CMB International Securities | Equity Research | Company Update

LONGi – A (601012 CH)

3Q20 another beat; supply chain management offset material prices fluctuation

LONGi realized 3Q20 net profit of RMB2,240mn; beat our expectation. The Company continued to deliver outstanding GPM from wafer and module at above 30%/20% respectively, despite the fact that poly-si and PV glass price experienced substantial hike during the quarter. We think LONGi's supply chain management and insight to the market helped sustain its leading profitability. Looking ahead, we expect LONGi to accelerate wafer and module sales to 2.6bn piece and 5.8GW respectively. We raise FY20-22E EPS forecast by 8.2%-30.0% to RMB2.25/3.10/4.06, respectively. **Our TP is lifted to RMB90.0 based on 29.0x FY21E PER. Maintain BUY.**

- **3Q20 results beat again.** 3Q external wafer/module shipment surged 23.7% /114.6% respectively to 1.57bn piece/5.91GW. Major expenses were maintained stable, while net financial turned negative as LONGi employed higher debt. Operating cash flow exhibited strong rebound as bills receivables accumulated in 1H20 were released during the quarter, and advanced customer payment from domestic clients were mostly paid in cash due to tightened module supply. 3Q20 net profit was RMB2,240mn, up 51.9% YoY and largely flat QoQ. In 9M20, LONGi realized net profit of RMB6,357mn, up 82.4% YoY, accounting for 81% of our previous 2020E earnings estimates.
- **Supply chain management was a key highlight in 3Q20.** Poly-si price experienced a sharp hike from Jul after supply disruption in Xinjiang. LONGi was able to manage supply shortage impacts through building low costs poly-si inventories in 1H20, and signing long term purchasing as well as upstream investments contracts to secure poly-si supply. For PV glass, we think LONGi took similar measures as poly-si, and the Company also intends to develop more new suppliers with incentives such as large-scale order or direct investments. Mgmt. disclosed 3Q20 GPM of wafer/module were above 30%/20% respectively, which were higher than our expectation.
- **GPM guidance to remain stable in 4Q20.** LONGi had lifted wafer price for several times in view of poly-si price hike. Mgmt. remained confident to maintain wafer sales profitability with pricing adjustments as low costs inventories were consumed. For module end, we think LONGi will be able to pass through majority of poly-si and PV glass costs change to downstream PV farm developers. Overall, we think LONGi will be able to sustain its profitability.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	21,988	32,897	52,511	80,155	101,132
YoY growth (%)	34.4	49.6	59.6	52.6	26.2
Net income (RMB mn)	2,558	5,280	8,492	11,691	15,283
EPS (RMB)	0.93	1.47	2.25	3.10	4.05
YoY growth (%)	(27.9)	58.1	53.1	37.7	30.7
Consensus EPS(RMB)	N/A	N/A	2.05	2.59	3.21
P/E (x)	81.7	51.7	33.8	24.5	18.8
P/B (x)	12.9	10.4	8.0	6.2	4.8
Yield (%)	0.1	0.3	0.4	0.6	0.8
ROE (%)	15.8	20.1	23.7	25.2	25.5
Net gearing (%)	0.2	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	**RMB90.00**
(Previous TP	RMB72.40)
Up/Downside	**+18.4%**
Current Price	**RMB75.99**

China Solar Sector

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Stock Data

Mkt Cap (RMB mn)	286,621
Avg 3 mths t/o (RMB mn)	3,806
52w High/Low (RMB)	83.05/20.91
Total Issued Shares (mn)	3,772

4Source: Bloomberg

Shareholding Structure

Li Zhenguo	15.0%
Li Chunan	11.0%
Free float	50.4%

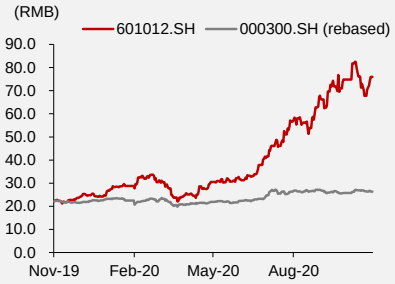
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	1.6%	-0.8%
3-mth	34.1%	34.1%
6-mth	148.9%	107.4%
12-mth	242.6%	188.4%

Source: Bloomberg

12-mth Price Performance



Source: Wind

Auditor: PwC

- **Lift FY20-22E earnings by 8.2-30%.** LONGi's supply chain performance and costs passthrough capability continued to exceed our expectation. Based on wafer/module shipment of 26bn pieces/5.8GW in 4Q20 with slightly lifted ASP, we revise FY20E EPS projection by 8.2% to RMB2.25. For 2021-22E, on the back of accelerating capacity growth and more optimistic ASP outlook, we raise EPS forecast by 20.4%/30.0% respectively to RMB3.10/4.06. We roll over valuation to FY21E based on 29x P/E multiple. **Our TP is raised by 24.3% to RMB90.0. Maintain BUY.**
- **Risk factors:** 1) short of Poly-Si and PV glass to support capacity expansion in 2021E; and 2) cell technology upgrade to HJT at faster-than-expected pace.

Figure 1: LONGi's quarter wafer and module shipment summary

Operating figures	1Q19	2Q19	3Q19	4Q19	1Q20	YoY	2Q20	YoY	3Q20	YoY	9M19	9M20	YoY
Wafer shipment - mn piece	**1,363**	**1,584**	**1,693**	**1,913**	**1,963**	44.0%	**1,995**	25.9%	**2,780**	64.2%	**4,636**	**6,738**	45.3%
Run rate	*20.8%*	*24.2%*	*25.9%*	*29.2%*	*19.5%*	*n/a*	*19.8%*	*n/a*	*27.6%*	*n/a*	*70.8%*	*66.8%*	
External sales	982	1,170	1,285	1,269	1,357	38.2%	1,112	-5.0%	1,570	23.7%	3,433	4,039	17.7%
Run rate	*20.9%*	*24.9%*	*27.3%*	*27.0%*	*20.3%*	*n/a*	*16.7%*	*n/a*	*23.5%*	*n/a*	*73.0%*	*60.5%*	
Internal use	381	414	408	643	606	59.1%	883	113.3%	1,210	196.6%	1,203	2,699	124.4%
Run rate	*20.6%*	*22.4%*	*22.1%*	*34.8%*	*17.8%*	*n/a*	*25.9%*	*n/a*	*65.5%*	*n/a*	*65.2%*	*79.1%*	
Modules Shipment - MW									4.88				
External sales	1,240	1,960	1,450	2,754	1,870	50.8%	4,708	140.2%	5,910	114.6%	4,640	12,488	169.1%
Run rate	*16.8%*	*26.5%*	*19.6%*	*37.2%*	*10.2%*	*n/a*	*25.8%*	*n/a*	*32.3%*	*n/a*	*62.8%*	*68.4%*	
Internal use	72	300	310	401	180	150.0%	42	-86.0%	20	-93.5%	570	242	-57.5%
Run rate	*7.4%*	*30.9%*	*31.9%*	*41.3%*	*36.0%*	*n/a*	*8.4%*	*n/a*	*4.0%*	*n/a*	*58.7%*	*48.4%*	

Source: Company data, CMBIS estimates

Figure 2: LONGi's 3Q20 and 9M20 results summary

(RMB mn)	1Q19	2Q19	3Q19	4Q19	1Q20	YoY	2Q20	YoY	3Q20	YoY	9M19	9M20	YoY
Revenue	**5,710**	**8,401**	**8,582**	**10,204**	**8,599**	**50.6%**	**11,542**	**37.4%**	**13,691**	**59.5%**	**22,693**	**33,832**	**49.1%**
COGS	(4,366)	(6,045)	(6,013)	(6,965)	(5,859)	34.2%	(8,394.1)	38.9%	(10,160)	69.0%	(16,424)	(24,414)	48.6%
Operating proft	**1,344**	**2,356**	**2,569**	**3,239**	**2,740**	**103.9%**	**3,148**	**33.6%**	**3,530**	**37.4%**	**6,269**	**9,418**	**50.2%**
Gross profit margin	23.5%	28.0%	29.9%	31.7%	31.9%	8.3ppt	27.3%	-0.8ppt	25.8%	-4.1ppt	27.6%	27.8%	0.2ppt
Operating expenses	**(579)**	**(716)**	**(847)**	**(1,262)**	**(657)**	**13.5%**	**(1,089)**	**52.0%**	**(971)**	**14.6%**	**(2,143)**	**(2,717)**	**26.8%**
Taxes & Surcharges	(27)	(37)	(29)	(85)	(40)	50.1%	(39.1)	5.3%	(67)	132.0%	(93)	(147)	57.8%
Selling expenses	(214)	(332)	(285)	(498)	(114)	-46.6%	(215.7)	-35.1%	(233)	-18.4%	(832)	(563)	-32.3%
...as % to revenue	*-3.8%*	*-4.0%*	*-3.3%*	*-4.9%*	*-1.3%*	*2.4ppt*	*-1.9%*	2.1ppt	*-1.7%*	1.6ppt	*5.1%*	*2.3%*	-2.8ppt
Admin expenses	(187)	(212)	(245)	(327)	(267)	42.8%	(318.5)	50.2%	(376)	53.4%	(645)	(962)	49.3%
...as % to revenue	*-3.3%*	*-2.5%*	*-2.9%*	*-3.2%*	*-3.1%*	*0.2ppt*	*-2.8%*	-0.2ppt	*-2.7%*	0.1ppt	*-2.8%*	*-2.8%*	0.0ppt
R&D expenses	(56)	(61)	(81)	(107)	(76)	36.1%	(109.8)	80.5%	(134)	65.8%	(198)	(320)	61.9%
...as % to revenue	*-1.0%*	*-0.7%*	*-0.9%*	*-1.0%*	*-0.9%*	*0.1ppt*	*-1.0%*	-0.2ppt	*-1.0%*	0.0ppt	*-0.9%*	*-0.9%*	-0.1ppt
Impairment loss	(95)	(74)	(207)	(245)	(159)	67.4%	(405.5)	447.6%	(161)	-22.2%	(376)	(725)	93.0%
Operating profit	**765**	**1,640**	**1,722**	**1,977**	**2,083**	**172.4%**	**2,059.1**	**25.5%**	**2,559**	**48.6%**	**4,127**	**6,701**	**62.4%**
Other income	24	48	35	97	53	123.7%	88.4	83.6%	66	86.2%	107	207	93.3%
Investment income	108	37	118	(23)	115	6.0%	426.9	1058.8%	128	8.5%	263	670	154.5%
Asset disposal gain/(loss)	(8)	(9)	(24)	41	(1)		(6.8)		9		(41)	2	(1)
Finance expenses, net	(148)	(12)	(31)	(59)	18	-112.3%	41.3	-449.2%	(156)	409.4%	(190)	(96)	-49.5%
Others	-	-	-	-	-				-		-	-	n/a
Non-Operating Income, net	2	(35)	(6)	(12)	(8)	-532.8%	(22.7)	-35.1%	(1)	-90.5%	(39)	(32)	-19.3%
Profit Before Tax	**743**	**1,670**	**1,814**	**2,020**	**2,260**	**204.4%**	**2,586**	**54.9%**	**2,606**	**43.7%**	**4,227**	**7,453**	**76.3%**
Income tax	(72)	(208)	(260)	(150)	(295)	308.6%	(305.9)	47.0%	(323)	24.5%	(540)	(925)	71.2%
Effective tax rate	9.7%	12.5%	14.3%	7.4%	13.1%	3.3ppt	11.8%	-0.6ppt	12.4%	-1.9ppt	12.8%	12.4%	-0.4ppt
Profit for the period	670	1,461	1,555	1,871	1,965	193.1%	2,280	56.0%	2,283	46.9%	3,686	6,528	77.1%
Less: Minority Interest	59	63	79	76	101	70.9%	27.8	-56.0%	43	-46.4%	202	171	-15.1%
Net profit	**611**	**1,398**	**1,475**	**1,795**	**1,864**	205.0%	**2,252**	61.1%	**2,240**	51.9%	**3,485**	**6,357**	82.4%
Net profit margin	10.7%	16.6%	17.2%	17.6%	21.7%	11.0ppt	19.5%	2.9ppt	16.4%	-0.8ppt	15.4%	18.8%	3.4ppt

Source: Company data, CMBIS estimates

Figure 3: Earnings revision

	Old			New			Change(%)		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
Revenue (RMB mn)	49,847	69,207	91,415	52,511	80,155	101,132	5.3%	15.8%	10.6%
Net Income (RMB mn)	7,846	9,717	11,770	8,492	11,691	15,283	8.2%	20.3%	29.8%
EPS (RMB)	2.08	2.58	3.12	2.25	3.10	4.05	8.2%	20.3%	29.8%

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	**21,988**	**32,897**	**52,511**	**80,155**	**101,132**
Mono-module	13,091	14,570	29,779	55,165	76,333
Wafer	6,116	12,913	18,687	20,100	19,314
Others	2,781	5,415	4,045	4,891	5,486
COGS	**(4,892)**	**(9,508)**	**(14,274)**	**(20,459)**	**(26,037)**
Gross profit	4,892	9,508	14,274	20,459	26,037
Operating expenses	**2,687**	**3,405**	**5,182**	**7,801**	**9,454**
Taxes & surcharges	117	178	350	466	604
Selling expenses	1,017	1,330	1,995	3,046	3,641
Admin expenses	623	971	1,550	2,366	2,985
R&D expenses	202	304	525	802	1,011
Impairment loss	728	621	761	1,122	1,214
Operating profit	**2,205**	**6,104**	**9,092**	**12,658**	**16,582**
Other income	142	204	315	481	607
Investment income	794	240	570	570	570
Asset disposal gain/(loss)	(4)	-	-	-	-
Finance expenses, net	(267)	(250)	(130)	(146)	(29)
Others	-	-	(1)	-	-
Non-operating income, net	(2)	(51)	(10)	(21)	14
Profit Before Tax	**2,867**	**6,247**	**9,836**	**13,542**	**17,703**
Income tax	(301)	(690)	(1,082)	(1,490)	(1,947)
Less: minority interest	(9)	(278)	(263)	(362)	(473)
Net profit	**2,558**	**5,280**	**8,492**	**11,691**	**15,283**

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	**2,558**	**5,280**	**8,492**	**11,691**	**15,283**
DD&A	1,129	1,488	2,000	2,162	2,315
Working capital change	(1,558)	8,184	(4,333)	(488)	(1,025)
Tax adjustments	85	150	105	169	75
Others	(1,040)	(6,943)	(2,032)	(4,285)	(3,251)
Net cash from operation	**1,173**	**8,158**	**4,232**	**9,250**	13,396
Capex & investments	(3,652)	(6,015)	(7,019)	(2,355)	(2,366)
Others	483	3,262	-	-	-
Net cash from investment	**(3,169)**	**(2,753)**	**(7,019)**	**(2,355)**	**(2,366)**
Equity raised	-	6,215	438	-	-
Change of debts	769	(1,815)	2,549	1,049	1,049
Dividend paid	(359)	(362)	(754)	(1,214)	(1,672)
Others	(143)	522	157	170	85
Net cash from financing	**267**	**4,560**	**2,389**	**4**	**(538)**
Net change in cash	(1,728)	9,965	(398)	6,899	10,492
Cash at the beginning	7,356	5,665	15,560	15,163	22,062
Exchange difference	38	(70)	-	-	-
Cash at the end of the year	**5,665**	**15,560**	**15,163**	**22,062**	**32,554**
Less: pledged cash	2,043	3,775	5,251	8,016	10,113
Cash at the balance sheet	**7,708**	**19,336**	**20,414**	**30,078**	**42,667**

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current Assets	**16,758**	**21,937**	**27,056**	**27,369**	**27,564**
Fixed Assets	13,260	15,467	21,816	21,925	21,894
Construction in Progress	856	2,882	1,468	1,468	1,468
LT Deferred Expenses	959	971	986	998	1,009
Others	1,683	2,617	2,786	2,977	3,194
Current Assets	**22,901**	**37,367**	**48,803**	**73,405**	**97,329**
Cash & Equivalents	7,708	19,336	20,414	30,078	42,667
Account Receivables	8,453	8,379	13,128	20,039	25,283
Inventories	4,283	6,356	10,240	15,630	19,721
Others	2,457	3,295	5,022	7,658	9,658
Current Liabilities	**14,878**	**24,620**	**28,470**	**39,739**	**47,698**
Account Payables	8,507	13,714	15,753	22,444	27,306
Advanced Payment	962	3,680	2,990	3,216	3,090
Short-term Borrowings	688	854	848	953	1,058
Current Portion of LT Debt	1,137	1,571	1,272	1,429	1,586
Others	3,585	4,801	7,607	11,698	14,658
Non-current Liabilities	**7,956**	**6,389**	**10,884**	**13,882**	**16,347**
Long-term Payables	1,306	1,528	2,626	4,008	5,057
Long-term Borrowings	2,659	2,509	5,364	6,150	6,937
Bond Payables	3,262	996	996	996	996
Others	729	1,357	1,899	2,728	3,358
Total net assets	**16,825**	**28,295**	**36,506**	**47,152**	**60,848**
Minority interests	**373**	**666**	**679**	**849**	**934**
Shareholders' equity	**16,452**	**27,629**	**35,827**	**46,304**	**59,915**

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Mono-module	59.5%	44.3%	56.7%	68.8%	75.5%
Mono-wafer	27.8%	39.3%	35.6%	25.1%	19.1%
Others	12.6%	16.5%	7.7%	6.1%	5.4%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
P&L ratios (%)					
Gross profit margin	22.2%	28.9%	27.2%	25.5%	**16.4%**
Operating margin	10.0%	18.6%	17.3%	15.8%	17.5%
Net margin	11.6%	16.0%	16.2%	14.6%	15.1%
Effective tax rate	10.5%	11.0%	11.0%	11.0%	11.0%
Balance sheet ratios					
Current ratio (x)	1.54	1.52	1.71	1.85	2.04
Inventory turnover days	71.1	83.0	79.2	79.1	85.9
Creditor's turnover days	131.6	123.3	102.4	87.0	89.8
Debtors turnover days	121.1	93.4	74.7	75.5	81.8
Liabilities/Assets (%)	57.6	52.3	51.9	53.2	51.3
Net debt/ equity ratio (%)	0.22	Net Cash	Net Cash	Net Cash	Net Cash
Returns (%)					
ROE	15.55	19.11	23.70	25.25	25.51
ROA	6.45	8.90	11.19	11.60	12.24
Per share					
EPS (RMB)	0.93	1.47	2.25	3.10	4.05
DPS (RMB)	0.10	0.20	0.32	0.44	0.58
BVPS (RMB)	5.89	7.32	9.50	12.28	15.88

Source: Company data, CMBIS estimates

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