


16 July 2014

Electronic Components

KCE**KCE Electronics**

Current **Previous** **Close**
BUY **BUY** **39.00**

2014 TP **Exp Return** **Support** **Resistance** **CGR 2013**
48.00 **+ 23.1%** **38.50-37.50** **39.50-40.50** 

Consolidated earnings

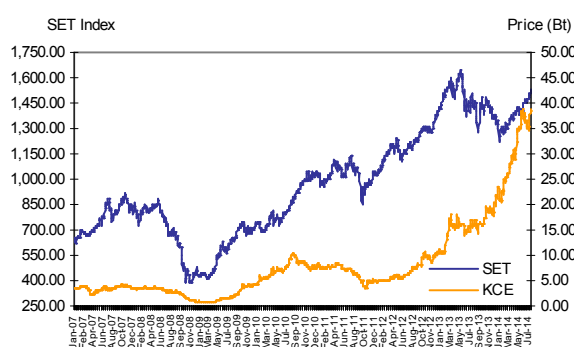
BT (m)	2012	2013	2014E	2015E
Normalized profit	57	1,052	1,833	2,026
Net profit	712	1,174	1,833	2,026
EPS (Bt)-Normalized	0.12	2.19	3.12	3.45
EPS (Bt)	1.51	2.44	3.12	3.45
% growth y-y	439.1	62.0	27.7	10.6
Dividend (Bt)	0.55	0.75	0.97	1.07
BV/share (Bt)	6.23	7.07	9.36	11.74
EV/EBITDA (x)	34.53	14.48	11.20	9.95
PER (x) - Normalized	325.9	17.8	12.5	11.3
PER (x)	25.9	16.0	12.5	11.3
PBV (x)	6.3	5.5	4.2	3.3
Dividend yield (%)	1.4	1.9	2.5	2.7
YE no. of shares (mn)	473	480	587	587
No. of share-fully diluted	492	578	587	587
Par (Bt)	1.0	1.0	1.0	1.0

Source: Company data, FSS estimates

Share data

Close (15/07/2014)	39.00
SET Index	1,524.53
Foreign limit/actual (%)	49.00/14.92
Paid up shares (million)	557.93
Free float (%)	56.62
Market cap (Bt mn)	21,759.18
Avg daily T/O (Bt mn) (2014 YTD)	96.53
hi, lo, avg (Bt) (2014 YTD)	39.75, 19.90, 29.98

Source: Setsmarts



Source: SET

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Normalized earnings set to hit new high in 2Q14 and continue to grow in 2015

Our forecasts call for KCE's 2Q14 normalized earnings to increase both Q-Q and Y-Y thanks to a continuous rise in purchase orders and a decrease in cost-to-income ratio after the company realized smaller asset impairment expense. Looking ahead, we expect normalized earnings to hit the peak of this year in 3Q14 thanks to seasonal factor. Although KCE is running close to its full capacity, the company has inventory which was produced in 1Q14 that can be delivered to its customers in this quarter. As 2H14 normalized earnings are likely to come in stronger than what we have earlier expected thanks to wider-than-anticipated gross margin, we have increased our 2014E normalized earnings by 13.7% to where it now implies a jump of 74% Y-Y. KCE plans to start running part of a new factory in October 2014. Hence, such factory should break even in early 2Q15, which would help the company's 2015 normalized earnings grow to a new high of Bt2bn (+11% Y-Y). With that, we have rolled over to our 2015 TP of Bt48 (PE 14x). Finally, we retain our BUY rating on KCE in the light of an upside of 23% to our 2015 TP and an interim DPS of Bt0.5 for its 1H14 performance, implying dividend yield of 1.3%.

Expect 2Q14 normalized earnings to continue to grow

Our forecasts call for KCE's 2Q14 net profit to amount to Bt478mn (+8.9% Q-Q, +142.6% Y-Y). Excluding FX gain of about Bt30mn, the company's normalized earnings for the quarter are equal to Bt448mn (+9% Q-Q, +89% Y-Y), a new high, thanks to continuously strong orders, in line with seasonal factors. In 2Q14, total revenue likely increased 2% Q-Q and 24.7% Y-Y. Defect rate was set to remain low at 4.2%, slightly up from 3.9% in 1Q14. Gross margin was likely flat Q-Q at 31.4%. Cost-to-income ratio likely fell to 14.5% from 16% in 1Q14 thanks to a decline in asset impairment expense.

Normalized earnings likely reach peak of year in 3Q14; revise up 2014E normalized earnings

Assuming in-line 2Q14 normalized earnings, KCE's 1H14 normalized earnings are equal to Bt859mn (+119.7% Y-Y). Looking ahead, we expect the company's normalized earnings to continue to grow and hit the peak of this year in 3Q14 thanks to the export industry's high season. In 3Q14, revenue likely increases 7% Q-Q. Although KCE is currently running close to its full capacity, i.e. at a utilization rate of 97%-98%, the company has inventory which was produced in 1Q14 that can be delivered to its customers in this quarter. Moreover, normalized earnings will likely edge down Q-Q in 4Q14 owing to seasonal factors. Nonetheless, we believe that 2H14 normalized earnings will be stronger than what we have anticipated thanks to wider-than-expected gross margin. For that reason, we revise up our 2014E gross margin to 31.5% from 29.8%, to be more in line with gross margin in 1H14. Likewise, we increase our 2014E normalized earnings by 13.7% to Bt1.8bn (+74% Y-Y).

New capacity to help boost 2015 earnings

KCE is now in the process to expand its capacity. To elaborate, the company is constructing Phase 1 of a new factory, which will help increase its capacity by 30%. As KCE plans to run part of the factory in October 2014 and utilize all of its capacity in March 2015, such factory should break even in early 2Q15 at a utilization rate of 60%. In this regard, KCE sets its revenue target at Bt13.5bn (+19% Y-Y) in 2015 and at Bt20bn in 2017 after the company has completed Phase 2 and 3 of the said factory. However, we maintain our cautious view toward the company's revenue growth target because there is still marketing risk that KCE will not be able to recruit new customers as it has planned. Hence, we maintain our 2015E revenue at Bt13bn (+15% Y-Y) and normalized earnings at Bt2bn (+11% Y-Y).

2Q14E Earnings Preview

(Bt mn)	2Q14E	1Q14	%Q-Q	2Q13	%Y-Y	1H14E	1H13	%Y-Y
Sales revenue	2,820	2,765	2.0%	2,262	24.7%	5,586	4,261	31.1%
Costs	1,935	1,893	2.2%	1,698	14.0%	3,828	3,253	17.7%
Gross profit	886	872	1.6%	563	57.4%	1,758	1,008	74.4%
SG&A costs	409	443	-7.7%	302	35.4%	852	570	49.5%
Interest charge	32	32	0.0%	44	-27.3%	64	82	-22.0%
Norm profit	448	411	9.0%	237	89.0%	859	391	119.7%
Net profit	478	439	8.9%	197	142.6%	917	469	95.5%
EPS (Bt/share)	0.870	0.800	8.9%	0.428	103.3%	1.670	1.001	66.8%
Gross margin	31.4%	31.5%	-0.1%	24.9%	6.5%	31.5%	23.7%	7.8%
SG&A % of Sales	14.5%	16.0%	-1.5%	13.4%	1.1%	15.3%	13.4%	1.9%
Net margin	16.9%	15.9%	1.0%	8.7%	8.2%	16.4%	11.0%	5.4%

Source: FSS Estimates

Income Statement (Consolidated)					
(Bt mn)	2011	2012	2013	2014E	2015E
Revenue	7,201	6,478	9,294	11,359	13,063
Cost of sales	5,957	5,232	6,843	7,781	9,014
Gross profit	1,244	1,246	2,451	3,578	4,050
SG&A costs	1,074	1,075	1,275	1,590	1,829
Operating profit	170	170	1,177	1,988	2,221
Other income	106	72	57	68	52
EBIT	276	242	1,233	2,056	2,273
EBITDA	828	730	1,762	2,710	2,977
Interest charge	153	159	171	195	220
Tax on income	2	20	16	24	27
Earnings after tax	120	63	1,047	1,837	2,026
Minority interests	-3.1	4.2	8.0	0.0	0.0
Normalized earnings	339	57	1,052	1,833	2,026
Extraordinary items	-207	656	122	0	0
Net profit	132	712	1,174	1,833	2,026

Balance Sheet (Consolidated)					
(Bt m)	2011	2012	2013	2014E	2015E
Cash	538	400	405	433	455
Accounts receivable	1,546	2,215	3,216	2,801	2,863
Inventory	1,080	1,240	1,345	1,492	1,605
Other current assets	1,708	840	502	1,136	1,306
Total current assets	4,872	4,695	5,468	5,862	6,230
Investments	82	79	99	99	99
Plant, property & equipment	4,235	5,237	5,343	7,189	7,485
Other assets	169	245	375	252	254
Total assets	9,358	10,256	11,284	13,402	14,067
Short-term loans	3,551	2,812	3,220	1,850	1,700
Accounts payable	1,467	1,566	2,173	2,132	2,469
Current maturities	404	1,393	849	1,187	1,052
Other current liabilities	2	13	34	23	26
Total current liabilities	5,424	5,784	6,275	5,192	5,248
Long-term debt	1,364	1,327	783	2,589	1,785
Other non-current liab.	62	67	116	102	118
Total non-current liab.	1,426	1,394	898	2,691	1,903
Total liabilities	6,850	7,178	7,174	7,883	7,150
Registered capital	500	492	578	587	587
Paid up capital	458	473	480	587	587
Share premium	1,108	1,111	1,120	1,111	1,111
Legal reserve	50	50	50	50	50
Retained earnings	890	1,430	2,441	3,752	5,150
Minority Interests	-12	13	20	19	19
Shareholders' equity	2,494	3,077	4,110	5,519	6,917

Source: Company data, FSS research

Income Statement (Consolidated)					
(Bt mn)	2011	2012	2013	2014E	2015E
Net Profit	132	712	1,174	1,833	2,026
Depreciation etc.	552	488	529	654	704
Change in working capital	-1,111	1,139	-686	-80	-139
Other adjustments	-9	-653	-135	4	0
Cash flow from operations	-435	1,686	882	2,411	2,591
Capital expenditure	521	-1,490	-635	-2,500	-1,000
Others	4	-72	-150	123	-2
Cash flow from investing	525	-1,561	-784	-2,377	-1,002
Free cash flow	89	124	97	33	1,589
Net borrowings	572	-118	47	419	-939
Equity capital raised	7	17	17	98	0
Dividends paid	-278	-173	-168	-568	-628
Others	3	12	11	46	0
Cash flow from financing	303	-262	-93	-5	-1,567
Net change in cash	392	-137	4	29	22

Important Ratios (Consolidated)					
	2011	2012	2013	2014E	2015E
Growth (%)					
Sales	-0.5	-10.0	43.5	22.2	15.0
EBITDA	-33.7	-11.9	141.4	53.8	9.9
Net profit	-75.3	439.6	64.7	56.2	10.6
Normalized earnings	-25.1	-83.3	1759.4	74.3	10.6
Profitability Ratios (%)					
Gross profit margin	17.3	19.2	26.4	31.5	31.0
EBITDA margin	11.5	11.3	19.0	23.9	22.8
EBIT margin	3.8	3.7	13.3	18.1	17.4
Normalized profit margin	4.7	0.9	11.3	16.1	15.5
Net profit margin	1.8	11.0	12.6	16.1	15.5
Normalized ROA	3.6	0.6	9.3	13.7	14.4
Normalize ROE	13.5	1.8	25.7	33.3	29.4
Normalized ROCE	7.0	5.4	24.6	25.0	25.8
Risk (x)					
D/E	2.7	2.3	1.8	1.4	1.0
Net D/E	2.5	2.2	1.7	1.4	1.0
Net debt/EBITDA	7.6	9.3	3.8	2.7	2.2
Per share data (Bt)					
EPS - Reported	0.28	1.51	2.44	3.12	3.45
EPS - Normalized	0.72	0.12	2.19	3.12	3.45
EBITDA	1.75	1.54	3.67	4.61	5.07
FCF	0.19	0.26	0.20	0.06	2.70
Book value	5.01	6.23	7.07	9.36	11.74
Dividend	0.20	0.55	0.75	0.97	1.07
Par	1.0	1.0	1.0	1.0	1.0
Valuations (x)					
P/E	139.5	25.9	16.0	12.5	11.3
P/E - Normalized	54.3	325.9	17.8	12.5	11.3
P/BV	7.8	6.3	5.5	4.2	3.3
EV/EBTDA	29.9	34.5	14.5	11.2	9.9
Dividend yield (%)	0.5	1.4	1.9	2.5	2.7

Finansia Syrus Securities Public Company Limited

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Patumwan, Bangkok

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Bangkok

Sindhorn 2

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Bangkok

Sindhorn 3

130-132 Sindhorn Building 3,
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Sukhumvit 21

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Klongtey North, Wattana,
Bangkok

Asoke

159 Sermit Tower 17th Floor,
Soi Sukumvit 21, Sukhumvit Road,
Klongtey North, Wattana,
Bangkok

Silom

191 Silom Complex Building
Unit 2,3-1 21st Floor, Silom Road,
Silom, Bangrak,
Bangkok

Fortune Town

1 Fortune Town Building,
23rd Floor, Zone B3,
Rachadapisek Road, Dindaeng,
Bangkok

Italthai Tower

2034/52 Italthai Tower,
11st Floor, Unit 11-07/01,
New Petchburi Road, Bangkok,
Huaykwang, Bangkok

Thaisummit Tower 1

1768 Thaisummit Tower Building,
2nd Floor, New Petchburi Road,
Bangkapi, Huaykwang,
Bangkok

Thaisummit Tower 2

1768 Thaisummit Tower Building,
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Bangkok

Pinklao 1

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Building, Room 1404, 14th Fl.,
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Arunamarin, Bangkoknoi, Bangkok

Pinklao 2

7/3 Central Tower B, Pinklao,
Room 1408, 14th Floor,
Baromratchonnane Road,
Arunamarin, Bangkoknoi, Bangkok

Pinklao 3

7/3 Central Tower B, Pinklao,
16th Floor, Baromratchonnane
Road, Arunamarin, Bangkoknoi,
Bangkok

Central Rattatibet

68/127 Moo 8 Rattatibet Road,
Tumbon Banggrasor,
Aumhoe Muang,
Nonthaburi

Ladprao

555 Rasa Tower 2, 11st Floor,
Unit 1106, Phaholyothin Road,
Chatuchak, Bangkok

Prachachuen

105/1 B Building, 4th Floor,
Thessabansongkhrao Road,
Ladyao, Jutajak, Bangkok

Bangna

1093 Tower 1 Office, 19th Floor,
Room 1093/105 Moo 12,
Bangna-Trad Road, Bangna,
Bangkok

Bangkapi

3105 N Mark Building, 3rd Floor,
Room A3 R02, Ladprao Road,
Klongjan, Bangkapi, Bangkok

Rang sit

1/832 Phaholyothin 60
Kukod, Lumlookka
Pratumthane

Nakornpathom

28/16-17 Yingpao Road,
Tumbon Sanamjan,
Aumhoe Muang, Nakornpathom

Chonburi

44 Vacheraprakran Road,
Tumbon Bangplasoi,
Aumhoe Muang, Chonburi

Samutsakorn

1045/16-17 Vichienchodok,
Tumbon Mhachai, Aumhoe
Meungsamutsakorn, Samutsakorn

Chachoengsao

233-233/2 1st Floor, Moo 12,
Sukprayoon Road,
Tumbon Namuang, Aumhoe
Muang, Chachoengsao

Chiangmai 1

308 Chiang Mai Land,
Chang Klan R., Chang Klan
Muang
Chiangmai

Chiangmai 2

310 Chiang Mai Land,
Chang Klan R., Chang Klan
Muang
Chiangmai

Khonkaen 1

311/16 2nd Floor, Klangmeung
Road, Tumbon Nai Meung,
Aumhoe Meung,
Khonkaen

Khonkaen 2

26/9 Moo 7 2nd Floor,
Srijan new Road, Tumbon
Nai Meung, Aumhoe Meung,
Khonkaen

Measai

119 Moo 10,
Tumbon Maesai,
Aumhoe Muang, Cheangrai

Hatyai 1

200/222, 200/224, 200/226
Juldis Hadyai Plaza, 2nd Floor,
Building, Niphat Uthit 3 Road,
Aumhoe Hadyai, Songkhla

Hatyai 2

106 Prachathipat Road,
Aumhoe Hadyai, Songkhla

Hatyai 3

200/222, 200/224, 200/226
Juldis Hadyai Plaza, 2nd Floor,
Building, Niphat Uthit 3 Road,
Aumhoe Hadyai, Songkhla

Phuket

22/18 Vanish Plaza Shopping
Mall, Luangporwatchalong Road,
Tumbon Talad Yai,
Aumhoe Meung, Phuket

Suratthani

173/83-84 Moo 1
Watpho-Bangyai Road.,
Tumbon Makamtia,
Aumhoe Mueang, Suratthani

Krabi

223/20 Mharaj Road,
Tumbon Paknam,
Aumhoe Meung, Krabi

Pattane

300/69-70 Moo 4,
Tumbon Ruramirae,
Aumhoe Meung, Pattane

Udonthani

104/6, 2 fl., ICBC Bank Tower
Udon Dusadee Road,
Tumbon Mak Khaeng,
Aumhoe Muang Udon Thani,
Udon Thani

Khonkaen

4/6, 2 fl., ICBC Bank Tower
Khang Meung Road,
Tumbon Nai Meung,
Aumhoe Meung Khonkaen,
Khonkaen

Trang

59/28 Huaiyod Road,
Tumbon Thaptieng,
Aumhoe Meungtrang, Trang

Analyst - Finansia Syrus Securities

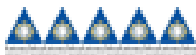
Jitra	Amornthum	Head of Research	0-2646-9966	jitra.a@fnsyus.com
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Veeravat	Virochpoka	Health Care Services / Tourism & Leisure	0-2646-9821	veeravat.v@fnsyus.com
Somchai	Anektaweepon	Technical	0-2646-9967	somchai.a@fnsyus.com
Natapon	Khamthakreaau	Derivatives	0-2646-9820	natapon.k@fnsyus.com
Mathee	Rumphasakul	Global Market	0-2646-9805	mathee.r@fnsyus.com

Recommendation Definitions

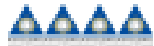
BUY	The latest close is below our target price and the estimated upside is 10% or more.
HOLD	The latest close is below our target price and the estimated upside is 0-10%.
SELL	The latest close is above our target price.
TRADING BUY	The latest close is above our target price but the price is expected to be driven by short-term positive factors
OVERWEIGHT	The estimated return is higher than the market average.
NEUTRAL	The estimated return is the same as the market average.
UNDERWEIGHT	The estimated return is lower than the market average

Note: The expected return may change as market risks increase or decline.

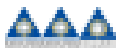
Thai Institute of Directors Association (IOD) - Corporate Governance Report Rating 2013



										Score Range	Rating	Description
										100-90		Excellent
ADVANC	BROOK	EGCO	KKP	PR	RS	SIM	TCAP	TRC		80-89		Very Good
AOT	BTS	ERW	KTG	PRANDA	S&J	SIS	THAI	TRUE		70-79		Good
ASIMAR	CIMBT	GRAMMY	LPN	PS	SAMART	SITHAI	THCOM	TTW		60-69		Satisfactory
BAFS	CK	HANA	MCOT	PSL	SAMTEL	SNC	THRE	TVO		50-59		Pass
BANPU	CPF	HEMRAJ	MINT	PTT	SAT	SPALI	TIP	UV		<50		n/a
BAY	CPN	ICC	NKI	PTTEP	SC	SPI	TISCO	VGI				
BBL	CSL	INTUCH	NOBLE	PTTGC	SCB	SSI	TKT	WACOAL				
BCP	DRT	IRPC	PAP	QH	SCC	SSSC	TMB					
BECL	DTAC	IVL	PG	RATCH	SCSMG	SVI	TNITY					
BKI	EASTW	KBANK	PHOL	ROBINS	SE-ED	SYMC	TOP					



2S	ASK	CFRESH	ESSO	IFEC	LH	MFEC	PB	RASA	SPCG	THANA	TPIPL	UMS
ACAP	ASP	CGS	FE	INET	LHBANK	MODERN	PDI	SABINA	SPPT	THANI	TRT	UP
AF	AYUD	CHOW	FORTH	ITD	LHK	MTI	PE	SAMCO	SSF	THIP	TRU	UPOIC
AHC	BEC	CM	GBX	JAS	LIVE	NBC	PF	SCCC	STANLY	TICON	TSC	UT
AIT	BFIT	CNT	GC	JUBILE	LOXLEY	NCH	PJW	SCG	STEC	TIPCO	TSTE	VIBHA
AKP	BH	CPALL	GFPT	KBS	LRH	NINE	PM	SEAFCO	SUC	TK	TSTH	VIH
AMANAH	BIGC	CSC	GL	KCE	LST	NMG	PPM	SFP	SUSCO	TLUXE	TTA	VNG
AMARIN	BJC	DCC	GLOW	KGI	MACO	NSI	PPP	SIAM	SYNTEC	TMILL	TTCL	VNT
AMATA	BLA	DELTA	GOLD	KKC	MAJOR	NWR	PREB	SINGER	TASCO	TMT	TUF	YUASA
AP	BMCL	DTC	GSTEL	KSL	MAKRO	OCC	PRG	SIRI	TCP	TNL	TWFP	ZMICO
APCO	BWG	ECL	GUNKUL	KWC	MBK	OFM	PT	SKR	TF	TOG	TYM	
APCS	CCET	EE	HMPRO	L&E	MBKET	OGC	PYLON	SMT	TFD	TPC	UAC	
ASIA	CENTEL	EIC	HTC	LANNA	MFC	OISHI	QTC	SNP	TFI	TPCORP	UMI	



A	ARIP	CI	DRACO	GFM	IT	LEE	NIPPON	QLT	SMIT	TBSP	TNPC	UPF
AAV	AS	CIG	EA	GJS	JMART	MATCH	NNCL	RCI	SMK	TCCC	TOPP	UWC
AEC	BAT-3K	CITY	EARTH	GLOBAL	JMT	MATI	NTV	RCL	SOLAR	TEAM	TPA	VARO
AEONTS	BCH	CMR	EASON	HFT	JTS	MBAX	OSK	ROJNA	SPC	TGCI	TPP	VTE
AFC	BEAUTY	CNS	EMC	HTECH	JUTHA	MDX	PAE	RPC	SPG	TIC	TR	WAVE
AGE	BGT	CPL	EPCO	HYDRO	KASET	PRINC	PATO	SCBLIF	SIRICHA	TIES	TTI	WG
AH	BLAND	CRANE	F&D	IFS	KC	MJD	PICO	SCP	SSC	TIW	TVD	WIN
AI	BOL	CSP	FNS	IHL	KCAR	MK	PL	SENA	STA	TKS	TVI	WORK
AJ	BROCK	CSR	FOCUS	ILINK	KDH	MOONG	POST	SF	SUPER	TMC	TWZ	
AKR	BSBM	CTW	FPI	INOX	KTC	MPIC	PRECHA	SGP	SVOA	TMD	UBIS	
ALUCON	CHARAN	DEMCO	FSS	IRC	KWH	MSC	PRIN	SIMAT	SWC	TMI	UEC	
ANAN	CHUO	DNA	GENCO	IRCP	LALIN	NC	Q-CON	SLC	SYNEX	TNDT	UOBKH	

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