JinkoSolar - Q1 2024 Transcript

04/29/2024

Transcript

Operator (participant)

Hello, ladies and gentlemen, and thank you for standing by for JinkoSolar Holding Co, Ltd's Q1 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 conference 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 Q1 2024 Earnings Conference Call. The company's results were released earlier today and available on the company's IR website at www.jinkosolar.com, as well as on Newswire Services. We have also provided a supplemental presentation for today's earnings call, which can also be found on the IR website.

On the call today from JinkoSolar are Mr. Xiande Li, Chairman and CEO of JinkoSolar Holding Company Limited; Mr. Gener Miao, CMO of JinkoSolar Company Limited; Mr. Pan Li, CFO of JinkoSolar Holding Company Limited; and Mr. Charlie Cao, CFO of JinkoSolar Company Limited. Mr. Li will discuss JinkoSolar's business operations and company highlights, followed by Mr. Miao, who will talk about the sales and marketing, and then Mr. Pan Li, who will go through the financials.

They will all be available to answer your questions during the Q&A session that follows. Please note that today's discussion will contain forward-looking statements made under the safe harbor provisions of the 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. Xiande Li, 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]很高兴凭借在NGING.com的技术，有京森利的产品全球化的营销和资产布局等优势，一季度组建出货量同比增长53.3%，达到19.99GW，位列行业第一。NGING产品的出货占比从去年第四季度的70%提升到一季度的近80%，保持行业领先。一季度组建价格持续走低，在行业开工率大幅下降的情况下，我们的开工率仍维持在行业领先的水平。此外，一季度有超过70%的海外市场的出货，其中欧美市场的出货占比环比四季度大幅提升，一季度毛利率为11.9%，环比持平。一季度净利润为8,440万美元，环比提升19.8倍；净调整利润为6,510万美元，环比提升1.6%。

Speaker 12

We are happy to announce that thanks to our advantages of N-type TOPCon technology, competitive products, global marketing, and manufacturing layout, our module shipments grew 53.3% year-over-year to nearly 20 GW in the Q1, ranking first in the industry. The proportion of N-type shipments increased to nearly 80% in the Q1 from approximately 70% in the Q4 last year, maintaining our leading position in the industry.

Module prices continued to fall in the Q1. While the industry average utilization rates declined sharply, we maintained our leading utilization rates at high level. Over 70% of modules were shipped to overseas markets in the Q1, while the proportion of shipments to Europe and the U.S. significantly increased sequentially. Gross margin was 11.9%, flat sequentially. Net income was $84.4 million, up 19.8 times sequentially. Adjusted net income was $65.1 million, up 1.6% sequentially.

Xiande Li (Chairman and CEO)

[Foreign language] 一季度中国光伏新增装机规模达到45.7个GW，同比增长了35.9%。1到3月份组建合计出货出口61.7个GW，同比增长超过20%。光伏行业仍然是为数不[]多保持较高增速的行业之一。我们预计在2024年全球光伏需求有25%到30%的增长。二季度以来，硅料环节由于供过于求，价格持续走低。另一方面，受到宏观经济的影响，部分大宗产品价格上涨，需求向好排场提升式的玻璃、胶膜等辅材价格提升。各种因素的叠加式的组建，市场价格在低位保持相对稳定。短期来看，一体化企业的盈利承压，但不同企业之间由于经营能力的差异，预计业界会越来越分化，缺乏市场竞争力。持续生产能力和技术更新迭代的产能将会被加速淘汰。面对各种外部环境的挑战，我们聚焦在持续增长公司的竞争力，有信心保持相对领先优势。

Speaker 12

Newly added installations in China reached 45.7 GW in the Q1, an increase of 35.9% year-over-year. Module exports totaled 61.7 GW, an increase of over 20% year-over-year. The PV industry remained one of the few sectors maintaining a higher growth rate, and we expect global PV demand to grow approximately 25%-30% in 2024. Coming into the Q2, polysilicon prices continued to decline as supply exceeded demand.

On the other hand, macroeconomic conditions pushed commodity prices higher, while increasing market demand drove prices of some materials such as glass and film higher. All those factors combined to keep recent module prices relatively stable at a low level. In the short term, the profitability of integrated solar companies is expected to command pressure. Yet, with distinctions in operating capabilities, performance of different companies will have larger differences.

We expect that overall production capacity in our industry will shrink with the elimination of weaker players that lack market competitiveness, sustainable production capabilities, and the ability to regularly upgrade and iterate technology. Facing various external challenges, we will focus on enhancing our competitiveness, and we are confident to maintain relative advantages compared to our first-tier peers.

Xiande Li (Chairman and CEO)

[Foreign language] 一季度面对市场环境的变化，我们灵活调整了市场布局，以更好地实现出货和盈利的平衡。凭借全球化的市场布局优势和有竞争力的产品，截至目前全年订单可见度已经超过70%。

Speaker 12

In the Q1, faced with a changing market environment, we flexibly adjusted our sales strategies to better balance shipments and profitability. Leveraging our global footprint and competitive products, our order book visibility for 2024 currently exceeds 70%.

Xiande Li (Chairman and CEO)

[Foreign language] 产业链承压的背景下，我们一方面持续导入新技术，提升TOPCon电池量产效率和组建功率；另一方面持续通过供应链优化、工艺设计优化等举措降低成本。

Speaker 12

Let's continue the pressure along the industrial chain. We continued to deploy new technologies to improve the mass-produced efficiency of TOPCon cells and module output, while reducing costs through initiatives such as optimization of supply chain and production process.

Xiande Li (Chairman and CEO)

[Foreign language] 先进产能方面，我们也在加速P型产能的推出。预计2024年底，我们的N型产能将超过90%，先进产能结构持续领先行业。

Speaker 12

We are also accelerating the clearing out of our P-type capacity. Our N-type capacity is expected to exceed 90% of total capacity by the end of 2024, and we expect our advanced capacity structure to continue to lead the industry.

Xiande Li (Chairman and CEO)

[Foreign language] 作为拥有行业最大的海外一体化产能的公司，我们不断完善全球产业链的建设。美国1GW N型组建产能已投产，另有1GW预计在二季度投产。凭借全球化市场布局的优势和长期积累的风险应对经验，我们有信心应对国际贸易环境的变化，持续为全球客户提供优质高效的产品和服务。

Speaker 12

As a company with the largest overseas integrated capacity in the industry, we continuously work to expand the global industry chain. Our 1 GW N-type module capacity in the U.S. has started production, and another 1 GW is expected to start production in the Q2 this year. This is our advantage of global operation and long-accumulated experience in risk management. We are confident to respond to changes in international trade and continue to provide premium products and services to our global clients.

Xiande Li (Chairman and CEO)

[Foreign language] NGIE的最新预测得益于更低的发电成本，未来五年风能和太阳能发电将占新增可再生能源发电电量的95%。到2028年，风能和太阳能发电的份额将翻一番，合计达到25%。太阳能发电仍然是有很大的成长空间。同时，光伏加储能的成本下降将持续提升光伏项目的投资的经济性，刺激光伏需求的持续快速增长。我们长期看好光伏加储能将成为未来电力发展的主要模式，有信心凭借先进的技术和优质高效的产品继续引领行业。

Speaker 12

According to the latest predictions by the International Energy Agency, IEA, solar PV and wind will account for 95% of global renewable expansion, benefiting from lower generation costs than both fossil and non-fossil fuel alternatives. By 2028, the share of wind and solar PV in global electricity generation will double to 25%. Solar PV still has enormous growth potential.

Meanwhile, declining costs of solar-plus storage will continue to improve the economics of investing into PV storage projects and stimulate demand growth for storage projects. We are bullish that solar-plus storage will become the major model for future growth in electricity generation, and we are confident to continue to lead the industry with advanced technologies and premium high-efficiency products.

Xiande Li (Chairman and CEO)

[Foreign language] 话题交给Jenna之前，我来介绍一下业绩指引。预计2024年底N型的电池量产效率将达到26.5%。预计到2024年底，当今硅片高效电池和组件的产能分别达到120GW、110GW和130GW。2024年第二季度组件出货量在24GW到26GW之间，2024年全年组件出货量100GW到110GW之间，其中N型出货量占比将接近90%。

Speaker 12

Before turning over to Gener, I would like to go over our guidance for the Q2 and the fourth year of 2024. By the end of 2024, we expect mass-produced N-type cell efficiency to reach 26.5%. We expect our annual production capacity for mono wafers, solar cells, and solar modules to reach 120, 110, and 130 GW respectively by the end of 2024.

We expect module shipments to be between 24-26 GW for the Q2 of 2024 and between 100 and 110 GW for the fourth year 2024, with N-type modules accounting for nearly 90% of total module shipments.

Gener Miao (CMO)

Thank you, Mr. Li. Total shipments were 21.9 GW in the Q1, with module shipments accounting for over 90%, ranking first in the industry again. Under the stressful market crisis in the Q4, we back-to-back adjusted our geographic mix. Over 70% of modules were shifted to overseas markets, especially to Asia-Pacific and emerging markets. Shipments to the U.S. were relatively stable sequentially, while shipments to Europe increased by nearly 20%, evidence of future inventory reduction.

On the demand side, the general trend for global low-carbon transformation was unchanged despite problems related to installation and connection in some regions and quality issues in others. We continue to expect a relatively rapid growth in global demand in 2024.

Our extensive cell network and deeply rooted local customer service infrastructure will help us to respond to market shifts and adjust the flexible and timely client demand for more reliable, low-carbon, and compliant PV products. Looking forward to the full year, we expect the proportion of shipments to Europe and the U.S. to further increase compared to last year.

Shipments of competitive high-efficiency N-type Tiger Neo modules accounted for nearly 80% overall, far exceeding the industry average as the value of Tiger Neo is increasingly recognized by customers. In the European and emerging markets, the Tiger Neo penetration rate exceeds 90%. In terms of segment demand from distribution markets in China, Europe, and Asia-Pacific, it was strong during the Q1. Closely following the market trend, we raised the ratio of distribution to approximately 50% in the quarter.

We focus very strongly on building our brand recognition because an outstanding brand is key to gaining the long-term trust of our clients. Recently, we were recognized as a Tier 1 energy storage provider by Bloomberg New Energy Finance due to our outstanding products and the capabilities in energy storage, reflecting our commitment to providing safe and reliable energy storage solutions and recognition by customers for timely delivery and effective deployment capabilities.

Besides, we received the AAA rating once again in the 2024 Q1 release of PVTech Module Compact Bankability Report, which demonstrates our leadership in manufacturing excellence, reliable quality, market share leadership, sound financial performance, and technology innovation. With that, I will turn the call over to Pan.

Pan Li (CFO)

Thank you, Gener. We are pleased to report that our solar module shipment increased by about 53% in the Q1. While solar module price declined, we enhanced control over costs and expenses. Gross profit margin, reflecting adjusted net income, slightly improved sequentially. At the same time, thanks to our efforts in debt management, our net debt improved sequentially, leveraging our advantages in N-type technology and global sales and manufacturing network.

We are very confident in our growth prospect and will continue to improve the efficiency of our working capital, achieving sustainable growth in operating cash flow, and enhance our resilience to risks. Let me go into more details now. Total revenue was $3.2 billion down sequentially and slightly down year-over-year.

The sequential decrease was mainly attributed to the decrease in the shipments of solar modules, and the year-over-year decreases were mainly attributed to the decrease in average selling price of solar modules. Gross margin was 11.9% compared with 12.5% in the Q4 last year. The decreases were mainly due to the decrease in average selling price of modules. Total operating expenses were $426 million, down 18% sequentially.

The sequential decrease was mainly due to the decrease in the shipments of solar modules and the lower expense in relation to the settlement of a dispute with one of our customers. Total operating expenses accounted for 13% of total revenues compared with 11% in the Q4 and 12% in the Q1 of 2023. Net income attributed to JinkoSolar Holdings' ordinary shareholders was about $84.4 million, up nearly 20 times sequentially.

Excluding the impact from a changing fair value of the long-term investments and the share-based compensation expenses, adjusted net income was about $65 million, slightly up sequentially. Moving to the balance sheet, at the end of the Q1, our cash and cash equivalents were $2.44 billion compared with $2.69 billion in the Q4 of 2023 and slightly improved from $1.48 billion in the Q1 of 2023.

AR turnover days were 100 days compared with 76 days in the Q4 and 95 days in the Q1 of last year. Inventory turnover days were 89 days compared with 57 days in the Q4 and 100 days in the Q1 of last year. At the end of the Q1, total debt was $3.66 billion compared to $4.38 billion in the Q4 of 2023.

Net debt was $1.22 billion compared to $1.63 billion in the Q4 of 2023, a continuous improvement in our debt structure. This concludes our prepared remarks. We're now happy to take your questions. Ripple Zhang, 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 and then two. If you are a speaker, if you are using a speakerphone, please pick up your handset before pressing the keys. Please limit yourself to three questions. The first question comes from Brian Lee. Please go ahead.

Brian Lee (Managing Director)

Hey, everyone. Thanks for taking the questions. Appreciate it. I know you guys are not in the practice of providing specific margin and ASP guidance anymore, but just given kind of the fluctuations in the pricing environment, can you give us a sense? Pricing was down, it seems like, kind of down to the low- to mid-teens here, ASP per watt if we back out the wafer and the cell revenue in the quarter.

Should we expect more ASP degradation in modules embedded in the 2Q guide, and then what's sort of the margin cadence you expect off the result here in Q1? Should we expect 2Q to be up, down, flat, and then maybe back half views as well if there's more of a recovery there?

Charlie Cao (CFO)

Hey, Brian. This is Charlie. Yeah, back to your questions. The module price is down in the recent three quarters, and that's a fact. We have different regions, different arrangement, long-term versus short-term. If you are talking about Q2, the ASP, on average, it's down a little bit. But the most important thing is we are improving the cost and try our best. At the same time, we are adopting the relatively new technology materials.

On top of that, we are ramping up this year, our focus is the Shanxi Super factories. We're expecting to be fully operational in the second half year. For the gross margin and profitability, we strongly believe in the first half year this year, it's reaching to the bottom. For quarter by quarter, we expect the gross margin relatively stable for the Q2, which is Q1.

For the second half year, we expect more shipments, particularly in the United States as well as in the European markets. On top of that, we are in very good position for the Middle East market, and it helps the gross margin. So that's in addition; the industry is suffering very fierce competition, particularly for price.

But we are expecting the capacities for the Tier 2, Tier 3, and even the capacities which are not able to be technology competitive, will be phased out throughout this year. This may help the overall supply versus demand situations, particularly in the second half year.

Brian Lee (Managing Director)

Okay. That's helpful. So if I summarize, I guess it sounds like ASP is down a little bit more into 2Q, and then margin stable in 2Q off the 1Q level. Are you actually seeing quoting activity, or what's the outlook for pricing? I know you said shipment volumes and mix improve in the back half, but how about like-for-like ASPs? Are you actually seeing you said 70% of your 2024 is already covered in backlog, it sounds like. What's the pricing dynamic you're seeing in the second half versus Q1 and Q2, where pricing is still going down?

Charlie Cao (CFO)

Yeah. For the pricing brand, for the pricing, we believe it will continue to follow the market, which we believe is already reaching the rock bottom, right, compared to the market prices versus the industry, even the leading cost structures. Most of the peers or the industry players are under the water right now.

So that's why we believe the price is reaching the bottom. However, when we look into the improvement of the cost structure-wise, definitely, it does not go so fast as the price falls in the last five, six, even eight months time. That's why the market-wise, it will struggle at the beginning of the year.

But we believe once the cost structure starts to improve, to reach the level of the ASPs and match the level of ASPs, we believe the company or even the whole industry, at least the leading competitive ones, will keep their margin as healthy as possible. Hope that answered your question.

Brian Lee (Managing Director)

Yes. Absolutely. Very helpful. And then maybe last one from me, and I'll jump back in the queue. You also mentioned back half of the year. It sounds like you're positive on U.S. volume trends growing for you. I know this is pretty fresh, the inception of this ADCVD potential investigation that was petitioned last week by some of the U.S. suppliers.

I know in the fall last year, you guys were deemed to not have been one of the companies dumping or countervailing, and so you weren't subject to any duties. It sounds like this petition is opening that entire case back up, potentially. So what are your thoughts on the latest trade policy update here, given what happened last week?

And then do you anticipate any or are you seeing any customer feedback right now that suggests there's more uncertainty for you as you move through the next few quarters? Just kind of how are you navigating it? Thank you.

Charlie Cao (CFO)

Well, it's still early to see what could be the result of these upcoming ADCVD petitions. But definitely, from Jinko's perspective, we still prefer it as a fair trade world, which could benefit not only Jinko itself but also the whole industry, where we can drive, that's what the whole industry has been doing in the last even two decades, right, to driving the LCOE of the PV energy more and more competitive, which can help the whole world become greener and more environmentally friendly and less carbon footprint.

With the trade tariff or the current geopolitical issue, definitely, it is a big challenge. It increases a lot of cost. But as a company side, we have no choice but to try our best to adapt to what the market or what the government wants.

So that's why we are working very hard with our lawyers, with our customers, trying to find out the best solution in the US market. But right now, honestly speaking, it's still too early to see what could be the pros and cons for that right now. So we might need another, let's say, three, even six months to see what could be the, let's say, upside and downside on that. Thank you.

Brian Lee (Managing Director)

Okay. Fair enough. Last one, housekeeping for Charlie. I promise I'll pass it on after this. Charlie, what was D&A in the quarter? What was CapEx in the quarter? And then also, could you tell us what the % of sales in the U.S. this quarter was and what U.S. ASP range was, dollar per watt or cents

per watt, in the quarter? Thank you.

Charlie Cao (CFO)

The U.S. shipments, roughly, 8%, 8% of total Q1 shipments. That's the shipment. And the revenue percentage will be higher because the price is dramatically higher, right, if you look at the average market price. And for the total CapEx, you are always asked about it. Last year, we spent roughly CNY 20 billion on the capacity expansion.

This year will be 50% lower than CNY 10 billion. And last year, we delivered CNY 25 billion operating cash flow. And this year, our target is operating cash flow will be larger than the CNY 10 billion. So that's about for the Q1, the CapEx is roughly CNY 3 billion, and the operating cash flow is CNY 1.5 billion.

Brian Lee (Managing Director)

Hello?

Operator (participant)

Okay. The next question comes from Philip Shen with Roth MKM. Please go ahead.

Philip Shen (Senior Research Analyst)

Hi, everyone. Thank you for taking my questions. First one is a follow-up on Brian's question regarding Southeast Asia ADCVD tariffs that could be coming later this year. So I was wondering if you could talk about how you plan on managing the retroactive tariff risk. So I think you guys talked about increasing your shipments to the US market or certainly having a high mix to the U.S. through 2024.

Can you share how much of your shipment volume in 2024 could go to the U.S.? And then how do you plan on managing that retroactive risk that could be as early as May or July? Thanks.

Gener Miao (CMO)

Yeah. Firstly, for the volume-wise, we still stick to our previous plan that we are not intentionally increase or decrease our shipments to the U.S. because of the recent ADCVD petitions. So that's already within our even within the plan of this year. So it is definitely because you know what happened in the last two years in the U.S. to Jinko. So that's why this year's total shipment numbers or the ratio of the US market definitely will be higher than last year. That's why we're just saying that.

And for this tariff risk, retroactive or the number-wise, we don't have mature solutions right now. That's why we are still as I just answered Brian's question, we are still talking to the lawyers and the customer to see what could be the best solutions. Right now, at least, I'm not aware of any good solutions on it.

Philip Shen (Senior Research Analyst)

Got it. And thank you, Gener. How are your contracts structured? Meaning, oftentimes, there's a change of law provision that may put the risk onto the customer, but does it cover tariffs? And so do you have the provisions in all your U.S. contracts so that the risk is on the customer? Or in this case, do you believe that the risk of retroactive tariffs may fall into your camp? Thanks.

Gener Miao (CMO)

I don't think we can disclose the details of the contract, but definitely, customers feel the risk as well. So even there are some language, which gives the pass risk to the customer end. But definitely, the customer side has just the basic economics of the project financings, right?

If it goes beyond a certain threshold, then definitely, the project will not happen or as planned. That's why we have to go through all those details with our customers, with their lawyers, and even their financing providers to find out the best mutual solution for all parties. It's not that easy to take one case, one solution for all.

Philip Shen (Senior Research Analyst)

Okay. Thank you, Gener. One last question in the US market. What do you think is the amount of channel inventory in the U.S.? We've seen a lot of shipments to the tune of about 5 GW a month coming to the U.S. over the past year. Do you think there's as much as a year and a half of module inventory in the U.S., or do you think it's much lower? Can you help us understand what you see? Thanks.

Gener Miao (CMO)

We have read the notes, saying that there's, let's say, oversupply in the US market. Even some players, either downstream or upstream, try to get more modules before. That's not ADCVD, but that's the anti-circ, right, or before anti-circ. We read the notes, but from our end, we have not been able to verify that directly from the customers or from some of our peers right now.

But definitely, if we look into the numbers available in the market or some market analyst report, we have seen a massive number of the modules or solar product has been shipped to the U.S. But the grid connection numbers might not support that big number. Definitely, we have the same question as you have right now.

Philip Shen (Senior Research Analyst)

Okay. Thanks, Gener. Last question here for me on the fire that you guys disclosed over the weekend. Can you talk about the impact? Shanxi is supposedly a key part of your margin, right? So you did say that there would be an impact in 2024. Can you quantify in any way? When do you think that facility could come back online? How destructive was the fire? Thanks.

Charlie Cao (CFO)

Philip, the impact is still being evaluated. But Shanxi Super Factory, remember, this year, we do two phases. phase I is 14 GW. phase II is another 14 GW. And the second phase, phase II, we'll stick to the original plan and are expected to start our operation in Q3 for the phase II and fully operational in early Q4 this year. But we are talking about the phase I. phase I, the fire has an impact on the cell capacity, the 14 GW.

And we expect the cell capacity will be fully operational by the end of this year. And this is our original plan is by the end of the middle year. So it's going to have some kind of impact two quarters, roughly, and estimated 3-5 GW. So the impact is not significant. It's a very not significant impact for the cell.

And so for the operational side, we have adjusted our productions throughout the global facilities to minimize the impact to our customers. And for the cost side and the impact of the operation, we think it's not significant. However, for the losses of the fire, it's still evaluating. But the equipment is fully get the insurance from the big insurance companies in China, and we're working on it.

Philip Shen (Senior Research Analyst)

Got it. Thank you very much for the color. I'll pass it on.

Charlie Cao (CFO)

Thank you.

Operator (participant)

Next question comes from Alan Lau with Jefferies. Please go ahead.

Alan Lau (Equity Research Analyst)

Hello? Sorry, can you hear me?

Operator (participant)

Hi, Wade. Yes, your line is now.

Alan Lau (Equity Research Analyst)

Yeah, yeah. This is Alan from Jefferies. So thanks, management, for taking my question. So first of all, we'd like to ask follow up the question from Philip on the basically, how many or what is the percentage of the contracts you have signed at least have the language that is passing through the potential liability of the delays in ADCVD? The background of this question is because some of the peers suffered a lot last year when they have procured high-priced polysilicon.

And then later on, when they failed to deliver the shipment, they even have to pay penalties as per those contracts. So I wonder if those language is already there, and it's only a matter of working with your clients to solve the problem. And is there any potential liability in delivering the obligations?

Charlie Cao (CFO)

Yeah. So again, I don't think we can disclose that level of detail. But definitely, we are case-by-case working with customers on this ADCVD risk as we always do, right? So we've got a lot of support from the customers regarding what has happened in the US market in the last two years' time. So definitely, we appreciate the support, and we are carrying that love for the future long-term partnership with most of our customers.

That's why we never want to end up with a lose-lose solution. So even if there's a risk, we definitely go ahead with the customer to look into the solutions together. That's why we can maintain our leadership in many markets, right?

Alan Lau (Equity Research Analyst)

Understood. So the next question is regarding some of what appears to be one-off income in this quarter. So the other income actually has surged quarter by quarter. So I wonder if that's related to the disposal gain in our Xinjiang capacity. And how much of that is related to that?

Charlie Cao (CFO)

In Q1, we have completed transaction to sell 100% of equity of our Xinjiang facilities. We realized, I think, roughly $800 million-$900 million net income impact.

Alan Lau (Equity Research Analyst)

Understood. So also, I recall in the transaction, there's further performance how do you say? It's kind of like a performance guarantee in the next couple of years. Has that been factored into this $800 million-$900 million, or that is completely separated?

Charlie Cao (CFO)

We didn't record that, the performance kind of the performance obligation or variable considerations from the sale of the equity. So we did not account on the books. We just recorded the fixed portion for the transaction.

Alan Lau (Equity Research Analyst)

Understood. I think another thing that is quite, I would say, quite impressive compared to a lot of your peers is that you actually do not have any impairment on assets. So I wonder if you think you will have any impairment risk going forward in this year or because you have a super majority of your capacities are TOPCon ready. So you do not foresee any risk going forward from here.

Charlie Cao (CFO)

Yes, yes, you're right. We have very small per capacity, and we accelerated the depreciation over five years throughout the last two years. The net book value is not significant.

Alan Lau (Equity Research Analyst)

That's impressive. Also, you have mentioned the cash flow in the Q1 was actually positive. I wonder if the company has taken initiative to improve the cash flow QoQ because that's also one of the concerns of investors as to the operating cash flow?

Charlie Cao (CFO)

The increasing is still our focus, operational increasing is and minimize the production lead time, logistic delivery time, cash conversion cycles. The Shanxi Super Factory we are building is one of the key considerations improves the whole cycle conversion and improves the cash flow, minimize the working capitals, warehouse costs, and logistic timing.

Alan Lau (Equity Research Analyst)

Thanks a lot. Finally, on the buyback, I wonder if the company has any guidance on the pace of the buyback because I've noticed that there's a lot of announcements around that. But I wonder if you would provide any guidance on that. Would there be any blackout in buyback after the end of quarter and before the announcement of the results?

Charlie Cao (CFO)

Our preliminary plan is the shareholder return is roughly $200 million this year. You can see we released news. We have spent roughly $105 million to repurchase back the ADS. And on top of that, which is subject to board approval, we plan to declare dividends roughly $70 million-$80 million. So together, our plan, preliminary plan this year's shareholder return is roughly $200 million.

Alan Lau (Equity Research Analyst)

Understood. Thanks a lot. I'll pass on.

Charlie Cao (CFO)

Welcome.

Operator (participant)

Once again, if you have a question, please press star one on your telephone and wait for your name to be announced. The next question comes from Rajiv Chaudhri with Intrinsic Edge. Please go ahead.

Rajiv Chaudhri (Analyst)

Good morning. Congratulations on a strong performance in a very tough Q1 for the industry. My first question is about the gross margin. It seems like your cost per watt for the modules were down roughly 10% from the Q4 to the Q1. And my question is, number one, can you give us an idea of how you were able to achieve such a dramatic decline in cost per watt given that the polysilicon costs were down as well but not as significant? And then I have a follow up on the gross margin as well.

Charlie Cao (CFO)

Yeah, it's a combination of our supply chain, our R&D teams, new technology, and improve the lower the consumptions of the materials. And we upgraded the TOPCon capacity adopting the Neo technology and significantly improve our cell efficiencies while cutting a lot of the consumptions of the silver paste. And so a lot of efforts we are doing that. And internally, we have very solid target for the cost reductions.

And step by step, we think with quarter by quarter, the cost will be relatively improvement will be relatively quicker. But again, but now the industry situation is module price is kind of drop a lot. We expect it to be stabilized, and the cost takes time. And we will try our best to improve the cost structure.

Rajiv Chaudhri (Analyst)

So Charlie, is it fair to think that in the coming quarters, Q2, Q3, and Q4, with all the improvements that you are making, that we can expect costs to improve by 1%-2% every quarter?

Charlie Cao (CFO)

It depends. Some of things most of things we can control, but some of things are out of control. If you look at the wafer, the commodity price is up a lot in these amounts. But we try to minimize the impact. But if you look at quarter by quarter throughout the year, it's definitely the end of this year, the cost will be lower than the cost as of today.

Rajiv Chaudhri (Analyst)

Right. No, but assuming that the material costs don't change, is the 2% per quarter on a sequential basis a reasonable assumption to make in terms of how you are reducing the costs?

Charlie Cao (CFO)

Yeah, we have internally even bigger targets and the 2% each quarter if assuming the material cost is the same. But overall cost, depending on a lot of things. And I think overall, it's going to be improved. But again, we think in the next two quarters, the cost improvement will not so significant because we have to do a lot of things. But the commodity price now looks to be keep at a very high level. And considering that, we don't believe the overall cost will be dramatically lower. But it's lower, slightly lower in the interim in the next two quarters.

Rajiv Chaudhri (Analyst)

So combined with the fact that ASPs, well, that you'll be selling more product in the United States by the Q4. And so it's possible that ASPs are actually up somewhat sequentially from Q3 to Q4, and your costs are coming down by, let's say, even 2% QoQ. It looks like you should be able to get the gross margin to be in the 16%-17% kind of range by the Q4. Is that reasonable?

Charlie Cao (CFO)

It's difficult to estimate. We think one of the key things with the capacity, some of our capacity phased out in the second half year, we think the price will come to a relatively rational level. On top of that, we have Shanxi Super Factory. We have more shipments in the U.S. and some of the premium market. It helps our margin, even some level of recovery. It depends on a lot of things. But we think one what we are now doing is we do internal things, and we do what we can control.

Rajiv Chaudhri (Analyst)

I see. Okay. My next question is on market share. Your market share in 2023 was in excess of 15%, closer to 16% for the year as a whole. In the Q1, it's already in the 17% kind of range. Do you think that as the capacity comes offline for the rest of the year, that your market share will continue to increase, especially if you hit the 110 GW kind of number for the year?

Gener Miao (CMO)

Well, we never take market share as our let's say, our target, right? So that's why it's harder to say. And also because of the different definitions, there's different way to calculate it, right? It's difficult to really define, let's say, a fair, well-accepted market share definition. But anyway, we appreciate your calculations on these numbers. Based on my perception, I think it's roughly around 17%-18% market share is how we are looking at ourselves today. Whether that number could go up or go down, it depends on the competitions.

It depends on the whole industry. It depends on a peer strategy as well. So that's why it's difficult to say that right now. But definitely, we are doing our best to make sure we deliver the good result from the financial statement-wise. Meanwhile, we are doing our best to serve our customers in the long term to keep the long-term partnership momentum. Thank you.

Rajiv Chaudhri (Analyst)

Is the market share that you have combined with the brand name that you are developing as well, is that giving you a price premium or an increasing price premium relative to other brands?

Gener Miao (CMO)

Definitely, we believe our brand gives us a lot of strength and the market acceptance or awareness, for sure. But whether it creates a market premium, it depends on what numbers you are comparing with, right? If you compare with the nobodies in the market, definitely, the brand sell worse quite a lot.

But if you compare with the top two or top three, the definition or the acceptance of the customers across the different top brand might not be that much as people imagine. And also, the brand premium in the different market sector in different country will vary a lot as well.

Rajiv Chaudhri (Analyst)

I see. A question on the N-type products. What do you think the industry's shipments of N-type products will be in 2024?

Gener Miao (CMO)

Roughly, we believe the market will finish the transition from P-type to N-type by end of this year. So technically, it might start from, let's say, roughly 35%-40% range until year-end, 90%, even 95% range. That's what we believe.

Rajiv Chaudhri (Analyst)

You think the competitors will also get up to the 90% range by the end of the year?

Gener Miao (CMO)

I mean, the whole industry, right? So someone might take action faster. Someone may be slower. But as an industry, we believe that's the whole industry will look like.

Rajiv Chaudhri (Analyst)

Now, you have been ahead in terms of getting your cost of N-type down. And now your N-type costs are comparable to P-type. What kind of margin premium does that give you over tier two and tier three companies who are behind the cost curve relative to you guys?

Gener Miao (CMO)

So let's take this as the last question. Thank you for your question. So we believe if you look into some third-party market intel, for example, there's, let's say, PV InfoLink, right? So if you compare the P-type and N-type price, the gap is roughly $0.01 per watt peak. So you can roughly calculate how much it will reflect in the margin-wise, right? So it's roughly like 9%-10% of the margin difference, right? That's the way we are looking into it.

Rajiv Chaudhri (Analyst)

I see. Okay.

Gener Miao (CMO)

Thank you.

Rajiv Chaudhri (Analyst)

Just one last question. Sorry.

Speaker 11

Oh, sorry. Because of the time limit, we need to connect the next investor. More questions, we can negotiate after the call. Okay. Operator, please connect the next question. Hello, operator?

Operator (participant)

Okay. The last question comes from Leo Ho with Daiwa Capital Markets. Please go ahead.

Leo Ho (Director, HK Energy and APAC ESG Equity Researc)

Okay. Thanks, Nashman. Just a question on the AD/CVD situation. I just wonder for our US capacity, are we using our own solar cell from Southeast Asia? We've been hearing some industry feedback suggesting that possibly there may be the cancellation of the wafer plus three rules, which means that we cannot use solar cell from Southeast Asia anymore. Do you have any view on that? Thank you.

Gener Miao (CMO)

I'm not quite sure what policies you are referring to. But based on the Jinko situation, we are fully vertically integrated outside China. Means polysilicon ingot wafer cell module are all from non-China sources, right? So that's what we have built in the last two years' time under the UFLPA. So that gives us a lot of advantage and trust in the US market.

Leo Ho (Director, HK Energy and APAC ESG Equity Researc)

Okay. Just one more question, if I may. I would like to ask about the EU situation. Aside from, I think, publicly announced situation regarding LONGi and also Shanghai Electric, are we hearing any troubles regarding Chinese players exporting to Europe? Especially, we've been hearing some weird news suggesting that probably there's one of major module makers with its EU headquarters being raided. I'm not sure if you guys are hearing the same situation. Thank you.

Gener Miao (CMO)

Not just not something I'm aware of right now. So if I have anything, definitely, I will let you know.

Leo Ho (Director, HK Energy and APAC ESG Equity Researc)

Okay. Thanks so much.

Gener Miao (CMO)

Thank you.

Operator (participant)

This concludes the conference call. Please disconnect your line.