

## Singapore

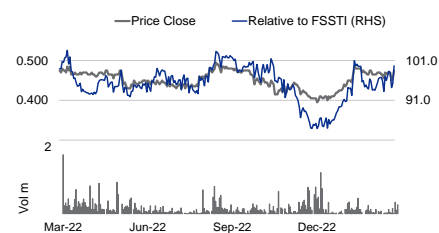
**ADD** (no change)

Consensus ratings\*: Buy 2 Hold 0 Sell 0

Current price:	S\$0.47
Target price:	S\$0.60
Previous target:	S\$0.60
Up/downside:	26.3%
CGS-CIMB / Consensus:	32.5%
Reuters:	CHSN.SI
Bloomberg:	CSSC SP
Market cap:	US\$340.1m
	S\$458.5m
Average daily turnover:	US\$0.05m
	S\$0.06m
Current shares o/s:	969.2m
Free float:	35.0%
*Source: Bloomberg	

### Key changes in this note

- Fine-tuned FY23-24F EPS.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.2	17.3	0
Relative (%)	5.8	18.5	0.7

### Major shareholders

	% held
Success More Group Limited	63.3

### Analyst(s)



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# China Sunshine Chemical Holdings

## Higher dividend payout a positive surprise

- 2H22 net profit declined to Rmb215m (-11% yoy) due to weaker downstream demand that hurt profit spread. FY22 total DPS of 3Scts implies 6.1% yield.
- China recovery bodes well for recovery in domestic downstream demand, though we are more cautious on export sales outlook in CY23F.
- Reiterate Add and TP of S\$0.60 on attractive 1.7x FY24F ex-cash P/E.

### 2H22: Volumes resilient, but weaker profit spreads

China Sunshine Chemical Holdings' 2H22 net profit of Rmb215m (-50% hoh, -11% yoy) was in line with our expectations. FY22 net profit of Rmb642m (+27% yoy) formed 99%/100% of our/Bloomberg consensus' forecasts. Sales volume rose 6% hoh due to stronger sales of insoluble sulfur and antioxidants (capacity expansion-driven), which offset weaker rubber accelerator sales. However, weaker downstream demand compressed Sunshine's profit spread; GP per tonne fell 36% hoh in 2H22. Sunshine proposed a higher FY22 DPS of 3 Scts (FY21: 2.0 Scts), implying a 6.1% dividend yield.

### Reopening of China could help domestic sales volume recovery

With China's pivot from its zero-Covid stance, we expect recovery in domestic downstream demand, supported by recovery of economic activities and potential stimulus measures by the government. However, we are more cautious on export sales; major tyre manufacturer Bridgestone put out a guarded 2023 outlook during its recent results brief, as it notes that demand for replacement tyres in 4Q22 was hit by economic woes in the US and Europe. Overall, we expect a slight 3% yoy sales volume growth for FY23F.

### More time needed for profit spread recovery

According to sci99.com, a Chinese commodity market information service provider, both rubber accelerator and aniline prices remained weak through Dec 22-Jan 23, before showing some recovery in Feb. Aniline spiked to Rmb12k/ton in mid-Feb (vs. Jan's Rmb10k/ton), driven by plant maintenance activities conducted by key manufacturers. Given that Sunshine typically locks in quarterly pricing for its rubber accelerator products with major customers, while taking spot prices for raw materials, we expect near-term weakness in profit spreads for 1Q23F. Profit spread expansion in quarters ahead will be dependent on the pace of downstream demand recovery, in our view.

### Reiterate Add and TP of S\$0.60

Reiterate Add as valuations remain attractive at 1.7x FY24F ex-cash P/E, with a sustainable dividend yield of c.5%. We finetune our forecasts and maintain our TP at S\$0.60, still pegged to 0.7x FY23F P/BV (0.5 s.d. below 10-year historical mean). Re-rating catalysts include stronger recovery in downstream demand. Downside risks include intensifying price competition affecting accelerator margins and margin erosion from sharp increase in input prices.

### Financial Summary

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (Rmbm)	3,725	3,825	3,815	3,937	4,013
Operating EBITDA (Rmbm)	736.7	816.1	669.8	738.8	774.3
Net Profit (Rmbm)	506.3	642.4	505.0	547.9	565.0
Core EPS (Rmb)	0.52	0.63	0.52	0.57	0.58
Core EPS Growth	132%	20%	(17%)	9%	3%
FD Core P/E (x)	4.69	3.91	4.69	4.32	4.19
DPS (Rmb)	0.10	0.15	0.12	0.12	0.11
Dividend Yield	3.99%	6.14%	4.85%	4.85%	4.49%
EV/EBITDA (x)	1.35	1.23	0.65	0.10	(0.37)
P/FCFE (x)	21.83	35.65	3.28	4.97	5.05
Net Gearing	(43.4%)	(37.0%)	(47.8%)	(51.3%)	(53.8%)
P/BV (x)	0.75	0.64	0.59	0.53	0.48
ROE	17.2%	17.7%	13.1%	12.9%	12.0%
% Change In Core EPS Estimates			(0.239%)	(0.013%)	
CGS-CIMB/Consensus EPS (x)			1.04	1.01	

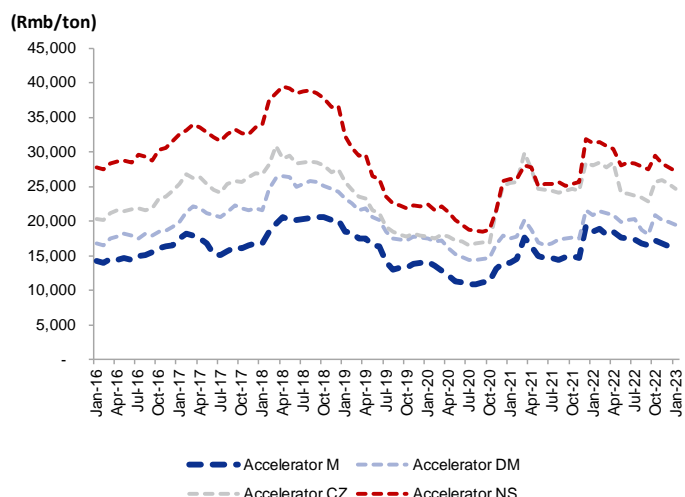
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 1: Results comparison**

FYE Dec (Rmb m)	2H22	2H21	yoy % chg	1H22	hoh % chg	FY22	FY21	yoy % chg	Prev FY22F	Comments
<b>Revenue</b>	1,802.5	1,967.7	(8.4)	2,022.5	(10.9)	3,825.0	3,725.2	2.7	3,900.5	In line, FY22 at 98% of our and 97% of Bloomberg consensus full-year forecast
Cost of sales	(1,332.6)	(1,473.5)	(9.6)	(1,328.5)	0.3	(2,661.1)	(2,678.7)	(0.7)	(2,714.9)	
<b>Gross profit</b>	<b>469.9</b>	<b>494.2</b>	<b>(4.9)</b>	<b>694.0</b>	<b>(32.3)</b>	<b>1,163.9</b>	<b>1,046.5</b>	<b>11.2</b>	<b>1,185.6</b>	<b>In line</b>
Gross margin (%)	26.1%	25.1%		34.3%		30.4%	28.1%		30.4%	
OpEx	(232.4)	(221.5)	4.9	(278.8)	(16.6)	(511.2)	(440.0)	16.2	(536.3)	
<b>Operating profit</b>	<b>237.5</b>	<b>272.7</b>	<b>(12.9)</b>	<b>415.2</b>	<b>(42.8)</b>	<b>652.7</b>	<b>606.5</b>	<b>7.6</b>	<b>649.3</b>	<b>In line</b>
Operating margin (%)	13.2%	13.9%		20.5%		17.1%	16.3%		16.6%	
Exceptionals	0.0	0.0	na	36.1	na	36.1	0.0	na	36.1	
Pretax profit	263.6	338.4	(22.1)	470.1	(43.9)	733.7	699.1	4.9	738.8	
Tax	(48.7)	(97.3)	(49.9)	(42.6)	14.3	(91.3)	(192.8)	(52.6)	(88.7)	
Tax rate (%)	18.5%	28.8%		9.1%		12.4%	27.6%		12.0%	
<b>Net profit</b>	<b>214.9</b>	<b>241.1</b>	<b>(10.9)</b>	<b>427.5</b>	<b>(49.7)</b>	<b>642.4</b>	<b>506.3</b>	<b>26.9</b>	<b>650.1</b>	<b>In line, FY22 at 99% of our and 100% of Bloomberg consensus full-year forecast</b>
<b>Core net profit</b>	<b>214.9</b>	<b>241.1</b>	<b>(10.9)</b>	<b>391.4</b>	<b>(45.1)</b>	<b>606.3</b>	<b>506.3</b>	<b>19.7</b>	<b>614.0</b>	

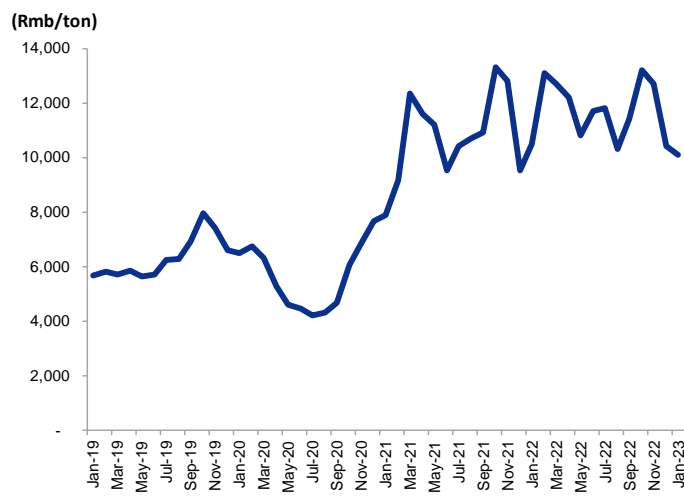
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 2: Price trend of key rubber accelerators in China**



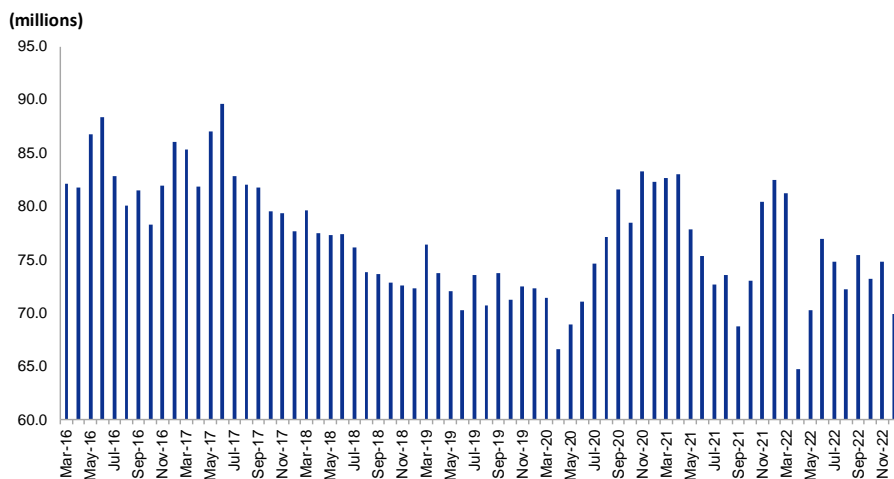
SOURCES: CGS-CIMB RESEARCH, CHINA PETROLEUM AND CHEMICAL INDUSTRY FEDERATION

**Figure 3: Aniline price trend in China**



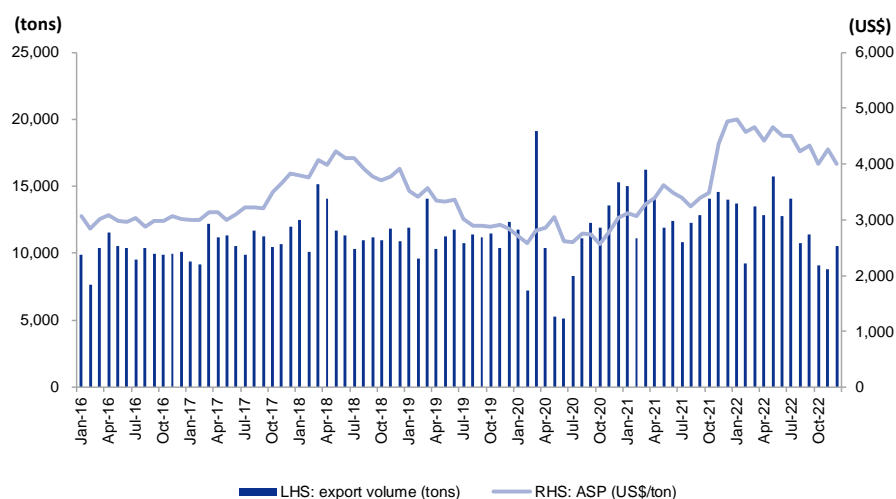
SOURCES: CGS-CIMB RESEARCH, CHINA PETROLEUM AND CHEMICAL INDUSTRY FEDERATION

**Figure 4: Rubber tyre production volume in China**



SOURCES: CGS-CIMB RESEARCH, NATIONAL BUREAU OF STATISTICS

**Figure 5: Monthly export data of rubber accelerators in China**



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

**Figure 6: China Sunshine Chemical Holdings' P/BV (x)**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

**Figure 7: Earnings revision**

Earnings revision (RMB m)	Old			New			% change		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	3667.7	3752.0	4013.2	3815.3	3937.0	4013.2	4.0%	4.9%	0.0%
EBITDA	699.6	763.5	774.3	669.8	738.8	774.3	-4.3%	-3.2%	0.0%
Net profit	506.9	548.8	565.0	505.0	547.9	565.0	-0.4%	-0.2%	0.0%
Core net profit	506.9	548.8	565.0	505.0	547.9	565.0	-0.4%	-0.2%	0.0%
Core EPS (Rmb cents)	52.23	56.54	58.29	52.11	56.54	58.29	-0.2%	0.0%	0.0%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, 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 its 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. To reduce its environmental risks and waste treatment cost, Sunsine also acquired Heze Yongshun Environmental Protection Technology Co Ltd, a hazardous waste disposal enterprise, in Jul 2020.

### 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 cost advantages over peers as well.

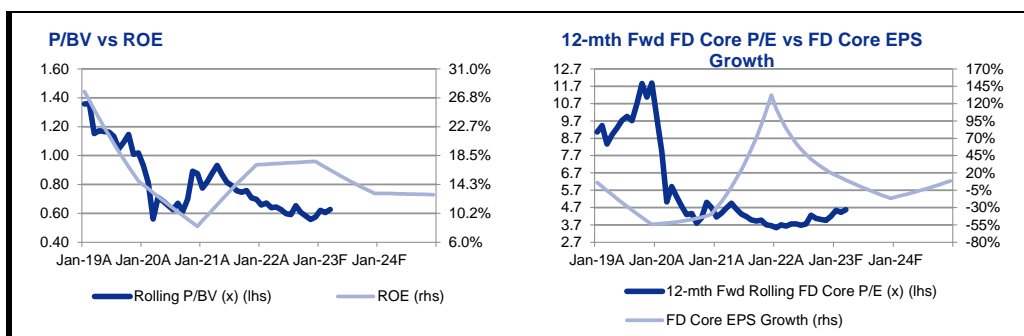
### Trends

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

**BY THE NUMBERS**

**Profit & Loss**

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Total Net Revenues</b>	<b>3,725</b>	<b>3,825</b>	<b>3,815</b>	<b>3,937</b>	<b>4,013</b>
<b>Gross Profit</b>	<b>1,046</b>	<b>1,164</b>	<b>1,038</b>	<b>1,101</b>	<b>1,132</b>
<b>Operating EBITDA</b>	<b>737</b>	<b>816</b>	<b>670</b>	<b>739</b>	<b>774</b>
Depreciation And Amortisation	(130)	(163)	(137)	(159)	(174)
<b>Operating EBIT</b>	<b>606</b>	<b>653</b>	<b>533</b>	<b>580</b>	<b>600</b>
Financial Income/(Expense)	24	16	(1)	(1)	(1)
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	68	65	80	85	85
<b>Profit Before Tax (pre-EI)</b>	<b>699</b>	<b>734</b>	<b>612</b>	<b>664</b>	<b>685</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>699</b>	<b>734</b>	<b>612</b>	<b>664</b>	<b>685</b>
Taxation	(193)	(91)	(107)	(116)	(120)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>506</b>	<b>642</b>	<b>505</b>	<b>548</b>	<b>565</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>506</b>	<b>642</b>	<b>505</b>	<b>548</b>	<b>565</b>
Recurring Net Profit	506	606	505	548	565
<b>Fully Diluted Recurring Net Profit</b>	<b>506</b>	<b>606</b>	<b>505</b>	<b>548</b>	<b>565</b>

**Cash Flow**

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>EBITDA</b>	<b>736.7</b>	<b>816.1</b>	<b>669.8</b>	<b>738.8</b>	<b>774.3</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(320.8)	(574.9)	329.4	19.2	(20.5)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	80.5	20.6	80.5	85.5	85.5
Net Interest (Paid)/Received	0.0	0.0	(0.5)	(0.5)	(0.5)
Tax Paid	(124.9)	(54.3)	(107.1)	(116.2)	(119.8)
<b>Cashflow From Operations</b>	<b>371.5</b>	<b>207.5</b>	<b>972.1</b>	<b>726.8</b>	<b>718.9</b>
Capex	(291.6)	(157.3)	(250.0)	(250.0)	(250.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	28.9	16.3	0.0	0.0	0.0
<b>Cash Flow From Investing</b>	<b>(262.7)</b>	<b>(141.0)</b>	<b>(250.0)</b>	<b>(250.0)</b>	<b>(250.0)</b>
Debt Raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased	(0.9)	(10.6)	0.0	0.0	0.0
Dividends Paid	(46.8)	(118.6)	(153.0)	(114.8)	(106.4)
Preferred Dividends					
Other Financing Cashflow	(5.0)	7.7	(0.5)	(0.5)	(0.5)
<b>Cash Flow From Financing</b>	<b>(52.7)</b>	<b>(121.5)</b>	<b>(153.5)</b>	<b>(115.3)</b>	<b>(106.9)</b>
Total Cash Generated	56.1	(55.0)	568.6	361.5	362.1
<b>Free Cashflow To Equity</b>	<b>108.8</b>	<b>66.5</b>	<b>722.1</b>	<b>476.8</b>	<b>468.9</b>
<b>Free Cashflow To Firm</b>	<b>108.8</b>	<b>66.5</b>	<b>722.6</b>	<b>477.3</b>	<b>469.4</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	1,377	1,365	1,934	2,295	2,657
Total Debtors	1,462	1,785	1,583	1,575	1,604
Inventories					
Total Other Current Assets	0	0	0	0	0
<b>Total Current Assets</b>	<b>2,840</b>	<b>3,150</b>	<b>3,516</b>	<b>3,870</b>	<b>4,261</b>
Fixed Assets	939	862	975	1,065	1,141
Total Investments	0	0	0	0	0
Intangible Assets	145	213	213	213	213
Total Other Non-Current Assets	0	0	0	0	0
<b>Total Non-current Assets</b>	<b>1,084</b>	<b>1,075</b>	<b>1,188</b>	<b>1,278</b>	<b>1,354</b>
Short-term Debt	0	0	0	0	0
Current Portion of Long-Term Debt					
Total Creditors	638	386	513	524	533
Other Current Liabilities	109	147	147	147	147
<b>Total Current Liabilities</b>	<b>747</b>	<b>533</b>	<b>660</b>	<b>671</b>	<b>680</b>
Total Long-term Debt	0	0	0	0	0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
<b>Total Non-current Liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Total Provisions	0	0	0	0	0
<b>Total Liabilities</b>	<b>747</b>	<b>533</b>	<b>660</b>	<b>671</b>	<b>680</b>
Shareholders' Equity	3,176	3,692	4,044	4,477	4,936
Minority Interests					
<b>Total Equity</b>	<b>3,176</b>	<b>3,692</b>	<b>4,044</b>	<b>4,477</b>	<b>4,936</b>

### Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	59.6%	2.7%	(0.3%)	3.2%	1.9%
Operating EBITDA Growth	77.1%	10.8%	(17.9%)	10.3%	4.8%
Operating EBITDA Margin	19.8%	21.3%	17.6%	18.8%	19.3%
Net Cash Per Share (Rmb)	1.42	1.41	1.99	2.37	2.74
BVPS (Rmb)	3.27	3.81	4.17	4.62	5.09
Gross Interest Cover	N/A	N/A	1,065	1,159	1,201
Effective Tax Rate	27.6%	12.4%	17.5%	17.5%	17.5%
Net Dividend Payout Ratio	3.83%	4.53%	4.32%	3.98%	3.86%
Accounts Receivables Days	89.2	118.7	123.6	111.0	109.0
Inventory Days	-	-	-	-	-
Accounts Payables Days	71.35	70.19	59.03	66.92	66.97
ROIC (%)	31.5%	31.8%	18.9%	22.7%	22.7%
ROCE (%)	21.4%	19.5%	13.8%	13.6%	12.8%
Return On Average Assets	13.8%	15.4%	11.3%	11.1%	10.5%

### Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Accelerator sales volume (thousand tonnes)	102.0	89.4	93.0	95.0	95.0
Insoluble sulphur sales volume (thousand tonnes)	37.3	37.6	37.5	39.0	40.0
Antioxidants sales volume (thousand tonnes)	54.6	58.1	60.0	62.0	65.0
Accelerator ASP (rmb/tonne)	21,850.5	22,847.0	22,500.0	22,612.5	22,612.5
Insoluble sulphur ASP (rmb/tonne)	8,249.7	7,917.8	8,250.0	8,291.3	8,291.3
Antioxidants ASP (rmb/tonne)	20,390.0	24,203.4	22,500.0	22,612.5	22,612.5

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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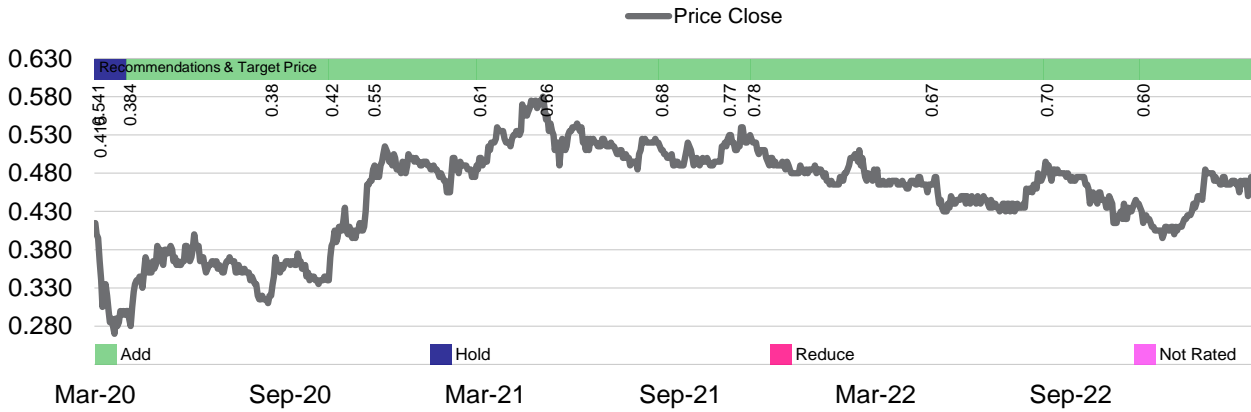
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645 companies under coverage for quarter ended on 31 December 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	64.8%	1.1%
Hold	27.0%	0.3%
Reduce	8.2%	0.0%

Spitzer Chart for stock being researched ( 2 year data )

China Sunshine Chemical Holdings (CSSC SP)



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