# CENTURY SYNTHETIC FIBER CORP. (HSX: STK)

## Recycled yarn to outpace virgin yarn in recovery

| (VND bn) | 2Q-FY20 | 1Q-FY20 | +/- qoq | 2Q-FY19 | +/- yoy |
|---|---|---|---|---|---|
| Net revenue | 252 | 617 | -59.1% | 494 | -48.9% |
| PAT | 3 | 52 | -94.5% | 58 | -95.0% |
| EBIT | 4 | 70 | -94.7% | 74 | -95.0% |
| EBIT margin | 1.5% | 11.3% | -9.9pps | 15.0% | -13.5pps |

*Source: STK, Rong Viet Securities*

**1H2020 – Recycled yarn was less affected than virgin yarn**

- Revenue fell 21% YoY, reaching VND 869 bn. Consumption has been affected negatively by the pandemic, mostly in 2Q. Sales in that quarter dropped 49% YoY, of which sales of virgin yarn dropped more than that of recycled yarn, -60% QoQ vs -58% QoQ, respectively. Recycled yarn was less affected than virgin yarn, in terms of both ASP and volume. The share of recycled yarn, thus, rose to 35% vs 28% in 1H2019.
- Falling ASP and depreciation expenses worsened the gross profit margin. 1H2020 GPM 13.3% was much lower than that of 16.2% in 1H2019.
- Rise in freight and insurance costs and expenses on pandemic prevention and legal advice regarding the lawsuit of dumping cheap yarn from large production countries into Vietnam are other factors that made NPAT sank 50% YoY to VND 55 bn.

**FY2020 and 2021 outlook – Recycled yarn to outpace virgin yarn amid slow recovery**

- Exports in the coming months may rally slowly as the gloomy economic prospects force consumers to tighten spending on apparels. Competition from China could be more serious in 2H2020, causing virgin yarn selling prices to fall more deeply while that of recycled yarn increases marginally, following the accelerating trend of eco-friendly fashion. Therefore, virgin yarn volume may drop more sharply than that of recycled yarn. We expect the share of recycled yarn in total revenue to reach 41% (2019: 35%).
- For 2020, we forecast revenue to decline 36% YoY to VND 1,434 bn. NPAT comes at VND 72 bn, down 66.6% YoY.
- In 2021, yarn demand will increase as garments demand rises but will still be lower than the 2019 level. Competition with Chinese yarn may be reduced due to the anti-dumping duty on imported yarn that the Government is considering, so virgin yarn's ASP may inch up. We expect that the selling price of recycled yarn will grow higher than that of virgin yarn, resulting in recycled yarn sales accounting for 47% in total sales. Accordingly, sales in 2021 could reach VND 1,896 bn, up 32% YoY and NPAT of VND 147 bn, up 105% YoY.

**Valuation and recommendation**

*The pandemic has hurt the world's demand for yarn and STK's sales more seriously than our expectations. However, the strategy of focusing on recycled yarn continue to prove its efficiency amid the headwinds. Based on the prospect of the slow recovery of the overall yarn demand in 2H2020 and 2021, we* ***revise down our target price for STK from VND 20,000/share to VND 15,900/share.*** *With a cash dividend of VND 1,500/share in the next 12 months, the total return is 13%. The large adjustment of the market at the end of July seemed priced in the weak performance of 2020. Considering all these factors, we recommend to* ***ACCUMULATE*** *the stock.*

## ACCUMULATE +13%

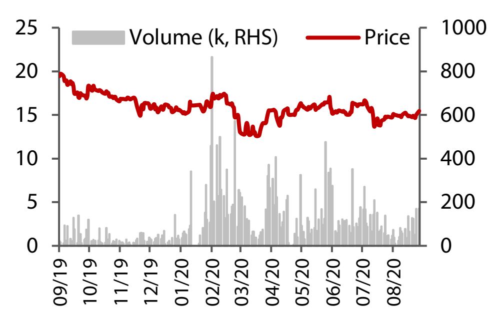
| | |
|---|---|
| Target price (VND) | 15,900 |
| Current market price (VND) | 15,450 |
| *Cash dividend in next 12 months* | *1,500* |

**Stock Info**

| | |
|---|---|
| Sector | Textile |
| Market Cap (VND billion) | 1,023 |
| Current Shares O/S (million) | 68.2 |
| Avg. Daily Volume (in 20 sessions) | 118,742 |
| Free float (%) | 56.6 |
| 52 weeks High | 19,900 |
| 52 weeks Low | 12,000 |
| Beta | 0.9 |

| | FY2019 | Current |
|---|---|---|
| EPS | 3,032 | 2,275 |
| EPS Growth (%) | 18.8 | -27.4 |
| Diluted EPS | 3,032 | 2,275 |
| P/E | 5.1 | 6.8 |
| P/B | 1.0 | 1.1 |
| EV/EBITDA | 4.0 | 4.5 |
| Cash dividend yield (%) | 9.7 | 9.7 |
| ROE (%) | 21.5 | 15.1 |

**Price performance**




| Major Shareholders (%) | |
|---|---|
| Huong Viet Investment Consulting Corp. | 20.0 |
| Dang My Linh | 14.3 |
| Dang Trieu Hoa | 11.8 |
| *Foreign ownership room (%)* | 42.3 |

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### Exhibit 1: 2Q/2020 Results

| (VND Bn) | 2Q-FY20 | 1Q-FY20 | +/- qoq | 2Q-FY19 | +/- yoy |
|---|---|---|---|---|---|
| Net revenue | 252 | 617 | -59.1% | 494 | -48.9% |
| Gross profit | 20 | 95 | -78.7% | 95 | -78.7% |
| SG&A | 17 | 25 | -34.4% | 21 | -21.5% |
| Operating income | 4 | 70 | -94.7% | 74 | -95.0% |
| EBITDA | 37 | 103 | -63.9% | 108 | -65.5% |
| EBIT | 4 | 70 | -94.7% | 74 | -95.0% |
| Financial expenses | (3) | 16 | -117.7% | 11 | -125.1% |
| *- Interest Expenses* | 4 | 5 | -16.8% | 8 | -42.8% |
| Dep. and amortization | 33 | 33 | 1.6% | 34 | -0.9% |
| Non-recurring items (*) | | | | | |
| Extraordinary items (*) | | | | | |
| PBT | 8 | 58 | -86.0% | 65 | -87.5% |
| PAT | 3 | 52 | -94.5% | 58 | -95.0% |
| (*) Adjusted PAT | 3 | 52 | -94.5% | 58 | -95.0% |

*Source: STK, Rong Viet Securities*

### Exhibit 2: 2Q/2020 Performance Analysis

| Particulars | 2Q-FY20 | 1Q-FY20 | +/- qoq | 2Q-FY19 | +/- yoy |
|---|---|---|---|---|---|
| **Profitability Ratios (%)** | | | | | |
| Gross Margin | 8.0 | 15.4 | -7.4pps | 19.2 | -11.2pps |
| EBITDA Margin | 14.7 | 16.7 | -1.9pps | 21.8 | -7.1pps |
| EBIT Margin | 1.5 | 11.3 | -9.9pps | 15.0 | -13.5pps |
| Net Margin | 1.1 | 8.4 | -7.3pps | 11.7 | -10.5pps |
| Adjusted Net Margin | 1.1 | 8.4 | -7.3pps | 11.7 | -10.5pps |
| **Turnover *(x)** | | | | | |
| -Inventories | 2.0 | 4.4 | -2.3 | 3.0 | -1.0 |
| -Receivables | 12.0 | 22.4 | -10.4 | 16.8 | -4.8 |
| -Payables | 3.3 | 7.0 | -3.7 | 3.5 | -0.2 |
| **Leverage (bps)** | | | | | |
| Total Debt/ Equity | 78.1 | 65.5 | 12.6pps | 103.5 | -25.4pps |

*Source: Rong Viet Securities*

### Exhibit 3: 3Q/2020 Performance Forecast

| Particulars (VND Bn) | 3Q-FY20 | +/- qoq | +/- yoy |
|---|---|---|---|
| Revenue | 252 | 0.0% | -54.5% |
| Gross profit | 18 | -12.4% | -77.8% |
| EBIT | 2 | -54.1% | -97.0% |
| NPAT | 2 | -48.3% | -97.1% |

*Source: Rong Viet Securities*

### Main assumptions:

- Sales decrease by 54% YoY as consumers are tightening their budget for garments amid the dim economic outlook.

- Recycled yarn accounts for 39% of total revenue.

- Gross profit margin reaches 7%.

## Update

### 1H2020: Pandemic prevention measures have caused a large fall in revenue and profit

**Table 1. Results in 1H2020**

| Unit: VND bn | 1H 2020 | 1H 2019 | % growth |
|---|---|---|---|
| Net revenue | 869 | 1,099 | -21% |
| *Virgin yarn* | *565* | *791* | *-28%* |
| *Recycle yarn* | *304* | *308* | *-3%* |
| Gross profit | 115 | 179 | -35% |
| ***Gross profit margin*** | ***13.3%*** | ***16.2%*** | |
| ***GPM of recycled yarn*** | ***22%*** | ***23%*** | |
| Selling expenses | -14 | -12 | 12% |
| G&A expenses | -28 | -27 | 4% |
| Financial income | 5 | 4 | 42% |
| Financial expenses | -13 | -19 | -33% |
| *Interest expenses* | *-10* | *-16* | *-38%* |
| Other profits | 0 | 0 | 105% |
| NPAT | 55 | 110 | -50% |
| ***PAT margin*** | ***6.3%*** | ***10.0%*** | |

*Source: STK, Rong Viet Securities*

1H2020 revenue fell 21% YoY, reaching VND 869 bn. Consumption has been affected negatively mostly in 2Q. Sales in 2Q dropped 49% YoY, as quarantine measures were applied globally to contain the pandemic. This was much worse than our expectations (sales was assumed to fall 28% YoY). Sales of virgin yarn dropped more than that of recycled yarn (-60% QoQ vs -58% QoQ) in terms of both ASP and volume (Table 2). As a result, the weight of recycled yarn in 1H2020 total sales rose to 35% from 28% of 1H2019. This confirms the efficiency of STK's strategy of focusing on recycled yarn.

**Table 2: Changes in volume and ASP of virgin yarn and recycled yarn**

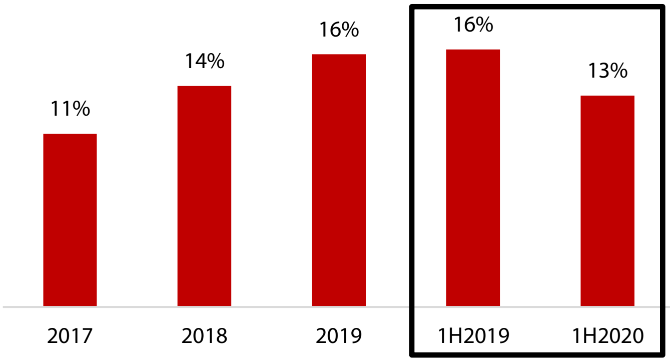
| | 1H2020/1H2019 | | 1Q2020/1Q2019 | | 2Q2020/1Q2020 | |
|---|---|---|---|---|---|---|
| | ASP | Volume | ASP | Volume | ASP | Volume |
| **Virgin yarn** | -16% | -15% | -10% | -3% | -9% | -60% |
| **Recycled yarn** | +3% | -4% | +3.3% | +48% | +0.1% | -50% |
| **General** | -10% | -13% | -8.3% | +11% | -3% | -58% |

*Source: STK*

According to the company, the global weak demand and the dumping of Chinese virgin yarn globally has made the 1H2020 ASP of virgin yarn tumble more than virgin chip prices, reducing the price gap of virgin yarn in 1H2020 by 8% YoY. Meanwhile, the price gap of recycled yarn increased 6% YoY thanks to the stability of recycled chip price as well as the rise in recycled yarn ASP. While recycled yarn ASP was stable as per our assumption, ASP of virgin yarn fell much more deeply (-9% QoQ) vs our estimate (-3% QoQ).

Although plants ran at 50-60% of  capacity in 2Q, the company still recorded depreciation expenses as usual. Consequently, this led to a sharp fall of the gross profit margin (GPM) to 8% from 19% in 2Q2019. 1H2020 GPM was 13.3%, significantly lower than 16.2% in 1H2019.

**Figure 1: Falling ASP and depreciation have led to a contraction in the gross profit margin**




*Source: STK, Rong Viet Securities*

Despite the sharp fall in revenue, selling and administration expenses increased 12% YoY and 4% YoY, respectively. This was due to (1) the rise in freight and insurance costs, as the company exported more CIF contracts than the same period last year and (2) expenses on pandemic prevention and legal advice regarding the lawsuit of dumping cheap yarn into Vietnam from China, India, Indonesia and Malaysia. As a result, NPAT sank 50% YoY to VND 55 bn.

**2020 forecast**

According to management, orders have increased gradually in July and August, compared to 2Q2020. However, consumption will depend on the development of the pandemic, which is unpredictable. The company expects that global demand for textile and garment will fully recover by the end of 2021. However, we doubt this, as consumers are saving more and spending less on apparels. The Vietnam National Textile and Garment Group (VINATEX) predicted that demand for textile and garment will return to the 2019 level no sooner than 2022.

We revise down our forecasts. Revenue in 2020 could decline 36% YoY to VND 1,434 bn, a reduction of 27% compared with our last forecast. Competition from China could be more serious in 2H2020 as a large number of Chinese yarn producers have returned to normal production levels. We assume that virgin yarn selling prices may fall 19% (11% in our most recent update). For recycled yarn, we keep our forecast that selling prices will increase 3% YoY. Therefore, the share of recycled yarn to total revenue will be 41%, versus 35% in 2019.

The gross profit margin falls to 12.6% (2019: 15.9%). Virgin yarn volume drops more sharply than that of recycled yarn, at -28.3% YoY and -25.8% YoY, respectively. NPAT is estimated at VND 72 bn, down 66.6% YoY and 61% compared with our last forecast, equivalent to an EPS of VND 1,012/share.

**2021 outlook**

Yarn demand will increase as garment demand rises but will still be lower than in 2019. The drastic competition with cheap Chinese yarn may be relieved due to the anti-dumping duty on imported yarn that the Government is considering, so the selling price of virgin yarn may inch up slightly by 1%. Selling price of recycled yarn grows by 2%, better than that of virgin yarn, given the accelerating demand for eco-friendly fashion trend post-pandemic. Average chip price may rise 12%, following the rising demand for polyester chip and the rally of oil price. Therefore, the proportion of recycled yarn in total revenue could reach 47% (2020: 41%) and the average selling price could increase by 6.8% YoY. Gross profit margin expands to 14.6% (2020: 12.6%). Accordingly, we forecast sales of 2021 to reach VND 1,896 bn, up 32% YoY and PAT to reach VND 147 bn, up 105% YoY.

*VND Billion*

| *INCOME STATEMENT* | FY2018 | FY2019 | FY2020F | FY2021F |
|---|---|---|---|---|
| **Revenue** | **2,408** | **2,229** | **1,434** | **1,896** |
| COGS | 2,073 | 1,875 | 1,253 | 1,620 |
| **Gross profit** | **335** | **354** | **181** | **277** |
| Selling Expense | 34 | 27 | 23 | 26 |
| G&A Expense | 56 | 58 | 56 | 61 |
| Finance Income | 11 | 14 | 15 | 21 |
| Finance Expense | 53 | 35 | 36 | 40 |
| Other income/loss | -3 | 5 | 1 | 1 |
| Gain/(loss) from JV | -1 | 0 | 0 | 0 |
| **PBT** | **199** | **253** | **84** | **171** |
| Prov. of Tax | 21 | 39 | 12 | 25 |
| Minority's Interest | 0 | 0 | 0 | 0 |
| **PAT to Equity S/H** | **178** | **215** | **72** | **147** |
| EBIT | 245 | 269 | 103 | 189 |
| EBITDA | 388 | 406 | 240 | 328 |

*%*

| *FINANCIAL RATIO* | FY2018 | FY2019 | FY2020F | FY2021F |
|---|---|---|---|---|
| **Growth (%)** | | | | |
| Revenue | 21.0% | -7.4% | -35.7% | 32.3% |
| Operating Income | 41.7% | 4.5% | -40.9% | 36.5% |
| EBITDA | 94.3% | 9.8% | -61.9% | 84.4% |
| PAT | 79.1% | 20.3% | -66.6% | 105.1% |
| Total Assets | 7.1% | -2.4% | -15.1% | 4.7% |
| Equity | 16.7% | 19.2% | -3.7% | 3.4% |
| **Profitability (%)** | | | | |
| Gross margin | 13.9% | 15.9% | 12.6% | 14.6% |
| EBITDA margin | 16.1% | 18.2% | 16.7% | 17.3% |
| EBIT margin | 10.2% | 12.1% | 7.2% | 10.0% |
| Net margin | 7.4% | 9.6% | 5.0% | 7.7% |
| ROA | 8.4% | 10.4% | 4.1% | 8.0% |
| ROE | 19.6% | 19.8% | 6.9% | 13.6% |
| **Efficiency** | | | | (times) |
| Receivable Turnover | 36.8 | 22.7 | 16.7 | 16.7 |
| Inventory Turnover | 4.1 | 3.6 | 3.3 | 3.4 |
| Payable Turnover | 4.8 | 6.1 | 6.7 | 6.7 |
| **Liquidity** | | | | (times) |
| Current | 0.9 | 1.1 | 1.3 | 1.4 |
| Quick | 0.3 | 0.4 | 0.6 | 0.7 |
| **Finance Structure (%)** | | | | |
| Total Debt/Equity | 85.2% | 62.3% | 50.0% | 47.7% |
| Current Debt/Equity | 46.9% | 47.1% | 37.3% | 37.6% |
| Long-term Debt/Equity | 38.3% | 15.1% | 12.7% | 10.1% |

*VND Billion*

| *BALANCE SHEET* | FY2018 | FY2019 | FY2020F | FY2021F |
|---|---|---|---|---|
| Cash and cash equivalents | 153 | 150 | 91 | 120 |
| Short-term investments | 45 | 80 | 170 | 205 |
| Accounts receivable | 65 | 98 | 86 | 114 |
| Inventories | 510 | 523 | 376 | 470 |
| Other current assets | 31 | 27 | 28 | 28 |
| Property, plant & equipment | 1,180 | 1,049 | 916 | 788 |
| Acquired intangible assets | 0 | 0 | 0 | 0 |
| Long-term investments | 2 | 2 | 2 | 2 |
| Other non-current assets | 133 | 140 | 87 | 113 |
| **Total assets** | **2,119** | **2,069** | **1,756** | **1,839** |
| Accounts payable | 433 | 308 | 188 | 243 |
| Short-term borrowings | 427 | 510 | 389 | 405 |
| Long-term borrowings | 348 | 164 | 133 | 109 |
| Other non-current liabilities | 0 | 0 | 0 | 0 |
| Bonus and Welfare fund | 2 | 3 | 3 | 3 |
| Technology-science, dev. fund | 0 | 0 | 0 | 0 |
| **Total liabilities** | **1,210** | **986** | **713** | **760** |
| Common stock and APIC | 635 | 742 | 742 | 742 |
| Treasury stock (enter as -) | 0 | 0 | 0 | 0 |
| Retained earnings | 273 | 340 | 300 | 335 |
| Other comprehensive income | 0 | 0 | 0 | 0 |
| Inv. and Dev. Fund | 1 | 1 | 1 | 1 |
| **Total equity** | **909** | **1,083** | **1,043** | **1,079** |
| **Minority Interest** | **0** | **0** | **0** | **0** |

| *VALUATION RATIO (*)* | FY2018 | FY2019 | FY2020F | FY2021F |
|---|---|---|---|---|
| EPS (dong) | 2,976 | 3,034 | 1,012 | 2,076 |
| P/E (x) | 5.9 | 5.8 | 14.6 | 7.1 |
| BV (dong) | 15,167 | 15,316 | 14,754 | 15,255 |
| P/B (x) | 1.2 | 1.1 | 1.0 | 1.0 |
| DPS (dong/cp) | 1,500 | 1,500 | 1,500 | 1,500 |
| Dividend yield (%) | 8.6 | 8.5 | 10.1 | 10.1 |

| *VALUATION MODEL* | *Price* | *Weight* | *Average* |
|---|---|---|---|
| FCFF | 31,340 | 40% | 12,536 |
| P/E | 5,567 | 60% | 3,340 |
| **Target price (VND)** | | | **15,900** |

| *VALUATION HISTORY* | *Price* | *Recommendation* | *Period* |
|---|---|---|---|
| Nov 2018 | 24,300 | BUY | Long term |
| Nov 2019 | 23,000 | BUY | Long term |
| May 2020 | 20,000 | BUY | 1 year |

## RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report. we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information. investors may contact the assigned analyst or our client support department.

### RATING GUIDANCE

| Ratings | BUY | ACCUMULATE | REDUCE | SELL |
|---|---|---|---|---|
| Total Return including Dividends in 12-month horizon | >20% | 5% to 20% | -20% to -5% | <-20% |

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