COMPANY UPDATE | Materials ▪ Singapore

KGI CHINA DEVELOPMENT FINANCIAL

China Sunsine Chemical Holdings

(CSSC SP/CHSN.SI)

Taking advantage of opportunities amid short-term challenges

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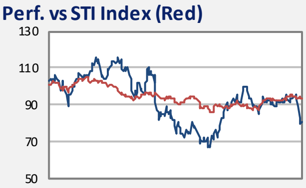
Not Rated			
Price as of 7 Mar 19 (SGD)	1.14	**Performance (Absolute)**	
12M TP ($)	-	1 Month (%)	-13.0
Previous TP ($)	-	3 Month (%)	-12.5
Upside (%)	-	12 Month (%)	-17.8
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	560		
Issued Shares (mn)	491		
Vol - 3M Daily avg (mn)	1.1		
Val - 3M Daily avg ($mn)	1.4		
Free Float (%)	38.6%		
Major Shareholders		**Previous Recommendations**	
Xu Cheng Qiu	63.3%		



- 4Q18 net profit declined 18% YoY to RMB 109mn mainly due to lower average selling price (ASP). Sales volume was at an all-time of 39,957 tons.
- Sunsine increased final dividends to 5.5 Sing cents from 2.5 Sing cents in 2017.
- Share price has declined by more than 10% following the results announcement. We attribute the sell-off to the weak outlook statement by management.
- This could be an attractive opportunity as we think the sell-off is overdone. Sunsine's valuations are cheap and its long-term prospects have never looked better.

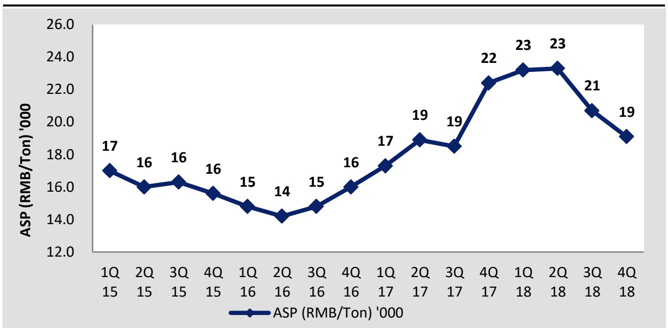
Financials & Key Operating Statistics

YE Dec (RMB m)	2014	2015	2016	2017	2018
Revenue	2077.3	1859.1	2036.9	2738.4	3283.3
PATMI	220.2	195.2	221.7	341.3	641.3
EPS (Sing cents)	10.2	9.8	9.9	14.5	26.1
P/E (x)	11.9	12.4	12.2	8.1	4.4
DPS (Sing Cents)	1.5	1.5	1.5	3	5.5
Div Yield (Y%)	1.3%	1.3%	1.3%	2.6%	4.8%
Net Margin (%)	10.6%	10.5%	10.9%	12.5%	19.5%
Net Gearing (%)	13	NC	NC	NC	NC
ROE (%)	21.8%	16.6%	16.3%	19.6%	27.6%

Source: Company data, KGI Research

4Q18 summary. 4Q18 net profit declined 18% YoY to RMB 109mn mainly due to lower ASP. ASP in the quarter declined 15% YoY to 19,110 per ton, caused by lower raw material prices. This was offset by an increase in sales volume in 4Q18 by 3% YoY. Gross margins in 4Q18 declined 0.9% pts YoY to 32.4%, but we note this is still significantly higher than the 27.3% average in the prior four years and simply represents a normalising of margins from a very strong 9M2018.

Figure 1: ASP trend since 1Q 2015



Source: Company data, KGI Research

Negative outlook in short-term. Following the release of its FY18 results, Sunsine's share price dropped more than 10%. This can partly be attributed to the negative short-term outlook provided by management. Management has guided for lower ASP in the short-term due to declining raw material prices (mainly Aniline) and increased competition. Competitors who were previously hit by environmental regulations are now resuming operations after upgrading their equipment and technologies to meet government requirements. We also think that management's lack of confidence in maintaining the absolute dividend amount of 5.5 Sing cents for 2019 was a final deal breaker, despite the group's strong balance sheet and free cash flows.

Long-term positive. Sunsine enjoys a dominant position in a niche market, where it commands a 20% global market share and 33% market share in China for rubber accelerators. Sunsine's 87,000 tons annual capacity for accelerators is 70-90% more than the next two largest producers in the world. Sunsine's accelerator capacity is expected to increase up to 117,000 tons in the next 12 months. Furthermore, it is still in talks to purchase more land to expand capacity. It had a net cash position of RMB 1.0 bn to sufficiently fund all capex and land purchases for expansion, in addition to sustaining the 5.5 Sing cents dividends.

Valuation Analysis - Lower profits YoY vs. 2018			
YoY Decline from 2018 (%	20%	30%	40%
Net Profit (RMB'm)	513.0	448.9	384.8
Implied P/E	5.4x	6.1x	7.2x

Valuation & Action: Never looked better. Sunsine is currently trading at 4.3x 2018 P/E. Even if 2019 net profits were to decline between 20% and 30% YoY due to lower ASPs, Sunsine would still be trading at attractive valuations of between 5.4x and 6.1x P/E. This is not even taking into account its net cash position of S$0.42 per share, which makes up 37% of Sunsine's current market capitalisation. As such, the current sell-off presents an attractive opportunity to invest into the world's largest rubber accelerator company, a company which counts two-thirds of the top 75 tire manufacturers in the world as its customers.

Risks: Margin pressure due to lower ASP, especially in 1H 2019.

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

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