Small Cap Research

Thanachart Securities

**HOLD** (Unchanged) | **TP: Bt 67.00** (From: Bt 70.00)

**Change in Numbers** | **Upside : 9.4%** | **6 MAY 2022**

# KCE Electronics Pcl (KCE TB)

## Near-term catalysts


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**Despite keeping our HOLD rating, we foresee near-term catalysts for KCE's share price, which is down 34% from 2021's peak. These are the end of a production hiccup caused by problems with new machinery, still strong orders and the weak baht which we expect to result in a 2Q22F earnings recovery.**


### Positive catalysts

Although we maintain our HOLD call on KCE, we see a few near-term catalysts for its share price, which is down 34% from last year's peak. *First,* the production hiccup from newly installed machinery in 4Q21-1Q22 has been resolved and we expect this machinery to run smoothly in 2Q22F on a full-quarter basis. *Second*, despite the continued supply chain disruption due to the Russia-Ukraine war and China lockdowns, KCE's orders remain firm. *Third*, baht weakness has intensified as a result of US Fed's rate hikes. Our in-house baht assumptions are Bt33.8/33.3 per US dollar in 2022-23F vs. Bt33.3 YTD and Bt34.3 at present. Our sensitivity analysis suggests that each 1% weakness in the baht would result in a 3.5% rise in KCE's earnings.

### End of production hiccup

KCE experienced an earnings hiccup in the latter part of 4Q21 and during 1Q22 given a high waste ratio for its newly imported machinery for capacity debottlenecking at its Lad Krabang and Ayutthaya plants. The hiccup affected around 20% of its total capacity. We therefore estimate 1Q22F earnings to come in at Bt650m, flat from 4Q21. After the hiccup, we project KCE's earnings at Bt770/855m in 2Q-3Q22F. Despite the end of the hiccup in 1Q22, KCE expects the new machinery to reach peak efficiency in 3Q22. Note that KCE's capacity gradually increased from 2.7m sq ft in late 2020 to 3.3m sq ft in 1Q22.

### Still strong orders

KCE has been hit by the supply chain disruptions and seen its orders from European customers cut by 10-15% recently. However, it was able to offset that with orders from new Chinese customers. Some EU auto makers have experienced shortages of wire harnesses (a main component of cars) as a result of the Russia-Ukraine conflict. Ukraine's wire harness production accounted for 15% of EU demand prior to the war. However, according to KCE, EU car makers have been now able to find new suppliers. So far, KCE has managed to lock in orders at full capacity into July 2022. The company believes it can continue to secure the same level of orders throughout the year. KCE also says it still has some back-up orders from Chinese buyers.

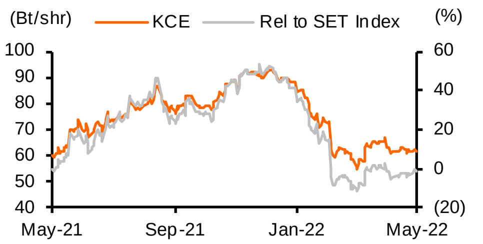
### New plant schedule

Due to the prolonged hiccup at its two existing plants, KCE plans to delay the launch of its new plant slightly from 2Q23 to early 3Q23. The new plant would add 0.7m sq ft of capacity, or 21% of its current total capacity. Due to the delay, we trim our earnings estimate by 4/3% in 2023-24F.

#### COMPANY VALUATION

| Y/E Dec (Bt m) | 2021A | 2022F | 2023F | 2024F |
|---|---|---|---|---|
| Sales | 14,938 | 18,227 | 19,835 | 20,677 |
| Net profit | 2,426 | 3,131 | 3,871 | 4,421 |
| Consensus NP | — | 2,948 | 3,518 | 3,998 |
| *Diff frm cons (%)* | — | *6.2* | *10.0* | *10.6* |
| Norm profit | 2,237 | 3,131 | 3,871 | 4,421 |
| Prev. Norm profit | — | 3,124 | 4,033 | 4,536 |
| *Chg frm prev (%)* | — | *0.2* | *(4.0)* | *(2.5)* |
| Norm EPS (Bt) | 1.9 | 2.7 | 3.3 | 3.7 |
| Norm EPS grw (%) | 119.7 | 40.0 | 23.6 | 14.2 |
| Norm PE (x) | 32.3 | 23.1 | 18.7 | 16.3 |
| EV/EBITDA (x) | 22.0 | 15.7 | 13.1 | 11.5 |
| P/BV (x) | 5.4 | 4.8 | 4.4 | 4.0 |
| Div yield (%) | 1.0 | 3.0 | 3.7 | 4.3 |
| ROE (%) | 17.6 | 22.0 | 24.5 | 25.6 |
| Net D/E (%) | 8.7 | 2.1 | (0.8) | (5.7) |

#### PRICE PERFORMANCE




#### COMPANY INFORMATION

| | |
|---|---|
| Price: (Bt) *as of* 6-May-22 | 61.25 |
| Market Cap (US$ m) | 2,107.7 |
| Listed Shares (m shares) | 1,181.8 |
| Free Float (%) | 59.0 |
| Avg. Daily Turnover (US$ m) | 31.4 |
| 12M Price H/L (Bt) | 93.00/54.75 |
| Sector | Electronics |
| Major Shareholder | Ongkosit Family 25.4% |

Sources: Bloomberg, Company data, Thanachart estimates

## Positive catalysts

*We maintain our HOLD on KCE but see near-term catalysts for its share price*

Though we maintain our HOLD recommendation on shares of KCE Electronics (KCE), we foresee near-term catalysts for its share price, which has come down by 34% from its peak in 2021. Our DCF-based 12-month TP, using a 2022F base year, is trimmed to Bt67/share from Bt70 previously.

*Its production hiccup has been resolved*

**End of production hiccup:** KCE installed new sets of machinery at its Lad Krabang plant in late 4Q21 (0.3m sq ft, or 10% of the firm's total capacity). They didn't run smoothly and this resulted in a high waste ratio. The key problem was that the plating machines supplied power to empty copper plates (they should only provide power when the copper plates are 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 high waste ratio resulted in its gross margin falling to 25% in 4Q21 from 27% in 3Q21 despite higher production scale from its capacity boost. This forced KCE to push out its other debottlenecking plan at its Ayutthaya plant from 4Q21 to 1Q22.

KCE installed new machinery at its Ayutthaya plant (another 0.3m sq ft) in late February. The machinery hiccup at both plants improved during the quarter and a lower waste ratio was achieved in late 1Q22. Therefore, we estimate 1Q22F earnings of Bt650m, still flat q-q despite higher sales volume from more capacity because of the still high waste ratio during the quarter.

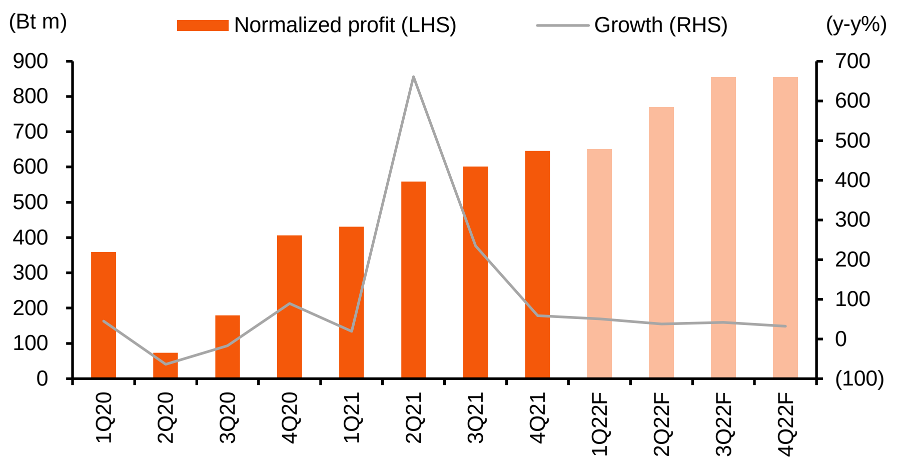
Though the hiccup was resolved in late 1Q22, KCE expects its new machinery to reach peak capacity by 3Q22. We estimate Bt770/855m in 2Q-3Q22F. In all, the new machinery would add 0.6m sq ft of capacity, or a 22% increase from late 2020.

**Ex 1: KCE's Capacity**

| (%) | 2021 | 2022F | 2023F | 2024F |
|---|---|---|---|---|
| Year-end capacity growth | 11 | 10 | 21 | 0 |
| Effective capacity growth | 2 | 17 | 13 | 10 |
| US$ sales growth | 26 | 15 | 10 | 8 |

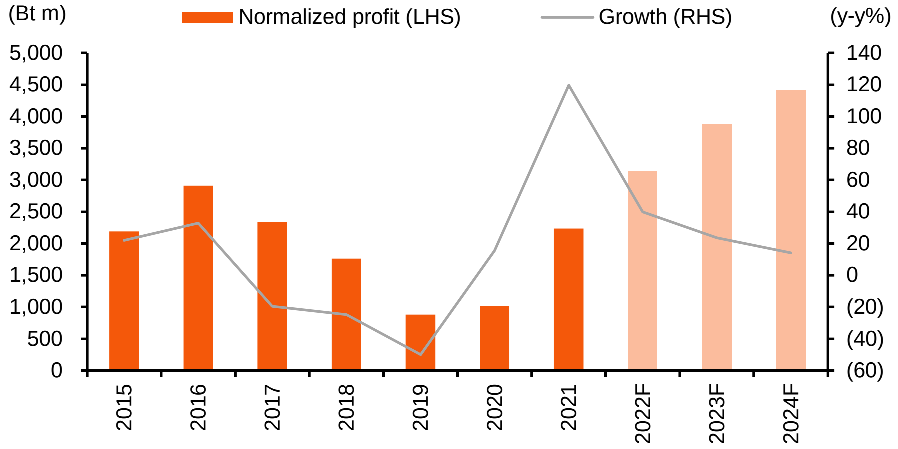
Sources: Company data, Thanachart estimates

**Ex 2: Quarterly Earnings**




Sources: Company data, Thanachart estimates

**Ex 3: Yearly Earnings**




Sources: Company data, Thanachart estimates

*Orders remain strong despite external difficulties*

**Still strong orders:** KCE has been hit by the supply chain disruption from the Russia-Ukraine war and it recently saw its orders by European customers cut by 10-15%. Some EU car makers have experienced shortages of wire harnesses (the main component in cars) as a result of the Russia-Ukraine conflict. Ukraine wire harness production accounted for 15% of EU demand before the war began. However, orders from KCE's new Chinese customers have made up for the cut. We recap that there has been a structural trend of electronic products makers wanting to relocate from China amid US-China trade conflict fears and the Chinese government's intervention in the private sector. However, KCE's capacity was fully booked earlier so it couldn't take on orders from Chinese buyers at that stage.

According to KCE, EU car makers have now been able to find new suppliers. Meanwhile, KCE so far has locked in orders at full capacity into July this year and it believes it can continue to secure the same level of orders throughout the year. KCE said it still has some back-up orders from Chinese buyers.

*Weak baht trend benefits KCE*

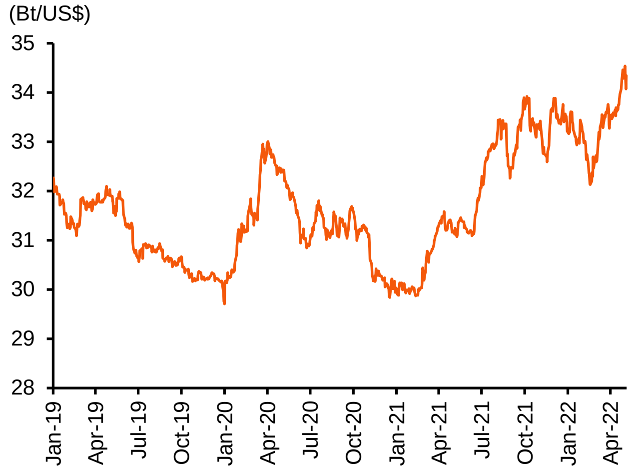
**Baht weakness:** The strong US dollar trend has intensified amid US Fed rate hikes. YTD the baht is at Bt33.3per US dollar while it is at Bt34.3 currently. Our baht assumptions are Bt33.8/33.3 in 2022-23F. We estimate each 1% weakness in the baht would result in a 3.5% increase in KCE's earnings.

**Ex 4: Our Baht Assumptions**

| | Bt/US$ |
|---|---|
| 2020 | 31.3 |
| 2021 | 32.0 |
| 2022F | 33.8 |
| 2023F | 33.3 |
| 2024F | 32.1 |

Sources: BoT, Thanachart estimates

**Ex 5: US Dollar Vs. Thai Baht**




Source: Bloomberg

## New plant opening delayed

*Some adjustments to new plant opening timeline*

KCE has decided to delay the launch of its new plant slightly from 2Q23 to early 3Q23 given the prolonged production hiccup at its two existing plants as it is reviewing the production process. The new plant would add 0.7m sq ft of capacity or raise its current capacity by 21%. KCE expects the new plant to run at a high utilization rate once it is up and running as it has orders waiting for it. As a result of the delay in opening the new plant, we trim our earnings estimates by 4/3% in 2023-24F.

**Ex 6: Our Key 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 | 4.0 |
| Effective capacity growth (%) | - | 1.9 | 17.3 | 13.2 | 9.6 |
| Global car sales growth (%) | (15.0) | 3.0 | 5.0 | 8.0 | 5.0 |
| US$ sales growth (%) | (5.3) | 25.9 | 15.1 | 10.5 | 8.1 |
| Baht/US$ assumption | 31.3 | 31.9 | 33.8 | 33.3 | 32.1 |
| Baht sales growth (%) | (4.7) | 29.6 | 22.0 | 8.8 | 4.2 |
| HDI proportion (%) | 16.0 | 20.0 | 26.0 | 32.0 | 35.0 |
| Gross margin (%) | 21.8 | 26.6 | 30.0 | 31.7 | 33.2 |
| SG&A to sales (%) | 12.6 | 11.1 | 11.3 | 10.5 | 9.9 |

Sources: Company data, Thanachart estimates

**Ex 7: Earnings Revisions**

| | 2020 | 2021 | 2022F | 2023F | 2024F |
|---|---|---|---|---|---|
| **Sales (US$ m)** | | | | | |
| New | 372 | 469 | 539 | 596 | 644 |
| Old | | | 540 | 604 | 652 |
| *Change (%)* | | | *(0.2)* | *(1.3)* | *(1.2)* |
| | | | | | |
| **Bt/US$** | | | | | |
| New | 31.3 | 32.0 | 33.8 | 33.3 | 32.1 |
| Old | | | 33.3 | 32.4 | 31.5 |
| | | | | | |
| **Sales (Bt m)** | | | | | |
| New | 11,527 | 14,938 | 18,227 | 19,835 | 20,677 |
| Old | | | 17,993 | 19,563 | 20,546 |
| *Change (%)* | | | *1.3* | *1.4* | *0.6* |
| | | | | | |
| **Gross margin (%)** | | | | | |
| New | 21.8 | 26.6 | 30.0 | 31.7 | 33.2 |
| Old | | | 29.9 | 32.7 | 33.7 |
| *Change (pp)* | | | *0.1* | *(0.9)* | *(0.5)* |
| | | | | | |
| **SG&A/sales (%)** | | | | | |
| New | 12.6 | 11.1 | 11.3 | 10.5 | 9.9 |
| Old | | | 11.1 | 10.3 | 9.7 |
| *Change (pp)* | | | *0.3* | *0.2* | *0.3* |
| | | | | | |
| **Normalized profit (Bt m)** | | | | | |
| New | 1,018 | 2,237 | 3,131 | 3,871 | 4,421 |
| Old | | | 3,124 | 4,033 | 4,536 |
| *Change (%)* | | | *0.2* | *(4.0)* | *(2.5)* |

Sources: Company data, Thanachart estimates

### Ex 8: 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 | | 4,613 | 5,497 | 6,198 | 7,156 | 8,102 | 9,126 | 10,056 | 11,002 | 11,932 | 12,923 | 13,978 | — |
| Free cash flow | | 2,443 | 2,938 | 3,838 | 5,332 | 6,440 | 7,332 | 8,226 | 9,062 | 9,881 | 10,755 | 11,687 | 137,046 |
| PV of free cash flow | | 2,437 | 2,433 | 2,891 | 3,655 | 4,016 | 4,051 | 4,115 | 4,106 | 4,056 | 3,999 | 3,935 | 39,624 |
| Risk-free rate (%) | 2.5 | | | | | | | | | | | | |
| Market risk premium (%) | 8.0 | | | | | | | | | | | | |
| Beta | 1.1 | | | | | | | | | | | | |
| WACC (%) | 9.9 | | | | | | | | | | | | |
| Terminal growth (%) | 2.0 | | | | | | | | | | | | |
| Enterprise value - add investments | 80,335 | | | | | | | | | | | | |
| Net debt (2021) | 1,172 | | | | | | | | | | | | |
| Minority interest | 62 | | | | | | | | | | | | |
| Equity value | 79,101 | | | | | | | | | | | | |
| # of shares (m) * | 1,180 | | | | | | | | | | | | |
| **Target price/share (Bt)** | **67** | | | | | | | | | | | | |

Sources: Company data, Thanachart estimates

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

## Valuation Comparison

### Ex 9: 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 | (1.7) | 17.8 | 11.5 | 9.7 | 1.0 | 0.9 | 6.6 | 6.1 | na | na |
| Chin-Poon Industrial | 2355 TT | Taiwan | 32.2 | 49.2 | 27.1 | 18.2 | 0.8 | 0.8 | 6.9 | 5.5 | 2.2 | 3.3 |
| Tripod Technology Corp | 3044 TT | Taiwan | 14.3 | 10.4 | 9.8 | 8.9 | 1.6 | 1.5 | 5.0 | 4.9 | 6.8 | 7.6 |
| CMK Corp | 6958 JP | Japan | na | 70.7 | 14.3 | 8.4 | 0.7 | 0.7 | 6.7 | 4.9 | 1.9 | 3.1 |
| Meiko Electronics | 6787 JP | Japan | 113.7 | 20.7 | 9.2 | 7.6 | 1.8 | 1.5 | 7.6 | 6.9 | 1.2 | 1.3 |
| Delta Electronics | DELTA TB | Thailand | 40.4 | 18.1 | 44.2 | 28.8 | 9.1 | 8.0 | 33.9 | 29.2 | 1.1 | 1.2 |
| SVI Pcl | SVI TB | Thailand | (5.9) | 9.5 | 12.9 | 11.8 | 2.8 | 2.4 | 11.2 | 10.7 | 3.0 | 3.0 |
| Hana Microelectronics | HANA TB* | Thailand | 7.0 | 8.1 | 15.1 | 13.9 | 1.5 | 1.5 | 9.1 | 8.3 | 4.5 | 4.7 |
| KCE Electronics | KCE TB* | Thailand | 40.0 | 23.6 | 23.1 | 18.7 | 4.8 | 4.4 | 15.7 | 13.1 | 3.0 | 3.7 |
| **Average** | | | **30.0** | **25.3** | **18.6** | **14.0** | **2.7** | **2.4** | **11.4** | **10.0** | **3.0** | **3.5** |

Source: Bloomberg

Note: *Thanachart estimates, using Thanachart normalized EPS

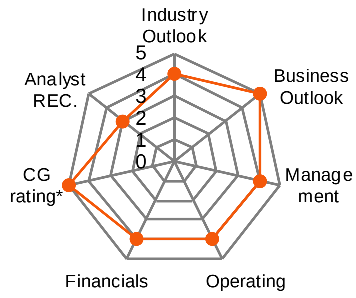
Based on 6-May-2022 closing prices

## 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)** | 77.43 | 67.00 | -13% |
| **Net profit 22F (Bt m)** | 2,948 | 3,131 | 6% |
| **Net profit 23F (Bt m)** | 3,518 | 3,871 | 10% |
| **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 support factors, we expect strong earnings growth*

**INCOME STATEMENT**

| FY ending Dec (Bt m) | 2020A | 2021A | 2022F | 2023F | 2024F |
|---|---|---|---|---|---|
| Sales | 11,527 | 14,938 | 18,227 | 19,835 | 20,677 |
| Cost of sales | 9,015 | 10,965 | 12,755 | 13,539 | 13,807 |
| **Gross profit** | **2,512** | **3,973** | **5,472** | **6,296** | **6,871** |
| % gross margin | 21.8% | 26.6% | 30.0% | 31.7% | 33.2% |
| Selling & administration expenses | 1,449 | 1,656 | 2,065 | 2,081 | 2,057 |
| **Operating profit** | **1,063** | **2,317** | **3,407** | **4,214** | **4,814** |
| % operating margin | 9.2% | 15.5% | 18.7% | 21.2% | 23.3% |
| Depreciation & amortization | 1,049 | 1,024 | 1,206 | 1,282 | 1,384 |
| **EBITDA** | **2,112** | **3,341** | **4,613** | **5,497** | **6,198** |
| % EBITDA margin | 18.3% | 22.4% | 25.3% | 27.7% | 30.0% |
| Non-operating income | 106 | 202 | 105 | 107 | 110 |
| Non-operating expenses | 0 | 0 | 0 | 0 | 0 |
| Interest expense | (57) | (44) | (87) | (85) | (82) |
| **Pre-tax profit** | **1,111** | **2,475** | **3,425** | **4,237** | **4,841** |
| Income tax | 87 | 221 | 306 | 379 | 433 |
| **After-tax profit** | **1,024** | **2,254** | **3,118** | **3,858** | **4,408** |
| % net margin | 8.9% | 15.1% | 17.1% | 19.5% | 21.3% |
| 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** | **3,131** | **3,871** | **4,421** |
| **Normalized profit** | **1,018** | **2,237** | **3,131** | **3,871** | **4,421** |
| EPS (Bt) | 1.0 | 2.1 | 2.7 | 3.3 | 3.7 |
| Normalized EPS (Bt) | 0.9 | 1.9 | 2.7 | 3.3 | 3.7 |

**BALANCE SHEET**

| FY ending Dec (Bt m) | 2020A | 2021A | 2022F | 2023F | 2024F |
|---|---|---|---|---|---|
| **ASSETS:** | | | | | |
| Current assets: | 8,185 | 11,794 | 13,587 | 14,914 | 15,484 |
| Cash & cash equivalent | 2,347 | 2,482 | 2,500 | 3,000 | 3,200 |
| Account receivables | 3,174 | 4,394 | 5,362 | 5,835 | 6,083 |
| Inventories | 2,594 | 4,841 | 5,632 | 5,978 | 6,096 |
| Others | 69 | 76 | 93 | 101 | 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 | 1,215 | 1,338 | 1,413 |
| **Total assets** | **17,377** | **21,951** | **23,613** | **25,494** | **26,470** |
| **LIABILITIES:** | | | | | |
| Current liabilities: | 4,216 | 6,948 | 7,070 | 7,449 | 7,074 |
| Account payables | 2,458 | 4,246 | 4,939 | 5,243 | 5,346 |
| Bank overdraft & ST loans | 1,283 | 1,798 | 1,383 | 1,410 | 1,066 |
| Current LT debt | 387 | 740 | 570 | 580 | 439 |
| Others current liabilities | 88 | 164 | 178 | 216 | 223 |
| **Total LT debt** | **676** | **1,117** | **859** | **876** | **662** |
| Others LT liabilities | 423 | 444 | 556 | 616 | 653 |
| **Total liabilities** | **5,315** | **8,509** | **8,486** | **8,940** | **8,390** |
| 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** | **12,361** | **13,782** | **15,300** |
| Shareholders' equity | 12,010 | 13,380 | 15,061 | 16,481 | 18,000 |
| **Liabilities & equity** | **17,377** | **21,951** | **23,613** | **25,494** | **26,470** |

Sources: Company data, Thanachart estimates

*KCE's growth looks priced in to us with its 23x PE in 2022F*

## CASH FLOW STATEMENT

| FY ending Dec (Bt m) | 2020A | 2021A | 2022F | 2023F | 2024F |
|---|---|---|---|---|---|
| Earnings before tax | 1,111 | 2,475 | 3,425 | 4,237 | 4,841 |
| Tax paid | (32) | (149) | (301) | (349) | (433) |
| Depreciation & amortization | 1,049 | 1,024 | 1,206 | 1,282 | 1,384 |
| Chg In w orking capital | 70 | (1,679) | (1,065) | (516) | (262) |
| Chg In other CA & CL / minorities | 0 | (41) | 10 | 19 | 23 |
| **Cash flow from operations** | **2,199** | **1,631** | **3,275** | **4,674** | **5,553** |
| 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) | (144) | (90) | (65) |
| **Cash flow from investments** | **(385)** | **(1,938)** | **(964)** | **(1,777)** | **(1,752)** |
| Debt financing | 405 | 1,498 | (842) | 54 | (698) |
| Capital increase | 146 | 98 | (1) | 0 | 0 |
| Dividends paid | (952) | (1,206) | (1,450) | (2,451) | (2,902) |
| Warrants & other surplus | (24) | 52 | 0 | 0 | 0 |
| **Cash flow from financing** | **(424)** | **442** | **(2,293)** | **(2,397)** | **(3,601)** |
| **Free cash flow** | **1,921** | **(223)** | **2,475** | **3,008** | **3,886** |

## VALUATION

| FY ending Dec | 2020A | 2021A | 2022F | 2023F | 2024F |
|---|---|---|---|---|---|
| Normalized PE (x) | 71.0 | 32.3 | 23.1 | 18.7 | 16.3 |
| Normalized PE - at target price (x) | 77.6 | 35.3 | 25.2 | 20.4 | 17.9 |
| PE (x) | 64.1 | 29.8 | 23.1 | 18.7 | 16.3 |
| PE - at target price (x) | 70.2 | 32.6 | 25.2 | 20.4 | 17.9 |
| EV/EBITDA (x) | 34.2 | 22.0 | 15.7 | 13.1 | 11.5 |
| EV/EBITDA - at target price (x) | 37.4 | 24.0 | 17.2 | 14.4 | 12.6 |
| P/BV (x) | 6.0 | 5.4 | 4.8 | 4.4 | 4.0 |
| P/BV - at target price (x) | 6.6 | 5.9 | 5.2 | 4.8 | 4.4 |
| P/CFO (x) | 32.9 | 44.3 | 22.1 | 15.5 | 13.0 |
| Price/sales (x) | 6.3 | 4.8 | 4.0 | 3.6 | 3.5 |
| Dividend yield (%) | 1.3 | 1.0 | 3.0 | 3.7 | 4.3 |
| FCF Yield (%) | 2.7 | (0.3) | 3.4 | 4.2 | 5.4 |
| **(Bt)** | | | | | |
| Normalized EPS | 0.9 | 1.9 | 2.7 | 3.3 | 3.7 |
| EPS | 1.0 | 2.1 | 2.7 | 3.3 | 3.7 |
| DPS | 0.8 | 0.6 | 1.9 | 2.3 | 2.6 |
| BV/share | 10.2 | 11.3 | 12.8 | 14.0 | 15.3 |
| CFO/share | 1.9 | 1.4 | 2.8 | 4.0 | 4.7 |
| FCF/share | 1.6 | (0.2) | 2.1 | 2.5 | 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 | 22.0 | 8.8 | 4.2 |
| Net profit (%) | 20.6 | 115.3 | 29.1 | 23.6 | 14.2 |
| EPS (%) | 20.6 | 115.3 | 29.1 | 23.6 | 14.2 |
| Normalized profit (%) | 15.6 | 119.7 | 40.0 | 23.6 | 14.2 |
| Normalized EPS (%) | 15.6 | 119.7 | 40.0 | 23.6 | 14.2 |
| Dividend payout ratio (%) | 83.8 | 29.2 | 70.0 | 70.0 | 70.0 |
| **Operating performance** | | | | | |
| Gross margin (%) | 21.8 | 26.6 | 30.0 | 31.7 | 33.2 |
| Operating margin (%) | 9.2 | 15.5 | 18.7 | 21.2 | 23.3 |
| EBITDA margin (%) | 18.3 | 22.4 | 25.3 | 27.7 | 30.0 |
| Net margin (%) | 8.9 | 15.1 | 17.1 | 19.5 | 21.3 |
| 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 | 39.0 | 49.8 | 58.6 |
| Interest coverage - EBITDA (x) | 36.7 | 76.4 | 52.9 | 65.0 | 75.4 |
| ROA - using norm profit (%) | 6.0 | 11.4 | 13.7 | 15.8 | 17.0 |
| ROE - using norm profit (%) | 8.6 | 17.6 | 22.0 | 24.5 | 25.6 |
| **DuPont** | | | | | |
| ROE - using after tax profit (%) | 8.6 | 17.8 | 21.9 | 24.5 | 25.6 |
| - asset turnover (x) | 0.7 | 0.8 | 0.8 | 0.8 | 0.8 |
| - operating margin (%) | 10.1 | 16.9 | 19.3 | 21.8 | 23.8 |
| - leverage (x) | 1.4 | 1.5 | 1.6 | 1.6 | 1.5 |
| - interest burden (%) | 95.1 | 98.3 | 97.5 | 98.0 | 98.3 |
| - 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 | 25.0 | 26.8 |
| NOPAT (Bt m) | 980 | 2,110 | 3,102 | 3,837 | 4,383 |
| invested capital (Bt m) | 12,009 | 14,553 | 15,373 | 16,347 | 16,967 |

Sources: Company data, Thanachart estimates

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**Note:** Our major shareholder TCAP (Thanachart Capital Pcl) which holding 50.96% of Thanachart Securities and also TCAP holding 100% of Thanachart SPV1 Co. Ltd. TCAP and Thanachart SPV1 Co. Ltd has stake in THANI for 60% and being the major shareholder of THANI.

**Note:** Thanachart Capital Public Company Limited (TCAP), TMBThanachart Bank Public Company Limited (TTB), are related companies to Thanachart Securities Public Company Limited (TNS). Thanachart Securities Pcl is a subsidiary of Thanachart Capital Pcl (TCAP) which holds 23% of the shareholding in TMBThanachart Bank Pcl.

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Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

For sectors, an "Overweight" sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. "Underweight" is used when we have SELLs on majority of the stocks we cover by market cap. "Neutral" is used when there are relatively equal weightings of BUYs and SELLs.

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