

COMPANY UPDATE

China Sunshine Chemical (CSSC SP)

Positive ASP Trends To Drive Strong Earnings Growth

ASPs of two key products, rubber accelerators and anti-oxidants, are on the rise again after correcting during May-Aug 21. This supports our positive view on Sunshine's 103% yoy EPS growth for 2021. We believe the following trends should drive ASP strength in the medium term: a) tighter production supply due to more stringent environmental regulations, b) elevated ASP of aniline, the key raw material, and c) growing demand from tyre makers. Maintain BUY and target price of S\$0.695.

WHAT'S NEW

- Rising ASPs of rubber accelerators and anti-oxidants support our positive view.** Data from Sublime China Information (SCI) shows that ASPs of two of China Sunshine Chemical's (Sunshine) key products, rubber accelerators and anti-oxidants, are on the rise again after correcting from May-Aug 21. The increase in ASP is mainly attributable to reduced production supply in the industry due to tight environmental regulations and higher raw material ASPs for rubber accelerators and anti-oxidants. The positive ASPs support our positive view on Sunshine's 103% yoy EPS growth for 2021.
- Positive trends driving increase in ASPs in medium term to benefit Sunshine.** We believe the following trends should drive ASP strength in the medium term: a) With a tighter production supply due to more stringent environmental regulations, Sunshine should be the main beneficiary given its strong emphasis on and substantial investments in minimising waste emissions over the years. To recap, Sunshine was able to capture supernormal earnings in 2018 when China's government ordered an industry-wide shutdown of manufacturing plants to reduce air pollution. b) The elevated ASP of aniline, the key raw material for rubber accelerators, will enable Sunshine to enjoy better earnings as it makes a profit on a cost-plus basis. c) There is growing demand from global tyre makers, with replacement tyres accounting for around 70% of the tyre demand.
- Currently not affected by power crunch.** Sunshine is not impacted by the current power supply crunch in China, which is triggering blackouts for households and forcing factories to cut production. The main production base in Shanxian has its own heating plant, which supplies about 60% of the group's energy consumed.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2019	2020	2021F	2022F	2023F
Net turnover	2,692	2,334	3,597	3,760	4,172
EBITDA	565	422	664	658	594
Operating profit	453	302	532	487	433
Net profit (rep./act.)	389	219	445	408	363
Net profit (adj.)	389	219	445	408	363
EPS (Fen)	39.9	22.5	45.8	42.0	37.4
PE (x)	5.9	10.5	5.2	5.6	6.3
P/B (x)	0.9	0.8	0.7	0.7	0.6
EV/EBITDA (x)	1.7	2.3	1.5	1.5	1.6
Dividend yield (%)	2.1	2.1	3.6	3.4	3.0
Net margin (%)	14.4	9.4	12.4	10.8	8.7
Net debt/(cash) to equity (%)	(50.0)	(48.7)	(42.8)	(45.6)	(48.6)
Interest cover (x)	1,184.5	324.8	n.a.	n.a.	n.a.
ROE (%)	15.9	8.3	15.2	12.4	10.1
Consensus net profit	-	-	421	394	375
UOBKH/Consensus (x)	-	-	1.06	1.04	0.97

Source: Sunshine, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.495
Target Price	S\$0.695
Upside	+40.5%

COMPANY DESCRIPTION

Sunshine produces rubber chemicals, primarily rubber accelerators and other related rubber chemicals such as insoluble sulphur and anti-oxidants.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	CSSC SP
Shares issued (m):	970.4
Market cap (S\$m):	480.3
Market cap (US\$m):	355.5
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

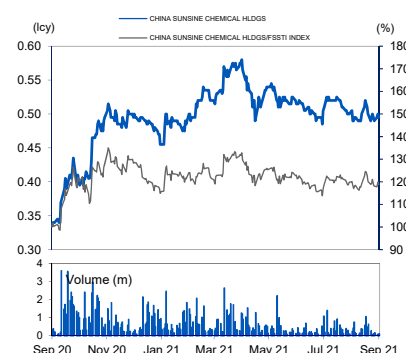
52-week high/low	S\$ 0.58/S\$ 0.335			
1mth	3mth	6mth	1yr	YTD
(2.9)	(3.9)	(7.5)	45.6	0.0

Major Shareholders

	%
Success More Group	61.1
(HoldCo for Executive Chairman Xu Cheng Qiu)	

FY21 NAV/Share (Rmb)	3.21
FY21 Net Cash/Share (Rmb)	1.37

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Vehicle numbers growth in China outweighs global auto chip shortage.** In Jun 21, trade group China Association of Automobile Manufacturers (CAAM) revised its 2021 growth forecast from 6.5% to 9.5% for the delivery of 22.1m new light vehicles in China, after contracting in 2018-20. The upward revision came despite production cuts in the global auto market due to the chip shortage situation.
- **Good proxy to the recovering China auto sector.** Sunsine derives the bulk of its sales from China (1H21: 60.7%, 2020: 69%, 2019: 61%), which has been on an uptrend due to the strengthening economy since Mar 20, as well as government efforts to stimulate the automobile industry through subsidies.

EARNINGS REVISION/RISK

- We maintain our earnings forecast.

VALUATION/RECOMMENDATION

- **Maintain BUY with and target price of S\$0.695.** We value Sunsine at 8.4x 2022F PE, or +1SD above its historical 3-year average. At the current price, Sunsine is attractively valued at 6.1x 2022F PE relative to its closest peer Shandong Yanggu Huatai (Not Rated, 300121 CH), which trades at 8.5x forward PE.

SHARE PRICE CATALYST

- ASPs for rubber accelerators remain elevated.
- Better-than-expected earnings and dividend.
- Potential takeover or privatisation given the high cash per share of S\$0.28/share.

PLANNED CAPACITY EXPANSION

Product	Current capacity (ton)	Expansion (ton)	% increase	New capacity (ton)	Completion date	Commercial Production
Rubber Accelerators	117,000					
Insoluble Sulphur	30,000	30,000	+100	60,000	Obtaining trial run approval	4Q21
Anti-oxidant	45,000	30,000	+67	75,000	Undergoing internal testing	Early-2022
Total	192,000	60,000		252,000		

Source: Sunsine, UOB Kay Hian

PEER COMPARISON

Company	Bloomberg Ticker	Trading Curr	Price @ 29 Sep 21 (1cy)	Market Cap (US\$m)	PE			P/B			EV/EBITDA			Net Gearing (%)	ROE 2021F (%)
					2020 (x)	2021F (x)	2022F (x)	2020 (x)	2021F (x)	2022F (x)	2020 (x)	2021F (x)	2022F (x)		
China Sunsine	CSSC SP	S\$	0.495	367	11.4	5.6	6.1	0.9	0.8	0.7	2.8	1.8	1.4	(48.7)	14.3
Shandong Yanggu Huatai	300121 CH	CNY	13.29	3,677	17.0	12.7	10.3	2.7	2.5	2.0	n.a.	n.a.	n.a.	15.4	19.0
Lanxess AG	LXS GR	US\$	60.20	3,883	32.3	14.0	11.4	1.6	1.6	1.5	8.2	7.0	6.7	34.4	n.a.
Eastman Chemical	EMN US	US\$	99.18	9,934	12.7	10.9	10.5	2.3	2.1	1.9	16.1	7.9	7.7	85.7	22.4
Arkema SA	AKE FP	EUR	111.45	6,308	7.8	12.7	12.9	1.7	1.5	1.4	4.2	6.3	6.8	22.3	n.a.
Global average					17.5	12.6	11.3	2.0	1.9	1.7	9.5	7.1	7.1	39.4	20.7

Source: Bloomberg, UOB Kay Hian

ASP OF RUBBER ACCELERATOR (CBS) AND ANTI-OXIDANT (6PPD)



PROFIT & LOSS

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Net turnover	2,333.7	3,596.9	3,760.0	4,171.9
EBITDA	422.3	663.7	657.7	594.1
Deprec. & amort.	120.5	132.1	170.8	160.9
EBIT	301.8	531.6	487.0	433.2
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(1.3)	0.0	0.0	0.0
Pre-tax profit	300.5	531.6	487.0	433.2
Tax	(81.7)	(86.7)	(79.4)	(70.6)
Minorities	0.0	0.0	0.0	0.0
Net profit	218.8	444.9	407.6	362.6
Net profit (adj.)	218.8	444.9	407.6	362.6

BALANCE SHEET

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Fixed assets	864.6	997.5	1,026.7	985.8
Other LT assets	68.3	68.3	68.3	68.3
Cash/ST investment	1,326.2	1,333.3	1,567.2	1,808.4
Other current assets	913.0	1,244.7	1,361.6	1,528.9
Total assets	3,172.1	3,643.7	4,023.8	4,391.4
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	451.4	523.2	577.9	664.1
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	0.0	4.1	5.7	3.7
Shareholders' equity	2,720.7	3,116.4	3,440.2	3,723.6
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	3,172.1	3,643.7	4,023.8	4,391.4

CASH FLOW

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Operating	426.9	321.3	517.7	440.4
Pre-tax profit	300.5	531.6	487.0	433.2
Tax	(63.4)	(84.1)	(83.1)	(75.1)
Deprec. & amort.	120.5	132.1	170.8	160.9
Working capital changes	103.2	(258.3)	(56.9)	(78.6)
Non-cash items	(33.9)	0.0	0.0	0.0
Investing	(239.6)	(265.0)	(200.0)	(120.0)
Capex (growth)	(279.3)	(265.0)	(200.0)	(120.0)
Proceeds from sale of assets	60.0	0.0	0.0	0.0
Others	(20.3)	0.0	0.0	0.0
Financing	(99.7)	(49.3)	(83.8)	(79.2)
Dividend payments	(49.3)	(49.3)	(83.8)	(79.2)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(50.4)	0.0	0.0	0.0
Net cash inflow (outflow)	87.6	7.1	233.9	241.2
Beginning cash & cash equivalent	1,279.9	1,326.2	1,333.3	1,567.2
Changes due to forex impact	(41.3)	0.0	0.0	0.0
Ending cash & cash equivalent	1,326.2	1,333.3	1,567.2	1,808.4

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	18.1	18.5	17.5	14.2
Pre-tax margin	12.9	14.8	13.0	10.4
Net margin	9.4	12.4	10.8	8.7
ROA	7.2	13.1	10.6	8.6
ROE	8.3	15.2	12.4	10.1
Growth				
Turnover	(13.3)	54.1	4.5	11.0
EBITDA	(25.3)	57.2	(0.9)	(9.7)
Pre-tax profit	(33.6)	76.9	(8.4)	(11.0)
Net profit	(43.7)	103.4	(8.4)	(11.0)
Net profit (adj.)	(43.7)	103.4	(8.4)	(11.0)
EPS	(43.5)	103.4	(8.4)	(11.0)
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	(48.7)	(42.8)	(45.6)	(48.6)
Interest cover (x)	324.8	n.a.	n.a.	n.a.

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