JinkoSolar - Q3 2023 Transcript

10/30/2023

Transcript

Operator (participant)

Thank you for standing by, and welcome to the Third Quarter 2023 JinkoSolar Holding Co., Ltd. Earnings Conference Call. All participants are in listen-only mode. There will be a presentation followed by a question-and-answer session. If you wish to ask a question, you will need to press star, followed by the number 1 on your telephone keypad. Please note, this conference is being recorded. I would now like to hand the conference over to Stella Wang of Investor Relations. Please go ahead.

Stella Wang (Head of Investor Relations)

Thank you, operator. Thank you, everyone, for joining us today for JinkoSolar's third quarter 2023 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 news wire 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 CEO of the JinkoSolar Holding Company Limited; Mr. Gener Miao, Chief Marketing Officer of JinkoSolar Company Limited; Mr. Pan Li, Chief Financial Officer of the JinkoSolar Holding Company Limited; and Mr. Charlie Cao, Chief Financial Officer 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 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.

We are pleased that we were able to overcome the challenges we faced due to market volatility and deliver a strong third quarter. We did so by leveraging our advantages in N-type TOPCon technology, extensive global operation network, and advanced integrated capacity, capacity structures. Our module shipments, gross margin, and net income all increased significantly year-over-year. Total module shipments were approximately 21.4 GW, an increase of 107.9% year-over-year. Polysilicon costs decreased sequentially. High efficient N-type products that command a premium account for over 60% of total module shipments. Module shipments to the U.S. market recorded sequential growth in the third quarter, all contributing to improve the profitability.

Year-over-year, our net income increased by 140.7% to $181.4 million. Adjusted net income increased by 215.1% to $184.6 million. Diluted earnings per ordinary share increased by 188.7% to $0.63. Gross margin increased from 15.7% to 19.3%.

Xiande Li (Chairman and CEO)

第三季度以来，产业链价格的下降进一步刺激了终端需求。2023年1月到9月，国内光伏新增装机规模达到128.9吉瓦，超过去年全年新增装机规模近50%。光伏产品作为中国出口新三样之一，成为拉动中国经济增长的新动能，并为推动全球能源转型贡献力量。与此同时，供求关系的变化带来了竞争加剧，技术加速迭代、高度地缘政治风险等多个因素对全球光伏市场的发展带来一定波动。

...

对于行业的参与者提出了更高的要求。我们认为光伏行业面临充分竞争，头部企业的优势会在这样的市场中更加凸显。截至三季度末，晶科能源成为行业率先达成全球组件出货量190 GW的光伏企业，产品已销往190多个国家和地区。我们的全球化销售、运营和管理能力，叠加研发的不断积累和持续创新，助力我们构建全方位的竞争壁垒。我们有信心穿越周期的波动，实现健康可持续的盈利水平，努力提升对股东的回报。

Stella Wang (Head of Investor Relations)

Since the third quarter, price declines in the supply chain have stimulated end market demand. For the first nine months, newly added installations of PV in the domestic market reached 128.9 GW, nearly 50% more than the full year installations in 2022. As one of the new three products to boost China's export, solar has become a new driving force for China's economy and also contributes to global energy transition. Meanwhile, intensified competition brought by changes in supply and demand, accelerated technical iteration, high interest rates in some regions and geopolitical tensions caused some volatility in the global PV market, which tested all industry players. We believe that we, as the industry leader, will become even stronger as the competition intensifies.

At the end of the third quarter, we became the first module manufacturer in the world to have delivered a total of 190 GW solar modules. Covering over 190 countries and regions. Our capabilities in globalized sales, operations and management, added by continuous R&D, accumulation and innovation, help us build an all-round competition barrier. We are confident in our ability to navigate through the volatility in a cycle, achieve healthy and

sustainable profitability, and increase our shareholders values.

Xiande Li (Chairman and CEO)

截至三季度末，N-type TOPCon量产效率达到25.6%，N-type组件相当于同版型的P-type组件高出25-30 W，受益于N-type更高的效率，对初始投资成本的摊薄，以及更高的发电量带给客户的附加值。全球市场对N-type产品的需求持续增长，N-type产品相对于P-type的溢价仍然坚挺，而且相较于市场溢价有优势。

Stella Wang (Head of Investor Relations)

By the end of the third quarter, the mass-produced efficiency of N-type cell reached 25.6%, and the N-type module power output was 25-30 watts higher than similar P-type modules. Demand for these products continued to increase globally as the LCOE is lower. N-type modules still retained a premium over similar P-type modules, and the premium continued to exceed the market's average.

Xiande Li (Chairman and CEO)

截至三季度末，我们的N型电池产能已经超过55 GW，预计到年底，N型电池产能将达到70 GW左右，有竞争力的产能结构领先行业。山西超级一体化基地已开工建设，一期和二期28 GW的硅片电池组件一体化N型产能，预计在明年上半年投产。此外，我们长期看好光储平价带来的发展机遇，储能的业务和产能的建设和业务的培育，在按照计划稳步进行。

Stella Wang (Head of Investor Relations)

At the end of the third quarter, we already had over 55 GW of N-type cell production capacity, and by the end of this year, N-type cell production capacity is expected to reach about 70 GW. A competitive capacity structure leading the industry. Recently, our integrated project in Shanxi, China, started construction. Phase one and phase two for a total of 28 GW wafer cell and module integrated capacity are expected to start production in the first half of 2024. In addition, we are optimistic about the growth potential brought by solar storage parity in the long run, and our, our capacity build up and development of energy storage business are progressing steadily.

Xiande Li (Chairman and CEO)

近期我们的182型高效电池，单晶硅电池的实验室转化效率达到了26.89%，又一次创造了TOPCon电池转化效率的新高，是我们研发创新的重要里程碑。继晶科能源领衔整个行业推动N型TOPCon技术升级后，预计明年N型TOPCon占据全行业70%以上，成为主流。N型TOPCon技术具备更高的转化效率、更低的产业化成本等优势。我们坚定地认为，TOPCon的技术在目前及未来3-5年仍然是主流的技术路线。我们有信心通过持续的技术迭代以及一体化产能的优势，在功率、成本以及产品力上动态领先行业半年左右。

Stella Wang (Head of Investor Relations)

Recently, our high efficiency 182 N-type TOPCon cell set a new record with maximum lab conversion efficiency of 26.89%. Again, creating an important milestone in the innovation of our products and solutions. Thanks to our leadership in driving N-type TOPCon technology, N-type TOPCon products is expected to capture market share greater than 70% in the whole industry... achieving absolute dominance. With higher conversion efficiency, lower industrialization costs, and other advantages, we firmly believe TOPCon technology will remain the mainstream technical path for now and in the future 3-5 years. We are confident to be ahead of the industry dynamically by about half a year in terms of power output, cost, and product competitiveness through continuous technology iteration and leveraging our integrated capacity. As a responsible global company, we continue to make progress in sustainable development.

With excellent performance in corporate social responsibility, we received a high rating from EcoVadis, outperforming the mainstream PV companies. We are dedicated to providing clean, high efficient, and reliable solar products and energy storage solutions to more and more countries and regions, making our contribution to global energy transition. Before turning over to Gener, I would like to go over our guidance for the fourth quarter and full year of 2023. By the end of 2023, we expect mass-produced the N-type cell efficiency to reach 25.8%. We are confident to exceed the full year module shipments guidance of 70-75 GW, with N-type module accounting for approximately 60% of total module shipments.

We expect our annual production capacity for mono wafers, solar cells, and solar modules to reach 85, 90, and 110 GW respectively by the end of this year, with N-type capacity accounting for over 75% of the total capacity. We expect the module shipments to be about 23 GW for the fourth quarter of 2023. We are confident we will continue to lead the industry with our advanced technology and premium high-efficient products.

Gener Miao (CMO)

Thank you, Ms. Li. Total solar shipments were 22.6 GW in the third quarter, with module shipments accounting for 95%. As we continue to improve product quality and further develop our client service network, our brand influence continued to grow. By end of the third quarter, our all-time accumulative global solar module shipments exceeded 190 GW, covering over 190 countries and regions. In response to market volatility, we flexibly adjusted the geographic mix of our shipments during the quarter. The domestic market became the dominant area for our shipments, accounting for around 40%. Shipment to emerging market remained stable sequentially, while Asia Pacific and the North America increased compared to the last quarter.

We are particularly pleased that the shipments of high-efficiency Tiger Neo modules exceeded 60% of total module shipments, as Tiger Neo accelerated its market penetration, especially in China, Middle East, and North Africa, and Asia Pacific. Thanks to higher efficiency and the high added value to customers, Tiger Neo products still carry a substantial premium compared to similar P-type products and continue to outperform the industry average. In terms of prices, lower upstream costs have been reflected in module prices, which decreased compared to the second quarter. As prices decline, some clients have slowed the pace of new orders, and some of the existing orders were delayed. However, lower module prices leading to greater economic benefits also drove plenty of demand, which filled the gap caused by delayed orders.

We adjusted prices and market strategy timely to cope with market shifts and solicited real-time feedback from clients. Our order signing moves on

steady as planned with our globalized sales network and the localized customer service infrastructure. We are committed to maximizing the value of products and the services we provided to our clients. Recently, we signed 3.6 GW module supply agreement with N-type Tiger Neo with ACWA Power. With industry-leading efficiency, reduced the degradation and the temperature coefficient enhance the bifacial factor, outstanding low light performance, and unparalleled yield per watt to reduce system LCOE lifetime energy cost. Tiger Neo delivers at least 3% of power generation gain to clients, particularly under the climate conditions of desert area in Middle East. The excellent temperature coefficients and the bifacial factor will significantly raise power generation and the project IRR.

As industry chain prices declined and started to stabilize, large-scale utility project accelerated the connection to the grid, and we expect a new installation record in China this year. Relatively high inventory in Europe is being gradually digested, and demand remains strong in U.S. market under the Inflation Reduction Act. We are also optimistic about the growing solar demand in Saudi Arabia and other Middle Eastern countries to support energy transition. With high demand certainty and the help of our high efficient product and services, we are confident that we will expand our market share. With that, I will turn the call over to Pan.

Pan Li (CFO)

Thank you, Gener. The significant growth in our module shipments, decrease in raw material cost, as well as our continuous cost control, helped our key financial metrics, including total revenue, gross margin, operating margin, and net margin improved year-over-year. At the end of September, we declared a cash dividend of $1.5 per ADS, which is expected to be paid on or around December sixth this year. With the continuous expansion of our global industrial chain, market footprint, and the power of our products, we're confident to maintain a healthy and sustainable profitability, meeting our commitment to shareholders. Let me go into more details now. Total revenue was $4.36 billion, flat sequentially and up 16.3% year-over-year.

Gross margin was 19.3%, compared with 15.6% in the second quarter this year, and 15.7% in the third quarter last year. The sequential and year-over-year increases were mainly due to the decrease in the cost of raw materials. Total operating expenses are accounted for 9.9% of total revenues, compared with 10.6% in the second quarter this year, and 15.4% in the third quarter last year, improving year-over-year. Income from operations was about $410 million, compared with income from operations of $212 million in the second quarter this year, and $8.8 million in the third quarter last year, improving both sequentially and year-over-year.

Operating margin was 9.4%, compared with 5% in the second quarter this year, and 0.3% in the third quarter last year, improving sequentially and year-over-year. Net income attributable to JinkoSolar Holdings ordinary shareholders was $181.4 million, flat sequentially, and compared to $77.3 million in the third quarter last year, improving year-over-year. Excluding the impact of a change in fair value of the notes and long-term investments and share-based compensation expenses, the adjusted net income was $184.6 million, flat sequentially and up 2 times year-over-year. Let's move into balance sheet. At the end of the third quarter, our cash and cash equivalents were $1.93 billion, compared with $2.35 billion in the second quarter.

AR turnover days were 87 days, compared with 79 days in the second quarter of 2023. Inventory turnover days decreased to 67 days in the third quarter from 70 days in the second quarter this year. At the end of the third quarter, total debt was $4.23 billion, compared to $4.73 billion in the second quarter this year. Net debt was $2.29 billion, compared to $2.38 billion in the second quarter this year. Our debt structure is improving. 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, then one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star, then two. If you are on a speakerphone, please pick up the handset to ask your question. Our first question today will come from Philip Shen of Roth MKM. Please go ahead.

Philip Shen (Managing Director and Senior Research Analyst)

Hi, everyone. Thanks for taking my questions. You guys had a pretty nice margin in Q3 despite the collapse in module prices. Seems like you've been able to match your cost structure with your module pricing. So I was wondering if you could give us your sense of how you expect module pricing to trend in Q4, and then also Q1? And then also in terms of margins, what do you expect similar margins in Q4 and Q1 versus Q3, or do you think there could be potential for even margin expansion in Q4 and Q1? Thanks.

Charlie Cao (CFO)

Hey, Philip, this is Charlie. We did very good, you know, in the first nine months, including the third quarter, and thanks to our strong order visibilities, and we almost finished this year target, and 70-75 GW. Regarding the module price, the trend is in downward trend. We're expecting, you know, the SP, you know, in Q4 is in a downward trend versus the third quarter. Because we have more exposures to Chinese market in the fourth quarter, we expect the gross margin. It's possibly slightly down, you know, quarter-over-quarter. Next year, we believe, you know, the module price will be relatively stabilized.

And, regarding the, the, you know, it's very important for us to next year, you know, we lock up, you know, as quickly as possible the sales orders. And, we're in a good position. I think we have the largest N-type TOPCon capacities, and we have the most largest integrated capacities out of China, you know, for the US market. And, we expect to have over 30% shipments to European market and the US market together. And, we are aiming to over, you know, 85% shipments of TOPCon next year. So we are confident we can deliver relatively better, you know, performance, compared to our peers, you know, next year.

Philip Shen (Managing Director and Senior Research Analyst)

Got it. Okay. So, Q4 margin could be down slightly because of the China mix, and then Q1-

Charlie Cao (CFO)

Yes.

Philip Shen (Managing Director and Senior Research Analyst)

Perhaps you could have some expansion beyond, so growth, or expansion of the margin in Q1 and Q2?

Charlie Cao (CFO)

It's too early to say, but, you know, this year, our performance in the US market is not so good because, you know, the module was delayed, you know, detained. And, we expect next year, everything is getting on the, on the schedule, and the, the margin contribution from the US market will, you know, be quite, significant, you know, starting from next year.

Philip Shen (Managing Director and Senior Research Analyst)

Great. Okay. Thank you. You mentioned, Charlie, just now, the U.S. shipments. I was wondering, in Q3, was there large benefits in margin, from the-

Charlie Cao (CFO)

Mm.

Philip Shen (Managing Director and Senior Research Analyst)

- healthy amount of U.S. shipments because you've been able to be released from detention very quickly?

Charlie Cao (CFO)

Yes, yes.

Philip Shen (Managing Director and Senior Research Analyst)

And then also, next year, you know, I think in the past, you were talking about 10 GW of shipments for the U.S. market in 2024.

Charlie Cao (CFO)

Yes.

Philip Shen (Managing Director and Senior Research Analyst)

But in your PowerPoint today, you highlighted 12+ GW by year-end 2023 of integrated capacity. So do you think, 2024 could actually be closer to 12 GW? We can leave it there. Thank you.

Charlie Cao (CFO)

Yeah, yeah. Next year, yes, our target is over 10 GW shipments in US market, and that's our base target. And the, the contribution, you know, earning contribution from US market in third quarter is not good because, you know, we, we shipped around 1.3-1.4 GW, but most of the modules was, you know, produced 6-9 months ago, and it's a relatively high cost and including the storage cost. So back to your question, and it's improving, you know, quarter by quarter. I, I believe, you know, from beginning of next year and the, the, the, the earning power from the US will be quite significant for Jinko.

Philip Shen (Managing Director and Senior Research Analyst)

Got it. So you were able to generate 19% margin in Q3 despite the high storage cost and the high-

Charlie Cao (CFO)

All right. All right, yes.

Philip Shen (Managing Director and Senior Research Analyst)

-cost on it?

Charlie Cao (CFO)

Yes. Yes.

Philip Shen (Managing Director and Senior Research Analyst)

That's very interesting. One last question, and I'll pass it on: Can you compare the pre-impairment margins in Q3 versus Q4 actuals? In other words, what is the like-for-like margin trajectory?

Charlie Cao (CFO)

You mean the impairment margin or the margin?

Philip Shen (Managing Director and Senior Research Analyst)

Yes.

Charlie Cao (CFO)

Including impairment, right?

Philip Shen (Managing Director and Senior Research Analyst)

... Right. The margin-

Gener Miao (CMO)

We don't expect-

Philip Shen (Managing Director and Senior Research Analyst)

Pre-impairment.

Gener Miao (CMO)

I know, I know. And we did have some impairment, inventory impairment in the second quarter by the end of June. So we don't expect any additional or significant impairment for both third quarter and the fourth quarter. We don't expect, and everything is ordered, and we are in good position, and we believe our price is pretty nice if you compare our ASP with the small market price. And we don't expect the inventory, you know, impairment.

Philip Shen (Managing Director and Senior Research Analyst)

Great. Okay. Thank you for all the detail. I'll pass it on.

Gener Miao (CMO)

Thank you.

Operator (participant)

Again, if you have a question, please press star and then one. Our next question today is from Brian Lee of Goldman Sachs. Please go ahead.

Speaker 9

Hi, thanks for taking the questions. This is Grace on for Brian. I guess, my first question, just to follow up to, the ASP questions earlier. Just wondering if you can talk about, the ASP trends by maybe end markets and by, different geography. Just asking because we have heard that, some of the markets, like, especially the DG market, have seen really high channel inventory. So, can you provide a bit more color on the ASP trends? Thank you. And I have a follow-up.

Gener Miao (CMO)

Yeah, sure. Normally, we see a DG market is relatively ASP higher than utility. That's what people think. But at the current stage, we see a special situation in U.S. market especially, right? So the U.S. market, because of many reasons, the DG market is more pressured than the utility market. That's what we have observed. I think personally, we believe a very important reason is because of the, let's say, the supply side, right? So if the supply side is using a fully traceable, let's say, raw material, or they are just, you know, play the opportunity game on the spot market. So I guess that's one of the reason why we see, you know, just a oversupply in the U.S. DG market in such short term.

For the rest of the world, we believe, we believe that DG market is relatively healthy, so we still see a strong DG market. Even, for example, in Europe, right now, there are some pressures from the inventory side, but in the long term, we are still a big fan of European market, no matter it's DG or utility. So we, we believe as the pre-remarked speech we have, or is starting digesting, so it will take some time, but it will be there. That's what we believe.

Speaker 9

Great. Thank you. And then my second question on your shipment guide, your 4Q shipment guide of 23 GW, kind of implying a flattish quarter-over-quarter growth. But I think historically, your 4Q is much higher than 3Qs. Is it driven by the orders delayed as referenced in the prepared remarks, or is there something else? And also, can you quantify how much of the delay was that, and when do you expect those orders to come back? Thanks.

Gener Miao (CMO)

Yeah, thank you. So we are relatively confident to provide a relatively conservative numbers, which is, I think is, the high end of our annual guidance to which will be around 75 GW. Still, on the order book side, we have, you know, more than what we need, but we still have some supply bottleneck. That's one of the reason why we continue to expand our capacity, try to fulfill all this commitment we are making. So overall, we are fully confident that we can beat our, let's say, guidance, if needed. It depends on the supply side and the market trend. Your follow-up question is about, if you are talking about next Q1 or next year's order book.

Again, for this next year's total demand side, we are fully confident the market will go up by another 20, even 25% compared with 2023. So, in the key market, we still believe the high quality and the high efficiency N-type TOPCon product is still in some of the, let's say, somehow shortage. That's why we still have the confidence we will continue to build up our order book and extend our market share next year.

Speaker 9

Okay, thank you. I pass it on.

Gener Miao (CMO)

Thank you.

Operator (participant)

Again, it is star and then one to ask a question. Our next question will come from [Rajiv Chaudhri] of Intrinsic Edge Capital Management. Please go ahead.

Rajiv Chaudhri (Portfolio Manager)

Good morning, and congratulations on a very strong quarter in what was a very difficult environment for the industry. I have a few questions. I want to start by asking if there were any charges, inventory-related charges, in the gross margin number in the third quarter?

Gener Miao (CMO)

Hello, Rajiv. Yep, the answer is no.

Rajiv Chaudhri (Portfolio Manager)

Okay. And were there any charges in the selling and marketing or general and administrative expenses that were one-time expenses?

Charlie Cao (CFO)

... Excuse me, Rajiv, you say that again?

Rajiv Chaudhri (Portfolio Manager)

Yeah. Were there any one-time charges in the SG&A line items?

Charlie Cao (CFO)

We did have some, you know, roughly I think maybe $20 million-$25 million one-off pool for some, you know, previous litigation regarding one of the module contracts long time ago. So it's one time. I think it's in the other operating expenses, not in the G&A expenses, but we did have some, you know, just $20 million, you know, one-off charge.

Rajiv Chaudhri (Portfolio Manager)

Okay. And, going back to the growth margin, I'm trying to understand what your cost of polysilicon was for the quarter. And, the number I'm coming up with is around $16 on average, $16 per kilo, on average, blend between Chinese polysilicon and US polysilicon. Is that a fair estimate?

Charlie Cao (CFO)

Rajiv, we don't disclose the number, but you can look at the index and the China poly, roughly, I think, in the range of the 60 RMB per kg to 90 per kg. The polysilicon out of China is kind of, I think, 2 or 2.5 times, you know, compared to China. It's a different, you know, price, you know, mechanism.

Rajiv Chaudhri (Portfolio Manager)

Yeah, actually, DQ Energy just reported that their ASP for the quarter was actually $7.60. So that is actually closer to 50 RMB per kg.

Charlie Cao (CFO)

Yeah, you're right. You're right, you can... You know, there's a public index, right, for the poly, and

Rajiv Chaudhri (Portfolio Manager)

Right.

Charlie Cao (CFO)

You can do the calculations. But think about, we have the inventory turnover days is roughly 60-80 days. We have production lead times, right? You need to think about the time difference and to do the calculations. But you can do the calculation based on the trend, but the detail, you know, the numbers, I think we have the supply chain advantage compared to market price, but we have different mix and for the U.S. market, which is the, you know, the market out of U.S., it's the poly price is different.

Rajiv Chaudhri (Portfolio Manager)

Charlie, is it fair to say that because you have 60-80 days of inventory, that your poly prices are always lagging the spot market by 60-80 days?

Charlie Cao (CFO)

Yeah, you can, yeah, you can do the, you know, estimation based on that.

Rajiv Chaudhri (Portfolio Manager)

Okay. My other question is about competition. At the prices where modules are right now, what percentage of the industry players between tier two and tier three do you think are losing money right now? And what percentage of these companies are cutting back on their production because the pricing is below their cash costs?

Charlie Cao (CFO)

Yeah, well, you know, for the, we have seen this situations in recent, I think, months, for different utilization rates, for different players in the industries. For the tier one integrated companies, like Jinko, we have, you know, order visibilities, a very good, you know, mix for the N, N type versus P type, and we have good management cost. So for some orders with relatively low price, we are able to continue to deliver, I think, the, reasonable margin or gross profitabilities. But for the tier two, tier three players, even some, you know, let's say they are not integrated, they are not international companies, they are reducing their utilization rate. So it's, it's going to be different. It's going to be different in their situations and for different companies.

I think in the tier one, top-tier company will take the advantage to get more market shares.

Rajiv Chaudhri (Portfolio Manager)

Right. Right. Do you see that happening already, that Tier 3 companies are cutting back their production right now?

Charlie Cao (CFO)

Yeah, they are. They are doing, you know, the utilization for tier two, tier three. They're, you know, they're lowering their utilization rate.

Rajiv Chaudhri (Portfolio Manager)

So, it is reasonable to think that your ASPs are going to be much higher than the spot market prices, because you are selling into the utility market, which is more contract-driven, and a lot of the spot prices that tier three companies are selling into really are fire sales?

Charlie Cao (CFO)

It's fair to say that, but, you know, different company have different mix to different countries and different mix to the DG versus utilities and the different product mix. So I think, you know, for Jinko, we are confident, and we are combined together, you know, our module price is relatively higher than the market price. It's not market-based, it's full price, you'll see. You saw from the, you know, the public, you know, websites.

Rajiv Chaudhri (Portfolio Manager)

Charlie, can you also talk about what was the level of depreciation in the third quarter and the EBITDA for the third quarter?

Charlie Cao (CFO)

I think we have disclosed the EBITDA, so, yeah, and including the details breakdown. And you can, you can look at, I think, from PBT and, you know. You can look at the PBT, and we have detailed numbers. It's roughly $600 million. You can look at the details and including the calculation.

Rajiv Chaudhri (Portfolio Manager)

I see. Okay. Sorry, I have not had a chance to look at that. Can you also talk about what percentage of the market, not Jinko, but the market this year will be TOPCon, and what the percentage will be next year in terms of, you know, how much TOPCon will be produced by the other companies?

Charlie Cao (CFO)

This is the, you know, the first year for N-type TOPCon to penetrate the market. We think that the overall market size is 25% this year, but we deliver 60%. Next year, it's possible N-type will, you know, achieve 60%-70%, but we are able to achieve, I think, over 85%, you know.

Rajiv Chaudhri (Portfolio Manager)

So, if the market this year is over 400 gigawatts, you're saying that TOPCon this year is over 100 gigawatts?

Charlie Cao (CFO)

Uh, this-

Gener Miao (CMO)

Let me take it as the last follow-up. So roughly, we estimate the total industry output for TOPCon will in this year be somewhere around 100-110 GW. And so across which Jinko will contribute around 70 GW-ish. So next year, the number definitely will be more than doubled for the total industries. We are expecting somewhere around 400 GW, but definitely Jinko will take a main part of it, but definitely not as big as this year.

Rajiv Chaudhri (Portfolio Manager)

Right. Okay.

Gener Miao (CMO)

Okay. Thank you.

Rajiv Chaudhri (Portfolio Manager)

Finally, one last question on the interest-bearing debt. You made a point that the interest-bearing debt came down in the third quarter. Is that something that we should expect will continue in Q3, Q4, and Q1?

Speaker 10

Yeah, we will gradually decrease this, the debt, because our earnings increased gradually, yeah.

Charlie Cao (CFO)

Yeah. The operating cash flow for each company, we generated, I, I think, very good numbers this year. For the first nine months, it's around CNY 11 billion operating cash flows. That's significant, you know, improvement. So for the leverage, the total debts, we're expecting to continue to, let's say, decrease step by step.

Rajiv Chaudhri (Portfolio Manager)

Great. Thank you, and congratulations again.

Operator (participant)

Please press star and then one to ask a question. Again, it is star and then one to join the question queue. Our next question today will come from Alan Lau of Jefferies. Please go ahead.

Alan Lau (Managing Director and Senior Equity Research Analyst)

Thank you. So first of all, congratulations to the company in the very impressive results in 3Q, and despite other peers are actually having declining profits quarter over quarter. So some of the questions on the details as to whether... How is the U.S. shipment situation? So how much has the company shipped to the U.S., and what is the view on 4Q shipment to the U.S.? And has the customs inspection improved, et cetera? Thanks.

Charlie Cao (CFO)

Yeah, we just talked about the earning contribution from the U.S. for Jinko in third quarter. You know, we have smooth, you know, the clearance, let's say, with CBP, starting from July. In Q4, we delivered roughly 1.3, 1.4 gigawatts, and we're expecting stable, you know, shipments in Q4 versus Q3. Because, you know, a lot of inventory was, was, you know, was detained, you know, in the first half year, we shipped a relatively high volume in third quarter. In fourth quarter, our production, you know, returned to normal, planning, you know, normal standards, and we ship around the similar numbers.

But contribution is, earnings, earnings contribution will quarter by quarter improve. Third quarter, the contribution is not so big, not so big because of the inventory was, you know, produced six or nine months ago. The cost, storage cost, production cost is relatively higher. But, next year, we are expecting with strong earnings, you know, from U.S. segments.

Alan Lau (Managing Director and Senior Equity Research Analyst)

Is it, so, what you mean is because you have locked in the module price through the contract, and then as the input price is now declining, so you expect U.S. market will actually be improving a lot from Jinko perspective, right?

Charlie Cao (CFO)

Yeah, it's a, you know, if you look at the market, the market, the module stays high, right? Because of the, it's a, it was only can be supplied from the capacity out of China. There is a new UFLPA issues, you know, for the industry in the last few months. And for Jinko specifically, because our inventory, you know, was produced long time ago, and we get the process very smooth and starting from July. And the older, relatively older inventory, the cost is relatively higher. So earning gross margin contribution is more for third quarter, but going forward, we expect to, you know, the earning contribution will be improved more quickly quarter by quarter. And next year, in Q1, we'll be in a very good position.

Alan Lau (Managing Director and Senior Equity Research Analyst)

I think that is very positive point that a lot of investors have not fully appreciated this. Thanks a lot for the clarity on this. And then, my next question is, so everyone has been talking about the inventory in Europe. So how do we see it? And around how many days or months of inventory we have in Europe?

Gener Miao (CMO)

Yeah. So approximately in Europe market, that's our main DG-based market. So in that kind of a segment, in my opinion, that's normally around 2

months of the local inventory plus the logistic time, maybe 1 month to 1-1.5 months should be reasonable. So total together, if you're taking from the manufacturer point of view, on average, it should take 3-3.5 months of the volumes. That's the, let's say, normal or let's say, the standards inventories across everyone. If you're looking to the seller's point or distributor's point, you know, that's normally around approximately 2 months of the inventory.

Alan Lau (Managing Director and Senior Equity Research Analyst)

Understood. So you think the, at current level is actually at two months, and it is actually-

Gener Miao (CMO)

No, I'm-

Alan Lau (Managing Director and Senior Equity Research Analyst)

-uh, normal?

Gener Miao (CMO)

No.

Alan Lau (Managing Director and Senior Equity Research Analyst)

Right?

Gener Miao (CMO)

No, no, no. I'm saying for a DG-based, distributor-generated, driven market, that's the market standard, let's say, right? As a current-

Alan Lau (Managing Director and Senior Equity Research Analyst)

Definitely.

Gener Miao (CMO)

Status, especially you mentioned Europe, I think, you know that because of the prices falling, so the end customer is having the hesitation to wait until the market price come into the at the lower level. So that slow down the, let's say, the sales volume at the end customer side. That's the reason why from the channels or the inventories point of view, you know, the inventory is higher than the, let's say, normal situation. However, in my opinion, the end customer, the end market and demand is still there, but it's just to create some hesitations. But I believe it takes maybe one, two more months time to observe, digest all the inventories across the whole channel, but the demand is still robust in Europe.

Alan Lau (Managing Director and Senior Equity Research Analyst)

Understood. Could you share your view on the utility side of things in Europe? Because I think people have been focusing a lot on DG, DG market in Europe. Actually, inventory is mostly related to DG, but how about the utility market in Europe?

Gener Miao (CMO)

In utility segment, not only in Europe, but across the whole globe, there's barely any inventories, a real inventory, right? Most of the inventory under the utility segment is more, you know, build, wait until the goods deliver on site, but it's not a free inventory you can redirect to sell to others, right? That's why even accounting basis, it is defined as inventory, but from a sales point of view, it is not available to sell, right? It's just the way to do the right timing or it's on the way to the destinations, right? That's why not only Europe, but across the whole world, that's more or less the situation in utility. Even there's some inventory on the accounting basis, but it should not be risky too much.

Alan Lau (Managing Director and Senior Equity Research Analyst)

Yeah, I see your point. I think I would like to know how is the demand in utility side of things like in the U.S. or in Europe as well? Because will the decline in module prices stimulate more installation in the utility side? And how does that compensate with-

Gener Miao (CMO)

Yeah.

Alan Lau (Managing Director and Senior Equity Research Analyst)

Yeah, with the interest rate?

Gener Miao (CMO)

Yeah, that's. Yeah, so, firstly, it's the demand side. Definitely, we see there's some more attractions for the end customer to continue to develop more solar projects in utility segment, because IRR is becoming more and more attractive. The yield is higher and higher. So however, you know, it's a cycle, right? So when you develop a project, it doesn't happen at day one. It takes 12 months, 18 months, sometimes even 24 months, even more, to have all this, you know, to finish the whole development cycle, even, you know, early financing to close the financing part, to be ready to place orders to the

module side. So it takes pretty long cycle.

My simple answer is yes, we see a very promising future, both US and Europe, but it takes some time to have, you know, all those pipelines released to become a real order for the manufacturer, like Jinko. Secondly, your question is regarding... Sorry, I forgot your second question.

Alan Lau (Managing Director and Senior Equity Research Analyst)

Yeah. In how, how does that compensate the increase in interest rate? Because in some of the earnings call in the U.S., yeah, because banks like JPMorgan and Bank of America are saying that the increasing interest rate and also-

Gener Miao (CMO)

Yeah.

Alan Lau (Managing Director and Senior Equity Research Analyst)

Yeah, and the-

Gener Miao (CMO)

Thank you. The interest rate-

Alan Lau (Managing Director and Senior Equity Research Analyst)

Yeah.

Gener Miao (CMO)

I randomly check with some customers. I won't say that's 100%, but I checked some key clients of us, and most of them, their feedback is positive. Because for the existing projects, even if their financial is closed, normally they secure a fixed interest rate across the whole life cycle of their projects, investment cycles. For them, it's safe. Even with the module price coming down, they have more, let's say, returns for their investments, or the interest rate doesn't hurt that part.

For the ongoing projects, because even the interest rate is higher, and most of the clients can pass the majority of the interest rate higher interest rate cost to the end customers to the PPA customers, who sign a more attractive PPA price than before. But definitely that won't be 100%, but that's my... I share that point from the customer feedback.

Alan Lau (Managing Director and Senior Equity Research Analyst)

Thank you. Thank you. That's definitely part of the, some of the cases, may, may happen. Thank you. I think, yeah, my final question will be in relation to what is your view on... What is the progress of your U.S. expansion capacity? What is your view as of now as to the chance of getting the IRA subsidies? There has been quite a lot of market chapters as to there are some lobbying happening in Washington, et cetera, to target against Chinese players. Would like to know, do you have an update on those?

Gener Miao (CMO)

No, we don't have a clear... We are waiting for this, detailed guidance, official detailed guidance release as well. I think it's still not finalized yet, we are waiting for that as well. For the U.S. market, we believe that's a very promising market. We're still holding our bullish positions on that, and we are trying to do whatever we can to serve the U.S. market. We will take more actions once all these details get released.

Alan Lau (Managing Director and Senior Equity Research Analyst)

So, your plan will complete by the end of this year, right?

Gener Miao (CMO)

We will see. We will see. But the previous plans stick to what we have, and if there are, if your question is regarding whether we have new plans, we have to wait until the detailed, guidance release.

Alan Lau (Managing Director and Senior Equity Research Analyst)

Okay. Okay, so your, your plant in Jacksonville, your 1 GW plant, will be completed on time, right? Disregarding of these guidelines.

Gener Miao (CMO)

Yes, yes.

Alan Lau (Managing Director and Senior Equity Research Analyst)

Okay. Thank you. Thanks a lot.

Operator (participant)

At this time, we will conclude our question and answer session. For any additional questions, please contact ir@jinkosolar.com. The conference has now concluded. We thank you for attending today's presentation, and you may now disconnect your lines.