

# KCE Electronics

(KCE.BK/KCE TB) \*

## Neutral • Maintained

Price as of 11 Feb 2019	31.75
12M target price (Bt/shr)	30.00
Unchanged/Revised up (down) (%)	Unchanged
Upside/downside (%)	(5.5)

### Key messages

KCE reported a 4Q18 net profit of Bt380mn (-36% YoY, -32% QoQ). The result was 21% below our forecast and 15% below the market consensus. Full-year 2018 net profit was Bt2.0bn (-21% YoY), which was 6% below our forecast. Our 2019 earnings forecast has some downside risk even though it is already below the street consensus. Earnings revisions by the market are very likely, so we recommend investors to stay on the sideline. We currently rate the counter Neutral with a 2019 target price of Bt30.00 based on PER

## 4Q18 earnings review: Below forecast

### Event

KCE reported a 4Q18 net profit of Bt380mn (-36% YoY, -32% QoQ). The result was 21% below our forecast and 15% below the market consensus. Full-year 2018 net profit was Bt2.0bn (-21% YoY), which was 6% below our forecast.

### Impact

#### Sales were weaker both YoY and QoQ

The company's 4Q18 sales came in at US\$98mn (-5% YoY, -13% QoQ), which brought full-year to US\$435mn (+4% YoY). Note that 2018 sales growth in US dollar terms were in-line with our forecast, but 12-15% below the company's target. Sales softened due to i) impact of Worldwide Harmonized Light Vehicle Test Procedure (WLTP) on September 1, 2018, and ii) seasonality. Note that new passenger car registrations in the EU declined 8.4% YoY in December 2018, the fourth consecutive month of decline.

#### Disappointing gross margin of 22.8%

KCE posted a disappointing gross margin of 22.8% in the fourth quarter (versus our estimate at 27.0%), which was the lowest in 23 quarters. This implied a 2018 gross margin of 26.0%. The significant decline in gross margin in 4Q18 ran counter to the stabilization in copper price to US\$6,100/tons in 3Q18-4Q18 and may raise concerns about the margin outlook.

#### 2019 earnings may have downside risk

Although our current 2019 earnings forecast (~Bt2.3bn) is already below the market consensus (~Bt2.5bn), there may be downside risk to our gross margin assumption of 28.8% in 2019 as it would be quite tough compared to its performance in the last quarter of 2018. Price reduction is normally effective at the beginning of the year and could pressure its gross margin in 1Q19. Coupled with the baht strengthening, the earnings outlook ahead is ambiguous.

### Valuation & Action

We currently rate the counter Neutral with a 2019 target price of Bt30.00 based on PER 15.0x (sector average). KCE's share price rose over the last week and has already surpassed our target price. Given the disappointing earnings in 4Q18 and vague earnings outlook and possible earnings revisions by the street, we recommend investors to stay on the sideline.

### Risks

Natural disasters, unplanned plant shutdowns, customers shifting suppliers, high raw material prices and Bt/US\$ appreciation (our assumption is Bt32.2/US\$ in 2019-2020).

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Figure 1: KCE's 4Q18 earnings review

Btmn	4Q18	4Q17	YoY (%)	3Q18	QoQ (%)	2018	2017	YoY (%)
Revenue	3,209	3,393	(5.4)	3,690	(13.1)	13,982	14,195	(1.5)
Gross profit	730	960	(24.0)	998	(26.8)	3,631	4,262	(14.8)
SG&A	403	404	(0.3)	464	(13.1)	1,804	1,818	(0.7)
Operating profit	342	609	(43.9)	565	(39.5)	1,919	2,560	(25.1)
Non-operating Inc./(Exp)	71	45	58.2	42	68.3	252	186	35.5
Net profit	380	598	(36.3)	560	(32.0)	2,015	2,545	(20.8)
Normalized profit	309	552	(44.1)	517	(40.3)	1,763	2,359	(25.2)
EPS (Bt)	0.32	0.51	(36.3)	0.48	(32.0)	1.72	2.17	(20.8)
Normalized EPS (Bt)	0.26	0.47	(44.1)	0.44	(40.3)	1.50	2.01	(25.2)
Percent	4Q18	4Q17	YoY (ppts)/ (%)	3Q18	QoQ (ppts)/ (%)	2018	2017	YoY (ppts)
Gross margin	22.8	28.3	(5.5)	27.0	(4.3)	26.0	30.0	(4.1)
EBIT margin	10.7	18.0	(7.3)	15.3	(4.7)	13.7	18.0	(4.3)
SG&A/sales	12.6	11.9	0.6	12.6	(0.0)	12.9	12.8	0.1
Sales in US\$m	97.8	103.5	(5.4)	113.0	(13.4)	435	420	3.5

Source: Company data, 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 ERAWAN 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
CENDEL	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	SRI SAWAD 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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Not Rated (NR)	The stock is not rated by KGI.
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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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