

COMPANY RESULTS

China SunSine Chemical (CSSC SP)

2H20: Profitability Ramping Up From Increased Capacity

Sunsine saw a good 2H20, with net profit of Rmb136.4m (+11% yoy) bringing full-year earnings to Rmb218.8m (-44%), 7% higher than our estimate. This was helped mainly by increased capacity and uptake due to elevated demand for vehicle tyres in China. Past investments to raise production levels are now bearing fruit, as demand from new vehicle sales in China see uplift from the improving economy. Maintain BUY with target price of S\$0.58.

2H20 RESULTS

Year to 31 Dec (Rmbm)	2H20	2H19	yoy % chg	2020	2019	yoy % chg
Revenue	1,291.1	1,278.0	1.0	2,333.7	2,691.6	(13.3)
Gross profit	358.4	292.8	22.4	600.3	780.8	(23.1)
Gross margin (%)	27.8	22.9	+2.1ppt	25.7	29.0	(3.3ppt)
Net profit	136.4	123.0	10.9	218.8	388.9	(43.9)
Net margin (%)	10.6	9.6	+1.0ppt	9.4	14.4	(5.0ppt)

Source: SunSine, UOB Kay Hian

RESULTS

- Positive 2H20 results reflect strong demand.** China SunSine Chemical's (Sunsine) 2H20 net profit rose 11% yoy to Rmb136.4m, as revenue grew to Rmb1,291m (+1%) mainly due to record sales volume of 93,556 tonnes (+9.6%), which helped offset the slip in ASPs (-9%) of rubber accelerators. Bottom line benefitted from the expansion of gross profit margin to 27.8% (2H19: 22.9%, 1H20: 23.2%), as well as tight cost control measures. This brought 2020 net profit to Rmb218.8m (-43.9%), 7% above our estimate. The final DPS of 1 S cent was kept.
- Gaining from higher capacity and elevated ASPs.** The good set of results was attributed to management's perseverance with continued investments to expand capacity over the past few years, despite the downward trend in rubber accelerator prices. The move is now paying off, with market share for SunSine more entrenched, alongside rising demand for new vehicles in China. Furthermore, ASP of rubber accelerators, the main earnings driver for SunSine, has continued to gain ground, in tandem with aniline, the major feedstock for rubber accelerators, due to higher crude oil prices. Average price of aniline has risen an estimated 17% qtd as at 25 Feb 21 to Rmb8,372/tonne, a 29% sequential increase over the 4Q20 average.
- Good proxy to recovering China auto sector.** SunSine derives the bulk of sales from China (2020: 69%, 2019: 61%), which has been strengthening since Mar 20. The Chinese economy is seeing robust growth due to government stimulus measures.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2019	2020	2021F	2022F	2023F
Net turnover	2,691.7	2,333.7	3,812.5	4,185.9	4,623.3
EBITDA	565.0	422.3	487.5	732.2	658.3
Operating profit	453.1	301.8	357.6	569.0	508.4
Net profit (rep./act.)	388.9	218.8	299.3	476.3	425.6
Net profit (adj.)	388.9	218.8	299.3	476.3	425.6
EPS (Fen)	39.9	22.5	30.8	49.1	43.8
PE (x)	6.0	10.6	7.8	4.9	5.5
P/B (x)	0.9	0.9	0.8	0.7	0.6
EV/EBITDA (x)	2.0	2.7	2.3	1.6	1.7
Dividend yield (%)	2.1	2.1	2.4	4.0	3.5
Net margin (%)	14.4	9.4	7.9	11.4	9.2
Net debt/(cash) to equity (%)	(50.0)	(48.7)	(39.9)	(45.5)	(50.4)
Interest cover (x)	1,184.5	324.8	n.a.	n.a.	n.a.
ROE (%)	15.9	8.3	10.5	15.0	12.0
Consensus net profit	-	202.0	277.7	324.0	-
UOBKH/Consensus (x)	-	-	1.08	1.47	-

Source: SunSine, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.49
Target Price	S\$0.58
Upside	+18.4%

COMPANY DESCRIPTION

Sunsine produces rubber chemicals, primarily rubber accelerators and other related rubber chemicals such as anti-scorching agents.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	CSSC SP
Shares issued (m):	970.7
Market cap (S\$m):	475.7
Market cap (US\$m):	361.1
3-mth avg daily t'over (US\$m):	0.3

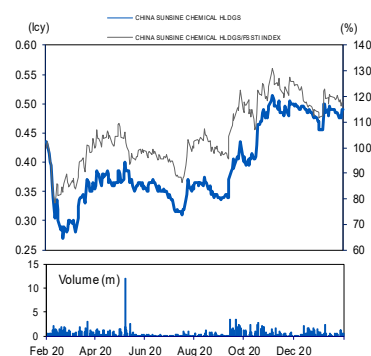
Price Performance (%)

52-week high/low	S\$ 0.54/S\$ 0.27			
1mth	3mth	6mth	1yr	YTD
3.2	3.2	36.1	11.4	(1.0)

Major Shareholders

Success More Group	59.7
(HoldCo for Executive Chairman Xu Cheng Qiu)	
FY21 NAV/Share (Rmb)	3.06
FY21 Net Cash/Share (Rmb)	1.22

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Vehicle population growth outweighs global auto chip shortage.** On 16 Feb 21, IHS Markit cited that nearly 1m vehicles worldwide will experience production delays in 1Q21 due to a chip shortage, vs its previous estimate of 672,000 units. Having said that, IHS Markit is maintaining its forecast for 2021 global light vehicle sales at 84.6m units (+10.6%), as it expects the industry to recover later in the year. Historically, 30% of the tyre market is driven by new vehicle sales, while 70% comprises replacement tyres. Hence, overall demand is driven by the total vehicle population, rather than vehicle sales. We believe the tyre industry is expected to return to normalcy in 2021 as traffic volume returns to pre-pandemic levels. Furthermore, as international borders remain shut, a shift towards domestic tourism could spur inter-city/state travel by car, thereby encouraging further demand for tyres.

EARNINGS REVISION/RISK

- Our 2020-21 revenue estimates remain unchanged

VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged target price of S\$0.58.** We kept our valuation peg at 3.5x EV/EBITDA, +1SD of its 5-year average. The target price implies a 2021F PE of 9.6x and ex-cash of 4.1x. This represents a steep discount to larger peers, which are trading at 7.7x forward EV/EBITDA and 15.3x 2021F PE.

SHARE PRICE CATALYST

- Higher ASPs for rubber accelerators.
- Higher-than-expected utilisation rates.

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	Recently-complete	2H21
Anti-oxidant	45,000	30,000	+67	75,000	1H21	2H21
Total	192,000	60,000		252,000		

Source: Sunsine, UOB Kay Hian

PEER COMPARISON

Company	Bloomberg Ticker	Trading Curr	Price @ 25 Feb 21 (lcy)	Market Cap (US\$m)	PE			P/B			EV/EBITDA			Net Gearing (%)	ROE 2020F (%)
					2019 (x)	2020F (x)	2021F (x)	Curr (x)	2020F (x)	2021F (x)	2019 (x)	2020F (x)	2021F (x)		
China Sunsine	CSSC SP	S\$	0.490	353	6.2	11.8	8.1	0.9	0.9	0.8	2.0	3.4	2.6	(50.0)	7.5
Shandong Yanggu Huatai	300121 CH	Rmb	14.05	3,888	40.6	27.0	17.5	3.3	n.a.	n.a.	n.a.	n.a.	n.a.	(5.5)	12.9
Lanxess AG	LXS GR	US\$	62.64	4,041	6.0	20.2	15.5	1.7	1.6	1.5	9.3	8.3	6.9	66.5	8.0
Eastman Chemical	AKE FP	US\$	113.37	11,361	18.6	14.6	13.5	2.6	2.3	2.2	10.1	9.8	9.2	85.7	16.1
Arkema SA	AKE FP	EUR	90.26	5,109	18.9	18.0	14.8	1.5	1.3	1.2	7.7	7.7	7.1	30.6	7.4
Global average					21.0	20.0	15.3	2.3	1.7	1.6	9.0	8.6	7.7	44.3	11.1

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Net turnover	2,333.7	3,812.5	4,185.9	4,623.3
EBITDA	422.3	487.5	732.2	658.3
Deprec. & amort.	120.5	130.0	163.3	149.9
EBIT	301.8	357.6	569.0	508.4
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	357.6	569.0	508.4
Tax	(81.7)	(58.3)	(92.7)	(82.9)
Minorities	0.0	0.0	0.0	0.0
Net profit	218.8	299.3	476.3	425.6
Net profit (adj.)	218.8	299.3	476.3	425.6

CASH FLOW

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Operating	426.9	113.3	553.1	487.5
Pre-tax profit	300.5	357.6	569.0	508.4
Tax	(63.4)	(70.3)	(75.1)	(87.9)
Deprec. & amort.	120.5	130.0	163.3	149.9
Working capital changes	103.2	(304.0)	(104.0)	(83.0)
Non-cash items	(33.9)	0.0	0.0	0.0
Investing	(239.6)	(205.0)	(140.0)	(60.0)
Capex (growth)	(279.3)	(265.0)	(200.0)	(120.0)
Proceeds from sale of assets	60.0	60.0	60.0	60.0
Others	(20.3)	0.0	0.0	0.0
Financing	(99.7)	(49.3)	(56.4)	(92.5)
Dividend payments	(49.3)	(49.3)	(56.4)	(92.5)
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	(141.0)	356.8	334.9
Beginning cash & cash equivalent	1,279.9	1,326.2	1,185.2	1,542.0
Changes due to forex impact	(41.3)	0.0	0.0	0.0
Ending cash & cash equivalent	1,326.2	1,185.2	1,542.0	1,876.9

BALANCE SHEET

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Fixed assets	864.6	939.6	916.4	826.5
Other LT assets	68.3	68.3	68.3	68.3
Cash/ST investment	1,326.2	1,185.2	1,542.0	1,876.9
Other current assets	913.0	1,319.3	1,515.8	1,694.3
Total assets	3,172.1	3,512.5	4,042.5	4,466.0
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	451.4	537.4	645.6	738.3
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	0.0	4.3	6.4	4.1
Shareholders' equity	2,720.7	2,970.7	3,390.6	3,723.7
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	3,172.1	3,512.5	4,042.5	4,466.0

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	18.1	12.8	17.5	14.2
Pre-tax margin	12.9	9.4	13.6	11.0
Net margin	9.4	7.9	11.4	9.2
ROA	7.2	9.0	12.6	10.0
ROE	8.3	10.5	15.0	12.0
Growth				
Turnover	(13.3)	63.4	9.8	10.5
EBITDA	(25.3)	15.4	50.2	(10.1)
Pre-tax profit	(33.6)	19.0	59.1	(10.6)
Net profit	(43.7)	36.8	59.1	(10.6)
Net profit (adj.)	(43.7)	36.8	59.1	(10.6)
EPS	(43.5)	36.8	59.1	(10.6)
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)	(39.9)	(45.5)	(50.4)
Interest cover (x)	324.8	n.a.	n.a.	n.a.

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