

COMPANY UPDATE

China Sunshine Chemical Holdings (CSSC SP)

Aniline Prices Showing Recovery

Supported by growth in vehicle sales in China for the fifth consecutive month, ASPs of rubber accelerators are seeing a recovery. We believe growth in China vehicle sales should continue in the foreseeable future given the country's low vehicle penetration and an expanding middle class. Upgrade to BUY after raising the valuation peg to 2.5x EV/EBITDA. The new target price of S\$0.48 implies a 2021F PE of 8.0x and ex-cash of 3.5x.

WHAT'S NEW

- ASPs of rubber accelerators seeing recovery.** The selling prices of rubber accelerators, the main earnings driver for China Sunshine Chemical Holdings (Sunshine), are showing signs of a recovery, backed by the uptick in automobile sales in China. On a monthly sequential basis, average price of aniline improved 1.4% and 7.9% in Aug 20 and Sep 20, to Rmb4,330/tonne and Rmb4,673/tonne respectively. This compares with an ASP of Rmb7,937/tonne in Oct 19. Previously, we erred on conservatism given that the rubber chemicals industry remains in consolidation and we were not optimistic on a recovery in ASPs, but data has shown otherwise.
- Rise in vehicle sales looks to be sustainable.** China's vehicle sales have risen for the fifth consecutive month in Aug 20 (+11.6% yoy; +3.5% mom). This proves that the domestic economy has fully recovered, largely helped by government stimulus measures to provide a jolt to domestic consumption as the country recovers from the pandemic. We believe the measures to encourage vehicle purchases, such as more vehicle permits in major cities, will continue in the mid-term, driving recovery towards a more normalised level. Furthermore, growth in vehicle sales is anticipated to continue in the foreseeable future given China's relatively low penetration and expanding middle class.
- Auto recovery play.** Sunshine is a proxy to the ongoing "auto-recovery theme" (pls refer to table overleaf), following expectations for the global economy to restart after being severely impacted by COVID-19 lockdown measures early in 2020. The uptick in vehicle sales in China, which Sunshine sells primarily to (61% of FY19 sales), will benefit the group given the higher demand for tyres. Sunshine is the world's largest producer of rubber accelerators and the second largest producer of insoluble sulphur in China, with both chemicals being essential additives for the production of tyres.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2018	2019	2020F	2021F	2022F
Net turnover	3,283.3	2,691.7	2,668.1	3,812.5	4,185.9
EBITDA	808.0	565.0	383.2	522.6	747.1
Operating profit	711.6	453.1	248.7	358.5	565.3
Net profit (rep./act.)	641.3	388.9	198.5	293.5	477.3
Net profit (adj.)	641.3	388.9	198.5	293.5	477.3
EPS (Fen)	130.5	39.9	20.3	30.1	48.9
PE (x)	1.5	5.0	9.9	6.7	4.1
P/B (x)	0.4	0.8	0.7	0.7	0.6
EV/EBITDA (x)	1.1	1.5	2.3	1.7	1.2
Dividend yield (%)	13.8	2.5	1.8	2.7	4.5
Net margin (%)	19.5	14.4	7.4	7.7	11.4
Net debt/(cash) to equity (%)	(44.7)	(50.0)	(39.6)	(34.6)	(39.4)
Interest cover (x)	n.a.	1,184.5	n.a.	n.a.	n.a.
ROE (%)	31.5	15.9	7.5	10.3	15.0
Consensus net profit	-	-	182.0	230.5	308.0
UOBKH/Consensus (x)	-	-	1.09	1.27	1.55

Source: Sunshine, Bloomberg, UOB Kay Hian

BUY

Upgraded

Share Price	S\$0.395
Target Price	S\$0.48
Upside	+21.5%
(Previous TP)	S\$0.31

COMPANY DESCRIPTION

Sunshine produces rubber chemicals, primarily rubber accelerators and other related rubber chemicals such as anti-scorching agents.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	CSSC SP
Shares issued (m):	970.7
Market cap (S\$m):	393.1
Market cap (US\$m):	289.5
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

52-week high/low	S\$ 0.575/S\$ 0.270			
1mth	3mth	6mth	1yr	YTD
14.1	15.7	19.1	(27.7)	(21.4)

Major Shareholders

Success More Group	59.7
(HoldCo for Executive Chairman Xu Cheng Qiu)	

FY20 NAV/Share (Rmb)	2.78
FY20 Net Cash/Share (Rmb)	1.10

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **48% net profit growth in 2021F.** The estimated net profit of Rmb198.5m for 2021 (+48%) will be driven by a jump in revenue to Rmb2,668m (+43%), largely attributable to higher sales volume of 221,750 tonnes (+30%) arising from Sunsine's expanded production capacity (pls refer to table on the right). Furthermore, higher vehicle sales is expected to drive increased demand for tyres, hence leading to a potential 10% rise in the ASP of rubbers chemicals from a low base in 9M20.

EARNINGS REVISION/RISK

- **Assume higher ASPs going forward.** We have raised our assumptions for ASPs by 12%/23%/21% for 2020/21/22F respectively, on the basis that the growing vehicle population in China will lead to higher demand for new and replacement tyres, thereby driving up ASPs of rubber chemicals.
- **We raise our net profit forecasts by 52%/125% for 2020/21F respectively.** The driving factor for the change in earnings is due to higher ASPs and estimated factory utilisation rates. We now expect overall utilisation rate to come in at 94% and 100% for 2020F and 2021F respectively, compared with 83% and 98% previously.

VALUATION/RECOMMENDATION

- **Upgrade to BUY with new target price of S\$0.48.** We have raised the valuation peg to Sunsine's 5-year average EV/EBITDA of 2.5x. Previously marked at -1SD of 1.5x, we believe the upgrade is justified given that the industry has bottomed out and ASPs are on the recovery trend. The target price implies a 2021F PE of 8.0x and ex-cash of 3.5x.

SHARE PRICE CATALYST

- Higher ASPs for rubber chemicals.
- Higher-than-expected utilisation rates.

PLANNED CAPACITY EXPANSION

Product	Current capacity (tonne)	Expansion (tonne)	% increase	New capacity (tonne)	Completion date	Production start date
Rubber Accelerators	97,000	20,000	+21	117,000	Jun 20	2021
Insoluble Sulphur	30,000	30,000	+100	60,000	End-20	2021
Anti-oxidant	45,000	30,000	+67	75,000	End-20	2021
Total	172,000	80,000		252,000		

Source: Sunsine, UOB Kay Hian

PEER COMPARISON

Company	Bloomberg Ticker	Trading Curr	Price @ 16 Oct 20 (lcy)	Market Cap (US\$m)	PE			P/B			EV/EBITDA			Net Gearing (%)	ROE (%)
					2019 (x)	2020F (x)	2021F (x)	Curr (x)	2020F (x)	2021F (x)	2019 (x)	2020F (x)	2021F (x)		
China Sunsine	CSSC SP	S\$	0.395	284	5.0	9.8	6.6	0.8	0.7	0.7	1.2	2.3	1.8	(50.0)	7.3
Shandong Yanggu Huatai	300121 CH	Rmb	10.38	2,872	32.8	18.2	12.4	2.4	2.2	2.0	10.5	n.a.	n.a.	(5.5)	13.7
Lanxess AG	LXS GR	US\$	50.94	3,286	4.7	17.8	13.2	1.3	1.3	1.2	6.4	7.1	6.0	66.5	12.1
Eastman Chemical	AKE FP	US\$	81.00	8,087	13.0	14.6	11.7	1.8	1.8	1.7	9.8	9.6	8.3	95.7	11.5
Arkema SA	AKE FP	EUR	98.60	5,581	18.0	18.6	14.3	1.7	1.4	1.3	8.3	8.1	7.1	30.6	7.0
Global average					17.1	17.3	12.9	1.8	1.7	1.6	8.7	8.3	7.1	46.8	11.1

Source: Bloomberg, UOB Kay Hian

CHINA'S MONTHLY DOMESTIC NEW VEHICLE SALES (2017-2020 YTD)



Source: Gasgoo.com

ANILINE PRICE CHART



Source: Sunsine, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2019	2020F	2021F	2022F
Net turnover	2,691.7	2,668.1	3,812.5	4,185.9
EBITDA	565.0	383.2	522.6	747.1
Deprec. & amort.	111.9	134.5	164.0	181.8
EBIT	453.1	248.7	358.5	565.3
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(0.5)	0.0	0.0	0.0
Pre-tax profit	452.6	248.7	358.5	565.3
Tax	(63.7)	(50.2)	(65.0)	(88.0)
Minorities	0.0	0.0	0.0	0.0
Net profit	388.9	198.5	293.5	477.3
Net profit (adj.)	388.9	198.5	293.5	477.3

BALANCE SHEET

Year to 31 Dec (Rmbm)	2019	2020F	2021F	2022F
Fixed assets	649.7	1,015.2	1,101.2	1,119.4
Other LT assets	48.9	48.9	48.9	48.9
Cash/ST investment	1,279.9	1,074.1	1,028.8	1,336.3
Other current assets	939.7	888.5	1,245.3	1,407.5
Total assets	2,918.2	3,026.7	3,424.2	3,912.1
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	347.4	312.9	449.2	509.6
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	9.2	3.0	5.8	8.5
Shareholders' equity	2,561.6	2,710.8	2,969.2	3,394.1
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	2,918.2	3,026.7	3,424.2	3,912.1

CASH FLOW

Year to 31 Dec (Rmbm)	2019	2020F	2021F	2022F
Operating	441.7	343.5	239.8	559.9
Pre-tax profit	452.6	248.7	358.5	565.3
Tax	(120.8)	(55.2)	(59.6)	(79.5)
Deprec. & amort.	111.9	134.5	164.0	181.8
Working capital changes	30.0	15.5	(223.2)	(107.7)
Non-cash items	(32.0)	0.0	0.0	0.0
Investing	(59.2)	(500.0)	(250.0)	(200.0)
Capex (growth)	(72.4)	(500.0)	(250.0)	(200.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	13.2	0.0	0.0	0.0
Financing	(147.8)	(49.3)	(35.1)	(52.4)
Dividend payments	(136.5)	(49.3)	(35.1)	(52.4)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(11.4)	0.0	0.0	0.0
Net cash inflow (outflow)	234.7	(205.8)	(45.3)	307.5
Beginning cash & cash equivalent	1,038.6	1,279.9	1,074.1	1,028.8
Changes due to forex impact	6.6	0.0	0.0	0.0
Ending cash & cash equivalent	1,279.9	1,074.1	1,028.8	1,336.3

KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	21.0	14.4	13.7	17.8
Pre-tax margin	16.8	9.3	9.4	13.5
Net margin	14.4	7.4	7.7	11.4
ROA	13.7	6.7	9.1	13.0
ROE	15.9	7.5	10.3	15.0
Growth				
Turnover	(18.0)	(0.9)	42.9	9.8
EBITDA	(30.1)	(32.2)	36.4	43.0
Pre-tax profit	(36.4)	(45.0)	44.2	57.7
Net profit	(39.4)	(49.0)	47.8	62.6
Net profit (adj.)	(39.4)	(49.0)	47.8	62.6
EPS	(69.5)	(49.0)	47.8	62.6
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(50.0)	(39.6)	(34.6)	(39.4)
Interest cover (x)	1,184.5	n.a.	n.a.	n.a.

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