JinkoSolar - Q1 2023 Transcript

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Transcript

Management

Stella Wang *—Investor Relations*

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

Gener Miao *—Chief Marketing Officer*

Mengmeng (Pan) Li *—Chief Financial Officer*

Haiyun (Charlie) Cao *—Director*

Participants

Brian Lee *—Goldman Sachs & Company — Analyst*

Philip Shen *—ROTH MKM — Analyst*

Alan Lau *—Jefferies — Analyst*

Presentation

Operator

Hello. Thank you for standing by, and welcome to the Q1 2023 JinkoSolar Holding Company Limited Earnings Conference Call. [Operator Instructions] I now would like to turn the conference over to Stella Wang. Please go ahead.

Stella Wang *—Investor Relations*

Thank you, operator. Thank you everyone for joining us today for JinkoSolar's first 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 our 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 Company Limited; Mr. Gener Miao, Chief Marketing Officer of JinkoSolar Company Limited; Mr. Pan Li, Chief Financial Officer of JinkoSolar Holding Company Limited; and Mr. Charlie Cao, Chief Financial Officer of JinkoSolar Company Limited. Mr. Li will discuss JinkoSolar's business operations and 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. 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 of the Board of Directors & Chief Executive Officer*

[Foreign Speech]

Stella Wang *—Investor Relations*

We are pleased to deliver year-over-year improvements in module shipments, total revenues and gross margin. With polysilicon prices being volatile in the first quarter, we adjusted our supply chain strategy to effectively control our costs. Meanwhile, the ratio of N-type product shipments approached nearly 50% of our total module shipments, thanks to their high efficiency and our strong global marketing network, which partially contributed to the improvement in our profitability. Gross margin was 17.3%, compared with 15.1% in the first quarter last year. Our profitability in the first quarter remained under pressure from the demurrage costs in the US market. We have proactively taken measures to address this, and we have seen both

the efficiency of customers clearance and the size of our module shipments to the US market gradually improve recently.

As we continue to make effective progress, we expect our shipments to the US market to gradually increase in the coming quarters. Recently our majority-owned principal operating subsidiary, Jiangxi Jinko, successfully issued convertible bonds in the principal amount of RMB10 billion to strongly support the expansion of our high efficient N-type capacity. Growth in PV demand in the first quarter remained strong despite some seasonal factors. The Chinese market benefited from falling prices of PV projects and delays in PV projects from 2022. The new installations of PV reached 33.7 gigawatts AC, an increase of 154.8% year-over-year. As a result, the cumulative installation of PV has surpassed that of hydropower for the first time, making PV the second largest power source in China.

In addition, exports of solar cells and modules from China to overseas markets remained strong in the first quarter. Total overseas shipments of modules and cells reached $13.1 billion in the first quarter, an increase of 15.3% year-over-year. Since the second quarter, as pricing games between different segments along the supply chain relatively stabilized, we see price of polysilicon started to decrease moderately and current module prices have been attractive for the economics of PV projects. With more production volumes gradually released during the year, we believe polysilicon price declines will stimulate large market demand.

The top manufacturers are expected to increase their market shares, thanks to stronger supply chain management, market footprint and the competitiveness of their R&D and products. We are optimistic about global market demand and the opportunities brought by new technology in 2023. We will continue to invest in R&D and advanced N-type capacity to enhance our N-type leadership in terms of mass production capabilities, product performance, and costs, while exploring the PV-plus areas to proactively respond to competition.

The second phase of 11 gigawatt TOPCon cell capacity in Jianshan has reached full production and the average mass-produced efficiency of 182 millimeter N-type TOPCon cells reached 25.3%. We have also further improved our N-type ecological chain, constantly enhancing our all-around competitive advantages of N-type wafer, cell and modules, with improving supply chain management for key and auxiliary materials, iteration of core technologies and process improvement. As our technology, product performance and costs are all improving continuously, we expect to maintain our leading position in the industry.

Recently, we were ranked in the highest AAA category in the Q1 edition of PV Tech's ModuleTech Bankability report. A recognition by the industry of our advantages from outstanding manufacturing, finance and technology. By the end of the first quarter, our accumulated N-type module exceeded 16 gigawatts, providing support for hundreds of projects globally in the last — in the past year. In January this year, we launched the second generation Tiger Neo panel family. The module efficiency of the upgraded Tiger Neo family of 445Wp for 54-cell, 615Wp for 72-cell, and 635Wp for 78-cell were up to 22.27%, 23.23%, and 22.72% respectively.

Meanwhile we increased investments in energy storage business, furthering its developments and continuously provided our clients with high efficient, reliable and safe solution at competitiveness — competitive cost to lead the clean energy transformation. In conclusion, future competition will be based on comprehensive strength. We are confident in our ability to further increase our competitiveness and profitability in global market, with our continuously improved global industrial chain and cutting-edge N-type technology and products.

Before turning over Gener, I would like to go over our guidance for the second quarter and full year of 2023. By the end of this year, we expect mass-produced N-type cell efficiency to reach 25.8% and high efficient N-type cell capacity to account for over 70% of our total solar cell capacity. We are confident we will achieve our module shipment target set at the beginning of the year, with N-type modules accounting for about 60% of total module shipments. We expect the module shipments to be in the range of 16 gigawatt to 18 gigawatt for the second quarter of 2023.

Gener Miao *—Chief Marketing Officer*

Thank you. Total shipments in the first quarter reached about 14.5 gigawatt, of which about 90% are module shipments, setting a new high. From a regional perspective, China and Europe accounted for over 60% of the total shipments. Shipment to China market increased more than twofolds on a year-over-year basis. Relative to Europe market, it's grown over 50% year-over-year. In addition, emerging markets like Latin America and the Middle East, North Africa also made a remarkable contribution.

Recently, the industries value chain price has gradually returned to a normal level and the domestic utility scale PV projects have shared — started their [Indecipherable]. The current module price is attractable to clients, which can support them to achieve their pre-determined installation target at a stable order pace. We expect the decrease of industrial supply chain price will drive the growth of utility-scale PV demand, especially in China market. The European PV market has vast potential and the decrease in industrial chain prices is expected to further drive demand for distributed and utility-scale power stations.

The US market has robust demand and some utility-scale power station demand may be delayed until 2023, due to price factors and the supply constraints, with expected 40 gigawatt DC of PV installed capacity in US by 2023. Over the past year, we have continued to improved our risk management capabilities, continuously improved our supply chain flexibility system and we maintain a close communication and coordination with customers, suppliers and other parties to jointly promote the efficiency of the customer clearance in US. Based on the experience of supply chain construction and the marketing network layout, we are committed to meeting our customer delivery with outstanding products and services.

Regarding the products, Tiger Neo achieved shipment volume of near 16 [Phonetic] gigawatt in the first quarter, maintaining a competitive premium. China, Europe, and emerging markets have become the main contributors to shipments. At the same time, we observed that Tiger Neo is accelerating its penetration in market like Malaysia [Phonetic]. Recently we were awarded the title of Australia's Number 1 Module Brand for 2022 by [Indecipherable]. Tiger Neo not only has multiple advantages such as high conversion efficiency, high power output and the — [Indecipherable] factor, but also leads the industry in terms of degradation rates, temperature coefficient and weak-light performance, meeting customers' demand for household scenarios.

With the release of N-type capacity and the continuous improvement of Tiger Neo's product performance, Tiger Neo's penetration rate and premium are expected to continue to lead the market. In terms of business, distribution market accounted for more than 40% in the first quarter. Considering the sub-standard demand for utility-scale power station this year, we expect the proportion of distribution to be around 40% for the whole year. In 2023, our order book visibility exceeded 60%, with the majority being overseas orders. As upstream raw material costs decrease, we expect the module market price to experience a slight decline. Our signing prices will fluctuate, we seeing a reasonable range in line with market trends. We will continue to focus on customer-centric approaches to provide high quality products and services to our customers. At the same time, we will adjust our marketing strategy sort of flexible according to market conditions.

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

Mengmeng (Pan) Li *—Chief Financial Officer*

Thank you, Gener. We're pleased to report that year-over-year increase of about 73% in our shipments in the first quarter with strong demand from global markets. In response to the polysilicon price decline, we adjusted our procurement strategy and achieved significant year-over-year growth in key financial metrics, including revenue, gross profit and operating margin. Let me go into more details now.

Total revenue was $3.4 billion, an increase of 58% year-over-year. Gross margin was 17.3% compared with 14% in the fourth quarter and 15.1% in the first quarter of last year. The sequential and year-over-year increase were mainly due to the decrease in the cost of polysilicon and the increase in the shipment of N-type modules, which have a premium compared with P-type modules. Total operating expenses were $412 million, down 21% sequentially and up 29% year-over-year. The sequential decrease was mainly due to a decrease in shipping cost for solar modules and a decrease in impairment loss on property, plant, and equipment. And the year-over-year increase was many attribute to an increase in loss of disposal on PPE and an increase in demurrage charges. Total operating expenses accounted for about 12% of total revenues, compared with even in the fourth quarter and 15% in the first quarter last year, improving year-over-year.

Operating margin was over 5% compared with 2% in the fourth quarter. Excluding the impact of a change in fair value of notes, a change in fair value of long-term investments and our share-based compensation expenses, adjusted net income attribute to JinkoSolar Holding Company Limited ordinary shareholders was over $121 million, up over 2 times sequentially and up 1.5 times year-over-year.

Moving to the balance sheet, at the end of the first quarter, our cash and cash equivalents were about $1.5 billion, down from $1.6 billion at the end of the fourth quarter and compared with $2.7 billion at the end of the first quarter of last year. Total debt was about $4.4 billion at the end of the first quarter compared to $4 billion at the end of the fourth quarter last year. Net debt was about $2.9 billion compared to $2.3 billion at the end of the fourth quarter of last year, and our total debt profile has improved.

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

Question & Answers

Operator

Yes, thank you. [Operator Instructions] And the first question comes from Brian Lee with Goldman Sachs & Company.

Brian Lee *—Goldman Sachs & Company — Analyst*

Hey, everyone. Thank you for taking the question. Hi. I guess, first question I had was just around your ASP environment and are you guys have seen some good margin expansion here quarter-on-quarter? It sounds like most of that was driven by the decline in polysilicon costs. So yes, what's the status of that? How much more sort of leverage do you have to lower polysilicon costs relative to what you're shipping out and your inventory days today? And then can you give us a sense of what you expect module ASP trends to look like into 2Q? And maybe the back half of the year we are hearing there is sort of double-digit declines in certain markets for solar panels. So wondering where your pricing strategy is trending for the next few quarters? Thanks.

Gener Miao *—Chief Marketing Officer*

Hey, Brian. This is Gener. Thanks for the question. Firstly about the price side. So, the market price is somehow stable in Q1 and in Q2, meaning first half. So I don't see there's too much, let's say, different opinions across the industry about the first half module price. But for the second half module price, we have seen some different opinions about — based on different expectation of the polysilicon price. However, in our opinion, the polysilicon price might steadily going down step by step. We are not expecting a significant free fall over the second half, but we are more expecting a stable stepping down quarter-over-quarter. So based on that expectation, I think that's how we expect the market price will go for the rest of the year. And I hope that answers your question.

Brian Lee *—Goldman Sachs & Company — Analyst*

Yeah. That's helpful. And then maybe just — I know you made some comments around the US end market. Can you give us your latest thoughts around shipping into the country, how are you navigating the UFLPA, and then also any thoughts around manufacturing or expanding your manufacturing base domestically in the US?

Gener Miao *—Chief Marketing Officer*

So for the US market side, I think we are closely working with our suppliers, even sub-suppliers, to make sure we can provide the documents or facility documents needed for the UFLPA. We have successfully done that quite — based on quite a lot of shipments in the last quarters, and we are expecting with more and more experience, we can ship or we can get more approved based on what we're doing right now, at least that's the expectations. And based on that, we are planning to resume our shipments in US market gradually and we hope we can get back to a relatively stable, or let's say — or make the situation under control in the next quarters, I think two to three quarters.

Brian Lee *—Goldman Sachs & Company — Analyst*

Okay, understood. And last question from me. I don't know if — I might have missed it, maybe you didn't provide it. But can you get the — what the capex was in the quarter, what's the free cash flow was in the quarter? And then, any thoughts on the financing needs and strategy for the rest of the year to cover the capex here? Thank you.

Haiyun (Charlie) Cao *—Director*

Hey, Brian, this is Charlie. We have the subsidiary, the JinkoSolar. We have completed the company convertible bonds in Chinese capital markets recently. And second one is, the capex is at a range of RMB1.5 billion to RMB2 billion and the focus is to solidifying our leading position in N-type supply chain, including the wafer, cell and the module capacities, and we're expecting the performance — if you look at the Q1 performance is pretty good and we will continue to expand — expect the expansion of the gross margin and our profitability. And operating cash flows last year, it's a kind of

— I think it's around RMB0.4 billion and continue to improve. So the financing is already there and it's sufficiently enough to meet our needs for the capex.

Brian Lee —*Goldman Sachs & Company — Analyst*

Okay. Fair enough. I'll pass it on. Thanks, guys.

Haiyun (Charlie) Cao —*Director*

Thank you.

Operator

Thank you. [Operator Instructions] And the next question comes from Philip Shen with ROTH MKM.

Philip Shen —*ROTH MKM — Analyst*

Hi, everyone. Thanks for taking my questions. First one as a follow-up to Brian on the UFLPA question, how many gigawatts has been released thus far in the US and how many gigawatts do you have detained in total?

Haiyun (Charlie) Cao —*Director*

Philip, we have significant starting from Q4 last year, our modules and under UFLPA has started to go through the contents and different customers. And we have, I think, achieved a significant amount of the module shipments. And for the detained, I don't think — we have a very, very small and tiny. And the most important thing is, looking forward, we think the mechanism has already been there and we have traceability — very strong traceability capabilities and we expect quarter-by-quarter, our cement with US will improve gradually. And hopefully, we think it's possible in third quarter, our shipments to the US will be — and back to normal situations.

Philip Shen —*ROTH MKM — Analyst*

Great. Thanks, Charlie. So of the more than 60% of the order book visibility, can you talk about how much of that, or — yeah, how much of that do you expect to go to the US? Thanks.

Mengmeng (Pan) Li —*Chief Financial Officer*

This year, the total volume we are planning to send to US will be around 5% across the whole year's shipment plan. Because, like Charlie saying, we are gradually resume our shipment trends and revenue recognition. But because of the time consuming of the logistics and the UFLPA, etc., so the revenue side, it won't be too much. That's why we say around 5% — maybe 5% to 10% — between 5% to 10%. [Speech Overlap]

Philip Shen —*ROTH MKM — Analyst*

Right. So 5% to 10% of the annual guidance is roughly 65 gigawatts?

Mengmeng (Pan) Li —*Chief Financial Officer*

Yeah.

Philip Shen —*ROTH MKM — Analyst*

Good. So, thank you. And then our work suggests that the non-China module — non-China poly modules that you have that can access the US market is roughly 5 gigawatts annually. Does that sound right? And then, is it the case that you can smoothly important modules that contain non-China poly now. So there is no issue there at all?

Gener Miao —*Chief Marketing Officer*

Thanks for the question, Phil. We — currently we're planning with model [Phonetic] resources of polysilicon, at least we are trying to do, because if we rely on single resource of polysilicon, it might significantly constrain the capability of the supply for US market. I — personally, I still believe that might be a challenge for the US customers as well. So, that's what we are trying to do.

Philip Shen —*ROTH MKM — Analyst*

Okay, got it. And then shifting back to margins [Indecipherable]. Can you give us a sense for what — how do you expect margins to trend in Q2 and Q3? Especially given the ASP comments that you had earlier, do you expect margin expansion in Q2 and then Q3 perhaps your margins compress a little bit with similar to back half pricing? Thanks.

Gener Miao —*Chief Marketing Officer*

I think margin wise, we have the confidence to gradually improve, at least that's what we believe. Because thanks to the new technologies, N-type TOPCon cells [Indecipherable] which is highly appreciated by end market and it will create additional values to the customers. So based on that value — additional value sharing business models, we definitely have the confidence to gradually improve our gross margins.

Philip Shen —*ROTH MKM — Analyst*

Okay, great. One last question. As it relates to the US expansion, I think Brian asked the question. Just wanted to check and see if you can give a little more color on the timing of that. My guess is, you have to wait for the domestic content rules to be out. And then what do you see for US module pricing trends? Do you think maybe by year between this year, 2024 and 2025? Thanks.

Operator

Thank you. [Operator Instructions]

Gener Miao —*Chief Marketing Officer*

Sorry. I think we missed the last question. I expected to briefly talk about it, then we can pick up the next one, right?

Operator

Yes. Yes.

Gener Miao —*Chief Marketing Officer*

So, regarding the US expansion, we have the confidence that we have the plan to do it. For sure, we're still waiting for some more fabrication on the policy side and the Board approval on the policy side. We are closely following that. Hopefully, we can get some clearance, good to go in the next coming weeks or months. We will see. Thank you. Let's take the next one.

Operator

Thank you. [Operator Instructions] And the next question comes from Alan Lau with Jefferies.

Alan Lau —*Jefferies — Analyst*

Thanks a lot for taking my question, and congratulations for the really great results and the margin expansion. So my first question is, I would like to know how much did the port charges relate to the detainment in the US border has ramped down? If there's going to be zero going forward, then, would that — how much would that contribute to the margin expansion?

Haiyun (Charlie) Cao —*Director*

In the first quarter, we have roughly RMB300 million to RMB400 million the demurrage and additional storage costs for the US shipment situations. And it's roughly, I think, is 2%; 1.5% to 2% of gross margin impact. And we're expecting Q2 will dramatically decrease to maybe 25% of the Q1 level. So it's going to contribute, I think at least 1% gross margin expansion.

Alan Lau —*Jefferies — Analyst*

Thanks a lot. So another question is, would like to know how much is poly prices for the polysilicon purchase from Wacker. Is it the same — is it going down at the same pace as the polysilicon price in China or it's going down a bit slower?

Haiyun (Charlie) Cao —*Director*

Yes. So, it's relatively confidential, but it's a separate market, right? It's — the poly out of China, the main purpose is for the US markets. And it's no expansion of capacity for the poly outside of China. So it's kind of very — let's say, very…

Mengmeng (Pan) Li —*Chief Financial Officer*

Short of supply.

Haiyun (Charlie) Cao —*Director*

Yeah, short of supply situations and the prices were — it's very sticky. And the different situation in China for the poly is supply sufficient, and we expect maybe some relatively oversupply situation in fourth quarter here. So it's a kind of different pricing depending on different situations.

Alan Lau —*Jefferies — Analyst*

Understood. So is it possible that if the US customs accept some of Tongwei polysilicon, then your shipment to the US will get even higher margin because you effectively cheaper polysilicon price?

Haiyun (Charlie) Cao —*Director*

I think it will really dependent on the market principles, right, sort of supply-demand [Indecipherable] the polysilicon of non-China polysilicon in next year is short of supply and the end market is very strong for definitely create a favorable market for the upstream players. If we have additional polysilicon supply approved, definitely it will make the situation easier. But how far it will go is depends on finally still the supply versus demand. So, we'll see.

Alan Lau —*Jefferies — Analyst*

Thank you. That's clear. I think my last question is, in relation to the Southeast Asia capacity expansion potential. So, what is the latest plan in terms of the Southeast Asia capacity expansion? Thank you.

Gener Miao —*Chief Marketing Officer*

Currently we have 7 gigawatts integrated capacity and we have plan to expand the capacity [Indecipherable]. And it's possibly [Indecipherable] maybe 11% — 11 gigawatts to 12 gigawatts integrated capacity by the end of this year.

Alan Lau —*Jefferies — Analyst*

Thanks a lot. That's very clear. So looking for the great results in second quarter ahead. Thank you.

Haiyun (Charlie) Cao —*Director*

Thank you.

Operator

Thank you. [Operator Instructions]

[Operator Closing Remarks]