



Simmtech (036710 KS)

Trough in 1Q, turnaround in 2Q

BUY (MAINTAIN)

Price (May 14)	W6,600
Target Price	W8,500
% variance	28.8%

- ♦ Consolidated operating loss of W7.1bn (loss continued QoQ) in 1Q
- ♦ Consolidated operating profit of W3.8bn in 2Q and W15.5bn in 2014
- ♦ Retain BUY and raise target price to W8,500

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KOSPI	2,010.83p
KOSDAQ	560.30p
Market Cap.	W212.5bn/US\$186.4mn
Par Value	W500
Outstanding Shares	32.2mn
Free Floating Shares	23.8mn(73.8%)
52-Week High/Low	W10,750/W5,510
60-Day Avg. Trading Volume	204,492shrs
60-Day. Avg. Trading T/O	W1,269mn
Foreign Ownership	2.73%
Major Shareholders	
Se-Ho Jun and 1 other	25.73%
Min-Ju Lee	9.17%
Absolute Performance	
3M	9.8%
6M	-8.6%
12M	-27.2%
Relative performance	
3M	2.4%
6M	-16.5%
12M	-27.2%

Consolidated operating loss of W7.1bn in 1Q14

Simmtech turned in consolidated sales of W145.2bn (+8.2% QoQ) and operating loss of W7.1bn (loss reduced QoQ) for 1Q14. Although MCP demand shrank due to low-demand seasonality for mobile devices, the top-line was boosted by solid flip chip CSP demand and stronger-than-expected demand from PC makers. Capacity utilization rate is estimated at 75% for the quarter. Operating loss narrowed as increased utilization eased the fixed cost burden.

Consolidated operating profit of W3.8bn in 2Q and W15.5bn in 2014

The company should see robust PC demand and growing share of high value-added mobile products in 2Q14. Capacity utilization is forecast to exceed 80%. We expect 2Q14 consolidated sales of W151bn (+4.3% QoQ) and operating profit of W3.8bn (positive swing QoQ, operating profit margin 2.5%).

Mobile PCB demand should be lifted by increasing mobile product demand and higher capacity utilization at Samsung Electronics' Xian factory in China with the start of peak season in 2H14. We expect sales of W634.1bn (+20.5% YoY) and operating profit of W15.5bn (swing to profits) in 2014.

Retain BUY and raise target price to W8,500

Earnings bottom was confirmed in 1Q14 and a turnaround is anticipated in 2Q14. We retain our BUY rating and raise the target price to W8,500 on prospects for earnings turnaround and start of full-fledged growth in 2015. The target price was derived by applying a PER of 9.2x to 12-month forward EPS.

Year to Dec.	Sales (W bn)	OP (W bn)	Pre-tax (W bn)	NP (W bn)	EPS (Won)	Growth (%)	BPS (Won)	PER (X)	EV/EBITDA (X)	PBR (X)	ROE (%)	Net Debt Ratio (%)
2012	631.4	46.7	28.5	19.6	634	(56.5)	6,470	16.2	5.7	1.6	10.3	58.9
2013	526.3	(33.4)	(35.7)	(27.6)	(858)	TR	5,315	(7.6)	116.9	1.2	(14.6)	132.6
2014F	634.1	15.5	12.9	14.2	442	TB	5,757	14.8	8.1	1.1	8.0	104.6
2015F	665.8	31.3	30.0	23.5	730	65.0	6,487	9.0	5.7	1.0	11.9	72.7
2016F	721.4	40.1	39.9	31.2	969	32.8	7,456	6.8	4.4	0.9	13.9	42.8



1Q14 results

(bn KRW)	1Q14P	4Q13	% QoQ	1Q13	% YoY	SHIC	Consensus
Sales	145.2	134.2	8.2	118.4	22.6	140.1	139.2
OP	(7.1)	(11.5)	N	(7.7)	N	(2.5)	(3.5)
NP	(9.8)	(10.3)	N	(9.2)	N	(3.6)	(4.4)
OPM (%)	(4.9)	(8.6)		(6.5)		(1.8)	(2.5)
NPM (%)	(6.7)	(7.7)		(7.8)		(2.6)	(3.2)

Source: Shinhan Investment Corp.

Earnings forecast revision

(bn KRW)	2014F			2015F		
	Before	After	Change (%)	Before	After	Change (%)
Sales	624.2	634.1	1.6	655.4	665.8	1.6
OP	16.7	15.5	(7.5)	30.8	31.3	1.6
NP	11.3	14.2	25.5	23.6	23.5	(0.4)
OPM (%)	2.7	2.4		4.7	4.7	
NPM (%)	1.8	2.2		3.6	3.5	

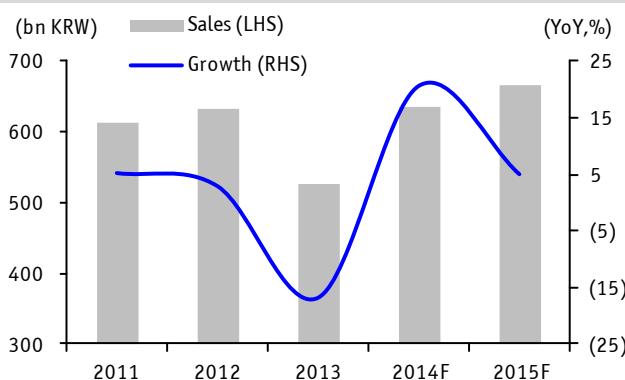
Source: Shinhan Investment Corp.

Consolidated earnings

(bn KRW)	1Q13	2Q13	3Q13	4Q13	1Q14P	2Q14F	3Q14F	4Q14F	2013	2014F	2015F
Sales	118.4	131.3	142.3	134.2	145.2	151.0	170.7	167.2	526.3	634.1	665.8
Module PCB	42.2	47.4	44.6	47.6	53.3	54.2	59.2	57.0	181.8	223.7	222.6
Substrate	76.2	83.9	97.7	92.6	91.9	96.8	111.5	110.2	350.4	410.4	443.2
Sales share											
Module PCB	35.6	36.1	31.3	35.5	36.7	35.9	34.7	34.1	34.5	35.3	33.4
Substrate	64.4	63.9	68.7	69.0	63.3	64.1	65.3	65.9	66.6	64.7	66.6
OP	(7.7)	(10.2)	(4.0)	(11.5)	(7.1)	3.8	8.2	10.5	(33.4)	15.5	31.3
NP	(9.2)	(2.3)	(5.7)	(10.3)	(9.8)	4.4	7.7	11.8	(27.6)	14.2	23.5
OPM (%)	(6.5)	(7.8)	(2.8)	(8.6)	(4.9)	2.5	4.8	6.3	(6.4)	2.4	4.7
NPM (%)	(7.8)	(1.8)	(4.0)	(7.7)	(6.7)	2.9	4.5	7.1	(5.2)	2.2	3.5

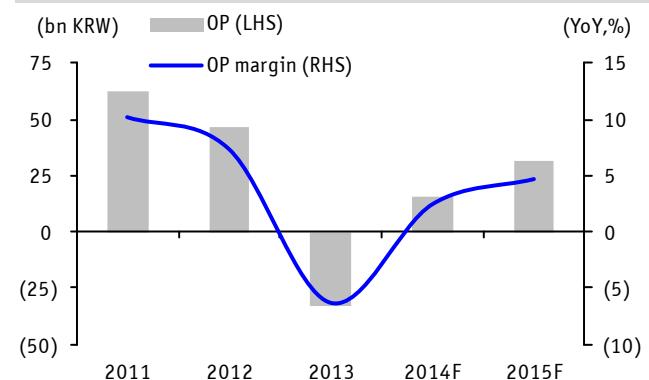
Source: Shinhan Investment Corp.

Sales and growth

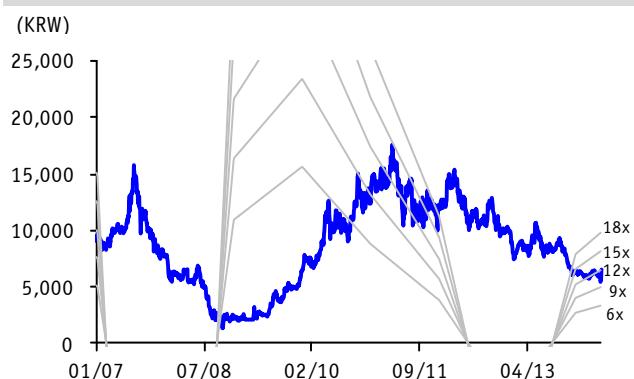


Source: Shinhan Investment Corp.

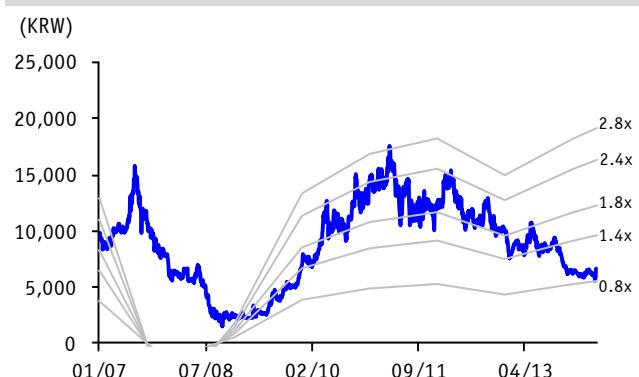
Operating profit and margin



Source: Shinhan Investment Corp.

PER band

Source: Shinhan Investment Corp.

PBR band

Source: Shinhan Investment Corp.

Balance Sheet

Year to Dec. (W bn)	2012	2013	2014F	2015F	2016F
Assets	504.0	566.5	628.0	638.3	664.6
Total Current Assets	202.1	134.7	208.8	235.9	276.9
Cash and Cash Equivalents	55.3	3.9	51.2	70.5	97.6
Accounts Receivables	41.6	42.3	50.9	53.5	57.9
Inventories	75.9	79.6	95.9	100.7	109.1
Non-Current Assets	301.8	431.8	419.3	402.3	387.7
Tangible Assets	248.3	363.0	349.7	333.1	318.2
Intangible Assets	5.3	34.5	33.4	32.5	31.7
Investment Assets	19.1	9.5	11.5	12.1	13.1
Other Financial Institutions Assets	0.0	0.0	0.0	0.0	0.0
Liabilities	295.2	394.6	442.0	428.8	424.0
Current Liabilities	168.7	292.4	329.8	328.8	338.5
ST Borrowings	64.7	143.7	143.7	138.7	133.7
Account Payables	45.7	52.4	63.2	66.4	71.9
Current Portion of LT Debt	0.0	0.0	7.0	2.0	1.0
Non-Current Liabilities	126.5	102.2	112.1	100.0	85.5
Bonds	45.1	47.9	47.9	37.9	25.9
LT Borrowings(incl. LT Fin. Liab.)	68.7	40.1	47.1	44.1	40.1
Other Financial Institutions Liab.	0.0	0.0	0.0	0.0	0.0
Shareholders' Equity	208.7	171.9	186.1	209.5	240.6
Capital Stock	16.1	16.1	16.1	16.1	16.1
Capital Surplus	101.0	101.1	101.1	101.1	101.1
Other Reserves	(0.7)	(0.6)	(0.6)	(0.6)	(0.6)
Accu. Other Comp. Income	(1.3)	(4.9)	(4.9)	(4.9)	(4.9)
Retained Earnings	93.3	59.5	73.8	97.3	128.5
Owners of Parent Equity	208.3	171.2	185.4	208.9	240.0
Non-Controlling Interests Equity	0.4	0.7	0.7	0.6	0.6
*Total Debt	178.5	231.7	245.7	222.7	200.7
*Net Debts(Cash)	123.0	227.9	194.5	152.3	103.1

Cash Flow

Year to Dec. (W bn)	2012	2013	2014F	2015F	2016F
Operating Cash Flow	72.9	10.2	47.1	49.7	57.0
Net Profit	19.7	(27.6)	14.2	23.4	31.1
Depreciation	32.4	36.1	33.3	31.6	30.0
Amortization	0.9	1.1	1.2	0.9	0.7
Losses(Gains) on F/X Translation	(0.5)	(1.6)	0.0	0.0	0.0
Losses(Gains) on Disp. of Assets	1.3	0.2	1.7	1.7	1.7
Losses(Gains) in Asso., Subs.,JVs	4.4	0.6	(9.8)	(9.8)	(9.8)
Chg. in A/L from Op. Activities	(7.3)	(20.5)	6.5	1.9	3.4
(Payments of Income Taxes)	0.0	(4.7)	1.3	(6.6)	(8.8)
Others	22.0	26.6	(1.3)	6.6	8.7
Investing Cash Flow	(68.3)	(108.2)	(21.3)	(14.9)	(15.4)
Incr. in Tangible Assets(CAPEX)	(62.4)	(76.7)	(20.0)	(15.0)	(15.0)
Decr. in Tangible Assets	0.4	7.8	0.0	0.0	0.0
Decr.(Incr.) in Intangible Assets	(0.7)	(0.7)	0.0	0.0	0.0
Decr.(Incr.) in Investment Assets	0.0	(41.5)	(1.3)	0.1	(0.4)
Others	(5.6)	2.9	(0.0)	(0.0)	(0.0)
Free Cash Flow	0.0	(4.8)	35.2	43.0	48.9
Financing Cash Flow	29.4	46.1	14.0	(23.0)	(22.0)
Incr.(Decr.) in Borrowing	15.9	52.4	14.0	(23.0)	(22.0)
Decr.(Incr.) of Treasury Stock	0.0	0.0	0.0	0.0	0.0
Dividend	(5.8)	(6.4)	0.0	0.0	0.0
Others	19.3	0.1	0.0	0.0	0.0
Other Cash Flows	0.0	0.0	7.6	7.5	7.5
Change of Consolidated Scope	0.0	0.0	0.0	0.0	0.0
Difference by Chg. in F/X Rates	0.6	(0.1)	0.0	0.0	0.0
Incr.(Decr.) in Cash	34.5	(52.0)	47.4	19.2	27.2
Beginning Cash	21.3	55.9	3.9	51.2	70.5
Ending Cash	55.9	3.9	51.2	70.5	97.6

Source: Company data, Shinhan Investment Corp.

Profit and Loss

Year to Dec. (W bn)	2012	2013	2014F	2015F	2016F
Sales	631.4	526.3	634.1	665.8	721.4
Growth (%)	2.9	(16.7)	20.5	5.0	8.3
COGS	541.5	519.8	564.4	579.3	627.6
Gross Profit	89.9	6.5	69.7	86.6	93.8
Gross margin (%)	14.2	1.2	11.0	13.0	13.0
SG&A	43.2	39.9	54.2	55.3	53.7
Operating Income	46.7	(33.4)	15.5	31.3	40.1
Growth (%)	(25.6)	N/A	N/A	102.4	28.2
Operating margin (%)	7.4	(6.4)	2.4	4.7	5.6
Other Net Non-Operating Profits	(18.2)	(2.3)	(2.6)	(1.2)	(0.2)
Financial Income(Expenses)	(5.1)	(3.6)	(6.4)	(6.1)	(5.1)
Net Other Non-Operating Profits	(8.7)	2.0	4.5	5.5	5.5
Net Gains in Asso., Subs., and JVs	(4.4)	(0.6)	(0.6)	(0.6)	(0.6)
Pre-tax Profit from Cont. Op.	28.5	(35.7)	12.9	30.0	39.9
Income Taxes	8.8	(8.1)	(1.3)	6.6	8.8
Profit from Continuing Op.	19.7	(27.6)	14.2	23.4	31.1
Profit from Discontinued Op.	0.0	0.0	0.0	0.0	0.0
Net Profit	19.7	(27.6)	14.2	23.4	31.1
Growth (%)	(53.7)	N/A	N/A	65.0	32.8
Net Profit margin (%)	3.1	(5.2)	2.2	3.5	4.3
Net Profit of Parent	19.6	(27.6)	14.2	23.5	31.2
Net Profit to Non-Controlling	0.1	0.1	(0.0)	(0.1)	(0.1)
Total Comprehensive Income	18.2	(30.9)	14.2	23.4	31.1
Total Comp. Income of Parent	18.1	(30.9)	14.2	23.5	31.2
Total Comp. Income to Non-Cont.	0.1	0.1	(0.0)	(0.1)	(0.1)
EBITDA	79.9	3.7	50.0	63.8	70.8
Growth (%)	(16.2)	(95.3)	1,233.3	27.7	11.0
EBITDA Margin (%)	12.7	0.7	7.9	9.6	9.8

Note: Operating profit is based on 2012 K-IFRS (gross profit - SG&A costs)

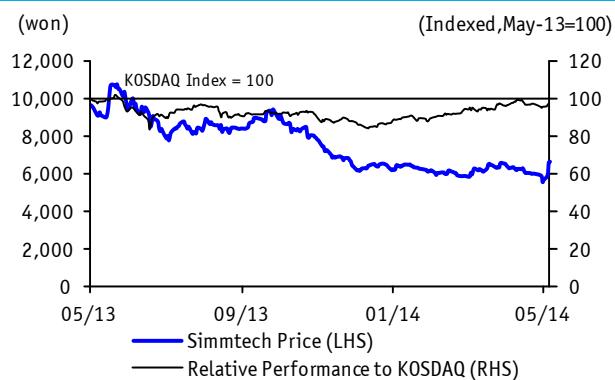
Key Ratios

Year to Dec.	2012	2013	2014F	2015F	2016F
EPS_C (won)	637	(856)	441	728	966
EPS_P (won)	634	(858)	442	730	969
BPS_C (won)	6,483	5,338	5,779	6,507	7,473
BPS_P (won)	6,470	5,315	5,757	6,487	7,456
DPS (won)	200	0	0	0	0
PER_C (x)	16.2	(7.6)	14.9	9.0	6.8
PER_P (x)	16.2	(7.6)	14.8	9.0	6.8
PBR_C (x)	1.6	1.2	1.1	1.0	0.9
PBR_P (x)	1.6	1.2	1.1	1.0	0.9
EV/EBITDA (x)	5.7	116.9	8.1	5.7	4.4
EV/EBIT (x)	9.7	(13.1)	26.3	11.6	7.9
Dividend Yield (%)	1.9	0.0	0.0	0.0	0.0
Profitability					
EBITDA Margin (%)	12.7	0.7	7.9	9.6	9.8
OP Margin (%)	7.4	(6.4)	2.4	4.7	5.6
NP Margin (%)	3.1	(5.2)	2.2	3.5	4.3
ROA (%)	4.1	(5.1)	2.4	3.7	4.8
ROE (%)	10.3	(14.6)	8.0	11.9	13.9
ROIC (%)	12.4	(11.0)	4.6	6.9	9.4
Stability					
D/E Ratio (%)	141.4	229.6	237.5	204.6	176.2
Net Debt to Equity (%)	58.9	132.6	104.6	72.7	42.8
Cash Ratio (%)	32.8	1.3	15.5	21.4	28.8
Interest Coverage (x)	6.6	(3.9)	1.5	3.2	4.5
Activity (%)					
Working Capital Turnover (t)	15.4	42.4	(32.2)	(30.2)	(30.7)
Inventory Turnover (d)	41.3	53.9	50.5	53.9	53.1
Receivable Turnover (d)	27.3	29.1	26.8	28.6	28.2

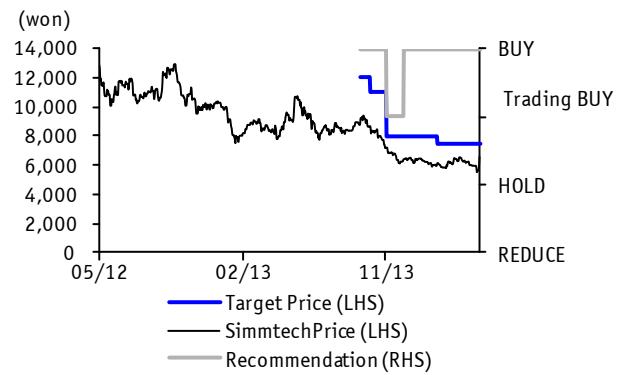
Source: Company data, Shinhan Investment Corp.

Simmtech (036710 KS)

Share Price Performance



Target Price & Recommendation History



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- Analyst Certification: The following analysts hereby certify the information and material presented in this report are accurate expressions of their views, and that they have not received wrongful pressure to express such views: YoungChan Kim.
- As of the date of this report's publication, Shinhan Investment Corp.'s shareholdings in the company mentioned in this report(Simmtech) do not exceed 1% of outstanding shares of the company.
- As of this date, Shinhan Investment Corp. has not participated as the lead underwriter or advisor in issuance of the securities of the company during the past 1 year.
- As of this date, the covering analyst does not possess any financial interest in the securities or debt instruments convertible into such shares of the company, which is required to be disclosed by law, and has not and will not receive any compensation of any kind whatsoever in exchange for expressing specific recommendations.
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	Recommendation	Target Price (won)
2013. 09. 26	BUY	12,000
2013. 10. 15	BUY	11,000
2013. 11. 15	Trading BUY	8,000
2013. 12. 18	BUY	8,000
2014. 02. 20	BUY	7,500

SHIC Rating Classifications (As of 25 Jul. 2011)

Stock	Sector
<ul style="list-style-type: none"> BUY: Expected return of over +15% in the next 6 months Trading BUY: Expected return of 0% ~ +15% in the next 6 months HOLD: Expected return of -15% ~ 0% in the next 6 months REDUCE: Expected return of below -15% in the next 6 months 	<ul style="list-style-type: none"> OVERWEIGHT: Prevalence of BUY rating for stocks in our sector coverage universe based on market cap NEUTRAL: Prevalence of HOLD rating for stocks in our sector coverage universe based on market cap UNDERWEIGHT: Prevalence of REDUCE rating for stocks in our sector coverage universe based on market cap