# Dynasty Ceramic PLC



Tuesday, May 27, 2014

# **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

DCC TB
DCC.BK
L
0.18
5.58
408
1
66.5 / 48
0.29
35 / 19
36.2
≥ 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 famers 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

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# **Financial statement**

Profit and Loss Statement (Btmn)

FY December 31	2012	2013	2014F	2015F	2016F
Total revenue	7,603	7,546	7,517	8,008	8,450
Cost of goods sold	4,625	4,447	4,395	4,604	4,781
Gross profit	2,978	3,099	3,122	3,403	3,670
SG&A	1,349	1,456	1,458	1,521	1,563
Other income	35	18	18	19	20
Interest expense	16	24	18	14	0
Pre-tax profit	1,648	1,637	1,664	1,887	2,127
Corporate tax	379	335	333	377	425
Equity a/c profits	0	0	0	0	0
Minority interests	-4	-4	-5	-5	-6
Core profit	1,265	1,298	1,326	1,504	1,696
Extra-ordinary items	0	0	0	0	0
Net Profit	1,265	1,298	1,326	1,504	1,696
EBITDA	1,847	1,893	1,922	2,148	2,380
Core EPS (Bt)	3.10	3.18	3.25	3.69	4.16
Net EPS (Bt)	3.10	3.18	3.25	3.69	4.16
DPS (Bt)	3.08	3.18	3.25	3.69	4.16

Balance Sheet (Btmn)					
FY December 31	2012	2013	2014F	2015F	2016F
Total current assets	1,911	1,914	1,752	1,835	2,132
Total fixed assets	2,967	3,226	3,286	3,258	3,221
Total assets	4,877	5,140	5,037	5,093	5,353
Total loans	842	1,187	900	700	700
Total current liabilities	1,887	2,157	2,028	1,891	1,946
Total long-term liabilities	193	222	226	240	254
Total liabilities	2,080	2,379	2,254	2,132	2,200
Paid-up capital	408	408	408	408	408
Total equity	2,798	2,761	2,784	2,962	3,153
BVPS (Bt)	6.86	6.77	6.82	7.26	7.73

Cash Flow Statement (Btmn)						
FY December 31	2012	2013	2014F	2015F	2016F	
Core Profit	1,265	1,298	1,326	1,504	1,696	
Depreciation and amortization	183	232	239	246	254	
Operating cash flow	1,164	1,460	1,810	1,747	1,949	
Investing cash flow	-390	-492	-299	-218	-217	
Financing cash flow	-775	-988	-1,590	-1,526	-1,504	
Net cash flow	-2	-20	-79	3	228	

#### **Key Financial Ratios**

	2012	2013	2014F	2015F	2016F
Gross margin(%)	39.2	41.1	41.5	42.5	43.4
Operating margin(%)	21.4	21.8	22.1	23.5	24.9
EBITDA margin(%)	24.3	25.1	25.6	26.8	28.2
EBIT margin(%)	21.9	22.0	22.4	23.7	25.2
Net profit margin(%)	16.6	17.2	17.6	18.8	20.1
ROE (%)	46.0	47.9	48.5	51.7	54.6
ROA (%)	25.6	25.4	26.4	29.5	31.4
Net D/E (%)	23.4	36.9	29.1	20.5	12.0
Interest coverage (x)	116.9	79.3	106.1	152.5	#DIV/0!
Debt service coverage (x)	4.4	2.2	1.6	2.3	3.4
Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0





# Source: SEC

CG Rating 2013 SNC, SPALI, SPI, SSI, SSSC, SVI, SYMC, TCAP, THAI, THCOM, THRE 2S, ACAP, AF, AHC, AIT, AKP, AMANAH, AMARIN, AMATA, AP, AF 1HK, LIVE, LOXIEY, IRH, LST, MACO, MALOR MAKRO, MRK, MRK W, CM, CNT, CPAL 6666 .CSC, DCC, DELTA, DTC, ECL, EE, EXC, ESSO, FE, FORTH, GBX, GC, GFPT, GL, GLOW, GOLD, GSTEL, GUNKUL, HMPRO, HTC, IFEC, INET, ITD, JAS, JUBILE, KBS, KCE, KGI, KKC, KSL, KWC, L&E, LANINA, LH, LHBANK PRG, PT, PYLON, QTC, RASA, SABINA, SAMCO, SCCC, SCG, SEAFCO, SFP, SIAM, SINGER, SIRI, SXR, SMT, SIP, SSC, SFPT, SSF, STANLY, STEC, SUC, SUSCO, SYNTEC, TASCO, TCP, TF, TFD, TR, THANA, THANA, THIP, TICON, TIPCO, TK, TLUXE, TMILL, TMT, TNL, TOG, TPC, TPCOR A, AAV, AEC, AEONTS, AFC, AGE, AH, AJ, AJ, AKR, ALUCON, ANAN, J TSTE, TSTH, TTA, TT V WHAN WE WIT WING WITO DIR ONS CRE, CREAR CREAR COMMON DIRA, DEACO, EA LARTH, FACIN, DIM, EYCO, FAD, DINS FOCUS, FIY, FSS, GENCO, GM, GLS, GLOBAL, HIT, HITCH, HORDO, PS, HL, LINK, HIXC, RIC, IRZ, PT, MANTE, MIT, TS, LITHA, VASTE J. REGHA PRIN, Q-CON, QLT, ROJ, REJ, ROJINA, RES, SCRP. SIMA, SS, SCRP. SMIT, SLC, SMIT, SMIC, SMIC, SMIC, SMIC J. REGHA PRIN, Q-CON, QLT, ROJ, REJ, ROJINA, RES, SCRP. SIMAT, SLC, SMIT, SMIC, SMIC \*\*\* , KWH, LALIN, LEE, MATCH, MATI, M PP, TR, TTI, TVD, TVI, TWZ, UBIS, UEC stitute of Directors Association ("IOD") re-from the perspective of a third party. It is ion. The survey of the IOD is based on the information of a con of the Office of the Se urities and Exchange Co int disclosed to the public and able to be made pursuant to c... and is not base on insid mation. ed after that date. SCB Securities Company Limited does not co form nor certify the accuracy of such survey resul



# Profit and Loss Statement (Btmn)

FY December 31	4Q12	1Q13	2Q13	3Q13	4Q13
Total revenue	1,851	2,203	1,925	1,714	1,704
Cost of goods sold	1,139	1,310	1,119	1,004	1,015
Gross profit	712	893	806	710	690
SG&A	334	374	386	337	360
Other income	4	4	5	4	4
Interest expense	8	6	3	6	8
Pre-tax profit	374	517	422	371	326
Corporate tax	83	105	87	76	68
Equity a/c profits	0	0	0	0	0
Minority interests	-1	-2	-2	-0	0
Core profit	290	411	334	295	259
Extra-ordinary items	0	0	0	0	0
Net Profit	290	411	334	295	259
EBITDA	430	574	480	435	404
Core EPS (Bt)	0.71	1.01	0.82	0.72	0.63
Net EPS (Bt)	0.71	1.01	0.82	0.72	0.63

Balance Sheet (Btmn)					
FY December 31	4Q12	1Q13	2Q13	3Q13	4Q13
Total current assets	1,911	1,692	1,708	1,831	1,914
Total fixed assets	2,967	3,048	3,110	3,146	3,226
Total assets	4,877	4,740	4,818	4,977	5,140
Total loans	842	170	656	1,013	1,187
Total current liabilities	1,887	1,329	1,774	1,965	2,157
Total long-term liabilities	193	200	208	215	222
Total liabilities	2,080	1,530	1,982	2,181	2,379
Paid-up capital	408	408	408	408	408
Total equity	2,798	3,162	2,836	2,797	2,761
BVPS (Bt)	6.86	7.75	6.95	6.85	6.77

## Main Assumptions

	2012	2013	2014F	2015F	2016F
Avg selling price (Bt/sqm)	129	134	135	136	137
Sales volume (mn sqm)	58.3	55.5	55.5	58.8	61.8
Capacities-year end (mn sqm)	64.8	68.4	72.0	75.6	79.2





#### 12 Month cumulative chg in foreign ownership versus cumulative chg in SET index

