



CHINA
DEVELOPMENT
FINANCIAL

China Sunshin Chemical Hld Ltd

(CSSC SP/CHSN.SI)

Strong fundamentals to buffer upcoming price tailwinds

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- Sunshine's improving profit margins were in line with the buoyant rubber chemicals sector.
- Average selling price (ASP) could fall in 2H21 as macro conditions will not be as favourable as in 1H21.
- Capacity ramp-up in insoluble sulphur and anti-oxidant with a respective 30,000 tonnes each will offset the selling price correction.
- We maintain **OUTPERFORM** with an unchanged TP of \$0.68 as we expect the increase in sales volume in FY22 and FY23 to offset the downswing in ASPs.

Financials & Key Operating Statistics

YE Dec (RMB m)	FY19	FY20*	FY21F	FY22F	FY23F
Revenue	1695.9	2333.7	3795.4	3886.4	3522.6
PATMI	388.9	218.8	569.6	546.1	479.8
Core PATMI	388.9	593.3	569.6	546.1	479.8
Core EPS (RMB cents)	79.7	22.5	58.7	56.3	49.4
Core EPS grth (%)	67.1	-71.7	160.3	-4.1	-12.1
Core P/E (x)	3.3	11.5	4.4	4.6	5.3
DPS (SGCents)	3.0	5.5	1.0	1.0	1.5
Div Yield (%)	5.8	10.6	1.9	1.9	2.9
Net Margin (%)	14.4	9.4	15.0	14.1	13.6
Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Price / Earnings (x)	3.3	11.5	4.4	4.6	5.3
Price / Book (x)	0.5	0.9	0.8	0.7	0.6
ROE (%)	15.2	8.0	17.2	14.4	11.3

*2 for 1 share split in FY20

1H21 performance. Most commodity prices reached their peaks in April/May and have corrected moderately. Prices of feedstocks such as aluminium and coal continued to edge up to new highs, while iron ore entered the bear cycle. However, most of the raw materials remained elevated, and rubber chemicals are one of them.

As of July 2021, rubber chemicals prices have kept the upward momentum with growth of 30% to 40% YoY, extending the surge in 2Q21. Both strong demand and abundant monetary liquidity upheld the price appreciation.

1H21 GPM and NPM regained the levels above 30% and 15% respectively, which was last seen in 2Q19. The jump in both average selling price and sales volumes were in line with the buoyant rubber chemicals market.

Valuation & Action: We maintain our OUTPERFORM rating with a higher target price of \$0.68 as we expect the increase in sales volume in FY22 and FY23 to offset the downswing in ASPs.

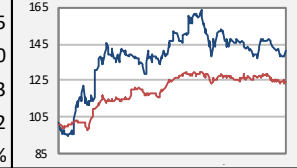
Outperform - Maintain

Price as of 14 Sep 21 (SGD)	0.52	Performance (Absolute)	
12M TP (\$)	0.68	1 Month (%)	-1.0
Previous TP (\$)	0.68	3 Month (%)	-1.0
Upside (%)	30.8	12 Month (%)	49.2

Trading data

Mkt Cap (\$mn)	505
Issued Shares (mn)	970
Vol - 3M Daily avg (mn)	0.3
Val - 3M Daily avg (\$mn)	0.2
Free Float (%)	37.6%

Perf. vs STI Index (Red)



Major Shareholders

Success More Group	60.5%
Phoenician Capital LLC	1.1%

Previous Recommendations

20-May-21	OP \$0.68
2-Feb-21	OP \$0.47
18-Aug-20	OP \$0.60

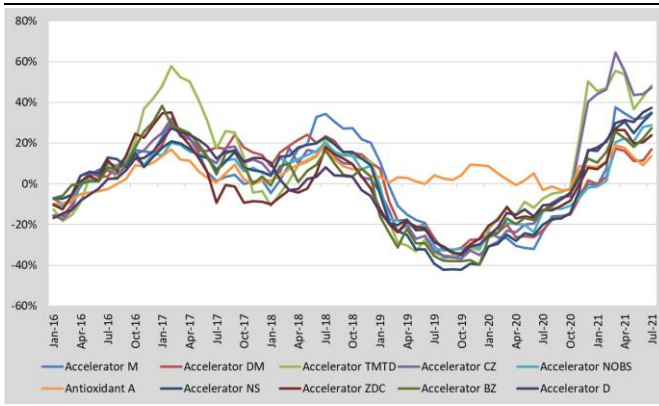
Figure 1: DCF forecast

RMB mn	FY21F	FY22F	FY23F
Net income	570	546	480
Net capex	(300)	(200)	(200)
Change in net WC	(83)	17	38
Change in borrowing	-	-	-
FCFE	187	364	318
Beta	1.1		
Required rate of return	9.7%		
Growth	0.5%		
FX (SGD/RMB)	5.00		
TP (SGD)	0.68		

Source: KGI Research

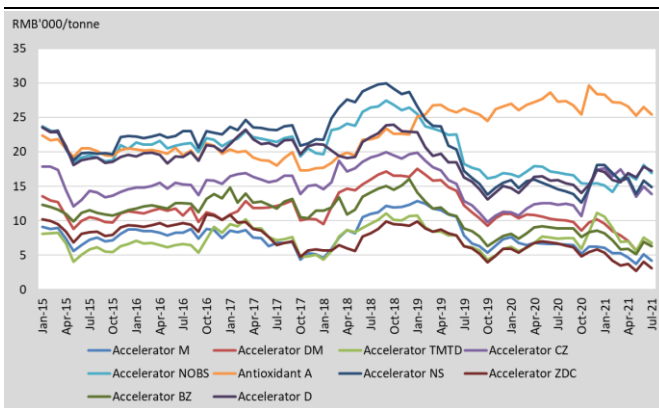
Risks: We expect the macro environment in 2H21 to be not as favourable as in 1H21. China has tightened credit facilities since 4Q20, while the US could start tapering QE later this year. Therefore, the commodity bull cycle could peak in 3Q/4Q21. Meanwhile, the 2022 Beijing Winter Olympics will be held 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 2008 Beijing Summer Olympics to 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



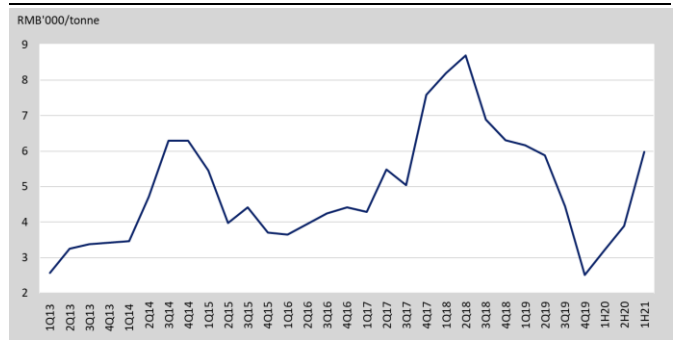
Source: China Petroleum and Chemical Industry Federation, KGI Research

Figure 4: Financials and operating data periodic comparison

Financials (RMB mn)	1H21	1H20	YoY change
Revenue	1,757.5	1,042.6	69%
Gross profit	552.3	241.9	128%
PAT	265.2	82.4	222%
Margins (%)	2H21	2H20	Percentage points change
GPM	31.4%	23.2%	8.2
NPM	15.1%	7.9%	7.2
Sales volume (tonnes)	2H21	2H20	YoY change
Accelerators	49,660	40,482	23%
Insoluble Sulphur	17,076	13,333	28%
Anti-oxidant	25,595	21,564	19%
ASP (RMB/tonne)	2H21	2H20	YoY change
Accelerators	21,746	16,173	34%
Insoluble Sulphur	8,579	7,553	14%
Anti-oxidant	19,328	12,359	56%

Source: Company, KGI Research

Figure 5: Gross profit per tonne



Source: Company, KGI Research

New capacity will buffer the price drawdown. 30,000 tonnes insoluble sulphur and 30,000 tonnes anti-oxidant TMQ 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, SunSine will deliver a better performance in FY21.

Prepare for eventful 2H21. The COVID-19 pandemic is expected to last longer than expected as virus variants could grow rapidly and develop into new wave of outbreaks, especially during the upcoming winter season. Meanwhile, the tension between China and the US has neither escalated nor has been mitigated, but the confrontation between the two will continue. Since July 2021, China has taken aggressive actions on regulating and controlling the economic development and transformation. Anti-trust and deleveraging are the two main themes. In the US, with the consistent job market recovery, the Federal Reserve could start tapering as soon as 4Q21.

The implication for the rubber chemicals sector and for China SunSine is that the upswing cycle could come to an end by the end of 2021 or early 2022 as monetary liquidity contracts. Meanwhile, the authorities in China have shown its hardball approach to rein in inflation. There are more administrative and accommodative measures for the government to cool down material prices.

Figure 6: ASP and sale volume forecast

	FY21F	FY22F	FY23F
Sales volume (tonnes)			
Accelerators	99,450	99,450	99,450
Insoluble Sulphur	45,000	60,000	60,000
Anti-oxidant	59,400	74,250	74,250
Realised ASP (RMB/tonne)			
Accelerators	22,409	20,616	18,554
Insoluble Sulphur	8,893	8,360	7,858
Anti-oxidant	18,841	17,334	15,600
Sales (RMB m)			
Accelerators	2,229	2,050	1,845
Insoluble Sulphur	400	502	471
Anti-oxidant	1,119	1,287	1,158

Source: KGI Research

YE 31 Dec

INCOME STATEMENT (RMB m)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	2,692	2,334	3,795	3,886	3,523
Cost of sales	(1,911)	(1,733)	(2,581)	(2,701)	(2,483)
Gross Profit	781	600	1,215	1,185	1,039
EBITDA	567	424	922	900	818
Depreciation & Amortisation	114	122	131	141	151
EBIT	453	302	791	758	666
Profit from Operations	1,915	1,449	3,059	2,985	2,675
Net Finance (Expense)/Inc	(1)	(1)	-	-	-
Profit before Tax	453	301	791	758	666
Income tax	(64)	(82)	(221)	(212)	(187)
PAT	389	219	570	546	480
PAT Normalized	389	438	570	546	480

BALANCE SHEET (RMB m)	FY19	FY20	FY21F	FY22F	FY23F
Cash and bank balances	1,280	1,326	1,603	2,035	2,432
Inventories	247	198	281	225	238
Trade receivables	525	545	645	675	648
Others	167	171	263	276	290
Current Assets	2,220	2,239	2,792	3,211	3,608
PP&E	650	865	1,035	1,095	1,145
Others	49	68	77	86	94
Non-current Assets	699	933	1,112	1,180	1,239
Total assets	2,918	3,172	3,903	4,391	4,847
Trade payables	64	54	105	80	112
Borrowings	-	-	-	-	-
Others	284	397	489	506	499
Current Liabilities	347	451	595	586	611
Bank loans	-	-	-	-	-
Others	9	-	-	-	-
Non-current liabilities	9	-	-	-	-
Shareholders equity	2,562	2,721	3,309	3,805	4,236
Total Equity	2,562	2,721	3,309	3,805	4,236
Total Liabilities and Equity	2,918	3,172	3,903	4,391	4,847

CASH FLOW STATEMENT (RMB m)	FY19	FY20	FY21F	FY22F	FY23F
Profit before tax	453	301	791	758	666
Depreciation & non cash adjustments	114	122	131	141	151
Change in Working Capital	20	47	(83)	17	38
Income Tax Paid	(121)	(63)	(221)	(212)	(187)
Interest Paid	-	1	-	-	-
Others	(24)	19	(34)	(42)	(53)
CF from operating activities	442	427	584	663	617
Purchase/Disposal of PPE	(72)	(279)	(300)	(200)	(200)
Others	13	40	34	42	53
CF from investing activities	(59)	(240)	(266)	(158)	(147)
Dividends Paid	(136)	(49)	(49)	(73)	(73)
Debt Raised / (Repaid)	-	(43)	-	-	-
Equity Raised / (Bought Back)	(13)	(8)	(1)	-	-
Others	1	0	11	-	-
CF from financing activities	(148)	(100)	(39)	(73)	(73)
Net increase in cash & cash equiv.	235	88	280	432	397
FX effects	9	(43)	-	-	-
Beginning Cash	1,035	1,279	1,323	1,603	2,035
Ending Cash	1,279	1,323	1,603	2,035	2,432

KEY RATIOS	FY19	FY20*	FY21F	FY22F	FY23F
Profitability					
Core EPS	79.7	22.5	58.7	56.3	49.4
Core EPS Growth (%)	67.1	(71.7)	160.3	(4.1)	(12.1)
DPS (SGD Cents)	3.0	5.5	1.0	1.0	1.5
Dividend Yield (%)	5.8	10.6	1.9	1.9	2.9
Profitability					
Gross margin	29.0%	25.7%	32.0%	30.5%	29.5%
EBITDA margin	21.1%	18.2%	24.3%	23.2%	23.2%
Net margin	14.4%	9.4%	15.0%	14.1%	13.6%
ROE	15.2%	8.0%	17.2%	14.4%	11.3%
ROA	13.3%	6.9%	14.6%	12.4%	9.9%
Financial Structure (x)					
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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Rating	Definition
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Neutral (N)	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.
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