

Dynasty Ceramic PLC

October 26, 2011

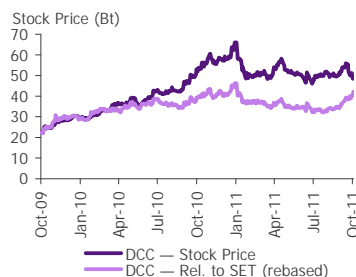
BUY

Stock Data

Last close (Oct 25) (Bt)	56.75
12-m target price (Bt)	60.0
Upside (Downside) to TP (%)	5.73
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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3Q11A: Good, meeting expectations

- **3Q11A net profit of Bt289mn, +16% YoY but -14% QoQ, in line with our estimates; 3Q11A DPS of Bt0.71**
- **Flooding: 4Q11F downside from logistical problems, but 1Q12F upside from pent-up demand and need for reconstruction**
- **Corporate tax cuts vs. wage hikes: net upside to forecasts of 7% for 2012 and 11% for 2013**
- **Maintain BUY with 12-month PT of Bt60**

3Q11A net profit of Bt289mn, good and in line. DCC reported 3Q11 net profit of Bt289mn, +16% YoY but -14% QoQ, meeting our estimates and market consensus. The increase YoY was attributable to: 1) a 14-15% YoY growth in sales volume from strong market demand plus rising farm income; and 2) a rise in the proportion of sales of 16x16" ceramic floor tiles for which selling price is over 10% higher and gross margin 6-8% above the 12x12". The drop QoQ was largely seasonal, from a fall in sales volume.

3Q11A DPS of Bt0.71. DCC announced a 3Q11 DPS of Bt0.71, based on 100% dividend payout ratio. This implies dividend yield of 1.3%.

Flooding: 4Q11F downside but 1Q12F upside. DCC's plants are located close to the flooded areas in Saraburi. Though the plants themselves are not under water, floods elsewhere make logistics a problem. There could be some downside risk to its 4Q11F earnings should the flooding be prolonged and/or worsen. Longer term, after the water drains — in late 4Q11 to 1Q12 — sales volume should bounce back from pent-up demand together with the need for reconstruction and renovation.

Populist measures (tax cut & wage hike): 2012-13F upside. The government's plan to raise wages and at the same time cut corporate tax is a net positive. By our estimates, the net effect will be to raise 2012 earnings by 7% and 2013's by 11%. Off the low 2011 base, earnings will improve with 24% earnings CAGR in 2011-13. Its dividend yield will also rise to 7.0% in 2012.

Maintain BUY. We maintain BUY with a mid-2012 PT of 60, based on 17x theoretical PE (62% L-T ROE, 9.1% cost of equity and 3.5% growth). We expect DCC to deliver a strong earnings profile with 17.0% CAGR in FY2011-13, backed by: 1) outperforming sales growth versus the market thanks to its strong distribution channel; 2) margin expansion through raising the proportion of products that attract a higher margin, plus economies of scale brought by higher sales volume, and cost control measures. Near-term catalysts are: 1) the need for reconstruction and renovation after the end of flooding; and 2) upcoming high season in 1Q12.

Forecasts and valuation

Year to 31 Dec	Unit	2009	2010	2011F	2012F	2013F
Revenue	(Btmn)	5,884	6,513	7,131	7,890	8,729
EBITDA	(Btmn)	1,772	2,035	2,071	2,344	2,708
Core profit	(Btmn)	994	1,175	1,302	1,524	1,775
Reported profit	(Btmn)	994	1,175	1,302	1,524	1,775
Core EPS	(Bt)	2.44	2.88	3.19	3.74	4.35
DPS	(Bt)	2.08	2.88	3.19	3.74	4.35
P/E, core	(x)	23.3	19.7	17.8	15.2	13.0
EPS growth, core	(%)	49.7	18.2	10.8	17.1	16.5
P/BV, core	(x)	8.54	8.49	8.36	8.18	7.99
ROE	(%)	36.7	43.1	46.9	53.6	60.8
Dividend yield	(%)	3.7	5.1	5.6	6.6	7.7
EV/EBITDA	(x)	13.0	11.3	11.1	9.8	8.4

Source: SCBS Investment Research

Table 1: 3Q11A review

P & L (Bt mn)	3Q10	4Q10	1Q11	2Q11	3Q11	% Chg YoY	% Chg QoQ	9M10	9M11	% Chg YoY	% of full year 11F
Total revenue	1,380	1,482	2,018	1,856	1,698	23.0	(8.5)	5,031	5,572	10.8	78.1
Total cost of goods sold	(749)	(830)	(1,169)	(1,042)	(959)	28.0	(8.0)	(2,800)	(3,170)	13.2	79.4
Gross profit	631	652	850	814	739	17.1	(9.2)	2,231	2,403	7.7	76.6
SG&A expense	(270)	(291)	(334)	(334)	(312)	15.5	(6.6)	(915)	(980)	7.1	75.9
Net other income/expense	2	6	3	9	5	112.3	(41.1)	12	16	31.7	82.0
Interest expense	(0)	(0)	-	-	(1)	-	-	(0)	(1)	-	0
Pre-tax profit	364	367	518	489	432	18.7	(11.7)	1,329	1,439	8.3	77.1
Corporate tax	(112)	(119)	(153)	(150)	(141)	25.6	(6.2)	(397)	(444)	11.8	79.3
Equity a/c profits	-	-	-	-	-	-	-	-	-	-	0.0
Minority interests	(1)	(1)	(1)	(2)	(1)	56.9	(12.0)	(3)	(4)	39.0	100.7
Core profit	250	247	364	337	289	15.5	(14.1)	928	990	6.7	76.0
Extra. Gain (Loss)	0	0	0	0	0	-	-	-	-	-	0.0
Net Profit	250	247	364	337	289	15.5	(14.1)	928	990	6.7	76.0
EPS	0.61	0.60	0.89	0.83	0.71	15.5	(14.1)	2.28	2.43	6.7	76.0
B/S (Btmn)											
Total assets	3,619	3,715	4,361	4,032	4,019	11.1	(0.3)	4,187	4,361	4.1	NM
Total liabilities	854	989	1,351	1,284	1,318	54.3	2.7	1,119	1,351	20.8	NM
Total equity	2,764	2,726	3,009	2,748	2,700	(2.3)	(1.7)	3,068	3,009	(1.9)	NM
BVPS (Bt)	6.8	6.7	7.4	6.7	6.6	(2.3)	(1.7)	7.5	7.4	(1.9)	NM
Financial ratio (%)											
Gross margin	45.7	44.0	42.1	43.9	43.5	(4.8)	(0.7)	44.3	43.1	(1.2)	NM
Net profit margin	18.1	16.6	18.0	18.2	17.0	(6.1)	(6.1)	18.5	17.8	(0.7)	NM
SG&A expense/Revenue	19.5	19.6	16.6	18.0	18.4	(6.1)	2.1	18.2	17.6	(0.6)	NM

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, TTV
★★★	AH
N/A	BLA, CPNRF, IVL, LHBANK, POPF, QHPF, SMT, TPIPL
	PTTGC is the merged entity of PTTC and PTTAR

Corporate Governance Report disclaimer

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