



KCE Electronics

(KCE.BK/KCE TB) *

Neutral · Maintained

Price as of 8 Aug 2017	44.75
12M target price (Bt/shr)	40.00
Unchanged/Revised up (down)	23.0
(%)	
Upside/downside (%)	(10.6)

Key messages

Given a good sales outlook and improvement in gross margin propelled by a favorable exchange rate and decreasing copper price, we revise up our FX and gross margin assumptions resulting in upward revisions to 2018–2020 earnings of 12%, 18%, and 21%, respectively. Meanwhile, the recovery of the industry during the consolidation phase has been better than we had expected and caused the re-rating of multiple PER from 16.5x (+0.5 S.D. sector average) to 18.0x (+1.0 S.D. sector average). We maintain a rating of Neutral, but raised our target price to Bt40.00, from

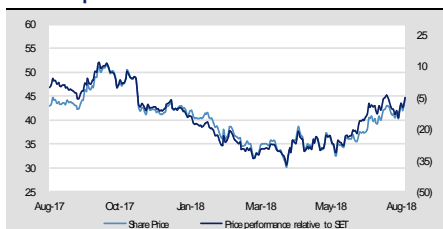
Trading data

Mkt cap (Btbn/US\$bn)	52.5/1.3
Outstanding share (mn)	1,173
Foreign ownership (mn)	310
3M avg. daily trading (mn)	8
52-week trading range (Bt)	30.1 - 51.5
Performance (%)	3M 6M 12M
Absolute	23.0 15.9 7.8
Relative	24.7 20.2 -1.6

Quarterly EPS

EPS	Q1	Q2	Q3	Q4
2015	0.45	0.43	0.50	0.58
2016	0.65	0.69	0.67	0.59
2017	0.56	0.57	0.52	0.51
2018	0.44	0.48		

Share price chart



Source: SET

Precious but pricey

Event

Company outlook and earnings revision.

Impact

Good direction for sales

KCE estimates sales to increase gradually in 2H18 on the back of new machinery which set up in 1H18 and upcoming in September 2018. The company is maintaining its target for sales growth of 12–15% this year (vs our assumption of 10%) and expects a similar growth rate in 2019. High margin products (multi-layer PCB and HDI) would be a key focus and are expected to account for 42–43% of total sales in 2018, up from 37% last year.

Gross margin to improve in 2H18 due to FX and lower copper price

The company expects gross margin to trend up in 2H18 mainly due to i) depreciation of the baht should boost gross margin in 3Q18, as it weakened to Bt33.2/US\$ in July–August 2018 compared to Bt31.9/US\$ in 2Q18, and ii) lower copper price is expected to impact gross margin in 4Q18 due to lag time (note that every US\$1,000/mt decrease in copper price would raise the company's gross margin about 1%).

Revised up 2018–2020 earnings forecasts by 12%, 18%, and 21%, respectively

In order to reflect the weaker baht and decreasing copper price, we revised up our gross margin assumption by about 1.5ppts and revised up our FX assumption to Bt32.5/US\$ in 2018 and Bt32.6/US\$ in 2019 from Bt30.9/US\$. As a result, we upgrade our earnings forecasts for 2018–2020 by 12%, 18% and 21%, respectively.

Share price may overshoot to ~Bt50, reflecting very optimistic case

We ran a sensitivity analysis between copper price and FX to our year-end 2019 target price (Figure 4–5) and found that the share price may overshoot to Bt50.00, reflecting the current copper price (US\$6,200/mt) and FX (Bt33.5/US\$) based on multiple PER of 20.0x (+1.5 S.D. sector average: peak level of previous upcycle).

Valuation & Action

We maintain a rating of Neutral, but revise up our mid-2019 target price to Bt40.00, from Bt32.50, based on PER 18.0x (+1.0 S.D. sector average) which is re-rated from 16.5x (+0.5 S.D. sector average) to reflect the favorable environment. However, the current share price is trading at a quite expensive level of ~22.0x, so price overshooting would be temporary.

Risks

Natural disasters, unplanned plant shutdowns, customers shifting suppliers, high raw material prices and Bt/US\$ appreciation (our assumption is Bt32.5/US\$ in 2018 and Bt32.6/US\$ in 2019–2020).

Key financials and valuations

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	Dec - 16A	Dec - 17A	Dec - 18F	Dec - 19F	Dec - 20F
Revenue (Bmn)	13,797	14,195	15,091	16,619	18,310
Gross Profit (Bmn)	4,813	4,262	4,301	5,150	5,682
SG&A (Bmn)	1,695	1,818	1,947	2,127	2,344
Net Profit (Bmn)	3,039	2,545	2,327	2,964	3,301
Normalized Profit (Bmn)	2,912	2,341	2,286	2,964	3,301
EPS(Bt)	2.59	2.17	1.98	2.53	2.81
Normalized EPS(Bt)	2.48	2.00	1.95	2.53	2.81
DPS(Bt)	1.05	1.10	0.79	1.01	1.13
EPS Growth (%)	33.0	(16.3)	(8.5)	27.4	11.4
Normalized EPS Growth	30.3	(19.6)	(2.4)	29.7	11.4
P/E (x)	23.5	20.6	22.6	17.7	15.9
P/B (x)	7.1	4.7	4.1	3.6	3.2
EV/EBITDA (x)	13.4	15.0	15.5	12.8	11.5
Net Debt to Equity (%)	36.3	21.1	10.2	(3.3)	(14.5)
Dividend Yield (%)	1.7	2.5	1.8	2.3	2.5
Return on Average Equity (%)	30.3	22.6	18.4	20.5	20.1

Source: Company data, KGI Research

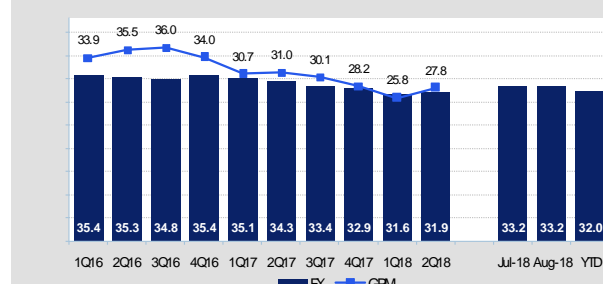
Figure 1: Earnings revisions

Item	2018F			2019F			2020F		
	Revised	Previous	Change (%)	Revised	Previous	Change (%)	Revised	Previous	Change (%)
Sales	15,091	14,348	5.2	16,619	15,752	5.5	18,310	16,522	10.8
Gross profit	4,301	3,952	8.8	5,150	4,556	13.0	5,682	4,858	17.0
Net Profit	2,327	2,079	11.9	2,964	2,509	18.2	3,301	2,733	20.8
Normalized Profit	2,286	2,038	12.2	2,964	2,509	18.2	3,301	2,733	20.8
Key financial ratio	Revised	Previous	ppts	Revised	Previous	ppts	Revised	Previous	ppts
GPM	28.5	27.5	1.0	31.0	28.9	2.1	31.0	29.4	1.6
SG&A/Sales	12.9	12.9	0.0	12.8	12.7	0.1	12.8	12.7	0.1
Assumption	Revised	Previous	Change (%)	Revised	Previous	Change (%)	Revised	Previous	Change (%)
Exchange rate	32.5	30.9	5.2	32.6	30.9	5.5	32.6	30.9	5.5
Sales in US\$mm	464	464	0.0	510	510	0.0	562	535	5.0
Sales growth (%)	10.3	10.3	0.0	9.8	9.8	0.0	10.2	4.9	5.3

Source: Company data, KGI Research

Figure 2: Exchange rate and gross margin

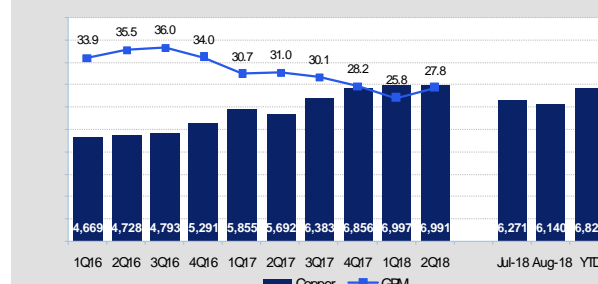
Exchange rate, US\$/Bt and gross margin, percent



Source: Company data, KGI Research

Figure 3: Copper price and gross margin

Copper price, US\$/mt, gross margin, percent



Source: Company data, KGI Research

Exchange rate and copper price moved in favorable directions

The baht continues its depreciation trend (Figure 2) and averaged about Bt33.2/US\$ in July and MTD in August. The baht has weakened quite a bit from 2Q18's Bt31.9/US\$. Based on our economist view, we expect the baht to continue its weakening trend through 1H19. Looking ahead to KCE's performance in 1H19, we could see a positive impact from the exchange rate YoY between 2018 and 2019 as the baht was quite strong in 1H18.

Average copper price in July 2018 was US\$6,271/mt and slid to US\$6,140/mt in August 2018. If the copper price stays at this level for the rest of this year, it would be flat YoY in 3Q18 and drop YoY in 4Q18 which is a good scenario for KCE.

Revised up 2018-2020 earnings forecasts 12%, 18%, and 21%, respectively

In order to reflect the decreasing copper price and the weakening baht, we revised up our gross margin assumption by about 1.5ppts in 2018-2019 and revised up our FX assumption to Bt32.5/US\$ in 2018 and Bt32.6/US\$ in 2019 from Bt30.9/US\$. As a result, we upgraded our earnings forecast for 2018-2020 by 12%, 18% and 21%, respectively.

Re-rate multiple PER from 16.5x to 18.0x, reflecting upbeat outlook

Based on KGI's sector report *Electronics sector: Bet your bottom dollar*, released June 4, 2018, we have assigned multiple PER to electronics companies by incorporating Five Force Model, sales growth outlook, and profitability. We assign some premium to KCE of 16.0x (+0.5 S.D. sector average) in order to capture the recovery in the industry in 2H18-1H19, enjoying the consolidation cycle and lower magnitude of pressure on profitability. Until now, positive signs remain valid and it appears the industry is recovering faster than we had expected as the weaker baht and drop in copper price accelerated the speed of recovery.

KGI's economist expects the baht to continue to weaken in 2H18-1H19 so the YoY gap for FX would increase in 2H18-1H19. This would boost KCE's earnings performance as well as give good sentiment to the share price. In order to reflect i) positive direction of earnings from favorable Thai baht, and ii) supportive direction of copper price, we take a more upbeat view and re-rate multiple PER from 16.5x (+0.5 S.D. sector average) to 18.0x (+1.0 S.D. sector average).

Share price may overshoot to ~Bt50, reflecting very optimistic case

The weakening baht and falling copper price would provide good sentiment to KCE's share price. Our sensitivity analysis between KCE's gross margin and exchange rate to our year-end 2019 target price (Figure 4-5) shows that KCE's share price may overshoot up to ~Bt50, reflecting a gross margin of 30%, copper price of ~US\$6,200/mt and exchange rate of Bt33.5/US\$. Note that this is a quite optimistic scenario as it reflects 2019 outlook (year-end 2019 target price) based on current scenario with a premium multiple PER of 20x, which is +1.5 S.D. sector average (peak level of previous industry upcycle).

Figure 4: Sensitivity between copper and FX to KCE's gross margin

Gross margin			FX (Bt/US\$)													
			36.5	36.0	35.5	35.0	34.5	34.0	33.5	33.0	32.5	32.0	31.5	31.0	30.5	
Copper Price (US\$/mt)	10%	4,800	33.0%	32.8%	32.5%	32.3%	32.0%	31.8%	31.5%	31.3%	31.0%	30.8%	30.5%	30.3%	30.0%	
	20%	5,280	32.5%	32.3%	32.0%	31.8%	31.5%	31.3%	31.0%	30.8%	30.5%	30.3%	30.0%	29.8%	29.5%	
	30%	5,760	32.0%	31.8%	31.5%	31.3%	31.0%	30.8%	30.5%	30.3%	30.0%	29.8%	29.5%	29.3%	29.0%	
	40%	6,240	31.5%	31.3%	31.0%	30.8%	30.5%	30.3%	30.0%	29.8%	29.5%	29.3%	29.0%	28.8%	28.5%	
	50%	6,720	31.0%	30.8%	30.5%	30.3%	30.0%	29.8%	29.5%	29.3%	29.0%	28.8%	28.5%	28.3%	28.0%	
	60%	7,200	30.5%	30.3%	30.0%	29.8%	29.5%	29.3%	29.0%	28.8%	28.5%	28.3%	28.0%	27.8%	27.5%	
	70%	7,680	30.0%	29.8%	29.5%	29.3%	29.0%	28.8%	28.5%	28.3%	28.0%	27.8%	27.5%	27.3%	27.0%	

Source: KGI Taiwan, KGI Research

Figure 5: Sensitivity between gross margin and exchange rate to target price (year end - 2019) based on multiple PER of 20.0X (+1.5 S.D. sector average) which reflect optimistic case

			FX (Bt/US\$)													
			36.0	35.5	35.0	34.5	34.0	33.5	33.0	32.5	32.0	31.5	31.0	30.5	30.0	29.5
Gross margin	27.00%	43.9	43.3	42.6	42.0	41.4	40.8	40.2	39.6	38.9	38.3	37.7	37.1	36.5	35.9	35.3
	27.50%	45.4	44.8	44.1	43.5	42.8	42.2	41.6	40.9	40.3	39.6	39.0	38.4	37.7	37.1	36.5
	28.00%	46.9	46.2	45.6	44.9	44.3	43.6	42.9	42.3	41.6	40.9	40.3	39.6	39.0	38.3	37.7
	28.50%	48.4	47.7	47.0	46.4	45.7	45.0	44.3	43.6	42.9	42.3	41.6	40.9	40.2	39.5	38.8
	29.00%	49.9	49.2	48.5	47.8	47.1	46.4	45.7	45.0	44.3	43.6	42.9	42.2	41.5	40.8	40.1
	29.50%	51.4	50.7	50.0	49.2	48.5	47.8	47.1	46.3	45.6	44.9	44.2	43.5	42.7	42.0	41.3
	30.00%	52.9	52.2	51.4	50.7	49.9	49.2	48.5	47.7	47.0	46.2	45.5	44.7	44.0	43.2	42.5
	30.50%	54.4	53.7	52.9	52.1	51.4	50.6	49.8	49.1	48.3	47.5	46.8	46.0	45.2	44.5	43.8
	31.00%	55.9	55.1	54.4	53.6	52.8	52.0	51.2	50.4	49.6	48.9	48.1	47.3	46.5	45.7	45.0
	31.50%	57.4	56.6	55.8	55.0	54.2	53.4	52.6	51.8	51.0	50.2	49.4	48.6	47.7	46.9	46.1
	32.00%	58.9	58.1	57.3	56.5	55.6	54.8	54.0	53.1	52.3	51.5	50.7	49.8	48.9	48.1	47.3
	32.50%	60.4	59.6	58.7	57.9	57.1	56.2	55.4	54.5	53.7	52.8	52.0	51.1	50.3	49.4	48.6
	33.00%	62.0	61.1	60.2	59.3	58.5	57.6	56.7	55.9	55.0	54.1	53.3	52.4	51.5	50.6	49.8

Source: KGI Research

Maintain Neutral with a mid-2019 target price of Bt40.00

We maintain a rating of Neutral, but revise up our mid-2019 target price to Bt40.00, from Bt32.50, based on PER 18.0x (+1.0 S.D. sector average) which is re-rated from 16.5x (+0.5 S.D. sector average) to reflect the favorable environment.

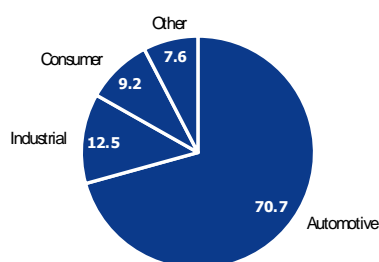
Figure 6: Company profile

KCE Electronics PCL (KCE), originally known as Kuang Charoen Electronics Company Limited, was listed on November 5 1985, with initial registered capital of Bt12mn. 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 system. Its customers include some of the world's biggest names.

Source: Company data

Figure 8: Revenue breakdown

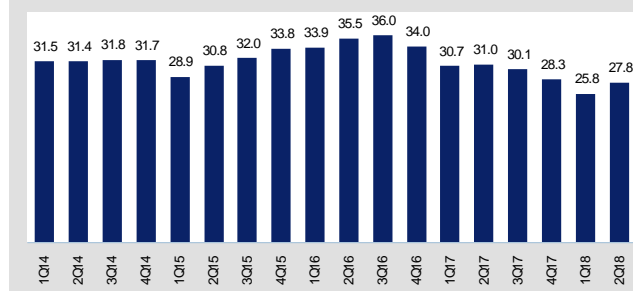
Percent



Source: Company data, KGI Research

Figure 10: Gross margin quarterly

Percent



Source: Company data, KGI Research

Figure 12: Company's PER

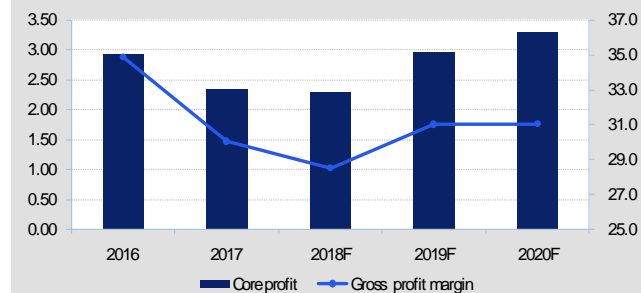
times



Source: KGI Research

Figure 7: Earnings rebased in 2018

Normalized earnings, Btmn



Source: Company data, KGI Research

Figure 9: 5-year PER Electronics sector

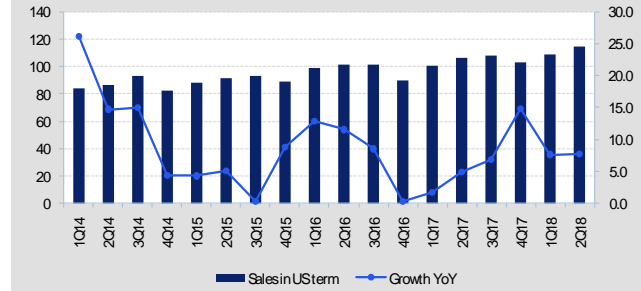
PER, times



Source: Company data, KGI Research

Figure 11: Sales in US dollar terms

Sales in US dollar term, US\$m (LHS); growth YoY, percent (RHS)



Source: Company data, KGI Research

Figure 13: Company's PBV

times



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	Dec-17A	Mar-18A	Jun-18A
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	3,393	3,440	3,643
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)	(2,433)	(2,551)	(2,629)
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	960	889	1,014
Operating Expense	(443)	(417)	(441)	(382)	(344)	(383)	(434)	(369)	(423)	(454)	(437)	(381)	(444)	(485)	(485)	(404)	(466)	(471)
Other incomes	13	19	15	12	9	20	37	(31)	9	17	12	17	23	18	22	54	27	18
Operating Profit	442	488	527	485	496	575	660	697	784	833	839	716	663	668	619	609	450	561
Depreciation of fixed asset	(133)	(137)	(141)	(143)	(136)	(153)	(195)	(199)	(203)	(211)	(216)	(219)	(217)	(220)	(222)	(224)	(230)	(235)
Operating EBITDA	575	626	668	628	632	728	855	896	987	1,044	1,056	935	881	889	842	834	680	796
Non-Operating Income	29	34	140	109	54	(12)	(28)	35	23	43	30	29	39	56	45	45	107	31
Interest Income	0	0	0	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	45	107	31
Non-Operating Expense	(32)	(34)	(29)	(23)	(21)	(35)	(49)	(48)	(46)	(46)	(42)	(37)	(30)	(33)	(32)	(32)	(29)	(28)
Interest Expense	(32)	(34)	(29)	(23)	(21)	(35)	(49)	(48)	(46)	(46)	(42)	(37)	(30)	(33)	(32)	(32)	(29)	(28)
Other Non-op Expense	0	0	0	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	6	4	5
Pre-tax profit	450	497	645	578	531	534	593	686	767	837	837	714	676	698	638	629	532	569
Current Taxation	(7)	(14)	(30)	5	(17)	(40)	(17)	(18)	(10)	(20)	(47)	(21)	(10)	(21)	(21)	(27)	(10)	(6)
Minorities	3	4	3	3	3	4	3	3	6	5	4	3	4	5	5	5	5	5
Extraordinary items																		
Net Profit	439	479	611	580	511	490	573	665	751	812	786	690	662	672	612	598	517	558
Normalized Profit	411	445	471	472	457	502	602	631	728	768	756	661	623	616	567	552	410	527
EPS(Bt)	0.40	0.43	0.54	0.51	0.45	0.43	0.50	0.58	0.65	0.69	0.67	0.59	0.56	0.57	0.52	0.51	0.44	0.48
Normalized EPS(Bt)	0.37	0.40	0.42	0.42	0.40	0.44	0.53	0.55	0.63	0.66	0.64	0.56	0.53	0.53	0.48	0.47	0.35	0.45
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	28.3	25.8	27.8
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	18.0	13.1	15.4
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	29.5	24.9	24.3	23.4	24.6	19.8	21.8
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	17.6	15.0	15.3
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)	(5.8)	1.4	5.9
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)	(1.6)	(26.1)	24.6
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	(11.4)	(5.9)	0.9	(5.3)	(1.0)	(18.4)	16.9
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	(8.9)	(2.4)	(13.5)	8.0
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)	(2.6)	(25.8)	28.6

Source: KGI Research

Balance Sheet

As of 31 Dec (Bt mn)	2016	2017	2018F	2019F	2020F
Total Assets	17,328	17,850	18,544	19,737	21,267
Current Assets	7,296	7,505	8,380	9,968	11,848
Cash & ST Investment	892	1,140	1,333	2,309	3,412
Inventories	2,265	2,428	2,661	2,828	3,114
Account Receivable	4,080	3,876	4,341	4,781	5,267
Others	59	61	45	50	55
Non-current Assets	10,032	10,346	10,165	9,770	9,419
LT Investment	318	276	318	318	318
Net fixed Assets	9,137	9,510	9,259	8,833	8,450
Others	576	560	587	618	651
Total Liabilities	7,300	6,576	5,864	5,279	4,828
Current Liabilities	4,944	4,595	4,367	4,258	4,282
Account Payable	2,520	2,802	2,956	3,142	3,460
ST Borrowing	1,808	1,156	856	556	256
Others	616	636	554	560	566
Long-term Liabilities	2,356	1,981	1,498	1,021	546
Long-term Debts	2,155	1,771	1,271	771	271
Others	201	210	226	249	275
Shareholders' Equity	10,028	11,274	12,680	14,459	16,439
Common Stock	1,172	1,173	1,173	1,173	1,173
Capital Surplus	1,895	1,907	1,907	1,907	1,907
Retained Earnings	7,478	8,732	10,128	11,907	13,888
Preferred Stock	0	0	0	0	0

Source: KGI Research

Key Ratios

Year to 31 Dec	2016	2017	2018F	2019F	2020F
Growth (%YoY)					
Sales	10.8	2.9	6.3	10.1	10.2
OP	30.6	(19.8)	(3.9)	27.7	10.4
EBITDA	31.3	(12.5)	(5.2)	17.7	7.0
NP	35.7	(16.3)	(8.5)	27.4	11.4
Normalized Profit	32.8	(19.6)	(2.4)	29.7	11.4
EPS	33.0	(16.3)	(8.5)	27.4	11.4
Normalized EPS	30.3	(19.6)	(2.4)	29.7	11.4
Profitability (%)					
Gross Margin	34.9	30.0	28.5	31.0	31.0
Operating Margin	23.0	17.9	16.2	18.8	18.8
EBITDA Margin	30.3	25.7	22.9	24.5	23.8
Net Margin	22.0	17.9	15.4	17.8	18.0
ROAA	17.5	14.3	12.5	15.0	15.5
ROAE	30.3	22.6	18.4	20.5	20.1
Stability					
Gross Debt/Equity (%)	0.7	0.6	0.5	0.4	0.3
Net Debt/Equity (%)	0.4	0.2	0.1	(0.0)	(0.1)
Interest Coverage (x)	19.4	21.8	27.3	47.2	81.4
Interest & ST Debt Coverage (x)	1.7	2.2	2.6	5.1	11.6
Cash Flow Interest Coverage (x)	23.7	29.6	30.1	52.2	87.7
Cash Flow/Interest & ST Debt (x)	2.1	2.9	2.9	5.6	12.5
Current Ratio (x)	1.5	1.6	1.9	2.3	2.8
Quick Ratio (x)	1.0	1.1	1.3	1.7	2.0
Net Debt (Bt mn)	3,637	2,380	1,295	(482)	(2,385)
Per Share Data (Bt)					
EPS	2.6	2.2	2.0	2.5	2.8
Normalized EPS	2.5	2.0	1.9	2.5	2.8
CFPS	3.5	3.2	2.4	3.0	3.2
BVPS	8.6	9.6	10.8	12.3	14.0
SPS	11.8	12.1	12.9	14.2	15.6
EBITDA/Share	3.6	3.1	3.0	3.5	3.7
DPS	1.1	1.1	0.8	1.0	1.1
Activity					
Asset Turnover (x)	0.8	0.8	0.8	0.8	0.9
Days Receivables	108	100	105	105	105
Days Inventory	92	89	90	90	90
Days Payable	102	103	100	100	100
Cash Cycle	98	86	95	95	95

Source: KGI Research

Profit & Loss

Year to Dec 31 (Bt mn)	2016	2017	2018F	2019F	2020F
Revenue	13,797	14,195	15,091	16,619	18,310
Cost of Goods Sold	(8,985)	(9,933)	(10,790)	(11,469)	(12,628)
Gross Profit	4,813	4,262	4,301	5,150	5,682
Operating Expenses	(1,695)	(1,818)	(1,947)	(2,127)	(2,344)
Other Incomes	54	98	91	100	110
Operating Profit	3,171	2,543	2,445	3,122	3,448
Depreciation of fixed assets	(849)	(884)	(951)	(926)	(883)
Operating EBITDA	4,176	3,653	3,461	4,073	4,357
Non-Operating Income	127	203	41	0	0
Interest Income					
Other Non-op Income	127	203	41	0	0
Non-Operating Expense	(171)	(127)	(92)	(67)	(43)
Interest Expense	(171)	(127)	(92)	(67)	(43)
Other Non-op Expense	0	0	0	0	0
Equity Income/(Loss)	28	22	25	25	25
Pretax Profit	3,155	2,641	2,418	3,081	3,431
Current Taxation	(98)	(78)	(75)	(96)	(106)
Minorities	18	18	16	21	23
Extraordinary items	0	0	41	0	0
Net Profit	3,039	2,545	2,327	2,964	3,301
Normalized Profit	2,912	2,341	2,286	2,964	3,301
EPS(Bt)	2.59	2.17	1.98	2.53	2.81
Normalized EPS(Bt)	2.48	2.00	1.95	2.53	2.81

Source: KGI Research

Cash Flow

Year to 31 Dec (Bt mn)	2016	2017	2018F	2019F	2020F
Operating Cash Flow	4,069	3,758	2,766	3,479	3,741
Net Profit	3,039	2,545	2,327	2,964	3,301
Depreciation & Amortization	849	884	951	926	883
Change in Working Capital	181	329	(512)	(411)	(444)
Others					
Investment Cash Flow	(956)	(1,203)	(759)	(517)	(517)
Net CAPEX	(770)	(1,257)	(700)	(500)	(500)
Change in LT Investment	(211)	42	(42)	0	0
Change in Other Assets	25	12	(17)	(17)	(17)
Free Cash Flow	3,114	2,555	2,006	2,962	3,224
Financing Cash Flow	(2,895)	(2,307)	(1,813)	(1,986)	(2,120)
Change in Share Capital	11	0	0	0	0
Net Change in Debt	(1,784)	(1,009)	(892)	(800)	(800)
Change in Other LT Liab.	(1,123)	(1,298)	(921)	(1,186)	(1,320)
Net Cash Flow	218	248	193	976	1,103

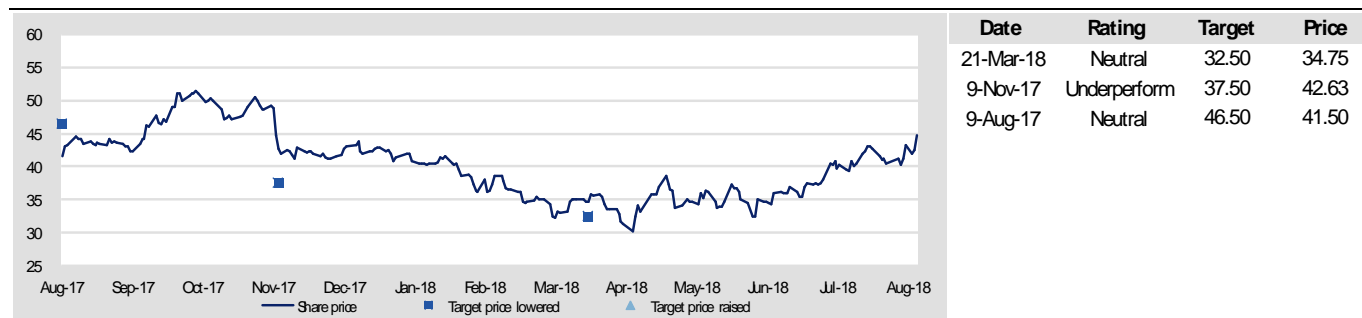
Source: KGI Research

Rates of Return on Invested Capital

Year	1- COGS Revenue	+ Depreciation Revenue	+ Operating Exp. Revenue	= Operating Margin
2016	65.1%	6.2%	12.7%	16.1%
2017	70.0%	6.2%	13.5%	10.3%
2018F	71.5%	6.3%	13.5%	8.7%
2019F	69.0%	5.6%	13.4%	12.0%
2020F	69.0%	4.8%	13.4%	12.8%
Year	1/ Working Capital Revenue	+ Net FFE Revenue	+ Other Assets Revenue	= Capital Turnover
2016	0.0	0.7	0.6	0.8
2017	0.0	0.7	0.6	0.8
2018F	(0.0)	0.6	0.6	0.8
2019F	(0.0)	0.5	0.7	0.9
2020F	(0.0)	0.5	0.7	0.9
Year	Operating Margin	x Capital Turnover	x Cash Tax Rate	= After-tax Return on Inv. Capital
2016	16.1%	0.8	3.1%	0.4%
2017	10.3%	0.8	3.0%	0.2%
2018F	8.7%	0.8	3.1%	0.2%
2019F	12.0%	0.9	3.1%	0.3%
2020F	12.8%	0.9	3.1%	0.3%

Source: KGI Research

KCE Electronics- Recommendation & target price history



Source: KGI Research

Corporate Governance Report of Thai Listed Companies



Companies with Excellent CG Scoring

Stock	Company name	Stock	Company name	Stock	Company name
EGCO	ELECTRICITY GENERATING	KTB	KRUNG THAI BANK	TISCO	TISCO FINANCIAL GROUP
KBANK	KASIKORN BANK	RATCH	RATCHABURI ELECTRICITY GENERATING HOLDING		
KKP	KIATNAKIN BANK	SCB	THE SIAM COMMERCIAL BANK		



Companies with Very Good CG Scoring

Stock	Company name	Stock	Company name	Stock	Company name
ADVANC	ADVANCED INFO SERVICE	ERW	THE ERWAN GROUP	SCC	THE SIAM CEMENT
AOT	AIRPORTS OF THAILAND	GFPT	GFPT	SPALI	SUPALAI
AP	ASIAN PROPERTY DEVELOPMENT	IFEC	INTER FAR EAST ENGINEERING	STEC	SINO-THAI ENGINEERING AND CONSTRUCTION
BBL	BANGKOK BANK	LPN	L.P.N. DEVELOPMENT	SVI	SVI
BH	BUMRUNGRAD HOSPITAL	MINT	MINOR INTERNATIONAL	TASCO	TIPCO ASPHALT
BIGC	BIG C SUPERCENTER	PS	PRUKSA REAL ESTATE	TCAP	THANACHART CAPITAL
CK	CH. KARNCHANG	QH	QUALITY HOUSES	TMB	TMB BANK
CPALL	CP ALL	ROBINS	ROBINSON DEPARTMENT STORE	TRUE	TRUE CORPORATION
CPN	CENTRAL PATTANA	RS	RS		
DRT	DIAMOND ROOFING TILES	SAMART	SAMART CORPORATION		



Companies with Good CG Scoring

Stock	Company name	Stock	Company name	Stock	Company name
CENTEL	CENTRAL PLAZA HOTEL	HMPRO	HOME PRODUCT CENTER	MAKRO	SIAM MAKRO
DCC	DYNASTY CERAMIC	ILINK	INTERLINK COMMUNICATION	MODERN	MODERNFORM GROUP
GL	GROUP LEASE	KTC	KRUNGTHAI CARD	TRT	TIRATHAI
GLOW	GLOW ENERGY	MAJOR	MAJOR CINEPLEX GROUP	TVO	THAI VEGETABLE OIL

Companies classified Not in the three highest score groups

Stock	Company name	Stock	Company name	Stock	Company name
AAV	ASIA AVIATION	CHG	CHULARAT HOSPITAL	NOK	NOK AIRLINES
ANAN	ANANDA DEVELOPMENT	CKP	CK POWER	PACE	PACE DEVELOPMENT CORPORATION
BA	BANGKOK AIRWAYS	DTAC	TOTAL ACCESS COMMUNICATION	SAWAD	SRISAWAD POWER 1979
BCH	BANGKOK CHAIN HOSPITAL	GLOBAL	SIAM GLOBAL HOUSE	TMT	THAI METAL TRADE
BDMS	BANGKOK DUSIT MEDICAL SERVICES	GPSC	GLOBAL POWER SYNERGY	TPCH	TPC POWER HOLDING
BEM	BANGKOK EXPRESSWAY AND METRO	GUNKUL	GUNKUL ENGINEERING	WHA	WHA CORPORATION
BJCHI	BJC HEAVY INDUSTRIES	LPH	LADPRAO GENERAL HOSPITAL	WORK	WORKPOINT ENTERTAINMENT
CBG	CARABAO GROUP	MTLS	MUANGTHAI LEASING		

Source: 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
CPN	CENTRAL PATTANA	SCC	THE SIAM CEMENT		

Level 4: Certified

Stock	Company name	Stock	Company name	Stock	Company name
ADVANC	ADVANCED INFO SERVICE	IFEC	INTER FAR EAST ENGINEERING	SVI	SVI
BBL	BANGKOK BANK	KBANK	KASIKORN BANK	TCAP	THANACHART CAPITAL
DCC	DYNASTY CERAMIC	KKP	KIATNAKIN BANK	TISCO	TISCO FINANCIAL GROUP
DRT	DIAMOND ROOFING TILES	KTB	KRUNG THAI BANK	TMB	TMB BANK
EGCO	ELECTRICITY GENERATING	MINT	MINOR INTERNATIONAL		
ERW	THE ERWAN GROUP	SCB	THE SIAM COMMERCIAL BANK		

Level 3: Established

Stock	Company name	Stock	Company name	Stock	Company name
AAV	ASIA AVIATION	DTAC	TOTAL ACCESS COMMUNICATION	PACE	PACE DEVELOPMENT CORPORATION
ANAN	ANANDA DEVELOPMENT	GFPT	GFPT	PS	PRUKSA REAL ESTATE
AP	ASIAN PROPERTY DEVELOPMENT	GL	GROUP LEASE	RATCH	RATCHABURI ELECTRICITY GENERATING HOLDING
BA	BANGKOK AIRWAYS	GLOW	GLOW ENERGY	ROBINS	ROBINSON DEPARTMENT STORE
BDMS	BANGKOK DUSIT MEDICAL SERVICES	GPSC	GLOBAL POWER SYNERGY	SAMART	SAMART CORPORATION
BIGC	BIG C SUPERCENTER	HMPRO	HOME PRODUCT CENTER	SPALI	SUPALAI
BJCHI	BJC HEAVY INDUSTRIES	KTC	KRUNGTHAI CARD	STEC	SINO-THAI ENGINEERING AND CONSTRUCTION
CENEL	CENTRAL PLAZA HOTEL	LPN	L.P.N. DEVELOPMENT	TASCO	TIPCO ASPHALT
CHG	CHULARAT HOSPITAL	MAKRO	SIAM MAKRO	TMT	THAI METAL TRADE
CK	CH. KARNCHANG	MODERN	MODERNFORM GROUP	TPCH	TPC POWER HOLDING
CKP	CK POWER	NOK	NOK AIRLINES	WHA	NOK AIRLINES

Level 2: Declared

Stock	Company name	Stock	Company name	Stock	Company name
AOT	AIRPORTS OF THAILAND	GUNKUL	GUNKUL ENGINEERING	QH	QUALITY HOUSES
BH	BUMRUNGRAD HOSPITAL	ILINK	INTERLINK COMMUNICATION	TRT	TIRATHAI
GLOBAL	SIAM GLOBAL HOUSE	MTLS	MUANGTHAI LEASING	TVO	THAI VEGETABLE OIL

Level 1: Committed

Stock	Company name	Stock	Company name	Stock	Company name
CBG	CARABAO GROUP	RS	RS	SAWAD	SRI SAWAD POWER 1979
MAJOR	MAJOR CINEPLEX GROUP				

No progress

Stock	Company name	Stock	Company name	Stock	Company name
BCH	BANGKOK CHAIN HOSPITAL	CPALL	CP ALL	WORK	WORKPOINT ENTERTAINMENT
BEM	BANGKOK EXPRESSWAY AND METRO	LPH	LADPRAO GENERAL HOSPITAL		

Source: www.cgthailand.org

Disclaimer: The disclosure of the Anti-Corruption Progress Indicators of a listed company on the Stock Exchange of Thailand, which is assessed by the relevant institution as disclosed by the Office of the Securities and Exchange Commission, is made in order to comply with the policy and sustainable development plan for the listed companies. The relevant institution made this assessment based on the information received from the listed company, as stipulated in the form for the assessment of Anti-corruption which refers to the Annual Registration Statement (Form 56-1), Annual Report (Form 56-2), or other relevant documents or reports of such listed company. The assessment result is therefore made from the perspective of a third party. It is not an assessment of operation and is not based on any inside information. Since this assessment is only the assessment result as of the date appearing in the assessment result, it 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 the assessment result.

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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)
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.
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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