

Recommendation BUY

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Target price	23,200
Closing price	18,200
Upside	27.5%

Dang Quang (TA)

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Target price	20,860
Cut loss	17,740

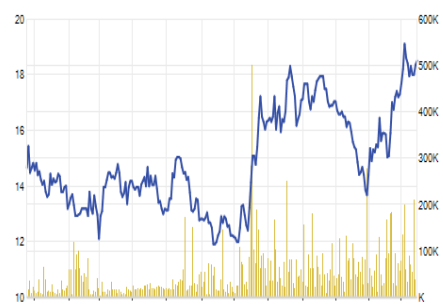
Market data

Outstanding share ('000)	59,938
Mkt Cap (bil VND)	1,099
High of 52w	20,450
Avg Vol 10 days (share)	92,491
Foreign ownership	8.74%

Major shareholders

Huong Viet Investment Cc	20.16%
Dang Trieu Hoa	13.90%
Dang My Linh	8.53%
Dang Huong Cuong	8.53%

Price movement for 1 year



Company Overview

STK is one of the leading enterprises in Vietnam market in the production of polyester long yarn with a designed capacity of 63 thousand tons/year. The company's products are inputs for fabric weaving factories for the production of high-end sportswear.

DIFFICULTY HAS GONE

Valuation

We recommend **BUY** for STK stock with the target price for 2019 of VND **23,200/share** (+ 27.5%) based on P/E valuation method with a target multiple of 7x (equivalent to the industry average, but lower than STK's historical value of 8x). We assess STK's current valuation to be relatively cheap compared to our forecasted EPS 2019.

Business results forecast

BSC estimates that STK's 2019 net revenue will reach 2,571 billion (+ 6.8% YoY), the gross margin will rise to 14.6%. Our assumptions are (1) unit selling price of each kind of yarn remains stable, but the average selling price will increase by 1.2% thanks to changing product structure; (2) average price of resin -1% YoY following the downtrend of oil prices and thanks to increase portion of recycled resin. Operating profit (EBIT) will probably reach 271.5 billion (+ 10.6% YoY). Profit after tax is forecasted at 227.4 billion (+ 26.6% YoY), equivalent to EPS = 3.313 VND/share, P/E fw = 4.8x.

Investment highlights

- (1) Demand for polyester yarn continues to grow.** The world fashion market size is forecasted to increase at a rate of 3.5% -4.5% in 2019; the trend of shifting to using synthetic fibers is superior to cotton (the proportion of polyester fiber increased to 37% in 2017 compared to 30% in 2010, the growth rate of consumed volume in the period of 2010-2017 was 6.6%).
- (2) Trang Bang 5 project (+3,300 tons; + 5.5% of capacity)** will come into commercial operation in 2019 will help increase production.
- (3) Increasing the proportion of recycled yarn** (of which price gap is about 20-30% higher than the normal products) **helps improve profit margin.**

Investment Risks

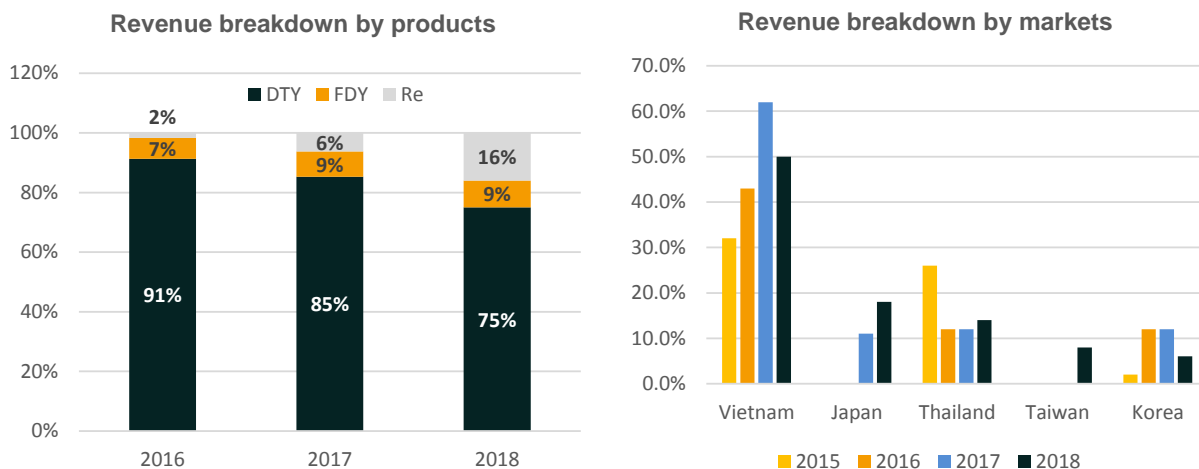
- (1) Fluctuations in raw material prices:** The resin expense accounts for 70% of the total cost and is affected by oil price, so changes in PET chips price will affect the selling price and business results of the company.
- (2) Competition risk:** we assess the level of competition is average, because long synthetic yarn products are not distinguishing.
- (3) Exchange rate risk:** The company has a relatively balanced level between revenue and cost in USD, so it can limit exchange rate risks. Unrealized loss from debt in foreign currency is insignificant (BSC estimates 1% increase of VND/USD exchange rate, STK will have to record a loss of 3.1 billion VND).

Company updates

- (1) Business results 2018:** Net revenue reached VND 2,408 billion (+ 21% YoY); net profit of VND 179.6 billion (+ 80.3% YoY), equivalent to EPS = VND 2,997/share. Dividend is expected to be 15% in cash (equivalent to the dividend yield = 8.3%).
- (2) Business plan 2019:** Output will increase by 7% after Trang Bang 5 factory running at full capacity; 2019 revenue is likely to be VND 2,603 billion (+ 8.1% YoY), EAT of 199.5 billion (+ 11.02% YoY).
- (3) New investment project:** Color yarn project (4,000 tons, CAPEX of 200,000 - 300,000 USD) is expected to be invested in 2H2019.

(1) Business results 2018

- Net revenue reached VND 2,408 billion (+ 21% YoY) thanks to the average selling price in 2018 increased by 20.9% YoY while consumption volume was equivalent to the same period.



Source: STK, BSC Research

DTY (Drawn Textured Yarn); FDY (Fully Drawn Yarn); Re: Recycled yarn

- Gross margin soared from 10.9% to 13.9% thanks to (1) the contribution of Re in revenue increased from 6.2% to 16%; (2) selling prices of many yarn types also climbed (DTY + 20%, FDY recycle + 30%).
- The percentage of selling and G&A expense over revenue decreased from 1.6% to 1.4% and from 2.9% to 2.3% respectively, so EBIT margin increased sharply from 6.3% to 10.2%.
- 2018 NPAT = 179.6 billion (+ 80.3% YoY), equivalent to EPS = VND 2,997/share.

(2) Business plan 2019

- Volume is projected to increase by 7% after running Trang Bang 5 factory at full capacity.
- Revenue in 2019 will be VND 2,603 billion (+ 8.1% YoY), the gross profit margin is probably stable at 14% as in 2018. Net income will reach 199.5 billion (+ 11.02% YoY).

(3) New investment project

- Color yarn project (4,000 tons, CAPEX 200,000 - 300,000 USD) is expected to be invested in 2H2019.
- Other projects: spandex yarn, textile fiber alliance establishment: no specific plan, investment capital is not too large.
- Polymerization project aims to self-control input materials will be implemented in 2020-2021.

Business results forecasts:

BSC estimates STK's 2019 net revenue will reach 2,571 billion (+ 5.8% YoY), gross profit margin is improved to 14.6% with the assumption:

- Consumption of yarn production grows by 5.5% YoY, the selling price of yarns remain unchanged, but the average selling price increases thanks to the increase of Re's contribution to 19% of revenue.
- Cost of raw materials -1% YoY.

Profit from operating activities is expected to reach VND 271 billion (+ 10.6% YoY). With a net financial expense estimated for 2019 = 19 billion (-56% YoY), 2019 NPAT will grow strongly by 26.6% YoY, reaching 227.4 billion, equivalent to EPS = 3.313 VND/share.

STK - Century Synthetic Fiber Corporation

Financial analysis

22/03/2019

BSC

	2014	2015	2016	2017	2018
Net revenue	1,458	1,035	1,358	1,989	2,408
Gross profit	213	187	129	217	335
Financial revenue	2	14	1	8	16
Financial expenses	(13)	(53)	(30)	(30)	(59)
Interest	(8)	(5)	(16)	(27)	(29)
Selling expenses	(32)	(24)	(25)	(32)	(33)
General and administrative	(35)	(38)	(45)	(59)	(56)
Operating profit/loss	135	86	29	104	202
Other loss/profit	1	1	1	1	(3)
Profit before tax	136	87	31	105	199
Profit after tax	106	71	29	100	180
Minority interest	-	-	-	-	-
Parent company profit	106	71	29	100	180
EPS					
Current assets	463	467	594	613	796
Money and short-term in	148	7	87	117	198
Short-term receivables	112	74	85	63	69
Inventories	184	356	402	399	499
Other current assets	20	30	20	34	31
Long-term assets	782	1,252	1,431	1,365	1,308
Long-term receivables	-	-	-	-	-
Fix assets	744	607	1,350	1,208	1,146
Long-term uncompleted i	-	563	1	2	14
Other long-term assets	37	42	40	129	146
Total assets	1,245	1,719	2,025	1,979	2,105
Liabilities	570	1,029	1,329	1,200	1,195
Short-term liabilities	208	401	678	732	847
Short-term Debt	26	190	391	341	427
Long-term liabilities	363	628	652	468	348
Long-term Debt	207	627	652	467	348
Equity	675	690	695	779	910
Contributed capital	423	465	535	599	599
Undistributed profits	222	188	123	143	274
Toal resources	1,245	1,719	2,025	1,979	2,105
% yoy sale	#N/A	11%	24%	37%	65%
Gross profit margin	14.6%	18.1%	9.5%	10.9%	13.9%
Interest/Net revenue	0.5%	0.5%	1.2%	1.4%	1.2%
Selling expenses/Net r	2.2%	2.3%	1.9%	1.6%	1.4%
General and administrat	2.4%	3.7%	3.3%	2.9%	2.3%
Net profit margin	7.3%	6.9%	2.1%	5.0%	7.5%

- Net revenue reached VND 2,408 billion (+ 21% YoY) thanks to the average selling price in 2018 increased by 20.9% YoY while consumption volume was equivalent to the same period.
- USD/VND exchange rate increased sharply in the year, causing STK to record 29.7 billion of exchange rate losses (2.3 billion in the same period).
- Selling expenses ratio decreased from 1.6% to 1.4% of revenue; G&A expenses/revenue decreased from 2.9% to 2.3%, which helped operating profit margin (EBIT) increase sharply from 6.3% to 10.2%.

- EAT increased sharply by 80% YoY

- Balance of cash and cash equivalents increased strongly + 70% YTD
- Inventories + 24.8% YTD (mainly from finished product inventory +110 billion (+ 48%))

- Short-term loans increased by VND 100 billion, maintained at 17% of revenue, equivalent to the same period.
- Long-term loan -120 billion according to the debt repayment schedule. STK loans are all USD loans with low interest rates.

- Gross profit margin improved significantly from 10.9% to 13.9% due to the change in revenue structure and an increase in selling price of many yarn types.

STK - Century Synthetic Fiber Corporation
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BSC

FINANCIAL RATIO

	2014	2015	2016	2017	2018
1. Liquidity					
Current ratio	2.23	1.16	0.88	0.84	0.94
Quick ratio	1.25	0.20	0.25	0.25	0.31
2. Capital structure					
Current assets/Total assets	0.37	0.27	0.29	0.31	0.38
LT assets/Total assets	0.63	0.73	0.71	0.69	0.62
Liabilities/Total assets	0.46	0.60	0.66	0.61	0.57
Liabilities/Equity	0.84	1.49	1.91	1.54	1.31
ST Liabilities/Total assets	0.17	0.23	0.33	0.37	0.40
LT liabilities/Total assets	0.29	0.37	0.32	0.24	0.17
3. Operational capacity					
Inventory turnover	6.3	3.1	3.2	4.4	4.6
Receivables turnover	58.9	29.0	46.3	42.5	41.7
Accounts payable turnover	7.1	6.4	6.0	6.3	7.0
Days' sales in inventory	57.7	116.1	112.6	82.6	79.1
Days sales in receivables	6.2	12.6	7.9	8.6	8.8
Days payable outstanding	51.8	57.2	61.1	57.6	52.3
CCC	12.2	71.6	59.3	33.5	35.5
4. Profitability					
Net profit margin	7.3%	6.9%	2.1%	5.0%	7.5%
ROE	18.0%	10.5%	4.1%	13.5%	21.3%
ROA	9.3%	4.8%	1.5%	5.0%	8.8%
Net operating profit margin	9.3%	8.3%	2.2%	5.3%	8.4%
5. Dupont analysis (5 components)					
Financial leverage	1.93	2.17	2.70	2.72	2.42
Assets turnover	1.28	0.70	0.73	0.99	1.18
EBIT margin	0.10	0.09	0.03	0.07	0.09
Interest burden	0.95	0.94	0.65	0.79	0.87
Tax burden	0.78	0.82	0.93	0.95	0.90
6. Valuation					
PE	#N/A	8.6	24.6	7.9	6.2
PB	#N/A	0.9	1.0	1.0	1.0
EPS	#N/A	1,533	534	1,662	2,997
BVPS	#N/A	14,822	12,989	12,991	15,172
7. Growth (%)					
Total assets	21%	38%	18%	-2%	6%
Debt	34.1%	2.2%	0.8%	12.0%	16.8%
Net revenue	0.3%	-29.0%	31.2%	46.4%	21.0%
Gross profit	20.1%	-12.0%	-31.2%	68.2%	54.6%
Net income	42.6%	-32.8%	-59.9%	248.3%	80.3%
EPS					

- Liquidity has improved though current ratio is below 1

- Proportion of short-term assets increased due to cash and cash equivalents + 70% YTD, inventory + 24.8% YTD (mainly in form of finished products).
 - The proportion of Debt decreased significantly. BSC assessed the Debt ratio will continue to decrease in the coming time because the company does not have large new investment projects and CFO is relatively good.

- Inventory is rotated faster, reducing cash conversion cycle.
 - Receivables scale is relatively small, fast turnover speed (~ 8 days)

- Profitability improved significantly thanks to a strong increase in EAT over the same period.

- The P/E valuation is quite reasonable (compared to industry average, growth prospect of enterprises) thanks to good EPS growth.

Technical highlights:

- Current trend: Short-term accumulation and possible increase in the medium term
- MACD trend indicator: MACD crossed the signal line and stayed above the center line.
- RSI indicator: Selling area, trend of movement in selling zone before returning to buying zone.
- MA line: All MA lines continue to move upward.

Outlook:

STK moved in the accumulation area above 17.74 (corresponding to Fibonacci 61.8%) after recovering from the bottom of 13.68 at the beginning of 2019. The liquidity of the stock is still in positive status. The RSI indicator supports the short-term cumulative trend and the MACD indicates that STK is likely to adjust prices in the short term and increase in the next sessions. Mobilizing MA lines continues to show that the recovery momentum from the beginning of the year will continue to be maintained. If the stock continues to move above 18 and MA20 with high liquidity, STK will continue its uptrend to the resistance level of 20.25. If STK loses the level 18, the stock will adjust to the price range around the support level of 16.96 - 17.74.

Recommendations:

The position of short-term buying is not clear when STK still moves in the accumulation area. If the stock surpasses the 19.1 level, investors can open short-term position at 19.2-19.39 and take profit at the level of 20.36 - 20.86 and cut loss at 17.74.

Technical graph



Disclosure

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