

29 September 2020

Basic Materials | Building Materials

## Dynasty Ceramic (DCC TB)

**Sell** (Maintained)

### Opportunity To SELL

Target Price (Return): THB2.15 (-14.7%)  
 Price: THB2.52  
 Market Cap: USD653m  
 Avg Daily Turnover (THB/USD) 38.2m/1.22m

- **Keep SELL with a slightly higher DCF-based THB2.15 TP from THB2.10, 15% downside and 5% yield.** After Dynasty Ceramic generated >2x earnings growth in 2Q20, we believe 3Q20 will be another quarter of strong growth. However, this YoY growth is expected to be slimmer than in 2Q20 and we anticipate this superb growth period to end soon, especially when competition normalises. Therefore, this is an opportunity to SELL.
- **Another growth quarter expected in 3Q20.** In 2Q20, DCC posted impressive earnings growth (+114% YoY), as well as a 21% QoQ increase from high seasonal demand in 1Q. In 3Q20, this growth momentum is continuing on, and is well supported by natural gas (used in production) costs declining 8% YoY, the impact from acquisition growth on a stake increase to 92% in Royal Ceramic Industry (RCI TB, NR) as of 3Q20 (3Q19: 6.16%), and a new wall ceramic tile product (size: 120cm x 60cm) to mitigate weak seasonal demand during 3Q's rainy season. Therefore, we expect 3Q20 core revenue to grow 14% YoY, mainly on additional sales volumes from new products, while low energy costs for production and logistics should bode well for 3Q20 GPM to stay at the >40% level. All in, we expect 3Q20 net profit to grow 65% YoY to THB365m.
- **Not an easy task to maintain this superb growth.** DCC has taken the growth opportunities since 2Q20 to capture market share from competitors via its outlet channels in Bangkok and its vicinities, as well as in rural areas during the national lockdown. It did so by launching new products – mostly with extra-large ceramic tile sizes – to compete with imported granite and marble offerings in the decoration market. It also attempted to clear out its old-fashioned ceramic tile inventory with special discounts via its own retail store network. We expect DCC to execute these similar strategies – especially the new extra-large size products – in the following quarters. In our view, these products have proven to be successful during the abnormal past 6-month period. However, it may not be seen as efficient when the market normalises. Therefore, FY20's growth can be regarded as an exceptional case for the company.
- **Earnings revision.** We revised up our FY20F core revenue and earnings by 0.8% and 14.9% to reflect another strong quarter in 3Q20 and the prolonged low energy price situation. We also revised up FY21F earnings based on a series of new products to be launched, as well as DCC's higher stake in RCI.
- **Maintain SELL.** We revise up slightly our TP by 2.4% to THB2.15 based on our earnings upgrade for the short-term horizon. We continue to recommend selling this stock during this high-growth FY20 period. Moving forwards, we expect its earnings prospects to enter a no-growth period.

### Analyst

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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	33.3	(2.3)	16.7	96.9	24.8
Relative	53.4	2.3	21.8	82.1	48.0
52-wk Price low/high (THB)				1.27 – 2.66	

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	8,631	8,285	8,468
Recurring net profit (THBm)	979	973	1,374	1,244	1,264
Recurring net profit growth (%)	(12.4)	(0.6)	41.3	(9.5)	1.6
Recurring P/E (x)	16.81	17.82	14.15	17.56	18.22
P/B (x)	4.4	3.8	3.3	3.1	3.0
P/CF (x)	10.63	11.81	9.03	10.44	10.69
Dividend Yield (%)	4.6	4.1	5.5	4.8	4.9
EV/EBITDA (x)	10.31	11.18	8.89	10.15	10.44
Return on average equity (%)	26.8	22.6	24.9	18.2	16.9
Net debt to equity (%)	52.8	109.4	56.9	33.4	30.8

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	0.18	0.14	0.14
Basic Materials	DPS	0.12	0.10	0.14	0.12	0.12
<b>Dynasty Ceramic</b>	BVPS	0.58	0.67	0.76	0.81	0.83
DCC TB	Return on average equity (%)	26.8	22.6	24.9	18.2	16.9
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)	16.81	17.82	14.15	17.56	18.22
Our DCF assumptions include:	P/B (x)	4.4	3.8	3.3	3.1	3.0
i. WACC of 6.7%;	FCF Yield (%)	2.1	2.2	5.0	4.0	5.3
ii. 0.3% long-term growth.	Dividend Yield (%)	4.6	4.1	5.5	4.8	4.9
<b>Key drivers</b>	EV/EBITDA (x)	10.31	11.18	8.89	10.15	10.44
i. Expansion of sales volumes in neighbouring countries;	EV/EBIT (x)	14.28	15.58	12.86	15.33	15.86
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	8,631	8,285	8,468
ii. High household debt levels;	Gross profit	3,102	3,126	3,523	3,314	3,387
iii. Increase in energy costs.	EBITDA	1,875	1,891	2,505	2,363	2,416
	Depreciation and amortisation	(522)	(534)	(773)	(798)	(825)
<b>Company Profile</b>	Operating profit	1,353	1,357	1,732	1,565	1,591
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.	Net interest	(41)	(42)	(60)	(47)	(42)
	Pre-tax profit	1,338	1,388	1,752	1,600	1,634
	Taxation	(202)	(275)	(348)	(322)	(327)
	Reported net profit	979	973	1,374	1,244	1,264
	Recurring net profit	979	973	1,374	1,244	1,264
	<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)	135	72	(32)
	Cash flow from operations	1,547	1,468	2,154	2,092	2,155
	Capex	(1,195)	(1,083)	(1,190)	(1,218)	(924)
	Cash flow from investing activities	(1,274)	(3,073)	(1,162)	(1,249)	(923)
	Dividends paid	(731)	(736)	(1,089)	(1,132)	(1,133)
	Cash flow from financing activities	(241)	1,597	(1,054)	(272)	(1,492)
	Cash at beginning of period	95	126	118	56	627
	Net change in cash	31	(8)	(62)	571	(261)
	Ending balance cash	126	118	56	627	367
	<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	56	627	367
	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	9,845	10,847	10,812
	Short-term debt	2,406	3,967	2,889	2,668	2,309
	Total liabilities	3,681	5,203	4,870	4,735	4,516
	Total equity	4,322	3,519	4,975	6,111	6,296
	Total liabilities & equity	8,003	8,722	9,845	10,847	10,812
	<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	6.3	(4.0)	2.2
	Recurrent EPS growth (%)	(12.4)	(5.7)	26.0	(19.4)	(3.7)
	Gross margin (%)	38.7	38.5	40.8	40.0	40.0
	Operating EBITDA margin (%)	23.4	23.3	29.0	28.5	28.5
	Net profit margin (%)	12.2	12.0	15.9	15.0	14.9
	Capex/sales (%)	14.9	13.3	13.8	14.7	10.9
	Interest cover (x)	33.2	32.5	28.9	33.4	37.6

Source: Company data, RHB

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Figure 1: 3Q20 earnings to benefit from both revenue growth and high GPM

FYE Dec (THBm)	3Q19	4Q19	1Q20	2Q20	3Q20F	QoQ (%)	YoY (%)	9M19	9M20F	YoY (%)
Total turnover	1,841	1,911	2,177	2,372	2,101	(11.4)	14.1	6,206	6,650	7.1
Gross profit	720	708	859	992	879	(11.4)	22.2	2,418	2,730	12.9
Gross profit margin (%)	39.1	37.1	39.5	41.8	41.8			39.0	41.1	
EBITDA	460	460	626	756	666	(11.8)	44.8	1,504	2,048	36.2
EBITDA margin (%)	25.0	24.1	28.7	31.9	31.7			24.2	30.8	
EBIT	321	336	445	574	483	(15.8)	50.6	1,094	1,501	37.2
EBIT margin (%)	17.4	17.6	20.4	24.2	23.0			17.6	22.6	
Interest expense	(5)	(14)	(19)	(12)	(11)	(7.1)	150.8	(28)	(43)	52.7
Pre-tax profit	316	322	426	561	472	(16.0)	49.2	1,066	1,459	36.8
Pre-tax profit margin (%)	17.2	16.8	19.5	23.7	22.4			17.2	21.9	
Tax	(59)	(61)	(65)	(114)	(98)	(13.8)	67.6	(214)	(277)	29.2
Minority interest	(36)	(23)	6	(4)	(8)	NM	NM	(117)	(6)	NM
Net profit	221	238	367	444	365	(17.7)	65.1	735	1,176	60.1
EPS (THB)	0.031	0.033	0.051	0.054	0.045	(17.7)	45.6	0.10	0.14	41.2

Source: Company data, RHB

Figure 2: Revisions to our FY20-21 forecasts

		FY20F			FY21F		
		Previous	New	% change	Previous	New	% change
Domestic sales volume	m sqm	60.7	61.2	+0.8	57.8	58.5	+1.2
ASP	THB/sqm	140.0	141.0	+0.7	140.9	141.5	+0.4
Core revenue	THBm	8,498	8,631	+1.6	8,144	8,285	+1.7
Gross margin	%	40.2	40.8	+0.6	40.0	40.0	-
Net profit	THBm	1,196	1,374	+14.9	1,088	1,244	+14.3

Source: RHB

Figure 3: DCF valuation

THBm	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F
Operating EBIT	1,732	1,575	1,591	1,706	1,791	1,846	1,988	2,102	2,255
Operating EBIT x (1-t)	1,388	1,250	1,273	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	135	72	(32)	(122)	(79)	(100)	(129)	(155)	(210)
FCF from operations	2,296	2,121	2,066	2,123	2,289	2,374	2,507	2,605	2,685
Capex	(1,190)	(1,218)	(924)	(1,057)	(1,099)	(1,288)	(1,276)	(1,124)	(1,200)
Net FCFF	1,106	903	1,142	1,066	1,191	1,087	1,231	1,482	1,485
<b>Discounted net FCFF</b>	1,088	832	986	862	902	771	819	923	867
<b>Terminal value</b>									22,916
PV of net FCFF	8,051								
PV of terminal value	13,372								

  

Implicit growth rate	0.3%
WACC	6.7%

  

Firm value	21,423
Net cash	(3,849)
Cash raised from exercising DCC-W1	2,194
Minority interest	(152)
Equity value	19,616
Number of shares outstanding (m shares)	9,139
<b>Equity value per share (THB)</b>	<b>2.15</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
2020-01-24	Buy	2.25	1.85
2019-09-06	Buy	2.50	2.02
2018-12-21	Buy	2.68	2.00
2018-02-28	Sell	3.00	3.44

Source: RHB, Bloomberg

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Analyst	Company
-	-

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90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		พอใช้	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

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	TIPIPP	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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