BUY (Unchanged) | **TP: Bt 5.00** (Unchanged)

Change in Numbers | **Upside : 16.3%** | **6 SEPTEMBER 2021**

Small Cap Research

Stark Corporation Pcl. (STARK TB)

Over the hiccup

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Thanachart Securities

We reiterate BUY on STARK in expectation that its delayed orders will be delivered in 2H21F. Its growth story looks intact, with a 29% EPS CAGR in 2022-24F, backed by growing power cable demand for transmission-line expansion and a rising margin from more favorable product mix. Easing Covid-19 lockdown is another near-term catalyst.

Reiterating BUY

We reiterate BUY on STARK with an unchanged DCF-based TP of Bt5.0. *First,* we expect the postponed orders from 2Q21 to be fully delivered this year as construction work on electricity grid and public infrastructure projects has resumed. *Second, the* Vietnam factory now can produce higher-end products, which should result in both volume growth and higher margins. *Third*, on easing Covid measures, we foresee low risk of another delay in construction work and installation of transmission-line projects, as both the Thai and Vietnam governments are winding down lockdown measures to alleviate the economic impact. *Lastly*, we see STARK as a mid-cap growth stock, with a 29% EPS CAGR in 2022-24F backed by secular growth in electricity cable demand.

Delayed orders just a hiccup

STARK's management is confident that the delayed orders from 2Q21 will be delivered by year-end, if not fully in 3Q21F, as construction sites have re-opened. Note that despite the hiccup in 2Q21, STARK's earnings more than doubled y-y in 1H21 and we expect further growth of 24% y-y in 2H21F. Given the nature of growth in electricity cable demand in developing countries like Thailand, and more so in fast-growing economies like Vietnam, we forecast 15% and 14% sales growth in 2022-23F for STARK, supported by its penetration into the high-end cable market in Vietnam and opportunity to export to other developing countries.

Vietnam goes higher end

STARK is starting production of high-end cables in Vietnam in 3Q21F, leveraging on its strong expertise from Thailand. STARK will become the only company in Vietnam that can produce insulated 115kV power cable to substitute for imported products, since in the past local players could only produce 69kV insulated cable. We believe this confirms our view of its Vietnam growth story on volume growth, from both demand growth and market-share gains, plus margin expansion from a larger mix of high-end products. Also, STARK is a leader in the Thai market as the only producer of insulated 230kV cable, which we believe it will later introduce to Vietnam. We forecast its gross margin to expand to 23% in 2023F, vs. 18% in 2020.

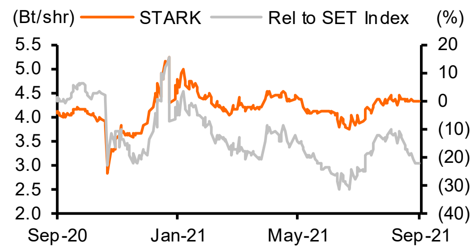
Expecting strong 2H21F

We forecast 24% y-y and 16% h-h EPS growth for STARK in 2H21F on volume growth and margin expansion. This already include impacts from the COVID lockdown on construction work in 3Q21F, with most construction sites now reopening. We believe the Thai government has decided to let businesses and people live with COVID using their own prevention measures rather than continuing to impose wide-scale lockdown measures.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	16,858	20,194	23,281	26,584
Net profit	1,609	1,726	2,404	3,079
Consensus NP	—	1,737	2,372	2,939
Diff frm cons (%)	—	*(0.6)*	*1.3*	*4.7*
Norm profit	1,095	1,726	2,404	3,079
Prev. Norm profit	—	1,675	2,358	3,097
Chg frm prev (%)	—	*3.0*	*1.9*	*(0.6)*
Norm EPS (Bt)	0.1	0.1	0.2	0.2
Norm EPS grw (%)	629.2	57.5	39.3	28.1
Norm PE (x)	62.3	39.6	28.4	22.2
EV/EBITDA (x)	31.9	22.5	17.5	14.4
P/BV (x)	18.4	13.6	10.7	8.4
Div yield (%)	0.0	1.3	1.8	2.3
ROE (%)	36.7	39.6	42.3	42.6
Net D/E (%)	291.5	183.8	129.4	98.4

PRICE PERFORMANCE

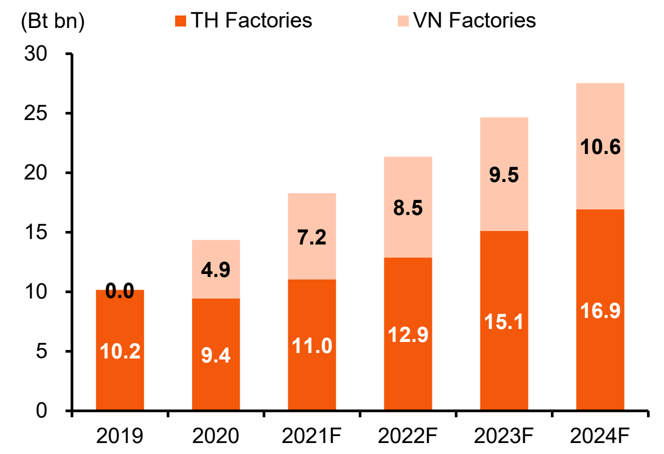


COMPANY INFORMATION

Price *as of* 6-Sep-21 (Bt)	4.30
Market Cap (US$ m)	1,576.2
Listed Shares (m shares)	11,906.4
Free Float (%)	28.8
Avg Daily Turnover (US$ m)	8.2
12M Price H/L (Bt)	5.25/2.84
Sector	Industrial Materials & Machinery
Major Shareholder	K.Vonnarat Tangkaravakoon 48.69%

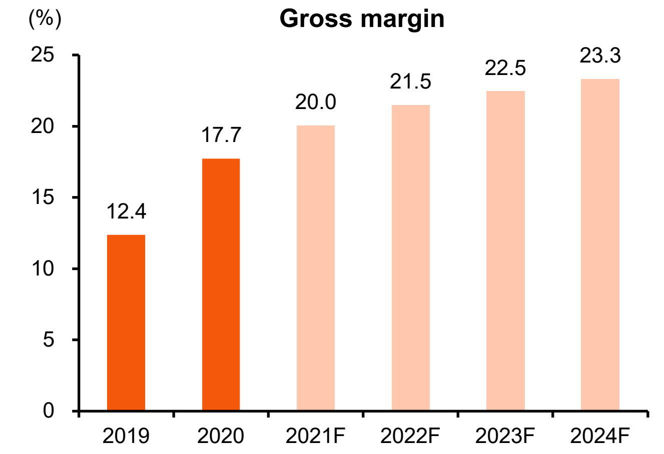
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Strong Revenue Growth From Power Cables …



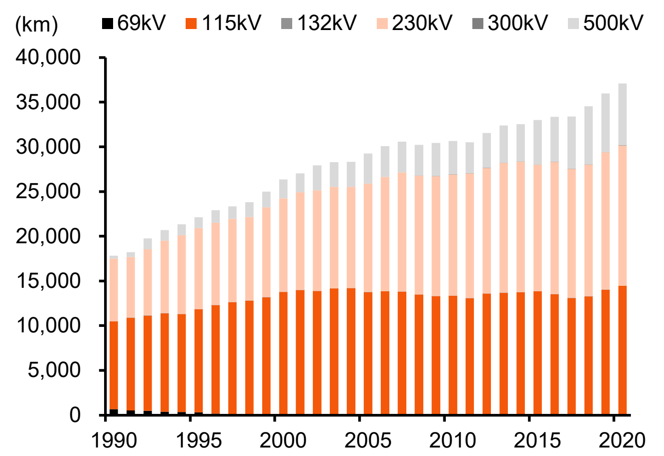
Sources: Company data, Thanachart estimates
Note: STARK acquired Vietnam factories in April 2020

Ex 2: … And Margin Expansion …



Sources: Company data, Thanachart estimates

Ex 3: … Driven By Expanding Transmission System …



Source: Electricity Generation Authority of Thailand (EGAT)

Ex 4: … With Larger Mix Of Premium High-Voltage Cables

Source: Company data

Ex 5: 12-month DCF-based TP Calculation Using A Base Year Of 2022F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA (excl. depre from right of use)	4,189	5,113	5,991	6,720	7,366	7,933	8,491	8,975	9,391	9,826	10,280	—
Free cash flow	1,785	21,449	1,892	3,367	4,357	5,183	5,629	6,045	6,353	6,667	6,995	107,307
PV of free cash flow	1,657	18,489	1,514	2,501	2,940	3,233	3,245	3,221	3,129	3,035	2,807	43,067

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.9
WACC (%)	7.7
Terminal growth (%)	2.0
Enterprise value - add investments	88,839
Net debt (2021F)	9,320
Minority interest	68
Equity value	79,451
# of shares *	15,875
Equity value/share (Bt)	**5.00**

Sources: Company data, Thanachart estimates

Note: * We use the number of fully diluted shares in our DCF calculation, assuming all of its STARK-W1 warrants are exercised in 2024F.

Valuation Comparison

Ex 6: Comparison With Regional Peers

Name	BBG code	Country	EPS growth 21F (%)	EPS growth 22F (%)	PE 21F (x)	PE 22F (x)	P/BV 21F (x)	P/BV 22F (x)	EV/EBITDA 21F (x)	EV/EBITDA 22F (x)	Div yield 21F (%)	Div yield 22F (%)
Nexans SA	NEX FP	France	123.0	19.6	22.2	18.6	2.7	2.4	8.7	7.7	0.9	1.1
nVent Electric PLC	NVT US	Britain	na	8.8	17.9	16.5	2.2	2.1	14.3	13.5	2.1	2.2
TE Connectivity Ltd	TEL US	Switzerland	na	9.5	23.1	21.1	4.9	4.4	14.9	13.9	1.3	1.3
Huber + Suhner AG	HUBN SW	Switzerland	33.5	8.3	24.0	22.1	2.6	2.5	12.8	11.8	2.0	2.2
Topsec Technologies Group	002212 CH	China	62.4	40.4	30.1	21.4	2.0	1.8	25.4	18.3	0.2	0.2
Yangtze Optical Fibre & Cabl	601869 CH	China	41.3	2.3	29.2	28.6	2.3	2.2	16.4	14.7	1.0	1.0
Arrow Syndicate PCL	ARROW TB	Thailand	3.0	8.8	13.0	12.0	6.2	6.7	10.1	9.7	5.3	5.8
Interlink Communication PCL	ILINK TB	Thailand	44.4	25.0	16.1	12.8	na	na	na	na	na	na
Interlink Telecom PCL	ITEL TB	Thailand	(16.7)	26.7	32.9	26.0	2.2	2.1	12.9	11.7	1.6	2.0
Stark Corporation *	STARK TB	Thailand	57.5	39.3	39.6	28.4	13.6	10.7	22.5	17.5	1.3	1.8
Average			**43.6**	**18.9**	**24.8**	**20.7**	**4.3**	**3.9**	**15.3**	**13.2**	**1.7**	**2.0**

Sources: Bloomberg, * Thanachart estimates

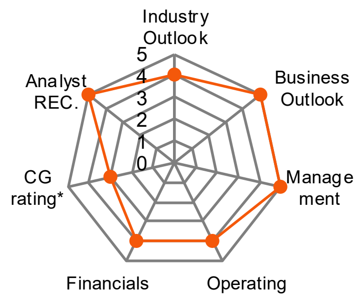
Based on 6 Sep 2021 closing prices

COMPANY DESCRIPTION

Stark Corporation Pcl (STARK) is a holding company with subsidiaries that are major wire and cable manufacturers with more than 50 years of industry experience in Thailand and Vietnam. Its total production capacity is the largest in ASEAN and it is ranked 14th globally. STARK also runs service businesses of providing manpower, logistics, and warehouse rentals to clients in the oil and gas industry.

Source: Thanachart

COMPANY RATING



Rating Scale	
Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; * CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Good reputation and track record in home-based markets
- Strong purchasing power with its suppliers and scale benefits over peers as it is now the largest cable producer in ASEAN

W — Weakness

- Relies on importing key raw materials, copper and aluminum, from abroad
- Relies on government spending on national infrastructure projects to grow sales

O — Opportunity

- Opportunities to export more products, and leverage on scale advantages, low labor wages, and tax privileges with various developing countries
- Potential to acquire more related businesses to strengthen its competitiveness and increase market share

T — Threat

- Cable manufacturing is a mature technology, so it is not difficult for new players with substantial capital to penetrate the market
- Changes to tax incentives and regulations to take part in biddings for infrastructure projects in each country

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	5.63	5.00	-11%
Net profit 21F (Bt m)	1,737	1,726	-1%
Net profit 22F (Bt m)	2,372	2,404	1%
Consensus REC	**BUY: 3**	**HOLD: 0**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021-22F earnings forecasts are in-line with Bloomberg's consensus.
- However, our TP is 11% lower, likely since we are more conservative in assuming STARK's long-term margins.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Slower-than-expected pace of infrastructure progress in Thailand and Vietnam, either from changes in government policy or delays to construction, would represent a downside risk to our earnings forecasts.
- Slower-than-expected pace of its capacity expansion plan and ability to build new capacity represents another downside risk to our numbers.
- Lower-than-expected demand for high-end products would represent a downside risk to its margins, and therefore our earnings projections.

Source: Thanachart

Transmission-line expansion is key driver for its revenues

In a deleveraging trend after huge acquisitions in 2020

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	11,529	16,858	20,194	23,281	26,584
Cost of sales	10,103	13,869	16,146	18,280	20,612
Gross profit	**1,426**	**2,989**	**4,048**	**5,001**	**5,973**
% gross margin	12.4%	17.7%	20.0%	21.5%	22.5%
Selling & administration expenses	607	866	1,121	1,219	1,307
Operating profit	**819**	**2,123**	**2,927**	**3,782**	**4,665**
% operating margin	7.1%	12.6%	14.5%	16.2%	17.5%
Depreciation & amortization	193	357	515	588	634
EBITDA	**1,012**	**2,480**	**3,442**	**4,370**	**5,299**
% EBITDA margin	8.8%	14.7%	17.0%	18.8%	19.9%
Non-operating income	79	60	53	59	71
Non-operating expenses	0	0	0	0	0
Interest expense	(487)	(660)	(663)	(617)	(610)
Pre-tax profit	**410**	**1,523**	**2,317**	**3,224**	**4,127**
Income tax	145	419	579	806	1,032
After-tax profit	**265**	**1,104**	**1,738**	**2,418**	**3,095**
% net margin	2.3%	6.5%	8.6%	10.4%	11.6%
Shares in affiliates' Earnings	3	1	0	0	0
Minority interests	(118)	(10)	(12)	(14)	(17)
Extraordinary items	(26)	513	0	0	0
NET PROFIT	**124**	**1,609**	**1,726**	**2,404**	**3,079**
Normalized profit	**150**	**1,095**	**1,726**	**2,404**	**3,079**
EPS (Bt)	0.0	0.1	0.1	0.2	0.2
Normalized EPS (Bt)	0.0	0.1	0.1	0.2	0.2

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	8,707	16,331	17,572	19,593	22,517
Cash & cash equivalent	1,431	1,156	1,000	1,500	2,000
Account receivables	3,465	6,042	6,916	7,654	8,740
Inventories	3,671	8,618	9,289	10,016	11,294
Others	140	515	367	423	483
Investments & loans	300	344	344	344	344
Net fixed assets	2,604	4,213	4,325	4,418	5,470
Other assets	1,044	6,429	5,818	5,355	4,787
Total assets	**12,655**	**27,316**	**28,059**	**29,710**	**33,119**
LIABILITIES:					
Current liabilities:	8,138	19,649	16,945	16,995	18,547
Account payables	4,788	10,248	11,059	11,519	12,988
Bank overdraft & ST loans	2,528	7,761	3,096	2,464	2,512
Current LT debt	666	1,057	2,167	2,218	2,261
Others current liabilities	155	583	623	795	786
Total LT debt	**1,754**	**3,310**	**5,057**	**5,174**	**5,276**
Others LT liabilities	450	594	988	1,085	1,115
Total liabilities	**10,341**	**23,553**	**22,989**	**23,254**	**24,938**
Minority interest	46	55	68	82	98
Preferreds shares	0	0	0	0	0
Paid-up capital	12,338	11,906	11,906	11,906	11,906
Share premium	(10,542)	(10,542)	(10,542)	(10,542)	(10,542)
Warrants	0	0	0	0	0
Surplus	(493)	(591)	(591)	(591)	(591)
Retained earnings	**965**	**2,935**	**4,229**	**5,601**	**7,309**
Shareholders' equity	2,268	3,709	5,003	6,374	8,082
Liabilities & equity	**12,655**	**27,316**	**28,059**	**29,710**	**33,119**

Sources: Company data, Thanachart estimates

We project only small capex over next few years

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	410	1,523	2,317	3,224	4,127
Tax paid	(129)	(205)	(634)	(709)	(1,022)
Depreciation & amortization	193	357	515	588	634
Chg In w orking capital	(547)	(2,064)	(734)	(1,005)	(895)
Chg In other CA & CL / minorities	(820)	15	33	19	(79)
Cash flow from operations	**(892)**	**(374)**	**1,497**	**2,117**	**2,765**
Capex	(405)	(1,924)	(500)	(500)	(1,500)
Right of use	0	(308)	(500)	(200)	(100)
ST loans & investments	(30)	(179)	209	0	0
LT loans & investments	1,078	(44)	0	0	0
Adj for asset revaluation	(640)	0	0	0	0
Chg In other assets & liabilities	(331)	(5,103)	1,377	580	512
Cash flow from investments	**(328)**	**(7,558)**	**586**	**(120)**	**(1,088)**
Debt financing	197	7,825	(1,808)	(464)	193
Capital increase	1,795	(432)	(0)	0	0
Dividends paid	0	0	(431)	(1,032)	(1,371)
Warrants & other surplus	0	0	0	0	0
Cash flow from financing	**1,992**	**7,393**	**(2,239)**	**(1,497)**	**(1,177)**
Free cash flow	**(1,297)**	**(2,297)**	**997**	**1,617**	**1,265**

We see its 0.8x PEG ratio as still attractive

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	454.5	62.3	39.6	28.4	22.2
Normalized PE - at target price (x)	528.5	72.5	46.0	33.0	25.8
PE (x)	550.9	42.4	39.6	28.4	22.2
PE - at target price (x)	640.5	49.3	46.0	33.0	25.8
EV/EBITDA (x)	71.0	31.9	22.5	17.5	14.4
EV/EBITDA - at target price (x)	81.9	36.4	25.8	20.1	16.5
P/BV (x)	30.1	18.4	13.6	10.7	8.4
P/BV - at target price (x)	35.0	21.4	15.9	12.5	9.8
P/CFO (x)	(76.5)	(182.6)	45.6	32.2	24.7
Price/sales (x)	4.4	3.0	2.5	2.2	1.9
Dividend yield (%)	0.0	0.0	1.3	1.8	2.3
FCF Yield (%)	(1.9)	(3.4)	1.5	2.4	1.9
(Bt)					
Normalized EPS	0.0	0.1	0.1	0.2	0.2
EPS	0.0	0.1	0.1	0.2	0.2
DPS	0.0	0.0	0.1	0.1	0.1
BV/share	0.1	0.2	0.3	0.4	0.5
CFO/share	(0.1)	(0.0)	0.1	0.1	0.2
FCF/share	(0.1)	(0.1)	0.1	0.1	0.1

Sources: Company data, Thanachart estimates

High-profitability company, with around 40% ROE

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	(2.7)	46.2	19.8	15.3	14.2
Net profit (%)	(76.4)	1,198.1	7.3	39.3	28.1
EPS (%)	(76.4)	1,198.1	7.3	39.3	28.1
Normalized profit (%)	(66.9)	629.2	57.5	39.3	28.1
Normalized EPS (%)	(66.9)	629.2	57.5	39.3	28.1
Dividend payout ratio (%)	0.0	0.0	50.0	50.0	50.0
Operating performance					
Gross margin (%)	12.4	17.7	20.0	21.5	22.5
Operating margin (%)	7.1	12.6	14.5	16.2	17.5
EBITDA margin (%)	8.8	14.7	17.0	18.8	19.9
Net margin (%)	2.3	6.5	8.6	10.4	11.6
D/E (incl. minor) (x)	2.1	3.2	2.0	1.5	1.2
Net D/E (incl. minor) (x)	1.5	2.9	1.8	1.3	1.0
Interest coverage - EBIT (x)	1.7	3.2	4.4	6.1	7.7
Interest coverage - EBITDA (x)	2.1	3.8	5.2	7.1	8.7
ROA - using norm profit (%)	1.1	5.5	6.2	8.3	9.8
ROE - using norm profit (%)	9.2	36.7	39.6	42.3	42.6
DuPont					
ROE - using after tax profit (%)	16.3	36.9	39.9	42.5	42.8
- asset turnover (x)	0.9	0.8	0.7	0.8	0.8
- operating margin (%)	7.8	12.9	14.8	16.5	17.8
- leverage (x)	8.1	6.7	6.4	5.1	4.3
- interest burden (%)	45.7	69.8	77.8	83.9	87.1
- tax burden (%)	64.6	72.5	75.0	75.0	75.0
WACC (%)	7.7	7.7	7.7	7.7	7.7
ROIC (%)	10.1	26.6	15.0	19.8	23.8
NOPAT (Bt m)	529	1,539	2,195	2,836	3,499
invested capital (Bt m)	5,785	14,681	14,323	14,730	16,131

Sources: Company data, Thanachart estimates

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