

SECTOR UPDATE

Electronics – Thailand

The Path Forward Is Still Plagued With Uncertainties

Earnings in the sector could come under pressure due to ongoing operational problems and uncertainty from Trump's reciprocal tariff policy. For 2Q25, we expect many companies' revenues to be flat or slightly higher, especially KCE and HANA. Meanwhile, we expect DELTA to see a surge in demand as buyers have rushed orders ahead of tariff implementation, but we are also cautious due to the high base. We downgrade the sector to UNDERWEIGHT.

WHAT'S NEW

- **Recovery is uncertain as KCE and HANA are still navigating headwinds in 2Q25.** We remain cautious about 2Q25 revenue, particularly for KCE and HANA, as both continue to face several headwinds. KCE is likely to see a limited recovery due to weakness in the automotive segment, especially in Europe. According to the European Automobile Manufacturers' Association (ACEA), new car registrations in Europe fell by 1.9% in 1Q25. As of April, ytd registrations were down 1.2% yoy, though April alone saw a modest 1.3% yoy increase. For HANA, management remains cautious on PMS revenue. The company is transitioning from a turnkey model where it supplies raw materials to a consignment model, in which customers provide the materials and HANA only handles manufacturing. This shift is expected to put pressure on revenue in the early stages.
- **DELTA experienced a spike in demand as buyers accelerated purchases ahead of the tariffs.** In 2Q25, we expect revenue to continue improving, driven by strong demand from data centres and AI-related products, along with a boost from front-loaded orders during the 90-day tariff pause announced by Trump. While the additional tariffs will be paid by customers on top of the original selling price, this may not directly affect DELTA's revenue but could create pressure on customer purchasing decisions. As a result, the tariff hike still poses an indirect risk.
- **Cost cuts may support gross margin, but FX volatility remains a risk.** We expect gross margins for most electronics stocks under our coverage to improve qoq in 2Q25 due to ongoing cost-saving efforts like labour reductions and switching to more efficient chemical solutions, a slight increase in revenue, and a low base from seasonal effects in 1Q25. However, we foresee that continued appreciation of the Thai Baht could put pressure on margins.
- **Remain cautious heading into 2H25.** We believe revenue in the sector may be affected not only by the US tariffs but also by weak demand across various products and ongoing operational challenges. These include full-capacity constraints, rising expenses like royalty fees and technical service costs, and a downward trend in some business segments, which could pressure earnings. Additionally, we are concerned about slower revenue growth in 2H25, especially for companies like DELTA, which benefited from front-loaded orders in 1H25 due to the temporary tariff pause. This pull-forward effect may result in a softer 2H25.

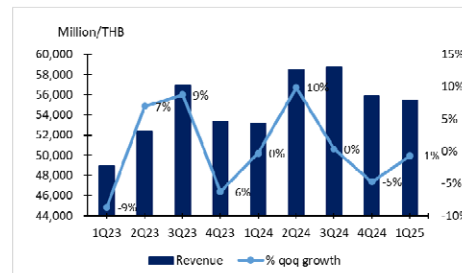
PEER COMPARISON

Company	Rec.	Last Price (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US\$m)	Net Profit 2025F (Btm)	Net Profit 2026F (Btm)	PE 2025F (x)	PE 2026F (x)	Net EPS Growth 2025F (%)	P/B 2025F (x)	Yield 2025F (%)	ROE 2025F (%)
DELTA TB	SELL	95.50	55.00	(42.4)	36,011	20,515	19,017	58.1	62.6	8.3	12.5	0.6	23.5
HANA TB	HOLD	18.40	20.00	8.7	492	1,112	1,795	13.3	8.3	275.4	0.4	3.4	3.2
KCE TB	HOLD	15.60	18.00	15.4	557	1,109	1,337	16.5	13.7	(32.7)	1.3	2.6	7.9
SVI TB	HOLD	6.40	6.00	(6.3)	417	1,062	1,480	13.0	9.3	(23.4)	1.6	2.4	13.0
Sector					37,478	23,798	23,628	56.4	60.6	10.9	12.1	0.6	22.8

Source: UOB Kay Hian

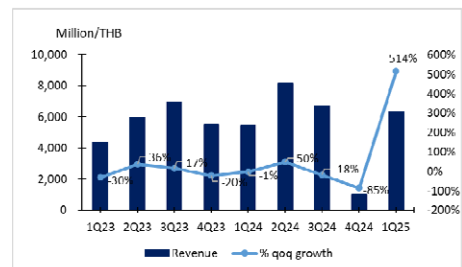
UNDERWEIGHT (Downgraded)

SECTOR QUARTERLY REVENUE OUTLOOK



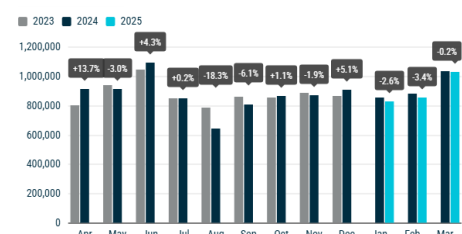
Source: Respective companies, UOB Kay Hian

SECTOR QUARTERLY CORE PROFIT OUTLOOK



Source: Respective companies, UOB Kay Hian

NEW CAR REGISTRATIONS IN EUROPE



Source: ACEA

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- **There was a significant rise in electronic export numbers in 4M25.** According to Thailand's trade statistics, its electronic exports reached Bt682m during Jan-Apr 2025, up 25% yoy, driven by strong demand for products like computer devices, hard disk drives, and printed circuit boards (PCBs). We believe the surge was partly driven by front-loaded orders ahead of tariff changes. After "Liberation Day" in early April, President Trump announced a 90-day pause on reciprocal tariff hikes. However, we still believe the reciprocal tariff will impact the electronic sector with the flat 10% rate. Therefore, we remain cautious about 2H25, as the momentum from early orders may fade once the tariff pause ends.

ACTION

- **Downgrade from MARKET WEIGHT to UNDERWEIGHT.** We downgrade from MARKET WEIGHT to UNDERWEIGHT. We revised 2025's earnings of all stocks down due to a) the expectation of softer revenue from weak demand, b) squeezed gross margin from currency fluctuation, and c) earnings pressured from the overhang of the US tariffs. We have no top pick on the sector as all stocks still have a dull outlook and face many pressures ahead.

KEY EARNINGS REVISION

- **DELTA: We revised 2025 earnings up.** We revised DELTA's earnings up by 8% due to a) higher gross margin from better product mix, and b) lower SG&A-to-sales.
- **HANA: 2024 earnings estimates are being lowered.** We reduce HANA's 2025 earnings by 7%, mainly due to weaker revenue from slow demand of PMS business and lower gross margin.
- **KCE: Revise down 2025 earnings.** We lowered 2025's earnings 40%, in line with management guidance. This was pressured by lower-than-expected revenue and gross margin from allowing for the recovery of the automotive segment.
- **SVI: Revise down 2024 earnings.** We trim earnings by 30% due to lower-than-expected gross margin from product mix.

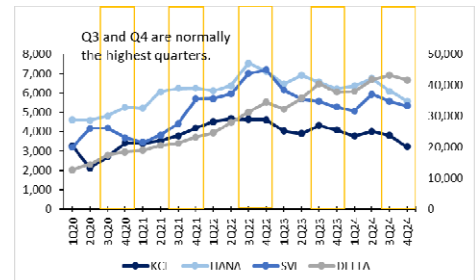
RECOMMENDATION

- **Maintain SELL on DELTA with a new higher target price of Bt55.00 (previous TP: Bt50.00).** Our target price is based on 32x 2025F PE, with DELTA pegged to -1.0SD from its five-year mean due to: a) the slow growth in EV related products, which account for 30% of total revenue, b) uncertainty of various costs affecting SG&A-to-sales, c) the impact of the global minimum tax, and d) potential earnings downside from the US' reciprocal tariffs.
- **Downgrade to HOLD on KCE with a lower target price of Bt18.00 (previous TP: 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 revise KCE's 2025 earnings due to the dull outlook and no signs of recovery for demand, pressuring revenue in 2H25.
- **Maintain HOLD on HANA with a lower target price of Bt20.00 (previous TP: Bt22.00).** 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 are also cautious about HANA's revenue recovery due to weak demand for consumer electronic products. Moreover, the company has soft demand on the PMS business and is cautious on gross margin from currency fluctuation.
- **Downgrade SVI from BUY to HOLD with a lower target price of Bt6.00 (previous TP: Bt8.00).** Our target price is based on 12x 2025F PE and pegged to its five-year mean PE. Similar to its peers, SVI's revenue is likely to soften due to slow demand from the consumer electronic products industry. Also, we are cautious about fluctuation in the gross margin that might not remain at the same level.

SECTOR CATALYSTS

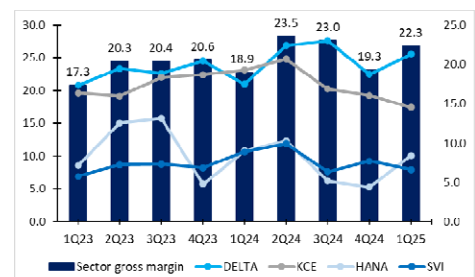
- Acceleration of 5G technology, growth in the EV trend, a booming economy, better chip shortage situation and baht depreciation.

SEASONAL EFFECT



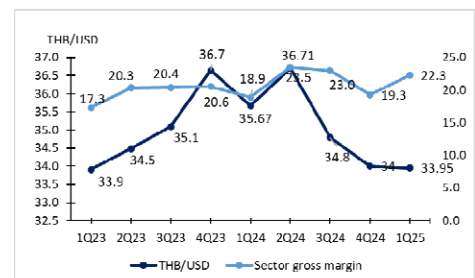
Source: Respective companies, UOB Kay Hian

CURRENCY EFFECT VS SECTOR GROSS MARGIN



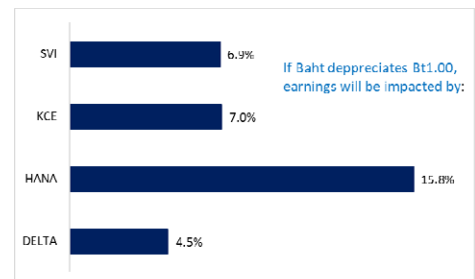
Source: BOT, respective companies, UOB Kay Hian

RAW MATERIAL PRICES VS SECTOR GROSS MARGIN



Source: Bloomberg, Respective companies, UOB Kay Hian

CURRENCY EFFECT



Source: Respective companies, UOB Kay Hian

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