



Sunpower Group

(SPWG SP/SUNP.SI)

A purer play on clean energy going forward

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- The disposal of the M&S business for RMB2.29bn has been completed, with two tranches of special dividend of S\$0.1406 a share and S\$0.1006 a share paid out in June and July.
- New capacity from Tongshan P1, Shantou P2, Xintai Zhengda and Shanxi Xinjiang plants are expected to complete construction in 2021/early 2022 and contribute to the group next year.
- We maintain our **OUTPERFORM** recommendation with an unchanged target price of **\$\$1.22** based on the discounted cash flows of each project.

Financials & Key Operating Statistics					
YE Dec (RMB m)	FY19	FY20	FY21F*	FY22F	FY23F
Revenue	3,605	4,059	2,650	2,932	3,237
Gross Profit	889	981	605	816	897
PATMI	352	377	218	330	374
Basic EPS	45	48	28	42	47
Fully Diluted EPS (RMB cents)	31	33	19	29	32
Basic EPS grth (%)	31%	6%	-42%	51%	13%
Basic P/E (x)	6.7	6.4	11.0	7.3	6.4
Fully diluted P/E (x)	33.6	15.9	9.9	9.2	16.0
Basic P/B (x)	1.3	1.1	1.0	0.9	0.8
Fully Diluted P/B (x)	1.9	1.6	1.4	1.3	1.1
Gross Margin (%)	25%	24%	23%	28%	28%
Interest Coverage (x)	5.1	5.7	2.3	2.8	2.9
ROE (%)	19%	17%	9%	12%	12%

*FY21EPS decline of 42% is due to the disposal of the M&S business
Source: Company Data, KGI Research

2Q21 performance review. On 30th April, Sunpower completed the divestment of M&S with a gain of RMB934mn. The aggregate amount of the disposal of the M&S segment is RMB2.29bn, of which two tranches of special dividends of S\$0.1406 a share and S\$0.1006 a share were paid out in June and July.

Sunpower's 2Q21 performance is not comparable to the same period last year as M&S only contributed 1 month of performance in 2Q21 and 4 months in 1H21. GI segment continued to deliver a steady and healthy growth due mainly to the full quarter contribution from Shantou Phase 1 and Xintai Zhengda Project.

Figure 1: Key financials highlights

(RMB mn)	1H21	1H20	YoY change
M&S revenue	531	1,246	-57%
GI revenue	907	511	77%
GI segment			
Gross profit	211	142	48%
EBITDA	281	187	50%
PATMI	92	67	37%

Source: KGI research

Outperform - Maintain			
Price as of 2 Sep 21 (SGD)	0.61	Performance (Absolute)	
12M TP (\$)	1.22	1 Month (%)	-14.8%
Previous TP (\$)	1.22	3 Month (%)	-16.7%
Upside (%)	101.7	12 Month (%)	47.5%
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	480		
Issued Shares (mn)	792		
Vol - 3M Daily avg (mn)	3.2		
Val - 3M Daily avg (\$mn)	2.5		
Free Float (%)	39.3%		
Major Shareholders		Previous Recommendations	
Guo Hongxin	19.4%	4-Mar-20	OP \$0.91
Ma Ming	17.3%	12-Jan-21	OP \$1.45
Lin Yucheng	12.6%	31-May-21	OP \$1.53

Figure 2: Project updates as of 2Q21

Project	Designed capacity of steam (no. of boilers * tonnes/hour)	Designed capacity of power (no. of generators * MW/hour)
In operation		
Changrun	2*220	2*25
Yongxing	2*100 + 1*150	2*18
Xinyuan	3*75 + 1*220	2*6 + 1*25
Suyuan	1*90 + 2*75	1*7
Lianshui	2*40	NA
Quanjiao	1*40	NA
Xintai Zhengda (new)	1*130	1*35 + 1*18
Jining	NA	NA
Shantou P1	3*150	2*20
Under construction		
Tongshan P1	1*130	1*35
Shanxi Xinjiang	1*130	1*15
Xintai Zhengda (new)	2*130	1*35 + 1*18
Shantou P2	2*260	2*30

*Construction of Tongshan P1, Shantou P2, and another new boiler of Xintai Zhengda is expected to complete within 2021.

Source: KGI research

Valuation & Action: We maintain our OUTPERFORM recommendation with an unchanged target price of \$\$1.22, based on the discounted cash flows of each project. As of June 2021, there were nine GI plants under operation, two new plants under construction and two existing plants being expanded. Most of the new capacity is expected to come onstream by end-2021, with Shanxi Xinjiang to be completed in early 2022.

Risks: Concentration risk as Sunpower's business will solely focus on the GI business following the disposal of the M&S segment. The growth of the GI segment is mainly from the development of new plants. Rising interest rates and financing costs driven by inflation expectation could lower project rate of returns.

The onset of carbon neutrality theme. Over the past five years, ESG (environment, social, and governance) investment was one of the mainstream themes, especially in Europe and the US. However, this is still abstract for many institutions in Asia, where most emerging countries with large populations and vast energy consumption are located. It was not until the outbreak of COVID-19, which disrupted the supply chain and economic activities, that the ESG theme was further reinforced.

China, Asia's largest economy and biggest energy consumer, proposed a carbon neutrality target that aims to have CO2 emissions peak before 2030 and achieve carbon neutrality before 2060. On the one hand, China will gradually slow down dirty coal consumption and raise clean energy supply in the energy mix over the next decade; on the other hand, it will also improve energy consumption efficiency, especially fossil fuels. In the draft 14th-Five-Year Plan, the authorities continue to promote the development of the circular economy industrial parks and centralised steam facilities. Therefore, Sunpower is set to continue benefiting from the policy tailwinds.

Ramp-up of capacity. After disposing of the M&S businesses and freeing up capital, the supply of energy such as steam, power, and heat is Sunpower's sole business. The business driver is the capacity and utilisation rate. In the next two years, we will see new capacity from Tongshan P1, Shanxi Xinjiang, Shantou P2, and Xintai Zhengda commence operation by 2022. The amount of the new capacity accounts for 32% of the total 3,210 tonnes/h steam capacity.

Figure 4: GI-only P&L forecasts

Y/E Dec (RMB mn)	FY21F	FY22F	FY23F
Revenue	2,119	2,932	3,237
Cost of sales and servicing	-1,623	-2,116	-2,340
Gross revenue	496	816	897
PATMI	193	330	374

Source: KGI research

Figure 3: GI segment valuation

	Changrun (Phase 1)	Xinyuan*	Lianshui	Quanjiao	Yongxing*	Suyan*	Xintai Zhengda (New facility)	Shantou (Phase 1)	Shantou (Phase 2)	Tongshan Project (Phase 1)	Xinjiang Project (Phase 1)
FCF p.a.											
Year 1	72	41	9	12	132	43	62	84	162	68	65
Year 2	70	41	9	12	129	42	60	83	161	67	63
Year 3	67	40	9	12	126	41	58	81	159	65	61
Year 4	63	39	8	11	123	40	55	80	158	63	59
Year 5	60	38	8	11	120	39	53	78	157	61	57
Year 6	57	37	7	11	117	38	50	76	155	58	54
Year 7	53	36	7	11	114	37	47	74	154	56	51
Year 8	49	891	6	11	2,918	1,001	44	72	152	54	49
Year 9 to the end of the concession	124	-	15	15	-	-	103	110	182	101	102
NPV	309	479	52	91	3,015	956	50	374	1,420	409	287
Ownership	100%	85%	95%	100%	100%	90%	79%	51%	51%	85%	100%
NPV owned by Sunpower	309	407	49	91	3015	861	40	191	724	348	287
Valuation in the year of 2021	278	380	44	85	2814	832	40	191	724	348	287
Capital structure	Debt: 60%, Equity: 40%										
Cost of equity	9.0%										
Cost of debt	5.5%										
Tax rate	16.0%										
WACC	6.4%										
Total NPV	6,024										
Total Debt as of Sep 2020 - Total Debt from M&S	2,126										
Total FY21F Cash *70% + Net proceeds excluding the special dividend	1,131 7,019										
Total number of shares if fully diluted	1152										
TP (RMB)	6.09										
FX	5.00										
TP (SGD)	1.22										

YE 31 Dec

INCOME STATEMENT (RMB m)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	3,605	4,059	2,650	2,932	3,237
Cost of sales	-2,716	-3,077	-2,045	-2,116	-2,340
Gross Profit	889	981	605	816	897
Other operating income/(expenses)	-2	-17	0	0	0
SG&A	-323	-341	-80	-83	-88
Othes	-0	-1	0	0	0
Profit from Operations	563	623	525	732	810
Finance income/(expenses)	-110	-109	-225	-260	-275
Share of JV results	1	2	0	0	0
Profit before Tax	454	516	300	472	535
Income tax	-91	-112	-66	-118	-134
Non-controlling interests	11	27	16	24	27
PATMI	352	377	218	330	374

BALANCE SHEET (RMB m)	FY19	FY20	FY21F	FY22F	FY23F
Cash and cash equivalents	690	534	468	868	1,378
Pledged deposit	107	209	80	100	120
Trade and other receivables	1,352	1,452	377	452	498
Inventory	545	541	67	69	76
Others	540	627	1,104	1,206	1,316
Current Assets	3,234	3,363	2,095	2,695	3,389
Property, plant and equipment	1,013	999	674	666	651
Intangible assets	2,527	3,007	5,981	6,067	6,153
Others	846	915	738	738	738
Non-current Assets	4,386	4,922	7,393	7,471	7,543
Total assets	7,620	8,285	9,489	10,166	10,932
Trade and other payables	2,094	2,131	1,060	1,173	1,295
Borrowings (current)	1,010	766	790	868	955
Others	88	53	25	25	25
Current Liabilities	3,192	2,950	1,875	2,067	2,276
Borrowings (non-current)	1,272	1,783	3,551	3,906	4,296
Convertible bonds	817	794	773	773	773
Others	221	222	215	215	215
Non-current liabilities	2,310	2,800	4,539	4,894	5,284
Total liabilities	5,502	5,750	6,414	6,960	7,560
Shareholders equity	1,851	2,222	2,437	2,767	3,141
Non-controlling interests	267	313	638	438	231
Total Equity	2,118	2,535	3,075	3,206	3,372
Total Liabilities and Equity	7,620	8,285	9,489	10,166	10,932

CASH FLOW STATEMENT (RMB m)	FY19	FY20	FY21F	FY22F	FY23F
Net income before tax	454	516	300	472	535
Depreciation & non cash adjustments	145	174	164	222	228
Others	154	143	225	260	275
Change in Working Capital	-168	-123	65	-35	-7
Income Tax Paid	-83	-129	-66	-118	-134
Interest Paid	-65	-68	-220	-255	-270
CF from operating activities	437	513	468	546	628
Purchase/Disposal of PPE	-105	-79	-100	-50	-50
Purchase/Disposal of intangible assets	-519	-434	-2,453	-250	-250
Others	-620	-268	0	0	0
CF from investing activities	-1,244	-781	-2,553	-300	-300
Dividends Paid	-12	-15	-13	0	0
Debt Raised / (Repaid)	877	264	2,287	434	477
Others	-53	-137	-255	-280	-295
CF from financing activities	812	112	2,018	154	182
Net increase in cash & cash equiv.	5	-156	-67	400	510
FX effects	0	-0	0	0	0
Beginning Cash	903	685	690	534	468
Ending Cash	908	529	624	935	978

KEY RATIOS	FY19	FY20	FY21F	FY22F	FY23F
Profitability					
Basic EPS (RMB Cents)	45	48	28	42	47
Fullu diluted EPS (RMB Cents)	31	33	19	29	32
Basic EPS Growth (%)	31%	6%	-42%	51%	13%
DPS (SGD Cents)	0.25	0.30	0.30	0.30	0.30
Dividend Yield (%)	0.5%	0.5%	0.5%	0.5%	0.5%
Profitability					
Gross margin	25%	24%	23%	28%	28%
EBIT margin	20%	20%	26%	33%	32%
Net margin	10%	9%	8%	11%	12%
ROE	19%	17%	9%	12%	12%
ROA	5%	5%	2%	3%	3%
Growth (% Y-o-Y)					
Interest coverage	5.1	5.7	2.3	2.8	2.9
Total Debt/Equity	1.2	1.1	1.8	1.7	1.7
Net Gearing	0.8	0.8	1.6	1.4	1.2

*Forecasted financials and ratios excluded the divestment of M&S segment and special dividends. Hence, these are normalised forecasts.

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