

Singapore

ADD (no change)

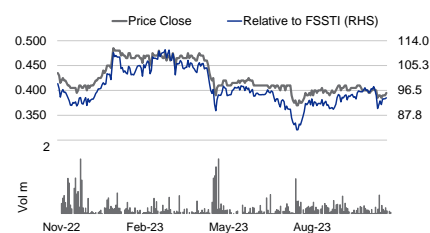
Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price:	S\$0.39
Target price:	S\$0.47
Previous target:	S\$0.47
Up/downside:	19.0%
CGS-CIMB / Consensus:	0.0%
Reuters:	CHSN.SI
Bloomberg:	CSSC SP
Market cap:	US\$281.5m S\$379.3m
Average daily turnover:	US\$0.03m S\$0.04m
Current shares o/s:	969.2m
Free float:	35.0%

*Source: Bloomberg

Key changes in this note

➤ FY23-25F EPS lowered by 3-18%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-3.7	3.9	-10.2
Relative (%)	-2	7	-5.8

Major shareholders

	% held
Success More Group Limited	63.3

China SunSine Chemical Holdings

Record sales volumes, but weaker margins

- 3Q23 net profit of Rmb65m (-49% yoy) was a miss, likely due to weaker-than-expected GPM (c.19%). Sales volumes hit a record high (+16% yoy).
- We see healthy volume growth in FY24F (+5% yoy) on further ramp-up of newer lines, while competition will likely remain intense among incumbents.
- Reiterate Add. Our TP is maintained at S\$0.47 on 0.6x CY24F P/BV.

3Q23: record high sales volumes but hit by weaker margins

China SunSine's 3Q23 net profit of Rmb65m (-49% qoq/yoy) was below our expectations, with 9M23 net profit forming 64% of our FY23F forecast. The miss was likely due to a weaker-than-expected GPM (undisclosed), which we estimate at 19% (-8% pts yoy), as intense industry competition weighed on profitability. Revenue of Rmb875m (+1% qoq, -5% yoy) was in line, as record high sales volumes (+16% yoy) were offset by declining ASPs (-18% yoy, likely due to falling raw material costs and greater price competition).

ASP uptick could point to slight qoq improvement in 4Q23F spread

According to sci99.com (commodity information service provider), rubber accelerator prices rose strongly in Sep/Oct, with average prices rising 17%/18% (vs. end-Aug prices), before tapering in Nov. While we note Aniline prices have begun to rise over the past week (likely attributed to plant repairs from industry players and winter seasonality), we think SunSine was able to lock in strong ASPs at the start of 4Q23F with its major customers, resulting in a slight qoq improvement in 4Q23F GPM to c.21% (4Q22: 24%), with ASP growth likely outpacing that of input costs, in our view.

FY24F: healthy volume growth, competition to remain intense

We believe SunSine should see healthy volume growth in FY24F (+c.5% yoy), supported by 1) ramp-up of newer Insoluble Sulphur and antioxidant production lines (both launched in 1H22), and 2) potential addition of 30k tonnes of new Insoluble Sulphur capacity (possibly in 2H24F, in our view). Although SunSine expects near-term competitive pressures to stay intense given incoming industry supply, the company reiterated that its dominant market leadership and strong balance sheet positions (3Q net cash at c.75% of current market cap) are wide economic moats. We cut our FY23-25F EPS by 3-18% as we factor in the weak 3Q results and bake in larger-than-expected GPM pressure ahead.

Reiterate Add, TP unchanged at S\$0.47 as we roll forward to CY24F

Maintain Add as we like SunSine for its undemanding valuation of 5x FY24F P/E. Our TP is rolled forward to 0.6x CY24F P/BV, based on 1 s.d. below 5-year historical mean. Re-rating catalysts: government stimulus promoting big-ticket spending in China. Downside risks: prolonged competition pressuring ASPs and a spike in input costs leading to margin erosion.

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Financial Summary

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (Rmbm)	3,725	3,825	3,595	3,795	4,020
Operating EBITDA (Rmbm)	736.7	816.1	438.7	521.8	594.8
Net Profit (Rmbm)	506.3	642.4	329.2	381.4	431.2
Core EPS (Rmb)	0.52	0.63	0.34	0.39	0.44
Core EPS Growth	132%	20%	(46%)	16%	13%
FD Core P/E (x)	4.07	3.40	6.25	5.39	4.77
DPS (Rmb)	0.10	0.15	0.06	0.07	0.09
Dividend Yield	4.60%	7.07%	3.02%	3.53%	4.03%
EV/EBITDA (x)	0.93	0.85	1.16	0.48	(0.12)
P/FCFE (x)	18.96	30.96	6.06	6.38	5.27
Net Gearing	(43.4%)	(37.0%)	(40.1%)	(43.2%)	(46.8%)
P/BV (x)	0.65	0.56	0.53	0.49	0.45
ROE	17.2%	17.7%	8.7%	9.5%	9.9%
% Change In Core EPS Estimates			(18.2%)	(8.0%)	(3.4%)
EPS/Consensus EPS (x)			0.81	0.92	0.97

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Record sales volumes, but weaker margins

Abbreviation list

Accelerator CZ: N-cyclohexylbenzothiazole-2-sulphenamide

Accelerator DM: Dibenzothiazole disulfide

Accelerator M: 2-Mercaptobenzothiazole

Accelerator NS: N-tert-butylbenzothiazole-2-sulphenamide

ASP: Average selling price

IS: Insoluble sulphur

MBT: Mercaptobenzothiazole

TMQ: Trimethyl dihydroquinoline

Figure 1: Results comparison

FYE Dec (Rmb m)	3Q23	3Q22	yoy % chg	2Q23	qoq % chg	9M23	9M22	yoy % chg	Prev FY23F	Comments
Revenue	875.0	921.0	-5.0	866.1	1.0	2,604.1	2,943.5	(11.5)	3,595.3	Largely in line. 9M23 formed 72% of our FY23F
Net profit	65.0	128.0	-49.2	127.6	-49.1	259.6	555.5	(53.3)	402.6	Below. 9M23 formed 64% of our FY23F, likely due to weaker-than-expected GPM of c.20% (not disclosed this quarter)
NPM (%)	7.4%	13.9%		14.7%		10.0%	18.9%		11.2%	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Average rubber accelerator prices increased in Sep/Oct (+17%/18% respectively when compared to end-Aug prices), before tapering slightly in Nov

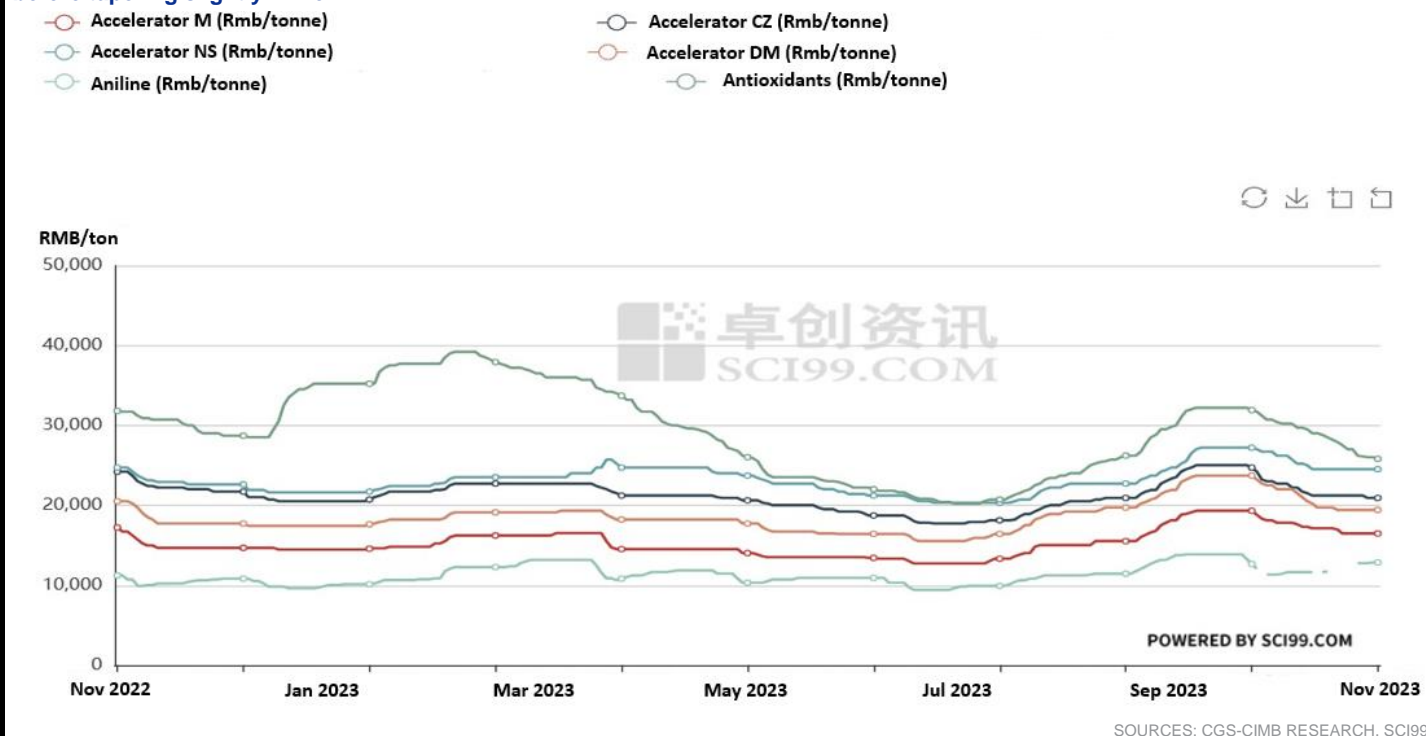
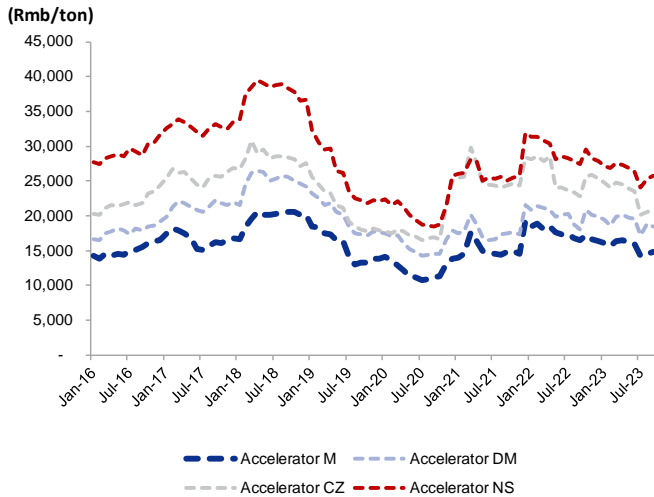
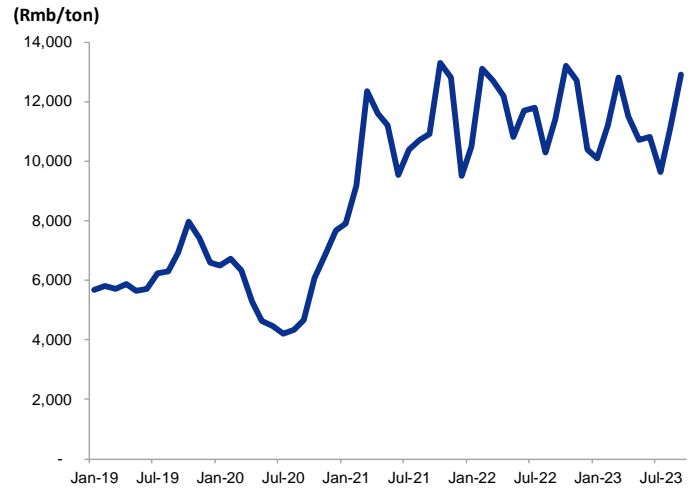


Figure 3: Price trend of key rubber accelerators in China



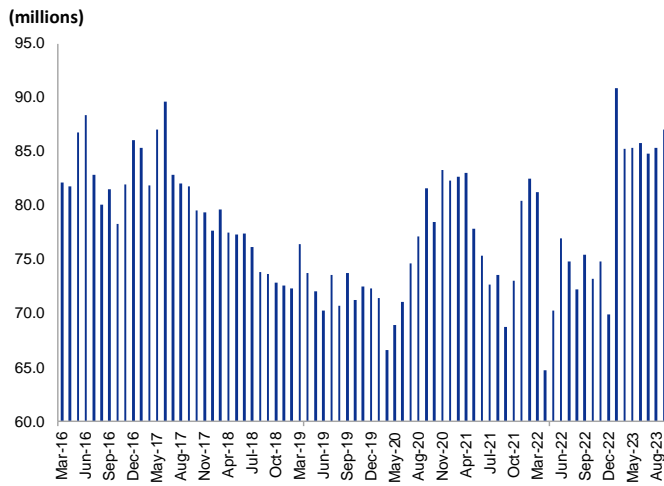
SOURCES: CGS-CIMB RESEARCH, CHINA PETROLEUM AND CHEMICAL INDUSTRY FEDERATION

Figure 4: Aniline price trend in China



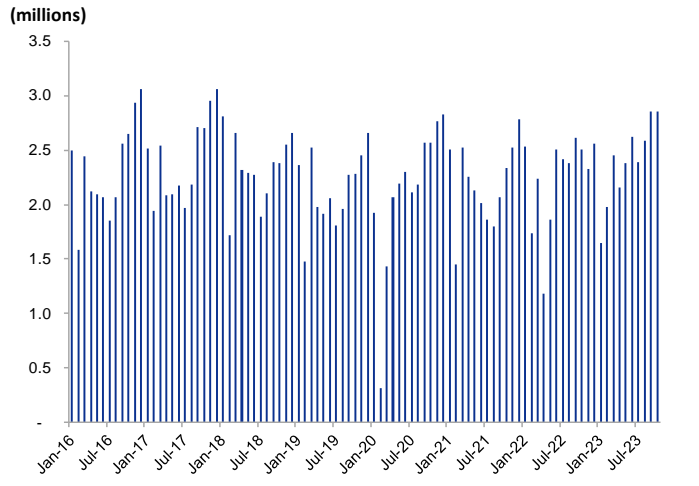
SOURCES: CGS-CIMB RESEARCH, CHINA PETROLEUM AND CHEMICAL INDUSTRY FEDERATION

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



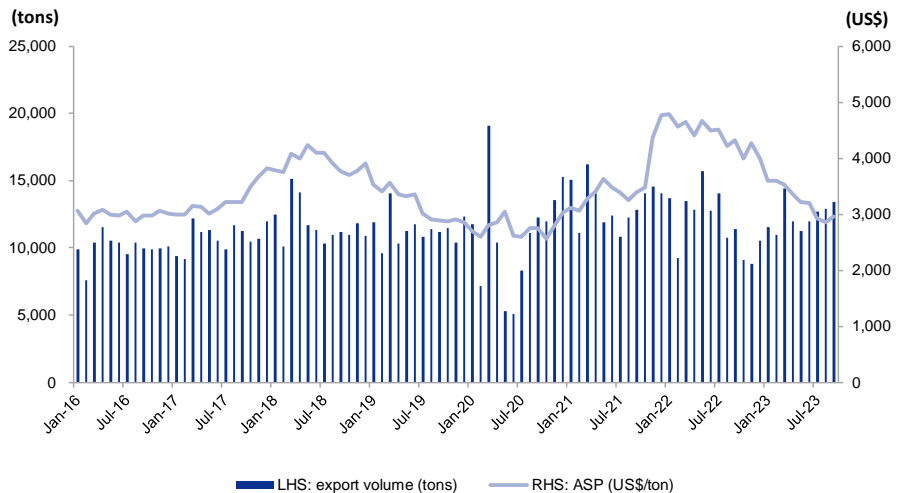
SOURCES: CGS-CIMB RESEARCH, NATIONAL BUREAU OF STATISTICS

Figure 6: Monthly automobile sales in China



SOURCES: CGS-CIMB RESEARCH, CHINA ASSOCIATION OF AUTOMOBILE MANUFACTURERS

Figure 7: Monthly export data of rubber accelerators in China



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

Figure 8: Earnings revision

Earnings revision (RMB m)	New			Old			% change		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	3,595.3	3,794.7	4,020.4	3,595.3	3,794.7	4,020.4	0.0%	0.0%	0.0%
Gross profit	768.9	850.3	931.4	870.6	932.9	1,005.8	-11.7%	-8.9%	-7.4%
EBIT	301.5	362.7	420.9	396.0	435.8	479.2	-23.9%	-16.8%	-12.2%
Core net profit	329.2	381.4	431.2	402.6	414.8	446.2	-18.2%	-8.0%	-3.4%
Core EPS (Rmb cents)	34.0	39.4	44.5	41.5	42.8	46.0	-18.2%	-8.0%	-3.4%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: China Sunshine Chemical Holdings P/BV (x)


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 10: Peers Comparison

Company	Bloomberg Ticker	Bloomberg Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x)		3-year EPS CAGR (%)	Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)
						CY23F	CY24F		CY23F	CY23F	CY23F	CY24F	
China Sunshine Chemical Holdings	CSSC SP	Add	0.39	0.47	278	6.2	5.3	-12.9%	0.53	8.9%	1.1	0.4	3.1%
Rubber chemical peers													
Shandong Yanggu Huatai	300121 CH	Not rated	9.78	na	539	9.5	7.4	5.8%	1.24	12.7%	5.0	4.1	2.6%
Eastman Chemical Co	EMN US	Not rated	79.77	na	9,618	12.5	10.1	12.4%	1.77	14.0%	9.0	8.0	3.9%
LANXESS AG	LXS GY	Not rated	24.84	na	2,337	na	14.8	5.0%	0.45	7.1%	8.6	6.2	1.9%
Simple average (rubber chemical peers)						11.0	10.8	7.7%	1.15	11.2%	7.5	6.1	2.8%
Tyre manufacturers													
Anhui Zhongding	000887 CH	Not rated	12.88	na	2,317	14.6	12.1	20.6%	1.39	9.6%	8.6	7.4	1.6%
Shandong Linglong Tyre Co Ltd	601966 CH	Not rated	19.86	na	4,047	21.7	14.4	90.3%	1.44	6.7%	12.2	9.6	1.6%
Bridgestone Corp	5108 JP	Not rated	5,999	na	28,430	11.3	10.6	12.3%	1.28	11.8%	5.5	5.1	3.4%
Yokohama Rubber	5101 JP	Not rated	3,201	na	3,557	8.3	7.8	16.3%	0.76	9.9%	6.9	6.2	2.2%
Cie Generale des Etab.	ML FP	Not rated	29.39	na	22,876	9.1	8.9	8.4%	1.15	12.8%	4.8	4.6	4.9%
Goodyear Tire & Rubber Co/The	GT US	Not rated	13.66	na	3,981	248.4	10.8	32.5%	0.77	-0.2%	6.6	5.4	0.0%
Apollo Tyres Ltd	APTY IN	Not rated	428.3	na	3,275	24.6	14.2	28.0%	1.96	12.1%	7.5	6.6	1.4%
Cheng Shin Rubber Ind	2105 TT	Not rated	46.55	na	4,759	19.7	17.5	21.8%	1.72	8.8%	7.9	7.6	3.7%
Hankook Tire & Technology	161390 KS	Add	46,200	52,000	4,400	8.0	6.2	20.8%	0.61	8.0%	3.1	2.7	1.9%
Kumho Tire Co Inc	073240 KS	Not rated	4,965	na	1,129	11.4	9.2	na	1.18	10.5%	6.2	5.5	na
Nexen Tire Corp	002350 KS	Not rated	8,110	na	615	6.1	4.4	na	0.50	8.2%	6.2	5.3	1.3%
Simple average (tyre manufacturers)						34.8	10.5	27.9%	1.16	8.9%	6.9	6.0	2.2%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG
 Note: All forecasts for Not rated companies are based on Bloomberg consensus estimates
 Data as of 16 Nov 2023



ESG in a nutshell

We find Sunsine's commitment to environmental protection commendable. The company has been constantly improving its operational efficiencies and environmental protection efforts to stay ahead of government regulations; the company believes 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 in environmental protection.

Keep your eye on

Over the past 5 years, Sunsine's gaseous emissions and wastewater discharge have met local emission standards. The group has also recorded zero environmental incidents.

Implications

Environmental protection is fast gaining traction in China among policy makers and the public; this has significant implications, especially to the chemicals industry. We believe 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

We believe 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, in our view.

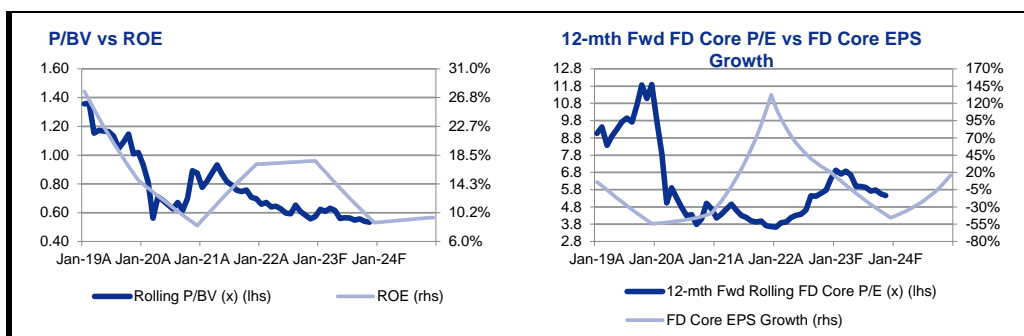
Trends

In FY20, Sunsine was able to reduce its energy consumption through usage of energy-saving equipment, and the 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. In FY22, its steam and electricity unit consumption fell by 9% and 6%, respectively, due to lower production volumes.

Implications

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

SOURCES: CGS-CIMB RESEARCH

BY THE NUMBERS

Profit & Loss

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	3,725	3,825	3,595	3,795	4,020
Gross Profit	1,046	1,164	769	850	931
Operating EBITDA	737	816	439	522	595
Depreciation And Amortisation	(130)	(163)	(137)	(159)	(174)
Operating EBIT	606	653	301	363	421
Financial Income/(Expense)	24	16	40	43	45
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	68	65	60	60	60
Profit Before Tax (pre-EI)	699	734	401	465	526
Exceptional Items					
Pre-tax Profit	699	734	401	465	526
Taxation	(193)	(91)	(72)	(84)	(95)
Exceptional Income - post-tax					
Profit After Tax	506	642	329	381	431
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	506	642	329	381	431
Recurring Net Profit	506	606	329	381	431
Fully Diluted Recurring Net Profit	506	606	329	381	431

Cash Flow

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	736.7	816.1	438.7	521.8	594.8
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(320.8)	(574.9)	123.0	31.9	34.9
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	80.5	20.6	60.0	60.0	60.0
Net Interest (Paid)/Received	0.0	0.0	0.0	0.0	0.0
Tax Paid	(124.9)	(54.3)	(72.3)	(83.7)	(94.7)
Cashflow From Operations	371.5	207.5	549.4	530.0	595.1
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	40.0	42.5	45.0
Cash Flow From Investing	(262.7)	(141.0)	(210.0)	(207.5)	(205.0)
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)	(155.6)	(62.2)	(72.6)
Preferred Dividends					
Other Financing Cashflow	(5.0)	7.7	0.0	0.0	0.0
Cash Flow From Financing	(52.7)	(121.5)	(155.6)	(62.2)	(72.6)
Total Cash Generated	56.1	(55.0)	183.9	260.2	317.5
Free Cashflow To Equity	108.8	66.5	339.4	322.5	390.1
Free Cashflow To Firm	108.8	66.5	339.4	322.5	390.1

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	1,549	1,809	2,127
Total Debtors	1,462	1,785	1,727	1,715	1,703
Inventories					
Total Other Current Assets	0	0	0	0	0
Total Current Assets	2,840	3,150	3,276	3,524	3,829
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
Total Non-current Assets	1,084	1,075	1,188	1,278	1,354
Short-term Debt	0	0	0	0	0
Current Portion of Long-Term Debt					
Total Creditors	638	386	451	470	493
Other Current Liabilities	109	147	147	147	147
Total Current Liabilities	747	533	598	617	640
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	747	533	598	617	640
Shareholders' Equity	3,176	3,692	3,865	4,185	4,543
Minority Interests					
Total Equity	3,176	3,692	3,865	4,185	4,543

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	59.6%	2.7%	(6.0%)	5.5%	5.9%
Operating EBITDA Growth	77.1%	10.8%	(46.2%)	19.0%	14.0%
Operating EBITDA Margin	19.8%	21.3%	12.2%	13.8%	14.8%
Net Cash Per Share (Rmb)	1.42	1.41	1.60	1.87	2.19
BVPS (Rmb)	3.27	3.81	3.99	4.32	4.69
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	27.6%	12.4%	18.0%	18.0%	18.0%
Net Dividend Payout Ratio	3.83%	4.53%	3.53%	3.56%	3.60%
Accounts Receivables Days	89.2	118.7	140.2	131.7	121.4
Inventory Days	-	-	-	-	-
Accounts Payables Days	71.35	70.19	54.03	57.26	56.91
ROIC (%)	31.5%	31.8%	10.6%	12.8%	14.5%
ROCE (%)	21.4%	19.5%	9.0%	10.1%	10.7%
Return On Average Assets	13.8%	15.4%	6.8%	7.5%	7.9%

Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Accelerator sales volume (thousand tonnes)	102.0	89.4	97.0	100.0	105.0
Insoluble sulphur sales volume (thousand tonnes)	37.3	37.6	41.0	45.0	48.0
Antioxidants sales volume (thousand tonnes)	54.6	58.1	66.0	68.0	70.0
Accelerator ASP (rmb/tonne)	21,850.5	22,847.0	20,500.0	21,115.0	21,537.3
Insoluble sulphur ASP (rmb/tonne)	8,249.7	7,917.8	6,550.0	6,582.8	6,648.6
Antioxidants ASP (rmb/tonne)	20,390.0	24,203.4	19,200.0	19,296.0	19,489.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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634 companies under coverage for quarter ended on 30 September 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

Spitzer Chart for stock being researched (2 year data)

China Sunshine Chemical Holdings (CSSC SP)



Recommendation Framework	
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Add	The stock's total return is expected to exceed 10% over the next 12 months.
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