

COMPANY UPDATE

China Sunshine Chemical (CSSC SP)

Rubber Accelerators' ASP Remains Elevated Due To High Demand

The strong demand for rubber tyres has helped sustain the ASP of rubber accelerators at an elevated level. For 2021, incoming new capacity for insoluble sulphur will help to further entrench Sunshine's top position as the key global supplier of essential additives for the production of rubber products. We expect 2021 sales and net profit to grow 63% and 37% respectively. Maintain BUY with a higher target price of S\$0.695 after changing our valuation methodology.

WHAT'S NEW

- **Strong demand for rubber accelerators supporting ASP.** The China Association of Automobile Manufacturers (CAAM) estimates 1Q21 auto sales at 6.34m units, up 73% yoy, driven by both passenger vehicles (+74% yoy) and commercial vehicles (+71% yoy). This has translated to a healthy demand for rubber accelerators, and is further reflected in the sustained high price for the feedstock. For 2021, CAAM expects vehicle sales of 26.3m, a 4% increase over 2020 and should provide tailwinds for the demand of rubber accelerators.
- **Entrenched top position as a global producer of rubber accelerators.** China Sunshine (Sunshine) is the top producer of rubber accelerators with an annual capacity of 117,000 tonnes. This is more than the combined capacity of the world's number two and three producers, Yanggu Huatai (60,000 tonnes) and Tianjin Kemai (51,600 tonnes). This provides for greater scalability and better pricing flexibility to maintain Sunshine's leading market share position, estimated at 34% for the China market and 22% for the global market in 2020. Also, Sunshine is the second-largest producer of insoluble sulphur, a feedstock required in the vulcanisation process to cure rubber, with a capacity of 30,000 tonnes/year. The capacity will be expanded to 60,000 tonnes/year in 2021, spearheading Sunshine to the top producer position globally and ahead of Yanggu Huatai's (40,000 tonnes).
- **Main feedstock aniline prices remain elevated.** The ASP of rubber accelerators, the main earnings driver for Sunshine, has continued to gain ground, in tandem with aniline, the major feedstock for rubber accelerators, due to higher crude oil prices. The average price of aniline rose 54.4% yoy in 1Q21 to Rmb10,068/tonne, a 41.3% sequential increase over 4Q20.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2019	2020	2021F	2022F	2023F
Net turnover	2,691.7	2,333.7	3,812.5	4,185.9	4,623.3
EBITDA	565.0	422.3	487.5	732.2	658.3
Operating profit	453.1	301.8	357.6	569.0	508.4
Net profit (rep./act.)	388.9	218.8	299.3	476.3	425.6
Net profit (adj.)	388.9	218.8	299.3	476.3	425.6
EPS (Fen)	39.9	22.5	30.8	49.1	43.8
PE (x)	7.0	12.4	9.0	5.7	6.4
P/B (x)	1.1	1.0	0.9	0.8	0.7
EV/EBITDA (x)	2.7	3.6	3.1	2.1	2.3
Dividend yield (%)	1.8	1.8	2.1	3.4	3.0
Net margin (%)	14.4	9.4	7.9	11.4	9.2
Net debt/(cash) to equity (%)	(50.0)	(48.7)	(39.9)	(45.5)	(50.4)
Interest cover (x)	1,184.5	324.8	n.a.	n.a.	n.a.
ROE (%)	15.9	8.3	10.5	15.0	12.0
Consensus net profit	-	-	299.5	406.5	404.0
UOBKH/Consensus (x)	-	-	1.00	1.17	1.05

Source: Sunshine, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.570
Target Price	S\$0.695
Upside	+21.9%
(Previous TP	S\$ 0.580)

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):	553.3
Market cap (US\$m):	412.4
3-mth avg daily t'over (US\$m):	0.3

Price Performance (%)

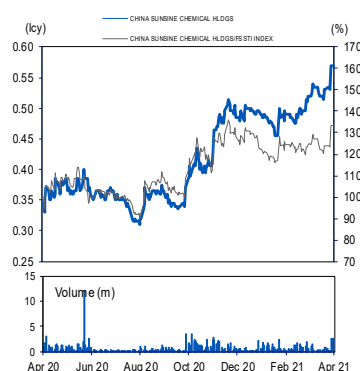
52-week high/low	S\$ 0.57/S\$ 0.31			
1mth	3mth	6mth	1yr	YTD
10.7	15.2	54.1	67.6	15.2

Major Shareholders

Success More Group	61.1
(HoldCo for Executive Chairman Xu Cheng Qiu)	

FY21 NAV/Share (Rmb)	3.06
FY21 Net Cash/Share (Rmb)	1.22

PRICE CHART



Source: Bloomberg

ANALYST(S)

Clement Ho
+65 6590 6630
clementho@uobkayhian.com

STOCK IMPACT

- **Vehicle numbers growth outweighs global auto chip shortage.** CAAM estimates that the global auto chip shortage will lead to a production cut of 2m units in the global auto market. That being said, CAAM still expects vehicle sales of 26.3m, a 4% increase over 2020. Historically, 30% of the tyre market is driven by new vehicle sales, while 70% comprises replacement tyres. We maintain our hypothesis that the supporting tyre industry is expected to return to normalcy in 2021 as traffic volume returns to pre-pandemic levels.

EARNINGS REVISION/RISK

- Our 2021-22 revenue and earnings estimates remain unchanged.

VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of S\$0.695.** We have switched our valuation methodology from EV/EBITDA to forward PE. Pegged to 11.4x 2021F earnings, or 1.5SD above its 10-year historical average, we derived a target price of S\$0.695. At the current price, Sunsine is attractively valued at 9.3x 2021F PE and 5.4x on an ex-cash basis.

SHARE PRICE CATALYST

- Higher ASP for rubber accelerators.
- Higher-than-expected utilisation rates.

PLANNED CAPACITY EXPANSION

Product	Current capacity (tonne)	Expansion (tonne)	% increase	New capacity (tonne)	Completion date	Commercial Production
Rubber Accelerators	117,000					
Insoluble Sulphur	30,000	30,000	+100	60,000	Recently-complete	2H21
Anti-oxidant	45,000	30,000	+67	75,000	1H21	2H21
Total	192,000	60,000		252,000		

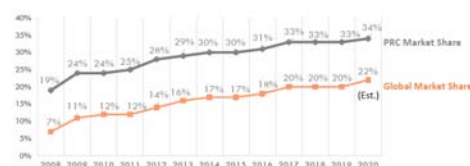
Source: Sunsine, UOB Kay Hian

ANILINE PRICE CHART



Source: CEIC Data, UOB Kay Hian

SUNSINE MARKET SHARE



Source: Sunsine

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Net turnover	2,333.7	3,812.5	4,185.9	4,623.3
EBITDA	422.3	487.5	732.2	658.3
Deprec. & amort.	120.5	130.0	163.3	149.9
EBIT	301.8	357.6	569.0	508.4
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(1.3)	0.0	0.0	0.0
Pre-tax profit	300.5	357.6	569.0	508.4
Tax	(81.7)	(58.3)	(92.7)	(82.9)
Minorities	0.0	0.0	0.0	0.0
Net profit	218.8	299.3	476.3	425.6
Net profit (adj.)	218.8	299.3	476.3	425.6

BALANCE SHEET

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Fixed assets	864.6	939.6	916.4	826.5
Other LT assets	68.3	68.3	68.3	68.3
Cash/ST investment	1,326.2	1,185.2	1,542.0	1,876.9
Other current assets	913.0	1,319.3	1,515.8	1,694.3
Total assets	3,172.1	3,512.5	4,042.5	4,466.0
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	451.4	537.4	645.6	738.3
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	0.0	4.3	6.4	4.1
Shareholders' equity	2,720.7	2,970.7	3,390.6	3,723.7
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	3,172.1	3,512.5	4,042.5	4,466.0

CASH FLOW

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Operating	426.9	113.3	553.1	487.5
Pre-tax profit	300.5	357.6	569.0	508.4
Tax	(63.4)	(70.3)	(75.1)	(87.9)
Deprec. & amort.	120.5	130.0	163.3	149.9
Working capital changes	103.2	(304.0)	(104.0)	(83.0)
Non-cash items	(33.9)	0.0	0.0	0.0
Investing	(239.6)	(205.0)	(140.0)	(60.0)
Capex (growth)	(279.3)	(265.0)	(200.0)	(120.0)
Proceeds from sale of assets	60.0	60.0	60.0	60.0
Others	(20.3)	0.0	0.0	0.0
Financing	(99.7)	(49.3)	(56.4)	(92.5)
Dividend payments	(49.3)	(49.3)	(56.4)	(92.5)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(50.4)	0.0	0.0	0.0
Net cash inflow (outflow)	87.6	(141.0)	356.8	334.9
Beginning cash & cash equivalent	1,279.9	1,326.2	1,185.2	1,542.0
Changes due to forex impact	(41.3)	0.0	0.0	0.0
Ending cash & cash equivalent	1,326.2	1,185.2	1,542.0	1,876.9

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	18.1	12.8	17.5	14.2
Pre-tax margin	12.9	9.4	13.6	11.0
Net margin	9.4	7.9	11.4	9.2
ROA	7.2	9.0	12.6	10.0
ROE	8.3	10.5	15.0	12.0
Growth				
Turnover	(13.3)	63.4	9.8	10.5
EBITDA	(25.3)	15.4	50.2	(10.1)
Pre-tax profit	(33.6)	19.0	59.1	(10.6)
Net profit	(43.7)	36.8	59.1	(10.6)
Net profit (adj.)	(43.7)	36.8	59.1	(10.6)
EPS	(43.5)	36.8	59.1	(10.6)
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	(48.7)	(39.9)	(45.5)	(50.4)
Interest cover (x)	324.8	n.a.	n.a.	n.a.

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited (“UOBKH”), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report (“Information”) has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the “Subject Business”); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to “major U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc (“UOBKHUS”), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority (“FINRA”) and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2021, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W