Samsung and Sony Close the S-LCD Joint Venture: What Next?

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On December 26, Sony announced the end of S-LCD, their joint venture with Samsung, which entails Gen 7 and 8 TFT LCD fabs. The joint venture, which started in 2004 and was strengthened through agreements and investments in 2006, 2007 and 2008, was owned 50% (+1 share) by Samsung and 50% (-1 share) by Sony, and was the largest joint venture in TFT LCD industry.

Sony decided to pull back from the joint venture in 2012, and sell its share to Samsung, making S-LCD a wholly-owned subsidiary of Samsung, who will pay KRW1.08 trillion to Sony. The reason for the closure, as Sony revealed, is that “LCD panel and TV market conditions have now changed. In order to respond to such challenging conditions and to strengthen their respective market competitiveness, the two companies have agreed to shift to a new LCD panel business alliance.”

At the same time, the companies signed a new agreement for supply and purchase of LCD panels. What are the implications of this change for Sony and Samsung?

• Sony’s panel sources will change, but probably in 2013 rather than 2012. Sony needs a stable and consistent supply of quality LCD TV panels, and we believe Samsung will supply more than half of Sony’s LCD TV panels. Sony’s other suppliers are AUO, Chimei Innolux, and LG Display (according to our analysis), but Sony does not seem to be increasing purchases from others in 2012. In the longer term, Sony will have the freedom to source TV panels from all suppliers.
• With more panel sourcing flexibility, Sony can reduce the use of Samsung panels, and focus on differentiating its LCD TV products.
• Sony is changing its business model, shifting more to BMS (backlight module system). Sony plans to purchase open cells from panel vendors and do the final TV set assembly at both OEM partners and in-house TV assembly lines. Thus, Sony will buy more open cells and fewer finished LCD modules.
• Sony might adjust their 2012 LCD TV shipment plan. The original plan was 22M, but it will likely be lowered to 20M and more focused on higher-end models. Sony is also shifting its promotional activities to China and other Asian markets, and to Latin America.
• Samsung LCD will have more flexibility in their fab product mix. As we have analyzed, without Gen 6 lines, Samsung is limited in its mix of IT and TV panel production. With the joint venture closed, Samsung will have more flexibility in how it allocates its Gen 7 and 8 fabs. This may help Samsung optimize its fabs for profitability.
• Samsung’s TV business continues to be the largest TV customer for Samsung LCD. And with no obligation to Sony, it is possible that the Samsung group will move to in-house LCD panel – LCD TV business.

• It’s also possible that the Samsung group will have more freedom to implement its AMOLED strategy, including the integration of SMD (Samsung Mobile Display) and the transformation of the Gen 8 fab from TFT LCD to AMOLED. Thus, the new Samsung could further integrate its LCD panel, AMOLED, and finished good production.

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