



COMPANY UPDATE.

Thailand

KCE Electronics

(KCE BK/KCE TR) *

Underperform/Maintained

Price as of 30 Jan 2018	76.75
12M target price (Bt/shr)	75.00
Unchanged/Revised up(down) (%)	Unchanged
Upside/downside (%)	(2.3)

Key messages

We expect KCE's 4Q17 earnings to drop both QoQ and YoY due to lower sales and lower gross margin. Climbing copper price remains an issue hurting gross margin. We are concerned that copper prices will continue to rise from strong demand outpacing supply. We recommend investors step aside and wait for improvement as earnings have more downside risk than upside. We rate the counter Underperform with a 2018 target price of Bt75.00 based on PER 17.0x.

Trading data

Mkt cap (Btbn/US\$bn)	45/1.1
Outstanding share (mn)	586
Foreign ownership (mn)	176.9
3M avg. daily trading (mn)	3
52-week trading range (Bt)	76.8-113
Performance (%)	3M 6M 12M
Absolute	-21.9 -11.0 -29.6
Relative	-26.7 -23.1 -39.2

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	1.04	n.a.

Share price chart



Source: SET

4Q17 earnings preview: Unsatisfactory

Event

4Q17 earnings preview.

Impact

4Q17F earnings to drop QoQ and YoY

We expect KCE to report a 4Q17 net profit of Bt554mn (-20% YoY, -10% QoQ) due to i) lower sales volume on seasonality and high scrap rate from shifting to high margin products, ii) lower gross margin from a strong rally in copper price. This brought 2017 net profit to Bt2.5bn (-18% YoY) which is in line with our full-year forecast.

Gross margin slid in 4Q17

We expect KCE's gross margin to inch down 30bps from 30.1% in 3Q17 to 29.8% in 4Q17 after copper price climbed from US\$6,300/mt in 3Q17 to US\$6,800/mt in 4Q17. Note that every 10% rise in copper price would drag KCE's gross margin down 0.5%.

Copper price to continue to rise, hurting gross margin

Copper price surged 32% in 2017 from US\$5,500/mt to US\$7,200/mt and is expected to continue this trend supported by both demand and supply. Demand is expected to remain solid due to infrastructure projects in China and growing popularity of electric vehicles. Electric vehicles require 60-90 kg of copper, against 23 kg for combustion engine cars. Meanwhile, there is likely to be a shortage supply because of i) disrupted mining operations in Chile and Peru, ii) cut backs in output in China to combat winter pollution, and iii) lower copper content in ore, implying higher development cost. Industry experts foresee copper prices of US\$7,200/mt in 2018 in their base case scenario and up to US\$8,000/mt in their best case scenario. Due to limitations in passing costs through to clients, KCE's gross margin will likely be under pressure.

Valuation & Action

We rate KCE Underperform with a 2018 target price of Bt75.00 based on PER 17.0x (+1.0 S.D. sector average). Though the last closing price does not have much downside to our target price, we recommend investors to avoid taking a position and wait for the company to see improvement from its switch to high margin products, as well as the direction in copper price, which could possibly provide downside rather than upside risk to earnings.

Risks

Natural disasters, unplanned plant shutdowns, customers shifting to other suppliers, increasing raw material prices and Bt/US\$ appreciation (our assumption is Bt32.2/US\$ in 2018).

Key financials and valuations

	Dec - 15A	Dec - 16A	Dec - 17F	Dec - 18F	Dec - 19F
Revenue (Bmm)	12,449	13,797	14,352	14,952	15,688
Gross Profit (Bmm)	3,914	4,813	4,382	4,613	4,887
SG&A (Bmm)	1,520	1,695	1,866	1,915	1,979
Net Profit (Bmm)	2,240	3,039	2,545	2,613	2,843
Normalized Profit (Bmm)	2,192	2,912	2,405	2,613	2,843
EPS (Bt)	3.90	5.18	4.34	4.46	4.85
Normalized EPS (Bt)	3.81	4.97	4.10	4.46	4.85
DPS (Bt)	1.50	2.00	1.74	1.78	1.94
EPS Growth (%)	4.5	33.0	(16.3)	2.7	8.8
Normalized EPS Growth	20.0	30.3	(17.4)	8.7	8.8
P/E (x)	18.0	23.5	17.7	17.2	15.8
P/B (x)	5.0	7.1	3.9	3.4	3.0
EV/EBITDA (x)	15.6	11.3	12.5	11.8	10.9
Net Debt to Equity (%)	69.6	36.3	19.1	2.8	(10.3)
Dividend Yield (%)	2.1	1.6	2.3	2.3	2.5
Return on Average Equity (%)	27.7	30.3	22.0	19.9	19.2

Source: KGI Research

Figure 1: 4Q17 earnings preview

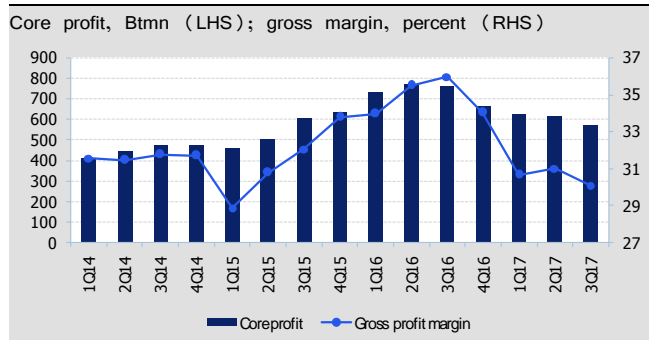
Btmn	4Q17F	4Q16	YoY (%)	3Q17	QoQ (%)	2017F	2016	YoY (%)
Revenue	3,320	3,174	4.6	3,602	(7.8)	14,122	13,797	2.3
Gross profit	990	1,080	(8.3)	1,083	(8.6)	4,293	4,813	(10.8)
SG&A	440	381	15.5	485	(9.4)	1,853	1,695	9.3
Operating profit	571	716	(20.3)	619	(7.9)	2,521	3,172	(20.5)
Non-operating Inc./(Exp)	33	29	15.3	45	(26.5)	174	126	38.1
Net profit	554	690	(19.7)	612	(9.6)	2,501	3,039	(17.7)
Normalized profit	520	661	(21.3)	567	(8.2)	2,327	2,913	(20.1)
EPS(Bt)	0.94	1.18	(19.7)	1.04	(9.6)	4.27	5.21	(18.1)
Normalized EPS(Bt)	0.89	1.13	(21.3)	0.97	(8.2)	3.97	4.99	(20.5)
Percent	4Q17F	4Q16	YoY (ppts)	3Q17	QoQ (ppts)	2017F	2016	YoY (ppts)
Gross margin	29.8	34.0	(4.2)	30.1	(0.2)	30.4	34.9	(4.5)
EBIT margin	17.2	22.6	(5.4)	17.2	(0.0)	17.9	23.0	(5.1)
SG&A/sales	13.2	12.0	1.3	13.5	(0.2)	13.1	12.3	0.8

Source: Company data, KGI Research

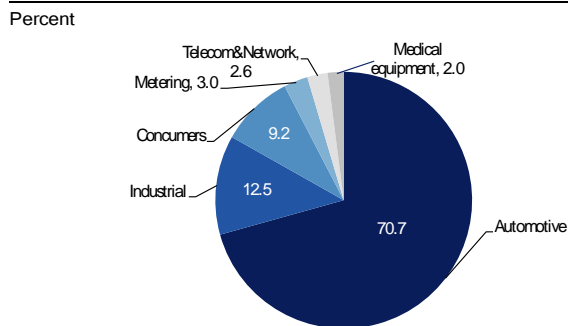
Figure 2: Company profile

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.

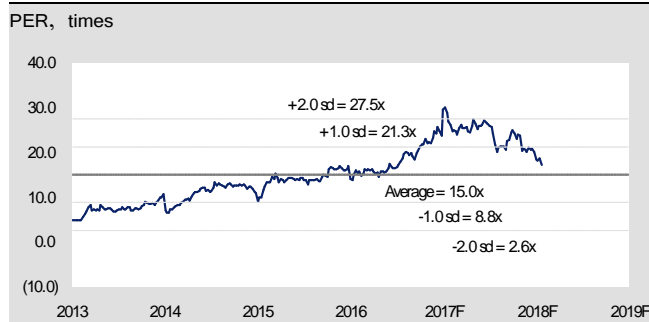
Source: Company data

Figure 4: Slowdown in core profit and gross margin


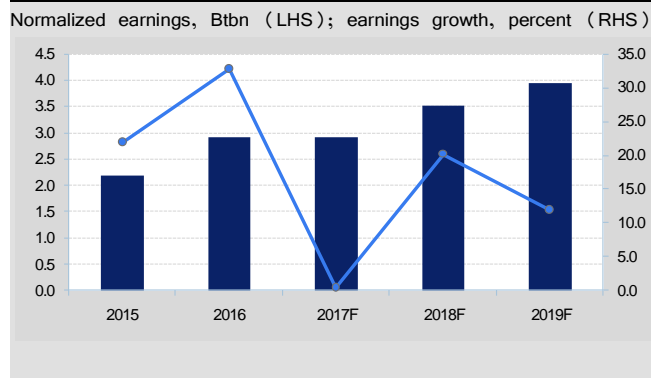
Source: Company data, KGI Research

Figure 6: KCE's main production segment is automotive


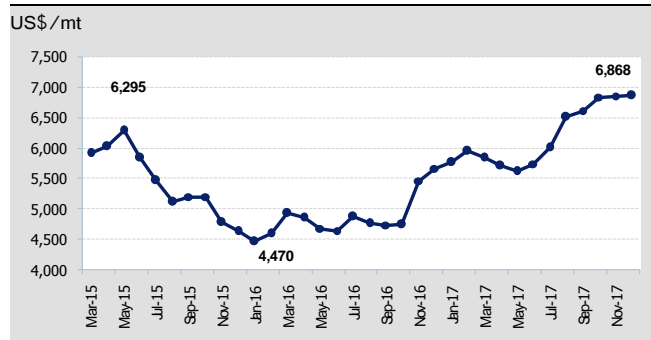
Source: Company data, KGI Research

Figure 8: Company's PER


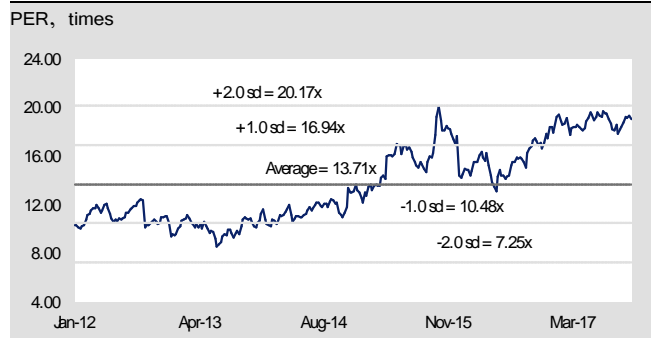
Source: KGI Research

Figure 3: Expect flat earnings in 2017


Source: Company data, KGI Research

Figure 5: Upbeat on copper price


Source: Biznews, KGI Research

Figure 7: 5-year electronics sector's PER


Source: Company data, KGI Research

Figure 9: 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	Sep-17A
Income Statement (Bt mn)															
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	3,602
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)	(2,519)
Gross Profit	872	886	952	856	832	937	1,058	1,087	1,198	1,270	1,264	1,080	1,084	1,135	1,083
Operating Expense	(443)	(417)	(441)	(382)	(344)	(383)	(434)	(359)	(423)	(454)	(437)	(381)	(444)	(485)	(485)
Other incomes	13	19	15	12	9	20	37	(31)	9	17	12	17	23	18	22
Operating Profit	442	488	527	485	496	575	660	697	784	833	839	716	663	668	619
Depreciation of fixed asset	(133)	(137)	(141)	(143)	(136)	(153)	(195)	(199)	(203)	(211)	(216)	(264)	(217)	(220)	(222)
Operating EBITDA	575	626	668	628	632	728	855	896	987	1,044	1,056	980	881	889	842
Non-Operating Income	29	34	140	109	54	(12)	(28)	35	23	43	30	29	39	56	45
Interest Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Non-op Income	29	34	140	109	54	(12)	(28)	35	23	43	30	29	39	56	45
Non-Operating Expense	(32)	(34)	(29)	(23)	(21)	(35)	(49)	(48)	(46)	(46)	(42)	(37)	(30)	(33)	(32)
Interest Expense	(32)	(34)	(29)	(23)	(21)	(35)	(49)	(48)	(46)	(46)	(42)	(37)	(30)	(33)	(32)
Other Non-op Expense	0	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	5
Pre-tax profit	450	497	645	578	531	534	593	686	767	837	837	714	676	698	638
Current Taxation	(7)	(14)	(30)	5	(17)	(40)	(17)	(18)	(10)	(20)	(47)	(21)	(10)	(21)	(21)
Minorities	3	4	3	3	3	4	3	3	6	5	4	3	4	5	5
Extraordinary items															
Net Profit	439	479	611	580	511	490	573	665	751	812	786	690	662	672	612
Normalized Profit	411	445	471	472	457	502	602	631	728	768	756	661	623	616	567
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	1.04
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	0.97
Margins															
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	30.1
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	17.2
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	23.4
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	17.0
Growth															
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	(1.7)
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	(7.3)
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	(5.3)
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	(8.9)
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)	(7.9)

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 (%)	17F Core profit growth (%)	18F Core profit growth (%)	2017 Sales growth in US term (%)	2018 Sales growth in US term (%)
DELTA	N	86.00	77.50	11.0	4.28	4.53	4.65	19.9	16.7	2.9	2.8	3.8	3.9	11.4	13.0	6.0	2.6	2.6	9.5
HANA*	N	48.00	43.00	11.6	2.52	3.07	3.31	12.4	12.8	1.6	1.5	4.7	4.7	11.0	10.1	22.0	7.7	11.0	14.0
KCE*	U	75.00	76.75	(2.3)	4.97	4.10	4.46	17.7	17.2	3.9	3.4	2.3	2.3	14.3	14.0	(17.4)	8.7	11.3	10.3
SM	N	4.90	4.28	14.5	0.25	0.22	0.31	19.7	13.9	1.3	1.2	2.0	2.9	4.4	6.1	(13.8)	42.1	14.3	5.6
Sector	Neutral							17.4	15.1	2.4	2.2	3.2	3.5	10.3	10.8	(0.8)	15.3	9.8	9.8

Source: KGI Research

Balance Sheet

As of 31 Dec (Bt mn)	2015	2016	2017F	2018F	2019F
Total Assets	16,830	17,328	17,794	18,650	19,677
Current Assets	6,936	7,296	7,683	8,957	10,356
Cash & ST Investment	676	892	1,462	2,487	3,577
Inventories	1,684	2,265	2,049	2,124	2,219
Account Receivable	4,540	4,080	4,129	4,301	4,513
Others	36	59	43	45	47
Non-current Assets	9,894	10,032	10,111	9,693	9,321
LT Investment	105	318	318	318	318
Net fixed Assets	9,216	9,137	9,204	8,763	8,368
Others	573	576	589	611	635
Total Liabilities	8,730	7,300	6,250	5,539	4,860
Current Liabilities	5,026	4,944	4,391	4,171	3,981
Account Payable	2,215	2,520	2,322	2,408	2,515
ST Borrowing	2,139	1,808	1,508	1,208	908
Others	671	616	561	555	557
Long-term Liabilities	3,704	2,356	1,859	1,368	879
Long-term Debts	3,554	2,155	1,647	1,147	647
Others	150	201	212	221	232
Shareholders' Equity	8,100	10,028	11,544	13,112	14,817
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	9,005	10,572	12,278
Preferred Stock	0	0	0	0	0

Source: KGI Research

Key Ratios

Year to 31 Dec	2015	2016	2017F	2018F	2019F
Growth (%YoY)					
Sales	10.3	10.8	4.0	4.2	4.9
OP	25.0	30.6	(17.9)	7.2	7.7
EBITDA	11.9	32.7	(12.3)	1.4	4.5
NP	6.2	35.7	(16.3)	2.7	8.8
Normalized Profit	21.9	32.8	(17.4)	8.7	8.8
EPS	4.5	33.0	(16.3)	2.7	8.8
Normalized EPS	20.0	30.3	(17.4)	8.7	8.8
Profitability (%)					
Gross Margin	31.4	34.9	30.5	30.9	31.2
Operating Margin	19.5	23.0	18.1	18.6	19.1
EBITDA Margin	25.5	30.6	25.8	25.1	25.0
Net Margin	18.0	22.0	17.7	17.5	18.1
ROAA	13.3	17.5	14.3	14.0	14.4
ROAE	27.7	30.3	22.0	19.9	19.2
Stability					
Gross Debt/Equity (%)	1.1	0.7	0.5	0.4	0.3
Net Debt/Equity (%)	0.7	0.4	0.2	0.0	(0.1)
Interest Coverage (x)	16.3	19.4	22.6	28.8	41.1
Interest & ST Debt Coverage (x)	1.1	1.7	1.7	2.2	3.1
Cash Flow Interest Coverage (x)	9.4	24.0	28.4	34.8	48.1
Cash Flow/Interest & ST Debt (x)	0.6	2.1	2.1	2.6	3.6
Current Ratio (x)	1.4	1.5	1.7	2.1	2.6
Quick Ratio (x)	1.0	1.0	1.3	1.6	2.0
Net Debt (Bt mn)	5,637	3,637	2,201	368	(1,521)
Per Share Data (Bt)					
EPS	3.9	5.2	4.3	4.5	4.8
Normalized EPS	3.8	5.0	4.1	4.5	4.8
CFPS	2.5	7.0	5.9	5.8	6.0
BVPS	14.1	17.1	19.7	22.4	25.3
SPS	21.7	23.5	24.5	25.5	26.8
EBITDA/Share	5.5	7.2	6.3	6.4	6.7
DPS	1.5	2.0	1.7	1.8	1.9
Activity					
Asset Turnover (x)	0.7	0.8	0.8	0.8	0.8
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 (Bt mn)	2015	2016	2017F	2018F	2019F
Revenue	12,449	13,797	14,352	14,952	15,688
Cost of Goods Sold	(8,535)	(8,985)	(9,970)	(10,338)	(10,800)
Gross Profit	3,914	4,813	4,382	4,613	4,887
Operating Expenses	(1,520)	(1,695)	(1,866)	(1,915)	(1,979)
Other Incomes	35	54	86	90	94
Operating Profit	2,428	3,171	2,602	2,788	3,003
Depreciation of fixed assets	(684)	(894)	(934)	(940)	(895)
Operating EBITDA	3,181	4,221	3,701	3,754	3,923
Non-Operating Income	48	127	140	0	0
Interest Income					
Other Non-op Income	48	127	140	0	0
Non-Operating Expense	(153)	(171)	(122)	(98)	(74)
Interest Expense	(153)	(171)	(122)	(98)	(74)
Other Non-op Expense	0	0	0	0	0
Equity Income/(Loss)	21	28	25	25	25
Pretax Profit	2,344	3,155	2,645	2,716	2,954
Current Taxation	(91)	(98)	(82)	(84)	(92)
Minorities	12	18	18	18	20
Extraordinaries items	0	0	0	0	0
Net Profit	2,240	3,039	2,545	2,613	2,843
Normalized Profit	2,192	2,912	2,405	2,613	2,843
EPS (Bt)	3.90	5.18	4.34	4.46	4.85
Normalized EPS (Bt)	3.81	4.97	4.10	4.46	4.85

Source: KGI Research

Cash Flow

Year to 31 Dec (Bt mn)	2015	2016	2017F	2018F	2019F
Operating Cash Flow	1,443	4,114	3,481	3,395	3,544
Net Profit	2,240	3,039	2,545	2,613	2,843
Depreciation & Amortization	684	894	934	940	895
Change in Working Capital	(1,481)	181	3	(158)	(194)
Others					
Investment Cash Flow	(1,108)	(1,001)	(1,017)	(517)	(517)
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)
Free Cash Flow	336	3,114	2,464	2,878	3,027
Financing Cash Flow	(125)	(2,895)	(1,893)	(1,853)	(1,937)
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)	(1,028)	(1,045)	(1,137)
Net Cash Flow	210	218	571	1,025	1,090

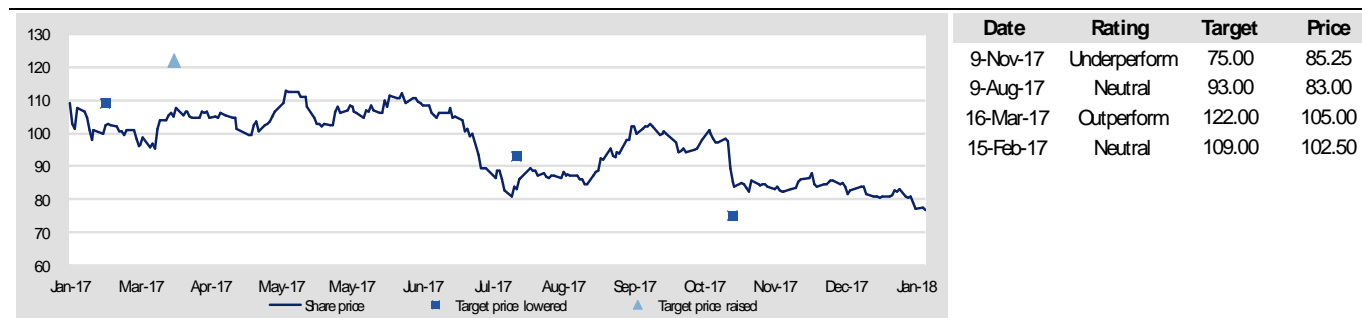
Source: KGI Research

Rates of Return on Invested Capital

Year	1- COGS Revenue	+ Depreciation Revenue	+ Operating Exp. Revenue	= Operating Margin
2015	68.6%	5.5%	12.5%	13.5%
2016	65.1%	6.5%	12.7%	15.7%
2017F	69.5%	6.5%	13.6%	10.4%
2018F	69.1%	6.3%	13.4%	11.2%
2019F	68.8%	5.7%	13.2%	12.2%
Year	1/ Working Capital Revenue	+ Net FFE Revenue	+ Other Assets Revenue	= Capital 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	0.8
2018F	(0.0)	0.6	0.7	0.8
2019F	(0.0)	0.5	0.7	0.8
Year	Operating Margin	x Capital Turnover	x Cash Tax Rate	= After-tax Return on Inv. Capital
2015	13.5%	0.8	3.9%	0.4%
2016	15.7%	0.8	3.1%	0.4%
2017F	10.4%	0.8	3.1%	0.3%
2018F	11.2%	0.8	3.1%	0.3%
2019F	12.2%	0.8	3.1%	0.3%

Source: KGI Research

KCE Electronics - Recommendation & target price history



Source: KGI Research

KGI Locations

ChinaShanghai	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
TaiwanTaipei	700 Mingshui Road, Taipei, Taiwan Telephone886.2.2181.8888 · Facsimile886.2.8501.1691
Hong Kong	41/F CentralPlaza, 18 Harbour Road, Wanchai, Hong Kong Telephone 852.2878.6888 Facsimile 852.2878.6800
ThailandBangkok	8th - 11th floors, AsiaCentreBuilding 173 South Sathorn Road, Bangkok10120, Thailand Telephone 66.2658.8888 Facsimile 66.2658.8014

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 typesofcommunications, 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.

Disclaimer

KGI Securities (Thailand) Plc. ("The Company") disclaims all warranties with regards to all information contained herein. In no event shall the Company be liable for any direct, indirect or any damages whatsoever resulting from loss of income or profits, arising by utilization and reliance on the information herein. All information hereunder does not constitute a solicitation to buy or sell any securities but constitutes our sole judgment as of this date and are subject to change without notice.