

Simmtech (222800 KS)

Upbeat on market growth for advanced substrates

BUY (Maintain)

CP (Jul 13)	KRW12,700
TP (6 months)	KRW16,500
Upside	29.9%

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KOSPI	2,186.06p
KOSDAQ	781.19p
Market cap	KRW404.5bn/USD354.9mn
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	819,447shrs
60-day avg. turnover	KRW8,981mn
Foreign ownership	2.39%
Major shareholders	
Simmtech Holdings and 9 others	41.94%
NPS	6.25%
Absolute performance	
3M	36.4%
6M	5.1%
12M	129.0%
Relative performance	
3M	4.2%
to KOSDAQ	
6M	-8.6%
12M	99.7%

- ◆ 2Q earnings surprise expected from GDDR6 substrate, memory module PCB, MCP
- ◆ Visible earnings growth forecast for 4Q20 and 2021
- ◆ Retain BUY and raise target price by 22% to KRW16,500

2Q earnings surprise expected from GDDR6 substrate, memory module PCB and MCP

We now expect Simmtech to post operating profit of KRW19.5bn (positive swing YoY) on sales of KRW300.2bn (+29% YoY) for 2Q20. Operating profit likely increased by KRW30bn YoY, backed by solid market conditions for package substrates.

The company is projected to report notable improvement in profitability for 2Q20 on: 1) 212% YoY growth in sales of MSAP substrates for GDDR6 (graphics DRAM); 2) 35% YoY increase in sales of server-use memory module PCB backed by pandemic-driven demand; 3) better-than-feared demand for mobile-use products; and 4) solid subsidiary earnings following the turnaround in 1Q20.

Visible earnings growth forecast for 4Q20 and 2021

We forecast full-year operating profit at KRW78.5bn for 2020 and KRW100.5bn for 2021. Despite uncertainties in demand for 2H20 due to client inventory levels, downside risks to market conditions appear limited for 3Q20 considering current supply/demand levels.

Earnings are highly expected to come in strong for 2020 and further improve through 2021. First, memory module PCB sales should grow on commercialization of DDR5. Sales are forecast to rise by KRW29.6bn YoY in 2021 backed by ASP improvement. Second, global manufacturers are set to release new consoles in 4Q20. As a result, sales of GDDR6 substrates will likely jump by KRW33.2bn YoY in 2021. Third, the importance of advanced substrates (LPDDR5, SiP, FCCSP) is expected to increase in 5G smartphones.

Retain BUY and raise target price by 22% to KRW16,500

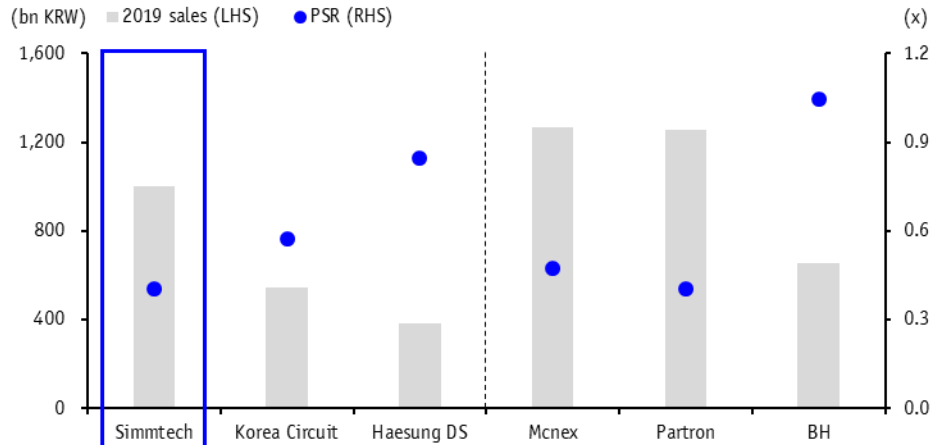
Our revised target price is based on the 2020 EPS forecast and a target PER of 9.1x, reflecting PER valuations enjoyed during the earnings improvement period of 2016. We started to focus on Simmtech from 2019 on the upbeat outlook for new momentum drivers such as DDR5 and 5G, but have yet to reflect bullish expectations in earnings forecasts. Visible growth driven by new engines is expected to start in 2021. In addition, we note solid demand for FCBGA as well as FCCSP and SiP, and expect the company to benefit from operating leverage effect going forward.

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	1,200.4	78.5	61.2	52.4	1,799	TB	6,556	7.1	4.0	1.9	28.2	127.1
2021F	1,264.2	100.5	87.0	71.4	2,243	24.6	8,647	5.7	3.0	1.5	29.5	53.0
2022F	1,339.1	116.9	109.8	90.2	2,832	26.3	11,327	4.5	2.2	1.1	28.4	3.5

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

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PSR 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	300.2	300.7	309.3	1,000.2	1,200.4	1,264.2
OP	(20.2)	(8.2)	0.7	9.9	13.7	19.5	20.3	25.1	(17.9)	78.5	100.5
OPM (%)	(9.9)	(3.5)	0.2	3.4	4.7	6.5	6.7	8.1	(1.8)	6.5	7.9
Parent sales	182.8	210.9	239.6	255.2	252.0	259.7	258.9	266.9	888.6	1,037.6	1,098.2
Parent OP	(4.4)	6.9	12.5	13.1	13.4	18.5	18.4	22.2	28.1	72.5	89.0
OPM (%)	(2.4)	3.3	5.2	5.1	5.3	7.1	7.1	8.3	3.2	7.0	8.1
Subsidiary sales	22.7	22.4	28.5	38.0	38.2	40.5	41.8	42.3	111.6	162.9	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	300.2	300.7	309.3	1,000.2	1,200.4	1,264.2
Module PCB	55.8	67.9	71.8	86.9	87.7	92.0	85.0	86.1	282.4	350.8	373.4
Package substrate	148.4	161.4	193.2	203.4	200.5	205.2	213.0	220.5	706.4	839.1	880.0
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	30.6	28.3	27.8	28.2	29.2	29.5
Package substrate	72.2	69.2	72.1	69.4	69.1	68.4	70.8	71.3	70.6	69.9	69.6
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	49.9	53.7	55.7	49.3	52.8	54.6
Parent	52.5	47.4	46.3	47.4	46.0	44.1	47.8	50.1	48.2	47.0	48.3
Subsidiary	35.3	40.2	66.6	76.3	89.0	87.3	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	39.2	41.2	42.3	42.2	40.9	39.6
PC	27.1	27.5	27.9	30.3	28.0	27.4	27.1	27.9	28.3	27.6	26.4
Server	20.5	22.2	19.5	18.9	22.3	22.2	19.3	17.4	20.2	20.3	20.7
Graphic card	4.2	3.3	5.3	7.6	6.5	8.0	9.4	9.8	5.3	8.5	10.7
Others	4.2	5.7	4.2	2.3	2.4	3.2	2.9	2.6	4.0	2.8	2.7

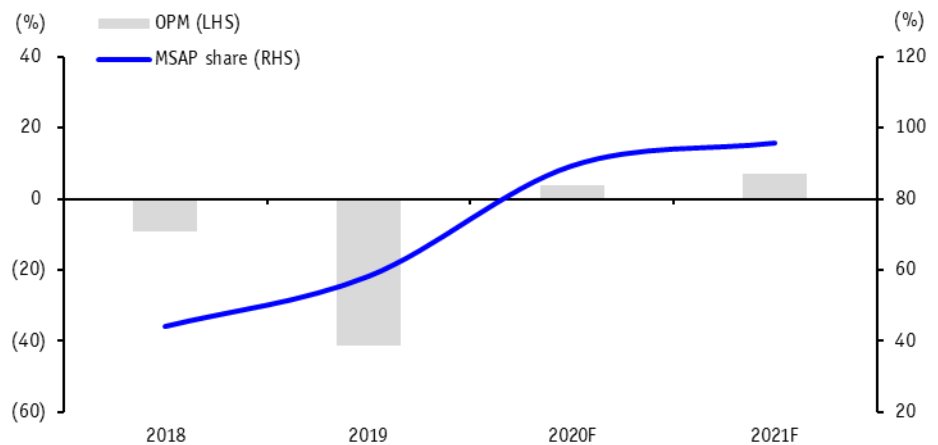
Source: Shinhan Investment Corp.

2Q20 forecast

(bn KRW, %)	2Q20F	1Q20	QoQ (%)	2Q19	YoY (%)	SHIC	Consensus
Sales	300.2	290.2	3.4	233.3	28.7	292.8	295.2
OP	19.5	13.7	42.5	(8.2)	TB	17.0	16.5
NP	13.9	8.2	69.6	(10.3)	TB	11.6	10.8
OPM	6.5	4.7	-	(3.5)	-	5.8	5.6
NPM	4.6	2.8	-	(4.4)	-	4.0	3.7

Source: QuantiWise, Shinhan Investment Corp.

MSAP sales share and OPM trend of Japanese subsidiary



Source: Shinhan Investment Corp.

Target price calculation

(KRW, x)	2020F	Remarks
Target price	16,500	
EPS	1,799	2020F EPS
Target PER	9.1	PER recorded during the earnings improvement period of 2016
Value per share	16,189	

Source: 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	287	7.1	1.9	4.0	28.2	6.5	4.4	5.7	1.5	3.0	29.5	7.9	5.6
Samsung Electro-Mechanics	8,001	21.1	1.7	7.4	8.4	7.7	5.6	15.3	1.6	6.3	10.7	9.4	7.0
LG Innotek	3,456	12.1	1.6	4.4	14.6	6.3	3.9	10.5	1.4	4.2	14.5	6.3	4.0
Ibiden	4,133	45.0	1.6	10.1	3.7	5.9	3.3	28.8	1.6	6.5	5.5	8.0	5.0
Unimicron Technology	2,877	19.6	1.7	6.2	9.2	5.7	4.7	14.5	1.5	5.0	12.8	6.7	5.9
Shinko Electric Industries	2,044	186.5	1.7	12.4	1.4	1.4	1.1	29.5	1.6	6.7	5.7	6.5	4.8
AT&S	705	40.4	1.1	4.8	4.0	4.2	1.5	13.8	0.9	4.0	6.7	NA	6.1

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	840.3	815.3	858.9
Current assets	252.4	254.2	275.4	293.9	378.5
Cash and equivalents	27.3	9.7	17.6	11.4	78.8
Accounts receivable	57.0	78.9	83.2	91.1	96.7
Inventories	155.9	147.1	155.2	170.0	180.4
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	632.5	541.0	499.4
Current liabilities	520.7	551.7	506.8	423.5	382.1
Short-term borrowings	151.0	171.9	188.5	88.5	38.5
Accounts payable	38.9	79.9	84.3	92.3	98.0
Current portion of long-term debt	53.5	115.7	39.8	29.8	19.8
Non-current liabilities	78.1	126.7	125.7	117.5	117.3
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	207.7	274.2	359.4
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	142.6	209.2	294.5
Controlling interest equity	212.8	162.5	208.8	275.4	360.8
Non-controlling interest equity	1.8	(1.0)	(1.1)	(1.2)	(1.4)
*Total debt	223.9	347.7	283.8	158.9	94.0
*Net debt (cash)	196.7	336.0	264.1	145.2	12.8

Statement of cash flow

Year to December (bn KRW)	2018	2019	2020F	2021F	2022F
Cash flow from operations	90.5	(31.6)	132.6	163.9	172.4
Net profit	2.3	(39.4)	52.3	71.3	90.1
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)	(12.0)	8.9	6.2
(Payment of income tax)	(6.5)	(10.7)	(9.4)	(15.7)	(19.8)
Others	30.5	22.7	14.0	15.7	19.8
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)	107.9	128.2	138.5
Cash flow from financing	23.3	87.1	(77.7)	(129.7)	(69.7)
Change in borrowings	29.8	112.7	(71.2)	(124.9)	(64.9)
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	(0.0)
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)	7.8	(6.1)	67.4
Beginning cash	12.2	27.3	9.7	17.5	11.4
Ending cash	27.3	9.7	17.5	11.4	78.8

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	1,200.4	1,264.2	1,339.1
Growth (%)	24.1	(0.7)	20.0	5.3	5.9
COGS	875.8	912.2	1,026.4	1,076.8	1,153.2
Gross profit	131.7	88.0	174.0	187.4	185.9
GPM (%)	13.1	8.8	14.5	14.8	13.9
SG&A	100.9	105.9	95.6	86.9	69.0
Operating profit	30.8	(17.9)	78.5	100.5	116.9
Growth (%)	(9.0)	TR	TB	28.0	16.4
OPM (%)	3.1	(1.8)	6.5	7.9	8.7
Non-operating profit	(20.3)	(24.5)	(17.3)	(13.5)	(7.1)
Financial profit	(13.9)	(13.9)	(14.0)	(10.5)	(7.1)
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)	61.2	87.0	109.8
Income tax	8.1	(3.0)	8.9	15.7	19.8
Continuing operations	2.3	(39.4)	52.3	71.3	90.1
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	2.3	(39.4)	52.3	71.3	90.1
Growth (%)	(85.6)	TR	TB	36.4	26.3
NPM (%)	0.2	(3.9)	4.4	5.6	6.7
Controlling interest	5.0	(36.6)	52.4	71.4	90.2
Non-controlling interest	(2.7)	(2.8)	(0.1)	(0.1)	(0.2)
Comprehensive income	6.3	(40.0)	59.9	71.3	90.1
Controlling interest	8.6	(37.2)	60.0	71.5	90.3
Non-controlling interest	(2.3)	(2.8)	(0.1)	(0.2)	(0.2)
EBITDA	98.9	56.3	165.8	184.2	193.1
Growth (%)	25.3	(43.1)	194.4	11.1	4.8
EBITDA margin (%)	9.8	5.6	13.8	14.6	14.4

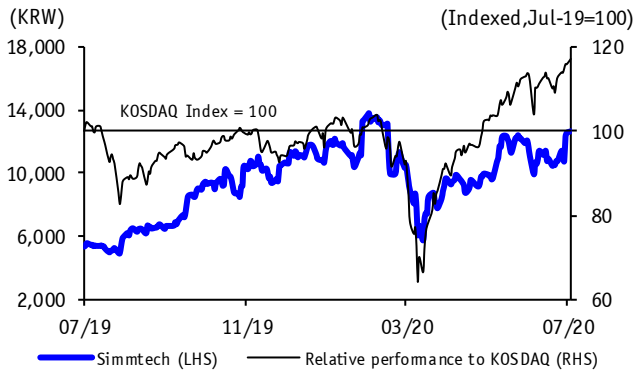
Key ratios

Year to December	2018	2019	2020F	2021F	2022F
EPS (KRW)	81	(1,600)	1,796	2,239	2,827
EPS of controlling interest (KRW)	185	(1,486)	1,799	2,243	2,832
BPS (KRW)	8,403	6,636	6,522	8,608	11,284
BPS of controlling interest (KRW)	8,332	6,676	6,556	8,647	11,327
DPS (KRW)	152	152	152	152	152
PER (x)	80.1	(7.4)	7.1	5.7	4.5
PER of controlling interest (x)	34.9	(7.9)	7.1	5.7	4.5
PBR (x)	0.8	1.8	1.9	1.5	1.1
PBR of controlling interest (x)	0.8	1.8	1.9	1.5	1.1
EV/EBITDA (x)	3.6	11.0	4.0	3.0	2.2
Dividend payout ratio (%)	78.1	(10.1)	9.2	6.8	5.4
Dividend yield (%)	2.4	1.3	1.2	1.2	1.2
Profitability					
EBITDA margin (%)	9.8	5.6	13.8	14.6	14.4
OPM (%)	3.1	(1.8)	6.5	7.9	8.7
NPM (%)	0.2	(3.9)	4.4	5.6	6.7
ROA (%)	0.3	(4.8)	6.2	8.6	10.8
ROE (%)	2.4	(19.5)	28.2	29.5	28.4
ROIC (%)	1.2	(5.1)	13.4	17.4	22.3
Stability					
Debt to equity ratio (%)	279.1	420.0	304.5	197.3	139.0
Net debt ratio (%)	91.7	208.0	127.1	53.0	3.5
Cash ratio (%)	5.2	1.8	3.5	2.7	20.6
Interest coverage ratio (x)	2.7	(1.3)	5.4	8.7	14.1
Activity (%)					
Working capital turnover (times)	(12.5)	(17.9)	(57.3)	(56.1)	(55.1)
Inventory turnover (days)	51.9	55.3	46.0	46.9	47.7
Receivable turnover (days)	20.6	24.8	24.6	25.2	25.6

Source: Company data, Shinhan Investment Corp.

Simmtech (222800 KS)

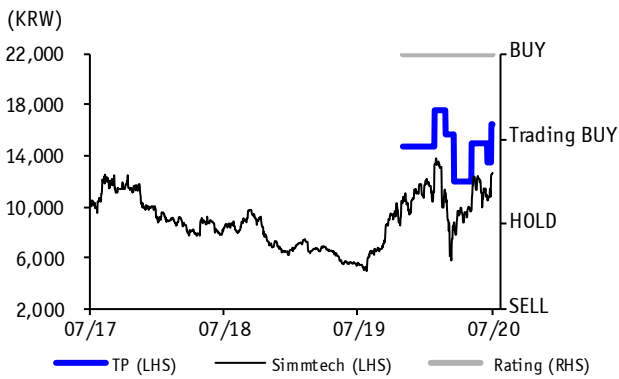
Share performance



Date	Rating	Target price (KRW)	Target price gap (%)	
			Average	Max/Min
2019.11.15	BUY	14,747	(25.0)	(9.0)
2020.02.10	BUY	17,601	(31.5)	(21.4)
2020.03.11	BUY	15,698	(50.0)	(39.9)
2020.04.03	BUY	12,000	(19.5)	(2.1)
2020.05.21	BUY	15,000	(23.6)	(17.0)
2020.07.03	BUY	13,500	(12.3)	(5.9)
2020.07.14	BUY	16,500	-	-

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

Target price



Rating Distribution - SHIC Universe (as of 10 July 2020)							
BUY (BUY)	90.43%	Trading BUY (HOLD)	2.66%	HOLD (HOLD)	6.91%	SELL (SELL)	0.00%

Rating Distribution - SHIC Investment Banking Clients (as of 10 July 2020)							
BUY (BUY)	100.0%	Trading BUY (HOLD)	0.0%	HOLD (HOLD)	0.0%	SELL (SELL)	0.0%

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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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