LONGi – A (601012 CH)

2Q20 results beat; shipment growth to offset pricing and costs impacts in 2H20

LONGi delivered outstanding 1H20 results. 2Q20 net profit was RMB2,252mn, up 61.1% YoY, refreshing quarter earnings new high. Strong earnings was mostly driven by module external shipment growth by 140.2% to 4.7GW during the quarter, while we estimate GPM of mono-wafer sales were above 30% despite continuous price cut in Apr-May. Looking ahead to 2H20, though uncertainties appear to increase with pricing and costs fluctuation, we think LONGi will likely offset those impacts through accelerating shipment growth. We raise FY20-22E EPS forecast by 39.9% - 54.8% to RMB2.08/2.58/3.12. **Our TP is lifted to RMB72.40 based on 28.1x FY21E PER. Upgrade to BUY rating.**

- **2Q20 results beat.** 2Q external module shipment surged 106.2% YoY to 4,708MW, while external wafer shipment stay relatively flat at 1,112mn pieces, down 5.0% YoY. The Company recognized RMB406mn impairment losses mainly from RMB427mn for Taizhou and Chuzhou plants, and largely offset by RMB296mn gain from solar farm disposal and RMB153mn financial income from excess cash management. Net interests gain was recorded for the consecutive second quarter, as LONGi maintained in a net cash position. For 1H20, net profit was RMB4,116mn, up 104.8% YoY, significantly higher than ours and market estimates.
- **Strong overseas module shipment sustained excellent profitability.** LONGi realized wafer/module external shipment of 2.47bn piece/6.58GW in 1H20, up 14.9%/106.2% YoY. Module sales was a highlight as LONGi had 52% module shipped to overseas market, and US module sales offered explicit high margin with significantly higher ASP (+RMB30-50cents vs. domestic spot price.) Wafer sales recorded high GPM at ~40% in 1Q20, and we estimate wafer sales GPM was above 33% though experienced continuous price cut in Apr-May. In a challenging environment came with impacts from COVID-19, LONGi still maintained smooth sales with limited impacts on profitability, in our view.
- **Price/costs impacts to be offset by shipment growth.** Recent price/costs fluctuate along the PV supply chain had brought impacts to wafer margin and module demand uncertainties. Based on current pricing structure, wafer GPM declined to ~24% by end-Aug, according to our estimate. We are not over concern on the short term turbulence, as LONGi has state of the art PERC cell (efficiency at 23%), leading product costs structure, and strong overseas module sales network. In 2H20, we expect LONGi to meet its sales target, implying 74.8%/156.4%, which we see strong enough to offset price/costs impacts.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	21,988	32,897	49,847	69,207	91,415
YoY growth (%)	34.4	49.6	51.5	38.8	32.1
Net income (RMB mn)	2,558	5,280	7,846	9,717	11,770
EPS (RMB)	0.93	1.47	2.08	2.58	3.12
YoY growth (%)	(27.9)	58.1	41.5	23.8	21.1
Consensus EPS(RMB)	N/A	N/A	1.76	2.18	2.58
P/E (x)	67.7	42.8	30.3	24.4	20.2
P/B (x)	10.7	8.6	6.8	5.4	4.4
Yield (%)	0.2	0.3	0.5	0.6	0.7
ROE (%)	15.8	20.1	22.3	22.2	21.7
Net gearing (%)	0.2	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Up)

Target Price	**RMB72.40**
(Previous TP	RMB31.23)
Up/Downside	**+15.0%**
Current Price	**RMB62.96**

China Solar Sector

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Stock Data

Mkt Cap (RMB mn)	237,486
Avg 3 mths t/o (RMB mn)	2,625.
52w High/Low (RMB)	63.65/20.97
Total Issued Shares (mn)	3,772

4Source: Bloomberg

Shareholding Structure

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

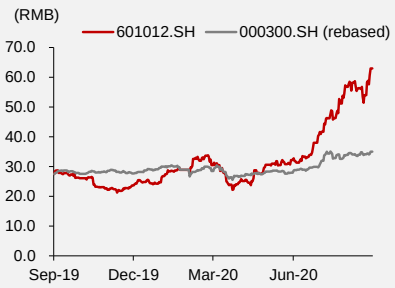
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	9.8%	5.6%
3-mth	95.5%	56.0%
6-mth	106.4%	67.8%
12-mth	129.1%	79.7%

Source: Bloomberg

12-mth Price Performance



Source: Wind

Auditor: PwC

- **Raise TP to RMB72.40, upgrade to BUY.** We overestimate price and margin impacts to LONGi brought by COVID-19 in our previous estimate. In extremely challenging context in 2018-2020 (such as Chinese government's 5.31 policy in 2018, project approval delay in 2019, and COVID-19 disruption in 2020), solar demand was resilient on the track with continuous improving cost competitiveness comparing with other energy type. We expect global solar demand to restore its booming track from 2H20. Based on 1H20 operating and financial updates, we raise LONGi's FY20-22E EPS estimates by 39.9%/42.9%/54.8% to RMB2.08/2.58/3.12. Our TP, based on FY21E 28.1x, is raised to RMB72.40. We upgrade LONGi from Hold to **BUY**.
- **Risk factors:** 1) cell technology upgrade to HJT at faster-than-expected pace; and 2) short of Poly-Si to support capacity expansion in 2021E.

Figure 1: LONGi's wafer and module shipment statistics and our est.

Operating figures	1Q19	2Q19	1H19	1Q20	YoY	2Q20	YoY	1H20	YoY	FY20E
Wafer shipment - mn piece	**1,363**	**1,584**	**2,943**	**1,963**	44.0%	**1,995**	25.9%	**3,958**	106.9%	**10,234**
Run rate	*20.8%*	*24.2%*	*44.9%*	*19.2%*	*n/a*	*19.5%*	*n/a*	*38.7%*	*n/a*	*100.0%*
External sales	982	1,170	2,148	1,357	38.2%	1,112	-5.0%	2,469	14.9%	6,933
Run rate	*20.9%*	*24.9%*	*45.7%*	*19.6%*	*n/a*	*16.0%*	*n/a*	*35.6%*	*n/a*	*147.4%*
Internal use	381	414	795	606	59.1%	883	113.3%	1,489	131.6%	3,300
Run rate	*20.6%*	*22.4%*	*43.1%*	*18.4%*	*n/a*	*26.8%*	*n/a*	*45.1%*	*n/a*	*178.8%*
Modules Shipment - MW										
External sales	1,240	1,960	3,190	1,870	50.8%	4,708	140.2%	6,578	106.2%	17,359
Run rate	*16.8%*	*26.5%*	*43.1%*	*10.8%*	*n/a*	*27.1%*	*n/a*	*37.9%*	*n/a*	*100.0%*
Internal use	72	300	260	180	150.0%	42	-86.0%	222	-44.6%	800
Run rate	*7.4%*	*30.9%*	*26.8%*	*22.5%*	*n/a*	*5.3%*	*n/a*	*27.8%*	*n/a*	*100.0%*

Source: Company data, CMBIS estimates

Figure 2: LONGi's 2Q20 and 1H20 results summary

(RMB mn)	1Q19	2Q19	1H19	1Q20	YoY	2Q20	YoY	1H20	YoY	FY20E
Revenue	**5,710**	**8,401**	**14,111**	**8,599**	**50.6%**	**11,542**	**37.4%**	**20,141**	**97.4%**	**49,847**
COGS	(4,366)	(6,045)	(10,411)	(5,859)	34.2%	(8,394.1)	38.9%	(14,253.3)	104.6%	(36,563)
Operating proft	**1,344**	**2,356**	**3,700**	**2,740**	**103.9%**	**3,148**	**33.6%**	**5,888.0**	**81.8%**	**13,284**
Gross profit margin	23.5%	28.0%	26.2%	31.9%	8.3ppt	27.3%	-0.8ppt	29.2%	3.0ppt	26.6%
Operating expenses	**(579)**	**(716)**	**(1,296)**	**(657)**	**13.5%**	**(1,089)**	**52.0%**	**(1,746)**	**38.4%**	**(4,919)**
Taxes & Surcharges	(27)	(37)	(64)	(40)	50.1%	(39.1)	5.3%	(79.4)	-7.0%	(333)
Selling expenses	(214)	(332)	(546)	(114)	-46.6%	(215.7)	-35.1%	(330.1)	-33.7%	(1,894)
as % to revenue	*-3.8%*	*-4.0%*	*-3.9%*	*-1.3%*	*2.4ppt*	*-1.9%*	2.1ppt	*-1.6%*	*3.2ppt*	*-3.8%*
Admin expenses	(187)	(212)	(399)	(267)	42.8%	(318.5)	50.2%	(585.9)	79.4%	(1,471)
as % to revenue	*-3.3%*	*-2.5%*	*-2.8%*	*-3.1%*	*0.2ppt*	*-2.8%*	-0.2ppt	*-2.9%*	*0.3ppt*	*-3.0%*
R&D expenses	(56)	(61)	(117)	(76)	36.1%	(109.8)	80.5%	(186.3)	74.7%	(498)
Impairment loss	(95)	(74)	(169)	(159)	67.4%	(405.5)	447.6%	(564.4)	129.9%	(723)
Operating profit	**765**	**1,640**	**2,405**	**2,083**	**172.4%**	**2,059.1**	**25.5%**	**4,142**	**109.6%**	**8,364**
Other income	24	48	72	53	123.7%	88.4	83.6%	141.7	46.7%	299
Investment income	108	37	145	115	6.0%	426.9	1058.8%	541.6	-2428.5%	570
Asset disposal gain/(loss)	(8)	(9)	(17)	(1)		(6.8)		(7.4)		-
Finance expenses, net	(148)	(12)	(160)	18	-112.3%	41.3	-449.2%	59.5	-200.3%	(133)
Others	-	-	-	-						(1)
Non-Operating Income, net	2	(35)	(33)	(8)	-532.8%	(22.7)	-35.1%	(31.1)	168.3%	(10)
Profit Before Tax	**743**	**1,670**	**2,412**	**2,260**	**204.4%**	**2,586**	**54.9%**	**4,846**	**139.9%**	**9,089**
Income tax	(72)	(208)	(280)	(295)	308.6%	(305.9)	47.0%	(601.1)	301.7%	(1,000)
Effective tax rate	9.7%	12.5%	11.6%	13.1%	3.3ppt	11.8%	-0.6ppt	12.4%	5.0ppt	*-2.0%*
Profit for the period	670	1,461	2,132	1,965	193.1%	2,280	56.0%	4,245	126.9%	8,089
Less: Minority Interest	59	63	122	101	70.9%	27.8	-56.0%	128.8	69.7%	243
Net profit	**611**	**1,398**	**2,010**	**1,864**	205.0%	**2,252**	61.1%	**4,116**	104.8%	**7,846**
Net profit margin	10.7%	16.6%	14.2%	21.7%	11.0ppt	19.5%	2.9ppt	20.4%	2.8ppt	15.7%

Source: Company data, CMBIS estimates

Figure 3: Earnings revision

	Old			New			Change(%)		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
Revenue (RMB mn)	46,407	59,390	63,764	49,847	69,207	91,415	7.4%	16.5%	43.4%
Net Income (RMB mn)	5,610	6,798	7,603	7,846	9,717	11,770	39.9%	42.9%	54.8%
EPS (RMB)	1.49	1.80	2.02	2.08	2.58	3.12	39.9%	42.9%	54.8%

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	**21,988**	**32,897**	**49,847**	**69,207**	**91,415**
Mono-module	13,091	14,570	26,732	44,154	67,404
Wafer	6,116	12,913	19,135	20,472	18,825
Others	2,781	5,415	3,980	4,581	5,187
COGS	**(4,892)**	**(9,508)**	**(13,284)**	**(17,192)**	**(21,172)**
Gross profit	4,892	9,508	13,284	17,192	21,172
Operating expenses	**2,687**	**3,405**	**4,919**	**6,736**	**8,546**
Taxes & surcharges	117	178	333	402	546
Selling expenses	1,017	1,330	1,894	2,630	3,291
Admin expenses	623	971	1,471	2,043	2,698
R&D expenses	202	304	498	692	914
Impairment loss	728	621	723	969	1,097
Operating profit	**3,593**	**2,205**	**6,104**	**8,364**	**12,626**
Other income	142	204	299	415	548
Investment income	794	240	570	570	570
Asset disposal gain/(loss)	(4)	-	-	-	-
Finance expenses, net	(267)	(250)	(133)	(165)	(84)
Others	-	-	(1)	-	-
Non-operating income, net	(2)	(51)	(10)	(21)	14
Profit Before Tax	**2,867**	**6,247**	**9,089**	**11,256**	**13,634**
Income tax	(301)	(690)	(1,000)	(1,238)	(1,500)
Less: minority interest	(9)	(278)	(243)	(301)	(364)
Net profit	**2,558**	**5,280**	**7,846**	**9,717**	**11,770**

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	**2,558**	**5,280**	**7,846**	**9,717**	**11,770**
DD&A	1,129	1,488	2,000	2,162	2,315
Working capital change	(1,558)	8,184	(4,313)	(490)	(1,064)
Tax adjustments	85	150	77	83	88
Others	(1,040)	(6,943)	(1,619)	(3,001)	(3,442)
Net cash from operation	**1,173**	**8,158**	**3,991**	**8,471**	9,667
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)	(1,122)	(1,390)
Others	(143)	522	157	170	85
Net cash from financing	**267**	**4,560**	**2,389**	**97**	**(256)**
Net change in cash	(1,728)	9,965	(638)	6,213	7,044
Cash at the beginning	7,356	5,665	15,560	14,922	21,134
Exchange difference	38	(70)	-	-	-
Cash at the end of the year	**5,665**	**15,560**	**14,922**	**21,134**	**28,179**
Less: pledged cash	2,043	3,775	4,985	6,921	9,142
Cash at the balance sheet	**7,708**	**19,336**	**19,907**	**28,055**	**37,320**

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**	**46,856**	**65,466**	**86,731**
Cash & Equivalents	7,708	19,336	19,907	28,055	37,320
Account Receivables	8,453	8,379	12,462	17,302	22,854
Inventories	4,283	6,356	9,720	13,495	17,826
Others	2,457	3,295	4,768	6,614	8,731
Current Liabilities	**14,878**	**24,620**	**27,382**	**35,204**	**43,636**
Account Payables	8,507	13,714	14,954	19,378	24,682
Advanced Payment	962	3,680	3,062	3,276	3,012
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	7,246	10,168	13,298
Non-current Liabilities	**7,956**	**6,389**	**10,671**	**13,006**	**15,569**
Long-term Payables	1,306	1,528	2,492	3,460	4,571
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	1,819	2,400	3,066
Total net assets	**16,825**	**28,295**	**35,860**	**44,625**	**55,091**
Minority interests	**373**	**666**	**679**	**849**	**934**
Shareholders' equity	**16,452**	**27,629**	**35,181**	**43,776**	**54,157**

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Mono-module	59.5%	44.3%	53.6%	63.8%	73.7%
Mono-wafer	27.8%	39.3%	38.4%	29.6%	20.6%
Others	12.6%	16.5%	8.0%	6.6%	5.7%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
P&L ratios (%)					
Gross profit margin	22.2%	28.9%	26.6%	24.8%	**13.8%**
Operating margin	10.0%	18.6%	16.8%	15.1%	14.9%
Net margin	11.6%	16.0%	15.7%	14.0%	12.9%
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	1.86	1.99
Inventory turnover days	71.1	83.0	80.2	81.5	81.4
Creditor's turnover days	131.6	123.3	105.0	90.5	88.0
Debtors turnover days	121.1	93.4	76.3	78.5	80.2
Liabilities/Assets (%)	57.6	52.3	51.5	51.9	51.8
Net debt/ equity ratio (%)	0.22	Net Cash	Net Cash	Net Cash	Net Cash
Returns (%)					
ROE	15.55	19.11	22.30	22.20	21.73
ROA	6.45	8.90	10.62	10.47	10.30
Per share					
EPS (RMB)	0.93	1.47	2.08	2.58	3.12
DPS (RMB)	0.10	0.20	0.30	0.37	0.45
BVPS (RMB)	5.89	7.32	9.33	11.61	14.36

Source: Company data, CMBIS estimates

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