



# Sunpower Group

(SPWG SP/SUNP.SI)

## Proposed M&S disposal & special dividend – a win-win deal for shareholders

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- The disposal of the Manufacturing and Services (M&S) segment values the business at RMB2.29bn. Total net proceeds are estimated to be RMB2.021bn, of which RMB1.34bn is intended to be declared as a special dividend (equivalent to S\$0.2359), RMB551mn to fund existing GI projects and general working capital, and RMB130mn to repay existing payables owed by GI to M&S.
- M&S segment is priced at 12.2x price-to-earnings ratio (PER) based on its FY19 net profit, valuing it at more than 100% premium to our previous valuation.
- We maintain our **OUTPERFORM** recommendation with an upgraded target price of **\$\$1.45 (ex-dividend S\$1.22)** based on GI projects' discounted cash flows and the intended special dividend of S\$0.2359 per share.

### 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)	28.6	13.2	10.0	9.6	7.6
Fully diluted P/E (x)	50.3	23.8	17.0	16.0	12.7
Basic P/B (x)	2.9	2.4	1.9	1.6	1.3
Fully Diluted P/B (x)	4.9	4.0	3.3	2.7	2.2
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%

Financials and ratios are not reflective of M&S divestment  
Source: Company Data, KGI Research

**Win-win divestment: unlock value & pursue higher-quality growth.** The disposal of M&S segment is valued at RMB2.29bn, equivalent to ~S\$0.40 per share and 12.2x times M&S's FY19 net profit. We previously valued M&S at RMB1.12bn or S\$0.17 per share based on an estimated net profit of RMB161mn and 7x PER. Therefore, the premium of more than 100% unlocks great value for shareholders.

Figure 1: FY20F M&S revenue and net profit

	M&S
Revenue	2,680
NPM	6.0%
NP	161
PER	7x
Valuation	1,126
Total number of shares if fully diluted	1,325
TP (RMB)	0.85
FX	5.00
TP (SGD)	0.17

Source: KGI research

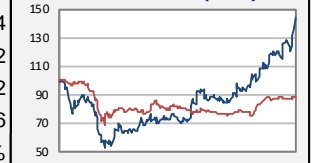
### Outperform - Maintain

		Performance (Absolute)	
Price as of 12 Jan 21 (SGD)	0.91	1 Month (%)	23.1%
12M TP (\$) (cum-dividend)	1.45	3 Month (%)	51.3%
Previous TP (\$)	0.91	12 Month (%)	46.8%
Upside (%)	60.2		

### Trading data

Mkt Cap (\$mn)	734
Issued Shares (mn)	792
Vol - 3M Daily avg (mn)	2.2
Val - 3M Daily avg (\$mn)	1.6
Free Float (%)	41.2%

### Perf. vs STI Index (Red)



### Major Shareholders

Guo Hongxin	19.0%	14-Aug-20	OP \$0.91
Ma Ming	16.7%	17-Nov-20	OP \$0.91
Lin Yucheng	12.3%	12-Jan-21	OP \$1.45

### Previous Recommendations

After the disposal, Sunpower can be better appreciated by the market for its high-quality GI business segment, as it becomes a standalone pure-play anti-air-pollution environmental protection company. While M&S segment has been able to secure new contracts and maintained net order book at a record level of RMB2.8bn, it is limited by the cyclical businesses that it serves, e.g. oil & gas sector, and its tight production capacity. But GI segment is expected to enjoy the upside from more opportunities for growth, such as favourable policy support and upsizing environmental protection requirements. Furthermore, GI segment has more visibilities over M&S segment owing to the characteristics of the businesses. M&S segment is reliant on the tireless replenishment of its order book to grow, but once a GI project has commenced, it will consistently generate a stable recurring income for decades.

Last but not least, investors need not be concerned of the break-up of synergies between the two segments. GI has its own patented technologies that has been used to optimise the projects. Therefore, GI segment's growth potential is intact even without M&S segment.

**Valuation & Action:** We maintain our **OUTPERFORM** recommendation with an upgraded target price of **\$\$1.45 (ex-dividend S\$1.22)** based on each project's discounted cash flows and the special dividend declared of S\$0.2359 per share. As of September 2020, there were nine GI plants under operation, and four plants in the pipeline. The commencement schedule of new plants operation stretches to 2023.

**Risks:** After the disposal of M&S segment, Sunpower concentrates on GI as the sole business without diversification. However, GI segment has multiple sources of growth, e.g. additions of new plants to the portfolio either through self-

build or acquisitions, organic growth of existing plants, addition of new customers or expansion of existing customers, etc. Rising interest rate and financing cost driven by reflation expectation could lower project rate of returns.

### Higher valuation with the incorporation of two more plants.

We upgraded our ex-dividend TP to SG\$1.22 from the previous SG\$0.91 after incorporating Tongshan Phase 1 and Xinjiang Phase 1 projects.

Figure 2: Updated GI segment valuation

	Changrun (Phase 1)	Xinyuan*	Lianshui	Quanjiào	Yongxing*	Suyan*	Xintai Zhengda (New facility)	Shantou (Phase 1)	Shantou (Phase 2)	Tongshan Project (Phase 1)	Xinjiang Project (Phase 1)
<b>FCF p.a.</b>											
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										

It is worth noting that performance target is changed to RMB325mn for FY22, from previous RMB460mn for FY21, due to the change in business mix. Meanwhile, the maturity date of convertible bonds is extended one more year to 3<sup>rd</sup> March 2023. Owing to the expiration of warrants, the potential fully-diluted shares declines to 1152mn from previous 1325mn.

YE 31 Dec

INCOME STATEMENT (RMB m)	FY17	FY18	FY19	FY20F	FY21F
<b>Revenue</b>	<b>1,965</b>	<b>3,263</b>	<b>3,605</b>	<b>3,866</b>	<b>4,540</b>
Cost of sales	-1,558	-2,569	-2,716	-2,851	-3,339
<b>Gross Profit</b>	<b>408</b>	<b>694</b>	<b>889</b>	<b>1,015</b>	<b>1,201</b>
Other operating income/(expenses)	47	38	-2	31	36
SG&A	-242	-329	-323	-406	-459
Othes	-31	-12	-0	0	0
<b>Profit from Operations</b>	<b>182</b>	<b>391</b>	<b>563</b>	<b>640</b>	<b>779</b>
Finance income/(expenses)	-34	-62	-110	-145	-163
Share of JV results	0	-1	1	0	0
<b>Profit before Tax</b>	<b>149</b>	<b>328</b>	<b>454</b>	<b>495</b>	<b>616</b>
Income tax	-27	-62	-91	-104	-123
Non-controlling interests	5	12	11	16	21
<b>PATMI</b>	<b>117</b>	<b>254</b>	<b>352</b>	<b>374</b>	<b>472</b>
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
<b>Current Assets</b>	<b>2,966</b>	<b>2,982</b>	<b>3,302</b>	<b>3,372</b>	<b>3,578</b>
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
<b>Non-current Assets</b>	<b>2,034</b>	<b>3,641</b>	<b>4,350</b>	<b>5,161</b>	<b>5,994</b>
<b>Total assets</b>	<b>5,000</b>	<b>6,623</b>	<b>7,653</b>	<b>8,534</b>	<b>9,572</b>
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
<b>Current Liabilities</b>	<b>2,291</b>	<b>3,065</b>	<b>3,221</b>	<b>3,545</b>	<b>3,873</b>
Borrowings (non-current)	568	839	1,272	1,399	1,609
Convertible bonds	732	837	817	823	811
Others	36	148	225	235	236
<b>Non-current liabilities</b>	<b>1,336</b>	<b>1,824</b>	<b>2,314</b>	<b>2,457</b>	<b>2,657</b>
<b>Total liabilities</b>	<b>3,626</b>	<b>4,889</b>	<b>5,535</b>	<b>6,003</b>	<b>6,529</b>
Shareholders equity	1,224	1,494	1,844	2,250	2,747
Non-controlling interests	150	240	273	280	296
<b>Total Equity</b>	<b>1,374</b>	<b>1,734</b>	<b>2,118</b>	<b>2,531</b>	<b>3,043</b>
<b>Total Liabilities and Equity</b>	<b>5,000</b>	<b>6,623</b>	<b>7,653</b>	<b>8,534</b>	<b>9,572</b>
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
<b>CF from operating activities</b>	<b>86</b>	<b>229</b>	<b>443</b>	<b>699</b>	<b>719</b>
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
<b>CF from investing activities</b>	<b>-693</b>	<b>-767</b>	<b>-1,246</b>	<b>-885</b>	<b>-1,095</b>
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
<b>CF from financing activities</b>	<b>1,228</b>	<b>320</b>	<b>813</b>	<b>202</b>	<b>353</b>
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
<b>Ending Cash</b>	<b>903</b>	<b>685</b>	<b>695</b>	<b>707</b>	<b>684</b>
KEY RATIOS	FY17	FY18	FY19	FY20F	FY21F
<b>Profitability</b>					
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%
<b>Profitability</b>					
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%
<b>Financial Structure (x)</b>					
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

\*FY21 forecasted financials and ratios are not reflective of M&S divestment. Subject to change upon release of circular

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