Company Update

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Simmtech (036710 KS)

Downstream problems, product-mix issues to make turnaround difficult

WHAT'S THE STORY?

Event: Simmtech yesterday posted 1Q results, its sales up 4.4% q-q to KRW145.2b and operating loss shrinking 19% q-q to KRW7.1b.

Impact: We expect Simmtech's quarterly results to grow y-y this year on base effect, but worsening conditions in downstream sectors to make it difficult to improve product mix. Gaining presence in the MCP and FC-CSP markets will likely be key to a turnaround, and we recommend waiting for signs of headway on this front before investing in the stock.

Action: We reiterate HOLD on Simmtech with a target price of KRW6,500.

THE QUICK VIEW

Still in the red: Simmtech yesterday posted 1Q sales that were up just 4.4% q-q to KRW145.2b and an operating loss of KRW7.1bs amid sluggish sales of in PC- and server-use memory modules and seasonally-weak demand for mobile-use packaging. While PC-use component sales have been normalizing since a 3Q13 fire at SK Hynix's fab in Wuxi, China, and sales of flip-chip chip-size packaging (FC-CSP) have been growing, sales of flagship products—board-on-chip (BOC) substrates and multi-chip packaging (MCP)—remain weak.

To benefit from base effect, but downstream sectors struggling: We expect Simmtech's 2014 results to grow on base effect—after fires at its memory module plant in 1Q13 and Hynix in 3Q13—and its sales of module printed circuit boards (PCBs) to climb 20.2% to KRW204b this year. It likely will be difficult, however, for the firm to improve its semiconductor product mix, given stagnant PC market growth and growing demand for lower-end mobile devices.

Needs to rebuild MCP and FC-CSP market share: We believe Simmtech needs to reinforce its presence in MCP, FC-CSP, and other components for mobile devices, which are likely to drive growth in client industries. Its MCP sales growth is slowing, however, and while we expect its FC-CSP sales to more than quadruple this year (to KRW36.6b from KRW8.6b in 2013), this may not be good enough to impress investors.

Maintaining HOLD: We still expect Simmtech to turn profitable in 2Q, but reiterate HOLD on the stock with a 12-month target price of KRW6,500, given the difficulties in downstream sectors. Gaining presence in the MCP and FC-CSP markets will likely be key to a turnaround, and we recommend waiting for signs of headway on this front before investing in the stock.

AT A GLANCE

SELL | HOLD | BUY

Target price	KRW6,500 (10.5%)		
Current price	KRX5,880		
Bloomberg code			036710 KS
Market cap			KRX189.3b/USD184.8m
Shares (float)			32,199,999 (73.8%)
52-week high/low			KRX10,750/KRX5,510
Average daily trading value (60-day)			KRX 1.02b/USD 1.00m
One-year performance	1M	6M	12M
Simmtech (%)	-5.9	-20.7	-37.9
Vs Kosdaq (%pts)	-5.1	-28.6	-34.7

KEY CHANGES

(KRW)	New	Old	Diff (%)
Recommendation	HOLD	HOLD	
Target price	6,500	6,500	0.0%
2013E EPS	204	690	-70.4%
2014E EPS	686	941	-27.1%
2015E EPS	442	n/a	n/a

SUMMARY OF 1Q RESULTS

(KRWb)	1Q14	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	141.8	19.6	4.4	0.8	10.2
Operating profit	(7.1)	nm	nm	nm	nm
Pre-tax profit	(9.5)	nm	nm	nm	nm
Net profit	(7.2)	nm	nm	nm	nm
Margins (%)					
Operating profit	(5.0)				
Pre-tax profit	(6.7)				
Net profit	(5.0)				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

	2013	2014E	2015E
Multiples (x)			
P/E	n/a	31.5	9.4
P/B	1.1	1.2	1.0
EV/EBITDA	(155.0)	8.9	6.4
Div yield (%)	0.0	0.0	0.0
EPS growth (%)	Turned neg	Turned pos	236.3
ROE (%)	(16.6)	3.7	11.4
Per share data (KRW)			
EPS	(980)	204	686
BVPS	5,341	5,572	6,281
DPS	0	0	0

Summary of 1Q results

(KRWb)	1Q14	1Q13	4Q13	Change	
				(% y-y)	(% q-q)
Sales	141.8	135.8	118.5	4.4	19.6
Operating profit	(7.1)	(8.8)	(7.6)	nm	nm
Pre-tax profit	(10.7)	(12.2)	(9.8)	nm	nm
Net profit	(9.8)	(9.7)	(8.1)	nm	nm
Margins (%)					
Operating profit	(5.0)	(6.4)	(6.4)		
Pre-tax profit	(7.5)	(8.3)	(8.3)		
Net profit	(6.9)	(6.9)	(6.9)		

Source: Company data, Samsung Securities estimates

Annual forecast revisions

(KRWb)	Old		New		Chg (%)	
	2014E	2015E	2014E	2015E	2014E	2015E
Sales	599.1	642.1	596.1	623.8	(0.5)	(2.8)
Operating profit	33.7	41.0	15.8	33.6	(53.2)	(18.1)
Pre-tax profit	28.6	36.6	8.5	29.1	(70.4)	(20.3)
Net profit	22.2	28.4	5.1	22.6	(77.1)	(20.3)

Source: Samsung Securities estimates

Table 4. Quarterly results and forecasts

(KRWb)	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14E	3Q14E	4Q14E	2013	2014E	2015E
Sales	118.5	130.9	139.9	135.8	141.8	146.8	156.3	151.2	525.2	596.1	623.8
Memory module PCB	40.3	43.1	43.7	42.6	49.4	50.7	53.6	50.3	169.7	204.0	193.1
Package substrate	76.3	83.5	91.8	90.1	89.4	91.8	97.4	97.2	341.8	375.7	413.9
Burn-in board (BIB)	0.5	0.4	0.4	0.3	0.3	0.3	0.4	0.4	1.6	1.4	1.7
Build-up board	1.4	3.9	4.0	2.8	2.7	4.1	4.9	3.4	12.1	15.0	15.1
Operating profit	(7.6)	(8.8)	(2.4)	(8.8)	(7.1)	3.4	10.9	8.6	(27.7)	15.8	33.6
Pretax profit	(9.8)	(13.4)	(6.8)	(12.2)	(10.7)	1.9	9.8	7.5	(42.2)	8.5	29.1
Net profit	(8.1)	(10.8)	(5.4)	(9.7)	(9.8)	1.5	7.6	5.8	(34.1)	5.1	22.6
Margins (%)											
Operating profit	(6.4)	(6.7)	(1.7)	(6.5)	(5.0)	2.3	7.0	5.7	(5.3)	2.6	5.4
Pretax profit	(8.3)	(10.2)	(4.9)	(9.0)	(7.5)	1.3	6.2	4.9	(8.0)	1.4	4.7
Net profit	(6.9)	(8.2)	(3.9)	(7.2)	(6.9)	1.0	4.9	3.8	(6.5)	0.9	3.6

Note: K-IFRS parent basis
Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2012	2013E	2014E	2015E	2016E
Sales	**631**	**522**	**596**	**624**	**648**
Cost of goods sold	544	511	552	563	589
Gross profit	**86**	**10**	**45**	**61**	**59**
Gross margin (%)	13.7	2.0	7.5	9.7	9.1
SG&A expenses	40	38	29	27	28
Operating profit	**46**	**(28)**	**16**	**34**	**31**
Operating margin (%)	7	(5)	3	5	5
Net interest income	(6)	(8)	(5)	(4)	(5)
Net forex-related gains	0	0	4	4	4
Net equity-method gains	0	0	(1)	0	0
Other	(7)	(5)	(5)	(5)	(11)
Pre-tax profit	**33**	**(41)**	**8**	**28**	**20**
Taxes	8	(8)	2	6	6
Effective tax rate (%)	25	20	22	22	28
Net profit	**25**	**(32)**	**7**	**22**	**14**
Net margin (%)	3.9	(6.2)	1.1	3.5	2.2
Operating net profit*	**28**	**(32)**	**7**	**22**	**14**
Operating net margin (%)	4.4	(6.1)	1.1	3.5	2.2
EBITDA	72	(3)	48	68	61
EBITDA margin (%)	11.4	(0.5)	8.0	10.8	9.5
Reported EPS (KRW)	792	(1,009)	204	686	442
Adjusted EPS (KRW)**	895	(980)	204	686	442
DPS (common, KRW)	200	0	0	0	0
DPS (preferred, KRW)	0	0	0	0	0
Dividend payout ratio (%)	26.1	0.0	0.0	0.0	0.0

Cash flow statement

Year-end Dec 31 (KRWb)	2012	2013E	2014E	2015E	2016E
Cash flow from operations	**71**	**8**	**46**	**56**	**24**
Net profit	25	(32)	7	22	14
Depreciation & amortization	33	30	34	35	37
Net forex-translation income	(0)	(2)	(4)	(4)	(4)
Net equity-method income	0	0	0	0	0
Gross cash flow	**86**	**37**	**46**	**70**	**60**
(-) Change in working capital	(6)	(19)	(2)	(6)	(38)
Other	(3)	(5)	0	(0)	(0)
Cash flow from investments	**(65)**	**(111)**	**(19)**	**(43)**	**(44)**
Capex	(62)	(67)	(30)	(50)	(50)
Free cash flow	**9**	**(59)**	**16**	**6**	**(26)**
Change in investment assets	(2)	(44)	(1)	(1)	(0)
Dividends***					
Other	(0)	(0)	12	8	7
Cash flow from financing	**31**	**52**	**(20)**	**(15)**	**19**
Change in debt	17	58	(4)	3	26
Change in equity	17	0	0	0	0
Dividends	(6)	(6)	0	0	0
Other	2	0	(17)	(19)	(7)
Change in cash	**37**	**(51)**	**7**	**(2)**	**(1)**
Cash at beginning of year	16	52	1	9	6
Cash at end of year	52	1	9	6	5

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)	2012	2013E	2014E	2015E	2016E
Current assets	**191**	**129**	**145**	**147**	**182**
Cash & equivalents	52	1	9	6	5
Accounts receivable	43	42	50	52	84
Inventories	74	70	73	77	80
Other current assets	22	15	13	12	12
Fixed assets	**312**	**443**	**433**	**446**	**457**
Investment assets	38	80	81	82	82
Equity in affiliated companies	27	66	66	66	66
Tangible assets	239	287	284	300	314
Intangible assets	5	5	5	4	3
Other long-term assets	30	71	64	61	58
Total assets	**503**	**572**	**578**	**593**	**639**
Current liabilities	**168**	**294**	**260**	**256**	**272**
Accounts payable	46	50	55	58	60
Short-term debt	64	95	109	113	118
Other current liabilities	58	148	95	86	94
Long-term liabilities	**121**	**101**	**135**	**132**	**147**
Bond & long-term debt	108	88	118	118	138
Other long-term liabilities	12	13	17	14	9
Total liabilities	**288**	**395**	**395**	**388**	**419**
Capital stock	16	16	16	16	16
Capital surplus	102	102	102	102	102
Retained earnings	98	59	65	88	102
Other	(1)	(1)	(1)	(1)	(1)
Total equity	**215**	**177**	**183**	**205**	**219**
Net debt	120	230	219	224	251
Book value per share (KRW)	6,548	5,341	5,572	6,281	6,742

Financial ratios

Year-end Dec 31	2012	2013E	2014E	2015E	2016E
Growth (%)					
Sales	3.0	(17.3)	14.3	4.7	3.9
Operating profit	(26.0)	Turned neg	Turned pos	112.8	(7.5)
Pre-tax profit	(36.3)	Turned neg	Turned pos	236.3	(30.6)
Net profit	(41.5)	Turned neg	Turned pos	236.3	(35.6)
Operating net profit*	(33.9)	Turned neg	Turned pos	236.3	(35.6)
EBITDA	(32.0)	Turned neg	Turned pos	41.7	(9.0)
Adjusted EPS**	(37.6)	Turned neg	Turned pos	236.3	(35.6)
Ratios					
ROE (%)	12.6	(16.6)	3.7	11.4	6.7
ROA (%)	5.2	(6.0)	1.1	3.8	2.3
ROIC (%)	10.3	(5.4)	3.1	6.1	4.8
Net debt to equity (%)	55.7	130.2	119.5	109.4	114.3
Interest coverage (x)	5.9	(4.1)	1.0	2.6	2.0
Receivables turnover (days)	28.7	29.9	28.2	29.7	38.3
Payables turnover (days)	24.3	33.7	32.3	32.9	33.0
Inventory turnover (days)	40.5	50.6	44.0	43.9	44.1
Valuations (x)					
P/E	13.3	n/a	31.5	9.4	14.5
P/B	1.8	1.1	1.2	1.0	1.0
EV/EBITDA	6.8	(155.0)	8.9	6.4	7.4
EV/EBIT	12.5	(12.7)	31.7	13.2	18.6
Dividend yield (common, %)	3.4	0.0	0.0	0.0	0.0

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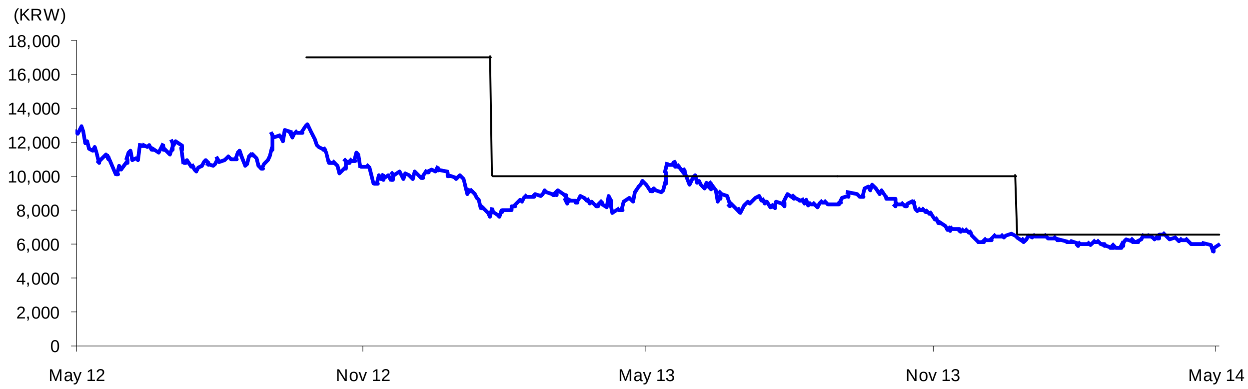

Rating changes in past two years

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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