

BUY (Unchanged)

TP: Bt 95.00 (Unchanged)

Company Update

Upside : 13.1%

25 OCTOBER 2021

# KCE Electronics Pcl (KCE TB)

## New capacity taken up

KCE has secured new orders to take up most of its new capacity next year. While this helps bolster our expectation of strong earnings growth of 59/55% in 2022-23F after 133% in 2021F, the industry's fundamentals are as robust as ever. Reaffirm BUY on KCE.



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### Filling up its new capacity

KCE is building a new 2.1m sqft factory with the first phase of 0.7m sqft (or a 19% increase from the 3.6m sq ft existing capacity) scheduled to come on line in 4Q22 while the remaining capacity doesn't have a fixed schedule and will depend on demand. The company has already received a big order from a leading global consumer electronics brand and smaller orders from other new clients which will take up most of the additional capacity. This helps reduce downside risk to our aggressive sales growth projections of 29/19/17% and earnings growth of 133/59/55% in 2021-23F. See Exhibit 1 for KCE's capacity increase timeline. As the first phase of the new capacity seems to have been taken up, we expect the Street to upgrade earnings.

### Industry remains robust

We revisit the auto PCB industry's fundamentals and see them being as strong as ever. *First*, soft global car sales caused by the chip shortage isn't derailing but instead creating pent-up demand for cars. KCE, because it's already running at full capacity, isn't seeing an impact from this now though pent-up demand should be good for business next year. *Second*, we expect the chip shortage situation to improve in 4Q21F as new chip capacity emerges but the market isn't expecting a balance until 2023-24. *Third*, because of the tight market, PCB producers can pass on higher raw material costs to customers while KCE, due to the benefit of the weaker baht vs. the yuan, is passing on less than its peers and therefore gaining market share.

### Strong 3Q21F and stronger 4Q21F

We estimate KCE's 3Q21F normalized profit at Bt630m, up 250% y-y from the low base in 3Q20 and 13% q-q. The impact from the COVID-19 crisis has been offset by the baht weakening to Bt32.9/US\$ vs. Bt31.4 in 2Q21. Key drivers are 40% y-y and 9% q-q sales growth and EBIT margin rising to 17% vs. 8% in 3Q20 and 16% in 2Q21. And we estimate its profit to rise to Bt750m in 4Q21F, up 85% y-y and 19% q-q on the back of higher sales and a further rise in EBIT margin as a result of the operating leverage effect and the weak baht.

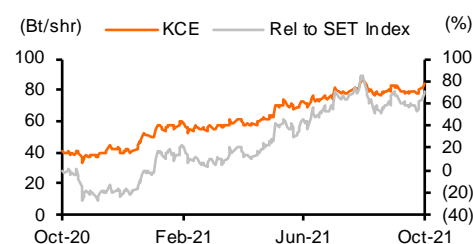
### Reaffirming BUY

We reaffirm BUY on KCE with a DCF-based 12-month TP, using a 2022F base year, of Bt95. Near-term catalysts are the update on potential new orders to be handled by its new capacity next year, potentially strong 3Q21F and 4Q21F results, and a weaker-than-expected baht. We still use our house baht assumptions of Bt31.8/31.0 in 2022-23F vs. the current level of Bt33.1 Our sensitivity analysis indicates that for every 1% Bt/US\$ change, KCE's earnings would be affected by around 3%.

### COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	11,527	14,921	17,798	20,775
Net profit	1,127	2,376	3,781	5,879
Consensus NP	—	2,506	3,344	4,454
Diff frm cons (%)	—	(5.2)	13.1	32.0
Norm profit	1,018	2,376	3,781	5,879
Prev. Norm profit	—	2,376	3,781	5,879
Chg frm prev (%)	—	0.0	0.0	0.0
Norm EPS (Bt)	0.9	2.0	3.2	5.0
Norm EPS grw (%)	15.6	133.3	59.1	55.5
Norm PE (x)	96.2	41.2	25.9	16.7
EV/EBITDA (x)	46.4	27.0	18.5	12.6
P/BV (x)	8.2	7.4	6.6	5.6
Div yield (%)	0.5	1.7	2.7	4.2
ROE (%)	8.6	18.8	26.8	36.3
Net D/E (%)	(0.0)	5.3	1.9	(5.2)

### PRICE PERFORMANCE



### COMPANY INFORMATION

Price: (Bt) as of 25-Oct-21	83.00
Market Cap (US\$ m)	2,958.0
Listed Shares (m shares)	1,181.4
Free Float (%)	58.0
Avg. Daily Turnover (US\$ m)	44.7
12M Price H/L (Bt)	86.75/33.75
Sector	Electronics
Major Shareholder	Ongkosit Family 25.65%

Sources: Bloomberg, Company data, Thanachart estimates

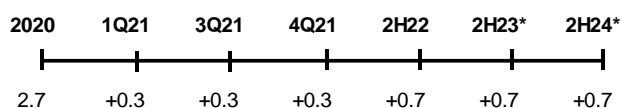
## New orders foreseen for new capacity

*Running at full capacity, while a new plant is now being built*

Exhibits 1-2 show KCE Electronics Pcl's (KCE) capacity timeline with the expansion this year coming from the debottlenecking of both of its plants in Lad Krabang and Ayutthaya. By the end of this year, KCE should have a total of 3.6m sqft of capacity, a 33% increase from the end of 2020. As there's limited room for further debottlenecking, KCE is building a new factory with space being prepared for total capacity of 2.1m sq ft. The new capacity is divided into three phases with 0.7m sqft per phase. The first phase is scheduled to come on line 4Q22. The remaining phases are expected to be up and running during late 2023-24 but the schedule is yet to be confirmed, depending on the longer-term demand outlook.

### Ex 1: Capacity Timeline

Million sq ft per month



Sources: Company data; Thanachart estimates

Note \*: Not yet confirmed, subject to demand

### Ex 2: Well-Timed Capacity

(%)	2021	2022	2023	2024
Year-end capacity growth	33	19	16	14
Effective capacity growth	17	20	22	15
US\$ sales growth	27	19	20	12

Sources: Company data; Thanachart estimates

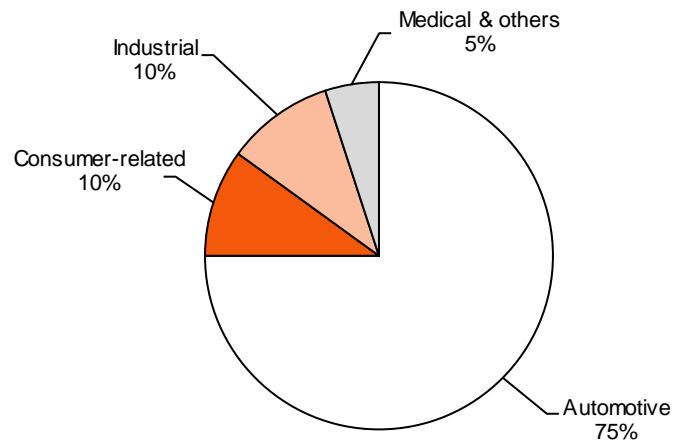
*The new first-phase capacity is being taken up*

As the first phase of its new capacity is due to come on stream in 4Q22, KCE has already received orders to run it at a high utilization rate. There is one sizeable order from a new consumer electronics customer and smaller orders from other new customers. Moreover, the new orders are geared more toward higher-layer PCB and High Density Interconnector (HDI) PCB, which generate high margins. We believe it is also safe to assume that by the time the new capacity starts up, there should also be more orders from its existing customers in the auto electronics industry.

*The new factory is geared more toward consumer electronics customers*

Having gained experience in higher-margin HDI products, KCE is intending to expand its customer base in the consumer electronics industry. Note that consumer electronics products are smaller in size than auto electronics products and therefore require smaller but more complicated PCB products, such as HDI. Currently, KCE's revenue mix still has a heavy over 70% weighting of auto PCB products. Exhibit 3 shows KCE's revenue mix.

**Ex 3: Revenue Breakdown**

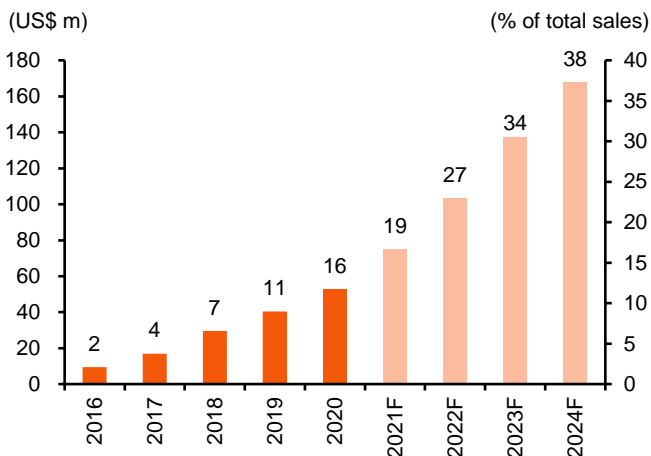


Source: Company data

**Rising HDI mix, rising margin**

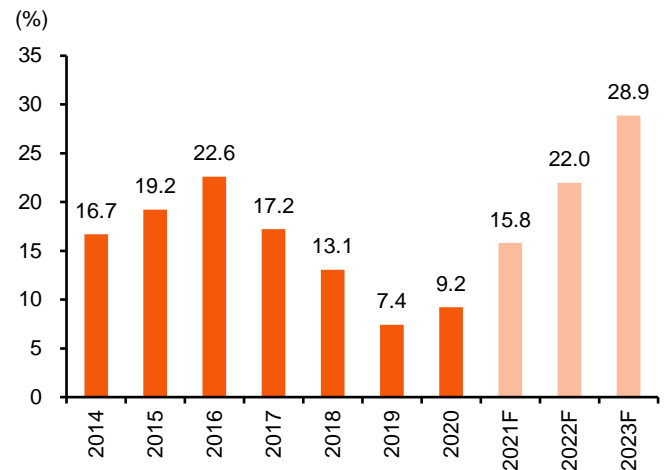
Given its intention to expand its client base into the consumer electronics industry, KCE's new factory is targeted to mostly produce higher-layer PCB with HDI planned to account for about half of total capacity. Exhibits 4-5 show our projections for HDI revenue mix and EBIT margin trend. HDI generates roughly a 3% higher gross margin than standard multi-layer PCB.

**Ex 4: Growing Mix Of HDI Revenue**



Sources: Company data; Thanachart estimates

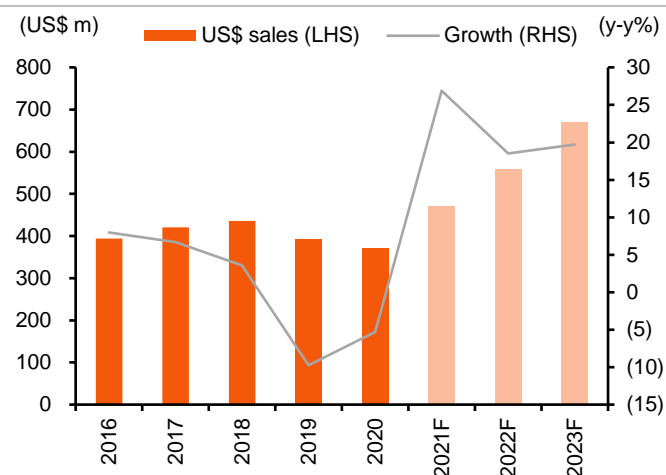
**Ex 5: Rising EBIT Margin Trend**



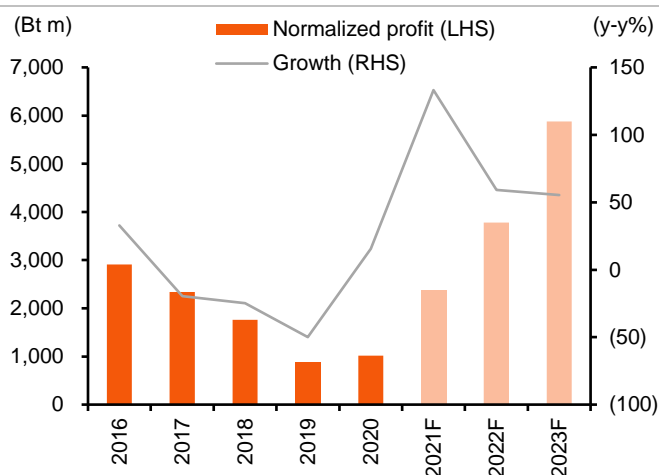
Sources: Company data; Thanachart estimates

**KCE expects to have a high utilization rate going into 2023F**

With the first phase of its new capacity already having enough orders awaiting it, we understand why KCE expects itself to continue to operate at a high utilization rate from now into 2023. To recap, KCE has been running at full capacity so far this year despite increased capacity from its major debottlenecking as shown in Exhibit 1. We also expect KCE to enjoy sales growth from the full-year effect of the debottlenecked capacity in 2022F with the company seeing the longest-ever stretch of fully-booked orders ahead into mid-2022F. This indicates a very strong industry both from the demand side and tight supply. The new capacity is due to come on stream in 4Q22 with orders awaiting it. Exhibit 6 shows our US\$ sales growth projections, taking into account the new orders for its new factory.

**Ex 6: US\$ Sales Growth**

Sources: Company data; Thanachart estimates

**Ex 7: Profit Growth**

Sources: Company data; Thanachart estimates

**Ex 8: Our Assumptions**

	2019	2020	2021F	2022F	2023F
Year-end capacity (million sq ft per month)	2.7	2.7	3.6	4.3	5.0
Year-end capacity growth (%)	-	-	33.3	19.4	16.3
Effective capacity growth (million sq ft per month)	2.7	2.7	3.2	3.8	4.6
Effective capacity growth (%)	-	-	16.7	19.8	22.3
Global car sales growth (%)	(4.0)	(15.0)	7.0	10.0	4.0
US\$ sales growth (%)	(9.8)	(5.3)	26.9	18.5	19.7
Baht/US\$ assumption	31.0	31.3	31.6	31.8	31.0
Baht sales growth (%)	(13.5)	(4.7)	29.4	19.3	16.7
HDI proportion (%)	11.0	16.0	19.0	27.0	34.0
Gross margin (%)	20.3	21.8	29.2	34.1	40.3
SG&A to sales (%)	12.9	12.6	12.3	11.3	9.7

Sources: Company data, Thanachart estimates

**Ex 9: 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	5,316	7,717	9,458	11,235	12,906	13,950	15,020	15,988	17,028	17,893	18,773	—
Free cash flow	2,703	4,725	6,401	9,078	10,576	11,850	12,798	13,717	14,582	15,462	15,570	173,336
PV of free cash flow	2,695	3,894	4,787	6,162	6,371	6,451	6,293	6,095	5,855	5,610	4,859	54,090
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.1											
WACC (%)	10.2											
Terminal growth (%)	2.0											
Enterprise value - add investments	113,161											
Net debt (2021F)	710											
Minority interest	57											
Equity value	112,395											
# of shares (m) *	1,182											
<b>Target price/share (Bt)</b>	<b>95</b>											

Sources: Company data, Thanachart estimates

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

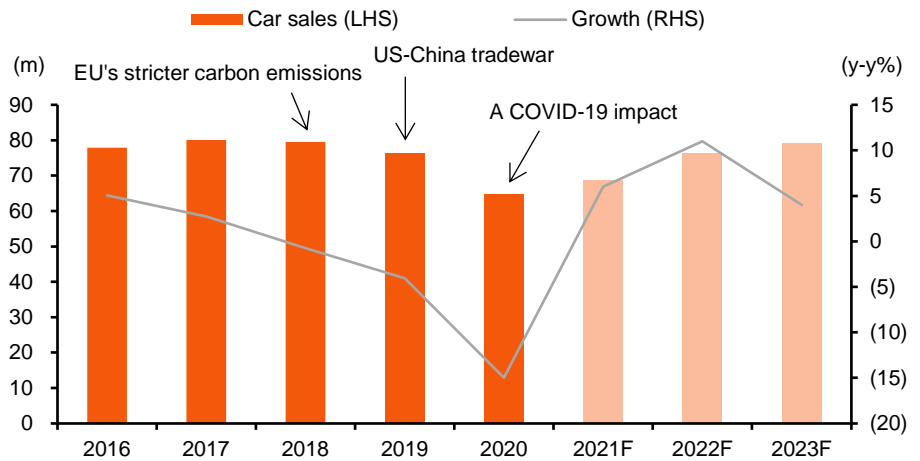
**Strong industry****Mega-trend growth electronics industry with extra cyclical strength**

The electronics industry in general is in a structural, mega-trend growth cycle with its cyclical strength being bolstered by global reopening demand that is surpassing chip supply. Strong demand is being seen for both consumer products and cars. However, consumer electronics is a larger industry than the global auto market and chip supply is being prioritized to support the booming demand in consumer electronics. Therefore, there is a chip and PCB shortage in the auto industry too. KCE believes that it is benefiting from the situation as some of its global peers are gearing up their PCB capacity to serve demand in the consumer electronics market, resulting in KCE receiving more unattended auto PCB orders. And with its similar quality and KCE's lower cost structure, we believe there's a high chance of KCE keeping these customers over the longer term.

**Pent-up demand factors in the global car industry**

The global car industry has been accumulating several pent-up demand factors given the hiccups the world has experienced since 2018. The hiccups started with stricter new emissions standards by the European Union (EU) that caused production delays during 2018. Then, the US-China trade war caused fears of regulatory change and a new tariff base for cars, parts and related materials during 2018-19. Subsequently, COVID-19 hit in 2020-21. Now there is the chip shortage. 9M21 global car unit sales were still 10% below 2019's level. We expect this accumulated demand to turn into pent-up demand for 2022-23F, when there is also new demand from the reopening of many emerging economies that have been continuing to battle COVID-19 this year.

**Ex 10: Global Car Sales**

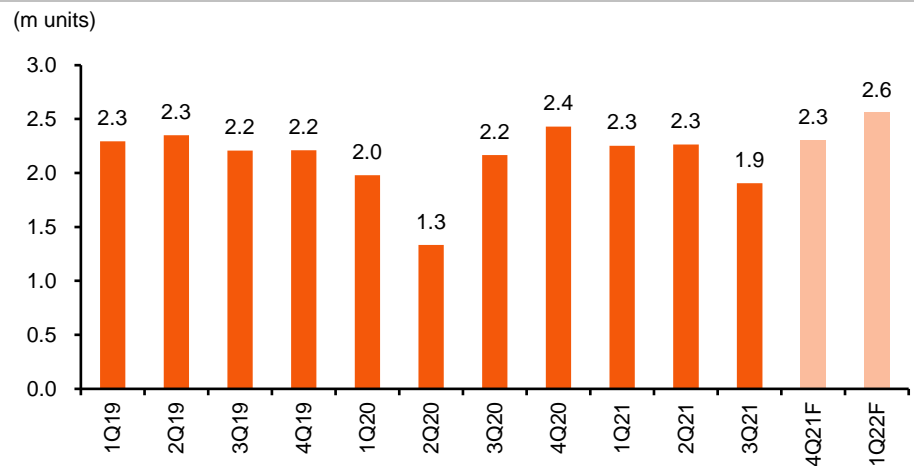


Sources: Bloomberg, Thanachart estimates

**Production resuming after the hiccups**

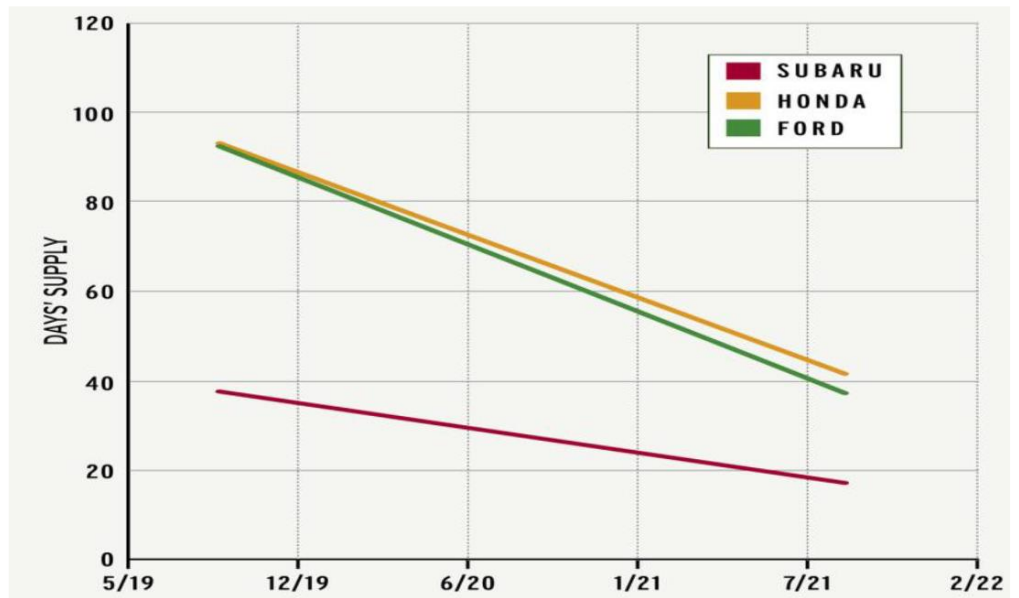
Based on the recent announcements by Toyota, its production cuts in July-August 2021 were eased starting from September and it expects production to continue to rise from 4Q21. Exhibit 12 also shows the car inventories of some brands at US dealerships which are low because of the chip shortage.

**Ex 11: Toyota's Hiccup Is Easing**



Source: Toyota Motor Guidance

**Ex 12: Car Inventories Of Some Brands At US Dealerships**



Sources: Automotive News, Thanachart compilation

**Ex 13: Increasing Car Prices**

Average U.S. retail transaction price for new vehicles



Sources: J.D. Power, Thanachart compilation

*Auto parts demand hasn't softened with the car production hiccup*

Coming down the chain to the auto parts industry, demand is not falling along with car sales numbers. This can be seen by KCE's strong quarterly earnings so far this year and its fully booked orders into the middle of 2022. At the chip maker level, the top five global auto chip makers (Infineon, NXPI, Renesas, STMicro and TXN) said they see their orders at high capacity until the end of 2022.

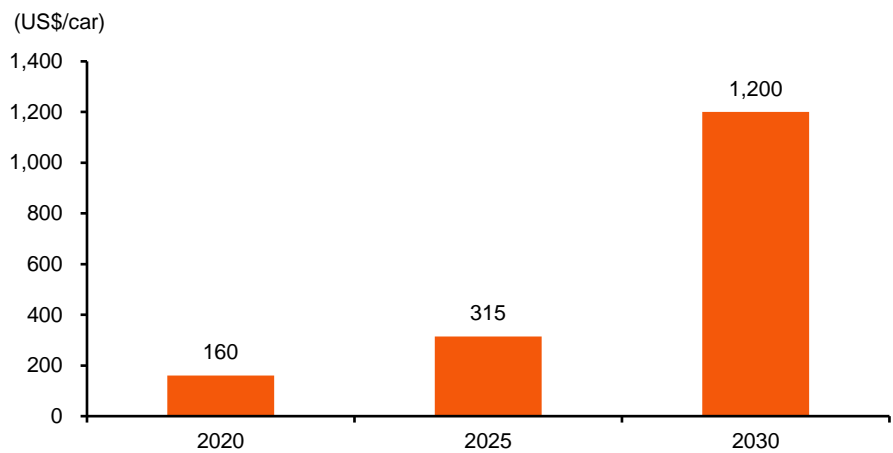
Strong auto parts demand despite the car production hiccups has been caused by two major factors. The first is that auto makers, foreseeing strong pent-up demand, have been locking in orders and inventories of auto parts. Despite that, Exhibit 14 still shows moderate inventory day levels for global car manufacturers. The second factor is that electronics content per car is growing. Each car requires more chips and electronics parts and this has been a structural trend that will likely continue. Key drivers of this mega-trend are the Adaptive Driving Assistant System (ADAS), electronic vehicles (EV) and CO2 emissions reductions. ADAS is a system to increase the safety, convenience and degree of autonomous driving. ADAS requires more radar and lidar products and cameras in a car. According to Infineon, the largest auto electronic products manufacturer, ADAS-related product value in cars is expected to double to US\$350 per car in 2025 from 2020. KCE believes it has a strong PCB business position in ADAS.

**Ex 14: Leading Car Makers Have Moderate Inventory Days**

	Inventory days	
	2Q21	5-year average
Volkswagen	80.7	83.5
GM	38.9	38.8
Daimler	79.6	79.6
Ford	35.5	29.7
BMW	62.5	66.5
Toyota	41.1	38.1
Honda	53.7	47.3

Source: Bloomberg

**Ex 15: ADAS Value Per Car**



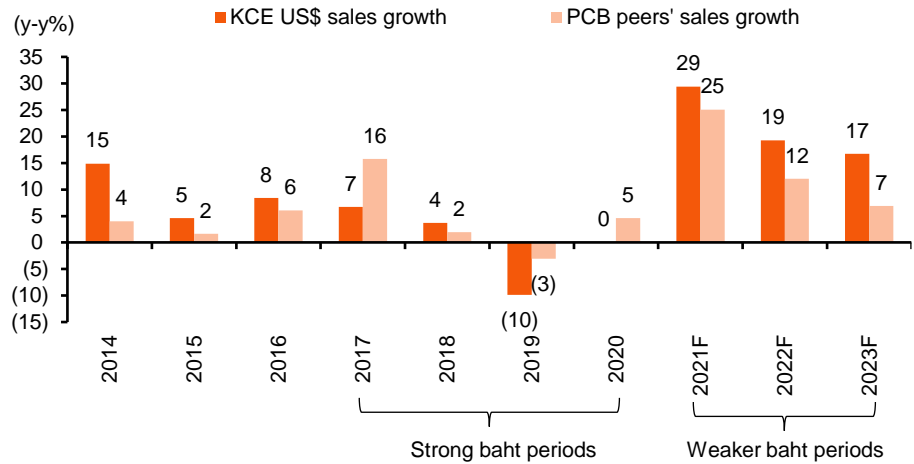
Sources: Strategy Analytics; Infineon

### Market share gain factors

**Outperforming sales growth**

We expect KCE to gain market share in the auto PCB industry with sales growth of 29/19/17% in 2021-23F vs. the Bloomberg consensus estimates for its listed global peers of 25/12/7%.

**Ex 16: KCE’s Sales Growth Vs. Global Peers’**



Sources: Company data, Bloomberg, Thanachart estimates

Note: Global peers include TTM Technologies, Meiko Electronics, CMK Group and Chin-poon Industries, Tripod Technology, Unimicron Technology, Compeq Manufacturing

**KCE has gained competitiveness**

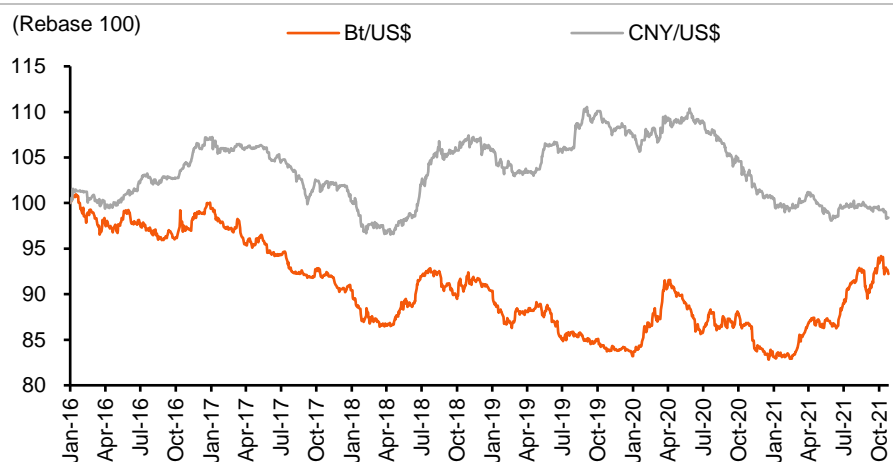
We believe KCE’s outperformance has been because of its cost competitiveness as reflected in its higher gross margin, customer demand diversifying supply chain risk away from China and the strong yuan vs. the Thai baht. Besides the overhang risk of US-China trade tensions, uncertainty regarding Chinese regulations is also a factor in supply chain risk. Note that the majority of KCE’s global peers’ auto PCB capacity is in China while most of KCE’s capacity is in Thailand. As for the yuan-baht matter, the stronger yuan vs. the baht implies that KCE’s cost competitiveness has improved further against its global peers.

## Ex 17: KCE's Profitability Vs. Global Peers'

	TTM Technologies TTMI US	Meiko Electronics 6787 JP	CMK Corp 6958 JP	Chin-poon Industrial 2355 TT	Tripod Technology 3044 TT	Unimicron Technology 3037 TT	Compeq Manufacturing 2313 TT	KCE Electronics KCE TB
<b>Gross margin (%)</b>								
2017A	16.2	16.8	13.8	13.9	18.2	8.9	15.0	30.0
2018A	16.1	17.0	14.8	10.3	18.7	11.1	14.2	26.0
2019A	17.7	16.9	14.5	7.8	20.7	13.7	17.8	20.3
2020A	17.1	14.5	13.2	5.7	20.1	14.6	18.2	21.8
1H21	16.6	17.0	12.6	7.0	18.4	18.3	16.8	27.1
2021F	17.6	14.7	9.9	7.9	19.5	19.6	18.0	29.2
2022F	18.4	17.9	14.0	9.0	20.5	21.9	18.4	34.1
2023F	na	17.6	16.3	9.2	20.5	20.1	19.6	40.3
<b>Net margin (%)</b>								
2017A	4.8	1.6	2.9	5.9	9.5	0.6	6.6	16.5
2018A	6.2	3.8	4.4	0.4	9.5	2.3	4.7	12.6
2019A	1.8	6.1	2.7	3.6	11.1	3.9	6.8	7.2
2020A	5.7	3.0	(0.9)	0.3	11.0	6.2	7.7	8.9
1H21	2.9	5.4	0.3	0.4	9.1	8.7	6.0	14.2
2021F	6.4	4.2	(2.2)	2.5	9.3	7.5	2.5	15.9
2022F	7.2	5.8	1.6	2.3	10.5	7.9	2.3	21.2
2023F	na	6.3	3.4	2.0	11.5	8.6	2.0	28.3
<b>ROE (%)</b>								
2017A	13.6	6.1	4.5	9.3	14.5	1.0	16.6	22.1
2018A	15.5	16.4	7.2	1.0	15.7	4.1	10.4	15.2
2019A	3.3	21.9	3.8	4.2	18.1	7.6	15.5	7.4
2020A	13.0	7.9	(2.2)	0.3	17.5	11.8	17.0	8.6
1H21	4.3	17.8	(3.3)	1.1	19.7	15.8	15.7	15.5
2021F	na	8.0	(4.1)	3.2	16.3	17.6	15.2	18.8
2022F	na	17.6	2.6	3.1	16.8	21.0	15.8	26.8
2023F	na	17.9	4.1	2.6	16.2	24.4	15.6	36.3

Sources: Bloomberg, Company data, Thanachart estimates

## Ex 18: Yuan Vs. Baht To USD



Source: Bloomberg

### Earnings preview

*Despite some hiccups, we expect KCE to post strong 3Q21 results...*

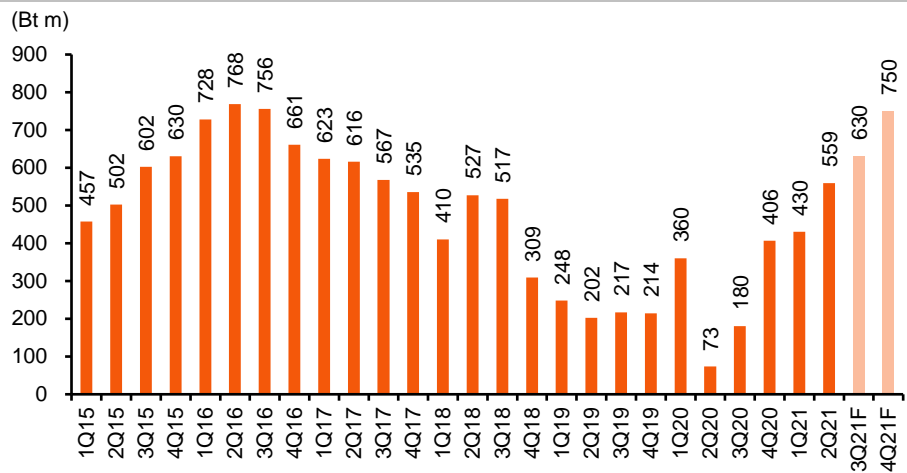
KCE looks set to report 3Q21F normalized earnings of Bt630m, up 250% y-y from the low base in 3Q20 and 13% q-q. While there were COVID-19 outbreaks at both of its factories, the weakening of the baht to Bt32.9/US\$ vs. Bt31.4 in 2Q21 helped offset. Despite falling car sales amid the chip shortage, KCE continued to see strong demand for its PCBs and from new orders during the quarter. This resulted in 40% y-y and 9% q-q sales growth and EBIT margin rising to 17% vs. 8% in 3Q20 and 16% in 2Q21 thanks to the operating leverage impact.

*...With 4Q21F being stronger*

Looking ahead to 4Q21F, KCE expects its operations to get back to normal given Thailand's falling COVID cases (around 10,000 daily cases now vs. the peak of more than 23,000 a day in 3Q21). This, together with its additional capacity already having enough orders awaiting it and the continued weak baht, leads us to expect its profits to rise to Bt750m in 4Q21F, up 85% y-y and 19% q-q from higher sales and a further rise in EBIT margin.

We expect stronger quarterly earnings into 2Q22F from the full impact of the new capacities installed during this year.

**Ex 19: Quarterly Earnings**



Sources: Company data, Thanachart estimates

## Valuation Comparison

### Ex 20: 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	17.9	16.5	10.4	8.9	1.0	0.9	6.4	5.9	na	na
Chin-Poon Industrial	2355 TT	Taiwan	na	(1.2)	25.4	25.7	0.8	0.8	7.1	6.1	2.2	2.2
Tripod Technology Corp	3044 TT	Taiwan	2.0	10.1	9.8	8.9	1.6	1.5	4.7	4.3	6.5	7.3
CMK Corp	6958 JP	Japan	na	137.3	20.7	8.7	0.5	0.5	6.6	4.7	1.3	2.4
Meiko Electronics	6787 JP	Japan	73.3	18.9	9.9	8.4	1.7	1.4	7.7	7.1	1.3	1.4
Delta Electronics	DELTA TB	Thailand	(4.0)	36.4	75.9	55.9	13.7	12.2	58.0	44.8	0.7	1.0
SVI Pcl	SVI TB	Thailand	(12.3)	15.5	18.9	16.4	2.7	2.4	12.9	10.9	1.9	2.2
Hana Microelectronics	HANA TB*	Thailand	48.6	31.9	24.0	18.2	2.8	2.6	15.5	12.1	2.5	3.2
KCE Electronics	KCE TB*	Thailand	133.3	59.1	41.2	25.9	7.4	6.6	27.0	18.5	1.7	2.7
<b>Average</b>			<b>37.0</b>	<b>36.1</b>	<b>26.2</b>	<b>19.7</b>	<b>3.6</b>	<b>3.2</b>	<b>16.2</b>	<b>12.7</b>	<b>2.3</b>	<b>2.8</b>

Source: Bloomberg

Note: \*Thanachart estimates, using Thanachart normalized EPS

Based on 25-Oct-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>	98.21	95.00	-3%
<b>Net profit 21F (Bt m)</b>	2,506	2,376	-5%
<b>Net profit 22F (Bt m)</b>	3,344	3,781	13%
<b>Consensus REC</b>	<b>BUY: 13</b>	<b>HOLD: 1</b>	<b>SELL: 0</b>

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022F earnings 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	14,921	17,798	20,775
Cost of sales	9,644	9,015	10,563	11,730	12,397
<b>Gross profit</b>	<b>2,454</b>	<b>2,512</b>	<b>4,357</b>	<b>6,068</b>	<b>8,377</b>
% gross margin	20.3%	21.8%	29.2%	34.1%	40.3%
Selling & administration expenses	1,555	1,449	1,839	2,003	2,017
<b>Operating profit</b>	<b>898</b>	<b>1,063</b>	<b>2,518</b>	<b>4,065</b>	<b>6,360</b>
% operating margin	7.4%	9.2%	16.9%	22.8%	30.6%
Depreciation & amortization	1,015	1,048	1,138	1,251	1,354
<b>EBITDA</b>	<b>1,913</b>	<b>2,111</b>	<b>3,656</b>	<b>5,316</b>	<b>7,714</b>
% EBITDA margin	15.8%	18.3%	24.5%	29.9%	37.1%
Non-operating income	92	106	100	102	104
Non-operating expenses	0	0	0	0	0
Interest expense	(61)	(57)	(75)	(96)	(90)
<b>Pre-tax profit</b>	<b>929</b>	<b>1,111</b>	<b>2,544</b>	<b>4,071</b>	<b>6,374</b>
Income tax	52	87	173	296	500
<b>After-tax profit</b>	<b>877</b>	<b>1,024</b>	<b>2,370</b>	<b>3,776</b>	<b>5,874</b>
% net margin	7.2%	8.9%	15.9%	21.2%	28.3%
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>2,376</b>	<b>3,781</b>	<b>5,879</b>
<b>Normalized profit</b>	<b>881</b>	<b>1,018</b>	<b>2,376</b>	<b>3,781</b>	<b>5,879</b>
EPS (Bt)	0.8	1.0	2.0	3.2	5.0
Normalized EPS (Bt)	0.7	0.9	2.0	3.2	5.0

*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	9,737	11,221	12,441
Cash & cash equivalent	957	2,347	2,500	3,000	3,200
Account receivables	2,973	3,174	4,109	4,901	5,721
Inventories	2,701	2,594	3,039	3,214	3,397
Others	88	69	89	106	124
Investments & loans	199	187	187	187	187
Net fixed assets	8,839	8,107	9,011	9,472	9,833
Other assets	744	898	1,178	1,416	1,662
<b>Total assets</b>	<b>16,501</b>	<b>17,377</b>	<b>20,112</b>	<b>22,297</b>	<b>24,123</b>
<b>LIABILITIES:</b>					
Current liabilities:	3,651	4,216	5,144	5,550	5,061
Account payables	2,293	2,458	2,880	3,198	3,380
Bank overdraft & ST loans	1,067	1,283	1,755	1,797	1,255
Current LT debt	259	387	436	447	312
Others current liabilities	33	88	72	108	114
<b>Total LT debt</b>	<b>724</b>	<b>676</b>	<b>1,018</b>	<b>1,042</b>	<b>728</b>
Others LT liabilities	364	423	574	696	821
<b>Total liabilities</b>	<b>4,739</b>	<b>5,315</b>	<b>6,736</b>	<b>7,289</b>	<b>6,610</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>10,742</b>	<b>12,368</b>	<b>14,866</b>
Shareholders' equity	11,712	12,010	13,319	14,945	17,443
<b>Liabilities &amp; equity</b>	<b>16,501</b>	<b>17,377</b>	<b>20,112</b>	<b>22,297</b>	<b>24,123</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	2,544	4,071	6,374
Tax paid	(48)	(32)	(185)	(260)	(494)
Depreciation & amortization	1,015	1,048	1,138	1,251	1,354
Chg In working capital	288	70	(957)	(649)	(821)
Chg In other CA & CL / minorities	(42)	21	(14)	(6)	(6)
<b>Cash flow from operations</b>	<b>2,142</b>	<b>2,218</b>	<b>2,526</b>	<b>4,407</b>	<b>6,407</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)	(150)	(142)	(149)
<b>Cash flow from investments</b>	<b>(505)</b>	<b>(404)</b>	<b>(2,170)</b>	<b>(1,829)</b>	<b>(1,836)</b>
Debt financing	(889)	405	864	76	(991)
Capital increase	0	146	1	0	0
Dividends paid	(1,136)	(952)	(1,067)	(2,155)	(3,381)
Warrants & other surplus	(37)	(24)	0	0	0
<b>Cash flow from financing</b>	<b>(2,062)</b>	<b>(424)</b>	<b>(203)</b>	<b>(2,079)</b>	<b>(4,371)</b>
<b>Free cash flow</b>	<b>1,689</b>	<b>1,941</b>	<b>526</b>	<b>2,740</b>	<b>4,740</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)	111.2	96.2	41.2	25.9	16.7
Normalized PE - at target price (x)	127.2	110.1	47.2	29.6	19.1
PE (x)	104.8	86.9	41.2	25.9	16.7
PE - at target price (x)	119.9	99.5	47.2	29.6	19.1
EV/EBITDA (x)	51.8	46.4	27.0	18.5	12.6
EV/EBITDA - at target price (x)	59.2	53.1	30.9	21.1	14.4
P/BV (x)	8.4	8.2	7.4	6.6	5.6
P/BV - at target price (x)	9.6	9.3	8.4	7.5	6.4
P/CFO (x)	45.7	44.2	38.8	22.2	15.3
Price/sales (x)	8.1	8.5	6.6	5.5	4.7
Dividend yield (%)	0.9	0.5	1.7	2.7	4.2
FCF Yield (%)	1.7	2.0	0.5	2.8	4.8
<b>(Bt)</b>					
Normalized EPS	0.7	0.9	2.0	3.2	5.0
EPS	0.8	1.0	2.0	3.2	5.0
DPS	0.8	0.4	1.4	2.2	3.5
BV/share	9.9	10.2	11.3	12.7	14.8
CFO/share	1.8	1.9	2.1	3.7	5.4
FCF/share	1.4	1.6	0.4	2.3	4.0

Sources: Company data, Thanachart estimates

## FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
<b>Growth Rate</b>					
Sales (%)	(13.5)	(4.7)	29.4	19.3	16.7
Net profit (%)	(53.6)	20.6	110.8	59.1	55.5
EPS (%)	(53.6)	20.6	110.8	59.1	55.5
Normalized profit (%)	(50.0)	15.6	133.3	59.1	55.5
Normalized EPS (%)	(50.0)	15.6	133.3	59.1	55.5
Dividend payout ratio (%)	96.3	41.9	70.0	70.0	70.0
<b>Operating performance</b>					
Gross margin (%)	20.3	21.8	29.2	34.1	40.3
Operating margin (%)	7.4	9.2	16.9	22.8	30.6
EBITDA margin (%)	15.8	18.3	24.5	29.9	37.1
Net margin (%)	7.2	8.9	15.9	21.2	28.3
D/E (incl. minor) (x)	0.2	0.2	0.2	0.2	0.1
Net D/E (incl. minor) (x)	0.1	(0.0)	0.1	0.0	(0.1)
Interest coverage - EBIT (x)	14.7	18.5	33.7	42.3	70.4
Interest coverage - EBITDA (x)	31.3	36.7	49.0	55.4	85.4
ROA - using norm profit (%)	5.1	6.0	12.7	17.8	25.3
ROE - using norm profit (%)	7.4	8.6	18.8	26.8	36.3
<b>DuPont</b>					
ROE - using after tax profit (%)	7.4	8.6	18.7	26.7	36.3
- asset turnover (x)	0.7	0.7	0.8	0.8	0.9
- operating margin (%)	8.2	10.1	17.5	23.4	31.1
- leverage (x)	1.5	1.4	1.5	1.5	1.4
- interest burden (%)	93.8	95.1	97.1	97.7	98.6
- tax burden (%)	94.4	92.2	93.2	92.7	92.2
WACC (%)	10.2	10.2	10.2	10.2	10.2
ROIC (%)	6.2	7.7	19.5	26.9	38.5
NOPAT (Bt m)	848	980	2,346	3,770	5,861
invested capital (Bt m)	12,805	12,009	14,029	15,231	16,538

Sources: Company data, Thanachart estimates

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