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## Tech Team

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## ► AT A GLANCE

<b>Recommend</b>	<b>Not Rated</b>
<b>Target price</b>	n/a
<b>Current price</b>	<b>KRW13,850</b>
Market cap	KRW315.13b/USD260.37m
Shares (float)	22,752,959 (54.9%)
52-week high/low	KRW14,550/KRW5,150
Avg daily trading value (60-day)	KRW4.8b/ USD4.0m

## ► ONE-YEAR PERFORMANCE

	1M	6M	12M
<b>Simmtech (%)</b>	<b>13.1</b>	<b>105.2</b>	<b>82.2</b>
Vs Kosdaq (%pts)	18.0	90.2	108.2

# Simmtech (222800)

## Rights offering just prior to industry boom

- Simmtech reported an in-line 4Q19 OP of KRW9.9b.
- The firm has announced a plan to issue new shares (equal to approximately 40% of outstanding shares) via a rights offering to existing shareholders.
- The rights offering decision represents the firm's confidence in an industry turnaround, though the inevitable share dilution is a negative.

## WHAT'S THE STORY

**4Q review:** Simmtech reported consolidated 4Q sales and OP of KRW293b and KRW9.9b, respectively, meeting guidance and consensus. The firm's ASPs are on the up amid an increase in the portion of sales of high-end modified semi-additive processing (MSAP) for MCP and FC-CSP substrates, which has helped normalize its margins. In terms of application, growth in 4Q was even for servers, mobile devices, and PCs. We expect the company's earnings in 1Q to hold up well—and prove similar q-q—given the growing server sales portion and the firm's defensive position (compared to its Chinese rivals, Simmtech is shielded from COVID-19 related negatives).

**Rights offering announced:** Simmtech plans to issue 9.1m new shares (which is equal to 40% of the outstanding amount) at an estimated discount of 20%. Shareholders as of the record date (Mar 18) will be eligible for the new share subscription. The final offering price will be set on Apr 20. Given the 20% discount, we believe that buying Simmtech before Mar 18 would be 8% more rewarding than buying the stock after Mar 18 (*ie*, after the ex-rights date).

Out of the expected proceeds from the rights offering (about KRW92b), Simmtech is likely to use: 1) KRW25b to expand its MSAP capacity by 20%; and 2) KRW67b to pay off debt. The company aims to pay back roughly KRW150b in debt in 2020 by utilizing operating cash flows and proceeds from the rights offering, reducing its net debt to less than KRW340b and cutting its debt ratio from over 400% to below 200%.

*(Continued on the next page)*

## SUMMARY FINANCIAL DATA

	2015	2016	2017	2018
Revenue (KRWb)	395	792	812	1,008
Operating profit (KRWb)	19	40	34	31
Net profit (adj) (KRWb)	10	29	16	2
EPS (adj) (KRW)	1,000	1,326	696	205
EPS (adj) growth (% y-y)	n/a	32.6	(47.5)	(70.6)
EBITDA margin (%)	10.4	10.6	9.7	9.8
ROE (%)	6.7	17.5	8.2	2.4
P/E (adj) (x)	13.9	10.4	19.9	67.7
P/B (x)	2.0	1.7	1.6	1.6
EV/EBITDA (x)	12.0	5.9	6.3	5.2
Dividend yield (%)	1.9	1.4	1.9	1.2

Source: Company data, Samsung Securities estimates

**Implications of rights offering:** Dilution effects stemming from the rights offering are an inevitable outcome, but we believe the firm's rights offering decision represents its confidence in a turnaround for the substrate industry. We predict that most Asian substrate suppliers will boom in 2020, albeit for different reasons. Simmtech cites higher ASPs on the back of rising GDDR6 sales as a reason behind its rosy outlook. This explains the company's more optimistic sales guidance for 2020. Korea's top-tier substrate suppliers (excluding Simmtech) already enjoy an OPM of at least 10%.

### Quarterly results

(KRWb)	4Q19	3Q19	4Q18	Chg	
				(% q-q)	(% y-y)
Sales	293.3	268.1	250.5	9.4	17.0
Operating profit	9.9	0.7	5.5	1,405.0	80.2
Pre-tax profit	(3.7)	(2.1)	(4.6)	Remained loss	Remained loss
Net profit	(0.6)	(4.6)	(9.6)	Remained loss	Remained loss
Margins (%)					
Operating profit	3.4	0.2	2.2		
Pre-tax profit	(1.3)	(0.8)	(1.8)		
Net profit	(0.2)	(1.7)	(3.8)		

Source: Company data, Samsung Securities estimates

### Rights offering summary

Article	(KRW)
Number of new shares	9,101,184
Par value per share	500
Number of shares before rights offering	22,752,959
Purpose of rights offering	Capex 25,077,017,600 Debt repayment 67,300,000,000
Type of offering	Rights offering; public subscription of forfeited shares
Expected issue price (KRW)	10,150
Final offering price decided	Apr 20, 2020
Expected date of offering	Apr 23, 2020

Source: Company data, Samsung Securities estimates

### Number of shares before rights offering + newly issued shares

Shareholders	Number of shares before rights offering		Newly issued shares (40% of outstanding; 20% discount)
	Number of shares	Stake	
Simmtech Holdings	10,210,405	44.9%	3,268,517
Others	12,534,288	55.1%	4,012,430
Employees			1,820,237
<b>Total</b>	<b>22,744,693</b>	<b>100%</b>	<b>9,101,184</b>

Source: Company data, Samsung Securities estimates

### Summary of quarterly results

(KRWb)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	2017	2018	2019
Sales	244.4	249.4	263.2	250.5	205.5	233.3	268.1	293.3	811.6	1,007.5	1,000.2
Operating profit	6.0	8.1	11.1	5.5	(20.2)	(8.2)	0.7	9.9	33.8	30.8	(17.9)
Pre-tax profit	2.8	4.8	7.4	(4.6)	(25.3)	(11.0)	(2.1)	(3.7)	19.0	10.4	(42.1)
Net profit	2.0	3.8	6.1	(9.6)	(23.1)	(11.0)	(4.6)	(0.6)	16.1	2.3	(39.3)
Margin (%)											
Operating profit	2.5	3.3	4.2	2.2	(9.9)	(3.5)	0.2	3.4	4.2	3.1	(1.8)
Pre-tax profit	1.2	1.9	2.8	(1.8)	(12.3)	(4.7)	(0.8)	(1.3)	2.3	1.0	(4.2)
Net profit	0.8	1.5	2.3	(3.8)	(11.3)	(4.7)	(1.7)	(0.2)	2.0	0.2	(3.9)

Source: Company data, Samsung Securities estimates

## Income statement

Year-end Dec 31 (KRWb)	2014	2015	2016	2017	2018
<b>Sales</b>	n/a	395	792	812	1,008
Cost of goods sold	n/a	350	694	710	876
<b>Gross profit</b>	n/a	45	98	102	132
Gross margin (%)	n/a	11.5	12.4	12.5	13.1
SG&A expenses	n/a	26	58	68	101
<b>Operating profit</b>	n/a	19	40	34	31
Operating margin (%)	n/a	4.9	5.1	4.2	3.1
<b>Non-operating gains (losses)</b>	n/a	(7)	(5)	(15)	(20)
Financial profit	n/a	10	18	21	27
Financial costs	n/a	17	30	27	40
Equity-method gains (losses)	n/a	0	7	(9)	0
Other	n/a	(0)	(0)	(1)	(6)
<b>Pre-tax profit</b>	n/a	12	35	19	10
Taxes	n/a	2	5	3	8
Effective tax rate (%)	n/a	14.2	15.7	15.3	77.8
Profit from continuing operations	n/a	10	29	16	2
Profit from discontinued operations	n/a	0	0	0	0
<b>Net profit</b>	n/a	10	29	16	2
Net margin (%)	n/a	2.6	3.7	2.0	0.2
Net profit (controlling interests)	n/a	10	29	16	5
Net profit (non-controlling interests)	n/a	0	0	0	(3)
EBITDA	n/a	41	84	79	99
EBITDA margin (%)	n/a	10.4	10.6	9.7	9.8
EPS (parent-based) (KRW)	n/a	1,000	1,326	696	205
EPS (consolidated) (KRW)	n/a	1,003	1,333	704	95
Adjusted EPS (KRW)*	n/a	1,000	1,326	696	205

## Cash flow statement

Year-end Dec 31 (KRWb)	2014	2015	2016	2017	2018
<b>Cash flow from operations</b>	n/a	66	39	133	90
Net profit	n/a	10	29	16	2
Non-cash profit and expenses	n/a	32	65	79	109
Depreciation	n/a	21	41	43	64
Amortization	n/a	1	2	2	5
Other	n/a	11	22	34	41
Changes in A/L from operating activities	n/a	27	(48)	47	(3)
<b>Cash flow from investments</b>	n/a	(16)	(42)	(61)	(99)
Change in tangible assets	n/a	(21)	(38)	(52)	(97)
Change in financial assets	n/a	(2)	(0)	0	(2)
Other	n/a	7	(3)	(9)	(1)
<b>Cash flow from financing</b>	n/a	(47)	0	(61)	23
Change in debt	n/a	178	6	4	36
Change in equity	n/a	148	(117)	23	2
Dividends	n/a	0	(6)	(4)	(6)
Other	n/a	(373)	118	(84)	(8)
Change in cash	n/a	3	(2)	11	15
Cash at beginning of year	n/a	0	3	1	12
Cash at end of year	n/a	3	1	12	27
<b>Gross cash flow</b>	n/a	43	94	95	111
<b>Free cash flow</b>	n/a	45	0	81	(8)

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)	2014	2015	2016	2017	2018
<b>Current assets</b>	n/a	143	192	210	252
Cash & equivalents	n/a	3	1	12	27
Accounts receivable	n/a	46	81	57	57
Inventories	n/a	84	96	131	156
Other current assets	n/a	10	13	11	12
<b>Fixed assets</b>	n/a	405	410	518	561
Investment assets	n/a	2	18	2	4
Tangible assets	n/a	354	344	459	507
Intangible assets	n/a	28	29	33	26
Other long-term assets	n/a	21	20	23	25
<b>Total assets</b>	n/a	548	601	728	813
<b>Current liabilities</b>	n/a	290	317	393	521
Accounts payable	n/a	81	73	118	39
Short-term debt	n/a	39	54	72	151
Other current liabilities	n/a	170	190	203	331
<b>Long-term liabilities</b>	n/a	104	105	120	78
Bonds & long-term debt	n/a	74	55	63	19
Other long-term liabilities	n/a	30	50	57	59
<b>Total liabilities</b>	n/a	393	422	513	599
<b>Owners of parent equity</b>	n/a	155	179	209	213
Capital stock	n/a	11	11	12	12
Capital surplus	n/a	137	20	42	44
Retained earnings	n/a	7	149	161	163
Other	n/a	(1)	(1)	(7)	(6)
<b>Non-controlling interests' equity</b>	n/a	0	0	6	2
<b>Total equity</b>	n/a	155	179	215	215
Net debt	n/a	175	182	176	197

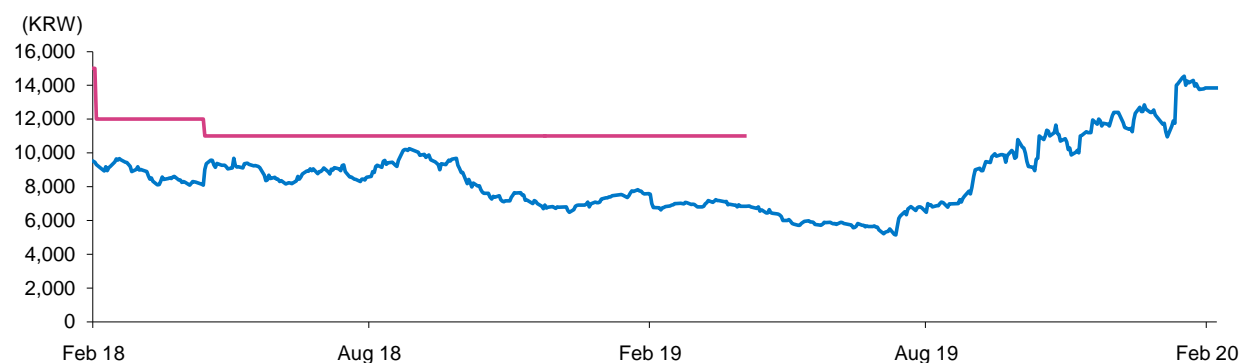
## Financial ratios

Year-end Dec 31	2014	2015	2016	2017	2018
<b>Growth (%)</b>					
Sales	n/a	n/a	100.3	2.5	24.1
Operating profit	n/a	n/a	106.6	(15.9)	(9.0)
Net profit	n/a	n/a	180.9	(45.1)	(85.6)
Adjusted EPS**	n/a	n/a	32.6	(47.5)	(70.6)
<b>Per-share data (KRW)</b>					
EPS (parent-based)	n/a	1,000	1,326	696	205
EPS (consolidated)	n/a	1,003	1,333	704	95
Adjusted EPS**	n/a	1,000	1,326	696	205
BVPS	n/a	7,049	8,010	8,589	8,742
DPS (common)	n/a	260	200	265	160
<b>Valuations (x)</b>					
P/E***	n/a	13.9	10.4	19.9	67.7
P/B***	n/a	2.0	1.7	1.6	1.6
EV/EBITDA	n/a	12.0	5.9	6.3	5.2
<b>Ratios (%)</b>					
ROE	n/a	6.7	17.5	8.2	2.4
ROA	n/a	1.9	5.1	2.4	0.3
ROIC	n/a	4.9	9.5	7.2	1.6
Payout ratio	n/a	54.8	15.3	37.9	73.0
Dividend yield (common)	n/a	1.9	1.4	1.9	1.2
Net debt to equity	n/a	112.9	101.5	81.8	91.7
Interest coverage (x)	n/a	4.5	4.9	4.2	2.7

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### Target price changes in past two years



### Rating changes over past two years (adjusted share prices)

Date	2017/10/30	2018/2/28	5/10	2020/2/26
Recommendation	BUY	BUY	BUY	Not Rated
Target price (KRW)	15,000	12,000	11,000	n/a
Gap* (average)	(29.93)	(26.96)	(26.43)	
(max or min)**	(17.33)	(19.50)	(6.82)	

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

<b>OVERWEIGHT</b>	Expected to outperform market by 5% or more within 12 months
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<b>UNDERWEIGHT</b>	Expected to underperform market by 5% or more within 12 months

### Percentage of ratings in 12 months prior to Dec 31, 2019

BUY (77%) | HOLD (23%) | SELL (0%)

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