

## Company Overview

Figure 1. Sunpower Group Ltd Revenue Breakdown

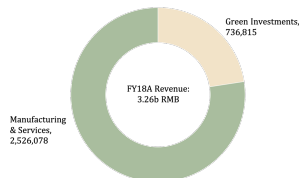


Figure 2: Geographical Breakdown

Geographical Presence	
PRC	91%
U.S.A.	5%
South East Asia	2%
Asia	1%
Middle East	1%

**Sunpower Group Ltd** ("Sunpower") sells environmental protection services. The company has two main business segments: Green Investments ("GI") (23% of revenue) and Manufacturing & Services ("M&S") (77% of revenue). The GI segment develops centralized heat, steam, and electricity generation plants. The M&S segment sells environmental protection products such as heat exchangers and pressure vessels.

(RMB '000)	FY17A	FY18A	FY19E	FY20E
Revenue	1,965,470	3,262,893	4,353,397	4,705,940
Gr Rate (%)	20.9%	66.0%	33.4%	8.1%
EBIT	188,036	366,075	646,458	689,919
Margin (%)	9.6%	11.2%	14.8%	14.7%
CAPEX	574,171	300,128	312,552	359,546
Margin (%)	29.21%	9.20%	7.18%	7.64%
ROIC	8.8%	10.5%	14.9%	14.5%
Debt/Equity	1.4	1.3	1.3	1.3

## Investment Thesis

Figure 4. Projected GI Revenues (RMBbn)

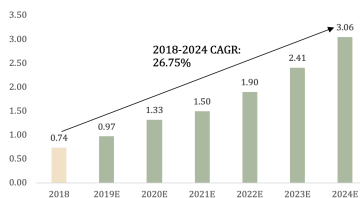
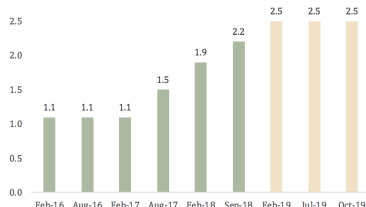


Figure 5. M&S Orderbook (RMBbn)



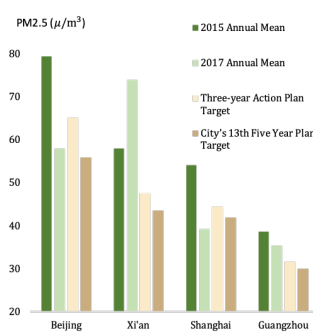
**1. Consolidation of GI production capacity.** GI segment growth has been driven primarily by acquisitions of smaller subsidiaries. With 6 existing power plants catered to a diversified customer base and 3 slated for completion in the coming two years, the GI segment is expected to leapfrog given its rapidly expanding production capacity in steam and electricity. Sunpower's planned equity investment of RMB 2.5bn in GI projects by FY21 (3Q19: RMB 1.6bn) reflects its intention to further strengthen its robust GI portfolio. The non-discretionary nature of steam as an input for industrial customers also provides a captive customer base.

**2. Economic moat from resilient M&S segment.** Sunpower has seen strong order book maintenance of RMB 2.5bn for the first three quarters of FY19. With its strong portfolio of high-end products and services, 70% of its customers are recurring, including reputable MNCs such as Shell, BP and Exxon Mobil.

**3. Proprietary technology surpassing industry standards.** Sunpower's coal-fired boilers operate at lower emissions and at a higher efficiency as compared current industry standards. As of FY18, Sunpower has participated in drafting 5 national standards which have become industry benchmarks. This technological barrier prevents competitors from undercutting its margins easily.

## 12M Industry Outlook

Figure 3. PM2.5 levels in Chinese Cities



**Demand:** For centralised heat, steam, and electricity generation plants to be underpinned by closure of small coal-fired steam boilers in China. As part of the Blue Sky War, the government is targeting a 15% reduction of sulphur dioxide and nitrogen oxide by FY20 compared to FY15 levels. Energy usage by manufacturing plants in industrial parks are set to be consolidated to utilise more efficient centralised steam boilers, with Sunpower's GI segment as a beneficiary.

**Competition:** Expected to remain benign. Sunpower has exclusive 30-year service concession agreements with local industrial parks. This enables them to achieve high revenue visibility and stable cash flows. GI segment revenues managed to grow by 384% from FY17 to FY18.

**Risk:** From increase in thermal coal prices, a key factor of production in the GI segment to produce steam. Any unexpected increases in coal prices could lead to higher cost margins for the growing GI segment and hamper its growth. This risk is partially mitigated by Sunpower's ability to reduce coal feedstock with its efficient proprietary technologies.

## Valuations & Projections

Perpetual Growth Method (RMB'000 except per-share amounts)	
Perpetual Growth Rate	1.50%
Terminal Value	6,835,996
PV of Terminal Value	4,989,463
% of Enterprise Value	74.6%
PV of FCFE	1,702,291
Enterprise Value	6,691,754

### Implied Equity Value & Share Price

Enterprise Value	6,691,754
Less: Total Debt	(2,023,738)
Less: Preferred Stock	-
Less: Non-controlling Interest	(266,071)
Plus: Cash & Cash Equivalents	452,682
Implied Equity Value	4,854,627
Shares Outstanding	1,172,300
Implied Share Price (CNY)	\$4.14
SGD/CNY	5.03
Implied Share Price (SGD)	\$0.824

Current Share Price (SGD)	\$0.545
Upside	51.14%
Implied Exit Multiple	5.65x

**M&S Revenue Projection:** Orderbook has been maintained at RMB 2.5bn from Feb-19 till Oct-19. We assumed that orderbook remains flat at this level. Taking the 5 year average orderbook-to-revenue conversion rate of 119% and projecting SCA revenues as the average of the FY16-FY18, we arrived at an implied 6-year CAGR of 4.98% for M&S revenue.

**GI Revenue Projection:** Sunpower aims to grow their gross annualized steam and electricity production from FY18's 8.6bn tons/0.67MWH to 30bn tons/3.5MWH respectively. We assumed that they would achieve this in 5 years based on historical capacity growth. Based on the stated capacity of current and future projects and their slated commencement dates, we projected future capacities (in t/h and MW). Due to the lack of information on projects after FY21, we took the 18'-21' CAGR to project capacity expansion till FY24. To derive the working hours, we divided FY18's production level by the projects' cumulative capacity. Working hours were assumed to remain constant. Using China's industrial electricity price RMB 660/MWh and an implied FY18 steam price of RMB 144/ton, we project GI revenue's 6-year CAGR to be at 26.75%.

**DCF Valuation (PGM):** Using a modest perpetual growth rate of 1.50% and a WACC of 6.50%, we reached our PT of S\$0.82 which represents a 51.1% upside from the current price of S\$0.55 (21 Feb'20). Hence we recommend a BUY position on the stock.