Stark Corporation Pcl (STARK TB) - BUY

News update

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Major acquisition into auto cable business

- **STARK announces Bt20.6bn investment to acquire LEONI**
- **LEONI is a leading automotive cable producer in EU and US**
- **Acquisition price implies 6.3x EV/EBITDA on our estimates**
- **It would more than double STARK's earnings into 2023F**

STARK announces to SET last night its plan to acquire 100% stakes in LEONI Kabel GmbH (Germany based) and LEONIsche Holding Inc (US based), referred to together as "LEONI".

- LEONI is one of the leading automotive cable manufacturers in European and US markets, supplying its products to various of well-known carmakers in the regions and some Chinese EV makers. Its products range from traditional cables for ICE cars, fast-growing cables for EV applications, and charging cables for E-mobility platforms.
- The acquisition thus brings STARK into a completely new business segment, but still lies within a cable manufacturing industry that it has strong expertise in. Apart from a consolidation of decent financial performance from LEONI, which is already a profit-marking company, we expect an immediate synergy from larger procurement pool for STARK into copper, aluminum, and other key materials in producing cables. Longer-term, STARK plans to setup automotive cable factory in Thailand or Vietnam, but we believe it would take some years from now.
- We estimate acquisition price at only 6.3x trailing EV/EBITDA based on LEONI's 2021 financial performance. This looks attractive to us compared to its strong growth potentials in cable products for EVs and charging stations.
- Based on pro-rata financial statement provided for LEONI's 1Q22 results, consolidation of LEONI will more than double STARK's earnings base in 2023F on our forecasts.
- STARK expects the deal to be finalized by November 2022, which is still subjected an approval from its shareholders during the EGM in October.
- We see the deal as positive, bringing new growth opportunity to STARK with an immediate profit contribution at a reasonable price.
- We maintain BUY.

Key Valuations

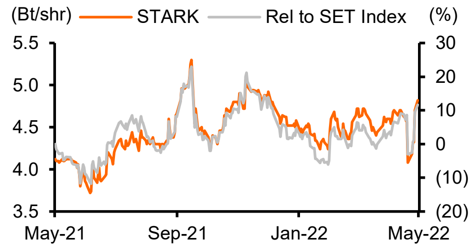
Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Revenue	27,094	30,861	34,395	37,750
Net profit	2,783	3,908	4,582	5,389
Norm net profit	3,203	3,908	4,582	5,389
Norm EPS (Bt)	0.2	0.2	0.3	0.3
Norm EPS gr (%)	170.7	22.0	17.2	17.6
Norm PE (x)	23.9	19.6	16.7	14.2
EV/EBITDA (x)	16.9	13.8	11.8	9.7
P/BV (x)	11.8	8.1	6.4	4.1
Div. yield (%)	0.0	2.6	3.0	3.5
ROE (%)	63.3	49.0	43.0	35.2
Net D/E (%)	198.1	120.5	92.6	31.0

Source: Thanachart estimates

Stock Data

Closing price (Bt)	4.82
Target price (Bt)	6.50
Market cap (US$ m)	1,678.2
Avg daily turnover (US$ m)	5.0
12M H/L price (Bt)	5.30/3.72

Price Performance



Source: Bloomberg

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Note: Our major shareholder TCAP (Thanachart Capital Pcl) which holding 50.96% of Thanachart Securities and also TCAP holding 100% of Thanachart SPV1 Co. Ltd. TCAP and Thanachart SPV1 Co. Ltd has stake in THANI for 60% and being the major shareholder of THANI.

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 23% of the shareholding in TMBThanachart Bank Pcl.

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