

11 May 2016

Earnings Results
Electronic Components
KCE
KCE Electronics
**Current
HOLD**
**Previous
BUY**
**Close
78**
**2016 TP
83**
**Exp Return
+ 6.4%**
**Anti-corrupt
4**
**CGR 2015
5**
Consolidated earnings

BT (mn)	2014	2015	2016E	2017E
Normalized earnings	1,823	2,192	3,159	3,682
Net profit	2,110	2,240	3,159	3,682
Normalized EPS (Bt)	3.22	3.81	5.50	6.41
Reported EPS (Bt)	3.73	3.90	5.50	6.41
% Reported EPS growth	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)	20.82	16.82	12.32	10.91
PER (x)	24.2	19.7	14.2	12.2
PER (x) - normalized	20.9	19.2	14.2	12.2
PBV (x)	7.2	5.7	4.5	3.9
Dividend yield (%)	1.4	1.6	2.1	3.3
YE No. of shares (million)	566	575	575	575
No. of share - full dilution	587	587	587	587
Par (Bt)	1.0	1.0	1.0	1.0

Source: Company data, FSS estimates

1Q16 net profit impressive and in line
1Q16 normalized earnings up 15.4% Q-Q and 59.3% Y-Y to new high

KCE's 1Q16 net profit comes in at Bt751mn (+12.9% Q-Q, +47% Y-Y), in line with our estimate of Bt739mn. Excluding FX gain of Bt23mn, the company's normalized earnings are equal to Bt728mn (+15.4% Q-Q, +59.3% Y-Y), a new high. Such gains are made possible by strong revenues growth (+9.7% Q-Q, +22.4% Y-Y) after higher sales volume. In the January-March quarter, the company's new factory ran at nearly full capacity at both Phase 1 and 2, while its old factory was fully utilized. As a result, gross margin continued to hit a new high of 33.9% (vs. 33.8% in 4Q15 and 28.9% in 1Q15), while costs continued to be well controlled. Given that, SG&A expenses-to-revenues ratio was equal to 12%. It is flat Y-Y, but down from 12.4% in 4Q15.

Maintain profit estimate and 2016 TP

KCE's 1Q16 normalized earnings are sufficient to secure 23% of our full-year estimate. Looking ahead, we expect the company's normalized earnings to remain strong in 2Q16 thanks to solid purchase orders and high utilization rate, which will support gross margin to remain wide. Moreover, we anticipate its normalized earnings will hit the peak of this year in 3Q16 thanks to the technology industry's high season. KCE is in a process to expand Phase 3 of its new factory. The company will start installing machinery and begin to run part of it from 3Q16 onward. This should help support growth for next year. We stand by our 2016E normalized earnings at about Bt3.2bn (+38.8% Y-Y) and maintain our 2016 TP at Bt83 (PE 15x). However, the counter has increased to where it now implies narrower upside of just 6.4%. Hence, we lower our rating on KCE to HOLD from BUY.

1Q16 Earnings Results						Comment
(Bt mn)	1Q16	4Q15	%Q-Q	1Q15	%Y-Y	
Revenues	3,529	3,218	9.7	2,882	22.4	<ul style="list-style-type: none"> In 1Q16, revenues grow both Q-Q and Y-Y thanks to higher sales volume. This implies strong purchase orders. Gross margin hit a new high of 33.9% because both new and old factories run at nearly full capacity, while defect rate remains low at 3.9%. Costs continue to be well controlled. As a result, SG&A expenses-to-revenues ratio is equal to 12%. It is flat Y-Y, but down from 12.4% in 4Q15.
Cost of services	2,331	2,131	9.4	2,050	13.7	
Gross profit	1,198	1,087	10.2	832	44.0	
SG&A	423	400	5.8	344	23.0	
Interest expense	46	48	-4.2	21	119.0	
Normalized earnings	728	631	15.4	457	59.3	
Net profit	751	665	12.9	511	47.0	
EPS	1.307	1.158	12.9	0.899	45.4	
Gross margin (%)	33.9	33.8	0.1	28.9	5.0	
Norm earnings margin (%)	20.6	19.6	1.0	15.9	4.7	
Net profit margin (%)	21.3	20.7	0.6	17.7	3.6	

Source: Company data, FSS Research

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1768 Thaisammit Tower Building,
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Bangkok

Bangna

1093 Tower 1 Office, 19th Floor,
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Bangkok

Prachachuen

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

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

Amarin Tower

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

Sindhorn 2

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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

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

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

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

Udonthani

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

Chiangmai 1

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

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, 2nd 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, 2nd 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

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

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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 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)