Dynasty Ceramic Pcl (DCC TB) - BUY, Price Bt2.80, TP Bt3.40

Results Comment

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Slight earnings beat in 2Q22

- DCC reported normalized earnings of Bt433m in 2Q22, down 5% y-y and 19% q-q. The results were slightly better than what we had expected. A fall in earnings year on year was mainly due to lower sales volume while a drop in earnings quarter on quarter was due to the seasonal effects and lower rental income.
- We maintain a BUY on DCC. Even though the ceramic tile industry in Thailand is mature, the market has already been consolidated, allowing remaining players, including DCC, to pass on its rising costs to customers and sustain its high profitability. Its dividend yield is also high at 6-7% in 2022-24F.
- DCC's revenue in 2Q22 fell 2% y-y. Despite a fall in Its sales volume by 17% y-y in 2Q22, its average selling prices increased 16% y-y.
- Despite a rise in gas prices (40% of the total production costs) by 55% y-y in 2Q22, its gross margin remained at 44% in 2Q22 vs. 44% in 2Q21 due to the selling price hike and higher proportion of high-margin large-sized ceramic tile sales.
- Its SG&A expenses in 2Q22 were flat year on year while other income fell by 26% y-y mainly due to lower rental income from DCC's assistance measure for its tenants.
- DCC announced a dividend payment of Bt0.035 in 2Q22, implying an annualized yield of 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)	2Q21	3Q21	4Q21	1Q22	2Q22
Revenue	2,179	1,834	1,969	2,395	2,126
Gross profit	**950**	**811**	**846**	**1,059**	**929**
SG&A	400	369	382	411	399
Operating profit	550	441	464	649	530
EBITDA	**719**	**610**	**628**	**805**	**688**
Other income	20	19	23	23	15
Other expense	0	0	0	0	0
Interest expense	3	4	4	4	4
Profit before tax	**567**	**457**	**483**	**668**	**542**
Income tax	113	90	95	134	109
Equity & invest. income	0	0	0	0	0
Minority interests	(1)	(0)	(0)	(0)	(0)
Extraordinary items	0	0	0	0	0
Net profit	**453**	**366**	**388**	**534**	**433**
Normalized profit	**453**	**366**	**388**	**534**	**433**
EPS (Bt)	0.05	0.04	0.04	0.06	0.05
Normalized EPS (Bt)	0.05	0.04	0.04	0.06	0.05

Income Statement			6M as		
(Bt m)	q-q%	y-y%	% 2022F	2022F	2023F
Revenue	(11)	(2)	54	8,337	8,536
Gross profit	**(12)**	**(2)**	**57**	**3,488**	**3,674**
SG&A	(3)	(0)	51	1,584	1,622
Operating profit	(18)	(4)	62	1,904	2,053
EBITDA	**(15)**	**(4)**	**58**	**2,577**	**2,746**
Other income	(35)	(26)	40	96	97
Other expense					
Interest expense	1	1	41	17	13
Profit before tax	**(19)**	**(4)**	**61**	**1,983**	**2,136**
Income tax	(19)	(3)	61	397	427
Equity & invest. income					
Minority interests	na	na	13	(3)	(3)
Extraordinary items					
Net profit	**(19)**	**(5)**	**61**	**1,583**	**1,706**
Normalized profit	**(19)**	**(5)**	**61**	**1,583**	**1,706**
EPS (Bt)	(19)	(5)	61	0.17	0.19
Normalized EPS (Bt)	(19)	(5)	61	0.17	0.19

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	2Q21	3Q21	4Q21	1Q22	2Q22
Cash & ST investment	64	57	58	62	65
A/C receivable	180	151	164	218	166
Inventory	2,084	2,248	2,273	2,195	2,413
Other current assets	1	10	10	10	10
Investment	0	0	0	0	0
Fixed assets	5,757	5,670	5,866	5,822	5,775
Other assets	588	580	571	593	610
Total assets	**8,673**	**8,716**	**8,943**	**8,899**	**9,039**
S-T debt	570	1,180	1,250	515	1,100
A/C payable	1,036	760	922	1,347	1,027
Other current liabilities	327	290	278	412	350
L-T debt	0	0	0	0	0
Other liabilities	674	672	656	664	670
Minority interest	99	43	43	43	43
Shareholders' equity	**5,967**	**5,771**	**5,794**	**5,918**	**5,848**
Working capital	1,228	1,639	1,515	1,066	1,552
Total debt	570	1,180	1,250	515	1,100
Net debt	**506**	**1,123**	**1,192**	**453**	**1,035**

Financial Ratios					
(%)	2Q21	3Q21	4Q21	1Q22	2Q22
Sales growth	(8.1)	(11.3)	4.5	(0.8)	(2.4)
Operating profit growth	(0.6)	(10.8)	7.6	8.1	(3.6)
EBITDA growth	(2.2)	(9.8)	3.3	4.5	(4.3)
Norm profit growth	2.2	(11.3)	7.2	8.3	(4.6)
Norm EPS growth	(19.0)	(20.3)	(3.7)	(2.7)	(4.6)
Gross margin	43.6	44.2	43.0	44.2	43.7
Operating margin	25.2	24.1	23.6	27.1	24.9
EBITDA margin	33.0	33.3	31.9	33.6	32.3
Norm net margin	20.8	20.0	19.7	22.3	20.3
D/E (x)	0.1	0.2	0.2	0.1	0.2
Net D/E (x)	0.1	0.2	0.2	0.1	0.2
Interest coverage (x)	205.9	163.4	176.5	230.1	195.1
Interest rate	1.6	1.7	1.2	1.6	1.7
Effective tax rate	19.9	19.7	19.7	20.0	20.1
ROA	21.0	16.9	17.6	24.0	19.3
ROE	33.4	25.0	26.8	36.5	29.4

Sources: Company data, Thanachart estimates

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