

Singapore

ADD (no change)

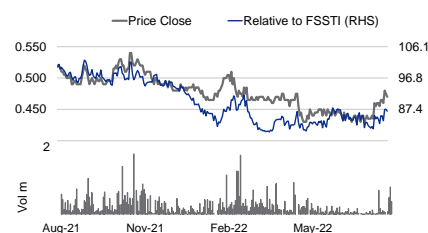
Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price:	S\$0.47
Target price:	S\$0.70
Previous target:	S\$0.67
Up/downside:	48.9%
CGS-CIMB / Consensus:	na
Reuters:	CHSN.SI
Bloomberg:	CSSC SP
Market cap:	US\$331.2m
	S\$455.8m
Average daily turnover:	US\$0.04m
	S\$0.05m
Current shares o/s:	970.5m
Free float:	35.0%

*Source: Bloomberg

Key changes in this note

► FY22-24F EPS raised by 15.7-31.3%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9.3	9.3	-10.5
Relative (%)	4.2	7.2	-13.4

Major shareholders	% held
Success More Group Limited	63.3

Analyst(s)



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China SunSine Chemical Holdings

A record half despite a challenging backdrop

- 1H22 core net profit of Rmb391m (+48% yoy) a record high, driven by higher ASPs, favourable gross profit spread and concessionary tax rates.
- While SunSine's profit spread should remain healthy in the near term, we think China's Covid woes may pose downside risk to its 2H sales volumes.
- Reiterate Add given undemanding valuations at 1.9x FY23F P/E (ex-cash).

A record 1H despite tough operating environment

Excluding a one-off Rmb36m refund for over-payment of FY21 tax expenses, SunSine's 1H22 core net profit came in at Rmb391m (+48% yoy), a record high and accounted for 87% of our previous full-year forecast. While sales volume declined 3% yoy in 1H22 due to supply chain interruptions from the Winter Olympics and strict Covid-control measures in China, this was more than offset by its higher ASPs (+18% yoy) and favourable gross profit spread during the period (as SunSine was able to pass on the higher input costs to customers). This was further boosted by a lower effective tax rate as SunSine was awarded the "High-Tech Enterprise" status in May 2022, which entitles it to a concessionary tax rate of 15% for three years. SunSine declared a special interim dividend of 0.5Scts in celebration of the 15th anniversary of its IPO.

Near-term profit spread likely to remain favourable

According to sci99.com, a Chinese commodity market information service provider, rubber accelerator prices remained relatively stable on a mom basis in Jun/Jul, while aniline prices eased slightly. As SunSine typically locks in the quarterly pricing of its rubber accelerator products with major customers (while taking spot prices for raw materials), we believe its near-term gross profit spread is likely to remain healthy in 3Q22F (GPM: c.30%).

But weaker macro environment could pressure sales volumes

However, we expect SunSine's sales volume could trend weaker in 2H22F, in view of 1) weakening economic growth, coupled with uncertainties from the Covid-19 pandemic situation in China, and 2) high inflation and a rising interest rate environment threatening to throttle global economic growth. As SunSine's key products are used mainly in tyre production, weaker consumer sentiment dampening the demand for automobiles could have a negative impact on its sales. We project 2H22F net profit of Rmb202m (-16% yoy).

Reiterate Add

We continue to like SunSine for its consistent profitability and positive free cash flow generation track record, and attractive valuation of 1.9x FY23F P/E (ex-cash). We raise our FY22-24F EPS by 16-31% to account for higher ASP and margin assumptions. With the EPS hikes, our TP rises to S\$0.70, still pegged to 0.90x FY22F P/BV, its 10-year historical mean. Potential re-rating catalysts: stronger downstream demand, easing Covid-19 measures. Downside risks include lockdowns in Shandong and intensifying price competition which may negatively impact SunSine's profit spread.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	2,334	3,725	3,688	3,845	4,210
Operating EBITDA (Rmbm)	402.1	831.4	870.5	809.0	879.6
Net Profit (Rmbm)	218.8	506.3	629.3	530.6	572.4
Core EPS (Rmb)	0.22	0.52	0.61	0.55	0.59
Core EPS Growth	(40%)	132%	17%	(11%)	8%
FD Core P/E (x)	10.30	4.44	3.78	4.23	3.92
DPS (Rmb)	0.05	0.10	0.13	0.11	0.12
Dividend Yield	2.22%	4.12%	5.61%	4.73%	5.10%
EV/EBITDA (x)	2.29	1.04	0.46	0.11	(0.27)
P/FCFE (x)	15.23	16.63	3.99	5.19	5.10
Net Gearing	(48.7%)	(43.4%)	(49.7%)	(52.3%)	(54.3%)
P/BV (x)	0.83	0.71	0.60	0.55	0.49
ROE	8.3%	17.2%	17.2%	13.6%	13.2%
% Change In Core EPS Estimates			31.3%	15.7%	22.9%
CGS-CIMB/Consensus EPS (x)			1.27	1.03	1.08

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

A record half despite a challenging backdrop

Figure 1: Results comparison

FYE Dec (Rmb m)	1HFY22	1HFY21	yoy % chg	FY22F	FY21	yoy % chg	Prev. FY22F	Comments
Revenue	2,023	1,758	15	3,688	3,725	(1)	3,811	
Cost of goods sold	(1,329)	(1,205)	10	(2,517)	(2,679)	(6)	(2,727)	
Gross profit	694	552	26	1,171	1,047	12	1,084	
Gross margin (%)	34.3%	31.4%	9	31.8%	28.1%	13	28.4%	
OpEx	(224)	(192)	17	(456)	(372)	23	(460)	
Operating profit	470	361	30	716	675	6	624	
Operating margin (%)	23.2%	20.5%	13	19.4%	18.1%	7	16.4%	
Pretax profit	470	361	30	715	699	2	623	
Tax	(43)	(96)	(55)	(86)	(193)	(55)	(171)	
Tax rate (%)	9.1%	26.5%	(66)	12.0%	27.6%	(56)	27.5%	
Net profit	428	265	61	629	506	24	452	
Core net profit	391	265	48	593	506	17	452	Above, 1H22 formed 87% of our full-year forecast
EPS (S cts)	44.0	27.3	61	64.8	52.2	24	46.5	
Core EPS (S cts)	40.3	27.3	48	61.1	52.2	17	46.5	

SOURCES: CGS-CIMB RESEARCH, SCI99.COM

Figure 2: Rubber accelerator and aniline prices

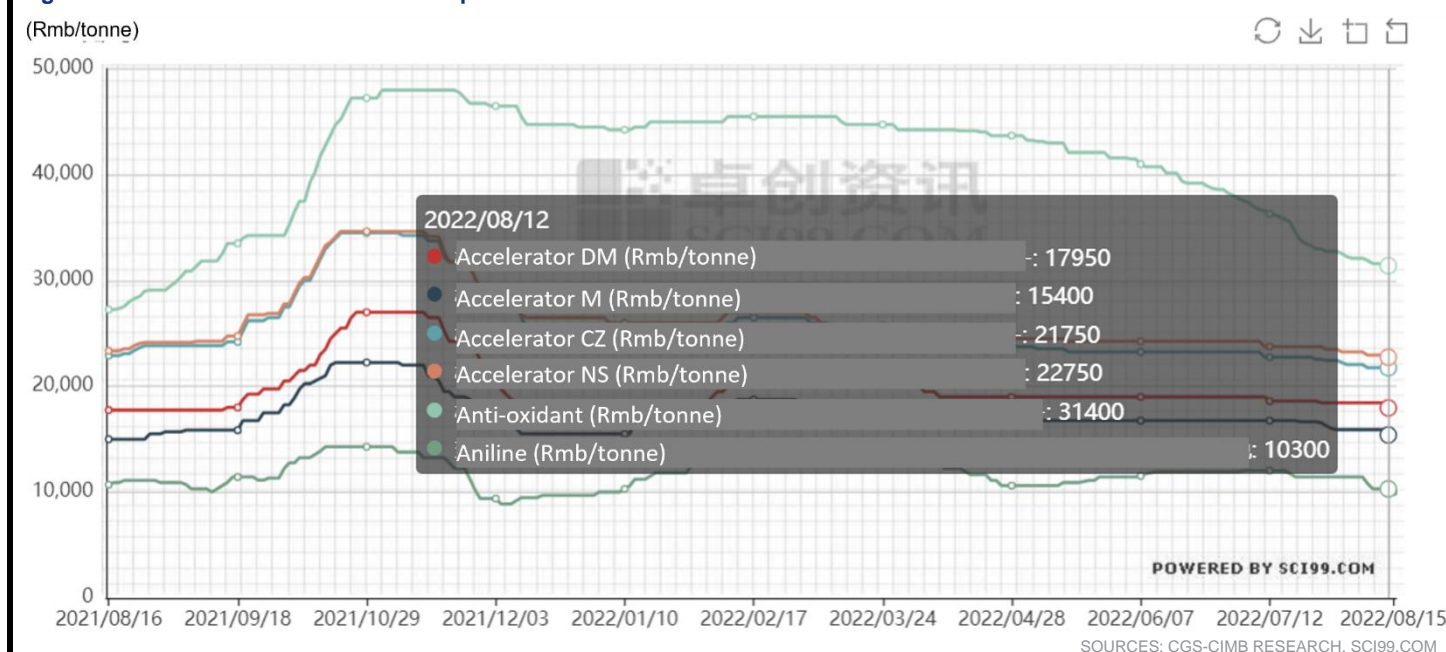
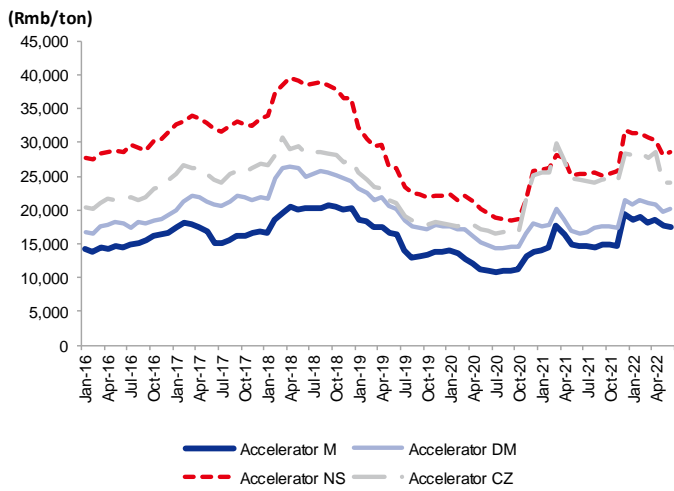


Figure 3: Price trend of key rubber accelerators in China



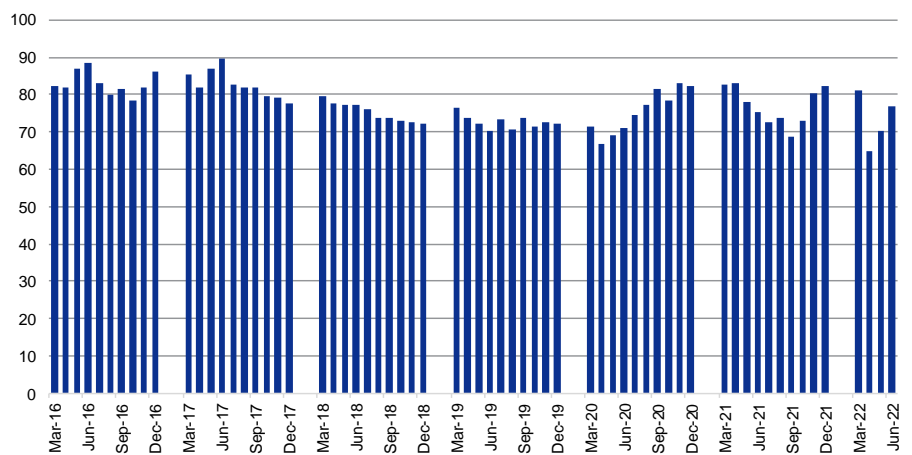
SOURCES: CGS-CIMB RESEARCH, CHINA PETROLEUM AND CHEMICAL INDUSTRY FEDERATION

Figure 4: Aniline price trend



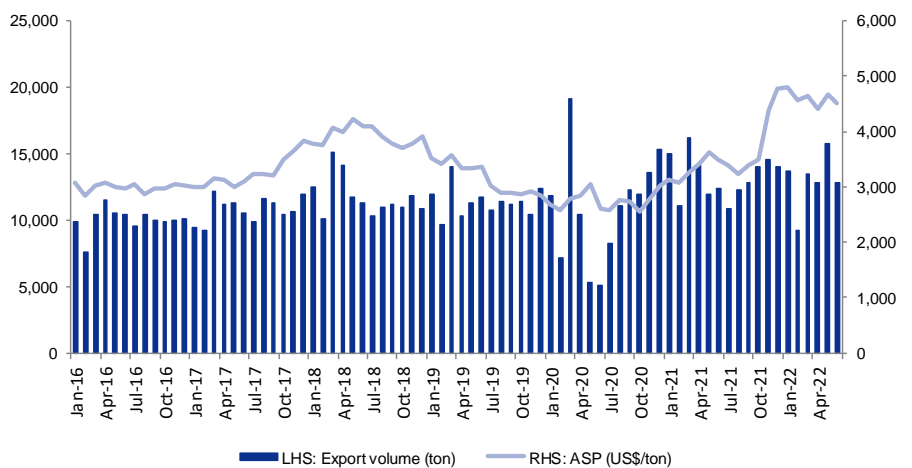
SOURCES: CGS-CIMB RESEARCH, CEIC

Figure 5: Rubber tyre production volume in China (millions)



SOURCES: CGS-CIMB RESEARCH, NATIONAL BUREAU OF STATISTICS

Figure 6: Monthly export data of rubber accelerators (China)



SOURCES: CGS-CIMB RESEARCH, CHINA PETROLEUM AND CHEMICAL INDUSTRY FEDERATION

Figure 7: Earnings revision

Earnings revision (Rmbm)	FY22F			FY23F			FY24F		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	3,811	3,688	-3.2%	4,130	3,845	-6.9%	4,320	4,210	-2.5%
EBITDA	784	870	11.1%	806	809	0.3%	824	880	6.7%
Net profit	452	629	39.3%	458	531	15.7%	466	572	22.9%
Core net profit	452	593	31.3%	458	531	15.7%	466	572	22.9%
Core EPS (Rmb cents)	46.5	61.1	31.3%	47.2	54.7	15.7%	48.0	59.0	22.9%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

ESG in a nutshell



We find Sunsine's commitment to invest in environmental protection commendable. The company has been constantly improving its operational efficiencies and environmental protection efforts to stay ahead of government regulations; this is key to business continuity given that environmental protection is fast gaining traction in China among policy makers and the public. Its environmental management team comprises more than 123 employees, all well equipped with relevant environmental protection knowledge and experience, including five post-graduate staff specialised in environmental protection. In FY21 alone, the company invested Rmb157m on environmental protection.

Keep your eye on

It is important to ensure Sunsine is fully compliant in both gaseous emissions and wastewater discharge meeting local emission standards. It should have zero environmental incidents as well.

Implications

Environmental protection is fast gaining traction in China among policy makers and the public; this has significant implications, especially to the chemicals industry. It is important that Sunsine is fully compliant with national environmental regulations to ensure smooth operations.

ESG highlights

In FY20, Sunsine added a 20,000-tonne p.a. N-tert-butylbenzothiazole sulphonamide (TBBS) production line in Shanxian. This new TBBS line is the first ever continuous, fully-automated and "green" production line in China's rubber chemicals industry, and touts "zero discharge" of wastewater. In order to reduce its environmental risks and waste treatment cost, Sunsine in Jul 2020 also acquired Heze Yongshun Environmental Protection Technology Co Ltd, a hazardous waste disposal enterprise.

Implications

This shows constant R&D efforts by Sunsine to further improve its operational efficiencies and environmental protection efforts to stay ahead of government regulations. Improved cost efficiencies should help Sunsine enjoy absolute cost advantage over peers as well.

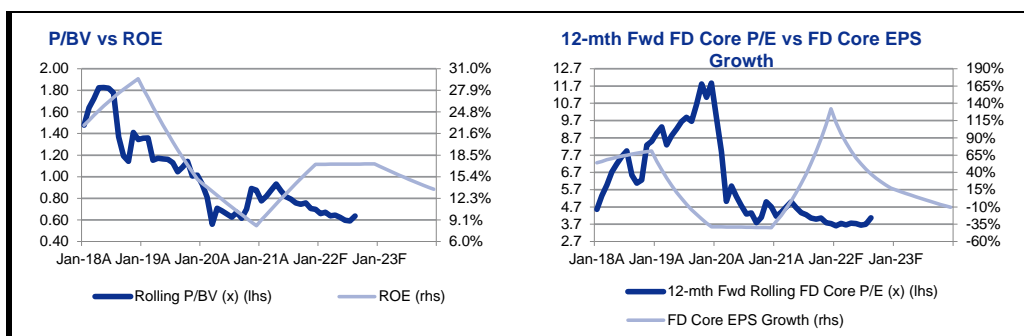
Trends

In FY20, Sunsine was able to reduce its energy consumption through usage of energy-saving equipment, and adoption of a more efficient way of production. In FY21, however, its steam and electricity unit consumption increased by 22% and 16%, respectively, due to increased production volumes.

Implications

Energy efficiency is part and parcel of environmental protection management. It is crucial for Sunsine to continually invest in this area to so that the company is always ahead of government regulations. This can ensure business continuity.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

Profit & Loss

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	2,334	3,725	3,688	3,845	4,210
Gross Profit	600	1,047	1,171	1,142	1,251
Operating EBITDA	402	831	870	809	880
Depreciation And Amortisation	(122)	(156)	(155)	(161)	(177)
Operating EBIT	280	675	716	648	703
Financial Income/(Expense)	21	24	(1)	(1)	(1)
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	301	699	715	647	702
Exceptional Items	0	0	0	0	0
Pre-tax Profit	301	699	715	647	702
Taxation	(82)	(193)	(86)	(116)	(130)
Exceptional Income - post-tax					
Profit After Tax	219	506	629	531	572
Minority Interests	0	0	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	219	506	629	531	572
Recurring Net Profit	219	506	593	531	572
Fully Diluted Recurring Net Profit	219	506	593	531	572

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	402.1	831.4	870.5	809.0	879.6
Cash Flow from Inv. & Assoc.					
Change In Working Capital	47.0	(320.8)	8.3	(29.4)	(79.2)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	20.0	(12.1)	0.0	0.0	0.0
Net Interest (Paid)/Received	20.8	24.2	(0.5)	(0.5)	(0.5)
Tax Paid	(63.0)	(124.9)	(85.8)	(116.5)	(129.9)
Cashflow From Operations	426.9	397.8	792.5	662.7	670.0
Capex	(275.3)	(213.2)	(230.0)	(230.0)	(230.0)
Disposals Of FAs/subsidiaries	(42.4)	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	60.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	22.1	(49.5)	0.0	0.0	0.0
Cash Flow From Investing	(235.6)	(262.7)	(230.0)	(230.0)	(230.0)
Debt Raised/(repaid)	(43.4)	0.0	0.0	0.0	0.0
Proceeds From Issue Of Shares	(7.6)	0.0	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(48.8)	(46.8)	(94.7)	(125.9)	(106.1)
Preferred Dividends					
Other Financing Cashflow	(3.9)	(5.9)	0.0	0.0	0.0
Cash Flow From Financing	(103.7)	(52.7)	(94.7)	(125.9)	(106.1)
Total Cash Generated	87.6	82.4	467.8	306.8	333.9
Free Cashflow To Equity	147.9	135.1	562.5	432.7	440.0
Free Cashflow To Firm	192.6	135.1	563.0	433.2	440.5

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	1,326	1,377	1,845	2,152	2,486
Total Debtors	716	1,105	960	1,001	1,096
Inventories	198	357	345	370	405
Total Other Current Assets	0	0	0	0	0
Total Current Assets	2,239	2,840	3,150	3,523	3,987
Fixed Assets	865	939	1,014	1,083	1,136
Total Investments	0	0	0	0	0
Intangible Assets	68	145	145	145	145
Total Other Non-Current Assets	0	0	0	0	0
Total Non-current Assets	933	1,084	1,159	1,227	1,281
Short-term Debt	0	0	0	0	0
Current Portion of Long-Term Debt					
Total Creditors	410	638	489	526	577
Other Current Liabilities	42	109	109	109	109
Total Current Liabilities	451	747	598	635	686
Total Long-term Debt	0	0	0	0	0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
Total Non-current Liabilities	0	0	0	0	0
Total Provisions	0	0	0	0	0
Total Liabilities	451	747	598	635	686
Shareholders' Equity	2,721	3,176	3,711	4,115	4,582
Minority Interests	0	0	0	0	0
Total Equity	2,721	3,176	3,711	4,115	4,582

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	(13.3%)	59.6%	(1.0%)	4.2%	9.5%
Operating EBITDA Growth	(24%)	107%	5%	(7%)	9%
Operating EBITDA Margin	17.2%	22.3%	23.6%	21.0%	20.9%
Net Cash Per Share (Rmb)	1.36	1.42	1.90	2.22	2.56
BVPS (Rmb)	2.80	3.27	3.82	4.24	4.72
Gross Interest Cover	215	N/A	1,431	1,295	1,406
Effective Tax Rate	27.2%	27.6%	12.0%	18.0%	18.5%
Net Dividend Payout Ratio	22.8%	18.3%	20.0%	20.0%	20.0%
Accounts Receivables Days	110.4	89.2	102.2	93.1	91.1
Inventory Days	46.94	37.80	50.91	48.28	47.97
Accounts Payables Days	77.34	71.36	81.68	68.47	68.16
ROIC (%)	21.7%	48.4%	39.8%	34.7%	35.8%
ROCE (%)	11.4%	23.7%	20.8%	16.5%	16.2%
Return On Average Assets	6.5%	13.6%	15.3%	11.7%	11.4%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Accelerators ASP (Rmb/tonne)	15,781.2	21,850.5	22,500.0	22,950.0	23,409.0
Insoluble Sulphur ASP (Rmb/tonne)	7,470.2	8,249.7	8,050.0	8,211.0	8,375.2
Anti-oxidant ASP (Rmb/tonne)	13,268.2	20,390.0	26,000.0	24,700.0	25,194.0
Accelerators sales volume (tonne)	91.0	102.0	88.0	92.4	99.3
Insoluble Sulphur sales volume (tonne)	30.7	37.3	33.0	34.7	37.2
Anti-oxidant ASP sales volume (tonne)	46.0	54.6	53.0	55.7	59.8

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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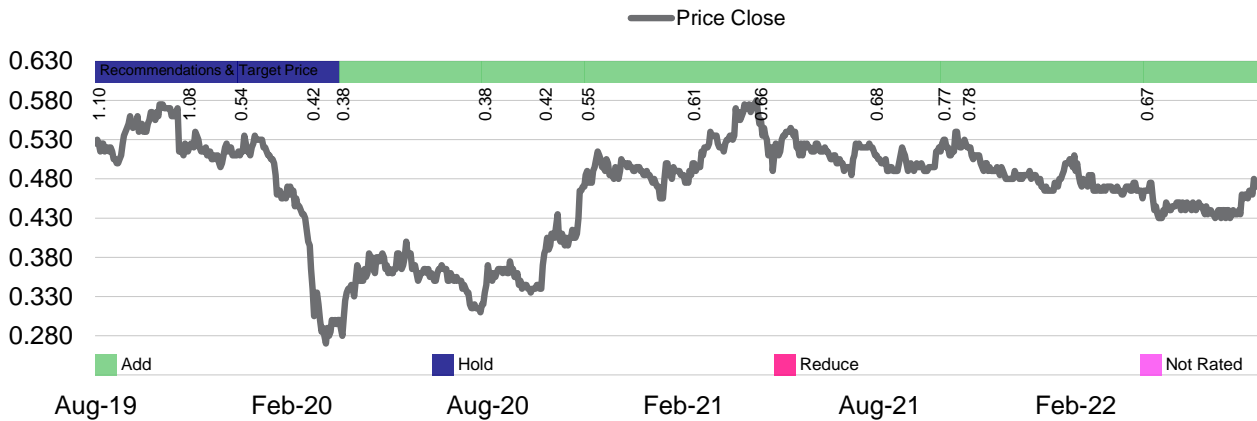
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643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)

China Sunshine Chemical Holdings (CSSC SP)



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- Add** The stock's total return is expected to exceed 10% over the next 12 months.
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- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

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