ASIAwealth
Securities Company Limited

Company Update
KCE ELECTRONICS PCL (KCE)
29 Apr 2019

HOLD
12M TP: Bt32.00
Closing price: Bt24.90
Upside/downside: +28.5%

Sector	**Electronic Components**
Paid-up shares (shares mn)	**1,173**
Market capitalization (Bt mn)	**29,203**
Free float (%)	**62.21**
12-mth daily avg. turnover (%)	**241.13**
12-mth trading range (Bt)	**47.50 / 24.00**

Major shareholders (%)	
MR. PITHARN ONGKOSIT	13.66
APCO CAPITAL PTE. LTD.	7.50
Thai NVDR	6.40

Finacial Highlight

Year to 31 Dec	2017	2018	2019E	2020E
Revenue (Bt mn)	14,195	13,982	14,341	14,737
Normalized profit (Bt mn)	2,545	1,949	2,188	2,427
Net profit (Bt mn)	2,545	2,015	2,188	2,427
Normalized EPS (Bt)	2.17	1.66	1.87	2.07
EPS (Bt)	2.17	1.72	1.87	2.07
Norm. EPS growth (%)	(16.3)	(23.4)	12.3	10.9
P/E (x)	11.5	14.5	13.3	12.0
P/BV (x)	2.6	2.4	2.2	2.0
EV/EBITDA (x)	8.6	10.0	8.2	7.7
DPS (Bt)	1.10	1.10	0.75	0.93
Dividend yield (%)	4.4	4.4	3.0	3.7
ROE (%)	24.0	16.8	17.4	17.4

Source: AWS Research

Rating	CGR 2018	Thai CAC
KCE		Certified

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The 1Q19 performance is expected to improve on a QoQ basis.

- The 1Q19 normalized profit expected to be lower on a YoY but recover on a QoQ thanks to the increase in revenues in term of US Dollar following improved 1Q19 cars sales in the EU as well as the better rate of capacity utilization rate, resulting in a gradual rise in gross profit margin.
- It is expected that the gross profit margin in 2Q19 onwards to be boosted by the low price of copper cost since the mid-2018.
- Keep HOLD recommendation with a target price of Bt32.00 based on a 17x PER. We suggest to wait and see an announcement of the 1Q19 earnings before entering to buy in a new investment cycle round as its price in short term may fall again. This is due to a gloomy trade war issue and an appreciation of Thai Baht, which affect the electronics sector negatively. We advise waiting to but once the price drops.

Expect a 1Q19 normalized profit to drop YoY but improve QoQ.
Excluding an extra item, we estimate the 1Q19 normalized profit to stand at Bt398mn, down 16%YoY but up 12%QoQ. The drop in YoY comes from the impact of the new WLTP measure. (Worldwide Harmonized Light Vehicle Test Procedure). Meanwhile, the increase in QoQ should be thanks to (1) the improvement of the sales in term of US dollar, which be forecasted at US$97mn (-4%YoY, +6%QoQ) following the better cars sales in the EU. The EU's vehicles sales in 1Q19 recover from -8%YoY in 4Q18 to -4%YoY. However, there is a slight growth in the sales in term of Thai Baht due to the impact of the appreciation of Thai Baht against Dollar, appreciated around 3.7%QoQ but be stable on YoY. (2) improving gross profit margin driven by the Economy of Scales. The capacity utilization rate in 1Q19 is expected to be at 85% compared to 80% in 4Q18.

A low copper material cost may benefit the company by 2Q19 onwards.
It is expected that the earnings in 2Q19 onwards should gain some benefit from the low copper price, around US$6,100-6,200 per tons. We estimate the gross profit margin will improve gradually and may turn back to the level of 30% again. (Current gross profit margin was at 22.8% in 4Q18.)

Recommend HOLD with a target price of Bt32.00.
We keep our HOLD recommendation with a target price of Bt32.00 based on a 17x PER. Even KCE's price plunged by 43% since Apr 18, the atmosphere is still obscure. Hence, we suggest waiting for a 1Q19 performance before adjusting our recommendation. Additionally, there are concerns about the EU's and China's economic situation.

Quarterly Profit & Loss (Bt mn)

Unit: Bt mn	1Q18	4Q18	1Q19E	% YoY	% QoQ
Total revenue	**3,440**	**3,209**	**3,277**	**-5%**	**2%**
Cost of goods sold	(2,551)	(2,479)	(2,504)		
Gross profit	**889**	**730**	**773**	**-13%**	**6%**
SG&A expense	(466)	(403)	(413)		
Operating profit	**423**	**327**	**360**	**-15%**	**10%**
Other income	93	62	70		
Share of profit from investment in ass	4	7	7		
Interest expense	(29)	(22)	(24)		
Pre-tax profit	**491**	**374**	**413**	**-16%**	**11%**
Corporate tax	(10)	(16)	(10)		
Equity a/c profits	-	-	-		
Minority interests	(5)	(2)	(5)		
Normalized profit	**476**	**356**	**398**	**-16%**	**12%**
Extra-ordinary items	41	25	-		
Net Profit	**517**	**380**	**398**	**-23%**	**5%**
Normalized EPS (Bt)	**0.41**	**0.30**	**0.34**		
Net EPS (Bt)	**0.44**	**0.32**	**0.34**		

Gross profit margin (%)	25.8%	22.8%	23.6%
SG&A expense to sales	13.6%	12.6%	12.6%
Tax rate (%)	2.1%	4.3%	2.5%
Normalized profit margin (%)	13.8%	11.1%	12.1%
Net profit margin(%)	15.0%	11.9%	12.1%

Profit & Loss (Bt mn)

FY December 31	2017	2018	2019E	2020E	2021E
Total revenue	**14,195**	**13,982**	**14,341**	**14,737**	**15,117**
Cost of goods sold	(9,933)	(10,351)	(10,326)	(10,463)	(10,582)
Gross profit	**4,262**	**3,631**	**4,016**	**4,274**	**4,535**
SG&A	(1,818)	(1,804)	(1,890)	(1,872)	(1,905)
Operating profit	**2,445**	**1,827**	**2,126**	**2,402**	**2,630**
Other income	301	278	287	295	295
Interest expense	(127)	(110)	(174)	(217)	(259)
Pre-tax profit	**2,619**	**1,995**	**2,239**	**2,480**	**2,666**
Corporate tax	(78)	(49)	(57)	(63)	(67)
Equity a/c profits	22	22	25	28	30
Minority interests	(18)	(19)	(19)	(19)	(19)
Normalised profit	**2,545**	**1,949**	**2,188**	**2,427**	**2,609**
Extraordinaries	0	66	0	0	0
Net profit	**2,545**	**2,015**	**2,188**	**2,427**	**2,609**
EBITDA	3,685	3,118	3,523	3,639	3,780
Normalised EPS (Bt)	**2.17**	**1.66**	**1.87**	**2.07**	**2.22**
Net EPS (Bt)	**2.17**	**1.72**	**1.87**	**2.07**	**2.22**
DPS (Bt)	**1.10**	**1.10**	**0.75**	**0.93**	**1.00**

Statement of Financial Position (Bt mn)

FY December 31	2017	2018	2019E	2020E	2021E
Total Current Assets	7,505	7,969	8,470	9,655	9,104
Total Non-current assets	10,346	10,152	9,701	9,132	9,084
Total Assets	**17,850**	**18,121**	**18,171**	**18,787**	**18,188**
Total current liabilities	4,595	5,196	3,109	2,343	1,162
Total non-current liabilities	1,981	918	1,741	1,789	935
Total Liabilities	**6,576**	**6,114**	**4,851**	**4,133**	**2,098**
Paid-up share capital	586	586	586	586	586
Total Equity	**11,274**	**12,007**	**13,320**	**14,655**	**16,090**
Total Liabilities and Equity	**17,850**	**18,121**	**18,171**	**18,787**	**18,188**
BV (Bt/share)	**9.57**	**10.19**	**11.31**	**12.45**	**13.67**

Cash Flow (Bt mn)

FY December 31	2017	2018	2019E	2020E	2021E
Net income before MI	**2,563**	**2,034**	**2,207**	**2,446**	**2,628**
Depreciation and amortization	917	991	1,086	914	825
Cash paid for interest expenses	(117)	(104)	(174)	(217)	(259)
Cash paid for tax expenses	(90)	(69)	(76)	(82)	(86)
Operting cash flow	**3,456**	**2,670**	**3,394**	**2,173**	**1,904**
CAPEX	(1,071)	(741)	(525)	(500)	(850)
Investing cash flow	**(1,044)**	**(630)**	**(521)**	**(495)**	**(846)**
Dividend payment	(1,301)	(1,313)	(1,083)	(984)	(1,133)
Financing cash flow	**(2,145)**	**(1,811)**	**(2,137)**	**(615)**	**(1,632)**
Inc. (Dec.) in cash & equivalen	**248**	**243**	**736**	**1,064**	**(574)**
Beginning cash & equivalents	**892**	**1,140**	**1,383**	**2,119**	**3,183**
Ending cash & equivalents	**1,140**	**1,383**	**2,119**	**3,183**	**2,609**

Quarterly Profit & Loss (Bt mn)

FY December 31	4Q17	1Q18	2Q18	3Q18	4Q18
Total revenue	**3,393**	**3,440**	**3,643**	**3,690**	**3,209**
Cost of goods sold	(2,433)	(2,551)	(2,629)	(2,692)	(2,479)
Gross profit	**960**	**889**	**1,014**	**998**	**730**
SG&A	(404)	(466)	(471)	(464)	(403)
Operating profit	**556**	**423**	**543**	**534**	**327**
Other income	99	93	49	74	62
Interest expense	(32)	(29)	(28)	(31)	(22)
Pre-tax profit	**623**	**487**	**564**	**577**	**367**
Corporate tax	52	(10)	(6)	(16)	(16)
Equity a/c profits	6	4	5	7	7
Minority interests	(5)	(5)	(5)	(8)	(2)
Normalized profit	**676**	**476**	**558**	**560**	**356**
Extraordinaries	0	41	0	0	25
Net profit	**676**	**517**	**558**	**560**	**380**
Normalized EPS (Bt)	**0.58**	**0.41**	**0.48**	**0.48**	**0.30**
Net EPS (Bt)	**0.58**	**0.44**	**0.48**	**0.48**	**0.32**

Key Financial Ratios

FY December 31	2017	2018	2019E	2020E	2021E
Sales growth (%)	2.9	(1.5)	2.6	2.8	2.6
Normalized profit growth (%)	(16.3)	(23.4)	12.3	10.9	7.5
Net profit growth (%)	(16.3)	(20.8)	8.6	10.9	7.5
Normalized EPS growth (%)	(16.3)	(23.4)	12.3	10.9	7.5
EPS growth (%)	(16.3)	(20.8)	8.6	10.9	7.5
Gross margin (%)	30.0	26.0	28.0	29.0	30.0
Operating margin (%)	17.2	13.1	14.8	16.3	17.4
EBITDA margin (%)	26.0	22.3	24.6	24.7	25.0
Normalized profit margin (%)	17.9	13.9	15.3	16.5	17.3
Net profit margin (%)	17.9	14.4	15.3	16.5	17.3
Effective tax rate (%)	3.0	2.4	2.5	2.5	2.5
ROA (%)	14.5	11.2	12.1	13.1	14.1
ROE (%)	24.0	16.8	17.4	17.4	17.0
EV/EBITDA (x)	8.6	10.0	8.2	7.7	7.3
Net debt to equity (x)	0.2	0.2	(0.0)	(0.1)	(0.1)
P/E (x)	11.5	14.5	13.3	12.0	11.2
P/BV (x)	2.6	2.4	2.2	2.0	1.8
Dividend Yield (%)	4.4	4.4	3.0	3.7	4.0

Key Assumption

FY December 31	2017	2018	2019E	2020E	2021E
PCB output (unit: mn sq. feet)	31.80	32.45	35.85	37.21	38.36
Copper Price (US$/tonne)	6,200	6,619	6,500	6,500	6,500
FX rate (Bt/US$)	33.40	32.08	32.00	32.00	32.00

Corporate Governance Report (CGR)

Score	Range Number of Logo	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

Corporate Governance Report 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 evaluation of operation and is not based on inside information.

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