

Solid Technologies (050890)

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Chips and content make for a solid future

Rating: BUY / Closing price: W15,800 (13 Dec 2005) / Price target: W20,000

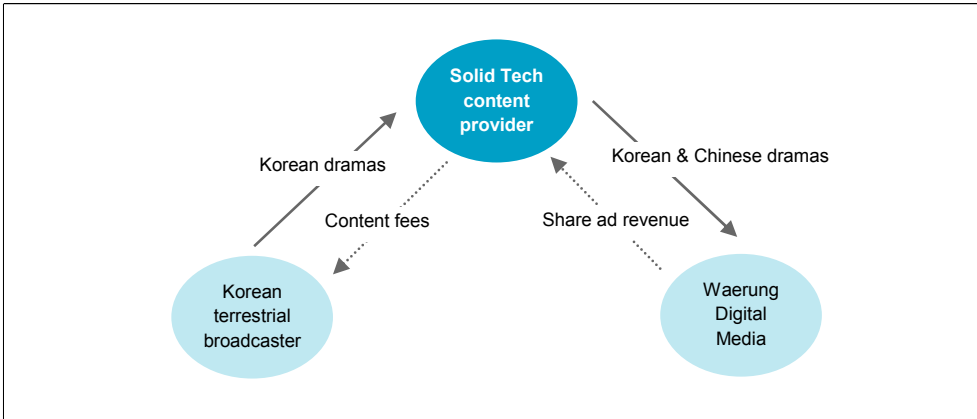
- **Maintain BUY and raise the six month price target to W20,000**, derived by applying a PER of 12x based on the 2006 EPS. We believe the wireless equipment market will grow until 2008 thanks to the development of wireless services including W-CDMA, DMB and WiBro and other new technologies. As such, flanked by a diversified product lineup in all wireless communication network systems and client-base, we expect the wireless equipment market to advance along with wireless telecom services. We believe the diversified business will be helped by the development of WiBro chipsets and Terrestrial Digital Multimedia Broadcasting (DMB) content.
- **Solid Technologies announced that it signed a contract to supply terrestrial DMB content exclusively to Beijing Waerung Digital Media Corp.**, one of four terrestrial DMB service providers in China. We expect the company to provide services in Beijing exclusively with six video and six music channels. The company plans to build a wholly-owned affiliate in China, which will serve as a terrestrial DMB content provider. The content will include Korean and Chinese dramas, and will generate revenues from advertisements. Furthermore, it plans to penetrate the terrestrial DMB handset business in 2006.
- **We believe the company has successfully established a value chain to generate revenues** related to domestic and overseas DMB and WiBro services by entering a terrestrial DMB CP (Content Provider) business in China. Solid Tech plans to build a back- and front-end value chain centering on the company after setting up Amicus Wireless Technology, a WiBro chipset manufacturer with paid-in capital of USD4.5mn and a wholly-owned affiliate in China, to provide terrestrial DMB content. We find it positive that the company has successfully diversified its business by entering the terrestrial DMB CP and WiBro chipset development businesses.
- **We believe KTF's Capex plan for W-CDMA and WiBro should help bolster 2006 earnings**, thus we should garner attention to the fact that that wireless telecom service providers' Capex plans will grow the repeater market. Sales should fall 42.9% QoQ to W14.5bn in 4Q05 as sales of W-CDMA optic repeaters for KTF and WiBro repeaters for KT will be realized in 1Q06. Operating margin should decline to 6.6% in 4Q05 due to leverage effects from decreased sales.

13 December 2005 / W15,800 / Mkt cap: USD124.8mn, KRW129.9bn

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	44.3	5.1	5.2	6.0	959	282.0	6.9	NM	NM	NM	47.4
2004A	62.5	8.8	8.5	8.1	1,278	33.3	9.9	NM	NM	NM	40.6
2005F	64.6	8.4	8.0	6.6	812	-36.4	9.4	17.9	11.7	2.7	19.7
2006F	97.0	16.5	15.0	13.5	1,659	104.3	16.6	8.7	5.9	2.1	27.0
2007F	119.1	22.3	19.1	17.2	2,102	26.7	20.5	6.9	4.5	1.6	26.2

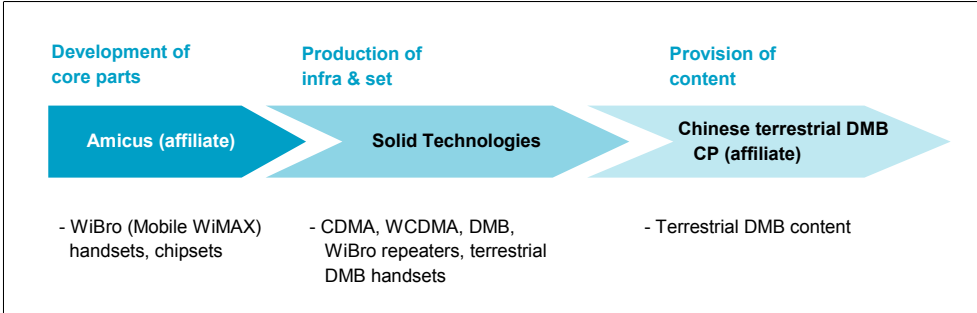
Source: Company data, Korea Investment & Securities estimates

Terrestrial DMB CP business model



Source: Korea Investment & Securities

Solid Technologies' value chain



Source: Korea Investment & Securities

Earnings forecast by quarter

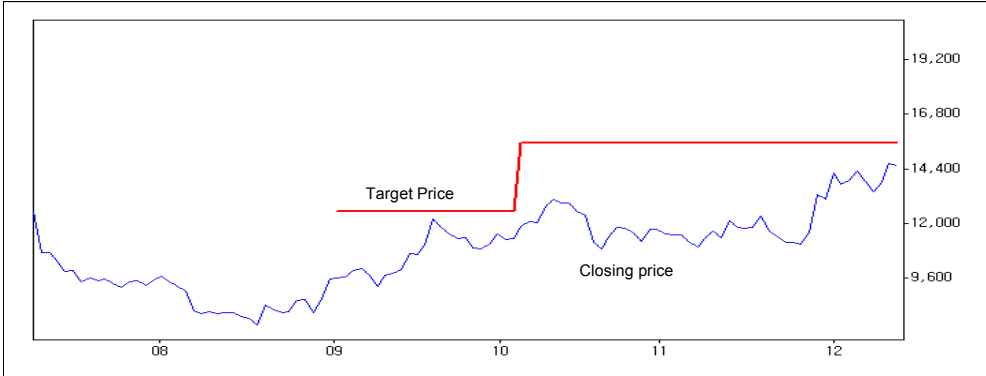
(W bn)

	1Q05	2Q05	3Q05	4Q05F	2005F	1Q06F	2Q06F	3Q06F	4Q06F	2006F	YoY	
Sales	CDMA	1.9	0.1	1.3	0.8	4.0	0.3	0.4	0.6	0.4	1.7	-57.0%
	WCDMA	4.5	6.1	18.8	10.0	39.4	8.9	11.7	19.7	27.1	67.4	70.9%
	Gap Filler	0.1	10.5	2.6	1.0	14.2	2.0	2.3	2.9	2.0	9.2	-35.2%
	WiBro	-	-	-	-	-	3.6	4.6	3.2	1.9	13.3	NA
	Others	0.5	1.0	2.8	2.8	7.0	1.4	1.4	1.4	1.4	5.4	-22.7%
	Total	7.0	17.7	25.4	14.5	64.6	16.1	20.3	27.8	32.8	97.0	50.1%
OP	-0.9	3.1	5.2	1.0	8.4	1.0	2.8	5.5	7.1	16.5	97.4%	
OP Margin	-12.2%	17.4%	20.4%	6.6%	12.9%	6.3%	14.0%	19.9%	21.7%	17.0%	4.1%P	
RP	-0.9	3.0	5.2	0.7	8.0	0.8	2.5	5.1	6.6	15.0	87.7%	
NP	-0.9	2.9	4.0	0.6	6.6	0.7	2.3	4.6	6.0	13.5	104.3%	

Source: Company data, Korea Investment & Securities

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



■ **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

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