



# KCE Electronics

(KCE.BK/KCE TB)\*

## Neutral-Downgrade

Price as of 8 Aug 2017	84.00
12M target price (Bt/shr)	93.00
Unchanged/Revised up(down)(%)	(31.2)
Upside/downside (%)	10.7

### Key messages

KCE's golden year has passed and it could be difficult for the company to push up its gross margin to a high level of 35.9%. A gross margin range of between 31.5% and 33.0% could be reasonable after taking into account the impact of negative factors. We revised down our 2017-2019 earnings forecasts by 22%, 19%, and 19%, respectively. We believe the company deserves to trade at a premium due to its exposure to the auto segment, but we de-rated multiple PER by a 0.5 notch, reflecting uncontrollable factors. We rolled over our target price to mid-2018 at Bt93.00 based on multiple PER of 17.0X (+1 S.D. sector average) and downgrade the counter to Neutral.

### Trading data

Mkt cap (Btbn/US\$bn)	47.5/1.2
Outstanding share (mn)	586
Foreign ownership (mn)	143.1
3M avg. daily trading (mn)	4
52-week trading range (Bt)	81-129
Performance (%)	3M 6M 12M
Absolute	-27 -19.8 -21.7
Relative	-27.7 -19 -23.2

### Quarterly EPS

EPS	Q1	Q2	Q3	Q4
2015	0.90	0.86	1.00	1.16
2016	1.30	1.39	1.34	1.18
2017	1.13	1.15	n.a.	n.a.

### Share price chart



Source: SET

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## 2Q17 earnings review: Weak result already priced in

### Event

KCE reported 2Q17 earnings of Bt672mn (-17% YoY, +2% QoQ). The result was 6% below our forecast. Without FX gain, core profit was Bt616mn (-20% YoY, -1% QoQ). The 1H17 core profit was Bt1.2bn, accounting for 46% of our full-year forecast.

### Impact

#### Golden year has passed

Years 2015-2016 can be called the golden years for KCE as its gross profit margin (GPM) rose from a low of 28.9% in 1Q15 to a peak of 35.9% in 3Q16 due to i) improved efficiency from its new plant, ii) baht weakening 8%, and iii) 30% decline in copper price. However, the coin has flipped and it will be quite difficult for KCE's GPM to get back to those high levels in the short term. GPM plunged from 35.9% in 3Q16 to 31.0% in 2Q17.

#### Gross margin expected to be between 31.5% and 33.0%

We ran a sensitivity analysis on FX and copper price to find the implied GPM assuming that every Bt1 appreciation of the Thai baht could hurt GPM by 0.5ppts while every 10% rise in copper price could lower GPM about 0.5ppts (based on KGI Taiwan's research paper). As a consequence, GPM could range between 31.5%-33.0% (Figure 5).

#### De-rated multiple PER, but still premium on potential growth from auto segment

The automotive printed circuit board (PCB) market is expected to grow 7% CAGR during 2016-2020 which is faster than the global PCB market at 3%. Hence, we believe KCE deserves to trade at a premium, as about 70% of its total revenues are from the automotive sector. However, the impact of the baht appreciation and rising copper price could prolong mid-to-long-term pressure on the company's performance. We de-rated multiple PER by a 0.5 notch to 17.0x (+1.0 S.D. sector average) to reflect these concerns.

#### Fine-tuned 2017-2019 earnings forecast to take into account negative factors

We toned down our average FX assumption from Bt36.5/US\$ to Bt34.2/US\$ based on our economist's view. We also lowered our gross margin assumptions by 3%, 2%, and 2% for 2017-2019. Thus, we revised down our 2017-2019 normalized earnings by 22%, 19% and 19%, respectively.

### Valuation & Action

We rolled our target price over to mid-2018 at Bt93.00, which implies 10.7% upside to the current share price. We downgrade the counter to Neutral, from Outperform, but we believe this is an opportunity for trading buy as the share should have priced in concerns, implying limited downside.

### Risks

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

### Key financials and valuations

	Dec - 15A	Dec - 16A	Dec - 17F	Dec - 18F	Dec - 19F
Revenue (Btmm)	12,449	13,797	15,956	17,606	18,999
Gross Profit (Btmm)	3,914	4,813	5,098	5,821	6,363
SG&A (Btmm)	1,520	1,695	2,058	2,202	2,340
Net Profit (Btmm)	2,240	3,039	2,924	3,514	3,933
Normalized Profit (Btmm)	2,192	2,912	2,924	3,514	3,933
EPS (Bt)	3.90	5.18	4.99	6.00	6.71
Normalized EPS (Bt)	3.81	4.97	4.99	6.00	6.71
DPS (Bt)	1.50	2.00	2.00	2.40	2.68
EPS Growth (%)	4.5	33.0	(3.8)	20.2	11.9
Normalized EPS Growth	20.0	30.3	0.4	20.2	11.9
P/E (X)	18.0	23.5	18.6	15.5	13.9
P/B (X)	5.0	7.1	4.6	3.9	3.4
EV/EBITDA (X)	17.0	12.3	12.4	10.4	9.1
Net Debt to Equity (%)	69.6	36.3	20.4	2.2	(12.7)
Dividend Yield (%)	2.1	1.6	2.1	2.6	2.9
Return on Average Equity (%)	27.7	30.3	24.8	25.3	24.2

Source: KGI Research

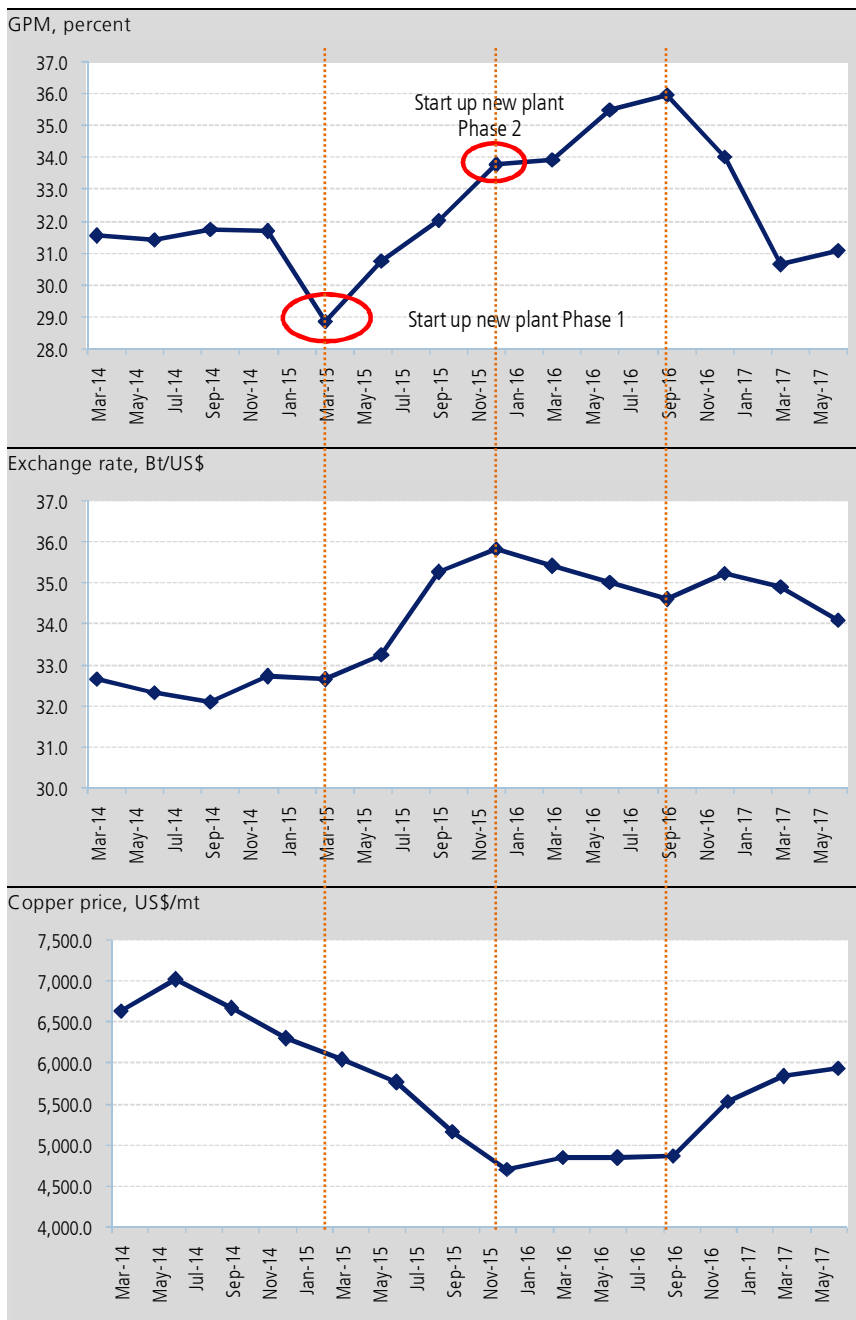
Figure 1: 2Q17 earnings review

Btmn	2Q17	2Q16	YoY (%)	1Q17	QoQ (%)	Comment
<b>Revenue</b>	<b>3,664</b>	<b>3,579</b>	<b>2.4</b>	<b>3,536</b>	<b>3.6</b>	
Gross profit	1,135	1,270	(10.6)	1,084	4.7	
SG&A	485	454	6.7	444	9.3	
Operating profit	668	833	(19.7)	663	0.8	
Non-operating Inc./ (Exp)	56	43	29.3	39	43.5	
<b>Net profit</b>	<b>672</b>	<b>812</b>	<b>(17.2)</b>	<b>662</b>	<b>1.5</b>	
Normalized profit	616	768	(19.8)	623	(1.1)	
EPS (Bt)	1.15	1.39	(17.2)	1.13	1.6	
Normalized EPS (Bt)	1.05	1.31	(19.8)	1.06	(1.1)	
<b>Percent</b>	<b>2Q17</b>	<b>2Q16</b>	<b>YoY (ppts)</b>	<b>1Q17</b>	<b>QoQ (ppts)</b>	
Gross margin	31.0	35.5	(4.5)	30.7	0.3	Lower GPM from copper price
EBIT margin	18.2	23.3	(5.0)	18.8	(0.5)	
SG&A/sales	13.2	12.7	0.5	12.5	0.7	
	<b>2Q17</b>	<b>2Q16</b>	<b>YoY (%)</b>	<b>1Q17</b>	<b>QoQ (%)</b>	
Sales in USD	107	102	4.8	101	5.7	

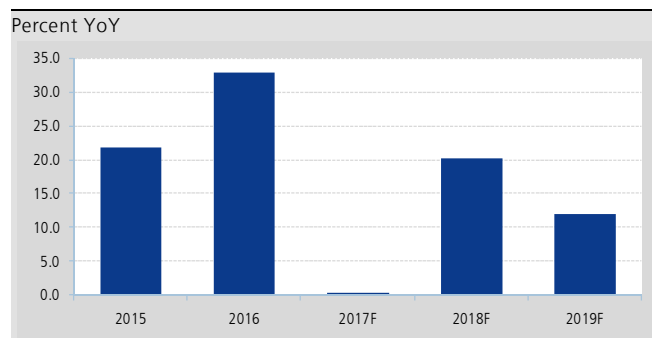
Source: Company data, KGI Research

### Golden year has already passed

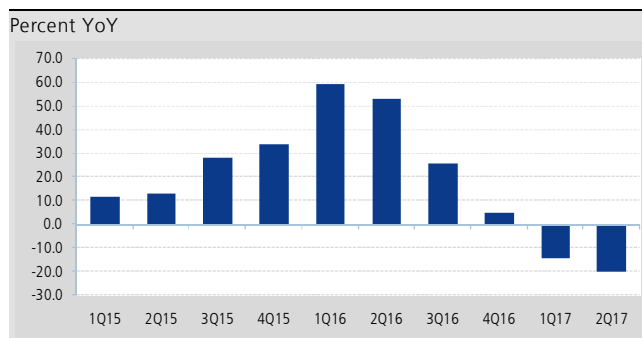
It is certainly true that 2015-2016 were golden years for KCE as every factor supported the company's earnings. Firstly, its new plant phase 1 started operations with orders which ramped up its utilization rate. Due to the efficiency of this plant, the company's GPM continued to improve. Second, the baht weakened 8% from Bt32.7/US\$ in March 2015 to Bt35.3/US\$ in December 2016. Lastly, the copper price declined 34% from US\$7,000/mt in 2014 to US\$4,600/mt in 2016. KCE's GPM jumped from 28.9% in 1Q15 to 35.9% in 3Q16 with high core profit growth both yearly and quarterly (Figures 3 and 4). However, the coin has flipped this year, as the baht has strengthened and copper prices have risen. As a result, KCE's GPM plunged from a peak of 35.9% in 3Q16 to 30.7% in 1Q17. Though, its gross margin inched up to 31.0% in 2Q17, it will be tough for the company to get GPM back to those high levels (Figure 2) as we believe the company could only partially pass through higher costs to its clients. Moreover, the price of copper continues to rise and is expected to stand above US\$6,000/mt.

**Figure 2: Comparing KCE's GPM, exchange rate, and copper price**


Source: Company data, Bloomberg, Biznews, KGI Research

**Figure 3: Yearly core profit growth**


Source: Bloomberg, KGI Research

**Figure 4: Quarterly core profit growth**


Source: Bloomberg, Company data, KGI Research

### Gross margin could be between 31.5% and 33.0%

We ran a sensitivity analysis between copper price and exchange rate (Figure 5) which are the factors that affect the company's gross margin. For copper price, we assumed that every 10% increase in copper price would lower gross margin by 0.5ppts, referring to KGI Taiwan's research. For exchange rate, we estimated that every Bt1 strengthening of the Thai baht could drag gross margin down by 0.5ppts. As a consequence, at the current level of copper price and exchange rate, KCE's gross margin could range between 31.5% and 33.0%. That range of GPM implies 2017 EPS of Bt4.8-Bt5.4 (Figure 6). Every Bt1 appreciation could distort EPS by about 3% while every 1ppts drop in GPM would lower EPS by 5%.

### Potential growth from auto sector still valid

Although profitability might drop due to uncontrolled factors, KCE's potential growth is still valid because of its exposure to the automotive segment (70% of its total revenues). The electric vehicle (EV) trend would be the factor that ramps up demand for PCBs as they form the fundamental structure for electronic connectivity. Meanwhile, for safety systems, a higher grade of PCB is needed (durable to high temperature, humidity, dust, and other factors). The automotive PCB market is expected to grow 7% CAGR during 2016-2020 which is faster than the global PCB market at 3% CAGR. Note that PCBs are used in applications such as anti-lock braking (ABS), electronic computer units (ECU), car computers, and global positioning systems (GPS).

### De-rate multiple PER, but still deserves to trade at premium

Though KCE's gross margin could drop due to exchange rate and copper price, we believe the company deserves to trade at a premium multiple PER on the back of the positive global outlook for PCBs for automobiles. However, we de-rate the PER multiple by a 0.5 notch from 19.0x (+1.5 S.D sector average) to 17.0x (+1.0 S.D sector average) to take into account the negative factors.

Figure 5: Sensitivity analysis on effects of copper price and FX to KCE's gross profit margin

Gross margin			FX (Bt/US\$)								
			36.5	36.0	35.5	35.0	34.5	34.0	33.5	33.0	32.5
Copper Price (US\$/mt)		4,800	35.0%	34.8%	34.5%	34.3%	34.0%	33.8%	33.5%	33.3%	33.0%
	10%	5,280	34.5%	34.3%	34.0%	33.8%	33.5%	33.3%	33.0%	32.8%	32.5%
	20%	5,760	34.0%	33.8%	33.5%	33.3%	33.0%	32.8%	32.5%	32.3%	32.0%
	30%	6,240	33.5%	33.3%	33.0%	32.8%	32.5%	32.3%	32.0%	31.8%	31.5%
	40%	6,720	33.0%	32.8%	32.5%	32.3%	32.0%	31.8%	31.5%	31.3%	31.0%
	50%	7,200	32.5%	32.3%	32.0%	31.8%	31.5%	31.3%	31.0%	30.8%	30.5%
	60%	7,680	32.0%	31.8%	31.5%	31.3%	31.0%	30.8%	30.5%	30.3%	30.0%

Source: Company data, KGI Research

Figure 6: Sensitivity analysis on effects of GPM and FX on KCE's EPS 2017

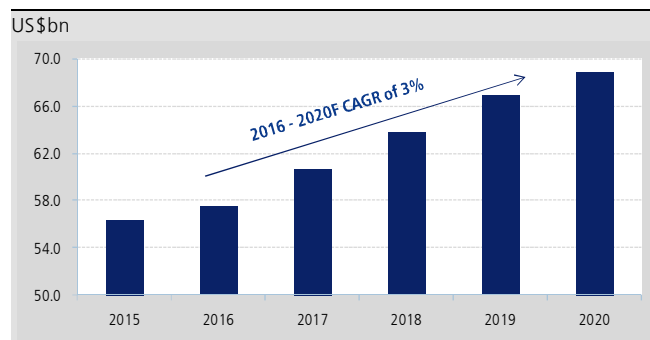
EPS (Bt) end 2017		FX (Bt/US\$)								
		36.5	36.0	35.5	35.0	34.5	34.0	33.5	33.0	32.5
Gross margin	33.0%	5.6	5.5	5.5	5.4	5.3	5.2	5.2	5.1	5.0
	32.8%	5.6	5.5	5.4	5.3	5.3	5.2	5.1	5.0	4.9
	32.6%	5.5	5.4	5.4	5.3	5.2	5.1	5.0	5.0	4.9
	32.4%	5.5	5.4	5.3	5.2	5.2	5.1	5.0	4.9	4.8
	32.2%	5.4	5.3	5.3	5.2	5.1	5.0	4.9	4.9	4.8
	32.0%	5.3	5.3	5.2	5.1	5.0	5.0	4.9	4.8	4.7
	31.8%	5.3	5.2	5.1	5.1	5.0	4.9	4.8	4.8	4.7
	31.6%	5.2	5.2	5.1	5.0	4.9	4.9	4.8	4.7	4.6
	31.4%	5.2	5.1	5.0	5.0	4.9	4.8	4.7	4.7	4.6
	31.2%	5.1	5.1	5.0	4.9	4.8	4.8	4.7	4.6	4.5
	31.0%	5.1	5.0	4.9	4.9	4.8	4.7	4.6	4.6	4.5

Source: Company data, KGI Research

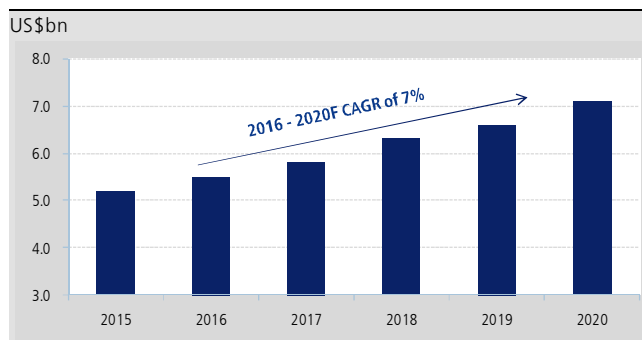
**Figure 7: Sensitivity analysis - EffectsofGPM and FX on KCE's2017 target price**

PER 17.0X		FX (Bt/US\$)								
		36.5	36.0	35.5	35.0	34.5	34.0	33.5	33.0	32.5
Gross margin	33.0%	95.7	94.3	93.0	91.6	90.3	88.9	87.6	86.2	84.9
	32.8%	94.7	93.4	92.0	90.7	89.4	88.0	86.7	85.4	84.0
	32.6%	93.8	92.4	91.1	89.8	88.5	87.2	85.8	84.5	83.2
	32.4%	92.8	91.5	90.2	88.9	87.6	86.3	85.0	83.7	82.3
	32.2%	91.9	90.6	89.3	88.0	86.7	85.4	84.1	82.8	81.5
	32.0%	90.9	89.6	88.3	87.1	85.8	84.5	83.2	81.9	80.6
	31.8%	90.0	88.7	87.4	86.2	84.9	83.6	82.3	81.1	79.8
	31.6%	89.0	87.8	86.5	85.2	84.0	82.7	81.5	80.2	79.0
	31.4%	88.1	86.8	85.6	84.3	83.1	81.8	80.6	79.4	78.1
	31.2%	87.1	85.9	84.6	83.4	82.2	81.0	79.7	78.5	77.3
	31.0%	86.2	84.9	83.7	82.5	81.3	80.1	78.9	77.6	76.4

Source: Company data, KGI Research

**Figure 8: Global PCB market**


Source: Prismark

**Figure 9: Automotive PCB market**


Source: NT Information LTD, Electronics Industry

### Revise down 2017-2019 earnings forecasts by 22%, 19%, and 19% respectively

We fine-tuned our 2017-2019 earnings forecasts by adjusting our FX assumption from Bt36.5/US\$ to Bt34.2/US\$ to reflect our economist's view. Moreover, we dropped our gross margin assumptions by 3%, 2% and 2% to 32.0%, 33.1%, and 33.5%, respectively, in order to take into account rising copper price and the strengthening baht. Thus, we revised down our 2017-2019 earnings forecasts by 22%, 19% and 19% respectively (Figure 8).

### Rolled-over target price to mid-2018 at Bt93.00

We rolled our target price over to mid-2018 at Bt93.00, which implies 10.7% upside to the current share price. We downgrade the counter to Neutral, from Outperform, but we believe this is the best opportunity for trading buy as the share should have priced in concerns, implying limited downside.

**Figure 10: Earnings revision**

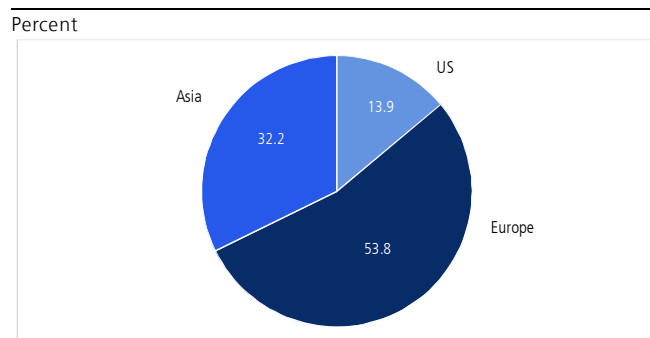
Btmn	2017F			2018F			2019F		
	Revised	Previous	Change (%)	Revised	Previous	Change (%)	Revised	Previous	Change (%)
Sales	15,956	16,941	(5.8)	17,606	19,034	(7.5)	18,999	20,696	(8.2)
Gross profit	5,098	5,931	(14.0)	5,821	6,723	(13.4)	6,363	7,353	(13.5)
Net Profit	2,924	3,760	(22.2)	3,514	4,360	(19.4)	3,933	4,844	(18.8)
Normalized Profit	2,924	3,760	(22.2)	3,514	4,360	(19.4)	3,933	4,844	(18.8)
Key financial ratio	Revised	Previous	ppts	Revised	Previous	ppts	Revised	Previous	ppts
GPM	32.0	35.0	(3.1)	33.1	35.3	(2.3)	33.5	35.5	(2.0)
SG&A/Sales	12.9	11.9	1.0	12.5	11.7	0.8	12.3	11.5	0.8
Assumption	Revised	Previous	Change (%)	Revised	Previous	Change (%)	Revised	Previous	Change (%)
Exchange rate	34.2	36.5	(6.3)	34.2	36.5	(6.3)	34.2	36.5	(6.3)
Sales in US\$mn	467	464	0.5	515	522	(1.3)	556	567	(2.0)
Sales growth (%)	23.4	22.8	0.6	10.3	12.4	(2.0)	7.9	8.6	(0.7)

Source: Company data, KGI Research

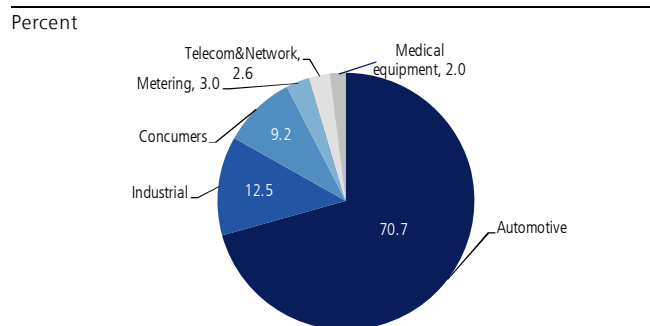
**Figure 11: Company profile**

KCE Electronics PCL (KCE), originally known as Kuang Charoen Electronics Company Limited, was established on November 5, 1982, with initial registered capital of Bt12.0mn. The company's core business is to produce and distribute custom printed circuit boards (PCBs), which are manufactured from copper clad laminate under the KCE trademark. KCE's PCB products are well-known and used in a variety of applications such as automotive, industrial, computer, and telecom systems. Its customers consist of the world's biggest names.

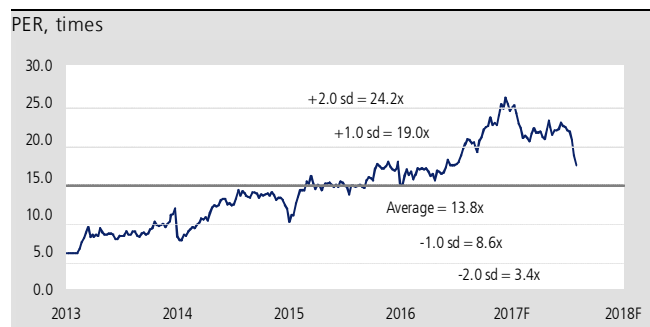
Source: Company data

**Figure 13: Revenue breakdown by region**


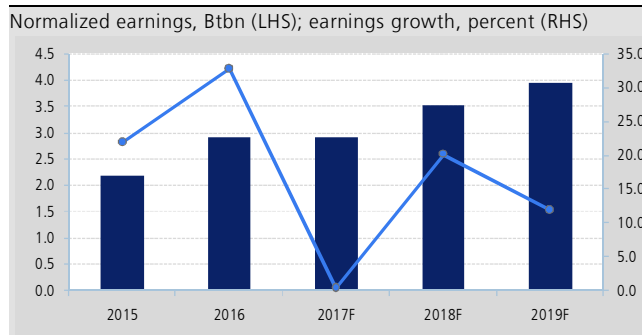
Source: Company data, KGI Research

**Figure 15: KCE's main production segment is automotive**


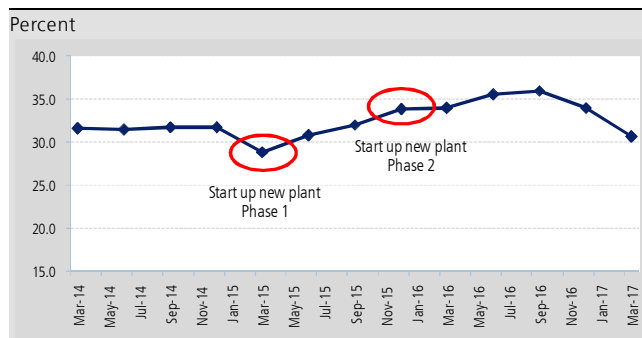
Source: Company data, KGI Research

**Figure 17: Company's PER**


Source: KGI Research

**Figure 12: Expect flat earnings in 2017**


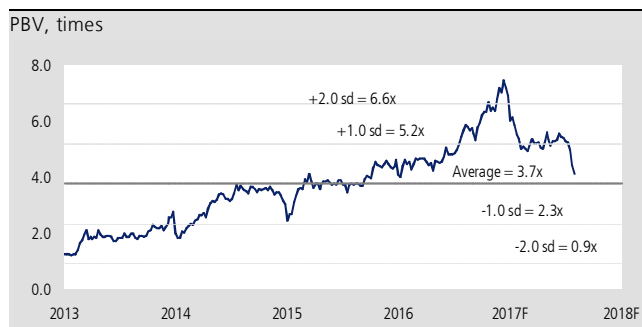
Source: Company data, KGI Research

**Figure 14: Gross margin**


Source: Company data, KGI Research

**Figure 16: 5-year electronics sector's PER**


Source: Company data, KGI Research

**Figure 18: Company's PBV**


Source: KGI Research

## Quarterly Income Statement

	Mar-14A	Jun-14A	Sep-14A	Dec-14A	Mar-15A	Jun-15A	Sep-15A	Dec-15A	Mar-16A	Jun-16A	Sep-16A	Dec-16A	Mar-17A	Jun-17A
<b>Income Statement (Bt mn)</b>														
Revenue	2,765	2,819	2,999	2,702	2,882	3,047	3,301	3,218	3,529	3,579	3,515	3,174	3,536	3,664
Cost of Goods Sold	(1,893)	(1,932)	(2,047)	(1,846)	(2,050)	(2,110)	(2,243)	(2,131)	(2,331)	(2,309)	(2,251)	(2,094)	(2,452)	(2,528)
<b>Gross Profit</b>	<b>872</b>	<b>886</b>	<b>952</b>	<b>856</b>	<b>832</b>	<b>937</b>	<b>1,058</b>	<b>1,087</b>	<b>1,198</b>	<b>1,270</b>	<b>1,264</b>	<b>1,080</b>	<b>1,084</b>	<b>1,135</b>
Operating Expense	(443)	(417)	(441)	(382)	(344)	(383)	(434)	(359)	(423)	(454)	(437)	(381)	(444)	(485)
Other incomes	13	19	15	12	9	20	37	(31)	9	17	12	17	23	18
<b>Operating Profit</b>	<b>442</b>	<b>488</b>	<b>527</b>	<b>485</b>	<b>496</b>	<b>575</b>	<b>660</b>	<b>697</b>	<b>784</b>	<b>833</b>	<b>839</b>	<b>716</b>	<b>663</b>	<b>668</b>
Depreciation of fixed asset	(133)	(137)	(141)	(143)	(136)	(153)	(195)	(199)	(203)	(211)	(216)	(264)	(217)	(220)
<b>Operating EBITDA</b>	<b>575</b>	<b>626</b>	<b>668</b>	<b>628</b>	<b>632</b>	<b>728</b>	<b>855</b>	<b>896</b>	<b>987</b>	<b>1,044</b>	<b>1,056</b>	<b>980</b>	<b>881</b>	<b>889</b>
<b>Non-Operating Income</b>	<b>0</b>	<b>0</b>	<b>127</b>	<b>90</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Interest Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Non-op Income	0	0	127	90	0	0	0	0	0	0	0	0	0	0
<b>Non-Operating Expense</b>	<b>(32)</b>	<b>(34)</b>	<b>(29)</b>	<b>(23)</b>	<b>(21)</b>	<b>(35)</b>	<b>(49)</b>	<b>(48)</b>	<b>(46)</b>	<b>(46)</b>	<b>(42)</b>	<b>(37)</b>	<b>(30)</b>	<b>(33)</b>
Interest Expense	(32)	(34)	(29)	(23)	(21)	(35)	(49)	(48)	(46)	(46)	(42)	(37)	(30)	(33)
Other Non-op Expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity Income/(Loss)	11	9	7	7	3	6	10	2	6	7	10	6	4	6
<b>Pre-tax profit</b>	<b>450</b>	<b>497</b>	<b>645</b>	<b>578</b>	<b>531</b>	<b>534</b>	<b>593</b>	<b>686</b>	<b>767</b>	<b>837</b>	<b>837</b>	<b>714</b>	<b>676</b>	<b>698</b>
Current Taxation	(7)	(14)	(30)	5	(17)	(40)	(17)	(18)	(10)	(20)	(47)	(21)	(10)	(21)
Minorities	3	4	3	3	3	4	3	3	6	5	4	3	4	5
Extraordinary items														
<b>Net Profit</b>	<b>439</b>	<b>479</b>	<b>611</b>	<b>580</b>	<b>511</b>	<b>490</b>	<b>573</b>	<b>665</b>	<b>751</b>	<b>812</b>	<b>786</b>	<b>690</b>	<b>662</b>	<b>672</b>
<b>Normalized Profit</b>	<b>411</b>	<b>445</b>	<b>471</b>	<b>472</b>	<b>457</b>	<b>502</b>	<b>602</b>	<b>631</b>	<b>728</b>	<b>768</b>	<b>756</b>	<b>661</b>	<b>623</b>	<b>616</b>
EPS (Bt)	0.80	0.86	1.08	1.03	0.90	0.86	1.00	1.16	1.30	1.39	1.34	1.18	1.13	1.15
Normalized EPS (Bt)	0.75	0.80	0.83	0.83	0.80	0.88	1.05	1.10	1.26	1.31	1.29	1.13	1.06	1.05
<b>Margins</b>														
Gross profit margin	31.5	31.4	31.8	31.7	28.9	30.8	32.0	33.8	33.9	35.5	36.0	34.0	30.7	31.0
Operating EBIT margin	16.0	17.3	17.6	18.0	17.2	18.9	20.0	21.7	22.2	23.3	23.9	22.6	18.8	18.2
Operating EBITDA margin	20.8	22.2	22.3	23.3	21.9	23.9	25.9	27.8	28.0	29.2	30.0	30.9	24.9	24.3
Net profit margin	15.9	17.0	20.4	21.5	17.7	16.1	17.4	20.7	21.3	22.7	22.4	21.7	18.7	18.4
<b>Growth</b>														
Revenue growth	10.9	1.9	6.4	(9.9)	6.7	5.7	8.3	(2.5)	9.7	1.4	(1.8)	(9.7)	11.4	3.6
Operating EBIT growth	13.1	10.5	8.0	(7.9)	2.2	15.8	14.9	5.6	12.5	6.2	0.8	(14.7)	(7.4)	0.8
Operating EBITDA growth	12.8	8.8	6.8	(5.9)	0.7	15.0	17.6	4.7	10.1	5.8	1.2	(7.1)	(10.2)	0.9
Net profit growth	16.8	9.0	27.6	(5.0)	(11.9)	(4.1)	17.0	16.0	12.9	8.1	(3.2)	(12.2)	(4.0)	1.5
Normalized profit growth	19.6	8.3	5.8	0.2	(3.0)	9.8	19.8	4.8	15.4	5.6	(1.7)	(12.5)	(5.8)	(1.1)

Source: KGI Research

## Peer comparison – Key valuation stats

	Rating	Target price (Bt)	Current price (Bt)	Upside (%)	16 core EPS (Bt)	17F core EPS (Bt)	18F core EPS (Bt)	17F PER (x)	18F PER (x)	17F PBV (x)	18F PBV (x)	17F Div yield (%)	18F Div yield (%)	17F ROAE (%)	18F ROAE (%)
DELTA*	N	80.00	87.50	(8.6)	4.28	4.54	4.76	20.5	16.8	3.0	2.8	3.7	3.9	11.5	13.3
KCE*	N	93.00	84.00	10.7	4.97	4.99	6.00	18.6	15.5	4.6	3.9	2.1	2.6	16.0	17.7
SMT	OP	8.25	4.86	69.8	0.02	0.45	0.61	14.3	10.6	2.2	7.6	3.6	4.8	12.4	16.6
SVI*	N	6.10	5.75	6.1	0.25	0.36	0.42	15.50	13.10	1.70	1.50	2.60	3.10	16.60	11.20
<b>Sector</b>	<b>Neutral</b>							<b>17.2</b>	<b>14.0</b>	<b>2.9</b>	<b>4.0</b>	<b>3.0</b>	<b>3.6</b>	<b>14.1</b>	<b>14.7</b>

Source: KGI Research



## Balance Sheet

As of 31 Dec (Bt mn)	2015	2016	2017F	2018F	2019F
<b>Total Assets</b>	<b>16,830</b>	<b>17,328</b>	<b>18,257</b>	<b>19,804</b>	<b>21,588</b>
<b>Current Assets</b>	<b>6,936</b>	<b>7,296</b>	<b>8,132</b>	<b>10,088</b>	<b>12,238</b>
Cash & ST Investment	676	892	1,263	2,549	4,119
Inventories	1,684	2,265	2,231	2,421	2,596
Account Receivable	4,540	4,080	4,590	5,065	5,465
Others	36	59	48	53	57
<b>Non-current Assets</b>	<b>9,894</b>	<b>10,032</b>	<b>10,125</b>	<b>9,716</b>	<b>9,350</b>
LT Investment	105	318	318	318	318
Net fixed Assets	9,216	9,137	9,204	8,763	8,368
Others	573	576	603	635	664
<b>Total Liabilities</b>	<b>8,730</b>	<b>7,300</b>	<b>6,486</b>	<b>5,924</b>	<b>5,348</b>
<b>Current Liabilities</b>	<b>5,026</b>	<b>4,944</b>	<b>4,603</b>	<b>4,517</b>	<b>4,420</b>
Account Payable	2,215	2,520	2,529	2,744	2,943
ST Borrowing	2,139	1,808	1,508	1,208	908
Others	671	616	566	564	569
<b>Long-term Liabilities</b>	<b>3,704</b>	<b>2,356</b>	<b>1,883</b>	<b>1,407</b>	<b>928</b>
Long-term Debts	3,554	2,155	1,647	1,147	647
Others	150	201	235	260	280
<b>Shareholders' Equity</b>	<b>8,100</b>	<b>10,028</b>	<b>11,771</b>	<b>13,880</b>	<b>16,240</b>
Common Stock	575	586	586	586	586
Capital Surplus	1,810	1,895	1,895	1,895	1,895
Retained Earnings	5,647	7,478	9,232	11,340	13,700
Preferred Stock	0	0	0	0	0

Source: KGI Research

## Key Ratios

Year to 31 Dec	2015	2016	2017F	2018F	2019F
<b>Growth (%YoY)</b>					
Sales	10.3	10.8	15.6	10.3	7.9
OP	25.0	30.6	(1.1)	18.8	11.1
EBITDA	11.9	32.7	(3.0)	14.6	7.8
NP	6.2	35.7	(3.8)	20.2	11.9
Normalized Profit	21.9	32.8	0.4	20.2	11.9
EPS	4.5	33.0	(3.8)	20.2	11.9
Normalized EPS	20.0	30.3	0.4	20.2	11.9
<b>Profitability (%)</b>					
Gross Margin	31.4	34.9	32.0	33.1	33.5
Operating Margin	19.5	23.0	19.7	21.2	21.8
EBITDA Margin	25.5	30.6	25.7	26.6	26.6
Net Margin	18.0	22.0	18.3	20.0	20.7
ROAA	13.3	17.5	16.0	17.7	18.2
ROAE	27.7	30.3	24.8	25.3	24.2
<b>Stability</b>					
Gross Debt/Equity (%)	1.1	0.7	0.6	0.4	0.3
Net Debt/Equity (%)	0.7	0.4	0.2	0.0	(0.1)
Interest Coverage (x)	16.3	19.4	25.8	38.4	56.5
Interest & ST Debt Coverage (x)	1.1	1.7	1.9	2.9	4.2
Cash Flow Interest Coverage (x)	9.4	24.0	28.0	41.1	60.5
Cash Flow/Interest & ST Debt (x)	0.6	2.1	2.1	3.1	4.5
Current Ratio (x)	1.4	1.5	1.8	2.2	2.8
Quick Ratio (x)	1.0	1.0	1.3	1.7	2.2
Net Debt (Bt mn)	5,637	3,637	2,400	307	(2,064)
<b>Per Share Data (Bt)</b>					
EPS	3.9	5.2	5.0	6.0	6.7
Normalized EPS	3.8	5.0	5.0	6.0	6.7
CFPS	2.5	7.0	5.9	6.9	7.6
BVPS	14.1	17.1	20.1	23.7	27.7
SPS	21.7	23.5	27.2	30.0	32.4
EBITDA/Share	5.5	7.2	7.0	8.0	8.6
DPS	1.5	2.0	2.0	2.4	2.7
<b>Activity</b>					
Asset Turnover (x)	0.7	0.8	0.9	0.9	0.9
Days Receivables	133	108	105	105	105
Days Inventory	72	92	75	75	75
Days Payable	95	102	85	85	85
Cash Cycle	110	98	95	95	95

Source: KGI Research

## Profit & Loss

Year to Dec 31 (Btmn)	2015	2016	2017F	2018F	2019F
<b>Revenue</b>	<b>12,449</b>	<b>13,797</b>	<b>15,956</b>	<b>17,606</b>	<b>18,999</b>
Cost of Goods Sold	(8,535)	(8,985)	(10,858)	(11,785)	(12,636)
<b>Gross Profit</b>	<b>3,914</b>	<b>4,813</b>	<b>5,098</b>	<b>5,821</b>	<b>6,363</b>
Operating Expenses	(1,520)	(1,695)	(2,058)	(2,202)	(2,340)
Other Incomes	35	54	96	106	114
<b>Operating Profit</b>	<b>2,428</b>	<b>3,171</b>	<b>3,136</b>	<b>3,725</b>	<b>4,137</b>
Depreciation of fixed assets	(684)	(894)	(934)	(940)	(895)
<b>Operating EBITDA</b>	<b>3,181</b>	<b>4,221</b>	<b>4,094</b>	<b>4,690</b>	<b>5,057</b>
<b>Non-Operating Income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Interest Income					
Other Non-op Income	0	0	0	0	0
<b>Non-Operating Expense</b>	<b>(153)</b>	<b>(171)</b>	<b>(122)</b>	<b>(98)</b>	<b>(74)</b>
Interest Expense	(153)	(171)	(122)	(98)	(74)
Other Non-op Expense					
<b>Equity Income/(Loss)</b>	<b>21</b>	<b>28</b>	<b>25</b>	<b>25</b>	<b>25</b>
<b>Pretax Profit</b>	<b>2,344</b>	<b>3,155</b>	<b>3,038</b>	<b>3,652</b>	<b>4,088</b>
Current Taxation	(91)	(98)	(94)	(113)	(127)
Minorities	12	18	21	25	28
Extraordinaries items	0	0	0	0	0
<b>Net Profit</b>	<b>2,240</b>	<b>3,039</b>	<b>2,924</b>	<b>3,514</b>	<b>3,933</b>
<b>Normalized Profit</b>	<b>2,192</b>	<b>2,912</b>	<b>2,924</b>	<b>3,514</b>	<b>3,933</b>
EPS (Bt)	3.90	5.18	4.99	6.00	6.71
Normalized EPS (Bt)	3.81	4.97	4.99	6.00	6.71

Source: KGI Research

## Cash Flow

Year to 31 Dec (Bt mn)	2015	2016	2017F	2018F	2019F
<b>Operating Cash Flow</b>	<b>1,443</b>	<b>4,114</b>	<b>3,433</b>	<b>4,016</b>	<b>4,461</b>
Net Profit	2,240	3,039	2,924	3,514	3,933
Depreciation & Amortization	684	894	934	940	895
Change in Working Capital	(1,481)	181	(424)	(438)	(368)
Others					
<b>Investment Cash Flow</b>	<b>(1,108)</b>	<b>(1,001)</b>	<b>(1,017)</b>	<b>(517)</b>	<b>(517)</b>
Net CAPEX	(1,057)	(815)	(1,000)	(500)	(500)
Change in LT Investment	(27)	(211)	0	0	0
Change in Other Assets	(24)	25	(17)	(17)	(17)
<b>Free Cash Flow</b>	<b>336</b>	<b>3,114</b>	<b>2,416</b>	<b>3,499</b>	<b>3,944</b>
<b>Financing Cash Flow</b>	<b>(125)</b>	<b>(2,895)</b>	<b>(2,045)</b>	<b>(2,214)</b>	<b>(2,373)</b>
Change in Share Capital	9	11	0	0	0
Net Change in Debt	403	(1,784)	(865)	(808)	(800)
Change in Other LT Liab.	(537)	(1,123)	(1,180)	(1,406)	(1,573)
<b>Net Cash Flow</b>	<b>210</b>	<b>218</b>	<b>371</b>	<b>1,286</b>	<b>1,570</b>

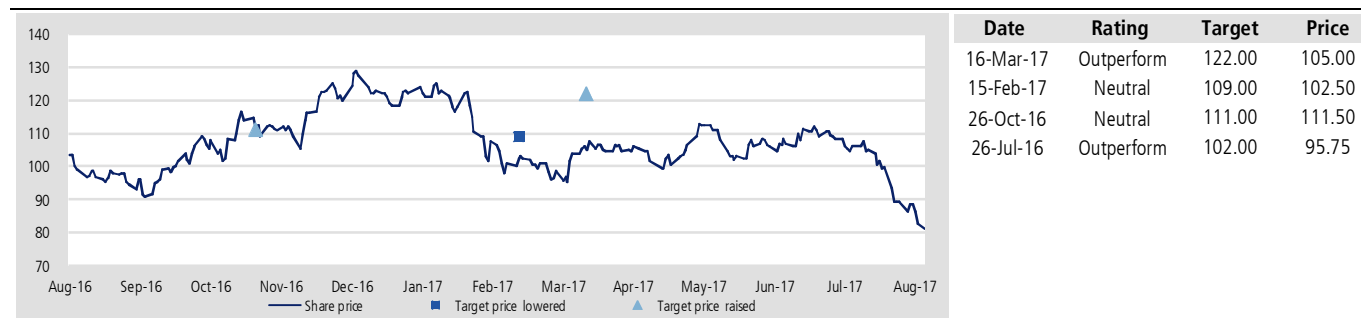
Source: KGI Research

## Rates of Return on Invested Capital

Year	1 - $\frac{\text{COGS}}{\text{Revenue}}$	+ $\frac{\text{Depreciation}}{\text{Revenue}}$	+ $\frac{\text{Operating Exp.}}{\text{Revenue}}$	= $\frac{\text{Operating}}{\text{Margin}}$
2015	68.6%	5.5%	12.5%	13.5%
2016	65.1%	6.5%	12.7%	15.7%
2017F	68.0%	5.9%	13.5%	12.6%
2018F	66.9%	5.3%	13.1%	14.6%
2019F	66.5%	4.7%	12.9%	15.9%
Year	1/ $\frac{\text{Working Capital}}{\text{Revenue}}$	+ $\frac{\text{Net PPE}}{\text{Revenue}}$	+ $\frac{\text{Other Assets}}{\text{Revenue}}$	= $\frac{\text{Capital}}{\text{Turnover}}$
2015	(0.1)	0.7	0.6	0.8
2016	0.0	0.7	0.6	0.8
2017F	(0.0)	0.6	0.6	0.9
2018F	(0.0)	0.5	0.6	0.9
2019F	(0.0)	0.4	0.7	0.9
Year	Operating Margin	x $\frac{\text{Capital}}{\text{Turnover}}$	x $\frac{\text{Cash}}{\text{Tax Rate}}$	= $\frac{\text{After-tax Return}}{\text{on Inv. Capital}}$
2015	13.5%	0.8	3.9%	0.4%
2016	15.7%	0.8	3.1%	0.4%
2017F	12.6%	0.9	3.1%	0.3%
2018F	14.6%	0.9	3.1%	0.4%
2019F	15.9%	0.9	3.1%	0.4%

Source: KGI Research

## KCE Electronic– Recommendation & target price history



Source: KGI Research

### KGI Locations

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<b>Hong Kong</b>	41/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong Telephone 852.2878.6888 Facsimile 852.2878.6800
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### KGI's Ratings

Rating	Definition
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).
Neutral (N)	The stock's excess return* over the next twelve months is ranked in the range between the top 40% and the bottom 40% of KGI's coverage universe in the related market (e.g. Taiwan). 1.3
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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# Corporate Governance Report of Thai Listed Companies



## Companies with Excellent CG Scoring

Stock	Company name	Stock	Company name	Stock	Company name
AOT	AIRPORTS OF THAILAND	GPSC	GLOBAL POWER SYNERGY	PTTGC	PTT GLOBAL CHEMICAL
BCP	THE BANGCHAK PETROLEUM	HMPRO	HOME PRODUCT CENTER	QH	QUALITY HOUSES
BIGC	BIG C SUPERCENTER	IRPC	IRPC	RATCH	RATCHABURI ELECTRICITY GENERATING HOLDING
BTS	BTS GROUP HOLDINGS	KBANK	KASIKORNBANK	SCB	THE SIAM COMMERCIAL BANK
CK	CH. KARNCHANG	KCE	KCE ELECTRONICS	SCC	THE SIAM CEMENT
CPF	CHAROEN POKPHAND FOODS	KKP	KIATNAKIN BANK	SPALI	SUPALAI
CPN	CENTRAL PATTANA	KTB	KRUNG THAI BANK	STEC	SINO-THAI ENGINEERING AND CONSTRUCTION
DELTA	DELTA ELECTRONICS (THAILAND)	KTC	KRUNGTHAI CARD	SVI	SVI
DRT	DIAMOND ROOFING TILES	LPN	L.P.N. DEVELOPMENT	TCAP	THANACHART CAPITAL
DTAC	TOTAL ACCESS COMMUNICATION	MINT	MINOR INTERNATIONAL	TISCO	TISCO FINANCIAL GROUP
EGCO	ELECTRICITY GENERATING	PTT	PTT	TMB	TMB BANK
GFPT	GFPT	PTTEP	PTT EXPLORATION AND PRODUCTION	TOP	THAI OIL



## Companies with Very Good CG Scoring

Stock	Company name	Stock	Company name	Stock	Company name
AAV	ASIA AVIATION	CKP	CK POWER	PYLON	PYLON
ADVANC	ADVANCED INFO SERVICE	DCC	DYNASTY CERAMIC	ROBINS	ROBINSON DEPARTMENT STORE
ANAN	ANANDA DEVELOPMENT	ERW	THE ERAWAN GROUP	SEAFECO	SEAFECO
AP	ASIAN PROPERTY DEVELOPMENT	GLOBAL	SIAM GLOBAL HOUSE	SPRC	STAR PETROLEUM REFINING
BANPU	BANPU	GLOW	GLOW ENERGY	TASCO	TIPCO ASPHALT
BBL	BANGKOK BANK	GUNKUL	GUNKUL ENGINEERING	TMT	THAI METAL TRADE
BDMS	BANGKOK DUSIT MEDICAL SERVICES	LH	LAND AND HOUSES	TRUE	TRUE CORPORATION
BEM	BANGKOK EXPRESSWAY AND METRO	MALEE	MALEE SAMPRAN	TVO	THAI VEGETABLE OIL
CENTEL	CENTRAL PLAZA HOTEL	MTLS	MUANGTHAI LEASING		
CHG	CHULARAT HOSPITAL	PACE	PACE DEVELOPMENT CORPORATION		



## Companies with Good CG Scoring

Stock	Company name	Stock	Company name	Stock	Company name
BA	BANGKOK AIRWAYS	MAKRO	SIAM MAKRO	SCN	SCAN INTER
BH	BUMRUNGRAD HOSPITAL	MODERN	MODERNFORM GROUP	SIRI	SANSIRI
BJCHI	BJC HEAVY INDUSTRIES	NOK	NOK AIRLINES	TKN	TAOKAENOI FOOD & MARKETING
CBG	CARABAO GROUP	SAPPE	SAPPE	TPCH	TPC POWER HOLDING
ILINK	INTERLINK COMMUNICATION	SAWAD	SRISAWAD POWER 1979	TRT	TIRATHAI
LPH	LADPRAO GENERAL HOSPITAL	SCI	SCI ELECTRIC		

## Companies classified Not in the three highest score groups

Stock	Company name	Stock	Company name	Stock	Company name
BCH	BANGKOK CHAIN HOSPITAL	BPP	BANPU POWER	FN	FN FACTORY OUTLET
BCPG	BCPG	CPALL	CP ALL		

Source: [www.thai-iod.com](http://www.thai-iod.com)

**Disclaimer:** The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an assessment of operation and is not based on inside information. The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date or when there is any change to the relevant information. Nevertheless, KGI Securities (Thailand) Public Company Limited (KGI) does not confirm, verify, or certify the accuracy and completeness of such survey result.

# Anti-corruption Progress Indicator

## Level 5: Extended

Stock	Company name	Stock	Company name	Stock	Company name
ADVANC	ADVANCED INFO SERVICE	GLOBAL	SIAM GLOBAL HOUSE	QH	QUALITY HOUSES
ANAN	ANANDA DEVELOPMENT	GPSC	GLOBAL POWER SYNERGY	RATCH	RATCHABURI ELECTRICITY GENERATING HOLDING
BBL	BANGKOK BANK	HMPRO	HOME PRODUCT CENTER	ROBINS	ROBINSON DEPARTMENT STORE
BCH	BANGKOK CHAIN HOSPITAL	IRPC	IRPC	SCC	THE SIAM CEMENT
BDMS	BANGKOK DUSIT MEDICAL SERVICES	KBANK	KASIKORN BANK	SIRI	SANSIRI
BIGC	BIG C SUPERCENTER	KCE	KCE ELECTRONICS	SPALI	SUPALAI
CK	CH. KARNCHANG	KKP	KIATNAKIN BANK	STEC	SINO-THAI ENGINEERING AND CONSTRUCTION
DCC	DYNASTY CERAMIC	KTB	KRUNG THAI BANK	TCAP	THANACHART CAPITAL
DELTA	DELTA ELECTRONICS (THAILAND)	LPH	LADPRAO GENERAL HOSPITAL	TISCO	TISCO FINANCIAL GROUP
DRT	DIAMOND ROOFING TILES	PACE	PACE DEVELOPMENT CORPORATION	TMT	THAI METAL TRADE
EGCO	ELECTRICITY GENERATING	PTT	PTT	TOP	THAI OIL
GFPT	GFPT	PTTGC	PTT GLOBAL CHEMICAL		

## Level 4: Certified

Stock	Company name	Stock	Company name	Stock	Company name
AAV	ASIA AVIATION	ERW	THE ERAWAN GROUP	SAPPE	SAPPE
AP	ASIAN PROPERTY DEVELOPMENT	GLOW	GLOW ENERGY	SAWAD	SRI SAWAD POWER 1979
BA	BANGKOK AIRWAYS	GUNKUL	GUNKUL ENGINEERING	SCB	THE SIAM COMMERCIAL BANK
BANPU	BANPU	ILINK	INTERLINK COMMUNICATION	SCN	SCAN INTER
BCP	THE BANGCHAK PETROLEUM	KTC	KRUNGTHAI CARD	SEAFECO	SEAFECO
BH	BUMRUNGRAD HOSPITAL	LH	LAND AND HOUSES	SVI	SVI
BJCHI	BJC HEAVY INDUSTRIES	LPN	L.P.N. DEVELOPMENT	TASCO	TIPCO ASPHALT
CBG	CARABAO GROUP	MAKRO	SIAM MAKRO	TKN	TAOKAENOI FOOD & MARKETING
CENDEL	CENTRAL PLAZA HOTEL	MALEE	MALEE SAMPRAN	TMB	TMB BANK
CHG	CHULARAT HOSPITAL	MINT	MINOR INTERNATIONAL	TRT	TIRATHAI
CKP	CK POWER	MODERN	MODERNFORM GROUP	TRUE	TRUE CORPORATION
CPF	CHAROEN POKPHAND FOODS	NOK	NOK AIRLINES	TVO	THAI VEGETABLE OIL
CPN	CENTRAL PATTANA	PTTEP	PTT EXPLORATION AND PRODUCTION		
DTAC	TOTAL ACCESS COMMUNICATION	PYLON	PYLON		

## Level 3: Established

Stock	Company name	Stock	Company name	Stock	Company name
BEM	BANGKOK EXPRESSWAY AND METRO	MTLS	MUANGTHAI LEASING	SPRC	STAR PETROLEUM REFINING
CPALL	CP ALL	SCI	SCI ELECTRIC		

## No progress

Stock	Company name	Stock	Company name	Stock	Company name
AOT	AIRPORTS OF THAILAND	BPP	BANPU POWER	FN	FN FACTORY OUTLET
BCPG	BCPG	BTS	BTS GROUP HOLDINGS	TPCH	TPC POWER HOLDING

Source: [www.cgthailand.org](http://www.cgthailand.org)

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