

CHINA SUNSINE: Affected by US-China trade war?

Portuser 11 July 2018



"Portuser" contributed this article to NextInsight. China Sunsine (\$1.37) is up 52% in the year-to-date but down 16% since mid-June 2018.

China Sunsine, which is listed on the Singapore Exchange, is the world's biggest rubber accelerator producer – it accounts for one-fifth of global output.

Rubber accelerators are essential in the manufacturing of tyres as they shorten the time taken by sulphur to make rubber harder.

As one-third of Sunsine's output is sold overseas, investors may wonder whether the company will be badly affected by the current trade conflict between China and the US.



Rubber accelerators produced at China Sunsine.
NextInsight file photo.

Rubber accelerators are not on the US tariff list, though tyres made in China are. The impact of trade conflict therefore is indirect.

Impact of Tyre Tariff on Sunsine

A tariff on China-made tyres was imposed a number of years ago, and its impact on Sunsine was minimal and limited to 2014 and 2015, when some Chinese tyre companies, hit by the tariff, went bust, and Sunsine provided substantially more for bad debts (*see table*).

RMB m	Bad debt provision	Overall sales
2013	0.9	1,696
2014	5.4	2,077
2015	13.4	1,859
2016	1.6	2,037
2017	1.8	2,738
Total: 18.8		

The RMB 18.8m provisions in the two years were only 0.5% of total revenue, thanks to Sunsine's stringent credit management.

By 2016, Sunsine was back on track, collecting almost all its revenues.

US market

The US is not a big market for Sunsine -- it accounted for 13% of its export sales, and 5% of overall sales, in 2017 (*see table*).

RMB m	Sales to US	Export sales	Total sales
2013	132	605	1,696
2014	144	804	2,077
2015	121	684	1,859
2016	121	765	2,037
2017	127	972	2,738

As the US tariff is aimed at helping local tyre makers only, the US has continued to import rubber accelerators from China, which produces the bulk of the world's output.

Upgrading China's Tyre Industry

In 2016, the US tariff on Chinese tyres resulted in Canada replacing China as the top tyre exporter to the US: (See [report](#))

But China bounced back in 2017 to reclaim the lead. (See [report](#))

China is not sitting idly by. Its major tyre makers have set up factories in Thailand, Vietnam and Indonesia to minimise the impact of tariffs targeting China.

Some of these overseas factories are responsible for the rise in Sunsine's export sales in 2016 and 2017.

Stock price	\$1.37
52-week range	77 c - \$1.65
PE (ttm)	7.6X
Market cap	\$8674 m
Shares outstanding	491.7 m
Dividend yield (ttm)	3.65%
1-yr return	76%
Source: Bloomberg	

China has taken steps to up the quality of tyres it produces, as reflected in the following developments:

(a) Major Chinese tyre-makers, such as Linlong Tires and Triangle Tires, raised funds through IPOs to upgrade their operations;

(b) ChemChina took control of Pirelli, the world's fifth largest tyre-maker, and is in the process of integrating Pirelli's operations with those of ChemChina's own Chinese tyre subsidiary (see [report](#));

(c) China's Double Star took control of Kumho, the world's tenth largest tyre-maker (see [report](#)).

A Tyre is Almost a Consumer Good

Tyres are sold as replacements for old ones or as fittings for new vehicles. Replacement tyres now account for close to 70% of overall tyre sales. Lower new car sales in poor economies are therefore not deleterious to tyre sales volume.

As rubber accelerators are indispensable in the manufacturing of tyres, and they make up a small fraction of tyre production cost, the rubber accelerator industry is unlikely to experience drastic sales contractions during economic downturns.

Sunsine is even more well-placed because it has cash reserves to weather hard times.

Its land and ready infrastructure, along with its capital, will enable it to expand more expeditiously than its peers when demand picks up.

(The second-largest rubber accelerator producer, Tianjin Kemai, which is Sunsine's main rival, was unsuccessful in raising funds from the Shanghai Stock Exchange twice. The third largest producer, Yanggu Huatai, tried to raise RMB 1.2b from share placement, but in the end secured only half the amount after a rights issue. The construction of its new facilities will also take some time.)

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most investors have no issue about its merits. The problem is its lack of growth prospects. while others are facing problems raising funds, Sunsine is facing problems getting its new capacity approved even though it claims to be environmentally compliant. Is the chinese government encouraging growth in this sector ? given that approval is hard even though it's fully compliant. ASP although at good levels, are not expected to increase further. Seems like this stock market only appreciates growth companies and not stable ones.

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