

MONEY TALK

Sunpower Group (SPWG SP)

Expect 2H18 To Benefit From Ramp-up Of Projects And Acquisition

Sunpower's 1H18 core net profit grew 24.6% yoy and met 29.4% of our full-year estimates. Management is confident that net profit in 2H18 will be better, on the back of: a) ramp-up of GI projects where grid connection will bring in additional electricity revenue, b) better seasonality from provision of heat to residents during winter, and c) contribution from newly-acquired Yongxin Plant. Our SOTP-based target price is reduced to S\$0.76 from S\$0.77 as we incorporate a higher risk-free rate of 2.75%. Maintain BUY.

1H18 RESULTS

Year to 31 Dec (Rmbm)	1H18	1H17	yoy % chg
Revenue	1,219.6	719.1	+69.6
EBITDA	145.4	85.9	+69.3
EBITDA Margin (%)	11.9%	11.9%	-
Profit before tax	10.9	-41.1	n/m
Core Net Profit	72.5	58.2	+24.6

Source: Sunpower, UOB Kay Hian

RESULTS

- 1H18 results boosted by GI segment.** 1H18 core net profit grew 24.6% yoy from ramping up of five Green Investments (GI) projects, which started in late-3Q17. These projects contributed Rmb211.6m in revenue and EBITDA of Rmb60.6m for the first time in 1H18. The two largest projects, Changrun and Xinyuan are still in ramp-up period. These projects have also started to generate commendable cash flow of Rmb60.6m in 1H18.
- Traditional M&S segment continued to grow.** The manufacturing and services (M&S) segment continued to deliver good performance, with revenue rising 40% yoy to Rmb1.0b in 1H18. The orderbook remains stable at Rmb2.0b. However, gross margin for this segment was impacted by higher raw material price, decreasing from 23.8% in 1H17 to 20.0% in 1H18.
- Expect stronger 2H18 from acquisition and GI project ramp-up.** Management is confident that net profit in 2H18 will improve significantly compared with 1H18, on the back of: a) ramp-up of GI projects where grid connection will bring in additional electricity revenue to Changrun Project, b) better seasonality from provision of heat to residents during winter coupled with increased capacity for heat provision, and c) contribution from newly-acquired Yongxin Plant, which is expected to complete before Aug 18.

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	42.0	59.8
Adjusted P/E	15.3	14.9	8.8	7.0	4.9
P/B (x)	1.9	1.6	1.3	1.1	0.9
EV/EBITDA (x)	10.6	12.4	7.4	8.5	6.2
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2
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: Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.59
Target Price	S\$0.76
Upside	+28.8%
(Previous TP)	S\$0.77)

COMPANY DESCRIPTION

Sunpower Group Limited is a one-stop solution provider for energy conservation, waste-to-energy and renewable energy projects which specializes in the design, R&D, and manufacture of energy conservation products in China. The Company's main products include environmental equipment manufacturing, EPC integrated solutions projects, and green investments with BOT/TOT/BOO models.

GICS sector	Industrials
Bloomberg ticker:	SPWG SP
Shares issued (m):	737.7
Market cap (S\$m):	438.9
Market cap (US\$m):	318.1
3-mth avg t'over (US\$m):	0.5

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Ramp-up of GI segment should translate into better 2H18.** Compared with 1H18, 2H18 could benefit from continued ramping up of GI projects, which only started in late-3Q17. In 1H18, the demand for heat provision was lower than expected due to warmer weather. This is expected to reverse in 2H18 as demand for heat provision will increase substantially and the heat supply is entitled to government subsidies.
- **Expect notable net profit from newly-acquired Yongxin Plant.** The acquisition of Yongxin Thermal Power Plant is expected to complete before Aug 018. Management expects this to contribute meaningfully to net profit in 3Q18 onwards. The power plant is a steam and electricity cogeneration plant located in Zhangjiagang, Suzhou City, a developed city good growth potential. It has a capacity of 350 t/h+36 MW, and a sizeable steam pipeline network of 160 km.

EARNINGS REVISION/RISK

- We maintain our net profit forecasts.
- Risks include higher leverage from expansion, project execution risk and forex risk of bonds.

VALUATION/RECOMMENDATION

- **Maintain BUY with a lower SOTP-based target price of S\$0.76**, as we incorporate a higher risk-free rate of 2.75%.

SHARE PRICE CATALYST

- Faster-than-expected ramp-up of GI projects.
- Higher-than-expected project wins for the 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	932.9	809.1	42.2
Dividend payments	(7.6)	(4.4)	(4.4)	(4.4)
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	1,466.3	1,741.4	2,120.0
Minority interest	150.0	153.2	183.6	241.5
Total liabilities & equity	5,000.3	7,258.2	8,712.9	9,734.8

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
Net profit (adj.)	2.5	69.3	25.6	42.2
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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