

12 May 2015

Electronic Components

KCE

KCE Electronics

Current	Previous	Close	2015 TP	Exp Return	Support	Resistance	CGR 2014
HOLD	BUY	53.50	57.00	+ 6.5%	53 - 52	55 - 56.5	

Consolidated earnings

BT (mn)	2013	2014	2015E	2016E
Normalized earnings	1,052	1,823	2,219	2,555
Net profit	1,174	2,110	2,219	2,555
Normalized EPS (Bt)	2.19	3.22	3.78	4.35
Reported EPS (Bt)	2.44	3.73	3.78	4.35
% Reported EPS growth	62.0	52.7	1.3	15.1
Dividend (Bt)	0.75	1.10	1.17	1.35
BV/share (Bt)	7.07	10.83	12.55	15.44
EV/EBITDA (x)	18.43	15.32	12.95	11.43
PER (x)	24.4	16.6	14.2	12.3
PER (x) - normalized	21.9	14.3	14.2	12.3
PBV (x)	7.6	4.9	4.3	3.5
Dividend yield (%)	1.4	2.1	2.2	2.5
YE No. of shares (million)	480	566	587	587
No. of share - full dilution	578	587	587	587
Par (Bt)	1.0	1.0	1.0	1.0

Source: Company data, FSS estimates

1Q15 normalized earnings decrease Q-Q, as expected

1Q15 normalized earnings down 11.9% Q-Q, but up 16.4% Y-Y

KCE's 1Q15 net profit comes in at Bt511mn (-11.9% Q-Q, +16.4% Y-Y). Excluding FX gain of Bt54mn, the company's normalized earnings are equal to Bt457mn (-3.2% Q-Q, +11.2% Y-Y), in line with our estimate of Bt473mn. In the January-March quarter, average gross margin narrowed, as expected, to its five-quarter low of 28.9% (vs. 31.5% in 1Q14 and 31.7% in 4Q14) after KCE started to realize from its new factory that is yet to break even. Moreover, the euro, which accounts for 17% of the company's total sales, tumbled. However, they were fully offset by revenues which increased 6.7% Q-Q and 4.2% Y-Y thanks to strong orders. As a result, SG&A expenses-to-revenues ratio fell to 11.9% from its normal level of 14%-16% thanks partly to economies of scale.

Maintain 2015 net profit estimate and TP

KCE's 1Q15 normalized earnings are sufficient to secure 21% of our full-year estimate. Looking ahead, we expect average gross margin to widen in 2Q15-3Q15 after the new factory's utilization rate increases to its break-even point from 2Q15 onward. In addition, we expect revenues from the new factory to also increase, which would support KCE's 2Q15 normalized earnings to grow both Q-Q and Y-Y. In 3Q15, the company's normalized earnings are likely to reach the peak of this year thanks to the export industry's high season and operation of Phase 2 of the new factory (whose production lines are relocated from existing factories) in 2H15. We retain our 2015E normalized earnings at Bt2.2bn (+21.7% Y-Y) and stand by our 2015 TP of Bt57 (PE 14x). However, we lower our rating on KCE to HOLD from BUY because the stock has rallied after our BUY recommendation in the last report to where it now implies an upside of just 6.5%.

1Q15 Earnings Results						Comment
(Bt mn)	1Q15	4Q14	%Q-Q	1Q14	%Y-Y	
Revenues	2,882	2,702	6.7	2,765	4.2	<ul style="list-style-type: none"> Revenues continued to grow both Q-Q and Y-Y thanks to strong orders and realization of revenues from its new factory. Average gross margin narrowed to its five-quarter low of 28.9% (vs. 31.7% in 4Q14 and 31.5% in 1Q14) because the new factory is yet to reach its break-even. Moreover, the euro decreased. SG&A expenses-to-revenues ratio sharply decreased to 11.9% from its normal level of 14%-16% thanks to larger revenues and smaller expenses following economies of scale.
Cost of services	2,050	1,846	11.1	1,893	8.3	
Gross profit	832	856	-2.8	872	-4.6	
SG&A	344	382	-9.9	443	-22.3	
Interest expense	21	23	-8.7	32	-34.4	
Normalized earnings	457	472	-3.2	411	11.2	
Net profit	511	580	-11.9	439	16.4	
EPS	0.899	1.026	-12.3	0.800	12.4	
Defect Rate (%)	4.0	3.9	0.1	3.9	0.1	
Gross margin (%)	28.9	31.7	-2.8	31.5	-2.6	
Norm earnings margin (%)	15.9	17.5	-1.6	14.9	1.0	
Net profit margin (%)	17.7	21.5	-3.8	15.9	1.8	

Source: Company data, FSS Research

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496-502 Amarin Tower
20th Floor, Pleonchit,
Lumpini, Pathumwan,
Bangkok

Thaisummit Tower

1768 Thaisammit Tower Building,
4nd, 31th Floor, New Petchburi
Road, Bangkapi, Huaykwang,
Bangkok

Pinklao 1

7/129-221 Central Pinklao Office
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Baromratchonnane Road,
Arunamarin, Bangkoknoi, Bangkok

Bangkapi

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

Italthai Tower

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

Bangna

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

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130-132 Sindhorn Building 1,
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Bangkok

Sindhorn 2

130-132 Sindhorn Building 3,
24th Floor, Wireless Road,
Lumpini, Pathumwan,
Bangkok

Sindhorn 3

130-132 Sindhorn Building 3,
19th Floor, Wireless Road,
Lumpini, Pathumwan,
Bangkok

Ladprao

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

Prachachuen

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

Rang sit

1/832 Phaholyothin 60
Kukod, Lumlookka
Pratumtanee

Thaisummit Tower

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Bangkapi, Huaykwang,
Bangkok

Rattanatibet

68/127 Moo 8 Rattanatibet Road,
Tumbon Banggrasor,
Aumphoe Muang,
Nonthaburi

Sriracha

135/99 (G fl.) Sukumvit Road,
Tumbon Sriracha
Aumphoe Sriracha, Chonburi

Khonkaen 1

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

Khonkaen 3

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

Udonthani

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

Chiangmai

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

Chiangmai 2

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

Chiangmai 3

Malipace Building 32/4 moo 2
1 fl., B1-1, B1-2 room
Tumbon Maehia
Chiangmai

Chiangrai

353/15 Moo 4,
Tumbon Rimkok
Aumphoe Muang, Cheangrai

Measai

119 Moo 10,
Tumbon Maesai,
Aumphoe Muang, Cheangrai

Nakornratchasima

1242/2 A3 room, 7 fl.,
The Mall Ratchasima
Mittraphap rood Tumbon Nai Muang
Aumphoe Muang Nakornratchasima
Nakornratchasima

Samutsakorn

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

Nakornpathom

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

Phuket

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

Hatyai 1

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

Hatyai 2

106 Prachathipat Road,
Aumphoe Hadyai, Songkhla

Hatyai 3

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

Krabi

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

Trang

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

Suratthani

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

Pattane

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

Analyst - Finansia Syrus Securities

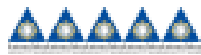
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Somchai	Anektaweepon	Technical	0-2646-9967	somchai.a@fnsyus.com
Natapon	Khamthakreaau	Derivatives	0-2646-9820	natapon.k@fnsyus.com

Recommendation Definitions

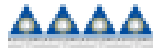
BUY	The latest close is below our target price and the estimated upside is 10% or more.
HOLD	The latest close is below our target price and the estimated upside is 0-10%.
SELL	The latest close is above our target price.
TRADING BUY	The latest close is above our target price but the price is expected 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.

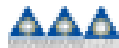
Thai Institute of Directors Association (IOD) - Corporate Governance Report Rating 2014



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



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



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	GL	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	

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

IOD (IOD Disclaimer)

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