BUALUANG SECURITIES

COMPANY UPDATE

KCE Electronics KCE TB / KCE.BK

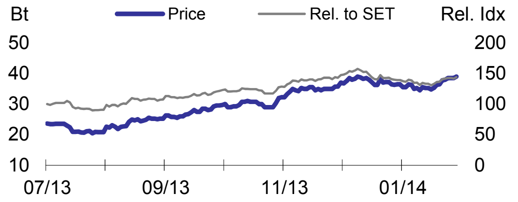
16 July 2014

Insights into 2Q14—more optimistic

Sector: Electronics Neutral

Rating: BUY
Target Price: Bt45.50
Price (15 July 2014)**: Bt39.00**

Price chart

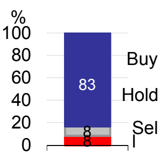


Share price perf. (%)	**1M**	**3M**	**12M**
Relative to SET	3.3	20.2	134.5
Absolute	6.8	28.9	139.3

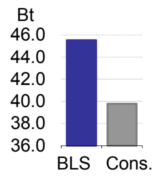
Key statistics

Market cap	Bt21.8bn	USD0.7bn
12-mth price range	Bt14.1/Bt39.8	
12-mth avg daily volume	Bt76m	USD2.4m
# of shares (m)	558	
Est. free float (%)	56.6	
Foreign limit (%)	49.0	

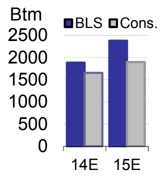
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	**2013**	**2014E**	**2015E**	**2016E**
Revenues (Btm)	9,294	11,473	13,613	15,108
Net profit (Btm)	1,174	1,885	2,378	2,515
EPS (Bt)	2.00	3.15	3.98	4.21
EPS growth (%)	+47%	+58.0%	+26.2%	+5.7%
Core profit (Btm)	1,052	1,818	2,361	2,497
Core EPS (Bt)	1.79	3.04	3.95	4.18
Core EPS growth (%	n.m.	+70%	+29.8%	+5.8%
PER (x)	19.5	12.4	9.8	9.3
PBV (x)	5.5	4.2	3.3	2.7
Dividend (Bt)	0.8	1.2	1.5	1.6
Dividend yield (%)	1.9	3.0	3.8	4.1
ROE (%)	31.9	38.7	37.5	32.0

CG rating

Jindarat Laotaveerungsawat
Securities Fundamental Investment Analyst
jindarat@bualuang.co.th
+66 2 618 1348

Investment thesis

Our meeting with executives yesterday boosted our optimism over KCE's outlook. 2Q14 GM is likely to exceed our previous assumption and depreciation at the new plant will not be as great as we previously modeled. We have revised up our FY14 and FY15 earnings forecasts by 7% and 10%, respectively. KCE's financial position should remain strong, despite an interim dividend payout in August and a big loan draw-down in late 3Q14. As such, KCE remains our top BUY in Electronics space. We have also upped our YE14 target price from Bt38 to Bt45.5—pegged to an FY15 PER of 13x and discounted back to YE14 value with COE of 12.8%.

2Q14 revisited—earnings upgraded on greater than expected GM

Demand for PCBs remains strong, mainly among automotive clients. But KCE's sales rose only slightly, due to capacity constraints (a run rate of 97-98%). We estimate sales at Bt2.8bn, up by 2% QoQ and 25% YoY. GM should also post robust expansion, driven by rising production efficiency at KCET. We envisage for a record GM of 31.6%, against 24.9% for 2Q13 and 31.5% for 1Q14. The SG&A/sales ratio should remain high at 15.1%, due to an asset impairment (~Bt20m) to be booked to SG&A. A Bt30m FX gain should be also be recognized for the quarter.

Hence, we have increased our 2Q14 core earnings estimate by 4% to Bt450m—a jump of 9% QoQ and 90% YoY—and our net profit number by 9% to Bt480m.

Depreciation on new capacity will be smaller than earlier expected

The first phase of new capacity at the Ladkrabang plant (700k sq.f/month; equal to 34% of existing group capacity) will start operating on Oct 9. Although the utilization rate at will initially be only 26% (break-even is ~60%), the impact on overall GM will be only about 1%. KCE guides that it will divide machinery installation into three stages in order to avoid mismatches between revenue and deprecation costs (depreciation is not booked till the machinery is installed). As such, depreciation from new capacity will be just Bt30m (half of our previous estimate).

We have revised up our FY14 and FY15 core earnings projections by 7% and 10%, respectively, as we now assume fatter GMs for 2Q-4Q14 (up by 90 bps for FY14 to 31.3% and by 150 bps for FY15 to 30.9%).

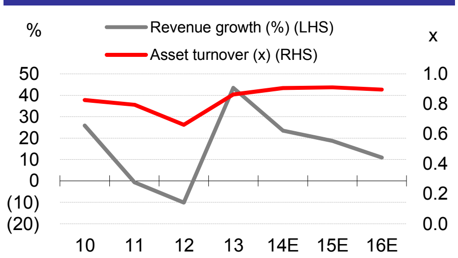
Financial position remains strong, despite big loan draw-down

Although we anticipate that an interim DPS of Bt0.6 will be paid in August and a big loan draw-down of Bt1.5bn (our assumption) for the first phase of the new capacity, KCE's financial position will remain strong. The net-gearing ratio was 0.8x as of end-March 2014 and should rise to 1x at end-Sept 2014—assuming that KCE-W2 and ESOP-W4 are converted. The firm will receive around Bt380m from warrant conversion. Moreover, management also anticipates a significant insurance payout in 3Q14.

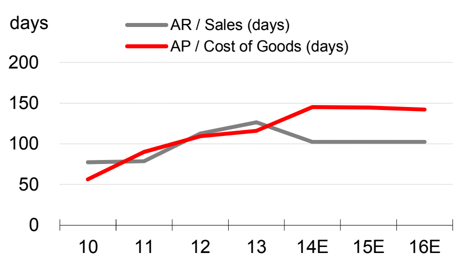
KCE : Financial Tables – Year

PROFIT & LOSS (Btm)	2012	2013	2014E	2015E	2016E
Revenue	6,478	9,294	11,473	13,613	15,108
Cost of sales and services	(5,232)	(6,843)	(7,878)	(9,403)	(10,592)
Gross profit	**1,246**	**2,451**	**3,595**	**4,209**	**4,516**
SG&A	(1,075)	(1,275)	(1,664)	(1,906)	(2,115)
EBIT	**170**	**1,177**	**1,931**	**2,304**	**2,401**
Interest expense	(159)	(171)	(149)	(212)	(204)
Other income/exp.	72	57	73	317	351
EBT	**83**	**1,063**	**1,855**	**2,409**	**2,548**
Corporate tax	(90)	(16)	(37)	(48)	(51)
After-tax net profit (loss)	**(6)**	**1,047**	**1,818**	**2,361**	**2,497**
Minority interest	(3)	(8)	0	0	0
Equity earnings from affiliates	(3)	13	0	0	0
Extra items	656	122	67	18	18
Net profit (loss)	**643**	**1,174**	**1,885**	**2,378**	**2,515**
Reported EPS	1.36	2.00	3.15	3.98	4.21
Fully diluted EPS	**1.36**	**2.00**	**3.15**	**3.98**	**4.21**
Core net profit	**(13)**	**1,052**	**1,818**	**2,361**	**2,497**
Core EPS	(0.03)	1.79	3.04	3.95	4.18
EBITDA	**730**	**1,762**	**2,880**	**3,474**	**3,676**
KEY RATIOS					
Revenue growth (%)	(10.0)	43.5	23.4	18.7	11.0
Gross margin (%)	19.2	26.4	31.3	30.9	29.9
EBITDA margin (%)	11.3	19.0	25.1	25.5	24.3
Operating margin (%)	3.7	13.3	17.5	19.2	18.2
Net margin (%)	9.9	12.6	16.4	17.5	16.6
Core profit margin (%)	(0.2)	11.3	15.8	17.3	16.5
ROA (%)	6.6	10.9	14.9	15.9	14.9
ROCE (%)	7.7	13.2	19.0	20.8	19.6
Asset turnover (x)	0.7	0.9	0.9	0.9	0.9
Current ratio (x)	0.8	0.9	1.0	1.3	1.3
Gearing ratio (x)	1.7	1.2	0.9	0.7	0.6
Interest coverage (x)	1.1	6.9	13.0	10.9	11.8
BALANCE SHEET (Btm)					
Cash & Equivalent	397	402	1,127	1,901	2,606
Accounts receivable	1,999	3,216	3,219	3,820	4,239
Inventory	1,240	1,345	2,253	2,673	2,966
PP&E-net	5,237	5,343	6,286	6,114	6,609
Other assets	1,399	978	1,199	1,331	1,466
Total assets	**10,272**	**11,284**	**14,083**	**15,839**	**17,886**
Accounts payable	1,566	2,173	3,135	3,719	4,128
ST debts & current portion	4,205	4,069	3,975	3,409	3,783
Long-term debt	1,327	783	1,256	1,508	1,203
Other liabilities	93	149	149	149	149
Total liabilities	**7,190**	**7,174**	**8,516**	**8,786**	**9,262**
Paid-up capital	473	480	490	490	490
Share premium	1,111	1,120	1,390	1,390	1,390
Retained earnings	1,643	2,537	3,714	5,200	6,770
Shareholders equity	**3,231**	**4,138**	**5,595**	**7,081**	**8,651**
Minority interests	13	20	20	20	20
Total Liab.&Shareholders' equity	**10,433**	**11,332**	**14,131**	**15,886**	**17,933**
CASH FLOW (Btm)					
Net income	643	1,174	1,885	2,378	2,515
Depreciation and amortization	488	529	876	853	924
Change in working capital	129	(931)	(66)	(551)	(385)
FX, non-cash adjustment & others	230	1,198	0	0	0
Cash flows from operating activities	**1,490**	**1,969**	**2,695**	**2,680**	**3,054**
Capex (Invest)/Divest	(982)	(1,624)	(1,922)	(698)	(1,473)
Others	(170)	8	0	0	0
Cash flows from investing activities	**(1,152)**	**(1,616)**	**(1,922)**	**(698)**	**(1,473)**
Debt financing (repayment)	(290)	(188)	380	(315)	68
Equity financing	(41)	118	280	0	0
Dividend payment	(142)	(278)	(708)	(893)	(944)
Others	(170)	8	0	0	0
Cash flows from financing activities	**(476)**	**(348)**	**(48)**	**(1,208)**	**(876)**
Net change in cash	(138)	5	725	774	705
Free cash flow (Btm)	**508**	**345**	**773**	**1,982**	**1,581**
FCF per share (Bt)	**1.1**	**0.6**	**1.3**	**3.3**	**2.6**
KEY ASSUMPTIONS	**2012**	**2013**	**2014E**	**2015E**	**2016E**
SIA Semiconductor growth	5%	2%	5%	4%	6%
Volume Growth	-12%	45%	15%	18%	12%
Utilization rate	65%	86%	94%	86%	88%
Payout ratio	40%	38%	38%	38%	38%
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

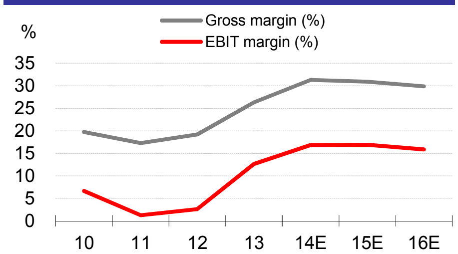
Revenue growth and asset turnover



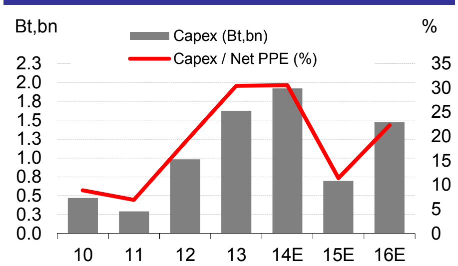
A/C receivable & A/C payable days



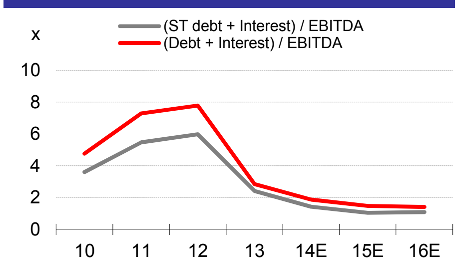
Profit margins



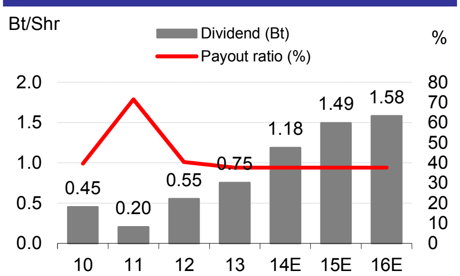
Capital expenditure



Debt serviceability



Dividend payout



KCE : Financial Tables – Quarter

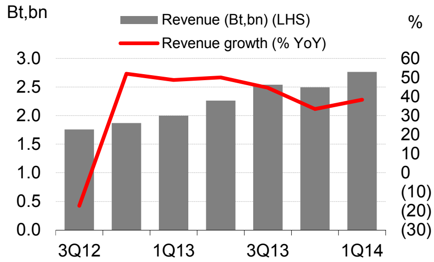
QUARTERLY PROFIT & LOSS (Btm)	1Q13	2Q13	3Q13	4Q13	1Q14
Revenue	2,000	2,262	2,540	2,493	2,765
Cost of sales and services	(1,555)	(1,698)	(1,816)	(1,774)	(1,893)
Gross profit	445	563	724	719	872
SG&A	(267)	(342)	(361)	(304)	(443)
EBIT	**177**	**221**	**363**	**415**	**429**
Interest expense	(39)	(44)	(45)	(43)	(32)
Other income/exp.	15	51	16	(25)	13
EBT	**153**	**228**	**334**	**348**	**410**
Corporate tax	(2)	6	(21)	0	(7)
After-tax net profit (loss)	151	234	313	348	403
Minority interest	0.0	(1.6)	0.0	(6.4)	0.0
Equity earnings from affiliates	3.6	4.3	6.3	(1.2)	11.4
Extra items	118	(40)	10	33	29
Net profit (loss)	**273**	**197**	**330**	**373**	**443**
Reported EPS	0.46	0.34	0.56	0.63	0.75
Fully diluted EPS	**0.46**	**0.34**	**0.56**	**0.63**	**0.75**
Core net profit	**155**	**237**	**319**	**340**	**414**
Core EPS	0.26	0.40	0.54	0.58	0.70
EBITDA	**192**	**272**	**379**	**390**	**442**

KEY RATIOS					
Gross margin (%)	22.2	24.9	28.5	28.9	31.5
EBITDA margin (%)	9.6	12.0	14.9	15.7	16.0
Operating margin (%)	9.6	12.0	14.9	15.7	16.0
Net margin (%)	13.7	8.7	13.0	15.0	16.0
Core profit margin (%)	7.7	10.5	12.6	13.7	15.0
BV (Bt)	6.0	5.9	6.3	7.1	8.4
ROE (%)	32.4	22.7	36.8	38.1	39.1
ROA (%)	10.3	7.1	11.4	12.9	15.4
Current ratio (x)	0.8	0.8	0.8	0.9	1.0
Gearing ratio (x)	1.6	1.7	1.6	1.2	0.9
Interest coverage (x)	5.0	6.2	8.3	9.1	13.7

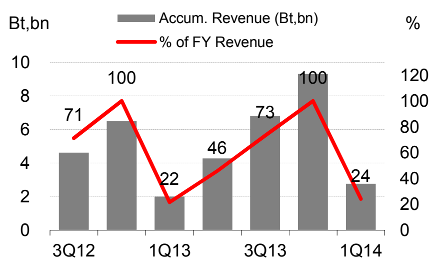
QUARTERLY BALANCE SHEET (Btm)					
Cash & Equivalent	369	286	252	402	619
Accounts receivable	2,540	3,009	3,421	3,216	3,299
Inventory	1,420	1,371	1,460	1,345	1,463
PP&E-net	5,367	5,459	5,497	5,343	5,351
Other assets	1,167	1,193	1,174	978	1,047
Total assets	**10,864**	**11,319**	**11,804**	**11,284**	**11,779**
Accounts payable	1,823	1,891	1,940	2,173	2,241
ST debts & current portion	4,474	4,940	5,243	4,069	3,677
Long-term debt	1,099	995	858	783	810
Other liabilities	113	123	128	149	150
Total liabilities	**7,508**	**7,950**	**8,169**	**7,174**	**6,878**
Paid-up capital	475	461	469	480	549
Share premium	1,129	1,037	1,073	1,120	1,395
Retained earnings	1,915	1,951	2,163	2,537	2,977
Shareholders equity	**3,521**	**3,450**	**3,707**	**4,138**	**4,920**
Minority interests	14	15	17	20	29
Total Liab.&Shareholders' equity	**11,043**	**11,415**	**11,893**	**11,332**	**11,827**

KEY STATS	1Q13	2Q13	3Q13	4Q13	1Q14
Sale (USD term)	67	76	81	79	85
FX	30	30	31	32	33
Gain loss from FX	118	(40)	10	0	29
Insurance payout	0	0	0	33	0

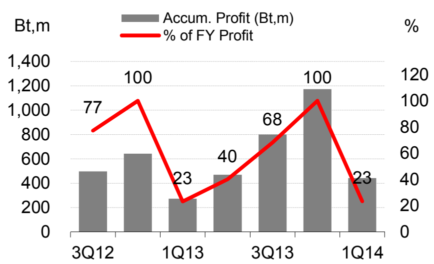
Revenue trend



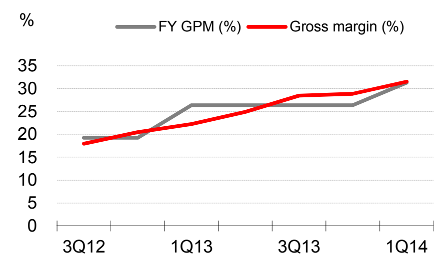
Revenue trend (accumulated)



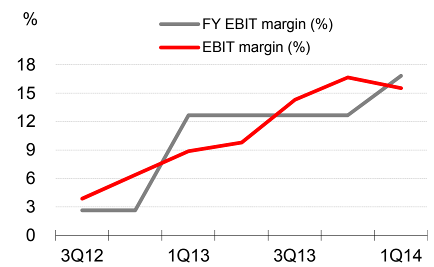
Net profit trend (accumulated)



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 : Forecast changes

	2014E			2015E		
	Old	New	Change	Old	New	Change
Revenues (Btm)	11,186	11,473	2.6%	13,523	13,613	0.7%
GM	30.43	31.33	0.9%	29.44	30.92	1.5%
SG&A	14.00	14.50	0.5%	14.00	14.00	0.0%
Net profit (Btm)	1,770	1,885	6.5%	2,166	2,378	9.8%
Core(Bt)	1,729	1,818	5.2%	2,149	2,361	9.9%
EPS (Bt)	2.96	3.15	6.5%	3.63	3.98	9.8%
Dividend (Bt)	0.74	1.18	59.7%	0.91	1.49	64.7%
Dividend yield (%)	1.91	3.04	112.4%	2.34	3.83	149.0%
ROE (%)	35.83	38.74	2.9%	33.04	37.53	4.5%

Sources: Company data, Bualuang Research estimates

Figure 2 : 2Q14 earnings preview

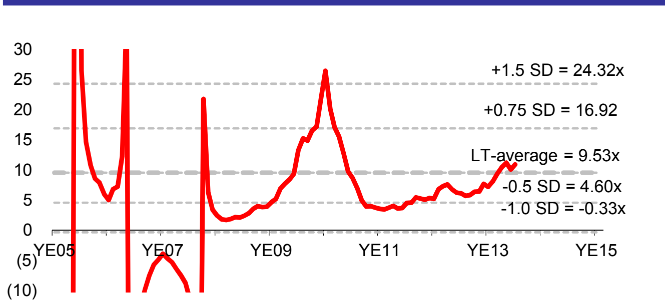
FY Ended 31 Dec (Btm)	2Q14E	2Q13	YoY %	1Q14	QoQ %	6M14E	6M13	YoY %	Comments
Income Statement									
Revenue	2,824	2,262	*25*	2,765	*2*	5,589	4,261	*31*	
Cost of sales and services	(1,931)	(1,698)	*14*	(1,893)	*2*	(3,823)	(3,253)	*18*	Top-line should inch up
SG&A	(425)	(342)	*24*	(443)	*(4)*	(868)	(609)	*42*	QoQ on on limited
EBITDA	489	272	*80*	442	*nm*	931	464	*nm*	capacity
EBIT	469	221	*112*	429	*9*	898	399	*125*	
Interest expense	(30)	(44)	*(31)*	(32)	*(7)*	(62)	(82)	*(24)*	GM expanded both YoY
Other income/exp.	20	51	*(61)*	13	*58*	33	65	*(50)*	and QoQ due to efficiency
Equity earnings from affiliates	0	4	*(100)*	11	*(100)*	11	8	*45*	improvement at KCET
Extra items	30	(40)	*nm*	29	*5*	59	79	*(26)*	
EBT	**459**	**228**	*101*	**410**	*12*	**868**	**382**	*128*	Core profit should
Corporate tax	(9)	6	*nm*	(7)	*nm*	(16)	4	*nm*	increase both YoY and
Minority interest	0	(2)	*nm*	0	*nm*	0	(2)	*nm*	QoQ on rising sales and
Net profit (loss)	**479**	**197**	*143*	**443**	*8*	**922**	**471**	*96*	GM expansion.
Reported EPS	0.82	0.34	*143*	0.8	*8*	1.57	0.80	*96*	
Core net profit	**449**	**237**	*90*	**414**	*9*	**863**	**392**	*120*	

Sources: Company data, Bualuang Research estimates

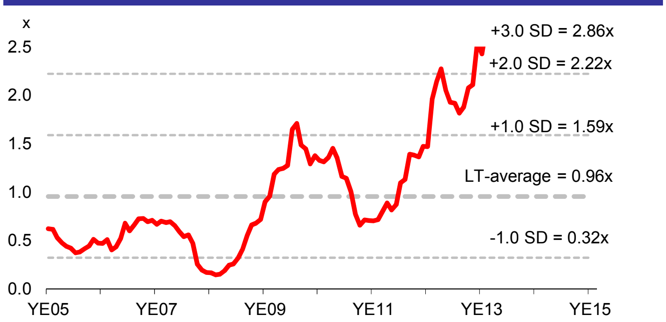
Regional Comparisons

	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	3591TT	TWD34.4	139	37.2	19.0	-164.6	97.4	1.1	n.a.	5.9	4.9	0.9	0.9
Hon Hai Precisio	2317 TT	TWD111.0	48,518	12.5	11.3	9.6	9.6	1.5	1.4	14.3	14.3	1.7	1.9
Flextronics Intl	FLEX US	USD10.8	6,361	10.6	9.6	53.0	10.6	2.0	1.6	18.1	22.1	0.0	0.0
Jabil Circuit	JBL US	USD20.7	4,132	36.9	11.9	-54.2	57.9	1.6	1.4	12.0	4.6	1.6	1.6
Delta Electronics (Thailand)	DELTA TB	THB65.50	2,541	13.3	12.0	13.1	11.0	3.0	2.7	23.1	23.5	4.7	5.2
Hana Microelectronics	HANA TB	THB35.00	876	13.3	11.0	-9.3	20.9	1.6	1.5	12.5	14.2	4.5	4.5
KCE Electronics	KCE TB	THB39.00	677	12.4	9.8	58.0	26.2	4.2	3.3	38.7	37.5	3.0	3.8
SVI	SVI TB	THB4.46	314	9.6	10.4	-35.0	-8.1	2.0	1.8	23.1	18.5	4.2	3.8
Simple average				**18.2**	**11.9**	**-16.2**	**28.2**	**2.1**	**2.0**	**18.5**	**17.5**	**2.6**	**2.7**

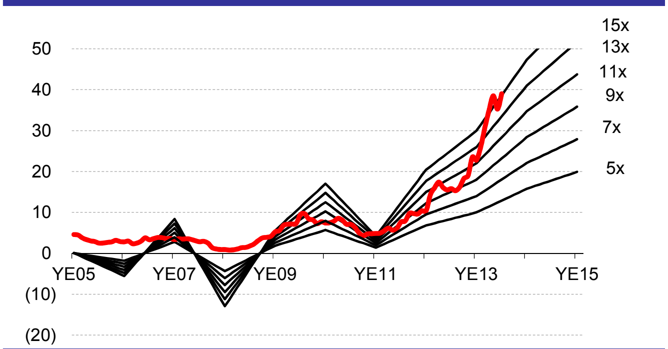
PER band versus SD (next 12 months)



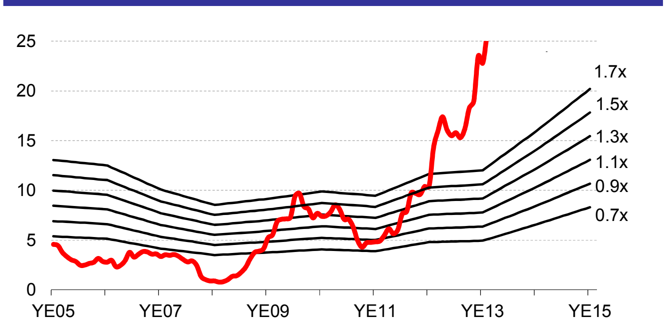
PBV band versus SD (next 12 months)



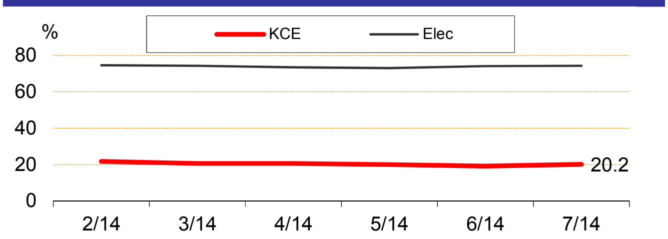
PER band and share price



PBV band and share price



Foreign holding



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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter
	AIRA, SAPPE

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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BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

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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.