

Simmtech (036710.KQ)

Comment

Aug 3, 2011



Buy (Maintain)

TP W21,000 (Maintain)
CP (08/02/11) W14,400

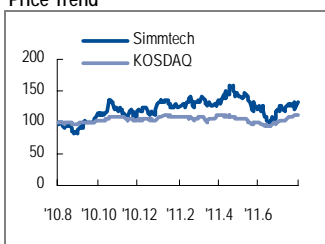
Analyst

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Sector Electric/electronic parts

Kospi 2,121.27
Kosdaq 538.06
Market cap (common) US\$400mn
Outstanding shares (common) 29.4mn shrs
52W high ('11/04/21) W17,650
low ('10/08/27) W9,090
Dividend yield (2010) 1.20%
Foreign ownership 5.1%

Price Trend



Strong momentum expected in 2H11, while IT conditions to remain sluggish

Sales of servers and mobile-related products lead earnings growth in 1H11—results meet expectations

- Simmtech's sales and operating profit in 1H11 reached W302.9bn and W34.4bn, respectively, meeting our estimates. Despite lower-than-expected sales of board on chip (BOC, used for PC DRAM) and memory module PCB (due to sluggish global PC demand), the company's earnings were in line with our forecast as sales of mobile-related products, such as MCP (substrate for multi-chip packaging in smartphones), rose 43% y-y to W83.1bn.

Quarterly earnings to gain momentum in 2H11

- In 3Q11, Simmtech's sales are expected to climb 21% y-y to W177.6bn, while sales in 4Q11 should rise 20% y-y to W187.5bn. Significantly, quarterly earnings are forecasted to gain momentum in 2H11.
- Even if global IT demand remains sluggish, we expect the company to record upbeat earnings in 2H11. Specifically, given that Simmtech's major products are used in smartphones and servers (rather than in TVs or PC-related products), we believe that its earnings will be driven by mid- to long-term growth momentum for smartphones and servers rather than by the economic recovery cycle. Of note we expect server demand to be driven by growing wireless data traffic and expanding cloud computing, while smartphone demand should be lead by the increasing mobility and functionality of IT equipment.
- We maintain Buy and a target price of W21,000 on Simmtech, recommending it as our top pick in the electronics and parts sector.

Earnings forecast

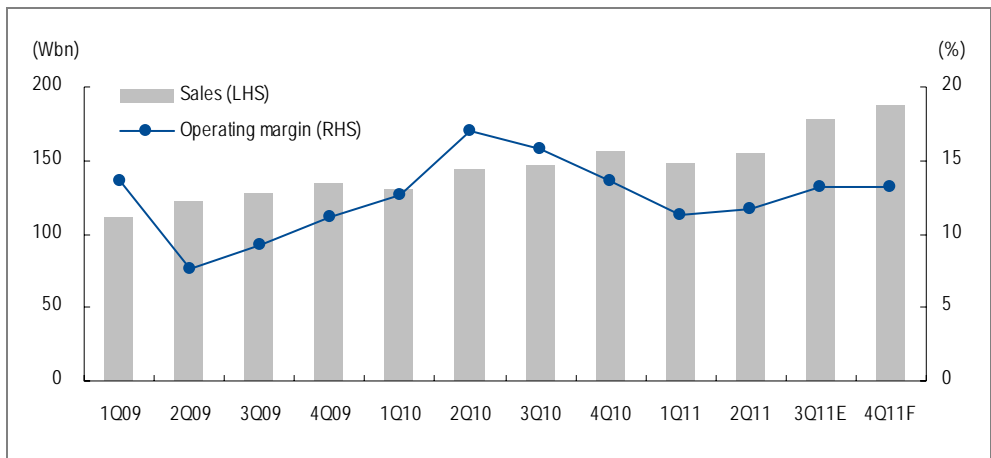
(Units: Wbn, won, x,%)

		2009	2010	2011E	2012F
Sales	- Revised	497	577	668	842
	- Previous		577	679	859
	- Change		0	-2	-2
Operating Profit	- Revised	49	87	83	101
	- Previous		85	85	104
	- Change		2	-3	-2
EBITDA		74	112	116	134
Net Profit		49	71	59	77
EPS	- Revised	1,814	2,597	1,954	2,382
	- Previous		2,597	1,993	2,470
	- Change		0	-2	-4
P/E		3.7	5.4	7.5	6.1
P/B		13.8	3.0	2.3	1.7
EV/EBITDA		5.0	5.2	5.0	3.9
ROE		-335.3	94.1	34.3	31.6

Note: K-GAAP non-consolidated basis

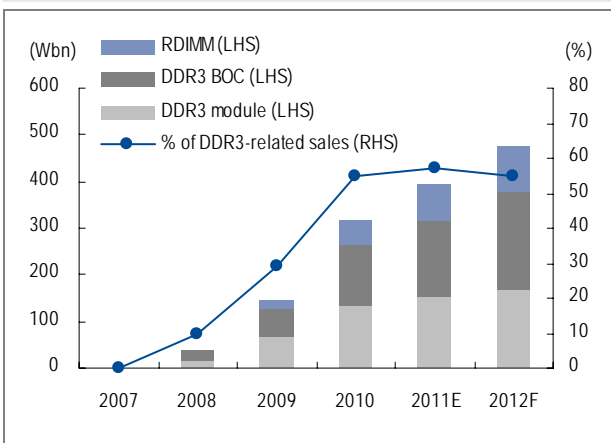
Source: Woori I&S Research Center estimates

Sales and operating margin trend



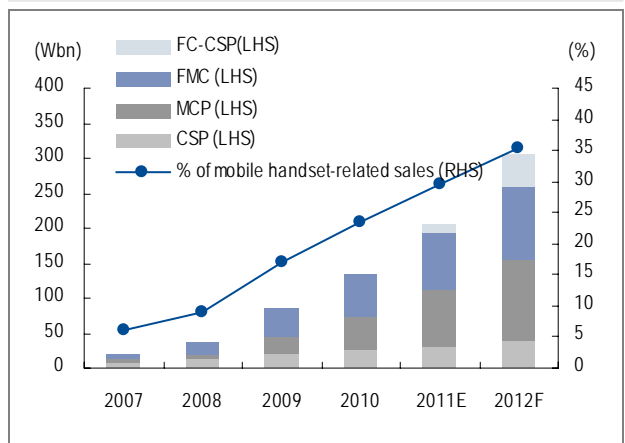
Source: Simmtech and Woori I&S Research Center estimates

DDR3 sales trend and forecast



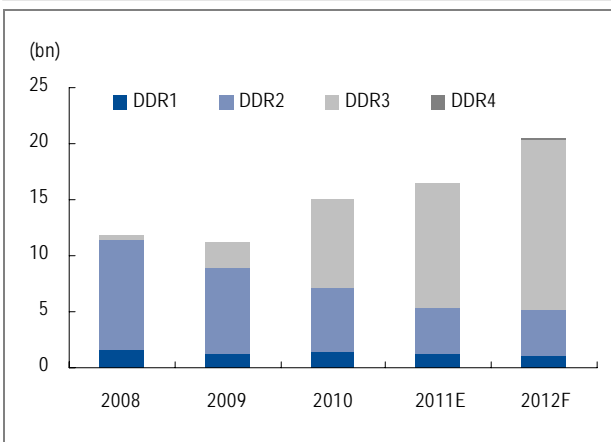
Source: Simmtech and Woori I&S Research Center estimates

Mobile handset-related sales trend and forecast



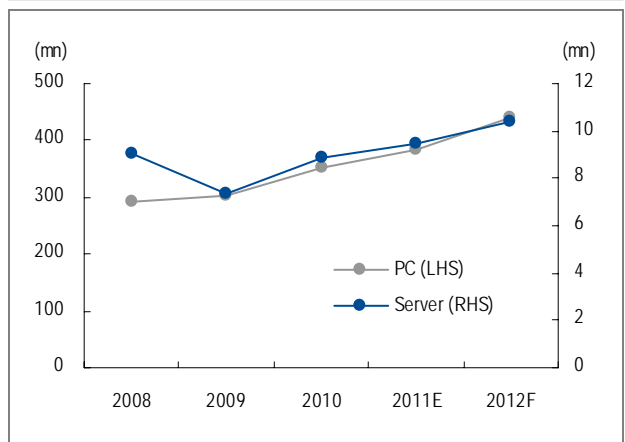
Source: Simmtech and Woori I&S Research Center estimates

Global DRAM shipment trend and forecast



Source: Gartner

Global PC and server shipment trend and forecast



Source: Gartner

Quarterly earnings (revised)										(Units: Wbn, %)		
		1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11E	4Q11F	2010	2011E	2012F
Sales	Application	131	144	146	156	148	155	178	187	577	668	842
Module PCB		59	60	57	68	64	70	73	83	244	290	314
DDR3 Module	PC	26	32	33	43	41	43	42	49	134	176	179
RDIMM	Server	15	11	12	13	11	16	19	21	50	68	91
Package Substrate		68	80	84	83	80	82	98	99	315	360	507
DDR3 BOC	PC/Server	25	33	35	40	32	30	32	33	134	128	181
FMC	Mobile	13	14	16	17	16	15	22	23	60	76	99
MCP	Mobile	7	11	13	17	19	21	25	23	49	88	128
FC-CSP	Mobile	-	-	-	1	0	0	3	6	1	10	43
Build-up/NW	Mobile	1	2	1	1	1	1	1	1	5	4	5
BIB	DRAM test	2	3	5	3	3	2	5	4	13	14	16
Operating profit		15	30	21	21	17	18	24	25	87	83	101
Operating margin		11.8	20.7	14.2	13.7	11.3	11.7	13.2	13.2	15.1	12.4	12.0
Pre-tax profit		28	0	36	15	14	15	22	22	79	73	92
Pre-tax margin		21.2	0.1	24.8	9.8	9.6	9.9	12.1	11.6	13.8	10.9	11.0
Net profit		21	0	31	19	11	12	18	19	71	59	77
Net margin		16.0	0.2	21.1	11.9	7.4	7.5	10.0	10.0	12.3	8.8	9.1

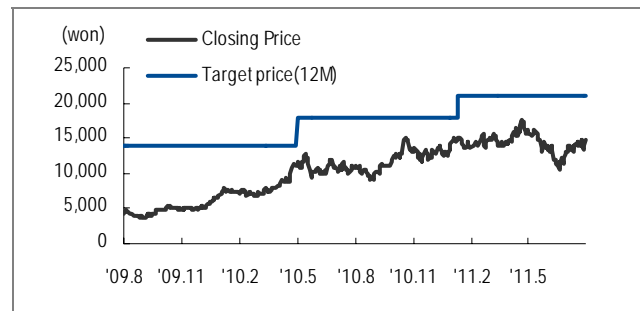
Source: Simmtech and Woori I&S Research Center estimates

Quarterly earnings (previous)										(Units: Wbn, %)		
		1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11E	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
Percent 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

Rating and target price update

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



Woori Investment & Securities Stock Ratings

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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