

# China Solar Power Sector

## Was the massive sell-off justified?

Solar module names in A-share market were sold-off last Friday, as market was concerned that **Tongwei (600438 CH)** would potentially emerge as a game changer in the module space after it is set to win a tender from **CR Power (836 HK)** with a scale of 3GW. While Tongwei revealed that it is conducting feasible studies on the upcoming module capacity, we believe the market reaction was overdone given that: **(1)** Tongwei's module capacity is small at present (only ~6.6GW based on our estimates), which is likely to set aside for CR Power's project and other customers, making Tongwei unlikely to participate in another large-scale bidding in the near term; **(2)** While the construction cycle of module capacity is normally short (6-9 months), it will take more time to establish distribution network, in particular in the overseas; **(3)** The demand for solar module remains resilient for distributive projects in China and overseas, we see no imminent need for module players to react with price reduction; **(4)** Over the medium-term, the competition is more on the transformation of solar cell technology, instead of purely pricing.

- **Details of CR Power's tender.** Tongwei was ranked first in CR Power's fifth batch of solar module tender with a total scale of 3GW at an average price RMB1.942/watt. The price is 2.7% and 3.9% below the bidding price of RMB1.995/watt by **EGing (600537 CH)** and RMB2.02/watt by **LONGi (601012 CH)**. The product delivery period will be between 10 Sep and 10 Dec 2022.
- **Near-term impact exaggerated:** This will be the first major large-scale project won by Tongwei. However, we think Tongwei is less likely to participate in another large-size project bidding in the near term due to capacity constraint. As at end-2021, Tongwei had ~3GW of module capacity. Another 3.6GW will be added this year, taking the total capacity to 6.6GW. Such scale is small compared with Tongwei's solar cell capacity of 70GW (by end-2022E). We believe major incumbents in the module space, such as **LONGi, Trina (688599 CH), JA Solar (002459 CH)** and **Jinko (688223 CH)** are unlikely to respond with aggressive pricing strategy.
- **Medium-term scenario: Too early to conclude incumbents will lose market share.** Assuming that Tongwei decides to gradually increase the module capacity to a meaningful level, it will result in less external sales of solar cell. In such case, incumbents in the module space can react by raising the in-house solar cell production ratio. Most importantly, we believe the competition will be more on the technology transformation (higher efficient, lower cost) instead of purely pricing. We see upside potential for solar cell equipment manufacturers, such as **S.C New Energy (300724 CH, BUY)** and **Suzhou Maxwell (300751 CH)**, in case of an acceleration of solar cell capex cycle.

### China Renewable Energy

#### Wayne Fung, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

#### Megan Xia

(852) 3761 0836

meganxia@cmbi.com.hk

### Capacity of major module players

Company	Year-end Capacity (GW)		Cell / Module	Ratio
	Solar Cell	Module		
<b>Tongwei (600438 CH)</b>				
2021	45	3		1500%
2022E	70	7		1061%
<b>LONGi (601012 CH)</b>				
2021	37	60		62%
2022E	60	85		71%
<b>Trina Solar (688599 CH)</b>				
2021	35	50		70%
2022E	50	65		77%
<b>Jinko Solar (688223 CH)</b>				
2021	24	55		44%
2022E	45	60		75%
<b>JA Solar (002459 CH)</b>				
2021	32	40		80%
2022E	40	50		80%

Source: Company data, CMBIGM estimates

Figure 1: CR Power's tender on solar module

华润电力2022年11.1GW组件集采结果					
批次	标段	中标人	规模	组件型号	报价
第三批	一标段	晶科	485	双面540W+	1.847
			15	单面540W+	
	二标段	爱康	1000	双面540W+	1.8
	三标段	环晟	150	单面540W+	1.816
			850	双面540W+	
	四标段	爱康	500	双面540W+	1.822
第四批	一标段	一道	600	双面540W+, 五标段含100MW单面	1.849
	二标段	晶澳	1150		1.855
	三标段	正泰	1250		1.89
	四标段	晶澳	850		1.855
	五标段	晶澳	1100		1.858
	六标段	晶科	150		1.891
第五批	序号	中标候选人	规模	组件型号	报价
	1	通威	3000	双面540W,	1.942
	2	亿晶光电		100MW单面	1.995
	3	隆基		540W	2.02

Source: Pvmen, CMBIGM

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

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