

## S.C New Energy Technology (300724 CH)

### Solid backlog and stabilized margin; raise earnings estimates and TP

**Key positives:** (1) We expect S.C New Energy will continue to see strong order intakes in FY21E due to robust equipment upgrade/replacement demand underpinned by larger wafer format and rising PERC+/TOPCon technologies; (2) We expect gross margin will stabilize in FY21-22E. We continue to like S.C New Energy for its comprehensive product offering, dominant market share and leading technological edge. We raise S.C's earnings forecast by 5-6% for FY20E-22E and lift TP to RMB 185.00, based on 1.5x FY21E PEG, on the back of 46% FY20-FY22E net profit CAGR. Reiterate **BUY**. **Near-term catalysts:** 1) Release of FY20E prelim results; 2) Completion of A-share non-public placement.

- **Solid backlog to support revenue growth in FY21E-22E.** According to S.C's latest A-share placement documents, the Company obtained RMB 7.1bn new orders in FY20E, up 45% YoY. We believe this was largely due to strong demand from prevailing larger wafer format (from M6 to M10/G12).
- **We expect cell makers' capacity expansion growth to continue.** Looking into 2021E, we expect solar cell makers' aggressive capacity expansion to continue, which will add a minimum of 120GW new capacity for the industry as whole and lead to >300GW total capacity by YE 2021E. While such large supply will potentially exert pressure on cell prices, we believe solar cell makers will continue to enhance their capex on 1) equipment compatible with larger wafer format (esp. G12) in order to lower its costs, and 2) equipment with advanced technologies, e.g. PERC+/TOPCon, that offers higher efficiency gains while at lower CAPEX than HJT cells.
- **S.C New Energy is well-positioned to capture equipment upgrade demand in 2021E.** PERC+ and TOPCon require additional equipment on top of a PERC production line, and S.C is already capable to offer these equipment. We estimate the value of a complete set of production line of PERC+/TOPCon reaches RMB200mn/RMB 230mn per GW, ~30-50% higher than that of PERC, while the value of upgrading from PERC is estimated to be ~RMB 50mn per GW. Hence, we believe S.C is well placed to capture the robust orders with higher per GW CAPEX.
- **Gross margin to bottom out on new products.** S.C's GPM in FY20E was dragged by 1) lower ASP orders in FY18E (hit by "531 policy") that was recognized as revenue in FY20E, and 2) the reclassification of part of sales & marketing exp. to COGS. That said, we believe S.C's gross profit margin will bottom out and back to an upward trend in FY21-22E, given that revenue from new generations of equipment with more advanced technologies will gradually be recognized.

#### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,493	2,527	4,169	6,237	8,215
YoY growth (%)	20	69	65	50	32
Net income (RMB mn)	306	382	602	951	1,286
EPS (RMB)	1.12	1.19	1.88	2.96	4.00
YoY growth (%)	6	7	57	58	35
Consensus EPS (RMB)	N/A	N/A	1.87	2.86	3.74
P/E (x)	129.5	121.6	77.3	49.0	36.2
P/B (x)	20.8	18.2	15.2	11.8	9.0
Yield (%)	0.1	0.1	0.1	0.2	0.3
ROE (%)	19.4	16.0	21.4	27.0	28.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

#### BUY (Maintain)

Target Price	RMB 185.00
(Previous TP)	RMB 138.00)
Up/Downside	+27.5%
Current Price	RMB 145.11

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#### Stock Data

Mkt Cap (RMB mn)	46,612
Avg 3 mths t/o (RMB mn)	510.47
52w High/Low (RMB)	158.88/45.80
Total Issued Shares (mn)	321.2

Source: Bloomberg

#### Shareholding Structure

YU Zhong	9.13%
LIANG Meizhen	8.86%
ZUO Guojun	8.29%

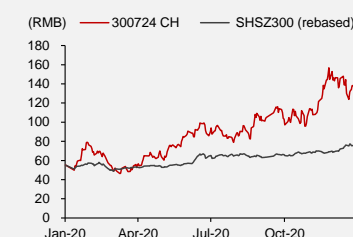
Source: Bloomberg

#### Share Performance

	Absolute	Relative
1-mth	0.7%	-10.2%
3-mth	40.7%	20.7%
6-mth	61.0%	36.3%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: RSM

#### Related report:

"Solar Power Equipment - Picks and Shovels in the Solar Gold Rush" – Nov 20

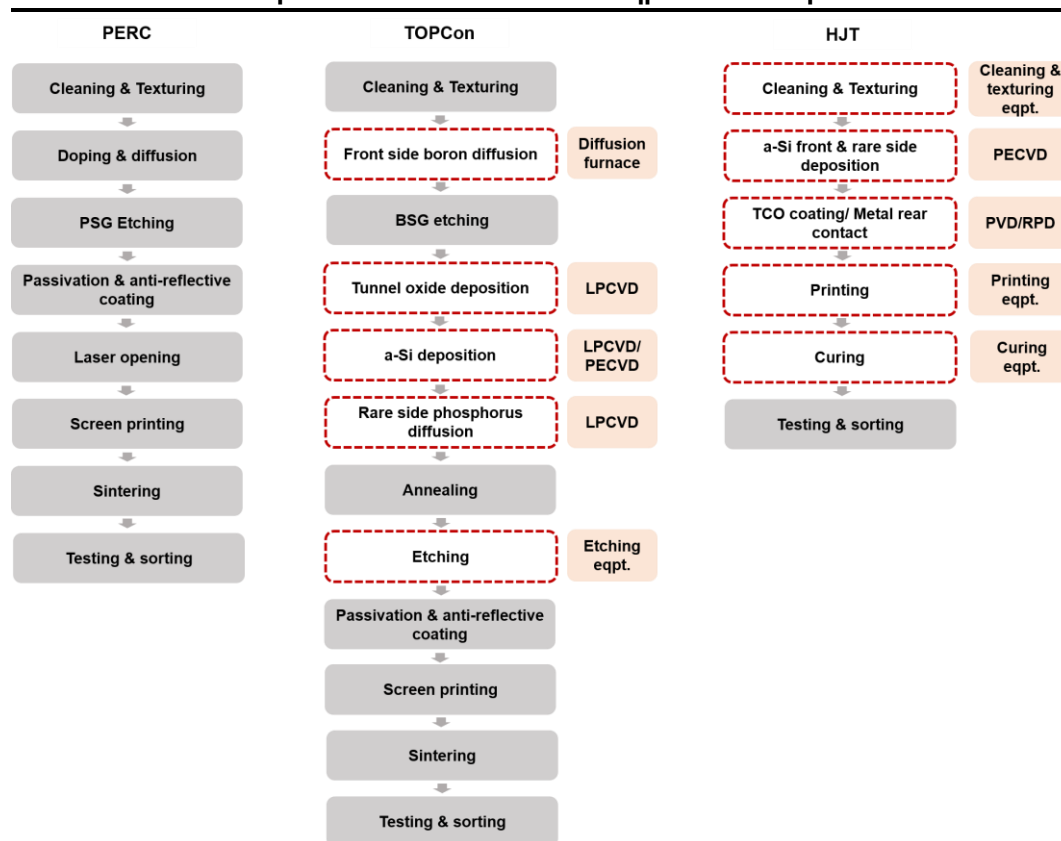
- **HJT equipment advancement on track.** S.C became capable of offering a complete production line for HJT cells in Dec 2020. Specifically, with its RPD devices, different from mainstream PVD, the Company stated that it could help cell makers to achieve min. 0.6% conversion efficiency gains for HJT cells. The Company also signed agreement with **Akcome (002610 CH, NR)** and Runergy to provided equipment for a total of 11GW HJT facilities. Going forward, we expect S.C to launch new generation of PECVD with higher throughput (>10,000 pcs/hr) and PAR devices (combining RPD with PVD) that could further lower cell makers costs and continue to exploring new technologies to improve efficiency.
- **Raise TP to RMB 185.00; Reiterate BUY.** We lift S.C's FY20E-22E earnings forecast by 5-6% mainly to reflect better margin outlook, while slightly lower revenue in FY21E-22E to reflect lower per GW CAPEX resulted from larger wafer format. We raise our TP by 34% to RMB 185.00, based on 42% diluted EPS CAGR in FY20E-22E (vs. prev. 39%) and 1.5x PEG (vs. prev. 1.3x). We factor in less dilution impact from A-share non-public offering based on the Company's recent share price performance (FY21E-22E EPS dilution of 4%/6% from prev. 4%/9%, assuming issuance to be completed by 1Q21E). Besides, we apply a higher target PEG of 1.5x, which is in line with that of its closest listed peer **Maxwell (300751 CH, NR)**.
- **Risk:** 1) Weaker-than-expected downstream capacity expansion and PERC+/TOPCon upgrade demand; 2) Slower recovery of GPM; 3) Deterioration of clients' financial ability to pay.

Figure 1: Major cell makers' expansion plan in 2021E

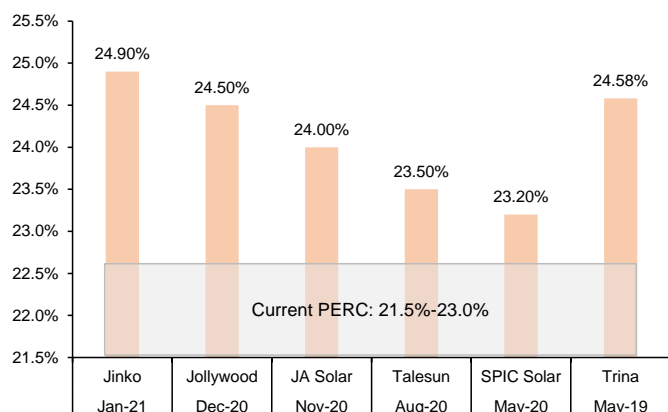
Company	Capacity				Latest expansion plan	
	2019	2020E	2021E	Addition in 2021	Date	Content
Tongwei	20	30	50	20		
LONGi	13.8	30	45	15	Jan-21 Nov-20	To build 15GW solar cell facilities in Xixian, Shaanxi To build 30GW solar cell facilities in Quijing, Yunnan
Aiko	9.2	32	36	4		
Runergy	11	20	35	15		
JA Solar	11	18	30	12	Jan-21	To build 10GW solar cell and 6GW solar module facilities in Yangzhou, Jiangsu
Jinko	10.6	11	30	19	Nov-20 Nov-20	To build 20GW solar cell facilities in Chuxiong, Yunnan To build 1.8GW solar cell facilities in Malaysia
Risen	8	10.5	20	9.5	Jan-21	To build min. 4GW solar cell and 6GW solar module facilities in Jintan, Jiangsu
Trina	7.3	12	26	14	Dec-20 Dec-20	To build 8.5GW solar cell facilities in Yancheng, Jiangsu To build 8GW solar cell facilities in Suqian, Jiangsu
Canadian Solar	9.6	9.6	20	10.4		
<b>Total</b>	<b>100.5</b>	<b>173.1</b>	<b>292.0</b>	<b>118.9</b>		

Source: Announcements, news, PVmen, CMBIS estimates

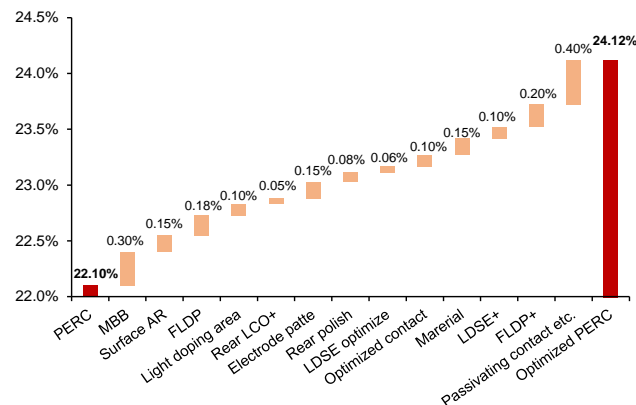
Figure 2: Comparison of production process of PERC, TOPCon and HJT cells; steps in red dotted lines require additional or different eqpt. vs. PERC production



Source: CMBIS

**Figure 3: TOPCon efficiency in pilot lines or labs has reached 24%-24.5%**


Source: News reports, CMBIS estimates

**Figure 4: Methods to further improve PERC cells' conversion efficiency towards 24%+**


Source: Talesun, CMBIS

**Figure 5: Earnings revision**

(RMB)	New			Old			Diff		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue (mn)	4,169	6,237	8,215	4,169	6,478	8,472	0%	-4%	-3%
Gross profit (mn)	1,175	1,905	2,571	1,126	1,758	2,323	4%	8%	11%
Net profit (mn)	602	951	1,286	572	902	1,210	5%	5%	6%
EPS	1.88	2.96	4.00	1.78	2.81	3.77	5%	5%	6%
BVPS	9.57	12.34	16.05	9.47	12.10	15.59	1%	2%	3%
ROE	21.40%	27.04%	28.21%	20.44%	26.04%	27.20%	1.0ppt	1.0ppt	1.0ppt

Source: CMBIS estimates

**Figure 6: China and overseas peers' valuation comp**

			TP	Last price	Market cap	P/E (x)		P/B (x)		ROE (%)		EPS CAGR
Company	Ticker	Rating	(Local ccy)		(US\$ mn)	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY19A-FY21E
<u>China Solar Power Eqpt. Suppliers</u>												
Jingsheng	300316 CH	BUY	40.20	45.00	8,926	71.4	50.0	11.7	9.7	17.1	21.2	34.6%
S.C New Energy	300724 CH	BUY	185.00	145.11	7,191	77.3	49.0	15.2	11.8	21.5	27.0	57.8%
Suzhou Maxwell	300751 CH	NR	N/A	542.70	4,354	76.5	55.5	16.8	13.2	22.4	24.4	43.4%
NAURA	002371 CH	NR	N/A	221.01	16,927	227.6	159.2	16.9	15.4	7.5	9.8	46.1%
Wuxi Autowell	688516 CH	NR	N/A	68.18	1,018	48.7	29.0	6.6	5.5	14.8	18.4	54.2%
Lead Intelligence	300450 CH	NR	N/A	68.17	9,091	66.1	46.9	10.7	8.9	17.6	20.0	26.4%
DR Laser	300776 CH	NR	N/A	118.13	1,892	43.2	31.8	9.0	7.3	20.2	22.3	180.4%
Yingkou Jinchen	603396 CH	NR	N/A	34.25	548	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Shangji Automation	603185 CH	NR	N/A	75.55	2,659	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Qingdao Gaoce	688556 CH	NR	N/A	33.10	811	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Beijing Jingyuntong	601908 CH	NR	N/A	5.83	1,759	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Zhejiang Jinggong	002006 CH	NR	N/A	5.19	358	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average						86.9	58.2	13.2	10.9	17.3	20.8	63.6%

<b>Global Solar Power Eqpt. Suppliers</b>												
Meyer Burger	MBTN SW	NR	N/A	0.38	1,069	N/A	N/A	2.8	3.4	N/A	N/A	N/A
Centrotherm	CTNK GR	NR	N/A	2.84	73	N/A	N/A	N/A	N/A	N/A	9.9	N/A
Manz	M5Z GR	NR	N/A	46.00	433	86.8	21.1	N/A	N/A	N/A	35.0	N/A
Singulus	SNG GR	NR	N/A	5.22	57	N/A	4.2	N/A	N/A	357.4	N/A	N/A

Source: Bloomberg, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>1,493</b>	<b>2,527</b>	<b>4,169</b>	<b>6,237</b>	<b>8,215</b>
Diffusion & deposition eqpt.	838	1,723	2,723	4,139	5,464
Wet process eqpt.	383	426	767	1,189	1,570
Automation eqpt.	184	284	534	721	937
Parts and others	87	93	145	188	244
<b>COGS</b>	<b>(895)</b>	<b>(1,717)</b>	<b>(3,039)</b>	<b>(4,504)</b>	<b>(5,909)</b>
<b>Gross profit</b>	<b>598</b>	<b>810</b>	<b>1,130</b>	<b>1,734</b>	<b>2,306</b>
S&M expenses	(118)	(179)	(83)	(143)	(197)
G&A expenses	(46)	(73)	(88)	(125)	(181)
R&D expenses	(77)	(123)	(167)	(281)	(378)
Other opex	12	1	(55)	(61)	(74)
<b>Core operating profit</b>	<b>369</b>	<b>437</b>	<b>737</b>	<b>1,124</b>	<b>1,476</b>
Impairment losses	(68)	(86)	(172)	(95)	(66)
Other expenses and incomes	50	78	113	48	50
<b>Pre-tax profit</b>	<b>351</b>	<b>429</b>	<b>677</b>	<b>1,077</b>	<b>1,460</b>
Income tax	(45)	(55)	(85)	(135)	(182)
Minority interest	-	7	9	9	9
<b>Net profit</b>	<b>306</b>	<b>382</b>	<b>602</b>	<b>951</b>	<b>1,286</b>

### Cash flow

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>PAT</b>	<b>306</b>	<b>374</b>	<b>593</b>	<b>942</b>	<b>1,277</b>
D&A	5	18	29	33	39
Change in working capital	(416)	(723)	(8)	(245)	(599)
Others	44	76	216	131	103
<b>Operating cash flow</b>	<b>(60)</b>	<b>(254)</b>	<b>830</b>	<b>861</b>	<b>821</b>
CAPEX	(41)	(121)	(77)	(89)	(99)
Others	(823)	754	103	101	121
<b>Investing cash flow</b>	<b>(864)</b>	<b>632</b>	<b>26</b>	<b>12</b>	<b>22</b>
Proceeds from funding	1,064	11	25	-	-
Changes in borrowings	-	16	168	53	8
Dividends paid	(60)	(58)	(58)	(60)	(95)
Others	(17)	(302)	(240)	(300)	(260)
<b>Financing cash flow</b>	<b>988</b>	<b>(333)</b>	<b>(106)</b>	<b>(307)</b>	<b>(347)</b>
<b>Net change in cash</b>	<b>63</b>	<b>45</b>	<b>751</b>	<b>565</b>	<b>495</b>
Cash at the beginning	378	454	501	1,247	1,813
Forex change, net	13	3	(5)	-	-
Less: restricted cash	96	427	383	475	536
<b>Cash at the end</b>	<b>454</b>	<b>501</b>	<b>1,247</b>	<b>1,813</b>	<b>2,308</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Current assets</b>	<b>4,106</b>	<b>5,553</b>	<b>7,756</b>	<b>10,138</b>	<b>12,522</b>
Cash and restricted cash	550	929	1,630	2,288	2,844
Trade receivables	485	929	2,293	2,994	3,697
Inventories	2,087	3,342	3,464	4,469	5,574
Other current assets	984	354	368	388	408
<b>Non-current assets</b>	<b>338</b>	<b>458</b>	<b>481</b>	<b>552</b>	<b>622</b>
Long-term equity investment	130	129	108	109	110
Fixed assets	162	246	265	312	363
Other non-current assets	46	83	109	130	149
<b>Total assets</b>	<b>4,444</b>	<b>6,011</b>	<b>8,238</b>	<b>10,690</b>	<b>13,144</b>
<b>Current liabilities</b>	<b>2,201</b>	<b>3,424</b>	<b>5,119</b>	<b>6,668</b>	<b>7,920</b>
ST borrowings	-	-	168	221	228
Trade payables	613	1,059	1,459	1,892	2,955
Advances from customers	1,493	2,201	3,306	4,354	4,518
Other current liabilities	95	163	186	201	218
<b>Non-current liabilities</b>	<b>15</b>	<b>31</b>	<b>45</b>	<b>46</b>	<b>48</b>
LT borrowings	-	-	-	-	-
Other non-current liabilities	15	31	45	46	48
<b>Total liabilities</b>	<b>2,217</b>	<b>3,455</b>	<b>5,163</b>	<b>6,714</b>	<b>7,968</b>
Share capital	320	320	321	321	321
Reserves	1,206	1,235	1,254	1,331	1,434
Retained earnings	702	998	1,497	2,312	3,401
<b>Shareholders' fund</b>	<b>2,227</b>	<b>2,552</b>	<b>3,072</b>	<b>3,964</b>	<b>5,156</b>
Minority interest	-	3	2	11	20
<b>Total equity</b>	<b>2,227</b>	<b>2,556</b>	<b>3,074</b>	<b>3,975</b>	<b>5,176</b>

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue mix (%)</b>					
Diffusion & deposition eqpt.	56	68	65	66	67
Wet process eqpt.	26	17	18	19	19
Automation eqpt.	12	11	13	12	11
Parts and others	6	4	3	3	3
<b>YoY growth (%)</b>					
Revenue	20	69	65	50	32
Gross profit	40	32	27	28	28
Net profit	21	25	58	58	35
<b>Operating efficiency (%)</b>					
GP margin	40.1	32.1	27.1	27.8	28.1
Core operating margin	24.7	17.3	17.7	18.0	18.0
Net profit margin	20.5	15.1	14.4	15.3	15.7
<b>B/S ratios (%)</b>					
Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash
Receivable turnover days	100	102	141	155	149
Inventory turnover days	420	392	298	232	223
Payable turnover days	200	178	151	136	150
<b>Profitability (%)</b>					
ROE	19.4	16.0	21.4	27.0	28.2
ROA	8.7	7.3	8.4	10.1	10.8
<b>Per share (RMB)</b>					
EPS	1.12	1.19	1.88	2.96	4.00
DPS	0.18	0.18	0.19	0.30	0.40
BVPS	6.96	7.98	9.57	12.34	16.05

Source: Company data, CMBIS estimates

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