



# Dental Corporation PCL

D TB Outperform

## 2Q23 earnings above forecast

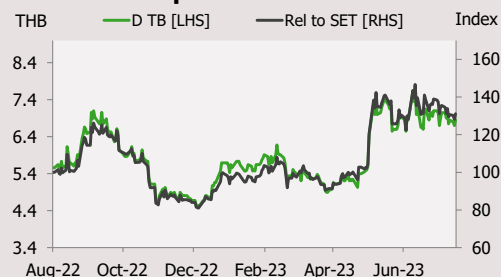
- ▶ **2Q23 net profit of Bt17.7mn (+15.7% YoY -34.9% QoQ) beat our preview by 7.3% on a robust dental service and dental trading business.**
- ▶ **2H23 earnings should be higher HoH as Q4 is normally the high season for tourist arrivals.**
- ▶ **Maintain Outperform rating and TP of Bt10.71. Rerating catalysts could be a stronger-than-expected number of foreign and Thai patients.**

Target Price	Bt	10.71
Price (10/08/2023)	Bt	6.45
Upside	%	66.05
Valuation	PER	
Sector	Services	
Market Cap	Btm	2,207
30-day avg turnover	Btm	19.77
No. of shares on issue	m	342
CG Scoring (IOD-Y2022)	Good	
Anti-Corruption Indicator	N/A	

### Investment fundamentals

Year end Dec 31	2022A	2023E	2024E	2025E
<b>Company Financials</b>				
Revenue (Btmn)	815	958	1,100	1,263
Core profit (Btmn)	51	86	102	120
Net profit (Btmn)	58	86	102	120
Net EPS (Bt)	0.19	0.25	0.30	0.35
DPS (Bt)	0.06	0.10	0.12	0.14
BVPS (Bt)	1.78	1.83	2.01	2.22
Net profit growth (%)	n.m.	49%	19%	18%
ROA (%)	5.1%	7.5%	8.8%	10.2%
ROE (%)	10.7%	13.6%	14.7%	15.8%
Net D/E (x)	0.70	0.46	0.35	0.26
<b>Valuation</b>				
P/E (x)	33.61	42.79	36.08	30.53
P/BV (x)	3.60	5.84	5.32	4.82
EV/EBITDA (x)	21.68	27.63	23.94	20.97
Dividend yield (%)	0.9%	0.9%	1.1%	1.3%

### D TB rel. SET performance



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

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### Investment Highlights

- ▶ **2Q23 review.** On August 10, D reported a 2Q23 net profit of Bt17.7mn, up 15.7% YoY due to robust dental service revenue and dental trading business but down 34.9% QoQ due to the low season in Q2. Net profit was 7.3% above our preview due to higher-than-expected revenue and GPM of the dental service business. 1H23 net profit represents 52.5% of our forecast of Bt86mn. D declared a 1H23 DPS of Bt0.06, implying a payout of 46% and an annualized dividend yield of 0.9%. XD is on Aug 24. D will hold an Opportunity Day meeting on September 13.
- ▶ **Operation.** D reported 2Q23 revenue of Bt242mn, up 0.2% QoQ and 29% YoY. Service revenue rose 20% YoY to Bt156mn led by a recovery of foreign patients (8.5k patients, +38.4% YoY) along with a 10% service price increase. However, Thai patients decreased 4.4% QoQ and 2.0% YoY to 12.7k patients due to lower consumer spending that resulted from a slowdown of domestic consumption. Effective spending per visit in 2Q23 was Bt7340, an increase of 10% YoY but down 7% QoQ. Dental trading business increased 49% YoY to Bt86mn resulting from demand from dental institutes and university dentistry labs. D generated a gross margin of 34% vs. 37% in 1Q23 and 33% in 2Q22 due to a higher revenue mix from the dental trading business and was 100bps above with our preview. SG&A expense to sales increased to 24% vs. 23% in 1Q22 and 24% in 2Q22 due to higher sales commissions and an increase in advertising expense. As a result, 2Q23 net profit margin came in at 7%, which was 7.3% above our preview. The cash conversion cycle was 79 days vs. 63 days in 1Q23 and 100 days in 2Q22.
- ▶ **Outlook.** Our 1H23 net profit forecast represents 52.5% of our 2023 net profit projection of Bt86mn. Despite an expected earnings slowdown in 2Q23 QoQ, we expect 2H23 earnings to come in higher HoH as Q4 is normally the peak period for D as it is the high season for tourist arrivals and as a higher number of Chinese tourists are expected on an increasing number of flights after the Thailand new government is expected to ease visa constraints. Note that Chinese patients account for 15% of D's total foreign patients YTD vs. 20% in the pre-COVID-19 period. The company plans to increase traffic by offering sales promotions for dental implants targeting middle-income tourists. We expect the number of patients this year will exceed the pre-COVID-19 level of 94.9k vs. 93.2k in 2019. As such, we estimate D's 2023 net profit to grow by 49% YoY.
- ▶ **Share price performance.** On a YTD basis, the stock has risen 22.04% vs. the SET's decline of 8.41%. The stock is currently trading at a 2023 PER of 42.8x, below its 4-year historical mean of 44.6x.

### Valuation and Recommendation

- ▶ **Outperform.** We maintain our Outperform call on D with a mid-2024 target price of Bt10.71. We derive our target price using the PER methodology. Our target price is pegged to a mid-2024-25 EPS forecast of Bt0.32 and a forward PER of 33x, which is 2SD below D's 4-year historical average. We forecast D will deliver a 3-year core earnings CAGR of 33%. Potential rerating catalysts include 1) a stronger-than-expected recovery of foreign and Thai patients.
- ▶ **Risks** to our Outperform call are 1) a lower-than-expected number of foreign patients; 2) unfavorable changes to travel restrictions.



Fig 1 2Q23 performance review

	1Q19	2Q19	3Q19	4Q19	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	% YoY	% QoQ	2Q23E	% Var	2019	2022	2023E	% YTD
Service	114	103	121	122	111	130	144	160	180	156	20.3%	-13.5%	153	1.9%	461	545	674	49.8%
Sale	82	98	73	59	55	58	68	89	62	86	48.5%	40.3%	70	23.7%	312	270	284	52.2%
<b>Revenue</b>	<b>197</b>	<b>201</b>	<b>194</b>	<b>181</b>	<b>166</b>	<b>188</b>	<b>212</b>	<b>249</b>	<b>242</b>	<b>242</b>	<b>29.0%</b>	<b>0.2%</b>	<b>223</b>	<b>8.8%</b>	<b>773</b>	<b>815</b>	<b>958</b>	<b>50.5%</b>
Service	77	71	77	85	73	82	88	96	110	95	15.3%	-13.6%	98	-3.3%	310	339	425	48.1%
Sale	64	73	61	46	40	44	54	71	44	66	51.9%	50.9%	52	26.8%	244	209	206	53.7%
<b>COGS</b>	<b>142</b>	<b>144</b>	<b>137</b>	<b>131</b>	<b>113</b>	<b>126</b>	<b>142</b>	<b>167</b>	<b>153</b>	<b>161</b>	<b>28.0%</b>	<b>5.3%</b>	<b>150</b>	<b>7.2%</b>	<b>554</b>	<b>548</b>	<b>630</b>	<b>49.8%</b>
Service	37	33	45	37	38	48	56	64	71	61	28.8%	-13.3%	55	11.1%	151	205	249	52.8%
Sale	18	25	12	13	15	15	14	18	18	20	37.9%	13.6%	17	14.5%	68	61	78	48.2%
<b>Gross profit</b>	<b>55</b>	<b>58</b>	<b>57</b>	<b>50</b>	<b>53</b>	<b>62</b>	<b>70</b>	<b>82</b>	<b>89</b>	<b>81</b>	<b>31.0%</b>	<b>-8.4%</b>	<b>73</b>	<b>12.0%</b>	<b>219</b>	<b>267</b>	<b>327</b>	<b>51.9%</b>
SG&A	50	53	55	65	42	44	50	62	55	59	33.3%	7.8%	52	14.2%	224	198	220	51.5%
<b>Operating profit</b>	<b>5</b>	<b>5</b>	<b>1</b>	<b>-15</b>	<b>11</b>	<b>18</b>	<b>20</b>	<b>20</b>	<b>34</b>	<b>22</b>	<b>25.3%</b>	<b>-34.4%</b>	<b>21</b>	<b>6.6%</b>	<b>-5</b>	<b>69</b>	<b>107</b>	<b>52.7%</b>
Other income	3	4	1	1	3	1	3	8	3	5	623.4%	59.4%	3	72.0%	9	15	14	60.0%
EBIT	7	9	3	-14	14	19	23	28	37	28	48.3%	-26.3%	24	14.8%	4	84	121	53.6%
D&A exp	8	8	10	10	9	9	9	9	9	10	2.6%	4.6%	9	6.6%	37	37	36	52.1%
EBITDA	16	17	13	-4	24	28	33	37	47	37	33.0%	-20.2%	33	12.6%	41	121	157	53.2%
Interest exp	2	3	5	6	4	3	4	4	4	5	36.2%	6.3%	3	36.2%	16	15	14	62.4%
EBT	5	6	-3	-20	10	15	20	24	33	23	51.0%	-30.5%	21	11.4%	-12	69	107	52.4%
Tax charge	1	2	1	0	2	0	3	6	6	5	n.a.	-10.0%	4	27.8%	3	11	21	52.0%
Minority interest	0	0	0	0	0	0	0	0	0	0	n.a.	n.a.	0	n.a.	0	0	0	n.a.
<b>Net profit</b>	<b>4</b>	<b>4</b>	<b>-4</b>	<b>-20</b>	<b>8</b>	<b>15</b>	<b>17</b>	<b>18</b>	<b>27</b>	<b>18</b>	<b>15.7%</b>	<b>-34.9%</b>	<b>17</b>	<b>7.3%</b>	<b>-16</b>	<b>58</b>	<b>86</b>	<b>52.5%</b>
Extra items	0.00	0.00	0.00	0.00	1.00	0.00	0.00	5.00	0.00	0.00	n.a.	n.a.	0.00	n.a.	0	7	0	n.a.
<b>Core profit</b>	<b>4</b>	<b>4</b>	<b>-4</b>	<b>-20</b>	<b>7</b>	<b>15</b>	<b>17</b>	<b>13</b>	<b>27</b>	<b>18</b>	<b>15.7%</b>	<b>-34.9%</b>	<b>17</b>	<b>7.3%</b>	<b>-16</b>	<b>51</b>	<b>86</b>	<b>52.5%</b>
FD core EPS (Bt)	0.01	0.01	-0.01	-0.06	0.02	0.04	0.05	0.04	0.08	0.05	15.7%	-34.9%	0.05	7.3%	-0.05	0.17	0.28	46.3%
FD DPS (Bt)	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.06	0.00	0.06	n.a.	n.a.	0.00	n.a.	0.00	0.06	0.10	59.9%
<b>Key financial ratios (%)</b>																		
GPM	28%	29%	29%	28%	32%	33%	33%	33%	37%	34%	1%	-3%	33%	1%	28%	33%	34%	34%
GPM (Service)	32%	32%	37%	30%	34%	37%	39%	40%	39%	39%	3%	0%	36%	3%	33%	38%	37%	39%
GPM (Sale)	22%	26%	16%	22%	27%	25%	21%	20%	29%	23%	-2%	-5%	25%	-2%	22%	23%	28%	23%
SG&A to sales	26%	26%	29%	36%	25%	24%	23%	25%	23%	24%	1%	2%	23%	1%	29%	24%	23%	24%
OPM	2%	3%	1%	-8%	7%	10%	9%	8%	14%	9%	0%	-5%	9%	0%	-1%	8%	11%	9%
CPM	2%	2%	-2%	-11%	4%	8%	8%	5%	11%	7%	-1%	-4%	7%	0%	-2%	6%	9%	7%

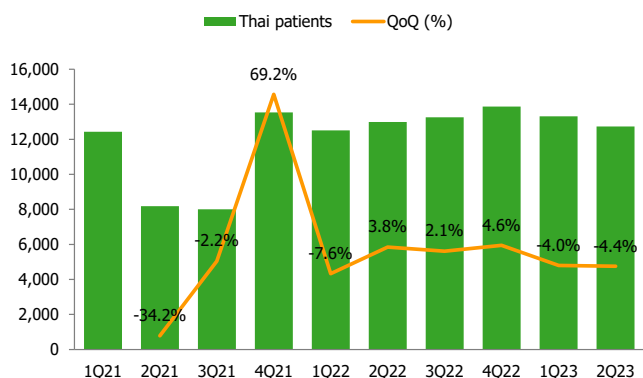
Source: Company, KS Research

Fig 2 Performance breakdown

	1Q19	2Q19	3Q19	4Q19	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	% YoY	% QoQ	2Q23E	% Var	2019	2022	2023E	% YTD
<b>Performance drivers</b>																		
Revenue from service (Btmn)	114	103	121	122	111	130	144	160	180	156	20.3%	-13.5%	153	1.9%	461	545	674	49.8%
Rev from Thai patients	55	49	60	61	67	72	77	73	73	66	-8.3%	-10.4%	64	2.2%	225	288	334	41.5%
Rev from Foreign patients	59	54	61	61	43	57	67	87	107	90	59.0%	-15.6%	89	1.7%	236	254	340	58.0%
No of patients	22,698	21,736	24,292	24,514	17,203	19,139	20,476	22,276	22,842	21,239	11.0%	-7.0%	18,939	12.1%	93,240	79,094	94,928	46.4%
Thai patients	14,617	14,115	15,698	15,872	12,512	12,988	13,259	13,870	13,311	12,729	-2.0%	-4.4%	11,314	12.5%	60,302	52,629	60,523	43.0%
Foreign patients	8,081	7,621	8,594	8,642	4,691	6,151	7,217	8,406	9,531	8,510	38.4%	-10.7%	7,625	11.6%	32,938	26,465	34,405	52.4%
Average spending (Bt)	5,040	4,761	4,989	4,971	6,383	6,704	7,023	7,174	7,889	7,340	9.5%	-7.0%	8,076	-9.1%	4,944	6,849	7,103	214.4%
Revenue from trading (Btmn)	82	98	73	59	55	58	68	89	62	86	48.5%	40.3%	70	23.7%	312	270	284	52.2%
<b>Key financial ratios (%)</b>																		
GPM (Service)	32%	32%	37%	30%	34%	37%	39%	40%	39%	39%	3%	0%	36%	3.3%	33%	38%	37%	39%
GPM (Sale)	22%	26%	16%	22%	27%	25%	21%	20%	29%	23%	-2%	-5%	25%	-1.9%	22%	23%	28%	23%
GPM	28%	29%	29%	28%	32%	33%	33%	33%	37%	34%	1%	-3%	33%	1.0%	28%	33%	34%	34%

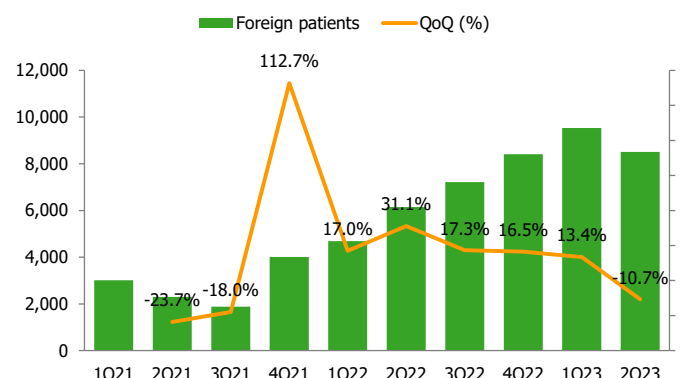
Source: Company, KS Research

Fig 3 Number of Thai patients



Source: Company, KS Research

Fig 4 Number of foreign patients



Source: Company, KS Research



Fig 5 Working capital breakdown

Btmn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
A/R	116	148	111	99	75	82	90	107	108	119	125	116	132	154	142	123	103	121
INV	188	173	182	184	184	192	177	155	166	175	158	144	153	175	172	161	194	201
A/P	105	121	138	129	102	86	90	84	103	87	81	92	109	140	126	104	155	142
<b>Net WC</b>	<b>199</b>	<b>200</b>	<b>155</b>	<b>154</b>	<b>157</b>	<b>188</b>	<b>177</b>	<b>178</b>	<b>171</b>	<b>207</b>	<b>202</b>	<b>168</b>	<b>175</b>	<b>189</b>	<b>188</b>	<b>179</b>	<b>143</b>	<b>181</b>
A/R days	54	67	52	50	45	83	46	65	69	90	92	75	73	75	61	45	39	46
INV days	121	110	121	128	155	265	132	130	149	171	159	124	123	127	110	88	116	114
A/P days	68	77	92	90	86	118	68	70	93	85	81	79	88	102	81	57	92	80
<b>Net CCC</b>	<b>107</b>	<b>100</b>	<b>82</b>	<b>88</b>	<b>114</b>	<b>230</b>	<b>111</b>	<b>125</b>	<b>126</b>	<b>176</b>	<b>169</b>	<b>119</b>	<b>108</b>	<b>100</b>	<b>91</b>	<b>76</b>	<b>63</b>	<b>79</b>

Source: Company, KS Research

Fig 6 Yearly cost breakdown

Btmn	2017	2018	2019	2020	2021	2022
Purchased of goods	104	0	252	155	166	214
Doctor fees	180	160	167	109	109	183
<b>Salaries and wages</b>	<b>106</b>	<b>75</b>	<b>153</b>	<b>115</b>	<b>112</b>	<b>145</b>
Dental laboratory expenses	53	41	44	32	33	49
Dental supplies and consumables used	51	52	47	34	30	45
<b>D&amp;A exp</b>	<b>35</b>	<b>32</b>	<b>37</b>	<b>39</b>	<b>36</b>	<b>37</b>
Advertising expenses	15	11	19	11	7	11
Office and branches rental & service	19	13	23	9	5	8
Changes in inventories of finished goods	0	0	-17	24	-1	-14
Loss on inventories devaluation	0	0	0	6	8	1
<b>% of revenue</b>						
Purchased of goods	22.6%	0.0%	32.6%	27.1%	31.4%	26.3%
Doctor fees	39.1%	25.0%	21.6%	19.0%	20.6%	22.4%
Salaries and wages	23.0%	11.6%	19.8%	20.2%	21.2%	17.8%
Dental laboratory expenses	11.5%	6.4%	5.7%	5.5%	6.2%	6.0%
Dental supplies and consumables used	11.1%	8.1%	6.1%	6.0%	5.6%	5.6%
D&A exp	7.6%	4.9%	4.8%	6.8%	6.8%	4.5%
Advertising expenses	3.2%	1.7%	2.4%	1.9%	1.3%	1.4%
Office and branches rental & service	4.1%	2.1%	3.0%	1.5%	1.0%	0.9%
Changes in inventories of finished goods	0.0%	0.0%	-2.3%	4.3%	-0.2%	-1.8%
Loss on inventories devaluation	0.0%	0.0%	0.0%	1.0%	1.5%	0.1%

Source: Company, KS Research



D TB : Year-end Dec 31

Income Statement (Btmn)	2021A	2022A	2023E	2024E	2025E	Cashflow (Btmn)	2021A	2022A	2023E	2024E	2025E
Revenue	529	815	958	1,100	1,263	Net profit	-24	58	86	102	120
Cost of sales and services	-384	-548	-630	-716	-817	Depreciation & amortization	36	37	36	36	36
<b>Gross Profit</b>	144	267	327	385	446	Change in working capital	2	-15	-38	-33	-41
SG&A	-152	-198	-220	-257	-298	Others	21	24	0	0	-1
Other income	0	0	0	0	0	<b>CF from operation activities</b>	34	104	84	104	114
<b>EBIT</b>	-2	84	121	141	162	Capital expenditure	-14	-14	-33	-33	-33
<b>EBITDA</b>	28	106	143	163	184	Investment in subs and affiliates	0	0	0	0	0
Interest expense	-16	-15	-14	-14	-12	Others	1	1	-2	0	0
Equity earnings	0	0	0	0	0	<b>CF from investing activities</b>	-13	-13	-35	-33	-33
<b>EBT</b>	-18	69	107	127	150	Cash dividend	-3	-18	-34	-41	-48
Income tax	1	-11	-21	-25	-30	Net proceeds from debt	-12	-84	-41	-51	-52
<b>NPAT</b>	-24	58	86	102	120	Capital raising	0	46	20	0	0
Minority Interest	0	0	0	0	0	Others	-14	-14	0	0	0
<b>Core Profit</b>	-24	51	86	102	120	<b>CF from financing activities</b>	-29	-70	-56	-91	-100
Extraordinary items	0	7	0	0	0	<b>Net change in cash</b>	-7	21	-7	-20	-20
FX gain (loss)	0	0	0	0	0	<b>Key Statistics &amp; Ratios</b>					
<b>Reported net profit</b>	-24	58	86	102	120	<b>Per share (Bt)</b>					
<b>Balance Sheet (Btmn)</b>						Reported EPS	-0.08	0.19	0.25	0.30	0.35
Cash & equivalents	37	58	51	31	11	Core EPS	-0.08	0.17	0.25	0.30	0.35
ST investments	0	0	0	0	0	DPS	0.01	0.06	0.10	0.12	0.14
Accounts receivable	116	123	147	172	201	BV	1.57	1.78	1.83	2.01	2.22
Inventories	144	161	188	216	251	EV	5.57	7.64	11.56	11.42	11.28
Other current assets	0	0	0	0	0	Free Cash Flow	0.07	0.30	0.15	0.21	0.24
<b>Total current assets</b>	297	342	387	418	463	<b>Valuation analysis</b>					
Investment in subs & others	0	0	0	0	0	Reported P/E (x)	-46.59	33.61	42.79	36.08	30.53
Fixed assets-net	526	534	584	566	548	Core P/E (x)	-46.59	38.27	42.79	36.08	30.53
Other assets	286	257	169	170	170	P/BV (x)	2.50	3.60	5.84	5.32	4.82
<b>Total assets</b>	1,108	1,132	1,140	1,154	1,181	EV/EBITDA (x)	79.47	21.68	27.63	23.94	20.97
Short-term debt	132	118	128	132	132	Price/Cash flow (x)	54.56	21.50	72.47	51.33	45.42
Accounts payable	92	104	121	140	163	Dividend yield (%)	0.2%	0.9%	0.9%	1.1%	1.3%
<b>Total current liabilities</b>	225	228	249	272	296	<b>Profitability ratios</b>					
Long-term debt	379	314	213	143	74	Gross margin (%)	25.8%	32.7%	34.2%	35.0%	35.3%
Other liabilities	53	54	49	50	51	EBITDA margin (%)	3.8%	13.1%	14.9%	14.8%	14.6%
<b>Total liabilities</b>	657	595	512	465	421	EBIT margin (%)	-1.8%	10.3%	12.6%	12.8%	12.8%
Paid-up capital	144	151	171	171	171	Net profit margin (%)	-4.6%	7.1%	8.9%	9.2%	9.5%
Share premium	345	385	385	385	385	ROA (%)	-2.2%	5.1%	7.5%	8.8%	10.2%
Retained earnings	-63	-24	72	133	205	ROE (%)	-5.4%	10.7%	13.6%	14.7%	15.8%
Minority interests	0	0	0	0	0	<b>Liquidity ratios</b>					
<b>Total shareholders' equity</b>	451	537	628	689	761	Current ratio (x)	1.32	1.50	1.55	1.54	1.57
<b>Total equity &amp; liabilities</b>	1,108	1,132	1,140	1,154	1,181	Quick ratio (x)	0.68	0.79	0.80	0.74	0.72
<b>Key Assumptions</b>						<b>Leverage Ratios</b>					
<b>Dental Service Business</b>						Liabilities/Equity ratio (x)	1.46	1.11	0.81	0.68	0.55
Patient	53,345	79,094	94,928	109,581	123,662	Net debt/EBITDA (x)	23.49	3.52	2.03	1.49	1.06
-Thai	42,142	52,629	60,523	66,576	69,904	Net debt/equity (x)	1.05	0.70	0.46	0.35	0.26
-International	11,203	26,465	34,405	43,006	53,757	Int. coverage ratio (x)	-0.62	5.50	8.59	9.89	13.51
Spending per head	5,656	6,849	7,103	7,271	7,590	<b>Growth</b>					
-Thai	5,080	5,468	5,523	5,523	5,523	Revenue (%)	-7.7%	54.1%	17.6%	14.9%	14.8%
-International	7,819	9,594	9,882	9,978	10,277	EBITDA (%)	-49.0%	427.4%	34.6%	14.0%	12.7%
<b>Trading Business</b>						Reported net profit (%)	n.m.	n.m.	48.9%	18.6%	18.2%
Revenue Growth (%)	-11.7%	18.5%	5.0%	10.0%	10.0%	Reported EPS (%)	n.m.	n.m.	31.4%	18.6%	18.2%
						Core profit (%)	n.m.	n.m.	69.6%	18.6%	18.2%
						Core EPS (%)	n.m.	n.m.	49.6%	18.6%	18.2%

Source: Company, KS Research



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