

Discover more

Busines... >

Automa... >

Busines... >

Finance >

Busines... >

Investo... >

Stock p... >

Stock >

CHINA SUNSINE: "Shares grossly oversold," says Maybank KE

📅 10 August 2018

Discover more	
Stock trading platform	>
Investor relations services	>
Share market analysis	>



Report by Maybank KE Retail Research

Stock price of China Sunsine (CSSC) tumbled as much as 13% on 8 Aug despite reporting stellar 2Q18 results with net profit soaring to Rmb239.7m (+222%).

This lifted 1H18 earnings to **Rmb389.2m** (+196%), smashing past estimates.



China Sunsine's 1H net profit of RMB389 m exceeded FY2017 full-year earnings of RMB341 m. *NextInsight file photo.*

For the quarter, revenue jumped 34% to Rmb880.6m on the back of an increase in average selling price (ASP) of its accelerators, as well as higher sales volume of 37,567 tons (+9% y/y, +2.1% q/q), particularly in insoluble sulfur and anti-oxidants.

The increase in ASP was mainly due to the short supply situation in China following frequent environmental inspections since 2017, which have disrupted production of many chemical producers and led to a supply shortage.

This is most pronounced for the price of rubber accelerators, which surged to Rmb23,334/ton (+23.4% y/y, +0.7% q/q).

Sales volume growth came from the increased demand across domestic and internal markets as some tyre makers placed more orders after recognising the group's ability to provide stable quality supply.

Consequently, gross margin expanded 8.2ppt to 36.7% (1Q18: 34.9%).

Bottom line was further bolstered by a FX gain of Rmb18.7m (2Q17: Rmb5.7m loss) and a tax credit of Rmb24.9m arising from concessionary tax granted to its Shandong subsidiary for becoming a hi-tech enterprise.

Operating cash flow swelled to Rmb144.1m (2Q17: Rmb48.8m) despite a jump in trade and other receivables. Balance sheet continues to remain solid, with cash hoard of Rmb566.4m (1Q18: Rmb508.7m), representing 0.23¢/share.

Plans to increase its annual capacity to 172,000 tonnes (+13%) are still pending approval from government authorities. This comprises a 10,000 ton TBBS (rubber accelerator) production line and a 10,000-ton insoluble sulfur line. A key risk lies in the execution of the planned production capacity expansion, which has been deferred since 2H17.

On that, management had shared that authorities in Shandong are more stringent, and the delay in approval is not company specific.

Meanwhile, the expansion of Guangshun heating plant has completed and is currently undergoing grid integration.

The latest share sell-down was precipated by the management's more cautious outlook that rubber chemical prices will normalise once eco-compliant producers return to the market, while the slowing China's economy and US tariffs would dampen the demand for tyres, and in turn, its products.

Additionally, the rubber accelerator manufacturer did not declare any interim DPS this quarter, as compared to a special DPS of 0.5¢ last year in celebration of its 10-year anniversary since listing.

That said, the impending decline in rubber chemicals is likely to be offset by the plunge in cost of raw material aniline, thus sustaining its healthy gross margins.

The group remains positive of its performance in the next 12 months.

"We believe that the shares are grossly oversold as CSSC is trading at an undemanding 5.6x forward P/E, versus rival Yanggu Huatai's 12.6x.

"The street appears mixed on the counter with 1 Buy and 1 Hold and an average TP of \$1.69.

"CSSC remains a constituent of the Market Insight Growth portfolio."

-- Maybank KE

You may also be interested in:

- CHINA SUNSINE: KGI's "Outperform" Call and Bull Case With 70% Upside
- CHINA SUNSINE: Why 2026 Is Start of Long "Cash Harvest" Season for This Company
- CHINA SUNSINE: 4–5x Earnings Ex-Cash: Cheap Today and Potentially Even Cheaper In The Near Future
- CHINA SUNSINE: This Company Raises Minimum Dividend Payout Ratio to 40% Amid Strong Cash Accumulation. How Did It Get Here?
- Charity, Rewards, and Tyres: The Story Behind China Sunsine Chairman's Stake Sale
- CHINA SUNSINE: Long-Awaited Re-Rating Is Happening, +69% year to date

Discover more	
Investing	>
Company financial reports	>
Business & Corporate Law	>

