Buy (unchanged)

CGR Scoring Rating

Share price: Bt16.20
Target price: Bt25.60 *(From Bt21.00)*

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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.

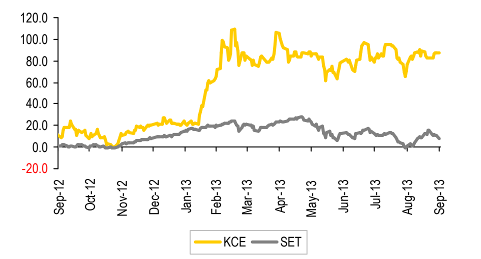
Ticker :	KCE
Shares Issued (m):	469
Market Cap (Btmn)	7,602
Market Cap (US$ m)	242.97
3-mth Avg. Daily Turnover (Btmn)	29.77
SET INDEX	1,383.16
Free float (%)	55.57

Major Shareholders :	%
Aongkosit Family	32.77
HSBC (SINGAPORE) NOMINEES PTE LTD	6.48

Key Indicators

ROE – annualised (%)	32.1
Net cash (Btmn):	-4,186
NTA/shr (Bt):	8.7
Interest cover (x):	6.1

Historic Chart



Performance

52-week High/Low: Bt19.20/Bt8.60

	1-mth	3-mth	6-mth	1-yrs	YTD
Absolute (%)	5.9	3.2	6.6	66.2	55.8
Relative (%)	-0.9	9.2	17.2	56.0	56.8

KCE Electronics PCL (KCE)

2nd highest profitability among PCB makers

We expect a KCE 3Q13 net profit to reach a new high at Bt303mn, jumping 826% YoY and 28% QoQ and we have thus revised the 2013-14 profits up by 26% and 23%. Our new TP is Bt25.60 based on a PER of 13x. The current valuation is cheap trading on a 2013 PER of only 8.4x, while revenue is stable. We thus reiterate a Buy call on the most interesting stock in the electronics sector.

3Q13 profit to an all time high. We estimate the 3Q13 norm profit to reach a new high at Bt303mn, growing 826% YoY and 28% QoQ, driven by high customer orders of around US$83mn revenue for the quarter. The gross margin will likely improve to 25.3% from 24.9% in 2Q13 along with the higher orders that have boosted utilisation to over 95%. We do expect an F/X loss of -Bt20mn, dropping from –Bt40mnin 2Q13. Hence, we anticipate a net profit at Bt283mn (+43% QoQ, +17% YoY). In 4Q13, earnings will moderate from 3Q13, but be higher than the Bt237mn of 2Q13.

New plants to drive profit in the future. The new plant is in 3 phases with capacity of 1mn sqf/month of the first phase and generating income from 4Q14. After full completion in 2016, the total capacity will rise to 36.9mn sqf/month, up 64%. Capex for the new plant is Bt4.675bn (3 years) with 88% from loans and 12% from warrants exercised. Although the debt burden will increase, the additional insurance gain of around Bt1bn will lessen pressure. The new plant is to support the non-auto customers as their numbers are increasing. The increased depreciation will not impact the profit as revenue is growing at a faster pace. The new plant will drive profit significantly from 2015 and this additional revenue and profit will be processed into our projection at a later date.

Revised norm profit up 26%, KCE is most interesting in the sector. As the 3Q13 earnings will reach a new high, our yearly forecast may be too low and we have thus raised our 2013-14 earnings, up 26% to Bt956mn and 23% to Bt1.072bn, respectively. Positive stories will come from 1) the higher utilisation of the KCET plant from 92% to 94%, the total utilisation up to 96% from 95%, 2) the lower scrap rate from 4.5% to 4%, 3) the improving gross margin from 23% to 25% (23.4% in 1H13) from the better utilisation improving the economy of scale. Our new TP is Bt25.60, based on a PER of 13x. We reiterate a Buy call. The current valuation at a 2013-14 PER of 8.4 and 8.0, remains cheaper than the sector average of 11x.

KCE – Summary Earnings Table

FYE: Dec 31 (Btmn)	2011	2012	2013F	2014F	2015F
Revenue	7,201	6,478	9,399	9,952	10,262
EBITDA	751	887	1,827	1,992	2,273
Recurring Net Profit	46	57	956	1,072	1,143
Net profit	133	712	1,306	1,072	1,143
EPS (Bt)	0.28	1.54	2.63	2.02	1.98
EPS growth (%)	-75.3	449.0	70.5	-23.3	-1.8
DPS (Bt)	0.20	0.55	0.77	0.81	0.79
PER	167.3	132.2	8.4	8.0	8.2
EV/EBITDA (x)	11.8	11.3	4.8	4.5	3.3
Div Yield (%)	1.2	3.4	4.8	5.0	4.9
P/BV(x)	3.1	2.5	2.0	1.8	1.7
Net Gearing (%)	212.1	179.7	122.9	107.2	94.6
ROE (%)	5.3	23.1	32.1	22.6	20.9
ROA (%)	2.1	3.9	9.7	10.0	10.4
Cons. Net Profit (Btmn)	-	-	*1,028*	*918*	*982*

Source: Company reports and MBKET estimates.

To construct a new plant to drive profit in the future

Currently, KCE has 3 plants in operation with a total capacity of 22.5mn sqf/month. The new plant will be built in 3 phases with an initial capacity of 1mn sqf/month generating revenue from 4Q14. After the third phase is completed in 2016, the total capacity will increase to 36.9mn sqf/month or a 64% increase. Capex for the new plant is Bt4.675bn (3 years) with 88% derived from loans and 12% from warrant conversions.

Although the debt burden will increase, the additional insurance gain of around Bt1bn will be used to repay debt. Based on the company projection, the interest bearing debt to equity ratio will decline from 1.8x in 2012 to 1.22x in 2013, but increase to 1.47x in 2014 on higher investment. These levels are still below the company historic average of 1.8-2.0x. The new plant will support non-auto customers as non-auto customer numbers have increased in recent years.

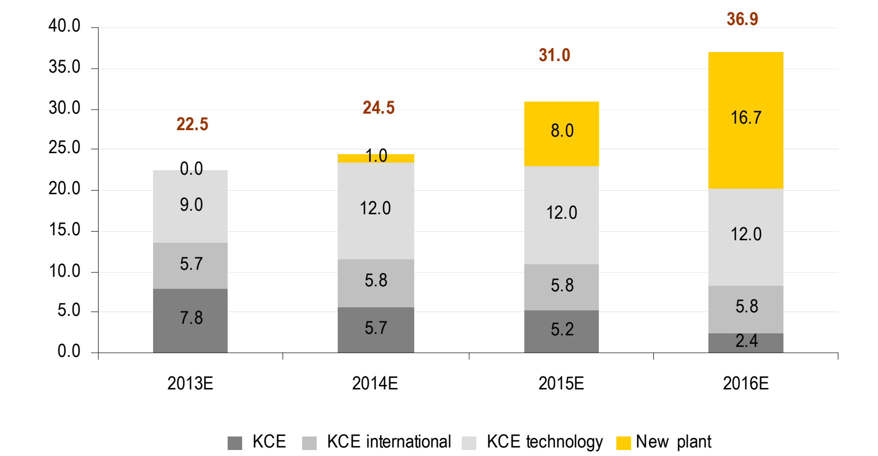
The increasing depreciation will not affect the profit as revenue will grow at a faster pace and KCE will open the new plant in phases, so completed units will contribute revenue immediately. The new plant will drive the profit significantly from 2015 onward. The additional revenue and profit from the new plant has not yet been priced into our projection.

Figure 1: Investment in new plant

New plant investment (Mil Baht)	INVESTMENT				DEBT			
	Phase I	Phase II	Phase III	Total	Phase I	Phase II	Phase III	Total
Building construction	750	-	-	750	750	-	-	750
Plant facility systems	700	-	50	750	600	384	-	984
Machinery and support equipment	1,212	384	1,178	2,774	1,212	-	1,178	2,390
Other tools and equipments	200	100	100	400	-	-	-	-
Total	2,862	484	1,328	4,674	2,562	384	1,178	4,124
							% Debt	88%
							Proceed from warrant	550
							% Company finance	12%

Source: Company reports

Figure 2: New plant and capacity (Company projection)



Source: Company reports

Figure 3: 3Q13 Earnings preview

(Btmn)	3Q13E	2Q13	QoQ	3Q12	YoY
Revenues	2,573	2,262	13.8%	1,757	46.4%
COGS	1,922	1,698	13.2%	1,441	33.4%
Gross profits	651	563	15.6%	316	106.0%
Gross margin (%)	25.3%	24.9%	1.6%	18.0%	40.7%
SG&A	295	302	-2.4%	248	18.9%
Operating profit	356	261	36.4%	68	425.5%
Operating margin (%)	13.83%	11.54%	19.9%	3.86%	258.9%
EBITDA	**399**	**399**	0.0%	**132**	**202.4%**
EBITDA margin (%)	15.53%	17.66%	-12.1%	7.52%	106.5%
Profit from associates	4	4	-6.3%	1	608.0%
Interest expenses	40	44	-8.3%	38	3.9%
Normalised earnings	**303**	**237**	27.6%	**33**	**825.9%**
Extraordinary gains (losses)					
- Forex gains (losses)	-20	-40	n.m.	94	n.m.
- Insurance claims	0	-	n.m.	116	n.m.
Net profit	**283**	**197**	43.2%	**243**	16.5%
EPS (Bt) before extra items	0.66	0.51	27.6%	0.07	825.9%
EPS (Bt)	**0.61**	**0.43**	43.2%	**0.53**	16.5%

Source: Company reports, MBKET

Figure 4: New vs. old forecast

INCOME STATEMENT (Btmn)	**New**		**Old**	
FY December	**2013F**	**2014F**	**2013F**	**2014F**
Revenue	9,399	9,952	9,264	9,718
EBITDA	1,733	1,893	1,532	1,687
Depreciation & Amortisation	651	707	651	707
Operating Profit (EBIT)	1,176	1,285	974	1,078
Interest (Exp) / Inc	-193	-183	-192	-181
Associates	-	-	-	-
One-offs	350	0	350	0
Pre-Tax Profit	973	1,091	774	887
Tax	-10	-11	-8	-9
Minority Interest	-17	-19	-14	-16
Net Profit	1,306	1,072	1,110	872
Recurring Net Profit	**956**	**1,072**	**760**	**872**
Revenue Growth %	45.1	5.9	43.0	4.9
EBITDA Growth (%)	163.3	9.2	132.8	10.1
EBIT Growth (%)	194.8	9.3	144.2	10.7
Net Profit Growth (%)	83.3	-17.9	55.9	-21.5
Recurring Net Profit Growth (%)	**1,589.5**	**12.1**	**1,244.4**	**14.6**
Gross margin	**25.0**	**25.3**	**23.1**	**23.6**
Op. Profit Margin %	**11.5**	**11.9**	**9.5**	**10.1**
ROE %	**32.1**	**22.6**	**28.2**	**19.4**
Net Margin Ex. EI %	**10.2**	**10.8**	**8.2**	**9.0**

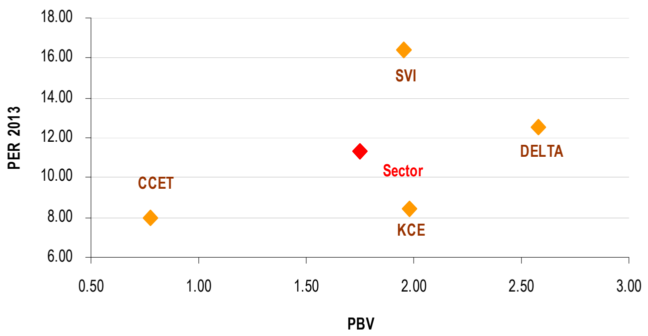
Source: Company reports, MBKET estimates.

Figure 5: Valuation table

	EPS		
	2012	2013	2014
PE	**0.12**	**1.93**	**2.02**
10	1.2	19.3	20.2
11	1.3	21.2	22.2
12	1.5	23.1	24.2
13	1.6	25.0	26.2
12 Month price target			**25.6**

Source: Company reports, MBKET

Figure 6: Sector PER and PBV 2013



Source: Company reports, MBKET

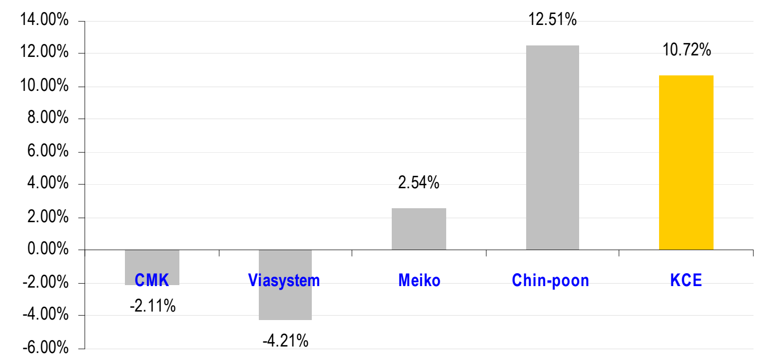
No.5 in the world auto PCB maker

Currently, KCE is the 5th largest automotive PCB maker in the world after CMK, Viasystems, Meiko and Chin-poon. These 5 companies have a sales value of 47% of the total market of US$3.9bn or Bt120bn/year.

Although KCE is ranked 5th, CMK and Meiko are indirect competitors with KCE, as they sell mainly to Japanese auto makers and KCE and Chin-poon are the only 2 producers generating high gross profit margins (above 10%). KCE has a higher advantage with low costs after replacing machinery after the Thai flood. KCE has also invested in an SAP program to better control costs.

As a low cost producer, KCE has won many new customers from peers and thus the KCE market share has grown.

Figure 7: Top 5 auto makers and profitability



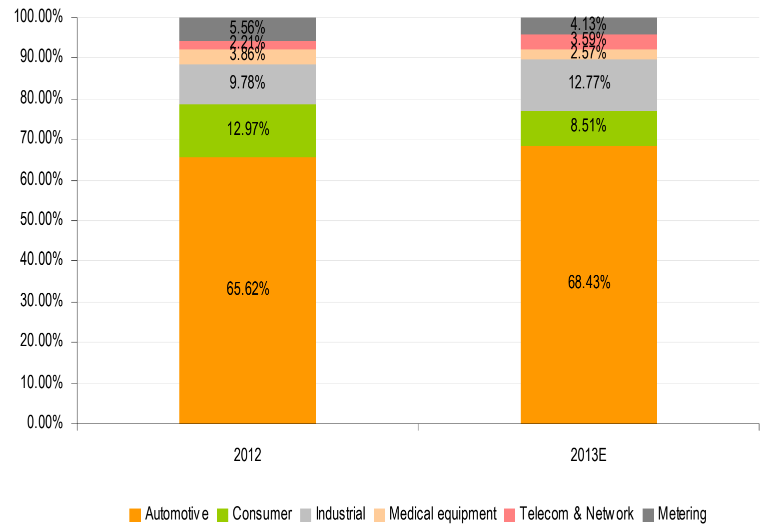
Source: MBKET

Industrial customers support growth

Although auto customers remain major buyers, industrial customers are increasing orders (new + existing customers). Hence, the additional capacity will not exceed demand.

In 2013, KCE estimates revenue from industrial buyers to increase to 12.8% from 9.8% of total revenue in 2012 with revenue from auto users increasing to 68.4% from 65.6% in 2012. Revenue from healthcare customers will decline to 2.6% from 5.6% in 2012 as the gross margin is below the auto margin. About 60% of customers are from Asia and Europe.

Figure 8: Revenue breakdown by customer business



Source: MBKET

Mercedes-Benz sales in US reach a new high for a 7th month

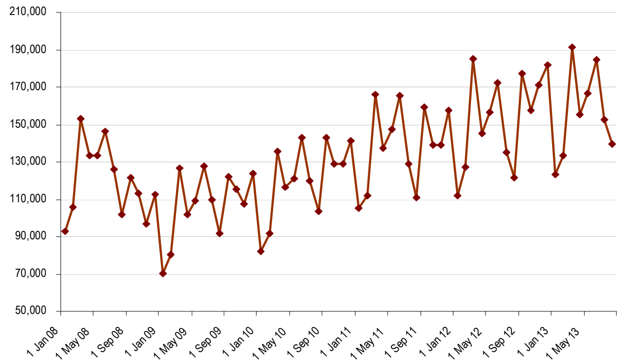
On Aug. 1st, a major KCE European client; Mercedes-Benz US, reported sales in July reaching a new high at 26,423 units, up 18.5% YoY, led by C-Class sales (+34% YoY) and followed by E-Class (+10% YoY), and SUV (+73% YoY).

Other European client sales in Europe also improve

Although the BMW Group, Daimler AG, and VW Group sales have dropped , 8% MoM, 8%MoM and 5% MoM on the seasonal impact, they still grew 15% YoY, 17% YoY and 3% YoY. In the 8M13, world sales of the BMW Group expanded 8% YoY, Daimler AG grew 8% YoY and VW Group grew 5% YoY.

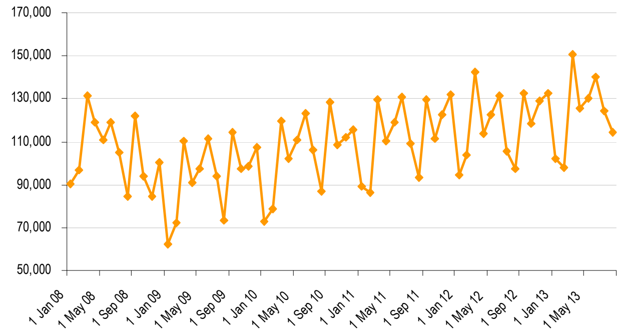
The affordable car prices and the recovering US-Chinese economy should drive sales upward. Higher auto sales will benefit KCE as these auto customers remain KCE major buyers with high gross margin contributions.

Figure 9: BMW group units sold



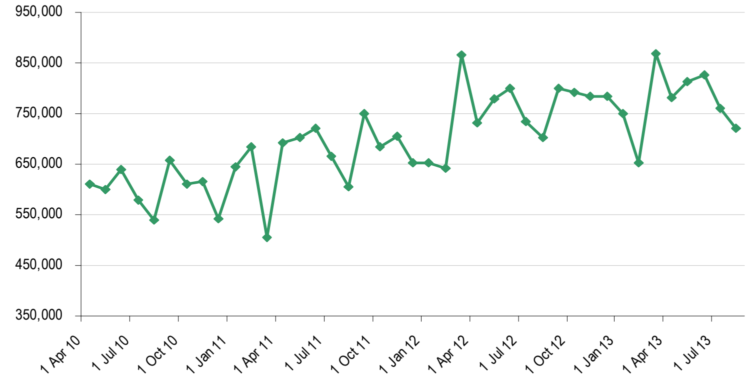
Source: Company reports, MBKET

Figure 10: Daimler AG units sold



Source: Company reports, MBKET

Figure 11: VW Group units sold



Source: MBKET

INCOME STATEMENT (Btmn)

FY December	2012	2013F	2014F	2015F
Revenue	6,478	9,399	9,952	10,262
EBITDA	658	1,733	1,893	2,170
Depreciation & Amortisation	488	651	707	936
Operating Profit (EBIT)	**399**	**1,176**	**1,285**	**1,337**
Interest (Exp) / Inc	159	-193	-183	-161
Associates	(3)	-	-	-
One-offs	656	350	0	0
Pre-Tax Profit	**220**	**973**	**1,091**	**1,164**
Tax	20	-10	-11	-12
Minority Interest	4	-17	-19	-21
Net Profit	**712**	**1,306**	**1,072**	**1,143**
Recurring Net Profit	**57**	**956**	**1,072**	**1,143**
Revenue Growth %	-10.0	45.1	5.9	3.1
EBITDA Growth (%)	2.1	163.3	9.2	14.6
EBIT Growth (%)	101.0	194.8	9.3	4.0
Net Profit Growth (%)	436.6	83.3	-17.9	6.7
Recurring Net Profit Growth (%)	23.7	1,589.5	12.1	6.7
Tax Rate %	8.3	1.0	1.0	1.0

BALANCE SHEET (Btmn)

FY December	2012	2013F	2014F	2015F
Fixed Assets	5,398	5,937	6,325	5,984
Other LT Assets	163	83	84	84
Cash / ST Investments	400	808	916	2,326
Other Current Assets	4,295	5,332	5,531	4,434
Total Assets	**10,256**	**12,160**	**12,857**	**12,828**
ST Debt	5,771	6,820	7,019	6,598
Other Current Liabilities	13	368	390	402
LT Debt	1,327	844	644	292
Other LT Liabilities	67	66	64	62
Minority Interest	13	0	0	1
Shareholders' Equity	3,064	4,062	4,740	5,472
Total Liabilities-Capital	**10,256**	**12,160**	**12,857**	**12,828**
Share Capital (mn)	462	496	531	577
Gross Debt / (Cash)	5,531	4,994	5,082	5,180
Net Debt / (Cash)	5,131	4,186	4,166	2,854
Working Capital	-1,089	-1,048	-961	-240
BVPS	6.51	8.19	8.93	9.49

CASH FLOW (THB mn)

FY December	2012	2013F	2014F	2015F
Profit before taxation	240	983	1,102	1,176
Depreciation	488	651	707	936
Net interest receipts / (payments)	-159	-193	-183	-161
Working capital change	-685	-1,561	-89	817
Cash tax paid	-20	-10	-11	-12
Others (inc.exceptional items)	1,788	1,636	144	130
Cash flow from operations	**1,651**	**1,506**	**1,670**	**2,887**
Capex	-986	-1,190	-1,095	-595
Disposals / (purchases)	0	0	0	1
Others	-166	79	0	0
Cash flow from investing	**-1,152**	**-1,111**	**-1,095**	**-594**
Debt raised / (repaid)	212	253	-112	-492
Equity raised / (repaid)	109	24	35	47
Dividends (paid)	-142	-265	-389	-438
Interest payments	-159	-193	-183	-161
Others	-654	193	183	162
Cash flow from financing	**-634**	**12**	**-466**	**-882**
Change in cash	-135	407	109	1,411

RATES & RATIOS

FY December	2012	2013F	2014F	2015F
Gross margin %	19.2	25.0	25.3	25.4
EBITDA Margin %	10.2	18.4	19.0	21.1
Op. Profit Margin %	2.6	11.5	11.9	12.0
Net Profit Margin %	11.0	13.9	10.8	11.1
ROE %	23.1	32.1	22.6	20.9
ROA %	3.9	9.7	10.0	10.4
Net Margin Ex. EI %	0.9	10.2	10.8	11.1
Dividend Cover (x)	2.8	3.4	2.5	2.5
Interest Cover (x)	-2.5	6.1	7.0	8.3
Asset Turnover (x)	0.6	0.8	0.8	0.8
Asset / Debt (x)	1.4	1.5	1.6	1.7
Debtors Turn (days)	124.8	125.9	121.7	91.3
Creditors Turn (days)	88.3	73.0	73.0	60.8
Inventory Turn (days)	69.9	81.1	81.1	66.4
Net Gearing %	180.5	122.9	107.2	94.7
Debt / EBITDA (x)	10.9	4.7	4.3	3.4
Debt / Market Cap (x)	1.0	1.0	0.9	0.8

Source: Company reports and MBKET estimates.

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DPS = Dividend Per Share
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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
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PE = Price Earnings
PEG = PE Ratio To Growth
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△△△△△		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
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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	
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