



CHINA SUNSINE CHEMICAL HOLDINGS LTD.

中国尚舜化工控股有限公司

2Q & 1H 2019 RESULTS BRIEFING

7 August 2019

PRESENTATION OUTLINE

Our Company

Financial Overview

Key Developments

Industry Info and Outlook

Our Company

About China Sunshine Chemical

- ✓ **Specialty rubber chemicals producer**
- ✓ **World's largest** producer of Rubber Accelerators
- ✓ **PRC's biggest** producer of Insoluble Sulphur
- ✓ **Superior product-quality and economies of scale**
- ✓ **Accredited by a strong customer base of top tire makers**
- ✓ **Beneficiary of stringent environmental protection standards**



Our Products - Rubber Chemicals



Rubber Accelerators

MBT MBTS CBS TBBS TMTD
DPG DCBS



Insoluble Sulphur

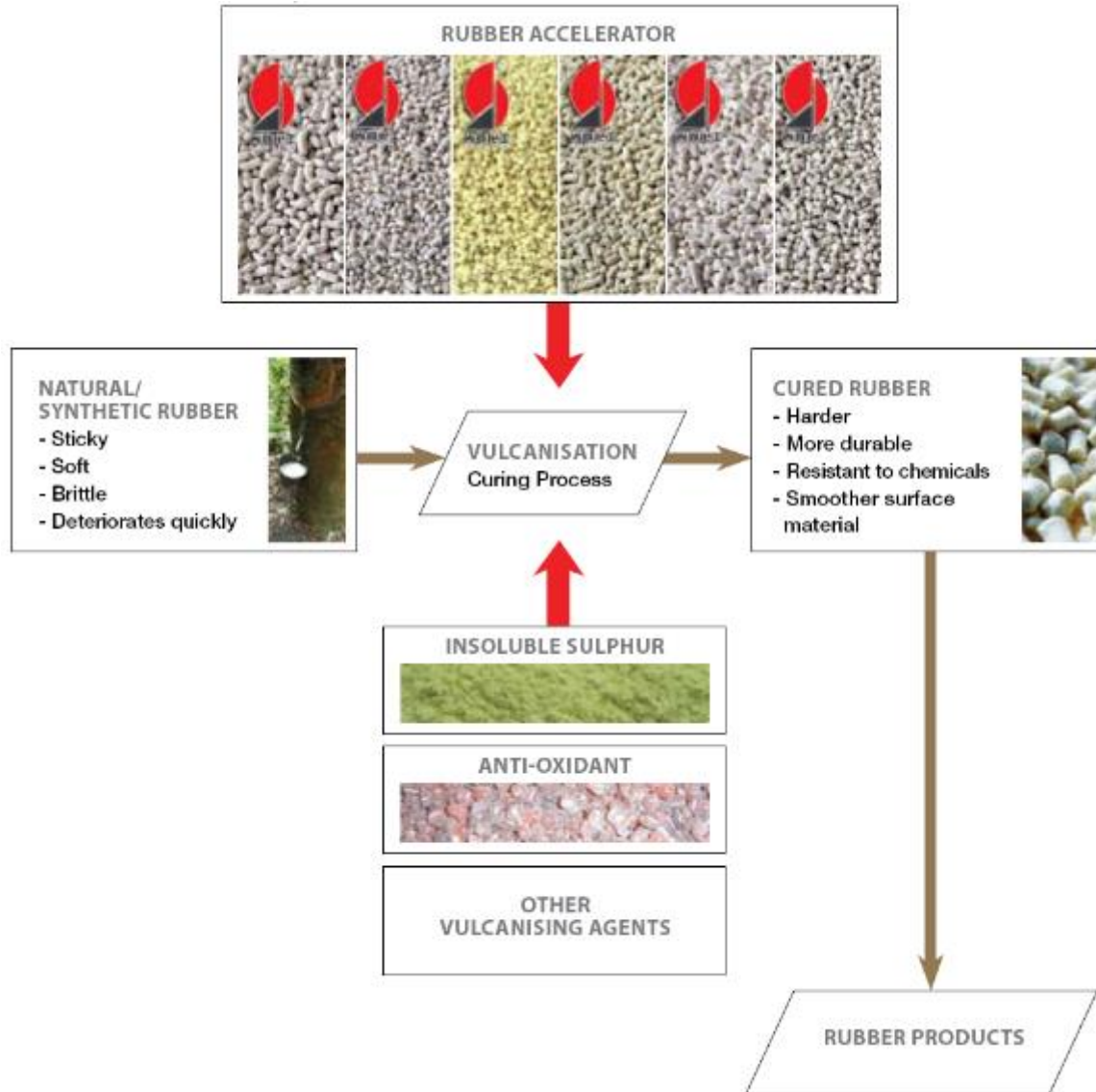


Anti-Oxidants

TMQ
6PPD
4010NA



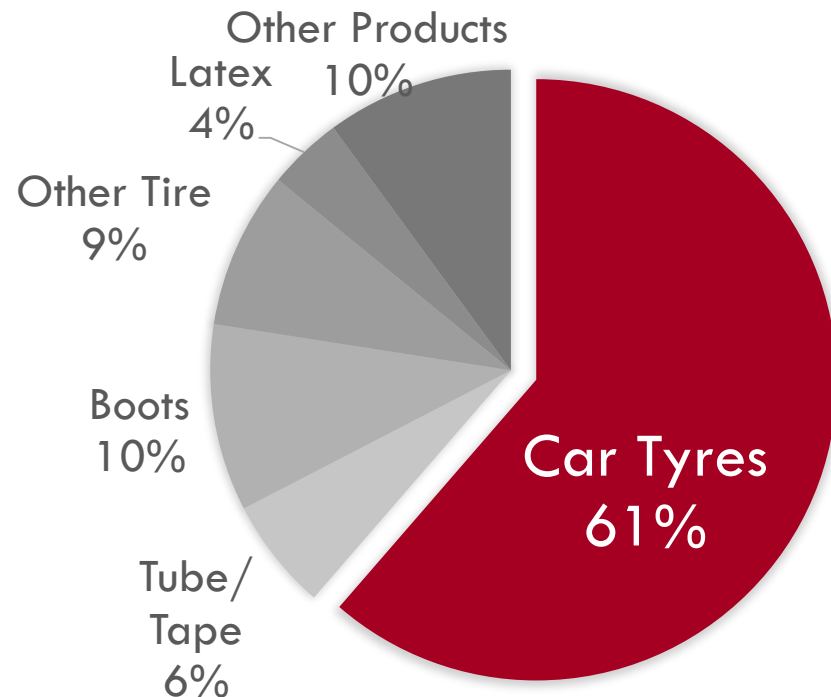
Our Products: Rubber Chemicals



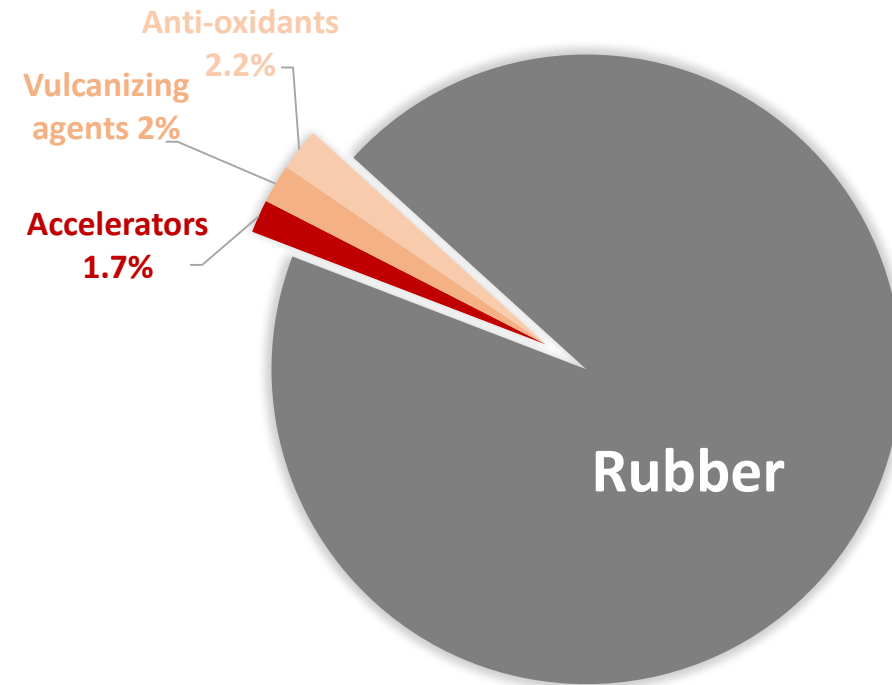
Rubber Chemicals are **Essential Additives** in the production of rubber products



Global Consumption of Rubber



<http://www.chemn.com>



Global rubber consumption in 2017:
28.27 million tons - By IRSG

- **By weight**, every 100 tons of rubber consumes about 6 tons of rubber chemicals (100:6)
- **By value**, rubber chemical's cost accounts for about 3% of total tire cost (100:3)



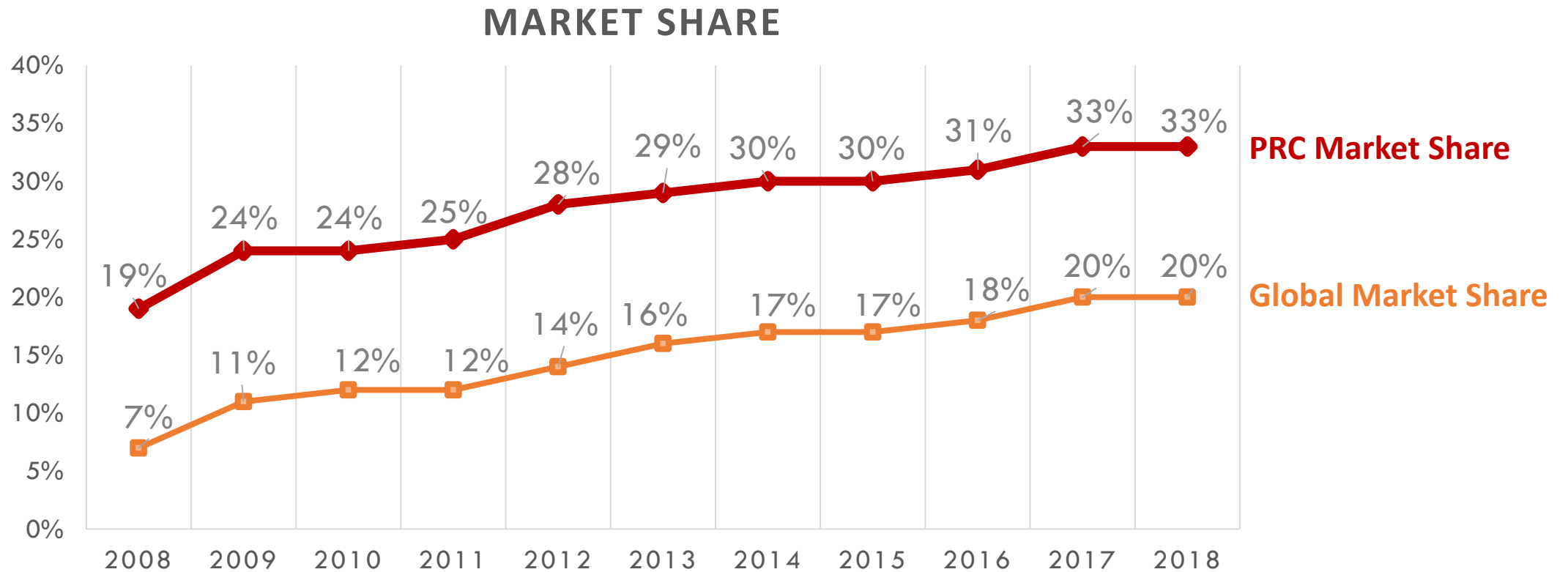
Our Strong Customer Base



- Over **1,000** customers globally
- Serves more than **2/3** of the global top 75 tire makers
- **1/3** output exported



Market Share: Rubber Accelerators



Our Market Leadership Position

GLOBAL TOP 3 ACCELERATOR PRODUCERS

Company	Annual Capacity 2019
China Sunsine 中国尚舜	97,000 tons
Tianjin Kemai 天津科迈	51,000 tons
Yanggu Huatai 阳谷华泰	45,000 tons

PRC TOP 3 INSOLUBLE SULPHUR PRODUCERS

Company	Annual Capacity 2019
China Sunsine 中国尚舜	30,000 tons
Yanggu Huatai 阳谷华泰	20,000 tons
Sennics 圣奥化学	15,000 tons



Our Production Bases

Five production bases in three locations



Dingtao Base
• 10,000-ton Insoluble Sulphur
(another 10,000-ton to be completed by 2017)



Shanxian
• Home base: 116,000-ton
• Sub-base-Yongshun: 10,000-ton TBBS (high-grade accelerator) expected to be completed by 2017.
• Sub-base-Guangshun Heating plant: Centralised steam production



Weifang Plant
• 26,000-ton accelerators



Financial Overview

Financial Highlights

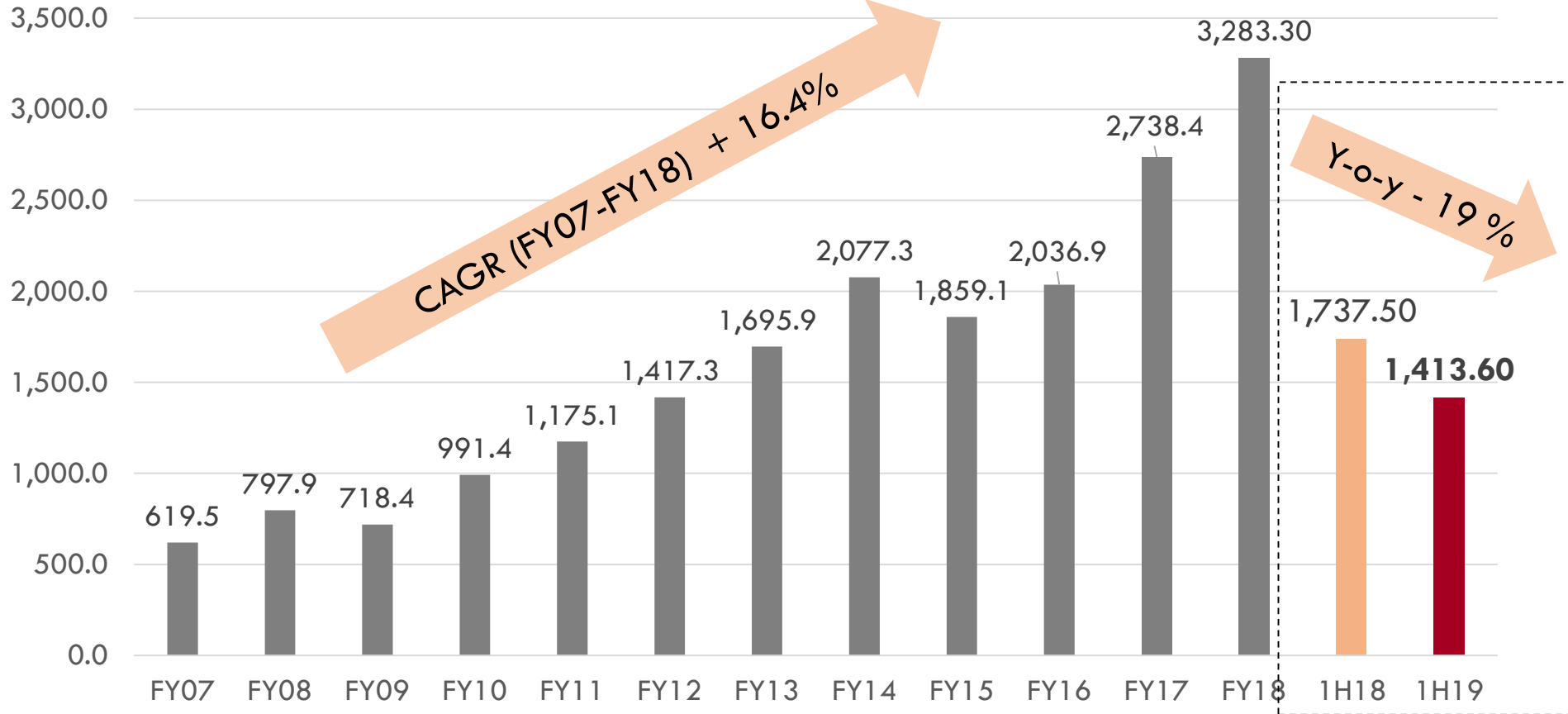
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RMB 'mln	2 nd Quarter Ended			6 Months Ended		
	30 Jun 19	30 Jun 18	Change	30 Jun 19	30 Jun 18	Change
Group Revenue	727.0	880.6	(17%)	1,413.6	1,737.5	(19%)
Gross Profit	252.3	323.6	(22%)	488.0	622.4	(22%)
Gross Profit Margin	34.7%	36.7%	(2 pts)	34.5%	35.8%	(1.3 pts)
Profit Before Tax	187.8	214.8	(13%)	320.0	396.4	(19%)
Profit After Tax	155.8	239.7	(35%)	265.9	389.2	(32%)
Profit After Tax (Adjusted) *	155.8	191.7	(19%)	265.9	341.2	(22%)
EPS (RMB cents/SGD Cents*)	31.77/ 6.25	48.75/ 9.60	(34%)	54.19/ 10.67	79.15/ 15.58	(31%)
NAV per share (RMB cents/SGD Cents*)				499.60/ 98.34	421.14/ 82.89	

* Adjusted by taking out tax credit of about RMB 48 mln in 2Q2018 due to the "Hi-tech Enterprise" Award obtained in Dec 2017

Revenue Growth

RMB 'mln

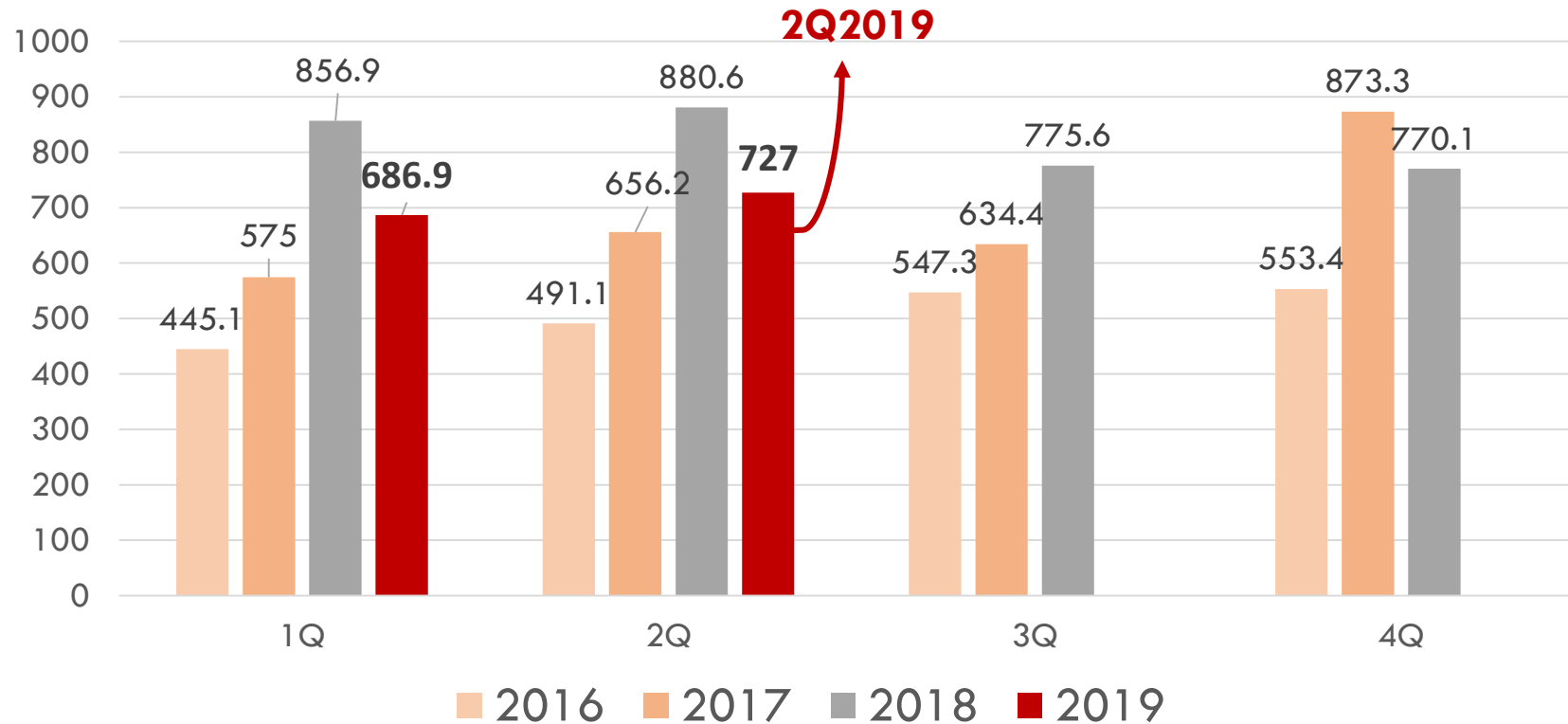


1H19 Revenue down 19% y-o-y mainly due to lower average selling price (ASP)



Revenue By Quarter

RMB 'mln



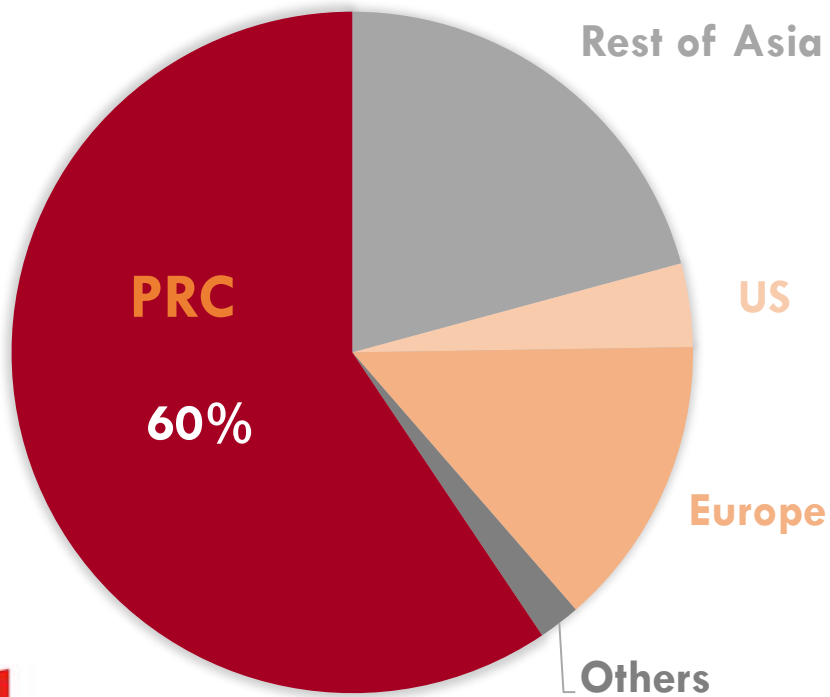
2Q19 vs 2Q18 : - 17%
2Q19 vs 1Q19 : + 6%

- 2Q19 Revenue down 17% y-o-y due to lower average selling price (ASP)
- 2Q19 Revenue up 6% q-o-q due mainly to the increase in sales volume



Sales Contribution (By Region)

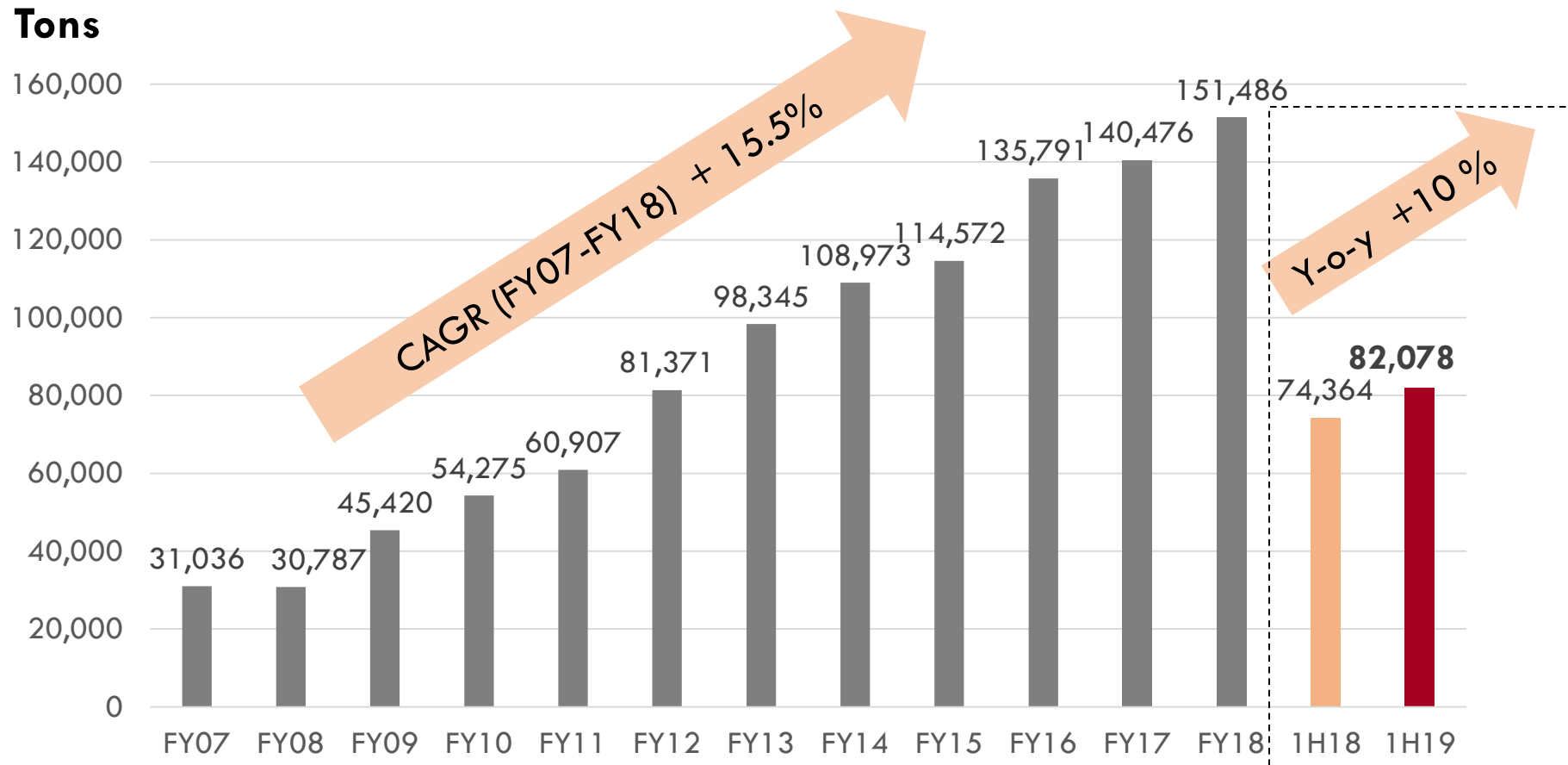
1H2019 Sales Contribution (y-o-y)



Region	1H2019	FY2018	FY2017
China	60%	62%	64%
Rest of Asia	21%	25%	24%
US	4%	2%	5%
Europe	14%	9%	5%
Others	2%	2%	2%
Total	100%	100%	100%



Sales Volume

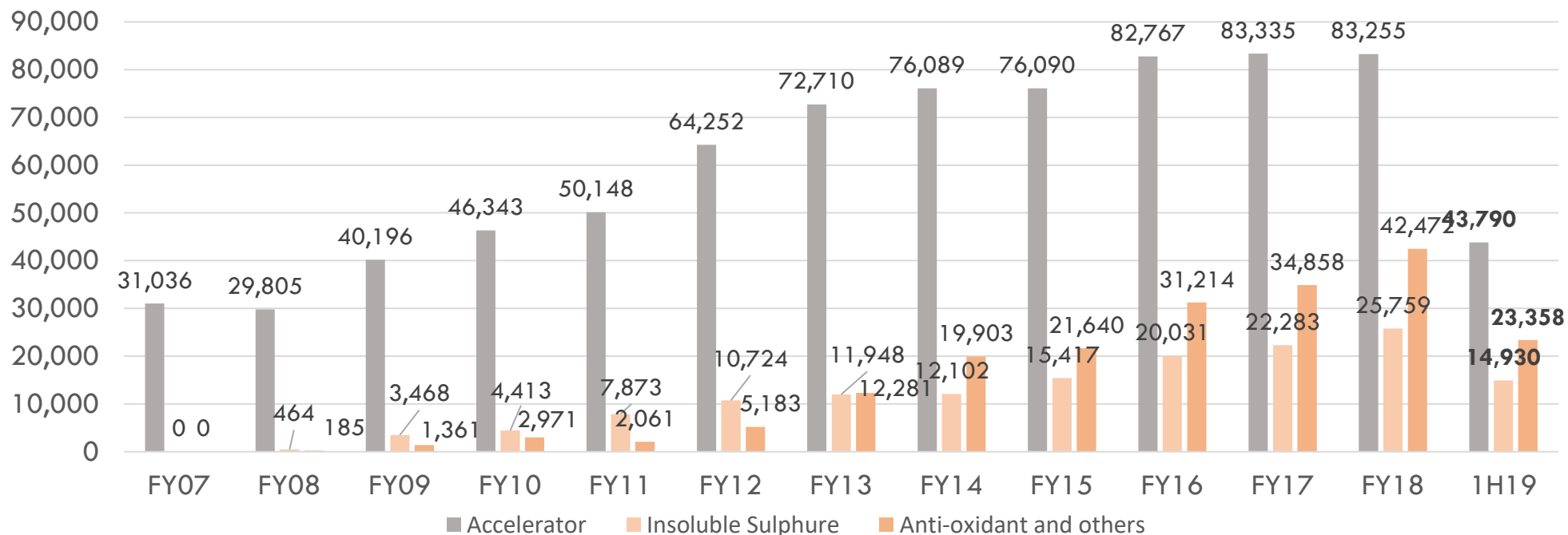


1H19 sales volume up 10% y-o-y mainly due to the expanded capacity from two new production lines: 10,000-ton TBBS and 10,000-ton Insoluble sulphur



Sales Volume by Products

Tons

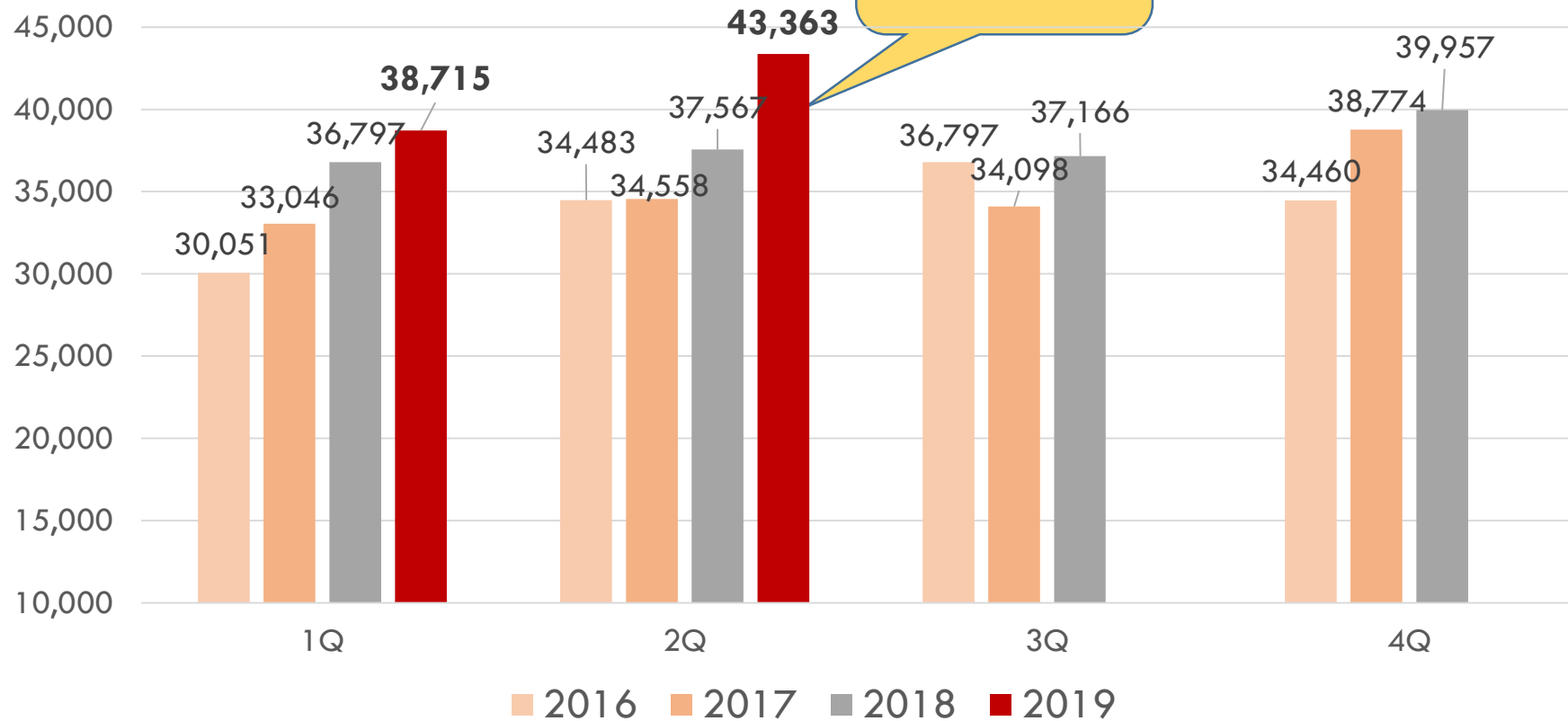


Sales Volume	1H2018	1H2019	Utilization Rate
Accelerators	41,469	43,790	Almost fully utilized
Insoluble Sulphur	12,884	14,930	Fully utilized
Anti-oxidants	19,339	22,385	Fully utilized



Sales Volume By Quarter

Tons



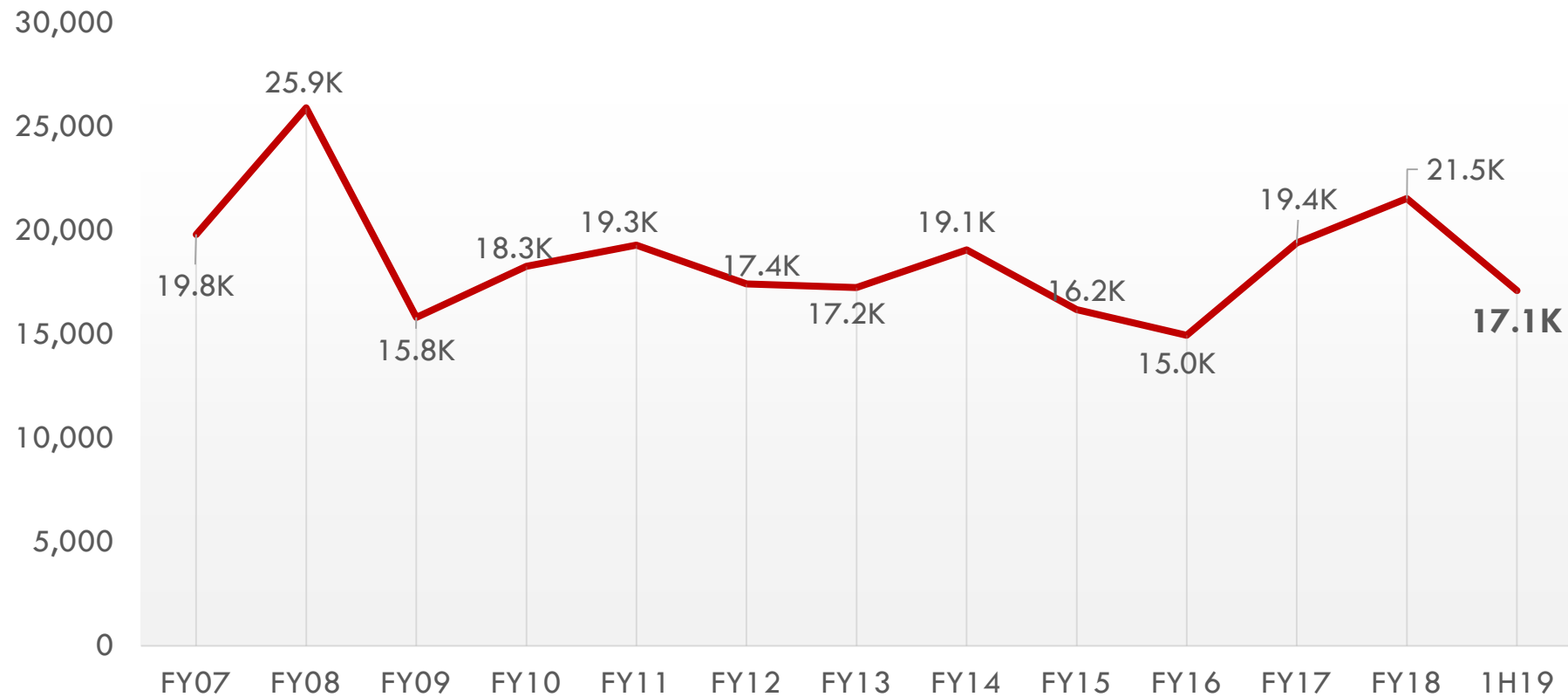
**2Q2019 Vol
New High**

2Q19 vs 2Q18 : +15%
2Q19 vs 1Q19: +12%



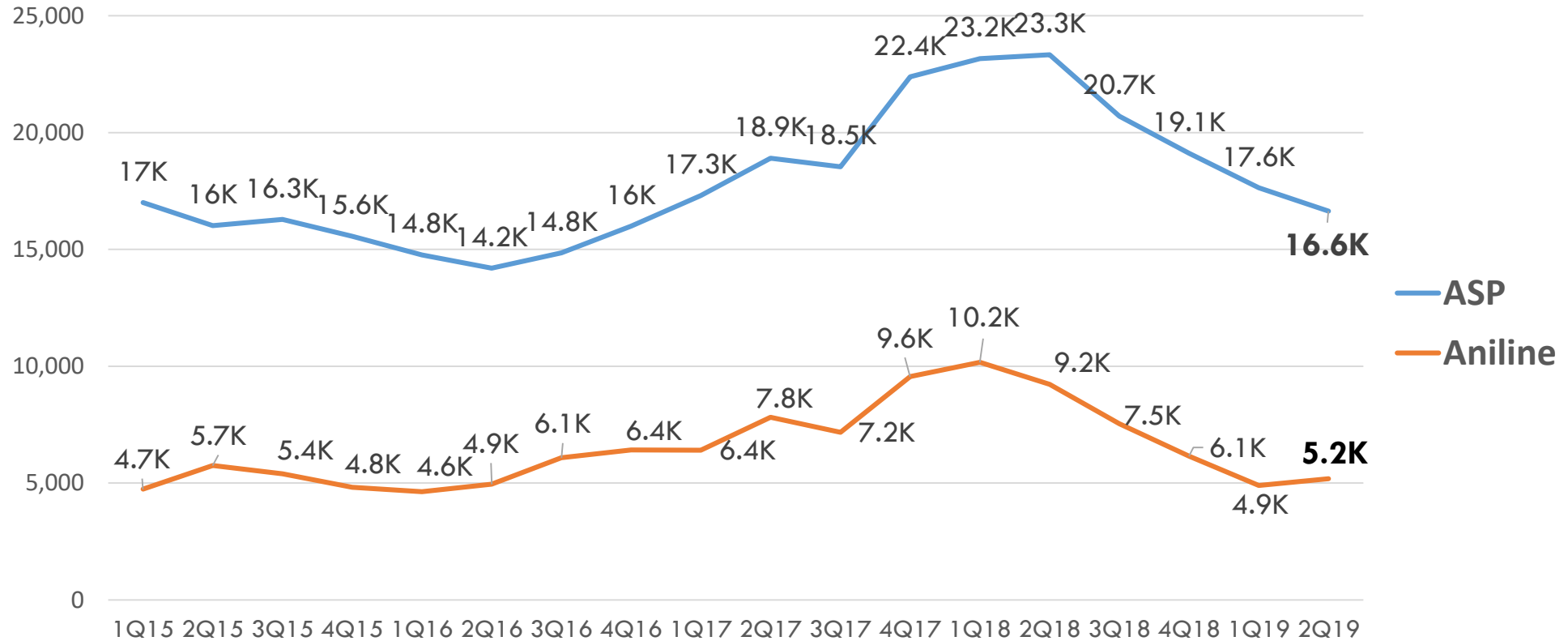
Overall Average Selling Price (ASP)

RMB/Ton



ASP vs Aniline Price

RMB/Ton

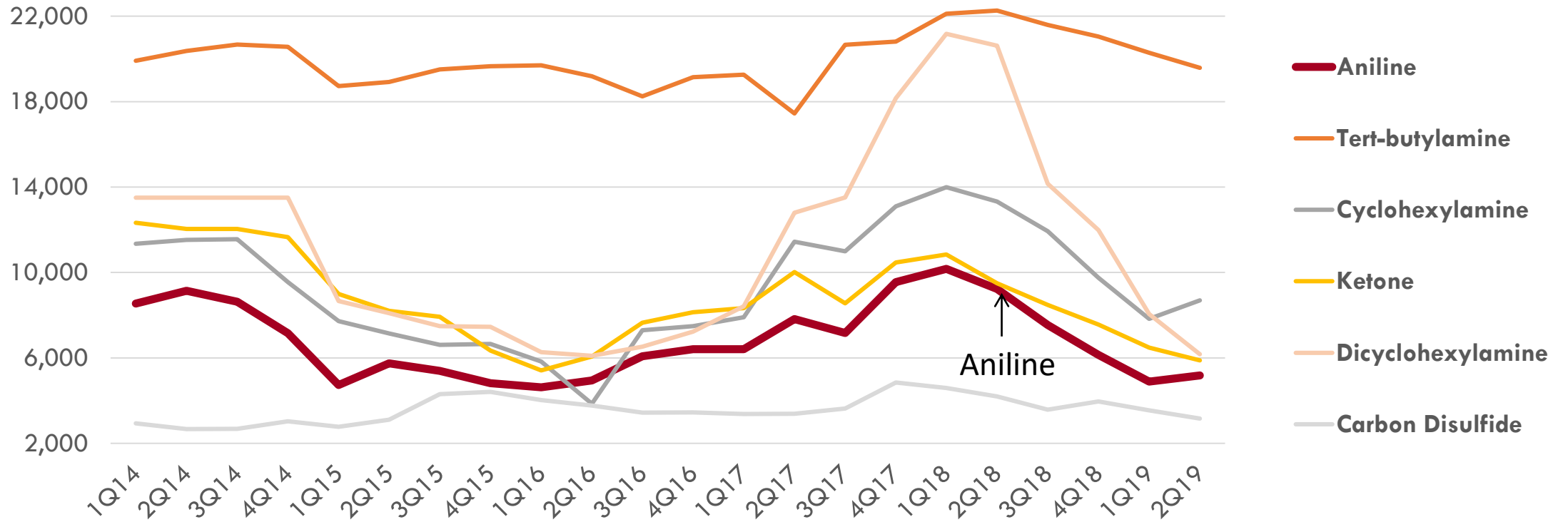


- 2Q19 ASP declined 29% y-o-y mainly due to the decrease in raw material prices



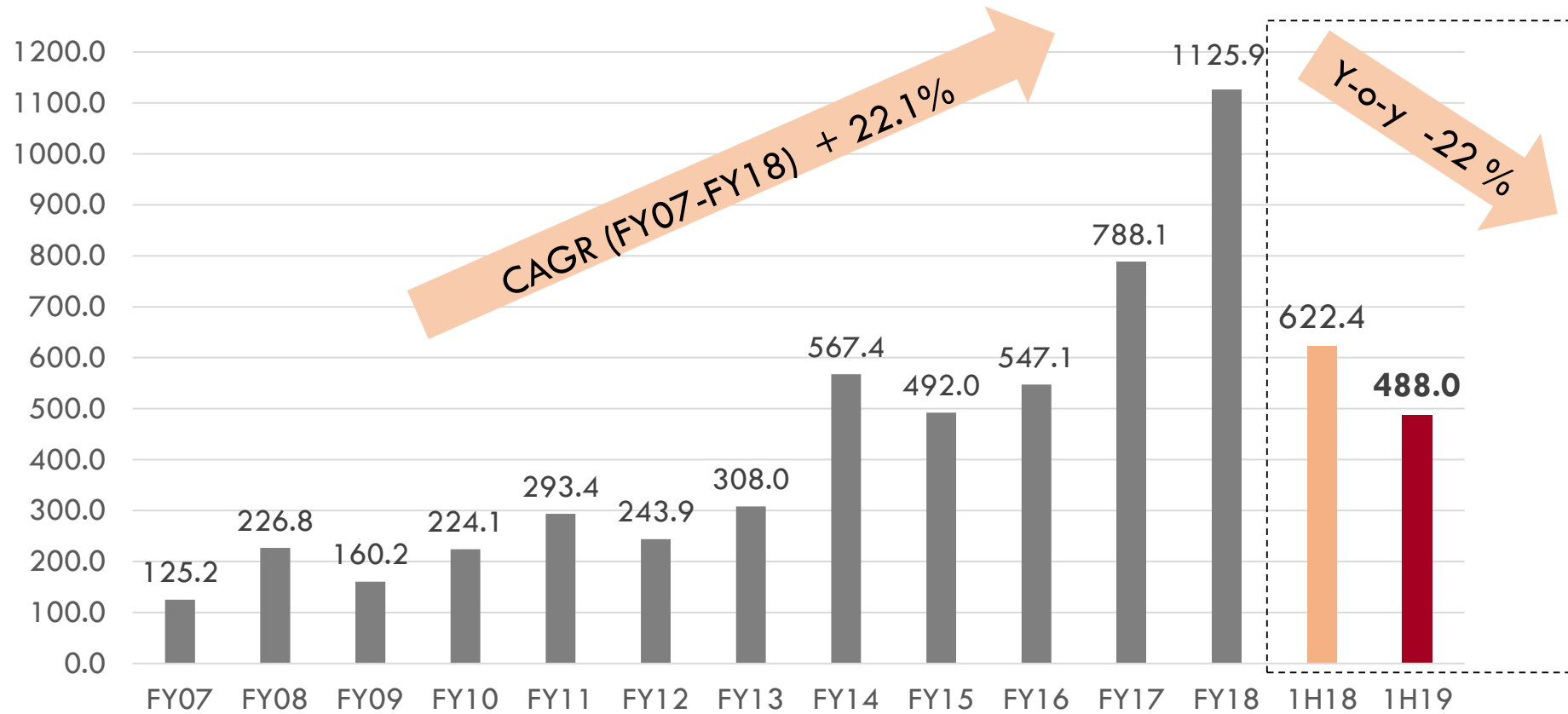
Main Raw Materials Price Trend

RMB/ Ton



Gross Profit

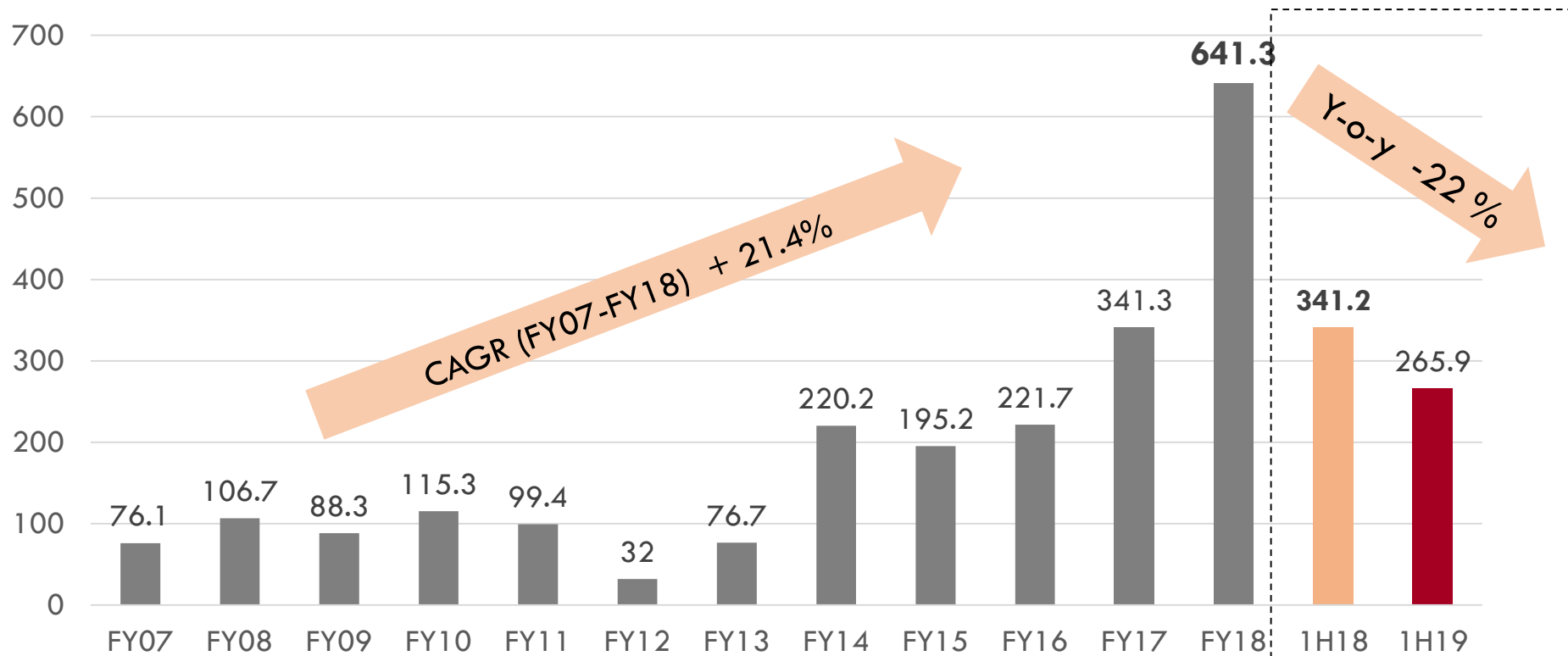
RMB 'mln



Net Profit

RMB 'mln

Net Profit

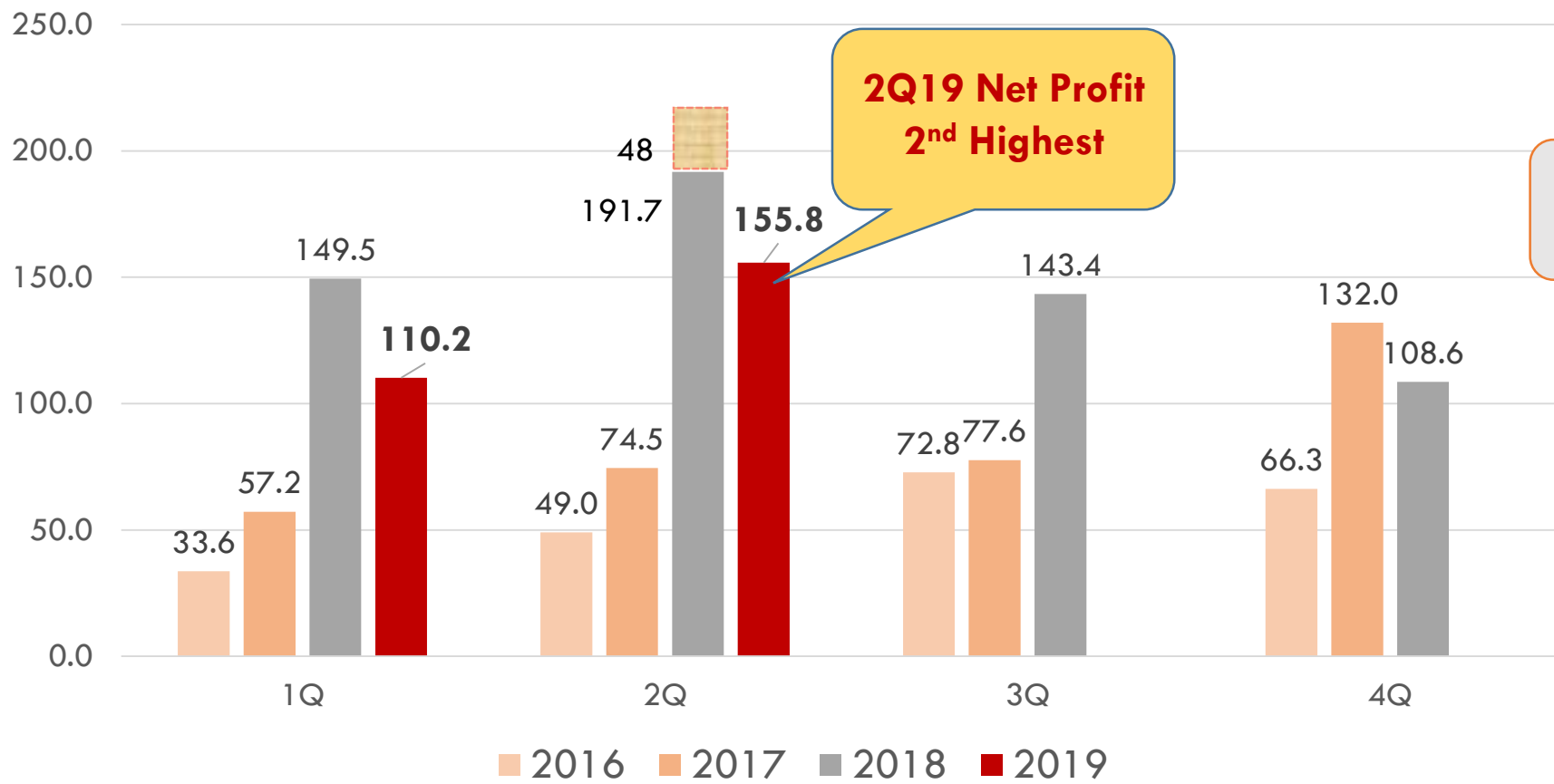


- 1H18 Net profit RMB341.2 excluding the tax credit of RMB48 mln recorded in 2Q18



Net Profit By Quarter

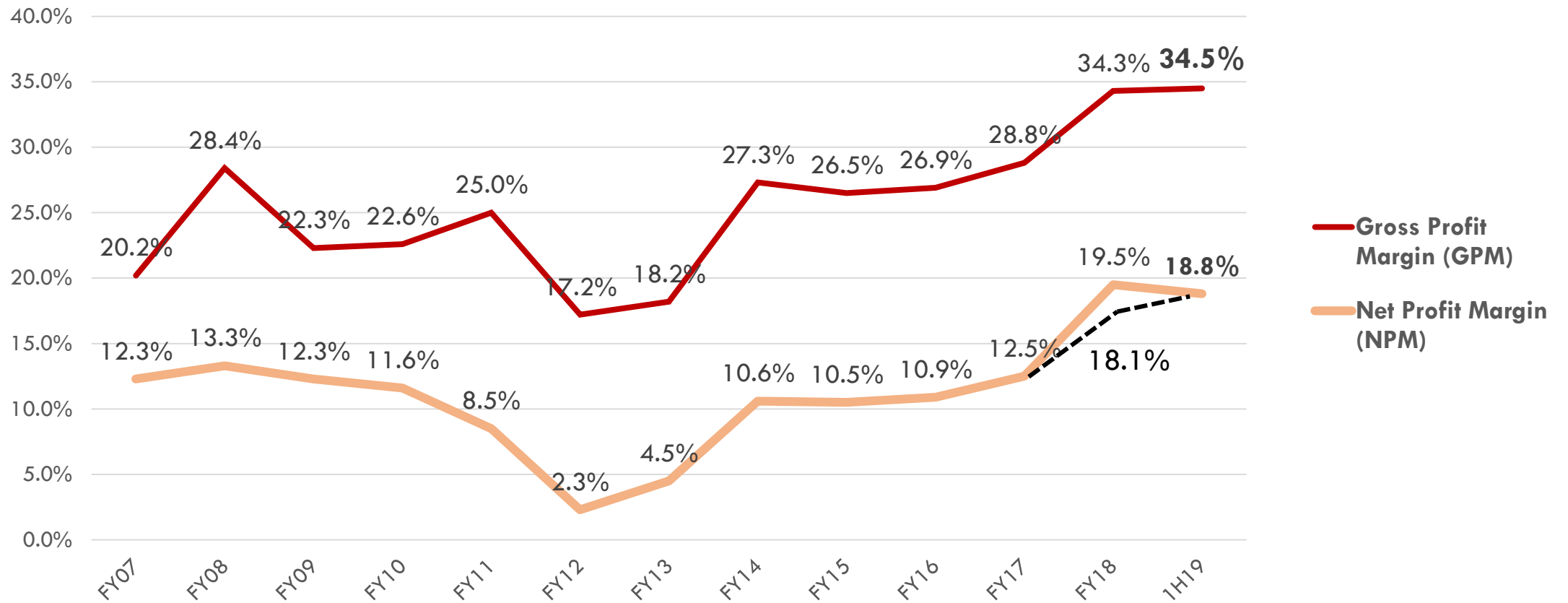
RMB 'mln



- 2Q19 Net profit dropped 19% compared with 2Q18 net profit of RMB191.7 mln after taking out the tax credit of RMB48 mln in 2Q18



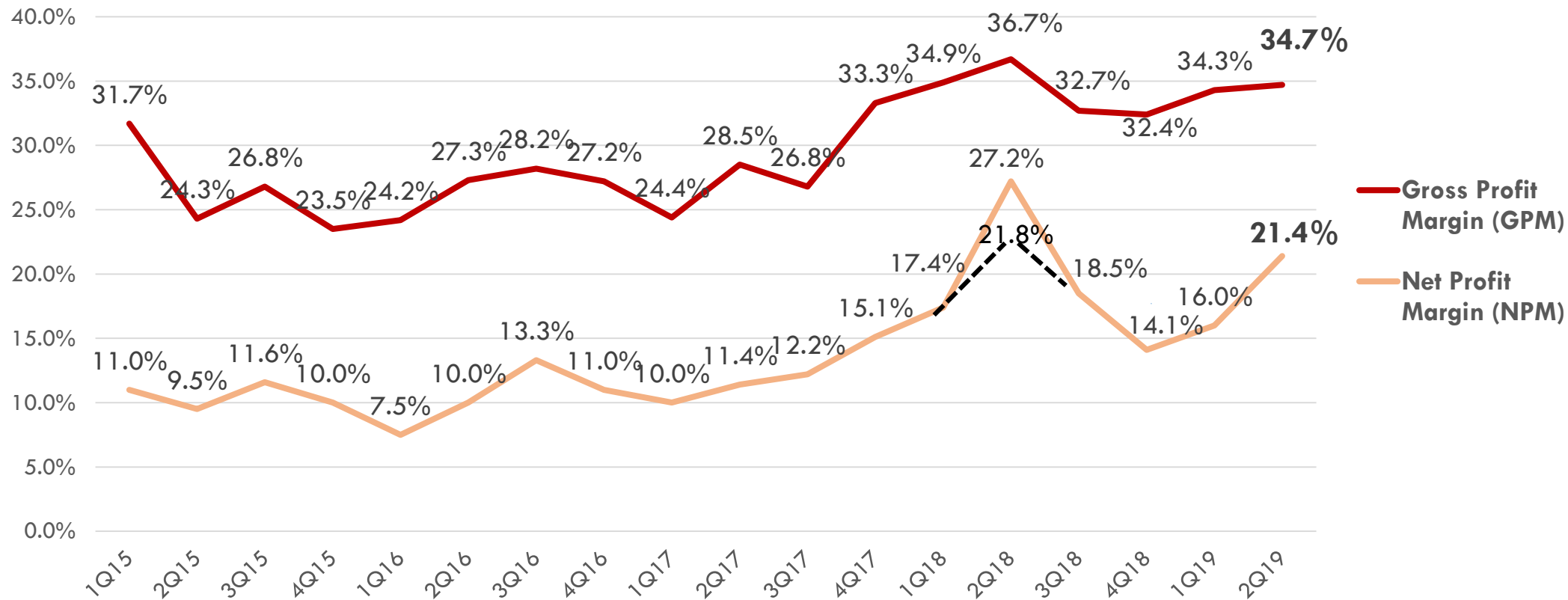
Margins Analysis



--- Adjusted by taking out the one-time tax credit of RMB 48 mln in 2Q2018



Margins Analysis By Quarter



--- Adjusted by taking out the one-time tax credit of RMB 48 mln in 2Q2018



Balance Sheet Highlight

	30/06/2019	31/12/2018	31/12/2017
Current Assets (RMB'mln)	2,093.6	2,016.4	1,424.6
Current Liabilities (RMB'mln)	366.4	421.8	385.3
Current Ratio	5.71	4.78	3.70
Shareholders' Equity (RMB'mln)	2,441.7	2,325.5	1,742.4
D/E ratio *	0	0	0
ROE**	22% (annualised)	27%	20%
NAV per share (RMB cents) (equivalent to SGD cents) **	499.60/ 98.34	421.14/ 82.89	354.37/ 69.75
Net Cash per share (RMB cents) (equivalent to SGD cents)**	239.2/ 47.1	211.4 41.6	101.6/ 20.0

* SGD vs RMB exchange rate at 1: 5.0805

** Equity including cash of RMB 1,169.2 mln



Key Developments

Expansion Projects

Project	Status	CapEx
<u>30,000-ton fully-automated, high-end Accelerator TBBS at Shanxian:</u>	Whole project was approved in Jan 2019	
1. Phase I of 10,000-ton capacity	Commercial production started in Jan 2019	RMB 100 mln
2. Phase II of 20,000-ton capacity	New line to be installed in 2019/2020	RMB 60 mln
Sunsine Chemical Zone With land area of 680 mu	Set aside about 300 mu to build a 60,000-ton IS plant in 2 phases over next few years	Not finalized yet



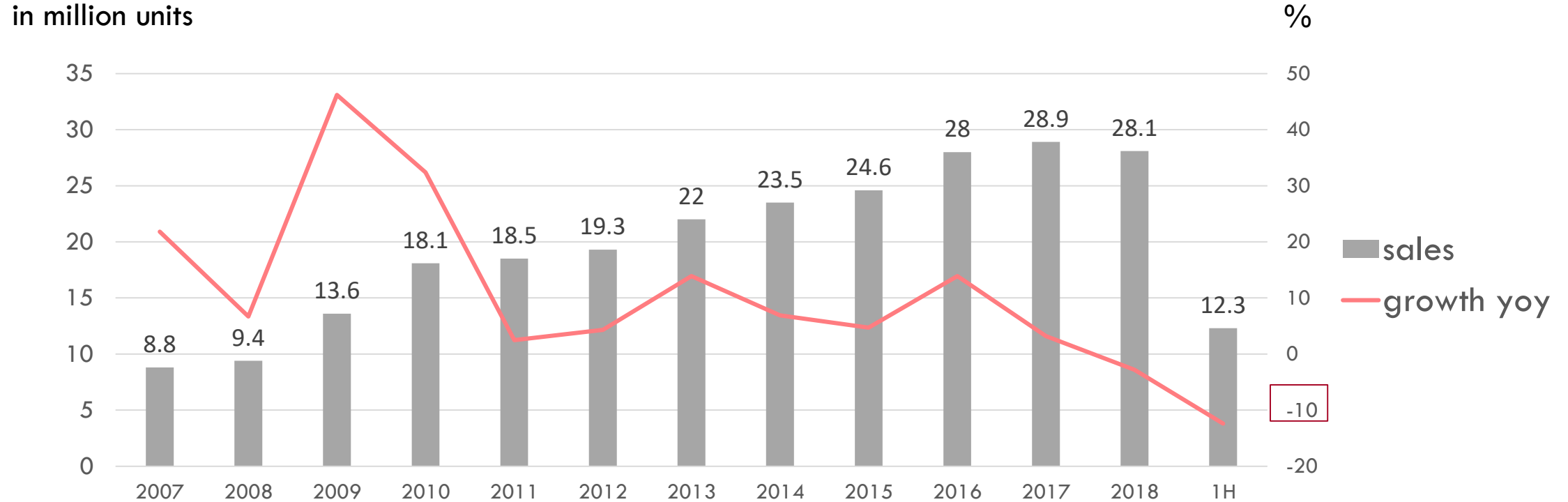
Annual Capacity

	2007 (before IPO)	FY17	FY18	FY19e
Rubber Accelerators	32,000	87,000	87,000	97,000
Insoluble Sulphur	nil	20,000	30,000	30,000
Anti-oxidant (TMQ & 6PPD)	nil	45,000	45,000	45,000
Total	32,000	152,000	162,000	172,000



Industry Info and Outlook

China's New Car Sales

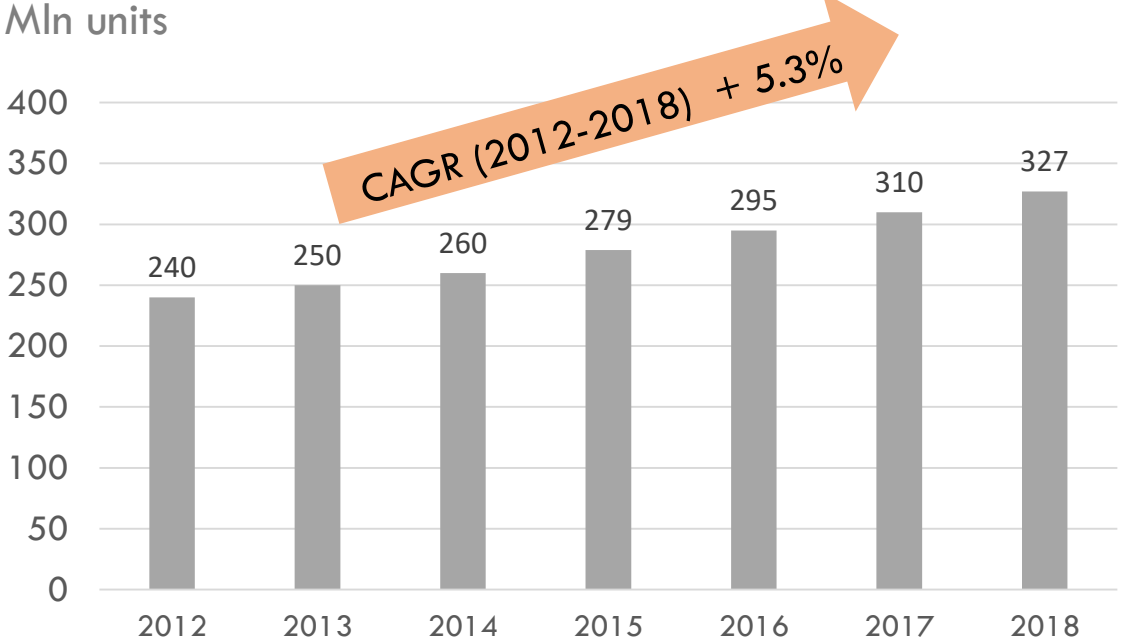


- 12.3 mln cars sold in China in 1H2019, down 12.4% y-o-y
- China's new car sales expected to be slower after robust growth over 28 years

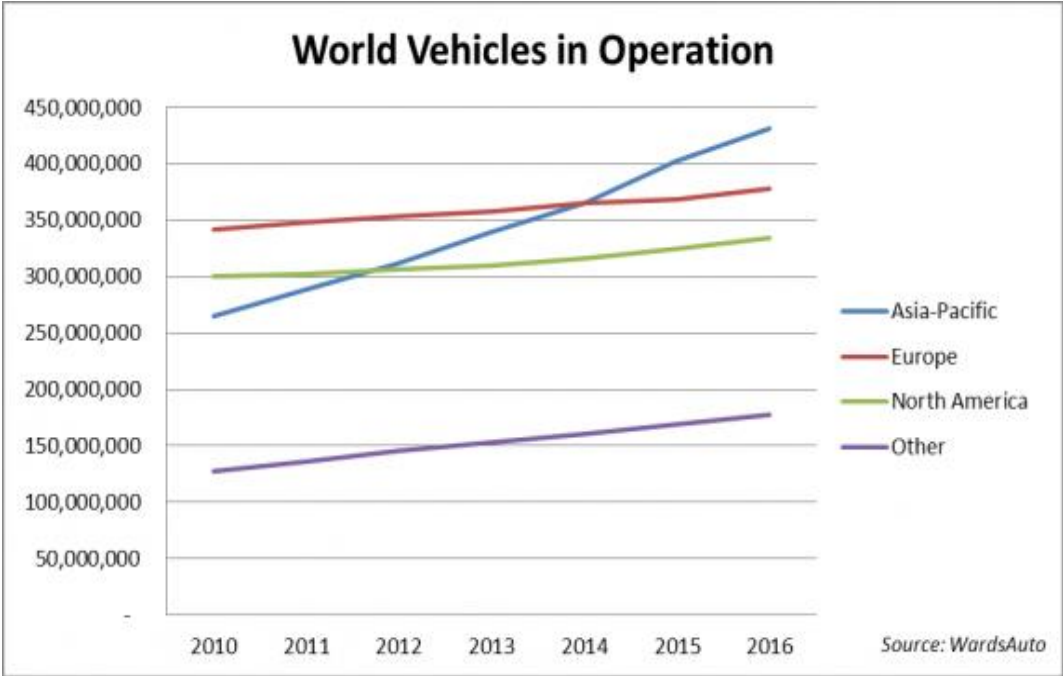


Global Vehicle Population

PRC Motor Vehicle Population



http://www.sohu.com/a/289093749_390500



<http://subscribers.wardsintelligence.com/analysis/world-vehicle-population-rose-46-2016>

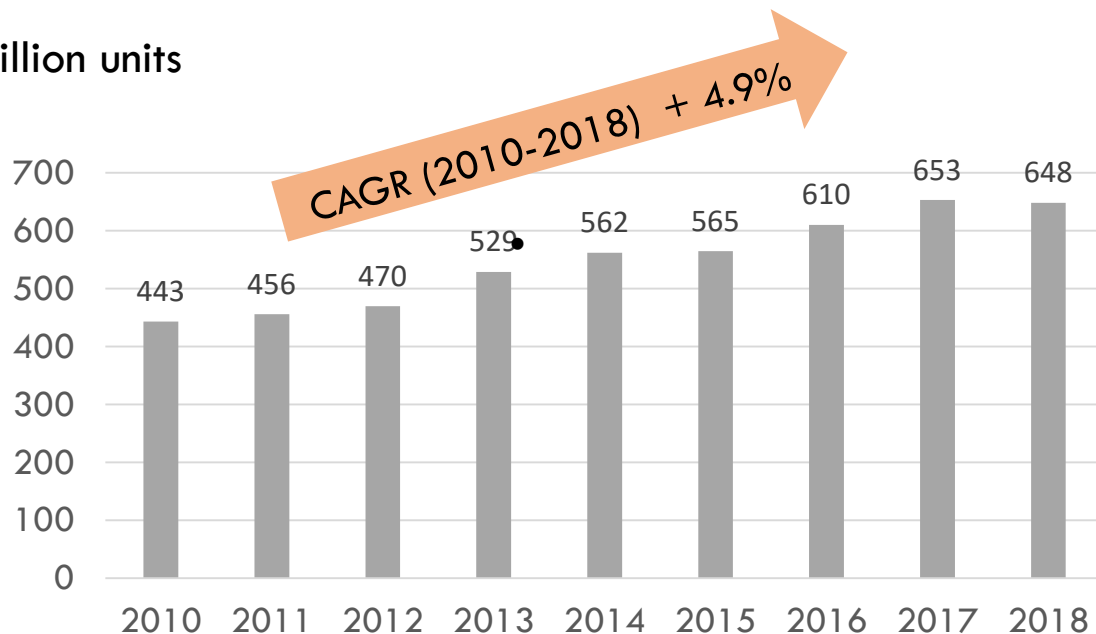


- Global vehicle population is growing, mainly driven by rising car ownership in developing countries

Riding on Rising Tire Consumption

PRC Tire Production Volume

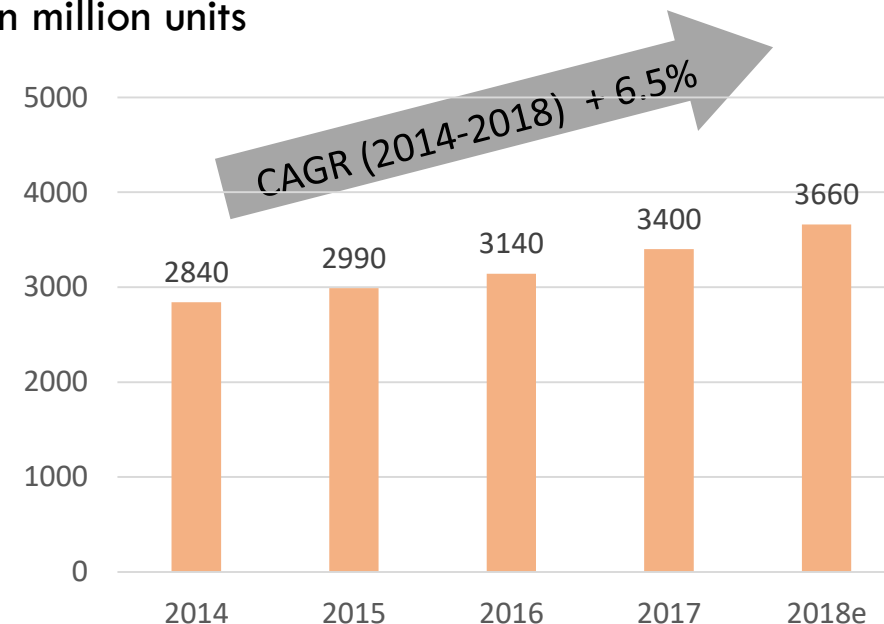
in million units



Source: <http://www.tyrefh.org/>

Projected worldwide tire market volume from 2014 to 2018

in million units



www.statista.com



- Replacement tire and new car tire sales account for approximately 70% and 30% respectively
- As overseas factories of Chinese tyre makers produce for export to the US and the EU, tire production in China expected to grow moderately

Rising Consumption of Large Tires

Tyres (million pieces)	2010	2015	2020 (projected)
Large tyres (≥ 17 inches)	98 (6.8%)	222 (12.6%)	444 (19.5%)
Small tyres (< 17 inches)	1,352 (93.2%)	1,544 (87.4%)	1,838 (80.5%)
Total	1,450 (100%)	1,766 (100%)	2,282 (100%)

Source: (Goodyear [2016 annual report](#), page 3)



- By 2020, 19.5% of tires are expected to be large. They will consume more rubber chemicals

Competitive Strengths

Market Leadership

- World largest accelerators and China's biggest IS producer
- Capturing 20% of global and 33% of China's accelerators markets
- Listed in the first batch of "National Champion Manufacturing Enterprise"

Products & Economy of Scale

- Superior quality and Full range of varieties
- Stable supply
- Largest capacity with economy of scale

Strong Customer Base

- Over 1,000 customers worldwide spanning over 40 countries
- Serving 2/3 of global top 75 tire manufacturers
- 1/3 output exported

Environmental Protection advantage

- Early adopter of Environmental protection initiative
- 1/3 of capex invested in environmental protection and safety
- Transformation and upgrading towards "Green, Intelligent & Miniaturized"

R&D Capability

- "High-tech Enterprise" Status
- Academician R&D workstation in collaboration with Tsinghua and CAS
- R&D Centre partnered with Qingdao University of Science and Technology

Ready Resources for Future Expansion

- Strong cash position
- Built-up infrastructures



Q : Are rubber chemicals commodities?

A : No. They are products in the niche market.

Reasons:

1. Commodity companies cannot have sustained high profits and good returns on capitals. China Sunshine has been profitable since 1998. Its ROE has been between 15-25% since 2014
2. Rubber chemicals are not produced on a large scale
3. Renowned tire makers, which account for the bulk of the global tire productions, require rubber chemicals to satisfy their stringent and special requirements.



Q : Are entry barriers high for the rubber chemical industry?

A : Yes.

Reasons:

1. Capital intensive -- land, environmental protection and safety infrastructure.
2. Know-how -- technology, talents and management skills also required to produce specialty chemicals.
3. Stringent supplier selection process by renowned tire makers, taking into account of production capabilities, capacity, quality of products & services and compliance with government's regulations etc.
4. Rubber chemical industry currently undergoing consolidation.
5. Difficult to get approval for new capacities



Q : Will weakening car sales affect the rubber chemical industry?

A : There will be material impact only if the new car sales experience significant negative growth

Reasons:

1. New cars accounts for around 30% of tire consumption. Cars in-use consume the remaining 70% as replacement for old tires. For passenger cars, every car needs to replace 1.5 piece of tires every year.
2. New car sales in developing countries expected to stay robust owing to low car ownership

Country	US	Australia	Italy	Japan	Germany	S. Korea	China
Motor vehicles per 1,000 people	910	740	625	591	555	459	231

https://en.wikipedia.org/wiki/List_of_countries_by_vehicles_per_capita



Q : Will weakening ASP affect the Group's performance?

A : Our ASP moves in tandem with the price movements of raw materials. In the long run, growing sales volume is what we are pursuing for sustainable growth

Reasons:

1. ASP depends on the demand & supply situation and raw material prices. The Group is able to gain a reasonable margin due to its comprehensive competitive advantage.
2. Growing sales volume to further strengthen our market leadership position.
3. Robust financial position to support future capacity expansion



Q : Will the US Tariffs against Chinese good affect the Group's performance?

A : The Group expects the impact to be minimal and manageable.

Reasons:

1. Our sales to US accounts for about 2-4% of our total revenue.
2. The Group is the world largest accelerators producer. US tire companies need our products.
3. The US's import restrictions on tires from China started in 2014; many tire companies had set up their production outside China to avoid the restrictions since then



Turning Challenges into Opportunities

Challenges

Opportunities

Stringent environmental and safety enforcement may affect all chemical companies in China



The policy affects smaller producers more and will lead to industry consolidation, benefiting bigger players

Short supply situation may ease as some affected productions resuming gradually which could lead to the decline of ASP



Sunsine's capacity growth will result in sales volume growth and lower unit cost. Profit will grow in long term even if ASP normalises

Trade war tension between US and China makes the world economy uncertain and weakens China's tire export to US



Group's sales to US are small, about 2-4%. Wherever they are located, tire factories all over the world need rubber chemicals



Listed On SGX Mainboard

SHARE PERFORMANCE

China Sunshine Chemical Holdings Ltd. (CH8.SI)

SES - SES Delayed Price. Currency in SGD

Add to watchlist

Quote Lookup

1.0700 0.0000 (0.00%)

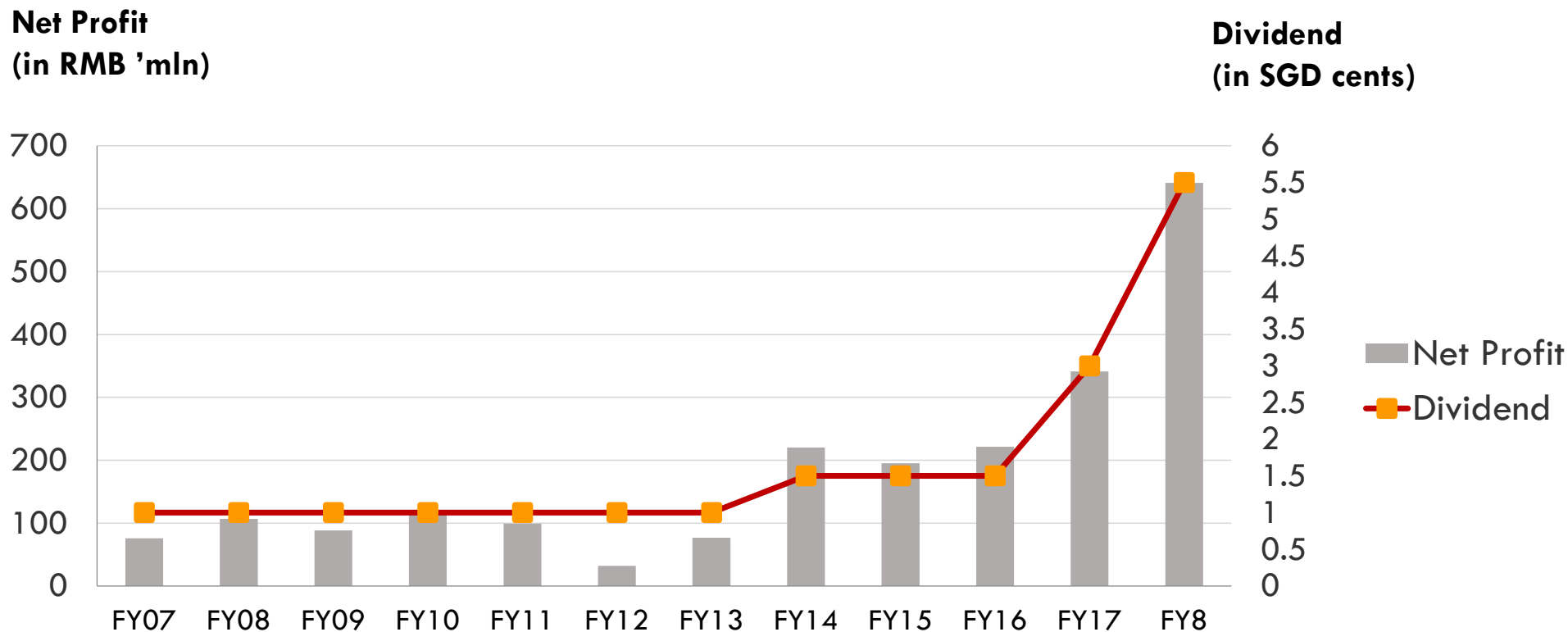
At close: 5:04PM SGT

Summary **Chart** Conversations Statistics Historical Data Profile Financials Analysis Options Holders Sustainability



- P/E 5 times & P/B 1.1 times
- Dividend yield 5.1%

Dividend Payment History



FY2018 Dividend SGD 5.5 cents

- Ex-dividend date: 8 May 2019
- Payment date: 24 May 2019



Investment Merits

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- ✓ **Market leadership position and largest market share in rubber accelerators**
- ✓ **Strong customer base**
- ✓ **Further capacity expansion with acquired a pcs of land, strong cash position and the build-up of infrastructures, etc.**
- ✓ **Strong operating cashflows, RMB1.17 billion cash on hand with no bank loan**
- ✓ **11-year track record & annual dividend payment**
- ✓ **High ROE between 15-25% since 2014**
- ✓ **P/E at about 5-6 times, Price/NTA is 1X only.**



Chairman's Message

“I am gratified that the Group has been able to achieve a satisfactory set of results amid the slowing down of China’s economy and the decreasing ASP. Raw material prices are still hovering at low levels. In addition, the utilisation rate for the Chinese tire makers is not high. All these are expected to exert pressure on our ASP.”

“However, the Group will aim to continue to increase its sales volume and continue its ‘higher production leads to higher sales volume, which in turn will stimulate even higher output’ strategy in our aim to expand its market share.”

“We will continue to invest in R&D to gain a competitive edge over other producers. With our strong market leadership position, economies of scale and technology advantage, we remain confident of our performance in the next 12 months.”



Mr. Xu Chengqiu
Executive Chairman



Q & A

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