

2018. 5. 10

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)

Attractively valued

- Simmtech yesterday reported largely in-line 1Q sales and operating profit figures of a respective KRW244.4b and KRW6b.
- Shares in the firm trade at a historic low P/E of 5.1x, but we expect them to shed their discount, if: 1) earnings rebound from 3Q; and 2) orders flow in from 4Q following capacity expansions by key client Samsung Electronics.
- We cut our 12-month target price on Simmtech by 8.3% to KRW11,000, but maintain the stock at BUY.

WHAT'S THE STORY?

Investment strategy: Investors should not read too much into our downward revisions to the target price and earnings estimates for Simmtech with its shares trading at a historic low P/E of 5.1x, so we instead recommend focusing on potential catalysts that could help the stock shed its valuation discount. We attribute the discount to concerns surrounding: 1) semiconductor industry conditions; and 2) the firm's earnings volatility. We believe a share-price rally will require rebounds by leading chipmakers and the company's operating profit rising from 3Q. The firm should receive more module and package orders from Samsung Electronics in 4Q, while a 2018 DPS of KRW300 would limit its downside, which is why keep the stock at BUY.

1Q review: Simmtech yesterday reported consolidated 1Q sales and operating profit figures of a respective, largely in-line KRW244.4b and KRW6b (for a margin of 2.5%), while its parent-based sales and operating profit beat our expectations. Consolidated subsidiary Eastern (Japan) incurred unexpectedly large losses, but its bottom line should rebound as it addresses production bottlenecks this quarter. The firm's MCP sales leapt 18% q-q, despite low seasonality, as server sales outweighed an uninspiring mobile performance.

Revising down forecasts and target: We cut our 2018 net profit estimate and 12-month target price on Simmtech by a respective 8.6% and 8.3%, to reflect: 1) forex-related losses in 1Q; and 2) our new assumptions for Eastern. Our 2018 and 2019 operating profit forecasts are a respective KRW50.8b and KRW62.7b, which reflects improvements in the parent's product mix and cost efficiency and a projected turnaround by Eastern.

AT A GLANCE

SELL HOLD BUY

Target price **KRW11,000** (35.8%)

Current price **KRW8,100**

Market cap KRW184.3b/USD170.51m

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

52-week high/low KRW13,200/KRW8,100

Avg daily trading value (60-day) KRW0.8b/USD0.8m

ONE-YEAR PERFORMANCE

	1M	6M	12M
Simmtech (%)	-0.2	-31.1	-27.0
Vs Kosdaq (%pts)	2.5	-42.5	-44.8

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	11,000	12,000	-8.3%
2018E EPS	1,585	1,634	-3.0%
2019E EPS	2,110	1,985	6.3%

SAMSUNG vs THE STREET

No of estimates	2
Target price	12,000
Recommendation	4.0

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

SUMMARY OF 1Q RESULTS

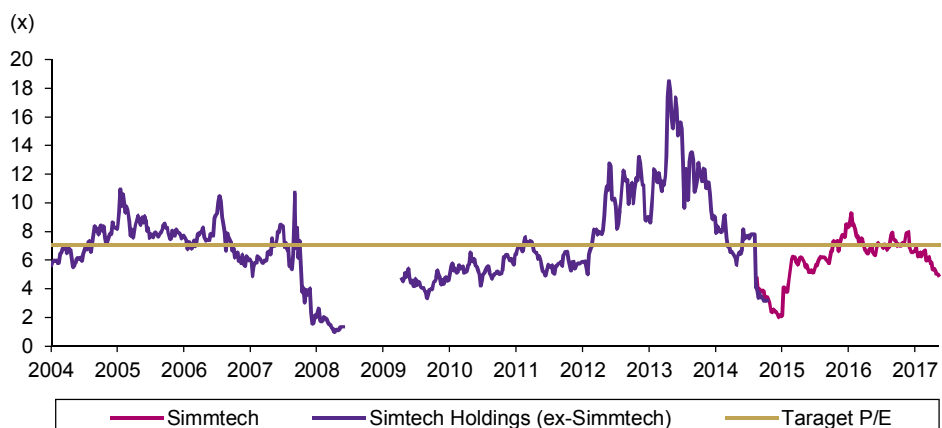
(KRWb)	1Q18	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	244.4	28.0	19.3	6.3	3.9
Operating profit	6.0	12.4	(32.5)	(13.3)	(14.9)
Pre-tax profit	2.8	(25.1)	(14.6)	(52.4)	(52.5)
Net profit	2.0	(20.6)	(43.6)	(58.1)	(58.3)
Margins (%)					
Operating profit	2.5				
Pre-tax profit	1.1				
Net profit	0.8				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

	2017	2018E	2019E
Multiples (x)			
P/E	11.6	5.1	3.8
P/B	0.9	0.8	0.7
EV/EBITDA	4.6	3.5	2.5
Div yield (%)	3.3	3.7	4.3
EPS growth (% y-y)	(47.5)	127.8	33.2
ROE (%)	8.2	16.1	18.5
Per-share data (KRW)			
EPS	696	1,585	2,110
BVPS	8,589	9,805	11,498
DPS	265	300	350

P/E comparison



Source: WiseFn, Samsung Securities

Quarterly results

(KRWb)	1Q18	4Q17	1Q17	Change	
				(% q-q)	(% y-y)
Sales	244.4	204.9	190.9	19.3	28.0
Operating profit	6.0	8.9	5.3	(32.1)	13.1
Pre-tax profit	2.8	3.3	3.7	(13.6)	(24.3)
Net profit	2.0	3.5	2.5	(44.2)	(21.5)
Margins (%)					
Operating profit	2.5	4.3	2.8		
Pre-tax profit	1.2	1.6	2.0		
Net profit	0.8	1.7	1.3		

Source: Company data, Samsung Securities

Full-year forecast revisions

(KRWb)	Old		New		Diff (%)	
	2018E	2019E	2018E	2019E	2018E	2019E
Sales	1,034.5	1,077.3	1,047.7	1,087.9	1.3	1.0
Operating profit	52.9	62.5	50.8	62.7	(4.0)	0.3
Pre-tax profit	49.3	59.9	44.9	60.0	(8.9)	0.2
Net profit	39.9	48.5	36.5	48.6	(8.6)	0.2

Source: Samsung Securities estimates

Target-price calculation

(KRW)	2018E
EPS	1,585
Target P/E (x)	7
Fair value	11,092
Target price	11,000
Current price	8,100
Upside (%)	35.8

Source: Samsung Securities estimates

Results and forecasts

(KRWb)	1Q18	2Q18E	3Q18E	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E	2017	2018E	2019E
Sales	244.4	255.9	276.8	270.6	259.6	269.2	287.6	271.5	811.5	1,047.7	1,087.9
Module PCB	63.0	62.8	72.1	64.4	62.7	64.6	75.0	67.2	257.1	262.3	269.4
Package substrate	141.2	145.0	149.7	147.0	141.4	147.8	152.9	151.1	546.6	582.8	593.2
Other	3.9	4.3	4.5	3.6	3.8	4.1	4.4	3.5	7.9	16.2	15.8
Operating profit	6.0	10.1	17.9	16.8	13.3	14.1	19.8	15.3	33.8	50.8	62.7
Pre-tax profit	2.8	9.1	17.0	16.0	12.5	13.5	19.2	14.8	19.0	44.9	60.0
Net profit	2.0	7.5	13.9	13.1	10.1	10.9	15.6	12.0	16.1	36.5	48.6
Margins (%)											
Operating profit	2.5	3.9	6.5	6.2	5.1	5.3	6.9	5.7	4.2	4.8	5.8
Pre-tax profit	1.2	3.6	6.1	5.9	4.8	5.0	6.7	5.4	2.3	4.3	5.5
Net profit	0.8	2.9	5.0	4.8	3.9	4.0	5.4	4.4	2.0	3.5	4.5

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31(KRWb)	2016	2017	2018E	2019E	2020E
Sales	792	812	1,048	1,088	1,111
Cost of goods sold	694	710	902	930	952
Gross profit	98	102	145	158	159
Gross margin (%)	12.4	12.5	13.9	14.5	14.3
SG&A expenses	58	68	95	95	95
Operating profit	40	34	51	63	64
Operating margin (%)	5.1	4.2	4.8	5.8	5.8
Non-operating gains (losses)	(5)	(15)	(6)	(3)	(2)
Financial profit	18	21	24	24	24
Financial costs	30	27	30	27	26
Equity-method gains (losses)	7	(9)	0	0	0
Other	(0)	(1)	1	1	1
Pre-tax profit	35	19	45	60	62
Taxes	5	3	8	11	12
Effective tax rate (%)	15.7	15.3	18.8	19.0	19.0
Profit from continuing operations	29	16	36	49	50
Profit from discontinued operations	0	0	0	0	0
Net profit	29	16	36	49	50
Net margin (%)	3.7	2.0	3.5	4.5	4.5
Net profit (controlling interests)	29	16	36	48	50
Net profit (non-controlling interests)	0	0	0	1	1
EBITDA	84	79	96	107	108
EBITDA margin (%)	10.6	9.7	9.1	9.9	9.8
EPS (parent-based) (KRW)	1,326	696	1,481	1,972	2,049
EPS (consolidated) (KRW)	1,333	704	1,499	1,995	2,074
Adjusted EPS (KRW)*	1,326	696	1,585	2,110	2,193

Cash flow statement

Year-end Dec 31(KRWb)	2016	2017	2018E	2019E	2020E
Cash flow from operations	39	133	62	94	76
Net profit	29	16	36	49	50
Non-cash profit and expenses	65	79	60	59	59
Depreciation	41	43	43	43	43
Amortization	2	2	2	1	1
Other	22	34	15	15	14
Changes in A/L from operating activities	(48)	47	(18)	4	(16)
Cash flow from investments	(42)	(61)	(24)	(21)	(21)
Change in tangible assets	(38)	(52)	(24)	(24)	(24)
Change in financial assets	(0)	0	(1)	(0)	(0)
Other	(3)	(9)	1	3	3
Cash flow from financing	0	(61)	(36)	(69)	(53)
Change in debt	6	4	(30)	(63)	(45)
Change in equity	(117)	23	0	0	0
Dividends	(6)	(4)	(6)	(7)	(8)
Other	118	(84)	0	(0)	0
Change in cash	(2)	11	2	4	2
Cash at beginning of year	3	1	12	14	18
Cash at end of year	1	12	14	18	20
Gross cash flow	94	95	96	108	109
Free cash flow	0	81	38	70	52

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	2017	2018E	2019E	2020E
Current assets	192	210	263	277	284
Cash & equivalents	1	12	14	18	20
Accounts receivable	81	57	89	93	95
Inventories	96	131	146	152	155
Other current assets	13	11	14	14	15
Fixed assets	410	518	498	477	457
Investment assets	18	2	3	3	3
Tangible assets	344	459	440	421	402
Intangible assets	29	33	31	30	29
Other long-term assets	20	23	23	23	23
Total assets	601	728	761	754	741
Current liabilities	317	393	399	363	316
Accounts payable	73	118	123	127	130
Short-term debt	54	72	62	42	17
Other current liabilities	190	203	214	193	169
Long-term liabilities	105	120	117	105	96
Bonds & long-term debt	55	63	43	28	18
Other long-term liabilities	50	57	74	77	78
Total liabilities	422	513	516	467	412
Owners of parent equity	179	209	239	280	322
Capital stock	11	12	12	12	12
Capital surplus	20	42	42	42	42
Retained earnings	149	161	191	232	274
Other	(1)	(7)	(7)	(7)	(7)
Non-controlling interests' equity	0	6	6	7	7
Total equity	179	215	245	287	329
Net debt	182	176	144	77	30

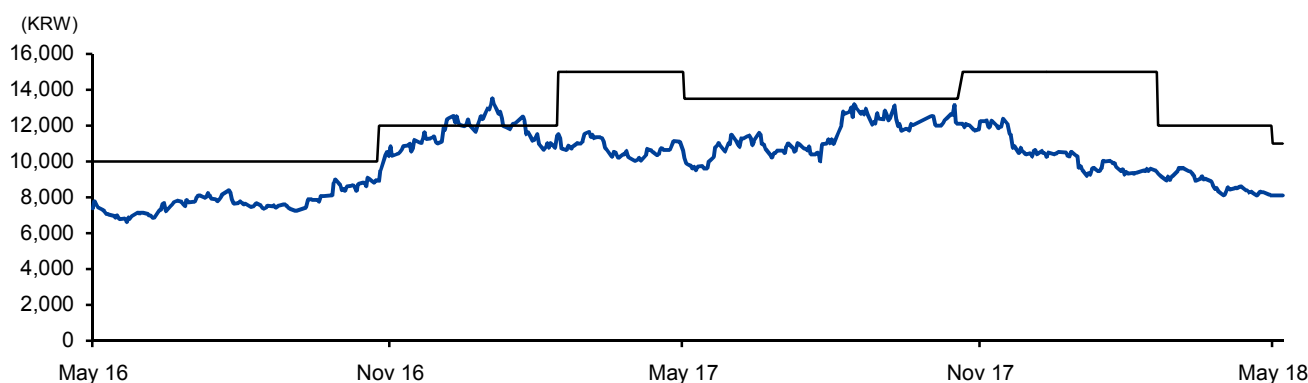
Financial ratios

Year-end Dec 31	2016	2017	2018E	2019E	2020E
Growth (%)					
Sales	100.3	2.5	29.1	3.8	2.1
Operating profit	106.6	(15.9)	50.3	23.3	2.1
Net profit	180.9	(45.1)	126.6	33.2	3.9
Adjusted EPS**	32.6	(47.5)	127.8	33.2	3.9
Per-share data (KRW)					
EPS (parent-based)	1,326	696	1,481	1,972	2,049
EPS (consolidated)	1,333	704	1,499	1,995	2,074
Adjusted EPS**	1,326	696	1,585	2,110	2,193
BVPS	8,010	8,589	9,805	11,498	13,220
DPS (common)	200	265	300	350	350
Valuations (x)					
P/E***	6.1	11.6	5.1	3.8	3.7
P/B***	1.0	0.9	0.8	0.7	0.6
EV/EBITDA	4.4	4.6	3.5	2.5	2.0
Ratios (%)					
ROE	17.5	8.2	16.1	18.5	16.6
ROA	5.1	2.4	4.9	6.4	6.8
ROIC	9.5	7.2	9.6	11.9	12.5
Payout ratio	15.3	37.9	18.9	16.6	16.0
Dividend yield (common)	2.5	3.3	3.7	4.3	4.3
Net debt to equity	101.5	81.8	58.7	27.0	9.1
Interest coverage (x)	4.9	4.2	6.6	9.4	11.3

Compliance notice

- As of May 9, 2018, the covering analyst(s) did not own any shares, or debt instruments convertible into shares, of any company covered in this report.
- As of May 9, 2018, Samsung Securities' holdings of shares and debt instruments convertible into shares of each company covered in this report would not, if such debt instruments were converted, exceed 1% of each company's outstanding shares.
- This report has been prepared without any undue external influence or interference, and accurately reflects the views of the analyst(s) covering the company or companies herein.
- All material presented in this report, unless specifically indicated otherwise, is under copyright to Samsung Securities.
- Neither the material nor its content (including copies) may be altered in any form, or by any means transmitted, copied, or distributed to another party, without prior express written permission from Samsung Securities.
- This memorandum is based upon information available to the public. While we have taken all reasonable care to ensure its reliability, we do not guarantee its accuracy or completeness. This memorandum is not intended to be an offer, or a solicitation of any offer, to buy or sell the securities mentioned herein. Samsung Securities shall not be liable whatsoever for any loss, direct or consequential, arising from the use of this memorandum or its contents. Statements made regarding affiliates of Samsung Securities are also based upon publicly available information and do not necessarily represent the views of management at such affiliates.
- This material has not been distributed to institutional investors or other third parties prior to its publication.

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	5/10
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	10,000	12,000	15,000	13,500	15,000	12,000	11,000
Gap* (average)	(22.21)	(3.57)	(28.46)	(15.62)	(29.93)	(26.96)	
(max or min)**	(9.10)	12.92	(22.33)	(2.22)	(17.33)	(19.50)	

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

Samsung Securities uses the following investment ratings.

Company

- BUY** Expected to increase in value by 10% or more within 12 months and is highly attractive within sector
- HOLD** Expected to increase/decrease in value by less than 10% within 12 months
- SELL** Expected to decrease in value by 10% or more within 12 months

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 Mar 31, 2018

BUY (86.6%) | HOLD (13.4%) | SELL (0%)

Global Disclosures & Disclaimers

General

This research report is for information purposes only. It is not and should not be construed as an offer or solicitation of an offer to purchase or sell any securities or other financial instruments or to participate in any trading strategy. This report does not provide individually tailored investment advice. This report does not take into account individual client circumstances, objectives, or needs and is not intended as recommendations of particular securities, financial instruments or strategies to any particular client. The securities and other financial instruments discussed in this report may not be suitable for all investors. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein and investors should seek the advice of a financial adviser.

This report may not be altered, reproduced, distributed, transmitted or published in whole or in part for any purpose. References to "Samsung Securities" are references to any company in the Samsung Securities, Co., Ltd. group of companies.

Samsung Securities and/or other affiliated companies, its and their directors, officers, representatives, or employees may have long or short positions in any of the securities or other financial instruments mentioned in this report or of issuers described herein and may purchase and/or sell, or offer to purchase and/or sell, at any time, such securities or other financial instruments in the open market or otherwise, as either a principal or agent. Any pricing of securities or other financial instrument contained herein is as of the close of market for such day, unless otherwise stated. Opinions and estimates contained herein constitute our judgment as of the date of this report and are subject to change without notice.

The information provided in this report is provided "AS IS". Although the information contained herein has been obtained from sources believed to be reliable, no representation or warranty, either expressed or implied, is provided by Samsung Securities in relation to the accuracy, completeness or reliability of such information or that such information was provided for any particular purpose and Samsung Securities expressly disclaims any warranties of merchantability or fitness for a particular purpose. Furthermore, this report is not intended to be a complete statement or summary of the securities, markets or developments referred to herein.

Samsung Securities does not undertake that investors will obtain any profits, nor will it share with investors any investment profits. Samsung Securities, its affiliates, or any of its and their affiliates, directors, officers, employees or agents disclaim any and all responsibility or liability whatsoever for any loss (direct or consequential) or damage arising out of the use of all or any part of this report or its contents or otherwise arising in connection therewith. Information and opinions contained herein are subject to change without notice. Past performance is not indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of Samsung Securities. Any analysis contained herein is based on numerous assumptions. Different assumptions may result in materially different results. Samsung Securities is under no obligation to update or keep current the information contained herein. Samsung Securities relies on information barriers to control the flow of information contained in one or more areas or groups within Samsung Securities into other areas or groups of Samsung Securities. Any prices stated in this report are for information purposes only and do not represent valuations for individual securities or other financial instruments. Samsung Securities makes no representation that any transaction can or could have been effected at those prices and any prices contained herein may not reflect Samsung Securities' internal books and records or theoretical model-based valuations and may be based on certain assumptions. Different assumptions by Samsung Securities or any other source may yield substantially different results. Additional information is available upon request.

For reports to be distributed to US:

Securities research is prepared, issued and exclusively distributed by Samsung Securities Co., Ltd., an organization licensed with the Financial Supervisory Service of South Korea. This research may be distributed in the United States only to major institutional investors as defined in Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended, and may not be circulated to any other person otherwise. All transactions by U.S. investors involving securities discussed in this report must be effected through Samsung Securities (America) Inc., a broker-dealer registered with the U.S. Securities & Exchange Commission and a member of the Financial Industry Regulatory Authority/SIPC, and not through any non-U.S. affiliate thereof. The analysts listed [on the front of this report] are employees of Samsung Securities Co., Ltd., or a non-U.S. affiliate thereof, and are not registered/qualified as research analysts under applicable U.S. rules and regulations and may not be subject to U.S. restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

For reports to be distributed to UK:

This report is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). To the extent that this report does constitute such an invitation or inducement, it is directed only at (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended) of the United Kingdom (the "Financial Promotion Order"); (ii) persons who fall within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order; and (iii) any other persons to whom this report can, for the purposes of section 21 of FSMA, otherwise lawfully be made (all such persons together being referred to as "relevant persons").

Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons. Persons who are not relevant persons must not act or rely on this report.

For reports to be distributed to Korea:

This report is for private circulation only, not for sale, and is issued and distributed only to persons permitted under the laws and regulations of Korea.

For reports to be distributed to Singapore:

This report is provided pursuant to the financial advisory licensing exemption under Regulation 27(1)(e) of the Financial Advisers Regulation of Singapore and accordingly may only be provided to persons in Singapore who are "institutional investors" as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This report is intended only for the person to whom Samsung Securities has provided this report and such person may not send, forward or transmit in any way this report or any copy of this report to any other person.

Analyst certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of such analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research report. The analyst(s) principally responsible for the preparation of this research report receives compensation based on determination by research management and senior management (not including investment banking), based on the overall revenues, including investment banking revenues of Samsung Securities Co., Ltd. and its related entities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Copyright © 2010 Samsung Securities Co., Ltd.. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the prior written consent of Samsung Securities America Inc.