

Dynasty Ceramic PLC

April 25, 2012

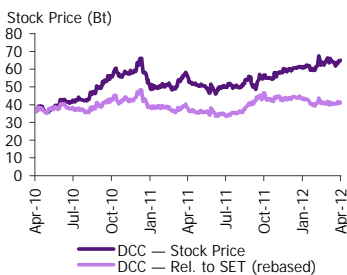
SELL

Stock Data

Last close (Apr 24) (Bt)	65.50
12-m target price (Bt)	60.00
Upside (Downside) to TP (%)	(8.40)
Mkt cap (Btbn)	26.72
Mkt cap (US\$mn)	863

Bloomberg code	DCC TB
Reuters code	DCC.BK
Risk rating	L
Mkt cap (%) SET	0.27
Sector % SET	5.69
Shares issued (mn)	408
Par value (Bt)	1
12-m high / low (Bt)	67.8 / 46
Avg. daily 6m (US\$mn)	1.01
Foreign limit / actual (%)	35 / 22
Free float (%)	43.0
Dividend policy (%)	≥ 70

Price Performance



Source: SET, SCBS Investment Research

Share performance

	1M	3M	12M
Absolute	3.1	6.9	19.6
Relative to SET	2.2	-5.9	10.2

Source: SET, SCBS Investment Research

Sirima Dissara, CFA

(66-2) 949-1004

sirima.dissara@scb.co.th

1Q12A: Huge disappointment, cut forecasts

- **1Q12A net profit of Bt373mn, far below forecasts on lower sales & margin**
- **Cut 2012-13F earnings by 15%**
- **Near term pressure on share price from: 1) widespread earnings downgrades; 2) less attractive earnings growth at 16% CAGR (vs. almost 30% earlier) in 2012-13F**
- **Downgrade to SELL from BUY with a new PT of Bt60 (from Bt75)**

1Q12A net profit of Bt373mn, below forecasts. DCC reported 1Q12 net profit of Bt373mn, +2.4% YoY and +47.6% QoQ. This is 20% below our estimates and 15% below market consensus, mainly due to lower-than-expected sales volume and margin that overrode the benefit from the corporate tax cut to 23% from 30%. Revenue in 1Q12A inched up only 4% YoY. In our view, this is likely from: 1) renovation demand after the floods is still waiting in the wings; 2) shortage of trucks to distribute products. Gross margin dropped to 39.6%, -2.5ppts YoY and -0.8ppts QoQ, dragged down by a jump in production costs (i.e. natural gas and wages) but only a minimal rise in revenue.

1Q12A DPS of Bt0.91. DCC announced a 1Q12A DPS of Bt0.91 (XD date on May 8), based on 100% dividend payout ratio.

Cut 2012-13F. Looking back at the flooding in 2H10, we see that demand recovery then was slow, as seen in DCC's average revenue growth of 4% during 3Q10-2Q11. This year, renovation demand after last year's floods may very well follow the historical pattern, thus slower than we had anticipated earlier. This, plus the cost increase, suggests that its 2012 target of +13% sales volume growth and 3% gross margin expansion may be difficult to achieve. In line with this, we cut our forecast by 15% to Bt1.4bn in 2012 and Bt1.7bn in 2013. Changes in assumptions include: 1) a cut in sales revenue growth to +7% (from +12%) in 2012 and +10% (from +11%) in 2013 to reflect the slow demand recovery; and 2) a lowering in expected gross margin to 41.2% (from 43.3%) in 2012 and 41.6% (from 44.0%) in 2013 to reflect cost hike and lower economies of scale from lower sales volume.

Downgraded to SELL. The earnings downgrade leads to a downgrade in recommendation to Sell (from Buy) and a cut in 12-month TP to Bt60 (from Bt75), based on 16.0x theoretical PE (61% L-T ROE, 9% cost of equity and 3% L-T growth). Because of the earnings downgrade – which we expect to be seen at all brokerages since we are now 14% below market consensus – and the less attractive earnings growth at 16% CAGR (vs. almost 30% earlier) in 2012-13F, we expect share price to be under pressure.

Forecasts and valuation

Year to 31 Dec	Unit	2010	2010	2012F	2013F	2014F
Revenue	(Btmn)	6,513	7,207	7,691	8,502	9,251
EBITDA	(Btmn)	2,035	2,000	2,003	2,237	2,618
Core profit	(Btmn)	1,175	1,242	1,414	1,652	1,952
Reported profit	(Btmn)	1,175	1,242	1,414	1,652	1,952
Core EPS	(Bt)	2.88	3.05	3.46	4.05	4.78
DPS	(Bt)	2.88	3.05	3.46	4.05	4.78
P/E, core	(x)	22.7	21.5	18.9	16.2	13.7
EPS growth, core	(%)	18.2	5.7	13.8	16.8	18.2
P/BV, core	(x)	9.80	10.03	9.96	9.73	9.18
ROE	(%)	43.2	46.1	52.9	60.9	69.0
Dividend yield	(%)	4.4	4.6	5.3	6.2	7.3
EV/EBITDA	(x)	13.1	13.5	13.4	12.0	10.2

Source: SCBS Investment Research

Figure 1: 1Q12A review

P & L (Bt mn)	1Q11	2Q11	3Q11	4Q11	1Q12	% Chg YoY	% Chg QoQ
Total revenue	2,018	1,856	1,698	1,634	2,093	3.7	28.0
Total cost of goods sold	(1,169)	(1,042)	(959)	(975)	(1,264)	8.2	29.7
Gross profit	850	814	739	660	828	(2.5)	25.6
SG&A expense	(334)	(334)	(312)	(297)	(347)	3.9	16.9
Net other income/expense	3	9	5	4	3	17.9	(15.4)
Interest expense	-	-	(1)	(3)	(2)	n.a.	(47.3)
Pre-tax profit	518	489	432	363	483	(6.8)	32.9
Corporate tax	(153)	(150)	(141)	(110)	(109)	(28.7)	(1.2)
Minority interests	(1)	(2)	(1)	(1)	(1)	(9.7)	118.7
Net Profit	364	337	289	252	373	2.4	47.6
EPS	0.89	0.83	0.71	0.62	0.91	2.4	47.6
B/S (Bt mn)							
Total assets	4,361	4,032	4,019	4,303	4,451	2.1	3.4
Total liabilities	1,351	1,284	1,318	1,640	1,423	5.3	(13.2)
Total equity	3,009	2,748	2,700	2,663	3,028	0.6	13.7
BVPS (Bt)	7.4	6.7	6.6	6.5	7.4	0.6	13.7
Financial ratio (%)							
Gross margin	42.1	43.9	43.5	40.4	39.6	(2.5)	(0.8)
Net profit margin	18.0	18.2	17.0	15.4	17.8	(0.2)	2.4
SG&A expense/Revenue	16.6	18.0	18.4	18.2	16.6	0.0	(1.6)

Source: SCBS Investment Research

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

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

Corporate Governance Report disclaimer

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information. The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. SCB Securities Company Limited does not confirm nor certify the accuracy of such survey result.