

## Tech Team

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Analyst

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## ► AT A GLANCE

Recommend	<b>Not Rated</b>
Target price	n/a
Current price	<b>KRW31,100</b>
Market cap	KRW990.66b/USD837.7m
Shares (float)	31,854,143 (65.1%)
52-week high/low	KRW32,700/KRW17,300
Avg daily trading value (60-day)	KRW25.5b/ USD21.6m

## ► ONE-YEAR PERFORMANCE

	1M	6M	12M
Simmtech (%)	<b>15.2</b>	<b>32.3</b>	<b>73.7</b>
Vs Kosdaq (%pts)	13.1	27.8	43.5

## ► KEY CHANGES

(KRW)	New	Old	Diff
2021E EPS	1,820	1,874	-2.9%
2022E EPS	1,663	2,300	-27.7%

## ► SAMSUNG vs THE STREET

No of estimates	5
Target price	37,200
Recommendation	4.0

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

# Simmtech (222800)

## Operating margin trending higher

- Simmtech reported a 3Q operating profit of KRW50.4b, beating consensus by 21%. The firm's 4Q operating profit guidance (KRW60.2b) is 27% higher than consensus.
- Various industry trends—towards larger substrates, additional layers, and rising substrate consent per device—should accelerate in 2022.

## WHAT'S THE STORY?

**3Q review:** Simmtech's 3Q sales rose 13% q-q to KRW365.9b and its operating profit grew 62% q-q to KRW50.4b, the latter beating consensus by 21%. MSAP substrate sales growth stood out, and sales of major substrates (including MPC, FC-CSP, and SIP) grew more than 10% q-q, which we attribute to ASP hikes (amid tight supply), operating leverage effects, and favorable KRW/USD rates. In particular, sales volume growth for SIP substrates (one of the firm's major growth drivers) should pave the way for sales volume growth for RFSIP and AIP substrates.

**Another positive surprise in store for 4Q:** More importantly, we do not see the firm's robust earnings in 3Q as a one-off. The company announced 4Q sales and operating profit guidance of KRW386.9b (6% higher than the actual 3Q figure) and KRW60.2b (19% higher q-q), respectively. Its forecast of sharp margin improvement suggests that Simmtech is enjoying operating leverage effects. Its capacity expansion (to lift its capacity by 20%) should be completed over 4Q21-1Q22, which bodes well for sales growth in 1H22.

**End demand sluggish but substrate earnings strong:** Other than Simmtech, major substrate companies (including Scinco, Kinsus, Unimicron, Samsung Electro-Mechanics, and LG Innotek): 1) have witnessed rapid profitability improvements as of late; and 2) are announcing large-scale capacity expansions (to be completed over the next 1-3 years).

(Continue on the next page)

## SUMMARY OF FINANCIAL DATA

	2017	2018	2019	2020
Revenue (KRWb)	812	1,008	1,000	1,201
Operating profit (KRWb)	34	31	-18	90
Net profit (adj) (KRWb)	16	2	-39	56
EPS (adj) (KRW)	661	195	-1,483	1,943
EPS (adj) growth (% y-y)	-47.5	-70.5	Turned pos	Turned pos
EBITDA margin (%)	9.7	9.8	5.6	13.8
ROE (%)	8.2	2.4	-19.5	25.1
P/E (adj) (x)	15.2	33.1	n/a	11.8
P/B (x)	1.2	0.8	1.8	2.6
EV/EBITDA (x)	5.3	3.6	11.0	5.3
Dividend yield (%)	2.5	2.4	1.3	1.4

Source: Company data, Samsung Securities

Major substrate companies are enjoying sales growth and have been carrying out capacity expansions as of late, despite worries over end demand (PC demand is likely peaking and smartphone demand in China is coming under pressure), which we attribute to rising substrate content per device—this positive is more than offsetting demand-related fears. Amid technological advances (multiple chips and passive devices are being packaged onto substrates using FC-BGA or SIP technologies), substrates are becoming larger and are coming with more layers. In particular, with the SIP (including AIP) portion of RF devices rising, substrate content per device is increasing.

**Industry growth to accelerate in 2022:** The above-stated trends should accelerate in 2022 thanks to the anticipated penetration of Intel's Sapphire Rapids and of mmWave-based smartphones (following Apple's adoption of its own chip M1 in 2021). In particular, Simmtech should benefit from higher ASPs thanks to the memory chip transition to DDR5.

### 3Q results

(KRWb)	3Q21			Chg	
	Actual	Consensus	Diff (%)	(% y-y)	(% q-q)
Sales	366.0	349.9	4.6	17.8	12.7
Operating profit	50.4	41.6	21.3	64.3	61.4
Pre-tax profit	57.7	35.7	61.5	113.5	126.1
Net profit*	52.8	26.4	99.9	132.2	732.3
<b>Margins (%)</b>					
Operating profit	13.8	11.9			
Pre-tax profit	15.8	10.2			
Net profit*	14.4	7.5			

Note: \*Controlling

Source: Company data, QuantiWise, Samsung Securities

### Simmtech: Results

(KRWb)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	2017	2018	2019	2020
Sales	290.2	321.8	310.6	278.8	283.1	324.7	366.0	811.6	1,007.5	1,000.2	1,201.4
Operating profit	13.7	30.7	30.7	14.7	15.3	31.2	50.4	33.8	30.8	-17.9	89.7
Pre-tax profit	10.2	27.8	27.0	9.9	9.0	25.5	47.7	19.0	10.4	-42.4	74.9
Net profit*	8.2	23.5	22.7	2.2	6.3	17.0	29.1	15.9	5.0	-36.6	56.6
<b>Margins (%)</b>											
Operating profit	4.7	9.5	9.9	5.3	5.4	9.6	13.8	4.2	3.1	-1.8	7.5
Pre-tax profit	3.5	8.6	8.7	3.5	3.2	7.9	13.0	2.3	1.0	-4.2	6.2
Net profit*	2.8	7.3	7.3	0.8	2.2	5.2	8.0	2.0	0.5	-3.7	4.7

Note: \*Controlling

Source: Company data, Samsung Securities

### Simmtech's 2021 guidance vs consensus

(KRWb)	New guidance*	Past guidance	Consensus
Sales	1,360.7	1,324.9	1,320.8
Operating profit	157.1	136.8	134.1
Operating margin (%)	11.5	10.3	10.2

Note: \*Reflected the 3Q21 results and 4Q21 guidance (Sales: KRW386.9b; operating profit: KRW60.2b)

Source: Company data, Samsung Securities

## Income statement

Year-end Dec 31 (KRWb)	2016	2017	2018	2019	2020
<b>Sales</b>	<b>792</b>	<b>812</b>	<b>1,008</b>	<b>1,000</b>	<b>1,201</b>
Cost of goods sold	694	710	876	912	1,005
<b>Gross profit</b>	<b>98</b>	<b>102</b>	<b>132</b>	<b>88</b>	<b>196</b>
Gross margin (%)	12.4	12.5	13.1	8.8	16.3
SG&A expenses	58	68	101	106	107
<b>Operating profit</b>	<b>40</b>	<b>34</b>	<b>31</b>	<b>-18</b>	<b>90</b>
Operating margin (%)	5.1	4.2	3.1	-1.8	7.5
<b>Non-operating gains (losses)</b>	<b>-5</b>	<b>-15</b>	<b>-20</b>	<b>-24</b>	<b>-15</b>
Financial profit	18	21	27	23	40
Financial costs	30	27	40	36	55
Equity-method gains (losses)	7	-9	0	0	0
Other	-0	-1	-6	-11	0
<b>Pre-tax profit</b>	<b>35</b>	<b>19</b>	<b>10</b>	<b>-42</b>	<b>75</b>
Taxes	5	3	8	-3	18
Effective tax rate (%)	15.7	15.3	77.8	7.0	24.6
Profit from continuing operations	29	16	2	-39	56
Profit from discontinued operations	0	0	0	0	0
<b>Net profit</b>	<b>29</b>	<b>16</b>	<b>2</b>	<b>-39</b>	<b>56</b>
Net margin (%)	3.7	2.0	0.2	-3.9	4.7
Net profit (controlling interests)	29	16	5	-37	57
Net profit (non-controlling interests)	0	0	-3	-3	-0
EBITDA	84	79	99	56	165
EBITDA margin (%)	10.6	9.7	9.8	5.6	13.8
EPS (parent-based) (KRW)	1,260	661	195	-1,483	1,943
EPS (consolidated) (KRW)	1,267	669	91	-1,598	1,939
Adjusted EPS (KRW)*	1,260	661	195	-1,483	1,943

## Cash flow statement

Year-end Dec 31 (KRWb)	2016	2017	2018	2019	2020
<b>Cash flow from operations</b>	<b>39</b>	<b>133</b>	<b>90</b>	<b>-32</b>	<b>215</b>
Net profit	29	16	2	-39	56
Non-cash profit and expenses	65	79	109	102	122
Depreciation	41	43	64	72	74
Amortization	2	2	5	2	2
Other	22	34	41	28	47
Changes in A/L from operating activities	-48	47	-3	-75	51
<b>Cash flow from investments</b>	<b>-42</b>	<b>-61</b>	<b>-99</b>	<b>-74</b>	<b>-83</b>
Change in tangible assets	-38	-52	-97	-73	-82
Change in financial assets	-0	0	-2	-0	-0
Other	-3	-9	-1	-1	-0
<b>Cash flow from financing</b>	<b>0</b>	<b>-61</b>	<b>23</b>	<b>87</b>	<b>-125</b>
Change in debt	6	4	36	124	-187
Change in equity	-117	23	2	6	74
Dividends	-6	-4	-6	-4	-4
Other	118	-84	-8	-39	-8
Change in cash	-2	11	15	-18	7
Cash at beginning of year	3	1	12	27	10
Cash at end of year	1	12	27	10	17
<b>Gross cash flow</b>	<b>94</b>	<b>95</b>	<b>111</b>	<b>63</b>	<b>179</b>
<b>Free cash flow</b>	<b>0</b>	<b>81</b>	<b>-8</b>	<b>-107</b>	<b>129</b>

Note: \* Excluding one-off items

\*\* Fully diluted, excluding one-off items

\*\*\* From companies subject to equity-method valuation

Source: Company data, Samsung Securities

## Balance sheet

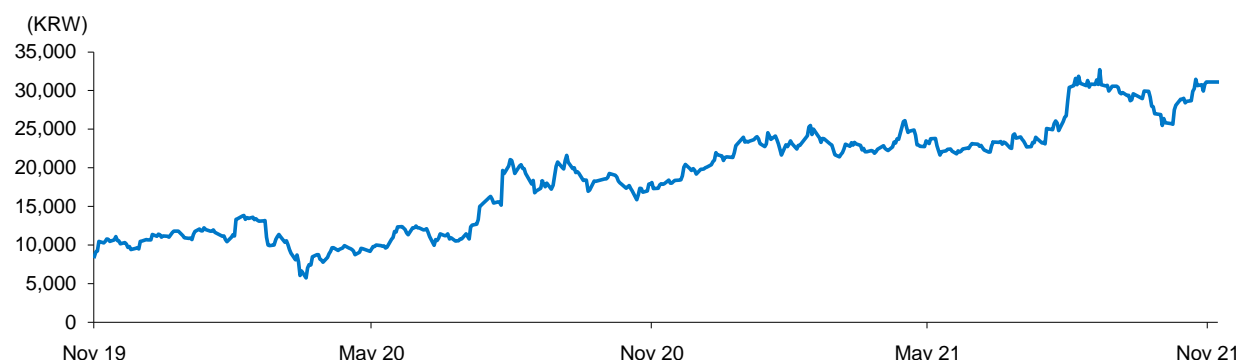
Year-end Dec 31 (KRWb)	2016	2017	2018	2019	2020
<b>Current assets</b>	<b>192</b>	<b>210</b>	<b>252</b>	<b>254</b>	<b>199</b>
Cash & equivalents	1	12	27	10	17
Accounts receivable	81	57	57	79	47
Inventories	96	131	156	147	124
Other current assets	13	11	12	18	10
<b>Fixed assets</b>	<b>410</b>	<b>518</b>	<b>561</b>	<b>586</b>	<b>581</b>
Investment assets	18	2	4	2	4
Tangible assets	344	459	507	514	513
Intangible assets	29	33	26	25	22
Other long-term assets	20	23	25	45	42
<b>Total assets</b>	<b>601</b>	<b>728</b>	<b>813</b>	<b>840</b>	<b>780</b>
<b>Current liabilities</b>	<b>317</b>	<b>393</b>	<b>521</b>	<b>552</b>	<b>350</b>
Accounts payable	73	118	39	80	70
Short-term debt	54	72	151	172	38
Other current liabilities	190	203	331	300	242
<b>Long-term liabilities</b>	<b>105</b>	<b>120</b>	<b>78</b>	<b>127</b>	<b>141</b>
Bonds & long-term debt	55	63	19	46	39
Other long-term liabilities	50	57	59	81	102
<b>Total liabilities</b>	<b>422</b>	<b>513</b>	<b>599</b>	<b>678</b>	<b>491</b>
<b>Owners of parent equity</b>	<b>179</b>	<b>209</b>	<b>213</b>	<b>162</b>	<b>288</b>
Capital stock	11	12	12	12	17
Capital surplus	20	42	44	50	118
Retained earnings	149	161	163	104	154
Other	-1	-7	-6	-3	-2
<b>Non-controlling interests' equity</b>	<b>0</b>	<b>6</b>	<b>2</b>	<b>-1</b>	<b>0</b>
<b>Total equity</b>	<b>179</b>	<b>215</b>	<b>215</b>	<b>162</b>	<b>288</b>
Net debt	182	176	197	336	144

## Financial ratios

Year-end Dec 31	2016	2017	2018	2019	2020
<b>Growth (%)</b>					
Sales	100.3	2.5	24.1	-0.7	20.1
Operating profit	106.6	-15.9	-9.0	nm	nm
Net profit	180.9	-45.1	-85.6	nm	nm
Adjusted EPS**	32.6	-47.5	-70.5	nm	nm
<b>Per-share data (KRW)</b>					
EPS (parent-based)	1,260	661	195	-1,483	1,943
EPS (consolidated)	1,267	669	91	-1,598	1,939
Adjusted EPS**	1,260	661	195	-1,483	1,943
BVPS	7,612	8,189	8,335	6,679	8,843
DPS (common)	190	252	152	152	320
<b>Valuations (x)</b>					
P/E***	9.1	15.2	33.1	n/a	11.8
P/B***	1.5	1.2	0.8	1.8	2.6
EV/EBITDA	5.4	5.3	3.6	11.0	5.3
<b>Ratios (%)</b>					
ROE	17.5	8.2	2.4	-19.5	25.1
ROA	5.1	2.4	0.3	-4.8	7.0
ROIC	9.5	7.2	1.6	-3.4	13.2
Payout ratio	15.3	37.9	73.0	-9.9	18.0
Dividend yield (common)	1.7	2.5	2.4	1.3	1.4
Net debt to equity	101.5	81.8	91.7	208.0	49.8
Interest coverage (x)	4.9	4.2	2.7	-1.3	8.3

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**Target price changes in past two years****Rating changes over past two years** (adjusted share prices)

<b>Date</b>	2021/11/5
<b>Recommendation</b>	Not Rated
<b>Target price (KRW)</b>	n/a
<b>Gap* (average)</b>	
(max or min)**	

Note: \* [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%  
 \*\* Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

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**Percentage of ratings in 12 months prior to Sep 30, 2021**

BUY (87.1%) | HOLD (12.9%) | SELL (0%)

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