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Company Update



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AT A GLANCE

SELL HOLD **BUY**

Target price KRW15,000 (24%)

Current price KRW12,100

Market cap KRW275.31b/USD243.53m

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

52-week high/low KRW13,550/KRW8,810

Avg daily trading value (60-day) KRW5.8b/USD5.1m

ONE-YEAR PERFORMANCE

	1M	6M	12M
Simmtech (%)	3.4	12.6	33.1
Vs Kosdaq (%pts)	-2.7	3.0	25.1

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	15,000	13,500	11.1%
2017E EPS	1,142	1,370	-16.6%
2018E EPS	1,978	1,921	3.0%

SAMSUNG vs THE STREET

No of estimates	5
Target price	15,820
Recommendation	4.2

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

Simmtech (222800)

Quantitative growth on the horizon

- Simmtech on Oct 27 reported in-line 3Q operating results, with robust sales growth by those related to big data (eg, SSD modules and MCP) warranting attention.
- Our forecasts have the company enjoying qualitative growth in 2018, backed by semiconductor makers ramping up production.
- We leave the stock at BUY and raise our 12-month target price by 11.1% to KRW15,000.

WHAT'S THE STORY?

Investment strategy: With semiconductor makers set to become more aggressive about production by pursuing ramp-ups from next year, investors should note the potential for quantitative growth. Simmtech has not benefitted much from increased content or semiconductor price hikes, but it will likely be a major beneficiary from the trend of using more chips per device (volume growth) from next year. The firm has lagged downstream conditions, but this appears to be a thing of the past, so we recommend accumulation with its shares trading at 7x P/E and given its dividend yield of 2.5%. We leave the stock at BUY and raise our 12-month target price by 11.1% to KRW15,000 (based on 7.5x 2018 P/E) to reflect our new 2018 earnings forecasts (see below), with the target attainable even without having a premium to the sector

3Q review: Simmtech on Oct 27 reported respective 3Q sales and operating profit figures of KRW216.3b and KRW11.6b with an operating margin of 5.4%. All of the results met company guidance and consensus forecasts, but we note unexpectedly rapid growth for data-center-related sales (eg, SSD modules, MCP, and PCCSP). Still, the firm's production yields and fixed costs have to show signs of improvement.

Raising target: We revise up our 2018 sales and operating profit forecasts on Simmtech by a respective 2% and 3% to KRW826b and KRW59—as its 3Q17 results insinuate solid growth potential for SSD module-use PCB and MCP package sales—but we cut our full-year 2017 operating profit estimate by 6% to KRW42.1b to reflect the pace of fixed-cost hikes. Meanwhile, Japanese PCB maker Eastern may become subject to consolidated accounting from 3Q18, but since this is not assured of happening (even if acquired), we omit it from our valuation.

(Continued on the next page)

SUMMARY OF 3Q RESULTS

(KRWb)	3Q17	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	216.3	6.8	8.5	3.5	2.3
Operating profit	11.6	1.1	46.0	(5.9)	(8.3)
Pre-tax profit	5.7	(67.7)	(10.0)	(47.1)	(47.2)
Net profit	4.1	(71.8)	(30.5)	(53.0)	(57.1)
Margins (%)					
Operating profit	5.4				
Pre-tax profit	2.6				
Net profit	1.9				

Source: Company data, Samsung Securities estimates

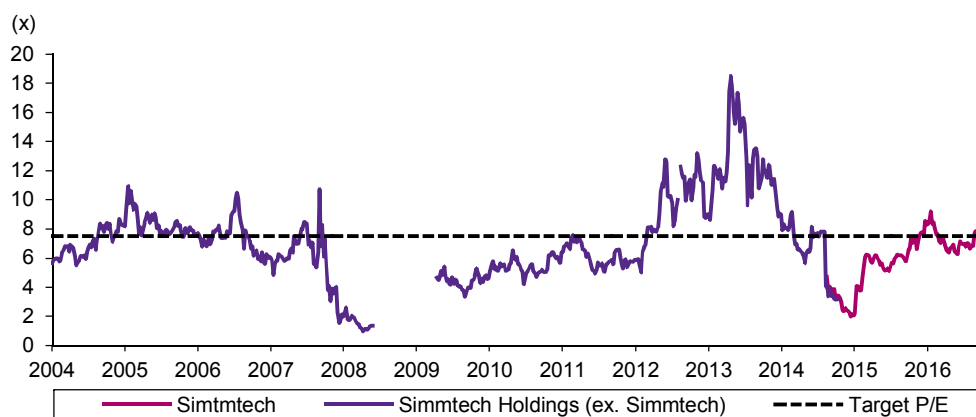
VALUATION SUMMARY

	2016	2017E	2018E
Multiples (x)			
P/E	9.1	10.6	6.1
P/B	1.5	1.4	1.1
EV/EBITDA	5.5	4.5	3.3
Div yield (%)	1.7	2.1	2.5
EPS growth (% y-y)	32.6	(13.9)	73.2
ROE (%)	17.5	13.7	20.5
Per-share data (KRW)			
EPS	1,326	1,142	1,978
BVPS	8,010	8,802	10,531
DPS	200	250	300

Raising funds to acquire production facilities: Simmtech late last week issued redeemable preferred stocks worth KRW20b to Simmtech Holdings, which in turn issued KRW10b worth of convertible preferred stocks and KRW10b in convertible bonds (CBs) to institutional investors. Such moves bode well, as the former will likely: 1) use the proceeds to bankroll its acquisition of PCB maker Eastern (Japan), which would give it access a new client base and obtain production facilities inexpensively—thus easing concerns over such plants; and 2) maintain its debt-to-equity ratio by raising funds from the holding entity, which should gain additional dividend income and also interest income from Simmtech.

If those redeemable preferred stocks are not bought back within ten years, investors will be facing equity dilution risk, and the holding company's dividend yield will also not be able to meet the expectation. These things are not expected to occur, however, since the firm's annual EBITDA of KRW100b should easily enable it to pay back KRW20b.

Simmtech's historical P/E



Source: WiseFn, Samsung Securities

Quarterly results

(KRWb)	3Q17	2Q17	3Q16	Change	
				(% q-q)	(% y-y)
Sales	216.3	199.4	202.5	8.5	6.8
Operating profit	11.6	7.9	11.5	46.3	1.3
Pre-tax profit	5.7	6.3	17.7	(10.7)	(68.0)
Net profit	4.1	5.9	14.5	(29.9)	(71.5)
Margins (%)					
Operating profit	5.4	4.0	5.7		
Pre-tax profit	2.6	3.2	8.7		
Net profit	1.9	3.0	7.2		

Source: Company data, Samsung Securities

Full-year forecast revisions

(KRWb)	Old		New		Diff (%)	
	2017E	2018E	2017E	2018E	2017E	2018E
Sales	820.7	842.6	829.4	861.9	1.1	2.3
Operating profit	44.8	57.0	42.1	59.0	(6.0)	3.4
Pre-tax profit	38.6	54.1	32.8	55.7	(15.1)	2.9
Net profit	31.2	43.9	26.0	45.2	(16.6)	2.9

Source: Samsung Securities estimates

Target-price calculation

(KRW)	2018E
EPS	1,978
Target P/E (x)	7.5
Fair value	14,835
Target price	15,000
Current price	12,100
Upside (%)	24.0

Source: Samsung Securities estimates

Results and forecasts

(KRWb)	1Q17	2Q17	3Q17	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	2016	2017E	2018E
Sales	190.9	199.4	216.3	222.8	194.9	206.7	227.7	232.7	792.0	829.4	861.9
Module PCB	58.6	65.4	70.9	73.5	58.2	66.8	77.1	78.9	275.2	268.4	281.0
Package substrate	130.4	134.0	143.2	147.5	134.9	137.8	148.4	152.1	506.0	555.1	573.2
Other	2.0	0.0	2.2	1.8	1.8	2.0	2.1	1.7	10.7	6.0	7.7
Operating profit	5.3	7.9	11.6	17.2	9.4	10.9	18.5	20.2	40.2	42.1	59.0
Pre-tax profit	3.7	6.3	5.7	17.0	8.5	10.1	17.7	19.5	34.7	32.8	55.7
Net profit	2.5	5.9	4.1	13.5	6.9	8.1	14.3	15.8	29.3	26.0	45.2
Margins (%)											
Operating profit	2.8	4.0	5.4	7.7	4.8	5.3	8.1	8.7	5.1	5.1	6.8
Pre-tax profit	2.0	3.2	2.6	7.7	4.3	4.9	7.8	8.4	4.4	4.0	6.5
Net profit	1.3	3.0	1.9	6.0	3.5	3.9	6.3	6.8	3.7	3.1	5.2

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31(KRWb)	2015	2016	2017E	2018E	2019E
Sales	395	792	829	862	883
Cost of goods sold	350	694	722	737	755
Gross profit	45	98	108	124	128
Gross margin (%)	11.5	12.4	13.0	14.4	14.5
SG&A expenses	26	58	66	65	66
Operating profit	19	40	42	59	63
Operating margin (%)	4.9	5.1	5.1	6.8	7.1
Non-operating gains (losses)	(7)	(5)	(9)	(3)	(2)
Financial profit	10	18	15	7	7
Financial costs	17	30	20	12	11
Equity-method gains (losses)	0	7	(3)	2	2
Other	(0)	(0)	(2)	(0)	(0)
Pre-tax profit	12	35	33	56	60
Taxes	2	5	7	11	11
Effective tax rate (%)	14.2	15.7	20.6	19.0	19.0
Profit from continuing operations	10	29	26	45	49
Profit from discontinued operations	0	0	0	0	0
Net profit	10	29	26	45	49
Net margin (%)	2.6	3.7	3.1	5.2	5.5
Net profit (controlling interests)	10	29	26	45	49
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	41	84	88	105	108
EBITDA margin (%)	10.4	10.6	10.6	12.1	12.2
EPS (parent-based) (KRW)	1,000	1,326	1,142	1,978	2,143
EPS (consolidated) (KRW)	1,003	1,333	1,146	1,984	2,150
Adjusted EPS (KRW)*	1,000	1,326	1,142	1,978	2,143

Cash flow statement

Year-end Dec 31(KRWb)	2015	2016	2017E	2018E	2019E
Cash flow from operations	66	39	93	73	92
Net profit	10	29	26	45	49
Non-cash profit and expenses	32	65	61	59	59
Depreciation	21	41	44	44	44
Amortization	1	2	2	1	1
Other	11	22	15	14	14
Changes in A/L from operating activities	27	(48)	21	(14)	1
Cash flow from investments	(16)	(42)	(25)	(22)	(23)
Change in tangible assets	(21)	(38)	(28)	(24)	(25)
Change in financial assets	(2)	(0)	(0)	(0)	(0)
Other	7	(3)	3	2	2
Cash flow from financing	(47)	0	(59)	(41)	(37)
Change in debt	38	6	(55)	(35)	(30)
Change in equity	114	(117)	0	0	0
Dividends	0	(6)	(4)	(6)	(7)
Other	(199)	118	0	0	0
Change in cash	3	(2)	7	11	33
Cash at beginning of year	0	3	1	8	20
Cash at end of year	3	1	8	20	53
Gross cash flow	43	94	87	105	108
Free cash flow	45	0	65	49	67

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	188	207	245
Cash & equivalents	3	1	8	20	53
Accounts receivable	46	81	69	72	74
Inventories	84	96	98	101	104
Other current assets	10	13	13	14	14
Fixed assets	405	410	391	370	350
Investment assets	2	18	17	18	18
Tangible assets	354	344	327	307	288
Intangible assets	28	29	27	26	25
Other long-term assets	21	20	20	20	20
Total assets	548	601	579	577	595
Current liabilities	290	317	271	247	257
Accounts payable	81	73	80	83	86
Short-term debt	39	54	74	49	29
Other current liabilities	170	190	117	115	142
Long-term liabilities	104	105	108	90	56
Bonds & long-term debt	74	55	55	35	0
Other long-term liabilities	30	50	52	54	56
Total liabilities	393	422	379	337	313
Owners of parent equity	155	179	200	240	281
Capital stock	11	11	11	11	11
Capital surplus	137	20	20	20	20
Retained earnings	7	149	170	209	251
Other	(1)	(1)	(1)	(1)	(1)
Non-controlling interests' equity	0	0	1	1	1
Total equity	155	179	201	240	282
Net debt	175	182	120	74	11

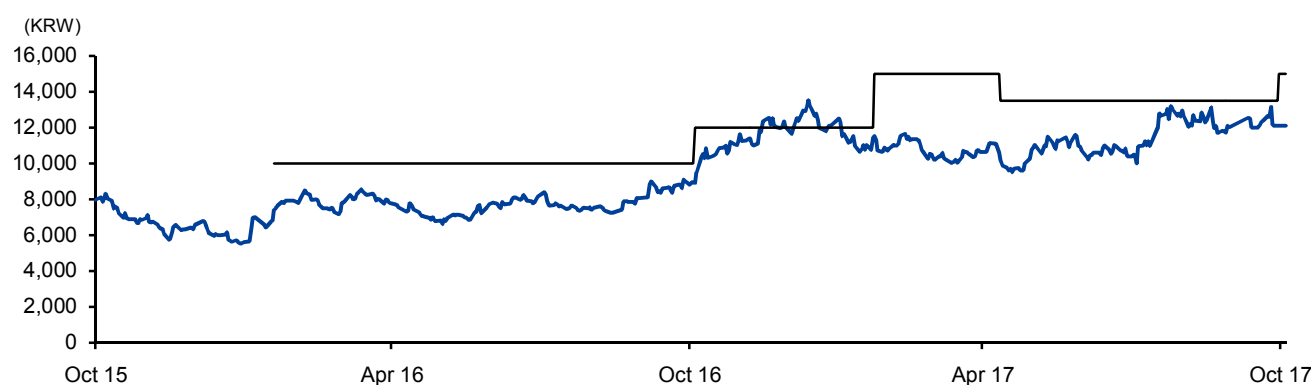
Financial ratios

Year-end Dec 31	2015	2016	2017E	2018E	2019E
Growth (%)					
Sales	nm	100.3	4.7	3.9	2.5
Operating profit	nm	106.6	4.6	40.2	6.5
Net profit	nm	180.9	(11.3)	73.7	8.3
Adjusted EPS**	nm	32.6	(13.9)	73.2	8.3
Per-share data (KRW)					
EPS (parent-based)	1,000	1,326	1,142	1,978	2,143
EPS (consolidated)	1,003	1,333	1,146	1,984	2,150
Adjusted EPS**	1,000	1,326	1,142	1,978	2,143
BVPS	7,049	8,010	8,802	10,531	12,374
DPS (common)	260	200	250	300	350
Valuations (x)					
P/E***	12.1	9.1	10.6	6.1	5.6
P/B***	1.7	1.5	1.4	1.1	1.0
EV/EBITDA	11.0	5.5	4.5	3.3	2.7
Ratios (%)					
ROE	6.7	17.5	13.7	20.5	18.7
ROA	1.9	5.1	4.4	7.8	8.3
ROIC	4.9	9.5	9.4	14.3	15.8
Payout ratio	54.8	15.3	21.9	15.2	16.3
Dividend yield (common)	2.1	1.7	2.1	2.5	2.9
Net debt to equity	112.9	101.5	60.0	30.8	3.8
Interest coverage (x)	4.5	4.9	5.2	8.4	10.5

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Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2016/2/17	11/3	2017/2/22	5/11	10/30
Recommendation	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	10,000	12,000	15,000	13,500	15,000
Gap* (average)	(22.21)	(3.57)	(28.46)	(15.62)	
(max or min)**	(9.10)	12.92	(22.33)	(2.22)	

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%

** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

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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 Sep 30, 2017

BUY (82.2%) | HOLD (17.8%) | SELL (0%)

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