



Dental Corporation PCL

D TB Outperform

A reopening play

- D reported a 2Q21 net loss of Bt11mn. The loss was 40% lower than expected by 40% due mainly as revenue was 30% better than expected.
- Net loss fell 25% YoY pressured by GPM erosion to 22.6% from 25.9% in 2Q20.
- Maintain Outperform call with a target price of Bt5.85. We see D as a good reopening play.

Target Price	Bt	5.85
Price (10/08/2021)	Bt	3.80
Upside	%	53.95
Valuation	PE	
Sector	Services	
Market Cap	Btm	1,094
30-day avg turnover	Btm	1.31
No. of shares on issue	m	288
CG Scoring	Good	
Anti-Corruption Indicator	N/A	

Investment fundamentals

Year end Dec 31	2020A	2021E	2022E	2023E
Company Financials				
Revenue (Btmn)	572	490	735	829
Core profit (Btmn)	(8)	(36)	29	50
Net profit (Btmn)	(8)	(36)	29	50
Net EPS (Bt)	(0.03)	(0.12)	0.09	0.15
DPS (Bt)	0.00	0.09	0.03	0.06
BVPS (Bt)	1.99	1.56	1.85	1.94
Net profit growth (%)	n.m.	n.m.	n.m.	0.75
ROA (%)	-0.7%	-3.4%	2.4%	4.3%
ROE (%)	-1.6%	-7.9%	4.6%	7.7%
Net D/E (x)	0.99	1.01	0.48	0.43
Valuation				
P/E (x)	(95.32)	(30.75)	44.55	25.45
P/BV (x)	1.56	2.43	2.06	1.96
EV/EBITDA (x)	26.79	70.48	16.95	13.29
Dividend yield (%)	0.0%	2.4%	0.9%	1.6%

Investment Highlights

- **2Q21 net loss of Bt11mn.** 2Q21 loss was 40% lower than expected mainly on better-than-expected revenue by 30%. Worsened earnings YoY as GPM worsened and there was a tax benefit of Bt2.5mn in 2Q20 vs. a tax expense of Bt0.2mn in 2Q21. The QoQ higher earnings loss was due to a drop in dental service revenue of 30% QoQ (60% of total revenue in 2019). In the short term, we expected earnings to bottom out in 3Q21.
- **Higher revenue could not offset lower profitability.** The 2Q21 earnings loss of Bt11mn worse than a 2Q20 core loss of Bt8mn due to GPM erosion to 22.6% from 25.9% in 2Q20 as a result of lower efficiency as branches fully operated while there were fewer patient visits per month. Moreover, 2Q21 tax expense was back to a 20% corporate tax rate of Bt0.2mn (normal level), which increased from a one-time tax benefit of Bt2.5mn (DTA) despite the fact that D booked 2Q21 better revenue of Bt120mn (+35% YoY). Dental service revenue of Bt61mn rose 33% YoY resulting from the lockdown last year when branches were closed for 1.5 months. Trading business revenue of Bt59mn rose 36% YoY, which was a normal level after reopening.
- **Cash burn rate is manageable.** We estimate cash burn of Bt3mn per month whereas cash on hand was Bt25mn in 2Q21, implying a cushion of three quarters prior to its cash call in 1Q22. However, D's management has two options to avoid an undesirable cash call, which are the exercise of its 40mn units that are in the money and exercisable at the end of each quarter (Bt160mn) and a credit facility of Bt40mn.
- **Expect earnings to bottom out in 3Q21 and recover in 4Q21.** We expect a 3Q21 net loss of Bt14mn due to the government's strict lockdown measures. D's five branches in department stores out of a total of 15 branches were closed. We expect a gradual reopening in 4Q21 as herd immunity occurs. We expect D's 4Q21 earnings to be less loss QoQ. And turn to a profit in 2022.
- **Stock looks attractive at the current level.** The stock at the current level of Bt3.80 looks attractive trading 35% below the IPO price and at a PER of 25.4, which is 3.4SD below its 3-year historical mean and 58% below the peak share price level on September 24, 2018.

D TB rel SET performance



Source: Bloomberg (All figures in THB unless noted.)

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Valuation and Recommendation

- **Maintain Outperform and 2022 target price of Bt5.85.** We maintain our Outperform call and 2022 target price of Bt5.85 based on a PER of 39.2, which is 1SD below its historical mean, which reasonably reflects D's near-term earnings difficulties and uncertainty regarding the timeframe of an economic reopening. We view D as a reopening play as the stock's movement will depend on an improvement in the COVID-19 situation rather than on near-term losses.



Fig 1 2Q21 earnings review

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	%YoY	%QoQ	2020	% YTD 2021E	2021E	% change
Financials												
Sales (Btmn)	152	90	180	151	143	120	34.5	-15.7	572	53.8	490	-14.4
EBITDA (Btmn)	-8	-6	22	-2	2	-7	-10.7	n.m.	45	-24.1	22	-50.7
Operating profit (Btmn)	-8	-6	22	-2	2	-7	-10.7	n.m.	7	n.m.	-19	n.m.
Core profit (Btmn)	-12	-8	17	-5	-2	-11	-36.5	n.m.	-8	n.m.	-36	n.m.
Net profit (Btmn)	-12	-8	17	-5	-2	-11	-36.5	n.m.	-8	n.m.	-36	n.m.
Net EPS (Bt)	-0.05	-0.03	0.07	-0.02	-0.01	-0.04	-11.5	n.m.	-0.03	n.m.	-0.12	n.m.
Performance Drivers												
No. of Patients	19,538	9,886	20,868	19,357	18,444	10,359	4.8	-43.8	69,649	34.6	53,300	-23.5
average spending (Bt)	5,181	4,663	4,002	4,299	4,770	5,941	27.4	24.6	4,509	106.0	4,499	-0.2
Ratios												
							Change **		2020	Avg YTD	2021E	Change
Gross margin (%) **	29.0	25.9	32.3	27.9	28.8	22.6	-3.3	-6.3	29.3	25.7	28.9	-0.3
EBITDA margin (%) **	-5.1	-7.1	12.3	-1.0	1.2	-5.8	1.3	-7.0	7.9	-2.3	4.6	-3.4
Optg. margin (%) **	-5.1	-7.1	12.3	-1.0	1.2	-5.8	1.3	-7.0	1.1	-2.3	-3.9	-5.1
ROE (%) **	-9.9	-7.0	13.8	-3.8	-1.6	-9.7	-2.6	-8.1	-1.6	-5.6	-7.9	-6.3

Source: Company data, KS Research



D TB : Year-end Dec 31

Income Statement (Btmn)	2018A	2019A	2020A	2021E	2022E	2023E	Cashflow (Btmn)	2018A	2019A	2020A	2021E	2022E	2023E
Revenue	643	773	572	490	735	829	Net profit	33	-16	-8	-36	29	50
Cost of sales and services	-439	-554	-405	-348	-511	-572	Depreciation & amortization	35	37	39	42	42	42
Gross Profit	205	219	168	142	224	257	Change in working capital	-22	8	-39	25	0	-19
SG&A	-163	-224	-167	-167	-179	-189	Others	-6	14	15	-1	0	0
Other income	9	9	6	6	6	7	CF from operation activities	40	44	7	30	71	73
EBIT	50	4	7	-19	51	75	Capital expenditure	-357	-139	-10	-37	-37	-37
EBITDA	85	41	45	22	93	117	Investment in subs and affiliates	0	0	0	0	0	0
Interest expense	-8	-16	-18	-17	-15	-13	Others	0	-6	1	0	0	0
Equity earnings	0	0	0	0	0	0	CF from investing activities	-357	-145	-10	-37	-37	-37
EBT	42	-12	-11	-36	36	63	Cash dividend	-38	0	0	-27	-11	-20
Income tax	-9	-3	3	0	-7	-13	Net proceeds from debt	320	107	-46	-17	-81	-66
NPAT	33	-16	-8	-36	29	50	Capital raising	0	0	100	44	144	0
Minority Interest	0	0	0	0	0	0	Others	0	-20	-18	0	0	0
Core Profit	33	-16	-8	-36	29	50	CF from financing activities	282	86	36	0	52	-86
Extraordinary items	0	0	0	0	0	0	Net change in cash	-35	-14	34	-7	85	-50
FX gain (loss)	0	0	0	0	0	0	Key Statistics & Ratios						
Reported net profit	33	-16	-8	-36	29	50	Per share (Bt)						
Balance Sheet (Btmn)							Reported EPS	0.17	-0.08	-0.03	-0.12	0.09	0.15
Cash & equivalents	25	10	44	36	122	71	Core EPS	0.17	-0.08	-0.03	-0.12	0.09	0.15
ST investments	0	0	0	0	0	0	DPS	0.09	0.00	0.00	0.09	0.03	0.06
Accounts receivable	106	99	107	91	98	110	BV	2.03	1.95	1.99	1.56	1.85	1.94
Inventories	171	184	155	134	164	184	EV	9.03	5.92	5.07	5.37	4.68	4.63
Other current assets	0	0	0	0	0	0	Free Cash Flow	-1.59	-0.48	-0.01	-0.02	0.10	0.11
Total current assets	302	293	306	261	383	365	Valuation analysis						
Investment in subs & others	0	0	0	0	0	0	Reported P/E (x)	41.97	-41.96	-95.32	-30.75	44.55	25.45
Fixed assets-net	520	646	649	645	640	635	Core P/E (x)	41.97	-41.96	-95.32	-30.75	44.55	25.45
Other assets	122	137	167	168	169	169	P/BV (x)	3.47	1.68	1.56	2.43	2.06	1.96
Total assets	944	1,076	1,122	1,074	1,192	1,170	EV/EBITDA (x)	21.25	28.71	26.79	70.48	16.95	13.29
Short-term debt	84	271	115	120	124	128	Price/Cash flow (x)	-4.43	-6.85	-236.10	-155.05	37.82	35.80
Accounts payable	110	129	84	73	110	124	Dividend yield (%)	1.3%	0.0%	0.0%	2.4%	0.9%	1.6%
Total current liabilities	194	400	199	193	235	251	Profitability ratios						
Long-term debt	342	269	402	379	293	223	Gross margin (%)	31.8%	28.4%	29.3%	28.9%	30.5%	31.0%
Other liabilities	-55	176	19	-42	-25	3	EBITDA margin (%)	13.2%	5.3%	7.9%	4.6%	12.6%	14.1%
Total liabilities	539	687	644	615	572	519	EBIT margin (%)	7.8%	0.5%	1.1%	-3.9%	6.9%	9.1%
Paid-up capital	100	100	120	147	168	168	Net profit margin (%)	5.2%	-2.0%	-1.4%	-7.4%	3.9%	6.1%
Share premium	265	265	345	362	485	485	ROA (%)	3.5%	-1.4%	-0.7%	-3.4%	2.4%	4.3%
Retained earnings	40	24	13	-50	-33	-3	ROE (%)	8.3%	-4.0%	-1.6%	-7.9%	4.6%	7.7%
Minority interests	0	0	0	0	0	0	Liquidity ratios						
Total shareholders' equity	405	389	478	459	620	650	Current ratio (x)	1.56	0.73	1.54	1.35	1.63	1.45
Total equity & liabilities	944	1,076	1,122	1,074	1,192	1,170	Quick ratio (x)	0.68	0.27	0.76	0.66	0.94	0.72
Key Assumptions							Leverage Ratios						
Dental Service Business							Liabilities/Equity ratio (x)	1.33	1.77	1.35	1.34	0.92	0.80
Patient	96,928	93,240	69,649	53,300	94,000	103,000	Net debt/EBITDA (x)	4.72	12.85	10.42	20.64	3.19	2.38
-Thai	60,112	60,302	52,106	42,200	66,000	70,000	Net debt/equity (x)	0.99	1.36	0.99	1.01	0.48	0.43
-International	36,816	32,938	17,543	11,100	28,000	33,000	Int. coverage ratio (x)	6.26	0.25	0.37	-1.13	3.35	5.95
Growth							Revenue (%)	39.9%	20.2%	-25.9%	-14.4%	50.1%	12.7%
Spending per head	5,188	4,944	4,509	4,499	4,897	5,107	EBITDA (%)	-3.3%	-51.5%	10.2%	-50.7%	313.8%	26.2%
-Thai	3,756	3,735	4,136	4,136	4,136	4,136	Reported net profit (%)	-27.4%	n.m.	n.m.	n.m.	n.m.	75.1%
-International	7,605	7,168	5,678	5,877	6,691	7,168	Reported EPS (%)	-27.4%	n.m.	n.m.	n.m.	n.m.	75.1%
Trading Business							Core profit (%)	-27.4%	n.m.	n.m.	n.m.	n.m.	75.1%
Revenue Growth (%)	n.a.	139.0%	-25.4%	1.7%	10.0%	10.0%	Core EPS (%)	-27.4%	n.m.	n.m.	n.m.	n.m.	75.1%

Source: Company, KS estimates



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