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Company Update



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AT A GLANCE

SELL HOLD **BUY**

Target price KRW10,000 (21.8%)

Current price KRW8,210

Market cap KRW180.17b/USD161.21m
Shares (float) 21,945,415 (56.9%)
52-week high/low KRW13,650/KRW5,530
Avg daily trading value (60-day) KRW1.5b/USD1.4m

ONE-YEAR PERFORMANCE

	1M	6M	12M
Simmtech (%)	5.3	28.5	n/a
Vs Kosdaq (%pts)	3.1	25.3	n/a

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	10,000	10,000	0.0%
2016E EPS	799	1,185	-32.6%
2017E EPS	1,188	1,375	-13.6%

SAMSUNG vs THE STREET

No of estimates	3
Target price	10,500
Recommendation	4.3

BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1

Simmtech (222800)

Better earnings visibility to restore confidence

- Simmtech's 2Q sales and operating profit were in line with forecasts, and we believe the implied improvement in earnings visibility will help restore investor confidence in the stock. We expect its revenues and profits to rise in 3Q on growing sales of server-use module PCBs and FC-CSP packages, and maintain BUY on Simmtech with a KRW10,000 target.

WHAT'S THE STORY?

Profits becoming less volatile, more visible: Our investment thesis for Simmtech is that its margins will recover, product mix improve, and market share increase—with earnings volatility the primary risk factor. The past two quarters have convinced us that the company can be counted on to deliver less volatile results reasonably close to forecasts, which implies an improvement in earnings visibility that should bolster the shares' chances of reaching our 12-month target price of KRW10,000. While we trim our 2016 and 2017 earnings forecasts to reflect cuts in clients' sales guidance, we believe investors should focus on Simmtech's ability to post increasingly stable profits. We reiterate BUY.

Results in line: Simmtech's 2Q sales of KRW186.7b and operating profit of KRW6b were down a respective 5.6% and 4.3% q-q (while edging up 0.1% and slipping 3.4% y-y) but in line with forecasts—operating margin of 3.2% was only 0.1%pts lower than we predicted. We believe its PC module sales suffered clients worked through inventory. Net profit fell far short of forecasts as a strengthening won resulted in a KRW3b valuation loss on foreign-currency-denominated account receivables.

Server module PCB and FC-CSP package sales to lift 3Q profits: Demand for enterprise-use SSDs and servers is increasing, and Chinese smartphone-parts makers (such as MediaTek) are amassing inventory. Against this backdrop, we expect server Simmtech's sales of server-use module PCBs (RDIMM) and FC-CSP packages to increase, boosting the firm's blended ASP despite unfavorable forex rate movements and driving up 3Q operating profit 60% q-q to KRW9.5b.

SUMMARY OF 2Q RESULTS

(KRWb)	2Q16	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	186.7	n/a	(5.6)	(5.8)	(5.8)
Operating profit	6.0	n/a	(4.8)	(7.2)	(9.6)
Pre-tax profit	0.9	n/a	(84.3)	(83.4)	(81.0)
Net profit	0.7	n/a	(84.9)	(83.8)	(82.7)
Margins (%)					
Operating profit	3.2				
Pre-tax profit	0.5				
Net profit	0.4				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

	2015	2016E	2017E
Multiples (x)			
P/E	8.2	10.3	6.9
P/B	1.2	1.1	1.0
EV/EBITDA	8.7	4.6	3.7
Div yield (%)	3.2	1.9	2.9
EPS growth (% y-y)	nm	(20.1)	48.7
ROE (%)	6.7	10.9	14.7
Per-share data (KRW)			
EPS	1,000	799	1,188
BVPS	7,049	7,588	8,616
DPS	260	160	238

Table 1. Quarterly results

(KRWb)	2Q16	1Q16	2Q15	Change	
				(% q-q)	(% y-y)
Sales	186.7	197.8	186.6	(5.6)	0.1
Operating profit	6.0	6.3	6.2	(4.3)	(3.4)
Pre-tax profit	0.9	5.7	7.0	(83.8)	(86.8)
Net profit	1.0	4.6	4.2	(79.0)	(76.7)
Margins (%)					
Operating profit	3.2	3.2	3.3		
Pre-tax profit	0.5	2.9	3.8		
Net profit	0.5	2.3	2.2		

Source: Company data, Samsung Securities

Table 2. Full-year forecast revisions

(KRWb)	Old		New		Diff (%)	
	2016E	2017E	2016E	2017E	2016E	2017E
Sales	811.3	820.2	791.2	804.8	(2.5)	(1.9)
Operating profit	36.0	46.3	33.4	42.9	(7.2)	(7.3)
Pre-tax profit	32.4	37.7	22.2	33.2	(31.4)	(11.7)
Net profit	26.0	30.1	18.1	26.6	(30.4)	(11.7)

Source: Samsung Securities estimates

Table 3. Target-price calculation

(KRW)	2017E
EPS	1,188
Target P/E (x)	8
Fair value	9,501
Target price	10,000
Current price	8,210
Upside (%)	21.8

Source: Samsung Securities estimates

Table 4. Results and forecasts

(KRWb)	1Q16	2Q16	3Q16E	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015	2016E	2017E
Sales	197.8	186.7	203.3	203.4	191.3	198.8	209.2	205.5	751.5	791.2	804.8
Module PCB	77.9	64.2	76.0	75.5	73.9	81.8	79.9	74.8	277.0	293.6	310.4
Package substrate	118.6	119.8	125.6	126.4	115.9	115.4	127.6	129.3	456.1	490.5	488.2
Other	1.3	2.7	1.6	1.4	1.5	1.6	1.6	1.4	15.7	7.1	6.1
Operating profit	6.3	6.0	9.5	11.5	8.5	10.2	13.6	10.5	30.4	33.4	42.9
Pre-tax profit	5.7	0.9	6.7	8.8	5.9	7.8	11.3	8.3	19.4	22.2	33.2
Net profit	4.6	1.0	5.4	7.1	4.8	6.2	9.0	6.6	14.9	18.1	26.6
Margins (%)											
Operating profit	3.2	3.2	4.7	5.7	4.5	5.1	6.5	5.1	4.1	4.2	5.3
Pre-tax profit	2.9	0.5	3.3	4.3	3.1	3.9	5.4	4.0	2.6	2.8	4.1
Net profit	2.3	0.5	2.7	3.5	2.5	3.1	4.3	3.2	2.0	2.3	3.3

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31(KRWb)	2015	2016E	2017E	2018E
Sales	395	791	805	826
Cost of goods sold	350	700	703	720
Gross profit	45	91	101	106
Gross margin (%)	11.5	11.5	12.6	12.8
SG&A expenses	26	58	58	59
Operating profit	19	33	43	47
Operating margin (%)	4.9	4.2	5.3	5.7
Non-operating gains (losses)	(7)	(11)	(10)	(8)
Financial profit	10	24	23	23
Financial costs	17	34	31	30
Equity-method gains (losses)	0	(1)	(1)	(1)
Other	(0)	0	(0)	(0)
Pre-tax profit	12	22	33	39
Taxes	2	4	7	8
Effective tax rate (%)	14.2	19.8	20.0	20.0
Profit from continuing operations	10	18	27	31
Profit from discontinued operations	0	0	0	0
Net profit	10	18	27	31
Net margin (%)	2.6	2.3	3.3	3.8
Net profit (controlling interests)	10	18	26	30
Net profit (non-controlling interests)	0	0	1	1
EBITDA	41	76	85	89
EBITDA margin (%)	10.4	9.7	10.6	10.8
EPS (parent-based) (KRW)	1,000	799	1,188	1,386
EPS (consolidated) (KRW)	1,003	813	1,212	1,415
Adjusted EPS (KRW)*	1,000	799	1,188	1,386

Cash flow statement

Year-end Dec 31(KRWb)	2015	2016E	2017E	2018E
Cash flow from operations	66	47	72	77
Net profit	10	18	27	31
Non-cash profit and expenses	32	59	58	57
Depreciation	21	42	41	41
Amortization	1	1	1	1
Other	11	16	16	16
Changes in A/L from operating activities	27	(17)	1	2
Cash flow from investments	(16)	(38)	(31)	(28)
Change in tangible assets	(21)	(35)	(30)	(27)
Change in financial assets	(2)	(0)	(0)	(0)
Other	7	(3)	(1)	(1)
Cash flow from financing	(47)	(6)	(34)	(46)
Change in debt	(8)	0	(30)	(41)
Change in equity	120	0	0	0
Dividends	0	(6)	(4)	(5)
Other	(159)	0	0	0
Change in cash	3	3	6	1
Cash at beginning of year	0	3	6	12
Cash at end of year	3	6	12	13
Gross cash flow	43	77	85	89
Free cash flow	45	12	42	50

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)	2015	2016E	2017E	2018E
Current assets	143	163	171	177
Cash & equivalents	3	6	12	13
Accounts receivable	46	53	54	55
Inventories	84	88	89	92
Other current assets	10	16	16	17
Fixed assets	405	397	385	370
Investment assets	2	2	2	2
Tangible assets	354	346	335	321
Intangible assets	28	28	27	26
Other long-term assets	21	21	21	21
Total assets	548	560	556	547
Current liabilities	290	307	300	287
Accounts payable	81	79	80	83
Short-term debt	104	104	94	96
Other current liabilities	105	124	126	108
Long-term liabilities	104	85	66	44
Bonds & long-term debt	74	54	34	11
Other long-term liabilities	30	32	32	33
Total liabilities	393	393	366	331
Owners of parent equity	155	166	189	214
Capital stock	11	11	11	11
Capital surplus	137	137	137	137
Retained earnings	7	19	42	67
Other	(1)	(1)	(1)	(1)
Non-controlling interests' equity	0	1	1	2
Total equity	155	167	190	216
Net debt	175	172	136	94

Financial ratios

Year-end Dec 31	2015	2016E	2017E	2018E
Growth (%)				
Sales	nm	100.1	1.7	2.6
Operating profit	nm	71.7	28.4	9.5
Net profit	nm	70.9	49.1	16.7
Adjusted EPS**	nm	(20.1)	48.7	16.7
Per-share data (KRW)				
EPS (parent-based)	1,000	799	1,188	1,386
EPS (consolidated)	1,003	813	1,212	1,415
Adjusted EPS**	1,000	799	1,188	1,386
BVPS	7,049	7,588	8,616	9,765
DPS (common)	260	160	238	238
Valuations (x)				
P/E***	8.2	10.3	6.9	5.9
P/B***	1.2	1.1	1.0	0.8
EV/EBITDA	8.7	4.6	3.7	3.1
Ratios (%)				
ROE	6.7	10.9	14.7	15.1
ROA	1.9	3.2	4.8	5.6
ROIC	4.9	7.8	10.0	11.4
Payout ratio	54.8	20.0	20.0	17.1
Dividend yield (common)	3.2	1.9	2.9	2.9
Net debt to equity	112.9	103.2	71.7	43.6
Interest coverage (x)	4.5	4.4	6.4	8.2

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Target price changes in past two years



Rating changes in past two years

Date	2016/2/17
Recommendation	BUY
Target price (KRW)	10,000

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BUY★★★	Expected to increase in value by 30% or more within 12 months and is highly attractive within sector
BUY	Expected to increase in value by 10% or more within 12 months
HOLD	Expected to increase/decrease in value by less than 10% within 12 months
SELL	Expected to decrease in value by 10% or more within 12 months
SELL★★★	Expected to decrease in value by 30% or more within 12 months

Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

Percentage of ratings in 12 months prior to Jun 30, 2016

BUY (71.2%) | HOLD (28.8%) | SELL (0%)

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