

Singapore Company Guide

Sunpower Group Ltd

Version 4 | Bloomberg: SPWG SP | Reuters: SUNP.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

14 Aug 2020

DBS is supported by the Research Talent Development Grant Scheme which aims to groom research talent to expand research coverage of small-mid cap SGX listed companies

BUY (Upgrade from HOLD)

Last Traded Price (12 Aug 2020): S\$0.58 (STI : 2,563.20)

Price Target 12-mth: S\$0.69 (18% upside) (Prev S\$0.49)

Analyst

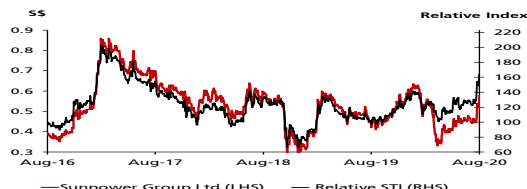
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What's New

- Revise FY20F adjusted PATMI by 6% on record M&S 1H20 performance and RMB2.8bn order book
- GI steam revenue stable with 2H20 likely to improve over 1H20
- Miss in CB target and share dilution worries allayed
- Upgrade to BUY with TP of S\$0.69

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2019A	2020F	2021F	2022F
Revenue	3,605	4,154	4,705	4,809
EBITDA	696	763	909	979
Pre-tax Profit	240	355	472	642
Net Profit	138	239	322	450
Net Pft (Pre Ex.)	352	385	469	476
Net Pft Gth (Pre-ex) (%)	38.9	9.3	21.9	1.4
EPS (S cts)	3.45	5.98	8.05	7.26
EPS Pre Ex. (S cts)	8.80	9.62	11.7	7.68
EPS Gth Pre Ex (%)	34	9	22	(35)
Diluted EPS (S cts)	2.23	3.86	5.20	7.26
Net DPS (S cts)	0.20	0.34	0.46	0.42
BV Per Share (S cts)	43.1	48.8	56.3	57.7
PE (X)	16.8	9.7	7.2	8.0
PE Pre Ex. (X)	6.6	6.0	4.9	7.6
P/Cash Flow (X)	5.2	4.2	4.6	5.4
EV/EBITDA (X)	7.1	6.6	5.5	5.1
Net Div Yield (%)	0.3	0.6	0.8	0.7
P/Book Value (X)	1.3	1.2	1.0	1.0
Net Debt/Equity (X)	1.2	1.1	0.9	0.3
ROAE (%)	8.3	13.0	15.3	15.4
Earnings Rev (%):		10	13	10
Consensus EPS (S cts):		7.61	9.59	14.8
Other Broker Recs:		B: 2	S: 0	H: 1

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

All that glitters is green

Upgrade to BUY with DCF-based TP of S\$0.69. The worst appears to be over for Sunpower as China's economic activities resume. Sunpower's green investments (GI) growth could be back on track given that the textile sector has seen domestic sales return to pre-COVID-19 levels. Specifically, China retail sales growth of clothing items were at -0.1% y-o-y in June. The textile sector, which uses steam from Sunpower's GI plants for printing & dyeing purposes, contributes 40-50% of Sunpower's GI revenue. Altogether, as the economic recovery continues, GI performance should see at least a slight improvement from last year.

Manufacturing and services (M&S) order book sets another record. Following 1Q20's strong order book of RMB2.8bn, the M&S segment outperformed in 1H20, growing revenue to RMB1.3bn (+32.7% y-o-y). As a result, we revise FY20F adjusted PATMI by 6% as Sunpower has proven that its larger order book of RMB2.8bn is sustainable. The increase in order book should have a positive impact on 1H21 results.

Where we differ: We have assumed a lower impact of the global economic slowdown on Yongxing and Xinyuan plants as a significant portion of their capacity is used for heating purposes and less linked to industrial activity.

Potential catalyst: New GI plant development or acquisition, rise in M&S order book driving M&S sales.

Valuation:

Upgrade to BUY with DCF-based TP of S\$0.69. Valuation was increased on earnings revisions for FY20F, FY21F and FY22F led by the sustained higher M&S order book of RMB2.8bn and the removal of additional dilutive shares that were previously assumed based on a miss in convertible bond targets.

Key Risks to Our View:

Unfavourable changes in the regulatory environment; steep rise in coal prices; resurgence of COVID-19; weak Chinese economy.

At A Glance

Issued Capital (m shrs)	811
Mkt. Cap (S\$m/US\$m)	470 / 343
Major Shareholders (%)	
Gua Hongxin	19.0
Ma Ming	17.0
Lin Yucheng	12.3
Free Float (%)	41.2
3m Avg. Daily Val (US\$m)	0.27
GIC Industry : Industrials / Capital Goods	



Live more, Bank less

Sunpower Group Ltd

WHAT'S NEW

All that glitters is green

Record revenues and earnings amid the pandemic

- Revenue for 2Q20 rose to RMB1,084.2m (+64.5% y-o-y) led by the M&S segment. Underlying net profit also soared to RMB122.5m (+131.2%) for the quarter helped by lower finance costs.
- Manufacturing & Services (M&S) segment revenue jumped 100.9% y-o-y to RMB831.9m on a strong order book of RMB2.8bn (+12.0% y-o-y). 2Q20 M&S EBITDA rose to RMB112.8m.
- Green Investments (GI) segment revenue increased 3.0% y-o-y to RMB252.3m as steam plants continued to ramp up post-COVID-19. 2Q20 GI EBITDA rose to RMB108.4m.

M&S outperformance driven by execution ability

- Sunpower attributed the strong 2Q20 M&S performance to its proven quality and execution ability.
- The Group points to evidence including its blue-chip customer base (such as Shell, BASF) and how 70% of its customers are repeat customers.
- We estimate that c.20% of M&S revenue is attributed to service concession arrangements which is based on construction for its GI plants.
- Going forward, the M&S segment is likely to perform better in 2H20 relative to 1H20 as we see some seasonality in sales. M&S sales typically peak in the fourth quarter of every year driven by seasonal factors.

GI to pick up in 2H20

- Similar to M&S, we see some seasonality in GI performance with the fourth quarter of every year typically recording higher sales.
- This is likely due to higher heating demand, driven by the colder climate in China towards the end of the year.
- We therefore expect 2H20 GI performance to improve over 1H20, especially with economic indicators pointing to a resumption of activity.
- Overall steam capacity could rise to an estimated c.2,320t/h (+c.65% from FY19) on completion of Tongshan Phase 1.

China's retail sales recovered in June

- We estimate that a sizeable portion (40-50%) of GI revenue is derived from demand for steam for printing & dyeing from the domestic textile industry.
- Retail sales growth of clothing items has recovered to -0.1% y-o-y in June 2020, a significant improvement from the -34.8% y-o-y recorded in March 2020.
- Overall retail sales in China has also recovered, with June 2020 registering only a 1.0% y-o-y decline.
- The recovery in Chinese retail sales of garments, footwear, hats & knitwear points to possible increased demand for steam due to higher printing & dyeing needs.

China's retail sales growth has recovered to pre-COVID levels



Source: National Bureau of Statistics, DBS Bank

Upgrade to BUY with revised TP of S\$0.69. We revised up our FY20F adjusted PATMI (i.e. net profit pre-exceptionals) by c.6% on the back of the record performance from the M&S segment. Our forecasts for GI are maintained, with 1H20 performance seemingly in line with expectations. We also increased our FY21F adjusted PATMI forecasts by c.9%, led by a higher order book assumption as Sunpower has proven its ability to sustain a RMB2.8bn order book.

We are now expecting Sunpower to meet its convertible bond targets of RMB370m and RMB460m for FY20 and FY21 respectively. As such, we have removed the dilution effect caused by potential additional shares to be issued from missing the convertible bond targets. Our WACC was also lowered to 8.4% on lower market volatility. Overall, we derived a TP of S\$0.69.

Sunpower Group Ltd
Quarterly / Interim Income Statement (RMBm)

FY Dec	2Q2019	1Q2020	2Q2020	% chg yoy	% chg qoq
Revenue	659	673	1,084	64.5	61.2
Cost of Goods Sold	(487)	(518)	(828)	69.9	59.7
Gross Profit	172	154	257	49.3	66.2
Other Oper. (Exp)/Inc	(88.7)	(83.1)	(77.0)	(13.2)	(7.3)
Operating Profit	83.1	71.3	180	116.1	151.9
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.35	0.24	0.43	24.4	84.7
Net Interest (Exp)/Inc	(56.5)	(52.3)	(60.5)	(6.9)	(15.7)
Exceptional Gain/(Loss)	(16.4)	214	(63.2)	285.4	nm
Pre-tax Profit	10.5	234	56.3	437.8	(75.9)
Tax	(13.1)	(12.8)	(34.2)	160.5	167.6
Minority Interest	(2.6)	(2.8)	(0.7)	72.6	(75.2)
Net Profit	(5.2)	218	21.4	nm	(90.2)
Net profit bef Except.	11.2	3.61	84.6	655.4	nm
EBITDA	125	71.5	180	44.3	151.6
Margins (%)					
Gross Margins	26.1	23.0	23.7		
Opg Profit Margins	12.6	10.6	16.6		
Net Profit Margins	(0.8)	32.4	2.0		

Source of all data: Company, DBS Bank

Sunpower Group Ltd

CRITICAL DATA POINTS TO WATCH

Critical Factors

GI asset acquisitions or new greenfield developments

Sunpower's recently announced investment into Tongshan is progressing smoothly and is expected to complete in 2021. The Tongshan Project Phase 1 will add 260t/h in steam production and 70MW of electricity generation capacity to the GI portfolio. As a result, Sunpower's total GI active steam capacity may rise to an estimated c.2,320t/h upon completion. Additionally, Sunpower aims to invest RMB2.5bn in GI equity by 2021. Given the looming target and that only RMB1.7bn in GI equity has been invested or committed, we see a possibility that Sunpower could announce an acquisition in the coming months.

M&S order book size and margins.

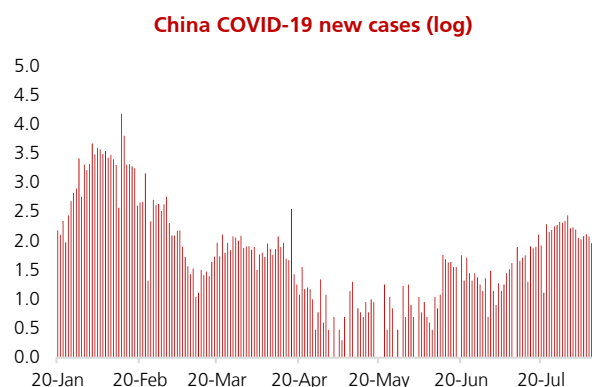
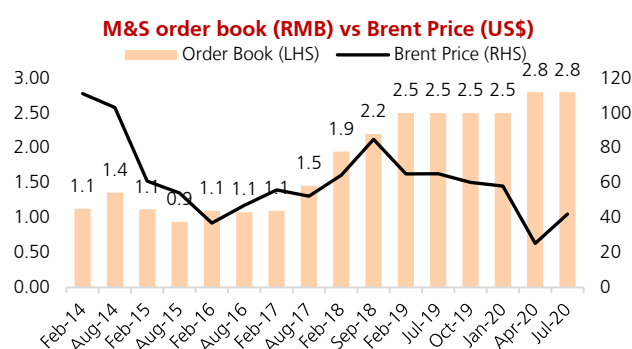
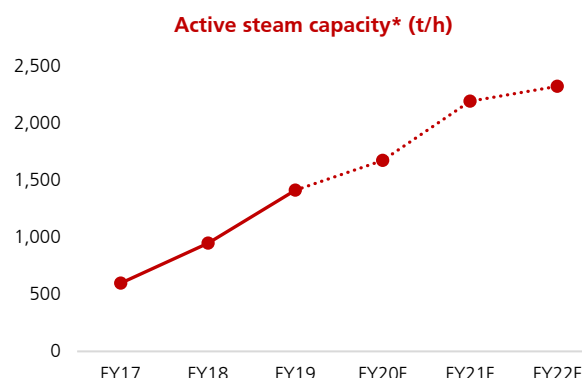
M&S order book was maintained at RMB2.8bn on good domestic demand. Operating margins for the segment improved further, rising to 13.8% from 12.8% in 1Q20. Air pollution levels in China have returned to normal, pointing to a ramp-up and resumption in operations. That said, lower revenue from service concession arrangements due to reduced plant construction (as there are fewer plants to be constructed in FY21F) may lead to slower M&S growth in FY21F. On the bright side, there appears to be a decoupling in relationship between oil prices and order book, led by robust domestic demand. We note that BASF, one of Sunpower's customers, has committed to invest US\$10bn in its smart Verbund project which could create tailwinds for the Group.

Chinese government regulations and plans

Changes to regulations surrounding environmental standards may affect share price due to the potential impact on demand for environment protection products and steam plants. For example, as of June 2020, 12 regions had issued regulations requiring the renovation of coal-fired boilers. We will be closely watching the upcoming 14th Five-Year Plan set to be endorsed in March 2021 that is likely to provide the direction of China's environmental policies from 2021 – 2025.

China's new COVID-19 cases

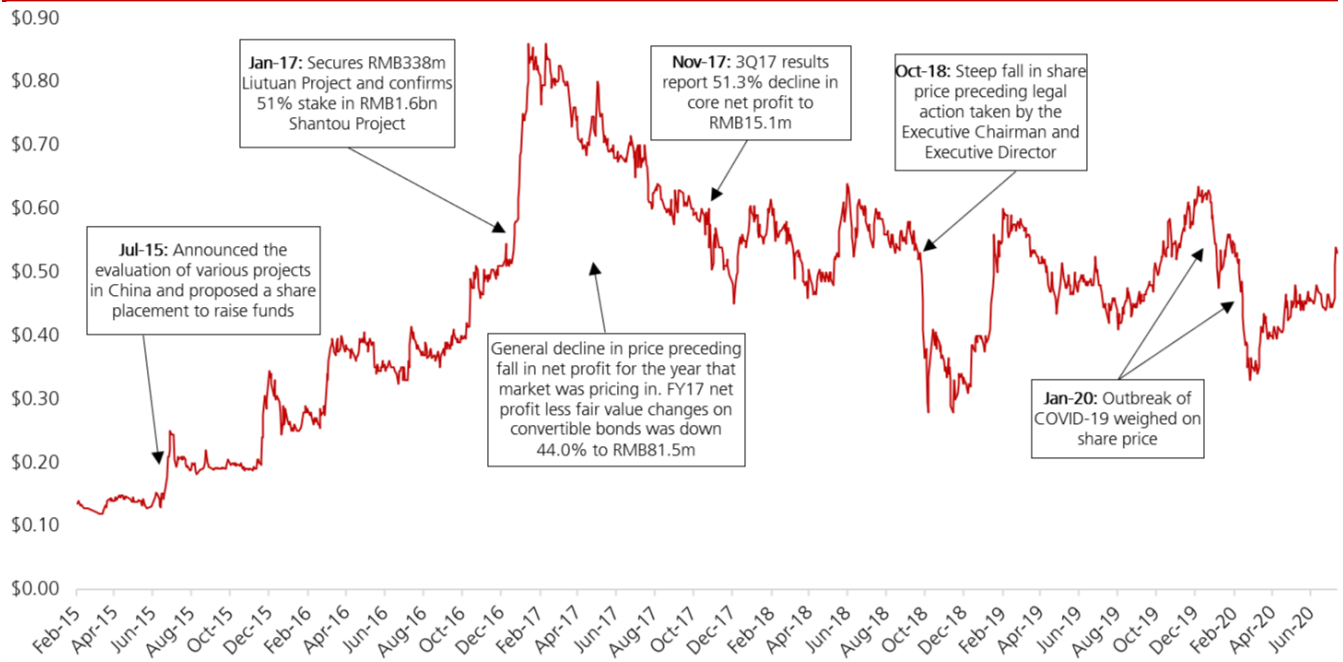
A resurgence in COVID-19 cases could lead to another lockdown which would again impact businesses and demand for Sunpower's steam. The past weeks have seen COVID-19 stabilise in China, with the country recording about 100 new cases a day. Going forward, a sharp rise in new locally transmitted COVID-19 cases could point to community spread that could lead to further lockdowns in affected parts of China.



Source: Company, DBS Bank

Sunpower Group Ltd

Appendix 1: A look at Company's listed history – what drives its share price?



Source: Company, DBS Bank

Sunpower Group Ltd

Balance Sheet:

2Q20 gearing (net debt-to-equity) estimated to be at 1.21x with 80% of borrowings secured. Gearing is likely to trend higher as Sunpower aims to meet its investment target of RMB2.5bn in equity investment for GI projects in a 40:60 equity-debt proportion. We also understand that Sunpower had secured a credit facility with a Chinese bank for RMB800m in 1Q20. Going forward, we estimate that Sunpower will have to repay c.RMB800m in borrowings within a year from 2Q20.

Share Price Drivers:

New GI asset acquisitions or developments. Sunpower's share price is partly driven by steam production capacity which is in turn dependent on the number of plants it operates. Following the announcement of the Tongshan Project, we think new plant acquisitions may be on the horizon given that only RMB1.7bn out of a RMB2.5bn GI equity investment target has been invested/committed.

Key Risks:

Regulatory risk. Sunpower's GI plants are subject to negotiable caps on steam tariffs which may lead to future hurdles in raising tariffs. That said, coal prices have largely been muted, with no need for steam tariffs to be raised beyond the caps.

Miss in convertible bond performance targets. Sunpower is required to hit an adjusted PATMI target of RMB370m and RMB460m for FY20 and FY21 respectively under its convertible bond deals. Missing these targets would entitle the convertible bond owners to a lower conversion price that would be dilutive to other shareholders.

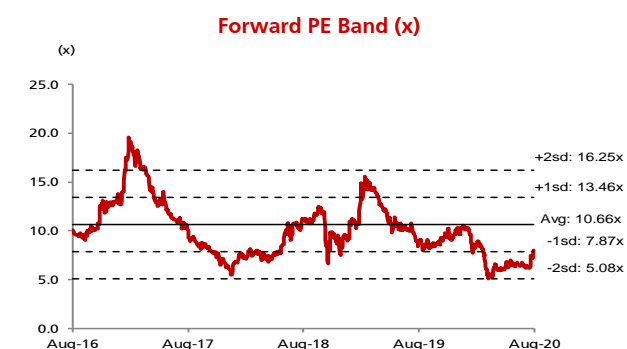
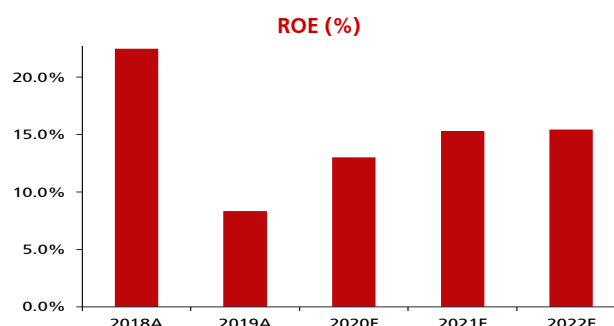
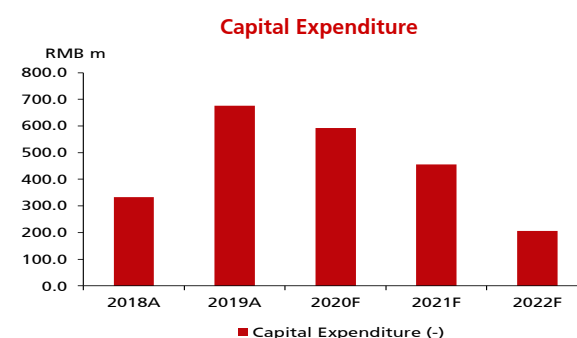
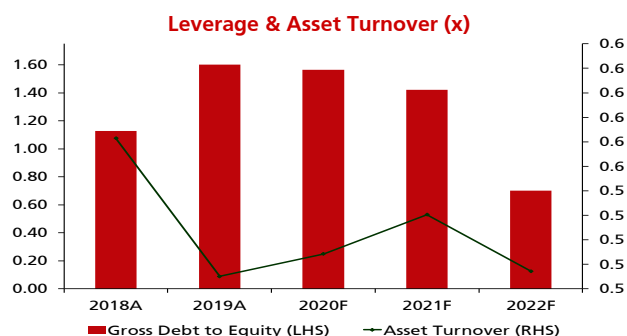
COVID-19 outbreak. A sharp rise in locally transmitted COVID-19 cases or an infection of Sunpower's employees could cause the group's operations to be disrupted again.

Environment, Social, Governance:

For 2018, Sunpower improved both water and electricity intensity. Sunpower saw water intensity decline by 9.2% y-o-y to 1.58t per RMB10,000 of turnover. Electricity intensity also dipped by 12% y-o-y to 81.2kWh per RMB10,000 of turnover.

Company Background

Sunpower Group (Sunpower) is a China-focused steam, electricity and heat solutions provider that manufactures energy-saving and environment-protection products. The group has two main business segments, Green Investments which deals mainly with steam production and distribution, and Manufacturing & Services which revolves around petrochemical equipment.



Source: Company, DBS Bank

Sunpower Group Ltd

Segmental Breakdown

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenues (RMBm)					
Manufacturing & services	2,526	2,449	2,940	3,065	2,813
Green investments	737	1,155	1,215	1,640	1,996
Total	3,263	3,605	4,154	4,705	4,809
Operating Profit (RMBm)					
Manufacturing & services	234	265	296	295	253
Green investments	196	326	343	476	579
Total	430	591	640	771	832
Operating Profit Margins					
Manufacturing & services	9.3	10.8	10.1	9.6	9.0
Green investments	26.6	28.2	28.2	29.0	29.0
Total	13.2	16.4	15.4	16.4	17.3

Lower M&S revenue on lack of GI plant construction activity

Income Statement (RMBm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenue	3,263	3,605	4,154	4,705	4,809
Cost of Goods Sold	(2,569)	(2,716)	(3,157)	(3,524)	(3,522)
Gross Profit	694	889	997	1,181	1,286
Other Opng (Exp)/Inc	(309)	(329)	(396)	(448)	(493)
Operating Profit	384	559	601	733	794
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(1.0)	1.20	1.20	1.20	1.20
Net Interest (Exp)/Inc	(55.7)	(106)	(101)	(116)	(127)
Exceptional Gain/Loss	67.0	(214)	(146)	(147)	(25.8)
Pre-tax Profit	395	240	355	472	642
Tax	(62.1)	(90.7)	(100.0)	(124)	(147)
Minority Interest	(12.0)	(11.3)	(15.6)	(25.8)	(45.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	321	138	239	322	450
Net Profit before Except.	254	352	385	469	476
EBITDA	490	696	763	909	979
Growth					
Revenue Gth (%)	66.0	10.5	15.3	13.3	2.2
EBITDA Gth (%)	122.8	41.9	9.7	19.1	-7.7
Opg Profit Gth (%)	126.2	45.4	7.4	22.1	8.2
Net Profit Gth (Pre-ex) (%)	117.5	38.9	9.3	21.9	1.4
Margins & Ratio					
Gross Margins (%)	21.3	24.7	24.0	25.1	26.8
Opg Profit Margin (%)	11.8	15.5	14.5	15.6	16.5
Net Profit Margin (%)	9.8	3.8	5.8	6.8	9.4
ROAE (%)	22.5	8.3	13.0	15.3	15.4
ROA (%)	5.5	1.9	3.0	3.6	4.7
ROCE (%)	5.5	5.2	5.0	5.7	5.2
Div Payout Ratio (%)	1.4	5.7	5.7	5.7	5.7
Net Interest Cover (x)	6.9	5.3	5.9	6.3	6.2

Adjusted PATMI now expected to exceed CB target of RMB370m

Source: Company, DBS Bank

Sunpower Group Ltd
Quarterly Income Statement (RMBm)

FY Dec	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020
Revenue	659	778	1,356	673	1,084
Cost of Goods Sold	(487)	(580)	(1,008)	(518)	(828)
Gross Profit	172	197	348	154	257
Other Oper. (Exp)/Inc	(88.7)	(88.5)	(100)	(83.1)	(77.0)
Operating Profit	83.1	109	248	71.3	180
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.35	0.31	0.26	0.24	0.43
Net Interest (Exp)/Inc	(56.5)	(57.1)	(64.6)	(52.3)	(60.5)
Exceptional Gain/(Loss)	(16.4)	78.8	(64.2)	214	(63.2)
Pre-tax Profit	10.5	131	119	234	56.3
Tax	(13.1)	(22.0)	(37.3)	(12.8)	(34.2)
Minority Interest	(2.6)	1.57	(7.4)	(2.8)	(0.7)
Net Profit	(5.2)	110	74.5	218	21.4
Net profit bef Except.	11.2	31.5	139	3.61	84.6
EBITDA	125	144	248	71.5	180
Growth					
Revenue Gth (%)	(18.8)	18.0	74.4	(50.4)	61.2
EBITDA Gth (%)	(12.2)	15.7	71.9	(71.2)	151.6
Opg Profit Gth (%)	(23.0)	30.9	127.7	(71.2)	151.9
Net Profit Gth (Pre-ex) (%)	(75.1)	181.9	340.3	(97.4)	2,241.7
Margins					
Gross Margins (%)	26.1	25.4	25.7	23.0	23.7
Opg Profit Margins (%)	12.6	14.0	18.3	10.6	16.6
Net Profit Margins (%)	(0.8)	14.2	5.5	32.4	2.0

Sunpower Group Ltd

Balance Sheet (RMBm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	1,155	1,307	1,380	1,470	1,554
Invts in Associates & JVs	9.26	10.5	11.7	12.9	14.1
Other LT Assets	2,476	3,030	3,389	3,579	3,516
Cash & ST Invts	783	863	1,106	1,289	1,722
Inventory	500	559	615	687	687
Debtors	1,192	1,321	1,448	1,640	1,676
Other Current Assets	508	559	559	559	559
Total Assets	6,623	7,650	8,508	9,237	9,728
ST Debt	493	1,010	1,010	1,010	1,010
Creditor	1,717	1,619	1,939	2,164	2,163
Other Current Liab	866	603	600	624	647
LT Debt	1,569	2,194	2,494	2,644	1,747
Other LT Liabilities	148	225	225	225	225
Shareholder's Equity	1,590	1,726	1,952	2,256	3,576
Minority Interests	240	273	289	315	360
Total Cap. & Liab.	6,623	7,650	8,508	9,237	9,728
Non-Cash Wkg. Capital	(383)	217	83.3	97.7	111
Net Cash/(Debt)	(1,279)	(2,340)	(2,397)	(2,364)	(1,035)
Debtors Turn (avg days)	137.4	127.2	121.7	119.8	125.8
Creditors Turn (avg days)	229.3	235.9	216.7	223.6	236.6
Inventory Turn (avg days)	62.5	74.9	71.5	71.0	75.1
Asset Turnover (x)	0.6	0.5	0.5	0.5	0.5
Current Ratio (x)	1.0	1.0	1.1	1.1	1.2
Quick Ratio (x)	0.6	0.7	0.7	0.8	0.9
Net Debt/Equity (X)	0.7	1.2	1.1	0.9	0.3
Net Debt/Equity ex MI (X)	0.8	1.4	1.2	1.0	0.3
Capex to Debt (%)	16.2	21.1	16.9	12.5	7.5
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS Bank

Sunpower Group Ltd

Cash Flow Statement (RMBm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	395	240	355	472	642
Dep. & Amort.	107	136	161	175	184
Tax Paid	(45.7)	(88.2)	(70.8)	(100.0)	(124)
Assoc. & JV Inc/(loss)	1.03	(1.2)	(1.2)	(1.2)	(1.2)
Chg in Wkg.Cap.	(175)	(151)	104	(38.2)	(36.9)
Other Operating CF	(52.4)	309	0.0	0.0	0.0
Net Operating CF	229	443	549	507	665
Capital Exp.(net)	(333)	(676)	(592)	(455)	(206)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(433)	(570)	0.0	0.0	0.0
Net Investing CF	(767)	(1,246)	(592)	(455)	(206)
Div Paid	(7.8)	(11.8)	(13.7)	(18.5)	(25.8)
Chg in Gross Debt	294	877	300	150	(896)
Capital Issues	0.0	0.0	0.0	0.0	896
Other Financing CF	34.0	(57.5)	0.0	0.0	0.0
Net Financing CF	320	808	286	132	(25.8)
Currency Adjustments	0.12	0.04	0.0	0.0	0.0
Chg in Cash	(217)	5.18	242	184	433
Opg CFPS (S cts)	10.5	14.9	11.1	13.6	11.3
Free CFPS (S cts)	(2.7)	(5.8)	(1.1)	1.30	7.40

Capex for Tongshan Project

Assumed conversion of CB into equity

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	16 Dec 19	0.61	0.81	BUY
2:	02 Mar 20	0.53	0.84	BUY
3:	20 Apr 20	0.40	0.49	HOLD
4:	18 May 20	0.47	0.49	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Singapore Research Team

Lee Keng LING

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 14 Aug 2020 08:12:09 (SGT)

Dissemination Date: 14 Aug 2020 08:20:01 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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