KCE Electronics PCL (KCE)

A weak baht, a new plant and a bright 4Q13

Buy (unchanged)

CGR Scoring Rating

Share price:	Bt17.70
Target price:	Bt26.30 *(unchanged)*

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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.

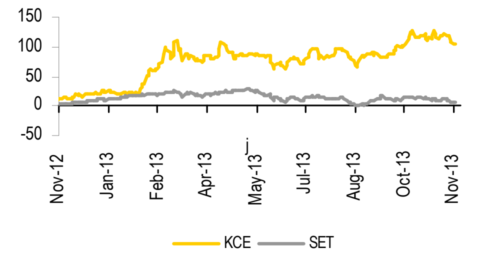
Ticker :	KCE
Shares Issued (mn):	469
Market Cap (Btmn)	8,306
Market Cap (US$ m)	258.84
3-mth Avg. Daily Turnover (Btmn)	48.18
SET index	1,352.86
Free float (%)	55.57

Major Shareholders :	%
Aongkosit Family	32.77
HSBC (SINGAPORE) NOMINEES PTE LTD	6.60

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: Bt 20.00/Bt 8.75

	1-mth	3-mth	6-mth	1-yrs	YTD
Absolute (%)	-6.3	15.7	8.6	98.9	70.2
Relative (%)	0.7	13.7	30.0	89.8	75.1

KCE is a safe stock with the political tension impact and the 4Q13 profit is forecast to grow strongly by 136% YoY, bolstered by a high order book through next year. KCE was added to the MSCI Global SMALL Cap, effective today and a new plant will start generating revenue from next year. KCE directly benefits from a weakening baht. The current valuation remains attractive on a 2014 PER of 8.8x vs. the high dividend yield of 4.6% (2014). We thus reiterate a Buy call on our 2014 top pick with a TP of Bt26.30 (PER 13x).

Added to the MSCI with added benefit of a weak baht. KCE was added to the MSCI Global Small Cap, effective today and we expect KCE shares to outperform the market. The weakened baht also benefits KCE as most revenue is in US$ with most costs in baht (raw material, overhead and staffing), driving the gross profit margin upward. However, KCE could see an F/X loss due to foreign loans, but this would be a non-cash item.

New plant to contribute revenue in 4Q14. KCE is constructing a larger plant for better efficiency in 3 phases. The 1st phase will add 700,000 sqm/ month of capacity to be completed in 3Q14 with revenue contributions in 4Q14 (not priced into our projection). The currently total capacity is 22.5mn sqm/month and is insufficient, so this new plant will strengthen KCE revenue and profit over the long term. The 2nd and 3rd phases will be completed 1 - 2 years after the 1st phase, driving the profit further in the next 3 years. The capex of Bt4bn will come from bank loans, insurance gains (to be booked in 1Q14) and the exercise of the warrants.

Brighter 4Q13 outlook, a cheap price with a high yield. KCE has the highest growth potential in the sector as we see KCE limited political impact with benefits from recovering world economy. We project the 4Q13 profit at Bt248mn, dropping 18% QoQ from the seasonal impact, but growing 136% YoY, driven by high customer orders. A dip in share price now offers a cheap valuation at a 2014 PER of 8.8x vs. high dividend yield of 2.9% for 2H13 (Bt0.52) and 4.6% in 2014 (Bt0.81). With a 49% upside, we reiterate a Buy call for our sector top pick at a TP of Bt26.30.

Risks. The volatile baht and a slowdown in the world economy that could hurt KCE performance. However, we expect just 12% earnings growth in 2014.

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	182.7	144.5	9.2	8.8	8.9
EV/EBITDA (x)	12.8	12.1	5.2	4.9	3.7
Div Yield (%)	1.1	3.1	4.4	4.6	4.5
P/BV(x)	3.3	2.7	2.2	2.0	1.9
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)	-	-	*1,227*	*1,076*	*1,234*

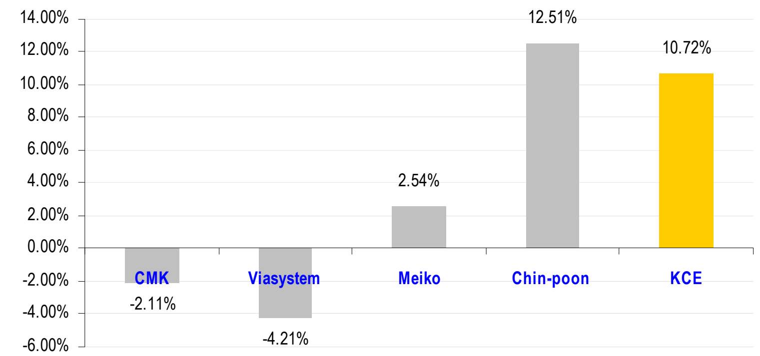
Source: Company reports and MBKET estimates.

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: Top 5 PCB automotive makers and NPM (as of 2Q13)



Source: Company reports.

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	**240**	**983**	**1,102**	**1,176**
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 (Btmn)

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)	0.9	0.9	0.9	0.7

Source: Company reports and MBKET estimates.

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Adex = Advertising Expenditure
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Capex = Capital Expenditure
CY = Calendar Year
DCF = Discounted Cashflow
DPS = Dividend Per Share
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EBITDA = EBIT, Depreciation And Amortisation
EPS = Earnings Per Share
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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 2013

Score Range	Number of Logo	Description
90-100	△△△△△	Excellent
80-89	△△△△	Very Good
70-79	△△△	Good
60-69	△△	Satisfactory
50-59	△	Pass
Lower than 50	No logo given	N/A

△△△△△		HEMRAJ	PAP	RS	SNC			
ADVANC	CIMBT	ICC	PG	S&J	SPALI			
AOT	CK	INTUCH	PHOL	SAMART	SPI			
ASIMAR	CPF	IRPC	PR	SAMTEL	SSI			
BAFS	CPN	IVL	PRANDA	SAT	SSSC			
BANPU	CSL	KBANK	PS	SC	SVI			
BAY	DRT	KKP	PSL	SCB	SYMC			
BBL	DTAC	KTB	PTT	SCC	TCAP			
BCP	EASTW	LPN	PTTEP	SCSMG	THAI			
BECL	EGCO	MCOT	PTTGC	SE-ED	THCOM	TKT	TRC	UV
BKI	ERW	MINT	QH	SIM	THRE	TMB	TRUE	VGI
BROOK	GRAMMY	NKI	RATCH	SIS	TIP	TNITY	TIW	WACOAL
BTS	HANA	NOBLE	ROBINS	SITHAI	TISCO	TOP	TVO	
△△△△		ECL	JAS	MAKRO	PE	SINGER	THANI	TTCL
2S	BH	EE	JUBILE	MBK	PF	SIRI	THIP	TUF
ACAP	BIGC	EIC	KBS	MBKET	PJW	SKR	TICON	TWFP
AF	BJC	ESSO	KCE	MFC	PM	SMT	TIPCO	TYM
AHC	BLA	FE	KGI	MFEC	PPM	SNP	TK	UAC
AIT	BMCL	FORTH	KKC	MODERN	PPP	SPCG	TLUXE	UMI
AKP	BWG	GBX	KSL	MTI	PREB	SPPT	TMILL	UMS
AMANAH	CCET	GC	KWC	NBC	PRG	SSF	TMT	UP
AMARIN	CENTEL	GFPT	L&E	NCH	PT	STANLY	TNL	UPOIC
AMATA	CFRESH	GL	LANNA	NINE	PYLON	STEC	TOG	UT
AP	CGS	GLOW	LH	NMG	QTC	SUC	TPC	VIBHA
APCO	CHOW	GOLD	LHBANK	NSI	RASA	SUSCO	TPCORP	VIH
APCS	CM	GSTEL	LHK	NWR	SABINA	SYNTEC	TPIPL	VNG
ASIA	CNT	GUNKUL	LIVE	OCC	SAMCO	TASCO	TRT	VNT
ASK	CPALL	HMPRO	LOXLEY	OFM	SCCC	TCP	TRU	YUASA
ASP	CSC	HTC	LRH	OGC	SCG	TF	TSC	ZMICO
AYUD	DCC	IFEC	LST	OISHI	SEAFCO	TFD	TSTE	
BEC	DELTA	INET	MACO	PB	SFP	TFI	TSTH	
BFIT	DTC	ITD	MAJOR	PDI	SIAM	THANA	TTA	
△△△		DEMCO	HTECH	KWH	PAE	SIMAT	TIC	UEC
A	BGT	DNA	HYDRO	LALIN	PATO	SLC	TIES	UOBKH
AAV	BLAND	DRACO	IFS	LEE	PICO	SMIT	TIW	UPF
AEC	BOL	EA	IHL	MATCH	PL	SMK	TKS	UWC
SAEONTS	BROCK	EARTH	ILINK	MATI	POST	SOLAR	TMC	VARO
AFC	BSBM	EASON	INOX	MBAX	PRECHA	SPC	TMD	VTE
AGE	CHARAN	EMC	IRC	MDX	PRIN	SPG	TMI	WAVE
AH	CHUO	EPCO	IRCP	PRINC	Q-CON	SRICHA	TNDT	WG
AI	CI	F&D	IT	MJD	QLT	SSC	TNPC	WIN
AJ	CIG	FNS	JMART	MK	RCI	STA	TOPP	WORK
AKR	CITY	FOCUS	JMT	MOONG	RCL	SUPER	TPAC	
ALUCON	CMR	FPI	JTS	MPIC	ROJNA	SVOA	TPP	
ANAN	CNS	FSS	JUTHA	MSC	RPC	SWC	TR	
ARIP	CPL	GENCO	KASET	NC	SCBLIF	SYNEX	TTI	
ASIA	CRANE	GFM	KC	NIPPON	SCP	TBSP	TVD	
BAT-3K	CSP	GJS	KCAR	NNCL	SENA	TCCC	TVI	
BCH	CSR	GLOBAL	KDH	NTV	SF	TEAM	TWZ	
BEAUTY	CTW	HFT	KTC	OSK	SGP	TGCI	UBIS	

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