

COMPANY UPDATE

China SunSine Chemical (CSSC SP)

Safe Proxy To China And Oil Price Recovery With Good Yield; Raise Target Price By 26%

As the Chinese economy recovers with the recent stimulus rollout and higher oil prices brought about by the Middle East conflict, SunSine's demand and ASPs may benefit. We believe SunSine is a safe proxy to China's recovery play as it is deeply undervalued at 2x ex-cash 2024F PE, trading at a 40% discount to its book value. SunSine's regular share buyback is a signal of its positive outlook and stock price undervaluation. Maintain BUY with a 26% higher target price of S\$0.58 (from S\$0.46).

WHAT'S NEW

- Potential improvement in demand and ASPs from stronger Chinese economy and oil prices.** China's latest stimulus measures have improved investor sentiment and may boost consumer confidence. In addition, oil prices have risen due to the Middle East conflict. In turn, China SunSine Chemical's (SunSine) demand could see an uptick in the coming months on the back of stronger demand for vehicles as well as better ASPs as SunSine's product is a derivative of petroleum products. During Jul-Sep 24, ASPs have been flattish on the back of stable raw material prices. Meanwhile, China's GDP grew 5% in 1H24.
- Good dividend yield of around 5% backed by strong balance sheet.** SunSine provides an attractive yield of around 5%, supported by its robust cash balance of Rmb1,751m (+4% hoh) as of 1H24. This translates to Rmb1.82/share (S\$0.34/share) or around 70% of its market cap. This provides ample room for SunSine to potentially raise its dividend and continue to perform share buybacks. SunSine has bought back 3.8m shares for 2024 since the start of its 2024 share buyback plan on 26 Apr 24.
- Expect steady volume growth on the back of strong demand.** SunSine achieved stronger rubber chemical sales volume (+6% yoy) in 1H24. This was driven by higher international sales volume (+20% yoy) from increased capacity utilisation rates for tyre manufacturers based in Southeast Asia, partially offset by lower domestic demand (-2% yoy). As more Chinese tyre manufacturers look to Southeast Asia to beef up production, we expect international sales volume to grow further. Moreover, automakers reported a 6% yoy increase in auto sales in China, while new energy vehicles saw a 32% yoy surge in 1H24. We therefore expect sales volume growth to remain steady for 2024.
- 1H24 results within expectations.** SunSine reported 1H24 earnings of Rmb189m (-3% yoy), which accounted for 49% of our full-year forecast and is largely in line with our expectation. Revenue was flattish yoy at Rmb1,749m, as the higher sales volume (+6% yoy) was offset by a 4% yoy decrease in ASPs. SunSine continues to adopt a flexible pricing strategy to maintain price competitiveness. Gross margin improved more than expected at 24.8% (+1ppt yoy), but net margin fell 0.5ppt.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	3,825	3,490	3,502	3,697	3,891
EBITDA	897	604	634	677	720
Operating profit	734	453	499	536	574
Net profit (rep./act.)	642	372	374	402	431
Net profit (adj.)	606	372	374	402	431
EPS (Fen)	62.8	38.8	39.3	42.2	45.2
PE (x)	4.2	6.8	6.8	6.3	5.9
P/B (x)	0.7	0.6	0.6	0.6	0.5
EV/EBITDA (x)	0.5	0.8	0.8	0.7	0.7
Dividend yield (%)	6.3	5.2	5.2	5.2	5.2
Net margin (%)	16.8	10.7	10.7	10.9	11.1
Net debt/(cash) to equity (%)	(37.0)	(43.0)	(49.0)	(52.1)	(55.2)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	18.7	9.8	9.2	9.3	9.4
Consensus net profit	-	-	376.0	398.0	417.0
UOBKH/Consensus (x)	-	-	1.00	1.01	1.03

Source: SunSine, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.48
Target Price	S\$0.58
Upside	+20.8%
(Previous TP:	S\$0.46)

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):	953.6
Market cap (S\$ m):	467.3
Market cap (US\$m):	360.7
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

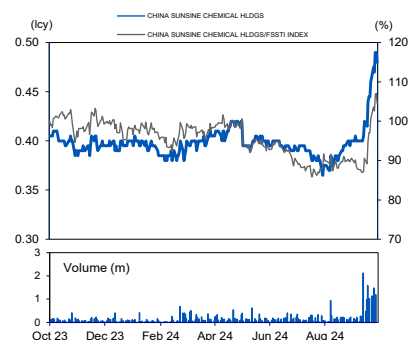
52-week high/low	S\$ 0.490/S\$ 0.365			
1mth	3mth	6mth	1yr	YTD
22.5	25.6	21.0	22.5	24.1

Major Shareholders

	%
Xu Cheng Qiu	61.4
-	-

FY24 NAV/Share (Rmb)	4.38
FY24 Net Cash/Share (Rmb)	1.46

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Continuing to dominate the accelerator market.** Management shared that they have successfully maintained their position as the world's largest accelerator producer, with its market share growing from 22% in 2022 to 23% in 2023. In China, they have also grown their market-leading share from 33% to 35% in 2023. With the largest accelerator capacity globally at 117,000 tonnes, Sunsine is poised to grow its strong customer base of over 1,000, which includes more than 75% of the global top 75 tyre makers including Bridgestone, Goodyear and Michelin.
- Expansion projects underway for 2025 growth.** Phase 1 of a high-quality intermediate material project of 20,000 tonnes/year capacity is expected to commence production in 4Q24, while Phase 2 of an insoluble sulphur project of 30,000 tonnes/year capacity is expected to be completed by end-24. These projects will increase capacity and allow Sunsine to meet customers' requirements, pointing toward higher sales volume in 2025.

EARNINGS REVISION/RISK

- We have raised our 2024/25 gross margin assumptions from 23%/24% to 24%/25% respectively while adding 2026 forecasts,** as raw material costs continue to moderate. However, we have doubled our tax rate forecasts as Sunsine's main subsidiary, Shandong Sunsine, no longer enjoys the 15% concessionary tax rate. We note that Sunsine is still conducting an internal assessment on whether to re-apply for the High-Tech Enterprise status of Shandong Sunsine, which previously expired in Dec 23.
- As a result, we have lowered our 2024/25 earnings estimates by 3%/5% to Rmb374m/Rmb402m respectively (from Rmb388m/Rmb426m previously).**

VALUATION/RECOMMENDATION

- Maintain BUY with a 26% higher target price of S\$0.58 (S\$0.46 previously),** after raising our valuation multiple to +1SD above mean PE of 7.5x 2025F earnings, up from its mean PE of 6x 2024F earnings previously to capture the potential demand and ASPs recovery in 2025. The stock trades at an attractive valuation of 2x ex-cash 2024F PE.

SHARE PRICE CATALYST

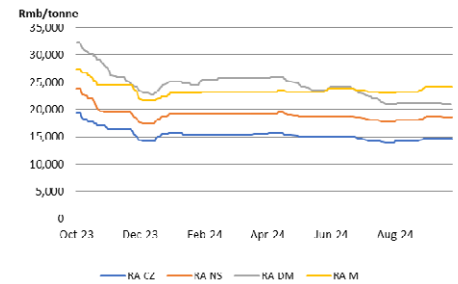
- New manufacturing capacities commencing production.
- Higher ASPs for rubber chemicals.
- Higher-than-expected utilisation rates.

PEER COMPARISON

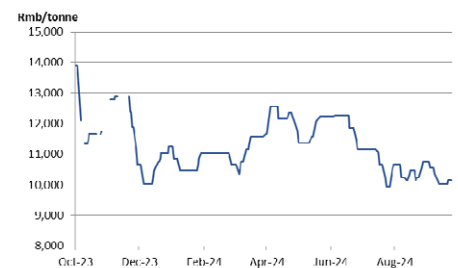
Company	Ticker	Trading Curr (lcy)	Price @ 3-Oct-24 (lcy)	Market Cap (US\$m)	PE		P/B		EV/EBITDA		ROE 2024 (%)	Yield 2024 (%)	Net Gearing (%)
					2024 (x)	2025 (x)	2024 (x)	2025 (x)	2024 (x)	2025 (x)			
China Sunsine	CSSC SP	S\$	0.485	357	4.8	n.a.	0.6	n.a.	0.9	n.a.	12.5	3.9	(44.0)
Shandong Yanggu Huatai	300121 CH	CNY	9.28	541	12.1	8.9	1.1	1.0	n.a.	n.a.	9.0	n.a.	0.3
Lanxess AG	LXS GR	EUR	29.60	2,821	194.7	20.6	0.6	0.6	8.3	6.7	(2.4)	0.4	51.1
Eastman Chemical	EMN US	USD	110.15	12,872	14.3	12.4	2.3	2.1	9.7	8.9	15.9	2.9	79.3
Arkema SA	AKE FP	EUR	87.20	7,222	9.7	8.6	0.9	0.8	5.7	5.2	8.3	4.2	27.5
Global average					57.7	12.6	1.2	1.1	7.9	6.9	7.7	2.5	39.5

Source: Bloomberg, UOB Kay Hian

ASP FOR RUBBER ACCELERATORS (RA)



ASP FOR ANILINE



PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Net turnover	3,490.4	3,501.9	3,697.1	3,891.0
EBITDA	603.9	633.8	676.6	719.8
Deprec. & amort.	150.7	134.8	140.1	145.5
EBIT	453.2	499.0	536.4	574.4
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	453.2	499.0	536.4	574.4
Tax	(80.8)	(124.8)	(134.1)	(143.6)
Minorities	0.0	0.0	0.0	0.0
Net profit	372.4	374.3	402.3	430.8
Net profit (adj.)	372.4	374.3	402.3	430.8

CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Operating	593.3	545.3	479.5	513.7
Pre-tax profit	453.2	499.0	536.4	574.4
Tax	(80.8)	(124.8)	(134.1)	(143.6)
Deprec. & amort.	150.7	134.8	140.1	145.5
Working capital changes	157.1	(11.5)	(69.9)	(69.4)
Non-cash items	(29.3)	0.0	0.0	0.0
Other operating cashflows	(57.6)	47.7	6.9	6.8
Investing	(157.8)	(60.8)	(80.9)	(80.7)
Capex (growth)	(171.2)	(85.0)	(85.0)	(85.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	13.4	24.2	4.1	4.3
Financing	(141.0)	(124.3)	(130.2)	(130.2)
Dividend payments	(126.3)	(124.3)	(130.2)	(130.2)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(14.7)	0.0	0.0	0.0
Net cash inflow (outflow)	294.5	360.2	268.4	302.8
Beginning cash & cash equivalent	1,364.9	1,687.9	2,048.1	2,316.5
Changes due to forex impact	28.5	0.0	0.0	0.0
Ending cash & cash equivalent	1,687.9	2,048.1	2,316.5	2,619.3

BALANCE SHEET

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Fixed assets	863.8	817.8	766.7	710.6
Other LT assets	207.2	203.3	199.3	195.0
Cash/ST investment	1,687.9	2,048.1	2,316.5	2,619.3
Other current assets	1,626.9	1,621.4	1,711.8	1,801.5
Total assets	4,385.8	4,690.6	4,994.3	5,326.4
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	459.2	514.1	545.5	577.0
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	0.0	0.0	0.0	0.0
Shareholders' equity	3,926.6	4,176.6	4,448.7	4,749.4
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	4,385.8	4,690.6	4,994.3	5,326.4

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	17.3	18.1	18.3	18.5
Pre-tax margin	13.0	14.2	14.5	14.8
Net margin	10.7	10.7	10.9	11.1
ROA	8.7	8.2	8.3	8.3
ROE	9.8	9.2	9.3	9.4
Growth				
Turnover	(8.7)	0.3	5.6	5.2
EBITDA	(32.7)	5.0	6.7	6.4
Pre-tax profit	(38.2)	10.1	7.5	7.1
Net profit	(42.0)	0.5	7.5	7.1
Net profit (adj.)	(38.6)	0.5	7.5	7.1
EPS	(38.2)	1.1	7.5	7.1
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	(43.0)	(49.0)	(52.1)	(55.2)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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