

Solid Technologies (050890)

Greg Roh
822-3276-6162
greg@truefriend.com

Higher growth potential and earnings momentum

Rating: BUY / Closing price: W19,200 (17 Jan 2005) / Price target: W23,000

- **Maintain BUY and raise the six month price target to W23,000**, derived by applying a PER of 12x based on the 2006 EPS to W1,899, reflecting an upward revision of our earnings forecast. We believe the wireless telecommunication network industry will grow on the back of: 1) aggressive Capex plans for WCDMA services, 2) full-scale WiBro services, and 3) satellite and terrestrial DMB services. Especially, WCDMA and WiBro services should expand from 2006. As such, Solid Technologies is poised to reap benefits as it secured SKT and KTF as customers for their WCDMA services, and KT and SKT for WiBro services, thus earnings should strengthen significantly in 2006. In addition, the company's subsidiary should post modest earnings by providing terrestrial DMB content in China, which will provide a catalyst.
- **In 4Q05, sales came in 35% stronger than expected at W19.6bn**, due to the following: 1) sales of WCDMA (SKT) and gap filler (TU Media) came in stronger by W2.0bn and W1.0bn, respectively, and 2) W2.5bn of WiBro repeater sales to KT were recognized in 4Q05. Operating profit also came in 25.1% better than expected at W1.3bn with an operating margin of 6.4%. Recurring profit and net profit also came in far stronger than expected by 64.7% at W1.2bn and 72.9% at W1.0bn. However, when considering that the increased sales and operating leverage effect has a significant impact on the cost structure; profitability fell in 4Q05 due to low-margin service sales.
- **In 1Q06, Solid Technologies should turn around to the positive side thanks to KTF's Capex plan for WCDMA repeater and KT's Capex for WiBro.** We expect KT to bolster its Capex for WCDMA repeaters in 1Q06 and 2Q06 to distinguish its service from SKT. We believe KT plans to provide WCDMA testing services centering on major business and residential areas.
- **In 2006, KTF and SKT plan to boost Capex for WCDMA repeaters, while KT and SKT are planning full-scale Capex for WiBro.** However, CDMA repeater and gap filler sales should drop as the CDMA repeater will likely be replaced by the WCDMA repeater, and the number of TU Media subscribers has not grown as fast as expected. As such, we revised up our 2006 sales and operating profit forecast 19.6% to W116bn and 14.9% to W19bn, respectively.

17 January 2006 / W19,200 / Mkt cap: USD161.4mn, KRW159.6bn

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	69.7	8.7	8.5	7.1	866	-32.2	9.9	22.2	14.9	3.6	20.9
2006F	116.0	19.0	17.2	15.5	1,899	119.2	18.7	10.1	7.2	2.7	30.0
2007F	129.1	21.2	19.9	17.9	2,195	15.6	21.2	8.7	6.0	2.0	26.2

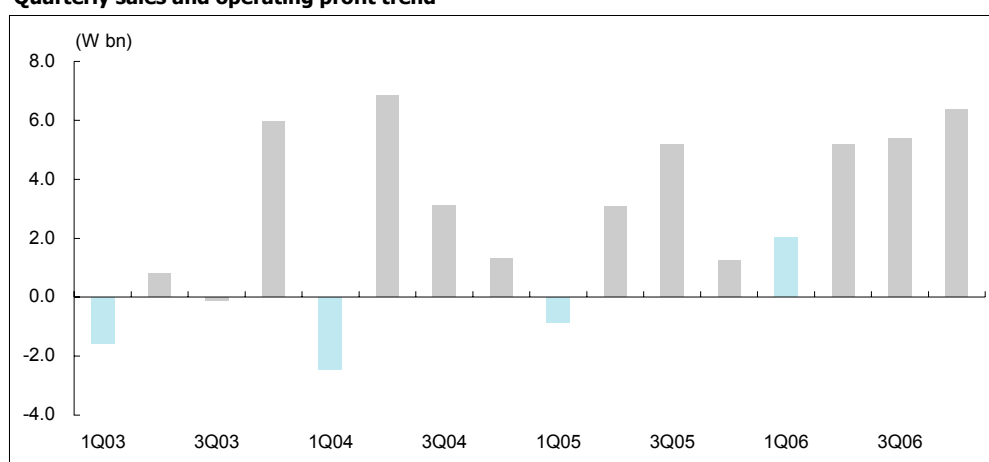
Source: Company data, Korea Investment & Securities estimates

Difference between estimates and preliminary earnings

(W bn)

	4Q05			2005		
	Forecast	Preliminary	% Difference	Forecast	Preliminary	% Difference
Sales	14.5	19.6	35.2%	64.6	69.7	7.9%
CDMA	0.8	0.2	-70.0%	4.0	3.3	-18.3%
WCDMA	10.0	11.9	19.1%	39.4	41.9	6.4%
Gap Filler	1.0	2.4	136.0%	14.2	15.7	10.4%
Wibro	-	2.5	NA		2.5	NA
Others	2.8	2.6	-7.1%	7.0	6.4	-9.2%
OP	1.0	1.3	25.1%	8.4	8.7	3.0%
OP Margin(%)	6.6	6.4		12.9	12.4	
RP	0.7	1.2	64.7%	8.0	8.5	6.3%
NP	0.6	1.0	72.9%	6.6	7.1	7.1%

Source: Company data, Korea Investment & Securities

Quarterly sales and operating profit trend


Source: Company data, Korea Investment & Securities

Quarterly earnings estimates

(W bn, %)

	1Q05	2Q05	3Q05	4Q05P	2005P	1Q06F	2Q06F	3Q06F	4Q06F	2006F	YoY (%)
Sales											
CDMA	1.9	0.1	1.0	0.2	3.3	0.3	0.4	0.6	0.4	1.7	-47.4%
WCDMA	4.5	6.1	19.4	11.9	41.9	16.9	14.7	19.7	27.1	78.4	86.9%
Gap filler	0.1	10.5	2.7	2.4	15.7	0.2	1.8	0.8	0.6	3.4	-78.6%
WiBro	-	-	-	2.5	2.5	3.0	11.6	7.9	4.5	27.1	982.3%
Others	0.5	1.0	2.3	2.6	6.4	1.4	1.4	1.4	1.4	5.4	-15.0%
Total	7.0	17.7	25.4	19.6	69.7	21.7	29.9	30.4	34.0	116.0	66.3%
OP	-0.9	3.1	5.2	1.3	8.7	2.0	5.2	5.4	6.4	19.0	119.0%
OP Margin	-12.2%	17.4%	20.4%	6.4%	12.4%	9.3%	17.4%	17.6%	18.7%	16.3%	4.1%P
RP	-0.9	3.0	5.2	1.2	8.5	1.7	4.7	4.9	5.9	17.2	102.4%
NP	-0.9	2.9	4.0	1.0	7.1	1.5	4.3	4.4	5.3	15.5	119.2%

Source: 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
	01-18-06	Buy	W23,000


■ 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

I/We, as the research analyst/analysts who prepared this report, do hereby certify that the views expressed in this research report accurately reflect my/our personal views about the subject securities and issuers discussed in this report. I/We do hereby also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

Korea Investment & Securities Co., Ltd. does not own over 1% of the companies mentioned this report as of 18 January 2006. Korea Investment & Securities Co., Ltd. has provided this report to various third parties. Neither the analysts covering these companies nor their spouses own any shares of the companies mentioned in this report as of 18 January 2006. The contents of this report accurately reflect the analyst's views. Under no circumstances were there any external pressures or intervention during the analysis process or the preparation of this report. Prepared by: Greg Roh

This report was written by Korea Investment & Securities Co., Ltd. to help its clients invest in securities over which Korea Investment & Securities Co., Ltd. holds the copyright. This report cannot be copied, redistributed, forwarded or altered in any way without the consent of Korea Investment & Securities Co., Ltd. This report has been prepared by Korea Investment & Securities Co., Ltd. and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. We make no representation as to its accuracy or completeness and it should not be relied upon as such. The company accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. The final investment decision is based on the client's judgment, and this report cannot be used as evidence in any legal dispute related to investment decisions.