Company Analysis
12 April 2006

Korea Investment & Securities Co., Ltd.

SOLid Technologies (050890)

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A solid buy

Rating: BUY / Closing price: W14,500 (11 April 2006) / Price target: W21,000

- **We maintain BUY but revise down the six-month price target to W21,000 from W23,000 due to our downward revision of 2006 EPS estimates.** We derived our price target by applying a PER of 12x based on the 2006 EPS of W1,739. The PER of 12x is higher than the sector average, reflecting the company's market dominance as Korea's leading repeater maker and its subsidiaries' growth potential.

- Although repeater makers recently enjoyed rising share prices thanks to high expectations for new mobile services such as WCDMA, DMB, and WiBro, their share prices started to decline due to concerns over the lower-than-expected penetration of services. However, we believe the company should stand apart from peers given the expansion of its product mix and business diversification through subsidiaries.

- **One of the main weaknesses of repeater makers is the fact that their earnings are subject to telecom service provider investments, and their customers are confined to SKT and KTF.** Thus, a repeater maker's earnings are bound to drop if SKT or KTF do not invest in new services or increase investments in existing services. Due to this constraint, short-term investments are preferred for repeater makers; share prices have surged, however the surge should not last long.

- **However, the company deserves to be set apart from other repeater makers**, in our belief that: 1) its customers have been diversified from SKT, KTF, to include KT; 2) earnings are secured from the sale of in-house developed DMB receivers, regardless of telecom service providers' investments; 3) the company has established subsidiaries such as Amicus Wireless (64% stake) which develops WiBro chipsets and Beijing Solidtech (100% stake) which provides terrestrial DMB content in China; and 4) the company's business has expanded through its takeover of NeoTS, a PCB bit manufacturer.

- **We expect 1Q06 sales to skyrocket 151.8% YoY to W17.7bn.** As KTF invests more to compete with SKT in WCDMA services, WCDMA repeater sales surged; and KT's installation of repeaters in major areas outside Seoul to commercialize WiBro services created sales from WiBro repeaters. On the other hand, we forecast operating profit will post a loss of W100mn due to: 1) lower profitability as most sales come from KTF, which yields low-profit margins, and 2) the company paid approximately W900mn for performance incentives.

- However, the operation profit loss is insignificant, as we believe: 1) 1Q06 sales came in 22.6%, lower than our estimate of W21.7bn, as most sales are deferred due to sales recognition at different times; and 2) SG&A costs increased due to unexpected incentive payments.

- Normally, repeater makers perform better in 2H than 1H, because telecommunications carriers tend to concentrate investment in 2H. However, we foresee a different pattern in 2006, as KTF's investment in WCDMA kicked off in 1H, and KT began its investment in 1H to launch a commercialized WiBro service. Therefore, the company's 1H performance should be good. We forecast the company will display record high earnings in 2H, as a part of sales is deferred to 2H. 2H sales and operating profit should surge 113.8% and 107.6% YoY to W37.9bn and 6.4bn, respectively.

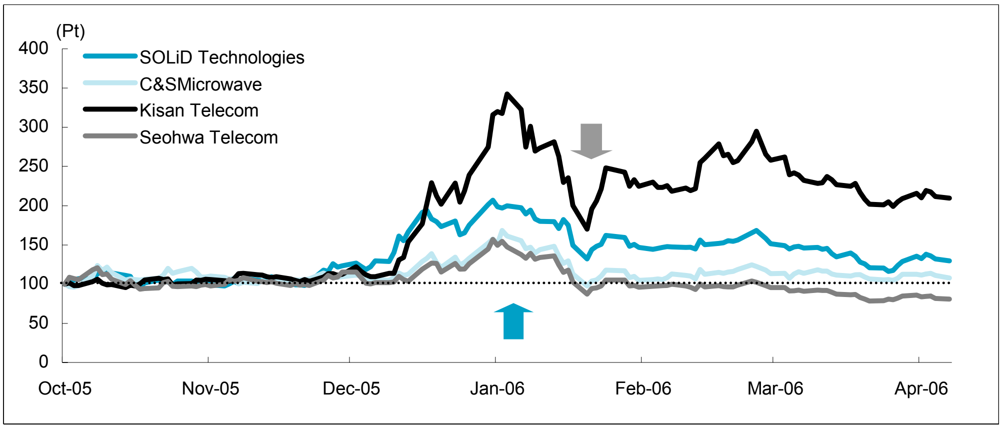
11 April 2006 / W14,500 / Mkt cap: USD127.1mn , KRW121.4bn

Yr to Dec	Sales (W bn)	OP (W bn)	RP (W bn)	NP (W bn)	EPS (Won)	chg. yoy (%)	EBITDA (W bn)	P/E (x)	EV/EBITDA (x)	PBR (x)	ROE (%)
2003A	62.5	8.8	8.5	8.1	1,278	33.3	9.8	NM	NM	NM	40.6
2004A	69.7	8.5	8.4	7.2	1,005	-21.4	9.4	11.6	11.7	2.2	21.5
2005P	120.0	18.0	16.2	14.6	1,739	73.0	17.9	8.3	5.8	2.1	28.6
2006F	129.1	21.2	19.9	17.9	2,140	23.1	21.8	6.8	4.5	1.6	26.6
2007F	137.7	22.3	20.2	18.2	2,170	1.4	23.0	6.7	3.9	1.3	21.3

Source: Company data, Korea Investment & Securities estimates

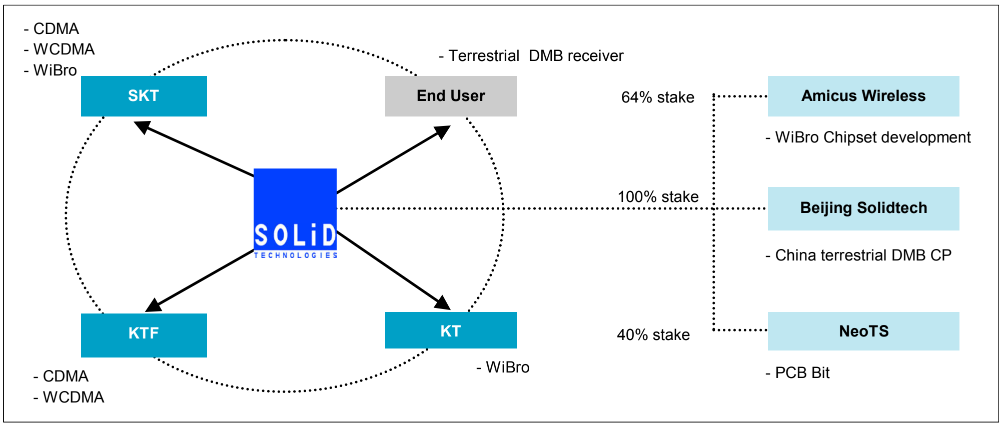
We revise 06F sales estimates up 3.4% to W120bn and operating profit estimates down 5.4% to W18bn, due to our belief that profitability will decline despite sales growth, as KTF sales, which yield relatively low profits, should rise. Otherwise, the company should display significantly improved earnings with sales growth and operating profit growth reaching 72.0% and 107.6%, respectively.

Stock prices of major repeater makers



Note: Adjusted common stock prices on 4 Oct 2005 are equal to 100
Source: Korea Investment & Securities

Products and business areas



Source: Korea Investment & Securities

Major contracts

Disclosure date	Contract	Customer	Amount	Provision period	Jan Feb Mar	Apr May Jun	Jul Aug Sep	Oct Nov Dec
07-Dec-05	W-CDMA 3G optical repeater	KTF	5,940	6 Dec 2005 ~ 28 Feb 2006				
14-Dec-05	W-CDMA 3G subway repeater	KTF	2,312	13 Dec 2005 ~ 20 Jan 2006				
02-Jan-06	W-CDMA subway repeater	KTF	5,797	30 Dec 2005 ~ 15 Mar 2006				
09-Feb-06	WiBro optical repeater	KT	3,528	21 Oct 2005 ~ 30 Jun 2006				
21-Feb-06	D-FORCE repeater for WCDMA	KTF	6,972	20 Feb 2006 ~ 26 Apr 2006				
21-Feb-06	DB optical repeater	KTF	6,104	20 Feb 2006 ~12 May 2006				
08-Mar-06	DB optical repeater and others	KTF	1,588	8 Mar 2006 ~ 26 May 2006				
03-Apr-06	2006 1st repeater supply contract	SKT	19,819	30 Mar 2006 ~ 31 Dec 2006				
03-Apr-06	8th cluster DB optical repeater	KTF	3,404	31 Mar 2006 ~ 23 Jun 2006				

Source: Korea Investment & Securities

Earnings forecast

(W bn)

		1Q05	2Q05	3Q05	4Q05	2005	1Q06F	2Q06F	3Q06F	4Q06F	2006F
Sales	CDMA	1.9	0.1	1.0	0.2	3.3	0.3	0.4	0.6	0.4	1.7
	WCDMA	4.5	6.1	19.4	11.9	41.9	12.9	22.7	19.7	27.1	82.4
	Gap Filler	0.1	10.5	2.7	2.4	15.7	0.2	1.8	0.8	0.6	3.4
	WiBro	-	-	-	2.5	2.5	3.0	11.6	7.9	4.5	27.1
	Others	0.5	1.0	2.3	2.6	6.4	1.4	1.4	1.4	1.4	5.4
	Total	**7.0**	**17.7**	**25.4**	**19.6**	**69.7**	**17.7**	**37.9**	**30.4**	**34.0**	**120.0**
	YoY	152.7%	-23.6%	32.0%	13.5%	11.6%	151.8%	113.8%	19.8%	73.4%	72.0%
OP		-0.9	3.1	5.2	1.3	8.7	-0.1	6.4	6.0	5.7	18.0
OP Margin		-12.2%	17.4%	20.4%	6.4%	12.4%	-0.5%	16.9%	19.6%	16.7%	15.0%
RP		-0.9	3.0	5.2	1.2	8.5	-0.4	5.8	5.5	5.2	16.2
NP		-0.9	2.9	4.0	1.0	7.1	-0.3	5.2	5.0	4.7	14.6

Change in recommendation and price target

Company (Code)	Date	Recommendation	Price target
SOLID TECHNOLOGIES INC. (050890)	09-01-05	Buy	W12,500
	10-06-05	Buy	W15,500
	12-13-05	Buy	W20,000
	01-18-06	Buy	W23,000
	04-12-06	Buy	W21,000

■ **Korea Investment & Securities Co., Ltd. stock recommendation classifications based on 6-month forward share price performance relative to market index performance.**
- Strong Buy: Assumes over 30% out performance relative to market index
- Buy: Assumes 10~30% out performance relative to market index
- Hold: Assumes -10~10% share price performance relative to market index
- Underweight: Assumes over 10% share price under performance relative to market index

■ **Korea Investment & Securities Co., Ltd. sector recommendation classifications based on 6-month forward performance of sector's portfolio weight to KOSPI (KOSDAQ) market capitalization weight**
- Overweight: Assumes sector's portfolio weight to outperform KOSPI (KOSDAQ) market capitalization weight
- Neutral: Assumes sector's portfolio weight to have same return as KOSPI (KOSDAQ) market capitalization weight
- Underweight: Assumes sector's portfolio weight to under perform KOSPI (KOSDAQ) market capitalization weight

■ **Analyst Certification**
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