Stark Corporation Pcl (STARK TB) - BUY, Price Bt4.08, TP Bt6.40

Results Comment

Nuttapop Prasitsuksant | Email: nuttapop.pra@thanachartsec.co.th

Seasonally weak 1Q22 profit

- STARK reported Bt579m norm profit in 1Q22, up 60% y-y from strong growth in revenue and margin expansion. However, it dropped 18% q-q due to its seasonally weak 1Q quarter, given a long public holiday in Vietnam.
- Total revenue was Bt6.2bn in 1Q22. It grew 33% y-y backed by strong power cable demand from both public and private infrastructure projects. The revenue dropped 17% q-q due to a seasonal factor of long public holiday in Vietnam this quarter.
- Gross margin rose to 21.7% in 1Q22, from 20.6% in 4Q21 and 20.1% in 1Q21. We believe the improvement was due to better product mix and scale benefits from revenue growth.
- Total SG&A increased 2% y-y to Bt264m in 1Q22. It lowered 18% q-q from the high expense season in previous quarter. We see this as a good cost control by the company given higher revenue base, which made its SG&A-to-sale ratio came down to 4.3% in 1Q22, from 5.6% in 1Q21 and 4.3% in 4Q21.
- We expect STARK's earnings to sequentially improve from this seasonally weak quarter. The company continues to maintain its target of Bt30bn revenue for 2022F, signaling its confidence on strong demand in later quarters.
- We maintain BUY on STARK supported by its strong growth outlook from expanding transmission infrastructure in Thailand, growing electricity generation capacity in Vietnam, and its penetration into new export markets.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	1Q21	2Q21	3Q21	4Q21	1Q22
Revenue	4,655	5,252	9,777	7,409	6,176
Gross profit	**935**	**841**	**2,653**	**1,529**	**1,338**
SG&A	260	243	273	321	264
Operating profit	675	599	2,380	1,208	1,074
EBITDA	**773**	**702**	**2,497**	**1,320**	**1,182**
Other income	10	15	20	(8)	8
Other expense	0	0	0	0	0
Interest expense	191	213	271	268	249
Profit before tax	**494**	**400**	**2,130**	**932**	**832**
Income tax	129	100	289	223	242
Equity & invest. income	0	(1)	(0)	1	(0)
Minority interests	(3)	(3)	(3)	(2)	(12)
Extraordinary items	65	229	(911)	198	(9)
Net profit	**427**	**524**	**927**	**905**	**570**
Normalized profit	**362**	**295**	**1,838**	**707**	**579**
EPS (Bt)	0.04	0.04	0.08	0.08	0.05
Normalized EPS (Bt)	0.03	0.02	0.15	0.06	0.05

Income Statement			3M as		
(Bt m)	q-q%	y-y%	% 2022F	2022F	2023F
Revenue	(17)	33	20	31,172	35,549
Gross profit	**(12)**	**43**	**20**	**6,654**	**8,218**
SG&A	(18)	2	18	1,462	1,573
Operating profit	(11)	59	21	5,192	6,645
EBITDA	**(10)**	**53**	**21**	**5,658**	**7,170**
Other income	na	(19)	28	28	28
Other expense			na	0	0
Interest expense	(7)	30	25	1,018	1,063
Profit before tax	**(11)**	**69**	**20**	**4,203**	**5,610**
Income tax	8	88	26	925	1,290
Equity & invest. income	na	na	na	0	0
Minority interests	na	na	86	(14)	(16)
Extraordinary items	na	na	na	0	0
Net profit	**(37)**	**33**	**17**	**3,264**	**4,304**
Normalized profit	**(18)**	**60**	**18**	**3,264**	**4,304**
EPS (Bt)	(37)	33	23	0.21	0.27
Normalized EPS (Bt)	(18)	60	24	0.21	0.27

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	1Q21	2Q21	3Q21	4Q21	1Q22
Cash & ST investment	732	879	1,135	1,029	647
A/C receivable	7,093	8,613	14,064	15,571	14,715
Inventory	10,359	11,292	10,978	10,487	12,999
Other current assets	571	790	1,025	875	1,504
Investment	338	328	319	329	316
Fixed assets	4,487	4,502	4,508	4,413	4,398
Other assets	6,340	6,368	6,474	6,438	6,593
Total assets	**29,920**	**32,773**	**38,502**	**39,142**	**41,172**
S-T debt	4,330	4,473	4,761	5,742	6,999
A/C payable	12,989	15,330	17,637	17,093	18,095
Other current liabilities	658	511	687	714	560
L-T debt	7,027	6,976	8,878	8,347	7,723
Other liabilities	720	717	668	655	636
Minority interest	58	62	65	87	99
Shareholders' equity	**4,137**	**4,705**	**5,807**	**6,505**	**7,060**
Working capital	4,463	4,576	7,404	8,965	9,618
Total debt	11,357	11,448	13,639	14,089	14,722
Net debt	**10,626**	**10,569**	**12,504**	**13,060**	**14,075**

Financial Ratios					
(%)	1Q21	2Q21	3Q21	4Q21	1Q22
Sales growth	54.1	23.9	110.0	49.9	32.7
Operating profit growth	83.9	(10.6)	235.3	169.4	59.1
EBITDA growth	82.8	(9.5)	206.8	142.0	52.8
Norm profit growth	85.6	(24.4)	298.5	419.5	59.8
Norm EPS growth	85.6	(24.4)	298.5	419.5	59.8
Gross margin	20.1	16.0	27.1	20.6	21.7
Operating margin	14.5	11.4	24.3	16.3	17.4
EBITDA margin	16.6	13.4	25.5	17.8	19.1
Norm net margin	7.8	5.6	18.8	9.5	9.4
D/E (x)	2.7	2.4	2.3	2.1	2.1
Net D/E (x)	2.5	2.2	2.1	2.0	2.0
Interest coverage (x)	4.0	3.3	9.2	4.9	4.7
Interest rate	6.5	7.5	8.6	7.7	6.9
Effective tax rate	26.1	25.1	13.5	23.9	29.0
ROA	5.1	3.8	20.6	7.3	5.8
ROE	37.3	26.7	139.9	46.0	34.1

Sources: Company data, Thanachart estimates