

China Sunshine Chemical Holdings Ltd

Soft sunshine



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SINGAPORE | MATERIALS | 1Q19 RESULTS

- 1Q19 revenue and net profit missed our expectation due mainly to lower ASP. ASP fell to a 7-quarter low.
- Maintain high margins amid volume growth (Gross profit/tonne dropped 24.8% YoY or 2.3% QoQ).
- Recent Yancheng accident and the recovery of crude oil price could support raw material prices.
- We revise down FY19e EPS by 4.1% to 21.1 SG cents and FY20e EPS by 6.4% to 22.1 SG cents. Based on an unchanged required rate of return of 10%, we maintained our BUY recommendation with a lower target price of S\$1.43.

Results at a glance

(RMB mn)	1Q19	1Q18	YoY (%)	Comments
Revenue	687	857	(20)	Decrease in overall ASP, offsetting the slight increase in sales volumes
Gross profit	236	299	(21)	Lower ASP
PBT	132	182	(27)	In line with the above
PAT	110	150	(26)	In line with the above

Source: Company, PSR

Positives

+ Maintain high margins amid volume growth. 1Q19 GPM and NPM arrived at 34.3% and 16.1%, compared to 34.3% and 14.1% in 4Q18 respectively (1Q18 GPM and NPM: 34.8% and 17.4%). Gross profit/tonne dropped 24.8% YoY or 2.3% QoQ to RMB6,163/tonne during the period. The expanded spread between ASP and raw material (main: aniline) prices resulted in the high level of margins. Meanwhile, the new capacities (respective 10,000-tonne of accelerator TBBS and Insoluble Sulphur) realised a full quarter performance during 1Q19. However, owing to the long Chinese New Year holiday, 1Q19 sales volume could reflect less than 90% of the capacities which were above 90% or fully utilised.

Sales volume

(mn tonnes)	1Q19	1Q18	YoY (%)	4Q18	QoQ (%)
Accelerators	20,207	19,907	1.5	20,961	-3.6
Insoluble Sulphur	7,353	6,212	18.4	6,725	9.3
Anti-oxidant	10,684	10,353	3.2	11,850	-9.8

Average selling price

(RMB/tonne)	1Q19	1Q18	YoY (%)	4Q18	QoQ (%)
Accelerators	23,027	29,387	-21.6	24,693	-6.7
Insoluble Sulphur	9,602	11,719	-18.1	10,721	-10.4
Anti-oxidant	12,907	17,995	-28.3	13,932	-7.4

Source: Company PSR

Negatives

- ASP fell to a 7-quarter low: The weaker profitability was mainly attributable to the plunge of ASP which arrived at RMB17.6k/tonne (-24.1% YoY or 7.8% QoQ) in 1Q19. Meanwhile, aniline price nosedived by 51.9% YoY or 19.7% QoQ to RMB4.9k/tonne during the period.

3 May 2019

BUY (Maintained)

CLOSING PRICE	SGD 1.170
FORECAST DIV	SGD 0.043
TARGET PRICE	SGD 1.430
TOTAL RETURN	25.9%

COMPANY DATA

Bloomberg Code:	CSSC SP
O/S SHARES (MN):	491
MARKET CAP (USD mn / SGD mn):	423 / 575
52 - WK HI/LO (SGD):	1.65 / 0.91
3M Average Daily T/O (mn):	1.41

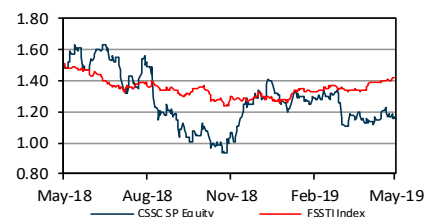
MAJOR SHAREHOLDERS (%)

SUCCESS MORE GROUP	59.8%
DIMENSIONAL FUND ADVISORS LP	1.4%
KOH CHOON KONG	0.9%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	2.7	(10.8)	(21.4)
STI RETURN	6.1	7.2	(2.6)

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)	6.2	4.9	5.5	5.3
P/B (x)	1.2	1.3	1.1	0.9
ROE	20%	28%	19%	17%
ROA	16%	23%	17%	15%

Source: PSR

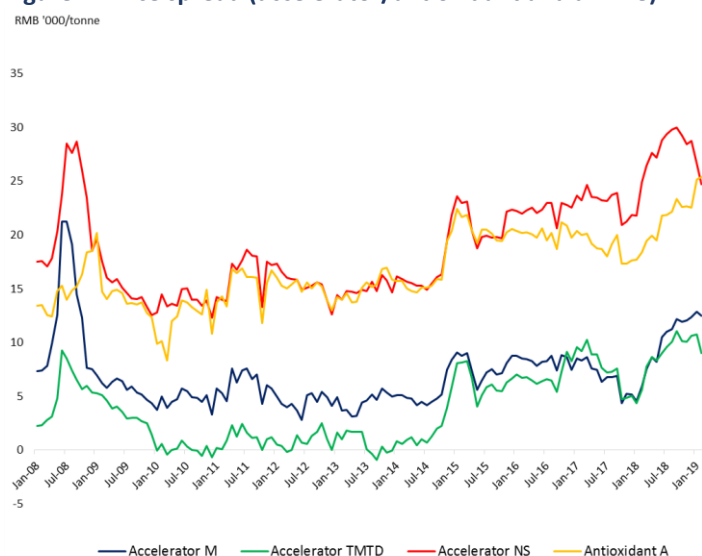
VALUATION METHOD

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

Chen Guangzhi (+65 6212 1859)

Research Analyst

chengz@phillip.com.sg

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


Source: CEIC, PSR

Outlook

Apart from the drop of aniline price, the current ASP headwind also comes from intense peer competition which results from the resumption of operation after their technological upgrade and improvement of environmental protection and safety production. However, the Yancheng explosion triggered the government to undertake a series of heightened safety inspections which stalled the productivities of the chemical industry across the nation. The accident is expected to support the raw material prices from dropping further. Market leaders could be benefited as the event will strengthen the industry consolidation. On the other hand, the recovering crude oil prices that bottomed out since Jan-19 will also support the chemical raw material prices. We expect CSSC to continue to enjoy the 30%+ GPM for FY19e. The catalyst is still the ramp-up of capacity that the group is ready to implement with sufficient capital and authority approvals. We believe the rest planned 20,000-tonne TBBS capacity could be realised in the foreseeable future. The increase in sales volume could mitigate the impact of the unfavourable lower ASP.

Maintain BUY with a lower TP of S\$1.43

We revise down FY19e EPS by 4.1% to 21.1 SG cents and FY20e EPS by 6.4% to 22.1 SG cents. Based on an unchanged required rate of return of 10%, we maintained our BUY recommendation with a lower 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)
Gross profit	540	788	1,126	978	1,019
EBITDA	410	567	809	728	762
Depreciation & Amortisation	96	90	98	106	111
EBIT	314	477	712	622	650
Net Finance (Expense)/Inc	(4)	-	-	-	-
PBT	310	477	712	622	650
Taxation	(88)	(136)	(70)	(106)	(111)
PAT	222	341	641	516	540

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	14.8	25.8	21.1	22.1
DPS (SG cents)	1.5	3.0	5.5	4.3	4.5
BVPS (RMB)	2.9	3.5	4.7	5.5	6.4
BVPS (SGD)	0.6	0.8	0.9	1.1	1.3

Cash Flow

Y/E Dec, RMB mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
PBT	310	477	712	622	650
Adjustments	103	92	76	102	107
WC changes	(124)	(83)	(2)	(130)	(340)
Cash generated from ops	412	569	787	724	757
Others	(85)	(100)	(84)	(106)	(111)
Cashflow from ops	327	469	703	618	646
CFI					
CAPEX, net	(82.0)	(208.9)	(129.5)	(110.0)	(120.0)
Others	2.4	3.7	4.2	4.4	4.6
Cashflow from investments	(80)	(205)	(125)	(106)	(115)
CFF					
Loans, net of repayments	(148)	-	-	-	-
Dividends	(33)	(47)	(59)	(134)	(106)
Others	(8)	96	6	-	-
Cashflow from financing	(189)	50	(52)	(134)	(106)
Net change in cash	59	314	525	378	425
Effects of exchange rate	-	(9)	16	-	-
Ending cash	274	496	1,035	1,283	1,368

Source: Company, PSR

Balance Sheet

Y/E Dec, RMB mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PP&E	549	662	691	688	698
Others	43	41	40	39	38
Total non-current assets	592	703	731	727	736
Cash	276	500	1,039	1,283	1,368
Inventories	145	212	217	386	689
Trade receivables	548	638	691	664	718
Others	82	75	70	66	68
Total current assets	1,051	1,425	2,016	2,399	2,843
Total Assets	1,642	2,128	2,747	3,126	3,579
LIABILITIES					
Trade payables	52	71	63	71	76
Borrowings	-	-	-	-	-
Others	229	314	359	353	366
Total current liabilities	281	385	422	424	442
Borrowings	-	-	-	-	-
Total non-current liabilities	-	-	-	-	-
Total Liabilities	281	385	422	424	442
Total Equity	1,362	1,742	2,326	2,702	3,137

Valuation Ratios

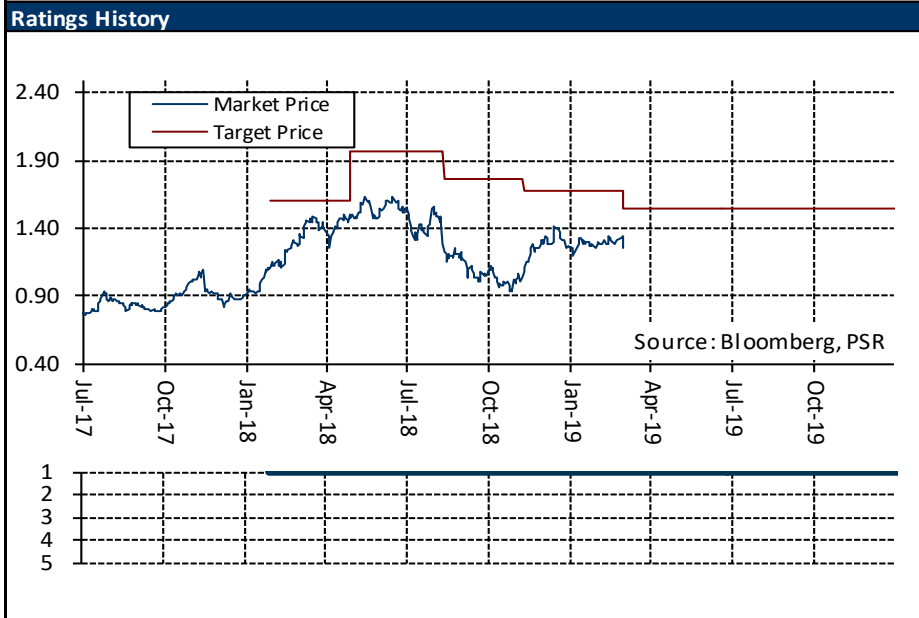
Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	11.7	7.9	4.5	5.5	5.3
P/B (x)	1.9	1.5	1.2	1.1	0.9
EV/EBITDA	2.1	2.8	2.6	2.2	1.9

Growth & Margins (%)

Growth					
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%
Margins					
GP margin	27%	29%	34%	32%	32%
EBIT margin	15%	17%	22%	20%	20%
PAT margin	11%	12%	20%	17%	17%

Key Ratios

ROE	16%	20%	28%	19%	17%
ROA	13%	16%	23%	17%	15%
Net Debt or (Net Cash)	(276)	(500)	(1,039)	(1,283)	(1,368)
Gearing	Net cash	Net cash	Net cash	Net cash	Net cash



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

Contact Information (Singapore Research Team)
Head of Research

 Paul Chew – paulchewkl@phillip.com.sg
Research Admin

 Siti Nursyazwina - syazwina@phillip.com.sg
Banking & Finance | Healthcare

 Tin Min Ying – tinmy@phillip.com.sg
Oil & Gas | Energy

 Chen Guangzhi - chengz@phillip.com.sg
Telco | Technology

 Alvin Chia - alvinchiawy@phillip.com.sg
Property | REITs

 Tara Wong - tarawongsj@phillip.com.sg
REITs

 Natalie Ong - natalieongpf@phillip.com.sg
China/HK Equity

 Zheng Jieyuan – zhengjy@phillip.com.sg
US Equity

 Edmund Xue – edmundxuejj@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
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
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
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
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
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
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
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
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
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
AUSTRALIA
Phillip Capital Limited

 Level 10, 330 Collins Street
 Melbourne, Victoria 3000, Australia
 Tel +61-03 8633 9803
 Fax +61-03 8633 9899
 Website: www.phillipcapital.com.au
SRI LANKA
Asha Phillip Securities Limited

 No. 60, 5th Lane,
 Colombo 3, Sri Lanka
 Tel: (94) 11 2429 100
 Fax: (94) 11 2429 199
 Website: www.ashaphillip.net
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
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
DUBAI
Phillip Futures DMCC

 Member of the Dubai Gold and
 Commodities Exchange (DGCX)
 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

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

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