

CENTURY SYNTHETIC FIBER CORP (STK) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND47,300	VND52,800	3.4%	Hold	BASIC MATERIALS

04 August 2022

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

Consensus*: Add:8 Hold:1 Reduce:0

Target price / Consensus: -11.9%

Key changes in the report

- Lower NP FY22/23F by 14.4%/13.5%
- Lower TP by 10.9%

Price performance



Source: VNDIRECT RESEARCH

Key statistics

52w high (VND)	57,400
52w low (VND)	36,300
3m Avg daily value (VNDmn)	1,087
Market cap (VND bn)	3,573
Free float (%)	50
TTM P/E (x)	16.1
Current P/B (x)	3.5

Ownership

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

Source: VNDIRECT RESEARCH

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Headwinds are still ahead

- STK posted VND530bn in 2Q22 revenue (+3.9% yoy) and VND76.3 in net profit (-2.0% yoy). 1H22 earnings fulfilled only 41.4% our forecasts.
- We lower STK's FY22F/23F revenue by 8.5%/4.3%, respectively, to reflect the sluggish demand for textiles & garment of US market.
- Downgrade to Hold rating with lower TP of VND52,800/share.

Weak global demand and FX loss weigh on 2Q22 bottom line

2Q22 revenue grew modestly 3.9% yoy to VND530bn following a decrease in orders. Gross margin edged up 0.4% pts yoy to 19.8% thanks to higher contribution from recycled yarn "plus" products. However STK recorded a loss of VND9.6bn in net financial expenses due to FX loss (import PET chip contract and short term debt in USD). As a result, STK posted VND76.3bn in NP (-2% yoy). For 1H22, revenue and NP recorded VND1,170bn (+9.0% yoy) and VND146bn (+3% yoy), fulfilling 44.8% and 41.4% of our forecasts.

More headwinds arise

Increasing inflation and tighter financial condition has cast shadow over the US and European economies which led to a contraction in global demand since 2Q22. We believe the demand of premium clothes such as shirt and T-shirt made from recycled yarn (higher price) will slow down in 2H22F. Thus, we lower STK's FY22F/23F revenue by 8.5%/4.3%, respectively to reflect the ongoing sluggish demand. We expect STK is able to maintain gross margin improvement into FY22-23F thanks to cooling down PET chip price in 4Q22F and focus on promoting to virgin AAA and recycled "plus". FY22F earnings is estimated to grow 8.5% yoy, softer than that of 27.2% yoy in previous forecast. We expect earnings to rebound 29.3% yoy in FY23F thanks to 1) lower input material price; and 2) rising contribution from the new Unitex factory.

The new Unitex factory progress is back on track

After a delay in 2021 due to social distancing, we are positive about developments at the Unitex factory in 2022F. STK is in the process of getting construction permit and completing the necessary legal procedures with the authorities. Phase 1 of Unitex factory will be put into commercial production from end-3Q23F, 2-month later than our previous forecast. We expect phase 1 of the Unitex factory to commercially operate at 30% capacity in 2023F with production volume of 10,800 tonnes, lifting sale volume to increase 20% yoy in FY23F.

Downgrade to Hold rating with lower TP of VND52,800/share

We downgrade to Hold rating with lower TP of VND52,800/share, following FY22-23F EPS of VND3,685/share and VND4,764/share, respectively with a P/E target of 12.5x, equivalent to one-year historical P/E. We downgrade to Hold as STK will face more challenges in short term. Upside catalyst is higher-than-expected sales volume of recycled and virgin yarn. Downside risk is 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	2,482	3,090
Revenue growth	(20.8%)	15.7%	21.5%	24.5%
Gross margin	14.5%	18.4%	19.2%	19.8%
EBITDA margin	17.8%	19.6%	20.2%	21.4%
Net profit (bn)	145	278	301	390
Net profit growth	(31.6%)	92.1%	8.5%	29.3%
Recurring profit growth	(33.0%)	94.1%	7.5%	31.5%
Basic EPS	1,768	3,396	3,685	4,764
Adjusted EPS	1,768	3,396	3,685	4,764
BVPS	13,222	15,376	18,215	20,951
ROAE	13.2%	23.8%	21.9%	24.3%

Source: VNDIRECT RESEARCH

HEADWINDS ARE STILL AHEAD

2Q22 recap: Weak global demand and FX loss weigh on 2Q22 bottom line

Figure 1: 2Q22 results comparison

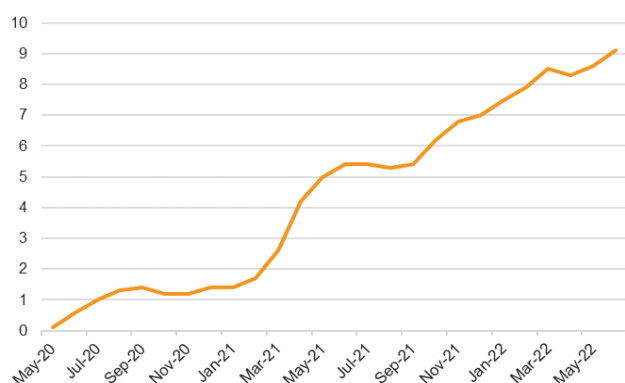
VND(bn)	2Q21	2Q22	yoy growth (%)	1H21	1H22	yoy growth (%)	% vs FY22F forecast	Comments
Revenue	510	530	3.9%	1077	1170	8.6%	44.8%	
<i>Virgin</i>	227	269	18.5%	469	585	24.7%	50.7%	The growth of virgin sales increase 18.5% yoy in 2Q22 underpinned by 12% yoy rising in sale volume and 6.8% yoy increase in ASP in 2Q22 - the latter was due to rising oil price that elevated market prices of input PE chips and remaining inventory.
<i>Recycled</i>	283	261	-7.8%	608	585	-3.8%	40%	Volume dropped 16% yoy in 2Q22 as STK's customers delayed orders of recycled yarn due to the high price of input materials. 2Q22 sales only reached 85% of the hypothetical normal level.
Gross profit	99	105	6.1%	211	217	2.8%	41.7%	
Gross profit margin	19.4%	19.8%	+0.4% pts	19.6%	18.6%	-1% pts		Gross margin (GM) increased 0.4% pts yoy to 19.8% in 2Q22 as STK remained price gap of recycled yarn and STK focused on promoting to recycled yarn "plus" with high GM.
Financial revenue	2.3	5.5	139.1%	3.3	10.3	212.12%	51.9%	
Financial expenses	0.3	15.1	4933.3%	3.3	20	506.06%	40.0%	Financial expenses soared 4933% yoy due to exchange rate loss (importing PET chip and short-term debt in USD).
Selling expenses	(7)	(5)	-31.5%	-14	-11	-21.4%	40.7%	Selling expenses plunged 31.5% yoy as STK focused on boosting sale in domestic market with lower transportation cost
G&A expenses	(19)	(15)	-21.1%	-36	-31	-13.9%	40.3%	G&A decreased 21.1% yoy mainly driven by the cost for anti-dumping taxes the US-VN in 2Q21
Pre-tax profit	75	76	1.3%	161	165	2.5%	40.9%	
Net profit	71	69	-2.8%	141	146	3.5%	41.4%	2Q22 net profit decreased slightly 2.8% yoy (to VND69bn) due to 1) exchange rate loss (importing PET chip and short-term debt in USD) 2) tax refund in 2Q21.

Source: VNDIRECT RESEARCH, COMPANY REPORTS

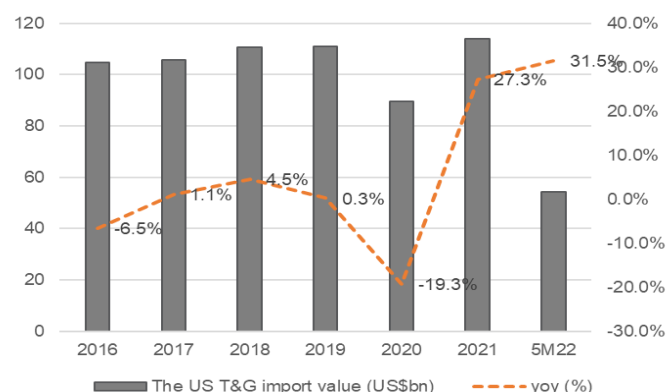
2H22 outlook: More headwind ahead

Increasing inflation and tighter financial condition led to a contraction in global demand since 2Q22

The US have shown a strong pent-up demand after lockdown. Americans have returned to the office, leading to a recovery in demand for office products such as vests, shirts. As a result, The US T&G import value in 5M22 soared 31.5% yoy, reaching US\$51.6bn. However, T&G demand in the US may cool down in 2H22F due to high inflation. The US consumer inflation elevated to 9.1% in June, a pace not seen in more than four decades. We think that high inflation will affect the demand for premium clothes such as vest, shirt, T-shirt made by recycled yarn. As a result, we think that the demand for recycled yarn may slow down in 2H22 and gradually recover in 2Q23F. Thus, we lower FY22/23F recycled yarn revenue by 15.9%/8.2% versus previous forecast due to 1) lower-than-our expectation 2Q22 results, 2) weaker demand from the US market and 3) Unitex factory operate commercially later 2 month than our forecast.

Figure 2: The US consumer inflation accelerated to 9.1% in June (unit: %)


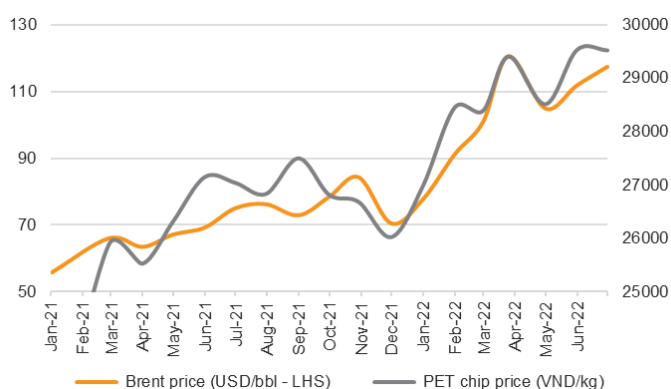
Source: Grandviewresearch, VNDIRECT RESEARCH

Figure 3: The US textile & garment import turnover has increased 31.5% yoy in 5M22 but will decelerate since June


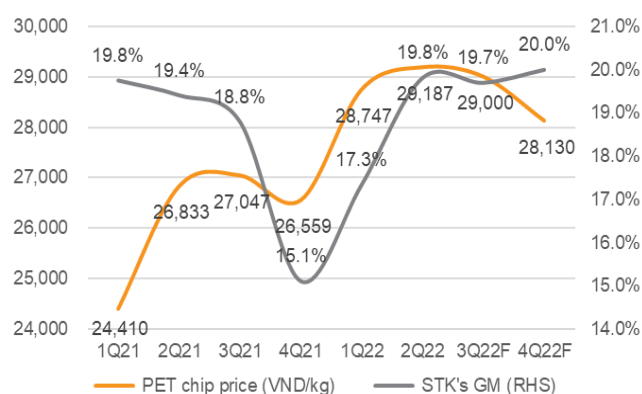
Source: VITAS, VNDIRECT RESEARCH

We think that raw material price will remain high in 3Q22F

Global oil demand is strengthening due to robust gasoline consumption and increasing international travel as more countries re-open their borders. Thus, Brent oil price accelerated 22% ytd and reach US\$111.7/barrel on average in 2Q22 (+58% yoy). As a result, PE chip price – the STK's main input material, accounting for 60% COGS, soared 9% yoy to VND29,187/kg in 2Q22. Fundamentally, we believe Brent oil price to stay high in some months ahead, then gradually cooling down toward the end of 2022 as the potential additional supply from the US, OPEC and Iran could partially catch up the growing demand, translating to the average Brent oil price of US\$100/bbl in 2022F. Since PE chip prices will often be delayed by 1 to 2 months compared to oil price, we believe that PE chip will remain high in 3Q22 before cooling down in 4Q22. As a result, we forecast STK's GM to reach 19.7% (-0.2% pts vs. 2Q22) and 20.0% (+0.3% pts vs. 2Q22) in 3Q22F/4Q22F, respectively.

Figure 4: PE chip price reached VND29,511/kg in Jun-22


Source: VNDIRECT RESEARCH, Company report

Figure 5: We forecast STK'GM in 2H22F to reach 19.8%


Source: VNDIRECT RESEARCH, Company report

Outlook: Waiting for the new Unitex factory

The new Unitex factory progress is back on track

After a delay in 2021 due to social distancing, we are positive about developments at the Unitex factory in 2022F. STK is in the process of getting construction permit and completing the necessary legal procedures with the authorities. Phase 1 of Unitex factory will be put into commercial production from end-3Q23, 2-month later than our previous forecast. We expect phase 1 of the

Unitex factory to commercially operate at 30% capacity in 2023F with production volume of 10,800 tonnes, lifting sale volume to increase 20% yoy in FY23F.

Figure 6: 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

Trends of using environmentally friendly materials

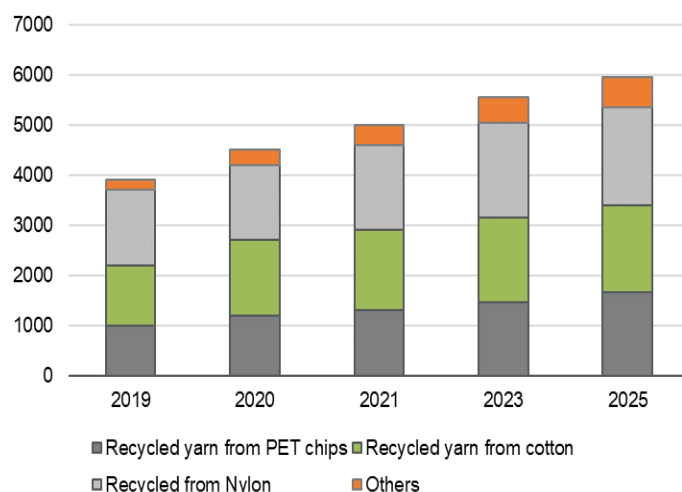
European regulators have declared war on "fast fashion". By 2030 textile products placed on the EU market are long-lived and recyclable, to a great extent made of recycled yarn, free of hazardous substances and produced in respect of social rights and the environment. According to Textile Exchange, recycled yarn market was valued at US\$5.9bn in 2025F, accounting for 45% global yarn demand. We think that the large recycled yarn manufacturer such as **STK** will take advantage from this trend.

Figure 7: Commitments on recycled materials usage



Source: STK, VNDIRECT RESEARCH

Figure 8: Recycled yarn market was valued at US\$5.9bn in 2025F (Unit:US\$m)



Source: Sunsir, 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 15.9%/8.2% versus previous forecast due to 1) lower-than-our expectation 2Q22 results, 2) weaker demand from the US market and 3) Unitex factory operate commercially later 2 month than our forecast.
- We increase FY22/23F virgin revenue forecast 3.7%/4.2% thanks to higher demand in domestic market.
- We decreased FY22/23F selling expense 18.6%/17.4% 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 1.7%pts/1.1% pts mainly driven by the change of product mix sale.

As a result, we revise down FY22/23F net profit forecast by 14.7%/14.5%.

Figure 9: Changes in FY22-23F forecasts (VNDbn)

VNDbn	2021	2022F			2023F		
		Old	New	%change	Old	New	%change
Net revenue	2,043	2,611	2,482	-4.9%	3,291	3,090	-6.1%
<i>Virgin</i>	1,022	1,197	1,242	3.7%	1,347	1,404	4.2%
<i>Recycled</i>	1,022	1,458	1,226	-15.9%	1,756	1,611	-8.2%
Gross profit	374	565	477	-15.5%	716	613	-14.4%
GPM (%)	18.3%	20.9%	19.2%	-1.7%pts	20.9%	19.8%	-1.1%pts
Selling expense	(27)	(30)	(24)	-18.6%	(34)	(28)	-17.4%
G&A expense	(72)	(77)	(77)	0.0%	(85)	(89)	4.2%
EBT	286	403	344	-14.5%	575	446	-22.4%
Net profit	278	353	301	-14.7%	456	390	-14.5%
EPS (VND)	4.083	4,320	3,685	-14.7%	5,572	4,764	-14.5%

Source: VNDIRECT RESEARCH, Company report

Downgrade to Hold rating with lower TP of VND52,800/share

We downgrade to Hold rating with lower TP of VND52,800/share, following FY22-23F EPS of VND3,685/share and VND4,764/share, respectively with a P/E target of 12.5x, equivalent to one-year historical P/E. STK's share price has dropped 14% since 15-Apr following overall market slump. We downgrade to Hold as STK face more challenges in the short term.

Figure 10: Valuation method

Valuation	
Forecasted Net profit in 2022F (VND bn)	301
Forecasted Net profit in 2023F (VND bn)	390
Number of fully diluted shares in FY22F	81,800,000
FY22F EPS (VND/ share)	3,685
FY23F EPS (VND/ share)	4,764
Average FY22-23F EPS (VND/share)	4,225
Target P/E (x)	12.5
Target price (VND/ share)	52,808

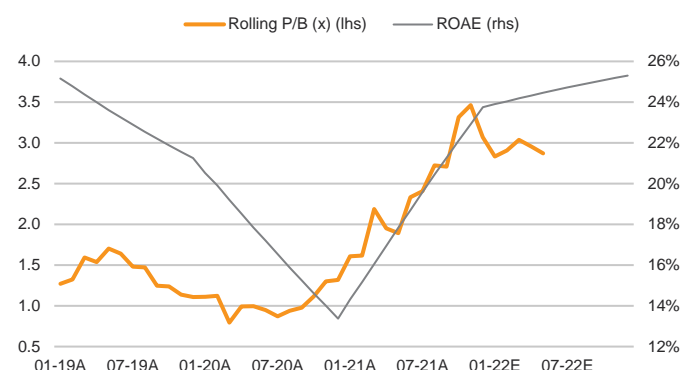
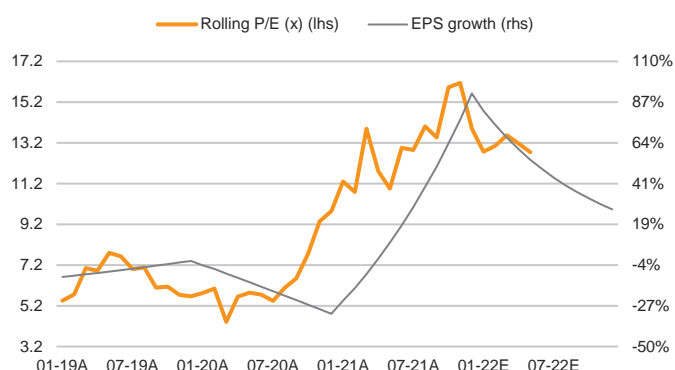
Source: VNDIRECT RESEARCH

Figure 11: Peer comparison in yarn industry

Company	Ticker	Recom.	Target price		Market cap		P/E (x)		EPS 3 year CAGR	P/BV (x)		EV/EBITDA		ROE (%)
			VND	US\$m	TTM	2022	2022	2022		Current	2022	TTM	2022	
Lealea Enterprise Co Ltd	1444 TT	na	na	504.6	11.7	na	15.0	na	na	na	17.4	13.9	5.0	na
Nan Ya Plastics Corp	1303 TT	na	na	18,771	7.7	9.3	57.3	1.3	1.32	7.8	7.7	19.6	14.5	
Far Eastern New Century Corp	1402 TT	na	na	15,151	15.3	13.0	-1.5	0.7	0.7	10.7	10.1	4.39	5.5	
Vardman Textiles Ltd	VTEX IN	na	na	1,330	7.2	6.5	38.8	1.0	0.9	4.1	5.5	14.4	14.0	
Average					10.5	9.6	27.4	1.0	1.0	10.0	9.3	10.8	11.3	
Mean					9.7	9.3	26.9	1.0	0.9	9.3	8.9	9.7	14.0	
Century Synthetic Fiber Corp	STK VN	Hold	52,800	155.4	16.1	11.4	21.2	3.5	2.8	10	8.8	22.8	22	

Source: VNDIRECT RESEARCH, Bloomberg (Data as in 03 August 2022)

Valuation



Income statement

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	2,043	2,482	3,090
Cost of sales	(1,668)	(2,005)	(2,477)
Gen & admin expenses	(72)	(77)	(89)
Selling expenses	(27)	(24)	(28)
Operating profit	277	376	497
Operating EBITDA	387	492	648
Depreciation and amortisation	(110)	(116)	(151)
Operating EBIT	277	376	497
Interest income	15	22	15
Financial expense	(9)	(57)	(83)
Net other income	2	4	18
Income from associates & JVs	0	0	0
Pre-tax profit	285	344	446
Tax expense	(7)	(43)	(57)
Minority interest	0	0	0
Net profit	278	301	390
Adj. net profit to ordinary	278	301	390
Ordinary dividends	(102)	(119)	(139)
Retained earnings	176	183	251

Balance sheet

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	366	251	328
Short term investments	0	50	62
Accounts receivables	88	143	173
Inventories	472	522	600
Other current assets	60	9	11
Total current assets	986	973	1,174
Fixed assets	831	1,096	1,297
Total investments	144	144	147
Other long-term assets	9	0	(0)
Total assets	1,969	2,213	2,618
Short-term debt	321	175	402
Accounts payable	291	98	120
Other current liabilities	99	191	121
Total current liabilities	712	464	643
Total long-term debt	0	199	247
Other liabilities	0	60	15
Share capital	707	849	849
Retained earnings reserve	558	598	855
Shareholders' equity	1,258	1,490	1,714
Minority interest			
Total liabilities & equity	1,969	2,213	2,618

Cash flow statement

(VNDbn)	12-21A	12-22E	12-23E
Pretax profit	285	344	446
Depreciation & amortisation	110	116	151
Tax paid	(16)	(43)	(57)
Other adjustments	(12)	(7)	(8)
Change in working capital	(52)	(122)	(161)
Cash flow from operations	315	289	372
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	141	141
Shares buyback	0	0	0
Net borrowings	52	111	29
Other financing cash flow	(40)	(19)	132
Dividends paid	(102)	(119)	(139)
Cash flow from financing activities	(90)	115	163
Cash and equivalents at beginning of period	95	366	251
Total cash generated	225	(18)	117
Cash and equivalents at the end of period	320	348	368

Key ratios

	12-21A	12-22E	12-23E
Dupont			
Net profit margin	13.6%	12.1%	12.6%
Asset turnover	1.12	1.19	1.28
ROAA	15.2%	14.4%	16.1%
Avg assets/avg equity	1.57	1.52	1.51
ROAE	23.8%	21.9%	24.3%
Efficiency			
Days account receivable	12.3	18.3	18.3
Days inventory	103.2	95.0	88.4
Days creditor	63.8	17.8	17.7
Fixed asset turnover	2.34	2.58	2.58
ROIC	17.6%	16.2%	16.5%
Liquidity			
Current ratio	1.4	2.1	1.8
Quick ratio	0.7	1.0	0.9
Cash ratio	0.5	0.6	0.6
Cash cycle	51.8	95.4	89.0
Growth rate (yoy)			
Revenue growth	15.7%	21.5%	24.5%
Operating profit growth	58.7%	35.8%	32.1%
Net profit growth	92.1%	8.5%	29.3%
EPS growth	92.1%	8.5%	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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