

China Solar Sector

Supply chain updates: overseas demand visibility is still low

We had series conference calls with XYS (968 HK), LONGi (601012 CH) and Xinte Energy (1799 HK) on supply chain update for Poly-Si, wafer, PV glass, and modules. Based on information shared by those companies, by mid-May, we saw 1) slight improvement in PV demand driven by China domestic installation; 2) overseas demand visibility is still low; 3) PV manufacturers in the supply chain are still facing shipment and pricing pressures. We think market was thrilling for an installation rush in China by 30 Jun, and market is also longing for overseas demand recovery to take up the gap from late Jun to sustain 2H20 product shipment and pricing. Based on companies' updates, however, we feel managements are cautiously optimistic to overseas order recovery. At current valuation, we still believe PV glass sub-sector is in a better position among other products in the supply chain. **We reiterate BUY on Xinyi Solar (968 HK, TP: HK\$6.31) and HOLD on LONGi (601012 CH, TP: RMB31.23).**

- **PV supply chain still running on overcapacity.** PV demand did improve in Apr-May boosted by installation rush in China, but company representatives still saw quite significant overcapacity due to disruption of overseas PV demand caused by COVID-19. Along the supply chain, 1) Xinte Energy said Poly-Si inventory dropped slightly from 7k tonnes to 6k tonnes, still close to 1 month level; 2) LONGi maintained smooth wafer sales (2 weeks' inventory) but module inventories also increased to ~1.5 months output; and 3) Xinyi Solar still observed inventory climbing but within control range (1-2 months inventory).
- **Demand visibility is low from overseas market.** Companies were conservative to future demand outlook, partly because domestic PV installation rush would only support demand till mid-Jun, and overseas demand is still uncertain as epidemic outlook and lockdown easing paces are not clear. LONGi would like to direct its modules sales focus from overseas market back on China for higher order certainty, though domestic module sales may have significantly lower price due to intense competition. XYS also expected mid-Jun will be a key time to determine PV glass price for the next phase in 3Q20, but demand clarity is not high.
- **Capacity plan maintained unchanged.** Though facing demand uncertainties, XYS, LONGi and Xinte Energy maintained capacity plans unchanged. XYS and LONGi stick to their capacity expanding plans, bringing additional supply of PV glass in 2H20 and mono wafer from 2Q20, which could be additional explanation to weakened product prices in the recent weeks. Xinte Energy intended to increase output to compensate Poly-Si price decline, and the Company didn't change its scheduled maintenance in Jul.
- **Poly-Si price bottomed; while wafer, module and PV glass may face further pressures.** According to China Silicon Industry Association, prime for mono Poly-Si priced had declined to RMB58.5/kg, down 18.3% YTD. Xinte Energy thought Poly-Si price had bottomed, and further pricing decline will lead to production suspension for maintenance. For wafer, module and PV glass, pricing outlooks are still uncertain depending on overseas demand recovery. LONGi pointed out that current market module pricing data is lagging behind actual transactions, as recent module tender price had

MARKET PERFORM (Maintain)

China Solar Sector

Robin Xiao

(852) 3900 0849

robinxiao@cmbi.com.hk

Related Reports

1. "China Solar Sector – Brace for a potential demand shock" – 13 Mar 2020
2. "LONGi – A (601012 CH) – Headwinds to emerge in 2Q20" – 24 Apr 2020
3. "Xinyi Solar (968 HK) – FY19 earnings in line; new capacity delay by 1Q" – 17 Mar 2020

dropped to an extremely low at RMB1.44/watt (VAT incl.). If overseas recovery progress is slow, LONGi thought that would bring further pressures on module, cell and wafer. We also expect the pressures will transmit to PV glass.

- **Stock pick: looking for certainties in an uncertain market.** XYS and LONGi's share price had rebounded 11.6% and 32.3% respectively since Apr. We think market had largely priced in optimistic demand recovery outlook in several A-share listing names such as LONGi, Tongwei (600438 CH, NR), Tianjin Zhonghuan (002129 CH, NR), while overseas demand recovery pace is lagging those expectations. With reference to valuation status among the solar manufacturing sector, EPS growth prospect, industrial consolidation status, and supply chain position, we prefer PV glass producers over other PV manufacturers. **Our sector pick is XYS (968 HK, BUY, TP: HK\$6.31) for its YoY ASP growth outlook in 1H20 with improving costs structure from declining natural gas and soda ash prices. We are more cautious on other PV manufacturing links for higher valuation but low demand visibility. We reiterate our HOLD rating on LONGi (601012 CH, TP: RMB31.23).**

Figure 1: Peers' valuation for Chinese PV related manufacturers

Ticker	Company	Market cap	Stock price	YTD	TP	EPS			EPS-CAGR	PER			PBR		
		(US\$, mn)	(Local currency)	(%)	(Local currency)	19A	20E	21E	19-21E	19A	20E	21E	19A	20E	21E
Polysilicon & cell															
600438 CH	TONGWEI CO-A	8,724	14.48	10.3	n/a	0.68	0.70	0.96	18.9%	19.3	20.7	15.1	3.2	2.8	2.4
DQ US	DAQO NEW ENE-ADF	670	48.2	-5.9	n/a	2.25	9.12	9.94	110.2%	25.6	5.3	4.9	1.2	1.0	0.8
600732 CH	SHANGHAI AIKO-A	2,016	7.84	0.6	n/a	0.37	0.48	0.68	35.3%	21.1	16.5	11.6	5.9	4.8	3.3
Mono Silicon Wafer															
601012 CH	LONGI GREEN EN-A	16,822	31.74	27.8	31.23	1.47	1.60	1.97	15.7%	16.9	19.8	16.1	4.8	3.6	3.0
002129 CH	TIANJIN ZHONG-A	7,161	18.3	55.0	n/a	0.32	0.54	0.73	49.8%	36.4	33.7	25.1	3.4	3.2	2.9
Module															
JKS US	JINKOSOLAR-ADR	646	14.53	-35.4	n/a	21.22	30.73	17.38	-9.5%	5.9	3.4	5.9	0.5	0.3	0.3
CSIQ US	CANADIAN SOLAR I	1,007	17.05	-22.9	n/a	2.88	2.25	2.72	-2.9%	6.4	7.6	6.3	0.7	0.7	0.6
002459 CH	JA SOLAR TECHN-A	2,813	14.92	33.5	n/a	1.27	1.00	1.33	2.3%	8.8	14.9	11.2	4.1	2.1	1.8
002506	GCL SYSTEM INT-A	1,864	2.61	-55.8	n/a	0.01	(0.05)	(0.05)	N/A	537.3	N/A	N/A	3.5	3.2	3.4
PV glass															
968 HK	XINYI SOLAR HLDS	5,693	5.46	-1.3	6.31	0.30	0.38	0.47	25.1%	18.3	14.4	11.5	3.1	2.7	2.3
6865 HK	FLAT GLASS GRO-H	2,933	5.35	3.9	n/a	0.37	0.51	0.68	35.3%	12.4	9.6	7.3	2.1	1.8	1.5
601865 CH	FLAT GLASS GRO-A	2,932	12.44	2.6	n/a	0.37	0.54	0.72	39.4%	12.4	23.1	17.3	5.5	2.7	2.2
Inverter															
300274 CH	SUNGROW POWER	2,217	10.83	2.8	n/a	0.61	0.80	0.99	27.1%	17.3	13.6	11.0	1.8	1.6	1.4
300763 CH	NINGBO GINLONG-A	834	43	76.0	n/a	0.99	1.67	2.61	62.0%	24.6	25.8	16.5	13.8	5.3	4.1
EVA															
603806 CH	HANGZHOU FIRST-A	3,547	34.5	-0.6	n/a	1.31	1.36	1.61	11.1%	26.6	24.6	20.7	2.9	3.5	3.0

Source: Bloomberg, CMBIS

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US, institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.