

## Solid Technologies (050890)

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### Solid valuation and high growth potential

Rating: BUY / Closing price: W13,400 (20 July 2006) / Price target: W21,000

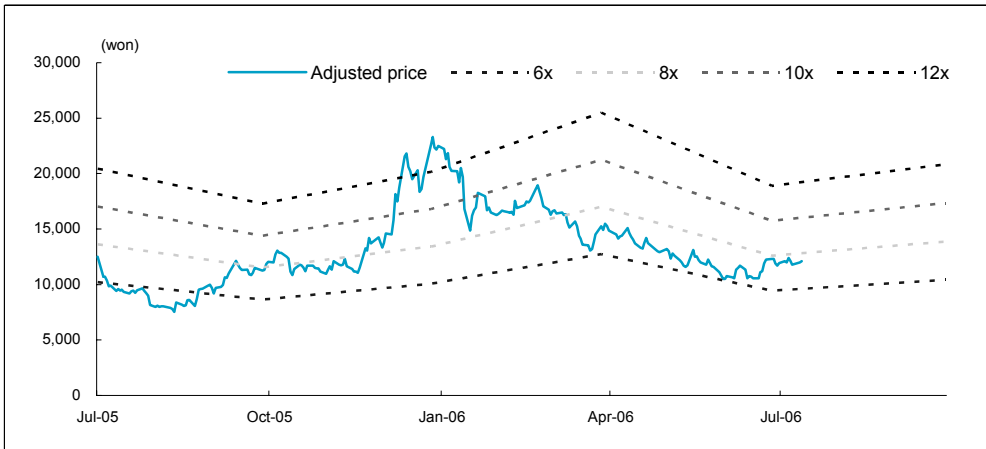
- **We maintain BUY with the six-month price target of W21,000 due to the company's undervaluation and its subsidiaries' growth potential.** We derived the TP by applying a PER of 12x to the 12 month-forward EPS of W1,749 reflecting its growth potential. We believe the premium should be justifiable considering its bigger profits and subsidiaries' growth potential. However, the company is currently trading lower than market average, at a PER of 8x based on the 2006 EPS and a PER of 7.7x based on the 12-month forward EPS. Solid Technologies owns a 64% stake in Amicus Wireless, a WiBro chipset developer, a 100% stake in Beijing Solidtech, a Chinese terrestrial-DMB content provider, and a 40% stake in NeoTS, a PCB drill bit maker. Those subsidiaries possess huge growth potential and support our BUY recommendation.
- **2Q earnings announcement:** 2Q sales stood at W47.2bn, 24.4% higher than our expectations. Operating profit came in at W11.1bn, 73.3% above than our estimates. We attribute the impressive 2Q earnings to the counter's strong WCDMA repeater sales due to KTF's WCDMA investment expansion in 1H. We expect 2006 sales to soar 61.2% to W112.4bn and operating profit to surge 98.7% to W16.9bn because KTF's WCDMA investment should continue in 2H, and KT should expand its WiBro investment. Furthermore, SKT's WCDMA investment, although a bit sluggish in 1H, should swell in 2H, bringing benefits to Solid Technologies.
- **Amicus Wireless' rights offering, a strong upward catalyst:** The counter is planning a rights offering for Silicon Valley-based Amicus Wireless in 2H. It is known that Solid Technologies plans to only attract local capital in the US. We believe the rights offering, if successful, would drive up the company's share price, proving its WiBro chipset development prowess. WiBro chipsets have a very positive market outlook in that they should be installed in major mobile applications such as laptops and handsets. Although the development of WiBro chipsets does not directly translate into short-term profit, it can create explosive profits in the long-term. As such, we believe a successful rights offering will boost Solid Technologies' share price.

Solid Technologies 20 July 2006 / W13,400 / Mkt cap: USD118.1mn, KRW112.4bn

| Yr to | Sales  | OP     | RP     | NP     | EPS   | %chg  | EBITDA | P/E  | EV/        | PBR | ROE  |
|-------|--------|--------|--------|--------|-------|-------|--------|------|------------|-----|------|
| Dec   | (W bn) | (W bn) | (W bn) | (W bn) | (Won) | YoY   | (W bn) | (x)  | EBITDA (x) | (x) | (%)  |
| 2004A | 62.5   | 8.8    | 8.5    | 8.1    | 1,278 | 33.3  | 9.8    | NM   | NM         | NM  | 40.6 |
| 2005A | 69.7   | 8.5    | 8.4    | 7.2    | 1,005 | -21.4 | 9.4    | 11.6 | 11.7       | 2.2 | 21.5 |
| 2006F | 112.4  | 16.4   | 15.6   | 14.1   | 1,680 | 67.1  | 17.4   | 8.0  | 5.5        | 1.9 | 27.7 |
| 2007F | 117.3  | 16.4   | 17.9   | 16.1   | 1,922 | 14.4  | 19.8   | 7.0  | 4.5        | 1.5 | 24.4 |
| 2008F | 120.1  | 16.4   | 18.4   | 16.5   | 1,976 | 2.8   | 21.3   | 6.8  | 4.0        | 1.2 | 20.1 |

Source: Company data, Korea Investment & Securities estimates

### PER band trend



Source: Korea Investment & Securities, based on the 12-month forward EPS

### Quarterly earnings forecast

(W bn,%)

|              | 2005        | 1Q06        | 2Q06F       | 3Q06F       | 4Q06F       | 2006F        | YoY          |
|--------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|
| <b>Sales</b> |             |             |             |             |             |              |              |
| CDMA         | 3.3         | -           | 0.4         | 0.6         | 0.4         | 1.4          | -56.4%       |
| WCDMA        | 41.9        | 15.0        | 39.6        | 12.1        | 15.1        | 81.8         | 94.9%        |
| Gap filler   | 15.7        | 0.2         | 2.7         | 0.8         | 0.6         | 4.2          | -73.1%       |
| WiBro        | 2.5         | 1.3         | 1.9         | 6.0         | 7.2         | 16.4         | 556.4%       |
| Others       | 6.4         | 0.8         | 2.6         | 2.4         | 2.9         | 8.6          | 34.7%        |
| <b>Total</b> | <b>69.7</b> | <b>17.2</b> | <b>47.2</b> | <b>21.9</b> | <b>26.2</b> | <b>112.4</b> | <b>61.2%</b> |
| OP           | 8.5         | 0.2         | 11.1        | 2.6         | 3.4         | 16.9         | 98.7%        |
| OP margin    | 12.2%       | -1.0%       | 23.5%       | 12.0%       | 12.9%       | 15.1%        | 2.8%P        |
| RP           | 8.4         | 0.2         | 9.3         | 2.7         | 3.8         | 15.6         | 87.1%        |
| NP           | 7.2         | 0.2         | 8.4         | 2.5         | 3.4         | 14.1         | 94.4%        |

Source: Korea Investment & Securities

### Major contracts

| Disclosed date | Contract   | Client | Contract amount | Supply period           | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|----------------|--|--------|-----------------|-------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| 2005.12.07     | W-CDMA 3G optical repeater                         | KTF    | 5,940           | 2005.12.06 ~ 2006.02.28 | ■   | ■   | ■   |     |     |     |     |     |     |     |     |     |
| 2005.12.14     | W-CDMA 3G subway repeater                          | KTF    | 2,312           | 2005.12.13 ~ 2006.01.20 | ■   | ■   |     |     |     |     |     |     |     |     |     |     |
| 2006.01.02     | W-CDMA subway repeater for public use              | KTF    | 5,797           | 2005.12.30 ~ 2006.03.15 | ■   | ■   | ■   |     |     |     |     |     |     |     |     |     |
| 2006.02.09     | WiBro optical repeater                             | KT     | 3,528           | 2005.10.21 ~ 2006.06.30 | ■   | ■   | ■   | ■   | ■   | ■   |     |     |     |     |     |     |
| 2006.02.21     | D-FORCE repeater for WCDMA                         | KTF    | 6,972           | 2006.02.20 ~ 2006.04.26 |     | ■   | ■   | ■   |     |     |     |     |     |     |     |     |
| 2006.02.21     | DB optical repeater                                | KTF    | 6,104           | 2006.02.20 ~ 2006.05.12 |     | ■   | ■   | ■   | ■   |     |     |     |     |     |     |     |
| 2006.03.08     | DB optical repeater and etc.,                      | KTF    | 1,588           | 2006.03.08 ~ 2006.05.26 |     |     | ■   | ■   | ■   |     |     |     |     |     |     |     |
| 2006.04.03     | Provision of first AFE repeater                    | SKT    | 19,819          | 2006.03.30 ~ 2006.12.31 |     |     |     | ■   | ■   | ■   | ■   | ■   | ■   | ■   | ■   | ■   |
| 2006.04.03     | Purchase of eighth DB optical repeater for cluster | KTF    | 3,404           | 2006.03.31 ~ 2006.06.23 |     |     |     | ■   | ■   | ■   |     |     |     |     |     |     |
| 2006.05.08     | DB optical repeater                                | KTF    | 1,476           | 2006.05.04 ~ 2006.05.31 |     |     |     | ■   | ■   |     |     |     |     |     |     |     |
| 2006.05.25     | Provision of second AFE repeater                   | SKT    | 9,893           | 2006.05.22 ~ 2006.12.31 |     |     |     | ■   | ■   | ■   | ■   | ■   | ■   | ■   | ■   | ■   |

Source: Korea Investment & Securities, based on the 12-month forward EPS

### Company Description

Solid Technologies specializes in manufacturing switch mode power supply (SMPS), handset chargers and adapters. SMPS is the key driver of company's earnings growth and its handset charger generates stable cash flow.

### Statement of Risk

Risks include:

1. The company's earnings hinge on telecommunication service providers such as SKT, KT, and KTF.

### 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% outperformance relative to market index
- Buy: Assumes 10~30% outperformance 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

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