

STK – A recovery on the horizon

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- **2Q23 awaits a recovery.** We expected STK’s performance to bottom out in 1Q23 and then recover through 2H23. As a yarn company, we expect STK to lead the rebound as demand picks up in 2H23. We expect STK’s 2Q23 net revenue and NPAT to reach VND 420 bn/USD17.8 mn (+46% QoQ, -20% YoY compared to a high base 1Q22), and VND 33bn/USD 1.4 mn (21x QoQ, -50% YoY), respectively.
- **Retain ACCUMULATE; we lift our TP to VND 32,800/share (from 32,500/share).** We cut our 2023 earnings forecasts by 39% largely reflecting weak 1H23 results. We roll forward our PEx valuation base to 2023-2024 (from 2023). Accordingly, we raise our TP to VND 32,800/share, implying a 17% upside, based on the closing price of Jun 9th, 2023.

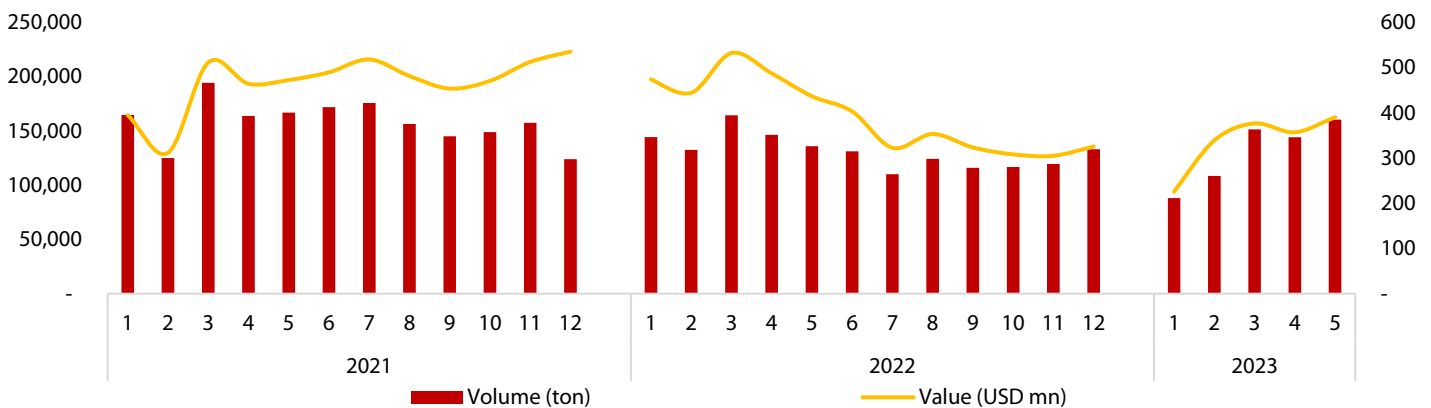
We see a recovery through 2H23

We expected STK’s performance to bottom out in 1Q23 and then recover through 2H23. As a yarn company, we expect STK to lead the rebound as demand picks up in 2H23. Management’s tone was cautiously optimistic about a rebound in 2H23 when customers’ orders are more positive.

Vietnam’s yarn exports in May 2023 showed an improvement, reaching 160 k tons (+18% YoY). However, ASP was still impacted, and yarn export turnover reached USD 391 mn (-20% YoY). Per STK, the company’s yarn products have insignificant adjustments in terms of ASP and PET chi input.

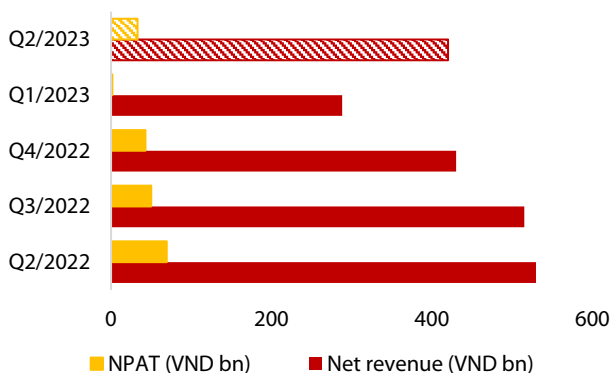
For 2Q23, we expect STK’s net revenue and NPAT to reach VND 420 bn/USD17.8 mn (+46% QoQ, -20% YoY compared to a high base 1Q22), and VND 33bn/USD 1.4 mn (21x QoQ, -50% YoY), respectively.

Figure 1: Vietnam’s yarn export by volume and value



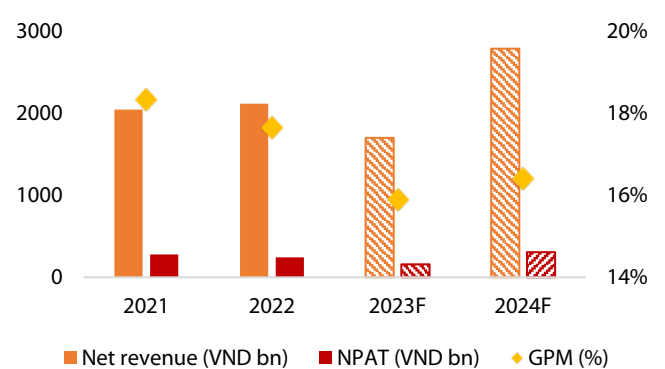
Source: Customs, RongViet Securities

Figure 2: 2Q23 results estimations



Source: STK, RongViet Securities

Figure 3: 2023/2024 results estimations



Source: STK, RongViet Securities

Retain ACCUMULATE; we lift our TP to VND 32,800/share

Due to the weak orders in 1H23, we lower our 2023 net revenue and NPAT-MI forecasts to VND 1,698 bn/ USD 72.3 mn (-19.7% YoY) and VND 158 bn/USD 10.9 mn (-34.7% YoY), respectively. 2023 EPS is VND 1,922.

STK is currently trading at 2023 PER trailing 12.65x. We roll forward our PEx valuation base to 2023-2024 (from 2023). Accordingly, we raise our TP to VND 32,800/share (from VND 32,500/share), implying a **17%** upside, based on the closing price of Jun 9th, 2023. We retain our ACCUMULATE rating.

Figure 4: STK's trailing PER



Source: Capital IQ, RongViet Securities

Update on the Unitex project

The Unitex project aims to increase STK's total capacity to 60,000 tons/annum (phase 1: 36,000 tons; phase 2: 24,000 tons). Phase I of the project (with a capacity of 36,000 tons per year) is expected to begin official production starting in 1Q24. The total CAPEX of Unitex factory is around USD 120 mn with the financing structure debt/equity of 70/30. Syndicated loan of USD 52.5 mn also was concluded. Target products of the project are recycled yarn, high-value-added yarn, specialty yarn, etc.

Table 1: Unitex's phase I CAPEX plan

No.	Item	Estimated amount (VND bn)
1	Construction costs	492
	- Designing and construction costs	7
	- Workshop and infrastructure costs	485
2	Equipment and machineries costs	1,240.5
	Total	1,732.5

Source: STK, RongViet Securities

VND Billion

INCOME STATEMENT	FY2021	FY2022	FY2023F	FY2024F
Revenue	2,042	2,115	1,698	2,783
COGS	1,668	1,741	1,427	2,272
Gross profit	374	373	270	512
Selling Expenses	27	19	15	33
G&A Expenses	72	64	47	75
Finance Income	18	29	16	8
Finance Expenses	9	48	46	66
Other income/loss	1	-1	-1	-1
Gain from j.t ventures	0	0	0	0
PBT	286	269	177	344
Prov. of Tax	7	27	19	38
Minority's Interest	0	0	0	0
PAT to Equity S/H	278	242	158	306
EBIT	276	290	208	403
EBITDA	386	396	319	635

%

FINANCIAL RATIO	FY2021	FY2022	FY2023F	FY2024F
Growth (%)				
Revenue	15.7	3.5	-19.7	63.9
Operating Income	25.6	2.5	2.5	99.0
EBITDA	58.2	5.1	5.1	93.4
PAT	94.2	-13.0	-13.0	94.2
Total Assets	15.8	7.7	7.8	15.6
Equity	16.4	22.4	22.4	18.0
Profitability (%)				
Gross margin	18.3	17.7	15.9	18.4
EBITDA margin	18.9	18.7	18.8	22.8
EBIT margin	13.5	13.7	12.3	14.5
Net margin	13.6	11.5	9.3	11.0
ROA	14.1	11.4	5.1	8.6
ROE	22.1	15.7	9.3	15.3
Efficiency				(times)
Receivable Turnover	9.4	16.7	28.6	9.4
Inventory Turnover	3.7	3.7	3.6	3.7
Payable Turnover	6.5	5.0	3.8	6.5
Liquidity				(times)
Current	1.4	2.1	0.9	0.8
Quick	0.7	1.3	0.3	0.3
Finance Structure (%)				
Total Debt/Equity	25.5	20.0	63.8	47.6
Current Debt/Equity	25.5	20.0	22.7	32.6
Long-term Debt/Equity	0	0	41.1	14.9

VND Billion

BALANCE SHEET	FY2021	FY2022	FY2023F	FY2024F
Cash and cash equivalents	366	235	48	80
Short-term investments	0	180	0	0
Accounts receivable	88	226	102	97
Inventories	472	466	385	636
Other current assets	60	93	45	48
Property, plant & equipment	831	772	2,361	2,349
Acquired intangible assets	0	0	0	0
Long-term investments	6	14	14	14
Other non-current assets	149	140	123	196
Total assets	1,972	2,125	3,078	3,421
Accounts payable	386	270	285	454
Short-term borrowings	321	308	386	657
Long-term borrowings	0	0	700	300
Other non-current liabilities	0	0	0	0
Bonus and Welfare fund	5	6	6	6
Technology-science, dev. fund	0	0	0	0
Total liabilities	712	584	1,377	1,417
Common stock and APIC	742	884	1,021	1,021
Treasury stock (enter as -)	-42	-42	-42	-42
Retained earnings	558	698	723	1,025
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	1	1	0	0
Total equity	1,259	1,541	1,701	2,004
Minority Interest	0	0	0	0

VALUATION RATIO (*)	FY2021	FY2022	FY2023F	FY2024F
EPS (dong)	4,069	2,941	1,922	3,688
P/E (x)	14.0	8.7	14.6	7.6
BV (dong)	18,464	20,746	24,435	29,929
P/B (x)	3.0	1.3	1.3	1.1
DPS (VND/cp)	1,500	1,500	0	500
Dividend yield (%)	2.9	5.7	0	1.8

VALUATION MODEL	Price	Weight	Average
P/E	25,432	60%	15,259
FCFF	43,873	40%	17,549
Target price (VND)	32,800	100%	

VALUATION HISTORY	Price (*)	Recommendation	Period
08/2022	47,000	Accumulate	1 year
10/2022	38,500	Buy	1 year
12/2022	32,500	Buy	1 year
06/2023	32,800	Accumulate	1 year

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