

## Technology

## Company Update

December 18, 2013

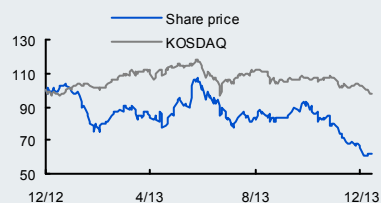
(Maintain) **Trading Buy**Target Price (12M, W) **8,000**Share Price (12/17/13, W) **6,250**Expected Return **28%**

OP (13F, Wbn) -19  
 Consensus OP (13F, Wbn) -19

EPS Growth (13F, %) TTR  
 Market EPS Growth (13F, %) 12.9  
 P/E (13F, x) -  
 Market P/E (13F, x) 10.9  
 KOSDAQ 486.15

Market Cap (Wbn) 201  
 Shares Outstanding (mn) 32  
 Free Float (%) 73.7  
 Foreign Ownership (%) 2.7  
 Beta (12M) 0.77  
 52-Week Low (W) 6,010  
 52-Week High (W) 11,100

(%)	1M	6M	12M
Absolute	-13.2	-31.8	-37.0
Relative	-11.2	-36.2	-36.1



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## Simmtech

(036710 KQ)

## Three-year earnings downtrend to end

**2014 outlook: Margins to steadily recover**

In 2013, Simmtech's fiscal year earnings are projected to come in far shy of expectations. We attribute the delay in the company's turnaround to a fire at its plant early in the year. For 2013, we estimate revenue at W531.4bn (-15.7% YoY) and operating losses at W19.1bn. In 4Q13, the company is projected to break even, with its revenue improving slightly to W142.0bn (+1.5% QoQ).

Starting next year, Simmtech's revenue and margins are anticipated to steadily improve. Of note, OP margin is forecast to rebound to 7-8% in 2H14 backed by accelerating growth of revenue from mobile-related substrates, including multi-chip packaging (MCP). We project 2014 revenue at W638.8bn (+20% YoY) and operating profit at W35.7bn (turning to black YoY) with an OP margin of 5.6%.

**Catalyst: Three pillars of growth: MCP, FC-CSP and SSD modules**

► Multi-chip packaging (MCP): Simmtech's MCP revenue (mobile DRAM and NAND) should continue to rise, aided by the ongoing expansion of the mobile device market. This year, the company's MCP revenue is estimated to come in at W155.9bn, accounting for a whopping 29% of total revenue. We expect this figure to climb further next year to W201bn (+29% YoY).

► Flip-chip chip-scale packages (FC-CSP): In this segment, Simmtech is targeting low- to mid-priced AP producers such as MediaTek and Spreadtrum (China). In the integrated chip AP packaging arena, Kinsus of Taiwan is the world's largest producer, but Simmtech is forecast to gain market share, generating W29bn in revenue next year.

► SSD modules: Demand is steadily rising. Simmtech's SSD module revenue is estimated at W16.6bn this year, and is expected to soar 105% YoY next year, to W34bn.

The combined revenue of Simmtech's mobile-related substrates (MCP, CSP, FC-CSP, etc.) is estimated to have reached W197.5bn in 2013, contributing 37% to total revenue. In 2014, revenue is forecast to expand to W264bn (41% revenue contribution). Strong mobile-related substrate sales should offset falling PC-related revenue to some extent next year.

**Valuation: Lower TP by 20% to W8,000**

Simmtech's valuation has declined to a 2014F P/E of 8.2x and a P/B of 1.1x. The company's earnings are estimated to have fallen significantly below expectations in 2013. Given the delay to the company's earnings turnaround in 2H13, we lowered our 2014 operating profit forecast by 29.4% to W35.7bn and revised down our target price by 20% to W8,000 (average of fair values based on 2014F P/B of 1.5x and P/E of 10x).

In 2014, the company's earnings, which have steadily fallen for three years, will likely pick up. As such, we believe that downside to the company's shares will be limited. Risks include: 1) the likelihood of intensifying competition in the MCP market and 2) potential lower-than-expected FC-CSP market share gains.

FY (Dec.)	12/10	12/11	12/12	12/13F	12/14F	12/15F
Revenue (Wbn)	577	612	631	531	639	716
OP (Wbn)	85	63	46	-19	36	46
OP margin (%)	14.7	10.2	7.3	-3.6	5.6	6.4
NP (Wbn)	71	42	25	-30	26	35
EPS (W)	2,590	1,435	792	-921	759	1,017
ROE (%)	93.2	27.0	12.6	-15.0	13.8	16.3
P/E (x)	5.5	8.5	13.0	-	8.2	6.1
P/B (x)	3.0	2.1	1.6	1.2	1.1	1.0

Note: All figures are based on non-consolidated K-IFRS

Source: Company data, KDB Daewoo Securities Research estimates

## Valuations

Table 1. Earnings comparison of global PCB makers

(Wbn, %)

	Market cap	Revenue			OP			OP margin			NP		
		12	13F	14F	12	13F	14F	12	13F	14F	12	13F	14F
SEMCO	5,527	7,913	8,450	8,572	581	604	651	7.3	7.1	7.6	441	435	476
Daeduck Elec.	399	751	768	780	58	44	48	7.7	5.7	6.1	48	51	57
Simmtech	201	631	531	639	46	-19	36	7.3	-3.6	5.6	25	-30	26
Interflex	312	765	1,052	1,209	47	39	65	6.1	3.8	5.4	54	35	54
Daeduck GDS	328	465	546	631	42	56	61	9.0	10.2	9.7	34	49	53
ISU Petasys	286	418	548	611	30	53	62	7.3	9.7	10.2	20	39	45
Ibiden	2,940	3,864	3,109	3,243	73	217	237	1.9	7.0	7.3	30	143	147
Nan Ya PCB	796	1,132	1,149	1,261	-108	-43	14	-9.6	-3.8	1.1	-79	-20	18
Shinko	1,134	1,719	1,464	1,467	41	129	121	2.4	8.8	8.3	39	92	75
Unimicron	1,169	2,571	2,165	2,261	170	73	80	6.6	3.4	3.5	132	63	82
Tripod	966	1,490	1,470	1,555	131	97	107	8.8	6.6	6.9	112	86	93
Average								5.0	5.0	6.5			

Source: Bloomberg, KDB Daewoo Securities Research estimates

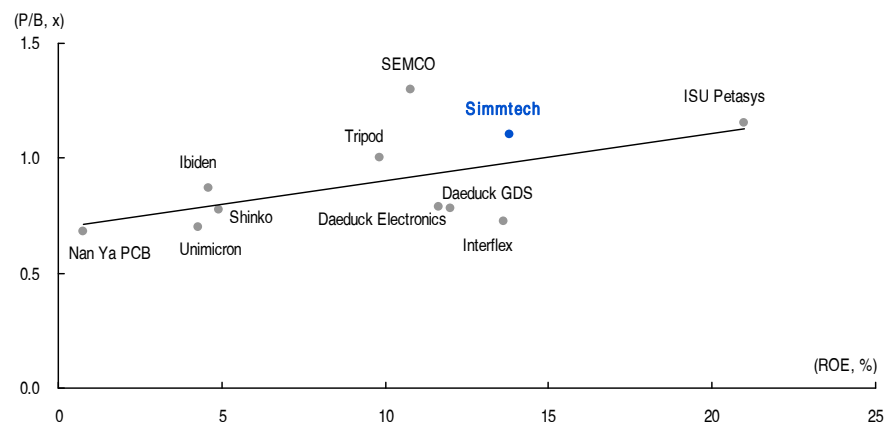
Table 2. Valuation comparison of global PCB makers

(Wbn, %)

	Market cap	ROE			P/E			P/B			EV/EBITDA		
		12	13F	14F	12	13F	14F	12	13F	14F	12	13F	14F
SEMCO	5,527	11.9	10.7	10.8	17.5	13.2	12.1	2.1	1.4	1.3	7.8	5.6	5.3
Daeduck Elec.	399	11.8	11.4	11.7	9.3	7.9	7.0	1.0	0.9	0.8	3.2	3.5	3.4
Simmtech	201	12.6	-15.0	13.8	13.0	-	8.2	1.6	1.2	1.1	5.9	34.7	5.4
Interflex	312	19.8	10.0	13.6	13.8	8.2	5.5	2.5	0.8	0.7	11.7	5.2	3.7
Daeduck GDS	328	9.3	12.4	12.0	10.3	6.8	6.3	0.9	0.9	0.8	3.1	2.3	2.1
ISU Petasys	286	12.5	21.3	21.0	9.3	7.4	6.3	1.1	1.4	1.2	6.1	5.8	4.9
Ibiden	2,940	0.8	4.9	4.6	91.8	19.0	18.4	0.7	0.9	0.9	3.9	4.6	4.2
Nan Ya PCB	796	-6.3	-1.7	0.8	-	-	44.7	0.8	0.7	0.7	30.1	8.6	4.5
Shinko	1,134	2.2	6.7	4.9	35.9	12.1	14.5	0.8	0.8	0.8	5.0	3.5	3.5
Unimicron	1,169	7.6	3.3	4.3	13.7	19.7	15.7	1.0	0.7	0.7	4.6	4.4	4.0
Tripod	966	12.3	9.6	9.9	11.2	11.1	10.2	1.4	1.1	1.0	4.2	3.9	3.7
Average		8.6	6.7	9.8	22.6	11.7	13.5	1.3	1.0	0.9	7.8	7.5	4.1

Source: Bloomberg, KDB Daewoo Securities Research estimates

Figure 1. P/B-ROE of global PCB makers (2014F)



Source: Bloomberg, KDB Daewoo Securities Research estimates

## Earnings outlook

Table 3. Quarterly and annual earnings

(Wbn, %)

	1Q13	2Q13	3Q13	4Q13F	1Q14F	2Q14F	3Q14F	4Q14F	2012	2013F	2014F	2015F
<b>Revenue</b>	<b>118.5</b>	<b>130.9</b>	<b>139.9</b>	<b>142.0</b>	<b>148.4</b>	<b>156.5</b>	<b>165.5</b>	<b>168.4</b>	<b>630.6</b>	<b>531.4</b>	<b>638.8</b>	<b>715.5</b>
QoQ growth	-17.5	10.5	6.9	1.5	4.5	5.5	5.8	1.8				
YoY growth	-25.1	-19.4	-15.9	-1.2	25.2	19.5	18.3	18.6	3.0	-15.7	20.2	12.0
Memory module/BOC	54.9	59.1	55.7	57.0	58.0	62.0	64.0	67.0	377.9	261.3	281.0	283.0
CSP + MCP	38.9	43.9	52.2	53.0	56.0	57.0	61.0	61.0	147.9	188.0	235.0	295.0
FC-SCP	0.8	1.9	1.8	5.0	6.0	6.0	8.0	9.0	3.0	9.5	29.0	50.0
SSD module	2.9	2.0	5.7	6.0	7.0	8.0	9.0	10.0	16.5	16.6	34.0	54.0
Flash memory	6.6	7.7	8.0	6.0	7.0	7.0	8.0	8.0	54.6	28.3	30.0	30.0
<b>Gross profit</b>	<b>2</b>	<b>1</b>	<b>7</b>	<b>9</b>	<b>12</b>	<b>17</b>	<b>22</b>	<b>24</b>	<b>86</b>	<b>19</b>	<b>74</b>	<b>86</b>
% of revenue	1.7	0.6	4.9	6.5	8.0	11.0	13.0	14.0	13.7	3.5	11.6	12.0
<b>SG&amp;A</b>	<b>10</b>	<b>10</b>	<b>9</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>39</b>	<b>38</b>	<b>39</b>	<b>40</b>
% of revenue	8.1	7.4	6.6	6.7	6.4	6.1	5.8	5.8	6.2	7.1	6.0	5.6
<b>Operating profit</b>	<b>-7.6</b>	<b>-8.8</b>	<b>-2.4</b>	<b>-0.3</b>	<b>2.4</b>	<b>7.6</b>	<b>11.9</b>	<b>13.8</b>	<b>46.9</b>	<b>-19.1</b>	<b>35.7</b>	<b>45.9</b>
QoQ growth	TTR	RR	RR	RR	TTB	221.0	56.5	15.7				
YoY growth	TTR	TTR	TTR	TTR	TTB	TTB	TTB	TTB	-25.0	TTR	TTB	28.5
<b>Net profit</b>	<b>-8.1</b>	<b>-10.8</b>	<b>-5.4</b>	<b>-5.3</b>	<b>-0.3</b>	<b>5.0</b>	<b>8.8</b>	<b>10.8</b>	<b>24.5</b>	<b>-29.7</b>	<b>26.3</b>	<b>35.3</b>
QoQ growth	RR	RR	RR	RR	RR	TTB	77.8	22.3				
YoY growth	TTR	TTR	TTR	RR	RR	TTB	TTB	TTB	-41.5	TTR	TTB	34.3
<b>Gross margin</b>	<b>1.7</b>	<b>0.6</b>	<b>4.9</b>	<b>6.5</b>	<b>8.0</b>	<b>11.0</b>	<b>13.0</b>	<b>14.0</b>	<b>13.7</b>	<b>3.5</b>	<b>11.6</b>	<b>12.0</b>
<b>OP margin</b>	<b>-6.4</b>	<b>-6.7</b>	<b>-1.7</b>	<b>-0.2</b>	<b>1.6</b>	<b>4.9</b>	<b>7.2</b>	<b>8.2</b>	<b>7.4</b>	<b>-3.6</b>	<b>5.6</b>	<b>6.4</b>
<b>Net margin</b>	<b>-6.9</b>	<b>-8.2</b>	<b>-3.9</b>	<b>-3.7</b>	<b>-0.2</b>	<b>3.2</b>	<b>5.3</b>	<b>6.4</b>	<b>3.9</b>	<b>-5.6</b>	<b>4.1</b>	<b>4.9</b>

Source: Company data, KDB Daewoo Securities Research estimates

Table 4. Earnings forecast revisions

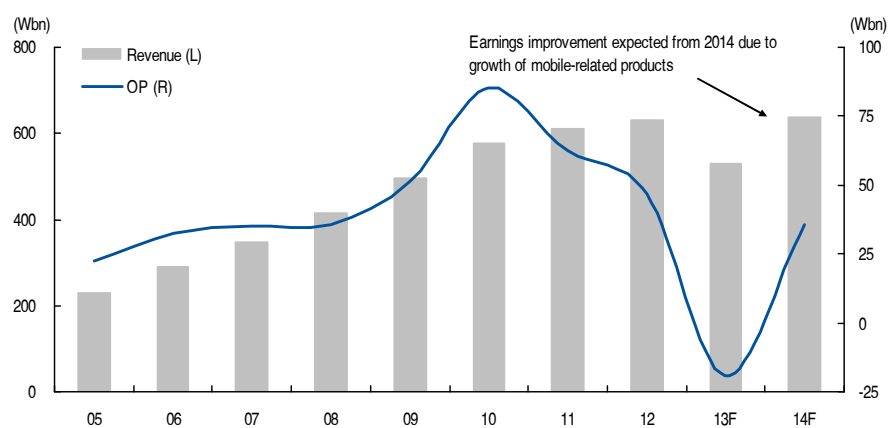
(Wbn, %)

	Previous		Revised		% chg.		Notes
	2013F	2014F	2013F	2014F	2013F	2014F	
Revenue	610	712	531	639	-12.9	-10.3	- Delays to utilization and margin improvements in 2H13
OP	24	51	-19	36	TTR	-29.4	
Net profit	15	37	-30	26	TTR	-29.6	
OP margin	3.9	7.1	-3.6	5.6			
Net margin	2.4	5.2	-5.6	4.1			

Note: TTR stands for "Turn To Red".

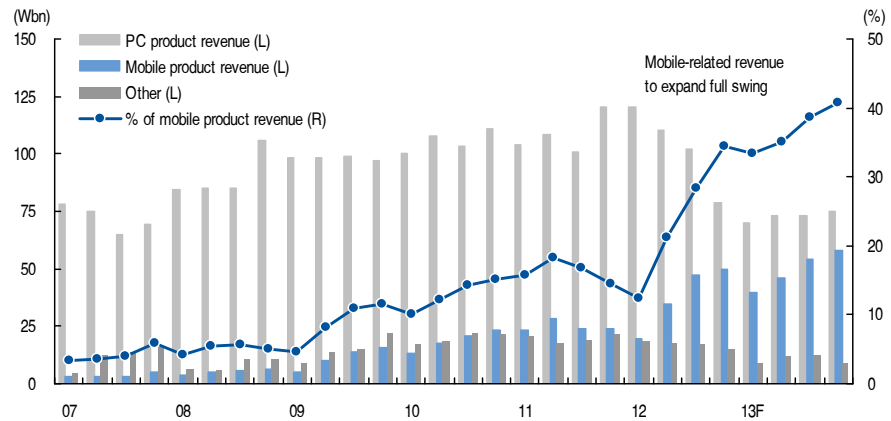
Source: Company data, KDB Daewoo Securities Research estimates

Figure 2. Annual revenue and operating profit



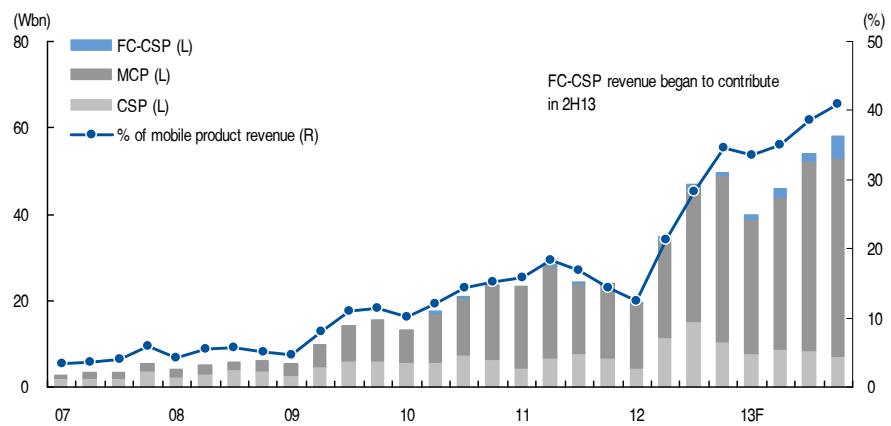
Source: Company data, KDB Daewoo Securities Research estimates

Figure 3. Quarterly revenue by product category



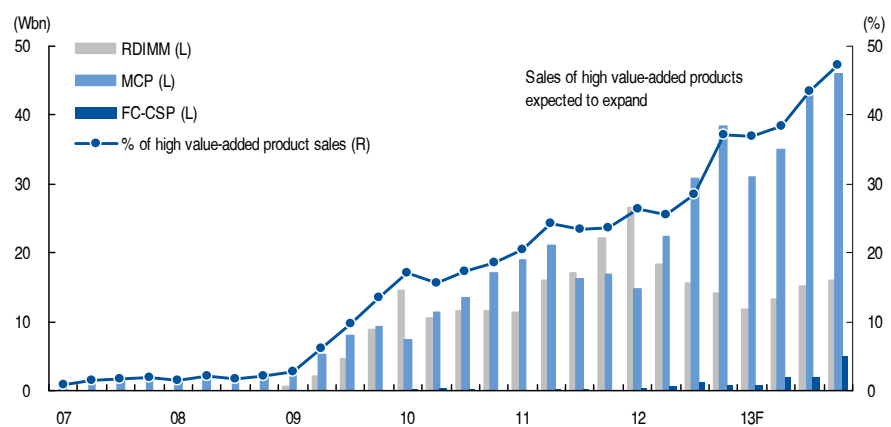
Source: Company data, KDB Daewoo Securities Research estimates

Figure 4. Quarterly mobile product revenue



Source: Company data, KDB Daewoo Securities Research estimates

Figure 5. Quarterly revenue of high value-added products



Source: Company data, KDB Daewoo Securities Research estimates

## Simmtech (036710 KQ/Trading Buy/TP: W8,000)

## Comprehensive Income Statement (Summarized)

(Wbn)	12/12	12/13F	12/14F	12/15F
<b>Revenue</b>	<b>631</b>	<b>531</b>	<b>639</b>	<b>716</b>
<b>Cost of Sales</b>	<b>544</b>	<b>513</b>	<b>565</b>	<b>630</b>
<b>Gross Profit</b>	<b>86</b>	<b>19</b>	<b>74</b>	<b>86</b>
<b>SG&amp;A Expenses</b>	<b>40</b>	<b>38</b>	<b>39</b>	<b>40</b>
<b>Operating Profit (Adj)</b>	<b>46</b>	<b>-19</b>	<b>36</b>	<b>46</b>
<b>Operating Profit</b>	<b>46</b>	<b>-19</b>	<b>36</b>	<b>46</b>
<b>Non-Operating Profit</b>	<b>-14</b>	<b>-16</b>	<b>-10</b>	<b>-11</b>
Net Financial Income	6	8	11	12
Net Gain from Inv in Associates	-3	0	0	0
Pretax Profit	33	-35	26	35
Income Tax	8	-6	0	0
Profit from Continuing Operations	25	-30	26	35
Profit from Discontinued Operations	0	0	0	0
<b>Net Profit</b>	<b>25</b>	<b>-30</b>	<b>26</b>	<b>35</b>
Controlling Interests	25	-30	26	35
Non-Controlling Interests	0	0	0	0
<b>Total Comprehensive Profit</b>	<b>25</b>	<b>-29</b>	<b>27</b>	<b>36</b>
Controlling Interests	25	-29	27	36
Non-Controlling Interests	0	0	0	0
EBITDA	79	12	75	85
FCF (Free Cash Flow)	-9	-9	59	63
EBITDA Margin (%)	12.6	2.2	11.7	11.8
Operating Profit Margin (%)	7.3	-3.6	5.6	6.4
Net Profit Margin (%)	3.9	-5.6	4.1	4.9

## Cash Flows (Summarized)

(Wbn)	12/12	12/13F	12/14F	12/15F
<b>Cash Flows from Op Activities</b>	<b>77</b>	<b>29</b>	<b>82</b>	<b>83</b>
Net Profit	25	-30	26	35
Non-Cash Income and Expense	61	72	48	50
Depreciation	32	30	38	38
Amortization	1	1	1	1
Others	-15	-33	-2	-2
Chg in Working Capital	-6	-13	7	-2
Chg in AR & Other Receivables	-14	-38	-3	-5
Chg in Inventories	-8	-4	-13	-10
Chg in AP & Other Payables	24	39	33	25
Income Tax Paid	-3	-1	0	0
<b>Cash Flows from Inv Activities</b>	<b>-64</b>	<b>-83</b>	<b>-69</b>	<b>-69</b>
Chg in PP&E	-62	-55	-20	-20
Chg in Intangible Assets	-1	0	0	0
Chg in Financial Assets	-6	-1	0	0
Others	4	-26	-49	-49
<b>Cash Flows from Fin Activities</b>	<b>24</b>	<b>15</b>	<b>8</b>	<b>-28</b>
Chg in Financial Liabilities	17	30	-10	-10
Chg in Equity	19	0	0	0
Dividends Paid	-6	-6	-5	-6
Others	-7	-8	-12	-12
<b>Increase (Decrease) in Cash</b>	<b>37</b>	<b>-39</b>	<b>20</b>	<b>-15</b>
Beginning Balance	16	52	13	33
Ending Balance	52	13	33	19

Source: Company data, KDB Daewoo Securities Research estimates

## Statement of Financial Condition (Summarized)

(Wbn)	12/12	12/13F	12/14F	12/15F
<b>Current Assets</b>	<b>191</b>	<b>153</b>	<b>194</b>	<b>194</b>
Cash and Cash Equivalents	52	13	39	24
AR & Other Receivables	65	71	74	79
Inventories	74	68	81	91
Other Current Assets	0	1	1	1
<b>Non-Current Assets</b>	<b>312</b>	<b>426</b>	<b>472</b>	<b>516</b>
Investments in Associates	27	2	2	2
Property, Plant and Equipment	239	278	260	242
Intangible Assets	5	5	4	4
<b>Total Assets</b>	<b>503</b>	<b>579</b>	<b>666</b>	<b>710</b>
<b>Current Liabilities</b>	<b>168</b>	<b>316</b>	<b>347</b>	<b>368</b>
AP & Other Payables	97	176	209	234
Short-Term Financial Liabilities	64	133	128	123
Other Current Liabilities	8	7	10	11
<b>Non-Current Liabilities</b>	<b>121</b>	<b>84</b>	<b>118</b>	<b>112</b>
Long-Term Financial Liabilities	108	70	100	95
Other Non-Current Liabilities	2	1	3	2
<b>Total Liabilities</b>	<b>288</b>	<b>400</b>	<b>465</b>	<b>480</b>
<b>Controlling Interests</b>	<b>215</b>	<b>179</b>	<b>201</b>	<b>230</b>
Capital Stock	16	16	16	16
Capital Surplus	102	102	102	102
Retained Earnings	98	61	83	112
<b>Non-Controlling Interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Stockholders' Equity</b>	<b>215</b>	<b>179</b>	<b>201</b>	<b>230</b>

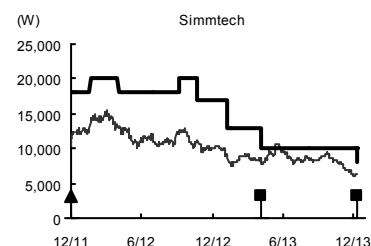
## Forecasts/Valuations (Summarized)

	12/12	12/13F	12/14F	12/15F
P/E (x)	13.0	-	8.2	6.1
P/CF (x)	5.6	184.6	3.3	2.9
P/B (x)	1.6	1.2	1.1	1.0
EV/EBITDA (x)	5.9	34.7	5.4	4.8
EPS (W)	792	-921	759	1,017
CFPS (W)	1,856	34	1,884	2,145
BPS (W)	6,550	5,446	5,741	6,604
DPS (W)	200	150	200	200
Payout ratio (%)	26.1	-16.2	24.5	18.3
Dividend Yield (%)	1.9	2.4	3.2	3.2
Revenue Growth (%)	3.0	-15.7	20.2	12.0
EBITDA Growth (%)	-16.1	-85.3	540.3	13.8
Operating Profit Growth (%)	-26.0	TTR	TTB	28.5
EPS Growth (%)	-44.8	TTR	TTB	34.0
Accounts Receivable Turnover (x)	12.7	12.4	15.4	17.2
Inventory Turnover (x)	9.0	7.5	8.6	8.4
Accounts Payable Turnover (x)	15.0	11.0	11.4	11.1
ROA (%)	5.2	-5.5	4.2	5.1
ROE (%)	12.6	-15.0	13.8	16.3
ROIC (%)	12.1	-6.4	12.3	17.0
Liability to Equity Ratio (%)	134.1	222.8	231.1	208.4
Current Ratio (%)	114.1	48.4	56.1	52.7
Net Debt to Equity Ratio (%)	55.7	105.7	93.8	84.1
Interest Coverage Ratio (x)	7.0	-2.3	3.4	3.9

## Important Disclosures & Disclaimers

### Disclosures

As of the publication date, Daewoo Securities Co., Ltd and/or its affiliates do not have any special interest with the subject company and do not own 1% or more of the subject company's shares outstanding.



Stock Ratings		Industry Ratings	
Buy	Relative performance of 20% or greater	Overweight	Fundamentals are favorable or improving
Trading Buy	Relative performance of 10% or greater, but with volatility	Neutral	Fundamentals are steady without any material changes
Hold	Relative performance of -10% and 10%	Underweight	Fundamentals are unfavorable or worsening
Sell	Relative performance of -10%		

\* Ratings and Target Price History (Share price (----), Target price (----), Not covered (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

\* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

\* Although it is not part of the official ratings at Daewoo Securities, we may call a trading opportunity in case there is a technical or short-term material development.

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