JinkoSolar - Q3 2024 Transcript

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Transcript

Speaker 4

Hello, ladies and gentlemen, and thank you for standing by for JinkoSolar Holding Co., Ltd.'s Third Quarter 2024 Earnings Conference Call. At this time, all participants are in listen-only mode. After management's prepared remarks, there will be a question-and-answer session. As a reminder, today's conference call is being recorded. I would now like to turn the meeting over to your host for today's call, Ms. Stella Wang, JinkoSolar's investor relations. Please proceed, Stella.

Stella Wang (Head of Investor Relations)

Thank you, Operator. Thank you, everyone, for joining us today for JinkoSolar's third quarter 2024 earnings conference call. The company's results were released earlier today and are available on our 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, I'm Mr. Xiande Li, Chairman and CEO of JinkoSolar Holding Co., Ltd., Mr. Jianan Miao, CMO of JinkoSolar Co., Ltd., Mr. Pan Li, CFO of JinkoSolar Holding Co., Ltd., and Mr. Charlie Cao, CFO of JinkoSolar Co., Ltd. Mr. Li will discuss JinkoSolar's business operations and company highlights, followed by Mr. Miao, who will talk about sales and marketing, and then Mr. Pan Li, who will go through the financials.

They will all be available to answer your questions during the Q&A session that follows. Please note that today's discussion will contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our future results may be materially different from the views expressed today. Further information regarding this and other risks is included in JinkoSolar's public filings with the Securities and Exchange Commission. JinkoSolar does not assume any obligation to update any forward-looking statements except as required under the applicable law. It's now my pleasure to introduce Mr. Li Xiande, Chairman and CEO of JinkoSolar Holding. Mr. Li will speak in Mandarin, and I will translate his comments into English. Please go ahead, Mr. Li.

Xiande Li (Chairman and CEO)

[Foreign language]

While earnings were under pressure across the industry during the quarter, we achieved relatively outstanding results, leveraging our leading position in N-type TOPCon technology, competitive products, as well as global sales and manufacturing network. Imbalance between supply and demand led to continuous price decline in the end market, causing loss to almost the whole industrial chain. As we worked to balance utilization rates, shipments, and profitability, prices in the third quarter were stable sequentially, and shipments to the U.S. market increased significantly quarter over quarter. We also continued to optimize our integrated costs through technical advancement and supply chain management. Gross margin was 15.7%, and net income was $3.2 million, significantly improved sequentially.

[Foreign language]

In September, the newly added installation was 20.89 GW in China, up 32.4% year-over-year and 26.9% sequentially, reversing the sequential declining trend of the previous two months. Due to seasonal demand volatility in some overseas markets, module exports in September decreased sequentially. Demand was slightly weak, while clearing out of supply was accelerated. With profitability throughout the whole industrial chain and pressure, some companies with insufficient cash flow and poor risk resistance have gone bankrupt, reorganized or been acquired from time to time. During this month, the CPIA held symposiums aimed at encouraging manufacturers to adopt self-discipline in their pricing strategies and production volume management. CPIA also released a report calling on manufacturers to participate in bidding in rational manners, avoid selling or bidding with prices below cost, and also bid organizers to formulate reasonable bidding plans, shifting the focus to products and service quality as well as contract performance.

We believe these measures may help eliminate competitive capacity and accelerate the industry consolidation. We believe that with enhanced supervision of related departments, domestic prices will eventually return to reasonable levels.

[Foreign language]

In the third quarter, we further consolidated our competitive edges. By the end of this quarter, the mass-produced efficiency for our N-type TOPCon cells improved to approximately 26.2%. As TOPCon is still in a stage of rapid technology and product upgrades, we have continued to invest in R&D and are gradually adopting certain new technologies into mass production based on market demand, investment payback periods to maintain a leading position in the industry.

[Foreign language]

We continuously improve our smart production capabilities to lead the industry in digital transformation. Recently, at our Shanxi Megabase, we built the Jinko360 smart platform in cooperation with Dahua Technology, and it has been certified by TÜV Rheinland. By integrating MES and QMS systems with some cutting-edge technologies such as the Internet of Things, AI, and big data analysis, the platform can improve real-time equipment

monitoring in the vast majority of our production process and ensure whole process management from warehousing of raw materials to warehousing of finished products.

[Foreign language]

As one of the leading voices in the fight against climate change, JinkoSolar has always aligned its operations with global climate goals. Recently, we participated in the 2024 New York Climate Week, where we officially launched the English version of our first climate white paper. We have kept improving ESG management in our supply chain, and so far we have completed third-party ESG audits for most of our key suppliers, and the majority of our suppliers have signed our code of conduct.

[Foreign language]

As we navigate through cycles, the leading enterprises in our industry will emerge ahead thanks to their superior cost control, extensive sales network, and effective cash flow management. In the long term, they will continue to benefit from continuous investments in R&D and expansion of their global capabilities. We will focus more on balancing market structure and profits. We expect the module shipments to be between 90GW-100GW for FY 2024 and 22.3GW-32.3GW for the fourth quarter. We will also continue to optimize our assets and liability structure, as well as turnover efficiency, further strengthening our resilience to risks.

Gener Miao (CMO)

Thank you, Mr. Li. Our total shipments were 25.9GW in the third quarter, with module shipments accounting for 92%, nearly flat sequentially. We maintained our global leading position in module shipments during both the third quarter and the first three quarters. This achievement is a testament to the trust of our global clients in our reliable, high-efficiency products and services. In the third quarter, around 60% of modules were shipped overseas, with Europe, North America, and emerging markets all healthy. Distribution business accounted for approximately 37% of total shipments compared to approximately 45% in the second quarter. Thanks to continuous improvements in Tiger Neo's product strength, Tiger Neo's shipments accounted for nearly 90% of total shipments, a steady increase from 85% in the second quarter. In China, the ratio of Tiger Neo has grown to over 90%, while it increased to nearly 70% in North America.

We once again topped the PV-Tech 2024 Q3 ModuleTech Bankability Report with a AAA rating and also received the highest bankability score in this industry. This honor rewards our commitment to quality, innovation, and R&D, as well as global clients' trust in our product quality, bankability, and reliability over the long term. Recently, we launched the next-generation TOPCon technology solar panel named Tiger Neo 3.0. The Tiger Neo 3.0 product will be manufactured on the production line of a zero-carbon factory certified by TÜV Rheinland, catering to the client's demand for the high-efficient, reliable, and clean product. Also, in the latest BNEF Energy Storage Tier 1 list in Q4 2024 ranking, Jinko Energy has once again been recognized as a Tier 1 manufacturer by Bloomberg for its outstanding performance in the energy storage sector. By the end of the quarter, our accumulated global shipment exceeds 280 GW.

We helped our global clients achieve grid parity with green and economical renewable energy solutions. Short-term cyclical volatility in this industry, shifts in the macro environment, and disturbances from international trade policy bring PV companies not only challenges but also opportunities. We always proactively seize opportunities from challenges in the market demand, balance market risk, and lead the industry development with more high-efficiency and reliable products and services while maintaining a reasonable market share.

Pan Li (CFO)

Thank you, Gener Miao. We are pleased to have achieved steadily improving financial results with our leading position in N-type TOPCon technology, competitive products, global marketing, and manufacturing network, as well as our efforts to control costs and expenses. Key financial metrics such as total revenue, gross margin, operating income, and net income all increased sequentially.

We will continue to improve the efficiency of our working capital, achieving sustainable growth in operating cash flow and enhanced resilience to risks. Let me go into more details now. Total revenue was about CNY 3.5 billion, up 2% sequentially and down 23% year-over-year. The sequential increase was mainly due to the increase in module shipments. The year-over-year decrease was mainly due to a decrease in the average selling price of solar modules. Gross margin was 5.7% compared with 11.1% in the second quarter and 19.3% in the third quarter last year. The sequential increase was mainly due to the increase in the average selling price of modules, and the year-over-year decrease was mainly due to the decrease in ASP of modules. Total operating expenses were CNY 539 million, down about 1% sequentially and up 20% year-over-year.

The year-over-year increase was mainly due to the increase in shipping costs as the shipments of the solar modules increased and an increase in the impairment of long-lived assets. Operating expenses accounted for 15.4% of total revenues in the third quarter compared to 15.9% in the second quarter this year and about 10% in the third quarter last year. Net income attributed to our ordinary shareholders was $3.2 million in the third quarter, excluding impact of a change in fair value of the convertible note and long-term investments in solar supply chain companies, share-based compensation expenses, and impairment of the capacity utilization, which was strategically adjusted by the company. The adjusted net income attributed to our ordinary shareholders was $14.8 million. Moving to the balance sheet.

At the end of the third quarter, our cash and cash equivalents were about CNY 3.2 billion compared with about CNY 2 billion in the second quarter. AR turnover days were 98 days compared with 89 days in the second quarter this year, and inventory turnover days were 66 days compared with 82 days in the second quarter this year as a result of improved operating efficiency. At the end of the third quarter, total debt was CNY 5.23 billion compared to CNY 3.86 billion in the second quarter this year. Net debt was CNY 2.05 billion compared with CNY 1.95 billion in the second quarter this year. This concludes our prepared remarks. We're now happy to take your questions. Operator, please proceed.

Operator (participant)

Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up the handset to ask your question. Your first question comes from Philip Shen with Roth Capital Partners. Please go ahead.

Philip Shen (Senior Research Analyst)

Hi, everyone. Thanks for taking my questions. First one is on the volume of modules shipped into the U.S. in Q3. Can you confirm what it was? And then, sorry if I missed it, and then can you also provide the megawatts you expect to ship into the U.S. in Q4? Thanks.

Gener Miao (CMO)

Thanks, Philip. Yeah, our Q3 shipment to U.S. is roughly 15%-18% of total shipment. So I think you can figure out the detailed numbers. Q4, we forecast that the number will be lower because of seasonality issues and the market turbulence. But however, when we look into the whole year, it should fit in or fall into our expectations, which is roughly 5%-10% of the total shipments. So the total number should be within the expectations.

Philip Shen (Senior Research Analyst)

Great. Thanks, Gener. Can you share what it might be for 2025 as well? And then with the risk of this volume in the U.S. and the AD/CVD decision coming, what's your confidence level in whether or not it will be retroactive and also won't be a high number? How are you guys managing that risk? Thanks.

Gener Miao (CMO)

Yeah. So from our perspective, we still take the U.S. market as a long-term market. So no matter how the policy or tariff changes, we're always trying to figure out the solutions to survive and compete in the U.S. market. So regarding 2025, we still have not decided the final number yet because of the upcoming election. And also, there will be the numbers of AD/CVD announced pretty soon. So we think we will figure out the numbers after that when we see more certainties. So we will talk maybe soon regarding that topic. Regarding the retroactive risks, we still believe we heard about the petitioner's request on this. I think it's CVDs. So we are still evaluating the risk and waiting for the final decision. Regarding the ADs, since we are in the sample list, we are cooperating with our lawyers to try to not trigger the retroactive risk.

We are doing our best to avoid the unnecessary risks.

Operator (participant)

Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Rajiv Chaudhri with Sunsara Capital. Please go ahead.

Rajiv Chaudhri (President)

Yeah. Good morning and congratulations on a good quarter. I have a few questions. The first question is on your average selling prices in the third quarter, were obviously higher than they were in the second quarter and the reason was the increased shipment to the United States. If the shipments to the U.S. are going to go down in Q4 as a percentage, should we expect a pretty significant decline in ASPs quarter over quarter in the double-digit range?

Gener Miao (CMO)

The third quarter, the ASP quarter by quarter is quite flat given what we have more shipments in the U.S. And looking to the fourth quarter, and the market price in recent three months is in a downward trend. And so we think it's kind of moderate and downward in terms of the pricing in the fourth quarter, which is third quarter.

Rajiv Chaudhri (President)

I guess another way of asking the question is, what is the expectation for ASPs in China in the fourth quarter relative to the third quarter and also in Europe, again, Q4 versus Q3?

Gener Miao (CMO)

Yeah. So currently, if you look at the index, InfoLink, a lot of independent parties published the price. The trend is quite similar. But now, the CPIA, the China Photovoltaic Industry Association, is leading the policy studies and trying to, I think, to mitigate the oversupply versus pricing problems in the industries. And we think the price has already reached to the bottom. And hopefully, we think the price will be stabilized and helps the industry to go to the relatively disciplined approach.

Rajiv Chaudhri (President)

So I guess the question is, if prices stay stable from here in China and Europe for the rest of the year, are they still down relative to the third quarter?

Gener Miao (CMO)

Oh, I got a question. Because of mix of different regions, right? We have lower shipments in the U.S., which is our region in the fourth quarter. So the blended ASP should be a little bit lower in Q4.

Rajiv Chaudhri (President)

Right. Okay. Moving on to the EBITDA number for the third quarter, can you tell me what the depreciation number was in Q3? And also, can you confirm if the EBITDA in Q3 was in excess of $400 million?

Gener Miao (CMO)

No. EBITDA, we have disclosed the detailed numbers and the depreciation per quarter, roughly $70 million. So you can do the calculations.

Rajiv Chaudhri (President)

Sorry. Can you repeat the depreciation in the third quarter?

Gener Miao (CMO)

It's around $70 million a quarter.

Rajiv Chaudhri (President)

$78 million?

Gener Miao (CMO)

70. 70.

Rajiv Chaudhri (President)

70?

Gener Miao (CMO)

Yes.

Rajiv Chaudhri (President)

Okay. And next question is on storage. Can you give us an update on the storage business? And are you likely to hit $100 million in revenues this year? Or is it still smaller than that?

Gener Miao (CMO)

Hi, Rajiv. I don't think it's the right time to disclose the detailed numbers. We are still trying our best to grow the storage business into an ambitious goal. So we think we will share the positive or good news with all the investors once it's ready. But for us, it's still an early-stage business. We think it's not the right timing to disclose the numbers.

Rajiv Chaudhri (President)

Okay, and finally, on shipping costs, can you give us an idea of what the trend line in shipping costs was in the third quarter and what you expect in Q4 and beyond? I'm talking about shipping costs per unit. Per what?

Gener Miao (CMO)

Yes. Yes. And in the first half year, the logistics cost is relatively higher, particularly the political tensions in the Middle East and the impact on all routings, including U.S. logistics costs. And now we're expecting the logistics costs will be relatively lower starting the fourth quarter. And from the supply side, the containers, there's a sufficient containers to supply the demands. So we're expecting the logistics costs will be relatively lower quarter by quarter.

Rajiv Chaudhri (President)

Also, final question is on G&A expenses. Last year, in the fourth quarter, the G&A expenses were over CNY 200 million. And this was a sharp increase from the third quarter. Should we expect a similar trend in the fourth quarter this year?

Gener Miao (CMO)

Throughout this year, we continue to trend the operating expenses, including G&A expenses. Looking to Q4 versus Q3, we are expecting the operating expenses will be lower Q4 versus Q3.

Rajiv Chaudhri (President)

I see. Okay. Thank you.

Gener Miao (CMO)

Thank you.

Operator (participant)

Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. We will now pause momentarily to allow questions to be registered. Once again, if you wish to ask a question, please press star one on your telephone. Your next question comes from Brian Lee with Goldman Sachs & Co. Please go ahead.

Brian Lee (Managing Director)

Hey, everyone. Thanks for taking the questions. Just a couple of housekeeping ones. Did you give us the free cash flow number in the quarter and also the CapEx number in the quarter? And I had a follow-up.

Gener Miao (CMO)

For the full year, we estimate. I don't have the exact numbers for the third quarter, but the full year, 2024, the CapEx will be around CNY 9 billion. Operating cash flow is roughly CNY 5 billion. So net operating cash flow, the free cash flow is negative, the CNY 4 billion.

Brian Lee (Managing Director)

Okay. That's helpful. And then can you give us an update on the latest status of your Frankfurt listing efforts? And also maybe a little bit of color around your net proceeds expected and what we should be sort of modeling in terms of cash impact on the balance sheet plus dilution? Thanks, guys.

Gener Miao (CMO)

The GDR, the GDR, we just announced its roughly total is RMB 4.5 billion. And roughly, the dilution will be 5% or 6% depending on the issuance price. But the timetable is still in the early stage of the preparations. And we expect the GDR will be roughly completed in the second quarter next year. And the use of the proceeds as we have disclosed is the majority for the existing Shanxi super factory, the second phase. We have roughly begun construction and to be completed by the end of this year. And the remaining part will be used for the working capital purposes as well as small portions for the U.S. existing module capacity further expansions.

Brian Lee (Managing Director)

All right. Thanks a lot. Best of luck with it. Appreciate it.

Gener Miao (CMO)

Thank you.

Operator (participant)

Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Mohammed Ahmed with Emirates Development Bank. Please go ahead.

Ahmed Mohamed Al Naqb (CEO)

Yeah. So my question is, how much of your business is from the utility segment and from the rooftop solar segment? And another question is that your diluted EPS is 0.57 per ADS. How is it calculated? Because the number of shares is 53.4 million, and basic shares are 52 million. But the difference in basic and diluted EPS is huge, 1.45 versus 0.57.

Gener Miao (CMO)

For the detailed EPS, we can share the detailed calculation. And I think it's very simple. So after the call, we can share the detailed calculation with you. And in terms of the percentage or utility versus.

Ahmed Mohamed Al Naqb (CEO)

Yeah. So DG, I think we talked about it during the prepared remarks. The DG ratio is roughly a high 30 range. So if you want to know the detailed numbers, we can share with you. Hold on a second. It's roughly 37%. That's DG. It means 63% is utility. Okay. Okay. Thank you.

Operator (participant)

Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. We will now pause momentarily to allow questions to be registered. There are no further questions at this time. That does conclude our conference for today. Thank you for participating. You may now disconnect.