

China Sunshine Chemical Holdings Ltd

An incredible start for the year



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SINGAPORE | MATERIALS | 1Q18 RESULTS

30 April 2018

- 1Q18 revenue was in line with expectations while net profit exceeded by 14.2%. GPM was higher than anticipated.
- High ASP and sales volume extended into 1Q18. GPM and NPM reached historical highs.
- The trial run of new capacity is expected to get approval by 2Q18.
- We revise upwards FY18e EPS by 45% to 23.3 SG cents and FY19e EPS by 26% to 22.4 SG cents as we raise our margin assumptions. We maintain our BUY recommendation with a higher target price of S\$1.97 (previously S\$1.60).

BUY (Maintained)

CLOSING PRICE	SGD 1.480
FORECAST DIV	SGD 0.026
TARGET PRICE	SGD 1.970
TOTAL RETURN	34.9%

COMPANY DATA

Bloomberg Code:	CSSC SP
O/S SHARES (MN):	492
MARKET CAP (USD mn / SGD mn):	549 / 728
52 - WK HI/LO (SGD):	155 / 0.69
3M Average Daily T/O (mn):	143

MAJOR SHAREHOLDERS (%)

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

Results at a glance

(RMB mn)	1Q18	1Q17	YoY (%)	Comments
Revenue	857	575	49.1	Increase in overall ASP and sales volume
Gross profit	299	140	113.4	In line with the above
PBT	182	85	114.4	Increase in overhead costs and FX losses
PAT	150	57	161.4	In line with the above

Source: Company, PSR

Positives

+ High ASP and sales volume extended in 1Q18: In 1Q18, the total sales volume grew 11.7% YoY to 36.5k tonnes, due to the ramp-up in the production of insoluble sulphur and anti-oxidant. However, it dropped mildly by 5% QoQ as production stopped work for the Chinese Spring Festival. Meanwhile, overall ASP was still on the upswing, reaching RMB23.2k/tonne in 1Q18 (+34.1% YoY) (breakdowns are shown below):

Sales volume

(mn tonnes)	1Q18	1Q17	YoY (%)	4Q17	QoQ (%)
Accelerators	19,907	20,358	-2.2	21,722	-8.4
Insoluble Sulphur	6,212	5,111	21.5	6,010	3.4
Anti-oxidant	10,353	7,181	44.2	10,665	-2.9

Average selling price

(RMB/tonne)	1Q18	1Q17	YoY (%)	4Q17	QoQ (%)
Accelerators	29,387	20,061	46.5	27,511	6.8
Insoluble Sulphur	11,719	10,448	12.2	11,414	2.7
Anti-oxidant	17,995	14,204	26.7	18,012	-0.1

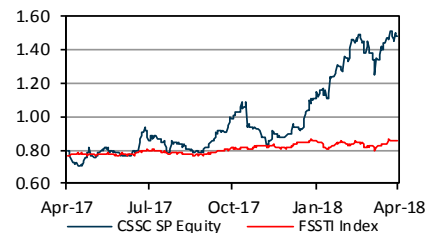
Source: Company PSR

GPM and NPM at historical highs in 1Q18: The respective GPM and NPM were reported at 34.9% and 17.4% in 1Q18 (1Q17: 24.4% and 10%, 4Q17: 33.3% and 15.1%). The significant improvement in of margins was attributable to the growth in ASP and reduction of tax rates. According to the Aniline Price Index, shown in Figure 1, 1Q18 price level increased by 26% YoY. Meanwhile, the group was granted "High-tech Enterprise" status, leading to a reduction of tax rate (from headline rate of 25% to concessionary rate of 15%).

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	2.1	33.3	98.7
STI RETURN	4.4	1.0	16.5

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	556	533
P/E (x)	5.0	10.0	6.3	6.6
P/B (x)	0.8	2.0	16	13
ROE (%)	16%	20%	25%	20%
ROA (%)	13%	16%	20%	16%

Source: PSR

VALUATION METHOD

FCFE (Cost of Equity: 7.9%; Terminal g: 10%)

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Figure 1: China Aniline Commodity Index



Source: 100ppi.com, PSR

Negatives

- **Trial run status: pending for approval:** The trial run of the respective 10k-tonne newly-added capacity of accelerator TBBS and Insoluble Sulphur plant is expected to get approval by 2Q18. Each trial run could last for 1 to 3 months. Optimistically, both plants could commence a full operation by 4Q18. It is expected that the new capacities will have a full year contribution in FY19.

Outlook

The enforcement of environmental protection policies and regulation will be strengthened moving forward. Thus, we expect that more rubber chemical plants to shut down before new capacity from large companies enter the market. As a result, the shortage of supply will persist in FY18 and be benefiting Sunsine.

Maintain BUY with a higher TP of S\$1.97

We revise upwards FY18e EPS to 23.3 SG cents (previously 16 SG cents) and FY19e EPS to 22.4 SG cents (previously 17.7 SG cents), on higher margins. We maintain our BUY recommendation with an increased target price of S\$1.97 (previously S\$1.60).

Y/E, RMB mn	FY18e	FY19e	FY20e
Net income	556	533	512
Net capex	110	120	110
Change in net WC	92	104	73
Change in borrowing	-	-	-
FCFE	355	310	329
Beta	0.98		
Required rate of return	7.9%		
Growth	1.0%		
FX (SGD/RMB)	4.85		
TP (SGD)	1.97		

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	779	759
Depreciation & Amortisation	94	96	90	101	109
EBIT	298	314	477	678	650
Net Finance (Expense)/Inc	(10)	(4)	-	-	-
PBT	288	310	477	678	650
Taxation	(92)	(88)	(136)	(122)	(117)
PAT	195	222	341	556	533

Per share data

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS (RMB cents)	41.9	47.7	69.4	113.1	108.4
EPS (SG cents)	9.3	10.0	14.8	23.3	22.4
DPS (SG cents)	1.5	1.5	3.0	4.7	4.5
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	678	650
Adjustments	102	103	92	108	117
WC changes	133	(124)	(83)	(92)	(104)
Cash generated from ops	523	288	486	694	663
Others	(93)	(85)	(100)	(122)	(117)
Cashflow from ops	430	203	387	572	546
CFI					
CAPEX, net	(50.8)	(82.0)	(208.9)	(110.0)	(120.0)
Others	1.2	2.4	3.7	3.9	4.1
Cashflow from investments	(50)	(80)	(205)	(106)	(116)
CFF					
Loans, net of repayments	(120)	(148)	-	-	-
Dividends	(32)	(33)	(47)	(68)	(111)
Others	(0)	(8)	96	-	-
Cashflow from financing	(152)	(189)	50	(68)	(111)
Net change in cash	229	(65)	231	398	319
Effects of exchange rate	(0)	-	(9)	-	-
Ending cash	340	274	496	894	1,213

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	679	691
Others	44	43	41	40	39
Total non-current assets	606	592	703	720	730
Cash	341	276	500	894	1,213
Inventories	142	145	212	352	468
Trade receivables	414	548	638	731	761
Others	83	82	75	85	94
Total current assets	979	1,051	1,425	2,063	2,536
Total Assets	1,586	1,642	2,128	2,783	3,266
LIABILITIES					
Trade payables	43	52	71	75	84
Borrowings	145	-	-	-	-
Others	223	229	314	448	506
Total current liabilities	411	281	385	524	590
Borrowings	-	-	-	-	-
Total non-current liabilities	-	-	-	-	-
Total Liabilities	411	281	385	524	590
Total Equity	1,175	1,362	1,742	2,259	2,676

Valuation Ratios

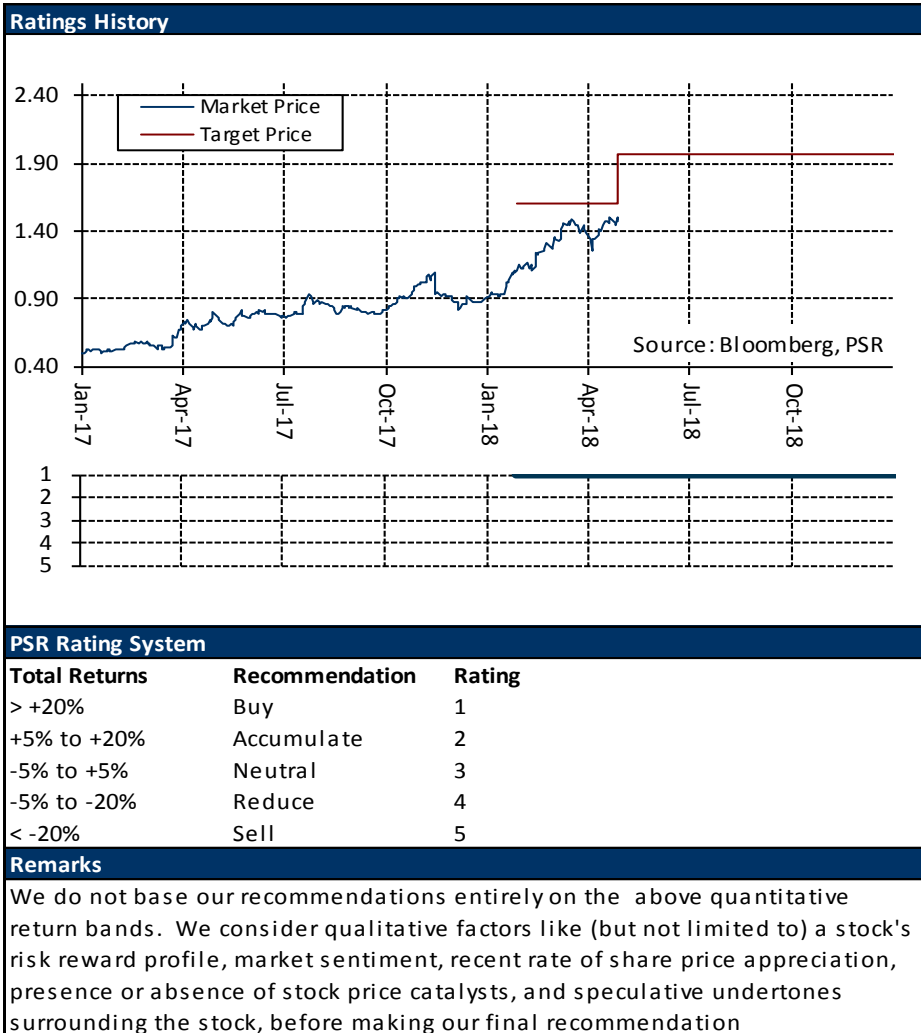
Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	3.9	5.0	10.0	6.4	6.7
P/B (x)	0.7	0.8	2.0	1.6	1.3
EV/EBITDA	1.5	2.1	5.4	3.4	3.1

Growth & Margins (%)

Growth					
Revenue	-10%	10%	46%	37%	2%
Gross profit	-13%	10%	46%	37%	2%
EBIT	-7%	5%	52%	42%	-4%
PAT	-11%	14%	54%	63%	-4%
Margins					
GP margin	26%	27%	29%	33%	32%
EBIT margin	16%	15%	17%	21%	19%
PAT margin	11%	11%	12%	17%	15%

Key Ratios

ROE (%)	17%	16%	20%	25%	20%
ROA (%)	12%	13%	16%	20%	16%
Net Debt or (Net Cash)	(196)	(276)	(500)	(894)	(1,213)
Gearing (%)	9.1%	0.0%	0.0%	0.0%	0.0%



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