

COMPANY UPDATE

KCE Electronics (KCE TB)

Cloudy Outlook Expected To Persist Into 4Q24

KCE's cloudy outlook is expected to persist into 4Q24, with softer revenue on a qoq basis due to weak demand from the auto sector impacting multilayer PCB, limited capacity of HDI, and ongoing machinery replacement that could still pressure sales in 4Q24. Due to the cloudy outlook of the auto industry and the downward revision of management's guidance, we revise KCE's 2024-25 earnings down by 5% and 10% respectively. Maintain HOLD with a lower target price of Bt28.00.

WHAT'S NEW

- Cloudy outlook expected to persist into 4Q24.** KCE Electronics (KCE) forecasts a 5-7% qoq decline in revenue (in US dollar terms), primarily due to: a) weaker demand from the automotive sector which is affecting multilayer products, b) lower revenue of high-density interconnect (HDI) due to full capacity, and c) the ongoing machinery replacement efforts that continue to strain production capacity. Gross profit margin (GPM) is expected to rise to 24%, driven by anticipated Baht depreciation, ongoing workforce reductions, and improved machine efficiency. With a mix of positive and negative factors, we expect KCE's 4Q24 earnings to drop yoy but increase qoq.
- Lower 2025 revenue forecasts due to cloudy industry outlook.** The company has downgraded its revenue growth forecast for 2025 from high single digit revenue growth to 0-5%, primarily due to the expectation of weak demand in the automotive sector in the US and Europe. In Sep 24, the European Automobile Manufacturers' Association (ACEA) reported that new car registrations in the EU continued to decline, with three of the region's four major markets experiencing negative growth: France (-11% yoy), Italy (-11% yoy), and Germany (-7% yoy). In 1H25, HDI sales are expected to remain sluggish in the first half of 2025 but recover in the second half of the year.
- Expect better gross margin outlook in 2025.** KCE expects significant growth in gross margin to 26% in 2025. This growth will primarily be driven by cost reductions across various areas such as manpower reduction, switching the chemical inputs for its production line and increasing machine efficiency. However, given the expected softer revenue, currency fluctuations, uncertainty surrounding raw material prices and the downward adjustment of average selling prices (ASPs), we remain cautious about KCE's gross margin prospects. Thus, we project KCE's 2025 gross margin at 23.8% (+0.8ppt yoy).

KEY FINANCIALS

Year to 31 Dec (Btm)	2022	2023	2024F	2025F	2026F
Net turnover	18,456.3	16,343.6	15,081	16,020	18,646
EBITDA	3,295.4	2,681.3	2,507	2,751	3,069
Operating profit	2,213.5	1,628.9	1,372	1,618	1,939
Net profit (rep./act.)	2,317.2	1,719.6	1,610	1,852	2,163
Net profit (adj.)	2,317.2	1,719.6	1,610	1,852	2,163
EPS (Bt)	2.0	1.5	1.4	1.6	1.8
PE (x)	19.6	26.4	20.4	17.7	15.2
P/B (x)	3.4	3.3	2.3	2.3	2.2
EV/EBITDA (x)	13.7	16.8	12.7	11.6	10.4
Dividend yield (%)	0.6	3.1	4.0	4.6	5.4
Net margin (%)	12.6	10.5	10.7	11.6	11.6
Net debt/(cash) to equity (%)	20.0	3.6	(9.9)	(16.3)	(23.5)
Interest cover (x)	45.7	25.8	24.5	26.9	30.1
ROE (%)	17.3	12.7	11.6	13.0	14.7
Consensus net profit	-	-	2,002	2,140	2,321
UOBKH/Consensus (x)	-	-	0.80	0.87	0.93

Source: KCE Electronics, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	Bt28.00
Target Price	Bt28.00
Upside	+0.00%
(Previous TP)	Bt30.00)

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):	1,182.1
Market cap (Btm):	33,098.5
Market cap (US\$m):	950.2
3-mth avg daily t'over (US\$m):	11.2

Price Performance (%)

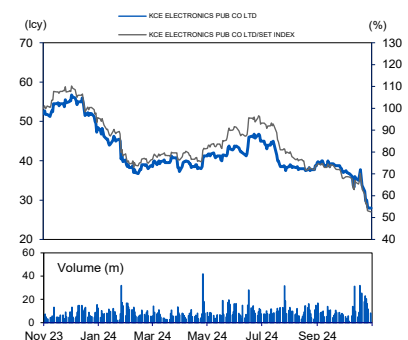
52-week high/low	Bt57.50/Bt27.25				
1mth	3mth	6mth	1yr	YTD	
(24.8)	(26.8)	(32.1)	(44.3)	(49.1)	

Major Shareholders

	%
Ongkosit Group	33.2
Thai NVDR	4.9
Mr. Panja Senadisai	4.8

FY24 NAV/Share (Bt)	11.92
FY24 Net Cash/Share (Bt)	1.18

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Modest increase in earnings expected in 1H25.** Due to ongoing machinery replacement, limited HDI capacity, and a gradual recovery in automotive demand, we anticipate a slight qoq increase in earnings for 1H25. In 2H25, earnings are expected to improve further. For the full year of 2025, we forecast KCE's earnings growing by 15%, primarily driven by higher revenue and an improved gross margin.
- Results a huge miss.** KCE posted a net profit of Bt225m (-58% yoy, -66% qoq) for 3Q24. The 3Q24 revenue in US dollar terms was US\$110m (-11% yoy, flat qoq). Revenue in Thai baht dropped 12% yoy and 5% qoq to Bt3.8b, coming in below our estimates. 3Q24 revenue was mainly pressured by: a) the currency effect, and b) lower shipment volume of printed circuit board (PCB) as the implementation of machinery upgrades affected the volume. KCE reported gross margin of 20.2% (-1.8ppt yoy, -4.6ppt qoq), mainly impacted by the baht appreciating by 4% to Bt34.80/US\$1 (3Q23: Bt35.10/US\$1, 2Q24: Bt36.70/US\$1).

EARNINGS REVISION/RISK

- Cut our 2024-25 net profit forecasts.** We lower our 2024-25 net profit projections by 5% and 10% respectively to reflect lower-than-expected revenue and gross margin and higher-than-expected SG&A-to-sales. We expect revenue to be impacted by the ongoing machinery change until mid-25.

EARNINGS REVISION

(Bt m)	2024F			2025F		
	New	Old	Change	New	Old	Change
Sales	15,081	15,767	-4.3%	16,020	17,613	-9.0%
Net profit	1,610	1,697	-5.1%	1,852	2,066	-10.4%
(%)						
GPM	23.0	23.1	-0.1	23.8	24.1	-0.3

Source: KCE Electronics, UOB Kay Hian

VALUATION/RECOMMENDATION

- Maintain HOLD with a lower target price of Bt28.00 (previous: Bt30.00).** Our valuation is based on 17x 2025F PE, and we peg KCE's target PE to -1.0SD from its five-year mean. We de-rate KCE from mean PE to -1.0SD as we expect its 4Q24 earnings to be impacted by softened revenue caused by machinery issues. We also foresee a decent gross margin as we expect the baht to appreciate from 1H24.

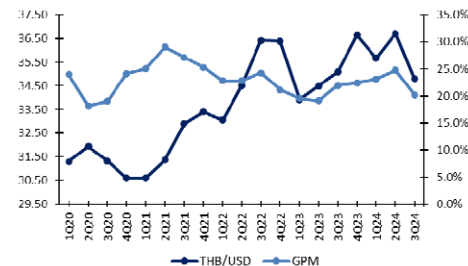
SHARE PRICE CATALYST

- a) Strong demand from the automotive industry, b) baht depreciation, c) lower raw material prices, and d) higher capacity and utilisation rate

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

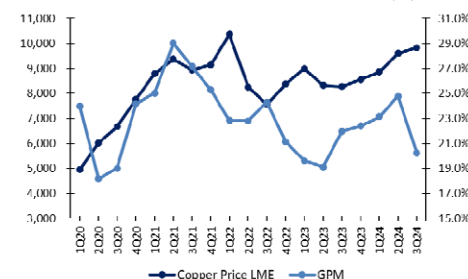
CG Report: 5 SET ESG Rating: -
Environmental <ul style="list-style-type: none"> - Reduce greenhouse gas emissions generated from business operations to become a low-carbon organisation. - Promote sustainable production and consumption practices as well as efficient resources utilisation.
Social <ul style="list-style-type: none"> - Support and respect the protection of internationally proclaimed human rights. - Facilitate the freedom of labour association participation and properly recognise their negotiation rights.
Governance <ul style="list-style-type: none"> - Conduct business transparently and fairly in accordance with good governance principles and be responsible to all stakeholders. - Continuously improve the quality of products and services and promote business innovation development with social and environmental responsibility.

THB/USD VS GROSS MARGIN (%)



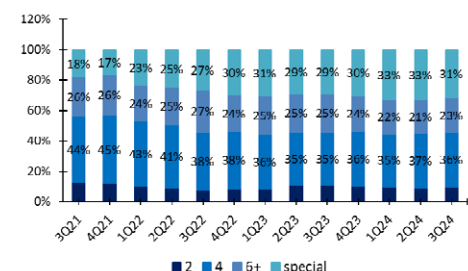
Source: KCE, BOT, UOB Kay Hian

COPPER LME PRICE VS GROSS MARGIN (%)



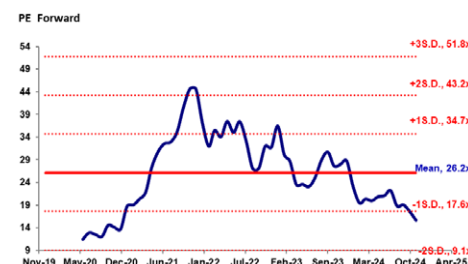
Source: KCE, Bloomberg, UOB Kay Hian

PRODUCT MIX



Source: KCE, UOB Kay Hian

PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2023	2024F	2025F	2026F
Net turnover	16,344	15,081	16,020	18,646
EBITDA	2,681	2,507	2,751	3,069
Deprec. & amort.	1,052	1,372	1,618	1,939
EBIT	1,629	1,610	1,852	2,163
Total other non-operating income	340	1,610	1,852	2,163
Associate contributions	14	1.4	1.6	1.8
Net interest income/(expense)	(104)	20.4	17.7	15.2
Pre-tax profit	1,879	2.3	2.3	2.2
Tax	(131)	12.7	11.6	10.4
Minorities	(28)	4.0	4.6	5.4
Net profit	1,720	10.7	11.6	11.6
Net profit (adj.)	1,720	(9.9)	(16.3)	(23.5)

BALANCE SHEET

Year to 31 Dec (Btm)	2023	2024F	2025F	2026F
Fixed assets	8,592	7,290	6,361	5,417
Other LT assets	522	513	520	539
Cash/ST investment	1,767	3,616	4,571	5,734
Other current assets	8,313	6,043	5,746	6,128
Total assets	19,193	17,463	17,198	17,819
ST debt	1,748	1,712	1,712	1,712
Other current liabilities	2,813	833	83	97
LT debt	515	515	515	515
Other LT liabilities	367	339	360	419
Shareholders' equity	13,688	13,976	14,411	14,931
Minority interest	61	89	117	144
Total liabilities & equity	19,193	17,463	17,198	17,819

CASH FLOW

Year to 31 Dec (Btm)	2023	2024F	2025F	2026F
Operating	3,907	3,061	2,561	2,952
Pre-tax profit	1,879	1,770	2,031	2,368
Tax	(131)	(132)	(151)	(176)
Deprec. & amort.	1,052	1,135	1,133	1,130
Working capital changes	1,116	(15)	(16)	(16)
Non-cash items	(9)	284	(448)	(360)
Other operating cashflows	0	4	(3)	(9)
Investing	(280)	15	16	16
Capex (growth)	(288)	148	(189)	(147)
Investments	19	167	(203)	(187)
Others	(11)	401	401	401
Financing	(3,005)	(420)	(387)	(361)
Dividend payments	(1,441)	(1,360)	(1,417)	(1,643)
Issue of shares	3	(1,362)	(1,417)	(1,643)
Proceeds from borrowings	(1,561)	(36)	0	0
Others/interest paid	(5)	0	0	0
Net cash inflow (outflow)	622	39	0	0
Beginning cash & cash equivalent	1,145	1,850	955	1,162
Ending cash & cash equivalent	1,767	1,767	3,616	4,571

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	16.4	16.6	17.2	16.5
Pre-tax margin	11.5	11.7	12.7	12.7
Net margin	10.5	10.7	11.6	11.6
ROA	8.6	8.8	10.7	12.4
ROE	12.7	11.6	13.0	14.7
Growth				
Turnover	(11.4)	(7.7)	6.2	16.4
EBITDA	(18.6)	(6.5)	9.7	11.6
Pre-tax profit	(24.5)	(5.8)	14.7	16.6
Net profit	(25.8)	(6.4)	15.0	16.8
Net profit (adj.)	(25.8)	(6.4)	15.0	16.8
EPS	(25.8)	(6.4)	15.0	16.8
Leverage				
Debt to total capital	14.1	13.7	13.3	12.9
Debt to equity	16.5	15.9	15.5	14.9
Net debt/(cash) to equity	3.6	(9.9)	(16.3)	(23.5)
Interest cover (x)	25.8	24.5	26.9	30.1

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