

Simmtech (036710)

2014.03.21 Company Analysis

Analyst **Seongho Ahn**
shan@hanwha.com

RA **Jungwoo Koh**
jungwoo.ko@hanwha.com

Hold(downgrade)

Target price: W6,500(Lowered)

Current price(3/21): W6,070

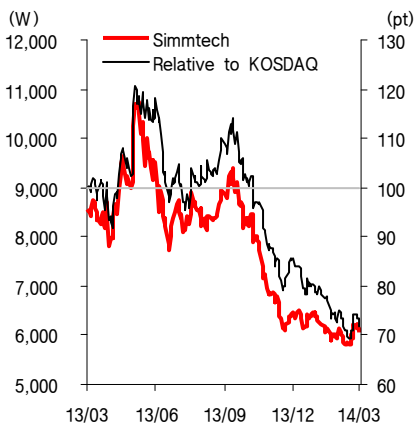
Stock Data

KOSDAQ(03/21)	546.81pt
Market cap(Wbn)	195.5
# of shares outstanding('000shrs)	32,200
52w high/low(W)	10,750 / 5,800
90-day avg. transaction(W100mn)	9.85
Foreign ownership	3.8%
Dividend yield(13.12E)	1.6%
Relative to KOSDAQ	
1-month	-4.4%
3-month	-17.6%
6-month	-35.9%

Shareholders

Jeon, Seho and one person	25.7%
Lee, Minju	9.2%

Stock Price



Recovery signal not in sight

Sluggish earnings continues in 1Q

Simmtech is expected to post 1Q revenue of W128.6bn (-2.7%QoQ) and operating deficit of W8.4bn, coming in similar to the previous quarter. Since the global smartphone sales are likely to decrease more than 10% in 1Q, demand for mobile-related products including MCP would not have escaped from a downtrend following the previous quarter. Demand for module PCB and substrates has not recovered from 4Q downtrend.

Likely to turn to black in 2Q, but it is too early to expect the firm to return to normal

The company struggled from fire ramification 1H last year and it was faced with declining demand from SK Hynix's fire. 2014 will likely achieve a high earnings improvement from a base effect. The company is expected to see revenue of W627.3bn (+20.3%YoY) and OP of W16.7bn (turning to black) this year. However, this is largely backed by a base effect and it is premature to have confidence in the company's returning to profitability.

TP lowered to W6,500 and rating downgraded to Hold

We need to focus on whether the company will be able to sustain earnings improvement beyond 2015, not just this year's annual earnings. Even if we take 2H earnings pick-up into consideration, operating margin would be only 2.7% this year. We focus on whether the company will be able to make a turnaround from a historic low, but given that the company would require a mid-/long-term approach until 2015, we recommend investors to take action after spotting recovery signal. We cut a target price to W6,500 and downgrade our rating to HOLD. TP is derived by applying P/E of 11.1x for 4Q F EPS of W588 (4 quarters from 2Q this year).

Financial Data	2011	2012	2013	2014E	2015E
Revenue (Wbn)	612.3	630.6	521.5	627.3	685.0
OP (Wbn)	62.5	46.3	-27.7	16.7	49.3
PIFCO (Wbn)	51.5	32.8	-40.7	4.8	38.9
NP (Wbn)	41.9	24.5	-32.5	3.7	30.3
EPS(W)	1,437	795	-1,009	116	942
Growth(%)	-44.8	-44.7	TR	TB	712.7
PER(x)	8.5	13.0	-6.0	52.4	6.4
PBR(x)	2.1	1.5	1.1	1.1	0.9
EV/EBITDA(x)	5.3	5.7	169.0	8.9	5.2
OP margin (%)	10.2	7.3	-5.3	2.7	7.2
EBITDA margin(%)	15.4	12.6	0.5	7.9	12.0
ROE(%)	27.1	12.6	-16.6	2.1	15.7
Net DER(%)	83.7	55.5	130.2	135.6	109.5

Note: IFRS parent-based

[Table1] Simmtech's quarterly earnings estimates update

(Wbn)

	1Q13	2Q13	3Q13	4Q13	1Q14E	2Q14E	3Q14E	4Q14E	2012	2013	2014E	2015E
Revenue	118.5	130.9	139.9	132.1	128.6	150.4	167.3	180.9	630.6	521.5	627.3	685.0
Module PCB	42.2	47.4	48.1	44.0	43.6	51.8	60.3	65.4	267.4	181.7	221.0	255.1
Substrate	76.3	83.5	91.8	88.1	85.1	98.7	107.0	115.5	363.2	339.8	406.3	429.9
GP	2.0	0.8	6.8	0.6	0.6	11.7	19.9	23.7	86.2	10.2	56.0	91.7
GP margin(%)	1.7%	0.6%	4.9%	0.4%	0.5%	7.8%	11.9%	13.1%	13.7%	2.0%	8.9%	13.4%
SG&A Expense	9.6	9.6	9.2	9.4	9.0	9.3	10.0	10.9	39.9	37.9	39.2	42.5
Revenue portion(%)	8.1%	7.4%	6.6%	7.1%	7.0%	6.2%	6.0%	6.0%	6.3%	7.3%	6.3%	6.2%
Operating profit/loss	-7.6	-8.8	-2.4	-8.8	-8.4	2.3	9.9	12.9	46.3	-27.7	16.7	49.3
OP margin(%)	-6.4%	-6.7%	-1.7%	-6.7%	-6.5%	1.6%	5.9%	7.1%	7.3%	-5.3%	2.7%	7.2%
Non-operating account	-2.2	-4.6	-4.4	-1.9	-2.9	-3.0	-3.0	-3.0	-13.5	-13.0	-12.0	-10.4
Pretax profit	-9.8	-13.4	-6.8	-10.7	-11.3	-0.7	6.9	9.9	32.8	-40.7	4.8	38.9
Income tax	-1.7	-2.6	-1.4	-2.6	-2.5	-0.1	1.5	2.2	8.3	-8.2	1.1	8.6
Income tax ratio(%)	17%	20%	20%	24%	22%	22%	22%	22%	25%	20%	22%	22%
NP	-8.1	-10.8	-5.4	-8.1	-8.8	-0.5	5.4	7.7	24.5	-32.5	3.7	30.3
NP margin(%)	-6.9%	-8.2%	-3.9%	-6.1%	-6.9%	-0.3%	3.2%	4.3%	3.9%	-6.2%	0.6%	4.4%
Revenue portion												
Module PCB	36%	36%	34%	33%	34%	34%	36%	36%	42%	35%	35%	37%
Substrate	64%	64%	66%	67%	66%	66%	64%	64%	58%	65%	65%	63%
Output capa.(K m²)												
Module PCB	160	150	160	160	160	180	180	180	960	630	700	720
Substrate	168	200	255	255	260	260	260	260	840	878	1,040	1,040
Utilization ratio												
Module PCB	66%	80%	68%	65%	65%	70%	80%	85%	64%	70%	75%	84%
Substrate	90%	79%	71%	72%	69%	80%	85%	90%	85%	77%	81%	84%
Shipments (K m²)												
Module PCB	106	120	109	104	104	126	144	153	618	439	527	603
Substrate	151	157	180	184	179	208	221	234	712	673	842	871

Source: Hanwha Investment & Securities Research

[Exhibit1] Bottom share prices continuing, as absence of growth momentum is prolonged



Source: Hanwha Investment & Securities Research

Financial Sheets

Income statement (Wbn)					
(Dec-end)	2011	2012	2013	2014E	2015E
Sales	612.3	630.6	521.5	627.3	685.0
COGS	514.0	544.4	511.4	571.3	593.2
Gross profit	98.4	86.2	10.2	56.0	91.7
SG&A expenses	35.8	39.9	37.9	39.2	42.5
Others	0.0	0.0	0.0	0.0	0.0
OP	62.5	46.3	-27.7	16.7	49.3
EBITDA	94.5	79.2	2.5	49.5	82.1
Non-operating gains/losses	-11.0	-13.5	-13.0	-12.0	-10.4
Interest income	0.2	0.4	0.3	1.4	1.4
Interest expense	9.1	6.6	8.1	9.0	9.3
FX-related gains/losses	-0.5	1.6	2.8	1.8	3.5
Equity method gains/losses	-0.2	-3.1	-0.6	-4.9	-4.7
PIFCO	51.5	32.8	-40.7	4.8	38.9
Tax	9.6	8.3	-8.2	1.1	8.6
Gains/losses from discontinued operation	0.0	0.0	0.0	0.0	0.0
NP	41.9	24.5	-32.5	3.7	30.3
Controlling shareholder equity	41.9	24.5	-32.5	3.7	30.3
(Comprehensive income)	41.9	24.5	-32.5	3.7	30.3
Total sales margin (%)	16.1	13.7	2.0	8.9	13.4
EBITDA margin (%)	15.4	12.6	0.5	7.9	12.0
OP margin (%)	10.2	7.3	-5.3	2.7	7.2
Pre-tax recurring margin (%)	6.8	3.9	-6.2	0.6	4.4
ROA(%)	9.4	5.2	-6.0	0.6	4.8
ROE(%)	27.1	12.6	-16.6	2.1	15.7
ROIC(%)	18.7	11.7	-6.2	3.8	10.7

Key ratios (Wbn)					
(Dec-end)	2011	2012	2013	2014E	2015E
Valuations					
PER(x)	8.5	13.0	-6.0	52.4	6.4
PBR(x)	2.1	1.5	1.1	1.1	0.9
PSR(x)	0.6	0.5	0.4	0.3	0.3
Dividend yield (%)	1.6	1.9	n/a	1.6	3.3
EV/EBITDA(x)	5.3	5.7	169.0	8.9	5.2
Growth(%YOY)					
Sales	6.2	3.0	-17.3	20.3	9.2
OP	-26.6	-26.0	TR	TB	194.4
PIFCO	-35.1	-36.3	TR	TB	712.7
NP (controlling stake)	-40.7	-41.5	TR	TB	712.7
Comprehensive income	-49.6	-41.5	TR	TB	712.5
EPS	-44.8	-44.7	TR	TB	712.7
Ratios (%)					
Current ratio	67.5	114.1	43.8	54.1	58.6
Liabilities/equity	158.3	134.1	223.8	249.3	211.4
Interest coverage (x)	7.0	7.5	-3.5	2.2	6.3
Net debt/equity	83.7	55.5	130.2	135.6	109.5
Per-share data (Won)					
EPS	1,437	795	-1,009	116	942
BPS	5,895	6,676	5,482	5,598	6,440
EBITDA/Share	3,237	2,567	78	1,537	2,548
CFPS	3,587	2,786	n/a	1,308	2,124
DPS	200	200	n/a	100	200

Balance sheet (Wbn)					
(Dec-end)	2011	2012	2013	2014E	2015E
Current assets					
Cash & cash equivalent	15.7	52.4	1.1	18.6	22.9
ST financial products	0.8	0.0	0.0	0.0	0.0
Accounts receivable	69.6	65.0	55.9	79.3	84.9
Inventories	65.8	74.3	70.4	83.3	84.9
Non-current assets	294.4	311.8	443.0	447.3	451.9
Investment assets	59.0	67.4	150.7	156.9	163.2
Tangible assets	230.8	239.1	287.0	285.3	283.5
Intangible assets	4.7	5.3	5.4	5.2	5.1
Total assets	447.2	503.2	571.6	629.7	645.8
Current liabilities					
Accounts payable	93.1	96.7	147.0	168.5	169.7
ST borrowings	126.4	63.6	143.0	165.0	157.0
Non-current liabilities	47.7	120.5	101.4	111.9	107.5
LT debt	35.0	108.1	88.0	98.0	93.0
Total liabilities	274.0	288.3	395.1	449.4	438.3
Capital stock	14.7	16.1	16.1	16.1	16.1
Capital surplus	82.2	102.1	102.1	102.1	102.1
Capital adjustments	-2.1	-0.7	-0.6	-0.6	-0.6
Accum. other comp. inc.	0.0	0.0	0.0	0.0	0.0
Retained earnings	78.3	97.5	58.9	62.6	89.8
Controlling stake	173.1	215.0	176.5	180.2	207.4
Minority stake	0.0	0.0	0.0	0.0	0.0
Total equity	173.1	215.0	176.5	180.2	207.4
Net debt	144.9	119.3	229.9	244.4	227.1

Cash flow (Wbn)					
(Dec-end)	2011	2012	2013	2014E	2015E
Operating cash flow					
Net profit	41.9	24.5	-32.5	3.7	30.3
Changes in non-cash assets	62.7	61.4	9.9	38.4	38.1
Depreciation of tangible assets	31.7	32.1	29.2	31.7	31.7
Depreciation of intangible assets	0.3	0.9	1.0	1.1	1.0
Other	3.8	0.8	-20.3	5.6	5.3
Operating cash flow (asset/liabilities)	-33.3	-5.6	-18.8	-14.7	-5.8
Receivable losses	-1.7	-14.1	-27.0	-23.4	-5.6
Inventory losses	-17.4	-8.4	-6.8	-12.9	-1.6
Account payable gains	-7.1	23.6	20.3	21.6	1.2
Other	-7.1	-6.7	-5.2	0.1	0.1
Investment cash flow					
Disposal of tangible assets	-20.1	-61.8	-67.1	-30.0	-30.0
Intangible asset losses	0.6	-0.7	-0.2	-0.9	-0.9
Investment asset losses	5.7	0.8	0.0	-7.7	-7.6
Other	-1.7	-2.8	0.0	-3.4	-3.5
Financing cash flow					
Debt increase	-39.9	17.1	58.1	32.0	-13.0
Capital increase	-3.0	11.2	0.2	0.0	-3.2
Dividends	4.9	5.8	0.0	0.0	3.2
Other	-1.9	2.2	0.0	0.0	0.0
Change in cash					
Cash at yr-beginning	13.5	15.7	52.4	1.1	18.6
Cash at yr-end	15.7	52.4	1.1	18.6	22.9

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Company		Industry
Buy	Expected to return more than 20% vs market over next 6 months	Overweight
Outperform	Expected to return 10%~20% vs market over next 6 months	Neutral
Marketperform	Expected to return -10%~+10% vs market over next 6 months	Underweight
Underperform	Expected to lose more than 10% vs market over next 6 months	
N/R	Not rated	

International Sales Contacts**Head of Global Business**

Richard Kim Richardkim519@hanwha.com +82 2 3772 7410 (direct) +82 10 5281 8033 (cell)

Fund Placement Service

Richard Kim
Richardkim519@hanwha.com
+82 2 3772 7410 (direct)
+82 10 5281 8033 (cell)

Sales Trading

Minju Park
minju.park@hanwha.com
+82 2 3772 7461 (direct)
+82 10 9548 2048 (cell)

Operations

Sam Han
sh_han@hanwha.com
+82 2 3772 8003 (direct)
+82 10 3181 5210 (cell)

Research Coordinator

Seungeun Lee
Seungeun.lee@hanwha.com
+822 3772 7481 (direct)
+82 10 7454 2079 (cell)