

Simmtech (036710 KS)

Earnings to stay on growth trajectory

BUY (MAINTAIN)

Price (Nov 7)	W10,050
Target Price	W13,000
% variance	29.4%

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KOSPI	1,939.87p
KOSDAQ	539.90p
Market Cap.	W323.6bn/US283.9mn
Par Value	W500
Outstanding Shares	32.2mn
Free Floating Shares	23.8mn(73.8%)
52-Week High/Low	W10,050/W5,510
60-Day Avg. Trading Volume	549,430shrs
60-Day. Avg. Trading T/O	W4,513mn
Foreign Ownership	3.62%
Major Shareholders	
Se-Ho Jun and 1 other	25.73%
Min-Ju Lee	9.17%
Absolute Performance	3M 31.2%
	6M 72.1%
	12M 29.2%
Relative performance	3M 33.0%
to KOSDAQ	6M 75.4%
	12M 24.6%

- ◆ 3Q14 OP comes in at W4.8bn (+31.9% QoQ), NP at W800mn
- ◆ OP estimated at W9.6bn (+99.5% QoQ) in 4Q14, W47.2bn (+331.8% YoY) in 2015
- ◆ Retain BUY and raise target price to W13,000

3Q14 operating profit comes in at W4.8bn (+31.9% QoQ), net profit at W800mn

Simmtech posted 3Q14 sales of W167.9bn (+3.4% QoQ) and operating profit of W4.8bn (+31.9% QoQ), missing our estimates by a slight margin. It, however, swung to net profit of controlling interests of W700mn. ASP climbed 4% due to the rising sales share of high value-added substrates for mobile devices, servers and SSD modules, helping boost top- and bottom-line growth.

Operating profit estimated at W9.6bn (+99.5% QoQ) in 4Q14, W47.2bn (+331.8% YoY) in 2015

We project sales and operating profit to climb 7.4% and 99.5% QoQ, respectively, to W180.2bn and W9.6bn in 4Q14. We expect net profit to soar 470.1% QoQ to W4.4bn. Sales and profits should be driven by solid demand for mobile and server substrates as well as rising demand for SSD and DDR4 module substrates.

Simmtech should swing to operating profit in 2014 from operating loss in 2013, backed by better-than-expected PC module demand and growing demand for mobile-bound flip chips and server-bound substrates. We expect 2014 sales of W655.7bn (+24.6% YoY) and operating profit of W10.9bn (swing to profit YoY).

Earnings should continue improving in 2015 propelled by mobile-bound products such as flip chips and MCP and the DDR4 market. We expect 2015 sales at W738.6bn (+12.6% YoY) and operating profit at W47.2bn (+331.8% YoY). Net profit of controlling interests is forecast to turn around YoY to W30.8bn.

Retain BUY and raise target price to W13,000

We raise the target price by 23.8% from W10,500 to W13,000 (15F PER of 13.0x) while maintaining a BUY rating. The current price represents a 2015F PER of 10.5x. The stock should continue its upward movement on the growing sales share of high-value-added products such as MCP, AP flip chip substrates for mobile devices and DDR4.

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	655.7	10.9	(4.6)	(6.7)	(209)	-2146826273	5,106	(48.1)	11.9	2.0	(4.0)	129.9
2015F	738.6	47.2	38.1	30.8	955	TB	6,061	10.5	6.1	1.7	17.1	84.1
2016F	792.8	57.4	49.6	39.8	1,235	29.3	7,296	8.1	4.9	1.4	18.5	48.0

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3Q14 consolidated earnings

(bn KRW)	3Q14P	2Q14	% QoQ	3Q13	% YoY	SHIC	Consensus
Sales	167.9	162.4	3.4	142.3	18.0	172.3	173.0
OP	4.8	3.6	31.9	(4.0)	TP	6.2	5.8
NP of controlling interests	0.7	(2.1)	TP	(5.7)	TP	0.9	2.8
OPM (%)	2.9	2.2		(2.8)		3.6	3.3
NPM (%)	0.4	(1.3)		(4.0)		0.5	1.6

Source: Shinhan Investment Corp.

Earnings forecast revision

(bn KRW)	2014F			2015F		
	Before	After	Change (%)	Before	After	Change (%)
Sales	661.8	655.7	(0.9)	714.8	738.6	3.3
OP	11.0	10.9	(0.5)	41.5	47.2	13.8
NP of controlling interests	(5.7)	(6.7)	N	25.9	30.8	18.2
OPM (%)	1.7	1.7		5.8	6.4	
NPM (%)	(0.9)	(1.0)		3.6	4.2	

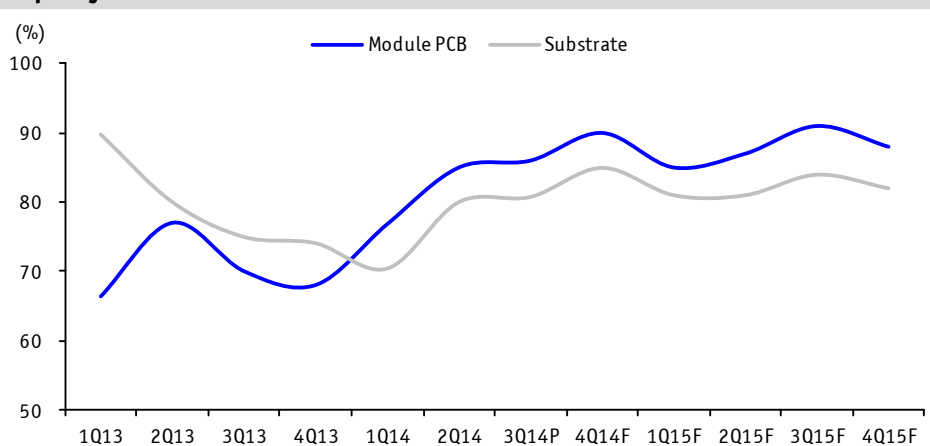
Source: Shinhan Investment Corp.

Earnings

(bn KRW)	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14P	4Q14F	1Q15	2Q15F	3Q15F	4Q15F	2013F	2014F	2015F
Sales	118.4	131.3	142.3	134.2	145.2	162.4	167.9	180.2	171.4	183.0	192.8	191.4	526.3	655.7	738.6
Module PCB	42.2	47.4	44.6	47.6	53.3	57.2	58.4	61.6	58.7	62.5	64.7	62.0	181.8	230.5	248.0
Substrate	76.2	83.9	97.7	92.6	91.9	105.2	109.4	118.6	112.6	120.5	128.1	129.4	350.4	425.2	490.6
Sales share															
Module PCB	35.6	36.1	31.3	35.5	36.7	35.2	34.8	34.2	34.3	34.2	33.6	32.4	34.5	35.2	33.6
Substrate	64.4	63.9	68.7	69.0	63.3	64.8	65.2	65.8	65.7	65.8	66.4	67.6	66.6	64.8	66.4
OP	(7.7)	(10.2)	(4.0)	(11.5)	(7.1)	3.6	4.8	9.6	8.6	11.5	13.7	13.4	(33.4)	10.9	47.2
NP of controlling interests	(9.2)	(2.3)	(5.7)	(10.3)	(9.8)	(2.1)	0.7	4.4	4.4	8.1	10.7	7.5	(27.6)	(6.7)	30.8
OPM (%)	(6.5)	(7.8)	(2.8)	(8.6)	(4.9)	2.2	2.9	5.3	5.0	6.3	7.1	7.0	(6.4)	1.7	6.4
NPM (%)	(7.8)	(1.8)	(4.0)	(7.7)	(6.7)	(1.3)	0.4	2.5	2.6	4.4	5.6	3.9	(5.2)	(1.0)	4.2

Source: Shinhan Investment Corp.

Capacity utilization rates



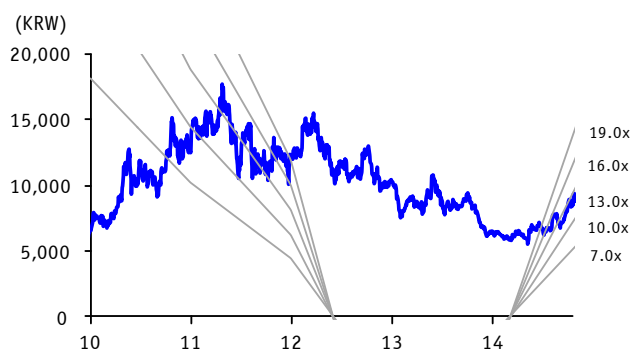
Source: Shinhan Investment Corp.

Peer group valuation

Company		Daeduck Electronics	Daeduck GDS	Simmtech	Isu Petasys
Market cap. (bn KRW)		394.3	260.3	208.0	156.6
PER (x)	2014F	19.6	6.8	(48.1)	15.0
	2015F	14.9	5.6	10.5	6.3
PBR (x)	2014F	1.0	N/A	2.0	0.9
	2015F	1.0	N/A	1.7	0.8
EV/EBITDA (x)	2014F	4.3	N/A	11.9	7.3
	2015F	3.6	N/A	6.1	4.7
ROE (%)	2014F	5.4	8.6	(4.0)	3.6
	2015F	6.9	9.5	17.1	12.3

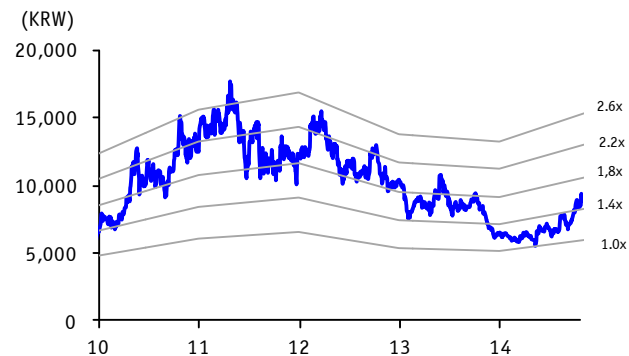
Source: Bloomberg, Shinhan Investment Corp.

PER band



Source: Shinhan Investment Corp.

PBR band



Source: Shinhan Investment Corp.

Balance Sheet

Year to Dec. (W bn)	2012	2013	2014F	2015F	2016F
Assets	504.0	566.5	613.8	647.1	681.6
Total Current Assets	202.1	134.7	194.2	241.7	284.7
Cash and Cash Equivalents	55.3	3.9	31.2	58.1	87.6
Accounts Receivables	41.6	42.3	52.7	59.3	63.7
Inventories	75.9	79.6	99.2	111.7	120.0
Non-Current Assets	301.8	431.8	419.6	405.5	396.9
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	11.9	13.4	14.4
Other Financial Institutions Assets	0.0	0.0	0.0	0.0	0.0
Liabilities	295.2	394.6	448.6	451.3	446.1
Current Liabilities	168.7	292.4	335.9	349.3	358.7
ST Borrowings	64.7	143.7	143.7	138.7	133.7
Account Payables	45.7	52.4	65.3	73.6	79.0
Current Portion of LT Debt	0.0	0.0	7.0	2.0	1.0
Non-Current Liabilities	126.5	102.2	112.7	101.9	87.4
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
Shareholders' Equity	208.7	171.9	165.2	195.9	235.5
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	52.8	83.6	123.3
Owners of Parent Equity	208.3	171.2	164.4	195.2	234.9
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	214.5	164.6	113.1

Cash Flow

Year to Dec. (W bn)	2012	2013	2014F	2015F	2016F
Operating Cash Flow	72.9	10.2	34.5	66.3	72.4
Net Profit	19.7	(27.6)	(6.7)	30.7	39.7
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	1.3	(0.2)	(0.2)
Losses(Gains) in Asso., Subs., JVs	4.4	0.6	(2.5)	(1.8)	(1.8)
Chg. in A/L from Op. Activities	(7.3)	(20.5)	7.8	5.0	3.3
(Payments of Income Taxes)	0.0	(4.7)	(2.1)	(7.4)	(9.9)
Others	22.0	26.6	2.2	7.3	9.8
Investing Cash Flow	(68.3)	(108.2)	(21.7)	(18.5)	(23.0)
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)	(1.7)	(1.5)	(1.0)
Others	(5.6)	2.9	0.0	0.0	0.0
Free Cash Flow	0.0	(4.8)	34.7	56.5	57.3
Financing Cash Flow	29.4	46.1	14.0	(23.0)	(22.0)
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	0.5	2.1	2.1
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
Incr.(Decr.) in Cash	34.5	(52.0)	27.3	26.9	29.5
Beginning Cash	21.3	55.9	3.9	31.2	58.1
Ending Cash	55.9	3.9	31.2	58.1	87.6

Source: Company data, Shinhan Investment Corp.

Profit and Loss

Year to Dec. (W bn)	2012	2013	2014F	2015F	2016F
Sales	631.4	526.3	655.7	738.6	792.8
Growth (%)	2.9	(16.7)	24.6	12.6	7.3
COGS	541.5	519.8	588.0	635.0	676.5
Gross Profit	89.9	6.5	67.7	103.6	116.3
Gross margin (%)	14.2	1.2	10.3	14.0	14.7
SG&A	43.2	39.9	56.8	56.4	58.9
Operating Income	46.7	(33.4)	10.9	47.2	57.4
Growth (%)	(25.6)	N/A	N/A	331.8	21.7
Operating margin (%)	7.4	(6.4)	1.7	6.4	7.2
Other Net Non-Operating Profits	(18.2)	(2.3)	(15.6)	(9.1)	(7.8)
Financial Income(Expenses)	(5.1)	(3.6)	(11.4)	(11.1)	(9.9)
Net Other Non-Operating Profits	(8.7)	2.0	(3.5)	2.1	2.1
Net Gains in Asso., Subs., and JVs	(4.4)	(0.6)	(0.6)	0.0	0.0
Pre-tax Profit from Cont. Op.	28.5	(35.7)	(4.6)	38.1	49.6
Income Taxes	8.8	(8.1)	2.1	7.4	9.9
Profit from Continuing Op.	19.7	(27.6)	(6.7)	30.7	39.7
Profit from Discontinued Op.	0.0	0.0	0.0	0.0	0.0
Net Profit	19.7	(27.6)	(6.7)	30.7	39.7
Growth (%)	(53.7)	N/A	N/A	N/A	29.3
Net Profit margin (%)	3.1	(5.2)	(1.0)	4.2	5.0
Net Profit of Parent	19.6	(27.6)	(6.7)	30.8	39.8
Net Profit to Non-Controlling	0.1	0.1	0.0	(0.1)	(0.1)
Total Comprehensive Income	18.2	(30.9)	(6.7)	30.7	39.7
Total Comp. Income of Parent	18.1	(30.9)	(6.7)	30.8	39.8
Total Comp. Income to Non-Cont.	0.1	0.1	0.0	(0.1)	(0.1)
EBITDA	79.9	3.7	45.4	79.9	89.0
Growth (%)	(16.2)	(95.3)	1,112.3	75.8	11.4
EBITDA Margin (%)	12.7	0.7	6.9	10.8	11.2

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

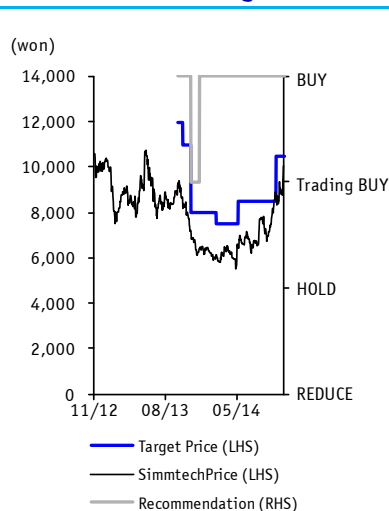
Key Ratios

Year to Dec.	2012	2013	2014F	2015F	2016F
EPS_C (won)	637	(856)	(208)	953	1,232
EPS_P (won)	634	(858)	(209)	955	1,235
BPS_C (won)	6,483	5,338	5,130	6,082	7,314
BPS_P (won)	6,470	5,315	5,106	6,061	7,296
DPS (won)	200	0	0	0	0
PER_C (x)	16.2	(7.6)	(48.2)	10.5	8.2
PER_P (x)	16.2	(7.6)	(48.1)	10.5	8.1
PBR_C (x)	1.6	1.2	2.0	1.7	1.4
PBR_P (x)	1.6	1.2	2.0	1.7	1.4
EV/EBITDA (x)	5.7	116.9	11.9	6.1	4.9
Payout Ratio (%)	32.6	0.0	0.0	0.0	0.0
Dividend Yield (%)	1.9	0.0	0.0	0.0	0.0
Profitability					
EBITDA Margin (%)	12.7	0.7	6.9	10.8	11.2
OP Margin (%)	7.4	(6.4)	1.7	6.4	7.2
NP Margin (%)	3.1	(5.2)	(1.0)	4.2	5.0
ROA (%)	4.1	(5.1)	(1.1)	4.9	6.0
ROE (%)	10.3	(14.6)	(4.0)	17.1	18.5
ROIC (%)	12.4	(11.0)	4.3	10.8	13.7
Stability					
D/E Ratio (%)	141.4	229.6	271.6	230.4	189.4
Net Debt to Equity (%)	58.9	132.6	129.9	84.1	48.0
Cash Ratio (%)	32.8	1.3	9.3	16.6	24.4
Interest Coverage (x)	6.6	(3.9)	0.9	4.0	5.4
Activity (%)					
Working Capital Turnover (t)	15.4	42.4	(32.7)	(31.2)	(30.5)
Inventory Turnover (d)	41.3	53.9	49.8	52.1	53.3
Receivable Turnover (d)	27.3	29.1	26.4	27.7	28.3

Source: Company data, Shinhan Investment Corp.

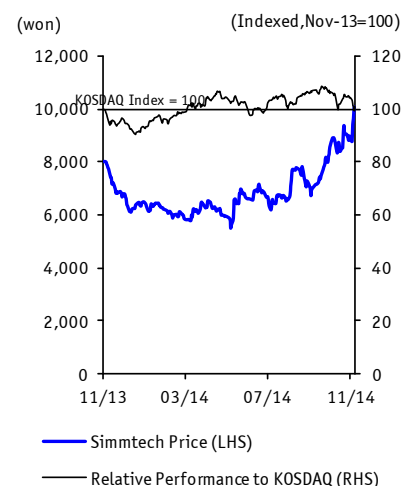
Simmtech (036710 KS)

Target Price & Recommendation History



Date	Recommendation	Target Price (won)
2013. 09. 26	BUY	12,000
2013. 10. 15	BUY	11,000
2013. 11. 15	Trading BUY	8,000
2013. 12. 18	BUY	8,000
2014. 02. 20	BUY	7,500
2014. 05. 15	BUY	8,500
2014. 10. 07	BUY	10,500

Share Price Performance



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Stock	Sector
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