

KCE Electronics

KCE TB / KCE.BK

4 February 2014

Fatter GM and lower interest expenses prompt earnings projection upgrades

Investment thesis

Our meeting with executives yesterday confirmed our view of KCE's strong profitability profile. We expect new records to be posted for 4Q13 core and net profit, even though the quarter is normally a low period for sales. Moreover, hefty YoY GM expansion should continue through 1Q-3Q14. As such, we have revised up our FY14 earnings forecast on lower interest expenses and higher GM assumptions, prompting us to raise our YE14 target price from Bt21.4 to Bt28.0, pegged to a core PER of 12.5x, which translates into PEG of 0.9x. Our BUY rating stands.

Strong 4Q13 core profit—no seasonal effect

4Q13 sales look set to be posted in line with management guidance and our assumption of US\$75m. Despite the quarter being low season, sales (excluding revenue from Chemtronics) declined only slightly from 3Q13's \$77m. We now expect 4Q13 core profit to exceed our previous estimate of Bt240m, due to fatter GM and a lower SG&A-to-sales ratio than assumed earlier. We have upped our 4Q13 GM expectation from 26% to 28%, as we believe it expanded on the twin effects of a lower scrap rate (from about 3.9% in 3Q13 to ~3.5%) and baht depreciation. The SG&A/sales should post a decline from 14.2% in 3Q13 to 13.2% in 4Q13 on cost control.

We now have a new 4Q13 core earnings estimate of Bt333m, up by 199% YoY and 4% QoQ. KCE also booked a gain from an insurance payout of around Bt30m to its income statement. So, net profit should post a new record at Bt364m.

FY14 prospects look secure

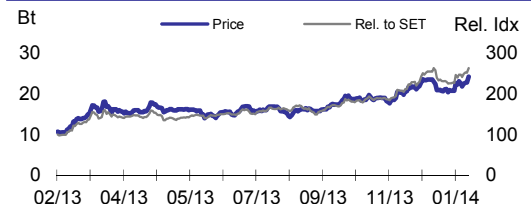
Automotive customers will drive FY14 sales. The company guides for a top-line of at least Bt10bn this year, based on client demand. 1Q14 orders-to-date secure 98% of KCE's target for the quarter of at least US\$75m and orders are coming in for delivery in 2Q14. We believe management's FY14 target of 10-15% sales growth in dollar terms is achievable, as big-ticket customers that had shifted to other suppliers in the wake of the 4Q11 flooding are returning. Moreover, new clients plan to increase orders this year.

FY14 forecast raised—lower interest expenses & fatter GM

We have revised up our FY14 earnings projection on a lower interest expenses assumption. KCE received an insurance payout for property damage of around Bt1.3bn during 4Q13 and repaid debt (some of the payout was booked to the income statement, some to the balance sheet). As such, its interest expenses will fall by about Bt18m/quarter. We have also increased our GM assumption to fine-tune for fatter margin guidance from KCE. As such, our FY14 net profit forecast jumps 21% from our earlier projection to Bt1.3bn (up 26% YoY).

Sector: Electronics Overweight
Rating: BUY
Target Price: Bt28.00
Price (3 February 2014): Bt24.20

Price chart

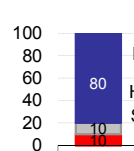


Share price perf. (%)	1M	3M	12M
Relative to SET	10.2	37.7	140.3
Absolute	15.8	30.8	126.2

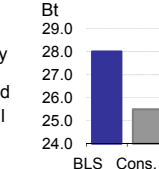
Key statistics

Market cap	Bt11.6bn	USD0.4bn
12-mth price range	Bt10.4/Bt24.3	
12-mth avg daily volume	Bt71m	USD2.2m
# of shares (m)	480	
Est. free float (%)	55.6	
Foreign limit (%)	49.0	

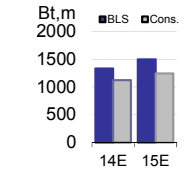
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2013E	2014E	2015E	2016E
Revenues (Btm)	9,286	10,335	11,849	13,542
Net profit (Btm)	1,164	1,331	1,497	1,583
EPS (Bt)	1.98	2.27	2.55	2.69
EPS growth (%)	+31%	+14.4%	+12.5%	+5.7%
Core profit (Btm)	1,045	1,314	1,479	1,565
Core EPS (Bt)	1.78	2.24	2.52	2.66
Core EPS growth (%)	+1,284%	+26%	+12.6%	+5.8%
PER (x)	12.2	10.7	9.5	9.0
PBV (x)	3.1	2.6	2.2	1.8
Dividend (Bt)	0.6	0.7	0.8	0.8
Dividend yield (%)	2.5	2.8	3.2	3.3
ROE (%)	29.7	26.2	24.6	22.1

CG rating



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KCE : Financial Tables – Year

PROFIT & LOSS (Btm)	2012	2013E	2014E	2015E	2016E
Revenue	6,478	9,286	10,335	11,849	13,542
Cost of sales and services	(5,232)	(6,858)	(7,519)	(8,882)	(10,314)
Gross profit	1,246	2,428	2,816	2,967	3,228
SG&A	(1,075)	(1,300)	(1,416)	(1,540)	(1,760)
EBIT	170	1,128	1,400	1,427	1,468
Interest expense	(159)	(168)	(140)	(194)	(186)
Other income/exp.	72	87	80	276	315
EBT	83	1,047	1,341	1,509	1,597
Corporate tax	(20)	(21)	(27)	(30)	(32)
After-tax net profit (loss)	63	1,026	1,314	1,479	1,565
Minority interest	0	(2)	0	0	0
Equity earnings from affiliates	(3)	20	0	0	0
Extra items	656	119	17	18	18
Net profit (loss)	717	1,164	1,331	1,497	1,583
Reported EPS	1.52	1.98	2.27	2.55	2.69
Fully diluted EPS	1.52	1.98	2.27	2.55	2.69
Core net profit	61	1,045	1,314	1,479	1,565
Core EPS	0.13	1.78	2.24	2.52	2.66
EBITDA	730	1,912	2,381	2,574	2,719

KEY RATIOS

Revenue growth (%)	(10.0)	43.3	11.3	14.7	14.3
Gross margin (%)	19.2	26.2	27.2	25.0	23.8
EBITDA margin (%)	11.3	20.6	23.0	21.7	20.1
Operating margin (%)	3.7	13.1	14.3	14.4	13.2
Net margin (%)	11.1	12.5	12.9	12.6	11.7
Core profit margin (%)	0.9	11.3	12.7	12.5	11.6
ROA (%)	7.3	10.8	10.8	10.8	10.4
ROCE (%)	8.6	13.4	13.9	13.9	13.6
Asset turnover (x)	0.7	0.9	0.8	0.9	0.9
Current ratio (x)	0.8	0.8	1.0	1.2	1.2
Gearing ratio (x)	1.7	0.9	0.9	0.7	0.6
Interest coverage (x)	1.1	6.7	10.0	7.4	7.9

BALANCE SHEET (Btm)

Cash & Equivalent	397	567	989	1,456	1,743
Accounts receivable	2,215	2,699	3,004	3,445	3,937
Inventory	1,240	2,014	2,343	2,687	3,070
PP&E-net	5,237	5,551	6,469	6,246	6,698
Other assets	1,166	438	552	582	652
Total assets	10,256	11,269	13,357	14,415	16,100
Accounts payable	1,566	2,691	2,996	3,435	3,925
ST debts & current portion	4,205	3,817	3,638	2,982	3,405
Long-term debt	1,327	207	1,239	1,465	1,129
Other liabilities	81	81	81	81	81
Total liabilities	7,178	6,797	7,953	7,963	8,540
Paid-up capital	473	592	592	592	592
Share premium	1,111	1,572	1,572	1,572	1,572
Retained earnings	1,637	2,452	3,384	4,432	5,540
Shareholders equity	3,225	4,620	5,552	6,600	7,708
Minority interests	13	13	13	13	13
Total Liab.&Shareholders' equity	10,417	11,430	13,518	14,576	16,261

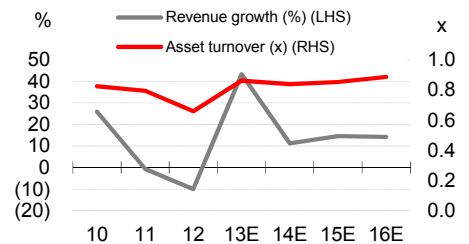
CASH FLOW (Btm)

Net income	717	1,164	1,331	1,497	1,583
Depreciation and amortization	488	698	900	871	936
Change in working capital	129	(133)	(341)	(360)	(402)
FX, non-cash adjustment & others	156	747	0	0	0
Cash flows from operating activities	1,490	2,475	1,891	2,008	2,117
Capex (Invest)/Divest	(982)	(1,030)	(1,921)	(663)	(1,441)
Others	(170)	0	0	0	0
Cash flows from investing activities	(1,152)	(1,030)	(1,921)	(663)	(1,441)
Debt financing (repayment)	(290)	(1,507)	852	(429)	86
Equity financing	(41)	580	0	0	0
Dividend payment	(142)	(349)	(399)	(449)	(475)
Others	(170)	0	0	0	0
Cash flows from financing activities	(476)	(1,275)	453	(878)	(388)
Net change in cash	(138)	169	423	467	287
Free cash flow (Btm)	508	1,445	(30)	1,345	675
FCF per share (Bt)	1.1	2.5	(0.1)	2.3	1.1

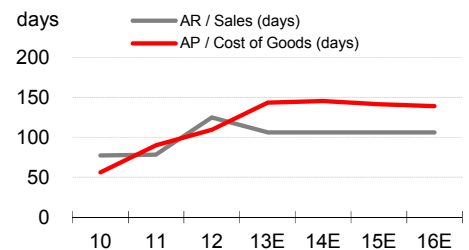
KEY ASSUMPTIONS

SIA Semiconductor growth	5%	2%	5%	4%	6%
Volume Growth	-12%	43%	5%	13%	15%
Utilization rate	65%	86%	87%	77%	80%
Payout ratio	36%	30%	30%	30%	30%
FX	30.9	30.7	32.9	33.2	33.1
LME Copper Price (US\$/t)	7,946	8,322	7,826	7,055	6,614

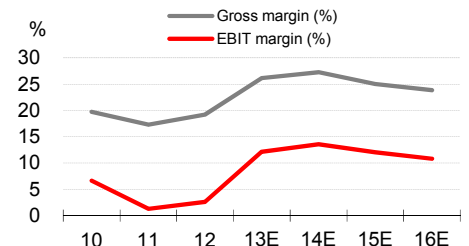
Revenue growth and asset turnover



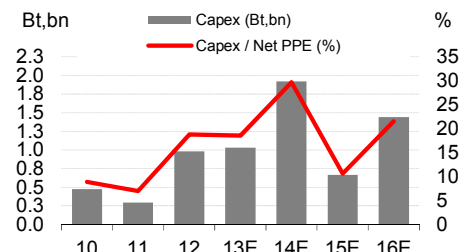
A/C receivable & A/C payable days



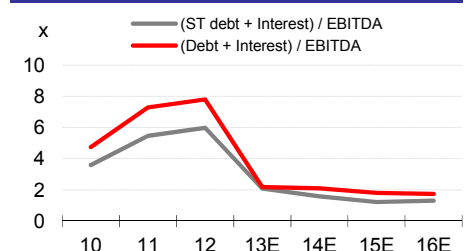
Profit margins



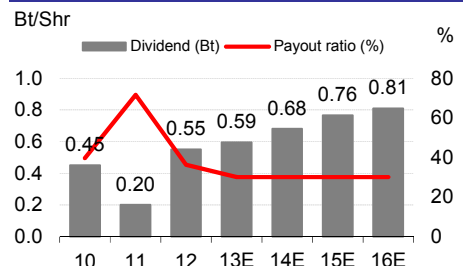
Capital expenditure



Debt serviceability



Dividend payout



KCE : Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	3Q12	4Q12	1Q13	2Q13	3Q13
Revenue	1,757	1,868	2,000	2,262	2,540
Cost of sales and services	(1,441)	(1,486)	(1,555)	(1,698)	(1,816)
Gross profit	316	382	445	563	724
SG&A	(248)	(263)	(267)	(342)	(361)
EBIT	68	119	177	221	363
Interest expense	(38)	(42)	(39)	(44)	(45)
Other income/exp.	10	36	15	51	16
EBT	39	113	153	228	334
Corporate tax	(6)	(3)	(2)	6	(21)
After-tax net profit (loss)	34	110	151	234	313
Minority interest	0.0	0.0	0.0	(1.6)	0.0
Equity earnings from affiliates	0.6	2.0	3.6	4.3	6.3
Extra items	210	107	118	(40)	10
Net profit (loss)	244	218	273	197	330
Reported EPS	0.52	0.46	0.46	0.34	0.56
Fully diluted EPS	0.52	0.46	0.46	0.34	0.56
Core net profit	34	112	155	237	319
Core EPS	0.07	0.24	0.26	0.40	0.54
EBITDA	78	154	192	272	379

KEY RATIOS

Gross margin (%)	18.0	20.5	22.2	24.9	28.5
EBITDA margin (%)	4.4	8.3	9.6	12.0	14.9
Operating margin (%)	4.4	8.3	9.6	12.0	14.9
Net margin (%)	13.9	11.7	13.7	8.7	13.0
Core profit margin (%)	1.9	6.0	7.7	10.5	12.6
BV (Bt)	6.3	6.9	6.0	5.9	6.3
ROE (%)	33.8	28.1	32.4	22.7	36.8
ROA (%)	9.6	8.5	10.3	7.1	11.4
Current ratio (x)	0.8	0.8	0.8	0.8	0.8
Gearing ratio (x)	1.9	1.7	1.6	1.7	1.6
Interest coverage (x)	2.0	3.7	5.0	6.2	8.3

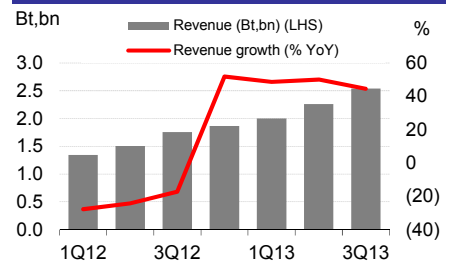
QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	536	397	369	286	252
Accounts receivable	2,095	2,215	2,540	3,009	3,421
Inventory	1,288	1,240	1,420	1,371	1,460
PP&E-net	5,102	5,237	5,367	5,459	5,497
Other assets	1,349	1,166	1,183	1,237	1,211
Total assets	10,369	10,256	10,880	11,363	11,842
Accounts payable	1,701	1,566	1,823	1,891	1,940
ST debts & current portion	4,720	4,205	4,474	4,940	5,243
Long-term debt	1,027	1,327	1,099	995	858
Other liabilities	80	81	113	123	128
Total liabilities	7,528	7,178	7,508	7,950	8,169
Paid-up capital	469	473	475	461	469
Share premium	1,086	1,111	1,129	1,037	1,073
Retained earnings	1,432	1,637	1,915	1,951	2,163
Shareholders' equity	2,987	3,225	3,521	3,450	3,707
Minority interests	(12)	13	14	15	17
Total Liab.&Shareholders' equity	10,503	10,417	11,043	11,415	11,893

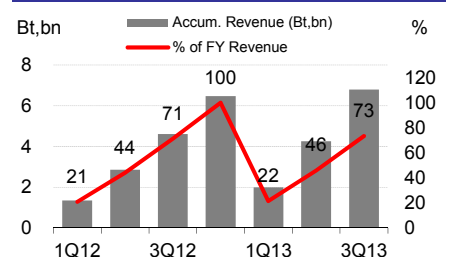
KEY STATS

	3Q12	4Q12	1Q13	2Q13	3Q13
Sale (USD term)	56	61	67	76	81
FX	31	31	30	30	31
Gain loss from FX	94	58	118	(40)	10
Insurance payout	116	49	0	0	0

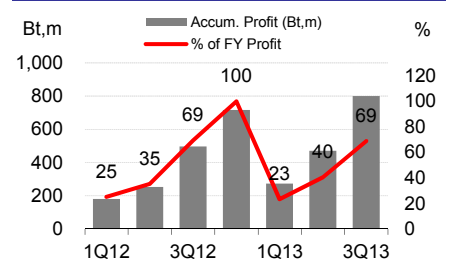
Revenue trend



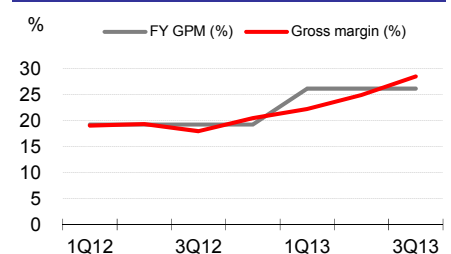
Revenue trend (accumulated)



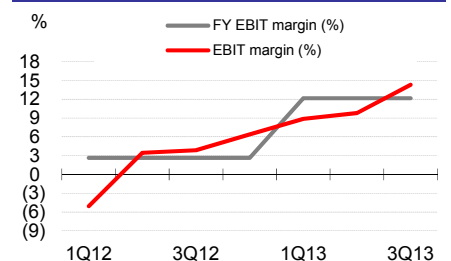
Net profit trend (accumulated)



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: 3Q13 earnings preview

FY Ended 31 Dec (Btm)	4Q13E	4Q12	YoY %	3Q13	QoQ %	2013E	2012	YoY %	Comments
Income Statement									
Revenue	2,485	1,868	33	2,540	(2)	9,286	6,478	43	Top-line should soften QoQ on seasonality
Cost of sales and services	(1,788)	(1,486)	20	(1,816)	(2)	(6,858)	(5,232)	31	
EBITDA	372	154	141	379		1,215	242		
EBIT	367	119	208	363	1	1,128	170	562	GM expanded YoY due to efficiency improvement at KCET
Interest expense	(40)	(42)	(4)	(45)	(12)	(168)	(159)	5	
Other income/exp.	5	36	(86)	16	(69)	87	72	20	
Equity earnings from affiliates	6	2	193	6	(5)	20	(3)	nm	Core profit should increase both YoY and QoQ on lower interest expense.
Extra items	30	107	(72)	10	193	119	656	(82)	
EBT	332	113	194	334	(1)	1,047	83	1,159	
Corporate tax	(4)	(3)	36	(21)	nm	(21)	(20)	6	Core profit should increase both YoY and QoQ on lower interest expense.
Minority interest	0	0	nm	0	nm	(2)	(1)	nm	
Net profit (loss)	364	218	67	330	10	1,164	716	63	
Reported EPS	0.62	0.46	34	0.6	10	1.98	1.52	31	
Core net profit	333	112	199	319	4	1,045	60	1,646	

Sources: Company data, Bualuang Research estimates

Figure 2: Changes to projections

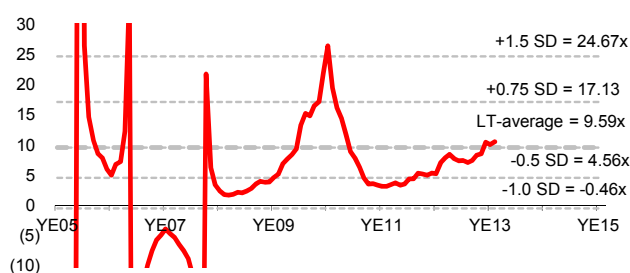
	2013E			2014E		
	Old	New	Change	Old	New	Change
Revenues (Btm)	9,256	9,286	0.3%	10,335	10,335	0.0%
GM	25.60	26.15	0.6%	23.96	27.25	3.3%
SG&A	14.50	14.00	-0.5%	13.70	13.70	0.0%
Net profit (Btm)	1,040	1,164	11.9%	1,100	1,331	21.0%
Core(Bt)	949	1,045	10.1%	1,083	1,314	21.3%
EPS (Bt)	1.77	1.98	11.9%	1.87	2.27	21.0%
Dividend (Bt)	0.53	0.59	11.9%	0.56	0.68	21.0%
Dividend yield (%)	2.81	2.46	-35.3%	2.97	2.81	-16.3%
ROE (%)	26.81	29.67	2.9%	22.36	26.17	3.8%

Sources: Company data, Bualuang Research estimates

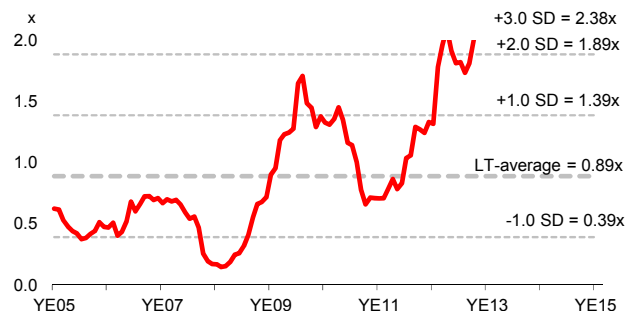
Regional Comparisons

	Bloomberg	Price	Market Cap	PER (x)	EPS Growth (%)	PBV (x)	ROE (%)	Div Yield (%)					
	Code	(local curr.)	equivalent) (US\$	2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E		
Edison Opto Corp	3591TT	TWD36.3	#N/A N/A	48.4	211	-2119	29.3	12	12	4.0	5.7	0.6	0.8
Hon Hai Precisio	2317 TT	TWD84.9	#N/A N/A	1.1	9.5	6.6	6.0	13	12	13.7	13.2	2.0	2.2
Flextronics Intl	FLEX US	USD8.1	4,886	7.9	7.4	38.0	0.1	18	14	19.0	n.a.	0.0	0.0
Jabil Circuit	JBL US	USD17.5	3,609	10.7	8.4	68.7	9.6	14	11	11.5	n.a.	1.9	1.9
Delta Electronics (Thailand)	DELTA TB	THB53.75	2,037	11.7	10.8	10.4	8.9	2.5	2.4	22.6	22.7	5.5	6.0
Hana Microelectronics	HANA TB	THB26.00	636	10.0	7.5	-13.8	34.6	12	11	12.6	15.8	6.0	6.7
KCE Electronics	KCE TB	THB24.20	353	10.7	9.5	14.4	12.5	2.6	2.2	26.2	24.6	2.8	3.2
SVI	SVI TB	THB4.28	295	12.5	9.3	-5.4	33.7	2.5	2.2	21.4	24.9	3.2	4.3
Simple average				15.3	10.4	-11.6	29.3	1.8	1.6	16.4	17.8	2.8	3.1

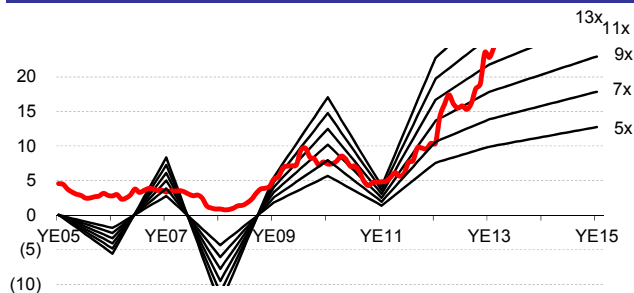
PER band versus SD (next 12 months)



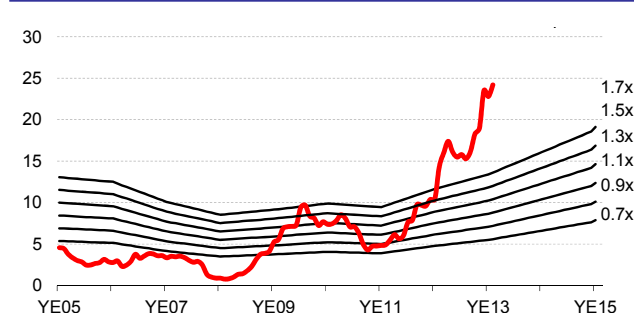
PBV band versus SD (next 12 months)



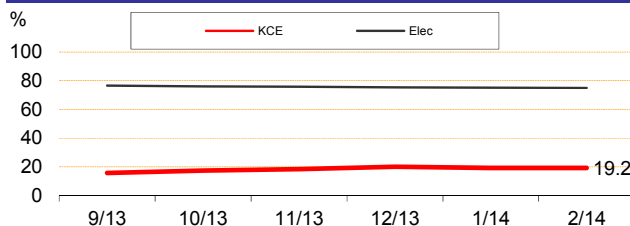
PER band and share price



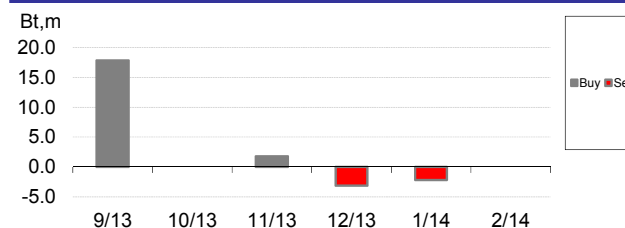
PBV band and share price



Foreign holding



Management trading activities during past six months



Bualuang Securities Public Company Limited

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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter

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.