

Company Update



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■ AT A GLANCE

SELL | HOLD | **BUY**

Target price	KRW10,000 (21.1%)		
Current price	KRW8,260		
Bloomberg code	036710 KS		
Market cap	KR₩266.0b/USD238.4m		
Shares (float)	32,199,999 (73.7%)		
52-week high/low	KR₩12,950/KR₩7,510		
Average daily trading value (60-day)	KR₩ 4.90b/USD 4.40m		
One-year performance	1M	6M	12M
Simmtech (%)	+0.6	+4.0	-22.1
Vs Kosdaq (%pts)	-5.5	-6.9	-40.8

■ KEY CHANGES

(KR₩)	New	Old	Diff (%)
Recommendation	BUY	BUY	
Target price	10,000	10,000	0.0%
2013E EPS	(333)	(234)	nm
2014E EPS	1,056	1,089	-3.1%
2015E EPS	1,204	1,267	-5.0%

■ SUMMARY OF 2Q RESULTS

(KR₩b)	2Q13	Chg		Diff (%)	
		(% q-q)	(% y-y)	Samsung	Consensus
Sales	130.9	10.5	(19.4)	2.6	(0.4)
Operating profit	(8.8)	nm	nm	nm	nm
Pre-tax profit	(11.6)	nm	nm	nm	nm
Net profit	(9.4)	nm	nm	nm	nm
Margins (%)					
Operating profit	(6.7)				
Pre-tax profit	(8.9)				
Net profit	(7.2)				

Source: Company data, Samsung Securities estimates

Simmtech (036710 KS)

Turnaround coming in 3Q

WHAT'S THE STORY?

Event: Simmtech yesterday reported a KR₩8.8b operating loss for 2Q on sales that rose 10.5% q-q but fell 19.4% y-y to KR₩130.9b.

Impact: We expect Simmtech to turn around in 3Q, as: 1) it has now fully paid for repairs to memory module lines damaged in a Feb 12 fire; and 2) and its product mix should improve on growing packaging sales. Looking further ahead, we believe the memory module business will normalize and the firm's mobile-related sales will grow in 2014.

Action: We maintain BUY on Simmtech with a target price of KR₩10,000.

THE QUICK VIEW

2Q review: Simmtech yesterday reported a KR₩8.8b operating loss for 2Q on sales that rose 10.5% q-q but fell 19.4% y-y to KR₩130.9b. The loss was in line with what we expected, coming as: 1) the burden of fixed costs increased as sales declined y-y; 2) outsourcing costs rose; and 3) new lines incurred equipment set-up costs.

Turnaround coming in 3Q: We believe Simmtech will turn things around in 3Q, when several factors behind the 2Q loss will be removed. Outsourcing costs should normalize—in 2Q, the company finished paying for repairs to memory module lines damaged in a Feb 12 fire—and process migration from low-value-added modules to high-value-added packaging should make cost allocation more efficient and improve the firm's product mix. We expect Simmtech's sales to rise 10.2% q-q to KR₩144.3b this quarter and the firm to turn to a KR₩700b operating profit.

Margin estimate for 2014 conservative but still a catalyst: We expect Simmtech's operating margin to hit 7.2% in 2014. Our forecast is lower than the consensus, as we believe: 1) slowing growth in the high-end smartphone market will erode the ability of parts makers to add value; 2) low-end products will drive the firm's packaging-subset sales growth; and 3) competition from second-tier suppliers will stiffen. Still, our projection implies significant improvement from the firm's 2013 performance (-1.5%) and should serve as a catalyst for share price appreciation.

Maintaining BUY and target price: We still believe Simmtech will see its memory module business normalize and mobile-related sales grow in 2014, and expect a turnaround in 3Q to lift shares in the short term. We maintain BUY on the stock with a 12-month target price of KR₩10,000, and feel our target multiple of 9x 2014 P/E is undemanding, given the firm's extensive customer base and solid relationships with clients as a core parts supplier.

■ VALUATION SUMMARY

	2012	2013E	2014E
Multiples (x)			
P/E	9.2	n/a	7.8
P/B	1.3	1.4	1.2
EV/EBITDA	5.4	13.2	4.7
Div yield (%)	2.4	2.4	2.4
EPS growth (%)	(37.3)	BR	RB
ROE (%)	12.6	(5.2)	16.1
Per share data (KR₩)			
EPS	899	(333)	1,056
BVPS	6,548	6,022	6,892
DPS	200	200	200

Summary of 2Q results

(KRWb)	2Q13	1Q13	2Q12	Chg (% q-q)	Chg (% y-y)
Sales	130.9	118.5	162.4	10.5	(19.4)
Operating profit	(8.8)	(7.6)	15.1	nm	nm
Pre-tax profit	(11.6)	(9.8)	12.8	nm	nm
Net profit	(9.4)	(8.1)	9.9	nm	nm
Margins (%)					
Operating profit	(6.7)	(6.4)	9.3		
Pre-tax profit	(8.9)	(8.3)	7.9		
Net profit	(7.2)	(6.9)	6.1		

Note: K-IFRS parent basis

Source: Samsung Securities estimates

Annual forecast revisions

(KRWb)	Old		New		Diff (%)	
	2013E	2014E	2013E	2014E	2013E	2014E
Sales	544.0	688.0	549.6	669.6	1.0	(2.7)
Operating profit	(7.5)	49.5	(8.1)	48.1	nm	(2.7)
Pre-tax profit	(9.1)	45.1	(13.4)	43.7	nm	(3.1)
Net profit	(7.5)	35.1	(10.7)	34.0	nm	(3.1)

Note: K-IFRS parent basis

Source: Samsung Securities estimates

Quarterly results and forecasts

(KRWb)	1Q13	2Q13	3Q13E	4Q13E	1Q14E	2Q14E	3Q14E	4Q14E	2012	2013E	2014E
Sales	118.5	130.9	144.3	155.9	158.1	166.5	171.1	173.9	630.6	549.6	669.6
Memory module PCB	40.3	43.1	44.8	46.9	45.5	46.2	46.3	46.3	254.1	175.0	184.3
Package substrate	76.3	83.5	94.5	105.4	109.7	116.1	119.6	123.8	363.2	359.7	469.2
Burn-in board (BIB)	0.5	0.4	0.3	0.3	0.3	0.3	0.4	0.4	1.4	1.5	1.4
Build-up board	1.4	3.9	4.7	3.3	2.7	4.0	4.8	3.3	11.9	13.4	14.7
Operating profit	(7.6)	(8.8)	0.7	7.7	9.3	12.2	12.5	14.2	46.3	(8.1)	48.1
Pretax profit	(9.8)	(11.6)	1.0	7.0	8.4	11.3	11.8	12.3	33.1	(13.4)	43.7
Net profit	(8.1)	(9.4)	0.9	6.0	6.5	8.8	9.2	9.5	24.5	(10.7)	34.0
Margins (%)											
Operating profit	(6.4)	(6.7)	0.5	4.9	5.9	7.3	7.3	8.2	7.3	(1.5)	7.2
Pretax profit	(8.3)	(8.9)	0.7	4.5	5.3	6.8	6.9	7.1	5.3	(2.4)	6.5
Net profit	(6.9)	(7.2)	0.6	3.8	4.1	5.3	5.4	5.5	3.9	(1.9)	5.1

Note: K-IFRS parent basis

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2011	2012	2013E	2014E	2015E
Sales	612	631	550	670	710
Cost of goods sold	514	544	522	591	624
Gross profit	98	86	28	79	86
Gross margin (%)	16.1	13.7	5.0	11.7	12.1
SG&A expenses	36	40	36	30	32
Operating profit	63	46	(8)	48	54
Operating margin (%)	10	7	(1)	7	8
Net interest income	(9)	(6)	(9)	(6)	(3)
Net forex-related gains	0	0	4	4	4
Net equity-method gains	0	0	0	0	0
Other	(2)	(7)	(1)	(3)	(5)
Pre-tax profit	52	33	(13)	44	50
Taxes	10	8	(3)	10	11
Effective tax rate, (%)	19	25	20	22	22
Net profit	42	25	(11)	34	39
Net margin (%)	6.8	3.9	(1.9)	5.1	5.5
Operating net profit*	42	28	(11)	34	39
Operating net margin, (%)	6.9	4.4	(1.9)	5.1	5.5
EBITDA	92	72	31	85	88
EBITDA margin (%)	15.1	11.4	5.6	12.7	12.4
Reported EPS (KRW)	1,435	792	(333)	1,056	1,204
Adjusted EPS (KRW)**	1,435	899	(333)	1,056	1,204
DPS (common, KRW)	200	200	200	200	200
DPS (preferred, KRW)	0	0	0	0	0
Dividend payout ratio (%)	13.7	26.1	(59.8)	18.8	16.5

Cash flow statement

Year-end Dec 31 (KRWb)	2011	2012	2013E	2014E	2015E
Cash flow from operations	63	70	35	61	73
Net profit	42	25	(11)	34	39
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	26	(26)	76
(-) Change in working capital	(33)	(6)	5	(13)	(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)	31	43
Change in investment assets	(2)	(2)	(0)	(0)	(1)
Dividends***					
Other	6	(0)	3	(4)	(2)
Cash flow from financing	(45)	31	(28)	(6)	(13)
Change in debt	(40)	17	(8)	12	4
Change in equity	2	17	0	0	0
Dividends	(5)	(6)	(6)	(6)	(6)
Other	(2)	3	(14)	(12)	(11)
Change in cash	2	37	(30)	20	28
Cash at beginning of year	13	16	52	22	42
Cash at end of year	16	52	22	42	70

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	144	190	227
Cash & equivalents	16	52	22	42	70
Accounts receivable	56	43	38	46	49
Inventories	66	74	65	79	84
Other current assets	15	22	19	23	25
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	464	509	546
Current liabilities	226	168	150	168	172
Accounts payable	38	46	40	49	52
Short-term debt	126	64	55	68	72
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	266	284	289
Capital stock	15	16	16	16	16
Capital surplus	82	102	102	102	102
Retained earnings	78	98	80	108	140
Other	(2)	(1)	(1)	(1)	(1)
Total equity	173	215	198	225	258
Net debt	145	120	142	133	109
Book value per share (KRW)	5,847	6,548	6,022	6,892	7,909

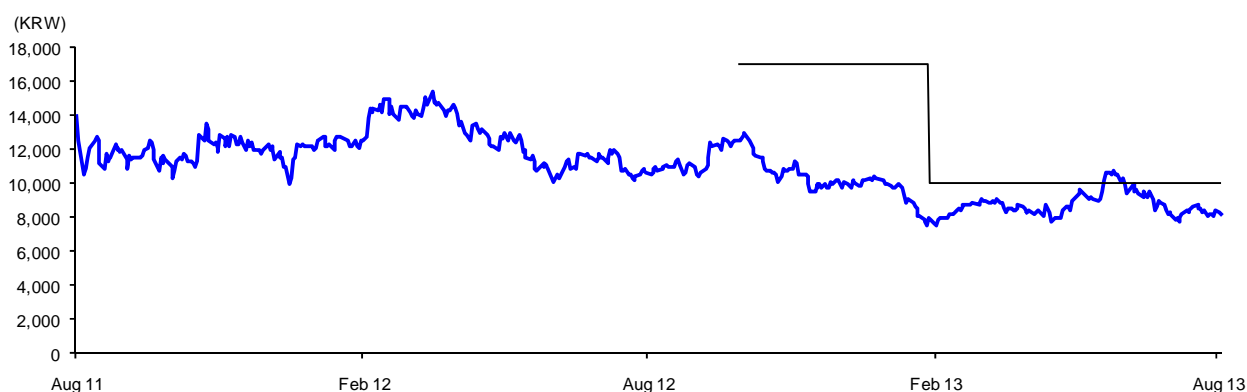
Financial ratios

Year-end Dec 31	2011	2012	2013E	2014E	2015E
Growth (%)					
Sales	6.2	3.0	(12.8)	21.8	6.0
Operating profit	(26.6)	(26.0)	BR	RB	11.5
Pre-tax profit	(35.1)	(36.3)	BR	RB	14.0
Net profit	(40.7)	(41.5)	BR	RB	14.0
Operating net profit*	(36.7)	(33.6)	BR	RB	14.0
EBITDA	(32.9)	(32.0)	(57.2)	175.8	3.5
Adjusted EPS**	(41.0)	(37.3)	BR	RB	14.0
Ratios					
ROE (%)	27.1	12.6	(5.2)	16.1	16.0
ROA (%)	9.4	5.2	(2.2)	7.0	7.3
ROIC (%)	16.0	10.3	(1.9)	10.4	11.4
Net debt to equity (%)	83.8	55.7	71.5	59.2	42.5
Interest coverage (x)	6.6	5.9	(0.3)	5.9	6.7
Receivables turnover (days)	30.4	28.7	26.8	22.7	24.3
Payables turnover (days)	23.6	24.3	28.5	24.2	25.8
Inventory turnover (days)	34.1	40.5	46.2	39.1	41.8
Valuations (x)					
P/E	9.3	9.2	n/a	7.8	6.9
P/B	2.3	1.3	1.4	1.2	1.0
EV/EBITDA	5.8	5.4	13.2	4.7	4.3
EV/EBIT	8.8	9.9	n/a	8.1	7.1
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
Recommendation	BUY	BUY	BUY
Target price (KRW)	17,000	13,500	10,000

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BUY★★★	Expected to increase in value by 30% or more within 12 months and is highly attractive within sector
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SELL★★★	Expected to decrease in value by 30% or more within 12 months

Industry

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