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BUY (maintain)

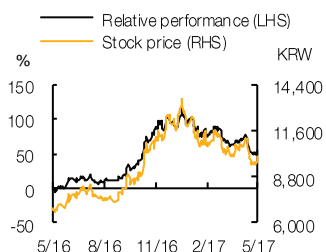
Target Price	KRW14,000
Upside/Downside	40.3%
Current price (May 26)	KRW9,980
Consensus Target price	KRW14,250

Forecast earnings & valuation

FY-end	2016A	2017E	2018E	2019E
OR (KRWbn)	792	851	900	952
OP (KRWbn)	40	44	57	80
NP (KRWbn)	29	29	41	61
EPS (KRW)	1,326	1,257	1,789	2,631
EPS Growth (%)	32.6	-5.2	42.3	47.1
PER (x)	9.1	7.9	5.6	3.8
EV/EBITDA (x)	5.4	3.6	2.3	1.1
PBR (x)	1.5	1.1	1.0	0.8
ROE (%)	17.5	15.1	18.6	22.7
Div. Yield (%)	1.7	2.0	2.0	2.0

Performance

(%)	1M	3M	6M	12M
Absolute	-6.7	-6.7	-10.9	45.7
Relative	-8.3	-11.2	-17.5	55.1



Trading Data

Market cap	USD203mn
Free float	58.4%
Avg T/O Val (3M, KRWbn)	2.5
Major shareholders	Simmtech Holdings and 1 others 41.5%

Source: KB Securities, Simmtech

Simmtech (222800)

Entry into Peak Season

- ✓ **Entry into peak season in 2H17**
- ✓ **Customer base diversification to take effect**
- ✓ **BUY kept with target price of KRW14,000**

▶ Entry into peak season in 2H17

1Q17 OR and OP stood at KRW190.9bn (down 3.5%YoY) and KRW5.3bn (down 15.3%YoY), respectively. OR drop amid low USD/KRW rates (down 3.9%YoY on average based on USD) is attributed to an earnings slump. OP margin decreased slightly (1Q16 3.2% → 1Q17 2.8%) compared to a high operating leverage relative to OR stemming from the nature of the business that entails a high fixed cost burden. This is partly because efficiency has improved via improved sales mix.

▶ Sluggish smartphone sales in China: Likely to bottom out

We focus on changes in substrate sales, which command the largest proportion of the company's OP. We already anticipated sluggish demand in China via TSMC's lackluster earnings trend, and therefore, shares of Simmtech displayed a bearish trend. However, this should normalize from 1H17. With peak demand combined with demand for new smartphones, 2H17 earnings are forecast to see significant growth.

▶ Diversification of clients begins

Sales mix has also improved. As for FC-CSP (primarily for AP-purpose products), sluggish earnings from clients in Greater China seem to be being offset by rising demand from domestic clients. We surmise that the diversification of clients has spawned desired effects. Accordingly, we revised up our OR estimate slightly (up 2.5%).

▶ BUY kept with target price of KRW14,000

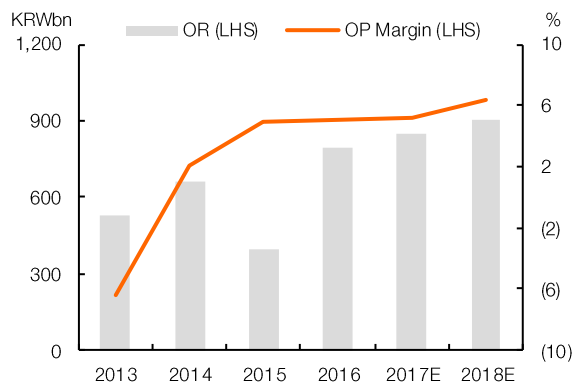
Simmtech's share price has recently faltered, burdened by sluggish revenues from Greater China and concerns over adoption by clients, but we believe the share price pullbacks are excessive. It seems positive that Simmtech is overcoming its business structure vulnerable to FX rate changes by improving its sales mix and diversifying its client base. In 2H17, seasonal demand should be strong and clients in Great China should see earnings turnarounds. Therefore, Simmtech's current share price hints at very strong valuation merits.

Table 1. Simmtech's earnings trend and estimates

(KRWbn)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17E	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	2016	2017E	2018E
OR	198	187	203	205	191	200	225	235	200	210	240	250	792	851	900
Module PCB	78	64	65	77	59	61	69	71	60	62	69	72	285	260	263
Substrate	119	120	134	124	130	136	153	161	137	145	168	175	497	580	625
Others	1	3	3	4	2	3	3	3	3	3	3	3	11	11	12
OP	6	6	11	16	5	8	14	17	8	10	18	21	40	44	57
OP margin (%)	3.2	3.2	5.7	8.0	2.8	4.0	6.2	7.2	4.0	4.8	7.5	8.4	5.1	5.2	6.3
NP	5	1	14	9	3	5	9	12	5	6	14	16	29	29	41
NP margin (%)	2.3	0.5	7.1	4.4	1.5	2.5	4.0	5.1	2.5	2.9	5.8	6.4	3.7	3.4	4.6
Growth (YoY, %)															
OR			8.2	(1.6)	(3.5)	7.1	11.1	14.7	4.8	5.0	6.7	6.4	100.3	7.4	5.8
OP			55.3	35.8	(15.3)	32.3	22.0	3.7	49.8	25.0	28.6	23.5	106.7	10.2	28.6
NP			531.5	12.3	(39.4)	431.8	(37.8)	31.8	78.8	20.0	55.6	33.3	180.1	(1.2)	42.4

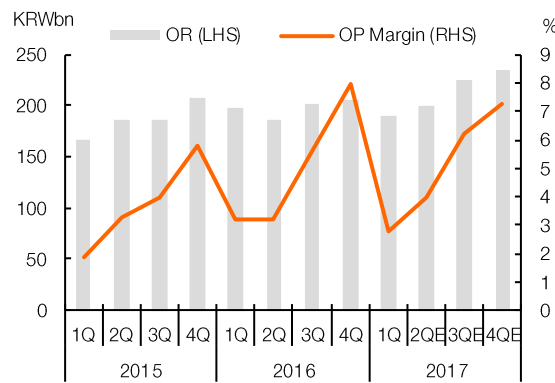
Source: Company data, KB Securities
 Note: Listed on Aug 7, 2015

Fig 1. Annual earnings trend and estimates



Source: Company data, KB Securities

Fig 2. Quarterly earnings trend and estimates



Source: Company data, KB Securities

Profit & Loss					
(KRWbn)	2015A	2016A	2017E	2018E	2019E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Operating revenue	396	792	851	900	952
Cost of sales	350	694	758	801	848
Gross profit	45	99	93	99	105
SG&A expenses	26	58	50	42	25
Operating profit	20	40	44	57	80
EBITDA	41	84	88	101	124
Non-operating accounts	-7	-6	-8	-6	-4
Interest income	0	0	0	0	0
Interest expenses	4	8	8	4	4
Profit on equity method	0	7	-3	0	0
Net other non-operating income	0	-1	1	0	0
Profit before tax	12	35	36	52	76
Income tax expense	2	5	7	10	15
Net profit	10	29	29	41	61
Profit attributable to owners of parent	10	29	29	41	60
Adj. net profit	10	29	29	41	60

Operating Statistics & Ratios					
(%)	2015A	2016A	2017E	2018E	2019E
OR growth	NA	100.3	7.4	5.8	5.8
OP growth	NA	106.2	9.2	30.1	39.8
EBITDA growth	NA	104.1	5.1	14.9	22.4
NP growth of parent	NA	179.8	-1.7	42.3	47.2
GP margin	11.5	12.4	11.0	11.0	11.0
OP margin	4.9	5.1	5.2	6.3	8.4
EBITDA margin	10.4	10.6	10.3	11.2	13.0
EBT margin	3.1	4.4	4.3	5.7	8.0
NP margin	2.6	3.7	3.4	4.6	6.4

Cash Flow					
(KRWbn)	2015A	2016A	2017E	2018E	2019E
Cash flow from operating activities	66	40	95	85	105
Net profit	10	29	29	41	61
Depreciation & amortization	22	43	44	44	44
Other non-cash adjustments	11	22	13	10	15
Investments in working capital	27	-48	17	0	0
Decrease(Increase) in Receivables	9	0	17	0	0
Decrease(Increase) in Inventories	9	-12	-8	0	0
Increase(Decrease) in Payables	14	4	9	0	0
Other operating cash flow	-4	-7	-8	-10	-15
Cash flow from investing activities	-16	-42	-5	0	0
Capital expenditure	-21	-39	-6	0	0
Investments in intangibles	-1	-1	0	0	0
Changes in investment assets	1	-2	0	0	0
Other investment cash flow	2	0	0	0	0
Cash flow from financing activities	-47	0	-16	-5	-5
Proceeds from (repayments of) debt	-47	3	-19	0	0
Changes in equity	0	3	3	0	0
Dividends paid	0	-6	-5	-5	-5
Other financing cash flow	0	0	5	0	0
Other cash flow	0	0	0	0	0
Increase/decrease in cash	3	-2	74	81	100
Cash and cash equivalents at FYE	3	2	75	156	256
Free cash flow	45	1	90	85	105
Net cash flow	0	-7	96	81	100
Net cash (net debt)	-175	-182	-86	-5	95

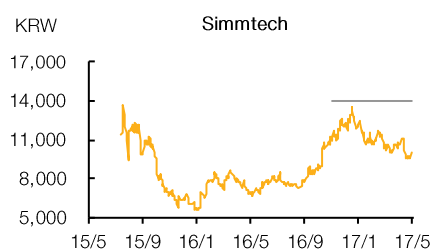
Source: Simmtech, KB Securities

Statement of financial position					
(KRWbn)	2015A	2016A	2017E	2018E	2019E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Total assets	548	601	609	646	702
Current assets	143	192	246	326	426
Cash and cash equivalents	3	2	75	156	256
Current financial assets	0	0	0	0	0
Trade receivables	46	81	54	54	54
Inventories	84	96	103	103	103
Other current assets	10	12	13	13	13
Non-current assets	405	410	364	320	276
Investment assets	2	18	14	14	14
Property, plant and equipment	354	344	302	260	217
Intangible assets	28	29	25	24	22
Other non-current assets	1	1	4	4	4
Total liabilities	394	422	408	408	408
Current liabilities	290	317	300	300	300
Trade payables	81	73	75	75	75
Short-term financial liabilities	104	128	106	106	106
Other current liabilities	105	116	120	120	120
Non-current liabilities	104	105	108	108	108
Non-current financial liabilities	74	55	55	55	55
Other non-current liabilities	0	8	8	8	8
Total equity	155	179	201	238	294
Issued capital	11	11	11	11	11
Share premium	138	20	23	23	23
Other equity interest	0	0	0	0	0
Accumulated other comprehensive income	-1	-1	-7	-7	-7
Retained earnings	7	149	173	209	264
Equity attributable to owners of parent	155	179	200	236	292
Non-controlling interests	0	0	1	2	2

Main Ratio					
(X, %, KRW)	2015A	2016A	2017E	2018E	2019E
Multiples					
PER	6.6	9.1	7.9	5.6	3.8
PBR	0.9	1.5	1.1	1.0	0.8
PSR	0.2	0.3	0.3	0.3	0.2
EV/EBITDA	7.8	5.4	3.6	2.3	1.1
EV/EBIT	16.4	11.2	7.1	4.1	1.7
Dividend yield, ordinary (%)	4.0	1.7	2.0	2.0	2.0
EPS	1,000	1,326	1,257	1,789	2,631
BPS	7,046	8,007	8,798	10,387	12,818
SPS	38,008	36,036	37,398	39,555	41,840
DPS (Annual, Ordnrly.)	260	200	200	200	200
Cash dividends payout ratio (%)	54.8	15.3	15.9	11.2	7.6
Operating performance					
ROE	6.7	17.5	15.1	18.6	22.7
ROA	1.9	5.1	4.8	6.6	9.0
ROIC	9.5	9.5	10.5	16.4	27.3
Financial structure (%)					
Total liab./equity	254.0	235.5	203.0	171.6	138.8
Net debt/equity	112.9	101.4	42.6	2.0	Net Cash
Current Ratio	0.5	0.6	0.8	1.1	1.4
Interest coverage (x)	4.5	4.9	5.6	16.3	19.9
Activity ratios	0	0	0	0	0
Asset turnover (x)	0.0	1.4	1.4	1.4	1.4
Receivables turnover (x)	0.0	12.4	12.6	16.7	17.6
Inventory turnover (x)	0.0	8.8	8.5	8.7	9.2

Disclosures

■ Rating and Target Price Changes (Share price -, Target Price -)



Company	Date	Rating	Target Price (KRW)
Simmtech	16/11/28	BUY	14,000

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■ Classification and Standards for Investment Rating

Investment Rating for Company (based on estimation of six-month absolute returns)		
BUY: +15% or beyond	HOLD: Between 15% and -15%	SELL: -15% or beyond

Note: KB Securities's classification of investment ratings has shifted from four stages (Strong BUY, BUY, Marketperform, Underperform) to three stages (BUY, HOLD, SELL) based on Korean reports since February 23, 2017.

Investment Rating for Industry (based on estimation of six-month absolute returns)		
Overweight: To outperform market	Neutral: To match market performance	Underweight: To underperform market

■ Proportion of investment rating (as of March 31, 2017)

BUY	HOLD	SELL
84.3	15.7	-

Note: Based on reports presented with investment ratings over the past one year

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