

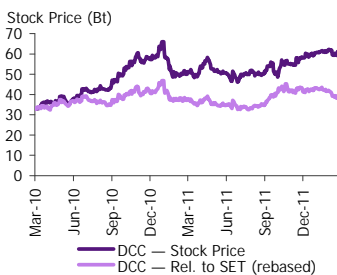
## BUY

## Stock Data

Last close (Mar 5) (Bt)	64.25
12-m target price (Bt)	75.00
Upside (Downside) to TP (%)	16.73
Mkt cap (Btbn)	26.21
Mkt cap (US\$mn)	856

Bloomberg code	DCC TB
Reuters code	DCC.BK
Risk rating	L
Mkt cap (%) SET	0.28
Sector % SET	6.13
Shares issued (mn)	408
Par value (Bt)	1
12-m high / low (Bt)	67.8 / 46
Avg. daily 6m (US\$mn)	1.10
Foreign limit / actual (%)	35 / 21
Free float (%)	43.0
Dividend policy (%)	≥ 70

## Price Performance



Source: SET, SCBS Investment Research

## Share performance

	1M	3M	12M
Absolute	4.5	10.3	25.4
Relative to SET	-1.3	-1.8	8.6

Source: SET, SCBS Investment Research

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## Management: 2012 to be a good year

- **2012 guidance: Revenue growth of 12-15% via rise in volume and price, wider gross margin, lower SG&A, staying with 100% dividend payout**
- **2012-13F lifted by 5% on change in assumptions to line up with guidance**
- **Maintain BUY with a new 12-month PT of Bt75, based on 18.5x PE**

**Positive guidance in 2012.** At Monday's analyst meeting, the management took a positive stance on its 2012 outlook.

- **Revenues:** DCC targets revenue growth of 12-15% YoY in 2012 through higher sales volume and product selling price. Backing the sales volume rise will be strong and broad-based market demand for renovation (accounting for 75% of its sales) after the floods. Though sales volume grew only in the single digits in Jan-Feb 2012, DCC expects the bulk of renovation demand to come from 2Q12, as was seen historically, when strong demand came in 2Q11 after the floods ended in 4Q10. It also expects to bump up prices by 2.4% YoY to Bt132/sq.m., with rises differentiated by product type to reflect cost increases, and a positive change in product mix.
- **Gross margin:** DCC targets gross margin at 44-45% in 2012 from 42.5% in 2011. It bases this on: 1) a change in product mix, raising the portion of sales from 16x16" ceramic floor tiles to 40% in 2012F from 31% in 2011, since the margin on this size is 6% above the 12x12"; and 2) cost reductions from greater economies of scale, a 10% drop in pigment cost from new technology and a 6% drop in gas cost from a new body formula.
- **SG&A expenses:** The company has a goal of reducing SG&A expenses to one-fourth of gross profit in 2012 from one-third in 2011. Making this possible will be reductions in utilities expenses, marketing expenses and transportation costs from the use of larger transport vehicles.
- **CAPEX and dividend:** 2012 CAPEX has been set at Bt455mn. Of this, Bt80mn will be allocated for kiln adjustment that will raise capacity by 5%, Bt200mn for outlet expansion (adding 15 outlets to the existing 220 outlets), and the rest will be invested in warehouses and office equipment. This will be fully funded by its internal cash flow. DCC aims to maintain its 100% quarterly dividend payout ratio.

**Raised earnings in 2012-13.** To reflect the positive guidance, we lifted our forecasts by 5% to Bt1.7bn in 2012 and Bt1.9bn in 2013. Changes in our assumptions are: 1) a 2% increase in revenue growth from the rise in sales volume and selling price and 2) a 5% cut in SG&A expenses.

**Maintain BUY.** We maintain BUY with a new PT of Bt75, based on 18.5x theoretical PE. The stock is trading at 16x 2012PE and 9x 2012PBV (against a record high ROE at 59%), above its 10-year historical average at 12x PE and 4x PBV (against ROE of 36%). DCC is one of our top picks in the building materials sector, undergirded by: 1) a strong 1Q12 from demand recovery after floods; 2) solid LT earnings growth with 2-yr earnings CAGR of 25%, backed by a rise in sales volume, margin expansion, and net gain from corporate tax cut vs. the wage hike; 3) high dividend yield at 6.3% p.a. in 2012.

## Forecasts and valuation

Year to 31 Dec	Unit	2010	2010	2012F	2013F	2014F
Revenue	(Btmn)	6,513	7,207	8,086	8,902	9,440
EBITDA	(Btmn)	2,035	2,000	2,311	2,601	2,842
Core profit	(Btmn)	1,175	1,242	1,651	1,943	2,131
Reported profit	(Btmn)	1,175	1,242	1,651	1,943	2,131
Core EPS	(Bt)	2.88	3.05	4.05	4.76	5.22
DPS	(Bt)	2.88	3.05	4.05	4.76	5.22
P/E, core	(x)	22.3	21.1	15.9	13.5	12.3
EPS growth, core	(%)	18.2	5.7	32.9	17.7	9.7
P/BV, core	(x)	9.62	9.84	8.98	8.63	8.48
ROE	(%)	43.2	46.1	59.1	65.3	69.6
Dividend yield	(%)	4.5	4.7	6.3	7.4	8.1
EV/EBITDA	(x)	12.8	13.2	11.3	10.0	9.2

Source: SCBS Investment Research

## Financial statement

## Profit and Loss Statement (Btmn)

FY December 31	2010	2011	2012F	2013F	2014F
Total revenue	6,513	7,207	8,086	8,902	9,440
Cost of goods sold	3,630	4,145	4,583	4,977	5,190
Gross profit	2,883	3,062	3,503	3,925	4,251
SG&A	1,206	1,277	1,375	1,513	1,605
Other income	18	20	23	25	26
Interest expense	0	4	0	0	0
Pre-tax profit	1,695	1,802	2,151	2,436	2,672
Corporate tax	516	554	495	487	534
Equity a/c profits	0	0	0	0	0
Minority interests	(4)	(5)	(5)	(6)	(6)
Core profit	1,175	1,242	1,651	1,943	2,131
Extra-ordinary items	0	0	0	0	0
Net Profit	1,175	1,242	1,651	1,943	2,131
EBITDA	2,035	2,000	2,311	2,601	2,842
Core EPS (Bt)	2.88	3.05	4.05	4.76	5.22
Net EPS (Bt)	2.88	3.05	4.05	4.76	5.22
DPS (Bt)	2.88	3.05	4.05	4.76	5.22

## Balance Sheet (Btmn)

FY December 31	2010	2011	2012F	2013F	2014F
Total current assets	1,497	1,638	1,367	1,459	1,355
Total fixed assets	2,218	2,665	2,973	3,226	3,467
Total assets	3,715	4,303	4,340	4,685	4,823
Total loans	0	416	0	0	0
Total current liabilities	941	1,497	1,260	1,472	1,545
Total long-term liabilities	48	143	160	177	187
Total liabilities	989	1,640	1,420	1,648	1,732
Paid-up capital	408	408	408	408	408
Total equity	2,726	2,663	2,920	3,037	3,090
BVPS (Bt)	6.68	6.53	7.16	7.44	7.57

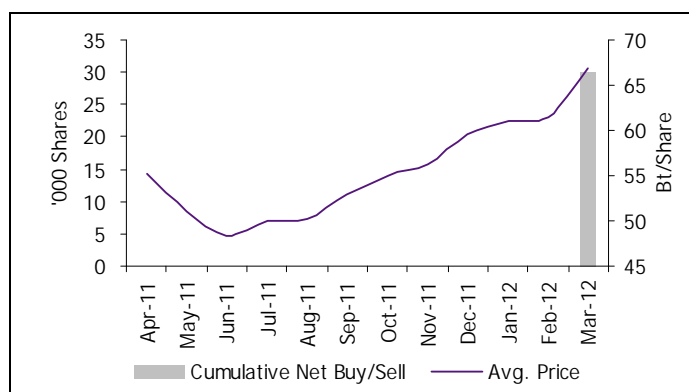
## Cash Flow Statement (Btmn)

FY December 31	2010	2011	2012F	2013F	2014F
Core Profit	1,175	1,242	1,651	1,943	2,131
Depreciation and amortization	339	195	160	165	170
Operating cash flow	1,562	1,577	2,155	2,401	2,544
Investing cash flow	(432)	(641)	(468)	(417)	(411)
Financing cash flow	(1,161)	(890)	(1,810)	(1,826)	(2,078)
Net cash flow	(31)	46	(123)	158	55

## Key Financial Ratios

	2010	2011	2012F	2013F	2014F
Gross margin(%)	44.3	42.5	43.3	44.1	45.0
Operating margin(%)	25.8	24.8	26.3	27.1	28.0
EBITDA margin(%)	31.2	27.8	28.6	29.2	30.1
EBIT margin(%)	26.0	25.0	26.6	27.4	28.3
Net profit margin(%)	18.0	17.2	20.4	21.8	22.6
ROE (%)	43.7	47.4	57.4	64.9	69.9
ROA (%)	31.2	28.6	37.4	40.5	41.9
Net D/E (%)	(5.9)	7.9	(2.8)	(7.9)	(9.5)
Interest coverage (x)	12224.8	561.5	N.A.	N.A.	N.A.
Debt service coverage (x)	902.1	549.8	N.A.	N.A.	N.A.
Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

## 12-Month Cumulative directors trade



Source: SEC

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

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

## 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 conform nor certify the accuracy of such survey result.

## Profit and Loss Statement (Btmn)

FY December 31	4Q10	1Q11	2Q11	3Q11	4Q11
Total revenue	1,482	2,018	1,856	1,698	1,634
Cost of goods sold	830	1,169	1,042	959	975
Gross profit	652	850	814	739	660
SG&A	291	334	334	312	297
Other income	6	3	9	5	4
Interest expense	0	0	0	1	3
Pre-tax profit	367	518	489	432	363
Corporate tax	119	153	150	141	110
Equity a/c profits	0	0	0	0	0
Minority interests	(1)	(1)	(2)	(1)	(1)
Core profit	247	364	337	289	252
Extra-ordinary items	0	0	0	0	0
Net Profit	247	364	337	289	252
EBITDA	453	606	525	468	402
Core EPS (Bt)	0.60	0.89	0.83	0.71	0.62
Net EPS (Bt)	0.60	0.89	0.83	0.71	0.62

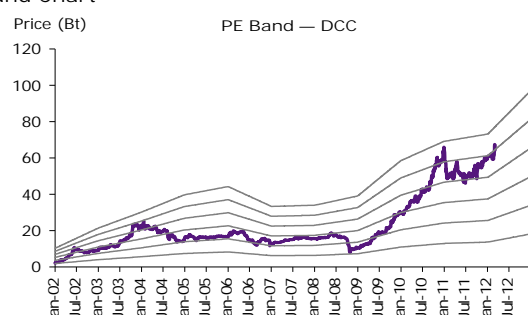
## Balance Sheet (Btmn)

FY December 31	4Q10	1Q11	2Q11	3Q11	4Q11
Total current assets	1,497	2,059	1,531	1,403	1,638
Total fixed assets	2,218	2,301	2,501	2,615	2,665
Total assets	3,715	4,361	4,032	4,019	4,303
Total loans	0	1	6	210	416
Total current liabilities	941	1,215	1,148	1,179	1,497
Total long-term liabilities	48	136	136	140	143
Total liabilities	989	1,351	1,284	1,318	1,640
Paid-up capital	408	408	408	408	408
Total equity	2,726	3,009	2,748	2,700	2,663
BVPS (Bt)	6.68	7.38	6.74	6.62	6.53

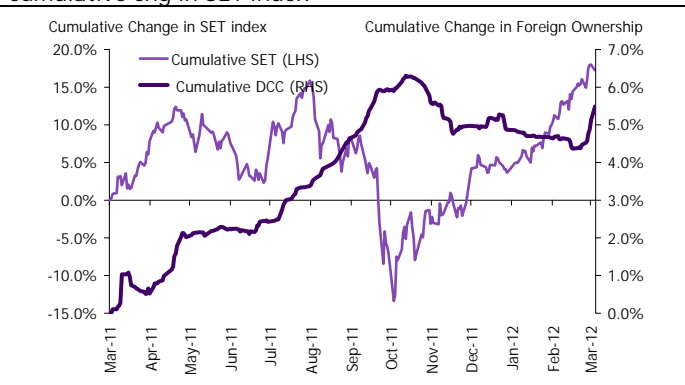
## Main Assumptions

	2010	2011	2012F	2013F	2014F
Avg selling price (Bt/sqm)	128.7	128.9	131.5	132.8	134.1
Sales volume (mn sqm)	50.6	55.9	61.5	67.0	70.4
Capacities-year end (mn sqm)	51.0	61.2	64.8	68.4	72.0

## PE Band Chart



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



Source: SET, SCBS Investment Research