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▶ AT A GLANCE

Recommend	Not Rated
Target price	n/a
Current price	KRW15,150
Market cap	KRW482.59b/USD404.48m
Shares (float)	31,854,143 (52.7%)
52-week high/low	KRW16,300/KRW4,900
Avg daily trading value (60-day)	KRW12.4b/ USD10.4m

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
Simmtech (%)	44.3	35.5	205.1
Vs Kosdaq (%pts)	31.1	12.3	133.4

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	Not Rated	Not Rated	
Target price	n/a	n/a	n/a
2018E EPS	823	1,585	-48.1%
2019E EPS	1,506	2,110	-28.6%

▶ SAMSUNG vs THE STREET

No of estimates	2
Target price	18,250
Recommendation	4.0
BUY★★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★★: 1	

Simmtech (222800)

Industry upturn just beginning

- Simmtech reported a 2Q operating profit of KRW30.8b, with its operating margin exceeding 9% for the first time in eight years.
- The firm raised its 2020 operating profit guidance to KRW111.7b.
- We believe the firm will continue to enjoy robust profitability till 2021 amid a tight supply-demand environment.

WHAT'S THE STORY?

Investment strategy: Simmtech's operating margin topped 9% in 2Q for the first time since 2Q12. We believe the firm will enjoy a high margin till next year on tight supply-demand balance driven by: 1) rising ASPs amid a shift from mobile- to server-use demand; 2) a higher semiconductor pin count and a larger die leading to multi-layered, high-spec substrates; and 3) introduction of mmWave-based 5G technology boosting per-device usage of substrates.

The firm is considering additional capacity ramp-up after it invested KW25b in boosting MSAP capacity by 25% in 1H20. Other substrate companies are also investing in their respective products. Given such a trend, we believe the firm's growth will peak over 2021-2022.

Positive earnings surprise in 2Q: Simmtech reported 2Q sales and operating profit of KRW321.8b and KRW30.8b, respectively, the latter trouncing market consensus by more than 50% thanks to positive results across the board (excluding FC-CSP). We attribute the robust earnings to: 1) solid server-use RDIMM sales; 2) strong demand for high-end GDDR6 graphic cards (MSAP BOC); and 3) an MCP inventory buildup in 2Q. Looking ahead to 3Q, we expect to see new demand for GDDR6 substrates (stemming from a new game player launch) and additional growth in server-use memory modules. That said, the MCP inventory buildup trend could lose some steam.

Raising 2020 guidance: Simmtech has raised its 2020 operating profit guidance from KRW90.4b (which it offered on Feb 25) to KRW111.7b, which we attribute mainly to rising demand for GDDR6 MSAP substrates (the firm now forecast such sales to reach KRW130b in 2020 vs its previous expectation of about KRW100b). In addition, demand for memory modules and MCP substrates proved better than feared when the COVID-19 pandemic started.

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	n/a
EBITDA margin (%)	10.6	9.7	9.8	5.6
ROE (%)	17.5	8.2	2.4	-19.5
P/E (adj) (x)	9.1	15.2	33.1	n/a
P/B (x)	1.5	1.2	0.8	1.8
EV/EBITDA (x)	5.4	5.3	3.6	11.0
Dividend yield (%)	1.7	2.5	2.4	1.3

Source: Company data, Samsung Securities estimates

2Q results

(KRWb)	2Q20P	1Q20	2Q19	Growth (%)	
				q-q	y-y
Sales	321.8	290.2	233.3	10.9	37.9
Operating profit	30.8	13.7	-8.2	125.9	Turn to pos
Pre-tax profit	28.0	10.2	-11.0	174.3	Turn to pos
Net profit	23.9	8.2	-10.3	192.0	Turn to pos
Margin (%)					
Operating profit	9.6	4.7	-3.5		
Pre-tax profit	8.7	3.5	-4.7		
Net profit	7.4	2.8	-4.4		

Source: Company data, Samsung Securities

Quarterly results

(KRWb)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20P	2017	2018	2019
Sales	244.4	249.4	263.2	250.5	205.5	233.3	268.1	293.3	290.2	321.8	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	30.8	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	28.0	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	23.9	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	4.7	9.6	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	8.7	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	7.4	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 (%)	5	5	4	3	-2
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 (%)	3	4	2	0	-4
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

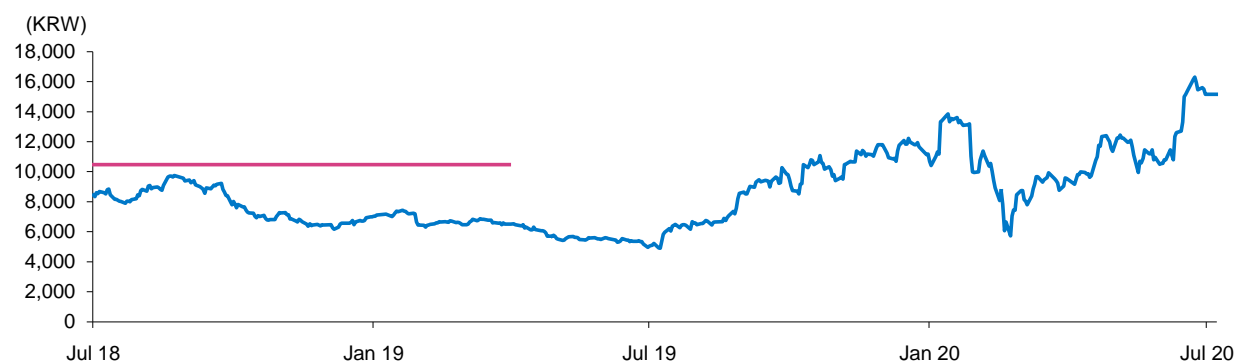
Financial ratios

Year-end Dec 31	2015	2016	2017	2018	2019
Growth (%)					
Sales	n/a	100	2	24	-1
Operating profit	n/a	107	-16	-9	Turn neg
Net profit	n/a	181	-45	-86	Turn neg
Adjusted EPS**	n/a	33	-48	-70	Turn neg
Per-share data (KRW)					
EPS (parent-based)	950	1260	661	195	-1483
EPS (consolidated)	953	1267	669	91	-1598
Adjusted EPS**	950	1260	661	195	-1483
BVPS	6699	7612	8189	8335	6679
DPS (common)	247	190	252	152	152
Valuations (x)					
P/E***	6.6	9.1	15.2	33.1	n/a
P/B***	0.9	1.5	1.2	0.8	1.8
EV/EBITDA	7.8	5.4	5.3	3.6	11.0
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)	4.0	1.7	2.5	2.4	1.3
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	2018/5/10	2020/7/30
Recommendation	BUY	Not Rated
Target price (KRW)	10,465	n/a
Gap* (average)	-26.43	-
(max or min)**	-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 Jun 30, 2020

BUY (73.4%) | HOLD (26.6%) | SELL (0%)

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