

Company Update



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■ AT A GLANCE

SELL HOLD **BUY**

Target price	KRW10,000(22.1%)
Current price	KRW8,190
Bloomberg code	036710 KS
Market cap	KRW263.7b/USD236.8m
Shares (float)	32,199,999 (73.7%)
52-week high/low	KRW12,950/KRW7,510
Average daily trading value (60-day)	KRW 5.55b/ USD 4.98m
One-year performance	-8.0 +9.1 -22.0
Simmtech (%)	-13.3 +0.4 -39.4
Vs Kosdaq (%pts)	+0 +0 +0

■ KEY CHANGES

(KRW)	New	Old	Diff
Recommendation	BUY	BUY	
Target price	10,000	10,000	0.0%
2013E EPS	-234	588	n/m
2014E EPS	1,089	1,158	-5.9%
2015E EPS	1,267	1,343	-5.6%

■ SAMSUNG vs THE STREET

No of I/B/E/S estimates	6
Target price vs I/B/E/S mean	-4.8%
Estimates up/down (4 weeks)	0/0
1-year-fwd EPS vs I/B/E/S mean	n/m
Estimates up/down (4 weeks)	0/0
I/B/E/S recommendation	Buy

Simmtech (036710)

To turn around in 3Q

WHAT'S THE STORY?

Event: We estimate Simmtech's sales rose 7.7% q-q in 2Q to KRW127.6b, but believe the firm suffered a KRW8.2b operating loss.

Impact: We expect the firm to turn to an operating profit in 3Q, thanks to full restoration from a Feb 12 fire at its memory module lines, and process migration to high-value-added packaging. Longer term, we believe its mobile packaging sales will outpace downstream industry growth in 2014.

Action: We maintain BUY on Simmtech and a 12-month target price of KRW10,000, expecting a share-price catalyst from a turnaround in 3Q.

THE QUICK VIEW

2Q profitability to fall short of expectations: We estimate Simmtech suffered a KRW8.2b operating loss in 2Q on sales of KRW127.6b (up 7.7% q-q), mainly due to a delayed recovery in memory module shipments after a Feb 12 fire, and higher-than-expected outsourcing costs. We estimate the firm's mobile-related sales grew 11.8% q-q to KRW44.5b in 2Q, missing our expectation but exceeding global 2Q q-q smartphone shipment growth of 6.3% q-q.

Turnaround expected in 3Q: Despite a profitability decline in 2Q, we expect Simmtech to turn around in 3Q, as: 1) full restoration from the Feb 12 fire should normalize factors behind a 2Q earnings deterioration [*ie*, sluggish sales on outsourced products, and high outsourcing costs]; and 2) process migration from PC module PCBs to high-value-added packaging [completed in 2Q] should improve the company's product mix. We expect a full-blown earnings improvement in 4Q.

Mobile component growth to continue: We believe Simmtech's mobile-related packaging (*eg*, MCP and CSP) sales will grow 48.5% in 2014, driven by a diversified customer base including large global memory manufacturers. The firm's FC-CSP sales should grow in earnest to KRW12b in 2013 and KRW38.8b in 2014.

Profitability key: With a PC industry recovery unlikely and slowing smartphone market growth, concerns have been raised over profitability of the firm's packaging subset sales—its growth engine. A product mix change from PC- to mobile-related sales should only provide a limited boost margins. We forecast the firm's operating margin at 7.2% in 2014, compared to 8.9% in 1H12 before a PC-market decline.

Maintaining BUY and target price: Reflecting Simmtech's delayed turnaround, we lower our 2013 forecasts for sales to KRW544b and operating profit to a KRW7.5b loss. Still, we believe Simmtech will see its memory module business normalize and mobile-related sales grow in 2014. We expect a turnaround in 3Q to provide a share-price catalyst and thus maintain BUY on the stock with a target price of KRW10,000 (based on 9x 2014 EPS of KRW1,089).

■ SUMMARY FINANCIAL DATA

	2012	2013E	2014E	2015E
Revenue (KRWb)	630.6	544.0	688.0	729.6
Net profit (adj) (KRWb)	24.5	(7.5)	35.1	40.8
EPS (adj) (KRW)	899	(234)	1,089	1,267
EPS (adj) growth (%)	(37.3)	BR	RB	16.4
EBITDA margin (%)	11.4	6.6	12.5	12.6
ROE (%)	12.6	(3.6)	16.3	16.5
P/E (adj) (x)	9.1	n/m	7.5	6.5
P/B (x)	1.3	1.3	1.2	1.0
EV/EBITDA (x)	5.3	11.2	4.6	4.0
Dividend yield (%)	2.4	2.4	2.4	2.4

Source: Company data, Samsung Securities estimates

Quarterly results and forecasts

(KRWb)	2Q13E	1Q13	2Q12	q-q	y-y
Sales	127.6	118.5	162.4	7.7	(21.4)
Operating profit	(8.2)	(7.6)	15.1	nm	nm
Pre-tax profit	(7.5)	(9.8)	12.8	nm	nm
Net profit	(6.4)	(8.1)	9.9	nm	nm
Margins (%)					
Operating profit	(6.4)	9.3	9.3		
Pre-tax profit	(5.9)	7.9	7.9		
Net profit	(5.0)	6.1	6.1		

Source: Samsung Securities estimates

Annual forecast revisions

(KRWb)	Old		New		Diff (%)	
	2013E	2014E	2013E	2014E	2013E	2014E
Sales	606.3	709.7	544.0	688.0	(10.3)	(3.1)
Operating profit	25.9	54.4	(7.5)	49.5	nm	(9.1)
Pre-tax profit	22.1	48.0	(9.1)	45.1	nm	(5.9)
Net profit	19.0	37.3	(7.5)	35.1	nm	(5.9)

Source: Samsung Securities estimates

Quarterly results and forecasts

(KRWb)	1Q13	2Q13E	3Q13E	4Q13E	1Q14E	2Q14E	3Q14E	4Q14E	2012	2013E	2014E
Sales	118.5	127.6	142.6	155.3	161.5	172.1	175.3	179.1	630.6	544.0	688.0
Module PCB	40.3	42.9	46.8	49.2	48.2	52.0	51.3	51.3	254.1	179.2	202.8
Package substrate	76.3	83.0	93.8	104.6	112.0	118.4	121.9	126.2	363.2	357.7	478.5
Burn-in board (BIB)	0.5	0.3	0.3	0.3	0.3	0.3	0.4	0.4	1.4	1.4	1.4
Build-up board	1.4	1.4	1.7	1.2	0.9	1.4	1.7	1.2	11.9	5.7	5.2
Operating profit	(7.6)	(8.2)	0.6	7.7	9.3	13.3	12.8	14.1	46.3	(7.5)	49.5
Margins (%)											
Operating profit	(6.4)	(6.4)	0.4	5.0	5.8	7.7	7.3	7.9	7.3	(1.4)	7.2

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2011	2012	2013E	2014E	2015E
Sales	612	631	544	688	730
Cost of goods sold	514	544	516	607	640
Gross profit	98	86	28	81	89
Gross margin (%)	16.1	13.7	5.1	11.7	12.2
SG&A expenses	36	40	35	31	33
Operating profit	63	46	(8)	49	56
Operating margin (%)	10	7	(1)	7	8
Net interest income	(9)	(6)	(9)	(6)	(5)
Net forex-related gains	0	0	4	4	4
Net equity-method gains	0	0	0	0	0
Other	(2)	(7)	4	(3)	(3)
Pre-tax profit	52	33	(9)	45	53
Taxes	10	8	(2)	10	12
Effective tax rate (%)	19	25	17	22	22
Net profit	42	25	(8)	35	41
Net margin (%)	6.8	3.9	(1.4)	5.1	5.6
Operating net profit*	42	28	(8)	35	41
Operating net margin (%)	6.9	4.4	(1.4)	5.1	5.6
EBITDA	92	72	36	86	92
EBITDA margin (%)	15.1	11.4	6.6	12.5	12.6
Reported EPS (KRW)	1,435	792	(234)	1,089	1,267
Adjusted EPS (KRW)**	1,435	899	(234)	1,089	1,267
DPS (common, KRW)	200	200	200	200	200
DPS (preferred, KRW)	0	0	0	0	0
Dividend payout ratio (%)	13.7	26.1	(85.1)	18.3	15.7

Cash flow statement

Year-end Dec 31 (KRWb)	2011	2012	2013E	2014E	2015E
Cash flow from operations	63	70	35	59	75
Net profit	42	25	(8)	35	41
Depreciation & amortization	32	33	36	36	35
Net forex-translation income	4	0	(4)	(4)	(4)
Net equity-method income	0	0	0	0	0
Gross cash flow	105	86	25	(23)	77
(-) Change in working capital	(33)	(6)	6	(16)	(4)
Other	0	(3)	0	0	0
Cash flow from investments	(15)	(64)	(37)	(35)	(32)
Capex	(20)	(62)	(40)	(30)	(30)
Free cash flow	42	8	(5)	29	45
Change in investment assets	(2)	(2)	0	0	(1)
Dividends***					
Other	6	0	3	(5)	(2)
Cash flow from financing	(45)	31	(25)	(4)	(13)
Change in debt	(40)	17	(9)	15	4
Change in equity	2	17	0	0	0
Dividends	(5)	(6)	(6)	(6)	(6)
Other	(2)	3	(10)	(12)	(11)
Change in cash	2	37	(27)	20	30
Cash at beginning of year	13	16	52	25	46
Cash at end of year	16	52	25	46	75

Note: * Excluding one off items

** Fully diluted, excluding one-off items

*** From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

Balance sheet

Year-end Dec 31 (KRWb)	2011	2012	2013E	2014E	2015E
Current assets	153	191	146	198	237
Cash & equivalents	16	52	25	46	75
Accounts receivable	56	43	37	47	50
Inventories	66	74	64	81	86
Other current assets	15	22	19	24	26
Fixed assets	294	312	320	319	319
Investment assets	39	38	38	39	39
Equity in affiliated companies	34	27	27	27	27
Tangible assets	231	239	245	240	236
Intangible assets	5	5	5	5	4
Other long-term assets	19	30	33	36	39
Total assets	447	503	466	517	556
Current liabilities	226	168	149	171	176
Accounts payable	38	46	40	50	53
Short-term debt	126	64	55	69	74
Other current liabilities	62	58	55	52	49
Long-term liabilities	48	121	116	116	116
Bond & long-term debt	35	108	108	108	108
Other long-term liabilities	13	12	8	8	8
Total liabilities	274	288	265	287	292
Capital stock	15	16	16	16	16
Capital surplus	82	102	102	102	102
Retained earnings	78	98	84	112	147
Other	(2)	(1)	(1)	(1)	(1)
Total equity	173	215	201	230	264
Net debt	145	120	137	132	106
Book value per share (KRW)	5,847	6,548	6,122	7,025	8,106

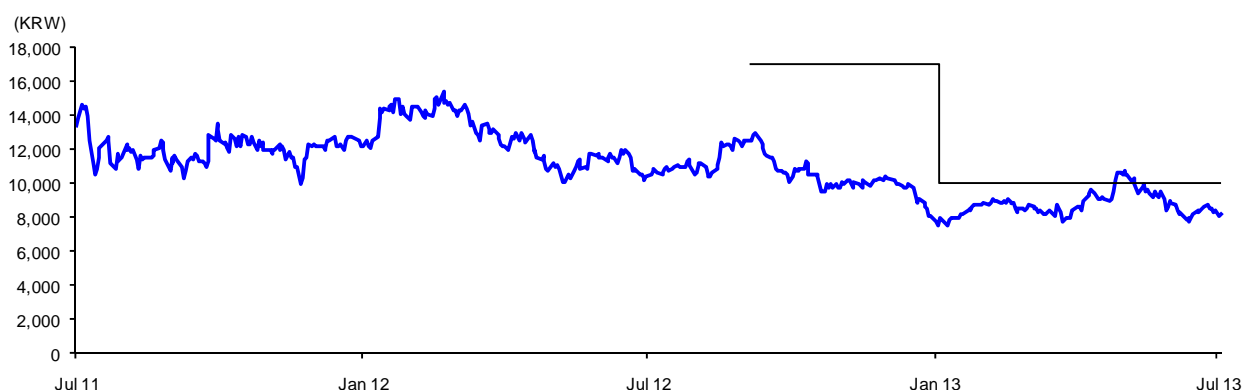
Financial ratios

Year-end Dec 31	2011	2012	2013E	2014E	2015E
Growth (%)					
Sales	6.2	3.0	(13.7)	26.5	6.1
Operating profit	(26.6)	(26.0)	BR	RB	13.8
Pre-tax profit	(35.1)	(36.3)	BR	RB	16.4
Net profit	(40.7)	(41.5)	BR	RB	16.4
Operating net profit*	(36.7)	(33.6)	BR	RB	16.4
EBITDA	(32.9)	(32.0)	(50.1)	140.3	7.0
Adjusted EPS**	(41.0)	(37.3)	BR	RB	16.4
Ratios					
ROE (%)	27.1	12.6	(3.6)	16.3	16.5
ROA (%)	9.4	5.2	(1.6)	7.1	7.6
ROIC (%)	16.0	10.3	(1.8)	10.6	11.8
Net debt to equity (%)	83.8	55.7	68.4	57.4	40.2
Interest coverage (x)	6.6	5.9	0.0	8.5	10.1
Receivables turnover (days)	30.4	28.7	27.0	22.4	24.3
Payables turnover (days)	23.6	24.3	28.7	23.8	25.8
Inventory turnover (days)	34.1	40.5	46.4	38.5	41.8
Valuations (x)					
P/E	9.3	9.1	(35.1)	7.5	6.5
P/B	2.3	1.3	1.3	1.2	1.0
EV/EBITDA	5.8	5.3	11.2	4.6	4.0
EV/EBIT	8.8	9.8	1,213	7.8	6.4
Dividend yield (common, %)	2.4	2.4	2.4	2.4	2.4

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■ Target price changes in past two years



■ Rating changes in past two years

Date	2012/10/4	12/16	2013/2/1	7/31
Recommendation	BUY	BUY	BUY	BUY
Target price (KRW)	17,000	13,500	10,000	10,000

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