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Company Update



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Simmtech (222800)

Product mix improving

- Simmtech's 3Q operating profit of KRW11b fell just shy of market expectations, the net effect of lackluster smartphone earnings and solid product-mix improvement.
- Backed by a modified semi-additive process (mSAP) capacity expansion and the industry's transition to DDR5 DRAM (GDDR6), the company's ASP should keep rising next year and earnings momentum should recover from 2Q19.
- We reiterate BUY on Simmtech, with a 12-month target price of KRW11,000.

WHAT'S THE STORY?

Investment strategy: Sales at Simmtech have slowed due to anemic demand for smartphones, servers, and PCs. On the other hand, the firm's product mix is improving toward high-end products (eg, FC-CSP and FC-BOC). We expect earnings momentum to pick up from 2Q19 as mobile phone makers finish parts inventory destocking. Earnings should enjoy stability as the firm expands capacity for its modified semi-additive process (mSAP) and consolidated subsidiary Eastern (Japan) lifts utilization. Simmtech should manage to keep hiking ASPs throughout 2019. We maintain our BUY rating on the stock and reiterate our target price of KRW11,000, believing shares deserve to trade at 7x forward P/E.

3Q review: Simmtech yesterday reported 3Q results showing sales of KRW263b (up 6% q-q and 22% y-y) and operating profit of KRW11b (up 37% q-q and down 5% y-y)—the net effect of lackluster smartphone earnings and solid product-mix improvement. Operating profit fell slightly short of consensus due to: 1) a decline in the portion of sales derived from semiconductor package substrates—eg, lucrative MCP substrates; and 2) a weaker-than-expected turnaround at subsidiary Eastern.

2019 outlook: We expect Simmtech to post 2019 sales of KRW1.081t and operating profit of KRW50.3b for the following three reasons.

- **ASP hikes:** Simmtech's product mix has been improving. The trends towards greater DRAM and NAND content per PC and server and better-performing application processors necessitate upgrades to package substrates. Amid growing demand for thinner, lighter, and smaller multiple-layer package substrates, reliance on the high-value-added mSAP process should increase, and so should the firm's ASP.

(Continued on the next page)

VALUATION SUMMARY

	2017	2018E	2019E
Multiples (x)			
P/E	12.1	10.2	5.6
P/B	1.0	0.9	0.8
EV/EBITDA	4.7	4.2	3.0
Div yield (%)	3.1	3.3	4.5
EPS growth (% y-y)	(47.5)	18.4	82.9
ROE (%)	8.2	8.7	14.6
Per-share data (KRW)			
EPS	696	823	1,506
BVPS	8,589	9,094	10,240
DPS	265	280	380

SUMMARY OF 3Q RESULTS

(KRWb)	3Q18	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	263.2	21.7	5.6	(4.9)	(1.5)
Operating profit	11.1	(4.6)	36.9	(38.0)	(19.4)
Pre-tax profit	7.4	30.8	54.5	(56.5)	(32.7)
Net profit	6.1	47.6	59.8	(56.3)	(36.9)
Margins (%)					
Operating profit	4.2				
Pre-tax profit	2.8				
Net profit	2.3				

Source: Company data, Samsung Securities estimates

AT A GLANCE

SELL HOLD **BUY**

Target price KRW11,000 (30.3%)

Current price KRW8,440

Market cap KRW192.03b/USD168.57m

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

52-week high/low KRW12,400/KRW8,100

Avg daily trading value (60-day) KRW1.2b/USD1.1m

ONE-YEAR PERFORMANCE

	1M	6M	12M
Simmtech (%)	-14.4	4.2	-30.2
Vs Kosdaq (%pts)	9.3	41.7	-25.3

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	11,000	11,000	0.0%
2018E EPS	823	1,585	-48.1%
2019E EPS	1,506	2,110	-28.6%

SAMSUNG vs THE STREET

No of estimates	3
Target price	16,200
Recommendation	4.3

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

- **Transition to DDR5 DRAM:** Memory technology migration started with graphics when the industry began using GDDR6 chips in 3Q. Servers and PCs should begin to feature DDR5 DRAM from 2H19, and this should create another round of earnings momentum.
- **MCP sales:** In contrast to ASP hikes, Simmtech's shipment volume should stagnate across the board. In particular, sluggishness in MCP sales (resulting from anemic smartphone demand) should continue well into 1H19.

Quarterly results

(KRWb)	3Q18	2Q18	3Q17	Chg	
				(% q-q)	(% y-y)
Sales	263.2	249.4	216.3	5.5	21.7
Operating profit	11.1	8.1	11.6	37.4	(4.2)
Pre-tax profit	7.4	4.8	5.7	54.7	31.0
Net profit	6.1	3.8	4.1	59.2	47.0
Margins (%)					
Operating profit	4.2	3.3	5.4		
Pre-tax profit	2.8	1.9	2.6		
Net profit	2.3	1.5	1.9		

Source: Company data, Samsung Securities

Full-year forecast revisions

(KRWb)	Old		New		Diff (%)	
	2018E	2019E	2018E	2019E	2018E	2019E
Sales	1,047.7	1,087.9	1,025.3	1,081.3	(2.1)	(0.6)
Operating profit	50.8	62.7	40.5	50.3	(20.2)	(19.8)
Pre-tax profit	44.9	60.0	27.8	42.8	(38.2)	(28.6)
Net profit	36.5	48.6	22.3	34.7	(38.9)	(28.6)

Source: Samsung Securities estimates

Target-price calculation

(KRW)	2019E
EPS	1,506
Target P/E (x)	7
Fair value	10,543
Target price	11,000
Current price	8,440
Upside (%)	30.3

Source: Samsung Securities estimates

Results and forecasts

(KRWb)	1Q18	2Q18	3Q18	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E	2017	2018E	2019E
Sales	244.4	249.4	263.2	268.3	251.7	267.0	280.1	282.5	811.6	1,025.3	1,081.3
Module PCB	63.0	71.3	76.6	75.7	64.1	74.3	77.7	77.4	257.1	286.6	293.4
Package substrate	141.2	134.8	136.9	142.2	138.6	141.2	147.3	155.7	546.6	555.1	582.7
Other	2.0	0.6	1.8	1.4	1.5	1.7	1.7	1.4	7.9	5.8	6.3
Operating profit	6.0	8.1	11.1	15.2	10.0	11.9	13.8	14.6	33.8	40.5	50.3
Pre-tax profit	2.8	4.8	7.4	12.7	8.0	10.0	11.9	12.8	19.0	27.8	42.8
Net profit	2.0	3.8	6.1	10.4	6.5	8.1	9.7	10.4	16.1	22.3	34.7
Margins (%)											
Operating profit	2.5	3.3	4.2	5.7	4.0	4.4	4.9	5.2	4.2	4.0	4.6
Pre-tax profit	1.2	1.9	2.8	4.7	3.2	3.7	4.3	4.5	2.3	2.7	4.0
Net profit	0.8	1.5	2.3	3.9	2.6	3.0	3.5	3.7	2.0	2.2	3.2

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2016	2017	2018E	2019E	2020E
Sales	792	812	1,025	1,081	1,132
Cost of goods sold	694	710	894	936	978
Gross profit	98	102	131	145	154
Gross margin (%)	12.4	12.5	12.8	13.4	13.6
SG&A expenses	58	68	94	95	96
Operating profit	40	34	36	50	58
Operating margin (%)	5.1	4.2	3.6	4.6	5.1
Non-operating gains (losses)	(5)	(15)	(13)	(7)	(7)
Financial profit	18	21	24	24	24
Financial costs	30	27	35	32	31
Equity-method gains (losses)	7	(9)	0	0	0
Other	(0)	(1)	(1)	1	1
Pre-tax profit	35	19	24	43	51
Taxes	5	3	5	8	10
Effective tax rate (%)	15.7	15.3	20.0	19.0	19.0
Profit from continuing operations	29	16	19	35	42
Profit from discontinued operations	0	0	0	0	0
Net profit	29	16	19	35	42
Net margin (%)	3.7	2.0	1.8	3.2	3.7
Net profit (controlling interests)	29	16	19	34	41
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	84	79	81	95	103
EBITDA margin (%)	10.6	9.7	7.9	8.8	9.1
EPS (parent-based) (KRW)	1,326	696	770	1,408	1,693
EPS (consolidated) (KRW)	1,333	704	779	1,424	1,713
Adjusted EPS (KRW)*	1,326	696	823	1,506	1,811

Cash flow statement

Year-end Dec 31 (KRWb)	2016	2017	2018E	2019E	2020E
Cash flow from operations	39	133	66	87	71
Net profit	29	16	19	35	42
Non-cash profit and expenses	65	79	61	61	62
Depreciation	41	43	43	43	43
Amortization	2	2	2	1	1
Other	22	34	16	16	17
Changes in A/L from operating activities	(48)	47	(1)	7	(16)
Cash flow from investments	(42)	(61)	(28)	(25)	(25)
Change in tangible assets	(38)	(52)	(24)	(24)	(24)
Change in financial assets	(0)	0	(1)	(0)	(0)
Other	(3)	(9)	(3)	(1)	(1)
Cash flow from financing	0	(61)	(36)	(59)	(49)
Change in debt	6	4	(30)	(53)	(40)
Change in equity	(117)	23	0	0	0
Dividends	(6)	(4)	(6)	(6)	(9)
Other	118	(84)	0	0	(0)
Change in cash	(2)	11	2	3	(3)
Cash at beginning of year	3	1	12	14	17
Cash at end of year	1	12	14	17	14
Gross cash flow	94	95	80	96	103
Free cash flow	0	81	42	63	47

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	241	257	265
Cash & equivalents	1	12	14	17	14
Accounts receivable	81	57	73	77	80
Inventories	96	131	141	149	156
Other current assets	13	11	13	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	739	734	722
Current liabilities	317	393	386	359	321
Accounts payable	73	118	120	127	133
Short-term debt	54	72	62	42	17
Other current liabilities	190	203	204	190	171
Long-term liabilities	105	120	125	119	113
Bonds & long-term debt	55	63	53	43	33
Other long-term liabilities	50	57	72	76	80
Total liabilities	422	513	512	478	434
Owners of parent equity	179	209	221	249	282
Capital stock	11	12	12	12	12
Capital surplus	20	42	42	42	42
Retained earnings	149	161	174	202	234
Other	(1)	(7)	(7)	(7)	(7)
Non-controlling interests' equity	0	6	6	6	7
Total equity	179	215	227	256	289
Net debt	182	176	144	88	51

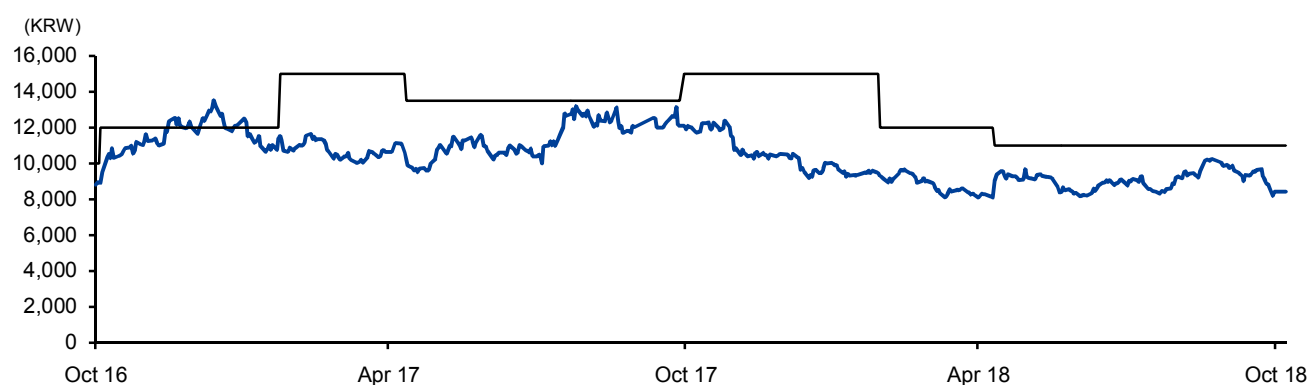
Financial ratios

Year-end Dec 31	2016	2017	2018E	2019E	2020E
Growth (%)					
Sales	100.3	2.5	26.3	5.5	4.7
Operating profit	106.6	(15.9)	7.8	37.9	15.8
Net profit	180.9	(45.1)	17.8	82.9	20.3
Adjusted EPS**	32.6	(47.5)	18.4	82.9	20.3
Per-share data (KRW)					
EPS (parent-based)	1,326	696	770	1,408	1,693
EPS (consolidated)	1,333	704	779	1,424	1,713
Adjusted EPS**	1,326	696	823	1,506	1,811
BVPS	8,010	8,589	9,094	10,240	11,579
DPS (common)	200	265	280	380	450
Valuations (x)					
P/E***	6.4	12.1	10.2	5.6	4.7
P/B***	1.1	1.0	0.9	0.8	0.7
EV/EBITDA	4.5	4.7	4.2	3.0	2.4
Ratios (%)					
ROE	17.5	8.2	8.7	14.6	15.5
ROA	5.1	2.4	2.6	4.7	5.7
ROIC	9.5	7.2	6.9	10.0	12.0
Payout ratio	15.3	37.9	34.0	25.2	24.8
Dividend yield (common)	2.4	3.1	3.3	4.5	5.3
Net debt to equity	101.5	81.8	63.3	34.5	17.6
Interest coverage (x)	4.9	4.2	4.4	6.4	8.2

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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	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

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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
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Percentage of ratings in 12 months prior to Sep 30, 2018

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