JinkoSolar - Q2 2024 Transcript

08/30/2024

Transcript

Operator (participant)

Hello, ladies and gentlemen, and thank you for standing by for JinkoSolar Holding Co., Limited. Second Quarter 2024 Earnings Conference Call. At this time, all participants are in 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 now like to turn the meeting over to your host for today's call, Miss Stella Wang, JinkoSolar's Investor Relations. Please proceed, Stella.

Stella Wang (Head of Investor Relations)

Thank you, operator. Thank you everyone for joining us today for JinkoSolar's second quarter 2024 earnings conference call. The company's results were released earlier today and are available on the company's IR website at www.jinkosolar.com, as well as our news wire services. We have also provided a supplemental presentation for today's earnings call, which can also be found on the IR websites. On the call today from JinkoSolar are Mr. Li Xiande, Chairman and CEO of JinkoSolar Holding Company Limited; Mr. Gener Miao, CMO of JinkoSolar Company Limited; Mr. Pan Li, CFO of JinkoSolar Holding Company Limited; and Mr. Charlie Cao, CFO of JinkoSolar Company Limited. Mr. Li will discuss JinkoSolar's business operations and company highlights, followed by Mr. Miao, who will talk about the sales and the 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's 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.

Xiande Li (Chairman and CEO)

We are pleased to announce that thanks to our leading position in N-type TOPCon technology, competitive products as well as global sales and manufacturing network, our module shipments grew by 34.1% year-over-year to 23.8 GW in the second quarter, ranking first in the industry. By the end of the second quarter, we had led the industry as the first solar company in the world to reach a total module shipments of 260 GW to nearly 200 countries and regions. This again demonstrated the power of our globalization strategy. In the second quarter, prices in several segments of the industry chain declined slightly on a sequential basis. We flexibly adjusted our production scheduling strategy and the utilization rates for different process, and also optimized our supply chain strategy to control costs.

Gross margin was 11.1% in the second quarter, almost flat sequentially. Adjusted net income was $52.1 million, slightly down sequentially.

Global demand showed faster growth momentum in the first half of 2024. The newly added installations in China totaled 102 GW in the first half, up 30% year-over-year. From January to June, total solar module exports increased by around 20% year-over-year. At the same time, we saw an increase in capacity expansion projects delayed, suspended, with even some terminated. As to existing capacity, some manufacturers have cut or suspended production. Coming into the third quarter, prices in the industry chain were low and low and volatile, with prices in most segments falling below cash cost. The utilization rates across the industry declined compared to the second quarter to an overall low level. We view these irrationally low prices as unsustainable. Meanwhile, government and industry launched the control policies to promote the healthy and orderly development of the solar industry.

Financial institutions became more selective, preferring to favor strong and excellent companies with technological innovation and cost control capabilities, as well as brand channels advantages. We believe that all these matters will further accelerate the elimination of the outdated capacities as well as industrial integration. In the future, we expect companies with robust and sustainable operations to reinforce their industry leadership. The in-depth industrial adjustments are bringing both challenges and opportunities to companies. We will continue to improve our management efficiency and strengthen and expand our globalization advantage, taking on challenges in the industry with our resource advantages and innovative capabilities. Thanks to our global footprint and the competitiveness of our products, by the end of the second quarter, the visibility of our order book for 2024 exceeds 80%.

We have maintained an overall leading utilization rates in the industry, especially for N-type cells, utilization rates nearly 100%. We kept refreshing our records for cell efficiencies. At the end of the second quarter, lab efficiency of our N-type TOPCon based perovskite tandem solar cell reached 33.24%, a significant leap beyond our previous record of 32.33% last year. The mass-produced efficiency of our 182 TOPCon cells exceeds 26.1%. We firmly believe that TOPCon remains the path with the best economic performance in terms of cost, mass production, production yield, intellectual property protection, and customer acceptance, and still has room for further cost reduction and efficiency increase. We intend to keep our leading position by gradually adopting new technologies while consider both efficiency improvement and economic return.

We continued to optimize our supply chain to cater to the demands of global clients for low carbon, clean, high efficient, and reliable products. In the first quarter of this year, we unveiled new green panels produced in zero carbon factory, as certified by TÜV Rheinland for compliance with the relevant

criteria and the requirements. So far, we have received positive feedback from our clients. This once again confirmed our commitment to clean manufacturing and product innovation. Facing shifts in international trade, continuing expansion of our globalization capabilities is becoming increasingly important. As recently announced, we have entered into a strategic partnership with Renewable Energy Localization Company, a wholly-owned subsidiary of the PIF, and the Vision Industries Company, to form a joint venture in Saudi Arabia for the production of 10 GW of high-efficiency solar cells and solar modules.

This is another step in our innovative transformation from global sales to global manufacturing, and an important milestone for our globalization strategy. With years of experience overseas, we are dedicated to building localized solar ecosystems together with our partners to achieve synergy of resources and complementarity of advantages, and further grow our competitiveness in the global market. We are accelerating the clearing out of P-type capacity to optimize our capacity structure. We expect our annual production capacity for mono wafers, solar cells, and solar modules to reach 120 GW, 95 GW, and 130 GW, respectively, by the end of this year. We expect our advanced capacity structure to continue to lead the industry.

With our advantages in N-type TOPCon technology, competitive products, as well as global sales and manufacturing network, we, we reiterate our guidance for module shipments to be between 100 GW and 110 GW for the full year 2024. We will continue to implement our globalization strategy to actively assess market opportunities and mitigate market risks. We expect module shipments to be between 23 GW-25 GW for the third quarter of 2024. By the end of this year, we expect mass-produced N-type cell efficiency to reach 26.5%. Overall, we are holding a healthy cash flow. We will continue to optimize the structure of our assets and liabilities, as well as our cash flow levels, strengthening our resistance to risk.

Gener Miao (CMO)

Thank you, Mr. Li. Total shipments were 25.3 GW in the second quarter, with module shipments accounting for approximately 94%. We are pleased that we continue to rank number one in the world for the module shipments, as we are increasingly recognized by global clients for our high efficient and reliable products and services. In terms of geographic mix, approximately 60% of our module shipments went to overseas markets in the second quarter, with Asia Pacific and Europe accounting for majority. Sequentially, shipments to the U.S. were relatively stable and shipments to Europe increased by 40%.

Thanks to the continuous improvement in Tiger Neo product strength, Tiger Neo shipments accounted for 85% of total shipments in the second quarter, a steady increase from near 80% in the first quarter, as these modules are increasingly accepted by clients, particularly in China, Europe, and North America. Currently, we lead the industry as the first solar company in the world to reach a cumulative N-type module shipment of 100 GW. They continue to enjoy a premium in global market, with premiums in some markets like Europe, U.S., and the Middle East, especially high. On the strength of our extensive global sales network, we will continue to optimize our shipments and the product portfolios. We were recognized as the top performer across all reliability categories in the PV Module Reliability Scorecard calculation by Kiwa PVEL for the 10th consecutive time.

We topped the PVTech 2024 Q2 ModuleTech Bankability Report with the highest AAA grade. This is a continuous recognition of our commitment to quality, innovation, and R&D over the long-term, as well as clients' longstanding trust in our products' quality, bankability, and reliability. Recently, we became one of the few companies to have won both Tier 1 Energy Storage Provider and the Tier 1 PV Module Manufacturer by Bloomberg. These honors are not only a testament to the power of our outstanding brand, but also an affirmation of our proactive contribution to global energy transformation. As the economics of solar energy become more apparent, we expect demand in the global market to stay around 600 GW in 2024, and grow steadily in 2025.

In addition to mainstream markets like China, U.S., and Europe, emerging markets such as Middle East and some countries in Asia Pacific are also showing strong growth potential. With our accumulated experience in global sales and the growing industry chain footprint, we are confident we will, over time, seize the opportunities brought about by the growth in global market demand more rapidly and more highly efficiently and optimize overseas supply chain to effectively cope with changes in international trade policies. We will continue to optimize our products and the services, constantly enhancing our competitiveness globally through strategic market positioning and outstanding client relationship management. With that, I will turn the call over to Pan.

Pan Li (CFO)

Thank you, Gener. We're pleased to report sequential growth in module shipments and total revenues in a very challenging second quarter. While module prices declined, we reduced costs through supply chain optimization and technology upgrade, improved operating efficiency, optimized asset and liability structure. Gross margin was relatively flat sequentially, and our asset liability ratio was down by one percentage point compared to the year beginning. Despite the challenging situation in the industry, we did not stop returning value to our shareholders for their long-term support. At the beginning of August, we announced a cash dividend of $1.5 per ADS, which was paid today as planned.

In addition, as of today, we have repurchased a total of $5.6 million ADS in an aggregate amount of over $113 million in the open market on our share repurchase program announced in July 2022, and in the extended share repurchase program announced in December last year. Let me go into more details now. Total revenue was about $3.3 billion, up 4.4% sequentially and down 21% year-over-year. The year-over-year decrease was mainly due to a decrease in the average selling price of solar modules. Gross margin was 11.1%, compared with 11.9% in the first quarter this year, and a 15.6% in the second quarter last year. The year-over-year decrease was mainly due to the decrease in average selling prices of modules.

Total operating expenses were about $525 million, up 24% sequentially and up about 18% year-over-year. The sequential and year-over-year increases were mainly due to the write-off of the net book value of the equipment resulting from the fire accident in Shanxi Province, which was partially offset by estimated insurance proceeds from the fire accident in the second quarter this year. Total operating expenses accounted for about 16% of the total revenues in the second quarter, compared to 13% in the first quarter and about 11% in the second quarter last year.

Net loss attributable to the JinkoSolar Holding Company Limited ordinary shareholders was $13.9 million in the second quarter this year, excluding the impact of the change in fair value of the convertible senior notes, fair value loss related to the investment in solar supply chain companies, share-based compensation expenses, and net loss resulted from a fire accident in Shanxi. Adjusted net income attributable to the JinkoSolar Holding Company ordinary shareholders was about $52 million. Moving to the balance sheet. At the end of the second quarter, our cash and cash equivalents were $1.91 billion, compared with $2.4 billion in the first quarter this year. AR turnover days were 89 days, compared with 100 days in the first quarter this year.

Inventory turnover days were 82 days, compared with 89 days in the first quarter this year, as a result of improving operating efficiency. At the end of

the second quarter, total debt was $3.86 billion, compared to $3.66 billion in the first quarter. Net debt was $1.95 billion, compared with $1.22 billion in the first quarter this year. This concludes our prepared remarks. We are now happy to take your questions. Operator, please proceed.

Operator (participant)

Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. Your first question comes from Philip Shen with Roth Capital Partners.

Matt Ingraham (Equity Research Associate)

Hi, this is Matt Ingraham on for Phil. Thank you for taking our questions. You know, looking into the back half of the year in 2025, how do you see module pricing trending? And then on gross margins, what is it going to take to return to the mid-teens margin levels? And do you think this could be achievable in 2025?

Gener Miao (CMO)

Thanks for the question. This is Gener. I think, in general, the market price will stay at the, let's say, a relatively low level for a while for most of the market. It's really because, in general, the oversupply situation is quite obvious across the industry. But for sure, the margin-wise, it depends on the cost, how fast the cost reduction can catch up with the low price situation right now, right? So at least from what we are seeing right now, quarter-by-quarter or month by month, the cost reduction is happening almost every day. So hopefully, with the improvement from the cost control and also the, you know, all the actions we are taking or the whole industry is working on, the margin could go back to at least a healthy level as early as possible.

Matt Ingraham (Equity Research Associate)

Okay, great. Thank you. And then kind of on supply and demand, you know, with module prices so low, for so long, is that resulting in any demand elasticity? And if so, which countries or regions could we see upside surprise in demand? And then on the supply side, when do you think this oversupply situation across the supply chain gets resolved? Does this happen, you know, next few quarters, next 12 months or longer?

Gener Miao (CMO)

It's really difficult to forecast the right, which days the market will turn upside down. But we see everything is gradually going to that direction, everyone. From the demand side, no matter if U.S., Europe or China or other emerging markets, we still foresee a healthy growth year-over-year. Meanwhile, when we see the supply side, for sure, we have seen some newcomers that has dropped their plans to give up what they planned to do previously. And also from the policy-wise, we see some China government policy initiative, which is trying to control the new expansion of the capacity, which shows a pretty strong signal to, let's say, constrain the capacity supply side as well. So, and also the current loss-making market will shake out some of the weak players across the industry, too.

So, adding all those up together, you know, supply side is we see a steady growth year-over-year, and the supply side, you know, we see some actions taking. It might take some time, but it's moving on the direction to restrict the supply into a more rational level. So, adding those two together, we hope to give it a, you know, several quarters, the things will get back to a rational level, I hope.

Matt Ingraham (Equity Research Associate)

Great. Thank you. I'll pass it along.

Gener Miao (CMO)

Thank you.

Operator (participant)

Your next question comes from Alan Lau with Jefferies.

Alan Lau (Control Group, IB, and Research Compliance)

Thank you for taking my question. This is Alan from Jefferies. So, first of all, the results are actually quite impressive, especially during the backdrop of a very, very challenging market environment. So I got a couple of questions, I would like to check with the management. First of all, what is the U.S. shipment amount and also the U.S. shipment expectation in second half of this year? And what is your view on the policy risk in the U.S. market, especially there were recently filings of critical circumstances?

Gener Miao (CMO)

So for the U.S., it's a very special market. We see the market is. First, say, for Jinko, we are gradually getting back our market share after the efforts we have taken in the last two years' time. So if you look into the total shipment numbers, we have provided a range of 5-10% as the annual shipment range, but if we look into Q4, it's roughly 5%-6%. Seasonally, you know, it will changes because, for example, right now, there's a rush before the tariffs kick in. Also, the market demand is kicking up. So, seasonally, quarter by quarter, there will be some small changes.

In general, I think it's still falling to the range between 5%-10% of our total shipment in U.S. For the long-term, we still believe U.S. is a great market because of the demand thanks to the AI driving, you know, the electricity demand is strong. Also, the IRA Act is a strong support to the new capacities both on the manufacturing side and on the utility project development side as well.

So in long-term, we are still a big fan of U.S. solar market, and we believe, you know, we will continue to be there to find a, let's say, a stable supply plan to serve our clients in U.S., even there might be some turbulence on the trade policy side, but we still have some pre-prepared solution on it. Yeah, for the second.

Charlie Cao (CFO)

The urgent, you know, I think you are talking about the urgent, you know, circumstances for the ADS

Alan Lau (Control Group, IB, and Research Compliance)

Yeah.

Gener Miao (CMO)

Yeah.

Charlie Cao (CFO)

No, it's really a little bit risk, but we have proactively managed the situations and based on, you know, the regulations. And we think, you know, we are, you know, the risk to Jinko is relatively low.

Alan Lau (Control Group, IB, and Research Compliance)

Is it because of the relatively stable volume from Jinko? Like, there was no spike in volume, so you think it's actually compliant with the rules, right?

Charlie Cao (CFO)

It's a little bit complicated, but you know, we are the management respondent to the AD/CVD case So if you are going to be qualified for the situations, you know, you must be the volume shipments after the filing date of the case and then versus before, and there should be a significant increase of shipments. So we proactively manage the volume. So that is one line, as I said, you know. But there's still some kind of risk, but we think the risk is low for Jinko.

Alan Lau (Control Group, IB, and Research Compliance)

Thank you. It's very clear. So, and also would like to know, what is the progress in, our Middle East? Because, there was a huge announcement on, on the capacity in, Saudi Arabia. So we would like to know what is the, estimated timeline of that capacity and, what type of policy you expect would be benefited?

Charlie Cao (CFO)

You know, it's really a very strategic move for our international manufacturing. And, you know, it's not only our purely, you know, facilities in Saudi Arabia, and we are working with PIF and, you know, Vision Industries. And Saudi Arabia, we have very big ambition for the energy transitions by 2030. And, we work together to localize the productions for advanced capacities, 10 GW, so the module capacities. And, Saudi, I think the government has a policy department, which is, you know, the goal is to, you know, to help to promote local productions in Saudi Arabia.

We wait back, you know, after our operational, you know, in 2026, and then the modules in Saudi Arabia locally will be, I think, have a premium compared to, you know, the modules out of Saudi Arabia. On top of that, the government has, you know, has strong support policies, you know, to the joint ventures in Saudi as well.

Alan Lau (Control Group, IB, and Research Compliance)

Will there be any localization requirement on tendering so that you can ensure all of your modules will be sold, and also even some of your competitors will have to buy your modules because of that localization requirement?

Charlie Cao (CFO)

I would like to be more confident, you know, we will have a very unique competitiveness and in Saudi and for the Saudi market. Saudi, if you look at the total market size, is roughly the 50%-60% of the total Middle East. Middle East, we are very optimistic, you know, in the next three to five years. You know, I think you are, you want to explore the detailed policies. There are some policies existing, but it's going to be developed, I think, by the government as well. The current policy is 20% local content with some kind of additional penalty. But the big issue is, in Saudi Arabia, there is no any, you know, qualified module producers.

So most of the developers at this stage is they, they get the waiver letter, you know, by my understanding, because there is no available local, you know, local producers. But, you know, we, you know, I think we are in a good position to penetrate the markets and, you know, after launch our joint venture.

Alan Lau (Control Group, IB, and Research Compliance)

So you'll be technically the only qualified producers by 2026. So that might bring you premium there, right?

Charlie Cao (CFO)

I would love, I would love to say that, but we, I think, you know, we, we will be the first mover, you know, so we take that advantage.

Alan Lau (Control Group, IB, and Research Compliance)

I see.

Charlie Cao (CFO)

We will be the first mover.

Alan Lau (Control Group, IB, and Research Compliance)

Then an accounting question on the financials, because I saw in the adjusted calculations of adjusted earnings, actually, it's around RMB 380 million. So is it like RMB 665 million, and then you take 58% of shareholding on the loss of that, so you get to RMB 80 million?

Charlie Cao (CFO)

So you're talking about EPS or really average?

Alan Lau (Control Group, IB, and Research Compliance)

The adjusted net income. So it's shown as RMB 378 million. So there's a net loss due to the Shanxi fire accident of RMB 380 million. So I would like to know if this RMB 380 million is 58% of RMB 665 million in the Asia Pacific.

Charlie Cao (CFO)

Yeah, yeah, you're talking about, you know, the total numbers for the Asia is kind of, you know, the number you are talking about, and, because.

Alan Lau (Control Group, IB, and Research Compliance)

Ye- yeah.

Charlie Cao (CFO)

The U.S. close to 58%. So 55%, close to 58%. So the minority, you know, there's a, I think, separate line, net income attributable to the non-controlling interest that consolidates all, you know, the, all the, you know, net income should be allocated to the, the minority interest from the perspective of the, the U.S. Mexico.

Alan Lau (Control Group, IB, and Research Compliance)

Understood. Including the loss from the Shanxi Province, right?

Charlie Cao (CFO)

Yes.

Alan Lau (Control Group, IB, and Research Compliance)

It's also proportionate.

Charlie Cao (CFO)

Yes, proportionate.

Alan Lau (Control Group, IB, and Research Compliance)

Yes. Thank you. Thank you. So, my final question is, what is the usage of FBR polysilicon now? Can you use 100% of that to save cost?

Charlie Cao (CFO)

Oh, you mean the polysilicon out of China, right?

Alan Lau (Control Group, IB, and Research Compliance)

The FBR, the

Charlie Cao (CFO)

Oh, FBR.

Alan Lau (Control Group, IB, and Research Compliance)

Granular polysilicon. Yeah.

Charlie Cao (CFO)

Yes. You know, we get kind of the, you know, improvement on the utilization levels, and typically it's kind of 30%-50%.

Alan Lau (Control Group, IB, and Research Compliance)

Thank you. Thank you. I'll pass on. Thanks a lot, Charlie.

Charlie Cao (CFO)

Thank you.

Operator (participant)

Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from William Grippin with UBS.

William Grippin (Director and Analyst)

Hi, thanks a lot for the time. Just a couple for me. The first one was on the tandem cell efficiency that you noted in the press release. Could you just talk about kind of where you are in the development process for that technology? And how long before you think we could see something become commercially available?

Charlie Cao (CFO)

Yeah, the tandem, the tandem is still in R&D stage, but we are optimistic for the, you know, for the future commercialization of the TOPCon, plus the, you know, the tandem technology. But still, you know, it's if you look at the time scheme, it's we believe it, in the next five years, you know, it's still in a, you know, laboratory stage. And it's possible after five years, it could be commercialized, but it depends a lot on, you know, progress. So it's so back to your question, we don't believe it's commercially 100% visibility at this stage. And the, you know, the earlier time, maybe after five years.

William Grippin (Director and Analyst)

Got it. Thank you. And then just on the TOPCon side, obviously there's been a lot of, you know, headlines and reports of litigation, companies claiming IP around TOPCon. A little bit hard to get a good handle on, you know, the patent landscape there. Just wondering if you could speak to, you know, how comfortable you are with your position sort of in the TOPCon IP landscape, across your key markets and maybe any sort of discussions around licensing or, you know, other legal actions that maybe you've been having?

Charlie Cao (CFO)

So the patents, you know, we if you look at, you know, Jinko is a kind of the TOPCon promoter, you know, the leader of technology. And in recent three years, we invested around 5-6% total revenue on R&D, from the significant part, we put into the TOPCon. So we are, we're really very confident, you know, about our patents, particularly on TOPCon. If you look at the total volume, if you look at the quality, if you look at the, you know, the patents or, or, you know, the, the spread in different countries, particularly out of China. So I think at the beginning of this year, we also announced some kind of news. We granted some kind of patents to one solar company, one solar module company, one solar cell companies.

So that, you know, demonstrate our, you know, strong capabilities on R&D and patent position.

William Grippin (Director and Analyst)

All right. Thanks very much.

Charlie Cao (CFO)

Thank you.

Operator (participant)

Your next question comes from Rajiv Chaudhri with Sunsara Capital.

Rajiv Chaudhri (President)

Good morning. I have a few questions. The first couple of questions are just housekeeping. Can you tell us what the depreciation and the capital spending numbers were for the second quarter, and what the targets are right now for the full year?

Charlie Cao (CFO)

Okay.

Pan Li (CFO)

Okay, thank you for the question. In the second quarter, we reduced our CapEx as compared with the first quarter, which was the total CapEx in the first half year was about RMB 4 billion. And our prospective total CapEx in the whole year would be adjusted to about RMB 9 billion.

Charlie Cao (CFO)

Hey, Rajiv, I think the big question, you know, the big picture is, you know, it's a tough situation, right, in the industry-wise. But the industry has suffered in, I think, three or four quarters. And as Tier 1 companies, we carefully manage the companies and, you know, sustainable growth. And we balance the shipment for graded and further solidifying our positions on the cash flows, particularly. On top of that, we significantly cut the CapEx this year as well as next year, as well as lower the operating expenses and optimize our operations including the train some labor, you know, labor force.

So and if you look at our CapEx, if you next year, we don't have any plan, you know, CapEx plan, except for the Saudi Arabia, you know, capacities, which is a strategic move. So just, you know, for illustration and for your understanding. But we think, you know, after several quarters, we cannot, you know, project exactly. And but we have seen, you know, the big players, top two, top three, even some kind of relatively middle players, have been consolidated or be phased out, you know, in during years, you know, the downside, the downward cycle. So I think we are getting prepared and ready to go through the cycle time.

Rajiv Chaudhri (President)

Are you suggesting that CapEx in 2025 will be even less than the RMB 9 billion in 2024?

Charlie Cao (CFO)

Yes, definitely. And Saudi Arabia is very unique, even, you know, because we take 40% equity. And really, you know, equity total will be $100 million and next year. So except for that, I think we have some kind of maintenance CapEx, as well as some kind of investment on R&D, you know, R&D CapEx. So definitely it's going to be, you know, lower next year.

Rajiv Chaudhri (President)

Okay. And what about depreciation in the second quarter?

Charlie Cao (CFO)

Each month, roughly, you know, if you want to use your financial models, it's kind of RMB 500 million R&D to RMB 600 million R&D. You can put in your financial models. Anyway, if you have detailed number questions, you know, I would suggest you can have a follow-up with, you know, with our IR teams to give you a detailed number.

Rajiv Chaudhri (President)

Okay. Okay, so moving on to the next question. That is on your average selling prices. Your average selling price in the second quarter was down quite a bit. It was down actually more than 10%, 15% from the first quarter. And a part of the reason I get from reading the presentation is that DG was 50% of sales, and most of DG is, I think, in China. So the combination of focus on China and DG led to more than a pretty sharp decline in ASPs.

Now, as you go into the second half of the year and shipments as a proportion of total shift away from China, shift away from DG, will that provide a more benign backdrop for pricing for you?

Charlie Cao (CFO)

You know, the spot market price, you know, in the last three or six months is continuing to decline, but we think it's going to be, you know, the lowest level to be stabilized. But if you look at financial numbers, because we have different markets, you take the scale, the DG segment, we have different markets, U.S., you know, Japan, different regions and different lead time for signing the contracts. So the, if you look at the ASP, and you're right, I think it's reflecting the industry-wide, the downward of spot market price for the modules.

But we, you know, because we have different lead time, different countries, so in each quarter, in Q1, Q2, the average is in downward trend. We expect a continuing trend in the third quarter, but relatively stable in the fourth quarter. So it's, you know. But on the other side, if you look at the supply chain perspective, the material costs continue to, you know, to decline.

Rajiv Chaudhri (President)

So, can we expect that the decline in ASPs will moderate from Q2 to Q3, relative to what we saw in Q1 to Q2?

Charlie Cao (CFO)

Yes, I would like to say, you know, if you look at Q4 versus Q3, it's gonna be relatively, you know, normalized.

Rajiv Chaudhri (President)

Okay. But, can you say that we are at the point where pricing can be expected to be stable, or we are not there yet?

Charlie Cao (CFO)

I think in terms of the near time scheme, you know, if you look at the sectors, most of the sectors is suffering cash losses, and we don't believe there's a significant room further, and with the phase out of capacities, it should be kind of stabilized. If you look at the solar wafer price in recent weeks, some

you know of top players, they have increased the spot market price a little bit, and even you know poly price has been stabilized. So step by step, I think you know, you will see the module and as well the solar cells in price.

Rajiv Chaudhri (President)

I see. Okay. Charlie, your costs were down, you know, apart from the decline in polysilicon prices, your production costs were down quite significantly also in the second quarter, and that helped you maintain the gross margin at a double-digit level. Can you break down some of the reasons why the costs were down? And can we expect costs to keep on coming down at the same rate that we saw from Q4 to Q1, and then Q1 to Q2? We have had some pretty dramatic declines in costs here, and that is separate from the polysilicon price.

Charlie Cao (CFO)

Yes, you know, there are a lot of efforts we are working on. You know, we continued to, you know, to optimize our design, you know, and the key materials, the purchase price continue to be helping improved. And improve the working efficiencies and labor costs, you know, cut off and, you know, operating expenses, you know, optimizations. So there are a lot of, you know, efforts we are working on.

Rajiv Chaudhri (President)

Does that mean that gross margin can go up in the third quarter relative to the second quarter?

Charlie Cao (CFO)

No, you know, I don't believe that, you know, frankly, but I think, you know, we are confident, you know, the gross margin is bottom and we try to, you know, try to stabilize.

Rajiv Chaudhri (President)

But, you're not confident that it can go up from Q2 to Q3 yet?

Charlie Cao (CFO)

No, I, you know, I would like to say, you know, stabilize the kind of, you know. If you look at our peers, you know, we are in a relatively good positions, and, stabilize and, the phase out takes time. But I think it's not going to take, one or two years, but maybe it take a couple of, you know, several quarters. And, on top of that, we, you know, we take the leverage our, you know, global manufacturing and the marketing capabilities and optimize the, you know, the economics.

Rajiv Chaudhri (President)

Okay, another question is on the N-type market. What do you think the size of the N-type market will be in 2024, this year? I mean, what will your market share be if you do 90 GW-95 GW?

Stella Wang (Head of Investor Relations)

All right, sorry to interrupt you. We will take this as the final question, and for more questions, we can discuss after the call. Is that okay?

Rajiv Chaudhri (President)

Yeah.

Charlie Cao (CFO)

Yeah.

Stella Wang (Head of Investor Relations)

Okay, thank you.

Charlie Cao (CFO)

I think in time, this year is kind of the, you know, the top dominance. This is a domination year for N-type, N-type TOPCon. And the market penetration for TOPCon, roughly, I think maybe 70%-75%, and Jinko roughly 90%. So that's if you look at, look at- look for next year, so I think, I think it should be wide extent, you know, penetrations for N-type.

Operator (participant)

There are no further questions at this time. That does conclude our conference for today. Thank you for participating. You may now disconnect.