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Tech Team

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▶ AT A GLANCE

Recommend	Not Rated
Target price	n/a
Current price	KRW9,630
Market cap	KRW219.11b/USD179.52m
Shares (float)	31,854,143 (67.8%)
52-week high/low	KRW13,843/KRW4,900
Avg daily trading value (60-day)	KRW8.2b/ USD6.7m

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
Simmtech (%)	44.6	2.8	45.4
Vs Kosdaq (%pts)	6.0	4.2	73.9

Simmtech (222800)

Downstream risks already priced in

- Simmtech reported better-than-expected 1Q earnings on the back of favorable currency movements and robust server-use module and GDDR6 substrate sales.
- We believe the firm will issue new shares (as part of a rights offering) priced at KRW6,800, and these new shares are set to be listed on May 20.

WHAT'S THE STORY?

1Q review: Simmtech reported 1Q sales and OP of KRW290.2b and KRW13.6b, respectively, topping both company guidance and consensus. We attribute the beat to: 1) favorable currency movements; 2) robust sales of server-use modules; and 3) GDDR6 substrate sales growth at subsidiary Simmtech Graphics. We expect server-use module sales to continue expanding at a rapid pace throughout 1H given strong demand and production disruptions at the firm's rivals. GDDR6 substrate sales should exhibit little volatility as the product tends to be ordered on a long-term contract basis.

2020 semiconductor substrate industry outlook: On Feb 25, Simmtech released its 2020 sales and OP guidance at a respective KRW1.15t and KRW90.4b. Positive for profitability is an increasing MSAP substrate portion of sales and the transition to DDR5. However, its current market cap (KRW220b before adjusting for the 40% dilution) suggests that investors are placing a discount on the firm's 2020 guidance. We attribute this discount to concerns over a decline in the firm's FC-CSP and MCP sales—the COVID-19 pandemic has darkened the 2H mobile demand outlook. Given that the company's order visibility is high (about three months), whether the discount dissipates should be determined around June, when visibility for 3Q orders should increase.

Rights offering price finalized: The rights offering price is likely to be settled at KRW6,800 (the same as the original rights offering price that was made on Mar 17). Its new shares (equal to 40% of the outstanding amount) will be listed on May 20, following subscriptions by shareholders over Apr 23-24 and by the general public over Apr 28-29.

SUMMARY FINANCIAL DATA

	2016	2017	2018	2019
Revenue (KRWb)	792	812	1,008	1,000
Operating profit (KRWb)	40	34	31	(18)
Net profit (adj) (KRWb)	29	16	2	(39)
EPS (adj) (KRW)	1,260	661	195	(1,483)
EPS (adj) growth (% y-y)	32.6	(47.5)	(70.5)	Turned neg
EBITDA margin (%)	10.6	9.7	9.8	5.6
ROE (%)	17.5	8.2	2.4	(19.5)
P/E (adj) (x)	7.9	15.0	50.8	(6.7)
P/B (x)	1.3	1.2	1.2	1.5
EV/EBITDA (x)	4.9	5.2	4.3	10.0
Dividend yield (%)	1.9	2.5	1.5	1.5

Source: Company data, Samsung Securities estimates

1Q results

(KRWb)	1Q20P	4Q19	1Q19	Chg	
				(% q-q)	(% y-y)
Sales	290.2	293.3	205.5	(1.0)	41.3
Operating profit	13.6	9.9	(20.2)	37.8	To turn pos
Pre-tax profit	10.1	(4.0)	(25.3)	To turn pos	To turn pos
Net profit	8.3	(0.7)	(23.1)	To turn pos	To turn pos
Margins (%)					
Operating profit	4.7	3.4	(9.9)		
Pre-tax profit	3.5	(1.4)	(12.3)		
Net profit	2.9	(0.2)	(11.3)		

Source: Company data, Samsung Securities

Quarterly results

(KRWb)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20P	2017	2018	2019
Sales	244.4	249.4	263.2	250.5	205.5	233.3	268.1	293.3	290.2	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	13.6	33.8	30.8	(17.9)
Pre-tax profit	2.8	4.8	7.4	(4.6)	(25.3)	(11.0)	(2.1)	(4.0)	10.1	19.0	10.4	(42.1)
Net profit	2.0	3.8	6.1	(9.6)	(23.1)	(11.0)	(4.6)	(0.7)	8.3	16.1	2.3	(39.3)
Margins (%)												
Operating profit	2.5	3.3	4.2	2.2	(9.9)	(3.5)	0.2	3.4	4.7	4.2	3.1	(1.8)
Pre-tax profit	1.2	1.9	2.8	(1.8)	(12.3)	(4.7)	(0.8)	(1.4)	3.5	2.3	1.0	(4.2)
Net profit	0.8	1.5	2.3	(3.8)	(11.3)	(4.7)	(1.7)	(0.2)	2.9	2.0	0.2	(3.9)

Source: Company data, Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2015	2016	2017	2018	2019
Sales	395	792	812	1,008	1,000
Cost of goods sold	350	694	710	876	912
Gross profit	45	98	102	132	88
Gross margin (%)	11.5	12.4	12.5	13.1	8.8
SG&A expenses	26	58	68	101	106
Operating profit	19	40	34	31	(18)
Operating margin (%)	4.9	5.1	4.2	3.1	(1.8)
Non-operating gains (losses)	(7)	(5)	(15)	(20)	(24)
Financial profit	10	18	21	27	23
Financial costs	17	30	27	40	36
Equity-method gains (losses)	0	7	(9)	0	0
Other	(0)	(0)	(1)	(6)	(11)
Pre-tax profit	12	35	19	10	(42)
Taxes	2	5	3	8	(3)
Effective tax rate (%)	14.2	15.7	15.3	77.8	7.0
Profit from continuing operations	10	29	16	2	(39)
Profit from discontinued operations	0	0	0	0	0
Net profit	10	29	16	2	(39)
Net margin (%)	2.6	3.7	2.0	0.2	(3.9)
Net profit (controlling interests)	10	29	16	5	(37)
Net profit (non-controlling interests)	0	0	0	(3)	(3)
EBITDA	41	84	79	99	56
EBITDA margin (%)	10.4	10.6	9.7	9.8	5.6
EPS (parent-based) (KRW)	950	1,260	661	195	(1,483)
EPS (consolidated) (KRW)	953	1,267	669	91	(1,598)
Adjusted EPS (KRW)*	950	1,260	661	195	(1,483)

Cash flow statement

Year-end Dec 31 (KRWb)	2015	2016	2017	2018	2019
Cash flow from operations	66	39	133	90	(32)
Net profit	10	29	16	2	(39)
Non-cash profit and expenses	32	65	79	109	102
Depreciation	21	41	43	64	72
Amortization	1	2	2	5	2
Other	11	22	34	41	28
Changes in A/L from operating activities	27	(48)	47	(3)	(75)
Cash flow from investments	(16)	(42)	(61)	(99)	(74)
Change in tangible assets	(21)	(38)	(52)	(97)	(73)
Change in financial assets	(2)	(0)	0	(2)	(0)
Other	7	(3)	(9)	(1)	(1)
Cash flow from financing	(47)	0	(61)	23	87
Change in debt	178	6	4	36	124
Change in equity	148	(117)	23	2	6
Dividends	0	(6)	(4)	(6)	(4)
Other	(373)	118	(84)	(8)	(39)
Change in cash	3	(2)	11	15	(18)
Cash at beginning of year	0	3	1	12	27
Cash at end of year	3	1	12	27	10
Gross cash flow	43	94	95	111	63
Free cash flow	45	0	81	(8)	(107)

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)	2015	2016	2017	2018	2019
Current assets	143	192	210	252	254
Cash & equivalents	3	1	12	27	10
Accounts receivable	46	81	57	57	79
Inventories	84	96	131	156	147
Other current assets	10	13	11	12	18
Fixed assets	405	410	518	561	586
Investment assets	2	18	2	4	2
Tangible assets	354	344	459	507	514
Intangible assets	28	29	33	26	25
Other long-term assets	21	20	23	25	45
Total assets	548	601	728	813	840
Current liabilities	290	317	393	521	552
Accounts payable	81	73	118	39	80
Short-term debt	39	54	72	151	172
Other current liabilities	170	190	203	331	300
Long-term liabilities	104	105	120	78	127
Bonds & long-term debt	74	55	63	19	46
Other long-term liabilities	30	50	57	59	81
Total liabilities	393	422	513	599	678
Owners of parent equity	155	179	209	213	162
Capital stock	11	11	12	12	12
Capital surplus	137	20	42	44	50
Retained earnings	7	149	161	163	104
Other	(1)	(1)	(7)	(6)	(3)
Non-controlling interests' equity	0	0	6	2	(1)
Total equity	155	179	215	215	162
Net debt	175	182	176	197	336

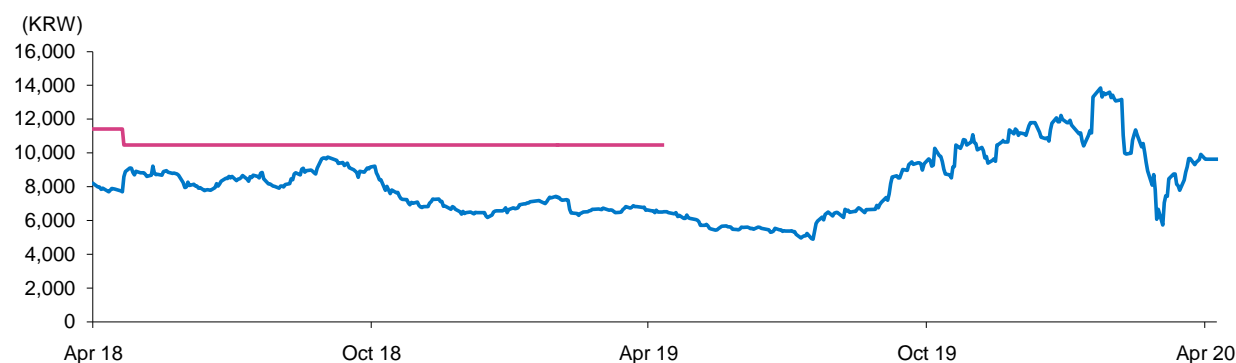
Financial ratios

Year-end Dec 31	2015	2016	2017	2018	2019
Growth (%)					
Sales	n/a	100.3	2.5	24.1	(0.7)
Operating profit	n/a	106.6	(15.9)	(9.0)	Turn neg
Net profit	n/a	180.9	(45.1)	(85.6)	Turn neg
Adjusted EPS**	n/a	32.6	(47.5)	(70.5)	Turn neg
Per-share data (KRW)					
EPS (parent-based)	950	1,260	661	195	(1,483)
EPS (consolidated)	953	1,267	669	91	(1,598)
Adjusted EPS**	950	1,260	661	195	(1,483)
BVPS	6,699	7,612	8,189	8,335	6,679
DPS (common)	247	190	252	152	152
Valuations (x)					
P/E***	10.4	7.9	15.0	50.8	(6.7)
P/B***	1.5	1.3	1.2	1.2	1.5
EV/EBITDA	9.8	4.9	5.2	4.3	10.0
Ratios (%)					
ROE	6.7	17.5	8.2	2.4	(19.5)
ROA	1.9	5.1	2.4	0.3	(4.8)
ROIC	4.9	9.5	7.2	1.6	(3.4)
Payout ratio	54.8	15.3	37.9	73.0	(9.9)
Dividend yield (common)	2.5	1.9	2.5	1.5	1.5
Net debt to equity	112.9	101.5	81.8	91.7	208.0
Interest coverage (x)	4.5	4.9	4.2	2.7	(1.3)

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Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2018/2/28	5/10	2020/4/21
Recommendation	BUY	BUY	Not Rated
Target price (KRW)	11,417	10,465	n/a
Gap* (average)	(26.96)	(26.43)	
(max or min)**	(19.50)	(6.81)	

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
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Percentage of ratings in 12 months prior to Mar 31, 2020

BUY (75%) | HOLD (25%) | SELL (0%)

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