

China Sunshin Chemical Holdings Ltd – 3QFY11

Phillip Securities Research Pte Ltd

9 November 2011

Market Singapore stock exchange
Sector Chemical Manufacturing
Reuters CHSN SI
Bloomberg CSSC SP
POEMS CSS SG

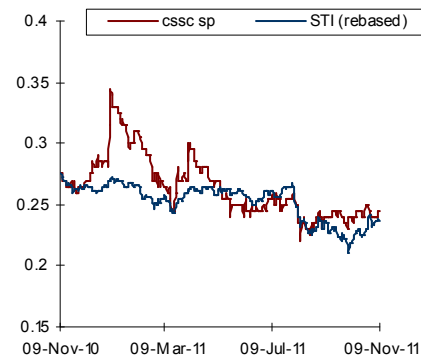
BUY
(Maintained)

Closing Price
S\$0.245
Target Price
S\$0.29 (+18.4%)

Price
Last Price **0.245**
52w k High (1/6/2011) 0.36
52w k Low (8/10/2011) 0.22
Shares Outstanding (mil) 491.499
Market Cap (S\$ mil) 120.42
Avg. Daily Turnover (mil) 0.06
Free float (%) 35.67
PE (X) 5.75
PB (X) 0.81

Price performance %

	1M	3M	6M
Absolute	2.1%	4.3%	-9.3%
Relative	-6.2%	5.1%	-0.4%



Major Shareholders	%
1 Success More Group	59.74

Analyst

Lee Kok Joo, CFA
Tel : +65 65311685
Fax : +65 63367607
Email : leekj@phillip.com.sg
Web : www.poems.com.sg

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- 3Q11 revenue ↑ 16.3% to RMB310.6 m, net profit ↓ 16.6% to RMB28.2 m
- Another quarter of record sales volume, however net profit negatively impacted by higher operating expenses
- Maintained Buy with reduced target price of \$0.29

Revenue was RMB310.6m (+16.3% y-y, -1.1% q-q), net profit was RMB28.2m (-16.6% y-y, -24.2% q-q). 9MFY11 revenue and net profit are 86% and 69% of our full year estimates. The y-y improvement in revenue stemmed from higher ASP and sales volume. This is the second consecutive quarter of record sales volume achieved by the company. Average ASP for the quarter was RMB19.6K/ton. Despite increases in raw material cost, gross profit margin managed to stay quite constant at 24.9%. However due to higher operating expenses, net profit margin dropped to 9.1% from 12.7%.

Local and international sales breakdown was 64% and 36% respectively. On a volume basis, local sales picked up 9% and 10% y-y and q-q. International sales increased 8% y-y but declined 13% q-q. However revenue from international sales was 40% higher compared to the same period last year. We understand from management that this was due to higher pricing of rubber accelerator sold to Japan as local supplies were disrupted due to the March tsunami. In fact International revenue had shown a marked increase from 2QFY11.

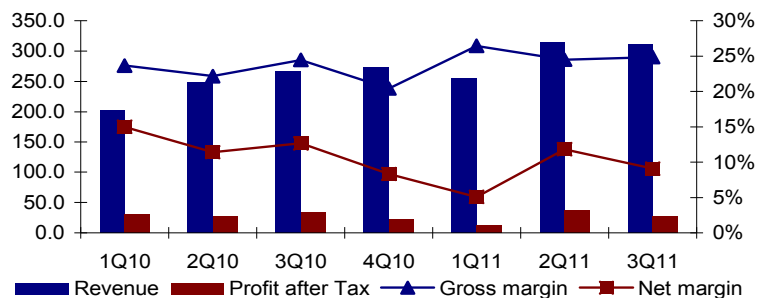
We continue to see strong demand for rubber accelerator, which is the core product for the company, accounting for 81% of volume and 88% of revenue. Insoluble sulphur saw 59% and 30% increase in demand y-y and q-q. TMQ remains as the lagging product with 52% and 46% drop in sales y-y and q-q. Based on the sales volume, we estimate annualized utilization was 87%, 68% and 23% respectively for rubber accelerator, insoluble sulphur and TMQ.

Results highlights

	3Q11	3Q10	% chg	2Q11	% chg
Revenue (RMB'm)	310.6	267.1	16.3	314.2	(1.1)
Gross profit (RMB'm)	77.3	65.3	18.4	77.0	-
Net profit (RMB'm)	28.2	33.8	(16.6)	37.2	(24.2)
EPS (RMB cents)	5.91	7.07	(16.4)	7.79	(24.1)
GPM (%)	24.9	24.4	0.5ppt	24.5	0.4ppt
NPM (%)	9.1	12.7	3.6ppt	11.8	(2.7)
Domestic sale (RMB'm)	156.7	157.6	-	169.0	(7.3)
International sale (RMB'm)	153.9	109.5	40.5	145.2	5.9

Conso' Ending	Profits (RMBm)	EPS (SG cents)	DPS (SG cents)	BV (SG cents)	ROE (%)	P/E (X)	Yield (%)	P/BV (x)
12/08 A	106.7	4.35	0.97	22.31	19.7	5.63	4.0	1.10
12/09 A	88.3	3.68	2.00	25.11	14.7	6.65	8.2	0.98
12/10 A	115.3	4.83	1.00	28.98	16.7	5.07	4.1	0.85
12/11 E	107.2	4.49	0.94	32.52	13.8	5.46	3.8	0.75
12/12/ E	110.7	4.64	0.84	36.27	12.8	5.28	3.4	0.68

Fig 1. Quarterly revenue, net profit vs gross margin and net margin



Source: Company, Phillip Securities Research

Fig 2. Sales vol vs ASP

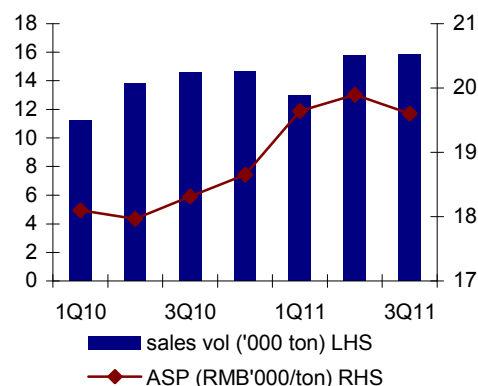
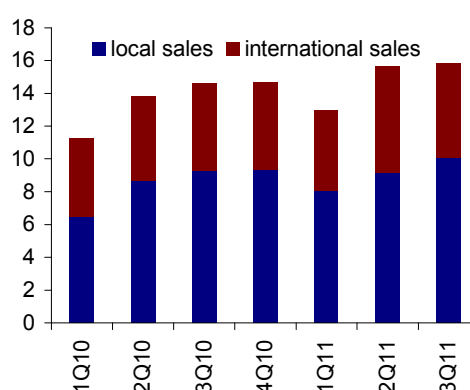


Fig 3. Sales Vol ('000 ton) breakdown



Source: company, Phillip Securities Research

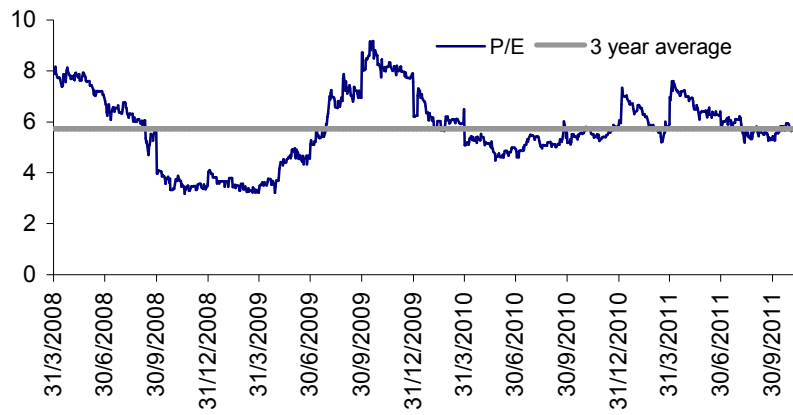
Operating expenses was higher in the quarter leading to lower net profit (-16.6% y-y, -24.2% q-q). Of particular note were higher administrative expenses (RMB23.2m: +28% y-y, +27% q-q) and higher taxes (RMB14.7m: +133% y-y, +6% q-q). Classified under administrative expenses was a City Construction and Education tax item which the local government had imposed from this year onwards. Corporate tax rate was restored to 25% from 1 Jan 2011 from the reduced rate of 12.5% previously.

The company took on additional RMB30m of bank loan in the quarter. Total bank debt is now RMB110m.

The relocation process from facility 1 to facility 3 has been completed. Facility 3 has also commenced production since April 2011. Most of the schedule constructions are already completed. The company is now conducting trial production for 4ADPA, the intermediary product for 6PPD. Commercial production for 6PPD is expected in 1QFY12.

We adjust up our ASP assumption as well as higher administrative and tax expenses as we were slightly conservative on these previously. As a result, we revise our FY11 revenue up by 15.7% but lower net profit by 5.4%. On a full year basis, we expect FY11 net profit to decrease 7% compared to FY10. We continue to like the company, given its leadership position in the industry. Strong demand of the rubber accelerator is testament of the fact. However the other product groups have met with limited success. The next growth driver would be the successful launch of the 6PPD. At the current stage, we have not factor in any contribution from this product. Share price is currently trading at 5.5x FY11 earnings, in-line with the 3 year T12M PE average. We believe market is pricing in uncertainty with regard to the reception of 6PPD. We too believe share price will stay subdued until actual launch of 6PPD. We are ascribing a 10% market leader premium to 3-year PE average which gives us a target price of \$0.29.

Fig 4. 3 year P/E chart



Source: Bloomberg, Phillip Securities Research

Ratings History

China SunSine Chemical Holdings Ltd

Rating	Date	Closing price (S\$)	Fair value (S\$)	Remarks
BUY	9 November 2011	0.245	0.29	3QFY11 results
BUY	15 August 2011	0.235	0.32	2QFY11 results
BUY	27 April 2011	0.28	0.36	1QFY11 results
BUY	3 March 2011	0.27	0.36	FY10 results
BUY	21 January 2011	0.315	0.36	Update
BUY	2 November 2010	0.275	0.36	3QFY10 results
BUY	29 September 2010	0.245	0.35	Visit note
BUY	4 August 2010	0.245	0.35	2QFY10 results
BUY	30 April 2010	0.25	0.34	1QFY10 results
BUY	1 March 2010	0.235	0.34	FY09 results
BUY	7 January 2010	0.235	0.34	Update
HOLD	17 March 2009	0.16	0.18	FY08 results
BUY	10 November 2008	0.20	0.27	Initiate coverage

Phillip Research Stock Selection Systems	TRADING BUY	Share price may exceed 10% on the upside over the next 3 months, however longer-term outlook remains uncertain
	BUY	>15% upside from the current price
	HOLD	-10% to 15% from the current price
	SELL	>10% downside from the current price
	TRADING SELL	Share price may exceed 10% on the downside over the next 3 months, however longer-term outlook remains uncertain
<p>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</p>		

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Please contact Phillip Securities Research at [65 65311240] in respect of any matters arising from, or in connection with, this document.

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Contact Information

Singapore Research

Chan Wai Chee
CEO, Research
Special Opportunities
+65 6531-1232
yebo@phillip.com.sg

Lee Kok Joo, CFA
Head of Research
S-chips, Strategy
+65 6531-1685
leekj@phillip.com.sg

Joshua Tan
Strategy & Macro
Singapore, US, China
+65 6531-1249
joshuatan@phillip.com.sg

Magdalene Choong
Investment Analyst
SG & US Financials, Gaming
+65 6531-1791
magdalenechoongss@phillip.com.sg

Go Choon Koay Bryan
Investment Analyst
Property
+65 6531-1792
gock@phillip.com.sg

Derrick Heng
Investment Analyst
Transportation
+65 6531-1221
derrickhengch@phillip.com.sg

Nicholas Low, CFA
Investment Analyst
Commodities, Offshore & Marine
+65 6531-1535
nicholaslowkc@phillip.com.sg

Travis Seah
Investment Analyst
REITS
+65 6531 1229
travisseahhk@phillip.com.sg

Regional Member Companies

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd

Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia

Level 37, 530 Collins Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96298380
Fax (613) 96148309
Website: www.phillipcapital.com.au

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.

Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel (86-21) 51699200
Fax (86-21) 63512940
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005