BUALUANG SECURITIES

EARNINGS RESULTS

KCE Electronics KCE TB / KCE.BK

19 February 2014

4Q13 net profit 2% above our estimate

Slightly above our expectation

KCE posted a record high profit for 4Q13 of Bt373m, up by 156% YoY and 13% QoQ. The result exceeded our estimate by 2% and the consensus by 4%, due to a fatter gross margin than assumed. Stripping out an insurance payout and an FX gain, core profit was Bt340m, up by 767% YoY and 7% QoQ.

Results highlights

4Q13 sales totaled Bt2.5bn, up 33% YoY but down 2% QoQ on seasonality. GM expanded further to 28.9% from 28.5% in 3Q13 on the twin effects of a lower scrap rate (from 3.9% in 3Q13 to 3.5%) and baht depreciation. The SG&A/sales ratio declined from 14.2% in 3Q13 to 12.2% in 4Q13 as a result of the successful implementation of cost control measures. Core profit came to Bt340m. KCE also booked an insurance payout of around Bt33m to its income statement and an FX gain of Bt0.3m. So, net profit posted a new record of Bt373m.

Outlook

1Q14 earnings should increase further YoY, led by top-line and GM expansion. On a QoQ basis, profit is likely to drop QoQ on seasonality. Note, however, that there is scope for upside to the bottom-line from an insurance payout of around Bt100m, if KCE's claim is paid by March. Looking to FY14, we believe the firm will achieve strong YoY core profit growth during 1Q-3Q14. Earnings will decline in 4Q14 when a new plant in Ladkrabang is scheduled to start operating (we don't expect the plant to break even till 2Q15).

What's changed?

We maintain our FY14 projection unchanged for the moment.

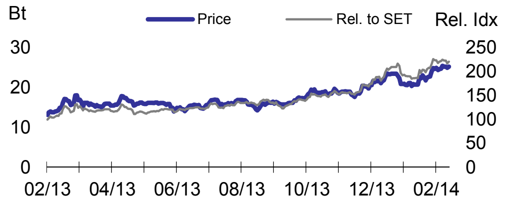
Recommendation

We like KCE for its long-term earnings growth profile, led by production efficiency improvements and an expanding top-line. We expect the new Ladkrabang capacity to initially squeeze gross margin in 4Q14, but it will prove to be only a temporary phenomenon. There would be scope for upside to our earnings model if the Ladkrabang plant were to break even earlier than expected. KCE trades at an FY14 core PER of 11.3x, just slightly above the average for our Electronics coverage 11x. We have a BUY rating on the stock with a YE14 target price of Bt28.0

Sector: Electronics Overweight

Rating: BUY
Target Price: Bt28.00
Price (18 February 2014): **Bt25.25**

Price chart

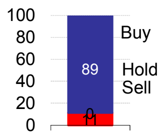


Share price perf. (%)	1M	3M	12M
Relative to SET	18.6	39.0	104.7
Absolute	21.4	32.9	91.3

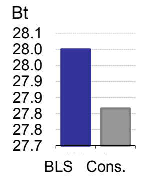
Key statistics

Market cap	Bt12.1bn	USD0.4bn
12-mth price range	Bt12.6/Bt25.8	
12-mth avg daily volume	Bt70m	USD2.2m
# of shares (m)	480	
Est. free float (%)	55.6	
Foreign limit (%)	49.0	

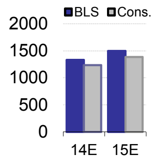
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2013	2014E	2015E	2016E
Revenues (Btm)	9,294	10,335	11,849	13,542
Net profit (Btm)	1,174	1,331	1,497	1,583
EPS (Bt)	2.00	2.27	2.55	2.69
EPS growth (%)	+47%	+13.4%	+12.5%	+5.7%
Core profit (Btm)	1,052	1,314	1,479	1,565
Core EPS (Bt)	1.79	2.24	2.52	2.66
Core EPS growth (%	n.m.	+25%	+12.6%	+5.8%
PER (x)	12.6	11.1	9.9	9.4
PBV (x)	3.6	2.9	2.4	2.0
Dividend (Bt)	0.6	0.7	0.8	0.8
Dividend yield (%)	2.4	2.7	3.0	3.2
ROE (%)	31.9	28.9	26.8	23.7

CG rating

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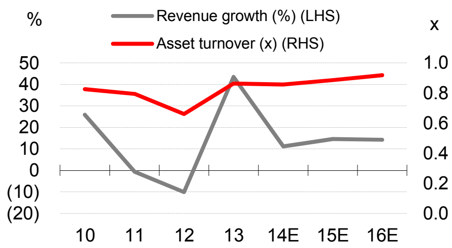
BUALUANG SECURITIES

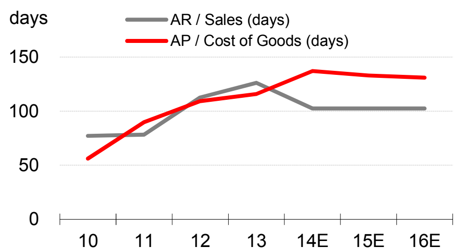
KCE : Financial Tables – Year

PROFIT & LOSS (Btm)	2012	2013	2014E	2015E	2016E
Revenue	6,478	9,294	10,335	11,849	13,542
Cost of sales and services	(5,232)	(6,843)	(7,519)	(8,882)	(10,314)
Gross profit	**1,246**	**2,451**	**2,816**	**2,967**	**3,228**
SG&A	(1,075)	(1,275)	(1,416)	(1,540)	(1,760)
EBIT	**170**	**1,177**	**1,400**	**1,427**	**1,468**
Interest expense	(159)	(171)	(140)	(194)	(186)
Other income/exp.	72	57	80	276	315
EBT	**83**	**1,063**	**1,341**	**1,509**	**1,597**
Corporate tax	(90)	(16)	(27)	(30)	(32)
After-tax net profit (loss)	**(6)**	**1,047**	**1,314**	**1,479**	**1,565**
Minority interest	(3)	(8)	0	0	0
Equity earnings from affiliates	(3)	13	0	0	0
Extra items	656	122	17	18	18
Net profit (loss)	**643**	**1,174**	**1,331**	**1,497**	**1,583**
Reported EPS	1.36	2.00	2.27	2.55	2.69
Fully diluted EPS	**1.36**	**2.00**	**2.27**	**2.55**	**2.69**
Core net profit	**(13)**	**1,052**	**1,314**	**1,479**	**1,565**
Core EPS	(0.03)	1.79	2.24	2.52	2.66
EBITDA	**730**	**1,762**	**2,356**	**2,552**	**2,699**
KEY RATIOS					
Revenue growth (%)	(10.0)	43.5	11.2	14.7	14.3
Gross margin (%)	19.2	26.4	27.2	25.0	23.8
EBITDA margin (%)	11.3	19.0	22.8	21.5	19.9
Operating margin (%)	3.7	13.3	14.3	14.4	13.2
Net margin (%)	9.9	12.6	12.9	12.6	11.7
Core profit margin (%)	(0.2)	11.3	12.7	12.5	11.6
ROA (%)	6.6	10.9	11.0	11.2	10.7
ROCE (%)	7.7	13.2	14.0	14.6	14.2
Asset turnover (x)	0.7	0.9	0.9	0.9	0.9
Current ratio (x)	0.8	0.9	0.9	1.2	1.2
Gearing ratio (x)	1.7	1.2	1.0	0.7	0.6
Interest coverage (x)	1.1	6.9	10.0	7.4	7.9
BALANCE SHEET (Btm)					
Cash & Equivalent	397	402	522	936	1,170
Accounts receivable	1,999	3,216	2,900	3,325	3,800
Inventory	1,240	1,345	2,029	2,326	2,659
PP&E-net	5,237	5,343	6,286	6,084	6,557
Other assets	1,399	978	1,136	1,233	1,377
Total assets	**10,272**	**11,284**	**12,873**	**13,905**	**15,562**
Accounts payable	1,566	2,173	2,824	3,238	3,700
ST debts & current portion	4,205	4,069	3,624	2,968	3,391
Long-term debt	1,327	783	1,234	1,460	1,124
Other liabilities	93	149	149	149	149
Total liabilities	**7,190**	**7,174**	**7,831**	**7,815**	**8,364**
Paid-up capital	473	480	480	480	480
Share premium	1,111	1,120	1,120	1,120	1,120
Retained earnings	1,643	2,537	3,469	4,517	5,625
Shareholders equity	**3,231**	**4,138**	**5,070**	**6,118**	**7,225**
Minority interests	13	20	20	20	20
Total Liab.&Shareholders' equity	**10,433**	**11,332**	**12,920**	**13,952**	**15,609**
CASH FLOW (Btm)					
Net income	643	1,174	1,331	1,497	1,583
Depreciation and amortization	488	529	876	849	917
Change in working capital	129	(931)	227	(390)	(436)
FX, non-cash adjustment & others	230	1,198	(0)	0	0
Cash flows from operating activities	**1,490**	**1,969**	**2,434**	**1,956**	**2,063**
Capex (Invest)/Divest	(982)	(1,624)	(1,921)	(663)	(1,441)
Others	(170)	8	0	0	0
Cash flows from investing activities	**(1,152)**	**(1,616)**	**(1,921)**	**(663)**	**(1,441)**
Debt financing (repayment)	(290)	(188)	6	(429)	86
Equity financing	(41)	118	0	0	0
Dividend payment	(142)	(278)	(399)	(449)	(475)
Others	(170)	8	0	0	0
Cash flows from financing activities	**(476)**	**(348)**	**(393)**	**(878)**	**(388)**
Net change in cash	(138)	5	120	414	234
Free cash flow (Btm)	**508**	**345**	**513**	**1,293**	**622**
FCF per share (Bt)	**1.1**	**0.6**	**0.9**	**2.2**	**1.1**
KEY ASSUMPTIONS	**2012**	**2013**	**2014E**	**2015E**	**2016E**
SIA Semiconductor growth	5%	2%	5%	4%	6%
Volume Growth	-12%	45%	4%	13%	15%
Utilization rate	65%	86%	87%	77%	80%
Payout ratio	40%	30%	30%	30%	30%
FX	30.9	30.6	32.9	33.2	33.1
LME Copper Price (US$/t)	7,946	8,322	7,826	7,055	6,614

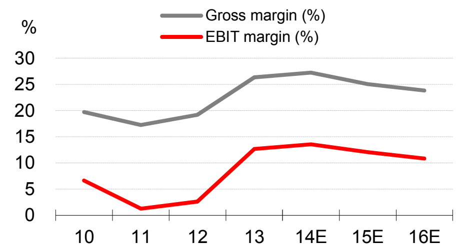
Revenue growth and asset turnover



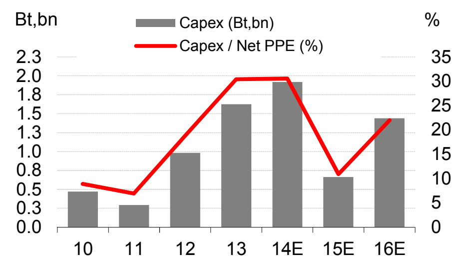
A/C receivable & A/C payable days



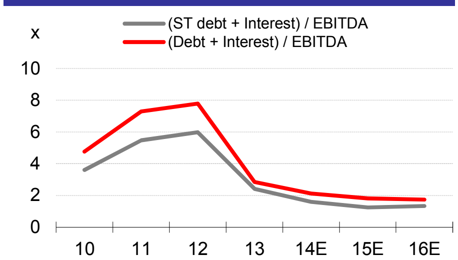
Profit margins



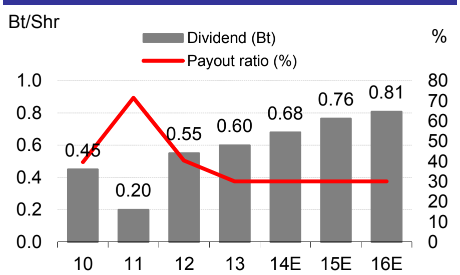
Capital expenditure



Debt serviceability



Dividend payout

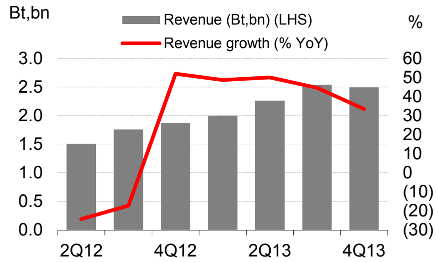


KCE : Financial Tables – Quarter

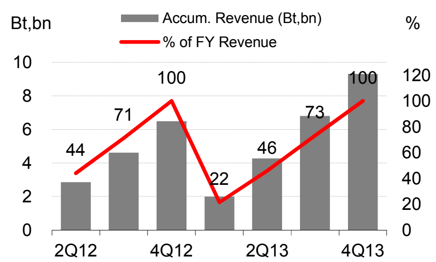
QUARTERLY PROFIT & LOSS (Btm)	4Q12	1Q13	2Q13	3Q13	4Q13
Revenue	1,868	2,000	2,262	2,540	2,493
Cost of sales and services	(1,486)	(1,555)	(1,698)	(1,816)	(1,774)
Gross profit	382	445	563	724	719
SG&A	(263)	(267)	(342)	(361)	(304)
EBIT	**119**	**177**	**221**	**363**	**415**
Interest expense	(42)	(39)	(44)	(45)	(43)
Other income/exp.	36	15	51	16	(25)
EBT	**113**	**153**	**228**	**334**	**348**
Corporate tax	(73)	(2)	6	(21)	0
After-tax net profit (loss)	40	151	234	313	348
Minority interest	(2.5)	0.0	(1.6)	0.0	(6.4)
Equity earnings from affiliates	2.0	3.6	4.3	6.3	(1.2)
Extra items	107	118	(40)	10	33
Net profit (loss)	**146**	**273**	**197**	**330**	**373**
Reported EPS	0.31	0.46	0.34	0.56	0.63
Fully diluted EPS	**0.31**	**0.46**	**0.34**	**0.56**	**0.63**
Core net profit	**39**	**155**	**237**	**319**	**340**
Core EPS	0.08	0.26	0.40	0.54	0.58
EBITDA	**154**	**192**	**272**	**379**	**390**
KEY RATIOS					
Gross margin (%)	20.5	22.2	24.9	28.5	28.9
EBITDA margin (%)	8.3	9.6	12.0	14.9	15.7
Operating margin (%)	8.3	9.6	12.0	14.9	15.7
Net margin (%)	7.8	13.7	8.7	13.0	15.0
Core profit margin (%)	2.1	7.7	10.5	12.6	13.7
BV (Bt)	6.9	6.0	5.9	6.3	7.1
ROE (%)	18.8	32.4	22.7	36.8	38.1
ROA (%)	5.7	10.3	7.1	11.4	12.9
Current ratio (x)	0.8	0.8	0.8	0.8	0.9
Gearing ratio (x)	1.7	1.6	1.7	1.6	1.2
Interest coverage (x)	3.7	5.0	6.2	8.3	9.1
QUARTERLY BALANCE SHEET (Btm)					
Cash & Equivalent	397	369	286	252	402
Accounts receivable	1,999	2,540	3,009	3,421	3,216
Inventory	1,240	1,420	1,371	1,460	1,345
PP&E-net	5,237	5,367	5,459	5,497	5,343
Other assets	1,399	1,167	1,193	1,174	978
Total assets	**10,272**	**10,864**	**11,319**	**11,804**	**11,284**
Accounts payable	1,566	1,823	1,891	1,940	2,173
ST debts & current portion	4,205	4,474	4,940	5,243	4,069
Long-term debt	1,327	1,099	995	858	783
Other liabilities	93	113	123	128	149
Total liabilities	**7,190**	**7,508**	**7,950**	**8,169**	**7,174**
Paid-up capital	473	475	461	469	480
Share premium	1,111	1,129	1,037	1,073	1,120
Retained earnings	1,643	1,915	1,951	2,163	2,537
Shareholders equity	**3,231**	**3,521**	**3,450**	**3,707**	**4,138**
Minority interests	13	14	15	17	20
Total Liab.&Shareholders' equity	**10,433**	**11,043**	**11,415**	**11,893**	**11,332**

KEY STATS	4Q12	1Q13	2Q13	3Q13	4Q13
Sale (USD term)	61	67	76	81	79
FX	31	30	30	31	32
Gain loss from FX	58	118	(40)	10	0
Insurance payout	49	0	0	0	33

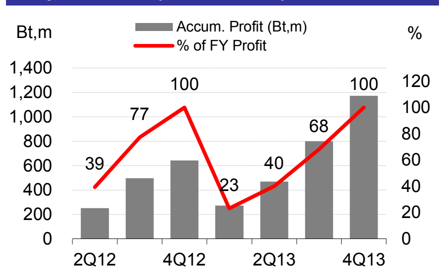
Revenue trend



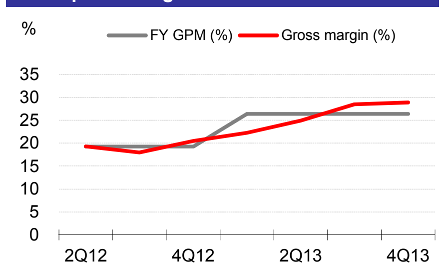
Revenue trend (accumulated)



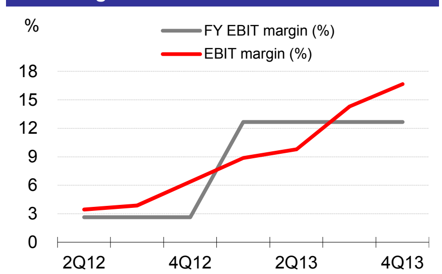
Net profit trend (accumulated)



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 : 4Q13 results

FY Ended 31 Dec (Btm)	4Q13	4Q12	YoY %	3Q13	QoQ %	2013	2012	YoY %
Income Statement								
Revenue	2,493	1,868	*33*	2,540	*(2)*	9,294	6,478	*43*
Cost of sales and services	(1,774)	(1,486)	*19*	(1,816)	*(2)*	(6,843)	(5,232)	*31*
EBITDA	390	154	*153*	379		1,233	242	
EBIT	415	119	*249*	363	*14*	1,177	170	*590*
Interest expense	(43)	(42)	*3*	(45)	*(6)*	(171)	(159)	*7*
Other income/exp.	(25)	36	*(169)*	16	*(253)*	57	72	*(21)*
Equity earnings from affiliates	(1)	2	*(157)*	6	*(118)*	13	(3)	*nm*
Extra items	33	107	*(69)*	10	*219*	122	656	*(81)*
EBT	**348**	**113**	*208*	**334**	*4*	**1,063**	**83**	*1,178*
Corporate tax	0	(73)	*(100)*	(21)	*nm*	(16)	(90)	*(82)*
Minority interest	(6)	(3)	*nm*	0	*nm*	(8)	(3)	*nm*
Net profit (loss)	**373**	**146**	*156*	**330**	*13*	**1,174**	**643**	*82*
Reported EPS	0.63	0.31	*105*	0.6	*13*	2.00	1.36	*47*
Core net profit	**340**	**39**	*767*	**319**	*7*	**1,052**	**(13)**	*nm*
Key ratios								
Gross margin (%)	28.9	20.5		28.5		26.4	19.2	
EBITDA margin (%)	15.7	8.3		14.9		13.3	3.7	
EBIT margin (%)	16.6	6.4		14.3		12.7	2.6	
Tax rate (%)	(0.1)	64.7		6.2		1.5	107.8	
Net margin (%)	15.0	7.8		13.0		12.6	9.9	
Current ratio (x)	0.9	0.8		0.8		0.9	0.8	
Gearing ratio (x)	1.2	1.7		1.6		1.2	1.7	
Interest coverage (x)	9.1	3.7		8.3		6.9	1.1	
Balance Sheet								
Cash & Equivalent	402	397	1	252	59			
Total assets	11,284	10,272	10	11,804	(4)			
ST debts & current portion	4,069	4,205	(3)	5,243	(22)			
Long-term debt	783	1,327	(41)	858	(9)			
Total liabilities	7,174	7,190	(0)	8,169	(12)			
Retained earnings	2,537	1,643	54	2,163	17			
Shareholders equity	4,138	3,231	28	3,707	12			
Minority interests	20	13	56	17	19			
BV (Bt)	7.1	6.9	3	6.3	12			

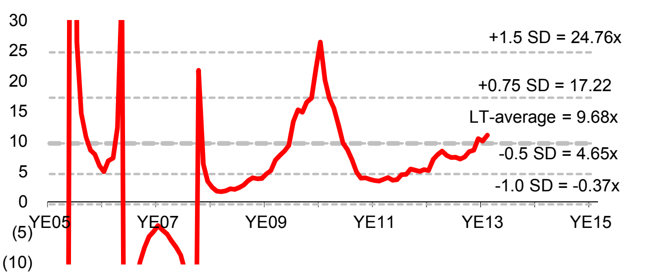
- Sales declined slightly QoQ on seasonality
- GM jumped to 28.9% (a record high) on a lower scrap rate and baht depreciation
- An insurance payout of Bt33m was booked during the quarter

Sources: Company data, Bualuang Research estimates

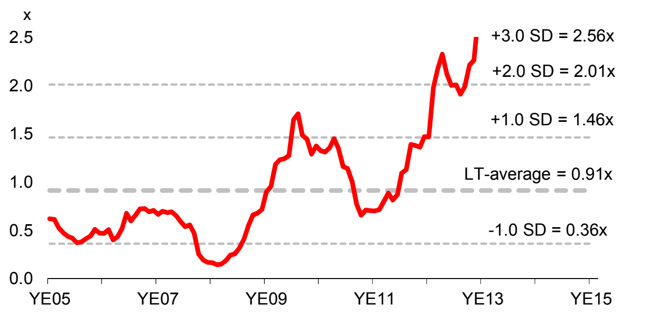
Regional Comparisons

	Bloomberg Code	Price (local curr.)	Market Cap (US$ equivalent)	PER (x) 2014E	PER (x) 2015E	EPS Growth (%) 2014E	EPS Growth (%) 2015E	PBV (x) 2014E	PBV (x) 2015E	ROE (%) 2014E	ROE (%) 2015E	Div Yield (%) 2014E	Div Yield (%) 2015E
Edison Opto Corp	3591 TT	TWD37.4	143	42.7	20.6	-248.3	106.9	1.2	1.2	4.9	5.9	0.5	0.8
Hon Hai Precisio	2317 TT	TWD83.8	36,292	9.9	9.4	5.9	5.7	1.3	1.2	13.8	13.1	2.1	2.2
Flextronics Intl	FLEX US	USD9.1	5,482	8.8	8.3	40.6	-0.3	2.0	1.6	19.0	n.a.	0.0	0.0
Jabil Circuit	JBL US	USD18.5	3,809	11.3	8.9	68.7	9.6	1.5	1.2	11.5	n.a.	1.8	1.8
Delta Electronics (Thailand)	DELTA TB	THB53.00	2,035	11.6	10.6	5.6	8.9	2.4	2.2	21.7	21.7	5.4	5.9
Hana Microelectronics	HANA TB	THB25.00	619	9.7	7.2	-13.8	34.6	1.2	1.1	12.6	15.8	6.2	7.0
KCE Electronics	KCE TB	THB25.25	373	11.1	9.9	13.4	12.5	2.9	2.4	28.9	26.8	2.7	3.0
SVI	SVI TB	THB4.14	289	10.9	9.5	-44.4	15.0	2.1	1.9	20.7	21.0	3.7	4.2
Simple average				**14.5**	**10.6**	**-21.5**	**24.1**	**1.8**	**1.6**	**16.6**	**17.4**	**2.8**	**3.1**

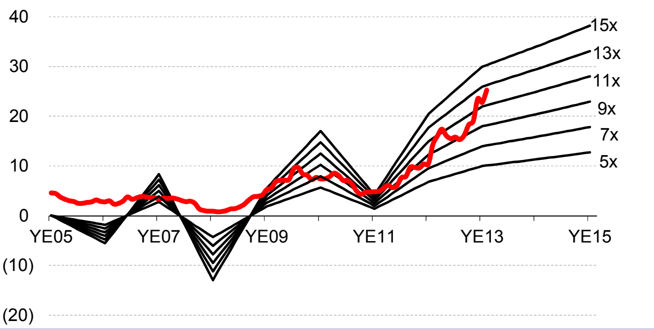
PER band versus SD (next 12 months)



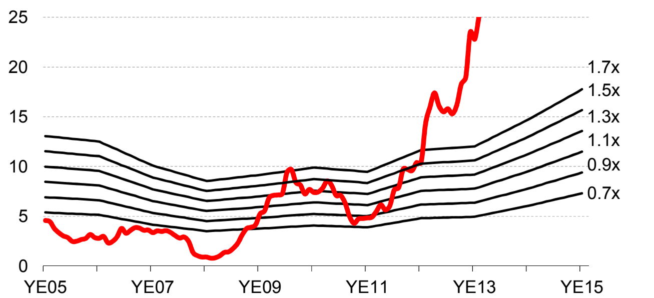
PBV band versus SD (next 12 months)



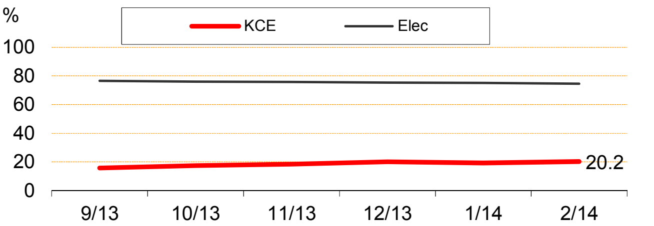
PER band and share price



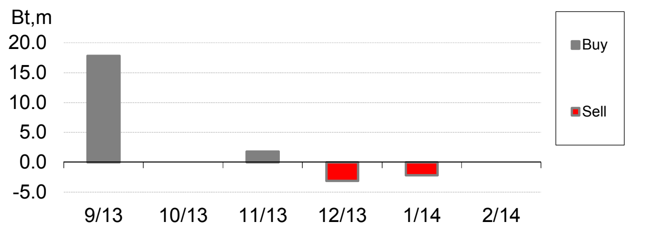
PBV band and share price



Foreign holding



Management trading activities during past six months



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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter
PCSGH	PCSGH

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

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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.