

January 11, 2024

Woohyung Yoo
Semiconductor Materials
+82-2-6114-2940
Woohyung.yoo@kbf.com

Initiate coverage with BUY and TP of KRW49,000

We initiate coverage on Simmtech with a BUY rating and TP of KRW49,000. Our TP has been derived using the DCF model (7.03% WACC, 2.2% TGR) as it takes into account future value; we see earnings improving steadily, in line with the recovery in customers' memory capacity utilization in 2H24. TP implies 35.2x 12m fwd P/E and offers 21% potential upside (vs. Jan 9 close).

Leading memory-use semiconductor packaging substrate producer

Simmtech produces semiconductor substrates used in IT devices (e.g., smartphones, PCs). Major businesses include Packaging Substrate and Module PCB, with Packaging Substrate encompassing MCP, FC-CSP, SiP, GDDR6, and BOC. The company generates 77% of overall revenue from Packaging Substrate and 23% from Module PCB, according to 2023E figures. MCP is the company's flagship product, accounting for 46% of revenue. Memory-use substrates account for around 85% of total revenue.

Investment highlights:

- Recovery in customers' memory capacity utilization;**
- Increase in sales proportion of high value-added products**

We forecast 2024E revenue of KRW1.3tn (+26% YoY) and OP of KRW60.7bn (TTB YoY; 4.6% OPM). 3Q23 results came in below the market consensus due to delayed recovery in capacity utilization at memory suppliers. Earnings are anticipated to rebound in 2H24, however, on the back of: (1) a recovery in memory capacity utilization at customers; and (2) increase in revenue contribution from high value-added products.

DRAM capacity utilization should recover from 1Q24, driven by HBM and DDR5 demand. As for NAND, despite high inventory levels, capacity utilization is anticipated to improve from 2Q24 onwards, thanks to robust downstream demand and normalization of supply

Buy Initiation

Target Price (Initiation)	KRW49,000
Dividend yield*	1.2%
Total return	22.0%
Current price (Jan 9)	KRW40,550
Consensus target price	KRW43,214
Market capitalization	USD1.0bn

* 12-month forward

Trading Data

Free float	65.1%
Avg. T/O val. (3m, KRWbn)	21.0
Foreign ownership	5.5%
Major shareholders	Simmtech Holdings and 8 others 33.3%
	National Pension Service 7.0%

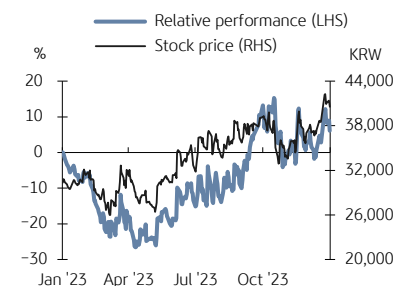
Stock Price Performance (total return)

(%)	1M	3M	6M	12M
Absolute	11.0	5.2	25.6	35.6
Relative	3.7	-3.4	22.5	6.9

Risk & Total Return (annualized over three years)



Stock Price & Relative Performance



Source(s): Company data, KB Securities

Earnings Forecast & Valuation

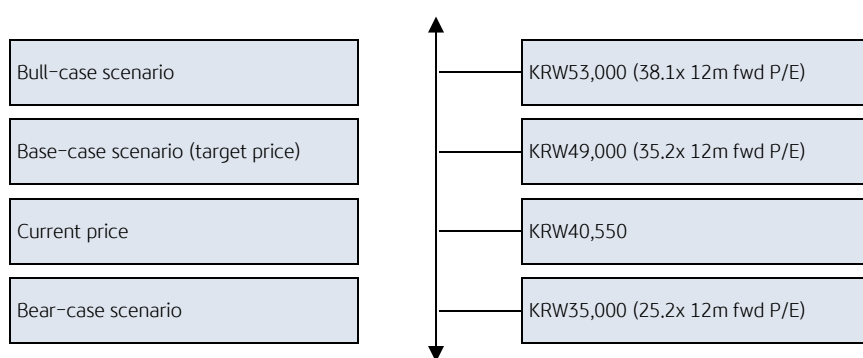
Fiscal year-end	2022A	2023E	2024E	2025E
Revenue (KRWbn)	1,697	1,045	1,312	1,450
OP (KRWbn)	352	-56	61	73
NP to control. int. (KRWbn)	246	-45	44	52
EPS (KRW)	7,717	-1,407	1,391	1,631
EPS growth (%)	113.4	TTR	TTB	17.3
P/E (x)	3.4	N/A	29.2	24.9
EV/EBITDA (x)	1.7	52.8	9.2	8.1
P/B (x)	1.4	2.2	2.2	2.1
ROE (%)	49.7	-7.7	7.9	8.7
Div. yield (%)	1.9	1.3	1.2	1.2

Note: TTR=turn to red, TTB=turn to black

and demand dynamics resulting from intensive production cuts at suppliers. Accordingly, Simmtech, with memory-use products accounting for a high proportion of revenue, should display marked earnings improvement.

Product mix improvements due to high value-added products (i.e., SiP, FC-CSP) accounting for a greater proportion of revenue should also be positive. SiP, currently used in wearable devices, is likely to be supplied for a wider range of applications, including RF-SiP in 2H24 and AiP in 2025. FC-CSP is anticipated to steadily replace demand for large-area, high-density substrate products. SiP and FC-CSP revenue is forecast to jump 48% YoY in 2024E.

Investment Opinion & Risks



Base-case scenario: Catalysts

- 1) Memory operating rate recovers
- 2) Sales proportion of high value-added products rises

Bull-case scenario: Upside risks

- 1) Memory operating rate recovers earlier than expected
- 2) Sales of high value-added products brisk

Bear-case scenario: Downside risks

- 1) Recovery in memory operating rate is delayed
- 2) Sales of high value-added products sluggish

Revised Earnings Estimates

(KRWbn, %)	Previous		Revised		Change	
	2023E	2024E	2023E	2024E	2023E	2024E
Revenue	-	-	1,045	1,312	-	-
OP	-	-	-56	61	-	-
NP (to control. int.)	-	-	-45	44	-	-

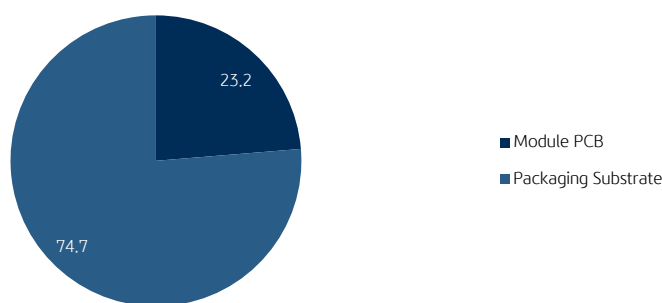
Source(s): KB Securities estimates

KB Estimates vs. Consensus

(KRWbn, %)	KB Estimates		Consensus		Difference	
	2023E	2024E	2023E	2024E	2023E	2024E
Revenue	1,045	1,312	1,057	1,286	-1.1	2.0
OP	-56	61	-49	118	13.8	-48.6
NP (to control. int.)	-45	44	-40	88	11.8	-49.8

Source(s): Quantwise, KB Securities estimates

Revenue Composition (2023E, %)



Source(s): Company data, KB Securities

Peer Group Comparison

(USDbn, x, %)	Market Cap	P/E		P/B		EV/EBITDA		ROE		Dividend Yield	
		2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E
Simmtech	1.0	N/A	29.2	2.2	2.2	52.8	9.2	-7.7	7.9	1.3	1.2
Daeduck Electronics	1.1	47.0	18.5	1.6	1.6	8.2	6.0	3.5	8.8	1.5	1.4
TLB	0.2	48.6	15.8	2.6	2.3	4.9	14.8	22.3	10.3	1.0	1.0
Haesung DS	0.7	10.6	8.8	1.9	1.6	19.0	19.4	5.8	4.6	1.5	1.5

Source(s): Bloomberg consensus, KB Securities estimates (for Simmtech, Daeduck Electronics)

Valuation & Target Price Calculation

- 1) Valuation method:
Discounted cash flow model

- 2) Target price calculation:
7.03% WACC, 2.2% TGR

- 3) Target price range:
KRW35,000 – KRW53,000

- 4) Valuation at target price:
35.2x 2024E P/E

Earnings Sensitivity Analysis

(%)	EPS Change	
	2023E	2024E
+1% in FX rate	+0.3	+0.3
+1pp in interest rate	+2.6	+4.1

Table 1. Target Price Calculation: Discounted Cash Flow Model

(KRWbn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
Revenue	1,045	1,312	1,443	1,515	1,591	1,671	1,838	2,022	2,224	2,413	2,618	2,840	3,082
OP	-56	61	73	77	80	84	93	102	112	122	132	143	156
NOPLAT	-45	49	57	54	57	60	66	72	80	87	94	102	111
D&A	79	75	76	94	97	98	97	98	100	102	105	108	112
Total cash flow	34	123	133	149	154	158	163	171	180	189	199	210	223
Change in working capital	64	-12	-8	-4	-5	-5	-10	-11	-12	-11	-12	-13	-14
Capex	111	81	95	105	116	114	103	108	113	119	125	131	137
Total investment	176	69	87	100	111	109	93	97	101	108	113	118	123
FCFF	-142	54	46	48	43	49	70	74	79	81	87	93	100
Terminal value													2,141
PV of cash flow													
WACC		7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	6.9	6.9	6.9	6.9
PV of FCFF		54	43	42	35	37	50	49	49	47	47	47	47
Total PV of FCFF		549											
TGR (%)		2.2											World Bank global economic growth rate (2023E-2030E CAGR)
PV of terminal value		953											
Valuation													
Operating value		1,502											
Cash assets		192.7											
Short-term financial assets		89.3											
Total financial liabilities		238.0											
Non-controlling interests		1.8											
Fair EV		1,544.2											
Fair value per share (KRW)		48,476											
Target price (KRW)		49,000											
Current price (KRW)		40,550											
Upside (%)		20.8%											

Source(s): Company data, KB Securities estimates

Table 2. WACC Calculation

(KRWbn, %)	Value	Notes
COE (A) = a + b x c	10.27	
Risk-free rate (a)	3.68	10y MSB yield (last 3m avg.)
Adj. beta (b)	1.08	52w adj. beta
Risk premium (c = d - e)	6.10	
Market (d)	9.75	2001-2022 WMI500 annual avg. total return
Risk-free rate (e)	3.65	2001-2022 1y MSB annual avg. total return
COD (B)	4.60	
Weight of equity (j)	42.8	
Weight of debt (k)	57.2	
WACC (C) = (A x j) + (B x k)	7.03	

Source(s): KB Securities estimates

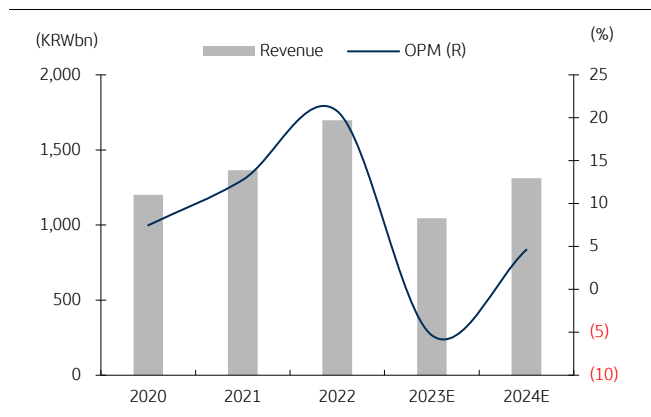
Table 3. Earnings Forecast

(KRWbn, %)	1Q23	2Q23	3Q23	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E	2022	2023E	2024E
Revenue	203.9	253.7	287.2	300.5	295.7	317.2	344.6	354.6	1,697.5	1,045.4	1,312.1
YoY	(51.2)	(46.9)	(39.5)	(8.4)	45.0	25.0	20.0	18.0	24.3	(38.4)	25.5
Module PCB	51.2	53.7	61.8	67.4	70.4	73.6	78.1	82.9	361.2	234.1	305.0
PC	10.7	12.9	18.5	20.4	21.4	22.4	23.6	24.7	78.4	62.5	92.1
Server	27.8	24.1	27.3	30.6	32.1	33.7	35.4	37.2	190.1	109.8	138.4
SSD	12.6	16.6	15.9	16.2	16.7	17.2	18.9	20.8	91.6	61.3	73.7
Packaging Substrate	150.7	195.2	223.6	233.1	219.7	237.5	256.9	266.1	1,320.9	802.6	980.3
MCP	96.2	112.5	129.0	135.5	128.7	139.0	144.5	147.4	752.6	473.2	559.6
FC-CSP	20.2	22.1	25.5	30.6	32.1	35.3	38.9	42.8	173.2	98.4	149.1
SiP	6.1	12.3	17.2	15.5	15.9	17.2	18.9	19.9	83.8	51.1	72.0
BOC	9.3	14.2	7.5	9.0	8.6	8.4	8.0	7.2	116.5	40.0	32.1
GDDR6	18.1	33.5	43.8	41.6	33.3	36.6	45.8	48.1	187.7	137.0	163.7
Revenue proportion (%)											
Module PCB	25.1	21.2	21.5	22.4	23.8	23.2	22.7	23.4	21.3	22.4	23.2
PC	5.2	5.1	6.4	6.8	7.2	7.1	6.8	7.0	4.6	6.0	7.0
Server	13.6	9.5	9.5	10.2	10.9	10.6	10.3	10.5	11.2	10.5	10.5
SSD	6.2	6.5	5.5	5.4	5.6	5.4	5.5	5.9	5.4	5.9	5.6
Packaging Substrate	73.9	76.9	77.9	77.6	74.3	74.9	74.6	75.1	77.8	76.8	74.7
MCP	47.2	44.3	44.9	45.1	43.5	43.8	41.9	41.6	44.3	45.3	42.6
FC-CSP	9.9	8.7	8.9	10.2	10.9	11.1	11.3	12.1	10.2	9.4	11.4
SiP	3.0	4.8	6.0	5.2	5.4	5.4	5.5	5.6	4.9	4.9	5.5
BOC	4.6	5.6	2.6	3.0	2.9	2.6	2.3	2.0	6.9	3.8	2.4
GDDR6	8.9	13.2	15.3	13.8	11.3	11.5	13.3	13.6	11.1	13.1	12.5
OP	(32.2)	(21.6)	(5.6)	3.4	6.1	10.4	17.7	26.5	352.4	(55.9)	60.7
YoY	TTR	TTR	TTR	(90.6)	TTB	TTB	TTB	680.3	102.1	TTR	TTB
OPM	(15.8)	(8.5)	(1.9)	1.1	2.1	3.3	5.1	7.5	20.8	(5.4)	4.6

Source(s): Company data, KB Securities estimates

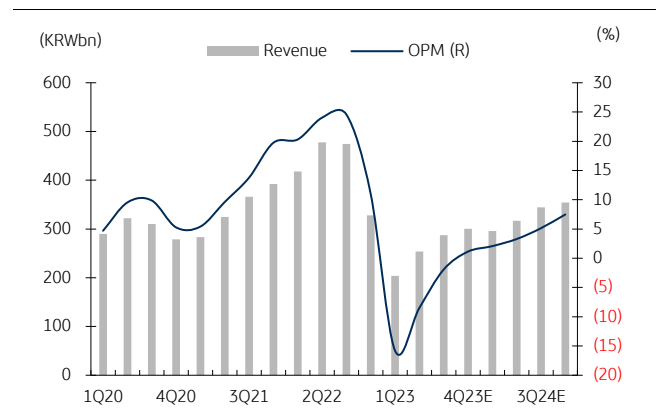
Note: TTR=turn to red, TTB=turn to black

Fig 1. Annual Earnings



Source(s): Company data, KB Securities estimates

Fig 2. Quarterly Earnings



Source(s): Company data, KB Securities estimates

Income Statement						Statement of Financial Position					
(KRWbn)	2021A	2022A	2023E	2024E	2025E	(KRWbn)	2021A	2022A	2023E	2024E	2025E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Revenue	1,366	1,697	1,045	1,312	1,450	Total assets	857	1,266	1,222	1,356	1,465
Cost of revenue	1,082	1,216	985	1,128	1,246	Current assets	245	505	472	594	681
Gross profit	284	481	60	184	204	Cash and cash equivalents	17	120	132	193	237
SG&A expenses	110	129	116	124	130	Current financial assets	3	83	76	89	99
Operating profit	174	352	-56	61	73	Trade receivables	60	102	94	110	122
EBITDA	253	434	23	136	150	Inventory	144	145	133	156	173
Non-operating accounts	-20	-6	-1	-6	-7	Other current assets	21	56	38	45	50
Interest income	1	2	8	5	6	Non-current assets	612	762	750	762	785
Interest expenses	10	8	13	11	12	Investment assets	36	33	31	36	40
Profit on equity method	0	0	0	0	0	Property, plant and equipment	501	587	591	597	616
Net other non-operating income	-11	0	5	1	-1	Intangible assets	23	26	28	29	29
Profit before tax	154	346	-56	55	66	Other non-current assets	52	115	101	101	101
Income tax expense	36	100	-11	11	15	Total liabilities	476	654	670	776	849
Net profit	118	246	-45	44	52	Current liabilities	342	474	463	546	603
NP attributable to controlling interests	117	246	-45	44	52	Trade payables	46	87	126	148	164
Adj. net profit	117	246	-45	44	52	Short-term financial liabilities	73	55	132	156	172
						Other current liabilities	223	332	205	242	267
						Non-current liabilities	134	179	208	230	246
						Non-current financial liabilities	54	42	82	82	82
						Other non-current liabilities	80	137	126	148	164
						Total equity	381	613	552	580	616
						Issued capital	17	17	17	17	17
						Share premium	110	110	110	110	110
						Other equity interest	0	0	0	0	0
						Accumulated other comprehensive income	7	4	4	4	4
						Retained earnings	244	479	419	447	483
						Controlling interests	379	611	550	578	614
						Non-controlling interests	2	2	2	2	2

Operating Statistics & Ratios					
(%)	2021A	2022A	2023E	2024E	2025E
Revenue growth	13.7	24.3	-38.4	25.5	10.5
OP growth	94.3	102.1	TTR	TTB	20.8
EBITDA growth	53.1	71.6	-94.6	483.9	10.2
NP growth of parent	107.1	109.8	TTR	TTB	17.3
GP margin	20.8	28.3	5.8	14.1	14.1
OP margin	12.8	20.8	-5.4	4.6	5.1
EBITDA margin	18.5	25.6	2.2	10.4	10.4
EBT margin	11.3	20.4	-5.4	4.2	4.6
NP margin of parent	8.6	14.5	-4.3	3.4	3.6

Statement of Cash Flows					
(KRWbn)	2021A	2022A	2023E	2024E	2025E
Cash flow from operating activities	115	435	69	132	137
Net profit	118	246	-45	44	52
Depreciation & amortization	79	82	79	76	77
Other non-cash adjustments	69	126	21	11	15
Investments in working capital	-122	36	92	12	8
Decrease(Increase) in receivables	-10	-97	-25	-17	-12
Decrease(Increase) in inventory	-27	-2	-7	-24	-16
Increase(Decrease) in payables	-52	97	37	23	16
Investments in other working capital	-33	37	87	30	21
Other operating cash flow	-30	-54	-78	-11	-14
Cash flow from investing activities	-80	-269	-130	-102	-109
Capital expenditure	-44	-154	-108	-81	-95
Investments in intangibles	-1	-1	-2	-2	-1
Changes in investment assets	-32	-8	9	-6	-4
Other investment cash flow	-4	-105	-29	-14	-9
Cash flow from financing activities	-35	-63	73	30	16
Proceeds from (repayment of) debt	-10	-47	90	24	16
Changes in equity	-14	0	0	0	0
Dividends paid	-10	-16	-16	-16	-16
Other financing cash flow	0	0	-1	22	15
Other cash flow	0	-1	0	0	0
Increase/decrease in cash	0	103	13	60	44
Cash and cash equivalents at FYE	17	120	132	193	237
Free cash flow	70	281	-39	51	42
Net cash flow	27	213	-111	50	37
Net cash (net debt)	-109	105	-6	44	81

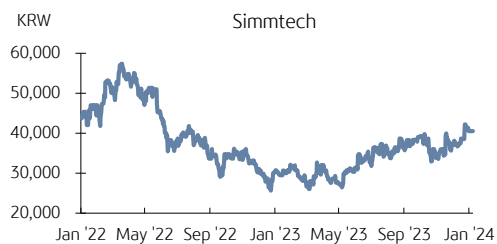
Key Ratios					
(x, %, KRW)	2021A	2022A	2023E	2024E	2025E
Multiples					
P/E	12.6	3.4	N/A	29.2	24.9
P/B	3.8	1.4	2.2	2.2	2.1
P/S	1.1	0.5	1.2	1.0	0.9
EV/EBITDA	6.2	1.7	52.8	9.2	8.1
EV/EBIT	9.0	2.1	N/A	20.6	16.5
Dividend yield, ordinary (%)	1.1	1.9	1.3	1.2	1.2
EPS	3,616	7,717	-1,407	1,391	1,631
BVPS	11,907	19,166	17,265	18,156	19,288
SPS	42,144	53,288	32,817	41,191	45,516
DPS (annual, ordinary)	500	500	500	500	500
Cash dividends payout ratio (%)	13.6	6.5	0.0	35.9	30.6
Operating performance					
ROE	35.1	49.7	-7.7	7.9	8.7
ROA	14.5	23.2	-3.6	3.4	3.7
ROIC	26.7	41.8	-4.3	7.0	7.6
Financial structure (%)					
Total liab./equity	124.9	106.7	121.5	133.8	137.9
Net debt/equity	28.5	Net Cash	1.1	Net Cash	Net Cash
Current ratio	0.7	1.1	1.0	1.1	1.1
Interest coverage (x)	18.3	43.6	-4.3	5.6	6.3
Activity ratios					
Asset turnover (x)	1.7	1.6	0.8	1.0	1.0
Receivables turnover (x)	25.4	20.9	10.7	12.9	12.5
Payables turnover (x)	23.5	25.7	9.9	9.6	9.3
Inventory turnover (x)	10.2	11.7	7.5	9.1	8.8

Source(s): Company data, KB Securities estimates

Note: TTB=turn to black, TTR=turn to red

Disclosures

Rating & Target Price Changes (Share price —, Target price —)



Simmtech (222800)

Date	Rating	Analyst	TP Differential (%)		
			(KRW)	Avg.	Max/Min
Jan-11-2024	Buy	Woohyung Yoo	49,000		

Classification of Investment Ratings

Stock Ratings (based on expected 12m performance)

Buy: +15% or beyond Hold: Between 15% and -15% Sell: -15% or beyond

Note: Classification revised from four ratings (Strong BUY, BUY, Marketperform, Underperform) to three (Buy, Hold, Sell) as of Feb 23, 2017; Basis for ratings revised from expected 6m return to expected 12m return as of Feb 10, 2020

Ratings Distribution (as of December 31, 2023)

Buy	Hold	Sell
89.0	11.0	-

Note: Based on recommendations in the last 12 months

Sector Ratings (based on expected 12m performance)

Positive: Neutral: Negative:

To outperform market To perform in line with market To underperform market

Note: Classification revised from Overweight/Neutral/Underweight to Positive/Neutral/Negative as of Jun 28, 2017; Basis for ratings revised from expected 6m return to expected 12m return as of Feb 10, 2020

Notices & Disclaimers

This report has not been distributed to institutional investors or other third parties prior to its publication. This material has been prepared without any undue external influence or interference, and accurately reflects the views of the analyst(s) covering the security/securities or issuer(s) herein.

The research analyst(s) responsible for the preparation of this report (or, if applicable, his/her spouse) does not have any beneficial interest in any security or issuer covered.

This report is provided for information only and is not an offer or solicitation to trade in any security. Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KB Securities Co., Ltd. considers reliable. KB Securities Co., Ltd. makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions. KB Securities Co., Ltd. shall not have liability for investments or results thereof.

These materials are the copyright of KB Securities Co., Ltd. and may not be reproduced, redistributed or modified without the prior written consent of KB Securities Co., Ltd. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.

Analyst Certification

The research analyst(s) who prepared this report are registered with the Korea Financial Investment Association and are subject to Korean securities regulations. They are neither registered as research analyst(s) in any other jurisdiction nor subject to the laws or regulations thereof. The research analyst(s) responsible for the preparation of this research report certifies that all views expressed in this report accurately reflect the personal views of the analyst(s) and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Distribution

United States: This report is distributed in the U.S. by KBFG Securities America Inc., a member of FINRA/SIPC, to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6(a)(2) under the U.S. Securities Exchange Act of 1934, as amended. All U.S. persons that receive this document by their acceptance hereof represent and warrant that they are a major U.S. institutional investor and have not received this report under any express or implied understanding that they will direct commission income to KB Securities Co., Ltd. or its affiliates. In compliance with SEC Rule 15a-6(a)(3), any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with KBFG Securities America Inc., which accepts responsibility for the contents of this report in the U.S., subject to the terms hereof, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through KB Securities Co., Ltd. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. persons absent registration or an applicable exemption from the registration requirements.

Hong Kong: This report is distributed in Hong Kong by KB Securities Hong Kong Limited, regulated by the Securities and Futures Commission license with Type 1, 4, and 6. The contents of this report have not been reviewed by any regulatory authority in Hong Kong. This report is for distribution only to professional investors within the meaning of part I of Schedule 1 to the Securities and Futures Ordinance of Hong Kong (Cap. 571, Laws of Hong Kong) and any rules made thereunder and may not be redistributed in whole or in part in Hong Kong to any person. Information contained herein is for informative purposes only and does not constitute investment advice or solicitation to trade in any investment product(s). Investments are subject to risks, including possible loss of principal. KB Securities Hong Kong Limited does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. The recipient of this report should seek the advice of a financial adviser regarding the suitability or otherwise of the particular investment.

All other jurisdictions: Customers in all other countries who wish to effect a transaction in any securities referenced in this report should contact KB securities Co., Ltd. or its affiliates only if distribution to or use by such customer of this report would not violate applicable laws and regulations and not subject KB Securities Co., Ltd. and its affiliates to any registration or licensing requirement within such jurisdiction.