

# China Sunshine Chemical Holdings Ltd

## Potential growth from pipeline projects



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### SINGAPORE | MATERIALS | 2Q19 RESULTS

- 2Q19 revenue and net profit met our expectation.
- Second record-high profit margin with a decent growth of volume (GPM and NPM: 34.7% and 21.4%). ASP yet to bottom.
- Capacity expansion projects in the pipeline: 20,000 tonnes Accelerator TBBS and 60,000 tonnes IS.
- We maintain FY19e and FY20e EPS at 21.0 SG cents and 22.0 SG cents respectively. Based on the same required rate of return of 10%, we maintain our BUY recommendation with an unchanged target price of S\$1.43.

#### Results at a glance

(RMB mn)	2Q19	2Q18	YoY (%)	Comments
Revenue	727	881	(17)	Decrease in overall ASP, offsetting the increase in sales volumes due partially to the ramp-up of capacity
Gross profit	252	324	(22)	Lower ASP
PBT	188	215	(13)	Reversal of management remuneration
PAT	156	240	(35)	Tax credit of RMB24.9mn in 2Q18

Source: Company, PSR

#### The Positive

+ **Second record-high profit margin with a decent growth of volume.** 2Q19 GPM and NPM arrived at 34.7% and 21.4%, compared to the record high of 36.7% and 27.2%\* in 2Q18 respectively (1Q19 GPM and NPM: 34.3% and 16.0%). Gross profit/tonne dropped 32.3% YoY or 4.5% QoQ to RMB5,886/tonne during the period, which was owing to the narrow spread between ASP and raw material (main: aniline) prices. The spread fell by 19.1% YoY and 10.2% QoQ to RMB11,400/tonne in 2Q19. The respective implied capacity utilisation rate of Accelerators, Insoluble Sulphur (IS), and Anti-oxidant arrived at 97.2%, 101.0%, and 104.0% in 2Q19. Therefore, the production lines were running full during the period.

\* Excluding the one-off tax credit of RMB48mn, the adjusted NPM was 21.8% in 2Q18.

#### Sales volume

(mn tonnes)	2Q19	2Q18	YoY (%)	1Q18	QoQ (%)
Accelerators	23,583	21,563	9.4	19,907	18.5
Insoluble Sulphur	7,577	6,672	13.6	6,212	22.0
Anti-oxidant	11,701	8,986	30.2	10,353	13.0

#### Average selling price

(RMB/tonne)	2Q19	2Q18	YoY (%)	1Q18	QoQ (%)
Accelerators	20,693	29,486	-29.8	29,387	-29.6
Insoluble Sulphur	9,252	11,706	-21.0	11,719	-21.1
Anti-oxidant	13,247	17,182	-22.9	17,995	-26.4

Source: Company, PSR

#### The Negative

- **ASP is yet bottomed.** The YoY plunge of performance in 2Q19 was due mainly to the phenomenally high ASP in 2Q18. The downtrend beginning in 3Q18 continued. However, the aniline price slightly recovered by 6% QoQ to RMB5,200/tonne during the period.

8 August 2019

#### BUY (Maintained)

CLOSING PRICE	SGD 1.080
FORECAST DIV	SGD 0.042
TARGET PRICE	SGD 1.430
TOTAL RETURN	36.3%

#### COMPANY DATA

Bloomberg Code:	CSSC SP
O/S SHARES (MN):	489
MARKET CAP (USD mn / SGD mn):	382 / 528
52 - WK HI/LO (SGD):	1.5 / 0.91
3M Average Daily T/O (mn):	0.36

#### MAJOR SHAREHOLDERS (%)

SUCCESS MORE GROUP	60.1%
DIMENSIONAL FUND ADVISORS LP	1.4%
KOH CHOON KONG	0.9%

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(5.3)	(4.1)	(22.0)
STI RETURN	(5.2)	(2.7)	0.6

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec, RMB mn	FY17	FY18	FY19e	FY20e
Revenue	2,738	3,283	3,058	3,184
Gross profit	788	1,126	978	1,019
PAT	341	641	516	540
P/E (x)	9.8	3.3	5.2	5.0
P/B (x)	1.9	0.9	1.0	0.9
ROE	20%	28%	19%	17%
ROA	16%	23%	17%	15%

Source: PSR

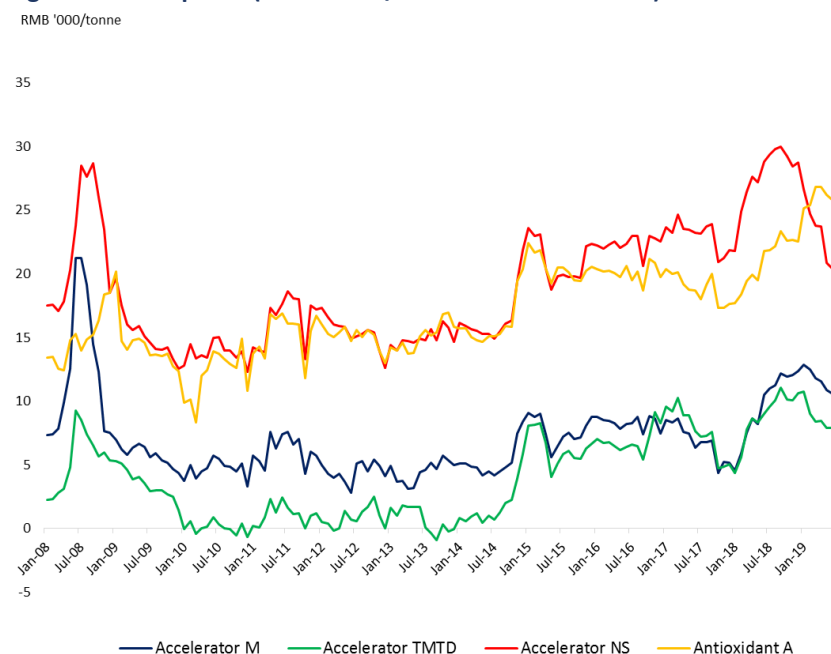
#### VALUATION METHOD

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

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**Figure 1: Price spread (accelerator/antioxidant and aniline)**

Source: CEIC, PSR

### Outlook

CSSC is experiencing a cyclical downturn in ASP after the peak in 2Q18. Nonetheless, the timely and visionary capacity expansion initiated before the price correction mitigates the price headwinds. The company manages to deliver a healthy performance owing to the established buffers, including the quality products, solid and long-term relationship with clients, and leading market position. Therefore, we believe the company will deliver more than 30% GPM and 16% NPM in 2019. The future growth still stems from the ramp-up of capacity, including 20,000 tonnes of Accelerator TBBS (scheduled in 2019/2020) and 60,000 tonnes of IS (under planning), and both can be internally funded. According to management, the rationale that choosing IS for the next production expansion is that 1) China still imports IS and 2) IS has the highest GPM (around 40%) among the category. In the next couple of years, we foresee that CSSC's performance will level up once the new production lines commence and ASP bottoms out.

### Maintain BUY with an unchanged TP of S\$1.43

We maintain FY19e and FY20e EPS at 21 SG cents and 22 SG cents respectively. Based on the same required rate of return of 10%, we maintain our BUY recommendation with an unchanged target price of S\$1.43.

Y/E, RMB mn	FY19e	FY20e	FY21e
Net income	516	540	516
Net capex	110	120	110
Change in net WC	2	130	73
Change in borrowing	-	-	-
FCFE	404	290	333
Beta	1.45		
Required rate of return	10.0%		
Growth	0.5%		
FX (SGD/RMB)	4.96		
TP (SGD)	1.43		

Source: PSR

## Financials

### Income Statement

Y/E Dec, RMB mn	FY16	FY17	FY18	FY19e	FY20e
Revenue	2,037	2,738	3,283	3,058	3,184
COGS	(1,497)	(1,950)	(2,157)	(2,079)	(2,165)
<b>Gross profit</b>	<b>540</b>	<b>788</b>	<b>1,126</b>	<b>978</b>	<b>1,019</b>
EBITDA	410	567	809	728	762
Depreciation & Amortisation	96	90	98	106	111
<b>EBIT</b>	<b>314</b>	<b>477</b>	<b>712</b>	<b>622</b>	<b>650</b>
Net Finance (Expense)/Inc	(4)	-	-	-	-
<b>PBT</b>	<b>310</b>	<b>477</b>	<b>712</b>	<b>622</b>	<b>650</b>
Taxation	(88)	(136)	(70)	(106)	(111)
<b>PAT</b>	<b>222</b>	<b>341</b>	<b>641</b>	<b>516</b>	<b>540</b>

### Per share data

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS (RMB cents)	47.7	69.4	130.5	105.0	109.8
EPS (SG cents)	10.0	11.0	32.9	20.6	21.5
DPS (SG cents)	1.5	3.0	5.5	4.2	4.4
BVPS (RMB)	2.9	3.5	4.7	5.5	6.3
BVPS (SGD)	0.6	0.6	1.2	1.1	1.2

### Cash Flow

Y/E Dec, RMB mn	FY16	FY17	FY18	FY19e	FY20e
<b>CFO</b>					
<b>PBT</b>	<b>310</b>	<b>477</b>	<b>712</b>	<b>622</b>	<b>650</b>
Adjustments	103	92	76	102	107
WC changes	(124)	(83)	(2)	(130)	(340)
<b>Cash generated from ops</b>	<b>412</b>	<b>569</b>	<b>787</b>	<b>724</b>	<b>757</b>
Others	(85)	(100)	(84)	(106)	(111)
<b>Cashflow from ops</b>	<b>327</b>	<b>469</b>	<b>703</b>	<b>618</b>	<b>646</b>
<b>CFI</b>					
CAPEX, net	(82.0)	(208.9)	(129.5)	(110.0)	(120.0)
Others	2.4	3.7	4.2	4.4	4.6
<b>Cashflow from investments</b>	<b>(80)</b>	<b>(205)</b>	<b>(125)</b>	<b>(106)</b>	<b>(115)</b>
<b>CFF</b>					
Loans, net of repayments	(148)	-	-	-	-
Dividends	(33)	(47)	(59)	(136)	(106)
Others	(8)	96	6	(15)	-
<b>Cashflow from financing</b>	<b>(189)</b>	<b>50</b>	<b>(52)</b>	<b>(150)</b>	<b>(106)</b>
<b>Net change in cash</b>	<b>59</b>	<b>314</b>	<b>525</b>	<b>362</b>	<b>425</b>
Effects of exchange rate	-	(9)	16	-	-
<b>Ending cash</b>	<b>274</b>	<b>496</b>	<b>1,035</b>	<b>1,267</b>	<b>1,352</b>

Source: Company, PSR

### Balance Sheet

Y/E Dec, RMB mn	FY16	FY17	FY18	FY19e	FY20e
<b>ASSETS</b>					
PP&E	549	662	691	688	698
Others	43	41	40	39	38
<b>Total non-current assets</b>	<b>592</b>	<b>703</b>	<b>731</b>	<b>727</b>	<b>736</b>
Cash	276	500	1,039	1,267	1,352
Inventories	145	212	217	386	689
Trade receivables	548	638	691	664	718
Others	82	75	70	66	68
<b>Total current assets</b>	<b>1,051</b>	<b>1,425</b>	<b>2,016</b>	<b>2,383</b>	<b>2,827</b>
<b>Total Assets</b>	<b>1,642</b>	<b>2,128</b>	<b>2,747</b>	<b>3,110</b>	<b>3,563</b>
<b>LIABILITIES</b>					
Trade payables	52	71	63	71	76
Borrowings	-	-	-	-	-
Others	229	314	359	353	366
<b>Total current liabilities</b>	<b>281</b>	<b>385</b>	<b>422</b>	<b>424</b>	<b>442</b>
Borrowings	-	-	-	-	-
<b>Total non-current liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>	<b>281</b>	<b>385</b>	<b>422</b>	<b>424</b>	<b>442</b>
<b>Total Equity</b>	<b>1,362</b>	<b>1,742</b>	<b>2,326</b>	<b>2,686</b>	<b>3,121</b>

### Valuation Ratios

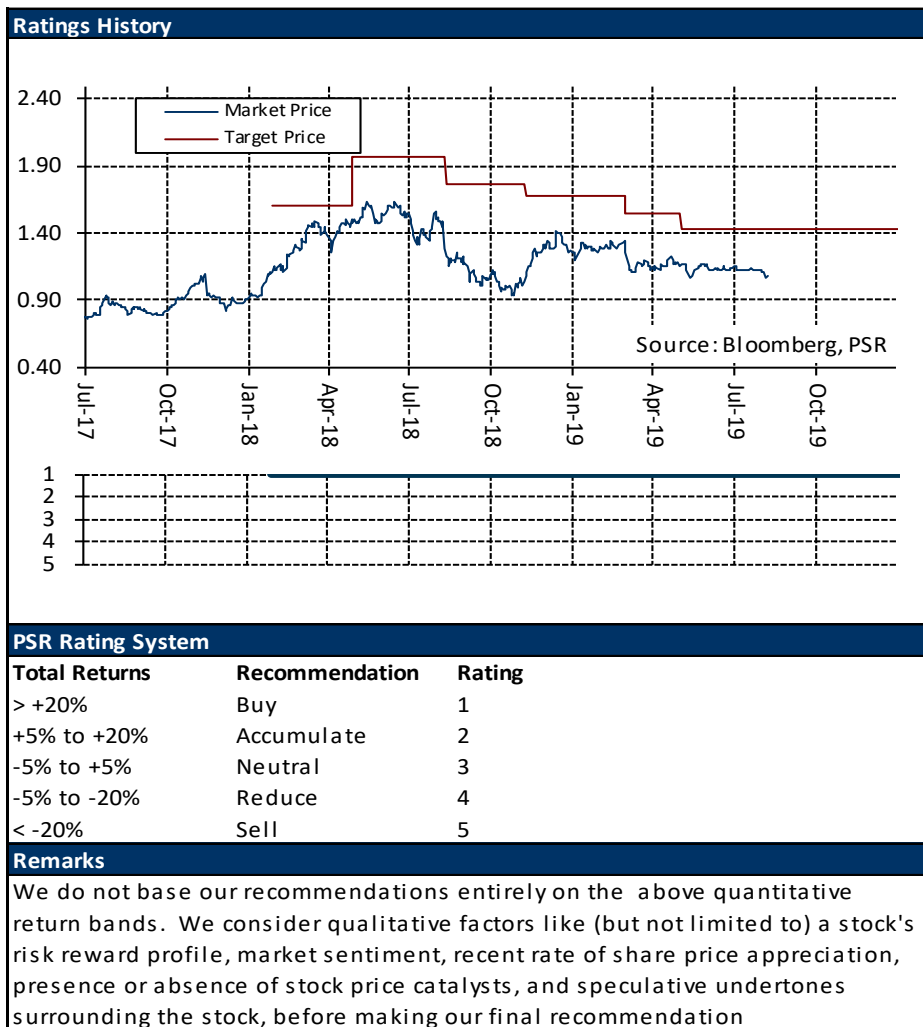
Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	10.8	9.8	3.3	5.2	5.0
P/B (x)	1.8	1.9	0.9	1.0	0.9
EV/EBITDA	5.9	3.9	2.1	2.0	1.8

### Growth & Margins (%)

	FY16	FY17	FY18	FY19e	FY20e
<b>Growth</b>					
Revenue	10%	46%	43%	-13%	4%
Gross profit	10%	46%	43%	-13%	4%
EBIT	5%	52%	49%	-13%	5%
PAT	14%	54%	88%	-19%	5%
<b>Margins</b>					
GP margin	27%	29%	34%	32%	32%
EBIT margin	15%	17%	22%	20%	20%
PAT margin	11%	12%	20%	17%	17%

### Key Ratios

	FY16	FY17	FY18	FY19e	FY20e
ROE	16%	20%	28%	19%	17%
ROA	13%	16%	23%	17%	15%
Net Debt or (Net Cash)	(276)	(500)	(1,039)	(1,267)	(1,352)
Gearing	Net cash	Net cash	Net cash	Net cash	Net cash



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