

CENTURY SYNTHETIC FIBER CORP (STK) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND57,700	VND68,200	2.57%	Add	BASIC MATERIALS

6 May 2022

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

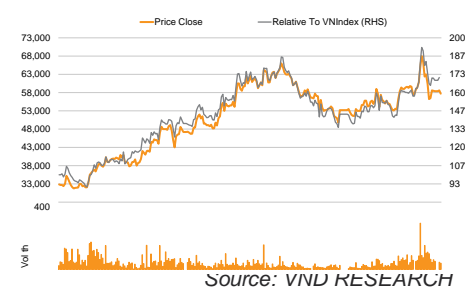
Consensus*: Add:7 Hold:2 Reduce:0

Target price / Consensus: 7.7%

Key changes in the report

- Lower NP FY22/23F by 6.9%/16.9%
- Lower TP by 5.6%

Price performance



Key statistics

52w high (VND)	68,000
52w low (VND)	31,750
3m Avg daily value (VNDmn)	2,776
Market cap (VND bn)	3,996
Free float (%)	50
TTM P/E (x)	14.2
Current P/B (x)	3.13

Ownership

Huong Viet Investment JSC	20.0%
Dang My Linh	14.3%
Dang Treu Hoa	13.8%
Others	51.9%

Source: VND RESEARCH

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Growth intact despite more headwinds arise

- 1Q22 revenue and net profit grew modestly 12.9% yoy and 8.8% yoy, respectively, below our full year forecasts.
- We revise down FY22F/23F net profit forecast by 6.9%/16.9% due to lower-than-our-expectation 1Q22 results.
- We reiterate ADD but revise TP down to VND68,200/share.

1Q22 earnings growth to cool down

STK posted 1Q22 revenue of VND640bn (+12.9% yoy) and net profit of VND76.3bn (+8.8% yoy). The 1Q22 performance was below our expectation as (1) STK refused to accept more orders of recycled yarn due to the high price of input materials and (2) gross margin edged down 2.3% pts to 17.5% following the Polyetylen (PE) chip price hike.

More headwinds arise

We see more headwinds arising from input material price hike and new entry competitors. PE chip price, accounting for 60% of cost of goods sold, soared 18% yoy in 1Q22 following the surge of oil price. We expect the average PE chip price to reach VND28,309/kg (+10.8% yoy) in 2022 and VND27,459/kg (-3% yoy) in 2023. Besides, Polytex Far Eastern Vietnam Ltd, a Taiwanese yarn manufacturer, will relocate the yarn factory to Vietnam with a capacity of 60,000 tonnes/year in 2022. Far Eastern will be the third recycled yarn player in Vietnam with aim to deliver for Taiwanese textile & garment producers. Thus, we believe the competition in local market is heating up as the size of Far Eastern factory is same with STK.

Changes to FY22-23F earnings forecasts

We lower FY22/23F recycled yarn revenue by 17.5%/9.1% versus previous forecasts due to (1) lower-than-our-expectation 1Q22 results and rising competition pressure from the new comers; (2) the Unitex factory will inaugurate in 2Q23F, 3 months later than initial plan. We made a downward adjustment by 0.4%/0.5% pts on FY22/23F GM following 8%/6% higher in PE chip prices. Thus, FY22/23F net profit are revised down 6.9%/16.9%, respectively, vs. previous forecasts. However, earnings growth stays intact at 28% average over FY22-23F, which is higher than the average of 91% during FY20-21.

Re-iterate Add rating with lower TP of VND68,200/share

We revise down our TP by 5.6% following an FY22-23F EPS downgrade of 6.9%/16.9%, respectively. STK's share price has dropped 14% since 15-Apr following overall market slump. We think STK is still a stock pick in exporting space with strong earnings growth of 28% over FY22-23F. Upside catalyst is higher-than-expected sales volume of recycled and virgin yarn. Downside risk includes stronger-than-expected input material price hike.

Financial summary (VND)	12-20A	12-21A	12-22E	12-23E
Net revenue (bn)	1,766	2,043	2,611	3,291
Revenue growth	(20.8%)	15.7%	27.8%	26.1%
Gross margin	14.5%	18.4%	20.9%	21.2%
EBITDA margin	17.8%	19.6%	23.9%	25.1%
Net profit (bn)	145	278	353	456
Net profit growth	(31.6%)	92.1%	27.0%	29.3%
Recurring profit growth	(33.0%)	94.1%	25.9%	29.5%
Basic EPS	2,121	4,074	5,172	6,687
Adjusted EPS	2,121	4,074	5,172	6,687
BVPS	15,859	18,442	22,430	26,956
ROAE	13.4%	23.8%	25.3%	27.1%

Source: VND RESEARCH

GROWTH INTACT DESPITE MORE HEADWINDS ARISE

Investment thesis

We are confident about STK 's FY22-23F outlook regarding to:

- We expect Unitex factory phase 1 to operate commercially in 2Q23, increase STK's total capacity to 96,000tonnes/years in order to capture the growing demand for recycled and virgin yarn of domestic and local export market.
- We expect virgin yarn sales to recover robustly from domestic market in FY22F thanks to taking advantages from anti-dumping tax.
- Despite facing new challenges, we believe that recycled yarn is the key driver of STK earning growth in FY22-25F. We forecast recycled yarn revenue to achieve CAGR of 37.7% in FY22-25F thanks to strong demand from big fashion brands in the world.
- We forecast STK's earning to grow robustly by 27.0%/29.3% in FY22/23F

Upside catalyst is higher-than-expected sales volume of recycled and virgin yarn. Downside risk includes stronger-than-expected input material price hike.

We reiterate ADD with lower target price of VND68,200/share

We revise down our TP by 5.6% following an FY22-23F EPS downgrade of 6.9%/16.9%, respectively. Our valuation is based on average FY22-23F EPS 5,931/share and a P/E target of 11.5x – equivalent average 5-year historical P/E.

Figure 1: Valuation method

Valuation	
Valuation method	
Forecasted Net profit in 2022F (VND bn)	353
Forecasted Net profit in 2023F (VND bn)	456
Number of fully diluted shares in FY21F	68,200,000
FY22F EPS (VND/ share)	5,172
FY23F EPS (VND/ share)	6,687
Average FY22-23F EPS (VND/share)	5,930
Target P/E (x)	11.5
Target price (VND/ share)	68,189

Source: VNDIRECT RESEARCH

Figure 2: Peer comparison in yarn industry

Company	Ticker	Recom.	Target price		Market cap	P/E (x)		EPS		P/BV (x)		EV/EBITDA		ROE (%)	
			VND	US\$m		TTM	2022	3 year CAGR	Current	2022	TTM	2021	TTM	2021	
Lealea Enterprise Co Ltd	1444 TT	na	na	520.4	32.9	na	na	na	na	na	17.4	13.9	3.2	na	
Indo-Rama Synthetics Tbk PT	INDR IJ	na	na	72.3	12.3	na	362.4	na	na	na	8.2	na	20.8	na	
Yi Jinn Industrial Co Ltd	1457 TT	na	na	589.8	14.3	na	20.8	na	na	na	na	na	-0.5	na	
Hong YI Fiber Industry Co	1452 TT	na	na	54.7	13.7	na	69.6	na	na	na	9.4	6.3	9.1	na	
Century Enka Ltd	CENK IN	na	na	133.4	43.0	na	10.9	na	na	na	19.3	na	5.6	na	
Damsan JSC	ADS VN	na	na	74.2	20.6	na	246.6	na	na	na	5.2	na	17.4	na	
Phong Phu Corp	PPH VN	na	na	177.1	4.9	na	36.4	na	na	na	3.8	3.3	18.4	na	
Thanh Cong Textile Garment Investment Tradi	TCM VN	na	na	243.3	27.2	22.1	-3.4	2.5	2.2	6.44	6.4	7.6	13.9	na	
Vietnam National Textile & Garment Group	VGT VN	na	na	706.6	15.0	na	72.8	na	na	na	10	8.8	11.6	na	
Average					20.4	22.1	102.0	2.5	2.2	10.0	7.7	10.3	13.9		
Mean					15.0	22.1	53.0	2.5	2.2	8.8	6.4	9.1	13.9		
Century Synthetic Fiber Corp	STK VN	Add	68,200	173.9	14.2	11.1	21.2	3.1	2.6	10	8.8	24.8	25.3		

Source: VNDIRECT RESEARCH, Bloomberg (Data as in 05 May 2022)

1Q22: earnings growth to cool down on rising input material costs
Figure 3: 1Q22 results comparison

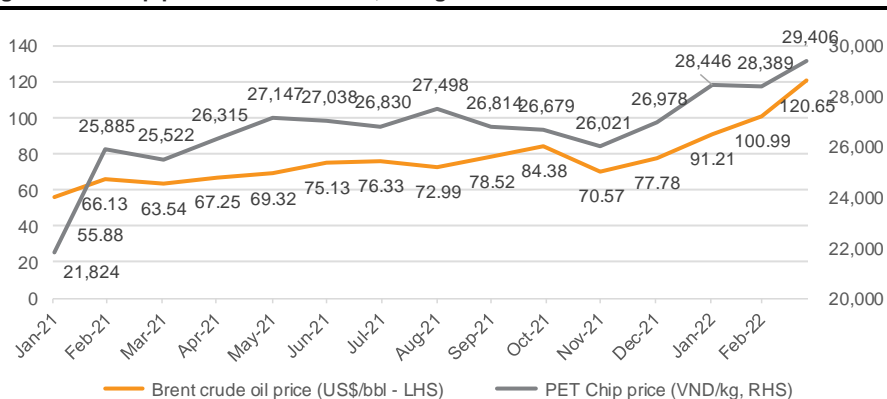
VND(bn)	1Q2021	1Q2022	yoy growth (%)	% vs FY22F forecast	Comments
Revenue	567	640	12,9%	22,2%	
<i>Virgin</i>	238	316	32,8%	29,5%	The growth of virgin sales increase 32% yoy in 1Q22 underpinned by 11% yoy rising in sale volume and 18% yoy increase in ASP in 1Q22 - the latter was due to rising oil price that elevated market prices of input PE chips and remaining inventory.
<i>Recycled</i>	329	324	-1,5%	18%	Volume dropped 5% yoy in 1Q22 as STK refused to accept more orders of recycled yarn due to the high price of input materials . 1Q22 sales only reached 90% of the hypothetical normal level. In addition, STK focused on promoting high quality-virgin yarn thanks to strong demand from domestic market.
Gross profit	112	112	-0,1%	18,3%	
Gross profit margin	19,8%	17,5%	-2.3% pts		Gross margin (GM) declined 2.3% pts yoy to 17.5% in 1Q22 as rising oil price started weighting on STK's input PE price. In 1Q22, STK's PE average price increased 19% yoy.
Selling expenses	(7)	(6)	-12,3%	20,5%	
G&A expenses	(17)	(17)	-4,1%	18,5%	
Pre-tax profit	85,5	89	4,1%	20,4%	
Net profit	70,1	76,3	8,8%	20,1%	1Q22 net profit only increased 8.8% yoy (to VND76.3bn) due to high input material, resulting in decrease GM in 1Q22.

Source: VNDIRECT RESEARCH, COMPANY REPORTS

2022-23F outlook: More headwinds arise
Rising PE chip price weigh on gross margin over FY22-23F

The recent Russia-Ukraine conflict and Organization of Petroleum Exporting Countries (OPEC) falling short of production target have pushed Brent oil price to accelerate 27% ytd and reach US\$98/barrel on average (+60% yoy). As a result, PE chip price – the STK's main input material, accounting for 60% COGS, 1Q22 soared 18% yoy to VND29,406/kg in 1Q22. In our view, Brent oil price is expected to remain highly volatile for short term due to the global uncertain events, then gradually rebalancing toward the end of 2022 when the geopolitical tension in Ukraine is cooled down and the increasing oil supply from Iran, US and OPEC could catch up the demand. Therefore, we lifted our PE chip price forecast by 8%/6% in FY22/23F vs. our previous forecast, thus gross margin will be revised down 0.4%/0.5% pts to 20.9%/21.2% over FY22-23F.

Figure 4: PE chip price reached VND29,406/kg in Mar-22

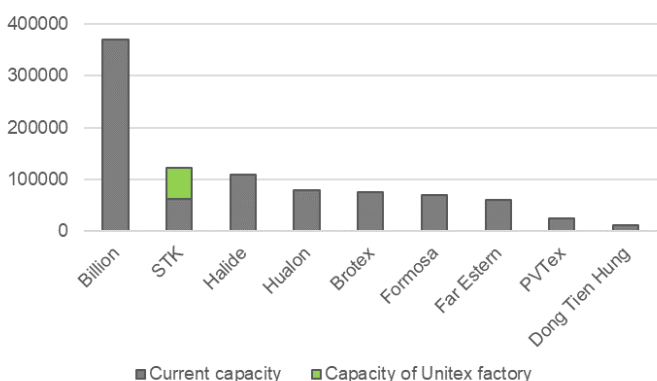


Source: Bloomberg, STK, VNDIRECT RESEARCH

The competition is heating up with the new player

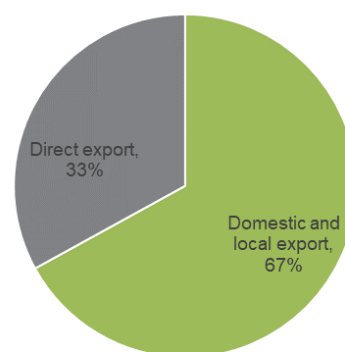
Vietnam saw the entry of another recycled yarn player, Polytex Far Eastern Ltd, a Taiwanese yarn manufacturer that moved its factory from Taiwan to Binh Duong, Vietnam. This factory’s production capacity reaches 60,000 tonnes p.a. of virgin yarn and recycled yarn combined — on par with STK’s current capacity. Far Eastern’s recycled sales volume could increase from more than 2,000 tons/month to 3,000 tons/month as a result of this relocation, per management. As planned, the factory will start producing Drawn Textured Yarn (DTY) in 2Q22, Polyester Partially Oriented Yarn (POY) and recycled yarn in 4Q22. We think the emergence of the Far Easter will increase competitive pressure on STK in the domestic market and local export (accounting for 67% STK’s revenue in 1Q22). Polytex Far Eastern Ltd belongs to Far Eastern Group - the top 5 largest corporations in Taiwan. Far Eastern owns the most modern yarn production line and is a partner of major fashion brands such as Nike, Adidas, Decathlon. Currently, Vietnam has only 3 major recycled yarn manufacturers including Formosa, Far Eastern and STK. As a result, we decrease STK’s recycled yarn revenue by 17.5% lower than previous forecast as recycled yarn revenue in 1Q21 lower than our expectation and competitive pressure from Far Eastern.

Figure 5: Capacity of yarn factories in Vietnam after Unitex project implement (tonnes/ years)



Source: VND RESEARCH, Company report

Figure 6: Sales mix by market in 1Q22



Source: STK, Company report

The phase 1 of Unitex factory will inaugurate in 2Q23F, 3 months later than initial plan

According STK’s management, Unitex project will come commercially in 2Q23F instead of 1Q23F due to COVID19 disruptions. However, management expects

that the first phase's total capex will not exceed its original budget of US\$75m despite surging construction material and machinery costs. We expect phase 1 of the Unitex factory to commercially operate in Jun-23 and operate at 70% capacity in 2023F with total production volume of 25,400 tons. The total sale volume in FY23F is expected to reach 67,200 tonnes/year.

Figure 7: 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

FY22-23F earnings forecast revision

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

- We lower FY22/23F recycled yarn revenue by 19.3%/9.1% versus previous forecasts due to (1) 1Q22 results lower than our expectation and (2) Unitex factory is delay 3 months vs old plan.
- We increase FY22F virgin revenue forecast 7.5% thanks to higher demand in domestic market.
- We decreased FY22/23F selling expense 17.1%/14.2% as we forecast STK will focus on promoting the virgin yarn in the domestic market thanks to taking advantage from anti-dumping tax.
- We decreased GM in FY22/23F 0.4% pts/0.5% pts mainly driven by the higher PE chip price in FY22-23F.

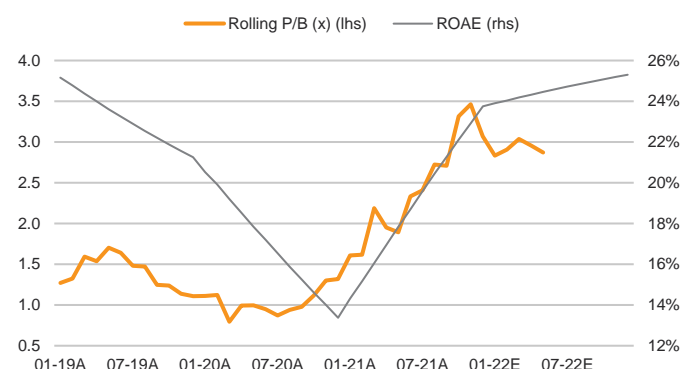
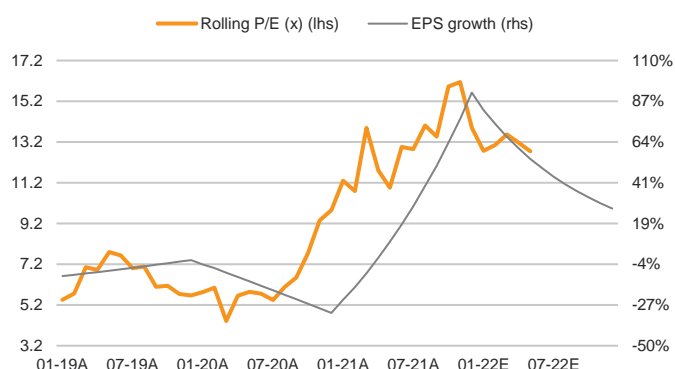
As a result, we revise down FY22/23F net profit forecast by 6.9%/16.9%.

Figure 8: Changes in FY22-23F forecasts (VNDbn)

VNDbn	2021	2022F			2023F		
		Old	New	%change	Old	New	%change
Net revenue	2,043	2,879	2,611	-9.3%	3,546	3,291	-7.2%
<i>Virgin</i>	1,022	1,072	1,153	7.5%	1,347	1,292	-4.1%
<i>Recycled</i>	1,022	1,808	1,458	-19.3%	2,199	1,999	-9.1%
Gross profit	374	612	545	-11.0%	835	696	-16.6%
GPM (%)	18.3%	21.3%	20.9%	-0.4%pts	21.7%	21.2%	-0.5%pts
Selling expense	(27)	(36)	(30)	-17.1%	(40)	(34)	-14.2%
G&A expense	(72)	(80)	(77)	-3.4%	(88)	(85)	-3.4%
EBT	286	386	403	4.5%	575	521	-9.3%
Net profit	278	379	353	-6.9%	549	456	-16.9%
EPS (VND)	4.083	5,366	5,172	-6.9%	7,767	6,687	-16.9%

Source: VNDIRECT RESEARCH, Company report

Valuation



Income statement

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	2,043	2,611	3,291
Cost of sales	(1,668)	(2,066)	(2,595)
Gen & admin expenses	(72)	(77)	(85)
Selling expenses	(27)	(30)	(34)
Operating profit	277	437	577
Operating EBITDA	387	614	814
Depreciation and amortisation	(110)	(176)	(237)
Operating EBIT	277	437	577
Interest income	15	22	15
Financial expense	(9)	(60)	(89)
Net other income	2	4	18
Income from associates & JVs	0	0	0
Pre-tax profit	285	403	521
Tax expense	(7)	(51)	(65)
Minority interest	0	0	0
Net profit	278	353	456
Adj. net profit to ordinary	278	353	456
Ordinary dividends	(102)	(122)	(147)
Retained earnings	176	230	309

Balance sheet

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	366	117	282
Short term investments	0	52	66
Accounts receivables	88	149	183
Inventories	472	522	548
Other current assets	60	9	12
Total current assets	986	850	1,090
Fixed assets	831	1,095	1,296
Total investments	144	144	148
Other long-term assets	9	66	281
Total assets	1,969	2,156	2,815
Short-term debt	321	192	428
Accounts payable	291	109	139
Other current liabilities	99	102	129
Total current liabilities	712	403	696
Total long-term debt	0	209	263
Other liabilities	0	14	17
Share capital	707	707	707
Retained earnings reserve	558	787	1,096
Shareholders' equity	1,258	1,530	1,838
Minority interest			
Total liabilities & equity	1,969	2,156	2,815

Cash flow statement

(VNDbn)	12-21A	12-22E	12-23E
Pretax profit	285	403	521
Depreciation & amortisation	110	176	237
Tax paid	(16)	(51)	(65)
Other adjustments	(12)	(7)	(8)
Change in working capital	(52)	(207)	(8)
Cash flow from operations	315	315	677
Capex	(24)	(450)	(450)
Proceeds from assets sales	26	29	31
Others	(5)	0	0
Other non-current assets changes	2	0	0
Cash flow from investing activities	(0)	(421)	(419)
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	52	4	61
Other financing cash flow	(40)	(24)	(8)
Dividends paid	(102)	(122)	(147)
Cash flow from financing activities	(90)	(142)	(94)
Cash and equivalents at beginning of period	95	366	117
Total cash generated	225	(249)	164
Cash and equivalents at the end of period	320	117	282

Key ratios

	12-21A	12-22E	12-23E
Dupont			
Net profit margin	13.6%	13.5%	13.9%
Asset turnover	1.11	1.27	1.32
ROAA	15.1%	17.1%	18.3%
Avg assets/avg equity	1.57	1.48	1.48
ROAE	23.8%	25.3%	27.1%
Efficiency			
Days account receivable	12.3	18.3	18.3
Days inventory	103.2	92.1	77.0
Days creditor	63.8	19.3	19.5
Fixed asset turnover	2.34	2.71	2.75
ROIC	17.6%	18.3%	18.0%
Liquidity			
Current ratio	1.4	2.1	1.6
Quick ratio	0.7	0.8	0.8
Cash ratio	0.5	0.4	0.5
Cash cycle	51.8	91.1	75.7
Growth rate (yoy)			
Revenue growth	15.7%	27.8%	26.1%
Operating profit growth	58.7%	58.0%	31.9%
Net profit growth	92.1%	27.0%	29.3%
EPS growth	92.1%	27.0%	29.3%

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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