

China Sunshine Chemical Holdings Ltd

Focus on volume growth



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SINGAPORE | MATERIALS | 4Q18 RESULTS

- 4Q18 revenue and net profit met our expectation.
- Expect 50% and 28% jump in IS and TBBS sales volume in FY19 but ASP to slip.
- The 5.5 SG cents annual dividend represents a 4.3% yield.
- Due to a softer ASP outlook which translates into a lower bottom line, we revise down our TP to S\$1.55 (previously S\$1.68) and maintain our BUY recommendation. Valuations are still attractive at 6x PE (with 1/3 of the market cap in cash).

Results at a glance

(RMB mn)	4Q18	4Q17	YoY (%)	Comments
Revenue	770	873	(12)	Decrease in overall ASP, offsetting the slight increase in sales volumes
Gross profit	249	291	(14)	Lower ASP
PBT	142	196	(27)	Higher overhead costs due to higher freight cost and incentive payments to sales personnel
PAT	109	132	(18)	In line with the above; lower income tax rate

Source: Company, PSR

Positives

+ New capacities commenced commercial production. Two expansion projects, namely 10,000-tonne Insoluble Sulphur (IS) production line and Phase I 10,000-tonne accelerator TBBS production line, started commercial production in Nov-18 and Jan-19 respectively. Accordingly, we expect to see a respective 50% and 28% jump in IS and TBBS sales volume. As of Jan-19, the total annual capacity of rubber accelerators, IS, and anti-oxidant arrived at 97,000 tonnes (FY18: 87,000 tonnes).

+ Dividend for FY18 at a record high. The company declared a final dividend of 5.5 SG cents for FY18, representing a 21% of payout of net profit which was reported an 88% YoY jump. Based on the last closing price of S\$1.26, the dividend yield is 4.3%.

Negatives

- ASP correction extended in 4Q18. As shown in Figure 1, the ASP of each product declined to a various extent. The overall ASP in 4Q18 decreased by 15% YoY and 8% QoQ to RMB19.1k/tonne due mainly to the drop in raw materials whose average price fell by 8.8% QoQ during the same period. Hence, the price spread between end products and raw material was holding up in 4Q18, see Figure 2. Accordingly, the company's GPM decreased slightly by 4ppt to 32.3% in 4Q18.

Figure 1: Sales volume and ASP breakdown

Sales volume

(mn tonnes)	4Q18	4Q17	YoY (%)	3Q18	QoQ (%)
Accelerators	20,961	21,722	-3.5	20,824	0.7
Insoluble Sulphur	6,725	6,010	11.9	6,150	9.3
Anti-oxidant	11,850	10,665	11.1	9,906	19.6

Average selling price

(RMB/tonne)	4Q18	4Q17	YoY (%)	3Q18	QoQ (%)
Accelerators	24,693	27,511	-10.2	26,162	-5.6
Insoluble Sulphur	10,721	11,414	-6.1	11,333	-5.4
Anti-oxidant	13,932	18,012	-22.6	15,072	-7.6

Source: Company PSR

4 March 2019

BUY (Maintained)

CLOSING PRICE	SGD 1.260
FORECAST DIV	SGD 0.045
TARGET PRICE	SGD 1.550
TOTAL RETURN	26.6%

COMPANY DATA

Bloomberg Code:	CSSC SP
O/S SHARES (MN):	491
MARKET CAP (USD mn / SGD mn):	457 / 619
52 - WK HI/LO (SGD):	1.65 / 0.91
3M Average Daily T/O (mn):	0.98

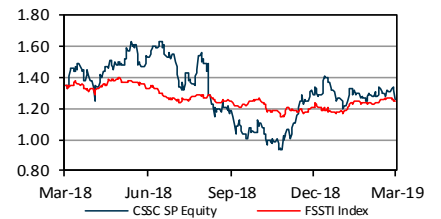
MAJOR SHAREHOLDERS (%)

SUCCESS MORE GROUP	59.8%
DIMENSIONAL FUND ADVISORS LP	1.4%
KOH CHOON KONG	0.9%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(2.3)	(2.3)	(5.8)
STI RETURN	1.1	3.6	(5.0)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, RMB mn	FY17	FY18	FY19e	FY20e
Revenue	2,738	3,283	3,284	3,602
Gross profit	788	1,126	1,034	1,117
PAT	341	641	538	575
P/E (x)	6.2	4.9	5.7	5.3
P/B (x)	1.2	1.3	1.1	1.0
ROE	20%	28%	20%	18%
ROA	16%	23%	17%	16%

Source: PSR

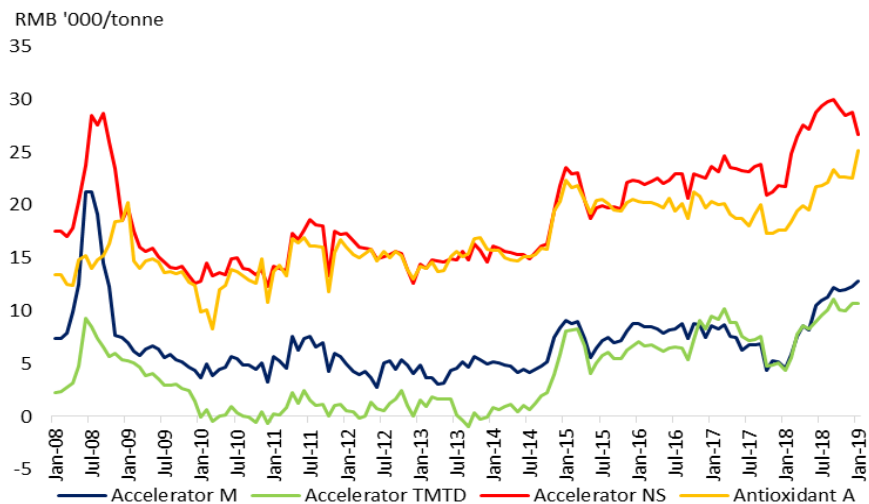
VALUATION METHOD

FCFE (Cost of Equity: 10.0%; Terminal g: 0.5%)

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Figure 2: Price spread (accelerator/antioxidant and aniline)



Source: CEIC, PSR

Outlook

The ASP of rubber chemicals and the cost of underlying raw materials will continue to normalise in 2019, reverting to a level that both up- and down-stream players are more comfortable. On the hand, the crude oil prices are expected to recover back to US\$60/bbl to US\$70/bbl which supports chemical raw materials prices. We believe that the GPM could correct due to the increase in the market supply of products that are driven by lower prices. Meanwhile, the company has another 20,000 tonnes of TBBS production line to be established by the end of 2019. Hence, we can still look forward to the volume growth until 2020. As of Dec-18, the company had over RMB1bn (S\$200mn) cash in hand which represented around one-third of the current market capitalisation. The business which generates steady positive free cash flow will remain healthy this year.

Maintain BUY with a lower TP of S\$1.55

Due to the expected softer ASP which translates into a lower bottom line, we revise down our TP to S\$1.55 (previously S\$1.68) and maintain our BUY recommendation.

Y/E, RMB mn	FY19e	FY20e	FY21e
Net income	538	575	550
Net capex	150	130	120
Change in net WC	2	30	73
Change in borrowing	-	-	-
FCFE	386	416	357
Beta	1.45		
Required rate of return	10.0%		
Growth	0.5%		
FX (SGD/RMB)	4.96		
TP (SGD)	1.55		

Source: PSR

Financials

Income Statement

Y/E Dec, RMB mn	FY16	FY17	FY18	FY19e	FY20e
Revenue	2,037	2,738	3,283	3,284	3,602
COGS	(1,497)	(1,950)	(2,157)	(2,249)	(2,485)
Gross profit	540	788	1,126	1,034	1,117
EBITDA	410	567	809	754	804
Depreciation & Amortisation	96	90	98	106	111
EBIT	314	477	712	648	693
Net Finance (Expense)/Inc	(4)	-	-	-	-
PBT	310	477	712	648	693
Taxation	(88)	(136)	(70)	(110)	(118)
PAT	222	341	641	538	575

Per share data

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS (RMB cents)	47.7	69.4	130.5	109.5	117.1
EPS (SG cents)	10.0	14.8	25.8	22.0	23.6
DPS (SG cents)	1.5	3.0	5.5	4.5	4.8
BVPS (RMB)	2.9	3.5	4.7	5.5	6.5
BVPS (SGD)	0.6	0.8	0.9	1.1	1.3

Cash Flow

Y/E Dec, RMB mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
PBT	310	477	712	648	693
Adjustments	103	92	76	102	107
WC changes	(124)	(83)	(2)	(30)	(30)
Cash generated from ops	412	569	787	750	800
Others	(85)	(100)	(84)	(110)	(118)
Cashflow from ops	327	469	703	640	682
CFI					
CAPEX, net	(82.0)	(208.9)	(129.5)	(150.0)	(130.0)
Others	2.4	3.7	4.2	4.4	4.6
Cashflow from investments	(80)	(205)	(125)	(146)	(125)
CFF					
Loans, net of repayments	(148)	-	-	-	-
Dividends	(33)	(47)	(59)	(134)	(110)
Others	(8)	96	6	-	-
Cashflow from financing	(189)	50	(52)	(134)	(110)
Net change in cash	59	314	525	360	446
Effects of exchange rate	-	(9)	16	-	-
Ending cash	274	496	1,035	1,365	1,781

Source: Company, PSR

Balance Sheet

Y/E Dec, RMB mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PP&E	549	662	691	728	748
Others	43	41	40	39	-
Total non-current assets	592	703	731	767	748
Cash	276	500	1,039	1,365	1,781
Inventories	145	212	217	233	249
Trade receivables	548	638	691	731	775
Others	82	75	70	66	68
Total current assets	1,051	1,425	2,016	2,395	2,872
Total Assets	1,642	2,128	2,747	3,162	3,620
LIABILITIES					
Trade payables	52	71	63	72	77
Borrowings	-	-	-	-	-
Others	229	314	359	376	401
Total current liabilities	281	385	422	448	478
Borrowings	-	-	-	-	-
Total non-current liabilities	-	-	-	-	-
Total Liabilities	281	385	422	448	478
Total Equity	1,362	1,742	2,326	2,714	3,180

Valuation Ratios

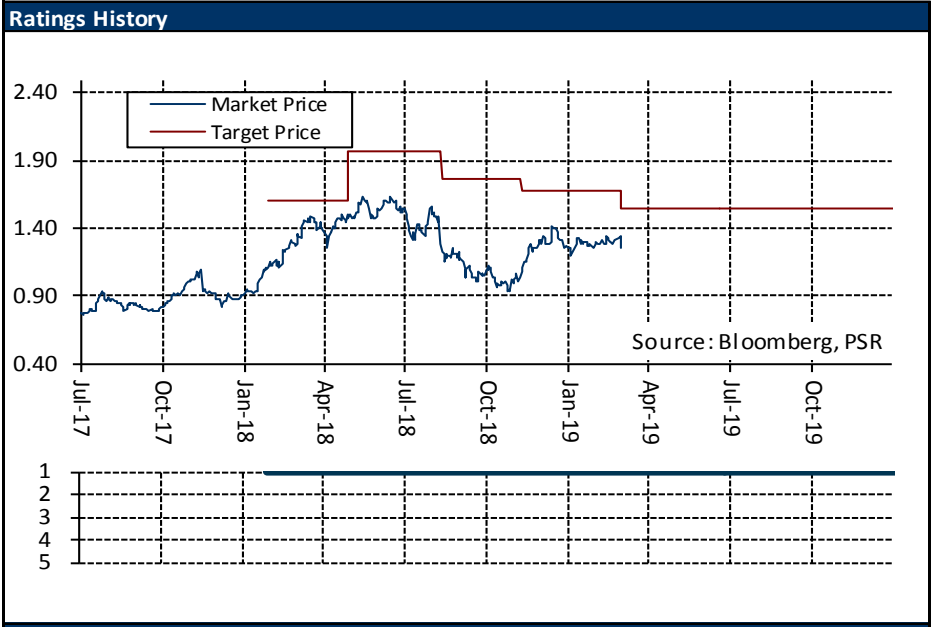
Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	5.0	6.2	4.9	5.7	5.3
P/B (x)	0.8	1.2	1.3	1.1	1.0
EV/EBITDA	2.1	2.8	2.6	2.3	1.6

Growth & Margins (%)

Growth					
Revenue	10%	46%	43%	-8%	8%
Gross profit	10%	46%	43%	-8%	8%
EBIT	5%	52%	49%	-9%	7%
PAT	14%	54%	88%	-16%	7%
Margins					
GP margin	27%	29%	34%	32%	31%
EBIT margin	15%	17%	22%	20%	19%
PAT margin	11%	12%	20%	16%	16%

Key Ratios

ROE	16%	20%	28%	20%	18%
ROA	13%	16%	23%	17%	16%
Net Debt or (Net Cash)	(276)	(500)	(1,039)	(1,365)	(1,781)
Gearing	Net cash	Net cash	Net cash	Net cash	Net cash



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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