

China Sunshine Chemical Holdings Ltd

What an outstanding year



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SINGAPORE | MATERIALS | 4Q17 RESULTS

5 March 2018

- FY17 net profit was in line with our full year expectation. ASP surged in FY17.
- The trial run of new capacity is pending approval.
- We maintained our FY18e EPS (16 SG cents) and tweaked our FY19e EPS to 17.7 SG cents (previous 17.6 SG cents). We maintain our BUY recommendation with an unchanged target price of S\$1.60.

Results at a glance

(RMB mn)	4Q17	4Q16	YoY (%)	FY17	FY16	YoY (%)	Comments
Revenue	873	553	57.8	2,738	2,037	34.4	Increase in overall ASP and sales volume
Gross profit	291	144	102.5	788	540	45.8	In line with the above
PBT	196	99	98.0	477	310	54.1	Increase in overhead costs
PAT	132	66	99.1	341	222	53.9	In line with the above

Source: Company, PSR

Positives

+ Major propellant came from soaring average selling price (ASP): In FY17, the total sales volume grew a mild 3.4% to 140.5k tonnes. Overall ASP soared to RMB19.4k/tonne (+29.3% YoY) (breakdowns are shown below):

Sales volume

(mn tonnes)	4Q17	4Q16	YoY (%)	FY17	FY16	YoY (%)
Accelerators	21,722	21,284	2.1	83,335	82,767	0.7
Insoluble Sulphur	6,010	5,503	9.2	22,283	20,031	11.2
Anti-oxidant	10,665	7,272	46.7	33,258	31,214	6.5

Average selling price

(RMB/tonne)	4Q17	4Q16	YoY (%)	FY17	FY16	YoY (%)
Accelerators	27,511	18,911	45.5	22,981	17,752	29.5
Insoluble Sulphur	11,414	9,886	15.5	10,757	9,600	12.1
Anti-oxidant	18,012	12,019	49.9	16,098	10,889	47.8

Source: Company PSR

The phenomenal growth of both sales volume and ASP in anti-oxidant in 4Q17 was attributed to the shortage of supply from peers, namely Sinogchem, Kemai Chemical Technical, and Xiangyu Chem. During the period, Sunshine managed to operate smoothly with regular delivery. Hence, it gained some market shares from peers.

Negatives

- The trial run of new capacity is pending for approval: The Phase I construction and installation of 10k-tonne TBBS capacity was completed by the end of FY16. However, as of Dec-17, the trial run approval was still pending. The new production line of 10k-tonne insoluble sulphur completed by the end of FY17 is still on the status of pending for approval of trial run. There is no specific timeline that Sunshine will commence the trial operations of both projects.

BUY (Maintained)

CLOSING PRICE	SGD 1.350
FORECAST DIV	SGD 0.026
TARGET PRICE	SGD 1.600
TOTAL RETURN	20.4%

COMPANY DATA

Bloomberg Code:	CSSC SP
O/S SHARES (MN):	492
MARKET CAP (USD mn / SGD mn):	503 / 664
52 - WK HI/LO (SGD):	1.36 / 0.52
3M Average Daily T/O (mn):	0.80

MAJOR SHAREHOLDERS (%)

SUCCESS MORE GROUP	59.7%
CHOON KONG KOH	0.9%
CHENG QIU XU	0.6%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	19.3	54.5	142.9
STIRETURN	(0.8)	2.2	16.1

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, RMB mn	FY 16	FY 17	FY 18 e	FY 19 e
Revenue	2,037	2,738	3,076	3,393
Gross profit	540	788	864	950
PAT	222	341	382	421
P/E (x)	5.0	9.1	8.4	7.6
P/B (x)	0.8	1.8	1.6	1.3
ROE (%)	16%	20%	18%	17%
ROA (%)	13%	16%	15%	15%

Source: PSR

VALUATION METHOD

FCFE (Cost of Equity: 7.9%; Terminal g: 10%)

Chen Guangzhi (+65 6212 1859)
chengz@phillip.com.sg

Outlook

We expect the market consolidation to continue in FY18. As the environmental protection regulations remain tight, both raw material and rubber chemical prices are expected to remain high. After all, any ramp-up of capacity in the market will not take effect in the very term. Thus, Sunsine as the market leader will continue to benefit from the favourable market condition. Sunsine will put effort on R&D with a budget of 3% of total revenue per annum and collaborate with technological research institutes to improve production techniques and product qualities.

Maintain BUY with unchanged TP of S\$1.60

We maintain our FY18e EPS (16 SG cents) and tweak up FY19e EPS to 17.7 SG cents (previous 17.6 SG cents). We maintain our BUY recommendation with an unchanged target price of S\$1.60.

Y/E, RMB mn	FY18e	FY19e	FY20e
Net income	382	421	434
Net capex	90	90	90
Change in net WC	61	61	73
Change in borrowing	-	-	-
FCFE	230	270	271
Beta	0.98		
Required rate of return	7.9%		
Growth	1.0%		
FX (SGD/RMB)	4.85		
TP (SGD)	1.60		

Source: PSR

Financials

Income Statement

Y/E Dec, RMB mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	1,859	2,037	2,738	3,076	3,393
COGS	(1,367)	(1,497)	(1,950)	(2,212)	(2,443)
Gross profit	492	540	788	864	950
EBITDA	392	410	567	631	694
Depreciation & Amortisation	94	96	90	101	109
EBIT	298	314	477	530	585
Net Finance (Expense)/Inc	(10)	(4)	-	-	-
PBT	288	310	477	530	585
Taxation	(92)	(88)	(136)	(148)	(164)
PAT	195	222	341	382	421

Per share data

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS (RMB cents)	41.9	47.7	69.4	77.6	85.6
EPS (SG cents)	9.3	10.0	14.8	16.0	17.7
DPS (SG cents)	1.5	1.5	2.3	2.6	3.0
BVPS (RMB)	2.5	2.9	3.5	4.2	4.9
BVPS (SGD)	0.6	0.6	0.8	0.9	1.0

Cash Flow

Y/E Dec, RMB mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
PBT	288	310	477	530	585
Adjustments	102	103	92	108	117
WC changes	133	(124)	(83)	(61)	(61)
Cash generated from ops	523	288	486	576	641
Others	(93)	(85)	(100)	(148)	(164)
Cashflow from ops	430	203	387	428	477
CFI					
CAPEX, net	(50.8)	(82.0)	(208.9)	(90.0)	(90.0)
Others	1.2	2.4	3.7	3.9	4.1
Cashflow from investments	(50)	(80)	(205)	(86)	(86)
CFF					
Loans, net of repayments	(120)	(148)	-	-	-
Dividends	(32)	(33)	(47)	(68)	(76)
Others	(0)	(8)	96	-	-
Cashflow from financing	(152)	(189)	50	(68)	(76)
Net change in cash	229	(65)	231	274	315
Effects of exchange rate	(0)	-	(9)	-	-
Ending cash	340	274	496	770	1,084

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, RMB mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PP&E	563	549	662	659	641
Others	44	43	41	40	39
Total non-current assets	606	592	703	700	680
Cash	341	276	500	770	1,084
Inventories	142	145	212	253	289
Trade receivables	414	548	638	685	741
Others	83	82	75	85	94
Total current assets	979	1,051	1,425	1,793	2,208
Total Assets	1,586	1,642	2,128	2,492	2,888
LIABILITIES					
Trade payables	43	52	71	76	84
Borrowings	145	-	-	-	-
Others	223	229	314	344	393
Total current liabilities	411	281	385	421	477
Borrowings	-	-	-	-	-
Total non-current liabilities	-	-	-	-	-
Total Liabilities	411	281	385	421	477
Total Equity	1,175	1,362	1,742	2,071	2,411

Valuation Ratios

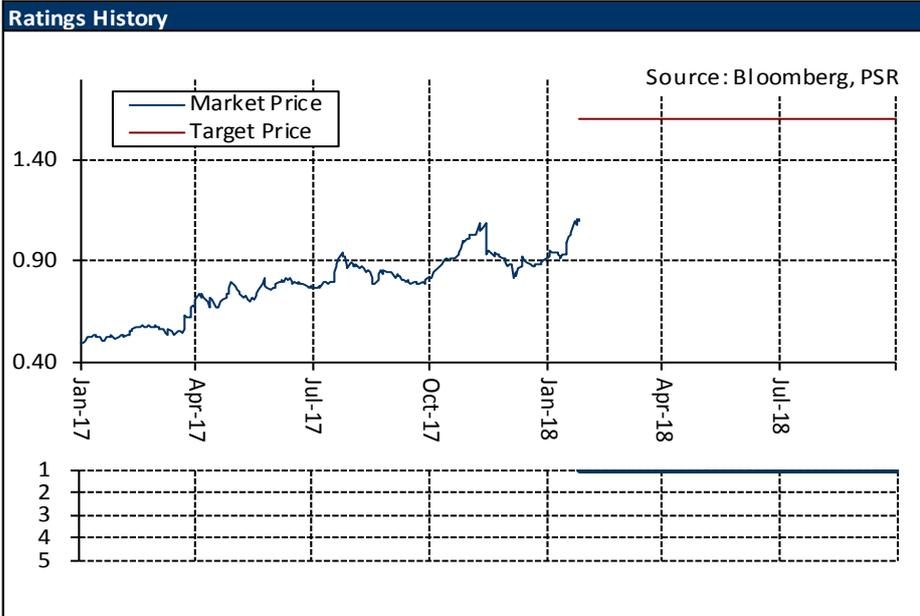
Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	3.9	5.0	9.1	8.4	7.6
P/B (x)	0.7	0.8	1.8	1.6	1.3
EV/EBITDA	1.5	2.1	4.8	3.9	3.1

Growth & Margins (%)

	FY15	FY16	FY17	FY18e	FY19e
Growth					
Revenue	-10%	10%	46%	10%	10%
Gross profit	-13%	10%	46%	10%	10%
EBIT	-7%	5%	52%	11%	10%
PAT	-11%	14%	54%	12%	10%
Margins					
GP margin	26%	27%	29%	28%	28%
EBIT margin	16%	15%	17%	17%	17%
PAT margin	11%	11%	12%	12%	12%

Key Ratios

	FY15	FY16	FY17	FY18e	FY19e
ROE (%)	17%	16%	20%	18%	17%
ROA (%)	12%	13%	16%	15%	15%
Net Debt or (Net Cash)	(196)	(276)	(500)	(770)	(1,084)
Gearing (%)	9.1%	0.0%	0.0%	0.0%	0.0%



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

Head of Research Paul Chew – paulchewkl@phillip.com.sg	Contact Information (Singapore Research Team) Research Associate Alvin Chia - alvinchiawy@phillip.com.sg	Research Operations Officer Mohamed Amiruddin - amiruddin@phillip.com.sg
Consumer Healthcare Soh Lin Sin - sohls@phillip.com.sg	Oil & Gas Energy Chen Guangzhi - chengz@phillip.com.sg	Macro Pei Sai Teng - peist@phillip.com.sg
Transport REITs (Industrial) Richard Leow - richardleowwt@phillip.com.sg	REITs (Commercial, Retail, Healthcare) Property Dehong Tan - tandh@phillip.com.sg	Technical Analysis Jeremy Ng - jeremyngch@phillip.com.sg
REITs (Commercial, Retail, Healthcare) Property Tara Wong - tarawongsj@phillip.com.sg	US Equity Ho Kang Wei - hokw@phillip.com.sg	

Contact Information (Regional Member Companies)**SINGAPORE**

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

CAMBODIA

Phillip Bank Plc
Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler
Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited
2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

DUBAI

Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGEX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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