

Electronics/parts



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Rating	<b>BUY (M)</b>
Target price	<b>W21,600 (M)</b>
Current price (Sep 4)	<b>W9,510</b>
Upside potential	<b>127%</b>

Market cap (Wbn)	216
Shares outstanding	24,346,584
Avg daily T/O (2M, Wbn)	1
Avg daily volume (2M, shrs)	89,960
52-week high (won)	13,150
52-week low (won)	8,100
Foreign ownership (%)	5.5
Major shareholders (%)	
Simmtech Holdings & others	41.6

Stock performance

(%)	1M	3M	12M
Absolute	4.2	4.3	(21.1)
Relative	(0.7)	10.6	(37.9)
Abs (US\$)	5.8	0.7	(19.5)

## DRAM upgrade begins

### 2H18 earnings likely to turn around strongly, with OP estimated at W31.5bn

- We expect Simmtech to enjoy a strong earnings rebound in 2H18, with sales estimated at W534.3bn (27% YoY, 8% HoH) and OP at W31.5bn (53% YoY, 123% HoH, OPM 6%). We estimate 2Q18 OP at W14.0bn and 3Q18 OP at W17.5bn. We expect a strong earnings rebound in 2H18, as: 1) seasonality will likely be strong; 2) semiconductor package substrate (SPS) ASP should improve on the start of the graphics DRAM upgrade cycle (from GDDR5 to GDDR6); and 3) loss-making subsidiary Eastern may turnaround. Consolidated subsidiary Eastern likely suffered an operating loss of W3.0bn in 1Q18 and W2.3bn in 2Q18, but OP should be above breakeven point in 3Q18.

### Focus on DRAM upgrade

- We advise investors to focus on the DRAM upgrade cycle. First, GDDR5 graphics DRAM is being replaced with GDDR6, driven by steeply rising demand for high-specification graphics processor units (GPU). As a result, we expect the company's SPS ASP to climb. In addition, clients are standardizing DRAM DDR5 for PCs in 2H18, with the aim of beginning mass production in 2H19, which should affect Simmtech shares positively.

### 2018 OP to rebound W45.7bn

- We expect Simmtech to rebound for 2018 with annual sales of W1tn (+27% YoY) and OP of W45.7bn (+35% YoY, OPM 4.4%). The IT sector has now entered an upgrade cycle, supported by advances in AI services, deep learning, and telecom services such as 5G. With its relatively high exposure to PC, mobile, and server DRAM, as well as graphics DRAM, Simmtech stands to benefit greatly from this trend. Robust DRAM upgrade demand will likely accelerate the adoption of high-margin MASP (modified semi-additive process), in which Simmtech holds a competitive edge. It is also notable that the firm holds a more than 30% share in the quickly growing SSD module substrate market.
- In short, we advise investors to actively accumulate Simmtech shares, given: 1) a likely turnaround at loss-making subsidiary Eastern; 2) benefits from the DRAM upgrade cycle; and 3) strong seasonality for 2H18. We maintain BUY and our target price of W21,600. Our target price of W21,000 implies a 2018/2019E average P/E of 11.5x. The firm's MASP capabilities fully justify the valuation premium, in our view.

Quarterly earnings

(Wbn)	3Q18E	% YoY	% QoQ	Consens	vs consens (%)
Sales	266	22.8	6.5	266	0.0
OP	14	20.8	72.0	14	3.6
Pre-tax net profit	11	100.1	114.7	11	7.8
Net profit, CI	12	182.3	118.1	7	57.8
OPM (%)	5.3	-0.1 %pt	+2.0 %pt	5.1	+0.2 %pt
NPM (%)	4.3	+2.4 %pt	+2.2 %pt	2.7	+1.6 %pt

Source: Yuanta Securities

Forecasts and valuations (K-IFRS, consolidated)

	FY ends Dec	2016A	2017A	2018E	2019E
Sales		792	812	1,028	1,068
OP		40	34	46	56
Net profit, CI		29	16	37	50
P/E (x)		6.2	16.6	5.9	4.4
P/B (x)		1.0	1.3	1.0	0.8
EV/EBITDA		4.3	5.5	3.4	2.7
ROE (%)		17.5	8.2	16.2	18.8

Source: Yuanta Securities

## Simmtech (222800 KS) pro forma financial statements (K-IFRS, consolidated)

## Statement of comprehensive income

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
<b>Sales</b>	<b>792</b>	<b>812</b>	<b>1,028</b>	<b>1,068</b>	<b>1,175</b>
Cost of sales	694	710	896	928	1,016
Gross profit	98	102	132	140	159
SG&A	58	68	87	84	92
<b>Operating profit</b>	<b>40</b>	<b>34</b>	<b>46</b>	<b>56</b>	<b>66</b>
EBITDA	84	79	111	118	125
Non-op profit/loss	-5	-15	-11	-10	-8
Forex gain/loss	-3	3	-4	-4	-8
Net interest income	-8	-8	-10	-10	-9
Equity-meth gain/loss	7	-9	0	0	0
Other	0	-1	3	4	9
Net prof before income tax	35	19	34	46	59
Income tax	5	3	5	7	9
Net profit from continuing ops	29	16	29	39	50
Net profit from discontinued ops	0	0	0	0	0
Net profit	29	16	29	39	50
<b>NP for controlling interest</b>	<b>29</b>	<b>16</b>	<b>37</b>	<b>50</b>	<b>63</b>
Total comprehensive income	27	12	43	52	63
Total comprehensive income, CI	27	12	45	55	66

Note: Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

## Statement of financial position

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
<b>Current assets</b>	<b>192</b>	<b>210</b>	<b>304</b>	<b>374</b>	<b>479</b>
Cash & cash equivalents	1	12	59	121	202
Accts rec & other	93	66	81	83	91
Inventory	96	131	163	168	184
Non-current assets	410	518	508	482	459
Tangible assets	344	459	451	431	412
Investment in affiliates	16	0	0	0	0
Other non-current	2	2	4	4	4
<b>Total assets</b>	<b>601</b>	<b>728</b>	<b>813</b>	<b>856</b>	<b>938</b>
Current liabilities	317	393	443	443	449
Accts payable & other	185	263	282	282	296
ST financial liabilities	54	72	156	156	146
Liquid LT liabilities	75	53	0	0	0
Non-current liabilities	105	120	122	122	118
LT financial liabilities	55	63	63	63	59
Debentures	0	0	0	0	0
<b>Total liabilities</b>	<b>422</b>	<b>513</b>	<b>566</b>	<b>566</b>	<b>567</b>
Equity, controlling interest	179	209	242	286	366
Paid-in capital	11	12	12	12	12
Capital surplus	20	42	42	42	42
Retained earnings	149	161	192	235	292
Equity, non-controlling interest	0	6	5	5	5
<b>Total equity</b>	<b>179</b>	<b>215</b>	<b>247</b>	<b>290</b>	<b>371</b>
<b>Net debt</b>	<b>182</b>	<b>176</b>	<b>160</b>	<b>98</b>	<b>3</b>
Total debt	184	188	219	219	205

## Cash flow statement

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
<b>Operating cash flow</b>	<b>39</b>	<b>133</b>	<b>75</b>	<b>116</b>	<b>124</b>
Net profit	29	16	29	39	50
Depreciation & amortization	41	43	59	56	55
Forex gain/loss	1	0	2	4	8
Affiliate invest gain/loss	-7	9	0	0	0
Inc (dec) in net working cap	-48	47	-37	-5	-8
Other	23	17	21	22	20
<b>Investing cash flow</b>	<b>-42</b>	<b>-61</b>	<b>-35</b>	<b>-26</b>	<b>-26</b>
Investment	-2	-18	0	0	0
Inc in tangible assets	-39	-52	-42	-36	-36
Dec in tangible assets	1	0	2	0	0
Other	-1	9	4	10	10
<b>Financing cash flow</b>	<b>0</b>	<b>-61</b>	<b>39</b>	<b>17</b>	<b>3</b>
Inc (dec) in ST fin liab	13	-1	30	0	-10
Inc (dec) in LT fin liab	-10	-79	-3	0	-4
Inc (dec) in equity	3	3	0	0	0
Cash dividend	-6	-4	-6	-6	-6
Other	0	20	19	23	23
Other cash flow	0	0	-32	-45	-21
<b>Inc (dec) in cash &amp; equivalents</b>	<b>-2</b>	<b>11</b>	<b>47</b>	<b>62</b>	<b>80</b>
Beginning cash & equivalents	3	1	12	59	121
Ending cash & equivalents	1	12	59	121	202
<b>NOPLAT</b>	<b>40</b>	<b>34</b>	<b>46</b>	<b>56</b>	<b>66</b>
<b>FCF</b>	<b>-10</b>	<b>69</b>	<b>24</b>	<b>69</b>	<b>71</b>

Note: CI = controlling interest

EPS, BPS, P/E and P/B are based on controlling interest

For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

Source: Yuanta Securities

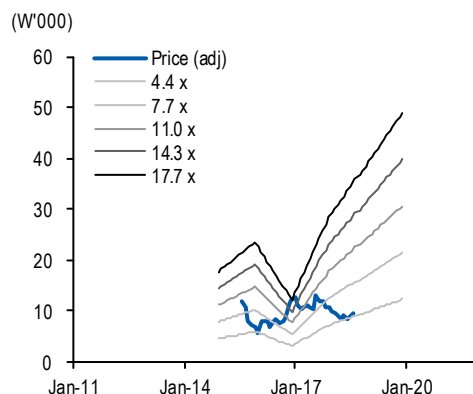
## Valuation

FY ends Dec	2016A	2017A	2018E	2019E	2020E
EPS (won)	1,326	683	1,609	2,178	2,773
BPS (won)	8,007	8,586	9,950	11,739	15,052
EBITDA/shr (won)	3,806	3,451	4,560	4,851	5,153
SPS (won)	36,036	35,486	42,227	43,872	48,259
DPS (won)	200	265	265	265	265
<b>P/E (x)</b>	<b>6.2</b>	<b>16.6</b>	<b>5.9</b>	<b>4.4</b>	<b>3.4</b>
<b>P/B (x)</b>	<b>1.0</b>	<b>1.3</b>	<b>1.0</b>	<b>0.8</b>	<b>0.6</b>
<b>EV/EBITDA (x)</b>	<b>4.3</b>	<b>5.5</b>	<b>3.4</b>	<b>2.7</b>	<b>1.8</b>
<b>P/S (x)</b>	<b>0.2</b>	<b>0.3</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>

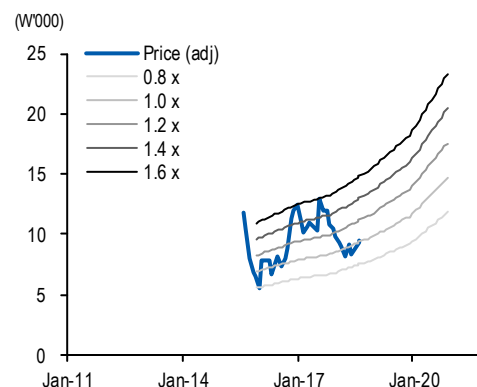
## Key financial data

FY ends Dec	2016A	2017A	2018E	2019E	2020E
<b>Sales (% YoY)</b>	<b>100.3</b>	<b>2.5</b>	<b>26.7</b>	<b>3.9</b>	<b>10.0</b>
<b>Operating profit (%YoY)</b>	<b>106.6</b>	<b>-15.9</b>	<b>35.2</b>	<b>22.8</b>	<b>18.4</b>
<b>Net profit, CI (%YoY)</b>	<b>180.1</b>	<b>-45.4</b>	<b>130.1</b>	<b>35.4</b>	<b>27.3</b>
Gross margin (%)	12.4	12.5	12.9	13.1	13.5
<b>Operating margin (%)</b>	<b>5.1</b>	<b>4.2</b>	<b>4.4</b>	<b>5.3</b>	<b>5.7</b>
Net margin, CI (%)	3.7	2.0	3.6	4.6	5.4
EBITDA margin (%)	10.6	9.7	10.8	11.1	10.7
ROIC (%)	9.6	7.2	9.0	11.0	13.5
ROA (%)	5.1	2.4	4.8	5.9	7.0
<b>ROE (%)</b>	<b>17.5</b>	<b>8.2</b>	<b>16.2</b>	<b>18.8</b>	<b>19.4</b>
Debt-to-equity (%)	235.5	239.1	229.1	194.7	152.8
Net debt-to-equity (%)	101.7	84.0	66.0	34.3	1.0
OP/financing cost (x)	4.9	4.2	4.3	5.0	6.4

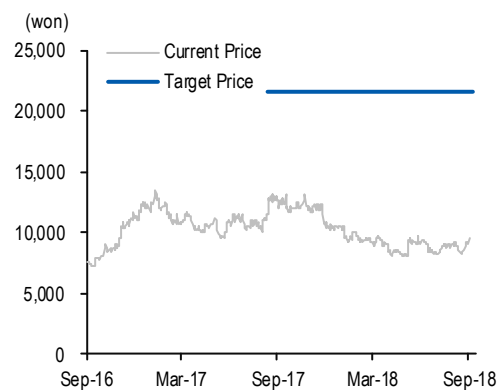
**P/E band chart**



**P/B band chart**



**Simmtech (222800 KS) ratings and target price history**



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2018/09/05	BUY	21,600	1 yr		
2018/08/16	After 1yr		1 yr	-59.38	-55.97
2017/08/16	BUY	21,600	1 yr	-53.59	-38.89
Analyst changed					
2017/05/31	BUY	14,000	1 yr	-24.69	-5.71

Note: Difference = (actual price\* - target price) / target price x 100

\* 1) The average price until the day target price was suggested

2) The highest (lowest) price until the day target price was suggested

Source: Yuanta Securities

**Current distribution of Yuanta Securities Korea ratings**

Rating	Share (%)
STRONG BUY	1.7
BUY	86.4
HOLD	11.4
SELL	0.6
Total	100.0

Note: As of Sep 2

Excluding reports written or published by overseas affiliates

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- **Stock ratings** include an Investment Rating (Strong Buy, Buy, Hold, Sell) based on the expected absolute return of a stock over the next 6 -12 months.
  - Strong Buy: Expected to return 30% or more
  - Buy: Expected to return between 10% and 30%
  - Hold: Expected to return between -10 and +10%
  - Sell: Expected to return -10% or less
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  - Overweight: Investment weighting is higher than the market capitalization weighting
  - Neutral: Investment weighting is equal to the market capitalization weighting
  - Underweight: Investment weighting is lower than the market capitalization weighting

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