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CHINA SUNSINE CHEMICAL HLDS LTD

(CSSC SP / QES.SI)

1H26 validates price-volume conversion; insoluble sulphur becomes a second earnings engine

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Investment Highlights

- **The FY26 price reset is over earlier than expected.** 1H26 revenue rose 19% on a 9% increase in volume and a 9% increase in blended ASP, while gross margin expanded 0.6ppt to 25.2%. The old FY26 model had already been 59% filled by the first half and required an implausible second-half price reversal. We therefore raise FY26E revenue 18% and EBIT 17% versus the initiation model.
- **Insoluble sulphur is becoming a second earnings engine.** Segment volume increased 17% and revenue 87%, implying a 60% increase in realised ASP to RMB10,324/t. Insoluble sulphur supplied roughly 39% of the group revenue increase. Flexsys announced two Asia price increases and was downgraded to CCC-/Negative, supporting a higher pricing floor, but our base case assumes neither a competitor closure nor permanent spot-price conditions.
- **Scale is converting into overseas account share.** International volume grew 17% and reached 43.6% of shipments as Chinese tyre makers expanded overseas and global customers increased orders. The 20kt solvent-MBT project is in trial run, the TBBS2-to-CBS conversion is commercial, and finished accelerator capacity is expected to rise to 135kt by end-FY26, reinforcing cost control and supply reliability.
- **Net cash protects downside, but cash conversion is the key watch.** The group ended June with RMB2.22bn of cash, no debt and S$0.44 of net cash per share and doubled the special interim dividend to S$0.01. However, receivables and inventory absorbed RMB267m and CFO fell to RMB78m. Stronger EBIT therefore does not translate one-for-one into FY26 free cash flow.

Valuation & Action.

We reiterate **OUTPERFORM** and retain our **S$1.145** DCF-based target price, using 12.0% WACC and 2.0% terminal growth. Higher FY26-27 operating value is offset by a RMB65.5m reduction in the valuation cash input and heavier near-term working capital and capex. The target implies a 73.5% upside from current price.

Risks.

The principal downside risks are a faster reversal in insoluble-sulphur and accelerator ASP, sustained anti-oxidant weakness, poor receivable conversion, slower absorption of the 18kt accelerator expansion, RMB appreciation against USD movements, and cash remaining under-deployed or difficult to repatriate.

OUTPERFORM	
Last close (S$)	0.660
12M Target Price (S$)	1.145
Previous TP (S$)	1.145
Upside / (Downside) (%)	73.5%
TRADING DATA	
Market Cap (S$mn)	629.23
Issued Shares (mn)	953.38
3M Avg Daily Vol (mn)	0.29
3M Avg Daily Val (S$mn)	0.20
Free Float (%)	41.11
MAJOR SHAREHOLDERS (%)	
Success More Group Ltd	57.2%
Koh Choon Kong	0.9%
Dimensional Fund Adv. LP	0.8%

Financials & Key Operating Statistics

YE Dec (CNY'mn)	FY24A	FY25A	FY26F	FY27F	FY28F
Revenue	3,516	3,277	3,989	3,708	3,639
Net Income	424	405	511	436	433
EPS (S$ cents)	8.23	7.87	9.93	8.48	8.41
EPS growth (%)	13.8%	(4.5%)	26.2%	(14.6%)	(0.8%)
DPS (S$ cents)	2.46	3.59	3.97	3.39	3.37
Div Yield (%)	3.6%	5.2%	5.8%	4.9%	4.9%
Net Profit Margin (%)	12.1%	12.4%	12.8%	11.8%	11.9%
Net Gearing (%)	N.A.	N.A.	N.A.	N.A.	N.A.
P/E (x)	7.9x	8.3x	6.5x	7.7x	7.7x
P/B (x)	0.8x	0.8x	0.7x	0.7x	0.7x

Source: Company data, KGI Research

Business Updates

1H26 Results: Pricing and Volume Both Delivered

The first-half result was better than the 5% increase in reported net profit suggests. Revenue rose 19% to RMB2,007.8m as both shipment volume and blended ASP increased 9%; gross profit rose 22% and gross margin improved 0.6ppt to 25.2%. PBT increased only 4% and PATMI 5% because a RMB48.6m FX loss, higher administrative cost and a larger R&D charge absorbed part of the gross-profit gain. The clean read-through is therefore strong price-volume conversion with more modest reported earnings conversion, not a simple earnings beat.

The prior FY26 forecast had become mechanically too low

The 3 July initiation forecast RMB3,378m of FY26 revenue and RMB442m of PATMI. By June, the group had already delivered 59.4% of the revenue forecast and 57.5% of the profit forecast even though management states that the business is not significantly seasonal. Hitting the old estimates would have required H2 revenue of only RMB1,370m and H2 PATMI of RMB188m, or 32% and 26% below the first-half result. We view 1H26 results favourably and readjust our FY26 forecast on the beat.

Export mix strengthens the quality of volume growth

Domestic volume increased 4% to 67,635t, while international volume rose 17% to 52,324t and reached 43.6% of shipments. Rest-of-Asia rubber-chemical revenue grew 17%, Europe 32%, and other markets doubled; America fell 23% from a small base. Management attributes the international increase to Chinese tyre producers operating overseas and higher orders from global customers including Bridgestone and Pirelli. This is consistent with our original supplier-qualification thesis: Sunsine is following customers across geographies rather than relying only on domestic auto production.

Figure 1: China Sunsine 1H26 Results (RMBm)

	1H25	1H26	YoY
Revenue	1,690.2	2,007.8	19%
Gross profit	415.8	506.0	22%
Gross margin	**24.6%**	**25.2%**	**+0.6ppt**
Adjusted EBITDA	340.1	360.0	6%
PBT	306.5	319.3	4%
PBT before reported FX item	**303.3**	**367.9**	**21%**
PATMI	242.7	254.3	5%
CFO	431.5	78.3	-82%

Source: Company Data

Insoluble Sulphur Becomes a Second Earnings Engine

Accelerators remain the scale anchor, but insoluble sulphur is now the principal source of estimate upside. IS volume increased 16.8% to 26,007t and revenue increased 87.4% to RMB268.5m. The implied realised ASP was RMB10,324/t, 60.4% above 1H25 and 47.5% above our old FY26 assumption. IS supplied roughly 39% of the group year-on-year revenue increase and expanded from 8.5% to 13.4% of group revenue. That combination of price and volume is the first operating evidence that the supply-tightness thesis is being monetised.

Figure 2: China Sunsine 1H26 Results

Product	1H26 vol. (t)	Vol. YoY	Implied ASP (RMB/t)	ASP YoY	Revenue YoY
Accelerators	59,148	11.7%	20,856	9.2%	22.0%
Insoluble sulphur	26,007	16.8%	10,324	60.4%	87.4%
Anti-oxidants	32,845	-1.6%	13,643	-8.0%	-9.5%
Others	1,959	78.4%	20,112	30.7%	133.1%
Total rubber chemicals	**119,959**	**9.4%**	**16,586**	**9.2%**	**19.4%**

Source: Company Data, KGI Research

Flexsys supports a higher floor, not a capacity-closure assumption

Flexsys announced a US$0.60/kg Asia price increase effective 23 March and another US$0.60/kg increase for China and most of Asia effective 18 June, subject to contracts. Separately, S&P downgraded Flexsys Cayman Holdings to CCC-/Negative on 18 June; its June 2025 restructuring snapshot showed US$593m of debt and 8.5-8.8x adjusted leverage. We interpret this combination as supportive of price and cash-margin discipline at the global IS leader. It is not proof that all announced increases were realised, and financial restructuring does not require plant closure because assets can continue under creditors or a new owner.

We raise FY26-27 pricing but preserve an explicit fade

The updated model lifts FY26 IS ASP from RMB7,000/t to RMB10,500/t, close to the 1H realised run-rate, and FY27 from RMB6,700/t to RMB7,500/t. The model then returns to the old RMB6,800/t assumption in FY28 and rises only gradually to RMB7,000/t by FY30. FY26 volume remains 50kt, below the 52kt annualised first-half pace, so the change is price-led rather than an aggressive volume extrapolation. Anti-oxidant ASP stays at RMB13,600/t in FY26, consistent with the weak first-half evidence. This keeps the thesis grounded: IS is the key revenue growth driver, accelerators remain the franchise, and anti-oxidants remain the soft leg.

Outlook

Industry Policy makes China Sunsine's moat defensible

China's 2026-2029 ageing-installation action plan is structurally positive for Sunsine, but it is not an automatic capacity-removal event. MIIT requires local authorities to register petrochemical and chemical production installations that have operated for more than 20 years, assess them against policy and technical standards, and place relevant assets into company-specific rebuild, upgrade or exit plans. MIIT reported more than 1,600 ageing installations, of which more than 600 require updating, mainly in traditional chemicals. The policy therefore raises reinvestment, safety, environmental and financing hurdles for older subscale competitors, but it does not establish how many accelerator, IS or anti-oxidant tonnes will leave the market.

Capacity execution is more important than policy rhetoric

Sunsine is progressing projects that reinforce its scale and integration. The 20kt solvent-MBT project at Weifang is in trial run and is expected to enter commercial production by end-2026; MBT is an intermediate and is excluded from finished-product capacity. The TBBS2-to-CBS workshop conversion has entered commercial production. Management expects year-end finished capacity of 272kt, including 135kt of accelerators, 60kt of IS and 77kt of anti-oxidants, versus 254kt at FY25. The new accelerator denominator optically lowers utilisation in FY26 even as volume rises.

Figure 3: China Sunsine CAPEX watchlist

Asset / product	FY25 capacity	FY26 capacity / status	KGI's modelling considerations
Accelerators	117kt	135kt by end-FY26	Main long-run volume and operating-leverage driver
Insoluble sulphur	60kt	60kt	Price/mix catalyst; no capacity increase assumed
Anti-oxidants	77kt	77kt	Stabilisation; no capacity-led growth case
Solvent MBT	Intermediate	20kt; trial run	Captive input security and cost control; excluded from 272kt
TBBS2 to CBS	Existing workshop	Commercial production	Product-mix flexibility within accelerator chain

Source: Company Data, KGI Research

No incremental policy uplift enters the base case

We make no change to FY26 capacity, ASP, volume, margin or target price solely because of the ageing policy. A model change requires local Shandong, Heze or Weifang lists that identify relevant rubber-chemical competitors, followed by confirmed upgrade, curtailment or closure schedules. Until that evidence arrives, the policy belongs in the competitive-moat narrative and the monitoring framework, not in the forecast. This is also the correct treatment of Flexsys: credit stress can support pricing discipline, but the base case assumes zero forced capacity closure.

Valuation

We reiterate OUTPERFORM and retain the S$1.145 target price. The updated DCF keeps 12.0% WACC, 2.0% terminal growth. Enterprise value rises RMB63m to RMB3.440bn as higher FY26-27 NOPAT and stronger FY27-28 cash conversion lift the present value of operating cash flow. The valuation cash input falls RMB65.5m to RMB2.452bn, leaving equity value almost unchanged at RMB5.892bn. The unchanged target is therefore a genuine bridge, not a rounded-up reward for a better quarter.

What is priced in, and what would change the target

At current price levels, the revised FY26E earnings imply about 6.8x P/E, while reported net cash covers roughly two-thirds of the equity value. The discount still prices in Chinese industrial cyclicality, low trading liquidity, cash-location risk and a reversal in current IS economics. Upside to our target requires H2 IS ASP to remain above roughly RMB9,000/t, accelerator utilisation to absorb the 135kt capacity and receivables to convert. A fall in IS ASP toward the old RMB7,000/t assumption, renewed accelerator price competition, or another half of weak CFO would weaken the thesis and could push fair value lower.

Figure 4: DCF Model

DCF VALUATION *All Amounts Stated in 000' CNY unless stated otherwise* *Year Ended 31' Dec*	*Projected* FY26	FY27	FY28	FY29	FY30
EBIT	584,429	489,806	481,272	492,910	513,712
Tax rate	19.0%	19.0%	19.0%	19.0%	19.0%
EBIT (1-T)	**473,388**	**396,743**	**389,830**	**399,257**	**416,106**
(+) D&A	158,972	164,777	167,805	169,927	172,409
(-) Change in NWC	(141,782)	(21,285)	12,015	(30,238)	(21,313)
(-) Capex	(199,435)	(185,406)	(181,965)	(186,657)	(189,965)
Free Cash Flow	**291,143**	**354,829**	**387,686**	**352,289**	**377,238**
Terminal Value					3,847,827
Total FCFF to be Discounted	**291,143**	**354,829**	**387,686**	**352,289**	**4,225,065**
PV of Free Cash Flow	**259,949**	**282,867**	**275,947**	**223,886**	**2,397,415**
Enterprise Value	**3,440,065**				
(-) Debt	-				
(+) Cash	2,452,365				
Equity Value	**5,892,430**				
Diluted Shares Outstanding ('000)	953,383				
SGD/CNH	5.4				
Fair Value / Share (S$)	**1.145**				
Current Share Price (S$)	0.660				
Upside / (Downside)	**73.5%**				

Source: KGI Research

Forecast Revisions: Stronger FY26-27, Same Mid-Cycle

We raise FY26E revenue from RMB3.38bn to RMB3.99bn and EBIT from RMB500m to RMB584m. The revised revenue is almost twice the first-half result and implies H2 revenue of RMB1.98bn. The old model implied a 32% half-on-half revenue decline and was no longer a credible base case. FY27E revenue rises 5% and EBIT 5% versus the prior model as accelerator and IS pricing fades more gradually. FY28E-FY30E revenue and EBIT are effectively unchanged, preserving the original mid-cycle earnings profile and preventing temporary supply tightness from being capitalised into perpetuity.

Figure 5: KGI's revised model output

Metric (RMBm)	FY26 old	FY26 new	Change	FY27 old	FY27 new	Change	FY28 new
Revenue	**3,378**	**3,989**	**18.1%**	**3,521**	**3,708**	**5.3%**	**3,639**
EBIT	500	584	17.0%	467	490	5.0%	481
DCF free cash flow	**329**	**291**	**-11.5%**	**315**	**355**	**12.6%**	**388**
PATMI	442	511	15.7%	419	437	4.4%	434

Source: KGI Research

Run-Rate Anchored, Not Spot-Price Extrapolation

The revised product schedule uses the first half realised run-rate as the FY26 anchor, then resets prices in FY27 rather than assuming that the supply shock becomes permanent. Total core volume rises from 222.2kt in FY25 to 236.6kt in FY26 and 256.5kt by FY30. Core utilisation reaches 87.0% in FY26 on the higher 272kt year-end capacity denominator, then rises to 94.3% by FY30. Accelerator utilisation is the main long-duration lever; IS contributes price/mix; anti-oxidants contribute incremental absorption rather than a pricing recovery.

The resulting FY27 decline is deliberate. Accelerator ASP falls 9.5% and IS ASP 28.6%, more than offsetting 2.7% core volume growth and reducing group revenue 7.0%. The model is therefore not a one-way price extrapolation. It recognises the FY26 evidence, gives some FY27 credit to a firmer IS floor, and returns to the prior FY28-FY30 operating path once temporary cost and supply conditions normalise.

Figure 6: KGI's Capacity, volume and utilisation schedule

Metric	Product	FY25A	FY26E	FY27E	FY28E	FY29E	FY30E
Capacity (kt)	Accelerators	117.0	135.0	135.0	135.0	135.0	135.0
	Insoluble sulphur	60.0	60.0	60.0	60.0	60.0	60.0
	Anti-oxidants	77.0	77.0	77.0	77.0	77.0	77.0
Volume (kt)	Accelerators	108.8	118.0	121.5	125.6	128.3	129.6
	Insoluble sulphur	46.4	50.0	51.6	53.0	54.0	55.0
	Anti-oxidants	64.7	66.2	67.5	68.2	69.0	69.5
Utilisation	Accelerators	93.0%	87.4%	90.0%	93.0%	95.0%	96.0%
	Insoluble sulphur	77.3%	83.3%	86.0%	88.3%	90.0%	91.7%
	Anti-oxidants	84.0%	86.0%	87.7%	88.6%	89.6%	90.3%
Core total	**Utilisation**	**87.5%**	**87.0%**	**89.3%**	**91.6%**	**93.3%**	**94.3%**

Metric	Product	FY25A	FY26E	FY27E	FY28E	FY29E	FY30E
ASP (RMB/t)	Accelerators	18,366	21,000	19,000	17,900	18,000	18,100
	Insoluble sulphur	6,592	10,500	7,500	6,800	6,900	7,000
	Anti-oxidants	13,767	13,600	13,700	13,800	13,900	14,000
Revenue (RMBm)	Accelerators	1,997.7	2,478.0	2,308.5	2,247.3	2,308.5	2,345.8
	Insoluble sulphur	305.7	525.0	387.0	360.4	372.6	385.0
	Anti-oxidants	890.6	900.3	924.8	941.2	959.1	973.0
Total revenue		**3,277.4**	**3,988.7**	**3,708.1**	**3,639.3**	**3,733.1**	**3,799.3**

Source: KGI Research

Financial Summary

INCOME STATEMENT (CNY'mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue	3,516	3,277	3,989	3,708	3,639
Cost of sales	(2,665)	(2,507)	(2,972)	(2,818)	(2,766)
Gross profit	**850**	**770**	**1,017**	**890**	**873**
Selling & distribution	(111)	(119)	(144)	(133)	(131)
Administrative expenses	(211)	(217)	(239)	(222)	(218)
Other operating gains/(expenses)	134	148	109	121	125
EBITDA	**662**	**582**	**743**	**655**	**649**
Depreciation & amortisation	(133)	(146)	(159)	(165)	(168)
Operating profit (EBIT)	**529**	**436**	**584**	**490**	**481**
Net finance income / (cost)	56	67	47	49	53
Other gains / (losses)	-	-	-	-	-
Profit before tax	**585**	**504**	**631**	**539**	**535**
Tax expense	(161)	(99)	(120)	(102)	(102)
Minority interests	-	0	0	0	0
Net profit (PATMI)	**424**	**405**	**511**	**436**	**433**
EPS (S$ cents)	8.23	7.87	9.93	8.48	8.41
DPS (S$ cents)	2.46	3.59	3.97	3.39	3.37

CASH FLOW STATEMENT (CNY'mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Profit before tax	585	504	631	539	535
Depreciation & amortisation	133	146	159	165	168
Working capital changes	27	169	(142)	(21)	12
Tax paid	(161)	(99)	(120)	(102)	(102)
Other operating items	(11)	(92)	(47)	(49)	(53)
Operating cash flow	**573**	**628**	**482**	**531**	**559**
Capex	(110)	(251)	(199)	(185)	(182)
Acquisitions / disposals	3	1	-	-	-
Other investing items	52	67	46	48	52
Investing cash flow	**(55)**	**(183)**	**(154)**	**(137)**	**(130)**
Net debt drawdown / (repayment)	-	0	0	0	0
Dividends paid	(126)	(185)	(204)	(175)	(173)
Equity issuance / (buyback)	(13)	-	-	-	-
Other financing items	2	-	-	-	-
Financing cash flow	**(137)**	**(185)**	**(204)**	**(175)**	**(173)**
Net change in cash	**381**	**260**	**123**	**219**	**257**
Beginning cash	**1,686**	**2,074**	**2,329**	**2,452**	**2,671**
Ending cash	**2,067**	**2,334**	**2,452**	**2,671**	**2,928**

BALANCE SHEET (CNY'mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Cash and cash equivalents	2,074	2,329	2,452	2,671	2,928
Trade and other receivables	1,137	996	1,082	1,107	1,097
Inventories	364	360	407	386	379
Current assets	**3,574**	**3,685**	**3,941**	**4,165**	**4,404**
Property, plant & equipment	835	941	981	1,002	1,016
Intangibles & goodwill	199	195	196	197	198
Other non-current assets	71	62	62	62	62
Non-current assets	**1,105**	**1,197**	**1,239**	**1,261**	**1,276**
Total assets	**4,679**	**4,882**	**5,180**	**5,425**	**5,679**
Trade payables	311	334	326	309	303
Short-term borrowings	-	0	0	0	0
Other current liabilities	159	110	110	110	110
Current liabilities	**470**	**445**	**436**	**419**	**413**
Long-term borrowings	-	-	-	-	-
Other non-current liabilities	-	-	-	-	-
Non-current liabilities	**-**	**-**	**-**	**-**	**-**
Total liabilities	**470**	**445**	**436**	**419**	**413**
Shareholders' equity	4,209	4,438	4,744	5,006	5,266
Minority interests	-	-	-	-	-
Total equity	**4,209**	**4,438**	**4,744**	**5,006**	**5,266**

KEY RATIOS & VALUATION	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue growth (%)	0.7%	(6.8%)	21.7%	(7.0%)	(1.9%)
Gross margin (%)	24.2%	23.5%	25.5%	24.0%	24.0%
EBITDA margin (%)	18.8%	17.8%	18.6%	17.7%	17.8%
Net profit margin (%)	12.1%	12.4%	12.8%	11.8%	11.9%
ROE (%)	10.1%	9.1%	10.8%	8.7%	8.2%
ROA (%)	9.1%	8.3%	9.9%	8.0%	7.6%
Net debt / equity (x)	(0.5x)	(0.5x)	(0.5x)	(0.5x)	(0.6x)
Net debt / EBITDA (x)	(3.1x)	(4.0x)	(3.3x)	(4.1x)	(4.5x)
Dividend payout (%)	29.8%	45.6%	40.0%	40.0%	40.0%
P/E (x)	7.9x	8.3x	6.5x	7.7x	7.7x
EV/EBITDA (x)	8.2x	9.7x	7.8x	9.2x	9.7x
P/NAV (x)	0.8x	0.8x	0.7x	0.7x	0.7x
Dividend yield (%)	3.8%	5.5%	6.1%	5.2%	5.2%

Source: Company, KGI Research estimates

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