

Simmtech (222800 KS)

Checkup of subsidiary, earnings, and valuations

BUY (Maintain)

CP (May 20)	KRW11,750
TP (6 months)	KRW15,000
Upside	27.7%

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KOSPI	1,989.64p
KOSDAQ	708.76p
Market cap	KRW374.3bn/USD328.3mn
Par value	KRW500
Outstanding shares	31.9mn
Free float	16.8mn(52.7%)
52-week high/low	KRW13,843/KRW4,900
60-day avg. trading volume	882,205shrs
60-day avg. turnover	KRW8,468mn
Foreign ownership	3.11%
Major shareholders	
Simmtech Holdings and 9 others	41.94%
Absolute performance	3M -11.1%
	6M 10.8%
	12M 93.3%
Relative performance	3M -14.5%
to KOSDAQ	6M 1.6%
	12M 91.5%

- ◆ Focus on earnings improvement and rise in MSAP sales share at subsidiary
- ◆ Notable earnings growth expected in 2020 even on a conservative demand outlook
- ◆ Retain BUY and raise target price by 25% to KRW15,000

Focus on earnings improvement and rise in MSAP sales share at subsidiary

Simmtech saw its subsidiary swing to profit in 1Q20. The subsidiary will likely report slight profit growth in 2Q20, backed by rising demand for GDDR6 (graphics DRAM)-use substrates. Simmtech's overall earnings improvement is also attributable to increasing sales contribution from modified semi-additive process (MSAP) substrates amid the advancement of semiconductor packaging technologies. The subsidiary is expected to generate 89% of sales from MSAP substrates in 2020, up from 58% in 2019.

Notable earnings growth expected in 2020 even on a conservative demand outlook

Simmtech is expected to record operating profit of KRW15.1bn (positive swing YoY) for 2Q20. For full-year 2020, we conservatively forecast operating profit at KRW74.3bn (positive swing YoY) vs. the company's guidance of KRW90bn, reflecting uncertainties in demand caused by the COVID-19 pandemic. Nevertheless, Simmtech is still expected to report stronger earnings growth vs. peers in 2020.

By product, package substrates should account for 71% of total sales in 2020. By process, MSAP will likely account for 53% vs. 49% in 2019. By application, graphics cards are expected to account for 8% vs. 5% in 2019. The sales share of high-margin products should continue to grow sharply through 2021, assuming demand for advanced substrates continues upward on further advancement of process technologies.

Retain BUY and raise target price by 25% to KRW15,000

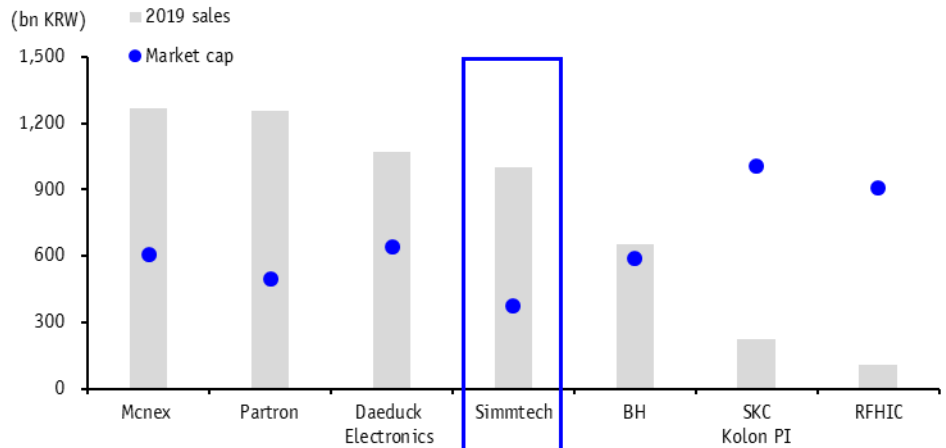
Our revised target price of KRW15,000 is based on the 2020 EPS (term-end) forecast of KRW1,526 and a target PER of 10x (typical valuation applied to IT parts suppliers). Pandemic-sparked uncertainties in demand and increased inventory levels at clients raise risks for Simmtech. However, compared with IT parts/materials peers, we believe the company has a higher chance of reporting YoY earnings growth even after accounting for bleak 2H20 forecasts. The company also stands to post steeper earnings improvement in 2020-2021 vs. other package substrate suppliers, thanks to sharp earnings improvement at its subsidiary. We find shares attractive at current valuations (2020F PER of 7.7x) even before factoring in earnings growth forecasts for 2021. Seen excessively undervalued vs. IT parts peers at a 2019 PSR of 0.37x, Simmtech remains our top pick among small/mid-cap handset/electronics stocks.

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 (%)
2018	1,007.5	30.8	10.4	5.0	185	(71.2)	8,332	34.9	3.6	0.8	2.4	91.7
2019	1,000.2	(17.9)	(42.4)	(36.6)	(1,486)	TR	6,676	(7.9)	11.0	1.8	(19.5)	208.0
2020F	1,190.8	74.3	57.0	48.6	1,669	TB	6,437	7.0	4.0	1.8	26.4	131.4
2021F	1,247.4	95.0	81.4	66.8	2,098	25.7	8,383	5.6	3.0	1.4	28.3	58.1
2022F	1,322.0	111.7	104.0	85.4	2,681	27.8	10,912	4.4	2.1	1.1	27.8	7.7

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

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Market cap and 2019 sales of IT parts suppliers

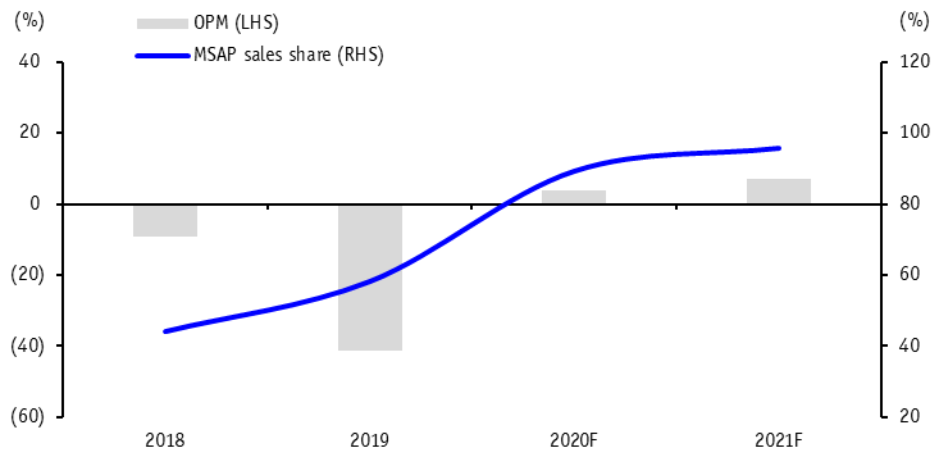


Source: QuantiWise, Shinhan Investment Corp.

Sales breakdown											
(bn KRW, %)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20F	3Q20F	4Q20F	2019	2020F	2021F
Sales	205.5	233.3	268.1	293.3	290.2	290.7	301.0	308.8	1,000.2	1,190.8	1,247.4
OP	(20.2)	(8.2)	0.7	9.9	13.7	15.1	20.0	25.5	(17.9)	74.3	95.0
OPM (%)	(9.9)	(3.5)	0.2	3.4	4.7	5.2	6.7	8.3	(1.8)	6.2	7.6
Parent sales	182.8	210.9	239.6	255.2	252.0	251.2	259.2	266.4	888.6	1,028.9	1,081.4
Parent OP	(4.4)	6.9	12.5	13.1	13.4	14.1	18.1	22.6	28.1	68.3	83.5
OPM (%)	(2.4)	3.3	5.2	5.1	5.3	5.6	7.0	8.5	3.2	6.6	7.7
Subsidiary sales	22.7	22.4	28.5	38.0	38.2	39.5	41.8	42.3	111.6	161.9	166.1
Subsidiary OP	(15.8)	(15.1)	(11.9)	(3.2)	0.2	1.0	1.9	2.9	(46.0)	6.0	11.5
OPM (%)	(69.7)	(67.4)	(41.7)	(8.4)	0.6	2.5	4.5	6.8	(41.2)	3.7	6.9
Sales by product	205.5	233.3	268.1	293.3	290.2	290.7	301.0	308.8	1,000.2	1,190.8	1,247.4
Module PCB	55.8	67.9	71.8	86.9	87.7	87.0	81.0	85.6	282.4	341.3	352.1
Package substrate	148.4	161.4	193.2	203.4	200.5	200.7	217.3	220.5	706.4	839.0	884.5
Others	1.3	4.0	3.1	3.0	2.0	3.0	2.8	2.7	11.4	10.5	10.8
Sales share by product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Module PCB	27.1	29.1	26.8	29.6	30.2	29.9	26.9	27.7	28.2	28.7	28.2
Package substrate	72.2	69.2	72.1	69.4	69.1	69.0	72.2	71.4	70.6	70.5	70.9
Others	0.6	1.7	1.2	1.0	0.7	1.0	0.9	0.9	1.1	0.9	0.9
MSAP sales share	50.7	46.6	48.5	51.0	51.6	49.8	54.1	54.8	49.3	52.6	54.4
Parent	52.5	47.4	46.3	47.4	46.0	43.9	48.3	49.1	48.2	46.9	48.0
Subsidiary	35.3	40.2	66.6	76.3	89.0	87.2	90.2	90.9	58.2	89.4	95.8
Sales share by application (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Mobile	43.9	41.3	43.0	40.9	40.8	39.4	42.2	42.4	42.2	41.2	40.4
PC	27.1	27.5	27.9	30.3	28.0	27.5	27.7	28.2	28.3	27.9	27.1
Server	20.5	22.2	19.5	18.9	22.3	22.1	18.5	18.0	20.2	20.2	20.2
Graphic card	4.2	3.3	5.3	7.6	6.5	7.7	8.8	8.8	5.3	8.0	9.6
Others	4.2	5.7	4.2	2.3	2.4	3.3	2.9	2.6	4.0	2.8	2.7

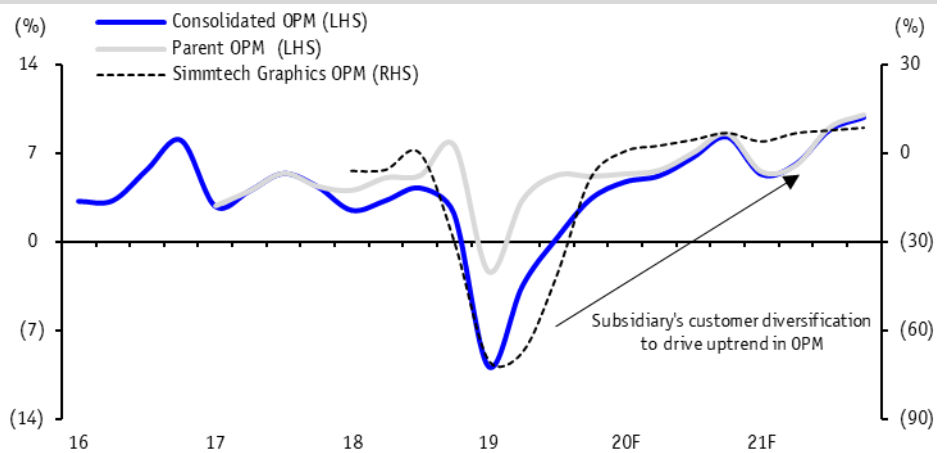
Source: Shinhan Investment Corp.

MSAP sales share and OPM trend of Japanese subsidiary



Source: Shinhan Investment Corp.

Operating profit margin of parent and Japanese subsidiary



Source: DART, Shinhan Investment Corp.

Peer group valuation

Company	Market cap (mn USD)	2020F						2021F					
		PER (x)	PBR (x)	EV/EBITDA (x)	ROE (%)	OPM (%)	NPM (%)	PER (x)	PBR (x)	EV/EBITDA (x)	ROE (%)	OPM (%)	NPM (%)
Simmtech	305	7.0	1.8	4.0	26.4	6.2	4.1	5.6	1.4	3.0	28.3	7.6	5.3
Samsung Electro-Mechanics	7,505	20.5	1.7	7.2	8.4	7.9	5.6	15.3	1.5	6.1	10.6	9.4	6.9
LG Innotek	2,734	10.6	1.3	3.9	13.9	6.1	3.7	8.9	1.2	3.7	14.2	6.1	4.0
Ibiden	3,876	42.1	1.5	9.5	3.7	5.9	3.3	27.1	1.5	6.4	5.1	7.6	4.8
Unimicron Technology	1,988	14.6	1.3	4.7	9.2	5.7	4.7	10.8	1.2	3.8	13.1	6.4	5.9
Shinko Electric Industries	1,695	144.9	1.3	7.9	1.4	1.4	1.1	28.9	1.3	4.9	4.8	5.2	4.1
AT&S	681	40.7	1.1	4.6	4.0	4.2	1.5	17.7	1.0	4.2	8.8	2.9	4.1

Source: Bloomberg, Shinhan Investment Corp.

Statement of financial position

Year to December (bn KRW)	2018	2019	2020F	2021F	2022F
Total assets	813.3	839.9	835.9	813.9	862.5
Current assets	252.4	254.2	271.0	292.5	382.2
Cash and equivalents	27.3	9.7	13.6	12.3	84.8
Accounts receivable	57.0	78.9	83.1	90.4	95.9
Inventories	155.9	147.1	154.9	168.7	179.0
Non-current assets	561.0	585.8	564.9	521.4	480.4
Tangible assets	506.7	513.6	493.9	451.9	412.3
Intangible assets	25.5	24.7	24.2	22.6	21.0
Investment assets	3.8	2.1	2.2	2.4	2.5
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	598.8	678.4	632.0	548.0	516.3
Current liabilities	520.7	551.7	506.4	431.1	399.6
Short-term borrowings	151.0	171.9	188.5	88.5	38.5
Accounts payable	38.9	79.9	84.1	91.6	97.2
Current portion of long-term debt	53.5	115.7	39.8	39.8	39.8
Non-current liabilities	78.1	126.7	125.6	116.9	116.7
Bonds	4.5	23.9	23.8	23.8	23.8
Long-term borrowings	15.0	35.0	30.3	15.3	10.3
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	214.6	161.5	204.0	265.8	346.2
Capital stock	12.2	12.2	12.2	12.2	12.2
Capital surplus	43.7	49.7	49.7	49.7	49.7
Other capital	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Accumulated other comprehensive income	(5.5)	(3.1)	4.5	4.5	4.5
Retained earnings	162.6	103.9	138.8	200.8	281.3
Controlling interest equity	212.8	162.5	205.1	267.0	347.6
Non-controlling interest equity	1.8	(1.0)	(1.1)	(1.2)	(1.4)
*Total debt	223.9	347.7	283.8	168.9	114.0
*Net debt (cash)	196.7	336.0	268.1	154.3	26.7

Statement of cash flow

Year to December (bn KRW)	2018	2019	2020F	2021F	2022F
Cash flow from operations	90.5	(31.6)	128.7	158.7	167.6
Net profit	2.3	(39.4)	48.5	66.7	85.2
Depreciation expense	63.6	72.3	85.6	82.1	74.6
Amortization expense	4.6	2.0	1.7	1.6	1.5
FX translation loss (gain)	(0.2)	(3.3)	0.6	0.0	0.0
Asset disposal loss (gain)	(0.6)	(0.7)	(0.2)	0.0	0.0
Equity method loss (gain)	0.0	0.0	0.0	0.0	0.0
Change in working capital	(3.2)	(74.5)	(12.2)	8.2	6.2
(Payment of income tax)	(6.5)	(10.7)	(9.0)	(14.6)	(18.7)
Others	30.5	22.7	13.7	14.7	18.8
Cash flow from investments	(99.5)	(73.7)	(47.6)	(40.4)	(35.3)
Increase in tangible assets	(98.0)	(75.0)	(47.6)	(40.0)	(35.0)
Decrease in tangible assets	1.1	2.2	0.0	0.0	0.0
Change in intangible assets	(0.9)	(0.6)	0.0	0.0	0.0
Change in investment assets	0.0	0.0	2.1	(0.2)	(0.1)
Others	(1.7)	(0.3)	(2.1)	(0.2)	(0.2)
Free cash flow	(2.3)	(88.1)	104.0	123.5	134.2
Cash flow from financing	23.3	87.1	(77.7)	(119.7)	(59.7)
Change in borrowings	29.8	112.7	(71.2)	(114.9)	(54.9)
Change in treasury stock	0.0	0.0	0.0	0.0	0.0
Dividends	(6.4)	(3.9)	0.0	(4.8)	(4.8)
Others	(0.1)	(21.7)	(6.5)	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	0.7	0.7	0.5	0.0	0.0
Change in total cash	15.1	(17.5)	3.9	(1.3)	72.6
Beginning cash	12.2	27.3	9.7	13.6	12.3
Ending cash	27.3	9.7	13.6	12.3	84.9

Source: Company data, Shinhan Investment Corp.

Statement of comprehensive income

Year to December (bn KRW)	2018	2019	2020F	2021F	2022F
Sales	1,007.5	1,000.2	1,190.8	1,247.4	1,322.0
Growth (%)	24.1	(0.7)	19.1	4.8	6.0
COGS	875.8	912.2	1,021.0	1,062.4	1,138.5
Gross profit	131.7	88.0	169.8	185.0	183.5
GPM (%)	13.1	8.8	14.3	14.8	13.9
SG&A	100.9	105.9	95.4	90.0	71.8
Operating profit	30.8	(17.9)	74.3	95.0	111.7
Growth (%)	(9.0)	TR	TB	27.8	17.6
OPM (%)	3.1	(1.8)	6.2	7.6	8.5
Non-operating profit	(20.3)	(24.5)	(17.3)	(13.7)	(7.8)
Financial profit	(13.9)	(13.9)	(14.1)	(10.7)	(7.8)
Other non-operating profit	(6.4)	(10.6)	(3.3)	(3.0)	0.0
Equity method gain (loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	10.4	(42.4)	57.0	81.4	104.0
Income tax	8.1	(3.0)	8.5	14.6	18.7
Continuing operations	2.3	(39.4)	48.5	66.7	85.2
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	2.3	(39.4)	48.5	66.7	85.2
Growth (%)	(85.6)	TR	TB	37.6	27.8
NPM (%)	0.2	(3.9)	4.1	5.3	6.4
Controlling interest	5.0	(36.6)	48.6	66.8	85.4
Non-controlling interest	(2.7)	(2.8)	(0.1)	(0.1)	(0.2)
Comprehensive income	6.3	(40.0)	56.1	66.7	85.2
Controlling interest	8.6	(37.2)	56.2	66.9	85.4
Non-controlling interest	(2.3)	(2.8)	(0.1)	(0.2)	(0.2)
EBITDA	98.9	56.3	161.7	178.7	187.9
Growth (%)	25.3	(43.1)	187.0	10.6	5.1
EBITDA margin (%)	9.8	5.6	13.6	14.3	14.2

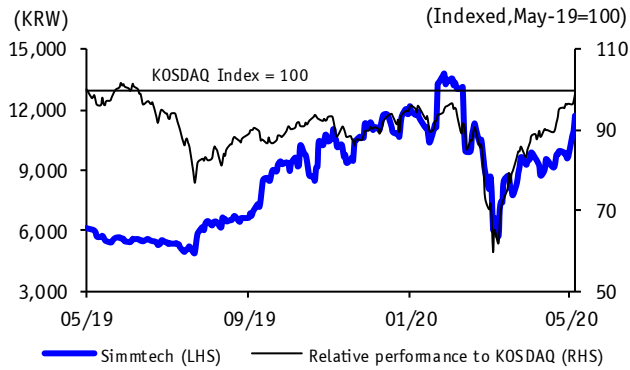
Key ratios

Year to December	2018	2019	2020F	2021F	2022F
EPS (KRW)	81	(1,600)	1,666	2,094	2,676
EPS of controlling interest (KRW)	185	(1,486)	1,669	2,098	2,681
BPS (KRW)	8,403	6,636	6,403	8,345	10,870
BPS of controlling interest (KRW)	8,332	6,676	6,437	8,383	10,912
DPS (KRW)	152	152	152	152	152
PER (x)	80.1	(7.4)	7.1	5.6	4.4
PER of controlling interest (x)	34.9	(7.9)	7.0	5.6	4.4
PBR (x)	0.8	1.8	1.8	1.4	1.1
PBR of controlling interest (x)	0.8	1.8	1.8	1.4	1.1
EV/EBITDA (x)	3.6	11.0	4.0	3.0	2.1
Dividend payout ratio (%)	78.1	(10.1)	10.0	7.2	5.7
Dividend yield (%)	2.4	1.3	1.3	1.3	1.3
Profitability					
EBITDA margin (%)	9.8	5.6	13.6	14.3	14.2
OPM (%)	3.1	(1.8)	6.2	7.6	8.5
NPM (%)	0.2	(3.9)	4.1	5.3	6.4
ROA (%)	0.3	(4.8)	5.8	8.1	10.2
ROE (%)	2.4	(19.5)	26.4	28.3	27.8
ROIC (%)	1.2	(5.1)	12.6	16.4	21.3
Stability					
Debt to equity ratio (%)	279.1	420.0	309.8	206.1	149.1
Net debt ratio (%)	91.7	208.0	131.4	58.1	7.7
Cash ratio (%)	5.2	1.8	2.7	2.8	21.2
Interest coverage ratio (x)	2.7	(1.3)	5.1	8.1	12.5
Activity (%)					
Working capital turnover (times)	(12.5)	(17.9)	(56.9)	(55.6)	(54.8)
Inventory turnover (days)	51.9	55.3	46.3	47.3	48.0
Receivable turnover (days)	20.6	24.8	24.8	25.4	25.7

Source: Company data, Shinhan Investment Corp.

Simmtech (222800 KS)

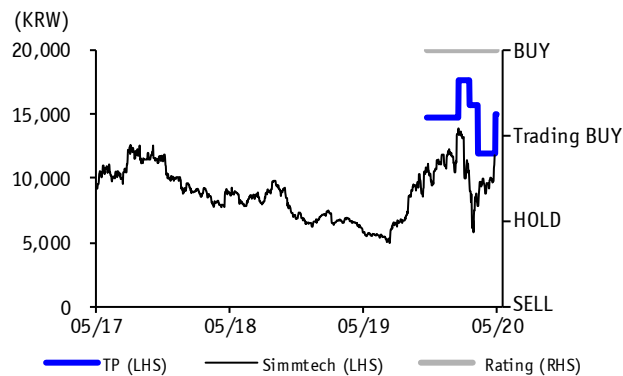
Share performance



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	(31.5)	(21.4)
2020.03.11	BUY	16,500	(50.0)	(39.9)
2020.04.03	BUY	12,000	(19.5)	(2.1)
2020.05.21	BUY	15,000	-	-

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

Target price



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BUY (BUY)	92.66%	Trading BUY (HOLD)	2.26%	HOLD (HOLD)	5.08%	SELL (SELL)	0.00%

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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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