BUALUANG SECURITIES

COMPANY UPDATE

KCE Electronics KCE TB / KCE.BK

2 November 2012

Operational up-cycle

Investment thesis

KCE remains our conviction BUY within Thai electronics space for its near-term earnings visibility and core profit growth outlook. There is also scope for upside from an insurance payout for 4Q11 flooding damage. The current share price implies a YE13 EV/EBITDA of 6.6x, slightly below KCE's long-term average of 7x (the peg for our YE13 price target of Bt10.6). We think the stock could trade at a premium to its historical valuation on anticipation of superb numbers next year with the full recovery of KCE Tech and expanding margin, led by the consolidation of Chemtronics Technology (Thailand), which KCE purchased on Sept 18.

Buoyant core earnings outlook—3Q12 jump of 234% QoQ and …

We estimate 3Q12 core earnings of Bt75m, up by 192% QoQ but down 5% YoY to. The top-line should post a rise of 14% QoQ but a dive of 19% YoY because orders have improved significantly, but have yet to resume pre-flooding levels. We expect GM to report a 230 bps YoY surge to 19.3%—a newly-designed panel uses less raw material (particularly copper). Additionally, the firm has increased the proportion of newly-designed panels in KCE Tech's production slate from 20% in 2Q12 to 30% in 3Q12. But we think a higher copper price may have offset the effect of diminished raw material needs. Thus, reported GM will probably be flat QoQ.

Core profit should have risen QoQ on a better operational profit at KCE Technology. The plant's run rate was 60%-70% in 3Q12, up from 40-50% in 2Q12. There was an FX gain of around Bt90m and an insurance payout (business interruption) of about Bt80m (booked as an extra item). As such, we estimate a net profit of Bt245m, up by 211% QoQ and 366% YoY.

…4Q12 core profit will rise further, followed by a record FY13 number

4Q12 core earnings growth will be led by QoQ sales expansion. Orders from set-top box manufacturers will boost the top-line and GM. The firm might book a small gain from an insurance payout as an extra item in the income statement. As such, net profit should jump sharply YoY (no flooding this year) but soften QoQ. FY13 looks set to be the best year yet for the bottom-line, due to a full year of production at KCE Tech. Additional capacity of 20% will enable the firm to accept more orders. Management expects KCE Tech to post a 90-100% run rate in FY13, led by huge orders from new customers. Furthermore, the firm might book a big insurance payout in 1Q13.

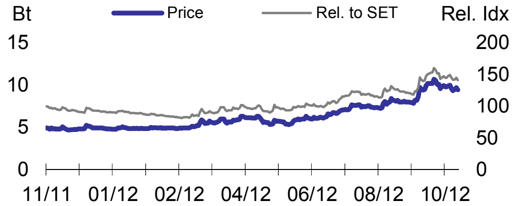
Chemtronics to boost GM and profit further

There would be scope for upside from the consolidation of Chemtronics—a chemical recycling firm that KCE purchased in Sept—into KCE's financial statements in 4Q12. The acquisition endows the company with some implied natural hedging of its copper exposure. We estimate that Chemtronics (which we haven't yet added to our model) will flatter KCE's net margin by 0.67%, which would translate into a Bt0.11 boost to our current FY13 EPS forecast.

Sector: Electronics Underweight

Rating: BUY
Target Price: Bt10.60
Price (1 November 2012)**: Bt9.45**

Price chart

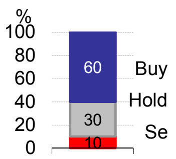


Share price perf. (%)	1M	3M	12M
Relative to SET	30.0	57.5	85.9
Absolute	33.8	64.6	122.9

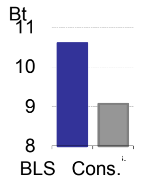
Key statistics

Market cap	Bt4.46bn	USD0.1bn
12-mth price range	Bt3.6/Bt10.7	
12-mth avg daily volume	Bt31.11m	
# of shares (m)	469.3	
Est. free float (%)	60.3	
Foreign limit (%)	49.0	

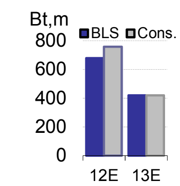
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2011	2012E	2013E	2014E
Revenues (Btm)	7,201	6,594	7,748	8,344
Net profit (Btm)	132	679	419	549
EPS (Bt)	0.28	1.44	0.89	1.17
EPS growth (%)	-75.4%	+415.6%	-38.3%	+31.1%
Core profit (Btm)	45	120	407	537
Core EPS (Bt)	0.10	0.25	0.86	1.14
Core EPS growth (%)	-91.0%	+166.7%	+239.5%	+32.1%
PER (x)	22.4	6.6	10.6	8.1
PBV (x)	1.1	1.4	1.3	1.2
Dividend (Bt)	0.2	0.3	0.3	0.3
Dividend yield (%)	3.2	3.1	2.8	3.7
ROE (%)	4.9	23.3	12.6	15.0

CG rating

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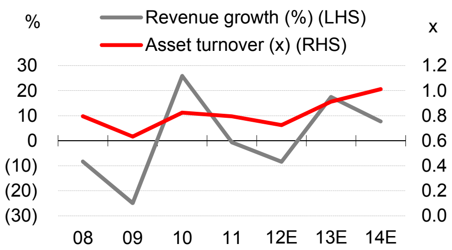
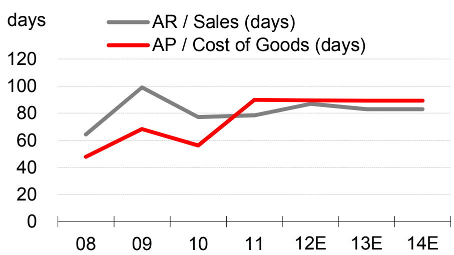
KCE : Financial Tables – Year

PROFIT & LOSS (Btm)	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Revenue	7,245	7,201	6,594	7,748	8,344
Cost of sales and services	(5,815)	(5,957)	(5,335)	(6,276)	(6,759)
Gross profit	**1,430**	**1,244**	**1,259**	**1,472**	**1,585**
SG&A	(949)	(1,152)	(1,121)	(1,116)	(1,126)
EBIT	**481**	**92**	**138**	**356**	**459**
Interest expense	(200)	(153)	(158)	(123)	(106)
Other income/exp.	228	106	155	182	195
EBT	**509**	**45**	**136**	**415**	**548**
Corporate tax	(2)	(2)	(11)	(8)	(11)
After-tax net profit (loss)	**508**	**42**	**125**	**407**	**537**
Minority interest	(9)	3	0	0	0
Equity earnings from affiliates	3	(0)	(5)	0	0
Extra items	33	87	559	12	12
Net profit (loss)	**535**	**132**	**679**	**419**	**549**
Reported EPS	1.13	0.28	1.44	0.89	1.17
Fully diluted EPS	**1.13**	**0.28**	**1.44**	**0.89**	**1.17**
Core net profit	**502**	**45**	**120**	**407**	**537**
Core EPS	1.06	0.10	0.25	0.86	1.14
EBITDA	**1,079**	**750**	**962**	**1,144**	**1,206**
KEY RATIOS					
Revenue growth (%)	25.9	(0.6)	(8.4)	17.5	7.7
Gross margin (%)	19.7	17.3	19.1	19.0	19.0
EBITDA margin (%)	14.9	10.4	14.6	14.8	14.5
Operating margin (%)	9.8	2.8	4.5	6.9	7.8
Net margin (%)	7.4	1.8	10.3	5.4	6.6
Core profit margin (%)	6.9	0.6	1.8	5.2	6.4
ROA (%)	6.1	1.5	7.5	4.9	6.7
ROCE (%)	7.0	1.7	8.8	5.9	8.2
Asset turnover (x)	0.8	0.8	0.7	0.9	1.0
Current ratio (x)	0.7	0.9	0.8	0.8	1.0
Gearing ratio (x)	1.8	2.0	1.4	0.9	0.7
Interest coverage (x)	2.4	0.6	0.9	2.9	4.3
BALANCE SHEET (Btm)					
Cash & Equivalent	143	536	158	135	341
Accounts receivable	1,531	1,546	1,570	1,761	1,896
Inventory	1,332	1,080	1,308	1,507	1,689
PP&E-net	5,308	4,235	4,731	4,282	3,898
Other assets	438	1,961	1,046	484	501
Total assets	**8,753**	**9,358**	**8,814**	**8,169**	**8,326**
Accounts payable	895	1,467	1,307	1,536	1,654
ST debts & current portion	3,684	3,955	3,595	3,142	2,620
Long-term debt	1,245	1,364	796	83	258
Other liabilities	284	64	64	64	64
Total liabilities	**6,108**	**6,850**	**5,763**	**4,825**	**4,597**
Paid-up capital	471	472	472	472	472
Share premium	1,101	1,108	1,108	1,108	1,108
Retained earnings	1,179	1,062	1,606	1,899	2,283
Shareholders equity	**2,751**	**2,642**	**3,185**	**3,479**	**3,863**
Minority interests	(8)	(12)	(12)	(12)	(12)
Total Liab.&Shareholders' equity	**8,851**	**9,480**	**8,936**	**8,291**	**8,448**
CASH FLOW (Btm)					
Net income	535	132	679	419	549
Depreciation and amortization	598	552	668	605	552
Change in working capital	(436)	(1,899)	502	400	(217)
FX, non-cash adjustment & others	179	1,866	0	0	0
Cash flows from operating activities	**876**	**651**	**1,849**	**1,424**	**884**
Capex (Invest)/Divest	(473)	(294)	(1,163)	(155)	(167)
Others	0	0	0	0	0
Cash flows from investing activities	**(473)**	**(294)**	**(1,163)**	**(155)**	**(167)**
Debt financing (repayment)	(332)	243	(928)	(1,167)	(346)
Equity financing	58	(30)	0	0	0
Dividend payment	(143)	(185)	(136)	(126)	(165)
Others	0	0	0	0	0
Cash flows from financing activities	**(417)**	**35**	**(1,063)**	**(1,293)**	**(511)**
Net change in cash	(14)	392	(378)	(23)	206
Free cash flow (Btm)	**404**	**357**	**686**	**1,269**	**717**
FCF per share (Bt)	**0.9**	**0.8**	**1.5**	**2.7**	**1.5**
KEY ASSUMPTIONS	**2010**	**2011**	**2012E**	**2013E**	**2014E**
SIA Semiconductor growth	32%	3%	5%	6%	6%
Volume Growth	36%	4%	-12%	24%	8%
Utilization rate	81%	90%	70%	88%	95%
Payout ratio	40%	72%	20%	30%	30%
FX	31.6	30.5	31.4	29.8	29.8
LME Copper Price (US$/t)	7,536	8,838	7,946	8,322	7,826

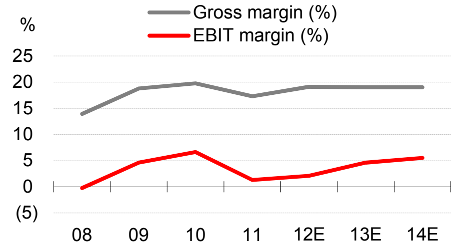
Revenue growth and asset turnover



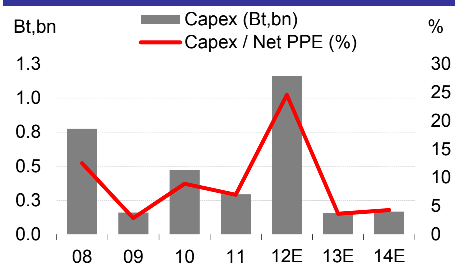
A/C receivable & A/C payable days



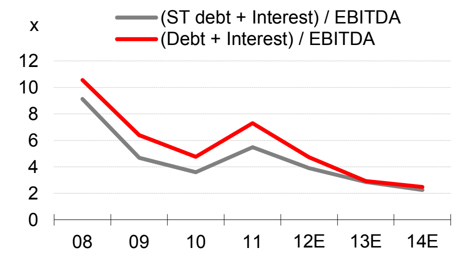
Profit margins



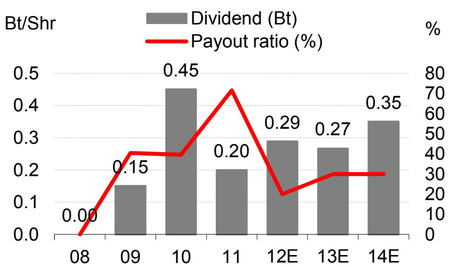
Capital expenditure



Debt serviceability



Dividend payout



BUALUANG SECURITIES

KCE : Financial Tables – Quarter

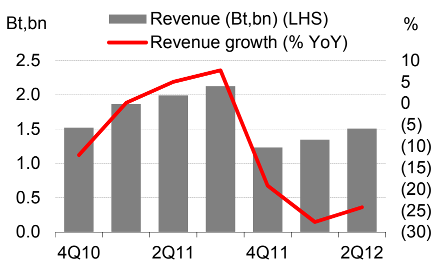
QUARTERLY PROFIT & LOSS (Btm)	2Q11	3Q11	4Q11	1Q12	2Q12
Revenue	1,989	2,123	1,230	1,345	1,508
Cost of sales and services	(1,667)	(1,757)	(1,013)	(1,089)	(1,216)
Gross profit	322	366	217	256	291
SG&A	(244)	(235)	(407)	(324)	(266)
EBIT	**78**	**131**	**(190)**	**(68)**	**25**
Interest expense	(36)	(35)	(37)	(40)	(39)
Other income/exp.	34	(18)	(3)	8	45
EBT	**76**	**79**	**(230)**	**(101)**	**32**
Corporate tax	(0)	0	0	(1)	(4)
After-tax net profit (loss)	75	79	(230)	(102)	27
Minority interest	(0.0)	(0.1)	1.9	0.0	0.0
Equity earnings from affiliates	0.2	0.3	0.0	(3.3)	(1.9)
Extra items	(48)	(26)	130	286	53
Net profit (loss)	**28**	**52**	**(99)**	**181**	**79**
Reported EPS	0.06	0.11	(0.21)	0.38	0.17
Fully diluted EPS	**0.06**	**0.11**	**(0.21)**	**0.38**	**0.17**
Core net profit	**75**	**79**	**(228)**	**(105)**	**26**
Core EPS	0.16	0.17	(0.48)	(0.22)	0.05
EBITDA	**112**	**114**	**(193)**	**(60)**	**70**

KEY RATIOS					
Gross margin (%)	16.2	17.2	17.6	19.0	19.3
EBITDA margin (%)	5.6	5.4	(15.7)	(4.5)	4.7
Operating margin (%)	5.6	5.4	(15.7)	(4.5)	4.7
Net margin (%)	1.4	2.5	(8.0)	13.5	5.2
Core profit margin (%)	3.8	3.7	(18.6)	(7.8)	1.7
BV (Bt)	5.8	5.8	5.6	5.8	5.9
ROE (%)	3.9	7.7	(14.7)	26.8	11.3
ROA (%)	1.2	2.2	(4.2)	7.5	3.2
Current ratio (x)	0.0	0.0	0.0	0.0	0.0
Gearing ratio (x)	1.9	1.9	2.0	2.0	2.0
Interest coverage (x)	3.1	3.2	(5.2)	(1.5)	1.8

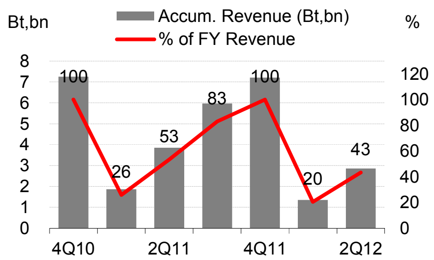
QUARTERLY BALANCE SHEET (Btm)					
Cash & Equivalent	222	208	536	441	348
Accounts receivable	1,950	2,216	1,546	1,563	1,880
Inventory	1,683	1,585	1,080	1,105	1,213
PP&E-net	5,113	5,085	4,235	5,070	5,056
Other assets	472	442	1,961	1,817	1,426
Total assets	**9,440**	**9,536**	**9,358**	**9,994**	**9,923**
Accounts payable	1,439	1,257	1,467	1,775	1,483
ST debts & current portion	3,919	3,952	3,955	4,041	4,395
Long-term debt	1,162	1,236	1,364	1,418	1,238
Other liabilities	320	483	64	62	76
Total liabilities	**6,838**	**6,927**	**6,850**	**7,296**	**7,193**
Paid-up capital	472	472	472	464	464
Share premium	1,108	1,108	1,108	1,058	1,046
Retained earnings	1,196	1,202	1,062	1,242	1,285
Shareholders equity	**2,737**	**2,743**	**2,642**	**2,764**	**2,795**
Minority interests	(10)	(10)	(12)	(10)	(14)
Total Liab.&Shareholders' equity	**9,565**	**9,659**	**9,480**	**10,049**	**9,974**

KEY STATS	2Q11	3Q11	4Q11	1Q12	2Q12
Sale (USD term)	66	71	40	41	47
FX	30	30	31	32	32
Gain loss from FX	(48)	(26)	42	7	9
Insurance payout	0	0	88	186	146

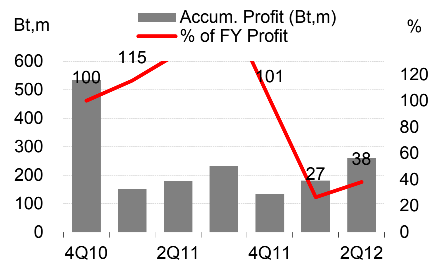
Revenue trend



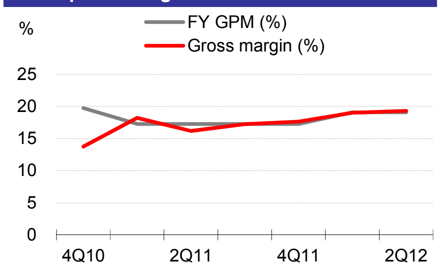
Revenue trend (accumulated)



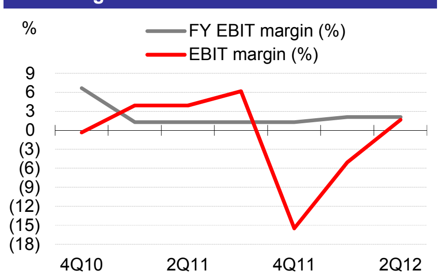
Net profit trend (accumulated)



Gross profit margin



EBIT margin



Company profile

KCE Electronics Plc and its subsidiaries manufacture and export single-layered, multi-layered and double-sided PCBs. More than 60% of its production is sold to the automotive industry; the remainder is sold to telecoms manufacturers or computer equipment makers. KCE's main customers are headquartered in the EU.

Figure 1 : 3Q12 earnings preview

FY Ended 31 Dec (Btm)	3Q12E	3Q11	YoY %	2Q12	QoQ %	9M12E	9M11	YoY %	9M12 vs. FY12E	Comments
Income Statement										
Revenue	1,722	2,123	*(19)*	1,508	*14*	4,574	5,972	*(23)*	69	Top-line should
Cost of sales and services	(1,389)	(1,757)	*(21)*	(1,216)	*14*	(3,695)	(4,944)	*(25)*	69	increase QoQ on
EBITDA	117	114	*3*	70		127	391		13	post-flooding
EBIT	74	131	*(44)*	25	*195*	31	282	*(89)*	22	recovery.
Interest expense	(39)	(35)	*12*	(39)	*1*	(118)	(116)	*2*	75	GM expanded YoY
Other income/exp.	43	(18)	*nm*	45	*(5)*	96	109	*(11)*	62	due to the newly-
Equity earnings from affiliates	0	0	*(100)*	(2)	*nm*	(5)	0	*nm*	100	designed panel
Extra items	170	(26)	*nm*	53	*220*	509	(43)	*nm*	91	
EBT	**78**	**79**	*(1)*	**32**	*145*	**9**	**275**	*(97)*	6	Net profit should
Corporate tax	(3)	0	*nm*	(4)	*nm*	(8)	(2)	*327*	76	jump due to extra
Minority interest	0	(0)	*nm*	0	*nm*	0	1	*(100)*	*nm*	gain from fx and
Net profit (loss)	**245**	**52**	*366*	**79**	*211*	**504**	**232**	*117*	74	insurance payout.
Reported EPS	0.52	0.11	*366*	0.2	*211*	1.07	0.49	*117*	74	
Core net profit	**75**	**79**	*(5)*	**26**	*192*	**(5)**	**275**	*(102)*	(4)	

Sources: Company data, Bualuang Research estimates

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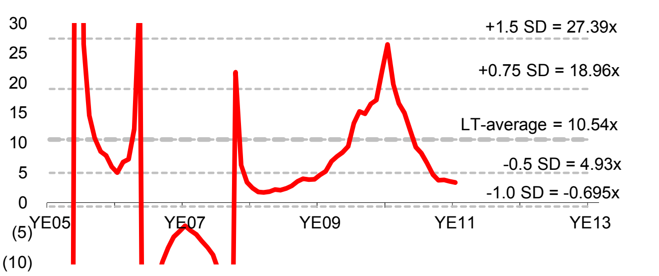
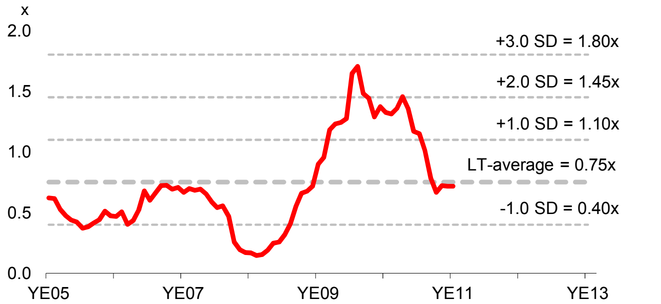
Regional Comparisons

	Bloomberg Code	Price (local curr.)	Market Cap (US$ equivalent)	PER (x) 2012E	PER (x) 2013E	EPS Growth (%) 2012E	EPS Growth (%) 2013E	PBV (x) 2012E	PBV (x) 2013E	ROE (%) 2012E	ROE (%) 2013E	Div Yield (%) 2012E	Div Yield (%) 2013E
Edison Opto Corp	3591 TT	TWD31.5	125	19.3	13.8	-13.0	40.4	1.1	1.1	5.9	7.7	7.9	5.4
Hon Hai Precisio	2317 TT	TWD88.7	35,939	12.4	10.3	5.3	19.2	1.5	1.4	12.8	13.7	1.6	1.8
Flextronics Intl	FLEX US	USD5.8	3,827	6.6	5.9	15.1	15.2	1.5	1.2	22.9	20.6	0.0	0.0
Jabil Circuit	JBL US	USD17.3	3,564	7.1	6.2	7.7	17.7	1.5	1.2	20.8	20.7	1.8	1.8
Delta Electronics (Thailand)	DELTA TB	THB29.25	1,189	9.4	9.5	34.4	-1.5	1.7	1.6	18.6	16.9	5.9	5.8
Hana Microelectronics	HANA TB	THB22.00	577	9.2	10.4	22.9	-11.2	1.1	1.1	12.7	10.5	4.2	3.9
KCE Electronics	KCE TB	THB9.70	145	6.6	10.6	415.6	-38.3	1.4	1.3	23.3	12.6	3.1	2.8
SVI	SVI TB	THB3.90	245	5.7	10.7	n.m.	-47.2	3.2	2.6	74.1	26.9	2.7	2.8
Simple average				**9.5**	**9.7**	**69.7**	**-0.7**	**1.6**	**1.4**	**23.9**	**16.2**	**3.4**	**3.0**

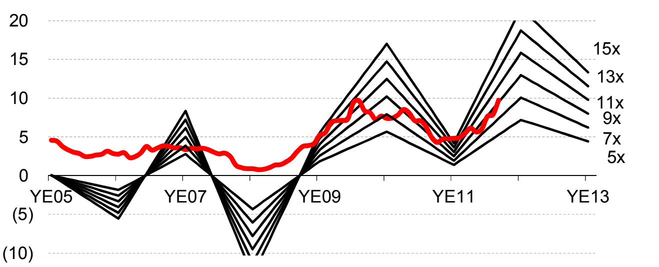
PER band versus SD



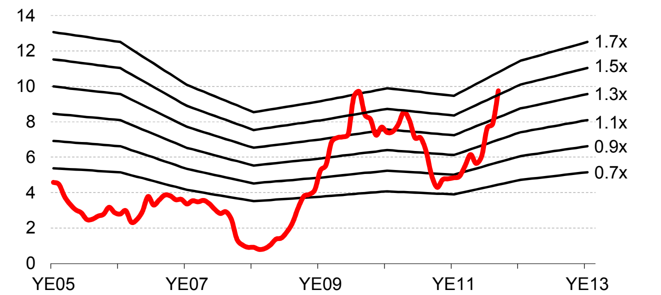
PBV band versus SD



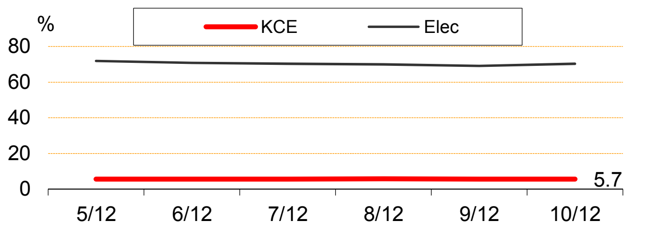
PER band and share price



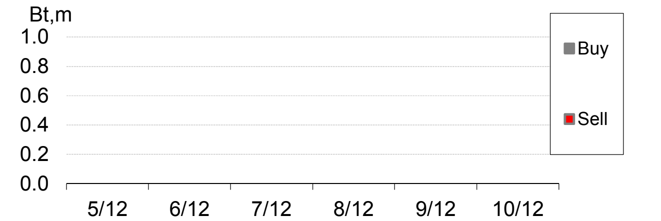
PBV band and share price



Foreign holding



Management trading activities during past six months



Bualuang Securities Public Company Limited

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DWs Underlying Stocks	Financial Advisor	Underwriter/ Co-underwriter
ADVANC, AOT, BANPU, BAY, BCP, BEC, BGH, BH, BIGC, BJC, BLA, BTS, CPALL, CPF, CPN, DTAC, EGCO, ESSO, GLOW, HMPRO, HEMRAJ, INTUCH, IRPC, IVL, KBANK, KTB, LH, MAKRO, MINT, PS, PTT, PTTEP, PTTGC, ROBINS, SCB, SCC, SPALI, STA, TCAP, THAI, TISCO, TOP, TMB, TPIPL, TRUE, TUF		JMT, TMILL

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

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BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Expected positive total returns of 15% or more over the next 12 months.

HOLD: Expected total returns of between -15% and +15% over the next 12 months.

SELL: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.