

COMPANY UPDATE

Sri Trang Agro-Industry (STA TB)

2020 Earnings To Improve yoy

We believe 2020 earnings would improve yoy thanks to: a) higher selling volume of both natural rubber and gloves, b) a slight increase in gross margins of both products, and c) very weak results in 2019. Maintain BUY. Target price: Bt13.60.

WHAT'S NEW

- 2020 earnings would improve yoy.** Management is targeting 2020 sales volume of natural rubber at 1.4m-1.5m tonnes, up 28% yoy. This is due to STA gaining new customers on the back of some big rubber manufacturers in Thailand that went bankrupt in 1H19, as well as Chongqing General Trading Chemical Co., the largest commodity trading firm in western China, ceasing operations since late-Sep 19. In addition, STA's 2020 gross margin is expected to be better yoy due to less volatility of natural rubber price as the largest commodity trading firm in western China had exited the industry. Management believes that that average price of SICOM: TSR20 in 2020 would be 130-140 US cents/kg, about same as current price. STA's 2020 glove sales volume target is set at 28,000m pieces, up from 21,000m pieces in 2019 on the back of capacity expansion. We believe 2020 earnings would see a yoy turnaround.
- Losses in 2019.** Key drags are: a) huge Bt628m loss in 1Q19 due to loss from hedging transaction and poor performance in natural rubber business, b) selling volume of natural rubber dropped about 20% yoy as exports to China dropped due to the US-China trade war, c) gross margins of both natural rubber and glove businesses declined yoy due to the forex impact as well as high volatility of raw material price. We project 2019 loss at Bt122m.

STOCK IMPACT

- 3Q19 earnings were weaker than expected.** 3Q19 earnings came in at Bt135m, tumbling 73% yoy and 50% qoq owing to weaker gross margin. The earnings were significantly below our expectation due to slimmer gross margin. 3Q19 sales slipped 18% yoy because of lower selling volume of natural rubber (-20% yoy) as a result of the US-China trade war, lower glove ASP, as well as the impact of currency volatility. Note that 3Q19 selling volume of gloves increased 13% yoy and 11% qoq. 3Q19 gross margin was only 6%, down both yoy and qoq due to the forex impact and mark-to-market loss as natural rubber price at the end of 3Q19 declined significantly qoq (SICOM: TSR20 at the end of Sep 19 was 128 US cents/kg.). Note that 3Q19 gross margin of glove was 14%, down from 15% in 2Q19. 3Q19 cost-to-income ratio was 7%, down slightly both yoy and qoq.

KEY FINANCIALS

Year to 31 Dec (Btm)	2017	2018	2019F	2020F	2021F
Net turnover	89,387	73,493	63,743	76,528	87,262
EBITDA	(230)	4,243	2,739	4,549	5,130
Operating profit	(2,083)	1,860	294	1,766	2,425
Net profit (rep./act.)	(1,436)	2,064	(122)	782	1,269
Net profit (adj.)	(3,195)	1,076	(473)	754	1,180
EPS (Bt)	(2.1)	0.7	(0.3)	0.5	0.8
PE (x)	n.m.	14.6	n.m.	20.8	13.3
P/B (x)	0.7	0.6	0.6	0.6	0.6
EV/EBITDA (x)	n.m.	10.0	15.5	9.3	8.3
Dividend yield (%)	0.0	6.3	0.0	1.7	2.8
Net margin (%)	(1.6)	2.8	(0.2)	1.0	1.5
Net debt/(cash) to equity (%)	131.1	90.2	104.8	107.7	111.3
Interest cover (x)	(0.2)	4.8	3.1	4.8	4.7
ROE (%)	n.a.	8.7	n.a.	3.2	5.0
Consensus net profit	-	-	1,120	1,183	1,365
UOBKH/Consensus (x)	-	-	n.m.	0.64	0.86

Source: Sri Trang Agro-Industry, Bloomberg, UOB Kay Hian

n.m.: not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	Bt10.20
Target Price	Bt13.60
Upside	+33.3%
(Previous TP)	Bt14.00

COMPANY DESCRIPTION

Produces and exports of natural rubber. Its products include natural rubber, ribbed smoked sheets (RSS), block rubber (TSR), concentrated latex. Its other businesses include the production and distribution of finished products.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	STA TB
Shares issued (m):	1,536.0
Market cap (Btm):	15,667.2
Market cap (US\$m):	518.7
3-mth avg daily t'over (US\$m):	1.6

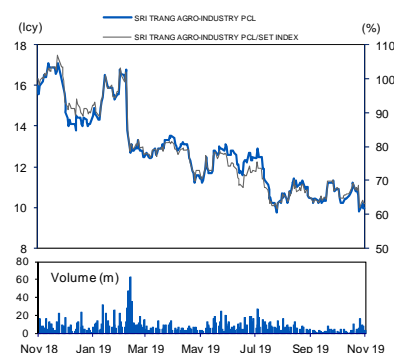
Price Performance (%)

52-week high/low	Bt17.10/Bt9.75
1mth	(5.6)
3mth	(1.0)
6mth	(12.1)
1yr	(37.0)
YTD	(27.7)

Major Shareholders

Major Shareholders	%
Sri Trang Holdings	19.0
Dr. Viyavood Sincharoenkul	13.0
FY19 NAV/Share (Bt)	15.73
FY19 Net Debt/Share (Bt)	16.49

PRICE CHART



Source: Bloomberg

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3Q19 RESULTS

Year to 31 Dec (Btm)	3Q18	2Q19	3Q19	yoy % chg	qoq % chg	Remarks
Sales	18,755.0	15,151.1	15,383.7	-18	2	
Gross profit	1,993.1	1,453.1	969.7	-51	-33	
SG&A expense	(1,338.8)	(1,120.1)	(1,081.0)	-19	-3	
Other income	249.7	255.3	485.6	94	90	
EBIT	904.1	588.3	374.3	-59	-36	
Net profit	501.5	270.1	135.1	-73	-50	
Ratio (%)						
Gross margins	10.6	9.6	6.3			Gross margin dropped from FX impacted and marked to market inventory loss
EBITDA margins	13.9	12.0	14.5			
Net margins	2.7	1.8	0.9			
DE-x	104.5	108.8	107.2			

Source: UOB Kay Hian

EARNINGS REVISION/RISK

- We revise down our 2019-20 earnings forecasts as shown in the table below. Our revisions are made on the back of weaker-than-expected 3Q19 results as well as our more cautious view on 2020 gross margin.

EARNINGS REVISION

STA	2016	2017	2018	-----2019F-----		-----2020F-----	
				Old	New	Old	New
Net profit (Btm)	(758.0)	(1,436.1)	2,064.3	291.0	(122.0)	999.0	782.1
%changed				NM	NM	0.0	(21.7)
%YoY	(167.8)	NM	NM	NM	NM	243.3	(741.1)
Norm profit (Btm)	(215)	(3,195)	1,076	353	(473)	1,037	754
%changed				NM	NM	0.0	(27.2)
%YoY	NM	NM	NM	NM	NM	193.5	(259.4)
Gross margin (%)	7.0	4.2	9.7	9.7	7.8	10.7	9.3
Sales growth (%)	26.1	15.7	(17.8)	(21.7)	(13.3)	17.3	20.1

Source: UOB Kay Hian

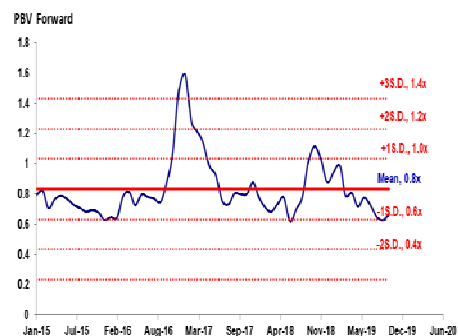
VALUATION/RECOMMENDATION

- We maintain BUY with a new target at Bt13.60, pegged at 0.8X 2020F P/B which is its 5-year mean.

SHARE PRICE CATALYST

- A rise in global glove demand.

STA P/B BAND CHART



Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Net turnover	73,493	63,743	76,528	87,262
EBITDA	4,243	2,739	4,549	5,130
Deprec. & amort.	2,384	2,446	2,783	2,705
EBIT	1,860	294	1,766	2,425
Total other non-operating income	1,191	491	137	216
Associate contributions	224	117	129	141
Net interest income/(expense)	(887)	(884)	(952)	(1,092)
Pre-tax profit	2,387	17	1,080	1,691
Tax	(241)	(60)	(216)	(338)
Minorities	(82)	(79)	(82)	(84)
Net profit	2,064	(122)	782	1,269
Net profit (adj.)	1,076	(473)	754	1,180

BALANCE SHEET

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Fixed assets	24,456	27,832	27,049	26,344
Other LT assets	7,453	7,936	7,761	8,175
Cash/ST investment	4,197	1,999	1,259	1,635
Other current assets	19,642	19,768	22,346	26,042
Total assets	55,748	57,535	58,414	62,195
ST debt	17,686	17,883	18,583	20,883
Other current liabilities	3,086	3,265	3,016	3,430
LT debt	8,799	9,445	9,445	9,445
Other LT liabilities	1,077	1,442	1,169	1,324
Shareholders' equity	24,705	24,166	24,867	25,779
Minority interest	395	1,333	1,333	1,333
Total liabilities & equity	55,748	57,535	58,414	62,195

CASH FLOW

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Operating	10,728	1,066	640	433
Pre-tax profit	2,387	17	1,080	1,691
Deprec. & amort.	2,384	2,446	2,783	2,705
Working capital changes	6,479	(453)	(2,055)	(2,533)
Other operating cashflows	(521)	(944)	(1,167)	(1,430)
Investing	(2,571)	(3,500)	(2,000)	(2,000)
Capex (growth)	(2,786)	(3,500)	(2,000)	(2,000)
Others	214	0.0	0.0	0.0
Financing	(6,035)	236	619	1,944
Dividend payments	(392)	(607)	(81)	(356)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(5,584)	843	700	2,300
Others/interest paid	(59)	0.0	0.0	0.0
Net cash inflow (outflow)	2,122	(2,199)	(740)	377
Beginning cash & cash equivalent	2,242	4,197	1,999	1,259
Changes due to forex impact	(167)	n.a.	n.a.	n.a.
Ending cash & cash equivalent	4,197	1,999	1,259	1,635

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	5.8	4.3	5.9	5.9
Pre-tax margin	3.2	0.0	1.4	1.9
Net margin	2.8	(0.2)	1.0	1.5
ROA	3.6	n.a.	1.3	2.1
ROE	8.7	n.a.	3.2	5.0
Growth				
Turnover	(17.8)	(13.3)	20.1	14.0
EBITDA	n.a.	(35.4)	66.1	12.8
Pre-tax profit	n.a.	(99.3)	6,072.7	56.6
Net profit	n.a.	(105.9)	n.a.	62.2
Net profit (adj.)	n.a.	(144.0)	n.a.	56.4
EPS	n.a.	(144.0)	n.a.	56.4
Leverage				
Debt to total capital	51.3	51.7	51.7	52.8
Debt to equity	107.2	113.1	112.7	117.6
Net debt/(cash) to equity	90.2	104.8	107.7	111.3
Interest cover (x)	4.8	3.1	4.8	4.7

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