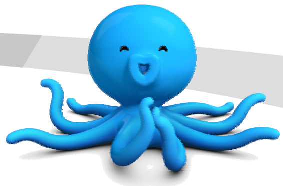
WOORI INVESTMENT & SECURITIES

Simmtech (036710.KQ)

Comment

Sep 23, 2011



Buy (Maintain)

TP	W21,000 (Maintain)
CP (09/22/11)	W12,000

Analyst

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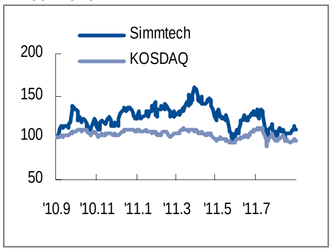
Sector	Electric/electronic parts
Kospi	1,800.55
Kosdaq	471.41
Market cap (common)	US$296mn
Outstanding shares (common)	29.4mn shr
52W high (04/21/11)	W17,650
low (06/20/11)	W10,500
Dividend yield (2010)	1.20%
Foreign ownership	6.0%

Price Trend



Slow 3Q11 earnings; higher earnings expected from 4Q11

3Q11 earnings to be similar to 2Q11, but to start to grow from 4Q11

– We project Simmtech will post 3Q11 sales of W159.4bn (up 9% y-y) and operating profit of W17.8bn (down 14% y-y), both lower than our forecasts. However, we expect the company's earnings to recover momentum from 4Q11, believing: 1) the likely sluggish 3Q11 earnings are attributable to a temporary rebalancing of multi-chip package (MCP) inventory at major customers (Hynix, Micron, and Toshiba); 2) the anticipated 4Q11 releases of major new smartphone models and tablet PCs by Samsung Electronics (SEC) will increase MCP demand. Moreover, starting from 4Q11, Simmtech is expected to supply MCP to SEC (currently, SEC's major supplier is Samsung Electro-Mechanics).

Recent rise in exchange rate to be favorable for Simmtech

– The recent rise in the won/dollar rate should continue to positively impact Simmtech's sales and operation profit. Of note, we estimate that US dollar-denominated payments account for 90% of the company's overall sales revenue. Even when taking into account the natural hedging from the cost of raw material imports (accounts for 30% of sales revenue), we believe 45% of overall sales are exposed to won/dollar rate volatility.

– To illustrate Simmtech's sensitivity to an increase in the won/dollar rate, we have put together a simple model (please refer to the table on page two) showing the effects of a 10% rise in the rate. We estimate that the company's operating margin would climb 3%p if the won/dollar rate were to rise 10% (assuming a 3Q11 exchange rate of W1,084/US$ and a 4Q11 exchange rate of W1,100/US$).

– Noting the above-listed positives, we maintain Buy and a target price of W21,000.

Earnings forecast (Units: Wbn, won, x, %)

		2009	2010	2011E	2012F
Sales	- Revised	497	577	638	761
	- Previous			668	842
	- Change			-5	-10
Operating profit	- Revised	49	87	74	92
	- Previous			83	101
	- Change			-10	-9
EBITDA		74	112	108	125
Net profit		49	71	52	69
EPS	- Revised	1,814	2,597	1,733	2,140
	- Previous			1,954	2,382
	- Change			-11	-10
P/E		3.7	5.4	6.9	5.6
P/B		13.8	3.0	1.9	1.5
EV/EBITDA		5.0	5.2	4.7	3.6
ROE		-335.3	94.1	30.9	29.7

Note: K-GAAP non-consolidated basis

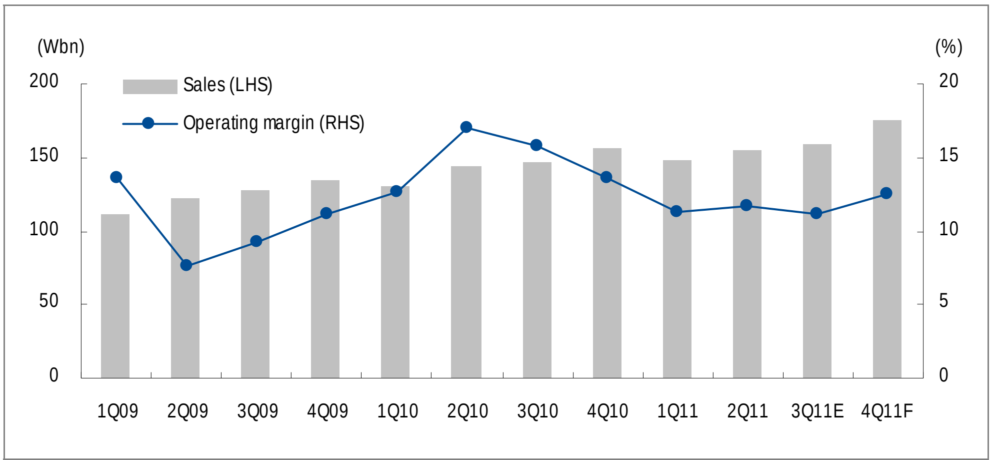
Source: Woori I&S Research Center estimates

Simmtech's sensitivity to won/dollar rate (Case B assumes a 10% higher won/dollar rate than that for Case A)

	Case A	Case B	Change
Sales	100.0	109.0	9.0%
COGS	82.9	87.4	5.4%
COGS unpaid in dollar	37.9	37.9	
Raw material costs paid in dollar	30.0	33.0	
Other expenses paid in dollar	15.0	16.5	
Gross profit	17.1	21.6	26.4%
SG&A	5.7	5.9	
Operating profit	11.4	15.6	37.6%
Operating margin	11.4%	14.3%	3.0%p

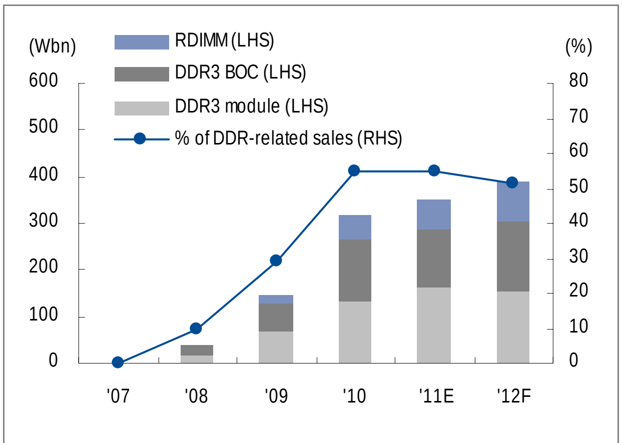
Source: Woori I&S Research Center

Sales and operating margin trends



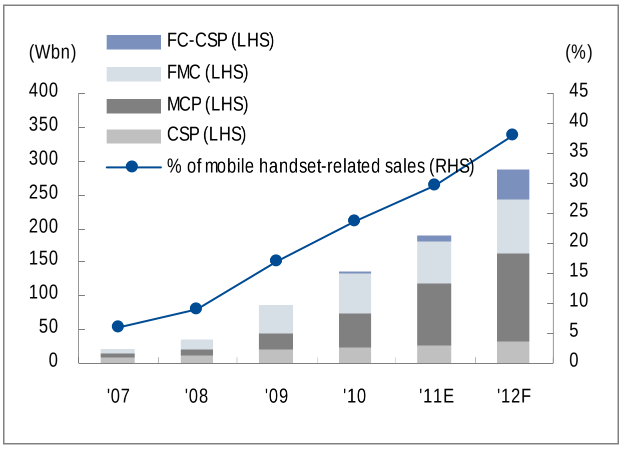
Source: Simmtech and Woori I&S Research Center estimates

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

Quarterly earnings (revised)

(Units: Wbn, %)

		1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11E	4Q11F	2010	2011E	2012F
Sales	Application	131	144	146	156	148	155	159	175	577	638	761
Module PCB		59	60	57	68	64	70	66	73	244	273	284
DDR3 Module	PC	26	32	33	43	41	43	38	42	134	164	157
RDIMM	Server	15	11	12	13	11	16	17	19	50	64	86
Package Substrate		68	80	84	83	81	82	88	98	315	349	459
DDR3 BOC	PC/Server	25	33	35	40	32	30	32	32	134	127	152
FMC	Moblie	13	14	16	17	16	15	15	17	60	62	81
MCP	Moblie	7	11	13	17	19	21	22	28	49	91	132
FC-CSP	Moblie				1	0	0	3	6	1	9	44
Build-up/NW	Moblie	1	2	1	1	1	1	1	1	5	4	5
BIB	DRAM test	2	3	5	3	3	2	4	3	13	11	13
Operating profit		15	30	21	21	17	18	18	22	87	74	92
Operating margin		11.5	20.9	14.3	13.5	11.5	11.6	11.3	12.6	15.1	11.7	12.1
Pre-tax profit		28	0	36	15	14	15	16	19	79	64	83
Pre-tax margin		21.2	0.1	24.8	9.8	9.6	9.9	10.0	10.7	13.8	10.1	10.9
Net profit		21	0	31	19	11	12	13	16	71	52	69
Net margin		16.0	0.2	21.1	11.9	7.4	7.5	8.2	9.3	12.3	8.2	9.1

Source: Simmtech and Woori I&S Research Center estimates

Quarterly earnings (previous)

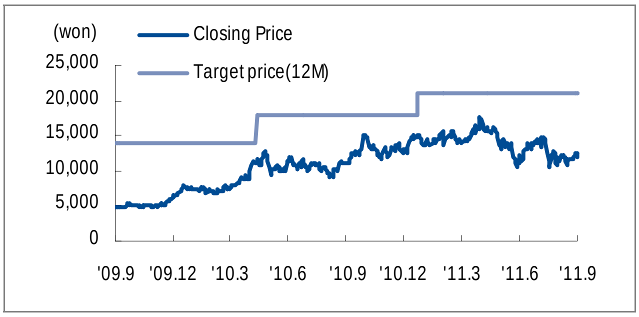
(Units: Wbn, %)

		1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11E	4Q11F	2010	2011E	2012F
Sales	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	Moblie	13	14	16	17	16	15	22	23	60	76	99
MCP	Moblie	7	11	13	17	19	21	25	23	49	88	128
FC-CSP	Moblie	-	-	-	1	0	0	3	6	1	10	43
Build-up/NW	Moblie	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

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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