

**BUY** (Unchanged)**TP: Bt 6.40**

(From: Bt 6.00)

Change in Numbers

Upside : 46.1%

8 MARCH 2022

# Stark Corporation Pcl. (STARKTB)

## Undisrupted growth

We estimate a 27% EPS CAGR for STARK over 2022-24F from strong revenue growth and margin expansion. STARK has proven its ability to pass on raw material costs, thus fully benefiting from the industry's secular trend toward high-margin products. We reaffirm our BUY call with a higher TP of Bt6.4 after revising up our earnings.

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### Reaffirming BUY

We reaffirm BUY on STARK as one of our utility sector picks. 1) We still prefer the transmission industry over power generation for its better growth outlook, while power plants are now being hit by surging fuel prices. 2) We project STARK's earnings to grow 27% p.a. over 2022-24F driven by rising power cable demand in its home markets and penetration of new export markets (US, Europe), and a rising margin trend backed by higher demand for high-margin products. 3) STARK has proven its ability to pass on raw material costs amid a sharp rise in commodity prices. We believe market has misinterpreted this, causing recent share price weakness. We raise our DCF-based 12-month TP (2022F) to Bt6.4 (from Bt6.0) after lifting our earnings by 9-15% in 2022-24F.

### Strong demand outlook

We project electricity cable demand to grow above the GDP rates at 5-7% pace for Thailand, and 7-10% in Vietnam. Expanding transmission systems to serve higher electricity consumption from digitalization and EVs is the key driver. Stronger Vietnam growth is due to faster economic expansion while generating capacity is also growing. We see STARK being the major beneficiary as the leading cable producer with factories in both countries. We assume STARK beats the market growth rates with 15%/14%/12% revenue growth in 2022-24F supported by market share gains in high-value (high-voltage and specific-purpose cables) products, high exposure to the faster-growth B2G segment, and rising contribution from exports at 20% in 2025F (12% in 2021).

### Margin expansion continues

We expect STARK's gross margin to increase to 24% in 2024F (from 20% in 2021). We see its more favorable product mix as the key driver. Demand in Thailand is stronger for high-voltage (230kV-500kV) and underground cables for dense power use in major cities. In Vietnam, as the only local producer, STARK is gaining 230kV cable segment share from importers. We are not worried about rising raw material costs since STARK has proven its cost pass-through ability despite copper and aluminum prices surging by over 20% and 50% during the past 12 months.

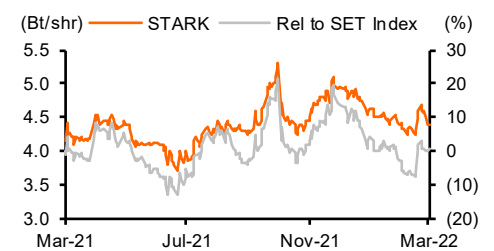
### Upside from new products

STARK is developing specialized cable products to capture new market segments and boost margins, leveraging on its long track record and relationships with clients. Two key highlights are submarine cables (island connections in Thailand and offshore wind farms in Vietnam) and high-voltage DC cables (new transmission system trend) to hit the market in 2023. STARK expects them to have double the margin of existing products. Floating cables are the new product for this year.

### COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	27,094	31,172	35,549	39,666
Net profit	2,783	3,264	4,304	5,348
Consensus NP	—	2,996	3,777	4,640
Diff frm cons (%)	—	8.9	13.9	15.3
Norm profit	2,611	3,264	4,304	5,348
Prev. Norm profit	—	2,996	3,777	4,640
Chg frm prev (%)	—	9.0	14.0	15.3
Norm EPS (Bt)	0.2	0.2	0.3	0.3
Norm EPS grw (%)	138.4	25.0	31.9	24.3
Norm PE (x)	26.6	21.3	16.2	13.0
EV/EBITDA (x)	17.6	14.4	11.4	9.0
P/BV (x)	10.7	7.8	6.1	3.8
Div yield (%)	0.0	2.3	3.1	3.8
ROE (%)	51.6	42.2	42.4	36.1
Net D/E (%)	198.1	131.8	104.2	37.5

### PRICE PERFORMANCE

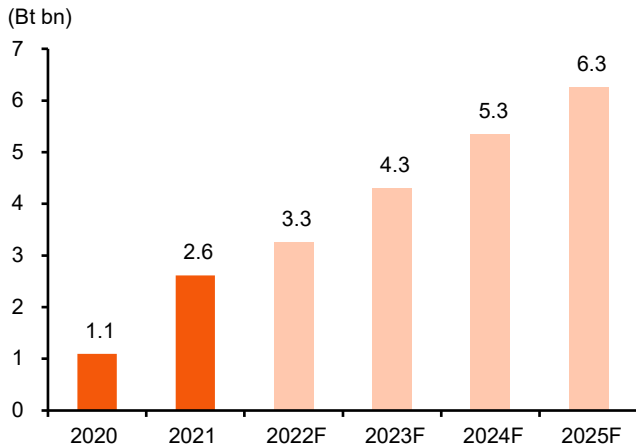


### COMPANY INFORMATION

Price as of 8-Mar-22 (Bt)	4.38
Market Cap (US\$ m)	1,571.9
Listed Shares (m shares)	11,906.4
Free Float (%)	28.8
Avg Daily Turnover (US\$ m)	9.2
12M Price H/L (Bt)	5.30/3.72
Sector	Industrial Materials & Machinery
Major Shareholder	K.Vonnarat Tangkaravakoon
	48.7%

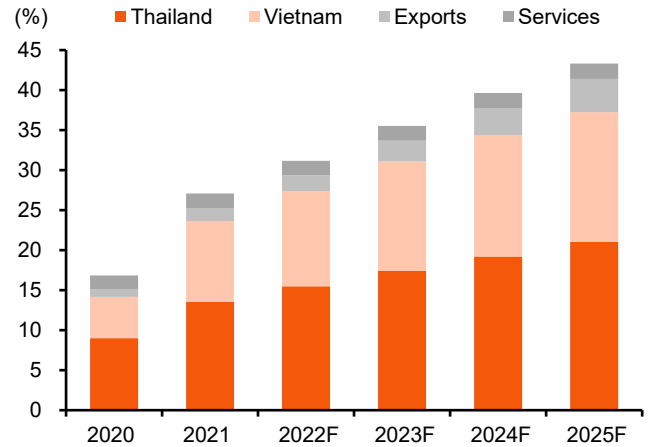
Sources: Bloomberg, Company data, Thanachart estimates

**Ex 1: Strong Pace Of Earnings Growth**



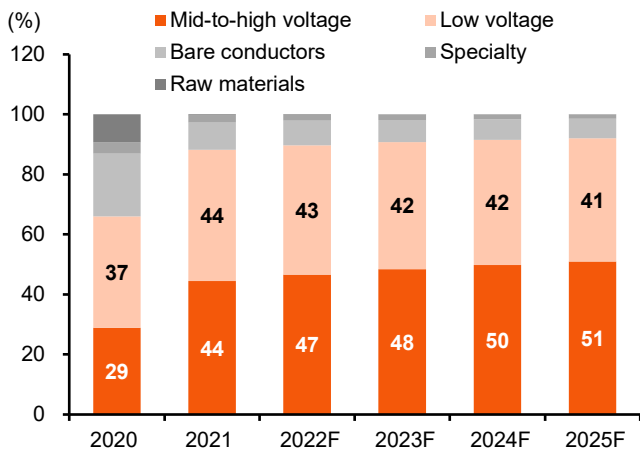
Sources: Company data, Thanachart estimates

**Ex 2: High Cable Demand In Three Main Markets**



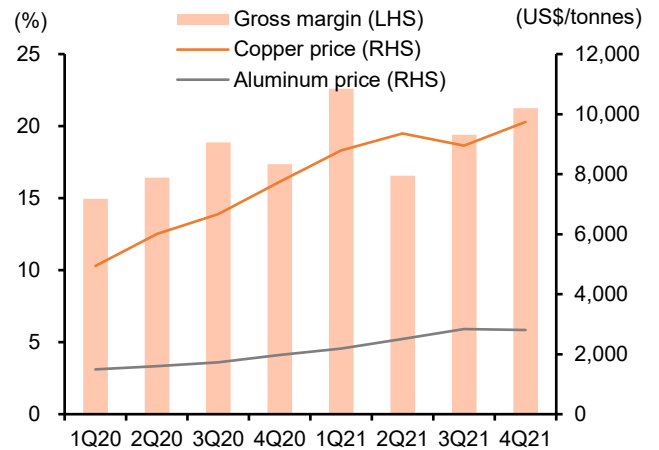
Sources: Company data, Thanachart estimates

**Ex 3: Increasing Mix Of High-Margin Products**



Sources: Company data, Thanachart estimates

**Ex 4: Proven Ability To Pass On Raw Material Costs**



Source: Company data

**Ex 5: Key Assumption Changes**

	2020A	2021A	2022F	2023F	2024F
<b>Normalized profit (Bt m)</b>					
- New	1,095	2,611	3,264	4,304	5,348
- Old			2,996	3,777	4,640
- Change (%)			9.0	14.0	15.3
<b>Revenue (Bt bn)</b>					
- New	16.9	27.1	31.2	35.5	39.7
- Old			27.6	31.2	34.3
- Change (%)			13.1	13.9	15.7
<b>Gross margin (%)</b>					
- New	17.7	19.9	21.3	23.1	24.1
- Old			22.5	23.6	24.4
- Change (pp)			(1.1)	(0.4)	(0.3)

Sources: Company data, Thanachart estimates

**Ex 6: 12-month DCF-based TP Calculation Using A Base Year Of 2022F**

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
EBITDA (excl. depre from right of use)	7,165	8,492	9,625	10,606	11,432	12,130	12,696	13,130	13,578	14,042	14,521	7,165	—
Free cash flow	2,150	23,385	4,819	5,999	7,008	8,018	8,531	8,921	9,240	9,570	9,911	2,150	152,038
PV of free cash flow	1,853	18,704	3,577	4,134	4,371	4,622	4,546	4,394	4,207	4,027	3,661	1,853	56,163
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	0.9												
WACC (%)	7.7												
Terminal growth (%)	2.0												
Enterprise value - add investments	114,696												
Net debt (2021)	13,060												
Minority interest	87												
Equity value	101,550												
# of shares *	15,875												
<b>Equity value/share (Bt)</b>	<b>6.40</b>												

Sources: Company data, Thanachart estimates

Note: \* We use the number of fully diluted shares in our DCF calculation, assuming all of its STARK-W1 warrants are exercised in 2024F.

## Valuation Comparison

## Ex 7: Comparison With Regional Peers

Name	BBG code	Country	EPS growth		— PE —		— P/BV —		—EV/EBITDA—		— Div yield —	
			22F (%)	23F (%)	22F (x)	23F (x)	22F (x)	23F (x)	22F (x)	23F (x)	22F (%)	23F (%)
Nexans SA	NEX FP	France	27.8	18.3	16.0	13.5	2.2	1.9	6.6	5.9	1.4	1.6
nVent Electric PLC	NVT US	Britain	34.0	6.8	15.0	14.0	2.1	2.0	12.3	11.3	2.3	2.4
TE Connectivity Ltd	TEL US	Switzerland	5.2	11.4	17.7	15.9	3.6	3.2	12.0	11.1	1.6	1.6
Huber + Suhner AG	HUBN SW	Switzerland	(8.7)	5.3	20.8	19.7	2.4	2.3	11.3	10.7	2.3	2.4
Topsec Technologies Group	002212 CH	China	109.3	35.3	18.6	13.8	1.5	1.3	18.7	13.7	0.5	0.7
Yangtze Optical Fibre & Cabl	601869 CH	China	67.5	12.6	24.5	21.8	2.1	1.9	12.2	10.6	1.2	0.9
Interlink Telecom PCL	ITEL TB	Thailand	(8.7)	14.3	26.4	23.1	2.3	2.4	13.6	11.4	1.9	2.3
Stark Corporation *	STARK TB	Thailand	25.0	31.9	21.3	16.2	7.8	6.1	14.4	11.4	2.3	3.1
<b>Average</b>			<b>31.4</b>	<b>17.0</b>	<b>20.0</b>	<b>17.2</b>	<b>3.0</b>	<b>2.6</b>	<b>12.6</b>	<b>10.8</b>	<b>1.7</b>	<b>1.9</b>

Sources: Bloomberg, \* Thanachart estimates

Based on 8 Mar 2022 closing prices

## COMPANY DESCRIPTION

Stark Corporation Pcl (STARK) is a holding company with subsidiaries that are major wire and cable manufacturers with more than 50 years of industry experience in Thailand and Vietnam. Its total production capacity is the largest in ASEAN and it is ranked 14<sup>th</sup> globally. STARK also runs service businesses of providing manpower, logistics, and warehouse rentals to clients in the oil and gas industry.

Source: Thanachart

## THANACHART'S SWOT ANALYSIS

### S — Strength

- Good reputation and track record in home-based markets
- Strong purchasing power with its suppliers and scale benefits over peers as it is now the largest cable producer in ASEAN

### O — Opportunity

- Opportunities to export more products, and leverage on scale advantages, low labor wages, and tax privileges with various developing countries
- Potential to acquire more related businesses to strengthen its competitiveness and increase market share

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
<b>Target price (Bt)</b>	6.40	6.40	0%
<b>Net profit 22F (Bt m)</b>	2,996	3,264	9%
<b>Net profit 23F (Bt m)</b>	3,777	4,304	14%
<b>Consensus REC</b>	<b>BUY: 2</b>	<b>HOLD: 0</b>	<b>SELL: 0</b>

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings forecasts are 9% and 14% above the Bloomberg consensus estimates in 2022-23F, which we believe is due to us having higher assumption for STARK's margins.
- However, our TP is in line with the Street's.

Sources: Bloomberg consensus, Thanachart estimates

## COMPANY RATING



### Rating Scale

<b>Excellent</b>	<b>5</b>
<b>Good</b>	<b>4</b>
<b>Fair</b>	<b>3</b>
<b>Weak</b>	<b>2</b>
<b>Very Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

Source: Thanachart; \* CG Rating

### W — Weakness

- Relies on importing key raw materials, copper and aluminum, from abroad
- Relies on government spending on national infrastructure projects to grow sales

### T — Threat

- Cable manufacturing is a mature technology, so it is not difficult for new players with substantial capital to penetrate the market
- Changes to tax incentives and regulations to take part in biddings for infrastructure projects in each country

## RISKS TO OUR INVESTMENT CASE

- Slower-than-expected pace of infrastructure progress in Thailand and Vietnam, either from changes in government policy or delays to construction, would represent the key downside risk to our earnings forecasts.
- A slower-than-expected pace of its capacity expansion plan and ability to build new capacity represents a secondary downside risk to our numbers.
- Lower-than-expected demand for high-end products would represent another downside risk to its margins, and therefore our earnings projections.

Source: Thanachart

## INCOME STATEMENT

*Rising revenue driven by expanding transmission lines in home markets*

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	16,858	27,094	31,172	35,549	39,666
Cost of sales	13,869	21,700	24,518	27,332	30,098
<b>Gross profit</b>	<b>2,989</b>	<b>5,393</b>	<b>6,654</b>	<b>8,218</b>	<b>9,568</b>
% gross margin	17.7%	19.9%	21.3%	23.1%	24.1%
Selling & administration expenses	866	1,129	1,462	1,573	1,662
<b>Operating profit</b>	<b>2,123</b>	<b>4,264</b>	<b>5,192</b>	<b>6,645</b>	<b>7,906</b>
% operating margin	12.6%	15.7%	16.7%	18.7%	19.9%
Depreciation & amortization	363	430	466	525	571
<b>EBITDA</b>	<b>2,486</b>	<b>4,695</b>	<b>5,658</b>	<b>7,170</b>	<b>8,477</b>
% EBITDA margin	14.7%	17.3%	18.2%	20.2%	21.4%
Non-operating income	60	36	28	28	31
Non-operating expenses	0	0	0	0	0
Interest expense	(660)	(943)	(1,018)	(1,063)	(876)
<b>Pre-tax profit</b>	<b>1,523</b>	<b>3,357</b>	<b>4,203</b>	<b>5,610</b>	<b>7,061</b>
Income tax	419	734	925	1,290	1,695
<b>After-tax profit</b>	<b>1,104</b>	<b>2,623</b>	<b>3,278</b>	<b>4,320</b>	<b>5,366</b>
% net margin	6.5%	9.7%	10.5%	12.2%	13.5%
Shares in affiliates' Earnings	1	(0)	0	0	0
Minority interests	(10)	(12)	(14)	(16)	(18)
Extraordinary items	513	172	0	0	0
<b>NET PROFIT</b>	<b>1,609</b>	<b>2,783</b>	<b>3,264</b>	<b>4,304</b>	<b>5,348</b>
<b>Normalized profit</b>	<b>1,095</b>	<b>2,611</b>	<b>3,264</b>	<b>4,304</b>	<b>5,348</b>
EPS (Bt)	0.1	0.2	0.2	0.3	0.3
Normalized EPS (Bt)	0.1	0.2	0.2	0.3	0.3

## BALANCE SHEET

*Declining gearing after completing its acquisitions in 2020*

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
<b>ASSETS:</b>					
Current assets:	16,331	27,962	30,766	34,636	38,334
Cash & cash equivalent	1,214	1,029	1,000	1,000	1,000
Account receivables	6,042	15,571	17,081	19,479	21,735
Inventories	8,618	10,487	12,091	13,479	14,843
Others	457	875	594	678	756
Investments & loans	344	329	329	329	329
Net fixed assets	4,417	4,413	5,969	7,249	8,163
Other assets	6,266	6,438	5,435	5,015	4,613
<b>Total assets</b>	<b>27,358</b>	<b>39,142</b>	<b>42,500</b>	<b>47,229</b>	<b>51,439</b>
<b>LIABILITIES:</b>					
Current liabilities:	19,649	23,548	25,801	27,496	27,287
Account payables	10,248	17,093	18,137	20,218	22,264
Bank overdraft & ST loans	7,761	4,030	3,881	3,239	1,977
Current LT debt	1,057	1,711	2,716	2,915	1,779
Others current liabilities	583	714	1,067	1,123	1,267
<b>Total LT debt</b>	<b>3,310</b>	<b>8,347</b>	<b>6,338</b>	<b>6,803</b>	<b>4,151</b>
Others LT liabilities	723	655	1,308	1,449	1,598
<b>Total liabilities</b>	<b>23,682</b>	<b>32,551</b>	<b>33,447</b>	<b>35,748</b>	<b>33,036</b>
Minority interest	55	87	101	116	134
Preferreds shares	0	0	0	0	0
Paid-up capital	11,906	11,906	11,906	11,906	15,875
Share premium	(10,542)	(10,542)	(10,542)	(10,542)	(10,542)
Warrants	0	0	0	0	0
Surplus	(591)	(493)	(493)	(493)	(493)
<b>Retained earnings</b>	<b>2,847</b>	<b>5,633</b>	<b>8,081</b>	<b>10,493</b>	<b>13,429</b>
Shareholders' equity	3,621	6,505	8,953	11,365	18,269
<b>Liabilities &amp; equity</b>	<b>27,358</b>	<b>39,142</b>	<b>42,500</b>	<b>47,229</b>	<b>51,439</b>

Sources: Company data, Thanachart estimates

## CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	1,523	3,357	4,203	5,610	7,061
Tax paid	(205)	(1,013)	(666)	(1,401)	(1,595)
Depreciation & amortization	363	430	466	525	571
Chg In working capital	(2,064)	(4,553)	(2,070)	(1,705)	(1,574)
Chg In other CA & CL / minorities	74	168	17	84	(34)
<b>Cash flow from operations</b>	<b>(310)</b>	<b>(1,611)</b>	<b>1,950</b>	<b>3,113</b>	<b>4,429</b>
Capex	(2,126)	(381)	(2,000)	(1,800)	(1,500)
Right of use	(789)	(31)	(50)	(50)	(50)
ST loans & investments	(179)	(149)	358	0	0
LT loans & investments	(44)	15	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(4,339)	324	1,683	607	616
<b>Cash flow from investments</b>	<b>(7,476)</b>	<b>(221)</b>	<b>(9)</b>	<b>(1,243)</b>	<b>(934)</b>
Debt financing	7,825	1,546	(1,154)	22	(5,051)
Capital increase	(432)	0	(0)	0	3,969
Dividends paid	0	0	(816)	(1,892)	(2,413)
Warrants & other surplus	176	101	0	0	0
<b>Cash flow from financing</b>	<b>7,569</b>	<b>1,647</b>	<b>(1,970)</b>	<b>(1,870)</b>	<b>(3,495)</b>
<b>Free cash flow</b>	<b>(2,435)</b>	<b>(1,992)</b>	<b>(50)</b>	<b>1,313</b>	<b>2,929</b>

Spending capex to resolve bottleneck issues and expand capacity

## VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	63.5	26.6	21.3	16.2	13.0
Normalized PE - at target price (x)	92.8	38.9	31.1	23.6	19.0
PE (x)	43.2	25.0	21.3	16.2	13.0
PE - at target price (x)	63.2	36.5	31.1	23.6	19.0
EV/EBITDA (x)	32.4	17.6	14.4	11.4	9.0
EV/EBITDA - at target price (x)	45.3	24.4	20.1	15.8	12.8
P/BV (x)	19.2	10.7	7.8	6.1	3.8
P/BV - at target price (x)	28.1	15.6	11.3	8.9	5.6
P/CFO (x)	(224.5)	(43.2)	35.7	22.3	15.7
Price/sales (x)	3.1	1.9	1.7	1.5	1.3
Dividend yield (%)	0.0	0.0	2.3	3.1	3.8
FCF Yield (%)	(3.5)	(2.9)	(0.1)	1.9	4.2
<b>(Bt)</b>					
Normalized EPS	0.1	0.2	0.2	0.3	0.3
EPS	0.1	0.2	0.2	0.3	0.3
DPS	0.0	0.0	0.1	0.1	0.2
BV/share	0.2	0.4	0.6	0.7	1.2
CFO/share	(0.0)	(0.1)	0.1	0.2	0.3
FCF/share	(0.2)	(0.1)	(0.0)	0.1	0.2

Sources: Company data, Thanachart estimates

## FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
<b>Growth Rate</b>					
Sales (%)	46.2	60.7	15.1	14.0	11.6
Net profit (%)	1,198.1	73.0	17.3	31.9	24.3
EPS (%)	1,198.1	73.0	17.3	31.9	24.3
Normalized profit (%)	629.2	138.4	25.0	31.9	24.3
Normalized EPS (%)	629.2	138.4	25.0	31.9	24.3
Dividend payout ratio (%)	0.0	0.0	50.0	50.0	50.0
<b>Operating performance</b>					
Gross margin (%)	17.7	19.9	21.3	23.1	24.1
Operating margin (%)	12.6	15.7	16.7	18.7	19.9
EBITDA margin (%)	14.7	17.3	18.2	20.2	21.4
Net margin (%)	6.5	9.7	10.5	12.2	13.5
D/E (incl. minor) (x)	3.3	2.1	1.4	1.1	0.4
Net D/E (incl. minor) (x)	3.0	2.0	1.3	1.0	0.4
Interest coverage - EBIT (x)	3.2	4.5	5.1	6.3	9.0
Interest coverage - EBITDA (x)	3.8	5.0	5.6	6.7	9.7
ROA - using norm profit (%)	5.5	7.9	8.0	9.6	10.8
ROE - using norm profit (%)	37.2	51.6	42.2	42.4	36.1
<b>DuPont</b>					
ROE - using after tax profit (%)	37.5	51.8	42.4	42.5	36.2
- asset turnover (x)	0.8	0.8	0.8	0.8	0.8
- operating margin (%)	12.9	15.9	16.7	18.8	20.0
- leverage (x)	6.8	6.6	5.3	4.4	3.3
- interest burden (%)	69.8	78.1	80.5	84.1	89.0
- tax burden (%)	72.5	78.1	78.0	77.0	76.0
WACC (%)	7.7	7.7	7.7	7.7	7.7
ROIC (%)	26.6	22.9	20.7	24.5	25.8
NOPAT (Bt m)	1,539	3,332	4,050	5,117	6,009
invested capital (Bt m)	14,534	19,564	20,888	23,322	25,176

Sources: Company data, Thanachart estimates



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