12 November 2014

Electronic Components

KCE

KCE Electronics

Current	Previous	Close	2015 TP	Exp Return	Support	Resistance	CGR 2013
BUY	BUY	40.00	48.00	+20.0%	39-37	41-42	

Consolidated earnings

BT (mn)	2012	2013	2014E	2015E
Normalized earnings	57	1,052	1,833	2,026
Net profit	712	1,174	1,934	2,026
Normalized EPS (Bt)	0.12	2.19	3.12	3.45
Reported EPS (Bt)	1.51	2.44	3.29	3.45
% Reported EPS growth	439.1	62.0	34.8	4.8
Dividend (Bt)	0.55	0.75	1.02	1.07
BV/share (Bt)	6.23	7.07	9.48	11.86
EV/EBITDA (x)	35.18	14.75	11.39	10.12
PER (x)	334.3	18.3	12.8	11.6
PER (x) - normalized	26.5	16.4	12.2	11.6
PBV (x)	6.4	5.7	4.2	3.4
Dividend yield (%)	1.4	1.9	2.6	2.7
YE No. of shares (million)	473	480	587	587
No. of share - full dilution	492	578	587	587
Par (Bt)	1.0	1.0	1.0	1.0

Source: Company data, FSS estimates

Revenues and profit hit new high in 3Q14, as expected

3Q14 net profit up 27.6% Q-Q and 86.3% Y-Y

KCE's 3Q14 net profit comes in at Bt611mn (+27.6% Q-Q, +86.3% Y-Y). Excluding insurance claim of Bt127mn from business interruption (Bt101mn net-of-tax) and FX gain of Bt14mn, the company's normalized earnings are equal to Bt496mn (+11.5% Q-Q, +56.5% Y-Y), nearly matches our estimates of Bt492mn. Such sharp gains are made possible by seasonal rises in purchase orders. In the September quarter, revenues jumped 7.6% Q-Q and 15.8% Y-Y to a new high at US$93.8mn. Although KCE already runs at full capacity since 2Q14, the company has inventory that it produced since 1Q14, making it possible for KCE to fulfill deliveries during the technology industry's high season. Gross margin remained impressively wide at 31.8% (vs. 31.4% in 2Q14 and 28.5% in 3Q13). In 3Q14, KCE's revenues, gross margin and normalized earnings hit a record high.

Maintain profit estimates and TP

KCE's 9M14 normalized earnings are equal to Bt1.4bn (+91% Y-Y), securing 74% of our full-year estimates. Looking ahead, we expect the company's normalized earnings to ease Q-Q in 4Q14 owing to the technology industry's low season. Initially, we predict that KCE's normalized earnings will fall to Bt460-480mn. Nevertheless, we stand by our forecasts which call for KCE's normalized earnings to amount to Bt1.8bn (+74% Y-Y) this year and Bt2bn (+10.6% Y-Y) next year. In 2015, earnings are set to be driven by capacity from Phase 1 of its new factory to cope with purchase orders from both old and new customers. Given that, we anticipate that KCE's capacity will increase by 30% and the new factory will start commercial run in early 2015 at the earliest. We maintain our 2015 TP at Bt48 (PE 14x). This implies an upside of 20% to our 2015 TP. Hence, we retain our BUY rating on KCE.

3Q14 Earnings Results

(Bt mn)	3Q14	2Q14	%Q-Q	3Q13	%Y-Y
Revenues	2,999	2,819	6.4	2,540	18.1
Cost of services	2,047	1,932	6.0	1,816	12.7
Gross profit	952	886	7.4	724	31.5
SG&A	441	417	5.8	361	22.2
Interest expense	29	34	-14.7	46	-37.0
Normalized earnings	496	445	11.5	317	56.5
Net profit	611	479	27.6	328	86.3
EPS	1.082	0.869	24.5	0.698	55.0
Defect Rate (%)	4.2	4.2	0.0	4.3	-0.1
Gross margin (%)	31.8	31.4	0.4	28.5	3.3
Norm earnings margin (%)	16.5	15.8	0.7	12.5	4.0
Net profit margin (%)	20.4	17.0	3.4	12.9	7.5

Source: Company data, FSS Research

Comment

- U.S. dollar-denominated revenues hit a new high at US$93.8mn (+7.6% Q-Q, +15.8% Y-Y) thanks to strong purchase orders, in line with growth in the auto industry in Europe. Note that KCE has inventory that it produced since 1Q14, making it possible for KCE to fulfill deliveries during the technology industry's high season.
- Gross margin reaches record high thanks to a low defect rate and full capacity utilization.
- KCE realizes the last claim of Bt127mn for business interruption (Bt101mn net-of-tax) during the quarter.

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Muang
Chiangmai

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Chang Klan R., Chang Klan
Muang
Chiangmai

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Khonkaen

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Aumphoe Hadyai, Songkhla

Hatyai 3
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Aumphoe Hadyai, Songkhla

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Mall, Luangporwatchalong Road,
Tumbon Talad Yai,
Aumphoe Meung, Phuket

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Watpho-Bangyai Road.,
Tumbon Makamtia,
Aumphoe Mueang, Suratthani

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Tumbon Paknam,
Aumphoe Meung, Krabi

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Aumphoe Muang Udon Thani,
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Aumphoe Meung Khonkaen,
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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
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass
<50	no logo given	n/a

ADVANC	BROOK	EGCO	KKP	PR	RS	SIM	TCAP	TRC
AOT	BTS	ERW	KTB	PRANDA	S&J	SIS	THAI	TRUE
ASIMAR	CIMBT	GRAMMY	LPN	PS	SAMART	SITHAI	THCOM	TTW
BAFS	CK	HANA	MCOT	PSL	SAMTEL	SNC	THRE	TVO
BANPU	CPF	HEMRAJ	MINT	PTT	SAT	SPALI	TIP	UV
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	

IOD (IOD Disclaimer)

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