

# LONGi – A (601012 CH)

## Headwinds to emerge in 2Q20

LONGi reported strong FY19/1Q20 earnings results, with net profit read RMB5,280mn/1,864mn, up 106.4%/205.1% YoY respectively. We think the strong growth momentum is about to face headwinds, as impacts from COVID-19 spreading around major solar installation market such as US and Europe will emerge from 2Q20. Continuous price-cutting among the PV supply chain would be an exhibit of demand disruption. We think earnings visibility for FY20E is low, implying significant uncertainties for both product ASP and shipment volume. We cut TP by 9.8% to RMB31.23 to reflect ASP risks. We think LONGi is fairly priced for now, and suggest staying on the sideline until recovery signal is confirmed. **Maintain HOLD.**

- Outstanding FY19 results.** LONGi recorded 49.6% YoY revenue growth in FY19 to RMB32.9bn, Strong revenue growth was driven by 139.3%/23.4% mono wafer and module shipment YoY growth (see Figure 2). Overall GPM was 28.9%, up 6.7% YoY, mainly backed by stunning wafer GPM of 32.2% and module GPM of 25.2%. Net profit was RMB5.28bn, up 106.4% YoY, close to high end of earnings preview.
- Surprising good 1Q20 earnings.** To market's surprise, LONGi's strong earnings growth momentum continued in 1Q20, with revenue surged 50.6% to RMB8,599mn, and quarter net profit reached RMB1.86bn刷新 record high. In 1Q20, the Company maintained stable QoQ wafer sales and significant decline in QoQ module shipment, but manage to boost module sales ASP through increasing module export to the US market. According to mgmt., 450MW modules were ship to US market, accounting for 24% of quarter shipment which enjoyed significant pricing premium. 1Q20 wafer and module GPM were high at 39.7% and 22.5% respectively, reflecting the Company's effort in costs reduction and efficiency improvement.
- Headwinds to emerge in 2Q20.** Mgmt. maintained FY20 wafer/module shipment (internal usage incl.) targets at 58GW/20GW unchanged, in view of 1) ~8GW module order was secured; and 2) optimistic outlook that order flow to pick up as US and Europe to resume functional from city lockdown mode. We are afraid that the demand disruption will end LONGi's stunning growth momentum, as wafer/module price had declined 14.7%/4.1% since 25 Mar. As market visibility is still low, we expect there will be further price cut coming. We trim our wafer/module ASP assumption down by 4.4%/6.8% to RMB2.39/pc and RMB1.52/watt, reflecting FY20E GPM of 29.1%/17.4% respectively.
- Earnings growth to slow down in FY20E.** Based on our revised ASP and costs assumptions, we trim LONGi's FY20/21E EPS outlook by 7.6%/2.7% to RMB1.49/1.80. Based on 21x FY20 PER, we cut TP by 9.3% to RMB31.23. LONGi is close to fairly priced given potential risks. **Maintain HOLD.**

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	21,988	32,897	46,407	59,390	63,764
YoY growth (%)	34.4	49.6	41.1	28.0	7.4
Net income (RMB mn)	2,558	5,280	5,610	6,798	7,603
EPS (RMB)	0.93	1.47	1.49	1.80	2.02
YoY growth (%)	(27.9)	58.1	1.7	21.6	11.7
Consensus EPS(RMB)	N/A	N/A	1.65	2.01	2.45
P/E (x)	29.9	18.9	18.7	15.5	13.8
P/B (x)	4.7	3.8	3.2	2.7	2.3
Yield (%)	0.4	0.7	0.8	0.9	1.0
ROE (%)	15.8	20.1	17.0	17.5	16.7
Net gearing (%)	0.2	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, CMBIS estimates

**HOLD (Maintain)**

Target Price	RMB31.23
(Previous TP	RMB34.62)
Up/Downside	+12.1%
Current Price	RMB27.85

### China Solar Sector

**Robin Xiao**  
 (852) 3900 0849  
 robinxiao@cmbi.com.hk

### Stock Data

Mkt Cap (RMB mn)	105,051
Avg 3 mths t/o (RMB mn)	1,802
52w High/Low (RMB)	35.40/20.37
Total Issued Shares (mn)	3,772

Source: Bloomberg

### Shareholding Structure

Li Zhenguo	15.0%
Li Chunan	11.0%
Free float	50.4%

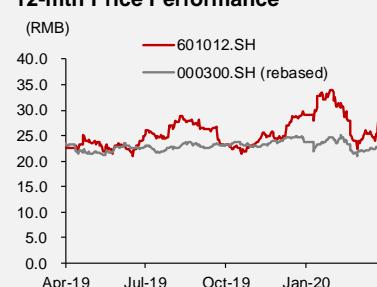
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	25.1%	15.3%
3-mth	-4.1%	0.2%
6-mth	19.5%	20.8%
12-mth	18.6%	24.5%

Source: Bloomberg

### 12-mth Price Performance



Source: Wind

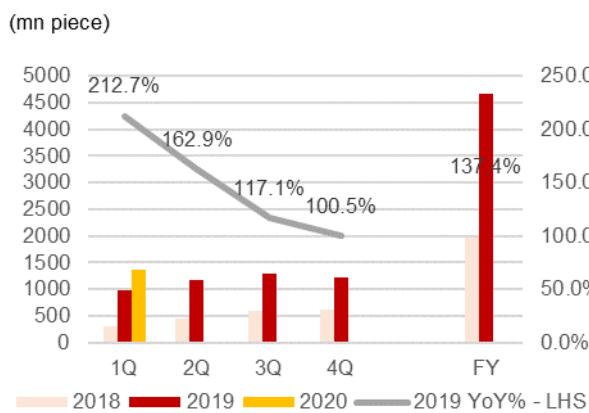
**Auditor: PwC**

- **Accelerating wafer costs reduction in 2019.** LONGi accelerated its wafer costs reduction pace in FY19. Mgmt. disclosed that 1) non-silicon ingots costs had declined 25.46% YoY, and 2) non-silicon wafer cutting costs also declined 26.5% YoY. We estimate overall non-silicon wafer costs dropped to RMB0.91/pc in 2019. Mgmt. expects to have another 10% overall non-silicon costs reduction in 2020, and explained further costs saving would be source from a) thinner wafer and diamond wire for wafer thickness from 180 $\mu$ m down to 160 $\mu$ m in the coming 1-2 years, and 2) increasing yield, from currently 93% to 95%. We think LONGi is currently leading in the costs race ahead of peers, and higher GPM achieved in 1Q20 was a good demonstration of its costs leadership, which helped the Company to sustain relatively stable profitability in the potential price war.
- **Strong operating cash flow, but somewhat stretching payables.** The Company recognized operating cash inflow of RMB8.16bn in 2019, significantly increased from RMB1.17bn in 2018. We anticipate accounts payable increment as one of the key drivers for operating cash inflow, as the account increased RMB5.2bn. Mgmt. explained payables in relation to solar material manufacturing increased only RMB1.3bn, which was a result of expanding business scale, while the remaining increment was largely due to material and equipment related to new project expansion. We think the Company somewhat stretched payables in 2019 due to its massive CAPEX plans, but it would also be market consensus understanding that such strong operating cash inflow cannot sustain in coming years.

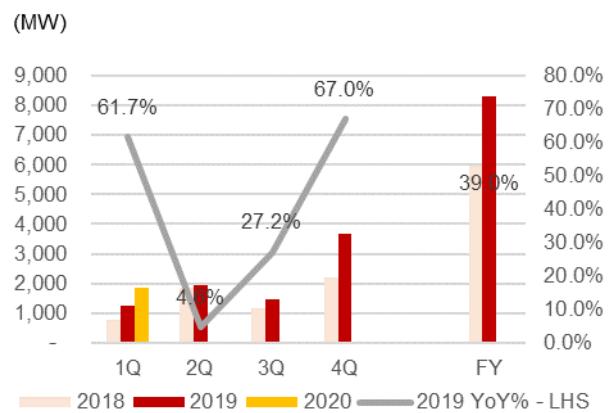
**Figure 1: LONGi's FY19 and 1Q20 results summary**

Operating figures	FY18	1Q19	2Q19	3Q19	4Q19	FY19A	YoY	FY19E	diff %	1Q20	YoY
Wafer shipment - mn piece	3,482	1,363	1,584	1693	1,913	6,549	88.1%	6,567	-0.27%	1,963	44.0%
Run rate	100.0%	20.8%	24.2%	25.9%	29.2%	100.0%	n/a	100.0%	n/a	18.1%	n/a
External sales	1,965	982	1170	1285	1,269	4,702	139.3%	4,666	0.77%	1357	38.2%
Run rate	100.0%	20.9%	24.9%	27.3%	27.0%	100.0%	n/a	100.0%	n/a	18.3%	n/a
Internal use	1,517	381	414	408	643	1,846	21.7%	1,900	-2.84%	606	59.1%
Run rate	100.0%	20.6%	22.4%	22.1%	34.8%	100.0%	n/a	100.0%	n/a	17.7%	n/a
<b>Modules Shipment - MW</b>											
External sales	5990.7	1240	1960	1450	2,754	7,394	23.4%	8,330	-11.23%	1870	50.8%
Run rate	100.0%	16.8%	26.5%	19.6%	37.2%	100.0%	n/a	100.0%	n/a	11.4%	n/a
Internal use	590	72	300	310	401	971	64.6%	760	27.76%	180	150.0%
Run rate	100.0%	7.4%	30.9%	31.9%	41.3%	100.0%	n/a	100.0%	n/a	22.5%	n/a
<b>P&amp;L Summary - RMB mn</b>											
Revenue	21,988	5,710	8,401	8,582	10,204	32,897	49.6%	32,611	0.9%	8,599	50.6%
COGS	(17,096)	(4,366)	(6,045)	(6,013)	(6,965)	(23,389)	36.8%	(23,669)	-1.2%	(5,859)	34.2%
Operating profit	4,892	1,344	2,356	2,569	3,239	9,508	94.4%	8,941	6.3%	2,740	103.9%
Gross profit margin	22.2%	23.5%	28.0%	29.9%	31.7%	28.9%	6.7ppt	27.4%	1.5ppt	31.9%	8.3ppt
Operating expenses	(2,687)	(579)	(716)	(847)	(1,262)	(3,405)	26.7%	(3,343)	1.8%	(657)	13.5%
Taxes & Surcharges	(117)	(27)	(37)	(29)	(85)	(178)	52.3%	(262)	-32.0%	(40)	50.1%
Selling expenses	(1,017)	(214)	(332)	(285)	(498)	(1,330)	30.7%	(1,385)	-4.0%	(114)	-46.6%
as % to revenue	-4.6%	-3.8%	-4.0%	-3.3%	-4.9%	-4.0%	0.6ppt	-4.2%	0.2ppt	-1.3%	2.4ppt
Admin expenses	(623)	(187)	(212)	(245)	(327)	(971)	55.9%	(913)	6.3%	(267)	42.8%
as % to revenue	-2.8%	-3.3%	-2.5%	-2.9%	-3.2%	-3.0%	-0.1ppt	-2.8%	-0.2ppt	-3.1%	0.2ppt
R&D expenses	(202)	(56)	(61)	(81)	(107)	(304)	50.7%	(326)	-6.7%	(76)	36.1%
Impairment loss	(728)	(95)	(74)	(207)	(245)	(621)	-14.6%	(457)	36.1%	(159)	67.4%
Operating profit	2,205	765	1,640	1,722	1,977	6,103	176.8%	5,598	9.0%	2,083	172.4%
Other income	142	24	48	35	97	204	43.7%	147	38.9%	53	123.7%
Investment income	794	108	37	118	(23)	240	-69.8%	570	-57.9%	115	6.0%
Asset disposal gain/(loss)	(4)	(8)	(9)	(24)	41	-	-	n/a	(1)	-	-
Finance expenses, net	(267)	(148)	(12)	(31)	(59)	(250)	-6.5%	(352)	-29.1%	18	-112.3%
Others	-	-	-	-	-	-	-	-	-	-	-
Non-Operating Income, net	(2)	2	(35)	(6)	(12)	(51)	2418.4%	15	-429.0%	(8)	-532.8%
Profit Before Tax	2,867	743	1,670	1,814	2,020	6,247	117.9%	5,978	4.5%	2,260	204.4%
Income tax	(301)	(72)	(208)	(260)	(150)	(690)	129.3%	(658)	4.9%	(295)	308.6%
Effective tax rate	10.5%	9.7%	12.5%	14.3%	7.4%	11.0%	0.6ppt	11.0%	0.0ppt	13.1%	3.3ppt
Profit for the period	2,567	670	1,461	1,555	1,871	5,557	116.5%	5,321	4.4%	1,965	193.1%
Less: Minority Interest	9	59	63	79	76	278	3105.7%	149	86.0%	101	70.9%
Net profit	2,558	611	1,398	1,475	1,795	5,280	106.4%	5,171	2.1%	1,864	204.9%
Net profit margin	11.6%	10.7%	16.6%	17.2%	17.6%	16.1%	4.4ppt	15.9%	0.2ppt	21.7%	11.0ppt

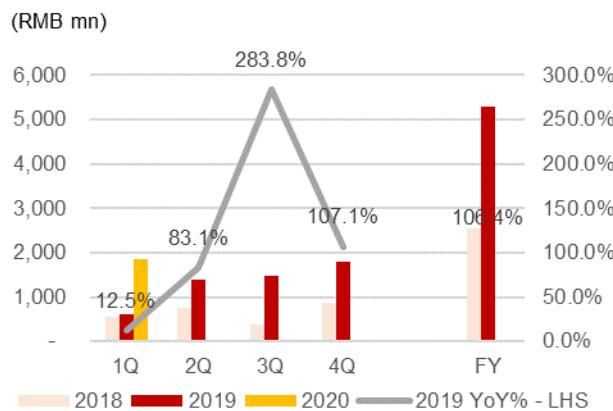
Source: Company data, CMBIS estimates

**Figure 2: LONGi's quarter wafer sales volume**

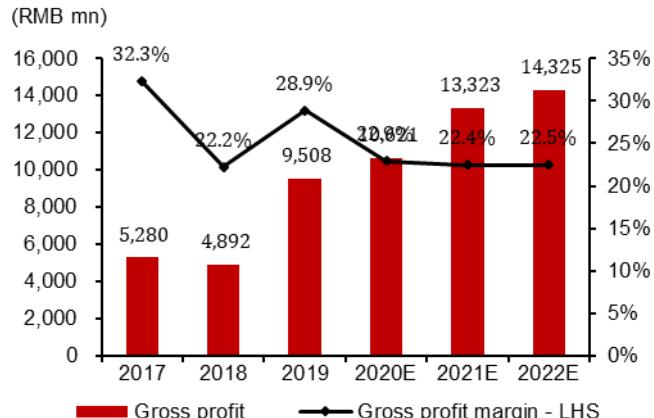
Source: Company data, CMBIS

**Figure 3: LONGi's quarter module sales volume**

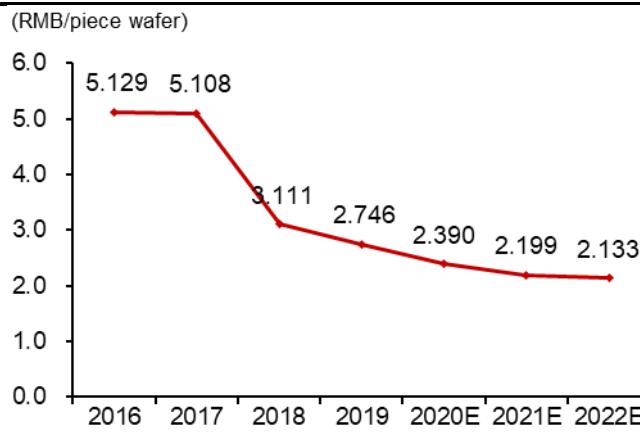
Source: Company data, CMBIS

**Figure 4: LONGi's quarter earnings trend**

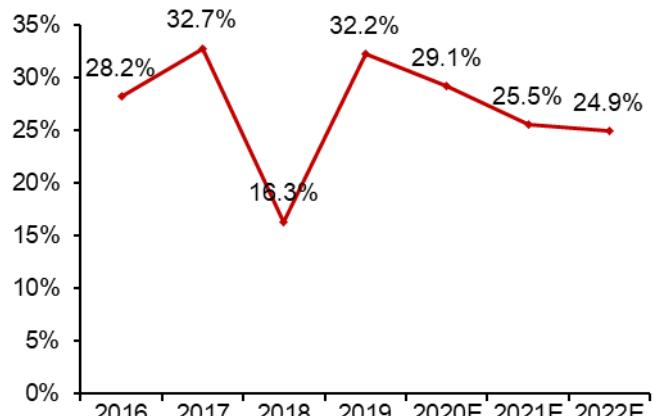
Source: Company data, CMBIS

**Figure 5: LONGi's overall gross profit and gross profit margin**

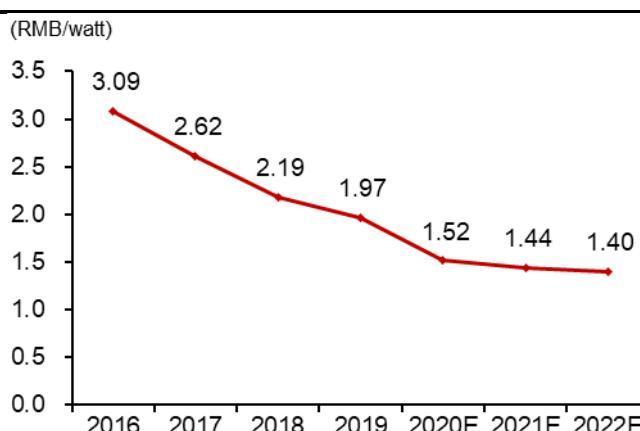
Source: Company data, CMBIS estimates

**Figure 6: LONGi's wafer ASP (VAT excl.)**

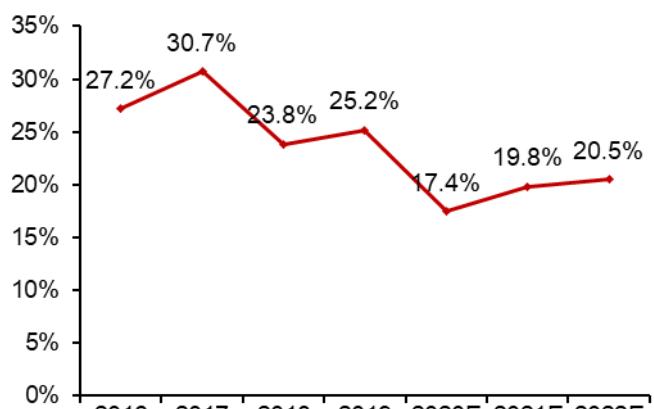
Source: Company data, CMBIS estimates

**Figure 7: LONGi's wafer gross profit margin**

Source: Company data, CMBIS estimates

**Figure 8: LONGi's quarter earnings trend**

Source: Company data, CMBIS estimates

**Figure 9: LONGi's overall gross profit and gross profit margin**

Source: Company data, CMBIS estimates

**Figure 10: Earnings revision**

	Old		New		Change(%)	
	2020	2021	2020	2021	2020	2021
Revenue (RMB mn)	52,771	61,445	46,407	59,390	-12.1%	-3.3%
Net Income (RMB mn)	6,077	6,990	5,610	6,798	-7.7%	-2.7%
EPS (RMB)	1.61	1.85	1.49	1.80	-7.6%	-2.7%

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	21,988	32,897	46,407	59,390	63,764	Net income	2,558	5,280	5,610	6,798	7,603
Mono-module	13,091	14,570	24,838	33,458	36,888	DD&A	1,129	1,488	2,000	2,162	2,315
Wafer	6,116	12,913	17,731	21,606	22,395	Working capital change	(1,558)	8,184	(4,605)	(55)	(475)
Others	2,781	5,415	3,838	4,327	4,481	Tax adjustments	85	150	41	16	(98)
<b>COGS</b>	<b>(4,892)</b>	<b>(9,508)</b>	<b>(10,621)</b>	<b>(13,323)</b>	<b>(14,325)</b>	Others	(1,040)	(6,943)	(1,086)	(2,012)	(678)
Gross profit	4,892	9,508	10,621	13,323	14,325	<b>Net cash from operation</b>	<b>1,173</b>	<b>8,158</b>	<b>1,961</b>	<b>6,909</b>	8,666
<b>Operating expenses</b>	<b>2,687</b>	<b>3,405</b>	<b>4,809</b>	<b>6,139</b>	<b>6,277</b>	Capex & investments	(3,652)	(6,015)	(7,019)	(2,355)	(2,366)
Taxes & surcharges	117	178	310	345	381	Others	483	3,262	-	-	-
Selling expenses	1,017	1,330	1,969	2,556	2,676	<b>Net cash from investment</b>	<b>(3,169)</b>	<b>(2,753)</b>	<b>(7,019)</b>	<b>(2,355)</b>	<b>(2,366)</b>
Admin expenses	623	971	1,370	1,753	1,882	Equity raised	-	6,215	438	-	-
R&D expenses	202	304	464	594	638	Change of debts	769	(1,815)	2,549	1,049	1,049
Impairment loss	728	621	696	891	701	Dividend paid	(359)	(362)	(754)	(802)	(972)
<b>Operating profit</b>	<b>3,593</b>	<b>2,205</b>	<b>6,104</b>	<b>5,812</b>	-	Others	(143)	522	157	170	85
Other income	142	204	278	356	383	<b>Net cash from financing</b>	<b>267</b>	<b>4,560</b>	<b>2,389</b>	<b>416</b>	<b>161</b>
Investment income	794	240	570	570	570	Net change in cash	(1,728)	9,965	(2,669)	4,970	6,461
Asset disposal gain/(loss)	(4)	-	-	-	-	Cash at the beginning	7,356	5,665	15,560	12,891	17,861
Finance expenses, net	(267)	(250)	(151)	(214)	-	Exchange difference	38	(70)	-	-	-
Others	-	-	(1)	-	-	<b>Cash at the end of the year</b>	<b>5,665</b>	<b>15,560</b>	<b>12,891</b>	<b>17,861</b>	<b>24,322</b>
Non-operating income, net	(2)	(51)	(10)	(21)	14	Less: pledged cash	2,043	3,775	4,641	5,939	6,376
<b>Profit Before Tax</b>	<b>2,867</b>	<b>6,247</b>	<b>6,498</b>	<b>7,875</b>	<b>8,807</b>	<b>Cash at the balance sheet</b>	<b>7,708</b>	<b>19,336</b>	<b>17,532</b>	<b>23,800</b>	<b>30,699</b>
Income tax	(301)	(690)	(715)	(866)	(969)						
Less: minority interest	(9)	(278)	(174)	(210)	(235)						
<b>Net profit</b>	<b>2,558</b>	<b>5,280</b>	<b>5,610</b>	<b>6,798</b>	<b>7,603</b>						

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current Assets</b>	<b>16,758</b>	<b>21,937</b>	<b>27,056</b>	<b>27,369</b>	<b>27,564</b>	<b>Sales mix (%)</b>					
Fixed Assets	13,260	15,467	21,816	21,925	21,894	Mono-module	59.5%	44.3%	53.5%	56.3%	57.9%
Construction in Progress	856	2,882	1,468	1,468	1,468	Mono-wafer	27.8%	39.3%	38.2%	36.4%	35.1%
LT Deferred Expenses	959	971	986	998	1,009	Others	12.6%	16.5%	8.3%	7.3%	7.0%
Others	1,683	2,617	2,786	2,977	3,194	<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Current Assets</b>	<b>22,901</b>	<b>37,367</b>	<b>42,623</b>	<b>55,907</b>	<b>65,169</b>	<b>P&amp;L ratios (%)</b>					
Cash & Equivalents	7,708	19,336	17,532	23,800	30,699	Gross profit margin	22.2%	28.9%	22.9%	22.4%	12.6%
Account Receivables	8,453	8,379	11,602	14,848	15,941	Operating margin	10.0%	18.6%	12.5%	12.1%	13.8%
Inventories	4,283	6,356	9,049	11,581	12,434	Net margin	11.6%	16.0%	12.1%	11.4%	11.9%
Others	2,457	3,295	4,440	5,678	6,095	Effective tax rate	10.5%	11.0%	11.0%	11.0%	11.0%
<b>Current Liabilities</b>	<b>14,878</b>	<b>24,620</b>	<b>25,659</b>	<b>31,265</b>	<b>32,870</b>	<b>Balance sheet ratios</b>					
Account Payables	8,507	13,714	13,922	16,629	17,216	Current ratio (x)	1.54	1.52	1.66	1.79	1.98
Advanced Payment	962	3,680	2,837	3,457	3,583	Inventory turnover days	71.1	83.0	78.6	81.7	88.6
Short-term Borrowings	688	854	848	953	1,058	Creditor's turnover days	131.6	123.3	108.7	93.9	96.9
Current Portion of LT Debt	1,137	1,571	1,272	1,429	1,586	Debtors turnover days	121.1	93.4	78.6	81.3	88.1
Others	3,585	4,801	6,781	8,797	9,427	Liabilities/Assets (%)	57.6	52.3	51.7	52.2	49.8
<b>Non-current Liabilities</b>	<b>7,956</b>	<b>6,389</b>	<b>10,395</b>	<b>12,221</b>	<b>13,357</b>	Net debt/ equity ratio (%)	0.22	N.C.	N.C.	N.C.	N.C.
Long-term Payables	1,306	1,528	2,320	2,970	3,188	<b>Returns (%)</b>					
Long-term Borrowings	2,659	2,509	5,364	6,150	6,937	ROE	15.55	19.11	17.03	17.46	16.68
Bond Payables	3,262	996	996	996	996	ROA	6.45	8.90	8.05	8.16	8.20
Others	729	1,357	1,716	2,106	2,237	<b>Per share</b>					
<b>Total net assets</b>	<b>16,825</b>	<b>28,295</b>	<b>33,624</b>	<b>39,790</b>	<b>46,506</b>	EPS (RMB)	0.93	1.47	1.49	1.80	2.02
<b>Minority interests</b>	<b>373</b>	<b>666</b>	<b>679</b>	<b>849</b>	<b>934</b>	DPS (RMB)	0.10	0.20	0.21	0.26	0.29
<b>Shareholders' equity</b>	<b>16,452</b>	<b>27,629</b>	<b>32,945</b>	<b>38,941</b>	<b>45,572</b>	BVPS (RMB)	5.89	7.32	8.73	10.32	12.08

Source: Company data, CMBIS estimates

# 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

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