BUY (Unchanged)

Change in Numbers

TP: Bt 6.00 (From: Bt 5.00)

Upside : 31.0%

6 JANUARY 2022

Small Cap Research

Stark Corporation Pcl. (STARK TB)

Stronger growth from exports

We reaffirm our BUY call on STARK, expecting even stronger earnings growth forecasted at a 31% EPS CAGR over 2021-23F. The increases of 23-28% to our 2021-23F earnings are based on its more aggressive expansion into export markets and stronger-than-expected power cable demand both in Thailand and Vietnam.

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Thanachart Securities

Boosting our earnings

We lift our earnings for STARK by 23-28% in 2021-23F and raise our DCF-based 12-month TP (2022F base year) to Bt6.0 (from Bt5.0). *First,* we factor in STARK's more aggressive export expansion, leveraging on lower production costs and no import tax levied on power cables from Vietnam and Thailand due to their FTAs signed with many developed countries. *Second,* local demand for high-voltage and specialty cables in both countries has been stronger than we had expected, supporting new transmission technologies and growing renewables. *Third,* despite the Omicron variant, we expect infrastructure investments to resume in 2022-23F, backed by an economic recovery and new Power Development Plans (PDPs) in Thailand and Vietnam. With a 31% EPS CAGR over 2021-23F, we reaffirm our BUY call.

Exports a new growth driver

STARK expects exports to rise to 20% of its total sales in 2021F (13% in 2020). We foresee a further rise to 23/25% in 2022-23F due to its successful penetration of the US building wire market, where we expect STARK's sales to the US via two local distributors to double in 2022F. Before this, most of its exports were project-based orders from global EPCs which are much more volatile. Exported products had been made in Thailand, but now STARK has received the certificates to export from its factory in Vietnam, which has signed FTAs (so there are no import taxes) with more countries. STARK therefore targets to secure more customers in the US and to expand into new countries. We estimate STARK's total sales growth at 17/13/10% in 2022-24F.

Rising demand for higher-end products

We expect STARK's gross margin to rise from 21% in 2021F to 24% in 2024F, on higher utilization, scale benefits, and a more favorable product mix. Power cable demand is moving toward the high-end segment to support aerial-to-underground power line systems, floating solar farms in Thailand and offshore-wind farms in Vietnam, and the peer-to-peer (P2P) electricity market and Smart Grid system. STARK is the only producer of underground-230kV cables in Thailand and normal 230kV cables in Vietnam, so we foresee huge market-share opportunities. We project high-voltage cables to make up 41% of sales in 2024F (28% in 2020).

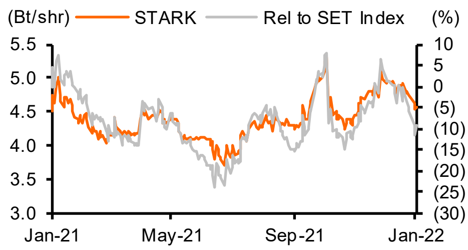
Two new PDPs

We see STARK as a beneficiary of the new PDPs of Thailand (PDP-2022) and Vietnam (PDP-8), both expected to be released in 2022. We expect more transmission-line expansion in the Thai PDP-2022, while the Vietnam PDP involves growing electricity generation and also transmission infrastructure expansion to support the country's growth and more renewable development.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	16,858	23,658	27,560	31,203
Net profit	1,609	2,211	2,996	3,777
Consensus NP	—	1,726	2,404	3,079
Diff frm cons (%)	—	*28.1*	*24.6*	*22.7*
Norm profit	1,095	2,211	2,996	3,777
Prev. Norm profit	—	1,726	2,404	3,079
Chg frm prev (%)	—	*28.1*	*24.6*	*22.7*
Norm EPS (Bt)	0.1	0.1	0.2	0.2
Norm EPS grw (%)	629.2	101.8	35.5	26.1
Norm PE (x)	66.4	32.9	24.3	19.3
EV/EBITDA (x)	33.7	19.0	15.1	12.5
P/BV (x)	19.6	13.5	10.3	8.0
Div yield (%)	0.0	1.5	2.1	2.6
ROE (%)	36.7	48.7	48.2	46.6
Net D/E (%)	291.5	180.1	135.4	103.2

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 6-Jan-22 (Bt)	4.58
Market Cap (US$ m)	1,627.6
Listed Shares (m shares)	11,906.4
Free Float (%)	28.8
Avg Daily Turnover (US$ m)	10.1
12M Price H/L (Bt)	5.30/3.72
Sector	Industrial Materials & Machinery
Major Shareholder	K.Vonnarat Tangkaravakoon 48.69%

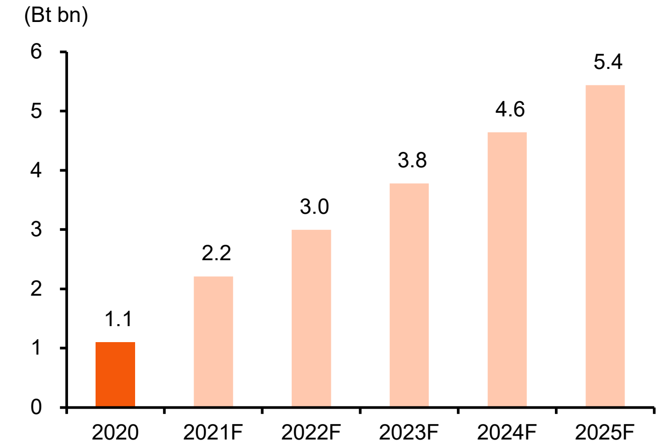
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Key Assumption Changes

	2021F	2022F	2023F	2024F
Total revenues (Bt bn)				
- New	23.7	27.6	31.2	34.3
- Old	20.2	23.3	26.6	29.5
- Change (%)	*17.2*	*18.4*	*17.4*	*16.3*
Gross margin (%)				
- New	21.4	22.5	23.6	24.4
- Old	20.0	21.5	22.5	23.3
- Change (pp)	*1.3*	*1.0*	*1.1*	*1.1*

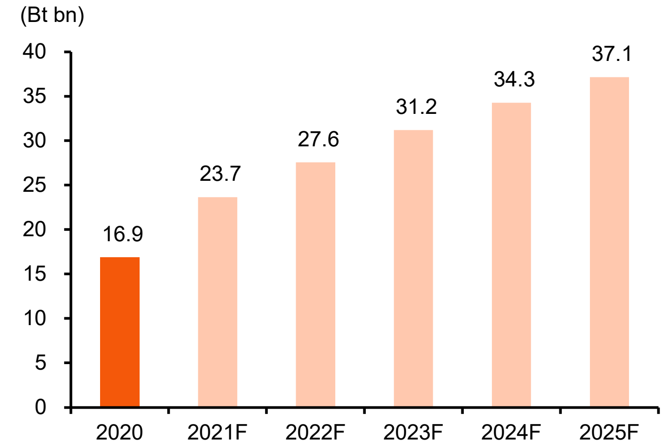
Source: Thanachart estimates

Ex 2: Strong Earnings Growth Outlook …



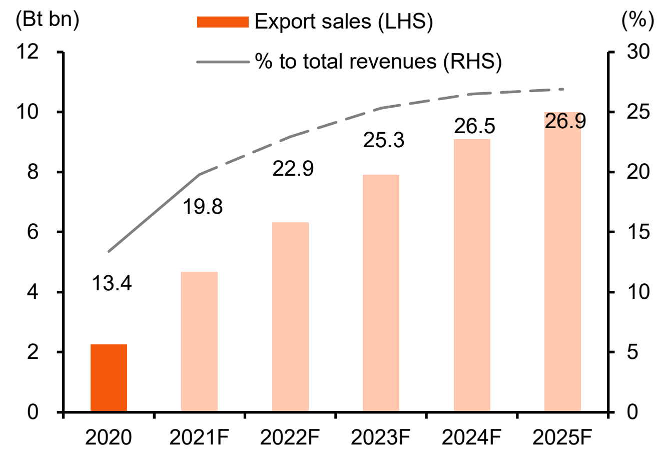
Sources: Company data, Thanachart estimates

Ex 3: … Supported By Rising Revenue Trend



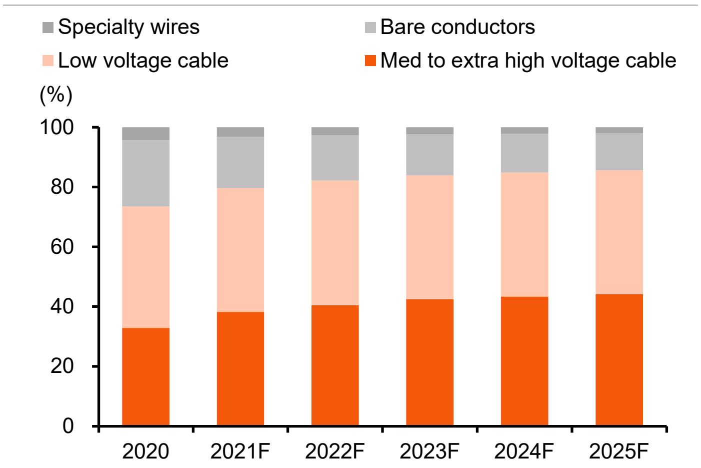
Sources: Company data, Thanachart estimates

Ex 4: Exports Are A New Growth Driver



Sources: Company data, Thanachart estimates

Ex 5: Increasing Mix Of High-Voltage Cable Sales



Sources: Company data, Thanachart estimates

Ex 6: 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)	5,278	6,410	7,439	8,319	9,132	9,809	10,399	10,883	11,245	11,618	12,004	—
Free cash flow	1,379	21,845	3,744	4,884	5,893	6,530	7,086	7,495	7,804	8,078	8,361	128,263
PV of free cash flow	1,280	18,830	2,996	3,627	3,976	4,073	4,085	3,994	3,844	3,678	3,356	51,478

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.9
WACC (%)	7.7
Terminal growth (%)	2.0
Enterprise value - add investments	105,217
Net debt (2021F)	9,792
Minority interest	70
Equity value	95,355
# of shares *	15,875
Equity value/share (Bt)	**6.00**

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 7: 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	102.2	29.5	23.9	18.5	2.7	2.5	8.7	7.7	0.9	1.1
nVent Electric PLC	NVT US	Britain	na	10.1	19.3	17.5	2.5	2.4	15.4	13.7	1.9	2.0
TE Connectivity Ltd	TEL US	Switzerland	(5.6)	8.7	24.8	22.9	5.2	4.5	16.0	15.3	1.2	1.2
Huber + Suhner AG	HUBN SW	Switzerland	41.7	8.0	22.6	20.9	2.6	2.5	12.2	11.4	2.1	2.3
Topsec Technologies Group	002212 CH	China	67.8	40.0	32.3	23.1	2.2	2.0	27.8	19.8	0.2	0.3
Yangtze Optical Fibre & Cabl	601869 CH	China	42.1	11.7	30.8	27.6	2.4	2.2	17.6	13.0	0.9	1.0
Interlink Telecom PCL	ITEL TB	Thailand	(8.3)	9.1	34.5	31.7	2.6	2.6	15.4	14.0	1.6	1.8
Stark Corporation *	STARK TB	Thailand	101.8	35.5	32.9	24.3	13.5	10.3	19.0	15.1	1.5	2.1
Average			**48.8**	**19.1**	**27.6**	**23.3**	**4.2**	**3.6**	**16.5**	**13.7**	**1.3**	**1.5**

Sources: Bloomberg, * Thanachart estimates

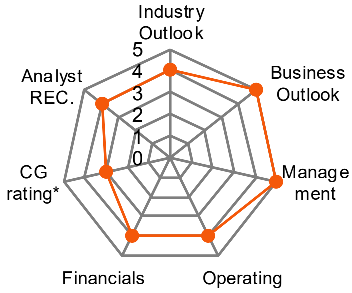
Based on 6 Jan 2022 closing prices

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)	5.90	6.00	2%
Net profit 21F (Bt m)	1,726	2,211	28%
Net profit 22F (Bt m)	2,404	2,996	25%
Consensus REC	**BUY: 2**	**HOLD: 0**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings forecasts are 25-28% above the Bloomberg consensus numbers, likely as we are earlier in factoring in contributions from its growing export sales.
- However, our DCF-based TP is in line with the Street's, which we believe is due to us having a more conservative assumption for STARK's long-term margin trend.

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 the key downside risk to our earnings forecasts.
- A slower-than-expected pace of its capacity expansion plan and ability to build new capacity represents a secondary downside risk to our numbers.
- Lower-than-expected demand for high-end products would represent another downside risk to its margins, and therefore our earnings projections.

Source: Thanachart

Rising sales from higher local demand and higher contribution from exports

Strengthening balance sheet with an improving operational performance

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	11,529	16,858	23,658	27,560	31,203
Cost of sales	10,103	13,869	18,606	21,366	23,854
Gross profit	**1,426**	**2,989**	**5,052**	**6,194**	**7,349**
% gross margin	12.4%	17.7%	21.4%	22.5%	23.6%
Selling & administration expenses	607	866	1,225	1,344	1,437
Operating profit	**819**	**2,123**	**3,827**	**4,851**	**5,912**
% operating margin	7.1%	12.6%	16.2%	17.6%	18.9%
Depreciation & amortization	193	357	515	608	684
EBITDA	**1,012**	**2,480**	**4,342**	**5,459**	**6,596**
% EBITDA margin	8.8%	14.7%	18.4%	19.8%	21.1%
Non-operating income	79	60	60	68	80
Non-operating expenses	0	0	0	0	0
Interest expense	(487)	(660)	(920)	(901)	(930)
Pre-tax profit	**410**	**1,523**	**2,967**	**4,017**	**5,062**
Income tax	145	419	742	1,004	1,266
After-tax profit	**265**	**1,104**	**2,225**	**3,013**	**3,797**
% net margin	2.3%	6.5%	9.4%	10.9%	12.2%
Shares in affiliates' Earnings	3	1	0	0	0
Minority interests	(118)	(10)	(15)	(17)	(20)
Extraordinary items	(26)	513	0	0	0
NET PROFIT	**124**	**1,609**	**2,211**	**2,996**	**3,777**
Normalized profit	**150**	**1,095**	**2,211**	**2,996**	**3,777**
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	20,236	22,769	25,896
Cash & cash equivalent	1,431	1,156	1,000	1,500	2,000
Account receivables	3,465	6,042	8,102	9,061	10,259
Inventories	3,671	8,618	10,705	11,707	13,071
Others	140	515	430	501	567
Investments & loans	300	344	344	344	344
Net fixed assets	2,604	4,213	4,325	5,398	6,900
Other assets	1,044	6,429	5,838	5,379	4,813
Total assets	**12,655**	**27,316**	**30,744**	**33,890**	**37,954**
LIABILITIES:					
Current liabilities:	8,138	19,649	18,938	19,672	21,401
Account payables	4,788	10,248	12,744	13,463	15,032
Bank overdraft & ST loans	2,528	7,761	3,237	2,795	2,886
Current LT debt	666	1,057	2,266	2,515	2,598
Others current liabilities	155	583	690	898	886
Total LT debt	**1,754**	**3,310**	**5,288**	**5,869**	**6,061**
Others LT liabilities	450	594	1,082	1,201	1,241
Total liabilities	**10,341**	**23,553**	**25,307**	**26,742**	**28,703**
Minority interest	46	55	70	87	107
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**	**4,593**	**6,287**	**8,371**
Shareholders' equity	2,268	3,709	5,367	7,061	9,144
Liabilities & equity	**12,655**	**27,316**	**30,744**	**33,890**	**37,954**

Sources: Company data, Thanachart estimates

Operating cash flows easily cover capex for plant expansion

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	410	1,523	2,967	4,017	5,062
Tax paid	(129)	(205)	(758)	(886)	(1,257)
Depreciation & amortization	193	357	515	608	684
Chg In working capital	(547)	(2,064)	(1,651)	(1,242)	(993)
Chg In other CA & CL / minorities	(820)	15	(1)	18	(87)
Cash flow from operations	**(892)**	**(374)**	**1,073**	**2,516**	**3,409**
Capex	(405)	(1,924)	(500)	(1,500)	(2,000)
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)	1,452	597	519
Cash flow from investments	**(328)**	**(7,558)**	**661**	**(1,103)**	**(1,581)**
Debt financing	197	7,825	(1,337)	388	365
Capital increase	1,795	(432)	(0)	0	0
Dividends paid	0	0	(553)	(1,302)	(1,693)
Warrants & other surplus	4	264	0	0	0
Cash flow from financing	**1,996**	**7,657**	**(1,889)**	**(913)**	**(1,328)**
Free cash flow	**(1,297)**	**(2,297)**	**573**	**1,016**	**1,409**

We see its high multiples as justified by its strong earnings growth outlook

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	484.1	66.4	32.9	24.3	19.3
Normalized PE - at target price (x)	634.2	87.0	43.1	31.8	25.2
PE (x)	586.7	45.2	32.9	24.3	19.3
PE - at target price (x)	768.6	59.2	43.1	31.8	25.2
EV/EBITDA (x)	75.4	33.7	19.0	15.1	12.5
EV/EBITDA - at target price (x)	97.6	42.8	24.2	19.2	15.9
P/BV (x)	32.1	19.6	13.5	10.3	8.0
P/BV - at target price (x)	42.0	25.7	17.7	13.5	10.4
P/CFO (x)	(81.5)	(194.5)	67.8	28.9	21.3
Price/sales (x)	4.7	3.2	2.3	2.0	1.7
Dividend yield (%)	0.0	0.0	1.5	2.1	2.6
FCF Yield (%)	(1.8)	(3.2)	0.8	1.4	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	0.6
CFO/share	(0.1)	(0.0)	0.1	0.2	0.2
FCF/share	(0.1)	(0.1)	0.0	0.1	0.1

Sources: Company data, Thanachart estimates

Improving profitability from scale benefits and a more favorable product mix

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	(2.7)	46.2	40.3	16.5	13.2
Net profit (%)	(76.4)	1,198.1	37.4	35.5	26.1
EPS (%)	(76.4)	1,198.1	37.4	35.5	26.1
Normalized profit (%)	(66.9)	629.2	101.8	35.5	26.1
Normalized EPS (%)	(66.9)	629.2	101.8	35.5	26.1
Dividend payout ratio (%)	0.0	0.0	50.0	50.0	50.0
Operating performance					
Gross margin (%)	12.4	17.7	21.4	22.5	23.6
Operating margin (%)	7.1	12.6	16.2	17.6	18.9
EBITDA margin (%)	8.8	14.7	18.4	19.8	21.1
Net margin (%)	2.3	6.5	9.4	10.9	12.2
D/E (incl. minor) (x)	2.1	3.2	2.0	1.6	1.2
Net D/E (incl. minor) (x)	1.5	2.9	1.8	1.4	1.0
Interest coverage - EBIT (x)	1.7	3.2	4.2	5.4	6.4
Interest coverage - EBITDA (x)	2.1	3.8	4.7	6.1	7.1
ROA - using norm profit (%)	1.1	5.5	7.6	9.3	10.5
ROE - using norm profit (%)	9.2	36.7	48.7	48.2	46.6
DuPont					
ROE - using after tax profit (%)	16.3	36.9	49.0	48.5	46.9
- asset turnover (x)	0.9	0.8	0.8	0.9	0.9
- operating margin (%)	7.8	12.9	16.4	17.8	19.2
- leverage (x)	8.1	6.7	6.4	5.2	4.4
- interest burden (%)	45.7	69.8	76.3	81.7	84.5
- 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	19.6	24.0	26.5
NOPAT (Bt m)	529	1,539	2,870	3,638	4,434
invested capital (Bt m)	5,785	14,681	15,158	16,741	18,690

Sources: Company data, Thanachart estimates

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Note: Thanachart Capital Public Company Limited (TCAP), TMBThanachart Bank Public Company Limited (TTB), are related companies to Thanachart Securities Public Company Limited (TNS). Thanachart Securities Pcl is a subsidiary of Thanachart Capital Pcl (TCAP) which holds 20.1% of the shareholding in TMBThanachart Bank Pcl.

Thanachart Capital Public Company Limited (TCAP), Ratchthani Leasing Public Company Limited (THANI), TMB Public Company Limited, MBK PUBLIC COMPANY LIMITED (MBK) and PATUM RICE MILL AND GRANARY PUBLIC COMPANY LIMTED (PRG) are related companies to Thanachart Securities Public Company Limited (TNS) . Since TNS covers those securities in research report, consequently TNS incurs conflicts of interest.

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Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

For sectors, an "Overweight" sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. "Underweight" is used when we have SELLs on majority of the stocks we cover by market cap. "Neutral" is used when there are relatively equal weightings of BUYs and SELLs.

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