

S.C New Energy Technology (300724 CH)

Weakness in 2Q profit one-off in nature; Focus on TOPCon & Perovskite solar cell equipment growth

S.C's revenue/net profit in 2Q22 dropped 9%/5% YoY but largely due to the delay of certain product delivery as a result of Covid-related lock-down measures, which are one-off in nature. We expect S.C's growth story to remain solid, on the back of strong order intakes on both TOPCon (Tunnel oxide passivated contact) and Perovskite solar cell (鈣鈦礦) equipment. We expect earnings growth to accelerate starting from 2H22E. We roll over our valuation base to FY23E and fine-tuned our TP to RMB178, based on 50x P/E derived by 1SD above the historical average of 36x to reflect the breakthroughs in the new equipment. Maintain **BUY**.

- **1H22 results affected by lock down measures but largely expected.** Revenue in 1H22 grew only 2% YoY to RMB2.68bn, due to slow product delivery as S.C's clients are located mainly in Yangtze River Delta that affected by lock-down measures. Net profit grew 11% YoY in 1H22, as S.C recognized ~RMB74mn of net FX gain (S.C held some assets in US\$). In 2Q22, revenue dropped 9% YoY to RMB1.3bn while gross margin narrowed 3.3ppt QoQ but slightly expanded 0.2ppt to 23.8%. Net profit in 2Q22 dropped only 5% YoY to RMB235mn (helped by ~RMB82mn net fx gain).
- **PE-poly route TOPCon and Perovskite production equipment gaining traction.** In July, S.C successively won two large-scale orders of 3-in-1 PE-poly route TOPCon equipment from global leading solar enterprises, which indicates PE-Poly route has been gaining client recognition. Key advantages of PE-Poly route include better solar cell efficiency, higher production efficiency and yield, which can accelerate the mass scale production of TOPCon solar cell. We expect a fast penetration of PE-poly route equipment in the near term. Besides, S.C received its first contract of Perovskite solar cell coating equipment (RPD) in July.
- **Rapid expansion of TOPCon solar cell capacity.** Based on the capacity expansion plan of 15 major solar cell manufacturers, we calculate that the cumulative capacity of TOPCon to reach 64GW/93GW in 2022E/23E. We believe S.C remains a key beneficiary in this capex cycle.
- **Risk:** 1) Weaker-than-expected downstream capacity expansion; and 2) solar cell technology transformation risk.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	4,044	5,047	5,632	7,316	9,505
YoY growth (%)	60	25	12	30	30
Net income (RMB mn)	523	717	863	1,144	1,526
EPS (RMB)	1.63	2.14	2.48	3.29	4.38
YoY growth (%)	37	31	16	33	33
Consensus EPS (RMB)	N/A	N/A	2.72	3.56	4.34
P/E (x)	85.9	65.4	56.6	42.7	32.0
P/B (x)	14.8	7.9	7.0	6.1	5.2
Yield (%)	0.1	0.1	0.2	0.2	0.3
ROE (%)	18.7	15.5	13.1	15.2	17.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **RMB 178.00**
 (Previous TP **RMB 185.00**)
 Up/Downside **+27%**
 Current Price **RMB 140.21**

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Stock Data

Mkt Cap (RMB mn)	48,828
Avg 3 mths t/o (RMB mn)	1,268
52w High/Low (RMB)	210.80/47.20
Total Issued Shares (mn)	348.3

Source: Bloomberg

Shareholding Structure

YU Zhong	8.42%
LIANG Meizhen	7.24%
ZUO Guojun	7.51%

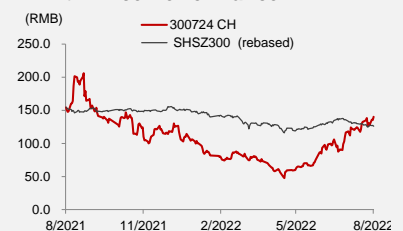
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	16.3%	24.0%
3-mth	126.4%	111.2%
6-mth	68.8%	88.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

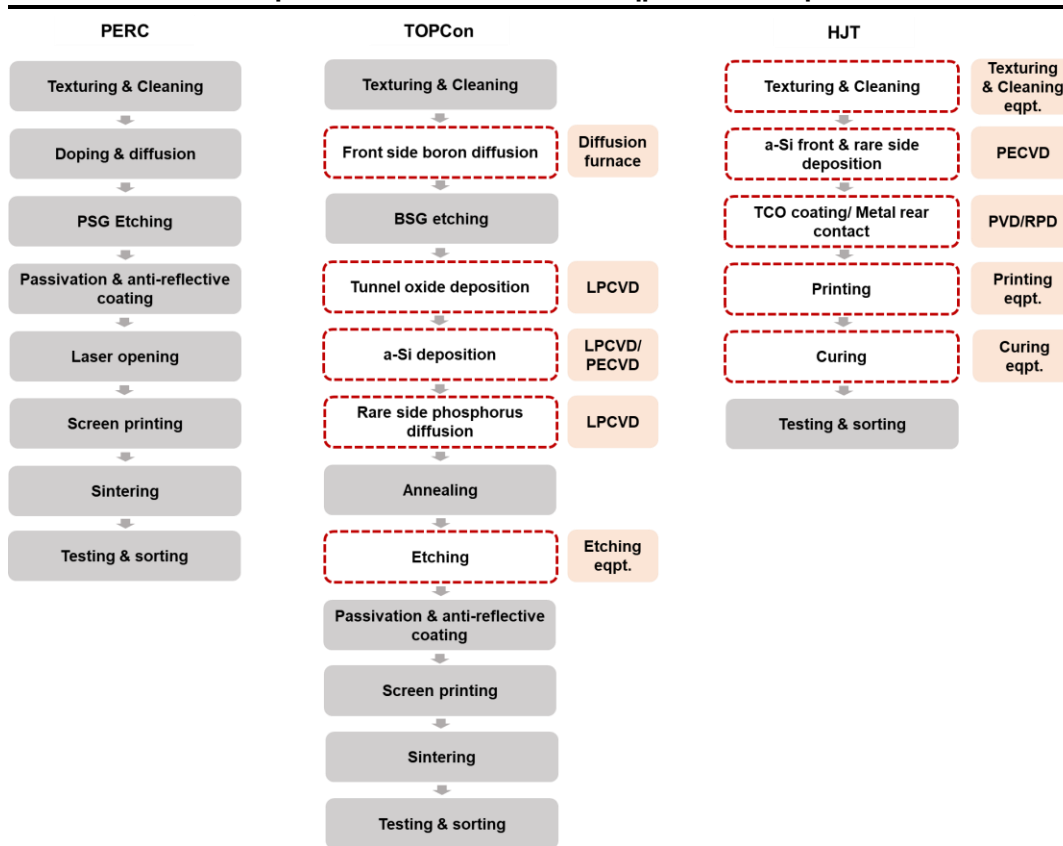
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Related report:

S.C New Energy – Solid backlog and stabilized margin; raise earnings estimates and TP – 25 Jan 2021 ([link](#))

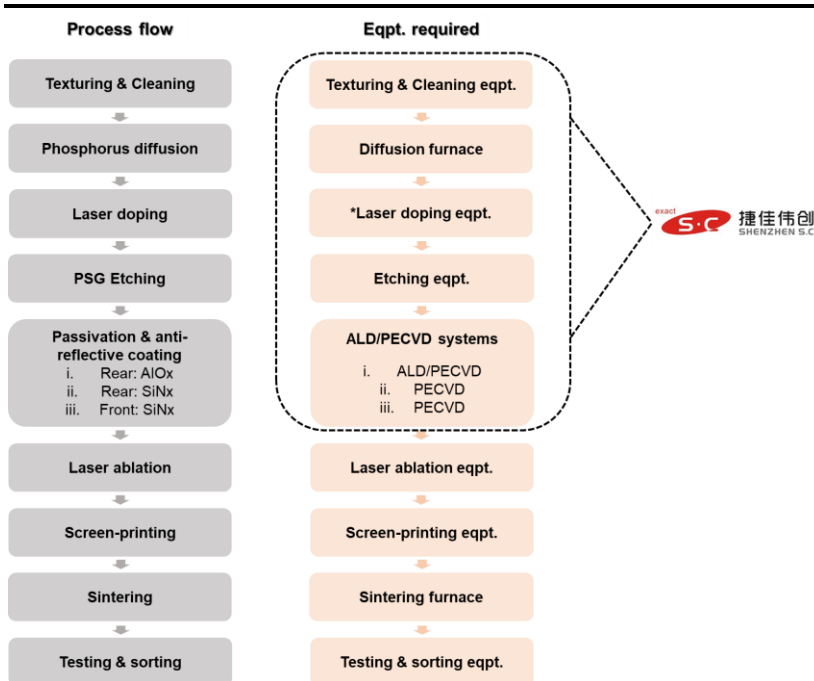
China Solar Power Equipment - Picks and Shovels in the Solar Gold Rush – 11 Nov 20 ([link](#))

Figure 1: Comparison of production process of PERC, TOPCon and HJT cells; steps in red dotted lines require additional or different eqpt. vs. PERC production



Source: CMBIGM

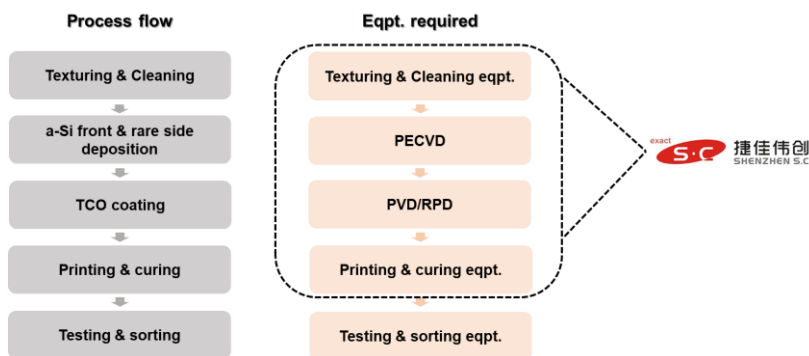
Figure 2: S.C's key products coverage on TOPCon cell production line



Source: CMBIGM

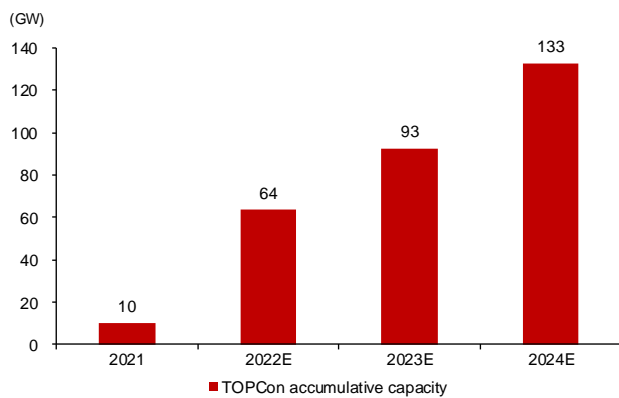
*Note: Laser doping equipment is under trial stage.

Figure 3: S.C's key products coverage on HJT cell production line



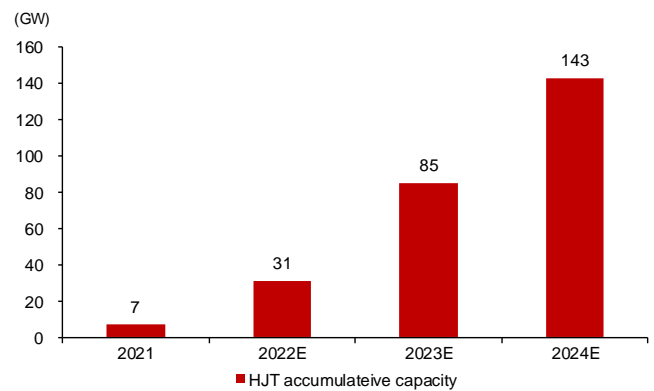
Source: CMBIGM

Figure 4: Projected market size of TOPCon capacity



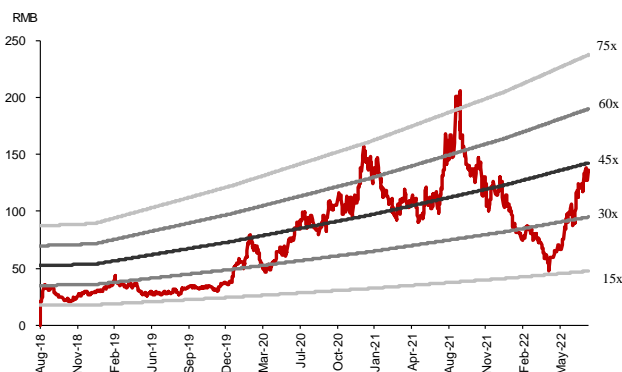
Source: Data based on 15 companies that announced expansion plan, CMBIGM

Figure 5: Projected market size of HJT capacity



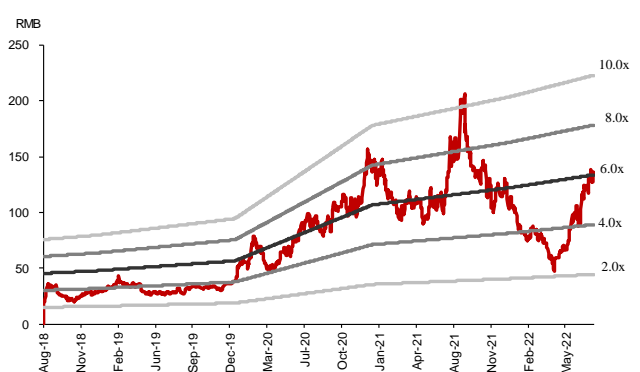
Source: Data based on 34 companies that announced expansion plan, CMBIGM

Figure 6: S.C P/E band



Source: Company data, Bloomberg, CMBIGM estimates

Figure 7: S.C P/B band



Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	4,044	5,047	5,632	7,316	9,505
Diffusion & deposition & Wet process eqpt.	3,425	4,200	4,620	6,006	7,808
Automation eqpt.	471	682	764	993	1,291
Parts and others	148	165	247	317	405
COGS	(2,976)	(3,806)	(4,188)	(5,401)	(6,990)
Gross profit	1,069	1,241	1,443	1,915	2,515
Tax and surcharges	(22)	(21)	(24)	(31)	(40)
S&M expenses	(81)	(71)	(107)	(132)	(162)
G&A expenses	(86)	(102)	(101)	(132)	(171)
R&D expenses	(191)	(238)	(293)	(380)	(475)
Net finance income/(exp)	(52)	7	27	34	44
Core operating profit	637	816	945	1,275	1,711
Impairment losses	(146)	(127)	(80)	(90)	(90)
Other expenses and incomes	92	127	121	124	124
Pre-tax profit	583	816	986	1,309	1,745
Income tax	(71)	(103)	(124)	(164)	(219)
Minority interest	11	4	1	-	-
Net profit	523	717	863	1,144	1,526

Cash flow

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
PAT	512	714	862	1,144	1,526
D&A	32	40	49	63	99
Change in working capital	(440)	486	445	47	(354)
Others	230	110	(25)	(36)	(46)
Operating cash flow	334	1,349	1,331	1,219	1,225
CAPEX	(169)	(239)	(200)	(400)	(400)
Others	91	(332)	-	-	-
Investing cash flow	(78)	(571)	(200)	(400)	(400)
Proceeds from funding	31	2,521	-	-	-
Changes in borrowings	193	(180)	150	20	(30)
Dividends paid	(82)	(81)	(36)	(52)	(70)
Others	(20)	(19)	-	-	-
Financing cash flow	122	2,241	114	(32)	(100)
Net change in cash	378	3,020	1,246	787	725
Cash at the beginning	501	864	3,413	4,659	5,446
Forex change, net	(16)	(470)	-	-	-
Less: restricted cash	684	578	-	-	-
Cash at the end	864	3,413	4,659	5,446	6,171

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	8,693	11,652	13,357	15,482	18,272
Cash and restricted cash	1,548	3,991	5,237	6,023	6,749
Trade receivables	2,811	2,828	3,661	4,243	5,227
Inventories	3,823	4,033	4,105	4,861	5,941
Other current assets	511	801	355	355	355
Non-current assets	591	1,131	1,279	1,618	1,920
Long-term equity investment	85	77	75	76	78
Fixed assets	291	377	536	882	1,191
Other non-current assets	215	677	668	660	651
Total assets	9,284	12,783	14,636	17,100	20,192
Current liabilities	6,207	6,538	7,592	8,998	10,679
ST borrowings	194	16	166	186	156
Trade payables	2,066	2,250	2,513	3,240	4,194
Advances from customers	3,325	3,749	4,390	5,048	5,805
Other current liabilities	623	524	524	524	524
Non-current liabilities	41	41	41	41	41
Deferred income	11	9	9	9	9
Other non-current liabilities	29	32	32	32	32
Total liabilities	6,248	6,579	7,633	9,039	10,720
Share capital	321	348	348	348	348
Reserves	1,284	3,817	3,817	3,817	3,817
Retained earnings	1,431	2,038	2,838	3,896	5,308
Shareholders' fund	3,036	6,203	7,003	8,061	9,473
Minority interest	(1)	1	0	0	0
Total equity	3,035	6,204	7,003	8,061	9,473

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue mix (%)					
Diffusion & deposition & Wet process eqpt.	85	83	82	82	82
Automation eqpt.	12	14	14	14	14
Parts and others	4	3	4	4	4
YoY growth (%)					
Revenue	60	25	12	30	30
Gross profit	32	16	16	33	31
Net profit	37	37	20	33	33
Operating efficiency (%)					
GP margin	26.4	24.6	25.6	26.2	26.5
Core operating margin	15.8	16.2	16.8	17.4	18.0
Net profit margin	12.7	14.1	15.3	15.6	16.1
B/S ratios (%)					
Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash
Receivable turnover days	198	204	210	197	182
Inventory turnover days	323	284	264	224	207
Payable turnover days	192	207	208	194	194
Profitability (%)					
ROE	18.7	15.5	13.1	15.2	17.4
ROA	6.6	6.5	6.3	7.2	8.2
Per share (RMB)					
EPS	1.63	2.14	2.48	3.29	4.38
DPS	0.19	0.18	0.25	0.33	0.44
BVPS	9.45	17.81	20.11	23.15	27.20

Source: Company data, CMBIGM estimates

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