



# Simmtech

| Bloomberg Code (222800 KS) | Reuters Code (222800.KQ)

30 December 2021

[IT parts/electronics]

## Earnings outlook bright through 2022

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**BUY**  
(Maintain)



CP (Dec. 29)  
**KRW44,850**



TP (6 months)  
**KRW60,000**



Upside  
**33.8%**

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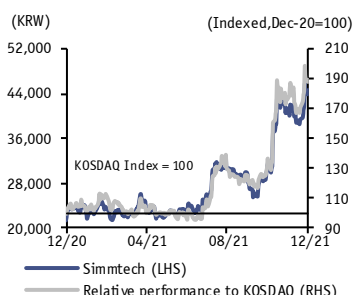


Shinhan Investment Corp.

Rating	BUY (Maintain)
TP (6 months)	KRW60,000
Upside	33.8%

KOSPI	2,993.29p
KOSDAQ	1,028.05p
Market cap	KRW1,428.7bn/USD1,253.2mn
Par value	KRW500
Outstanding shares	31.9mn
Free float	20.7mn(65.1%)
52-week high/low	KRW45,950/KRW21,400
60-day avg. trading volume	1,081,696shrs
60-day avg. turnover	KRW41,212mn
Foreign ownership	16.15%
Major shareholders	
Simmtech Holdings and 8 others	33.28%
NPS	5.08%
Absolute performance	
3M	60.2%
6M	99.3%
12M	104.3%
Relative performance to KOSDAQ	
3M	56.0%
6M	98.3%
12M	90.3%

### Share performance



### 1Q22 OP forecast revised up to KRW51.7bn

Simmtech is an IT parts company that focuses on supplying substrates used in the backend semiconductor packaging process.

For 4Q21, we estimate sales at KRW390.2bn (+18% YoY) and operating profit at KRW60bn (+308% YoY). We believe solid profitability was driven by the ramp-up of a new production line for high value-added MSAP substrates.

Demand is typically weak in the first quarter of the year. However, we raise our operating profit forecast for 1Q22 from previous KRW42.1bn to KRW51.7bn, given the current uptrend in order backlog. We also see potential for further upside on top of our revised-up forecast.

### Earnings consensus to be adjusted upward for 2022

We also raise our operating profit forecast for full-year 2022 from KRW230.4bn to KRW250.1bn (+59% YoY). Market consensus on operating profit currently stands at KRW221.5bn but will likely be upward-adjusted alongside margin improvement in 2022. The detailed reasons are as follows.

We previously assumed that operating margin gains would be limited from 4Q21, but ASP growth and product mix improvement are both continuing at present. Even after the upward-revision, our forecasts are still conservative.

Simmtech has continued to expand its production capacity of high value-added MSAP substrates, with further capacity addition planned for 2022. We believe this points toward clear improvement in fundamentals.

Moreover, we expect the relatively wide, 10%p operating profit margin gap between Simmtech and top-tier peers to narrow going forward.

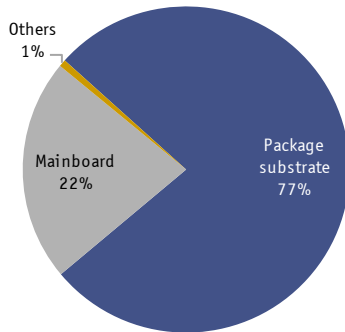
### Retain BUY and raise target price to KRW60,000

Our revised target is based on 2022F EPS and a target PER of 10x, reflecting the typical valuation applied to IT parts suppliers with Simmtech seen as the bellwether for domestic small/mid-cap IT parts stocks in 2021.

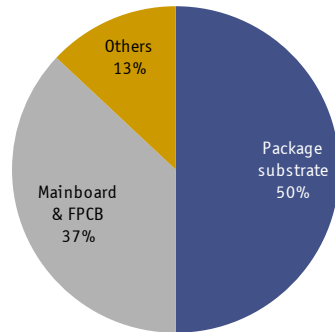
Simmtech shares are currently trading at a 2022F PER of 7.5x, but valuations should decline further going forward on upward-adjustment of earnings consensus. Package substrates are expected to remain in the tightest supply among IT parts in 2022, given that certain chipmakers have expressed their intention to extend investment support and enter into long-term supply agreements. Sales growth should continue into 2023, backed by substrate upgrades for DDR5 and increasing SiP substrate supply to global clients. Our target price for Simmtech is thus revised up to KRW60,000.

Year to December	Sales (bn KRW)	OP (bn KRW)	Pre-tax (bn KRW)	NP (bn KRW)	EPS (KRW)	Growth (%)	BPS (KRW)	PER (x)	EV/EBITDA (x)	PBR (x)	ROE (%)	Net debt ratio (%)
2019	1,000.2	(17.9)	(42.4)	(36.6)	(1,486)	TR	6,676	(7.9)	11.0	1.8	(19.5)	208.0
2020	1,201.4	89.7	74.9	56.6	1,935	TB	8,840	11.8	5.3	2.6	25.1	49.8
2021F	1,364.0	157.0	147.6	121.7	3,756	94.1	12,362	11.9	6.1	3.6	35.7	4.2
2022F	1,637.7	250.1	248.5	191.0	5,995	59.6	17,958	7.5	3.8	2.5	39.5	(33.4)
2023F	1,786.8	286.3	300.9	231.2	7,258	21.1	24,766	6.2	2.8	1.8	34.0	(53.5)

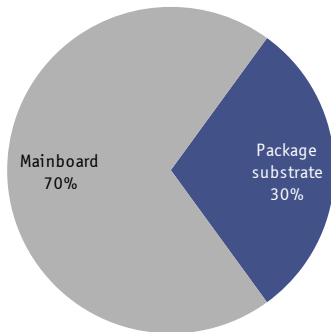
Source: Company data, Shinhan Investment Corp. / Note: TB = turn black, TR = turn red, RR = remain red

**Simmtech: Sales breakdown**

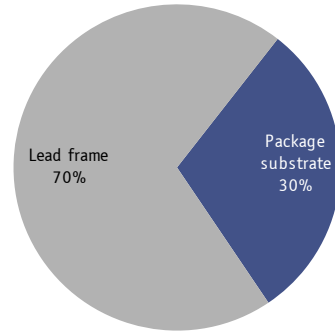
Source: Shinhan Investment Corp.

**Daeduck Electronics: Sales breakdown**

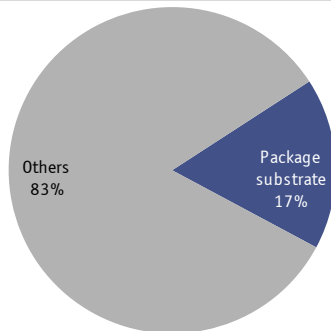
Source: Shinhan Investment Corp.

**Korea Circuit: Sales breakdown**

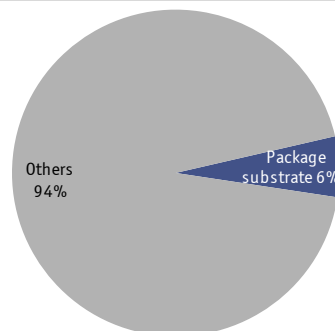
Source: Shinhan Investment Corp.

**Haesung DS: Sales breakdown**

Source: Shinhan Investment Corp.

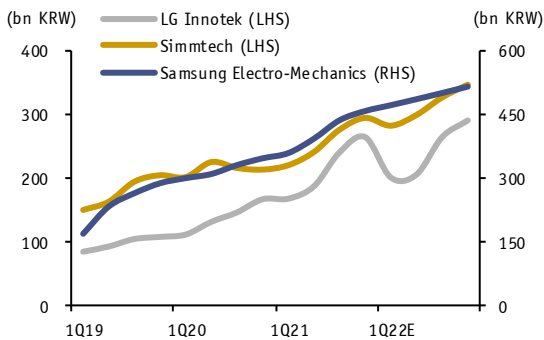
**Samsung Electro-Mechanics: Sales breakdown**

Source: Shinhan Investment Corp.

**LG Innotek: Sales breakdown**

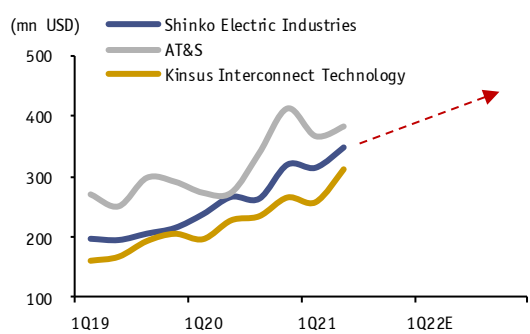
Source: Shinhan Investment Corp.

## Substrate sales trend of domestic companies



Source: Shinhan Investment Corp.

## Substrate sales trend of overseas companies



Source: Bloomberg, Shinhan Investment Corp.

## Earnings trend and outlook

(bn KRW, %)	1Q21	2Q21	3Q21	4Q21F	1Q22F	2Q22F	3Q22F	4Q22F	2020	2021F	2022F
Sales	283.1	324.7	365.9	390.2	362.7	393.6	428.5	452.9	1,201.2	1,363.9	1,637.7
OP	15.2	31.2	50.4	60.0	51.7	57.8	66.9	73.6	89.8	156.8	250.1
OPM (%)	5.4	9.6	13.8	15.4	14.3	14.7	15.6	16.3	7.5	11.5	15.3
Parent sales	241.8	277.3	309.7	330.2	314.2	337.8	363.7	382.4	1,047.9	1,159.0	1,398.1
Parent OP	13.7	28.5	46.1	54.9	48.7	53.1	61.4	67.1	98.2	143.2	230.4
Parent OPM (%)	5.7	10.3	14.9	16.6	15.5	15.7	16.9	17.6	9.4	12.4	16.5
Subsidiary sales	41.4	47.4	56.2	60.0	48.5	55.8	64.8	70.4	153.3	205.0	239.6
Subsidiary OP	1.5	2.7	4.3	5.1	3.0	4.7	5.5	6.5	1.3	13.6	19.7
Subsidiary OPM (%)	3.6	5.7	7.7	8.5	6.2	8.4	8.5	9.2	0.9	6.6	8.2
Sales by product	283.1	324.7	365.9	390.2	362.7	393.6	428.5	452.9	1,201.2	1,363.9	1,637.7
Module PCB	62.4	81.1	87.5	94.5	78.5	92.2	99.4	103.6	339.6	325.5	373.7
Package substrate	219.3	240.3	275.8	294.5	282.1	299.1	327.0	347.3	852.3	1,029.9	1,255.5
Others	1.4	3.3	2.6	1.2	2.1	2.3	2.1	1.9	9.2	8.5	8.4
Sales share by product											
Module PCB	22.0	25.0	23.9	24.2	21.6	23.4	23.2	22.9	28.3	23.9	22.8
Package substrate	77.5	74.0	75.4	75.5	77.8	76.0	76.3	76.7	71.0	75.5	76.7
Others	0.5	1.0	0.7	0.3	0.6	0.6	0.5	0.4	0.8	0.6	0.5
MSAP sales share	61.8	61.9	62.5	68.3	65.3	66.9	68.9	70.2	54.5	63.9	68.0
Parent	56.7	56.3	56.8	63.4	60.8	62.2	64.1	65.4	49.2	58.5	63.3
Subsidiary	91.9	94.9	93.5	95.0	94.7	95.1	95.7	95.9	90.5	93.9	95.4
Sales share by application (%)											
Mobile	50.5	47.4	50.3	52.8	54.4	53.2	54.3	55.7	43.6	50.3	54.4
PC	25.5	26.8	26.3	23.2	22.4	23.9	23.9	21.1	25.6	25.4	22.8
Server	10.4	13.2	9.2	10.5	12.3	11.6	8.7	10.8	15.8	10.8	10.8
Graphic card	10.1	9.3	11.2	12.1	9.1	9.7	11.6	11.0	10.9	10.8	10.4
Others	3.6	3.3	2.9	1.5	1.9	1.6	1.5	1.4	4.1	2.8	1.6

Source: Company data, Shinhan Investment Corp.

## Target price calculation

(KRW, x)	2022F	Remarks
Target price	60,000	
EPS	5,995	2022F EPS
Target PER	10.0	Typical PER valuation applied to IT parts suppliers
Value per share	59,953	

Source: Shinhan Investment Corp.

### Statement of financial position

Year to December (bn KRW)	2019	2020	2021F	2022F	2023F
<b>Total assets</b>	<b>839.9</b>	<b>779.8</b>	<b>977.3</b>	<b>1,195.3</b>	<b>1,426.8</b>
Current assets	254.2	198.8	354.4	568.7	797.5
Cash and equivalents	9.7	17.1	100.1	273.6	482.2
Accounts receivable	78.9	47.4	66.4	77.1	82.3
Inventories	147.1	123.8	173.3	201.1	214.9
Non-current assets	585.8	581.0	622.9	626.6	629.3
Tangible assets	513.6	512.5	538.7	542.4	545.5
Intangible assets	24.7	22.1	22.9	22.0	21.2
Investment assets	2.1	4.5	6.2	7.2	7.7
Other financial assets	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities</b>	<b>678.4</b>	<b>491.5</b>	<b>579.9</b>	<b>618.0</b>	<b>630.7</b>
Current liabilities	551.7	350.1	381.9	405.8	412.5
Short-term borrowings	171.9	37.5	56.1	36.1	16.1
Accounts payable	79.9	70.5	98.7	114.5	122.4
Current portion of long-term debt	115.7	49.6	(10.0)	(20.0)	(20.0)
Non-current liabilities	126.7	141.4	198.0	212.2	218.2
Bonds	23.9	1.4	40.3	40.3	40.3
Long-term borrowings	35.0	41.4	19.7	11.7	6.7
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total shareholders' equity</b>	<b>161.5</b>	<b>288.3</b>	<b>397.4</b>	<b>577.3</b>	<b>796.1</b>
Capital stock	12.2	17.1	17.1	17.1	17.1
Capital surplus	49.7	118.4	110.6	110.6	110.6
Other capital	(0.1)	(0.1)	(0.3)	(0.3)	(0.3)
Accumulated other comprehensive income	(3.1)	(2.0)	11.8	11.8	11.8
Retained earnings	103.9	154.5	254.6	432.9	649.8
<b>Controlling interest equity</b>	<b>162.5</b>	<b>287.9</b>	<b>393.8</b>	<b>572.1</b>	<b>788.9</b>
Non-controlling interest equity	(1.0)	0.4	3.6	5.2	7.2
*Total debt	347.7	160.6	116.8	80.5	56.4
*Net debt (cash)	336.0	143.5	16.6	(193.1)	(425.8)

### Statement of cash flow

Year to December (bn KRW)	2019	2020	2021F	2022F	2023F
<b>Cash flow from operations</b>	<b>(31.6)</b>	<b>215.5</b>	<b>219.3</b>	<b>301.8</b>	<b>325.9</b>
Net profit	(39.4)	56.5	122.8	192.6	233.2
Depreciation expense	72.3	73.9	79.9	76.4	76.9
Amortization expense	2.0	1.7	0.9	0.9	0.9
FX translation loss (gain)	(3.3)	(0.1)	2.3	0.0	0.0
Asset disposal loss (gain)	(0.7)	(0.9)	(0.1)	0.0	0.0
Equity method loss (gain)	0.0	0.0	0.0	0.0	0.0
Change in working capital	(74.5)	50.5	11.0	31.9	15.0
(Payment of income tax)	(10.7)	(6.0)	(33.9)	(55.9)	(67.7)
Others	22.7	39.9	36.4	55.9	67.6
<b>Cash flow from investments</b>	<b>(73.7)</b>	<b>(82.9)</b>	<b>(74.7)</b>	<b>(81.0)</b>	<b>(80.5)</b>
Increase in tangible assets	(75.0)	(86.0)	(72.5)	(80.0)	(80.0)
Decrease in tangible assets	2.2	3.9	0.1	0.0	0.0
Change in intangible assets	(0.6)	(0.0)	(0.3)	0.0	0.0
Change in investment assets	0.0	0.0	(3.4)	(1.0)	(0.5)
Others	(0.3)	(0.8)	1.4	0.0	0.0
<b>Free cash flow</b>	<b>(88.1)</b>	<b>87.5</b>	<b>159.2</b>	<b>202.4</b>	<b>225.2</b>
<b>Cash flow from financing</b>	<b>87.1</b>	<b>(124.9)</b>	<b>(61.6)</b>	<b>(47.4)</b>	<b>(36.9)</b>
Change in borrowings	112.7	(185.5)	(43.5)	(36.3)	(24.1)
Change in treasury stock	0.0	0.0	0.0	0.0	0.0
Dividends	(3.9)	(3.7)	(10.4)	(11.1)	(12.7)
Others	(21.7)	64.3	(7.7)	(0.0)	(0.1)
Other cash flow	0.0	0.0	0.1	0.0	(0.0)
Change in consolidated scope	0.0	0.0	0.0	0.0	0.0
Change in FX rates	0.7	(0.4)	0.0	0.0	0.0
<b>Change in total cash</b>	<b>(17.5)</b>	<b>7.4</b>	<b>83.1</b>	<b>173.5</b>	<b>208.6</b>
Beginning cash	27.3	9.7	17.1	100.2	273.6
Ending cash	9.7	17.1	100.2	273.6	482.2

Source: Company data, Shinhan Investment Corp.

### Statement of comprehensive income

Year to December (bn KRW)	2019	2020	2021F	2022F	2023F
<b>Sales</b>	<b>1,000.2</b>	<b>1,201.4</b>	<b>1,364.0</b>	<b>1,637.7</b>	<b>1,786.8</b>
Growth (%)	(0.7)	20.1	13.5	20.1	9.1
<b>COGS</b>	<b>912.2</b>	<b>1,005.0</b>	<b>1,111.0</b>	<b>1,358.5</b>	<b>1,486.3</b>
<b>Gross profit</b>	<b>88.0</b>	<b>196.4</b>	<b>253.0</b>	<b>279.2</b>	<b>300.5</b>
GPM (%)	8.8	16.3	18.5	17.0	16.8
<b>SG&amp;A</b>	<b>105.9</b>	<b>106.7</b>	<b>96.0</b>	<b>29.1</b>	<b>14.3</b>
<b>Operating profit</b>	<b>(17.9)</b>	<b>89.7</b>	<b>157.0</b>	<b>250.1</b>	<b>286.3</b>
Growth (%)	TR	TB	74.9	59.3	14.5
OPM (%)	(1.8)	7.5	11.5	15.3	16.0
Non-operating profit	(24.5)	(14.9)	(9.4)	(1.5)	14.6
Financial profit	(13.9)	(15.1)	(5.3)	6.5	22.6
Other non-operating profit	(10.6)	0.3	(4.1)	(8.0)	(8.0)
Equity method gain (loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>(42.4)</b>	<b>74.9</b>	<b>147.6</b>	<b>248.5</b>	<b>300.9</b>
Income tax	(3.0)	18.4	24.8	55.9	67.7
Continuing operations	(39.4)	56.5	122.8	192.6	233.2
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>(39.4)</b>	<b>56.5</b>	<b>122.8</b>	<b>192.6</b>	<b>233.2</b>
Growth (%)	TR	TB	117.4	56.9	21.1
NPM (%)	(3.9)	4.7	9.0	11.8	13.1
Controlling interest	(36.6)	56.6	121.7	191.0	231.2
Non-controlling interest	(2.8)	(0.1)	1.1	1.6	2.0
Comprehensive income	(40.0)	60.0	136.9	192.6	233.2
Controlling interest	(37.2)	60.6	135.5	191.3	231.6
Non-controlling interest	(2.8)	(0.6)	1.3	1.4	1.6
<b>EBITDA</b>	<b>56.3</b>	<b>165.4</b>	<b>237.8</b>	<b>327.3</b>	<b>364.0</b>
Growth (%)	(43.1)	193.7	43.7	37.7	11.2
EBITDA margin (%)	5.6	13.8	17.4	20.0	20.4

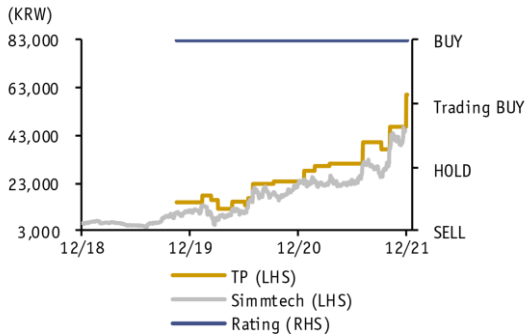
### Key ratios

Year to December	2019	2020	2021F	2022F	2023F
EPS (KRW)	(1,600)	1,932	3,789	6,047	7,321
EPS of controlling interest (KRW)	(1,486)	1,935	3,756	5,995	7,258
BPS (KRW)	6,636	8,853	12,475	18,122	24,993
BPS of controlling interest (KRW)	6,676	8,840	12,362	17,958	24,766
DPS (KRW)	152	320	350	400	450
PER (x)	(7.4)	11.8	11.8	7.4	6.1
PER of controlling interest (x)	(7.9)	11.8	11.9	7.5	6.2
PBR (x)	1.8	2.6	3.6	2.5	1.8
PBR of controlling interest (x)	1.8	2.6	3.6	2.5	1.8
EV/EBITDA (x)	11.0	5.3	6.1	3.8	2.8
Dividend payout ratio (%)	(10.1)	18.4	9.2	6.7	6.2
Dividend yield (%)	1.3	1.4	0.8	0.9	1.0
<b>Profitability</b>					
EBITDA margin (%)	5.6	13.8	17.4	20.0	20.4
OPM (%)	(1.8)	7.5	11.5	15.3	16.0
NPM (%)	(3.9)	4.7	9.0	11.8	13.1
ROA (%)	(4.8)	7.0	14.0	17.7	17.8
ROE (%)	(19.5)	25.1	35.7	39.5	34.0
ROIC (%)	(5.1)	14.0	24.6	39.8	46.2
<b>Stability</b>					
Debt to equity ratio (%)	420.0	170.5	145.9	107.1	79.2
Net debt ratio (%)	208.0	49.8	4.2	(33.4)	(53.5)
Cash ratio (%)	1.8	4.9	26.2	67.4	116.9
Interest coverage ratio (x)	(1.3)	8.3	21.1	42.5	70.3
<b>Activity (%)</b>					
Working capital turnover (times)	(17.9)	(33.9)	(22.5)	(21.4)	(21.0)
Inventory turnover (days)	55.3	41.2	39.8	41.7	42.5
Receivable turnover (days)	24.8	19.2	15.2	16.0	16.3

Source: Company data, Shinhan Investment Corp.

## Target price & rating history

### Simmtech (222800 KS)



Date	Rating	Target price (KRW)	Target price gap (%)	
			Average	Max/Min
2019.11.15	BUY	14,747	(25.0)	(9.0)
2020.02.10	BUY	17,601	(31.5)	(21.4)
2020.03.11	BUY	15,698	(50.0)	(39.9)
2020.04.03	BUY	12,000	(19.5)	(2.1)
2020.05.21	BUY	15,000	(23.6)	(17.0)
2020.07.03	BUY	13,500	(12.3)	(5.9)
2020.07.14	BUY	16,500	(5.5)	(1.2)
2020.07.30	BUY	22,500	(15.3)	(4.0)
2020.10.08	BUY	23,500	(16.1)	2.3
2021.01.19	BUY	28,000	(15.6)	(8.9)
2021.02.24	BUY	30,000	(24.7)	(20.7)
2021.04.15	BUY	31,000	(24.2)	(13.7)
2021.08.05	BUY	37,500	-	-
2021.08.06	BUY	40,000	(25.2)	(18.3)
2021.10.07	BUY	37,000	(21.7)	(15.0)
2021.11.05	BUY	46,500	(11.0)	(1.2)
2021.12.30	BUY	60,000	-	-

Note: Calculation of target price gap based on past 6 months

### Rating Distribution - SHIC Universe (as of 28 December 2021)

BUY (BUY)	96.62%	Trading BUY (HOLD)	0.00%	HOLD (HOLD)	3.38%	SELL (SELL)	0.00%
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### Rating Distribution - SHIC Investment Banking Clients (as of 28 December 2021)

BUY (BUY)	100.00%	Trading BUY (HOLD)	0.00%	HOLD (HOLD)	0.00%	SELL (SELL)	0.00%
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### SHIC Ratings (as of 1 April 2017)

#### Stock

- ◆ BUY: Expected 6-month gain of 10% or more
- ◆ Trading BUY: Expected 6-month gain of 10% to loss of 10%
- ◆ HOLD: Expected 6-month loss of 10% to 20%
- ◆ SELL: Expected 6-month loss of 20% or more

#### Sector

- ◆ OVERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated BUY
- ◆ NEUTRAL: Based on market cap, largest share of sector stocks under coverage is rated Trading BUY or HOLD
- ◆ UNDERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated SELL



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