

## Korea

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## Not Rated

050890 KQ (Bloomberg)

050890.KQ (Reuters)

Target price (6mos): NA

Share price (21/12/05): W20,600

Par value: W500

52-Wk Hi/Low: W21,800/7,540

Mkt cap: US\$166.3mn/W169.3bn

Shares issued: 8.2mn shr

Avg volume (60D): 367,639shr

Avg value (60D): US\$5.6mn/W5.7bn

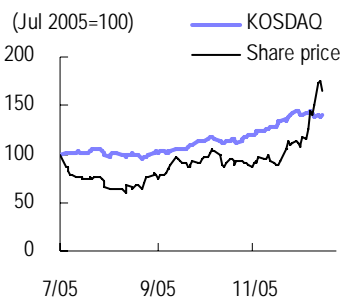
Foreign ownership: 3.14%

Major shareholders:

Group & related parties (29.77%)

### Price performance (%)

	1M	6M	12M
Absolute	80.7	N.A	N.A
Relative	69.3	N.A	N.A



# Solid Technologies (050890)

## Cashing in on WiBro capex

- Specializes in repeater solutions for mobile communication.
- Has embarked on customer diversification to include KTF, SK Telecom, TU Media and KT.
- Anticipates benefits from continued capex in WCDMA and WiBro.
- Moving ahead to enter new businesses.
- We estimate sales at W66bn and the operating margin at 12.5% in 2005F. 4Q05F sales will likely fall 37% qoq with an operating margin of 6%, far below estimates. The company targets W100bn in sales and 15% operating margin for 2006F.

### Specialist in repeater solutions

Solid Technologies was established in November 1998 and makes repeaters used to relay signals between base stations and mobile handsets. Its core products include fiber-optic repeaters and gap fillers for satellite digital multimedia broadcasting (DMB). Repeater solutions are divided into fiber-optic and radio frequency. Fiber-optic repeaters, Solid Technologies' key product, are used for fiber-optic cable transmission of radio frequency signals. Radio frequency repeaters are well-suited to remote areas without fiber-optic cable or flat areas without obstacles.

Solid Technologies recently introduced gap fillers for new satellite digital multimedia broadcast services. Gap fillers generated substantial sales from 2Q04 through 3Q05. In 2006 and beyond, however, we do not expect much growth for this item given the expected slowing capex by TU Media.

Solid Technologies expects new demand for repeaters as KT and SK Telecom are scheduled to begin investment in wireless broadband (WiBro) services in 2006. We estimate the price for the WiBro repeaters to be higher than those for wideband code division multiple access (WCDMA) due to a complex manufacturing process.

### Diverse client base: KTF, SK Telecom, TU Media and KT

Solid Technologies' core clients are SK Telecom and KTF. During 2004, the company's sales to KTF declined sharply but the slack was picked up by TU Media's purchases of gap fillers. In 2005, sales to SK Telecom came in strong with an increasing supply of WCDMA repeaters. In 2006F, Solid Technologies anticipates strong benefits from continued capex by SK Telecom estimated at W570bn (down W30bn yoy) and KTF's investment will likely increase from 2005.

KT was added to the customer list as Solid Technologies passed the benchmark tests of both KT and SKT for fiber-optic WiBro repeaters. We expect the WiBro repeaters to be the growth driver for Solid Technologies during 2006.

Figure 1. How repeaters work for mobile handsets

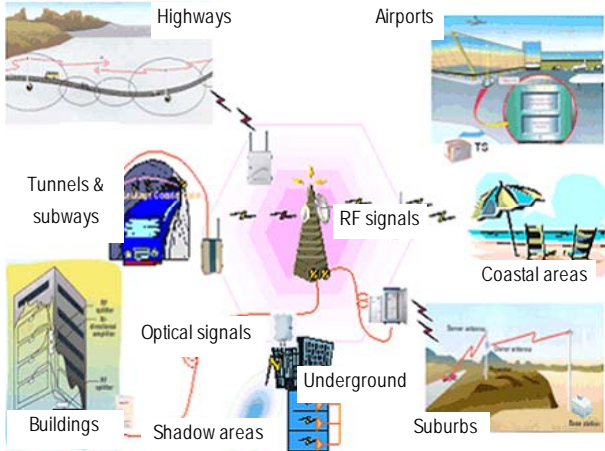


Figure 2. Repeaters made by Solid Technologies



Figure 3. Sales trend by product

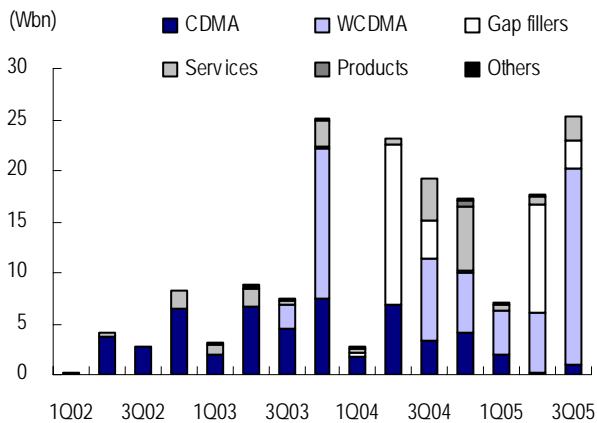
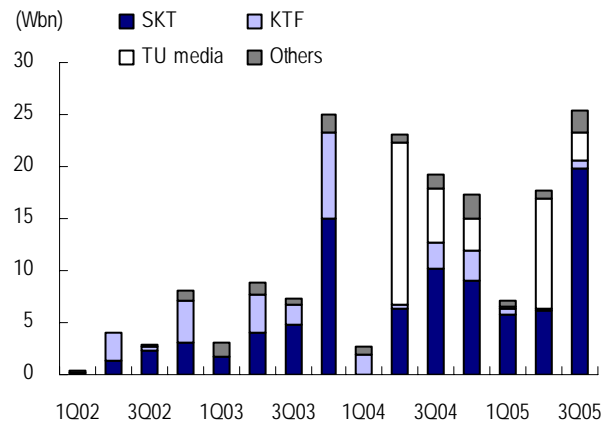


Figure 4. Sales trend by client



Source: Company data, Daewoo Securities

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### Anticipating benefits from capex for WCDMA and WiBro

We estimate the overall capex in WCDMA services at W900bn in 2005F and to reach W1tr in 2006F. By company, SK Telecom will likely decrease capex from W600bn in 2005 to W570bn in 2006F, while KTF's is expected to increase from W300 in 2005 to W350bn in 2006F.

In 2006, the company's sales of WCDMA repeaters to SK Telecom should stay flat yoy and increase to KTF yoy given the growing capex along with stronger demand.

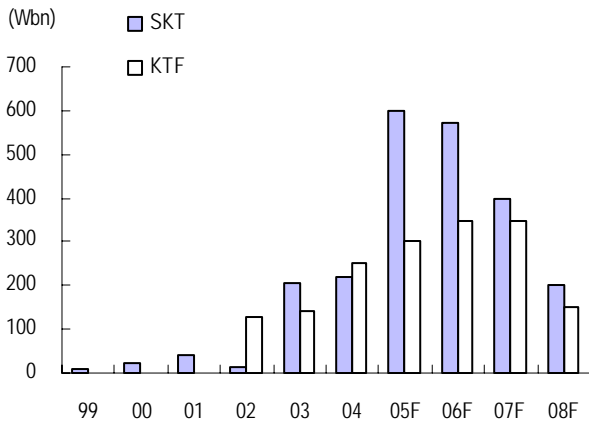
KT is scheduled to begin capex for WiBro services in 2006F and to execute 70% of the budget by 2007F. We estimate KT's WiBro capex at W500bn in 2006F with W200bn from that figure likely to be spent on repeaters.

Figure 5. Companies that passed benchmark tests for WiBro repeaters

	KT	SK Telecom
Fiber-optic repeaters	Solid Tech, Kisan Telecom (035460), MTI (not listed), Dongwon Systems (014820), FRTEK (not listed)	Solid Tech, SK Telesys (not listed)
RF repeaters	Benchmark tests pending	Benchmark tests pending

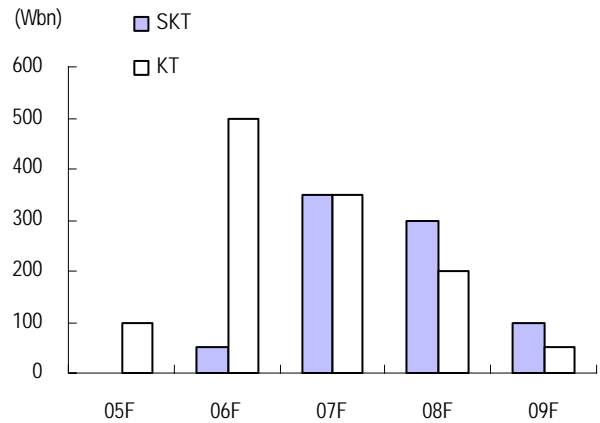
Source: Companies data

Figure 6. WCDMA capex by SK Telecom and KTF



Source: Company data, Daewoo Securities

Figure 7. WiBro capex by SK Telecom and KT



Source: Company data, Daewoo Securities

**About to enter new businesses**

Looking ahead, Solid Technologies will possibly export repeaters for WiBro and WCDMA services. We expect WCDMA services will likely see growing demand for repeaters, unlike GSM services. The company could also benefit from the new WiBro services, chosen as the standard in Korea by exporting the Wibro repeaters on a turn-key basis.

We also forecast Solid Technologies will enter China’s terrestrial DMB market as a content provider rather than a system provider. This should allow the company to generate advertising revenue. The company is already carrying out some of the businesses based on contracts with major domestic broadcasters.

**2005F sales W66bn, operating margin 12.5%**

We estimate sales at W66bn and the operating margin at 12.5% in 2005F. Sales in 4Q05F will likely fall 37% qoq with an operating margin of 6%, far below estimates. Considering sales carried over to 1Q06, 4Q05 sales would have come in slightly higher than in 3Q05. The falling operating margin can be attributed to a higher portion of fixed costs due to fewer sales.

The company targets W100bn in sales and a 15% operating margin for 2006F. It has a market capitalization of W170bn and the stock currently trades at 14X P/E based on 2006F EPS. This valuation seems somewhat burdensome but indicates ample upside potential given the possible results from exports.

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