Small Cap Research

BUY (Unchanged)

Change in Numbers

TP: Bt 3.40 (Unchanged)

Upside : 20.6%

1 AUGUST 2022

Dynasty Ceramic Pcl (DCC TB)

Addressing some concerns

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Thanachart Securities

We factor in the risks of rising gas costs and weak ceramic tile demand by lowering our 2022-24F earnings for DCC by 4-9%. Despite that, DCC is still a highly profitable company with a 31-33% EBITDA margin and 27-30% ROE over 2022-24F. We also forecast attractive dividend yields of 6-7%. We reaffirm our BUY call on the stock.

#1: Rising gas costs

DCC is a victim of surging natural gas prices as the fuel made up 39% of its total costs in 1Q22. Its natural gas price is linked to the high sulphur fuel oil (HSFO) price with a 93% correlation. The HSFO price rose by 60% y-y in 1H22. However, as the largest domestic player and lowest-cost producer in a consolidated market, DCC partly passed on its rising costs to customers with an average price hike of 14% y-y in 1Q22 and a likely further 3-5% q-q increase in 2Q22 which should help to offset rising costs to a certain degree. We estimate DCC's gross margin at 41% in 2Q22F, vs. 44% in 1Q22 and 43% in 2021. The HSFO price fell by 20% m-m last month and we expect the natural gas price to decline to Bt357/mmbtu in 2H22F from Bt376 in 1H22F. Our natural gas price assumptions are Bt367/327/307 per mmbtu in 2022-24F vs. Bt278/215 in 2020-21.

#2: Weak ceramic tile demand

According to the Office of Industrial Economics, ceramic tile sales volume in Thailand fell by 0.7% a year on average over the past five years given product substitutes, the weak housing market and the COVID-19 crisis. However, DCC managed to grow its earnings by 4% a year on average in 2016-21 due to 1) its market share increasing from 31% in 2016 to 34% in 2021 and 2) the proportion of higher-margin large-size ceramic tile sales rising from 17% in 2019 to 22% in 2021 and 25% in 1Q22. Its gross margin rose from 39% in 2019 to 43% in 2021 and 44% in 1Q22. DCC targets the proportion to rise to 40% in five years' time.

Earnings hiccup this year

To address the risks from rising gas costs and soft demand, we cut our earnings estimates by 9/6/4% in 2022-24F (see Exhibit 1). Our cuts are based on our higher natural gas price assumptions of 4-12% in 2022-24F and 2-6% lower sales volume assumptions in 2022-23F. With that, we now forecast DCC's earnings to fall by 9% y-y this year. But with 11/6% natural gas price declines in 2023-24F, we estimate EPS growth of 8/5% in those years.

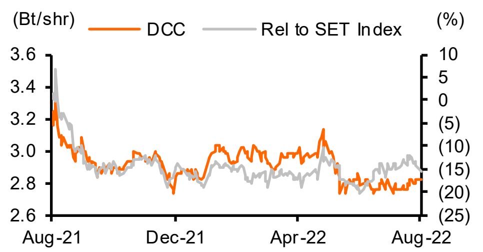
Reaffirming our BUY rating

Despite our earnings cuts, we maintain our DCF-based 12-month TP at Bt3.4 after rolling over to a 2023F base year. We reaffirm our call BUY on DCC. ***First,*** its share price drop of 10% from its peak this year looks to have priced in the risks. ***Second,*** we also forecast a drop in gas prices to turn around its earnings in 2023-24F. ***Third,*** it is a highly profitable firm with a 31-33% EBITDA margin, 27-30% ROE and 18-21% ROA in 2022-24F, supporting its 15x PE multiple in 2023F. ***Lastly,*** at only a 0.1-0.2x net D/E ratio, DCC should be able to maintain its 95% payout ratio and we estimate 6-7% dividend yields for 2022-24F.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	8,396	8,337	8,536	8,657
Net profit	1,700	1,583	1,706	1,795
Consensus NP	—	1,707	1,824	1,926
Diff frm cons (%)	—	*(7.3)*	*(6.5)*	*(6.8)*
Norm profit	1,700	1,583	1,706	1,795
Prev. Norm profit	—	1,738	1,812	1,863
Chg frm prev (%)	—	*(8.9)*	*(5.9)*	*(3.7)*
Norm EPS (Bt)	0.2	0.2	0.2	0.2
Norm EPS grw (%)	(0.4)	(8.8)	7.7	5.2
Norm PE (x)	14.8	16.3	15.1	14.3
EV/EBITDA (x)	9.7	10.3	9.6	9.1
P/BV (x)	4.4	4.5	4.3	4.2
Div yield (%)	6.6	5.8	6.3	6.6
ROE (%)	32.2	27.4	29.1	30.0
Net D/E (%)	20.4	15.7	10.8	6.1

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 1-Aug-22 (Bt)	2.82
Market Cap (US$ m)	713.8
Listed Shares (m shares)	9,125.6
Free Float (%)	43.7
Avg Daily Turnover (US$ m)	1.2
12M Price H/L (Bt)	3.38/2.74
Sector	CONMAT
Major Shareholder	Saengsastra Family 41.6%

Sources: Bloomberg, Company data, Thanachart estimates

Addressing some concerns

We cut our earnings to reflect rising gas costs and soft ceramic tile demand

To relfect our concerns about rising gas costs and soft ceramic tile demand, we cut our earnings estimates for Dynasty Ceramic Pcl (DCC) by 9/6/4% in 2022-24F after ***1)*** raising our gas price assumptions by 4-12% in 2022-24F, and ***2)*** lowering our sales volume assumptions by 2-6% in 2022-23F. After rolling over the base year in our model to 2023F, our DCF-based 12-month TP is unchanged at Bt3.4/share.

Ex 1: Key Assumption Changes

	2020	2021	2022F	2023F	2024F
Average selling price (Bt/sqm)					
New	132	138	156	150	147
Old			156	147	147
Change (%)			—	*2.0*	—
Sales volume (m sqm)					
New	61	57	51	54	56
Old			54	55	56
Change (%)			*(5.6)*	*(1.8)*	—
Gas price (Bt/MMBTU)					
New	215	278	367	327	307
Old			352	292	284
Change (%)			*4.3*	*12.0*	*8.1*
Gross margin (%)					
New	41.5	43.3	41.8	43.0	43.8
Old			42.7	44.5	45.2
Change (pp)			*(0.9)*	*(1.5)*	*(1.4)*

Sources: Company data, Thanachart estimates

We maintain our BUY as…

However, we reaffirm our BUY rating on shares of DCC as:

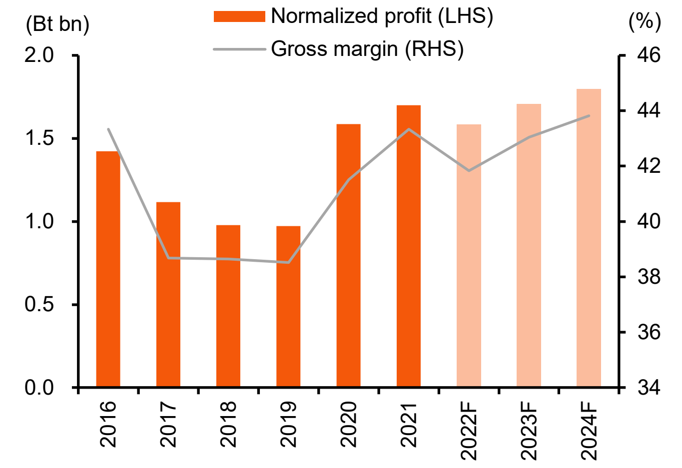
…share price fall looks to have priced in the risks…

First, DCC's share price decline of 10% from its peak this year looks to have already priced in the above-mentioned risks.

…we expect a fall in gas prices to turn around its earnings next year…

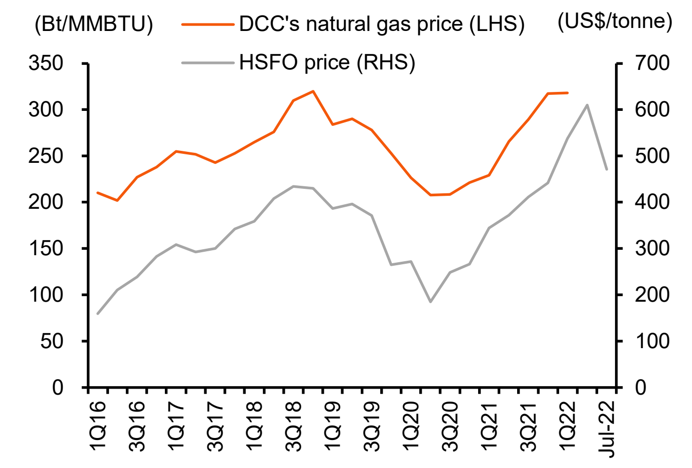
Second, following the 20% m-m drop in the high sulphur fuel oil (HFSO) price last month, we expect the nutural gas price to decline from 2H22F onward and DCC's earnings to turn around next year with growth of 8% y-y in 2023F and 5% y-y in 2024F.

Ex 2: DCC's Earnings



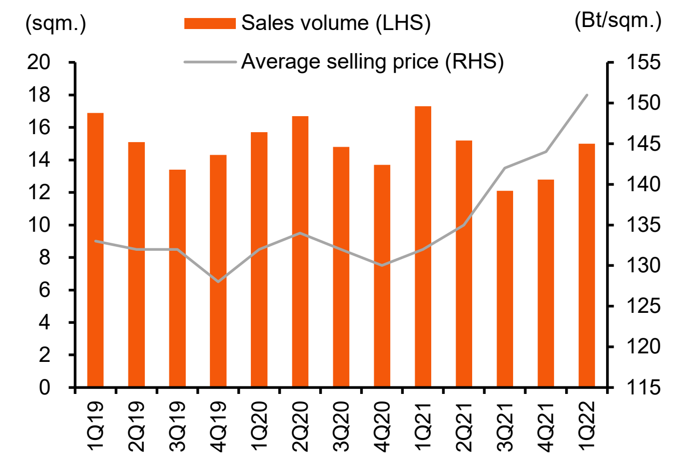
Sources: Company data, Thanachart estimates

Ex 3: HSFO Price Vs. Natural Gas Price



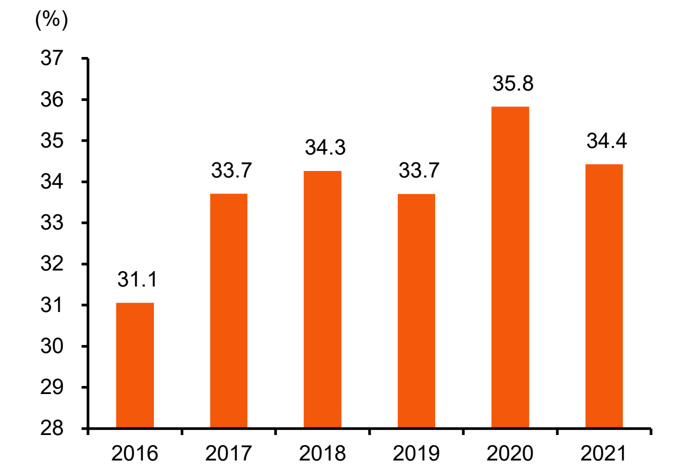
Sources: Company data, Bloomberg

Ex 4: DCC's Sales Volume And Average Selling Price



Source: Company data

Ex 5: DCC's Market Share



Sources: Company data, The Office Of Industrial Economics

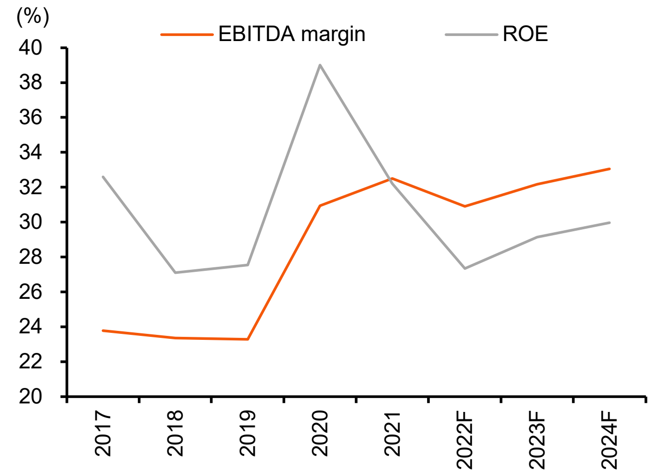
…despite cutting our earnings, DCC is still highly a profitable firm…

Third, despite cutting our earnings, DCC is still a highly profitable company with EBITDA margins of 31-33% in 2022-24F, ROE of 27-30%, and ROA of 18-21%. Its net D/E ratio is also low at 0.1-0.2x in 2022-24F.

…and we see its valuation as attractive with decent dividend yields

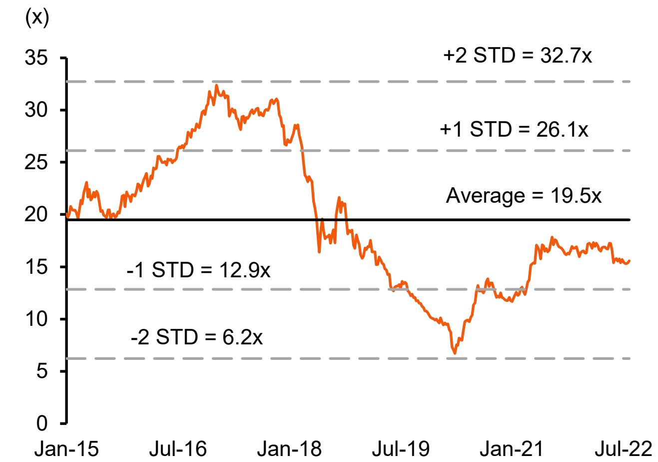
Fourth, DCC's valuations look attractive, in our view, at 16/15/14x PE multiples in 2022-24F vs. its past-7-year historical average of 19.5x, while dividend yields are also decent at 6-7% over 2022-24F.

Ex 6: DCC's EBITDA Margin And ROE



Sources: Company data, Thanachart estimates

Ex 7: DCC's PE Band



Sources: Company data, Thanachart estimates

Ex 8: 12-month DCF-based TP Calculation Using A Base Year Of 2023F

(Bt m)		2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
EBITDA		2,722	2,838	2,922	3,006	3,090	3,175	3,259	3,343	3,430	3,517	3,604	—
Free cash flow		1,852	1,967	2,044	2,128	2,211	2,295	2,378	2,449	2,521	2,593	2,666	39,953
PV of free cash flow		1,847	1,692	1,608	1,546	1,483	1,421	1,360	1,293	1,179	1,115	1,053	15,784
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	0.7												
WACC (%)	7.8												
Terminal growth (%)	2.0												
Enterprise value - add investments	31,381												
Net debt (2022F)	916												
Minority interest	46												
Equity value	30,419												
# of shares (m)*	9,126												
Target price/share (Bt)	**3.40**												

Sources: Company data, Thanachart estimates; *Note: Using fully-diluted share count

Valuation Comparison

Ex 9: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth		—— PE ——		— P/BV —		EV/EBITDA		— Div yield —	
			22F (%)	23F (%)	22F (x)	23F (x)	22F (x)	23F (x)	22F (x)	23F (x)	22F (%)	23F (%)
Somany Ceramics	SOMC IN	India	19.3	48.4	24.4	24.2	3.6	3.1	13.9	12.6	0.5	0.5
Kajaria Ceramics	KJC IN	India	19.5	29.8	40.5	31.2	7.7	6.7	25.2	20.0	1.1	1.3
Shandong Sinocera	300285 CH	China	32.8	28.1	31.5	24.6	5.0	4.2	23.2	18.0	0.5	0.6
Nichiha Corp	7943 JP	Japan	(3.8)	17.0	10.4	8.9	0.9	0.8	4.5	3.9	3.5	3.9
Norcros	NXR LN	UK	1.6	1.7	5.6	5.5	na	na	3.6	3.4	4.8	4.9
HB Fuller	FUL US	US	22.1	12.1	15.2	13.5	2.0	1.8	9.7	9.0	1.1	1.2
SCG Ceramics	COTTO TB	Thailand	20.0	8.3	16.8	15.5	na	na	7.2	6.6	na	na
Diamond Building	DRT TB	Thailand	(3.7)	9.9	11.4	10.4	2.7	2.5	6.7	5.5	6.1	6.4
Dynasty Ceramic	DCC TB*	Thailand	(8.8)	7.7	16.3	15.1	4.5	4.3	10.3	9.6	5.8	6.3
Average			**11.0**	**18.1**	**19.1**	**16.5**	**3.8**	**3.3**	**11.6**	**9.8**	**2.9**	**3.1**

Source: Bloomberg

Note: * Thanachart estimates, using Thanachart normalized EPS

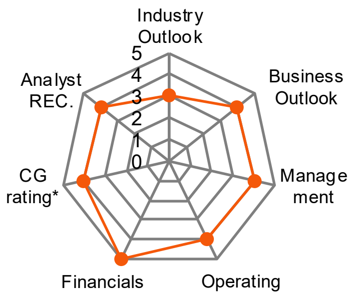
Based on 1-Aug-2022 closing prices

COMPANY DESCRIPTION

Focusing on the upcountry market, Dynasty Ceramic (DCC) manufactures and distributes low-end ceramic tiles under the "Dynasty", "Tomahawk", "Jaguar" "Navar" and “Tile Top” trademarks. In October 2005, DCC took over three major ceramic distributors, allowing the firm to implement its own factory outlet strategy to enlarge its customer base and lessen its dependence on distributors. Registered capital is now 408m shares, with paid-up capital at a par value of Bt1 per share.

Source: Thanachart

COMPANY RATING



Rating Scale	
Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; * CG Rating

THANACHART’S SWOT ANALYSIS

S — Strength

- With high economies of scale, better cost control and no financial leverage, DCC is the lowest-cost producer in Thailand.
- Strong distribution channels also help the company to create barriers to entry in its provincial markets.

W — Weakness

- DCC’s product designs are suited to the provincial market, making it difficult to compete with rivals in Bangkok.

O — Opportunity

- Demand for home repairs in provincial areas is more stable than demand for new housing, thus cushioning demand for DCC’s products.
- Property developers have been moving aggressively into the provincial market, offering DCC more opportunities to sell its products.

T — Threat

- The ceramic tile industry in Thailand is still suffering from an oversupply. Over-expansion could result in fierce competition.
- Volatility in natural gas costs could represent a threat as they comprise more than 30% of total costs.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	3.14	3.40	8%
Net profit 22F (Bt m)	1,707	1,583	-7%
Net profit 23F (Bt m)	1,824	1,706	-7%
Consensus REC	BUY: 6	HOLD: 2	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022-23F earnings are 7% lower than the Bloomberg consensus numbers, which we attribute to us being more conservative on DCC’s sales volume and gross margin.
- Our DCF-based TP is however higher than the Street’s as we are likely more bullish on its long-term growth prospects.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Sustained high oil and gas prices present the major downside risks to our earnings projections.
- DCC’s sales are linked to farm incomes and the economy in provincial areas. Low agricultural prices and a weak recovery of the provincial economy could pose a secondary downside risk to our sales forecasts.

Source: Thanachart

We expect a fall in gas prices to turn earnings around in 2023-24F

Solid balance sheet should let DCC maintain its high payout ratio

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	8,501	8,396	8,337	8,536	8,657
Cost of sales	4,973	4,758	4,849	4,861	4,864
Gross profit	**3,529**	**3,638**	**3,488**	**3,674**	**3,793**
% gross margin	41.5%	43.3%	41.8%	43.0%	43.8%
Selling & administration expenses	1,621	1,582	1,584	1,622	1,645
Operating profit	**1,907**	**2,055**	**1,904**	**2,053**	**2,148**
% operating margin	22.4%	24.5%	22.8%	24.0%	24.8%
Depreciation & amortization	722	673	673	693	713
EBITDA	**2,630**	**2,728**	**2,577**	**2,746**	**2,861**
% EBITDA margin	30.9%	32.5%	30.9%	32.2%	33.1%
Non-operating income	88	85	96	97	112
Non-operating expenses	0	0	0	0	0
Interest expense	(49)	(18)	(17)	(13)	(12)
Pre-tax profit	**1,946**	**2,122**	**1,983**	**2,136**	**2,248**
Income tax	360	419	397	427	450
After-tax profit	**1,586**	**1,704**	**1,586**	**1,709**	**1,799**
% net margin	18.7%	20.3%	19.0%	20.0%	20.8%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	(1)	(3)	(3)	(3)	(3)
Extraordinary items	0	0	0	0	0
NET PROFIT	**1,585**	**1,700**	**1,583**	**1,706**	**1,795**
Normalized profit	**1,585**	**1,700**	**1,583**	**1,706**	**1,795**
EPS (Bt)	0.2	0.2	0.2	0.2	0.2
Normalized EPS (Bt)	0.2	0.2	0.2	0.2	0.2

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	2,305	2,505	2,398	2,407	2,411
Cash & cash equivalent	71	58	100	100	100
Account receivables	144	164	163	166	169
Inventories	2,089	2,273	2,126	2,131	2,132
Others	1	10	10	10	10
Investments & loans	0	0	0	0	0
Net fixed assets	5,879	5,866	5,766	5,646	5,507
Other assets	611	571	558	546	533
Total assets	**8,796**	**8,943**	**8,722**	**8,600**	**8,451**
LIABILITIES:					
Current liabilities:	3,240	2,450	2,233	1,968	1,691
Account payables	786	922	940	942	942
Bank overdraft & ST loans	2,165	1,250	1,016	748	471
Current LT debt	0	0	0	0	0
Others current liabilities	290	278	277	278	278
Total LT debt	**0**	**0**	**0**	**0**	**0**
Others LT liabilities	697	656	662	658	650
Total liabilities	**3,937**	**3,106**	**2,895**	**2,626**	**2,342**
Minority interest	96	43	46	49	53
Preferreds shares	0	0	0	0	0
Paid-up capital	820	913	913	913	913
Share premium	2,260	3,233	3,233	3,233	3,233
Warrants	0	0	0	0	0
Surplus	(1,579)	(1,685)	(1,685)	(1,685)	(1,685)
Retained earnings	**3,261**	**3,333**	**3,320**	**3,464**	**3,596**
Shareholders' equity	4,762	5,794	5,781	5,925	6,057
Liabilities & equity	**8,796**	**8,943**	**8,722**	**8,600**	**8,451**

Sources: Company data, Thanachart estimates

We assume Bt550m of capex a year for store expansion and renovation

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	1,946	2,122	1,983	2,136	2,248
Tax paid	(280)	(423)	(397)	(424)	(447)
Depreciation & amortization	722	673	673	693	713
Chg In working capital	169	(68)	167	(7)	(3)
Chg In other CA & CL / minorities	(73)	(72)	(1)	(3)	(3)
Cash flow from operations	**2,485**	**2,232**	**2,425**	**2,396**	**2,509**
Capex	(573)	(660)	(550)	(550)	(550)
Right of use	(537)	32	(10)	(10)	(10)
ST loans & investments	0	0	0	0	0
LT loans & investments	0	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	569	(34)	7	(6)	(8)
Cash flow from investments	**(541)**	**(661)**	**(553)**	**(566)**	**(568)**
Debt financing	(1,802)	(915)	(234)	(268)	(277)
Capital increase	1,113	1,066	(0)	0	0
Dividends paid	(1,187)	(1,638)	(1,596)	(1,562)	(1,663)
Warrants & other surplus	(115)	(96)	0	0	0
Cash flow from financing	**(1,991)**	**(1,583)**	**(1,830)**	**(1,830)**	**(1,940)**
Free cash flow	**1,912**	**1,572**	**1,875**	**1,846**	**1,959**

2022-24F PEs of 14-16x look inexpensive vs.7-year average of 19.5x

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	14.8	14.8	16.3	15.1	14.3
Normalized PE - at target price (x)	17.8	17.9	19.6	18.2	17.3
PE (x)	14.8	14.8	16.3	15.1	14.3
PE - at target price (x)	17.8	17.9	19.6	18.2	17.3
EV/EBITDA (x)	9.7	9.7	10.3	9.6	9.1
EV/EBITDA - at target price (x)	11.5	11.6	12.4	11.5	11.0
P/BV (x)	5.1	4.4	4.5	4.3	4.2
P/BV - at target price (x)	6.1	5.4	5.4	5.2	5.1
P/CFO (x)	9.4	11.3	10.6	10.7	10.3
Price/sales (x)	3.0	3.1	3.1	3.0	3.0
Dividend yield (%)	5.6	6.6	5.8	6.3	6.6
FCF Yield (%)	8.2	6.2	7.3	7.2	7.6
(Bt)					
Normalized EPS	0.2	0.2	0.2	0.2	0.2
EPS	0.2	0.2	0.2	0.2	0.2
DPS	0.2	0.2	0.2	0.2	0.2
BV/share	0.6	0.6	0.6	0.6	0.7
CFO/share	0.3	0.2	0.3	0.3	0.3
FCF/share	0.2	0.2	0.2	0.2	0.2

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	4.7	(1.2)	(0.7)	2.4	1.4
Net profit (%)	63.0	7.3	(6.9)	7.7	5.2
EPS (%)	54.3	(0.4)	(8.8)	7.7	5.2
Normalized profit (%)	63.0	7.3	(6.9)	7.7	5.2
Normalized EPS (%)	54.3	(0.4)	(8.8)	7.7	5.2
Dividend payout ratio (%)	85.3	99.3	95.0	95.0	95.0
Operating performance					
Gross margin (%)	41.5	43.3	41.8	43.0	43.8
Operating margin (%)	22.4	24.5	22.8	24.0	24.8
EBITDA margin (%)	30.9	32.5	30.9	32.2	33.1
Net margin (%)	18.7	20.3	19.0	20.0	20.8
D/E (incl. minor) (x)	0.4	0.2	0.2	0.1	0.1
Net D/E (incl. minor) (x)	0.4	0.2	0.2	0.1	0.1
Interest coverage - EBIT (x)	39.0	116.4	112.0	155.1	176.3
Interest coverage - EBITDA (x)	53.8	154.6	151.6	207.5	234.8
ROA - using norm profit (%)	18.1	19.2	17.9	19.7	21.1
ROE - using norm profit (%)	39.0	32.2	27.4	29.1	30.0
DuPont					
ROE - using after tax profit (%)	39.0	32.3	27.4	29.2	30.0
- asset turnover (x)	1.0	0.9	0.9	1.0	1.0
- operating margin (%)	23.5	25.5	24.0	25.2	26.1
- leverage (x)	2.2	1.7	1.5	1.5	1.4
- interest burden (%)	97.5	99.2	99.2	99.4	99.5
- tax burden (%)	81.5	80.3	80.0	80.0	80.0
WACC (%)	7.8	7.8	7.8	7.8	7.8
ROIC (%)	21.5	24.1	21.8	24.5	26.1
NOPAT (Bt m)	1,555	1,650	1,523	1,642	1,719
invested capital (Bt m)	6,856	6,986	6,697	6,573	6,428

Despite a tough period, ROEs still high at 27-30%

Sources: Company data, Thanachart estimates

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For sectors, an "Overweight" sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. "Underweight" is used when we have SELLs on majority of the stocks we cover by market cap. "Neutral" is used when there are relatively equal weightings of BUYs and SELLs.

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