JinkoSolar - Q2 2023 Transcript

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Transcrpt

Presentation

Operator: Hello, ladies and gentlemen and thank you for standing by for JinkoSolar Holdings Co. Ltd. Second Quarter 2023 Earnings Conference Call. [Operator Instructions] 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. Sella Wang, JinkoSolar's Investor Relations.

Stella Wang: Thank you, operator. Thank you, everyone, for joining us today for JinkoSolar's second quarter 2023 earnings conference call. The company's results were released early today and available on the company's IR website at www.jinkosolar.com as well as on Newswire Services. We have also provided a supplemental presentation for today's earnings call which can also be found on the IR website. On the call today from JinkoSolar are Mr. Xiande, Chairman of the Board of Directors and the Chief Executive Officer of JinkoSolar Holding Co. Ltd.; Mr. Gener Miao, Chief Marketing Officer of JinkoSolar Co. Ltd.; Mr. Pan Li, Chief Financial Officer of JinkoSolar Holding Co. Ltd.; and Mr. Charlie Cao, Chief Financial Officer of JinkoSolar Co. Ltd.

Mr. Li will discuss JinkoSolar's business operations and company's highlights; followed by Mr. Miao, who will talk about the sales and marketing; and then Mr. Pan Li, who will go through the financials. We 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 Holdings. Mr. Li will speak in Mandarin and I will translate his comments into English. Please go ahead, Mr. Li.

Li Xiande: We are pleased to report solid growth as we overcame volatility in slight in prices and [indiscernible]. Thanks to our excellent market network, the highly quality products and our highly effective supply chain management. Module shipments in the second quarter were approximately 17.8 gigawatts, up 36.2% sequentially. Shipments of the competitive N type module were approximately 10.4 gigawatts, up 74.1% sequentially. We are happy and proud to be the first module manufacturer to reach the milestone of shipping 10 gigawatts of N type modules in a single quarter. Besides, our shipments to the U.S. market increased from the first quarter, largely demurrage charges. Our efforts in site chain management technology advancement and process improvement also improved our profitability.

Net income was $180.1 million in the second quarter, up 65.6% sequentially. Adjusted net income was $196.7 million, up 70.5% sequentially. Diluted earnings per ordinary share were USD 0.77, up 48.5% sequentially. Due to the substantial release of polysilicon production volumes and excessive inventory, polysilicon prices declined sharply in the second quarter which also caused a certain volatility in module prices. Since most customers are sensitive to price, they were cautious and slowed down their orders which, to some extent, affected our module demand. As the lower supply chain prices stabilized in the third quarter, domestic customers started to place orders and major projects were initiated and started construction in China. The lower prices also led to a surge in demand from some overseas markets.

We expect production and sales in the PV market to rebound in the second half. There's more and more players deploying TOPCon production capacity and tight TOPCon is certain to become the next-gen technology in the industry. However, some of the new entrants experienced product delays and slower-than-expected production and efficiency ramped up due to insufficient technical know-how and differences in technology and the process, keeping competitive N type production in short slide. As of the end of the second quarter, the mass produced efficiency of our 182 N type TOPCon capacity had reached 25.5%. This N type power up to of around 580-watt P [ph] which is about 25 to 30 watt P [ph] more than P type modules of the same variant. The integrated cost of N type module remained competitive compared to P type modules.

We are confident we will continue to lead in efficiency and cost through technology integration and process optimization. At the end of May, we announced the construction of a major production base of 56 gigawatts integrated wafer cell module capacity in Shanxi which will become the largest N type-integrated production facility in the industry. Our Shanxi integrated base is another strategic expansion of the production model campaigned by JinkoSolar in the PV industry that will fully demonstrate our advantages in highly efficient technology and products, lower investment costs and greater operational efficiency as well as intelligent and smart manufacturing capabilities. Meanwhile, we proactively responded to shifts in the global PV landscape by expanding our overseas industrial chain.

The 1 gigawatt capacity expansion for N type modules in the U.S. is expected to start production in September this year. So far, we have established an industry-leading overseas industrial chain network with integrated production capabilities from wafer sales to modules with feasibility and excellent product competitiveness. As we continue to invest in N type capacity expansion overseas in the second half, we will reach an integrated capacity of over 12 gigawatts overseas by the end of 2023, with N type accounting for over 75%. We will continuously strengthen and expand our global industrial chain to provide premium and high-quality products and services to our global clients. As one of the largest and the most innovative solar module manufacturers in the world, we have always carried on social responsibility and have taken a continuous improvement of our ESG management.

As a key matter for our sustainable development, in the second quarter, we set up a goal and a road map to net-zero emission based on methods and requirements advised by the science-based targets initiative, SBTI, actively promoting our global carbon emissions reduction and addressing climate

change with concrete actions. With outstanding performance in social responsibility fulfillment, we led the mainstream PV industry in the S&P Global Corporate Sustainability Assessment. We improved our feasibility system and independent third-party audit mechanism to enhance other supply chain reliability. Meanwhile, we enhanced our cooperation with leading institutions and professionals in global renewable energy development and joined the International Renewable Energy Agency, IRENA.

So sharing best practice and experience, we are dedicated to making a positive contribution to the sustainable advancement of renewable energy globally. In summary, we are confident in the development of the PV industry. We will continue to enhance our integrated operations and management. We are positive about the long-term prospects of PV plus energy storage model and will continue to grow our competitiveness by actively developing our energy storage business. Before turning over to Gener, I would like to go over our guidance for the third quarter and the full year of 2023. By the end of 2023, we expect to mass produce the N type cell efficiency to reach 25.8%. We are optimistic that demand will grow as industrial chain prices stabilize and reach our full year module shipments to be in the range of 70 to 75 gigawatts, with N type model accounting for approximately 60% of the total module shipments.

As demand for N type products continues to increase in the global market, we will move on to invest the N type capacity which is competitive, both in technology and costs. We expect our annual production capacity for mono wafers, solar cells and solar modules to reach 85, 90 and 110 [ph] gigawatts, respectively, by the end of 2023, with N type capacity accounting for over 75% of the total capacity. We expect module shipments to be in the range of 19 to 21 gigawatts for the third quarter of 2023.

Gener Miao: Thank you, Ms. Li. Total shipments in the second quarter were around 18.6 gigawatts, over 95% of which were module shipments. We are glad that total module shipment in the first half of 2023 exceeds 30 gigawatts, making us the number one in the PV industry for the first half module shipments. In terms of product mix, N type fiber neo accounted for 58% of the module shipment in the second quarter, a steady increase from nearly 50% in the previous quarter, thanks to its high power output, quality and reliability. In terms of geographic mix, China and Europe remained the largest regions in the second quarter accounting for over 50% together. The proportions of other markets remained relatively stable. Most importantly, we are glad and proud to see both the efficiency of customer clearance and the size of our shipment to the U.S. market improved sequentially, benefiting from our dedicated efforts.

As we continue to make effective progress, we expect our shipments to the U.S. market to gradually increase in the second half. For orders and prices, visibility of our order book has reached about 80% for the whole year of 2023, improving compared with the first quarter with overseas orders making the majority. Declines in raw material prices drove module price lower. Recent prices for our new contracts have fluctuated within a reasonable range, in line with market trends. And Tiger Neo retained a competitive premium over P type. With the gradual release of our untapped capacity, we expect the Tiger Neo to accelerate its penetration into China, Europe and emerging markets in the second half. The proportion of Tiger Neo shipment for the full year 2023 to reach around 60% of our total module shipments and its product strength to continue to lead the industry.

Recently, we were awarded the Top Brand PV Europe Cell [ph] 2023 by the EUPD research. This recognition by our downstream partners does not only prove that JinkoSolar is one of the preferred European brand for installers to work with but also reflect our strong reputation and commitment to our customers as a leading supplier and N type TOPCon technology leader. In addition, we are recognized as 2023 Overall Highest Achiever for the first consecutive year in renewable energy testing centers PV module Index report, a reaffirmation of quality, makeability and the reliability of our product. In summary, we are happy to navigate through volatility in supply chain prices and end demand in second quarter, leveraging our advantage in terms of global marketing network, industrial chain layout and product competitiveness.

Meanwhile, we continued to improve our mechanism to cope with risks and enhance our customer relations and marketing network. As supply chain prices stabilized recently, we are optimistic about the return of demand in the global market for the second half in medium and long term as the economy of solar power becomes more and more prominent, the PV market will move forward at a healthy and sustainable growth pace. We expect China, the U.S., Europe and other developed markets to grow at a steady pace and emerging markets to continuously expand insight. We are confident we will provide more economic value to our customers with excellent products and services and continue to grow our market share. With that, I will turn the call to Pan.

Pan Li: Thank you, Gener. We are pleased to report strong financial results in the second quarter, with quarterly total revenues, gross profit, income from operations and net income all reaching historical new high. Recently, our majority-owned principal operating subsidiary, JinkoSolar Co. Ltd., announced its intention to issue ordinary shares for no more than RMB9.7 billion to fund construction of our N type-integrated production facility in Shanxi. This expansion of an advanced integrated production capacity will help us to continuously improve our cost structure and increase in equity capital will also help us improve our capital structure. As we keep enhancing our global industrial chain, marketing network and product competitiveness, we hope to achieve healthy and sustainable profitability.

Let me go into more details now. Total revenue was over $4.2 billion, up 32 percentage sequentially and up 63 percentage year-over-year. Gross margin was 15.6 percentage compared to 14.7% in the second quarter last year. We continue to make good progress in clearing customs in the U.S. market, significantly reducing demurrage charges compared with the first quarter this year. Total operating expenses accounted for 11 percentage of total revenues compared with 12 percentage in the first quarter this year and 16 percentage in the second quarter last year, improving sequentially and year-over-year. Income from operations was RMB212 million compared with income from operations of RMB176 million in the first quarter this year and loss from operations of RMB43 million in the second quarter last year, improving sequentially and year-over-year.

Operating margin was about 5 percentage, flat compared with first quarter this year and loss [ph] margin of 1.5 percentage in the second quarter last year, also improving year-on-year. Net income attributed to JinkoSolar Holdings ordinary shareholders was about $180 million, up 66% sequentially and compared to a net loss attributed to the JinkoSolar Holdings ordinary shareholders of about $93 million, improving year-over-year. Excluding the impact from a change in fair value of notes, a change in fair value of long-term investments and share-based compensation expenses, adjusted net income attributable to the ordinary shareholders was about $197 million, up about 71 percentage sequentially and up 2.9x year-over-year. Diluted earnings per share was $0.77 in the second quarter, up about 49 percentage sequentially and compared to diluted loss per share of $0.47 in the second quarter last year, improving year-over-year.

Moving to the balance sheet. At the end of the second quarter, our cash and cash equivalents were about $2.35 billion, up from $1.48 billion at the end of the first quarter this year, improving sequentially. Accounts receivable turnover days were 79 days compared with 95 days in the first quarter. Inventory turnover days decreased to 17 days in the second quarter from 100 days in the first quarter. Total debt was $4.7 billion at the end of the second quarter compared to $4.4 billion at the end of first quarter. Net debt was $2.4 billion compared to $2.9 billion at the end of the first quarter this year. This concludes our prepared remarks. We're now happy to take your questions. Operator, please proceed.

Operator: [Operator Instructions] The first question today comes from Brian Lee with Goldman Sachs.

Unidentified Analyst: This is Grace [ph] on for Brian. I guess first question around ASP trajectory. Obviously, it's always [indiscernible] had a big decline in 2Q, though we have stabilized in recent weeks. At the same time, like we are hearing some oversupplied in certain areas of the market. So just wonder if you can talk about the ASP and maybe the margin trajectory moving through the rest of the year and maybe into 2024?

Charlie Cao: This is Charlie speaking. And firstly, I want to talk, this year, it's a very big solar market and a lot of markets are very strong, including China, United States and European markets and we delivered a very strong performance for the first half year. And in terms of the revenue shipments, the next-generation and in TOPCon, we are leading the industries and take about 50% market share. Now 50% of our portfolio is from N type. And we believe we will continue the momentum throughout the year. And N type, because of the cutting edge and it's a very strong great fundings for end customers and have advanced more power output for the end customer. And we are seeing the market is accepting the N type. It's going to dominate the market.

And we'll continue to supply relatively shortage throughout next year. So back to questions in ASP, It's no. The first half is pretty relatively stable and starting from June this year because of the polysilicon relatively oversupply situations and make the solar modules have the relatively adjustments. It's — if you're looking for the midterm perspective, we think it's very good for the downstream and accelerate the demand from different markets. And it will also generate solar and storage, the big markets in the future. And for the ASP trains, it's relatively in line with the industry. The second half year is, for sure, in a downward trend but it has been stabilized. And we believe, thanks to the very, very strong China installations, particularly in Q4 this year, the ASP will may turn and maybe possible relatively in upward trends.

And for the profit margins in preferability and just we were — we strongly believe and we almost closed out the sales order this year and over 80% is boxed. And so we are planning actually for the next year. And for this year, we believe the momentum will continue and year-over-year. It's a very good year for Jinko in terms of the profitability, even in the second half year. And we — the N type will take the more shipments for Jinko in the second half year, 60% to 65% which is 50% in the first half year. And on top of that, U.S. market is very positive for us for the — starting from the third quarter. And our modules was detained starting from last year. And we have done a lot of work feasibilities, ESDs and communications with relevant address regulators.

And starting from July and our modules speed of the — let's say, going through the customs has been speed up and we are expecting our shipments to the U.S. market will be accelerated, starting in the third quarter. And we have also get ready for the overseas capacities, 12 gigawatts integrated, starting from wafer to modules and to — for the U.S. market next year. So next year will be a very big marked year for Jinko to have more markets here in the U.S. and as well as we have been in expansion for the U.S. module capacities is in place and we plan to start operations from this end of the third quarter. So Yes, that's back to your questions, overall.

Unidentified Analyst: Charlie, that's super — maybe I missed it. Can you provide us your updated CapEx number for '23? And then also, you talked about like 12 gigawatts for overseas capacity next year. So just wondering if you can provide us the CapEx number and how are you thinking about funding it. Because I think you mentioned like these — the equity or the capital that you raised in China cannot be used in the U.S. So I just wonder how you think about the capital raise here.

Charlie Cao: Yes, yes. And for the CapEx this year, it's roughly RMB15 billion. And we estimate first half year, we have generated around roughly, let's say, RMB35 billion — RMB5.5 billion in operating cash flows. And this year, we estimate over 10 billion operating cash flows this year. And as well as we have completed the convertible loans in the second quarter in a year. So we have sufficient cash to support the CapEx. And next year, the oversea capacity is almost — we will complete it by the end of this year. So we don't foresee any additional cash needs next year for the 12 gigawatts integrated capacities.

Operator: Next question comes from Philip Shen with ROTH MKM.

Unidentified Analyst: This is Matt [ph] on for Phil. Looking at the U.S. market, there is this expectation in the industry that modules made with China poly that was not from Xinjiang could get into the U.S. but we haven't really been seeing that yet. Do you know what might be taking so long and when non-Shinzen China poly modules made in Southeast Asia might get cleared by CBP?

Charlie Cao: Yes. We — for Jinko, we focus on 100% polysilicon out of China to serve the U.S. market. And just like I said, we are pretty smooth and speed up the process, starting from the third quarter. And for the China-based party and the probabilities order, we are not sure but it's possible impossible that from Jinko perspective, we will continue. We have set long-term contract with the Tier 1 and the poly makers out of China and we will continue to increase the resource and the volume from the poly producers. And the poly out of China, the volume is roughly 10,000 metric tons which we believe is sufficient to supply the U.S. market. As Tier 1 companies, we can take the advantage and we have the largest integrated capacity, 12 gigawatts, including 75% TOPCon, the N type. So I think we can take the lead in terms of the market share as well as the poly sourcing from the suppliers out of China.

Unidentified Analyst: Do you think it's possible that non-China poly not made in Xinjiang out or makes it into the U.S.? Just kind of curious on your view.

Charlie Cao: I'm not in a position to make the projections on the judgment. But from the legal perspective, the traceability is — and if you can do but from the implementation perspective from the relevant regulators, we are not sure in their positions.

Operator: [Operator Instructions] The next question comes from Rajiv Chaudhri with Sunsara Capital.

Rajiv Chaudhri: And first of all, congratulations on a superb quarter and for the very strong guidance. One question that has not been asked yet and is about the inventory reserve that you have taken in the quarter. Normally, your inventories tend to go up every quarter because you are growing the business and they grow up by $200 million to $250 million a quarter. This time, your inventory sequentially were down about $200 million quarter-to-quarter. And so my first question is, is it reasonable to think that the inventory reserve that you took was actually in the neighborhood of $400 million which would make sense given the sharp decline in the prices of poly. And obviously, at any point in time, you have a lot of poly in your working process. So the first question is, is the inventory reserve in the ballpark of $350 million or $400 million? And that your gross margin, without this inventory reserve, would actually be in the mid-20s in the second quarter?

Pan Li: Yes. Hello, Rajiv, this is Pan. And as I mentioned to the inventory reserve, yes, actually, we made some inventory reserve in the second

quarter. And this has also impacted our margin gross margin, yes. At this stage, only a temporary treatment of the inventory. We don't think it will be a long-term treatment to our inventory.

Rajiv Chaudhri: I understand that part. Obviously, it's a onetime thing. The question is, was it in the ballpark of $400 million? And that you are — if the reserve was not taken, your true earnings would be $400 million higher?

Charlie Cao: You mean $400 million is one number. We provided roughly, I think, RMB500 million inventory provisions. But the second quarter, we — I think we do pretty good and we anticipated, let's say, the partly decline starting from June. So we split up the inventory, good delivery and control the inventories very tight. That is why you are saying our total inventory, the numbers is — lower quarter-over-quarter. But we still have some kind of the orders and targeting the residential markets. The residential markets are the — it's the kind of a to stay customers and they are typically, when the supply chain in particular, the enterprise has a significant, let's say, adjustment which we typically will offer some price discounts to the natural customers. That is why from an accounting perspective, by the end of the second quarter, we recorded additional inventory onetime provisions and we don't believe that is recurring items in the future.

Rajiv Chaudhri: Charlie, I understand this is not an ongoing thing. My question simply is reflecting what was the true earning power of the company in the second quarter. And what I'm trying to get at is that if the poly — if you exclude the impact that the sharp decline in poly prices have had on the inventory reserve, that your earnings would have been a lot higher, not just somewhat higher but a lot higher, maybe as much as $400 million higher.

Charlie Cao: You mean if let's say the poly price has relatively stabilized, the module prices is a very, very stable. And for sure, it's not this case and we are able to generate more earnings significantly.

Rajiv Chaudhri: So is it fair to say that without this inventory reserve, the gross margin could have been in the mid-20s, 24%, 25%?

Charlie Cao: Well, I think it's roughly — I think without that, it's roughly up to 20%.

Rajiv Chaudhri: And you expect it to be higher in the third quarter because the rate at which the price of modules is coming down is slower than the rate at which the poly price is coming down?

Charlie Cao: We expect strong — continued strong earnings. And because the N type modules, they have strong earnings generating power, we get more percentage shipments. And the second one is we have higher shipments in the U.S. markets. And so that is a combination of the 2, the key factors. And of course, the poly is done to be stabilized and module still it's reaching kind of the stabilized point.

Rajiv Chaudhri: Also, my next question is about the storage business. Did the storage business contribute any revenues in the second quarter? And what should we expect for the full year?

Charlie Cao: Yes. Storage is, from a long-term perspective, our kind of the — we expect it starts going to be a very big, very important business unit from the long-term 3 to 5 years. But this year is a kind of investment year. We invest on the teams, sales channels and R&D, even we still invest some small capacities. The revenue contract base [ph] using for this year is not significant. And we even made some — we are expecting this year investment year. We will make some kind of small losses for the business. But for the future, looking to the next year, it's going to be a very big, let's say, high-growth segment for Jinko.

Rajiv Chaudhri: So will you hit a few hundred million dollars this year or not really?

Charlie Cao: Not this year. No, not this year. No. This year, I think maybe I think — probably we don't disclose the numbers. But again, it's kind of early investment segment, the business unit. But we have roughly reached sizable teams, including the key functions and by the end of the fourth quarter. And we are — we think we are in a good position for next year to penetrate the storage market.

Rajiv Chaudhri: Right. Also, going back to the cost of polysilicon. Is it fair to think that the average cost of the polysilicon in the second quarter was roughly $0.03 lower than the cost of polysilicon that you had in the first quarter?

Charlie Cao: Sorry, could you repeat your question?

Rajiv Chaudhri: Yes. My question is on the cost of polysilicon. And I'm talking not about the cost of polysilicon in the market but the cost of polyciizen [ph] that you embedded in your earnings — in your operations and therefore, your earnings. Is it fair to think that the cost of polysilicon in the second quarter was roughly — excluding the inventory reserve was roughly $0.03 lower than the first quarter cost of polysilicon?

Charlie Cao: I didn't have the numbers. I know your questions. And Q1, I think the poly, starting January, is kind of a very big rebound and slightly down month-over-month and significantly decline starting from June. And I'm saying is — but starting in June, it's a small impact on the Q2 financial figures because we have the inventory turnover is 60 days, 30 days. So it's — we can get back to you after the call but I think it's slightly lower, the poly, from the financial statement perspective second quarter which is Q1 [ph].

Rajiv Chaudhri: And also, one last question. Is it fair to say that at this point, in the third quarter, your average cost, your total cost per watt is under $0.15.

Charlie Cao: We don't disclose the numbers. It's a kind of competitive advantage and that's the information. But it's a significant improvement. Back to your questions in third quarter, starting from July and as well as we continue to improve our internal operations which is the supply chain, the cost. And so it's a significant improvement. But we don't disclose the cost structure even the — including a total operating costs, yes.

Rajiv Chaudhri: Right. And a final question, Charlie. First, Solar has made a point of noting that they have a lot of long-term contracts going out multiple years, going out 2, 3, 4 years and Maxion has said the same thing.

Charlie Cao: Yes.

Rajiv Chaudhri: And these contracts are for prices in the high 20s, high 20s going out multiple years. Do you think that, that kind of pricing that far out is really sustainable given what is actually happening to prices in the market right now?

Charlie Cao: Yes. I think U.S. market generates a very big market, sustainable long growth. And there are a lot of disruptions from the recent 2 years

because of, let's say, the WLO-UFLPA, so it makes the supply tight. And so some of the — let's say, the local producers takes out a lot of this, sign a lot of long-term contracts. But from the long-term perspective, we see the silicon-based technology at the absolute, 100% [indiscernible] versus other technologies. And so now the focus is overseas polysilicon supply relative shortage. And we are able to — let's say, next year, we are — it's going to be a very big year for Jinko and we have secured the sufficient, I think, probably out of China. And so we are able to sign very I think very decent contracts.

And with, let's say, the poly has stabilized and we are able to get more contracts not only next year, maybe next 2 or 3 years. So that's historically, we take the majority, a very big market share in U.S., 25% because of the disruptions but we have overcome the disruptions. And so for the long term, we think we are in a good position with our peers.

Rajiv Chaudhri: Final question. Will you be able to take advantage of the IRA in terms of the production that you are starting with the 1 gigawatt N type product in the U.S.?

Charlie Cao: An IRA, you mean Jinko is, let's say, applicable or not? We think that IRA is kind of very transparent in policies and it's for the local productions in the U.S. And when we do that, we don't, let's say, depend on why is IRA. We think a relatively sized local productions and global content makes Jinko more competitive in the market. But we strongly believe that we are qualified, let's say, the IRA.

Rajiv Chaudhri: Okay. So you expect that you will be able to benefit from it but you're not counting on it.

Charlie Cao: Yes, we don't count on it. We do very conservative accounting. I know some peers in the, U.S. producers that do accrue basis even the quality or the cost of goods sales. That's a different accounting perspective. But we didn't do that. We want to do it on a cash basis based on the casing and the fund of the higher in the future.

Operator: [Operator Instructions] The next question comes from Alan Lau with Jefferies.

Alan Lau: Congratulations for the great results. So a couple of questions to follow up. So first of all, I would like to clarify, so the amount — because in Asia reporting the overall impairment in 2Q was around RMB1.3 billion. So in U.S. reporting, around RMB500 million is recorded in cost of revenue and the remaining is under the impairment of long-life assets. So is this understanding correct?

Charlie Cao: Yes, you are right. It's a kind of different presentations in different accounting standards. And the U.S., inventory provisions is typically an item of cost of goods sold. But in China, the PRC standards, they have separate line called kind of the assets impairments, including everything, the fixed assets and as well as inventory. So that's kind of the presentation different accounting standards.

Alan Lau: So if we add back RMB500 million [ph] of inventory impairment, so the gross margin in Q2 was actually improving compared to Q1, right?

Charlie Cao: Yes. Yes, you are right. Yes.

Alan Lau: Yes. And then another thing is the impairment of long-lived assets, to my understanding, they are those equipment which we can also expect as the one-off thing, right? Because the impairment of equipment will happen at the quarter?

Charlie Cao: It's a one-off and we provided for the small size and small size modules to our competitors. And we — to make our assets to be more competitive on the balance sheet.

Alan Lau: And then another question is in relation to the port charges. Because I recall that in 4Q last and first — and the first quarter this year, they report charges affecting the margin. So what is the situation of the port charges in the U.S. in 2Q? And what do you expect in 3Q with the acceleration in the clearance of the products?

Charlie Cao: So for the port charges and the — in the first quarter, we have RMB400 million port charges for the U.S. And because it's an modules and very high storage costs and the second quarter and they improved a lot to RMB200 million 1 quarter. And starting from the third quarter, we believe the port charges where they are very small numbers and because our models have been cleaned up and speed up this on the U.S. cost side.

Alan Lau: So this is an excellent second development action. So it leads to the next question as to how much U.S. shipment has been sold to the U.S. in the first and second quarter?

Charlie Cao: You mean — the percentage, right, the total…

Alan Lau: Yes.

Charlie Cao: The Against the total segments, it's 5% to 10% in that range.

Alan Lau: Understood. So for this year, after we raised our guidance to 70 to 75 gigawatt, 5 to 7 — 5% to 10% is around like 4 to 7 gigawatts. So next year, our target [indiscernible]. Is it correct?

Charlie Cao: It's roughly 10% of mark [ph] is shipments next year. And it could be in a range, let's say, above 10 gigawatts and depending on the — let's say, particularly the supply part, the poly part, we are confident with the 10% — the 10 gigawatts is kind of the base.

Alan Lau: So that's actually quite a strong improvement from this year, like 4 to 7 gigawatts to 10 gigawatts still. So I would like to know what is your expectation on U.S. installation next year on this part. But at this year, probably U.S., I don't think the base [indiscernible]. So I think the company is implying market share gains in next year, right?

Pan Li: Yes. It's kind of a go back to normal strategy, right? So in the last 2 years' time, we have got — let's say we got stocked by different regions, different reasons. And now we have seen positively since go back — start to go back to normal. That's why we are expecting a kind of normal market share or normal stable supply from Jinko to U.S. market. That's why we expect around 10% of our total shipment that goes to U.S. market next year.

Alan Lau: So it's — so what is your expectation on U.S. installation in 2024 then?

Pan Li: Well, it depends. It's really — we see a robust demand there. So it's really a question of whether the supply will be normal or it will be, let's say, strictly under the U.S. LPA inspection, right? That will decide what could be the size of U.S. market. It could be somewhere from 30 gigawatts to even

up to 50 gigawatts. It really depends on the supply side.

Alan Lau: So my last question is basically the for the polysilicon supply correspondent. Because 12 gigawatts, approximately, you still need quite a lot of polysilicon like probably around like 20,000 or 30,000 tonnes [ph]. So have we locked in that supply already?

Charlie Cao: Majority part, we have locked. And the overstate capacity is 100,000 — sorry, 10,000 metric tons — 100,000 metric tons which can support, let's say, I think here roughly 50 gigawatts. And we take 20% market share from the — let's say, poly supply side, we are confident and as well as some of the overseas capacity, we still have some flexibility to increase the capacity. So we're thinking we can achieve that.

Alan Lau: So I've got a final question on Asia placement. So will that eventually lead to dilution of the U.S. share, U.S. shareholding?

Charlie Cao: Yes. Yes, it's probably maybe 7% to 9% dilution. It's not significant and we take — the U.S. has 58%, the CR holding of the Asia. And if — let's assume 10% of the maximum maybe should be lower. It's roughly 53%, right? 5%, the different lower.

Operator: This does conclude our question-and-answer session and our conference for today. Thank you for participating. You may now disconnect.