



Sunpower Group

(SPWG SP/SUNP.SI)

Proven turnaround

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- 2Q20 revenue substantially grew by 64.5% YoY, and PATMI jumped by 142.6% YoY, beyond expectation mainly due to the surge in M&S segment business. Achieving the full year earnings target of RMB370mn is on track.
- M&S segment secured new orders of RMB870mn YTD. By the end of July. The net order book maintained at a record high of RMB2.8bn.
- We maintain **OUTPERFORM** with an unchanged TP of \$0.91 given that the fundamentals of each project are still intact. Our valuation is based on sum-of-the-part methodology by adding up each project's discounted cash flows, with projects having 20 to 30 years of concession. 2Q20 cash flow from operations reached a record high of RMB184mn, offsetting -RMB46mn in 1Q20.

Financials & Key Operating Statistics

YE Dec (RMB m)	FY17	FY18	FY19	FY20F	FY21F
Revenue	1,965	3,263	3,605	3,866	4,540
Gross Profit	408	694	889	1,015	1,201
PATMI	117	254	352	374	472
Basic EPS	16	34	45	47	60
Fully Diluted EPS	9	19	27	28	36
Basic EPS grth (%)	-18%	117%	31%	5%	26%
Basic P/E (x)	13.6	6.3	4.8	4.5	3.6
Fully diluted P/E (x)	23.9	11.3	8.1	7.6	6.0
Basic P/B (x)	1.4	1.1	0.9	0.7	0.6
Fully Diluted P/B (x)	2.3	1.9	1.5	1.3	1.0
Gross Margin (%)	21%	21%	25%	26%	26%
Net Margin (%)	6%	8%	10%	10%	10%
Net Gearing (%)	8%	36%	80%	75%	75%
Interest Coverage (x)	5.4	6.3	5.1	4.4	4.8
ROE (%)	10%	17%	19%	17%	17%

Source: Company Data, KGI Research

Proven strong recovery in 2Q20. China is the only economy that reported a positive GDP growth (3.2% YoY) in 2Q20. Meanwhile, the NBS manufacturing PMI maintained at above 50 throughout the whole 2Q20 (Apr: 50.8; May: 50.6; Jun: 50.9), indicating that the manufacturing sector has been recovering even though overseas market still suffered from the pandemic during the period.

Riding on the turnaround of its domestic operating environment, Sunpower's performance exceeded expectations. Total revenue jumped by 64.5% YoY to RMB1.08bn, out of which M&S segment soared by 100.9% YoY, and GI segment grew mildly by 2.8% YoY. The robust growth in M&S segment stemmed from a record-high order book (RMB2.8bn as of July) which now stretches into 2021. This provides more visibility of M&S performance. In July, Sunpower announced RMB170mn of new contracts, boosting the amount of new orders secured in January to July 2020 to RMB1.55bn.

The growth of GI in 1H 2020 was mainly attributed to the rapid resumption of production right after the successful

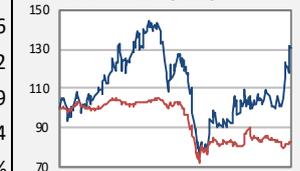
Outperform - Maintain

Price as of 14 Aug 20 (SGD)	0.58	Performance (Absolute)	
12M TP (\$)	0.91	1 Month (%)	28.5%
Previous TP (\$)	0.91	3 Month (%)	44.0%
Upside (%)	58.3	12 Month (%)	28.5%

Trading data

Mkt Cap (\$mn)	466
Issued Shares (mn)	792
Vol - 3M Daily avg (mn)	0.9
Val - 3M Daily avg (\$mn)	0.4
Free Float (%)	41.0%

Perf. vs STI Index (Red)



Major Shareholders

Guo Hongxin	19.0%	6-Dec-19	OP \$0.91
Ma Ming	17.0%	4-Mar-20	OP \$0.91
Lin Yucheng	12.3%	18-May-20	OP \$0.91

Previous Recommendations

containment of the pandemic in China. Sunpower had eight plants in operation in 1H 2020, and all of them had resumed operations in 2Q 2020. The pent-up demand boosted the consumption of steam and power provided by all plants under operations. In 2H20, we expect to see new revenue contributions from Suyuan Plant (respectively 10% and 3% of end-2020 steam and electricity capacity) and Shantou Project Phase 1 (respectively 18% and 18% of the end-2020 steam and electricity capacity).

Figure 1: 2Q20 revenue breakdown

(RMB mn)	2Q20	2Q19	YoY change
GI revenue	252	245	+2.8%
M&S revenue	832	414	+100.9%
Total revenue	1084	659	+64.5%

Source: Company, KGI Research

Valuation & Action: We maintain our **OUTPERFORM** recommendation with an unchanged target price of \$0.91, based on sum-of-the-part method adding up each project's discounted cash flows. These projects own 20 to 30 years of concessions.

Risks: Our valuation forecast and outlook are based on the assumption of a V-shape rebound of the economy. Based on the 2Q20 macro data, China is leading the rest of the world in terms of economic recovery and containment of COVID-19 pandemic. However, China is also facing external pressures mainly from the escalating trade tension with US and its allies. In 2H20, we expect geopolitical risk as the main factor weighing on the recovery of the global economy. China is promoting internal circulation model to deal with the declining external demand. How much the domestic demand can supplement the losses from overseas markets remains

uncertain. If the model pans out, China could see a pick up and even report faster growth in 2H20 and next year. If not, China could risk being trapped in a state of stagflation.

Better outlook in 2H20. COVID-19 pandemic is expected to last throughout 2H20. China-US tensions will not fully dissipate in the near term. The US election could bring polarising impacts on both the economy and the global markets.

Although great uncertainties lie ahead of the economic recovery in 2H20, Sunpower is less likely subject to the negatives. Recently, China proposed economic internal circulation to sustain growth amidst external pressures from the US and its allies. In other words, China is going to promote a model of self-sustenance and domestic market-oriented businesses.

Sunpower's two segments are expected to benefit from this trend. Bulk of the orders are from domestic sectors such as Chemicals and Petrochemicals. Companies operating in the industrial zone where GI plants located are in the basic industrial (Textile, Painting and Dyeing, Chemicals) that mainly cater to domestic demand. Moreover, propensity of export substitution and industrial consolidation will accelerate the transformation and upgrade of the manufacturing industry, which potentially can create more business for M&S segment. Meanwhile, more factories and plants with a focus on domestic market-oriented production enhances the stability of demand for steam and power that GI segment provides.

Achieving the FY20 profit target is on track. Sunpower's performance has historically been subjected to seasonality. Generally, 2Q is the weakest of the year. However, both top line and bottom line reached a record high in 2Q20. 1H20 PAT arrived at RMB177.1mn, achieving 47% of the full-year target of RMB370mn. So far, the COVID-19 pandemic has not disrupted operations. In fact, Sunpower has benefitted by expanding. Furthermore, Sunpower stocked up on more coal in 1H20 when prices were at the trough. Hence, margins could improve in 2H20. We are upbeat that Sunpower is able to deliver the targeted earnings.

YE 31 Dec

INCOME STATEMENT (RMB m)	FY17	FY18	FY19	FY20F	FY21F
Revenue	1,965	3,263	3,605	3,866	4,540
Cost of sales	-1,558	-2,569	-2,716	-2,851	-3,339
Gross Profit	408	694	889	1,015	1,201
Other operating income/(expenses)	47	38	-2	31	36
SG&A	-242	-329	-323	-406	-459
Othes	-31	-12	-0	0	0
Profit from Operations	182	391	563	640	779
Finance income/(expenses)	-34	-62	-110	-145	-163
Share of JV results	0	-1	1	0	0
Profit before Tax	149	328	454	495	616
Income tax	-27	-62	-91	-104	-123
Non-controlling interests	5	12	11	16	21
PATMI	117	254	352	374	472

BALANCE SHEET (RMB m)	FY17	FY18	FY19	FY20F	FY21F
Cash and cash equivalents	903	685	690	707	684
Pledged deposit	88	112	107	125	144
Trade and other receivables	1,264	1,289	1,321	1,386	1,428
Inventory	343	500	559	582	678
Others	368	396	625	573	643
Current Assets	2,966	2,982	3,302	3,372	3,578
Property, plant and equipment	474	870	1,013	1,375	1,719
Intangible assets	1,284	2,074	2,527	2,890	3,334
Others	276	697	811	896	941
Non-current Assets	2,034	3,641	4,350	5,161	5,994
Total assets	5,000	6,623	7,653	8,534	9,572
Trade and other payables	1,740	2,499	2,127	2,350	2,511
Borrowings (current)	517	493	1,010	1,111	1,277
Others	33	73	85	85	85
Current Liabilities	2,291	3,065	3,221	3,545	3,873
Borrowings (non-current)	568	839	1,272	1,399	1,609
Convertible bonds	732	837	817	823	811
Others	36	148	225	235	236
Non-current liabilities	1,336	1,824	2,314	2,457	2,657
Total liabilities	3,626	4,889	5,535	6,003	6,529
Shareholders equity	1,224	1,494	1,844	2,250	2,747
Non-controlling interests	150	240	273	280	296
Total Equity	1,374	1,734	2,118	2,531	3,043
Total Liabilities and Equity	5,000	6,623	7,653	8,534	9,572

CASH FLOW STATEMENT (RMB m)	FY17	FY18	FY19	FY20F	FY21F
Net income before tax	178	395	454	495	616
Depreciation & non cash adjustments	50	106	143	173	222
Others	-19	0	152	187	208
Change in Working Capital	-80	-174	-151	86	-49
Income Tax Paid	-22	-47	-88	-104	-123
Interest Paid	-21	-51	-66	-137	-154
CF from operating activities	86	229	443	699	719
Purchase/Disposal of PPE	-52	-71	-112	-100	-100
Purchase/Disposal of intangible assets	-522	-228	-565	-300	-300
Others	-119	-467	-570	-485	-695
CF from investing activities	-693	-767	-1,246	-885	-1,095
Dividends Paid	-8	-8	-12	-8	-5
Debt Raised / (Repaid)	461	171	877	228	376
Equity Raised / (Bought Back)	0	16	12	0	0
Issuance of convertible bonds	732	123	0	0	0
Others	43	18	-65	-18	-19
CF from financing activities	1,228	320	813	202	353
Net increase in cash & cash equiv.	621	-217	10	16	-23
FX effects	-0	0	0	0	0
Beginning Cash	281	903	685	690	707
Ending Cash	903	685	695	707	684

KEY RATIOS	FY17	FY18	FY19	FY20F	FY21F
Profitability					
Basic EPS (RMB Cents)	16	34	45	47	60
Fullu diluted EPS (RMB Cents)	9	19	27	28	36
Basic EPS Growth (%)	-18%	117%	31%	5%	26%
DPS (SGD Cents)	0.12	0.19	0.25	0.19	0.19
Dividend Yield (%)	0.2%	0.3%	0.5%	0.3%	0.3%
Profitability					
Gross margin	21%	21%	25%	26%	26%
EBITDA margin	12%	15%	20%	21%	22%
Net margin	6%	8%	10%	10%	10%
ROE	10%	17%	19%	17%	17%
ROA	2%	4%	5%	4%	5%
Financial Structure (x)					
Interest coverage	5.4	6.3	5.1	4.4	4.8
Total Debt/Equity	0.9	0.9	1.2	1.1	1.1
Net Gearing	0.1	0.4	0.8	0.7	0.7

KGI's Ratings

Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Not Rated (NR)	The stock is not rated by KGI Securities.
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