CENTURY SYNTHETIC FIBER CORP. (HSX: STK)

Bright prospects for recycled yarn; bold expansion plan

(VND bn)	4Q-FY20	3Q-FY20	+/- qoq	4Q-FY19	+/- yoy
Net revenue	569	328	73.6%	576	-1.1%
PAT	68	20	240.1%	53	28.1%
EBIT	66	25	166.3%	73	-9.1%
EBIT margin	11.6%	7.6%	400 bps	12.6%	-102 bps

Source: STK, Rong Viet Securities

4Q2020- Notable growth of recycled yarn sales brought better-than-expected profit

- 4Q2020 sales surged 73.6% QoQ back to the pre-pandemic level (-1% YoY). Growth of recycled yarn outpaced that of virgin yarn in terms of average selling price (ASP) (-8% YoY vs. -16% YoY) and volume (+48% YoY vs. -14% YoY). GPM expanded to 17.5% from 12.3% in 3Q2020 and higher than 16.7% in 4Q2019. 4Q PAT came at VND 68 bn, up 28% YoY. Recycled yarn contributed to revenue and PAT respectively at 58% and 80%.
- 2020 revenue was VND 1,766 bn (-21% YoY). Virgin yarn's ASP and volume dropped 17% and 18% respectively. Recycled yarn ASP declined 8% and volume rose 4%. Overall GPM narrowed to 14.5% (2019: 15.9%) but GPM of recycled yarn maintained stable at approximately 22%. PAT dropped 33% YoY to VND 143 bn. Recycled yarn accounted for 45% of revenue and 81% of PAT, versus 33% and 58% in 2019.

2021– Demand returns to pre-pandemic level; bright prospects for recycled yarn

- As yarn demand has returned to the pre-pandemic level and buyers are shifting garment orders from China to Vietnam, we expect STK sales in 2021 will be even better than that of 2019 with recycled yarn sales to predominate that of virgin yarn.
- Although ASP of both types of yarn will remain unchanged at the 2020 average level, the high rise in selling volume of recycled yarn will drive the general ASP to grow 11% YoY and the product group's weight in total revenue reaches 54.2% (2020: 44.7%).
- General ASP growth outpaces rises in input costs, resulting in an GPM improving to 16.6% (2020: 14.5%).
- 2021 revenue will reach VND 2,370 bn, up 34.2% YoY. Financial expenses will drop 13.1% YoY mostly because of lower interest payments. As a result, PAT will rise 77.2% YoY to VND 254 bn, of which recycled yarn will take 90%, vs. 81% in 2020.
- The company has an aggressive expansion plan in the period 2021-2024. Yet we will reflect the plan in our model when related information is available.

Valuation and recommendation

Covid-19 has been accelerating changes in consumer awareness toward a sustainable lifestyle, which has been seen clearly in STK's performance in 4Q2020. Garment orders are being shifted from China to Vietnam and garment companies are increasingly using domestically produced yarn to take advantage of tariff incentives. These factors will give ample growth opportunities for STK in the coming years.

Given the changes in our expectations on STK prospects in 2021 and next years based on the better than expected performance in 4Q2020, we raise our target price for STK from VND 22,400 VND/share to ***33,200 VND/share*** *to reflect such bright outlook. Combined with an expected cash dividend of VND 500/share in the next 12 months, the total return is 9% based on the closing price as of March 11th, 2021. We recommend to* ***ACCUMULATE*** *STK.*

ACCUMULATE +9%

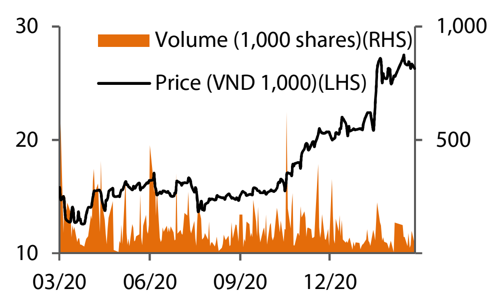
Target price (VND)	33,200
Current market price (VND)	31,000
Cash dividend in next 12 months	*500*

Stock Info

Sector	Textile
Market Cap (VND billion)	1,793
Current Shares O/S (million)	68,185,294
Avg. Daily Volume (in 20 sessions)	79,945
Free float (%)	56.6
52 weeks High	28,100
52 weeks Low	12,600
Beta	0.9

	FY2020	Current
EPS (VND)	2,028	2,028
EPS Growth (%)	-33.2	-33.2
Diluted EPS (VND)	2,028	2,028
P/E	10.3	10.3
P/B	1.8	1.8
EV/EBITDA	7.3	7.3
Cash dividend yield (%)	2.4	2.4
ROE (%)	13.3	13.3

Price performance



Major Shareholders (%)	
Huong Viet Investment Consulting	17.7
Dang My Linh	14.9
Dang Trieu Hoa	12.2
Foreign ownership room left (%)	40.8

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Exhibit 1: 4Q/2020 Results

(VND Bn)	4Q-FY20	3Q-FY20	+/- qoq	4Q-FY19	+/- yoy
Net revenue	569	328	73.6%	576	-1.1%
Gross profit	100	40	148.4%	96	4.1%
SG&A	24	15	54.4%	23	2.1%
Operating income	76	25	206.8%	73	4.7%
EBITDA	99	58	71.7%	106	-6.5%
EBIT	66	25	166.3%	73	-9.1%
Financial expenses	6	5	22.8%	8	-28.9%
- Interest Expenses	3	4	-13.7%	8	-57.5%
Dep. and amortization	33	33	0.5%	33	-0.8%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	75	23	223.4%	72	2.8%
PAT	68	20	240.1%	53	28.1%
(*) Adjusted PAT	68	20	240.1%	53	28.1%

Source: STK, Rong Viet Securities

Exhibit 2: 4Q/2020 Performance Analysis

Particulars	4Q-FY20	3Q-FY20	+/- qoq	4Q-FY19	+/- yoy
Profitability Ratios (%)					
Gross Margin	17.5%	12.3%	530bps	16.7%	90bps
EBITDA Margin	17.4%	17.6%	-20bps	18.4%	-100bps
EBIT Margin	11.6%	7.6%	400 bps	12.6%	-100bps
Net Margin	12.0%	6.1%	590 bps	9.3%	270bps
Adjusted Net Margin	12.0%	6.1%	590bps	9.3%	270bps
Turnover *(x)					
-Inventories	4.4	2.5	2.0	3.6	90bps
-Receivables	23.3	18.2	5.1	18.4	480bps
-Payables	7.1	5.0	2.1	6.0	110bps
Leverage (bps)					
Total Debt/ Equity	52.6%	69.1%	-1650bps	75.8%	-2320bps

**Annualized*

Source: Rong Viet Securities

Exhibit 3: 1Q/2021 Performance Forecast

Particulars (VND Bn)	1Q-FY21	+/- qoq	+/- yoy
Revenue	592	4.0%	-4.0%
Gross profit	98	-1.5%	3.4%
EBIT	75	-1.9%	6.8%
NPAT	63	-7.4%	21.7%

Source: Rong Viet Securities

Assumptions:

- Revenue reaches the pre-pandemic quarterly level.
- Recycled yarn accounts for 55% of total revenue.
- General ASP growth outpaces rises in input costs, resulting in an improved GPM to 16.6% from 15.4% of 1Q2020.
- Interest expense declines 36% YoY.

Update

2020 result: Yarn sales recovered quickly in 4Q and recycled yarn "saved" the general performance

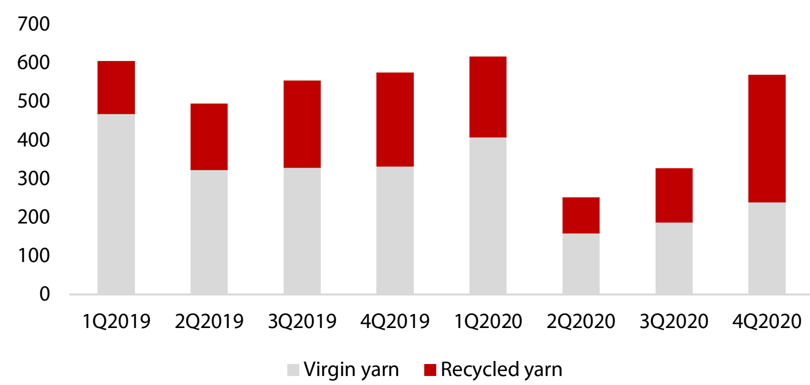
Table 1. 4Q2020 and 2020 performance

Unit: VND bn	4Q2020	4Q2019	% change	2020	2019	% change
Net revenue	**569**	**576**	**-1%**	**1,766**	**2,229**	**-21%**
Virgin yarn	*239*	*332*	*-28%*	990	1,524	*-35%*
Recycled yarn	*330*	*244*	*35%*	775	746	*4%*
Gross profit	**100**	**96**	**4%**	**255**	**354**	**-28%**
Gross profit margin	***17.5%***	***16.7%***		***14.5%***	***15.9%***	
GPM of recycled yarn*	***20.2%***	***21.4%***		***21.5%***	***21.8%***	
Selling expenses	-8	-8	-7%	-24	-27	-12%
G&A expenses	-16	-15	7%	-57	-58	-1%
Financial income	-4	-3	11%	12	14	-18%
Financial expenses	-6	-8	-29%	-23	-35	-34%
Interest expenses	*-3*	*-8*	*-58%*	*-17*	*-31*	*-44%*
Other profits	0	4	-95%	0	5	-90%
PBT	**75**	**72**	**3%**	**163**	**253**	**-35%**
PAT	**68**	**53**	**28%**	**143**	**215**	**-33%**
*Virgin yarn**	*14*	*17*	*-47%*	*28*	*70*	*-60%*
*Recycled yarn**	*54*	*36*	*32%*	*115*	*145*	*-21%*
PAT margin	***12.0%***	***9.3%***		***8.1%***	***9.6%***	

** Estimated*
Source: STK, Rong Viet Securities

World garment demand recovered in 4Q2020, driving STK's yarn sales to surge by 73.6% QoQ back to the pre-pandemic level (-1% YoY) (Figure 1). Growth of recycled yarn outpaced that of virgin yarn in terms of average selling price (ASP) (-8% YoY vs. -16% YoY) and volume (+48% YoY vs. -14% YoY). The proportion of recycled yarn in total 2020 sales, accordingly, has risen to 45% versus 35% in 2019.

Figure 1: Sales have returned to pre-pandemic level with recycled yarn thriving (VND bn)



Source: STK, Rong Viet Securities

Price gaps seemed to be under pressure in 4Q2020, with 2020 average prices of both product groups declining compared to those of 9M2020, as STK adjusted down selling prices to boost sales. However, because the share of recycled yarn in total sales rose sharply in 4Q2020, the general price gap improved slightly from -3% YoY after 9M2020 to -2% YoY at the end of the year. Overall, the price gap of recycled yarn was positive, proving the efficiency of this product, in comparison with virgin yarn.

Table 2: ASP changes and price gap changes

	ASP change 4Q2020/4Q2019	ASP change 2020/2019	Price gap change 9M2020/9M2019	Price gap change 2020/2019
General	**-5%**	**-9%**	**-3%**	**-2%**
Virgin yarn	-16%	-17%	-7%	-9%
Recycled yarn	-8%	-4%	4%	2%

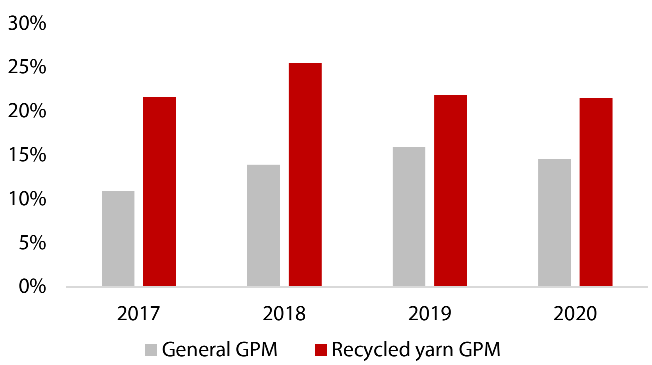
Source: STK. No data for price gap change in 4Q2020.

As production has resumed completely (according to the management) and the high rise volume of recycled yarn in 4Q2020, the gross profit margin (GPM) has expanded from 12.3% in 3Q2020 to 17.5% in 4Q2020, higher than 16.7% in 4Q2019. The 2020 GPM came at 14.5%, lower than 15.9% in 2019, as yarn consumption was adversely affected by the pandemic in 2Q and 3Q in both selling volume and ASP, especially for virgin yarn. 4Q2020 PAT increased 28% YoY to VND 68 bn as in 4Q2019 the company paid supplementary income tax for 2017 and 2018 after the tax authority concluded that the company was not qualified for tax exemptions that they previously applied for.

2020 PAT fell 33% YoY to VND 143 bn but 16% higher than our forecast (VND 123 bn) due to the contribution of recycled yarn was greater than our expectation.

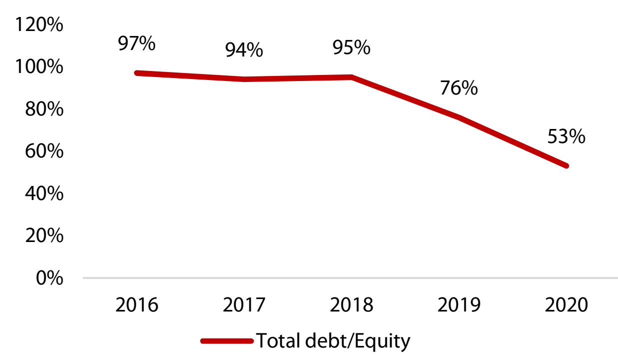
Receivables and inventory turnover have returned to pre-pandemic level. Meanwhile, the company continues to deleverage with the D/E ratio falling to 53%, the lowest level since 2016.

Figure 2: General gross profit margin and recycled yarn gross profit margin



Source: STK, Rong Viet Securities

Figure 3: Capital structure



Source: STK, Rong Viet Securities

Aggressive expansion plan: capacity will increase 130% by the beginning of 2025 but has not been reflected in our valuation

The company has announced two expansion projects:

- *Tay Ninh new factory*. Total capacity: 60,000 tons/year (vs. current capacity of 63,000 tons/year). Main products are recycled yarn, high-value-added yarn, specialty yarn. Capital expenditure was not revealed.

First phase			Second phase		
2Q2021	**4Q2022**	**1Q2023**	**2Q2023**	**4Q2024**	**2025**
Commencement	Completion	Operation of 35,000 tons/year	Commencement	Completion	Operation of the rest 25,000 tons/year

- *Alliance from yarn to garment.* Total capacity: 20,000 tons/year of DTY yarn to supply knitting and dyeing factories. The garment maker is building its own factories. Capital expenditure was not disclosed.

First phase			Second phase		
2022	**4Q2023**	**1Q2024**	**2023**	**4Q2024**	**2025**
Commencement	Completion	Operation of 10,000 tons/year	Commencement	Completion	Operation of the rest 10,000 tons/year

The company expects to raise fund for these projects via a public offering. Details related to the issuance(s) were not provided.

2021 forecast

As yarn demand has returned to pre-pandemic level and buyers are shifting garment orders from China to Vietnam, we expect that STK has ample room to expand its sales in the coming years. Sales in 2021 will be better than the 2019 level. Competition with low-priced Chinese polyester yarn will continue, causing ASP of virgin yarn to maintain at the same of 2020 while selling volume rises 9.5% YoY. For recycled yarn, selling volume may surge 63.3% YoY as the pandemic is accelerating the trend of shifting to sustainable products. However, selling price may inch up 1% YoY as a measure to boost sales. General ASP growth, consequently, will come at 11% YoY, higher than the 7% rise in our previous forecast. Total selling volume will go up by 21% YoY. Therefore, the proportion of recycled yarn in total revenue could reach 54.2% (2020: 44.7%). Average material price may rise 17%, following rising demand for polyester material. Gross profit margin could expand to 16.6% (2020: 14.5%) due to the strong growth of sales of recycled yarn (+65% YoY). Accordingly, we forecast ***2021 revenue to reach VND 2,370 bn, up 34.2% YoY.*** Financial expenses will drop by 13.1% YoY mostly because of lower interest payments. As a result, ***PAT may reach VND 254 bn, up 77.2% YoY, of which recycled yarn will be 90%, vs. 81% in 2020.***

VND Billion

INCOME STATEMENT	FY2019	FY2020	FY2021F	FY2022F
Revenue	**2,229**	**1,766**	**2,370**	**2,787**
COGS	1,875	1,510	1,976	2,277
Gross profit	**354**	**255**	**394**	**511**
Selling Expense	27	24	26	28
G&A Expense	58	57	57	61
Finance Income	14	12	6	13
Finance Expenses	35	23	19	22
Other income/loss	5	0	0	0
Gain/(loss) from JV	0	0	0	0
PBT	**253**	**163**	**297**	**413**
Prov. of Tax	39	20	43	62
Minority's Interest	0	0	0	0
PAT to Equity S/H	**215**	**143**	**254**	**351**
EBIT	269	174	311	422
EBITDA	406	307	449	561

%

FINANCIAL RATIO	FY2019	FY2020	FY2021F	FY2022F
Growth (%)				
Revenue	-7.4	-20.8	34.2	17.6
Operating Income	4.5	-24.2	46.0	25.0
EBITDA	9.8	-35.2	78.2	35.8
PAT	20.3	-33.2	77.2	38.1
Total Assets	-2.4	-17.7	16.4	18.5
Equity	19.2	-0.1	13.2	25.6
Profitability (%)				
Gross margin	15.9	14.5	16.6	18.3
EBITDA margin	18.2	17.4	18.9	20.1
EBIT margin	12.1	9.9	13.1	15.1
Net margin	9.6	8.1	10.7	12.6
ROA	10.4	8.4	12.8	14.9
ROE	19.8	13.3	20.8	22.8
Efficiency				(times)
Receivable Turnover	22.7	18.1	16.7	16.7
Inventory Turnover	3.6	3.8	3.3	3.4
Payable Turnover	6.1	4.4	5.0	5.0
Liquidity				(times)
Current	1.1	1.1	1.5	2.0
Quick	0.4	0.4	0.6	1.1
Finance Structure (%)				
Total Debt/Equity	62.3	25.3	29.2	22.8
Current Debt/Equity	47.1	20.6	24.9	19.3
Long-term Debt/Equity	15.1	4.8	4.3	3.5

VND Billion

BALANCE SHEET	FY2019	FY2020	FY2021F	FY2022F
Cash and cash equivalents	150	95	144	170
Short-term investments	80	26	119	460
Accounts receivable	98	98	142	167
Inventories	523	401	593	660
Other current assets	27	14	25	26
Property, plant & equipment	1,049	914	786	656
Acquired intangible assets	0	0	0	0
Long-term investments	2	19	19	19
Other non-current assets	140	137	154	191
Total assets	**2,069**	**1,703**	**1,982**	**2,349**
Accounts payable	308	343	395	455
Short-term borrowings	510	223	305	297
Long-term borrowings	164	52	53	54
Other non-current liabilities	0	0	0	0
Bonus and Welfare fund	3	4	4	4
Technology-science, dev. fund	0	0	0	0
Total liabilities	**986**	**621**	**757**	**811**
Common stock and APIC	742	742	742	742
Treasury stock (enter as -)	0	-42	-42	-42
Retained earnings	340	381	523	837
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	1	1	1	1
Total equity	**1,083**	**1,082**	**1,225**	**1,539**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO (*)	FY2019	FY2020	FY2021F	FY2022F
EPS (VND)	3,034	2,028	2,753	3,804
P/E (x)	5.8	10.3	11.4	8.2
BV (VND)	13,289	11,720	13,267	16,669
P/B (x)	1.3	1.8	2.4	1.9
DPS (VND/cp)	1,500	500	500	500
Dividend yield (%)	8.5	2.4	2.4	2.4

VALUATION MODEL	Price	Weight	Average
FCFF	38,897	50%	19,448
P/E	27,533	50%	13,767
Target price (VND)			**33,215**

VALUATION HISTORY	Price	Recommendation	Period
Nov 2019	23,000	BUY	Long term
May 2020	20,000	BUY	1 year
Sep 2020	15,900	ACCUMULATE	1 year
Dec 2020	22,400	ACCUMULATE	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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