

**RELATIVES VALUATION OF DIAMOND BUILDING
PRODUCTS PUBLIC COMPANY LIMITED**



**A THEMATIC PAPER SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR
THE DEGREE OF MASTER OF MANAGEMENT
COLLEGE OF MANAGEMENT
MAHIDOL UNIVERSITY
2016**

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Thematic paper
entitled
**RELATIVES VALUATION OF DIAMOND BUILDING
PRODUCTS PUBLIC COMPANY LIMITED**

was submitted to the College of Management, Mahidol University
for the degree of Master of Management
on
December 22, 2016



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ACKNOWLEDGEMENTS

First, I would like to express my deep gratitude to thank Ajarn Vasan Siraprapasiri, Ajarn Piyapas Tharavanij and Ajarn Nareerat Taechapiroontong for great knowledges and valuable advices during my study and mentorship to achieve this paper. Second, I would like to thank to my wonderful partner, Ms. Pongsupa Thanaisawan for her intelligence and great supports.

In addition, thanks to all professors at CMMU to teach and encourage me to understand finance in the practical world. I also would like to extend my thanks to Khun Ratchapong Pookpiboon for his fantastic helpful and academic coordination.

Last but not least, the success of this thematic paper would not have been possible without the unconditional love, extraordinary supports and encouragements from my beloved husband, my family and friends to pass the tough time.

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RELATIVES VALUATION OF DIAMOND BUILDING PRODUCTS PUBLIC COMPANY LIMITED

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ABSTRACT

This thematic paper aims to value the stock price of Diamond Building Products Public Company Limited (DRT) which applied the concept of the multiple valuation models. applied multiples valuation method to express the valuation of the company's stock price. I considered and calculated 3 ratios which composed of P/E, P/BV, and EV/EBITDA, all are based on our projected financial statement and assumptions. The forecasted financial statement gathered growth and risk. The upside economic condition and government expenditure including export through ASEAN for CLMV countries are the opportunities, while various risks may come from raw materials, government regulations and competition in the market. As the result, the relative value of DRT stock is THB 5.85, which is overvalued when compare to the current price at THB 4.9. BUY position for DRT's stock price is recommended. In conclusion, the valuation study is to suggest company relative value which method still has some limitations. However, the study can still provide some guidance on processes of valuation for investors and interested person in material construction companies.

KEY WORDS: DRT/ Valuation/ Relative Valuation/ Construction Material

51 pages

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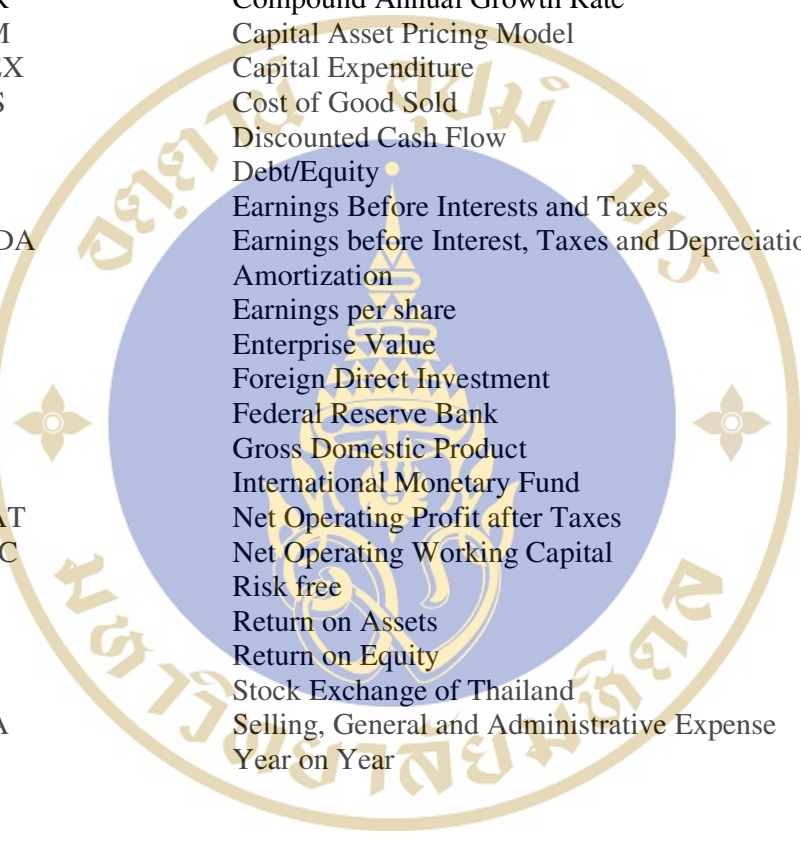
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LIST OF ABBREVIATIONS



AP	Account Payables
AR	Account Receivable
BV	Book Value
CAGR	Compound Annual Growth Rate
CAPM	Capital Asset Pricing Model
CAPEX	Capital Expenditure
COGS	Cost of Good Sold
DCF	Discounted Cash Flow
D/E	Debt/Equity
EBIT	Earnings Before Interests and Taxes
EBITDA	Earnings before Interest, Taxes and Depreciation. And Amortization
EPS	Earnings per share
EV	Enterprise Value
FDI	Foreign Direct Investment
FED	Federal Reserve Bank
GDP	Gross Domestic Product
IMF	International Monetary Fund
NOPAT	Net Operating Profit after Taxes
NOWC	Net Operating Working Capital
R _f	Risk free
ROA	Return on Assets
ROE	Return on Equity
SET	Stock Exchange of Thailand
SG&A	Selling, General and Administrative Expense
YOY	Year on Year

CHAPTER I

VALUATION

1.1 Highlight

Date: Dec 08, 2016

Exchange rate: USD/THB 35.66

Ticker: SET:DRT

Recommend: BUY

Price: THB 5.15 (USD 0.14)

Price Target: THB 5.85 (USD 0.16)

Table 1.1 DRT Financial Summary

Financial Summary					
FY Ended 31 Dec (Btm)	2014A	2015A	2016F	2017F	2018F
Sale Revenue	4,228	4,165	4,156	4,353	4,559
Gross Profit	1,015	1,077	1,084	1,088	1,140
Net Income	289	330	368	361	379
EPS	0.29	0.33	0.39	0.38	0.40
P/E (Times)	18.21x	12.94x	13.14x	13.38x	12.74x
Dividend	0.27	0.25	0.31	0.31	0.32
Dividend Yield	7.42%	6.52%	6.09%	5.98%	6.28%
ROE (%)	12.7%	14.5%	19.6%	18.5%	18.7%



Figure 1.1: DRT Stock Price comparing with SET and Construction Material Index

1.1.1 Economic fundamental and valuation are indicative to BUY:

Economic gradually return result positive signal for DRT as a cyclical stock. Additional with confidential of consumption, declining in household debt and rising income in agricultural sector bring back consumer purchasing power. Government stimulation is another support factor for market demand help faster economic recovery. Follow positive correlation with SET index, huge capital inflow will benefit DRT stock movement within similar directions.

1.1.2 Rising export channels is DRT driver from domestic volatility:

Strong demand for construction material from neighboring countries increase opportunity for DRT export portion from 15% in 2015 to 20% in 2016. Export sector help compensate shrinking demand in Thailand. Hence, flexible distribution channels enhance DRT more competitiveness and reduce earnings volatility. Total export value count as 35% of Thailand total construction material export value, represent good perception from international market.

1.1.3 Sustainable business model with attractive dividend yield:

Focusing on high margin products with benefit from main raw materials cost reduction, stable DRT profit margin and enable capability for competitiveness. Outstanding dividend yield of 5.42 percent compare with an average industry of 3.5 percent is the attraction for DRT. Strong balance sheet with low leverage prove company financial strength.

1.1.4 Stock repurchase signal stock undervalue:

Cash utilization from share repurchase announcement will enhance higher earnings per share as well as dividend per share. Giving signal of stock undervalue might boost up demand for DRT stock incentive stock movement follow law of supply and demand.

1.2 Business Description

The Diamond Building Products Public Company Limited (DRT) is established in 1985 with major shareholders is Myriad Materials, who bring DRT

business knowhow's and expertise in construction and property development market. DRT is a manufacturer and distributor of roofing products, boards and ceiling, siding boards, and other roof accessories as well as non-roof product. DRT also acted as service provider for roof stripping and installation under Diamond, Roof, Adams, and Jearanai. Three main production bases provide total capacity of 982,000 ton per annual. The company is a top three manufacturer and distributor of roofing product in Thai market with 92 percent of DRT total revenues are derived from sale of products which mainly from roofing products considered as 51 percent, Siding boards considered as 17 percent and board and ceiling considered as 16 percent.

Distributor channels can be divided into 4 segments which are agent, projects, modern trade and export. Majority of the sale comes from agent who carries approximately 60 percent while the rest are equally divided between modern trade, projects and exports (figure 2). DRT is using sale channel distribution mix adjustment which can be variable depending on economic situation; however, management aims to reallocate the total sale portion to 20 percent from international and 80 percent from domestic. DRT international market is 80 percent within ASEAN with main trade partner are Laos, Cambodia and Myanmar. Whereas main target customers domestically are live in rural areas which the market size considered as 40 percent of total construction materials market.

Through management's vision of being better choice for construction material and services, DRT has been known as a high-quality brand for nearly 30 years. DRT is ranking number three with total market shares of 15 percent and total market capitalization approximately THB 5,554 million.

1.2.1 Strategy

The company's main strategy is to increase sustainability growth and profit from new product development and value added as well as to generate wealth maximization throughout the society.

1.2.1.1 Strengthen competition capability – DRT's sustainability growth obtained from customer base maintaining and expansion. Excellence services and strong brand awareness are key focuses. Logistic system is provided with time efficiency (delivery within 24 hours), and safety enhance perception

of high trusted quality brand of DRT. Extensive distribution network under “Everything in One concept” was provided to convenience customers. Strong and aged relationship with distributors nationwide is an important key of DRT’s competitive advantage.

1.2.1.2 Production and cost efficiency – Value of money and customers’ needs are company primary consideration. New products development was served to satisfy with all needs e.g. new designs, functions and colors. Furthermore, production efficiency and cost monitoring is performed to enhance profit margin and prudent financial policies with strong financial balancing and flexibilities is obtained to drive sustainability.

1.2.1.3 Human resource strategy – Building and maintaining people within DRT to adhere to honesty and transparency, caring for their quality of life and safe living by development knowledge and capability in manufacturing and marketing skills shall propel the organization toward sustainable growth in both domestic and international market.

1.2.2 Management and Corporate Governance

DRT was place in various awards according to an assessment on corporate governance. DRT has achieved excellent group with five stars award for the assessment of Corporate Governance, ESG 100 for outstanding of Environment Social and Governance as well as excellent for AGM Assessment Award with 100point range in Annual General Meeting by Thai Investor Association. Assessment guided by Thai Institute of Director (IOD) and the Stock Exchange of Thailand has been followed with total average total score of DRT is ranging between 85.9 percent and 99.6 percent.

Five Criteria of IOD has been established as DRT operating guidelines.

1.2.2.1 Rights of Shareholders – Shareholders have rights of controls through the selection of Board of Director and have rights to decide on adverse or importance events.

1.2.2.2 Equitable Treatment of Shareholders – DRT will make sure that there’ll be no advantages for insiders to take their own benefits.

1.2.2.3 Role of Stakeholders – Operating was performed under the code of conduct which accountable and respect to the rights of every group of stakeholders.

Direction and information are surely derived to all stakeholders through various communication channels to make sure that everyone understand and proceed in same directions.

1.2.2.4 Disclosure and Transparency – Company information both finance and non-finance according to regulations of Stock Exchange of Thailand and Securities and Exchange Commission of Thailand has been sent out accurately and punctually through many easy accessible channels.

1.2.2.5 Board Responsibilities – Company has appointed clear responsibility and duty to each Board members which each member will not in a position of the board for more than three registered company and every member will be assessment at least once a year.

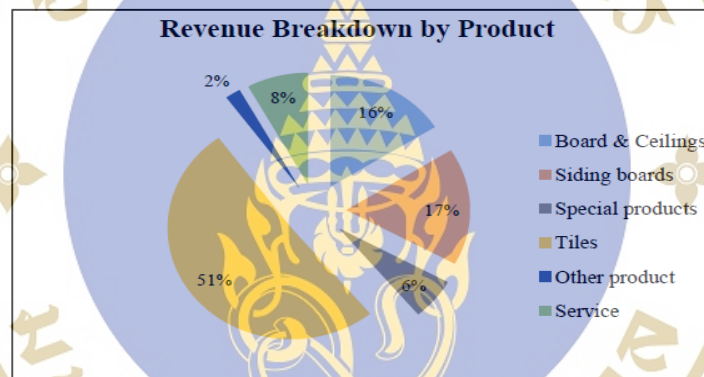


Figure 1.2 Product Revenue Classifications

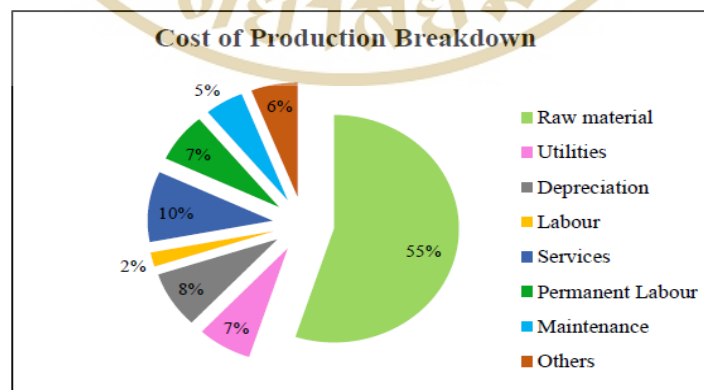


Figure 1.3 Cost of Production Breakdown

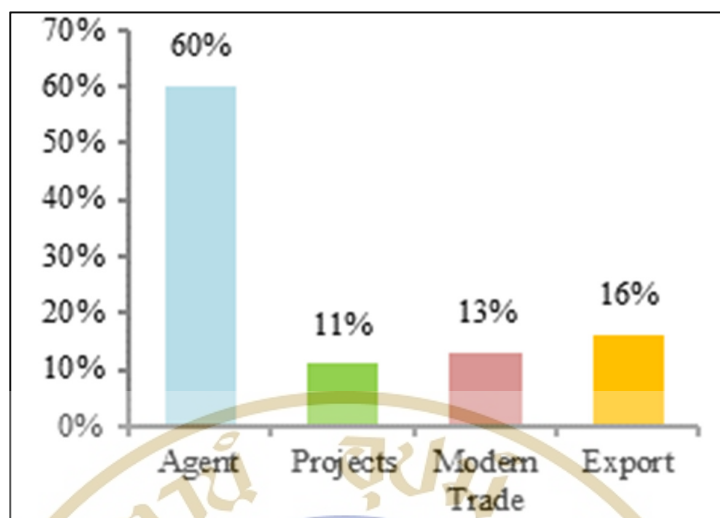


Figure 1.4 Distribution Channels

1.3 Macro-economic Analysis

Positive economic from domestic and international market shall support future growth for DRT

1.3.1 Good signal for economic recovering

Thailand economic struggles from weakened world economy, political instability and oil price declined. Private investment, household consumption and export have shrunk since 2015. Government spending as well as tourism sector has played important roles in bounced back economy. GDP has forecasted to be 3.2 percent in 2016 and 2017 from 2.8 percent with headline inflation at 0.3 and 2 percent respectively.

Bank of Thailand still keep low interest rate to stimulate private investment. Recovery period shall start slowly by Q2'2016, public spending, private investment and tourism will become key drivers. Purchasing power of consumers will come back especially from agricultural sectors as drought was recovery from the second half of 2016 and debt from the first car policy will end within this year. In addition, statistic of household debt was lower than historical rate. Commercial bank's outstanding loan was in declining trend from 7.6 percent to 7 percent to 6.7percent and 6.3 percent from Q1'15, Q2,15, Q3'15 and Q4'15 respectively.

1.3.2 Improve in agricultural price and Approved measure to support farmers

Agricultural price overall focusing on 4 major products forecasted to increase according to shrinking supply and drought recovery also raise up price of some agricultural products for instance Paddy, Jasmine Rice, and Sticky Rice. Paddy's price which considered as the major rice product in the market was rising at an average of 6.9 percent. Rubber price also increase due to demand supply mismatching, forecasted world demand for rubber is approximately 12.4 million ton, increase 1.7percent from 2015 while forecasted output is predicted to decline 1.5 percent from world total output. Palm price increase by 0.8 percent from Q2'16 and around 40 percent from 2015 forecasted price stay high around 5.50 -6.0 Baht per kg. While sugar price forecasted to continuously increase as world total production especially from India as biggest sugar production has lower output due to drought crisis while there is substantial demand from food and beverage sectors. Thailand demand on sugar was 6.3percent rising from Q2 of 2016. Moreover, with market factors on price rising, Thai government also provide subsidiary to enhance farmers income especially for rice farmers. Total government subsidiary remains at total 53,252 million Baht in support rice farmers and set price floor for palm oil. Enhancing farmers income which considered as 33 percent of Thailand may also bring advantage to DRT as the main target customers come from this sector.

1.3.3 Restructuring on china to prosperous society

China moving forward 2020 followed the 13th five-year plan by officially added Yuan for one of IMF's Special Drawing Rights currency basket help internationalizes Yuan as medium of international trade. Promote innovation and high technology, reform state own enterprise, and inclusive social welfare system aims to stabilize growth at average of 6.5 percent through 2016-2020. Outward investment has rose by 4 percent in 2015 and expected to increase fivefold by 2020 incentive by "One Belt, One Road" policy. Outflow investment will advantage ASEAN countries as an attractive hub of FDI. Infrastructure facilities shall be improved in preparation, promising demand for construction.

1.3.4 Best-Performing Emerging Market

India is the highest growth potential among other emerging markets, forecasted GDP growth at average of 7.7 percent and inflation of 5 percent p.a. Consuming class expected to become more than triple to 89 million household. India appeals to be another potential location for foreign investors and it's the world's ninth-largest manufacturing nation. By 2025, there will be 69 cities with population more than one million will be destination for economic concentrated with infrastructure building, more living areas, reliable utilities, etc. given vast opportunities available in infrastructure sector, tourism and retail industries. India remains an attractive market for export of goods from Thailand since 2004 after placing India-Thailand FTA, the bilateral trade has multiple eight times since 2000 to reach 7.92 billion USD in 2015.

1.3.5 AEC brighten future for ASEAN Economies

IMF forecasted to see high growth on emerging market. Top outstanding are Myanmar with GDP growth at 8.4 percent, Laos at 8 percent and Cambodia at 7.2 percent respectively. CLMV region (Myanmar, Laos, Cambodia and Vietnam) is an opportunity market for Thailand export and investment especially in retail, healthcare and real estate. CLMV is moving to urbanization, promising market with high purchasing power population expected to gather more than 660million in 2020 and more than 720million by 2030. FDI inflows continuously rose; developing Asia especially CLMV still remained the largest recipient with total amount increased approximately 40 percent in 2015. Construction for infrastructure development is demanded such as road and real estates. Tourism is one key drivers of CLMV economy. Expected future arrivals shall enhance demand for accommodations and infrastructure improvement, according to their Tourism master plan approximately 30,000-50,000 rooms for Cambodia, 5,000 rooms for Lao, 20,000 rooms for Myanmar and 500,000 rooms for Vietnam shall be increased within 2020 promising demand and opportunity for DRT ex-port sectors.

1.3.6 Remains Bear market for Crude Oil

Over supply pressure down the oil prices forecasted to stay on an average of 45 – 50 USD/Barrel. OPEC still maintains production capacity at 39.66 million barrel per day make world supply of 96.74 million barrel per day. In addition, forecasted on interest rate hike from FED is another pressure for oil price which may result in lower price of gasoline.

1.3.7 Baht depreciation will boost up export

Baht forecasted on depreciation trend end 2017 at 37Baht per USD from 35.5Baht per USD in 2016 as a result from FED monetary policy resulting capital inflow to Thai market. However, depreciation will support export sectors. DRT export value of 35 percent from total Thailand construction material export value, money depreciation might move up export percentage of DRT.

Table 1.2 Nominal Farm Incomes

(%YoY)	2015	2016					
		H1	Q1	Q2	Q3	Aug	Sep
Nominal Farm Income	-9.5	-5.6	-12.3	2.3	12.5	6.8	12.4
Agricultural Production	-3.8	-5.3	-5.3	-7.4	-0.5	-7.2	4.0
Agricultural Price	-5.9	-0.3	-5.4	-5.4	13.1	15.1	8.0

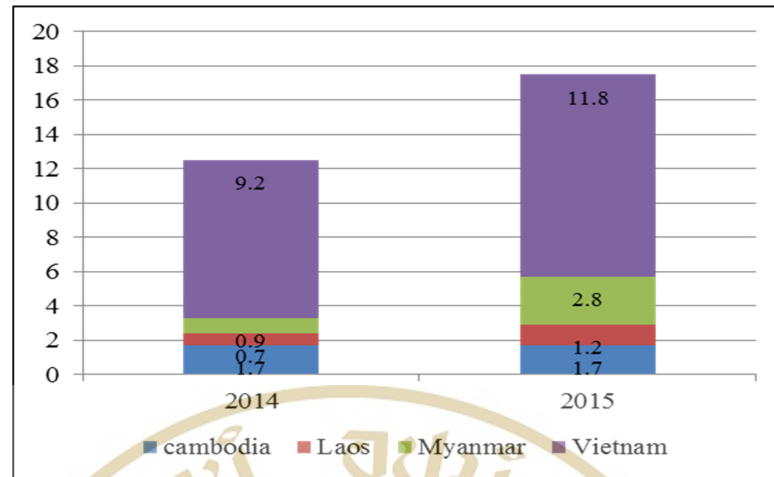


Figure 1.5 FDI Flow to CLMV Countries

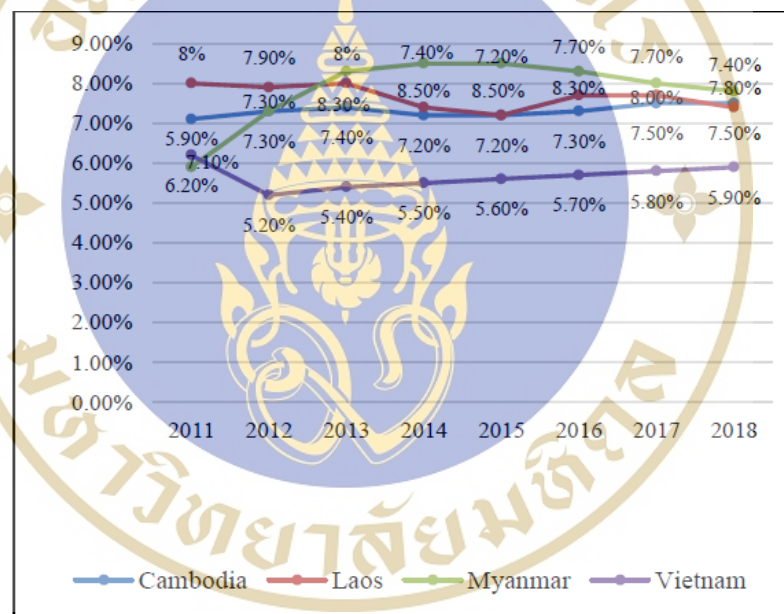


Figure 1.6 CLMV GDP Forecasted

1.4 Industry Analysis

1.4.1 Government Stimulation Incentive Demand for Construction

Material

Government has approved on 20 infrastructure projects total value of 1.796 trillion Baht such as motorway, new BTS lines, 17 high-speed rails, airport terminal expansion for Suvarnabhumi, Donmuang and Phuket airports. This shall incentive private investment aligning with government expansion. K SME Analysis, fore-casted that the total construction will worth around 692,600 – 708,500 million Baht in 2016 with approximately around 27.3percent increase from previous year. Government housing project as similar as private investment for residences and commercial area along the new lines of infrastructure will also boost up demand for construction material as well. In addition, with positive impact of tax exemption for first housing and mortgage fees reduction may increase demand for housing and residential. For housing project, rising land tax also provide higher bargain to acquire more land for further expansion which this are indirectly benefits to construction material company.

1.4.2 Renovation and Green Building Trend

54 percent rising in green building units per annual from 6 building in 2007 to 294 in 2016 due to benefits of energy saving and quality of living. This shall enhance more demand toward green materials e.g. timber, painting, tiles, etc.

1.4.3 Aggressive Competition on Modern Trade Bustle the Market

Various marketing campaigns from modern trade stores were launch out to attract customers, Thai Watsadu joint with Central on point reward sharing between The One Card and Thai Card while DoHome launched free shipping nationwide and invested new selling channel focusing on online market to target new generation buyers, and HomePro and Mega home launched discount campaign. Stores expansion is another key growth strategy of the modern trade stores which expected to have roughly 140 branches

nationwide in 2016. New stores expansion will also increase number of selling channels for construction material products.

1.4.4 More rain than expected, prompted home renovation

More rain than expected, approximately 72percent higher than 2015 result flooding 14 provinces such as Ayuthaya, Chinat, Nakorn Sawan, etc. More than 50,000 home inundated as well as number of historical building and temple. Home renovation will go right after the flood ended, shall contribute higher demand for home construction materials.

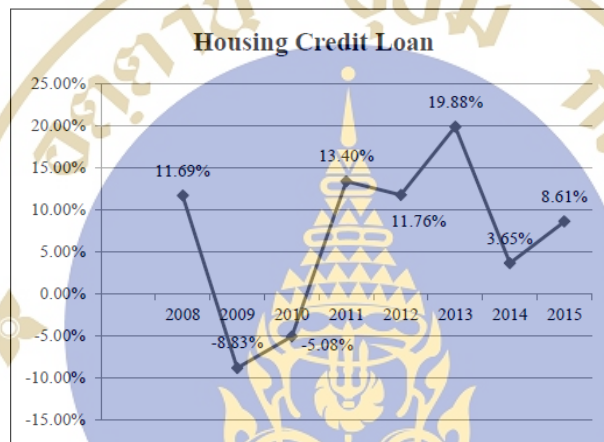


Figure 1.7 Housing Credit Loan

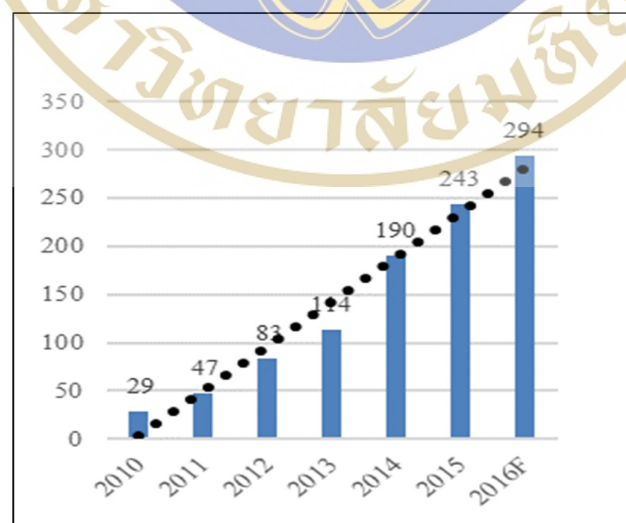


Figure 1.8 Green Building Units

1.5 Competition Positioning

Due to the nature of building construction material, Diamond Building Products (DRT) must compete with various competitors, both in domestic and internationally. However, we have incorporated for the top 4 big players in the market; Siam Cement Group (SCC), Mahaphant Group (Ha-Huang brand), Kitemit Group (Oran brand), and Diamond Building Products (DRT). By sales, Siam cement group is the leader, notably, competitors are seen often through modern trade, where DRT places its products through agent group (mom & pop) with over 6,000 agents which is the major distribution channel, subsequently with export channel and modern trade at Thai Watsadu, HomeWork, Siam Global House, DoHome, HomePro and MegaHome, over 90 branches and housing project group over 200 projects.

Export market is now one of DRT's growth strategies to expand sales revenue, as it distributes its core products through Asia in China, India, Taiwan, Philippines, Malaysia, and CLMV countries. Main country's exporting are Laos and Cambodia. DRT has its strong brand in Cambodia (in which it has 45% market share, the highest among Thai manufacturers' exports to the country) and Laos (20% market share), both market are familiar with construction materials produced by Thai manufacturers, especially in terms of roof tiles. By boosting these neighboring countries should help the growth in revenue for DRT. With the strong demand for construction materials resulting in an increase in trade abroad from 14.47 percent in year 2014 to 16.32 percent in year 2015. Moreover, sales to housing projects have been expanded to the provincial areas as several operators in the property sector have increasingly debuted several residential housing projects in the economic regional provinces. AEC channel is one of the distribution channels that tile businesses are looking for. This is due to its reliance on exports, which makes it less sensitive to the domestic economy.

Furthermore, DRT has organized training and development for the distribution agents to have capability and to support the stores and outlets for modern product arrangement and display to be more convenient for the consumers in choosing the products, and increase competitiveness for the domestic distribution agents Siam Cement Group is the biggest market share and it targets to all level buyers. Mahaphant group (Ha-Huang brand) is a closet peer as it targets mid-to high-income buyers. However, in modern trade, Mahaphant group (Ha-Huang brand) is channel on premium

products such as tile – metallic color which offer the unique color product with high price, but in term of board/wall application in the name of Shera brand, the price is in medium range and higher than Diamond Building Products (DRT). The quality in tile products are similar based on market perception, the different among tile products is the appearance, design and color. However, based on market survey, Diamond Building Products (DRT) is the most popular for consumers via modern trade.

1.5.1 TPI Polene rival into the market

Within the same mid-sized building material peers, Diamond Building Product (DRT) has confronted the similar difficulty in generating revenue growth among weak consumer demand but benefited from low energy cost from its costs efficiency and lower oil price in the market. The recent entering in building material sec-tor from TPI Polene (TPIPL TB, NR) that competes in cement-related products for instant fiber cement, concrete roof tiles and AAC. TPI Polene entered to the market with lower price, however TPI offers limited ranges of products, resulted lesser options to consumers. Diamond Building Product (DRT) and also Mahaphant group (Ha- Huang brand) offer wider ranges of products. Market's perception on TPI is low price. Diamond Building Product (DRT) is aware on low price strategic; hence Diamond Building Product (DRT) protects its own market with the extension new product lines such as grooved siding board, ventilation board and fence, together with the strategic to increase for non-asbestos. These will differentiate from its competitors. Further-more, with the strong brand, long term relationship with agents and the contribution on marketing campaigns will be able to compete with TPI Polene

1.5.2 Competitive rivalry poses high impact on DRT

Our Porter Five Force's analysis implies intense and unfavourable competitive environment in the market. Despite, DRT encounters fierce competition in the market from existing competitive rivalry and new rivals, this increase the higher supply in the market. In addition, there is a low barrier to enter, high bargaining power of customers and threat of substitutes, price-sensitive to consumers. However, DRT its strength in own product innovation, variation and differentiation as these groups of

consumers are exposed to various choices of materials and offers. DRT can still play a competitive role with competitive price and excellent service proposition.

1.5.2.1 DRT poses its strength among SET and building construction material market. Based on the key financial ratios, we found out that DRT posted its strongest in term of ROA, meaning the excellent efficiency on its operation reflecting the high revenue over the asset utilization. Moreover, when considering ROE, DRT also has the high ROE which is 18.56% for Q1-Q3 2016, even it is slightly lower than the construction material's sector but it still represents the growth and development since it dropped in 2014 from the sluggish economy and political turmoil. Likewise on Net profit margin, DRT had the slightly lower than its industry but it was still higher than the total market. Our view, this displays the company's strong profitability improvement. In addition, when using DuPont Analysis method (Profit Margin x Total Asset Turnover x Financial Leverage), we also found out that DRT has high value in Asset Turnover and Financial Leverage while Net Profit Margin is slightly maintain on stable growth. Hence, the key factors for high ROE-DuPont of DRT are high in Asset Turnover and high in Financial Leverage.

1.5.2.2 Anticipating good opportunity in Tile market within competitive environment. We foresee the growth opportunity for tile business; this is due to several ease factors. First, the demand for office space has grown according to National Statistical Office (NSO), the permitted construction floor area for commercial and office buildings increased from YoY. Second, Thailand is investing heavily in the development of rail infrastructure, and has launched several mass transit routes. Projects currently under construction are The Bearing-Samutprakarn Green Line extension project is expected to be completed in 2017, while the Mo Chit-KhuKhot Green Line extension project is expected to be completed in 2018-2019. In addition, DRT aims to boost domestic sales revenue via modern trade channels, to tap younger customer's purchasing habits. These consumers typically require total-solution services and this move should help mitigate the decreasing trend of purchasing products through traditional agent outlets. Apart from tapping young generation, to focus on the low-rise housing projects channel, especially that for single-detached and townhouse units is another way to beat up the market and growth in this sector.

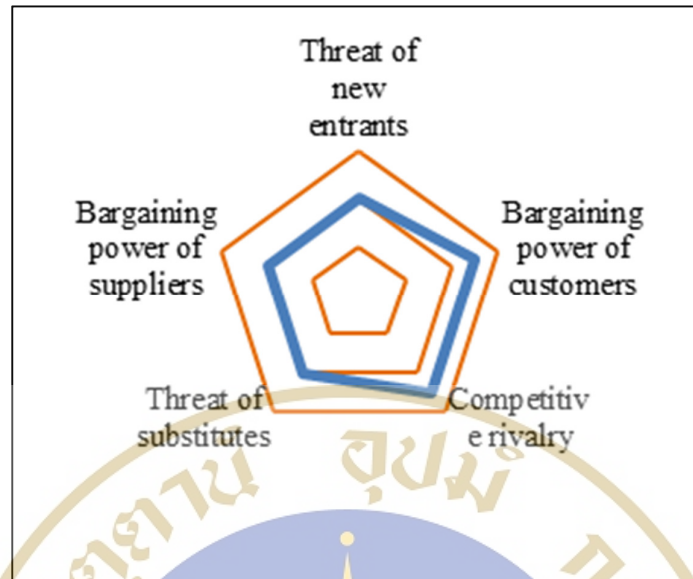


Figure 1.9 Porter's Five Forces

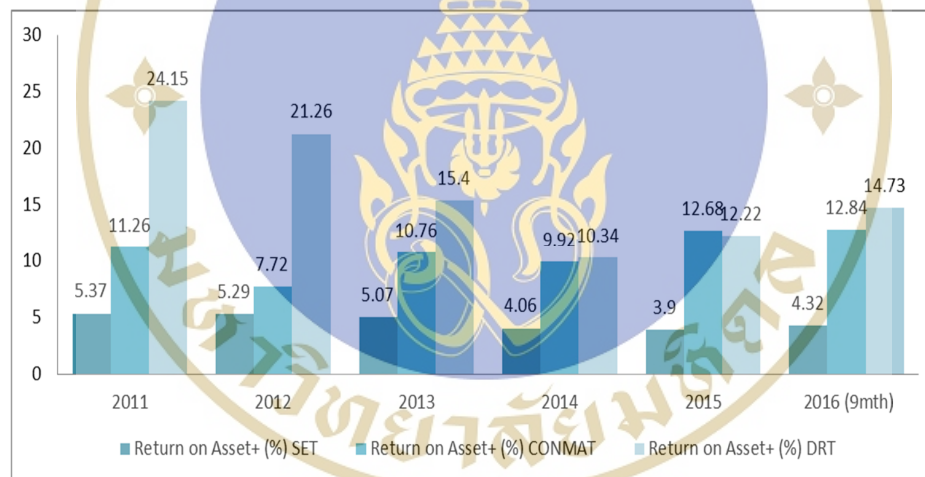


Figure 1.10 ROA Comparisons

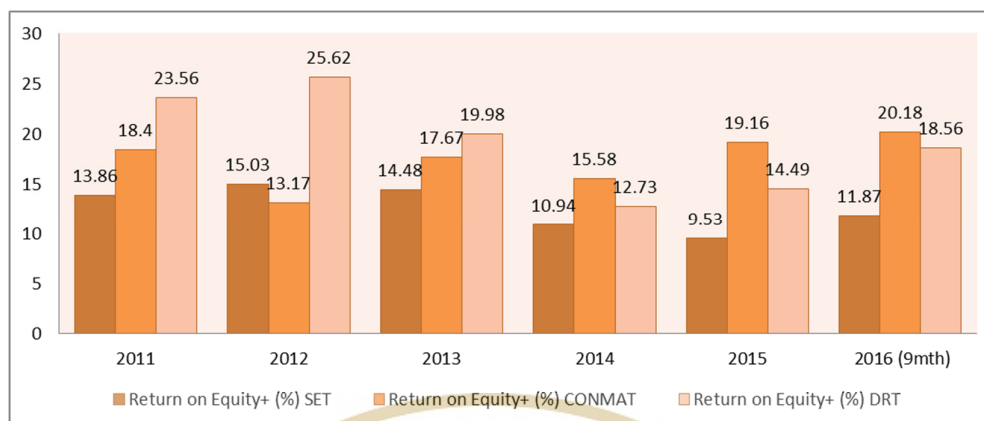


Figure 1.11 ROE Comparisons

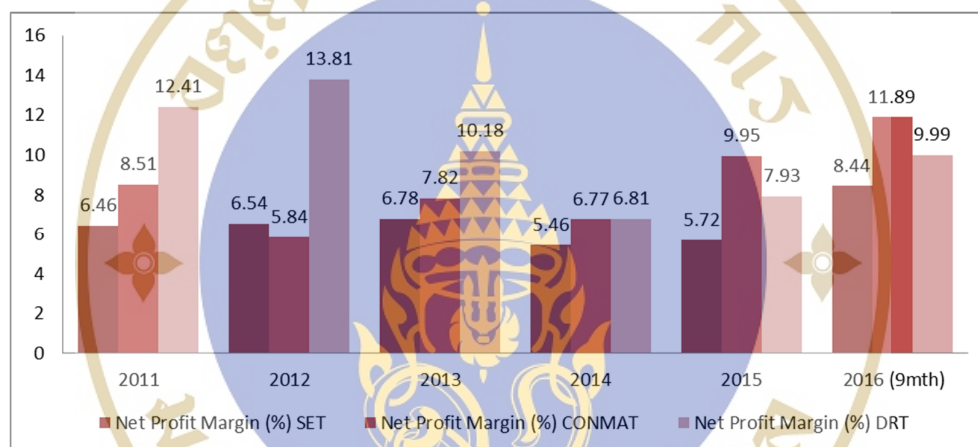


Figure 1.12 Net Profit Margin Comparisons

1.6 Investment Summary

1.6.1 Deliberate growth for 2016 but brighten future

With our analysis and assumptions, we expect an upside gain of 10.48% at the target price of 5.69 THB, under the DCF model (8.30% WACC and 1.77% terminal growth). DRT is significant worthy in dividend payout. We expect the dividend is at 0.31THB, which 2016 1st half year dividend declared at 0.15THB. In addition, we are positive in DRT position in regard to the market and economy.

1.6.2 Agent's sales through channel will remain for main revenue plus addition strong growth from export and modern trade channels for DRT's sales contributors

With our financial trend analysis, 2016 is projected to have lower revenue compare with 2015 due to the fact that slow down economy plus slump in agricultural price products which results in low-income households, however we expect to see the revenue growth in the 2017-2018 by 4.97% with the net profit 361 THB and 379THB respectively. The strong strategic growth plan by DRT's management team are continuous diversified its supply chain through export channel especially CLMV countries with targeted at 20% and correspondingly via modern trade channel to 15% growth. We consider the plan is doable due to the reputation and strong leading market share in Laos and Cambodia for export market and the yield from this sector will gain fast since the research has revealed its growth in housing sectors in these countries. With marketing strategies for push and pull through modern trade will support the growth for this channel as well. In addition, the management has seen the potential growth via siding board segment from 2016 performance, this will increase the revenue for DRT because siding board has good profit margin. Last but not least, upcoming year's performance will mainly increase by the housing projects, the passed infrastructure and transportation system from government budgetary. In addition, DRT set the strategic plan towards premium selling through wood synthetic products (floor and wall) and excellent services.

1.6.3 Cost per unit reduction and continuous improving on production process increase the margin

DRT's margin growth has been driven by lower costs of production and operation. The domestic raw materials are accounted approximately 55% which majorities are sands, cement portland and fibrous prices have the decreasing trend YoY for 0.25 percent, 4.5 percent and 2.1 percent respectively. Though, we found out the increasing trend for asbestos in imported raw material by average of 5 percent YoY, however the portion imported products are accounted 38 percent only, but with total lower portfolio of production product using asbestos, hence this still implies for insignificant impact. In term of operation, lower price for oil and gas, it represents an

opportunity and the ease environment which supporting the lower distribution and logistics costs. In addition, DRT has continuous reduced its operation costs with the cost reduction projects and improving the efficiency of existing operations with collaborative and initiatives from all staffs. These are the success factors for good net profit margin of DRT.

1.6.4 Strong distribution network and hub's warehouse in key regions allow the fast distribution and reach through customers

DRT has its long reputation in building construction market, long relation-ship through agents more than 6,000 shops which is one of DRT's competitive ad-vantages and part of DRT's continued success, prompt production capacity & efficiency and the expansion of investment in distribution-centre in key region, Khonkaen, this will support the growth in demands and enhancing to reach through consumers.

1.6.5 A trusted brand among consumer's perception

Diamond Brand has been known as high quality tile for nearly 30 years. Through its consistently seeking customer feedback and continuous product development, Diamond Brand is now one of the Thailand's most trusted brands in tile. More-over, it has been awarded form ISO9001, Thailand Trusted Mark in 2015, the 2nd rank for the most trusted brand which improved from 13.69% in 2015 to 14.56% in 2016 (BrandAge magazine, February 2016) and the award from the Association of Siamese Architects under Royal Patronage of His Majesty the King: ASA.

1.6.6 High profitability and dividend yield

With greater ROE of approximately 19percent and ROA of above 10percent and trading at market average P/E. Consistency high EPS at average of 0.40 and attractive dividend pays out range 75-93% annually. DRT's dividend yield is rank top three from its industry at 5.47percent while average of the industry is around 3 percent.

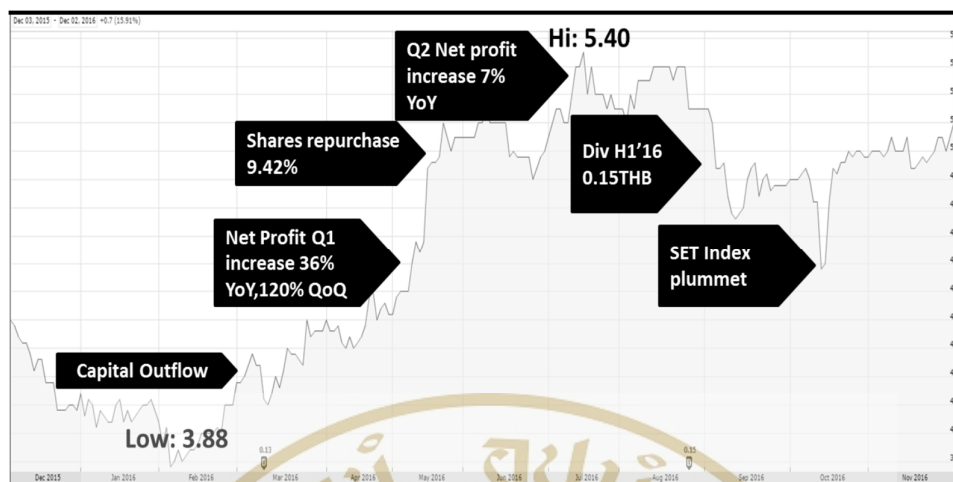


Figure 1.13 DRT's share price in last 12 months

1.6.7 Peer comparison in construction material sector

We analyse the peer comparisons by choosing the companies which are in the same industry of building construction material sector. By considering the size of total asset which value are in between 1.3-5.1 billion THB, the selected companies are DCC, TGCI, PPP, SCP, DRT, CCP, DCON and GEL (total 8 companies), which are the closet peer to make a comparison. The financial ratio for each company (as of end Dec 2015) can be described as table 1.2.

Table 1.3 Peer comparison in construction material

Company	EPS	ROE%	ROA%	D/E Ratio	Net Profit Margin %	P/BV* (Times)	Dividend Yield (%)
DCC	0.21	47.03	33.87	0.66	19.1	9.13	4.43
TGCI	0.17	8.64	9.38	0.13	10.61	1.31	3.17
PPP	0.46	16.82	10.28	1.33	9.04	1.92	3.14
SCP	0.98	19.62	20.26	0.23	16.74	1.59	4.94
DRT	0.32	14.49	12.22	0.55	7.93	1.92	6.52
CCP	0.02	3.93	3.64	0.86	2.22	1.48	0.27
DCON <XR>	0.08	17.58	16.78	0.43	15.1	3.37	10.3
GEL	0.02	2.48	2.34	0.11	4.92	0.6	1.85
Avg.	0.28	16.32	13.60	0.54	10.71	2.67	4.33

From the above table, we compare DRT with its peer by each financial KPIs as per followings;

- EPS: DRT posted its EPS higher than the average of its peer which is the good sign for investors, the highest EPS are SCP (Southern Concrete Pile Public Company Limited), who is a manufacturer and selling various types of construction

materials including concrete products, SCP had high EPS due to the high in gross profit margin of 31 percent while DRT had 26 percent, moreover, the lower costs of SCP's SG&A, it caused the high net income which was close to DRT of approximately 300mthb while DRT earned in the total revenue 2.4x times higher than SCP. Likewise PPP (Premier Products Public Company Limited) who is a manufacturer and distributor of environmental products related to wastewater treatment systems and water storage systems, building materials had high of EPS due to high in gross margin which was 33 percent in 2015. However, we foresee the growth trend for EPS of DRT to be 0.39thb/share or +21 percent incremental.

- ROE%: DRT had lower than its peer average in 2015 due to low in profit margin while DCC posted the highest ROE of 47.03 percent due to good performance in gross profit margin of 40 percent which resulted higher NIAT over the total equity of 1,765mthb while DRT had lower gross profit margin and higher of total equity of 2,347mthb. Similar to PPP and SCP who had high return on ROE because high in the return its profit margin.

- ROA%: DRT had 12.22 percent, lower than its peer average in 2015 due to the needs of investment in new factories in 2013 and 2014 to increase the capacity for market expansion as per company anticipated. This caused the high value in total asset while the current capacity's utilization is approximately 72-75 percent. However, the investment to expand its business is important due to its previous asset's utilization capacity was more than 95 percent for 2010-2012 which almost reached the full capacity of 700,000ton per annum. Per mentioned, this caused a slightly lower of ROA than its peer but still high return in result more than 12.2 percent and we foresee the growth in 2016 above 14.5 percent.

- D/E ratio: DRT had low D/E ratio and in range to peer's average, indicating that the company has taken on relatively low debt and financing by its equity. DRT is considered as lower risky business in term of leveraging.

- Net Profit Margin: DRT had the net profit margin lower than its peer. As per above mentioned that DRT had the gross profit margin of 26 percent and its SG&A was approximately 14-15 percent while SCP had higher gross profit margin of 31 percent and lower SG&A of 11 percent. DCC had gross profit margin of 40 percent and SG&A was 17 percent, PPP had gross profit margin of 33 percent and SG&A of 27

percent, hence the key for high net profit margin is gross profit margin which average 30-40 percent and SG&A is 11-30 percent. DRT's SG&A is in range of the peer's average but gross profit margin, DRT has the room to develop which the management of DRT has plans to increase its revenue and increase the profit by selling more in premium products and expand to regional countries.

- P/BV: DRT had its P/BV similar to the average of its peer of 1.5-2 times, the highest P/BV was DCC, this is due to the high share price relative to its asset value because of its earning a very high return on its assets and equity.

- Dividend Yield%: DRT has its outstanding on the dividend payout policy that not less than 70 percent of the consolidated net profit after tax which resulted in high dividend yield comparing to its current price.

Overall, DRT posted the result in 2015 with the lower profit margin position than its peer but high in term of EPS and Dividend Yield. However, in the following analysis and valuation, we analysed the growth projection in 2016 and 2017-2020 and found out the strong positive growth in term of revenue, profit margin and the positive trend for market expansion through CLMV, we trust in the coming future, DRT will be the top leading profitable business in construction material sector.

1.7 Relative Valuation

Apart from DCF valuation, another alternative tool to reflect the firm's fair value by using Relative Multiple Analysis. Relative Multiples Analysis will demonstrate company performance upon the market performance and easy to understand by investors if the firm overvalued or undervalued.

1.7.1 Relative valuation – Trailing and Forward P/E

P/E (Price-to-earnings) multiple method is appropriate as a basis for valuing DRT. It is the most commonly used multiples and recommended by SET for building construction materials sector. In addition, there is no negative earnings and low volatility earnings, thus we believe P/E is the fine method.

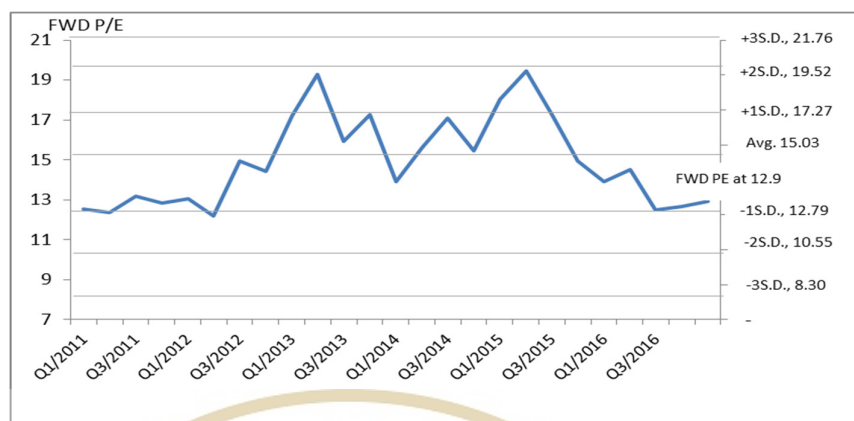


Figure 1.14 Trailing and Forward P/E

To derive DRT's 2017 target price, we use Forward PE +1S.D. = 13x, which payout ratio is 80% and expected growth rate is 3.92%. By multiplying annual forecasted 2016 EPS of THB 0.39 with Forward PE + 1S.D. DRT's target price is equal to THB 4.9 (we use +1S.D., because we expect to see the growth in net profit from operation costs savings and growth in sales revenue). We found out that the current price is at THB 4.9 (as of Q3/2016). In addition, when considering the historical P/E (trailing), average P/E is 15.03x during 2011-2016, with the strong record of high P/E, DRT's target price can be reach through THB 5.85 with estimated EPS at THB 0.39.

Table 1.4 Forward PE sensitivity analysis

			P/E				
			11	12	13	14	15
EPS	-10%	0.35	3.86	4.21	4.45	4.91	5.27
	-5%	0.37	4.08	4.45	4.70	5.19	5.56
	Base Case	0.39	4.29	4.68	4.94	5.46	5.85
	+5%	0.41	4.50	4.91	5.19	5.73	6.14
	+10%	0.43	4.72	5.15	5.44	6.01	6.44

Our base case equity value assumes 12.9x (FWD P/E +1S.D.).

1.7.2 Relative valuation: Gordon Growth Model (2-stage model) for P/E

By estimating PE ratio in the two-stage model as per below formula, P/E is equal to 10.27x and the target price is 3.9THB which is lower than trailing and forward P/E.

$$\frac{P_0}{EPS_0} = \frac{\text{Payout ratio} \times (1+g) \times \left(1 - \frac{(1+g)^n}{(1+k_{e,hg})^n} \right)}{k_{e,hg} - g} + \frac{\text{Payout ratio} \times (1+g)^n \times (1+g_n)}{(k_{e,hg} - g_n) \times (1+k_{e,hg})^n}$$

Assumption for two-stage model:

- Payout ratio is equal to 80 percent for the first five years and after five years.
- Growth rate as per team forecasted in the first five years is equal to 3.92 percent and growth rate after first five years is equal to 3.3 percent according to the “Global Growth Projections for The Conference Board Global Economic Outlook 2016”, TH has the slightly decline growth projection for 2021-2025 which GDP is approximately 3.3 percent. Hence, for DRT, we will assume based on this source of information to project the growth in second stage for 3.3% in Gordon growth model.

Table 1.5 Global Growth Projections for The Conference Board Global Economic Outlook 2016

		Average annual growth 2016 - 2020 (projected trend growth adjusted for output gaps*)					Average annual growth 2021 - 2025 (projected trend growth)				
Country	Average growth 2011-2015	GDP	Labor Quantity	Labor Quality	Capital Services	TFP	GDP	Labor Quantity	Labor Quality	Capital Services	TFP
Emerging Economies											
China	4.3	4.5	0.0	0.1	4.7	-0.3	3.6	-0.2	0.0	4.1	-0.4
India	6.6	6.0	0.7	0.1	4.1	1.0	5.5	0.6	0.1	3.9	0.8
Indonesia	5.7	5.1	0.6	0.2	4.2	0.1	4.5	0.4	0.2	3.9	0.0
Malaysia	5.2	3.3	0.7	0.1	3.2	-0.8	2.7	0.5	0.1	3.0	-0.9
Pakistan	4.2	3.7	1.3	0.2	2.3	-0.1	3.7	1.2	0.1	2.2	0.1
Philippines	6.0	5.5	0.7	0.2	3.7	0.9	5.3	0.6	0.2	3.6	0.8
Thailand	2.8	4.0	0.0	0.3	3.7	0.1	3.3	-0.2	0.2	3.3	0.0
Vietnam	5.7	5.8	0.4	0.2	4.3	0.9	5.5	0.2	0.2	4.1	0.9

- Beta of 0.86 and required rate of return 11.59 percent
- Risk free rate of 2.66 percent and risk premium of 8.76 percent

1.7.3 Relative valuation: Trailing and Forward P/BV

The price to book value can demonstrate how the market recognizes the value of a particular stock. By using current price at 5.1 and forecasted book value, the forward P/BV ratio is over than 2, which implies the market is willing to pay more than the equity per share. (Average peer industry is approximately 2.67x, while DRT P/BV is lower as per below figure, it implied good potential buying).

Table 1.6 Average P/BV and Peer Comparison

Company	EPS	ROE%	ROA%	D/E Ratio	Net Profit	P/BV* (Times)	Dividend Yield (%)
DCC	0.21	47.03	33.87	0.66	19.1	9.13	4.48
TGCI	0.17	8.64	9.38	0.13	10.61	1.31	3.17
PPP	0.46	16.82	10.28	1.33	9.04	1.92	3.14
SCP	0.98	19.62	20.26	0.23	16.74	1.59	4.94
DRT	0.32	14.49	12.22	0.55	7.93	1.92	6.52
CCP	0.02	3.93	3.64	0.86	2.22	1.48	0.27
DCON <XR>	0.08	17.58	16.78	0.43	15.1	3.37	10.3
GEL	0.02	2.48	2.34	0.11	4.92	0.6	1.85
Average	0.28	16.32	13.60	0.54	10.71	2.67	4.33

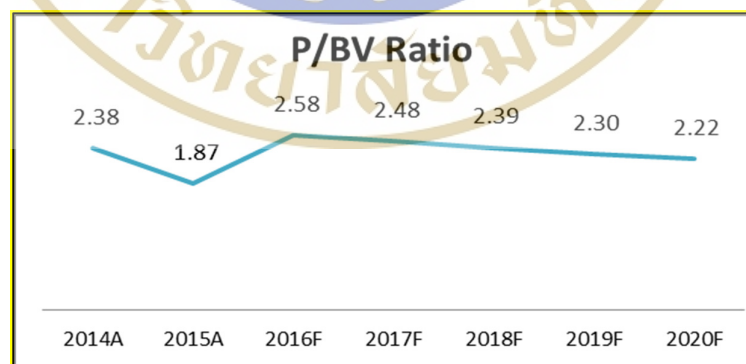


Figure 1.15 P/BV Ratio

In summary,

- Trailing P/BV of 2016 = 2.58x
- Forward P/BV of 2017 = 2.48x

1.7.4 Relative valuation: Trailing and Forward EV/EBITDA

Table 1.7 EV/EBITDA

Company	Price	# shares	M Cap	Debt	Cash	EV	EBITDA			EV/EBITDA		
							TTM	2017FCT	2018FCT	TTM	2017FCT	2018FCT
DRT	5.1	948	4,835	1496	42	6,289	796	784	801	7.90	8.02	7.85

Forward EV/EBITDA of 2017 = 8.02x

EBITDA is expected to drop in 2017, hence we see the higher forward EV/EBITDA than trailing EV/EBITDA, however, we foresee the increasing trend for EBITDA in 2018 onwards and result in the decreasing trend forward EV/EBITDA

1.8 Financial Statement Analysis

1.8.1 Strong cost efficiency, maintains high profit margin

DRT enjoys impressive profit margin every year and its EPS remain steady strong and projected at an average of 0.40 per annual.

1.8.2 Economic recovery signal positive growth on sales

Small decline in revenue from sales and services from 2,317million THB in first half of 2015 compare with 2,224million THB in first half of 2016 as a results of economic slowdown and downturn of agricultural sector. Nature of the revenue have a seasonal trend which mostly will generate higher on the first half of the year. However, we are expected base on macro-economic forecasting that sale will pick up in 2017 due to Thailand GDP growth, rising price of main agricultural products, real estate expansion, higher number of modern trade stores, prosperous CLMV economy, etc.

Forecasted that sale will continue growth at approximately 4 percent per annual throughout 2017-2018 according to five years historical CAGR growth rate

1.8.3 Net Profit Remains Stable

Goods expansion of export market and higher sale proportion of siding board products which contains high profit margin incentive DRT to remains satisfied net profit although there is a strong price competition on construction material market. Better management of production cost and inventory also lowering cost of production enhance higher gross profit which five years historical gross profit ratio is around 28 percent and net profit margin is at 10 percent.

1.8.4 Balance Sheet and Financing

DRT has consistency cash on hand and strong liquidity profile with the current ratio consistently exceeding 1.20. Inventory turnover was slightly rising by 1.4 percent along with movement from higher sale. In addition, diminishing decline of PPE rate by average of 3 percent as there is no mega expenditure of operation asset or manufacturing. Bank overdrafts and short-term loans projected to increase especially in 2016 as DRT will need cash amount of THB 520 million for 100millions shares re purchase. Funding structure of DRT will be mainly based on Short-term debt of 85 percent and Long-term debt around 15 percent. To lower leverage and ensure on financial flexibility, management has strategy of keeping debt per equity ratio at below 1.0x.

1.8.5 Well Balancing of Capital Structure

DRT has low D/E ratio indicating that the company has taken on relatively low debt and financing by its equity. It also implies the financially stable business and lower risky business. The company has low debt leveraging which result in low volatile earnings as a result of low interest expense. When looking into the same business in building construction, we found out that DRT has lower D/E ratio when comparing SET and Construction Material, hence DRT is considered as lower risky business in term of leveraging.

1.8.6 Cash Flow: High efficiency of operation

Cash conversion cycle has stable at 98 days with inventory turnover at approximately 80 days. DRT has credit term of approximately 30 days payable periods and 45 days of collection periods. DRT has maintained a level of cash and cash equivalents deemed adequate by management to finance the operations. Risk mitigations were also used to reduce effects of fluctuation in cash flows.

1.8.7 Common Size Analysis

Common size analysis will be focused on the latest published financial statement as of year ended 2015. The selected comparison companies are DCC, Q-Con and TGCI which these companies are in the same industry with similar size and business operation structure of DRT.

1.8.7.1 Statement of Income - Comparing DRT Income statement year ended 2015 with DCC, Q-Con, and TGCI. DRT performance was not very appreciated but if look more on historical (appendix 21) DRT operating performance on generating net income is quite satisfy compare with the competitor at around 10 percent.

1.8.7.2 Statement of Financial Position - With 100 percent of total asset, DRT hold huge percentage of account receivable compare with other competitors as most of DRT customers are retailers so providing them a credit term will rising DRT account receivable; however, its means that as higher as the AR, company can generate more sale. For inventory, it still pretty much as an average with the industry as DRT has good policy on inventory management. The company has low portion of cash and cash equivalent similar to others as excess cash will be used for products and operation development or generate to shareholders in form of dividend payment. With 100 percent of total liability and equity, DRT capital structure is based mainly on equity with total of 65 percent compare with other companies like DCC and Q-Con, they are relied more on debt. Therefore, this enhances DRT competitiveness on lower risk as well as more capital flexibility. Proportion of short term and long-term debt of DRT is similar to others which rely more on the short term rather than the long-term loan.

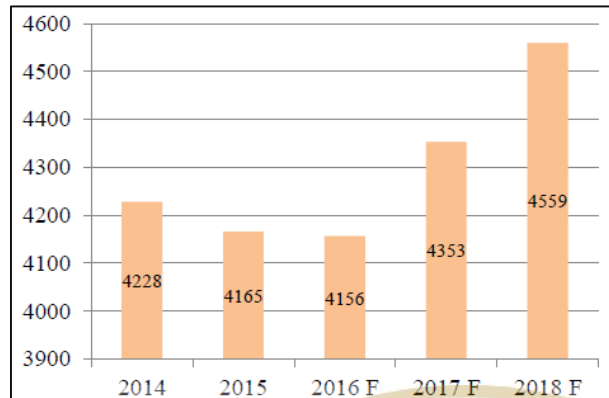


Figure 1.16 Sale Growths

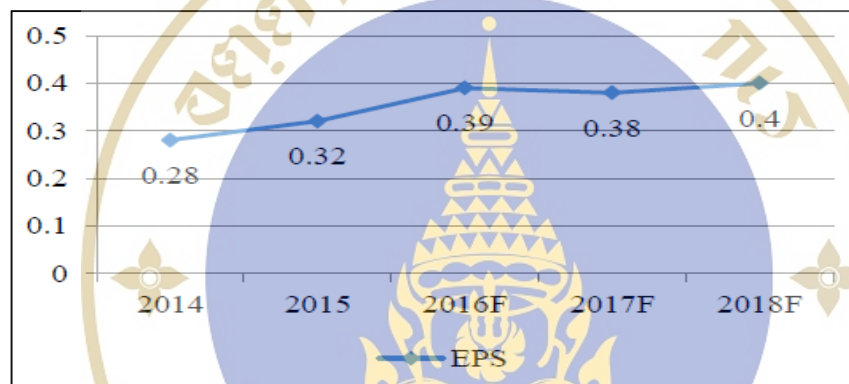


Figure 1.17 EPS Trend

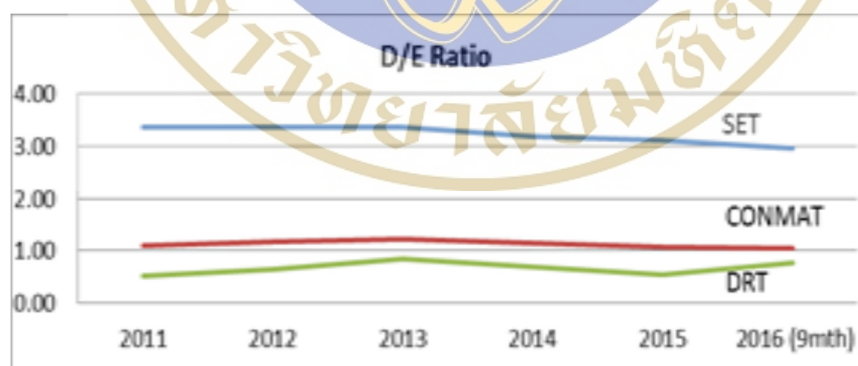


Figure 1.18 D/E Ratio Trend

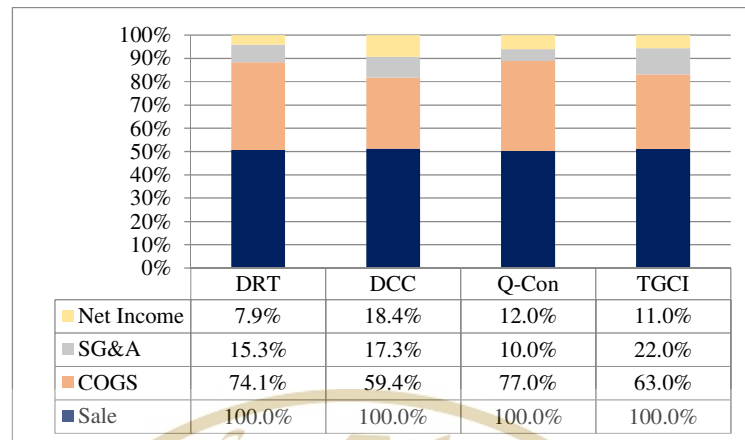


Figure 1.19 Income Statements

Comparing DRT Income statement year ended 2015 with DCC, Q-Con, and TGCI. DRT performance was not very appreciated but if considering more on historical, DRT operating performance on generating net income is quite satisfy compare with the competitor at around 10 percent.

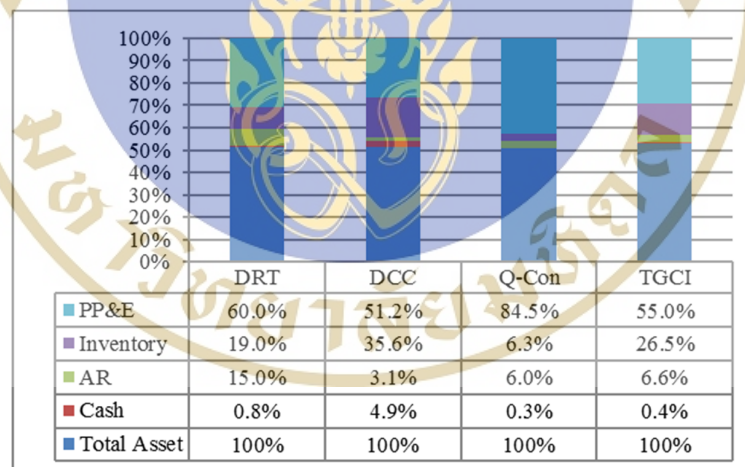


Figure 1.20 Statement of Financial Position (Asset)

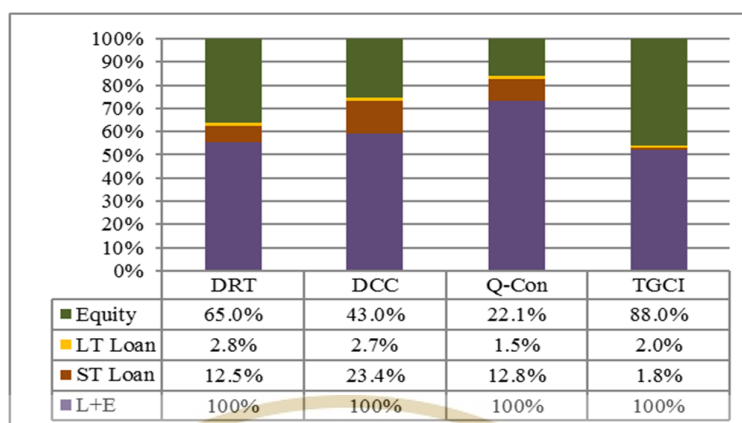


Figure 1.21 Statement of Financial Position (Liability and Equity)

1.9 Additional Upside Possibilities

1.9.1 Rising capital inflow to Thai market

Uncertainty on foreign economy, Fed still stable its interest rate and investor still curious on BREXIT and Europe's economy resulting in rising capital inflow to SET index with accumulated amount of 78,308.60 Million since January 2016.

1.9.2 Share repurchasing increase per share outstanding value

DRT decided for share repurchase program in June 2016, approximately 100 million shares or around 9.5% was being brought back as management believed that the current stock price was undervalued, this will enhance value of each share outstanding for instance, higher earnings per share and dividend per share.



Figure 1.22 SET Index Movements

1.10 Investment Risks

1.10.1 Macro-economic risks

1.10.1.1 Increasing minimum wages - Starting in 2017, The Central Wage Committee has agreed to increase the daily minimum wages throughout 69 provinces including where DRT manufacturing are located. This shall incur higher cost to DRT.

1.10.1.2 Thailand Political Transition - Election for Thailand prime minister shall be held in 2017 under a new constitution. This shall not guarantee on political instability situations. Therefore, if the situation continuously happens, it would lower investor confident as well as economic expansion.

1.10.2 Industry risks

1.10.2.1 Raw material shortage - DRT sources of raw material are relied more on third parties both domestic and international market. This arise incident which may affect DRT production such as natural disaster like flood or company strike. However, DRT has mitigated the risk by sources various distributor for similar products and plan it ahead as well as maintain good relationship with strong credit reliability to the supplier.

1.10.2.2 Price competition - Price cutting is one competition strategy use to acquire some market shares from new enters which might shrink DRT profit margin. However, the company has prepared to capture more shares from neighbouring countries which shall increase revenue allocation from international market.

1.10.2.3 Limitation use of Asbestos in Thailand - Termination of Asbestos used is being reviewed by the Ministry of Public Health shall impact company productivity especially for 4mm roofing tile. Although the company is developing new products without asbestos using, this still shall impact company cash flow. As the cost of operation will become higher and investing in new product and technology require huge capital.

1.10.3 Operation risks

1.10.3.1 Interest rate risk - Short term borrowing outstanding amount of approximately THB 323 million accounted for 59 percent are in floating interest rate. Therefore, it would incur higher cost to DRT if the interest rate was in-crease or weakening company financial position as incur higher leverage.

1.10.3.2 Liquidity risk - Shallow cash on hand might give the company difficult time if it's facing temporary cash flow problem. Higher cost of financing shall occur from higher debt issues. Company may have to sell out it owns asset which lowering company financial certainty.

Table 1.8 Risk Diagram

Impact			
	Significant	Moderate	Minor
Significant		<ul style="list-style-type: none"> Thailand political transition Interest rate hike 	<ul style="list-style-type: none"> Raw material shortage Cash shortage
Moderate	<ul style="list-style-type: none"> Rising minimum wages by the government Price Competition Limitation on Asbestos 		
Minor			
	Significant	Moderate	Minor

CHAPTER II

DATA

2.1 DRT Business Structure

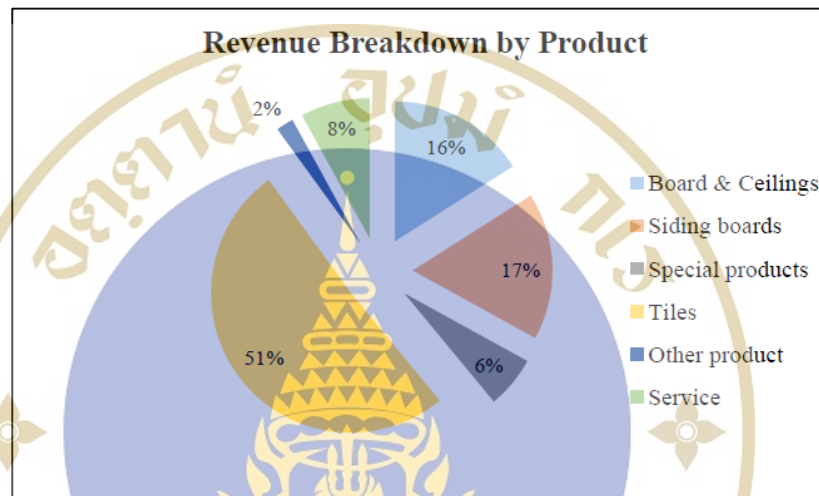


Figure 2.1 Revenue Structure

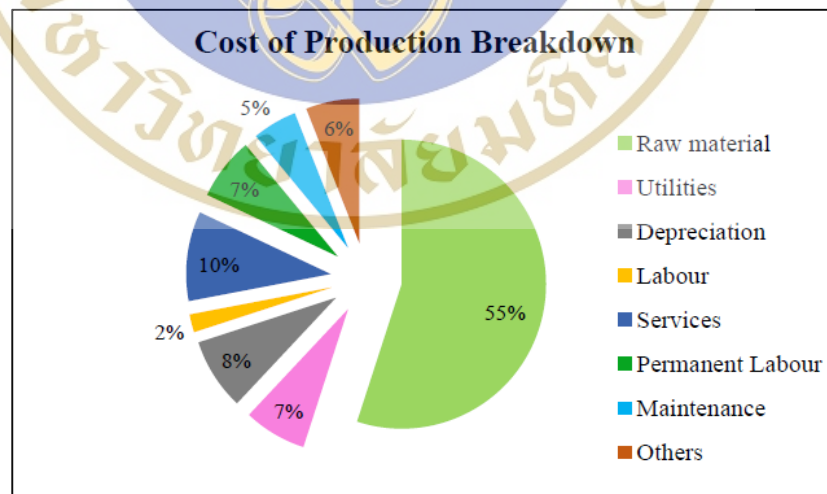


Figure 2.2 Cost Structure

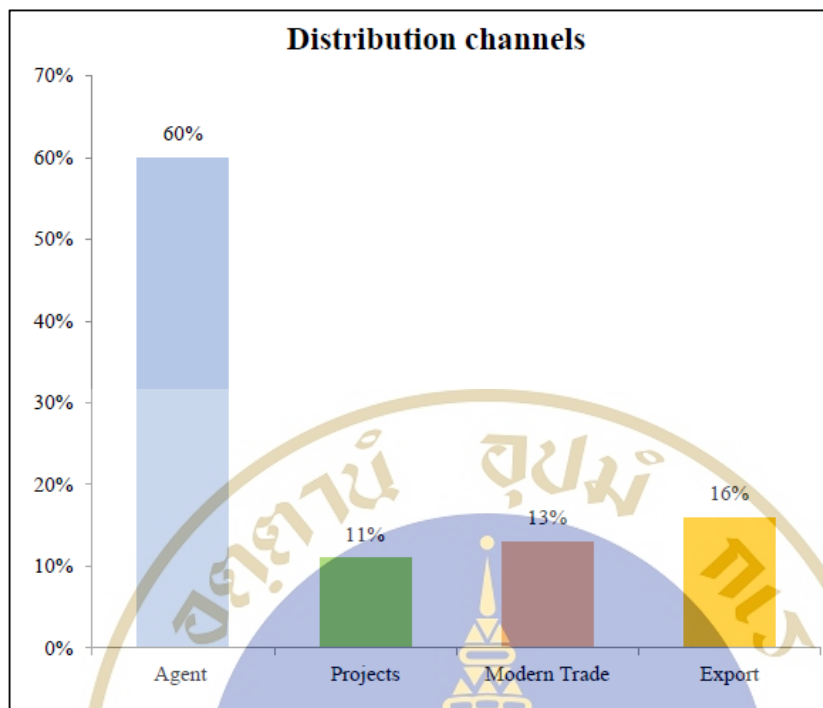


Figure 2.3 Distribution Channels

Table 2.1 Major Shareholders

Top 10 Major Shareholders(@30 Aug 2016)	Share	%
1.บริษัท มายเรียด วัสดุ จำกัด	557,847,900	53.23
2.บริษัท ผลิตภัณฑ์ตราเพชร จำกัด (มหาชน)	99,996,200	9.54
3.กองทุนเปิด บัวหลวงหุ้นระยะยาว	23,947,600	2.29
4.กองทุนเปิด บัวหลวงหุ้นระยะยาว 75/25	17,113,100	1.63
5.นาย ประกิต ประทีปะเสน	12,119,500	1.16
6.กองทุนเปิด บัวหลวงสิริผลบรรษัทภิบาล	10,616,200	1.01
7.นาง ศิริวรรณ จีงธีรพานิช	10,000,000	0.95
8.กองทุนเปิด บัวหลวงสิริผลบรรษัทภิบาลเพื่อการเลี้ยงชีพ	9,761,400	0.93
9.กองทุนเปิด บัวหลวงเฟล็กซ์เบิ้ลเพื่อการเลี้ยงชีพ	9,370,200	0.89
10.กองทุนเปิด บัวหลวงโครงสร้างพื้นฐานเพื่อการเลี้ยงชีพ	7,416,700	0.71

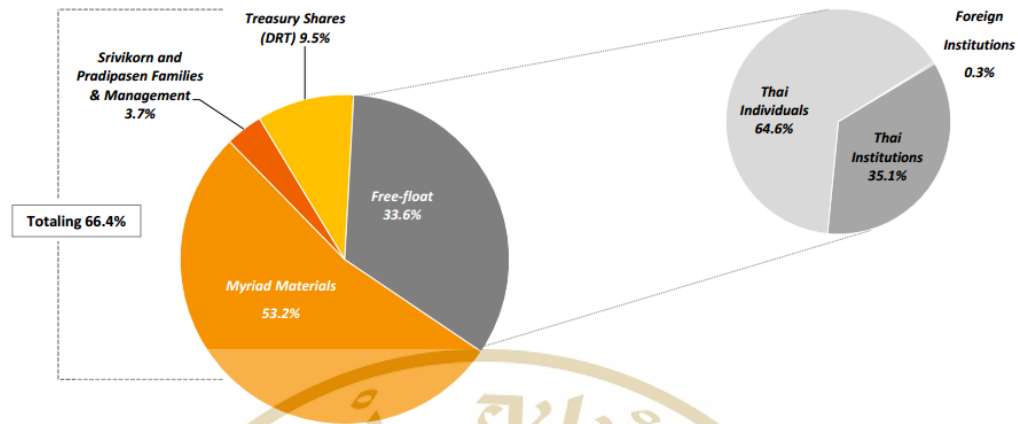


Figure 2.4 Free-float

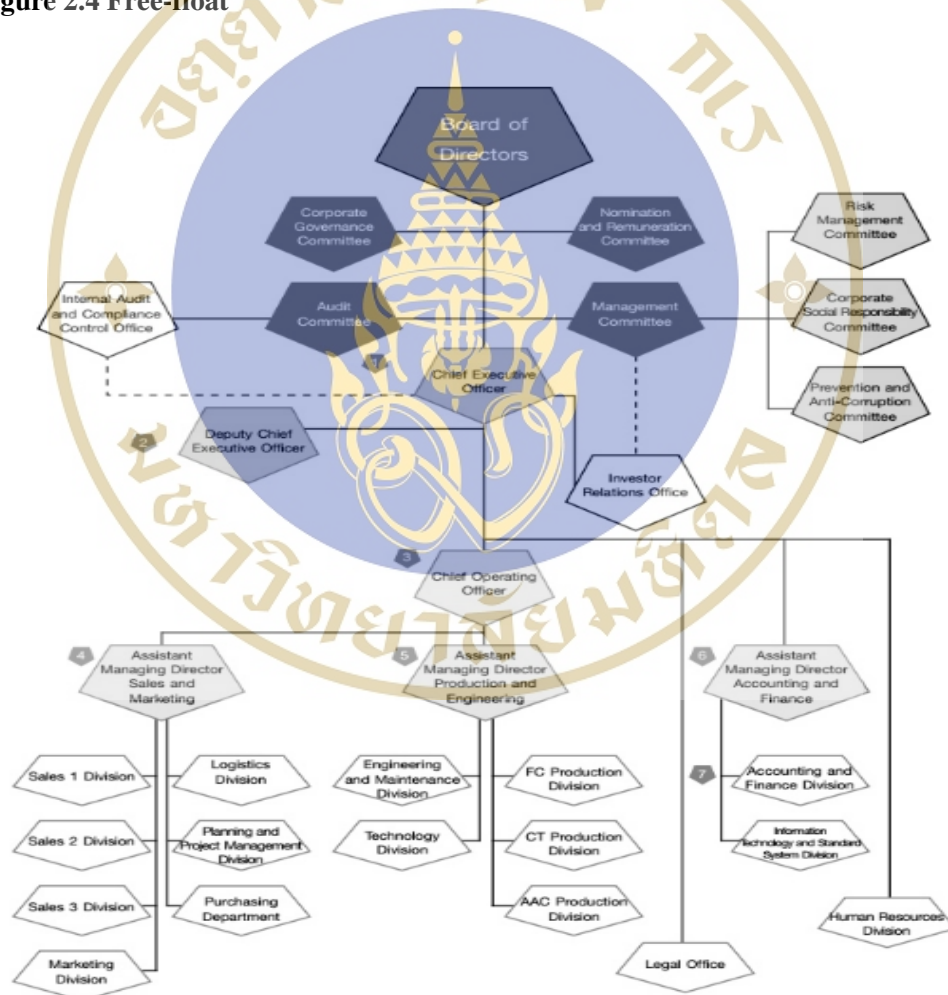
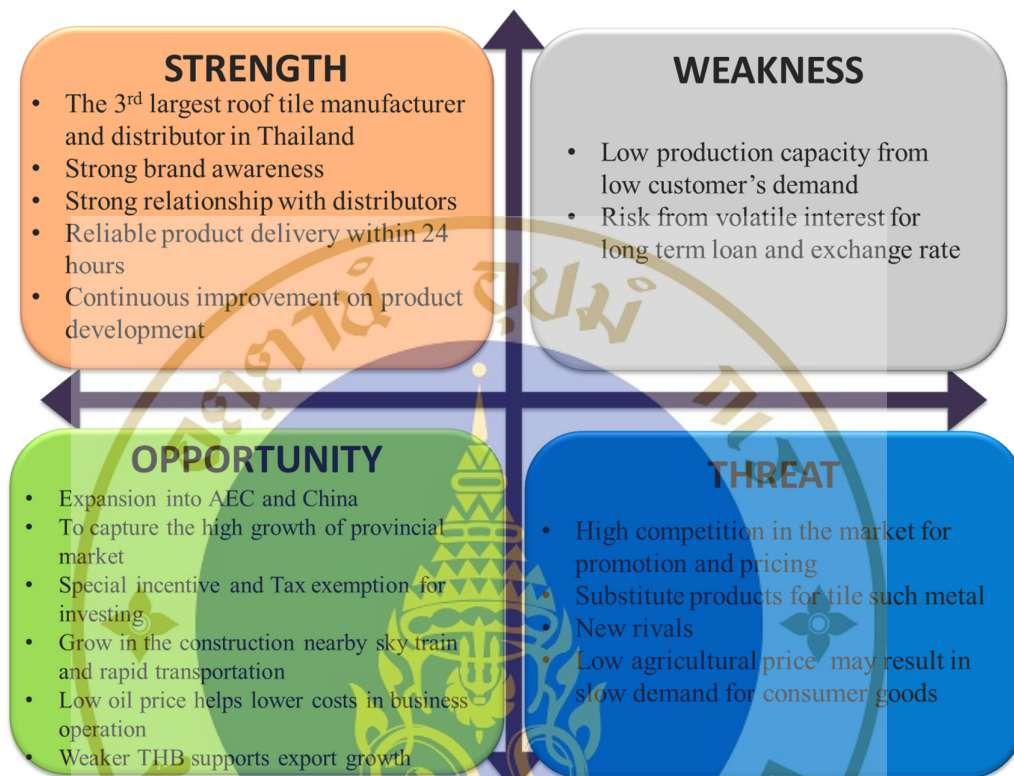


Figure 2.5 Organization Chart

2.2 SWOT Analysis

Table 2.2 DRT SWOT Analysis



Strength:

1. DRT is one of the largest roof tile manufacturer and distributor. DRT has continued to grow through product improvement and development and gradual production expansion over decades. DRT has invested in many areas such as owned distribution center (DC), located in KhonKean with capacity of 40,000 ton/year, acquired an autoclaved aerated concrete (AAC) plant in Chiangmai with capacity 50,000 ton/year and launched a new production line of autoclaved aerated concrete (AAC) in Saraburi with higher capacity of 892,000 ton/year and planning to open the new pro-duction line in Chonburi to support the growth journey, total capacity for 2016 is at 982,000 ton/year.

2. Strong brand awareness: Diamond Brand has been known as a high quality tile for nearly 30 years. Through its consistently seeking customer feedback, strong media &

communication and continuous product development, the firm adds value to its products and brand. Diamond Brand is now one of the Thailand's most trusted brands in tile.

3. Strong relationship with distributors: DRT has marketed its products through traditional dealers (mom and pop shops). Its strong and aged relationship with these distributors nationwide is one of DRT's competitive advantages and part of DRT's continued success.

4. DRT values customer's satisfaction, this includes with great customer service through reliable product delivery with 24 hours with regular training on product handling and safety. Integrated system linking through production, inventory, purchase order and logistic. Free trainings for contractor's employees on product handling & safety precautions.

5. DRT maintain consumer's needs and satisfaction, product variety and differentiation are the key to retain and enhance market base.

Opportunity:

1. To support the growth of AEC, government engages in and approves of massive projects, which pulls off a turn for construction industries. Well progression on infrastructure and sky train extension in different areas. Housing will be attracted to nearby space for transportation convenience.

2. One of DRT plans is to expand and capture key provincial area, especially the supported project from government's construction and housing.

3. With the incentives to invest in Thailand, supported by government for double depreciation expense for 2015-2016 for all companies that acquire new assets during November 3, 2015 to December 31, 2016, the qualified assets are machinery, equipment, tools, computers, software, vehicles, and buildings (excluding land and buildings for residential purposes), this supports the growth journey of company to expand its business. In addition, triple R&D Tax Expense Deduction, a tax deduction up to 3 times will be granted for expense relating to R&D of technology and innovation. The incentive is effective for eligible R&D expenditures incurred from 2015 to 2019. (Royal Decree No. 598).

4. With the positive sign from government engages in and approves of massive projects, this pulls off a turn for construction industries. Well progression on infrastructure

and sky train extension in different areas. Housing will be attracted to nearby space for transportation convenience and good opportunities for DRT to capture new demands via this sector.

5. With regards the on hold oil & gas price in the market, this helps the DRT business in logistic for the lower costs of transportation and distribution.

6. The weaker forex of THB will enable to support DRT to export more in AEC, China and Indonesia and the positive result for the increase in revenue.

Weakness:

1. Due to the slow demands in the market which has resulted from sluggish economy growth, this causes DRT has its production capacity approximately 72% and unfulfilled to utilize and maximize its assets and warehouses.

2. DRT has the risk from the exchange rate from its operation purchasing raw materials and selling its products through other countries, however DRT has managed the risk by foreign currencies exchange forward contract within one year, and by derivatives to manage the volatile of interest rate from long term loan, however, we foresee the potential risks from high fixed interest rate of long term loan at 2.49 - 3.67%

Threat:

1. DRT has faced the lower revenue from recent year due to the low demands within the market and high competition among sellers to capture the existing through intensive promotion and pricing campaigns.

2. DRT has its lower income from main core products, tile, and as a result of consumer's behavior has changed from tile to substitute products such as metal sheet which are lower price.

3. New rivals have entered into this business sector causes DRT has more competition.

4. Agricultural sector is one of the key sectors for Thailand economy. Low agricultural price causes low of purchasing power for majority farmers.

2.3 Five-force Analysis

Bargaining power of buyers (High) – Least favourable to DRT

Due to the slowdown in economy and low agriculture price impact, it has reflected to the slow demands consuming in the building construction. Consumers are more secure with their purchase and postpone the purchase until it is necessary. They consider low price of products which are very competitive in the building construction market. A few price drops can cause the change in selling or easily change their decisions. Based on the sampling survey through the sellers in modern trades, consumers do not see the different of quality of Tile's product; but price and appearance are matter. Consumers have more power to select products and it causes the pressure and intense to producers for price set up whether to follow the market or leading the market.

Competitive rivalry among existing competitors (High) - Least favorable to DRT

Recent new rival entered to the market, TPI Polene who offers the lower price. TPI Polene is the existing producer in construction material but just extended their product lines to Tile's segment. As mentioned, people are more careful on their purchase and sensitive to the pricing in the building construction market, this poses the high impact to DRT.

Bargaining power of suppliers (Moderate) – Favourable to DRT

DRT has entered and stayed in building construction business for long, and it has the good relationship with suppliers. Supplier's contract for fixed pricing and services are in place to avoid the fluctuation costs and the unexpected operation. Supplier has moderate to bargain due to DRT has high bargaining power due to its large volume purchase within the top 3 in building material construction.

Threat of new entrants (Moderate) – Favourable to DRT

With supporting policies and regulations from the government such as Tax exemption for AEC producer who uses Thailand as a hub, it has encouraged more new entrance as well as strengthening the existing one. However, the new entrants in the construction materials would require the high capital investments such as land, factory, warehouse,

distribution centre and machines, we foresee that the new rivals are hard to enter in this sector but once they are in, it causes the high impact to DRT.

Threat of substitute products or services (Moderate) – Favourable to DRT

With recent trend of consumers, they prefer to use zinc or metal tile as the substitute products than normal concrete tile because the price is much lower. However, the product life for metal tile is shorter. People who buy this metal tile product, they will use as the short-medium term building or temporary construction, but new housing, new building construction or housing construction project, concrete tile material is the most preferable.

Our Porter Five Force's analysis implies intense and unfavourable competitive environment in the market. There are low barrier to enter, high bargaining power of customers and threat of substitutes, price-sensitive to consumers. However, DRT its strength in own product innovation, variation and differentiation as these groups of consumers are exposed to various choices of materials and offers. DRT can still play a competitive role with competitive price and excellent service proposition to offer to consumers.

2.4 Income Statement

Table 2.3 Income Statement including projections

	2010A	2011A	2012A	2013A	2014A	2015A	2016F	2017F	2018F	2019F	2020F
Income Statement (Million THB)											
Revenue											
Sales of goods and rendering of services	3,304	3,693	3,884	4,402	4,228	4,165	4,156	4,353	4,559	4,640	4,722
Cost of goods sold	2,247	2,546	2,711	3,231	3,213	3,088	3,072	3,265	3,420	3,480	3,542
Gross profit	1,057	1,147	1,173	1,171	1,015	1,077	1,084	1,088	1,140	1,160	1,181
Other Income	21	14	70	27	22	9	9	10	10	10	10
Profit Before Expense	1078	1161	1243	1198	1037	1086	1,093	1,098	1,150	1,170	1,191
Selling expense	176	159	144	153	180	201	195	183	192	196	199
General and admin expense	294	338	382	438	442	434	414	434	454	462	471
SG&A Expenses	470	497	526	591	622	636	609	617	646	658	670
EBIDA	782	864	924	900	744	762	796	784	801	804	808
Depreciation and Amortisation	174	201	208	293	329	311	312	304	298	292	287
EBIT	608	663	716	607	415	450	484	481	503	512	521
Interest expenses	9	13	8	43	51	34	24	29	29	28	27
EBT	600	651	708	564	365	416	460	452	474	484	494
Tax	146	191	163	113	75	86	92	90	95	97	99
NET INCOME	454	460	546	451	289	330	368	361	379	387	395
EARNINGS PER SHARE	0.46	0.46	0.52	0.43	0.28	0.32	0.39	0.38	0.40	0.41	0.42

2.5 Balance Sheet

Table 2.4 Balance Sheet including projections

	2011A	2012A	2013A	2014A	2015A	2016F	2017F	2018F	2019F	2020F
Balance Sheet										
Asset										
Cash and cash equivalence	22	57	59	14	28	42	44	46	47	48
Marketable security	-	-	-	-	-	-	-	-	-	-
Account receivable	438	499	570	523	551	524	549	575	585	595
INVENTORY	692	632	796	675	682	703	736	771	785	799
Others	47	6	36	41	74	41	43	45	46	47
Total current asset	1,199	1,193	1,461	1,252	1,336	1,310	1,372	1,437	1,463	1,489
Plant, Property and Equipment (PPE)	1,582	2,288	2,638	2,404	2,143	1,951	1,899	1,862	1,826	1,791
LT investment	-	-	-	-	-	-	-	-	-	-
Others	312	163	141	135	114	112	109	107	105	103
Total non-current asset	1,894	2,451	2,779	2,539	2,257	2,063	2,008	1,969	1,931	1,894
Total Asset	3,093	3,644	4,240	3,791	3,593	3,373	3,380	3,406	3,394	3,383
Liabilities										
Bank overdrafts and short term loan	177	111	420	394	450	823	788	678	549	477
Current Portion of LT Loan	75	170	250	400	288	100	48	98	143	135
Current Portion of finance lease liabilities	4	6	6	6	6	4	4	4	4	-
Account Payable	245	281	314	215	272	256	268	281	286	291
Other current liabilities	112	140	60	32	54	107	112	118	120	122
Total Current Liability	614	708	1,050	1,048	1,069	1,291	1,221	1,178	1,102	1,025
Long-term debts	358	649	816	418	100	145	147	137	122	108
Finance lease liabilities	13	13	8	8	18	13	9	4	-	-
Others	62	61	66	74	82	60	63	66	67	68
Total Non-Current Liabilities	433	723	890	499	200	205	210	203	189	176
Total Liabilities	1,047	1,431	1,940	1,547	1,269	1,496	1,431	1,381	1,291	1,201
Shareholder's Equity										
Paid-up Capital	1,027	1,038	1,048	1,048	1,048	1,048	1,048	1,048	1,048	1,048
Premium on ordinary shares	138	153	166	167	167	167	167	167	167	167
Premium on treasury shares	159	165	165	165	165	165	165	165	165	165
Retain earning	725	857	921	865	944	1,018	1,090	1,166	1,243	1,322
Treasury shares	-	2	-	-	-	520	-	520	-	520
Total Equity	2,046	2,213	2,300	2,244	2,324	1,877	1,949	2,025	2,103	2,182
Total Liability and Equity	3,093	3,644	4,240	3,791	3,593	3,373	3,380	3,406	3,394	3,383

2.6 Statement of Cash Flow

Table 2.5 Statement of Cash Flow including projections

	2011A	2012A	2013A	2014A	2015A	2016F	2017F	2018F	2019F	2020F
Cash Flow Statement										
Net income	460	546	451	289	330	368	361	379	387	395
Depreciation and Amortization	201	208	293	329	311	312	304	298	292	287
Change in A/R	(71)	(61)	(72)	47	(28)	28	(25)	(26)	(10)	(10)
Change in Inventory	(285)	60	(164)	121	(7)	(21)	(33)	(35)	(14)	(14)
Change in A/P	102	36	33	(100)	57	(16)	12	13	5	5
Change in Other Current Assets	(14)	41	(31)	(4)	(34)	33	(2)	(2)	(1)	(1)
Change in Other Current Liabilities	(68)	28	(80)	(27)	21	53	5	5	2	2
Change in Other Non-Current Liabilities	55	(1)	5	8	8	(22)	3	3	1	1
Others	(65)	(137)	22	25	41	(613)	(231)	(240)	(235)	(235)
Operating Cash flow	315	720	458	688	700	123	394	395	428	430
Net CAPEX	(350)	(663)	(521)	(58)	(19)	(17.49)	(17.03)	(16.70)	(16.37)	(16.06)
Others	(190)	39	(49)	0	0	-	-	-	-	-
Investment Cash Flow	(540)	(623)	(570)	(57)	(19)	(17.49)	(17.03)	(16.70)	(16.37)	(16.06)
Free Cash Flow	(225)	97	(112)	631	681	105	377	379	412	414
Change in Share Capital	13	11	10	-	-	-	-	-	-	-
Change in Bank overdrafts and S/T	167	(66)	309	(26)	56	373	(35)	(110)	(129)	(72)
Change in Current Portion L/T	(24)	95	80	150	(113)	(188)	(52)	49	46	(8)
Change in Current Portion Financial lease	0	1	0	0	(0)	(1)	-	-	-	(4)
Change in L/T	275	291	167	(398)	(316)	45	2	(11)	(15)	(14)
Change in Financial lease	(4)	0	(5)	(1)	10	(4)	(4)	(4)	(4)	-
Change in Other L/T	55	(1)	5	8	8	(22)	3	3	1	1
Change in Premium on Ordinary Share	17	15	13	1	-	-	-	-	-	-
Change in Premium on Treasury Share	80	6	-	-	-	-	-	-	-	-
Dividend paid	(363)	(412)	(416)	(346)	(252)	(294)	(289)	(304)	(310)	(316)
Others	(27)	(4)	(49)	(64)	(58)	-	-	-	-	-
Financing Cash Flow	190	(62)	115	(675)	(666)	(91)	(375)	(377)	(411)	(413)
Net Cash flow	(35)	35	2	(45)	14	14	2	2	1	1

2.7 Financial Ratios

Table 2.6 Summary of key financial ratios

Financial Ratio	2011A	2012A	2013A	2014A	2015A	2016F	2017F	2018F	2019F	2020F
Short-term Liquidity Risk										
Current Ratio	1.95	1.69	1.39	1.19	1.25	1.01	1.12	1.22	1.33	1.45
Quick Ratio	0.75	0.78	0.60	0.51	0.54	0.44	0.49	0.53	0.57	0.63
Cash Conversion Cycle	107.31	94.13	101.69	97.45	96.79	99.11	98.34	98.34	98.34	98.34
Interest Coverage Ratio	52.77	93.61	13.99	8.20	13.12	19.82	16.72	17.43	18.06	19.30
Turnover Ratio										
Sale to Asset	1.19	1.07	1.04	1.12	1.16	1.23	1.29	1.34	1.37	1.40
Account Receivable Turnover	9.18	8.30	8.24	7.74	7.75	7.73	8.12	8.12	8.01	8.01
Account Payable Turnover	13.11	10.31	10.86	12.15	12.70	11.64	12.46	12.46	12.29	12.29
Inventory Turnover	4.63	4.10	4.53	4.37	4.55	4.44	4.54	4.54	4.47	4.47
ROA	14.9%	15.0%	10.6%	7.6%	9.2%	10.9%	10.7%	11.1%	11.4%	11.7%
Net Profit Margin	12.5%	14.0%	10.2%	6.8%	7.9%	8.9%	8.3%	8.3%	8.3%	8.4%
Asset Turnover	1.19	1.07	1.04	1.12	1.16	1.23	1.29	1.34	1.37	1.40
ROE	22.5%	24.7%	19.6%	12.9%	14.2%	19.6%	18.5%	18.7%	18.4%	18.1%
Dividend Yield	5.5%	5.3%	5.0%	6.5%	5.8%	6.1%	6.0%	6.3%	6.4%	6.5%

2.8 Appendix

Table 2.7 Common size and Trend Analysis (Income Statement), (cont.)

Trend Analysis	2014A	2015A	2016F	2017F	2018F	2019F	2020F
Income Statement							
Sales of goods and rendering of services	-3.95%	-1.49%	-0.22%	4.74%	4.74%	1.77%	1.77%
COGS	-0.56%	-3.89%	-0.52%	6.27%	4.74%	1.77%	1.77%
Gross Profit	-13.32%	6.11%	0.65%	0.39%	4.74%	1.77%	1.77%
Other Income	-18.35%	-59.39%	2.95%	2.95%	2.95%	2.95%	2.95%
Profit Before Expense	-13.44%	4.71%	0.67%	0.41%	4.73%	1.78%	1.78%
Selling expense	17.85%	11.56%	-3.13%	-5.93%	4.74%	1.77%	1.77%
G&A expense	0.80%	-1.66%	-4.66%	4.78%	4.74%	1.77%	1.77%
SG&A Expenses	5.22%	2.17%	-4.18%	1.35%	4.74%	1.77%	1.77%
EBIDA	-17.30%	2.36%	4.55%	-1.51%	2.13%	0.41%	0.45%
Depr&Amortization	12.34%	-5.39%	0.28%	-2.67%	-1.94%	-1.93%	-1.92%
EBIT	-31.60%	8.51%	7.50%	-0.77%	4.71%	1.79%	1.79%
Interest expense	16.64%	-32.17%	-28.82%	17.64%	0.43%	-1.77%	-4.76%
EBT	-35.32%	14.16%	10.50%	-1.74%	4.98%	2.01%	2.18%
Tax	-33.17%	13.66%	7.27%	-1.74%	4.98%	2.01%	2.18%
Net income	-35.86%	14.29%	11.34%	-1.74%	4.98%	2.01%	2.18%
EPS	-34.88%	14.29%	21.26%	-1.74%	4.98%	2.01%	2.18%

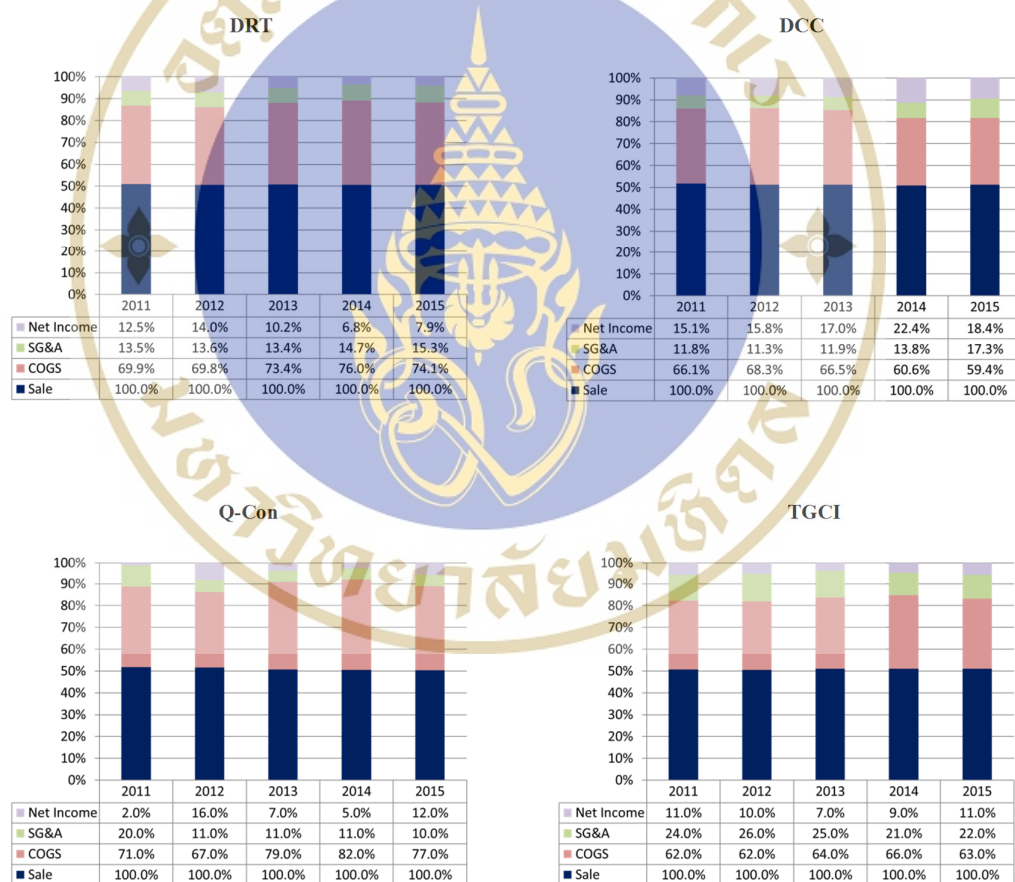


Figure 2.7 Common size and Trend Analysis (Income Statement)

Table 2.8 Common size and Trend Analysis (Balance Sheet)

Common size Analysis	2014A	2015A	2016F	2017F	2018F	2019F	2020F
Balance Sheet							
Asset							
Cash and cash equivalence	0%	1%	1%	1%	1%	1%	1%
Account receivable	14%	15%	16%	16%	17%	17%	18%
INVENTORY	18%	19%	21%	22%	23%	23%	24%
Others	1%	2%	1%	1%	1%	1%	1%
Total current asset	33%	37%	39%	41%	42%	43%	44%
Plant, Property and Equipment (PPE)	63%	60%	58%	56%	55%	54%	53%
Others	4%	3%	3%	3%	3%	3%	3%
Total non-current asset	67%	63%	61%	59%	58%	57%	56%
TOTAL ASSETS	100%	100%	100%	100%	100%	100%	100%
Liabilities							
Bank overdrafts and short term loan	10%	13%	24%	23%	20%	16%	14%
Current Portion of L/T Loan	10.55%	8.00%	2.96%	1.43%	2.86%	4.22%	4.00%
Current Portion of finance lease liabilities	0.17%	0.16%	0.13%	0.13%	0.13%	0.13%	0.00%
Account Payable	6%	8%	8%	8%	8%	8%	9%
Other current liabilities	1%	1%	3%	3%	3%	4%	4%
Total Current Liability	28%	30%	38%	36%	35%	32%	30%
Long-term debts	11%	3%	4%	4%	4%	4%	3%
Finance lease liabilities	0.2%	0.5%	0.4%	0.3%	0.1%	0.0%	0.0%
Others	2%	2%	2%	2%	2%	2%	2%
Total Non-Current Liabilities	13%	6%	6%	6%	6%	6%	5%
Total Liabilities	41%	35%	44%	42%	41%	38%	36%
Shareholder's Equity							
Premium on ordinary shares	4%	5%	5%	5%	5%	5%	5%
Premium on treasury shares	4%	5%	5%	5%	5%	5%	5%
Retain earning	23%	26%	30%	32%	34%	37%	39%
Treasury shares	-	-	-	-	-	-	-
TOTAL EQUITY	59%	65%	56%	58%	59%	62%	64%
TOTAL LIABILITIES AND EQUITY	100%	100%	100%	100%	100%	100%	100%

Trend Analysis	2014A	2015A	2016F	2017F	2018F	2019F	2020F
Balance Sheet							
Asset							
Cash and cash equivalence	-77%	110%	49%	5%	5%	2%	2%
Account receivable	-8%	5%	-5%	5%	5%	2%	2%
INVENTORY	85%	101%	103%	105%	105%	102%	102%
Others	12%	83%	-44%	5%	5%	2%	2%
Total current asset	-14%	7%	-2%	5%	5%	2%	2%
Plant, Property and Equipment (PPE)	-9%	-11%	-9%	-3%	-2%	-2%	-2%
Others	-4%	-16%	-2%	-2%	-2%	-2%	-2%
Total non-current asset	-9%	-11%	-9%	-3%	-2%	-2%	-2%
TOTAL ASSETS	-10.6%	-5.2%	-6.1%	0.2%	0.8%	-0.4%	-0.3%
Liabilities							
Bank overdrafts and short term loan	-6%	14%	83%	-4%	-14%	-19%	-13%
Current Portion of L/T Loan	60%	-28%	-65%	-52%	102%	47%	-5%
Current Portion of finance lease liabilities	5.33%	-6.43%	-24.75%	0.00%	0.00%	0.00%	-100.00%
Account Payable	-32%	27%	-6%	5%	5%	2%	2%
Other current liabilities	-46%	66%	99%	5%	5%	2%	2%
Total Current Liability	0%	2%	21%	-5%	-4%	-6%	-7%
Long-term debts	-49%	-76%	45%	2%	-7%	-11%	-12%
Finance lease liabilities	-6.3%	137.3%	-25.0%	-33.3%	-50.0%	-100.0%	0.0%
Others	12%	11%	-26%	5%	5%	2%	2%
Total Non-Current Liabilities	-44%	-60%	2%	2%	-3%	-7%	-7%
Total Liabilities	-20%	-18%	18%	-4%	-3%	-7%	-7%
Shareholder's Equity							
Premium on ordinary shares	0%	0%	0%	0%	0%	0%	0%
Premium on treasury shares	0%	0%	0%	0%	0%	0%	0%
Retain earning	-6%	9%	8%	7%	7%	7%	6%
TOTAL EQUITY	-2%	4%	-19%	4%	4%	4%	4%
TOTAL LIABILITIES AND EQUITY	-11%	-5%	-6%	0%	1%	0%	0%

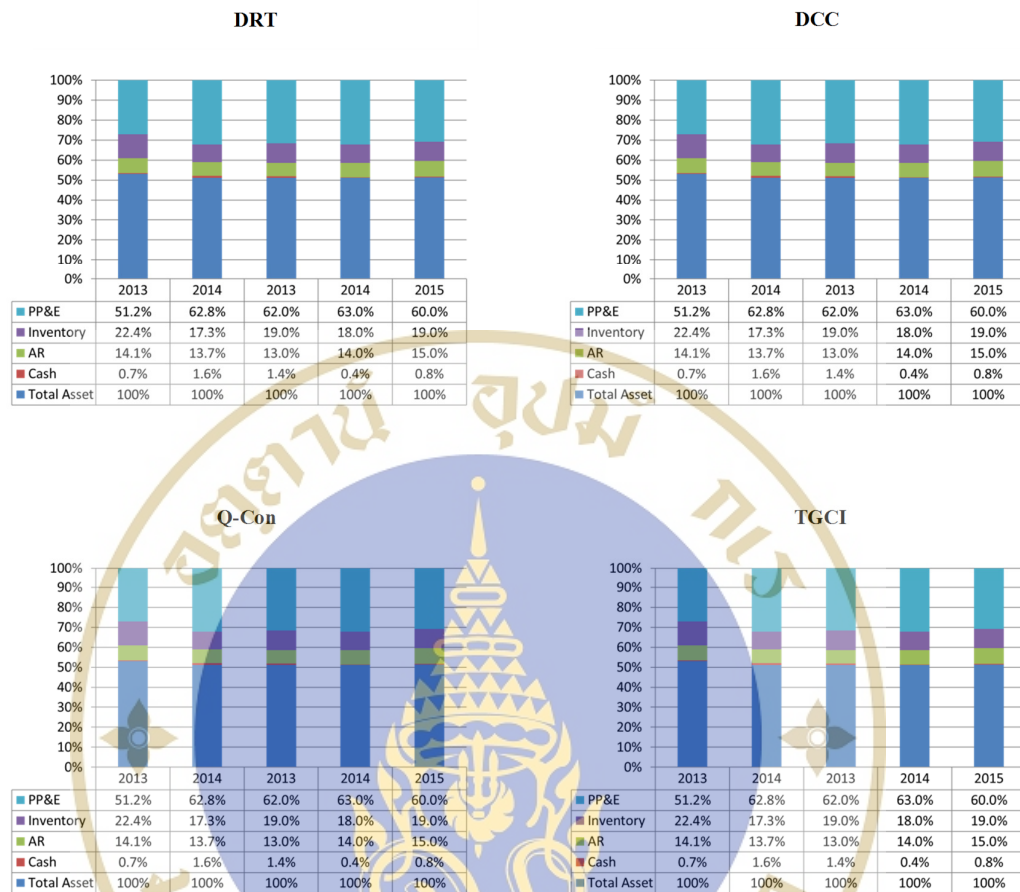


Figure 2.8 Common size and Trend Analysis (Balance Sheet)

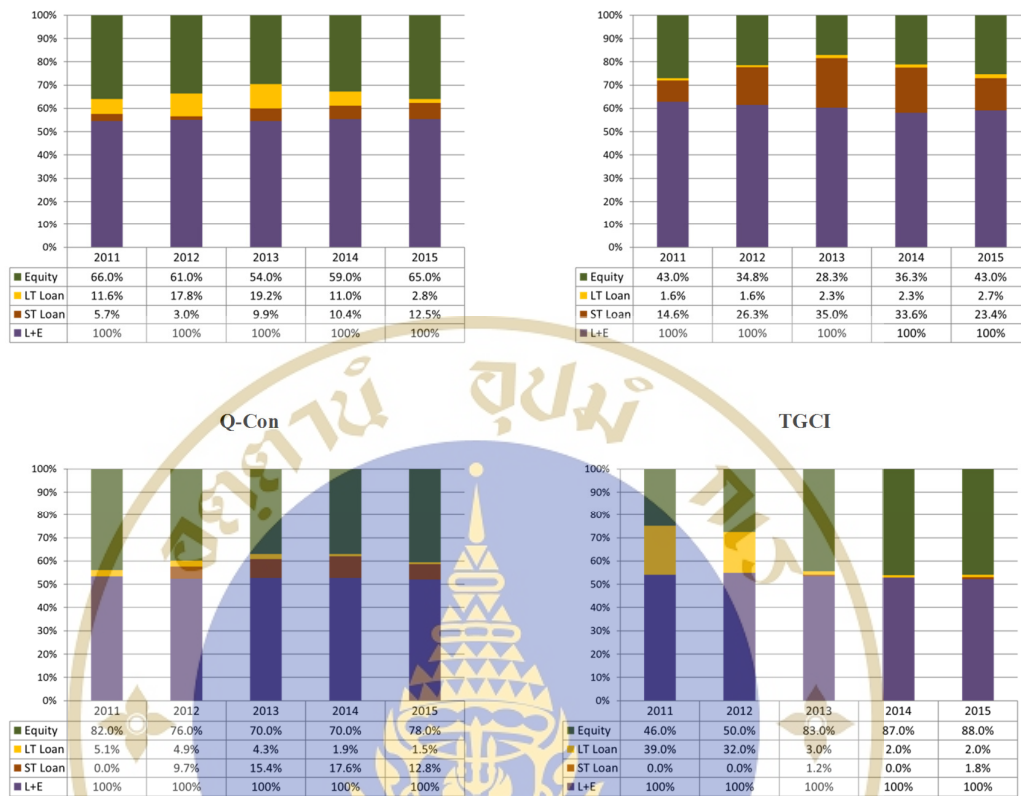


Figure 2.9 Common Size (Balance Sheet: Liability and Equity)

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