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Company Update



Jongwook Lee

Analyst

jwstar.lee@samsung.com

822 2020 7793

Dexter Lee

Research Associate

dexter.lee@samsung.com

822 2020 7807

Simmtech (222800)

Focus on SSD and server related sales growth

- Simmtech's 2Q operating profit of KRW7.9b met our expectations. The company tends to perform stronger in 2H should deliver better earnings h-h backed by three growth drivers—ie, SSD module PCBs, server modules, and SiPs.
- We reiterate BUY and our 12-month target price of KRW13,500.

WHAT'S THE STORY?

2Q results in-line: Simmtech's sales and operating profit in 2Q reached a respective KRW199.4b (up 7% y-y and 4% q-q) and KRW7.9b (up 32% y-y and 49% q-q), in line with guidance and our forecasts. That package substrates sales (SPS unit; mainly server-, SSD-, and mobile-use components) outpaced module PCB ones (HDI business) is positive.

Investment strategy: Simmtech has technologies that align with long-term market trends and its earnings have been improving qualitatively. The stock, while unlikely to post large, near-term gains, should start rallying to reflect the firm's growing earnings. We see now as a good entry point, believing clients' sales of SSDs and APs (the latter shipped to Chinese clients) should pick up h-h in 2H, a seasonally strong time for the firm. We reiterate BUY and our target price of KRW13,500.

Growth drivers: We forecast earnings will be driven by: 1) growing demand for SSD and server modules in the big-data era; 2) increasing use of SiP applications; and 3) a recovery of FC-CSP demand from China.

- The company's SSD-related sales missed expectations in 1H but SSD shipments at clients should rebound from 2H, while server module sales are growing solidly.
- iPhone adopting an SLP (mSAP) mainboard has put SiP substrates in the spotlight. The firm has yet to reveal how it will capitalize on its SLP technology.
- Smartphone makers in China performed poorly in 1H, but AP demand from that nation has been recovering since June.

Lowering estimates: Simmtech boasts earnings stability backed by steady sales of flagship-products, but its high operating leverage poses an intrinsic risk. We implement a more conservative assumption regarding such leverage and thus cut our 2017 operating profit forecast by 14% to KRW44.8b. Positively, reductions in interest costs and equity-method losses should bolster the non-operating side.

AT A GLANCE

SELL HOLD **BUY**

Target price KRW13,500 (35.1%)

Current price KRW9,990

Market cap KRW227.3b/USD201.36m

Shares (float) 22,752,959 (58.4%)

52-week high/low KRW13,550/KRW7,250

Avg daily trading value (60-day) KRW4.1b/USD3.6m

ONE-YEAR PERFORMANCE

	1M	6M	12M
Simmtech (%)	-3.5	-14.2	21.7
Vs Kosdaq (%pts)	-0.8	-18.8	32.1

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	13,500	13,500	0.0%
2017E EPS	1,370	1,372	-0.1%
2018E EPS	1,921	1,811	6.1%

SAMSUNG vs THE STREET

No of estimates	4
Target price	14,375
Recommendation	4.3

BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1

SUMMARY OF 2Q RESULTS

(KRWb)	2Q17		Chg		Diff (%)	
			(% y-y)	(% q-q)	Samsung	Consensus
Sales	199.4	6.8	4.4		1.7	0.7
Operating profit	7.9	30.9	48.0		(2.8)	(2.8)
Pre-tax profit	6.3	576.8	68.4		53.9	18.1
Net profit	5.9	505.1	134.3		78.0	25.5
Margins (%)						
Operating profit	4.0					
Pre-tax profit	3.2					
Net profit	3.0					

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

	2016	2017E	2018E
Multiples (x)			
P/E	7.5	7.3	5.2
P/B	1.2	1.1	0.9
EV/EBITDA	4.9	3.9	3.0
Div yield (%)	2.0	2.5	3.0
EPS growth (% y-y)	32.6	3.4	40.2
ROE (%)	17.5	16.2	19.5
Per-share data (KRW)			
EPS	1,326	1,370	1,921
BVPS	8,010	9,030	10,702
DPS	200	250	300

Quarterly results

(KRWb)	2Q17	1Q17	2Q16	Change	
				(% q-q)	(% y-y)
Sales	199.4	190.9	186.7	4.4	6.8
Operating profit	7.9	5.3	6.0	48.8	31.7
Pre-tax profit	6.3	3.7	0.9	69.3	580.2
Net profit	5.9	2.5	1.0	134.3	505.1
Margins (%)					
Operating profit	4.0	2.8	3.2		
Pre-tax profit	3.2	2.0	0.5		
Net profit	3.0	1.3	0.5		

Source: Company data, Samsung Securities

Full-year forecast revisions

(KRWb)	Old		New		Diff (%)	
	2017E	2018E	2017E	2018E	2017E	2018E
Sales	832.3	858.2	820.7	842.6	(1.4)	(1.8)
Operating profit	52.3	64.3	44.8	57.0	(14.3)	(11.3)
Pre-tax profit	39.2	51.0	38.6	54.1	(1.4)	6.1
Net profit	31.2	41.3	31.2	43.9	(0.1)	6.1

Source: Samsung Securities estimates

Target-price calculation

(KRW)	2017E
EPS	1,370
Target P/E (x)	10
Fair value	13,703
Target price	13,500
Current price	9,990
Upside (%)	35.1

Source: Samsung Securities estimates

Results and forecasts

(KRWb)	1Q17	2Q17	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	2016	2017E	2018E
Sales	190.9	199.4	208.9	221.5	192.3	204.3	215.7	230.3	792.0	820.7	842.6
Module PCB	58.6	65.4	66.8	73.5	57.7	66.7	69.3	77.6	275.2	264.3	271.2
Package substrate	130.4	134.0	140.5	146.6	133.2	136.1	144.8	151.4	506.0	551.4	565.5
Other	2.0	0.0	1.6	1.4	1.4	1.5	1.6	1.4	10.7	5.0	5.9
Operating profit	5.3	7.9	12.3	19.2	9.6	11.3	15.5	20.6	40.2	44.8	57.0
Pre-tax profit	3.7	6.3	10.8	17.8	8.8	10.5	14.8	20.0	34.7	38.6	54.1
Net profit	2.5	5.9	8.7	14.0	7.1	8.5	12.0	16.2	29.3	31.2	43.9
Margins (%)											
Operating profit	2.8	4.0	5.9	8.7	5.0	5.5	7.2	8.9	5.1	5.5	6.8
Pre-tax profit	2.0	3.2	5.2	8.0	4.6	5.2	6.9	8.7	4.4	4.7	6.4
Net profit	1.3	3.0	4.2	6.3	3.7	4.2	5.6	7.0	3.7	3.8	5.2

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2015	2016	2017E	2018E	2019E
Sales	395	792	821	843	863
Cost of goods sold	350	694	708	716	733
Gross profit	45	98	113	127	130
Gross margin (%)	11.5	12.4	13.7	15.0	15.0
SG&A expenses	26	58	68	70	70
Operating profit	19	40	45	57	60
Operating margin (%)	4.9	5.1	5.5	6.8	6.9
Non-operating gains (losses)	(7)	(5)	(6)	(3)	(2)
Financial profit	10	18	12	5	5
Financial costs	17	30	19	10	9
Equity-method gains (losses)	0	7	(1)	2	2
Other	(0)	(0)	2	1	1
Pre-tax profit	12	35	39	54	58
Taxes	2	5	7	10	11
Effective tax rate (%)	14.2	15.7	19.2	19.0	19.0
Profit from continuing operations	10	29	31	44	47
Profit from discontinued operations	0	0	0	0	0
Net profit	10	29	31	44	47
Net margin (%)	2.6	3.7	3.8	5.2	5.4
Net profit (controlling interests)	10	29	31	44	47
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	41	84	88	100	102
EBITDA margin (%)	10.4	10.6	10.7	11.8	11.8
EPS (parent-based) (KRW)	1,000	1,326	1,370	1,921	2,047
EPS (consolidated) (KRW)	1,003	1,333	1,375	1,928	2,053
Adjusted EPS (KRW)*	1,000	1,326	1,370	1,921	2,047

Cash flow statement

Year-end Dec 31 (KRWb)	2015	2016	2017E	2018E	2019E
Cash flow from operations	66	39	95	69	88
Net profit	10	29	31	44	47
Non-cash profit and expenses	32	65	58	57	57
Depreciation	21	41	42	42	42
Amortization	1	2	2	1	1
Other	11	22	15	14	14
Changes in A/L from operating activities	27	(48)	20	(14)	1
Cash flow from investments	(16)	(42)	(23)	(21)	(24)
Change in tangible assets	(21)	(38)	(25)	(22)	(25)
Change in financial assets	(2)	(0)	(0)	(0)	(0)
Other	7	(3)	2	1	1
Cash flow from financing	(47)	0	(59)	(41)	(37)
Change in debt	23	6	(55)	(35)	(30)
Change in equity	114	(117)	0	0	0
Dividends	0	(6)	(4)	(6)	(7)
Other	(184)	118	0	0	0
Change in cash	3	(2)	11	9	28
Cash at beginning of year	0	3	1	13	22
Cash at end of year	3	1	13	22	50
Gross cash flow	43	94	90	101	103
Free cash flow	45	0	70	47	63

Note: * Excluding one off items, ** Fully diluted, excluding one-off items

*** From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

Balance sheet

Year-end Dec 31 (KRWb)	2015	2016	2017E	2018E	2019E
Current assets	143	192	191	205	237
Cash & equivalents	3	1	13	22	50
Accounts receivable	46	81	68	70	72
Inventories	84	96	97	99	102
Other current assets	10	13	13	14	14
Fixed assets	405	410	391	371	354
Investment assets	2	18	17	18	18
Tangible assets	354	344	327	308	291
Intangible assets	28	29	27	26	25
Other long-term assets	21	20	20	20	20
Total assets	548	601	582	575	591
Current liabilities	290	317	269	243	252
Accounts payable	81	73	79	82	84
Short-term debt	39	54	74	49	29
Other current liabilities	170	190	116	112	140
Long-term liabilities	104	105	107	89	55
Bonds & long-term debt	74	55	55	35	0
Other long-term liabilities	30	50	52	53	54
Total liabilities	393	422	376	331	307
Owners of parent equity	155	179	205	243	283
Capital stock	11	11	11	11	11
Capital surplus	137	20	20	20	20
Retained earnings	7	149	175	213	253
Other	(1)	(1)	(1)	(1)	(1)
Non-controlling interests' equity	0	0	1	1	1
Total equity	155	179	206	244	284
Net debt	175	182	116	72	14

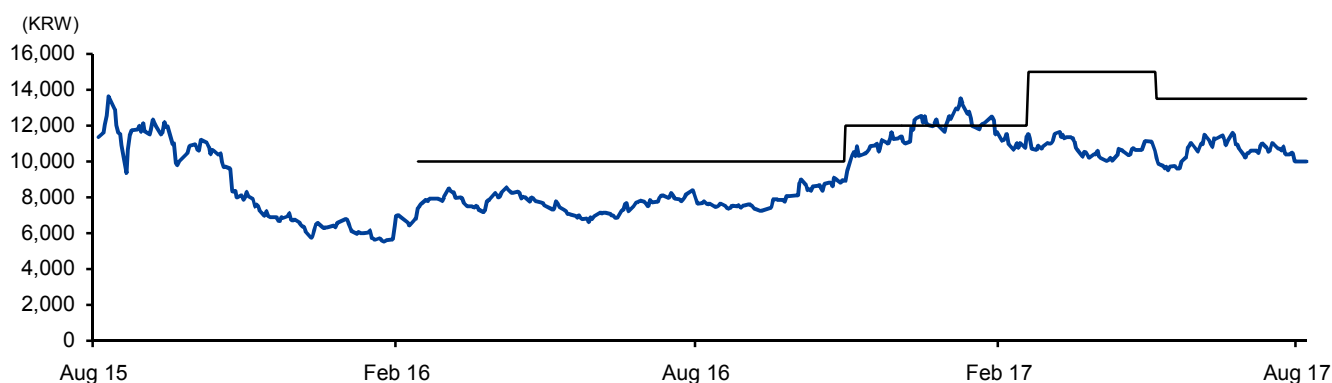
Financial ratios

Year-end Dec 31	2015	2016	2017E	2018E	2019E
Growth (%)					
Sales	nm	100.3	3.6	2.7	2.4
Operating profit	nm	106.6	11.3	27.3	4.8
Net profit	nm	180.9	6.4	40.6	6.5
Adjusted EPS**	nm	32.6	3.4	40.2	6.5
Per-share data (KRW)					
EPS (parent-based)	1,000	1,326	1,370	1,921	2,047
EPS (consolidated)	1,003	1,333	1,375	1,928	2,053
Adjusted EPS**	1,000	1,326	1,370	1,921	2,047
BVPS	7,049	8,010	9,030	10,702	12,450
DPS (common)	260	200	250	300	350
Valuations (x)					
P/E***	10.0	7.5	7.3	5.2	4.9
P/B***	1.4	1.2	1.1	0.9	0.8
EV/EBITDA	9.8	4.9	3.9	3.0	2.4
Ratios (%)					
ROE	6.7	17.5	16.2	19.5	17.7
ROA	1.9	5.1	5.3	7.6	8.0
ROIC	4.9	9.5	10.2	13.8	14.9
Payout ratio	54.8	15.3	18.3	15.6	17.1
Dividend yield (common)	2.6	2.0	2.5	3.0	3.5
Net debt to equity	112.9	101.5	56.3	29.5	4.9
Interest coverage (x)	4.5	4.9	5.6	8.2	10.1

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Target price changes in past two years



Rating changes in past two years

Date	2016/2/17	11/3	2017/2/22	5/11
Recommendation	BUY	BUY	BUY	BUY
Target price (KRW)	10,000	12,000	15,000	13,500

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Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

Percentage of ratings in 12 months prior to Jun 30, 2017

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