Nov 21, 2013
Industry Report

Simmtech (036710.KQ)

Buy (maintain)

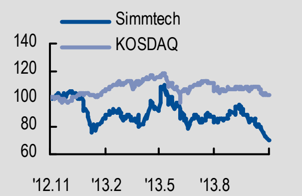
TP	**W11,000 (maintain)**
CP ('13/11/15)	**W7,200**

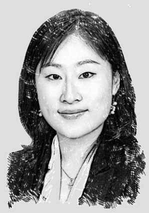
Sector	**Semicon**
Kospi	2,005.64
Kosdaq	512.74
Market cap (common)	US$219.6mn
Outstanding shares (common)	32.2mn
52W high ('13/05/29)	W10,750
low ('13/11/13)	W7,170
Dividend yield (2012)	1.94%
Foreign ownership	3.2%

Major shareholders	
S.H. Jeon and other	25.7%
M.J. Lee	9.2%

Share performance (%)	3M	6M	12M
Absolute	-16.5	-22.2	-28.0
Relative	-10.3	-14.1	-30.7

Price trend





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Simmtech to shine amid hard times for industry

Maintain Buy and target price of W11,000

– We maintain Buy on Simmtech and a target price of W11,000.

– Investment points are as follows: 1) there exists a high entry barrier to Simmtech's core packaging substrate business (packaging substrate segment to evolve alongside memory, AP, baseband chip technology developments); 2) following industry restructuring, benefits to center on major module PCB plays; and 3) meaningful sales from new growth drivers (FC-CSP and SSD module PCB) to emerge in 2014.

Production line conversion strengthens mobile division's growth potential

– In 2Q13, Simmtech completed work converting part of its PC module PCB production line into a mobile package substrate line, raising its package substrate production capacity from 70,000m^2/month to 82,000m^2/month.

– Accordingly, we forecast that sales at Simmtech's mobile division will jump from W216.5bn in 2013 to W314.0bn in 2014 (up 45% y-y).

New growth drivers (FC-CSP, SSD module PCB) to shine from 2014

– Simmtech's new growth drivers (FC-CSP and SSD module PCB) should begin generating meaningful sales from 2014.

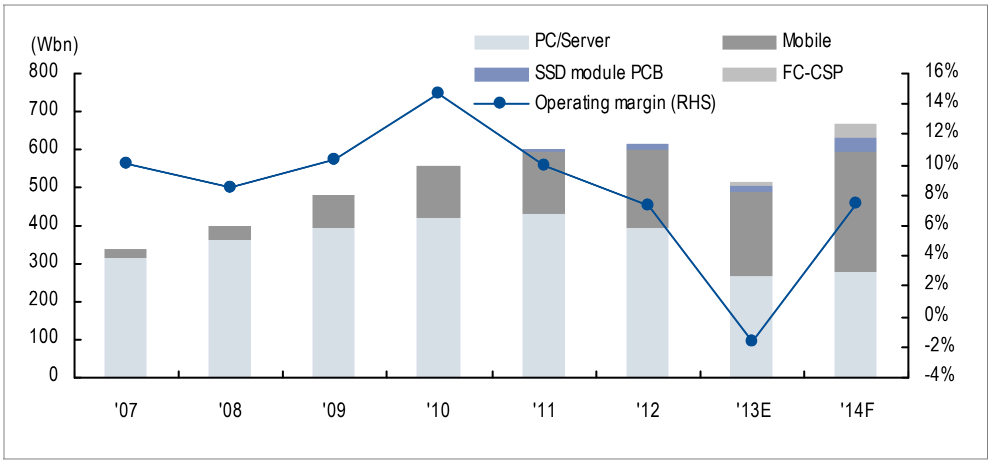
– FC-CSP sales, which are expected to come in at W12bn in 2013, will likely soar by a whopping 300% y-y to W36bn in 2014. Demand for mid- to low-end smartphones (including Chinese 'shanzhai' phones (low-end imitation phones)) should grow at a rapid pace, which should—in turn—bolster demand for mid- to low-priced dual-core FC-CSP.

– We predict that Simmtech's SSD module PCB sales will climb 120% y-y from W17bn in 2013 to W38bn in 2014—expanding 3D NAND production in 2014 should put downward pressure on NAND prices, which will likely have the effect of boosting demand for SSD.

YE-Dec	Sales (Wbn)	Chg (%)	OP (Wbn)	NP (Wbn)	NP to parent (won)	EPS (won)	Chg (%)	P/E (x)	P/B (x)	EV/EBITDA (x)	ROE (%)	Debt/equity (%)	Net debt (Wbn)
2011	612	6.2	63	42	42	1,458	-43.9	8.4	2.1	5.3	27.5	158.3	612
2012	631	3.0	46	25	25	792	-45.7	13.0	1.5	5.7	12.6	134.1	631
2013E	530	-16.0	-19	-24	-24	-752	TTL	N/A	1.3	25.0	-12.1	154.6	530
2014F	681	28.5	45	31	31	954	TTP	7.5	1.1	4.7	15.6	160.8	681
2015F	783	15.0	58	41	41	1,274	33.6	5.7	1.0	3.8	18.2	151.9	783

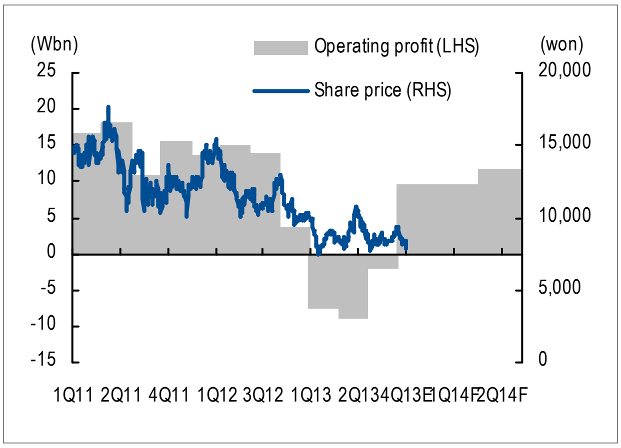
Note: IFRS basis (operating profit=gross profit –SG&A expense); EPS, P/E, and ROE based on net profit excl. minority interest
Source: Woori I&S Research Center estimates

FC-CSP and SSD module PCB to emerge as new growth drivers in 2014



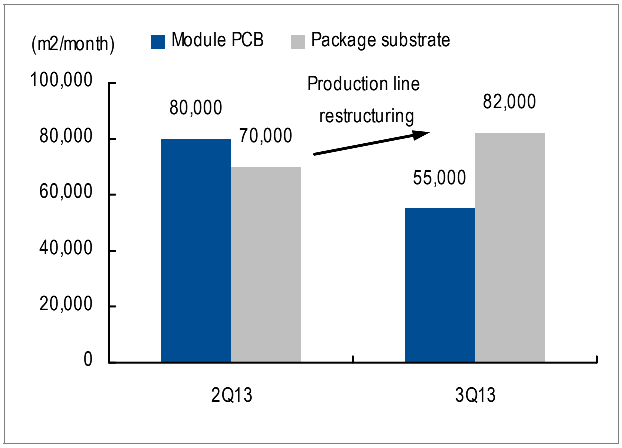
Source: Simmtech, Woori I&S Research Center estimates

Turnaround-driven share momentum expected in 1Q14



Source: Simmtech, Woori I&S Research Center estimates

Production line conversion strengthens mobile division's growth potential



Source: Simmtech, Woori I&S Research Center estimates

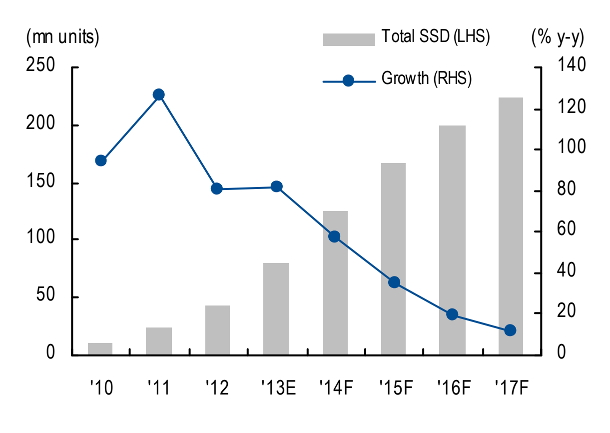
Quarterly earnings forecasts, by product

(Units: Wbn, %)

	1Q13	2Q13	3Q13	4Q13E	1Q14F	2Q14F	3Q14F	4Q13F	2012	2013E	2014F
Sales	**118.5**	**130.9**	**139.9**	**140.5**	**157.2**	**167.1**	**179.0**	**177.5**	**630.7**	**529.8**	**680.9**
PC/Server	67.4	71.0	67.4	64.6	64.4	67.0	75.2	73.4	395.6	270.4	280.0
Mobile	45.5	51.6	60.2	59.2	75.7	79.4	79.9	79.1	202.4	216.5	314.0
SSD module PCB	2.9	2.0	5.7	6.6	7.3	8.0	10.0	12.5	16.5	17.2	37.8
FC-CSP	0.8	2.0	1.8	7.6	8.0	8.5	9.5	9.9	3.0	12.2	35.9
Others	1.9	4.3	4.4	2.6	1.9	4.3	4.4	2.6	13.2	13.2	13.2
Operating profit	**-7.6**	**-8.8**	**-2.4**	**-0.2**	**5.5**	**9.6**	**13.4**	**16.4**	**46.3**	**-19.0**	**44.8**
Operating margin	-6.4	-6.7	-1.7	-0.1	3.5	5.7	7.5	9.3	7.3	-3.6	6.6

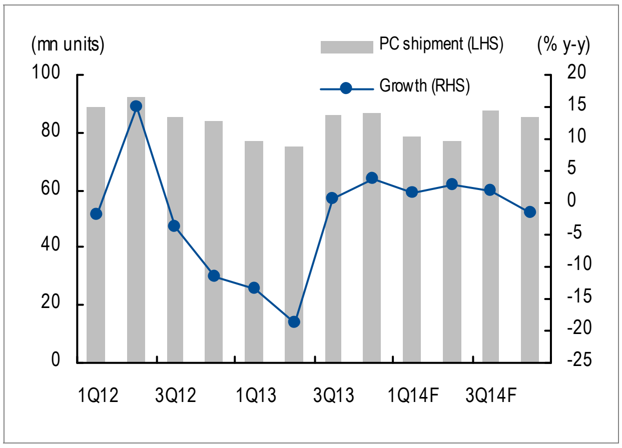
Note: IFRS non-consolidated basis
Source: Simmtech, Woori I&S Research Center estimates

Global SSD demand forecast



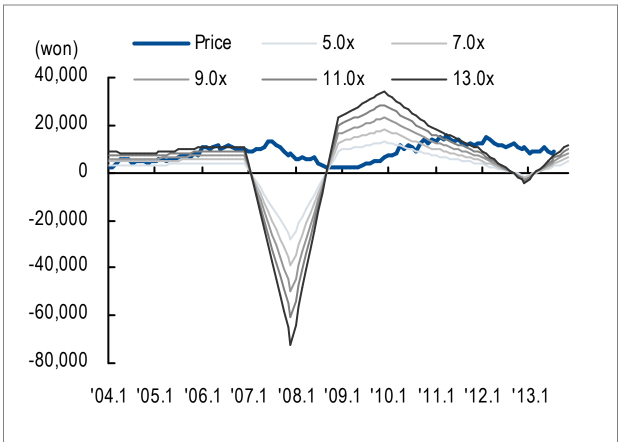
Source: Gartner

PC shipment forecasts, by quarter



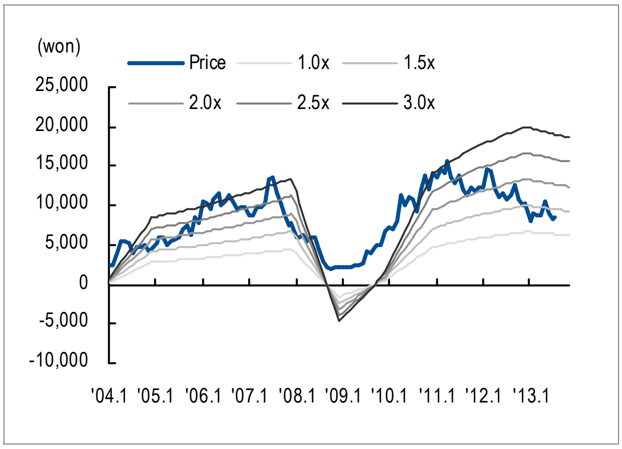
Source: Gartner

Forward P/E



Source: FnGuide, Woori I&S Research Center estimates

Historical P/B



Source: FnGuide, Woori I&S Research Center estimates

STATEMENT OF COMPREHENSIVE INCOME

(Wbn)	2012/12A	2013/12E	2014/12F	2015/12F
Sales	631	530	681	783
Growth (%)	3.0	-16.0	28.5	15.0
COGS	544	515	593	676
Gross Profit	86	15	88	107
Gross margin (%)	13.7	2.8	12.9	13.6
SG&A	40	34	43	49
Operating Income	46	-19	45	58
Growth (%)	-26.0	TTL	TTP	28.9
Operating margin (%)	7.3	-3.6	6.6	7.4
EBITDA	79	16	79	94
Non-Operating Profits	-13	-9	-7	-7
Financial Income(Costs)	-5	-6	-7	-7
Other Non-Operating Profits	-6	-3	0	0
Gains(Losses) in Associates, Subsidiaries and JVs	-3	0	0	0
Pre-tax Profit from Cont. Op.	33	-29	38	51
Income Taxes	8	-4	7	10
Profit from Continuing Op.	25	-24	31	41
Net Profit	25	-24	31	41
Growth (%)	-41.5	TTL	TTP	33.6
Net margin (%)	3.9	-4.6	4.5	5.2
Net Profit of Parent	25	-24	31	41
Net Profit to Non-Controlling	0	0	0	0
Other Comprehensive Income	0	0	0	0
Total Comprehensive Income	25	-24	31	41

VALUATION INDEX

	2012/12A	2013/12E	2014/12F	2015/12F
Price/Earning (X)	13.0	N/A	7.5	5.7
PER (High,X)	19.7	N/A	11.6	8.7
PER (Low,X)	11.8	N/A	7.4	5.5
Price/ Book Value (X)	1.5	1.3	1.1	1.0
PBR (High,X)	2.3	1.9	1.7	1.5
PBR (Low,X)	1.4	1.2	1.1	0.9
Price/ Gross Cash Flow (X)	3.7	18.2	2.9	2.5
Price/ Sales (X)	0.5	0.4	0.3	0.3
PER/ EPS growth (X)	0.8	N/A	0.3	0.3
PER/ EBITPS growth (X)	2.1	N/A	0.4	0.4
PER/ EBITDAPS growth (X)	2.9	N/A	0.6	0.5
EV/ EBITDA (X)	5.7	25.0	4.7	3.8
EV/ EBIT (X)	9.8	N/A	8.3	6.2
Enterprise Value (Wbn)	451	394	372	356
EPS CAGR (3-Yr) (%)	17.2	-225.8	22.6	17.2
EBITPS CAGR (3-Yr) (%)	6.3	-252.0	19.8	15.4
EBITDAPS CAGR (3-Yr) (%)	4.6	86.5	12.3	10.9
EBITPS (W)	1,494	-591	1,392	1,795
EBITDAPS (W)	2,558	489	2,449	2,924
Fully diluted EPS (W)	792	-752	954	1,274
BVPS (W)	6,676	5,724	6,479	7,555
CFPS (W)	2,776	396	2,449	2,924
Sales PS (W)	20,361	16,454	21,145	24,317
DPS (W)	200	200	200	200

CASH FLOW STATEMENT

(Wbn)	2012/12A	2013/12E	2014/12F	2015/12F
Operating Cash Flow	70	23	68	80
Net Profit	25	-24	31	41
Depreciation&Amortization	33	35	34	36
+ Loss(Gains) from Subs	0	0	0	0
+ FC translation loss(profit)	0	0	0	0
+ Losses(Gains) on Disposal of Assets	1	0	0	0
Gross Cash Flow	86	13	79	94
- Incr. (Decr.) in WC	-6	12	3	2
Investing Cash Flow	-64	-59	-39	-56
+ Decr. In Tangible Assets	0	0	0	0
- Incr. In Tangible Assets(CAPEX)	-62	-30	-30	-50
+ Disp.(Acq.) of Inv. Assets	2	6	-9	-6
Free Cash Flow	8	-7	38	30
Net Cash Flow	6	-36	29	23
Financing Cash Flow	31	-3	13	6
Equity Financing	21	0	0	0
Debt Financing	10	-3	13	6
Incr.(Decr.) in Cash	37	-40	42	30
Ending Cash and Cash Equivalents	52	13	54	84
Net Debt (Cash)	120	162	140	124

RIM & EVA

	2012/12A	2013/12E	2014/12F	2015/12F
RIM				
Spread (FROE-COE) (%)	1.1	-24.4	4.0	6.4
Residual Income	2.2	-50.4	5.0	11.4
12M RIM Target Price (W)	10,691			
EVA				
Invested Capital	279.3	290.3	285.9	299.4
NOPAT	39.1	-20.8	36.3	46.8
ROIC (%)	14.3	-7.3	12.6	16.0
ROIC - WACC (%)	7.9	-13.9	6.4	9.6
EVA	22.1	-40.3	18.2	28.6
DCF				
EBIT	46.3	-19.0	44.8	57.8
+ Depreciation/Amortization	33	35	34	36
- CAPEX	-62.2	-30.0	-30.0	-50.0
- Incr. (Decr.) in Working Capital	1.0	14.3	0.3	0.2
Free Cash Flow for Firm	4.3	-25.7	40.1	33.0
WACC				
Cost of Debt (Tax Adj.)	2.5	2.9	2.9	2.9
Cost of Equity (COE)	11.5	12.3	11.7	11.8
WACC (%)	6.3	6.6	6.2	6.4

STATEMENT OF FINANCIAL POSITION

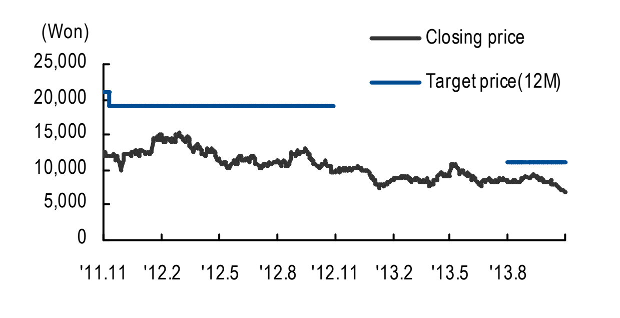
(Wbn)	2012/12A	2013/12E	2014/12F	2015/12F
Cash and Cash Equivalents	52	13	54	83
Accounts Receivables	43	36	47	54
Total Current Assets	191	134	203	250
Tangible Assets	239	235	232	246
Investment Assets	38	32	41	47
Non-Current Assets	312	336	341	361
Assets	503	469	543	611
Short-Term Debt	64	67	86	99
Account Payables	46	39	50	57
Current Liabilities	168	166	214	246
Long-Term Debt	108	108	108	108
Long-Term Allowance	11	9	12	13
Non-Current Liabilities	121	119	122	124
Liabilities	288	285	335	370
Capital Stock	16	16	16	16
Capital Surplus	102	102	102	102
Retained Earnings	98	67	91	126
Non-Controlling Interests Equity	0	0	0	0
Shareholders' Equity	215	184	209	243

PROFITABILITY & STABILITY

	2012/12A	2013/12E	2014/12F	2015/12F
ROE (%)	12.6	-12.1	15.6	18.2
ROA (%)	5.2	-5.0	6.1	7.1
ROIC (%)	14.3	-7.3	12.6	16.0
EBITDA/ equity (%)	36.9	8.6	37.8	38.7
EBITDA/ asset (%)	15.7	3.4	14.5	15.4
Dividend Yield (%)	1.9	2.8	2.8	2.8
Payout Ratio (%)	26.1	-26.4	20.9	15.6
Total Cash Dividend (Wbn)	6	6	6	6
Cash DPS (W)	200	200	200	200
Net debt(cash)/ equity (%)	55.7	87.9	67.2	51.0
Debt/ equity (%)	134.1	154.6	160.8	151.9
Net interest exp/ sales (%)	1.0	1.3	1.1	1.0
Interest coverage (X)	7.0	-2.8	6.1	7.3
Current Ratio (%)	114.1	80.2	94.7	101.8
Quick Ratio (%)	69.8	42.8	57.2	64.3
Total shares (mn)	32	32	32	32
Par value (W)	500	500	500	500
Share price (W)	10,300	7,200	7,200	7,200
Market Cap (Wbn)	332	232	232	232

Rating and target price update

Company	Code	Date	Rating	Target price
Simmtech	036710.KQ	2013.08.21	Buy	W11,000(12M)
		2013.08.21	Coverage initiated	
		2011.12.01	Buy	W19,000(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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- Woori I&S does not have a stake greater than or equal to 1% in Simmtech as of the preparation date.
- Woori I&S has not provided this material to any institutional investor or other third party in advance. However, the Korean version of this material was distributed on Nov 19, 2013.
- The analyst and his/her spouse do not own any securities of 'Simmtech' as of the preparation date.
- This report correctly reflects the analyst's opinion and was written without any external influence or intervention.

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