

**KCE****KCE Electronics****Current  
BUY****Previous  
HOLD****Close  
75.25****2016 TP  
83.00****Exp Return  
+ 10.3%****Anti-corrupt  
4****CGR 2015  
5****Consolidated earnings**

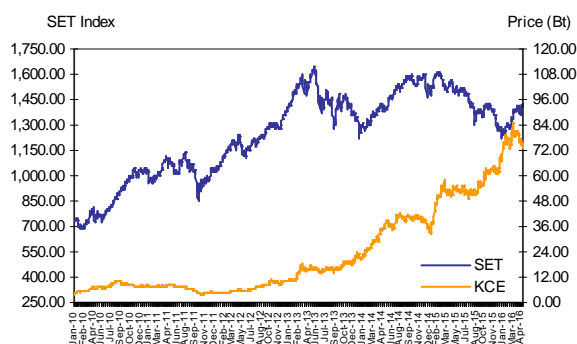
BT (mn)	2014	2015	2016E	2017E
Normalized profit	1,823	2,192	3,159	3,682
Net profit	2,110	2,240	3,159	3,682
EPS (Bt)-Normalized	3.22	3.81	5.50	6.41
EPS (Bt)	3.73	3.90	5.50	6.41
% growth y-y	52.7	4.5	35.8	16.6
Dividend (Bt)	1.10	1.21	1.65	2.56
BV/share (Bt)	10.83	13.74	17.29	19.96
EV/EBITDA (x)	20.21	16.32	12.32	10.91
PER (x) - Normalized	23.3	19.7	13.7	11.7
PER (x)	20.2	19.2	13.7	11.7
PBV (x)	6.9	5.5	4.4	3.8
Dividend yield (%)	1.5	1.6	2.2	3.4
YE no. of shares (mn)	566	575	575	575
No. of share-fully diluted	587	587	587	587
Par (Bt)	1.0	1.0	1.0	1.0

Source: Company data, FSS estimates

**Share data**

Close (25/04/2016)	75.25
SET Index	1,408.71
Foreign limit/actual (%)	49.00/25.52
Paid up shares (million)	576.26
Free float (%)	56.77
Market cap (Bt m)	43,363.65
Avg daily T/O (Bt m) (2016 YTD)	134.88
hi, lo, avg (Bt) (2016 YTD)	86.00, 65.75, 76.17

Source: Setsmarts



Source: SET

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**New factory's production efficiency impressively strong**

Our forecast calls for KCE's 1Q16 normalized earnings to hit a record high (+17% Q-Q, +56.7% Y-Y) thanks to higher revenues as strong sales volume helped both Phase 1 and 2 of its new factory to run at almost full capacity. This should support gross margin to widen to a new high of 34%. Looking ahead, we expect normalized earnings to remain strong in 2Q16 and hit the peak of this year in 3Q16 thanks to seasonal factors. We have increased our 2016E gross margin to 34.5%, in line with the company's target, and raised our 2016E normalized earnings by 3.8% to +44% Y-Y. After which, we revise up our 2016 TP to Bt83 from Bt80 (PE 15x, maintained). Regarding a wage increase in the electronics sector, the matter is being considered by the Ministry of Labour. In a worst case scenario where wage increases by 20%, it will hurt net profit by 4% or Bt0.12 per share and cut our 2016 TP by Bt2. However, KCE's profit looks set to remain strong in 2Q16-3Q16. What's more, there is still upside of 10.3% from our new 2016 TP. Hence, we upgrade our rating on KCE to BUY from HOLD.

**Expect 1Q16 net profit to continue to hit new high**

Our forecast calls for KCE's 1Q16 net profit to hit a new high of Bt739mn (+11.1% Q-Q, +44.6% Y-Y). Excluding FX gain of Bt23mn, the company's normalized earnings are likely to amount to Bt716mn (+17.1% Q-Q, +56.7% Y-Y), which is quite impressive. In the January-March quarter, we expect revenues to continue to jump both Q-Q and Y-Y thanks mainly to higher sales volume following strong purchase orders from both old and new customers. Given that, both Phase 1 and 2 of its new factory ran at almost full capacity, which should support gross margin to widen to a record high of 34% (vs. 33.8% in 4Q15 and 28.9% in 1Q15). Costs were well under control. Hence, SG&A expenses-to-revenues ratio is set to steady Y-Y at 11.9%.

**Revise up profit estimate to factor in new factory's production efficiency**

Looking ahead, we expect KCE's normalized earnings to continue to increase in 2Q16 and hit the peak of this year in 3Q16. Such gains should be made possible by seasonal factors and constantly high utilization rate. With that, the company will benefit from economies of scale. Defect rate is likely to remain low at 3.9%. KCE is expanding to Phase 3 of its factory in Lat Krabang, which has capacity of 700,000 SQF per month. The new capacity is on top of the current capacity of 2,750,000 SQF per month. We expect machinery to be installed and partial production to start from 3Q16 onward, while full capacity is expected in mid-2017. This implies that KCE is already able to receive purchase orders, which will support gross margin to widen to the company's target of 34.5%. For this reason, we have increased our 2016E gross margin to 34.5% (from 34% Y-Y) and, consequently, raised our 2016E normalized earnings by 3.8% to Bt3.2bn (+44% Y-Y). After which, we revise up our 2016 TP to Bt83 from Bt80 (PE 15x, maintained).

**20% wage hike hurts profit by 4%**

Recently, there was news about a 20% wage increase in the electronics sector from Bt300 to Bt360 per day. Currently, the matter is being considered by the Ministry of Labour prior to a Cabinet approval. Regarding this matter, KCE said that a rise would have limited impact because its current wage including incentive is already above Bt360 a day. However, we assume labor cost at 7% of total costs and conduct a sensitivity study. After which, we find that every 10% increase in labor cost will affect profit by about 2%. Hence, in a worst case scenario where wage increases by 20%, this will cut KCE's net profit by about 4% or Bt0.12 per share and decrease our 2016 TP by Bt2.

**1Q16E Earnings Preview**

(Bt mn)	1Q16E	4Q15	%Q-Q	1Q15	%Y-Y
Sales revenue	3,516	3,218	9.3	2,882	22.0
Costs	2,321	2,131	8.9	2,050	13.2
Gross profit	1,196	1,087	10.0	832	43.8
SG&A costs	418	400	4.5	344	21.5
Interest charge	47	48	-2.1	21	123.8
Norm Profit	716	631	17.1	457	56.7
Net profit	739	665	11.1	511	44.6
EPS (Bt/share)	1.286	1.158	11.1	0.899	44.6
Gross margin	34.0	33.8	0.2	28.9	5.1
SG&A as % of Sales	11.9	12.4	-0.5	11.9	0.0
Net Margin	21.0	20.7	0.3	21.5	-0.5

Source: FSS Estimates

Income Statement (Consolidated)					
(Bt mn)	2013	2014	2015	2016E	2017E
Revenue	9,294	11,284	12,449	14,703	16,908
Cost of sales	6,843	7,718	8,535	9,630	11,024
Gross profit	2,451	3,567	3,914	5,072	5,884
SG&A costs	1,275	1,683	1,520	1,720	1,995
Operating profit	1,177	1,884	2,393	3,352	3,889
Other income	57	58	35	44	51
EBIT	1,233	1,943	2,428	3,396	3,940
EBITDA	1,762	2,518	3,144	4,094	4,607
Interest charge	171	119	153	155	162
Tax on income	16	46	91	97	113
Earnings after tax	1,047	1,777	2,184	3,144	3,664
Minority interests	8.0	13.5	12.5	13.0	14.0
Normalized earnings	1,052	1,823	2,192	3,159	3,682
Extraordinary items	122	287	48	0	0
Net profit	1,174	2,110	2,240	3,159	3,682

Balance Sheet (Consolidated)					
(Bt mn)	2013	2014	2015	2016E	2017E
Cash	405	467	676	819	893
Accounts receivable	3,216	3,632	4,540	5,237	6,022
Inventory	1,345	1,470	1,684	1,979	2,326
Other current assets	502	54	36	44	51
Total current assets	5,468	5,622	6,936	8,094	9,166
Investments	99	77	105	255	360
Plant, property & equipment	5,343	8,843	9,216	9,430	9,594
Other assets	375	618	573	454	476
Total assets	11,284	15,160	16,830	18,233	19,593
Short-term loans	3,220	2,652	2,139	2,156	2,032
Accounts payable	2,173	2,669	2,215	2,507	2,718
Current maturities	849	410	619	625	625
Other current liabilities	34	35	52	29	34
Total current liabilities	6,275	5,765	5,026	5,317	5,409
Long-term debt	783	2,849	3,554	2,661	2,506
Other non-current liab.	116	158	150	132	152
Total non-current liab.	898	3,007	3,704	2,793	2,658
Total liabilities	7,174	8,772	8,730	8,110	8,067
Registered capital	578	587	587	587	587
Paid up capital	480	566	575	575	575
Share premium	1,120	1,686	1,810	1,686	1,046
Legal reserve	50	59	59	59	59
Retained earnings	2,441	4,051	5,629	7,839	10,048
Minority Interests	20	26	27	26	26
Shareholders' equity	4,110	6,388	8,100	10,185	11,753

Source: Company data, FSS research

Income Statement (Consolidated)					
(Bt mn)	2013	2014	2015	2016E	2017E
Net Profit	1,174	2,110	2,240	3,159	3,682
Depreciation etc.	529	575	716	786	836
Change in working capital	-686	-34	-1,331	-725	-923
Other adjustments	-135	-346	-69	-28	-32
Cash flow from operations	882	2,304	1,556	3,079	3,462
Capital expenditure	-635	-4,075	-1,089	-1,000	-1,000
Others	-150	-221	16	-31	-127
Cash flow from investing	-784	-4,296	-1,073	-1,031	-1,124
Free cash flow	97	-1,992	483	2,048	2,338
Net borrowings	47	1,886	254	-866	-227
Equity capital raised	17	652	133	-124	-641
Dividends paid	-168	-498	-683	-948	-1,473
Others	11	14	22	-2	-1
Cash flow from financing	-93	2,054	-274	-1,940	-2,341
Net change in cash	4	62	209	143	74

Important Ratios (Consolidated)					
	2013	2014	2015	2016E	2017E
<b>Growth (%)</b>					
Sales	43.5	21.4	10.3	18.1	15.0
EBITDA	141.4	42.9	24.9	30.2	12.5
Net profit	64.7	79.8	6.2	35.8	16.6
Normalized earnings	1759.4	73.4	20.3	38.8	16.6
<b>Profitability Ratios (%)</b>					
Gross profit margin	26.4	31.6	31.4	34.5	34.8
EBITDA margin	19.0	22.3	25.3	27.8	27.7
EBIT margin	13.3	17.2	19.5	23.1	23.3
Normalized profit margin	11.3	16.2	17.6	21.5	21.8
Net profit margin	12.6	18.7	18.0	21.5	21.8
Normalized ROA	9.3	12.0	13.0	16.7	17.8
Normalize ROE	25.7	28.7	27.2	31.1	31.4
Normalized ROCE	24.6	20.7	20.6	25.7	26.5
<b>Risk (x)</b>					
D/E	1.8	1.4	1.1	0.8	0.7
Net D/E	1.7	1.3	1.0	0.7	0.6
Net debt/EBITDA	3.8	3.3	2.6	1.8	1.6
<b>Per share data (Bt)</b>					
EPS - Reported	2.44	3.73	3.90	5.50	6.41
EPS - Normalized	2.19	3.22	3.81	5.50	6.41
EBITDA	3.67	4.45	5.47	7.12	8.02
FCF	0.20	-3.52	0.84	3.56	4.07
Book value	7.07	10.83	13.74	17.29	19.96
Dividend	0.75	1.10	1.21	1.65	2.56
Par	1.0	1.0	1.0	1.0	1.0
<b>Valuations (x)</b>					
P/E	30.8	20.2	19.2	13.7	11.7
P/E - Normalized	34.4	23.3	19.7	13.7	11.7
P/BV	10.6	6.9	5.5	4.4	3.8
EV/EBTDA	24.4	20.2	16.3	12.3	10.9
Dividend yield (%)	1.0	1.5	1.6	2.2	3.4

## Finansia Syrus Securities Public Company Limited

### Head Office

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### Bangkapi

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Klongjan, Bangkapi, Bangkok

### Ladprao

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

### Sriracha

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

### Chiangmai 2

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

### Samutsakorn

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

### Hatyai 3

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

### Thaisummit Tower

1768 Thaisammit Tower Building,  
5<sup>th</sup>, 31<sup>th</sup> Fl., New Petchburi Road,  
Bangkapi, Huaykwang,  
Bangkok

### Bangna

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

### Prachachuen

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

### Khonkaen 1

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

### Chiangmai 3

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

### Nakornpathom

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

### Krabi

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

### Alma Link

9th, 14th, 15th Fl.,  
Alma Link Building 25  
Soi Chidlom, Ploenchit, Lumpini,  
Patumwan, Bangkok

### Sindhorn 1

130-132 Sindhorn Building 1,  
2nd Floor, Wireless Road,  
Lumpini, Pathumwan,  
Bangkok

### Rang sit

1/832 Phaholyothin 60  
Kukod, Lumlookka  
Pratumtanee

### Khonkaen 3

311/1  
Khang Meung Road,  
Tumbon Nai Meung,  
Aumphoe Meung Khonkaen,  
Khonkaen

### Chiangrai

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

### Phuket

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

### Trang

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

### Amarin Tower

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

### Sindhorn 2

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

### Thaisummit Tower

1768 Thaisammit Tower Building,  
2nd Floor, New Petchburi Road  
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Bangkok

### Udonthani

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

### Measai

119 Moo 10,  
Tumbon Maesai,  
Aumphoe Muang, Cheangrai

### Hatyai 1

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

### Suratthani

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

### Central Pinklao 1

7/129-221 Central Pinklao Office  
Building, Room 1404, 14th Fl.,  
Baromratchonnane Road,  
Arunamarin, Bangkoknoi, Bangkok

### Sindhorn 3

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

### Rattanatibet

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

### Chiangmai 1

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

### Nakornratchasima

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

### Hatyai 2

106 Prachathipat Road,  
Aumphoe Hadyai, Songkhla

### Pattane

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

## 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 2015

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)

The Corporate Governance Report (CGR) of Thai listed Companies is based on a survey and assessment of information which companies listed on the Stock Exchange of Thailand and the Market for Alternative Investment ("**listed companies**") disclose to the public. The CGR is a presentation of information from the perspective of outsiders on the standards of corporate governance of listed companies. It is not any assessment of the actual practices of the listed companies, and the CGR does not use any non-public information. The CGR is not therefore an endorsement of the practices of the listed companies. It is not a recommendation for investment in any securities of any listed companies or any recommendation whatsoever. Investors should exercise their own judgment to analyze and consider any information relating to the listed companies presented in this CGR report. No representation or warranty is made by the Institute of Directors or any of its personnel as to the completeness or accuracy of the CGR report or the information used.

### 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 3A	Established by Declaration of Intent
	- Level 3B	Established by Internal Commitment and Policy
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

*Anti-corruption Progress Indicator from Thaipat Institute (as of November 6, 2015)*