COMPANY RESULTS

China Sunsine Chemical (CSSC SP)

2H21: Results Beat On Higher-than-expected ASPs

Sunsine recorded 2H21 net profit of Rmb241.1m (+77% yoy), taking 2021 net profit to Rmb506.3m (+131%), 14% above our estimate. Production volume continues to hit record levels from capacity expansion efforts, amid elevated ASP for rubber accelerators owing to rising crude oil prices. While we have raised earnings expectations for 2022-23, our valuation peg has been reduced due to the rising interest rate environment. Maintain BUY with a target price of S$0.695.

2021 RESULTS

Year to 31 Dec (Rmbm)	2H21	2H20	yoy % chg	2021	2020	yoy % chg
Revenue	1,967.7	1,291.1	52.4	3,725.2	2,333.7	59.6
Gross profit	494.2	358.4	37.9	1,046.5	600.3	74.3
Gross margin (%)	25.1	27.8	(2.6ppts)	28.1	25.7	+2.4ppts
Net profit	241.1	136.4	76.8	506.3	218.8	131.4
Net margin (%)	12.3	10.6	+1.7ppts	13.6	9.4	+4.2ppts

Source: Sunsine, UOB Kay Hian

RESULTS

- **2H21 beat on higher-than-expected ASPs.** China Sunsine Chemical's (Sunsine) 2H21 net profit jumped 77% yoy to Rmb241.1m, on the back of increased revenue of Rmb1,967.7m (+52% yoy) due to both a rise in sales volume to 102,243 tonnes (+9.3%) and a 40% yoy increase in ASPs of rubber accelerators to Rmb18,983/tonne. The better-than-expected ASP was from the higher price of aniline, the major feedstock for rubber accelerators, stemming from rising oil prices in 4Q21.
- **Benefitted from operating leverage; special dividend proposed.** As the price increase in raw materials outpaced the increase in ASPs due to a time lag to pass on higher costs to customers, 2H21 gross margin contracted 2.6ppt yoy to 25.1%, (2H20: 27.8%, 1H21: 31.4%). Nevertheless, net profit margin expanded 1.7ppt yoy to 12.3% mainly due to positive operating leverage as a result of the larger revenue base. Management has proposed to pay out S$0.02, consisting a final DPS of S$0.01 and a special DPS of S$0.01 (2020: S$0.01).
- **New capacity to bolster forward earnings as ASPs stay elevated.** In Dec 21, Sunsine commenced commercial production of an additional 30,000 tonnes/year (+15.6%) from the Phase 1 expansion at the insoluble sulphur facility, bringing total annual capacity to 222,000 tonnes/year. Pending government approval for the trial run, an additional 30,000 tonnes/year (+13.5%) capacity is anticipated to commence commercial production in 2H22 from the anti-oxidant project. The capacity expansion is expected to lift sales volume going forward, amid the elevated utilisation rate across its factories currently.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	2,334	3,725	4,142	4,792	5,109
EBITDA	422	827	810	875	907
Operating profit	302	699	659	714	739
Net profit (rep./act.)	219	506	530	574	594
Net profit (adj.)	219	506	530	574	594
EPS (Fen)	22.5	52.2	54.6	59.1	61.1
PE (x)	10.2	4.4	4.2	3.9	3.7
P/B (x)	0.8	0.7	0.6	0.5	0.5
EV/EBITDA (x)	1.4	0.7	0.7	0.7	0.6
Dividend yield (%)	2.2	4.4	4.7	4.9	5.0
Net margin (%)	9.4	13.6	12.8	12.0	11.6
Net debt/(cash) to equity (%)	(48.7)	(43.4)	(45.3)	(49.4)	(54.2)
Interest cover (x)	324.8	n.a.	n.a.	n.a.	n.a.
ROE (%)	8.3	17.2	15.6	14.9	13.7
Consensus net profit	-	-	425	406	-
UOBKH/Consensus (x)	-	-	1.25	1.41	-

Source: Sunsine, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S$ 0.49
Target Price	S$ 0.695
Upside	+41.9%

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):	970.4
Market cap (S$m):	475.5
Market cap (US$m):	351.4
3-mth avg daily t'over (US$m):	0.1

Price Performance (%)

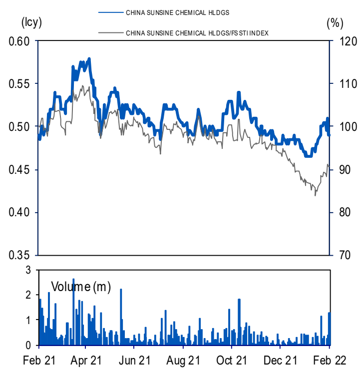
52-week high/low S$ 0.580/S$ 0.465

1mth	3mth	6mth	1yr	YTD
4.3	(3.9)	(3.0)	3.2	1.0

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

FY22 NAV/Share (Rmb)	3.72
FY22 Net Cash/Share (Rmb)	1.68

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Strong balance sheet and healthy cash flow.** As of end-21, total cash and bank balances stood at Rmb1,377.3m with no debt outstanding, which equates to Rmb1.42/share (S$0.28/share). Additionally, free cash flow generated in 2021 remained positive at Rmb163m (2020: Rmb208m) despite capacity expansion efforts, and is estimated to improve to Rmb353.9m and Rmb484.6m in 2022 and 2023 respectively. Correspondingly, net cash per share is estimated to increase to Rmb1.68/share (S$0.33/share) and Rmb2.08/share (S$0.41/share) in 2022 and 2023 respectively.

EARNINGS REVISION/RISK

- Due to higher expectations for crude oil price according to US Energy Information Administration and Sunsine's ability to pass on the cost increase as reflected in 2021, we have tweaked our 2022 and 2023 gross margin assumptions from 27.5% to 28.3% and 24.3% to 27.0% respectively.
- Accordingly, earnings estimates for 2022 and 2023 have risen 30% to Rmb529.7m and 41% to Rmb573.6m respectively.

VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of S$0.695.** We have lowered our valuation peg from 8.4x (+1 SD above average) to 6.4x 2022F PE, in line with its historical 3-year average, on the back of the rising interest rate environment. At the current price, Sunsine is attractively valued at 4.2x 2022F PE relative to its closest peer Shandong Yanggu Huatai (Not Rated, 300121 CH), which trades at 12.0x forward PE.

SHARE PRICE CATALYST

- ASPs for rubber accelerators remaining elevated.

ANNUAL CAPACITY AND UPCOMING EXPANSION PLANS

Product	Current capacity (ton)	Expansion (ton)	% increase	New capacity (ton)	Completion date	Commercial Production
Rubber Accelerators	117,000					
Insoluble Sulphur	60,000					Recently commenced commercial production for 30,000 tonnes in Dec 21.
Anti-oxidant	45,000	30,000	+67	75,000	Undergoing internal testing	Expected 2H22
Total	222,000	30,000		252,000		

Source: Sunsine, UOB Kay Hian

PEER COMPARISON

Company	Ticker	Trading Curr	Price @ 24 Feb 22 (lcy)	Market Cap (US$m)	PE 2021 (x)	PE 2022F (x)	PE 2023F (x)	P/B 2021 (x)	P/B 2022F (x)	P/B 2023F (x)	EV/EBITDA 2021 (x)	EV/EBITDA 2022F (x)	EV/EBITDA 2023F (x)	Net Gearing (%)	ROE 2022F (%)
China Sunsine	CSSC SP	S$	0.490	353	4.4	4.2	3.9	0.7	0.6	0.5	0.7	0.7	0.7	(43.4)	15.6
Shandong Yanggu Huatai	300121 CH	CNY	11.02	3,049	13.3	12.0	9.0	2.1	2.1	1.7	n.a.	n.a.	n.a.	15.4	18.0
Lanxess AG	LXS GR	US$	45.15	2,876	19.1	10.0	8.8	1.1	1.2	1.1	8.7	5.9	6.0	34.4	9.5
Eastman Chemical	EMN US	US$	119.03	11,804	13.4	12.3	11.2	2.6	2.5	2.3	10.9	9.5	8.9	85.7	20.0
Arkema SA	AKE FP	EUR	122.35	6,704	7.1	12.6	11.9	1.7	1.4	1.3	4.1	7.1	6.6	22.3	11.3
Global average					13.2	11.7	10.2	1.9	1.8	1.6	7.9	7.5	7.2	39.4	14.7

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Net turnover	3,725.2	4,142.4	4,792.1	5,108.8
EBITDA	827.3	810.2	874.9	907.2
Deprec. & amort.	128.2	150.7	160.7	168.2
EBIT	699.1	659.5	714.2	739.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	0.0	0.0	0.0	0.0
Pre-tax profit	699.1	659.5	714.2	739.0
Tax	(192.8)	(129.8)	(140.6)	(145.4)
Minorities	0.0	0.0	0.0	0.0
Net profit	506.3	529.7	573.6	593.5
Net profit (adj.)	506.3	529.7	573.6	593.5

BALANCE SHEET

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Fixed assets	939.1	988.4	947.7	899.5
Other LT assets	144.7	144.7	144.7	144.7
Cash/ST investment	1,377.3	1,633.2	2,014.4	2,473.9
Other current assets	1,462.2	1,564.2	1,855.1	1,970.7
Total assets	3,923.3	4,330.6	4,961.9	5,488.8
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	747.2	718.1	882.1	924.2
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	0.0	4.7	1.8	2.6
Shareholders' equity	3,176.1	3,607.8	4,077.9	4,562.1
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	3,923.3	4,330.6	4,961.9	5,488.8

CASH FLOW

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Operating	371.5	553.9	604.6	689.0
Pre-tax profit	699.1	659.5	714.2	739.0
Tax	(125.2)	(165.5)	(134.4)	(142.7)
Deprec. & amort.	128.2	150.7	160.7	168.2
Working capital changes	(321.0)	(90.7)	(135.9)	(75.6)
Non-cash items	(9.6)	0.0	0.0	0.0
Investing	(262.7)	(200.0)	(120.0)	(120.0)
Capex (growth)	(213.2)	(200.0)	(120.0)	(120.0)
Proceeds from sale of assets	4.7	0.0	0.0	0.0
Others	(54.2)	0.0	0.0	0.0
Financing	(52.7)	(98.0)	(103.5)	(109.4)
Dividend payments	(49.3)	(98.0)	(103.5)	(109.4)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(3.4)	0.0	0.0	0.0
Net cash inflow (outflow)	56.1	255.9	381.2	459.6
Beginning cash & cash equivalent	1,326.2	1,377.3	1,633.2	2,014.4
Changes due to forex impact	(5.0)	0.0	0.0	0.0
Ending cash & cash equivalent	1,377.3	1,633.2	2,014.4	2,473.9

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	22.2	19.6	18.3	17.8
Pre-tax margin	18.8	15.9	14.9	14.5
Net margin	13.6	12.8	12.0	11.6
ROA	14.3	12.8	12.3	11.4
ROE	17.2	15.6	14.9	13.7
Growth				
Turnover	59.6	11.2	15.7	6.6
EBITDA	95.9	(2.1)	8.0	3.7
Pre-tax profit	132.6	(5.7)	8.3	3.5
Net profit	131.4	4.6	8.3	3.5
Net profit (adj.)	131.4	4.6	8.3	3.5
EPS	131.5	4.6	8.3	3.5
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	(43.4)	(45.3)	(49.4)	(54.2)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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