



Dental Corporation PCL

D TB Outperform

Target Price Bt 8.93

Price (09/01/2023) Bt 6.45

Upside % 38.44

Valuation PE

Sector Services

Market Cap Btm 1,947

30-day avg turnover Btm 8.29

No. of shares on issue m 302

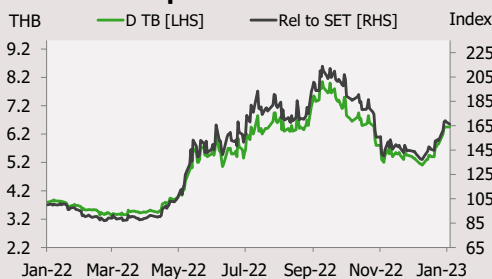
CG Scoring Good

Anti-Corruption Indicator N/A

Investment fundamentals

Year end Dec 31	2021A	2022E	2023E	2024E
Company Financials				
Revenue (Btmn)	529	798	862	951
Core profit (Btmn)	(24)	57	67	71
Net profit (Btmn)	(24)	58	67	71
Net EPS (Bt)	(0.08)	0.17	0.20	0.21
DPS (Bt)	0.01	0.07	0.08	0.08
BVPS (Bt)	1.57	1.99	2.11	2.24
Net profit growth (%)	n.m.	n.m.	17%	6%
ROA (%)	-2.1%	4.6%	5.3%	5.5%
ROE (%)	-5.3%	8.6%	9.5%	9.4%
Net D/E (x)	1.05	0.47	0.37	0.28
Valuation				
P/E (x)	(47.58)	41.96	35.94	34.06
P/BV (x)	2.50	3.61	3.41	3.21
EV/EBITDA (x)	60.38	23.65	22.93	21.84
Dividend yield (%)	0.2%	1.0%	1.1%	1.2%

D TB rel. SET performance



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

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Positive earnings momentum to continue

- Expect a 4Q22 core profit of Bt16.8mn (+1.1% QoQ and turn positive from 4Q21) and 2H22 DPS of Bt0.04 (81% payout ratio, 1.1% dividend yield).
- Positive 2023 outlook on the back of 1) China reopening; 2) 10% service price increase; and 3) likely recovery of trading business NPM.
- OP and raise TP to Bt8.93 to reflect 1) roll forward valuation; 2) ongoing return of foreign patients; and 3) leverage of dental operating rooms.

Investment Highlights

- **Event.** On Jan. 9, we talked with D's CFO, Mr. Nattasit Surapanpairroj, to obtain an update on the company's operations. Key takeaways were: 1) the number of foreign patients expected to increase 10% QoQ in 4Q22; 2) 2023 net profit margin estimate of 8% maintained; 3) an extra gain of Bt1mn from relocating a clinic to second floor of Siam Paragon; 4) a positive contribution from trading business from the THB; and 5) an announced 10% increase in service charge from 4Q22 onward.
- **4Q22 preview.** D is scheduled to post its 4Q22 financial statement on Feb. 28. We expect D to report a 4Q22 core profit of Bt16.8mn, excluding a one-off item of Bt1mn, which represents a turn from a 4Q21 net loss of Bt7mn, and up 1.1% QoQ. The YoY earnings turnaround should be driven by economic reopening, which boosted the number of patients from 18,250 in 4Q21 to 21,539 in 4Q22, along with an increase in average spending from Bt5,106mn in 4Q21 to Bt7,069mn in 4Q22. We expect D to declare a final DPS of Bt0.04, implying 41% of 2H22E net profit and an annualized dividend yield of 1.1%.
- **Operation.** We expect 4Q22 revenue to grow by 63.5% YoY and 9.7% QoQ to Bt232mn. We assume 21,539 patients in 4Q22 (+18% YoY, +5% QoQ) and spending per patient of Bt7,069 (+38% YoY, +1% QoQ) stemming from a 10% increase in the number of foreign patients and a utilization rate of 31%. As a result, service revenue should expand by 61% YoY and 6% QoQ to Bt152mn.
- **Outlook.** We have a positive view of D's performance in 2023 for three main reasons. First, we believe D will benefit from China's reopening, as Chinese patients accounted for 12% of 2023 total foreign patients (vs. 30% before the COVID-19 outbreak). Second, D's plan to increase its service charge by 10% to cope with rising variable costs resulting from inflation, i.e., dental equipment, etc. will enable it to obtain more revenue from an increase in the number of patients. We expect this will eventually boost sales along with its net profit margin target of 8%. Third, D will benefit from the THB appreciation as the profit margin of the trading business is expected to recover.
- **Revision.** To reflect our 4Q22 earnings forecast and positive 2023 outlook, we raise our 2022/23 net profit forecasts by 10%/11%, or from Bt52mn/Bt61mn, to Bt57mn/Bt67mn. We maintain our 2024 net profit projection, which is in line with management guidance.
- **Stock performance.** The stock surged by 83% in 2022, outperforming the MAI's increase of 12.22%. D is currently trading at 2022/2023/2024 PERs of 41.9x/35.9x/34.1x.

Valuation and Recommendation

- **Outperform.** We maintain our Outperform rating on D and raise our end-2023 target price to Bt8.93 from Bt8.75 as we roll forward our valuation base period to end-2023, as well as to reflect an ongoing return of foreign patients and existing leverage of dental operating rooms. We foresee upside risk to our 2023 earnings



projections from 1) China's reopening; 2) pricing power; and 3) lower FX volatility. Re-rating catalysts include 1) a stronger-than-expected return of foreign patients; 2) a quicker-than-expected increase in service charge; and 3) a faster-than-expected increase in utilization rate of BDIH. We derive our target price based on the PER valuation. We peg our PER at 44.6x, which is the stock's 4-year historical mean.

- **Risks** to our Outperform call are 1) intense price competition; 2) a strong THB depreciation; and 3) a slower-than-expected return of foreign patients.

Fig 1 4Q22 preview

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22E	%YoY	%QoQ	2021	2022E
Financials												
Sales (Btmn)	142.9	120.5	123.6	142.0	168	188	212	232	63.5	9.7	529.0	797.8
EBITDA (Btmn)	11.1	2.5	9.7	4.9	23.5	30.6	33.4	36.0	631.9	7.6	26.6	115.5
Operating profit (Btmn)	1.6	-7.0	0.2	-4.6	14.2	18.6	23.4	26.0	n.m.	10.9	-9.2	87.5
Core profit (Btmn)	-1.9	-11.2	-4.1	-7.0	7.9	15.3	16.6	16.8	n.m.	1.1	-23.7	56.7
Net profit (Btmn)	-1.9	-11.2	-4.1	-7.0	7.9	15.3	16.6	17.8	n.m.	7.1	-23.7	57.7
Net EPS (Bt)	-0.0	-0.0	-0.0	-0.0	0.0	0.05	0.05	0.05	n.m.	7.1	-0.1	0.2
Performance Drivers												
Revenue from service (Btmn)	88	61	57	95	111	130	144	152	60.9	5.9	301	537
No. of Patients	15,435	10,479	9,885	18,250	17,203	19,139	20,476	21,539	18.0	5.2	54,049	78,056
average spending (Bt)	5,700	5,860	5,900	5,106	6,383	6,704	7,023	7,069	38.4	0.7	4,472	6,594
Revenue from trading (Btmn)	55	59	67	47	55	58	68	80	68.6	17.8	228	261
Ratios												
Gross margin (%)	28.8	22.6	26.3	25.1	31.8	33.0	32.8	31.7	6.6	-1.2	25.9	32.4
EBITDA margin (%)	7.8	2.0	7.9	3.5	14.0	16.3	15.8	15.5	12.0	-0.3	5.0	14.5
Optg. margin (%)	1.2	-5.8	0.2	-3.2	8.5	9.9	11.1	11.2	n.m.	0.1	-1.7	11.0
ROE (%)	-1.6	-9.7	-3.7	-6.4	6.3	11.8	12.6	13.5	n.m.	0.9	-5.3	8.6

Source: Company data, KS Research

Fig 2 Utilization rate

	Dental Corporation							LDC (Peer)	
	Pre-Covid 2019	2021	1Q22	2Q22	3Q22	4Q22E	2022E	2019	2021
Service Capacity (times)	294840	294840	69660	69660	69660	69660	278640	437400	377037
Patient Visits	93240	54049	17203	19139	20476	21539	78056	198129	110344
Utilization Rate (%)	32%	18%	25%	27%	29%	31%	28%	45%	29%
Total Operating Rooms	91	91	86	86	86	86	86	135	119
Ann. Revenues/room (Btmn)	5.1	3.3	5.2	6.0	6.7	7.1	6.2	3.7	2.9
rate (higher=better)	16	18	21	22	23	23	22	8	10

Source: Company Data, KS Research



Fig 3 Earnings revisions

Unit: Btmn. Profit and loss statements	2022E			2023E			2024E		
	New	Previous	%Change	New	Previous	%Change	New	Previous	%Change
Financials									
Sales (Btmn)	798	743	7.3	862	862	0.0	951	951	0.0
Gross Margin (Btmn)	258	245	5.5	295	287	2.8	319	319	0.0
EBITDA (Btmn)	116	99	16.8	117	109	7.4	120	120	0.0
Operating profit (Btmn)	88	79	10.9	97	89	9.1	100	100	0.0
Core profit (Btmn)	57	52	8.8	67	61	10.7	71	71	0.0
Net profit (Btmn)	58	52	10.8	67	61	10.7	71	71	0.0
Net EPS (Bt)	0.2	0.2	10.8	0.2	0.2	10.7	0.2	0.2	0.0
Performance Drivers									
Revenue from service (Btmn)	537	515	4.1	612	612	0.0	675	675	0.0
No. of Patients	78056	78197	-0.2	96509	96509	0.0	103235	103235	0.0
average spending (Bt)	6594	6592	0.0	6337	6337	0.0	6541	6541	0.0
Revenue from trading (Btmn)	261	228	14.5	251	251	0.0	276	276	0.0
Financials									
Sales (%)	100%	100%	0.00	100%	100%	0.00	100%	100%	0.00
Gross Margin (%)	32.4%	32.9%	-0.55	34.2%	33.3%	0.94	33.5%	33.5%	0.00
EBITDA Margin (%)	14.5%	13.3%	1.18	13.6%	12.6%	0.94	12.7%	12.7%	0.00
Operating profit Margin (%)	11.0%	10.6%	0.36	11.2%	10.3%	0.94	10.6%	10.6%	0.00
Core profit Margin (%)	7.1%	7.0%	0.10	7.8%	7.1%	0.75	7.5%	7.5%	0.00
Net profit Margin (%)	7.2%	7.0%	0.22	7.8%	7.1%	0.75	7.5%	7.5%	0.00

Source: Company, KS Research


D TB : Year-end Dec 31

Income Statement (Btmn)	2020A	2021A	2022E	2023E	2024E	Cashflow (Btmn)	2020A	2021A	2022E	2023E	2024E
Revenue	572	529	798	862	951	Net profit	-8	-24	58	67	71
Cost of sales and services	-405	-384	-539	-567	-632	Depreciation & amortization	39	36	28	20	20
Gross Profit	168	145	258	295	319	Change in working capital	-39	2	-12	24	26
SG&A	-167	-152	-177	-205	-226	Others	15	21	-2	0	0
Other income	6	6	6	7	8	CF from operation activities	7	34	71	112	117
EBIT	7	-1	88	97	100	Capital expenditure	-10	-15	-37	-37	-37
EBITDA	45	35	116	117	120	Investment in subs and affiliates	0	0	0	0	0
Interest expense	-18	-16	-15	-13	-12	Others	1	3	0	0	0
Equity earnings	0	0	0	0	0	CF from investing activities	-10	-13	-37	-37	-37
EBT	-11	-17	72	84	89	Cash dividend	0	-3	-23	-27	-28
Income tax	3	1	-14	-17	-18	Net proceeds from debt	-46	-12	-111	-36	-31
NPAT	-8	-24	58	67	71	Capital raising	100	0	160	0	0
Minority Interest	0	0	0	0	0	Others	-18	-14	0	0	0
Core Profit	-8	-24	57	67	71	CF from financing activities	36	-29	25	-63	-59
Extraordinary items	0	0	0	0	0	Net change in cash	34	-7	59	12	20
FX gain (loss)	0	0	1	0	0	Key Statistics & Ratios					
Reported net profit	-8	-24	58	67	71	Per share (Bt)					
Balance Sheet (Btmn)						Reported EPS	-0.03	-0.08	0.17	0.20	0.21
Cash & equivalents	44	37	96	108	128	Core EPS	-0.03	-0.08	0.17	0.20	0.21
ST investments	0	0	0	0	0	DPS	0.00	0.01	0.07	0.08	0.08
Accounts receivable	107	116	125	117	119	BV	1.99	1.57	1.99	2.11	2.24
Inventories	155	144	193	183	171	EV	7.14	5.57	8.13	7.98	7.83
Other current assets	0	0	0	0	0	Free Cash Flow	-0.01	0.07	0.10	0.22	0.24
Total current assets	306	297	414	407	418	Valuation analysis					
Investment in subs & others	0	0	0	0	0	Reported P/E (x)	-114.38	-47.58	41.96	35.94	34.06
Fixed assets-net	649	642	654	671	688	Core P/E (x)	-114.38	-47.58	42.70	35.94	34.06
Other assets	167	170	169	169	170	P/BV (x)	1.87	2.50	3.61	3.41	3.21
Total assets	1,122	1,108	1,257	1,268	1,297	EV/EBITDA (x)	37.70	60.38	23.65	22.93	21.84
Short-term debt	115	133	124	128	132	Price/Cash flow (x)	-283.32	58.89	71.09	32.37	30.37
Accounts payable	84	92	135	142	158	Dividend yield (%)	0.0%	0.2%	1.0%	1.1%	1.2%
Total current liabilities	199	225	259	270	290	Profitability ratios					
Long-term debt	402	379	284	243	208	Gross margin (%)	29.3%	25.9%	32.4%	34.2%	33.5%
Other liabilities	30	-50	4	11	-208	EBITDA margin (%)	7.9%	5.0%	14.5%	13.6%	12.7%
Total liabilities	644	657	587	558	544	EBIT margin (%)	1.1%	-1.7%	11.0%	11.2%	10.6%
Paid-up capital	120	144	168	168	168	Net profit margin (%)	-1.4%	-4.5%	7.2%	7.8%	7.5%
Share premium	345	345	481	481	481	ROA (%)	-0.7%	-2.1%	4.6%	5.3%	5.5%
Retained earnings	13	-38	21	61	104	ROE (%)	-1.6%	-5.3%	8.6%	9.5%	9.4%
Minority interests	0	0	0	0	0	Liquidity ratios					
Total shareholders' equity	478	451	670	710	753	Current ratio (x)	1.54	1.32	1.60	1.51	1.44
Total equity & liabilities	1,122	1,108	1,257	1,269	1,297	Quick ratio (x)	0.76	0.68	0.85	0.83	0.85
Key Assumptions						Leverage Ratios					
Dental Service Business						Liabilities/Equity ratio (x)	1.35	1.46	0.88	0.79	0.72
Patient	69,649	54,049	78,056	96,509	103,235	Net debt/EBITDA (x)	10.42	17.87	2.70	2.25	1.75
-Thai	52,106	43,605	52,359	61,750	65,000	Net debt/equity (x)	0.99	1.05	0.47	0.37	0.28
-International	17,543	10,444	25,697	34,759	38,235	Int. coverage ratio (x)	0.37	-0.58	5.67	7.54	8.61
Spending per head	4,509	4,472	6,594	6,337	6,541	Growth					
-Thai	4,136	4,136	5,341	4,926	4,926	Revenue (%)	-25.9%	-7.6%	50.8%	8.1%	10.3%
-International	5,678	5,877	9,146	8,844	9,286	EBITDA (%)	10.2%	-41.6%	334.9%	1.3%	2.9%
Trading Business						Reported net profit (%)	n.m.	n.m.	n.m.	16.7%	5.5%
Revenue Growth (%)	-25.4%	1.7%	10.0%	10.0%	10.0%	Reported EPS (%)	n.m.	n.m.	n.m.	16.7%	5.5%
						Core profit (%)	n.m.	n.m.	n.m.	18.8%	5.5%
						Core EPS (%)	n.m.	n.m.	n.m.	18.8%	5.5%

Source: Company, KS estimates



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