Stark Corporation Pcl (STARK TB) - BUY, Price Bt4.56, TP Bt5.00

Results Comment

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Exceptionally high 3Q21 profit

- STARK reported Bt1.08bn norm profit (excluding losses on FX, hedging, and asset amortization) in 3Q21, surged up strongly 156% y-y and 247% q-q. This was much higher than we had expected, partially from recognition of delayed order deliveries from 2Q21 and a much stronger sale revenue this quarter.
- Total revenue was at Bt9.8bn in 3Q21, increased 110% y-y and 86% q-q. The company mentions more active construction activities as its key demand growth driver for this quarter. Note that this was partially from recognition of Bt993m revenue of delayed order delivery during the Covid lockdown in 2Q21.
- Gross margin improved to 19.4% in 3Q21, from 16.6% in 2Q21 and 18.9% in 3Q20, likely due to higher plant utilization rate and more favorable product mix as the company started production of high-end products in Vietnam this quarter.
- SG&A expenses went up 31% y-y and 6% q-q to Bt273m in 3Q21 following higher product sales. From operating leverage benefits, total SG&A-to-sales ratio lowered to 2.8% in 3Q21, from 4.9% in 2Q21 and 4.5% in 3Q20.
- As its 9M21's profit already made up 108% of our full-year forecast in 2021F, we see a significant upside to our projections and our TP. Having said that, we need to recheck again with the company on the strong surge of revenue this quarter, whether this is a sustainable one or a short-term spike.
- We would revise our numbers again but still maintain our bullish view on long-term growth outlook for STARK driven by electricity transmission line upgrade and expansion in Thailand and Vietnam. STARK is a BUY.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	3Q20	4Q20	1Q21	2Q21	3Q21
Revenue	4,655	4,941	4,655	5,252	9,777
Gross profit	**878**	**963**	**1,052**	**869**	**1,897**
SG&A	208	315	260	258	273
Operating profit	670	648	792	612	1,624
EBITDA	**774**	**740**	**890**	**715**	**1,741**
Other income	12	3	10	15	20
Other expense	0	0	0	0	0
Interest expense	184	187	191	213	271
Profit before tax	**498**	**465**	**611**	**413**	**1,374**
Income tax	75	141	127	97	291
Equity & invest. income	1	(1)	0	(1)	(0)
Minority interests	(3)	(2)	(3)	(3)	(3)
Extraordinary items	(26)	205	(43)	213	(167)
Net profit	**395**	**525**	**438**	**524**	**913**
Normalized profit	**421**	**320**	**481**	**311**	**1,079**
EPS (Bt)	0.03	0.04	0.04	0.04	0.08
Normalized EPS (Bt)	0.04	0.03	0.04	0.03	0.09

Income Statement				9M as		
(Bt m)	q-q%	y-y%	% 2021F	2021F	2022F
Revenue	86	110	97	20,194	23,281
Gross profit	**118**	**116**	**94**	**4,048**	**5,001**
SG&A	6	31	71	1,121	1,219
Operating profit	166	142	103	2,927	3,782
EBITDA	**143**	**125**	**97**	**3,442**	**4,370**
Other income	37	62	84	53	59
Other expense			na	0	0
Interest expense	27	47	102	663	617
Profit before tax	**233**	**176**	**103**	**2,317**	**3,224**
Income tax	199	288	89	579	806
Equity & invest. income	na	na	na	0	0
Minority interests	na	na	77	(12)	(14)
Extraordinary items	na	na	na	0	0
Net profit	**74**	**131**	**109**	**1,726**	**2,404**
Normalized profit	**247**	**156**	**108**	**1,726**	**2,404**
EPS (Bt)	74	131	145	0.11	0.15
Normalized EPS (Bt)	247	156	145	0.11	0.15

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	3Q20	4Q20	1Q21	2Q21	3Q21
Cash & ST investment	450	1,214	732	879	1,135
A/C receivable	5,585	6,042	7,093	8,613	14,064
Inventory	7,746	8,618	10,359	11,292	1,098
Other current assets	729	457	571	790	10,905
Investment	275	344	338	328	319
Fixed assets	4,226	4,417	4,487	4,502	4,508
Other assets	6,555	6,266	6,340	6,368	6,474
Total assets	**25,565**	**27,358**	**29,920**	**32,773**	**38,502**
S-T debt	9,538	8,818	4,330	4,473	4,761
A/C payable	8,498	10,248	12,989	15,330	17,637
Other current liabilities	299	583	658	511	687
L-T debt	3,272	3,310	7,027	6,976	8,878
Other liabilities	564	723	720	717	668
Minority interest	53	55	58	62	65
Shareholders' equity	**3,342**	**3,621**	**4,137**	**4,705**	**5,807**
Working capital	4,834	4,412	4,463	4,576	(2,476)
Total debt	12,810	12,128	11,357	11,448	13,639
Net debt	**12,361**	**10,914**	**10,626**	**10,569**	**12,504**

Financial Ratios					
(%)	3Q20	4Q20	1Q21	2Q21	3Q21
Sales growth	66.4	66.6	54.1	23.9	110.0
Operating profit growth	187.6	281.1	145.1	27.0	142.5
EBITDA growth	174.3	238.0	134.8	21.7	125.0
Norm profit growth	658.5	1,000.1	218.5	53.7	156.2
Norm EPS growth	#DIV/0!	2,100.1	218.5	53.7	156.2
Gross margin	18.9	19.5	22.6	16.6	19.4
Operating margin	14.4	13.1	17.0	11.6	16.6
EBITDA margin	16.6	15.0	19.1	13.6	17.8
Norm net margin	9.0	6.5	10.3	5.9	11.0
D/E (x)	3.8	3.3	2.7	2.4	2.3
Net D/E (x)	3.6	3.0	2.5	2.2	2.1
Interest coverage (x)	4.2	4.0	4.7	3.4	6.4
Interest rate	5.6	6.0	6.5	7.5	8.6
Effective tax rate	15.1	30.4	20.7	23.6	21.2
ROA	6.8	4.8	6.7	4.0	12.1
ROE	54.5	36.8	49.6	28.2	82.1

Sources: Company data, Thanachart estimates

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