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

Fitch Ratings - Bangkok - 07 Aug 2025: Fitch Ratings (Thailand) Limited has affirmed KCE Electronics Public Company Limited's (KCE) National Long-Term Rating at 'A-(tha)'. The Outlook is Stable.

While the rating is constrained by the company's market position and relatively small scale, the affirmation reflects Fitch's expectation that KCE's financial profile will remain robust and commensurate with the rating over the medium term. KCE's resilient earnings and ample rating headroom due to currently low financial leverage should provide financial flexibility to support planned capex. We forecast EBITDA net leverage to increase to about 1.4x in 2027, driven by capex for the Rojana project. Leverage should then fall gradually, helped by the highly adaptable nature of its capex.

Key Rating Drivers

Revenue Recovery in 2026: Fitch believes KCE's enhancements in distribution channels and stable demand for high-density interconnect (HDI) products should support a sales recovery of 2% from 2026. However, revenue is likely to fall by about 4% in 2025 on global trade tensions, subdued auto sector growth and a stronger local currency. Increasing integration of advanced electronic systems, such as 5G and advanced driver assistance system, in vehicles is likely to support medium-term demand for KCE's printed circuit boards (PCBs).

Resilient EBITDA Margin: KCE earnings are resilient, with EBITDA margin slightly rising to 16.9% in 2024 from 16.6% in 2023, even as revenue pressures mounted. Efficiency initiatives such as increased automation (leading to headcount reductions), chemical formula optimisation, and energy saving investments such as solar panel installations, have partly offset rising raw material costs and a stronger local currency.

We expect the EBITDA margin to be 16%-18% in the medium term. This should be supported by a gradual increase in sales of higher-margin, multilayer automotive PCBs, better production utilisation, and synergies from recent European distribution channel acquisitions.

Large Leverage Headroom: KCE remained in a net cash position at end-2024, providing ample room to absorb planned investments. Leverage is likely to remain below the negative threshold of 1.5x even if KCE decides to fully execute the Rojana investment in 2026-2027. Fitch expects EBITDA net leverage to fall below 1.0x by 2028 in that case, with KCE able to support the investment with cashflows from the existing business, mitigating risks of executional challenges. KCE could again postpone this investment, which could leave it more leverage headroom.

Flexible Capex: KCE's plan for THB9 billion of capex over 2025-2027, including the THB7 billion Rojana project, remains adaptable to market conditions. The company has tentatively postponed the Rojana project that has capacity of up to 1 million square feet per month to 2026 from 2025 due to current demand uncertainty. If KCE decides to proceed with the project, THB2.5 billion of the capex for machinery and manufacturing support may be deferred if demand is weaker than KCE expects. The flexibility adds to KCE's robust financial profile.

Auto PCB Strength: KCE's rating reflects its top-10 position in the automotive PCB business, which has longer product cycles and deeper customer engagement, providing higher entry barriers and a wider EBITDA margin than consumer electronics PCBs.

Long-Term Growth Opportunities: Fitch believes the automotive PCB industry remains poised for long-term growth, underpinned by global expansion in vehicle production - particularly electric vehicles - and increasing penetration of electronics content in automobiles, despite near-term economic cyclicality. New applications that were previously available only in luxury cars - such as safety, driver assistance and infotainment systems - are becoming standard in the mass middle market.

Reduced Customer Concentration: KCE's expansion into the HDI segment, including non-automotive products, is likely to reduce customer concentration gradually over the medium term. The company's five largest customers contributed about 53% of its total PCB revenue in 2024, declining from about 65% in 2010.

Currency Volatility: KCE is exposed to foreign-exchange fluctuations, resulting in a volatile EBITDA margin. KCE is an exporter, and its earnings are generally hurt when the Thai baht appreciates, as around 85%-95% of its revenue is in US dollars and euros, while around 50%-60% of costs are in baht and mostly unhedged.

Peer Analysis

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

EPG has a more diversified customer base across multiple 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 margin. Their ratings are the same due to their comparable business profiles and similarly low financial leverage.

KCE's rating is higher than SCGJWD Logistics Public Company Limited's (BBB+(tha)/Stable). KCE's business profile is stronger than that of SCGJWD, as KCE faces lower competition given the high barriers to entry in the automotive PCB business, compared with SCGJWD's logistic service industry. Moreover, KCE has a stronger financial profile due to lower financial leverage. As a result, SCGJWD's Standalone Credit Profile of 'bbb(tha)' is two notches below KCE's National Long-Term Rating.

SCGJWD's National Rating incorporates a one-notch uplift from its SCP due to the moderate likelihood of support from its parent, The Siam Cement Public Company Limited.

KCE has a weaker business profile than SCG Packaging Public Company Limited (SCGP, A(tha)/Stable, SCP: a(tha)). SCGP has much larger revenue and EBITDA. It also has a leading position in the paper-based packaging business in south-east Asia. KCE has lower financial leverage, but this is not enough to offset its weaker business profile, resulting in KCE being rated one notch below SCGP.

Key Assumptions

Fitch's Key Assumptions within Our Rating Case for the Issuer:

-- Revenue to continue declining by about 4% in 2025, then to return to growth of 2% in 2026 and 2027 (2024: 9% decline) from global auto demand normalising, with demand for special-grade PCB, including HDI products, to stay strong;

-- Revenue to increase by about 27% in 2028, supported by additional HDI capacity at the new Rojana plant;

-- EBITDA margin to bottom out at around 16%-17% in 2025 (2023: 16.9%) then improve slowly to about 18% in the medium term on higher capacity utilisation, a higher proportion of sales from high-margin, special-grade PCB products, and efficiency improvements;

-- Total capex of around THB9.0 billion during 2025-2027 (2024: THB415 million) that will be for the Rojana project, improvements to production efficiency and maintenance;

-- Dividend payout ratio to remain at 80%.

RATING SENSITIVITIES

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 EBITDA net leverage being above 1.5x on a sustained basis;

-- A decline in the operating EBITDA margin to below 13% for a sustained period;

-- A weakening in the company's market position or loss of key customers.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

-- We do not foresee an upgrade over the next few years, but an upgrade in the longer term is possible if KCE successfully expands its business scale and diversifies its customer mix.

Liquidity and Debt Structure

KCE had total debt of THB891 million at end-1Q25. Debt maturing in the next 12 months is THB886 million, of which THB821 million is short-term debt, mostly packing credits, which are bank loans for financing export activity and can be rolled over. Liquidity is supported by a cash balance of THB2.2 billion, which should be sufficient to meet KCE's obligations. 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 operators in the world by revenue. Automotive PCB accounted for around 84% of its PCB sales. KCE exports its PCB products globally, with Europe contributing 53% of PCB revenue in 2024, the US 21% and Asia 26%.

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.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

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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		
EVOLVING		
STABLE		

Applicable Criteria

Corporate Rating Criteria (pub.27 Jun 2025) (including rating assumption sensitivity)

National Scale Rating Criteria (pub.22 Dec 2020)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub.27 Jun 2025)

Applicable Models

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.2.0 (1)

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Solicitation Status

Endorsement Status

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