

10 in 10 – Sunpower Group Limited (SGX Code: **5GD**)

10 Questions in 10 Minutes with SGX-listed companies



10 Questions for Sunpower Group

Company Overview

Sunpower Group is an environmental protection solutions specialist in China with 20 years of proven track record in the environmental protection and energy saving industry. It has two business segments – Green Investments (GI) and Manufacturing & Services (M&S). Sunpower is a pioneer in supporting China’s anti-smog and clean energy initiatives. [Link to StockFacts company page.](#)

SGX Code: 5GD	BBG: SPWG SP	RIC: SUNP.SI
Market cap on 14 Nov (S\$m)		280.9
Price on 14 Nov (S\$)		0.380
52 wk high/low		0.645 - 0.27
12m ADTV (S\$)		346,639
Shares Outstanding (m)		739.1
Float		37.5%
P/E (LTM)		N/A
P/B (LTM)		1.2
Dividend Yield		0.3%

Source: Bloomberg (14 Nov 2018)

1. What are some notable developments Sunpower’s investors can look forward to?

- Environmental protection and pollution control are becoming increasingly important in China’s policies. In its 13th Five-Year Plan (2016-2020), China has highlighted initiatives to promote greener and cleaner economy, tackling pollution. Businesses focused on domestic environmental utilities are expected to play more important roles. Green Investments (GI), in our view, is the most notable development for our company this year. Through GI, smog-free centralised steam and electricity plants are used to replace inefficient coal fired plants in industrial parks.
- Our GI business has made rapid progress since the first plant (Changrun Project in Hebei) began operating in late 3Q17. We now have 7 projects in operation and 5 projects under construction/to be constructed. In 9M18, the GI business (with 7 operating plants that are still ramping up) recorded revenue of RMB419.0m (21% of revenue), EBITDA of RMB155.4m (58% of group EBITDA at project level) and operating cash flow (OCF) of RMB158.5m (72% of group OCF).
- We are very encouraged by the strong 9M performance, as we expected sustained demand for steam, driven by stringent enforcement of environmental protection laws and policies in China. Some examples include mandatory closure of small, high-emission steam boilers run by individual factories which have been identified to be a major source of air pollution and switching over to clean centralised large facilities such as Sunpower’s.
- As shared in our 3Q18 results, we expect our operating performance in 4Q18 to benefit from the following business trends: 1) Continued ramp-up of GI projects, 2) Full quarter contributions from Yongxing Plant, and 3) M&S segment to benefit from a record order book and higher deliveries in 4Q.

GI contributes long-term, recurring and high quality income and cash flows given:

- We are exclusive suppliers for the industrial parks we operate in
- Our concessions are long-term at an average of 30 years, with first rights to renew
- Advance payment is required for our customers
- Steam is a necessary, non-discretionary input product for our customers

As at 9M18, RMB1.3bn invested in GI, target to increase this to RMB2.5bn by 2021.

Status	Total Investments (RMB mm) ⁽¹⁾	SP equity (RMB mm)
In Operation	2,183.0	922.9
Under Construction	1,560.0	382.2
Amount Invested and Committed	3,743.0	1,305.1
To be Constructed ⁽²⁾	653.0	220.4
Pipeline	2,386.1	977.2
Total	6,782.1	2,502.7

Notes: based on current estimates or forecast

(1) Assuming ~40% equity / 60% debt

(2) Projects have been signed and are currently in the design phase

2. Sunpower’s business is in China. Which cities are Sunpower currently in or plan to move into?

- Generally, our expertise in alleviating air pollution will be in high demand in China, where air pollution is severe.
- Our Manufacturing & Services (M&S) business serves approximately 1,500 customers across 15 industries worldwide.
- In addition, we have designed 56 power plants for customers in more than 10 countries, including Belt & Road Initiative nations such as Indonesia and Bulgaria.



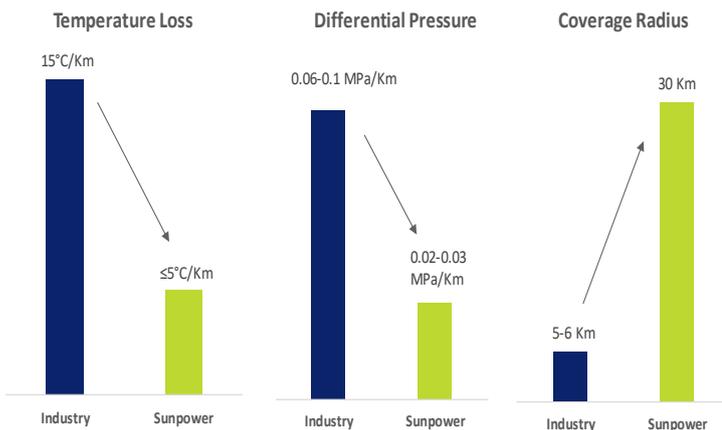
3. What are Sunpower’s competitive strengths and what are you doing to maintain this edge?

First mover advantage

- We believe our most significant strength lies in our first-mover position in GI, taking advantage of the current window of opportunity to secure attractive projects. Once these projects mature, we believe they will become cash flow generative due to the long-term concessions (typically 30 years) and exclusive supplier positions. After paying down debt, we believe we will own these projects at attractive price-to-earnings (P/E) multiples.
- We target to achieve a sizeable and mature GI portfolio by 2021. In the longer-term, there may be potential alternatives for the company to explore in order to maximise shareholder value.

Technologies used in GI

- **Proprietary long-distance pipeline technology:** We are able to cover longer distances and minimise loss of pressure and temperature far more efficiently than industry norms.
- **Proprietary environmental protection technology:** We are able to reduce emissions to below government standards and even below natural gas.



Emission Limit (mg/m ³)	New National Standard for New Build Coal-fired Boilers ⁽¹⁾	New National Standard for Coal-fired Power Boilers	New National Standard for Coal-fired Power Plants in Key Areas ⁽²⁾	New National Standard for Natural Gas	Sunpower's Capability
Dust	50	30	20	5	<5
Sulphur Dioxide, SO ₂	300	100	50	35	<35
Nitrogen Oxide, Nox	300	100	100	50	<50

⁽¹⁾ Standard applies to coal-fired power-generating boilers with a unit capacity of 65 tons/hour(t/h) or below

⁽²⁾ Key Area refers to Beijing-Tianjin-Hebei region, Yangtze River Delta and Pearl River Delta of China

Source: Emission Standard of Air Pollutants for Boilers enacted by Ministry of Environmental Protection of PRC

4. What are some of Sunpower’s key risks and how does it manage these risks going forward?

- While we are able to originate a robust pipeline of projects to be considered, we also need to evaluate which are the ones that can best meet our investment objectives so that we can build a strong portfolio of GI projects.
- Closure of customers’ factories could lead to lower than expected demand for steam and electricity. Therefore, we ensure that our projects serve a diversified customer base in cash flow generative industries such as textiles, printing and dyeing, food and beverage factories, located in China’s economically more developed cities.

5. Who are Sunpower's peers in the industry?

- We believe Sunpower has no SGX-listed peers in the M&S segment, which is our foundation business. For our GI segment, the market tends to compare us against other environmental protection companies such as CITIC Envirotech, China Everbright Water, and SIIC Environment listed on SGX, as we are all involved in the environmental protection sector in China.
- However, we are differentiated from them in 2 ways:
 - **Scarcity:** There are many waste and waste water treatment stocks listed in Singapore, unlike anti-smog companies such as Sunpower.
 - **Attractive investment returns:** Given our long-term concession agreements with local governments and steam being a necessary product for our customers, we believe that we have a strong supplier bargaining position. We also negotiate supply agreements and collect advance payments directly from end-customers, which help to generate high-quality cash flows for our company and enjoy attractive double-digit returns with our GI projects.

6. What is Sunpower's mergers and acquisitions (M&A) strategy?

- Sunpower's M&A strategy is focused on projects that serve a diversified customer base in stable, domestic-oriented and cash flow generative industries (e.g. textiles, printing and dyeing, food and beverage factories).
- In particular, we are interested in brownfield projects that can contribute immediately to revenue and earnings, and where we can use our technology to further improve the acquired company's operating and financial performance.

7. What are the capital fundraising activities Sunpower has done?

- We have raised the bulk of our capital needs for GI by issuing two tranches of convertible bonds (CBs), for a total of US\$180m (2017: US\$110m, 2018: US\$70m), to Chinese private equity firms DCP Capital and CDH Investments.
- The bonds are convertible at initial conversion prices of S\$0.50 (CB1) and S\$0.60 (CB2) respectively. The capital from CB1 and CB2, along with cash flow from our business, will be sufficient for us to target RMB2.5bn in equity investment in GI projects by 2021. As at September 2018, we have invested a total of RMB1.3bn in equity in GI projects.

8. Can you elaborate more on the convertible bonds (CBs) issued and its impact on Sunpower's earnings? Should investors be concerned about further share dilution once the CBs are converted?

- The CBs will not dilute earnings-per-share (EPS) unless they are converted. Thus far, we believe that we have made solid progress in our GI business despite being operational only since late 2017. GI accounted for 21% of revenue and 58% of group EBITDA in 9M18, with positive operating cash flow of RMB158.5m (72% of group OCF).
- Our aim is to match the additional shares from CB conversion (if converted) with a higher earnings base in the future.

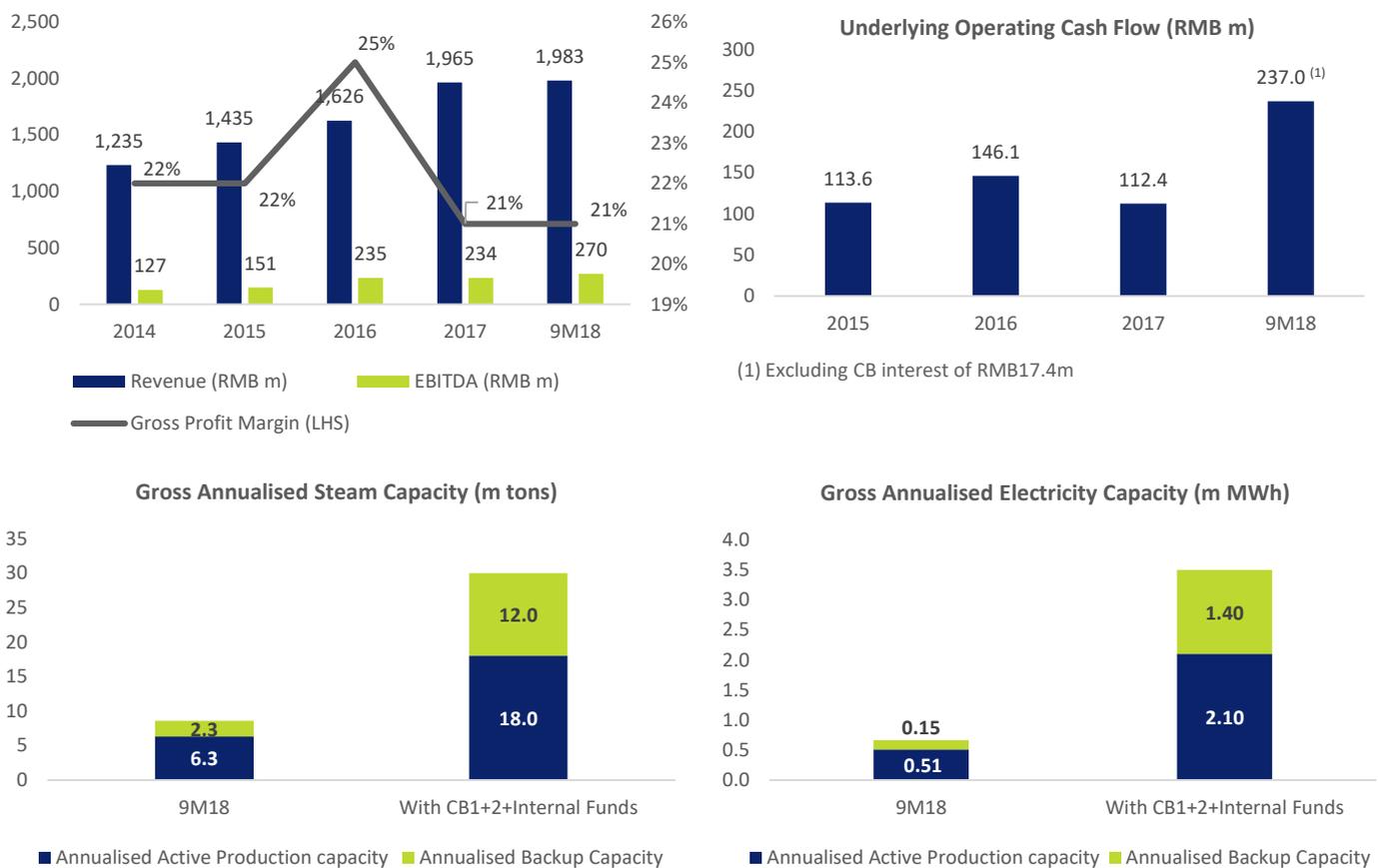
9. Given the opportunities in GI, is RMB2.5bn by 2021 the right target for equity investment in GI?

- Sunpower's management and our bondholders are savvy and prudent investors. If we are aggressive, we can probably do a lot more projects given the government's stringent emission standards and aggressive policies to control air pollution. However, we are disciplined in our project evaluation and analysis, and will only execute the projects that are able to meet our investment objectives and target returns as well as pass our due diligence checks.

10. What is Sunpower’s value proposition and what do you think investors may have overlooked about its business?

- We think our value proposition is our ability to enable valuable assets that generate long-term, recurring, high-quality cash flows, with our expertise and technologies as well as management’s ability to source for attractive projects.
- Despite the positive progress made in GI, investors may still be overlooking GI’s potential to transform our company into a cash-rich, high-margin business and continue to evaluate our company based on the P/E approach. We believe it is more appropriate to evaluate us using the discounted cash flow model (DCF) as we expect GI will contribute the bulk of our intrinsic value in the future.
- We also think that Sunpower has scarcity value given that we have no direct competitor in anti-air pollution listed on SGX and is able to offer investors exposure to a high-return, high-growth business with the strong social mission of cleaning up the air we breathe.

Financials & Charts



Source: Company data.

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Designed to be a short read, 10 in 10 provides insights into SGX-listed companies through a series of 10 Q&As with management. Through these Q&As, management will discuss current business objectives, key revenue drivers as well as the industry landscape. Expect to find wide-ranging topics that go beyond usual company financials.

This report contains factual commentary from the company’s management and is based on publicly announced information from the company.

For more, visit sgx.com/research.

For company information, visit sunpower.listedcompany.com.
Click [here](#) for November 2018 investor presentation.

Notes

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