T-BUY (from BUY)

CGR Scoring Rating

Share price: THB56.25
Target price: THB54.00 *(from 55.50)*

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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.

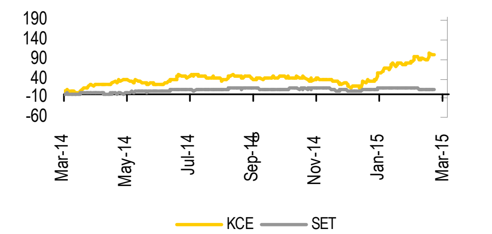
Ticker :	KCE
Shares Issued (m):	569
Market Cap (THB m)	31,943
Market Cap (USD m)	970.02
3-mth Avg Daily Turnover (THB m)	109.41
SET INDEX	1,526.81
Free float (%)	56.62

Major Shareholders :	%
Aongkosit Family	34.20
Thai Nvdr	5.30

Key Indicators

ROE – annualised (%)	28.1
Net cash (THB m):	(2,790)
NTA/shr (THB):	14.0
Interest cover (x):	12.1

Historical Chart



Performance

52-week High/Low THB 59.00/THB 28.25

	1-mth	3-mth	6-mth	1-yrs	YTD
Absolute (%)	10.8	51.0	39.8	92.3	64.2
Relative (%)	18.2	47.3	44.3	74.7	62.3

KCE electronics (KCE)

No new story and limited upside

In 1Q15, revenue will still grow but profit will soften slightly QoQ as the new plant's first phase has not yet reached the breakeven point. However, this is partially offset by better margin in other plants. We expect the first phase will reach the breakeven in 2Q15 before generating profit in 3Q15. The second phase will be complete and generate immediate profit in 3Q15, improving the GPM. The share price has largely reflected this positive view. Given limited upside, we downgrade our recommendation to TRADING BUY with a new TP of THB54 (from THB55) to factor in the dilution of the KCE-W2.

1Q15 norm profit to grow slightly QoQ. Although revenue is projected to expand 8% QoQ and 5% YoY, it is below the breakeven level of the first phase due to depreciation pressure continuing to affect the GPM. We expect the GPM to drop to 31% from 31.7% in 4Q14 and 31.5% in 1Q14. With lower labour numbers/ unit and lower fuel costs, SG&A expenses will drop 3% YoY but increase 13% QoQ due to abnormal low base last quarter. Norm profit is expected to fall slightly 5% QoQ but grow 10% YoY to THB450m. However, EBITDA excluding depreciation will still grow 3% QoQ and 16% YoY to THB641m.

Some positive stories in 2H15 has been priced into the model. The new plant's first phasewill breakeven in 2Q15 and phase II will be completed and generate immediate profit in 3Q15 (replacement with a better margin). 2H15 earnings will thus be supported by growing revenue from phase I and an improving margin from phase II. In 2015, we expect baht revenue to grow 15% YoY and expect the GPM to be 32.2% (from 31.6% in 2014). We may revisit our model again, if the GPM beats estimates.

Limited upside, downgrade to TRADING BUY. Although we maintain a positive view of long term growth prospects, positive stories in the short to medium term have already been reflected via a surge in the share price (+64% YTD). Moreover, we increased the number of share assumptions due to an exercise of KCE-W2 to 582.6m shares, bringing our TP down to THB54.00 (PER of 14x). The market price has stayed above our TP by 4% which implies a high PER2015 of 14.6x, we downgrade our recommendation to TRADING BUY.

KCE – Summary Earnings Table

FYE: Dec 31 (THB m)	2012	2013	2014	2015F	2016F
Revenue	6,478	9,294	11,284	13,014	13,728
EBITDA	887	1,987	2,768	3,472	4,005
Recurring Net Profit	57	1,052	1,883	2,240	2,453
Net profit	712	1,174	2,110	2,240	2,453
EPS (THB)	1.51	2.31	3.73	3.85	4.18
EPS growth (%)	436.6	53.2	61.3	3.1	8.6
DPS (THB)	0.55	0.75	1.15	1.19	1.29
PER	469.64	27.15	16.89	14.63	13.47
EV/EBITDA (x)	32.60	14.22	12.67	9.44	7.78
Div Yield (%)	0.98	1.33	2.04	2.11	2.29
P/BV(x)	8.64	6.58	4.98	4.11	3.41
Net Gearing (%)	179.7	118.3	122.6	63.2	52.6
ROE (%)	23.1	28.5	33.0	28.1	25.3
ROA (%)	3.9	11.8	14.2	13.7	13.4
Cons. Net Profit (THB m)	-	-	-	*2,314*	*2,636*

Source: Company reports and MBKET.

Figure 1: KCE - 1Q15 earnings preview

(THBm)	1Q15F	4Q14	QoQ	1Q14	YoY
Revenues	2,907	2,702	7.6%	2,765	5.1%
COGs	2,006	1,846	8.7%	1,893	6.0%
Gross profits	901	856	5.3%	872	3.3%
Gross margin (%)	31.0%	28.9%	7.4%	31.5%	-1.7%
SG&A	430	382	12.5%	443	-2.9%
Operating profit	471	474	-0.5%	429	9.8%
Operating margin (%)	16.21%	17.54%	-7.6%	15.53%	4.4%
EBITDA	**641**	**623**	2.9%	**554**	**15.7%**
EBITDA margin (%)	22.06%	23.07%	-4.4%	20.05%	10.0%
Profit from associated	8	7	12.4%	11	-30.1%
Interest expense	22	22	0.0%	32	-31.7%
Normalised earning	**450**	**472**	-4.6%	**411**	**9.7%**
Extra ordinary gain (loss)					
- Forex gain (loss)	25	19	n.m.	29	n.m.
- Insurance claims	0	5	n.m.	0	n.m.
- Other		85			
Net profit	**475**	**581**	**-18.2%**	**439**	**8.2%**
EPS (THB) before extra item	0.80	0.83	-4.6%	0.73	9.7%
EPS (THB)	**0.84**	**1.03**	-18.2%	**0.78**	8.2%

Source : Company reports, MBKET

INCOME STATEMENT (THB m)

FY December	2013	2014	2015F	2016F
Revenue	9,294	11,284	13,014	13,728
EBITDA	1,828	2,495	3,406	3,939
Depreciation & Amortisation	651	610	960	1,312
Operating Profit (EBIT)	**1,349**	**2,192**	**2,512**	**2,694**
Interest (Exp)/Inc	-171	-119	-208	-171
Associates	(13)	(34)	-	-
One-offs	33	131	0	0
Pre-Tax Profit	**1,165**	**2,038**	**2,304**	**2,523**
Tax	-16	-46	-23	-25
Minority Interest	-8	-14	-41	-45
Net Profit	**1,174**	**2,110**	**2,240**	**2,453**
Recurring Net Profit	**1,052**	**1,883**	**2,240**	**2,453**
Revenue Growth %	43.5	21.4	15.3	5.5
EBITDA Growth (%)	177.7	36.5	36.5	15.7
EBIT Growth (%)	234.9	61.5	16.4	7.2
Net Profit Growth (%)	64.7	79.8	6.2	9.5
Recurring Net Profit Growth (%)	1,759.2	79.1	19.0	9.5
Tax Rate %	1.0	1.0	1.0	1.0

BALANCE SHEET (THB m)

FY December	2013	2014	2015F	2016F
Fixed Assets	5,539	8,961	9,022	8,962
Other LT Assets	277	577	85	85
Cash/ST Investments	405	467	2,245	3,602
Other Current Assets	5,063	5,155	7,050	7,382
Total Assets	**11,284**	**15,160**	**18,402**	**20,031**
ST Debt	4,069	3,061	4,743	5,003
Other Current Liabilities	2,206	2,704	3,553	3,747
LT Debt	783	2,849	2,067	1,521
Other LT Liabilities	116	158	72	70
Minority Interest	20	26	0	0
Shareholders' Equity	4,091	6,362	7,968	9,689
Total Liabilities-Capital	**11,284**	**15,160**	**18,402**	**20,031**
Share Capital (m)	508	566	583	587
Gross Debt/(Cash)	4,861	7,830	5,035	5,097
Net Debt/(Cash)	4,456	7,363	2,790	1,495
Working Capital	-807	-143	1,000	2,233
BVPS	8.55	11.29	13.68	16.49

CASH FLOW (THB m)

FY December	2013	2014	2015F	2016F
Profit before taxation	1,165	2,038	2,304	2,523
Depreciation	651	610	960	1,312
Net interest receipts/(payments)	-171	-119	-208	-171
Working capital change	-500	-198	-340	-61
Cash tax paid	-16	-46	-23	-25
Others (incl'd exceptional items)	1,002	685	-965	292
Cash flow from operations	**2,131**	**2,971**	**1,728**	**3,869**
Capex	-1,624	-3,828	-694	-1,538
Disposal/(purchase)	0	0	1	2
Others	8	-100	492	0
Cash flow from investing	**-1,616**	**-3,928**	**-201**	**-1,536**
Debt raised/(repaid)	-188	2,102	900	-285
Equity raised/(repaid)	118	593	18	26
Dividends (paid)	-278	-509	-666	-716
Interest payments	-171	-119	-208	-171
Others	9	-1,049	209	173
Cash flow from financing	**-509**	**1,018**	**252**	**-973**
Change in cash	5	61	1,780	1,359

RATES & RATIOS

FY December	2013	2014	2015F	2016F
Gross margin %	26.4	31.6	32.2	32.3
EBITDA Margin %	19.7	22.1	26.2	28.7
Op. Profit Margin %	12.7	16.7	18.8	19.1
Net Profit Margin %	12.6	18.7	17.2	17.9
ROE %	28.5	33.0	28.1	25.3
ROA %	11.8	14.2	13.7	13.4
Net Margin Ex. El %	11.3	16.7	17.2	17.9
Dividend Cover (x)	3.1	3.2	3.2	3.2
Interest Cover (x)	7.9	18.4	12.1	15.8
Asset Turnover (x)	0.8	0.7	0.7	0.7
Asset/Debt (x)	1.6	1.7	1.8	1.9
Debtors Turn (days)	126.3	117.5	117.5	117.5
Creditors Turn (days)	85.3	85.3	85.3	85.3
Inventory Turn (days)	52.8	47.5	52.1	52.1
Net Gearing %	118.8	123.1	63.2	52.6
Debt/ EBITDA (x)	3.9	3.5	3.1	2.6
Debt/ Market Cap (x)	0.3	0.3	0.3	0.3

Source: Company reports and MBKET

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SELL	Return is expected to be below -10% in the next 12 months (excluding dividends)

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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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Score Range	Number of Logo	Description
90-100		Excellent
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass
Lower than 50	No logo given	N/A

BAFS	IRPC	PTTEP	SIM
BCP	IVL	PTTGC	SPALI
BTS	KBANK	SAMART	THCOM
CPN	KKP	SAMTEL	TISCO
EGCO	KTB	SAT	TMB
GRAMMY	MINT	SC	TOP
HANA	PSL	SCB	
INTUCH	PTT	SE-ED	

AAV	CENTEL	GUNKUL	NKI	RATCH	TCAP	TVO
ACAP	CFRESH	HEMRAJ	NMG	ROBINS	TF	UAC
ADVANC	CIMBT	HMPRO	NSI	RS	THAI	VGI
ANAN	CK	ICC	OCC	S&J	THANI	VNT
AOT	CNT	KCE	OFM	SAMCO	TIP	WACOAL
ASIMAR	CPF	KSL	PAP	SCC	TIPCO	
ASK	CSL	LANNA	PE	SINGER	TK	
ASP	DELTA	LH	PG	SIS	TKT	
BANPU	DRT	LHBANK	PHOL	SITHAI	TNITY	
BAY	DTAC	LOXLEY	PJW	SNC	TNL	
BBL	DTC	LPN	PM	SNP	TOG	
BECL	EASTW	MACO	PPS	SPI	TRC	
BIGC	EE	MC	PR	SSF	TRUE	
BKI	ERW	MCOT	PRANDA	SSI	TSTE	
BLA	GBX	NBC	PS	SSSC	TSTH	
BMCL	GC	NCH	PT	STA	TTA	
BROOK	GFPT	NINE	QH	SVI	TTW	

2S	BEC	DEMCO	IRCP	MOONG	PTG	SPC	TIC	UPOIC
AF	BFIT	DNA	ITD	MPG	QLT	SPCG	TICON	UT
AH	BH	EA	KBS	MTI	QTC	SPPT	TIW	UV
AHC	BJC	ESSO	KGI	NC	RCL	SST	TKS	UWC
AIT	BJCHI	FE	KKC	NTV	SABINA	STANLY	TLUXE	VIH
AJ	BOL	FORTH	KTC	NUSA	SALEE	STEC	TMI	WAVE
AKP	BTNC	FPI	L&E	NWR	SCBLIF	STPI	TMT	WHA
AKR	BWG	GENCO	LRH	NYT	SCCC	SUC	TNDT	WIN
AMANAH	CCET	GLAND	LST	OGC	SCG	SWC	TPC	WINNER
AMARIN	CGD	GLOBAL	MAJOR	OISHI	SEAFCO	SYMC	TPCORP	YUASA
AMATA	CGS	GLOW	MAKRO	PACE	SEAOIL	SYNEX	TRT	ZMICO
AP	CHOW	GOLD	MATCH	PATO	SFP	SYNTEC	TRU	
APCO	CI	HOTPOT	MBK	PB	SIAM	TASCO	TSC	
APCS	CKP	HTC	MBKET	PDI	SIRI	TBSP	TTCL	
AQUA	CM	HTECH	MEGA	PICO	SKR	TEAM	TUF	
ARIP	CMR	HYDRO	MFC	PPM	SMG	TFD	TVD	
AS	CSC	IFS	MFEC	PPP	SMK	TFI	TWFP	
ASIA	CSP	IHL	MJD	PREB	SMPC	THANA	UMI	
AYUD	CSS	INET	MODERN	PRG	SMT	THIP	UP	
BEAUTY	DCC	IRC	MONO	PRIN	SOLAR	THREL	UPF	

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