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Company Update



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AT A GLANCE

SELL

HOLD

BUY

Target price KRW13,500 (27.4%)

Current price KRW10,600

Market cap KRW241.18b/USD212.34m

Shares (float) 22,752,959 (58.4%)

52-week high/low KRW13,550/KRW6,610

Avg daily trading value (60-day) KRW2.7b/USD2.4m

ONE-YEAR PERFORMANCE

	1M	6M	12M
Simmtech (%)	5.5	-2.3	43.6
Vs Kosdaq (%pts)	1.7	-5.3	56.5

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	13,500	15,000	-10.0%
2017E EPS	1,372	1,493	-8.1%
2018E EPS	1,811	2,003	-9.6%

SAMSUNG vs THE STREET

No of estimates	3
Target price	15,000
Recommendation	4.3

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

Simmtech (222800)

Rising competitiveness a boon for ASP

- Simmtech in 1Q recorded in-line sales but its operating margin came in 1%pt short of our forecast. We cut our full-year operating profit forecast by 8% to reflect our revised module PCB sales forecast and a conservative forex-rate assumption.
- Considering the company's ASP is still trending up despite weak seasonality, we keep our target multiple at 10x P/E. We maintain BUY but lower 12-month target price to KRW13,500.

WHAT'S THE STORY?

Maintaining BUY: Simmtech's competitiveness is grabbing attention amid: 1) its rising number of Chinese clients; 2) growing demand for SSDs and servers; and 3) expanding applications of SIP. Although sidelined from a semiconductor industry boom, strengthening competitiveness has lifted the firm's ASP and profitability. We see little risk of quarterly earnings volatility as the company's product mix started improving quite some time ago. We cut our 12-month target price to reflect our new forex-rate assumption and module PCB sales estimates, but keep the stock at BUY in anticipation of an ASP hike.

1Q miss: Simmtech yesterday posted in-line sales of KRW190.9b (down 4% y-y and 7% q-q) and a disappointing operating profit of KRW5.3b (down 15% y-y and 67% q-q) for an operating margin of 3% (vs our forecast of 4%). We attribute the latter to less-than-expected HDI sales volume, despite an improving product mix and rising ASP, which seems to be the result of an industry trend of hiking memory contents per-unit while total shipments in downstream sectors remained flat.

Lowering module PCB sales forecast: We trim our estimate for module PCB sales in 2017 from KRW288.4b to KRW271.4b to reflect: 1) slower-than-expected sales growth related to servers and SSDs; and 2) high penetration of DDR4 in PCs. Despite raising our substrate sales estimates, we lower our full-year sales and operating profit forecasts by 1% and 8% to KRW832.3b and KRW52.3b, respectively, based on our new sales forecast and conservative forex-rate assumption.

Product mix, market share to keep improving: Regardless of industry conditions, Simmtech's closing of a technological gap with leaders enabled the firm to improve both its product mix and profitability, which prompted us to lift our target multiple to 10x P/E in February. We believe the target is still valid as the firm's margin should outpace that at market leaders. Reflecting our new estimates, we cut our target price to KRW13,500.

SUMMARY OF 1Q RESULTS

(KRWb)	1Q17	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	191.0	(3.5)	(6.8)	(3.0)	(3.1)
Operating profit	5.3	(15.9)	(67.7)	(31.4)	(25.4)
Pre-tax profit	3.7	(35.5)	(64.5)	9.4	(11.9)
Net profit	2.5	(46.1)	(72.7)	(8.7)	(7.4)
Margins (%)					
Operating profit	2.8				
Pre-tax profit	1.9				
Net profit	1.3				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

	2016	2017E	2018E
Multiples (x)			
P/E	8.0	7.7	5.9
P/B	1.3	1.2	1.0
EV/EBITDA	5.1	3.9	3.2
Div yield (%)	1.9	2.4	2.8
EPS growth (% y-y)	32.6	3.5	32.0
ROE (%)	17.5	16.2	18.5
Per-share data (KRW)			
EPS	1,326	1,372	1,811
BVPS	8,010	9,032	10,593
DPS	200	250	300

Quarterly results

(KRWb)	1Q17	4Q16	1Q16	Change	
				(% q-q)	(% y-y)
Sales	191.0	204.9	197.8	(6.8)	(3.5)
Operating profit	5.3	16.4	6.3	(67.4)	(15.3)
Pre-tax profit	3.7	10.4	5.7	(64.1)	(34.8)
Net profit	2.5	9.2	4.6	(72.5)	(45.7)
Margins (%)					
Operating profit	2.8	8.0	3.2		
Pre-tax profit	2.0	5.1	2.9		
Net profit	1.3	4.5	2.3		

Source: Company data, Samsung Securities

Full-year forecast revisions

(KRWb)	Old		New		Diff (%)	
	2017E	2018E	2017E	2018E	2017E	2018E
Sales	841.4	860.5	832.3	858.2	(1.1)	(0.3)
Operating profit	57.0	68.6	52.3	64.3	(8.4)	(6.3)
Pre-tax profit	41.3	55.4	39.2	51.0	(5.1)	(7.9)
Net profit	33.4	44.9	31.2	41.3	(6.6)	(7.9)

Source: Samsung Securities estimates

Target-price calculation

(KRW)	2017E
EPS	1,372
Target P/E (x)	10
Fair value	13,720
Target price	13,500
Current price	10,600
Upside (%)	27.4

Source: Samsung Securities estimates

Results and forecasts

(KRWb)	1Q17	2Q17E	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	2016	2017E	2018E
Sales	191.0	196.1	219.2	226.0	194.3	202.7	226.1	235.1	792.0	832.3	858.2
Module PCB	58.6	63.3	70.7	78.8	58.4	65.1	72.5	82.1	275.2	271.4	278.1
Package substrate	130.4	130.7	146.2	145.3	133.9	135.5	151.5	151.2	506.0	552.6	572.0
Other	2.0	2.1	2.2	1.9	2.0	2.1	2.2	1.9	10.7	8.3	8.1
Operating profit	5.3	8.1	18.2	20.6	10.7	10.8	20.1	22.6	40.2	52.3	64.3
Pre-tax profit	3.7	4.1	14.3	17.0	7.2	7.5	16.9	19.5	34.7	39.2	51.0
Net profit	2.5	3.3	11.6	13.8	5.8	6.0	13.7	15.8	29.3	31.2	41.3
Margins (%)											
Operating profit	2.8	4.1	8.3	9.1	5.5	5.3	8.9	9.6	5.1	6.3	7.5
Pre-tax profit	2.0	2.1	6.5	7.5	3.7	3.7	7.5	8.3	4.4	4.7	5.9
Net profit	1.3	1.7	5.3	6.1	3.0	3.0	6.0	6.7	3.7	3.8	4.8

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2015	2016	2017E	2018E	2019E
Sales	395	792	832	858	879
Cost of goods sold	350	694	717	730	749
Gross profit	45	98	115	128	130
Gross margin (%)	11.5	12.4	13.9	14.9	14.8
SG&A expenses	26	58	63	63	64
Operating profit	19	40	52	64	67
Operating margin (%)	4.9	5.1	6.3	7.5	7.6
Non-operating gains (losses)	(7)	(5)	(13)	(13)	(12)
Financial profit	10	18	12	12	12
Financial costs	17	30	22	21	20
Equity-method gains (losses)	0	7	(6)	(4)	(4)
Other	(0)	(0)	2	(0)	(0)
Pre-tax profit	12	35	39	51	55
Taxes	2	5	8	10	10
Effective tax rate (%)	14.2	15.7	20.3	19.0	19.0
Profit from continuing operations	10	29	31	41	45
Profit from discontinued operations	0	0	0	0	0
Net profit	10	29	31	41	45
Net margin (%)	2.6	3.7	3.8	4.8	5.1
Net profit (controlling interests)	10	29	31	41	44
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	41	84	96	107	109
EBITDA margin (%)	10.4	10.6	11.5	12.5	12.5
EPS (parent-based) (KRW)	1,000	1,326	1,372	1,811	1,951
EPS (consolidated) (KRW)	1,003	1,333	1,376	1,817	1,957
Adjusted EPS (KRW)*	1,000	1,326	1,372	1,811	1,951

Cash flow statement

Year-end Dec 31 (KRWb)	2015	2016	2017E	2018E	2019E
Cash flow from operations	66	39	92	77	95
Net profit	10	29	31	41	45
Non-cash profit and expenses	32	65	67	66	64
Depreciation	21	41	42	42	42
Amortization	1	2	2	1	1
Other	11	22	23	23	22
Changes in A/L from operating activities	27	(48)	9	(15)	1
Cash flow from investments	(16)	(42)	(35)	(32)	(33)
Change in tangible assets	(21)	(38)	(32)	(29)	(30)
Change in financial assets	(2)	(0)	(0)	(0)	(0)
Other	7	(3)	(3)	(3)	(3)
Cash flow from financing	(47)	0	(44)	(41)	(57)
Change in debt	65	6	(40)	(35)	(50)
Change in equity	117	(117)	0	0	0
Dividends	0	(6)	(4)	(6)	(7)
Other	(229)	118	0	0	0
Change in cash	3	(2)	7	(1)	1
Cash at beginning of year	0	3	1	8	7
Cash at end of year	3	1	8	7	9
Gross cash flow	43	94	98	107	109
Free cash flow	45	0	60	48	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	2016	2017E	2018E	2019E
Current assets	143	192	202	207	213
Cash & equivalents	3	1	8	7	9
Accounts receivable	46	81	83	86	88
Inventories	84	96	97	100	102
Other current assets	10	13	13	14	14
Fixed assets	405	410	399	385	373
Investment assets	2	18	19	19	20
Tangible assets	354	344	334	321	309
Intangible assets	28	29	27	26	25
Other long-term assets	21	20	20	20	20
Total assets	548	601	600	592	586
Current liabilities	290	317	287	261	251
Accounts payable	81	73	81	83	85
Short-term debt	39	54	39	14	24
Other current liabilities	170	190	167	164	142
Long-term liabilities	104	105	108	90	56
Bonds & long-term debt	74	55	55	35	0
Other long-term liabilities	30	50	53	54	55
Total liabilities	393	422	394	351	306
Owners of parent equity	155	179	205	241	279
Capital stock	11	11	11	11	11
Capital surplus	137	20	20	20	20
Retained earnings	7	149	175	211	248
Other	(1)	(1)	(1)	(1)	(1)
Non-controlling interests' equity	0	0	1	1	1
Total equity	155	179	206	242	279
Net debt	175	182	136	101	50

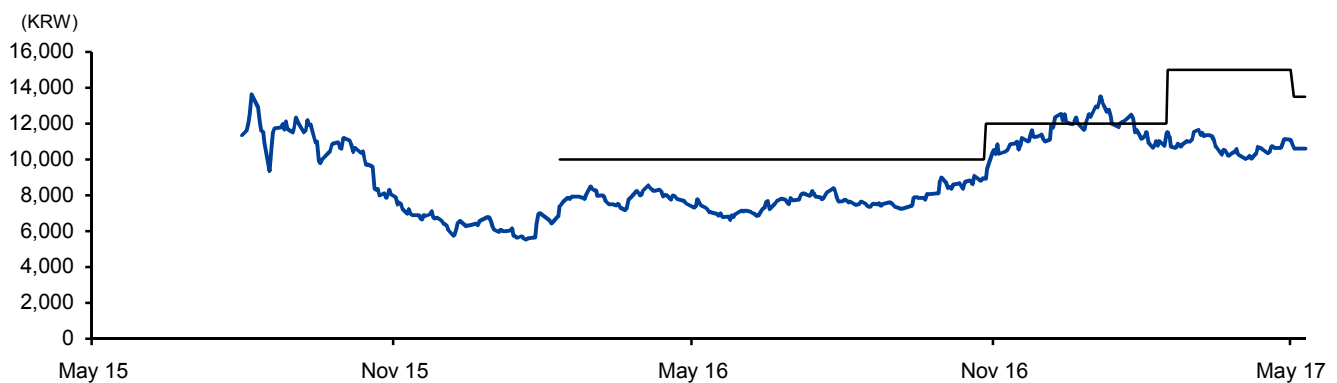
Financial ratios

Year-end Dec 31	2015	2016	2017E	2018E	2019E
Growth (%)					
Sales	nm	100.3	5.1	3.1	2.4
Operating profit	nm	106.6	29.9	23.0	3.5
Net profit	nm	180.9	6.6	32.4	7.7
Adjusted EPS**	nm	32.6	3.5	32.0	7.7
Per-share data (KRW)					
EPS (parent-based)	1,000	1,326	1,372	1,811	1,951
EPS (consolidated)	1,003	1,333	1,376	1,817	1,957
Adjusted EPS**	1,000	1,326	1,372	1,811	1,951
BVPS	7,049	8,010	9,032	10,593	12,245
DPS (common)	260	200	250	300	300
Valuations (x)					
P/E***	10.6	8.0	7.7	5.9	5.4
P/B***	1.5	1.3	1.2	1.0	0.9
EV/EBITDA	10.1	5.1	3.9	3.2	2.7
Ratios (%)					
ROE	6.7	17.5	16.2	18.5	17.1
ROA	1.9	5.1	5.2	6.9	7.6
ROIC	4.9	9.5	11.4	14.5	15.3
Payout ratio	54.8	15.3	18.3	16.6	15.4
Dividend yield (common)	2.5	1.9	2.4	2.8	2.8
Net debt to equity	112.9	101.5	65.9	41.9	17.9
Interest coverage (x)	4.5	4.9	7.6	11.2	13.6

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Target price changes in past two years



Rating changes in past two years

Date	2016/2/17	11/3	2017/2/22	5/10
Recommendation	BUY	BUY	BUY	BUY
Target price (KRW)	10,000	12,000	15,000	13,500

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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, 2017

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