Stark Corporation Pcl (STARK TB) - BUY, Price Bt4.22, TP Bt5.00

Results Comment

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Weaker-than-expected 2Q21's profit

- STARK reported normalized profit (excluding FX loss and gain from reversal of impairment) at Bt311m in 2Q21, grew 54% y-y but dropped 35% q-q, weaker than our expectation given some clients requested to postpone delivery of high-margin products as a panic response to Covid-19 measure by the governments in halting construction works in Thailand and Vietnam.
- Total revenue increased 24% y-y and 13% q-q to Bt5.3bn in 2Q21 driven by higher product's selling price pushed up by an increase in copper price, and sale volume growth backed by a strong electricity cable demand despite the Covid-19 impacts.
- Gross profit expanded 25% y-y to Bt869m in 2Q21, in-line with higher revenue. A 17% drop q-q was from a temporary delayed in delivery of high-margin products during Covid-19 lockdown.
- Lower gross margin to 16.6% in 2Q21, from 22.6% in 1Q20, was due to a lower mix of high margin product, and impact from higher copper price. Note that higher material price only impact STARK's margin in percentage-term, but not affect its absolute margin given a cost-plus nature in electricity cable market.
- Thanks to scale benefit and decent cost control, SG&A-to-sales ratio fell to 4.9% in 2Q21, vs. 5.6% in 1Q21 and 5.1% in 1Q20.
- As we expect the delay of order delivery to be only a short-term impact while the ban on construction works in both counties are gradually granted exemption by the governments, we maintain our forecasts and our BUY rating on STARK supported by a secular growth of demand for electricity cables in Thailand and Vietnam.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	2Q20	3Q20	4Q20	1Q21	2Q21
Revenue	4,240	4,655	4,941	4,655	5,252
Gross profit	**696**	**960**	**881**	**1,052**	**869**
SG&A	214	208	315	260	258
Operating profit	482	752	566	792	612
EBITDA	**588**	**853**	**661**	**890**	**715**
Other income	39	12	3	10	15
Other expense	0	0	0	0	0
Interest expense	193	184	187	191	213
Profit before tax	**328**	**581**	**382**	**611**	**413**
Income tax	123	90	126	127	97
Equity & invest. income	0	1	(1)	0	(1)
Minority interests	(3)	(3)	(2)	(3)	(3)
Extraordinary items	225	(26)	205	(43)	213
Net profit	**427**	**462**	**458**	**438**	**524**
Normalized profit	**202**	**488**	**253**	**481**	**311**
EPS (Bt)	0.04	0.04	0.04	0.04	0.04
Normalized EPS (Bt)	0.02	0.04	0.02	0.04	0.03

Income Statement			6M as		
(Bt m)	q-q%	y-y%	% 2021F	2021F	2022F
Revenue	13	24	51	19,255	22,149
Gross profit	**(17)**	**25**	**49**	**3,926**	**4,875**
SG&A	(1)	20	48	1,071	1,164
Operating profit	(23)	27	49	2,856	3,712
EBITDA	**(20)**	**22**	**48**	**3,370**	**4,300**
Other income	48	(63)	48	51	57
Other expense			na	0	0
Interest expense	12	11	61	658	606
Profit before tax	**(32)**	**26**	**46**	**2,249**	**3,163**
Income tax	(23)	(21)	40	562	791
Equity & invest. income	na	na	na	0	0
Minority interests	na	na	55	(12)	(14)
Extraordinary items	na	(5)	na	0	0
Net profit	**20**	**23**	**57**	**1,675**	**2,358**
Normalized profit	**(35)**	**54**	**47**	**1,675**	**2,358**
EPS (Bt)	20	23	77	0.11	0.15
Normalized EPS (Bt)	(35)	54	63	0.11	0.15

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	2Q20	3Q20	4Q20	1Q21	2Q21
Cash & ST investment	772	450	1,214	732	879
A/C receivable	4,930	5,585	6,042	7,093	8,613
Inventory	6,594	7,746	8,618	10,359	11,292
Other current assets	522	729	457	571	790
Investment	276	275	344	338	328
Fixed assets	4,195	4,226	4,417	4,487	4,502
Other assets	6,561	6,555	6,266	6,340	6,368
Total assets	**23,850**	**25,565**	**27,358**	**29,920**	**32,773**
S-T debt	9,993	9,538	8,818	4,330	4,473
A/C payable	6,496	8,498	10,248	12,989	15,330
Other current liabilities	378	299	583	658	511
L-T debt	3,535	3,272	3,310	7,027	6,976
Other liabilities	558	564	723	720	717
Minority interest	50	53	55	58	62
Shareholders' equity	**2,840**	**3,342**	**3,621**	**4,137**	**4,705**
Working capital	5,028	4,834	4,412	4,463	4,576
Total debt	13,528	12,810	12,128	11,357	11,448
Net debt	**12,756**	**12,361**	**10,914**	**10,626**	**10,569**

Financial Ratios					
(%)	2Q20	3Q20	4Q20	1Q21	2Q21
Sales growth	41.4	66.4	66.6	54.1	23.9
Operating profit growth	265.1	223.0	232.7	145.1	27.0
EBITDA growth	226.9	202.2	202.0	134.8	21.7
Norm profit growth	na	779.1	770.1	218.5	53.7
Norm EPS growth	na	na	1,640.3	218.5	53.7
Gross margin	16.4	20.6	17.8	22.6	16.6
Operating margin	11.4	16.2	11.4	17.0	11.6
EBITDA margin	13.9	18.3	13.4	19.1	13.6
Norm net margin	4.8	10.5	5.1	10.3	5.9
D/E (x)	4.7	3.8	3.3	2.7	2.4
Net D/E (x)	4.4	3.6	3.0	2.5	2.2
Interest coverage (x)	3.0	4.6	3.5	4.7	3.4
Interest rate	5.7	5.6	6.0	6.5	7.5
Effective tax rate	37.5	15.6	32.9	20.7	23.6
ROA	3.6	7.9	3.8	6.7	4.0
ROE	30.6	63.2	29.1	49.6	28.2

Sources: Company data, Thanachart estimates

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