

## Singapore

**HOLD** (previously ADD)

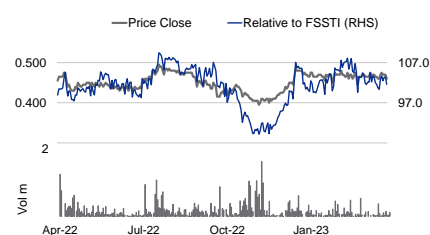
Consensus ratings\*: Buy 2 Hold 0 Sell 0

Current price:	S\$0.46
Target price:	S\$0.48
Previous target:	S\$0.60
Up/downside:	4.3%
CGS-CIMB / Consensus:	-18.3%
Reuters:	CHSN.SI
Bloomberg:	CSSC SP
Market cap:	US\$332.1m
	S\$444.0m
Average daily turnover:	US\$0.03m
	S\$0.03m
Current shares o/s:	969.2m
Free float:	35.0%

\*Source: Bloomberg

**Key changes in this note**

➤ FY23-25F EPS lowered by 19-35%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.4	-2.1	-1.1
Relative (%)	2.1	1.2	0.1

**Major shareholders**

Success More Group Limited 63.3% held

**Analyst(s)**

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# China SunSine Chemical Holdings

## Price competition heating up

- 1Q23 net profit of Rmb67m (-57% yoy) was below expectations due to SunSine's pricing strategy to prioritise volume growth, which hurt margins.
- Downstream demand recovery remains lacklustre YTD; industry peers' capacity expansion could lead to continued pricing competition.
- Downgrade to Hold on concerns over intensifying price competition. Our TP is lowered to S\$0.48, pegged to 0.6x FY23F P/BV.

### 1Q23: Weaker margins amid intensifying competition

China SunSine's 1Q23 net profit of Rmb67m (-23% qoq, -57% yoy) came in below our expectations at 13% of our FY23F, mainly due to weaker GPM of 22.4% (-11.6% pts yoy), as China SunSine pursued pricing strategy to prioritise volume growth amidst weak downstream demand and intensifying competition. Sales volume grew by 17% yoy in 1Q23, but revenue fell 8% yoy due to a 21% yoy reduction in ASPs.

### Patchy domestic demand recovery post Covid reopening

Downstream demand recovery YTD was slower than expected, as car sales in China declined 6.7% yoy in 1Q23. Our China banks analyst also pointed out that [households chose to deleverage rather than consume](#), which could signal a more gradual pace of demand recovery until more meaningful government policies are rolled out to promote a sustained recovery in consumption. Meanwhile, SunSine notes that export sales YTD have remained stable, but it remains cautious in its full-year outlook given the global economic woes. SunSine expects the intensified pricing competition to persist given the lacklustre downstream demand and industry capacity oversupply with bigger peers expanding production capacity. According to sci99.com, a Chinese commodity market information provider, rubber accelerator and anti-oxidant prices declined mom in Apr, while aniline prices (key raw material) rose. We now forecast SunSine's GPM at 24% for FY23F (-6.4% pts yoy), and expect net profit to decline 49% yoy on a high base in FY22.

### Downgrade to Hold

While we remain positive on SunSine's potential to gain further market share over time given its cost advantages and stronger balance sheet vs. peers, we downgrade China SunSine from Add to Hold on concerns over intensifying price competition. Our TP is lowered to S\$0.48, now pegged to 0.6x FY23F P/BV (1 s.d. below its 5-year historical mean), from 0.7x previously. We cut FY23-25F EPS due to lower margin assumptions. Potential re-rating catalysts include government stimulus to promote big-ticket consumption in China, and easing pricing competition. Downside risks could include prolonged pricing competition or a sharp increase in input costs leading to margin erosion.

**Financial Summary**

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (Rmbm)	3,725	3,825	3,605	3,733	3,862
Operating EBITDA (Rmbm)	736.7	816.1	501.8	605.2	695.5
Net Profit (Rmbm)	506.3	642.4	327.3	394.1	455.9
Core EPS (Rmb)	0.52	0.63	0.34	0.41	0.47
Core EPS Growth	132%	20%	(46%)	20%	16%
FD Core P/E (x)	4.57	3.81	7.06	5.86	5.07
DPS (Rmb)	0.10	0.15	0.15	0.15	0.15
Dividend Yield	4.09%	6.29%	6.29%	6.29%	6.29%
EV/EBITDA (x)	1.27	1.16	0.96	0.51	0.16
P/FCFE (x)	21.28	34.76	3.79	7.31	6.71
Net Gearing	(43.4%)	(37.0%)	(47.2%)	(48.5%)	(49.6%)
P/BV (x)	0.73	0.63	0.60	0.56	0.52
ROE	17.2%	17.7%	8.7%	9.9%	10.7%
% Change In Core EPS Estimates			(35.2%)	(28.1%)	(19.3%)
CGS-CIMB/Consensus EPS (x)			0.66	0.70	0.79

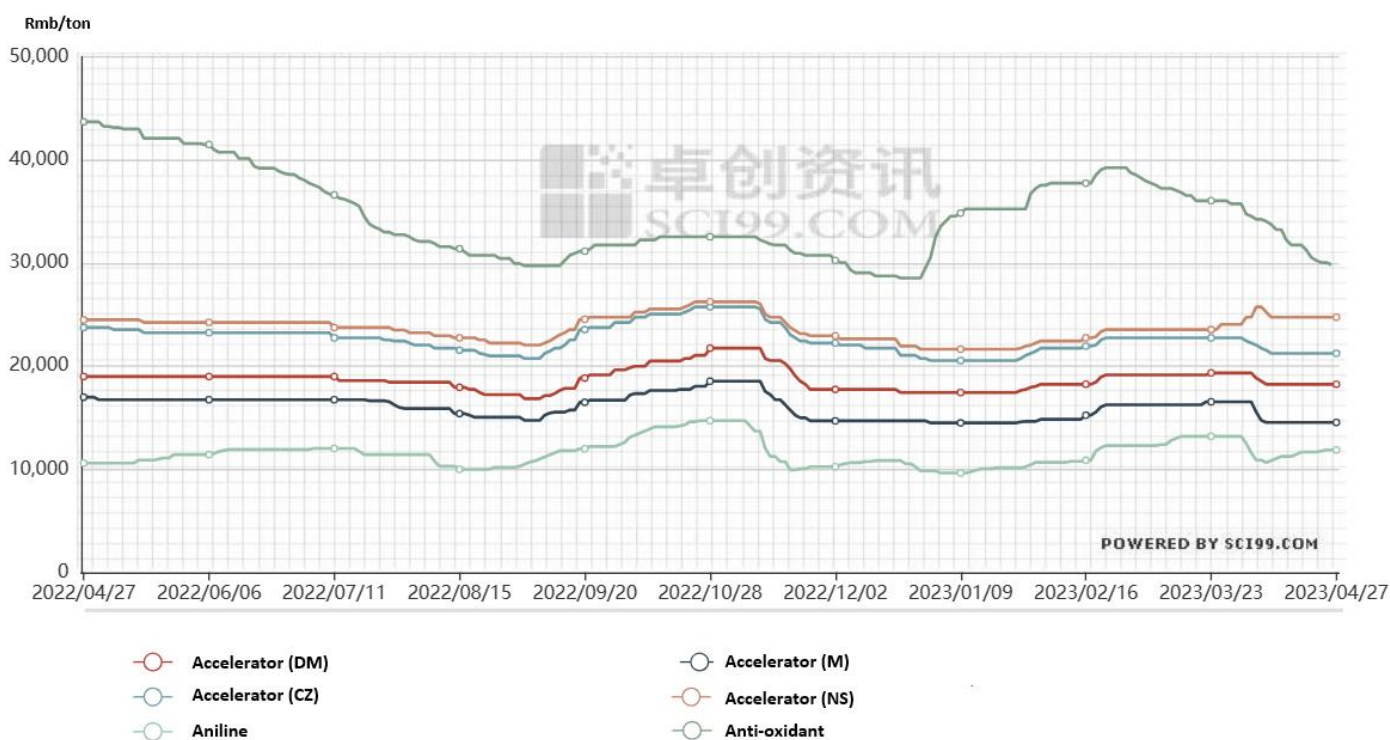
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Dec (Rmb m)	1Q23	1Q22	yoy % chg	4Q23	qoq % chg	FY23F	FY22	yoy % chg	Prev FY23F	Comments
Revenue	863.0	938.0	-8.0	881.5	-2.1	3,815.3	3,825.0	(0.3)	3,815.3	In line at 23% of FY23F. Stronger volumes (+17% yoy) but weaker ASPs (-21% yoy)
Cost of sales	(669.7)	(619.1)	8.2	(669.9)	0.0	(2,921.0)	(2,661.1)	9.8	(2,777.1)	
<b>Gross profit</b>	<b>193.3</b>	<b>318.9</b>	<b>-39.4</b>	<b>211.6</b>	<b>-8.6</b>	<b>894.3</b>	<b>1,163.9</b>	<b>(23.2)</b>	<b>1,038.2</b>	<b>Below. Adoption of flexible pricing resulted in weaker profit spreads</b>
GPM (%)	22.4%	34.0%		24.0%		23.4%	30.4%		27.2%	
<b>Net profit</b>	<b>67.0</b>	<b>157.0</b>	<b>-57.3</b>	<b>86.9</b>	<b>-22.9</b>	<b>335.9</b>	<b>642.4</b>	<b>(47.7)</b>	<b>505.0</b>	
<b>Core net profit</b>	<b>67.0</b>	<b>157.0</b>	<b>-57.3</b>	<b>86.9</b>	<b>-22.9</b>	<b>335.9</b>	<b>606.3</b>	<b>(44.6)</b>	<b>505.0</b>	<b>Below at 13% of FY23F</b>
Core NPM (%)	7.8%	16.7%		9.9%		8.8%	15.9%		13.2%	

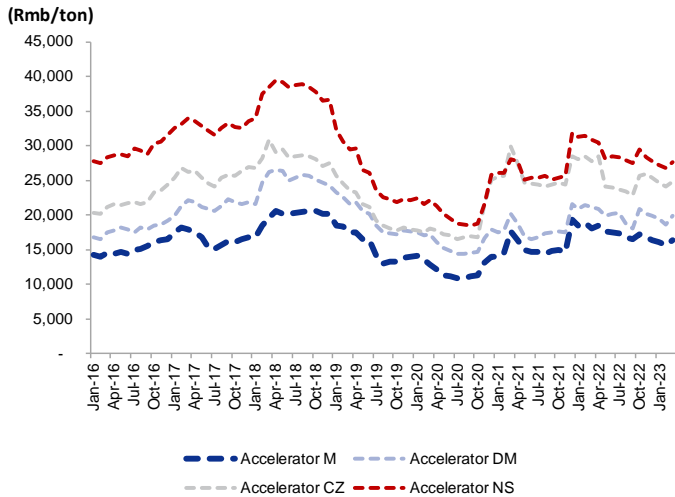
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Accelerator and aniline pricing trend in China. Aniline prices rose in April, while accelerator prices continued to decline



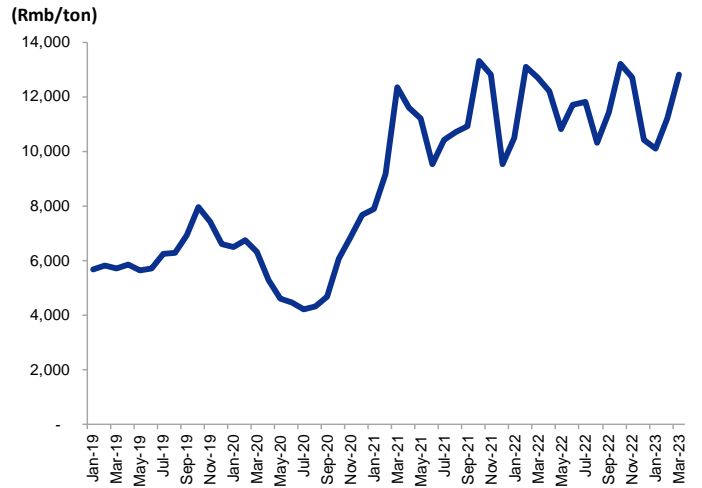
SOURCES: CGS-CIMB RESEARCH, SCI99

**Figure 3: Price trend of key rubber accelerators in China**



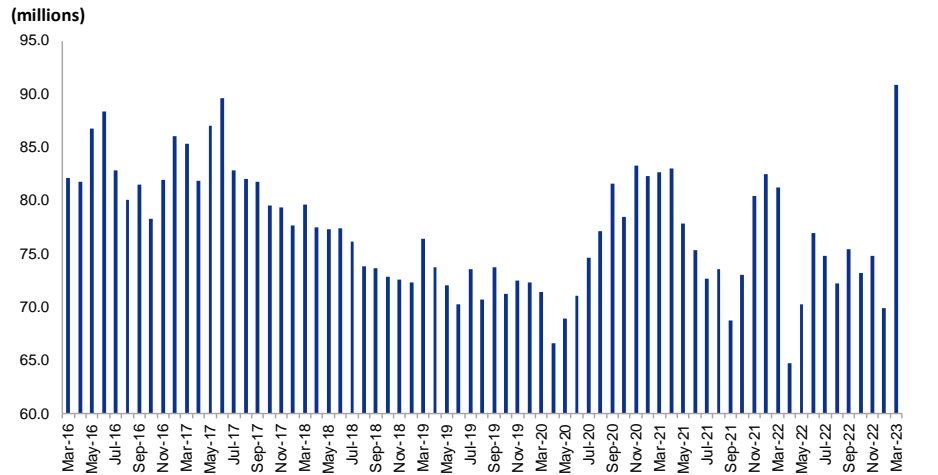
SOURCES: CGS-CIMB RESEARCH, CHINA PETROLEUM AND CHEMICAL INDUSTRY FEDERATION

**Figure 4: Aniline price trend in China**



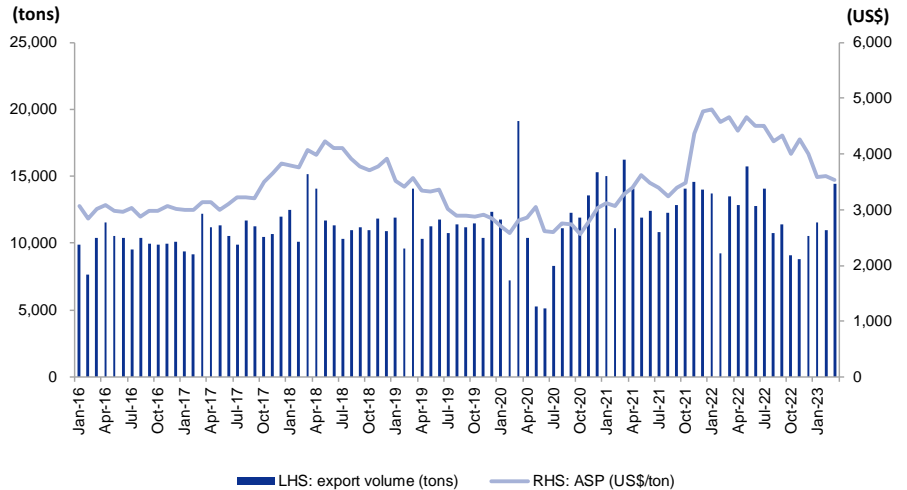
SOURCES: CGS-CIMB RESEARCH, CHINA PETROLEUM AND CHEMICAL INDUSTRY FEDERATION

**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 in China**



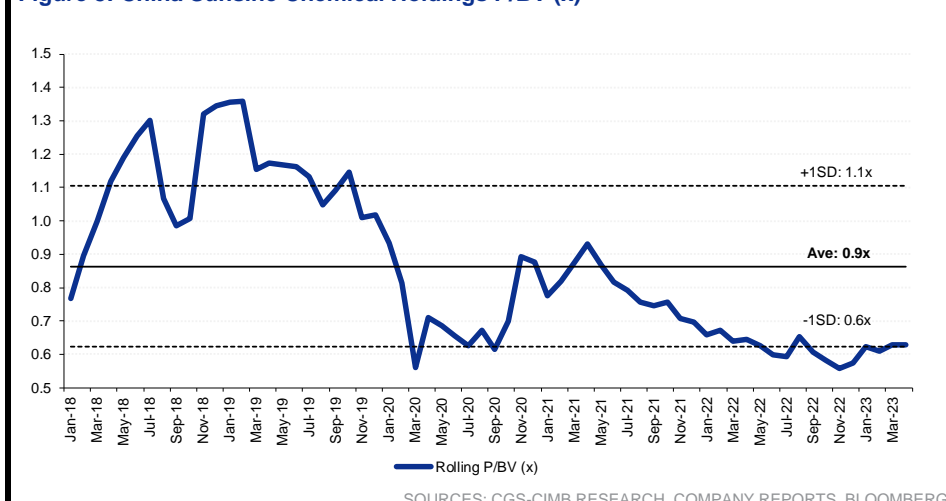
SOURCES: CGS-CIMB RESEARCH, CHINA PETROLEUM AND CHEMICAL INDUSTRY FEDERATION

**Figure 7: Earnings revision**

Earnings revision (RMB m)	New			Old			% change		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	3604.7	3732.8	3862.1	3815.3	3937.0	4013.2	-5.5%	-5.2%	-3.8%
EBIT	364.6	446.1	521.5	532.6	579.7	600.3	-31.5%	-23.0%	-13.1%
Net profit	327.3	394.1	455.9	505.0	547.9	565.0	-35.2%	-28.1%	-19.3%
Core net profit	327.3	394.1	455.9	505.0	547.9	565.0	-35.2%	-28.1%	-19.3%
Core EPS (Rmb cents)	33.77	40.66	47.04	52.11	56.54	58.29	-35.2%	-28.1%	-19.3%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 8: China Sunshine Chemical Holdings P/BV (x)**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG



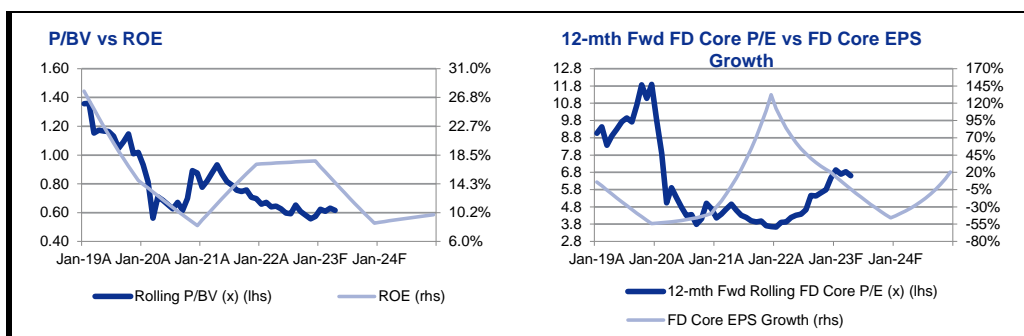
## ESG in a nutshell

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 in environmental protection.

<p><b>Keep your eye on</b></p> <p>It is important to ensure Sunsine is fully compliant in both its gaseous emissions and wastewater discharge meeting local emission standards. It should have zero environmental incidents as well.</p>	<p><b>Implications</b></p> <p>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.</p>
<p><b>ESG highlights</b></p> <p>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. To reduce its environmental risks and waste treatment cost, Sunsine also acquired Heze Yongshun Environmental Protection Technology Co Ltd, a hazardous waste disposal enterprise, in Jul 2020.</p>	<p><b>Implications</b></p> <p>This shows constant R&amp;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 cost advantages over peers as well.</p>
<p><b>Trends</b></p> <p>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.</p>	<p><b>Implications</b></p> <p>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.</p>

SOURCES: CGS-CIMB RESEARCH

## BY THE NUMBERS



### Profit & Loss

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Total Net Revenues</b>	<b>3,725</b>	<b>3,825</b>	<b>3,605</b>	<b>3,733</b>	<b>3,862</b>
<b>Gross Profit</b>	<b>1,046</b>	<b>1,164</b>	<b>866</b>	<b>952</b>	<b>1,041</b>
<b>Operating EBITDA</b>	<b>737</b>	<b>816</b>	<b>502</b>	<b>605</b>	<b>695</b>
Depreciation And Amortisation	(130)	(163)	(137)	(159)	(174)
<b>Operating EBIT</b>	<b>606</b>	<b>653</b>	<b>365</b>	<b>446</b>	<b>521</b>
Financial Income/(Expense)	24	16	15	15	15
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	68	65	20	20	20
<b>Profit Before Tax (pre-EI)</b>	<b>699</b>	<b>734</b>	<b>399</b>	<b>481</b>	<b>556</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>699</b>	<b>734</b>	<b>399</b>	<b>481</b>	<b>556</b>
Taxation	(193)	(91)	(72)	(87)	(100)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>506</b>	<b>642</b>	<b>327</b>	<b>394</b>	<b>456</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>506</b>	<b>642</b>	<b>327</b>	<b>394</b>	<b>456</b>
Recurring Net Profit	506	606	327	394	456
<b>Fully Diluted Recurring Net Profit</b>	<b>506</b>	<b>606</b>	<b>327</b>	<b>394</b>	<b>456</b>

### Cash Flow

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>EBITDA</b>	<b>736.7</b>	<b>816.1</b>	<b>501.8</b>	<b>605.2</b>	<b>695.5</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(320.8)	(574.9)	394.3	12.3	(36.1)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	80.5	20.6	20.5	20.5	20.5
Net Interest (Paid)/Received	0.0	0.0	(0.5)	(0.5)	(0.5)
Tax Paid	(124.9)	(54.3)	(71.8)	(86.5)	(100.1)
<b>Cashflow From Operations</b>	<b>371.5</b>	<b>207.5</b>	<b>844.3</b>	<b>551.0</b>	<b>579.3</b>
Capex	(291.6)	(157.3)	(250.0)	(250.0)	(250.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	28.9	16.3	15.0	15.0	15.0
<b>Cash Flow From Investing</b>	<b>(262.7)</b>	<b>(141.0)</b>	<b>(235.0)</b>	<b>(235.0)</b>	<b>(235.0)</b>
Debt Raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased	(0.9)	(10.6)	0.0	0.0	0.0
Dividends Paid	(46.8)	(118.6)	(145.4)	(145.4)	(145.4)
Preferred Dividends					
Other Financing Cashflow	(5.0)	7.7	(0.5)	(0.5)	(0.5)
<b>Cash Flow From Financing</b>	<b>(52.7)</b>	<b>(121.5)</b>	<b>(145.9)</b>	<b>(145.9)</b>	<b>(145.9)</b>
Total Cash Generated	56.1	(55.0)	463.4	170.2	198.5
<b>Free Cashflow To Equity</b>	<b>108.8</b>	<b>66.5</b>	<b>609.3</b>	<b>316.0</b>	<b>344.3</b>
<b>Free Cashflow To Firm</b>	<b>108.8</b>	<b>66.5</b>	<b>609.8</b>	<b>316.5</b>	<b>344.8</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	1,377	1,365	1,828	1,999	2,197
Total Debtors	1,462	1,785	1,511	1,506	1,550
Inventories					
Total Other Current Assets	0	0	0	0	0
<b>Total Current Assets</b>	<b>2,840</b>	<b>3,150</b>	<b>3,339</b>	<b>3,504</b>	<b>3,747</b>
Fixed Assets	939	862	975	1,065	1,141
Total Investments	0	0	0	0	0
Intangible Assets	145	213	213	213	213
Total Other Non-Current Assets	0	0	0	0	0
<b>Total Non-current Assets</b>	<b>1,084</b>	<b>1,075</b>	<b>1,188</b>	<b>1,278</b>	<b>1,354</b>
Short-term Debt	0	0	0	0	0
Current Portion of Long-Term Debt					
Total Creditors	638	386	506	513	522
Other Current Liabilities	109	147	147	147	147
<b>Total Current Liabilities</b>	<b>747</b>	<b>533</b>	<b>653</b>	<b>660</b>	<b>669</b>
Total Long-term Debt	0	0	0	0	0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
<b>Total Non-current Liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Total Provisions	0	0	0	0	0
<b>Total Liabilities</b>	<b>747</b>	<b>533</b>	<b>653</b>	<b>660</b>	<b>669</b>
Shareholders' Equity	3,176	3,692	3,874	4,122	4,433
Minority Interests					
<b>Total Equity</b>	<b>3,176</b>	<b>3,692</b>	<b>3,874</b>	<b>4,122</b>	<b>4,433</b>

### Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	59.6%	2.7%	(5.8%)	3.6%	3.5%
Operating EBITDA Growth	77.1%	10.8%	(38.5%)	20.6%	14.9%
Operating EBITDA Margin	19.8%	21.3%	13.9%	16.2%	18.0%
Net Cash Per Share (Rmb)	1.42	1.41	1.89	2.06	2.27
BVPS (Rmb)	3.27	3.81	4.00	4.25	4.57
Gross Interest Cover	N/A	N/A	729	892	1,043
Effective Tax Rate	27.6%	12.4%	18.0%	18.0%	18.0%
Net Dividend Payout Ratio	3.83%	4.53%	8.88%	7.38%	6.38%
Accounts Receivables Days	89.2	118.7	127.5	110.8	108.2
Inventory Days	-	-	-	-	-
Accounts Payables Days	71.35	70.19	59.41	67.07	66.95
ROIC (%)	31.5%	31.8%	12.8%	17.9%	20.1%
ROCE (%)	21.4%	19.5%	10.0%	11.5%	12.5%
Return On Average Assets	13.8%	15.4%	7.2%	8.2%	9.0%

### Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Accelerator sales volume (thousand tonnes)	102.0	89.4	97.5	100.0	102.5
Insoluble sulphur sales volume (thousand tonnes)	37.3	37.6	45.0	46.5	48.0
Antioxidants sales volume (thousand tonnes)	54.6	58.1	65.0	67.5	70.0
Accelerator ASP (rmb/tonne)	21,850.5	22,847.0	20,000.0	20,100.0	20,200.5
Insoluble sulphur ASP (rmb/tonne)	8,249.7	7,917.8	6,500.0	6,532.5	6,565.2
Antioxidants ASP (rmb/tonne)	20,390.0	24,203.4	20,000.0	20,100.0	20,200.5

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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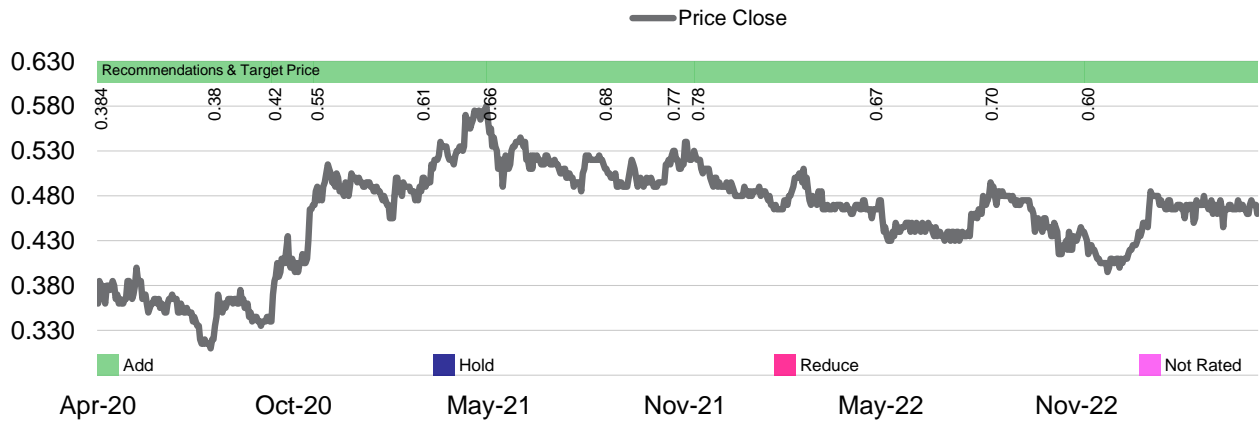
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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2023		
647 companies under coverage for quarter ended on 31 March 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	64.6%	1.1%
Hold	27.0%	0.2%
Reduce	8.3%	0.2%

Spitzer Chart for stock being researched ( 2 year data )

China Sunshine Chemical Holdings (CSSC SP)



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

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