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Company Update



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Simmtech (222800)

Product mix improving

- Simmtech's 1Q operating profit slightly missed our forecast but SSD sales were strong and FC-CSP and SiP sales continued to grow. While downstream industries remain sluggish, investor expectations are low, and Simmtech should be able to keep raising ASPs. We maintain BUY on the stock with a KRW10,000 target price.

WHAT'S THE STORY?

Reiterating BUY: Despite a weak PC market, Simmtech delivered decent 1Q results yesterday, and we maintain BUY on the stock with a 12-month target price of KRW10,000, expecting its product mix to keep improving as it contributes more to its clients' demand. Sales and operating profit fell a respective 5% and 48% q-q in 1Q (while rising 19% and 102% y-y) to KRW197.8b and KRW6.3b. Sales slightly beat our forecast but profit missed as DDR4 and packaging contributed less revenue than thought. We are impressed with Simmtech's ability to improve its product mix even as client industries remain sluggish.

Why we are bullish: Our BUY rating reflects Simmtech's growing FC-CSP and SiP sales, accelerating SSD market penetration, and deeply discounted share price. SSD sales were strong and FC-CSP and SiP sales kept growing in 1Q, but weaker-than-expected end-market demand may force the company to rein in SSD shipments slightly. Reflecting 1Q results and downstream conditions, we cut 2016 and 2017 EPS forecasts by 11% and 10%, respectively. Shares are trading at just 6x 2016 P/E.

More upside than downside: We see more upside than downside for Simmtech, for three reasons. First, SK Hynix's SDD shipments are likely to increase from 2Q—while Simmtech will still generate only a tiny portion of sales from Hynix's SDD-related orders, the orders will boost growth in its SSD module packaging business. Second, a diversified product portfolio should add to earnings momentum if SK Hynix and Micron can exceed the market average for DRAM bit growth (though it would help if clients started to use SiP aggressively). Third, shares have likely fully priced in a packaging-industry downturn that is now in its second year.

AT A GLANCE

SELL HOLD **BUY**

Target price KRW10,000 (35.5%)

Current price KRW7,380

Market cap KRW161.96b/USD138.12m
 Shares (float) 21,945,415 (56.9%)
 52-week high/low KRW13,650/KRW5,530
 Avg daily trading value (60-day) KRW2.0b/USD1.7m

ONE-YEAR PERFORMANCE

	1M	6M	12M
Simmtech (%)	-10.8	-1.2	n/a
Vs Kosdaq (%pts)	-11.2	-7.3	n/a

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	10,000	10,000	0.0%
2016E EPS	1,185	1,329	-10.8%
2017E EPS	1,375	1,527	-10.0%

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

SUMMARY OF 1Q RESULTS

(KRWb)	1Q16	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	197.8	n/a	(5.0)	11.0	10.5
Operating profit	6.3	n/a	(47.8)	(13.0)	1.1
Pre-tax profit	5.7	n/a	(37.6)	20.7	36.8
Net profit	4.6	n/a	(43.5)	21.7	48.4
Margins (%)					
Operating profit	3.2				
Pre-tax profit	2.9				
Net profit	2.3				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

	2015	2016E	2017E
Multiples (x)			
P/E	7.4	6.2	5.4
P/B	1.0	0.9	0.8
EV/EBITDA	8.2	3.7	2.9
Div yield (%)	3.5	3.2	3.7
EPS growth (% y-y)	nm	18.5	16.0
ROE (%)	6.7	15.8	16.1
Per-share data (KRW)			
EPS	1,000	1,185	1,375
BVPS	7,049	7,974	9,112
DPS	260	237	275

Quarterly results

(KRWb)	1Q16	1Q15	4Q15	Change	
				(% y-y)	(% q-q)
Sales	197.8	166.7	208.3	18.7	(5.0)
Operating profit	6.3	3.1	12.1	101.6	(47.8)
Pre-tax profit	5.7	0.3	9.1	2,168.4	(37.2)
Net profit	4.6	0.3	8.1	1,544.7	(43.0)
Margins (%)					
Operating profit	3.2	1.9	5.8		
Pre-tax profit	2.9	0.2	4.4		
Net profit	2.3	0.2	3.9		

Source: Company data, Samsung Securities

Full-year forecast revisions

(KRWb)	Old		New		Diff (%)	
	2016E	2017E	2016E	2017E	2016E	2017E
Sales	791.3	807.8	811.3	820.2	2.5	1.5
Operating profit	46.2	50.9	36.1	46.3	(21.9)	(9.0)
Pre-tax profit	36.4	41.9	32.4	37.7	(11.0)	(10.0)
Net profit	29.2	33.5	26.0	30.2	(10.8)	(10.0)

Source: Samsung Securities estimates

Target-price calculation

(KRW)	
BVPS (2016E)	1,185
Target P/B (x)	8
Fair value	9,476
Target price	10,000
Current price (May 10 close)	6,800
Upside (%)	47.1

Source: Samsung Securities estimates

Results and forecasts

(KRWb)	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16E	3Q16E	4Q16E	2015	2016E	2017E
Sales	166.7	186.6	190.0	208.3	197.8	198.3	205.4	209.8	751.5	811.3	820.2
Module PCB	67.5	69.9	63.3	76.3	77.9	71.4	73.3	75.7	277.0	298.4	295.3
Package substrate	95.9	113.6	118.6	128.0	118.6	125.5	130.6	132.8	456.1	507.6	519.7
Other	3.3	3.1	5.2	4.1	1.3	1.4	1.4	1.2	15.7	5.3	5.2
Operating profit	3.1	6.2	9.0	12.1	6.3	6.5	10.1	13.2	30.4	36.1	46.3
Pre-tax profit	0.3	7.0	3.0	9.1	5.7	5.4	9.1	12.2	19.4	32.4	37.7
Net profit	0.3	4.2	2.3	8.1	4.6	4.3	7.3	9.8	14.9	26.0	30.2
Margins (%)											
Operating profit	1.9	3.3	4.7	5.8	3.2	3.3	4.9	6.3	4.1	4.4	5.6
Pre-tax profit	0.2	3.8	1.6	4.4	2.9	2.7	4.4	5.8	2.6	4.0	4.6
Net profit	0.2	2.2	1.2	3.9	2.3	2.2	3.5	4.7	2.0	3.2	3.7

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31(KRWb)	2015	2016E	2017E	2018E
Sales	395	811	820	834
Cost of goods sold	350	718	717	729
Gross profit	45	93	103	105
Gross margin (%)	11.5	11.5	12.6	12.6
SG&A expenses	26	57	57	57
Operating profit	19	36	46	48
Operating margin (%)	4.9	4.4	5.6	5.8
Non-operating gains (losses)	(7)	(4)	(9)	(8)
Financial profit	10	9	9	9
Financial costs	17	16	15	14
Equity-method gains (losses)	0	0	0	0
Other	(0)	3	(2)	(2)
Pre-tax profit	12	32	38	41
Taxes	2	6	8	8
Effective tax rate (%)	14.2	19.9	20.0	20.0
Profit from continuing operations	10	26	30	32
Profit from discontinued operations	0	0	0	0
Net profit	10	26	30	32
Net margin (%)	2.6	3.2	3.7	3.9
Net profit (controlling interests)	10	26	30	32
Net profit (non-controlling interests)	0	0	0	0
EBITDA	41	78	86	88
EBITDA margin (%)	10.4	9.6	10.5	10.6
EPS (parent-based) (KRW)	1,000	1,185	1,375	1,479
EPS (consolidated) (KRW)	1,003	1,185	1,375	1,479
Adjusted EPS (KRW)*	1,000	1,185	1,375	1,479

Cash flow statement

Year-end Dec 31(KRWb)	2015	2016E	2017E	2018E
Cash flow from operations	66	72	71	74
Net profit	10	26	30	32
Non-cash profit and expenses	32	56	54	54
Depreciation	21	41	39	39
Amortization	1	1	1	1
Other	11	13	14	14
Changes in A/L from operating activities	27	5	1	1
Cash flow from investments	(16)	(22)	(25)	(27)
Change in tangible assets	(21)	(22)	(25)	(27)
Change in financial assets	(2)	(0)	(0)	(0)
Other	7	0	(0)	(0)
Cash flow from financing	(47)	(46)	(45)	(39)
Change in debt	53	(40)	(40)	(33)
Change in equity	0	0	0	0
Dividends	0	(6)	(5)	(6)
Other	(99)	0	(0)	0
Change in cash	3	5	1	8
Cash at beginning of year	0	3	8	9
Cash at end of year	3	8	9	17
Gross cash flow	43	82	84	86
Free cash flow	45	50	46	47

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	157	160	170
Cash & equivalents	3	8	9	17
Accounts receivable	46	48	48	49
Inventories	84	90	91	93
Other current assets	10	11	11	11
Fixed assets	405	385	370	357
Investment assets	2	2	2	2
Tangible assets	354	334	320	308
Intangible assets	28	28	27	26
Other long-term assets	21	21	21	21
Total assets	548	542	530	527
Current liabilities	290	291	273	266
Accounts payable	81	90	91	93
Short-term debt	104	64	54	64
Other current liabilities	105	137	128	110
Long-term liabilities	104	76	57	34
Bonds & long-term debt	74	44	24	1
Other long-term liabilities	30	32	33	33
Total liabilities	393	367	330	301
Owners of parent equity	155	175	200	226
Capital stock	11	11	11	11
Capital surplus	137	137	137	137
Retained earnings	7	28	53	79
Other	(1)	(1)	(1)	(1)
Non-controlling interests' equity	0	0	0	0
Total equity	155	175	200	227
Net debt	175	130	89	48

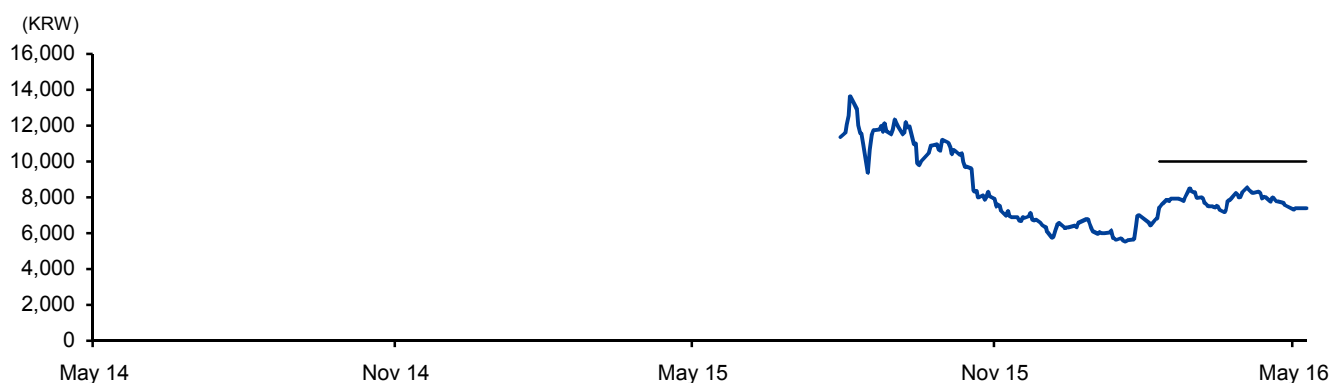
Financial ratios

Year-end Dec 31	2015	2016E	2017E	2018E
Growth (%)				
Sales	nm	105.1	1.1	1.7
Operating profit	nm	85.3	28.4	3.9
Net profit	nm	149.2	16.0	7.6
Adjusted EPS**	nm	18.5	16.0	7.6
Per-share data (KRW)				
EPS (parent-based)	1,000	1,185	1,375	1,479
EPS (consolidated)	1,003	1,185	1,375	1,479
Adjusted EPS**	1,000	1,185	1,375	1,479
BVPS	7,049	7,974	9,112	10,317
DPS (common)	260	237	275	275
Valuations (x)				
P/E***	7.4	6.2	5.4	5.0
P/B***	1.0	0.9	0.8	0.7
EV/EBITDA	8.2	3.7	2.9	2.4
Ratios (%)				
ROE	6.7	15.8	16.1	15.2
ROA	1.9	4.8	5.6	6.1
ROIC	4.9	8.9	12.1	13.2
Payout ratio	54.8	20.0	20.0	18.6
Dividend yield (common)	3.5	3.2	3.7	3.7
Net debt to equity	112.9	74.2	44.5	21.3
Interest coverage (x)	4.5	4.6	6.6	8.1

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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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Company

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 Mar 31, 2016

BUY (69.8%) | HOLD (30.2%) | SELL (0%)

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