

KCE Electronics

KCE TB / KCE.BK

10 May 2013

1Q13 net profit beat our estimate (and the street); stronger quarters ahead

Beat all estimates

KCE reported solid earnings for 1Q13 of Bt273m, up by 29% QoQ and 51% YoY. The result exceeded our estimate by 7% and the consensus by 15%, due to a hefty FX gain. Stripping out extra items, core profit would be Bt155m (in line with our estimate), up 47% QoQ and a turnaround from a loss of Bt105m posted for 1Q12.

Results highlights

Revenue rose by 7% QoQ and 49% YoY to Bt2bn—orders jumped QoQ, driven by automotive PCBs. GM fattened by 320 bps YoY and 178 bps QoQ to 22.2% (above our assumption of 21.5%) in 1Q13 on a full quarter of profit at KCET. The SG&A/sales ratio normalized to 13.4%, down from 24% in 1Q12 (KCET didn't operate during 1Q12; so depreciation expenses, which are normally booked to COGS, were booked to the SG&A row—no goods were sold during the quarter). However, on a QoQ basis, the SG&A-to-sales ratio increased 73 bps on salary adjustments. KCE also posted an FX gain of Bt118m, which flattered its bottom-line.

Outlook

The firm should post stronger core earnings in 2Q13 (up 15% QoQ). Management guides that KCE has secured orders equal to more than 90% of its PCB sales target for the quarter of US\$70m. Moreover, lower raw material prices will boost margin—the price of copper has dropped 15% since YE12. Copper comprises about 14% of COGS, so we expect 2Q13 GM to expand to about 22.5% (from 19.3% in 2Q12 and 21.5% in 1Q13). Core earnings will peak in 3Q13, due to seasonality and new orders (PCBs for solar cells). GM should post QoQ growth in 2Q13 on a full capacity run at KCET.

What's changed?

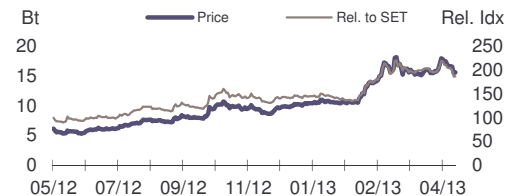
We have revised up our FY13 net profit forecast by 2% to Bt865m. However, our core earnings projection remains unchanged at Bt739m. Note that we have yet to factor in capacity at the future Ladkrabang plant (equal to 30% of total existing capacity; the facility is currently being designed; COD in 3Q14).

Recommendation

KCE remains our preferred pick in the Electronics sector for its superior order growth outlook. Furthermore, GM should expand on operational improvements and a lower copper cost. With a three-year core earnings CAGR of 13%, we think the current PER of 10.6x for FY13 still presents a good entry point. Our BUY rating stands with a YE13 target price of Bt19.

Sector: Electronics Underweight
Rating: BUY
Target Price: Bt19.00
Price (9 May 2013): Bt15.60

Price chart

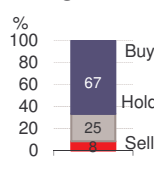


Share price perf. (%)	1M	3M	12M
Relative to SET	(5.5)	39.7	111.5
Absolute	3.3	48.6	147.6

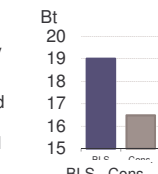
Key statistics

Market cap	Bt7.4bn	USD0.3bn
12-mth price range	Bt5.1/Bt19.2	
12-mth avg daily volume	Bt71m	USD2.4m
# of shares (m)	475	
Est. free float (%)	60.3	
Foreign limit (%)	49.0	

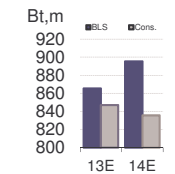
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2012	2013E	2014E	2015E
Revenues (Btm)	6,478	8,094	8,504	8,798
Net profit (Btm)	717	865	896	1,000
EPS (Bt)	1.52	1.47	1.52	1.70
EPS growth (%)	+442%	-2.9%	+3.5%	+11.6%
Core profit (Btm)	61	739	884	988
Core EPS (Bt)	0.13	1.26	1.50	1.68
Core EPS growth (%)	+34.8%	+879%	+19.6%	+11.8%
PER (x)	10.3	10.6	10.2	9.2
PBV (x)	2.3	2.1	1.8	1.6
Dividend (Bt)	0.6	0.4	0.5	0.5
Dividend yield (%)	3.5	2.8	2.9	3.3
ROE (%)	24.4	22.7	19.0	18.6

CG rating



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KCE : Financial Tables – Year

PROFIT & LOSS (Btm)	2011	2012	2013E	2014E	2015E
Revenue	7,201	6,478	8,094	8,504	8,798
Cost of sales and services	(5,957)	(5,232)	(6,281)	(6,548)	(6,774)
Gross profit	1,244	1,246	1,813	1,956	2,023
SG&A	(1,152)	(1,075)	(1,093)	(1,148)	(1,144)
EBIT	92	170	720	808	880
Interest expense	(153)	(159)	(156)	(105)	(77)
Other income/exp.	106	72	190	199	206
EBT	45	83	754	902	1,008
Corporate tax	(2)	(20)	(15)	(18)	(20)
After-tax net profit (loss)	42	63	739	884	988
Minority interest	3	0	0	0	0
Equity earnings from affiliates	(0)	(3)	0	0	0
Extra items	87	656	126	11	11
Net profit (loss)	132	717	865	896	1,000
Reported EPS	0.28	1.52	1.47	1.52	1.70
Fully diluted EPS	0.28	1.52	1.47	1.52	1.70
Core net profit	45	61	739	884	988
Core EPS	0.10	0.13	1.26	1.50	1.68
EBITDA	750	730	1,556	1,794	1,800

KEY RATIOS

Revenue growth (%)	(0.6)	(10.0)	24.9	5.1	3.4
Gross margin (%)	17.3	19.2	22.4	23.0	23.0
EBITDA margin (%)	10.4	11.3	19.2	21.1	20.5
Operating margin (%)	2.8	3.7	11.2	11.8	12.3
Net margin (%)	1.8	11.1	10.7	10.5	11.4
Core profit margin (%)	0.6	0.9	9.1	10.4	11.2
ROA (%)	1.5	7.3	8.6	8.7	9.7
ROCE (%)	1.7	8.6	10.1	10.3	11.5
Asset turnover (x)	0.8	0.7	0.8	0.8	0.9
Current ratio (x)	0.9	0.8	0.9	1.0	1.1
Gearing ratio (x)	2.0	1.7	0.9	0.8	0.5
Interest coverage (x)	0.6	1.1	4.6	7.7	11.4

BALANCE SHEET (Btm)

Cash & Equivalent	536	397	757	610	454
Accounts receivable	1,546	2,215	1,839	1,933	1,999
Inventory	1,080	1,240	1,575	1,722	1,781
PP&E-net	4,235	5,237	5,135	5,662	5,129
Other assets	1,961	1,166	587	656	659
Total assets	9,358	10,256	9,894	10,582	10,023
Accounts payable	1,467	1,566	1,604	1,686	1,744
ST debts & current portion	3,955	4,205	3,458	2,970	2,219
Long-term debt	1,364	1,327	487	956	389
Other liabilities	64	81	81	81	81
Total liabilities	6,850	7,178	5,630	5,692	4,433
Paid-up capital	472	473	592	592	592
Share premium	1,108	1,111	1,572	1,572	1,572
Retained earnings	1,062	1,637	2,243	2,870	3,570
Shareholders equity	2,642	3,225	4,411	5,038	5,738
Minority interests	(12)	13	13	13	13
Total Liab.&Shareholders' equity	9,480	10,417	10,055	10,743	10,184

CASH FLOW (Btm)

Net income	132	717	865	896	1,000
Depreciation and amortization	552	488	646	787	714
Change in working capital	(1,899)	129	675	(171)	(77)
FX, non-cash adjustment & others	1,866	156	0	0	(0)
Cash flows from operating activities	651	1,490	2,187	1,511	1,637
Capex (Invest)/Divest	(294)	(982)	(562)	(1,370)	(176)
Others	0	(170)	0	0	0
Cash flows from investing activities	(294)	(1,152)	(562)	(1,370)	(176)
Debt financing (repayment)	243	(290)	(1,586)	(20)	(1,318)
Equity financing	(30)	(41)	580	0	0
Dividend payment	(185)	(142)	(260)	(269)	(300)
Others	0	(170)	0	0	0
Cash flows from financing activities	35	(476)	(1,265)	(288)	(1,618)
Net change in cash	392	(138)	360	(147)	(157)

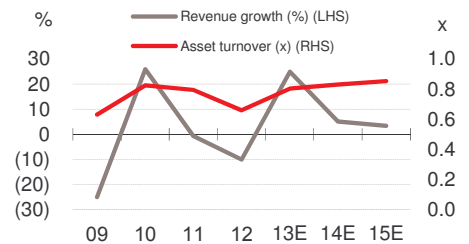
Free cash flow (Btm)

FCF per share (Bt)	0.8	1.1	2.8	0.2	2.5
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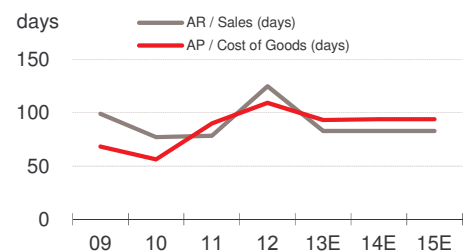
KEY ASSUMPTIONS

	2011	2012	2013E	2014E	2015E
SIA Semiconductor growth	3%	5%	6%	6%	6%
Volume Growth	4%	-12%	32%	5%	3%
Utilization rate	90%	65%	83%	87%	90%
Payout ratio	72%	36%	30%	30%	30%
FX	30.5	30.9	29.3	29.3	29.3
LME Copper Price (US\$/t)	8,838	7,946	8,322	7,826	7,055

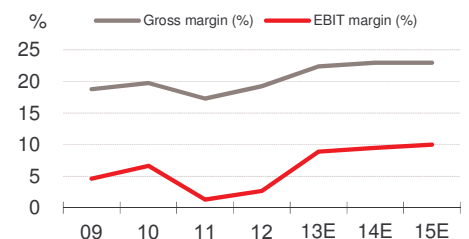
Revenue growth and asset turnover



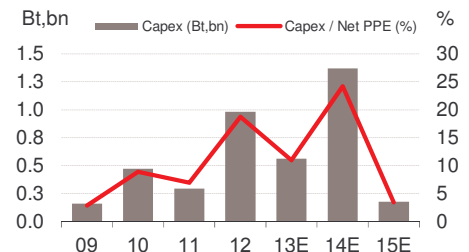
A/C receivable & A/C payable days



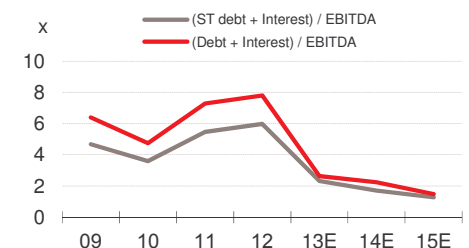
Profit margins



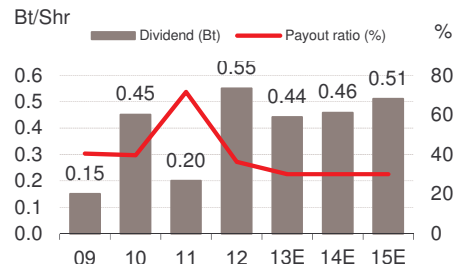
Capital expenditure



Debt serviceability



Dividend payout



KCE : Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	1Q12	2Q12	3Q12	4Q12	1Q13
Revenue	1,345	1,508	1,757	1,868	2,000
Cost of sales and services	(1,089)	(1,216)	(1,441)	(1,486)	(1,555)
Gross profit	256	291	316	382	445
SG&A	(324)	(266)	(248)	(236)	(267)
EBIT	(68)	25	68	146	177
Interest expense	(40)	(39)	(38)	(42)	(39)
Other income/exp.	8	45	10	8	15
EBT	(101)	32	39	113	153
Corporate tax	(1)	(4)	(6)	(9)	(2)
After-tax net profit (loss)	(102)	27	34	104	151
Minority interest	0.0	0.0	0.0	0.0	0.0
Equity earnings from affiliates	(3.3)	(1.9)	0.6	2.0	3.6
Extra items	286	53	210	107	118
Net profit (loss)	181	79	244	213	273
Reported EPS	0.38	0.17	0.52	0.45	0.58
Fully diluted EPS	0.38	0.17	0.52	0.45	0.58
Core net profit	(105)	26	34	106	155
Core EPS	(0.22)	0.05	0.07	0.22	0.33
EBITDA	(60)	70	78	154	192

KEY RATIOS

Gross margin (%)	19.0	19.3	18.0	20.5	22.2
EBITDA margin (%)	(4.5)	4.7	4.4	8.3	9.6
Operating margin (%)	(4.5)	4.7	4.4	8.3	9.6
Net margin (%)	13.5	5.2	13.9	11.4	13.7
Core profit margin (%)	(7.8)	1.7	1.9	5.7	7.7
BV (Bt)	5.8	5.9	6.3	6.9	7.5
ROE (%)	26.8	11.3	33.8	27.4	32.4
ROA (%)	7.5	3.2	9.6	8.2	10.3
Current ratio (x)	0.8	0.8	0.8	0.8	0.8
Gearing ratio (x)	2.0	2.0	1.9	1.7	1.6
Interest coverage (x)	(1.5)	1.8	2.0	3.7	5.0

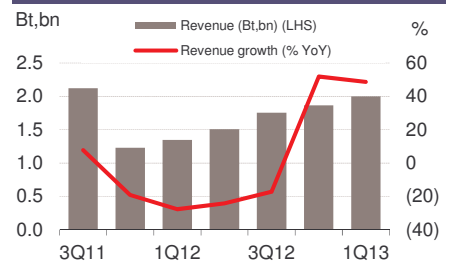
QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	441	348	536	397	369
Accounts receivable	1,563	1,880	2,095	2,215	2,540
Inventory	1,105	1,213	1,288	1,240	1,420
PP&E-net	5,070	5,056	5,102	5,237	5,367
Other assets	1,817	1,426	1,349	1,166	1,183
Total assets	9,994	9,923	10,369	10,256	10,880
Accounts payable	1,775	1,483	1,701	1,566	1,823
ST debts & current portion	4,041	4,395	4,720	4,205	4,474
Long-term debt	1,418	1,238	1,027	1,327	1,099
Other liabilities	62	76	80	81	113
Total liabilities	7,296	7,193	7,528	7,178	7,508
Paid-up capital	464	464	469	473	475
Share premium	1,058	1,046	1,086	1,111	1,129
Retained earnings	1,242	1,285	1,432	1,637	1,915
Shareholders equity	2,764	2,795	2,987	3,225	3,521
Minority interests	(10)	(14)	(12)	13	14
Total Liab.&Shareholders' equity	10,049	9,974	10,503	10,417	11,043

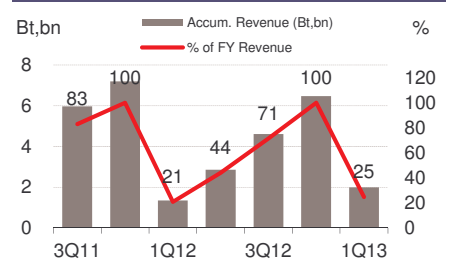
KEY STATS

	1Q12	2Q12	3Q12	4Q12	1Q13
Sale (USD term)	44	48	56	61	67
FX	31	32	31	31	30
Gain loss from FX	100	(93)	94	58	118
Insurance payout	186	146	116	49	0

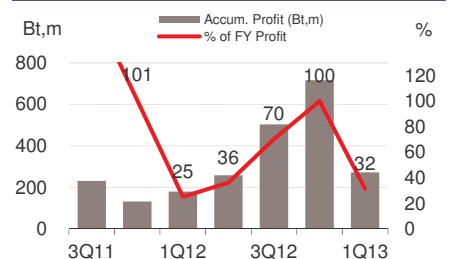
Revenue trend



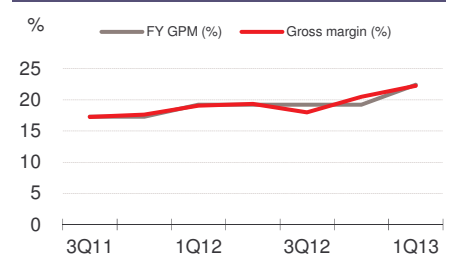
Revenue trend (accumulated)



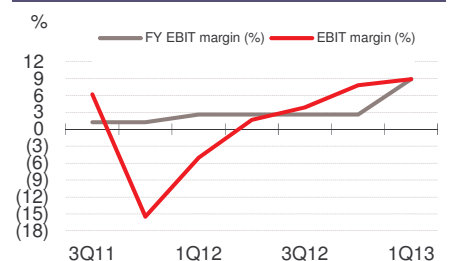
Net profit trend (accumulated)



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 : 1Q13 results

FY Ended 31 Dec (Btm)	1Q13	1Q12	YoY %	4Q12	QoQ %	3M13	3M12	YoY %	3M13 vs. FY13E
Income Statement									
Revenue	2,000	1,345	49	1,868	7	2,000	1,345	49	25
Cost of sales and services	(1,555)	(1,089)	43	(1,486)	5	(1,555)	(1,089)	43	25
EBITDA	192	(60)	nm	154		192	(60)		12
EBIT	177	(68)	nm	146	21	177	(68)	nm	25
Interest expense	(39)	(40)	(4)	(42)	(8)	(39)	(40)	(4)	25
Other income/exp.	15	8	84	8	73	15	8	84	8
Equity earnings from affiliates	4	(3)	nm	2	77	4	(3)	nm	nm
Extra items	118	286	(59)	107	11	118	286	(59)	94
EBT	153	(101)	nm	113	36	153	(101)	nm	20
Corporate tax	(2)	(1)	88	(9)	nm	(2)	(1)	88	14
Minority interest	0	0	nm	0	nm	0	0	nm	nm
Net profit (loss)	273	181	51	213	29	273	181	51	32
Reported EPS	0.58	0.38	51	0.5	29	0.58	0.38	51	39
Core net profit	155	(105)	nm	106	46	155	(105)	nm	21
Key ratios									
Gross margin (%)	22.2	19.0		20.5		22.2	19.0		3.200
EBITDA margin (%)	9.6	(4.5)		8.3		9.6	(4.5)		
EBIT margin (%)	8.9	(5.1)		7.8		8.9	(5.1)		
Tax rate (%)	1.4	(1.1)		7.8		1.4	(1.1)		
Net margin (%)	13.7	13.5		11.4		13.7	13.5		
Current ratio (x)	0.8	0.8		0.8		0.8	0.8		
Gearing ratio (x)	1.6	2.0		1.7		1.6	2.0		
Interest coverage (x)	5.0	(1.5)		3.7		4.6	(1.7)		
Balance Sheet									
Cash & Equivalent	369	441	(16)	397	(7)				
Total assets	10,880	9,994	9	10,256	6				
ST debts & current portion	4,474	4,041	11	4,205	6				
Long-term debt	1,099	1,418	(22)	1,327	(17)				
Total liabilities	7,508	7,296	3	7,178	5				
Retained earnings	1,915	1,242	54	1,637	17				
Shareholders equity	3,521	2,764	27	3,225	9				
Minority interests	14	(10)	nm	13	5				
BV (Bt)	7.5	5.8	28	6.9	9				

• Core profit was in line with our estimate

• GM jumped 3.2% YoY on a higher utilization rate at KCET

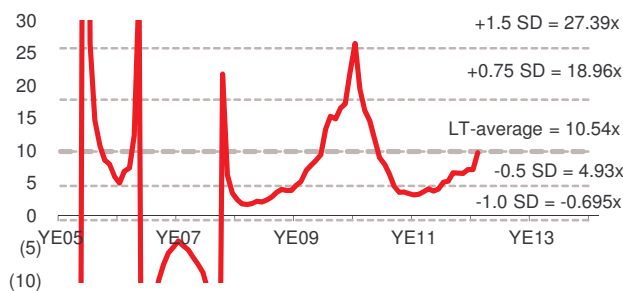
• The SG&A/sales ratio dived YoY in the absence of extra expenses booked to SG&A

Sources: Company data, Bualuang Research estimates

Regional Comparisons

	Bloomberg	Price	Market Cap	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
	Code	(local curr.)	(US\$ equivalent)	2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E
Edison Opto Corp	3591TT	TWD37.5	148	340.9	38.7	-57.7	7818	13	12	0.7	3.2	0.5	1.1
Hon Hai Precisio	2317 TT	TWD816	32,825	9.6	8.4	5.3	13.4	12	11	14.0	15.2	2.0	2.2
Flextronics Intl	FLEX US	USD7.2	4,689	9.4	7.5	68.0	32.5	17	14	20.0	19.9	0.0	0.0
Jabil Circuit	JBL US	USD19.2	3,893	8.4	7.3	2.0	16.7	17	14	20.8	21.3	1.7	1.7
Delta Electronics (Thailand)	DELTA TB	THB39.75	1,683	10.9	9.9	4.9	10.0	2.0	18	19.3	19.3	4.6	5.1
Hana Microelectronics	HANA TB	THB24.20	661	11.5	10.8	1.7	6.7	13	12	11.1	11.5	6.1	6.7
KCE Electronics	KCE TB	THB 5.60	244	10.6	10.2	-2.9	3.5	2.1	18	22.7	19.0	2.8	2.9
SVI	SVI TB	THB4.14	315	12.1	8.9	-46.3	36.1	2.7	2.2	24.3	27.6	2.5	3.4
Simple average				51.7	12.7	-3.1	112.6	1.7	1.5	16.6	17.1	2.5	2.9

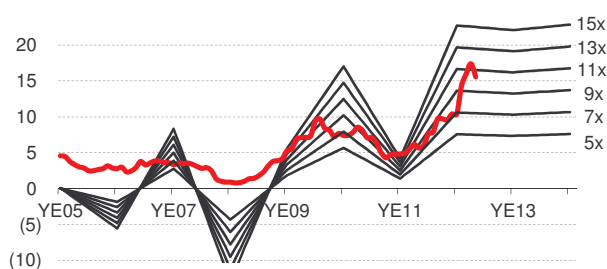
PER band versus SD (next 12 months)



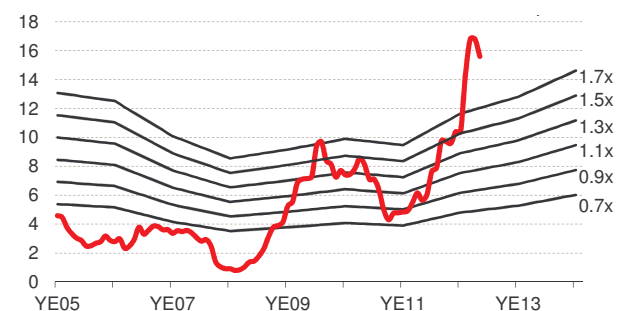
PBV band versus SD (next 12 months)



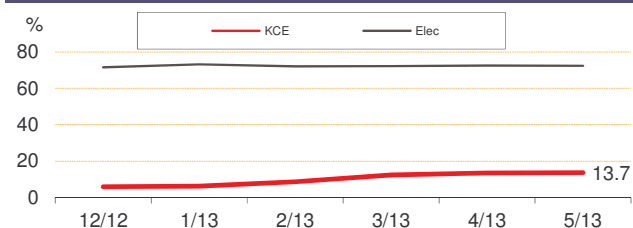
PER band and share price



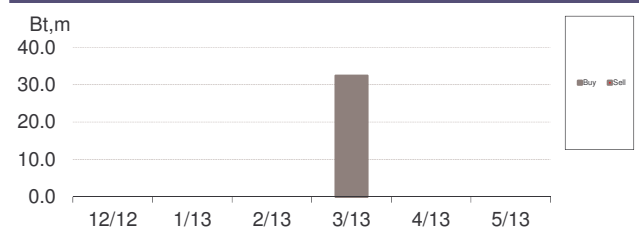
PBV band and share price



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, JAS, KBANK, KK, KTB, LH, MAKRO, MINT, PS, PTT, PTTEP, PTTGC, ROBINS, SCB, SCC, SPALI, TCAP, THAI, TISCO, TOP, TMB, TPIPL, TRUE, TUF		

Score Range

90 – 100
80 – 89
70 – 79
60 – 69
50 – 59
Below 50

Score Range






No logo given

Description

Excellent
Very Good
Good
Satisfactory
Pass
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.