



China Sunshin Chemical Holdings

(CSSC SP/CHSN.SI)

Not Rated

Price as of 5 Oct 2017	0.850
12M target price (S\$)	na
Previous target price (S\$)	na
Upside, incl. div (%)	na

Trading data

Mkt Cap (S\$m) / (US\$m)	418 / 307
Issued Shares (m)	492
Ave Daily Traded (3-Month) Vol / Val	1.3m / \$1.1m
52 week lo / hi	\$0.39 / \$0.95
Free Float	38.7%

Major Shareholders

Success More Group Ltd	59.7%
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CSSC SP (1yr) VS STI



Source: Bloomberg

Colin Tan
65 26202 1193
colin.wh.tan@kgi.com

See the last page for important disclosures.

Riding high on favourable supply-demand dynamics

Event

Average selling prices (ASP) of rubber accelerators – a chemical essential for the production of rubber tyres – have reportedly escalated to high levels due to limited supply in Shandong area – one of the key provinces for major production of rubber chemicals in China.

China Sunshin, a leading producer of rubber accelerators in China, is expected to benefit from favourable demand-supply dynamics amid ongoing environmental scrutiny from authorities that have impacted production of rubber chemicals from other players that have not met stringent environmental regulations. Sunshin serves over 1,000 customers globally, of which many are among the top tyre makers including Bridgestone and Michelin.

Impact

Escalating rubber accelerator prices could lead to higher margins. ASP of accelerator CBS (CZ) have rose from about RMB 20,000 – 20,500 per ton at the start of the year to RMB 28,000 – 29,000 per ton in September, representing an increase of over 40%. The price surge was due to supply shortage as competitors' productions were shut down as a result of the authorities enforcing strict environmental standards to curb pollution. Faced with the tight supply situation, Sunshin would benefit from higher ASP and greater demand for accelerators.

Expanding production capacity to meet growing demand in rubber accelerators. Since its listing on SGX, Sunshin has expanded its production capacity in accelerators from 32,000 tons in 2007 to 97,000 tons currently and could add another 20,000 tons with the completion of phase 2 of its new 30,000-ton capacity Shanxian plant in the near future. With increasing market share in accelerators, both domestically and internationally, Sunshin is expected to gain further traction in sales growth.

Valuation & Action

Sunshin is trading at a FY17F P/E of 8.0x and operates in a net cash position with zero gearing. Compared to its Shenzhen-listed competitor, Yanggu Huatai (300121 CH), which is trading at 21x forward P/E, we opined that Sunshin is deeply undervalued and should trade closer to its peer's valuation.

Risks

Mainly regulatory risks in China; slowdown in rubber tyre consumption.

Financials & Key Operating Statistics

YE Dec RMB mn	2014	2015	2016
Revenue	2,077	1,859	2,037
PATMI	220	195	222
Core PATMI	220	195	222
Core EPS (RMB cents)	47.31	41.92	47.66
Core EPS grth (%)	187.0	(11.4)	13.7
Core P/E (x)	8.8	9.9	8.7
DPS (SGD cents)	1.00	1.00	1.50
Div Yield (%)	1.2	1.2	1.8
Net Margin (%)	10.6	10.5	10.9
Gearing (%)	20.3	11.0	0.0
Price / Book (x)	1.9	1.6	1.4
ROE (%)	24.1	17.9	17.5

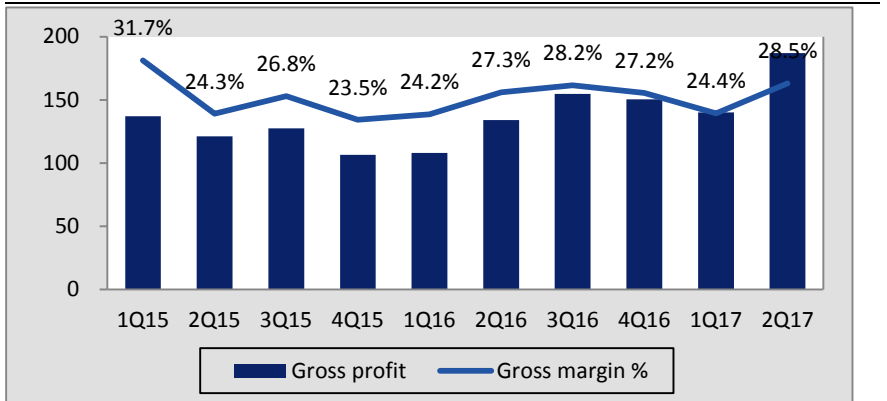
Source: Company Data, KGI Research

Figure 1: Recent sharp escalation in Rubber Accelerator CZ prices (Chinese yuan/ton)



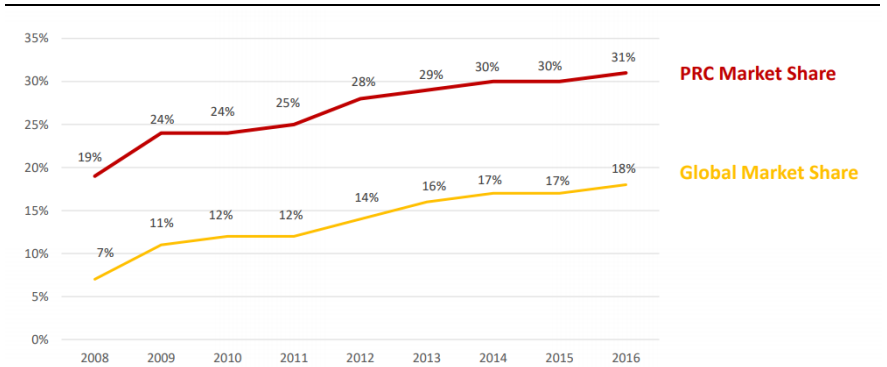
Source: Chem99.com

Figure 2: SunSine's gross profit (RMB'm) and margin for past 10 quarters



Source: Company data, KGI Research

Figure 3: SunSine's market share of rubber accelerators



Source: Company presentation, KGI Research

Figure 4: SunSine's 2Q results comparison

FYE Dec (RMB m)	2Q17	2Q16	yoy % chg	1Q17	qoq % chg	Comments
Volume output (tons '000)						
Accelerators volume	21.3	20.2	5.5%	20.4	4.8%	Gain on competitors' production affected by environmental checks
Insoluble Sulphur volume	4.9	5.2	-5.7%	5.1	-3.9%	Lower domestic demand
Anti-oxidant volume	7.9	8.5	-7.1%	7.2	9.9%	Lower domestic demand
Other chemicals volume	0.4	0.6	-24.0%	0.4	5.6%	
Rubber chemical sales						
Accelerators	462.9	345.4	34.0%	408.4	13.3%	
Insoluble Sulphur	52.2	48.9	6.7%	53.4	-2.2%	
Anti-oxidant	129.7	86.8	49.4%	102.0	27.2%	
Others	-	-	-	-	-	
Income statement						
Revenue	656.2	491.1	33.6%	574.6	14.2%	Mainly gains in accelerators sales
Cost of sales	(469.1)	(357.0)	31.4%	(434.6)	7.9%	
Gross profit	187.1	134.1	39.5%	140.0	33.6%	Boost in gross margin
<i>NPI margin (%)</i>	28.5	27.3		24.4		
Selling and marketing expense	(22.3)	(18.3)	21.9%	(17.8)	25.3%	
Administrative expense	(66.9)	(44.8)	49.3%	(38.6)	73.3%	Largely FX loss
Other operating income/(expense)	(5.0)	(0.2)	2400.0%	1.1	N.M.	
Other gains/(losses)	0.0	0.0	-	0.0	-	
Finance cost	0.0	(0.8)	N.M.	0.0	-	
Profit before tax	92.9	70.0	32.7%	84.7	9.7%	In line with higher gross profit
Income tax	(18.4)	(21.0)	-12.4%	(27.5)	-33.1%	
PATMI	74.5	49.0	52.0%	57.2	30.2%	
EPS, diluted (RMB cents)	15.5	10.5	47.4%	12.3	26.0%	
EBITDA, adjusted	92.9	70.8	31.2%	84.7	9.7%	

Source: Company data, KGI Research

Figure 5: Peers Comparison

Ticker	Company	Last Price	Market Cap (\$ m)	ROE (%)	P / E (x)		P / B (x)		Div Yield (%)		Gearing (%)
				Current	Last FY	FY+1	Last FY	FY+1	Last FY	FY+1	Current
CSSC SP	China SunSine Chemical Hld	SGD 0.85	418	19.5	5.0	8.0	0.8	-	2.1	2.4	0.0
Rubber Chemicals											
300121 CH	Shandong Yanggu Huatai Chem	CNY 15.80	938	27.8	32.6	21.1	7.8	5.4	0.5	0.6	40.8
LXS GY	Lanxess Ag	EUR 66.98	9,825	6.1	29.7	17.3	2.2	2.3	1.1	1.3	48.2
EMN US	Eastman Chemical Co	USD 89.70	17,701	20.2	11.1	11.9	2.4	2.6	2.5	2.3	58.4
Simple Average				18.1	24.5	16.8	4.2	3.4	1.4	1.4	49.1
Tire Manufacturers											
000887 CH	Anhui Zhongding Sealing Pa	CNY 20.85	5,286	16.3	-	20.6	-	3.3	-	0.5	40.7
601966 CH	Shandong Linglong Tyre Co	CNY 19.90	4,905	-	29.2	18.4	4.0	2.6	0.6	-	-
5108 JP	Bridgestone Corp	JPY 5182	50,956	12.7	12.4	13.3	1.5	1.6	3.3	2.8	16.7
5101 JP	Yokohama Rubber Co Ltd	JPY 2399	4,919	6.9	17.9	11.6	1.0	1.1	2.5	2.4	48.1
ML FP	Michelin (Cgde)	EUR 123.20	35,607	-	11.5	13.0	1.8	1.9	3.1	2.8	-
GT US	Goodyear Tire & Rubber Co	USD 33.36	11,440	26.2	8.2	11.0	1.7	1.6	1.0	1.2	54.1
CTB US	Cooper Tire & Rubber	USD 36.95	2,627	17.8	8.3	10.9	1.9	1.6	1.1	1.1	22.0
161390 KS	Hankook Tire Co Ltd	KRW 60200	8,918	12.9	8.2	9.6	1.2	1.1	0.7	0.7	28.0
073240 KS	Kumho Tire Co Inc	KRW 5980	1,130	-11.7	-	-	1.2	1.0	0.0	0.0	71.0
Simple Average				11.6	13.7	13.5	1.8	1.8	1.5	1.4	40.1

Source: Bloomberg, KGI Research

Financials

FYE 31 December

INCOME STATEMENT (RMB mn)	2014	2015	2016
Revenue	2,077.3	1,859.1	2,036.9
Gross Profit	567.4	492.0	540.4
Operating Profit	320.5	297.9	313.8
Interest Expense	(18.1)	(10.4)	(4.4)
Profit Before Tax	302.5	287.5	309.5
Income Tax	(82.3)	(92.3)	(87.8)
PATMI	220.2	195.2	221.7
Adjusted PATMI	220.2	195.2	221.7
BALANCE SHEET (RMB mn)	2014	2015	2016
Cash and Equivalents	122.8	341.3	275.9
Accounts Receivable	704.7	496.7	629.2
Inventory	168.0	141.5	145.4
Total current assets	995.5	979.5	1,050.6
Net Property, Plant, and Equipment	613.1	562.8	549.4
Other assets	29.5	43.7	42.5
Total assets	1,638.1	1,585.9	1,642.5
Accounts Payable	311.6	210.3	222.7
Borrowings (Current)	214.0	144.9	0.0
Other current liabilities	57.3	55.4	58.2
Total current liabilities	582.9	410.6	280.9
LT Borrowings	44.0	0.0	0.0
Total liabilities	626.9	410.6	280.9
Shareholder's Equity	1,011.3	1,175.3	1,361.6
Total equity	1,011.3	1,175.3	1,361.6
Total liabilities and equity	1,638.1	1,585.9	1,642.5
CASH FLOW STATEMENT (RMB mn)	2014	2015	2016
Net Profit	220.2	195.2	221.7
Depreciation	87.3	94.0	96.0
Amortisation	0.0	0.0	0.0
Other non-cash adjustments	311.7	9.6	6.5
Changes in working capital	(74.2)	133.2	(124.1)
Deferred taxes	18.7	(1.9)	2.7
Cash from operations	563.7	430.1	202.9
Capex	(229.8)	(30.4)	(82.6)
Other investing	(3.1)	(19.0)	3.0
Cash in investing	(232.9)	(49.5)	(79.6)
Dividends paid	(22.9)	(31.5)	(33.2)
Equity raised / (bought back)	0.0	0.0	(3.2)
Borrowings raised / (repaid)	28.0	(120.2)	(148.0)
Other financing	(28.2)	(0.2)	(4.3)
Cash from financing	(23.1)	(151.9)	(188.6)
FX Effects, Others	(0.4)	(0.1)	0.0
Net increase in cash	307.3	228.7	(65.3)
Beginning cash	105.9	110.8	339.5
Ending cash	110.8	339.5	274.2
KEY RATIOS	2014	2015	2016
Core EPS (RMB cents)	47.3	41.9	47.7
Core EPS Growth (%)	187.0	(11.4)	13.7
DPS (SGD cents)	1.0	1.0	1.5
Div Yield (%)	1.2	1.2	1.8
Price/Book	1.9	1.6	1.4
Profitability (%)			
Gross Margin	27.3	26.5	26.5
EBITDA margin	19.6	21.1	20.1
Net Margin	10.6	10.5	10.9
Return on Equity	24.1	17.9	17.5
ROIC	23.3	19.0	20.7
Financial Structure (x)			
EBIT / Interest Expense	17.7	28.5	71.9
Debt / Capital	0.2	0.1	0.0

Source: Bloomberg, KGI Research

KGI's Ratings

Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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