



# Simmtech

| Bloomberg Code (222800 KS) | Reuters Code (222800.KQ)

04 May 2022

[Handset/electronics]

## Three misconceptions debunked

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**BUY**  
(Maintain)



CP (May. 3)  
**KRW51,200**



TP (6 months)  
**KRW80,000**



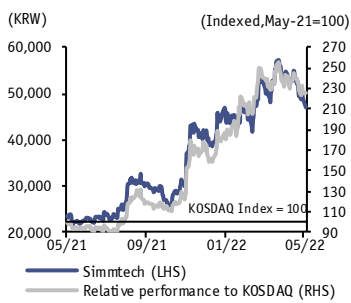
Upside  
**56.3%**

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Rating	BUY (Maintain)
TP (6 months)	KRW80,000
Upside	56.3%

KOSPI	2,680.46p
KOSDAQ	907.57p
Market cap	KRW1,630.9bn/USD1,430.6mn
Par value	KRW500
Outstanding shares	31.9mn
Free float	20.7mn (65.1%)
52-week high/low	KRW57,400/KRW21,650
60-day avg. trading volume	786,976shrs
60-day avg. turnover	KRW40,022mn
Foreign ownership	11.32%
<b>Major shareholders</b>	
Simmtech Holdings and 8 others	33.27%
Morgan Stanley & Co. and 1 other	7.64%
<b>Absolute performance</b>	
3M	11.2%
6M	66.0%
12M	125.1%
<b>Relative performance to KOSDAQ</b>	
3M	9.2%
6M	83.8%
12M	138.5%

### Share performance



### 1Q22 results strong & another earnings surprise in store for 2Q22

Simmtech posted operating profit of KRW83.9bn (+448% YoY) on sales of KRW417.7bn (+48%, YoY) for 1Q22. Strong earnings were driven by: 1) larger sales of FCCSP and SiP substrates (product mix improvement); 2) tight market supply of package substrates; and 3) favorable forex conditions. The outlook is even brighter for 2Q22, with sales forecast at KRW440.2bn (+36% YoY) and operating profit at KRW89.3bn (+186% YoY). Further upward revision of earnings projections is also likely, in order to adjust for: 1) a possible increase in operating margin alongside topline growth; 2) the conservative forex rate assumption for 2Q22 vs. the current USD/KRW rate of 1,265; and 3) additional improvement in product mix.

### Three misconceptions debunked

First, concerns are rising that market conditions for substrates other than FCBGA are nearing a peak due to the decline in sales of tech products. Shipments of tech products have been on a steep downtrend since 3Q21, and orders/inventories of MLCCs and display panels are currently undergoing correction. Yet, substrate companies are reporting increasingly stronger earnings, all thanks to the relatively wide gap between market demand and supply. With substrates other than FCBGA also seeing a boom in demand, Simmtech expects favorable market conditions to continue for the next two to three years at the least.

Second, some fear that sales of FCCSP and SiP substrates will be hit hard by a slowdown of the smartphone market. However, we believe actual impact on Simmtech will be limited, with smartphone demand expected to account for just 20% of total FCCSP substrate sales in 2022 vs. 33% in 2021. Instead, servers tend to play a larger role in determining total sales of FCCSP substrates at Simmtech. We also note that the company is expanding its SiP capacity, with joint development of new products currently underway with its key US client as well as major customers at home and abroad.

Another misconception surrounding Simmtech is that sales of memory package substrates generate lower margins and are likely to be hit by market oversupply. We, however, find that demand is growing from DDR5, servers, and SSD, while key suppliers continue to reduce their focus on memory substrates in efforts to improve product mix. With investment into memory substrate capacity under consideration by just the Malaysian unit of Simmtech Holdings and Haesung DS, we believe supply disruptions could be in store for memory package substrates instead of a supply surplus.

### Retain BUY and raise target price to KRW80,000

Our revised target price of KRW80,000 is based on 2022F EPS and a target PER of 10x, reflecting the typical valuation applied to IT parts suppliers. We raise our operating profit forecast to KRW358.3bn for 2022, and expect EBITDA to exceed KRW400bn for the year. We believe liquidity concerns are limited at the moment. Institutional investors net sold around 860,000 shares over the past two months and short interest stands at 1.65mn shares (from April 13 to present). We urge investors to focus instead on momentum expected from the US client, DDR5 and mobile PCB 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 (%)
2020	1,201.4	89.7	74.9	56.6	1,935	TB	8,840	11.8	5.3	2.6	25.1	49.8
2021	1,365.8	174.3	154.0	117.2	3,616	86.9	11,907	12.6	6.3	3.8	35.1	38.4
2022F	1,777.5	358.4	334.0	254.5	7,991	121.0	19,298	6.4	38.2	2.7	51.2	(4.7)
2023F	1,934.6	398.4	372.9	284.2	8,922	11.6	27,520	5.7	34.2	1.9	38.1	(32.5)
2024F	2,039.9	428.8	400.1	304.9	9,572	7.3	36,392	5.3	31.5	1.4	30.0	(48.4)

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

Earnings trend and outlook											
(bn KRW, %)	1Q21	2Q21	3Q21	4Q21	1Q22P	2Q22F	3Q22F	4Q22F	2021	2022F	2023F
<b>Sales</b>	283.1	324.7	365.9	392.1	417.7	440.2	447.3	472.2	1,365.9	1,777.5	1,934.6
<b>OP</b>	15.3	31.2	50.4	77.4	83.9	89.3	91.5	93.6	174.3	358.3	398.4
OPM (%)	5.4	9.6	13.8	19.7	20.1	20.3	20.4	19.8	12.8	20.2	20.6
<b>Parent sales</b>	241.8	277.3	309.7	331.1	353.3	371.2	379.9	400.5	1,159.9	1,504.9	1,641.8
<b>Parent OP</b>	13.7	28.5	46.1	63.6	74.3	79.6	82.0	84.1	151.9	320.0	359.3
OPM (%)	5.7	10.3	14.9	19.2	21.0	21.4	21.6	21.0	13.1	21.3	21.9
<b>Subsidiary sales</b>	41.4	47.4	56.2	61.0	64.4	69.1	67.5	71.6	206.0	272.6	292.8
<b>Subsidiary OP</b>	1.5	2.7	4.3	13.7	9.5	9.7	9.5	9.5	22.2	38.2	39.1
OPM (%)	3.6	5.7	7.7	22.5	14.8	14.0	14.1	13.3	10.8	14.0	13.4
Sales by product	283.1	324.7	365.9	392.1	417.7	440.2	447.3	472.2	1,365.9	1,777.5	1,934.6
Module PCB	62.4	81.1	87.5	95.9	88.2	99.7	98.2	106.2	326.9	392.3	434.1
Package substrate	219.3	240.3	275.8	293.2	326.6	337.6	346.2	363.0	1,028.6	1,373.5	1,488.8
Others	1.4	3.3	2.6	3.0	2.9	3.0	2.9	2.9	10.3	11.6	11.6
Sales share by product											
Module PCB	22.0	25.0	23.9	24.5	21.1	22.6	22.0	22.5	23.9	22.1	22.4
Package substrate	77.5	74.0	75.4	74.8	78.2	76.7	77.4	76.9	75.3	77.3	77.0
Others	0.5	1.0	0.7	0.8	0.7	0.7	0.6	0.6	0.8	0.7	0.6
MSAP sales share	61.5	61.7	62.9	67.5	66.6	67.9	69.9	69.5	63.6	68.5	68.5
Parent	56.7	56.3	56.8	61.9	62.0	62.6	65.1	64.5	58.1	63.6	63.4
Subsidiary	90.0	93.5	96.6	97.5	91.6	96.6	96.6	97.2	94.8	95.6	97.0
Sales share by application (%)											
Mobile	37.9	35.8	35.1	35.1	35.8	34.4	34.2	32.9	35.8	34.3	32.6
PC	29.4	30.1	30.0	30.1	30.6	31.0	30.9	29.4	29.9	30.5	30.1
Server	18.9	20.5	18.2	19.1	18.9	19.4	19.7	21.9	19.1	20.0	21.2
Graphic card	9.1	8.5	10.1	10.9	10.4	10.3	9.7	9.9	9.7	10.1	9.9
Others	4.6	5.1	6.7	4.8	4.3	4.8	5.4	5.9	5.3	5.1	6.3

Source: Company data, Shinhan Investment Corp

Earnings forecast revision						
(bn KRW, %)	Previous		Revised		Change (%)	
	2022F	2023F	2022F	2023F	2022F	2023F
Sales	1,676	1,836	1,777	1,935	6.1	5.4
OP	325	361	358	398	10.3	10.5
NP	232	259	255	284	9.8	9.9
OPM	19.4	19.6	20.2	20.6	-	-
NPM	13.8	14.1	14.3	14.7	-	-

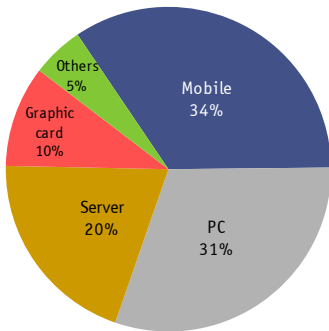
Source: Shinhan Investment Corp.

**Target price calculation**

(KRW, x)	2022F	Remarks
Target price	80,000	
EPS	7,991	2022F EPS
Target PER	10.0	Typical PER valuation applied to IT parts suppliers
Value per share	79,909	

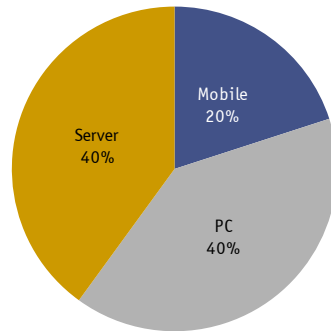
Source: Shinhan Investment Corp.

**Sales share by application (2022F)**



Source: Shinhan Investment Corp.

**FCCSP sales share by application (2022F)**



Source: Shinhan Investment Corp.

## Statement of financial position

Year to December (bn KRW)	2020	2021	2022F	2023F	2024F
<b>Total assets</b>	<b>779.8</b>	<b>857.4</b>	<b>1,136.7</b>	<b>1,417.0</b>	<b>1,715.1</b>
Current assets	198.8	245.1	444.8	712.3	999.4
Cash and equivalents	17.1	16.7	169.9	420.6	695.7
Accounts receivable	47.4	60.3	72.6	77.0	80.1
Inventories	123.8	144.5	174.0	184.5	192.1
Non-current assets	581.0	612.4	691.9	704.8	715.6
Tangible assets	512.5	501.3	573.6	584.0	593.1
Intangible assets	22.1	23.5	23.4	23.3	23.2
Investment assets	4.5	35.7	42.9	45.5	47.4
Other financial assets	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities</b>	<b>491.5</b>	<b>476.2</b>	<b>517.3</b>	<b>532.7</b>	<b>545.1</b>
Current liabilities	350.1	342.0	374.9	390.5	404.6
Short-term borrowings	37.5	20.6	8.6	4.6	4.6
Accounts payable	70.5	45.6	54.9	58.2	60.6
Current portion of long-term debt	49.6	7.8	(2.2)	(2.2)	(2.2)
Non-current liabilities	141.4	134.2	142.5	142.3	140.5
Bonds	1.4	0.0	0.0	0.0	0.0
Long-term borrowings	41.4	54.4	46.4	40.4	34.4
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total shareholders' equity</b>	<b>288.3</b>	<b>381.3</b>	<b>619.4</b>	<b>884.2</b>	<b>1,170.0</b>
Capital stock	17.1	17.1	17.1	17.1	17.1
Capital surplus	118.4	110.6	110.6	110.6	110.6
Other capital	(0.1)	(0.3)	(0.3)	(0.3)	(0.3)
Accumulated other comprehensive income	(2.0)	7.4	7.4	7.4	7.4
Retained earnings	154.5	244.4	479.9	741.8	1,024.4
<b>Controlling interest equity</b>	<b>287.9</b>	<b>379.3</b>	<b>614.8</b>	<b>876.6</b>	<b>1,159.3</b>
Non-controlling interest equity	0.4	2.0	4.6	7.6	10.7
*Total debt	160.6	165.8	143.5	136.3	132.3
*Net debt (cash)	143.5	146.6	(29.3)	(287.5)	(566.8)

## Statement of cash flow

Year to December (bn KRW)	2020	2021	2022F	2023F	2024F
<b>Cash flow from operations</b>	<b>215.5</b>	<b>114.6</b>	<b>339.0</b>	<b>359.8</b>	<b>383.5</b>
Net profit	56.5	118.3	257.2	287.1	308.1
Depreciation expense	73.9	77.9	67.7	69.6	70.9
Amortization expense	1.7	0.9	0.1	0.1	0.1
FX translation loss (gain)	(0.1)	2.3	0.0	0.0	0.0
Asset disposal loss (gain)	(0.9)	1.3	0.0	0.0	0.0
Equity method loss (gain)	0.0	0.0	0.0	0.0	0.0
Change in working capital	50.5	(119.0)	14.1	3.0	4.4
(Payment of income tax)	(6.0)	(23.6)	(76.8)	(85.8)	(92.0)
Others	39.9	56.5	76.7	85.8	92.0
<b>Cash flow from investments</b>	<b>(82.9)</b>	<b>(80.5)</b>	<b>(147.8)</b>	<b>(82.8)</b>	<b>(82.0)</b>
Increase in tangible assets	(86.0)	(76.6)	(140.0)	(80.0)	(80.0)
Decrease in tangible assets	3.9	32.4	0.0	0.0	0.0
Change in intangible assets	(0.0)	(0.7)	0.0	0.0	0.0
Change in investment assets	0.0	0.0	(7.3)	(2.6)	(1.9)
Others	(0.8)	(35.6)	(0.5)	(0.2)	(0.1)
<b>Free cash flow</b>	<b>87.5</b>	<b>90.3</b>	<b>204.7</b>	<b>296.8</b>	<b>321.4</b>
<b>Cash flow from financing</b>	<b>(124.9)</b>	<b>(34.6)</b>	<b>(38.2)</b>	<b>(26.3)</b>	<b>(26.3)</b>
Change in borrowings	(185.5)	(0.7)	(22.2)	(7.2)	(4.0)
Change in treasury stock	0.0	0.0	0.0	0.0	0.0
Dividends	(3.7)	(10.4)	(15.9)	(19.1)	(22.3)
Others	64.3	(23.5)	(0.1)	0.0	0.0
Other cash flow	0.0	0.0	0.0	0.0	0.0
Change in consolidated scope	0.0	0.0	0.0	0.0	0.0
Change in FX rates	(0.4)	0.1	0.0	0.0	0.0
<b>Change in total cash</b>	<b>7.4</b>	<b>(0.4)</b>	<b>153.1</b>	<b>250.7</b>	<b>275.2</b>
Beginning cash	9.7	17.1	16.7	169.8	420.5
Ending cash	17.1	16.7	169.8	420.5	695.7

Source: Company data, Shinhan Investment Corp.

## Statement of comprehensive income

Year to December (bn KRW)	2020	2021	2022F	2023F	2024F
<b>Sales</b>	<b>1,201.4</b>	<b>1,365.8</b>	<b>1,777.5</b>	<b>1,934.6</b>	<b>2,039.9</b>
Growth (%)	20.1	13.7	30.1	8.8	5.4
<b>COGS</b>	<b>1,005.0</b>	<b>1,081.7</b>	<b>1,322.9</b>	<b>1,431.6</b>	<b>1,509.5</b>
<b>Gross profit</b>	<b>196.4</b>	<b>284.1</b>	<b>454.6</b>	<b>503.0</b>	<b>530.4</b>
GPM (%)	16.3	20.8	25.6	26.0	26.0
<b>SG&amp;A</b>	<b>106.7</b>	<b>109.8</b>	<b>96.2</b>	<b>104.6</b>	<b>101.6</b>
<b>Operating profit</b>	<b>89.7</b>	<b>174.3</b>	<b>358.4</b>	<b>398.4</b>	<b>428.8</b>
Operating (%)	TB	94.2	105.6	11.2	7.6
OPM (%)	7.5	12.8	20.2	20.6	21.0
Non-operating profit	(14.9)	(20.3)	(24.3)	(25.5)	(28.7)
Financial profit	(15.1)	(17.5)	(16.3)	(17.5)	(20.7)
Other non-operating profit	0.3	(2.8)	(8.0)	(8.0)	(8.0)
Equity method gain (loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>74.9</b>	<b>154.0</b>	<b>334.0</b>	<b>372.9</b>	<b>400.1</b>
Income tax	18.4	35.7	76.8	85.8	92.0
Continuing operations	56.5	118.3	257.2	287.1	308.1
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>56.5</b>	<b>118.3</b>	<b>257.2</b>	<b>287.1</b>	<b>308.1</b>
Growth (%)	TB	109.4	117.4	11.6	7.3
NPM (%)	4.7	8.7	14.5	14.8	15.1
Controlling interest	56.6	117.2	254.5	284.2	304.9
Non-controlling interest	(0.1)	1.1	2.6	2.9	3.2
Comprehensive income	60.0	125.5	257.2	287.1	308.1
Controlling interest	60.6	124.0	253.2	282.6	303.3
Non-controlling interest	(0.6)	1.5	4.0	4.5	4.8
<b>EBITDA</b>	<b>165.4</b>	<b>253.2</b>	<b>426.1</b>	<b>468.1</b>	<b>499.7</b>
Growth (%)	193.7	53.0	68.3	9.9	6.8
EBITDA margin (%)	13.8	18.5	24.0	24.2	24.5

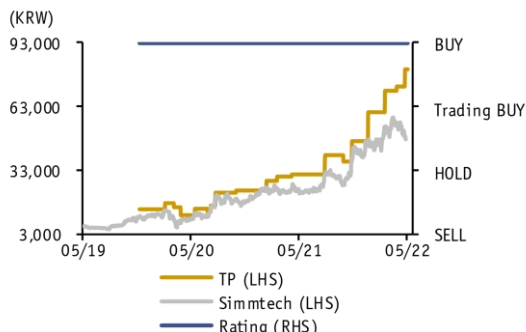
## Key ratios

Year to December	2020	2021	2022F	2023F	2024F
EPS (KRW)	1,932	3,650	8,074	9,014	9,671
EPS of controlling interest (KRW)	1,935	3,616	7,991	8,922	9,572
BPS (KRW)	8,853	11,969	19,443	27,758	36,729
BPS of controlling interest (KRW)	8,840	11,907	19,298	27,520	36,392
DPS (KRW)	320	500	600	700	700
PER (x)	11.8	12.5	6.3	5.7	5.3
PER of controlling interest (x)	11.8	12.6	6.4	5.7	5.3
PBR (x)	2.6	3.8	2.6	1.8	1.4
PBR of controlling interest (x)	2.6	3.8	2.7	1.9	1.4
EV/EBITDA (x)	5.3	6.3	38.2	34.2	31.5
Dividend payout ratio (%)	18.4	13.6	7.5	7.8	7.3
Dividend yield (%)	1.4	1.1	1.2	1.4	1.4
<b>Profitability</b>					
EBITDA margin (%)	13.8	18.5	24.0	24.2	24.5
OPM (%)	7.5	12.8	20.2	20.6	21.0
NPM (%)	4.7	8.7	14.5	14.8	15.1
ROA (%)	7.0	14.5	25.8	22.5	19.7
ROE (%)	25.1	35.1	51.2	38.1	30.0
ROIC (%)	14.0	25.4	49.7	51.5	54.5
<b>Stability</b>					
Debt to equity ratio (%)	170.5	124.9	83.5	60.3	46.6
Net debt ratio (%)	49.8	38.4	(4.7)	(32.5)	(48.4)
Cash ratio (%)	4.9	4.9	45.3	107.7	172.0
Interest coverage ratio (x)	8.3	18.3	25.7	33.3	37.9
<b>Activity (%)</b>					
Working capital turnover (times)	(33.9)	(49.3)	(337.3)	(326.1)	(327.3)
Inventory turnover (days)	41.2	35.8	32.7	33.8	33.7
Receivable turnover (days)	19.2	14.4	13.6	14.1	14.1

Source: Company data, Shinhan Investment Corp.

## Target price & rating history

### Simmtech (222800 KS)



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	(5.5)	(1.2)
2020.07.30	BUY	22,500	(15.3)	(4.0)
2020.10.08	BUY	23,500	(16.1)	2.3
2021.01.19	BUY	28,000	(15.6)	(8.9)
2021.02.24	BUY	30,000	(24.7)	(20.7)
2021.04.15	BUY	31,000	(24.2)	(13.7)
2021.08.05	BUY	37,500	-	-
2021.08.06	BUY	40,000	(25.2)	(18.3)
2021.10.07	BUY	37,000	(21.7)	(15.0)
2021.11.05	BUY	46,500	(11.0)	(1.2)
2021.12.30	BUY	60,000	(24.4)	(17.1)
2022.02.25	BUY	70,000	(23.9)	(18.0)
2022.04.06	BUY	72,000	(26.9)	(23.5)
2022.05.04	BUY	80,000	-	-

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

### Rating Distribution - SHIC Universe (as of 02 May 2022)

BUY (BUY)	99.12%	Trading BUY (HOLD)	0.00%	HOLD (HOLD)	0.88%	SELL (SELL)	0.00%
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### Rating Distribution - SHIC Investment Banking Clients (as of 02 May 2022)

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

- ◆ 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

#### Sector

- ◆ 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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