

LONGi – A (601012 CH)

2Q21 results beat; cost pressures to pass-through in 2H21

LONGi's 1H21/2Q21 results beat our expectation, despite the chaotic operating environment during the period. The Company managed to pass through upstream cost pressures through a series of price hike, and Poly-Si inventory also helped sustain 1H21 gross profit margin (declined only 0.9ppt QoQ). Mgmt. was cautious about 2H21 outlook, but we think pressures can still be passed through as wafer price is now standing at year high. **We cut TP slightly from RMB110 to RMB105, reflecting 39.6x FY22E PER. Maintain BUY.**

- 2Q21 results beat.** LONGi realized 1H21 revenue of RMB35bn, up 67% YoY. Revenue growth was mainly driven by module sales volume increased by 152.4% YoY. Selling expenses exhibited significant increment due to overseas shipping costs hike, while other major expenses remained largely stable. 1H21 net profit was RMB4,993mn, up 21% YoY, implying 2Q21 net profit of RMB2,491mn, largely flat as 1Q21. In view of chaotic supply chain and sluggish downstream demand, we appreciate LONGi's performance, and the result beat our expectations.
- Cost pressures to pass through to downstream.** LONGi realized surprisingly good wafer margin during 1H21, through 1) releasing low cost Poly-Si inventory, and 2) passing through cost pressures via price hike. We estimate the Company boosted ASP by more than 42% through six rounds of price hike in 1H21, which successfully sustained the Company's profitability. Looking forward, since effective wafer supply is constrained by Poly-Si input, we expect the cost pass-through mechanism will continue until cell manufacturers cannot afford, and that will likely sustain wafer margin in 2H21E.
- Full year direction still on course.** LONGi maintained full year shipment target of 80GW wafer/40GW module unchanged, and realized run rate of 48%/43% respectively in 1H21. Mgmt. saw module sales challenging, as module price had increased to critical level at RMB1.80/watt, and further price hike will suppress grid-parity solar installation demand. During 1H21, low price order signed in 4Q20 had squeezed module GPM. In 2H21E, as module ASP picks up and reflects upstream costs movement, we expect module pressure to be eased. Supported by advantages of integrated supply chain, we expect LONGi to achieve its ambitious module sales target.
- Trim TP slightly to RMB105.** LONGi is trading at 38x/34x FY21/22E PER, leading solar peers. Valuation looks a bit rich, but we think LONGi is still on a rapid expanding track. Based on 39.6x FY22 PER, we derive our TP of RMB105. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	32,897	54,583	90,817	127,861	132,103
YoY growth (%)	49.6	65.9	66.4	40.8	3.3
Net income (RMB mn)	5,280	8,552	10,794	14,353	17,453
EPS (RMB)	1.47	2.27	2.35	2.65	3.22
YoY growth (%)	58.1	54.2	3.7	12.8	21.6
Consensus EPS(RMB)	N/A	N/A	2.34	3.09	3.65
P/E (x)	61.1	39.6	38.2	33.9	27.9
P/B (x)	12.3	9.7	10.8	8.4	6.6
Yield (%)	0.2	0.3	0.3	0.4	0.4
ROE (%)	20.1	24.4	28.2	24.7	23.6
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price RMB105
(Previous TP) RMB110
Up/Downside +16.8%
Current Price RMB89.86

China Solar Sector

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Stock Data

Mkt Cap (RMB mn)	484,243
Avg 3 mths t/o (RMB mn)	8,562.63
52w High/Low (RMB)	98.58/42.45
Total Issued Shares (mn)	5,413
4Source: Bloomberg	

Shareholding Structure

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

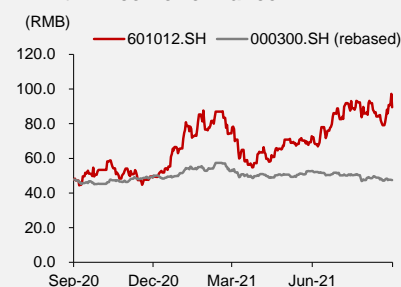
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	4.1%	4.2%
3-mth	22.9%	36.4%
6-mth	20.2%	33.5%
12-mth	98.9%	99.3%

Source: Bloomberg

12-mth Price Performance



Source: Wind

Auditor: PwC

- **Hydrogen equipment: a new direction.** LONGi established a new team for hydrogen business. The Company will position itself as hydrogen equipment and solution provider in near term to explore business potential of the new direction. Mgmt. would like to combine solar technology with hydrogen equipment as a comprehensive solution for the business, and expect to have 1.5-2GW hydrogen equipment manufacturing capacity by end-2022.
- **Lift earnings outlook by 4.3-6.5% in FY21-23E.** Based on revision on wafer and module price assumption, and LONGi's unexpected high cost pass-through capability, we lifted FY21-23E earnings slightly by 4.3%/5.2%/6.5% to RMB10,794/14,353/17,453mn respectively.
- **Risk factors:** 1) PV installation demand turns weak in 4Q21; 2) potential wafer price war flips cost pass-through mechanism.

Figure 1: LONGi's quarter wafer and module shipment summary

Operating figures	1Q20	2Q20	1H20	FY20	1Q21	2Q21	1H21	2Q21 YoY	2Q21 QoQ
Wafer shipment - mn piece	1,963	1,995	3,958	9,935	3,200	2,128	5,328	7%	-34%
Run rate	19.8%	20.1%	39.8%	100.0%	27.4%	18.2%	45.6%	n/a	n/a
External sales	1,357	1,112	2,469	5,236	1,700	906	2,606	-19%	-47%
Run rate	25.9%	21.2%	47.2%	111.4%	32.4%	17.3%	49.7%	n/a	n/a
Internal use	606	883	1,489	4,698	1,500	1,222	2,722	38%	-19%
Run rate	12.9%	18.8%	31.7%	254.5%	23.3%	19.0%	42.3%	n/a	n/a
Modules Shipment - MW							152.4%	152.4%	
External sales	1,870	4,708	6,578	23,957	6,330	10,270	16,600	118%	62%
Run rate	7.8%	19.7%	27.5%	100.0%	15.8%	25.7%	41.5%	n/a	n/a
Internal use	180	42	222	565	120	290	410	590%	142%
Run rate	31.8%	7.4%	39.3%	100.0%	20.0%	48.3%	68.3%	n/a	n/a

Source: Company data, CMBIS estimates

Figure 2: LONGi's 2Q21/1H21 results summary

(RMB mn)	1Q20	2Q20	1H20	FY20	1Q21	2Q21	1H21	2Q21 YoY	2Q21 QoQ	2H21E	FY21E
Revenue	8,599	11,542	20,141	54,583	15,854	19,244	35,098	67%	21%	55,719	90,817
COGS	(5,859)	(8,394.1)	(14,253.3)	(41,146)	(12,175)	(14,947)	(27,121)	78%	23%	(45,021)	(72,142)
Operating profit	2,740	3,148	5,888.0	13,438	3,680	4,298	7,977	37%	17%	10,698	18,675
Gross profit margin	31.9%	27.3%	29.2%	24.6%	23.2%	22.3%	22.7%	-4.9ppt	-0.9ppt	19.2%	20.6%
Operating expenses	(657)	(1,089)	(1,746)	(4,437)	(986)	(1,374)	(2,360)	26%	39%	(4,657)	(7,017)
Taxes & Surcharges	(40)	(39.1)	(79.4)	(282)	(100)	(94)	(194)	142%	-5%	(288)	(482)
Selling expenses	(114)	(215.7)	(330.1)	(1,073)	(310)	(453)	(763)	110%	46%	(1,053)	(1,816)
...as % to revenue	-1.3%	-1.9%	-1.6%	-2.0%	-2.0%	-2.4%	-2.2%	-0.1ppt	-0.4ppt	-1.9%	-2.0%
Admin expenses	(267)	(318.5)	(585.9)	(1,466)	(267)	(487)	(754)	53%	82%	(1,412)	(2,166)
...as % to revenue	-3.1%	-2.8%	-2.9%	-2.7%	-1.7%	-2.5%	-2.1%	1.1ppt	-0.8ppt	-2.5%	-2.4%
R&D expenses	(76)	(109.8)	(186.3)	(499)	(150)	(205)	(354)	86%	37%	(472)	(826)
...as % to revenue	-0.9%	-1.0%	-0.9%	-0.9%	-0.9%	-1.1%	-1.0%	0.0ppt	-0.1ppt	-0.8%	-0.9%
Impairment loss	(159)	(405.5)	(564.4)	(1,117)	(159)	(135)	(294)	-67%	-15%	(1,432)	(1,726)
Operating profit	2,083	2,059.1	4,142	9,001	2,694	2,924	5,618	42%	9%	6,041	11,659
Other income	53	88.4	141.7	283	53	59	112	-34%	10%	359	471
Investment income	115	426.9	541.6	1,078	115	270	385	-37%	135%	185	570
Asset disposal gain/(loss)	(1)	(6.8)	(7.4)	(12)	(1)	(16)	(17)	133%	2645%	17	-
Finance expenses, net	18	41.3	59.5	(378)	18	(255)	(237)	-719%	-1501%	24	(213)
Others	-	-	-	-	-	1	1	n/a	n/a	(1)	-
Non-Operating Income, net	(8)	(22.7)	(31.1)	(59)	(8)	(73)	(82)	222%	776%	44	(37)
Profit Before Tax	2,260	2,586	4,846	9,912	2,871	2,909	5,780	12%	1%	6,669	12,449
Income tax	(295)	(305.9)	(601.1)	(1,212)	(295)	(493)	(788)	61%	67%	(681)	(1,469)
Effective tax rate	13.1%	11.8%	12.4%	12.2%	10.3%	17.0%	13.6%	-1.5ppt	6.7ppt	10.2%	11.8%
Profit for the period	1,965	2,280	4,245	8,700	2,576	2,416	4,992	31%	-6%	5,989	10,980
Less: Minority Interest	101	27.8	128.8	147	101	(103)	(2)	0%	-202%	188	187
Net profit	1,864	2,252	4,116	8,552	2,502	2,491	4,993	34%	0%	5,800	10,794
Net profit margin	21.7%	19.5%	20.4%	15.7%	15.8%	12.9%	14.2%	-3.7ppt	-2.8ppt	10.4%	11.9%

Source: Company data, CMBIS estimates

Figure 3: Earnings revision

	Old			New			Change(%)		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Revenue (RMB mn)	93,899	119,392	127,021	90,817	127,861	132,103	-3.3%	7.1%	4.0%
Net Income (RMB mn)	10,352	13,644	16,380	10,794	14,353	17,453	4.3%	5.2%	6.5%
EPS (RMB)	2.71	3.53	4.24	2.35	2.65	3.22	4.3%	5.2%	6.5%

Source: CMBIS estimates

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