

# LONGi – A (601012 CH)

## Facing pricing pressure in 2020

LONGi released strong earnings preview, stating net profit to surge 95.5-107.2% to RMB5.0bn-RMB 5.3bn in FY19E. The strong earnings growth implied a 4Q19 net profit of ~RMB 1.7bn, marking a historical quarter high. In 2020, we see wafer supply to remain tight in 1Q20 but shifting towards oversupply, implying a potential price war in 2H20. We expect wafer ASP to decline by 11.0% YoY, while module ASP to reduce 17.2% in 2020. As we expect competition becomes intense for both wafer and module sales, we turn relative prudent on LONGi's share performance. We downgrade LONGi to HOLD rating despite raising FY20E EPS by 7.4%.

- **Profit reached historical high in 4Q19.** Strong quarter profit implied not only significant shipment growth, but also outstanding profitability. By end-4Q19, we estimate LONGi's wafer capacity raised to 40.8GW, up 45.7% YoY, and module capacity also increased to 16GW, up 81.8% YoY. According to mgmt., overall GPM for wafer and module would be ~32% and ~25% respectively in FY19. We believe those figures would be significantly higher than peers, indicating LONGi's superior costs control and operating efficiency. LONGi's FY19E earnings was stronger than our estimates, mainly due to 9.3%/4.2% higher than our expected wafer and module shipment, respectively.
- **Wafer and module price under pressure.** Based on LONGi's capacity expansion plan, we expect external wafer/module 2020 shipment will increase 60.5%/121.5% YoY to 7.49bn pieces and 18.45GW respectively, but ASP to decline 11.0%/17.2% YoY. We think mono-wafer supply will still be tight in 1Q20, supporting relatively high selling price, but price will likely to face pressures as more new capacity starts production, which will shift market situation to oversupply in 2H20. We expect price cut will reduce wafer/module GPM to 25.1%/21.1% in 2020.
- **Wafer and module trending to larger size.** LONGi launched M6 wafer with dimension of 166mm in 4Q19 in response to TJZ (002129 CH, NR)'s challenge with newly developed M12 (210mm) products. According to mgmt., M6 product accounted for less than 10% output and mainly used for internal module production in 2019. In 2020, the Company expects M6 product will account for ~40% output, of which ~50% will be used for internal module production. At current stage, M6 series product is pricing at RMB 0.4/pcs and RMB 5 cents/watt higher than traditional M2 products, sustaining LONGi's profitability over peers. We expect the pricing premium will narrow as larger size product to supply.
- **Downgrade to HOLD rating.** Based on operating and forecast update, we revise LONGi's FY19-21E EPS by 19.6%/7.4%/-4.9% respectively to RMB 1.50/1.62/1.84. We turn relatively prudent to LONGi's performance due to intense competition outlook. We lift our TP slightly from RMB32.37 to RMB 32.40 based on FY20E 20x PER.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	16,362	21,988	32,611	52,965	61,690
YoY growth (%)	41.9	34.4	48.3	62.4	16.5
Net income (RMB mn)	3,565	2,558	5,171	6,105	6,927
EPS (RMB)	1.29	0.93	1.50	1.62	1.84
YoY growth (%)	50.0	(27.9)	61.0	8.0	13.5
P/E (x)	23.1	32.1	19.9	18.5	16.3
P/B (x)	4.2	5.1	4.0	3.4	2.9
Yield (%)	0.6	0.3	0.7	0.8	0.9
ROE (%)	18.1	15.8	20.2	18.3	17.6
Net gearing (%)	Net Cash	0.2	Net Cash	Net Cash	Net Cash

Source: Company data, CMBIS estimates

**HOLD (Down)**

Target Price **RMB32.40**  
 (Previous TP **RMB32.37**)  
 Up/Downside **+11.53%**  
 Current Price **RMB29.05**

### China Solar Sector

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### Stock Data

Mkt Cap (RMB mn)	109,577
Avg 3 mths t/o (RMB mn)	982.0
52w High/Low (RMB)	30.23/17.32
Total Issued Shares (mn)	3,624.4
Source: Bloomberg	

### Shareholding Structure

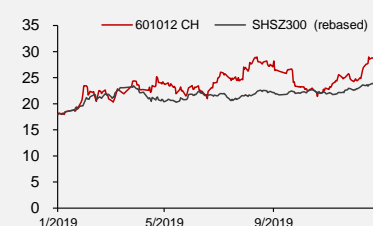
Li Zhenguo	15.0%
Li Chunan	11.0%
Free float	50.4%
Source: Bloomberg	

### Share Performance

	Absolute	Relative
1-mth	19.9%	18.8%
3-mth	24.7%	20.5%
6-mth	16.4%	10.2%
12-mth	62.5%	27.5%

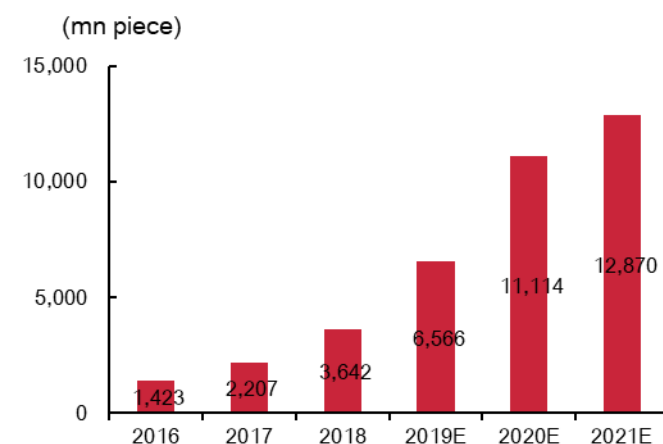
Source: Bloomberg

### 12-mth Price Performance

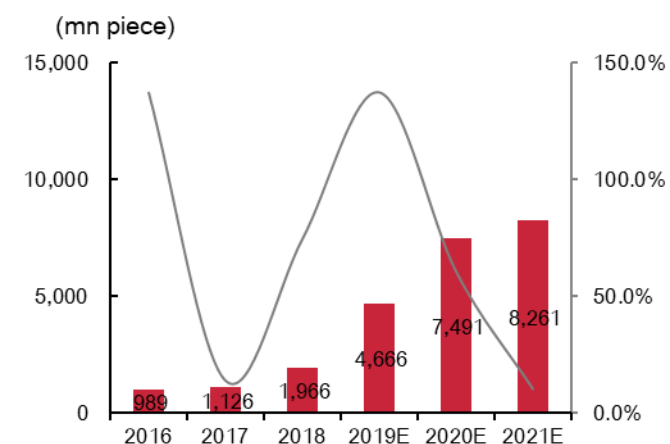


Source: Bloomberg

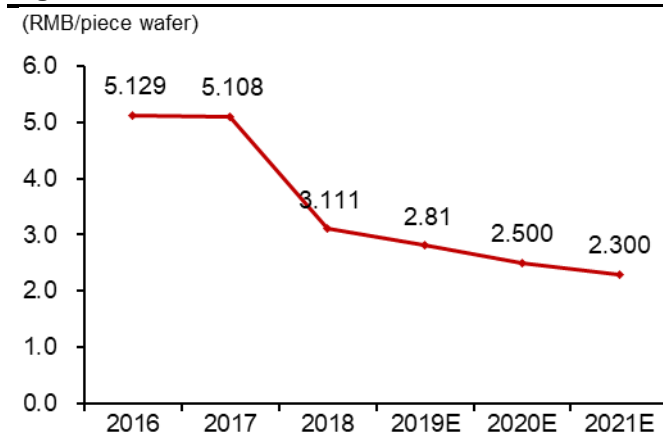
**Auditor: PwC**

**Figure 1: Wafer production**

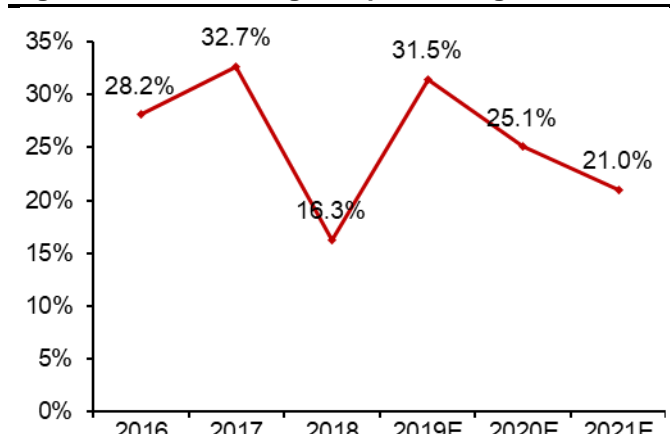
Source: Company data, CMBIS estimates

**Figure 2: Wafer external shipment and growth**

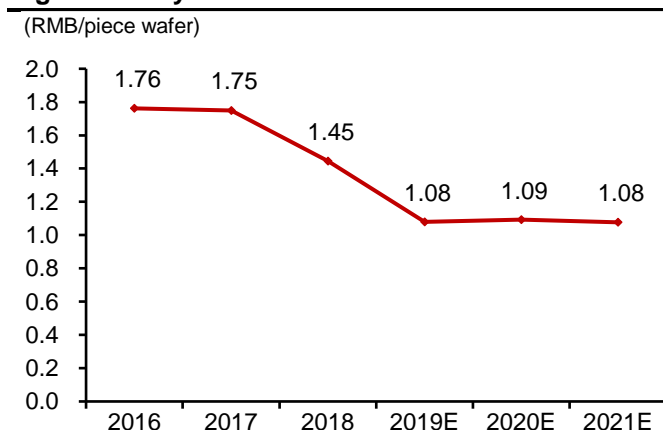
Source: Company data, CMBIS estimates

**Figure 3: Mono wafer ASP**

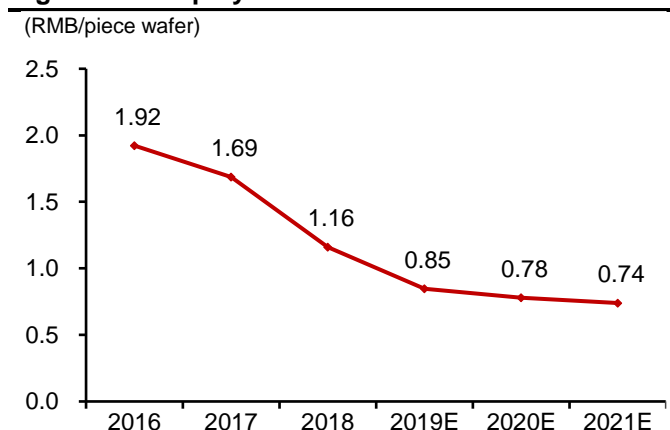
Source: Company data, CMBIS estimates

**Figure 4: Wafer sales gross profit margin**

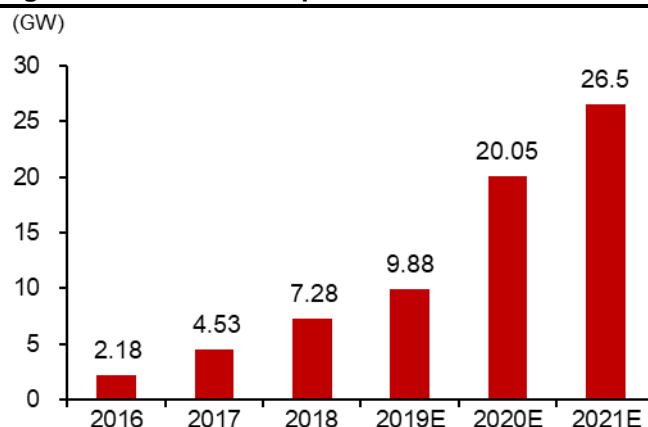
Source: Company data, CMBIS estimates

**Figure 5: Poly-Si material costs for wafer**

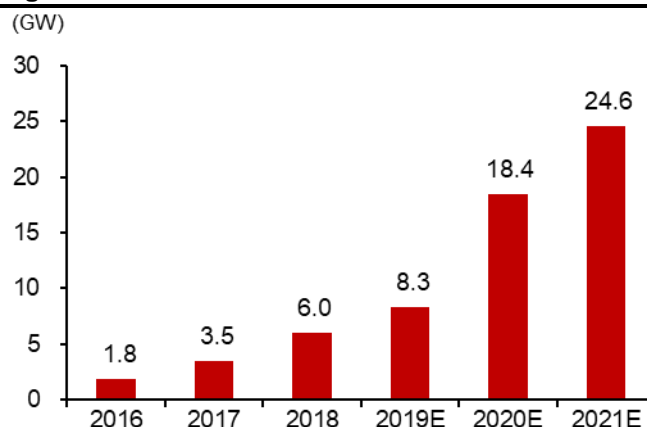
Source: CMBIS estimates

**Figure 6: Non-poly-si related costs for wafer**

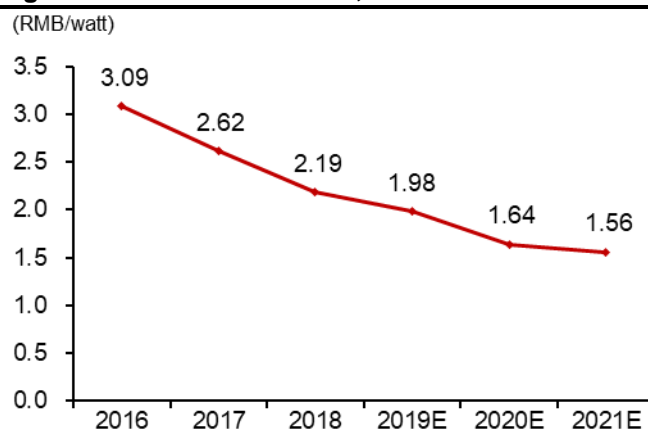
Source: CMBIS estimates

**Figure 7: Mono-module production**

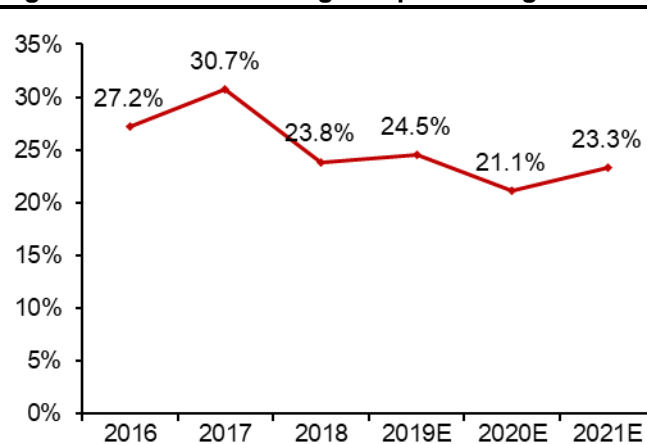
Source: Company data, CMBIS estimates

**Figure 8: mono-module external sales**

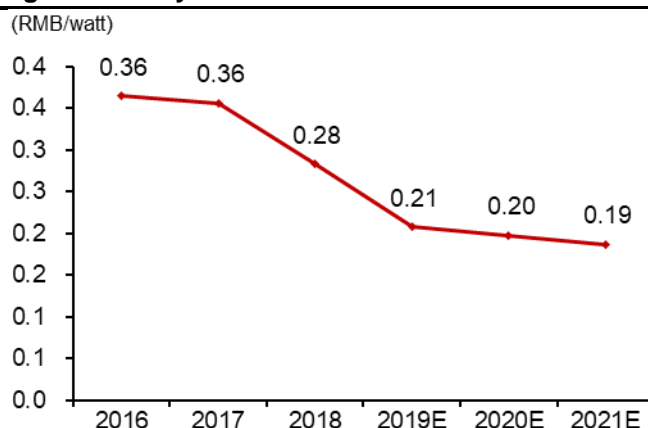
Source: Company data, CMBIS estimates

**Figure 9: Mono-module ASP, VAT excl.**

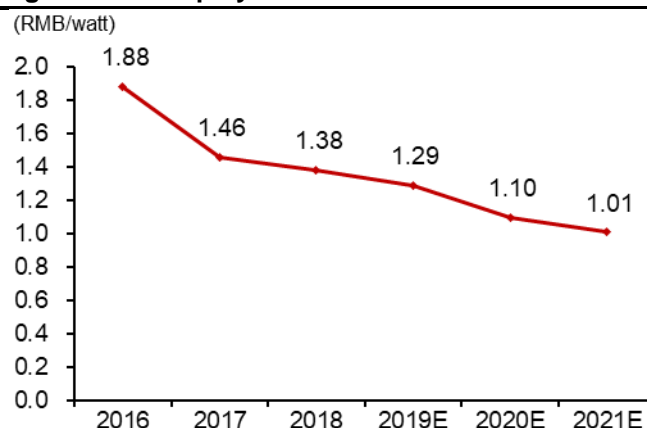
Source: Company data, CMBIS estimates

**Figure 10: Mono-module gross profit margin**

Source: Company data, CMBIS estimates

**Figure 11: Poly-si material costs for module**

Source: CMBIS estimates

**Figure 12: Non-poly-si related costs for module**

Source: CMBIS estimates

**Figure 13: Earnings revision**

	Old			New			Change(%)		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Revenue (RMB mn)	29,402	43,864	60,285	32,611	52,965	61,690	10.9%	20.7%	2.3%
Net Income (RMB mn)	4,326	5,683	7,286	5,171	6,105	6,927	19.6%	7.4%	-4.9%
EPS (RMB)	1.25	1.51	1.93	1.50	1.62	1.84	19.6%	7.4%	-4.9%

Source: Company data, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>16,362</b>	<b>21,988</b>	<b>32,611</b>	<b>52,965</b>	<b>61,690</b>
Mono-module	9,175	13,091	16,493	30,254	38,288
Wafer	5,753	6,116	13,111	18,727	19,000
Others	1,434	2,781	3,007	3,984	4,402
<b>COGS</b>	<b>(5,280)</b>	<b>(4,892)</b>	<b>(8,941)</b>	<b>(11,945)</b>	<b>(13,813)</b>
Gross profit	5,280	4,892	8,941	11,945	13,813
<b>Operating expenses</b>	<b>1,688</b>	<b>2,687</b>	<b>3,343</b>	<b>5,332</b>	<b>6,165</b>
Taxes & Surcharges	152	117	262	400	430
Selling expenses	664	1,017	1,385	2,284	2,712
Admin expenses	500	623	913	1,483	1,727
R&D expenses	164	202	326	530	617
Impairment loss	207	728	457	636	679
<b>Operating profit</b>	<b>87</b>	<b>61</b>	<b>2,205</b>	<b>5,598</b>	<b>6,613</b>
Other income	27	142	147	238	185
Investment income	582	794	570	570	570
Asset disposal gain/(loss)	(8)	(4)	-	-	-
Finance expenses, net	-	-	(352)	(398)	(437)
Others	-	-	-	-	-
Non-Operating Income, net	22	(2)	15	12	8
<b>Profit Before Tax</b>	<b>4,018</b>	<b>2,867</b>	<b>5,978</b>	<b>7,036</b>	<b>7,974</b>
Income tax	(468)	(301)	(658)	(774)	(877)
Less: Minority Interest	15	(9)	(149)	(157)	(170)
<b>Net profit</b>	<b>3,565</b>	<b>2,558</b>	<b>5,171</b>	<b>6,105</b>	<b>6,927</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Net income</b>	<b>3,565</b>	<b>2,558</b>	<b>5,171</b>	<b>6,105</b>	<b>6,927</b>
DD&A	802	1,129	1,523	1,921	2,085
Working capital change	1,680	(1,558)	(724)	(1,624)	(2,002)
Tax adjustments	(83)	85	75	189	23
Others	(4,635)	(1,040)	(1,232)	(2,421)	(1,958)
<b>Net cash from operation</b>	<b>1,328</b>	<b>1,173</b>	<b>4,814</b>	<b>4,171</b>	<b>5,075</b>
Capex & investments	(7,447)	(3,652)	(7,088)	(6,002)	(2,657)
Others	3,673	483	10	-	-
<b>Net cash from investment</b>	<b>(3,774)</b>	<b>(3,169)</b>	<b>(7,078)</b>	<b>(6,002)</b>	<b>(2,657)</b>
Equity raised	685	-	6,645	-	-
Change of debts	3,937	769	2,049	2,049	1,049
Dividend paid	(200)	(359)	(362)	(776)	(916)
Others	249	(143)	149	157	170
<b>Net cash from financing</b>	<b>4,672</b>	<b>267</b>	<b>8,480</b>	<b>1,430</b>	<b>303</b>
Net change in cash	2,227	(1,728)	6,216	(402)	2,721
Cash at the beginning	5,185	7,356	5,665	11,881	11,480
Exchange difference	(56)	38	-	-	-
<b>Cash at the end of the year</b>	<b>7,356</b>	<b>5,665</b>	<b>11,881</b>	<b>11,480</b>	<b>14,201</b>
Less: pledged cash	1,190	2,043	2,935	4,767	5,552
<b>Cash at the balance sheet</b>	<b>8,546</b>	<b>7,708</b>	<b>14,816</b>	<b>16,247</b>	<b>19,753</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current Assets</b>	<b>13,956</b>	<b>16,758</b>	<b>22,377</b>	<b>26,535</b>	<b>27,197</b>
Fixed Assets	10,804	13,260	17,991	22,354	22,582
Construction in Progress	1,355	856	1,311	671	671
LT Deferred Expenses	643	959	1,243	1,498	1,728
Others	1,154	1,683	1,832	2,011	2,217
<b>Current Assets</b>	<b>18,927</b>	<b>22,901</b>	<b>36,713</b>	<b>51,963</b>	<b>61,420</b>
Cash & Equivalents	8,546	7,708	14,816	16,247	19,753
Account Receivables	6,131	8,453	12,229	20,024	23,391
Inventories	2,380	4,283	5,870	9,534	11,104
Others	1,870	2,457	3,798	6,159	7,171
<b>Current Liabilities</b>	<b>12,340</b>	<b>14,878</b>	<b>20,457</b>	<b>30,764</b>	<b>33,945</b>
Account Payables	7,350	8,507	11,414	17,478	19,124
Advanced Payment	772	962	2,098	2,996	3,040
Short-term Borrowings	1,612	688	979	1,184	1,289
Current Portion of LT Debt	560	1,137	1,469	1,776	1,934
Others	2,046	3,585	4,497	7,329	8,558
<b>Non-Current Liabilities</b>	<b>6,299</b>	<b>7,956</b>	<b>9,872</b>	<b>12,955</b>	<b>14,405</b>
Long-term Payables	645	1,306	1,631	2,648	3,085
Long-term Borrowings	1,656	2,659	4,045	5,582	6,368
Bond Payables	3,148	3,262	3,300	3,300	3,300
Others	850	729	896	1,425	1,652
<b>Total net assets</b>	<b>14,244</b>	<b>16,825</b>	<b>28,762</b>	<b>34,779</b>	<b>40,268</b>
<b>Minority Interests</b>	<b>49</b>	<b>373</b>	<b>522</b>	<b>679</b>	<b>849</b>
<b>Shareholder's equity</b>	<b>14,195</b>	<b>16,452</b>	<b>27,951</b>	<b>33,280</b>	<b>39,292</b>

### Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
Mono-module	56.1%	59.5%	50.6%	57.1%	62.1%
Mono-wafer	35.2%	27.8%	40.2%	35.4%	30.8%
Others	8.8%	12.6%	9.2%	7.5%	7.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>P&amp;L ratios (%)</b>					
Gross profit margin	32.3%	22.2%	27.4%	22.6%	22.4%
Operating margin	22.0%	10.0%	17.2%	12.5%	12.4%
Net margin	21.8%	11.6%	15.9%	11.5%	11.2%
Effective tax rate	11.7%	10.5%	11.0%	11.0%	11.0%
<b>Balance sheet ratios</b>					
Current ratio (x)	1.53	1.54	1.79	1.69	1.81
Inventory turnover days	59.2	71.1	78.3	68.5	78.7
Creditor's turnover days	116.3	131.6	111.5	99.6	108.3
Debtors turnover days	111.1	121.1	115.7	111.1	128.4
Liabilities/Assets (%)	56.7	57.6	51.3	55.7	54.6
Net debt / equity ratio (%)	Net Cash	0.22	Net Cash	Net Cash	Net Cash
<b>Returns (%)</b>					
ROE	25.11	15.55	18.50	18.34	17.63
ROA	10.84	6.45	8.75	7.78	7.82
<b>Per share</b>					
EPS (RMB)	1.29	0.93	1.50	1.62	1.84
DPS (RMB)	0.18	0.10	0.21	0.24	0.28
BVPS (RMB)	7.12	5.89	7.41	8.82	10.41

Source: Company data, CMBIS estimates

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

<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
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<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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