

## Riding on the green fashion trend

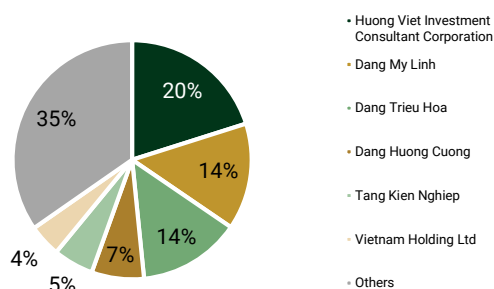
### BUY [+28%]

Fair price 39,050 VND  
Current price 30,600 VND

### STOCK INFORMATION

Outstanding shares (mil) 94  
Free float (mil) 42.3  
Market cap. (billion VND) 2,982.82  
3m avg. volume (shares) 75,200  
Foreign ownership (%) 16.44%  
First listing date 30/09/2015

### MAJOR SHAREHOLDERS



Updated: 07/08/2023

**Business results in 1H2023:** In 6M2023, Net Revenue of STK decreased by 40.6% YoY to VND 695 billion, fulfilling 32% of the 2023 revenue target. NPAT also recorded a sharp decline of 73.4% YoY to VND 39 billion, completing 15% of the 2023 target. In which, 2Q2023 business results showed positive signs of recovery when Net Revenue reached VND 407 billion (+41.5% QoQ) and NPAT grew strongly to VND 37.5 billion (+2,203.1% QoQ) thanks to the low base level in 1Q2023. At the end of 1Q2023, STK put Cu Chi factory back into operation. As of July 2023, the total operating capacity of STK is about 60%.

### Investment highlights:

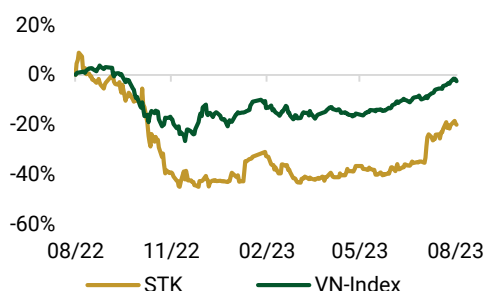
**The strategy to develop recycled yarn creates long-term growth momentum:** Following the rise of environmental protection, brands are tending to reduce "fast fashion", shifting to environmental-friendly products, which has created a rising demand for recycled yarn. Accordingly, major fashion and sports brands such as Adidas, Walmart, H&M, etc. are all committed to taking action against climate change and to using recycled fibers at the rate of 50% - 100% by 2025. Due to the shrinking virgin yarn segment's gross profit margin, STK plans to reduce the proportion of virgin yarn and raise the proportion of recycled yarn to 70% of revenue by 2025, which would be a long-term growth driver for STK recycled yarn production.

**The project of Unitex Synthetic Fiber Factory would help STK stay ahead of the green fashion trend:** The new factory in Tay Ninh with a total capacity of 60,000 tons/year, as twice as the current capacity, would be built in 2 phases (phase 1: 36,000 tons/year, phase 2: 24,000 tons/year). The factory focuses on producing DTY yarn, recycled yarn, special yarns with high added value. Currently, STK is implementing Phase 1 of Unitex, expected to complete construction at the end of 1Q2024 and put into operation in 2Q2024 to serve orders in autumn-winter 2024. As demand remains weak, we expect STK will operate Unitex Phase 1 with a capacity of about 30%, bringing the total capacity of factories to 20% by 2024. Phase 2 of Unitex is expected to be deployed in 2026 and put into operation in 2027.

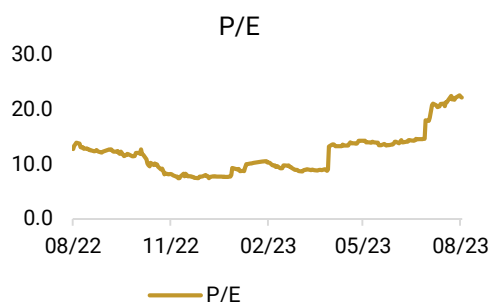
**Valuation & recommendation:** Vietnam fiber exports started to see more positive progress in 2Q2023 when fiber export volume increased by 31.8% QoQ to 458 thousand tons. However, with low 1Q2023 business results due to weak demand, we conservatively forecast STK's Net Revenue in 2023F to reach VND 1,590 billion (-24.8% YoY). We estimate that Gross Profit Margin in 2023F will drop to 15.2% as (1) the company lowers selling price to push inventory, (2) expect a slight downtrend in PET chip prices. Thereby, NPAT in 2023F would decrease 37.4% YoY to VND 152 billion. Using the DCF and EV/EBITDA valuation methods, we determine the fair price for STK at VND 39,050/share. Hence we make recommendation **Buy** for STK with upside from current price of 28%.

**Investment risks:** (1) Raw material risk. Additionally, the company has the following risks: (2) FX risk; (3) Risk of dilution; (4) Risk from rising inflation reducing consumption in export markets; (5) Leverage risk.

### PRICE MOVEMENT COMPARED TO THE INDEX



### HISTORICAL VALUATION



Financial Indicators	2018A	2019A	2020A	2021A	2022A	2023F
Net revenue (billion VND)	2,408	2,229	1,766	2,042	2,115	1,590
Net Profit (billion VND)	178	214	144	278	242	152
EPS (VND)	2,976	3,163	2,041	3,937	2,961	1,611
EPS Growth (%)	79%	6%	-35%	93%	-25%	-46%
Book Value (VND)	15,167	15,314	15,309	17,801	18,835	20,058
P/E	5.0	6.5	8.3	10.5	15.5	24.2
P/B	1.0	1.3	1.1	2.3	2.4	1.9
Cash dividend (VND)	15%	15%	15%	15%	15%	N/A