JinkoSolar - Q2 2022 Transcript

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Transcript

Management

Stella Wang - *Investor Relations*

Xiande Li - *Chairman of the Board of Directors & Chief Executive Officer*

Gener Miao - *Vice President, Global Sales & Marketing, JinkoSolar Co., Ltd.*

Pan Li - *Chief Financial Officer*

Charlie Cao - *Director & Chief Financial Officer, JinkoSolar Co., Ltd.*

Participants

Lawrence Sun - *ROTH Capital Partners - Analyst*

Alan Lau - *Jefferies - Analyst*

Rajiv Chaudhri - *Sunsara Capital - Analyst*

Gary Zhou - *Credit Suisse - Analyst*

Grace Zhou - *Goldman Sachs - Analyst*

Presentation

Operator

Hello, ladies and gentlemen. Thank you for standing by for JinkoSolar Holding Co. Limited Second Quarter 2022 Earnings Conference Call. [Operator Instructions] 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. Over to you.

Stella Wang - *Investor Relations*

Thank you, operator. Thank you, everyone, for joining us today for JinkoSolar's Second 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. Xiande, Chairman of the Board of Directors and Chief Executive Officer of JinkoSolar Holding Co., Ltd; Mr. Gener Miao, Chief Marketing Officer of JinkoSolar Co., Ltd; Mr. Pan Li, Chief Financial Officer of JinkoSolar Holding Co., Ltd; and Mr. Charlie Cao, Chief Financial Officer of JinkoSolar Co., Ltd.

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 US 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 speak in Mandarin, and I will translate his comments into English. Please go ahead, Mr. Li.

Xiande Li - *Chairman of the Board of Directors & Chief Executive Officer*

[Foreign Speech]

Stella Wang - *Investor Relations*

We had a good quarter and a difficult market conditions. Total solar shipments in the second quarter were 10.5 gigawatts. Module shipments in the second quarter were 10.2 gigawatts up roughly 27% sequentially, and total revenues were USD2.81 billion, up 27.6% sequentially. This upstream costs continue to rise. We actively worked to control internal costs through technical advancements and process improvement, which partially offset the impact of higher upstream costs on our profitability. Gross margin was 14.7%, relatively flat compared with the first quarter. Excluding the impact of the convertible senior notes and the share-based compensation expenses, adjusted net income in the second quarter was USD55 million, improving sequentially.

Xiande Li - *Chairman of the Board of Directors & Chief Executive Officer*

[Foreign Speech]

Stella Wang - *Investor Relations*

Driven by accelerating energy condition in several countries and the business as well as the energy supply prices caused by the Russia-Ukraine conflict. Demand for solar products has exploded in many markets. According to the statistics and analysis of China's Platform's Export Data by InfoLink, China's export of modules in the first half of the year reached 8.7 gigawatts, a year-over-year increase of around 2%. Exports to Europe reached a total of 42.4 gigawatts of PV modules, a year-over-year increase of 137%. Demand in the China market was also strong during the first half, Solar PV installations in China reached 7.9 gigawatts a year-over-year increase of 136%.

Given this better-than-expected growth in demand release, the polysilicon production came up short and was further aggravated by a newer maintenance programs and power rationing and anti-pandemic restrictions in certain regions of China. As a result, polysilicon prices rose continuously and reached a recent high of RMB 310 per kilogram, sending module prices higher. Regular discussions with our clients indicated that some of them found higher module prices to negatively affect project yields and, as a result, some demand slowed down. We believe polysilicon prices will continue to increase and reach the reach their peak in the third quarter. Then as polysilicon production ramps up in the fourth quarter, polysilicon price increases are expected to moderate, driving a recovery of downstream demand.

Xiande Li - *Chairman of the Board of Directors & Chief Executive Officer*

[Foreign Speech]

Stella Wang - *Investor Relations*

Recently, the local government of Sichuan province has imposed the province wide power rationing measures and the production capacity of our manufacturing facilities in Sichuan province has been temporarily affected. We are currently unable to evaluate the extent to which our business operations and financial performance for full year 2022 will be affected by the power rationing measures in Sichuan province. As it remains uncertain how long the power rationing measures will persist and when our manufacturing facilities can resume for our production.

We actively monitoring the situation and has implemented various measures to minimize the adverse impact from the power rationing on our business operations and financial performance, including, but not limited to, having our other manufacturing facilities assume more production and actively communicating with the local government about power supply-related matters. We also flexibly adjusted module production volume and shipment plan in order to meet delivery to our clients.

Xiande Li - *Chairman of the Board of Directors & Chief Executive Officer*

[Foreign Speech]

Stella Wang - *Investor Relations*

In the second quarter, the proportion of large size capacity increased sequentially, further improving our integrated structure. The 16 gigawatts of TOPCon cell capacity, that started production at the beginning of the year, reached full production at the end of the second quarter with the mass production efficiency of over 24.8% and yield rates and integrated costs in line with our expectations. We recently started production at an additional 8 gigawatts of N-type cell capacity in Hefei and commenced the construction of another production project with 11 gigawatts of N-type cell capacity in Haining. The increase in our in-house high-efficient capacity ratio will continuously improve our competitiveness.

Xiande Li - *Chairman of the Board of Directors & Chief Executive Officer*

[Foreign Speech]

Stella Wang - *Investor Relations*

As an industry pioneer embracing the TOPCon technology, we have recently achieved the key technology breakthroughs in the currently selected TOPCon technology roles that we believe we have created an entry barrier related to core process and technology with industry-leading mass production efficiency, yield rate and cost levels. We believe TOPCon is currently the high-efficiency cell with the greatest value for commercialization, mass production in the post-pandemic era and has relatively ample development opportunities. We will continue to maintain our leading position through technical iterations.

Xiande Li - *Chairman of the Board of Directors & Chief Executive Officer*

[Foreign Speech]

Stella Wang - *Investor Relations*

Our N-type modules continue to be well received by global customers. And so far, we have high visibility in our order books. Compared with P-type products, N-type products command a competitive premium as a result of improved technical parameters and additional power generation gain. We are confident that we will complete our 4-year N-type shipment goal. In addition, considering the release of new capacity in 2023 and the increase in

marketing penetration, we expect that the proportion of N-type shipments to further increase.

Xiande Li - *Chairman of the Board of Directors & Chief Executive Officer*

[Foreign Speech]

Stella Wang - *Investor Relations*

In view of the current and expected supply chain and market conditions, we have adjusted our capacity expansion phase for wafer cell and module for the rest of this year. And as a result, we are currently expecting the annual production capacity for mono wafer cells and modules to reach 55 and 65 gigawatts, respectively, by the end of 2022.

Xiande Li - *Chairman of the Board of Directors & Chief Executive Officer*

[Foreign Speech]

Stella Wang - *Investor Relations*

Before turning over to Gener, I would like to go over our guidance for the first quarter of 2022. We expected that the total shipments to be in the range of 9 to 10 gigawatts for the third quarter this year and we reiterate our total shipments of 35 to 40 gigawatts for the full year of 2022.

Gener Miao - *Vice President, Global Sales & Marketing, JinkoSolar Co., Ltd.*

Thank you, Mr. Li.

Total solar shipment in second quarter was 10.5 gigawatts, of which over 97% were module shipments, up nearly 27% quarter-over-quarter and double year-over-year. Since the Russia-Ukraine conflict, global energy transformation accelerated and showed strong growth momentum, especially in Europe. In second quarter, our shipments in European market grew steadily and the proportion of shipments in Europe remains high, reaching 25% to 30% range. In China, the distributed generation business demonstrated strong momentum. Newly added installation in China in the first half grew remarkably by 136% year-over-year.

In second quarter, our shipment to the Chinese market grew exceptionally year-over-year, more than doubling sequentially. Our shipments to emerging markets also registered stable sequential growth. While demand was strong, we also noticed that some potential challenges. For example, demand in some European countries for the second half is expected to slow down sequentially as a result of the problems affecting the logistics chain. And some of our domestic clients are waiting to fully access the impact from continuous rise in supply chain costs. In addition, the execution of some large-scale utility projects might be delayed to 2023 due to issues with grid connection and power transmission. Taking these challenges into considerations, we have been adjusting our geo-positioning basis as well as our sales and project timing strategy while keeping in close communication with our clients.

So far, both our contract signing and the execution are maintained at satisfactory levels. In US market, tightened supply chain tracking through dampened demand in the short term. In the long run, with the President Biden's express executive order to spur clean energy manufacturing and recently passed the inflation reduction tax of 2022, which includes booked USD369 billion in climate and energy-related funding. We expect the demand remains positive. In order to improve our resilience to risk, we will continue to closely monitor market and the quality developments, adjust the production and the marketing strategies accordingly, and to further strengthen our overseas supply chain and the global sales and marketing network. The proportion of large-sized product shipments gradually increased to nearly 90% in the second quarter, further optimizing our product structure. Shipments through distribution channels, where growth in demand is strong, accounted for nearly 50%, with shipments through distribution channels in European and some APAC market accounting for more than half.

Tiger Neo modules continue to be acclaimed by clients all over the world with high order book visibility and pricing premiums in line with our expectations. We estimate that Tiger Neo shipments for the full year of 2022 will reach approximately 10 gigawatts. The transformation to clean energy is now resettable trend and with the need for energy security. Global PV demand is expected to achieve rapid growth this year. Nevertheless, some markets are experiencing temporary pain this year due to the invisible short-term volatility that comes with rapid growth. As the market continues to adjust, we remain optimistic about global PV development. We do provide a various view of materials and variance based on Tiger Neo to cater to diversified client needs in different countries. We expected to achieve shipment growth that exceed market growth, further increasing our competitiveness in global markets.

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

Pan Li - *Chief Financial Officer*

Thank you, Gener.

For second quarter of 2022, both solar module shipments and total revenue increased significantly year-over-year. Nevertheless, gross margin relatively flat with first quarter and decreased the year-over-year due - primarily. Due to an increase in the material cost of solar modules due to significant increase in the company's stock price in the second quarter, we recognized a loss from a change in fair value of the convertible senior notes of USD80 million in this second quarter. Excluding the impact of the convertible senior notes and the share-based compensation expenses, adjusted net income attributable to the JinkoSolar Holding Co., Ltd. ordinary shareholders in the second quarter was USD55 million, improving sequentially. Let me go into more details.

Total revenue was $2.8 billion, at about 27 percentage sequentially and a significant increase of 137 percentage year-on-year. Gross margin was 14.7 percentage compared with 15.1 percentage in the first quarter and 17.1 percentage in the second quarter last year.

Total operating expenses were $457 million, up 40 percentage sequentially. The increase is - will mainly attributed to an increase in shipping costs for solar modules, an increase in disposal and impairment loss on property, plant and equipment, and an increase in share-based compensation expenses. Total operating expenses accounted for about 16 percentage of total revenues in the second quarter, up from about 15 percentage in the first quarter and 13 percentage in the second quarter last year.

EBITDA was $186 million compared with $126 million in the first quarter this year. Excluding the impact from a change in fair value of the notes and the share-based compensation expenses, adjusted net income attributed to the JinkoSolar Holding Co., Ltd. ordinary shareholders was $55 million, improving sequentially. Due to the continued appreciation of the US dollar against RMB, we realized a net foreign exchange gain, including change in fair value of foreign exchange derivatives of approximately $34 million in the second quarter this year compared with a net gain of $12 million in the first quarter.

Moving on to the balance sheet. At the end of the second quarter, the company had cash and cash equivalents of $2.15 billion, slightly down from $2.66 billion at the end of the first quarter and up from $1 billion at the end of the second quarter last year. AR turnover days were 69 days in the second quarter compared with 66 days in the first quarter. Inventory turnover days were 104 days in the second quarter compared with 117 days in the first quarter. Total debt was $3.8 billion at the end of the second quarter, down sequentially from $4.3 billion. Net debt was $1.7 billion compared with $1.6 billion at the end of the first quarter this year.

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

Question & Answers

Operator

[Operator Instructions] First question of today we have from Lawrence Sun from ROTH Capital Partners.

Lawrence Sun - *ROTH Capital Partners - Analyst*

This is Lawrence Sun on behalf of Philip Shen. I was wondering if we could get some more color on the Sichuan power shutoff. Specifically, from what we gathered, JinkoSolar is about 18 gigawatts of new capacity in Sichuan? It's about like half of your total capacity. So given that you've shut down for about 10 days, would that be an estimated 5% of Q3 in grid capacity offline so far?

Charlie Cao - *Director & Chief Financial Officer, JinkoSolar Co., Ltd.*

Yes. So thinking about the impact from the China Sichuan province power cuts, the impact, right, for the full production from our factories in - for the wafers, and it's a progressive impact, right, for Sichuan province. And we reach it because of the, I think, the drought compared to power cuts. And it did have, I think the 10 days to 15 days impact for our wafer capacities and - which is roughly 25 gigawatts and - 25 gigawatts for annual capacities. So converting into monthly production, it's 2 gigawatts a month. So we estimate a rough - is around 700 megawatts impact and - for the wafer. But we have global - let's say, we have 4 factories for the wafer in different ratings, including 3 factories in China. So we try to maximize the production from our wafer capacities, our ratings. So from management teams, we try to minimize the impact and they did have some impact from the production side and our cost side in the third quarter.

Lawrence Sun - *ROTH Capital Partners - Analyst*

Okay. So - I believe the impact to cost side - would there be any impact from purchase of external wafers in order to meet your shipment guidance? If so -

Charlie Cao - *Director & Chief Financial Officer, JinkoSolar Co., Ltd.*

Yes. I think no because - if you look at our guidance, which is 9 gigawatts to 10 gigawatts, we have taken into - this situation in consideration. So it's - we don't have plan to purchase the wafer from third party.

Lawrence Sun - *ROTH Capital Partners - Analyst*

Okay. So would it be safe to say the leading indicator for recovery in TOPCon is the recovery water levels? You guys are mostly driven by hydro power, right?

Charlie Cao - *Director & Chief Financial Officer, JinkoSolar Co., Ltd.*

Yes. It's already in recovery stage standards. And it's getting better, particularly in addition to this. And our capacity are expected to - basically for capacity in the next couple of days.

Lawrence Sun - *ROTH Capital Partners - Analyst*

Okay. That's really great to hear. I had another set of questions on - you previously said - earlier in the call, you touched on it, tightened supply chain tracing, does that have to do with the US LPA? And if it is related to the US LPA, could you please help us quantify the number of gigawatts that you've maybe shifted from shipping into the US towards you or other countries?

Pan Li - *Chief Financial Officer*

Yes, I think we are preparing this traceability topic not only for US market, but also for other markets as well. We have recent months or quarters, we have intensively getting inquiry from different countries or different customer about traceability topics, right? That's why we believe in the future, we have to prepare the capability of creating traceability of the product, including the polysilicon and some other key material has a necessary step for the future, right? I think that includes the US market. For US market itself, we are still working hard together with the CVP and our consultant to make truce, right? So currently, the customer clearance is not that most as usual, especially under US LPA. So we have to work on lots of details to make it happen, and we are working hard on it.

Lawrence Sun - *ROTH Capital Partners - Analyst*

Okay. Could I just get a little bit more on the - you said it's not smooth, right? So for what type of modules is it not smooth? Is it German poly, Southeast Asian modules; China poly, Southeast Asian modules; US poly, Southeast Asian modules; or all? Just a little bit more color on that.

Pan Li - *Chief Financial Officer*

Well let's say, based on what our knowledge - based on our knowledge and awareness, I don't see there's any difference between China polysilicon or European polysilicon or American polysilicon, right? So we have to provide the right documents to meet the requirement from CBP officials.

Lawrence Sun - *ROTH Capital Partners - Analyst*

Okay. One last question before I hand it off. What's the utilization rate of your Southeast Asian facilities? Can you keep it at around the same level by shifting module shipments to other countries? And what's the rough, like, mix, please?

Pan Li - *Chief Financial Officer*

Yes. Obviously, so we have to look into the different part across the whole value chain, right? For the upper stream wise like the wafer and cell, I think, is in short term supply there seems a pull of demand, not only for US market, but also for the other market, right? And for the module side, since it's targeting the US market, we have to be very careful to - about the traceabilities. We won't ship or we won't manufacture the product if we cannot guarantee the traceabilities in the right place.

Operator

[Operator Instructions] Next, we have Alan from Jefferies.

Alan Lau - *Jefferies - Analyst*

So my first question is about - what is the expectation or the current situation of the TOPCon products? And what is the premium out there like? Is it USD0.01 or USD0.015 compared to PERC?

Pan Li - *Chief Financial Officer*

Yes. Firstly, about the product itself. I think the anti-TOPCon product that we call Tiger Neo is highly competitive compared with the standard PERC product, right? I think it's based on the 72 pieces product. Tiger Neo is almost 20-watt peak higher than the standard product, which also take the other features like the degradation and et cetera. So definitely, it's generating extra benefit for the customer end and bring additional value to the project side or to the installations of solar system. That's why we kept getting the premium from the market. Currently, the premium we are expecting or we are looking at is around $0.01 to $0.015 range. Sometimes it's up to $0.02, but let's say, the broader range, it will be $0.01 to $0.015.

Alan Lau - *Jefferies - Analyst*

And so it's actually pretty decent. So when it comes to production cost perspective, so - have we already achieved cost parity versus PERC in terms of the production cost of TOPCon? And what is the current yield like right now?

Charlie Cao - *Director & Chief Financial Officer, JinkoSolar Co., Ltd.*

In the second quarter, the TOPCon capacity is in the right hand stage and our R&D and the operational team is working very hard to improve the output efficiencies and - as well as the cost. And right now, the integrated cost of the TOPCon, the modules, compared to the traditional P-type modules, it's - the difference is within the range of lower than RMB 0.05. And our plan is we continue to improve the cost structures and we target by the end of this year, and the TOPCon integrated cost could reach to the same level of the PERC by the end of this year.

Alan Lau - *Jefferies - Analyst*

Understood. So that will - in fact, it means that you will have same cost and then you will make an extra $0.01 or $0.015 of net profit on top of PERC, right?

Charlie Cao - *Director & Chief Financial Officer, JinkoSolar Co., Ltd.*

Yes, you're right. We did - when we see the TOPCon modules, we did have the premium and - Gener mentioned. And the cost structure, we need to work continuously and to improve, and it's good on the track. And we expect and we - our target is by the end of this year, it could be reached the same level.

Alan Lau - *Jefferies - Analyst*

Understood. And just another question is about - what is your view on one of the major polysilicon player who is entering into the module space? So this is one of the hottest topics in the market. So what is your view on this?

Charlie Cao - *Director & Chief Financial Officer, JinkoSolar Co., Ltd.*

And - I think there is a very big market. Even for the existing market, the market goes straight in the next decades. And - if you look at the top 5 companies, module companies, the market share now is 60%, 65%. There are a lot of Tier 2, 3 companies. They are taking 30%, 35% market share. And if you look at the growth rate, we expect 30% in the next couple of years. So we believe this is a lot of potential room for the, let's say, the big players to penetrate the markets. And - but the module, the business is not purely on production side, and we built this business for over 10 years. It is more likely in a global manufacturing and global marketing, sales, bankability and strong sales relationship with customers. So we - what we are doing is we continue to solidify our strong branding, marketing and product competitiveness.

Alan Lau - *Jefferies - Analyst*

So - also like to know the management has also mentioned the Inflation Reduction Act in the US. And one of the key incentives in the ages of course is the subsidies of the any installation. But also there are product subsidies on building factories in the US. So would like to know, is JinkoSolar is considering further expansion into US in terms of factories?

Charlie Cao - *Director & Chief Financial Officer, JinkoSolar Co., Ltd.*

Yes. I think it's a very hot topic. And the IRA, the - to be effective in the US starting from next year, and it did provide a lot of subsidies from manufacturing in the US. And we already had a very small module capacity, it's 400 megawatts, which will be ineligible for the incentive. And for the expansion topic, and we are in the early stage to further evaluations, but I think it's - we expect there will be more local US-based local capacities in the next couple of years, given the strong support from the IRA policies. But we're at the early stage of evaluations.

Alan Lau - *Jefferies - Analyst*

Understood. So I think my last question is, what is the - your outlook on the solar installation in this year and next year, and - probably in 2022 through 2025, the global installation and a brief breakdown if you may provide.

Charlie Cao - *Director & Chief Financial Officer, JinkoSolar Co., Ltd.*

Yes. We estimate roughly 250 megawatts - or gigawatts installations this year. And next year, given the bottleneck of the polysilicon will be gone, and we expect a strong growth in China, US as well as the European market, and we estimate roughly 25% 30% the market growth next year.

Alan Lau - *Jefferies - Analyst*

Understood. So that's more than 300 gigawatts? Probably we are talking about like 300 to 320 gigawatts, right?

Charlie Cao - *Director & Chief Financial Officer, JinkoSolar Co., Ltd.*

Yes. In general, I think we are optimistic, not because the polysilicon is at a very high level. It did delay, particularly the utility scale projects in China, and as well as in other regions. So given the next year, more volume input, and we expect the installation will be at a very quick speed.

Alan Lau - *Jefferies - Analyst*

So which the company will benefit from the strong demand and also the upside of the TOPCon product, and I will leave to some of your other investors.

Operator

[Operator Instructions] We have question from Rajiv Chaudhri from Sunsara Capital.

Rajiv Chaudhri - *Sunsara Capital - Analyst*

Actually, I have a few questions. The first one is just on the model. As I look at the unit shipments that you had in the second quarter and compare them to the unit shipments in the first quarter, it seems that your average price realized per module went down quarter-to-quarter and quite significantly by almost - by about $0.01 or maybe more than $0.01. Can you explain why that would be happening in an environment where prices in general were stable or up?

Gener Miao - *Vice President, Global Sales & Marketing, JinkoSolar Co., Ltd.*

Sorry, are you asking about the Q1, Q2 ASP changes?

Rajiv Chaudhri - *Sunsara Capital - Analyst*

Yes.

Gener Miao - *Vice President, Global Sales & Marketing, JinkoSolar Co., Ltd.*

I think according to our data, the Q1, Q2 price are pretty close for - Q2 average prices has a very tiny job compared with Q1 ASPs, mainly is because in some historical orders, we have to execute it, which is lower than market price. The rest are pretty normal. So - in our view, we believe the quarterly ASP are staying in market condition. There's no big changes on that.

Rajiv Chaudhri - *Sunsara Capital - Analyst*

Yes. I mean, just based on the revenues and the unit shipments, it looked like the average selling price in the first quarter was around $0.284 and the second quarter was around $0.272. So that looks like a pretty decent drop. But you are saying that some of it was because of legacy shipments at a lower price? Are those legacy shipments behind you or these - sorry.

Gener Miao - *Vice President, Global Sales & Marketing, JinkoSolar Co., Ltd.*

No. Let me correct you on this. So the revenues including many factors, right, not only module revenues. Even module revenues are the majority of it, but we're still including other parts included in the revenue. That's why you cannot use the revenue to divide the shipment to have ASPs, that's not accurate enough.

Pan Li - *Chief Financial Officer*

I see I think there's an additional factor is maybe the RMB depreciation and you use the US dollar, there's maybe reflecting as well as second quarter, China is taking more portion. But again, the ASP is stable and the second quarter is slightly a little bit down, a very small.

Rajiv Chaudhri - *Sunsara Capital - Analyst*

Yes. Okay. Sorry, I understand. So along the same lines, can you give us some feeling for what the ASP will be in the third quarter and the fourth quarter for the year?

Gener Miao - *Vice President, Global Sales & Marketing, JinkoSolar Co., Ltd.*

Yes. For the third quarter, the ASP will be as stable as the first quarter and second quarter. So the fourth quarter, even it has not been fully closed, but

we are still closely monitoring the market situation, but we are expecting markets prices as upward.

Rajiv Chaudhri - *Sunsara Capital - Analyst*

You're expecting fourth quarter to be flat also?

Gener Miao - *Vice President, Global Sales & Marketing, JinkoSolar Co., Ltd.*

Yes, more or less flat. But since it's still far away from the fourth quarter, so there are still unknown factors to factor in so we don't have any disclosure on the fourth quarter ASPs. But my personal expectation will be the first quarter - the fourth quarter ASP, the market price will be more or less stable compared with Q3.

Rajiv Chaudhri - *Sunsara Capital - Analyst*

And another question is on the stock-based compensation. Can you quantify roughly how much it is per quarter? And what it was in the second quarter? And how is it expected to trend in the third and fourth quarters?

Pan Li - *Chief Financial Officer*

Okay. The stock-based compensation, we - the company granted in the first quarter, second quarter. It's a one-off item. And given in the future, we expect the amount will be very small. And for the second quarter, the exact amount, you can calculate because we have disclosed adjusted net income which is $55 million. And including the convertible bonds and stock-based compensation, I think it's roughly, I think, $20 million or $25 million, but you can do the calculation.

Rajiv Chaudhri - *Sunsara Capital - Analyst*

So $20 million, $25 million. And you're saying that in the third and fourth quarter, that number is going to go down?

Pan Li - *Chief Financial Officer*

Yes, will - very small - will be very small in future. Yes.

Rajiv Chaudhri - *Sunsara Capital - Analyst*

Okay. So the shipment costs on a per watt basis, did the shipment costs go up quarter-to-quarter on a per watt basis?

Pan Li - *Chief Financial Officer*

Yes, shipment cost is at high level. I think it's roughly USD0.015 to USD0.02 per watt. And quarter-by-quarter, it's relatively stable. And the shipping costs will maintain, I think, we're at a high level, but given more mix to China in the second half of the year, blended will be lower in the second quarter. Next year, we expect - given the global economies were weak, and we expect next year, the ship logistics will be - costs will be in a downward trend.

Rajiv Chaudhri - *Sunsara Capital - Analyst*

Okay. And can you also tell us what the depreciation and capex numbers were for the second quarter? And what your expectation is for the full year now?

Pan Li - *Chief Financial Officer*

First, for capex. And the first - in the first half of this year, it's reached $1.4 billion, and - for the full year, we forecast it still remains on USD3 billion.

Rajiv Chaudhri - *Sunsara Capital - Analyst*

And depreciation?

Pan Li - *Chief Financial Officer*

Depreciation, I think, it's very roughly - per watt basis, it's roughly - I think per watt basis is RMB 0.05 to RMB 0.06 per watt. So it's roughly RMB 55 million to RMB 60 million for second quarter.

Rajiv Chaudhri - *Sunsara Capital - Analyst*

Okay. And the final question is on the polysilicon business. As you know, the polysilicon gross margins are right now in excess of 70%. And even though they will come down as prices come down, the expectation is that the polysilicon business will maintain gross margins that are maybe 35% or 40%, much higher than the module business. Canadian Solar has expressed an intention to get into the polysilicon business. Do you have any thoughts about getting into the polysilicon business yourselves?

Pan Li - *Chief Financial Officer*

Polysilicon, it's a bottleneck in recent 2 years. But next year, for sure, the supplies were sufficient and it's in a downward trend. So from the polysilicon side, we don't believe it's a bottleneck for our business in the future. And we are - our supply chain team is doing is we partnership with a leader of the polysilicon producers and design the long-term, the polysilicon supply contract - and as well as we invest a minority investor, we invest to companies as minority interest and to strengthen our relationship for the top polysilicon supplier. So we don't have a plan, let's say, to do the business of the polysilicon so far.

Rajiv Chaudhri - *Sunsara Capital - Analyst*

Okay. And my final question is about storage. Can you give us an update on what you are doing in the service space? What sort of orders and revenues and feedback you are looking from the marketplace?

Pan Li - *Chief Financial Officer*

Well, the storage business is still in the early stage. We believe it's not the right time to talk about it. And we will share our strategy and our plan once it is ready, right? Thank you for your question.

Operator

It's next Gary Zhou from Credit Suisse.

Gary Zhou - *Credit Suisse - Analyst*

So I have 3 questions. So firstly, on the module shipment, so just wondering if the company has a breakdown for our module shipment for this year for the China market and overseas market. And if possible, can we talk a little bit on the unit profit difference between China domestic sales versus overseas module sales? And second question is on the TOPCon. So I noticed that some of our competitors, they also have some TOPCon capacity coming out in the first quarter this year. So just wondering, do we believe this USD0.01 to USD0.015 ASP premium can be maintained going forward? And also comparing our TOPCon product versus peers, do we - so can management talk about what's the advantage of our product? And lastly, a quick question on the polysilicon side. So basically, the near-term polysilicon price is still high, probably supported by the Sichuan kind of a supply disruption. But just wondering if the management has a view at what time or which months can we kind of start to see the polysilicon price to drop?

Pan Li - *Chief Financial Officer*

Thank you. There's a lot of questions. I will try to cover it as much as I can, right? So firstly, about geographic mix. For the full year, we are expecting the China and the Europe market are the 2 largest contributors to JinkoSolar's shipment for the full year, and - which accounted around 25% to 30%. And followed by the emerging markets, which will be contributing - we are expecting contributing between 20% to 25%. And the APAC market will be around to 15% to 20%. And the rest will followed by other markets, including North America and the Middle East, Africa, et cetera, right?

And the second question about this Tiger Neo N-type product premium, but the way we are pricing the product is to sharing the benefit together with the customer is not a competitive - competition for, let's say, gaining negotiation is really a benefit sharing model, which means that approximately, as I say, around - by using Tiger Neo N-type products, the customers' project can get additional benefit of around $0.025 to $0.03 per watt. So then we are establishing the business model to share the benefit by approximately half to half with the customer. That's why we believe such business model is sustainable and consistent and it doesn't have to go through the price competition even with more and more peers joining the TOPCon group, we believe join today, leading the technology innovation and create a bigger market for solar industry.

We don't have to go through the price competition. And compared with our followers or our peers at TOPCon technology, we believe at some point near in this area, our cost structure and our efficiency, including our product performance, will continue to have a competitive advantage or at least a leading position in this market, and we are so confident on that. Lastly, about the polysilicon prices, we believe in the long run, like Charlie is saying in the previous conversations, we believe the polysilicon will become - will be debottlenecked in the next coming, let's say, quarters, and - which will create a bigger market for solar installation in the downstream, especially for the utility project, which has been significantly delayed due to the capex problem. We are having a big hope on that. I hope that answers your question.

Operator

Next question coming from Brian Li from Goldman Sachs.

Grace Zhou - *Goldman Sachs - Analyst*

This is Grace on for Brian. Just a quick question on the margin expectations. Just given the elevated poly pricing and also the power controlling on Sichuan which may impact your utilization rate, how should we think about your gross margin in 3Q and also for the next couple of quarters?

Pan Li - *Chief Financial Officer*

The gross margin, we expect expanding a little bit, expansion in the next quarters. And we did face the elevated price of the polysilicon and as well as the power cuts from Sichuan province to - our TOPCon module cell capacities is operating in a very good status and will contribute more partially signed revenue and the product mix and which has relatively higher gross margin profit contribution. So we have the confidence and the margin will be expanded in the second half year compared to the first half year.

Grace Zhou - *Goldman Sachs - Analyst*

Okay. Understood. And then on your opex, your opex increased pretty significantly in 3Q. I guess that's partially due to TOPCon. I think you mentioned TOPCon will be very minimal in 3Q. So can you talk about your opex expectation in the second half?

Pan Li - *Chief Financial Officer*

So we're talking about operating expense, right? Operating expenses, I think - given we have more shipments in the second half year and for the - compared to first half year, we expect the operating expenses against the revenue will be slightly lower in the second half of year.

Operator