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Short Seller Criticizes Research on Universal Display (OLED)

Universal Display Corp. (Nasdaq: OLED) declined on Friday after short seller Manuel Asensio-Garcia made comments on the stock. A note circulated by Asensio took aim at Goldman Sachs analyst Brian Lee. Lee believes that Samsung's Note 3 and Galaxy Gear smartwatch will include Universal Display Corp. (Nasdaq: OLED) material. Lee's claim appears to be based on channel checks. In Asensio view, this doesn't fit with management comments and he believes Lee's assumptions are overly aggressive.

Lee wrote, "Our SEC analyst Michael Bang estimates 15mn Galaxy Note 3 units to ship in 2H13, given best-in-class hardware and continued software/feature innovations that should allow the company to continue dominating the large display smartphone (phablet) segment. We see this boding well for OLED as our channel checks suggest both the Galaxy Note 3 and Galaxy Gear will use the company's materials. In particular, we believe the Note 3 is likely to use a similar recipe of both red emitter and green emitter/host materials from OLED that is currently designed into Samsung's flagship Galaxy S IV smartphone. Given the larger screen size of the Note 3 relative to the S IV (5.7" vs. 4.99"), we estimate 15mn Note 3 units equates to roughly 20mn S IV units on a like-for-like revenue impact basis to OLED."

Asensio wrote, "Perhaps Mr. Lee is confused and simply missed UDC's public proclamation. Immediately before the second quarter was announced, Mr. Lee spoke to UDC's management during a public meeting. A transcript of this meeting is available. During the open discussion, Mr. Lee repeatedly probed and questioned UDC's management about what they knew about Samsung's recipe for the Samsung Galaxy S IV. Oddly UDC denied knowledge in many different ways. UDC told Mr. Lee that they didn't know, that Samsung had no obligation to tell them and that they could not speak for Samsung. In fact, UDC refused even to confirm that the Galaxy S IV used green phosphorescent emitter material or that if Samsung was using phosphorescent green emitter material, whether UDC was the supplier, exclusively or otherwise. More concrete is the wild disconnect between UDC's reported sales and timing of Samsung's build-up of startup inventory of new products, the timing of its purchases of UDC's green phosphorescent product, the decline in unit pricing and margins of UDC's red phosphorescent emitter material sales to Samsung versus to the timing of introduction of the Galaxy S IV phones and now the Galaxy Note 3."