Dynasty Ceramic Pcl (DCC TB) - HOLD, Price Bt2.92, TP Bt3.30

Results Comment

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Slightly better-than-expected 3Q results

- DCC reported normalized earnings of Bt366m in 3Q21, down 19% q-q and 11% y-y. The results were slightly better than what we had expected. A fall in earnings quarter on quarter and year on year was mainly due to the government's lockdown measure by closing construction sites in July and low season. 9M21 results make up 80% of our full-year earnings forecast.
- Even though we see the ceramic tile industry in Thailand as mature with an organic growth of 2-3%, we have a HOLD recommendation on DCC given its decent dividend yield of 6.3-6.5% in 2022-23F.
- DCC's revenue in 3Q21 dropped by 11% y-y. We believe this was because of a fall in sales volume from the impact of the government's lockdown measures, construction site closures in July and flood in some areas.
- Despite a rise in gas prices (30% of the total production costs) and lower sales volume, its gross margin improved to 44% in 3Q21 vs. 43% in 3Q20. We believe this was due to higher average selling price from price adjustment and higher sale proportion of high-margin large-sized ceramic tiles.
- Its SG&A expenses in 3Q21 were also down by 6% y-y due to the cost cutting plans while interest expenses dropped 58% y-y due to the loan repayments.
- DCC announced a dividend payment of Bt0.04, implying an annualized yield of 5.5%.
- Key risk: Fluctuations in gas prices and the economic volatility present major risks to our earnings projections.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	3Q20	4Q20	1Q21	2Q21	3Q21
Revenue	2,067	1,885	2,413	2,179	1,834
Gross profit	**889**	**789**	**1,031**	**950**	**811**
SG&A	394	358	431	400	369
Operating profit	495	431	600	550	441
EBITDA	**677**	**609**	**771**	**719**	**610**
Other income	29	23	23	20	19
Other expense	0	0	0	0	0
Interest expense	9	9	7	3	4
Profit before tax	**514**	**445**	**616**	**567**	**457**
Income tax	99	82	121	113	90
Equity & invest. income	0	0	0	0	0
Minority interests	(2)	(1)	(2)	(1)	(0)
Extraordinary items	0	0	0	0	0
Net profit	**413**	**362**	**493**	**453**	**366**
Normalized profit	**413**	**362**	**493**	**453**	**366**
EPS (Bt)	0.05	0.04	0.06	0.05	0.04
Normalized EPS (Bt)	0.05	0.04	0.06	0.05	0.04

Income Statement			9M as		
(Bt m)	q-q%	y-y%	% 2021F	2021F	2022F
Revenue	(16)	(11)	71	9,011	9,405
Gross profit	**(15)**	**(9)**	**76**	**3,678**	**3,805**
SG&A	(8)	(6)	72	1,667	1,740
Operating profit	(20)	(11)	79	2,011	2,065
EBITDA	**(15)**	**(10)**	**76**	**2,769**	**2,837**
Other income	(6)	(33)	69	90	92
Other expense					
Interest expense	7	(58)	35	40	31
Profit before tax	**(19)**	**(11)**	**80**	**2,060**	**2,126**
Income tax	(20)	(9)	79	412	425
Equity & invest. income					
Minority interests	na	na	241	(1)	(1)
Extraordinary items					
Net profit	**(19)**	**(11)**	**80**	**1,647**	**1,700**
Normalized profit	**(19)**	**(11)**	**80**	**1,647**	**1,700**
EPS (Bt)	(19)	(20)	81	0.19	0.19
Normalized EPS (Bt)	(19)	(20)	81	0.19	0.19

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	3Q20	4Q20	1Q21	2Q21	3Q21
Cash & ST investment	68	71	79	64	57
A/C receivable	170	144	226	180	151
Inventory	2,048	2,089	1,934	2,084	2,248
Other current assets	(0)	1	1	1	10
Investment	0	0	0	0	0
Fixed assets	5,918	5,879	5,803	5,757	5,670
Other assets	736	611	590	588	580
Total assets	**8,940**	**8,796**	**8,634**	**8,673**	**8,716**
S-T debt	2,220	2,165	1,200	570	1,180
A/C payable	928	786	1,355	1,036	760
Other current liabilities	209	290	403	327	290
L-T debt	0	0	0	0	0
Other liabilities	718	697	673	674	672
Minority interest	95	96	98	99	43
Shareholders' equity	**4,770**	**4,762**	**4,905**	**5,967**	**5,771**
Working capital	1,289	1,447	806	1,228	1,639
Total debt	2,220	2,165	1,200	570	1,180
Net debt	**2,152**	**2,094**	**1,121**	**506**	**1,123**

Financial Ratios					
(%)	3Q20	4Q20	1Q21	2Q21	3Q21
Sales growth	12.3	(1.4)	10.8	(8.1)	(11.3)
Operating profit growth	64.3	40.1	40.3	(0.6)	(10.8)
EBITDA growth	53.6	40.8	26.5	(2.2)	(9.8)
Norm profit growth	86.8	51.8	34.3	2.2	(11.3)
Norm EPS growth	64.8	33.9	18.4	(19.0)	(20.3)
Gross margin	43.0	41.8	42.7	43.6	44.2
Operating margin	23.9	22.9	24.9	25.2	24.1
EBITDA margin	32.7	32.3	31.9	33.0	33.3
Norm net margin	20.0	19.2	20.4	20.8	20.0
D/E (x)	0.5	0.5	0.2	0.1	0.2
Net D/E (x)	0.5	0.4	0.2	0.1	0.2
Interest coverage (x)	75.7	69.4	112.2	205.9	163.4
Interest rate	1.7	1.6	1.6	1.6	1.7
Effective tax rate	19.2	18.5	19.6	19.9	19.7
ROA	18.5	16.3	22.6	21.0	16.9
ROE	34.4	30.3	40.8	33.4	25.0

Sources: Company data, Thanachart estimates

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