

28 APR 2022

Fitch Affirms KCE Electronics at 'A-(tha)'; Outlook Stable

Fitch Ratings - Bangkok - 28 Apr 2022: Fitch Ratings (Thailand) Limited has affirmed KCE Electronics Public Company Limited's National Long-Term Rating at 'A-(tha)'. The Outlook is Stable.

The affirmation reflects Fitch's expectation that KCE's operating performance will remain strong on robust global printed circuit board (PCB) demand, which, together with its currently low leverage, will sufficiently support its large committed capex plan for a new factory in the Rojana Industrial Estate in Thailand. KCE's leverage, measured by net debt/EBITDA, could increase to above 1.5x by end-2023, from 0.5x at end-2021, but Fitch expects it to fall to 1.2x by end-2024, factoring in its capex plan for the first phase of the Rojana project.

Key Rating Drivers

Expansion Mode: KCE has invested in capacity expansion since 2021 to meet growing PCB demand. Capex increased to THB1.7 billion in 2021 (2020: THB332 million), most of which was used to expand capacity at its Lad Krabang and Ayutthaya plants by 600,000 sq ft per month. The Rojana project is a three-phase greenfield project with total capacity of up to 3 million sq ft per month, or 1 million sq ft per month in each phase.

The company has not finalised its budget, but Fitch has included in our estimates planned capex of around THB6.5 billion for factory construction and machinery for the first phase in 2022-2023. KCE said the capex for machinery in the second and third phases, estimated at around THB5.5 billion, is flexible and can be delayed if demand is weaker than the company expects. Fitch does not include this amount in the rating case, as the company has not committed to it.

Temporary Leverage Increase: Fitch expects net debt/EBITDA to rise to 1.1x by end-2022 and 1.6x by end-2023 before falling to 1.2x by end-2024, supported by healthy operating cash flow at its existing plants and a ramp-up at its new Rojana project. KCE has maintained a sound financial profile, with nearly net cash at end-2020, providing headroom for its large capex plan over 2021-2023. We believe KCE will generate sufficient operating cash flow to support the future phases of the Rojana project while maintaining leverage below 1.5x over the medium term.

Strong Demand Supports Earnings: Fitch expects KCE's revenue and EBITDA to continue to increase strongly by 20%-25% in 2022, led by robust demand and the capacity expansion in 2021. The Rojana project, which is likely to start operating in 3Q23, will support KCE's continued earnings growth over the medium term.

We expect KCE's EBITDA to reach THB5.5 billion by 2024, from THB3.4 billion in 2021, while maintaining a solid EBITDA margin of 21%-22%. The increasing penetration of electronic content in automobiles and the rising market share of electric vehicles will lead to sustained demand growth over the medium term.

Leading Auto PCB Producer: KCE's rating reflects its leading position in the automotive PCB business, which has longer product cycles and deeper customer engagement, providing higher barriers to entry and wider margins than those of consumer electronic PCB. The company is one of the world's top-10 automotive PCB makers, with market share of around 3%-5% by revenue.

Reduced Customer Concentration: KCE's expansion into the high-density interconnect (HDI) segment, including non-automotive products, is likely to reduce its customer concentration gradually over the medium term. The company's five largest customers contributed about 50% of its total PCB revenue in 2021, declining from about 65% in 2010.

Currency Volatility: KCE, as an exporter, is exposed to foreign-exchange fluctuations, leading to volatile EBITDA margins. Appreciation in the Thai baht would hurt its earnings, as around 80%-90% of its revenue is in US dollars and euros, while around 40%-60% of its costs are in baht, which are mostly unhedged.

Derivation Summary

KCE's business profile is moderate relative to that of nationally rated Thai peers, but its financial profile is stronger. KCE's business and financial profiles are comparable with those of Polyplex (Thailand) Public Company Limited (PTL, A-(tha)/Stable), which is one of the top-10 polyester film producers in the world by revenue.

PTL operates in a higher-risk industry, as most of its products are standard films that are considered a commodity and face intense competition. KCE focuses on automotive PCBs, a niche segment with higher barriers to entry. However, PTL has more geographically diversified operations and a broad customer base. Both companies have low financial leverage with net debt/EBITDA of below 1.5x. The ratings are therefore the same.

Eastern Polymer Group Public Company Limited (EPG, A-(tha)/Stable) and KCE have businesses that supply the automotive industry, but different product offerings. EPG is a manufacturer of polymer and plastic automotive parts and accessories for utility trucks, which accounted for about 50% of its total revenue.

EPG has a more diversified customer base across diverse end-user segments than KCE, given its diversified core businesses in thermal insulation and food and beverage plastic packaging. KCE and EPG have comparable operating scales, but KCE generally has better EBITDA and free cash flow margins. Their ratings are the same due to their comparable business profiles and similarly low financial leverage.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Revenue to continue to increase strongly by 20%-25% in 2022 (2021: 30%) due to strong PCB demand for all end-market sectors, including automotive, consumer and industrial, as well as increasing utilisation of the company's capacity addition. Revenue to expand by 15%-20% a year in 2023-2024, supported by healthy demand and the capacity expansion from its new factory in the Rojana project.
- EBITDA margin to stay at around 21%-22% in 2022-2024 (2021: 22.4%) amid high copper prices in light of the company's ability to increase selling prices, improve capacity utilisation, and a higher proportion of sales from high-margin special-grade PCB products.
- Large capex plan for the Rojana project and technological upgrade of around THB8 billion over 2022-2024 (2021: THB1.7 billion). This includes the capex plan for building the production facilities in the first phase of the Rojana project.
- Maintain high dividend payout ratio of 80% in 2022-2024 (2021: 78%).

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- KCE successfully expands its operating scale and diversifies its customer mix, while maintaining net debt/EBITDA below 2.0x over a sustained period.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Lower cash flow or higher investments than Fitch expects or acquisitions leading to net debt/EBITDA above 1.5x on a sustained basis;
- Decline in operating EBITDA margin below 13% over a sustained period;
- A weakening in the company's market position or loss of key customers.

Liquidity and Debt Structure

Manageable Liquidity: KCE had THB3.7 billion in debt at end-2021, of which THB2.5 billion is due in 2022. Most of the short-term debt is packing credits, which are bank loans for financing export activity. The liquidity is supported by a high cash balance of THB2.0 billion and uncommitted revolving facilities of THB17.1 billion and USD81 million at end-2021. Additional capex for capacity expansion is likely to be funded by internal cash flow generation and new long-term loans from banks.

Issuer Profile

KCE is one of the 10-largest automotive PCB makers in the world by revenue. Automotive PCB accounted for around 80% of its PCB sales. KCE exports its PCB products globally. Europe contributed 44% of PCB revenue in 2021, the US 18% and Asia 37%.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Fitch Ratings Analysts

Nichaya Seamanontaprinya

Director

Primary Rating Analyst

+66 2 108 0161

Fitch Ratings (Thailand) Limited Park Ventures, Level 17 57 Wireless Road, Lumpini Bangkok 10330

Obboon Thirachit

Director

Secondary Rating Analyst

+66 2 108 0159

Steve Durose

Managing Director

Committee Chairperson

+61 2 8256 0307

Media Contacts

Leslie Tan

Singapore

+65 6796 7234

leslie.tan@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
KCE Electronics Public Company Limited	Natl LT A-(tha)	Affirmed	A-(tha)

RATINGS KEY OUTLOOK WATCH

POSITIVE

NEGATIVE

RATINGS KEY OUTLOOK WATCH

EVOLVING	◊	◆
STABLE	◊	

Applicable Criteria

[Corporate Rating Criteria \(pub.15 Oct 2021\) \(including rating assumption sensitivity\)](#)

[National Scale Rating Criteria \(pub.22 Dec 2020\)](#)

[Sector Navigators - Addendum to the Corporate Rating Criteria \(pub.15 Oct 2021\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

[Corporate Monitoring & Forecasting Model \(COMFORT Model\), v8.0.2 \(1\)](#)

Additional Disclosures

[Solicitation Status](#)

[Endorsement Status](#)

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the

entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in

respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2022 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

Endorsement policy

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.