

CENTURY SYNTHETIC FIBER CORP (STK) – EARNINGS UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND53,700	N/A	2.84%	N/A	BASIC MATERIALS

21 January 2022

Outlook – Short term: **Positive**
Outlook – Long term: **Positive**
Valuation: **N/A**

Consensus*: Add:9 Hold:2 Reduce:0

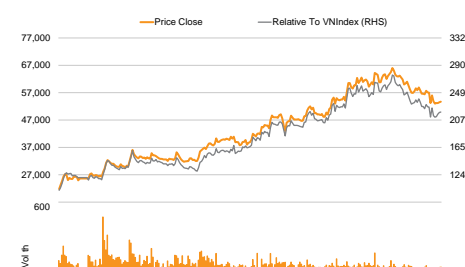
Target price / Consensus: N/A

Key changes in the report

➤ N/a

➤

Price performance



Key statistics

52w high (VND)	66,000
52w low (VND)	21,800
3m Avg daily value (VNDmn)	1,619
Market cap (VND bn)	3,648
Free float (%)	50
TTM P/E (x)	26.4
Current P/B (x)	3.51

Ownership

Huong Viet Investment JSC	20.0%
Dang My Linh	14.3%
Dang Treu Hoa	13.8%
Others	51.2%

Source: VND RESEARCH

Analyst(s):



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4Q21 earnings growth slow down due to labor shortage

- STK posted a 10.2% yoy increase in 4Q21 net profit (NP), lower than 200% yoy level seen in 3Q21.
- STK's FY21 revenue edged up 15.1% to VND2,042bn, while NP soared 93.0%, fulfilling 101% of our FY21 earnings forecast.

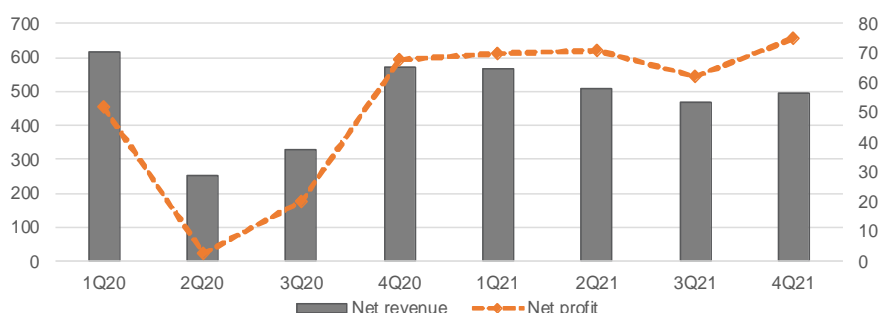
4Q21 operating profit was hit hard by labor shortage

- In 4Q21, STK's revenue decline 13% yoy to VND497bn, lower than 9M21 growth of 29.1% yoy. In 4Q21, after the "3-on-site" operation stopped in October 2021, workers returned home and some of them get COVID-19 infection from their relatives, according to STK. Thus, the company's factories were lack of labor and could not run at full capacity in 4Q21. As a results, recycle yarn revenue drop significantly 44.4% yoy while virgin yarn revenue increase 30.8% yoy thanks to remaining inventory.
- Gross margin (GM) declined 2.4% pts yoy to 15.1% in 4Q21 as rising oil price started weighting on STK's input PE price. In 4Q21, STK's Polyetylen (PE) average price increased 27% yoy.
- 4Q21 pre-tax profit decrease 28.4% yoy following GM decline. However, 4Q21 net profit increased 10.2% yoy (to VND75.1bn) due to tax refund of VND21bn for Trang Bang 1-2 projects.
- STK's FY21 revenue edged up 15.1% yoy to VND2,042bn, while NP soared 93.0% yoy, fulfilling 101% of our FY21 earnings forecast.

Key take-away from Analyst meeting on 21-Jan-22

- STK is expected to gain more market share from domestic market thanks to take advantage from anti-dumping tax on China yarns. According to STK's management, imported yarns ASP from China in 1H21 was 10-12% lower than ASP of STK. We expect anti-dumping tax support for STK improve the GPM in FY22-23F.
- STK's management expect STK's revenue to increase by 13% in Jan 2022 when compared to monthly average of 4Q21 thanks to the recovery of clients' order flow and the company's production capacity.
- STK is supplementing and providing more information and documents to apply for the securities offering license with the State Securities Commission. STK's management expect to complete the further issuance of shares for existing shareholders (~ 20% stake) in 1Q22F.

Figure 1: STK's revenue and net profit quarterly in FY20-FY21 (VNDbn)



Source: VNDIRECT RESEARCH, COMPANY REPORT

Figure 2: Results comparison

VND(bn)	4Q20	4Q21	yoy (%) chg	FY20	FY21	yoy (%)	As % of STK our estimate	Comment
Revenue	569	496	-12,8%	1767	2.043	15,6%	87%	Sale volume declined 25% yoy as STK's factories were temporarily lack of labor and could not run full capacity due to effect of Covid-19. On the other hand, ASP climbed 17% yoy thanks to higher input PET chips.
<i>Virgin</i>	239	312	30,8%	990	1.022	3,2%	106,5%	The growth of virgin sales yoy underpinned by 42% increase in ASP - the latter was due to rising oil price that elevated market prices of input PET chips and remaining inventory.
<i>Recycled</i>	330	184	-44,4%	777	1.022	31,4%	73%	Volume dropped 51% yoy due to the lack of labor, which resulted in not being able to fulfill all of our customers' recycled yarn orders.
Gross profit	75	99	32,0%	255	374	46,7%	81,5%	
Gross profit margin	17,5%	15,1%	-2.4% pts	14,4%	18,3%	3.9% pts		Gross margin (GM) declined 2.4% pts yoy to 15.1% in 4Q21 as rising oil price started weighting on STK's input PE price. In 4Q21, STK's PE average price increased 27% yoy.
Selling expenses	(8)	(6)	-26,3%	(24)	(27)	14,8%	81,7%	
G&A expenses	(16)	(19)	18,8%	(57)	(71)	24,6%	99,3%	
Pre-tax profit	74	53	-28,4%	164	285	73,8%	90,2%	
Net profit	68,3	75,1	10,0%	144,3	278,4	92,9%	101,0%	4Q21 net profit increased 10.2% yoy (to VND75.1bn) due to tax refund of VND21bn for Trang Bang 1-2 projects.

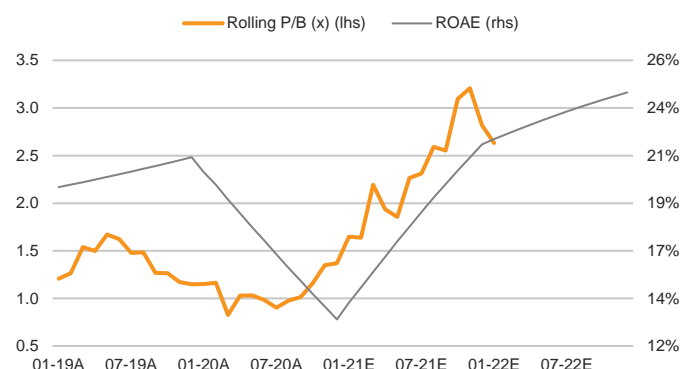
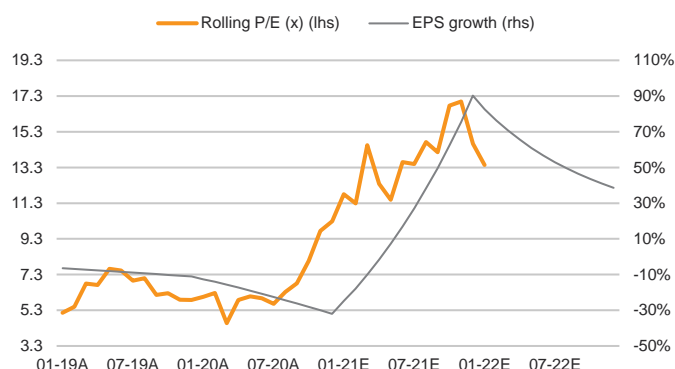
Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 3: Peer comparison

Company	Ticker	Recom,	TP	Market cap		P/E	3 year- EPS growth		P/BV (x)		EV/EBITDA		ROE (%)	
				VND	US\$m		CY21F	CAGR	TTM	CY21F	TTM	CY21F	TTM	CY21F
Thanh Cong Textile Garment Investment Tradi	TCM VN	na	na	250.3	32.9	21.8	13.8	2.8	2.6	17.4	13.9	10.2	14.2	
NHA BE Garment Corp-JSC	MNB VN	na	na	72.3	12.3	na	5.1	na	na	8.19	na	11.5	na	
TNG Investment & Trading JSC	TNG VN	na	na	219.9	14.3	14.6	17.6	2.0	na	na	na	15.6	14	
Mirae JSC	KMR VN	na	na	30.4	52.8	na	-39.9	na	na	9.2	na	1.6	na	
Song Hong Garment JSC	MSH VN	Hold	85,000	195.7	13.7	11.0	-13.8	2.9	2.5	9.4	6.3	24.4	27.4	
Vietnam National Textile & Garment Group	VGT VN	na	na	827.1	43	na	-4.3	na	na	19.3	na	3.9	na	
Viet Tien Garment Corp	VGG VN	na	na	47.8	20.6	10.9	-18.7	1.1	na	5.2	na	5.4	9.8	
Texhong Textile Group Ltd	2678 HK	na	na	1,405	4.86	4.0	-15.9	1.1	0.9	3.75	3.3	23.0	24.6	
Vardhman Textiles Ltd	VTEX IN	na	na	117	27.2	9.5	-5.9	1.5	1.3	6.44	6.4	5.8	16.5	
Mean					24.6	11.9	-6.9	1.9	1.8	9.9	7.5	11.3	17.7	
Median					20.6	10.9	-5.9	1.7	1.9	8.7	6.4	10.2	15.3	
Century Synthetic Fiber Corp	STK VN	Add	72,500	182.1	15.0	18.6	21.1	3.4	2.8	10	8.8	24.8	19.8	

Source: VNDIRECT RESEARCH, Bloomberg (Data as in 20 January 2022)

Valuation



Income statement

(VNDbn)	12-21E	12-22E	12-23E
Net revenue	2,353	2,879	3,839
Cost of sales	(1,894)	(2,267)	(3,004)
Gen & admin expenses	(72)	(80)	(88)
Selling expenses	(33)	(36)	(42)
Operating profit	355	496	705
Operating EBITDA	555	732	957
Depreciation and amortisation	(200)	(236)	(252)
Operating EBIT	355	496	705
Interest income	10	11	18
Financial expense	(51)	(72)	(113)
Net other income	2	2	18
Income from associates & JVs	0	0	0
Pre-tax profit	316	437	628
Tax expense	(42)	(58)	(79)
Minority interest	0	0	0
Net profit	274	379	549
Adj. net profit to ordinary	274	379	549
Ordinary dividends	(108)	(135)	(166)
Retained earnings	166	245	384

Balance sheet

(VNDbn)	12-21E	12-22E	12-23E
Cash and equivalents	90	240	263
Short term investments	47	58	77
Accounts receivables	73	94	134
Inventories	588	617	648
Other current assets	9	11	64
Total current assets	808	1,021	1,186
Fixed assets	1,165	1,380	1,578
Total investments	144	145	149
Other long-term assets	10	(0)	(0)
Total assets	2,127	2,545	2,913
Short-term debt	309	285	258
Accounts payable	88	115	153
Other current liabilities	110	135	103
Total current liabilities	508	535	514
Total long-term debt	188	230	307
Other liabilities	11	93	20
Share capital	813	813	813
Retained earnings reserve	566	833	1,218
Shareholders' equity	1,420	1,687	2,071
Minority interest			
Total liabilities & equity	2,127	2,545	2,913

Cash flow statement

(VNDbn)	12-21E	12-22E	12-23E
Pretax profit	316	437	628
Depreciation & amortisation	200	236	252
Tax paid	(42)	(58)	(79)
Other adjustments	(5)	(6)	(6)
Change in working capital	(272)	(3)	(124)
Cash flow from operations	196	607	671
Capex	(450)	(450)	(450)
Proceeds from assets sales	59	65	72
Others	0	0	0
Other non-current assets changes	0	0	0
Cash flow from investing activities	(391)	(385)	(378)
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	266	189	(71)
Other financing cash flow	32	(126)	(34)
Dividends paid	(108)	(135)	(166)
Cash flow from financing activities	189	(72)	(270)
Cash and equivalents at beginning of period	95	90	240
Total cash generated	(5)	150	23
Cash and equivalents at the end of period	90	240	263

Key ratios

	12-21E	12-22E	12-23E
Dupont			
Net profit margin	11.6%	13.2%	14.3%
Asset turnover	1.23	1.23	1.41
ROAA	14.3%	16.2%	20.1%
Avg assets/avg equity	1.54	1.50	1.45
ROAE	21.9%	24.4%	29.2%
Efficiency			
Days account receivable	12.4	12.9	13.8
Days inventory	113.3	99.4	78.8
Days creditor	17.0	18.6	18.6
Fixed asset turnover	2.26	2.26	2.60
ROIC	14.3%	17.2%	20.8%
Liquidity			
Current ratio	1.6	1.9	2.3
Quick ratio	0.4	0.8	1.0
Cash ratio	0.3	0.6	0.7
Cash cycle	108.7	93.7	73.9
Growth rate (yoy)			
Revenue growth	33.3%	22.4%	33.3%
Operating profit growth	102.9%	39.7%	42.2%
Net profit growth	90.3%	38.7%	44.8%
EPS growth	90.3%	38.7%	44.8%

Source: VND RESEARCH

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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