Stark Corporation Pcl (STARK TB) - BUY, Price Bt4.30, TP Bt6.50

Results Comment

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Slightly weaker-than-expected 2Q22

- STARK reported Bt644m normalized profit in 2Q22, slightly below our expectation. The earnings grew 118% y-y from a low base last year when the company faced impact from Covid-19 lockdown. It improved 11% q-q from growing revenue.
- Total revenue increased 40% y-y and 19% q-q to Bt7.3bn in 2Q22, driven mainly by higher revenue from Vietnam factory, while demand for electricity cables from government's projects remained strong in both Thailand and Vietnam.
- Gross margin fell to 20.0% in 2Q22 (from 21.7% in 1Q22), due to a surge of service revenue in total revenue mix. Gross margin from product sales alone continued to rise to 22.3% this quarter, from 18.9% in 1Q22 and 16.2% in 2Q21), backed by higher portion of high-margin product sale.
- Total SG&A expense, after excluding one-off items, increased 20% y-y and 11% q-q to Bt292m in 2Q22. However, supported by higher revenue base, SG&A-to-sales ratio declined to 4.0% this quarter, from 4.3% in 1Q22 and 4.6% in 2Q21.
- EBITDA thus grew strongly 87% y-y and 11% q-q to Bt1.32bn.
- We maintain our positive view on STARK supported by its growing revenue and expanding margin trends, despite its upcoming capital raising plan (for the acquisition of Leoni, automotive cable business in Europe) via private placement (PP) may post a short-term overhang to the share price.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	**2Q21**	**3Q21**	**4Q21**	**1Q22**	**2Q22**
Revenue	5,252	9,777	7,409	6,176	7,332
Gross profit	**841**	**2,653**	**1,529**	**1,338**	**1,466**
SG&A	243	273	321	264	292
Operating profit	599	2,380	1,208	1,074	1,174
EBITDA	**702**	**2,497**	**1,320**	**1,182**	**1,316**
Other income	15	20	(8)	8	10
Other expense	0	0	0	0	0
Interest expense	213	271	268	249	242
Profit before tax	**400**	**2,130**	**932**	**832**	**941**
Income tax	100	289	223	242	299
Equity & invest. income	(1)	(0)	1	(0)	0
Minority interests	(3)	(3)	(2)	(12)	2
Extraordinary items	229	(911)	198	(9)	46
Net profit	**524**	**927**	**905**	**570**	**691**
Normalized profit	**295**	**1,838**	**707**	**579**	**644**
EPS (Bt)	0.04	0.08	0.08	0.05	0.06
Normalized EPS (Bt)	0.02	0.15	0.06	0.05	0.05

Income Statement			6M as		
(Bt m)	**q-q%**	**y-y%**	**% 2022F**	**2022F**	**2023F**
Revenue	19	40	44	30,861	34,395
Gross profit	**10**	**74**	**39**	**7,145**	**8,311**
SG&A	11	20	44	1,279	1,440
Operating profit	9	96	38	5,867	6,871
EBITDA	**11**	**87**	**39**	**6,355**	**7,438**
Other income	21	(34)	na	34	33
Other expense				0	0
Interest expense	(3)	13	49	999	1,010
Profit before tax	**13**	**135**	**36**	**4,902**	**5,894**
Income tax	24	198	55	980	1,297
Equity & invest. income	na	na		0	0
Minority interests	na	na	na	(14)	(15)
Extraordinary items	na	(80)		0	0
Net profit	**21**	**32**	**32**	**3,908**	**4,582**
Normalized profit	**11**	**118**	**31**	**3,908**	**4,582**
EPS (Bt)	21	32	43	0.25	0.29
Normalized EPS (Bt)	11	118	42	0.25	0.29

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	**2Q21**	**3Q21**	**4Q21**	**1Q22**	**2Q22**
Cash & ST investment	879	1,135	1,029	647	726
A/C receivable	8,613	14,064	15,571	14,715	17,570
Inventory	11,292	10,978	10,487	12,999	14,971
Other current assets	790	1,025	875	1,504	951
Investment	328	319	329	316	306
Fixed assets	4,502	4,508	4,413	4,398	4,438
Other assets	6,368	6,474	6,438	6,593	6,512
Total assets	**32,773**	**38,502**	**39,142**	**41,172**	**45,473**
S-T debt	4,473	4,761	5,742	6,999	8,241
A/C payable	15,330	17,637	17,093	18,095	20,233
Other current liabilities	511	687	714	560	593
L-T debt	6,976	8,878	8,347	7,723	7,981
Other liabilities	717	668	655	636	707
Minority interest	62	65	87	99	97
Shareholders' equity	**4,705**	**5,807**	**6,505**	**7,060**	**7,621**
Working capital	4,576	7,404	8,965	9,618	12,308
Total debt	11,448	13,639	14,089	14,722	16,222
Net debt	**10,569**	**12,504**	**13,060**	**14,075**	**15,496**

Financial Ratios					
(%)	**2Q21**	**3Q21**	**4Q21**	**1Q22**	**2Q22**
Sales growth	23.9	110.0	49.9	32.7	39.6
Operating profit growth	(10.6)	235.3	169.4	59.1	96.0
EBITDA growth	(9.5)	206.8	142.0	52.8	87.3
Norm profit growth	(24.4)	298.5	419.5	59.8	118.2
Norm EPS growth	(24.4)	298.5	419.5	59.8	118.2
Gross margin	16.0	27.1	20.6	21.7	20.0
Operating margin	11.4	24.3	16.3	17.4	16.0
EBITDA margin	13.4	25.5	17.8	19.1	17.9
Norm net margin	5.6	18.8	9.5	9.4	8.8
D/E (x)	2.4	2.3	2.1	2.1	2.1
Net D/E (x)	2.2	2.1	2.0	2.0	2.0
Interest coverage (x)	3.3	9.2	4.9	4.7	5.4
Interest rate	7.5	8.6	7.7	6.9	6.3
Effective tax rate	25.1	13.5	23.9	29.0	31.8
ROA	3.8	20.6	7.3	5.8	5.9
ROE	26.7	139.9	46.0	34.1	35.1

Sources: Company data, Thanachart estimates

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