JinkoSolar - Q3 2020 Transcript

12/07/2020

Transcript

Management

Ripple Zhang - *Investor Relations Manager*

Kangping Chen - *Chief Executive Officer and Director*

Gener Miao - *Chief Marketing Officer*

Haiyun (Charlie) Cao - *Chief Financial Officer*

Participants

Philip Shen - *ROTH Capital Partners - Analyst*

Gary Zhou - *Credit Suisse - Analyst*

Tony Fei - *BOCI - Analyst*

Brian Lee - *Goldman Sachs - Analyst*

William Graben - *UBS - Analyst*

Presentation

Operator

Ladies and gentlemen, thank you and welcome to JinkoSolar Holdings Third Quarter 2020 Earnings Conference Call. At this time, all participants are in listen-only mode. After the management's prepared remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to turn the meeting over to your host today, Ms. Ripple Zhang, JinkoSolar's Investor Relations Manager. Please proceed, Ripple.

Ripple Zhang - *Investor Relations Manager*

Thank you, operator. Thank you, everyone, for joining us today for JinkoSolar's third quarter 2020 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. Chen Kangping, Chief Executive Officer; Mr. Charlie Cao, Chief Financial Officer; and Mr. Gener Miao, Chief Marketing Officer. Mr. Chen will discuss JinkoSolar's business operations and Company highlights, followed by Mr. Miao, who will talk about the sales and marketing, and then Mr. Cao, 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. Chen Kangping, CEO of JinkoSolar. Mr. Chen will speak in Mandarin, and I will translate his comments into English. Please go ahead, Mr. Chen.

Kangping Chen - *Chief Executive Officer and Director*

[Foreign Speech] During the third quarter, our total solar module shipments were 5,117 megawatt. Total revenues were $1.29 billion, and the gross margin was 17%. In the fourth quarter, the Company's profits faced certain pressures due to a few factors. Supply shortage of raw materials, increased production costs, coupled with the impact of fluctuations of the US dollar and higher logistics and transportation costs. With the turmoil of the global pandemic continuing to ease, PV has received wide support from most of the world economies, and the bottleneck of raw materials is expected to gradually improve. We strongly believe that the PV industry has ushered in a golden age. However, we will continue to be vigilant about market conditions around the world, and should not overestimate the economy - economic turmoil in the next one year or two years, and underestimate the changes to come over the next decade.

[Foreign Speech] Government policies have been very favorable. China outlined a strategic plans to hit peak emissions before 2030 and reach carbon neutrality by 2060, a significant step in the fight against the climate change. The next announcement of the 14th five-year energy plan in March 2021 is expected to focus on non-fossil energy sources, and outline new energy power generation targets and other parameters.

Furthermore, the larger scale construction of energy storage required by the power grid to achieve a higher proportion of renewable energy, investment in grid transformation and the subsequent introduction of supporting policies, all can be very positive expectations after President-elect Joe Biden takes office in January 2021. His administration is expected to promote the development of new energy beyond current expectations. In the next five years, US solar demand is expected to more than double.

In September 2020, the EU officially released the 2030 Climate Target Plan, which has proposed to increase the greenhouse gas emission reduction target from 40% to 60% below 1990 levels by 2030. This will, no doubt, accelerate the increase in the proportion of renewable energy consumption. In short, as the economy of solar energy become more and more prominent, solar power will play a vital role in accelerating the transformation of energy generation and consumption in major economies post COVID-19, and the future market space is expected to expand beyond our imagination.

[Foreign Speech] With the approach of grid parity, leading companies will stand to benefit the most from technological advancement, and cost reduction in the PV industry. On the one hand, top players are well positioned to expand their market share with competitive products, driven by strong and a sophisticated R&D, and to leverage the advantage of their well-known brands and distribution channels worldwide. On the other hand, still supply chain management and proportion of simultaneous growth of the supply chain, top players are expected to achieve technical innovation and product iterations more rapidly, while helping to elevate industry standards to new highs.

[Foreign Speech] The Company's strategic growth has always been to invest in technology as competitive advantages, and continuously improve our operations and product lines. In July 2020, the maximum solar module conversion efficiency of our N-type module reached 23.01% and set a new world record. Testing was conducted by TUV Rheinland, one of the world's leading testing service provider in August. Our N-type TOPCon cell conversion efficiency reached 24.9%. Independently confirmed by the Institute for Solar Energy Research in Hamelin, which set another world record for the industry. Concurrently, we proactively optimized our supply chain management and ensured the stable supply of raw materials and auxiliary materials through long-term purchase agreements, strategic cooperation and other resources. We are supply links. We're more likely to experience shortages. We transformed our technology and used substitute materials to ease the volatility in the supply chain brought about by rapid growth.

[Foreign Speech] Module products are going through a period of rapid change. We believe that granular adjustments are more beneficial. The majority of the supply chain issue is the safety and reliability of products, and the use of standardized application is more conducive to the healthy development of the industry. We are committed to produce the highest quality products that will continuously improve the energy density of the system and reduce system costs of our - for our customers. So far, our next-generation Tiger Pro service has received orders for an aggregate amount exceeding 2 gigawatt. The first batch of mass produced Tiger Pro modules were shipped in October, and the maximum mass production power can reach 585 watt. The Tiger Pro series continues to set new benchmarks for the industry in terms of high compatibility and high adaptability.

[Foreign Speech] By the end of 2020, we expect our in-house annual mono silicon wafer, solar cell and module production capacity to be 20 gigawatt, 11 gigawatt and 30 gigawatt respectively. At the same time, in order to cope with a broad market demand, and the expected rapid growth in the shipments next year, we are currently evaluating all our production lines in order to increase production capacity for each segment and ensure appropriate integrated production level accordingly. The global demand for solar energy is accelerating, and the Company is well positioned to meet expectations. We believe that the Company has the ability to continue to expand its global market share and further reinforce our leading position in the global PV industry.

[Foreign Speech] Before turning over to Gener, I would like to quickly go over our guidance for the fourth quarter of 2020. We expect total solar module shipments to be in the range of 5.5 gigawatt to 6.0 gigawatt for the fourth quarter of 2020. Total revenue for the fourth quarter is expected to be in the range of $1.31 billion to $1.43 billion. Gross margin for the fourth quarter is expected to be in the range of 13% to 15%. The full year 2020 shipments to be in the range of 18 gigawatt - 18.5 gigawatt to 19.0 gigawatt.

Gener Miao - *Chief Marketing Officer*

Thank you, Mr. Chen. In the third quarter of 2020, total shipment of solar modules reached 5,117 megawatt, in line with our guidance. During the quarter, while we faced the challenges from the pandemic and the changes in the market supply and demand, we primarily adjusted our geographic mix in response to any market of mortalities. Overall, shipments to Europe increased significantly compared with the previous quarter. Shipments to the Asia-Pacific region remained strong, while shipments to North America and the China were consistent with the performance in the second quarter.

In terms of the market demand, since the beginning of the third quarter, delays in the supply of some raw material and auxiliary materials together with increased downstream demand lead to price increase. Along with entire supply with gradually recover in supply and the strong demand brought by the installation rush in the fourth quarter, we are seeing that price increases for some raw materials have been absorbed because of strong market demand. We expect the market pressure to gradually ease next year.

The Chinese PV market will no longer enjoy subsidies starting in 2021, and will enter the era of grid parity on a large scale. And as a 2030 carbon emissions reduction target and as 2060 carbon neutrality goal, China will have to gradually replace the traditional thermal power. As a result, it is estimated that China's annual average installation capacity will reach 60 gigawatt to 70 gigawatt over the next five years, delivering phenomenal growth to the renewable energy markets.

The COVID-19 pandemic continues to intensify in the US, and the latest daily average number of confirmed diagnosis has exceeded 200,000 reaching a new peak. While the situation continues to evolve in the US, in the long term Joe Biden administration is expected to support the development of new renewable energy, including plans for the US to rejoin the Paris Agreement and to achieve net zero emissions by 2050. Other measures are also expected to promote the divestment of renewable energy in the post-pandemic era in the United States.

According to the forecast by the consulting firm Wood Mackenzie, assuming ITC does not extended and the current policy remains the same, US PV power plants are expected to add about 100 gigawatt of installed capacity from 2020 to 2025 with an annual capacity of about 20 gigawatt added from '21 to '23.

Recently, the European Commission announced an economic recovery plan to provide, renew the confidence and stimulate growth for economic development in the post-pandemic era. It is worth noting that the plan recommended accelerating the development of renewables and encouraged

investments in innovative clean energy technology as important consideration for the economy recovery. It also proposed a supporting this initiatives with EUR45 billion in France, dedicated to the development of renewable energy, which further reinforce Europe's long-term commitment to the renewable energy sector. The EU Council has endorsed of EUR1.5 billion public sector loan facility to support energy transaction and green investment. The credit will be available to government of 27 EU member states, and cannot be used for nuclear power or fossil fuel projects. This measures are expected to further stimulate the development of renewable energy in the post epidemic era and promote EUI target of generating at least 32% of energy from renewables by 2030.

Economic activity in the Asia-Pacific region has basically recovered, and returned to normalcy. And the market demand remains strong. In the first three quarter of 2020, average monthly newly added rooftop installation in Australia exceeded that of last year. If COVID-19 situation does not worsen for the rest of the year, residential installation capacity may reach 3 gigawatt in Australia for 2020. Vietnam may consider imposing tariffs on imported components in the future, but it is still in the early stage of discussion, and the impact on the demand is expected to be relatively limited. In addition, the Ministry of Industry and Trade of Vietnam stated that after more than three years of encouraging FIT rates to develop more solar power plant projects in Vietnam, it is now working on pilot program to determine the price of solar power with the aim of transition from FIT to a bidding system, which may relief the investor pressure to a certain extent.

Japan's new Prime Minister announced that in his first policy address that, Japan will achieve zero greenhouse gas emissions by 2050. In the future, Japan will actively promote research on next generation solar cells and the carbon recycling technologies, and is committed to reduce reliance on thermal power generation. Overall, it is expected that Asia-Pacific region will sustain healthy growth in the fourth quarter and into next year.

Emerging markets have been greatly impacted by the pandemic for a relatively long time. Brazil has been severely affected by the pandemic and it has yet to continue. However, local coronavirus transmission continues to ease in other countries, such as Chile, UAE and South Africa. The number of newly diagnosed case in a single day has steadily declined, and we believe there will be increased demand as economic activity recovers. According to the statistics from the Brazilian Photovoltaic Solar Energy Association, Brazil has added about 162,000 new solar generation system over the past 12 months, an increase of more than 130% year-over-year. Saudi Arabia is pursuing an ambitious renewable energy strategy. It plans to add nearly 60 gigawatt of clean energy installed capacity of the state grid by 2030, of which 40 gigawatt will come from PV power plants. Some African countries are also actively promoting the installation of PV power generation system to solve the problems of rising power demand in their countries.

In short, volatility and the fluctuations of the supply chain in the short term, and the resurges of COVID-19 poses some immediate of challenges. But in long term, the competitiveness of renewables will provide strong support for the long-term development of the renewable energy markets. Among renewables, solar power has had the largest cost reduction in recent years. As LCOE and the cost of energy storage continue to decline over time, solar energy will continue to lead a tremendous opportunities in this growth sector, and accelerate the transformation of the global energy system, which have been further encouraged by policy support for energy conservation, global emissions reduction, and sustainable development of renewable energy sources. It is estimated that the global installation will exceed 300 gigawatt in 2025, and exceed a 1,000 gigawatt in 2030. We are confident about the future development of PV.

In terms of customer value, we have always been committed to build a reliable applications that will reduce LCOE for our customers. Since the successful launch of the new Tiger Pro series in May 2020, we have held over 50 online webinars to convey the technology highlights of the product line to investors, EPCs, upstream and downstream suppliers. This is one of the channels we adopted in this unusual time, in order to provide a comprehensive customer service and to demonstrate the optimal LCOE and the return on investment, due to the excellent compatibility and adaptability qualities of this popular product.

We maintain solid relationship with participants in the supply chain and obtained timely feedback from customers to help us make forward-looking predictions and a strategic decision. Our next-generation of high efficiency Tiger Pro modules have been well received by our clients worldwide. As of the end of October, we have already secured orders for a total 2 gigawatt. Recently, the Company has been awarded the highest rating for national customer satisfaction enterprise credit service platform of China, which also reflects our consistent commitment to the product quality.

In future, large size product with advanced technology will most likely stand out more in the mildest of a fierce market competition. By leveraging the innovation of our advanced technology, extensive and forward-looking market strategy, and the long-term brand loyalty among our global customers, we will continue to adjust our PV product mix, while maintaining the premium quality of our products to meet the needs of global market demand.

With that, I will turn it over to Charlie.

Haiyun (Charlie) Cao - *Chief Financial Officer*

Thank you, Gener. In the third quarter, we reported a strong operational and financial results, with total shipments, total revenue and gross margin all in line with our guidance. Although, the significant increase in silicon material costs and volatility of our exchange rates brought some pressures on our performance during the quarter, the Company benefited from our in-house production capabilities and some cost control, which allowed us to maintain financial indicators such as revenue and gross margin at stable levels.

Let me go into more details about the quarter now. Total revenue was $1.29 billion, an increase of 3.8% sequentially and increase of 17.2% year-over-year. Gross margin was 17%, which remained stable quarter-over-quarter. Income from operations was $80.4 million, an increase of 25.6% sequentially. Excluding anti-dumping and countervailing duties reversal benefit, the income from operations increased 28% year-over-year. EBITDA was $144 million, compared to $100 million in the same period last year.

Non-GAAP net income was $47 million, an increase of 7% year-over-year. This translates into non-GAAP diluted earnings per ADS of $1.06. Taking into account the loss from the change in fair value of convertible senior notes and call option, due to the sharp increase in our stock market - stock price of JinkoSolar, in the third quarter of 2020, GAAP net income was close to breakeven.

Total operating expenses in the third quarter accounted for 10.8% of total revenue, and decreased both sequentially and year-over-year.

Moving to the balance sheet. By the end of the third quarter, our balance of cash and cash equivalents were $943 million, compared to $969 million at the end of second quarter 2020. AR turnover days were 61 days, compared to 63 days in the third quarter of last year. Inventory turnover days were 97 days, compared to 93 days in the third quarter last year. Total debt was $2.5 billion, in which $128 million was related to international solar projects, compared to $2.3 billion at the end of second quarter. Net debt was $1.59 billion, compared to $1.37 billion at the end of second quarter 2020.

By the end of October, we announced our principal operating subsidiary Jinko Solar Co., Ltd, Jiangxi Jinko had completed an equity financing of RMB3.1 billion completing an important step towards our plan to go public in China capital market. This additional capital raised is helping to expand our capacity and further strengthen our leading positions in innovative R&D. Recently, we announced our plan to sell our 20% stake in Abu Dhabi Sweihan Power Station to Jinko Power, which will help us to focus on our core business and continue to sustain our long-term growth in the global PV industry.

This concludes our prepared remarks, and we are now happy to take your questions. Operator, please open the call.

Question & Answers

Operator

Thank you very much. We will now begin the question-and-answer session. [Operator Instructions] First, we have Mr. Philip Shen from ROTH Capital Partners. The floor is yours, Mr. Philip.

Philip Shen - *ROTH Capital Partners - Analyst*

Hi everyone, and thank you for taking my questions. The first one is on the margin outlook for Q4. I think for Q3 your cost per watt was roughly $0.203. And if we take your guidance into accounts for Q4, it suggests the cost per watt, maybe closer to $0.207, $0.21. Can you help explain how can your cost per watt be flat in Q4 when polysilicon prices have gone up so much along with glass? I think glass alone is up $0.02 per watt. And then, freight is up meaningfully. So where are you - how are you able to maintain that flat cost structure in spite of the rising input costs? Thanks.

Haiyun (Charlie) Cao - *Chief Financial Officer*

Hey, Philip, this is Charlie. And the gross margin, 13% to 15% for the fourth quarter. And we are - firstly, I want to just to some clarifications. We believe it's - gross margin is reaching to the lowest level. I mean, Q4 is the lowest level. And if we look forward, so we expect the gross margin in the first half year, next year will gradually improve quarter-over-quarter. And back to your questions, and it's a combination. In-house production costs in quarter-over-quarter, let's say, fourth quarter versus third quarter, it did increase because of the polysilicon cost. The glasses and a lot of materials is on the upside trend. On the other side, we - the ASP, the module price, at the same time, increased a little bit and as well as we have - I think we have good mix in terms of the shipments in US, and versus some relatively high ASP regions [Phonetics], higher margin ratings, so which helps us to deliver relatively a slightly, let's say, the margin, the decrease in fourth quarter versus this quarter.

Philip Shen - *ROTH Capital Partners - Analyst*

Okay. Great. So what you're saying is the pricing is helping to offset, but from a cost standpoint, when you say your - the in-house production cost is helping. Can you specifically highlight what area is helping you drive that cost structure lower? And did you specifically find, for example, independent of the ASP, are you able to - were you able to keep cost flat? And if so, where are you getting that specifically?

Haiyun (Charlie) Cao - *Chief Financial Officer*

Philip, and I said the in-house production cost has increased a little bit quarter-over-quarter and - but the material cost is up dramatically, particularly for the silicon, the glasses. But we are hoping, which is offsetted by - and our production increases and we have relatively more production volume, and the production - the cost is relatively lower and - but the material cost is higher. Second one, the most important is the ASP, is relatively higher quarter-over-quarter. And with China, the ASPs has increased because of the input cost increase as far as we have higher mix in US and other regions, with relatively higher ASP.

Philip Shen - *ROTH Capital Partners - Analyst*

Great. Thank you for the clarification, Charlie. As we look to next year, you talked about margins improving in Q1 and Q2. I know you haven't provided official guidance, but can you share how much improvement you see? And also what kind of bookings do you see for Q1 and Q2? And is the pricing also higher in those quarters relative to Q4?

Gener Miao - *Chief Marketing Officer*

Phil, this is Gener. Let me take this booking question first. So for - I think in our last quarterly call, we established our strategy that Jinko, as a tradition, we always target to achieve 50% level order book filled before the year begins. So I think that is still our strategy. We are on the right track to close that.

Haiyun (Charlie) Cao - *Chief Financial Officer*

The margin side, on the first side, we expect the material cost will - were down a little bit, and - including the polysilicon, and we are seeing the polysilicon prices decreasing to RMB25 now. And the glasses supply side will be relatively - the supplies - the volume is stable, but the total Q1 and Q2, the global demand is relatively lower. So we expect the material cost will have the contributions. On top of that, we are promoting the large size 182, the Tiger Pro, and the large-sized products and the production cost is lower, and we can charge the volume, and we're expecting the 182 and - next year, as combined together next year, we'll get 40%, 50% 182 in our shipments. And this part will help gradually quarter-by-quarter and improve our gross margin as well.

Philip Shen - *ROTH Capital Partners - Analyst*

Great. Yes, that largest format should be helpful. So thank you very much for the questions, guys. I'll pass it on.

Gener Miao - *Chief Marketing Officer*

Thank you.

Operator

Thank you very much. Next we have Mr. Gary Zhou from Credit Suisse. The floor is yours.

Gary Zhou - *Credit Suisse - Analyst*

Hello, management. Thank you for taking my questions. This is Gary from CS. So basically, three questions from my side. So firstly, can management share with us the latest update on your subsidiary stock market listing? And do you expect the timing of the Asia listing would have any impact on our capacity expansion decisions into the next one year to two years. And the second question is on something about the solar glass. So given the currently relatively high solar glass price, are we kind of upholding back our module production plan a little bit? So in other words, if there's not such kind of high raw material cost, would our fourth quarter module output to be otherwise higher? And lastly on the bifacial solar module. So just one small question, have we tried any ultra-wide floating glass as a backsheet of the solar glass instead of solar glass? And if possible, can management share with us the economics comparison between two pieces of the solar glass or using the backseat as floating glass? Or even compare with transparent backsheet solution? Thank you.

Haiyun (Charlie) Cao - *Chief Financial Officer*

Yeah. A couple of questions. And the first one is, our subsidiaries, Jiangxi Jinko, we closed the equity financing, financial financing just by the end of October, and we started the preparation for IPO in China immediately. And the process is smooth, and we will keep the market informed if we reach significant milestone. And the second one is capacity, the funding for the capacity. And is that going to be dependent on the IPO proceeds? It's not. And we closed the RMB3.1 billion, and we think we have sufficient funding and for the capacity expansion next year. And we will focus on the solar cell capacity as well as some mono wafer capacity. And in the prepared remarks, our CEO, and we target to maintain stable and slightly increasing on the integration levels and maintain 25%, 80%, and to have good control of our [Indecipherable]. And on top of that, you talked about the, I think the bifacial glasses and transparent backsheet.

Gener Miao - *Chief Marketing Officer*

I think you have two more questions, both regardless - regarding the glasses, right? I think, firstly, the beauty of our Jinko's strategy is we have certain flexibilities based on the market turbulence. That's why we have the geographic mix and together with the product, different product portfolio mix. So, to conclude our conclusion, we are keeping the flexibility to adjust our capacities and also the factory output based on the market turbulence. We are keeping such kind of flexibility.

And the second question about the glass, bifacial side, so we have foreseen the bottleneck of the glass supply, I think, back - a year ago or even 1.5 years ago. That's why we - when we promote the bifacial product, we do not offer only double glass, but also we offered transparent backsheet solution as well. So those solutions are well accepted across industry and from our customer based on our customer feedback, is neutrally well accepted. Meanwhile, for the ultra-wide floating glass, you just mentioned, I think the whole industry is trying to impose or trying to introduce such a glass to ease the short of supply from the solar glass manufacturing capabilities right now. And Jinko has done some progress on that way, together with our peers. I think we are on that way, but is still - the total volume available versus the demand that we are facing right now is still short of supply in terms of the glass. Hope that answer your question, Gary.

Gary Zhou - *Credit Suisse - Analyst*

Yes. Thank you very much. That's very clear. Thank you management, and I will pass on.

Gener Miao - *Chief Marketing Officer*

Thank you.

Operator

Thank you very much. Next we have Mr. Tony Fei from BOCI. The floor is yours.

Tony Fei - *BOCI - Analyst*

Hi, management. Thanks for the questions. I have three from my side. The first one regarding your operating margin. So in the third quarter, we see actually your operating margin has increased QonQ, despite your gross margin declined a little bit. So, can you explain the reason behind it because we see you have a quite a bit of savings in your sales and marketing expenses, despite the fact that shipping cost actually increased a quite a bit in the recent months. And if possible, can you provide your guidance on the shipping costs in the Q4? And second question is regarding your integration plan. So I think for your 2021, your priority will be increasing cell capacity in-house, but there has been quite a lot of debate regarding the economics of PERC and HJT on the cell technology route. So have you made a decision on how much of a new cell capacity will be PERC, and how much from that will be in HJT? So the third question regarding the exchange rate. So because of the RMB appreciation recently, do you see any impact on your order intake, especially in overseas markets? And if possible, do you have a plan on how much of your China order will increase in your sales mix in 2021? And do you expect to have increase in hedging costs for the currency side in next year? Thank you.

Gener Miao - *Chief Marketing Officer*

And for the first question is, I think, the operating expenses right? And we expect relatively stable operating expenses against revenues, roughly 81% quarter-over-quarter, including the fourth quarter. And the second question is cell capacity, and we have not finalized the decision expecting of - we will expand basically the PERC capacity, but have the flexibility to operate through the N-type TOPCon technology. And back to the TOPCon technology, we had 800 megawatts in operations back to one year ago, and the efficiencies reaching to very good level. And we think the technology now is in relatively maturity stage. And so when we give the new capacities, of course, it's a big size, and the big size PERC capacity, and we have the flexibility to operate to the TOPCon very quickly. Exchange rate is, it did have pressure and we did hedge roughly 50%, the RMB against US dollars. And for the pricing and we don't believe is the 5%, 7% the exchange rates will have an impact on the demand side and from international markets. And the customer are able to absorb the potential impact. So we don't believe we have significant adjustment of the mix, and in China versus international markets because of the exchange rates.

Tony Fei - *BOCI - Analyst*

Great. Thanks for the color. I'll pass on.

Gener Miao - *Chief Marketing Officer*

Thank you.

Operator

Thank you very much. Next we have Mr. Brian Lee from Goldman Sachs. Mr. Brian Lee, you may ask your question.

Brian Lee - *Goldman Sachs - Analyst*

Yeah, hi guys thanks for taking the questions. Charlie, could I go back, like, previous question on opex. So I didn't catch you, but why was SG&A so much lower this quarter and what's the expectation for Q4 in terms of either absolute dollars or percentage of?

Haiyun (Charlie) Cao - *Chief Financial Officer*

In third quarter, firstly, I think the total revenue is increasing, right? And if you think the total revenue, there's some contribution. Second one is the - we have lower marketing expenses, activities and as well as because of the relatively lower ASP. And when we calculate the warranty costs, the warranty costs relatively will be a little bit lower. So it's a combination of some one-off in operating expenses and saving and revenue increase as well as the decrease of R&D costs.

Brian Lee - *Goldman Sachs - Analyst*

Okay. And the expectation for Q4?

Haiyun (Charlie) Cao - *Chief Financial Officer*

Q4 is roughly - because Q4 has roughly the same, I think 11%.

Brian Lee - *Goldman Sachs - Analyst*

11% of sales for just the SG&A line. Is that the guidance?

Haiyun (Charlie) Cao - *Chief Financial Officer*

Yes. I mean the operating expenses accounted for the total revenue is 11% roughly in the fourth quarter.

Brian Lee - *Goldman Sachs - Analyst*

Okay. So opex in total, including R&D, not just SG&A. Okay, fair enough. And I think you mentioned earlier, one of the questions I think it was maybe still at the beginning of the call, the ASP for 3Q, I think, if we just do the calculation, it was about $0.24 per watt. The guidance for 4Q is down about sequentially. So maybe, I misheard you but it sounded like you were expecting, up 4Q? Or is that just part of the mix and the overall pricing blended is still going to be down in 4Q?

Haiyun (Charlie) Cao - *Chief Financial Officer*

I mean the ASP when you're calculating is a little bit down, right?

Brian Lee - *Goldman Sachs - Analyst*

Correct. Correct. Like 3%, I think.

Haiyun (Charlie) Cao - *Chief Financial Officer*

Yes. Yes, and it's not correct, and I know the calculation. We use the total revenue with the total shipments. And the fourth - the third quarter, we have other revenues, some low efficiency solar cell and modules roughly. So the module revenue account for the 95% and 5% is our revenue. So when you do the ASP calculation in Q3, it will be relatively lower. Second one is, when you do the Q4, the guidance revenue, we don't consider our revenues, we just use the module revenues as a reference.

Brian Lee - *Goldman Sachs - Analyst*

Okay. I think I captured that and netting out the volume that's not related to modules, and still getting to $0.24 for 3Q. But I can take that offline. But maybe can you just answer the question what percentage increase in pricing, are you expecting across the module mix for Q4 versus Q3?

Haiyun (Charlie) Cao - *Chief Financial Officer*

You mean the percentage ASP quarter-over-quarter?

Brian Lee - *Goldman Sachs - Analyst*

Yes.

Haiyun (Charlie) Cao - *Chief Financial Officer*

Yes. Yes. It's slightly increased, no, the Q4 versus Q3 basis. We - I just talked about, because we have higher mix in US and in China, the ASPs has increased in the fourth quarter. So it's a combination, which contributed to the increase of ASP in the fourth quarter.

Brian Lee - *Goldman Sachs - Analyst*

Okay. Fair enough. Maybe two more if I could squeeze them in, just one housekeeping one first. The third quarter, did you have the capex depreciation and free cash flow numbers for the quarter?

Haiyun (Charlie) Cao - *Chief Financial Officer*

Okay. I can give you the - let me check - I can give you again the first quarter to third quarter, the nine-month numbers. The total capex roughly for the nine months, is roughly $350 million, and operating cash flow is roughly negative $200 million, which is because of the inventory - a significant increase in the inventory levels, and so depreciation each quarter is roughly, let's say, $40 million.

Brian Lee - *Goldman Sachs - Analyst*

Okay, great. And then last one, I'll pass it on after this, is the Abu Dhabi sale, the 20% stake. I know that was outside of the quarter, but can you provide the P&L impact that you're expecting from that in 4Q? I thought you had been carrying it on the balance sheet at $50 million of value, and I think you sold it for $20 million. So first question is, is that the correct math? And if so, why are you booked at your loss here? And then lastly, I'm not sure if this is related, but why did the [Technical Issues] the balance sheet go down this quarter so much?

Haiyun (Charlie) Cao - *Chief Financial Officer*

Abu Dhabi project, we are currently in the long-term investment because it's investment on equity, 20%. And we signed the sale purchase agreement with Jinko Power. And the valuation is based on the independent third-party valuation firms. And - but the closing are expected to be taking a longer time, maybe six months because it's subject to a lot of regulatory, and including the government approvals. And in terms of economics, we don't expect significant impacts and - after the closing, but it's a very small depending on the closing date.

Brian Lee - *Goldman Sachs - Analyst*

Okay. But it will be booked at a loss? And is there any impact in the quarter from the non-controlling interest?

Haiyun (Charlie) Cao - *Chief Financial Officer*

No, not but because the closing is taking a longer time, so we - before the closing, the economics of Abu Dhabi projects, we will enjoy the economics before the closing. So that is why I'm saying after the closing and depending on the timing and - but for sure, it's not loss situation, and it's a profit situation.

Brian Lee - *Goldman Sachs - Analyst*

Okay. What was the carrying value in the long-term investment?

Haiyun (Charlie) Cao - *Chief Financial Officer*

I need to check, but it's - on the balance sheet, we have separate items carrying the investments, and we can get back to you after the call.

Brian Lee - *Goldman Sachs - Analyst*

Yeah. You reported $25.5 million in the quarter, but I suppose, some of that is not Abu Dhabi.

Haiyun (Charlie) Cao - *Chief Financial Officer*

Yeah, I need to check, I need to check.

Brian Lee - *Goldman Sachs - Analyst*

Yeah. I can take that offline. This loss on the non-controlling interests, it was down $100 million or close to $200 million quarter-on-quarter. Any read into that?

Haiyun (Charlie) Cao - *Chief Financial Officer*

You mean the rationale, right? The non-controlling interest on the balance sheet?

Brian Lee - *Goldman Sachs - Analyst*

Yeah. On the balance sheet, just wondering what's prompted the big move there?

Haiyun (Charlie) Cao - *Chief Financial Officer*

So it's because we - by the end of October, we did the equity financing for the Jiangxi Jinko, the major subsidiaries. So before that, and we - in some of the subsidiaries, we have arrangement with the energy fund being supported by the government. And because we have the equity financing, we launched $3.1 billion and some of our investors, they think it's good. We pick up some minority interest to the subsidiary levels. So we reorganized the arrangement with government's funded energy funds and some of the funds we plan to redeem in the future, which is it's purely equity investment from the government equity funds.

Brian Lee - *Goldman Sachs - Analyst*

Okay. Thanks a lot guys. I'll pass it on.

Gener Miao - *Chief Marketing Officer*

Thank you.

Operator

Thank you, Mr. Brian. Yes, in absence of time, we will take the last question from the participants. Next we have Mr. William Graben from UBS. The floor is yours. Mr. William, pls ask your question.

William Graben - *UBS - Analyst*

Great. Thank you. I just have one quick one here. Just wondering if you could clarify, if there is any AD, CVD true-ups that are impacting the fourth quarter guidance?

Haiyun (Charlie) Cao - *Chief Financial Officer*

It could be up a little bit, but it's not significant impact. So when we give the margins - when we give the margin guidance, we didn't consider the positive impact.

William Graben - *UBS - Analyst*

Okay. Very good. Thank you.

Haiyun (Charlie) Cao - *Chief Financial Officer*

Thank you.

Operator