

#### 招商银行全资附属机构 A Wholly Owned Subsidiary Of China Merchants Bank

# LONGi - A (601012 CH)

## 2Q21 results beat; cost pressures to passthrough 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** 

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				

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**

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

#### 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 Zhenguo	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

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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

			,					2Q21	2Q21		
(RMB mn)	1Q20	2Q20	1H20	FY20	1Q21	2Q21	1H21	YoY	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 proft	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

Revenue



FY19A FY20A FY21E FY22E FY23E

8,552 10,794 14,353 17,453

2,120 3,208 3,936 4,657

5,280

1,488

## **Financial Summary**

**Income statement** 

YE 31 Dec (RMB mn)

Mono-module

Shareholders' equity	27,629		45,048		•	BVPS (RMB)	7.32	9.31	8.32	10.73	13.64
Minority interests	666	492	849	934	1,027	DPS (RMB)	0.20	0.26	0.24	0.32	0.39
Total net assets	28,295	35,598	45,897	59,039	74,863	EPS (RMB)	1.47	2.27	2.35	2.65	3.22
						Per share					
Others	1,357	2,579	3,869	5,040	5,176						
Bond Payables	996	4,351	4,351	4,351	4,351	ROA	8.90	9.76	10.03	10.36	10.99
Long-term Borrowings	2,509	1,125	2,828	4,135	5,441	ROE	19.11	24.36	23.96	24.70	23.64
Long-term Payables	1,528	889	1,816	2,557	2,642	Returns (%)					
Non-current Liabilities	6,389	8,944	12,865	16,084	17,610						
						Net debt/ equity ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Others	8,480	10,728	12,134	16,880	17,424	Liabilities/Assets (%)	52.3	59.4	57.4	57.4	52.9
Current Portion of LT Debt	1,571	2,786	3,231	3,819	4,407	Debtors turnover days	93.4	66.6	50.6	46.8	53.9
Short-term Borrowings	854	2,416	2,643	3,124	3,605	Creditor's turnover days	123.3	119.9	95.6	81.9	89.8
Advanced Payment	-	5,018	5,449	7,672	7,926	Inventory turnover days	83.0	79.0	73.8	75.8	89.7
Account Payables	13,714	22,144	25,429	31,965	33,026	Current ratio (x)	1.52	1.28	1.40	1.50	1.66
Current Liabilities	24,620	43,092	48,886	63,460	66,388	Balance sheet ratios					
·	5,200	5,101	. 5,1 54	. 0,000	. 0,000		. 1.0 /0	/0	5 / 0	70	0,0
Others	3,295	5,151	10,704	15,066	15,566	Effective tax rate	11.0%	12.2%	11.8%	12.0%	12.0%
Inventories	6,356	11,452	17,709	24,933	25,760	Net margin	16.0%	15.7%	11.9%	11.2%	13.2%
Account Receivables	8,379	26,963 11,535	26,463 13,623	35,824 19,179	49,083 19,815	Operating margin	28.9% 18.6%	24.6% 16.5%	20.6% 12.8%	19.7%	21.9% 14.5%
Cash & Equivalents	19,336	26,963	26,463	35,824	49.083	Gross profit margin	28.9%	24.6%	20.6%	19.7%	21.9%
Current Assets	37,367	55,101	68,499	95 002	110 224	P&L ratios (%)					
Others	2,514	4,172	4,628	5,081	6,811	Total	100.0%	100.0%	100.0%	100.0%	100.0%
LT Deferred Expenses	1,074	1,456	1,674	1,925	2,214	Others	16.5%	9.7%	7.9%	7.1%	6.9%
Construction in Progress	2,882	2,400	3,325	3,325	3,325	Mono-wafer	39.3%	25.8%	24.2%	20.9%	18.8%
Fixed Assets	15,467	24,506	29,522	33,249	36,286	Mono-module	44.3%	64.5%	67.8%	72.0%	74.2%
Non-current Assets	21,937	-	39,149	43,580	48,637	Sales mix (%)					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Balance sheet						Key ratios					
Net profit	5,280	8,552	10,794	14,353	17,453						
Less: minority interest	(278)	(147)	(187)	(248)	(302)						
Income tax	(690)	(1,212)	(1,469)	(1,991)	(2,421)						
Profit Before Tax	6,247	9,912	12,449	16,592	20,176						
po.amy moome, net	(01)	(00)	(01)	(0)	(40)	Cash at the balance sheet	19,336	,	36,027	44,374	<b>52,721</b>
Non-operating income, net	(51)	(59)	(37)	(49)	(49)	Less: pledged cash	3,775	3,775	9,564	8,549	3,639
Finance expenses, net Others	(250)	(378)	(213)	(269)	(222)	Exchange difference  Cash at the end of the year	(70) <b>15,560</b>	(309) <b>23,905</b>	(308) <b>26,463</b>	(307) <b>35,824</b>	(306) <b>49,083</b>
Asset disposal gain/(loss)	(2E0)	(12) (378)	(213)	(269)	(222)	Cash at the beginning  Exchange difference	5,665	15,560	23,905	26,463	35,824
Investment income	240	1,078	570	570	570	Net change in cash	9,965	8,654	2,866	9,668	13,565
Other income	204	283	471 570	663	685	Not oborgo in and	0.00-	0.05.	0.000	0.000	10 505
Othor	•••					Net cash from financing	4,560	2,810	1,694	1,167	749
Operating profit	6,104	9,001	11,659	15,677	19,192	Others	522	157	170	85	93
Impairment loss	621	1,117	1,726	2,429	2,510	Dividend paid	(362)	(754)	(967)	(1,295)	(1,722)
R&D expenses	304	499	826	1,164	1,202	Change of debts	(1,815)	4,749	2,375	2,375	2,375
Admin expenses	971	1,466	2,166	2,666	2,755	Equity raised	6,215	(358)	115	2	3
Selling expenses	1,330	1,073	1,816	2,557	2,642						
Taxes & surcharges	178	282	482	677	694	Net cash from investment	(2,753)	(5,171)	(9,643)	(8,155)	(8,193)
Operating expenses	3,405	4,437	7,017	9,494	9,803	Others	3,262	6,925	-	-	-
						Capex & investments	(6,015)	(12,096	(9,643)	(8,155)	(8,193)
Gross profit	9,508	13,438	18,675								
COGS	(9,508)	(13,438)	(18,675)	(25,171)	(28,995)	Net cash from operation	8,158		10,815	16,657	21,008
	•	·			•	Others	(6,943)	(4,470)	299	(1,733)	70
Others	5,415	5,273	7,197	9,082	9,158	Tax adjustments	150	340	263	237	
Wafer	12,913	14,097	22,020	26,724		Working capital change	8,184	4,472	(3,748)	(137)	297
Mono-module	14,570	JD,∠1J	01,000	92,000	90,009	DDQA	1,400	2,120	ა,∠∪ი	3,930	4,007

**Cash flow summary** 

FY19A FY20A FY21E FY22E FY23E YE 31 Dec (RMB mn)

32,897 54,583 90,817 127,861 132,103 Net income

14,570 35,213 61,600 92,055 98,069 DD&A

Source: Company data, CMBIS estimates



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BUY
Stock with potential return of over 15% over next 12 months
SELL
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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