

### COMPANY UPDATE

## China SunSine Chemical (CSSC SP)

Improved Operating Leverage From Greater Gross Margin

Sunsine provided a positive 3Q20 update, lending support to our recent upgrade. The business saw an overall improvement relative to 1H20, in tandem with the Chinese economy's strong recovery in 3Q20. The continued recovery in rubber accelerators' ASPs is supported by elevated demand for new vehicle tyres in China, which we believe should continue in the foreseeable future. Maintain BUY with higher target price of S\$0.58.

### WHAT'S NEW

- Positive 3Q20 business update.** China SunSine Chemical's 3Q20 revenue came in at Rmb600m (-8% yoy), mainly dragged by lower ASPs of rubber accelerators, but this was partially mitigated by a record sales volume of 46,000 tonnes (+8.7% yoy) due to new capacity added (+11.6%) in May 20. Capacity utilisation rate spiked to 95% (2Q20: 80%), which helped the expansion in gross profit margin to 28.3% from 23.2% in 1H20.
- ASPs of rubber accelerators continue to gain ground.** The selling prices of rubber accelerators, the main earnings driver for SunSine, have continued to gain ground. The rise is in tandem with higher average prices of aniline, the major feedstock for rubber accelerators, which has gained an estimated 26% to Rmb6,650/tonne since end-Sep 20. We believe the cyclical uptick is led by higher demand for vehicle tyres, from sustained growth in China new vehicle sales over the past six consecutive months since Mar 20.
- Rise in vehicle sales looks sustainable.** China's vehicle sales have risen above the 10% mark for the sixth consecutive month in Oct 20 (+12.5% yoy). This proves that the domestic economy has largely recovered, helped by government stimulus measures. These measures include the encouragement of vehicle purchases, with more vehicle permits issued in major cities, as well as greater demand for infrastructure-related heavy vehicles due to increasing efforts to resume construction projects. We believe the favourable policies 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.

### 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	391.2	530.2	747.1
Operating profit	711.6	453.1	256.7	366.2	565.3
Net profit (rep./act.)	641.3	388.9	204.9	299.7	477.3
Net profit (adj.)	641.3	388.9	204.9	299.7	477.3
EPS (Fen)	130.5	39.9	21.0	30.7	48.9
PE (x)	1.7	5.7	10.8	7.4	4.6
P/B (x)	0.5	0.9	0.8	0.7	0.7
EV/EBITDA (x)	1.4	2.0	2.9	2.1	1.5
Dividend yield (%)	12.2	2.2	1.6	2.4	3.9
Net margin (%)	19.5	14.4	7.7	7.9	11.4
Net debt/(cash) to equity (%)	(44.7)	(50.0)	(39.8)	(34.9)	(39.6)
Interest cover (x)	n.a.	1,184.5	n.a.	n.a.	n.a.
ROE (%)	31.5	15.9	7.8	10.5	15.0
Consensus net profit	-	-	192.3	264.3	309.0
UOBKH/Consensus (x)	-	-	1.07	1.13	1.54

Source: SunSine, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$0.465
Target Price	S\$0.58
Upside	+26.1%
(Previous TP)	S\$0.48)

### COMPANY DESCRIPTION

Sunsine 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):	451.4
Market cap (US\$m):	335.3
3-mth avg daily t'over (US\$m):	0.2

### Price Performance (%)

52-week high/low	S\$ 0.54/S\$ 0.27			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
17.7	45.3	25.7	(10.6)	(9.7)

### Major Shareholders

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

FY20 NAV/Share (Rmb)	2.79
FY20 Net Cash/Share (Rmb)	1.11

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

- **46% net profit growth in 2021F.** The estimated 2021F net profit of Rmb299.7m (+46%) will be driven by a 43% jump in revenue to Rmb2,668m, largely attributable to higher sales volume of 221,750 tonnes (+30%) arising from SunSine's expanded production capacity (please refer to table below). Furthermore, higher vehicle sales in China is expected to drive increased demand for tyres, hence leading to a potential 10% rise in the ASP of rubbers accelerators from a low base in 2020.

### EARNINGS REVISION/RISK

- We have tweaked our 2020-21 net profit forecasts slightly higher to Rmb204.9m (+3.2%) and Rmb299.7m (+2.1%) respectively. Our forecasts incorporate higher gross profit margins of 22.7% (+0.3ppt) and 21.4% (+0.2ppt), respectively, to reflect the better-than-expected gross profitability.
- Our 2020-21 revenue estimates remain unchanged.

### VALUATION/RECOMMENDATION

- **Maintain BUY with higher target price of S\$0.58** (from S\$0.48). We raise our valuation peg to 3.5x EV/EBITDA, or +1SD of its 5-year average. The upward shift is backed by the cyclical upturn in ASPs of rubber accelerators, which is supported by the sustained growth in China vehicle sales. Our target price implies 2021F PE of 9.6x and ex-cash of 4.1x.

### SHARE PRICE CATALYST

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

### PLANNED CAPACITY EXPANSION

Product	Current capacity (ton)	Expansion (ton)	% increase	New capacity (ton)	Completion date	Production start date
Rubber Accelerators	117,000					
Insoluble Sulphur	30,000	30,000	+100	60,000	End-2020	2021
Anti-oxidant	45,000	30,000	+67	75,000	1H21	2H21
<b>Total</b>	<b>192,000</b>	<b>60,000</b>		<b>252,000</b>		

Source: SunSine, UOB Kay Hian

### PEER COMPARISON

Company	Bloomberg Ticker	Trading Curr	Price @ 17 Nov 20 (lcy)	Market Cap (US\$m)	PE			P/B			EV/EBITDA			Net Gearing (%)	ROE 2020F (%)
					2019 (x)	2020F (x)	2021F (x)	Curr (x)	2020F (x)	2021F (x)	2019 (x)	2020F (x)	2021F (x)		
China SunSine	CSSC SP	S\$	0.465	335	5.9	11.2	7.6	0.9	0.8	0.8	1.8	3.1	2.4	(50.0)	7.5
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
<b>Global average</b>					<b>17.1</b>	<b>17.3</b>	<b>12.9</b>	<b>1.8</b>	<b>1.7</b>	<b>1.6</b>	<b>8.7</b>	<b>8.3</b>	<b>7.1</b>	<b>46.8</b>	<b>11.1</b>

Source: Bloomberg, 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	391.2	530.2	747.1
Deprec. & amort.	111.9	134.5	164.0	181.8
EBIT	453.1	256.7	366.2	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	256.7	366.2	565.3
Tax	(63.7)	(51.8)	(66.4)	(88.0)
Minorities	0.0	0.0	0.0	0.0
Net profit	388.9	204.9	299.7	477.3
Net profit (adj.)	388.9	204.9	299.7	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	1,081.1	1,040.8	1,346.7
Other current assets	939.7	888.5	1,245.3	1,407.5
<b>Total assets</b>	<b>2,918.2</b>	<b>3,033.7</b>	<b>3,436.2</b>	<b>3,922.5</b>
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	347.4	313.4	449.7	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	2,717.2	2,980.7	3,404.5
Minority interest	0.0	0.0	0.0	0.0
<b>Total liabilities &amp; equity</b>	<b>2,918.2</b>	<b>3,033.7</b>	<b>3,436.2</b>	<b>3,922.5</b>

### CASH FLOW

Year to 31 Dec (Rmbm)	2019	2020F	2021F	2022F
<b>Operating</b>	<b>441.7</b>	<b>350.4</b>	<b>246.0</b>	<b>559.4</b>
Pre-tax profit	452.6	256.7	366.2	565.3
Tax	(120.8)	(56.2)	(61.0)	(80.1)
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
<b>Investing</b>	<b>(59.2)</b>	<b>(500.0)</b>	<b>(250.0)</b>	<b>(200.0)</b>
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
<b>Financing</b>	<b>(147.8)</b>	<b>(49.3)</b>	<b>(36.3)</b>	<b>(53.5)</b>
Dividend payments	(136.5)	(49.3)	(36.3)	(53.5)
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
<b>Net cash inflow (outflow)</b>	<b>234.7</b>	<b>(198.8)</b>	<b>(40.3)</b>	<b>305.8</b>
Beginning cash & cash equivalent	1,038.6	1,279.9	1,081.1	1,040.8
Changes due to forex impact	6.6	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>1,279.9</b>	<b>1,081.1</b>	<b>1,040.8</b>	<b>1,346.7</b>

### KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
<b>Profitability</b>				
EBITDA margin	21.0	14.7	13.9	17.8
Pre-tax margin	16.8	9.6	9.6	13.5
Net margin	14.4	7.7	7.9	11.4
ROA	13.7	6.9	9.3	13.0
ROE	15.9	7.8	10.5	15.0
<b>Growth</b>				
Turnover	(18.0)	(0.9)	42.9	9.8
EBITDA	(30.1)	(30.8)	35.5	40.9
Pre-tax profit	(36.4)	(43.3)	42.6	54.4
Net profit	(39.4)	(47.3)	46.3	59.2
Net profit (adj.)	(39.4)	(47.3)	46.3	59.2
EPS	(69.5)	(47.3)	46.3	59.2
<b>Leverage</b>				
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)	(39.8)	(34.9)	(39.6)
Interest cover (x)	1,184.5	n.a.	n.a.	n.a.

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