

MONEY TALK

Sunpower Group (SPWG SP)

3Q18: Accelerating Growth, Awaiting 4Q18 Ramp-up

Sunpower reported 3Q18 earnings of Rmb56.8m, representing 23.0% of UOBKH's full-year estimates. Strong revenue growth of 87.5% yoy flowed into net profit which registered an astounding leap of 276.7% yoy. Management continues to focus on GI projects to take advantage of the enormous business opportunities in China's anti-smog sector. Maintain BUY and SOTP-based target price of S\$0.76.

RESULTS

3Q18 RESULTS

Year to 31 Dec (Rmbm)	3Q18	3Q17	yoy % chg
Revenue	763.7	407.2	87.5
Gross profit	162.6	88.0	84.9
Gross profit margin	21.3	21.6	-0.3ppt
Profit before tax	79.5	21.0	278.1
Net profit	56.8	15.1	276.7
Net profit margin	7.4%	3.7%	3.7ppt

Source: Sunpower Group, UOB Kay Hian

- 3Q18 given a leg-up by green investment (GI).** Sunpower Group (Sunpower) reported 3Q18 earnings of Rmb56.8m (+276.7% yoy), driven by higher yoy revenue growth. Revenue leapt 87.5% yoy to Rmb763.7m mainly attributable to manufacturing & services (M&S) and GI. Gross profit grew in tandem with revenue to Rmb162.6m (+84.9% yoy).
- Surge in operating cash flow.** The strong performance led Sunpower's 9M18 underlying operating cash flow to jump to Rmb237.0m from Rmb112.4 in FY17 (+110.9% ytd). Sequentially, it represents a four-fold leap from 2Q18's Rmb58.3m.

STOCK IMPACT

- Seasonality needs to be factored into business.** Sunpower's results typically experience seasonality where heat and steam usage in existing GI projects tend to pick up in tandem with economic activities and falling temperatures in winter. While 9M18 earnings of Rmb115.0m represented only 46.6% of UOBKH full-year estimates, existing GI projects and a record M&S orderbook of Rmb2.2b are set to pave the way for a record 2018. Specifically, continued ramp-up of existing GI projects and higher deliveries of work-in-progress M&S products in 4Q18 are areas to look out for.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2016	2017	2018F	2019F	2020F
Net Turnover	1,626.2	1,965.5	3,402.5	3,894.7	4,765.2
EBITDA	233.0	260.3	445.8	542.5	780.1
EBIT	202.5	213.0	374.4	450.0	645.6
PATMI	142.2	116.6	246.8	279.6	383.0
Adjusted EPS (cts)	19.3	19.8	33.5	37.9	51.9
Adjusted P/E	9.8	9.6	5.6	5.0	3.6
P/B (x)	1.2	1.0	0.9	0.7	0.6
EV/EBITDA	7.3	9.4	6.8	7.9	5.8
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.3
PATMI Margin (%)	8.7	5.9	7.3	7.2	8.0
Net Debt(cash) to Equity (%)	24.2	66.5	90.8	141.3	123.0
Interest cover (x)	7.8	4.7	4.4	5.4	5.5
ROE (%)	12.7	8.9	15.4	16.1	18.7

Source: Sunpower Group, Bloomberg, UOB Kay Hian

BUY (Maintained)

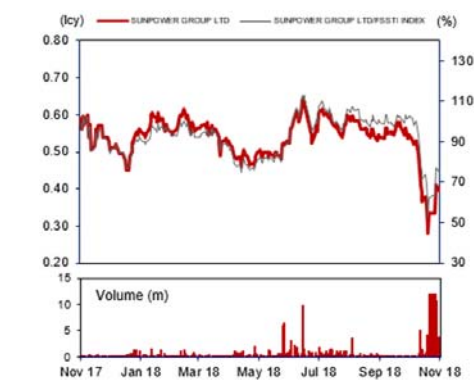
Share Price	S\$0.395
Target Price	S\$0.76
Upside	92.4%

COMPANY DESCRIPTION

Sunpower Group is a one-stop solution provider for energy conservation, waste-to-energy and renewable energy projects, specialising in the design, R&D and manufacture of energy conservation products in China. The company is mainly involved in environmental equipment manufacturing, EPC integrated solutions projects, and green investments with BTO/TOT/BOO models.

GICS sector	Industrials
Bloomberg ticker:	SPWG SP
Shares issued (m):	739.1
Market cap (S\$m):	292.0
Market cap (US\$m):	211.1
3-mth avg t'over (US\$m):	0.3

PRICE CHART



Source: Bloomberg

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- **Expect notable profits from Yongxing Thermal Power Plant (YX).** Management disclosed that YX's contribution was one of the factors that had allowed revenue growth to accelerate in 3Q18. A centralised steam supplier within its coverage area supported by a sizeable steam pipeline network, the plant has a strong operational track record. In the interim, YX is expected to make full quarterly contributions that will benefit from higher seasonal activities in 4Q18. In the medium term, electricity trading licences may allow Sunpower to expand its electricity business and tap another source of stable income and recurring cash flow.

EARNINGS REVISION/RISK

- No changes to our earnings forecasts.
- Risks include: a) higher leverage from expansion, b) project execution risk, and c) forex risk of bonds.

VALUATION/RECOMMENDATION

- **Maintain BUY and SOTP-based target price of S\$0.76.**

SHARE PRICE CATALYST

- Faster-than-expected ramp-up of GI projects.
- Higher-than-expected project wins for M&S segment.
- More EPS-accretive acquisitions.

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2017	2018F	2019F	2020F
Net turnover	1,965.5	3,402.5	3,894.7	4,765.2
EBITDA	260.3	445.8	542.5	780.1
Deprec. & amort.	(47.3)	(71.4)	(92.5)	(134.4)
EBIT	213.0	374.4	450.0	645.6
Net interest income/(expense)	(33.6)	(68.9)	(71.3)	(107.0)
Associates	0.0	0.0	0.0	0.0
Other non-recurring items	0.0	0.0	0.0	0.0
Pre-tax profit	148.7	305.5	378.7	538.6
Tax	(27.0)	(55.5)	(68.7)	(97.8)
Minorities	5.1	3.2	30.4	57.9
Net profit	116.6	246.8	279.6	383.0

CASH FLOW

Year to 31 Dec (Rmbm)	2017	2018F	2019F	2020F
Operating	95.1	207.1	290.5	329.4
Pre-tax profit	148.7	305.5	378.7	538.6
Tax	(21.7)	(55.5)	(68.7)	(97.8)
Deprec. & amort.	47.3	71.4	42.4	41.1
Working capital changes	(65.8)	(117.0)	(64.5)	(155.2)
Other operating cashflows	(13.5)	2.7	2.7	2.6
Investing	(702.7)	(759.5)	(1,535.7)	(510.0)
Capex	(52.4)	(10.0)	(10.0)	(10.0)
Interest and dividend income	4.0	5.0	6.0	7.0
Others	(651.1)	(749.5)	(1,525.7)	(500.0)
Proceeds from sale of assets	0.8	0.0	0.0	0.0
Financing	1,229.1	933.1	809.3	42.4
Dividend payments	(7.6)	(4.2)	(4.2)	(4.2)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	460.6	490.0	813.5	46.6
Others/interest paid	776.1	447.3	(0.0)	0.0
Net cash inflow (outflow)	621.5	380.7	(435.9)	(138.3)
Beginning cash & cash equivalent	281.3	902.6	1,283.3	847.4
Changes due to forex impact	(0.1)	0.0	0.0	0.0
Ending cash & cash equivalent	902.6	1,283.3	847.4	709.1

BALANCE SHEET

Year to 31 Dec (Rmbm)	2017	2018F	2019F	2020F
Fixed assets	474.0	425.5	406.0	387.9
Other LT assets	1,559.9	2,293.8	3,803.9	4,288.4
Cash/ST investment	991.1	1,371.8	935.8	797.6
Other current assets	1,975.3	3,167.3	3,567.5	4,261.6
Total assets	5,000.3	7,258.4	8,713.3	9,735.4
ST debt	517.2	1,007.2	1,820.7	1,867.3
Other current liabilities	1,773.6	2,848.5	3,184.2	3,723.0
LT debt	567.6	567.6	567.6	567.6
Other LT liabilities	768.1	1,215.4	1,215.4	1,215.4
Shareholders' equity	1,223.8	1,466.4	1,741.8	2,120.6
Minority interest	150.0	153.2	183.6	241.5
Total liabilities & equity	5,000.3	7,258.4	8,713.3	9,735.4

KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
Profitability				
EBITDA margin	13.2	13.1	13.9	16.4
Pre-tax margin	7.6	9.0	9.7	11.3
Net margin	6.2	7.3	8.0	9.3
ROA	2.4	3.4	3.6	4.5
ROE	8.9	15.4	16.1	18.7
Growth				
Turnover	20.9	73.1	14.5	22.4
EBITDA	11.7	71.3	21.7	43.8
Pre-tax profit	-16.3	105.5	24.0	42.2
Net profit	-18.0	111.7	13.3	37.0
EPS	2.5	69.3	13.3	37.0
Leverage				
Debt to total capital	33.9	51.4	66.6	67.5
Debt to equity	132.2	170.0	185.3	153.0
Net debt/(cash) to equity	66.5	90.8	141.3	123.0
Interest cover (x)	4.7	4.4	5.4	5.5

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