

SECTOR UPDATE

Electronics – Thailand

No Signs Of Recovery Yet; Downgrade To MARKET WEIGHT

We have a neutral view on the electronics sector in 4Q24 due to many headwinds. Revenue of the sector would be pressured by product segments, such as automobile, EV, and consumer electronic products. Gross margin should pick up slightly qoq from the expectation of a baht depreciation. Nevertheless, there are many concerns which could impact the gross margin of the sector, such as soft revenue and machinery issues. We downgrade the sector to MARKET WEIGHT.

WHAT'S NEW

- **Soft revenue is expected to persist in 4Q24.** The 3Q24 results for the electronics sector in Thailand fell short of expectations and most analyst meetings had a neutral to negative tone. Many companies believe significant headwinds are anticipated to continue into 4Q24. Both KCE Electronics (KCE) and Hana Microelectronics (HANA) anticipate flat qoq revenue growth in 4Q24 due to weak demand across multiple products although normally 4Q is a peak sales season. For Delta Electronics (DELTA) and SVI, they expect revenue to slightly improve qoq.
- **4Q24 sector gross margin should slightly improve qoq.** The sector's gross margin for 4Q24 is expected to show a slight qoq improvement, supported by the anticipated depreciation of the baht. However, caution remains as gross margins face ongoing pressures from challenges such as machinery issues restricting production capacity and sluggish sales.
- **Weak automobile and EV markets are expected to pressure Thailand's electronics sector's revenue.** 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). Regarding this, KCE, with over 70% of its revenue derived from the automobile product segment, has revised its 2025 revenue growth forecast downward from high single-digit growth to a range of 0–5%. This adjustment is primarily driven by anticipated weak demand in the automobile industries of the US and Europe.
- **Signs of recovery in consumer electronics remains unclear.** According to Canalis, global smartphone shipments reached 309.9m units in 3Q24, reflecting 5% qoq and 7% yoy growths, driven primarily by vendors launching updated product portfolios and improved macroeconomic conditions in emerging markets. However, global PC shipments declined 7% yoy and remained flat qoq at 65.6m units. We found that the computer and telecom segments of HANA revenue account for approximately 30% of its revenue. We believe HANA's revenue will continue to be affected by the sluggish recovery in consumer electronics.
- **1H25 earnings outlook should still be cloudy.** The earnings outlook for 1H25 remains uncertain and under pressure. However, a brighter outlook is anticipated for 2H25. While revenues for most companies are expected to stay subdued, many are shifting their focus toward improving margins by implementing cost-cutting measures.

PEER COMPARISON

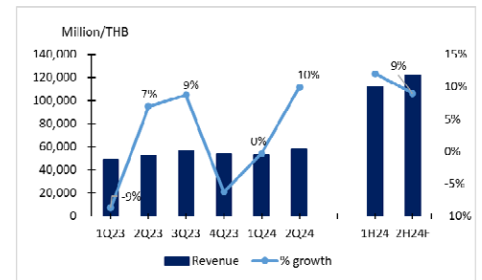
Company	Ticker	Rec.	Last Price (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US\$m)	PE			EPS		P/B	Yield	ROE
							2023 (x)	2024F (x)	2025F (x)	2023-25F CAGR (%)	2024F PEG (x)			
Delta Electronics	DELTA TB	SELL	69.25	63.0	(9.0)	23,975	46.9	42.0	37.6	11.7	3.6	10.5	0.7	27.5
Hana Microelectronics	HANA TB	HOLD	36.00	37.0	2.8	885	16.5	13.4	11.5	19.6	0.6	1.0	3.4	7.4
KCE Electronics	KCE TB	HOLD	37.25	47.0	26.2	1,222	25.4	21.0	17.6	20.3	1.0	3.1	3.9	14.8
SVI	SVI TB	HOLD	6.55	7.0	6.9	391	15.3	11.8	9.2	29.0	0.4	1.8	2.7	16.2
Sector						26,473	44.4	39.6	35.4			9.7	1.0	26.1

Source: UOB Kay Hian

MARKET WEIGHT

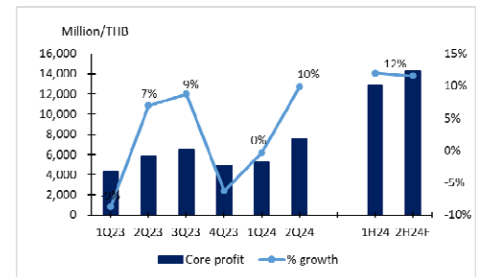
(Downgraded)

SECTOR QUARTERLY REVENUE OUTLOOK



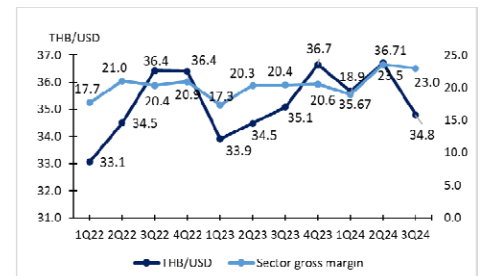
Source: Respective companies, UOB Kay Hian

SECTOR QUARTERLY NET PROFIT OUTLOOK



Source: Respective companies, UOB Kay Hian

CURRENCY EFFECT VS SECTOR GROSS MARGIN



Source: BOT, Respective companies, UOB Kay Hian

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### ACTION

- **Downgrade the electronics sector from OVERWEIGHT to MARKET WEIGHT.** We downgrade the sector to MARKET WEIGHT due to the cloudy outlook ahead. The earnings outlook for 1H25 is expected to remain under pressure. Revenues for most companies are likely to remain subdued. Gross margin of the sector is expected to slightly improve in 1H25 due to the expectation of a baht depreciation and cost-cutting initiatives of many companies. We do not have a top pick in the sector as we believe all companies' 4Q24 earnings would still remain under pressure.

### 3Q24 RESULTS RECAP

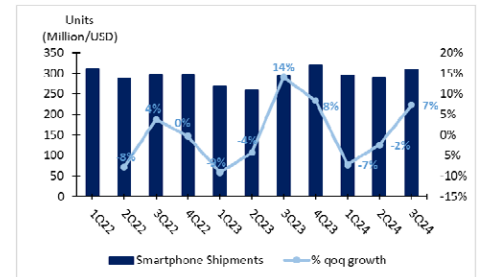
	3Q24F	3Q23	2Q24	yoy(%)	qoq(%)
<b>Revenue (Btm)</b>					
DELTA	43,225	40,478	41,772	6.8	3.5
KCE	3,802	4,326	4,012	(12.1)	(5.2)
HANA	6,100	6,555	6,752	(6.9)	(9.7)
SVI	5,567	5,565	5,938	0.0	(6.2)
<b>Total</b>	<b>58,694</b>	<b>56,924</b>	<b>58,473</b>	<b>3.1</b>	<b>0.4</b>
<b>Core profit (Btm)</b>					
DELTA	5,911	5,068	5,965	16.6	(0.9)
KCE	216	520	635	(58.4)	(65.9)
HANA	354	677	481	(47.8)	(26.5)
SVI	197	243	501	(19.0)	(60.6)
<b>Total</b>	<b>6,678</b>	<b>6,508</b>	<b>7,583</b>	<b>2.6</b>	<b>(11.9)</b>
<b>Gross margin (%)</b>					
DELTA	27.6	22.6	26.9	5.0	0.7
KCE	20.2	22.0	24.8	(1.7)	(4.5)
HANA	6.2	15.7	12.4	(9.5)	(6.2)
SVI	7.6	8.8	11.9	(1.2)	(4.3)
<b>Total</b>	<b>23.0</b>	<b>20.4</b>	<b>23.5</b>	<b>2.6</b>	<b>(0.5)</b>

Source: Respective companies, UOB Kay Hian

### EARNINGS OUTLOOK

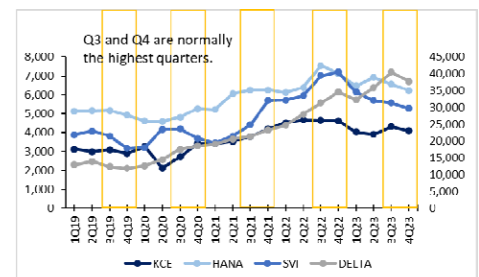
- **DELTA.** DELTA posted 3Q24 net profit of Bt5.9b, up 9% yoy but down 10% qoq. Yoy earnings were underpinned by higher revenue and stronger gross margin. Meanwhile, qoq earnings were pressured by higher SG&A-to-sales. Revenue came in at Bt43.2b (+7% yoy, flat qoq). The strong yoy revenue growth was mainly supported by the power electronics business, due to accelerated growth of AI technology, and products related to fan & thermal management. Revenue flattened qoq, pressured by the electric vehicle power solutions segment, especially in the US and Asia.
- **KCE.** KCE posted a net profit of Bt225m (-58% yoy, -66% qoq) for 3Q24 pressured by: a) lower-than-expected revenue, b) squeezed gross margin, and c) higher SG&A-to-sales. 3Q24 revenue in US dollar terms came in at US\$110m (-11% yoy, flat qoq). Revenue in Thai baht terms dropped 12% yoy and 5% qoq to Bt3.8b, coming in below our estimate. 3Q24 revenue was mainly pressured by: a) currency effect, and b) lower shipment volume of printed circuit board (PCB) as the implementation of machinery upgrades affected the volume.
- **HANA.** HANA reported 3Q24 net profit of Bt406m (-45% yoy, +8% qoq). Due to the high base of gross margin in 3Q23, net profit dropped 45% yoy in 3Q24. However, net profit continued to improve qoq due to higher other income and non-core items from gains on exchange. Stripping out non-core items, core profit fell 48% yoy and 27% qoq to Bt354m. HANA's 3Q24 revenue was Bt6.1b, down 7% yoy and 10% qoq. Revenue dropped yoy as it was pressured by revenue of the microelectronics and integrated circuit (IC) divisions. The qoq decline in revenue was due to soft revenue in all businesses.

### WORLDWIDE SMARTPHONE SHIPMENTS



Source: Canalis, UOB Kay Hian

### SEASONAL EFFECT



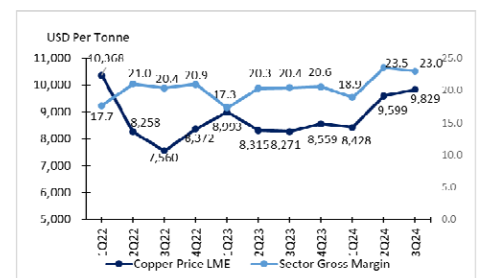
Source: Respective companies, UOB Kay Hian

### CURRENCY EFFECT



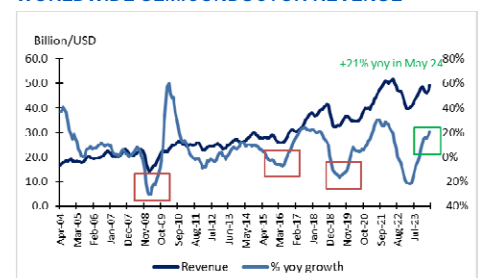
Source: Respective companies, UOB Kay Hian

### RAW MATERIAL PRICES VS SECTOR GROSS MARGIN



Source: Bloomberg, Respective companies, UOB Kay Hian

### WORLDWIDE SEMICONDUCTOR REVENUE



Source: SIA, UOB Kay Hian

- SVI.** SVI posted 3Q24 net profit of Bt165m (-40% yoy, -72% qoq), pressured by: a) lower-than-expected revenue, b) lower-than-expected gross margin, and c) forex loss. Revenue came in at Bt5.6b (flat yoy, -6% qoq). Excluding forex movement, sales in US dollar terms came in at US\$161m (flat yoy, flat qoq). Revenue was impacted by the currency effect. We believe revenues from the communication and network, industrial control, and automobile segments were still the main revenue contributors in 3Q24.

### KEY EARNINGS REVISION

- We revise down 2024-25 earnings of HANA by 10% and 25% respectively due to:** a) lower-than-expected sales from a slow recovery in the consumer electronic product industry and soft demand in the EV industry, and b) lower-than-expected gross margin from the currency effect. For SVI, we revise 2024-25 earnings down by 8% and 5% respectively to factor in lower revenue from weak demand of many products and fluctuated gross margin in 9M24.

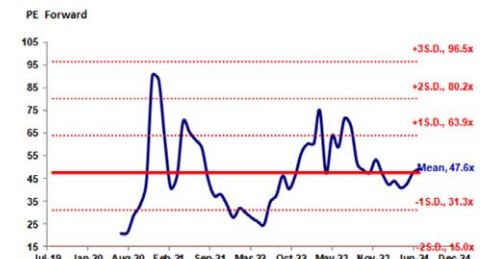
### VALUATION

- DELTA: Downgrade to SELL with a target price of Bt128.00.** Our target price is based on 64x 2025F PE and pegged to +1SD to its four-year mean PE. We use a four-year period as we exclude the downward cycle of 2020, resulting in an upward adjustment of the PE band. We assign a premium to DELTA compared with its peers due to the potential growth of its products, especially in AI-related products. However, we believe the valuation is not justified, thus we downgrade DELTA to SELL.
- KCE: Maintain HOLD with a target price of Bt28.00.** Our valuation is based on 17x 2025F PE and we peg KCE's target PE to -1.0SD from its five-year mean. We assign a discount to KCE compared with its peers as we expect its 4Q24 earnings to be impacted by softened revenue caused by machinery issues.
- HANA: Downgrade to HOLD with a lower target price of Bt28.00 (previous: Bt48.00).** Our target price is based on 15x 2025F PE and we peg HANA's target PE to -1.0SD from its five-year mean. We de-rate HANA from mean PE to -1SD PE due to a cloudy outlook in 4Q24 and 1H25, pressured by lower revenue from a soft demand of EV and consumer electronic products. A better earnings outlook should be seen in 2H25.
- SVI: Maintain BUY with a lower target price of Bt8.00 (previous: Bt8.40).** Our target price is based on 12x 2025F PE and pegged to its five-year mean PE. We peg SVI at mean PE, higher than KCE and HANA, due to its diversified revenue segments, which are expected to face less pressure compared with the automobile and consumer electronics industries.

### SECTOR CATALYST

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

### DELTA PE BAND



Source: DELTA, UOB Kay Hian

### KCE PE BAND



Source: KCE, UOB Kay Hian

### HANA PE BAND



Source: HANA, UOB Kay Hian

### SVI PE BAND



Source: SVI, UOB Kay Hian

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