into four business bunches – Samsung Group, Shinsegae Group, CJ Group and Hansol Group. Since the 90's Samsung has expanded its business globally, and electronic components, especially cellular telephones and semiconductors, have turned into its most large part revenue.

Huge Samsung mechanical business comprise of Samsung Electronics (the global greatest innovation company according to 2012 income, and fourth in business ranking), Samsung Heavy Sectors (the global second biggest shipbuilder figured by 2010 incomes), and Samsung Technological improvement and Samsung C&T (individually the Thirteenth and 36th-biggest development organizations). Other prominent subsidiaries comprise of Samsung LifeInsurance company (the global fourteenth biggest insurance organization), Samsung Everland (driver of Everland Resort, the soonest entertainment center in South Korea), Samsung Techwin (an aviation, monitoring and controlling organization) and Cheil Globally (the global fifteenth biggest broadcasting office figured by 2012 incomes. Its products are incorporate cooling units, workstations, computerized television sets, advanced shows (specially thin film transistors (TFTs) and dynamic grid natural light-discharging diodes (Amoleds, 2010), phones, watches, photograph printers, apparatuses, semiconductors, and telecommunication components.

Samsung has a very powerful effect on Southern Korea's economic development, finance, media and lifestyle, and has been a critical power behind the "Wonder on the Han River". In FY 2009, Samsung uncovered joined together profit of 220 billion dollars KRW (\$172.5 billion). (Annual Report, 2009). In FY 2010, Samsung uncovered joined profit of 280 billion dollars KRW (\$258 billion), and income of 30 billion dollars KRW (\$27.6 billion) (based upon a KRW-USD return measure of 1,084.5 KRW for every USD, the recognize sum starting 19

Aug 2011), (Annual Report, 2011). However, it ought to be said that these amounts don't comprise of the income from the sum of Samsung's subsidiaries focused outside Southern Korea. It is the greatest PDA maker by unit deals in the first quarter of 2012, with a worldwide business of 25.4%. It is additionally the second-biggest semiconductor maker by 2011 incomes (after Intel). Its online organizations create around a fifth of Southern Korea's finished tariffs. Samsung's wage was like 17% of Southern Korea's \$1,082 billion dollars GDP. (Yahoo. Finance, 2014). In 2013, Samsung started development on building the greatest PDA maker in the Chinese Nguyen district of Vietnam.

Genuinely, Samsung proclaimed a ten-year advancement method based around five organizations. One of these organizations was to be focused on biopharmaceuticals, to which the company has committed ₩2.1 trillion. In Dec 2011, Samsung Electronic components sold its hard disk (HDD) business to Seagate and the Samsung Group formed 59 unregistered associations and 19 registered associations, all of which had their essential record on The Philippines Exchange. In the first quarter of 2012, Samsung Electronic components turned into the biggest phone producer, following Nokia, which had been the market leader since 1998. The Samsung is anticipated to use \$14 billion dollars on advertising and publicizing in 2013, with promoting indicating in TV and theater ads, on commercials, and at games and masterfulness occasions. In Nov 2013, the Samsung was regarded at \$227 billion dollars. (Samsung.com, 2012)

2. Samsung Segment Analysis

Samsung is a worldwide maker of hardware products and semiconductors. To start with, researcher ought to note that Samsung has changed both the goals of its divisions and the way it reports income. Comprehensively talking, Samsung Electronics has four real divisions:

The main section is Semiconductors section that incorporates memory items and processors, for example, CPUs. Second section is Display items that is used to be called "LCD" yet has been re-named to Display Products. Third portion is Telecom that is basically cell phones however includes extra products and administrations for telecommunication components. The division on later been re-named to IM (IT and Mobile accessories). Fourth and last section of Samsung is Consumer Electronics, This division has changed names from Digital Media and Appliances to CE (Consumer Electronics. The greater part of sale generated from TVs additionally includes customer electronic components and machines. The organization further consolidates Semiconductors and Display Products into a collection called DS (Device Solutions) and Consumer Electronics and IM into DMC (Digital Media & Communications). (Bloomberg, 2011).

(Amount in USD 1000)

Year	2012	2011	2010	2009	2008
Sales	187,754,283	143,069,254	135,771,646	119,103,403	96,495,083
Net profit	22,262,426	11,908,495	14,177,298	8,765,999	4,685,930
Total assets	169051975	134,944,294	117910918	101,355,174	83,771,400

Complete Samsung sales and profitability has shifted generally in the course of the most recent five years. Sales topped at over \$96b in 2008 and expanded to over \$187b in 2012. Samsung stock value has been expanding consistently from 2008 to 2012. Regardless of the profit earned on later and the variability of reported income, Samsung has kept on paying apersistent profit for every year. (Annual Reports 2008-12)

3. Samsung Industry Analysis

Samsung is chiefly electronic industry. Samsung has divisions in semiconductor industry, telecommunication component industry and digital media industry. The telecommunication component portion is the major part of Samsung now. It produce significant sales of Samsung. This research paper concentrated on telecommunication industry to break down the position Samsung in this industry. This paper compare the telecommunication component sector of Samsung with its competitors and try to find the position of Samsung's this division in its industry.

3.1. The Telecommunication Equipment Industry

The telecommunications components industry gives the products needed to help land based and wireless correspondences: both the end-customer supplies, and the raw form products that used in end products. Apple is business pioneer in the handset sector of this industry on the basis of market share. It is followed by Samsung, Nokia, HTC, Sony, Blackberry, and Huawei.

The telecommunications equipment industry, specifically, has seen troublesome working conditions around the technology industries throughout the last a few years. The troublesome operating conditions are the consequence of two underlying issues. To start with, after a quick development of wireless system by the service provider (firms, for example, Verizon Wireless that give telecommunication services to the end-customer) in 2000, the interest for equipment by the serviceprovider dropped nearly 15% in 2001 and likely dropped by even a higher rate in 2002.(Yahoofinance). Second, the interest for third generation (3g) wireless innovations (which consists ofmobile information benefits that can combine voice, information, email, PDA, & different characteristics) has

not advanced as fast obviously. Wireless endorsers have decided to not restore their handsets with the new 3g innovations in calculation of the cost of the product dropping. (Yahoo. Finance).

The telecommunication equipment industry has a beta coefficient of 2.09, demonstrating to some extent the troublesome operating circumstances in the business as amagnification of the poor conditions in the economy over all.(yahoo.marketguide.com). A key market division inside the telecommunications business is the wireless cell (phone) section, both as a result of its size and in light of its perceive ability to end-shoppers. Apple is business sector pioneer having a significant share of the overall industry. Samsung is on second number in term of innovation and productivity. Samsung, with market share, however Samsung's solid technology and critical assets posture huge challenge to Apple and Nokia's authority positions. In this cell industry Apple's iPhone has some inventive characteristic that is most attractive to shopper. Samsung is the real contender as it presented Galaxy Android telephones which are competing to iPhone. The market share of Samsung's Galaxy telephone is expanding as Samsung launched new models after a certain period to capture the more and more market share. Samsung likewise personal Tablet, it is competing result of Apple's iPad.Samsung also new products related to this industry to capture the greater portion of market. This is why the Samsung has the most probability of gaining market leadership.

RATIOS	SAMSUNG	Industry
Current ratio	1.86	1.48
Quick ratio	1.43	1.20
Debt/ Equity Ratio	0.49	0.13
Inventory Turnover Ratio	7.83	45.14
Net Profit Margin	11.86	20.65
Price/Earnings Ratio	9.90	33.14
Return on Equity	19.63	0.275
Return on Asset	0.13	0.169
Asset Turnover	1.11	0.82

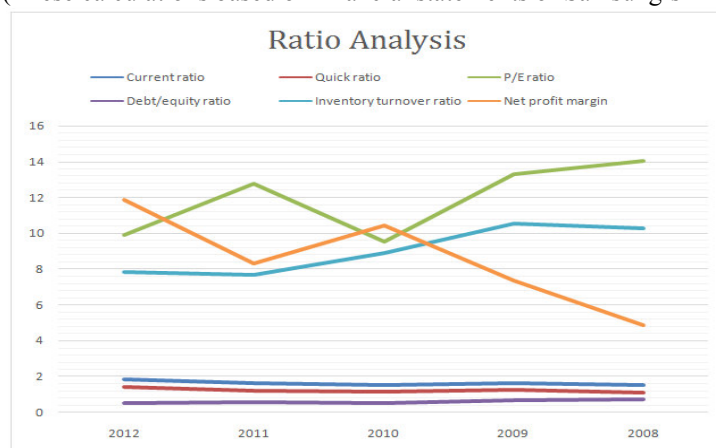
(These calculations based on financial statements of Samsung's Annual Reports)

4. Financial Ratio Analysis

A ratio analysis of Samsung from year 2008 to 2012 is shown in the table below:

Ratios	2012	2011	2010	2009	2008
Current ratio	1.86	1.61	1.53	1.64	1.52
Quick ratio	1.43	1.20	1.14	1.27	1.09
P/E ratio	9.90	12.81	9.53	13.31	14.07
Book value/share	702.17	529.15	468.40	306.96	237.73
EPS	143.8	77.23	93.07	56.13	29.98
Debt/equity ratio	0.49	0.52	0.50	0.67	0.72
Inventory turnover ratio	7.83	7.66	8.88	10.52	10.28
Netprofitmargin	11.86	8.32	10.44	7.36	4.86

(These calculations based on financial statements of Samsung's Annual Reports)

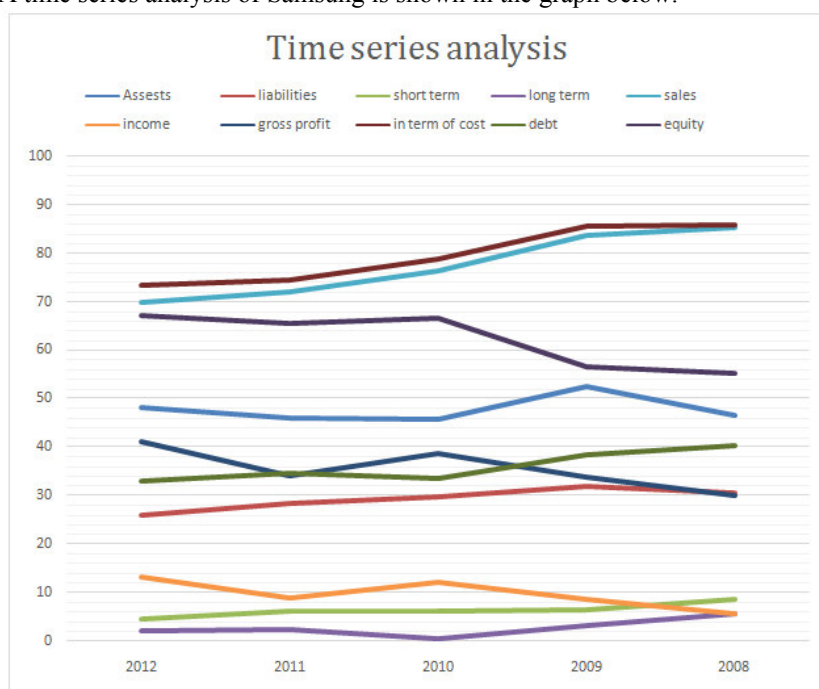


Current ratiotells that how much current assets company have to meet there short term liabilities. From 2012 to

onwards current ratio of Samsung is increasing every year. The reason for that is Financial statements of Samsung shows that it's short term assets are going to increase and short term liabilities are reduced that's why they are leads towards better current ratio. *Quick Ratio* is an indicator of company's short-term liquidity. It measures the ability to use its quick assets (cash and cash equivalents, marketable securities and accounts receivable) to pay its current liabilities. Quick ratio specifies whether the assets that can be quickly converted into cash are sufficient to cover current liabilities. Samsung quick ratio also have an increasing from 2008 to 2012. The reason for increasing quick ratio is company may keep too much cash on hand or have a problem collecting its accounts receivable. *Price earnings ratio* tells that how much investor is willing to pay for per rupee of earning. Financial statements of company shows that price earnings ratio is decreased every year. The reason for that is P/E ratio depends on both the industry sector as well as the stock itself. A high P/E ratio signifies that people are willing to pay a higher price for the stock in anticipation of future company performance. The other reason was might be due to investor attitudes towards Samsung because investor attitudes also matters. *Book value per common share* is the amount of money that each holder of a common share would get if company was liquidated. This is the amount which would be paid after the payment of dividend of preferred share holder, interest of debenture holder and other debts. Book value of Samsung is increasing very quickly from 2008 to 2012. The reason for that is value of total common shareholders equity becomes greater, but number of share outstanding not increasing very much in each year, that's why the company book value is increasing. Book value also shows there is no risk of liquidation, so Samsung have no risk of liquidation. *Earnings per share* ratios shows that how many rupees of net income is earned by each share of common stock. Earnings per share of company also have been increasing very quickly. The reason for that is company stock price rises faster than a company's earnings. *Debt to equity ratio* tells that for 1 Rupee of equity how much debt company is using. Financial statements of Samsung shows that this ratio of company is decreasing every year continuously. The reason for that is due to increase in shareholder equity of the company the debt is decreased so they more rely on equity than debts, that's why the company debts is decreasing year by year. *Inventory turnover ratio* is one of the efficiency ratios and measures the number of times, on average, the inventory is sold and replaced during the fiscal year. The inventory turnover ratio of Samsung is decreasing every year by year. The reason for that is due to so much increase in sales they hold less inventory and quickly sale there items. *Net profit margin* is a key financial indicator used to assets the profitability of a company. Net profit ratio of SAMSUNG has increased in every year from 2008 to 2012 except 2011. The reason for that is company efficiently controls its costs. The higher the margin is, the more effective the company is in converting revenue into actual profit.

5. Time Series Analysis

A time series analysis of Samsung is shown in the graph below:



Short Term Liquidity include two items to judge the short term financial position of the company. The items are current and quick assets. According to horizontal analysis these items shows Samsung have a good financial

position. There assets are increased in terms of cash and there liabilities are increasing or decreasing trend as compared to previous year because the volume of the Samsung increased. The trend that shows these ratios are positive and increasing trend except 2010. *Debt structure* can include short term and long term debt of a company. After doing horizontal analysis Samsung company debt structure shows that companies' short term and long term debt should be decreased every year. The reason for that is company is using more equity portion due to increase in sales and profits. *Capital structure* can include how much company is using debt and equity. From the above graph researcher see that debt of the company should be decreased every year and equity should be increased every year. It means the company have upward trend in equity and downward trend in debt. The reason for that is due to increase in assets of the company they rely more on equity portion as compared debt. *Profitability* has shown that company has high profits due to increase in sales. The profit ratio is high but fluctuate as compared to previous years. The gross profit of the company have stable increasing trend but due to high operating expense the net profit should fluctuate. The trend in profitability ratio has increasing except 2011. *Efficiency* can include two items such as assets and operating costs. The assets of the company can increase every year. It can change every year as an increasing trend. So researcher say that they have an increasing trend in it. On the other hand operating expense of the company should also increase due to more sales every year. So researcher say that there is also an increasing trend in it. *Operations management* can include operating ratio that shows the efficiency of a company's management by comparing operating expense to net sales. After doing a horizontal analysis operating ratio shows increasing year by year. So this shows that companies operating expense can increase every year. The trend that shows is an increasing trend in it because every year the ratio should be increased.

7. DuPont System of Financial Analysis

A DuPont analysis of Samsung and Apple industry is shown in the table below. The story told by the DuPont analysis is similar to the story told by analyzing ratios.

	SAMSUNG	APPLE (COMPITITORS)
ROE (Return on Equity) =	13.16 % =	23.14 % =
NPM (Net Profit Margin) X	11.85% X	26.66% X
TAT (Total Asset Turnover)	1.11	0.89
ROE =	19.6% =	37.6% =
ROA X	13.16% X	23.14% X
A/E (Assets/Equity)	1.49	1.58

$$\text{ROA} = \text{NPM} * \text{TAT}$$

$$\text{ROE} = \text{ROA} * \text{A/E}$$

Organization Samsung demonstrating that the rate of profit for the shareholders' value is short of what the Apple business.

The segments of the proportions demonstrate that the wellspring of the shortcoming of Samsung net overall revenue degree is more level than the Apple business. Apple has favorable element in its influence proportion (Assets to Equity of 1.58 contrasted with 1.49 for the Samsung business) yet the utilization of benefits (Total Asset Turnover of Samsung 1.11 contrasted with Apple 0.89). Overall return on equity is less than the competitor. DuPont Analysis shows that Samsung is just unable to generate sufficient profits from its sales revenue. Competitors getting more market shares. The profit margin of the Samsung is less because its operating cost is high. Samsung invest huge funds on R & D to create innovative products and compete in the market. And this impact ROA negatively.

8. Conclusion

In this paper, researchers demonstrated that financial ratio analysis is difficult for organizations that don't punctually fall into a solitary industry. Samsung has four working units that fall into a few industries with two businesses representing the majority of the sales is telecommunications and semi-conductor industry. In this research paper our real focus is on semi-conductor industry. Researcher principal the financial ratio analysis. However, a more applicable picture of the working attributes of Samsung is attained by expanding the wide range quality of the analysis, that is, by contrasting Samsung with Apple. In spite of the fact that Apple's iPhone

have incredible business respectability however Samsung's Galaxy Series additionally have developing trend. It is reasoned that general volume of business of Samsung is developing. Samsung's liquidity and profitability has positive pattern. Although Samsung's business have growing trends but it is lower as compare to its competitor (Apple) in return on equity and in return on assets. This financial analysis of Samsung demonstrate that what are the financial elements that effect the performance, profitability and market share of Samsung.

9. Suggestion & Recommendations

Samsung organization is one of the greatest advanced product makers on the planet. To utilize its overall capacities and critical business sector data, Samsung has planned three select promoting models to launch three in the same way innovative, yet distinctive, items. Samsung rouses better approach for life and ideas for life everywhere throughout the world. Through powerful, distinctive systems to individual business sector it has taken care of its business ideas - to give its enlisting and innovative development to the development of an overall gathering through ever better items and administrations Samsung ought to control the oversupply of their items as contrasted with the business request and are additionally ought to control aberrant costs expense and ought to concentrate on advertise in which development open door are accessible for Samsung. Furthermore ought to likewise solid the benefit proportions and charged sensible premium on innovative items. What is more ought to made polices for the wellbeing of their liquidity position. Samsung should produce those products that last longer and longer to differentiate itself from competitors.

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