

5 November 2020

Basic Materials | Building Materials

Dynasty Ceramic (DCC TB)

Sell (Maintained)

The End Of a Rosy Road Ahead; Still SELL

Target Price (Return): THB2.15 (-9.7%)
 Price: THB2.38
 Market Cap: USD629m
 Avg Daily Turnover (THB/USD) 34.2m/1.10m

- **Maintain SELL and DCF-derived THB2.15 TP, 10% downside and c.5% yield.** 3Q20 was another quarter of record impressive earnings, yet we expect Dynasty Ceramic's best-ever period to end soon. We believe the company will face a tougher situation in FY21, especially in terms of generating earnings growth.
- **3Q20 earnings were above expectations.** DCC announced a 3Q20 net profit of THB413m (+87% YoY, -7% QoQ), with 9M20 earnings shooting up 67% YoY to THB1.2bn. The strong 3Q20 YoY growth was 13% higher than our estimates, as the actual GPM during this period shot up to 43% when compared to our anticipated GPM of 41.8%. A 12% YoY growth in 3Q20 core revenue was mainly driven by the consolidation effect after DCC increased its stake in Royal Ceramic Industry (RCI TB, NR) to 92% during this time vs 3Q19's 6.2% and a higher ASP from new premium products – especially extra-large size ceramic tiles (60cm x 120cm and 80cm x 80cm). The higher 43% GPM was supported by 25% YoY lower production energy costs. Distribution costs were also lower 16% due to a decrease in diesel prices.
- **FY20 earnings prospects revised up.** Based on higher-than-expected 3Q20 net profit results, we revise up our FY20F earnings by 13% to THB1.55bn – this is based on a new GPM assumption of 41.8%. We expect DCC's GPM to continue benefiting from prolonged low energy costs in 4Q20. Our new estimate also implies that its 4Q20 performance should still grow YoY.
- **It is likely to be a rough road ahead in FY21,** as we expect DCC's fabulous performance to end soon, especially after its superb earnings growth is recognised in FY20. Several positive factors that boded well for FY20 should play a lesser impact on FY21's earnings growth. Among these include an upside limit of the consolidation effect from RCI – based on DCC's current stake of 92% – and one-off sales revenue from higher sales volumes within its own retail outlet network during the nationwide COVID-19 lockdown. In addition, we anticipate industry rivals to be more aggressive in terms of capturing market share in FY21. Therefore, we expect earnings next year to decline YoY from DCC's best-ever year, ie FY20.
- **Maintain SELL.** In spite of higher earnings in FY20, in the long term our DCF-derived TP remains THB2.15. This is because our earnings forecasts for FY21 onward remain unchanged.
- **Risks** to our call: Poor purchasing power in rural areas, high household debt levels, and increases in energy costs.

Analyst

Chatree Srismaicharoen
 +66 2088 9743
chatree.sr@rhbgroupp.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	25.9	(3.3)	(1.7)	56.6	22.7
Relative	48.5	(2.1)	6.5	62.7	47.4
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	1,555	1,244	1,264
Recurring net profit growth (%)	(12.4)	(0.6)	59.9	(20.0)	1.6
Recurring P/E (x)	15.87	16.83	11.81	16.58	17.21
P/B (x)	4.1	3.6	3.1	2.9	2.9
P/CF (x)	10.04	11.15	7.92	9.96	10.10
Dividend Yield (%)	4.9	4.4	6.6	5.4	5.4
EV/EBITDA (x)	9.82	10.67	7.85	9.64	9.94
Return on average equity (%)	26.8	22.6	27.9	18.1	16.9
Net debt to equity (%)	52.8	109.4	54.7	33.5	31.9

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	0.20	0.14	0.14
Basic Materials	DPS	0.12	0.10	0.16	0.13	0.13
Dynasty Ceramic	BVPS	0.58	0.67	0.77	0.81	0.82
DCC TB	Return on average equity (%)	26.8	22.6	27.9	18.1	16.9
Sell						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	15.87	16.83	11.81	16.58	17.21
Our DCF assumptions include:	P/B (x)	4.1	3.6	3.1	2.9	2.9
i. WACC of 6.7%;	FCF Yield (%)	2.3	2.3	6.1	4.1	5.7
ii. 0.3% long-term growth.	Dividend Yield (%)	4.9	4.4	6.6	5.4	5.4
Key drivers	EV/EBITDA (x)	9.82	10.67	7.85	9.64	9.94
i. Expansion of sales volumes in neighbouring countries;	EV/EBIT (x)	13.61	14.87	10.79	14.56	15.09
ii. Success in increasing high-value-added products.						
Key risks	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
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	3,609	3,314	3,387
iii. Increase in energy costs.	EBITDA	1,875	1,891	2,693	2,363	2,416
	Depreciation and amortisation	(522)	(534)	(735)	(798)	(825)
Company Profile	Operating profit	1,353	1,357	1,958	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	1,978	1,600	1,634
	Taxation	(202)	(275)	(393)	(322)	(327)
	Reported net profit	979	973	1,555	1,244	1,264
	Recurring net profit	979	973	1,555	1,244	1,264
	Cash flow (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(124)	(309)	157	51	(32)
	Cash flow from operations	1,547	1,468	2,318	2,071	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)	(1,187)	(1,191)	(1,179)
	Cash flow from financing activities	(241)	1,597	(1,153)	(331)	(1,538)
	Cash at beginning of period	95	126	118	122	613
	Net change in cash	31	(8)	4	491	(306)
	Ending balance cash	126	118	122	613	307
	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	126	118	122	613	307
	Tangible fixed assets	5,479	6,029	6,484	6,903	7,001
	Total investments	29	0	0	0	0
	Total assets	8,003	8,722	9,911	10,871	10,791
	Short-term debt	2,406	3,967	2,889	2,668	2,309
	Total liabilities	3,681	5,203	4,854	4,735	4,516
	Total equity	4,322	3,519	5,057	6,136	6,275
	Total liabilities & equity	8,003	8,722	9,911	10,871	10,791
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	9.0	1.1	6.3	(4.0)	2.2
	Recurrent EPS growth (%)	(12.4)	(5.7)	42.6	(28.8)	(3.7)
	Gross margin (%)	38.7	38.5	41.8	40.0	40.0
	Operating EBITDA margin (%)	23.4	23.3	31.2	28.5	28.5
	Net profit margin (%)	12.2	12.0	18.0	15.0	14.9
	Capex/sales (%)	14.9	13.3	13.8	14.7	10.9
	Interest cover (x)	33.2	32.5	32.7	33.4	37.6

Source: Company data, RHB

Figure 1: 3Q20 earnings were 13% above expectations and mainly driven by a higher-than-expected GPM

FYE Dec (THBm)	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ (%)	YoY (%)	9M19	9M20	YoY (%)
Total turnover	1,841	1,911	2,177	2,372	2,067	-12.8	12.3	6,206	6,616	6.6
Gross profit	720	708	859	992	889	-10.5	23.5	2,418	2,740	13.3
Gross profit margin (%)	39.1	37.1	39.5	41.8	43.0			39.0	41.4	
EBITDA	460	460	626	756	705	-6.7	53.3	1,504	2,087	38.8
EBITDA margin (%)	25.0	24.1	28.7	31.9	34.1			24.2	31.5	
EBIT	321	336	445	574	523	-8.8	63.2	1,094	1,542	40.9
EBIT margin (%)	17.4	17.6	20.4	24.2	25.3			17.6	23.3	
Interest expense	(5)	(14)	(19)	(12)	(9)	-26.8	97.8	(28)	(40)	44.1
Pre-tax profit	316	322	426	561	514	-8.4	62.7	1,066	1,501	40.8
Pre-tax profit margin (%)	17.2	16.8	19.5	23.7	24.9			17.2	22.7	
Tax	(59)	(61)	(65)	(114)	(99)	-13.3	68.6	(214)	(278)	29.4
Minority interest	(36)	(23)	6	(4)	(2)	NM	NM	(117)	0	NM
Net profit	221	238	367	444	413	-6.9	86.8	735	1,224	66.6
EPS (THB)	0.031	0.033	0.051	0.054	0.050	-6.9	64.8	0.10	0.15	46.9

Source: Company data, RHB

Figure 2: Revisions to our FY20 forecasts

		FY20F			FY21F		
		Previous	New	% change	Previous	New	% change
Domestic sales volume	m sqm	61.2	61.2	-	58.5	58.5	-
ASP	THB/sqm	141.0	141.0	-	141.5	141.5	-
Core revenue	THBm	8,631	8,631	-	8,285	8,285	-
Gross margin	%	40.8	41.8	+1.0	40.0	40.0	-
Net profit	THBm	1,374	1,555	+13.2	1,244	1,244	-

Source: RHB

Figure 3: DCF valuation

THBm	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F
Operating EBIT	1,958	1,565	1,591	1,706	1,791	1,846	1,988	2,102	2,255
Operating EBIT x (1-t)	1,569	1,250	1,273	1,365	1,433	1,477	1,590	1,681	1,804
D&A	735	798	825	880	935	998	1,046	1,079	1,092
Δ Net working capital	158	51	(32)	(122)	(79)	(100)	(129)	(155)	(225)
FCF from operations	2,462	2,099	2,066	2,123	2,289	2,374	2,507	2,605	2,670
Capex	(1,190)	(1,218)	(924)	(1,057)	(1,099)	(1,288)	(1,276)	(1,124)	(1,200)
Net FCFF	1,272	882	1,142	1,066	1,191	1,087	1,231	1,482	1,470
Discounted net FCFF	1,256	815	990	865	905	774	822	926	861
Terminal value									22,684
PV of net FCFF	8,213								
PV of terminal value	13,281								

Implicit growth rate	0.3%
WACC	6.7%

Firm value	21,493
Net cash	(3,849)
Cash raised from exercising DCC-W1	2,194
Minority interest	(152)
Equity value	19,686
Number of shares outstanding (m shares)	9,139
Equity value per share (THB)	2.15

WACC assumption		
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
2020-09-29	Sell	2.15	2.50
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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**KUALA LUMPUR**

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax: +66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531

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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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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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