

China Sunshine Chemical Holdings Ltd

Still healthy performance



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SINGAPORE | MATERIALS | 3Q18 RESULTS

- 3Q18 revenue and net profit exceeded our full year expectation due to higher ASP and GPM.
- Both GPM and NPM remain at record levels.
- ASP corrected since 2Q18.
- New capacity delayed and approval still pending.
- We revise up FY18e EPS by 17.5% to 26.9 SG cents and FY19e EPS by 12.7% to 23.9 SG cents. Due to expected softer ASP, the required rate of return was changed from 8% to 10% based on an updated Beta. We maintained our BUY recommendation with a lower target price of S\$1.68.

Results at a glance

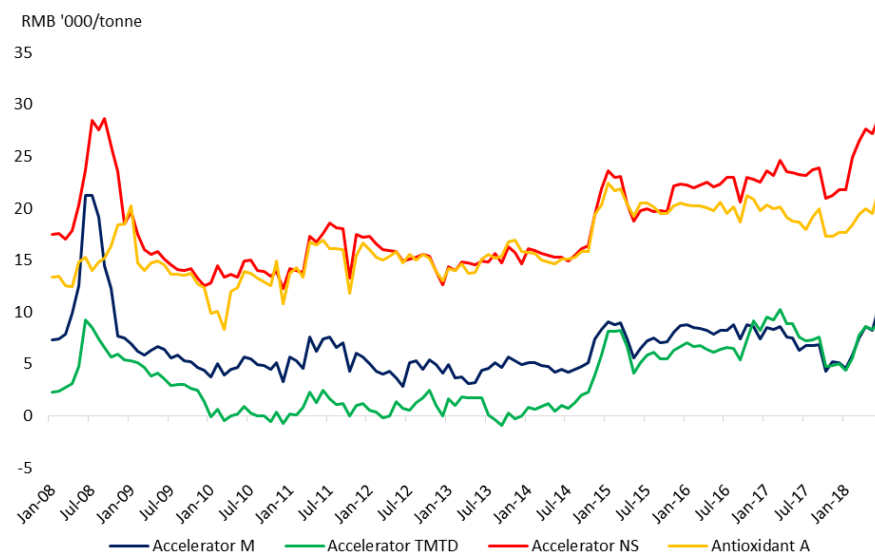
(RMB mn)	3Q18	3Q17	YoY (%)	Comments
Revenue	776	634	22.3	Increase in overall ASP and sales volume
Gross profit	254	170	49.6	Increase in ASP
PBT	173	104	66.8	Increase in overhead costs and FX gain
PAT	143	78	84.8	In line with the above; lower income tax rate

Source: Company, PSR

Positives

+ Both GPM and NPM remain at record levels: 3Q18 GPM and NPM arrived at 32.7% and 18.5% respectively, comparing to GPM of 26.8% and NPM of 12.2% in 3Q17. Accordingly, 9M18 GPM and NPM achieved 34.9% and 21.2% (Strip out one-off credit of tax expense of RMB48mn, and adjusted NPM is 19.3%). The phenomenal margins are due mainly to the widened spread between ASP and cost of raw materials (major material: aniline) within the market, see Figure 1.

Figure 1: Price spread (accelerator/antioxidant and aniline)



Source: CEIC, PSR

9 November 2018

BUY (Maintained)

CLOSING PRICE	SGD 1.080
FORECAST DIV	SGD 0.045
TARGET PRICE	SGD 1.680
TOTAL RETURN	59.7%

COMPANY DATA

Bloomberg Code:	CSSC SP
O/S SHARES (MN):	491
MARKET CAP (USD mn / SGD mn):	384 / 526
52 - WK HI/LO (SGD):	1.65 / 0.82
3M Average Daily T/O (mn):	1.59

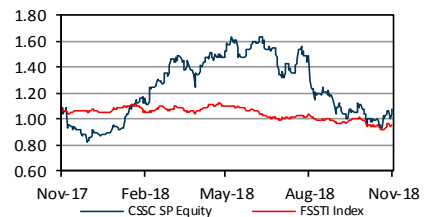
MAJOR SHAREHOLDERS (%)

SUCCESS MORE GROUP	59.7%
CHOON KONG KOH	0.9%
CHENG QIU XU	0.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(3.7)	(30.2)	(0.3)
STI RETURN	(4.4)	(7.1)	(6.9)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, RMB mn	FY16	FY17	FY18e	FY19e
Revenue	2,037	2,738	3,271	3,483
Gross profit	540	788	1,112	1,115
PAT	222	341	640	576
P/E (x)	5.0	6.2	4.2	4.7
P/B (x)	0.8	1.2	1.1	1.0
ROE	16%	20%	27%	21%
ROA	13%	16%	23%	18%

Source: PSR

VALUATION METHOD

FCFE (Cost of Equity: 10.0%; Terminal g: 1.0%)

Negatives

- **ASP corrected since 2Q18:** 3Q18 performance turned to be the worse quarter out of the recent four in terms of top and bottom line due to a price correction. The overall 3Q18 ASP was RMB20.7k/tonne (4Q17, 1Q18, and 2Q18: RMB22.4k/tonne, RMB23.2k/tonne, and RMB23.3k/tonne). The decrease was the result of both softer raw material prices and demand for tyre.

Sales volume

(mn tonnes)	3Q18	3Q17	YoY (%)	2Q18	QoQ (%)
Accelerators	20,824	19,921	4.5	21,563	-3.4
Insoluble Sulphur	6,150	6,249	-1.6	6,672	-7.8
Anti-oxidant	9,906	7,519	31.7	8,986	10.2

Average selling price

(RMB/tonne)	3Q18	3Q17	YoY (%)	2Q18	QoQ (%)
Accelerators	26,162	22,398	16.8	29,486	-11.3
Insoluble Sulphur	11,333	10,482	8.1	11,706	-3.2
Anti-oxidant	15,072	14,842	1.5	17,182	-12.3

Source: Company PSR

- **New capacity delayed and final approval still pending:** The approval of the trial run of the respective 10k-tonne newly-added capacity of accelerator TBBS and insoluble sulphur plant was postponed again (previously management expected to get by 3Q18). The current status was at the final stage.

Outlook

CSSC is facing a bit headwind of ASP correction currently. However, we believe there is a limited downside since overall supply within the market has not increased substantially. At the moment, the dip in both finished products and materials resulting from softened demand is cyclical. We ought to concentrate on the ramp-up of capacity and production which will be realised in the near term. We still expect 4Q18 GPM to sustain at above 30%. As of 3Q18, cash in hand reached RMB822mn, and we expect it to reach more than RMB1bn in FY18. It is beneficial to hoard cash when the market is in favour of business, preparing for future development when the market turns.

Maintain BUY with a lower TP of S\$1.68

We revise up FY18e EPS by 17.5% to 26.9 SG cents and FY19e EPS by 12.7% to 23.9 SG cents. Due to expected softer ASP, the required rate of return was changed from 8% to 10% based on an updated Beta. We maintained our BUY recommendation with a lower target price of S\$1.68.

Y/E, RMB mn	FY18e	FY19e	FY20e
Net income	640	576	553
Net capex	110	115	110
Change in net WC	15	83	73
Change in borrowing	-	-	-
FCFE	515	378	370
Beta	1.45		
Required rate of return	10.0%		
Growth	1.0%		
FX (SGD/RMB)	5.05		
TP (SGD)	1.68		

Source: PSR

Financials

Income Statement

Y/E Dec, RMB mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	1,859	2,037	2,738	3,271	3,483
COGS	(1,367)	(1,497)	(1,950)	(2,159)	(2,368)
Gross profit	492	540	788	1,112	1,115
EBITDA	392	410	567	810	795
Depreciation & Amortisation	94	96	90	96	101
EBIT	298	314	477	714	694
Net Finance (Expense)/Inc	(10)	(4)	-	-	-
PBT	288	310	477	714	694
Taxation	(92)	(88)	(136)	(73)	(118)
PAT	195	222	341	640	576

Per share data

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS (RMB cents)	41.9	47.7	69.4	130.3	117.2
EPS (SG cents)	9.3	10.0	14.8	25.8	23.2
DPS (SG cents)	1.5	1.5	3.0	4.5	4.1
BVPS (RMB)	2.5	2.9	3.5	4.8	5.7
BVPS (SGD)	0.6	0.6	0.8	1.0	1.1

Cash Flow

Y/E Dec, RMB mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
PBT	288	310	477	714	694
Adjustments	102	103	92	66	75
WC changes	133	(124)	(83)	(15)	(83)
Cash generated from ops	523	288	486	764	686
Others	(93)	(85)	(100)	(73)	(118)
Cashflow from ops	430	203	387	691	568
CFI					
CAPEX, net	(50.8)	(82.0)	(208.9)	(110.0)	(115.0)
Others	1.2	2.4	3.7	1.5	1.6
Cashflow from investments	(50)	(80)	(205)	(109)	(113)
CFF					
Loans, net of repayments	(120)	(148)	-	-	-
Dividends	(32)	(33)	(47)	(59)	(112)
Others	(0)	(8)	96	2	-
Cashflow from financing	(152)	(189)	50	(57)	(112)
Net change in cash	229	(65)	231	525	342
Effects of exchange rate	(0)	-	(9)	-	-
Ending cash	340	274	496	1,021	1,363

Source: Company, PSR

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, RMB mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PP&E	563	549	662	684	699
Others	44	43	41	40	39
Total non-current assets	606	592	703	725	738
Cash	341	276	500	1,021	1,363
Inventories	142	145	212	203	197
Trade receivables	414	548	638	763	877
Others	83	82	75	93	102
Total current assets	979	1,051	1,425	2,080	2,540
Total Assets	1,586	1,642	2,128	2,804	3,279
LIABILITIES					
Trade payables	43	52	71	76	81
Borrowings	145	-	-	-	-
Others	223	229	314	368	389
Total current liabilities	411	281	385	444	471
Borrowings	-	-	-	-	-
Total non-current liabilities	-	-	-	-	-
Total Liabilities	411	281	385	444	471
Total Equity	1,175	1,362	1,742	2,360	2,808

Valuation Ratios

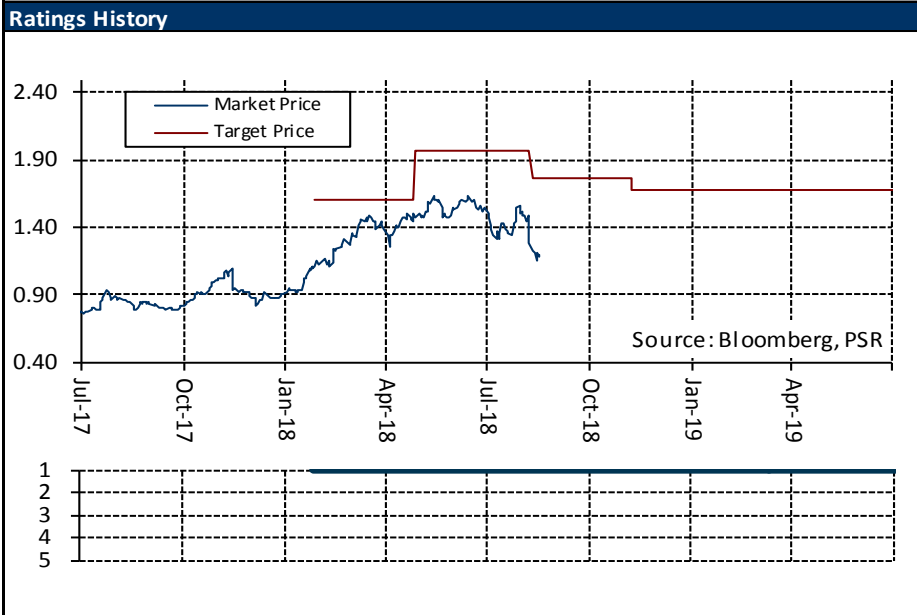
Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	3.9	5.0	6.2	4.2	4.7
P/B (x)	0.7	0.8	1.2	1.1	1.0
EV/EBITDA	1.5	2.1	2.8	2.0	1.7

Growth & Margins (%)

Growth					
Revenue	-10%	10%	46%	41%	0%
Gross profit	-13%	10%	46%	41%	0%
EBIT	-7%	5%	52%	50%	-3%
PAT	-11%	14%	54%	88%	-10%
Margins					
GP margin	26%	27%	29%	34%	32%
EBIT margin	16%	15%	17%	22%	20%
PAT margin	11%	11%	12%	20%	17%

Key Ratios

ROE (%)	17%	16%	20%	27%	21%
ROA (%)	12%	13%	16%	23%	18%
Net Debt or (Net Cash)	(196)	(276)	(500)	(1,021)	(1,363)
Gearing (%)	9.1%	0.0%	0.0%	0.0%	0.0%



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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