

COMPANY UPDATE

China Sunshine Chemical (CSSC SP)

Compressed Margins Amid Intensified Competition

Sunsine provided a 3Q23 update, reporting a record-high quarterly sales volume (+16.3% yoy). However, lower ASPs and a flexible pricing strategy led to lower 3Q23 sales (-5% yoy). 3Q23 net profit fell 49% yoy, taking 9M23 net profit to Rmb259.6m and missing our forecast. While domestic vehicle sales continue to improve, in the face of stronger competition, we have lowered earnings expectations for 2023-25. Maintain BUY with a 20% lower target price of S\$0.460 (from S\$0.575).

WHAT'S NEW

- **Margins below expectations.** China Sunshine Chemical (Sunsine) reported 3Q23 revenue of Rmb875m (-5% yoy), mainly due to lower average selling prices of rubber accelerators and its newly-adopted flexible pricing strategy. This was partially mitigated by record-high quarterly sales volume of 56,114 tonnes (+16.3% yoy), from the more flexible pricing strategy implemented to remain competitive in the Chinese rubber chemicals industry. Overall, Sunsine's net profit came in at Rmb65m (-49.2% yoy), bringing 9M23 net profit to Rmb259.6m and making up 53% of our full-year estimate.
- **Potential near-term benefit from higher ASPs of rubber accelerators.** Per Sublime China Information (SCI), the ASPs of rubber accelerators, the main earnings driver for Sunsine, have risen by approximately 36.7% from end-2Q23 to end-3Q23. The rise is in tandem with higher average prices of aniline, the major feedstock for rubber accelerators, which has gained an estimated 33.7% to Rmb13,900/tonne in the same period. This may signal better 4Q23 margins from higher ASPs. To recap, Sunsine adopts quarterly pricing for its major customers, leading to an estimated one quarter pricing time-lag in raw material price changes.
- **Higher vehicle sales a positive for Sunsine.** China's auto sales have risen 8.2% yoy to 21.1m units as at end-9M23, while New Energy Vehicle sales increased 37.5% yoy to 6.3m units in the same period. Overall production utilisation rate of Chinese tyre manufacturing companies has also improved in 3Q23. This demonstrates the recovery of China's economy, which has grown 5.2% yoy in GDP. We believe Sunsine's capacity utilisation rate is poised to improve in line with the growth in vehicle sales. To recap, the capacity utilisation rate for rubber accelerators was 80% as at end-1H23.
- **Continuous expansion projects undertaken.** Phase 1 of a high-quality intermediate material project of 20,000 tonnes/year capacity is expected to commence production in early-24, while Phase 2 of an insoluble sulphur project of 30,000 tonnes/year capacity is expected to begin in 1H24. These projects will increase capacity and are likely to lift sales volume when operational.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	3,725	3,825	3,455	3,730	3,913
EBITDA	829	897	542	623	674
Operating profit	699	734	372	445	489
Net profit (rep./act.)	506	642	324	388	426
Net profit (adj.)	542	606	324	388	426
EPS (Fen)	55.9	62.8	33.5	40.1	44.1
PE (x)	3.8	3.4	6.3	5.3	4.8
P/B (x)	0.6	0.6	0.5	0.5	0.5
EV/EBITDA (x)	0.9	0.8	1.3	1.2	1.1
Dividend yield (%)	4.8	5.8	3.0	3.5	4.1
Net margin (%)	13.6	16.8	9.4	10.4	10.9
Net debt/(cash) to equity (%)	(43.4)	(37.0)	(33.9)	(30.4)	(32.6)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	17.2	18.7	8.6	9.7	9.9
Consensus net profit	-	-	321	363	408
UOBKH/Consensus (x)	-	-	1.01	1.07	1.04

Source: Sunsine, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.395
Target Price	S\$0.460
Upside	+16.5%
(Previous TP:	S\$0.575)

COMPANY DESCRIPTION

Sunsine produces rubber chemicals, primarily rubber accelerators and other related rubber chemicals such as anti-scorching agents.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	CSSC SP
Shares issued (m):	959.7
Market cap (S\$ m):	379.1
Market cap (US\$m):	282.1
3-mth avg daily t'over (US\$m):	0.0

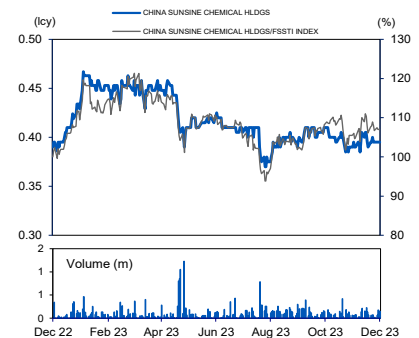
Price Performance (%)

52-week high/low	S\$ 0.467/S\$ 0.370			
1mth	3mth	6mth	1yr	YTD
1.3	1.3	(6.0)	1.2	(3.6)

Major Shareholders

Xu Cheng Qiu	61.4%
FY23 NAV/Share (Rmb)	3.98
FY23 Net Cash/Share (Rmb)	1.35

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Maintaining market leadership and strong balance sheet.** As of end-1H23, management reported that Sunsine remains the top accelerator producer globally, and top insoluble sulphur producer in China. Based on their estimates, the company also leads the domestic market with 33% share for rubber accelerators in 2022. Additionally, total cash and bank balances stood at Rmb1,475.2m with no debt outstanding, which equates to Rmb1.54/share (S\$0.29/share) as at end-1H23. Together with its flexible pricing strategy and capacity expansion plans, Sunsine is likely to remain competitive against its peers.

EARNINGS REVISION/RISK

- **We have tweaked our 2023-25 gross margin assumptions from 29% to 23-24%** over the period, on account of price adjustments in the face of competitive pressures in the industry. Correspondingly, we have lowered our 2023/24/25 earnings estimates by 34%/33%/27% to Rmb324m/Rmb388m/Rmb426m respectively.

VALUATION/RECOMMENDATION

- **Maintain BUY with a 20% lower target price of S\$0.460 (S\$0.575 previously)**, pegged to a multiple of 6x 2024F PE, its long-term average mean. We have rolled our valuation base year to 2024.

SHARE PRICE CATALYST

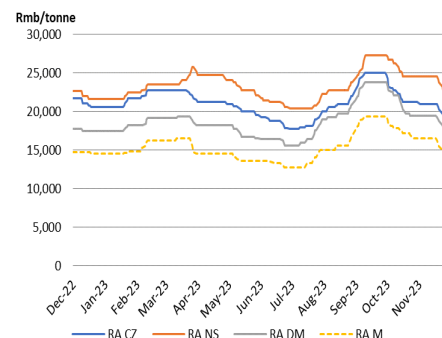
- Production commencement for new capacities.
- Higher ASPs for rubber chemicals.
- Higher-than-expected utilisation rates.

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 11-Dec-23 (lcy)	Market Cap (US\$m)	PE		P/B		EV/EBITDA		ROE 2023 (%)	Yield 2023 (%)	Net Gearing (%)
					2023 (x)	2024 (x)	2023 (x)	2024 (x)	2023 (x)	2024 (x)			
China Sunsine	CSSC SP	S\$	0.395	282	4.4	3.8	0.5	0.5	0.8	0.7	12.0	4.3	(39.3)
Shandong Yanggu Huatai	300121 CH	CNY	8.96	511	8.7	6.9	1.2	1.0	4.6	3.8	12.7	2.8	(1.6)
Lanxess AG	LXS GR	EUR	26.14	2,431	n.a.	16.9	0.5	0.5	9.3	6.9	9.5	1.1	42.3
Eastman Chemical	EMN US	USD	84.85	10,060	13.3	10.8	1.8	1.7	9.3	8.2	14.0	3.7	88.1
Arkema SA	AKE FP	EUR	91.64	7,408	10.6	9.3	0.9	0.9	5.8	5.3	8.9	3.8	23.1
Global average					10.9	11.0	1.1	1.0	7.2	6.1	11.2	2.8	38.0

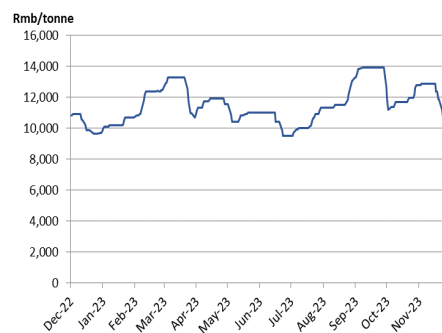
Source: Bloomberg, UOB Kay Hian

ASP FOR RUBBER ACCELERATORS (RA)



Source: China Sunsine, UOB Kay Hian

ASP FOR ANILINE



Source: China Sunsine, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	3,825.0	3,454.8	3,730.4	3,912.7
EBITDA	897.1	542.3	622.8	673.9
Deprec. & amort.	163.4	170.1	177.4	184.6
EBIT	733.7	372.2	445.4	489.3
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	0.0	0.0	0.0	0.0
Pre-tax profit	733.7	372.2	445.4	489.3
Tax	(91.3)	(48.4)	(57.9)	(63.6)
Minorities	0.0	0.0	0.0	0.0
Net profit	642.4	323.8	387.5	425.7
Net profit (adj.)	606.3	323.8	387.5	425.7

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	207.5	195.2	125.0	376.2
Pre-tax profit	733.7	372.2	445.4	489.3
Tax	(53.6)	(117.5)	(42.6)	(54.4)
Deprec. & amort.	159.6	166.6	173.7	180.7
Working capital changes	(631.5)	(226.1)	(451.6)	(239.4)
Non-cash items	(0.7)	0.0	0.0	0.0
Investing	(141.0)	(81.6)	(81.3)	(81.1)
Capex (growth)	(85.2)	(85.0)	(85.0)	(85.0)
Proceeds from sale of assets	0.1	0.0	0.0	0.0
Others	(55.9)	3.4	3.7	3.9
Financing	(121.5)	(175.2)	(86.8)	(97.2)
Dividend payments	(123.1)	(175.2)	(86.8)	(97.2)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	1.6	0.0	0.0	0.0
Net cash inflow (outflow)	(55.0)	(61.5)	(43.1)	197.9
Beginning cash & cash equivalent	1,377.3	1,364.9	1,303.4	1,260.3
Changes due to forex impact	42.6	0.0	0.0	0.0
Ending cash & cash equivalent	1,364.9	1,303.4	1,260.3	1,458.2

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	861.7	780.1	691.4	595.6
Other LT assets	213.0	209.6	205.9	202.0
Cash/ST investment	1,364.9	1,303.4	1,260.3	1,458.2
Other current assets	1,784.9	1,865.6	2,126.3	2,347.6
Total assets	4,224.5	4,158.6	4,283.9	4,603.5
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	532.7	318.2	142.7	133.8
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	0.0	0.0	0.0	0.0
Shareholders' equity	3,691.8	3,840.5	4,141.2	4,469.7
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	4,224.5	4,158.6	4,283.9	4,603.5

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	23.5	15.7	16.7	17.2
Pre-tax margin	19.2	10.8	11.9	12.5
Net margin	16.8	9.4	10.4	10.9
ROA	15.8	7.7	9.2	9.6
ROE	18.7	8.6	9.7	9.9
Growth				
Turnover	2.7	(9.7)	8.0	4.9
EBITDA	8.2	(39.6)	14.9	8.2
Pre-tax profit	4.9	(49.3)	19.7	9.8
Net profit	26.9	(49.6)	19.7	9.8
Net profit (adj.)	11.8	(46.6)	19.7	9.8
EPS	12.3	(46.6)	19.7	9.8
Leverage				
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	(37.0)	(33.9)	(30.4)	(32.6)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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