

Stark Corporation Pcl (STARK TB) - BUY

News update

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Calling off LEONI acquisition deal

- **STARK decides to withdraw from acquiring LEONI**
- **It claims on adverse external factors to exercise its rights**
- **It will reserve capital raised for future growth opportunity**
- **We like its strong courage to pull off the deal**

STARK announced to SET yesterday its decision to exercise its rights under the share purchase agreement to acquire LEONI Keibel GmbH (LEONI), a leading automotive cable producer in Europe and America, claiming various changes of external factors and impacts from several events those cause the deal to be no longer viable in generating value accretion for the company.

- Recap STARK's board of directors approved the management's purpose to acquire 100% in LEONI on 23 May 2022 with total investment cost not higher than Bt20.6bn. The deal was approved by its shareholders and its related capital raising plan via private placement (PP) had been completed on 23 September 2022 and 7 October 2022, respectively.
- However, after few months of thorough due diligence on LEONI's assets across seven countries globally, STARK decides to exercise its rights to withdraw from the share purchase agreement given it now feels that the acquisition may result as a materially negative impact on company's financial performance after various changes of external factors and several events occur during the due diligence period.
- STARK also informs to market that it is determining an alternative plan on the Bt5.6bn proceeds it received from 12 institutional investors through the PP. The plan will be subjected to an approval from all its shareholders later.

Our initial take is positive on its move this time, since we like STARK's strong courage to back off from the deal when it finds that the acquisition is no longer positive for the company, and thus shareholders' benefits. However, we believe it is better to get more colors from the management before justifying whether this move is reasonable. STARK also has to come up with alternative investment plan later to mitigate dilution impact from the PP for its shareholders.

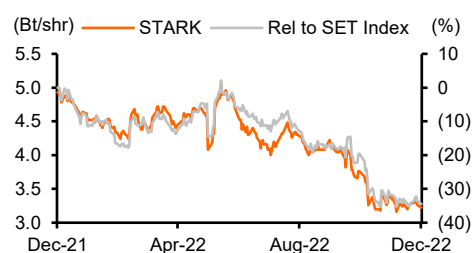
Key Valuations

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)	16.0	13.1	11.2	9.5
EV/EBITDA (x)	12.1	9.9	8.4	6.7
P/BV (x)	7.9	5.4	4.3	2.7
Div. yield (%)	0.0	3.8	4.5	5.3
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)	3.22
Target price (Bt)	6.50
Market cap (US\$ m)	1,239.7
Avg daily turnover (US\$ m)	3.0
12M H/L price (Bt)	5.05/3.16

Price Performance

Source: Bloomberg

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Note: Our major shareholder TCAP (Thanachart Capital Pcl) which holding 89.96% 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.

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