JinkoSolar - Q3 2022 Transcript

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Company Participants

Stella Wang - Investor Relations
Li Xiande - Chairman and Chief Executive Officer JinkoSolar Holding Company Limited
Gener Miao - Chief Marketing Officer of JinkoSolar Company Limited
Pan Li - Chief Financial Officer of JinkoSolar Holding Company Limited
Charlie Cao - Chief Financial Officer of JinkoSolar Company Limited

Conference Call Participants

Philip Shen - ROTH Capital Partner
Alan Lau - Jefferies
Rajiv Chaudhri - Sunsara Capital

Operator

Hello, ladies and gentlemen, thank you for standing by for JinkoSolar or Jonko Inc Third Quarter 2022 Earnings Conference Call. At his time all participants are in a listen-only mode. After management's prepared remarks there will be a question and answer session. As a reminder, today's conference call is being recorded.

I would like to now turn the meeting over to your host for today's call to Ms. Stella Wang, JinkoSolar's Investor Relations. Please proceed Stella.

Stella Wang

Thank you, operator. Thank you everyone for joining us today for JinkoSolar's third quarter 2022 earnings conference call. The company's results were released earlier today and available on the Company's IR website at www.jinkosolar.com, as well as on Newswire Services. We have also provided a supplemental presentation for today's earnings call, which can also be found on the IR website.

On the call today from JinkoSolar are Mr. Li Xiande, Chairman of the Board of Directors and Chief Executive Officer of JinkoSolar Holding Company Limited; Mr. Gener Miao, Chief Marketing Officer of JinkoSolar Company Limited; Mr. Pan Li, Chief Financial Officer of JinkoSolar Holding Company Limited.; and Mr. Charlie Cao, Chief Financial Officer of JinkoSolar Company Limited.

Mr. Li will discuss JinkoSolar's business operations and the company highlights followed by Mr. Miao, who will talk about the sales and marketing; and then Mr. Pan Li, who will go through the financials. They will all be available to answer your questions during the Q&A session that follows.

Please note that today's discussion will contain forward-looking statements, made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our future results may be materially different from the views expressed today. Further information regarding this and other risks is included in JinkoSolar's public filings with the Securities and Exchange Commission. JinkoSolar does not assume any obligation to update any forward-looking statements, except as required under the applicable law.

It is now my pleasure to introduce Mr. Li Xiande, Chairman and CEO of JinkoSolar Holding. Mr. Li will speak in Mandarin, and I will translate his comments into English. Please go ahead, Mr. Li.

Li Xiande

[Foreign Language]

We are pleased to announce better-than-expected results for the quarter, despite a number of headwinds such as the continued rises in raw material prices, power rationing matters at our manufacturing facilities and earthquake in Sichuan province, where one of our manufacturing facility is based.

Total solar shipments in the third quarter were roughly 10.92-gigawatts doubling year-over-year. Total revenues were $2.74 billion, an increase of 127.8% percent year-over-year. We kept improving our supply chain management to enhance cost control.

This release of newly invested N-type cell capacity, we further optimized our integrated cost structure as shipments of more competitive N-type products increased significantly compared with the second quarter. Profitability in the third quarter largely improved sequentially.

Gross margin was 15.7% compared with 14.7% in the second quarter. Net income was $77.3 million, an increase of 183.1% year-over-year. Excluding the impact of the convertible senior notes and share-based compensation expenses, adjusted net income was $60.1 million improving 16.1% sequentially.

[Foreign Language]

Since the start of the fourth quarter, polysilicon capacity has been gradually released, demand is strong in the China market, encouraged by non-hydro renewable consumption package both providentially guaranteed utility scale projects and utility scale projects in a liberalized power market are making

rapid progress. Adding the demand from DG market, we expect that the total installation in China will be over 40-gigawatts in the fourth quarter.

While supply has increased recently, strong demand is keeping polysilicon prices steady at a high level and translate the module prices remain stable. With substantial polysilicon capacity to be released in 2023, we expect the prices of raw material to fall and to stimulate pent-up demand. We will fully seek the growth opportunities in the market, executing our globalization strategy and enhancing resources input in key markets.

Also, we will control inventory turnover at a reasonable level with our efficient supply chain management. Leveraging our extensive global industrial chain building and other reliable products, we are confident to achieve increases in both shipments and market share next year.

[Foreign Language]

We made further progress in efficiency improvements and cost reduction for N-type products, thanks to the continued efforts of our R&D team, expanding on our accumulated knowledge and our mass production experience. Mass produced the efficiency for top cost sale as we reached the full capacity of 16-gigawatts reached 25% and we are narrowing the gap in integrated cost for N-type compared to P-type products.

Recently, the maximum solar conversion efficiency for our 182 monocrystalline silicon TOPCon cell reached 26.1%, breaking the record of 25.7% we started in April this year. Combined with process optimization with SD technology, mass production efficiency is expected to further improve next year.

[Foreign Language]

Managing from a capacity release and higher client acceptance shipments for N-type modules were roughly 3-gigawatt in the third quarter, an increase of nearly 160% sequentially. We have always been committed to sharing the benefits from the gain in power generation with our clients. As our anti products continue to be well received in the market, we are confident to lead the industry with increasing penetration and cost effective performance.

[Foreign Language]

The second phase of 8-gigawatt TOPCon cell capacity equals a rich connects production in the third quarter is ramping up smooth. The second phase of 11-gigawatt TOPCon cell capacity intention, which started construction in the third quarter is expected to start production before the end of this year.

Initiation and the ramping up of new capacities will help further optimize our integrated capacity structure and drive a blended cost lower. Based on our operating strategy and market demand, we adjusted the pace of a capacity extension for wafer sales and modules. By the end of this year, we expected our newer production capacity for mono wafer solar cells and solar modules to reach [65 - 55] (Ph)-gigawatt and 70-gigawatt respectively.

[Foreign Language]

Before turning over to Gener, I would like to go over our guidance for the fourth quarter this year. We expected module to be in the range of 13-gigawatt to 15-gigawatt for the fourth quarter of 2022. We are bullish about demand growth in the global market and dedicated to keep in providing optimal solutions to our clients with technical innovations and reliable products. We expect that the four year module shipments to be in the range of 41.5-gigawatt to 43.5-gigawatt.

Gener Miao

Thank you, Ms. Li. Despite short-term headwinds such as power reasoning measures and earthquake, I total shipments in the third quarter were 10.9 GW, of which approximately 95% were module shipments doubling year-over-year on the back of the strong global demand.

In specific market, China, Europe, and the emerging market contributed remarkable increment growth. Solar module shipments to the Chinese market during the third quarter increase of five times year-over-year, while emerging market grew approximately 180% a year-over-year, and the Europe over 60%.

With a rush of installations in China in fourth quarter, the Chinese market is expected to contribute an absolute majority and we expect our penetrations in the Chinese market to further increase.

EG demand was strong in Europe, however, the low logistics turnover inflation and the labor shortage during holidays remains short-term challenges. We accelerated inventory turnover through proactive coordination with logistics supply as well as a flexible measure and the trade terms in order to support energy transformation in European market.

In terms of the product, we enhance the promotion and the sales of our high efficiency N-type Tiger Neo modules leveraging our global marketing network layout and the localized the marketing team.

In the third quarter shipment for Tiger Neo modules approach the approximately 3-gigawatts and increase of 160% sequentially, acceptance from where risk client types and markets for the Tiger Neo further increase.

The premium works in line with our expectation. We have been establishing a business model to share the benefits from the gain in power generation by Tiger Neo modules with our clients and are committed to providing them with solutions that continuously bring down LCOE.

With gradual release of N-type capacity and increasing acceptance for Tiger Neo, shipments and the penetration for Tiger Neo continued to grow in the fourth quarter and the shipment proportion for Tiger Neo is expected to be about 60% of our total shipment in 2023.

For business layout, EG demand remains strong in some market including Europe emerging markets in China, and EG business accounted for nearly 60% in the third quarter, about 10% higher than the last quarter.

We expect the market demands to continue to increase in 2023 up over 30% year-over-year. Mainstream markets, including China, Europe, U.S., are expected to contribute the growth under the backdrop of high prosperity in end markets.

We will stick to our strategy for global market layout focusing on Chinese market while enhancing attention to and explorations in emerging markets. We will strive to achieve around 50% growth in shipment next year compared to 2022, and keep solid position for global competitiveness.

With that, I will turn the call over to Pan.

Pan Li

Thank you, Gener. We are pleased to report another quarter of improved financial results. Total shipments doubled and total revenues increased 128% year-over-year as a result of strong demand globally. Thanks to our further optimized integrated capacity structure and shipment mix.

Key metrics including gross margin, operating margin and net margin all improved sequentially. Short-term headwinds such as power rationing measures and an earthquake as well as new capacity ramp, map, or had some impact on profitability in the third quarter.

We believe that as these negative factors gradually recede, we will see a gradual increase in profit contribution from additional release of N-type capacity and an increase in shipments, proportion of N-type products.

Let me go into more details. Total revenue was about 2.7 billion, up sequentially from a significant increase year-over-year. Gross margin was 15.7% compared with 14.7% in the second quarter this year, and 15.1% in third quarter last year.

Total operating expenses were [423] (Ph) million slightly down sequentially and up year-over-year. The year-over-year increase was made attribute to an increase in shipping cost for solar modules.

Total operating expenses accounted for 15.4% of total revenues in the third quarter, down from 16.2% in the second quarter this year, and up from 13.8% in the third quarter last year. Excluding the impact from a change in the fair value of the notes and the share-based compensation expense, adjusted net income attributable to JinkoSolar Holdings ordinary shareholders was 16 million, improving sequentially.

During the quarter, we continued to optimize our foreign exchange hedging. We realized the net foreign exchange gain, which including change in fair value of foreign exchange derivatives of approximately 73 million in the third quarter compared with the net gain of 34 million in the second quarter of 2022.

Moving on to the balance sheet. At the end of third quarter, the company had cash and cash equivalents of 2.1 billion, slightly down at the end of the second quarter this year and up from 1.1 billion at the end of the third quarter last year.

AR turnover days were 69-days in both third quarter and second quarter of 2022. Inventory turnover days were 117-days in the third quarter, compared with 104-days in the second quarter this year. Total debt was about 4.2 billion at the end of the third quarter, up from 3.8 billion. Net debt was about two billion compared with 1.7 billion at the end of the second quarter this year.

This concludes our prepared remarks. We are now happy to take your questions. **Operator**, please proceed.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] The first question comes from Brian Lee from Goldman Sachs. Please go ahead.

Unidentified Analyst

Hi. Thanks for taking the question. This is Grace on for Brian. I guess first one on your capacity. Just given the practice of the inflation reduction as a number of your peers enhance U.S. capacity expansion. So I just wonder what is your strategy there in the U.S. if any and how are you going to fund that and what is the implication to your free cash flow? Thank you.

Gener Miao

So you are talking about the IRA, right. The impact on our strategy for capacity expansion?

Brian Lee

Yes. Yes.

Gener Miao

So, I think from the company perspective, based on the initial assessment of the IRA Act, we believe this is very positive and the incentive is very, I would say you know significant and to make I think the production - local production in the United States relatively competitive.

A way we are aware and the details of IRA is going to be released in QR next year. So we are very closely following-up the details. And as we have a very small module capacities in us 400-megawatts. And we are optimistic and after we release of the detailed IRA and it is possible we expand our module capacity in the United States, but at this stage we are still in the evaluation stage.

Unidentified Analyst

Okay fair enough. And then maybe switching gears to your growth margin encouraging to see you print 15.7% this quarter. You mentioned it is helped by the module, the TOPCon module shipment. So I just wonder how much of your mar margin is helped by the N-type shipment module versus the current, because I assume a lot of your operations is in China. And also can you talk about your margin and ASP expectation for next quarters? Thanks.

Gener Miao

Yes, we improved the margins slightly I think in this quarter, quarter-over-quarter. And we delivered the 3-gigawatts N-type TOPCon modules, which accounts for around 30% now our total shipments in this quarter.

And the gross margin for the N-type is relatively higher and than the P-type, I think it is around 2% from the gross margin perspective. And on top of that, the prepared remarks by David Knee and in the third quarter we face the power outreach in provinces, which has some negative impact.

So, overall, we think the N-type we are worried, I think we are leading the industries from the product, from the in [Beijing cities] (Ph) and as well as the

cost perspective. And our penetrations and time will continue to improve quarter by quarter, which will help us to drive the, I think the probability increase, including the goals margin.

Unidentified Analyst

Okay, thank you. And can I squeeze in one more housekeeping questions? You increase your module and wafer capacity, so what is your CapEx plan for 2022 and what was your G&A in 3Q? Thanks.

Pan Li

Thank you for question the CapEx of the, this year we still keep the, on the US$3.

Unidentified Analyst

Okay, thank you and the G&A current 3Q.

Gener Miao

So your question is G&A is the actual number or percentage or what is your specific…

Pan Li

Thank you for questioning about G&A expenses. It takes about around four to five percentage of the total variance.

Unidentified Analyst

Thank you.

Operator

The next question comes from Philip Shen from ROTH Capital Partner. Please go ahead.

Philip Shen

Hi everyone, thanks for taking the questions. As a follow up to some of the questions was wondering if you could talk about CapEx expectations for 2023. By the end of 2023, how much wafer sell and module capacity do you think you will have? Thanks.

Charlie Cao

By the end of this year, we have 65, 55, 20-gigawatts. So I think we have sufficient capacities and to we are in our work good in our positions and to deliver our results next year. And we will continue evaluate to the market traditions or next year. And I think the markets were optimistic for next year.

So our investment will continue to focus on the N-type, I think still and module capacities and next year and to build sufficient capacity for both next two years you know our shipment guidance. So we are going to release, I think, the guidance capacity expansion next year in the next quarter. And but the key focus will continue on the, N-type the TOPCon the sale and module capacities.

Philip Shen

Okay, thanks, Charlie. What is after TOPCon, I'm imagining you guys are already thinking about it with 60% N-type next year. Do you think, you are going to move on to heterojunction or have you decided on the technology roadmap beyond TOPCon? Thanks.

Charlie Cao

No, we are leading the TOPCon technology and on the capacity on the product, let's say the increasing fees. And we believe this gives us significant room to continue to deliver further high-quality products based on the N-type TOPCon technology.

And our R&D teams has released the laboratory testing, and the efficiency we reach to 26.1%. And our product - our target for the mass production efficiencies, by the end of next year will be reach to over, I think 25.7%.

And we have technology map and we strongly believe the N-type TOPCon will dominate the next markets in the next two or three years so that the TOPCon is our focus. But from R&D perspective, we closely, monitor the [SAT] (Ph), but we strongly believe the TOPCon is a trained.

Philip Shen

Great. Okay. Thanks again. In terms of the U.S. market the UFLPA enforcement and the CBP process that you are going through, was wondering if you could talk about give an update as to where things stand? My understanding is the process has come to a close and you are waiting on a decision. And so how much longer do you think we need to wait and also let's say you get released soon, does that mean you can freely ship into the U.S. or do you think you have to secure something like an advanced letter of ruling to be able to freely ship into U.S.? Thanks.

Charlie Cao

Yes. We did a lot of work on the U.S. LPA and the standards were very board and challenge for the traceability systems, and we prepare documents and have several rounds discussing a communication with the PV. We think our documentations are ready and waiting for the final feedback from CBP. And we are optimistic for the results, but the detailed timing, is still uncertain.

But I think it is not so far and for the second question is after the release of the, let's say, the detained modules and we try to improve our internal efficiencies and trying to continue to communicate with CBP to make sure, let's say, the bottleneck and will be departed.

And now, it is a lot of internal external factors including the capacities from CBP have the impact on the increasing fees. So we don't know why we will

be, let's say, increasing associates in the future. But I think after the learning curve in last two or three months, we think it is going to be getting now more and more smooth.

Philip Shen

Okay. Charlie, can you talk about how many gigawatts of supply has been impacted for you since the first detention at end of June between then and now end of October and then let's say it continues through the end of the year? What kind of number can you share? How many gigawatts? I know that the detain modules are smaller. I'm talking about the total on impact customers. Are we talking about 2-gigawatts or maybe even more? Thanks.

Charlie Cao

You are right. The detain margin were small, but because of delayed the process, it is going to have rolling impact to shipments to our U.S. customers. And we estimate this year, whole year and our shipments in the U.S. will be around 5% and which is the original - I think the planning from the beginning of this year, it is 10%. So it is roughly, I think, significant impact.

Philip Shen

Okay. 5% of the 44 or 40 plus gigawatts, roughly 2-gigawatts. So correct me, if I'm wrong, of course. And then one last question for me. In terms of the growth for next year, I think, Gener, you talked about a 50% growth that matches with your year-end module capacity roughly. Can you talk about the geographic mix you expect, how much, for example, are you expecting for the U.S. in 2023? And then what do you think, is the rest? How much will China be Europe emerging markets?

Charlie Cao

So Gener, would you like to take the question? I think Gener is on trip. And then let me answer a question. So incrementally, we are thinking next year and the China will dominate take maybe 40% or 50% from the incremental value, the volume, and the second one is the U.S. and the European markets, but U.S., we don't believe it is demand concerns. It is purely the supply issues including the, the potential impact from the U.S. LPA.

And we believe you know, if everything is smooth and maybe 40 module demands and over 30-gigawatt, the installation and yes. So that that is - and this year because of the polysilicon is very high, the module price is high, which delayed.

We do a lot of utility scale projects, installations, and next year with the bottleneck and the polysilicon - and the production volume will significant increase and which will have a very good timing for the utility scale developers to buy the modules and connect to grades.

Philip Shen

Great, thanks. So just to put numbers on it, so let's say China is 40% to 50%, do you think U.S. is 15% to 20% and similar with Europe?

Charlie Cao

Yes. And from the incremental perspective, I think you are talking about the incremental right. We believe the total market side.

Philip Shen

I'm talking about the - sorry, interrupt. just let's say it is 65-gigawatt next year of shipments. What you said 40% to 50% of the 65 would be China. I'm just trying to figure out what percentage of that 65 might be Europe and U.S.

Charlie Cao

Okay. You mean the incremental, right.

Philip Shen

Not necessarily incremental. It is not incremental - Yes. Just of the 65-gigawatts, how much would be U.S. maybe 15% or 5%. I mean, assuming you are able to flow the modules freely. Thanks.

Charlie Cao

Okay. Let's say the total size this year may be 250. The installation - the solar and next year, maybe 320 or maybe some, I think it is 350. And we believe China will take around, I think 35%, 40% in market year. And the U.S. will take around, I think 10% European will be around I think, 20%.

Philip Shen

Great. I appreciate the color. Thanks for taking all the questions Charlie. I will pass it on.

Charlie Cao

Welcome.

Operator

[Operator Instructions]The next question comes from Alan Lau from Jefferies. Sir please go ahead.

Alan Lau

Thank you for taking my question and congratulations for the extremely good results. So we would like to know what is the outlook of the gross margin in the next quarter with - and also as the company has maintained 10-gigawatt of anti- shipment. So in Q4, can I expect, there will be around 6-gigawatt to 7-gigawatt of TOPCon shipment?

Charlie Cao

Yes. We have capacity, I think by the end of the year, 35-gigawatts. So you are right, if you do the calculations quarter-by-quarter and our shipments, I think, Q4 will be around 5-gigawatt to 6-gigawatts and Q1 next year will be a little bit higher, next year Q1.

And gross margin, it is - because of the N-type, we will take the more percentage in Q4 on top of that, and the China will take more market share, more shipment in Q4, and as well as the RMB depreciations, we believe there is a potential - potential to the gross margin will continue to expand.

Alan Lau

Thank you. And then, another question is, the company has realized around 3-gigawatts of TOPCon in 3Q. So - and also, the company has mentioned it has reached the expect premium. So is it around RMB0.10 of premium for the free gigawatt that has been sold in Q3.

Charlie Cao

The price premium around RMB0.07, RMB0.08 and given after the consideration is the cost difference and the profitability per while basis, and the N-type is relatively higher than P-type by RMB0.4.

Alan Lau

Understood. That is quite a lot actually. In terms of net profit, right, RMB0.04 higher.

Charlie Cao

Sorry, could you repeat your questions?

Alan Lau

So RMB0.04 in terms of net profit, right for the TOPCon project.

Charlie Cao

Yes right. RMB0.04 for while.

Alan Lau

Yes. Thank you. And so I have noted that the company has raised the TOPCon shipment in 2023 from 50% to 60%. So what makes you raise the guidance and should we expect a higher net profit for next year because of this increase?

Charlie Cao

No we will continue to invest N-type TOPCon module capacity next year. So based on our initial evaluations, we think we are able to deliver around 60% N-type TOPCon module next year. And with relatively more the TOPCon modules be more mix to TOPCon module, we think the profitability will with small percentage and more higher preferred values for the total results.

Alan Lau

Thank you. And I think my last question is regarding to the partnership with the equipment provider [Ottawa] (Ph). So are they - did JinkoSolar - let me put it this way. So has JinkoSolar sort of benefit from the partnership with them by having more competitively priced equipment?

Charlie Cao

In terms of the module equipment producer plan?

Alan Lau

Yes. But they are producing the - yes, Ottawa and they are selling a crystal growing equipment to Jinko and what I heard is the price is cheaper, right?

Charlie Cao

So you know we also invested as a minority interest for the business. And I think the volume is not very big and it is major for the R&D purpose. And we want to have more development on technology and align with our suppliers to make the equipment more advanced and particularly for the impact of the N-type wafer production.

Alan Lau

Understood. So thanks a lot. And once again, congratulations to the company and I will leave it there. Thanks.

Charlie Cao

Thank you.

Operator

The next question comes from Rajiv Chaudhri from Sunsara Capital. Please go ahead.

Rajiv Chaudhri

Hello. I have two questions. One is on shipping costs. And we know that shipping costs have come down very substantially in the last three, four months. And actually, they are close to the levels they were at before COVID started. And I'm wondering whether you have - when we will start to see

that in your numbers. How soon will those be reflected? And when that gets reflected, can we expect that shipping costs can go from 6% of revenues to maybe 3% of revenues. So that is my first question.

Charlie Cao

Yes, you are right. And the global economy is weak, right. And the shipment cost is resonating to amount and the indexes has stopped a lot quarter-by-quarter, year-over-year. And it is going to be very positive for starting from the next year.

But for this year, starting Q4, I think the impact is also - the part impact is not so significant, because we have long-term arrangements with not just companies as the long-term contract prices really below the market price.

And with the market price suffered a lot and expectation on next year is continuing to be backdrop and lower standards compared to couple years ago. And we will renegotiate the long term arrangements for next year. And that is going to be - have the impact for next year.

Rajiv Chaudhri

Okay. And Charlie, the second question is about polysilicon cost. Can you give us your best guess or your best sense right now, judgment right now on when you expect polysilicon costs to start to come down and what rate they will come down in 2023, for example, what do you think polysilicon costs might be by the end of 2023?

And then related to that, what is your plan for sharing the benefit of this cost reduction with your customers? You had mentioned in the last call that on the N-type you are sharing the benefit of the N-type 50/50 with your customers. Are you planning to share the benefit of poly silicon cost reduction also 50/50 with your customers?

Charlie Cao

This is very complicated questions and, but we strongly believe the train is there and a lot of the polysilicon capacity has been ramping up in the last two or three months is, and the product, the polysilicon volume will increase months-over-month, dramatically.

And next year there are sufficient poly capacity and the volume to support the total demands on next year. And now the polysilicon price is flat and we see some potential. The polysilicon price will be in a downward trend starting from the December, but we are not sure. But I think the trend is there. It is very difficult to estimate what is the exacting exact task, timing, right and for the term round of the poly.

And from our perspective, we try to have more signed orders for the next year, particularly with our strategic customers and some of our customers, they may have intentions and to have the price adjustment mechanism. And we think it brings situations and we will based on case-by-case, we will negotiate with different customers.

Rajiv Chaudhri

So can you give us an overall sense then that is price of polysilicon comes down by let's whatever X number of cents. On overall basis, how much of that you would pass on to the customers and how much you would keep to improve your own gross margin?

Charlie Cao

It is not a very simple case and some customer we have fixed price, some customers we have variable price and with some like them index to the market price or some don't. It is different case-by-case.

Rajiv Chaudhri

Okay, thank you.

Operator

[Operator Instructions] We have a new question from [Indiscernible] Capital. Sir, please go ahead.

Unidentified Analyst

Hello management. I would like to know on what percentage you expect your fourth quarter shipment will be shipped to China, because I can see that in the third quarter it is around 40 something percent, maybe close to 50%. So what do you expect in the fourth quarter?

Charlie Cao

China will take a very large market in the fourth quarter, by the end of the year, a lot of utility scale developers, they have strong pressures and intentions to start and connect the grades. And we estimate Q4 were we all have China markets around. I think, 50% to 55%.

Unidentified Analyst

Okay. So do you think that the domestic increasing public control could be a challenge or you have already well prepared for those kind of domestic SOE developers for their project demand?

Charlie Cao

There are some challenges, because of COVID situations and it is - I think the challenge is the logistic perspective, but we are seeing some improvement and in some regions. So we think there are sufficient time by the end of this year to deliver the modules as scheduled.

Unidentified Analyst

Okay, thank you. The next question is about N-Type TOPCon product. So in the third quarter, where do you ship those products? Where is the major market for this product? It is like in Europe, U.S., or mainly in Chinese market?

Charlie Cao

The majority is in Europe, and we also have shipments in China, in the Latin America and Asia Pacific is good.

Unidentified Analyst

So basically, maybe most parts south in China, and then basically everywhere you have some, like a product demo for the global users.

Charlie Cao

No, it is not product demos. And we are promoting the products starting from last year, and it is a significant shipment and to different markets and European markets is very big and the following that there are seven different countries and regions including China, Latin America, and Australia et cetera.

Unidentified Analyst

My final question is regarding about the upstream supply of other than polysilicon. So do you think that - spend material could be a bottleneck going forward in 2023, for your internal wafer production.

Charlie Cao

So what kind of bottleneck of materials you are talking about?

Unidentified Analyst

[Indiscernible]

Charlie Cao

Okay. Thank you. And this has been talking about a long time. And it is a little bit tight for this particular material. But it still can support over - we believe 500-megawatts, because on top of that there are capacity expansions. I think there are over and next year maybe 90,000 tons.

From a technological perspective, and what we are thinking is it is feasible to use both percentage of domestic produced materials, other than the recorded materials. And it is more like, the new hybrid, let's say, the inflationary cost perspective, other than the volume perspective.

Unidentified Analyst

Okay. Thank you. I will pass on.

Operator

We have no further questions. There is no more questions.

Stella Wang

Okay. Thank you, everyone. So we will now end the call. Thank you. Good night.

Operator

This concludes today's call. Thank you all for your participation. You may now disconnect.