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Company Update



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Simmtech (222800)

Focus on 2H earnings

- Simmtech yesterday reported disappointing 4Q results, which compels us to cut our 2018 operating profit forecast by 10% to KRW52.9b and 12-month target price by 20% to KRW12,000.
- PCB maker Eastern (Japan) became subject to consolidated accounting from this quarter, so investors should see if the parent benefits from 3Q as the 70%-owned subsidiary is expected to turn around.
- Long-overdue semiconductor momentum has yet to materialize, but once it does, Simmtech is bound to enjoy quantitative growth.

WHAT'S THE STORY?

Looking toward 3Q: We expect Simmtech to gain earnings momentum from 3Q, enabled by 70%-owned subsidiary Eastern (Japan) turning around and FC-CSP sales growth. We do not reflect the likelihood of increased server-related sales (enabled by the growing capex of NAND chipmakers) in our estimates, even though it could transpire from 2H, which should be a better time to accumulate than now (with shares trading at just 5.4x 2018 P/E).

Quantitative growth on hold: Chipmakers are following through with aggressive capex, and while Simmtech has yet to enjoy quantitative growth, we nevertheless expect it to see operating improvements with some lag once semiconductor production expands. Still, a turnaround by Eastern will likely prove adequate to help the parent gain growth momentum in 2H.

4Q review: Simmtech yesterday reported 4Q sales and operating profit of a respective KRW204.9b and KRW8.9b, with the former contracting q-q for the first time in five years—as MCP sales growth decelerated on anemic smartphone demand—even though sales declines for PC components (*ie*, memory module PCBs and BOCs) were smaller than forecast. One positive was brisk sales growth for high-margin FC-CSP, but the firm's operating profit was nevertheless hit by high fixed costs and forex sensitivity.

Cutting forecasts: We revise up our 2018 sales forecast on Simmtech by 20% to KRW1.034t as Eastern is now subject to consolidated accounting, with the subsidiary expected to post respective full-year sales and operating profit of KRW179.2b and KRW5.1b. Our 2018 operating profit estimate on the parent is cut by 10% to KRW52.9b, however, with the parent bound to suffer from margin declines.

SUMMARY OF 4Q RESULTS

(KRWb)	4Q17	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	204.9	(0.0)	(5.3)	(8.0)	(7.5)
Operating profit	8.9	(45.7)	(23.5)	(48.1)	(43.2)
Pre-tax profit	3.3	(68.3)	(41.7)	(80.6)	(73.5)
Net profit	3.5	(61.8)	(15.3)	(74.0)	(66.4)
Margins (%)					
Operating profit	4.3				
Pre-tax profit	1.6				
Net profit	1.7				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

	2016	2017E	2018E
Multiples (x)			
P/E	7.1	13.5	5.8
P/B	1.2	1.2	1.0
EV/EBITDA	4.8	4.1	3.0
Div yield (%)	2.1	2.8	3.2
EPS growth (% y-y)	32.6	(47.1)	132.9
ROE (%)	17.5	8.7	19.2
Per-share data (KRW)			
EPS	1,326	702	1,634
BVPS	8,010	7,821	9,208
DPS	200	265	300

AT A GLANCE

SELL HOLD BUY

Target price **KRW12,000** (26.8%)

Current price **KRW9,460**

Market cap KRW215.24b/USD200.91m

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

52-week high/low KRW13,200/KRW9,190

Avg daily trading value (60-day) KRW1.9b/USD1.7m

ONE-YEAR PERFORMANCE

	1M	6M	12M
Simmtech (%)	-5.4	-27.2	-11.2
Vs Kosdaq (%pts)	-1.2	-45.9	-37.8

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	12,000	15,000	-20.0%
2017E EPS	702	1,142	-38.5%
2018E EPS	1,634	1,978	-17.4%

SAMSUNG vs THE STREET

No of estimates	2
Target price	18,300
Recommendation	4.5

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

Quarterly results

(KRWb)	4Q17	3Q17	4Q16	Change	
				(% q-q)	(% y-y)
Sales	204.9	216.3	204.9	(5.3)	(0.0)
Operating profit	8.9	11.6	16.4	(23.5)	(45.7)
Pre-tax profit	3.3	5.7	10.4	(42.0)	(68.5)
Net profit	3.5	4.1	9.2	(14.2)	(61.3)
Margins (%)					
Operating profit	4.3	5.4	8.0		
Pre-tax profit	1.6	2.6	5.1		
Net profit	1.7	1.9	4.5		

Source: Company data, Samsung Securities

Full-year forecast revisions

(KRWb)	Old		New		Diff (%)	
	2017E	2018E	2017E	2018E	2017E	2018E
Sales	829.4	861.9	811.5	1,034.5	(2.2)	20.0
Operating profit	42.1	59.0	33.8	52.9	(19.7)	(10.2)
Pre-tax profit	32.8	55.7	19.0	49.3	(42.0)	(11.6)
Net profit	26.0	45.2	16.1	39.9	(38.1)	(11.6)

Source: Samsung Securities estimates

Target-price calculation

(KRW)	2018E
EPS	1,634
Target P/E (x)	7.5
Fair value	12,256
Target price	12,000
Current price	9,460
Upside (%)	26.8

Source: Samsung Securities estimates

Results and forecasts

(KRWb)	1Q17	2Q17	3Q17	4Q17	1Q18E	2Q18E	3Q18E	4Q18E	2016	2017	2018E
Sales	190.9	199.4	216.3	204.9	229.9	253.8	277.4	273.5	792.0	811.5	1,034.5
Module PCB	58.6	65.4	70.9	62.2	56.8	63.5	74.7	62.8	275.2	257.1	257.8
Package substrate	130.4	134.0	143.2	139.0	138.2	142.6	148.3	152.2	506.0	546.6	581.3
Other	2.0	0.0	2.2	3.7	3.9	4.3	4.5	3.6	10.7	7.9	16.2
Operating profit	5.3	7.9	11.6	8.9	6.9	10.7	18.1	17.2	40.2	33.8	52.9
Pre-tax profit	3.7	6.3	5.7	3.3	5.9	9.8	17.2	16.4	34.7	19.0	49.3
Net profit	2.5	5.9	4.1	3.5	4.8	7.9	14.0	13.2	29.3	16.1	39.9
Margins (%)											
Operating profit	2.8	4.0	5.4	4.3	3.0	4.2	6.5	6.3	5.1	4.2	5.1
Pre-tax profit	2.0	3.2	2.6	1.6	2.6	3.9	6.2	6.0	4.4	2.3	4.8
Net profit	1.3	3.0	1.9	1.7	2.1	3.1	5.0	4.8	3.7	2.0	3.9

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31(KRWb)	2016	2017E	2018E	2019E	2020E
Sales	792	812	1,035	1,077	n/a
Cost of goods sold	694	712	914	947	n/a
Gross profit	98	99	120	130	n/a
Gross margin (%)	12.4	12.2	11.6	12.1	n/a
SG&A expenses	58	66	67	68	n/a
Operating profit	40	34	53	62	n/a
Operating margin (%)	5.1	4.2	5.1	5.8	n/a
Non-operating gains (losses)	(5)	(15)	(4)	(3)	n/a
Financial profit	18	21	18	18	0
Financial costs	30	27	22	21	0
Equity-method gains (losses)	7	(9)	0	0	0
Other	(0)	(1)	(0)	0	n/a
Pre-tax profit	35	19	49	60	n/a
Taxes	5	3	9	11	n/a
Effective tax rate (%)	15.7	15.3	19.0	19.0	n/a
Profit from continuing operations	29	16	40	48	0
Profit from discontinued operations	0	0	0	0	0
Net profit	29	16	40	48	n/a
Net margin (%)	3.7	2.0	3.9	4.5	n/a
Net profit (controlling interests)	29	16	40	48	n/a
Net profit (non-controlling interests)	0	0	0	0	n/a
EBITDA	84	80	99	108	n/a
EBITDA margin (%)	10.6	9.9	9.6	10.0	n/a
EPS (parent-based) (KRW)	1,326	702	1,634	1,985	n/a
EPS (consolidated) (KRW)	1,333	704	1,639	1,992	n/a
Adjusted EPS (KRW)*	1,326	702	1,634	1,985	n/a

Cash flow statement

Year-end Dec 31(KRWb)	2016	2017E	2018E	2019E	2020E
Cash flow from operations	39	112	65	67	0
Net profit	29	16	40	48	0
Non-cash profit and expenses	65	63	59	60	0
Depreciation	41	45	45	45	0
Amortization	2	2	1	1	0
Other	22	17	13	14	0
Changes in A/L from operating activities	(48)	43	(18)	(24)	0
Cash flow from investments	(42)	(33)	(21)	(22)	0
Change in tangible assets	(38)	(35)	(24)	(25)	0
Change in financial assets	(0)	(0)	(1)	(0)	0
Other	(3)	3	3	3	0
Cash flow from financing	0	(59)	(41)	(37)	0
Change in debt	6	(55)	(35)	(30)	0
Change in equity	(117)	0	0	0	0
Dividends	(6)	(4)	(6)	(7)	n/a
Other	118	0	(0)	0	n/a
Change in cash	(2)	12	(2)	7	0
Cash at beginning of year	3	1	13	11	0
Cash at end of year	1	13	11	19	0
Gross cash flow	94	80	99	108	0
Free cash flow	0	77	41	42	0

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)	2016	2017E	2018E	2019E	2020E
Current assets	192	196	244	261	n/a
Cash & equivalents	1	13	11	19	n/a
Accounts receivable	81	68	86	90	n/a
Inventories	96	101	129	135	n/a
Other current assets	13	13	17	17	n/a
Fixed assets	410	398	381	361	n/a
Investment assets	18	18	22	23	n/a
Tangible assets	344	334	313	294	n/a
Intangible assets	29	27	26	25	n/a
Other long-term assets	20	20	20	20	n/a
Total assets	601	593	624	622	n/a
Current liabilities	317	296	299	287	n/a
Accounts payable	73	79	100	104	n/a
Short-term debt	54	74	49	29	n/a
Other current liabilities	190	144	150	154	n/a
Long-term liabilities	105	107	101	68	n/a
Bonds & long-term debt	55	55	35	0	0
Other long-term liabilities	50	51	65	68	n/a
Total liabilities	422	403	400	355	n/a
Owners of parent equity	179	190	224	266	n/a
Capital stock	11	11	11	11	n/a
Capital surplus	20	20	20	20	n/a
Retained earnings	149	160	194	236	n/a
Other	(1)	(1)	(1)	(1)	n/a
Non-controlling interests' equity	0	0	1	1	n/a
Total equity	179	191	225	266	n/a
Net debt	182	115	82	45	n/a

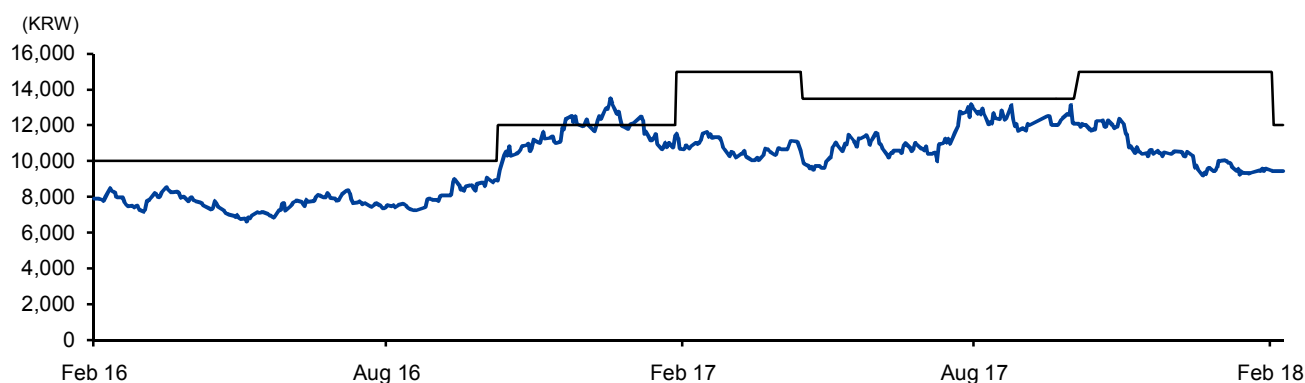
Financial ratios

Year-end Dec 31	2016	2017E	2018E	2019E	2020E
Growth (%)					
Sales	100.3	2.5	27.5	4.1	nm
Operating profit	106.6	(16.0)	56.7	18.0	nm
Net profit	180.9	(45.1)	147.9	21.5	nm
Adjusted EPS**	32.6	(47.1)	132.9	21.5	nm
Per-share data (KRW)					
EPS (parent-based)	1,326	702	1,634	1,985	n/a
EPS (consolidated)	1,333	704	1,639	1,992	n/a
Adjusted EPS**	1,326	702	1,634	1,985	n/a
BVPS	8,010	7,821	9,208	10,913	n/a
DPS (common)	200	265	300	350	n/a
Valuations (x)					
P/E***	7.1	13.5	5.8	4.8	n/a
P/B***	1.2	1.2	1.0	0.9	n/a
EV/EBITDA	4.8	4.1	3.0	2.4	n/a
Ratios (%)					
ROE	17.5	8.7	19.2	19.7	n/a
ROA	5.1	2.7	6.6	7.8	n/a
ROIC	9.5	8.2	13.1	15.1	n/a
Payout ratio	15.3	37.6	17.2	16.5	n/a
Dividend yield (common)	2.1	2.8	3.2	3.7	n/a
Net debt to equity	101.5	60.5	36.6	16.8	n/a
Interest coverage (x)	4.9	4.2	7.7	10.6	n/a

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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	2018/2/28
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	10,000	12,000	15,000	13,500	15,000	12,000
Gap* (average)	(22.21)	(3.57)	(28.46)	(15.62)	(29.93)	
(max or min)**	(9.10)	12.92	(22.33)	(2.22)	(17.33)	

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

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Percentage of ratings in 12 months prior to Dec 31, 2017

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