

Singapore

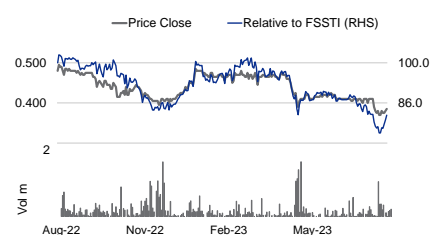
HOLD (no change)

Consensus ratings*: Buy 1 Hold 1 Sell 0

Current price:	S\$0.38
Target price:	S\$0.42
Previous target:	S\$0.48
Up/downside:	9.1%
CGS-CIMB / Consensus:	na
Reuters:	CHSN.SI
Bloomberg:	CSSC SP
Market cap:	US\$272.9m
	S\$370.9m
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

- FY23F core EPS raised by 13% on higher FX gains and interest income.
- FY24-25F core EPS lowered by 3-4% to reflect weaker profit spreads.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-4.9	-6.1	-19
Relative (%)	-3.8	-6.1	-17.8

Major shareholders	% held
Success More Group Limited	63.3

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China SunSine Chemical Holdings

Market competition remains intense

- We deem SunSine's 2Q23 net profit of Rmb128m (+90% qoq, -53% yoy) as a low-quality beat, with outperformance driven by non-operational items.
- We think near-term GP spreads could remain under pressure due to weak demand. Incoming industry supply by end-2023F could intensify competition.
- Reiterate Hold with a lower TP of S\$0.42.

1H23: outperformance driven by non-operational items

China SunSine's 2Q23 net profit of Rmb128m (+90% qoq, -53% yoy) brought 1H23 net profit (-54% yoy) to 59% of our FY23F forecast. We deem this as a low-quality beat, given that the outperformance was mainly driven by non-operational items (FX gains, interest income). 2Q23 sales volumes rose 4% qoq and 5% yoy, with its more flexible pricing strategy; however, revenue was flattish qoq as ASP eased on the back of 1) intensified market competition, and 2) a decline in raw material costs. 2Q23 GPM improved by 2.8% pts qoq to 25.2% but was weaker vs. the high base last year (2Q22: 34.6%).

Cautious outlook amid intense competitive pressure

According to sci99.com, a Chinese commodity market information service provider, rubber accelerator prices rebounded slightly in Aug. SunSine attributed the higher prices mainly to rising input costs. Management has not observed significant improvements in downstream demand YTD and thinks competitive pressure could ramp up further with likely incoming industry supply by end-2023F. While SunSine is optimistic of achieving further sales volume growth, we think its profit spread (on a per tonne basis) could remain under pressure with the adoption of its "flexible pricing strategy" amid intense market competition. Given China's recent economic woes, we maintain our cautious stance on expectations for a demand recovery until we see more government policies rolled out to promote a more sustained recovery in consumption. The Chinese government's recent announcement on ramping up policy support for the domestic automobile sector is a good start, in our view.

Reiterate Hold with lower TP of S\$0.42

While we remain positive on SunSine's potential to win further market share given its cost advantages and stronger balance sheet vs. peers, we reiterate our Hold call on concerns over intense price competition exerting pressure on SunSine's near-term margins. We lower our FY24-25F EPS on lower margin assumptions. Coupled with the recent Rmb depreciation [vs. S\$], our TP is lowered to S\$0.42, still pegged to 0.6x CY23F P/BV (1 s.d. below its 5-year historical mean). Upside risks: government stimulus to promote big-ticket consumption in China, and easing pricing competition. Downside risks: 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	3,448	3,643	3,841
Operating EBITDA (Rmbm)	736.7	816.1	479.9	541.0	635.6
Net Profit (Rmbm)	506.3	642.4	358.9	378.7	444.1
Core EPS (Rmb)	0.52	0.63	0.38	0.39	0.46
Core EPS Growth	132%	20%	(39%)	3%	17%
FD Core P/E (x)	3.97	3.31	5.43	5.29	4.51
DPS (Rmb)	0.10	0.15	0.08	0.08	0.08
Dividend Yield	4.72%	7.25%	3.88%	3.88%	3.88%
EV/EBITDA (x)	0.85	0.78	0.78	0.25	(0.31)
P/FCFE (x)	18.46	30.16	4.76	6.29	4.91
Net Gearing	(43.4%)	(37.0%)	(41.9%)	(44.6%)	(48.2%)
P/BV (x)	0.63	0.54	0.51	0.48	0.44
ROE	17.2%	17.7%	9.7%	9.4%	10.1%
% Change In Core EPS Estimates			12.7%	(3.9%)	(2.6%)
CGS-CIMB/Consensus EPS (x)			0.87	0.77	0.85

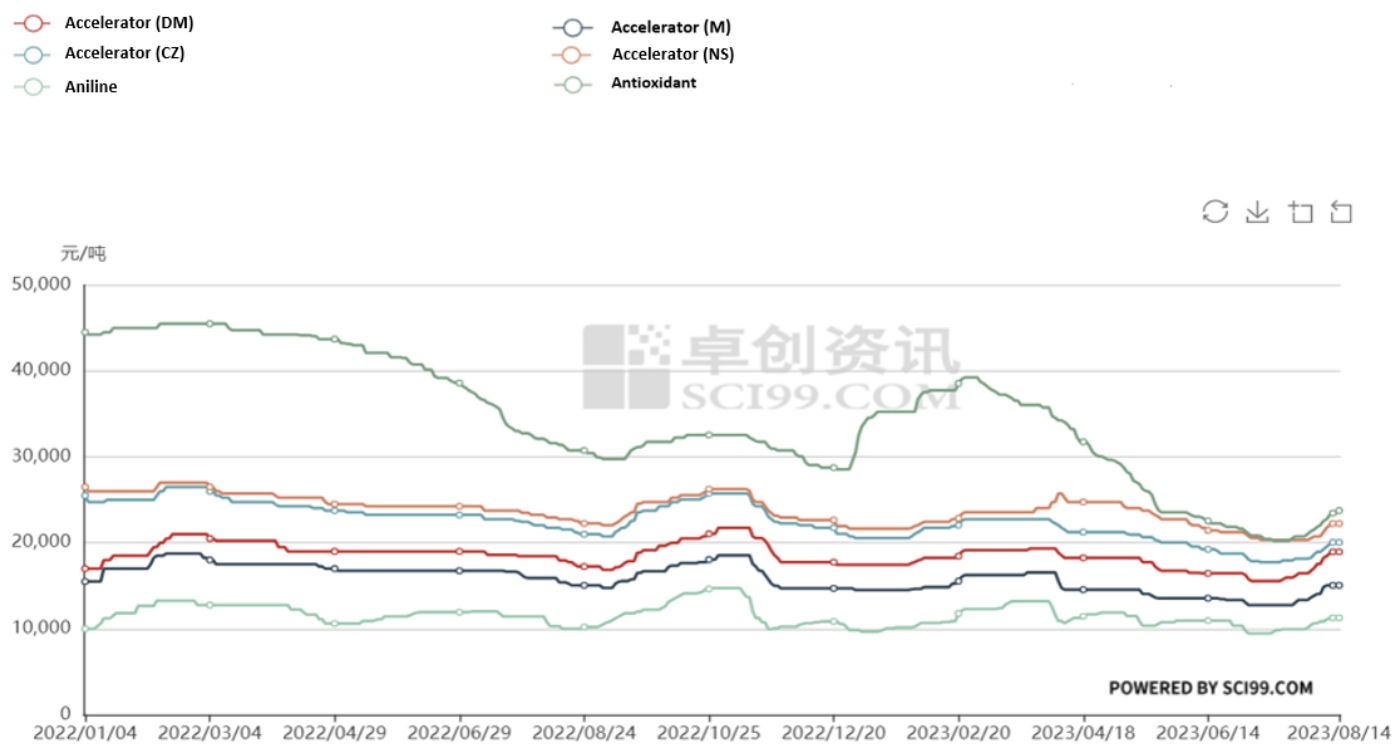
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Dec (Rmb m)	1H23	1H22	yoy % chg	2H22	hoh % chg	Prev. FY23F	Comments
Revenue	1,729.1	2,022.5	(14.5)	1,802.5	(4.1)	3,604.7	Largely in line, formed 48% of our FY23F
Cost of sales	(1,317.1)	(1,328.5)	(0.9)	(1,332.6)	(1.2)	(2,739.0)	
Gross profit	412.0	694.0	(40.6)	469.9	(12.3)	865.7	In line
Gross margin (%)	23.8%	34.3%		26.1%		24.0%	
OpEx	(227.5)	(278.8)	(18.4)	(232.4)	(2.1)	(501.1)	
Operating profit	184.5	415.2	(55.6)	237.5	(22.3)	364.6	In line, formed 51% of our FY23F
Operating margin (%)	10.7%	20.5%		13.2%		10.1%	
Finance income	19.8	11.2	76.8	5.0	296.0	15.0	Above, higher-than-expected interest income and FX gains
Exceptionals	(10.0)	36.1	na	0.0	na	0.0	Rmb10m underprovision of tax
Pretax profit	236.1	470.1	(49.8)	263.6	(10.4)	399.1	Above
Tax	(41.5)	(42.6)	(2.6)	(48.7)	(14.8)	(71.8)	
Tax rate (%)	17.6%	9.1%		18.5%		18.0%	
Net profit	194.6	427.5	(54.5)	214.9	(9.4)	327.3	Above, formed 59% of our FY23F
Core net profit	204.6	391.4	(47.7)	214.9	(4.8)	327.3	

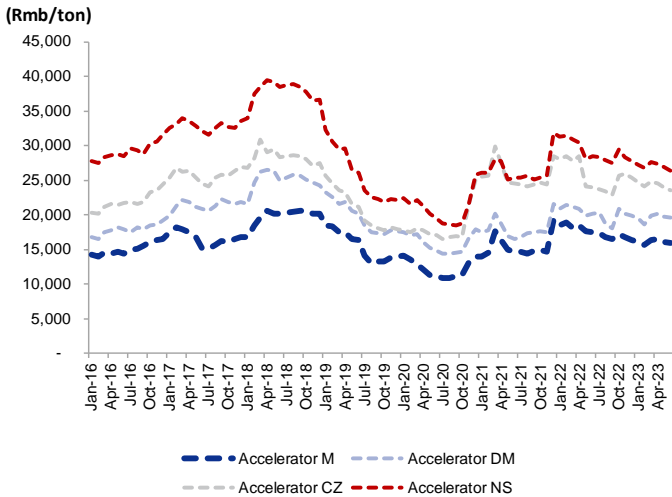
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Accelerator and aniline pricing trend in China. Both accelerator and aniline prices saw a slight rebound in Aug 23



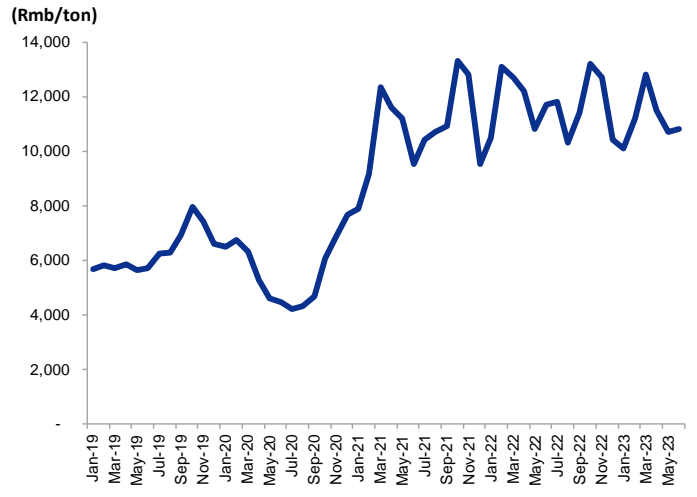
SOURCES: CGS-CIMB RESEARCH, SCI99

Figure 3: Price trend of key rubber accelerators in China



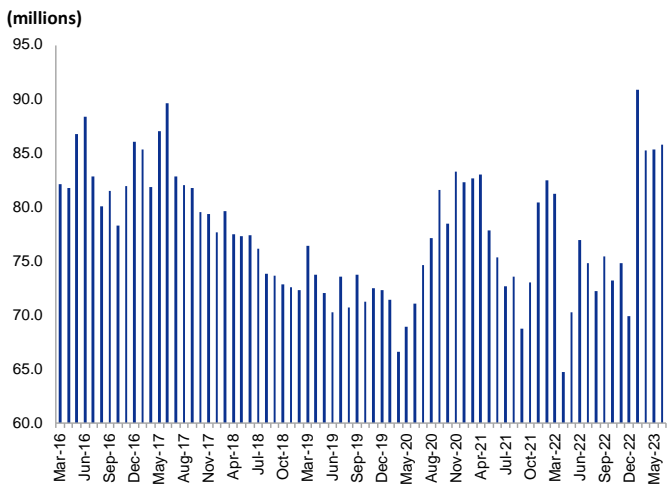
SOURCES: CGS-CIMB RESEARCH, CHINA PETROLEUM AND CHEMICAL INDUSTRY FEDERATION

Figure 4: Aniline price trend in China



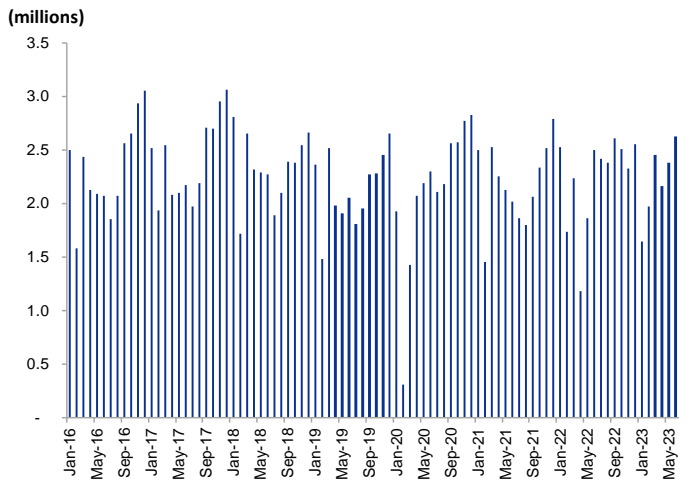
SOURCES: CGS-CIMB RESEARCH, CHINA PETROLEUM AND CHEMICAL INDUSTRY FEDERATION

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



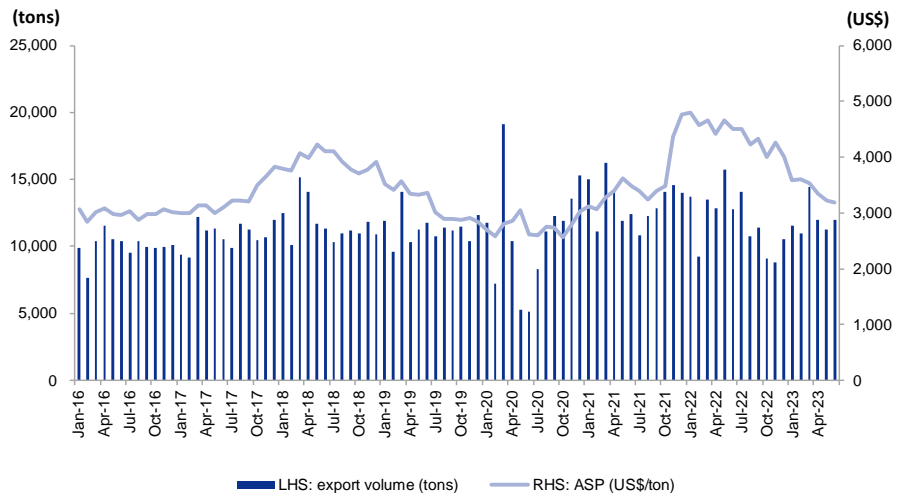
SOURCES: CGS-CIMB RESEARCH, NATIONAL BUREAU OF STATISTICS

Figure 6: Monthly automobile sales in China



SOURCES: CGS-CIMB RESEARCH, CHINA ASSOCIATION OF AUTOMOBILE MANUFACTURERS

Figure 7: Monthly export data of rubber accelerators in China



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

Figure 8: Earnings revision

Earnings revision (RMB m)	New			Old			% change		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	3448.4	3643.0	3840.6	3604.7	3732.8	3862.1	-4.3%	-2.4%	-0.6%
EBIT	342.7	381.9	461.6	364.6	446.1	521.5	-6.0%	-14.4%	-11.5%
Net profit	358.9	378.7	444.1	327.3	394.1	455.9	9.7%	-3.9%	-2.6%
Core net profit	368.9	378.7	444.1	327.3	394.1	455.9	12.7%	-3.9%	-2.6%
Core EPS (Rmb cents)	38.06	39.08	45.82	33.77	40.66	47.04	12.7%	-3.9%	-2.6%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: China Sunshine Chemical Holdings P/BV (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

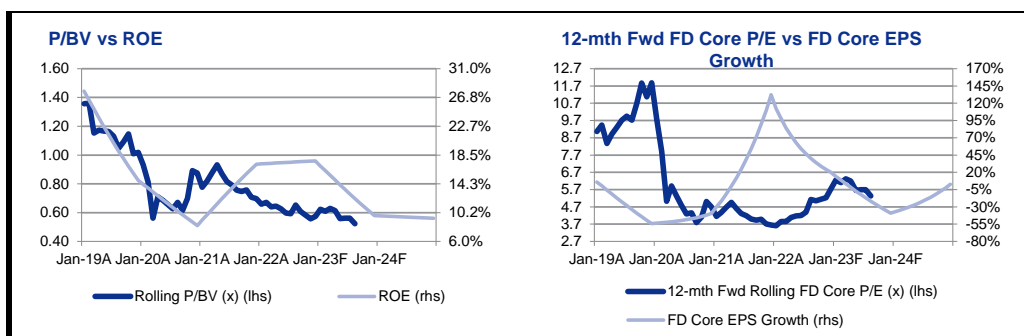


ESG in a nutshell

We find Sunsine's commitment to 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>Keep your eye on</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>Implications</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>ESG highlights</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>Implications</p> <p>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 cost advantages over peers as well.</p>
<p>Trends</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. In FY22, its steam and electricity unit consumption fell by 9 and 6% respectively due to lower production volumes.</p>	<p>Implications</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
Total Net Revenues	3,725	3,825	3,448	3,643	3,841
Gross Profit	1,046	1,164	798	863	969
Operating EBITDA	737	816	480	541	636
Depreciation And Amortisation	(130)	(163)	(137)	(159)	(174)
Operating EBIT	606	653	343	382	462
Financial Income/(Expense)	24	16	35	30	30
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	68	65	60	50	50
Profit Before Tax (pre-EI)	699	734	438	462	542
Exceptional Items					
Pre-tax Profit	699	734	438	462	542
Taxation	(193)	(91)	(79)	(83)	(97)
Exceptional Income - post-tax					
Profit After Tax	506	642	359	379	444
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	506	642	359	379	444
Recurring Net Profit	506	606	369	379	444
Fully Diluted Recurring Net Profit	506	606	369	379	444

Cash Flow

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	736.7	816.1	479.9	541.0	635.6
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(320.8)	(574.9)	175.3	30.5	39.7
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	80.5	20.6	60.0	50.0	50.0
Net Interest (Paid)/Received	0.0	0.0	0.0	0.0	0.0
Tax Paid	(124.9)	(54.3)	(78.8)	(83.1)	(97.5)
Cashflow From Operations	371.5	207.5	636.4	538.4	627.8
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	35.0	30.0	30.0
Cash Flow From Investing	(262.7)	(141.0)	(215.0)	(220.0)	(220.0)
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)	(155.6)	(77.8)	(77.8)
Preferred Dividends					
Other Financing Cashflow	(5.0)	7.7	0.0	0.0	0.0
Cash Flow From Financing	(52.7)	(121.5)	(155.6)	(77.8)	(77.8)
Total Cash Generated	56.1	(55.0)	265.8	240.6	330.0
Free Cashflow To Equity	108.8	66.5	421.4	318.4	407.8
Free Cashflow To Firm	108.8	66.5	421.4	318.4	407.8

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	1,631	1,871	2,201
Total Debtors	1,462	1,785	1,649	1,640	1,617
Inventories					
Total Other Current Assets	0	0	0	0	0
Total Current Assets	2,840	3,150	3,280	3,512	3,818
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
Total Non-current Assets	1,084	1,075	1,188	1,278	1,354
Short-term Debt	0	0	0	0	0
Current Portion of Long-Term Debt					
Total Creditors	638	386	425	447	463
Other Current Liabilities	109	147	147	147	147
Total Current Liabilities	747	533	573	594	610
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	747	533	573	594	610
Shareholders' Equity	3,176	3,692	3,895	4,196	4,562
Minority Interests					
Total Equity	3,176	3,692	3,895	4,196	4,562

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	59.6%	2.7%	(9.8%)	5.6%	5.4%
Operating EBITDA Growth	77.1%	10.8%	(41.2%)	12.7%	17.5%
Operating EBITDA Margin	19.8%	21.3%	13.9%	14.9%	16.5%
Net Cash Per Share (Rmb)	1.42	1.41	1.68	1.93	2.27
BVPS (Rmb)	3.27	3.81	4.02	4.33	4.71
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	27.6%	12.4%	18.0%	18.0%	18.0%
Net Dividend Payout Ratio	3.83%	4.53%	4.05%	3.84%	3.27%
Accounts Receivables Days	89.2	118.7	143.1	131.6	121.7
Inventory Days	-	-	-	-	-
Accounts Payables Days	71.35	70.19	55.84	57.41	57.80
ROIC (%)	31.5%	31.8%	12.1%	13.8%	16.3%
ROCE (%)	21.4%	19.5%	10.0%	10.2%	11.2%
Return On Average Assets	13.8%	15.4%	7.6%	7.7%	8.4%

Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Accelerator sales volume (thousand tonnes)	102.0	89.4	95.0	100.0	105.0
Insoluble sulphur sales volume (thousand tonnes)	37.3	37.6	40.8	45.0	48.5
Antioxidants sales volume (thousand tonnes)	54.6	58.1	65.5	68.0	70.0
Accelerator ASP (rmb/tonne)	21,850.5	22,847.0	19,500.0	19,597.5	19,793.5
Insoluble sulphur ASP (rmb/tonne)	8,249.7	7,917.8	6,550.0	6,582.8	6,648.6
Antioxidants ASP (rmb/tonne)	20,390.0	24,203.4	19,200.0	19,296.0	19,489.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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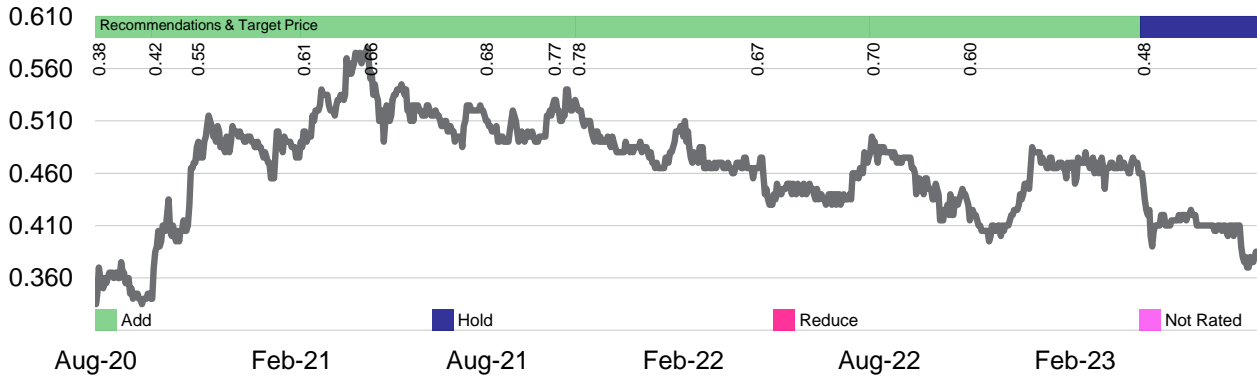
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632 companies under coverage for quarter ended on 30 June 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	65.3%	0.9%
Hold	25.8%	0.3%
Reduce	8.9%	0.0%

Spitzer Chart for stock being researched (2 year data)

China Sunshine Chemical Holdings (CSSC SP)
— Price Close



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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