

KCE Electronics

(KCE.BK/KCE TB) *

Neutral-Maintained

Price as of 8 May 2017	72.00
12M target price (Bt/shr)	65.00
Unchanged / Revised up (down) (%)	Unchanged
Upside/downside (%)	(9.70)

Key messages

KCE reported a 1Q18 net profit of Bt517mn (-22% YoY, -14% QoQ). The result was 10% below our forecast and 6% below the Bloomberg consensus. 1Q18 earnings accounted for 21% of our full-year forecast. Sales were in line with our forecast while gross margin missed. The baht depreciated over the last month would be a caused of share price overshoot. We expect price overshoot would be temporary due to i) performance remain weak and ii) Thai baht appreciation outlook based on our Economist.

We maintain rate Neutral with 2018 target price

1Q18 earnings review: Below estimate

Event

KCE reported a 1Q18 net profit of Bt517mn (-22% YoY, -14% QoQ). The result was 10% below our forecast and 6% below the Bloomberg consensus. Its 1Q18 earnings accounted for 21% of our full-year forecast.

Impact

Moderate sales growth in US dollar terms

KCE reported 1Q18 sales of US\$109mn (+8% YoY, +5% QoQ), which was in line with our 1Q18 preview forecast of US\$107mn, boosted by increased capacity of about 300,000sqm/month. This lifted its new plant total capacity to 1.5mn sq.ft/month. However, the baht appreciating 4% QoQ dragged sales down in Thai baht terms to Bt3.4bn (-3% YoY, +1% QoQ).

Gross margin slid to 25.8%

KCE's gross margin declined to 25.8% in 1Q18 (our 1Q18 preview estimate was 28.7%), down from 30.7% in 1Q17 and 28.3% in 4Q17. This was mainly due to copper prices remaining at a high level (average copper price was US\$7,000/mt in 1Q18 compared to US\$5,800/mt in 1Q17) and price reduction.

Valuation & action

We maintain a rating of Neutral on KCE with a 2018 target price of Bt65.00 based on PER 16.0x (+0.5 S.D. sector average). Lower gross margin in 1Q18 would raise concern about the company's performance this year as well as our gross margin assumption of 30.2%. Meanwhile, the depreciation of the Thai baht over the last month would be the reason the share price has overshoot recently rather than an improved performance. Since KGI's economist expects the Thai baht to strengthen, better operations would be the only factor to allow earnings improvement.

Risks

Natural disasters, unplanned plant shutdowns, customers shifting to other suppliers, increasing raw material prices and Bt/US\$ appreciation (our assumption is Bt30.9/US\$ in 2018).

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Figure 1: 1Q18 earnings review

Btmn	1Q18	1Q17	YoY (%)	4Q17	QoQ (%)	Comment
Revenue	3,440	3,536	(2.7)	3,393	1.4	
Gross profit	889	1,084	(18.0)	960	(7.4)	
SG&A	466	444	5.1	404	15.3	
Operating profit	516	663	(22.2)	609	(15.3)	
Non-operating Inc/(Exp)	41	39	4.1	45	(9.6)	
Net profit	517	662	(22.0)	598	(13.5)	
Normalized profit	476	623	(23.6)	552	(13.9)	
EPS(Bt)	0.88	1.13	(22.0)	1.02	(13.5)	
Normalized EPS(Bt)	0.81	1.06	(23.6)	0.94	(13.9)	
Percent	1Q18	1Q17	YoY (ppts)	4Q17	QoQ (ppts)	
Gross margin	25.8	30.7	(4.8)	28.3	(2.5)	Lower GPM from price reduction
EBIT margin	15.0	18.8	(3.7)	18.0	(3.0)	
SG&A/sales	13.6	12.5	1.0	11.9	1.6	
Sales in US\$	109	101	7.6	103	5.4	Better sales from new capacity

Source: Company data, KGI Research

KGI Locations

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