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### KEY HIGHLIGHTS

Update

**KCE Electronics (KCE TB/BUY/Bt64.25/Target: Bt74.00)**

Earnings to improve yoy and qoq.

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### KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,600.06	(32.56)	(1.99)
SET50	968.75	(18.86)	(1.91)
Value (Btm) - SET	66,236		
<b>Top 5 Sector</b>			
BANK	372.09	(6.24)	(1.65)
PETRO	1,072.28	(43.56)	(3.90)
PROP	234.21	(5.45)	(2.27)
ENERG	24,888.98	(597.01)	(2.34)
ICT	190.00	(3.26)	(1.69)

Source: Bloomberg

### TOP VOLUME

Symbol	Price (Bt)	Chg (%)	Volume ('000)
TOP	53.50	(5.73)	58,787.8
PTT	36.50	(2.67)	69,982.9
SCB	108.00	(3.14)	22,434.3
KBANK	147.00	(1.67)	12,710.5
OR	26.00	(3.70)	66,472.0

### TOP GAINERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
NPK	19.50	30.00	6.1
PICO	6.50	30.00	1,584.4
ASN	4.86	29.95	1,996.5
SE-ED	2.90	29.46	6,133.6
NOVA	16.70	29.46	6,667.2

### TOP LOSERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
CPH	32.00	(29.67)	9,419.2
NEWS	0.04	(20.00)	73,192.8
AFC	12.20	(19.74)	1,488.5
SUTHA	4.48	(18.55)	7,004.1
CPL	3.06	(16.85)	13,585.1

### KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	122.1	11.3	24.4	62.2
Dubai crude*	120.5	13.4	5.6	57.5
Baltic Dry Index	2,320.0	(25.3)	(14.9)	4.6
Gold Spot***	1,822.6	0.6	(6.6)	(0.4)

\*(US\$/bbl), \*\*\* (US\$/toz)

### FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
(74.4)	(343.7)	3,938.7	8,373.2

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 34.93

Interest Rate (%) - TH 1-day RP = 1.50

Thai Lending Rate (%)\* - MLR = 5.25

### COMPANY UPDATE

## KCE Electronics (KCE TB)

Earnings To Improve yoy And qoq

We project KCE to post net profit of Bt752m in 2Q22, up 22% yoy and 28% qoq, mainly due to solid top-line. Top-line would come in at Bt4.6b (+33% yoy, 8% qoq), brought about by more production capacities after the improvement in March and the baht depreciation. Due to our new expectations of the currency effect, we raise our 2022 forecast by 6%. Maintain BUY with a new target price of Bt74.00.

### 2022 RESULTS PREVIEW

Year to 31 Dec (Btm)	2Q22F	2Q21	1Q22	yoy chg (%)	qoq chg (%)
Net turnover	4,691	3,536	4,533	32.7	3.5
Gross profit	1,276	1,027	1,035	24.3	23.3
EBIT	760	570	526	33.4	44.4
EBITDA	1,050	829	785	26.7	33.7
Net profit	767	618	590	24.2	30.1
EPS	0.65	0.53	0.50	24.2	30.0
Core profit	677	501	480	35.1	41.0
Ratio			yoy chg (%)		qoq chg (%)
Gross margin	27.2	29.0	22.8	-1.8	4.4
SG&A% of sales	11.0	12.9	11.2	-1.9	-0.2
Core profit margin	14.4	14.2	10.6	0.3	3.8

Source: KCE, UOB Kay Hian

### WHAT'S NEW

- **2Q22 earnings to improve yoy and qoq.** We expect KCE Electronics (KCE) to post 2Q22 net profit of Bt752m (+24% yoy, +30% qoq), mainly supported by strong revenue from continued printed circuit board (PCB) demand.

Top-line could hit Bt4.6b (+33% yoy, +4% qoq) due to more production capacities at the Latkrabang and Ayutthaya plants after the improvement in March, with higher utilisation of 80-90%. Excluding the currency effect, sales in US dollar terms is expected to come in at US\$136m (+22% yoy, flat qoq). Gross margin could be 27.2% (-1.8ppt yoy, +4.4ppt qoq). Yoy gross margin is lower, pressured by higher prices of raw materials. Meanwhile, gross margin is forecasted to increase qoq, mainly due to baht depreciation.

### KEY FINANCIALS

Year to 31 Dec (Btm)	2020	2021	2022F	2023F	2024F
Net turnover	11,527.2	14,937.8	17,744.6	19,111.1	20,309.3
EBITDA	2,110.9	3,298.4	3,905.1	4,254.7	4,584.7
Operating profit	1,062.9	2,316.9	2,750.4	3,019.6	3,269.8
Net profit (rep./act.)	1,126.8	2,426.3	2,876.2	3,138.7	3,384.0
Net profit (adj.)	1,126.8	2,426.3	2,876.2	3,138.7	3,384.0
EPS (Bt)	1.0	2.1	2.5	2.7	2.9
PE (x)	66.9	31.1	26.2	24.0	22.3
P/B (x)	6.3	5.6	4.8	4.1	3.6
EV/EBITDA (x)	36.8	23.5	19.9	18.2	16.9
Dividend yield (%)	0.6	0.6	0.7	0.8	0.9
Net margin (%)	9.8	16.2	16.2	16.4	16.7
Net debt/(cash) to equity (%)	0.1	12.7	10.1	2.6	(7.0)
Interest cover (x)	36.7	75.5	89.4	97.4	104.9
ROE (%)	9.5	19.1	19.7	18.4	17.2
Consensus net profit	-	-	2,873	3,490	4,016
UOBKH/Consensus (x)	-	-	1.00	0.90	0.84

Source: KCE Electronics, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	Bt61.75
Target Price	Bt74.00
Upside	+19.8%
(Previous TP)	Bt69.00

### COMPANY DESCRIPTION

KCE Electronics manufactures and distributes printed circuit boards under the KCE trademark. The company mainly focuses on the automobile PCB segment.

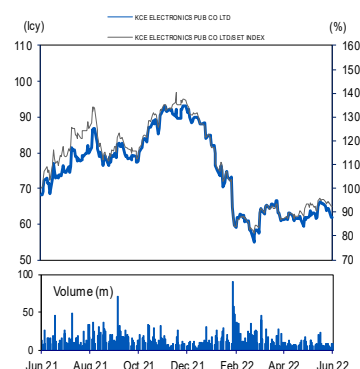
### STOCK DATA

GICS sector	Information Technology			
Bloomberg ticker:	KCE TB			
Shares issued (m):	1,181.8			
Market cap (Btm):	75,929.4			
Market cap (US\$m):	2,184.2			
3-mth avg daily t'over (US\$m):	22.4			
<b>Price Performance (%)</b>				
52-week high/low	Bt93.00/Bt54.75			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
7.5	10.3	(30.9)	(8.5)	(27.0)

### Major Shareholders

	%
Ongkosit Family	34.0
Apco Capital	7.5
State Street Bank Europe	3.5
FY22 NAV/Share (Bt)	13.46
FY22 Net Debt/Share (Bt)	1.36

### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- Improvement of gross margin due to lower copper prices.** In 2Q22, we expect gross margin to improve as copper prices are likely to drop. We see that copper London Metal Exchange (LME) prices slipped from a record high in Mar 22 at US\$10,375/MT to US\$9,447/MT in May 22 (-10%) on weak demand due to the China lockdowns. Our analysis reveals a negative correlation between KCE's gross margin and copper LME prices. If copper prices decline 1%, gross margin will likely increase 0.09%. Therefore, if copper prices drop 10%, gross margin is likely to improve 1.13%.
- Expects strong earnings outlook in 2H22.** We expect KCE to record a better performance in 2H22 and expect earnings to increase 15% hoh, underpinned by: a) strong revenue from higher utilisation rates at the Latkrabang and Ayutthaya plants, b) better gross margin from our expectations of baht depreciation due to the expectation of quantitative tightening of the Fed, c) downward adjustment of copper prices, and d) solid growth for electric vehicles in the long term.
- Baht would plummet against US\$ due to Fed tightening in 2H22.** We think the baht would depreciate due to expectations of the Fed's rate hike, which could make the US dollar appreciate. Moreover, according to Bloomberg, the baht against the US dollar is forecasted to be Bt33.9/US\$1 in 2H22. We think that KCE could be one of beneficiaries of this as the company has exposure in US dollars. Our sensitivity analysis suggests that if the baht goes up by 1%, KCE's earnings in 2022 will drop by 2%.

### EARNINGS REVISION/RISK

- Raise earnings forecasts for 2022-24.** We have revised up our earnings forecast in 2022 due to new assumptions of foreign exchange from Bt32.1/US\$1 to Bt33.8/US\$1. As the baht is expected to depreciate, this could affect sales and earnings by 5% and 6% respectively. For 2023-24, we only fine-tune earnings.

### EARNINGS REVISION

(Bt m)	2022F			2023F			2024F		
	New	Previous	Change	New	Previous	Change	New	Previous	Change
Sales	17,745	16,922	4.9%	19,111	19,175	-0.3%	20,309	20,689	-1.8%
Net profit	2,876	2,726	5.5%	3,139	3,147	-0.3%	3,384	3,422	-1.1%
GPM (%)	27.8	27.6	0.2	28.2	28.0	0.2	28.6	28.5	0.1
Bt/\$US	33.8	32.1	5.3%	31.7	31.7	0.0%	31.7	31.7	0.0%

Source: KCE, UOB Kay Hian

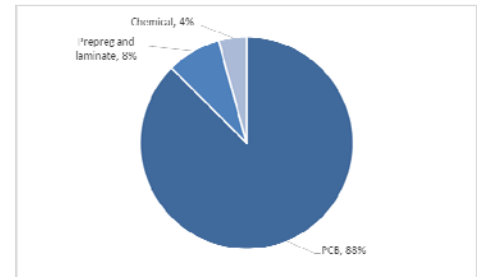
### VALUATION/RECOMMENDATION

- Maintain BUY on KCE with a new target price of Bt74.00**, based on 31x 2022F PE and pegged at +0.5SD to its five-year mean PE. Although there are some uncertainties, which could affect KCE's share price in the short term, we still recommend BUY on KCE as we expect to see earnings growth of 20% in 2022. Furthermore, we think there are many factors that could support KCE outlook in the long run, such as EV, 5G technology, and AI. For 2023 and beyond, we also see potential upside in new production capacity of the Rojana plants at around 600,000sqm/month. This could be another factor supporting KCE's earnings in the long run.

### SHARE PRICE CATALYST

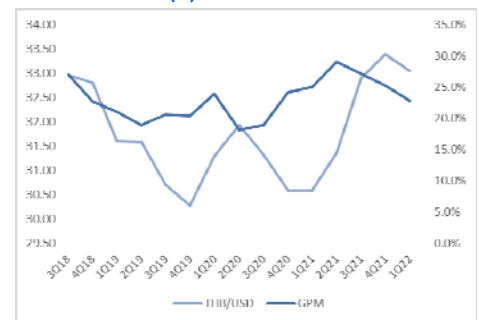
- Positive:** Baht depreciation, lower copper prices, increase in capacity expansion, increase in automobile sales, and easing of global tensions, especially in Europe.
- Negative:** Baht appreciation, higher copper prices, machine issues, and continuation of the Russia-Ukraine war.

### REVENUE BREAKDOWN (2022)



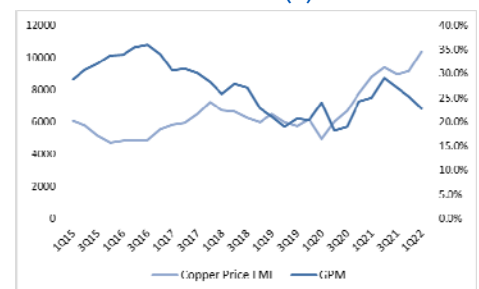
Source: KCE, UOB Kay Hian

### BT/USD VS GPM (%)



Source: KCE, UOB Kay Hian

### COPPER PRICE LME VS GPM (%)



Source: KCE, UOB Kay Hian

### PE BAND



Source: KCE, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
<b>Net turnover</b>	<b>14,938</b>	<b>17,745</b>	<b>19,111</b>	<b>20,309</b>
EBITDA	3,298	3,905	4,255	4,585
Deprec. & amort.	982	1,155	1,235	1,315
EBIT	2,317	2,750	3,020	3,270
Total other non-operating income	392	404	416	428
Associate contributions	17	18	19	20
Net interest income/(expense)	(44)	(44)	(44)	(44)
<b>Pre-tax profit</b>	<b>2,683</b>	<b>3,129</b>	<b>3,411</b>	<b>3,675</b>
Tax	(221)	(218)	(237)	(256)
Minorities	(35)	(35)	(35)	(35)
<b>Net profit</b>	<b>2,426</b>	<b>2,876</b>	<b>3,139</b>	<b>3,384</b>
Net profit (adj.)	2,426	2,876	3,139	3,384

### CASH FLOW

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>1,320</b>	<b>1,626</b>	<b>3,612</b>	<b>3,988</b>
Pre-tax profit	2,683	3,129	3,411	3,675
Tax	(221)	(218)	(237)	(256)
Deprec. & amort.	982	1,155	1,235	1,315
Working capital changes	(1,679)	(2,358)	(757)	(711)
Non-cash items	(444)	(81)	(40)	(35)
Other operating cashflows	0	0	0	0
<b>Investing</b>	<b>(1,930)</b>	<b>(1,045)</b>	<b>(1,900)</b>	<b>(1,409)</b>
Capex (growth)	(1,823)	(1,088)	(1,922)	(1,428)
Investments	(31)	0	0	0
Others	(76)	44	21	19
<b>Financing</b>	<b>233</b>	<b>(476)</b>	<b>(581)</b>	<b>(630)</b>
Dividend payments	(789)	(513)	(581)	(630)
Issue of shares	98	0	0	0
Proceeds from borrowings	1,314	0	0	0
Others/interest paid	(390)	37	0	0
<b>Net cash inflow (outflow)</b>	<b>(377)</b>	<b>105</b>	<b>1,130</b>	<b>1,948</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>2,342</b>	<b>1,966</b>	<b>2,071</b>	<b>3,201</b>
<b>Ending cash &amp; cash equivalent</b>	<b>1,966</b>	<b>2,071</b>	<b>3,201</b>	<b>5,149</b>

### BALANCE SHEET

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
<b>Fixed assets</b>	<b>9,521</b>	<b>9,455</b>	<b>10,141</b>	<b>10,254</b>
Other LT assets	636	674	692	709
Cash/ST investment	1,966	2,071	3,201	5,149
Other current assets	9,828	10,714	10,774	10,637
<b>Total assets</b>	<b>21,951</b>	<b>22,913</b>	<b>24,809</b>	<b>26,749</b>
ST debt	2,543	2,543	2,543	2,543
Other current liabilities	4,405	2,850	2,114	1,231
LT debt	1,126	1,126	1,126	1,126
Other LT liabilities	435	517	557	591
Shareholders' equity	13,380	15,781	18,338	21,092
Minority interest	62	96	131	166
<b>Total liabilities &amp; equity</b>	<b>21,951</b>	<b>22,913</b>	<b>24,809</b>	<b>26,749</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	22.1	22.0	22.3	22.6
Pre-tax margin	18.0	17.6	17.8	18.1
Net margin	16.2	16.2	16.4	16.7
ROA	12.3	12.8	13.2	13.1
ROE	19.1	19.7	18.4	17.2
<b>Growth</b>				
Turnover	29.6	18.8	7.7	6.3
EBITDA	56.3	18.4	9.0	7.8
Pre-tax profit	118.1	16.6	9.0	7.7
Net profit	115.3	18.5	9.1	7.8
Net profit (adj.)	115.3	18.5	9.1	7.8
EPS	115.3	18.5	9.1	7.8
<b>Leverage</b>				
Debt to total capital	21.4	18.8	16.6	14.7
Debt to equity	27.4	23.2	20.0	17.4
Net debt/(cash) to equity	12.7	10.1	2.6	(7.0)
Interest cover (x)	75.5	89.4	97.4	104.9

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