Hold (from Buy)

CGR Scoring Rating

Share price: Bt15.70
Target price: Bt14.30 (from 14.20)

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Stock Information

Description: The core business of the Company is the production and distribution of painted circuit boards (PCBs) manufactured from an epoxy glass copper lead laminate. The Company is now able to produce high quality and complex multilayer boards. The PCB is the foundation component of computers, automotive industry, telecommunication devices and most electronic equipment.

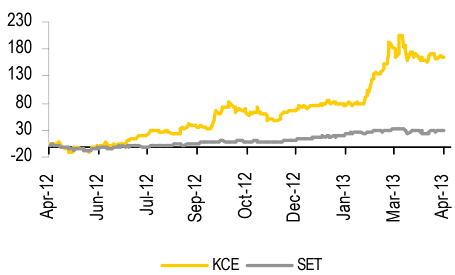
Ticker :	KCE
Shares Issued (mn) :	474
Market Cap (Btmn):	7,457
Market Cap (US$mn):	251.16
3-mth Avg. Daily Turnover (Btmn):	123.73
SET Index:	1,549.35
Free float (%):	60.30

Major Shareholders :	**%**
Aongkosit Family	32.64
HSBC (SINGAPORE) NOMINEES PTE LTD	4.96

Key Indicators

ROE – annualised (%)	24.8
Net cash (Btmn):	-2,744
NTA/shr (Btmn):	8.2
Interest cover (x):	5.1

Historical Chart



Performance

52-week High/Low: Bt19.20/Bt5.05

	1-mth	3-mth	6-mth	1-yrs	YTD
Absolute (%)	-3.1	49.5	58.6	163.9	51.0
Relative (%)	-4.7	38.4	32.6	102.6	35.6

KCE Electronics PCL (KCE)

Looks good, with little upside … Hold

We expect the 1Q13 net profit at Bt233mn, up 10% QoQ and 30% YoY, driven mainly by a Bt120mn F/X gain with a 1Q13 norm profit at Bt113mn, up 8% QoQ and turnaround from a loss in 1Q12. The gross margin is expected to improve slightly after KCE Tech resumed standard output prior to the flood. However, as the share price has already broken our target by 10%, we have decided to downgrade our recommendation to Hold with a 12 month TP of Bt14.30.

F/X gain is key driver for 1Q13. We estimate 1Q13 revenue at Bt2.092bn (+55% YoY and +12% QoQ) after capacity at the KCE Tech plant returned to the pre-flood level (70% utilisation). With a flat scrap rate of 4.5%, the gross margin will improve to 21% from 19.0% in 1Q12 and 20.5% in 4Q12. We estimate KCE will be able to book a Bt120mn F/X gain on the stronger baht that reduced the dollar debt in terms of baht (90% of total debt). The SG&A/sales will likely be flat at 13%. With the absence of flood insurance payouts (to be booked again in 2Q-3Q13), the net profit is projected at Bt233mn, up 10% QoQ and 30% YoY. If excluding the F/X gain, the norm profit will be Bt113mn, up 8% QoQ and a turnaround from –Bt107mn loss in 1Q12.

Adjusted F/X assumption and GPM. We have maintained revenue in dollar terms at US$254mn for 2013, however we have adjusted our exchange rate assumption from Bt30 to Bt29/USD and revenue in baht declines to Bt7.371bn from Bt7.752bn (-5%). However, with a continuous recovery in the gross margin since 4Q12 as the KCE Tech capacity returned and with better scrap rate control, the gross margin is expected to move above the 20% level and we have thus upgraded our GM assumption to 20.8% from 19.7%. As a result, our net profit forecast (excluding insurance gains) slightly increases to Bt611mn from our previous forecast of Bt604mn. For 2013, we have kept our flood insurance gains at Bt350mn.

No more upside, downgrade to Hold. As a result from the above adjustments and a dilution effect (we assume a dilution from the total new shares of 115mn from warrants exercised by 1/3 each year (2013-2015). Hence, the total shares increase from 475mn in 2012 to 511mn and 549mn shares over 2013-2014 for an implied norm EPS of Bt1.20 and Bt1.19, respectively. Based on a PER of 12x, our 12 month TP is Bt14.30 and now 10% over our market TP. We thus have downgraded KCE to Hold from Buy. We still have a positive view on the long term performance and estimate the 2013 DPS at Bt0.50 for a 3% yield.

KCE – Summary Earnings Table

FYE: Dec 31 (Btmn)	2010	2011	2012	2013F	2014F
Revenue	7,236	7,201	6,478	7,371	7,444
EBITDA	1,279	751	887	1,424	1,470
Recurring Net Profit	438	46	57	611	655
Net profit	535	133	712	961	655
Recurring Basic EPS (Bt)	0.93	0.10	0.12	1.20	1.19
EPS growth (%)	264.6	-89.6	0.0	979.7	7.3
DPS (Bt)	0.45	0.20	0.55	0.48	0.48
PER	16.9	162.1	131.2	13.1	13.2
EV/EBITDA (x)	7.0	11.5	11.0	5.9	5.6
Div Yield (%)	2.9	1.3	3.5	3.0	3.0
P/BV(x)	2.8	3.0	2.4	2.1	2.0
Net Gearing (%)	185.9	212.1	163.9	99.5	86.4
ROE (%)	20.2	5.3	23.1	24.8	15.2
ROA (%)	6.1	1.4	6.9	9.1	6.3
Consensus Net Profit (Btmn	-	-	712	777	817

Source: Company reports and MBKET estimates.

KCE - 1Q13 Earnings preview

(Btmn)	1Q13E	4Q12	QoQ	1Q12	YoY
Revenues	2,092	1,868	12.0%	1,345	55.5%
COGS	1,653	1,486	11.2%	1,089	51.8%
Gross profits	439	**382**	**14.9%**	**256**	**71.5%**
Gross margin (%)	21.00%	20.50%	-	19.00%	-
SG&A	-270	-237	13.9%	-324	-16.7%
Operating profit	169	145	16.6%	-68	n.m.
Operating margin (%)	8.09%	7.76%	-	-5.08%	-
EBITDA	**440**	**352**	**25.0%**	**182**	**141.8%**
EBITDA margin (%)	21.04%	18.86%	-	13.52%	-
Profit from associated	1	2	**-50.0%**	-3	**-133.3%**
Interest expenses	45	42	7.1%	40	12.5%
Normalised earnings	**113**	**105**	**7.6%**	**-107**	**n.m.**
Extra ordinary gains (losses)					
- Forex gains (losses)	120	59	103.4%	100	20.0%
- Insurance claims	-	49	n.m.	186	n.m.
Net profit	**233**	**213**	**9.4%**	**179**	**30.2%**
EPS (Bt) before extra item	0.46	0.22	109.1%	-0.23	n.m.
EPS (Bt)	**0.46**	**0.46**	**0.0%**	**0.39**	**117.9%**

Source : Company reports and MBKET estimates.

INCOME STATEMENT (Btmn)

FY December	2011	2012	2013F	2014F
Revenue	7,201	6,478	7,371	7,444
EBITDA	751	887	1,424	1,470
Depreciation & Amortisation	552	488	608	621
Operating Profit (EBIT)	**199**	**396**	**884**	**917**
Interest (Exp) / Inc	-153	-159	-175	-161
Associates	(0)	3	(68)	(68)
One-offs	87	497	350	0
Pre-Tax Profit	**132**	**736**	**991**	**688**
Tax	-2	-20	-19	-21
Minority Interest	3	-4	-11	-12
Net Profit	**133**	**712**	**961**	**655**
Recurring Net Profit	**46**	**57**	**611**	**655**
Revenue Growth %	-1.9	-8.2	12.1	1.0
EBITDA Growth (%)	-41.3	18.1	60.6	3.2
EBIT Growth (%)	-70.9	101.0	104.5	4.1
Net Profit Growth (%)	-75.2	436.6	34.9	-31.8
Recurring Net Profit Growth (%)	-89.6	23.7	979.7	7.3
Tax Rate %	5.1	8.3	3.0	3.0

BALANCE SHEET (Btmn)

FY December	2011	2012	2013F	2014F
Fixed Assets	4,322	5,398	5,200	4,889
Other LT Assets	165	163	82	82
Cash / ST Investments	536	400	1,106	1,231
Other Current Assets	4,336	4,295	4,182	4,138
Total Assets	**9,358**	**10,256**	**10,570**	**10,340**
ST Debt	5,422	5,771	5,502	5,308
Other Current Liabilities	2	13	289	292
LT Debt	1,364	1,327	844	375
Other LT Liabilities	62	67	66	64
Minority Interest	-12	13	0	0
Shareholders' Equity	2,520	3,064	3,870	4,302
Total Liabilities-Capital	**9,358**	**10,256**	**10,570**	**10,340**
Share Capital (mn)	472	473	511	549
Gross Debt / (Cash)	5,319	5,042	3,850	3,718
Net Debt / (Cash)	4,784	4,642	2,744	2,487
Working Capital	-552	-1,089	-502	-231
BVPS	5.31	6.51	7.57	7.83

CASH FLOW (Btmn)

FY December	2011	2012	2013F	2014F
Profit before taxation	45	240	641	688
Depreciation	552	488	608	621
Net interest receipts / (payments)	-153	-159	-175	-161
Working capital change	933	-685	-817	59
Cash tax paid	-2	-20	-19	-21
Others (inc. exceptional items)	-723	1,788	1,686	140
Cash flow from operations	**651**	**1,651**	**1,924**	**1,326**
Capex	-294	-986	-410	-310
Disposals / (purchases)	0	1	2	3
Others	0	-166	80	0
Cash flow from investing	**-294**	**-1,151**	**-328**	**-307**
Debt raised / (repaid)	243	212	-659	-678
Equity raised / (repaid)	-22	109	38	38
Dividends (paid)	-185	-142	-268	-252
Interest payments	-153	-159	-175	-161
Others	153	-654	175	161
Cash flow from financing	**35**	**-634**	**-888**	**-891**
Change in cash	392	-134	708	127

RATES & RATIOS

FY December	2011	2012	2013F	2014F
Gross margin %	17.3	19.2	20.8	21.4
EBITDA Margin %	10.4	13.7	19.3	19.7
Op. Profit Margin %	1.3	2.6	8.1	8.5
Net Profit Margin %	1.8	11.0	13.0	8.8
ROE %	5.3	23.1	24.8	15.2
ROA %	1.4	6.9	9.1	6.3
Net Margin Ex. EI %	0.6	0.9	8.3	8.8
Dividend Cover (x)	1.4	2.7	3.9	2.5
Interest Cover (x)	1.3	2.5	5.1	5.7
Asset Turnover (x)	0.8	0.7	0.7	0.7
Asset / Debt (x)	1.4	1.4	1.6	1.7
Debtors Turn (days)	80.6	124.8	125.9	121.7
Creditors Turn (days)	74.3	88.3	73.0	73.0
Inventory Turn (days)	54.7	69.9	81.1	81.1
Net Gearing %	211.1	164.6	99.5	86.4
Debt / EBITDA (x)	9.1	8.1	4.7	4.1
Debt / Market Cap (x)	0.9	1.0	0.8	0.7

Source: Company reports and MBKET estimates.

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BV = Book Value
CAGR = Compounded Annual Growth Rate
Capex = Capital Expenditure
CY = Calendar Year
DCF = Discounted Cashflow
DPS = Dividend Per Share
EBIT = Earnings Before Interest And Tax
EBITDA = EBIT, Depreciation And Amortisation
EPS = Earnings Per Share
EV = Enterprise Value
FCF = Free Cashflow
FV = Fair Value
FY = Financial Year
FYE = Financial Year End
MoM = Month-On-Month
NAV = Net Asset Value
NTA = Net Tangible Asset
P = Price
P.A. = Per Annum
PAT = Profit After Tax
PBT = Profit Before Tax
PE = Price Earnings
PEG = PE Ratio To Growth
PER = PE Ratio
QoQ = Quarter-On-Quarter
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THAI INSTITUTE OF DIRECTORS ASSOCIATION (IOD) CORPORATE GOVERNANCE REPORT RATING 2012

▲▲▲▲▲		GRAMMY	NOBLE	RS	SNC			
ADVANC	BKI	HEMRAJ	PHOL	SAMART	SYMC	Score Range	Number of Logo	Description
AOT	BMCL	ICC	PS	SAMTEL	THAI	90-100	▲▲▲▲▲	Excellent
ASIMAR	BTS	IRPC	PSL	SAT	TIP	80-89	▲▲▲▲	Very Good
BAFS	CPN	KBANK	PTT	SC	TIPCO	70-79	▲▲▲	Good
BANPU	CSL	KK	PTTEP	SCB	TISCO	60-69	▲▲	Satisfactory
BAY	DRT	KTB	PTTGC	SCC	TKT	50-59	▲	Pass
BBL	EASTW	LPN	QH	SE-ED	TMB	Lower than 50	No logo given	N/A
BCP	EGCO	MCOT	RATCH	SIM	TOP	TTA		
BECL	ERW	NKI	ROBINS	SIS	TSTE			
▲▲▲▲		ECL	ITD	MINT	PM	SPCG	THCOM	TSC
2S	BWG	EE	IVL	MODERN	PR	SPI	THIP	TSTH
ACAP	CENTEL	EIC	JAS	MTI	PRANDA	SPPT	THRE	TTW
AF	CFRESH	ESSO	KCE	NBC	PRG	SSF	TIC	TUF
AIT	CGS	FE	KGI	NCH	PT	SSSC	TICON	TVO
AKR	CHOW	FORTH	KSL	NINE	PYLON	STANLY	TIW	UAC
AMATA	CIMBT	GBX	L&E	NMG	S&J	STEC	TK	UMI
AP	CK	GC	LANNA	NSI	S&P	SUC	TLUXE	UP
ASK	CM	GFPT	LH	OCC	SABINA	SUSCO	TMT	UPOIC
ASP	CPALL	GL	LRH	OFM	SAMCO	SVI	TNITY	UV
AYUD	CPF	GLOW	LST	OGC	SCCC	SYNTEC	TNL	VIBHA
BEC	CSC	GUNKUL	MACO	OISHI	SCG	TASCO	TOG	VNT
BFIT	DCC	HANA	MAKRO	PAP	SCSMG	TCAP	TPC	WACOAL
BH	DELTA	HMPRO	MBK	PDI	SFP	TCP	TRC	YUASA
BIGC	DEMCO	HTC	MBKET	PE	SITHAI	TFD	TRT	ZMICO
BJC	DTAC	IFEC	MFC	PG	SMT	TFI	TRU	
BROOK	DTC	INTUCH	MFEC	PJW	SPALI	THANA	TRUE	
▲▲▲		EASON	JMART	MAJOR	POST	SF	TEAM	UEC
AEONTS	BROCK	EMC	JTS	MATCH	PPM	SGP	TF	UIC
AFC	BSBM	EPCO	JUBILE	MATI	PREB	SIAM	TGCI	UMS
AGE	BTNC	FNS	JUTHA	MBAX	PRECHA	SIMAT	THANI	UOBKH
AH	BUI	FOCUS	KASET	M-CHAI	PRIN	SINGER	TKS	UPF
AHC	CCET	FSS	KBS	MDX	PSAAP	SIRI	TMD	US
AI	CEN	GENCO	KC	MJD	PTL	SKR	TMI	UT
AJ	CHUO	GFM	KDH	MK	Q-CON	SMIT	TNH	VARO
ALUCON	CI	GLOBAL	KIAT	MOONG	QLT	SMK	TNPC	WAVE
AMANAH	CIG	GOLD	KKC	MPIC	QTC	SOLAR	TOPP	WG
APCO	CITY	HFT	KTC	MSC	RASA	SPC	TPA	WIN
APCS	CMO	HTECH	KWC	NC	RCL	SPG	TPAC	WORK
APRINT	CNS	HYDRO	KWH	NNCL	RICH	SSC	TPCORP	
ARIP	CNT	IFS	KYE	NTV	ROJNA	SST	TPIPL	
AS	CPL	IHL	LALIN	OSK	RPC	STA	TPP	
ASIA	CRANE	ILINK	LEE	PAE	SAM	SVOA	TR	
BGT	CSP	INET	LHBANK	PATO	SCBLIF	SWC	TTCL	
BLA	CSR	IRC	LHK	PB	SCP	SYNEX	TWFP	
BNC	CTW	IRCP	LIVE	PICO	SEAFCO	TBSP	TYCN	
BOL	DRACO	IT	LOXLEY	PL	SENA	TCB	UBIS	

Source: Thai Institute of Directors (IOD)

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