COMPANY FLASH

Dynasty Ceramic PLC

November 16, 2011

SCB Securities

BUY

When floods end – then rebuilding begins

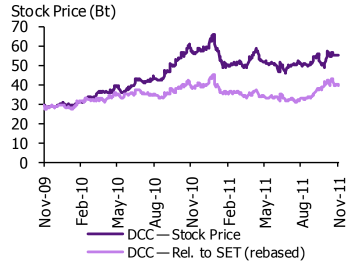
- **Flooding: Sales up some, logistics snags raised costs, prices unchanged**
- **Floods to erode 4Q11F; 1Q12F to bounce back from pent-up demand and rebuilding**
- **2011 earnings lowered by 3%; 2012 raised by 5%, and 2013 by 7%**
- **Maintain BUY with a new 12-month PT of Bt66**

Stock Data

Last close (Nov 15) (Bt)	55.75
12-m target price (Bt)	66.00
Upside (Downside) to TP (%)	18.40
Mkt cap (Btbn)	23.15
Mkt cap (US$mn)	752

Bloomberg code	DCC TB
Reuters code	DCC.BK
Risk rating	L
Mkt cap (%) SET	0.30
Sector % SET	6.45
Shares issued (mn)	408
Par value (Bt)	1
12-m high / low (Bt)	56.8 / 1
Avg. daily 6m (US$mn)	0.93
Foreign limit / actual (%)	35 / 20
Free float (%)	42.98
Dividend policy (%)	≥ 70

Price Performance



Source: SET, SCBS Investment Research

Share performance

	1M	3M	12M
Absolute	10.2	13.5	1.8
Relative	12.0	35.8	7.2

Source: SET, SCBS Investment Research

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Maintain BUY. We BUY DCC with a new 12-month PT of Bt66 (from Bt60), based on 17.5x PE (63% LT ROE, 9% cost of equity and 3.5% growth). DCC is one of our top picks in the building materials sector. This is backed by several reasons: 1) strong ST earnings in 1Q12 from demand recovery after floods end; 2) solid LT earnings growth with 2-yr earnings CAGR of 23%, backed by a rise in sales volume, margin expansion, and net gain from corporate tax vs. minimum wage hike; 3) high dividend yield at 7% p.a. in 2012F.

Revised earnings. We trimmed 2011 earnings by 3% to Bt1.3bn to reflect the flooding. Changes in our assumptions include: 1) a 1% cut in product selling price; 2) a 2% rise in transportation costs. However, we raised 2012F by 5% to Bt1.5bn and 2013F by 7% to Bt1.9bn, assuming: 1) a 1.5% increase in sales volume from rebuilding needs after the floods dry up; 2) net positive from the reduction in corporate tax rate to 23% in 2012 and 20% in 2013 versus a rise in the minimum wage.

Flooding impact. DCC's plants in Saraburi are not waterlogged and are still running full out in anticipation of strong demand after the end of the flooding, expected in late 4Q11-1Q12. Of DCC's 214 outlets, 12 were affected by flooding but the damage should be minimal as: 1) water does not damage ceramic products; 2) it can claim insurance on packaging damage. In Oct 2011, DCC saw some sales growth but lower than the earlier double-digit growth. Of sales, 20% come from the central region, where the flooding is heaviest this year. It will leave product selling prices unchanged QoQ rather than raise them as earlier planned to soften the impact on flood victims. The flooding did present logistics difficulties that suggest higher transportation costs in 4Q11.

4Q11 earnings to soften; 1Q12 to bounce. We expect 4Q11 to reflect the floods in terms of lower sales volume and selling price and higher transportation costs. However, we expect 1Q12 to bring a bounce back, powered by: 1) pent up demand and the need for rebuilding after the floods and 2) the normal high season.

Expect strong 2012, though our assumptions still below DCC's target. DCC targets sales volume growth of 12.5-15% YoY in 2012F (above our estimated +10%) from 10% YoY in 2011F, assisted by demand recovery after floods end. It expects gross margin to rise to 46% in 2012F (vs. our estimate of 45.2%) from 44% in 2011F, powered by: 1) a change of product mix via raising the portion of sales from 16x16" ceramic floor tiles to 45% in 2012F from 32% in 3Q11A, since the margin on this size is 6-8% above the 12x12"; 2) cost reduction by greater economies of scale, a 10% drop in pigment cost from a new technology and a 6% drop in gas cost from a new body formula. Though our assumptions are below its target, we expect outstanding 27% YoY growth in 2012.

Forecasts and valuation

Year to 31 Dec	Unit	2009	2010	2011F	2012F	2013F
Revenue	(Btmn)	5,884	6,513	7,047	7,848	8,640
EBITDA	(Btmn)	1,772	2,035	2,008	2,230	2,530
Core profit	(Btmn)	994	1,175	1,252	1,589	1,887
Reported profit	(Btmn)	994	1,175	1,252	1,589	1,887
Core EPS	(Bt)	2.44	2.88	3.07	3.89	4.62
DPS	(Bt)	2.08	2.88	3.07	3.89	4.62
P/E, core	(x)	22.9	19.4	18.2	14.3	12.1
EPS growth, core	(%)	49.7	18.2	6.6	26.9	18.8
P/BV, core	(x)	8.39	8.34	8.35	7.82	7.50
ROE	(%)	36.7	43.1	45.9	54.6	62.2
Dividend yield	(%)	3.7	5.2	5.5	7.0	8.3
EV/EBITDA	(x)	12.7	11.1	11.2	10.0	8.8

Source: SCBS Investment Research

CG Rating 2010	Companies with CG Rating under SCBS's Coverage
△△△△△	ADVANC, AMATA, AOT, BANPU, BAY, BECL, BLS, CPF, CSL, DRT, EGCO, HEMRAJ, IRPC, KBANK, KEST, KK, KTB, LPN, MCOT, PSL, PTT, PTTEP, RATCH, SAT, SCB, SCC, SSI, SVI, TCAP, TISCO, TMB TOP TTA
△△△△	AP, ASP, BBL, BEC, BIGC, CCET, CK, CPALL, DCC, DELTA, DTAC, ESSO, GFPT, GLOW, HANA, HMPRO, ITD, KCE, KTC, LH, MAJOR, MAKRO, PHATRA, PS, QH, RCL, ROJNA, SCCC, SIRI, STANLY, STEC, THAI, TICON, TRUE, TTW
△△△	AH
N/A	BLA, CPNRF, IVL, LHBANK, POPF, QHPF, SMT, TPIPL
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