

### COMPANY RESULTS

## China SunSine Chemical (CSSC SP)

1H21: Higher-Than-Expected ASPs Drive Operating Leverage

Sunsine recorded a strong 1H21 with net profit of Rmb265.2m (+221.8% yoy), albeit on a low base effect. Production volume continues to hit record levels from capacity expansion efforts, amid elevated ASP for rubber accelerators owing to rising crude oil prices. Past investments to raise production levels are now bearing fruit, as demand for vehicle sales in China is expected to be sustained by the improving economy. Maintain BUY with a target price of S\$0.695.

### 1H21 RESULTS

Year to 31 Dec (Rmbm)	1H21	1H20	yoy % chg
Revenue	1,757.5	1,042.6	68.6
Gross profit	552.3	241.9	128.3
Gross margin (%)	31.4	23.2	+8.2ppt
Net profit	265.2	82.4	221.8
Net margin (%)	15.1	7.9	+7.2ppt

Source: SunSine, UOB Kay Hian

### RESULTS

- Strong 1H21 results a show of strong demand.** China SunSine Chemical's (Sunsine) 1H21 net profit spiked 221.8% yoy to Rmb265.2m, as revenue jumped to Rmb1,757.5m (+68.6% yoy) due to both increased sales volume of 93,162 tonnes (+22.1%) and higher ASPs of rubber accelerators by 37% yoy to Rmb18,642/tonne. The better-than-expected ASP was due to: 1) the increase in price of aniline- the major feedstock for rubber accelerators; 2) higher production utilisation rates of Chinese tyre manufacturing companies; and 3) a shift in market dynamics to favour large rubber chemical players such as SunSine.
- Bottom-line lifted by improved operating leverage.** 1H21 gross margin expanded 8.2ppt to 31.4% yoy (2H20: 27.8%, 1H20: 23.2%). This resulted in improved operating leverage, with a 221.8% spike in net profit to Rmb265.2m, and a 7.2ppt yoy expansion in net margin to 15.1%.
- Gaining ground from higher capacity and elevated ASPs.** The good set of 1h21 results was attributed to management's perseverance with the continued investments to expand capacity over the past few years, despite the downward trend in rubber accelerator prices. The move is now paying off, with market share for SunSine more entrenched, alongside the strong recovery in the China economy as negative impacts from the COVID-19 pandemic subsides. Furthermore, higher crude oil prices have resulted in the similar rise of ASP for its derivatives, including rubber accelerators.

### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2019	2020	2021F	2022F	2023F
Net turnover	2,692	2,334	3,597	3,760	4,172
EBITDA	565	422	664	658	594
Operating profit	453	302	532	487	433
Net profit (rep./act.)	389	219	445	408	363
Net profit (adj.)	389	219	445	408	363
EPS (Fen)	39.9	22.5	45.8	42.0	37.4
PE (x)	6.1	10.8	5.3	5.8	6.5
P/B (x)	0.9	0.9	0.8	0.7	0.6
EV/EBITDA (x)	1.8	2.4	1.5	1.6	1.7
Dividend yield (%)	2.1	2.1	3.6	3.4	2.9
Net margin (%)	14.4	9.4	12.4	10.8	8.7
Net debt/(cash) to equity (%)	(50.0)	(48.7)	(42.8)	(45.6)	(48.6)
Interest cover (x)	1,184.5	324.8	n.a.	n.a.	n.a.
ROE (%)	15.9	8.3	15.2	12.4	10.1
Consensus net profit	-	-	363	404	407
UOBKH/Consensus (x)	-	-	1.22	1.01	0.89

Source: SunSine, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$0.510
Target Price	S\$0.695
Upside	+36.3%

### COMPANY DESCRIPTION

Sunsine produces rubber chemicals, primarily rubber accelerators and other related rubber chemicals such as insoluble sulphur and anti-oxidants.

### STOCK DATA

GICS sector	Materials
Bloomberg ticker:	CSSC SP
Shares issued (m):	970.4
Market cap (S\$m):	494.9
Market cap (US\$m):	362.8
3-mth avg daily t'over (US\$m):	0.1

### Price Performance (%)

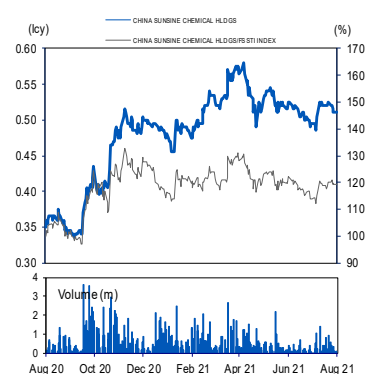
52-week high/low	S\$ 0.58/S\$ 0.335			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
2.0	0.0	5.2	41.7	3.0

### Major Shareholders

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

FY21 NAV/Share (Rmb)	3.21
FY21 Net Cash/Share (Rmb)	1.37

### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- **Vehicle numbers growth in China outweighs global auto chip shortage.** In Jun 21, trade group China Association of Automobile Manufacturers (CAAM) revised its 2021 growth forecast from 6.5% to 9.5% for the delivery of 22.1m new light vehicles in China, after contracting in 2018-20. The upward revision came despite production cuts in the global auto market due to the chip shortage situation.
- **Good proxy to the recovering China auto sector.** Sunsine derives the bulk of sales from China (1H21: 60.7%, 2020: 69%, 2019: 61%), which has been on an uptrend due to the strengthening economy since Mar 20, as well as government efforts to stimulate the automobile industry through subsidies.

### EARNINGS REVISION/RISK

- We have lowered our revenue estimates for 2021 and 2022 by 5.7% and 10.2% to Rmb3,596.9m and Rmb3,760.0m respectively. This is to account for the delay in commercial production for the Phase 1 30,000-tonne per annum insoluble sulphur (IS) project and the 30,000-tonne per annum anti-oxidant (TMQ) project, both initially slated to begin in 3Q21.
- On the flip side, we have raised our 2021 gross margin assumption from 22.8% to 28.5%, owing to the higher-than-expected profitability of 31.4% in 1H21 due to the elevated crude oil prices. 2022 gross margin assumption of 27.5% is maintained, in line with expectations for a 4% dip yoy in Brent crude price in 2022.
- Accordingly, earnings estimates for 2021 have risen 48.4% to Rmb444.9m, while earnings estimates for 2022 have been reduced 14.6% to Rmb407.6m. This implies an anticipated 8.4% slip yoy in net profit.

### VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of S\$0.695.** We have re-based our valuation year to 2022F, and value Sunsine at 8.4x PE, or +1SD above its historical 3-year average. At the current price, Sunsine is attractively valued at 6.1x 2022F PE relative to its closest peer Shandong Yanggu Huatai (Not Rated, 300121 CH), which trades at 8.5x forward PE.

### SHARE PRICE CATALYST

- ASPs for rubber accelerators remain elevated.

### PLANNED CAPACITY EXPANSION

Product	Current capacity (ton)	Expansion (ton)	% increase	New capacity (ton)	Completion date	Commercial Production
Rubber Accelerators	117,000					
Insoluble Sulphur	30,000	30,000	+100	60,000	Obtaining trial run approval	4Q21
Anti-oxidant	45,000	30,000	+67	75,000	Undergoing internal testing	Early-2022
<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 @ 20 Aug 21 (lcy)	Market Cap (US\$m)	PE			P/B			EV/EBITDA			Net Gearing (%)	ROE 2021F (%)
					2020 (x)	2021F (x)	2022F (x)	2020 (x)	2021F (x)	2022F (x)	2020 (x)	2021F (x)	2022F (x)		
China Sunsine	CSSC SP	S\$	0.510	367	11.4	5.6	6.1	0.9	0.8	0.7	2.8	2.0	1.5	(48.7)	14.3
Shandong Yanggu Huatai	300121 CH	CNY	10.98	3,038	14.0	10.4	8.5	2.2	2.1	1.7	n.a.	n.a.	n.a.	15.4	19.0
Lanxess AG	LXS GR	US\$	57.50	3,709	30.9	13.7	11.5	1.5	1.6	1.5	8.2	7.7	6.5	34.4	10.5
Eastman Chemical	EMN US	US\$	109.74	10,991	14.0	12.0	11.6	2.5	2.3	2.1	16.1	8.6	8.4	85.7	16.3
Arkema SA	AKE FP	EUR	105.30	5,960	7.4	12.5	12.9	1.6	1.4	1.3	4.2	6.3	6.3	22.3	10.8
<b>Global average</b>					<b>16.6</b>	<b>12.1</b>	<b>11.1</b>	<b>1.9</b>	<b>1.8</b>	<b>1.6</b>	<b>9.5</b>	<b>7.5</b>	<b>7.1</b>	<b>39.4</b>	<b>14.1</b>

Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
<b>Net turnover</b>	<b>2,333.7</b>	<b>3,596.9</b>	<b>3,760.0</b>	<b>4,171.9</b>
EBITDA	422.3	663.7	657.7	594.1
Deprec. & amort.	120.5	132.1	170.8	160.9
EBIT	301.8	531.6	487.0	433.2
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(1.3)	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>300.5</b>	<b>531.6</b>	<b>487.0</b>	<b>433.2</b>
Tax	(81.7)	(86.7)	(79.4)	(70.6)
Minorities	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>218.8</b>	<b>444.9</b>	<b>407.6</b>	<b>362.6</b>
Net profit (adj.)	218.8	444.9	407.6	362.6

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
<b>Fixed assets</b>	<b>864.6</b>	<b>997.5</b>	<b>1,026.7</b>	<b>985.8</b>
Other LT assets	68.3	68.3	68.3	68.3
Cash/ST investment	1,326.2	1,333.3	1,567.2	1,808.4
Other current assets	913.0	1,244.7	1,361.6	1,528.9
<b>Total assets</b>	<b>3,172.1</b>	<b>3,643.7</b>	<b>4,023.8</b>	<b>4,391.4</b>
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	451.4	523.2	577.9	664.1
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	0.0	4.1	5.7	3.7
Shareholders' equity	2,720.7	3,116.4	3,440.2	3,723.6
Minority interest	0.0	0.0	0.0	0.0
<b>Total liabilities &amp; equity</b>	<b>3,172.1</b>	<b>3,643.7</b>	<b>4,023.8</b>	<b>4,391.4</b>

### CASH FLOW

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
<b>Operating</b>	<b>426.9</b>	<b>321.3</b>	<b>517.7</b>	<b>440.4</b>
Pre-tax profit	300.5	531.6	487.0	433.2
Tax	(63.4)	(84.1)	(83.1)	(75.1)
Deprec. & amort.	120.5	132.1	170.8	160.9
Working capital changes	103.2	(258.3)	(56.9)	(78.6)
Non-cash items	(33.9)	0.0	0.0	0.0
<b>Investing</b>	<b>(239.6)</b>	<b>(265.0)</b>	<b>(200.0)</b>	<b>(120.0)</b>
Capex (growth)	(279.3)	(265.0)	(200.0)	(120.0)
Proceeds from sale of assets	60.0	0.0	0.0	0.0
Others	(20.3)	0.0	0.0	0.0
<b>Financing</b>	<b>(99.7)</b>	<b>(49.3)</b>	<b>(83.8)</b>	<b>(79.2)</b>
Dividend payments	(49.3)	(49.3)	(83.8)	(79.2)
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
<b>Net cash inflow (outflow)</b>	<b>87.6</b>	<b>7.1</b>	<b>233.9</b>	<b>241.2</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>1,279.9</b>	<b>1,326.2</b>	<b>1,333.3</b>	<b>1,567.2</b>
Changes due to forex impact	(41.3)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>1,326.2</b>	<b>1,333.3</b>	<b>1,567.2</b>	<b>1,808.4</b>

### KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	18.1	18.5	17.5	14.2
Pre-tax margin	12.9	14.8	13.0	10.4
Net margin	9.4	12.4	10.8	8.7
ROA	7.2	13.1	10.6	8.6
ROE	8.3	15.2	12.4	10.1
<b>Growth</b>				
Turnover	(13.3)	54.1	4.5	11.0
EBITDA	(25.3)	57.2	(0.9)	(9.7)
Pre-tax profit	(33.6)	76.9	(8.4)	(11.0)
Net profit	(43.7)	103.4	(8.4)	(11.0)
Net profit (adj.)	(43.7)	103.4	(8.4)	(11.0)
EPS	(43.5)	103.4	(8.4)	(11.0)
<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	(48.7)	(42.8)	(45.6)	(48.6)
Interest cover (x)	324.8	n.a.	n.a.	n.a.

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