Small Cap Research

HOLD (Unchanged)

Change in Numbers

TP: Bt 70.00 (From: Bt 89.00)

Upside : 7.7%

4 APRIL 2022

KCE Electronics Pcl (KCE TB)

Easing hiccup

KCE is seeing significant relief to the hiccup caused by problems with newly imported machinery. Now, both of its plants are running smoothly on debottlenecked capacities with the waste ratio falling toward normal levels. However, we maintain our HOLD call given what we see as a fairly priced valuation at 25x 2022F PE.

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Thanachart Securities

Hiccup from new machinery

KCE faced an earnings hiccup in 4Q21 and in the early part of 1Q22 due to newly imported machinery for capacity debottlenecking at its Lad Krabang plant not running smoothly. The hiccup resulted in gross margin narrowing to 25% vs. 27% in 3Q21 despite higher production scale from a higher capacity level and the weak baht. KCE decided to postpone installation of debottlenecking capacity at its Ayutthaya plant to 1Q22 from 4Q21. KCE has also put off the opening of its new factory (with the first-phase capacity of 700k sq ft or 23% of existing capacity) to 2Q23 from the original plan of 4Q22.

Easing of the hiccup

The hiccup has mostly been resolved at the Lad Krabang plant and new machinery was installed at its Ayutthaya plant in late February. KCE expects both plants' waste ratio to return to normal by the end of this month. With additional debottlenecking capacity (Exhibit 3), we estimate sales to grow by 34% y-y and 9% q-q in 1Q22F. Gross margin should increase to 26.0% from 25.3% in 4Q21 given lower waste ratio. We estimate 1Q22F earnings of Bt670m, up 56% y-y but still relatively flat with only 5% q-q growth. KCE expects its new machinery to reach peak efficiency during 2Q22 when we estimate a Bt800m profit.

Earnings revisions

We cut our earnings estimates for KCE quite significantly by 13/26/34% in 2022-24F and by 27% in 2025F. In 2022F, the reduction is a result of the hiccup that caused a hold-up in the increase in debottlenecked capacity from 4Q21 to run fully in 2Q22F. In 2023F, the cut is due to a delay of the opening of its new factory to 2Q23 from 4Q22. In 2024F, the cut is because of the postponement of the new factory's second-phase capacity increase of another 700k sq ft to 2025F rather than 2024F. And the cut in 2025F is because we no longer assume the third phase of another 700k sq ft materializes.

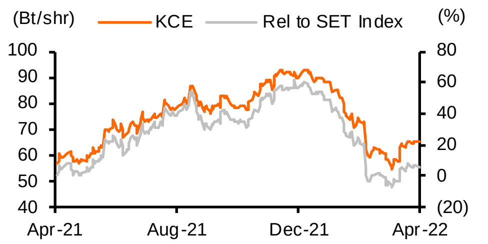
Maintaining HOLD

Despite the easing of the hiccup, we maintain our HOLD call on KCE. *First*, our earnings cuts are substantial from delays in capacity increase schedules. *Second*, the longer-than-expected Russian-Ukraine war which is affecting European economies significantly and more lockdowns in China that are happening during a period of monetary tightening in the US have increased the risk of a global economic slowdown. *Third*, with our lower earnings forecasts, we believe KCE at its current price is already trading near fair valuation at 25x. Our new DCF-based 12-month TP (2022F base year) is Bt70.0 (from Bt89.0), implying 26x PE.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	14,938	17,993	19,563	20,546
Net profit	2,426	3,124	4,033	4,536
Consensus NP	—	3,017	3,697	4,080
Diff frm cons (%)	—	*3.5*	*9.1*	*11.2*
Norm profit	2,237	3,124	4,033	4,536
Prev. Norm profit	—	3,564	5,449	6,832
Chg frm prev (%)	—	*(12.3)*	*(26.0)*	*(33.6)*
Norm EPS (Bt)	1.9	2.6	3.4	3.8
Norm EPS grw (%)	119.7	39.7	29.1	12.5
Norm PE (x)	34.3	24.5	19.0	16.9
EV/EBITDA (x)	23.3	16.7	13.5	11.9
P/BV (x)	5.7	5.1	4.6	4.2
Div yield (%)	0.9	2.9	3.7	4.1
ROE (%)	17.6	22.0	25.5	26.1
Net D/E (%)	8.7	1.5	(2.1)	(6.6)

PRICE PERFORMANCE



COMPANY INFORMATION

Price: (Bt) *as of* 4-Apr-22	65.00
Market Cap (US$ m)	2,292.1
Listed Shares (m shares)	1,181.8
Free Float (%)	58.0
Avg. Daily Turnover (US$ m)	35.0
12M Price H/L (Bt)	93.00/54.75
Sector	Electronics
Major Shareholder	Ongkosit Family 25.4%

Sources: Bloomberg, Company data, Thanachart estimates

Limited potential upside

We maintain HOLD on KCE

We maintain our HOLD call on shares of KCE Electronics Pcl (KCE) and cut our DCF-based 12-month TP, using a 2022F base year, to Bt70/share (from Bt89). Our reasons are provided below:

First, we cut earnings meaningfully by 13/26/34% in 2022-24F. The cut on the back of its factory hiccup, delay in commencement of the new factory and our expectation of a weaker cycle post 2022F amid our view of the industry's softened demand and more challenging supply disruptions from the Russia-Ukraine conflict.

Second, although we still project decent earnings growth for KCE, we see limited upside to its share price at 25x PE, which looks fair to us, as KCE has already passed the peak of this growth cycle, in our view.

Cutting our earnings

We cut our earnings quite meaningfully

We cut our earnings estimates quite significantly by 13/26/34% in 2022-24F. More details of our revisions are provided below.

Ex 1: Earnings Revisions

	2020	2021	2022F	2023F	2024F
Sales (US$ m)					
New	372	469	540	604	652
Old			543	640	737
Change (%)			*(0.5)*	*(5.7)*	*(11.5)*
Bt/US$					
New	31.3	32.0	33.3	32.4	31.5
Old			33.1	31.9	31.0
Sales (Bt m)					
New	11,527	14,938	17,993	19,563	20,546
Old			17,968	20,414	22,838
Change (%)			*0.1*	*(4.2)*	*(10.0)*
Gross margin (%)					
New	21.8	26.6	29.9	32.7	33.7
Old			32.9	39.1	41.4
Change (pp)			*(3.0)*	*(6.4)*	*(7.7)*
SG&A/sales (%)					
New	12.6	11.1	11.1	10.3	9.7
Old			11.6	10.1	9.0
Change (pp)			*(0.5)*	*0.1*	*0.7*
Normalized profit (Bt m)					
New	1,018	2,237	3,124	4,033	4,536
Old			3,564	5,449	6,832
Change (%)			*(12.3)*	*(26.0)*	*(33.6)*

Sources: Company data, Thanachart estimates

Ex 2: 12-month DCF-based TP Calculation Using A Base Year of 2023F

(Bt m)		2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA		4,604	5,671	6,318	7,782	8,764	9,827	10,725	11,605	12,442	13,326	14,223	—
Free cash flow		2,512	3,119	3,896	5,699	7,032	7,959	8,867	9,663	10,413	11,197	12,014	139,701
PV of free cash flow		2,505	2,583	2,935	3,906	4,385	4,397	4,436	4,379	4,274	4,163	4,045	40,392
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	1.1												
WACC (%)	9.9												
Terminal growth (%)	2.0												
Enterprise value - add investments	83,415												
Net debt (2021)	1,172												
Minority interest	62												
Equity value	82,181												
# of shares (m) *	1,180												
Target price/share (Bt)	**70**												

Sources: Company data, Thanachart estimates

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

1) Machinery hiccups

Machinery hiccups (2022F earnings cut): We cut our 2022F earnings by 13% given KCE's hiccup caused by the problems with the installation of new machinery.

KCE's newly installed new machinery at its Lad Krabang plant in 4Q21 (300k sq ft or 10% of the firm's total capacity) didn't run smoothly and this resulted in a high loss ratio. For instance, its plating machines supplied power to the empty copper plates (supposed to supply power only when a copper plate is hung with a hanger). This caused the machinery to put empty hangers into the chemical puddle (used to coat the plate), resulting in a waste of chemicals, diluted chemical quality and therefore wasted production time. This resulted in gross margin narrowing to 25% from 27% in 3Q21 despite higher production scale from a higher capacity level. And then KCE decided to push out its debottlenecking plan at its Ayutthaya plant from 4Q21 to 1Q22.

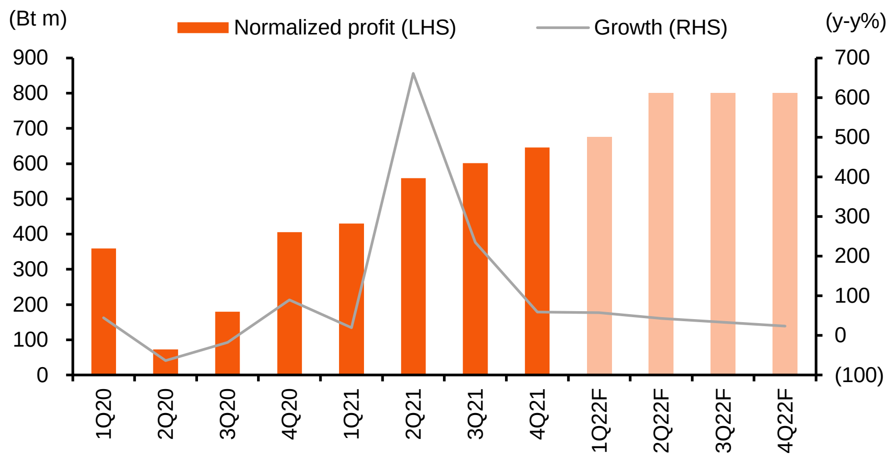
The hiccup has now been mostly resolved and KCE decided to install machinery (another 300k sq ft) at its Ayutthaya plant in late February. KCE expects both factories' waste ratio to return to a normal level by the end of this month. With new debottlenecked capacity (Exhibit 3), we estimate sales to grow by 34% y-y and 9% q-q with gross margin improving to 26% in 1Q22 from 25% in 4Q21. We project 1Q22F earnings at Bt670m, up 56% y-y but still relatively flat at only 5% q-q. KCE expects new machinery to reach peak efficiency during 2Q22 when we estimate Bt800m in profit.

Ex 3: Capacity Timeline

(%)	2021	2022F	2023F	2024F	2025F
Year-end capacity growth	11	10	21	0	18
Effective capacity growth	2	17	15	9	11
US$ sales growth	26	15	12	8	11

Sources: Company data, Thanachart estimates

Ex 4: Quarterly Earnings



Sources: Company data, Thanachart estimates

2) Our new plant delay assumption

New plant delay (2023-25F earnings cut): We cut our earnings in 2023F by 26% as KCE has decided to delay the opening of the new factory's first phase of 700k sq ft to 2Q23 from 4Q22, as a consequence of the hiccup to its existing plants' debottlenecking mentioned earlier. In 2024F, we cut our earnings by another 34% as we put off the new factory's second-phase capacity of another 700k sq ft to 2025F from 2024F. The 27% cut in 2025F is because we no longer assume the third phase of another 700k sq ft materializes.

Our assumption is based on our bearish view on global passenger car and auto-related parts makers' sales. Therefore, KCE would have enough capacity to take up demand based on our assumption. If demand is stronger than expected, KCE could launch a new phase to serve it. That said, we discuss our view on the softer upcycle on the following page.

Weaker upcycle

Our view of the industry's weaker upcycle

Our new assumption in 2022-23F is in line with KCE's new plan but our assumption of the new factory's second phase commencement delay in 2024-25F is a result of our more bearish view on the global electronics industry. Therefore, based on our lower new sales growth assumption (see Exhibit 5), KCE's existing capacity from 2023 should be enough to serve demand. We provide more details of this below.

Ex 5: Our Assumptions

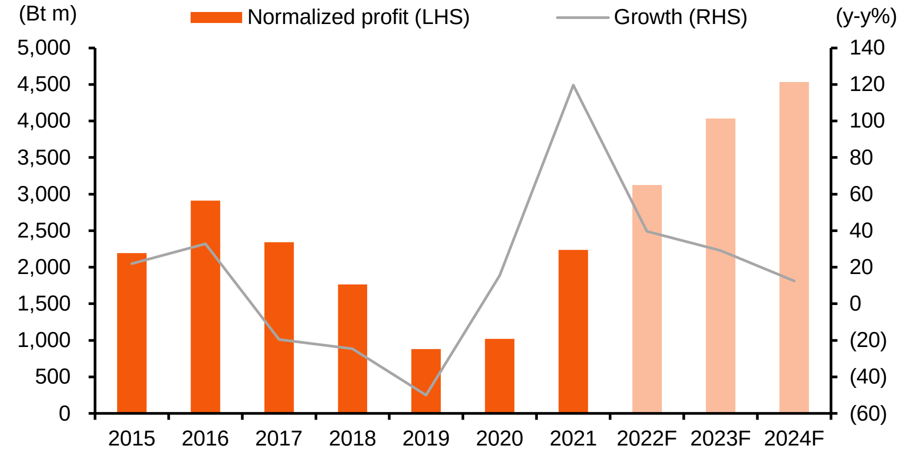
	2020	2021	2022F	2023F	2024F
Year-end capacity (Million sq ft per month)	2.7	3.0	3.3	4.0	4.0
Year-end capacity growth (%)	-	11.1	10.0	21.2	-
Effective capacity growth (Million sq ft per month)	2.7	2.8	3.2	3.7	4.1
Effective capacity growth (%)	-	1.9	17.3	15.0	9.4
Global car sales growth (%)	(15.0)	3.0	7.0	8.0	5.0
US$ Sales growth (%)	(5.3)	25.9	15.3	11.7	8.0
Baht/US$ assumption	31.3	31.9	33.3	32.4	31.5
Baht sales growth (%)	(4.7)	29.6	20.5	8.7	5.0
HDI proportion (%)	16.0	20.0	26.0	32.0	35.0
Gross margin (%)	21.8	26.6	29.9	32.7	33.7
SG&A to sales (%)	12.6	11.1	11.1	10.3	9.7

Sources: Company data, Thanachart estimates

Along with the global electronics industry, KCE's new upcycle began in 2020 when its earnings grew by 16% and later by a further 120% in 2021. This was thanks to very strong demand for cars, rising usage of electronic parts per car, KCE's market share gains and clients restocking to serve strong demand. This year, KCE's orders remain very strong but the risks look to have escalated.

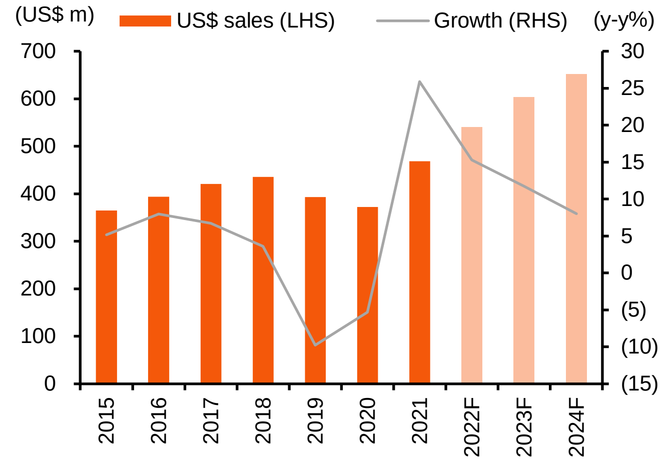
Looking ahead, though we don't expect the cycle to end, we believe the growth cycle has peaked and we expect normalization with earnings growth falling from 39% in 2022F to 29/12% in 2023-24F. Our sales growth estimates are 9/5% in 2023-24F after 20% in 2022F. While we still expect KCE to make market share gains and electronic parts demand to increase, we do however expect weaker car demand, no further client restocking, and more supply shortages. Margin wise, we forecast an increasing EBIT margin trend due to the impact on KCE's operating leverage and a higher mix of higher-margin HDI PCB in KCE's new orders.

Ex 6: Earnings Growth



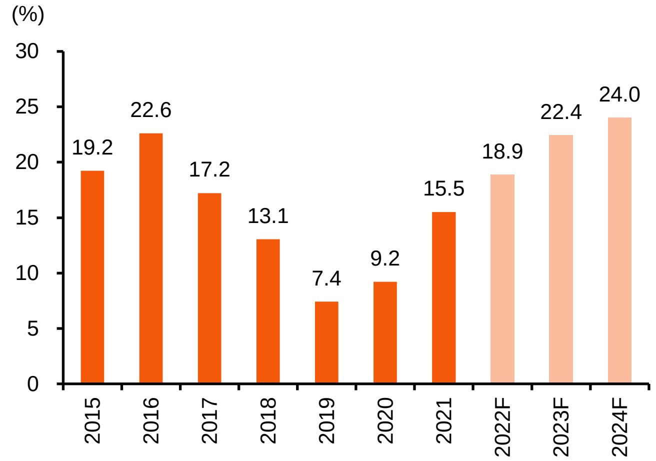
Sources: Company data, Thanachart estimates

Ex 7: Sales Growth



Sources: Company data; Thanachart estimates

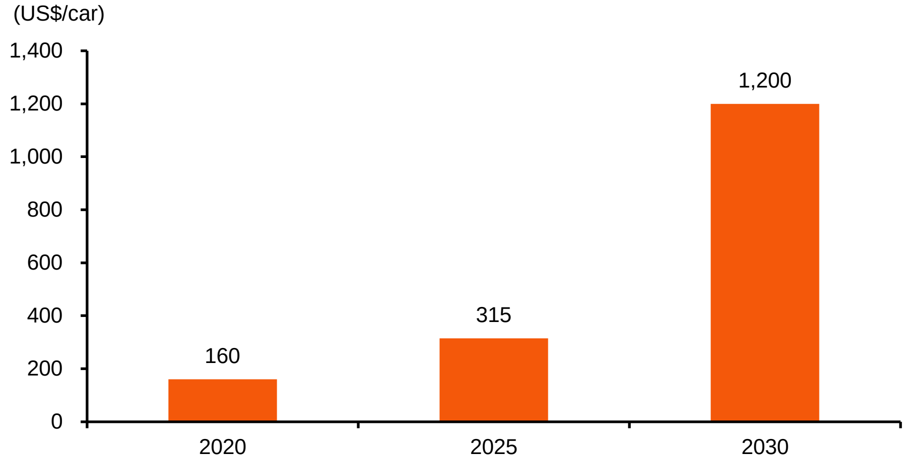
Ex 8: EBIT Margin Trend



Sources: Company data; Thanachart estimates

Note that our US$ sales growth estimates for KCE of 15/12% in 2022-23F are higher than global car sales growth of 7/8%. This is due to our view of a continued structural uptrend in the usage of electronic parts per car, e.g, the Advanced Driver Assistance system, which requires more chips and thus KCE's PCBs, including KCE's market share gain. However, our concern lies more with global car sales, which have the largest impact on KCE's orders. We discuss this more below.

Ex 9: ADAS Growth Outlook



Sources: Strategy Analytics; Infineon

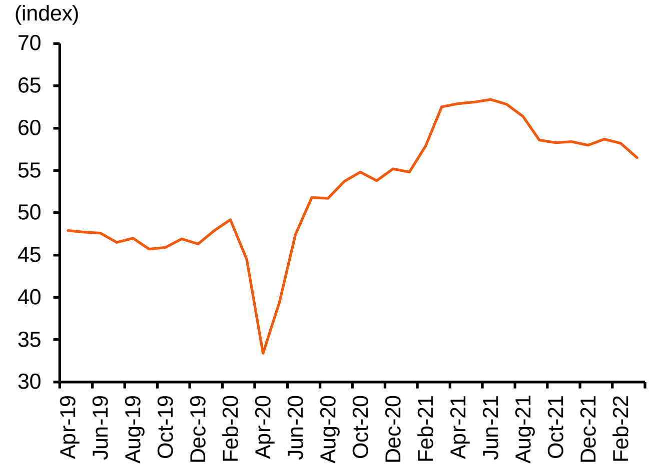
Pressure on both demand and supply sides

We see pressure on global car sales on both the demand and supply sides.

Demand wise, fast-rising inflation, and thus potentially softening global consumption, along with the prolonged conflict between Russia and Ukraine, are key draggers for car demand, in our view. Russia and Ukraine made up 4% and 1% of global car sales in 2021, and the war is having a negative impact on other major markets, e.g., Europe. Europe is KCE's main market (50% of sales) and there has been more of a negative impact on people's affordability there given the sharp rise in inflation vs. other markets given their high reliance on Russian products, e.g., gas. More lockdowns in China that are also taking place during a monetary tightening period in the US have also increased the risk of a global economic slowdown. Exhibit 13 shows the falling global car sales trend. Exhibits 8 and 10 show manufacturing PMI figures in the EU and China. They fell more than other segments. Although production was hit by the COVID lockdowns in China, we believe people cut spending on discretionary items such as cars and high-base, high-value products like electronics first when faced with affordability uncertainty. S&P Global Mobility, an independent research house, has cut global car sales estimates on both softening demand and the supply shortage by 3% in 2022 and forecasts 7% car sales growth this year despite a 15% decline and only 3% growth in 2020-21.

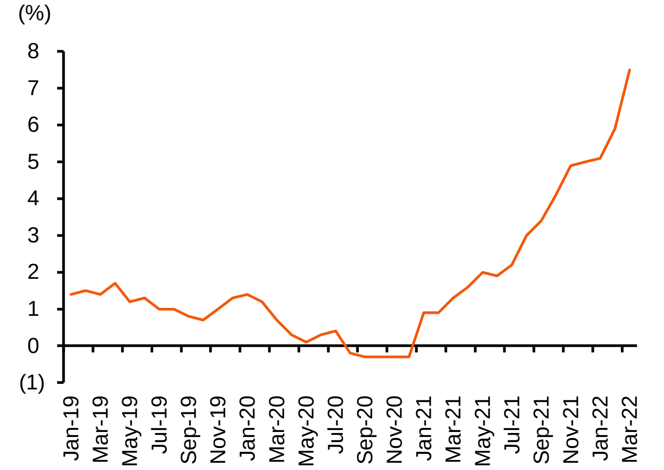
In March, US car sales and some European regions' car sales fell over 20% y-y. Though the supply chain disruptions hit car production, we believe softened demand contributed as well. Note that the average car price in the US increased by over 10% last year amid the chip shortage.

Ex 10: EU Manufacturing PMI Expanding But Softened



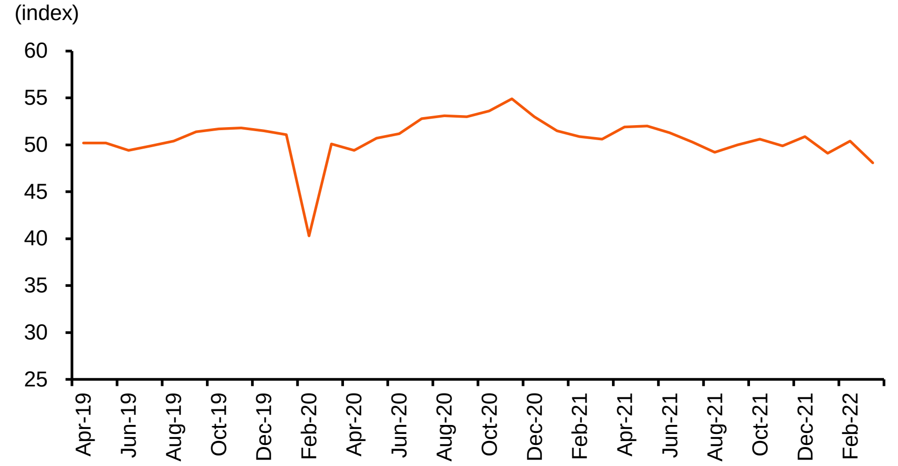
Source: Bloomberg

Ex 11: EU Inflation



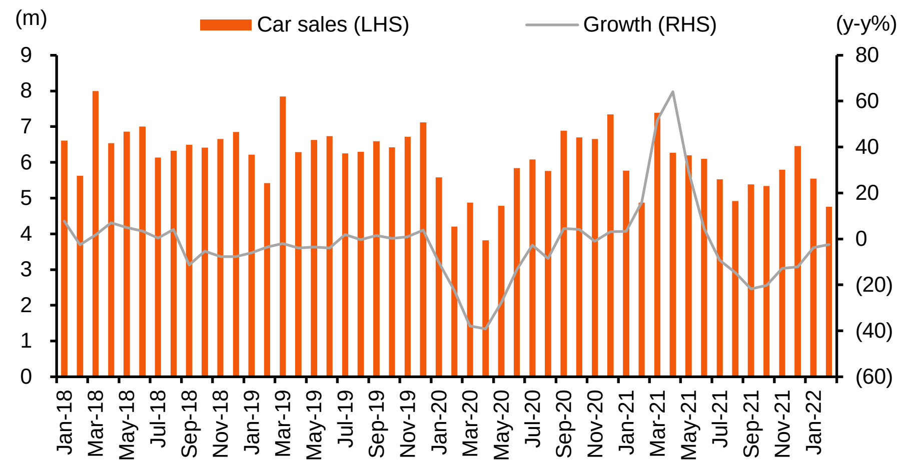
Source: Bloomberg

Ex 12: China Manufacturing PMI



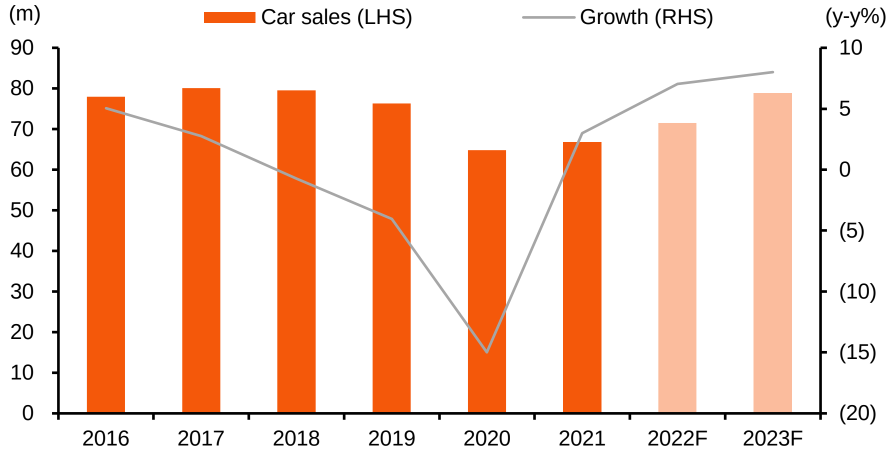
Source: Bloomberg

Ex 13: Global Car Sales



Source: Bloomberg

Ex 14: Lower Global Car Sales Forecasts



Sources: Bloomberg, S&P Global Mobility, Thanachart compilation

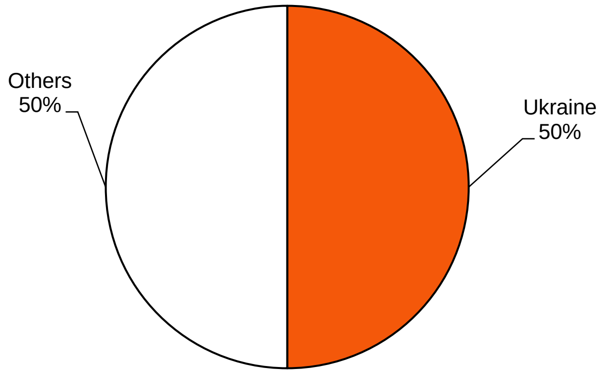
Supply wise, the prolonged Russia-Ukraine war is causing more shortages of main electronic products after already being pressured by the global chip shortage since 2021 which has yet to come to an end.

Russia is one of the main producers of raw materials for cars and chip-related products, e.g., palladium and copper. However, Ukraine supplies materials that are more significant than these products. These materials include neon gas and wire harnesses. Ukraine accounts for around 50% of global neon gas output, which is crucial in chip production (chips are needed in all electronic products including cars). Chip-making machinery with DUB lithography uses carrier gases to operate. Neon accounts for 95% of the carrier gas used in the process. And given its purest quality, it is hard to substitute neon gas. Neon gas is made by the purification of raw neon gas obtained from steel mills (a byproduct of steel making). Ukraine obtained most of its raw neon gas from Russian steel mills. As for wire harnesses, these are electrical wires used to transfer commands in cars and cars can't be built without them. There is no specific market share breakdown of wire harness producers available but Ukraine is the main supplier of wire harnesses to European car makers, which account for around 50% of KCE's sales. According to Wells Fargo, up to 15% of EU car production could be at risk with a prolonged wire harness shortage from Ukraine.

Although, there is likely to be some supply easing after the war ends, e.g., Ukraine sources raw neon gas from other markets (e.g., China, the largest global steel maker vs. Russia the fifth, and production of wire harnesses is relocated to other countries), the electronics industry is facing supply challenges first. Some car makers have announced a halt to production at some factories amid the parts shortage, mainly due to the lack of neon gas and wire harnesses. Note that chip and car makers have around four to six months of raw material inventory.

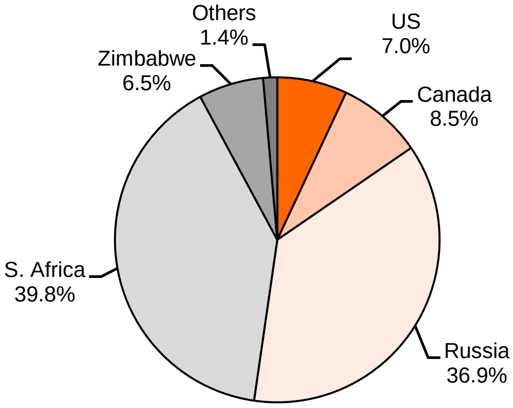
Note that car makers stocked up parts during 2021 despite falling car sales, hoping for strong sales later. We foresee a potential softening of demand and more supply shortages, and therefore continued weak car sales, as destocking risks.

Ex 15: Ukraine A Main Neon Gas Producer



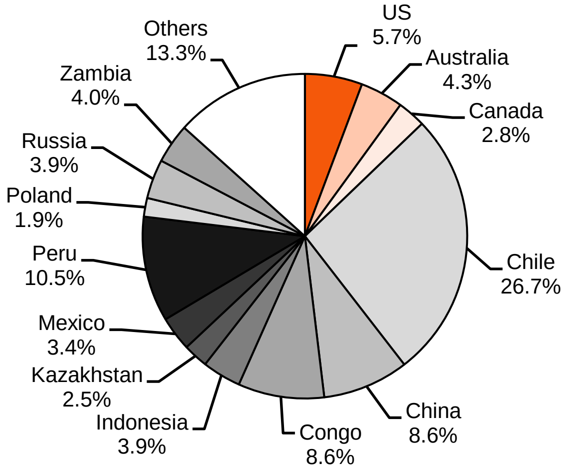
Source: Thanachart compilation

Ex 16: …Palladium…



Source: U.S. Geological Survey

Ex 17: …And Copper



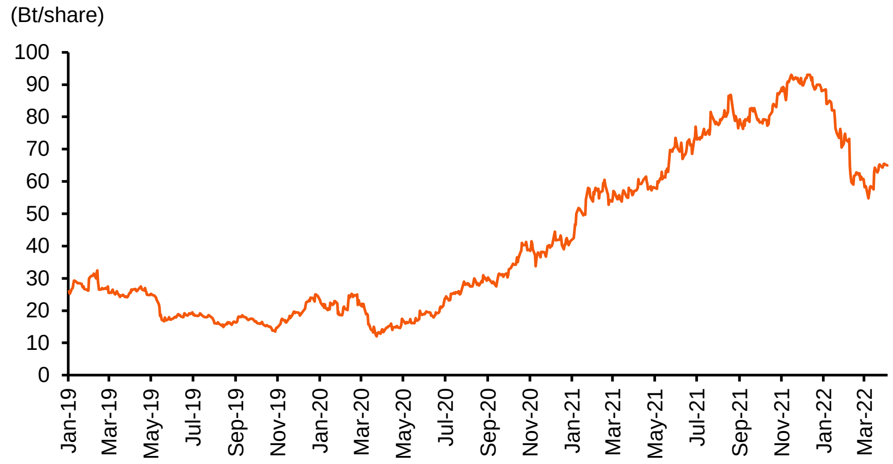
Source: U.S. Geological Survey

Limited potential upside

We see limited upside for KCE's share price

Following our 13/26/34% earnings cuts in 2022-24F, we estimate KCE's earnings growth at 39/29/13% during those years. While this looks decent, we believe KCE is trading near fair value at 25x PE this year. Our TP of Bt70/share implies that KCE is trading on 26x PE. Our TP provides only 7% potential upside from the current share price of Bt65/share.

Ex 18: KCE's Share Price



Source: Bloomberg

Valuation Comparison

Ex 19: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth 22F (%)	EPS growth 23F (%)	PE 22F (x)	PE 23F (x)	P/BV 22F (x)	P/BV 23F (x)	EV/EBITDA 22F (%)	EV/EBITDA 23F (%)	Div. yield 22F (%)	Div. yield 23F (%)
TTM Technologies Inc	TTMI US	USA	(2.2)	17.6	11.8	10.0	1.0	1.0	6.8	6.2	na	na
Chin-Poon Industrial	2355 TT	Taiwan	51.9	29.9	25.6	19.7	0.9	0.8	7.4	6.1	2.0	3.1
Tripod Technology Corp	3044 TT	Taiwan	14.3	10.4	10.3	9.4	1.7	1.6	5.3	5.2	6.2	7.0
CMK Corp	6958 JP	Japan	na	70.7	16.1	9.4	0.8	0.7	7.2	5.3	1.7	2.8
Meiko Electronics	6787 JP	Japan	105.8	31.5	11.6	8.8	2.2	1.9	8.6	7.9	1.0	1.1
Delta Electronics	DELTA TB	Thailand	37.0	21.4	50.9	31.7	10.3	9.1	40.4	34.0	0.9	1.1
SVI Pcl	SVI TB	Thailand	(5.6)	9.5	13.5	12.3	2.9	2.5	11.6	11.1	2.9	2.9
Hana Microelectronics	HANA TB*	Thailand	7.0	8.1	16.0	14.8	1.6	1.6	9.7	8.9	4.2	4.4
KCE Electronics	KCE TB*	Thailand	39.7	29.1	24.5	19.0	5.1	4.6	16.7	13.5	2.9	3.7
Average			**31.0**	**25.4**	**20.0**	**15.0**	**2.9**	**2.6**	**12.6**	**10.9**	**2.7**	**3.3**

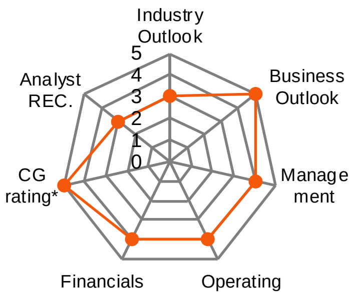
Source: Bloomberg
Note: *Thanachart estimates, using Thanachart normalized EPS
Based on 4-Apr-2022 closing prices

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	
Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

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.

W — Weakness

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

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.

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
Target price (Bt)	78.77	70.00	-11%
Net profit 22F (Bt m)	3,017	3,124	4%
Net profit 23F (Bt m)	3,697	4,033	9%
Consensus REC	**BUY: 10**	**HOLD: 5**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our TP is lower than the Bloomberg consensus number, which we attribute to us having a more conservative assumption for growth in global car sales.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

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

Source: Thanachart

With multiple supporting factors, we expect strong earnings growth

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	11,527	14,938	17,993	19,563	20,546
Cost of sales	9,015	10,965	12,606	13,168	13,623
Gross profit	**2,512**	**3,973**	**5,388**	**6,395**	**6,923**
% gross margin	21.8%	26.6%	29.9%	32.7%	33.7%
Selling & administration expenses	1,449	1,656	1,990	2,007	1,989
Operating profit	**1,063**	**2,317**	**3,398**	**4,388**	**4,933**
% operating margin	9.2%	15.5%	18.9%	22.4%	24.0%
Depreciation & amortization	1,049	1,024	1,206	1,282	1,384
EBITDA	**2,112**	**3,341**	**4,604**	**5,671**	**6,318**
% EBITDA margin	18.3%	22.4%	25.6%	29.0%	30.7%
Non-operating income	106	202	105	107	110
Non-operating expenses	0	0	0	0	0
Interest expense	(57)	(44)	(86)	(80)	(76)
Pre-tax profit	**1,111**	**2,475**	**3,417**	**4,415**	**4,967**
Income tax	87	221	306	395	444
After-tax profit	**1,024**	**2,254**	**3,111**	**4,020**	**4,522**
% net margin	8.9%	15.1%	17.3%	20.6%	22.0%
Shares in affiliates' Earnings	10	17	18	19	20
Minority interests	(16)	(35)	(5)	(6)	(7)
Extraordinary items	109	190	0	0	0
NET PROFIT	**1,127**	**2,426**	**3,124**	**4,033**	**4,536**
Normalized profit	**1,018**	**2,237**	**3,124**	**4,033**	**4,536**
EPS (Bt)	1.0	2.1	2.6	3.4	3.8
Normalized EPS (Bt)	0.9	1.9	2.6	3.4	3.8

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	8,185	11,794	13,451	14,669	15,364
Cash & cash equivalent	2,347	2,482	2,500	3,000	3,200
Account receivables	3,174	4,394	5,293	5,755	6,044
Inventories	2,594	4,841	5,566	5,814	6,015
Others	69	76	92	100	105
Investments & loans	187	195	195	195	195
Net fixed assets	8,107	8,979	8,617	9,047	9,378
Other assets	898	983	1,200	1,321	1,404
Total assets	**17,377**	**21,951**	**23,462**	**25,232**	**26,341**
LIABILITIES:					
Current liabilities:	4,216	6,948	6,954	7,155	6,882
Account payables	2,458	4,246	4,881	5,099	5,275
Bank overdraft & ST loans	1,283	1,798	1,344	1,305	981
Current LT debt	387	740	553	537	404
Others current liabilities	88	164	176	214	222
Total LT debt	**676**	**1,117**	**835**	**811**	**609**
Others LT liabilities	423	444	550	608	649
Total liabilities	**5,315**	**8,509**	**8,339**	**8,574**	**8,140**
Minority interest	52	62	67	73	80
Preferreds shares	0	0	0	0	0
Paid-up capital	589	591	590	590	590
Share premium	2,050	2,146	2,146	2,146	2,146
Warrants	0	(0)	(0)	(0)	(0)
Surplus	(64)	(37)	(37)	(37)	(37)
Retained earnings	**9,434**	**10,680**	**12,357**	**13,885**	**15,421**
Shareholders' equity	12,010	13,380	15,056	16,585	18,121
Liabilities & equity	**17,377**	**21,951**	**23,462**	**25,232**	**26,341**

Sources: Company data, Thanachart estimates

KCE's growth looks priced in to us with KCE's 25x PE for 2022F

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	1,111	2,475	3,417	4,415	4,967
Tax paid	(32)	(149)	(303)	(365)	(443)
Depreciation & amortization	1,049	1,024	1,206	1,282	1,384
Chg In working capital	70	(1,679)	(988)	(492)	(314)
Chg In other CA & CL / minorities	0	(41)	11	19	22
Cash flow from operations	**2,199**	**1,631**	**3,344**	**4,859**	**5,616**
Capex	(278)	(1,854)	(800)	(1,667)	(1,667)
Right of use	(13)	(7)	(20)	(20)	(20)
ST loans & investments	0	0	0	0	0
LT loans & investments	12	(8)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(105)	(69)	(136)	(89)	(70)
Cash flow from investments	**(385)**	**(1,938)**	**(956)**	**(1,776)**	**(1,757)**
Debt financing	405	1,498	(922)	(79)	(660)
Capital increase	146	98	(1)	0	0
Dividends paid	(952)	(1,206)	(1,448)	(2,505)	(2,999)
Warrants & other surplus	(24)	52	0	0	0
Cash flow from financing	**(424)**	**442**	**(2,371)**	**(2,584)**	**(3,659)**
Free cash flow	**1,921**	**(223)**	**2,544**	**3,193**	**3,950**

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	75.3	34.3	24.5	19.0	16.9
Normalized PE - at target price (x)	81.1	36.9	26.4	20.5	18.2
PE (x)	68.1	31.6	24.5	19.0	16.9
PE - at target price (x)	73.3	34.0	26.4	20.5	18.2
EV/EBITDA (x)	36.3	23.3	16.7	13.5	11.9
EV/EBITDA - at target price (x)	39.1	25.1	18.0	14.5	12.9
P/BV (x)	6.4	5.7	5.1	4.6	4.2
P/BV - at target price (x)	6.9	6.2	5.5	5.0	4.6
P/CFO (x)	34.9	47.0	22.9	15.8	13.7
Price/sales (x)	6.7	5.1	4.3	3.9	3.7
Dividend yield (%)	1.2	0.9	2.9	3.7	4.1
FCF Yield (%)	2.5	(0.3)	3.3	4.2	5.1
(Bt)					
Normalized EPS	0.9	1.9	2.6	3.4	3.8
EPS	1.0	2.1	2.6	3.4	3.8
DPS	0.8	0.6	1.9	2.4	2.7
BV/share	10.2	11.3	12.8	14.1	15.4
CFO/share	1.9	1.4	2.8	4.1	4.8
FCF/share	1.6	(0.2)	2.2	2.7	3.3

Sources: Company data, Thanachart estimates

Profitability is strong as it is the lowest-cost producer in the industry

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(4.7)	29.6	20.5	8.7	5.0
Net profit (%)	20.6	115.3	28.8	29.1	12.5
EPS (%)	20.6	115.3	28.8	29.1	12.5
Normalized profit (%)	15.6	119.7	39.7	29.1	12.5
Normalized EPS (%)	15.6	119.7	39.7	29.1	12.5
Dividend payout ratio (%)	83.8	29.2	70.0	70.0	70.0
Operating performance					
Gross margin (%)	21.8	26.6	29.9	32.7	33.7
Operating margin (%)	9.2	15.5	18.9	22.4	24.0
EBITDA margin (%)	18.3	22.4	25.6	29.0	30.7
Net margin (%)	8.9	15.1	17.3	20.6	22.0
D/E (incl. minor) (x)	0.2	0.3	0.2	0.2	0.1
Net D/E (incl. minor) (x)	(0.0)	0.1	0.0	(0.0)	(0.1)
Interest coverage - EBIT (x)	18.5	53.0	39.4	54.6	64.8
Interest coverage - EBITDA (x)	36.7	76.4	53.4	70.6	83.0
ROA - using norm profit (%)	6.0	11.4	13.8	16.6	17.6
ROE - using norm profit (%)	8.6	17.6	22.0	25.5	26.1
DuPont					
ROE - using after tax profit (%)	8.6	17.8	21.9	25.4	26.1
- asset turnover (x)	0.7	0.8	0.8	0.8	0.8
- operating margin (%)	10.1	16.9	19.5	23.0	24.5
- leverage (x)	1.4	1.5	1.6	1.5	1.5
- interest burden (%)	95.1	98.3	97.5	98.2	98.5
- tax burden (%)	92.2	91.1	91.1	91.1	91.1
WACC (%)	9.9	9.9	9.9	9.9	9.9
ROIC (%)	7.7	17.6	21.3	26.1	27.7
NOPAT (Bt m)	980	2,110	3,094	3,996	4,492
invested capital (Bt m)	12,009	14,553	15,289	16,238	16,915

Sources: Company data, Thanachart estimates

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