

COMPANY RESULTS

China Sunshin Chemical (CSSC SP)

2H22: Results In Line With Expectations; Stronger Performance Forecast

Sunshine recorded 2H22 net profit of Rmb214.9m (-10.9% yoy), taking 2022 core profit to Rmb606.3m (+11.8% yoy), largely in line with our forecast. The lower 2H22 revenue was driven by a decline in sales volume and ASPs. While we have raised earnings expectations for 2023-24 due to capacity expansion projects, we also accounted for an expected decline in crude oil price by the US EIA. Maintain BUY with a 28% higher target price of S\$0.575.

2022 RESULTS

Year to 31 Dec (Rmbm)	2H22	2H21	yoy % chg	2022	2021	yoy % chg
Revenue	1,802.5	1,967.7	(8.4)	3,825.0	3,725.2	2.7
Gross profit	469.9	494.2	(4.9)	1,163.9	1,046.5	11.2
Gross margin (%)	26.1	25.1	+1.0ppt	30.4	28.1	+2.3ppt
Net profit	214.9	241.1	(10.9)	642.4	506.3	26.9
Net margin (%)	11.9	12.3	(0.3ppt)	16.8	13.6	+3.2ppt
Net profit (adjusted)	214.9	241.1	(10.9)	606.3	542.4	11.8
Net margin (adjusted) (%)	11.9	12.3	(0.3ppt)	15.9	14.6	+1.3ppt

Source: Sunshine, UOB Kay Hian

RESULTS

- Results in line with expectations.** China Sunshin Chemical's (Sunshine) 2H22 net profit fell by 11% yoy to Rmb214.9m, bringing 2022 core profit to 95% of our full-year estimates. 2H22 performance came on the back of lower revenue of Rmb1,802.5m (-8.4% yoy) due to both a decline in sales volume to 95,731 tonnes (-6.4% yoy) and a 2% yoy decrease in ASPs of rubber accelerators to Rmb18,532/tonne. For 2022, overall ASP increased by 8% yoy to Rmb20,237/tonne, as Sunshine was able to pass on the increase in raw material prices to customers. This drove the 2.7% yoy rise in 2022 revenue, offset by the 5% lower sales volume. 2022 core profit of Rmb606.3m (+11.8% yoy) excludes an Rmb36.1m tax refund received in 1H22 for the overpayment of 2021 tax expenses.
- Higher margins recorded; special dividend proposed.** Due to lower recorded revenue, gross profit fell by 4.9% yoy to Rmb469.9m in 2H22. However, 2H22 gross margin expanded 1.0ppt yoy to 26.1% (2H21: 25.1%, 1H22: 34.3%), with a more favourable sales mix comprising a higher proportion of antioxidant products. Full-year gross and core profit margins also improved by 2.3ppt yoy to 30.4% and by 1.3ppt yoy to 15.9% respectively. Management has proposed to pay out S\$0.025/share, consisting of a final DPS of S\$0.01/share and a special DPS of S\$0.015/share (2021: S\$0.01/share).

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	3,725	3,825	3,696	4,211	4,284
EBITDA	829	897	784	897	918
Operating profit	699	734	613	719	733
Net profit (rep./act.)	506	642	491	575	586
Net profit (adj.)	542	606	491	575	586
EPS (Fen)	55.9	62.8	50.8	59.6	60.7
PE (x)	4.3	3.8	4.7	4.0	4.0
P/B (x)	0.7	0.6	0.6	0.5	0.5
EV/EBITDA (x)	1.0	0.9	1.1	0.9	0.9
Dividend yield (%)	4.2	5.1	4.0	4.6	5.0
Net margin (%)	13.6	16.8	13.3	13.7	13.7
Net debt/(cash) to equity (%)	(43.4)	(37.0)	(36.9)	(32.8)	(37.2)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	17.2	18.7	12.7	13.6	12.5
Consensus net profit	-	-	485	542	565
UOBKH/Consensus (x)	-	-	1.01	1.06	1.04

Source: Sunshine, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$ 0.465
Target Price	S\$ 0.575
Upside	+23.7%
(Previous TP):	S\$ 0.45)

COMPANY DESCRIPTION

Sunshine 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):	965.3
Market cap (S\$ m):	448.9
Market cap (US\$m):	337.6
3-mth avg daily t'over (US\$m):	0.0

Price Performance (%)

52-week high/low S\$ 0.490/S\$ 0.395

1mth	3mth	6mth	1yr	YTD
2.2	10.7	5.7	2.1	9.4

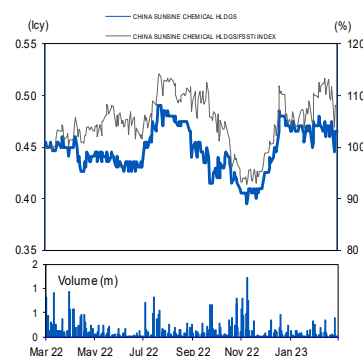
Major Shareholders

	%
Xu Cheng Qiu	61.1

FY23 NAV/Share (Rmb) 4.15

FY23 Net Cash/Share (Rmb) 1.53

PRICE CHART



Source: Bloomberg

ANALYST(S)

Heidi Mo
+65 6590 6630
heidimo@uobkayhian.com

John Cheong
+65 6590 6623
johncheong@uobkayhian.com

• **Continuous expansion projects undertaken.** In Oct 22, Sunsine commenced the construction of a project with a 20,000 tonnes/year capacity for an intermediate material used to produce many kinds of accelerators. Construction of Phase 2 of an insoluble sulphur project will also increase insoluble sulphur 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 when operational.

STOCK IMPACT

• **Strong balance sheet and healthy cash flow.** As of end-22, total cash and bank balances stood at Rmb1,364.9m with no debt outstanding, which equates to Rmb1.41/share (S\$0.27/share). Additionally, free cash flow generated in 2022 remained positive at Rmb122m (2021: Rmb163m) despite capacity expansion efforts. Correspondingly, net cash per share is estimated to increase from Rmb0.86/share (S\$0.16/share) to Rmb1.06/share (S\$0.20/share) and Rmb1.21/share (S\$0.23/share) in 2023 and 2024 respectively.

EARNINGS REVISION/RISK

- Due to lower expectations for crude oil price according to US Energy Information Administration (EIA), we have tweaked our 2023 and 2024 gross margin assumptions from 30.0% to 29.0% and 30.0% to 29.1% respectively.
- Accordingly, we have raised earnings estimates for 2023/24 by 6%/7% to Rmb491m/Rmb575m respectively.

VALUATION/RECOMMENDATION

• **Maintain BUY with a 28% higher target price of S\$0.575 (from S\$0.45)**, pegged to a multiple of 5.9x 2023F PE, its long-term average mean. Previously, we valued Sunsine based on 4.9x (-0.5SD below mean) 2023F PE, in line with its historical five-year average. We have raised our valuation multiple due to a less challenging outlook with China's reopening.

SHARE PRICE CATALYST

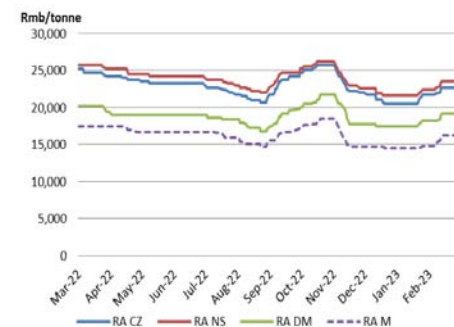
- China's reopening leading to higher consumption.
- Production commencement for new capacities.

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 29-Mar-23 (lcy)	Market Cap (US\$m)	PE		P/B		EV/EBITDA		ROE 2023 (%)	Yield 2023 (%)	Net Gearing (%)
					2023 (x)	2024 (x)	2023 (x)	2024 (x)	2023 (x)	2024 (x)			
China Sunsine	CSSC SP	S\$	0.465	338	5.0	4.4	0.6	0.5	1.3	1.1	12.0	3.8	(37.0)
Shandong Yanggu Huatai	300121 CH	CNY	11.18	657	6.8	5.5	1.4	1.1	4.7	3.6	21.0	4.5	(3.0)
Lanxess AG	LXS GR	EUR	36.58	3,423	11.1	8.1	0.6	0.6	7.6	6.7	8.7	3.0	86.8
Eastman Chemical	EMN US	USD	81.74	9,738	10.5	9.2	1.7	1.6	8.1	7.5	15.9	3.9	92.7
Arkema SA	AKE FP	EUR	88.4	7,190	9.9	8.3	0.9	0.8	5.5	5.2	9.3	3.8	22.1
Global average					9.6	7.8	1.2	1.0	6.5	5.7	13.7	3.8	49.7

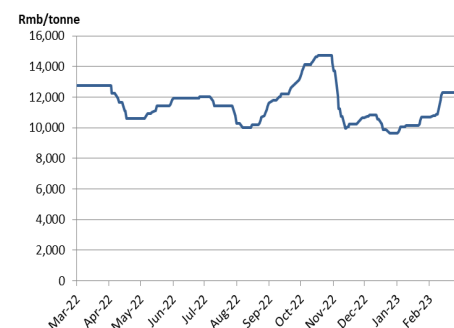
Source: Bloomberg, UOB Kay Hian

ASP FOR RUBBER ACCELERATORS (RA)



Source: China Sunsine, UOB Kay Hian

ASP FOR ANILINE



Source: China Sunsine, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	3,825.0	3,696.5	4,210.7	4,284.5
EBITDA	897.1	783.5	896.7	917.9
Deprec. & amort.	163.4	170.3	177.9	185.0
EBIT	733.7	613.2	718.8	732.9
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	733.7	613.2	718.8	732.9
Tax	(91.3)	(122.6)	(143.8)	(146.6)
Minorities	0.0	0.0	0.0	0.0
Net profit	642.4	490.5	575.1	586.3
Net profit (adj.)	606.3	490.5	575.1	586.3

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	861.7	780.1	691.4	595.6
Other LT assets	213.0	209.3	205.1	200.9
Cash/ST investment	1,364.9	1,479.8	1,463.5	1,829.6
Other current assets	1,784.9	1,996.1	2,400.1	2,570.7
Total assets	4,224.5	4,465.3	4,760.1	5,196.9
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	532.7	458.1	296.4	279.0
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	0.0	0.0	0.0	0.0
Shareholders' equity	3,691.8	4,007.2	4,463.7	4,917.9
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	4,224.5	4,465.3	4,760.1	5,196.9

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	207.5	371.4	183.0	579.0
Pre-tax profit	733.7	613.2	718.8	732.9
Tax	(53.6)	(72.1)	(109.7)	(142.1)
Deprec. & amort.	159.6	166.6	173.7	180.7
Working capital changes	(631.5)	(336.3)	(599.8)	(192.5)
Non-cash items	(0.7)	0.0	0.0	0.0
Investing	(141.0)	(81.3)	(80.8)	(80.7)
Capex (growth)	(85.2)	(85.0)	(85.0)	(85.0)
Proceeds from sale of assets	0.1	0.0	0.0	0.0
Others	(55.9)	3.7	4.2	4.3
Financing	(121.5)	(175.2)	(118.6)	(132.2)
Dividend payments	(123.1)	(175.2)	(118.6)	(132.2)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	1.6	0.0	0.0	0.0
Net cash inflow (outflow)	(55.0)	114.9	(16.3)	366.1
Beginning cash & cash equivalent	1,377.3	1,364.9	1,479.8	1,463.5
Changes due to forex impact	42.6	0.0	0.0	0.0
Ending cash & cash equivalent	1,364.9	1,479.8	1,463.5	1,829.6

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	23.5	21.2	21.3	21.4
Pre-tax margin	19.2	16.6	17.1	17.1
Net margin	16.8	13.3	13.7	13.7
ROA	15.8	11.3	12.5	11.8
ROE	18.7	12.7	13.6	12.5
Growth				
Turnover	2.7	(3.4)	13.9	1.8
EBITDA	8.2	(12.7)	14.4	2.4
Pre-tax profit	4.9	(16.4)	17.2	2.0
Net profit	26.9	(23.6)	17.2	2.0
Net profit (adj.)	11.8	(19.1)	17.2	2.0
EPS	12.3	(19.1)	17.2	2.0
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	(37.0)	(36.9)	(32.8)	(37.2)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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