



KCE Electronics PCL

KCE TB Outperform

Target Price Bt 65.00

Price (17/02/2021) Bt 59.25

Upside % 9.70

Valuation PER

Sector Electronic Components

Market Cap Btm 69,800

30-day avg turnover Btm 1,100.78

No. of shares on issue m 1,178

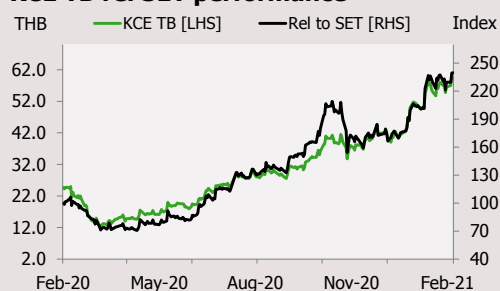
CG Scoring Excellent

Anti-Corruption Indicator Certified

Investment fundamentals

| Year end Dec 31 | 2020A | 2021E | 2022E | 2023E |
|---------------------------|--------|--------|--------|--------|
| Company Financials | | | | |
| Revenue (Btmn) | 11,527 | 14,706 | 17,212 | 21,445 |
| Core profit (Btmn) | 1,094 | 2,074 | 2,892 | 3,573 |
| Net profit (Btmn) | 1,127 | 2,174 | 2,892 | 3,573 |
| Net EPS (Bt) | 0.96 | 1.85 | 2.45 | 3.03 |
| DPS (Bt) | 0.80 | 0.88 | 1.23 | 1.52 |
| BVPS (Bt) | 10.19 | 11.24 | 12.64 | 14.30 |
| Net EPS growth (%) | 20.04 | 92.92 | 33.02 | 23.58 |
| ROA (%) | 6.75 | 12.32 | 15.42 | 17.26 |
| ROE (%) | 9.50 | 17.22 | 20.56 | 22.52 |
| Net D/E (x) | 0.00 | (0.02) | (0.09) | (0.14) |
| Valuation | | | | |
| P/E (x) | 61.95 | 32.11 | 24.14 | 19.53 |
| P/BV (x) | 5.81 | 5.27 | 4.69 | 4.14 |
| EV/EBITDA (x) | 20.98 | 20.65 | 15.92 | 13.31 |
| Dividend yield (%) | 1.34 | 1.49 | 2.07 | 2.56 |

KCE TB rel SET performance



Source: Bloomberg (All figures in THB unless noted.)

Disclaimer: KS or its affiliates is acting or may act as the underwriter, issuer, and/or market maker of the securities mentioned in this document and/or other financial instruments related to the securities mentioned in this document, including but not limited to, bonds, debentures, derivatives warrants, and structured notes. Investors should study the information contained in the prospectus or related document before investing in the shares and other financial instruments.

Analyst

Tan Chirasittikorn

Tan.c@kasikornsecurities.com

18 February 2021

Kasikorn Securities Public Company Limited

On a solid growth track

- **Reiterate Outperform and raise 2021 TP from Bt60.00 to Bt65.00** to reflect our earnings upgrades and valuation rerating.
- **Positive messages from management at yesterday's analyst meeting (Feb 17).** Expect potential consensus earnings upgrades.
- **Industry outlook to remain positive on ongoing strong demand from both auto and non-auto segments.** Expect the growth story to continue.

Investment Highlights

- **It's all about growth.** Management said at yesterday's analyst meeting that production capacity is currently at maximum despite capacity expansion from 2.7mn to 3mn sq.ft. per month in early Jan 2021. Demand from clients remains strong, which extended KCE's lead time from 6 weeks to 12 in 4Q20, and now further to 14 weeks. The company plans to further expand its manufacturing capacity by another 0.6mn to reach 3.6mn sq.ft. per month this year. The first phase of 0.3mn sq.ft. will be used mainly for HDI production, which is expected to begin in August 2021. The second phase will be used for the production of multilayered PCBs, COD of which is expected in early October 2021. The company expects sales of HDI to account for 22-23% of total sales this year, from 16% in 2020 and grow further to almost 30% in 2022. We inquired from management whether the company would consider raising its average selling price to clients. We were told that KCE will focus on gaining market share from competitors as this would be more sustainable.
- **Potential upside from a new giant plant.** The company is currently studying a substantial investment in 2022 with expected capex of more than Bt5bn to construct a new production facility in the Rojana Industrial Park. The project will likely consist of three phases with capacity of 0.7mn sq.ft. per month each. The earliest COD of the first phase could be in 2H22 and that of the other two phases in 2023 and 2024. We estimate additional revenue of Bt7.5bn and earnings of Bt1bn when all three phases operate.
- **No concern over a semiconductor shortage, but copper could be a drag.** Management was not concerned about a shortage of semiconductors that resulted in automakers cutting production plans in 1Q21 a shortage of shipping containers and rising freight costs, as the company has a large order backlog. A significant risk to margins is a continued increase in the price of copper. Despite this, management believes GPM will remain in an uptrend the next two years on increasing sales.
- **Fine-tune 2021/22 earnings forecasts.** We raise our earnings forecasts for 2021/22 by 4%/2%. We assume USD sales will grow to USD490mn in 2021 and to USD594mn in 2022. We raise our copper price assumption from USD7,700/ton to USD8,500/ton for 2021-22 to reflect the recent rise in copper price. We estimate 2021-22 core earnings to grow at a CAGR of 63%, the highest in the electronic components sector.

Valuation and Recommendation

- **Reiterate Outperform rating with a raised TP.** We maintain a positive view of KCE on a bright earnings outlook this year. We raise our 2021 TP from Bt60 to Bt65 to reflect our earnings upgrades and change our valuation methodology from EV/EBITDA to PER multiple to better reflect an expected earnings upcycle. Our TP is based on a target PER of 26.6x, 2SD above its 5-year historical 12-month forward band. At the current level, the stock is trading at a 2021 PER and PBV of 32.1x and 5.3x, and provides 9.7% upside to our TP.

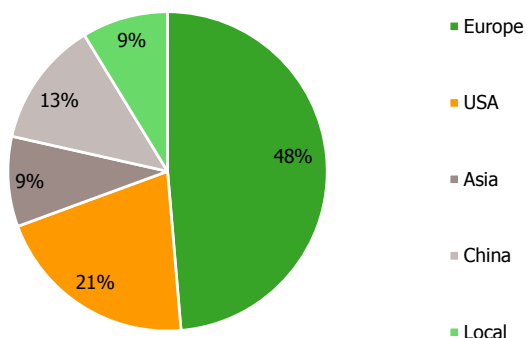


Fig 1 Earnings revisions

| Unit: Btmn. | 2021E | | | 2022E | | |
|----------------------------|--------|----------|---------|--------|----------|---------|
| Profit and loss statements | New | Previous | %Change | New | Previous | %Change |
| Total revenue | 14,706 | 13,911 | 5.7 | 17,212 | 16,344 | 5.3 |
| COGS | 10,869 | 10,293 | 5.6 | 12,377 | 11,718 | 5.6 |
| Gross profit | 3,837 | 3,617 | 6.1 | 4,835 | 4,626 | 4.5 |
| SG&A | 1,735 | 1,558 | 11.4 | 1,859 | 1,716 | 8.3 |
| EBITDA | 3,375 | 3,334 | 1.2 | 4,307 | 4,138 | 4.1 |
| EBIT | 2,426 | 2,270 | 6.9 | 3,201 | 3,021 | 6.0 |
| Core profit | 2,074 | 1,987 | 4.4 | 2,892 | 2,828 | 2.2 |
| Net profit | 2,174 | 2,087 | 4.1 | 2,892 | 2,828 | 2.2 |
| Key assumptions | | | | | | |
| Average FX (Bt/USD) | 30.0 | 30.0 | 0.0 | 29.0 | 29.0 | 0.0 |
| USD sales (mn) | 490.2 | 463.7 | 5.7 | 593.5 | 563.6 | 5.3 |
| GPM (%) | 26.1 | 26.0 | 0.3 | 28.1 | 28.3 | (0.7) |
| SG&A to sales (%) | 11.8 | 11.2 | 5.4 | 10.8 | 10.5 | 2.9 |
| KCE copper price (USD/kg) | 11.8 | 11.2 | 5.4 | 11.8 | 11.2 | 5.4 |

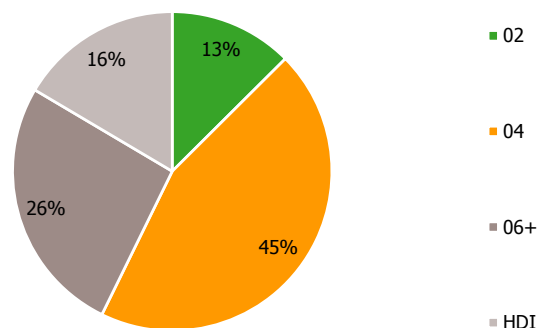
Source: KS Research

Fig 2 Sales breakdown by destination (2020)



Source: Company

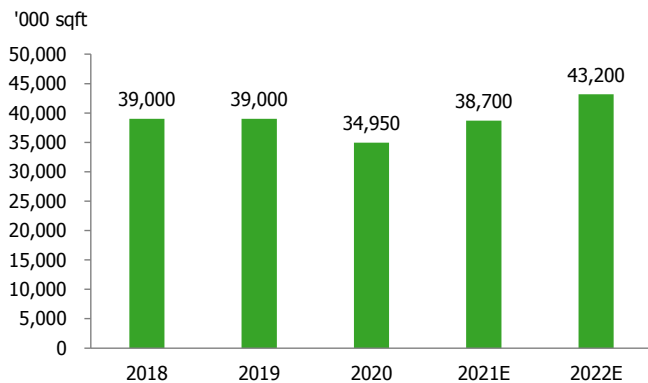
Fig 3 Sales breakdown by product (2020)



Source: Company

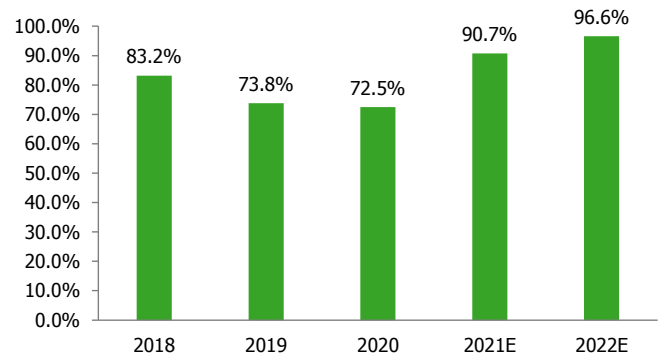


Fig 4 Production capacity forecasts



Source: KS Research

Fig 5 Utilization rate forecasts



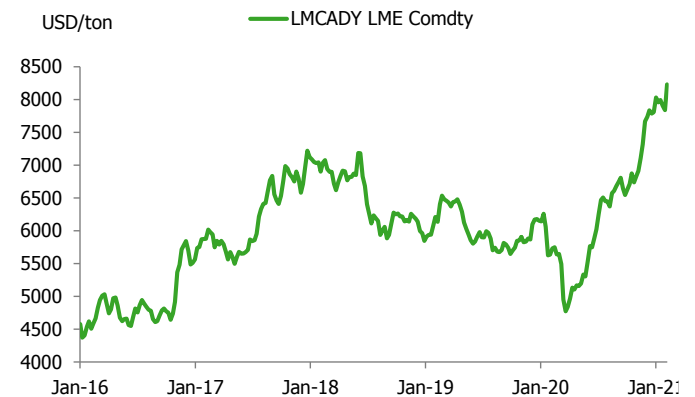
Source: KS Research

Fig 6 THB/USD exchange rate



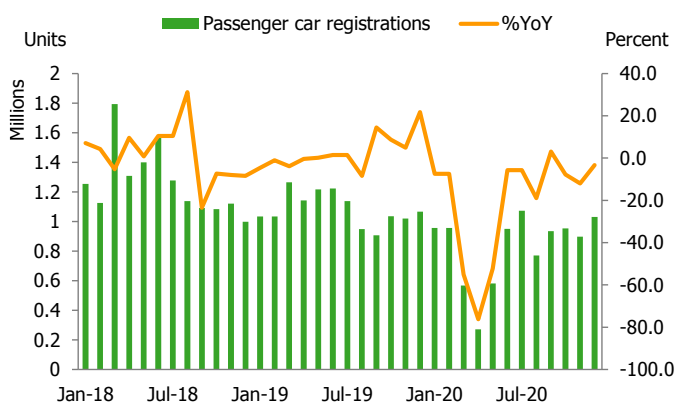
Source: Bloomberg

Fig 7 LME copper spot price



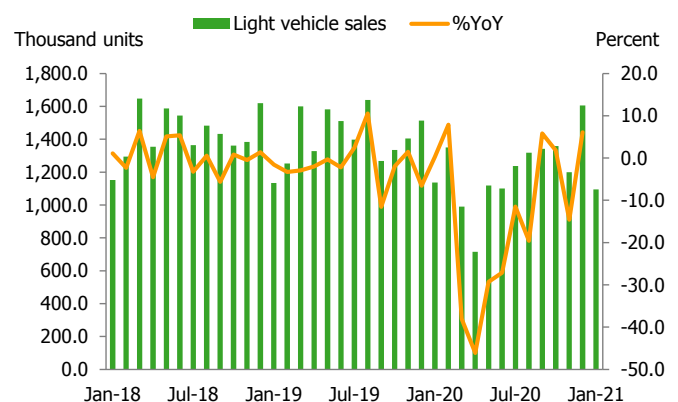
Source: Bloomberg

Fig 8 EU passenger car registrations



Source: Bloomberg

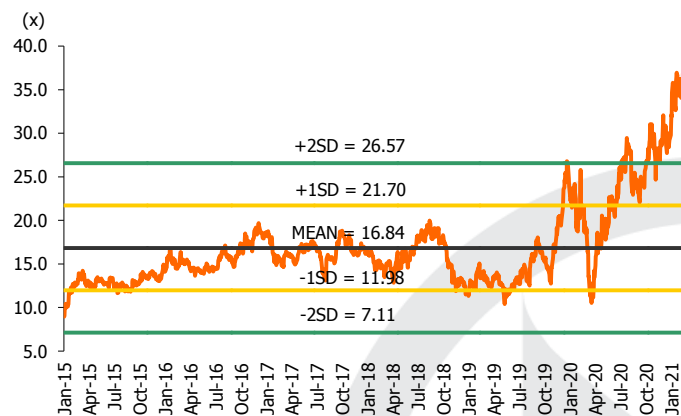
Fig 9 US light vehicle sales



Source: Bloomberg

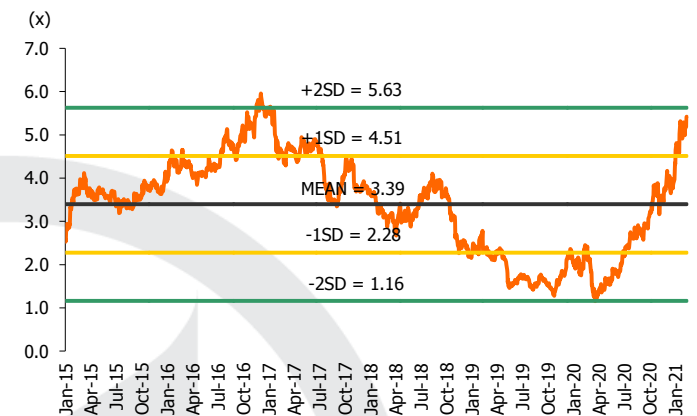


Fig 10 5-year historical 12M FWD PER



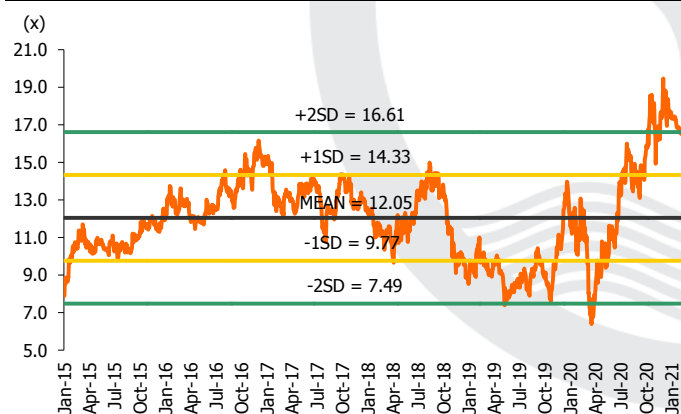
Source: Bloomberg

Fig 11 5-year historical 12M FWD PBV



Source: Bloomberg

Fig 12 5-year historical 12M FWD EV/EBITDA



Source: Bloomberg

Fig 13 Peer comparison

| Stock | Rating | Price (Bt) | Target price | Upside (%) | P/E (x) | | P/BV (x) | | Net profit grth (%) | | Div. yield (%) | | ROE (%) | |
|----------------|--------|------------|--------------|------------|---------|-------|----------|-------|---------------------|-------|----------------|-------|---------|-------|
| | | 17-Feb-21 | (Bt) | | 2020E | 2021E | 2020E | 2021E | 2020E | 2021E | 2020E | 2021E | 2020E | 2021E |
| DELTA | UP | 450.00 | 263.00 | -41.6 | 78.3 | 57.6 | 15.7 | 12.8 | 161.5 | 25.8 | 0.7 | 1.0 | 21.7 | 23.6 |
| HANA | UP | 54.25 | 37.00 | -31.8 | 18.1 | 21.7 | 1.5 | 2.0 | -2.0 | 13.9 | 3.3 | 2.4 | 8.5 | 9.3 |
| KCE | OP | 59.25 | 65.00 | 9.7 | 43.4 | 32.1 | 4.1 | 5.3 | 20.6 | 92.9 | 1.9 | 1.5 | 9.5 | 17.2 |
| SVI | UP | 4.96 | 3.50 | -29.4 | 13.6 | 20.5 | 2.4 | 2.6 | 92.3 | -23.5 | 1.9 | 1.6 | 19.1 | 13.1 |
| Simple Average | | | | | 38.3 | 33.0 | 5.9 | 5.6 | 87.0 | 27.5 | 1.9 | 1.6 | 14.7 | 15.8 |

Source: KS Research



Year-end 31 Dec

| Income Statement (Btmn) | 2018A | 2019A | 2020A | 2021E | 2022E | Cashflow (Btmn) | 2018A | 2019A | 2020A | 2021E | 2022E |
|---------------------------------------|---------|--------|--------|---------|---------|-------------------------------------|--------|--------|-------|--------|--------|
| Revenue | 13,982 | 12,097 | 11,527 | 14,706 | 17,212 | Net profit | 2,034 | 950 | 1,143 | 2,205 | 2,936 |
| Cost of sales and services | -10,351 | -9,644 | -9,015 | -10,869 | -12,377 | Depreciation & amortization | 991 | 1,021 | 1,055 | 1,058 | 1,115 |
| Gross Profit | 3,631 | 2,454 | 2,512 | 3,837 | 4,835 | Change in working capital | -356 | 192 | -150 | -824 | -679 |
| SG&A | -1,804 | -1,613 | -1,449 | -1,735 | -1,859 | Others | 105 | 187 | 224 | -10 | -10 |
| Other income | 343 | 191 | 215 | 215 | 215 | CF from operation activities | 2,774 | 2,349 | 2,272 | 2,429 | 3,362 |
| EBIT | 2,192 | 1,051 | 1,287 | 2,426 | 3,201 | Capital expenditure | -738 | -595 | -322 | -1,390 | -946 |
| EBITDA | 3,161 | 2,053 | 2,333 | 3,375 | 4,307 | Investment in subs and affiliates | 112 | 20 | 21 | 15 | 10 |
| Interest expense | -110 | -61 | -57 | -63 | -44 | Others | -3 | -11 | 0 | 107 | -21 |
| Equity earnings | 22 | 19 | 10 | 10 | 10 | CF from investing activities | -630 | -586 | -301 | -1,267 | -957 |
| EBT | 2,083 | 990 | 1,230 | 2,364 | 3,157 | Cash dividend | -1,313 | -1,136 | -952 | -987 | -1,241 |
| Income tax | -49 | -41 | -87 | -158 | -221 | Net proceeds from debt | -603 | -1,033 | 222 | -300 | -865 |
| NPAT | 2,034 | 950 | 1,143 | 2,205 | 2,936 | Capital raising | 0 | 0 | 140 | -0 | 0 |
| Minority Interest | -19 | -15 | -16 | -32 | -44 | Others | 14 | -20 | 5 | 0 | 0 |
| Core Profit | 1,763 | 893 | 1,094 | 2,074 | 2,892 | CF from financing activities | -1,901 | -2,189 | -586 | -1,288 | -2,106 |
| Extraordinary items | 66 | -57 | -76 | 0 | 0 | Net change in cash | 243 | -425 | 1,385 | -126 | 298 |
| FX gain (loss) | 186 | 99 | 109 | 100 | 0 | Key Statistics & Ratios | | | | | |
| Reported net profit | 2,015 | 934 | 1,127 | 2,174 | 2,892 | Per share (Bt) | | | | | |
| Balance Sheet (Btmn) | | | | | | Reported EPS | 1.72 | 0.80 | 0.96 | 1.85 | 2.45 |
| Cash & equivalents | 1,383 | 957 | 2,342 | 2,261 | 2,559 | Core EPS | 1.50 | 0.76 | 0.93 | 1.76 | 2.45 |
| ST investments | 0 | 0 | 5 | 0 | 0 | DPS | 1.10 | 0.80 | 0.80 | 0.88 | 1.23 |
| Accounts receivable | 3,273 | 2,973 | 3,174 | 3,626 | 4,244 | BV | 10.19 | 9.99 | 10.19 | 11.24 | 12.64 |
| Inventories | 3,192 | 2,622 | 2,594 | 2,978 | 3,391 | EV | 27.71 | 25.48 | 41.55 | 59.15 | 58.20 |
| Other current assets | 69 | 88 | 69 | 132 | 155 | Free Cash Flow | 1.74 | 1.50 | 1.66 | 0.88 | 2.05 |
| Total current assets | 7,917 | 6,640 | 8,185 | 8,997 | 10,349 | Valuation analysis | | | | | |
| Investment in subs & others | 41 | 38 | 28 | 28 | 28 | Reported P/E (x) | 15.28 | 30.75 | 43.39 | 32.11 | 24.14 |
| Fixed assets-net | 9,527 | 9,080 | 8,279 | 8,611 | 8,441 | Core P/E (x) | 17.46 | 32.19 | 44.69 | 33.66 | 24.14 |
| Other assets | 636 | 744 | 885 | 797 | 823 | P/BV (x) | 2.58 | 2.45 | 4.07 | 5.27 | 4.69 |
| Total assets | 18,121 | 16,501 | 17,377 | 18,433 | 19,641 | EV/EBITDA (x) | 10.28 | 14.56 | 20.98 | 20.65 | 15.92 |
| Short-term debt | 2,374 | 1,330 | 1,675 | 1,648 | 783 | Price/Cash flow (x) | 11.10 | 12.23 | 21.52 | 28.73 | 20.76 |
| Accounts payable | 2,796 | 2,293 | 2,458 | 2,591 | 2,950 | Dividend yield (%) | 4.19 | 3.26 | 1.92 | 1.49 | 2.07 |
| Other current liabilities | 26 | 29 | 84 | 29 | 34 | Profitability ratios | | | | | |
| Total current liabilities | 5,196 | 3,651 | 4,216 | 4,268 | 3,767 | Gross margin (%) | 25.97 | 20.28 | 21.79 | 26.09 | 28.09 |
| Long-term debt | 664 | 731 | 680 | 406 | 406 | EBITDA margin (%) | 22.61 | 16.97 | 20.24 | 22.95 | 25.02 |
| Other liabilities | 253 | 357 | 419 | 434 | 449 | EBIT margin (%) | 15.68 | 8.69 | 11.17 | 16.50 | 18.60 |
| Total liabilities | 6,114 | 4,739 | 5,315 | 5,109 | 4,623 | Net profit margin (%) | 14.55 | 7.85 | 9.91 | 15.00 | 17.06 |
| Paid-up capital | 586 | 586 | 589 | 589 | 589 | ROA (%) | 11.31 | 5.49 | 6.75 | 12.32 | 15.42 |
| Share premium | 1,907 | 1,907 | 2,050 | 2,050 | 2,050 | ROE (%) | 17.38 | 7.90 | 9.50 | 17.22 | 20.56 |
| Reserves & others, net | 10 | -11 | -4 | -5 | -5 | Liquidity ratios | | | | | |
| Retained earnings | 9,448 | 9,231 | 9,375 | 10,606 | 12,256 | Current ratio (x) | 1.52 | 1.82 | 1.94 | 2.11 | 2.75 |
| Minority interests | 56 | 50 | 52 | 84 | 128 | Quick ratio (x) | 0.90 | 1.08 | 1.31 | 1.38 | 1.81 |
| Total shareholders' equity | 12,007 | 11,762 | 12,062 | 13,324 | 15,018 | Leverage Ratios | | | | | |
| Total equity & liabilities | 18,121 | 16,501 | 17,377 | 18,433 | 19,641 | Liabilities/Equity ratio (x) | 0.51 | 0.40 | 0.44 | 0.38 | 0.31 |
| Key Assumptions | | | | | | Net debt/EBITDA (x) | 0.52 | 0.54 | 0.00 | -0.06 | -0.32 |
| Average FX (Bt/USD) | 32.3 | 31.1 | 31.3 | 30.0 | 29.0 | Net debt/equity (x) | 0.14 | 0.09 | 0.00 | -0.02 | -0.09 |
| USD sales (mn) | 436 | 393 | 372 | 490 | 594 | Int. coverage ratio (x) | 19.97 | 17.21 | 22.40 | 38.71 | 72.12 |
| Sales volume (000s sq.ft.) | 32,458 | 28,809 | 25,325 | 35,118 | 41,722 | Growth | | | | | |
| Utilization rate | 83% | 74% | 72% | 91% | 97% | Revenue (%) | -1.50 | -13.48 | -4.71 | 27.58 | 17.04 |
| Average selling price (USD/sq.ft.) | 12.6 | 12.5 | 12.6 | 12.8 | 13.2 | EBITDA (%) | -13.70 | -35.06 | 13.63 | 44.67 | 27.61 |
| KCE copper price (USD/kg) | 11.0 | 9.5 | 9.5 | 11.8 | 11.8 | Reported net profit (%) | -20.81 | -53.62 | 20.58 | 92.92 | 33.02 |
| SG&A to sales | 12.9% | 13.3% | 12.6% | 11.8% | 10.8% | Reported EPS (%) | -20.81 | -53.62 | 20.04 | 92.92 | 33.02 |
| | | | | | | Core profit (%) | -24.69 | -49.38 | 22.56 | 89.58 | 39.44 |
| | | | | | | Core EPS (%) | -24.69 | -49.38 | 22.02 | 89.58 | 39.44 |

Source: Company, KS estimates



Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject security(ies) and subject company(ies); and no part of the compensation of the research analyst(s) was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

Investment Ratings

Outperform: Expected total return of 10% or more within a 12-month period

Neutral: Expected total return between -10% and 10% within a 12-month period

Underperform: Expected total return of -10% or worse within a 12-month period

General Disclaimer

This document is prepared by Kasikorn Securities Public Company Limited ("KS"). This document has been prepared for individual clients of KS only and must not, either in whole or in part, be copied, photocopied or duplicated in any form or by any means or distributed to any other person. If you are not the intended recipient you must not use or disclose the information in this research in any way. If you received it in error, please immediately notify KS by return e-mail and delete the document. We do not guarantee the integrity of any e-mails or attached files and are not responsible for any changes made to them by any other person.

This document, including information, data, statements, forecasts, analysis and projections contained herein, including any expression of opinion, is based on public available information or information obtained from sources believed to be reliable, but KS does not make any representation or warranty on, assumes no responsibilities for nor guarantees the accuracy, completeness, correctness or timeliness of such information. KS accepts no obligation to correct or update the information or opinions in it. The statements or expressions of opinion herein were arrived at after due and careful consideration and they were based upon such information or sources then, and in our opinion are fair and reasonable in the circumstances prevailing at the time. The information or expressions of opinion contained herein are subject to change without notice.

Nothing in this document shall be construed as an offer or a solicitation of an offer to buy or sell any securities or products, or to engage in or refrain from engaging in any transaction. In preparing this document, KS did not take into account your specific investment objectives, financial situation or particular needs. This document is for your information only and is not to be taken in substitution for the exercise of your judgment. KS salespeople, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions which are contrary to the opinions expressed in this document. Before making an investment decision on the basis of this document, you should obtain independent financial, legal or other advice and consider the appropriateness of investment in light of your particular investment needs, objectives and financial circumstances. There are risks involved in the investment in securities. KS accepts no liability whatsoever for any direct, indirect, consequential or other loss (including claim for loss of profit) arising from any use of or reliance upon this document and/or further communication given in relation to this document.

Any valuations, opinions, estimates, forecasts, projections, ratings or risk assessments herein constitute a judgment as of the date of this document, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, projections, ratings or risk assessments. Any valuations, opinions, estimates, forecasts, projections, ratings or risk assessments described in this document were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties or contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, projections, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, projections, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by KS (i) that such valuations, opinions, estimates, forecasts, projections, ratings or risk assessments or their underlying assumptions will be achieved, or (ii) that there is an assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, projections, ratings or risk assessments stated therein.

KS along with its affiliates and/or persons associated with it may from time to time have interests in the securities mentioned in this document. KS and its associates, their directors and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking, advisory and other securities services for companies mentioned in this document.

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 companies listed on the Stock Exchange of Thailand and the Market of Alternative Investment disclosed to the public and able to be accessed by a general public investor at <http://www.thai-iod.com/en/publications-detail.asp?id=170>. 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.

The survey result is as of the data appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. KS does not confirm nor certify the accuracy of such survey result.

Structured Notes and Derivative Warrants Disclaimer

KS may be the issuer of structured notes on these securities.

KS acts as market maker and issuer of Derivative Warrants ("DWs") on the underlying stocks listed below. Investors should carefully read the details of the DWs in the prospectus before making any investment decisions.

DWs Underlying Stocks: ADVANC, AMATA, AOT, AWC, BAM, BANPU, BBL, BCP, BDMS, BEM, BGRIM, BJC, BTS, CBG, CHG, CK, CKP, COM7, CPALL, CPF, CPN, CRC, DOHOME, EA, GPSC, GULF, HANA, HMPRO, INTUCH, IRPC, IVL, JMT, KCE, KKP, KTB, KTC, LH, MINT, MTC, OSP, PLANB, PRM, PTG, PTT, PTTEP, PTTGC, RATCH, SAWAD, SCB, SCC, SET50, SPRC, STEC, TASCO, TISCO, TMB, TOP, TQM, TRUE, TU, VGI and WHA.