

Simmtech (036710 KS)

Take a long perspective

Trading BUY (DOWNGRADE)

Price (Nov 15)	W7,200
Target Price	W8,000
% variance	11.1%

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KOSPI	2,005.64p	
KOSDAQ	512.74p	
Market Cap.	W231.8bn/	US203.4mn
Par Value	W500	
Outstanding Shares	32.2mn	
Free Floating Shares	23.7mn(73.7%)	
52-Week High/Low	W10,750/W7,170	
60-Day Avg. Trading Volume	229,744shrs	
60-Day. Avg. Trading T/O	W1,925mn	
Foreign Ownership	3.20%	
Major Shareholders		
	Se-Ho Jun and 1 other	25.73%
	Min-Ju Lee	9.17%
Absolute Performance	3M	-16.5%
	6M	-22.2%
	12M	-28.0%
Relative performance to KOSDAQ	3M	-10.3%
	6M	-14.1%
	12M	-30.7%

- ◆ Nearing BEP in 4Q13 with operating loss narrowing to W100mn
- ◆ Turnaround expected in 2014 with operating profit of W33.5bn
- ◆ Downgrade to Trading Buy for a target price of W8,000

Nearing BEP in 4Q13 with operating loss narrowing to W100mn

Simmtech reported 3Q13 operating loss of W2.4bn, failing to meet market expectations. Demand for module PCBs (printed circuit board) for PCs fell, while overtime payments during the Chuseok holiday season and power costs increased. It is positive that mobile substrate sales share climbed from 36% and 39%.

Module PCB demand will likely continue to slide in 4Q13 owing to the fire incident at SK Hynix. Simmtech, however, is expected to reach the break-even-point thanks to its shift to the mobile line and a drop in fixed costs that climbed temporarily in 3Q13.

Turnaround expected in 2014 with operating profit of W33.5bn

Simmtech's line conversion to mobile products is expected to bear fruit in 2014. Mobile sales are forecast to record W290bn (44% of companywide sales) with MCP (Multi-Chip Package) sales of W200bn and flip chip CSP sales of W30bn. The growing share of the mobile business should drive up ASP and improve margins. We forecast sales to rise 24.7% YoY to W664bn and a turnaround to operating profit of W33.5bn in 2014.

Downgrade to Trading Buy for a target price of W8,000

We lower our target price from W11,000 to W8,000 (retain target P/E of 10.8x) in line with revised earnings estimates. FC-CSP orders from low-end AP manufacturers have started rolling in. With growing sales for mobile devices in the long term, margins should improve from 2014. We recommend a long-term approach with an eye on mobile sales growth.

Year to Dec.	Sales (W bn)	OP (W bn)	Pre-tax (W bn)	NP (W bn)	EPS (Won)	Growth (%)	BPS (Won)	PER (X)	EV/EBITDA (X)	PBR (X)	ROE (%)	Net Debt Ratio (%)
2011	612.3	62.5	51.5	41.9	1,435	(44.8)	5,895	8.5	5.3	2.1	27.1	83.8
2012	630.6	46.3	32.8	24.5	792	(44.8)	6,676	13.0	5.7	1.5	12.6	55.7
2013F	532.3	(19.0)	(34.1)	(27.3)	(848)	TN	5,629	(8.5)	19.7	1.3	(13.8)	85.8
2014F	664.0	33.5	26.1	22.7	705	TP	6,136	10.2	5.5	1.2	12.0	81.2
2015F	716.9	49.5	45.3	36.2	1,125	59.6	7,062	6.4	5.2	1.0	17.1	62.7

Earnings forecast revision

	2013F			2014F		
	Before	After	Change (%)	Before	After	Change (%)
Sales	556.6	532.3	(4.4)	692.8	664.0	(4.2)
OP	(9.5)	(19.0)	L ↑	48.9	33.5	(31.4)
NP	(18.2)	(27.3)	L ↑	31.0	22.7	(26.9)
OPM (%)	(1.7)	(3.6)		7.1	5.0	
NPM (%)	(3.3)	(5.1)		4.5	3.4	

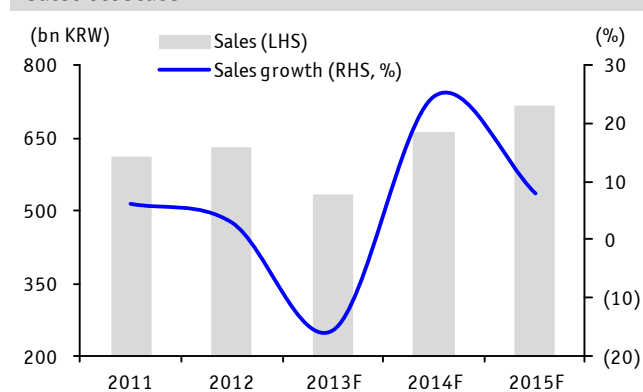
Source: Shinhan Investment Corp.

Quarterly earnings

(bn KRW)	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13P	4Q13F	1Q14F	2Q14F	3Q14F	4Q14F	2012	2013F	2014F	2015F
Sales	158.3	162.4	166.3	143.7	118.5	130.9	139.9	143.0	150.9	163.6	171.7	177.7	630.6	532.3	664.0	716.9
Module PCB	77.5	71.5	66.8	51.6	42.2	47.4	44.6	48.7	50.2	55.0	59.3	59.9	267.4	182.9	224.4	242.2
Substrate	80.8	90.9	99.5	92.1	76.3	83.5	95.3	94.3	100.8	108.5	112.5	117.8	363.2	349.4	439.6	474.7
Sales share																
Module PCB	49.0	44.0	40.2	35.9	35.6	36.2	31.9	34.1	33.2	33.6	34.5	33.7	42.4	34.4	33.8	33.8
Substrate	51.0	56.0	59.8	64.1	64.4	63.8	68.1	65.9	66.8	66.4	65.5	66.3	57.6	65.6	66.2	66.2
OP	13.6	15.1	13.9	3.8	(7.6)	(8.8)	(2.4)	(0.1)	3.1	6.1	9.5	14.9	46.3	(19.0)	33.5	49.5
NP	9.2	9.9	8.4	(2.9)	(8.1)	(10.8)	(5.5)	(2.9)	0.4	3.4	6.8	12.2	24.5	(27.3)	22.7	36.2
OPM (%)	8.6	9.3	8.4	2.6	(6.4)	(6.7)	(1.7)	(0.1)	2.0	3.7	5.5	8.4	7.3	(3.6)	5.0	6.9
NPM (%)	5.8	6.1	5.1	(2.0)	(6.9)	(8.2)	(3.9)	(2.0)	0.2	2.1	3.9	6.9	3.9	(5.1)	3.4	5.1

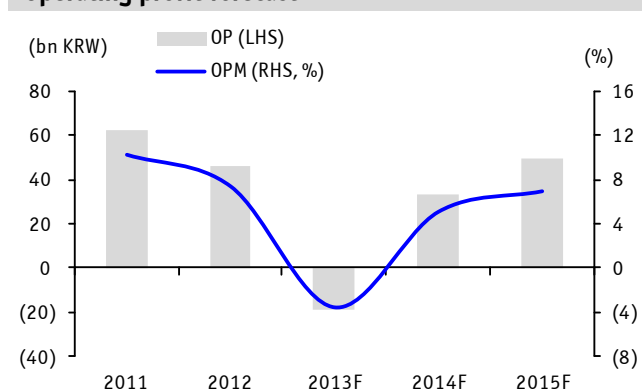
Source: Shinhan Investment Corp.

Sales forecast



Source: Shinhan Investment Corp.

Operating profit forecast



Source: Shinhan Investment Corp.

Balance Sheet

Year to Dec. (W bn)	2011	2012	2013F	2014F	2015F
Assets	447.2	503.2	476.0	502.4	530.3
Total Current Assets	152.8	191.4	175.5	196.8	216.9
Cash and Cash Equivalents	15.6	51.8	29.2	29.3	36.0
Accounts Receivables	56.0	43.1	49.6	54.6	58.9
Inventories	65.8	74.3	78.0	89.7	96.8
Non-Current Assets	294.4	311.8	300.6	305.6	313.4
Tangible Assets	230.8	239.1	241.4	235.0	238.6
Intangible Assets	4.7	5.3	4.4	3.6	3.0
Investment Assets	39.5	37.8	49.4	61.6	66.6
Other Financial Institutions Assets	0.0	0.0	0.0	0.0	0.0
Liabilities	274.0	288.3	294.7	304.8	303.0
Current Liabilities	226.3	167.7	163.1	165.6	173.7
ST Borrowings	126.4	63.6	63.6	63.6	63.6
Account Payables	38.2	45.9	41.3	49.6	53.5
Current Portion of LT Debt	0.0	0.0	0.0	0.0	0.0
Non-Current Liabilities	47.7	120.5	131.6	139.2	129.2
Bonds	0.0	45.1	55.1	60.1	50.1
LT Borrowings(incl. LT Fin. Liab.)	35.0	63.0	66.0	66.0	65.0
Other Financial Institutions Liab.	0.0	0.0	0.0	0.0	0.0
Shareholders' Equity	173.1	215.0	181.3	197.6	227.4
Capital Stock	14.7	16.1	16.1	16.1	16.1
Capital Surplus	82.2	102.1	102.1	102.1	102.1
Other Reserves	(2.1)	(0.7)	(0.7)	(0.7)	(0.7)
Accu. Other Comp. Income	0.0	0.0	0.0	0.0	0.0
Retained Earnings	78.3	97.5	63.8	80.1	109.9
Owners of Parent Equity	173.1	215.0	181.3	197.6	227.4
Non-Controlling Interests Equity	0.0	0.0	0.0	0.0	0.0
*Total Debt	161.4	171.6	184.6	189.6	178.6
*Net Debts(Cash)	145.0	119.8	155.5	160.3	142.6

Cash Flow

Year to Dec. (W bn)	2011	2012	2013F	2014F	2015F
Operating Cash Flow	62.5	70.0	1.7	46.5	56.3
Net Profit	41.9	24.5	(27.3)	22.7	36.2
Depreciation	31.7	32.1	37.7	36.4	21.4
Amortization	0.3	0.9	1.0	0.8	0.6
Losses(Gains) on F/X Translation	3.8	(0.5)	0.0	0.0	0.0
Losses(Gains) on Disp. of Assets	0.4	1.5	3.8	3.0	2.3
Losses(Gains) in Asso., Subs., JVs	0.0	0.0	(0.2)	(0.2)	(0.2)
Chg. in A/L from Op. Activities	(33.3)	(6.3)	(13.3)	(16.2)	(4.2)
(Payments of Income Taxes)	0.0	(3.2)	6.8	(3.4)	(9.1)
Others	17.7	21.0	(6.8)	3.4	9.3
Investing Cash Flow	(15.5)	(64.3)	(27.2)	(42.1)	(29.8)
Incr. in Tangible Assets(CAPEX)	(20.9)	(62.2)	(40.0)	(30.0)	(25.0)
Decr. in Tangible Assets	0.8	0.4	0.0	0.0	0.0
Decr.(Incr.) in Intangible Assets	0.6	(0.7)	0.0	0.0	0.0
Decr.(Incr.) in Investment Assets	(0.9)	4.0	(11.4)	(12.1)	(4.8)
Others	4.9	(5.8)	24.2	(0.0)	(0.0)
Free Cash Flow	53.3	6.4	(27.9)	17.5	31.4
Financing Cash Flow	(44.8)	30.9	6.6	(1.4)	(17.4)
Incr.(Decr.) in Borrowing	(39.9)	17.1	13.0	5.0	(11.0)
Decr.(Incr.) of Treasury Stock	2.1	0.0	0.0	0.0	0.0
Dividend	(4.9)	(5.8)	(6.4)	(6.4)	(6.4)
Others	(2.1)	19.6	0.0	0.0	0.0
Other Cash Flows	0.0	0.0	(4.3)	(2.9)	(2.4)
Change of Consolidated Scope	0.0	0.0	0.0	0.0	0.0
Difference by Chg. in F/X Rates	(0.0)	0.0	0.0	0.0	0.0
Incr.(Decr.) in Cash	2.2	36.6	(23.2)	0.2	6.7
Beginning Cash	13.5	15.7	52.4	29.1	29.3
Ending Cash	15.7	52.4	29.1	29.3	36.0

Source: Company data, Shinhan Investment Corp.

Profit and Loss

Year to Dec. (W bn)	2011	2012	2013F	2014F	2015F
Sales	612.3	630.6	532.3	664.0	716.9
Growth (%)	6.2	3.0	(15.6)	24.7	8.0
COGS	514.0	544.4	511.5	587.6	619.8
Gross Profit	98.4	86.2	20.9	76.3	97.1
Gross margin (%)	16.1	13.7	3.9	11.5	13.5
SG&A	35.8	39.9	39.9	42.8	47.6
Operating Income	62.5	46.3	(19.0)	33.5	49.5
Growth (%)	(26.6)	(26.0)	TR	TB	47.7
Operating margin (%)	10.2	7.3	(3.6)	5.0	6.9
Other Net Non-Operating Profits	(11.0)	(13.5)	(15.1)	(7.4)	(4.2)
Financial Income(Expenses)	(9.4)	(4.6)	(5.5)	(3.3)	(1.8)
Net Other Non-Operating Profits	(1.4)	(5.7)	(10.1)	(4.3)	(3.6)
Net Gains in Asso., Subs., and JVs	(0.2)	(3.1)	0.5	0.2	1.2
Pre-tax Profit from Cont. Op.	51.5	32.8	(34.1)	26.1	45.3
Income Taxes	9.6	8.3	(6.8)	3.4	9.1
Profit from Continuing Op.	41.9	24.5	(27.3)	22.7	36.2
Profit from Discontinued Op.	0.0	0.0	0.0	0.0	0.0
Net Profit	41.9	24.5	(27.3)	22.7	36.2
Growth (%)	(40.7)	(41.5)	TR	TB	59.6
Net Profit margin (%)	6.8	3.9	(5.1)	3.4	5.1
Net Profit of Parent	41.9	24.5	(27.3)	22.7	36.2
Net Profit to Non-Controlling	0.0	0.0	0.0	0.0	0.0
Total Comprehensive Income	40.0	24.9	(27.3)	22.7	36.2
Total Comp. Income of Parent	40.0	24.9	(27.3)	22.7	36.2
Total Comp. Income to Non-Cont.	0.0	0.0	0.0	0.0	0.0
EBITDA	94.5	79.2	19.6	70.7	71.6
Growth (%)	(15.5)	(16.1)	(75.2)	260.6	1.2
EBITDA Margin (%)	15.4	12.6	3.7	10.7	10.0

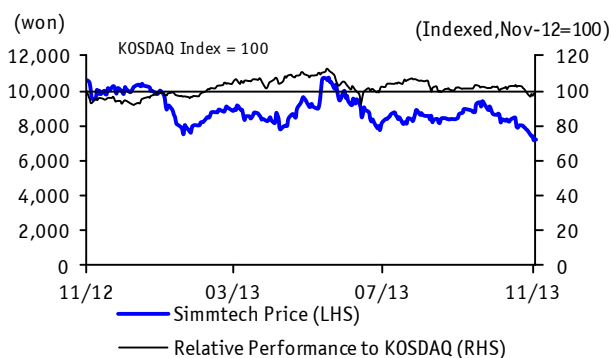
Note: Operating profit is based on 2012 K-IFRS (gross profit - SG&A costs)

Key Ratios

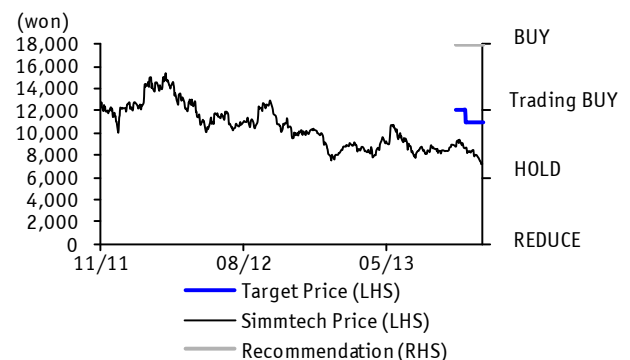
Year to Dec.	2011	2012	2013F	2014F	2015F
EPS_C (won)	1,435	792	(848)	705	1,125
EPS_P (won)	1,435	792	(848)	705	1,125
BPS_C (won)	5,895	6,676	5,629	6,136	7,062
BPS_P (won)	5,895	6,676	5,629	6,136	7,062
DPS (won)	200	200	200	200	200
PER_C (x)	8.5	13.0	(8.5)	10.2	6.4
PER_P (x)	8.5	13.0	(8.5)	10.2	6.4
PBR_C (x)	2.1	1.5	1.3	1.2	1.0
PBR_P (x)	2.1	1.5	1.3	1.2	1.0
EV/EBITDA (x)	5.3	5.7	19.7	5.5	5.2
EV/EBIT (x)	8.1	9.8	(20.4)	11.7	7.6
Dividend Yield (%)	1.6	1.9	2.8	2.8	2.8
Profitability					
EBITDA Margin (%)	15.4	12.6	3.7	10.7	10.0
OP Margin (%)	10.2	7.3	(3.6)	5.0	6.9
NP Margin (%)	6.8	3.9	(5.1)	3.4	5.1
ROA (%)	9.4	5.2	(5.6)	4.6	7.0
ROE (%)	27.1	12.6	(13.8)	12.0	17.1
ROIC (%)	16.1	14.2	(1.2)	9.8	12.8
Stability					
D/E Ratio (%)	158.3	134.1	162.6	154.3	133.2
Net Debt to Equity (%)	83.8	55.7	85.8	81.2	62.7
Cash Ratio (%)	6.9	30.9	17.9	17.7	20.7
Interest Coverage (x)	6.8	7.0	(2.7)	5.0	8.4
Activity (%)					
Working Capital Turnover (t)	19.1	17.5	13.0	11.8	10.5
Inventory Turnover (d)	34.1	40.5	52.2	46.1	47.5
Receivable Turnover (d)	30.4	28.7	31.8	28.6	28.9

Source: Company data, Shinhan Investment Corp.

Share Price Performance



Target Price & Recommendation History



SHIC Rating Classifications: BUY; Over +15%, Trading BUY; 0 to 15%, HOLD; -15% to 0, REDUCE; -15% or More (As of 25 Jul. 2011)

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