

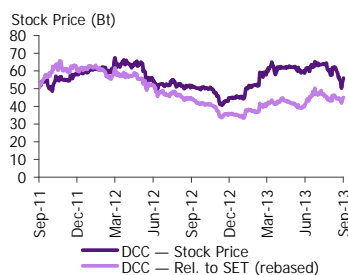
NEUTRAL

Stock Data

Last close (Sep 3) (Bt)	57.25
12-m target price (Bt)	62.00
Upside (Downside) to TP (%)	8.30
Mkt cap (Btbn)	23.36
Mkt cap (US\$mn)	727

Bloomberg code	DCC TB
Reuters code	DCC.BK
Risk rating	L
Mkt cap (%) SET	0.20
Sector % SET	5.80
Shares issued (mn)	408
Par value (Bt)	1
12-m high / low (Bt)	66.5 / 40.3
Avg. daily 6m (US\$mn)	1.57
Foreign limit / actual (%)	35 / 12
Free float (%)	42.1
Dividend policy (%)	≥ 70

Price Performance



Source: SET, SCBS Investment Research

Share performance

	1M	3M	12M
Absolute	-0.9	-6.9	11.2
Relative to SET	7.3	10.1	4.5

Source: SET, SCBS Investment Research

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Less exciting outlook in 2H13F

- Guides to lower 2H13F, mainly on demand slowdown
- Cut 2013F by 5% and 2014F by 8%
- Recent share price outperformance (+37% relative to SET in 2013TD) led it to trade at 15x 2014 PE vs. its moderate EPS growth of 15% in 2014-15F
- Maintain NEUTRAL with a new mid-2014 PT of Bt62, based on 17x PE

Guided to lower 2H13F at yesterday's meeting.

- Sales volume slid by 1% YoY in 1H13 and was relatively flat in Jul-Aug 2013, due to demand slowdown from the rise in household debt, partly from the first-car scheme, and lower agricultural product prices. DCC expects these negative factors to hang around for the rest of the year. Thus, it cut its 2013 sales volume growth to -2% YoY from its previous target of +5-10% YoY.
- DCC successfully raised average selling price (ASP) to Bt134-135/sqm (+4% YoY) in 1H13. It hopes to increase ASP further to Bt136-137/sqm by end-2013 from a change in product mix (higher ASP for new products, ~5% of sales, i.e. rectified floor ceramic tile sized 16"x16" and ceramic tile sized 24"x24") that will more than offset the lower ASP on conventional grade brought by price cuts by competitors (being seen this quarter).
- DCC targets gross margin expansion to 43% (vs. 39.2% in 2012 and 41.2% in 1H13), backed by the rise in ASP and the better cost control.
- Its SG&A expenses/sales increased by 1.1ppts YoY in 2Q13A due to the rise in minimum wage and the launch of a promotional campaign to stimulate sales. Looking into 2H13, SG&A expenses/sales might continue to rise YoY from the renovation expenses for re-branding its outlets (targets 20 outlets in 2H13F vs. 3 in 1H13A, and renovation expenses of Bt2-3mn/outlet).

Earnings revision. We trimmed earnings by 5% in 2013F and 8% in 2014F, to reflect: 1) the cut in sales volume and 2) an increase in its gas cost (30% of costs) from the recent rise in oil price and the THB depreciation against US\$. 1H13A accounts for 55% of our 2013F, but we expect lower earnings in 2H13 due to seasonally lower sales volume, demand slowdown from weaker economic activity, relatively stable or lower ASP from price competition and a rise in gas cost.

Maintain NEUTRAL. After the earnings revision, we maintain NEUTRAL with a new mid-2014 PT of Bt62 (from Bt70), based on 17x PE (+1 S.D. over its 10-year PE). We still like DCC for its high dividend yield at 6% p.a., but its recent share price outperformance (+24% YTD vs. the SET at -5% and the sector at -7%) has led it to trade at 15x 14PE, already incorporating its moderate 2-year earnings growth of 15%. Our 2013-14F are 10% below consensus; we thus expect earnings downgrades from the street in the near term. Key risks are changes in sales volume, price competition and gas cost.

Forecasts and valuation

Year to 31 Dec	Unit	2011	2012	2013F	2014F	2015F
Revenue	(Btmn)	7,207	7,603	7,654	8,195	8,773
EBITDA	(Btmn)	2,004	1,844	1,893	2,115	2,404
Core profit	(Btmn)	1,243	1,255	1,345	1,534	1,760
Reported profit	(Btmn)	1,243	1,255	1,345	1,534	1,760
Core EPS	(Bt)	3.05	3.08	3.30	3.76	4.31
DPS	(Bt)	3.05	3.08	3.30	3.76	4.31
P/E, core	(x)	18.8	18.6	17.4	15.2	13.3
EPS growth, core	(%)	5.8	1.0	7.1	14.0	14.7
P/BV, core	(x)	8.77	8.67	8.83	8.57	7.92
ROE	(%)	46.1	46.8	50.3	57.1	62.0
Dividend yield	(%)	5.3	5.4	5.8	6.6	7.5
EV/EBITDA	(x)	11.8	13.1	12.3	11.0	9.6

Source: SCBS Investment Research

Financial statement

Profit and Loss Statement (Btmn)

FY December 31	2011	2012	2013F	2014F	2015F
Total revenue	7,207	7,603	7,654	8,195	8,773
Cost of goods sold	4,141	4,625	4,528	4,792	5,027
Gross profit	3,066	2,978	3,127	3,402	3,746
SG&A	1,277	1,349	1,439	1,500	1,562
Other income	20	35	20	21	23
Interest expense	6	16	20	0	0
Pre-tax profit	1,803	1,648	1,688	1,924	2,207
Corporate tax	555	388	338	385	441
Equity a/c profits	0	0	0	0	0
Minority interests	(5)	(4)	(5)	(5)	(6)
Core profit	1,243	1,255	1,345	1,534	1,760
Extra-ordinary items	0	0	0	0	0
Net Profit	1,243	1,255	1,345	1,534	1,760
EBITDA	2,004	1,844	1,893	2,115	2,404
Core EPS (Bt)	3.05	3.08	3.30	3.76	4.31
Net EPS (Bt)	3.05	3.07	3.30	3.76	4.31
DPS (Bt)	3.05	3.08	3.30	3.76	4.31

Balance Sheet (Btmn)

FY December 31	2011	2012	2013F	2014F	2015F
Total current assets	1,623	1,911	1,227	1,322	1,643
Total fixed assets	2,665	2,848	3,064	3,283	3,298
Total assets	4,288	4,759	4,290	4,605	4,941
Total loans	401	842	0	0	0
Total current liabilities	1,481	1,887	1,404	1,624	1,716
Total long-term liabilities	143	170	230	246	263
Total liabilities	1,624	2,057	1,634	1,870	1,979
Paid-up capital	408	408	408	408	408
Total equity	2,664	2,702	2,646	2,725	2,951
BVPS (Bt)	6.53	6.62	6.47	6.68	7.23

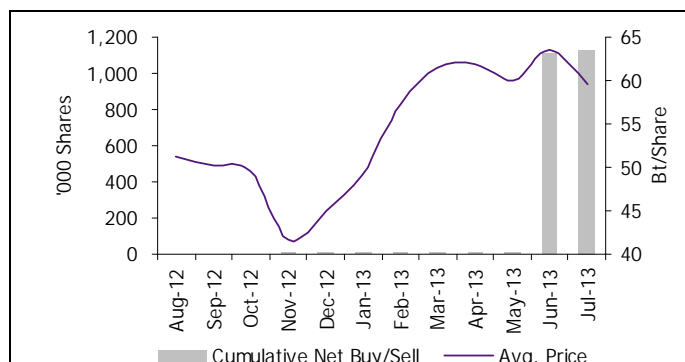
Cash Flow Statement (Btmn)

FY December 31	2011	2012	2013F	2014F	2015F
Core Profit	1,243	1,255	1,345	1,534	1,760
Depreciation and amortization	195	180	185	191	197
Operating cash flow	1,577	1,139	2,454	1,954	2,004
Investing cash flow	(641)	(363)	(401)	(410)	(211)
Financing cash flow	(905)	(767)	(2,240)	(1,455)	(1,534)
Net cash flow	30	9	(187)	89	259

Key Financial Ratios

	2011	2012	2013F	2014F	2015F
Gross margin(%)	42.5	39.2	40.8	41.5	42.7
Operating margin(%)	24.8	21.4	22.0	23.2	24.9
EBITDA margin(%)	27.8	24.3	24.7	25.8	27.4
EBIT margin(%)	25.1	21.9	22.3	23.5	25.2
Net profit margin(%)	17.3	16.5	17.6	18.7	20.1
ROE (%)	47.4	47.3	51.7	57.2	60.6
ROA (%)	28.8	26.1	31.5	33.0	35.3
Net D/E (%)	7.9	24.2	(0.4)	(3.7)	(12.2)
Interest coverage (x)	317.0	116.7	N.A.	N.A.	N.A.
Debt service coverage (x)	313.3	4.4	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 2012 Companies with CG Rating under SCBS's Coverage

ADVANC, AOT, BANPU, BAY, BBL, BCP, BEC, BMCL, BYS, CSL, DRI, EGCO, ERW, HEMRAJ, IRPC, KBANK, KKP, KTB, LPN, MCOY, PSL, PSI, PTI, PTTP, PTTC, QH, RATCH, ROBINS, SAMART, SAMTEL, SAT, SCB, SCC, THAI, TISCO, TMB, TOP, ITA
ABATA, AP, ASP, BEC, BBL, BIGC, CENTEL, CK, CPALL, CP, DCC, DELTA, DTAC, ESSO, GHPI, GLOW, GUNKUL, HANA, HMPRO, INTUCH, ITD, IVC, KCE, LH, MAKRO, MBKET, MINT, DISH, PM, SCC, SMT, SPALI, STANLY, STEC, SVI, TCAP, THECOM, THRE, TICON, TRUE, TTW, TUF
ADON'S, AH, BLA, CCF, IMAH, KIC, LHBANK, MAYOR, RCL, ROTRA, SRI, TPIA
N/A
AAV, BCH, BGH, CPNRF, NOK, NVR, POPP, QHPF, SSI, TFUND, TLOGIS, WHA, WHAF

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	2012	3Q12	4Q12	1Q13	2Q13
Total revenue	1,883	1,777	1,851	2,203	1,925
Cost of goods sold	1,145	1,078	1,139	1,310	1,119
Gross profit	738	700	712	893	806
SG&A	341	326	334	374	386
Other income	26	2	4	4	5
Interest expense	2	5	8	6	3
Pre-tax profit	421	371	374	517	422
Corporate tax	98	103	79	105	87
Equity a/c profits	0	0	0	0	0
Minority interests	(1)	(2)	(1)	(2)	(2)
Core profit	322	267	294	411	334
Extra-ordinary items	0	0	0	0	0
Net Profit	322	267	294	411	334
EBITDA	469	421	426	574	477
Core EPS (Bt)	0.79	0.65	0.72	1.01	0.82
Net EPS (Bt)	0.79	0.65	0.72	1.01	0.82

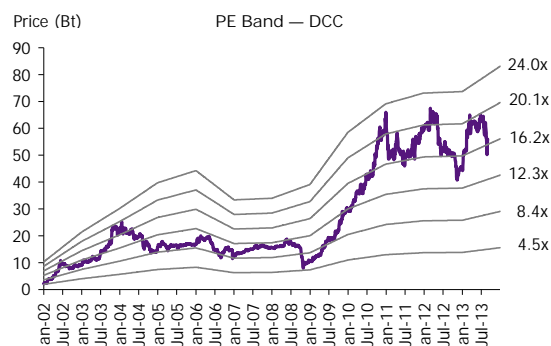
Balance Sheet (Btmn)

FY December 31	2012	3Q12	4Q12	1Q13	2Q13
Total current assets	1,650	1,857	1,911	1,692	1,708
Total fixed assets	2,704	2,734	2,848	3,048	3,110
Total assets	4,353	4,592	4,759	4,740	4,818
Total loans	321	770	842	170	656
Total current liabilities	1,465	1,752	1,887	1,329	1,774
Total long-term liabilities	162	167	170	200	208
Total liabilities	1,627	1,919	2,057	1,530	1,982
Paid-up capital	408	408	408	408	408
Total equity	2,726	2,672	2,702	3,162	2,836
BVPS (Bt)	6.68	6.55	6.62	7.75	6.95

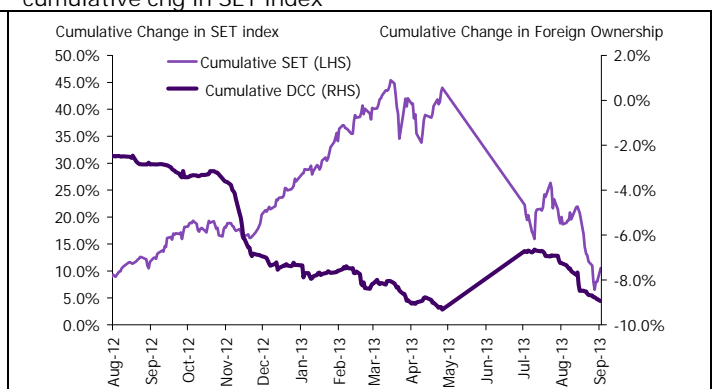
Main Assumptions

	2011	2012	2013F	2014F	2015F
Avg selling price (Bt/sqm)	129	129	134	135	136
Sales volume (mn sqm)	55.9	58.5	57.3	60.8	64.4
Capacities-year end (mn sqm)	61.2	64.8	68.4	72.0	75.6

PE Band Chart



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



Source: SET, SCBS Investment Research