

STK – Century Synthetic Fiber Corporation – BUY (price range VND16,000 – VND18,000)

We visited STK – Trang Bang factory – to learn about the company. We recorded a [short clip](#) to help investors understand their manufacturing process. Following on from [our research](#), I would like to call a BUY for STK with the following reasons:

- Numbers are getting much better: Gross margin increased from 10% (2016) to 13% (8M2018). For 8M2018, revenue increased 18.4% yoy and NPAT increased 26.3%. STK expects 2018 NPAT will be VND168 billion (EPS VND2,800)

KPIs	Unit	At 31/08/2018	At 31/12/2017
Debt/Equity	Time	1.01	1.04
Net Debt/ Equity	Time	0.74	1.37
Current ratio	Time	1.01	0.84
Quick ratio	Time	0.43	0.29
ROS	%	7.6%	5.0%
ROA	%	5.8%	5.0%
ROE	%	13.8%	12.8%

(Source: STK)

- Trảng Bàng 5 Project is going to start operations in Oct 2018 and will add 3,000 tons/year of DTY and 1,500 tons/year of recycled waste yarn.
- Orders for recycled yarn are increasing: famous brands such as: [Adidas](#), [Nike](#), [H&M](#) ... are being pushed to use 100% recycled material. STK has an advantage in producing recycled yarn as their technology is Chip Spinning (The other method is Direct Spinning which uses PTA MEG as input. The Direct Spinning method is not able to produce recycled yarn). Recycled yarn can be sold at higher prices and generate better margins. Recycled yarn is now 13% of STK revenue and STK will increase this percentage to 20-30% in 2019.
- One of the strengths of STK in recycled yarn is their partnership with RePreve - Unifi (NYSE: UFI) which allows them to benefit from Unifi's supply chain. The list of [Repreve clients](#) .Have a look at this [video](#) to understand more about Repreve.
- Fabric dyeing is the bottleneck of Vietnam's textile ecosystem: the Vietnamese government has stopped all the new dyeing projects because of environmental issues. Which means: We can have yarn and fabric but not colour fabrics to make garments. This will be another advantage for STK as they can produce colour yarn (They just need to add colour to polyester chips). As colour yarn can be used to make colour fabrics, there will be no need for dyeing.
- Benefits from US-China trade war and FTAs: Without the US-China trade war, Vietnamese yarn production already has a tax advantage over China in major markets (picture below). With

the current worries about this trade war, textile orders are shifting from China to Vietnam which is another benefit for STK.

Countries signed/will sign FTAs with Vietnam		Signing status	VIETNAM	CHINA
Japan (ROO*: Fabric forward)	Yarn	Effective from 12/2008	0%	5%
	Clothing		0%	8.4%-10.9%
Korea (ROO: Cut & Sew)	Yarn	Effective from 20/12/2015	0%	8%
	Clothing		0%	13%
EU (ROO: Fabric forward)	Yarn	Negotiation ended 2/12/2015, awaiting for signatures	0%	4%
	Clothing		0%	12%
AANZFTA (ROO: Cut & Knit)	Yarn	Effective from 01/01/2010	0% from 2018	ChAFTA 0% from 2015
	Clothing			NZ-China FTA: 0%
CPTPP (ROO: Yarn forward)	Yarn	Signed on 03/08/2018 and waiting for approval	MX (B5)	MX(5%)
	Clothing		AUS(EIF, AU4-A, AU3-B), CAN (EIF,B4), MX (B10,B16),	AUS(10%), CAN (18%), MX(30%), NZ (10%)

- ROO: Rule of Origin
- EIF: entry into force
- B4: eliminate in 4 stages
- B5: eliminate in 5 stages

- B10: eliminate in 10 stages
- B16: eliminate in 16 stages
- B7: eliminate in 7 stages
- AU4-A: remove in 4 stages, 0% in the 4th stage,
- AU3-B: remove in 3 stages, 0% in the 3rd stage

(Source: STK)

Other things that I like:

- Quality control is a serious issue at STK:
 - o They test 100% of their Polyester Yarn (POY).
 - o Every yarn roll has its own barcode to track the production history. So, if the clients complain about a single yarn roll, STK will know exactly which one is in question, and check it up.
 - o The founder (Mr. Hoa) is very experienced in the yarn business with more than 25 years in the sector.
- STK's vision is clear and matches the global trend.

Given the short-term and long-term pictures, I would like to call a BUY on STK with a one-year target price of **VND31,000** based on STK's target (2019 NP VND190 bn ~ EPS VND3,100 PE 10 - I believe they will meet the target).



STK – Stock price

Downside: Low liquidity, competition may increase if more FDI yarn producers move from China to Vietnam.







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