

13 October 2015

Electronic Components

KCE

KCE Electronics

Current	Previous	Close	16 TP	Exp Return	Support	Resistance	Anti-corrupt	CGR 2014
BUY	BUY	58.25	68.00	+ 16.7%	57 - 56	60 - 63	Certified	▲▲▲▲

Consolidated earnings

BT (mn)	2013	2014	2015E	2016E
Normalized profit	1,052	1,823	2,130	2,643
Net profit	1,174	2,110	2,130	2,643
EPS (Bt)-Normalized	2.19	3.22	3.63	4.50
EPS (Bt)	2.44	3.73	3.63	4.50
% growth y-y	62.0	52.7	-2.8	24.1
Dividend (Bt)	0.75	1.10	1.12	1.35
BV/share (Bt)	7.07	10.83	12.44	15.48
EV/EBITDA (x)	19.72	16.39	14.12	11.81
PER (x) - Normalized	26.6	18.1	16.1	12.9
PER (x)	23.9	15.6	16.1	12.9
PBV (x)	8.2	5.4	4.3	3.5
Dividend yield (%)	1.3	1.9	1.9	2.3
YE no. of shares (mn)	480	566	587	587
No. of share-fully diluted	578	587	587	587
Par (Bt)	1.0	1.0	1.0	1.0

Source: Company data, FSS estimates

Share data

Close (12/10/2015)	58.25
SET Index	1,412.49
Foreign limit/actual (%)	49.00/16.64
Paid up shares (million)	572.85
Free float (%)	56.77
Market cap (Bt m)	33,368.78
Avg daily T/O (Bt m) (2015 YTD)	84.97
hi, lo, avg (Bt) (2015 YTD)	64.00, 31.75, 50.22

Source: Setsmarts

New factory continues to support gross margin to widen

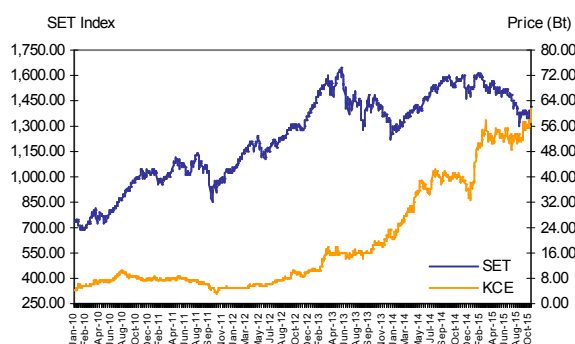
Our forecast calls for KCE's 3Q15 normalized earnings to hit a new high (+21% Q-Q, +22% Y-Y) thanks to seasonal factor and its new factory's higher utilization rate, which helped support gross margin to reach a record wide. Looking ahead, we expect the company's 4Q15 revenues to ease, in line with the technology industry's low season. However, we expect KCE's normalized earnings to decrease at a lower rate thanks to lower operating cost after the company closes its old factory and relocates its production lines to Phase 2 of its new factory. With that, we maintain our call for KCE's 2015E normalized earnings to hit a new high and soar 16.9% Y-Y. In addition, we anticipate that KCE's normalized earnings will continue to jump 24.1% Y-Y in 2016 thanks to full-year realization from both phases of its new factory. Specifically, we project utilization rate of 100% at both phases from 3Q16 and full-year realization from its new factory's lower operating cost. We increase our 2016 TP to Bt68 from Bt63 after we have re-rated our PE assumption to 15x to reflect better-than-peers profit growth rate next year. What's more, we like the company's profit margin which is more stable than in the past. Finally, we retain our BUY rating on KCE in the light of upside potential of 16.7%.

Expect 3Q15 normalized earnings and gross margin to hit new high

Our forecast calls for KCE's 3Q15 net profit to amount to Bt572mn (+16.7% Q-Q, -6.4% Y-Y). Excluding FX loss and its subsidiary's one-time tax expense, we expect the company's normalized earnings at Bt607mn (+20.9% Q-Q, +22.4% Y-Y), a new high. Such gains are likely to be attributed to seasonal factor. In the July-September quarter, revenues are likely to increase 6.3% Q-Q and 8% Y-Y. Gross margin is set to hit a record high of 32% after utilization rate of Phase 1 of its new factory jumped to 70% from 50% in 2Q15. Moreover, KCE also began operation of Phase 2 of its new factory. To elaborate, the company has relocated 80%-90% of its old factory's production line to the new one and is increasing utilization rate of Phase 2 of its new factory. Meanwhile, defect rate remained low at about 4%. Given all that, we expect impressive results for another quarter.

Normalized earnings set to jump 16.9% in 2015 and continue to surge by 24.1% in 2016

Assuming in-line 3Q15 normalized earnings, KCE's 9M15 core profit is equal to about Bt1.6bn (+15.8% Y-Y). During the period, we expect revenues to increase just 6.8% Y-Y after its new factory started operation later than planned. Moreover, the company was hit by euro depreciation because euro-denominated sales account for about 20% of its total revenues. However, operating expenses are set to decrease thanks to advanced-technology machinery at its new factory and higher efficiency following resource pooling. Hence, we predict operating expenses-to-revenues ratio to decrease to 12% from 15.1% in 9M14. Looking ahead, we anticipate KCE's 4Q15 normalized earnings to ease at a slower rate than that of its revenues thanks to higher economies of scale. Specifically, we expect the relocation of Phase 2 of its new factory to complete in this quarter, which would benefit gross margin because its old factory's operating costs, i.e. utilities and labor, are quite high. With that, we maintain our 2015E normalized earnings at Bt2.1bn (+16.9% Y-Y). Moreover, we forecast that the company's normalized earnings will hit a new high of Bt2.6bn (+24.1% Y-Y) in 2016 thanks to full-year realization from both phases of its new factory. In particular, we project 100% utilization rate at both phases from 3Q16 and full-year realization of its new factory's lower operating cost. Finally, KCE plans to construct Phase 3 of its new factory late next year.



Source: SET

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3Q15E Earnings Preview

(Bt mn)	3Q15E	2Q15	%Q-Q	3Q14	%Y-Y	9M15E	9M14	%Y-Y
Sales revenue	3,239	3,047	6.3%	2,999	8.0%	9,168	8,583	6.8%
Costs	2,202	2,110	4.4%	2,047	7.6%	6,363	5,872	8.4%
Gross profit	1,036	937	10.6%	952	8.8%	2,806	2,711	3.5%
SG&A costs	382	371	3.0%	441	-13.4%	1,097	1,300	-15.6%
Interest charge	45	35	28.6%	29	55.2%	102	96	6.3%
Norm profit	607	502	20.9%	496	22.4%	1,566	1,352	15.8%
Net profit	572	490	16.7%	611	-6.4%	1,573	1,529	2.9%
EPS (Bt/share)	1.002	0.860	16.7%	1.082	-7.4%	2.761	2.752	0.3%
Gross margin	32.0%	30.8%	1.2%	31.8%	0.2%	30.6%	31.6%	-3.1%
SG&A % of Sales	11.8%	12.2%	-0.4%	14.7%	-2.9%	12.0%	15.1%	-3.1%
Net margin	17.6%	16.1%	1.5%	20.4%	-2.8%	17.2%	17.8%	-0.6%

Source: FSS Estimates

Income Statement (Consolidated)

(Bt mn)	2012	2013	2014	2015E	2016E
Revenue	6,478	9,294	11,284	12,182	13,925
Cost of sales	5,232	6,843	7,718	8,406	9,469
Gross profit	1,246	2,451	3,567	3,776	4,456
SG&A costs	1,075	1,275	1,683	1,462	1,671
Operating profit	170	1,177	1,884	2,315	2,785
Other income	72	57	58	30	56
EBIT	242	1,233	1,943	2,345	2,841
EBITDA	730	1,762	2,518	2,970	3,516
Interest charge	159	171	119	150	172
Tax on income	20	16	46	88	53
Earnings after tax	63	1,047	1,777	2,107	2,615
Minority interests	4.2	8.0	13.5	0.0	0.0
Normalized earnings	57	1,052	1,823	2,130	2,643
Extraordinary items	656	122	287	0	0
Net profit	712	1,174	2,110	2,130	2,643

Balance Sheet (Consolidated)

(Bt mn)	2012	2013	2014	2015E	2016E
Cash	400	405	467	450	532
Accounts receivable	2,215	3,216	3,632	4,005	4,578
Inventory	1,240	1,345	1,470	1,612	1,816
Other current assets	840	502	54	61	70
Total current assets	4,695	5,468	5,622	6,128	6,995
Investments	79	99	77	77	77
Plant, property & equipment	5,237	5,343	8,843	10,168	10,823
Other assets	245	375	618	423	516
Total assets	10,256	11,284	15,160	16,796	18,411
Short-term loans	2,812	3,220	2,652	2,522	2,219
Accounts payable	1,566	2,173	2,669	2,303	2,594
Current maturities	1,393	849	410	1,052	1,024
Other current liabilities	13	34	35	24	28
Total current liabilities	5,784	6,275	5,765	5,901	5,865
Long-term debt	1,327	783	2,849	2,875	2,661
Other non-current liab.	67	116	158	110	125
Total non-current liab.	1,394	898	3,007	2,985	2,786
Total liabilities	7,178	7,174	8,772	8,886	8,651
Registered capital	492	578	587	587	587
Paid up capital	473	480	566	587	587
Share premium	1,111	1,120	1,686	1,686	1,686
Legal reserve	50	50	59	50	50
Retained earnings	1,430	2,441	4,051	5,560	7,411
Minority Interests	13	20	26	25	25
Shareholders' equity	3,077	4,110	6,388	7,910	9,760

Source: Company data, FSS research

Income Statement (Consolidated)

(Bt mn)	2012	2013	2014	2015E	2016E
Net Profit	712	1,174	2,110	2,130	2,643
Depreciation etc.	488	529	575	675	745
Change in working capital	1,139	-686	-34	-257	-519
Other adjustments	-653	-135	-346	-23	-28
Cash flow from operations	1,686	882	2,304	2,526	2,841
Capital expenditure	-1,490	-635	-4,075	-2,000	-1,400
Others	-72	-150	-221	194	-92
Cash flow from investing	-1,561	-784	-4,296	-1,806	-1,492
Free cash flow	124	97	-1,992	720	1,349
Net borrowings	-118	47	1,886	-129	-473
Equity capital raised	17	17	652	22	0
Dividends paid	-173	-168	-498	-669	-793
Others	12	11	14	39	-1
Cash flow from financing	-262	-93	2,054	-737	-1,267
Net change in cash	-137	4	62	-17	82

Important Ratios (Consolidated)

	2012	2013	2014	2015E	2016E
Growth (%)					
Sales	-10.0	43.5	21.4	8.0	14.3
EBITDA	-11.9	141.4	42.9	20.0	18.7
Net profit	439.6	64.7	79.8	1.0	24.1
Normalized earnings	-83.3	1759.4	73.4	16.9	24.1
Profitability Ratios (%)					
Gross profit margin	19.2	26.4	31.6	31.0	32.0
EBITDA margin	11.3	19.0	22.3	24.8	25.7
EBIT margin	3.7	13.3	17.2	19.3	20.4
Normalized profit margin	0.9	11.3	16.2	17.5	19.0
Net profit margin	11.0	12.6	18.7	17.5	19.0
Normalized ROA	0.6	9.3	12.0	12.7	14.4
Normalize ROE	1.8	25.7	28.7	27.0	27.2
Normalized ROCE	5.4	24.6	20.7	21.5	22.6
Risk (x)					
D/E	2.3	1.8	1.4	1.1	0.9
Net D/E	2.2	1.7	1.3	1.1	0.8
Net debt/EBITDA	9.3	3.8	3.3	2.8	2.3
Per share data (Bt)					
EPS - Reported	1.51	2.44	3.73	3.63	4.50
EPS - Normalized	0.12	2.19	3.22	3.63	4.50
EBITDA	1.54	3.67	4.45	5.14	6.10
FCF	0.26	0.20	-3.52	1.23	2.30
Book value	6.23	7.07	10.83	13.42	16.57
Dividend	0.55	0.75	1.10	1.12	1.35
Par	1.0	1.0	1.0	1.0	1.0
Valuations (x)					
P/E	38.6	23.9	15.6	16.1	12.9
P/E - Normalized	486.8	26.6	18.1	16.1	12.9
P/BV	9.4	8.2	5.4	4.3	3.5
EV/EBTDA	47.0	19.7	16.4	14.1	11.8
Dividend yield (%)	0.9	1.3	1.9	1.9	2.3

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Amarin Tower

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Bangkok

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Lumpini, Pathumwan,
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Sindhorn 3

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Lumpini, Pathumwan,
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Prachachuen

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Ladyao, Jutujak, Bangkok

Rang sit

1/832 Phaholyothin 60
Kukod, Lumlookka
Pratumtanee

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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

Maliplace 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,

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

Hatyai 2

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Hatyai 3

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223/20 Mharaj Road,
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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

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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.

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

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

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Anti-corruption Progress Indicator

Level 5	Extended	Extension of the anti-corruption policy to business partners in the supply chain, and disclosure of any current investigations, prosecutions or closed cases
Level 4	Certified	Audit engagement by audit committee or auditors approved by the office of SEC, and receiving certification or assurance by independent external assurance providers (CAC etc.)
Level 3	Established	Carrying out preventive measures, risk assessment, communication and training for all employees, including consistent monitoring and review processes
Level 2	Declared	Public declaration statement to participate in Thailand's private sector Collective Action Coalition Against Corruption (CAC) or equivalent initiatives
Level 1	Committed	Organization's statement or board's resolution to work against corruption and to be in compliance with all relevant laws
*	Insufficient or not clearly defined policy	
**	Data not available / no policy	

Anti-corruption Progress Indicator 2014 from Thaipat Institute (as of July 27, 2015)