

COMPANY UPDATE

China Sunshin Chemical (CSSC SP)

Cautious Outlook As ASPs Trend Downwards

Sales volume is falling as a result of lower consumer confidence, amid lower ASPs for rubber accelerators expected in the coming term. However, capacity expansion efforts are still ongoing by Sunshin. We have lowered earnings expectations for 2022-23, due to the macroeconomic uncertainties. Maintain BUY with a lower target price of S\$0.453.

WHAT'S NEW

- Sales volumes fell amid economic slowdown.** Due to the rising interest rate environment and unprecedented European energy crisis, the economy is slowing down, leading to lower demand for tyres. This is worsened by China's zero-COVID policy, which has impacted most Chinese tyre manufacturers' production utilisation rates as well as consumer confidence. According to McKinsey & Co, optimism about China's economy has dwindled to below 50% on China's COVID-19 control measures, and consumers are spending more conservatively. This is in line with the fall in sales volume in 3Q22 to 48,268 tonnes (-6% yoy).
- Lower ASPs expected in the near term.** While higher ASPs fuelled better-than-expected 9M22 performance, ASPs are declining in 4Q22. China Sunshin Chemical's (Sunshin) 9M22 net profit rose 52% yoy to Rmb555m, as a result of higher revenue of Rmb2.94b (+11% yoy). This is attributable to the elevated ASP of rubber accelerators, Sunshin's key product, which increased by 11% yoy to Rmb18,858/tonne as per Sublime China Information (SCI). The better-than-expected ASP was from the higher prices of aniline, the major feedstock for rubber accelerators, stemming from rising oil prices in the same period. However, the reduced demand for tyres will likely drive down prices of Sunshin's rubber accelerator products. This will negatively impact the group's earnings going forward.
- Continuous expansion projects undertaken during the year.** In Oct 22, Sunshin had commenced the construction of an additional 20,000 tonnes/year (+17.1%) from Phase 1 of a project for the intermediate rubber accelerator material, bringing total annual capacity to 137,000 tonnes/year. Sunshin has also embarked on the construction of Phase 2 of an insoluble sulphur project, which increases capacity by 50% to 90,000 tonnes/year. These projects are expected to be completed by end-23, and are likely to lift sales volume upon commencement of production.

STOCK IMPACT

- Balance sheet remains robust; special dividend proposed.** As of 1H22, total cash and bank balances stood at Rmb1,206.4m with no debt outstanding, which equates to approximately Rmb1.42/share (S\$0.28/share). Despite capacity expansion efforts, where the total budget of the two new projects in Oct 22 amounted to Rmb300m, Sunshin's financial position remains healthy. Additionally, the group declared a special one-tier dividend of 0.5 S cents/share in 1H22.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	2,334	3,725	3,927	3,681	3,955
EBITDA	422	827	945	739	833
Operating profit	302	699	796	579	666
Net profit (rep./act.)	219	506	639	465	535
Net profit (adj.)	219	506	639	465	535
EPS (Fen)	22.5	52.2	65.9	47.9	55.1
PE (x)	9.0	3.9	3.1	4.2	3.7
P/B (x)	0.7	0.6	0.5	0.5	0.4
EV/EBITDA (x)	0.4	0.2	0.2	0.2	0.2
Dividend yield (%)	2.5	5.0	6.3	4.5	5.1
Net margin (%)	9.4	13.6	16.3	12.6	13.5
Net debt/(cash) to equity (%)	(48.7)	(43.4)	(48.5)	(54.7)	(59.0)
Interest cover (x)	324.8	n.a.	n.a.	n.a.	n.a.
ROE (%)	8.3	17.2	18.6	12.0	12.5
Consensus net profit	-	-	650	507	549
UOBKH/Consensus (x)	-	-	0.98	0.92	0.97

Source: Sunshin, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$ 0.395
Target Price	S\$ 0.453
Upside	+14.7%
(Previous TP)	S\$ 0.695

COMPANY DESCRIPTION

China Sunshin Chemical 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):	965.9
Market cap (S\$ m):	381.5
Market cap (US\$m):	280.6
3-mth avg daily t'over (US\$m):	0.1

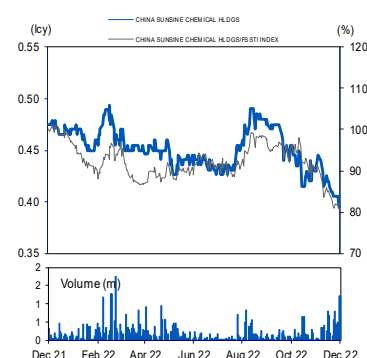
Price Performance (%)

52-week high/low	S\$ 0.494/S\$ 0.395			
1mth	3mth	6mth	1yr	YTD
(8.1)	(16.8)	(10.3)	(16.8)	(15.9)

Major Shareholders

Xu Cheng Qiu	61.1
FY22 NAV/Share (Rmb)	3.83
FY22 Net Cash/Share (Rmb)	1.86

PRICE CHART



Source: Bloomberg

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- **Compression of margins expected.** Sunsine adopts quarterly pricing for major customers, resulting in roughly one quarter of time-lag for pricing in the change in raw material prices. Therefore, the predicted price increase in raw materials will outpace any increase in ASPs, leading to a dip in 4Q22 gross margin. Coupled with supply chain disruptions in China, low production utilisation rate for Chinese tyre makers and the ongoing geopolitical tensions, margins are expected to be significantly impacted.

EARNINGS REVISION/RISK

- Due to better-than-expected 9M22 performance, we have raised our 2022 earnings estimate by 21% to Rmb639.4m. As for 2023 and 2024 earnings estimates, we have reduced them by 19% and 10% to Rmb464.7m and Rmb534.8m respectively, due to lower expectations for ASPs in the future.

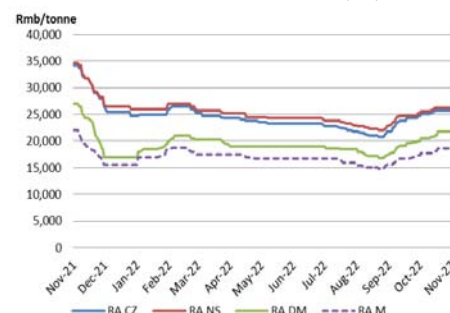
VALUATION/RECOMMENDATION

- **Maintain BUY with a 35% lower target price of S\$0.453 (from S\$0.695).** We have lowered our valuation peg from 6.4x to 4.9x (-0.5SD below mean) 2023F PE, in line with its historical five-year average, on the back of macroeconomic uncertainties.

SHARE PRICE CATALYST

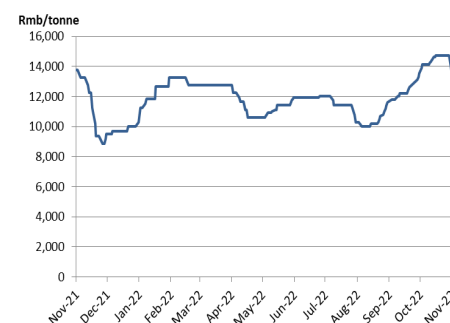
- Production commencement for new capacities.

ASP FOR RUBBER ACCELERATORS (RA)



Source: Sunsine, UOB Kay Hian

ASP FOR ANILINE



Source: Sunsine, UOB Kay Hian

ANNUAL CAPACITY AND UPCOMING EXPANSION PLANS

Product	Current capacity (ton)	Expansion (ton)	% increase	New capacity (ton)	Status	Completion date
Rubber Accelerators	117,000	20,000	+17	137,000	Commenced infrastructure construction in Oct 22	End of 2023
Insoluble Sulphur	60,000	30,000	+50	90,000	Commenced infrastructure construction in Oct 22	End of 2023
Anti-oxidant	77,000					
Total	254,000	50,000		304,000		

Source: Sunsine, UOB Kay Hian

PEER COMPARISON

Company	Bloomberg Ticker	Trading Curr	Price @ 7 Dec 22 (lcy)	Market Cap (US\$m)	PE			P/B			EV/EBITDA			Net Gearing (%)	ROE 2022F (%)
					2021 (x)	2022F (x)	2023F (x)	2021 (x)	2022F (x)	2023F (x)	2021 (x)	2022F (x)	2023F (x)		
China Sunsine	CSSC SP	S\$	0.405	291	4.0	3.2	4.4	0.6	0.5	0.5	0.8	0.2	(0.3)	(43.4)	17.2
Shandong Yanggu Huatai	300121 CH	CNY	11.54	3,445	9.2	7.4	6.3	1.7	1.8	1.4	n.a.	n.a.	n.a.	13.7	23.5
Lanxess AG	LXS GR	US\$	37.18	2,368	11.9	9.8	9.0	0.7	0.8	0.7	6.7	7.5	6.2	56.4	8.2
Eastman Chemical	EMN US	US\$	85.11	7,533	10.0	10.4	10.3	1.9	2.0	1.8	6.1	7.8	7.9	84.8	18.2
Arkema SA	AKE FP	EUR	86.40	4,783	6.0	5.6	9.1	0.9	0.9	0.9	3.9	4.2	5.4	7.5	16.6
Global average					9.3	8.3	8.7	1.3	1.4	1.2	5.6	6.5	6.5	40.6	16.6

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Net turnover	3,725.2	3,926.9	3,680.5	3,954.6
EBITDA	827.3	945.3	738.8	833.3
Deprec. & amort.	128.2	149.2	160.2	167.5
EBIT	699.1	796.1	578.5	665.8
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	796.1	578.5	665.8
Tax	(192.8)	(156.7)	(113.9)	(131.0)
Minorities	0.0	0.0	0.0	0.0
Net profit	506.3	639.4	464.7	534.8
Net profit (adj.)	506.3	639.4	464.7	534.8

BALANCE SHEET

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Fixed assets	939.1	989.9	949.6	902.1
Other LT assets	144.7	144.7	144.7	144.7
Cash/ST investment	1,377.3	1,804.3	2,220.4	2,659.0
Other current assets	1,462.2	1,482.9	1,424.8	1,525.5
Total assets	3,923.3	4,421.8	4,739.5	5,231.3
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	747.2	699.8	680.9	725.8
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	0.0	4.5	1.4	2.0
Shareholders' equity	3,176.1	3,717.5	4,057.3	4,503.4
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	3,923.3	4,421.8	4,739.5	5,231.3

CASH FLOW

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Operating	371.5	725.1	660.9	647.2
Pre-tax profit	699.1	796.1	578.5	665.8
Tax	(125.2)	(177.2)	(138.2)	(121.3)
Deprec. & amort.	128.2	149.2	160.2	167.5
Working capital changes	(321.0)	(43.1)	60.3	(64.9)
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)	(124.9)	(88.6)
Dividend payments	(49.3)	(98.0)	(124.9)	(88.6)
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	427.0	416.1	438.6
Beginning cash & cash equivalent	1,326.2	1,377.3	1,804.3	2,220.4
Changes due to forex impact	(5.0)	0.0	0.0	0.0
Ending cash & cash equivalent	1,377.3	1,804.3	2,220.4	2,659.0

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	22.2	24.1	20.1	21.1
Pre-tax margin	18.8	20.3	15.7	16.8
Net margin	13.6	16.3	12.6	13.5
ROA	14.3	15.3	10.1	10.7
ROE	17.2	18.6	12.0	12.5
Growth				
Turnover	59.6	5.4	(6.3)	7.4
EBITDA	95.9	14.3	(21.8)	12.8
Pre-tax profit	132.6	13.9	(27.3)	15.1
Net profit	131.4	26.3	(27.3)	15.1
Net profit (adj.)	131.4	26.3	(27.3)	15.1
EPS	131.5	26.2	(27.3)	15.1
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)	(48.5)	(54.7)	(59.0)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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