KCE Electronics Pcl (KCE TB) - SELL

News Update

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New supply on the horizon

- **KCE's fiberglass supply to come online from 4Q26F**
- **No positive from AI-driven shortage this time**
- **We see risks of competition resumption**
- **We see market share gain as short-lived; SELL**

We recap that KCE's new earnings growth cycle is expected to begin from 3Q26F due to higher selling prices and market-share gains amid a global PCB supply shortage caused by tight supply of fiberglass, a key raw material, due to strong AI demand. This tightened PCB supply, and Chinese PCB makers raised prices much more than KCE, allowing KCE to gain market share. However, we see the benefit as short-lived, given that new fiberglass supply could trigger pricing competition from Chinese PCB makers again. We note that KCE's US$ sales fell 9% p.a. in 2023-25 due to weak EU car sales, its key end-market, and pricing competition from lower-cost Chinese PCB makers. KCE sells much higher-quality PCBs and thus lost market share during the intense pricing competition. *"Note: For our fiberglass and PCB supply analysis, this report draws on industry insights from Daiwa's China PCB report, authored by Dennis Ip and from KCE's comments"*

- **How fiberglass shortage has helped:** KCE and most Chinese peers do not produce PCBs for AI data centers, but they indirectly benefit from strong global AI capex demand through higher PCB selling prices caused by the fiberglass shortage. Fiberglass is simply a key raw material that reinforces PCB laminate, while higher-grade fiberglass is more uniform and interferes less with signal transmission. AI data centers require high-grade fiberglass, called low-Dk glass, which interferes less with high-speed signals and allows large amounts of data to move through PCBs more efficiently, which is important for AI data-center operations. KCE and Chinese PCB makers use lower-grade fiberglass called E-glass, which is suitable for traditional applications such as cars and consumer electronics where signal-speed requirements are lower. Fiberglass makers switched more production from lower-standard E-glass toward much higher-priced low-Dk fiberglass on strong AI demand. As a result, KCE and Chinese PCB makers using E-glass faced a fiberglass shortage, resulting in higher PCB production costs and thus higher selling prices. Chinese PCB makers took advantage of the tight supply and raised selling prices by around 40-50%, while KCE raised prices by only around 10% in an effort to maintain good customer relationships. This allowed KCE to gain market share from Chinese competitors.

Key Valuations

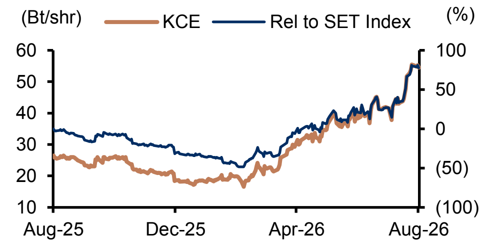
Y/E Dec (Bt m)	2025A	2026F	2027F	2028F
Revenue	13,075	14,074	14,726	14,285
Net profit	833	1,444	2,223	2,127
Norm net profit	785	1,444	2,223	2,127
Norm EPS (Bt)	0.66	1.22	1.88	1.80
Norm EPS gr (%)	(52.6)	84.0	54.0	(4.3)
Norm PE (x)	82.1	44.6	29.0	30.3
EV/EBITDA (x)	35.0	24.3	17.5	17.8
P/BV (x)	4.9	4.9	4.8	4.8
Div. yield (%)	2.2	2.2	3.5	3.3
ROE (%)	5.8	11.0	16.7	15.7
Net D/E (%)	(4.0)	(3.1)	(7.0)	(10.6)

Source: ttb wealth estimates

Stock Data

Closing price (Bt)	54.50
Target price (Bt)	31.00
Market cap (US$ m)	1,967
Avg daily turnover (US$ m)	31.3
12M H/L price (Bt)	55.50/16.50

Price Performance



Source: Bloomberg

- **Limited AI-shortage benefit for KCE's focused fiber glass this time:** That said, new E-glass production supply is expected to come online from 4Q26-1Q27, according to KCE. This time, despite low-Dk fiberglass remaining in shortage on strong AI demand, the new E-glass capacity is not expected to be diverted into AI low-Dk going forward. AI data centers increasingly require higher-specification low-Dk Gen2 as transmission speeds rise and signal-integrity requirements become more demanding. At higher transmission speeds, controlling signal loss, crosstalk and interference becomes increasingly important, requiring better dielectric performance from fiberglass. The currently used low-Dk Gen1 is therefore forecast to move into a supply glut in 2026 going into 2027F. At the same time, conventional E-glass production cannot easily be switched to low-Dk Gen2 as it was to Gen1 earlier, as Gen2 requires much higher-quality yarn, tighter control of the glass formulation, stable production of very fine filaments and significantly better production yields. Also, the customer qualification process can take 1-1.5 years. This implies that new E-glass capacity should mainly supply KCE's focused end-markets of automotive and consumer electronics, where underlying demand is growing by only around 2-3%, rather than being diverted to support AI applications.
- **Risks on KCE:** Although KCE, to us, remains a high-quality PCB maker that offer higher-quality products, we see a risk that new E-glass supply will reduce the pricing competitiveness of Chinese PCB makers and force them to lower selling prices again. Although remaining at a high level, E-glass utilization has already fallen from a peak of around 97% to around 89% currently. On another note, capex of the top-six Chinese PCB makers is expected to rise by 371% in 2026 from the 2024 level. KCE expects new fiberglass supply to come in from 4Q26F-1Q27F but does not expect competition to resume, as it believes some smaller Chinese factories will have to exit the market amid the expensive raw-material environment. That said, we see risks of renewed competition given the low-cost business model of Chinese PCB makers. We forecast 84/54% EPS growth in 2026-27F, followed by 4-5% p.a. declines in 2028-29F and see KCE as expensive at 29x 2027F PE.

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