

# Simmtech (222800 KS)

## Electronics/parts



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Rating	<b>BUY (M)</b>
Target price	<b>W21,600 (M)</b>
Current price (Oct 8)	<b>W9,470</b>
Upside potential	<b>128%</b>

Market cap (Wbn)	216
Shares outstanding	24,346,584
Avg daily T/O (2M, Wbn)	1
Avg daily volume (2M, shrs)	122,198
52-week high (won)	13,150
52-week low (won)	8,100
Foreign ownership (%)	6.8
Major shareholders (%)	
Simmtech Holdings and 4 others	41.6

### Stock performance

(%)	1M	3M	12M
Absolute	0.6	15.8	(21.1)
Relative	7.4	22.1	(32.8)
Abs (US\$)	(0.2)	14.1	(20.2)

### Quarterly earnings

(Wbn)	3Q18E	% YoY	% QoQ	Consens	vs consens (%)
Sales	270	25.0	8.4	266	1.8
OP	14	22.2	74.0	14	3.6
Pre-tax net profit	11	102.9	117.7	11	5.2
Net profit, CI	12	186.2	121.2	9	24.1
OPM (%)	5.3	-0.1 %pt	+2.0 %pt	5.2	+0.1 %pt
NPM (%)	4.3	+2.4 %pt	+2.2 %pt	3.5	+0.8 %pt

Source: Yuanta Securities

## DRAM upgrade cycle returns

### DRAM upgrade cycle returns for first time in seven years

Investors should focus on the DRAM upgrade cycle. First, GDDR5 graphics DRAM is being replaced by GDDR6, driven by fast-rising demand for high-spec graphic processor units (GPU). This should drive up the company's semiconductor package substrate (SPS) ASP.

Moreover, clients are standardizing DRAM DDR5 for servers in 2H18, with the aim of beginning mass production in 2H19, which should affect Simmtech shares positively.

Given the specifications of new DRAM versions such as GDDR6/DDR5, the company's substrate ASP is likely to more than double.

### Earnings momentum to strengthen in 3Q18 with OP estimated at W14.4bn

Simmtech's 3Q18 sales likely came to W270.3bn (25% YoY, 8% QoQ) and OP W14.4bn (23% YoY, 77% QoQ, OPM 5.3%), with OP beating market consensus of W13.7bn. Peak seasonality effects and benefits from downstream tech migration will also begin to be gradually reflected into earnings. In addition, consolidated subsidiary Eastern is turning around on stabilization of high-margin modified semi-additive process (MSAP) operations.

### Earnings likely to break records in 2019, with OP of W61.9bn

We expect the company's annual earnings to reach a record-high in 2019, with sales of W1.1tn (6% YoY) and OP of W61.9bn (34% YoY, OPM 5.6%).

DRAM upgrades will play a critical role in the IT sector's upgrade cycle in line with advances in AI services, deep learning, and the opening of the 5G market. Simmtech should benefit most from this trend, as its exposure to PC, mobile, and server DRAM as well as graphics DRAM is relatively high. The DRAM upgrade cycle will accelerate the adoption of high-margin MSAP, in which the company has a competitive edge. Moreover, the company holds a more than 30% share in the fast-growing SSD module substrate market.

In short, we advise investors to focus on Simmtech, given: 1) a likely turnaround at loss-making consolidated subsidiary Eastern; 2) benefits from the DRAM upgrade cycle; and 3) earnings momentum for materials/parts suppliers such as Simmtech from the semiconductor demand upcycle. We maintain BUY and our target price of W21,600, which implies 2018/2019E average P/E of 11.3x. Its MSAP capabilities fully justify the valuation premium.

### Forecasts and valuations (K-IFRS, consolidated)

	FY ends Dec	2016A	2017A	2018E	2019E
Sales		792	812	1,039	1,104
OP		40	34	46	62
Net profit, CI		29	16	37	56
P/E (x)		6.2	16.6	5.9	3.9
P/B (x)		1.0	1.3	1.0	0.8
EV/EBITDA		4.3	5.5	3.5	2.6
ROE (%)		17.5	8.2	16.2	20.8

Source: Yuanta Securities

## Simmtech (222800 KS) pro forma financial statements (K-IFRS, consolidated)

## Statement of comprehensive income

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
<b>Sales</b>	<b>792</b>	<b>812</b>	<b>1,039</b>	<b>1,104</b>	<b>1,214</b>
Cost of sales	694	710	905	959	1,050
Gross profit	98	102	134	145	164
SG&A	58	68	88	83	91
<b>Operating profit</b>	<b>40</b>	<b>34</b>	<b>46</b>	<b>62</b>	<b>73</b>
EBITDA	84	79	111	124	132
Non-op profit/loss	-5	-15	-11	-10	-7
Forex gain/loss	-3	3	-4	-4	-8
Net interest income	-8	-8	-10	-10	-9
Equity-meth gain/loss	7	-9	0	0	0
Other	0	-1	3	4	9
Net profit before income tax	35	19	34	52	65
Income tax	5	3	5	8	10
Net profit from continuing ops	29	16	29	44	55
Net profit from discontinued ops	0	0	0	0	0
Net profit	29	16	29	44	55
<b>NP for controlling interest</b>	<b>29</b>	<b>16</b>	<b>37</b>	<b>56</b>	<b>70</b>
Total comprehensive income	27	12	43	57	68
Total comprehensive income, CI	27	12	45	60	72

Note: Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

## Statement of financial position

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
<b>Current assets</b>	<b>192</b>	<b>210</b>	<b>304</b>	<b>380</b>	<b>497</b>
Cash & cash equivalents	1	12	54	113	204
Accts rec & other	93	66	82	88	96
Inventory	96	131	166	177	195
Non-current assets	410	518	508	482	459
Tangible assets	344	459	451	431	412
Investment in affiliates	16	0	0	0	0
Other non-current	2	2	4	4	4
<b>Total assets</b>	<b>601</b>	<b>728</b>	<b>813</b>	<b>862</b>	<b>956</b>
Current liabilities	317	393	443	443	454
Accts payable & other	185	263	282	282	301
ST financial liabilities	54	72	156	156	146
Liquid LT liabilities	75	53	0	0	0
Non-current liabilities	105	120	122	122	118
LT financial liabilities	55	63	63	63	59
Debentures	0	0	0	0	0
<b>Total liabilities</b>	<b>422</b>	<b>513</b>	<b>566</b>	<b>566</b>	<b>572</b>
Equity, controlling interest	179	209	242	292	379
Paid-in capital	11	12	12	12	12
Capital surplus	20	42	42	42	42
Retained earnings	149	161	192	241	305
Equity, non-controlling interest	0	6	5	5	5
<b>Total equity</b>	<b>179</b>	<b>215</b>	<b>247</b>	<b>297</b>	<b>384</b>
<b>Net debt</b>	<b>182</b>	<b>176</b>	<b>165</b>	<b>106</b>	<b>1</b>
Total debt	184	188	219	219	205

## Cash flow statement

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
<b>Operating cash flow</b>	<b>39</b>	<b>133</b>	<b>70</b>	<b>112</b>	<b>133</b>
Net profit	29	16	29	44	55
Depreciation & amortization	41	43	59	56	55
Forex gain/loss	1	0	2	4	8
Affiliate invest gain/loss	-7	9	0	0	0
Inc (dec) in net working cap	-48	47	-43	-13	-4
Other	23	17	21	22	20
<b>Investing cash flow</b>	<b>-42</b>	<b>-61</b>	<b>-35</b>	<b>-26</b>	<b>-26</b>
Investment	-2	-18	0	0	0
Inc in tangible assets	-39	-52	-42	-36	-36
Dec in tangible assets	1	0	2	0	0
Other	-1	9	4	10	10
<b>Financing cash flow</b>	<b>0</b>	<b>-61</b>	<b>39</b>	<b>17</b>	<b>3</b>
Inc (dec) in ST fin liab	13	-1	30	0	-10
Inc (dec) in LT fin liab	-10	-79	-3	0	-4
Inc (dec) in equity	3	3	0	0	0
Cash dividend	-6	-4	-6	-6	-6
Other	0	20	19	23	23
Other cash flow	0	0	-32	-43	-19
<b>Inc (dec) in cash &amp; equivalents</b>	<b>-2</b>	<b>11</b>	<b>42</b>	<b>59</b>	<b>91</b>
Beginning cash & equivalents	3	1	12	54	113
Ending cash & equivalents	1	12	54	113	204
<b>NOPLAT</b>	<b>40</b>	<b>34</b>	<b>46</b>	<b>62</b>	<b>73</b>
<b>FCF</b>	<b>-10</b>	<b>69</b>	<b>19</b>	<b>65</b>	<b>80</b>

Note: CI = controlling interest

EPS, BPS, P/E and P/B are based on controlling interest

For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

Source: Yuenta Securities

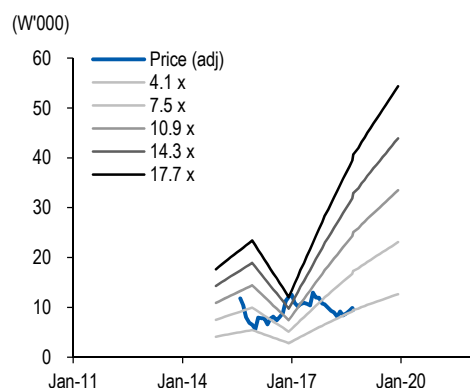
## Valuation

FY ends Dec	2016A	2017A	2018E	2019E	2020E
EPS (won)	1,326	683	1,610	2,446	3,078
BPS (won)	8,007	8,586	9,952	11,991	15,589
EBITDA/shr (won)	3,806	3,451	4,563	5,086	5,418
SPS (won)	36,036	35,486	42,662	45,342	49,876
DPS (won)	200	265	265	265	265
<b>P/E (x)</b>	<b>6.2</b>	<b>16.6</b>	<b>5.9</b>	<b>3.9</b>	<b>3.1</b>
<b>P/B (x)</b>	<b>1.0</b>	<b>1.3</b>	<b>1.0</b>	<b>0.8</b>	<b>0.6</b>
<b>EV/EBITDA (x)</b>	<b>4.3</b>	<b>5.5</b>	<b>3.5</b>	<b>2.6</b>	<b>1.7</b>
<b>P/S (x)</b>	<b>0.2</b>	<b>0.3</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>

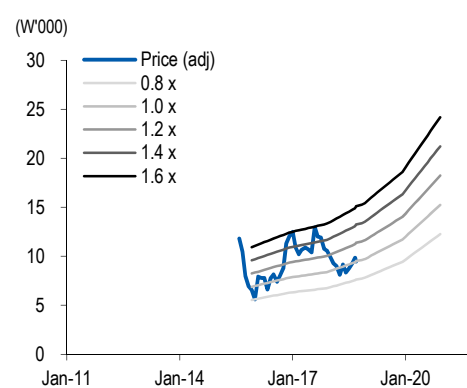
## Key financial data

FY ends Dec	2016A	2017A	2018E	2019E	2020E
<b>Sales (% YoY)</b>	<b>100.3</b>	<b>2.5</b>	<b>28.0</b>	<b>6.3</b>	<b>10.0</b>
<b>Operating profit (%YoY)</b>	<b>106.6</b>	<b>-15.9</b>	<b>35.4</b>	<b>35.1</b>	<b>17.8</b>
<b>Net profit, CI (%YoY)</b>	<b>180.1</b>	<b>-45.4</b>	<b>130.3</b>	<b>51.9</b>	<b>25.9</b>
Gross margin (%)	12.4	12.5	12.9	13.1	13.5
<b>Operating margin (%)</b>	<b>5.1</b>	<b>4.2</b>	<b>4.4</b>	<b>5.6</b>	<b>6.0</b>
Net margin, CI (%)	3.7	2.0	3.5	5.0	5.8
EBITDA margin (%)	10.6	9.7	10.7	11.2	10.9
ROIC (%)	9.6	7.2	8.9	11.8	14.4
ROA (%)	5.1	2.4	4.8	6.6	7.7
<b>ROE (%)</b>	<b>17.5</b>	<b>8.2</b>	<b>16.2</b>	<b>20.8</b>	<b>20.9</b>
Debt-to-equity (%)	235.5	239.1	229.0	190.7	148.8
Net debt-to-equity (%)	101.7	84.0	68.2	36.3	0.2
OP/financing cost (x)	4.9	4.2	4.3	5.5	7.0

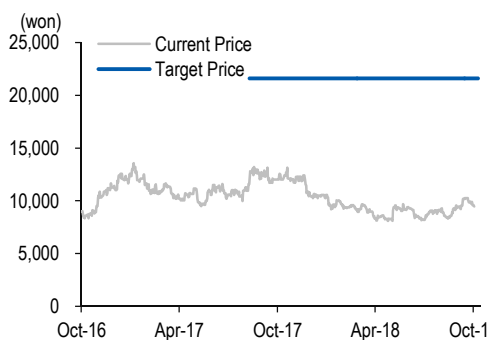
P/E band chart



P/B band chart



Simmtech (222800 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2018/10/10	BUY	21,600	1 yr		
2018/08/16	After 1yr		1 yr	-56.70	-52.55
2017/08/16	BUY	21,600	1 yr	-53.68	-38.89
2017/05/31	Analyst changed				
	BUY	14,000	1 yr	-24.69	-5.71

Note: Difference = (actual price\* - target price) / target price x 100

\* 1) The average price until the day target price was suggested

2) The highest (lowest) price until the day target price was suggested

Source: Yuanta Securities

Current distribution of Yuanta Securities Korea ratings

Rating	Share (%)
STRONG BUY	1.1
BUY	85.8
HOLD	12.5
SELL	0.6
Total	100.0

Note: As of Oct 7

Excluding reports written or published by overseas affiliates

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- **Stock ratings** include an Investment Rating (Strong Buy, Buy, Hold, Sell) based on the expected absolute return of a stock over the next 6 -12 months.
- - Strong Buy: Expected to return 30% or more
- - Buy: Expected to return between 10% and 30%
- - Hold: Expected to return between -10 and +10%
- - Sell: Expected to return -10% or less
- **Sector ratings** suggest 6 to 12 - month forward investment weighting of a given sector compared to its market capitalization weighting.
- - Overweight: Investment weighting is higher than the market capitalization weighting
- - Neutral: Investment weighting is equal to the market capitalization weighting
- - Underweight: Investment weighting is lower than the market capitalization weighting

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