

Singapore

ADD (no change)

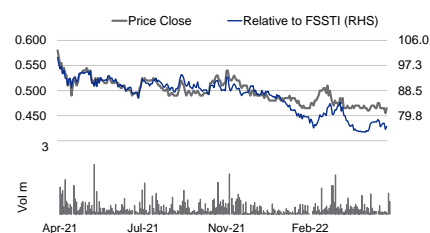
Consensus ratings*: Buy 3 Hold 0 Sell 0

| | |
|-------------------------|------------|
| Current price: | S\$0.465 |
| Target price: | S\$0.67 |
| Previous target: | S\$0.78 |
| Up/downside: | 44.1% |
| CGS-CIMB / Consensus: | -9.5% |
| Reuters: | CHSN.SI |
| Bloomberg: | CSSC SP |
| Market cap: | US\$326.9m |
| | S\$451.2m |
| Average daily turnover: | US\$0.12m |
| | S\$0.16m |
| Current shares o/s: | 970.5m |
| Free float: | 35.0% |

*Source: Bloomberg

Key changes in this note

➤ N/A.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|------|------|-------|
| Absolute (%) | -1.1 | 0 | -19.8 |
| Relative (%) | 1.2 | -3.4 | -24 |

| Major shareholders | % held |
|----------------------------|--------|
| Success More Group Limited | 63.3 |

Analyst(s)



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China SunSine Chemical Holdings

Solid performance but uncertainties arise

- 1Q22 net profit came in strong at Rmb157m (+11% qoq, +26% yoy), above expectations on the back of better-than-expected profit spreads.
- While SunSine's profit spread should remain healthy in the near-term, we think China's Covid woes may pose downside risk to its sales volumes.
- Reiterate Add given undemanding valuations at 1.5x FY23F P/E (ex-cash), but we lower TP to S\$0.67 due to the near-term challenging outlook.

1Q22: strong performance driven by elevated ASPs

China SunSine reported 1Q22 net profit of Rmb157m (+11% qoq, +26% yoy), above expectations at 35%/32% of our/Bloomberg consensus FY22F forecasts. While sales volumes (-11% yoy) were impacted by the Winter Olympics and China's Covid control measures, SunSine achieved 11% yoy revenue growth on the back of higher ASPs (+25% yoy) in 1Q22. GPM came in at 34% (+2.4% pts yoy), as SunSine benefited from stronger ASPs (especially for anti-oxidant products) while input costs remained stable.

Near-term profit spread likely to remain favourable

According to sci99.com, a Chinese commodity market information service provider, rubber accelerator prices remained relatively stable on a mom basis in Mar/Apr, while aniline prices eased slightly. As SunSine typically locks in quarterly pricing for its rubber accelerator products with major customers (while taking spot prices for raw materials), we believe near-term gross profit spread is likely to remain favourable in 2Q22F.

China's Covid situation poses risks to downstream demand

With its production base and key domestic customers mainly based in Shandong Province, SunSine's operations are not directly impacted by the multiple outbreaks of Covid-19 cases in China currently. That being said, with China's economy facing increasing pressure relating to shrinking demand and supply disruptions, SunSine's volume weakness could persist in the coming quarters. Weaker consumer sentiment domestically may impact automobile sales and hurt tyre demand, though management noted that export sales have remained relatively resilient YTD.

Now trading at 1.5x ex-cash P/E; reiterate Add

Reiterate Add. Despite the near-term challenging outlook, we continue to like SunSine for its consistent profitability and positive free cash flow generation track record, and attractive valuation at 1.5x FY23F P/E (ex-cash). We keep our EPS forecasts unchanged, but lower our TP to S\$0.67, now pegged to 0.90x FY22F P/BV (from 1.05x), based on its 10-year historical mean. Re-rating catalysts: stronger downstream demand, easing Covid-19 measures. Downside risks include lockdowns in Shandong and intensifying price competition which may negatively impact SunSine's profit spread.

Financial Summary

| | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|--------------------------------|---------|---------|---------|---------|---------|
| Revenue (Rmbm) | 2,334 | 3,725 | 3,811 | 4,130 | 4,320 |
| Operating EBITDA (Rmbm) | 402.1 | 831.4 | 783.6 | 806.4 | 824.4 |
| Net Profit (Rmbm) | 218.8 | 506.3 | 451.7 | 458.5 | 465.8 |
| Core EPS (Rmb) | 0.22 | 0.52 | 0.47 | 0.47 | 0.48 |
| Core EPS Growth | (40%) | 132% | (11%) | 2% | 2% |
| FD Core P/E (x) | 9.90 | 4.26 | 4.78 | 4.70 | 4.63 |
| DPS (Rmb) | 0.051 | 0.095 | 0.093 | 0.094 | 0.096 |
| Dividend Yield | 2.31% | 4.29% | 4.19% | 4.25% | 4.32% |
| EV/EBITDA (x) | 2.08 | 0.94 | 0.65 | 0.33 | (0.02) |
| P/FCFE (x) | 14.64 | 15.99 | 5.91 | 6.48 | 5.73 |
| Net Gearing | (48.7%) | (43.4%) | (46.6%) | (48.4%) | (50.9%) |
| P/BV (x) | 0.79 | 0.68 | 0.61 | 0.55 | 0.50 |
| ROE | 8.3% | 17.2% | 13.5% | 12.3% | 11.4% |
| % Change In Core EPS Estimates | | | 0% | 0% | 0% |
| CGS-CIMB/Consensus EPS (x) | | | 0.91 | 0.89 | 0.88 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Rubber accelerator and aniline prices

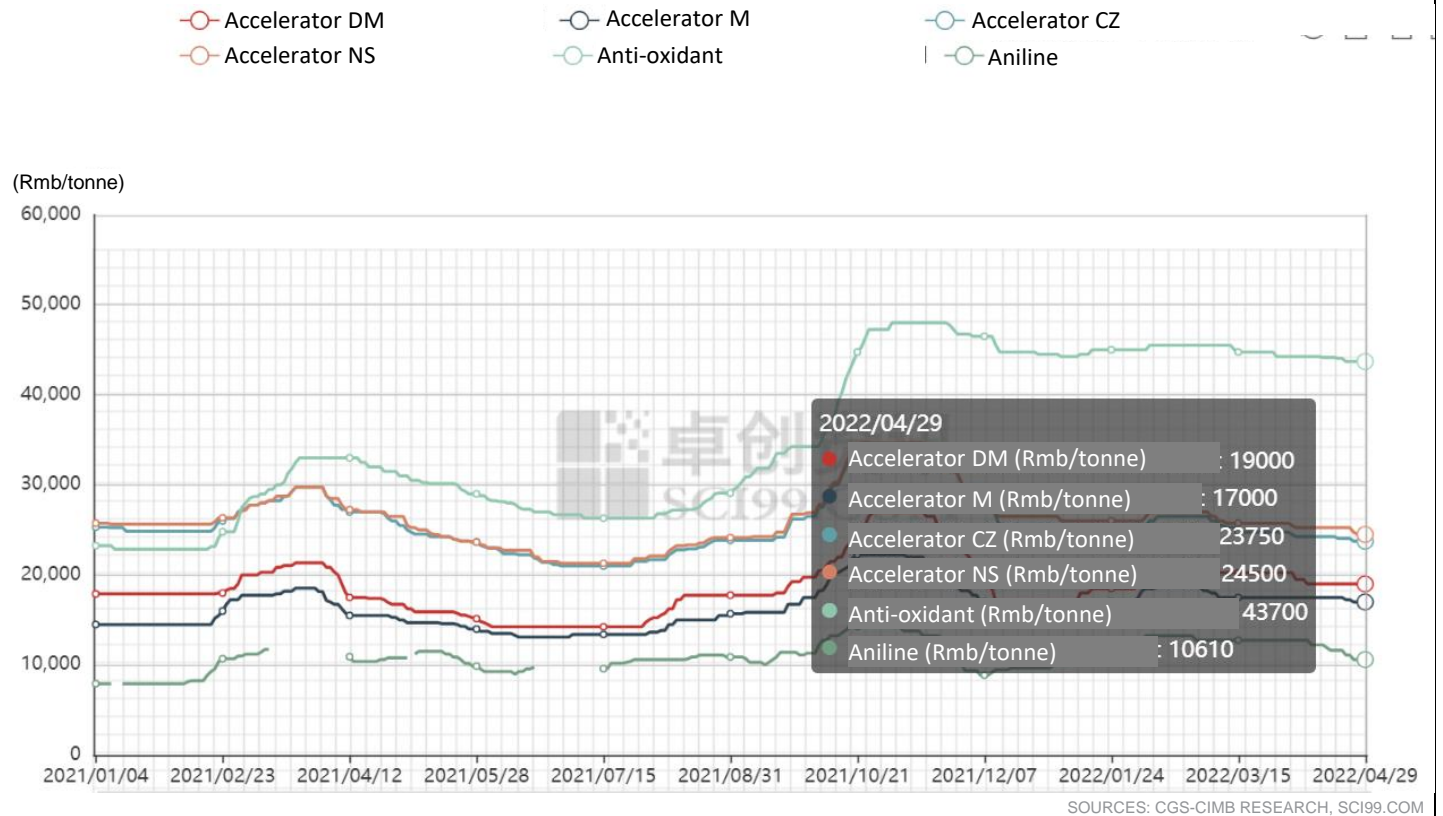


Figure 2: Price trend of key rubber accelerators in China

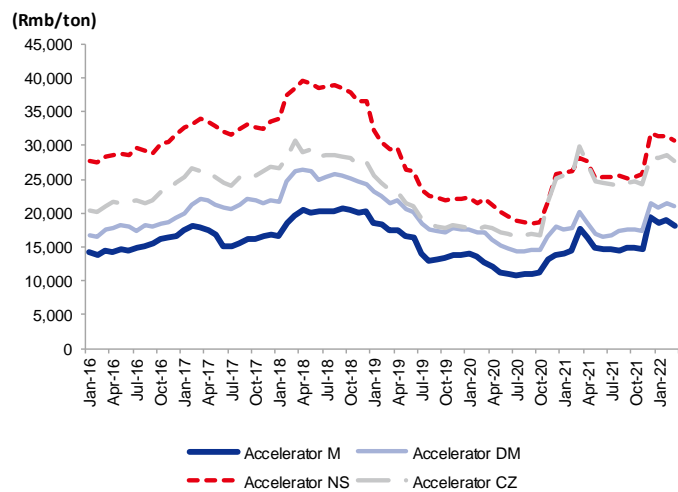
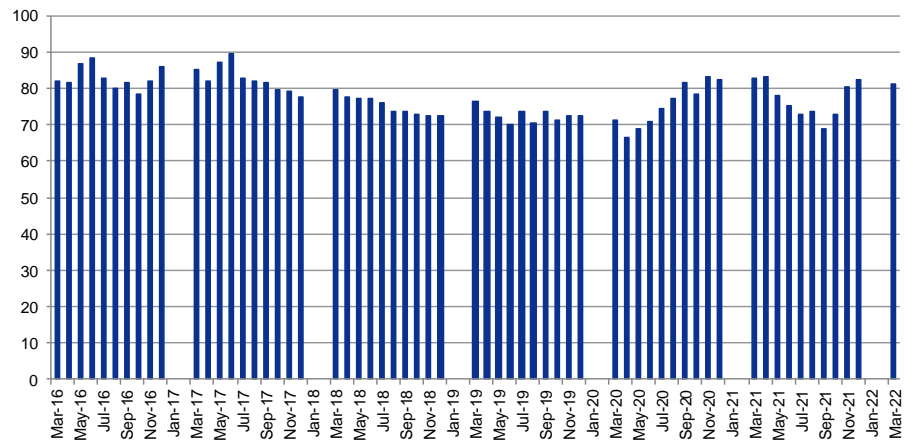


Figure 3: Aniline prices vs. Brent

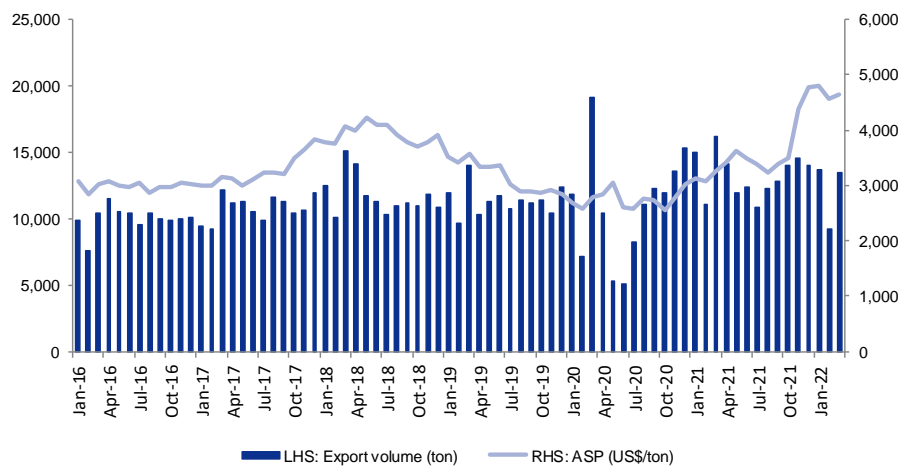


Figure 4: Rubber tyre production volume in China (millions)



SOURCES: CGS-CIMB RESEARCH, NATIONAL BUREAU OF STATISTICS

Figure 5: Monthly export data of rubber accelerators (China)



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



ESG in a nutshell

We find Sunsine's commitment to investing in environmental protection commendable. The company has been constantly improving its operational efficiencies and environmental protection efforts to stay ahead of government regulations, which is key to business continuity in view of environmental protection fast gaining traction in China among policy makers and the public. Its environmental management team comprises more than 123 employees, all of whom are 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 gaseous emissions and wastewater discharge meeting local emission standards. There should also be zero environmental incidents.

Implications

Environmental protection is fast gaining traction in China among policy makers and the public, which 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 20,000-tonne per annum TBBS production line in Shanxian. This new TBBS line is the first ever continuous, fully-automated and "green" production line in the China rubber chemicals industry, and will also achieve "zero discharge" of wastewater. In order to reduce the environmental risks and waste treatment cost, Sunsine also acquired Heze Yongshun Environmental Protection Technology Co., Ltd in Jul 20, a hazardous waste disposal enterprise.

Implications

This shows constant R&D efforts by Sunsine to further improve operational efficiencies and environmental protection efforts to stay ahead of government regulations. Improved cost efficiencies should help Sunsine enjoy absolute cost advantage over peers as well.

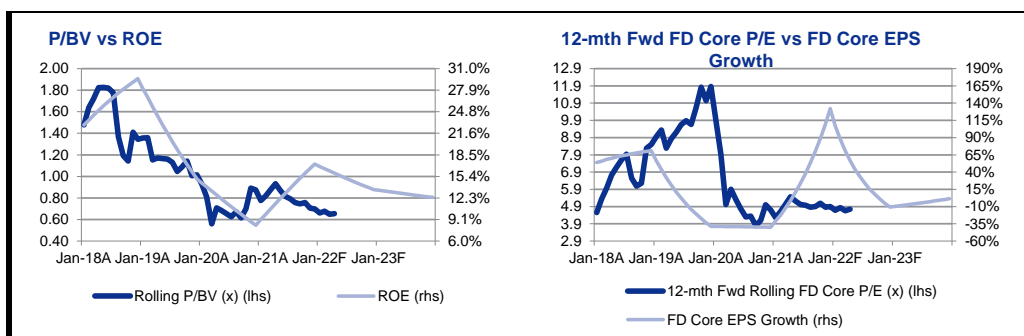
Trends

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, 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 be investing in this area to so that the company is always ahead of government regulations. This can ensure business continuity.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

Profit & Loss

| (Rmbm) | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|---|--------------|--------------|--------------|--------------|--------------|
| Total Net Revenues | 2,334 | 3,725 | 3,811 | 4,130 | 4,320 |
| Gross Profit | 600 | 1,047 | 1,084 | 1,135 | 1,170 |
| Operating EBITDA | 402 | 831 | 784 | 806 | 824 |
| Depreciation And Amortisation | (122) | (156) | (160) | (173) | (181) |
| Operating EBIT | 280 | 675 | 624 | 633 | 643 |
| Financial Income/(Expense) | 21 | 24 | (1) | (1) | (1) |
| Pretax Income/(Loss) from Assoc. | 0 | 0 | 0 | 0 | 0 |
| Non-Operating Income/(Expense) | 0 | 0 | 0 | 0 | 0 |
| Profit Before Tax (pre-EI) | 301 | 699 | 623 | 632 | 642 |
| Exceptional Items | 0 | 0 | 0 | 0 | 0 |
| Pre-tax Profit | 301 | 699 | 623 | 632 | 642 |
| Taxation | (82) | (193) | (171) | (174) | (177) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 219 | 506 | 452 | 458 | 466 |
| Minority Interests | 0 | 0 | 0 | 0 | 0 |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 219 | 506 | 452 | 458 | 466 |
| Recurring Net Profit | 219 | 506 | 452 | 458 | 466 |
| Fully Diluted Recurring Net Profit | 219 | 506 | 452 | 458 | 466 |

Cash Flow

| (Rmbm) | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| EBITDA | 402.1 | 831.4 | 783.6 | 806.4 | 824.4 |
| Cash Flow from Inv. & Assoc. | | | | | |
| Change In Working Capital | 47.0 | (320.8) | (17.0) | (69.0) | (41.0) |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | 20.0 | (12.1) | 0.0 | 0.0 | 0.0 |
| Net Interest (Paid)/Received | 20.8 | 24.2 | (0.5) | (0.5) | (0.5) |
| Tax Paid | (63.0) | (124.9) | (171.3) | (173.9) | (176.7) |
| Cashflow From Operations | 426.9 | 397.8 | 594.7 | 562.9 | 606.2 |
| Capex | (275.3) | (213.2) | (230.0) | (230.0) | (230.0) |
| Disposals Of FAs/subsidiaries | (42.4) | 0.0 | 0.0 | 0.0 | 0.0 |
| Acq. Of Subsidiaries/investments | 60.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Investing Cashflow | 22.1 | (49.5) | 0.0 | 0.0 | 0.0 |
| Cash Flow From Investing | (235.6) | (262.7) | (230.0) | (230.0) | (230.0) |
| Debt Raised/(repaid) | (43.4) | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds From Issue Of Shares | (7.6) | 0.0 | 0.0 | 0.0 | 0.0 |
| Shares Repurchased | | | | | |
| Dividends Paid | (48.8) | (46.8) | (94.7) | (90.3) | (91.7) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (3.9) | (5.9) | 0.0 | 0.0 | 0.0 |
| Cash Flow From Financing | (103.7) | (52.7) | (94.7) | (90.3) | (91.7) |
| Total Cash Generated | 87.6 | 82.4 | 270.0 | 242.6 | 284.5 |
| Free Cashflow To Equity | 147.9 | 135.1 | 364.7 | 332.9 | 376.2 |
| Free Cashflow To Firm | 192.6 | 135.1 | 365.2 | 333.4 | 376.7 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

| (Rmbm) | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Total Cash And Equivalents | 1,326 | 1,377 | 1,647 | 1,890 | 2,174 |
| Total Debtors | 716 | 1,105 | 992 | 1,075 | 1,124 |
| Inventories | 198 | 357 | 374 | 410 | 432 |
| Total Other Current Assets | 0 | 0 | 0 | 0 | 0 |
| Total Current Assets | 2,239 | 2,840 | 3,013 | 3,375 | 3,730 |
| Fixed Assets | 865 | 939 | 1,009 | 1,066 | 1,114 |
| Total Investments | 0 | 0 | 0 | 0 | 0 |
| Intangible Assets | 68 | 145 | 145 | 145 | 145 |
| Total Other Non-Current Assets | 0 | 0 | 0 | 0 | 0 |
| Total Non-current Assets | 933 | 1,084 | 1,154 | 1,210 | 1,259 |
| Short-term Debt | 0 | 0 | 0 | 0 | 0 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 410 | 638 | 524 | 575 | 604 |
| Other Current Liabilities | 42 | 109 | 109 | 109 | 109 |
| Total Current Liabilities | 451 | 747 | 633 | 684 | 714 |
| 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 | 451 | 747 | 633 | 684 | 714 |
| Shareholders' Equity | 2,721 | 3,176 | 3,533 | 3,901 | 4,275 |
| Minority Interests | 0 | 0 | 0 | 0 | 0 |
| Total Equity | 2,721 | 3,176 | 3,533 | 3,901 | 4,275 |

Key Ratios

| | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | (13.3%) | 59.6% | 2.3% | 8.4% | 4.6% |
| Operating EBITDA Growth | (24%) | 107% | (6%) | 3% | 2% |
| Operating EBITDA Margin | 17.2% | 22.3% | 20.6% | 19.5% | 19.1% |
| Net Cash Per Share (Rmb) | 1.36 | 1.42 | 1.70 | 1.95 | 2.24 |
| BVPS (Rmb) | 2.80 | 3.27 | 3.64 | 4.02 | 4.41 |
| Gross Interest Cover | 215 | N/A | 1,247 | 1,266 | 1,286 |
| Effective Tax Rate | 27.2% | 27.6% | 27.5% | 27.5% | 27.5% |
| Net Dividend Payout Ratio | 22.8% | 18.3% | 20.0% | 20.0% | 20.0% |
| Accounts Receivables Days | 110.4 | 89.2 | 100.4 | 91.3 | 93.2 |
| Inventory Days | 46.94 | 37.80 | 48.91 | 47.76 | 48.91 |
| Accounts Payables Days | 77.34 | 71.36 | 77.75 | 66.95 | 68.51 |
| ROIC (%) | 21.7% | 48.4% | 34.7% | 33.6% | 32.0% |
| ROCE (%) | 11.4% | 23.7% | 18.6% | 17.0% | 15.7% |
| Return On Average Assets | 6.5% | 13.6% | 11.2% | 10.5% | 9.7% |

Key Drivers

| | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|--|----------|----------|----------|----------|----------|
| Accelerators ASP (Rmb/tonne) | 15,781.2 | 21,850.5 | 21,930.0 | 22,039.7 | 22,149.8 |
| Insoluble Sulphur ASP (Rmb/tonne) | 7,470.2 | 8,249.7 | 8,075.0 | 8,115.4 | 8,156.0 |
| Anti-oxidant ASP (Rmb/tonne) | 13,268.2 | 20,390.0 | 18,400.0 | 18,492.0 | 18,584.5 |
| Accelerators sales volume (tonne) | 91.0 | 102.0 | 107.5 | 110.0 | 112.5 |
| Insoluble Sulphur sales volume (tonne) | 30.7 | 37.3 | 45.0 | 52.5 | 55.0 |
| Anti-oxidant ASP sales volume (tonne) | 46.0 | 54.6 | 55.0 | 65.0 | 70.0 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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| Malaysia | CGS-CIMB Securities Sdn. Bhd. | Securities Commission Malaysia |
| Singapore | CGS-CIMB Securities (Singapore) Pte. Ltd. | Monetary Authority of Singapore |
| South Korea | CGS-CIMB Securities (Hong Kong) Limited, Korea Branch | Financial Services Commission and Financial Supervisory Service |
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| | | | | | |
|---------------------|-----------|-----------|---------|----------|------------------|
| Score Range: | 90 - 100 | 80 – 89 | 70 - 79 | Below 70 | No Survey Result |
| Description: | Excellent | Very Good | Good | N/A | N/A |

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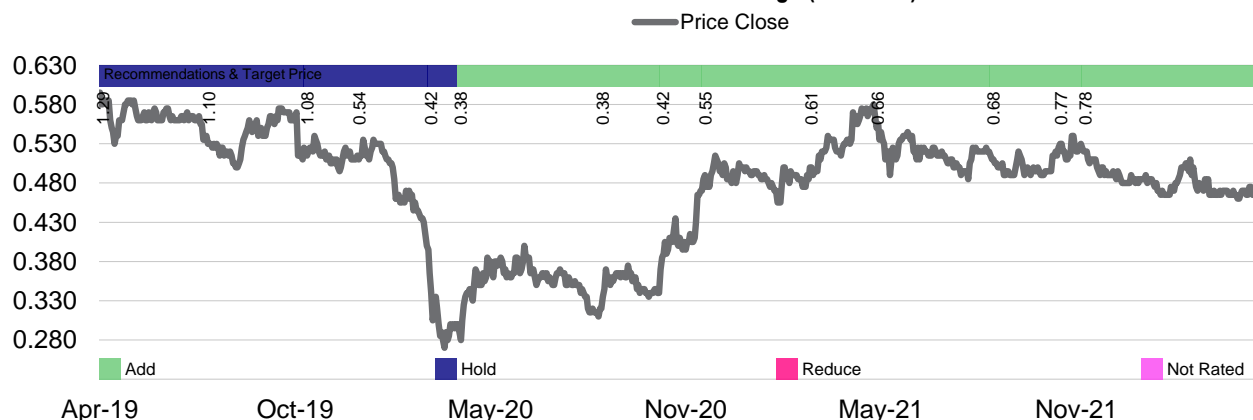
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|--|-------------------------|--------------------------------|
| 619 companies under coverage for quarter ended on 31 December 2021 | | |
| | Rating Distribution (%) | Investment Banking clients (%) |
| Add | 71.1% | 1.5% |
| Hold | 21.8% | 0.0% |
| Reduce | 7.1% | 0.0% |

Spitzer Chart for stock being researched (2 year data)

China Sunshine Chemical Holdings (CSSC SP)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a **BH** - Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** - Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

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|--|--|
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| Add | The stock's total return is expected to exceed 10% over the next 12 months. |
| Hold | The stock's total return is expected to be between 0% and positive 10% over the next 12 months. |
| Reduce | The stock's total return is expected to fall below 0% or more over the next 12 months. |
| <i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i> | |
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| Neutral | A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation. |
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