

24 January 2020

Basic Materials | Building Materials

Dynasty Ceramic (DCC TB)

Buy (Maintained)

High-Yield Appeal; Stay BUY

Target Price (Return) THB2.25 (+21%)
 Price: THB1.86
 Market Cap: USD441m
 Avg Daily Turnover (THB/USD) 7.5m/0.2m

- **Stay BUY with a new DCF-based THB2.25 TP from THB2.50, 21% upside plus >5% yields.** Dynasty Ceramic struggled to generate earnings growth in FY19, and we do not expect the industry situation to ease off significantly this year. Management promised to deliver earnings growth in 2020 with two major measures to enhance profit margins. DCC's key feature – high yields – remains intact.

- **Struggling to generate FY19 earnings growth.** Management said FY19's sales performance faced difficulties, especially given ongoing flood disasters within the cities in Thailand's north-eastern region in 3Q19. Additionally, 11M19 industry sales value also indicated a 2.3% YoY decline. We expect DCC's FY19 sales revenue to increase slightly (+0.4% YoY) to THB8.06bn, while GPMs have benefited from the decline in natural gas costs – especially the 20% YoY drop in 4Q19. Therefore, we expect FY19 earnings to flatten YoY at THB958m (-2% YoY) – which also implies that 4Q19 earnings should decline 1% YoY to THB223m.

- **FY20 business plan.** Management is planning for FY20 earnings growth via two major ways. The first major way is to pump up sales revenue by introducing new products, which includes extra-large-sized floor ceramic tiles (60cm x 120cm). Management said this special size is currently the most popular among DCC's project developer clients. It also believes that its products – with selling prices 30-40% lower than imported equivalents – can compete with the major competitors from China and India. DCC is also introducing the largest-sized wall-type ceramic tile (30cm x 50cm) with a good proven sale record of 40,000-50,000 sq m/month, as well as anti-slip ceramic tiles for wet floor areas. All these new products can command impressive GPMs: c.50% higher than DCC's <40% average. The second major way: Trim down SG&A expenses by 10%, or THB60-85m pa.

- **Our opinion.** Under the existing headwinds – including low GDP growth, weak growth prospects for farmers' income, and a major drought situation lying ahead in 2Q20 – DCC's sales revenue growth in FY20 should be difficult to achieve despite the introduction of new products. This is because we expect <5% of sales revenue only will be aggregately contributed by these new products. The bulk of its revenue – derived from small-sized ceramic tiles (30cm x 30cm and 40cm x 40cm) – has declined so far due to being less popular in the market. Therefore, FY20's earnings prospects will rely on lower SG&A expenses, in our view.

- **Fine-tuning our forecasts.** As you can see in Figure 1, we revised down our sales volume assumptions, which results in 2-5% lower sales revenue and a 4-5% decrease in net profits for FY19-21. We also lower our DCF-based TP by 10% to reflect DCC's lower growth prospect. However, this counter's key feature, dividend yields, remains attractive.

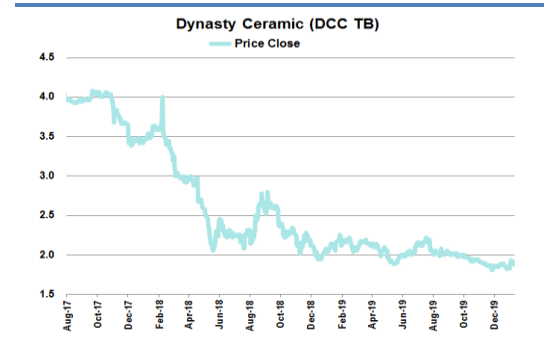
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.6)	0.0	(5.1)	(12.3)	(13.1)
Relative	(1.2)	(0.1)	(1.6)	(3.5)	(10.4)
52-wk Price low/high (THB)	1.81 – 2.28				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (THBm)	7,363	8,027	8,056	8,311	8,724
Net profit (THBm)	1,117	979	958	1,074	1,145
Net profit growth (%)	(21.4)	(12.4)	(2.1)	12.1	6.6
Recurring EPS (THB)	0.17	0.15	0.14	0.13	0.13
DPS (THB)	0.13	0.12	0.10	0.10	0.10
Recurring P/E (x)	10.87	12.41	13.53	14.59	14.84
P/B (x)	3.44	3.22	2.70	2.17	2.29
Dividend Yield (%)	6.9	6.2	5.5	5.1	5.5
EV/EBITDA (x)	8.8	8.6	8.8	8.8	8.4
ROE (%)	29.5	22.6	17.5	13.4	13.6
Net debt to equity (%)	53.3	52.8	34.2	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Thailand	Recurring EPS (THB)	0.17	0.15	0.14	0.13	0.13
Basic Materials	DPS (THB)	0.13	0.12	0.10	0.10	0.10
Dynasty Ceramic	BVPS (THB)	0.54	0.58	0.69	0.86	0.81
DCC TB	ROE (%)	29.5	22.6	17.5	13.4	13.6
Buy						
Valuation basis	Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Our DCF assumptions include:	Recurring P/E (x)	10.87	12.41	13.53	14.59	14.84
i. WACC of 8.8%;	P/B (x)	3.44	3.22	2.70	2.17	2.29
ii. 1.5% long-term growth.	FCF Yield (%)	1.8	2.2	2.5	4.2	6.3
Key drivers	Dividend yield (%)	6.9	6.2	5.5	5.1	5.5
i. Expansion of sales volumes in neighbouring countries;	EV/EBITDA (x)	8.8	8.6	8.8	8.8	8.4
ii. Success in increasing high-value-added products.	EV/EBIT (x)	11.8	11.8	12.2	12.0	11.4
Key risks	Income statement (THBm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
i. Poor purchasing power in rural areas;	Total turnover	7,363	8,027	8,056	8,311	8,724
ii. High household debt levels;	Gross profit	2,848	3,102	3,145	3,286	3,489
iii. Increase in energy costs.	EBITDA (adj.)	1,751	1,875	1,932	2,114	2,239
	Depreciation & amortisation	(452)	(522)	(558)	(592)	(622)
	Operating profit	1,299	1,353	1,374	1,522	1,617
	Net interest	(31)	(41)	(42)	(28)	(10)
	Pre-tax profit	1,298	1,338	1,393	1,574	1,691
	Taxation	(255)	(202)	(272)	(313)	(340)
	Net profit	1,117	979	958	1,074	1,145
	Recurring net profit	1,117	979	958	1,074	1,145
Company Profile	Cash flow (THBm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
DCC is a manufacturer and distributor of ceramic floor and wall tiles under the Dynasty, Tomahawk, Jaguar, and Nava brands. It purchases ceramic floor, wall, and decorative tiles from one of its subsidiaries, Tile Top Industry. In addition, it acts as a nationwide distributor through units Pick & Pay, Muangthong Ceramics, and World Wide Ceramics.	Change in working capital	(196)	(102)	(132)	(112)	(92)
	Cash flow from operations	1,465	1,547	1,565	1,713	1,871
	Capex	(1,421)	(1,195)	(1,209)	(1,000)	(790)
	Cash flow from investing activities	(1,245)	(1,274)	(1,231)	(1,007)	(795)
	Dividends paid	(920)	(731)	(736)	(848)	(941)
	Cash flow from financing activities	(207)	(241)	(345)	194	(1,778)
	Cash at beginning of period	82	95	126	114	1,015
	Net change in cash	13	31	(11)	901	(701)
	Ending balance cash	95	126	114	1,015	314
	Balance sheet (THBm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Total cash and equivalents	95	126	114	1,015	314
	Tangible fixed assets	4,807	5,479	6,130	6,538	6,706
	Total investments	33	29	30	30	30
	Total assets	7,097	8,003	8,845	10,319	9,959
	Short-term debt	2,111	2,406	1,988	836	0
	Total long-term debt	-	-	-	-	-
	Total liabilities	3,316	3,681	3,369	2,273	1,535
	Total equity	3,781	4,322	5,475	8,046	8,424
	Total liabilities & equity	7,097	8,003	8,845	10,319	9,959
	Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Revenue growth (%)	2.8	9.0	0.4	3.2	5.0
	Recurrent EPS growth (%)	(26.8)	9.0	(7.7)	(6.9)	(1.2)
	Gross margin (%)	38.7	38.7	39.0	39.5	40.0
	Operating EBITDA margin (%)	23.8	23.4	24.0	25.4	25.7
	Net profit margin (%)	15.2	12.2	11.9	12.9	13.1
	Capex/sales (%)	19.3	14.9	15.0	12.0	9.1
	Interest cover (x)	42.3	33.2	32.8	55.1	166.5

Source: Company data, RHB

Figure 1: Revisions to our forecasts

		FY19F			FY20F			FY21F		
		Prev	New	% change	Prev	New	% change	Prev	New	% change
Domestic sales volume	m sqm	59.8	58.8	(1.7)	62.0	59.5	(4.0)	65.0	62.0	(4.6)
ASP	THB/sqm	137.7	137.0	(0.5)	139.9	139.6	(0.2)	141.7	140.7	(0.7)
Core revenue	THBm	8,236	8,056	(2.2)	8,674	8,311	(4.2)	9,215	8,724	(5.3)
Gross margin	%	39.3	39.0	(0.3)	40.0	39.5	(0.5)	40.3	40.0	(0.3)
Net profit	THBm	1,003	958	(4.5)	1,122	1,074	(4.3)	1,207	1,145	(5.1)

Source: RHB

Figure 2: 4Q19 net profit to flatten (YoY and QoQ), FY19 earnings to decline slightly YoY

FYE Dec (THBm)	4Q18	1Q19	2Q19	3Q19	4Q19F	QoQ (%)	YoY (%)	2018	2019F	YoY (%)
Total turnover	1,918	2,316	2,049	1,841	1,849	0.4	(3.6)	8,027	8,056	0.4
Gross profit	746	895	803	720	727	1.1	(2.6)	3,102	3,145	1.4
Gross profit margin (%)	38.9	38.7	39.2	39.1	39.3			38.7	39.0	
EBITDA	465	585	459	460	489	6.4	5.3	1,901	1,993	4.8
EBITDA margin (%)	24.2	25.3	22.4	25.0	26.5			23.7	24.7	
EBIT	335	452	321	321	341	6.2	1.7	1,379	1,435	4.0
EBIT margin (%)	17.5	19.5	15.7	17.4	18.4			17.2	17.8	
Interest expense	(12)	(12)	(11)	(5)	(14)	210.0	20.3	(41)	(42)	2.8
Pre-tax profit	323	439	311	316	327	3.3	1.0	1,338	1,393	4.1
Pre-tax profit margin (%)	16.8	19.0	15.2	17.2	17.7			16.7	17.3	
Tax	(1)	(89)	(67)	(59)	(58)	(1.3)	7,863.8	(202)	(272)	35.1
Minority interest	(97)	(44)	(37)	(36)	(45)	NM	NM	(158)	(162)	NM
Net profit	226	306	207	221	223	1.1	(1.0)	979	958	(2.1)
EPS (THB)	0.035	0.047	0.029	0.031	0.031	1.1	(11.4)	0.15	0.13	(11.6)

Source: Company data, RHB

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Figure 3: DCF valuation

THBm	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F
Operating EBIT	1,522	1,617	1,702	1,793	1,871	1,953	2,107	2,266	2,439
Operating EBIT x (1-t)	1,219	1,291	1,362	1,434	1,497	1,562	1,686	1,813	1,951
D&A	592	622	671	701	726	751	781	801	835
Δ Net Working Capital	-80	-103	-55	-25	-10	25	32	59	75
FCF from Operations	1,732	1,811	1,977	2,110	2,213	2,339	2,499	2,672	2,862
Capex	-1,000	-790	-915	-911	-925	-910	-917	-901	-900
Net FCFF	731	1,021	1,062	1,199	1,288	1,428	1,582	1,771	1,962
Discounted net FCFF	672	862	824	854	843	859	874	899	915
Terminal Value									27,100
PV of Net FCFF	7,601								
PV of Terminal Value	12,636								

Implicit Growth Rate	1.5%
WACC	8.8%

Firm Value	20,238
Net Cash	(1,874)
Cash raised from exercising DCC-W1	3,003
Minority Interest	(790)
Equity Value	20,577
No. of shares outstanding (m shares)	9,139
Equity value per share (THB)	2.25

WACC Assumption

Cost of Debt	3.0%
Weight	26%
Cost of Equity	11.0%
Weight	74%

Expected market return	12.0%
Risk-free rate	2.0%
Beta	0.90

Source: RHB

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ช่วงคะแนน Score	สัญลักษณ์ Rang Number of Logo	ความหมาย	Description
90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		ดีพอใช้	Satisfactory
50 - 59		ผ่าน	Pass
ต่ำกว่า 50	No logo give	N/A	N/A

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IOD (IOD Disclaimer)

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ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี (ประเทศไทย) จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความครบถ้วนและถูกต้องของผลสำรวจดังกล่าวแต่อย่างใด

ข้อมูล Anti-Corruption Progress Indicator 2560

ประกาศเจตนาธรรม CAC

A	ASK	CHG	FC	GREEN	JUTHA	MATCH	NINE	PIMO	RWI	SPPT	TFI	TU	VNT
AI	AU	CHOTI	FER	GSTEL	KASET	MATI	NMG	PK	SANKO	SPRC	THE	TVD	WAVE
AIE	BCH	CHOW	FPI	GUNKUL	KBS	MBAX	NNCL	PL	SAUCE	SR	TICON	TVO	WHA
AIRA	BJC	CIG	FSMART	HARN	KCAR	MC	NTV	PLANB	SC	SRICHA	TIP	TVT	WICE
AJ	BJCHI	COL	GEL	IFS	KTECH	MFEC	NUSA	POST	SCCC	SST	TKN	TWPC	WIJK
ALUCON	BLAND	COM7	GFPT	ILINK	KWC	MIDA	NWR	PRINC	SCN	STA	TLUXE	U	TRUE
AMATAV	BR	CPALL	GGC	INET	KYE	MILL	OGC	PRO	SEAOIL	SUPER	TMILL	UPA	
AOT	BROCK	CPF	GIFT	IRC	L&E	ML	PACE	PSTC	SE-ED	SUSCO	TMT	UREKA	
APCO	BRR	CPR	GJS	J	LEE	MTLS	PAF	PYLON	SENA	SWC	TNP	UWC	
AQUA	CEN	CSC	GLOBAL	JMART	LIT	NBC	PAP	QTC	SIRI	SYMC	TPA	VGI	
ARROW	CGH	EKH	GOLD	JMT	LVT	NCL	PATO	ROH	SMART	TAKUNI	TSE	VIBHA	
ASIA	CHEWA	EPCO	GPSC	JUBILE	MAKRO	NEP	PCSGH	ROJNA	SPACK	TBSP	TTI	VIH	

ได้รับการรับรอง CAC

ADVANC	BKI	CPN	FE	INTUCH	LANNA	MSC	PLAT	PTT	SAT	SNP	TCMC	TMD	UOBKH
AKP	BLA	CSL	FNS	IRPC	LHBANK	MTI	PM	PTTEP	SCB	SORKON	TFG	TNITY	WACOAL
AMANAH	BROOK	DCC	FSS	IVL	LHK	NKI	PPP	PTTGC	SCC	SPC	TGCI	TNL	
AP	BTS	DEMCO	GBX	K	LPN	NSI	PPS	Q-CON	SCG	SPI	THANI	TOG	
ASP	BWG	DIMET	GCAP	KBANK	MBK	OCC	PRANDA	QH	SGP	SSF	THCOM	TOP	
AYUD	CENTEL	DRT	GLOW	KCE	MBKET	OCEAN	PREB	QLT	SINGER	SSI	THRE	TPCORP	
BAFS	CFRESH	DTAC	HANA	KGI	MCOT	PB	PRG	RATCH	SIS	SSSC	THREL	TRU	
BANPU	CIMBT	DTC	HMPRO	KKP	MFC	PDI	PSH	RML	SITHAI	SVI	TIPCO	TSC	
BAY	CM	EASTW	HTC	KSL	MINT	PE	PSL	ROBINS	SMIT	SYNTEC	TISCO	TSSTH	
BBL	CNS	ECL	ICC	KTB	MONO	PG	PT	S & J	SMPC	TAE	TKT	TTCL	
BCP	CPI	EGCO	IFEC	KTC	MOONG	PHOL	PTG	SABINA	SNC	TCAP	TMB	TVI	

N/A

2S	ARIP	BSM	CSS	FMT	INOX	LTX	NPK	RCL	SFP	SUC	TITLE	TSR	VPO
AAV	AS	BTC	CTW	FN	INSURE	M	NPP	RICH	SGF	SUN	TIW	TSTE	VTE
ABICO	ASAP	BTNC	CWT	FOCUS	IRCP	MACO	NVD	RICHY	SHANG	SUTHA	TK	TTA	WG
ACAP	ASEFA	BTW	D	FORTH	IT	MAJOR	NYT	RJH	SIAM	SVH	TKS	TTL	WHAUP
ACC	ASIAN	BUI	DCON	FTE	ITD	MALEE	OHTL	ROCK	SIMAT	SVOA	TM	TTTM	WIN
ADAM	ASIMAR	CBG	DCORP	FVC	ITEL	MANRIN	OISHI	RP	SKE	SYNEX	TMC	TTW	WINNER
ADB	ASN	CCET	DDD	GC	JAS	MAX	ORI	RPC	SKN	T	TMI	TUCC	WORK
AEC	ATP30	CCP	DELTA	GENCO	JCT	M-CHAI	OTO	RPH	SKR	TACC	TMW	TWP	WORLD
AEONTS	AUCT	CGD	DIGI	GL	JKN	MCS	PAE	RS	SKY	TAPAC	TNDT	TWZ	WP
AF	BA	CHARAN	DNA	GLAND	JSP	MDX	PDG	RSP	SLP	TASCO	TNH	TYCN	WPH
AFC	BAT-3K	CHO	DTCI	GPI	JTS	MEGA	PERM	S	SMK	TC	TNPC	UAC	WR
AGE	BCPG	CHUO	EA	GRAMMY	JWD	METCO	PF	S11	SMM	TCB	TNR	UBIS	XO
AH	BDMS	CI	EARTH	GRAND	KAMART	MGT	PICO	SAFARI	SMT	TCC	TOA	UEC	YCI
AHC	BEAUTY	CITY	EASON	GTB	KC	MJD	PJW	SALEE	SOLAR	TCCC	TOPP	UKEM	YNP
AIT	BEC	CK	ECF	GULF	KCM	MK	PLANET	SAM	SPA	TCJ	TPAC	UMI	YUASA
AJA	BEM	CKP	EE	GYT	KDH	MM	PLE	SAMART	SPALI	TCOAT	TPBI	UMS	ZIGA
AKR	BFIT	CMO	EFORL	HFT	KIAT	MODERN	PMTA	SAMCO	SPCG	TEAM	TPCH	UNIQU	ZMICO
ALLA	BGRIM	CMR	EIC	HOTPOT	KKC	MPG	POLAR	SAMTEL	SPG	TFD	TIPL	UP	
ALT	BGT	CNT	EMC	HPT	KOOL	MPIC	POMPUI	SAPPE	SPORT	TFMAMA	TIPIP	UPF	
AMA	BH	COLOR	EPG	HTECH	KTIS	NC	PORT	SAWAD	SPVI	TGPRO	TPOLY	UPOIC	
AMARIN	BIG	COMAN	ERW	HUMAN	KWG	NCH	PPM	SAWANG	SQ	TH	TPP	UT	
AMATA	BIZ	CPH	ESSO	HYDRO	LALIN	NDR	PRAKIT	SCI	SSC	THAI	TR	UTP	
AMC	BKD	CPL	ESTAR	ICHI	LDC	NETBAY	PRECHA	SCP	SSP	THANA	TRC	UV	
ANAN	BLISS	CPT	ETE	ICN	LH	NEW	PRIN	SDC	STANLY	THG	TRITN	UVAN	
APCS	BM	CRANE	EVER	IEC	LOXLEY	NEWS	PRM	SE	STAR	THIP	TRT	VARO	
APEX	BOL	CRD	F&D	IHL	LPH	NFC	PTL	SEAFCO	STEC	THL	TRUBB	VCOM	
APURE	BPP	CSP	FANCY	III	LRH	NOBLE	RAM	SELIC	STHAI	THMUI	TSF	VI	
AQ	BSBM	CSR	FLOYD	INGRS	LST	NOK	RCI	SF	STPI	TIC	TSI	VNG	

Source: Thai Institute of Directors

ข้อมูลบริษัทที่เข้าร่วมโครงการแนวร่วมปฏิบัติของภาคเอกชนไทยในการต่อต้านทุจริต (Thai CAC) ของสมาคมส่งเสริมสถาบันกรรมการบริษัทไทย (ข้อมูล ณ วันที่ 17 ต.ค.)

- ได้ประกาศเจตนาธรรมนี้เข้าร่วม CAC
- ได้รับการรับรอง CAC

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