

Dynasty Ceramic PLC

January 25, 2012

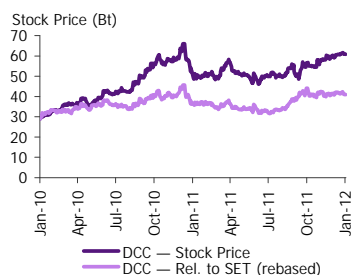
BUY

Stock Data

Last close (Jan 24) (Bt)	61.50
12-m target price (Bt)	70.0
Upside (Downside) to TP (%)	13.82
Mkt cap (Btbn)	25.09
Mkt cap (US\$mn)	799

Bloomberg code	DCC TB
Reuters code	DCC.BK
Risk rating	L
Mkt cap (%) SET	0.29
Sector % SET	6.19
Shares issued (mn)	408
Par value (Bt)	1
12-m high / low (Bt)	61.8 / 45.5
Avg. daily 6m (US\$mn)	0.94
Foreign limit / actual (%)	35 / 20
Free float (%)	43.0
Dividend policy (%)	≥ 70

Price Performance



Share performance

	1M	3M	12M
Absolute	4.2	8.4	26.8
Relative to SET	1.2	-3.9	14.4

Source: SET, SCBS Investment Research

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4Q11A: Meets forecasts

- **4Q11A net profit of Bt252mn, +2% YoY but -13% QoQ, in line with our estimates, 8% below market consensus**
- **4Q11A DPS of 0.62, based on 100% dividend payout ratio**
- **2012 earnings to bounce back from rebuilding demand and more favorable margin from the change of product mix and cost control plans**
- **Maintain BUY with a new 12-month PT (rolling over to end-2012) of Bt70**

4Q11A net profit of Bt252mn. DCC reported 4Q11 net profit of Bt252mn, +2% YoY but -13% QoQ. This meets our estimates and is 8% below market consensus. 4Q11 sales revenue rose 11% YoY, backed by the sales volume recovery after the floods subsided late November. It kept product selling prices unchanged rather than raise them as earlier planned in order to help out flood victims. 4Q11 gross margin slipped 1.7ppts YoY to 40.4% and EBIT margin fell 3.3ppts YoY to 22.4%, dragged down by higher transportation costs during the flooding.

4Q11A DPS of Bt0.62. After a 9M11 DPS of Bt2.43, DCC announced a 4Q11 DPS of Bt0.62 (XD on April 2), based on 100% dividend payout ratio.

Best proxy for post-flood rebuilding demand. DCC is the best proxy for post-flood rebuilding demand, given: 1) 100% of sales are from ceramic floor/wall tiles; 2) 98% of sales are from the local market; 3) it can increase sales volume to meet market demand via expansion of effective capacity by 15% YoY in 2012F.

2012 earnings to bounce back. We expect profits to bounce back in 1Q12, lifted by: 1) pent-up demand and the need for rebuilding after the floods and 2) the normal high season. In 2012, DCC is expected to post outstanding earnings growth of 27% YoY to Bt1.6bn. We estimate its top line will grow 10% YoY, backed by 1) the improvement in broad-based market demand; 2) continued market expansion through its strong distribution channel. Gross margin is expected to expand from 42.5% in 2011 to 44.7% in 2012 from: 1) a change in product mix via raising the portion of sales from 16x16" ceramic floor tiles to 45% in 2012F from 32% in 2011, since the margin on this size is 6-8% 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.

Maintain BUY. We maintain BUY with a new 12-month PT (rolling over to end-2012) of Bt70 (from Bt66 in mid-2012), based on 18x theoretical PE (64% L-T ROE, 9.1% cost of equity and 3.5% growth). DCC is one of our top picks in the building materials sector, grounded in: 1) its strong ST earnings in 1Q12 from demand recovery after the end of the floods; 2) solid LT earnings growth with 2-yr earnings CAGR of 22%, backed by a rise in sales volume, margin expansion, and net gain from corporate tax vs. minimum wage hike; 3) high dividend yield at 6.3% p.a. in 2012F.

Forecasts and valuation

Year to 31 Dec	Unit	2010	2011	2012F	2013F	2014F
Revenue	(Btmn)	6,513	7,207	7,971	8,775	9,306
EBITDA	(Btmn)	2,035	2,000	2,222	2,474	2,686
Core profit	(Btmn)	1,175	1,242	1,582	1,841	2,007
Reported profit	(Btmn)	1,175	1,242	1,582	1,841	2,007
Core EPS	(Bt)	2.88	3.05	3.88	4.51	4.92
DPS	(Bt)	2.88	3.05	3.88	4.51	4.92
P/E, core	(x)	21.4	20.2	15.9	13.6	12.5
EPS growth, core	(%)	18.2	5.7	27.4	16.4	9.0
P/BV, core	(x)	9.20	9.42	8.80	8.55	8.46
ROE	(%)	43.2	46.1	57.4	63.7	68.0
Dividend yield	(%)	4.7	5.0	6.3	7.3	8.0
EV/EBITDA	(x)	12.3	12.7	11.2	9.9	9.1

Source: SCBS Investment Research

Figure 1: 4Q11A review

P & L (Bt mn)	4Q10	1Q11	2Q11	3Q11	4Q11	% Chg YoY	% Chg QoQ	2010	2011	% Chg YoY
Total revenue	1,482	2,018	1,856	1,698	1,634	10.3	(3.7)	6,513	7,207	10.7
Total cost of goods sold	(830)	(1,169)	(1,042)	(959)	(975)	17.4	1.7	(3,630)	(4,145)	14.2
Gross profit	652	850	814	739	660	1.1	(10.8)	2,883	3,062	6.2
SG&A expense	(291)	(334)	(334)	(312)	(297)	2.1	(4.7)	(1,206)	(1,277)	5.9
Net other income/expense	6	3	9	5	4	(36.6)	(27.4)	18	20	9.9
Interest expense	(0)	-	-	(1)	(3)	1,696	352.2	(0)	(4)	-
Pre-tax profit	367	518	489	432	363	(1.0)	(15.9)	1,695	1,802	6.3
Corporate tax	(119)	(153)	(150)	(141)	(110)	(7.5)	(21.8)	(516)	(554)	7.4
Minority interests	(1)	(1)	(2)	(1)	(1)	(38.1)	(65.3)	(4)	(5)	23.1
Net Profit	247	364	337	289	252	2.3	(12.8)	1,175.1	1,242.4	5.7
EPS	0.60	0.89	0.83	0.71	0.62	2.3	(12.8)	2.9	3.0	5.7
EBITDA	453	606	525	468	402	(11.4)	(14.2)	2,035	2,000	(1.7)
B/S (Btmn)										
Total assets	3,715	4,361	4,032	4,019	4,303	15.8	7.1	4,187	4,361	4.1
Total liabilities	989	1,351	1,284	1,318	1,640	65.8	24.4	1,119	1,351	20.8
Total equity	2,726	3,009	2,748	2,700	2,663	(2.3)	(1.4)	3,068	3,009	(1.9)
BVPS (Bt)	6.7	7.4	6.7	6.6	6.5	(2.3)	(1.4)	7.5	7.4	(1.9)
Financial ratio (%)										
Gross margin	44.0	42.1	43.9	43.5	40.4	(3.6)	(3.2)	44.3	42.5	(1.8)
Net profit margin	16.6	18.0	18.2	17.0	15.4	(1.2)	(1.6)	18.0	17.2	(0.8)
SG&A expense/Revenue	19.6	16.6	18.0	18.4	18.2	(1.5)	(0.2)	18.5	17.7	(0.8)

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
★★★★	AMATA, AP, ASP, BEC, BECL, BH, BIGC, BLA, BTS, CK, CPALL, DELTA, DRT, DTAC, GFPT, GLOW, HANA, HMPRO, INTUCH, KCE, KEST, LH, IVL, 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
N/A	BGH, BLS, CPNRF, LHBANK, POPF, QHPF, SAMART, SAMTEL, SSI, TFUND, TLOGIS, WHAPF
	PTTGC is the merged entity of PTTC and PTTAR

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