

Simmtech (222800 KS)

Big cycle: Package substrates

BUY (Maintain)

CP (Jul. 29)	KRW15,150
TP (6 months)	KRW22,500
Upside	48.5%

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KOSPI	2,263.16p
KOSDAQ	808.59p
Market cap	KRW482.6bn/USD423.3mn
Par value	KRW500
Outstanding shares	31.9mn
Free float	16.8mn(52.7%)
52-week high/low	KRW16,300/KRW4,900
60-day avg. trading volume	965,048shrs
60-day avg. turnover	KRW12,367mn
Foreign ownership	4.00%
Major shareholders	
Simmtech Holdings and 9 others	41.94%
NPS	6.25%
Absolute performance	3M 58.6%
	6M 35.5%
	12M 205.1%
Relative performance	3M 26.6%
to KOSDAQ	6M 12.3%
	12M 133.4%

- ◆ 2Q20 review: Earnings surprise awaited for about a year
- ◆ Company guidance for 2020 OP revised up from KRW90.4bn to KRW111.7bn
- ◆ Target price raised by 36% to KRW22,500 on upbeat outlook for 2021

2Q20 review: Earnings surprise awaited for about a year

Simmtech posted sales of KRW321.8bn (+38% YoY) and operating profit of KRW30.8bn (positive swing YoY) for 2Q20. We had revised up our operating profit forecasts twice, but the actual result far exceeded our estimate (KRW19.5bn) even without one-off gains. Parent operating profit came in at KRW30.4bn and subsidiary at KRW0.4bn. The earnings surprise was driven by: 1) mobile-use package substrates; 2) high value-added GDDR6 (graphics DRAM) substrates; and 3) server-use memory module PCB. We expect margin gains from package substrates in 2H20 on product mix improvement.

Company guidance for 2020 OP revised up from KRW90.4bn to KRW111.7bn

Simmtech has revised up its company guidance for 2020. It now expects to earn sales of KRW1.26tr (vs. previously estimated KRW1.15tr) and operating profit of KRW111.7bn (vs. KRW90.4bn) this year, backed by robust 1H earnings and increasing GDDR6/MCP sales.

Operating profit will likely remain flat QoQ at KRW30.8bn in 3Q. A potential dip in demand for mobile-use package substrates should be offset by rising needs for GDDR6 and server-use substrates. We expect profit growth in 4Q on strong seasonal demand at the year's end and increased sales share of high value-added products.

Target price raised by 36% to KRW22,500 on upbeat outlook for 2021

Our revised target price for Simmtech is based on 2020F EPS of KRW2,464 and a target PER of 9.1x, reflecting PER valuations enjoyed in 2016 when earnings gains were seen. If applying a target PER of 10x (typical valuation applied to IT parts suppliers) to 2021F net profit, target market cap comes to KRW1tr.

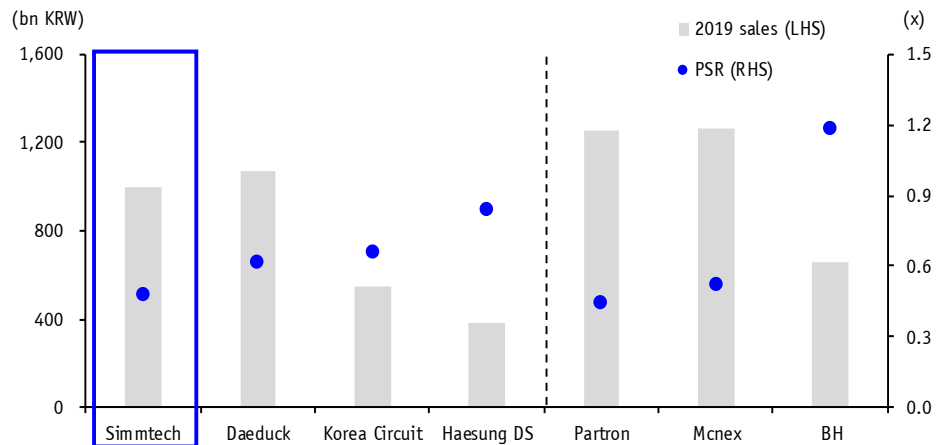
We now look beyond surprises of 2020 and focus on the upbeat outlook for 2021. Positives expected next year include: 1) stronger sales from GDDR6 substrates; 2) ASP hike on DDR5 commercialization; 3) growing demand for high value-added substrates (FCCSP, SiP) used in system semiconductors; and 4) increase in dividend payout ratio after focusing cash flows on stabilizing the debt ratio in 2020.

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	1,250.9	107.9	93.6	78.5	2,698	TB	7,377	5.6	3.6	2.1	39.5	95.4
2021F	1,299.8	132.1	122.2	100.9	3,169	17.5	10,393	4.8	2.6	1.5	35.7	21.9
2022F	1,395.9	157.1	150.5	122.8	3,854	21.6	14,095	3.9	1.7	1.1	31.5	(21.3)

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

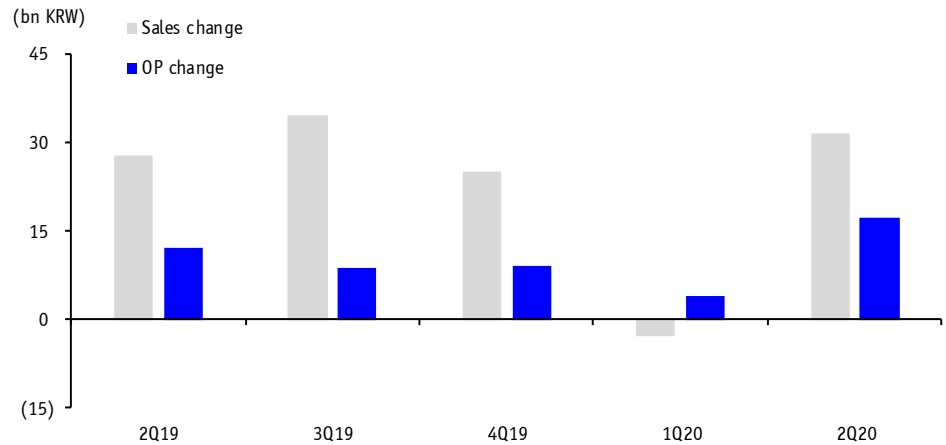


Source: QuantilWise, Shinhan Investment Corp.

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	321.8	313.7	325.1	1,000.2	1,250.9	1,299.8
OP	(20.2)	(8.2)	0.7	9.9	13.7	30.8	30.8	32.6	(17.9)	107.9	132.1
OPM (%)	(9.9)	(3.5)	0.2	3.4	4.7	9.6	9.8	10.0	(1.8)	8.6	10.2
Parent sales	182.8	210.9	239.6	255.2	252.0	279.9	271.0	283.0	888.6	1,085.9	1,134.6
Parent OP	(4.4)	6.9	12.5	13.1	13.4	30.4	29.8	31.1	28.1	104.7	123.1
OPM (%)	(2.4)	3.3	5.2	5.1	5.3	10.8	11.0	11.0	3.2	9.6	10.8
Subsidiary sales	22.7	22.4	28.5	38.0	38.2	41.9	42.7	42.2	111.6	165.0	165.2
Subsidiary OP	(15.8)	(15.1)	(11.9)	(3.2)	0.2	0.5	1.0	1.5	(46.0)	3.2	9.0
OPM (%)	(69.7)	(67.4)	(41.7)	(8.4)	0.6	1.1	2.3	3.6	(41.2)	1.9	5.4
Sales by product	205.5	233.3	268.1	293.3	290.2	321.8	313.7	325.1	1,000.2	1,250.9	1,299.8
Module PCB	55.8	67.9	71.8	86.9	87.7	94.8	99.0	103.6	282.4	385.2	408.4
Package substrate	148.4	161.4	193.2	203.4	200.5	224.4	212.0	219.0	706.4	855.9	881.3
Others	1.3	4.0	3.1	3.0	2.0	2.6	2.7	2.6	11.4	9.9	10.2
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	29.5	31.6	31.9	28.2	30.8	31.4
Package substrate	72.2	69.2	72.1	69.4	69.1	69.7	67.6	67.3	70.6	68.4	67.8
Others	0.6	1.7	1.2	1.0	0.7	0.8	0.9	0.8	1.1	0.8	0.8
MSAP sales share	50.7	46.6	48.5	51.0	51.6	51.0	55.6	56.0	49.3	53.6	52.3
Parent	52.5	47.4	46.3	47.4	46.0	46.1	49.2	50.7	48.2	48.1	45.9
Subsidiary	35.3	40.2	66.6	76.3	89.0	84.0	95.7	91.2	58.2	90.0	96.3
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	37.7	36.6	38.9	42.2	38.5	37.1
PC	27.1	27.5	27.9	30.3	28.0	25.5	23.8	25.5	28.3	25.6	24.9
Server	20.5	22.2	19.5	18.9	22.3	23.0	25.3	23.2	20.2	23.4	24.3
Graphic card	4.2	3.3	5.3	7.6	6.5	10.9	11.6	10.0	5.3	9.8	11.1
Others	4.2	5.7	4.2	2.3	2.4	2.9	2.7	2.4	4.0	2.6	2.6

Source: Shinhan Investment Corp.

QoQ change in sales and operating profit



Source: QuantilWise, Shinhan Investment Corp.

2020 preliminary results

(bn KRW, %)	2Q20F	1Q20	QoQ(%)	2Q19	YoY(%)	SHIC	Consensus
Sales	321.8	290.2	10.9	233.3	37.9	300.2	300.2
OP	30.8	13.7	125.2	(8.2)	TB	19.5	19.6
NP	24.1	8.2	193.9	(10.3)	TB	13.9	11.6
OPM	9.6	4.7	-	(3.5)	-	6.5	6.5
NPM	7.5	2.8	-	(4.4)	-	4.6	3.9

Source: Dart, Shinhan Investment Corp.

Target price calculation

(KRW, x)	2020F	Remarks
Target price	22,500	
EPS	2,464	2020F EPS
Target PER	9.1	PER of 2016 when earnings gains were seen
Value per share	22,422	

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	404	5.6	2.1	3.6	39.5	8.6	6.3	4.8	1.5	2.6	35.7	10.2	7.8
Samsung Electro-Mechanics	9,040	24.2	2.0	8.2	8.3	7.9	5.6	17.5	1.8	6.9	10.6	9.5	6.9
LG Innotek	3,211	11.1	1.5	4.1	14.5	6.3	3.8	9.3	1.3	3.9	15.1	6.4	4.1
Ibiden	3,908	41.4	1.5	9.3	3.7	5.9	3.3	26.0	1.5	5.9	5.9	8.1	5.1
Unimicron Technology	3,021	20.0	1.9	6.4	9.7	6.2	5.1	14.3	1.7	5.0	13.1	7.4	6.6
Shinko Electric Industries	2,161	180.3	1.7	12.0	1.4	1.4	1.1	24.9	1.6	6.0	6.5	7.3	5.6
AT&S	730	40.8	1.1	4.8	4.0	4.2	1.5	13.4	0.9	3.9	10.1	N/A	5.5

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	841.8	902.0	1,006.0
Current assets	252.4	254.2	276.8	380.5	525.4
Cash and equivalents	27.3	9.7	14.4	90.6	213.9
Accounts receivable	57.0	78.9	87.5	96.6	103.8
Inventories	155.9	147.1	154.5	170.7	183.4
Non-current assets	561.0	585.8	565.0	521.5	480.6
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	2.3	2.5	2.7
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	598.8	678.4	607.2	570.8	556.1
Current liabilities	520.7	551.7	464.8	435.5	419.7
Short-term borrowings	151.0	171.9	132.2	82.2	52.2
Accounts payable	38.9	79.9	88.6	97.9	105.2
Current portion of long-term debt	53.5	115.7	39.8	29.8	19.8
Non-current liabilities	78.1	126.7	142.4	135.3	136.5
Bonds	4.5	23.9	23.8	23.8	23.8
Long-term borrowings	15.0	35.0	43.3	28.3	23.3
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	214.6	161.5	234.7	331.3	449.8
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	168.7	264.8	382.7
Controlling interest equity	212.8	162.5	235.0	331.1	449.0
Non-controlling interest equity	1.8	(1.0)	(0.3)	0.2	0.8
*Total debt	223.9	347.7	240.6	165.7	120.8
*Net debt (cash)	196.7	336.0	223.9	72.6	(95.7)

Statement of cash flow

Year to December (bn KRW)	2018	2019	2020F	2021F	2022F
Cash flow from operations	90.5	(31.6)	173.0	196.3	208.3
Net profit	2.3	(39.4)	79.2	101.4	123.4
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)	1.4	11.2	8.8
(Payment of income tax)	(6.5)	(10.7)	(14.9)	(20.8)	(27.1)
Others	30.5	22.7	19.6	20.8	27.1
Cash flow from investments	(99.5)	(73.7)	(47.8)	(40.5)	(35.4)
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	2.0	(0.2)	(0.2)
Others	(1.7)	(0.3)	(2.2)	(0.3)	(0.2)
Free cash flow	(2.3)	(88.1)	141.9	156.6	172.5
Cash flow from financing	23.3	87.1	(120.9)	(79.7)	(49.7)
Change in borrowings	29.8	112.7	(114.4)	(74.8)	(44.9)
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)	(0.1)	(0.0)
Other cash flow	0.0	0.0	0.0	(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)	4.8	76.1	123.2
Beginning cash	12.2	27.3	9.7	14.5	90.6
Ending cash	27.3	9.7	14.5	90.6	213.8

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	1,250.9	1,299.8	1,395.9
Growth (%)	24.1	(0.7)	25.1	3.9	7.4
COGS	875.8	912.2	1,057.7	1,106.7	1,202.1
Gross profit	131.7	88.0	193.1	193.2	193.8
GPM (%)	13.1	8.8	15.4	14.9	13.9
SG&A	100.9	105.9	85.2	61.1	36.8
Operating profit	30.8	(17.9)	107.9	132.1	157.1
Growth (%)	(9.0)	TR	TB	22.4	18.9
OPM (%)	3.1	(1.8)	8.6	10.2	11.3
Non-operating profit	(20.3)	(24.5)	(14.3)	(9.9)	(6.6)
Financial profit	(13.9)	(13.9)	(12.3)	(8.9)	(6.6)
Other non-operating profit	(6.4)	(10.6)	(2.0)	(1.0)	0.0
Equity method gain (loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	10.4	(42.4)	93.6	122.2	150.5
Income tax	8.1	(3.0)	14.4	20.8	27.1
Continuing operations	2.3	(39.4)	79.2	101.4	123.4
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	2.3	(39.4)	79.2	101.4	123.4
Growth (%)	(85.6)	TR	TB	28.1	21.6
NPM (%)	0.2	(3.9)	6.3	7.8	8.8
Controlling interest	5.0	(36.6)	78.5	100.9	122.8
Non-controlling interest	(2.7)	(2.8)	0.7	0.5	0.6
Comprehensive income	6.3	(40.0)	86.8	101.4	123.4
Controlling interest	8.6	(37.2)	87.0	101.7	123.7
Non-controlling interest	(2.3)	(2.8)	(0.2)	(0.2)	(0.3)
EBITDA	98.9	56.3	195.2	215.8	233.2
Growth (%)	25.3	(43.1)	246.6	10.5	8.1
EBITDA margin (%)	9.8	5.6	15.6	16.6	16.7

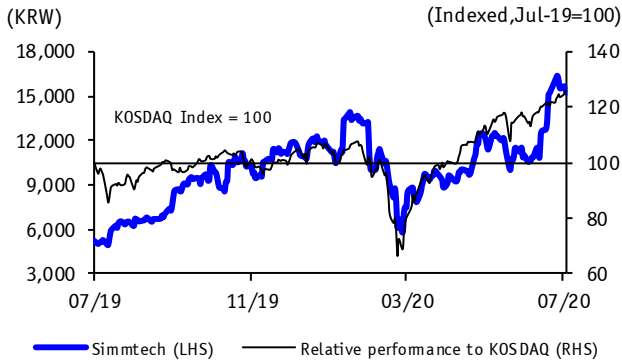
Key ratios

Year to December	2018	2019	2020F	2021F	2022F
EPS (KRW)	81	(1,600)	2,722	3,185	3,874
EPS of controlling interest (KRW)	185	(1,486)	2,698	3,169	3,854
BPS (KRW)	8,403	6,636	7,367	10,400	14,121
BPS of controlling interest (KRW)	8,332	6,676	7,377	10,393	14,095
DPS (KRW)	152	152	152	152	152
PER (x)	80.1	(7.4)	5.6	4.8	3.9
PER of controlling interest (x)	34.9	(7.9)	5.6	4.8	3.9
PBR (x)	0.8	1.8	2.1	1.5	1.1
PBR of controlling interest (x)	0.8	1.8	2.1	1.5	1.1
EV/EBITDA (x)	3.6	11.0	3.6	2.6	1.7
Dividend payout ratio (%)	78.1	(10.1)	6.2	4.8	3.9
Dividend yield (%)	2.4	1.3	1.0	1.0	1.0
Profitability					
EBITDA margin (%)	9.8	5.6	15.6	16.6	16.7
OPM (%)	3.1	(1.8)	8.6	10.2	11.3
NPM (%)	0.2	(3.9)	6.3	7.8	8.8
ROA (%)	0.3	(4.8)	9.4	11.6	12.9
ROE (%)	2.4	(19.5)	39.5	35.7	31.5
ROIC (%)	1.2	(5.1)	18.3	23.7	30.8
Stability					
Debt to equity ratio (%)	279.1	420.0	258.7	172.3	123.6
Net debt ratio (%)	91.7	208.0	95.4	21.9	(21.3)
Cash ratio (%)	5.2	1.8	3.1	20.8	51.0
Interest coverage ratio (x)	2.7	(1.3)	8.6	13.1	17.9
Activity (%)					
Working capital turnover (times)	(12.5)	(17.9)	(48.4)	(39.5)	(39.0)
Inventory turnover (days)	51.9	55.3	44.0	45.7	46.3
Receivable turnover (days)	20.6	24.8	24.3	25.8	26.2

Source: Company data, Shinhan Investment Corp.

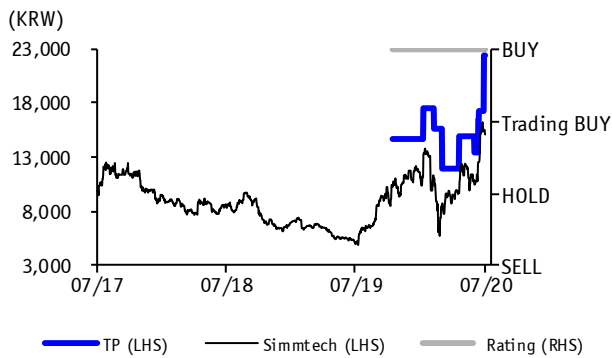
Simmttech (222800 KS)

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	(23.6)	(17.0)
2020.07.03	BUY	13,500	(12.3)	(5.9)
2020.07.14	BUY	16,500	(5.5)	(1.2)
2020.07.30	BUY	22,500	-	-

Target price



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

Rating Distribution - SHIC Universe (as of 28 July 2020)

BUY (BUY)	90.43%	Trading BUY (HOLD)	2.66%	HOLD (HOLD)	6.91%	SELL (SELL)	0.00%
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Rating Distribution - SHIC Investment Banking Clients (as of 28 July 2020)

BUY (BUY)	100.00%	Trading BUY (HOLD)	0.00%	HOLD (HOLD)	0.00%	SELL (SELL)	0.00%
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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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