

Dynasty Ceramic PLC

Wednesday, January 28, 2015

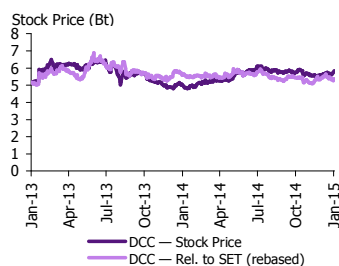
BUY

Stock Data

Last close (Jan 27) (Bt)	5.85
12-m target price (Bt)	6.80
Upside (Downside) to TP (%)	16.24
Mkt cap (Btbn)	23.87
Mkt cap (US\$mn)	733

Bloomberg code	DCC TB
Reuters code	DCC.BK
Risk rating	L
Mkt cap (%) SET	0.16
Sector % SET	5.82
Shares issued (mn)	4,080
Par value (Bt)	0
12-m high / low (Bt)	6.2 / 4.8
Avg. daily 6m (US\$mn)	0.32
Foreign limit / actual (%)	35 / 10
Free float (%)	36.1
Dividend policy (%)	≥ 70

Price Performance



Share performance

	1M	3M	12M
Absolute	4.9	1.3	18.8
Relative to SET	(1.1)	(0.8)	(5.0)

Source: SET, SCBS Investment Research

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4Q14 beats with 2014's first growth, raise to BUY

4Q14 net profit was Bt279mn (EPS Bt0.07), +8% YoY and +3% QoQ, its first growth since 4Q13 and 5% above consensus and 10% above SCBS. Behind the beat was better than expected gross margin (flat YoY in 4Q14 vs. -75bps in 9M14) and lower than expected SG&A (-17% YoY in 4Q14 vs. -4% YoY in 9M14). The growth was made possible by better control over SG&A expenses plus a stable gross margin that together were able to offset the lower sales volume. DCC announced a 4Q14 DPS of Bt0.069 (XD on Mar 2), adding to the 9M14 DPS of Bt0.23, a 100% dividend payout ratio.

4Q14 highlights.

- Revenue slid 5% YoY (the same as in 9M14), as weak demand and kiln shutdowns for maintenance led to lower sales volume. Product selling prices were stable.
- Gross margin was flat YoY at 40.4% (vs. -75bps in 9M14) thanks to a gradual drop in natural gas price (-2-3% YoY, accounting for 30% of cost) offsetting the rise in labor cost (+8% YoY, taking 8% of cost) after last year's rise in minimum wage.
- SG&A expenses/sales was 18.5%, -2.6ppts YoY, from better control of SG&A expenses (-17% YoY) notably on promotion campaign expenses amid weak sales.

Stronger 1Q15F earnings, up QoQ and YoY. We expect 1Q15F to show positive momentum, up QoQ from seasonally better sales volume and up YoY from better margin on lower natural gas cost (lagging the drop in oil price by 3-6 months).

Upgrade to BUY from NEUTRAL with end-15 PT of Bt6.8. We believe earnings reached bottom in 2014 and anticipate a 19% YoY growth in earnings in 2015 off a better margin and slight improvement in demand. On the cost side, we expect DCC to gain from the low oil price environment via a reduction in natural gas cost of ~10% YoY (30% of cost) and electricity cost of ~5% YoY (7% of cost). Though demand recovery is still fragile as farm income remains weak, we expect a slight improvement in sales volume of 3% in 2015F from the low base (-5% in 2013-14) during the market slowdown. With better earnings growth and high dividend yield of 6% in 2015F, we upgrade our rating to BUY from NEUTRAL, with a new PT of Bt6.8 (end-2015) from Bt6.0 (mid-2015), based on 19x 2015PE (equivalent to +1SD over its 5-year PE).

Forecasts and valuation

Year to 31 Dec	Unit	2012	2013	2014	2015F	2016F
Revenue	(Btmn)	7,603	7,546	7,177	7,430	7,840
EBITDA	(Btmn)	1,847	1,893	1,861	2,178	2,426
Core profit	(Btmn)	1,265	1,298	1,227	1,464	1,632
Reported profit	(Btmn)	1,265	1,298	1,227	1,464	1,632
Core EPS	(Bt)	0.31	0.32	0.30	0.36	0.40
DPS	(Bt)	0.31	0.32	0.30	0.36	0.40
P/E, core	(x)	18.9	18.4	19.5	16.3	14.6
EPS growth, core	(%)	1.8	2.6	(5.5)	19.4	11.4
P/BV, core	(x)	8.53	8.65	8.84	7.84	7.43
ROE	(%)	45.6	46.7	44.9	51.0	52.2
Dividend yield	(%)	5.3	5.4	5.1	6.1	6.8
EV/EBITDA	(x)	13.3	13.2	13.4	11.3	10.1

Source: SCBS Investment Research

Financial statement

Profit and Loss Statement (Btmn)

FY December 31	2012	2013	2014	2015F	2016F
Total revenue	7,603	7,546	7,177	7,430	7,840
Cost of goods sold	4,625	4,447	4,271	4,215	4,386
Gross profit	2,978	3,099	2,907	3,215	3,454
SG&A	1,349	1,456	1,350	1,382	1,415
Other income	35	18	21	22	24
Interest expense	16	24	33	19	17
Pre-tax profit	1,648	1,637	1,545	1,836	2,046
Corporate tax	379	335	316	367	409
Equity a/c profits	0	0	0	0	0
Minority interests	(4)	(4)	(2)	(5)	(5)
Core profit	1,265	1,298	1,227	1,464	1,632
Extra-ordinary items	0	0	0	0	0
Net Profit	1,265	1,298	1,227	1,464	1,632
EBITDA	1,847	1,893	1,861	2,178	2,426
Core EPS (Bt)	0.31	0.32	0.30	0.36	0.40
Net EPS (Bt)	0.31	0.32	0.30	0.36	0.40
DPS (Bt)	0.31	0.32	0.30	0.36	0.40

Balance Sheet (Btmn)

FY December 31	2012	2013	2014	2015F	2016F
Total current assets	1,911	1,915	2,000	1,897	1,983
Total fixed assets	2,967	3,215	3,108	3,189	3,232
Total assets	4,877	5,130	5,108	5,086	5,215
Total loans	842	1,188	1,394	800	700
Total current liabilities	1,887	2,157	2,209	1,840	1,790
Total long-term liabilities	193	211	197	203	215
Total liabilities	2,080	2,368	2,406	2,043	2,004
Paid-up capital	408	408	408	408	408
Total equity	2,798	2,761	2,702	3,043	3,211
BVPS (Bt)	0.69	0.68	0.66	0.75	0.79

Cash Flow Statement (Btmn)

FY December 31	2012	2013	2014	2015F	2016F
Core Profit	1,265	1,298	1,227	1,464	1,632
Depreciation and amortization	183	232	283	323	363
Operating cash flow	1,164	1,450	1,338	2,024	1,983
Investing cash flow	(390)	(480)	(177)	(404)	(406)
Financing cash flow	(776)	(990)	(1,081)	(1,713)	(1,564)
Net cash flow	(2)	(19)	80	(93)	13

Key Financial Ratios

	2012	2013	2014	2015F	2016F
Gross margin(%)	39.2	41.1	40.5	43.3	44.1
Operating margin(%)	21.4	21.8	21.7	24.7	26.0
EBITDA margin(%)	24.3	25.1	25.9	29.3	30.9
EBIT margin(%)	21.9	22.0	22.0	25.0	26.3
Net profit margin(%)	16.6	17.2	17.1	19.7	20.8
ROE (%)	46.0	47.9	46.1	48.8	51.5
ROA (%)	25.6	25.5	24.3	28.8	31.3
Net D/E (%)	23.4	36.9	42.4	21.2	16.5
Interest coverage (x)	116.9	79.3	56.6	115.2	146.6
Debt service coverage (x)	4.4	2.2	1.5	1.5	3.0
Payout Ratio (%)	99.3	100.0	100.0	100.0	100.0

Profit and Loss Statement (Btmn)

FY December 31	4Q13	1Q14	2Q14	3Q14	4Q14
Total revenue	1,704	2,039	1,868	1,656	1,614
Cost of goods sold	1,015	1,223	1,102	985	961
Gross profit	690	817	766	671	653
SG&A	360	367	359	325	298
Other income	4	6	3	4	7
Interest expense	8	8	6	9	10
Pre-tax profit	326	447	404	342	352
Corporate tax	68	92	83	69	72
Equity a/c profits	0	0	0	0	0
Minority interests	0	0	(1)	(0)	(1)
Core profit	259	355	320	272	279
Extra-ordinary items	0	0	0	0	0
Net Profit	259	355	320	272	279
EBITDA	404	526	486	419	430
Core EPS (Bt)	0.06	0.09	0.08	0.07	0.07
Net EPS (Bt)	0.06	0.09	0.08	0.07	0.07

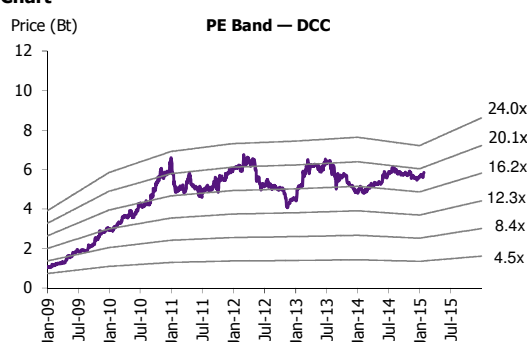
Balance Sheet (Btmn)

FY December 31	4Q13	1Q14	2Q14	3Q14	4Q14
Total current assets	1,914	1,847	1,892	1,960	2,000
Total fixed assets	3,226	3,236	3,154	3,137	3,108
Total assets	5,140	5,083	5,045	5,097	5,108
Total loans	1,187	670	1,065	1,350	1,394
Total current liabilities	2,157	1,763	2,118	2,210	2,209
Total long-term liabilities	222	184	187	192	197
Total liabilities	2,379	1,947	2,305	2,403	2,406
Paid-up capital	408	408	408	408	408
Total equity	2,761	3,137	2,741	2,695	2,702
BVPS (Bt)	0.68	0.77	0.67	0.66	0.66

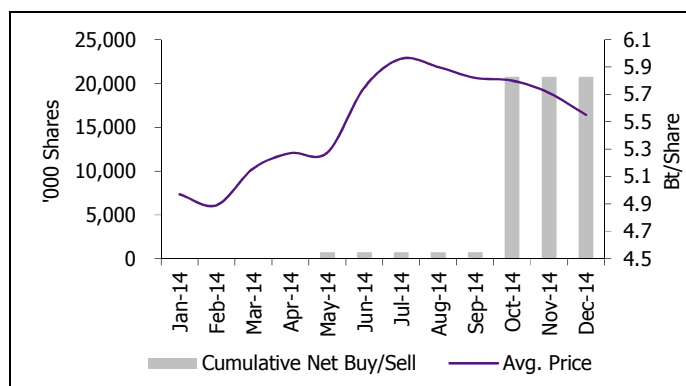
Main Assumptions

	2012	2013	2014	2015F	2016F
Avg selling price (Bt/sqm)	130	136	136	137	137
Sales volume (mn sqm)	58.3	55.5	52.8	54.4	57.1
Capacities-year end (mn sqm)	64.8	68.4	72.0	75.6	79.2

PE Band Chart

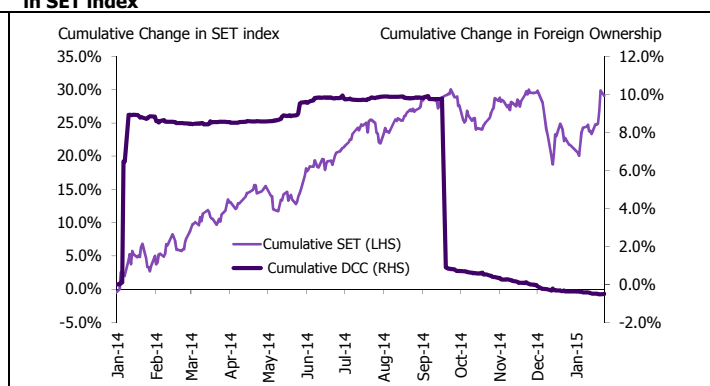


12-Month Cumulative directors trade



Source: SEC

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



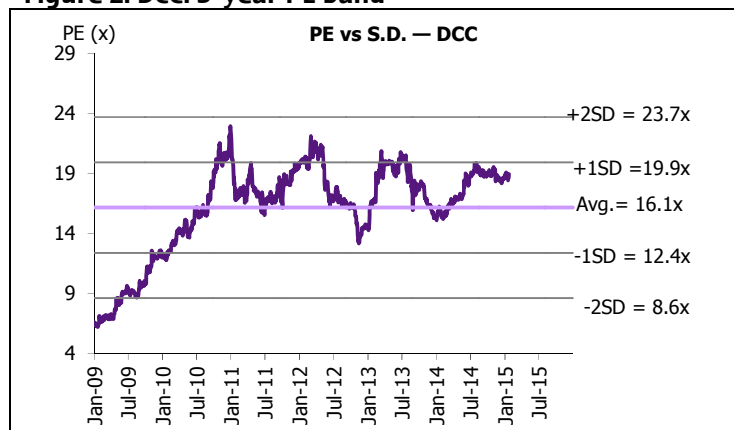
Source: SET, SCBS Investment Research

Figure 1: 4Q14 Financial statement

P & L (Btmn)	4Q13	1Q14	2Q14	3Q14	4Q14	% Chg YoY	% Chg QoQ	2013	2014	% Chg YoY
Total revenue	1,704	2,039	1,868	1,656	1,614	(5.3)	(2.6)	7,546	7,177	(4.9)
Gross profit	690	817	766	671	653	(5.4)	(2.8)	3,099	2,907	(6.2)
SG&A expense	(360)	(367)	(359)	(325)	(298)	(17.1)	(8.4)	(1,456)	(1,350)	(7.3)
Interest expense	(8)	(8)	(6)	(9)	(10)	15.1	11.4	(24)	(33)	37.6
Pre-tax profit	326	447	404	342	352	8.0	3.2	1,637	1,545	(5.6)
Corporate tax	(68)	(92)	(83)	(69)	(72)	5.6	3.0	(335)	(316)	(5.7)
Net Profit	259	355	320	272	279	8.0	2.8	1,298	1,227	(5.5)
EPS	0.06	0.09	0.08	0.07	0.07	8.0	2.8	0.32	0.30	(5.5)
EBITDA	404	526	486	419	430	6.6	2.8	1,861	2,178	17.1
B/S (Btmn)										
Total assets	5,140	5,083	5,045	5,097	5,108	(0.6)	0.2	5,140	5,108	(0.6)
Total liabilities	2,379	1,947	2,305	2,403	2,406	1.1	0.1	2,379	2,406	1.1
Total equity	2,761	3,137	2,741	2,695	2,702	(2.1)	0.3	2,761	2,702	(2.1)
BVPS (Bt)	0.68	0.77	0.67	0.66	0.66	(2.1)	0.3	0.68	0.66	(2.1)
Financial ratio (%)										
Gross margin	40.5	40.0	41.0	40.5	40.4	(0.0)	(0.1)	41.1	40.5	(0.6)
Net profit margin	15.2	17.4	17.1	16.4	17.3	2.1	0.9	17.2	17.1	(0.1)
EBITDA margin	23.7	25.8	26.0	25.3	26.7	3.0	1.4	28.9	0.2	(28.6)
SG&A expense/Revenue	21.1	18.0	19.2	19.6	18.5	(2.6)	(1.2)	19.3	18.8	(0.5)

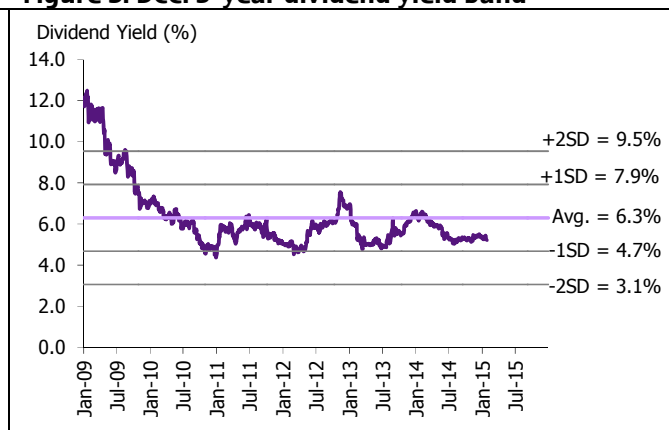
Source: SCBS Investment Research

Figure 2: DCC: 5-year PE band



Source: SCBS Investment Research

Figure 3: DCC: 5-year dividend yield band



Source: SCBS Investment Research

Figure 4: Valuation summary (price as of Jan 27, 2015)

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)			EV/EBITDA (x)		
					13A	14F	15F	13A	14F	15F	13A	14F	15F	13A	14F	15F	13A	14F	15F	13A	14F	15F
DCC	Buy	5.85	6.8	21.4	18.4	19.5	16.3	3	(6)	19	8.6	8.8	7.8	47	45	51	5.4	5.1	6.1	13.2	13.4	11.3
DRT	Sell	5.35	5.2	1.9	12.3	16.1	14.5	(10)	(23)	11	2.4	2.6	2.4	20	15	17	6.1	4.7	5.2	7.8	8.8	8.2
SCC	Buy	472.00	520.0	12.8	16.6	17.6	14.8	45	(6)	19	3.0	2.8	2.5	20	17	18	3.3	2.6	3.0	11.3	11.0	9.6
SCCC	Buy	422.00	480.0	17.6	19.7	18.4	16.0	27	7	16	5.0	4.6	4.1	27	26	27	3.6	3.8	4.4	14.0	13.0	11.4
TPIPL	Sell	2.20	1.5	(31.2)	43.2	41.1	35.8	418	5	15	0.8	0.7	0.7	2	2	2	0.7	0.6	0.4	16.4	15.5	13.9
Average					22.0	22.5	19.5	97	(5)	16	4.0	3.9	3.5	23	21	23	3.8	3.4	3.8	12.5	12.3	10.9

Source: SCBS Investment Research

CG Rating 2014 Companies with CG Rating

★★★★	BAFS, BCP, BTS, CPN, EGO, GRAMMY, HANA, INTUCH, IRPC, IVL, KBANK, KKP, KTB, MINT, PSL, PTT, PTTGP, PTTGC, SAMART, SAMTEL, SAT, SC, SCB, SE-ED, SIM, SPALL, TISCO, TMB, TOP
★★★★	AAV, ACAP, ADVANC, ANAN, ADT, ASIMAR, ASK, ASP, BANPU, BAY, BBL, BECL, BIGC, BKI, BLA, BMCL, BROOK, CENTEL, CFRESH, CIMBT, CK, CNT, CPF, CSL, DELTA, DRT, DTAC, DTC, EASTW, EE, ERW, GBX, GC, GPPT, GUNKUL, HEMRAJ, HMPRO, ICC, KCE, KSL, LANNIA, LH, LHBANK, LOXLEY, LPN, MACO, MC, MCOT, NBC, NCH, NINE, NKI, NMG, NSI, OCC, OFM, PAP, PE, PG, PHOL, PIJW, PM, PPS, PR, PRANDA, PS, PT, QH, RATCH, ROBINS, RS, S & J, SAMCO, SCC, SINGER, SIS, SITHAI, SNC, SNP, SPI, SSF, SSI, SSSC, STA, SVI, TCAP, TF, THAI, THANI, THCOM, TIP, TIPO, TK, TKT, TNITY, TNL, TOG, TRC, TRUE, TST, TSTH, TTA, TTW, TVO, UAC, VGI, VNT, WAOAL
★★★	ZS, AF, AH, AHC, AIT, AJ, AKP, AKR, AMANAH, AMARIN, AMATA, AP, APC, APKS, AQUA, ARIP, AS, ASIA, AYUD, BEAUTY, BEC, BTTI, BH, BJC, BICI, BOL, BTNC, BWG, CLET, CGD, CGS, CHOW, CI, CXP, CM, CMB, CSC, CUP, CSS, DCC, DEMCO, DNA, EA, ESSO, FE, FORTH, FPI, GENCO, GL, GLOBAL, GLOW, GOLD, HOTROT, HTC, HTECH, HYDRO, IS, IHL, INET, IRC, IRCP, ITD, KBS, KGI, KKC, KTC, L&E, LHH, LST, MAJOR, MAKRO, MATCH, MBK, MBMT, MEGA, MFC, MFE, MJD, MODERN, MONO, MOONG, MPG, MTI, NE, NTV, NUSA, NWR, NWT, OGC, OSHI, PACE, PATO, PB, PDI, PICO, PPM, PPP, PREB, PRG, PRIN, PTG, QLT, QTC, RCL, SABINA, SALEE, SCBU, SCC, SCG, SEAFOD, SEAOIL, SP, SIAM, SIRI, SKR, SMG, SMK, SMP, SMT, SOLAR, SPC, SPGC, SPPT, SST, STANLY, STEC, STPL, SUC, SWC, SYMC, SYNEK, SYNTAC, TASC, TBSP, TEAM, TFD, TFI, THANA, THIP, THREL, TIC, TICON, TIW, TKS, TLUXE, TMI, TMT, TNDT, TPC, TPCORP, TRT, TRU, TSC, TTCL, TUF, TVD, TWFP, UMI, UP, UPF, UPOIC, UT, UV, UWC, VIH, WAVE, WHA, WIN, WINNER, YUASA, ZMICO

Corporate Governance Report disclaimer

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