Maybank Kim Eng

Thailand

Company Update

2 September 2014

Buy (unchanged)

CGR Scoring Rating

Share price:	THB39.00
Target price:	THB50.00 *(from 47.70)*

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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.

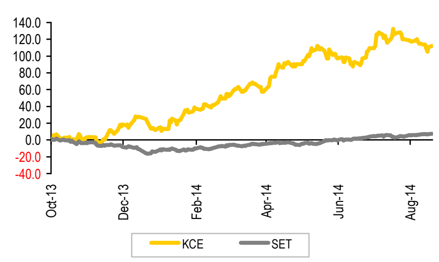
Ticker :	KCE
Shares Issued (m):	558
Market Cap (THB m)	21,759
Market Cap (US$ m)	681
3-mth Avg Daily Turnover (THB m)	92.57
SET INDEX	1,565.35
Free float (%)	57.31

Major Shareholders :	%
Aongkosit Family	34.75
Thai Nvdr	6.13

Key Indicators

ROE – annualised (%)	33.6
Net cash (THB m):	-7,323
NTA/shr (THB):	9.6
Interest cover (x):	12.8

Historical Chart



Performance

52-week High/Low THB42.75/THB17.7

	1-mth	3-mth	6-mth	1-yrs	YTD
Absolute (%)	-6.6	4.7	43.1	154.9	66.0
Relative (%)	-10.5	-2.7	23.6	110.8	37.7

KCE electronics (KCE)

New high will not end yet

KCE share price has softened by 5.5% in past month on high profit taking after a continuous rise in past 2 years with the Baht appreciation effects. This is thus offering a good buying opportunity as earnings are projected to reach a new high until at least in 3Q14 (6th consecutive quarter). We reiterate a Buy call with a rolled-over TP to Bt50 (PER 14x).

Baht appreciation is manageable: During 30 July-29 August, KCE share price contracted 5.5% vs the sector of +1.7%, depressed by the Baht appreciation due to the acceleration of foreign fund inflow. Hence, many investors took profit on KCE after contributed favorable return in past 2 years. We are not concerned on the Baht appreciation as Baht has stably strengthened, so it is not hard to manage. Every 1% strengthening of the Baht, earnings will be hurt by only 0.5%. On the flipside, the Baht appreciation will help lowering costs of borrowing foreign loans (KCE still needs more loans to construct new plant in the next 2 years).

New high earnings ahead: According to management guideline, the 3Q14 performance is growing well as planned. We expect the revenue and profit to expand at least 5-10% QoQ to Bt467-490mn (+47-54%YoY), a new high for a 6th consecutive quarter. Earnings could also reach a new high in 4Q14 again on the back of the additional capacity of the new plant that will allow KCE to accept more new orders. Moreover, we are not worried about the depreciation expenses of the new plant in 4Q14 as only machines in use will be booked for depreciation, thus limiting the impact on the bottom line.

Maintaining the projection with a rolled-over TP to Bt50.00: As the Baht strengthens to around Bt32/ US$ (inline with our forecast), we have kept our assumptions unchanged. Although the export sector is slowly recovering, KCE performance remains solid. A dip in share price is thus offering a good buying opportunity. We have maintained our 2014-2015 earnings forecasts unchanged but rolled over the TP to Bt50.00. Given 28% upside with a cheap PER2015 valuation at 10.9x, we reiterate a Buy call.

Upside: Our 2015 revenue and earnings forecasts of +9% and +10%YoY are much lower than the company target at +20%.

THCOM – Summary Earnings Table

FYE: Dec 31 (Btmn)	2012	2013	2014F	2015F	2016F
Revenue	6,478	9,294	11,034	11,980	12, 52
EBITDA	887	1,987	2,631	3,214	3,667
Recurring Net Profit	57	1,052	1,808	1,993	2,129
Net profit	712	1,174	1,808	1,993	2,129
EPS (Bt)	1.51	2.31	3.24	3.57	3.82
EPS growth (%)	436.6	53.2	40.2	10.2	6.8
DPS (Bt)	0.55	0.75	1.15	1.27	1.35
PER	325.61	18.83	12.03	10.92	10.22
EV/EBITDA (x)	23.41	10.05	8.47	6.76	5.60
Div Yield (%)	1.41	1.92	2.95	3.25	3.47
P/BV(x)	5.99	4.56	4.04	3.26	2.71
Net Gearing (%)	179.7	118.3	145.5	70.1	57.4
ROE (%)	23.1	28.5	33.6	29.9	26.5
ROA (%)	3.9	11.8	14.0	15.4	14.6
Cons. Net Profit (THB m)	-	-	*1,805*	*2,017*	*2,460*

Source: Company reports and MBKET.

INCOME STATEMENT (THB mn)

FY December	2013	2014F	2015F	2016F
Revenue	9,294	11,034	11,980	12,352
EBITDA	1,828	2,527	3,150	3,603
Depreciation & Amortisation	651	610	960	1,312
Operating Profit (EBIT)	**1,349**	**2,061**	**2,254**	**2,356**
Interest (Exp)/Inc	-171	-161	-204	-166
Associates	(13)	(40)	-	-
One-offs	33	0	0	0
Pre-Tax Profit	**1,165**	**1,860**	**2,050**	**2,190**
Tax	-16	-19	-20	-22
Minority Interest	-8	-33	-36	-39
Net Profit	**1,174**	**1,808**	**1,993**	**2,129**
Recurring Net Profit	**1,052**	**1,808**	**1,993**	**2,129**
Revenue Growth %	43.5	18.7	8.6	3.1
EBITDA Growth (%)	177.7	38.3	24.6	14.4
EBIT Growth (%)	234.9	51.3	11.5	4.5
Net Profit Growth (%)	64.7	54.1	10.2	6.8
Recurring Net Profit Growth (%)	1,759.2	72.0	10.2	6.8
Tax Rate %	1.0	1.0	1.0	1.0

BALANCE SHEET (THB mn)

FY December	2013	2014F	2015F	2016F
Fixed Assets	5,539	8,436	8,171	8,397
Other LT Assets	277	106	106	106
Cash/ST Investments	405	506	523	1,530
Other Current Assets	5,063	5,420	5,885	6,067
Total Assets	**11,284**	**14,469**	**14,684**	**16,100**
ST Debt	4,069	5,439	4,381	4,521
Other Current Liabilities	2,206	3,012	3,270	3,372
LT Debt	783	562	292	94
Other LT Liabilities	116	74	72	70
Minority Interest	20	0	1	2
Shareholders' Equity	4,091	5,381	6,667	8,041
Total Liabilities-Capital	**11,284**	**14,469**	**14,684**	**16,100**
Share Capital (m)	508	558	558	558
Gross Debt/(Cash)	4,861	7,830	4,673	4,615
Net Debt/(Cash)	4,456	7,323	4,151	3,086
Working Capital	-807	-2,524	-1,244	-296
BVPS	8.55	9.64	11.95	14.41

CASH FLOW (THB mn)

FY December	2013	2014F	2015F	2016F
Profit before taxation	1,165	1,860	2,050	2,190
Depreciation	651	610	960	1,312
Net interest receipts/(payments)	-171	-161	-204	-166
Working capital change	-500	-449	-243	-96
Cash tax paid	-16	-19	-20	-22
Others (incl'd exceptional items)	1,002	426	158	105
Cash flow from operations	**2,131**	**2,267**	**2,700**	**3,323**
Capex	-1,624	-3,110	-694	-1,538
Disposal/(purchase)	0	0	1	2
Others	8	171	-1	0
Cash flow from investing	**-1,616**	**-2,939**	**-694**	**-1,536**
Debt raised/(repaid)	-188	1,149	-1,328	-58
Equity raised/(repaid)	118	78	1	2
Dividends (paid)	-278	-491	-667	-726
Interest payments	-171	-161	-204	-166
Others	9	161	205	168
Cash flow from financing	**-509**	**735**	**-1,993**	**-780**
Change in cash	5	64	13	1,006

RATES & RATIOS

FY December	2013	2014F	2015F	2016F
Gross margin %	26.4	31.7	32.2	32.3
EBITDA Margin %	19.7	22.9	26.3	29.2
Op. Profit Margin %	12.7	17.4	18.3	18.6
Net Profit Margin %	12.6	16.4	16.6	17.2
ROE %	28.5	33.6	29.9	26.5
ROA %	11.8	14.0	15.4	14.6
Net Margin Ex. EI %	11.3	16.4	16.6	17.2
Dividend Cover (x)	3.1	2.8	2.8	2.8
Interest Cover (x)	7.9	12.8	11.0	14.2
Asset Turnover (x)	0.8	0.8	0.8	0.8
Asset/Debt (x)	1.6	1.6	1.8	2.0
Debtors Turn (days)	126.3	126.3	126.3	126.3
Creditors Turn (days)	85.3	85.3	85.3	85.3
Inventory Turn (days)	52.8	52.9	52.9	52.9
Net Gearing %	118.8	145.5	70.1	57.4
Debt/ EBITDA (x)	3.9	3.6	2.5	2.2
Debt/ Market Cap (x)	0.4	0.4	0.4	0.4

Source: Company reports and MBKET

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Adex = Advertising Expenditure
BV = Book Value
CAGR = Compounded Annual Growth Rate
Capex = Capital Expenditure
CY = Calendar Year
DCF = Discounted Cashflow
DPS = Dividend Per Share
EBIT = Earnings Before Interest And Tax
EBITDA = EBIT, Depreciation And Amortisation
EPS = Earnings Per Share
EV = Enterprise Value
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
ROA = Return On Asset
ROE = Return On Equity
ROSF = Return On Shareholders' Funds
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YoY = Year-On-Year
YTD = Year-To-Date

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THAI INSTITUTE OF DIRECTORS ASSOCIATION (IOD) CORPORATE GOVERNANCE REPORT RATING 2014

△△△△△	Excellent	HEMRAJ	PAP	RS	SNC			
ADVANC	CIMBT	ICC	PG	S&J	SPALI	Score Range	Number of Logo	Description
AOT	CK	INTUCH	PHOL	SAMART	SPI	90-100	△△△△△	Excellent
ASIMAR	CPF	IRPC	PR	SAMTEL	SSI	80-89	△△△△	Very Good
BAFS	CPN	IVL	PRANDA	SAT	SSSC	70-79	△△△	Good
BANPU	CSL	KBANK	PS	SC	SVI	60-69	△△	Satisfactory
BAY	DRT	KKP	PSL	SCB	SYMC	50-59	△	Pass
BBL	DTAC	KTB	PTT	SCC	TCAP	Lower than 50	No logo given	N/A
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	TTW	WACOAL
BTS	HANA	NOBLE	ROBINS	SITHAI	TISCO	TOP	TVO	
△△△△	Very Good	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	
△△△	Good	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
AEONTS	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	TPA	
ALUCON	CMR	FPI	JTS	MPIC	ROJNA	SVOA	TPP	
ANAN	CNS	FSS	JUTHA	MSC	RPC	SWC	TR	
ARIP	CPL	GENCO	KASET	NC	SCBLIF	SYNEX	TTI	
AS	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	

Source: Thai Institute of Directors (IOD)

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