November, 2019

Century Synthetic Fiber JSC (HSX: STK)

Recycled yarns continue to lead growth

Particulars (VND bn)	3Q-FY19	2Q-FY19	+/- QoQ	3Q-FY18	+/- YoY
Net revenue	554	494	12.2%	589	-5.9%
PAT	52	58	-10.6%	47	10.3%
EBIT	57	74	-22.7%	72	-20.4%
EBIT margin	10.3%	15.0%	-465bps	12.2%	-188bps

Source: STK, Rong Viet Securities

9M 2019: Net sales and NPAT fluctuated in opposite directions

- Net sales dropped by 7% YoY to VND 1,653 bn due to a sharp decline of 28% YoY in virgin yarn sales. Meanwhile, recycled yarns sales volume increased by 114% over the same period last year, reaching 32% of total sales from 13% in 9M 2018. NPAT grew 23% to VND 161 bn, thanks to (1) gross margin improving by 134bps to 15.6%, (2) financial income surged by 34% YoY while finance expense dropped sharply 46% YoY through the reduction of foreign exchange losses.
- The firm has completed 64% of revenue and 81% of NPAT guidance, respectively.

2019 - 2020 Outlook: Recycled yarns continue to lead growth

- We forecast that recycled yarns (RE) will reach 32% and 43% of total sales in 2019 and 2020 respectively. The estimated gross margin of RE in 2019 and 2020 are 21.6% and 21.0% respectively based on the assumption that more competitors will enter the market, increasing total supply. Moreover, virgin yarn is expected to be negatively affected by the dumping of yarns from China and India, as well as fierce competition from FDI enterprises which will force the firm to reduce its selling prices. Hence, we estimate that virgin yarn's gross margin will slightly drop from 12.4% in 2019 to 11.4% in 2020.
- We estimate that STK's NPAT will grow at a positive rate of 10% in both 2019 and 2020. Adjusted 2019 net sales will decline by 8% YoY and rise slightly by 6% YoY in 2020.

Valuation and recommendation

Although virgin yarn continues to face difficulties due to the negative impacts of (1) the dumping of yarns from China, India and (2) the defensive psychology of the market for the yarn industry, we think that STK will continue to increase its orders of recycled yarns to improve business efficiency. Sustainable fashion is driving the demand for recycled yarns. Besides, thanks to the use of spinning chip technology, the firm's current factories are able to convert their virgin yarns to recycled yarns production. This will be an advantage to support the firm in the context of a difficult market. For 2019, Rong Viet Securities forecasts net sales and NPAT of VND 2,217 bn and VND 214 bn respectively, equivalent to a forward EPS of VND 2,722 per share.

Rong Viet estimates the fair value of STK at ***VND 23,000/share****, combined with an expected cash dividend of VND 500/share over the next 12 months to achieve an expected return of* ***27%*** *compared to the closing price on Nov 27th 2019. We maintain our* ***BUY*** *recommendation for this stock. It should be noted that the target price is 4% lower than what it was in our 6M2019's Special Report issued in August to reflect the decline in selling prices of virgin yarns.*

BUY +27%

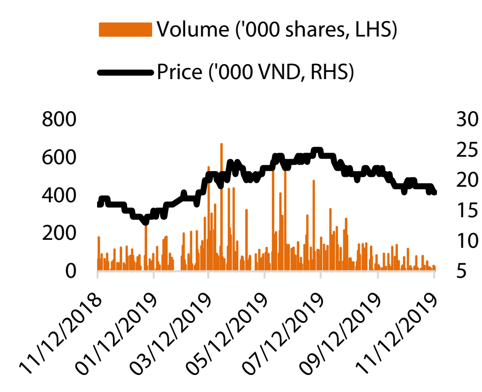
Target price (VND)	23,000
Current market price (VND)	18,500
Cash Dividend (VND)*	500

(*) Expected in the next 12 months

Stock Info	
Sector	Textile
Market Cap (VND billion)	1,372
Current Shares O/S	70,726,944
Avg. Daily Volume (in 20 sessions)	26,653
Free float (%)	45.0
52 weeks High	25,300
52 weeks Low	12,820
Beta	0.8

	FY2018	Current
EPS	2,976	3,104
EPS Growth (%)	79	7.3
Diluted EPS	2,976	3,104
P/E	6.1	5.8
P/B	1.2	1.2
EV/EBITDA	4.4	5.0
Cash dividend yield (%)	1,500	1,500
ROE (%)	21.1	21.6

Price performance



Major Shareholders (%)	
Huong Viet Investment Consultant	20.0
Dang Trieu Hoa	13.8
Foreign ownership room (%)	39.7

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Exhibit 1: 3Q2019 Results

(VND bn)	3Q-FY19	2Q-FY19	+/-(QoQ)	3Q-FY18	+/-(YoY)
Net revenue	554	494	12.2%	589	-5.9%
Gross profit	80	95	-16.2%	92	-13.3%
SG&A	22	21	6.7%	20	12.3%
Operating income	57	74	-22.7%	72	-20.4%
EBITDA	90	108	-16.1%	107	-15.8%
EBIT	57	74	-22.7%	72	-20.4%
Financial expenses	8	11	-29.9%	26	-69.6%
- Interest Expenses	7	8	-13.1%	7	-7.3%
Dep. and amortization	33	34	-1.6%	36	-6.5%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	57	65	-12.6%	51	9.9%
PAT	52	58	-10.6%	47	10.3%
(*) Adjusted PAT	52	58	-10.6%	47	10.3%

Source: STK, Rong Viet Securities

Exhibit 2: 3Q2019 Performance Analysis

	3Q-FY19	2Q-FY19	+/-(QoQ)	3Q-FY18	+/-(YoY)
Profitability Ratios (%)					
Gross Margin	14.4	19.2	-4.9%	15.6	-1.2%
EBITDA Margin	16.3	21.8	-5.5%	18.2	-1.9%
EBIT Margin	10.3	15.0	-4.6%	12.2	-1.9%
Net Margin	9.3	11.7	-2.4%	7.9	1.4%
Adjusted Net Margin	9.3	11.7	-2.4%	7.9	1.4%
Turnover *(x)					
-Inventories	3.4	3.0	0.4	4.1	-0.7
-Receivables	16.2	16.8	-0.6	19.4	-3.2
-Payables	4.6	3.5	1.1	4.0	0.6
Leverage (%)					
Total Debt/ Equity	89.6	103.5	-13.9%	115.2	-25.6%

Source: STK, Rong Viet Securities

Exhibit 3: 4Q2019 Performance Forecast

Particulars (VND Bn)	4Q-FY19	+/- QoQ	+/- YoY
Revenue	564	-4%	1%
Gross profit	82	-11%	21%
EBIT	60	-16%	61%
NPAT	49	5%	58%

Source: Rong Viet Securities

Update

9M2019's Business Results: virgin yarns have not shown signs of recovery, the bright spot came from the remarkable growth of recycled yarns

Table 1. Business Results in 9M2019

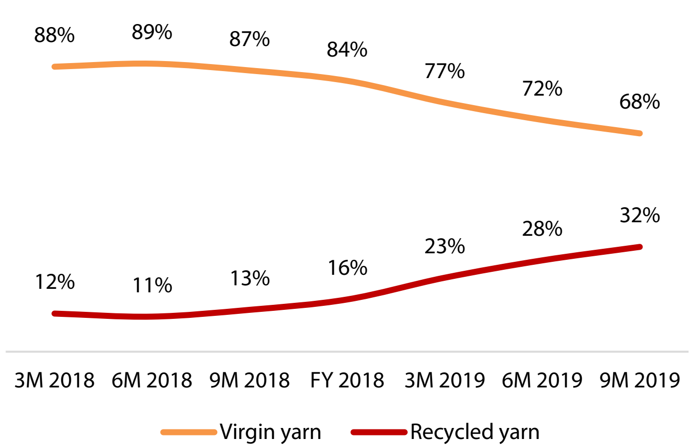
Unit: VND bn	3Q 2019	3Q 2018	% YoY	9M 2019	9M 2018	% YoY
Net revenue	554	589	-6%	1,653	1,781	-7%
Gross profit	80	92	-13%	258	254	2%
Gross margin (%)	*14.4%*	*15.6%*		*15.6%*	*14.3%*	
Selling expense	6	7	-11%	19	25	-25%
G&A expense	16	13	26%	43	40	8%
SG&A to sales (%)	*4.1%*	*3.4%*		*3.7%*	*3.6%*	
Financial income	7	5	44%	11	8	34%
Financial expense	8	26	-70%	27	50	-46%
Interest expense	*7*	*7*	*-7%*	*23*	*20*	*10%*
Other income/expense	0.2	0.4	-55%	0	1	-46%
PBT	57	51	10%	181	148	22%
PBT margin (%)	*10.2%*	*8.7%*		*10.9%*	*8.3%*	
NPAT	52	47	10%	161	131	23%
Net margin (%)	*9.3%*	*7.9%*		*9.7%*	*7.4%*	

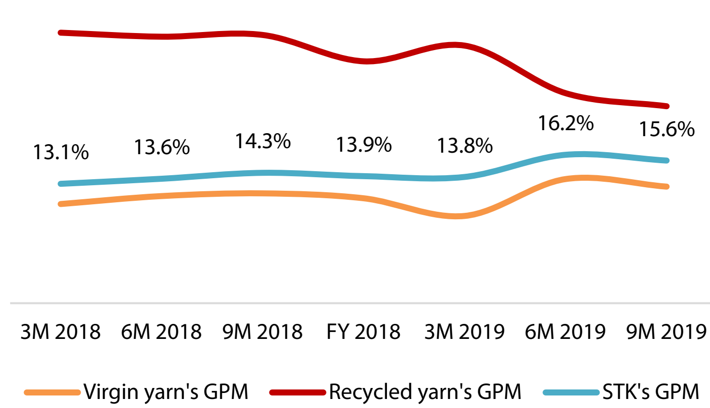
Source: STK, Rong Viet Securities

For the first nine months of the year, net sales dropped by 7% YoY driven by the reduction in virgin yarn sales of around 28% YoY due to a 27% decline in sales volume over the same period. Recycled yarn sales continued to see positive growth of about 132% YoY thanks to a 114% YoY increase in volume, rising the contribution of recycled yarn over net revenue to 32% compared to 13% in 9M 2018. However, that was not enough to compensate for the sharp decline of virgin yarn in its total sales. NPAT soared by 23% YoY to VND 161 bn and net margin went up 238bps to 9.7% from 7.4% in 9M 2018 due to:

(1) Gross margin rose by 134bps to 15.6% compared to 14.3% over the same period last year thanks to the increase of the proportion of recycled yarn, which has a higher gross profit margin than other product lines (see Figure 1). However, it should be noted that STK's gross margin in 3Q dropped by 122bps to 14.4% as the firm liquidated inventories.

Figure 1. Increasing the contribution of recycled yarn helped improve gross margin





Source: STK, Rong Viet Securities

(2) Financial income surged 34% YoY while financial expense dropped significantly by 46% YoY thanks to the decline in foreign exchange losses.

(3) SG&A expenses dropped by 5% YoY due to a 25% YoY fall in selling expenses, while G&A expenses grew by 8% YoY. SG&A expenses to sales slightly rose 10bps to 3.7% from 3.6% over the same period last year.

On the other hand, due to negative impacts from China's dumping of yarn products since June 2018, the cash conversion cycle of the firm is on a rising trend (see Figure 2). This is mainly due to an increase in finished goods during the period (the number of inventory days grew from 71 days in 2Q 2018 to 107 days last 3Q 2019). Besides, the firm is facing negative operating cash flow and net cash flow in Q3 2019 (see Figure 3), so it is likely to increase short-term debt to finance working capital. However, we expect that the firm will not face much pressure in debt repayment as its financial leverage until Q3 2019 has tended to decrease and its interest coverage ratio is kept high at 8x (see Figure 4).

Figure 2. Cash conversion cycle is on a rising trend (days)

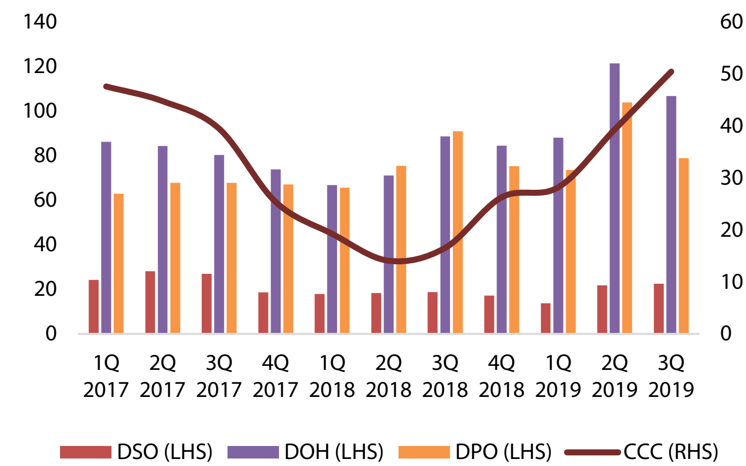
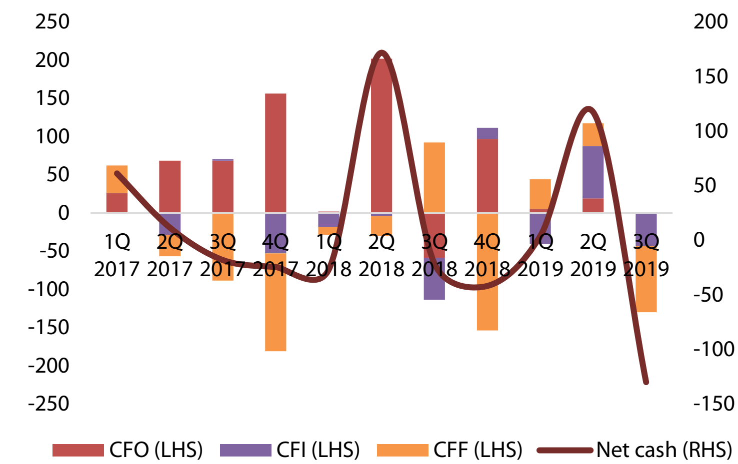
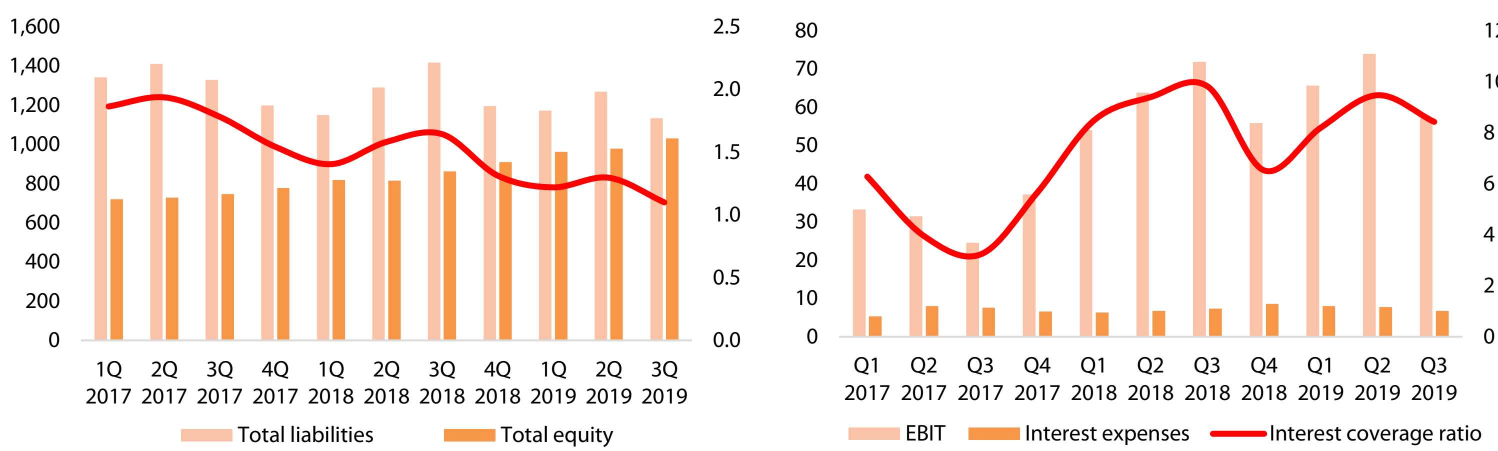


Figure 3. Net cash[1] in Q3 2019 dropped significantly (VND bn)



Source: STK, Rong Viet Securities

Figure 4. Reduction in financial leverage (LHS, VND bn) and high interest coverage ratio (RHS, VND bn)



Source: STK, Rong Viet Securities

[1] *Net cash of the firm = Net cash from operating activities + Net cash from investing activities + Net cash from financing activities*

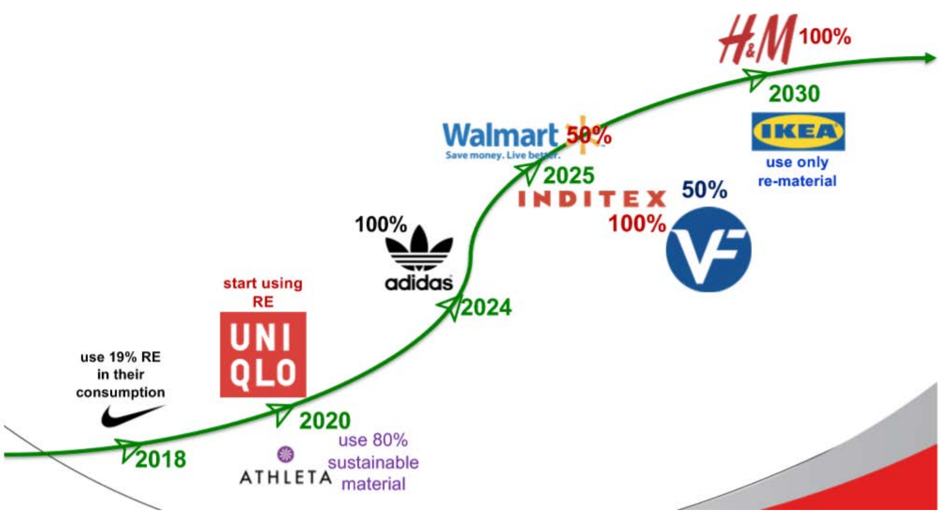
Outlook for 2019-2020: Recycled yarn continues to drive growth

The firm's development strategy is to raise the proportion of recycled yarns. As such it plans to switch to producing all recycled yarn products by 2025. Thereby, it could reduce the dependence on traditional virgin yarns which is directly influenced by crude oil prices and fierce competition from China and India. We believe that the growth prospect of recycled yarns will remain positive thanks to:

(1) The advantage of recycled fiber is that the input material is produced from the melting of PET bottles, not directly from crude oil like virgin yarns. Hence, recycled yarns help to reduce the dependence on the fluctuation of crude oil price, which is considered as one of the main reasons causing unstable revenue and gross margin for primary virgin yarn products.

(2) The emerging trend of sustainable and green fashion in recent years is boosting the demand from international fashion brands for recycled materials. Hence, many of these brands have committed to raise the proportion of recycled materials as consumers now feel that reducing waste and toxic chemicals is a priority. According to the Textile Exchange[2], the number of companies/brands committed to use at least 25% of recycled polyester materials by 2020 has increased from 48 (October 2017) to 62 (October 2018). Nike already uses 19% of recycled materials in 2018. Adidas and H&M, although they did not announce the usage rate, pledged to fully use recycled materials by 2024 and 2030 respectively. Olympic Games Tokyo 2020 is expected to use sports shoes and clothes made from recycled materials (see Figure 5). Moreover, management said that recycled material supply is lower than demand.

Figure 5. Commitment of recycled materials usage from fashion brands



Source: STK, Rong Viet Securities

STK is still in the process of developing high-value added like dope dyed yarn products, helping to limit the discharge of toxic chemicals to the environment from traditional dyeing processes. The firm is conducting a pilot production of black yarn, and plans to develop gray and navy color yarns. The selling price is expected to be 20-30% higher than its virgin yarn product lines with a gross profit margin of around 18% (lower than recycled yarns), with estimated capacity of 4,000 tons per year.

For virgin products, we believe that it will continue to face difficulties due to:

(1) Chinese and Indian enterprises are still dumping polyester filament products. In the case of China, prices are about 68% below market prices and for India from 40% to 130%. This has caused Vietnamese yarn companies to reduce their prices and increase inventories. Specifically, in the first 9 months of the year, Vietnam's total export volumes declined nearly 24% YoY and 23% YoY for polyester filament yarns. The two main export markets, Thailand and South Korea, recorded a sharp decline in value, respectively 15% and 49% over the same period.

(2) Fierce competition from FDI enterprises due to relocation of factories into Vietnam has led to an increase in the supply of virgin yarns (see Table 2).

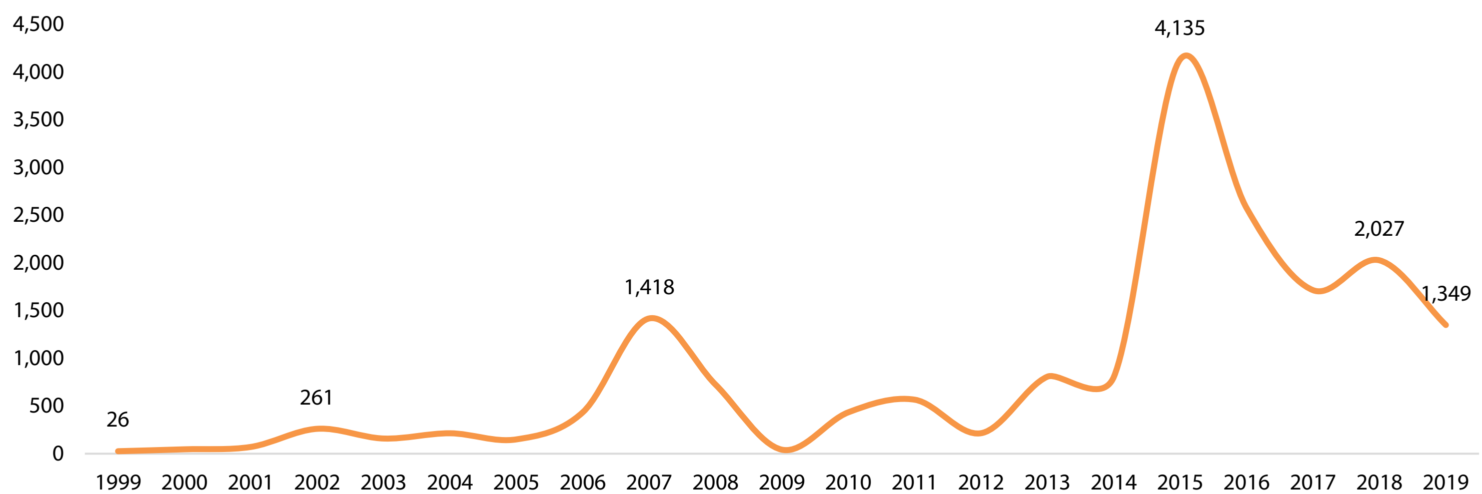
[2] *Source: https://www.ecotlc.fr/ressources/Documents_site/2018-Preferred-Fiber-Materials-Market-Report.pdf*

Table 2. Yarn investment projects of FDI enterprises in Vietnam

Project	Product	Capex	Time	Location	Capacity
Polytex Far Eastern (Taiwan)	PET chips, Polyester yarns, weaving and dyeing	USD 486 mn	2017	Bau Bang, Binh Duong province	N/A
Kolon Group (Korea)	Polyester tire yarns	USD 220 mn	2017	Binh Duong province	36,000 tons/year
Billion Ltd (China)	Man-made fibers and PET chips	USD 358 mn	2018	Go Dau, Tay Ninh province	700,000 tons/year
Luthai Viet Nam Ltd	Yarns and color fabrics	USD 60 mn	2018	Tay Ninh province	11,500 tons of yarns/year and 30 mn meters of farbics/year
Hailide Ltd (China)	Polyester filament yarns	VND 150 bn (or USD 6.5 mn)	2018	Trang Bang, Tay Ninh province	1st stage: 110,000 tons/year
Kyung Bang Ltd (Korea)	Yarns and fabrics	USD 40 mn	2019	Binh Duong province	9,000 tons of cotton yarns/year and 11,000 tons of blended yarns/year

Source: Rong Viet Securities compiled

Figure 6. Capital investment of FDI enterprises in Vietnam since 1999 (USD mn)



Source: VITAS, Rong Viet Securities

To conclude, we estimate that STK's business performance for the whole year of 2019 will be mixed with sales down 8% YoY but NPAT up 10% YoY. From 2020 onwards, we expect that the contribution of recycled yarns will help the firm to offset the negative contribution from virgin yarns, further improving business efficiency (see Figure 7-8). For 2020-2023, we forecast that net sales and NPAT's CAGR will increase by 12% YoY and 11% YoY respectively, gross profit margin is estimated at around 14.9% - 15.3%.

Figure 7. Plan to raise the contribution of recycled yarns to revenue (VND bn)

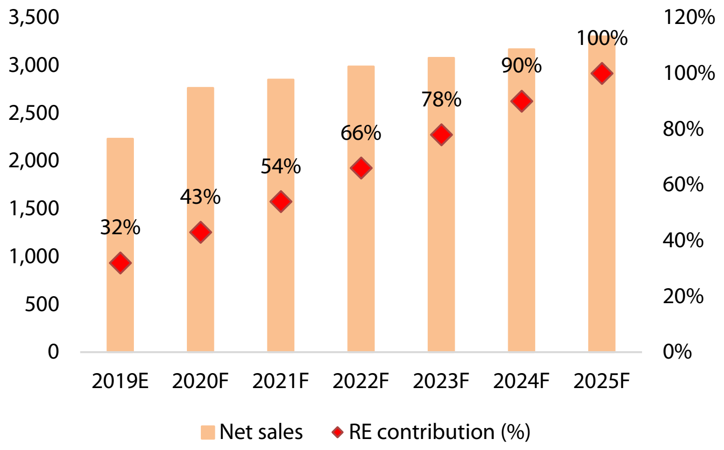
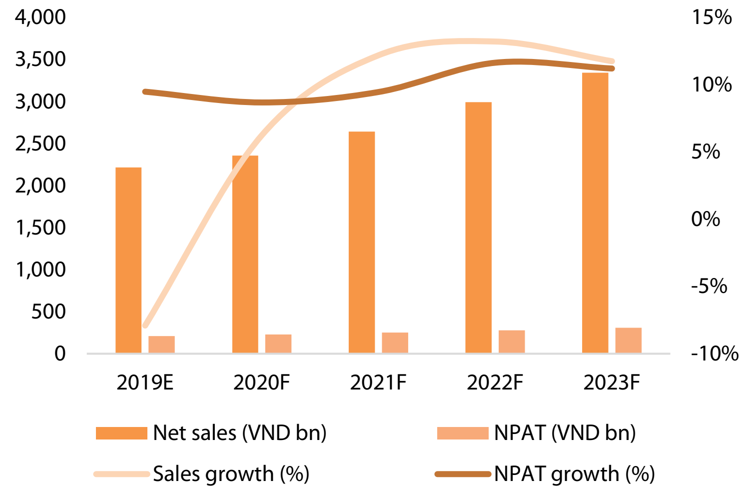


Figure 8. Growth of sales and net profit for the period of 2019-2023



Source: STK, Rong Viet Securities

VND Billion

INCOME STATEMENT	FY2017	FY2018	FY2019F	FY2020F
Revenue	1,989	2,408	2,217	2,356
COGS	1,773	2,073	1,875	1,987
Gross profit	217	335	343	368
Selling Expense	32	34	25	28
G&A Expense	59	56	58	61
Finance Income	8	11	16	21
Finance Expense	30	53	31	27
Other profits	1	-3	1	1
PBT	0	-1	0	0
Prov. of Tax	105	199	245	275
Minority's Interest	5	21	31	35
PAT to Equity S/H	0	0	0	0
EBIT	100	178	214	240
EBITDA	126	245	260	280

%

FINANCIAL RATIO	FY2017	FY2018	FY2019F	FY2020F
Growth (%)				
Revenue	46.4	21.0	-7.9	6.2
Operating Income	51.2	41.7	6.6	7.5
EBITDA	117.2	94.3	6.0	7.6
PAT	248.3	79.1	19.9	12.1
Total Assets	-2.3	7.1	0.2	-2.3
Equity	12.0	16.7	21.4	9.9
Profitability (%)				
Gross margin	10.9	13.9	15.5	15.6
EBITDA margin	13.8	16.1	18.7	18.9
EBIT margin	6.3	10.2	11.7	11.9
Net margin	5.0	7.4	9.6	10.2
ROA	5.0	8.4	10.1	11.6
ROE	12.8	19.6	18.8	19.7
Efficiency				(times)
Receivable Turnover	31.6	36.8	25.0	25.0
Inventory Turnover	4.4	4.1	4.0	4.0
Payable Turnover	4.5	4.8	5.3	5.3
Liquidity				(times)
Current	0.8	0.9	1.3	1.6
Quick	0.3	0.3	0.6	0.8
Finance Structure (%)				
Total Debt/Equity	103.8	85.2	60.0	39.7
Current Debt/Equity	43.8	46.9	35.1	23.0
Long-term Debt/Equity	60.0	38.3	24.9	16.7

VND Billion

BALANCE SHEET	FY2017	FY2018	FY2019F	FY2020F
Cash and cash equivalents	117	153	205	219
Short-term investments	0	45	150	200
Accounts receivable	63	65	89	94
Inventories	399	510	469	497
Other current assets	34	31	33	34
Property, plant & equipment	1,209	1,180	1,037	883
Acquired intangible assets	1	0	0	0
Long-term investments	27	2	1	1
Other non-current assets	129	133	139	146
Total assets	**1,979**	**2,119**	**2,124**	**2,075**
Accounts payable	390	433	356	378
Short-term borrowings	341	427	387	279
Long-term borrowings	467	348	275	203
Other non-current liabilities	0	0	0	0
Bonus and Welfare fund	2	2	2	2
Technology-science, dev. fund	0	0	0	0
Total liabilities	**1,200**	**1,210**	**1,020**	**862**
Common stock and APIC	635	635	707	707
Treasury stock (enter as -)	0	0	0	0
Retained earnings	143	273	395	505
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	1	1	1	1
Total equity	**779**	**909**	**1,103**	**1,213**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO (*)	FY2017	FY2018	FY2019F	FY2020F
EPS (dong)	1,662	2,976	2,680	2,975
P/E (x)	10.5	5.9	6.9	6.2
BV (dong)	12,991	15,167	15,559	17,034
P/B (x)	1.3	1.2	1.2	1.1
DPS (dong/cp)	800	1,500	500	500
Dividend yield (%)	4.6	8.6	2.7	5.4

VALUATION MODEL	*Price*	*Weight*	*Average*
FCFF	30,500	50%	15,000
PE	16,000	50%	8,000
Target price (VND)			**23,000**

VALUATION HISTORY	*Price*	*Recommendation*	*Period*
2017/06/09	24,200	Buy	Intermediate
2018/11/26	24,300	Buy	Intermediate
2019/11/28	23,000	Buy	Intermediate

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%

ABOUT US

RongViet Securities Corporation (RongViet) was established in 2007, licensed to perform the complete range of securities services including brokerage, financial investment, underwriting, financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders. Also, our strategic partners are reputable institutions, i.e Eximbank, Viet Dragon Fund Management. etc... Along with a team of the professional and dynamic staffs, RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially, RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews.

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