

Sunpower Group

(SPWG SP/SUNP.SI)

Achieving 2020 target and a record high performance

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- 9M20 revenue grew by 15.9% YoY, and PATMI jumped by 42.5% YoY, in line with our expectations mainly due to the growth of its GI segment.
- Looking forward to a new record high in business performance this year and achieving the 2020 target.
- M&S segment secured sizable new contracts every month in 3Q20. By the end of September, the net order book stood 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.

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%

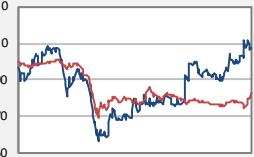
Source: Company Data, KGI Research

Ongoing economic recovery in China. China is one of the few economies that delivered a positive GDP growth (4.9% YoY) in 3Q20. Meanwhile, the NBS manufacturing PMI stayed above 50 in 3Q20 (July: 51.1; August: 51.0; September: 51.5), indicating that the manufacturing sector has been back to expansion mode. Exports grew by 8.8% YoY, and retail sales slightly dipped 0.4% YoY during the period. The external demand for China goods and services remains strong while domestic demand is recovering.

Due to the quick recovery of domestic production activities, Sunpower delivered healthy growth in 3Q20 after China contained the COVID-19 pandemic. Total revenue increased by 15.9% YoY to RMB901mn, out of which M&S segment grew moderately by 9% YoY, and GI segment jumped by 30.8% YoY. The healthy growth in M&S segment resulted from a record-high order book. In August and September, Sunpower secured more than RMB360mn of new contracts. As of September, the total order book remained at RMB2.8bn which will be recognised throughout 2021.

There were nine plants under operation by the end of September. All plants operated normally during 3Q20. Both

Outperform - Maintain

Price as of 17 Nov 20 (SGD)	0.64	Performance (Absolute)
12M TP (\$)	0.91	1 Month (%) 8.5%
Previous TP (\$)	-	3 Month (%) 8.7%
Upside (%)	42.2	12 Month (%) 11.0%
Trading data		Perf. vs STI Index (Red)
Mkt Cap (\$mn)	519	
Issued Shares (mn)	792	
Vol - 3M Daily avg (mn)	1.3	
Val - 3M Daily avg (\$mn)	0.8	
Free Float (%)	41.2%	

Major Shareholders

Major Shareholders	Previous Recommendations
Guo Hongxin	19.0% 6-Dec-19 OP \$0.91
Ma Ming	17.0% 4-Mar-20 OP \$0.91
Lin Yucheng	12.3% 14-Aug-20 OP \$0.91

Xintai Zhengda's new plant and Shantou Phase 1 plant had started the trial production. Projects in the pipeline such as Shantou Phase 2, Tongshan, and Shanxi Phase 1 have started construction.

Figure 1: 3Q20 revenue breakdown

(RMB mn)	3Q20	3Q19	YoY change
GI revenue	320	244	+31.1%
M&S revenue	581	533	+9.0%
Total revenue	901	777	+16.0%

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 3Q20 macro data, China is leading the rest of the world in terms of economic recovery and containment of COVID-19 pandemic. In 4Q20, we expect the worsen COVID-19 pandemic, especially in Europe and US, to drag the recovery of the global economy. If external demand for these epicentres weakens during the Christmas season, China will also be moderately impacted as the improving export growth could slow down.

Look forward to a new record high of revenue and profit.
Fourth quarter is historically the best quarter in the year for Sunpower. Seasonality will continue to play well this year. China's industrial production activities have been catching up since the domestic pandemic was contained in 2Q20. Meanwhile, it seems that new waves of COVID-19 infections are hitting Europe and US just when winter season is approaching. China is likely to benefit from its dual circulation model at this juncture owing to recovering domestic demand, which is driving domestic supply and supplementing for the shortage of external supply.

Sunpower 9M20 PAT arrived at RMB287.7mn, achieving 75% of our full-year target of RMB370mn. With the normal operations of 9 plants under the GI segment, we believe Sunpower will achieve the 2020 target by delivering another RMB100mn of profits.

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
Others	-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
Full 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

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	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.
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