

# KCE Electronics

(KCE.BK/KCE TB)\*

## Neutral • Maintained

Price as of 11 Jan 2019	29.25
12M target price (Bt/shr)	30.00
Unchanged/Revised up (down) (%)	(14.3)
Upside/downside (%)	2.6

### Key messages

We expect KCE to report 4Q18 earnings of Bt479mn (-20% YoY, -14% QoQ). The decline would be due to a weak top line on seasonality and effect from WLTP. Growth stagnation in the global automotive industry could increase competition and squeeze margin. We cut our 2019-2020 earnings forecasts by 5% and 10%. Negative sentiment from the industry down cycle caused us to de-rate PER. We rate the counter Neutral with a target price of Bt30.00, from Bt35.0 based on PER 15.0X (sector average).

### Trading data

Mkt cap (Btbn/US\$mn)	34.3/858
Outstanding share (mn)	1,173
Foreign ownership (mn)	290
3M avg. daily trading (mn)	5
52-week trading range (Bt)	25.3 - 47.5
Performance (%)	3M 6M 12M
Absolute	-30.4 -27.8 -27.8
Relative	-26.1 -25.7 -18.1

### 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	0.48	

### Share price chart



Source: SET

Chananthorn Pichayapanupat, CFA  
66.2658.8888 Ext.8849  
chananthornp@kgi.co.th

## 4Q18 earnings preview: Drop YoY and QoQ

### Event

4Q18 earnings preview and earnings revision.

### Impact

#### 4Q18 earnings expected to drop both YoY and QoQ

We expect KCE to report 4Q18 earnings of Bt479mn (-20% YoY, -14% QoQ). Its full-year earnings are expected to be Bt2.1bn (-17% YoY). The decline would be due to a weak top line from seasonality and the effect from the Worldwide harmonized Light Vehicle Test Procedure (WLTP) as new passenger car registrations in the EU dropped 8% YoY in November (third consecutive month of decline), according to a report by the European automobile manufacturers association (ACEA). We forecast 4Q18 sales to reach US\$98.3mn (-5% YoY, -13% QoQ), while gross margin should be stable at 27.0% thanks to a lower in copper price partially offsetting lower production efficiency. Note that average copper price was approximately US\$6,100/ton in 2H18 and KCE is expected to benefit from the drop in copper price in this quarter because of inventory lag time.

#### Cut 2019-2020 earnings by 5% and 10% from lower sales and gross margin

Based on the outlooks from various experts, global automotive production is expected to inch up 2%-4% in 2019F, as the industry is impacted by global trade tension and uncertainty over the regulatory landscape (WLTP) which could cause bottlenecks. Europe is expected to be stagnant. Given Europe is a dominant market for KCE, accounting for ~47.3% of total sales in 2017, deteriorated sales are a possibility. As a result, we tone down our 2019-2020 sales assumptions by 2% and 6%, respectively. Meanwhile, softer global demand would increase competition, leading to pricing strategy. Thus, we revise down our 2019-2020 gross margin assumptions by 0.3ppts - 0.5ppts to 28.8% and 29.0%. We also fine-tune our FX assumption to Bt32.2/US\$ from Bt32.6/US\$. This resulted in our 2019-2020 earnings forecasts being cut 5% and 10%, respectively.

#### De-rate PER to 15.0x to reflect industry downcycle

Though KCE's sales are not directly related to the movement of global semiconductor sales, its share price may be affected by negative sentiment from the industry turning to a downcycle. As such, we de-rate PER from 16.5x (+0.5 S.D. sector average) to 15.0x (sector average).

### Valuation & Action

We maintain a rating of Neutral with a new target price of Bt30.00 (based on PER 15.0x (sector average)), from Bt35.0.

### Risks

Natural disasters, unplanned plant shutdowns, customers shifting suppliers, high raw material prices and Bt/US\$ appreciation (our assumption is 32.2/US\$ in 2019-2020).

### Key financials and valuations

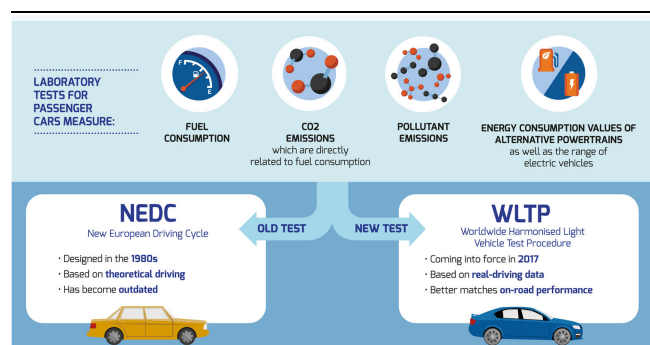
	Dec - 16A	Dec - 17A	Dec - 18F	Dec - 19F	Dec - 20F
Revenue (Btmn)	13,797	14,195	14,249	14,713	15,309
Gross Profit (Btmn)	4,813	4,262	3,843	4,231	4,442
SG&A (Btmn)	1,695	1,818	1,810	1,854	1,929
Net Profit (Btmn)	3,039	2,545	2,148	2,332	2,490
Normalized Profit (Btmn)	2,912	2,341	1,968	2,332	2,490
EPS (Bt)	2.59	2.17	1.83	1.99	2.12
Normalized EPS (Bt)	2.48	2.00	1.68	1.99	2.12
DPS (Bt)	1.05	1.10	0.73	0.80	0.85
EPS Growth (%)	33.0	(16.3)	(15.6)	8.6	6.7
Normalized EPS Growth	30.3	(19.6)	(15.9)	18.5	6.7
P/E (X)	23.5	13.5	16.0	14.7	13.8
P/B (X)	7.1	3.0	2.7	2.5	2.2
EV/EBITDA (X)	9.1	10.0	10.8	9.9	9.1
Net Debt to Equity (%)	36.3	21.1	9.4	(3.6)	(14.3)
Dividend Yield (%)	1.7	3.8	2.5	2.7	2.9
Return on Average Equity (%)	30.3	22.6	17.1	16.7	16.1

Source: Company data, KGI Research

\*The Company may be issuer of Derivative Warrants on these securities.

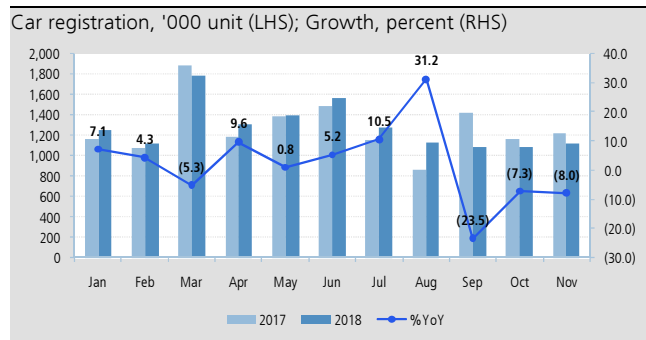
<http://research.kgi.com>; Bloomberg: KGIT <GO> Please see back page for disclaimer

Figure 1: WLTP



Source: WLTPFact.eu, KGI Research

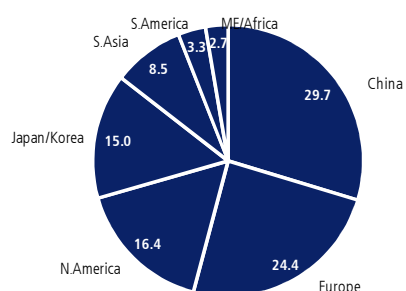
Figure 2: EU passenger car registrations dropped 8% YoY in November 2018



Source: ACEA, KGI Research

Figure 3: World passenger car production market share

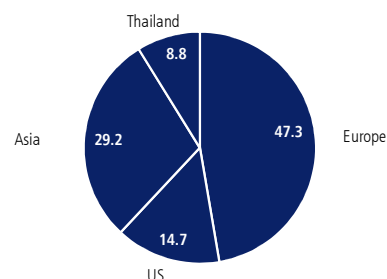
Percent



Source: ACEA, KGI Research

Figure 4: KCE's sales breakdown by location in 2017

Percent



Source: Company data, KGI Research

Figure 5: 4Q18 earnings preview

Btmn	4Q18F	4Q17	YoY (%)	3Q18	QoQ (%)	2018F	2017	YoY (%)
Revenue	3,224	3,393	(5.0)	3,690	(12.6)	13,998	14,195	(1.4)
Gross profit	871	960	(9.3)	998	(12.7)	3,772	4,262	(11.5)
SG&A	411	404	1.6	464	(11.4)	1,812	1,818	(0.3)
Operating profit	487	609	(20.0)	565	(13.8)	2,064	2,560	(19.4)
Non-operating Inc./(Exp)	37	45	(17.9)	42	(12.6)	217	186	17.0
<b>Net profit</b>	<b>479</b>	<b>598</b>	<b>(19.9)</b>	<b>560</b>	<b>(14.4)</b>	<b>2,113</b>	<b>2,545</b>	<b>(16.9)</b>
Normalized profit	442	552	(20.0)	517	(14.6)	1,896	2,359	(19.6)
EPS (Bt)	0.41	0.51	(19.9)	0.48	(14.4)	1.80	2.17	(16.9)
Normalized EPS (Bt)	0.38	0.47	(20.0)	0.44	(14.6)	1.62	2.01	(19.6)
Percent	4Q18F	4Q17	YoY (ppts)/%	3Q18	QoQ (ppts)/%	2018F	2017	YoY (ppts)
Gross margin	27.0	28.3	(1.3)	27.0	(0.0)	26.9	30.0	(3.1)
EBIT margin	15.1	18.0	(2.8)	15.3	(0.2)	14.7	18.0	(3.3)
SG&A/sales	12.7	11.9	0.8	12.6	0.2	12.9	12.8	0.1
Sales in US\$mn	98.3	103.5	(5.0)	113.0	(13.0)	436	420	3.6

Source: Company data, KGI Research

Figure 6: Earnings revisions

Btmn	2019F			2020F		
	Revised	Previous	Change (%)	Revised	Previous	Change (%)
Sales	14,713	15,269	(3.6)	15,309	16,487	(7.1)
Gross profit	4,231	4,431	(4.5)	4,442	4,865	(8.7)
Net Profit	2,332	2,460	(5.2)	2,490	2,760	(9.8)
Normalized Profit	2,332	2,460	(5.2)	2,490	2,760	(9.8)
Key financial ratio	Revised	Previous	ppts	Revised	Previous	ppts
GPM	28.8	29.0	(0.3)	29.0	29.5	(0.5)
SG&A/Sales	12.6	12.6	0.0	12.6	12.6	0.0
Assumption	Revised	Previous	Change (%)	Revised	Previous	Change (%)
Exchange rate	32.2	32.6	(1.2)	32.2	32.6	(1.2)
Sales in US\$mn	457	468	(2.4)	475	506	(6.0)
Sales growth (%)	4.2	6.8	(2.6)	4.0	8.0	(3.9)

Source: Company data, KGI Research

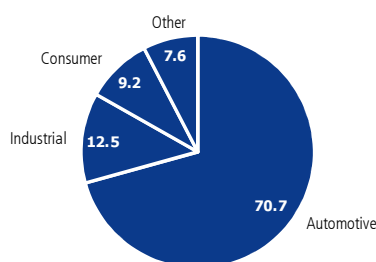
**Figure 7: Company profile**

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 9: Revenue breakdown**

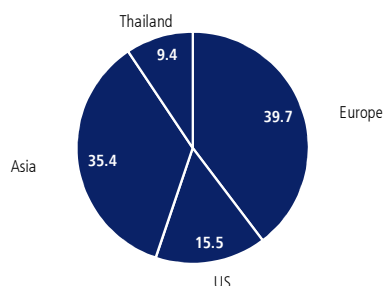
Percent



Source: Company data, KGI Research

**Figure 11: Sales breakdown by destination in 3Q18**

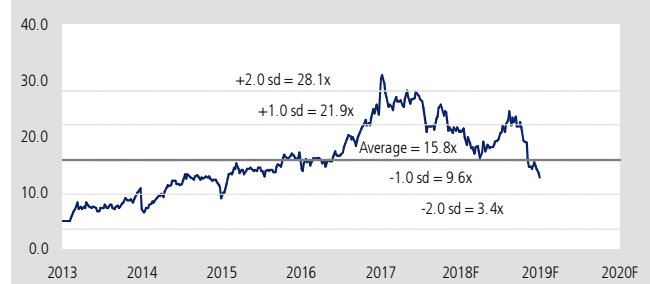
Percent



Source: Company data, KGI Research

**Figure 13: Company's PER**

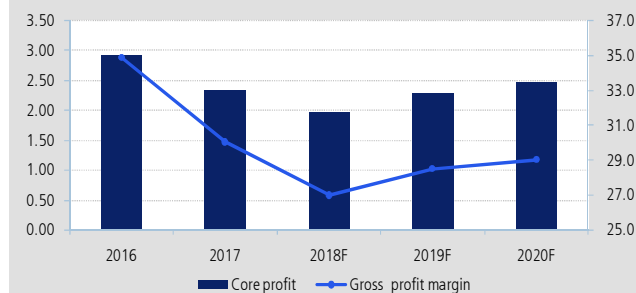
times



Source: KGI Research

**Figure 8: Earnings rebased in 2018**

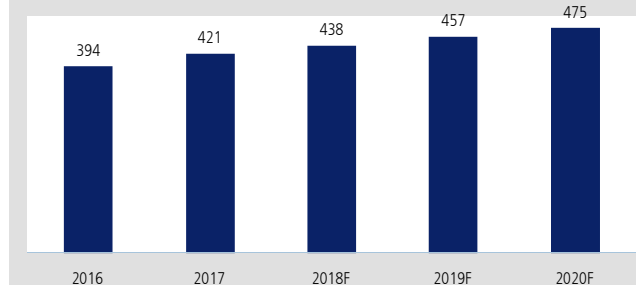
Normalized earnings, Btmn (LHS); gross margin, percent (RHS)



Source: Company data, KGI Research

**Figure 10: Sales**

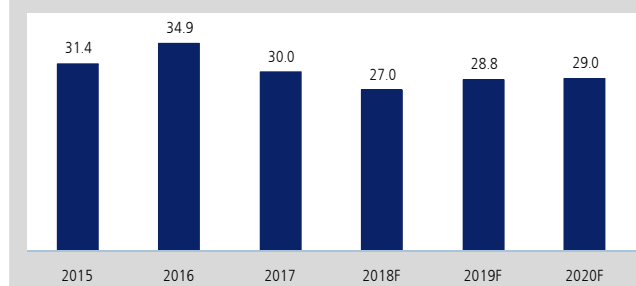
US\$mn



Source: Company data, KGI Research

**Figure 12: Gross margin assumption**

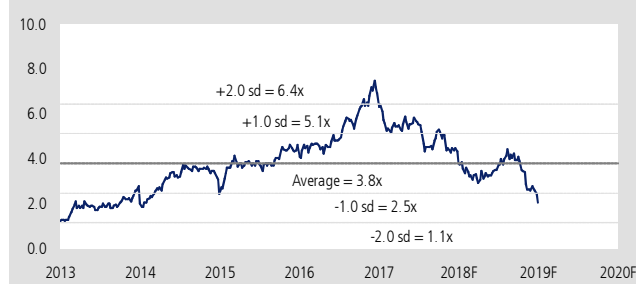
Percent



Source: Company data, Biznews, KGI Research

**Figure 14: 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	Sep-18A
<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	3,602	3,393	3,440	3,643	3,690
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)	(2,692)
<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>	<b>1,083</b>	<b>960</b>	<b>889</b>	<b>1,014</b>	<b>998</b>
Operating Expense	(443)	(417)	(441)	(382)	(344)	(383)	(434)	(359)	(423)	(454)	(437)	(381)	(444)	(485)	(485)	(404)	(466)	(471)	(464)
Other incomes	13	19	15	12	9	20	37	(31)	9	17	12	17	23	18	22	54	27	18	31
<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>	<b>619</b>	<b>609</b>	<b>450</b>	<b>561</b>	<b>565</b>
Depreciation of fixed asset	(133)	(137)	(141)	(143)	(136)	(153)	(195)	(199)	(203)	(211)	(216)	(219)	(217)	(220)	(222)	(224)	(230)	(235)	(240)
<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>935</b>	<b>881</b>	<b>889</b>	<b>842</b>	<b>834</b>	<b>680</b>	<b>796</b>	<b>805</b>
<b>Non-Operating Income</b>	<b>29</b>	<b>34</b>	<b>140</b>	<b>109</b>	<b>54</b>	<b>(12)</b>	<b>(28)</b>	<b>35</b>	<b>23</b>	<b>43</b>	<b>30</b>	<b>29</b>	<b>39</b>	<b>56</b>	<b>45</b>	<b>45</b>	<b>107</b>	<b>31</b>	<b>42</b>
Interest Income	0	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	42
<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>	<b>(32)</b>	<b>(32)</b>	<b>(29)</b>	<b>(28)</b>	<b>(31)</b>
Interest Expense	(32)	(34)	(29)	(23)	(21)	(35)	(49)	(48)	(46)	(46)	(42)	(37)	(30)	(33)	(32)	(32)	(29)	(28)	(31)
Other Non-op Expense	0	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	7
<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>	<b>638</b>	<b>629</b>	<b>532</b>	<b>569</b>	<b>584</b>
Current Taxation	(7)	(14)	(30)	5	(17)	(40)	(17)	(18)	(10)	(20)	(47)	(21)	(10)	(21)	(21)	(27)	(10)	(6)	(16)
Minorities	3	4	3	3	3	4	3	3	6	5	4	3	4	5	5	5	5	5	8
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>612</b>	<b>598</b>	<b>517</b>	<b>558</b>	<b>560</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>	<b>567</b>	<b>552</b>	<b>410</b>	<b>527</b>	<b>517</b>
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	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	0.44
<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	30.1	28.3	25.8	27.8	27.0
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	17.2	18.0	13.1	15.4	15.3
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	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	15.2
<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	(1.7)	(5.8)	1.4	5.9	1.3
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	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	(11.4)	(5.9)	0.9	(5.3)	(1.0)	(18.4)	16.9	1.2
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	0.3
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	(1.9)

Source: KGI Research

## Balance Sheet

As of 31 Dec (Bt mn)	2016	2017	2018F	2019F	2020F
<b>Total Assets</b>	<b>17,328</b>	<b>17,850</b>	<b>18,316</b>	<b>18,945</b>	<b>19,755</b>
<b>Current Assets</b>	<b>7,296</b>	<b>7,505</b>	<b>8,159</b>	<b>9,192</b>	<b>10,363</b>
Cash & ST Investment	892	1,140	1,451	2,331	3,234
Inventories	2,265	2,428	2,566	2,585	2,679
Account Receivable	4,080	3,876	4,099	4,233	4,404
Others	59	61	43	44	46
<b>Non-current Assets</b>	<b>10,032</b>	<b>10,346</b>	<b>10,157</b>	<b>9,753</b>	<b>9,392</b>
LT Investment	318	276	318	318	318
Net fixed Assets	9,137	9,510	9,259	8,833	8,450
Others	576	560	580	601	624
<b>Total Liabilities</b>	<b>7,300</b>	<b>6,576</b>	<b>5,743</b>	<b>4,973</b>	<b>4,289</b>
<b>Current Liabilities</b>	<b>4,944</b>	<b>4,595</b>	<b>4,258</b>	<b>3,981</b>	<b>3,788</b>
Account Payable	2,520	2,802	2,851	2,872	2,977
ST Borrowing	1,808	1,156	856	556	256
Others	616	636	551	553	555
<b>Long-term Liabilities</b>	<b>2,356</b>	<b>1,981</b>	<b>1,485</b>	<b>992</b>	<b>501</b>
Long-term Debts	2,155	1,771	1,271	771	271
Others	201	210	214	221	230
<b>Shareholders' Equity</b>	<b>10,028</b>	<b>11,274</b>	<b>12,573</b>	<b>13,972</b>	<b>15,466</b>
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	10,021	11,420	12,914
Preferred Stock	0	0	0	0	0

Source: KGI Research

## Key Ratios

Year to 31 Dec	2016	2017	2018F	2019F	2020F
<b>Growth (%YoY)</b>					
Sales	10.8	2.9	0.4	3.3	4.0
OP	30.6	(19.8)	(16.7)	16.4	5.7
EBITDA	31.3	(12.5)	(10.3)	4.3	2.8
NP	35.7	(16.3)	(15.6)	8.6	6.7
Normalized Profit	32.8	(19.6)	(15.9)	18.5	6.7
EPS	33.0	(16.3)	(15.6)	8.6	6.7
Normalized EPS	30.3	(19.6)	(15.9)	18.5	6.7
<b>Profitability (%)</b>					
Gross Margin	34.9	30.0	27.0	28.8	29.0
Operating Margin	23.0	17.9	14.9	16.8	17.0
EBITDA Margin	30.3	25.7	23.0	23.2	23.0
Net Margin	22.0	17.9	15.1	15.9	16.3
ROAA	17.5	14.3	11.7	12.3	12.6
ROAE	30.3	22.6	17.1	16.7	16.1
<b>Stability</b>					
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	25.3	37.4	61.6
Interest & ST Debt Coverage (x)	1.7	2.2	2.5	4.0	8.8
Cash Flow Interest Coverage (x)	23.7	29.6	30.6	46.9	75.4
Cash Flow/Interest & ST Debt (x)	2.1	2.9	3.0	5.0	10.8
Current Ratio (x)	1.5	1.6	1.9	2.3	2.7
Quick Ratio (x)	1.0	1.1	1.3	1.7	2.0
Net Debt (Bt mn)	3,637	2,380	1,176	(504)	(2,207)
<b>Per Share Data (Bt)</b>					
EPS	2.6	2.2	1.8	2.0	2.1
Normalized EPS	2.5	2.0	1.7	2.0	2.1
CFPS	3.5	3.2	2.4	2.7	2.7
BVPS	8.6	9.6	10.7	11.9	13.2
SPS	11.8	12.1	12.1	12.5	13.1
EBITDA/Share	3.6	3.1	2.8	2.9	3.0
DPS	1.1	1.1	0.7	0.8	0.8
<b>Activity</b>					
Asset Turnover (x)	0.8	0.8	0.8	0.8	0.8
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
<b>Assumption</b>					
Sales (mn USD)	394	421	438	457	475
Exchange Rate	36.5	33.7	32.5	32.2	32.2
Gross margin	34.9%	30.0%	27.0%	28.8%	29.0%

Source: KGI Research

## Profit & Loss

Year to Dec 31 (Btmn)	2016	2017	2018F	2019F	2020F
<b>Revenue</b>	<b>13,797</b>	<b>14,195</b>	<b>14,249</b>	<b>14,713</b>	<b>15,309</b>
Cost of Goods Sold	(8,985)	(9,933)	(10,406)	(10,482)	(10,866)
<b>Gross Profit</b>	<b>4,813</b>	<b>4,262</b>	<b>3,843</b>	<b>4,231</b>	<b>4,442</b>
Operating Expenses	(1,695)	(1,818)	(1,810)	(1,854)	(1,929)
Other Incomes	54	98	85	88	92
<b>Operating Profit</b>	<b>3,171</b>	<b>2,543</b>	<b>2,119</b>	<b>2,466</b>	<b>2,605</b>
Depreciation of fixed assets	(849)	(884)	(951)	(926)	(883)
<b>Operating EBITDA</b>	<b>4,176</b>	<b>3,653</b>	<b>3,275</b>	<b>3,417</b>	<b>3,514</b>
<b>Non-Operating Income</b>	<b>127</b>	<b>203</b>	<b>180</b>	<b>0</b>	<b>0</b>
Interest Income					
Other Non-op Income	127	203	180	0	0
<b>Non-Operating Expense</b>	<b>(171)</b>	<b>(127)</b>	<b>(92)</b>	<b>(67)</b>	<b>(43)</b>
Interest Expense	(171)	(127)	(92)	(67)	(43)
Other Non-op Expense	0	0	0	0	0
<b>Equity Income/(Loss)</b>	<b>28</b>	<b>22</b>	<b>25</b>	<b>25</b>	<b>25</b>
<b>Pretax Profit</b>	<b>3,155</b>	<b>2,641</b>	<b>2,232</b>	<b>2,424</b>	<b>2,588</b>
Current Taxation	(98)	(78)	(69)	(75)	(80)
Minorities	18	18	15	16	18
Extraordinaries items	0	0	41	0	0
<b>Net Profit</b>	<b>3,039</b>	<b>2,545</b>	<b>2,148</b>	<b>2,332</b>	<b>2,490</b>
<b>Normalized Profit</b>	<b>2,912</b>	<b>2,341</b>	<b>1,968</b>	<b>2,332</b>	<b>2,490</b>
EPS (Bt)	2.59	2.17	1.83	1.99	2.12
Normalized EPS (Bt)	2.48	2.00	1.68	1.99	2.12

Source: KGI Research

## Cash Flow

Year to 31 Dec (Bt mn)	2016	2017	2018F	2019F	2020F
<b>Operating Cash Flow</b>	<b>4,069</b>	<b>3,758</b>	<b>2,813</b>	<b>3,130</b>	<b>3,216</b>
Net Profit	3,039	2,545	2,148	2,332	2,490
Depreciation & Amortization	849	884	951	926	883
Change in Working Capital	181	329	(286)	(128)	(157)
Others					
<b>Investment Cash Flow</b>	<b>(956)</b>	<b>(1,203)</b>	<b>(759)</b>	<b>(517)</b>	<b>(517)</b>
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)
<b>Free Cash Flow</b>	<b>3,114</b>	<b>2,555</b>	<b>2,053</b>	<b>2,613</b>	<b>2,699</b>
<b>Financing Cash Flow</b>	<b>(2,895)</b>	<b>(2,307)</b>	<b>(1,742)</b>	<b>(1,733)</b>	<b>(1,796)</b>
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)	(850)	(933)	(996)
<b>Net Cash Flow</b>	<b>218</b>	<b>248</b>	<b>312</b>	<b>880</b>	<b>903</b>

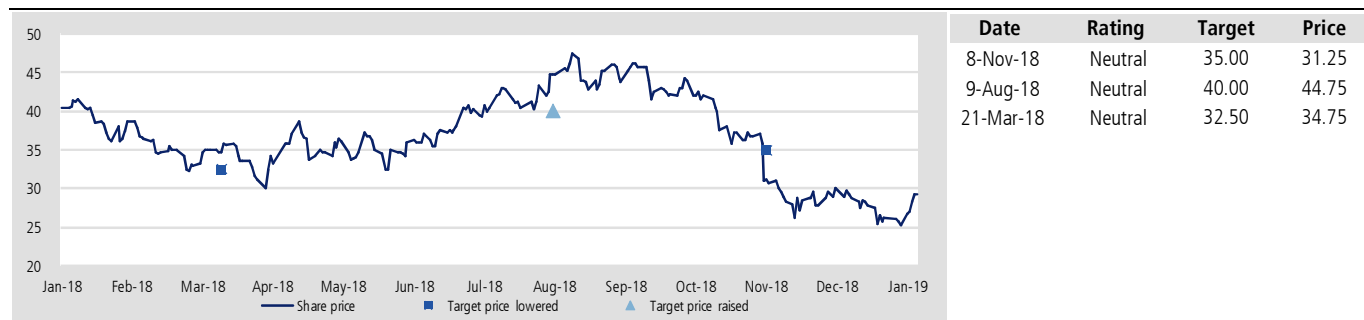
Source: KGI Research

## Rates of Return on Invested Capital

Year	1- $\frac{\text{COGS}}{\text{Revenue}}$	+ $\frac{\text{Depreciation}}{\text{Revenue}}$	+ $\frac{\text{Operating Exp.}}{\text{Revenue}}$	= $\frac{\text{Operating Margin}}{\text{Revenue}}$
2016	65.1%	6.2%	12.7%	16.1%
2017	70.0%	6.2%	13.5%	10.3%
2018F	73.0%	6.7%	13.3%	7.0%
2019F	71.2%	6.3%	13.2%	9.3%
2020F	71.0%	5.8%	13.2%	10.0%
Year	1/ $\frac{\text{Working Capital}}{\text{Revenue}}$	+ $\frac{\text{Net PPE}}{\text{Revenue}}$	+ $\frac{\text{Other Assets}}{\text{Revenue}}$	= $\frac{\text{Capital Turnover}}{\text{Revenue}}$
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)	0.6	0.7	0.8
2020F	(0.0)	0.6	0.7	0.8
Year	$\frac{\text{Operating Margin}}{\text{Revenue}}$	x $\frac{\text{Capital Turnover}}{\text{Revenue}}$	x $\frac{\text{Cash Tax Rate}}{\text{Revenue}}$	= $\frac{\text{After-tax Return on Inv. Capital}}{\text{Revenue}}$
2016	16.1%	0.8	3.1%	0.4%
2017	10.3%	0.8	3.0%	0.2%
2018F	7.0%	0.8	3.1%	0.2%
2019F	9.3%	0.8	3.1%	0.2%
2020F	10.0%	0.8	3.1%	0.2%

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 ERAWAN 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
CENDEL	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	SIRISAWAD 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.



## KGI Locations

<b>China</b>	Shanghai	Room 1507, Park Place, 1601 Nanjing West Road, Jingan District, Shanghai, PRC 200040
	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
<b>Singapore</b>		4 Shenton Way #13-01 SGX Centre 2 Singapore 068807 Telephone 65.6202.1188 Facsimile 65.6534.4826

## 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.

## 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.