

Company Update



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■ AT A GLANCE

SELL | HOLD | **BUY**

Target price	KRW10,000 (18.2%)		
Current price	KRW8,460		
Bloomberg code	036710 KS		
Market cap	KRW 0.3/USD 0.3b		
Shares (float)	32,199,999 (73.72%)		
52-week high/low	KRW 7,510/11,350		
Average daily trading value (60-day)	KRW 2.06b/ USD 1.94m		
One-year performance	1M	6M	12M
Simmtech (%)	-8.3	+0.7	-16.2
Vs Kosdaq (%pts)	-7.9	+6.1	-22.1

■ KEY CHANGES

(KRW)	New	Old	Diff (%)
Recommendation	BUY	BUY	
Target price	10,000	10,000	0.0%
2013E EPS	(848)	(333)	n/a
2014E EPS	972	1,056	-8.0%
2015E EPS	1,234	1,204	+2.6%

■ SUMMARY OF 1Q RESULTS

(KRWb)	2Q12	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	139.9	(15.9)	6.9	(1.9)	(2.8)
Operating profit	(2.4)	BR	RR	nm	nm
Pre-tax profit	(6.8)	BR	RR	nm	nm
Net profit	(5.4)	BR	RR	nm	nm
Margins (%)					
Operating profit	(1.7)				
Pre-tax profit	(4.9)				
Net profit	(3.9)				

Source: Company data, Samsung Securities estimates

Samsung Securities (Korea) www.samsungpop.com

Simmtech (036710 KS)

Weakness downstream of little concern

WHAT'S THE STORY?

Event: Simmtech yesterday reported a 3Q operating loss of KRW2.4b.

Impact: We remain very confident that the firm is on the cusp of a turnaround, although it appears it will come a quarter later than we expected. Growth at Simmtech in 2014 should be powered by SSDs and lower-end smartphone-use flip chip CSPs. Given changes in downstream industries, however, we now believe operating margin will normalize at a lower level than previously expected.

Action: We maintain BUY on Simmtech with a 12-month target price of KRW10,000. As the firm has yet to catch up to sector leaders, upside to earnings and shares appears limited.

THE QUICK VIEW

Another loss in 3Q: Simmtech yesterday reported a KRW2.4b operating loss on sales that rose 6.9% q-q to KRW139.9b in 3Q. Although smaller than the KRW8.8b loss suffered in 2Q, the firm is still far from the turnaround we expected, which we attribute to: 1) mobile sales growing less than expected; 2) sluggish memory module shipments due to a fire at an SK Hynix factory; and 3) won appreciation. Expecting the impact of the forex rate and fire to linger, we lower our 4Q sales forecast from KRW155.3b to KRW141.7b.

Reasons for poor 3Q performance to remain... Demand from the downstream PC and mobile device industries is paramount to Simmtech's business performance. Market research firm Gartner projects that the memory chip market will grow 33.5% in 2013 and 3.8% in 2014, but memory chip shipment volume will contract 1.2% and 9.1%, respectively, this year and next. This implies that price—not shipment volume—will lead memory chip market growth, boding ill for Simmtech, which is reliant on shipment volume. In the mobile chip market, the company benefited little from rapid growths of AP and baseband segments, due to delayed commencement of FC-CSP business.

...but, growth opportunities ahead: SSD modules and low-end AP-use flip chip CSPs should drive growth at Simmtech in 2014. Related orders are rising, new model launches are imminent, and margins are handsome. We expect total sales to surge from KRW30.1b in 2013 to KRW73.1b in 2014.

Margin normalization key: Operating profit missed consensus in 3Q due to fires at a client's factory and its own plants (i.e., one-offs). Thus, we remain very confident that the firm is on the cusp of a turnaround. The question is at what level operating margin will normalize following the turnaround. As the mobile market is switching its focus towards lower-end products, we cut our 2014 operating margin estimate from 7.7% to 7.2% and lower our 2014 operating profit estimate by 9.1%.

Maintaining BUY: Downside appears limited, as shares appear to have priced in a delay to a turnaround that most believe is a certainty. That said, as Simmtech has yet to catch up to the leaders in the mobile packaging market (unlike in the PC market), upside to earnings and shares also appears limited. We maintain BUY on the stock with a 12-month target price of

■ VALUATION SUMMARY

	2012	2013E	2014E
Multiples (x)			
P/E	9.4	n/a	7.8
P/B	1.3	1.4	1.2
EV/EBITDA	5.5	11.4	4.7
Div yield (%)	2.4	2.4	2.4
EPS growth (% y-y)	(37.3)	BR	RB
ROE (%)	12.6	(3.6)	16.3
Per-share data (KRW)			
EPS	899	(234)	1,089
BVPS	6,548	6,122	7,025
DPS	200	200	200

Summary of 3Q results

(KRWb)	3Q13	2Q13	3Q12	Chg (% q-q)	Chg (% y-y)
Sales	139.9	130.9	166.3	6.9	(15.9)
Operating profit	(2.4)	(8.8)	13.9	nm	nm
Pre-tax profit	(6.8)	(13.4)	11.5	nm	nm
Net profit	(5.4)	(10.8)	8.4	nm	nm
Margins (%)					
Operating profit	(1.7)	(6.7)	8.4		
Pre-tax profit	(4.9)	(10.2)	6.9		
Net profit	(3.9)	(8.2)	5.1		

Note: K-IFRS parent basis

Source: Samsung Securities estimates

Annual forecast revisions

(KRWb)	Old		New		Diff (%)	
	2013E	2014E	2013E	2014E	2013E	2014E
Sales	549.6	669.6	531.1	657.4	(3.4)	(1.8)
Operating profit	(8.1)	48.1	(18.4)	45.4	127.3	(5.7)
Pre-tax profit	(13.4)	43.7	(32.9)	40.3	146.2	(8.0)
Net profit	(10.7)	34.0	(26.7)	31.3	149.1	(8.0)

Note: K-IFRS parent basis

Source: Samsung Securities estimates

Quarterly results and forecasts

(KRWb)	1Q13	2Q13	3Q13	4Q13E	1Q14E	2Q14E	3Q14E	4Q14E	2012	2013E	2014E
Sales	118.5	130.9	139.9	141.7	152.7	161.2	168.7	174.8	630.6	531.1	657.4
Memory module PCB	40.3	43.1	43.7	42.6	44.8	46.7	46.1	48.6	254.1	169.7	186.2
Package substrate	76.3	83.5	91.8	96.0	105.3	110.9	118.2	123.0	363.2	347.7	457.4
Burn-in board (BIB)	0.5	0.4	0.4	0.3	0.3	0.3	0.4	0.4	1.4	1.6	1.4
Build-up board	1.4	3.9	4.0	2.8	2.2	3.3	4.0	2.8	11.9	12.1	12.4
Operating profit	(7.6)	(8.8)	(2.4)	0.5	7.3	10.4	12.1	15.5	46.3	(18.4)	45.4
Pretax profit	(9.8)	(13.4)	(6.8)	(2.9)	6.2	9.3	11.3	13.5	33.1	(32.9)	40.3
Net profit	(8.1)	(10.8)	(5.4)	(2.3)	4.8	7.2	8.8	10.5	24.5	(26.7)	31.3
Margins (%)											
Operating profit	(6.4)	(6.7)	(1.7)	0.3	4.8	6.5	7.2	8.9	7.3	(3.5)	6.9
Pretax profit	(8.3)	(10.2)	(4.9)	(2.1)	4.1	5.7	6.7	7.7	5.3	(6.2)	6.1
Net profit	(6.9)	(8.2)	(3.9)	(1.6)	3.1	4.5	5.2	6.0	3.9	(5.0)	4.8

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	531	657	711
Cost of goods sold	514	544	513	589	628
Gross profit	98	86	18	69	83
Gross margin (%)	16.1	13.7	3.4	10.5	11.6
SG&A expenses	36	40	37	23	32
Operating profit	63	46	(18)	45	50
Operating margin (%)	10.2	7.3	(3.5)	6.9	7.1
D&A expenses-to-sales (%)	(9)	(6)	(15)	(5)	1
Net interest income	0	0	3	4	4
Net forex-related gains	0	0	(2)	(1)	0
Net equity-method gains	(2)	(7)	(1)	(3)	(5)
Other	52	33	(33)	40	51
Pre-tax profit	10	8	(6)	9	11
Taxes	18.6	25.2	17.7	22.3	22.3
Effective tax rate, (%)	42	25	(27)	31	40
Net profit	6.8	3.9	(5.1)	4.8	5.6
Net margin (%)	42	28	(27)	31	40
Operating net profit*	6.9	4.4	(5.1)	4.8	5.6
Operating net margin, (%)	92	72	18	81	85
EBITDA	15.1	11.4	3.3	12.3	11.9
EBITDA margin (%)	1435	792	(848)	972	1234
Reported EPS (KRW)	1435	899	(848)	972	1234
Adjusted EPS (KRW)**	200	200	200	200	200
DPS (common, KRW)	0	0	0	0	0
DPS (preferred, KRW)	13.7	26.1	(23.5)	20.5	16.1
Dividend payout ratio (%)					

Cash flow statement

Year-end Dec 31 (KRWb)	2011	2012	2013E	2014E	2015E
Cash flow from operations	63	70	30	58	69
Net profit	42	25	(27)	31	40
Depreciation & amortization	32	33	36	36	35
Net forex-translation income	4	(0)	(3)	(4)	(4)
Net equity-method income	0	0	0	0	0
Gross cash flow	105	86	15	(17)	75
(-) Change in working capital	(33)	(6)	7	(14)	(5)
Other	0	(3)	0	0	(0)
Cash flow from investments	(15)	(64)	(37)	(35)	(33)
Capex	(20)	(62)	(40)	(30)	(30)
Free cash flow	42	8	(10)	28	39
Change in investment assets	(2)	(2)	(0)	(0)	(1)
Dividends***					
Other	6	(0)	3	(4)	(2)
Cash flow from financing	(45)	31	(30)	(6)	(12)
Change in debt	(40)	17	(10)	13	5
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	(38)	18	24
Cash at beginning of year	13	16	52	15	33
Cash at end of year	16	52	15	33	56

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	139	188	227
Cash & equivalents	16	52	22	42	70
Accounts receivable	56	43	36	45	49
Inventories	66	74	63	77	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	460	507	546
Current liabilities	226	168	147	166	172
Accounts payable	38	46	39	48	52
Short-term debt	126	64	54	66	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	263	282	289
Capital stock	15	16	16	16	16
Capital surplus	82	102	102	102	102
Retained earnings	78	98	64	89	122
Other	(2)	(1)	(1)	(1)	(1)
Total equity	173	215	181	206	239
Net debt	145	120	140	132	110
Book value per share (KRW)	5,847	6,548	5,504	6,289	7,337

Financial ratios

Year-end Dec 31	2011	2012	2013E	2014E	2015E
Growth (%)					
Sales	6.2	3.0	(15.8)	23.8	8.1
Operating profit	(26.6)	(26.0)	BR	RB	11.2
Pre-tax profit	(35.1)	(36.3)	BR	RB	27.0
Net profit	(40.7)	(41.5)	BR	RB	27.0
Operating net profit*	(36.7)	(33.6)	BR	RB	27.0
EBITDA	(32.9)	(32.0)	(75.6)	360.9	4.6
Adjusted EPS**	(41.0)	(37.3)	BR	RB	27.0
Ratios					
ROE (%)	27.1	12.6	(13.8)	16.2	17.8
ROA (%)	9.4	5.2	(5.7)	6.5	7.5
ROIC (%)	16.0	10.3	(4.7)	10.4	11.2
Net debt to equity (%)	83.8	55.7	77.1	64.1	45.8
Interest coverage (x)	6.6	5.9	(0.9)	3.4	4.0
Receivables turnover (days)	30.4	28.7	27.3	22.6	24.0
Payables turnover (days)	23.6	24.3	29.0	24.0	25.6
Inventory turnover (days)	34.1	40.5	47.0	38.9	41.4
Valuations (x)					
P/E	9.3	9.4	n/a	8.7	6.8
P/B	2.3	1.3	1.5	1.3	1.2
EV/EBITDA	5.8	5.4	23.5	5.0	4.5
EV/EBIT	8.8	10.0	n/a	8.9	7.7
Dividend yield (common, %)	2.4	2.4	2.4	2.4	2.4

Simmtech

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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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Industry

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