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Company Update



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Simmtech (222800)

Discount dissipates as earnings stabilize

- Simmtech posted remarkable results for 3Q, with decreased earnings volatility putting its improving profits and financial structures in the spotlight. The company's product mix is improving amid a leveling trend of semiconductor packaging technology.
- We keep the stock at BUY and raise our 12-month target price to KRW12,000 on prospects normalizing earnings.

WHAT'S THE STORY?

Raising target: Simmtech's high debt-to-equity ratio and earnings volatility had been acting as discounts, but the company improved its earnings visibility and profitability in 3Q, increasing chances of it: 1) raising DPS and maintaining yield at 2%; and 2) reducing debts from KRW160b as of end-2015 by KRW50b per year. We remove the discount factors, raise our 2017 net profit estimate by 27%, and lift our 12-month target price 20% to KRW12,000. We keep the stock at BUY.

3Q results impress: Simmtech's sales and operating profit in 3Q hit a respective KRW202.5b (up 8% y-y and 8% q-q) and KRW11.5b for a margin of 5.7% (vs our estimate of 4.7%). We attribute the margin surprise to an improved product mix enabled by robust sales growth of MCPs and FC-CSPs, both products mainly used in mobile semiconductors.

Reasons behind growth: We believe a leveling trend of semiconductor packaging technology is driving Simmtech's earnings. Semiconductors used in premium and lower-end smartphones differ in number of bits but packaging technology is becoming interchangeable. Packaging firms can thus supply all segments while chipmakers need not rely on Samsung Electro-Mechanics or Ibiden. This benefits those capable of supplying proven products at good prices. Simmtech alone is enjoying growth in FC-CSP sales.

Risks: New technologies that do not use package substrates (eg, FO-WLPs and FO-PLPs) would pose a threat to Simmtech. That said, we believe the company will swiftly narrow a technological gap with leaders until 2018, outpacing technology migration in the industry. The firm's well-diversified clientele should keep its earnings more influenced by global smartphone demand than by China's inventory stocking cycle. We recommend looking at Simmtech's improving earnings and financial structures rather than its topline.

AT A GLANCE

SELL HOLD **BUY**

Target price KRW12,000 (34.4%)

Current price KRW8,930

Market cap	KRW195.97b/USD170.44m
Shares (float)	21,945,415 (56.9%)
52-week high/low	KRW9,090/KRW5,530
Avg daily trading value (60-day)	KRW2.3b/USD2.0m

ONE-YEAR PERFORMANCE

	1M	6M	12M
Simmtech (%)	10.7	16.0	10.0
Vs Kosdaq (%pts)	24.4	32.1	23.4

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	12,000	10,000	20.0%
2016E EPS	1,221	799	52.8%
2017E EPS	1,519	1,188	27.9%

SAMSUNG vs THE STREET

No of estimates	3
Target price	10,833
Recommendation	4.3

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

SUMMARY OF 3Q RESULTS

(KRWb)	3Q16	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	202.5	8.2	8.4	(0.4)	(0.7)
Operating profit	11.5	55.6	90.6	20.6	16.2
Pre-tax profit	17.7	485.9	1,801.4	162.3	125.0
Net profit	14.5	532.6	1,387.2	168.6	173.6
Margins (%)					
Operating profit	5.7				
Pre-tax profit	8.7				
Net profit	7.2				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

	2015	2016E	2017E
Multiples (x)			
P/E	8.9	7.3	5.9
P/B	1.3	1.1	1.0
EV/EBITDA	9.0	4.2	3.1
Div yield (%)	2.9	2.7	3.4
EPS growth (% y-y)	nm	22.1	24.4
ROE (%)	6.7	16.2	17.6
Per-share data (KRW)			
EPS	1,000	1,221	1,519
BVPS	7,049	8,010	9,285
DPS	260	244	304

Table 1. Quarterly results

(KRWb)	3Q16	2Q16	3Q15	Change	
				(% q-q)	(% y-y)
Sales	202.5	186.7	190.0	8.5	6.6
Operating profit	11.5	6.0	9.0	90.2	27.5
Pre-tax profit	17.7	0.9	3.0	1,797.1	484.6
Net profit	14.5	1.0	2.3	1,389.7	533.7
Margins (%)					
Operating profit	5.7	3.2	4.7		
Pre-tax profit	8.7	0.5	1.6		
Net profit	7.2	0.5	1.2		

Source: Company data, Samsung Securities

Table 2. Full-year forecast revisions

(KRWb)	Old		New		Diff (%)	
	2016E	2017E	2016E	2017E	2016E	2017E
Sales	791.2	804.8	799.4	823.8	1.0	2.4
Operating profit	33.4	42.9	40.0	59.0	19.8	37.5
Pre-tax profit	22.2	33.2	33.3	42.5	49.6	27.9
Net profit	18.1	26.6	27.3	34.0	51.1	27.9

Source: Samsung Securities estimates

Table 3. Target-price calculation

(KRW)	2017E
EPS	1,519
Target P/E (x)	8
Fair value	12,151
Target price	12,000
Current price	8,930
Upside (%)	34.4

Source: Samsung Securities estimates

Table 4. Results and forecasts

(KRWb)	1Q16	2Q16	3Q16	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015	2016E	2017E
Sales	197.8	186.7	202.5	212.3	195.4	198.3	213.4	216.6	751.5	799.4	823.8
Module PCB	77.9	64.3	65.0	68.3	72.3	75.1	72.4	69.8	277.0	275.6	289.5
Package substrate	118.6	119.7	134.4	141.4	120.4	120.3	138.0	144.4	456.1	514.1	523.1
Other	1.3	2.7	3.1	2.6	2.7	2.9	3.0	2.5	15.7	9.7	11.2
Operating profit	6.3	6.0	11.5	16.2	11.7	11.7	17.2	18.3	30.4	40.0	59.0
Pre-tax profit	5.7	0.9	17.7	8.9	7.2	7.5	13.3	14.6	19.4	33.3	42.5
Net profit	4.6	1.0	14.5	7.1	5.7	6.0	10.6	11.7	14.9	27.3	34.0
Margins (%)											
Operating profit	3.2	3.2	5.7	7.6	6.0	5.9	8.1	8.5	4.1	5.0	7.2
Pre-tax profit	2.9	0.5	8.7	4.2	3.7	3.8	6.2	6.8	2.6	4.2	5.2
Net profit	2.3	0.5	7.2	3.4	2.9	3.0	5.0	5.4	2.0	3.4	4.1

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2015	2016E	2017E	2018E
Sales	395	799	824	842
Cost of goods sold	350	701	706	717
Gross profit	45	98	118	124
Gross margin (%)	11.5	12.3	14.3	14.8
SG&A expenses	26	58	59	59
Operating profit	19	40	59	65
Operating margin (%)	4.9	5.0	7.2	7.7
Non-operating gains (losses)	(7)	(7)	(16)	(14)
Financial profit	10	22	20	20
Financial costs	17	31	26	25
Equity-method gains (losses)	0	3	(10)	(9)
Other	(0)	(1)	(0)	(0)
Pre-tax profit	12	33	43	51
Taxes	2	6	9	10
Effective tax rate (%)	14.2	18.0	20.0	20.0
Profit from continuing operations	10	27	34	41
Profit from discontinued operations	0	0	0	0
Net profit	10	27	34	41
Net margin (%)	2.6	3.4	4.1	4.9
Net profit (controlling interests)	10	27	33	40
Net profit (non-controlling interests)	0	0	1	1
EBITDA	41	84	102	108
EBITDA margin (%)	10.4	10.5	12.4	12.8
EPS (parent-based) (KRW)	1,000	1,221	1,519	1,835
EPS (consolidated) (KRW)	1,003	1,243	1,550	1,872
Adjusted EPS (KRW)*	1,000	1,221	1,519	1,835

Cash flow statement

Year-end Dec 31 (KRWb)	2015	2016E	2017E	2018E
Cash flow from operations	66	53	87	92
Net profit	10	27	34	41
Non-cash profit and expenses	32	56	68	66
Depreciation	21	43	42	42
Amortization	1	1	1	1
Other	11	12	25	24
Changes in A/L from operating activities	27	(17)	2	1
Cash flow from investments	(16)	(36)	(28)	(25)
Change in tangible assets	(21)	(35)	(30)	(27)
Change in financial assets	(2)	(0)	(0)	(0)
Other	7	(1)	2	2
Cash flow from financing	(47)	(16)	(45)	(60)
Change in debt	3	(10)	(40)	(53)
Change in equity	120	0	0	0
Dividends	0	(6)	(5)	(7)
Other	(169)	0	(0)	0
Change in cash	3	4	3	(1)
Cash at beginning of year	0	3	7	10
Cash at end of year	3	7	10	9
Gross cash flow	43	84	102	108
Free cash flow	45	18	57	65

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	165	174	176
Cash & equivalents	3	7	10	9
Accounts receivable	46	53	55	56
Inventories	84	89	92	94
Other current assets	10	16	17	17
Fixed assets	405	396	383	367
Investment assets	2	2	2	2
Tangible assets	354	345	333	318
Intangible assets	28	28	27	26
Other long-term assets	21	21	21	21
Total assets	548	561	557	543
Current liabilities	290	299	285	270
Accounts payable	81	80	82	84
Short-term debt	104	94	74	64
Other current liabilities	105	125	128	121
Long-term liabilities	104	86	67	34
Bonds & long-term debt	74	54	34	0
Other long-term liabilities	30	32	33	34
Total liabilities	393	385	352	303
Owners of parent equity	155	176	204	237
Capital stock	11	11	11	11
Capital surplus	137	137	137	137
Retained earnings	7	28	56	90
Other	(1)	(1)	(1)	(1)
Non-controlling interests' equity	0	1	1	2
Total equity	155	176	205	240
Net debt	175	161	118	66

Financial ratios

Year-end Dec 31	2015	2016E	2017E	2018E
Growth (%)				
Sales	nm	102.1	3.0	2.2
Operating profit	nm	105.6	47.5	10.2
Net profit	nm	161.5	24.7	20.8
Adjusted EPS**	nm	22.1	24.4	20.8
Per-share data (KRW)				
EPS (parent-based)	1,000	1,221	1,519	1,835
EPS (consolidated)	1,003	1,243	1,550	1,872
Adjusted EPS**	1,000	1,221	1,519	1,835
BVPS	7,049	8,010	9,285	10,817
DPS (common)	260	244	304	304
Valuations (x)				
P/E***	8.9	7.3	5.9	4.9
P/B***	1.3	1.1	1.0	0.8
EV/EBITDA	9.0	4.2	3.1	2.4
Ratios (%)				
ROE	6.7	16.2	17.6	18.3
ROA	1.9	4.9	6.1	7.5
ROIC	4.9	9.6	13.9	16.0
Payout ratio	54.8	20.0	20.0	16.6
Dividend yield (common)	2.9	2.7	3.4	3.4
Net debt to equity	112.9	91.2	57.3	27.6
Interest coverage (x)	4.5	4.9	7.9	10.3

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Target price changes in past two years



Rating changes in past two years

Date	2016/2/17	11/3
Recommendation	BUY	BUY
Target price (KRW)	10,000	12,000

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

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

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