

Where the rubber meets the growth

- Growths of capacity, EUDR, and US sales are key drivers
- Rising FCF and NP on ending capex cycle, rising volume & margin
- Initiated with BUY and a TP of THB18.7

More sustainable profit post capacity, EUDR, US sales growths

STA's quarterly revenues and net profits had moved in a highly volatile trajectory in 2023-24, mainly due to the suboptimal utilization rates and the mismatching selling price (4-month lag) and costs (moving average). However, we think the volatility of STA's profitability is soon ending in 2025, given its capacity expansion will reach its target capacity of 4.14mtpa in 2026E and demand growths will accelerate on EUDR and rising tire demands. We project STA's net profit to rise from a loss of THB434m in 2023 to THB1.4b in 2024, THB2.5b in 2025E, and THB3.5b in 2026E, catalyzed by 1) higher sales volumes; 2) EUDR sales; and 3) US sales growth.

Capacity expansion now soon reaches 4.14mtpa in 2026E

We think STA will start to materially gain the benefit of its aggressive capacity expansion in 2025E-26E given the fixed cost of depreciation and SG&A will begin to decline as sales volume grows. In 2023-24 STA's sales volumes had dropped due to the lower NR supply in Thailand caused by severe droughts. We estimate that STA needs at least 45% utilization rate to reach its breakeven points. Unfortunately, in certain quarters, sales volume was below its breakeven points.

20% EUDR sales volume remains a key upside in 2026E

We expect EUDR natural rubber (NR) price to command a premium of THB5/kg over non-EUDR NR price, thereby generating THB0.4b-0.5b additional revenue a quarter to STA. Given the additional revenue with little cost, we think STA could earn higher net profit of THB1.5b annually on top of the normal margins for the non-EUDR NR sales. STA sells around 20% of its NR volume to European market and plans to sell around 80kt-100kt EUDR NR a quarter at 20% of total NR sales volumes once EUDR is enforced at the end of 2025.

US sales growth ahead

Starting 1 Jan-25, the US Trade Representative will raise its import tariff from 7.5% to 50% on the imported medical- and exam-grade nitrile disposable gloves from China and to 100% starting 1 Jan-26. We believe STA will benefit from tariff hikes on Chinese medical and surgical nitrile gloves given STGT (a subsidiary of STA, which holds a 50.61% stake) could sell both nitrile and NR gloves with comparable quality to substitute Chinese tariff-hike nitrile gloves.

Initiated with a BUY and a TP of THB18.7

We initiated coverage on STA with a BUY and a TP of THB18.7, based on 2025E P/E of 16x. We think STA's valuation premium is justified by its 1) large market cap and high liquidity; 2) leading position as one of the world largest NR providers; 3) earnings upsides from EUDR and US import tariff; and 4) end of capex cycle to free up FCF.

Analyst

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ESG Rating : AAA

CG Rating : ▲▲▲▲▲

BUY

Target Price 12M (THB)	18.70
VS. BB Consensus TP (%)	-17.7%
Share Price (THB)	16.80
Upside/Downside	+11.3%

Share Data

Market Cap (THB m)	25,804.80
Par (THB)	1.00
Free Float (%)	55.51
Issued shares (m shares)	1,536

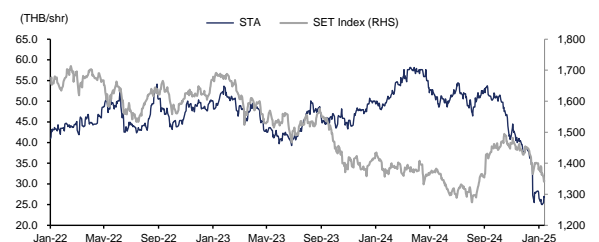
Financial forecast

YE Dec (THB m)	2023	2024E	2025E	2026E
Revenue	84,245	127,129	148,209	161,092
Net profit	(434)	1,411	2,560	3,587
Core net profit	(434)	1,411	2,560	3,587
vs Consensus (%)	-	(33.5)	(2.9)	24.3
Net profit growth (%)	(109.1)	424.8	81.5	40.1
Core net profit growth (%)	(109.1)	424.8	81.5	40.1
EPS (THB)	(0.14)	0.46	0.83	1.17
Core EPS (THB)	(0.14)	0.46	0.83	1.17
Chg in core EPS (%)	-	123.82	29.91	25.18
DPS (THB)	0.50	0.23	0.42	0.58
P/E (x)	(47.38)	36.59	20.16	14.39
P/BV (x)	0.41	1.03	0.99	0.95
ROE (%)	(0.85)	2.80	5.00	6.72
Dividend yield (%)	7.46	1.37	2.48	3.48

Source: Financial Statement and Globlex securities

Share Price Performance (%)

	1M	3M	6M	YTD
Stock	(2.33)	(17.65)	(13.85)	(7.18)
Market	1.68	(8.16)	(15.19)	(3.06)
12M High/Low (THB)	25.75 / 15.30			



Major Shareholders (%) as of 19 Apr 2024

Sri Trang Holding Co., Ltd	22.38
Dr. Vijavood Sincharoenkul	8.66

Company Profile

The Company operates a fully integrated natural rubber supply chain business in many countries. The business starts from upstream business by engaging in rubber plantation in Thailand, midstream business by processing and distributing natural rubber products which are TSR, RSS, and Concentrated Latex, and downstream business to produce and distribute gloves as well as finished goods namely hydraulic hoses.

Source: SETSMART, SET

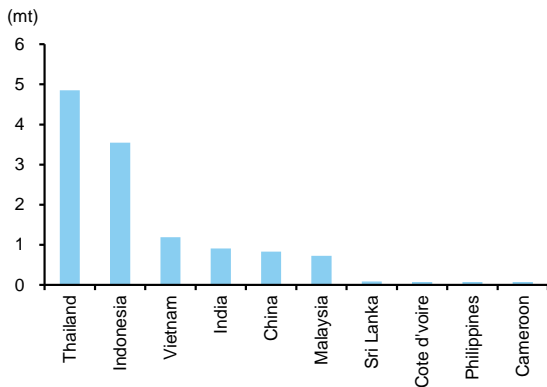
It's time to relook Thai rubber giant

Awakening Thai rubber giant

STA is Thailand's largest and one of the largest global players in natural rubber and glove businesses, with a NR capacity of 3.85mtpa. (see Exhibit1) After the windfall profits in 2020-22 of THB5.0b-THB15.9b on the strong demands from the Covid-19 pandemic, STA has seen its net profit normalize down THB1.0b-THB3.0ba annually. Yet rather than remains complacent with 2.8mtpa capacity, management decided to aggressively expand its capacity from 2.8mtpa in 2021 to current 3.85mtpa in 2024 and will further increase to 4.14mtpa in 2025E. Why?

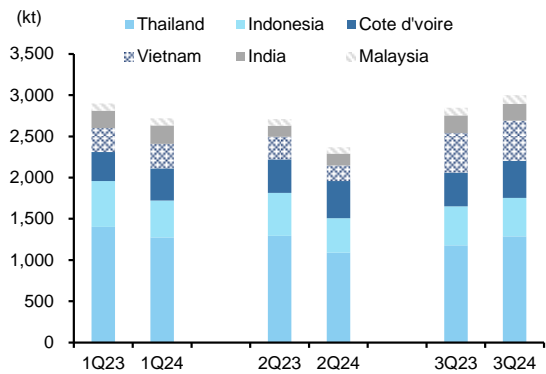
Management cited that Thailand is now a global dominant NR producer with total production of 4-5mtpa, accounting for over 1/3 of global supply. Given Indonesia and Vietnam, the 2nd and 3rd largest NR producers, are now shifting their plantations away from NR to other produces, particularly palm (Indonesia) and durian (Vietnam), Thailand is now expected to become the sole dominant NR producer globally by 2026E. (see Exhibit2)

Exhibit 1: Global natural rubber producers (2023)



Sources: International Rubber Study Group

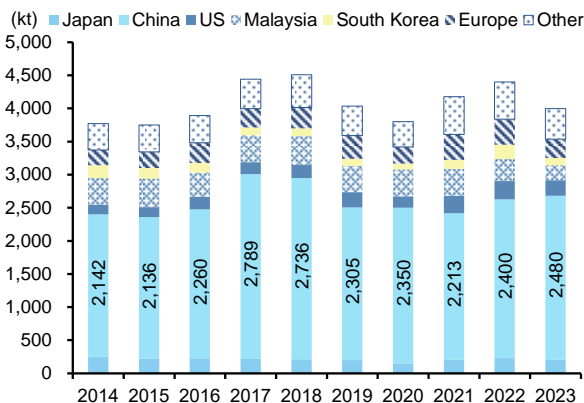
Exhibit 2: ASEAN natural rubber producers



Sources: International Rubber Study Group

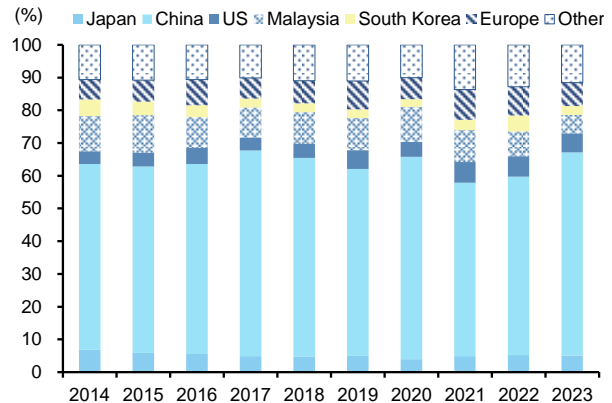
STA hence plans to fully leverage on Thailand's large NR plantations, planning to grow its capacity to 4.14mtpa in 2026E in order to create strong bargaining power against both the buyers and competitors. As a result, STA has grown its capacity aggressively while the utilization rates remain suboptimal due to the demand-supply imbalances. On demand side, China is Thailand's largest market for NR exports, accounting for, followed by Europe and Malaysia. STA is the key exporter of NR to European market, and hence is poised to benefit from EUDR enforcement in 2026. (see Exhibit3-4)

Exhibit 3: Natural rubber demand breakdown by country



Sources: International Rubber Study Group

Exhibit 4: Natural rubber demand breakdown by country (%)



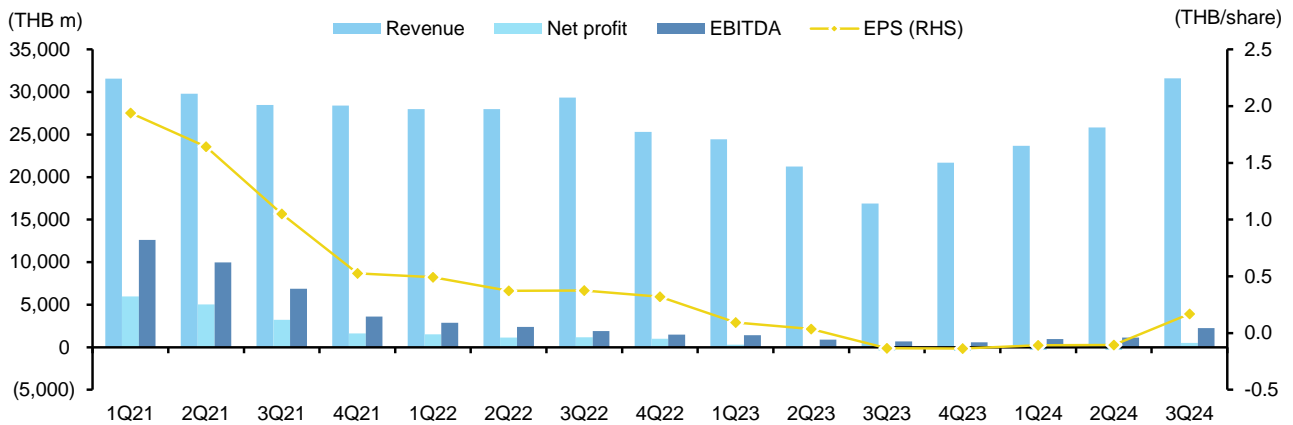
Sources: International Rubber Study Group

Closer to optimal utilization rate in 2025E-26E

STA has seen its quarterly revenues and net profits moving in a highly volatile trajectory in 2023-24, mainly due to the suboptimal utilization rates and the mismatching selling price (4-month lag) and costs (moving average) that resulted in flip-flopping profitability.

We think the volatility of STA's profitability is now coming to the end in 2025, given its capacity expansion will reach its target capacity of 4.14mtpa in 2026E and demand growths will accelerate on EUDR and rising tire demands.

Exhibit 5: Quarterly revenue, net profit, EBITDA, and EPS



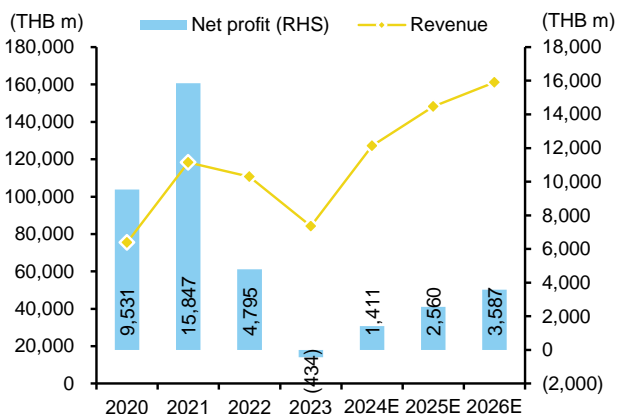
Sources: STA

We project STA's net profit to rise from a loss of THB434m in 2023 to THB1.4b in 2024, THB2.5b in 2025E, and THB3.5b in 2026E, catalyzed by 1) higher sales volumes; 2) EUDR sales; and 3) US sales growth.

Driver#1: Capacity growth

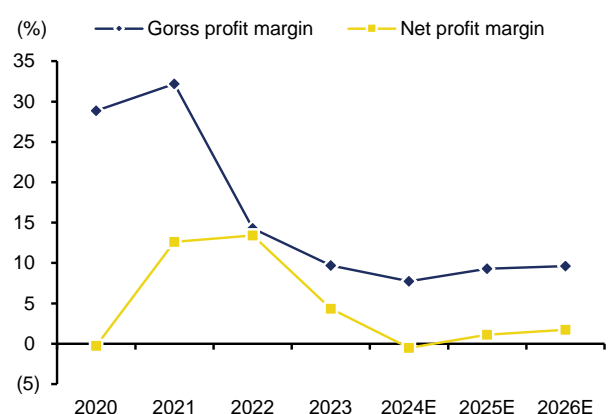
We think STA will start to materially gain the benefit of its aggressive capacity expansion in 2025E-26E given the fixed cost of depreciation and SG&A will begin to decline as sales volume grows. In 2023-24 STA's sales volumes had dropped due to the lower NR supply in Thailand caused by severe droughts. We estimate that STA needs at least 45% utilization rate to reach its breakeven points. Unfortunately, in certain quarters, sales volume was below its breakeven points. (see Exhibit8)

Exhibit 6: Net profit and revenue



Sources: STA; Globlex Research

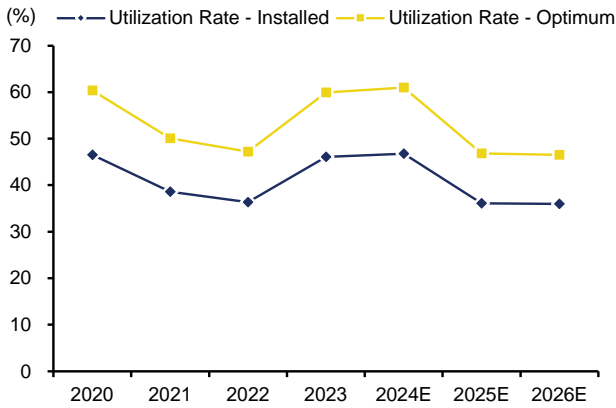
Exhibit 7: Gross margin and net profit margin



Sources: STA; Globlex Research

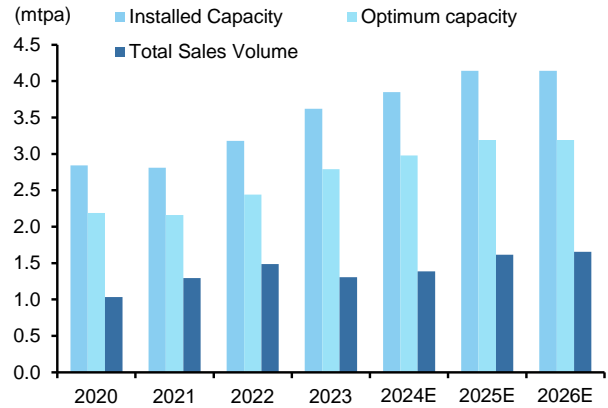
While we do not anticipate STA's utilization rate to improve meaningfully in 2025E-2026E as demand will need time to catch up with STA's aggressive capacity expansion in 2023-25E, we think the higher sales volumes will enable STA to gradually capture the benefits of the economies of scales and leverage on its fixed cost structure, leading to improving margins.

Exhibit 8: Utilization rates – Installed, Optimum capacities



Sources: STA; Globlex Research

Exhibit 9: Capacities – installed, optimum, and total sales volume

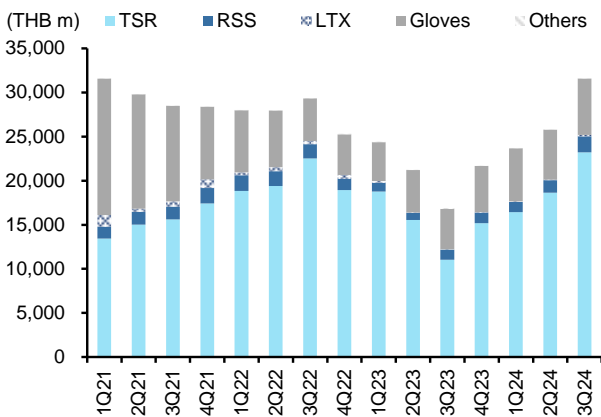


Sources: STA; Globlex Research

Driver#2: EUDR sales growths

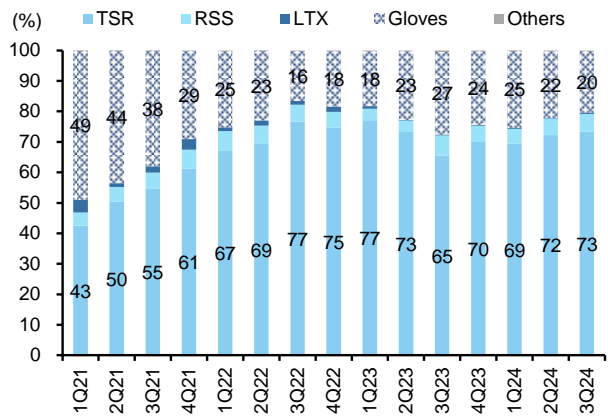
STA is a major NR supplier for EU Deforestation Regulation (EUDR), which essentially requires suppliers to prove that their NR will comply with EUDR, thereby generating premium prices over non-EUDR NR in the range of THB5-10/kg. After a one-year delay, EUDR's enforcement will now apply beginning 30 December 2025 for the large multinational corporations and 30 June 2026 for Small and Medium Enterprises (SMEs).

Exhibit 10: Revenue breakdown by rubber products



Sources: STA

Exhibit 11: Revenue breakdown by rubber products (%)

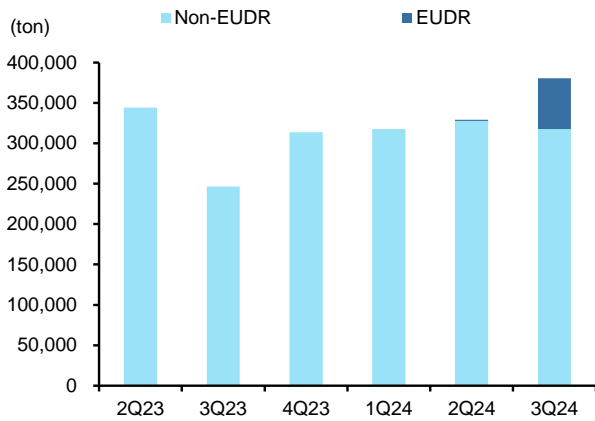


Sources: STA

STA sells around 20% of its NR volume to European market. Hence, STA plans to sell around 80kt-100kt EUDR NR a quarter at 20% of total NR sales volumes once EUDR is enforced at the end of 2025. (see Exhibit12-13)

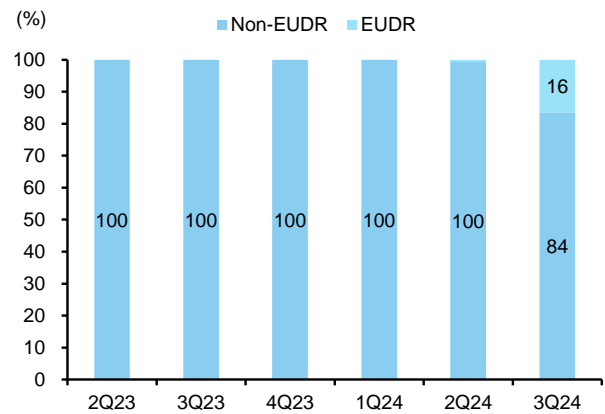
We expect EUDR NR price to command a premium of THB5/kg over non-EUDR NR price, thereby generating THB400m-500m additional revenue a quarter to STA. Given the additional revenue with little cost, we think STA could earn higher net profit of THB1.5b annually on top of the normal margins for the non-EUDR NR sales.

Exhibit 12: EUDR and non-EUDR sales volume



Sources: STA

Exhibit 13: EUDR and non-EUDR sales volume (%)

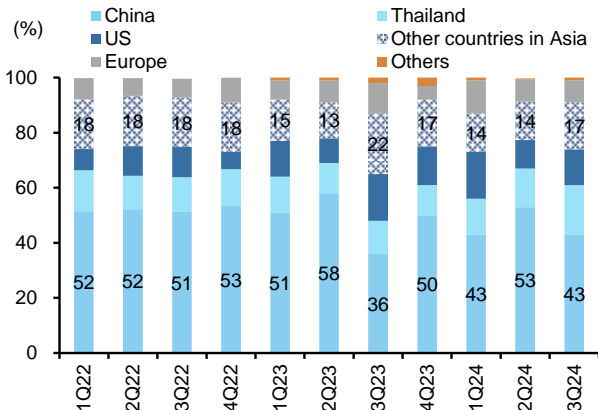


Sources: STA

Driver#3: US sales growths

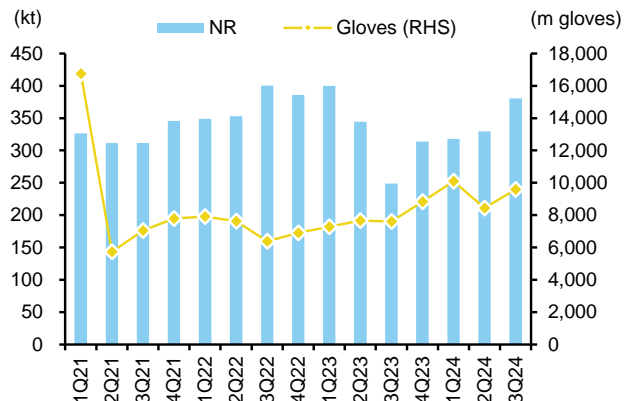
STA is a major NR supplier for US market, both for NR and gloves via its subsidiary STGT. Starting 1 January 2025, the US Trade Representative will raise its import tariff from 7.5% to 50% on medical- and exam-grade nitrile disposable gloves and to 100% starting 1 January 2026.

Exhibit 14: Revenue breakdown by country



Sources: STA

Exhibit 15: Sales volumes – NR and gloves



Sources: STA

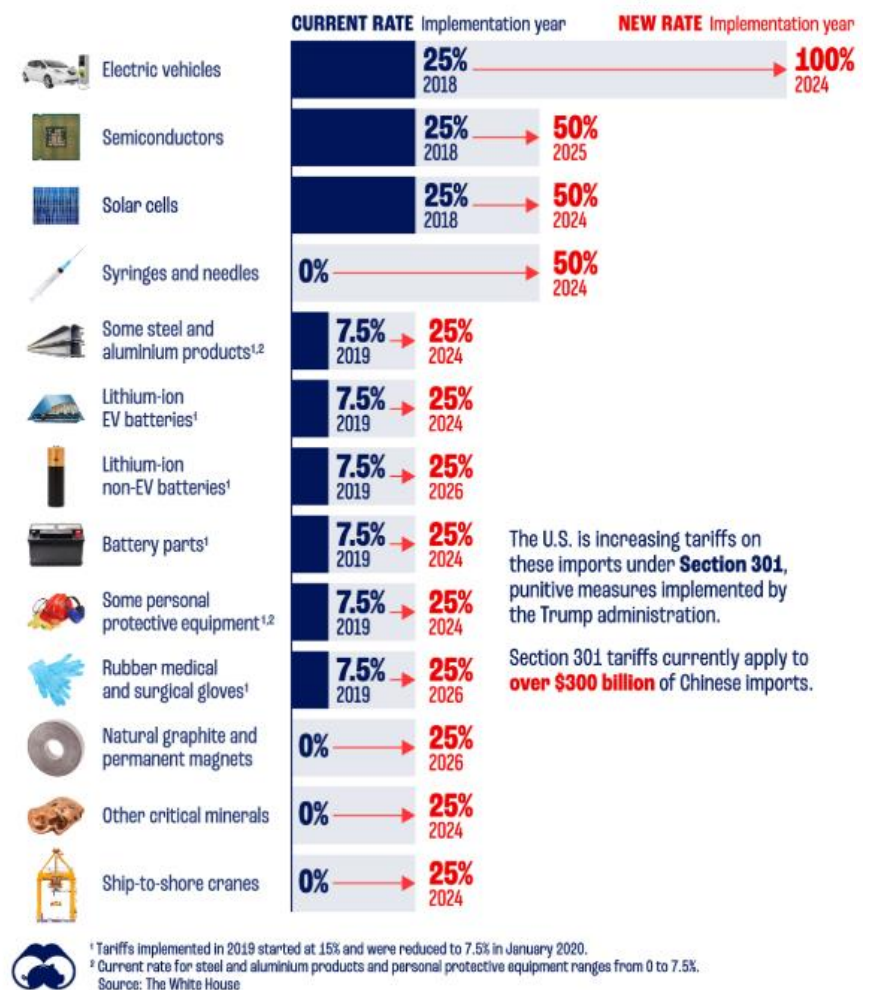
In May 2024, US president Joe Biden introduced a new series of tariff increases on Chinese imports, amounting to over USD18b worth of goods, citing to counter China’s unfair trade practice.

The US directed many of its new tariff increases on the Chinese EV industry, targeting imports such as semiconductors, lithium-ion batteries, and other battery parts. Notably, tariffs on EVs from China were bumped to 100% and new tariffs on certain critical minerals, which are essential for manufacturing battery parts and semiconductors, were introduced.

Medical-related products, such as medical and surgical gloves and certain personal protective equipment like face masks were also impacted by the new tariff increases. Some of these items were previously granted exclusions from Section 301 tariffs due to COVID-19. Syringes and needles, which were previously not subjected to any tariffs, were also hit with a new 50% tariff.

We believe STA will indirectly benefit from the tariff hikes on Chinese medical and surgical nitrile gloves given STGT could sell both nitrile and NR gloves with comparable quality to substitute the nitrile medical and surgical gloves. (see Exhibit16)

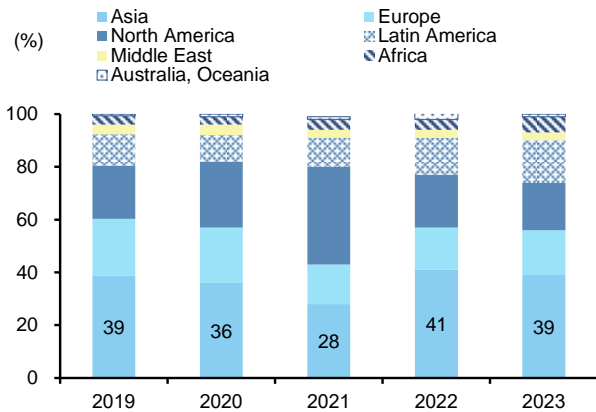
Exhibit 16: US import tariff increases on China’s products



Sources: The White House

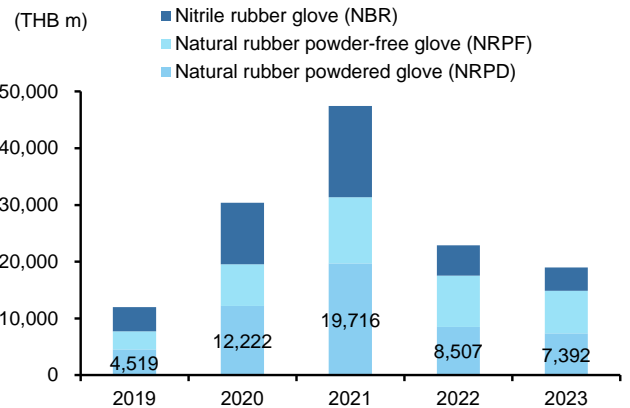
We estimate that STA could gain up to THB1.0b-THB1.5b annually, considering that 1) STGT has around 20% of its revenue from North America market worth THB4.0b a year and generated 25% of its revenue worth THB5.0b a year from nitrile gloves in 9M24. Hence, we assume that STGT could sell additional 5%-7% revenue from both nitrile and NR gloves that could substitute China's medical and surgical gloves.

Exhibit 17: STGT's revenue breakdown by regions



Sources: STGT

Exhibit 18: STGT's revenue breakdown by glove products

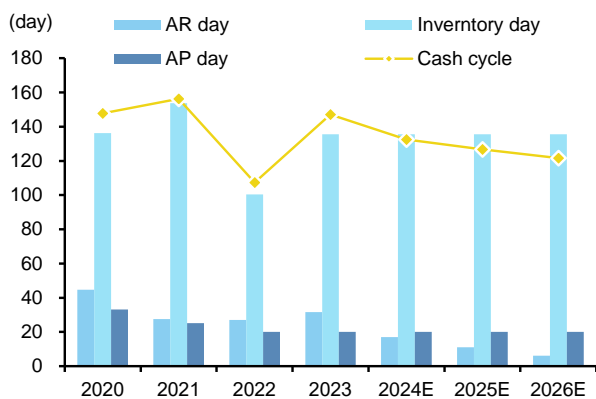


Sources: STGT

Strong balance sheet despite aggressive expansions. Thanks to STA's hefty cash generations during 2020-22, STA has ample ability to expand its capacity aggressively in the past 3 years without seeing any concerns on debt. STA's net debt to equity currently stands at 0.9x as of 2024E and we project net debt to equity to flatten at sub-1.0x in 2025E-26E. (see Exhibit20)

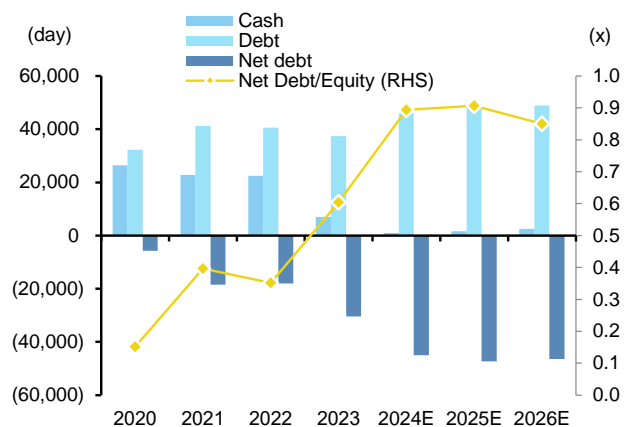
Cash cycle remains at 120-130 days. Thanks to dwindling inventory days, STA's cash cycle has stayed relatively stable in the range of 120-130 days thanks to the declining Account Receivable (AR) day from 30 days in 2023 to below 20 days in 2024E-26E, Account Payable (AP) days at 20 days and inventory day at 130 days. (see Exhibit19)

Exhibit 19: Cash cycle



Sources: STA; Globlex Research

Exhibit 20: Cash and debt



Sources: STA; Globlex Research

Initiate with BUY and a TP of THB18.7

We initiated coverage on STA with a BUY and a TP of THB18.7, based on 2025E P/E of 16x. We think STA's valuation premium is justified by 1) STA's large market cap and high liquidity; 2) STA's leading position as one of the world largest NR providers; 3) STA has more earnings upsides from EUDR and US import tariff; and 4) STA is now approaching the end of its aggressive capex cycle given the capacity of 3.85mtpa in 2024E will have to rise only marginally to 4.15mtpa to 2026E.

Exhibit 21: TP based on P/E Valuation

Prospective P/E (x)		11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0
2025E EPS (THB/shr)	0.83	9.2	10.0	10.8	11.7	12.5	13.3	14.2	15.0	15.8	16.7
2026E EPS (THB/shr)	1.17	12.8	14.0	15.2	16.3	17.5	18.7	19.8	21.0	22.2	23.4

Sources: STA; Globlex Research

Balance sheet (THB m)					
Year ending Dec	2022	2023	2024E	2025E	2026E
Current assets					
Cash & ST investment	22,500	6,986	958	1,589	2,530
Account receivable	8,192	7,293	5,936	4,355	2,635
Inventories	25,261	26,959	42,281	48,594	52,688
Others	3,210	7,114	10,736	12,516	13,604
Non-current assets					
Net fixed assets	50,432	52,696	52,240	51,641	50,902
Others	7,488	10,689	10,689	10,689	10,689
Total Assets	117,084	111,737	122,839	129,384	133,047
Current liabilities					
Account payable	5,058	3,979	6,240	7,172	7,776
ST borrowing	9,045	10,305	10,305	10,305	10,305
Others	360	482	727	847	921
Long-term liabilities					
Long-term debts	31,515	27,115	35,615	38,615	38,615
Others	1,919	1,711	1,711	1,711	1,711
Total liabilities	47,897	43,591	54,598	58,650	59,328
Paid-up capital	1,536	1,536	1,536	1,536	1,536
Retained earnings	27,284	25,536	25,411	27,265	29,572
Others	22,569	23,268	23,326	23,384	23,442
Minority interest	17,798	17,806	17,969	18,548	19,169
Shareholders' equity	69,186	68,146	68,241	70,734	73,719

Key ratios					
Year ending Dec	2022	2023	2024E	2025E	2026E
Growth (y-y%)					
Sales	(6.4)	(23.9)	50.9	16.6	8.7
Operating profit	(73.9)	(58.4)	58.0	43.7	14.5
EBITDA	(81.6)	(98.2)	2,113.3	105.6	22.8
Net profit	(69.7)	(109.1)	424.8	81.5	40.1
Core net profit	(69.7)	(109.1)	424.8	81.5	40.1
EPS	(69.7)	(109.1)	424.8	81.5	40.1
Core EPS	(69.7)	(109.1)	424.8	81.5	40.1
Profitability (%)					
Gross margin	17.1	13.8	10.4	11.7	11.9
Operation margin	7.8	4.3	4.5	5.5	5.8
EBITDA margin	5.0	0.1	1.7	3.1	3.5
Net margin	4.3	(0.5)	1.1	1.7	2.2
ROE	9.8	(0.9)	2.8	5.0	6.7
ROA	4.1	(0.4)	1.2	2.0	2.7
Stability					
Interest bearing debt/equity (x)	0.6	0.5	0.7	0.7	0.7
Net debt/equity (x)	0.3	0.4	0.7	0.7	0.6
Interest coverage (x)	7.1	2.5	4.1	5.2	5.8
Interest & ST debt coverage (x)	0.8	0.3	0.5	0.7	0.8
Cash flow interest coverage (x)	0.3	(0.1)	(0.2)	(0.0)	0.1
Current ratio (x)	4.1	3.3	3.5	3.7	3.8
Quick ratio (x)	2.1	1.0	0.4	0.3	0.3
Net debt (THB m)	18,060	30,433	44,962	47,330	46,390
Activity					
Asset turnover (X)	1.0	0.7	1.1	1.2	1.2
Days receivables	28.3	33.5	19.0	12.7	7.9
Days inventory	115.0	131.3	111.0	126.7	130.3
Days payable	20.6	22.7	16.4	18.7	19.2
Cash cycle days	122.6	142.1	113.6	120.7	119.0

Profit & loss (THB m)					
Year ending Dec	2022	2023	2024E	2025E	2026E
Revenue					
Revenue	110,657	84,245	127,129	148,209	161,092
Cost of goods sold	(91,781)	(72,596)	(113,854)	(130,854)	(141,878)
Gross profit	18,876	11,649	13,275	17,355	19,214
Operating expenses	(10,248)	(8,063)	(7,611)	(9,217)	(9,898)
Operating profit	8,628	3,586	5,665	8,139	9,315
EBIT	8,628	3,586	5,665	8,139	9,315
Depreciation	(3,070)	(3,486)	(3,456)	(3,598)	(3,740)
EBITDA	5,558	100	2,208	4,541	5,575
Non-operating income					
Other incomes	805	337	431	431	431
Other non-op income	691	565	163	22	37
Non-operating expense	(1,222)	(1,422)	(1,375)	(1,565)	(1,614)
Interest expense	(1,222)	(1,422)	(1,375)	(1,565)	(1,614)
Other non-op expense	0	0	0	0	0
Equity income/(loss)	336	(107)	166	166	166
Pre-tax Profit	6,167	(527)	1,593	3,595	4,595
Extraordinary items					
Current taxation	(650)	71	(20)	(455)	(388)
Minorities	(723)	22	(163)	(580)	(620)
Net Profit	4,795	(434)	1,411	2,560	3,587
Core net profit	4,795	(434)	1,411	2,560	3,587
EPS (THB)	1.56	(0.14)	0.46	0.83	1.17
Core EPS (THB)	1.56	(0.14)	0.46	0.83	1.17

Cash flow (THB m)					
Year ending Dec	2022	2023	2024E	2025E	2026E
Operating cash flow					
Operating cash flow	13,848	(2,743)	(10,484)	(66)	3,837
Net profit	4,795	(434)	1,411	2,560	3,587
Depre. & amortization	3,070	3,486	3,456	3,598	3,740
Change in working capital	6,849	(5,660)	(15,080)	(5,459)	(2,785)
Others	(866)	(134)	(271)	(765)	(705)
Investment cash flow	(16,091)	(10,017)	(3,961)	(4,233)	(4,260)
Net CAPEX	(13,715)	(5,750)	(3,000)	(3,000)	(3,000)
Change in LT investment	236	(3,799)	0	0	0
Change in other assets	(2,612)	(468)	(961)	(1,233)	(1,260)
Free cash flow	(2,243)	(12,760)	(14,445)	(4,299)	(423)
Financing cash flow					
Financing cash flow	(13,271)	6,732	15,076	5,239	(2,107)
Change in share capital	(599)	8	221	638	678
Net change in debt	2,854	739	0	0	0
Dividend paid	(614)	(1,536)	(1,536)	(705)	(1,280)
Others	(14,912)	7,520	16,392	5,306	(1,505)
Net cash flow	(15,514)	(6,028)	631	940	(2,530)
Per share (THB)					
EPS	1.56	(0.14)	0.46	0.83	1.17
Core EPS	1.56	(0.14)	0.46	0.83	1.17
CFPS	2.80	0.99	1.64	2.19	2.59
BVPS	16.73	16.39	16.37	16.99	17.76
Sales/share	36.02	27.42	41.38	48.25	52.44
EBITDA/share	1.81	0.03	0.72	1.48	1.81
DPS	0.30	0.50	0.23	0.42	0.58
Valuation					
P/E (x)	6.41	(47.38)	36.59	20.16	14.39
P/BV (x)	0.60	0.41	1.03	0.99	0.95
Dividend yield (%)	3.00	7.46	1.37	2.48	3.48
Dividend payout ratio (%)	19	(354)	50	50	50

GENERAL DISCLAIMER

Analyst Certification

Siriluck Pinthusoonthorn, Register No. 119539, Globlex Securities Public Company Limited

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RECOMMENDATION STRUCTURE

Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as $(\text{target price}^* - \text{current price}) / \text{current price}$.

- BUY:** Expected return of 10% or more over the next 12 months.
HOLD: Expected return between -10% and 10% over the next 12 months.
REDUCE: Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Sector Recommendations

- Overweight:** The industry is expected to outperform the relevant primary market index over the next 12 months.
Neutral: The industry is expected to perform in line with the relevant primary market index over the next 12 months.
Underweight: The industry is expected to underperform the relevant primary market index over the next 12 months.

Country (Strategy) Recommendations

Overweight: Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral: Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight: Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.