

11 August 2020

Basic Materials | Building Materials

## Dynasty Ceramic (DCC TB)

**Sell** (Maintained)

### Hitting On The Rise; Stay SELL

Target Price (Return): THB2.10 (-20.5%)  
 Price: THB2.64  
 Market Cap: USD695m  
 Avg Daily Turnover (THB/USD) 28.9m/0.85m

- **Maintain SELL with unchanged DCF-based THB2.10 TP, 21% downside and c.5% yield.** Dynasty Ceramic announced strong growth in 2Q20 earnings, benefiting from higher revenue and positive cost-side factors, as expected. However, we believe that the share price already reflects these positive factors, and that the P/E is demanding at 17x.
- **2Q20 earnings benefiting mainly from cost-side factors, as expected.** DCC announced 2Q20 net profit of THB444m (+114% YoY, +21% QoQ). Although its earnings result was 10.5% higher than our estimate, we do not see this as a major surprise, as this can happen in the case of energy cost swings. The key factors of the strong performance:
  - a boost in domestic sales, especially in the renovation market, during the lockdown period via its country-wide retail outlet network;
  - impact from acquisition growth on a stake increase to 85% of Royal Ceramic Industry (RCI TB, NR) as of 2Q20 from 6% in 2Q19; and
  - most significantly, the cost of natural gas used in production declining by 28% YoY and diesel used in logistics declining by 27% YoY.

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	39.7	10.0	53.5	43.5	28.2
Relative	55.9	11.9	48.9	57.2	48.0
52-wk Price low/high (THB)				1.27 – 2.64	

These resulted in 2Q20 sales revenue growth of 15.7% YoY and GPM rising to 41.8% from <40% in previous quarters.

- **Business to normalise in 2H20.** After capturing market share from competitors via its outlet channels in rural areas, we expect DCC's sales volume growth opportunity to recede in 2H20 when industry players resume sales competition, especially after the resumption of modern trade stores operations in late May. Note that domestic demand for ceramic tiles fell 9% YoY to 81.4m sqm in 6M20. Therefore, we expect tighter competition within the industry to resume in 3Q20 as market share losers in 1H20 play catch-up.
- **Maintain our earnings estimates.** We expect 2Q20 to be the only abnormal quarter this year for the company, and that this quarter will boost FY20 revenue by 4.7% YoY and net profit by 23% YoY. This year's EPS growth of 9.6% YoY is seen as an acceptable growth level compared to the past 10 years, with growth in the range of -30% and +6% YoY.
- **SELL at this demanding P/E.** We believe the company's opportunistic period is over, and market conditions will normalise from 3Q20. This period has already been reflected in 2Q20 earnings, while the share price has also responded positively. As such, we maintain our call and DCF-based TP. Upside risks: Unexpected expansion of sales volumes in neighbouring countries and success in increasing high-value-added products.

Dynasty Ceramic PCL (DCC TB)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	8,027	8,118	8,498	8,144	8,468
Recurring net profit (THBm)	979	973	1,196	1,088	1,100
Recurring net profit growth (%)	(12.4)	(0.6)	23.0	(9.1)	1.1
Recurring P/E (x)	17.61	18.67	17.03	21.04	21.93
P/B (x)	4.6	4.0	3.5	3.2	3.1
P/CF (x)	11.14	12.37	9.85	10.47	11.11
Dividend Yield (%)	4.4	4.0	4.5	3.6	3.6
EV/EBITDA (x)	10.73	11.62	9.55	10.53	10.68
Return on average equity (%)	26.8	22.6	21.7	15.9	14.5
Net debt to equity (%)	52.8	109.4	56.5	26.1	18.9

Source: Company data, RHB

#### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

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## Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	Recurring EPS	0.15	0.14	0.16	0.13	0.12
Basic Materials	DPS	0.12	0.10	0.12	0.10	0.10
<b>Dynasty Ceramic</b>	BVPS	0.58	0.67	0.75	0.82	0.84
DCC TB	Return on average equity (%)	26.8	22.6	21.7	15.9	14.5
Sell						
	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Valuation basis</b>	Recurring P/E (x)	17.61	18.67	17.03	21.04	21.93
Our DCF assumptions include:	P/B (x)	4.6	4.0	3.5	3.2	3.1
i. WACC of 6.7%;	FCF Yield (%)	2.0	2.1	4.3	4.2	5.2
ii. 0.3% long-term growth.	Dividend Yield (%)	4.4	4.0	4.5	3.6	3.6
<b>Key drivers</b>	EV/EBITDA (x)	10.73	11.62	9.55	10.53	10.68
i. Expansion of sales volumes in neighbouring countries;	EV/EBIT (x)	14.86	16.19	13.97	15.86	16.08
ii. Success in increasing high-value-added products.						
<b>Key risks</b>	<b>Income statement (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
i. Poor purchasing power in rural areas;	Total turnover	8,027	8,118	8,498	8,144	8,468
ii. High household debt levels;	Gross profit	3,102	3,126	3,419	3,258	3,407
iii. Increase in energy costs.	EBITDA	1,875	1,891	2,446	2,374	2,456
<b>Company Profile</b>	Depreciation and amortisation	(522)	(534)	(773)	(798)	(825)
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.	Operating profit	1,353	1,357	1,673	1,575	1,630
	Net interest	(41)	(42)	(42)	(40)	(34)
	Pre-tax profit	1,338	1,388	1,710	1,619	1,682
	Taxation	(202)	(275)	(340)	(326)	(336)
	Reported net profit	979	973	1,196	1,088	1,100
	Recurring net profit	979	973	1,196	1,088	1,100
	<b>Cash flow (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Change in working capital	(124)	(309)	81	153	(54)
	Cash flow from operations	1,547	1,468	2,067	2,186	2,171
	Capex	(1,195)	(1,083)	(1,190)	(1,218)	(924)
	Cash flow from investing activities	(1,274)	(3,073)	(1,227)	(1,223)	(929)
	Dividends paid	(731)	(736)	(966)	(872)	(868)
	Cash flow from financing activities	(241)	1,597	(931)	(12)	(1,227)
	Cash at beginning of period	95	126	118	27	978
	Net change in cash	31	(8)	(91)	951	15
	Ending balance cash	126	118	27	978	993
	<b>Balance sheet (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total cash and equivalents	126	118	27	978	993
	Tangible fixed assets	5,479	6,029	6,445	6,864	6,963
	Total investments	29	0	0	0	0
	Total assets	8,003	8,722	9,929	11,194	11,476
	Short-term debt	2,406	3,967	2,889	2,668	2,309
	Total liabilities	3,681	5,203	4,865	4,718	4,511
	Total equity	4,322	3,519	5,064	6,476	6,964
	Total liabilities & equity	8,003	8,722	9,929	11,194	11,476
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Revenue growth (%)	9.0	1.1	4.7	(4.2)	4.0
	Recurrent EPS growth (%)	(12.4)	(5.7)	9.6	(19.1)	(4.1)
	Gross margin (%)	38.7	38.5	40.2	40.0	40.2
	Operating EBITDA margin (%)	23.4	23.3	28.8	29.1	29.0
	Net profit margin (%)	12.2	12.0	14.1	13.4	13.0
	Capex/sales (%)	14.9	13.3	14.0	15.0	10.9
	Interest cover (x)	33.2	32.5	39.6	39.0	47.9

Source: Company data, RHB

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Figure 1: 2Q20 earnings benefitting from both revenue growth and shrinking energy cost

FYE Dec (THBm)	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ (%)	YoY (%)	1H19	1H20F	YoY (%)
Total turnover	2,049	1,841	1,911	2,177	2,372	8.9	15.7	4,365	4,549	4.2
Gross profit	803	720	708	859	992	15.5	23.5	1,699	1,851	9.0
Gross profit margin (%)	39.2	39.1	37.1	39.5	41.8			38.9	40.7	
EBITDA	459	460	460	626	756	20.7	64.7	1,043	1,381	32.4
EBITDA margin (%)	22.4	25.0	24.1	28.7	31.9			23.9	30.4	
EBIT	321	321	336	445	574	29.1	78.5	773	1,018	31.7
EBIT margin (%)	15.7	17.4	17.6	20.4	24.2			17.7	22.4	
Interest expense	(11)	(5)	(14)	(19)	(12)	-35.8	11.5	(23)	(31)	33.7
Pre-tax profit	311	316	322	426	561	31.9	80.8	750	987	31.6
Pre-tax profit margin (%)	15.2	17.2	16.8	19.5	23.7			17.2	21.7	
Tax	(67)	(59)	(61)	(65)	(114)	76.2	71.4	(156)	(179)	14.7
Minority interest	(37)	(36)	(23)	6	(4)	NM	NM	(81)	2	NM
Net profit	207	221	238	367	444	20.8	113.9	513	811	57.9
EPS (THB)	0.029	0.031	0.033	0.051	0.054	6.5	88.6	0.07	0.10	39.3

Source: Company data, RHB

Figure 2: DCF valuation

THBm	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F
Operating EBIT	1,673	1,575	1,630	1,706	1,791	1,846	1,988	2,102	2,255
Operating EBIT x (1-t)	1,340	1,258	1,304	1,365	1,433	1,477	1,590	1,681	1,804
D&A	773	798	825	880	935	998	1,046	1,079	1,092
Δ Net working capital	(54)	153	(54)	(122)	(79)	(100)	(129)	(155)	(193)
FCF from operations	2,060	2,209	2,076	2,123	2,289	2,374	2,507	2,605	2,703
Capex	(1,190)	(1,218)	(924)	(1,057)	(1,099)	(1,288)	(1,276)	(1,124)	(1,200)
Net FCFF	871	992	1,152	1,066	1,191	1,087	1,231	1,482	1,503
Discounted net FCFF	837	893	972	843	882	754	800	902	857
<b>Terminal value</b>									23,187
PV of net FCFF	7,741								
PV of terminal value	13,255								

Implicit growth rate	0.3%
WACC	6.7%

Firm value	20,966
Net cash	(3,849)
Cash raised from exercising DCC-W1	2,194
Minority interest	(152)
Equity value	19,159
Number of shares outstanding (m shares)	9,139
<b>Equity value per share (THB)</b>	<b>2.10</b>

<b>WACC assumption</b>	
Cost of debt	3.0%
Weight	53%
Cost of equity	11.0%
Weight	47%
Expected market return	12.0%
Risk-free rate	2.0%
Beta	0.90

Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-07-15	Sell	2.10	2.42
2020-06-09	Buy	2.10	1.87
2020-02-20	Buy	2.25	1.82
2019-09-06	Buy	2.50	2.02
2019-02-20	Buy	2.68	2.20
2018-02-28	Sell	3.00	3.44

Source: RHB, Bloomberg

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70 - 79		ดี	Good
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ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี (ประเทศไทย) จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความครบถ้วนและถูกต้องของผลสำรวจดังกล่าวแต่อย่างใด

ข้อมูล Anti-Corruption Progress Indicator 2560

ประกาศเจตนารมณ์ 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.)

- ได้ประกาศเจตนารมณ์เข้าร่วม CAC
- ได้รับการรับรอง CAC

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