

China Sunshine Chemical Holdings Ltd

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SINGAPORE | MATERIALS | 2Q18 RESULTS

13 August 2018

- 2Q18 revenue and net profit exceeded our full year expectation due to higher ASP and GPM, as well as a one-off tax credit granted.
- Uptrend in ASP and sales volume continued in 2Q18.
- GPM and NPM reached a record high in 2Q18.
- New capacity is expected to get approval by 3Q18.
- We revised down FY18e EPS to 22.9 SG cents (previously 23.3 SG cents) and FY19e EPS to 21.2 SG cents (previously 22.4 SG cents), due to higher R&D expenses and our expectation for upcoming product price to soften by 10.3% compared with the ASP of 1H18. We maintained our BUY recommendation with a lower target price of S\$1.77 (previously S1.97).

BUY (Maintained)

CLOSING PRICE	SGD 1.230
FORECAST DIV	SGD 0.040
TARGET PRICE	SGD 1.770
TOTAL RETURN	47.2%

COMPANY DATA

Bloomberg Code:	CSSC SP
O/S SHARES (MN):	492
MARKET CAP (USD mn / SGD mn):	441/ 605
52 - WK HI/LO (SGD):	165 / 0.77
3M Average Daily T/O (mn):	0.92

MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(3.7)	(5.1)	50.7
STI RETURN	5.1	(5.0)	3.8

Results at a glance

(RMB mn)	2Q18	2Q17	YoY (%)	Comments
Revenue	881	656	34.2	Increase in overall ASP and sales volume
Gross profit	324	187	73.0	In line with the above
PBT	215	93	131.2	Increase in overhead costs and FX losses
PAT	240	75	221.7	In line with the above; a tax credit of RMB48mn granted

Source: Company, PSR

Positives

+ Uptrend in ASP and sales volume continued in 2Q18: In 2Q18, the total sales volume grew 8.7% YoY to 37.6k tonnes, due to higher production of insoluble sulphur and anti-oxidant. Meanwhile, overall ASP was still enjoying an upswing, touching RMB23.3k/tonne in 2Q18 (+25.8% YoY) (breakdowns are shown below):

Sales volume

(mn tonnes)	2Q18	2Q17	YoY (%)	1Q18	QoQ (%)
Accelerators	21,563	21,334	1.1	19,907	8.3
Insoluble Sulphur	6,672	4,913	35.8	6,212	7.4
Anti-oxidant	8,986	7,893	13.8	10,353	-13.2

Average selling price

(RMB/tonne)	2Q18	2Q17	YoY (%)	1Q18	QoQ (%)
Accelerators	29,486	21,698	35.9	29,387	0.3
Insoluble Sulphur	11,706	10,625	10.2	11,719	-0.1
Anti-oxidant	17,182	16,432	4.6	17,995	-4.5

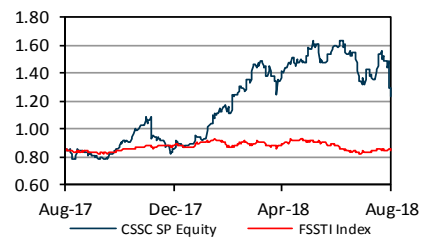
Source: Company PSR

+ GPM and NPM reached a record high in 2Q18: The respective GPM and NPM were reported at 36.7% and 27.2% in 2Q18 (2Q17: 28.5% and 11.4%; 1Q18: 34.9% and 17.4%). Excluding the one-off tax credit of RMB48mn, the 2Q18 NPM was 21.8%. The significant improvements of margins were attributed to the growth of ASP outpaced that of raw material costs resulting from the tight supply within the market.

Negatives

- New capacity is expected to get approval by 3Q18: The trial run of the respective 10k-tonne newly-added capacity of accelerator TBBS and insoluble sulphur plant will be postponed to 3Q18. Hence, both plants could commence a full operation by 4Q18.

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E	Dec, RMB mn	FY 16	FY 17	FY 18 e	FY 19 e
Revenue	2,037	2,738	3,277	3,488	
Gross profit	540	788	1,081	1,099	
PAT	222	341	547	511	
P/E (x)	5.0	8.3	5.4	5.8	
P/B (x)	0.8	16	13	11	
ROE (%)	16%	20%	24%	19%	
ROA (%)	13%	16%	20%	16%	

Source: PSR

VALUATION METHOD

FCFE (Cost of Equity: 8.0%; Terminal g: 10%)

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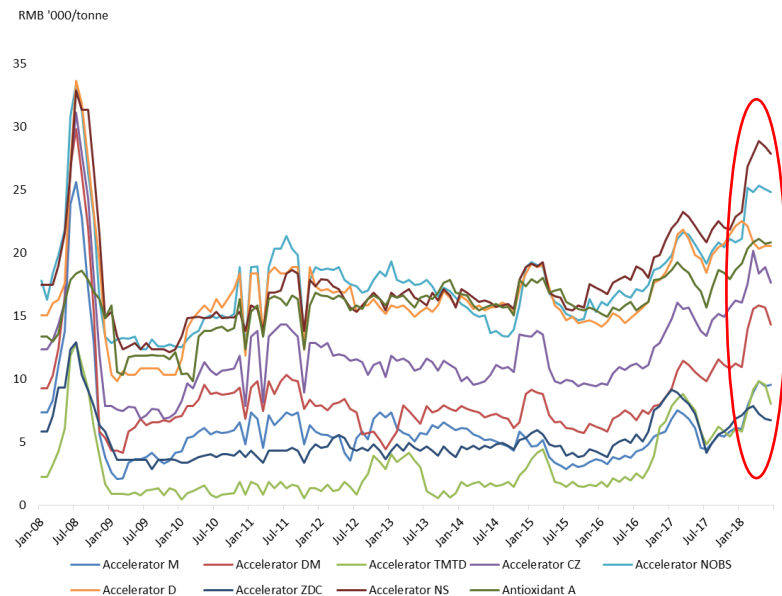
Outlook

CSSC achieved stellar performance in 2Q/1H18 due mainly to the shortage of rubber chemicals. Hence, ASP maintained at an elevated level. On the other hand, aniline price has been trending down due to more supply entering the market. Moving forward, we believe the supply shortage will be relieved as new capacities start to enter the market, together with more supply of aniline due to exporters partially shift US exports back to the domestic market. As a result, ASP correction could start in 3Q18. In 2H18, we expect CSSC to maintain GPM at more than 30%. We expect CSSC to deliver healthy performance for the next two quarters.

The room for growth will come from the new capacity which can help maintain performance and offset the softer chemical prices. Besides, “Battle for a Blue Sky” could be a short-term negative impact but a long-term beneficial driver. More environmental inspections will cause temporary disruption on operation in the industry, but it will gradually phase out uncompetitive and unperformed manufacturers. Therefore, CSSC will consolidate its market position as a leading supplier.

Battle for a Blue Sky: A three-year action plan to win the blue sky defense war announced by the central government in China. The plan aims to clean the nations’ air. The authorities expect that within two years, total emissions of sulfur dioxide and nitrogen oxide will decrease more than 15% compared with 2015 levels. They also say PM2.5 will drop by more than 18%. Meanwhile, cities will enjoy "good" quality air days for about 80% of the year.

Figure 2: Price spread (accelerator/antioxidant and aniline) started to narrow



Source: CEIC, PSR

Maintain BUY with a lower TP of S\$1.77

We revised down FY18e EPS to 22.9 SG cents (previously 23.3 SG cents) and FY19e EPS to 21.2 SG cents (previously 22.4 SG cents), due to higher R&D expenses and our expectation for upcoming product price to soften by 11.1% compared with the ASP of 1H18. We maintained our BUY recommendation with a lower target price of S\$1.77 (previously S1.97).

Y/E, RMB mn	FY18e	FY19e	FY20e
Net income	547	511	490
Net capex	120	140	110
Change in net WC	111	201	73
Change in borrowing	-	-	-
FCFE	316	170	307
Beta	0.99		
Required rate of return	8.0%		
Growth	1.0%		
FX (SGD/RMB)	4.85		
TP (SGD)	1.77		

Source: PSR

Financials

Income Statement

Y/E Dec, RMB mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	1,859	2,037	2,738	3,277	3,488
COGS	(1,367)	(1,497)	(1,950)	(2,195)	(2,390)
Gross profit	492	540	788	1,081	1,099
EBITDA	392	410	567	705	724
Depreciation & Amortisation	94	96	90	96	101
EBIT	298	314	477	609	623
Net Finance (Expense)/Inc	(10)	(4)	-	-	-
PBT	288	310	477	609	623
Taxation	(92)	(88)	(136)	(62)	(112)
PAT	195	222	341	547	511

Per share data

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS (RMB cents)	41.9	47.7	69.4	111.3	103.9
EPS (SG cents)	9.3	10.0	14.8	22.9	21.2
DPS (SG cents)	1.5	1.5	3.0	4.0	3.5
BVPS (RMB)	2.5	2.9	3.5	4.6	5.4
BVPS (SGD)	0.6	0.6	0.8	0.9	1.1

Cash Flow

Y/E Dec, RMB mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
PBT	288	310	477	609	623
Adjustments	102	103	92	79	105
WC changes	133	(124)	(83)	(111)	(201)
Cash generated from ops	523	288	486	576	527
Others	(93)	(85)	(100)	(62)	(112)
Cashflow from ops	430	203	387	515	415
CFI					
CAPEX, net	(50.8)	(82.0)	(208.9)	(120.0)	(140.0)
Others	1.2	2.4	3.7	2.2	2.3
Cashflow from investments	(50)	(80)	(205)	(118)	(138)
CFF					
Loans, net of repayments	(120)	(148)	-	-	-
Dividends	(32)	(33)	(47)	(59)	(95)
Others	(0)	(8)	96	-	-
Cashflow from financing	(152)	(189)	50	(59)	(95)
Net change in cash	229	(65)	231	339	182
Effects of exchange rate	(0)	-	(9)	-	-
Ending cash	340	274	496	834	1,016

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, RMB mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PP&E	563	549	662	694	734
Others	44	43	41	40	39
Total non-current assets	606	592	703	735	773
Cash	341	276	500	834	1,016
Inventories	142	145	212	303	405
Trade receivables	414	548	638	765	877
Others	83	82	75	85	94
Total current assets	979	1,051	1,425	1,987	2,392
Total Assets	1,586	1,642	2,128	2,722	3,166
LIABILITIES					
Trade payables	43	52	71	75	84
Borrowings	145	-	-	-	-
Others	223	229	314	404	409
Total current liabilities	411	281	385	479	493
Borrowings	-	-	-	-	-
Total non-current liabilities	-	-	-	-	-
Total Liabilities	411	281	385	479	493
Total Equity	1,175	1,362	1,742	2,243	2,673

Valuation Ratios

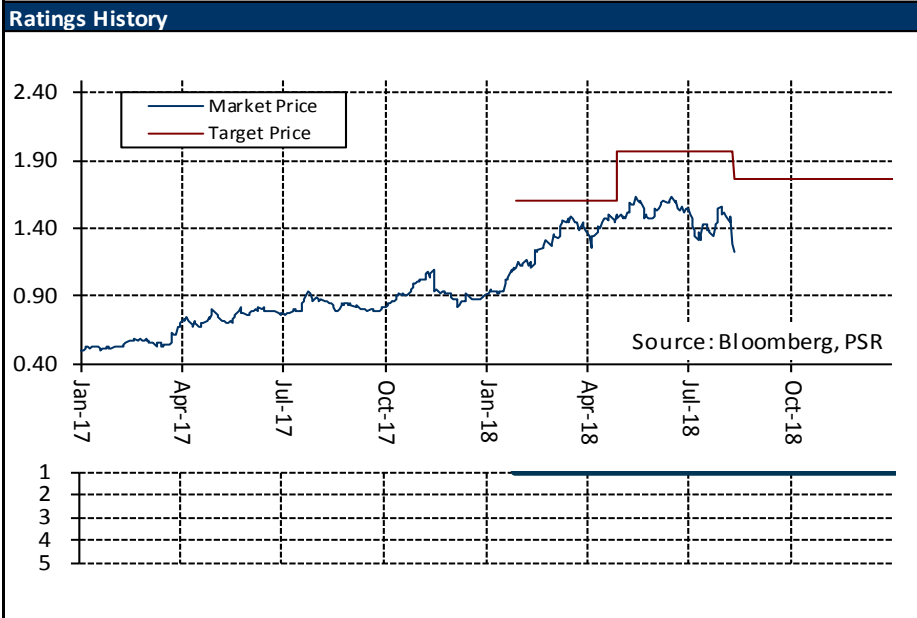
Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	3.9	5.0	8.3	5.4	5.8
P/B (x)	0.7	0.8	1.6	1.3	1.1
EV/EBITDA	1.5	2.1	4.3	3.0	2.7

Growth & Margins (%)

Growth					
Revenue	-10%	10%	46%	37%	2%
Gross profit	-13%	10%	46%	37%	2%
EBIT	-7%	5%	52%	28%	2%
PAT	-11%	14%	54%	60%	-7%

Margins					
GP margin	26%	27%	29%	33%	32%
EBIT margin	16%	15%	17%	19%	18%
PAT margin	11%	11%	12%	17%	15%

Key Ratios					
ROE (%)	17%	16%	20%	24%	19%
ROA (%)	12%	13%	16%	20%	16%
Net Debt or (Net Cash)	(196)	(276)	(500)	(834)	(1,016)
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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