

SECTOR UPDATE

Electronics – Thailand

A Solid Outlook After 2Q24

We expect revenue and gross margin of Thai electronics stocks under our coverage to improve qoq in 2Q24 due to a recovery in demand for many products as well as a better outlook for the semiconductor industry. We expect the strong recovery to be evident in 2H24 thanks to better revenue outlook and gross margin on the back of a baht depreciation and better cost control. Maintain MARKET WEIGHT.

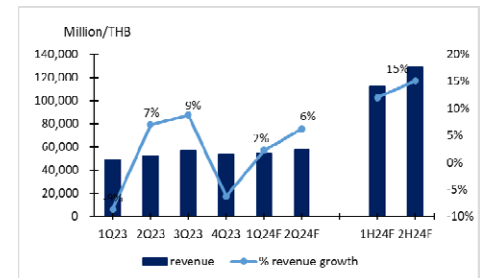
WHAT'S NEW

- Revenue and gross margin of Thai electronics stocks expected to improve in 2Q24.** We anticipate the revenue of Thai electronics stocks under our coverage to improve qoq in 2Q24. Delta Electronics' (DELTA) revenue is expected to increase due to a recovery in electric vehicle (EV) demand in Europe. KCE Electronics' (KCE) revenue should improve, primarily driven by a recovery in printed circuit board (PCB) sales and the ongoing growth in high-density interconnect (HDI) products. Hana Microelectronics' (HANA) management expects to see a qoq revenue growth due to the installation of a new machine for silicon carbide (SiC) products, which should increase production capacity. For SVI, we also foresee higher revenue on contributions from new customers in the communication and audio segments. The sector's gross margin should also improve on: a) higher revenue, b) the expectation of the baht continuing to depreciate, and c) better control on costs such as electricity and utilities, labour, and raw material costs.
- Semiconductor sales continued to recover in 1Q24.** The Semiconductor Industry Association (SIA) has reported global semiconductor sales of US\$140b in 1Q24, increasing 16% yoy due to a recovery in demand, but flattening qoq due to the seasonal effect. We noticed a consecutive six-month recovery on a qoq basis, and that the recovery of Thai electronics sales is slower than that of global sales. Looking ahead, we expect the Thai electronics sector's sales to improve, in line with the global trend. SIA also expects semiconductor sales to continue growing throughout the rest of the year, with a 16% yoy growth, or US\$611b, projected for 2024, supported by the integrated circuit (IC), logic, and memory categories. The Americas and Asia Pacific regions are projected to experience significant growth, which would be positive to Thai electronics companies.
- Impact of trade war:**

 - US escalation of tariffs on Chinese imports.** In May 24, the US announced the increase of tariffs on Chinese imports in various sectors. Tariffs on Chinese EVs have been raised from 25% to 100%, tariffs on semiconductors and solar cells have doubled from 25% to 50%, and tariffs on lithium-ion batteries, both for EVs and non-EVs, have been raised from 7.5% to 25.0%. We estimate this issue will impact Thai electronics companies supplying products to China, such as HANA. However, the impact would be minimal as HANA has a low proportion of sales in China of only 10%. For other stocks like DELTA, KCE, and SVI, we also expect a slight impact.
 - China hit back at the US and Europe over EV tariffs.** After the US increased tariffs on Chinese imports, China has responded by preparing to increase tariffs on EVs from the EU. We believe that companies with a high proportion of customers in Europe, ie KCE with approximately 70% of its sales in Europe, will be impacted if this situation continues. Conversely, other stocks such as DELTA, HANA, and SVI, which have a lower proportion of sales in Europe, are expected to experience minimal impact.

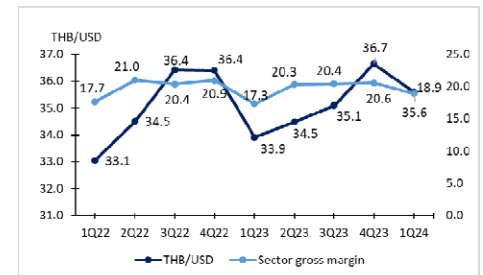
MARKET WEIGHT
(Maintained)

SECTOR QUARTERLY REVENUE OUTLOOK



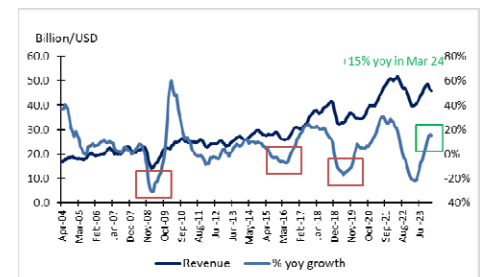
Source: Respective Companies, UOB Kay Hian

CURRENT EFFECT VS SECTOR GROSS MARGIN



Source: BOT, Respective Companies, UOB Kay Hian

WORLDWIDE SEMICONDUCTOR REVENUE



Source: SIA, UOB Kay Hian

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• **Revenue of consumer electronics products to improve slightly.** According to International Data Corporation (IDC), global smartphone shipments came in at US\$289.4m (+8% yoy) in 1Q24. Personal computers (PCs) shipped totalled US\$59.8m, improving slightly yoy after two years of declines and returning to near pre-pandemic level, supported by artificial intelligence (AI) growth. This number indicates a positive recovery trend for consumer electronics products. We also believe this trend will be positive to the Thai electronics sector as well, especially for HANA, as these segments accounted for 40% of HANA's total revenue in 2023.

ACTION

• **Maintain MARKET WEIGHT on electronics sector.** We expect to see an earnings improvement in 2024, with the worst having passed and share prices reflecting a significant portion of the headwinds. Revenue and gross margin of many companies have improved in 1Q24. Nevertheless, we think that the sales recovery of Thai electronics in 1H24 would not be solid, due to soft demand for consumer electronics products. We expect sales to make an outstanding recovery in 2H24. Thus, we maintain MARKET WEIGHT on the sector.

VALUATION

• **DELTA: Maintain HOLD with a target price of Bt63.00.** Our target price is based on 38x 2024F PE and pegged to +1SD to its five-year mean PE. We give DELTA a premium over its peers due to the potential growth of its products, especially AI-related products. We expect its 1Q24 earnings to bottom out, and its earnings should improve starting from 2Q24.

• **KCE: Maintain BUY with a target price of Bt49.00.** Our valuation is based on 26x 2024F PE and pegged to its five-year mean PE. We believe KCE's revenue and gross margin have bottomed out in 1Q24. Based on our conservative gross margin assumption, we still expect earnings for the rest of the year to grow.

• **HANA: Maintain BUY with a target price of Bt52.00.** Our target price is based on 20x 2024F PE and pegged to its five-year mean PE. We re-rate HANA from -1SD to mean like KCE and SVI due to a brighter outlook ahead for the former. We believe HANA's revenue and gross margin have bottomed out in 1Q24 and will start to see a recovery after this.

• **SVI: Maintain HOLD with a target price of Bt7.00.** Our target price is based on 13x 2024F PE and pegged to its five-year mean PE. Due to prolonged destocking by customers, we believe SVI's near-term outlook should not significantly improve. The improvement should be seen in 3Q24-4Q24. Therefore, we maintain HOLD on SVI.

SECTOR CATALYSTS

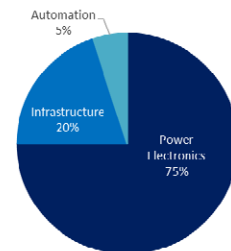
- **Positive:** Baht depreciation, lower raw material prices, increasing capacity expansion.
- **Negative:** Baht appreciation, higher raw material prices, machine issues, higher interest rates and global recession.

PEER COMPARISON

Company	Rec.	Last Price (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US\$m)	Net Profit		PE		Net EPS Growth 2024F(%)	P/B 2024F (x)	Yield 2024F (%)	ROE 2024F (%)
						2024F (Btm)	2025F (Bt m)	2024F (x)	2025F (x)				
DELTA TB	HOLD	75.50	63.00	(16.6)	26,139	20,587	22,985	45.7	41.0	11.7	11.5	0.7	27.5
HANA TB	BUY	41.75	52.00	24.6	1,026	2,055	2,518	16.4	13.3	16.7	1.2	2.8	7.1
KCE TB	BUY	41.50	49.00	18.1	1,362	2,201	2,413	22.1	20.2	28.0	3.4	3.7	15.6
SVI TB	HOLD	7.85	7.00	(10.8)	469	1,191	1,538	14.2	11.0	28.9	2.1	2.2	16.2
Sector					28,995	26,034	29,454	43.1	38.5	13.0	10.6	0.9	26.1

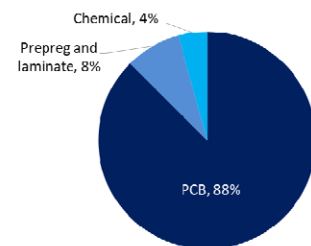
Source: Bloomberg, UOB Kay Hian

DELTA REVENUE BREAKDOWN



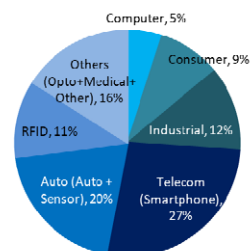
Source: DELTA, UOB Kay Hian

KCE REVENUE BREAKDOWN



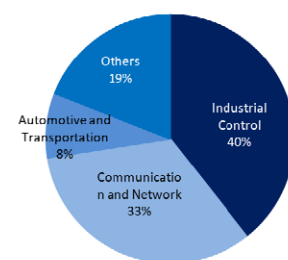
Source: KCE, UOB Kay Hian

HANA REVENUE BREAKDOWN



Source: HANA, UOB Kay Hian

SVI REVENUE BREAKDOWN



Source: SVI, UOB Kay Hian

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