

Company Update



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■ AT A GLANCE

SELL HOLD BUY

Target price	KRW6,500 (1.2%)
Current price	KRW6,420
Bloomberg code	036710 KS
Market cap	KRX272.1b/USD256.5m
Shares (float)	32,199,999 (73.7%)
52-week high/low	KRX11,350/KRX7,510
Average daily trading value (60-day)	KRX2.06b/ USD1.95m
One-year performance	1M 6M 12M
Simmtech (%)	-8.5 -2.3 -18.8
Vs Kosdaq (%pts)	-7.8 +3.8 -26.6

■ KEY CHANGES

(KRW)	New	Old	Diff (%)
Recommendation	HOLD	BUY	
Target price	6,500	10,000	(35.0)
2013E EPS	-924	-848	nm
2014E EPS	690	972	(29.0)
2015E EPS	941	1,234	(23.8)

■ SAMSUNG vs THE STREET

No of I/B/E/S estimates	11
Target price vs I/B/E/S mean	-35%
Estimates up/down (4 weeks)	0/0
1-year-fwd EPS vs I/B/E/S mean	-16%
Estimates up/down (4 weeks)	0/0
I/B/E/S recommendation	Buy

Simmtech (036710)

Needs new markets

WHAT'S THE STORY?

Event: High-end product sales are stagnating in the smartphone downstream industry, which is delaying a turnaround by Simmtech.

Impact: With industry growth slowing, Simmtech (being a mobile-use packaging newcomer) struggles to gain market share. The firm's low-end AP packaging sales (primarily to Chinese clients like MediaTek) will likely account for just 5% of its 2014 total, while PC-use product sales, which represented 20% of the 2013 total, are poised to contract this year.

Action: We lower our rating on Simmtech to HOLD and cut our 12-month target price by 35% to KRW6,500.

THE QUICK VIEW

Revising down to HOLD, cutting target: We revise down Simmtech to HOLD and cut our 12-month target price by 35% to KRW6,500 as its shares already price in expectations of a turnaround this year after posting quarterly losses throughout 2013. Our forecasts, however, differ with market expectations on the size and timing of any such turnaround, with our 2014 EPS estimate being 16% lower than the consensus, while the firm's margin still faces downside. Despite boasting diversified clients like SK Hynix, Samsung Electronics, and Micron, the firm could be hit if the smartphone parts sector enters a downcycle in 1H14 amid downstream sluggishness.

Few catalysts: Shares in Simmtech have contracted roughly 20% over the past two months, with no catalysts yet to emerge, as: 1) second-tier players are losing ground amid a slowing high-end FC-CSP market and expansion of AP/baseband integrated chips—with both likely to bring long-term packaging market stagnation; 2) it is getting more difficult for the firm to gain ground in the CSP and MCP markets as they become better established; 3) its low-end AP packaging sales [mainly from Chinese clients] should contribute less than 5% of total sales this year; and 4) full-year global PC shipments are forecast to contract 7%.

Packaging sales recovery in China bode well: Market watchers should soon focus on sales of AP-use FC-CSPs used in China's low-end smartphones, with Simmtech's share-price movement likely to depend on whether or not it gains market share in the segment dominated by Kinsus (Taiwan). The firm's investment merits might could receive a boost if its margins stabilize following a turnaround (thanks to a stable customer base).

■ SUMMARY FINANCIAL DATA

	2012	2013E	2014E	2015E
Revenue (KRWb)	630.6	524.1	599.1	642.1
Net profit (adj) (KRWb)	24.5	(29.7)	22.2	30.3
EPS (adj) (KRW)	899	(924)	690	941
EPS (adj) growth (%)	(37.3)	BR	RB	36.4
EBITDA margin (%)	11.4	2.7	12.0	12.3
ROE (%)	12.6	(15.1)	11.9	14.7
P/E (adj) (x)	7.2	n/a	9.3	6.8
P/B (x)	1.0	1.2	1.1	1.0
EV/EBITDA (x)	4.6	29.6	5.6	5.1
Dividend yield (%)	3.1	3.1	3.1	3.1

Source: Company data, Samsung Securities estimates

Table 1. Quarterly results and forecasts

(KRWb)	4Q13E	2Q13	3Q12	Chg (% q-q)	Chg (% y-y)
Sales	134.7	139.9	143.7	(3.7)	(6.2)
Operating profit	(2.6)	(2.4)	3.8	nm	nm
Pre-tax profit	(6.0)	(6.8)	(3.1)	nm	nm
Net profit	(4.8)	(5.4)	(2.9)	nm	nm
Margins (%)					
Operating profit	(1.9)	2.6	2.6		
Pre-tax profit	(4.4)	(2.1)	(2.1)		
Net profit	(3.5)	(2.0)	(2.0)		

Note: K-IFRS parent basis

Source: Samsung Securities estimates

Table 2. Annual forecast revisions

(KRWb)	Old		New		Diff (%)	
	2013E	2014E	2013E	2014E	2013E	2014E
Sales	531.1	657.4	524.1	599.1	(1.3)	(8.9)
Operating profit	(18.4)	45.4	(21.5)	33.7	n/a	(25.7)
Pre-tax profit	(32.9)	40.3	(36.0)	28.6	n/a	(29.0)
Net profit	(26.7)	31.3	(29.1)	22.2	n/a	(29.0)

Note: K-IFRS parent basis

Source: Samsung Securities estimates

Table 3. Target-price calculation

(KRW)	
2013E EPS	690
Target P/E (x)	9
Fair value	6,208
Target price	6,500
Current price	6,420
Upside (%)	1.2

Source: Samsung Securities estimates

Table 4. Quarterly results and forecasts

(KRWb)	1Q13	2Q13	3Q13P	4Q13E	1Q14E	2Q14E	3Q14E	4Q14E	2012	2013E	2014E
Sales	118.5	130.9	139.9	134.7	140.6	149.3	156.3	152.9	630.6	524.1	599.1
Memory module PCB	40.3	43.1	43.7	42.6	43.9	45.8	45.2	45.3	254.1	169.7	180.1
Package substrate	76.3	83.5	91.8	89.0	94.2	99.9	106.7	104.5	363.2	340.7	405.2
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)	(2.6)	3.3	8.2	10.9	11.4	46.3	(21.5)	33.7
Pretax profit	(9.8)	(13.4)	(6.8)	(6.0)	2.2	7.0	10.1	9.3	33.1	(36.0)	28.6
Net profit	(8.1)	(10.8)	(5.4)	(4.8)	1.7	5.4	7.8	7.3	24.5	(29.1)	22.2
Margins (%)											
Operating profit	(6.4)	(6.7)	(1.7)	(1.9)	2.4	5.5	7.0	7.4	7.3	(4.1)	5.6
Pretax profit	(8.3)	(10.2)	(4.9)	(4.4)	1.5	4.7	6.4	6.1	5.3	(6.9)	4.8
Net profit	(6.9)	(8.2)	(3.9)	(3.5)	1.2	3.6	5.0	4.8	3.9	(5.6)	3.7

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	524	599	642
Cost of goods sold	514	544	509	544	572
Gross profit	98	86	15	55	70
Gross margin (%)	16.1	13.7	2.8	9.2	11.0
SG&A expenses	36	40	36	22	29
Operating profit	63	46	(21)	34	41
Operating margin (%)	10	7	(4)	6	6
Net interest income	(9)	(6)	(15)	(5)	(1)
Net forex-related gains	0	0	3	4	4
Net equity-method gains	0	0	(2)	(1)	0
Other	(2)	(7)	(1)	(3)	(5)
Pre-tax profit	52	33	(36)	29	39
Taxes	10	8	(7)	6	9
Effective tax rate, (%)	19	25	18	22	22
Net profit	42	25	(30)	22	30
Net margin (%)	6.8	3.9	(5.7)	3.7	4.7
Operating net profit*	42	28	(30)	22	30
Operating net margin, (%)	6.9	4.4	(5.7)	3.7	4.7
EBITDA	92	72	14	72	79
EBITDA margin (%)	15.1	11.4	2.7	12.0	12.3
Reported EPS (KRW)	1,435	792	(924)	690	941
Adjusted EPS (KRW)**	1,435	899	(924)	690	941
DPS (common, KRW)	200	200	200	200	200
DPS (preferred, KRW)	0	0	0	0	0
Dividend payout ratio (%)	13.7	26.1	(21.5)	28.9	21.2

Cash flow statement

Year-end Dec 31 (KRWb)	2011	2012	2013E	2014E	2015E
Cash flow from operations	63	70	40	63	63
Net profit	42	25	(30)	22	30
Depreciation & amortization	32	33	35	38	38
Net forex-translation income	4	(0)	(3)	(4)	(4)
Net equity-method income	0	0	0	0	0
Gross cash flow	105	86	12	(24)	70
(-) Change in working capital	(33)	(6)	20	(3)	(7)
Other	0	(3)	(0)	0	(0)
Cash flow from investments	(15)	(64)	(185)	(16)	(37)
Capex	(20)	(62)	(85)	(30)	(50)
Free cash flow	42	8	(45)	33	13
Change in investment assets	(2)	(2)	(40)	(0)	(1)
Dividends***					
Other	6	(0)	(59)	15	13
Cash flow from financing	(45)	31	96	(37)	(28)
Change in debt	(40)	17	40	(7)	4
Change in equity	2	17	0	0	0
Dividends	(5)	(6)	(6)	(6)	(6)
Other	(2)	3	62	(24)	(25)
Change in cash	2	37	(49)	10	(1)
Cash at beginning of year	13	16	52	4	14
Cash at end of year	16	52	4	14	12

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	153	170	174
Cash & equivalents	16	52	4	14	12
Accounts receivable	56	43	48	50	54
Inventories	66	74	62	71	76
Other current assets	15	22	40	36	32
Fixed assets	294	312	447	433	439
Investment assets	39	38	78	79	79
Equity in affiliated companies	34	27	67	67	67
Tangible assets	231	239	290	283	296
Intangible assets	5	5	5	5	4
Other long-term assets	19	30	73	66	60
Total assets	447	503	600	603	613
Current liabilities	226	168	326	313	302
Accounts payable	38	46	52	60	64
Short-term debt	126	64	133	127	131
Other current liabilities	62	58	140	126	107
Long-term liabilities	48	121	95	96	92
Bond & long-term debt	35	108	78	78	78
Other long-term liabilities	13	12	17	17	14
Total liabilities	274	288	421	408	394
Capital stock	15	16	16	16	16
Capital surplus	82	102	102	102	102
Retained earnings	78	98	61	77	101
Other	(2)	(1)	(1)	(1)	(1)
Total equity	173	215	179	195	218
Net debt	145	120	208	191	196
Book value per share (KRW)	5,847	6,548	5,425	5,926	6,678

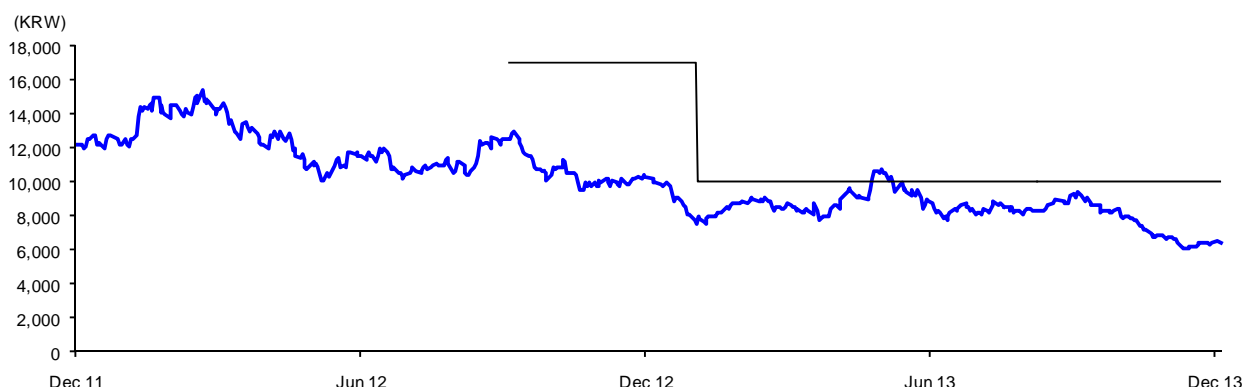
Financial ratios

Year-end Dec 31	2011	2012	2013E	2014E	2015E
Growth (%)					
Sales	6.2	3.0	(15.8)	14.3	7.2
Operating profit	(26.6)	(26.0)	BR	RB	21.6
Pre-tax profit	(35.1)	(36.3)	BR	RB	36.4
Net profit	(40.7)	(41.5)	BR	RB	36.4
Operating net profit*	(36.7)	(33.6)	BR	RB	36.4
EBITDA	(32.9)	(32.0)	(80.5)	410.9	9.9
Adjusted EPS**	(41.0)	(37.3)	BR	RB	36.4
Ratios					
ROE (%)	27.1	12.6	(15.1)	11.9	14.7
ROA (%)	9.4	5.2	(5.4)	3.7	5.0
ROIC (%)	16.0	10.3	(4.6)	6.8	7.7
Net debt to equity (%)	83.8	55.7	116.3	98.2	89.9
Interest coverage (x)	6.6	5.9	(1.1)	2.5	3.2
Receivables turnover (days)	30.4	28.7	31.6	29.7	29.4
Payables turnover (days)	23.6	24.3	34.2	34.2	35.3
Inventory turnover (days)	34.1	40.5	47.4	40.3	41.5
Valuations (x)					
P/E	9.3	7.2	n/a	9.3	6.8
P/B	2.3	1.0	1.2	1.1	1.0
EV/EBITDA	5.8	4.6	29.6	5.6	5.1
EV/EBIT	8.8	8.4	n/a	11.8	10.0
Dividend yield (common, %)	3.1	3.1	3.1	3.1	3.1

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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	2014/1/2
Recommendation	BUY	BUY	BUY	HOLD
Target price (KRW)	17,000	13,500	10,000	6,500

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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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