

# Dynasty Ceramic PLC

Wednesday, July 25, 2012

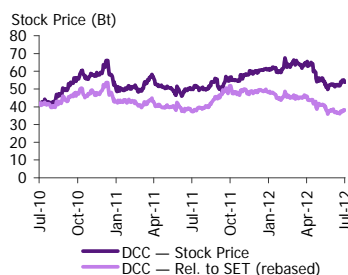
## SELL

### Stock Data

Last close (Jul 24) (Bt)	53.75
12-m target price (Bt)	50.00
Upside (Downside) to TP (%)	(6.98)
Mkt cap (Btbn)	21.93
Mkt cap (US\$mn)	690

Bloomberg code	DCC TB
Reuters code	DCC.BK
Risk rating	L
Mkt cap (%) SET	0.22
Sector % SET	5.43
Shares issued (mn)	408
Par value (Bt)	1
12-m high / low (Bt)	67.8 / 47.5
Avg. daily 6m (US\$mn)	1.15
Foreign limit / actual (%)	35 / 20
Free float (%)	37.8
Dividend policy (%)	≥ 70

### Price Performance



Source: SET, SCBS Investment Research

### Share performance

	1M	3M	12M
Absolute	1.9	-14.3	7.5
Relative to SET	-1.6	-13.4	2.1

Source: SET, SCBS Investment Research

**Sirima Dissara, CFA**  
 (66-2) 949-1004  
 sirima.dissara@scb.co.th

## 2Q12A: Poorer sales, margin pull below estimate

- **2Q12A net profit Bt322mn, 8-10% below forecasts on lower-than-expected sales and margin**
- **2Q12A DPS of Bt0.79 (XD August 7), based on 100% dividend payout ratio**
- **Expect 2H12F to drop HoH from seasonality**
- **Maintain SELL with a mid-13 PT of Bt50, based on 14x PE**

**2Q12A net profit of Bt322mn, below forecasts.** DCC reported 2Q12 net profit of Bt322mn, -4.5% YoY and -13.6% QoQ. This is below our expectation and market consensus for net profit of Bt350-360mn, and arose primarily out of a narrower margin and lower sales than anticipated.

**2Q12A key highlights.** Earnings deterioration YoY came from: 1) a disappointing 2Q12 sales volume growth (+1.4% YoY) arose out of insufficient trucks – the company hires trucks and many preferred to move to loading agricultural products during the harvest (Feb-April); 2) a squeeze in gross margin to 39.2% (-4.7ppts YoY) from the lack of economies of scale from low sales volume and higher natural gas cost. These offset the benefit from the reduction in corporate tax rate to 23% from 30%. The QoQ fall came from seasonally lower sales volume.

**2Q12A DPS of Bt0.79.** DCC announced a 2Q12A DPS of Bt0.79 (XD August 7), based on 100% dividend payout ratio.

**Maintain SELL.** We maintain our SELL rating with a mid-2013 PT of Bt50, based on 14x PE (+0.5 S.D. over its 10-year historical average PE of 12x). After passing its high season, DCC admits that the disappointing 1Q12 earnings were this year's best. We expect its 2H12F earnings to drop HoH from seasonality. 1H12 earnings accounted for 52% of our full-year forecast (vs. an average of 56% in 2007-11). Our 2012F earnings are 5% below the street and we expect the market to downgrade to reflect its poor 1H12 showing. Valuation wise, DCC share price is trading at a premium at 16.8x 12PE, against its earnings growth at 13% CAGR in 2012-14F.

### Forecasts and valuation

Year to 31 Dec	Unit	2010	2010	2012F	2013F	2014F
Revenue	(Btmn)	6,513	7,207	7,582	8,285	8,971
EBITDA	(Btmn)	2,035	2,000	1,896	2,062	2,389
Core profit	(Btmn)	1,175	1,242	1,327	1,513	1,769
Reported profit	(Btmn)	1,175	1,242	1,327	1,513	1,769
Core EPS	(Bt)	2.88	3.05	3.25	3.71	4.34
DPS	(Bt)	2.88	3.05	3.25	3.71	4.34
P/E, core	(x)	18.7	17.7	16.5	14.5	12.4
EPS growth, core	(%)	18.2	5.7	6.8	14.0	17.0
P/BV, core	(x)	8.04	8.23	8.09	8.00	7.61
ROE	(%)	43.2	46.1	49.4	55.5	62.9
Dividend yield	(%)	5.4	5.7	6.1	6.9	8.1
EV/EBITDA	(x)	10.7	11.1	11.6	10.7	9.2

Source: SCBS Investment Research

Figure 1: 2Q12A review

P & L (Btmn)	2Q11	3Q11	4Q11	1Q12	2Q12	% Chg YoY	% Chg QoQ	6M11	6M12	% Chg YoY	% of full year 12F
Total revenue	1,856	1,698	1,634	2,093	1,883	1.4	(10.0)	3,875	3,975	2.6	52.4
Total cost of goods sold	(1,042)	(959)	(975)	(1,264)	(1,145)	9.8	(9.4)	(2,211)	(2,409)	9.0	52.7
Gross profit	814	739	660	828	738	(9.4)	(10.9)	1,664	1,566	(5.9)	52.0
SG&A expense	(334)	(312)	(297)	(347)	(341)	2.2	(1.8)	(668)	(688)	3.0	52.3
Net other income/expense	9	5	4	3	26	197.4	721.3	11	29	155.3	74.5
Interest expense	-	(1)	(3)	(2)	(2)	n.a.	20.9	-	(3)	-	56.6
Pre-tax profit	489	432	363	483	421	(14.0)	(12.8)	1,007	903	(10.3)	52.2
Corporate tax	(150)	(141)	(110)	(109)	(98)	(34.8)	(10.0)	(303)	(207)	(31.7)	52.0
Minority interests	(2)	(1)	(1)	(1)	(1)	(52.1)	(28.2)	(3)	(2)	(34.1)	37.3
<b>Net Profit</b>	<b>337</b>	<b>289</b>	<b>252</b>	<b>373</b>	<b>322</b>	<b>(4.5)</b>	<b>(13.6)</b>	<b>701</b>	<b>694</b>	<b>(0.9)</b>	<b>52.3</b>
<b>EPS</b>	<b>0.83</b>	<b>0.71</b>	<b>0.62</b>	<b>0.91</b>	<b>0.79</b>	<b>(4.5)</b>	<b>(13.6)</b>	<b>1.72</b>	<b>1.70</b>	<b>(0.9)</b>	<b>52.3</b>
EBITDA	525	468	402	484	422	(19.5)	(12.7)	1,131	907	(19.8)	47.8
<b>B/S (Btmn)</b>											
Total assets	4,032	4,019	4,303	4,451	4,353	8.0	(2.2)	4,187	4,361	4.1	NM
Total liabilities	1,284	1,318	1,640	1,423	1,627	26.7	14.4	1,119	1,351	20.8	NM
Total equity	2,748	2,700	2,663	3,028	2,726	(0.8)	(10.0)	3,068	3,009	(1.9)	NM
BVPS (Bt)	6.7	6.6	6.5	7.4	6.7	(0.8)	(10.0)	7.5	7.4	(1.9)	NM
<b>Financial ratio (%)</b>											
Gross margin	43.9	43.5	40.4	39.6	39.2	(4.7)	(0.4)	42.9	39.4	(3.5)	NM
Net profit margin	18.2	17.0	15.4	17.8	17.1	(1.1)	(0.7)	18.1	17.5	(0.6)	NM
SG&A expense/Revenue	18.0	18.4	18.2	16.6	18.1	0.1	1.5	17.2	17.3	0.1	NM

Source: SCBS Investment Research

## CG Rating 2011 Companies with CG Rating under SCBS's Coverage

★★★★	ADVANC, AOT, BANPU, BAY, BBL, BCP, BMCL, CPF, CSL, EGCO, HEMRAJ, IRPC, KBANK, KK, KTB, LPN, MCOT, PS, PSL, PTT, PTTEP, QH, RATCH, SAT, SCB, SCC, TISCO, TMB, TOP
★★★★	ANATA, AP, ASP, BEC, BECL, BH, BKG, BLA, BTS, CK, CPALL, DELTA, DRT, DTAC, GPPT, GLOW, HANA, HMPRO, INTUCH, KCE, KEST, LH, IWL, MAJOR, MAKRO, OISHI, PHATRA, SCCC, SMT, SPALI, SIRI, STANLY, STEC, SVL, TCAP, THAI, THCOM, TRUE, TTA, TTW
★★★★	AEON'S, AH, CCET, DCC, ESSO, ITD, KH, KTC, RCL, ROJNA, TICON, TPIPL
★★★	AAV, BGH, BLS, CPNRF, LHBANK, POPF, QHPF, SAMART, SAMTEL, SSL, TFUND, TLOGIS, WHAPF
N/A	PTTGC is the merged entity of PTTC and PTTAR

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