

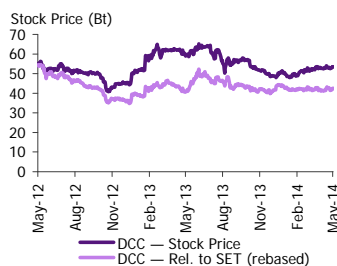
## NEUTRAL

## Stock Data

Last close (May 26) (Bt)	53.75
12-m target price (Bt)	55.00
Upside (Downside) to TP (%)	2.33
Mkt cap (Btbn)	21.93
Mkt cap (US\$mn)	673

Bloomberg code	DCC TB
Reuters code	DCC.BK
Risk rating	L
Mkt cap (%) SET	0.18
Sector % SET	5.58
Shares issued (mn)	408
Par value (Bt)	1
12-m high / low (Bt)	66.5 / 48
Avg. daily 6m (US\$mn)	0.29
Foreign limit / actual (%)	35 / 19
Free float (%)	36.2
Dividend policy (%)	≥ 70

## Price Performance



Source: SET, SCBS Investment Research

## Share performance

	1M	3M	12M
Absolute	2.4	7.5	-10.0
Relative to SET	4.1	2.1	3.2

Source: SET, SCBS Investment Research

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## 2Q14F: Another weak quarter ahead

- Still no recovery in demand; expect both YoY and QoQ fall in 2Q14
- Expect some small demand recovery in 2H14 after farmers get paid for their rice, though high household debt is also of concern
- 2014F guidance: sales volume growth of 5% with gross margin at 42-43%, still on the high side against actual 1Q14 sales contraction of 7% and gross margin of 40%.
- Maintain NEUTRAL with 12-month PT of Bt55, based on 17x PE

**No recovery in demand yet so far in 2Q14.** In 1Q14, sales volume contracted 8% YoY, hit by politics, particularly the effect on farmers of the absence of payment for their rice. None of these negatives has been resolved, though money is finally being distributed to the farmers as of May 26, and DCC reports that sales volume continues to contract YoY. April's average selling price (ASP) was Bt141/sqm, +2.7% YoY and +2.2% QoQ. DCC expects its average ASP to stay at this level in 2Q14 because it has focused on products that are larger and more intricately designed and thus carry a higher price.

**2Q14F still weak both YoY and QoQ.** The reduction YoY will come from lower sales volume as demand continues low, plus narrower margin from higher natural gas cost (flat QoQ based on DCC information, but +6% YoY from THB depreciation and higher oil price). The drop QoQ will reflect seasonally lower sales volume.

**DCC cuts 2014F guidance** to revenue growth of 5% from 7%. This is far more optimistic than our 0% as we expect a slower recovery in demand in 2H14. DCC expects the payment for rice to help fuel demand from farmers upcountry, but at the same time, there is concern over high household debt. In 2014, a more favorable product mix keeps DCC positive on ASP with a gross margin of 42-43% (higher than 40.3% in 1Q14 and our estimated 41.5% in 2014F as our cost assumptions are more conservative). DCC plans to raise the portion of sales of new high-margin products (16x16" rectified and hybrid ceramic floor tiles and 24x24" ceramic floor tiles, introduced in 2013) to 15-18% of sales at the end of this year from 9% now to match a change in consumer preference for larger ceramic tiles. Gross margin from these high-margin products is ~10% above conventional grades.

**Maintain NEUTRAL with a 12-month PT of Bt55,** based on 17x PE (+1S.D. over its 10-year PE). We expect demand to continue weak and this plus the potential rise in gas cost from the depreciation of the baht will continue to pressure share price. We like DCC only for its dividend yield of ~6% p.a.

## Forecasts and valuation

Year to 31 Dec	Unit	2012	2013	2014F	2015F	2016F
Revenue	(Btmn)	7,603	7,546	7,517	8,008	8,450
EBITDA	(Btmn)	1,847	1,893	1,922	2,148	2,380
Core profit	(Btmn)	1,265	1,298	1,326	1,504	1,696
Reported profit	(Btmn)	1,265	1,298	1,326	1,504	1,696
Core EPS	(Bt)	3.10	3.18	3.25	3.69	4.16
DPS	(Bt)	3.08	3.18	3.25	3.69	4.16
P/E, core	(x)	17.3	16.9	16.5	14.6	12.9
EPS growth, core	(%)	1.8	2.6	2.2	13.4	12.7
P/BV, core	(x)	7.84	7.94	7.88	7.40	6.96
ROE	(%)	45.6	46.7	47.8	52.4	55.5
Dividend yield	(%)	5.7	5.9	6.0	6.9	7.7
EV/EBITDA	(x)	12.2	12.1	11.8	10.5	9.4

Source: SCBS Investment Research

