

**BUY** (Unchanged)**TP: Bt 83.00**

(From: Bt 72.00)

Change in Numbers

Upside : 14.1%

28 JUNE 2021

# KCE Electronics Pcl (KCE TB)

## Minor COVID-19 hit

**KCE has to close one of its two plants for seven days due to COVID-19 infection. It plans to run fully right after the plant's reopening and expects a very limited impact to its earnings this year. We estimate a 4% earnings impact which doesn't change KCE's super cycle track of 125% EPS growth this year and another 57% in 2022F. Reiterate BUY.**

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### Small impact from COVID infection

Due to COVID infections at KCE's Ayutthaya factory, KCE has shut down its factory for seven days. KCE plans to resume full operations after it reopens and expects a very minor impact to earnings. The factory accounts for 40% of KCE's total capacity, but as it produces lower-margin PCB, it contributes just 25% of total profit. That said, as COVID testing is still on going, we conservatively assume a 14-day closure, which results in a 4% earnings cut this year. As the impact is small and doesn't change KCE's super cycle growth story, we reiterate BUY. We roll over our base year to 2022F and lift our DCF-based 12-month TP to Bt83 from Bt72.

### Remains in a super cycle

KCE remains a strong growth stock in our view and we estimate EPS growth of 125% this year and 57/52% in 2022-23F. Key drivers are 33/15/16% sales growth and EBIT margin rising from 9% in 2020 to 16/22/29% in 2021-23F. Sales are being driven by a strong turnaround in the global auto industry, growing electronics content in cars, market share gains via new orders and a 16% weakening of the baht against yuan (since January 2020). The margin increase is because of the portion of high-margin HDI sales rising from 16% in 2020 to 24% in 2021F and 36% in 2023F.

### Improving competitive advantages

A few developments are supporting KCE's business momentum. *First*, KCE is benefiting from the chip shortage and sees its order book being at full capacity till year end. *Secondly*, the baht has weakened further against the US\$ (6% YTD). *Third*, the baht has weakened more vs. the yuan (7% YTD). The strong yuan and higher raw material costs have forced most of KCE's key competitors, many of which have substantial capacity in China, to raise product prices for customers. KCE, with the weaker baht vs. the yuan, is under less pressure to do so while it can gain more of a share of new orders. *Lastly*, KCE is being hit less than its key rivals by rising raw material prices, e.g. laminate, copper and other chemicals, as it owns upstream laminate production vs. outsourcing by most competitors.

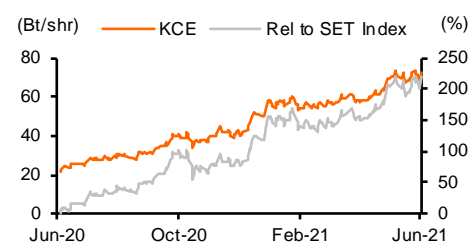
### Likely a very strong 2Q21F

We had estimated KCE to post earnings of Bt530m in 2Q21F. Factoring in the COVID infection impact, that would fall to Bt500m, up 583% y-y (148% from 2Q19) and 16% q-q. We expect earnings to rise in each quarter from new debottlenecked capacity (Exhibit 5) and fully booked orders until year-end.

### COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	11,527	15,310	17,533	20,347
Net profit	1,127	2,287	3,600	5,474
Consensus NP	—	2,119	2,745	3,461
Diff frm cons (%)	—	7.9	31.2	58.2
Norm profit	1,018	2,287	3,600	5,474
Prev. Norm profit	—	2,377	3,579	5,329
Chg frm prev (%)	—	(3.8)	0.6	2.7
Norm EPS (Bt)	0.9	1.9	3.1	4.6
Norm EPS grw (%)	15.6	124.6	57.4	52.1
Norm PE (x)	84.3	37.5	23.8	15.7
EV/EBITDA (x)	40.7	24.3	16.7	11.5
P/BV (x)	7.1	6.3	5.4	4.5
Div yield (%)	0.5	1.1	1.9	3.2
ROE (%)	8.6	17.9	24.4	31.2
Net D/E (%)	(0.0)	4.2	(4.7)	(14.5)

### PRICE PERFORMANCE



### COMPANY INFORMATION

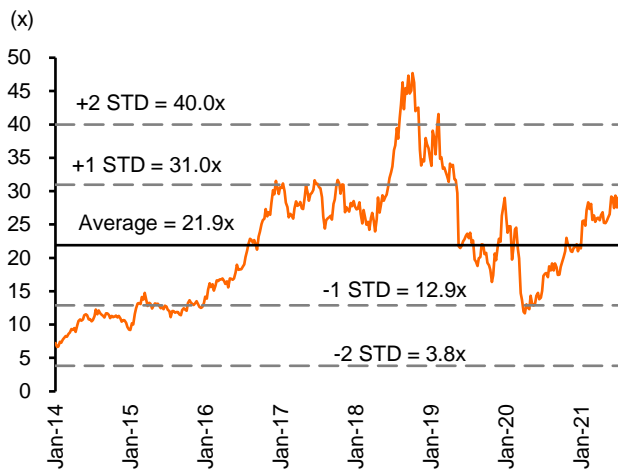
Price: (Bt) as of 28-Jun-21	72.75
Market Cap (US\$ m)	2,688.9
Listed Shares (m shares)	1,181.1
Free Float (%)	58.0
Avg. Daily Turnover (US\$ m)	35.8
12M Price H/L (Bt)	73.50/21.50
Sector	Electronics
Major Shareholder	Ongkosit Family 25.65%

Sources: Bloomberg, Company data, Thanachart estimates

We see the seven-day closure at KCE Electronics Pcl's (KCE) Ayutthaya plant as a very short-term factor and don't expect it to impact the company's super-cycle growth path. The factory accounts for 40% of KCE's total capacity, but because it manufactures lower-layer, or lower-margin PCB, it contributes only 25% of KCE's total profits. Higher-layer PCB and high density interconnector PCB, which offer higher margins, are manufactured at its Lat Krabang plant which is still operating normally. KCE expects its Ayutthaya plant to be able to resume operating at 100% capacity after its reopening and it foresees only a very minor impact on its earnings. That said, as COVID testing is still going on, we conservatively assume a 14-day closure resulting in a 4% earnings cut this year.

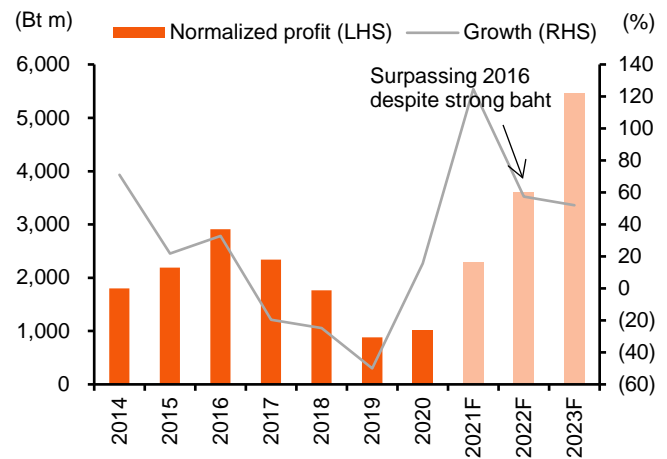
The impact is small and it doesn't change KCE's super growth cycle path, which we forecast for 125% EPS growth this year and 57/52% in 2022-23F. Valuation wise, this makes KCE looks attractive to us given its PE in 2022F at 24x still doesn't look to be out of the range.

Ex 1: Historical PE



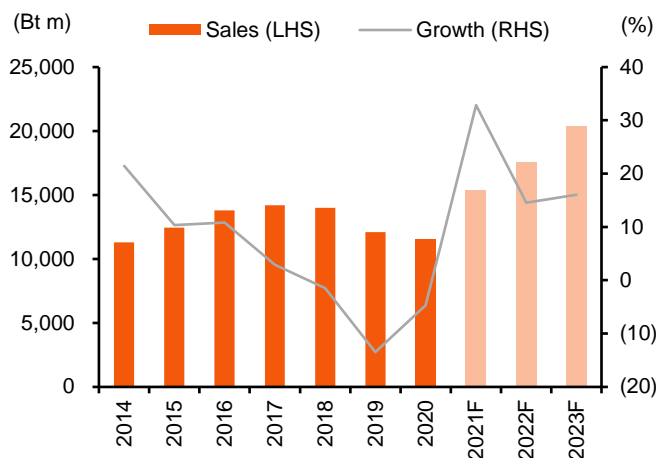
Sources: Bloomberg Thanachart estimates

Ex 2: Strong EPS Growth Supported By...



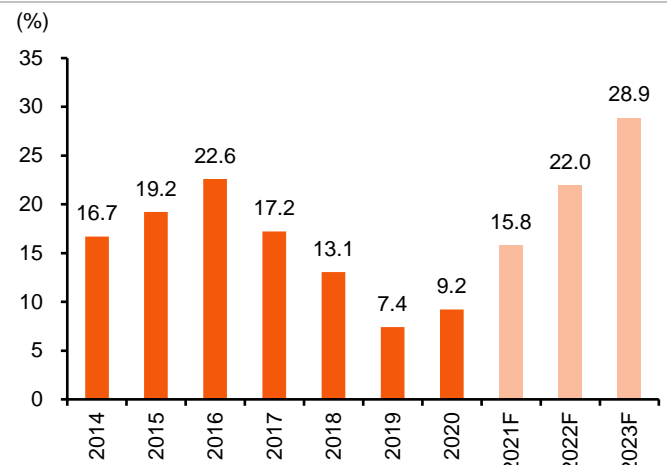
Sources: Company data, Thanachart estimates

Ex 3: ...Both Revenue Growth...



Sources: Company data, Thanachart estimates

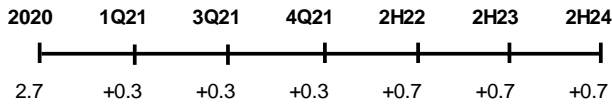
Ex 4: ...And Margin Expansion



Sources: Company data, Thanachart estimates

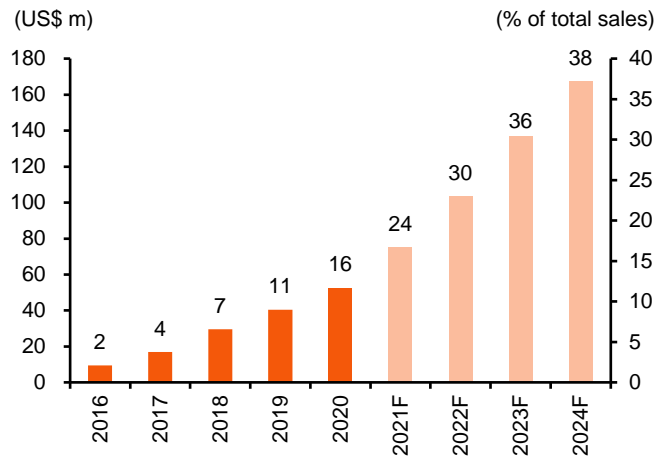
**Ex 5: Capacity Expansion Timeline**

Million sq ft per month



Sources: Company data; Thanachart estimates

**Ex 6: Growing HDI Proportion**



Sources: Company data; Thanachart estimates

**Ex 7: Baht Vs. US Dollar**

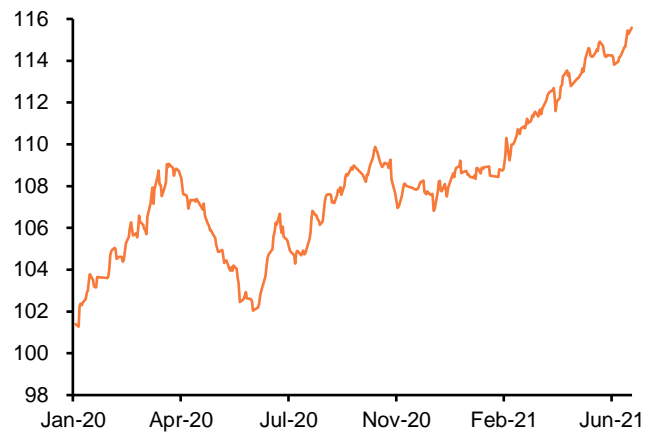
(Rebase 100)



Source: Bloomberg

**Ex 8: Baht Vs. Yuan**

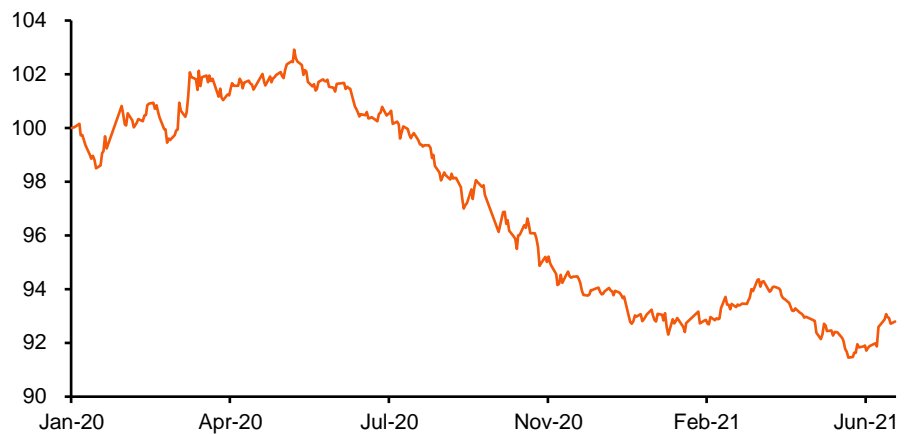
(Rebase 100)



Source: Bloomberg

**Ex 9: Yuan Vs. US Dollar**

(Rebase 100)



Source: Bloomberg

## Ex 10: 12-month DCF-based TP Calculation Using A Base Year of 2022F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA	5,102	7,225	8,710	10,167	11,449	12,747	13,979	15,252	16,289	17,564	18,881	—
Free cash flow	2,693	4,322	5,859	8,068	9,238	10,416	11,556	12,678	13,692	14,733	15,422	159,641
PV of free cash flow	2,686	3,517	4,300	5,340	5,395	5,462	5,440	5,359	5,198	5,022	4,495	46,528
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.2											
WACC (%)	10.9											
Terminal growth (%)	2.0											
Enterprise value - add investments	98,742											
Net debt (2021F)	576											
Minority interest	57											
Equity value	98,108											
# of shares (m) *	1,180											
<b>Target price/share (Bt)</b>	<b>83</b>											

Sources: Company data, Thanachart estimates

Note: \* We assume full dilution impact from outstanding ESOP shares

## Valuation Comparison

## Ex 11: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth		— PE —		— P/BV —		EV/EBITDA		— Div. yield —	
			21F (%)	22F (%)	21F (x)	22F (x)	21F (x)	22F (x)	21F (%)	22F (%)	21F (%)	22F (%)
TTM Technologies Inc	TTMI US	USA	12.6	18.2	11.6	9.8	1.0	0.9	6.9	6.3	na	na
Chin-Poon Industrial	2355 TT	Taiwan	453.3	86.4	50.1	26.9	0.9	0.8	8.3	6.6	1.2	2.3
Tripod Technology Corp	3044 TT	Taiwan	5.7	11.2	10.9	9.8	1.8	1.7	5.3	4.7	5.8	6.5
CMK Corp	6958 JP	Japan	na	93.8	23.1	11.9	0.5	0.5	6.9	5.4	1.3	2.1
Meiko Electronics	6787 JP	Japan	62.4	4.2	11.2	10.7	2.0	1.7	9.1	8.2	1.1	1.2
Delta Electronics	DELTA TB	Thailand	13.5	19.9	82.3	69.2	16.8	15.1	65.9	55.3	0.7	0.9
SVI Pcl	SVI TB	Thailand	(21.8)	19.3	19.3	16.2	2.5	2.3	11.9	10.6	1.9	2.2
Hana Microelectronics	HANA TB*	Thailand	2.0	12.9	31.0	27.5	2.6	2.5	18.1	16.1	1.9	2.1
KCE Electronics	KCE TB*	Thailand	124.6	57.4	37.5	23.8	6.3	5.4	24.3	16.7	1.1	1.9
<b>Average</b>			<b>81.5</b>	<b>35.9</b>	<b>30.8</b>	<b>22.9</b>	<b>3.8</b>	<b>3.4</b>	<b>17.4</b>	<b>14.4</b>	<b>1.9</b>	<b>2.4</b>

Source: Bloomberg

Note: \*Thanachart estimates, using Thanachart normalized EPS

Based on 28-Jun-2021 closing prices

## COMPANY DESCRIPTION

KCE Electronics Public Company Limited (KCE) and its subsidiaries manufacture and export double-sided and multi-layer printed circuit boards (PCBs) under the KCE trademark. The company has five manufacturing bases: three PCB factories, one laminate factory and one chemical factory in four locations in Thailand. KCE is one of the leading global suppliers of PCBs to the automotive sector, and these account for more than 70% of its total sales.

Source: Thanachart

## COMPANY RATING



### Rating Scale

<b>Excellent</b>	<b>5</b>
<b>Good</b>	<b>4</b>
<b>Fair</b>	<b>3</b>
<b>Weak</b>	<b>2</b>
<b>Very Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

Source: Thanachart; \*CG Rating

## THANACHART'S SWOT ANALYSIS

### S — Strength

- Sustainable earnings from the automotive sector.
- Completed upstream to downstream business integration.
- Lowest-cost automotive PCB manufacturer.

### O — Opportunity

- Potential penetration of the Japanese market.
- Positive growth outlook in the automotive electronics industry.
- Expanding into other industries such as industrial and high-end consumer products.

### W — Weakness

- Capital-intensive business, particularly for machinery.
- Revenue still concentrated with a few large customers.

### T — Threat

- Unexpected external events (i.e. floods, political turmoil) could disrupt KCE's operations.
- Delay in construction of factories could significantly affect the time frames for the qualification process by customers.

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
<b>Target price (Bt)</b>	69.33	83.00	20%
<b>Net profit 21F (Bt m)</b>	2,119	2,287	8%
<b>Net profit 22F (Bt m)</b>	2,745	3,600	31%
<b>Consensus REC</b>	<b>BUY: 11</b>	<b>HOLD: 2</b>	<b>SELL: 1</b>

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021-22F earnings and TP are higher than the Bloomberg consensus numbers, which we attribute to us having a more bullish view on a turnaround in the global auto market and KCE's market share gains over the longer term.

Sources: Bloomberg consensus, Thanachart estimates

## RISKS TO OUR INVESTMENT CASE

- A slower-than-expected turnaround in the global automotive market presents the key downside risk to our projections and TP.
- A significant rise in copper-related prices presents a secondary downside risk to our estimates.
- Drastic currency fluctuations with a strong Thai baht relative to the US\$ present another downside risk to our numbers.

Source: Thanachart

**INCOME STATEMENT**

<b>FY ending Dec (Bt m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Sales	12,097	11,527	15,310	17,533	20,347
Cost of sales	9,644	9,015	11,037	11,760	12,643
<b>Gross profit</b>	<b>2,454</b>	<b>2,512</b>	<b>4,272</b>	<b>5,772</b>	<b>7,704</b>
% gross margin	20.3%	21.8%	27.9%	32.9%	37.9%
Selling & administration expenses	1,555	1,449	1,851	1,919	1,830
<b>Operating profit</b>	<b>898</b>	<b>1,063</b>	<b>2,421</b>	<b>3,853</b>	<b>5,874</b>
% operating margin	7.4%	9.2%	15.8%	22.0%	28.9%
Depreciation & amortization	1,015	1,048	1,138	1,251	1,354
<b>EBITDA</b>	<b>1,913</b>	<b>2,111</b>	<b>3,559</b>	<b>5,104</b>	<b>7,228</b>
% EBITDA margin	15.8%	18.3%	23.2%	29.1%	35.5%
Non-operating income	92	106	100	102	104
Non-operating expenses	0	0	0	0	0
Interest expense	(61)	(57)	(73)	(79)	(44)
<b>Pre-tax profit</b>	<b>929</b>	<b>1,111</b>	<b>2,449</b>	<b>3,876</b>	<b>5,935</b>
Income tax	52	87	167	281	465
<b>After-tax profit</b>	<b>877</b>	<b>1,024</b>	<b>2,282</b>	<b>3,595</b>	<b>5,469</b>
% net margin	7.2%	8.9%	14.9%	20.5%	26.9%
Shares in affiliates' Earnings	19	10	10	11	11
Minority interests	(15)	(16)	(5)	(6)	(7)
Extraordinary items	53	109	0	0	0
<b>NET PROFIT</b>	<b>934</b>	<b>1,127</b>	<b>2,287</b>	<b>3,600</b>	<b>5,474</b>
<b>Normalized profit</b>	<b>881</b>	<b>1,018</b>	<b>2,287</b>	<b>3,600</b>	<b>5,474</b>
EPS (Bt)	0.8	1.0	1.9	3.1	4.6
Normalized EPS (Bt)	0.7	0.9	1.9	3.1	4.6

*With multiple turnaround factors, we expect strong earnings growth*

**BALANCE SHEET**

<b>FY ending Dec (Bt m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
<b>ASSETS:</b>					
Current assets:	6,719	8,185	9,982	11,155	12,388
Cash & cash equivalent	957	2,347	2,500	3,000	3,200
Account receivables	2,973	3,174	4,216	4,828	5,603
Inventories	2,701	2,594	3,175	3,222	3,464
Others	88	69	91	104	121
Investments & loans	199	187	187	187	187
Net fixed assets	8,839	8,107	9,011	9,472	9,833
Other assets	744	898	1,207	1,396	1,629
<b>Total assets</b>	<b>16,501</b>	<b>17,377</b>	<b>20,388</b>	<b>22,210</b>	<b>24,037</b>
<b>LIABILITIES:</b>					
Current liabilities:	3,651	4,216	5,184	4,852	3,841
Account payables	2,293	2,458	3,009	3,206	3,447
Bank overdraft & ST loans	1,067	1,283	1,682	1,232	226
Current LT debt	259	387	418	306	56
Others current liabilities	33	88	74	107	112
<b>Total LT debt</b>	<b>724</b>	<b>676</b>	<b>976</b>	<b>715</b>	<b>131</b>
Others LT liabilities	364	423	588	687	805
<b>Total liabilities</b>	<b>4,739</b>	<b>5,315</b>	<b>6,748</b>	<b>6,253</b>	<b>4,778</b>
Minority interest	50	52	57	63	70
Preferreds shares	0	0	0	0	0
Paid-up capital	586	589	590	590	590
Share premium	1,907	2,050	2,050	2,050	2,050
Warrants	0	0	0	0	0
Surplus	(70)	(64)	(64)	(64)	(64)
<b>Retained earnings</b>	<b>9,290</b>	<b>9,434</b>	<b>11,006</b>	<b>13,317</b>	<b>16,612</b>
Shareholders' equity	11,712	12,010	13,583	15,894	19,189
<b>Liabilities &amp; equity</b>	<b>16,501</b>	<b>17,377</b>	<b>20,388</b>	<b>22,210</b>	<b>24,037</b>

Sources: Company data, Thanachart estimates

**CASH FLOW STATEMENT**

*Healthy cash flow streams, on our forecasts*

<b>FY ending Dec (Bt m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Earnings before tax	929	1,111	2,449	3,876	5,935
Tax paid	(48)	(32)	(177)	(249)	(461)
Depreciation & amortization	1,015	1,048	1,138	1,251	1,354
Chg In working capital	288	70	(1,071)	(462)	(776)
Chg In other CA & CL / minorities	(42)	21	(16)	(2)	(5)
<b>Cash flow from operations</b>	<b>2,142</b>	<b>2,218</b>	<b>2,322</b>	<b>4,414</b>	<b>6,047</b>
Capex	(453)	(277)	(2,000)	(1,667)	(1,667)
Right of use	0	(13)	(20)	(20)	(20)
ST loans & investments	0	0	0	0	0
LT loans & investments	6	12	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(58)	(125)	(166)	(115)	(142)
<b>Cash flow from investments</b>	<b>(505)</b>	<b>(404)</b>	<b>(2,186)</b>	<b>(1,802)</b>	<b>(1,829)</b>
Debt financing	(889)	405	730	(823)	(1,839)
Capital increase	0	146	1	0	0
Dividends paid	(1,136)	(952)	(715)	(1,289)	(2,178)
Warrants & other surplus	(37)	(24)	0	0	0
<b>Cash flow from financing</b>	<b>(2,062)</b>	<b>(424)</b>	<b>16</b>	<b>(2,112)</b>	<b>(4,018)</b>
<b>Free cash flow</b>	<b>1,689</b>	<b>1,941</b>	<b>322</b>	<b>2,747</b>	<b>4,380</b>

**VALUATION**

<b>FY ending Dec</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Normalized PE (x)	97.4	84.3	37.5	23.8	15.7
Normalized PE - at target price (x)	111.2	96.2	42.8	27.2	17.9
PE (x)	91.9	76.2	37.5	23.8	15.7
PE - at target price (x)	104.8	86.9	42.8	27.2	17.9
EV/EBITDA (x)	45.4	40.7	24.3	16.7	11.5
EV/EBITDA - at target price (x)	51.8	46.4	27.7	19.0	13.2
P/BV (x)	7.3	7.1	6.3	5.4	4.5
P/BV - at target price (x)	8.4	8.2	7.2	6.2	5.1
P/CFO (x)	40.1	38.7	37.0	19.4	14.2
Price/sales (x)	7.1	7.5	5.6	4.9	4.2
Dividend yield (%)	1.0	0.5	1.1	1.9	3.2
FCF Yield (%)	2.0	2.3	0.4	3.2	5.1
<b>(Bt)</b>					
Normalized EPS	0.7	0.9	1.9	3.1	4.6
EPS	0.8	1.0	1.9	3.1	4.6
DPS	0.8	0.4	0.8	1.4	2.3
BV/share	9.9	10.2	11.5	13.5	16.3
CFO/share	1.8	1.9	2.0	3.7	5.1
FCF/share	1.4	1.6	0.3	2.3	3.7

Sources: Company data, Thanachart estimates

## FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
<b>Growth Rate</b>					
Sales (%)	(13.5)	(4.7)	32.8	14.5	16.1
Net profit (%)	(53.6)	20.6	103.0	57.4	52.1
EPS (%)	(53.6)	20.6	103.0	57.4	52.1
Normalized profit (%)	(50.0)	15.6	124.6	57.4	52.1
Normalized EPS (%)	(50.0)	15.6	124.6	57.4	52.1
Dividend payout ratio (%)	96.3	41.9	41.9	45.0	50.0
<b>Operating performance</b>					
Gross margin (%)	20.3	21.8	27.9	32.9	37.9
Operating margin (%)	7.4	9.2	15.8	22.0	28.9
EBITDA margin (%)	15.8	18.3	23.2	29.1	35.5
Net margin (%)	7.2	8.9	14.9	20.5	26.9
D/E (incl. minor) (x)	0.2	0.2	0.2	0.1	0.0
Net D/E (incl. minor) (x)	0.1	(0.0)	0.0	(0.0)	(0.1)
Interest coverage - EBIT (x)	14.7	18.5	33.2	48.8	133.1
Interest coverage - EBITDA (x)	31.3	36.7	48.8	64.6	163.7
ROA - using norm profit (%)	5.1	6.0	12.1	16.9	23.7
ROE - using norm profit (%)	7.4	8.6	17.9	24.4	31.2
<b>DuPont</b>					
ROE - using after tax profit (%)	7.4	8.6	17.8	24.4	31.2
- asset turnover (x)	0.7	0.7	0.8	0.8	0.9
- operating margin (%)	8.2	10.1	16.5	22.6	29.4
- leverage (x)	1.5	1.4	1.5	1.4	1.3
- interest burden (%)	93.8	95.1	97.1	98.0	99.3
- tax burden (%)	94.4	92.2	93.2	92.7	92.2
WACC (%)	10.9	10.9	10.9	10.9	10.9
ROIC (%)	6.2	7.7	18.8	25.2	35.7
NOPAT (Bt m)	848	980	2,256	3,573	5,414
invested capital (Bt m)	12,805	12,009	14,159	15,147	16,403

Sources: Company data, Thanachart estimates



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