

# Simmtech (222800 KS)

## Growing demand for package substrates

**BUY** (Maintain)

CP (Feb. 7)	KRW14,100
TP (6 months)	KRW18,500
Upside	31.2%

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KOSPI	2,211.95p
KOSDAQ	672.63p
Market cap	KRW320.8bn/USD281.4mn
Par value	KRW500
Outstanding shares	22.8mn
Free float	12.5mn(54.9%)
52-week high/low	KRW14,100/KRW5,150
60-day avg. trading volume	377,043shrs
60-day avg. turnover	KRW4,498mn
Foreign ownership	9.46%
Major shareholders	
Simmtech Holdings and 7 others	45.02%
Absolute performance	3M 45.7%
	6M 150.0%
	12M 87.0%
Relative performance	3M 44.3%
to KOSDAQ	6M 109.9%
	12M 102.6%

- ◆ 4Q19 preview: Earnings on a clear uptrend
- ◆ 2020 outlook: Big cycle for package substrates
- ◆ Retain BUY and raise target price by 19% to KRW18,500

### 4Q19 preview: Earnings on a clear uptrend

We now expect Simmtech to report sales of KRW280.8bn (+12% YoY) and operating profit of KRW9.6bn (+75% YoY) for 4Q19. Operating earnings likely continued to improve from losses of KRW20.2bn in 1Q19 and KRW8.2bn in 2Q19 to profits of KRW0.7bn in 3Q19 and KRW9.6bn in 4Q19. The parent should have seen its capacity utilization rate rise from 75% in 1Q19 to 87% in 4Q19, amid growing demand for package substrates on recovery in memory chip market conditions. Increased order intake at Japanese subsidiary Eastern also contributed to overall earnings improvement. We believe that Eastern's operating loss decreased to KRW5.5bn in 4Q19 vs. KRW15.8bn in 1Q19 on shipment growth.

### 2020 outlook: Big cycle for package substrates

Operating earnings will likely swing to a profit of KRW51.8bn in 2020 on a rebound in capacity utilization at both parent and subsidiary. We focus on expectations for the 5G effect. With smartphone shipment growth led by 5G subsidies, demand should rise for AP-use FCCSP (flip-chip chip scale package) and memory-use MCP (multi-chip package). We also expect performance upgrade for SiP (system-in-package), which is used in antenna modules and telecom chips.

Meanwhile, Simmtech could benefit from possible production loss at competitors with plants in China amid the spread of the coronavirus, creating upside in the company's 1H20 earnings.

### Retain BUY and raise target price by 19% to KRW18,500

Our revised target price of KRW18,500 is based on 2021F EPS and a target PER of 10x usually applied to global IT parts manufacturers. We expect earnings improvement at both parent and subsidiary Eastern on industry-wide demand growth.

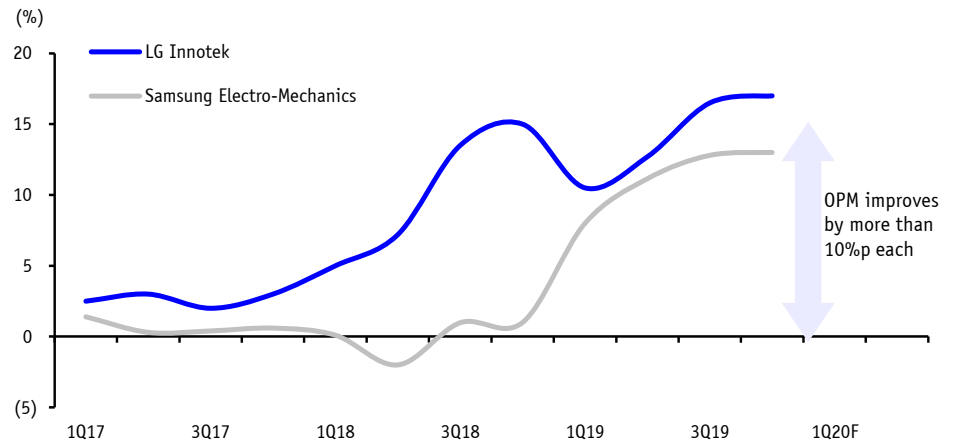
We applied 2021F EPS to reflect expectations for earnings surprise in 2020 and structural improvement in the package substrate industry. The industry's supply/demand conditions began to improve in 2019, leading to a more than 10%p YoY rise in operating margin at some peers. Simmtech should also see margin gains upon the semiconductor industry's shift to DDR5 and subsequent rise in BOC (board on chip) prices.

Year to	Sales	OP	Pre-tax	NP	EPS	Growth	BPS	PER	EV/EBITDA	PBR	ROE	Net debt
December	(bn KRW)	(bn KRW)	(bn KRW)	(bn KRW)	(KRW)	(%)	(KRW)	(x)	(x)	(x)	(%)	ratio (%)
2017	811.6	33.8	19.0	15.9	677	(48.9)	8,586	15.6	5.3	1.2	8.2	81.8
2018	1,007.5	30.8	10.4	5.0	194	(71.3)	8,739	35.0	3.6	0.8	2.4	91.7
2019F	987.7	(18.2)	(31.2)	(30.4)	(1,295)	TR	7,012	-	9.0	1.8	(16.2)	147.4
2020F	1,107.3	51.8	30.1	27.2	1,193	TB	8,170	11.8	3.7	1.7	15.6	79.4
2021F	1,185.0	69.3	52.3	41.6	1,828	53.3	9,839	7.7	2.8	1.4	20.3	24.6

Source: Company data, Shinhan Investment Corp. / Note: TB = turn black, TR = turn red, RR = remain red

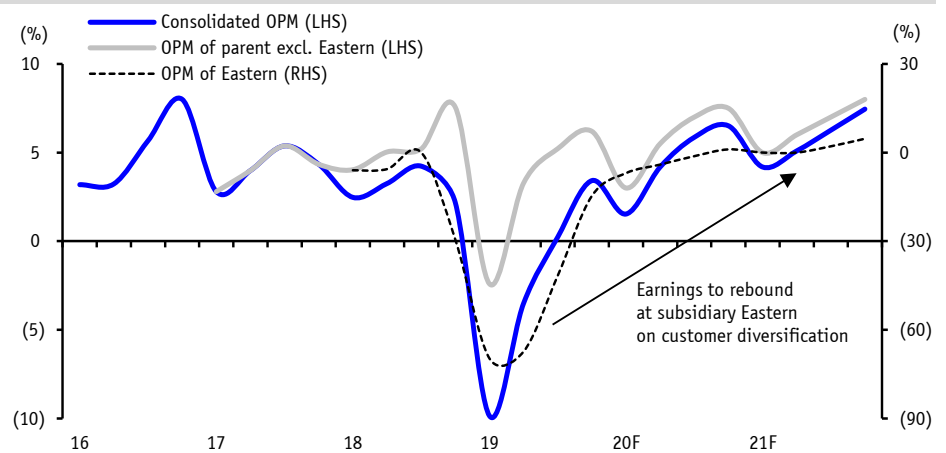
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## Package substrate OPM of LG Innotek and Samsung Electro-Mechanics



Source: Shinhan Investment Corp.

## Operating profit margin of parent and subsidiary



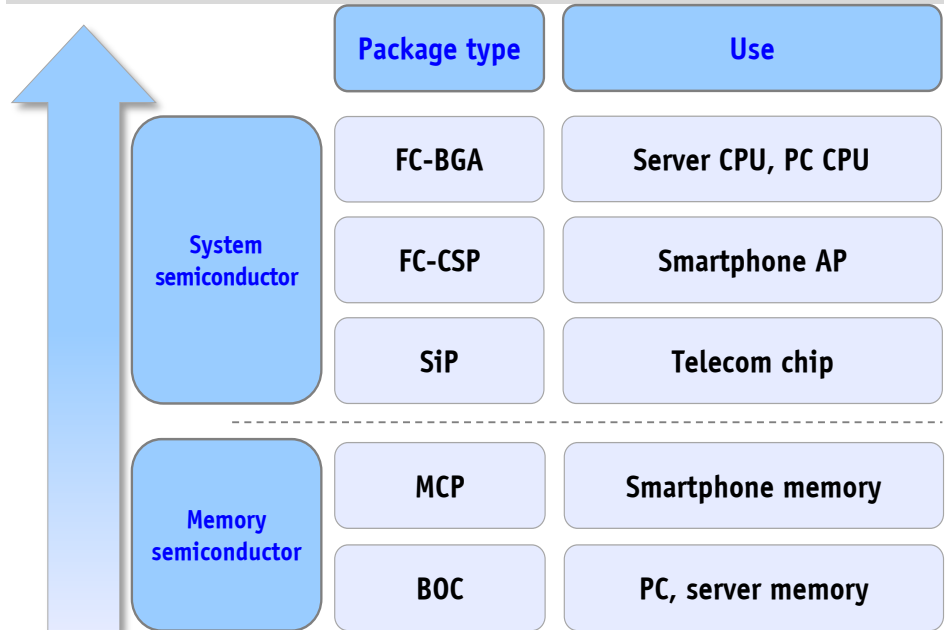
Source: DART, Shinhan Investment Corp.

## Earnings trend and outlook

(bn KRW, %)	1Q19	2Q19	3Q19	4Q19F	1Q20F	2Q20F	3Q20F	4Q20F	2018	2019F	2020F
<b>Sales</b>	<b>205.5</b>	<b>233.3</b>	<b>268.1</b>	<b>280.8</b>	<b>243.4</b>	<b>266.8</b>	<b>293.5</b>	<b>303.6</b>	<b>1,007.5</b>	<b>987.7</b>	<b>1,107.3</b>
Parent	182.8	210.9	239.6	243.4	207.6	230.0	252.8	256.8	842.1	876.7	947.2
Subsidiary	22.7	22.4	28.5	37.4	35.9	36.8	40.7	46.7	165.5	111.0	160.1
Module PCB	55.8	63.9	71.8	70.2	57.8	66.1	72.9	72.4	278.9	261.7	269.2
Substrate	148.3	165.4	193.2	207.8	182.8	197.6	217.7	228.2	722.1	714.7	826.3
<b>OP</b>	<b>(20.2)</b>	<b>(8.2)</b>	<b>0.7</b>	<b>9.6</b>	<b>3.7</b>	<b>11.2</b>	<b>17.2</b>	<b>19.8</b>	<b>30.8</b>	<b>(18.3)</b>	<b>51.8</b>
OPM	(9.9)	(3.5)	0.3	3.4	1.5	4.2	5.9	6.5	3.1	(1.8)	4.7
Parent	(4.4)	6.9	12.5	15.1	6.2	12.7	17.7	19.3	46.1	30.1	55.8
Subsidiary	(15.8)	(15.1)	(11.9)	(5.5)	(2.5)	(1.5)	(0.5)	0.5	(15.4)	(48.3)	(4.0)
<b>Sales growth (YoY)</b>	<b>(15.9)</b>	<b>(6.4)</b>	<b>1.9</b>	<b>12.1</b>	<b>18.5</b>	<b>14.3</b>	<b>9.5</b>	<b>8.1</b>	<b>24.1</b>	<b>(2.0)</b>	<b>12.1</b>
Parent	(11.2)	2.1	11.3	13.6	13.6	9.0	5.5	5.5	3.8	4.1	8.0
Subsidiary	(41.1)	(47.6)	(40.5)	2.8	58.2	64.1	42.8	25.0	-	(32.9)	44.3
<b>Sales share</b>											
Parent	89.0	90.4	89.4	86.7	85.3	86.2	86.1	84.6	83.6	88.8	85.5
Subsidiary	11.0	9.6	10.6	13.3	14.7	13.8	13.9	15.4	16.4	11.2	14.5

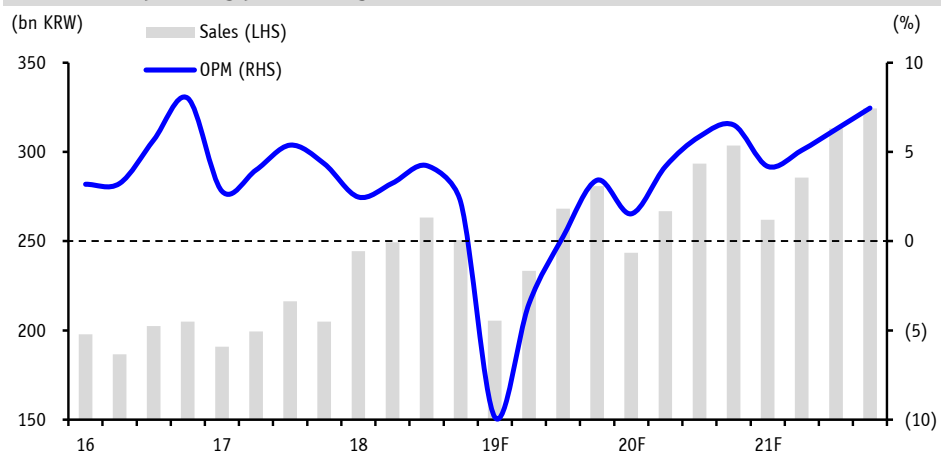
Source: Shinhan Investment Corp.

Trickle-down effect of benefits by product type



Source: Shinhan Investment Corp.

Sales and operating profit margin



Source: DART, Shinhan Investment Corp.

Peer group valuation

(mn USD, x, %)		2019F						2020F					
Company	Market cap	PER	PBR	EV/EBITDA	ROE	OPM	NPM	PER	PBR	EV/EBITDA	ROE	OPM	NPM
Simmtech	270	-	1.8	9.0	(16.2)	(1.8)	(3.1)	11.7	1.7	3.7	15.6	4.7	2.5
Samsung Electro-Mechanics	8,428	19.0	1.9	7.4	10.9	8.2	6.3	17.8	1.8	6.6	10.4	9.6	6.7
LG Innotek	2,999	20.2	1.6	5.3	8.1	4.6	2.2	11.1	1.4	4.5	13.4	5.3	3.4
Korea Circuit	245	26.6	1.0	6.8	3.7	2.6	2.4	10.3	0.9	4.1	9.0	6.2	5.1
Ibiden	3,476	299.6	1.4	10.3	0.6	3.3	0.6	41.6	1.4	8.4	3.3	5.8	3.0
Unimicron Technology	1,944	17.2	1.3	5.7	7.6	4.8	4.1	12.5	1.2	4.7	10.4	6.5	5.2
Shinko Electric Industries	1,663	43.4	1.3	6.2	2.9	4.1	2.9	238.2	1.3	7.9	0.9	0.9	0.5
AT&S Austria Technologie & Systemtechnik	819	9.4	1.3	4.3	13.6	11.8	7.7	18.5	1.2	5.2	8.7	8.1	4.2

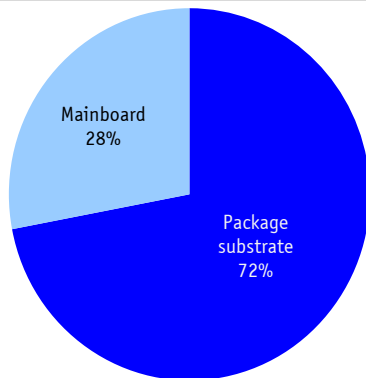
Source: Bloomberg, Shinhan Investment Corp.

**Target price calculation**

(KRW, x)	2020F	Remarks
Target price	18,500	
EPS	1,828	2021F EPS applied on expectations for earnings surprise in 2020 and structural improvement in package substrate industry
Target PER	10.0	Target PER usually applied to global IT parts manufacturers
Value per share	18,280	

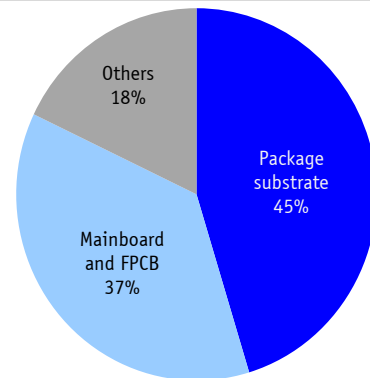
Source: Shinhan Investment Corp.

**Simmtech: Sales breakdown**



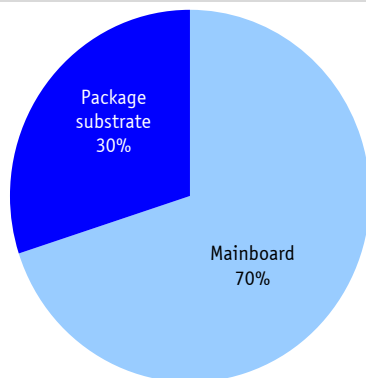
Source: QuantiWise, Shinhan Investment Corp.

**Daeduck Electronics: Sales breakdown**



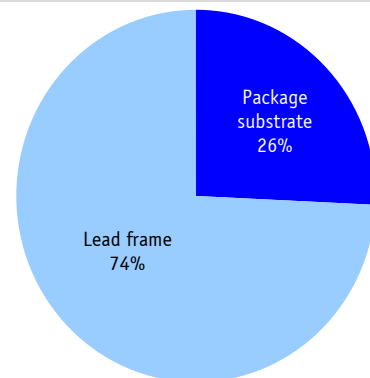
Source: QuantiWise, Shinhan Investment Corp.

**Korea Circuit: Sales breakdown**



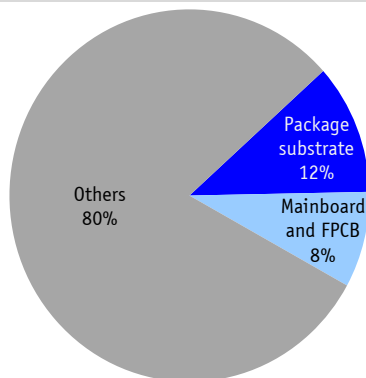
Source: QuantiWise, Shinhan Investment Corp.

**Haesung DS: Sales breakdown**



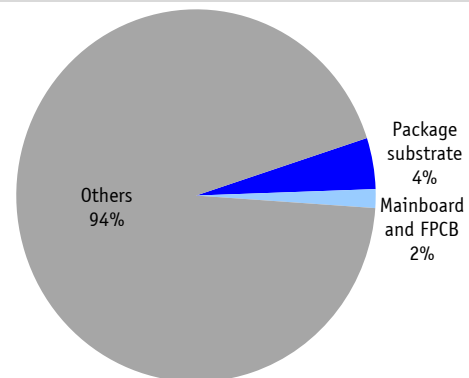
Source: QuantiWise, Shinhan Investment Corp.

**Samsung Electro-Mechanics: Sales breakdown**



Source: QuantiWise, Shinhan Investment Corp.

**LG Innotek: Sales breakdown**



Source: QuantiWise, Shinhan Investment Corp.

**4Q19 preview**

(bn KRW)	4Q19F	3Q19	QoQ (%)	4Q18	YoY (%)	Previous	Consensus
Sales	280.8	268.1	4.7	250.5	12.1	280.7	281.9
OP	9.6	0.7	1,362.6	5.5	75.2	9.8	10.1
NP	4.6	4.6	0.0	4.6	0.0	8.6	5.7
OPM (%)	3.4	0.2	-	2.2	-	7.1	3.6
NPM (%)	1.6	1.7	-	1.8	-	5.2	2.0

Source: Company data, QuantiWise, Shinhan Investment Corp.

**Earnings forecast revision**

(bn KRW, %)	Previous		Revised		Change (%)	
	2019F	2020F	2019F	2020F	2019F	2020F
Sales	987.6	1,107.1	987.7	1,107.3	0.0	0.0
OP	(15.0)	43.3	(18.2)	51.8	21.4	19.7
NP	(28.0)	23.2	18.5	18.5	(165.9)	(20.5)
OPM (%)	(1.5)	3.9	(1.8)	4.7	-	-
NPM (%)	(2.8)	2.1	1.9	1.7	-	-

Source: Shinhan Investment Corp.

## Statement of financial position

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
<b>Total assets</b>	<b>728.2</b>	<b>813.3</b>	<b>874.7</b>	<b>913.2</b>	<b>953.5</b>
Current assets	210.2	252.4	305.4	397.0	478.2
Cash and equivalents	12.2	27.3	53.1	124.2	186.8
Accounts receivable	56.8	57.0	63.9	69.1	73.8
Inventories	130.6	155.9	174.7	188.9	201.8
Non-current assets	517.9	561.0	569.3	516.2	475.3
Tangible assets	459.4	506.7	501.3	449.7	410.2
Intangible assets	33.1	25.5	25.3	23.4	21.7
Investment assets	2.2	3.8	4.3	4.6	4.9
Other financial assets	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities</b>	<b>513.4</b>	<b>598.8</b>	<b>712.4</b>	<b>726.5</b>	<b>727.5</b>
Current liabilities	393.2	520.7	571.4	580.2	576.3
Short-term borrowings	72.3	151.0	187.3	167.3	137.3
Accounts payable	117.5	38.9	43.5	47.1	50.3
Current portion of long-term debt	52.5	53.5	29.8	29.8	29.8
Non-current liabilities	120.2	78.1	141.0	146.3	151.2
Bonds	0.0	0.0	30.0	30.0	30.0
Long-term borrowings	63.0	19.5	45.3	45.3	45.3
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total shareholders' equity</b>	<b>214.7</b>	<b>214.6</b>	<b>162.2</b>	<b>186.6</b>	<b>225.9</b>
Capital stock	12.2	12.2	12.2	12.2	12.2
Capital surplus	42.1	43.7	43.7	43.7	43.7
Other capital	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Accumulated other comprehensive income	(6.6)	(5.5)	(2.9)	(2.9)	(2.9)
Retained earnings	161.4	162.6	109.5	133.0	171.0
<b>Controlling interest equity</b>	<b>209.0</b>	<b>212.8</b>	<b>162.3</b>	<b>185.9</b>	<b>223.9</b>
Non-controlling interest equity	5.7	1.8	(0.1)	0.7	2.0
*Total debt	187.8	223.9	292.4	272.4	242.4
*Net debt (cash)	175.6	196.7	239.2	148.1	55.6

## Statement of cash flow

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
<b>Cash flow from operations</b>	<b>133.0</b>	<b>90.5</b>	<b>62.8</b>	<b>115.1</b>	<b>121.5</b>
Net profit	16.1	2.3	(32.3)	28.0	42.9
Depreciation expense	43.2	63.6	73.8	71.6	64.5
Amortization expense	1.9	4.6	2.0	1.8	1.7
FX translation loss (gain)	0.2	(0.2)	(5.1)	0.0	0.0
Asset disposal loss (gain)	(0.9)	(0.6)	0.0	0.0	0.0
Equity method loss (gain)	8.8	0.0	0.0	0.0	0.0
Change in working capital	47.4	(3.2)	15.9	13.6	12.4
(Payment of income tax)	(3.1)	(6.5)	(10.7)	(2.1)	(9.4)
Others	19.4	30.5	19.2	2.2	9.4
<b>Cash flow from investments</b>	<b>(60.9)</b>	<b>(99.5)</b>	<b>(61.8)</b>	<b>(20.3)</b>	<b>(25.3)</b>
Increase in tangible assets	(52.0)	(98.0)	(64.2)	(20.0)	(25.0)
Decrease in tangible assets	0.3	1.1	3.2	0.0	0.0
Change in intangible assets	(2.6)	(0.9)	(0.3)	0.0	0.0
Change in investment assets	(18.2)	0.0	(2.4)	(0.3)	(0.3)
Others	11.6	(1.7)	1.9	(0.0)	(0.0)
<b>Free cash flow</b>	<b>93.5</b>	<b>(2.3)</b>	<b>3.7</b>	<b>109.9</b>	<b>105.5</b>
<b>Cash flow from financing</b>	<b>(61.4)</b>	<b>23.3</b>	<b>23.8</b>	<b>(23.6)</b>	<b>(33.6)</b>
Change in borrowings	(80.0)	29.8	47.9	(20.0)	(30.0)
Change in treasury stock	0.0	0.0	0.0	0.0	0.0
Dividends	(4.5)	(6.4)	(3.9)	(3.6)	(3.6)
Others	23.1	(0.1)	(20.2)	(0.0)	(0.0)
Other cash flow	0.0	0.0	0.1	(0.1)	0.1
Change in consolidated scope	0.0	0.0	0.0	0.0	0.0
Change in FX rates	(0.0)	0.7	0.9	0.0	0.0
<b>Change in total cash</b>	<b>10.7</b>	<b>15.1</b>	<b>25.9</b>	<b>71.0</b>	<b>62.6</b>
Beginning cash	1.5	12.2	27.3	53.2	124.2
Ending cash	12.2	27.3	53.2	124.2	186.8

Source: Company data, Shinhan Investment Corp.

## Statement of comprehensive income

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
<b>Sales</b>	<b>811.6</b>	<b>1,007.5</b>	<b>987.7</b>	<b>1,107.3</b>	<b>1,185.0</b>
Growth (%)	2.5	24.1	(2.0)	12.1	7.0
<b>COGS</b>	<b>710.1</b>	<b>875.8</b>	<b>901.0</b>	<b>968.5</b>	<b>1,036.5</b>
<b>Gross profit</b>	<b>101.5</b>	<b>131.7</b>	<b>86.7</b>	<b>138.8</b>	<b>148.6</b>
GPM (%)	12.5	13.1	8.8	12.5	12.5
<b>SG&amp;A</b>	<b>67.7</b>	<b>100.9</b>	<b>104.9</b>	<b>87.0</b>	<b>79.3</b>
<b>Operating profit</b>	<b>33.8</b>	<b>30.8</b>	<b>(18.2)</b>	<b>51.8</b>	<b>69.3</b>
Growth (%)	(15.9)	(9.0)	N/A	N/A	33.7
OPM (%)	4.2	3.1	(1.8)	4.7	5.8
<b>Non-operating profit</b>	<b>(14.8)</b>	<b>(20.3)</b>	<b>(13.0)</b>	<b>(21.7)</b>	<b>(17.0)</b>
Financial profit	(5.5)	(13.9)	(8.8)	(9.7)	(7.0)
Other non-operating profit	(0.7)	(6.4)	(4.2)	(12.0)	(10.0)
Equity method gain (loss)	(8.6)	0.0	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>19.0</b>	<b>10.4</b>	<b>(31.2)</b>	<b>30.1</b>	<b>52.3</b>
Income tax	2.9	8.1	1.1	2.1	9.4
Continuing operations	16.1	2.3	(32.3)	28.0	42.9
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>16.1</b>	<b>2.3</b>	<b>(32.3)</b>	<b>28.0</b>	<b>42.9</b>
Growth (%)	(45.1)	(85.6)	N/A	N/A	53.0
NPM (%)	2.0	0.2	(3.3)	2.5	3.6
Controlling interest	15.9	5.0	(30.4)	27.2	41.6
Non-controlling interest	0.2	(2.7)	(1.9)	0.8	1.3
<b>Comprehensive income</b>	<b>11.8</b>	<b>6.3</b>	<b>(29.6)</b>	<b>28.0</b>	<b>42.9</b>
Controlling interest	11.7	8.6	(28.4)	24.1	36.8
Non-controlling interest	0.2	(2.3)	(1.2)	4.0	6.1
<b>EBITDA</b>	<b>78.9</b>	<b>98.9</b>	<b>57.6</b>	<b>125.3</b>	<b>135.5</b>
Growth (%)	(5.6)	25.3	(41.7)	117.4	8.1
EBITDA margin (%)	9.7	9.8	5.8	11.3	11.4

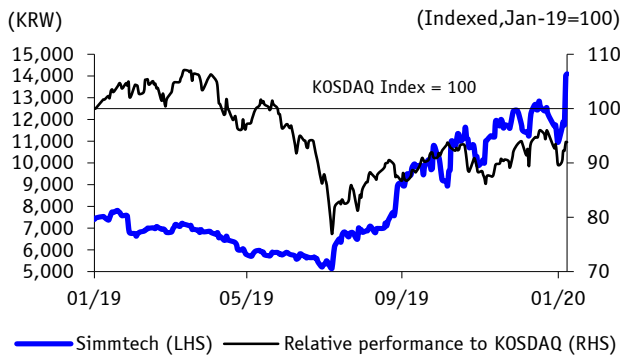
## Key ratios

Year to December	2017	2018	2019F	2020F	2021F
EPS (KRW)	686	85	(1,375)	1,230	1,885
EPS of controlling interest (KRW)	677	194	(1,295)	1,193	1,828
BPS (KRW)	8,820	8,813	7,008	8,203	9,928
BPS of controlling interest (KRW)	8,586	8,739	7,012	8,170	9,839
DPS (KRW)	265	160	160	160	160
PER (x)	15.4	80.2	-	11.5	7.5
PER of controlling interest (x)	15.6	35.0	-	11.8	7.7
PBR (x)	1.2	0.8	1.8	1.7	1.4
PBR of controlling interest (x)	1.2	0.8	1.8	1.7	1.4
EV/EBITDA (x)	5.3	3.6	9.0	3.7	2.8
Dividend payout ratio (%)	40.5	78.1	(12.0)	13.4	8.7
Dividend yield (%)	2.5	2.4	1.3	1.1	1.1
<b>Profitability</b>					
EBITDA margin (%)	9.7	9.8	5.8	11.3	11.4
OPM (%)	4.2	3.1	(1.8)	4.7	5.8
NPM (%)	2.0	0.2	(3.3)	2.5	3.6
ROA (%)	2.4	0.3	(3.8)	3.1	4.6
ROE (%)	8.2	2.4	(16.2)	15.6	20.3
ROIC (%)	6.2	1.2	(4.6)	12.2	16.8
<b>Stability</b>					
Debt to equity ratio (%)	239.1	279.1	439.1	389.2	322.1
Net debt ratio (%)	81.8	91.7	147.4	79.4	24.6
Cash ratio (%)	3.1	5.2	9.3	21.4	32.4
Interest coverage ratio (x)	4.2	2.7	(1.6)	4.3	6.2
<b>Activity (%)</b>					
Working capital turnover (times)	(23.5)	(12.5)	(10.2)	(10.4)	(10.4)
Inventory turnover (days)	50.9	51.9	61.1	59.9	60.2
Receivable turnover (days)	31.1	20.6	22.3	21.9	22.0

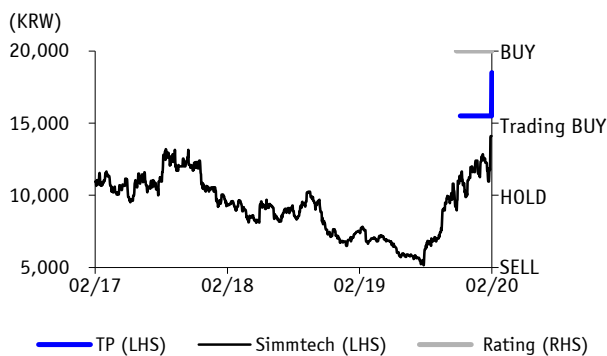
Source: Company data, Shinhan Investment Corp.

## Simmtech (222800 KS)

## Share performance



## Target price



Date	Rating	Target price (KRW)	Target price gap (%)	
			Average	Max/Min
2019.11.15	BUY	15,500	-	-

Note: Calculation of target price gap based on past 6 months

## Rating Distribution - SHIC Universe (as of 7 February 2020)

BUY (BUY)	96.62%	Trading BUY (HOLD)	0.68%	HOLD (HOLD)	2.7%	SELL (SELL)	0%
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## Rating Distribution - SHIC Investment Banking Clients (as of 7 February 2020)

BUY (BUY)	0%	Trading BUY (HOLD)	0%	HOLD (HOLD)	0%	SELL (SELL)	0%
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## SHIC Ratings (as of 1 April 2017)

Stock	Sector
<ul style="list-style-type: none"> <li>◆ <b>BUY:</b> Expected 6-month gain of 10% or more</li> <li>◆ <b>Trading BUY:</b> Expected 6-month gain of 10% to loss of 10%</li> <li>◆ <b>HOLD:</b> Expected 6-month loss of 10% to 20%</li> <li>◆ <b>SELL:</b> Expected 6-month loss of 20% or more</li> </ul>	<ul style="list-style-type: none"> <li>◆ <b>OVERWEIGHT:</b> Based on market cap, largest share of sector stocks under coverage is rated BUY</li> <li>◆ <b>NEUTRAL:</b> Based on market cap, largest share of sector stocks under coverage is rated Trading BUY or HOLD</li> <li>◆ <b>UNDERWEIGHT:</b> Based on market cap, largest share of sector stocks under coverage is rated SELL</li> </ul>

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