

CENTURY SYNTHETIC FIBER CORP (STK) – EARNINGS UPDATE

Market Price
VND19,150

Target Price
VND25,200

Dividend Yield
7.8%

Rating
ADD

Sector
TEXTILES

Outlook – Short term



Outlook – Long term



Valuation



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Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	26,100
52w low (VND)	13,681
3m Avg daily volume (shares)	35,791
3m Avg daily value (VNDmn)	1,534
Market cap (VND bn)	1,376
Outstanding shares (m)	70.9
Free float (%)	50
TTM P/E (x)	6.2
Current P/B (x)	1.3

Ownership

Huong Viet Investment Consultant Corporation	20.0%
Dang Trieu Hoa	13.8%
Dang My Linh	9.2%
Dang Huong Cuong	8.5%
Tang Kien Nghiep	5.5%
Others	43.0%

Source: VND RESEARCH

Product mix improvement partially comforted the trade war pain

Subdued 9M19 topline due to prolonged trade war pain. Specifically, STK registered 9M19 revenue of VND1,653bn (-7.2% yoy) mainly due to the 26.5% yoy and 3.3% yoy decreases in both volume and selling price of virgin yarn. As Chinese yarn producers have ramped up sales in their home market and other Asian markets amid higher U.S. tariffs, average selling price (ASP) of virgin yarn in Chinese market remains low, about US\$2,480/ton (-8.5% ytd).

9M19 gross profit margin improved on the back of changing product mix. Recycled yarn (GPM of 21.6%) grew 128.5% yoy in revenue, contributing 32% to STK's 9M sales mix (+19% pts yoy). Meanwhile, the proportion of virgin yarn shrank to 68% in 9M19 from 87% in 9M18. Noted that recycled yarn brought higher gross margin: 21.6% versus 12.8% of virgin yarn. Consequently, STK's blended GPM inched up 1.3% pts yoy to reach 15.6% in 9M19.

9M19 results came in below our forecast. 9M19 net profit grew sustainably 22.7% yoy thanks to better gross margin and stable cost-control. However, 9M19 revenue and net profit made up only 60% and 66% of our full-year estimates, respectively, due to lower-than-expected ASP and sale volumes. Thus, we are going to revisit our forecasts in upcoming update.

STK is now running at 94% of its 63,000-ton-per-year capacity, including the expanded coloured virgin yarn project (4,000 tons/year). Coloured virgin yarn is also the driving force to improve profit margins with 10-20% higher selling price than normal cotton yarn.

According to Management, the yarn price probably continues its downtrend towards year-end because domestic yarn price is still higher than that in Chinese market. So we believe STK is still our stock pick in textiles play as the company is one of a few producers who are able to ease from trade war pain by improving product mix.

Financial summary (VND)	12-17A	12-18A	12-19E	12-20E
Net revenue (bn)	1,989	2,408	2,748	2,950
Revenue growth	46.4%	21.0%	14.1%	7.4%
Gross margin	10.9%	13.9%	15.3%	15.9%
EBITDA margin	14.1%	15.4%	17.0%	17.9%
Net profit (bn)	100	178	245	298
Net profit growth	246.7%	78.2%	37.1%	21.8%
Recurring profit growth	248.0%	76.2%	37.8%	22.5%
Basic EPS	1,561	2,782	3,458	4,213
Adjusted EPS	1,561	2,782	3,458	4,213
BVPS	12,128	14,181	15,758	18,980
ROAE	13.6%	21.1%	24.2%	24.3%

Source: VND RESEARCH

9M19 review: Business results registered contrasting topline and bottomline growth

Figure 1: 9M19 results comparison

Preliminary results (VND bn)	3Q2018	3Q2019	yoy %	9M2018	9M2019	yoy %	% of our FY19F	
							forecast	Comments
Total revenue	589	554	-5.9%	1,781	1,653	-7.2%	60%	
<i>Virgin yarn (DTY, FDY)</i>				1,549	1,124	-27.4%	57%	Below our forecast due to a 3.3% decrease in ASP and a 26.5% fall in sale volume.
<i>Recycled yarn</i>				232	529	128.5%	74%	In line with our forecast thanks to a 4.1% increase in ASP and a 113.8% rise in sale volume.
Gross profit	92	80	-13.3%	254	258	1.6%	61%	GPM increased thanks to higher proportion of recycled yarn (32% of total revenue in 9M19 from 13% in 9M18) which has higher margin (GPM of 21.6%) than virgin yarn (GPM of 12.8%).
<i>Gross profit margin</i>	15.6%	14.4%	-1.2% pt	14.3%	15.6%	+1.3% pt	+30 bp	
SG&A	20	22	12.3%	65	62	-4.6%	60%	
<i>SG&A as % of revenue</i>	3.4%	4.1%		3.6%	3.7%		+1 bp	
Operating profit	51	56	10.3%	147	180	22.2%	64%	
EBT	51	57	9.9%	148	181	21.8%	64%	
Net profit	47	52	10.3%	131	161	22.7%	66%	

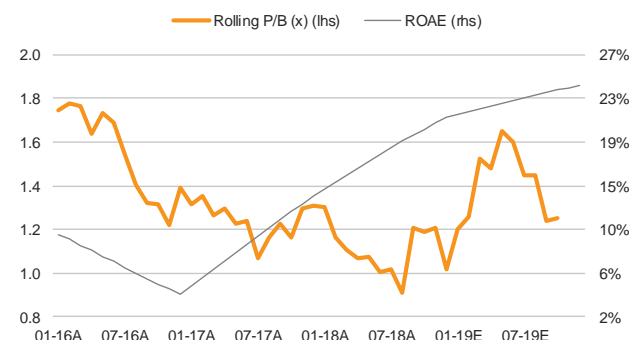
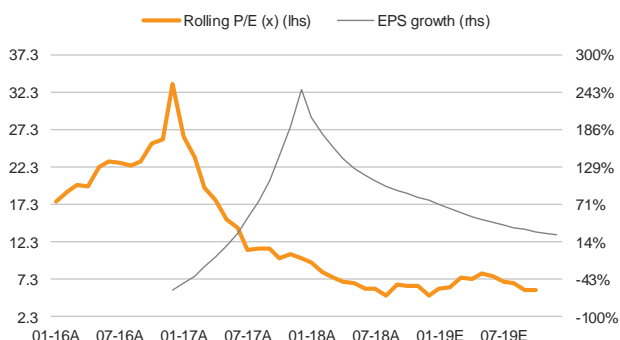
Source: STK, VND RESEARCH

Figure 2: Peer comparison (as of Oct 28, 2019)

	Market Cap (USD mn)	TTM NPAT growth (%)	TTM EPS growth (%)	TTM ROA (%)	TTM ROE (%)	D/E (x)	TTM P/E (x)	TTM P/B (x)
Texhong Textile Group Ltd	1,063.9	-11.3%	-11.8%	6.8%	18.4%	1.1	6.3	N/A
Vardhman Textiles Ltd	895.1	-5.6%	-4.9%	8.5%	13.9%	0.3	7.0	0.9
Shinkong Synthetic Fibers Corp	713.9	-8.6%	-9.9%	1.5%	7.7%	2.5	8.2	0.6
Indo-Rama Synthetics Tbk PT	229.0	117.1%	22.2%	9.0%	21.9%	0.5	2.3	0.5
Daehan Synthetic Fiber Co Ltd	121.7	10.6%	10.6%	8.5%	9.9%	0.0	2.1	0.2
Hong YI Fiber Industry Co	89.8	-1.1%	-0.7%	6.9%	8.1%	0.0	12.4	1.0
Average				6.9%	12.3%	0.8	6.4	0.6
Median				8.5%	9.9%	0.4	6.6	0.6
STK	72.4	16.8%	13.2%	9.4%	22.0%	0.9	6.2	1.3

Source: Bloomberg, VND RESEARCH

Valuation



Income statement

(VNDbn)	12-18A	12-19E	12-20E
Net revenue	2,408	2,748	2,950
Cost of sales	(2,073)	(2,328)	(2,480)
Gen & admin expenses	(56)	(64)	(69)
Selling expenses	(33)	(38)	(41)
Operating profit	245	318	360
Operating EBITDA	388	476	522
Depreciation and amortisation	(143)	(159)	(162)
Operating EBIT	245	318	360
Interest income	11	15	22
Financial expense	(53)	(50)	(39)
Net other income	(3)	2	2
Income from associates & JVs	(1)	0	0
Pre-tax profit	199	284	346
Tax expense	(21)	(39)	(48)
Minority interest	0	0	0
Net profit	178	245	298
Adj. net profit to ordinary	178	245	298
Ordinary dividends	(48)	(106)	(71)
Retained earnings	130	138	227

Balance sheet

(VNDbn)	12-18A	12-19E	12-20E
Cash and equivalents	198	263	442
Short term investments	0	0	0
Accounts receivables	69	82	88
Inventories	499	624	685
Other current assets	31	47	50
Total current assets	797	1,015	1,265
Fixed assets	1,160	1,032	913
Total investments	148	197	210
Other long-term assets	0	0	0
Total assets	2,105	2,244	2,388
Short-term debt	427	406	436
Accounts payable	315	352	387
Other current liabilities	105	83	89
Total current liabilities	847	841	912
Total long-term debt	348	240	76
Other liabilities	1	49	58
Share capital	599	707	707
Retained earnings reserve	275	372	600
Shareholders' equity	909	1,115	1,342
Minority interest			
Total liabilities & equity	2,105	2,244	2,388

Cash flow statement

(VNDbn)	12-18A	12-19E	12-20E
Pretax profit	199	284	346
Depreciation & amortisation	143	159	162
Tax paid	(14)	(39)	(48)
Other adjustments	(3)	8	(4)
Change in working capital	(83)	(135)	(30)
Cash flow from operations	242	276	426
Capex	(95)	(42)	(43)
Proceeds from assets sales	0	0	0
Others	8	0	0
Other non-current assets changes	25	0	0
Cash flow from investing activities	(62)	(42)	(43)
New share issuance	0	66	0
Shares buyback	0	0	0
Net borrowings	(50)	(129)	(133)
Other financing cash flow	0	0	0
Dividends paid	(48)	(106)	(71)
Cash flow from financing activities	(98)	(169)	(204)
Cash and equivalents at beginning of period	117	198	263
Total cash generated	81	65	179
Cash and equivalents at the end of period	198	263	442

Key ratios

	12-18A	12-19E	12-20E
Dupont			
Net profit margin	7.4%	8.9%	10.1%
Asset turnover	1.17	1.26	1.27
ROAA	8.6%	11.2%	12.9%
Avg assets/avg equity	2.45	2.15	1.89
ROAE	21.1%	24.2%	24.3%
Efficiency			
Days account receivable	8.9	8.2	8.2
Days inventory	87.8	97.8	101.1
Days creditor	55.5	55.2	57.0
Fixed asset turnover	2.03	2.51	3.03
ROIC	10.6%	13.9%	16.1%
Liquidity			
Current ratio	0.9	1.2	1.4
Quick ratio	0.4	0.5	0.6
Cash ratio	0.2	0.3	0.5
Cash cycle	41.2	50.8	52.3
Growth rate (yoy)			
Revenue growth	21.0%	14.1%	7.4%
Operating profit growth	94.3%	29.5%	13.5%
Net profit growth	78.2%	37.1%	21.8%
EPS growth	78.2%	24.3%	21.8%

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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