

CENTURY SYNTHETIC FIBER CORP (STK) – EARNING PREVIEW

Market Price VND18,600	Target Price VND28,800	Dividend Yield 4.30%	Rating ADD	Sector Textiles
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Outlook – Short term



Outlook – Long term



Valuation



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Key changes in the report

- Raise TP by 4.7%
- Raise FY2018 forecasted EAT by 22.0%

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	23,500
52w low (VND)	13,150
3m Avg daily volume (shares)	57,720
3m Avg daily value (VNDmn)	909
Market cap (VNDbn)	1,056
Outstanding shares (m)	59.9
Free float (%)	44.2
TTM P/E (x)	8.0
Current P/B (x)	1.3

Ownership

Huong Viet Investment Consultant Corporation	20.2%
Dang Trieu Hoa	13.9%
Dang My Linh	8.5%
Dang Huong Cuong	8.5%
Vietnam Holding Ltd	4.7%
Others	44.2%

Source: VNDIRECT

For 9M2018, STK enjoyed a healthy 19% rise in ASP from the beginning of the year due to the recovery of global yarn prices along with the shift towards high-end recycled yarn.

STK announced solid 9M2018 prelim results with 25.1% yoy growth in revenue and 86.9% yoy growth in EAT, thanks to a 340 bps expansion in gross margin to reach 13.8%. Higher GM came from increasing revenue contribution of recycled yarn (which has higher margin) from 6.0% in 2017 to 13.0% in 9M2018 along with rise in ASP.

Trang Bang 5 (TB5) project's commercial operation will start at the beginning of 2019, later than we had forecasted. The construction of TB5 is almost complete. It has a designed capacity of 3,300 tons of DTY and 1,500 tons of recycled chips (recycle yarn) and is currently in the trial phase. Commercial operation will start in 1Q2019 with an expected utilization rate of 90% for 2019. However, the delay in commissioning does not materially impact our forecast.

STK is a direct beneficiary of the US-China trade war. With the tariffs imposed by the US on Chinese goods extended to \$US worth of imports, including synthetic fiber and related products, Vietnamese yarn is now more competitive. As such, we expect a large amount of synthetic fiber orders to be shifted to Vietnam.

We raise our FY18 forecasted EAT by 22.0% to reach VND166bn (+65.8% yoy). Blended gross margin is expected to now expand by 160bp more than previously forecasted to reach 13.6%. This is because (1) we raise our forecasted ASP increase for 2018 from 7% to 18%, in line with STK's estimation and (2) the greater contribution of recycled yarn at 14% of STK's revenue vs 11% as previously forecasted. Revenue is expected to decline slightly by 0.6% vs previous forecast to VND2,362bn despite the lift in our ASP projection, due to the aforementioned delay of TB5 factory commissioning.

We raise our target price by 4.7% to VND28,800/ share, with a lower target P/E of 11.5x due to rising risk aversion on the back of trade tensions and higher US bond yields more than compensated for by a revised EPS of VND2,495 (+22.0% vs previous forecast).

Financial summary (VND)	12-16A	12-17A	12-18E	12-19E
Net revenue (bn)	1,358	1,989	2,362	2,670
Revenue growth	31.2%	46.4%	18.7%	13.0%
Gross margin	9.5%	10.9%	13.6%	14.8%
EBITDA margin	12.5%	14.1%	16.0%	16.8%
Net profit (bn)	29	100	166	232
Net profit growth	(59.6%)	246.7%	65.8%	40.0%
Recurring profit growth	(54.2%)	248.0%	66.0%	40.4%
Basic EPS	539	1,670	2,495	3,493
Adjusted EPS	539	1,670	2,495	3,493
BVPS	12,998	13,002	14,529	17,530
ROAE	4.2%	13.6%	19.0%	21.8%

Source: VNDIRECT

9M2018 REVIEW

9M2018 performance was strong with the continuous shift in product mix towards high added-value products and rise in overall yarn prices.

Figure 1: Overview 9M2018 results

Preliminary results (VND bn)	3Q2018	yoy %	9M2018	% vs old		vs revised forecast	Comments
				yoy %	forecast		
Total revenue	598	16.4%	1,790	25.1%	75.0%	75.5%	ASP rose by 19% yoy
DTY	448	2.3%	1,343	10.0%	66.2%	78.2%	
FDY	72	64.3%	215	76.6%	131.0%	69.1%	The product mix has been moving towards recycled yarn (the
Recycled yarn	78	144.1%	233	162.2%	119.3%	67.8%	high value added product)
Gross profit	81	75.6%	247	65.6%	86.7%	76.7%	
Gross profit margin	13.5%	+455bps	13.8%	+340bps			Gross margin has improved due to change in product mix
SG&A	(22)	3.4%	(66)	10.8%	61.3%	61.3%	
Operating profit	49	174.5%	146	102.8%	93.6%	76.3%	
EBT	50	180.4%	147	103.3%	93.6%	76.4%	
Net profit	42	136.0%	125	86.9%	91.9%	75.3%	

Source: VNDIRECT

In 3Q2018, STK has continued the shift in production mix towards high added-value recycled yarn, which has gross margin of around 22% vs 11% for normal yarn. Recycled yarn, which is made from recycled chips, contributed 13% of STK's 9M2018 revenue, up from 6% in 2017. ASP has surged 19% yoy due to (1) recovery of global yarn price which has enjoyed a 10% growth from the beginning of the year, and (2) a shift in production towards recycled yarn which has a higher selling price than conventional yarn. Overall, gross margin in 9M2018 has expanded by 340bp yoy to reach 13.8%.

FY18 FORECAST

We forecast FY18 net revenue of VND2,362bn (+18.7% yoy) and EAT to surge 65.8% yoy and reach VND166bn. Revenue is expected to decline slightly by 0.6% vs previous forecast due to delays on the TB5 project. We expect ASP for the full year to rise by 18.0% yoy, based on STK's management guidance while production will be almost unchanged at 58,800 tons (corresponding to a 98% capacity utilisation rate). We expect a continued increase in recycled yarn production which will translate to expanded revenue contribution of recycled yarn to group revenue to touch 14% by the end of 2018. This will help to raise gross margin by another 160bp vs previous forecast to 13.6%, hence increasing our EAT forecast by 22.0% to VND166bn.

Figure 2: 2018 earnings revision

FYE (VND bn)	2017A	2018F		Comments
		Old	New	
				% change of forecast
Net revenue	1,989	2,377	2,362	-0.6% Slightly reduced due to delay of TB5 project
DTY	1,697	2,018	1,707	-15.4%
FDY	169	164	311	89.5%
Recycled yarn	123	195	343	76.1%
Net revenue growth %	45.6%	19.5%	18.7%	-80bps
				Sharp upward revision due to a higher forecasted contribution of recycled yarn in revenue (14% versus 6%, previously) and a higher than expected blended ASP increase, both of which lead to a higher forecasted gross
Gross profit	217	285	322	12.9% margin expansion
Gross margin %	10.9%	12.0%	13.6%	+160bps
Net profit	100	136	166	22.0%
EPS (VND)	1,662	2,045	2,495	22.0%

Source: VNDIRECT

VALUATION

We have come up with a new set of regional peers which have a similar product mix to STK and we have removed all Chinese peers from our comparable universe as these companies will be directly hit by the US tariffs on China.

Therefore, we raise our target price by 4.7% based on a lower target trailing P/E ratio of 11.5x (-14.8% vs previous P/E) and a 22.0% raise in our EPS forecast for this year. The target P/E is lowered due to US-China trade tensions which, together with higher US bond yields, have dampened investor sentiment on equities.

We think that STK deserves to at least trade in line with regional peers given the following: (1) strong margin expansion prospects ahead due to the continuous shift of production towards high value-added products and (2) the company is a direct beneficiary of the trade war between US and China which would potentially shift orders for synthetic fiber from China to Vietnam as Vietnamese yarn will be more competitive. Using the peer average regional P/E of 11.5x and revised EPS, our target price is VND28,800/ share.

Figure 3: Valuation

Valuation method	
Forecasted 2018 EAT (VND bn)	166
Number of fully diluted shares in 2018	66,334,000
EPS forward 2018 (VND/ share)	2,495
Target P/E (peers' average)	11.5x
Target price (VND/ share)	28,809

Source: VNDIRECT

Figure 4: Regional peer comparison

	Country	Market Cap (US\$ m)	TTM NPAT growth (%)	TTM EPS growth (%)	ROA (%)	ROE (%)	D/E (x)	TTM P/E (x)	P/B (x)
Vardhman Textiles Ltd	India	749.7	-37.9%	4.0%	7.4%	12.6%	0.4	9.4	1.1
Shinkong Synthetic Fiber Corp	Taiwan	618.0	141.1%	229.4%	1.2%	6.4%	0.5	10.9	0.7
Indo-Rama Synthetic Tbk Pt	Indonesia	216.2	301.1%	477.7%	2.6%	7.4%	0.8	9.7	0.7
Zig sheng Industrial Ltd	Taiwan	200.5	305.6%	N/A	5.2%	8.0%	0.3	10.2	0.8
Hong Yi Fiber Ltd	Taiwan	79.9	-18.9%	-25.0%	6.9%	8.1%	0.0	12.9	1.0
Tung Ho Textile Ltd	Taiwan	52.9	N/A	N/A	2.2%	3.3%	0.2	16.1	0.5
Average		319.5			4.3%	7.6%	0.2	11.5	0.9
Median		208.4			3.9%	7.7%	0.2	10.6	0.9
STK	Vietnam	45.9	196.2%	128.3%	6.4%	17.5%	1.0	8.0	1.3

Source: Bloomberg

Figure 5: Trang Bang 5's trial operation



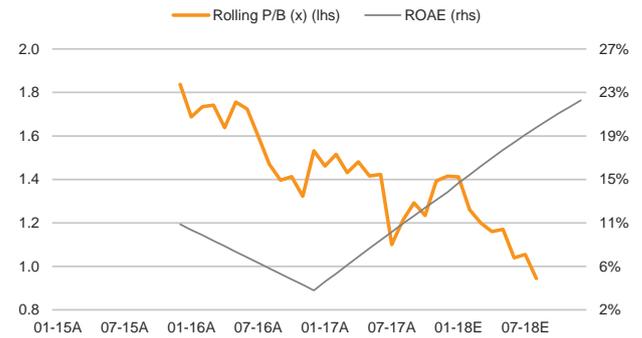
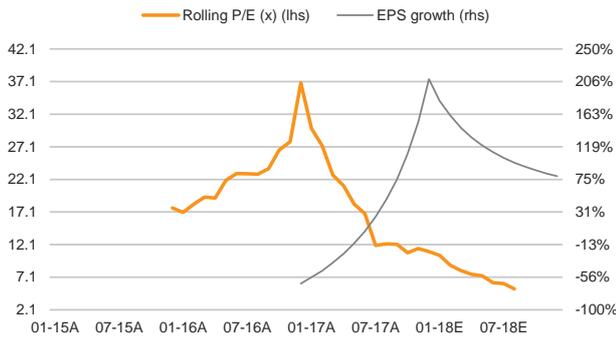
Source: VNDIRECT

Figure 6: Trang Bang 5 factory



Source: VNDIRECT

Valuation



Income statement

(VNDbn)	12-17A	12-18E	12-19E
Net revenue	1,989	2,362	2,670
Cost of sales	(1,773)	(2,040)	(2,275)
Gen & admin expenses	(59)	(70)	(79)
Selling expenses	(32)	(38)	(43)
Operating profit	126	215	274
Operating EBITDA	274	364	433
Depreciation and amortisation	(148)	(149)	(159)
Operating EBIT	126	215	274
Interest income	8	6	15
Financial expense	(30)	(29)	(23)
Net other income	1	2	2
Income from associates & JVs	0	0	1
Pre-tax profit	105	193	269
Tax expense	(5)	(27)	(37)
Minority interest	0	0	0
Net profit	100	166	232
Adj. net profit to ordinary	100	167	232
Ordinary dividends	(16)	(53)	(33)
Retained earnings	84	113	199

Balance sheet

(VNDbn)	12-17A	12-18E	12-19E
Cash and equivalents	117	306	509
Short term investments	0	0	0
Accounts receivables	63	59	66
Inventories	399	400	452
Other current assets	35	57	48
Total current assets	613	821	1,076
Fixed assets	1,209	1,181	1,030
Total investments	156	172	192
Other long-term assets	0	0	0
Total assets	1,979	2,175	2,298
Short-term debt	341	336	380
Accounts payable	307	284	385
Other current liabilities	84	72	81
Total current liabilities	732	692	846
Total long-term debt	467	516	285
Other liabilities	0	0	0
Share capital	599	665	665
Retained earnings reserve	143	256	454
Shareholders' equity	779	967	1,167
Minority interest			
Total liabilities & equity	1,979	2,175	2,298

Cash flow statement

(VNDbn)	12-17A	12-18E	12-19E
Pretax profit	105	193	269
Depreciation & amortisation	148	149	159
Tax paid	(5)	(27)	(37)
Other adjustments	(6)	(6)	(20)
Change in working capital	63	(57)	58
Cash flow from operations	306	253	429
Capex	(5)	(121)	(8)
Proceeds from assets sales	0	0	0
Others	(22)	0	0
Other non-current assets changes	0	0	0
Cash flow from investing activities	(27)	(121)	(8)
New share issuance	0	66	0
Shares buyback	0	0	0
Net borrowings	(233)	44	(185)
Other financing cash flow	0	0	0
Dividends paid	(16)	(53)	(33)
Cash flow from financing activities	(249)	57	(218)
Cash and equivalents at beginning of period	87	117	306
Total cash generated	30	189	203
Cash and equivalents at the end of period	117	306	509

Key ratios

	12-17A	12-18E	12-19E
Dupont			
Net profit margin	5.0%	7.1%	8.7%
Asset turnover	0.99	1.14	1.19
ROAA	5.0%	8.0%	10.4%
Avg assets/avg equity	2.71	2.38	2.10
ROAE	13.6%	19.1%	21.7%
Efficiency			
Days account receivable	10.4	8.1	8.1
Days inventory	82.2	71.6	72.6
Days creditor	63.3	50.8	61.8
Fixed asset turnover	1.55	1.98	2.41
ROIC	6.3%	9.2%	12.7%
Liquidity			
Current ratio	0.84	1.19	1.27
Quick ratio	0.29	0.61	0.74
Cash ratio	0.16	0.44	0.60
Cash cycle	29.4	28.9	18.9
Growth rate (yoy)			
Revenue growth	46.4%	18.7%	13.0%
Operating profit growth	117.2%	70.2%	27.4%
Net profit growth	246.7%	65.8%	39.3%
EPS growth	209.5%	49.9%	39.3%
Share value			
Basic EPS (VND)	1,670	2,503	3,487
BVPS (VND)	13,002	14,537	17,533

Source: VNDIRECT

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Description:	Excellent	Very Good	Good	N/A	

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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.

Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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