

4 January 2022

Basic Materials | Building Materials

Dynasty Ceramic (DCC TB)

Neutral (Maintained)

Better Prospects In FY22

Target Price (Return): THB2.80 (-1.4%)
 Price (Market Cap): THB2.84 (USD781m)
 ESG score: 2.90 (out of 4)
 Avg Daily Turnover (THB/USD) 30.0m/0.90m

- NEUTRAL and DCF-based THB2.80 TP, 1% downside and >6% yield.** Similar to other construction materials players, especially here, Dynasty Ceramic has faced major obstacles in generating earnings performance growth – pressured by the pandemic, energy cost surges, and tightening competition from local peers. However, it has focused intensively on data analysis and management, high value-add product launches, and more stringent business operation controls to face these negatives and enhance GPMs. While P/E is demanding, the yield at >6% pa seems attractive.
- Keeping sales revenue level in an unfriendly industry.** DCC's best attempt for its FY21 operations is to keep sales revenues on par with FY20's numbers. We expect a 2% YoY sales revenue growth, which should not be seen as a significant disappointment – even if the actual FY21 results see a slight decline – given the current harsh environment. Within FY21, the domestic ceramic tiles market was mainly pressured by COVID-19, which resulted in: i) Slower purchasing power among DCC's major demand hubs within provincial areas (due to lower prices for some major crops) and ii) a halt in construction activities in Jun-Jul 2021 to contain the pandemic's impact at construction sites, especially in Bangkok and its vicinities.
- Room for improvement.** Despite DCC's retail market having been hit hard, its policy to focus on data analysis related to working capital management, inventory management, product price revisions, sector demand, logistics traffic, etc, has already been intensively adopted in FY21. This has resulted in higher sales revenue growth of >15% YoY from real estate project construction (the minority within its overall sales revenue) and solid operating cash flow streams (>THB1.6bn) in 9M21.
- FY21 to record a new earnings high.** Under the slow demand trend in FY21, we expect DCC to record another high level of net profit with a consistent growth of 3% YoY. This is supported by its critical focus on enhancing profit margins.
- Better prospects in FY22.** Based on its ongoing policies to strengthen operations, we believe the company will benefit in terms of: i) Higher sales revenue growth of c.+5% YoY while ii) maintaining an impressive GPM >42%. This is because the industry's prospects may be less interrupted by the pandemic and DCC will pay the attention towards mitigating impacts from energy costs.
- Maintain TP.** Based on our in-house proprietary methodology, we assign an ESG score of 2.9 for DCC. From this, we derive an initial DCF-based value of THB2.98 and then applied a 6% ESG discount to arrive at our TP of THB2.80. We maintain our NEUTRAL call on this counter.

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	27.9	3.6	(0.7)	(6.6)	27.9
Relative	13.5	(2.1)	(3.9)	(11.0)	13.5
52-wk Price low/high (THB)	2.24 – 3.38				

Dynasty Ceramic PCL (DCC TB)



Source: Bloomberg

Overall ESG Score: 2.90 (out of 4)

E: MODERATE

DCC operates continuously for the transfer of residual heat from its production process in order to recycle as well as reduce energy consumption and waste. Water management is done in a closed system, whereby water from the production process is treated and reused so as not to affect the communities surrounding its factories while reducing water usage as well.

S: GOOD

DCC provides all employees with good and safe working conditions at its factories, branches, and head office. Employees also have access to knowledge development programmes, thereby allowing them the opportunity to advance their careers and improve their quality of life. The company has since extended these programmes to its business partners and all stakeholders for social sustainability.

G: EXCELLENT

DCC has established guidelines for corporate governance, which are: i) Rights of shareholders, ii) equitable treatment of shareholders, iii) role of stakeholders, iv) disclosure and transparency, as well as v) responsibilities of the Board of Directors and committees.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (THBm)	8,118	8,501	8,664	9,085	9,355
Recurring net profit (THBm)	973	1,585	1,630	1,656	1,685
Recurring net profit growth (%)	(0.6)	63.0	2.8	1.6	1.8
Recurring P/E (x)	20.08	13.82	15.10	15.65	15.38
P/B (x)	4.3	3.7	3.5	3.5	3.5
P/CF (x)	13.31	9.40	11.17	11.11	10.34
Dividend Yield (%)	3.7	5.8	6.2	6.4	6.5
EV/EBITDA (x)	12.35	9.12	9.62	9.92	9.61
Return on average equity (%)	22.6	28.4	23.7	22.3	22.6
Net debt to equity (%)	109.4	43.1	16.5	15.1	8.7

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (THB)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Thailand	Recurring EPS	0.14	0.21	0.19	0.18	0.18
Basic Materials	DPS	0.10	0.17	0.18	0.18	0.19
Dynasty Ceramic	BVPS	0.67	0.77	0.81	0.82	0.82
DCC TB	Return on average equity (%)	22.6	28.4	23.7	22.3	22.6
Neutral						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Valuation basis	Recurring P/E (x)	20.08	13.82	15.10	15.65	15.38
DCF	P/B (x)	4.3	3.7	3.5	3.5	3.5
	FCF Yield (%)	2.0	8.0	7.1	6.4	7.8
	Dividend Yield (%)	3.7	5.8	6.2	6.4	6.5
Key drivers	EV/EBITDA (x)	12.35	9.12	9.62	9.92	9.61
i. Expansion of sales volumes in neighbouring countries;	EV/EBIT (x)	17.20	12.57	12.94	13.37	13.03
ii. Success in increasing high value-add products.						
	Income statement (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Key risks	Total turnover	8,118	8,501	8,664	9,085	9,355
i. Poor purchasing power in rural areas;	Gross profit	3,126	3,529	3,675	3,817	3,909
ii. High household debt levels;	EBITDA	1,891	2,630	2,664	2,716	2,763
iii. Increase in energy costs.	Depreciation and amortisation	(534)	(722)	(683)	(702)	(726)
	Operating profit	1,357	1,907	1,981	2,014	2,037
Company Profile	Net interest	(42)	(49)	(25)	(17)	(14)
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.	Pre-tax profit	1,388	1,946	2,039	2,083	2,111
	Taxation	(275)	(360)	(403)	(421)	(422)
	Reported net profit	973	1,585	1,630	1,656	1,685
	Recurring net profit	973	1,585	1,630	1,656	1,685
	Cash flow (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	(309)	304	(125)	(85)	(46)
	Cash flow from operations	1,468	2,332	2,202	2,332	2,506
	Capex	(1,083)	(573)	(449)	(664)	(487)
	Cash flow from investing activities	(3,073)	(503)	(523)	(663)	(438)
	Dividends paid	(736)	(1,187)	(1,638)	(1,597)	(1,679)
	Cash flow from financing activities	1,597	(1,876)	(1,709)	(1,699)	(2,020)
	Cash at beginning of period	126	118	71	41	11
	Net change in cash	(8)	(47)	(30)	(30)	48
	Ending balance cash	118	71	41	11	59
	Balance sheet (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	118	71	41	11	59
	Tangible fixed assets	6,029	5,879	5,646	5,608	5,369
	Total investments	0	0	0	0	0
	Total assets	8,722	8,796	8,761	8,846	8,643
	Short-term debt	3,967	2,165	1,028	926	585
	Total liabilities	5,203	3,937	2,786	2,797	2,582
	Total equity	3,519	4,858	5,974	6,050	6,061
	Total liabilities & equity	8,722	8,796	8,761	8,846	8,643
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	1.1	4.7	1.9	4.9	3.0
	Recurrent EPS growth (%)	(5.7)	45.3	(8.4)	(3.6)	1.8
	Gross margin (%)	38.5	41.5	42.4	42.0	41.8
	Operating EBITDA margin (%)	23.3	30.9	30.7	29.9	29.5
	Net profit margin (%)	12.0	18.6	18.8	18.2	18.0
	Dividend payout ratio (%)	77.6	85.3	98.0	99.8	100.2
	Capex/sales (%)	13.3	6.7	5.2	7.3	5.2
	Interest cover (x)	32.5	39.0	79.9	121.3	143.6

Source: Company data, RHB

Figure 1: DCF valuation

THBm	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
Operating EBIT	1,981	2,014	2,037	2,111	2,201	2,284	2,374	2,435	2,578
Operating EBIT x (1-t)	1,589	1,607	1,630	1,689	1,761	1,827	1,899	1,948	2,063
D&A	683	702	726	792	834	893	952	999	1,050
Δ Net working capital	(125)	(85)	267	(122)	(79)	(100)	(129)	(155)	(225)
FCF from operations	2,147	2,223	2,623	2,360	2,517	2,621	2,723	2,793	2,888
Capex	(449)	(664)	(487)	(603)	(894)	(1,034)	(1,183)	(1,151)	(1,200)
Net FCFF	1,698	1,560	2,136	1,756	1,622	1,586	1,540	1,642	1,688
Discounted net FCFF	1,684	1,449	1,859	1,432	1,239	1,135	1,032	1,031	992
Terminal value									28,063
PV of net FCFF	11,852								
PV of terminal value	16,498								
Implicit growth rate 0.7%									
WACC 6.8%									
Firm value	28,350								
Net debt	(2,094)								
Cash raised from exercising DCC-W1	1,066								
Minority interest	(96)								
Equity value	27,226								
Number of shares outstanding (m shares)	9,126								
Intrinsic value (THB)	2.98								
ESG premium / (discount)	(6%)								
TP (THB)	2.80								
WACC assumption									
Cost of debt	3.0%								
Weight	31%								
Cost of equity	8.4%								
Weight	69%								
Expected market return	12.0%								
Risk-free rate	2.0%								
Beta	0.64								

Source: RHB

Recommendation Chart

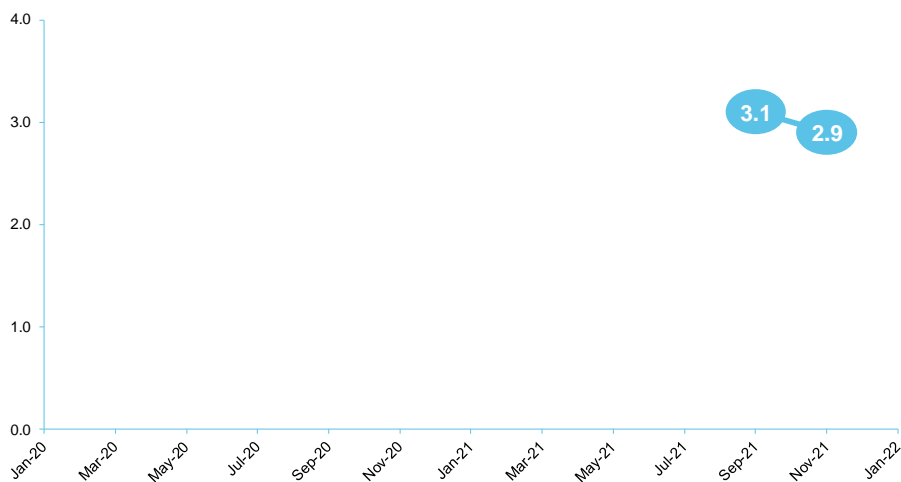


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-11-25	Neutral	2.80	2.86
2021-09-07	Sell	2.45	2.96
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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