

# Simmtech

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

1 August 2022

[IT parts/electronics]

## Three solutions to concerns for 2023

**HyungWou Park**

☎ (82-2) 3772-2184

✉ hyungwou@shinhan.com

**MinSeok Shim**

☎ (82-2) 3772-1540

✉ michlshim94@shinhan.com



**BUY**  
(Maintain)



CP (Jul. 29)  
**KRW40,500**



TP (6 months)  
**KRW60,000**



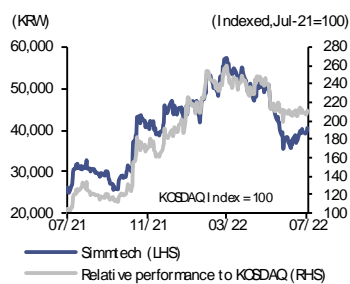
Upside  
**48.1%**

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Rating	BUY (Maintain)
TP (6 months)	KRW60,000
Upside	48.1%

KOSPI	2,451.50p
KOSDAQ	803.62p
Market cap	KRW1,290.1bn/USD1,131.7mn
Par value	KRW500
Outstanding shares	31.9mn
Free float	20.7mn(65.1%)
52-week high/low	KRW57,400/KRW24,800
60-day avg. trading volume	724,711shrs
60-day avg. turnover	KRW31,467mn
Foreign ownership	9.53%
<b>Major shareholders</b>	
Simmtech Holdings and 8 others	33.27%
NPS	5.58%
<b>Absolute performance</b>	
3M	-18.6%
6M	-13.8%
12M	57.0%
<b>Relative performance to KOSDAQ</b>	
3M	-8.3%
6M	-6.4%
12M	104.0%

**Share performance**



**2022 review: Solid sales and brisk new order intake**

Simmtech posted sales of KRW477.4bn (+47% YoY) and operating profit of KRW114.7bn (+267% YoY) for 2Q22. Strong earnings were driven by: 1) 34% QoQ growth in sales of FCCSP and SiP substrates; 2) tight market supply of package substrates; and 3) favorable forex conditions.

New order intake was brisk, showing an improvement in the product mix. High value-added products carrying a high price tag accounted for a larger share of new orders.

**Big cycle of package substrates to arrive in 2023**

There are no signs of a surplus building up. We need to look toward earnings for 2023.

1) Increasing supply for new applications carrying higher ASP: Key clients for Simmtech's package substrates used to be memory chip makers for smartphones, PCs, and servers. Their portion has been reducing at a fast pace. From 2023, applications should expand to communication chips, antenna in package, SSD controllers, wearable devices, and DDR5. ASP of package substrates for these products is 30-150% higher than that of memory package substrates.

2) Supply of new mobile chip package substrates to a North American client: Simmtech will begin supplying new package substrates to a North American client in 2023 after three years of preparations. It plans to ship the first batch in 1H and increase its supply in earnest from 2H.

3) Capacity erosion of high-end FCBGA: Intel's Sapphire Rapids CPUs for servers and Advanced Micro Devices' Genoa CPUs are expected to go into mass production in early 2023. These new products use high-end FCBGA, which is a large-area, high multi-layer, and high-density integration substrate. Capacity erosion caused by this next-gen substrate is 10-20 times higher than a typical FCBGA substrate. Sector leaders will likely focus on producing high-end FCBGA going forward.

**Retain BUY for a target price of KRW60,000**

Demand for high-end FCBGA should increase sharply in 2023. While substrate shortages are expected to continue, competitors are focusing investments on high-end FCBGA and not even considering capacity expansion for low value-added package substrates. We should be reminded that Murata Manufacturing and Samsung Electro-Mechanics were not the ones that enjoyed the sharpest share price gains during the MLCC boom of 2017.

Concerns are rising over the inventory levels of memory package substrates, but the suppliers have been reducing production on the grounds of low prices. We need to keep an eye out for a possible supply disruption of BOC substrates in the mid-to-long term.

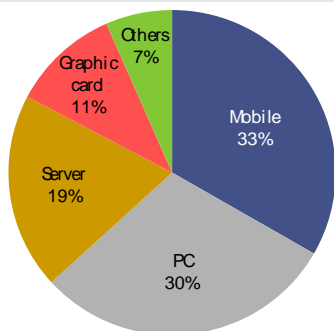
Year to	Sales	OP	Pre-tax	NP	EPS	Growth	BPS	PER	EV/EBITDA	PBR	ROE	Net debt
December	(bn KRW)	(bn KRW)	(bn KRW)	(bn KRW)	(KRW)	(%)	(KRW)	(x)	(x)	(x)	(%)	ratio (%)
2020	1,201.4	89.7	74.9	56.6	1,935	TB	8,840	11.8	5.3	2.6	25.1	49.8
2021	1,365.8	174.3	154.0	117.2	3,616	86.9	11,907	12.6	6.3	3.8	35.1	38.4
2022F	1,860.9	432.0	424.6	321.4	10,089	179.0	20,937	4.0	2.3	1.9	61.4	(16.8)
2023F	2,004.3	485.2	489.0	375.6	11,793	16.9	32,029	3.4	1.4	1.3	44.5	(46.9)
2024F	2,149.5	536.0	555.3	426.6	13,391	13.6	44,721	3.0	0.6	0.9	34.9	(62.9)

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	1Q22	2Q22P	3Q22F	4Q22F	2021	2022F	2023F
<b>Sales</b>	<b>283.1</b>	<b>324.7</b>	<b>365.9</b>	<b>392.1</b>	<b>417.7</b>	<b>477.4</b>	<b>480.4</b>	<b>485.4</b>	<b>1,365.9</b>	<b>1,861.0</b>	<b>2,004.3</b>
<b>OP</b>	<b>15.3</b>	<b>31.2</b>	<b>50.4</b>	<b>77.4</b>	<b>84.8</b>	<b>114.7</b>	<b>115.9</b>	<b>116.6</b>	<b>174.3</b>	<b>432.0</b>	<b>485.2</b>
OPM (%)	5.4	9.6	13.8	19.7	20.3	24.0	24.1	24.0	12.8	23.2	24.2
<b>Parent sales</b>	<b>241.8</b>	<b>277.3</b>	<b>309.7</b>	<b>331.1</b>	<b>353.3</b>	<b>411.4</b>	<b>413.0</b>	<b>414.0</b>	<b>1,159.9</b>	<b>1,591.7</b>	<b>1,715.8</b>
<b>Parent OP</b>	<b>13.7</b>	<b>28.5</b>	<b>46.1</b>	<b>63.6</b>	<b>75.3</b>	<b>106.5</b>	<b>107.4</b>	<b>107.9</b>	<b>151.9</b>	<b>397.1</b>	<b>446.1</b>
OPM (%)	5.7	10.3	14.9	19.2	21.3	25.9	26.0	26.1	13.1	24.9	26.0
<b>Subsidiary sales</b>	<b>41.4</b>	<b>47.4</b>	<b>56.2</b>	<b>61.0</b>	<b>64.4</b>	<b>66.1</b>	<b>67.3</b>	<b>71.4</b>	<b>206.0</b>	<b>269.2</b>	<b>288.5</b>
<b>Subsidiary OP</b>	<b>1.5</b>	<b>2.7</b>	<b>4.3</b>	<b>13.7</b>	<b>9.5</b>	<b>8.2</b>	<b>8.5</b>	<b>8.7</b>	<b>22.2</b>	<b>34.9</b>	<b>39.1</b>
OPM (%)	3.6	5.7	7.7	22.5	14.8	12.4	12.6	12.2	10.8	13.0	13.6
Sales by product	283.1	324.7	365.9	392.1	417.7	477.4	480.4	485.4	1,365.9	1,861.0	2,004.3
Module PCB	62.4	81.1	87.5	95.9	88.2	103.5	105.8	106.5	326.9	403.9	430.3
Package substrate	219.3	240.3	275.8	293.2	326.6	369.8	371.4	375.6	1,028.6	1,443.4	1,560.3
Others	1.4	3.3	2.6	3.0	2.9	4.2	3.2	3.3	10.3	13.6	13.7
Sales share by product (%)											
Module PCB	22.0	25.0	23.9	24.5	21.1	21.7	22.0	21.9	23.9	21.7	21.5
Package substrate	77.5	74.0	75.4	74.8	78.2	77.5	77.3	77.4	75.3	77.6	77.8
Others	0.5	1.0	0.7	0.8	0.7	0.9	0.7	0.7	0.8	0.7	0.7
MSAP sales share (%)	61.5	61.7	62.9	67.5	66.6	64.3	67.5	67.2	63.6	66.4	69.3
Parent	56.7	56.3	56.8	61.9	62.0	59.6	62.8	62.0	58.1	61.6	64.5
Subsidiary	90.0	93.5	96.6	97.5	91.6	93.8	96.8	97.5	94.8	95.0	97.4
Sales share by application (%)											
Mobile	37.9	35.8	35.1	35.1	35.8	33.1	32.6	32.0	35.8	33.3	31.8
PC	29.4	30.1	30.0	30.1	30.6	30.1	29.7	29.2	29.9	29.9	29.5
Server	18.9	20.5	18.2	19.1	18.9	19.1	19.6	20.4	19.1	19.5	19.4
Graphic card	9.1	8.5	10.1	10.9	10.4	10.9	10.5	11.0	9.7	10.7	10.8
Others	4.6	5.1	6.7	4.8	4.3	6.8	7.5	7.4	5.3	6.6	8.5

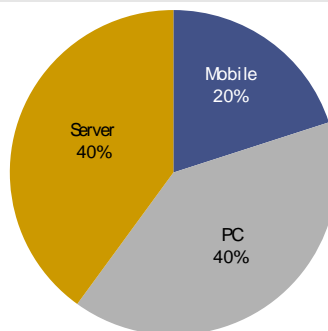
Source: Company data, Shinhan Investment Corp.

Sales share by application (2022F)



Source: Shinhan Investment Corp.

FCCSP sales share by application (2022F)



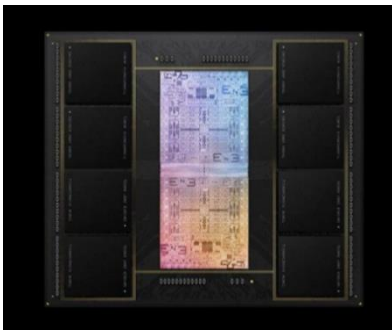
Source: Shinhan Investment Corp.

**Earnings forecast revision**

(bn KRW, %)	Previous		Revised		Change (%)	
	2022F	2023F	2022F	2023F	2022F	2023F
Sales	1,777	1,940	1,861	2,004	4.7	3.3
OP	373	409	432	485	15.9	18.6
NP	275	315	322	377	17.1	19.6
OPM	21.0	21.1	23.2	24.2	-	-
NPM	15.5	16.2	17.3	18.8	-	-

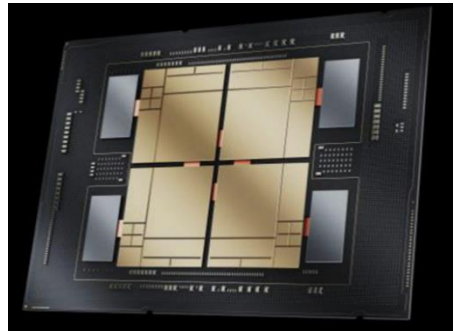
Source: Shinhan Investment Corp.

**Apple's M1 Ultra**



Source: Apple, Shinhan Investment Corp.

**Intel's Sapphire Rapids**



Source: Intel, Shinhan Investment Corp.

**LG Innotek's SiP module**



Source: LG Innotek, Shinhan Investment Corp.

**LG Innotek's AiP module**



Source: LG Innotek, 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>1,196.5</b>	<b>1,557.2</b>	<b>1,983.4</b>
Current assets	198.8	245.1	534.6	904.8	1,337.8
Cash and equivalents	17.1	16.7	251.9	611.3	1,026.7
Accounts receivable	47.4	60.3	74.6	77.4	82.1
Inventories	123.8	144.5	178.9	185.7	196.8
Non-current assets	581.0	612.4	661.9	652.4	645.6
Tangible assets	512.5	501.3	543.9	533.5	524.8
Intangible assets	22.1	23.5	23.0	22.2	21.4
Investment assets	4.5	35.7	44.1	45.8	48.5
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>526.8</b>	<b>533.2</b>	<b>554.1</b>
Current liabilities	350.1	342.0	387.1	395.8	416.5
Short-term borrowings	37.5	20.6	10.9	6.9	6.9
Accounts payable	70.5	45.6	56.4	58.5	62.1
Current portion of long-term debt	49.6	7.8	(2.5)	(2.5)	(2.5)
Non-current liabilities	141.4	134.2	139.7	137.5	137.6
Bonds	1.4	0.0	0.0	0.0	0.0
Long-term borrowings	41.4	54.4	41.0	35.0	29.0
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>669.7</b>	<b>1,024.0</b>	<b>1,429.3</b>
Capital stock	17.1	17.1	17.1	17.1	17.1
Capital surplus	118.4	110.6	111.1	111.1	111.1
Other capital	(0.1)	(0.3)	(0.8)	(0.8)	(0.8)
Accumulated other comprehensive income	(2.0)	7.4	8.7	8.7	8.7
Retained earnings	154.5	244.4	530.8	884.1	1,288.4
<b>Controlling interest equity</b>	<b>287.9</b>	<b>379.3</b>	<b>666.9</b>	<b>1,020.3</b>	<b>1,424.6</b>
Non-controlling interest equity	0.4	2.0	2.8	3.7	4.7
*Total debt	160.6	165.8	142.5	134.3	131.2
*Net debt (cash)	143.5	146.6	(112.5)	(480.2)	(898.9)

## 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>388.3</b>	<b>468.5</b>	<b>523.7</b>
Net profit	56.5	118.3	322.2	376.5	427.6
Depreciation expense	73.9	77.9	87.4	90.3	88.8
Amortization expense	1.7	0.9	0.9	0.8	0.8
FX translation loss (gain)	(0.1)	2.3	0.8	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)	(32.6)	0.8	6.5
(Payment of income tax)	(6.0)	(23.6)	(99.6)	(112.5)	(127.7)
Others	39.9	56.5	109.2	112.6	127.7
<b>Cash flow from investments</b>	<b>(82.9)</b>	<b>(80.5)</b>	<b>(131.1)</b>	<b>(81.8)</b>	<b>(82.9)</b>
Increase in tangible assets	(86.0)	(76.6)	(113.2)	(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	(7.0)	(1.7)	(2.7)
Others	(0.8)	(35.6)	(10.9)	(0.1)	(0.2)
<b>Free cash flow</b>	<b>87.5</b>	<b>90.3</b>	<b>304.0</b>	<b>385.0</b>	<b>422.7</b>
<b>Cash flow from financing</b>	<b>(124.9)</b>	<b>(34.6)</b>	<b>(22.2)</b>	<b>(27.3)</b>	<b>(25.4)</b>
Change in borrowings	(185.5)	(0.7)	(20.9)	(8.2)	(3.1)
Change in treasury stock	0.0	0.0	0.0	0.0	0.0
Dividends	(3.7)	(10.4)	0.0	(19.1)	(22.3)
Others	64.3	(23.5)	(1.3)	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	0.1	0.0	0.0
<b>Change in total cash</b>	<b>7.4</b>	<b>(0.4)</b>	<b>235.2</b>	<b>359.4</b>	<b>415.4</b>
Beginning cash	9.7	17.1	16.7	251.9	611.3
Ending cash	17.1	16.7	251.9	611.3	1,026.7

Source: Company data, Shinhan Investment Corp.

## Statement of comprehensive income

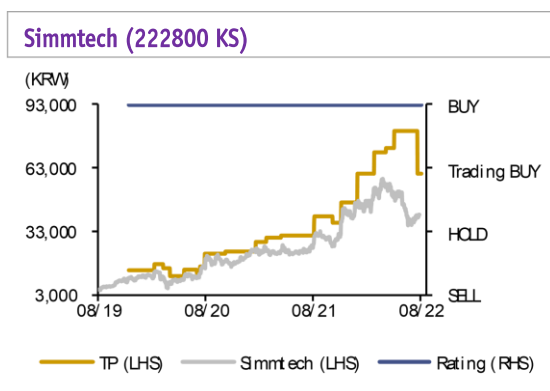
Year to December (bn KRW)	2020	2021	2022F	2023F	2024F
<b>Sales</b>	<b>1,201.4</b>	<b>1,365.8</b>	<b>1,860.9</b>	<b>2,004.3</b>	<b>2,149.5</b>
Growth (%)	20.1	13.7	36.2	7.7	7.2
<b>COGS</b>	<b>1,005.0</b>	<b>1,081.7</b>	<b>1,347.1</b>	<b>1,472.9</b>	<b>1,574.0</b>
<b>Gross profit</b>	<b>196.4</b>	<b>284.1</b>	<b>513.8</b>	<b>531.4</b>	<b>575.4</b>
GPM (%)	16.3	20.8	27.6	26.5	26.8
<b>SG&amp;A</b>	<b>106.7</b>	<b>109.8</b>	<b>81.8</b>	<b>46.2</b>	<b>39.4</b>
<b>Operating profit</b>	<b>89.7</b>	<b>174.3</b>	<b>432.0</b>	<b>485.2</b>	<b>536.0</b>
Operating (%)	TB	94.2	147.8	12.3	10.5
OPM (%)	7.5	12.8	23.2	24.2	24.9
Non-operating profit	(14.9)	(20.3)	(7.4)	3.8	19.3
Financial profit	(15.1)	(17.5)	(3.5)	11.8	27.3
Other non-operating profit	0.3	(2.8)	(3.9)	(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>424.6</b>	<b>489.0</b>	<b>555.3</b>
Income tax	18.4	35.7	102.5	112.5	127.7
Continuing operations	56.5	118.3	322.2	376.5	427.6
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>322.2</b>	<b>376.5</b>	<b>427.6</b>
Growth (%)	TB	109.4	172.3	16.9	13.6
NPM (%)	4.7	8.7	17.3	18.8	19.9
Controlling interest	56.6	117.2	321.4	375.6	426.6
Non-controlling interest	(0.1)	1.1	0.8	0.9	1.0
Comprehensive income	60.0	125.5	323.5	376.5	427.6
Controlling interest	60.6	124.0	322.6	375.6	426.5
Non-controlling interest	(0.6)	1.5	0.9	1.0	1.1
<b>EBITDA</b>	<b>165.4</b>	<b>253.2</b>	<b>520.3</b>	<b>576.4</b>	<b>625.6</b>
Growth (%)	193.7	53.0	105.5	10.8	8.5
EBITDA margin (%)	13.8	18.5	28.0	28.8	29.1

## Key ratios

Year to December	2020	2021	2022F	2023F	2024F
EPS (KRW)	1,932	3,650	10,114	11,821	13,423
EPS of controlling interest (KRW)	1,935	3,616	10,089	11,793	13,391
BPS (KRW)	8,853	11,969	21,025	32,146	44,869
BPS of controlling interest (KRW)	8,840	11,907	20,937	32,029	44,721
DPS (KRW)	320	500	600	700	700
PER (x)	11.8	12.5	4.0	3.4	3.0
PER of controlling interest (x)	11.8	12.6	4.0	3.4	3.0
PBR (x)	2.6	3.8	1.9	1.3	0.9
PBR of controlling interest (x)	2.6	3.8	1.9	1.3	0.9
EV/EBITDA (x)	5.3	6.3	2.3	1.4	0.6
Dividend payout ratio (%)	18.4	13.6	5.9	5.9	5.2
Dividend yield (%)	1.4	1.1	1.5	1.7	1.7
<b>Profitability</b>					
EBITDA margin (%)	13.8	18.5	28.0	28.8	29.1
OPM (%)	7.5	12.8	23.2	24.2	24.9
NPM (%)	4.7	8.7	17.3	18.8	19.9
ROA (%)	7.0	14.5	31.4	27.3	24.2
ROE (%)	25.1	35.1	61.4	44.5	34.9
ROIC (%)	14.0	25.4	60.9	67.3	75.8
<b>Stability</b>					
Debt to equity ratio (%)	170.5	124.9	78.7	52.1	38.8
Net debt ratio (%)	49.8	38.4	(16.8)	(46.9)	(62.9)
Cash ratio (%)	4.9	4.9	65.1	154.5	246.5
Interest coverage ratio (x)	8.3	18.3	48.1	62.2	71.6
<b>Activity (%)</b>					
Working capital turnover (times)	(33.9)	(49.3)	(347.8)	(332.3)	(339.6)
Inventory turnover (days)	41.2	35.8	31.7	33.2	32.5
Receivable turnover (days)	19.2	14.4	13.2	13.8	13.5

Source: Company data, Shinhan Investment Corp.

## Target price & rating history



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	(46.0)	(35.8)
2022.07.22	BUY	60,000	-	-

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

### Rating Distribution - SHIC Universe (as of 29 July 2022)

BUY (BUY)	97.84%	Trading BUY (HOLD)	0.43%	HOLD (HOLD)	1.73%	SELL (SELL)	0.00%
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### Rating Distribution - SHIC Investment Banking Clients (as of 29 July 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	Sector
<ul style="list-style-type: none"> <li>BUY: Expected 6-month gain of 10% or more</li> <li>Trading BUY: Expected 6-month gain of 10% to loss of 10%</li> <li>HOLD: Expected 6-month loss of 10% to 20%</li> <li>SELL: Expected 6-month loss of 20% or more</li> </ul>	<ul style="list-style-type: none"> <li>OVERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated BUY</li> <li>NEUTRAL: Based on market cap, largest share of sector stocks under coverage is rated Trading BUY or HOLD</li> <li>UNDERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated SELL</li> </ul>

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