JinkoSolar - Q4 2022 Transcript

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Transcript

Management

Stella Wang - *Investor Relations*

Li Xiande - *Chairman and Chief Executive Officer*

Gener Miao - *Chief Marketing Officer*

Pan Li - *Chief Financial Officer*

Charlie Cao - *Chief Financial Officer*

Participants

Miguel - *Goldman Sachs - Analyst*

Philip Shen - *ROTH MKM - Analyst*

Rajiv Chaudhri - *Sunsara Capital - Analyst*

Alan Lau - *Jefferies - Analyst*

Pierre Lau - *Citi - Analyst*

Presentation

Operator

Hello, ladies and gentlemen, and thank you for standing-by for JinkoSolar Holding Company Limited's Fourth Quarter 2022 Earnings Conference Call. [Operator Instructions].

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

Stella Wang - *Investor Relations*

Thank you, operator. Thank you everyone for joining us today for JinkoSolar's Fourth 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 our 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 interests 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 applicable law.

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

Li Xiande - *Chairman and Chief Executive Officer*

[Foreign Speech].

Stella Wang - *Investor Relations*

We closed a challenging 2022 with satisfactory results as we delivered strong operational and financial performance in the fourth quarter, leveraging our outstanding global supply chain management and marketing network. Our total shipments and total revenue increased significantly year-over-year. At the end of 2022, we became the first in the industry to have delivered a total of 130 gigawatt solar modules throughout the year.

As raw material costs continued to optimize our cost of structure through technical advancements and the manufacturing process improvements, which partially relieved the pressure on our profitability. And new shipments of high-efficiency premium and high modules exceeded 10 gigawatts, further optimizing our product mix and the gradually improving our profitability. Net income was approximately $102.9 million, up 29.1% sequentially and nearly tripling year-over-year.

Li Xiande - *Chairman and Chief Executive Officer*

[Foreign Speech].

Stella Wang - *Investor Relations*

Throughout 2022 the increase in demand for solar products did not slow down despite compounded challenges such as the surge in raw material costs with downlink disruption and macroeconomic uncertainties. In particular, the energy crisis caused by the Russia-Ukraine conflict has caused the prices of traditional energies to rise quickly and PV remained the optimum solution for countries to achieve energy transformation because of its low carbon footprint and economic advantage.

Global PV demand in 2022 was up approximately 320 to 330 gigawatts DC, up about 50% year-over-year. Even in the more price-sensitive Chinese market newly added installations grow 59.3% year-over-Year to reach 87.4 gigawatts AC, approximately 105 gigawatts DC and distributed installations grow nearly 75% year-over-year.

Li Xiande - *Chairman and Chief Executive Officer*

[Foreign Speech].

Stella Wang - *Investor Relations*

At the end of December, the cost of seasonal and balanced disciplined polysilicon supply and demand, combined with inventory adjustments across the supply chain, prices of polysilicon wafers, cells and modules were adjusted to varying degrees. And this volatility led to some downstream customers to pause orders. It seems February polysilicon prices have rebounded and pricing gains between the upstream and downstream of the solar industrial chain have to some extent impacted market sentiment.

This polysilicon supply is sufficient to support module demand throughout the whole year 2023. We believe the short term rise in polysilicon prices will not last. And instead a decline in polysilicon prices will drive down module prices and improve the economics of PV projects. Google PV demand is expected to continue to grow in 2023. We are confident that we will further improve our competitiveness and the profitability in the global market with our well developed global industrial chain and advantage of our N-type products.

Li Xiande - *Chairman and Chief Executive Officer*

[Foreign Speech].

Stella Wang - *Investor Relations*

During the fourth quarter as the industrial chain remained volatile we continued to enhance operation management including strictly controlling inventories and flexible adjusting production scheduling and volumes. The second phase of 8 gigawatts TOPCon cell capacity in Hefei reached full production in the fourth quarter. And the second phase of 11 gigawatts TOPCon cell capacity in Jianshan is expected to reach full production in March 2023, with over 35 gigawatts of TOPCon cell capacity gradually reaching full production in the coming quarters our integrated capacity structure continue to rise, driving blended costs lower.

Li Xiande - *Chairman and Chief Executive Officer*

[Foreign Speech].

Stella Wang - *Investor Relations*

In December, the lab efficiency of our N-type TOPCon cells set a new record with maximum conversion efficiency of 26.4%, improving on our previous record of 26.1% set in October.

At the end of 2022, the mass produced efficiency of our TOPCon cell capacity that has reached the full production reached 25.1% and our integrated cost of N-type almost on par with P-type. We are confident we will maintain our leading position in terms of R&D, mass produce efficiency and the production capacity.

Li Xiande - *Chairman and Chief Executive Officer*

[Foreign Speech].

Stella Wang - *Investor Relations*

At the end of 2022, we became the first module manufacturer in the world to ship over 10 gigawatts of N-type product. We are already a preferred supplier for global clients thanks to our well-established global marketing footprint and the technological advantage of our N-type products. With more and more industry players building up N-type capacity our strategy to embrace and lead N-type technology is now becoming an industry trend.

Effective supply of N-type TOPCon modules in the whole industry is expected to reach 120 to 130 gigawatts in 2023, accounting for about 30% of the

total PV demand. Leveraging our accumulated experience in mass production and the marketing we expect our proportion of type shipments in 2023 to further increase with penetration of N-type products far exceeding the industry average.

Li Xiande - *Chairman and Chief Executive Officer*

[Foreign Speech].

Stella Wang - *Investor Relations*

By the end of 2023, mass production efficiency of TOPCon cells is expected to reach 75.8%. We are optimistic on the growth potential for the PV market in the mid and long-term and we'll continue to invest in N-type capacity, which is now competitive in terms of technology and cost. By the end of 2023, we expect our annual production capacity for monowafer solar cells and solar modules to reach 75 - 75 and 90 gigawatts, respectively.

We expect module shipments to be in the range of 11 to 13 gigawatts for the first quarter of 2023 and 60 to 70 gigawatts for the whole year 2023. We will continue to maintain our leading position in N-type modules through technology integration, improvement in mass production capability and cost optimization.

Gener Miao - *Chief Marketing Officer*

We are pleased to announce that we have achieved a historically high shipments on quarterly and annual basis. Thanks to our technology advantage and extensive global marketing network, the total shipment in the fourth quarter of 2022 has approached to 16.8 gigawatt, where module shipment was accounted for 95%, with a 78% increase year-over-year.

The total annual module shipments were 44.5 gigawatt, double year-over-year. Regarding our regional markets, the shipments in China and Europe markets were the top two highest in 2022, accounted for more than 65% of the total amount. In terms of absolute numbers the annual module shipments year-over-year growth in China was more than triple.

The annual module shipments to Europe were double and our growth in emerging market was nearly doubled as well. In China market due to COVID and cost concerns mainly brought by upstream supply some projects that have not been connected to the grid last year have been delayed to 2023. Considering the cost of our supply chain is dropping a more reasonable level we expect our installations will increase in 2023.

Europe will continue to expand PV installations due to energy crisis and the increasing electricity cost. As for US market we supported the incentives brought by ARA [Phonetic] and third party institutions high expectations of US market demand. We believe the project pipeline is sufficient here. In addition, we have seen the energy transformation accelerating in Latin America, Asia-Pacific, Middle-East and more and more regions and the countries in the world, bringing more opportunities.

In 2023, we will continue to pursue our global expansion strategy with Europe and China markets continue to be our major ones, where the shipments would be accounted for over 50% of total amount. And the shipments to the US market were expected to recover gradually. Our shipment structure continues to optimize. Distribution generation business accounted for over 50% for the full year, improved compared to 2021. In terms of the products our competitive N-type new module shipments were around 7 gigawatt with premiums remain within reasonable range.

Until the year end of 2022, we have become the first module manufacturer in the world to ship over 10 gigawatts N-type modules. We expect our proportion of N-type module shipments in 2023 to further increase to about 60%, which could further strengthen our leading position in N-type technology in the industry. Moreover, the global clean energy transition has started a new growth cycle for solar plus energy storage business. So far we have already signed a framework agreement and distribution agreement with multiple power developers and the distributors around the world.

In 2023, we will continue to expand the investment on cultivating our storage business to bringing our clients safer and more sustainable solar plus storage system solutions. In terms of price and orders, our order book visibility in 2023 has already achieved over 50% with oversea orders as the major contributor. Proportion of the high efficient and high premium N-type Tiger Neo will be significantly higher than 2022. All this will keep our product competitive in this industry.

By working through various challenges our PV enterprise can grow up to be more resilient. Under this background we, JinkoSolar are also continuously enhancing our capacities to handle risks and strengthening our marketing network and the client relationship. We are committed to provide more reliable and high quality products and services to our clients, bringing more economic value and this will also help us to further improve our global marketshare.

With that I will turn the call to Pan.

Pan Li - *Chief Financial Officer*

Thank you, Gener. We are pleased to have achieved a strong fourth quarter results, based on our solid operation and management strategy. Against the backdrop of strong demand in the global market, both solar shipments and total revenues increased significantly year-over-year. Shipments of N-type modules which have premium and cost advantages more than doubled sequentially in the fourth quarter, partially contributing to our improved profitability.

In addition, we continue to enhance control over our operating expenses. Total operating expenses accounted for about 12 percentage of total revenues in the fourth quarter, a significant decrease from over 15 percentage last quarter. Operating margin was more than nine times higher sequentially, increasing to 2.1 percentage from 0.3% last quarter. As 35 gigawatt cell capacity put into production in 2022 reaches full production in the coming quarters our foundry capacity structure is expect to improve further. As shipments of our competitive N-type products increase we hope to gradually improve our profitability.

Let me go into more details now. Total revenues was $4.4 billion, an increase about 56 percentage sequentially and 85% year-over-year. Gross margin was 14.1 percentage compared with 15.7% in the third quarter this year and 16.1% in fourth quarter last year. The sequential and year-over-year decreases were mainly due to an increase in the cost of solar module raw materials.

Total operating expenses were R526 million up 21% sequentially and up 68% year-over-year. The increases were mainly attributed to an increase in shipping costs for solar modules and an increase in impairment loss on property, plant and equipment. Net income attributable to the JinkoSolar

Holdings' ordinary shareholders was about $103 million in the fourth quarter.

Excluding the impact from a change in fair value of the notes long term investments and the share-based compensation expenses, adjusted net income was $45 million up 33% year-over-year.

Now I'll brief you on our 2022 full year financial results. Total module shipments were 44.5 gigawatt, doubled year-over-year and total revenues were $12 billion also doubled. For the full year of 2022 gross profit was $1.8 billion, an increase of 85 percentage year-on year. Gross margin was 14.8% compared to 16.3% last year. The decrease was mainly attribute to the increase in the cost of solar module raw materials.

Total operating expenses were $1.7 billion, increased year-over-year. The increase was mainly attributed to an increase in shipping cost for solar modules, an increase in impairment loss on disposal of PPE, an increase in share-based compensation expenses. Net income attributed to the JinkoSolar Holdings ordinary shareholders was about $96 million in the fourth quarter. Excluding the impact from a change in fair value of the notes, long-term investments and share-based compensation expenses, adjusted net income was $208 million, up 1.7 times year-over-year.

Moving to the balance sheet, at the end of the fourth quarter, our cash and cash equivalents were $1.6 billion compared with $2.1 billing at the end of third quarter and $1.4 billion at the end of the fourth quarter last year. AR turnover days were 73 days in the fourth quarter compared with 69 days in the third quarter this year.

Inventory turnover days were reduced to 59 days in the fourth quarter compared to 117 days in the third quarter. Total debt was about $4 billion and net debt was $2.3 billion at the end of 2022.

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

Question & Answers

Operator

Thank you [Operator Instructions]. The first question will come from Bryan Li with Goldman Sachs and Company. Please go-ahead.

Miguel - *Goldman Sachs - Analyst*

Hi, everyone. This is Miguel on for Brian. My first question was just on the capacity expectations for 2023. You're guiding to the very strong growth in capacity for the year. What are your CapEx requirements for 2023 to support this growth?

Pan Li - *Chief Financial Officer*

Yeah, hi, Miguel. I think we are in the middle of our calculation right now. I think our team will follow-up with you after the call for further details on CapEx numbers, right.

Miguel - *Goldman Sachs - Analyst*

Okay, thanks. I appreciate that. And then my follow-up question was just on margins during the fourth quarter, given the overall decline in the market prices for polysilicon that was observed in the fourth quarter, could you just give more color on what drove the lower quarter-on-quarter gross margins? And then what are your expectations for polysilicon prices? And then also on margins through the first quarter of 2003 and through the rest of the year? Thanks.

Pan Li - *Chief Financial Officer*

Yeah, for the polysilicon, I think overall, we are observing oversupply of polysilicon in the long run. So we believe the recent turbulence is just the start of the market trend. But in general, we believe the polysilicon will go back to the market-based pricing. So that's what we believe in the long term. In short term, for sure, because of the different seasonalities and the behavior of let's say, top players in the polysilicon industry we still believe there might be some short-term challenge or turbulence. That's what we see.

For the margin wise, we still believe with more and more capacity online, especially the N-type based high-end capacity online, with the premium and competitive cost structure we have, the margin will gradually improve quarter-by-quarter if there's no big surprises in the market. Hope that answered your question.

Miguel - *Goldman Sachs - Analyst*

Yeah, if I could just squeeze in a follow-up on that, just on the 4Q margins, I guess what - if the - were you able to realize any of the lower polysilicon market prices for polysilicon that we saw in the fourth quarter? I guess, what drove the - specifically in the fourth quarter, what drove the lower gross margins? Thanks.

Pan Li - *Chief Financial Officer*

I think if you look into the financial figures I see the turbulence happened in the polysilicon prices in early Q1 this year will not be helpful for the Q4 margins. And if you look into the Q1 margins we have to look into the overall polysilicon cost instead of short-term, let's say, one week or two weeks low price of polysilicon. So in my opinion - so that will not significantly change the margin expectations. Again we will gradually improve the margins but most of them is due to our internal let's say management improvement and the cost structure improvement instead of polysilicon turbulence.

You have to think about the polysilicon inventory numbers, right. So that numbers is very important impact factor to the cost of the polysilicon.

Miguel - *Goldman Sachs - Analyst*

Okay, understood. Thanks, I'll pass it on.

Pan Li - *Chief Financial Officer*

No problem.

Operator

The next question will come from Philip Shen with ROTH MKM. Please go ahead.

Philip Shen - *ROTH MKM - Analyst*

Hey guys, thanks for taking my questions. First, I'd like to address the US market and the US LPA situation. So was wondering. If you could share how things are improving. So specifically do you expect to - have you ramped-up manufacturing in Southeast Asia for fresh shipments to the US? When do you expect those new shipments to reach the US, and what is the utilization of the Southeast Asia capacity set aside for the US? Thanks.

Gener Miao - *Chief Marketing Officer*

So thanks for the question. For the US market, especially regarding the UF LPA inspections, we are, let's say, we have seen the light at the end of the tunnel, and we see the improvement, the efficiencies, the turnover days et cetera is gradually improving, while the official CBT officials are becoming more and more professional in that perspective. We have seen the hopes but it's still not 100% smooth transactional, let's say, custom clearance yet. But we are hoping that could happen soon.

So regarding the question of Southeast Asia factories, of Jinko and our factory is at high utilization rates, not only because of US market. I think, mainly thanks to the other markets who also have a strong demand for capacities or production outside China. So our capacity is up and running almost in full speed, even by end of last year. So we will - we are hoping to allocate more capacity and shipments to US once all the other customer clearance is back to a normal status, which we believe could happen soon.

Philip Shen - *ROTH MKM - Analyst*

Thanks, Gener. So when you say soon, are we talking about a couple of months, are we talking about maybe six to nine months?

Gener Miao - *Chief Marketing Officer*

Well, my perspective, I hope it could happen tomorrow, but it's not something I can handle or I can decide. So we are working closely with CBP officers to make it happen as soon as possible.

Philip Shen - *ROTH MKM - Analyst*

Okay, thanks. And then you mentioned you are at almost 100% utilization in your Southeast Asia facilities serving other countries. Can you share which countries those might be, and how they might be impacted once the US market opens up for you? Which markets would decline, if you will? Thanks.

Gener Miao - *Chief Marketing Officer*

One of the important source - there are many names on the list, but one of the big market is India market. You know that India market has strong demand as well, while they have a high tariff against Chinese products or they have a strong appetite for the Southeast Asia products.

Philip Shen - *ROTH MKM - Analyst*

Got it, that makes sense. And then shifting to your comment that the order book visibility in '23 has already achieved over 50% in large part from international markets. Can you talk to us about what your current contracting activity looks like for the US? Are you taking new orders yet or do you have to get through - remind us how much backlog you have to get through before - backlog created by the trade situation before you can take new orders?

Gener Miao - *Chief Marketing Officer*

Hi. Based on what we have right now, we are not capable to take new orders, because we have a lot of backlog, which is big enough for us to - for the factory running under the current status of the CBP approval rates. However we have faith that everything will get back or better, because once approval rates and efficiency is back to normal, I think we are hoping to allocate more capacities to US market, which will help us to solve the backlog pipelines and the commitment to our clients and starting to pick-up in new orders. And so that is chicken-egg question, is really difficult to give expectation of timeline, but we are working hard on it. Thank you.

Philip Shen - *ROTH MKM - Analyst*

Yes, that all makes sense. One last question on the US. As it relates to pricing in the US, can you talk about how you expect panel pricing to trend through the - not just this year but also in the future years? I know you're not contracting fresh, but I know you guys probably are very much in touch with your customers. With the ramp-up of IRA manufacturing capacity in the US, how much do you think panel prices decline as we get through 2024, '5, '6, '7? But you also have the other forces of US LCA and other trade actions.

So what's your view on module pricing in the coming years. Thanks, in the US.

Gener Miao - *Chief Marketing Officer*

Well, Phil, you know that we are not picking new deals as our current stage in US market. So I am not in the right position to discuss our fair market numbers. But I can confirm there are many rumors in the market that US market prices is big enough or let's say high enough for many, let's say, middle, small-sized suppliers who have not suffered or experienced the US LPA inspections. So we believe there are big room to correct the right market price in the future given the US LPA inspection, complexity of the US LPA and also the IRA rate of bringing additional returns to the both investor side and manufacturer side.

Philip Shen - *ROTH MKM - Analyst*

Okay, thanks for taking all the questions. I'll pass it on.

Gener Miao - *Chief Marketing Officer*

No problem. Thank you, Phil.

Philip Shen - *ROTH MKM - Analyst*

[Operator Instructions]. Our next question will come from Rajiv Chaudhri with Sunsara Capital. Please go-ahead, sir.

Rajiv Chaudhri - *Sunsara Capital - Analyst*

Yes, good morning. I have a few questions. The first question is on the cost of polysilicon. You mentioned that was the primary reason why gross margin went down from Q3 to Q1. I'm wondering if you can give us an idea of what your polysilicon cost was, the cost embedded in the Q4 earnings result versus Q3, either in renminbi or in terms of the percentage increase from Q3 to Q1. That's my first question, sorry Q3 to Q4.

Pan Li - *Chief Financial Officer*

Thanks Rajiv. We are talking about the polysilicon price, cost components, right?

Philip Shen - *ROTH MKM - Analyst*

Yes, yes. If you can give us more granularity on how much it went up from Q3 to Q4, and what the gross margin might have been, if the polysilicon cost had been flat for example? That would give us an idea of how the cost numbers are playing out?

Pan Li - *Chief Financial Officer*

Yeah. I think in our trend is likely it's - that's public, the polysilicon clients from the public, like the PV including are probably available on my site. And if you look at the trend of polysilicon it's reached to the peak during from October and to November and in December because of destock. And the China rush, and trend of Russian as the polys is down dramatically because of the production and shipments, the positive effect is going to be reflected first quarter. So it's really the poly has reached peak from the cost restructuring in Q4.

And I think it's lastly, I think 10% to 15% quarter-over quarter increase as we look at the trend.

Philip Shen - *ROTH MKM - Analyst*

Okay. So you are saying that - or you are implying that to ship product modules in November, December, you had to buy poly in October-November, when the prices were very-high and so the benefit of the lower price of poly in December, to the extent that you are going to get a benefit will be felt much more in Q1 because that's when that product gets stripped out. So 10% to 15% increase in the cost of poly from Q3 to Q4 would mean that the gross margin would have gone up from Q3 to Q4, if the cost of poly had stayed flat?

Pan Li - *Chief Financial Officer*

You are right, you are right. The polysilicon price this assumption is stable and I think the gross margins is up in Q4 versus Q3. The poly is significant up and drive down the gross margins in Q4. But I think the most important for the company business is we are doing investments in time, starting in the beginning of '22 and they will reach to 35 gigawatts and have capacity in the last year, and with more and higher shipments, and polysilicon now the supply is sufficient and this downward trend. And we have significant sales order pipeline in 2023 and we think that we are in a good position to drive the company's growth, including revenue, gross margin, net profit that is.

Philip Shen - *ROTH MKM - Analyst*

So would you say that from here onwards, if the price of polysilicon continues to come down, whether it comes on slowly or rapidly, we don't know, but if it keeps on coming down every quarter that we should expect improvement in gross margin on a steady basis quarter-by-quarter.

Charlie Cao - *Chief Financial Officer*

Yeah, if you year basis significant, we are optimistic on our profitability. And as you know it's not only the polysilicon, it's our comparative is improving a lot. We have good products. We have very strong R&D teams and we have branding global sales and marketing and we have a very solid supply chain teams and drive up the overall performance.

Rajiv Chaudhri - *Sunsara Capital - Analyst*

Can you also talk about the capacity that you had for wafers, cells and modules at the end of 2022?

Charlie Cao - *Chief Financial Officer*

It's - actually we disclose in the presentations slide, and the 65, 55 [Phonetic] gigawatts by the end of last year and we continue to expand our N-type capacity. And total capacity will reach I 75, 90 gigawatts by the end of this year.

Rajiv Chaudhri - *Sunsara Capital - Analyst*

Right. Can you also talk about the trends that we should expect in operating expenses in 2023 versus the fourth quarter of 2022? For example you should incur less costs are no costs related to the product coming out of Pingyang. And you should also incur less shipping costs. So should we be expecting 100 to 200 basis point improvement in operating expenses in 2023 versus the fourth quarter?

Charlie Cao - *Chief Financial Officer*

Hey, Rajiv, I think the operating expenses in US companies composed of lot of key components, one of the most important is shipping cost, which is - it's starting to improve a lot the global economy is - the impact to the shipping logistics space is not so significant and we expect the ship, shipment costs will improve a lot. On top of that our US, the US LPA, well has improved as I said and we have incurred significant on stock storage costs for the shipments to the US market.

And that we will expect significant improvements as well we - even in our management team's internal meetings we are expecting our overall, let's say, the labor efficiencies, we expect to increase 20% to 30%. And so that's going to be, I think with expensing 60 to 70 gigawatts, versus 45 gigawatts which 30% increase on the top line and shipment cost improvement and efficiency continues to improve. We expect operating expenses will be on a downward trend quarter-over quarter.

Rajiv Chaudhri - *Sunsara Capital - Analyst*

Also can you talk a little bit about what trend do you see in the G&A, in the general and administrative expenses? They went up a lot in 2022, compared to '21. What sort of growth do you see in those expenses going forward?

Charlie Cao - *Chief Financial Officer*

Well, we have some let's say, obsolete, one-off items that we disposed obsolete equipment. And for the smaller size, the impairment to produce smaller sized modules. And we granted stock options, we have one-off stock option based compensation expenses. So that is the key reasons for our G&A expenses increase year-over-year.

Rajiv Chaudhri - *Sunsara Capital - Analyst*

Thank you. Charlie.

Charlie Cao - *Chief Financial Officer*

Welcome.

Operator

[Operator Instructions] Our next question will come from Alan Lau with Jefferies. Please go ahead.

Alan Lau - *Jefferies - Analyst*

Hi, thanks a lot for taking my question. So I would like to ask in about on the 4Q results, because the share - our results actually show a very strong quarter-over quarter earnings growth, almost doubled whereas the US level the net, and just net income actually declined. So how should we reconcile the difference between these two? And is there any further share based expenses there or yeah, just what is the different between the two levels?

Charlie Cao - *Chief Financial Officer*

Firstly the accounting is under the PRC GAAP versus. It's under US GAAP under the consolidation basis difference. The US entity hold only 58% of the equities of the Asia. Under that under US GAAP, we have for the 2022 we have significant difference on Income tax expenses relating to the deferred tax assets. Because of the US PPA, we have significant loss and the oversea entities under US GAAP, it is not recognized the cumulative losses under the deferred tax assets.

And under the PRC GAAP, on the beginning it is not recognized. So there is significant difference on income tax expenses. And there is - additionally, we have some difference on the accounting for the [indecipherable] benefit for the economy and based on different accounting policies. And under US GAAP we have separate items like the change in value, fair value of convertible bonds. And for the long-term of equity investment for the ecosystem in US entity is recorded under the fair value gains.

And adjusted net income excluding that two items as well. So back to your question, I think that it's a one-off income tax accounting difference for the Q4, as well as employee benefits under the US GAAP accounting.

Alan Lau - *Jefferies - Analyst*

Understood. So there is quite a significantly increase in the tax. And also as another relative detailed question on the FX gain because the Company has made significant FX gain in 3Q and actually RMBS depreciate that in 4Q but things like FX loss. So is it because of the hedging issue or why is that?

Charlie Cao - *Chief Financial Officer*

So what are you talking about, for which line item?

Alan Lau - *Jefferies - Analyst*

FX, foreign exchange loss.

Charlie Cao - *Chief Financial Officer*

Okay. For the tradition is to overall, I think we did significant - very good on the foreign exchange hedge and on the net basis we, I think mitigate. And there are some factors quarter-by-quarter as seen in Q4. The net gains is relatively smaller versus the Q3 because [indecipherable] a loss in the Q3 last year.

Alan Lau - *Jefferies - Analyst*

Understood. Thanks. And switching the topic to technology, so what would you expect the - you did net profit or the ASP premium of. TOPCon versus - coming into first Q, because the shipment percentage is higher at the N-type shipment, have even higher contribution to the net profit. So can you

share with us?

Charlie Cao - *Chief Financial Officer*

The premium is roughly $0.015. And with our efficiencies we are leading the industry and the product provides additional value to the end costumers. We think it's $0.01 to $0.015 premium is obtainable, the price mechanism.

Alan Lau - *Jefferies - Analyst*

Understood. So is it fair to say the accounting issues will not exist going forward and we have declining freight cost, shipping costs and also the ASP premium is also high, then we should expect a strong first quarter in terms of gross margin?

Pan Li - *Chief Financial Officer*

We expect the gross margin expansion in the first quarter. And we have more integrated levels under the N-type percentage are expect to reach to 50%. And the polysilicon is in a downward trend. And so you're right. We expect in the first-half of the year the gross margin in expansion stage.

Rajiv Chaudhri - *Sunsara Capital - Analyst*

I got it. I think my last question is what is JinkoSolar's plan in the US, because you have 400 megawatt already and some of the Chinese peers has already started construction for expansion in capacity. So what are the plans for JinkoSolar now in the US?

Gener Miao - *Chief Marketing Officer*

Well, we are doing very solid analysis evaluating for expansion in the US. And we're optimistic because it's going to be, I think is very attractive gain. And as far as US is I expect to strong demand. So we in the final evaluation stage. We have already 400 megawatt capacity and the way we will expands.

Alan Lau - *Jefferies - Analyst*

Thanks a lot, Charlie for answering my question. Thank you.

Charlie Cao - *Chief Financial Officer*

Welcome Lau.

Operator

The next question will come from Pierre Lau [Phonetic] with Citigroup. Please go ahead.

Pierre Lau - *Citi - Analyst*

Thank you management for taking my call. So I have two follow-up questions regarding on the N-type TOPCon traffic. So my first question is about the current which is the recurring unit product, product unit cost level of your N-type TOPCon modules compared to the first one and what is the target level by end of this year? And my second question is about the capacity. So how many new capacity that you like to build this year? And adding - in addition to the 35 gigawatt by end of 2022? Yeah, that's my questions.

Gener Miao - *Chief Marketing Officer*

Thanks. In terms of the N-type modules integrated cost versus the P-type and we have reached to the qualitative, let's say the same cost for the N-type versus the P-type in the last year. And this year because of the polysilicon downward trend which will have some negative impacts as we continue to improve the efficiencies and implement new process materials and we expect we will maintain the same cost structure in the year for the N-type versus the P-type.

For the N-type, in the N-type, in the last year we have certified, the N-type line, and built capacity and by the end of this year and we will have I think 55 gigawatt, N-type TOPCon capacity. The expansion is roughly is 55 gigawatt built capacity. Thanks.

Pierre Lau - *Citi - Analyst*

Okay, thank you.

Operator