CORPORATE WATCH

Production boost lifts Sinostar PEC's earnings; third plant with better product mix being built

BY **AMALA BALAKRISHNER**

Sinostar PEC Holdings, which refines petrochemical products, was able to post healthy earnings growth in 1QFY2019, owing to additional production capacity from a second plant. The company is now investing in additional capacity that will help it shift its production mix to higher-value downstream products.

For 1QFY2019 ended March 2019, the company grew its revenue by 85% y-o-y to RMB979.5 million ($193.4 million), from RMB528.3 million in 1QFY2018. Its second plant — acquired last December — contributed to 66% of total revenue, partially offsetting the decrease in revenue from its processed liquidied petroleum gas (LPG), propylene and logistics and transport-related sector. Overall, earnings for the quarter rose 82% y-o-y to RMB38.8 million.

The improvement in its 1QFY2019 earnings is an extension of the growth it enjoyed between FY2017 and FY2018, when earnings increased 21% y-o-y to RMB82.7 million. Revenue in the same period grew 25% y-o-y to RMB2.3 billion. It paid a dividend of 0.5 cent a share each for both FY2017 and FY2018.

The company is now building its third plant, which will cost RMB1.2 billion and is slated for completion by end-2020. All three plants are located near one another.

For Sinostar, the key to being profitable in this industry is to own stakes in production facilities and then eke out operating efficiencies along the production chain. CEO Zhang Liu Cheng tells *The Edge Singapore* the company can have higher margins by producing propylene and polypropylene — petrochemicals that require more refining.

Sinostar was listed on the Singapore Exchange in 2007 at 38 cents a share. Year to date, its shares have remained unchanged, closing at 18.5 cents on June 20. At this level, its shares are trading at 0.8 times book value and at a historical price-to-earnings ratio of 9.74 times, giving the company a valuation of $118.4 million.

Healthy demand

Sinostar is based in Shandong province in northeast China. Its controlling shareholder is non-executive chairman Li Xiang Ping, who holds 52.6% of the company.

The company's facilities are located within the Zhongyuan Oilfield — one of the largest oilfields in China. It is 400km from the Dongming Petrochem Industrial Zone, a key area with strategic access to energy resources and a comprehensive logistics network, which allows Sinostar to sell its products to nearby provinces. Li is also chairman of the Shandong Dongming Petrochem Group, the key operator of the industrial zone.

The primary petrochemicals produced by Sinostar are LPG, propylene and polypropylene. Raw LPG is used to produce propylene — a raw material needed to produce high-end plastics — through a process of fractionation. Propylene is then further processed to produce polypropylene — a by-product needed to produce plastic and plastic products. Synthetic fibres, pipes and kitchen utensils are examples of products that contain polypropylene. A portion of the LPG produced is also sold to households and industrial manufacturers.

ALBERT CHUA/THE EDGE SINGAPORE

According to Zhang, China's demand for petrochemicals is so high that domestic producers such as Sinostar cannot produce enough

Sinostar's financials

	1Q2019 (RMB MIL)	1Q2018 (RMB MIL)	CHANGE (%)
Revenue	979.5	528.3	85.4
Net profit	38.8	21.3	82.4

SINOSTAR

Sinostar is poised to capture a growing market. A report released by the China Petroleum and Chemical Industry Federation in January showed that the petrochemical industry logged profits of RMB839.38 billion in 2018, a 32.1% increase from the RMB635.9 billion logged in 2017. The increase follows supply-side structural reforms. The federation further expects China to account for 50% of all growth in the petrochemical sector, through 2025.

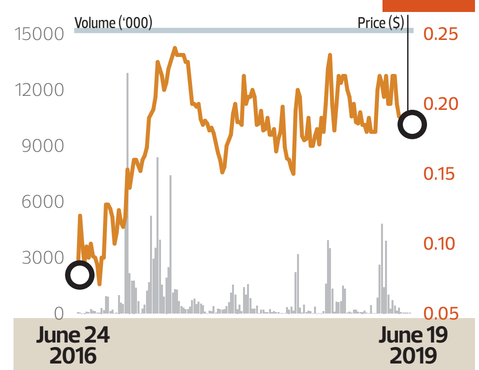
In a separate study by the International Energy Agency, petrochemicals are seen to be key drivers of global oil demand, instead of being used merely for fuel. It is set to account for more than a third of the growth in world demand by 2030, and more than half the growth by 2050.

According to Zhang, China's demand for petrochemicals is so high that domestic producers such as Sinostar cannot produce enough. China needs to import it from abroad to supplement what is produced domestically.

Optimal mix

Currently, with its two production plants, Sinostar has a production capacity of 550,000 tonnes of raw LPG per year, which is then further processed. For every unit of raw LPG produced, 70% is sold as processed LPG and 30% is used to produce propylene. This translates into an annual production capacity of 180,000 tonnes of propylene and 50,000 tonnes of polypropylene.

Sinostar PEC Holdings



BLOOMBERG

In 1Q2019, half the propylene production came from its second plant, in which it acquired a 70% stake last December for RMB317.8 billion, while the remaining came from its first plant. Its first plant was built in 2008 with proceeds it raised from its IPO listing.

Sinostar is in the process of constructing its third plant, which, upon completion, will lift its propylene production five-fold from the current 50,000 tonnes a year to 250,000 tonnes a year.

The company's current production capacity and mix is not optimised for maximum profitability. Out of Sinostar's current propylene production of 90,000 tonnes, only 50,000 tonnes can be further processed into polypropylene, owing to capacity constraints. It sells the 40,000 unused tonnes in the market — at a rate that garners less profit than if it is further processed.

For now, Sinostar has no plans to acquire or build a fourth plant. The company's focus is to properly utilise the third plant's propylene production. So far, Zhang is happy with Sinostar's performance for the first quarter and says the company will continue to execute [its] expansion plans while being mindful of [its] cashflow and gearing". E

CORPORATE MOVES

Banyan Tree Holdings Ltd
Karen Tay Koh has been appointed independent director wef May 31
Work experience: Senior adviser, TVM Capital Healthcare Partners; CEO and ED, IP Investment Management Pte Ltd

Design Studio Group Ltd
Kevin Derek Lewis has been appointed non-ED wef June 6
Work experience: Acting group CEO, Depa Group, Dubai, UAE; MD, Depa Interiors Group, Dubai, UAE

Magnus Energy Group Ltd
Wee Liang Hiam has been appointed independent director wef June
Work experience: Lead independent director, Shanghai Turbo Enterprises Ltd; lead independent director, Global Dragon Ltd

Pacific Star Development Ltd
Ying Wei Hsein has been appointed executive chairman wef June 4
Work experience: Director, Singularity Consultancy Pte Ltd
Leow Chin Boon has been appointed independent director wef June 4
Work experience: ED, Moppetto Pte Ltd/group CFO, I-Serve Holdings Ltd
Bob Low Siew Sie has been appointed independent director wef June 4
Work experience: Director, Interra Resources Ltd

PSL Holdings Ltd
Richard Kennedy Melati has been appointed ED wef June 10
Work experience: Operations director, PSL Holdings Ltd; head, fleet management, Geo Energy Resources Ltd

Serial System Ltd
Sean Goh Su Teng has been appointed group COO wef June
Work experience: Group senior VP/COO, consumer products distribution, Serial System Ltd

Singapore Technologies Engineering Ltd
Joseph Leong Weng Keong has been appointed non-independent non-ED wef June 7
Work experience: Permanent secretary (Defence Development); second permanent secretary (communications and information)

United Industrial Corp Ltd
Liam Wee Sin has been appointed non-executive non-independent director wef June 10
Work experience: Group CEO, UOL Group Ltd; deputy group CEO, UOL Group Ltd

United Overseas Bank Ltd
Steven Phan Swee Kim has been appointed non-independent non-ED wef July
Work experience: Area managing partner, Asia-Pacific, Ernst & Young; COO, Asia-Pacific, Ernst & Young — *Compiled by Rahayu Mohamad*

Companies are invited to submit notices of senior corporate appointments and changes. Announcements will be edited for brevity. Email rahayu.mohamad@bizedge.com; attention: editorial coordinator, Rahayu Mohamad.