

CHINA SUNSINE: Here's a deep dive into a consistently profitable company that currently trades at ex-cash PE of 1

📅 13 September 2024



THE CONTEXT

• A China Sunsine shareholder contributed the article below, the latest of several published on this website over the past years.

• Several growth metrics of China Sunsine are discussed in detail, with the overarching fact being the company has cemented its position as No.1 in the world in producing chemicals called rubber accelerators which are used by its clients in tyre manufacturing.

• Still, it's a very competitive industry, with a handful of sizeable surviving Chinese peers.

China Sunsine's profitability has not been a straight line up but it obsessively expands capacity regularly in order to secure greater market share.

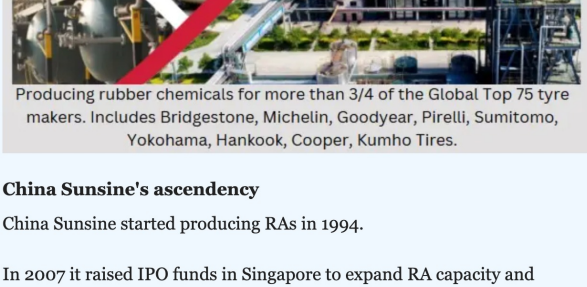
• The stock performance? It's undervalued by the market at a PE of around 5.5X and 1X ex-cash.

Sure, it may one day find a swell of investor favour, but for now it's the long-term investors who are holding and hoping.

Traders with brains wired for Tik-Tok dopamine rushes by rapidly turning over their portfolios are nowhere in sight.

Rubber accelerators (RAs) are vital because they help to "harden" rubber from hours to minutes.

Backed by its huge tyre industry, China has a commanding lead in the global RA industry.



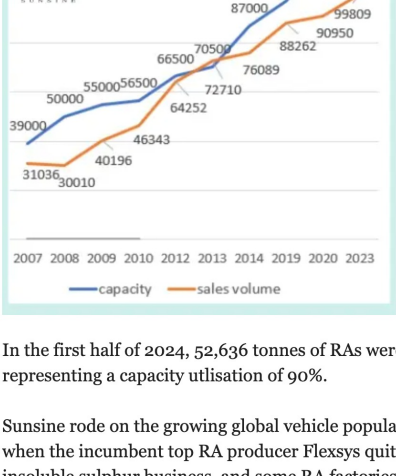
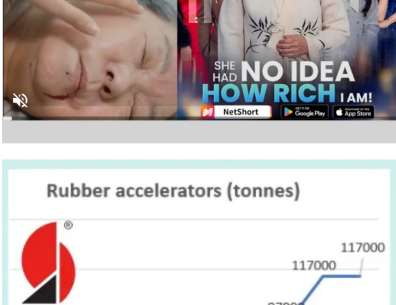
China Sunsine's ascendancy

China Sunsine started producing RAs in 1994.

In 2007 it raised IPO funds in Singapore to expand RA capacity and produce complementary products (insoluble sulphur and antioxidants) for tyre makers.

Expansions were funded internally because Sunsine did not want to contend with potential issues arising from acquisitions.

Though a latecomer, it is now the world's largest with a 23% global RA market share.



In the first half of 2024, 52,636 tonnes of RAs were sold, 12% up year-on-year, representing a capacity utilisation of 90%.

Sunsine rode on the growing global vehicle population. It filled the gap created when the incumbent top RA producer Flexsys quit to double down on its insoluble sulphur business, and some RA factories in China were shut down for pollution.

With a RMB 24m government grant, Sunsine has devised a **green production method** of MBT, the feedstock for most RAs.

Competition

Casualties were high in the RA industry.

The early leaders (Tianjin No.1 Organic Chemical Plant, Zhenjiang Zhenbang Chemical Industry Co., and Northeast Auxiliary) have been replaced by Yanggu Huatai and Tianjin Kemai.

Yanggu Huatai

Yanggu Huatai was listed in 2010 on the Shenzhen Stock Exchange. It is the world's largest anti-scorching agent producer and China's largest insoluble sulphur producer.

In July 2018, Huatai **acknowledged** Sunsine's leadership in RAs.

In March 2019, Huatai **scrapped** a plan to produce 10,000 tonnes of rubber accelerator TBBS.

Earlier in January, Sunsine received approval for **trial production** for its 30,000-tonne TBBS project.

Huatai has likely **capped** its RA capacity at 40,000 tonnes to channel resources to the anti-scorching agent market.

Tianjin Kemai [Stock investment guide](#)

Tianjin Kemai failed thrice to list in Shanghai. Its 2022 bid to join the over-the-counter National Equities Exchange and Quotations fell through too.

Kemai's profit pales when compared to Sunsine's, despite its 70,000-tonne RA capacity. It suffered financial losses in 2020 (when COVID-19 struck) while Sunsine made RMB 219m.

	2020		2021	
	Kemai	Sunsine	Kemai	Sunsine
Sales (RMB m)	1,170	2,334	1,920	3,725
Profit (RMB (8) m)	219	178	506	

pages 1-1-133, 134 of [1653577319_671701.pdf \(neeq.com.cn\)](#)

Puyang Weilin 濮阳蔚林

Puyang Weilin, the largest among small RA producers, **failed** to get listed in 2011. Its dismal net profit margin (%) reflects cost as well as scale disadvantages.

	Sunsine	Huatai	Kemai	Weilin
2019	14.4	9.2	n.a.	3.5
2020	9.4	6.5	(0.7)	1.5
2021	13.4	10.5	9.3	(3.0)
2022	16.8	14.7	n.a.	(5.8)
2023	10.7	8.8	n.a.	(6.8)

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Insoluble sulphur and antioxidants

Unlike with RA, Sunsine faces strong competition in insoluble sulphur (IS) and antioxidants.

Price (RMB per tonne)					
	2021	2022	2023	1H2024	change
Insoluble sulphur	8,251	7,918	6,535	6,276	-24%
Antioxidants	20,390	24,203	18,315	16,834	-17%
Rubber accelerators	21,843	22,845	19,648	19,823	-9%
Overall	18,821	20,237	16,633	16,393	-14%

In 2022, Sunsine and Yanggu Huatai **added** 30,000 tonnes and 40,000 tonne of IS capacity respectively. These caused IS price to plunge 24% between 2021 and 1H2024.

The market of 6PPD, the main antioxidant, is crowded -- Sinochem with 140,000 tonnes, Shanxi Jinteng 40,000 tonnes, and Nanjing Chemical and Sunsine 30,00 tonnes each. ASP of antioxidants declined 17%.

In contrast, price contraction of RA was a mild 9%.

Profit fluctuation

Two main factors influence Sunsine's profit.

First, as RAs are priced on a cost-plus model, profit climbs on rising raw material prices, and declines conversely.

Second, as the tyre industry is slow-growing, Sunsine lowers prices to sell the output from new RA capacity to grow its market share.

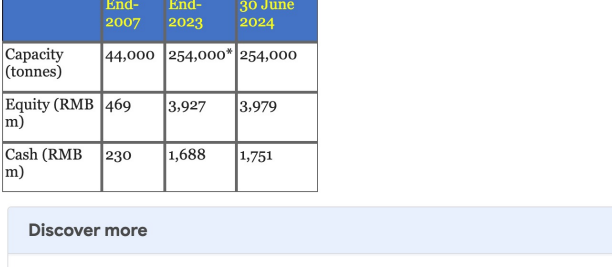
Over time, profit grew with expanding sales volume and better production methods.

It's worth highlighting that the doubling of rubber chemical sales between 2013 and 2023 was realised with an almost unchanged headcount.

Year	Headcount	Rubber chemical sales (tonnes)	Per-capita (tonnes)
2013	2,134	98,345	46.1
2014	2,186	108,973	49.9
2015	2,084	114,572	55.0
2021	2,349	195,405	86.8
2022	2,193	186,153	84.9
2023	2,116	206,996	97.8

In the past 17 years, Sunsine has been profitable through multiple raw material price cycles.

A decline lasted not more than a year except for the consecutive drop in 2019 and 2020 (when COVID-19 struck).



With 1H24 pre-tax profit being 14% higher year-on-year, a rebound is likely after last year's decline.

Financial discipline

With RMB 264m net IPO proceeds in 2007 as the only injection, Sunsine's equity surged by a whopping RMB 3,510m and cash rose to RMB 1,751m by end-June 2024, after paying RMB 936m as dividends. (Bank loans were paid in 2016.) [Compare Investment Apps](#)

	End-2007	End-2023	30 June 2024
Capacity (tonnes)	44,000	254,000*	254,000
Equity (RMB m)	469	3,927	3,979
Cash (RMB m)	230	1,688	1,751

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*comprising 117,000 tonnes for RA, 77,000 tonnes for antioxidants and 60,000 tonnes for IS

Sunsine has been active in buying back its shares.

The first share repurchase was on 7 September 2008. On 9 May 2017, the company sold 27.65m shares (equivalent to 55.3m after the stock split effective 29 November 2019) for RMB 85.98m vs RMB 31.35m cost.

Share repurchase resumed in 2018 and by 30 June 2024, 27.52m had been bought for RMB 61.7m.

Prospects

The slow-moving tyre industry will gather speed as more gasoline vehicles transit to EVs fitted with larger tyres for their weight.

China is top in car export, after overtaking South Korea, Germany, and Japan in successive years starting in 2021. Chinese cars are also produced offshore for cost considerations and market access.

When Chinese cars become affordable to more people, demand for RAs rises on higher tyre sales.

Based on Sunsine's IPO prospectus, in 2005 none of the world's top ten tyre makers was Chinese. Zhongce is now ranked ninth and Cheng Shin (from Taiwan) tenth.

In 2022, 35 of the world's top 75 tyre makers are Chinese, comprising 32 homegrown and three acquired (Pirelli, Kumho, and Prometec). They were **joined** by four from Taiwan.

Sixteen Chinese tyre makers have **set up** 25 bases overseas (20 in Southeast Asia for access to natural rubber) with a combined capacity for 180m tyres, a sizable amount compared with the global output of 2,388m units in 2023.

Conclusions

A number of developments has contributed to Sunsine's success:

• entering the RA business in 1994 after observing the growth of the tyre industry in China since 1990,

• the 2007 IPO in Singapore to raise funds to fill the vacuum created by the exit of the top RA producer Flexsys, and crackdown on errant RA producers starting in 2014 in China,

• prudent financial management and better production methods resulting in a high cash balance despite substantial growth.

Sunsine is also fortunate that its raw rivals are not poised to produce more RAs.

With the huge sum of cash, Sunsine will likely continue its volume game on the tail of rising demand for RAs by tyre makers.

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