

**Stark Corporation Pcl (STARK TB) - BUY, Price Bt3.34, TP Bt6.50****Results Comment**

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

**Strong peak quarter as expected**

- STARK reported normalized profit (excluding non-cash FX and hedging gains/losses) at Bt1.63bn in 3Q22, down 11% y-y but rose 152% q-q. The softened earnings y-y was due to an extra high base last year when it recognized delayed revenues from 2Q21, while the q-q jump was on normal seasonality of highest revenue recognition in Q3.
- Total revenue dropped 15% y-y to Bt8.3bn in 3Q22, due to a shift of revenue recognition last year. Adjusted the high base effect, we estimate its revenue fell by only 5% y-y as the average selling price dropped with declining metal prices (cost plus basis). The revenue implies 14% growth q-q.
- Gross margin improved significantly to 29.8% in 3Q22, mainly driven by operating leverage and lower metal material cost (which resulted as higher percentage margin under cost-plus pricing). The margin was even higher than 27.1% when STARK had a high base in 3Q21, and 20.0% in 2Q22.
- SG&A expenses surged up stronger-than-expected to Bt368m in 3Q22, increased much higher than its revenue growth at 35% y-y and 26% q-q. We suspect it was due to higher freight cost as STARK did more export business this year while the freight rate had been in an uptrend. SG&A-to-sales ratio thus rose to 4.4% in 3Q22, from 4.0% in 2Q22 and 2.8% in 3Q21.
- Due to much stronger throughput margin, EBITDA margin was higher at 29.8% in 3Q22, from 20.0% in 2Q22 and 27.1% in 3Q21. STARK recoded Bt2.2bn EBITDA this quarter, down 12% y-y but up 67% q-q.
- Despite STARK's 9M22 normalized profit made up only 73% of our 2022F full-year projection and 3Q22 was already its peak earnings quarter, we maintain our numbers expecting STARK to deliver a decent y-y growth in 4Q22F. We maintain BUY.

Income Statement		(consolidated)				
Yr-end Dec (Bt m)	3Q21	4Q21	1Q22	2Q22	3Q22	
Revenue	9,777	7,409	6,176	7,332	8,344	
<b>Gross profit</b>	<b>2,653</b>	<b>1,529</b>	<b>1,338</b>	<b>1,466</b>	<b>2,489</b>	
SG&A	273	321	264	292	368	
Operating profit	2,380	1,208	1,074	1,174	2,121	
<b>EBITDA</b>	<b>2,497</b>	<b>1,320</b>	<b>1,182</b>	<b>1,316</b>	<b>2,203</b>	
Other income	6	6	8	10	7	
Other expense	0	0	0	0	0	
Interest expense	271	268	249	242	259	
<b>Profit before tax</b>	<b>2,116</b>	<b>946</b>	<b>832</b>	<b>941</b>	<b>1,870</b>	
Income tax	289	223	242	299	237	
Equity & invest. income	(0)	1	(0)	0	(1)	
Minority interests	(3)	(2)	(12)	2	(6)	
Extraordinary items	(911)	198	(9)	46	(670)	
<b>Net profit</b>	<b>913</b>	<b>919</b>	<b>570</b>	<b>691</b>	<b>956</b>	
<b>Normalized profit</b>	<b>1,824</b>	<b>721</b>	<b>579</b>	<b>644</b>	<b>1,626</b>	
EPS (Bt)	0.08	0.08	0.05	0.06	0.08	
Normalized EPS (Bt)	0.15	0.06	0.05	0.05	0.14	

Balance Sheet		(consolidated)				
Yr-end Dec (Bt m)	3Q21	4Q21	1Q22	2Q22	3Q22	
Cash & ST investment	1,135	1,029	647	726	453	
A/C receivable	14,064	15,571	14,715	17,570	19,615	
Inventory	10,978	10,487	12,999	14,971	15,104	
Other current assets	1,025	875	1,504	951	631	
Investment	319	329	316	306	290	
Fixed assets	4,508	4,413	4,398	4,438	4,491	
Other assets	6,474	6,438	6,593	6,512	6,511	
<b>Total assets</b>	<b>38,502</b>	<b>39,142</b>	<b>41,172</b>	<b>45,473</b>	<b>47,096</b>	
S-T debt	4,761	5,742	6,999	8,241	9,492	
A/C payable	17,637	17,093	18,095	20,233	20,785	
Other current liabilities	687	714	560	593	1,034	
L-T debt	8,878	8,347	7,723	7,981	6,277	
Other liabilities	668	655	636	707	775	
Minority interest	65	87	99	97	103	
<b>Shareholders' equity</b>	<b>5,807</b>	<b>6,505</b>	<b>7,060</b>	<b>7,621</b>	<b>8,631</b>	
Working capital	7,404	8,965	9,618	12,308	13,934	
Total debt	13,639	14,089	14,722	16,222	15,768	
<b>Net debt</b>	<b>12,504</b>	<b>13,060</b>	<b>14,075</b>	<b>15,496</b>	<b>15,315</b>	

Income Statement		9M as				
(Bt m)	q-q%	y-y%	% 2022F	2022F	2023F	
Revenue	14	(15)	71	30,861	34,395	
<b>Gross profit</b>	<b>70</b>	<b>(6)</b>	<b>74</b>	<b>7,145</b>	<b>8,311</b>	
SG&A	26	35	72	1,279	1,440	
Operating profit	81	(11)	74	5,867	6,871	
<b>EBITDA</b>	<b>67</b>	<b>(12)</b>	<b>74</b>	<b>6,355</b>	<b>7,438</b>	
Other income	(22)	25	73	34	33	
Other expense				0	0	
Interest expense	7	(4)	75	999	1,010	
<b>Profit before tax</b>	<b>99</b>	<b>(12)</b>	<b>74</b>	<b>4,902</b>	<b>5,894</b>	
Income tax	(21)	(18)	79	980	1,297	
Equity & invest. income	na	na		0	0	
Minority interests	na	na	na	(14)	(15)	
Extraordinary items	na	na		0	0	
<b>Net profit</b>	<b>38</b>	<b>5</b>	<b>57</b>	<b>3,908</b>	<b>4,582</b>	
<b>Normalized profit</b>	<b>152</b>	<b>(11)</b>	<b>73</b>	<b>3,908</b>	<b>4,582</b>	
EPS (Bt)	38	5	76	0.25	0.29	
Normalized EPS (Bt)	152	(11)	97	0.25	0.29	

Financial Ratios						
(%)	3Q21	4Q21	1Q22	2Q22	3Q22	
Sales growth	110.0	49.9	32.7	39.6	(14.7)	
Operating profit growth	235.3	169.4	59.1	96.0	(10.9)	
EBITDA growth	206.8	142.0	52.8	87.3	(11.8)	
Norm profit growth	295.5	429.8	59.8	118.2	(10.9)	
Norm EPS growth	295.5	429.8	59.8	118.2	(10.9)	
Gross margin	27.1	20.6	21.7	20.0	29.8	
Operating margin	24.3	16.3	17.4	16.0	25.4	
EBITDA margin	25.5	17.8	19.1	17.9	26.4	
Norm net margin	18.7	9.7	9.4	8.8	19.5	
D/E (x)	2.3	2.1	2.1	2.1	1.8	
Net D/E (x)	2.1	2.0	2.0	2.0	1.8	
Interest coverage (x)	9.2	4.9	4.7	5.4	8.5	
Interest rate	8.6	7.7	6.9	6.3	6.5	
Effective tax rate	13.6	23.6	29.0	31.8	12.6	
ROA	20.5	7.4	5.8	5.9	14.1	
ROE	138.8	46.9	34.1	35.1	80.0	

Sources: Company data, Thanachart estimates

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