JinkoSolar - Q4 2020 Transcript

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Transcript

Management

Ripple Zhang - *Investor Relations Manager*

Xiande Li - *Chairman of the Board of Directors and Chief Execute Officer*

Gener Miao - *Chief Marketing Officer*

Haiyun (Charlie) Cao - *Director and Chief Financial Officer*

Participants

Philip Shen - *ROTH Capital Partners - Analyst*

Grace Zhou - *Goldman Sachs - Analyst*

Chaojun Chen - *Green Court Capital Management - Analyst*

Kim Pao - *ROCIM Limited - Analyst*

Presentation

Operator

Hello, ladies and gentlemen, and thank you for standing by for JinkoSolar Holding Corporation Limited's Fourth Quarter 2020 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 to 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 fourth 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 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. Li Xiande, Chairman of the Board of Directors and Chief Executive Officer of JinkoSolar Holding Company Limited; Mr. Charlie Cao, Chief Financial Officer of JinkoSolar Holding Company Limited; and Mr. Gener Miao, Chief Marketing Officer of JinkoSolar Company Limited.

Mr. Li will discuss JinkoSolar's business operations and company highlights; followed by Mr. Miao, who will talk about the sales and marketing; and then Mr. Cao, will go through the financials. They will all be available to answer your questions during the Q&A session that follows.

Please note that today's discussion will contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our future results may be materially different from the views expressed today.

Further information regarding this and other risks is included in JinkoSolar's public filings with the Securities and Exchange Commission. JinkoSolar does not assume any obligation to update any forward-looking statements, except as required under the applicable law.

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

Xiande Li - *Chairman of the Board of Directors and Chief Execute Officer*

[Foreign Speech]

2020 was a very challenging year for the solar industry, but had kept its momentum for strong growth despite the year being shrouded in uncertainty as we went through the COVID-19 pandemic global scale. Although demand for solar installation was affected and we experienced the domino effect of the global economic slowdown and went through some of the lowest points, we were still able to recover rapidly as restrictions were eased in major

markets.

In the second half of 2020, shortages of polysilicon and solar glass, rising shipping costs, and the appreciation of RMB, together with the impact of COVID-19 lead to significant volatility in the industrial value chain. In a year full of extreme challenges, we continued relentlessly to optimize costs through technical innovation and improved process.

Gross margin in the fourth quarter were within our expectations and both revenues and shipments for the full year recorded significant growth compared with 2019. Meanwhile, our brand and global distribution channels further demonstrated our strong advantages and resilience during market volatility, and we were able to actually increase market share and solidify our leading status in the global PV industry.

Our solar module shipments during the quarter and for the full-year 2020, both hit historical highs. As of the end of 2020, our accumulated module shipments reached 70 gigawatt, making JinkoSolar the world's largest PV manufacturer. We expect our shipments to sustain at growth rate of over 30% in 2021.

[Foreign Speech]

As the global economy continued to face unprecedented impacts from the COVID-19 crisis, the solar industry had shown solid resilience against the pandemic and achieved rapid recovery amidst positive news and heightened enthusiasm for clean energy.

In 2020, the performance of the global solar market exceeded expectations, with newly added installations worldwide of approximately 134 gigawatt, an increase of 22% year-over-year compared with 2019. During the pandemic, governments introduced stimulus packages which assured [Phonetic] in a wave of new opportunities for renewable energy to develop across the global industry chain.

Economic stimulus often leads to large-scale capital investments. These investments will most likely determine the direction of the economic recovery now and for decades to come. More than 170 countries in the world have made specific policy objectives to encourage the development of renewable energy, a unified move that has not only boosted the industry, but made the move to clean energy solutions unstoppable.

For the Chinese market, which accounts for about one-third of the world total new PV installation, the pledge to reach the peak of carbon dioxide emissions by 2030 and carbon neutrality by 2060, cover both considerations for energy safety and economic development by adopting supportive policies and measures in China's near-term de-carbonization plans.

In order to switch electricity generation from fossil fuel to renewable energies as the primary source, China has been accelerating the application of new technologies and the reform of the electricity system. Meanwhile, grid parity worldwide has brought rapid development to improve distributed photovoltaic generation and energy storage systems.

Following the proliferation of clean energy globally, the solar industry will continue rolling out its ambitious plans and leveraging all opportunities. So, we are in for strong growth momentum over the next few years.

[Foreign Speech]

Since the fourth quarter of 2020, mismatch between supply and demand drove up the price of polysilicon caused by the relatively long capacity expansion circle for polysilicon production and volatile short-term market sentiment.

At the same time with the price increases of bulk commodities, higher production costs were passed down the industrial value chain, which resulted in significant price increases in modules. In response, some investors in solar power generation have accepted lower yields. However, prices in each upstream and downstream segment continued to fluctuate and we predict will do so into the second quarter of this year.

Since installations are still likely to increase and supply is sufficient in most segments of the supply chain, we anticipate that demand for modules will revise once market price is stabilized. While there are still supply shortages, there is enough polysilicon to support over 180 gigawatt for module production. This will help balance demand with supply in the year. We remain optimistic about global installation levels in 2021.

[Foreign Speech]

The continuous volatility in the industrial value chain further highlighted the resilience to risk of integrated manufacturers. Meanwhile, economic uncertainties continued to concentrate key players and heightened competition for survival of the fittest and rewarded highly adaptive companies to gain more market share. We closely monitored market trends, adjusted with flexibility each linked over production process, and continuously optimized our supply chain management throughout our network and partners.

Firstly, we signed long-term agreements with material suppliers to secure the steady supply of core materials.

Secondly, we continued to build symbiotic partnership, allowing upstream and downstream to share resources, especially for segments with more severe supply shortages and actively establish characters, forming an industrial ecosystem. In addition, we maintained flexible tracking and storage of alternative technologies and materials to minimize market risks caused by supply chain volatility.

[Foreign Speech]

As the solar industry enters the era of grid parity around the globe, JinkoSolar continues to expand successfully with more business scenarios and business models, leveraging our brand reputation built on years of global marketing and excellent service.

We have established the giant foothold to build specific standardized and industrialized energy storage development models in eight major regions worldwide. At present, we have shipped our energy storage products to the Middle East and Africa and will launch products especially designed for the U.S. and Japanese markets in the second half of 2021.

Meanwhile, our business in the global distribution market is showing a rapid upward trend and our products for BIPV systems have been installed in a number of commercial real estate projects in China. JinkoSolar's renowned brand and expert teams continue to drive the successful execution of our business, from stable supplies of global customers to localized after-sales services with the guarantees of reliability and consistency of our products and services.

[Foreign Speech]

JinkoSolar is committed to promoting the acceleration of carbon neutrality through product innovation and operating excellence. Over the next one or two years, our technical goal is to reach the highest laboratory efficiency of 25.5% for the N-type monocrystalline silicon solar cell and 29% for the multi-junction solar cell. So far, our new generation Tiger Pro flagship products have accumulated orders of over 10 gigawatt.

Tiger Pro provides the best match between maturity of the industry and high-efficiency large-area products. We expect the Tiger Pro service to account for 40% to 50% of our total shipments this year. In addition, we will continue to leverage our leading technical innovation capabilities to promote the development of safe and highly efficient energy systems in response to increasing demand of this space.

We have been actively deploying solutions for the solar+ industries such as technical storage for photovoltaic, hydrogen production and integrated PV storage smart system.

[Foreign Speech]

We remain bullish on the mid to long-term growth of the solar market space and continue to invest in new production capacity with technical and cost competitiveness. Taking into consideration multiple factors like technical maturity and stability [Phonetic] to meet increasing downstream demands for high-efficiency products. We expect our in-house annual production capacity of mono-silicon wafers, high-efficiency solar cells, and modules to reach 33, 27 and 37 gigawatts respectively, by the end of 2021.

We expect the proportion of our in-house production capabilities to reach over 75% in 2021, which will enable us to become even more resilient to risks and continued volatility of the supply chain and technical upgrades. This long-term investment in our business will help to optimize operational efficiency and increase profitability.

[Foreign Speech]

Before turning over to Gener, I would like to go over our guidance. We expect total solar module shipments to be in the range of 4.5 gigawatt to 5 gigawatt for the first quarter of 2021. Total revenue for the first quarter is expected to be in the range of $1.18 billion to $1.3 billion. Gross margin for the first quarter is expected to be in the range of 12% to 15%. Based on current estimates, the full 2021 shipments including wafer, cell and modules to be in the range of 25 gigawatt to 30 gigawatt.

Gener Miao - *Chief Marketing Officer*

Thank you, Mr. Li. In the fourth quarter of 2020, total shipment of solar modules reached 5.8 gigawatts and for the full year of 2020, total annual shipments were 18.8 gigawatts. Even though supply and demand remained volatile, we were still able to reach our shipment target for full year 2020. Our modules were shipped to nearly 160 countries and regions in the world, as our oversea markets remain our main shipment destinations with Asia Pacific, U.S. and the Europe accounting for the major portion.

Shipments in Asia Pacific achieved a significant growth of over 60% in 2020. During the fourth quarter, we strategically increased the portion of shipments to emerging markets in order to capture growth opportunities as these economies gradually recovered from the pandemic. Our well-recognized solar brand, global network of localized real-time customer service, quality products, and advanced technology were major assets that helped to mitigate risks and increase our global market share in 2020.

Shipment of high-efficiency monocrystalline products increased significantly from 74% in 2019 to nearly 100% in 2020. In May 2020, we launched a new generation of flagship products for the Tiger Pro series, leading the industry to fully enter the era of ultra-high-power efficiency, above 500-watt peak. As technology innovation continues to accelerate product's iterations, we estimate that shipments of Tiger Pro modules will reach 40% to 50% of total shipment in 2021, which will greatly reduce the LCOE for the customers under same conditions.

Recently, we launched a new ultra high-efficiency Tiger Pro product, especially designed for distributed DG market and well-suited for a wide range of distributed scenarios, including industrial and commercial rooftops and residential rooftops. In the future, we will continue to launch premium PV products and diversified solutions and continue to expand our brand influence in the field of distributed generation segment.

And the recent price hikes along the supply chain, caused a correlated increase in module prices and pressured downstream installations demand. However, we believe the short-term price rise will have relatively limited impact on demand. Following China's pledge to achieve peak carbon emission by 2030 and carbon neutrality by 2060, stated-owned enterprises were assigned mandatory target for renewable energy installations.

According to client's feedbacks, several major Chinese SOE investors have already lowered EU's target for the power generation projects, bringing strong installation expectations for the downstream market. We believe that newly added PV installations will sustain significant growth momentum in 2021.

In the mid to long-term, global transition to clean energy will become irresistible as more and more countries launch policy and a goal to cut carbon emissions, demand side incentives are expected to partially offset cost pressure. The solar industry will continue its strong growth momentum.

Next, I will detail each region's market trends. In China, 2021 is the first year of the 14th Five-Year plan and it is also the first year for the solar industry accepted the residential sector to enter into the era of grid parity without subsidies. In one aspect, according to the new 2021 policy draft, projects should be won through bidding. Otherwise, new installations would be approved as a result of reductions of subsidies on existing projects.

This will lead to lower priced projects going forward and increased solar generation capacity will further drive down the cost of solar power. Furthermore, because delayed projects not connected to the grid by June 30 will lose subsidies, this will account for the most of the connections to the grid this year, including residential projects worth 10 gigawatt.

The Chinese market is expected to achieve a growth rate of 25% year-over-year and new installations reaching 55 gigawatt level in 2021. Average annual installations during the 14th Five Year plan is expected to reach 70 gigawatt to 90 gigawatt.

According to the latest report of Bloomberg New Energy Finance, new solar installation capacity in the U.S. reached a record high of 16.5 gigawatt in 2020. The solar industry showed tenacious red-blood [Phonetic] vitality in the midst of the pandemic's doom and gloom atmosphere and economic contraction. President Biden has announced that U.S. will re-join the Paris Agreement and that the House of Representatives has reintroduced the

GREEN Act, a critical bill that includes a five-year extension of solar investment tax credit.

The economic recovery policy in the post-COVID era and the accelerating de-carbonization of the U.S. Energy System will further enhance attractiveness of solar power and energy efficiency.

In 2021, newly added solar installations are expected to exceed 20 gigawatts for the first time. Compared with other renewable energy sources, the price of solar power in the U.S. is very competitive and the market competition is more rational, because of its unique supply-demand relationship and market [Indecipherable]. We are confident about maintaining our leading position in U.S. market with our stable supply capability, excellent customer service and high-quality product advantage.

In 2020, our shipments in Asia Pacific market reached historical high, with NAND contributing the largest growth in the shipments. Affected by expiration of old fit projects, Japan rushed to install a large number of projects in September 2020. As the economic advantage of rooftop projects continue to grow in Japan, rooftop solar power generation is expected to replace utility-scale projects and become the main source of the newly added power generation capacity for the country.

Affected by some adverse factors, including the pandemic and excessively high electricity cost, new installations in India experienced a decline. However, it is worth mentioning that Ministry of New and Renewable Energy will impose tariff of 40% and 25% on solar modules and cells, respectively, from April 2022. This move is expected to stimulate a new round of installation rush before the deadline. Demand in other markets in the regions such as Australia is expected to remain stable.

According to the European market outlook for the solar power 2020 to 2024, published by Solar Power Europe, the European market reached 18.7 gigawatt of newly installed solar power, producing a double-digit growth of 11% in 2020, the highest growth rate since 2011.

In terms of market performance, the new Renewable Energy Source Act will benefit the development of rooftop installation in Germany, the long established leader in solar generation. And the residential energy storage is expected to become another emerging growth driver. The spotlight was on Spain in 2020 as the country led Europe's subsidy-free market growth and became the third largest solar market in Europe.

In January 2021, Spain awarded a total of over 3-gigawatt solar and wind power capacity in the first renewable energy auction held since 2017, with the lowest LCOE for solar at $0.018 per kilowatt hour.

In addition, solar market in Netherlands, Poland and France all maintained solid momentum. We remain bullish on the long-term development of the European market. Most of the countries in emerging markets like Latin America and Middle East are actively promoting solar power projects. Applications for solar power generation has been extensive and a major driving force for solar power development in emerging markets.

Brazil state-owned Energy Research Office recently announced that it has registered a total of nearly 67 gigawatt of renewable energy projects for auction in June this year, including 1,050 solar projects with a total capacity of over 41 gigawatt.

The Dubai Supreme Council of Energy recently announced a significant increase in renewable energy share of Dubai's total energy mix. Following a strong recovery from the severe impact of pandemic, emerging markets are expected to become a powerful contributor to the development of the global PV industry.

We see solar generation becoming widely popular in more and more countries and the growth of the global solar market will no longer rely on single or dominant market, like the U.S., Europe, or India and will continue to diversify. The general trend of the global clean energy transition will open up a new growth cycle for solar+ energy storage projects to achieve cost-effective integration of flexible resources in smart distribution grids.

At present, we have developed diversified solutions for our residential, C&I and utility customers in our major markets around the world. We will cooperate with leading companies in the energy storage supply chain to accelerate deployment to the entire energy storage business chain.

Recently, we won Overall High Achievers award in the 2020 Photovoltaic Module Index Report published by the Renewable Energy Testing Center. Our high performance across three essential indicator categories; reliability, performance and the quality demonstrated our commitment to product excellence. As the world's first global solar manufacturer to join RE100, JinkoSolar was the first company in the industry to sign the Global Framework Principles for Decarbonizing Heavy Industry.

In 2021, we will strengthen our distribution channels, expand our network of value-added customer service and bring greater value to our global customers with high-quality, reliable modules and premium services.

With that, I will turn it over to Charlie.

Haiyun (Charlie) Cao - *Director and Chief Financial Officer*

Thank you, Gener. In the fourth quarter, rising cost of raw materials and shipping costs combined with RMB appreciation, put pressure on our profitability. Gross margin was 16% or 14.3%, if excluding the reversal benefit of ADD and CVD in line with our guidance.

Our long-term competitive advantage in branding and distribution channels and demand for our high-efficient products and customer services have helped to partially offset pressures from upstream price volatility. As costs along the supply chain stabilize, our highly efficient production capacity release and better integration will continue to give us a competitive edge in the industry.

Let's go into more details about the quarter now. Total revenue was $1.4 billion, a decrease of 1.1% year-over-year. Gross margin was 16% compared to 17% in the third quarter of 2020 and 18.2% in the fourth quarter of 2019. Excluding the ADD, CVD reversal benefit, gross margin was 14.3%, in line with our previous guidance.

Total operating expenses in Q4 were $220 million, an increase of 51% sequentially and an increase of 26% year-over-year. The sequential and year-over-year increase was mainly attributable to an increase in disposal and impairment losses on equipments as a result of company's upgraded production lines.

Total operating expenses accounted for 15% of total revenues in the fourth quarter of 2020 compared to 10.8% in the third quarter 2020 and 11.9% in the fourth quarter of 2019. Operating margin was 0.8% in Q4, compared to 6.2% in Q3 and 6.2% in Q4 last year.

EBITDA was $100 million compared to $144 million in third quarter. Non-GAAP net income was $5.1 million, a decrease of 92% year-over-year, which translates into non-GAAP diluted earnings per ADS of $0.11. Taking into account the loss from the change in fair value convertible senior notes and call option due to the sharp increase in stock price of company in Q4, GAAP net loss was $57 million.

I'll brief you on our 2020 full-year financial results. 2020 was dramatically stronger compared with 2019. Total solar module shipments were 18.8 gigawatts, up 31% year-over-year. Total revenues were $5.4 billion, up 18% year-over-year, benefited from an increase in shipment of solar modules and production volumes of our integrated high-efficiency capacity as well as cost reduction from Company's industry-leading integrated cost structures.

Gross profit for the full year was $945 million, an increase of 13.6% year-over-year. Gross margin was 17.6% compared to 18.3% in 2019. Excluding the ADD, CVD reversal benefit, gross margin was 17%, flat with 2019. Operating margin for the full year 2020 was 5.1% compared to 5.8% for the full-year 2019.

Operating expenses were 12.5% of total revenues in 2020, flat with 2019. EBITDA was $463 million compared to $376 million in 2019. Net debt to EBITDA ratio was 3.4 times. Non-GAAP net income was $147 million compared to $139 million in 2019. This translates into non-GAAP basic and diluted earnings per ADS of $3.28.

Moving to the balance sheet. At the end of fourth quarter, our balance of cash and cash equivalents were $1.2 billion compared to $943 million by the end of third quarter. And our cash levels significantly improved. AR turnover days improved to 50 days compared to 61 days in Q3. Inventory turnover days were 97 days, flat with the third quarter.

Total debt was $2.8 billion compared to $2.5 billion at the end of third quarter and $1.9 billion by the end of last year, in which $115 million was related to international solar projects. Net debt was $1.5 billion compared to $1.59 billion third quarter and $1 billion by the end of last year.

In September 2020, we announced our plan to list our principal operating subsidiary, Jiangxi Jinko, on the STAR Market in China. By the end of October 2020, Jiangxi Jinko completed an equity financing of RMB3.1 billion. This process is progressing smoothly.

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

Question & Answers

Operator

Thank you. Ladies and gentlemen, we will now begin our question-and-answer session. [Operator Instructions] Your first question is from Philip Shen, who is from ROTH Capital Partners. Your line is now open, Philip. Please go ahead.

Philip Shen - *ROTH Capital Partners - Analyst*

Hi, everyone. Thank you for taking my questions. With Q1 over now, can you talk about what you see for pricing in Q2 as well as shipments and margins? I know you have not provided official guidance, but any color on the Q2 outlook would be very helpful. Thanks.

Haiyun (Charlie) Cao - *Director and Chief Financial Officer*

Hey, Philip. The pricing - from the pricing perspective, the input costs continue to be relatively high, given particularly the polysilicon, the supply bottleneck. And we are seeing the rebalance negotiations with our customers and the module price, as you know globally, including China are on the - I think in a trend to go up to absorb - to reflect the input costs impact.

So, we didn't give the guidance on the second quarter, but I think you know overall the gross margin to be relatively stable still out to the first half of the year, but we are expecting some positive factors like you know solar glasses prices, the market price is down; the RMB, the depreciating looks like is positive and to be - to offset some input cost pressure from specifically, the polysilicon impact.

But I think, it's a little bit impact on the global demands from the margin perspective because of the high input costs and I think most of the Tier 1 companies like to balance the shipments, which is the module shipments versus the high input cost. And so I think the shipments, we are not expecting the Tier 1 companies this second quarter. And the quarter-by-quarter shipments will have significant increase.

Philip Shen - *ROTH Capital Partners - Analyst*

Okay. Thanks, Charles. So - and then…

Gener Miao - *Chief Marketing Officer*

Yeah. So, I think products…

Philip Shen - *ROTH Capital Partners - Analyst*

Go ahead, Gener.

Gener Miao - *Chief Marketing Officer*

It's Gener. So yeah - so regarding the shipments, I think you might have noticed our disclosure of the shipment target includes total shipment instead of our module only shipment, which reflecting our strategic flexibilities because right now, we see a balanced demand and supply from upstream to downstream right now. So that's why, like Charlie was - what Charlie was just saying, we - our shipment target are still in line with what we've said. But we are keeping some flexibilities between wafer, cell and the modules in order to mitigate the market risk and trying to optimize our margins.

Philip Shen - *ROTH Capital Partners - Analyst*

Thanks, Gener. I did notice that in - was wondering if you could share a little bit more on that, Gener, specifically how much wafer-only sales or cell-only sales could we see, so that we can get to a more accurate module only or module shipments in '21? Thanks.

Gener Miao - *Chief Marketing Officer*

We don't have that numbers yet because we are keeping that flexibilities to make sure that we can adapt our strategy to the current polysilicon price hike. That's why we keep that as the flexible part. But in general, we are still taking module as our main business, but partially of our shipments will be wafer or cell. It depends on the margin on the spot market.

Philip Shen - *ROTH Capital Partners - Analyst*

Okay. Thanks. One other question for me. You guys added, I think 16 gigawatts or plan to upsell capacity by the end of this year. Can you give us a little bit more color on that strategy around the capacity expansion and the focus on why you're investing so much in cell? And then help us with the capex for 2020 total. And then what do you expect it to be in 2021, and how much do you expect that to be from partner contributions in terms of the capex? Thanks.

Haiyun (Charlie) Cao - *Director and Chief Financial Officer*

The capex in 2021, it's in a range of $1 billion to $1.2 billion, reflecting our investment on the - dramatically on the solar cell as well as the wafer states. And for the strategy of solar cell, it's reflecting our - in the couple, in the recent two or three years, we didn't increase our solar cell capacities because we think the technology is not so matured in the last two or three years.

And now the market is shifting to bigger size, high-efficient and untapped [Phonetic] solar cell technology. And we believe it's the time to increase our solar cell capacity and increase our integration levels. And that is why we increased a little bit more on the solar cell capacity in 2021.

Philip Shen - *ROTH Capital Partners - Analyst*

Great. And the 2020 capex, Charlie?

Haiyun (Charlie) Cao - *Director and Chief Financial Officer*

2020, I didn't have the exact number, but I think it's roughly $5 billion. I'm sorry, it's $500 million.

Philip Shen - *ROTH Capital Partners - Analyst*

Okay. Great. Thank you. I'll pass it on.

Haiyun (Charlie) Cao - *Director and Chief Financial Officer*

Thank you, Philip.

Operator

Thank you. [Operator Instructions] Your next question is from Brian, who's from Goldman Sachs. Your line is now open, Brian. Please go ahead.

Grace Zhou - *Goldman Sachs - Analyst*

Hi, guys. Thank you for taking the questions. I have a couple of questions for you.

Gener Miao - *Chief Marketing Officer*

Hello?

Grace Zhou - *Goldman Sachs - Analyst*

Hi. Can u hear me?

Gener Miao - *Chief Marketing Officer*

Yeah, your voice is breaking, Brian.

Grace Zhou - *Goldman Sachs - Analyst*

Is it better now?

Gener Miao - *Chief Marketing Officer*

Yeah, yeah.

Haiyun (Charlie) Cao - *Director and Chief Financial Officer*

Yeah, it's better. Please go ahead

Grace Zhou - *Goldman Sachs - Analyst*

Yeah. Yeah. Thank you for the questions. This is Grace on for Brian. I have a couple of questions. Just wonder how far advanced are you both for modules are is there a flexibility in pricing? Or will you not be able to raise pricing until like the second half of 2021? Thanks.

Gener Miao - *Chief Marketing Officer*

Thank you for the question. I think for the module price, on one side, we have the firm commitment for the contract we signed, but also we always keep a portion of our capacities to the spot market, to adapt ourselves to the volatile market changes. So, for the contract signed part, we are doing our best to respect the contract legal commitment.

But we - since we have a long-term partnership with many customers for years, so we are still talking to many of them, trying to get their, let's say, help and flexibilities to work together to face the current challenges in the market. So that's on progress. Does that answer your question?

Grace Zhou - *Goldman Sachs - Analyst*

Yeah. Yeah. Thank you. And how far ahead [Phonetic] are you booked for the modules for 2021?

Gener Miao - *Chief Marketing Officer*

I think over - our order book are more than half booked, but still we are - some of them are with a firm commitment. Some of them are with flexibilities with framework contract only. So, yes.

Grace Zhou - *Goldman Sachs - Analyst*

Okay. Great. Thanks for that color. I guess my second question is now that there are more details around the China 14th Five-Year plan, talking about expectations for like 55 gigawatts? So, I just wonder how you are thinking about the demand picture here like - in terms of like, what could drive upside or downside.

Gener Miao - *Chief Marketing Officer*

Sorry. Can you repeat? What's the upside and downside for what?

Grace Zhou - *Goldman Sachs - Analyst*

For China demand, what could drive like the upside or downside?

Gener Miao - *Chief Marketing Officer*

Okay. Yeah. So, I think right now in short-term, we did face some challenges because of the imbalanced growth of the capacities like our pre-March earnings speech. The growth of upper stream capacity is much slower than the expansion of the downstream demand. So, this has caused a short-term turbulence and volatile market situations right now.

But in long-term, we are still a believer for the long-term growth of the market, including China market and other market as well because we see a very ambitious target announced by China government and we have accepted a very clear signal from our downstream customers about the ambitions - pipelines in China.

So the current challenge in the short-term market is the imbalance, the supply and demand happened in upper stream, but we expect that it could be resolved in the next, let's say, mid-term - short term or mid-term because the China - let's say, China grid parity projects always got a long time to - after the PPA signed to get grid connections. So I think, yeah, the market will adapt itself based on the market principles and the China market, together with a global market demand will continue to be very strong and at the high-speed growth.

Grace Zhou - *Goldman Sachs - Analyst*

Okay. Thanks for that color. And if I could sneak in one more. I guess, how should we think about like the opex in 2021? Should we think about, like as a percentage of sale like around 12% [Phonetic] to 11%? And how should we think about the gross margin in the second half of 2021 versus the first half?

Haiyun (Charlie) Cao - *Director and Chief Financial Officer*

The gross margin - and we are expecting some more competitions among Tier 1 companies. And once - the bottleneck is still the materials. So, we expecting the second half year with more debottleneck for the materials and the costs are expecting to be improved compared to the first half year. And we have more possibilities and with the integration level increase, with the debottleneck of the key materials and to improve our gross margin in the second half year.

Grace Zhou - *Goldman Sachs - Analyst*

Okay, thanks. And…

Operator

Pardon the interruption. Grace, are you still there? We lost you for a minute there.

Grace Zhou - *Goldman Sachs - Analyst*

Yeah. Yeah. Thanks for the color. And opex, how should we think about opex? Is it - do you expect it still around - a retention like the normal - kind of like normal range like 11% to 12% of the sales - net sales?

Haiyun (Charlie) Cao - *Director and Chief Financial Officer*

Yes, still in our range, 11% to 12% against the total revenue.

Grace Zhou - *Goldman Sachs - Analyst*

Okay. Thanks. I'll pass it on.

Haiyun (Charlie) Cao - *Director and Chief Financial Officer*

Thank you.

Operator

Thank you. Your next question is from Philip, who has a follow-up question, who is from ROTH Capital Partners. Please go ahead.

Philip Shen - *ROTH Capital Partners - Analyst*

Hi, everyone. Thank you for taking my follow ups. One another questions I had was around polysilicon and given where pricing is and the dynamic there, pricing continuing to go higher. Was wondering if you could share how much polysilicon you've secured for 2021 possibly in metric tons?

Gener Miao - *Chief Marketing Officer*

So, Philip, I think from the supply side, we have secured enough polysilicon supply. But the challenge is because of this market situations, all those secured polysilicon supply is always up to the market condition. So that's a big pressure or is a big challenge for everyone. But currently, it's extremely, almost mission impossible to secure a long-term polysilicon pricing. So, we secured the volume. I think it's enough. But from the pricing wise, it's still always up to the market.

Philip Shen - *ROTH Capital Partners - Analyst*

And what's your view, Gener, as to when that pricing can become relief? I think, Tongwei has some capacity coming online at the end of this year. Do you think we have to wait until Q4 or is there - and if we get relief before that, what causes that relief?

Gener Miao - *Chief Marketing Officer*

We think it will relive step by step. It won't change overnight, but gradually I think that the pressure will be released. The challenge here right now is, the demand side is very, very hot right now. So that's why the upper stream is always holding their expectations that the demand will support the price. So it will - in short term, we are still expecting a volatile market, up and down, but in long run, like you say, the pressure will release step by step and follow the market principles.

Philip Shen - *ROTH Capital Partners - Analyst*

Okay. And then, as it relates to Q2 shipments, we talked about this earlier, Gener, but when I look at Q1 relative to what we forecasted the Q1 levels are, what you guided to were lower. For Q2, should we expect something similar? Meaning, if you think back to what you expected to do in Q2 back at the end of last year, do you expect the shipments to be lower in Q2 now versus then because the raw material outlook is so challenging and as a result your customers and you are pushing out orders? So are you - do you expect to build less in Q2 than you previously hadn't imagined?

Gener Miao - *Chief Marketing Officer*

I think Phil, the principle we are holding in the Company is to keeping the module capacity more flexible than others, right. So our wafer and cells are in the full range. And for the module side, we are holding more flexibilities up to the - what we say right, the margins and the market conditions. That's why the shipments contains all three segments we have. So I think we will hold the same principle for Q2 as well. So number wise, I don't think it's the right time to talk about it and maybe we can talk about it next time.

Philip Shen - *ROTH Capital Partners - Analyst*

Okay. All right, appreciate that. And then, in terms of the China listing, Charlie, I know you mentioned some details on that. Was wondering if you could share if there is, what's the potential for the China listing to be in Q3 or Q4 this year? Is it meaningful or is it more likely in the early part of '22? I know you guys have talked about perhaps taking two-year process, but I wanted to see if the others are going this year like Daqo and then I think Canadian Solar has a chance of getting out there this year. I'm thinking you guys have a chance to get there this year as well, China listing, but wanted to get some color from you guys. Thanks.

Haiyun (Charlie) Cao - *Director and Chief Financial Officer*

Okay. For the China listing, we have separate team working on this process. It's more complicated compared to the U.S. listing and the process is still - it's on track and everything is very smooth and we are expecting to reach some significant milestone in the next couple of months, and we will keep the market in progress.

And in terms of timetable, how long we will get the China listing done, it's really, a lot process is out of the Company's controls and particularly from - typically, these are couple of rounds of submitting and response, different comments from the regulators. And regulators - they have different tendencies to control the total volume of China listings. So it's - from a Company perspective, we try to drive the process as quickly as possible and more [Indecipherable], but some of the process, it's depending on - from the government regulator's perspective.

Philip Shen - *ROTH Capital Partners - Analyst*

Okay. Thanks very much for the follow-up questions. I'll pass it on.

Gener Miao - *Chief Marketing Officer*

Thank you, Phil.

Operator

Thank you. Our next question is from Johnny Chen, who is from Green Court Capital. Your line is now open, Johnny. Please go ahead.

Chaojun Chen - *Green Court Capital Management - Analyst*

Yeah. Hi, everyone. Can you hear me?

Haiyun (Charlie) Cao - *Director and Chief Financial Officer*

Yes.

Chaojun Chen - *Green Court Capital Management - Analyst*

Thank you for taking my question. And I have two questions for you. So firstly, we know that the Company has been developing N-type solar cell technology, especially in TOPCon. So would you please elaborate a little more on the capacity play and the efficiency and the success rate? And my second question is that, is there any possibility that the Company develops another N-type technology before [Indecipherable]? Thank you.

Haiyun (Charlie) Cao - *Director and Chief Financial Officer*

Okay. We build out our R&D capabilities on the N-type couple of years and I think 2019 - starting from 2019, we have built around 800 megawatts of TOPCon based capacities. The efficiencies have been reached to roughly 24% and now this year, we are building more capacity on the solar cell assays and the capacity is large size based solar cell capacity, as well as we have flexibility to upgrade or quickly upgrade to the TOPCon-based technology more quickly.

And in terms of HOT, we still believe it's cost-effective at this stage and we have the R&D technology available and continue to watch out the maturities, particularly from the equipment perspective and raw material perspective. So we don't have plans to build out the large-sized capacity on HOT in the recent, one or two years.

Chaojun Chen - *Green Court Capital Management - Analyst*

Thank you. Thank you. As a follow-up, would you please - I want to make sure that I heard you right. So what is your capacity expansion plan for TOPCon again this year, in 2021?

Haiyun (Charlie) Cao - *Director and Chief Financial Officer*

So 2021, we again have plan to increase our TOPCon capacity, but just to emphasize, the new capacity - overall capacity already easy and convertible and we have flexibility and the process is available to upgrade to the TOPCon immediately.

Chaojun Chen - *Green Court Capital Management - Analyst*

Yeah. So the capacity expansion is based on the product type technology, right?

Haiyun (Charlie) Cao - *Director and Chief Financial Officer*

Yes. You're right, P-type.

Chaojun Chen - *Green Court Capital Management - Analyst*

Yeah, thank you. Thank you. That's all from me.

Haiyun (Charlie) Cao - *Director and Chief Financial Officer*

Thank you.

Operator

Thank you. Your next question is from Kim Pao who is from ROCIM. Your line is now open. Kim. Please go ahead.

Kim Pao - *ROCIM Limited - Analyst*

Hi. Can you hear me? Hello?

Gener Miao - *Chief Marketing Officer*

Yeah.

Kim Pao - *ROCIM Limited - Analyst*

Hi. Thank you for taking my call. I have a couple of questions. One is, you mentioned in your opening remarks that SOEs are willing to accept now lower than normal returns with the new solar farm projects. Can you give us a little bit more color on that? Like what kind of returns they're willing to accept now?

And second, I wanted to - my second question, I want to ask little bit more about your view as to the current supply/demand situation of polysilicon materials and when do we think we would see a return to normal pricing for polysilicon? And also, at what level currently - if you were to maintain a margin from your end of let's say 2020's normal operating margin, what kind of polysilicon price would you need to actually get there?

Gener Miao - *Chief Marketing Officer*

Thank you. So regarding your question about Chinese SOEs, our expectations, actually, I think that there are a lot of Chinese SOEs, ITPs who have set up very ambitious renewables targets for this new five years plan. And according to what we have heard from the market, I think their expectations have been lowered from previously around eight to 10 to right now around six to eight.

So I think that's very big, let's say, jump or let's say a big decline in order to pump up more renewable projects in renewable sector, which gives a lot of hopes and ambitious targets for the whole industry, especially in China.

And regarding your second question about supply/demand relationship, especially for polysilicon. I think in the previous question to Phil, we have provided our views that for the polysilicon is because of the tension of the polysilicon supply is mainly driven by the unbalanced growth or expansions between upstream and downstream because the ramping up phase for the upstream is much, much lower than downstream. That's mainly the reason.

And for the price range or how much weight goes back to so called, let's say, 2020 level, it depends on the supply/demand relationship as well. So that's why we see - in short-term, our view is the volatile upper stream, the volatile market driven by the shortage of polysilicon or the upper stream material will continue in the short-term.

But in mid and long term, we deeply believe the market principles which will automatically balance between the supply/demand across the different sector in this industry and we believe in long run renewable is still a very promising industry. Hopefully, that answers your question.

Kim Pao - *ROCIM Limited - Analyst*

Can I have a follow-up?

Gener Miao - *Chief Marketing Officer*

Sure.

Kim Pao - *ROCIM Limited - Analyst*

Hello? Hello?

Gener Miao - *Chief Marketing Officer*

Yes. Go ahead.

Kim Pao - *ROCIM Limited - Analyst*

Okay. I'm just thinking, so like in terms of time the - given the fact that there are not that much new supply for polysilicon coming on-stream until towards the end of the year. Do you think we should be able to reach some - when you say mid-to-long term, do you think we should be able to reach a more reasonable polysilicon price and margin levels for us as a result towards the end of the year?

Gener Miao - *Chief Marketing Officer*

Well, first to say about the polysilicon, I think there are capacities starting ramping up and the new capacity start to release the polysilicon materials to the market, it's just step-by-step. It won't be - it won't happen overnight. So, I think, you can look into the main polysilicon manufacturers ramping up. I think that there is a lots of public information available.

And regarding your margins question, I think the margins will follow the market principle as well, right. So it will goes up and down. For example, recently the solar glass price has dropped significantly, which helped the module makers more or less, let's say, ease the pressure from the upper stream a little bit. So it happens. Just we prefer to look into this industry in the mid or long-term instead of one month or two.

Kim Pao - *ROCIM Limited - Analyst*

Thank you.

Gener Miao - *Chief Marketing Officer*

Thank you.

Operator

Thank you. There are no further questions at this time.