

# KCE Electronics

(KCE.BK/KCE TB)\*

## Outperform-Maintained

### Key messages

KCE reported 1Q16 earnings of Bt751mn, up 47% YoY and 13% QoQ. The growth was mainly from higher production, as its capacity utilization rose at the new plant, and cost savings from shutting down the old plant. For 2Q16, we expect another high quarterly performance from improving revenues and gross profit margin (GPM). Full utilization of the first two phases of the new plant should keep GPM strong. In addition, commercial operations of phase 3 in 3Q16 will boost its margin further. We rate the counter Outperform with a target price of Bt90.00.

## 1Q16 earnings review: New record high

### Event

KCE reported 1Q16 earnings of Bt751mn, up 47% YoY and 13% QoQ which was in line with our estimate and the Bloomberg consensus. This was an all-time quarterly high.

### Impact

#### Higher revenue driven by the new plant

KCE reported 1Q16 revenues of Bt3,529mn, up 22% YoY and 10% QoQ. The growth was mainly from higher production, as its capacity utilization rose at the new plant. The main production driver came from automotive PCB.

#### Improved GPM in this quarter

Thanks to economies of scale and higher productivity at the new plant as well as cost savings from shutting down its old plant, KCE posted a record high gross profit margin (GPM) of 33.9% (up from 29% in 1Q15 and 33.8% in 4Q15). We expect GPM to continue to grow in 2Q16 as the new plant would run at a higher utilization rate.

#### More SG&A cost

SG&A increased YoY and QoQ due to higher staff costs and costs associated with the shutdown of the old plant in Lad Kabang.

#### Expect earnings to continue on upward trend

Based on our discussion with KCE's management, we expect another high quarterly performance in 2Q16 from improving revenues and GPM. Full utilization of the first two phases of the new plant should keep GPM strong. In addition, commercial operations of phase 3 in 3Q16 will boost its margin further.

### Valuation and action

We derived a 2016 fair value of Bt90.00 based on 2016 EPS of Bt5.30 and PER multiple 17.0x, which is above the sector average. We believe KCE deserves to trade at a premium thanks to its unique position enabling it to capture growth potential in the automotive industry and attractive high margin. At the last closing price, there is upside of 15% to our fair value. We thus maintain a rating of Outperform.

### Risks

Natural disasters, unplanned plant shutdowns, customers shifting to other suppliers and Bt/US\$ appreciation.

Sumek Chantrasuriyarat  
66.2658.8888 Ext.8840  
sumekc@kgi.co.th

Assistant Analyst  
Vorant Meethavorn  
66.2658.8888 Ext.8856  
vorantm@kgi.co.th

**Figure 1: 1Q16 earnings review**

Bt mn	1Q16	1Q15	YoY (%)	4Q15	QoQ (%)	Comments
Revenue	3,529	2,882	22.4	3,218	9.7	Higher utilization rate in the new plant phase 1-2
Gross Profit	1,198	832	44.0	1,087	10.2	
SG&A	423	344	22.9	359	17.8	Higher staff cost and shutdown the old plant cost
Operating Profit	807	550	46.8	732	10.3	
Operating EBITDA	1,010	686	47.2	931	8.5	
<b>Net Profit</b>	<b>751</b>	<b>511</b>	<b>47.0</b>	<b>666</b>	<b>12.8</b>	
Normalized profit	751	511	47.0	666	12.8	
EPS (Bt)	1.31	0.89	47.0	1.16	12.8	
Normalized EPS (Bt)	1.31	0.89	47.0	1.16	12.8	
Percent	1Q16	1Q15	YoY (ppts)	4Q15	QoQ (ppts)	
Gross margin	33.9	28.9	5.1	33.8	0.2	Driven by the increasing capacity of the new plant
EBIT margin	22.9	19.1	3.8	22.7	0.1	
SG&A/sales	12.0	11.9	0.0	11.2	0.8	

Source: Company data, KGI Research

## KGI Locations

<b>China</b>	Shanghai	Room 1907-1909 , Tower A, No. 100 Zunyi Road, Shanghai, PRC 200051
	Shenzhen	Room 24D1, 24/F, A Unit, Zhen Ye Building, 2014 Bao'annan Road, Shenzhen, PRC 518008
<b>Taiwan</b>	Taipei	700 Mingshui Road, Taipei, Taiwan Telephone 886.2.2181.8888 · Facsimile 886.2.8501.1691
<b>Hong Kong</b>		41/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong Telephone 852.2878.6888 Facsimile 852.2878.6800
<b>Thailand</b>	Bangkok	8th - 11th floors, Asia Centre Building 173 South Sathorn Road, Bangkok 10120, Thailand Telephone 66.2658.8888 Facsimile 66.2658.8014

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Outperform (OP)	The stock's excess return* over the next twelve months is ranked in the top 40% of KGI's coverage universe in the related market (e.g. Taiwan).
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Under perform (U)	The stock's excess return* over the next twelve months is ranked in the bottom 40% of KGI's coverage universe in the related market (e.g. Taiwan).
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.  <i>Excess return = 12M target price/current price -</i>
Note	When an analyst publishes a new report on a covered stock, we rank the stock's excess return with those of other stocks in KGI's coverage universe in the related market. We will assign a rating based on its ranking. If an analyst does not publish a new report on a covered stock, its rating will not be changed automatically.

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