

Singapore

ADD (no change)

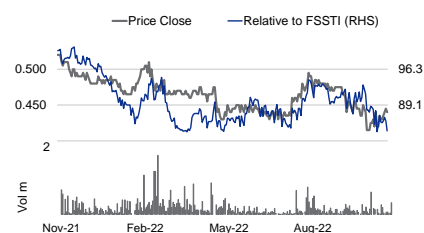
Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price:	S\$0.44
Target price:	S\$0.60
Previous target:	S\$0.70
Up/downside:	36.4%
CGS-CIMB / Consensus:	-14.3%
Reuters:	CHSN.SI
Bloomberg:	CSSC SP
Market cap:	US\$309.8m
	S\$425.7m
Average daily turnover:	US\$0.04m
	S\$0.06m
Current shares o/s:	970.5m
Free float:	35.0%

*Source: Bloomberg

Key changes in this note

➤ FY23-24F EPS lowered by 4.1-4.5%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.1	-7.4	-16.2
Relative (%)	-6.2	-7.1	-17.2

Major shareholders

	% held
Success More Group Limited	63.3

China SunSine Chemical Holdings

Weaker demand likely to compress margins

- 3Q22 core net profit of Rmb128m (-45% qoq, +28% yoy) above expectations on stronger sales volumes, but gross profit spread has started to compress.
- We see narrowing profit spread in the near-term as we expect weaker end demand and rising input costs. We lower our FY23-24F EPS by 4.1-4.5%.
- Reiterate Add given undemanding valuations at 1.9x FY23F P/E (ex-cash).

3Q22: Resilient sales volumes despite tough operating environment

China SunSine's 3Q22 core net profit of Rmb128m (-45% qoq, +28% yoy) came in above our expectations, with 9M22 net profit forming 88% of our FY22F forecast despite a challenging macro environment. The beat was due to stronger-than-expected sales volumes (-6% yoy), as we had projected a steeper decline in view of a slowdown in China's economy. 3Q22 GPM saw some contraction on a qoq basis to 27.2%, but was stronger on a yoy basis. Stronger yoy profits were also helped by a lower effective tax rate as SunSine was awarded the "High-Tech Enterprise" status in May 2022, which entitles it to a concessionary tax rate of 15% for three years.

Narrower profit spread expected in 4Q22F

According to sci99.com, a Chinese commodity market information service provider, both rubber accelerator and aniline prices recorded similar mom increases in Sep/Oct of c.20%. We believe that rubber accelerator ASP growth was driven largely by increased input costs rather than stronger end demand. Given that SunSine typically locks in quarterly pricing for its rubber accelerator products with major customers while taking spot prices for raw materials, we see narrower profit spread in 4Q22F and forecast GPM to decline further on a sequential basis to c.25%.

Global slowdown will likely dampen sales volumes further

With global macro conditions deteriorating further, we believe rubber accelerator sales volumes will be negatively impacted as consumers dial back discretionary spending such as automobiles. While the potential reopening of China could help spur domestic demand recovery, we still expect FY23-24F sales volumes to be lower than FY22F levels on export weakness. We hence lower our FY23-24 EPS by 4.1-4.5%.

Reiterate Add with a lower TP of S\$0.60

Our TP is lowered to S\$0.60, now pegged to a lower 0.7x FY23F P/BV (0.5 s.d. below 10-year historical mean) from 0.9x as we account for a potentially weaker FY23F. Reiterate Add on attractive valuations (1.9x FY23F P/E ex-cash) and strong free cash flow generation track record. Re-rating catalysts include stronger recovery in downstream demand and easing Covid-19 measures in China. Downside risks include further intensifying price competition which could shrink SunSine's profit spread.

Analyst(s)

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Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	2,334	3,725	3,901	3,668	3,752
Operating EBITDA (Rmbm)	402.1	831.4	903.1	769.0	823.3
Net Profit (Rmbm)	218.8	506.3	650.1	506.9	548.8
Core EPS (Rmb)	0.22	0.52	0.63	0.52	0.57
Core EPS Growth	(40%)	132%	21%	(17%)	8%
FD Core P/E (x)	10.08	4.34	3.58	4.33	4.00
DPS (Rmb)	0.05	0.10	0.11	0.12	0.12
Dividend Yield	2.27%	4.21%	4.97%	5.23%	5.23%
EV/EBITDA (x)	2.18	0.99	0.44	0.06	(0.33)
P/FCFE (x)	14.91	16.28	4.22	4.72	5.05
Net Gearing	(48.7%)	(43.4%)	(48.3%)	(52.2%)	(54.3%)
P/BV (x)	0.81	0.69	0.59	0.53	0.48
ROE	8.3%	17.2%	17.8%	12.9%	12.7%
% Change In Core EPS Estimates			3.51%	(4.46%)	(4.12%)
CGS-CIMB/Consensus EPS (x)			1.03	0.95	0.96

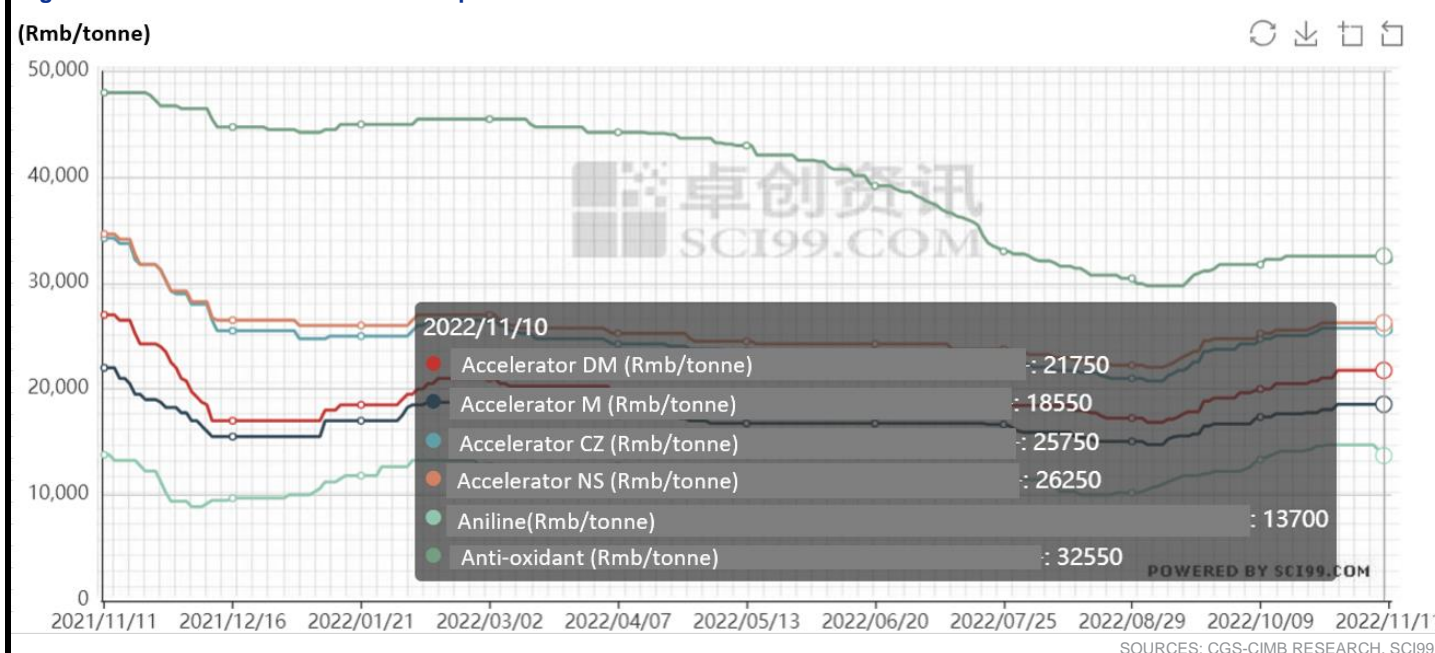
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Earnings revision

Earnings revision (Rmbm)	FY22F			FY23F			FY24F		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	3,688	3,901	5.8%	3,845	3,668	-4.6%	4,210	3,752	-10.9%
EBITDA	870	903	3.7%	809	769	-4.9%	880	823	-6.4%
Net profit	629	650	3.3%	531	507	-4.5%	572	549	-4.1%
Core net profit	593	614	3.5%	531	507	-4.5%	572	549	-4.1%
Core EPS (Rmb cents)	61.1	63.3	3.5%	54.7	52.2	-4.5%	59.0	56.5	-4.1%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Rubber accelerator and aniline prices



SOURCES: CGS-CIMB RESEARCH, SCI99

Figure 3: Price trend of key rubber accelerators in China

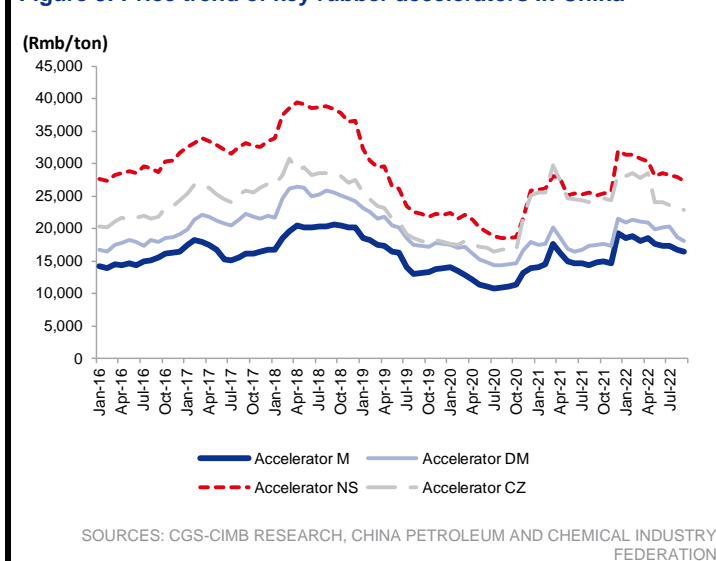
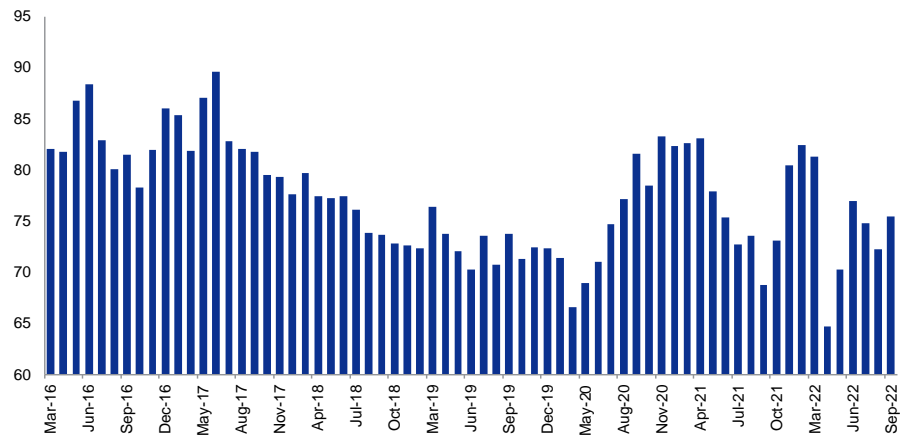


Figure 4: Aniline price trend

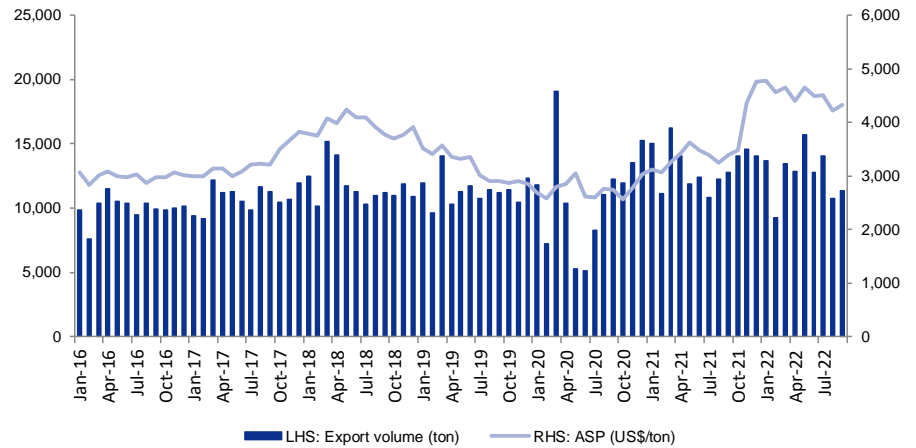


Figure 5: Rubber tyre production volume in China (millions)



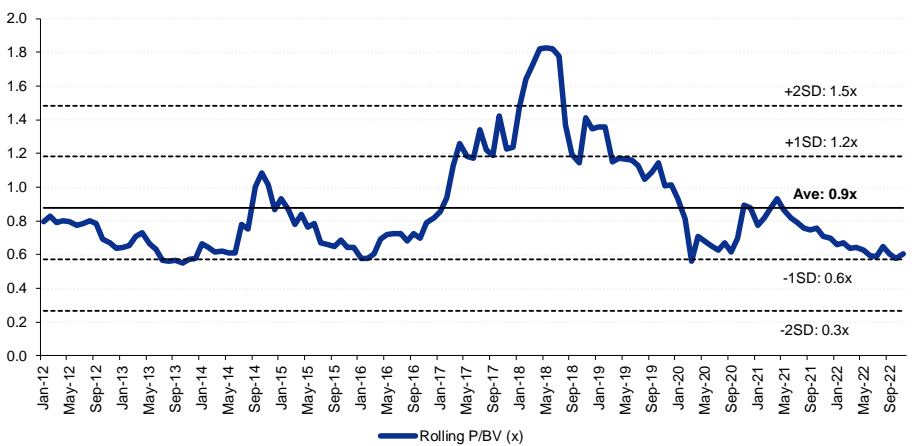
SOURCES: CGS-CIMB RESEARCH, NATIONAL BUREAU OF STATISTICS

Figure 6: Monthly export data of rubber accelerators (China)



SOURCES: CGS-CIMB RESEARCH, CHINA PETROLEUM AND CHEMICAL INDUSTRY FEDERATION

Figure 7: China Sunshine Chemical Holdings P/BV (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG



ESG in a nutshell

We find Sunsine's commitment to invest in environmental protection commendable. The company has been constantly improving its operational efficiencies and environmental protection efforts to stay ahead of government regulations; this is key to business continuity given that environmental protection is fast gaining traction in China among policy makers and the public. Its environmental management team comprises more than 123 employees, all well equipped with relevant environmental protection knowledge and experience, including five post-graduate staff specialised in environmental protection. In FY21 alone, the company invested Rmb157m on environmental protection.

Keep your eye on

It is important to ensure Sunsine is fully compliant in both gaseous emissions and wastewater discharge meeting local emission standards. It should have zero environmental incidents as well.

Implications

Environmental protection is fast gaining traction in China among policy makers and the public; this has significant implications, especially to the chemicals industry. It is important that Sunsine is fully compliant with national environmental regulations to ensure smooth operations.

ESG highlights

In FY20, Sunsine added a 20,000-tonne p.a. N-tert-butylbenzothiazole sulphonamide (TBBS) production line in Shanxian. This new TBBS line is the first ever continuous, fully-automated and "green" production line in China's rubber chemicals industry, and touts "zero discharge" of wastewater. In order to reduce its environmental risks and waste treatment cost, Sunsine in Jul 2020 also acquired Heze Yongshun Environmental Protection Technology Co Ltd, a hazardous waste disposal enterprise.

Implications

This shows constant R&D efforts by Sunsine to further improve its operational efficiencies and environmental protection efforts to stay ahead of government regulations. Improved cost efficiencies should help Sunsine enjoy absolute cost advantage over peers as well.

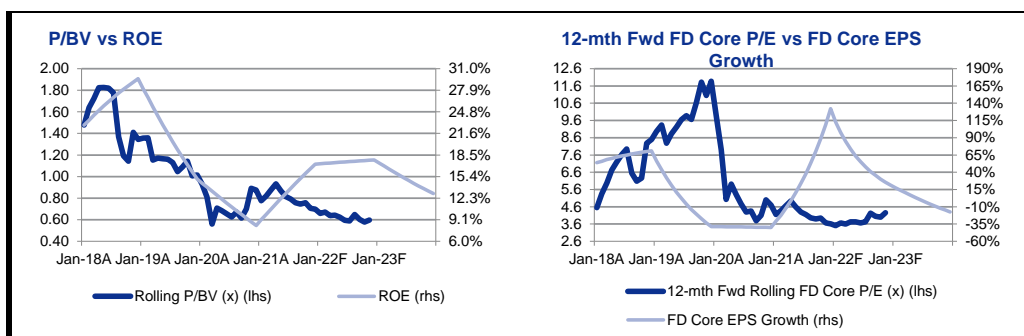
Trends

In FY20, Sunsine was able to reduce its energy consumption through usage of energy-saving equipment, and adoption of a more efficient way of production. In FY21, however, its steam and electricity unit consumption increased by 22% and 16%, respectively, due to increased production volumes.

Implications

Energy efficiency is part and parcel of environmental protection management. It is crucial for Sunsine to continually invest in this area so that the company is always ahead of government regulations. This can ensure business continuity.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

Profit & Loss

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	2,334	3,725	3,901	3,668	3,752
Gross Profit	600	1,047	1,186	1,039	1,089
Operating EBITDA	402	831	903	769	823
Depreciation And Amortisation	(122)	(156)	(164)	(154)	(158)
Operating EBIT	280	675	739	615	666
Financial Income/(Expense)	21	24	(1)	(1)	(1)
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	301	699	739	614	665
Exceptional Items	0	0	0	0	0
Pre-tax Profit	301	699	739	614	665
Taxation	(82)	(193)	(89)	(108)	(116)
Exceptional Income - post-tax					
Profit After Tax	219	506	650	507	549
Minority Interests	0	0	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	219	506	650	507	549
Recurring Net Profit	219	506	614	507	549
Fully Diluted Recurring Net Profit	219	506	614	507	549

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	402.1	831.4	903.1	769.0	823.3
Cash Flow from Inv. & Assoc.					
Change In Working Capital	47.0	(320.8)	(43.0)	54.6	(21.2)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	20.0	(12.1)	0.0	0.0	0.0
Net Interest (Paid)/Received	20.8	24.2	(0.5)	(0.5)	(0.5)
Tax Paid	(63.0)	(124.9)	(88.7)	(107.5)	(116.4)
Cashflow From Operations	426.9	397.8	770.9	715.6	685.2
Capex	(275.3)	(213.2)	(250.0)	(250.0)	(250.0)
Disposals Of FAs/subsidiaries	(42.4)	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	60.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	22.1	(49.5)	0.0	0.0	0.0
Cash Flow From Investing	(235.6)	(262.7)	(250.0)	(250.0)	(250.0)
Debt Raised/(repaid)	(43.4)	0.0	0.0	0.0	0.0
Proceeds From Issue Of Shares	(7.6)	0.0	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(48.8)	(46.8)	(97.1)	(114.9)	(114.9)
Preferred Dividends					
Other Financing Cashflow	(3.9)	(5.9)	0.0	0.0	0.0
Cash Flow From Financing	(103.7)	(52.7)	(97.1)	(114.9)	(114.9)
Total Cash Generated	87.6	82.4	423.8	350.7	320.3
Free Cashflow To Equity	147.9	135.1	520.9	465.6	435.2
Free Cashflow To Firm	192.6	135.1	521.4	466.1	435.7

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	1,326	1,377	1,801	2,152	2,472
Total Debtors	716	1,105	1,015	955	977
Inventories	198	357	372	360	365
Total Other Current Assets	0	0	0	0	0
Total Current Assets	2,239	2,840	3,188	3,466	3,813
Fixed Assets	865	939	1,025	1,121	1,214
Total Investments	0	0	0	0	0
Intangible Assets	68	145	145	145	145
Total Other Non-Current Assets	0	0	0	0	0
Total Non-current Assets	933	1,084	1,170	1,266	1,358
Short-term Debt	0	0	0	0	0
Current Portion of Long-Term Debt					
Total Creditors	410	638	520	502	507
Other Current Liabilities	42	109	109	109	109
Total Current Liabilities	451	747	629	611	617
Total Long-term Debt	0	0	0	0	0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
Total Non-current Liabilities	0	0	0	0	0
Total Provisions	0	0	0	0	0
Total Liabilities	451	747	629	611	617
Shareholders' Equity	2,721	3,176	3,729	4,121	4,555
Minority Interests	0	0	0	0	0
Total Equity	2,721	3,176	3,729	4,121	4,555

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	(13.3%)	59.6%	4.7%	(6.0%)	2.3%
Operating EBITDA Growth	(24%)	107%	9%	(15%)	7%
Operating EBITDA Margin	17.2%	22.3%	23.2%	21.0%	21.9%
Net Cash Per Share (Rmb)	1.36	1.42	1.86	2.22	2.55
BVPS (Rmb)	2.80	3.27	3.84	4.25	4.69
Gross Interest Cover	215	N/A	1,479	1,230	1,331
Effective Tax Rate	27.2%	27.6%	12.0%	17.5%	17.5%
Net Dividend Payout Ratio	22.8%	18.3%	16.8%	22.7%	20.9%
Accounts Receivables Days	110.4	89.2	99.2	98.0	94.2
Inventory Days	46.94	37.80	49.02	50.82	49.81
Accounts Payables Days	77.34	71.36	77.81	70.92	69.35
ROIC (%)	21.7%	48.4%	41.1%	31.9%	33.8%
ROCE (%)	11.4%	23.7%	21.4%	15.7%	15.3%
Return On Average Assets	6.5%	13.6%	15.7%	11.2%	11.1%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Accelerators ASP (Rmb/tonne)	15,781.2	21,850.5	23,000.0	22,750.0	22,500.0
Insoluble Sulphur ASP (Rmb/tonne)	7,470.2	8,249.7	8,100.0	8,075.0	8,050.0
Anti-oxidant ASP (Rmb/tonne)	13,268.2	20,390.0	26,000.0	25,500.0	25,000.0
Accelerators sales volume (tonne)	91.0	102.0	92.0	89.0	91.0
Insoluble Sulphur sales volume (tonne)	30.7	37.3	39.0	37.5	39.0
Anti-oxidant ASP sales volume (tonne)	46.0	54.6	54.0	50.0	53.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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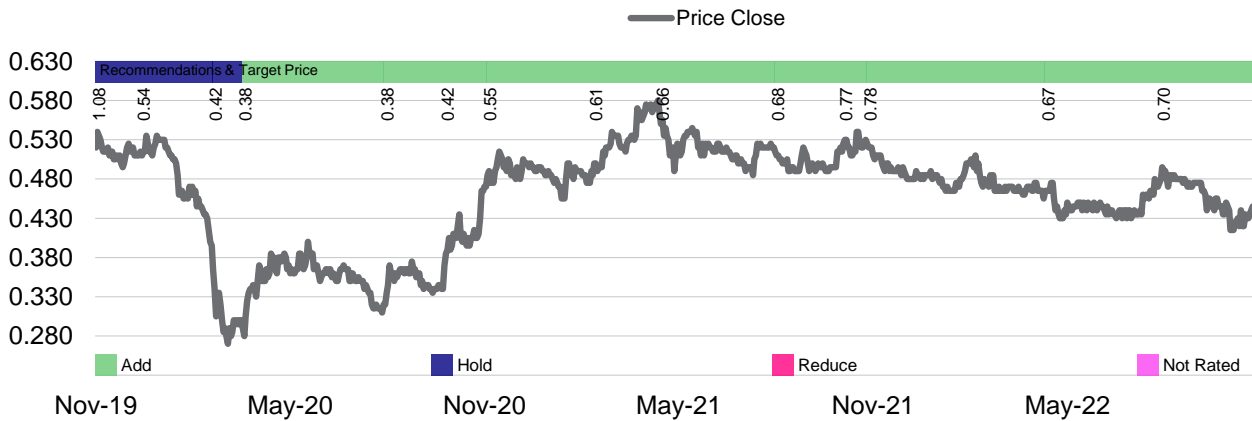
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2022		
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	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.6%
Hold	25.2%	0.2%
Reduce	8.0%	0.2%

Spitzer Chart for stock being researched (2 year data)

China Sunshine Chemical Holdings (CSSC SP)



Recommendation Framework

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Definition:

Add The stock's total return is expected to exceed 10% over the next 12 months.

Hold The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

Reduce The stock's total return is expected to fall below 0% or more over the next 12 months.

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