

Earnings Results

12 November 2014

Buy (Unchanged)

CGR Scoring Rating


 Share price: THB40.00
 Target price: THB49.50 (from 50.00)

Chatchai Jindarat

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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.

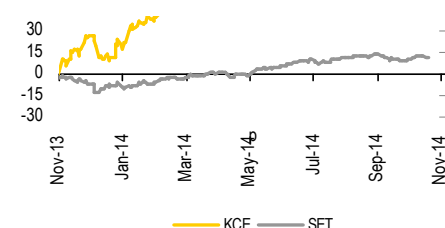
Ticker :	KCE
Shares Issued (m):	565
Market Cap (THB m)	22,584
Market Cap (US\$ m)	691.58
3-mth Avg Daily Turnover (THB m)	69.56
SET INDEX	1,571.20
Free float (%)	57.31

Major Shareholders :	%
Aongkosit Family	34.75
Thai Nvdr	5.30

Key Indicators

ROE – annualised (%)	31.6
Net cash (THB m):	-6,988
NTA/shr (THB):	10.1
Interest cover (x):	12.8

Historical Chart



Performance

52-week High/Low	THB 43.25/THB 17.50				
	1-mth	3-mth	6-mth	1-yr	YTD
Absolute (%)	1.3	-0.6	14.3	116.2	70.2
Relative (%)	-0.6	-2.3	1.5	93.5	40.7

KCE electronics (KCE)

Offering the highest upside in the sector

Record high profits for a seventh consecutive quarter: Seasonality kept revenue healthy at US\$93.8/Bt3.011bn (+6% QoQ, +18% YoY). GPM improved by 40bps to 31.8% versus our estimate of 31.5% and SG&A expenses were within our expectations. Interest expenses were below estimated, but taxes were slightly higher. F/X gain was Bt14mn and insurance gain was Bt127mn. Overall, net profit was Bt611mn and norm profit Bt471mn (+6% QoQ, +87% YoY), in line with our estimate of Bt476mn. Norm profit reached a new high for a seventh consecutive quarter. 9M14 norm profit accounts for 73% of our full-year forecast at Bt1.808bn (+72% YoY).

Positive trend should continue into 4Q14: Although seasonality may see sales drop by 3-5% QoQ, the GPM should improve due to a lower scarp rate and the Baht's depreciation. Consequently, the 4Q14 earnings should be flat from 3Q14 (5% +/-) so we leave our yearly forecast unchanged. In 2015, the New Plant Phase 1 project will contribute to full-year revenue, so quarterly earnings should continue to hit new highs until 3Q15. We expect 2015 profits to be Bt1.993bn (+10% YoY), which is very conservative compared to the firm's target of +20%YoY (there is a possibility of an upgrade).

Promoted to this sector's top pick with a TP of Bt49.50: Although we have left our earnings forecast unchanged, an increase in the amount of shares, from 558mn to 564.6mn, lowers both the 2015EPS to Bt3.53 and our TP to Bt49.50 (from Bt50.00), based on a PER of 14x. We reiterate a Buy call. In the past 3 months, KCE's share price has underperformed in this sector, dropping by -0.6% compared to DELTA +16%, SVI +43% and HANA +36%, so KCE now offers upside of 25%, the highest in the sector. We recommend investors switch investment from DELTA and SVI to KCE. Moreover, we promote KCE to this sector's top pick after SVI earnings suffered due to the fire this morning.

KCE – Summary Earnings Table

FYE: Dec 31 (Btmn)	2012	2013	2014F	2015F	2016F
Revenue	6,478	9,294	11,034	11,980	12,352
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	3.20	3.53	3.62
EPS growth (%)	436.6	53.2	38.5	10.2	2.7
DPS (Bt)	0.55	0.75	1.15	1.27	1.30
PER	333.96	19.31	12.49	11.33	11.04
EV/EBITDA (x)	23.94	10.29	8.66	6.91	5.95
Div Yield (%)	1.38	1.88	2.88	3.17	3.25
P/BV(x)	6.14	4.68	3.95	3.23	2.77
Net Gearing (%)	179.7	118.3	137.0	66.8	54.5
ROE (%)	23.1	28.5	31.6	28.5	25.1
ROA (%)	3.9	11.8	13.7	15.0	14.2
Cons. Net Profit (THB m)	-	-	1,963	2,189	2,508

Source: Company reports and MBKET.

KCE - 3Q14 earnings results

(Btmn)	3Q14	2Q14	QoQ	3Q13	YoY	Comment
Revenues	2,999	2,819	6.4%	2,540	18.1%	
COGs	2,047	1,932	5.9%	1,816	12.7%	
Gross profits	952	886	7.5%	724	31.6%	
Gross margin (%)	31.8%	31.4%	1.0%	28.5%	11.5%	GPM was a bit above our estimated
SG&A	441	417	5.7%	361	22.2%	
Operating profit	512	469	9.0%	363	41.0%	
Operating margin (%)	17.06%	16.65%	2.5%	14.29%	19.4%	
EBITDA	667	614	8.6%	504	32.4%	
EBITDA margin (%)	22.25%	21.80%	2.1%	19.85%	12.1%	
Profit from associated	7	9	-25.4%	6	6.7%	
Interest expense	29	34	-14.1%	46	-35.5%	
Tax	30	14	119.6%	21	47.0%	
Normalized earning	471	445	5.8%	317	48.4%	Inline
Extra ordinary gain (loss)						
- Forex gain (loss)	14	34	n.m.	10	n.m.	
- Insurance claims	127	0	n.m.	0	n.m.	Cash from insurance claims
Net profit	611	479	27.6%	327	86.6%	
EPS (Bt) before extra item	0.83	0.80	4.5%	0.56	48.4%	
EPS (Bt)	1.08	0.86	26.1%	0.58	86.6%	

Source : Company reports

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	842	850	1,962
Other Current Assets	5,063	5,420	5,885	6,067
Total Assets	11,284	14,804	15,011	16,533
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	5,717	6,994	8,473
Total Liabilities-Capital	11,284	14,804	15,011	16,533
Share Capital (m)	508	565	565	587
Gross Debt/(Cash)	4,861	7,830	4,673	4,615
Net Debt/(Cash)	4,456	6,988	3,824	2,653
Working Capital	-807	-2,189	-917	136
BVPS	8.55	10.13	12.39	14.43

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	-417	-240	-93
Cash tax paid	-16	-19	-20	-22
Others (incl'd exceptional items)	1,002	426	158	105
Cash flow from operations	2,131	2,300	2,703	3,325
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	421	1	116
Dividends (paid)	-278	-494	-675	-735
Interest payments	-171	-161	-204	-166
Others	9	161	205	168
Cash flow from financing	-509	1,075	-2,001	-675
Change in cash	5	436	9	1,114

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	31.6	28.5	25.1
ROA %	11.8	13.7	15.0	14.2
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	0.7	0.8	0.7
Asset/Debt (x)	1.6	1.6	1.9	2.1
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	137.0	66.8	54.5
Debt/ EBITDA (x)	3.9	3.6	2.5	2.2
Debt/ Market Cap (x)	0.4	0.4	0.4	0.3

Source: Company reports and MBKET

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BV = Book Value	FV = Fair Value	PEG = PE Ratio To Growth
CAGR = Compounded Annual Growth Rate	FY = Financial Year	PER = PE Ratio
Capex = Capital Expenditure	FYE = Financial Year End	QoQ = Quarter-On-Quarter
CY = Calendar Year	MoM = Month-On-Month	ROA = Return On Asset
DCF = Discounted Cashflow	NAV = Net Asset Value	ROE = Return On Equity
DPS = Dividend Per Share	NTA = Net Tangible Asset	ROSF = Return On Shareholders' Funds
EBIT = Earnings Before Interest And Tax	P = Price	WACC = Weighted Average Cost Of Capital
EBITDA = EBIT, Depreciation And Amortisation	P.A. = Per Annum	YoY = Year-On-Year
EPS = Earnings Per Share	PAT = Profit After Tax	YTD = Year-To-Date
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THAI INSTITUTE OF DIRECTORS ASSOCIATION (IOD) CORPORATE GOVERNANCE REPORT RATING 2014

Excellent		Very Good		Good		Satisfactory		Pass		N/A	
ADVANC	CIMBT	HEMKAU	PAP	RS	SNC	Score Range	Number of Logo	Description			
AOT	CK	ICC	PG	S&J	SPALI	90-100	▲▲▲▲▲	Excellent			
ASIMAR	CPF	INTUCH	PHOL	SAMART	SPI	80-89	▲▲▲▲	Very Good			
BAFS	CPN	IRPC	PR	SAMTEL	SSI	70-79	▲▲▲	Good			
BANPU	CSL	IVL	PRANDA	SAT	SSSC	60-69	▲▲	Satisfactory			
BAY	DRT	KBANK	PS	SC	SM	50-59	▲	Pass			
BBL	DTAC	KKP	PSL	SCB	SYMC	Lower than 50	No logo given	N/A			
BEP	EASTW	KTG	PTT	SCC	TCAP						
BECL	EGCO	LPN	PTTEP	SCSMG	THAI						
BKI	ERW	MCOT	PTTGC	SEED	THCOM	TKT	TRC	UV			
BROOK	GRAMMY	MINT	QH	SIM	THRE	TMB	TRUE	VGI			
BTS	HANA	NKI	RATCH	SIS	TIP	TNITY	TTW	WACOAL			
		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			
AMANAHA	CCET	GC	KWC	NBC	PRG	SSF	TMT	UP			
AMARIN	CENDEL	GFPT	LSE	NCH	PT	STANLY	TNL	UPDIC			
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	VH			
APCS	CM	GSTEL	LHK	NWR	SABINA	SYNTEC	TRIPL	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	SEAFCD	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	IDL	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	BMC	IRC	MDX	PRIN	SPG	TMI	WAVE			
AH	CHUD	EPCO	IRCP	PRINC	Q-CON	SRICHA	TNDT	WG			
AI	CI	F&D	IT	MJD	QLT	SSC	TNPP	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	TM				
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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