

CENTURY SYNTHETIC FIBER CORP (STK) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND62,400	VND72,500	2.84%	Add	BASIC MATERIALS

2 November 2021

Outlook – Short term: Positive
Outlook – Long term: Positive
Valuation: Positive

Consensus*: Add:6 Hold:4 Reduce:0

Target price / Consensus: 33.3%

Key changes in the report

- Increase TP by 30.2%
- Increase FY22-23F by 12.9%/17.4%

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	62,400
52w low (VND)	17,500
3m Avg daily value (VNDmn)	2,007
Market cap (VND bn)	4,084
Free float (%)	50
TTM P/E (x)	30.7
Current P/B (x)	4.081

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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Robust performance despite supply chain disruption

- STK posted VND1,577bn (+29.0% yoy) in 9M21 top line and VND203bn (+171% yoy) in bottom, fulfilling 62.1% and 70% of our full-year forecast.
- We expect STK is a beneficiary of the anti-dumping tax on China and other foreign yarn manufacturers effective since Oct-21.
- Reiterate ADD rating with higher TP of VND72,500 following NP CAGR of 37.0% in FY21-23F.

Solid performance in 3Q21

STK showed positive results in 3Q21 despite severe COVID-19-related supply chain disruptions in southern Vietnam. STK posted 3Q21 revenue of VND469bn (+43.1% yoy) and net profit of VND62.4bn (+212.2% yoy). The 3Q21 performance partly came from 1) low base in 3Q20, 2) STK prioritizing its capacity for orders of premium products (recycled yarn and high-quality virgin yarn), which bolstered its gross profit margin. Overall, 9M21 revenue and NP achieved VND1,577bn (+29.3% yoy) and VND203bn (+171.2% yoy), fulfilling 62.1% and 70.4% of our full-year forecast.

Change in FY22/23F earnings forecasts

We increase STK's revenue forecast in FY22/23F by 10.8%/8.3% vs. the previous report mainly underpinned by gaining more market share from the domestic market. We also raise GM in FY22/23F by 0.3%pts on the back of the assumption that the Unitex factory phase 1 will operate commercially in 1Q23 and operate at 80% capacity in FY23. Furthermore, anti-dumping tax on China and other competitors support for STK improved GPM in FY22-23F. As a result, STK's net profit in FY22/23F increased by 12.9%/17.4%.

Is STK still attractive after 195% ytd price increase?

First, we expect STK's NP to grow 10.7% yoy in 4Q21 and 18.2% yoy in FY22F as the recycle yarns segment will particularly benefit from the demand recovery of the domestic market. Second, STK is one of the yarn manufacturers benefited from anti-dumping tax on yarns imported from China and India, which is imposing by the Ministry of Industry and Trade. Last, we expect phase 1 of the Unitex factory to commercial operate in 1Q23F and operate at 80% capacity in 2023F with 28,400 tons of production volume. We think that STK's FY22F P/E of 13.5x is still attractive with a company with NP CAGR of 37.0% in FY21-23F.

Reiterate ADD rating with higher TP of VND72,500

We revise up our TP by 30.2% following an 12.9%/17.4% upward revision on FY22-23F and higher target FY22 P/E of 13.5x. Potential re-rating catalysts is the more robust growth in the volume of recycled yarn thanks to the rebound in market demand. The key downside risk is the worsening of the Covid-19 outbreak in STK's domestic markets may hit STK's performance directly.

Financial summary (VND)	12-20A	12-21E	12-22E	12-23E
Net revenue (bn)	1,766	2,353	2,879	3,839
Revenue growth	(20.8%)	33.3%	22.4%	33.4%
Gross margin	14.5%	19.5%	21.3%	21.7%
EBITDA margin	17.8%	23.1%	25.2%	25.2%
Net profit (bn)	144	274	379	549
Net profit growth	(32.0%)	90.3%	38.7%	44.8%
Recurring profit growth	(32.9%)	102.7%	37.2%	37.1%
Basic EPS	2,033	3,869	5,366	7,766
Adjusted EPS	2,033	3,869	5,366	7,766
BVPS	15,279	20,080	23,848	29,286
ROAE	13.3%	21.9%	24.4%	29.2%

Source: VND RESEARCH

Investment thesis

We are confident about STK 's FY21-23F outlook regarding to:

- We expect that the recycle yarns segment in 4Q21-22F will particularly benefit from demand recovery of the domestic market and electric shortage situations in China.
- We expect Unitex factory phase 1 to operate commercially in 1Q23. The total sale volume in FY23F is expected to reach 76,800 tons/year to capture the growing demand for recycled and virgin yarn.
- We expect STK to expand its market share in the domestic market thanks to the preliminary anti-dumping tax on imported yarns from China, India, Malaysia and Indonesia.
- STK earning is expected to grow robustly by 90.4% yoy in FY21F and 37.0% CAGR over FY21-23F.

Investment risks:

Upside risks include the stronger growth in the volume of recycled and virgin yarn thanks to a rebound in market demand, and the longer - than the expected electric shortage in China led to higher yarn prices in 4Q21-22F.

Downside risks is the worsening of the Covid-19 outbreak in STK's domestic markets may hit STK's performance directly.

We reiterate ADD and raise the target price to VND72,500/share following an FY22F EPS upgrade of 18.3%, respectively. Our valuation is based on average FY22F EPS of 5,365/share and a P/E target of 13.5x, equivalent to one-year historical P/E.

Figure 1: Valuation method

Valuation	
Valuation method	
Forecasted FY22F EAT (VND bn)	379
Number of fully diluted shares in FY21F	70,726,944
FY22F EPS (VND/ share)	5,366
Target P/E (x)	13.5
Target price (VND/ share)	72,500

Source: VNDIRECT RESEARCH

Figure 2: Peer comparison

Company	Ticker	Recom,	TP	Market cap		P/E	3 year- EPS growth		P/BV (x)		EV/EBITDA		ROE (%)	
				VND	US\$m		TTM	CY21F	CAGR	TTM	CY21F	TTM	CY21F	TTM
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 29 October 2021)

Robust performance despite supply chain disruptions

Maintain earnings growth momentum in 3Q21

Figure 3: Results comparison

VNDbn	3Q20	3Q21	%qoq	%yoy	9M20	9M21	%yoy	% vs our FY21F forecast	Comments
Total revenue	328	469	-8.2%	43.0%	1197	1,545	29.1%	62.1%	Sales volume in 3Q21 climbed 12% yoy - lower than our expectation as lockdowns applied to fight the pandemic, Southern garment companies ran at 50%-60% capacity in 3Q21. On the other hand, ASP jumped 28% yoy thanks to sales mix improvements.
<i>Virgin Yarn</i>	187	242	8.6%	29.4%	748	711	-4.9%	68.1%	3Q21's blended ASP and price gap edged up 34% and 19% yoy, respectively due to the upward trend of global input material prices for both recycled and virgin's polyester chips
<i>Recycled yarn</i>	141	227	-21.0%	61.0%	449	835	86.0%	59%	Sales Volume in 3Q21 climbed 47% yoy thanks to switch order from virgin yarns to recycled yarn of existing customers, while ASP and price gap between yarn selling price and input PET chips increased by 9% and 14% yoy — the latter in accordance with higher input recycled PET chip prices.
Gross profit	40	88	-11.1%	120.0%	155	299	92.9%	61.8%	
Gross profit margin	12.2%	18.8%	-0.6% pts	6.6% pts	12.9%	19.4%	6.4% pts		STK's recycled yarn price gap in 3Q21 widened 14% yoy — which boosted recycled yarn GPM to 24.6% (+6.2% pts), blended GPM increased 6.6% pts yoy
Selling expense	(2)	(7)	0.0%	250.0%	(16)	(21)	33.8%	64.8%	
G&A	(13)	(16)	-18.4%	19.2%	(41)	(52)	25.8%	74.9%	
Net financials income	(2)	6	200%	na	(10)	6	na		Interest expense in 3Q21 decrease 72.5% yoy as STK paid off long-term loans since 2019.
EBT	25	71	-5.3%	184.0%	88	232	163.6%	70.3%	
Net profit	20.1	62	-12.7%	208.5%	75	203	170.7%	70.3%	NP in 3Q21 surged 208% yoy, inline with our forecast mainly driven by 1) the higher revenue from recycled yarn which has the high GPM, 2) overseas marketing cost-cutting and 3) newly granted tax incentives as well as lower FX losses in 3Q21

Source: VNDIRECT RESEARCH, COMPANY REPORTS

4Q21-23F outlook: The best is yet to come

Tailwind to support 4Q21-1Q22 performance

Although STK showed a strong earnings growth yoy in 3Q21, STK posted declines of 12% and 8% qoq in net profit and net revenue respectively due to low demand of the domestic market. Due to the implementation of directive 16 of the government, Southern garment companies ran at 50%-60% capacity in 3Q21 due to labour shortages. Furthermore, 58% of STK's revenue come from the domestic market; lower demand also contributed to qoq revenue decreases in 3Q21. We expect STK's net profit in 4Q21/1Q22 to grow 18.3%/18.0% qoq (10.7%/38.7% yoy) as the recycle yarns segment will particularly benefit from the demand recovery of the domestic market.

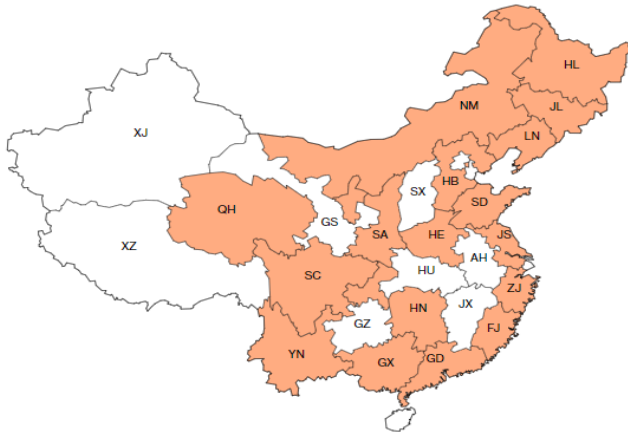
Furthermore, Chinese textile and garment (T&G) companies in Jiangsu, Zhejiang, Shandong had to cut utilization rates due to the electric shortage in 3Q21. As China is the largest global textile exporter, this is likely to result in an increase in global yarn prices in 4Q21-1Q22.

Figure 4: More than half of China's provinces/regions have reported some form of power cut

Power Shortage

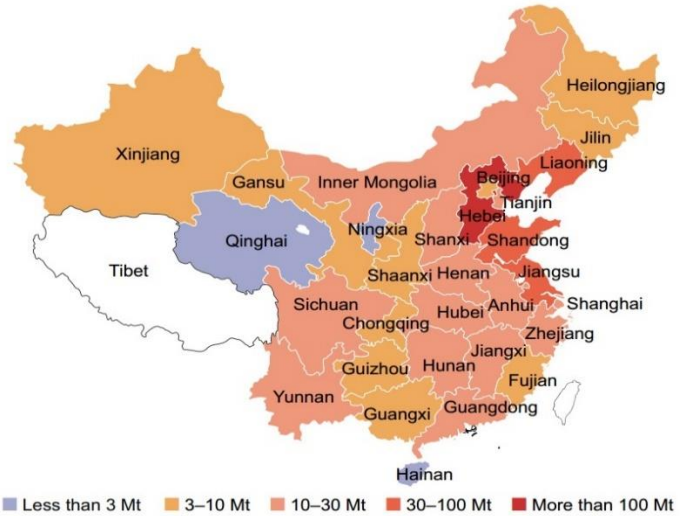
More than half of China's mainland provinces are limiting electricity use

■ Curbed power use



Sources: VNDIRECT RESEARCH, BLOOMBERG

Figure 5: Clusters of textile factories in China are experiencing a shortage of production electricity



Sources: VNDIRECT RESEARCH, UNIVERSITY OF TEXAS

Taking advantage of anti-dumping tax

In 3Q21, STK cooperated with a consulting company and worked with the Vietnam Trade Remedies Administration about the anti-dumping case for polyester filament yarn products made from Vietnam, China, India, Indonesia and Malaysia. Initially, the Ministry of Industry and Trade of Vietnam (MOIT) has applied the preliminary anti-dumping tax that has been applied since Sep-21, then official tax rate was announced on 13 Oct 21. According to the decision of the MOIT, most Chinese manufacturers will face an anti-dumping duty of 17.45%. While India, Indonesia and Malaysia yarn manufacturers will be subjected to 54.9%, 21.9% and 21.3%, respectively.

We think that main target of the anti-dumping tax was China, Vietnam's main recycled yarn import country. In 1H21, the amount of polyester yarn imported from China reached 156,500 tons, accounting for 60% of the total imported polyester yarn, of which 20,000 tons are recycled yarn.

Figure 6: China will be subjected to 17.4% anti-dumping duty on polyester yarn

	Anti-dumping tax	2020 sales volume	1H21 sales volume
China	3.36%-17.45%	237,939	156,600
India	54.90%	14,664	4,100
Indonesia	21.94%	10,649	9,300
Malaysia	21.23%	9,321	5,700
Total		272,573	175,700

Source: MOIT, VNDIRECT RESEARCH

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 to increase market share in the domestic market and improve the GPM in FY22-23F. We forecast revenue from recycle and virgin to soar 27.8%/24.5% yoy and 15.1%/38.4% yoy in FY22-23F.

Figure 7: ASP of STK lower than imported yarn from China after imposition of anti-dumping tax (USD/ton)

	Virgin	Recycled
ASP of STK (USD/ton)	1660	2570
Imported yarns price from China (USD/ton)	1480	2270
Difference compare to STK (%)	-10.8	-11.7
Price of yarn imported from China after imposition of anti-dumping tax (USD/ton)	1740	2670
Difference compare to STK (%)	4.7	3.7

Source: STK, VNDIRECT RESEARCH

We expect Unitex factory phase 1 to operate at 80% capacity in 2023F

According to STK management, the Unitex project started construction in 4Q21 and is expected to test run in 4Q22F. We expect phase 1 of the Unitex factory to commercially operate in 1Q23 and operate at 80% capacity in 2023F with total production volume of 28,400 tons. The total sale volume in FY23F is expected to reach 76,800 tons/year. We forecast STK's net profit to reach CAGR 20.3% in FY21-24F.

Figure 8: STK is expected to become the second -largest yarn manufacturer at Vietnam in 2025F

Project	Capacity (ton/year)	Location	Yarn type	Capex (US\$m)	2021	2022	2023	2024	2025
Unitex	60,000	Tay Ninh	Recycled yarn, high quality virgin yarn	120	Phase 1 (36,000 tons/year)		Phase 2 (24,000 tons/year)		
Yarn-Fabric-Garment alliance	20,000	Soc Trang	Virgin yarn	35	Phase 1 (10,000 tons/year)		Phase 2 (10,000 tons/year)		

Source: STK, VNDIRECT RESEARCH

FY21-23F earnings forecast revision

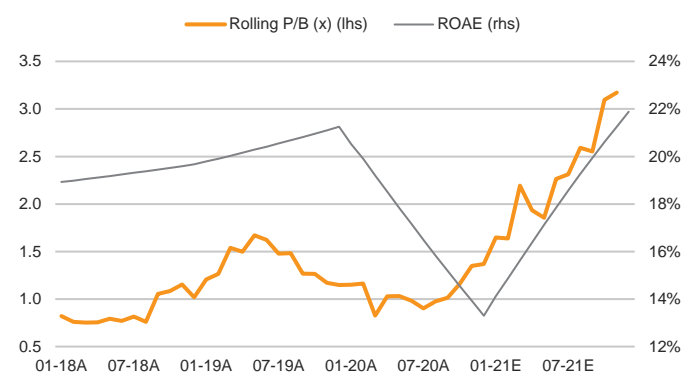
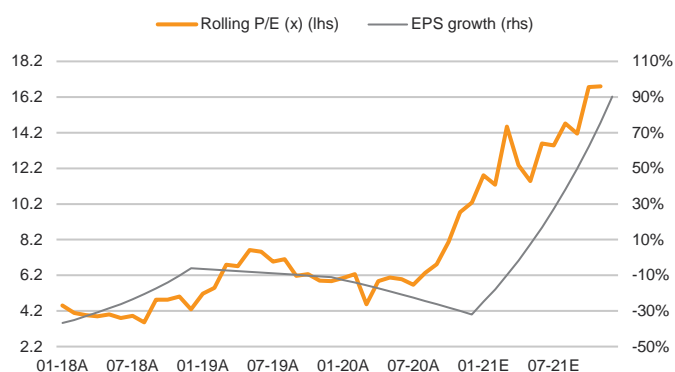
We change our forecasts on STK's business as following:

- We decreased FY21 virgin and recycled yarn revenue by 8.1%/3.3% due to the impact of social distancing in 3Q21.
- We increase FY22F and FY23F virgin yarn revenue driven by our assumption that the growing customer base in domestic market will compensate for the old customers switching from virgin yarns to recycled yarns.
- We increased recycled yarn revenue by 15.9%/6.5% in FY22-23F respectively on the back of 1) +2% yoy input PET chips; 2) +5%/3% yoy price gap, and 3) 24.1%/23.3% yoy sale volume.
- We increase GPM in FY22F/23F on the back of a product mix shift toward recycled yarn and economies of scale. Furthermore, taking advantage of anti-dumping tax support improved GPM in FY22-23F.
- We increase G&A expense in FY21F underpinned by additional expenses related to accommodation for its workers to stay at factories as required by the Government's COVID-19 containment measures in 3Q21.

Figure 9: VNDirect Research forecast STK's business results in FY21-23F (VNDbn)

(VND bn)	FY20	FY21F			FY22F			FY23F		
		Old	New	% change	Old	New	% change	Old	New	% change
Net revenue	1,766	2,485	2,353	-5.3%	2,599	2,879	10.8%	3,546	3,839	8.3%
<i>Virgin yarn</i>	789	1,044	959	-8.1%	1,040	1,072	3.1%	1,347	1,497	11.1%
<i>Recycled yarn</i>	394	1,441	1,394	-3.3%	1,559	1,808	15.9%	2,199	2,342	6.5%
Gross profit	255	484	459	-5.1%	546	612	12.1%	788	835	5.9%
Gross margin %	14.4%	19.5%	19.5%	0.05% pts	21.0%	21.3%	0.3% pts	21.4%	21.7%	0.3% pts
Selling expense	(24)	(33)	(33)	0.0%	(34)	(36)	6.9%	(40)	(42)	4.5%
G&A expense	(57)	(69)	(72)	3.6%	(74)	(80)	8.2%	(80)	(88)	10.0%
EBT	163	337	316	-2.1%	386	437	13.2%	575	628	9.3%
Net profit	144	292	274	-6.3%	336	379	12.9%	468	549	17.4%
EPS (VND)	2,033	4,135	3,869	-6.3%	4,752	5,366	12.9%	6,600	7,767	17.4%

Source: VNDIRECT RESEARCH, COMPANY REPORT

Valuation

Income statement

(VNDbn)	12-20A	12-21E	12-22E
Net revenue	1,766	2,353	2,879
Cost of sales	(1,510)	(1,894)	(2,267)
Gen & admin expenses	(57)	(72)	(80)
Selling expenses	(24)	(33)	(36)
Operating profit	175	355	496
Operating EBITDA	308	555	732
Depreciation and amortisation	(133)	(200)	(236)
Operating EBIT	175	355	496
Interest income	12	10	11
Financial expense	(23)	(51)	(72)
Net other income	1	2	2
Income from associates & JVs	0	0	0
Pre-tax profit	165	316	437
Tax expense	(21)	(42)	(58)
Minority interest	0	0	0
Net profit	144	274	379
Adj. net profit to ordinary	144	274	379
Ordinary dividends	(98)	(108)	(135)
Retained earnings	45	166	245

Balance sheet

(VNDbn)	12-20A	12-21E	12-22E
Cash and equivalents	95	90	240
Short term investments	26	47	58
Accounts receivables	98	73	94
Inventories	401	588	617
Other current assets	23	9	11
Total current assets	642	808	1,021
Fixed assets	914	1,165	1,380
Total investments	155	144	145
Other long-term assets	0	10	(0)
Total assets	1,712	2,127	2,545
Short-term debt	223	309	285
Accounts payable	262	88	115
Other current liabilities	85	110	135
Total current liabilities	569	508	535
Total long-term debt	52	188	230
Other liabilities	11	11	93
Share capital	707	813	813
Retained earnings reserve	381	566	833
Shareholders' equity	1,081	1,420	1,687
Minority interest			
Total liabilities & equity	1,712	2,127	2,545

Cash flow statement

(VNDbn)	12-20A	12-21E	12-22E
Pretax profit	165	316	437
Depreciation & amortisation	133	200	236
Tax paid	(18)	(42)	(58)
Other adjustments	1	(5)	(6)
Change in working capital	178	(272)	(3)
Cash flow from operations	458	196	607
Capex	0	(450)	(450)
Proceeds from assets sales	54	59	65
Others	(13)	0	0
Other non-current assets changes	0	0	0
Cash flow from investing activities	41	(391)	(385)
New share issuance	0	0	0
Shares buyback	(42)	0	0
Net borrowings	(398)	266	189
Other financing cash flow	(15)	32	(126)
Dividends paid	(98)	(108)	(135)
Cash flow from financing activities	(554)	189	(72)
Cash and equivalents at beginning of period	150	95	90
Total cash generated	(55)	(5)	150
Cash and equivalents at the end of period	95	90	240

Key ratios

	12-20A	12-21E	12-22E
Dupont			
Net profit margin	8.1%	11.6%	13.2%
Asset turnover	0.93	1.23	1.23
ROAA	7.6%	14.3%	16.2%
Avg assets/avg equity	1.75	1.54	1.50
ROAE	13.3%	21.9%	24.4%
Efficiency			
Days account receivable	19.2	12.4	12.9
Days inventory	97.1	113.3	99.4
Days creditor	63.4	17.0	18.6
Fixed asset turnover	1.80	2.26	2.26
ROIC	10.6%	14.3%	17.2%
Liquidity			
Current ratio	1.1	1.6	1.9
Quick ratio	0.4	0.4	0.8
Cash ratio	0.2	0.3	0.6
Cash cycle	52.9	108.7	93.7
Growth rate (yoy)			
Revenue growth	(20.8%)	33.3%	22.4%
Operating profit growth	(35.1%)	102.9%	39.7%
Net profit growth	(32.0%)	90.3%	38.7%
EPS growth	(32.0%)	90.3%	38.7%

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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