

Simmtech (222800 KS)

Announced bullish 2020 outlook and rights offering

BUY (Maintain)

CP (Feb. 25)	KRW13,850
TP (6 months)	KRW18,500
Upside	33.6%

HyungWou Park ☎ (82-2) 3772-2184
✉ hyungwou@shinhan.com

KOSPI	2,103.61p
KOSDAQ	656.95p
Market cap	KRW238.9bn/USD209.6mn
Par value	KRW500
Outstanding shares	22.8mn
Free float	12.5mn(54.9%)
52-week high/low	KRW14,550/KRW5,150
60-day avg. trading volume	386,410shrs
60-day avg. turnover	KRW4,843mn
Foreign ownership	10.19%
Major shareholders	
Simmtech Holdings and 7 others	45.02%
Absolute performance	
3M	27.6%
6M	105.2%
12M	82.2%
Relative performance to KOSPI	
3M	25.8%
6M	90.2%
12M	108.2%

- ◆ Announcement of 4Q19 results and rights offering: Start of market uptrend
- ◆ 2020 outlook: Big cycle for semiconductor package substrates
- ◆ Retain BUY for a target price of KRW18,500

Announcement of 4Q19 results and rights offering: Start of market uptrend

Simmtech posted operating profit of KRW9.9bn for 4Q19. Parent operating profit reached KRW16bn when excluding yearend one-off expenses of KRW3bn. We believe 4Q19 results confirm the improvement in memory chip and package substrate market conditions. Subsidiary Eastern reduced losses and swung to profit in December.

Simmtech also announced plans for a rights offering, equivalent to 40% of current outstanding shares at a discount rate of 20%. Of the total, 20% of shares will be allocated to ESOP and the remainder to existing shareholders.

2020 outlook: Big cycle for semiconductor package substrates

In our view, the large-scale rights offering clearly shows the company's confidence in earnings for 2020. Its full-year guidance calls for operating profit of KRW90.4bn.

For 2020, we forecast operating profit of KRW80.5bn (positive swing), including KRW74bn at the parent and KRW6.5bn at the subsidiary. Our earnings projection for the full year reflects the following. First, 4Q19 earnings improvement signals the start of a market turnaround. Second, the sales share of high value-added substrates is on a rise. Simmtech plans to expand capacity at its modified semi-additive process (MSAP) line by 17% with funds raised from the rights offering. The company is also considering further investment into capacity expansion. Third, module PCB shipments (27% sales share) are on an uptrend. We believe operating profit margin from module PCBs will increase from 2% in 2019 to 6% in 2020. Fourth, the price of package substrates is expected to rise in 2021 following the shift to DDR5.

Retain BUY for a target price of KRW18,500

Applying the current share price, Simmtech's market cap is expected to increase to KRW441.2bn following the rights offering. Based on our earnings forecasts, this translates to a 2020F PER of 7.7x and 2021F PER of 5.5x. Our target price is based on 2020F net profit and a target PER of 10x, which is usually applied to global IT parts manufacturers. Alongside technological changes and IT market recovery, package substrate companies including key memory substrate supplier Simmtech are seeing growing demand for larger shipments and performance advancement. While the rights offering decision could be viewed negative by some, we focus on the structural improvement of the package substrate industry and uptrend in earnings of semiconductor substrate manufacturers. Our retain our BUY rating on Simmtech.

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	1,000.2	(17.9)	(41.9)	(37.2)	(1,586)	TR	6,717	(7.8)	9.0	1.8	(20.2)	154.0
2020F	1,141.3	80.5	68.0	57.1	2,505	TB	9,184	5.5	2.8	1.5	31.3	56.9
2021F	1,201.2	107.9	100.4	79.8	3,508	40.1	12,532	3.9	1.7	1.1	32.3	(5.7)

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

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Valuation based on expected market cap after rights offering

(bn KRW, x)	NP forecast	Expected market cap at current price	PER
20F PER (SHIC estimate)	57.1	441.2	7.7
20F PER (Simmtech estimate)	65.0		6.8
21F PER (SHIC estimate)	79.8		5.5

Source: Shinhan Investment Corp.

Outline of rights offering (1)

Method	Public offering of shares after shareholder allocation
Capital increase ratio	40%
Discount rate	20%
ESOP allocation	20%
New share allocation	Mar. 20
Scheduled public offering	Apr. 23
Scheduled listing of new shares	May. 20
Use of funds	Facilities KRW25.1bn Debt repayment KRW67.3bn

Source: Shinhan Investment Corp..

Outline of rights offering (2)

	Before rights offering		Allocation of shares		After rights offering	
	No. of shares	Ownership	No. of shares	Ownership	No. of shares	Ownership
Simmtech Holdings	10,210,405	45%	3,268,517	36%	13,478,922	42%
Other shareholders	12,534,288	55%	4,012,430	44%	16,546,718	52%
ESOP			1,820,237	20%	1,820,237	6%
Total	22,752,959		9,101,184		31,854,143	
Expected market cap at current price	KRW315.1bn		KRW126.1bn		KRW441.2bn	

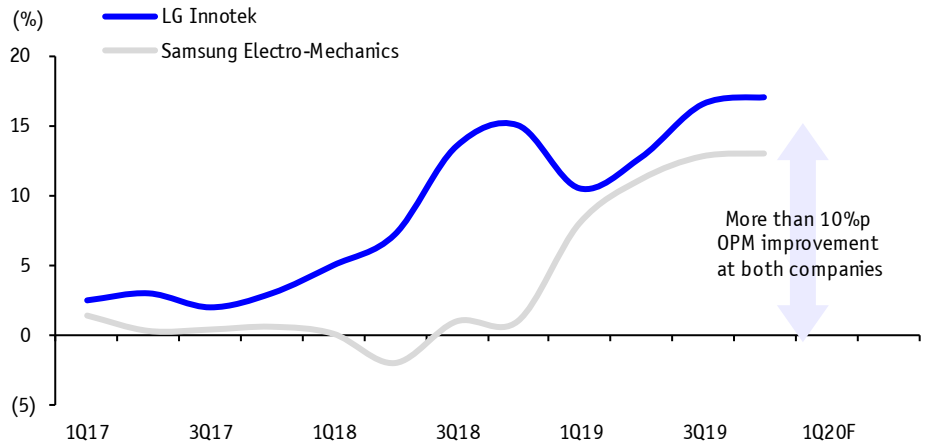
Source: Shinhan Investment Corp.

Earnings trend and outlook

(bn KRW, %)	1Q19	2Q19	3Q19	4Q19F	1Q20F	2Q20F	3Q20F	4Q20F	2018	2019F	2020F
Sales	205.5	233.3	268.1	293.3	253.2	272.3	304.1	311.6	1,007.5	1,000.2	1,141.3
Parent	182.8	210.9	239.6	255.2	215.1	233.7	262.0	268.5	842.1	888.6	979.2
Subsidiary	22.7	22.4	28.5	38.0	38.2	38.6	42.2	43.1	165.5	111.6	162.1
Module PCB	55.8	63.9	71.8	86.9	68.6	73.2	78.7	82.8	278.9	278.4	303.3
Substrate	148.3	165.4	193.2	203.4	181.8	195.9	222.4	225.8	722.1	710.4	825.9
OP	(20.2)	(8.2)	0.7	9.9	10.2	16.2	25.6	28.5	30.8	(17.9)	80.5
OPM	(9.9)	(3.5)	0.2	3.4	4.0	5.9	8.4	9.1	3.1	(1.8)	7.0
Parent	(4.4)	6.9	12.5	13.1	9.7	15.2	23.6	25.5	46.1	28.1	74.0
Subsidiary	(15.8)	(15.1)	(11.9)	(3.2)	0.5	1.0	2.0	3.0	(15.4)	(46.0)	6.5
Sales growth (YoY)	(15.9)	(6.4)	1.9	17.0	23.3	16.7	13.4	6.3	24.1	(0.7)	14.1
Parent	(11.2)	2.1	11.3	19.2	17.7	10.8	9.3	5.2	3.8	5.5	10.2
Subsidiary	(41.1)	(47.6)	(40.5)	4.6	68.5	72.4	47.8	13.4	-	(32.6)	45.2
Sales share											
Parent	89.0	90.4	89.4	87.0	84.9	85.8	86.1	86.2	83.6	88.8	85.8
Subsidiary	11.0	9.6	10.6	13.0	15.1	14.2	13.9	13.8	16.4	11.2	14.2

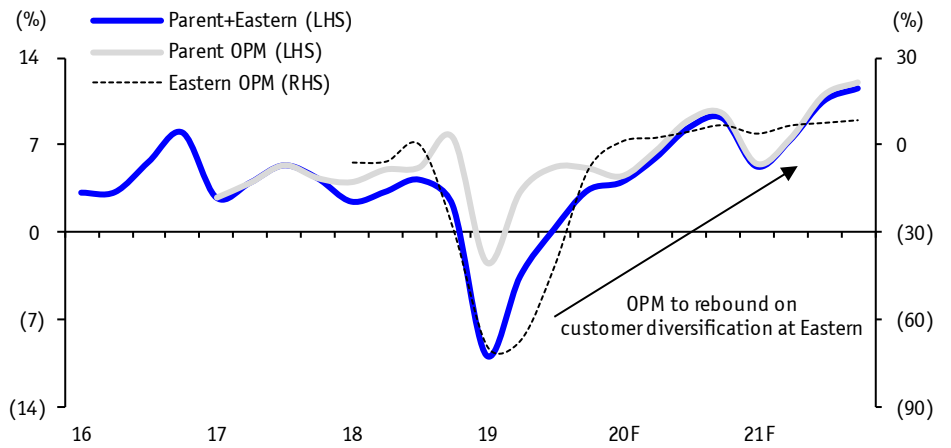
Source: Shinhan Investment Corp.

LG Innotek & Samsung Electro-Mechanics: Package substrate business OPM outlook



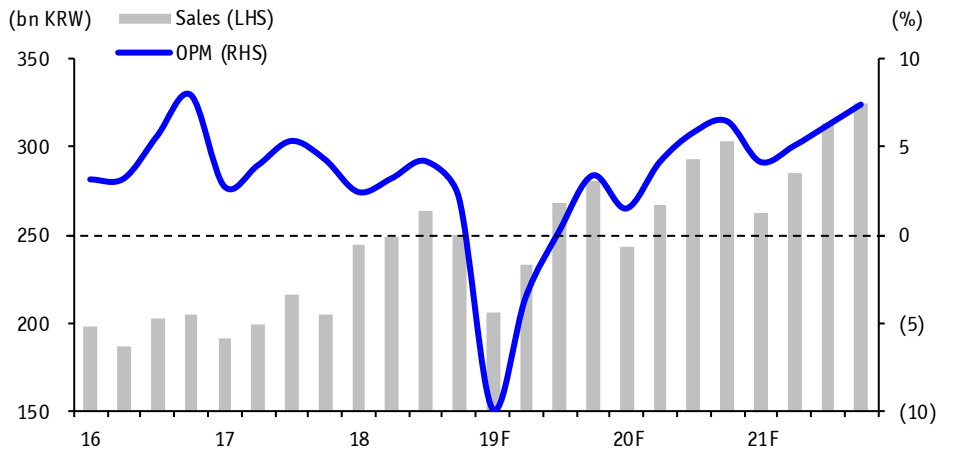
Source: Shinhan Investment Corp.

Simmtech: Operating profit margin of parent and subsidiary



Source: DART, Shinhan Investment Corp.

Simmtech: Sales and operating profit margin



Source: DART, Shinhan Investment Corp.

Statement of financial position

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
Total assets	728.2	813.3	886.3	919.0	1,009.6
Current assets	210.2	252.4	316.8	402.6	534.1
Cash and equivalents	12.2	27.3	53.3	122.6	228.9
Accounts receivable	56.8	57.0	66.7	70.9	77.3
Inventories	130.6	155.9	182.5	193.9	211.4
Non-current assets	517.9	561.0	569.5	516.3	475.6
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	4.5	4.8	5.2
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	513.4	598.8	731.1	708.5	720.6
Current liabilities	393.2	520.7	587.2	560.3	565.8
Short-term borrowings	72.3	151.0	187.3	137.3	107.3
Accounts payable	117.5	38.9	45.5	48.3	52.7
Current portion of long-term debt	52.5	53.5	29.8	29.8	29.8
Non-current liabilities	120.2	78.1	143.9	148.2	154.8
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
Total shareholders' equity	214.7	214.6	155.2	210.4	289.1
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	102.6	156.1	232.3
Controlling interest equity	209.0	212.8	155.5	208.9	285.2
Non-controlling interest equity	5.7	1.8	(0.3)	1.5	3.9
*Total debt	187.8	223.9	292.4	242.4	212.4
*Net debt (cash)	175.6	196.7	239.1	119.7	(16.5)

Statement of cash flow

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
Cash flow from operations	133.0	90.5	63.3	143.3	165.3
Net profit	16.1	2.3	(39.3)	58.9	82.3
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)	23.4	11.0	16.8
(Payment of income tax)	(3.1)	(6.5)	(7.0)	(9.2)	(18.1)
Others	19.4	30.5	15.5	9.2	18.1
Cash flow from investments	(60.9)	(99.5)	(61.9)	(20.3)	(25.4)
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	(2.5)	(0.3)	(0.4)
Others	11.6	(1.7)	1.9	(0.0)	0.0
Free cash flow	93.5	(2.3)	10.3	129.7	139.9
Cash flow from financing	(61.4)	23.3	23.8	(53.6)	(33.6)
Change in borrowings	(80.0)	29.8	47.9	(50.0)	(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	(0.0)	0.0	(0.0)
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
Change in total cash	10.7	15.1	26.0	69.4	106.2
Beginning cash	1.5	12.2	27.3	53.3	122.6
Ending cash	12.2	27.3	53.3	122.6	228.9

Source: Company data, Shinhan Investment Corp.

Statement of comprehensive income

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
Sales	811.6	1,007.5	1,000.2	1,141.3	1,201.2
Growth (%)	2.5	24.1	(0.7)	14.1	5.2
COGS	710.1	875.8	912.2	998.2	1,050.4
Gross profit	101.5	131.7	88.0	143.1	150.8
GPM (%)	12.5	13.1	8.8	12.5	12.6
SG&A	67.7	100.9	105.9	62.7	42.9
Operating profit	33.8	30.8	(17.9)	80.5	107.9
Growth (%)	(15.9)	(9.0)	N/A	N/A	34.1
OPM (%)	4.2	3.1	(1.8)	7.0	9.0
Non-operating profit	(14.8)	(20.3)	(24.0)	(12.4)	(7.5)
Financial profit	(5.5)	(13.9)	(8.8)	(9.4)	(5.5)
Other non-operating profit	(0.7)	(6.4)	(15.2)	(3.0)	(2.0)
Equity method gain (loss)	(8.6)	0.0	0.0	0.0	0.0
Pre-tax profit	19.0	10.4	(41.9)	68.0	100.4
Income tax	2.9	8.1	(2.6)	9.2	18.1
Continuing operations	16.1	2.3	(39.3)	58.9	82.3
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	16.1	2.3	(39.3)	58.9	82.3
Growth (%)	(45.1)	(85.6)	N/A	N/A	39.8
NPM (%)	2.0	0.2	(3.9)	5.2	6.9
Controlling interest	15.9	5.0	(37.2)	57.1	79.8
Non-controlling interest	0.2	(2.7)	(2.1)	1.8	2.5
Comprehensive income	11.8	6.3	(36.7)	58.9	82.3
Controlling interest	11.7	8.6	(34.5)	50.5	70.7
Non-controlling interest	0.2	(2.3)	(2.2)	8.3	11.6
EBITDA	78.9	98.9	57.9	153.9	174.1
Growth (%)	(5.6)	25.3	(41.5)	165.8	13.1
EBITDA margin (%)	9.7	9.8	5.8	13.5	14.5

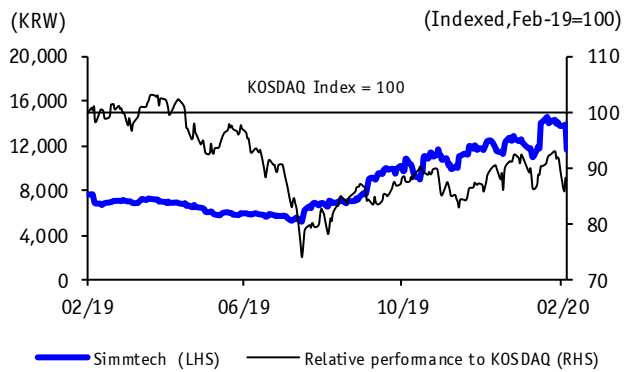
Key ratios

Year to December	2017	2018	2019F	2020F	2021F
EPS (KRW)	686	85	(1,675)	2,582	3,617
EPS of controlling interest (KRW)	677	194	(1,586)	2,505	3,508
BPS (KRW)	8,820	8,813	6,704	9,248	12,705
BPS of controlling interest (KRW)	8,586	8,739	6,717	9,184	12,532
DPS (KRW)	265	160	160	160	160
PER (x)	15.4	80.2	(6.3)	4.1	2.9
PER of controlling interest (x)	15.6	35.0	(6.6)	4.2	3.0
PBR (x)	1.2	0.8	1.6	1.1	0.8
PBR of controlling interest (x)	1.2	0.8	1.6	1.1	0.8
EV/EBITDA (x)	5.3	3.6	45.4	16.3	13.7
Dividend payout ratio (%)	40.5	78.1	(9.8)	6.4	4.6
Dividend yield (%)	2.5	2.4	1.5	1.5	1.5
Profitability					
EBITDA margin (%)	9.7	9.8	5.8	13.5	14.5
OPM (%)	4.2	3.1	(1.8)	7.0	9.0
NPM (%)	2.0	0.2	(3.9)	5.2	6.9
ROA (%)	2.4	0.3	(4.6)	6.5	8.5
ROE (%)	8.2	2.4	(20.2)	31.3	32.3
ROIC (%)	6.2	1.2	(4.2)	17.8	26.5
Stability					
Debt to equity ratio (%)	239.1	279.1	471.1	336.7	249.3
Net debt ratio (%)	81.8	91.7	154.0	56.9	(5.7)
Cash ratio (%)	3.1	5.2	9.1	21.9	40.4
Interest coverage ratio (x)	4.2	2.7	(1.6)	6.8	10.9
Activity (%)					
Working capital turnover (times)	(23.5)	(12.5)	(10.1)	(10.4)	(10.1)
Inventory turnover (days)	50.9	51.9	61.7	60.2	61.6
Receivable turnover (days)	31.1	20.6	22.6	22.0	22.5

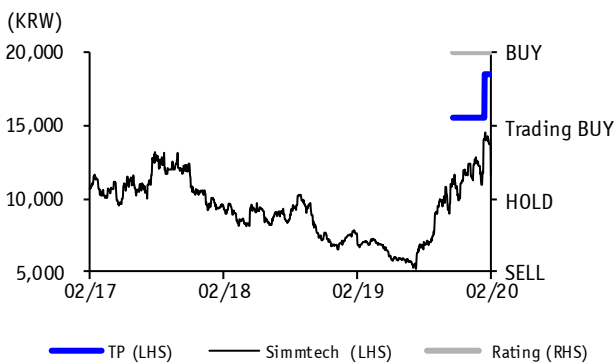
Source: Company data, Shinhan Investment Corp.

Simmtech (222800 KS)

Share performance



Target price



Date	Rating	Target price (KRW)	Target price gap (%)	
			Average	Max/Min
2019.11.15	BUY	15,500	(25.0)	(9.0)
2020.02.10	BUY	18,500	-	-

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

Rating Distribution - SHIC Universe (as of 24 February 2020)

BUY (BUY)	94.63%	Trading BUY (HOLD)	2.01%	HOLD (HOLD)	3.36%	SELL (SELL)	0.00%
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Rating Distribution - SHIC Investment Banking Clients (as of 24 February 2020)

BUY (BUY)	100%	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"> ◆ BUY: Expected 6-month gain of 10% or more ◆ Trading BUY: Expected 6-month gain of 10% to loss of 10% ◆ HOLD: Expected 6-month loss of 10% to 20% ◆ SELL: Expected 6-month loss of 20% or more 	<ul style="list-style-type: none"> ◆ OVERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ NEUTRAL: Based on market cap, largest share of sector stocks under coverage is rated Trading BUY or HOLD ◆ UNDERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated SELL

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