

# Simmtech (036710 KS)

## Focus on turnaround in 2014

**BUY** (UPGRADE)

Price (Dec. 18)	₩6,380
Target Price	₩8,000
% variance	25.4%

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KOSPI	1,974.63p
KOSDAQ	485.65p
Market Cap.	₩205.4bn/ US\$203.4mn
Par Value	₩500
Outstanding Shares	32.2mn
Free Floating Shares	23.8mn(73.8%)
52-Week High/Low	₩10,750/₩6,110
60-Day Avg. Trading Volume	209,815shrs
60-Day Avg. Trading T/O	₩1,628mn
Foreign Ownership	2.52%
Major Shareholders	
Se-Ho Jun and 1 other	25.73%
Min-Ju Lee	9.17%
Absolute Performance	3M -28.7%
	6M -33.2%
	12M -35.8%
Relative performance	3M -22.6%
to KOSDAQ	6M -26.5%
	12M -36.1%

- ◆ 4Q13 consolidated operating loss to decline QoQ to ₩100mn, steady improvement to continue
- ◆ Operating income to swing positive YoY to a ₩33.5bn profit in 2014
- ◆ Upgrade to BUY, retaining target price of ₩8,000

### 4Q13 consolidated operating loss down QoQ to ₩100mn, earnings to break even

In 4Q13, Simmtech will see module substrate demand decrease due to the fire at SK Hynix. Costs are expected to decrease with the conversion of production lines to mobile parts completed and fixed costs falling after surging temporarily.

Simmtech is expected to turn in an operating loss of ₩100mn, down QoQ, for 4Q13. The company is doing well in reducing its operating loss from ₩10.2bn in 2Q13.

### Focus on anticipated turnaround in 2014; operating income to swing positive YoY to a ₩33.5bn profit

The company will enjoy the full benefits of production line conversion in 2014. Sales of multi-chip packages (MCP, a combination of DRAM and NAND) are expected to amount to ₩200bn and mobile flip chips ₩300bn. Mobile sales are estimated to reach ₩290bn, or 44% of total sales. Increasing sales of high-margin products should boost margins.

We project 2014 sales to grow 24.7% YoY to ₩667.8bn. Operating income should swing positive YoY to a ₩33.5bn profit.

### Upgrade to BUY, retaining target price of ₩8,000

We upgrade Simmtech to a BUY rating, while keeping our target price of ₩8,000 unchanged, in view of target returns rising after share price decline. Simmtech shares have tumbled nearly 45% over the past two months. Concerns over sluggish earnings improvement has been fully reflected in the current share price, which represents 2014F P/E of 8.9x.

A turnaround is expected next year based on mobile sales growth. A further downside in the share price looks limited. The share value will likely improve gradually.

Year to Dec.	Sales (₩ bn)	OP (₩ bn)	Pre-tax (₩ bn)	NP (₩ bn)	EPS (₩)	Growth (%)	BPS (₩)	PER (X)	EV/EBITDA (X)	PBR (X)	ROE (%)	Net Debt Ratio (%)
2011	613.8	62.8	52.6	42.6	1,458	(43.9)	5,902	8.4	5.3	2.1	27.5	84.9
2012	631.4	46.7	28.5	19.7	634	(56.5)	6,470	16.2	5.7	1.6	10.3	58.9
2013F	535.5	(22.0)	(26.1)	(20.0)	(617)	TN	5,654	(10.3)	24.6	1.1	(10.2)	77.2
2014F	667.8	33.5	27.9	23.1	715	TP	6,170	8.9	4.9	1.0	12.1	64.9
2015F	716.9	49.5	45.4	37.6	1,164	62.8	7,135	5.5	3.6	0.9	17.5	41.9

Note: K-IFRS consolidated

## 4Q13 earnings estimates

(bn KRW)	4Q13F	3Q13	QoQ (%)	4Q12	YoY (%)	Cons.	Difference (%)
Sales	143.5	142.3	0.8	144.8	0.9	140.6	2.1
OP	(0.1)	(4.0)	Loss ↓	3.8	TN	0.8	(112.5)
NP	(2.9)	(5.7)	Loss ↓	(4.3)	Loss ↓	(4.8)	(39.6)
OPM (%)	(0.1)	(2.8)		2.6		0.6	
NPM (%)	(2.0)	(4.0)		(3.0)		(1.3)	

Source: Shinhan Investment Corp.

## Earnings forecast revision

(bn KRW)	2013F			2014F		
	Before	After	Change (%)	Before	After	Change (%)
Sales	532.3	535.5	0.6	664.0	667.8	0.6
OP	(19.0)	(22.0)	Loss ↑	33.5	33.5	0.0
NP	(27.3)	(20.1)	Loss ↑	22.7	22.7	0.0
OPM (%)	(3.6)	(4.1)		5.0	5.0	
NPM (%)	(5.1)	(3.8)		3.4	3.4	

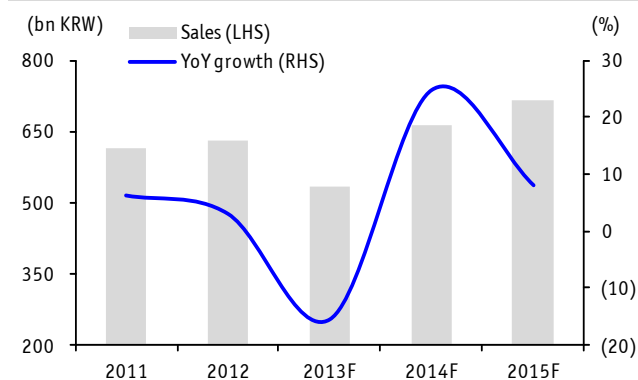
Source: Shinhan Investment Corp.

## Quarterly earnings

(bn KRW)	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13F	1Q14F	2Q14F	3Q14F	4Q14F	2012	2013F	2014F	2015F
Sales	157.4	163.5	165.6	144.8	118.4	131.3	142.3	143.5	151.4	164.1	173.0	179.3	631.4	535.5	667.8	716.9
Module PCB	77.5	71.5	66.8	51.6	42.2	47.4	44.6	48.7	50.2	55.0	60.0	60.6	267.4	182.9	225.8	239.6
Substrate	79.9	92.0	98.8	93.2	76.2	83.9	97.7	94.7	101.2	109.1	113.0	118.6	364.0	352.6	441.9	477.3
Sales share																
Module PCB	49.2	43.7	40.3	35.6	35.6	36.1	31.3	34.0	33.1	33.5	34.7	33.8	42.3	34.2	33.8	33.4
Substrate	50.8	56.3	59.7	64.4	64.4	63.9	68.7	66.0	66.9	66.5	65.3	66.2	57.7	65.8	66.2	66.6
OP	13.6	15.1	13.9	3.8	(7.7)	(10.2)	(4.0)	(0.1)	2.6	6.2	10.2	14.5	46.3	(22.0)	33.5	49.5
NP	7.9	9.0	7.1	(4.3)	(9.2)	(2.3)	(5.7)	(2.9)	0.4	3.4	6.8	12.2	19.7	(20.1)	22.7	37.0
OPM (%)	8.6	9.2	8.4	2.6	(6.5)	(7.8)	(2.8)	(0.1)	1.7	3.8	5.9	8.1	7.3	(4.1)	5.0	6.9
NPM (%)	5.0	5.5	4.3	(3.0)	(7.8)	(1.8)	(4.0)	(2.0)	0.2	2.1	3.9	6.8	3.1	(3.8)	3.4	5.2

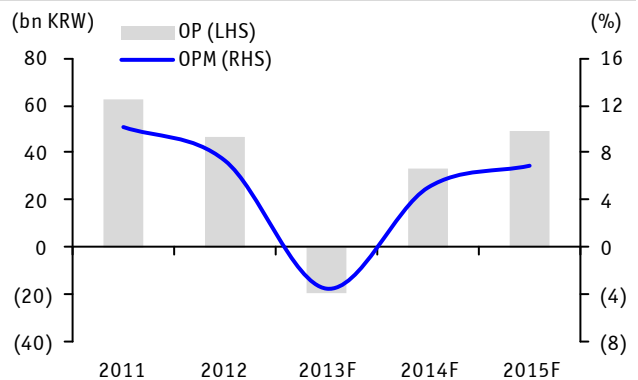
Source: Shinhan Investment Corp.

## Sales



Source: Shinhan Investment Corp.

## Operating profit



Source: Shinhan Investment Corp.

**PBR band**

Source: QuantiWise, Shinhan Investment Corp.

## Balance Sheet

Year to Dec. (W bn)	2011	2012	2013F	2014F	2015F
<b>Assets</b>	<b>455.6</b>	<b>504.0</b>	<b>459.9</b>	<b>501.1</b>	<b>541.4</b>
Total Current Assets	161.6	202.1	162.1	204.5	248.5
Cash and Cash Equivalents	21.2	55.3	37.6	49.2	81.9
Accounts Receivables	53.0	41.6	35.3	44.0	47.2
Inventories	67.1	75.9	64.4	80.3	86.2
Non-Current Assets	294.0	301.8	297.8	296.6	292.8
Tangible Assets	251.5	248.3	248.2	243.8	239.2
Intangible Assets	4.7	5.3	4.4	3.6	2.9
Investment Assets	18.9	19.1	16.2	20.2	21.7
Other Financial Institutions Assets	0.0	0.0	0.0	0.0	0.0
<b>Liabilities</b>	<b>282.2</b>	<b>295.2</b>	<b>277.5</b>	<b>301.9</b>	<b>311.0</b>
Current Liabilities	228.0	168.7	152.9	174.7	182.8
ST Borrowings	128.0	64.7	64.7	64.7	64.7
Account Payables	38.5	45.7	38.8	48.4	51.9
Current Portion of LT Debt	0.0	0.0	0.0	0.0	0.0
Non-Current Liabilities	54.3	126.5	124.6	127.2	128.2
Bonds	0.0	45.1	45.1	45.1	45.1
LT Borrowings(incl. LT Fin. Liab.)	41.3	68.7	68.7	68.7	68.7
Other Financial Institutions Liab.	0.0	0.0	0.0	0.0	0.0
<b>Shareholders' Equity</b>	<b>173.3</b>	<b>208.7</b>	<b>182.4</b>	<b>199.1</b>	<b>230.3</b>
Capital Stock	14.7	16.1	16.1	16.1	16.1
Capital Surplus	81.2	101.0	101.0	101.0	101.0
Other Reserves	(2.1)	(0.7)	(0.7)	(0.7)	(0.7)
Accu. Other Comp. Income	0.6	(1.3)	(1.3)	(1.3)	(1.3)
Retained Earnings	79.0	93.3	67.0	83.6	114.7
Owners of Parent Equity	173.3	208.3	182.1	198.7	229.7
Non-Controlling Interests Equity	0.0	0.4	0.3	0.4	0.6
*Total Debt	169.4	178.5	178.5	178.5	178.5
*Net Debts(Cash)	147.2	123.0	140.8	129.1	96.4

## Cash Flow

Year to Dec. (W bn)	2011	2012	2013F	2014F	2015F
<b>Operating Cash Flow</b>	<b>59.3</b>	<b>72.2</b>	<b>21.5</b>	<b>52.8</b>	<b>70.4</b>
Net Profit	42.6	19.7	(20.0)	23.1	37.6
Depreciation	32.4	32.4	35.2	34.4	33.6
Amortization	0.3	0.9	1.0	0.8	0.7
Losses(Gains) on F/X Translation	3.8	(0.5)	0.0	0.0	0.0
Losses(Gains) on Disp. of Assets	(2.3)	1.3	0.8	0.8	0.8
Losses(Gains) in Asso., Subs., JVs	1.4	4.4	0.0	0.0	0.0
Chg. in A/L from Op. Activities	(32.4)	(8.0)	4.5	(6.3)	(2.3)
(Payments of Income Taxes)	(4.3)	0.0	6.1	(4.7)	(7.7)
Others	17.8	22.0	(6.1)	4.7	7.7
<b>Investing Cash Flow</b>	<b>(0.3)</b>	<b>(68.4)</b>	<b>(32.1)</b>	<b>(34.0)</b>	<b>(30.5)</b>
Incr. in Tangible Assets(CAPEX)	(20.9)	(62.4)	(35.0)	(30.0)	(29.0)
Decr. in Tangible Assets	16.0	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)	0.0	2.9	(4.0)	(1.5)
Others	4.9	(5.7)	(0.0)	0.0	0.0
<b>Free Cash Flow</b>	<b>50.2</b>	<b>0.0</b>	<b>(9.2)</b>	<b>24.1</b>	<b>43.0</b>
<b>Financing Cash Flow</b>	<b>(52.5)</b>	<b>30.1</b>	<b>(6.4)</b>	<b>(6.4)</b>	<b>(6.4)</b>
Incr.(Decr.) in Borrowing	(47.7)	16.6	0.0	0.0	0.0
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	(2.0)	19.3	0.0	0.0	0.0
Other Cash Flows	0.0	0.0	(1.3)	(0.8)	(0.8)
Change of Consolidated Scope	0.0	0.0	0.0	0.0	0.0
Difference by Chg. in F/X Rates	(1.0)	0.6	0.0	0.0	0.0
<b>Incr.(Decr.) in Cash</b>	<b>5.5</b>	<b>34.5</b>	<b>(18.3)</b>	<b>11.6</b>	<b>32.7</b>
Beginning Cash	15.8	21.3	55.9	37.6	49.2
Ending Cash	21.3	55.9	37.6	49.2	81.9

Source: Company data, Shinhan Investment Corp.

## Profit and Loss

Year to Dec. (W bn)	2011	2012	2013F	2014F	2015F
<b>Sales</b>	<b>613.8</b>	<b>631.4</b>	<b>535.5</b>	<b>667.8</b>	<b>716.9</b>
Growth (%)	5.2	2.9	(15.2)	24.7	7.4
<b>COGS</b>	<b>511.2</b>	<b>541.5</b>	<b>519.2</b>	<b>593.5</b>	<b>623.7</b>
<b>Gross Profit</b>	<b>102.5</b>	<b>89.9</b>	<b>16.3</b>	<b>74.3</b>	<b>93.2</b>
Gross margin (%)	16.7	14.2	3.0	11.1	13.0
<b>SG&amp;A</b>	<b>39.7</b>	<b>43.2</b>	<b>38.3</b>	<b>40.7</b>	<b>43.7</b>
<b>Operating Income</b>	<b>62.8</b>	<b>46.7</b>	<b>(22.0)</b>	<b>33.5</b>	<b>49.5</b>
Growth (%)	(30.0)	(25.6)	TN	TP	47.5
Operating margin (%)	10.2	7.4	(4.1)	5.0	6.9
<b>Other Net Non-Operating Profits</b>	<b>(10.2)</b>	<b>(18.2)</b>	<b>(4.1)</b>	<b>(5.7)</b>	<b>(4.1)</b>
Financial Income(Expenses)	(10.3)	(5.1)	0.5	0.2	0.5
Net Other Non-Operating Profits	1.5	(8.7)	(4.5)	(5.9)	(4.6)
Net Gains in Asso., Subs., and JVs	(1.4)	(4.4)	0.0	0.0	0.0
<b>Pre-tax Profit from Cont. Op.</b>	<b>52.6</b>	<b>28.5</b>	<b>(26.1)</b>	<b>27.9</b>	<b>45.4</b>
Income Taxes	9.9	8.8	(6.1)	4.7	7.7
Profit from Continuing Op.	42.6	19.7	(20.0)	23.1	37.6
Profit from Discontinued Op.	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>42.6</b>	<b>19.7</b>	<b>(20.0)</b>	<b>23.1</b>	<b>37.6</b>
Growth (%)	(40.6)	(53.7)	TN	TP	62.8
Net Profit margin (%)	6.9	3.1	(3.7)	3.5	5.3
Net Profit of Parent	42.6	19.6	(19.9)	23.0	37.5
Net Profit to Non-Controlling	0.0	0.1	(0.1)	0.1	0.2
<b>Total Comprehensive Income</b>	<b>41.3</b>	<b>18.2</b>	<b>(20.0)</b>	<b>23.1</b>	<b>37.6</b>
Total Comp. Income of Parent	41.3	18.1	(19.9)	23.0	37.5
Total Comp. Income to Non-Cont.	0.0	0.1	(0.1)	0.1	0.2
<b>EBITDA</b>	<b>95.4</b>	<b>79.9</b>	<b>14.1</b>	<b>68.7</b>	<b>83.7</b>
Growth (%)	(20.7)	(16.2)	(82.3)	387.0	21.8
EBITDA Margin (%)	15.6	12.7	2.6	10.3	11.7

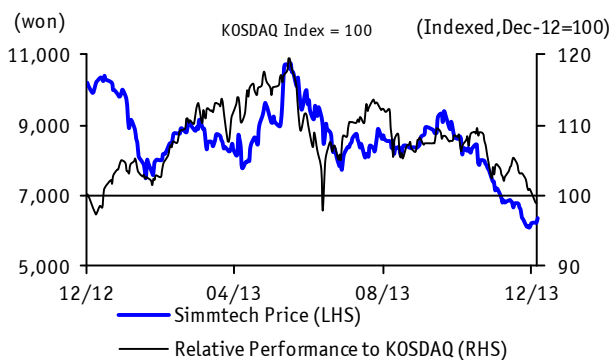
Note: Operating profit is based on 2012 K-IFRS (gross profit - SG&amp;A costs)

## Key Ratios

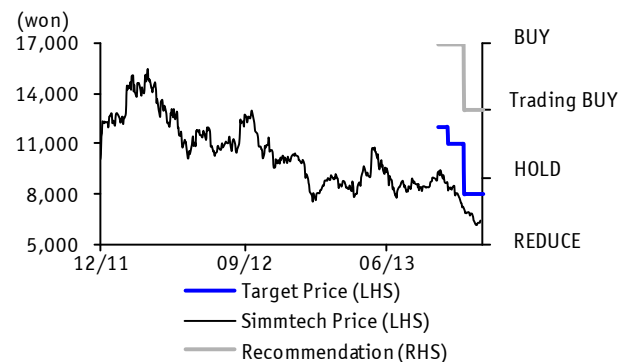
Year to Dec.	2011	2012	2013F	2014F	2015F
EPS_C (won)	1,458	637	(620)	718	1,169
EPS_P (won)	1,458	634	(617)	715	1,164
BPS_C (won)	5,902	6,483	5,664	6,183	7,153
BPS_P (won)	5,902	6,470	5,654	6,170	7,135
DPS (won)	200	200	200	200	200
PER_C (x)	8.4	16.2	(10.3)	8.9	5.5
PER_P (x)	8.4	16.2	(10.3)	8.9	5.5
PBR_C (x)	2.1	1.6	1.1	1.0	0.9
PBR_P (x)	2.1	1.6	1.1	1.0	0.9
EV/EBITDA (x)	5.3	5.7	24.6	4.9	3.6
EV/EBIT (x)	8.1	9.7	(15.7)	10.0	6.1
Dividend Yield (%)	1.6	1.9	3.1	3.1	3.1
<b>Profitability</b>					
EBITDA Margin (%)	15.6	12.7	2.6	10.3	11.7
OP Margin (%)	10.2	7.4	(4.1)	5.0	6.9
NP Margin (%)	6.9	3.1	(3.7)	3.5	5.3
ROA (%)	9.3	4.1	(4.1)	4.8	7.2
ROE (%)	27.5	10.3	(10.2)	12.1	17.5
ROIC (%)	14.9	12.4	(5.8)	9.6	14.1
<b>Stability</b>					
D/E Ratio (%)	162.8	141.4	152.1	151.7	135.0
Net Debt to Equity (%)	84.9	58.9	77.2	64.9	41.9
Cash Ratio (%)	9.3	32.8	24.6	28.2	44.8
Interest Coverage (x)	6.3	6.6	(3.0)	4.6	6.8
<b>Activity (%)</b>					
Working Capital Turnover (t)	18.5	15.4	13.6	16.4	15.3
Inventory Turnover (d)	34.6	41.3	47.8	39.5	42.4
Receivable Turnover (d)	29.5	27.3	26.2	21.6	23.2

Source: Company data, Shinhan Investment Corp.

## Share Price Performance



## Target Price &amp; 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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