

Simmtech (036710.KQ)

Comment
Jun 28, 2011



Buy (Maintain)

TP W21,000 (Maintain)
CP (06/27/11) W11,500

Analyst

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Strong performance expected despite sluggish IT demand

2Q11 preview: Both sales and operating profit to meet estimates

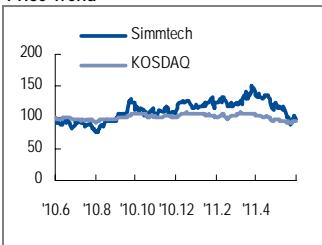
- Simmtech will likely post 2Q11 sales and operating profit of W155.4billion (up 8% y-y) and W18.8billion (down 23% y-y) respectively, coming in near our estimates.
- Although sales increased y-y, we expect a q-q decline in 2Q11 operating profit, noting that the won/dollar rate has fallen around 6% q-q.
- While sluggish global IT demand has weakened 2Q11 earnings forecasts for the IT sector, we believe Simmtech will continue to perform strongly going forward thanks to: 1) the likely continuation of its steadily increasing semiconductor chip shipments and the related stable growth of its substrate sales; 2) a lack of pressure to cut prices despite decreased Dram prices and the weak performance of its clients; and 3) the fact that memory modules for use in server PCBs (RDIMM) and multi chip package (MCP) for use in mobile devices are leading sales growth.

Earnings growth to continue in 2H11—differentiation from other IT parts makers to continue going forward

- In 1Q11, Simmtech's share price fell 21% due to weak investor confidence in the IT sector and an increased number of shares stemming from a BW conversion; however, we stick by our Buy rating, believing: 1) 2Q11, 3Q11, and 4Q11 earnings will all satisfy market expectations; and 2) mid- to long-term growth momentum exists for the company's products, especially MCP and flip chip CSP (FC-CSP).
- Therefore, we maintain our Buy recommendation and target price of W21,000, suggesting Simmtech as our top pick among electronics and parts players.

Sector	Electric/electronic parts
Kospi	2,070.29
Kosdaq	475.43
Market cap (common)	US\$312mn
Outstanding shares (common)	29.4mn shr
52W high (04/21/11)	W17,650
low ((08/2/107)	W9,090
Dividend yield (2010)	1.20%
Foreign ownership	5.32%

Price Trend



Earnings forecast				(Units: Wbn, won, x, %)
	2009	2010	2011E	2012F
Sales	- Revised - Previous - Change	497 577 0	577 685 -1	679 859 0
Operating profit	- Revised - Previous - Change	51 85 0	85 86 -1	104 104 0
EBITDA		74	112	118
Net profit		49	71	61
EPS	- Revised - Previous - Change	1,814 2,597 0	2,597 1,993 0	1,993 2,470 0
P/E		3.7	5.4	5.8
P/B		13.8	3.0	1.8
EV/EBITDA		5.0	5.2	4.1
ROE		-335.3	94.1	35.4
				32.3

Note: K-IFRS non-consolidated basis

Source: Woori I&S Research Center estimates

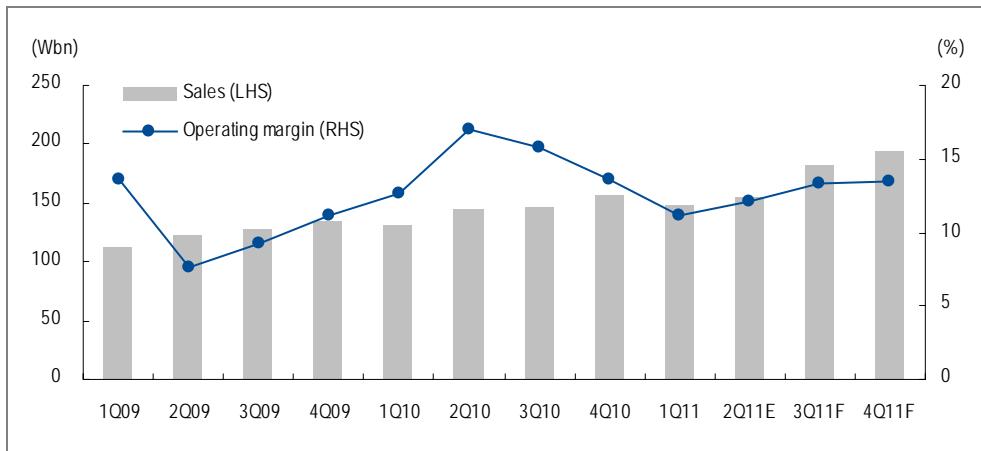
Maintain annual earnings estimates—with other parts makers suffering reduced estimates, company to stand further apart

- We expect IT parts makers' 2011 earnings to generally miss our previous estimates due to sluggish global IT demand. Nevertheless, we predict Simmtech's 2011 sales and operating profit will hit W679.4bn (up 18% y-y) and W85.4bn (down 1% y-y), respectively, in line with our previous forecasts. Accordingly, we believe the company will stand further apart from other parts makers in terms of share prices in 2H11.
- We expect the company to continue quarterly growth, with 3Q11 sales and operating profit estimated to jump 17% and 29%, respectively, and 4Q11 sales and operating profit to climb 7% and 8%.

Securing mid- to long-term growth drivers

- Of note, MCP is a package in which the components (including mobile DRAM and NAND Flash) are packaged onto a substrate—it generates product margins more than 30% higher than those of existing products. In 2011, we estimate Simmtech's MCP sales will soar 93% to W95bn.
- FC-CSP is applied to smartphones' mobile CPU and baseband chips, and it is expected to be used as a substrate for DDR4 going forward. Accordingly, Simmtech has secured a monthly FC-CSP manufacturing capacity of 5,000m². After obtaining supply approval from clients in 2H11, we expect the company to generate FC-CSP sales from next year.
- Simmtech is in the process of developing BOC4 products (DDR4-use memory module PCB and DDR4 substrate), with the specifications for DDR4 likely to be determined after 2012. Consequently, regardless whether BOC4 or FC-CSP is selected as a DDR4 substrate, we believe the company will benefit from transition of DDR3 to DDR4.

Sales and operating margin trends



Source: Simmtech and Woori I&S Research Center

2Q11 earnings preview

(Units: Wbn, %)

	2Q10	3Q10	4Q10	1Q11	2Q11E				
					Revised	y-y	q-q	Estimate	Consensus
Sales	144	146	156	148	155	8	5	162	160
Operating profit	24	23	21	16	19	-23	14	20	21
Pre-tax profit	0	36	15	14	17	-5,474	17	17	19
Net profit	0	31	19	11	14	3,952	25	15	16

Note: K-IFRS non-consolidated basis

Source: FnGuide, and Woori I&S Research Center

Quarterly earnings (revised)

(Units: Wbn, %)

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11E	3Q11F	4Q11F	2010	2011E	2012F
Sales	131	144	146	156	148	155	182	194	577	679	859
Module PCB	59	60	57	68	64	62	67	79	244	271	302
Package substrate	68	80	84	83	80	89	108	110	315	388	535
Build-up/NW	1	2	1	1	1	2	1	1	5	5	6
BIB	2	3	5	3	3	3	5	4	13	15	17
% of sales											
Module PCB	45	41	39	44	43	40	37	41	42	40	35
Package substrate	52	56	57	53	54	57	60	57	55	57	62
Build-up/NW	1	1	1	1	1	1	1	1	1	1	1
BIB	2	2	3	2	2	2	3	2	2	2	2
Operating profit	16	24	23	21	16	19	24	26	85	85	104
Operating margin	12.6	17.0	15.8	13.5	11.1	12.1	13.3	13.4	14.8	12.6	12.1
Pre-tax profit	28	0	36	15	14	17	22	22	79	75	96
Pre-tax margin	21.2	0.1	24.8	9.8	9.6	10.8	12.3	11.4	13.8	11.1	11.2
Net profit	21	0	31	19	11	14	18	18	71	61	80
Net margin	16.0	0.2	21.1	11.9	7.4	8.8	10.1	9.3	12.3	9.0	9.3

Source: Simmtech and Woori I&S Research Center estimates

Quarterly earnings (previous)

(Units: Wbn, %)

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11E	3Q11F	4Q11F	2010	2011E	2012F
Sales	131	144	146	156	148	162	183	192	577	685	861
Module PCB	59	60	57	68	64	65	67	77	244	273	302
Package substrate	68	80	84	83	80	93	109	110	315	392	537
Build-up/NW	1	2	1	1	1	2	1	1	5	5	6
BIB	2	3	5	3	3	3	5	4	13	15	17
% of sales											
Module PCB	45	41	39	44	43	40	37	40	42	40	35
Package substrate	52	56	57	53	54	57	60	57	55	57	62
Build-up/NW	1	1	1	1	1	1	1	1	1	1	1
BIB	2	2	3	2	2	2	3	2	2	2	2
Operating profit	16	24	23	21	16	20	24	26	85	86	104
Operating margin	12.6	17.0	15.8	13.5	11.0	12.2	13.3	13.3	14.8	12.6	12.0
Pre-tax profit	28	0	36	15	14	17	21	22	79	75	93
Pre-tax margin	21.2	0.1	24.8	9.8	9.6	10.6	11.6	11.7	13.8	10.9	10.8
Net profit	21	0	31	19	12	15	18	19	71	64	79
Net margin	16.0	0.2	21.1	11.9	8.3	9.1	10.0	9.6	12.3	9.3	9.2

Source: Simmtech and Woori I&S Research Center estimates

Rating and target price update

Company	Code	Date	Rating	Target price
Simmtech	036710.KO	2011.01.12	Buy	W21,000(12M)
		2010.05.03	Buy	W18,000(12M)

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1. Period: Uniform 12-month
2. Rating System: Based on a stock's absolute return from the date of publication
 - Strong Buy: high conviction Buy rated stocks
 - Buy: greater than +15%
 - Hold: 0% and +15%
 - Reduce: less than 0%

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