

Singapore

ADD (no change)

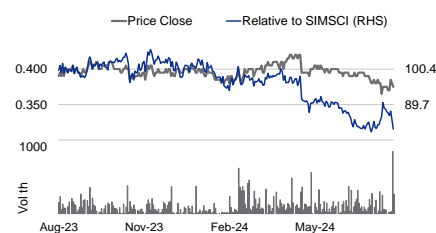
Consensus ratings*: Buy 3 Hold 0 Sell 0

Current price:	S\$0.37
Target price:	S\$0.47
Previous target:	S\$0.47
Up/downside:	25.3%
CGSI / Consensus:	na
Reuters:	CHSN.SI
Bloomberg:	CSSC SP
Market cap:	US\$271.7m
	S\$358.2m
Average daily turnover:	US\$0.04m
	S\$0.05m
Current shares o/s:	963.2m
Free float:	35.0%

*Source: Bloomberg

Key changes in this note

➤ No changes.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-5.1	-5.1	-2.6
Relative (%)	-1.7	-7.4	-14.4

Major shareholders	% held
Success More Group Limited	63.3

China SunSine Chemical Holdings

1H24: Operationally healthy

- SunSine's 1H24 net profit (-8% yoy) was largely in line, with stronger-than-expected GPM expansion (+1% pt yoy) offset by higher taxes (+91% yoy).
- We expect 2H24F sales volumes to remain healthy on better manufacturer utilisation rates, while GPM could possibly be sustained at c.22% (flat yoy).
- Reiterate Add with an unchanged TP of S\$0.47. Decent FY24F yield of 6.5% and ramp-up in share buybacks should cap downside risk, in our view.

Healthy sales volume growth and GPM expansion

China SunSine's (SunSine) 1H24 core net profit of Rmb189m (+6% hoh, -8% yoy) was largely in line at 50% of our FY24F estimate. Rubber chemical sales volumes came in healthy (+6% yoy), mostly led by strong rubber accelerator demand from tyre manufacturers based in Southeast Asia, partially offset by weaker domestic demand. GPM surprised positively at 24.8% (+1% pt yoy), which we attribute to higher-margin sales mix. However, tax expenses jumped substantially (+91% yoy) due to expiry of the group's high-tech enterprise status (accords lower concessionary taxes).

ASPs remained firm in 3Q24, while raw material prices declined

According to commodity market information service provider sci99.com, average rubber accelerator ASPs in Jul-Aug 24 were flat to slightly lower compared to average ASPs in 2Q24, while average aniline prices in Jul-Aug 24 were down c.10% compared to 2Q24 average prices. We think GPM should sustain yoy in 2H24F at c.22%, as risks from intensifying industry competition are offset by cost savings achieved from ramp-up of new MBT products in 3Q24F.

Continued sales volume growth ahead

We believe SunSine should maintain healthy sales volume growth ahead, underpinned by 1) recovery in domestic tyre manufacturer utilisation rates, 2) ramp-up in sales to Southeast Asia, and 3) favourable government policies supporting automotive demand (e.g. increased subsidies on vehicle trade-ins). As shared in its 1H24 outlook statement, management still sees stiff competition persisting in China and continues to implement flexible pricing strategy to defend its market share. Balance sheet remains healthy, with net cash rising to Rmb1.7bn (c.90% of current market cap) at end-2Q24.

Reiterate Add with an unchanged TP of S\$0.47

Reiterate Add as we like SunSine for its decent FY24F 6.5% yield and undemanding valuation of about 1.0x CY24F ex-cash P/E. Our TP stays at S\$0.47, based on 0.6x CY24F P/BV (1 s.d. below 5-year historical mean). Re-rating catalysts: favourable government stimulus in China and improved domestic competitive dynamics. Key downside risk: intensified competitive pressure weighing on ASPs and market share.

Analyst(s)



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Financial Summary	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue (Rmbm)	3,825	3,490	3,564	3,695	3,807
Operating EBITDA (Rmbm)	816.1	520.2	545.1	581.9	613.3
Net Profit (Rmbm)	642.4	372.4	376.3	397.9	417.4
Core EPS (Rmb)	0.63	0.40	0.39	0.41	0.43
Core EPS Growth	19.9%	(36.5%)	(1.6%)	5.7%	4.9%
FD Core P/E (x)	3.26	5.15	5.22	4.93	4.70
DPS (Rmb)	0.15	0.13	0.13	0.13	0.13
Dividend Yield	7.57%	6.60%	6.46%	6.46%	6.46%
EV/EBITDA (x)	0.75	0.53	0.04	(0.59)	(1.09)
P/FCFE (x)	29.72	4.32	5.19	3.99	4.35
Net Gearing	(37.0%)	(43.0%)	(46.4%)	(51.8%)	(55.5%)
P/BV (x)	0.53	0.50	0.47	0.44	0.41
ROE	17.7%	10.0%	9.3%	9.2%	9.1%
% Change In Core EPS Estimates			0.042%	0.005%	0.004%
EPS/Consensus EPS (x)			1.00	1.01	1.01

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Operationally healthy

Abbreviation list

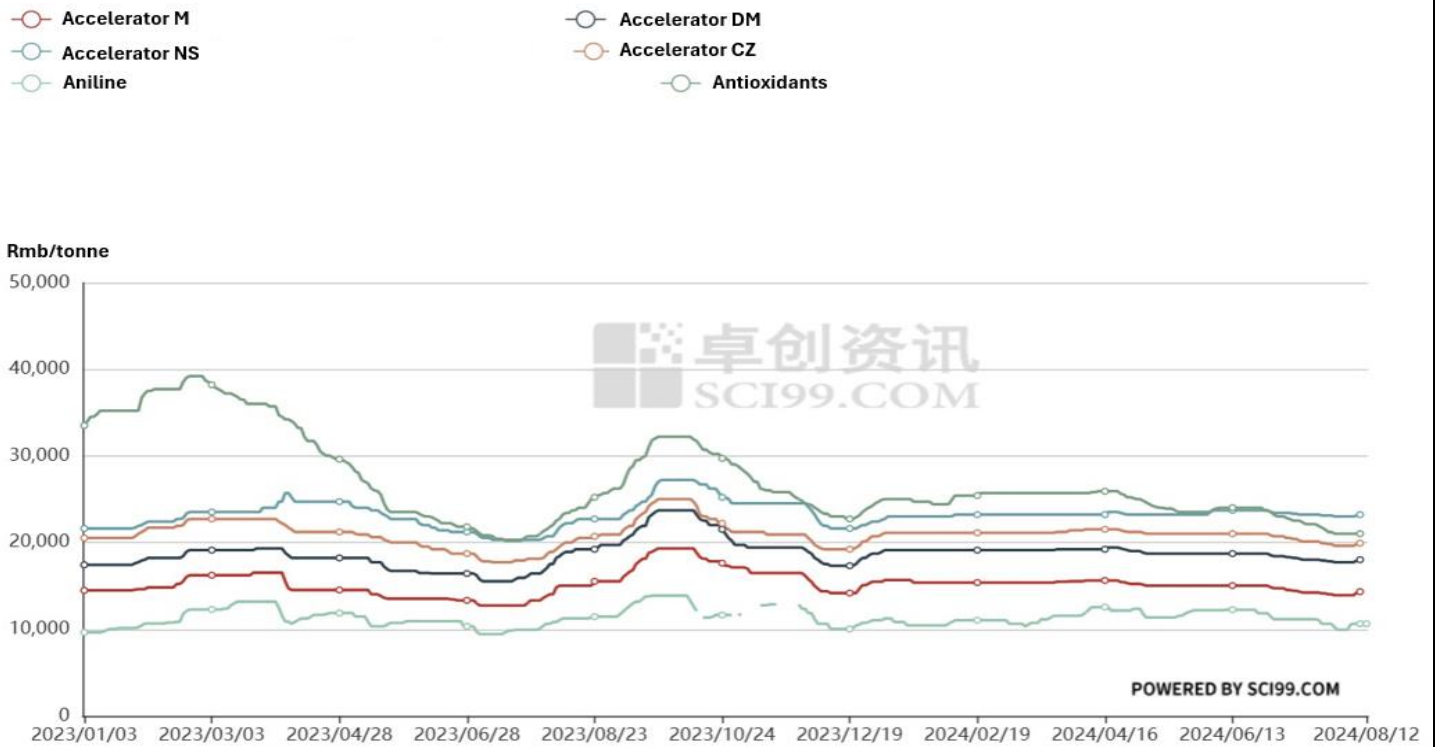
- Accelerator CZ: N-cyclohexylbenzothiazole-2-sulphenamide
- Accelerator DM: Dibenzothiazole disulfide
- Accelerator M: 2-Mercaptobenzothiazole
- Accelerator NS: N-tert-butylbenzothiazole-2-sulphenamide
- ASP: Average selling price
- MBT: Mercaptobenzothiazole

Figure 1: Results comparison

FYE Dec (Rmb m)	1H24	1H23	yoy % chg	2H23	hoh % chg	Prev. FY24F	Comments
Revenue	1,749.1	1,729.1	1.2	1,761.3	(0.7)	3,681.9	Largely in line at 48% of our FY24F forecast
Cost of sales	(1,315.5)	(1,317.1)	(0.1)	(1,374.4)	(4.3)	(2,859.8)	
Gross profit	433.6	412.0	5.2	386.9	12.1	822.1	Above
Gross margin (%)	24.8%	23.8%	n.m.	22.0%	n.m.	22.3%	
Opex	(217.7)	(227.5)	(4.3)	(201.9)	7.8	(449.2)	
Operating profit	215.9	184.5	17.0	185.0	16.7	372.9	Above
Operating margin (%)	12.3%	10.7%	n.m.	10.5%	n.m.	10.1%	
Finance income	35.2	19.8	77.8	16.2	117.3	38.0	
Pretax profit	268.1	236.1	13.6	217.1	23.5	455.9	Above
Tax	(79.3)	(41.5)	91.1	(39.3)	101.8	(79.8)	Below, expiry of High-Tech Enterprise status
Tax rate (%)	29.6%	17.6%	n.m.	18.1%	n.m.	17.5%	
Net profit	188.8	194.6	(3.0)	177.8	6.2	376.2	In line at 50% of our FY24F forecast
Exceptionals	0.0	(10.0)	n.m.	0.0	n.m.	0.0	
Core net profit	188.8	204.6	(7.7)	177.8	6.2	376.2	In line at 50% of our FY24F forecast

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 2: Average rubber accelerator prices in 3Q24 (Jul and Aug) are 4% lower qoq, while average aniline prices are down 10% lower qoq



SOURCES: CGSI RESEARCH, SCI99

Figure 3: Earnings revision

Earnings revision (RMB m)	New			Old			% change		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	3,564.2	3,695.3	3,806.9	3,681.9	3,822.3	3,945.6	-3.2%	-3.3%	-3.5%
Gross profit	828.0	874.0	912.0	822.1	867.6	907.2	0.7%	0.7%	0.5%
EBIT	396.8	430.6	459.0	372.9	401.3	425.9	6.4%	7.3%	7.8%
Tax expenses	(125.4)	(132.6)	(139.1)	(79.8)	(84.4)	(88.5)	57.2%	57.2%	57.1%
Core net profit	376.3	397.9	417.4	376.2	397.9	417.3	0.0%	0.0%	0.0%
Core EPS (Rmb cents)	39.1	41.3	43.3	39.1	41.3	43.3	0.0%	0.0%	0.0%

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Figure 4: China Sunshine Chemical Holdings P/BV (x)



SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Figure 5: Peer comparison

Company	Bloomberg Ticker	Bloomberg Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x)		3-year EPS CAGR (%)	P/BV (x) CY24F	Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%) CY24F
						CY24F	CY25F			CY24F	CY24F	CY24F	CY25F	
China Sunshine Chemical Holdings	CSSC SP	Add	0.38	0.47	272	5.2	4.9	2.4%	0.47	9.3%	0.1	-0.5	6.5%	
Rubber chemical peers														
Shandong Yanggu Huatai	300121 CH	NR	7.31	na	415	9.5	7.0	19.8%	0.84	9.0%	na	na	na	
Eastman Chemical Co	EMN US	NR	98.40	na	11,423	12.8	11.0	9.9%	2.02	15.9%	8.9	8.2	3.3%	
LANXESS AG	LXS GY	NR	23.35	na	2,277	na	17.3	-22.0%	0.48	-2.1%	7.5	5.9	0.5%	
Simple average (rubber chemical peers)						11.1	11.8	2.5%	1.11	7.6%	8.2	7.0	1.9%	
Tyre manufacturers														
Anhui Zhongding	000887 CH	NR	10.85	na	2,014	10.3	8.6	19.5%	1.09	10.5%	6.4	5.6	na	
Shandong Linglong Tyre Co Ltd	601966 CH	NR	16.26	na	3,373	10.7	8.7	25.2%	1.05	10.0%	7.7	6.6	2.5%	
Bridgestone Corp	5108 JP	NR	5,891	na	28,191	11.0	10.1	9.2%	1.11	10.5%	5.0	4.7	3.6%	
Yokohama Rubber	5101 JP	NR	3,373	na	3,811	6.9	6.7	8.7%	0.66	10.2%	4.7	4.8	3.0%	
Cie Generale des Etab.	ML FP	NR	34.69	na	27,472	10.2	9.3	13.7%	1.30	12.8%	5.3	5.0	4.5%	
Goodyear Tire & Rubber Co	GT US	NR	8.45	na	2,437	8.2	5.7	na	0.50	6.5%	4.9	4.6	0.0%	
Apollo Tyres Ltd	APTY IN	NR	485.2	na	3,664	17.9	13.3	14.9%	2.05	12.1%	9.0	7.3	1.3%	
Cheng Shin Rubber Ind	2105 TT	NR	48.45	na	4,850	18.8	15.8	17.6%	1.74	10.2%	7.4	7.1	5.2%	
Hankook Tire & Technology	161390 KS	Add	42,850	69,000	3,915	4.9	4.3	na	0.51	11.0%	1.9	1.4	2.3%	
Kumho Tire Co Inc	073240 KS	NR	4,795	na	1,044	4.7	5.2	23.0%	0.87	21.0%	4.2	4.5	0.0%	
Nexen Tire Corp	002350 KS	NR	7,530	na	550	4.7	4.2	27.3%	0.43	9.1%	4.9	4.5	1.6%	
Simple average (tyre manufacturers)						9.8	8.4	17.7%	1.03	11.3%	5.6	5.1	2.4%	

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG
Note: All forecasts for Not rated companies are based on Bloomberg consensus estimates
Data as of 16 Aug 2024



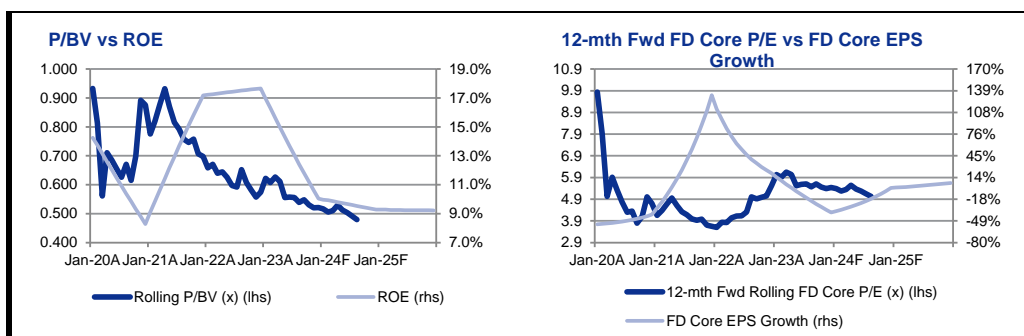
ESG in a nutshell

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 policymakers and the public. Its environmental management team comprises more than 123 employees, all well equipped with relevant environmental protection knowledge and experience, including five postgraduate staff specialised in environmental protection.

<p>Keep your eye on</p> <p>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.</p>	<p>Implications</p> <p>Environmental protection is fast gaining traction in China among policymakers 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.</p>
<p>ESG highlights</p> <p>In FY20, Sunsine added a 20,000-tonne p.a. N-tert-butyl-benzothiazole 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 which, the company claims, has “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.</p>	<p>Implications</p> <p>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.</p>
<p>Trends</p> <p>Sunsine continuously works on reducing its energy consumption through the use of energy-saving equipment, and adoption of more efficient production methods. In FY23, energy consumption per unit of electricity/steam fell 4%/1% yoy on the back of technological upgrades and replacement of old energy-intensive equipment.</p>	<p>Implications</p> <p>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.</p>

SOURCES: CGSI RESEARCH, LSEG

BY THE NUMBERS



Profit & Loss

(Rmbm)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Net Revenues	3,825	3,490	3,564	3,695	3,807
Gross Profit	1,164	799	828	874	912
Operating EBITDA	816	520	545	582	613
Depreciation And Amortisation	(163)	(151)	(148)	(151)	(154)
Operating EBIT	653	370	397	431	459
Financial Income/(Expense)	16	36	65	60	58
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	65	48	40	40	40
Profit Before Tax (pre-EI)	734	453	502	531	556
Exceptional Items					
Pre-tax Profit	734	453	502	531	556
Taxation	(91)	(81)	(125)	(133)	(139)
Exceptional Income - post-tax					
Profit After Tax	642	372	376	398	417
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	642	372	376	398	417
Recurring Net Profit	606	382	376	398	417
Fully Diluted Recurring Net Profit	606	382	376	398	417

Cash Flow

(Rmbm)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
EBITDA	816.1	520.2	545.1	581.9	613.3
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(574.9)	157.2	3.4	93.2	29.5
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	20.6	49.2	40.0	40.0	40.0
Net Interest (Paid)/Received	0.0	0.0	0.0	0.0	0.0
Tax Paid	(54.3)	(133.3)	(125.4)	(132.6)	(139.1)
Cashflow From Operations	207.5	593.3	463.1	582.4	543.7
Capex	(157.3)	(173.9)	(150.0)	(150.0)	(150.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	16.3	36.4	65.0	60.0	57.5
Cash Flow From Investing	(141.0)	(137.5)	(85.0)	(90.0)	(92.5)
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	(10.6)	(13.7)	0.0	0.0	0.0
Dividends Paid	(118.6)	(126.3)	(126.7)	(126.7)	(126.7)
Preferred Dividends					
Other Financing Cashflow	7.7	(1.0)	0.0	0.0	0.0
Cash Flow From Financing	(121.5)	(141.0)	(126.7)	(126.7)	(126.7)
Total Cash Generated	(55.0)	314.8	251.3	365.6	324.5
Free Cashflow To Equity	66.5	455.8	378.1	492.4	451.2
Free Cashflow To Firm	66.5	455.8	378.1	492.4	451.2

SOURCES: CGSI RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(Rmbm)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Cash And Equivalents	1,365	1,688	1,939	2,305	2,629
Total Debtors	1,382	1,265	1,269	1,215	1,199
Inventories	403	341	360	356	357
Total Other Current Assets	0	20	20	20	20
Total Current Assets	3,150	3,315	3,589	3,896	4,206
Fixed Assets	862	864	865	864	860
Total Investments	0	0	0	0	0
Intangible Assets	213	207	207	207	207
Total Other Non-Current Assets	0	0	0	0	0
Total Non-current Assets	1,075	1,071	1,073	1,071	1,067
Short-term Debt	0	0	0	0	0
Current Portion of Long-Term Debt					
Total Creditors	386	364	391	425	440
Other Current Liabilities	147	95	95	95	95
Total Current Liabilities	533	459	485	520	535
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	533	459	485	520	535
Shareholders' Equity	3,692	3,927	4,176	4,447	4,738
Minority Interests					
Total Equity	3,692	3,927	4,176	4,447	4,738

Key Ratios

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue Growth	2.68%	(8.75%)	2.11%	3.68%	3.02%
Operating EBITDA Growth	10.8%	(36.3%)	4.8%	6.7%	5.4%
Operating EBITDA Margin	21.3%	14.9%	15.3%	15.7%	16.1%
Net Cash Per Share (Rmb)	1.41	1.75	2.01	2.39	2.73
BVPS (Rmb)	3.81	4.08	4.34	4.62	4.92
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	12.4%	17.8%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	4.53%	6.47%	6.40%	6.05%	5.77%
Accounts Receivables Days	118.7	138.4	130.1	122.7	115.7
Inventory Days	52.13	50.45	46.89	46.28	44.92
Accounts Payables Days	70.19	50.85	50.49	52.74	54.54
ROIC (%)	31.8%	13.0%	13.3%	14.4%	16.1%
ROCE (%)	19.5%	10.6%	11.4%	11.4%	11.2%
Return On Average Assets	15.4%	8.0%	7.2%	7.3%	7.3%

Key Drivers

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Sales volumes (thousand tonnes)	186.2	207.0	216.6	223.1	228.6
Gross profit margin (%)	30.4%	22.9%	23.2%	23.7%	24.0%

SOURCES: CGSI RESEARCH, COMPANY REPORTS

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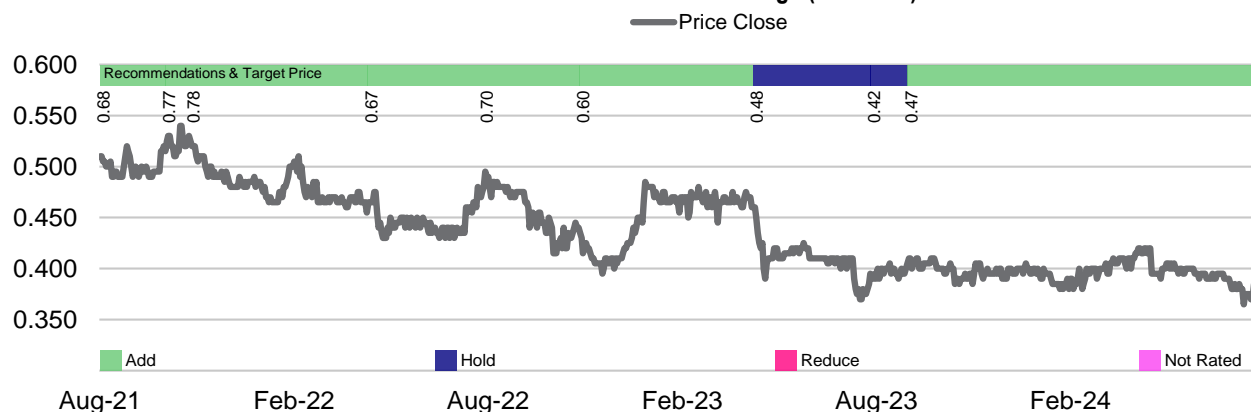
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588 companies under coverage for quarter ended on 30 June 2024		
	Rating Distribution (%)	Investment Banking clients (%)
Add	65.0%	0.5%
Hold	25.3%	0.5%
Reduce	9.7%	0.3%

Spitzer Chart for stock being researched (2 year data)

China Sunshine Chemical Holdings (CSSC SP)



Recommendation Framework

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Definition:

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