



# China SunSine Chemical Hld Ltd

## (CSSC SP/CHSN.SI)

### Halfway towards peak

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- China SunSine's profitability turnaround in FY21 is driven by the commodity upcycle and capacity ramp-up.
- Average selling price (ASP) could fall in 2H21 as macro conditions will likely not be as favourable as in 1H21.
- However, the company's production ramp-up in insoluble sulphur and anti-oxidant is expected to offset the potentially weaker price later this year.
- We maintain **OUTPERFORM** with a higher TP of \$0.68 due to the ASP upswing and increase in sales volume in FY21 and FY22.

Financials & Key Operating Statistics					
YE Dec (RMB m)	FY18	FY19	FY20*	FY21F	FY22F
Revenue	3283.3	2691.6	2333.7	3248.4	3317.4
PATMI	641.3	388.9	218.8	394.2	356.9
EPS (RMB cents)	130.5	79.7	22.5	40.6	36.8
EPS grth (%)	173.6	-38.9	-35.9	80.2	-9.5
P/E (x)	2.0	3.3	11.5	6.4	7.1
DPS (SGCents)	3.0	5.5	1.0	1.0	1.5
Div Yield (%)	2.9	5.3	1.9	1.9	2.9
Gross Margin (%)	34.3	29.0	25.7	29.0	27.0
Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Price / Earnings (x)	2.0	3.3	11.5	6.4	7.1
Price / Book (x)	0.7	0.5	0.5	0.9	0.8
ROE (%)	27.6	15.3	8.0	12.7	10.5

\* 2 for 1 share split in FY20

Source: Company Data, KGI Research

**Riding on economic recovery and commodity upcycle.** While the COVID-19 pandemic continues to cause disruptions around the world, China is one of the few countries which successfully contained it and prevented a new wave of outbreak. Benefiting from the normalisation of economic and business activities, China has been recording a consecutive 14-month of manufacturing PMI above 50 since March 2020. Meanwhile, global expansionary monetary policies have resulted in rising commodity prices. China SunSine as the top rubber chemical producers is benefiting from both demand-pull and cost-push commodity upcycle.

**Rubber chemicals prices have turned around since October 2020.** Selling prices have increased exponentially due to the low base last year. Most prices are approaching the levels of the peak in mid-2018. The current price of chemicals like anti-oxidant A has reached new highs. However, the price of the main underlying feedstock aniline has also soared. Price spreads between end products and raw materials shows mixed performances as some have broken new highs while others are still depressed.

**Great management vision.** In addition to favourable selling prices and improving profit margins in 2H20, the well-timed ramp-up of capacity also helped buffered against the cyclical downturn. Thanks to the commercial operation of 20,000 tonnes of TBBS in 2H20, the 13% YoY increase in sales volume propelled the performance turnaround. The capacity

Outperform - Maintain			
Price as of 20 May 21 (\$)	0.51	<b>Performance (Absolute)</b>	
12M TP (\$)	0.68	1 Month (%)	-8.0
Previous TP (\$)	0.53	3 Month (%)	9.2
Upside (%)	33.3	12 Month (%)	49.5
<b>Trading data</b>		<b>Perf. vs STI Index (Red)</b>	
Mkt Cap (\$mn)	495		
Issued Shares (mn)	971		
Vol - 3M Daily avg (mn)	0.8		
Val - 3M Daily avg (\$mn)	0.4		
Free Float (%)	37.8%		
<b>Major Shareholders</b>		<b>Previous Recommendations</b>	
Success More Group	60.1%	2-Feb-21	OP \$0.53
Phoenician Capital LLC	1.1%	18-Aug-20	OP \$0.47
		11-Oct-19	OP \$0.60

expansion during the downturn in 2019 was a correct strategic move and proves management's foresight and vision.

**Valuation & Action:** We maintain our OUTPERFORM rating with a higher target price of \$0.68 due to the upswing in ASP and increase in sales volume in FY21 and FY22.

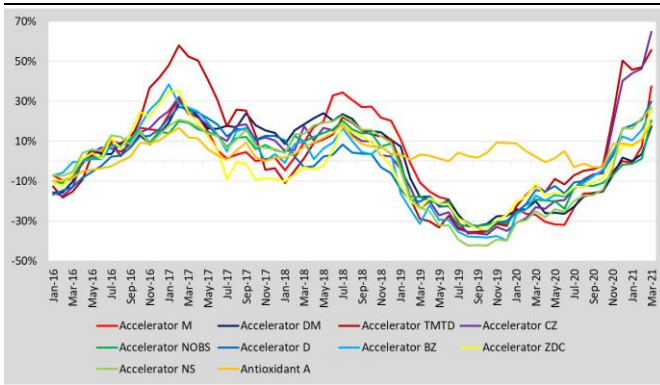
Figure 1: DCF forecast

RMB mn	FY21F	FY22F	FY23F
Net income	394	357	375
Net capex	(150)	(150)	(100)
Change in net WC	(122)	40	-
Change in borrowing	-	-	-
FCFE	122	247	275
Beta	0.9		
Required rate of return	8.3%		
Growth	0.5%		
FX (SGD/RMB)	5.00		
TP (SGD)	0.68		

Source: KGI Research

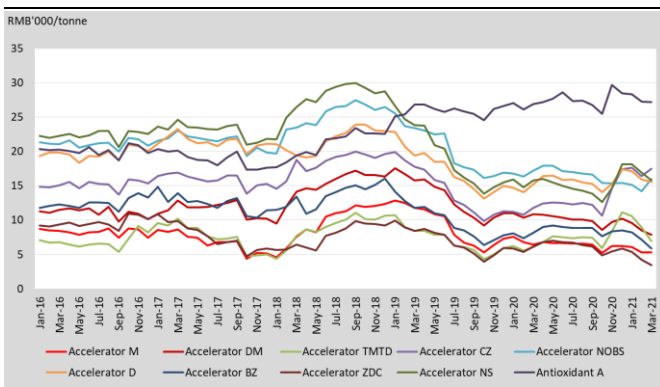
**Risks:** We expect the macro environment in 2H21 to be less favourable than 1H21. Global supply and demand dynamics will be more balanced as prevailing vaccination will gradually rein in infections. China has tightened credit facilities since 4Q20, while the US could start tapering QE later this year. Therefore, the bull cycle in commodities could peak in 3Q/4Q21. Meanwhile, the 2022 Beijing Winter Olympics will be held in early February. Investors should be familiar with the seasonal winter haze in the northern part of China. It is highly likely that authorities will release a suspension work order similar to what it did before and during the 2008 Beijing Summer Olympics for plants located in Shandong and Hebei province. Therefore, it is unknown whether 4Q21 production will be affected.

Figure 2: Rubber chemicals prices turned around since October 2020



Source: China Petroleum and Chemical Industry Federation, KGI Research

Figure 3: Price spread between rubber chemicals and aniline



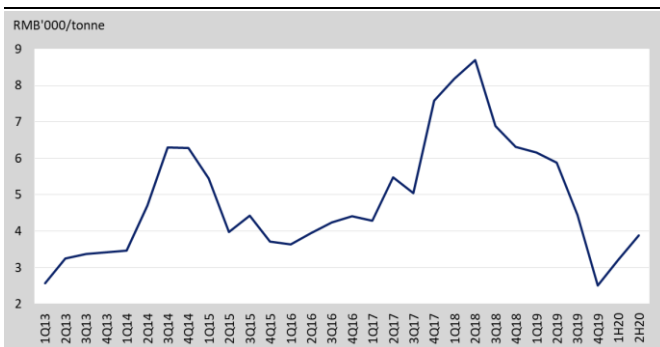
Source: China Petroleum and Chemical Industry Federation, KGI Research

Figure 4: Financials and operating data periodic comparison

Financials (RMB mn)	2H20	2H19	YoY change
Revenue	1291.1	1278.0	1%
Gross profit	358.4	292.8	22%
PAT	136.4	123.0	11%
Margins (%)		Percentage points change	
GPM	27.8%	22.9%	4.9
NPM	10.6%	9.6%	1.0
Sales volume (tonnes)		YoY change	
Accelerators	50,470	44,472	13%
Insoluble Sulphur	17,322	14,986	16%
Anti-oxidant	24,471	24,898	-2%
ASP (RMB/tonne)		YoY change	
Accelerators	15,467	17,953	-14%
Insoluble Sulphur	7,413	8,468	-12%
Anti-oxidant	14,070	13,230	6%

Source: Company, KGI Research

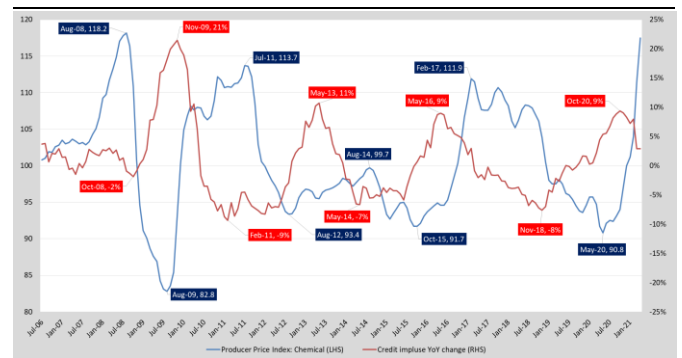
Figure 5: Gross profit per tonne



Source: Company, KGI Research

**Commodity upcycle could peak in 2H21.** There are two factors driving the current commodity upcycle: imbalanced supply and demand dynamics and loose monetary policies. We believe these two factors will start to taper off in 2H21. The ongoing vaccination around the world is expected to gradually control infection cases. Hence, normalisation of production and business activities will result in supply slowly catching up with demand. There is a strong lagging correlation between raw material prices and credit impulse. Generally, the credit cycle is 12 to 15 months ahead of the commodity cycle. China has tightened credit facilities since October 2020. Therefore, we forecast that the current bullish commodity cycle could peak in 3Q/4Q21.

Figure 6: Correlation between China credit impulse and PPI-Raw Materials



Source: Bloomberg, KGI Research

**New capacity will buffer the topping out of prices again.**

There are 30,000 tonnes of insoluble sulphur and 30,000 tonnes of anti-oxidant TMQ that are expected to commence commercial operation in 2H21. To quantify, theoretical production volume of insoluble sulphur is expected to increase by 100% YoY in 2H21 and 50% YoY in FY21; production volume of anti-oxidant is expected to increase by 66.7% YoY in 2H21 and 33% YoY in FY21. Meanwhile, we believe the ASP in 2H21 will be comparable to 1H21 on a conservative assumption. In a nutshell, Sunshine will deliver a better performance in FY21.

Figure 7: ASP and sale volume forecast

	FY21F	FY22F	FY23F
<b>Sales volume (tonnes)</b>			
Accelerators	99,450	99,450	99,450
Insoluble Sulphur	45,000	60,000	60,000
Anti-oxidant	59,400	74,250	74,250
<b>Realised ASP (RMB/tonne)</b>			
Accelerators	19,726	17,753	18,641
Insoluble Sulphur	8,595	8,165	8,410
Anti-oxidant	14,330	13,613	14,022
<b>Sales (RMB m)</b>			
Accelerators	1,962	1,766	1,766
Insoluble Sulphur	387	490	490
Anti-oxidant	851	1,011	1,011

Source: KGI Research

YE 31 Dec

INCOME STATEMENT (RMB m)	FY18	FY19	FY20*	FY21F	FY22F
<b>Revenue</b>	<b>3,283</b>	<b>2,692</b>	<b>2,334</b>	<b>3,248</b>	<b>3,317</b>
Cost of sales	(2,157)	(1,911)	(1,733)	(2,306)	(2,422)
<b>Gross Profit</b>	<b>1,126</b>	<b>781</b>	<b>600</b>	<b>942</b>	<b>896</b>
<b>EBITDA</b>	<b>809</b>	<b>567</b>	<b>424</b>	<b>679</b>	<b>632</b>
Depreciation & Amortisation	98	114	122	131	136
<b>EBIT</b>	<b>712</b>	<b>453</b>	<b>302</b>	<b>548</b>	<b>496</b>
<b>Profit from Operations</b>	<b>2,744</b>	<b>1,915</b>	<b>1,449</b>	<b>2,299</b>	<b>2,159</b>
Net Finance (Expense)/Inc	–	(1)	(1)	–	–
<b>Profit before Tax</b>	<b>712</b>	<b>453</b>	<b>301</b>	<b>548</b>	<b>496</b>
Income tax	(70)	(64)	(82)	(153)	(139)
<b>PAT</b>	<b>641</b>	<b>389</b>	<b>219</b>	<b>394</b>	<b>357</b>

BALANCE SHEET (RMB m)	FY18	FY19	FY20*	FY21F	FY22F
Cash and bank balances	1,039	1,279	1,323	1,527	1,838
Inventories	217	247	198	219	241
Trade receivables	691	525	545	698	639
Others	70	139	155	170	181
<b>Current Assets</b>	<b>2,016</b>	<b>2,190</b>	<b>2,220</b>	<b>2,614</b>	<b>2,898</b>
PP&E	691	650	865	885	900
Others	40	39	68	67	66
<b>Non-current Assets</b>	<b>731</b>	<b>689</b>	<b>933</b>	<b>952</b>	<b>965</b>
<b>Total assets</b>	<b>2,747</b>	<b>2,878</b>	<b>3,153</b>	<b>3,566</b>	<b>3,864</b>
Trade payables	63	64	54	87	71
Borrowings	–	–	–	–	–
Others	359	283	362	381	401
<b>Current Liabilities</b>	<b>422</b>	<b>347</b>	<b>416</b>	<b>468</b>	<b>472</b>
Bank loans	–	–	–	–	–
<b>Non-current liabilities</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Shareholders equity	2,326	2,542	2,737	3,098	3,392
<b>Total Equity</b>	<b>2,326</b>	<b>2,542</b>	<b>2,737</b>	<b>3,098</b>	<b>3,392</b>
<b>Total Liabilities and Equity</b>	<b>2,747</b>	<b>2,888</b>	<b>3,153</b>	<b>3,566</b>	<b>3,864</b>

CASH FLOW STATEMENT (RMB m)	FY18	FY19	FY20*	FY21F	FY22F
Profit before tax	712	453	301	548	496
Depreciation & non cash adjustments	98	114	122	131	136
Change in Working Capital	(2)	20	47	(122)	40
Income Tax Paid	(84)	(121)	(63)	(153)	(139)
Interest Paid	–	–	1	–	–
Others	(22)	(24)	19	(22)	(26)
<b>CF from operating activities</b>	<b>701</b>	<b>442</b>	<b>427</b>	<b>381</b>	<b>507</b>
Purchase/Disposal of PPE	(130)	(72)	(279)	(150)	(150)
Others	4	13	40	22	26
<b>CF from investing activities</b>	<b>(125)</b>	<b>(59)</b>	<b>(240)</b>	<b>(128)</b>	<b>(124)</b>
Dividends Paid	(59)	(136)	(49)	(49)	(73)
Debt Raised / (Repaid)	–	–	(43)	–	–
Equity Raised / (Bought Back)	(2)	(13)	(8)	–	–
Others	8	1	0	–	–
<b>CF from financing activities</b>	<b>(52)</b>	<b>(148)</b>	<b>(100)</b>	<b>(49)</b>	<b>(73)</b>
Net increase in cash & cash equiv.	523	235	88	205	310
FX effects	16	9	(43)	–	–
Beginning Cash	496	1,035	1,279	1,323	1,527
<b>Ending Cash</b>	<b>1,035</b>	<b>1,279</b>	<b>1,323</b>	<b>1,527</b>	<b>1,838</b>

KEY RATIOS	FY18	FY19	FY20*	FY21F	FY22F
<b>Profitability</b>					
Core EPS	130.5	79.7	22.5	40.6	36.8
Core EPS Growth (%)	173.6	(38.9)	(35.9)	80.2	(9.5)
DPS (SGD Cents)	3.0	5.5	1.0	1.0	1.5
Dividend Yield (%)	2.9	5.3	1.9	1.9	2.9
<b>Profitability</b>					
Gross margin	34.3%	29.0%	25.7%	29.0%	27.0%
EBITDA margin	24.6%	21.1%	18.2%	20.9%	19.0%
Net margin	19.5%	14.4%	9.4%	12.1%	10.8%
ROE	27.6%	15.3%	8.0%	12.7%	10.5%
ROA	23.3%	13.5%	6.9%	11.1%	9.2%
<b>Growth (% Y-o-Y)</b>					
Interest coverage	–	–	–	–	–
Total Debt/Equity	–	–	–	–	–
Net Gearing	Net cash	Net cash	Net cash	Net cash	Net cash

\*2 for 1 share split in FY20

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<b>Outperform (OP)</b>	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
<b>Neutral (N)</b>	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
<b>Underperform (U)</b>	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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