November, 2020

CENTURY SYNTHETIC FIBER CORP. (HSX: STK)

Recycled yarn to keep the bright prospect

(VND bn)	3Q-FY20	2Q-FY20	+/- qoq	3Q-FY19	+/- yoy
Net revenue	328	252	30.0%	554	-40.9%
PAT	20	3	603.0%	52	-61.0%
EBIT	25	4	571.9%	57	-56.6%
EBIT margin	7.6%	1.5%	610 pps	10.3%	-270 pps

Source: STK, Rong Viet Securities

3Q 2020 - Recycled yarn outpaced virgin yarn in the rebound

- Following the recovery of apparel demand from September, sales in 3Q reached VND 328 bn, up 30% QoQ but still went down 41% YoY. Recycled yarn sales fell less than virgin yarn because of consumers' awareness of environmental protection. Overall GPM dropped to 12.3% (3Q2019: 14.4%) due to (1) the lower selling prices - material price gap and (2) fully recorded depreciation. To sum up, 3Q NPAT came at VND 20 bn, down 61% YoY. Recycled yarn contributed to revenue and NPAT respectively at 41% and 93%.
- After 9M, revenue was VND 1,197 bn (-28% YoY). GPM narrowed to 13% (9M2019: 15.6%) but GPM of recycled yarn only decreased slightly from 21.6% to 20.3%. NPAT dropped 53% YoY to VND 75 bn. Recycled yarn accounted for 38% of revenue and 81% of NPAT, versus 32% and 67% in 9M2019.

2020 and 2021 outlook – Yarn demand regains rapidly

- For the whole year 2020, revenue may reach VND 1,751 bn (-21.5% YoY), up 22% versus our previous forecast, as textile and garment export turnover has recovered faster than expected. Recycled yarn volume and selling prices are less affected by the pandemic than virgin yarn, leading to a 40% proportion of recycled yarn in total revenue, versus 35% of last year. GPM decreases to 13.9% (2019: 15.9%). NPAT reaches VND123 bn, falling 42.7% YoY but 72% higher than our previous forecast.
- Given the current recovery momentum, we believe that 2021 polyester yarn demand will return to the pre-pandemic level. Less fierce competition with Chinese low-priced virgin yarn owing to the anti-dumping duty on imported yarn that the Government is assessing and the accelerating "green fashion" trend are the main drivers of the slight increase in yarn prices. Accordingly, 2021 sales may reach VND 2,187 bn, up 25% YoY. Plastic chip prices will increase as the global economy recovers. However, because of the fact that the proportion of recycled yarn in revenue will expand to 45% (2020: 40%), overall GPM will rise to 17.2% (2020: 13.9%). PAT could reach VND 233 bn, up 89.4% YoY.

Valuation and recommendation

*The strategy to focus on recycled yarn continues to prove its effectiveness amid the pandemic. In the long term, the shift of textile and garment production chains from China to Vietnam and the accelerating trend of using domestically produced yarn by garment companies to take advantage of markets' tariff incentives will ensure STK's growth in both revenue and profit. Therefore, we raise our target price for STK from 15,900 VND/share to **22,400 VND/share**. Combined with an expected cash dividend of VND 1,500/share in the next 12 months, the total return is 20% based on the closing price as of November 19, 2020. Then, we recommend to **BUY** STK.*

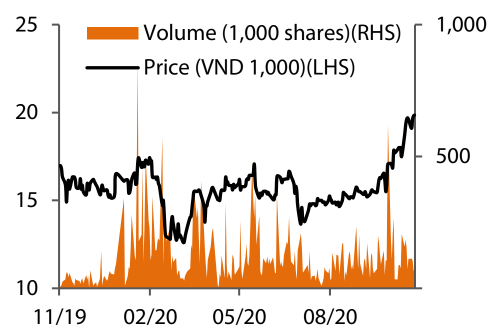
BUY	+23%
Target price (VND)	19,400
Current market price (VND)	22,400
Cash dividend in next 12 months	*1,500*

Stock Info

Sector	Textile
Market Cap (VND billion)	1,350
Current Shares O/S (million)	68,185,294
Avg. Daily Volume (in 20 sessions)	359,301,836
Free float (%)	56.6
52 weeks High	19,950
52 weeks Low	13,100
Beta	0.9

	FY2019	Current
EPS	3,034	1,815
EPS Growth (%)	1.9	-41.2
Diluted EPS	3,034	1,815
P/E	6.5	10.9
P/B	1.3	1.3
EV/EBITDA	4.7	6.0
Cash dividend yield (%)	7.6	7.6
ROE (%)	21.5	12.2

Price performance



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

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Exhibit 1: 3Q/2020 Results

(VND Bn)	3Q-FY20	2Q-FY20	+/- qoq	3Q-FY19	+/- yoy
Net revenue	328	252	30.0%	554	-40.9%
Gross profit	40	20	98.7%	80	-49.5%
SG&A	15	17	-6.9%	22	-31.5%
Operating income	25	4	571.9%	57	-56.6%
EBITDA	58	37	55.4%	90	-36.1%
EBIT	25	4	571.9%	57	-56.6%
Financial expenses	5	(3)	-263.2%	8	-41.5%
- Interest Expenses	4	4	-10.4%	7	-41.0%
Dep. and amortization	33	33	-1.6%	33	-0.8%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	23	8	185.8%	57	-59.2%
PAT	20	3	603.0%	52	-61.0%
(*) Adjusted PAT	20	3	603.0%	52	-61.0%

Source: STK, Rong Viet Securities

Exhibit 2: 3Q/2020 Performance Analysis

Particulars	3Q-FY20	2Q-FY20	+/- qoq	3Q-FY19	+/- yoy
Profitability Ratios (%)					
Gross Margin	12.3%	8.0%	4.2%	14.4%	-2.1%
EBITDA Margin	17.6%	14.7%	2.9%	16.3%	1.3%
EBIT Margin	7.6%	1.5%	6.1%	10.3%	-2.7%
Net Margin	6.1%	1.1%	5.0%	9.3%	-3.2%
Adjusted Net Margin	6.1%	1.1%	5.0%	9.3%	-3.2%
Turnover *(x)					
-Inventories	2.5	2.0	0.5	3.4	-0.9
-Receivables	18.2	12.0	6.2	16.2	2.0
-Payables	5.0	3.3	1.7	4.6	0.4
Leverage (bps)					
Total Debt/ Equity	69.1%	78.1%	-890 pps	89.6%	-2050 pps

Source: Rong Viet Securities

Exhibit 3: 4Q/2020 Performance Forecast

Particulars (VND Bn)	4Q-FY20	+/- qoq	+/- yoy
Revenue	554	69.0%	-3.7%
Gross profit	89	121.5%	-7.2%
EBIT	66	166.3%	-9.1%
NPAT	48	138.7%	-10.1%

Source: Rong Viet Securities

Update

Recycled yarn outpaced virgin yarn in the rebound

After countries reopened, 3Q sales recovered quickly by 30% QoQ, mainly in September, reaching VND 328 bn but still 41% lower than the same period last year. Virgin yarn sales decreased by 43% YoY while recycled yarn revenue decreased by 37% YoY. Recycled yarn accounted for 43% of total revenue in 3Q and 38% in 9M2020, which was higher than the company's expectation (35%) in the revised year guidance announced at the end of 2Q. We believe that the positive results of the recycled yarn segment stems from the change in consumers' behavior towards an eco-friendly life-style, amid the pandemic.

In 3Q, the average selling price (ASP) of recycled yarn was slightly adjusted to encourage customers to shift from virgin yarn to recycled yarn. For the virgin yarn segment, after a sharp decline from May to July due to weak demand, selling prices rose slightly in August and remained stable until the end of the quarter. According to STK's management, the price of virgin PET chip (made from petroleum) stayed stable and was barely affected by oil price fluctuations. The market research company Wood Mackenzie claimed that it was due to the rising demand for PET as this kind of plastic is mainly used in food packaging and consumers consume more packaged food while they have to stay home more[1]. Selling prices dropped but input prices were unchanged. This has put pressure on virgin yarn's economic efficiency. The gap in selling price - material price (price gap) in 3Q 2020 was stable for recycled yarn but decreased by 6% YoY for virgin yarn. In 9M2020, the price gap of recycled yarn rose by 4% YoY, indicating the efficiency of this product group.

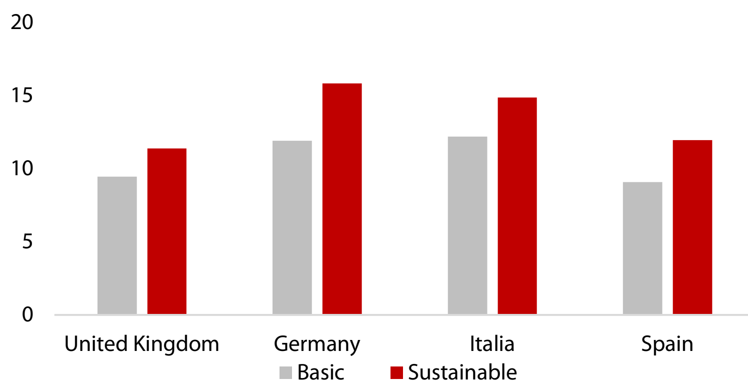
Table 1: Price gap and changes

VND	3Q 2020	3Q 2019	3Q2020/3Q2019	9M2020/9M2019
General	**18,722**	**19,291**	**-4%**	**-3%**
Virgin yarn	15,481	16,830	-6%	-7%
Recycled yarn	26,473	26,800	-1%	4%

Source: STK

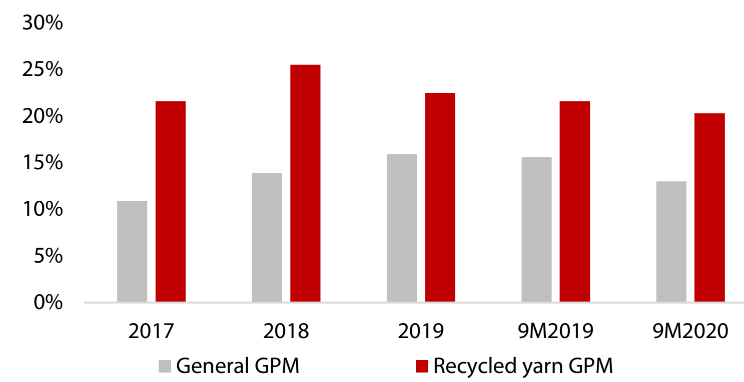
A recent survey[2] conducted by IBM and Morning Consult in September 11-13, 2020 over 4,000 adults in Germany, Italy, Spain and the UK showed that consumers are willing to pay more for fashion products made sustainably. All interviewees said that they are concerned about the impacts of fashion on the environment, including the responsible use of raw materials. This reinforces the prospects of the recycled yarn segment.

Figure 1: How consumer groups are willing to pay for a T-shirt



Source: Vogue Business. Average prices in local currency

Figure 2: General GPM and recycled yarn GPM



Source: STK, Rong Viet Securities

Due to a shrinking 4% YoY in the general price gap while depreciation expenses were fully recorded, gross profit dropped by 50% YoY leading to a drop in GPM to 12.3% from 14.4% in 3Q2019. Selling, administrative and financial expenses have been cut deeply to support profitability. However, financial income also dropped by 64% YoY due to the reduction of realized gain on FX rate difference and interest on bank deposits. We believe that the company had to use contingency funds to cover working capital needs as sales have only recovered

[1] *Will coronavirus change the course of plastic circularity?*, Wood Mackenzie, May 2020
[2] *https://www.voguebusiness.com/sustainability/how-much-more-would-you-pay-for-a-sustainable-t-shirt*

significantly since September. It should be noted that cash and cash equivalents and bank deposits have plummeted from VND 178 bn at the end of June 2020 to VND 106 bn at the end of September 2020 while the days of cash conversion in 3Q have declined relative to Q2 but were still very high (94 days), compared with the 35-day average over the past three years. PAT was VND 20 bn, down 61% YoY, of which recycled yarn contributed VND 18.6 bn, accounting for 93% of PAT, versus 67% in 3Q2019.

After 9M2020, revenue was VND 1,197 bn, down 28% YoY, of which virgin yarn revenue decreased by 33% YoY and recycled yarn revenue declined by 16% YoY. General GPM narrowed significantly by 260 percentage points to 13% from 15.6% of 9M2020, but GPM of recycled yarn decreased only 130 percentage points from 21.6% to 20.3%. PAT reached VND 75 bn, down 53% YoY, of which 81% came from recycled yarn, compared with 67% in the same period last year.

Regarding **the anti-dumping investigation on polyester yarn imported** from China, India, Indonesia and Malaysia, the Vietnam Trade Protection Department has not yet calculated the dumping margins of imported yarn from these countries. STK expects the review process to be completed by the end of 2020 and the anti-dumping duty, if applied to imported yarn, will support sales, mainly in virgin yarn, in terms of both selling volume and price.

2020 forecast

Data from the Vietnam Textile and Apparel Association (VITAS) shows that textile and garment exports are recovering strongly since September. Export turnover of the whole industry in the first 10 months of the year was estimated at USD 28.9 bn, down by 10.6% YoY. VITAS also forecasts that the industry exports for the whole year may drop only 9.5% YoY, better than their own forecast of a 16% YoY decline in mid-3Q. STK also stated that all factories are operating at full capacity and orders have been enough for production until the end of the year. The management estimates 4Q sales to be approximately 90% of 1Q sales, of which recycled yarn accounts for 41%.

Accordingly, we revise our forecast as the current situation is more positive than we previously forecasted. **2020 revenue will drop 21.5% YoY to VND 1,751 bn** but up 22% from our prior forecast. The selling price of virgin yarn for the whole year could drop 14% (9M2020: -15% YoY), compared to our previous forecast of a 19% decline. For recycled yarn, the selling price will increase 2%, lower than the 3% increase in our previous forecast, as the company adjusts price down to stimulate demand. Virgin yarn sale volume will drop more sharply than that of recycled yarn, -16.3% YoY and -10.5% YoY, respectively, compared with the drop of 28.3% YoY and 25.8% YoY before. Consequently, **the proportion of recycled yarn to total sales will reach 40%**, compared with 35% in 2019 and 41% in our previous forecast.

While the average selling price falling by 7.1% YoY, the average input chip price could drop slightly by 4.5% YoY, causing **GPM to drop to 13.9%** (2019: 15.9%) but still better than the 12.6% level we forecasted earlier. Estimated **PAT is VND 123 bn, down 42.7% YoY** but 72% higher than our previous forecast.

2021 outlook

With the positive recovery of the textile industry in the last months of 2020, we believe that the demand for polyester yarn in 2021 will return to approximately the pre-pandemic level. Competition with China's low-priced virgin yarn may be less severe due to the anti-dumping duty on imported yarn that the Government is assessing, so the selling price of virgin yarn may inch up by 2%. The selling price of recycled yarn also increase by 2%, supported by the trend of "green fashion". Average input chip price could increase 6% when the global economy recovers. Therefore, **the proportion of recycled yarn in total revenue could reach 45%** (2020: 40%) and average selling price could increase by 6.2% YoY. **GPM will reach 17.2%** (2020: 13.9%). Accordingly, **sales in 2021 may come at VND 2,187 bn, up 25% YoY and PAT is VND 233 bn, up 89.4% YoY**.

VND Billion

INCOME STATEMENT	FY2018	FY2019	FY2020F	FY2021F
Revenue	**2,408**	**2,229**	**1,751**	**2,187**
COGS	2,073	1,875	1,507	1,811
Gross profit	**335**	**354**	**244**	**376**
Selling Expense	34	27	24	27
G&A Expense	56	58	56	62
Finance Income	11	14	11	15
Finance Expenses	53	35	32	31
Other income/loss	-3	5	0	0
Gain/(loss) from JV	-1	0	0	0
PBT	**199**	**253**	**144**	**272**
Prov. of Tax	21	39	21	39
Minority's Interest	0	0	0	0
PAT to Equity S/H	**178**	**215**	**123**	**233**
EBIT	245	269	164	287
EBITDA	388	406	301	425

%

FINANCIAL RATIO	FY2018	FY2019	FY2020F	FY2021F
Growth (%)				
Revenue	21.0	-7.4	-21.5	24.9
Operating Income	41.7	4.5	-25.8	41.3
EBITDA	94.3	9.8	-39.1	75.3
PAT	79.1	20.3	-42.7	89.4
Total Assets	7.1	-2.4	-6.8	7.0
Equity	16.7	19.2	1.1	11.1
Profitability (%)				
Gross margin	13.9	15.9	13.9	17.2
EBITDA margin	16.1	18.2	17.2	19.5
EBIT margin	10.2	12.1	9.4	13.1
Net margin	7.4	9.6	7.0	10.7
ROA	8.4	10.4	6.4	11.3
ROE	19.6	19.8	11.2	19.2
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	1.6
Quick	0.3	0.4	0.6	0.8
Finance Structure (%)				
Total Debt/Equity	85.2	62.3	55.2	47.0
Current Debt/Equity	46.9	47.1	43.0	37.6
Long-term Debt/Equity	38.3	15.1	12.3	9.4

VND Billion

BALANCE SHEET	FY2018	FY2019	FY2020F	FY2021F
Cash and cash equivalents	153	150	111	138
Short-term investments	45	80	207	320
Accounts receivable	65	98	105	131
Inventories	510	523	452	525
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	107	130
Total assets	**2,119**	**2,069**	**1,929**	**2,063**
Accounts payable	433	308	226	272
Short-term borrowings	427	510	470	458
Long-term borrowings	348	164	134	114
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**	**834**	**846**
Common stock and APIC	635	742	742	742
Treasury stock (enter as -)	0	0	0	0
Retained earnings	273	340	351	473
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	1	1	1	1
Total equity	**909**	**1,083**	**1,095**	**1,217**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO (*)	FY2018	FY2019	FY2020F	FY2021F
EPS (dong)	2,976	3,034	1,740	3,295
P/E (x)	5.9	5.8	11.3	6.0
BV (dong)	15,167	15,316	15,481	17,202
P/B (x)	1.2	1.1	1.3	1.1
DPS (dong/cp)	1,500	1,500	1,500	1,500
Dividend yield (%)	8.6	8.5	7.6	7.6

VALUATION MODEL	Price	Weight	Average
FCFF	37,848	40%	15,139
P/E	12,177	60%	7,306
Target price (VND)			**22,445**

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

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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