

# Simmtech (036710 KS)

## 2Q turnaround, mobile to drive future earnings

### BUY (MAINTAIN)

Price (Aug. 6)	W7,310
Target Price	W8,500
% variance	16.3%

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KOSPI	2,060.73p
KOSDAQ	548.43p
Market Cap.	W235.4bn/ US206.5mn
Par Value	W500
Outstanding Shares	32.2mn
Free Floating Shares	23.8mn(73.8%)
52-Week High/Low	W9,400/W5,510
60-Day Avg. Trading Volume	411,011shrs
60-Day. Avg. Trading T/O	W2,762mn
Foreign Ownership	1.75%
Major Shareholders	
Se-Ho Jun and 1 other	25.73%
Min-Ju Lee	9.17%
Absolute Performance	3M 22.9%
	6M 19.8%
	12M -11.5%
Relative performance	3M 25.1%
to KOSDAQ	6M 11.4%
	12M -10.1%

- ◆ Earnings turnaround in 2Q14: Operating profit of W3.6bn
- ◆ Consolidated OP of W7bn (+93% QoQ) in 3Q, W13bn in 2014 (turnaround)
- ◆ Retain BUY for target price of W8,500

### Earnings turnaround in 2Q14: Operating profit of W3.6bn

Based on consolidated figures, Simmtech turned around to operating profit of W3.6bn (positive swing QoQ) in 2Q14 on sales of W162.4bn (+11.9% QoQ). It posted a net loss (attributable to controlling interests) of W2.1bn, continuing the subpar performance from 1Q14.

Capacity utilization rate bounced back to 85% thanks to rising demand for server and SSD module substrates and MCP and flip chip substrate sales to Chinese companies. Server module substrate sales increased 30.0% QoQ to W18.2bn, while SSD module substrate sales grew 46.3% QoQ to W6.0bn. Earnings growth was driven by sales of high value-added flip chips (up 44.7% QoQ to W11bn) and MCPs (up 21.5% QoQ to W48bn).

### Operating profit of W7bn seen in 3Q14, steady demand in mobile parts demand

Earnings growth is likely to continue in 3Q14. Chinese smartphone companies such as Xiaomi, Coolpad and Lenovo are sustaining growth. AP (Application Processor) companies in the Greater China region, including Mediatech and Spreadtrum Communications, are performing well. Demand for AP flip chip substrates should remain solid in Taiwan and China in 2H14 as well. SSD demand is also likely to be boosted by market expansion.

We expect Simmtech to post 3Q14 consolidated sales of W174.9bn (+7.7% QoQ) and operating profit of W7bn (+92.8% QoQ). We expect annual operating profit to reach W13bn (swing to profit YoY) in 2014. Sales of flip chip substrate are estimated at W40bn, while MCP substrate sales should surpass W55bn.

### Retain BUY for target price of W8,500

We expect top-line and profit growth from 2015 with expanding sales of high-value-added mobile devices. Earnings improvement should be confirmed in the longer term perspective. We recommend buying on the cheap. The current share price represents 2015F PER of 11.6x.

Year to Dec.	Sales (W bn)	OP (W bn)	Pre-tax (W bn)	NP (W bn)	EPS (Won)	Growth (%)	BPS (Won)	PER (X)	EV/EBITDA (X)	PBR (X)	ROE (%)	Net Debt Ratio (%)
2012	631.4	46.7	28.5	19.6	634	(56.5)	6,470	16.2	5.7	1.6	10.3	58.9
2013	526.3	(33.4)	(35.7)	(27.6)	(858)	TR	5,315	(7.6)	116.9	1.2	(14.6)	132.6
2014F	667.2	13.0	(3.4)	(5.0)	(155)	-	5,160	(47.2)	9.4	1.4	(3.0)	127.2
2015F	720.6	39.6	26.0	20.3	632	TB	5,792	11.6	5.7	1.3	11.5	93.0
2016F	780.7	49.7	37.3	29.2	906	43.5	6,698	8.1	4.5	1.1	14.5	61.4

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## 2Q14 results

(bn KRW)	2Q14P	1Q14	% QoQ	2Q13	% YoY	SHIC	Consensus
Sales	162.4	145.2	11.9	131.3	23.7	151.0	152.0
OP	3.6	(7.1)	TP	(10.2)	TP	3.8	3.2
NP of controlling interests	(2.1)	(9.7)	N	(2.3)	N	4.4	1.3
OPM (%)	2.2	(4.9)		(7.8)		2.5	2.1
NPM (%)	(1.3)	(6.7)		(1.8)		2.9	0.9

Source: Shinhan Investment Corp.

## Earnings forecast revision

(bn KRW)	2014F			2015F		
	Before	After	Change (%)	Before	After	Change (%)
Sales	634.1	667.2	5.2	665.8	720.6	8.2
OP	15.5	13.0	(16.1)	31.3	39.6	26.6
NP of controlling interests	14.2	(5.0)	(135.0)	23.5	20.3	(13.7)
OPM (%)	2.4	1.9		4.7	5.5	
NPM (%)	2.2	(0.7)		3.5	2.8	

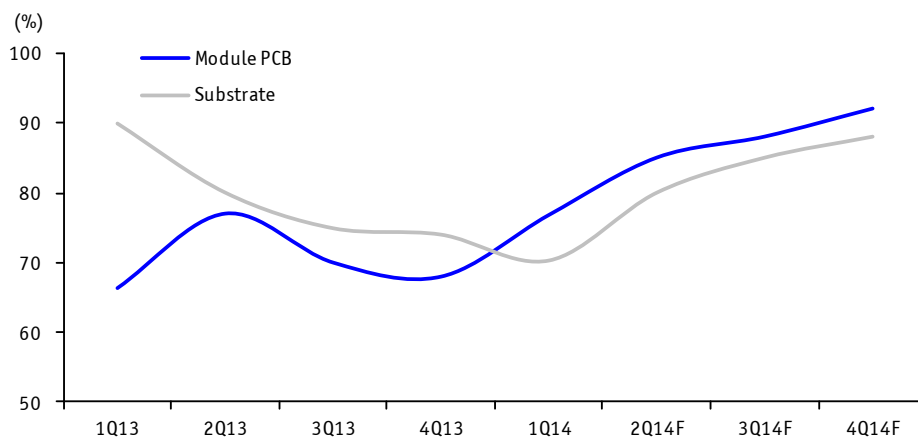
Source: Shinhan Investment Corp.

## Earnings forecasts

(bn KRW)	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14P	3Q14F	4Q14F	2013	2014F	2015F
Sales	118.4	131.3	142.3	134.2	145.2	162.4	174.9	184.7	526.3	667.2	720.6
Module PCB	42.2	47.4	44.6	47.6	53.3	57.2	60.6	64.3	181.8	235.3	254.1
Substrate	76.2	83.9	97.7	92.6	91.9	105.2	114.4	120.4	350.4	431.9	466.5
Sales share											
Module PCB	35.6	36.1	31.3	35.5	36.7	35.2	34.6	34.8	34.5	35.3	35.3
Substrate	64.4	63.9	68.7	69.0	63.3	64.8	65.4	65.2	66.6	64.7	64.7
OP	(7.7)	(10.2)	(4.0)	(11.5)	(7.1)	3.6	7.0	9.4	(33.4)	13.0	39.6
NP	(9.2)	(2.3)	(5.7)	(10.3)	(9.7)	(2.1)	1.5	5.4	(27.6)	(5.0)	20.3
OPM (%)	(6.5)	(7.8)	(2.8)	(8.6)	(4.9)	2.2	4.0	5.1	(6.4)	1.9	5.5
NPM (%)	(7.8)	(1.8)	(4.0)	(7.7)	(6.7)	(1.3)	0.8	2.9	(5.2)	(0.7)	2.8

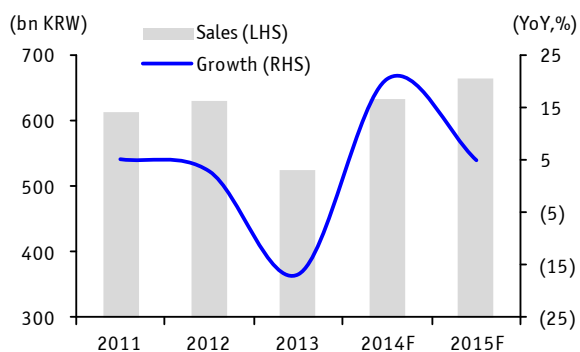
Source: Shinhan Investment Corp.

## Capacity utilization rates



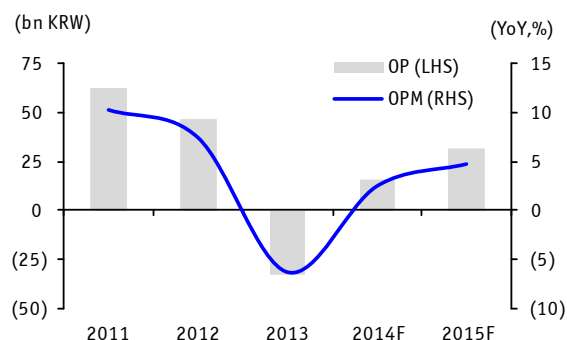
Source: Shinhan Investment Corp.

## Sales and sales growth



Source: Shinhan Investment Corp.

## Operating profit and operating profit margin



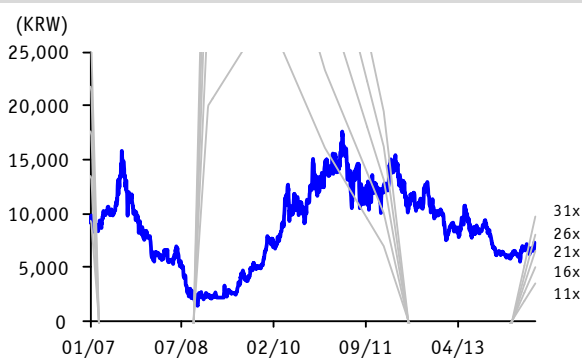
Source: Shinhan Investment Corp.

## Peer group valuation

Company		Daeduck Electronics	Daeduck GDS	Simmtech	Isu Petasys	Korea Circuit
Market cap. (bn KRW)		404.5	257.2	235.4	209.2	191.8
PER (x)	2014F	15.0	6.0	(47.2)	11.6	17.2
	2015F	11.3	4.5	11.6	7.4	8.7
PBR (x)	2014F	0.9	0.6	1.4	1.0	0.6
	2015F	0.9	0.6	1.3	0.9	0.6
EV/EBITDA (x)	2014F	3.2	2.3	9.4	7.2	3.1
	2015F	3.3	1.9	5.7	5.4	3.0
ROE (%)	2014F	6.4	10.0	(3.0)	7.7	3.1
	2015F	8.0	12.1	11.5	12.1	5.7

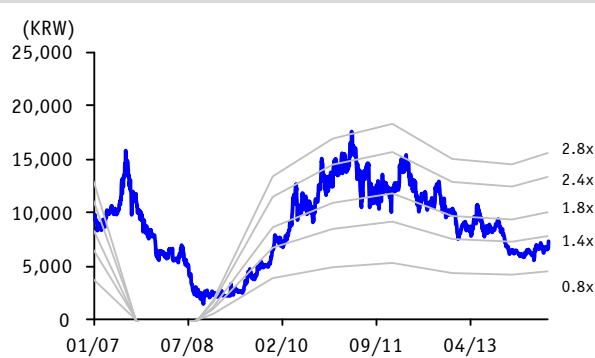
Source: Bloomberg, Shinhan Investment Corp.

## 2014F PER band



Source: Shinhan Investment Corp.

## 2014F PBR band



Source: Shinhan Investment Corp.

## Balance Sheet

Year to Dec. (W bn)	2012	2013	2014F	2015F	2016F
<b>Assets</b>	<b>504.0</b>	<b>566.5</b>	<b>619.1</b>	<b>632.9</b>	<b>658.6</b>
Total Current Assets	202.1	134.7	199.3	227.8	261.9
Cash and Cash Equivalents	55.3	3.9	33.4	48.7	67.9
Accounts Receivables	41.6	42.3	53.6	57.9	62.7
Inventories	75.9	79.6	101.0	109.0	118.1
Non-Current Assets	301.8	431.8	419.9	405.1	396.7
Tangible Assets	248.3	363.0	349.7	334.9	326.1
Intangible Assets	5.3	34.5	33.4	32.5	31.7
Investment Assets	19.1	9.5	12.1	13.1	14.1
Other Financial Institutions Assets	0.0	0.0	0.0	0.0	0.0
<b>Liabilities</b>	<b>295.2</b>	<b>394.6</b>	<b>452.2</b>	<b>445.7</b>	<b>442.3</b>
Current Liabilities	168.7	292.4	339.2	344.3	355.3
ST Borrowings	64.7	143.7	143.7	138.7	133.7
Account Payables	45.7	52.4	66.5	71.8	77.8
Current Portion of LT Debt	0.0	0.0	7.0	2.0	1.0
Non-Current Liabilities	126.5	102.2	113.0	101.5	87.1
Bonds	45.1	47.9	47.9	37.9	25.9
LT Borrowings(incl. LT Fin. Liab.)	68.7	40.1	47.1	44.1	40.1
Other Financial Institutions Liab.	0.0	0.0	0.0	0.0	0.0
<b>Shareholders' Equity</b>	<b>208.7</b>	<b>171.9</b>	<b>166.9</b>	<b>187.2</b>	<b>216.3</b>
Capital Stock	16.1	16.1	16.1	16.1	16.1
Capital Surplus	101.0	101.1	101.1	101.1	101.1
Other Reserves	(0.7)	(0.6)	(0.6)	(0.6)	(0.6)
Accu. Other Comp. Income	(1.3)	(4.9)	(4.9)	(4.9)	(4.9)
Retained Earnings	93.3	59.5	54.5	74.9	104.1
Owners of Parent Equity	208.3	171.2	166.1	186.5	215.7
Non-Controlling Interests Equity	0.4	0.7	0.8	0.7	0.6
*Total Debt	178.5	231.7	245.7	222.7	200.7
*Net Debts(Cash)	123.0	227.9	212.3	174.1	132.8

## Cash Flow

Year to Dec. (W bn)	2012	2013	2014F	2015F	2016F
<b>Operating Cash Flow</b>	<b>72.9</b>	<b>10.2</b>	<b>37.3</b>	<b>55.4</b>	<b>63.5</b>
Net Profit	19.7	(27.6)	(5.0)	20.3	29.1
Depreciation	32.4	36.1	33.3	31.8	30.8
Amortization	0.9	1.1	1.2	0.9	0.7
Losses(Gains) on F/X Translation	(0.5)	(1.6)	0.0	0.0	0.0
Losses(Gains) on Disp. of Assets	1.3	0.2	1.7	1.7	1.7
Losses(Gains) in Asso., Subs., JVs	4.4	0.6	(2.5)	(2.5)	(2.5)
Chg. in A/L from Op. Activities	(7.3)	(20.5)	8.6	3.2	3.6
(Payments of Income Taxes)	0.0	(4.7)	(1.5)	(5.7)	(8.2)
Others	22.0	26.6	1.5	5.7	8.3
<b>Investing Cash Flow</b>	<b>(68.3)</b>	<b>(108.2)</b>	<b>(21.9)</b>	<b>(17.3)</b>	<b>(22.5)</b>
Incr. in Tangible Assets(CAPEX)	(62.4)	(76.7)	(20.0)	(17.0)	(22.0)
Decr. in Tangible Assets	0.4	7.8	0.0	0.0	0.0
Decr.(Incr.) in Intangible Assets	(0.7)	(0.7)	0.0	0.0	0.0
Decr.(Incr.) in Investment Assets	0.0	(41.5)	(1.9)	(0.3)	(0.5)
Others	(5.6)	2.9	0.0	(0.0)	0.0
<b>Free Cash Flow</b>	<b>0.0</b>	<b>(4.8)</b>	<b>38.1</b>	<b>48.4</b>	<b>50.4</b>
<b>Financing Cash Flow</b>	<b>29.4</b>	<b>46.1</b>	<b>14.0</b>	<b>(23.0)</b>	<b>(22.0)</b>
Incr.(Decr.) in Borrowing	15.9	52.4	14.0	(23.0)	(22.0)
Decr.(Incr.) of Treasury Stock	0.0	0.0	0.0	0.0	0.0
Dividend	(5.8)	(6.4)	0.0	0.0	0.0
Others	19.3	0.1	0.0	0.0	0.0
Other Cash Flows	0.0	0.0	0.2	0.1	0.2
Change of Consolidated Scope	0.0	0.0	0.0	0.0	0.0
Difference by Chg. in F/X Rates	0.6	(0.1)	0.0	0.0	0.0
<b>Incr.(Decr.) in Cash</b>	<b>34.5</b>	<b>(52.0)</b>	<b>29.6</b>	<b>15.2</b>	<b>19.2</b>
Beginning Cash	21.3	55.9	3.9	33.5	48.7
Ending Cash	55.9	3.9	33.5	48.7	67.9

Source: Company data, Shinhan Investment Corp.

## Profit and Loss

Year to Dec. (W bn)	2012	2013	2014F	2015F	2016F
<b>Sales</b>	<b>631.4</b>	<b>526.3</b>	<b>667.2</b>	<b>720.6</b>	<b>780.7</b>
Growth (%)	2.9	(16.7)	26.8	8.0	8.3
<b>COGS</b>	<b>541.5</b>	<b>519.8</b>	<b>597.4</b>	<b>621.2</b>	<b>673.0</b>
<b>Gross Profit</b>	<b>89.9</b>	<b>6.5</b>	<b>69.8</b>	<b>99.4</b>	<b>107.7</b>
Gross margin (%)	14.2	1.2	10.5	13.8	13.8
<b>SG&amp;A</b>	<b>43.2</b>	<b>39.9</b>	<b>56.8</b>	<b>59.8</b>	<b>58.0</b>
<b>Operating Income</b>	<b>46.7</b>	<b>(33.4)</b>	<b>13.0</b>	<b>39.6</b>	<b>49.7</b>
Growth (%)	(25.6)	N/A	N/A	204.7	25.5
Operating margin (%)	7.4	(6.4)	1.9	5.5	6.4
<b>Other Net Non-Operating Profits</b>	<b>(18.2)</b>	<b>(2.3)</b>	<b>(16.4)</b>	<b>(13.6)</b>	<b>(12.4)</b>
Financial Income(Expenses)	(5.1)	(3.6)	(11.4)	(11.1)	(9.9)
Net Other Non-Operating Profits	(8.7)	2.0	(4.4)	(1.9)	(1.9)
Net Gains in Asso., Subs., and JVs	(4.4)	(0.6)	(0.6)	(0.6)	(0.6)
<b>Pre-tax Profit from Cont. Op.</b>	<b>28.5</b>	<b>(35.7)</b>	<b>(3.4)</b>	<b>26.0</b>	<b>37.3</b>
Income Taxes	8.8	(8.1)	1.5	5.7	8.2
Profit from Continuing Op.	19.7	(27.6)	(5.0)	20.3	29.1
Profit from Discontinued Op.	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>19.7</b>	<b>(27.6)</b>	<b>(5.0)</b>	<b>20.3</b>	<b>29.1</b>
Growth (%)	(53.7)	N/A	N/A	N/A	43.5
Net Profit margin (%)	3.1	(5.2)	(0.7)	2.8	3.7
Net Profit of Parent	19.6	(27.6)	(5.0)	20.3	29.2
Net Profit to Non-Controlling	0.1	0.1	0.0	(0.1)	(0.1)
<b>Total Comprehensive Income</b>	<b>18.2</b>	<b>(30.9)</b>	<b>(5.0)</b>	<b>20.3</b>	<b>29.1</b>
Total Comp. Income of Parent	18.1	(30.9)	(5.0)	20.3	29.2
Total Comp. Income to Non-Cont.	0.1	0.1	0.0	(0.0)	(0.1)
<b>EBITDA</b>	<b>79.9</b>	<b>3.7</b>	<b>47.5</b>	<b>72.3</b>	<b>81.3</b>
Growth (%)	(16.2)	(95.3)	1,167.8	52.2	12.4
EBITDA Margin (%)	12.7	0.7	7.1	10.0	10.4

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

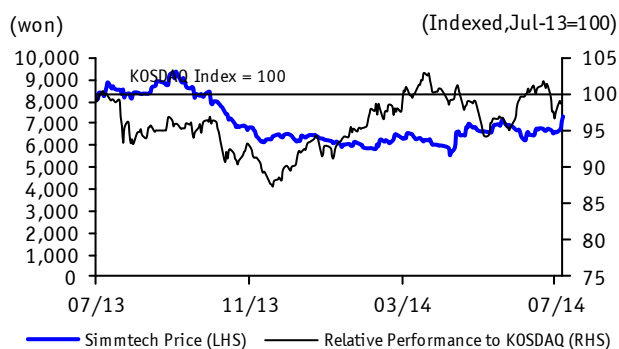
## Key Ratios

Year to Dec.	2012	2013	2014F	2015F	2016F
EPS_C (won)	637	(856)	(154)	630	904
EPS_P (won)	634	(858)	(155)	632	906
BPS_C (won)	6,483	5,338	5,183	5,813	6,717
BPS_P (won)	6,470	5,315	5,160	5,792	6,698
DPS (won)	200	0	0	0	0
PER_C (x)	16.2	(7.6)	(47.3)	11.6	8.1
PER_P (x)	16.2	(7.6)	(47.2)	11.6	8.1
PBR_C (x)	1.6	1.2	1.4	1.3	1.1
PBR_P (x)	1.6	1.2	1.4	1.3	1.1
EV/EBITDA (x)	5.7	116.9	9.4	5.7	4.5
Payout Ratio (%)	32.6	0.0	0.0	0.0	0.0
Dividend Yield (%)	1.9	0.0	0.0	0.0	0.0
<b>Profitability</b>					
EBITDA Margin (%)	12.7	0.7	7.1	10.0	10.4
OP Margin (%)	7.4	(6.4)	1.9	5.5	6.4
NP Margin (%)	3.1	(5.2)	(0.7)	2.8	3.7
ROA (%)	4.1	(5.1)	(0.8)	3.2	4.5
ROE (%)	10.3	(14.6)	(3.0)	11.5	14.5
ROIC (%)	12.4	(11.0)	5.1	8.8	11.5
<b>Stability</b>					
D/E Ratio (%)	141.4	229.6	270.9	238.1	204.5
Net Debt to Equity (%)	58.9	132.6	127.2	93.0	61.4
Cash Ratio (%)	32.8	1.3	9.9	14.1	19.1
Interest Coverage (x)	6.6	(3.9)	1.1	3.4	4.7
<b>Activity (%)</b>					
Working Capital Turnover (t)	15.4	42.4	(33.0)	(30.6)	(30.7)
Inventory Turnover (d)	41.3	53.9	49.4	53.2	53.1
Receivable Turnover (d)	27.3	29.1	26.2	28.2	28.2

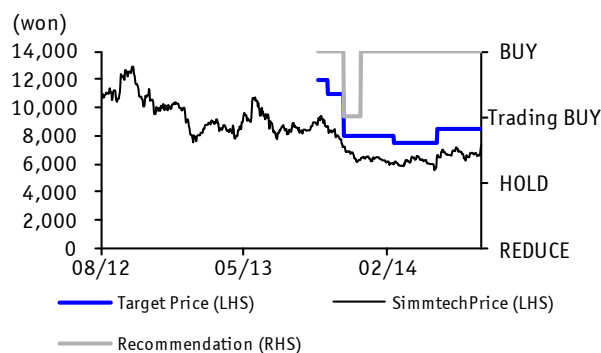
Source: Company data, Shinhan Investment Corp.

## Simmtech (036710 KS)

## Share Price Performance



## Target Price &amp; Recommendation History



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## SHIC Rating Classifications (As of 25 Jul. 2011)

Stock	Sector
<ul style="list-style-type: none"> <li>◆ <b>BUY:</b> Expected return of over +15% in the next 6 months</li> <li>◆ <b>Trading BUY:</b> Expected return of 0% ~ +15% in the next 6 months</li> <li>◆ <b>HOLD:</b> Expected return of -15% ~ 0% in the next 6 months</li> <li>◆ <b>REDUCE:</b> Expected return of below -15% in the next 6 months</li> </ul>	<ul style="list-style-type: none"> <li>◆ <b>OVERWEIGHT:</b> Prevalence of BUY rating for stocks in our sector coverage universe based on market cap</li> <li>◆ <b>NEUTRAL:</b> Prevalence of HOLD rating for stocks in our sector coverage universe based on market cap</li> <li>◆ <b>UNDERWEIGHT:</b> Prevalence of REDUCE rating for stocks in our sector coverage universe based on market cap</li> </ul>