

SUNPOWER Group

Waking the human capital

Bloomberg | Reuters | POEMS
SPWG: SP | SUNP.SI | SPW.SG
Industry: Manufacturing (Chemical Engineering)

Phillip Securities Research Pte Ltd

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Report type: Result

Company Overview

Nanjing-based SUNPOWER, using proprietary heat-transfer technologies, manufactures energy & environmental protection products. Its customer base includes prominent global players and Chinese giants; mainly, in the chemical, petrochemical, solar energy and coal liquefaction industries.

- 4Q11 result is a mediocre bag of realism in numbers; and, a show of competitiveness in attitude.
- Previous target price/fair value hit on 8Feb/9Feb.
- RIM values it at \$0.28 but fundamental-related price setting suggests a more aggressive target.
- Maintain BUY with revised target price of \$0.40.

What is the news?

First, the bad news. On a quarterly basis (such reporting started in 1Q08), there is a loss (3rd non-positive contribution) at 64.5%-owned *Nanjing Shengnuo Heat Pipe*. Gross margin is the second lowest (worst was 3Q08).

Second, the probably bad news. Lower *trade payables* (if due to lower customer advances) and *other receivables* (if due to lower deposits with suppliers) may mean low-ish *revenue* in 1Q12.

Third, the good news is the loss suffered in the *heat pipes* segment implies its competitiveness to do well therein.

Fourth, recent announcements of Middle-East contract wins should boost gross margin ahead.

How do we view this?

The fundamentals remain good despite a difficult quarter/year. The numbers reflect difficult operating conditions in China. We retain previous assumptions except for lightening revenue and margin forecasts.

Investment Actions?

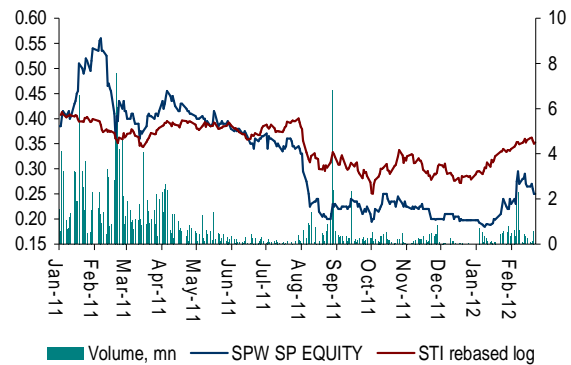
We are getting aggressive, whilst in BUY mode, due to the relatively long 'cash build-up' period of the US market, which together with our STI's next market cycle bottom of 12 Mar 2012 (11 trading days away), could take us upwards for a few months. See explanation on next page.

We continue to believe that as SUNPOWER'S reputation grows on a global basis, hedge-fund type investors may see this as a company that deserves a much higher valuation, and may take it to list elsewhere.

For the more conservative investor, who does not believe the Greek 'solution', it then seems reasonable to buy-and-hold half of what you intend to allocate to this stock, and trade the other half according to the general market.

SUNPOWER Group

Rating	1	Buy
- Previous Rating	1	Buy
Target Price (SGD)	0.400	
- Previous Target Price (SGD)	0.260	
Closing Price (SGD)	0.250	
Expected Capital Gains (%)	60.0%	
Expected Dividend Yield (%)	1.2%	
Expected Total Return (%)	61.2%	
Raw Beta (POEMS Dataline)	1.08	
Market Cap. (SGD mn)	82	
Enterprise Value (SGD mn)	142	
3M Average Daily T/O (mn)	0.283	
52 week range (SGD)	0.180-0.570	



Major Shareholders	(%)
1. Guo Hongxin	23.2
2. Li Laisuo	20.1
3. Ma Ming	17.4

Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Price (*Actual/Current)	0.413	0.250	0.250	0.250
P/B (X)	1.84	0.88	0.75	0.62
EV/EBV (X)	1.78	0.90	0.81	0.71
P/Net Debt (X)	Cash	1.39	1.33	1.29
P/E (X)	8.1	4.5	5.3	3.5
EPS (SGD)	0.051	0.055	0.047	0.071
DPS (SGD)	0.003	0.003	0.000	0.000
Dividend Yield	0.7%	1.2%	n.a.	n.a.

Source: PSR est.

*Actual mean price between publication of FY result and next 1Q result/xDiv

Valuation Method

RIM (ROE: 20%; 2 years horizon)

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Revenue growth

SUNPOWER in FY11 grew its revenue by 32.8% y-y. Counting from FY07, the year that substantially reflected the effect from its post-IPO expansion, to FY11, its revenue CAGR is 22.2%.

On a segmental basis, its heat exchangers/pressure vessels did best at a CAGR of 34%. The heat pipes/exchangers did badly at a CAGR of only 9%. The latter returned a negative RMB6.3m bottom-line in FY11. The company attributed its lower margin performance in this segment to the stiff competition faced.

We sensed efforts are being made to push this segment (I am guessing the low margin and negative bottom line in FY11 could be due to wanting to secure some work that would lead to good contracts later). After all, this segment works with the *Nanjing University of Technology*. Why not let this part of human capital return some good profits?

Overall, the *trade payables* (which consist of some customer advances) and *other receivables* (which consist of some deposits with suppliers) are low as compared to the first 3Qs. This probably cannot indicate a strong 1Q12.

We therefore lighten earlier forecast revenues for FY12 and FY13 on this as well as on the small increase in order book.

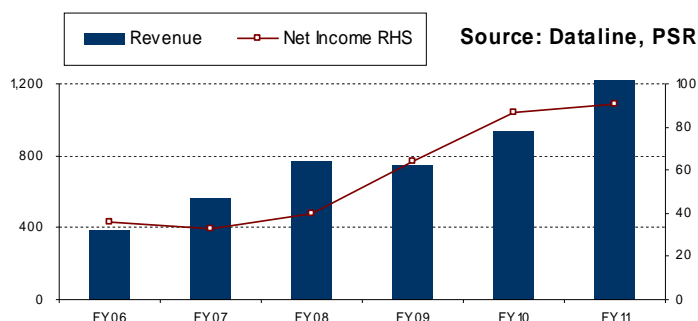
Profit growth

PATMI grew 9.1% y-y. This is the second worst yearly performance after the negative 10.2% for FY07 y-y.

PATMI/revenue margin fell to 7.3% from 9.2% last year. There were lower margins in FY07 and FY08 of about 5.5%.

In line with lighter revenue forecast and the current low-ish FY11 margin, we lower our net margin forecast from the original 6.5% to 5.4% for FY12; and, 8.2% to 6.4% for FY13.

Fig 1. SUNPOWER's annual revenue and PATMI from FY06 to FY11



Per-share fundamentals and ROE

Its NBV (net book value) has increased from S\$0.095 in FY06 (IPO - Mar05) to the current S\$0.284 in FY11. This is a 200% growth.

Similarly, EBV (enterprise book value) has increased from S\$0.116 to S\$0.479. This is also 200% growth. Net debt has however increased a lot from S\$0.017 to S\$0.180, as it now owns some premises that it used to rent previously.

Over the same period, EPS has increased from S\$0.022 in FY06 to S\$0.055 in FY11, a 150% growth.

ROE ranges between 17.1% and 22.9%. It did 19.4% for FY11, just under our 20% ROE that we use for fair value calculation. Net profit-to-revenue percent ranges between 5.2% and 9.4%, with a 7.3% for FY11.

Valuation, using the Residual Income Method

We apply a ROE of 20% and a 2-year time horizon.

This gives a fair valuation of S\$0.28.

Both our previous target price/fair value were hit

Our previous target price of S\$0.26 was hit on 8 Feb.

Our previous fair value of \$0.31 was touched, as a high, on 9 Feb. It has yet to reach it again or exceed it since.

Volumes since our report (22 trading days), as compared to the same period prior, have multiplied 4.6X.

Where do we go from here?

For the market, coming out of the EU crisis can be compared to coming out of the GFC back in 1Q09. For target price setting: Unless there is a significant event in between, the next report is only due after 1Q12 result. Therefore, we will use the P/B behaviour from 2Q09, which means 1.42X (also supported by cycle analysis below). We ignore the more bullish market subsequent to the low-margin FY07 result, which was a high 1.67X.

Cyclical equivalents

We still seem to be involved in 2 separate cycles.

The Singapore 13-week cycle bottom, which would start from 12 Mar 2012, is about 11 trading days from today. If you are not anxious, you may want to buy only then.

The US 76-week cycle bottom, which appeared not to have arrived on schedule on 24 Jan 2012, carries a 'cash build-up' period since early November. If it did finally arrive, coincidentally, with the STI 12 Mar 2012 bottom, then the upside would measure all the way to late June.

This supports our aggressive target price setting.

Target Price

Our target price of S\$0.40 is 60% higher than the previous close of S\$0.25. Hence, BUY.

You may still want to apply the 50%-to-hold and 50%-to-trade strategy.

FYE Dec (Forecasts are based on current price;
actuals on average prices FY-1Q result dates)

	FY06	FY07	FY08	FY09	FY10	FY11	FY12F	FY13F
Valuation								
P/B	4.05	1.68	0.60	1.13	1.84	0.88	0.75	0.62
EV/EBV (X) [EBV=Enterprise Book Value]	3.46	1.47	0.65	1.05	1.78	0.90	0.81	0.71
P/ND (X) [ND=Net Debt]	22.8	5.9	2.3	142.0	(29.4)	1.4	1.3	1.3
P/E (X)	17.7	9.8	3.4	5.2	8.1	4.5	5.3	3.5
DY (%) based on average prices public-ex dates	n.a.	n.a.	n.a.	n.a.	0.7%	1.2%	n.a.	n.a.

Per share data (SGD)

NBV	0.095	0.114	0.156	0.183	0.224	0.284	0.332	0.403
EBV	0.116	0.152	0.207	0.197	0.224	0.479	0.539	0.623
ND	0.017	0.033	0.041	0.001	(0.014)	0.180	0.188	0.194
EV	0.400	0.224	0.134	0.208	0.398	0.430	0.438	0.444
EPS	0.022	0.019	0.027	0.040	0.051	0.055	0.047	0.071
DPS	0.000	0.000	0.000	0.000	0.003	0.003	0.000	0.000

Growth (%)

NBV per share (same as total)	27.2%	20.3%	37.5%	17.3%	22.0%	27.1%	16.7%	21.4%
EBV per share (same as total)	67.3%	31.9%	35.8%	-4.6%	13.4%	114.1%	12.5%	15.6%
ND per share (same as total)	n.m.	93.7%	26.4%	-96.5%	n.m.	n.m.	4.2%	n.m.
Revenue	60.8%	44.6%	36.9%	-1.7%	24.8%	32.8%	15.3%	26.7%
Net Income (same as EPS)	91.2%	-10.2%	39.4%	46.8%	27.2%	9.1%	-14.1%	49.3%

Return & Margin (%)

EBI/EBV	21.5%	17.3%	19.2%	26.4%	27.6%	14.6%	14.6%	16.9%
EBI/EBV (standard deviation)	n.a.	n.a.	n.a.	3.6%	4.5%	5.7%	6.2%	6.4%
ROE	22.9%	17.1%	17.4%	21.7%	22.7%	19.4%	14.3%	17.6%
Net Income/Revenue	9.4%	5.8%	5.2%	8.5%	9.2%	7.3%	5.4%	6.4%

Income Statement (RMB mn)

Revenue	387	560	767	754	941	1,249	1,440	1,825
EBIT	45	47	61	100	124	129	158	220
Taxation (net of attributable to finance)	(4)	(3)	(2)	(16)	(18)	(14)	(28)	(46)
EBI	41	44	59	84	106	115	130	173
Net Finance (Expense)/Income	(4)	(7)	(13)	(11)	(11)	(26)	(34)	(34)
Taxation (attributable to finance)	(0)	(1)	(1)	(2)	(2)	(5)	(10)	(11)
Profit After Tax	37	37	45	71	93	85	86	128
Less: Non-controlling Interest	1	4	5	6	6	(6)	8	12
Net Income	36	33	40	64	87	91	78	117
Source: PSR								
Effective tax rate %	10.6%	8.9%	6.1%	20.3%	17.9%	17.7%	30.8%	30.8%

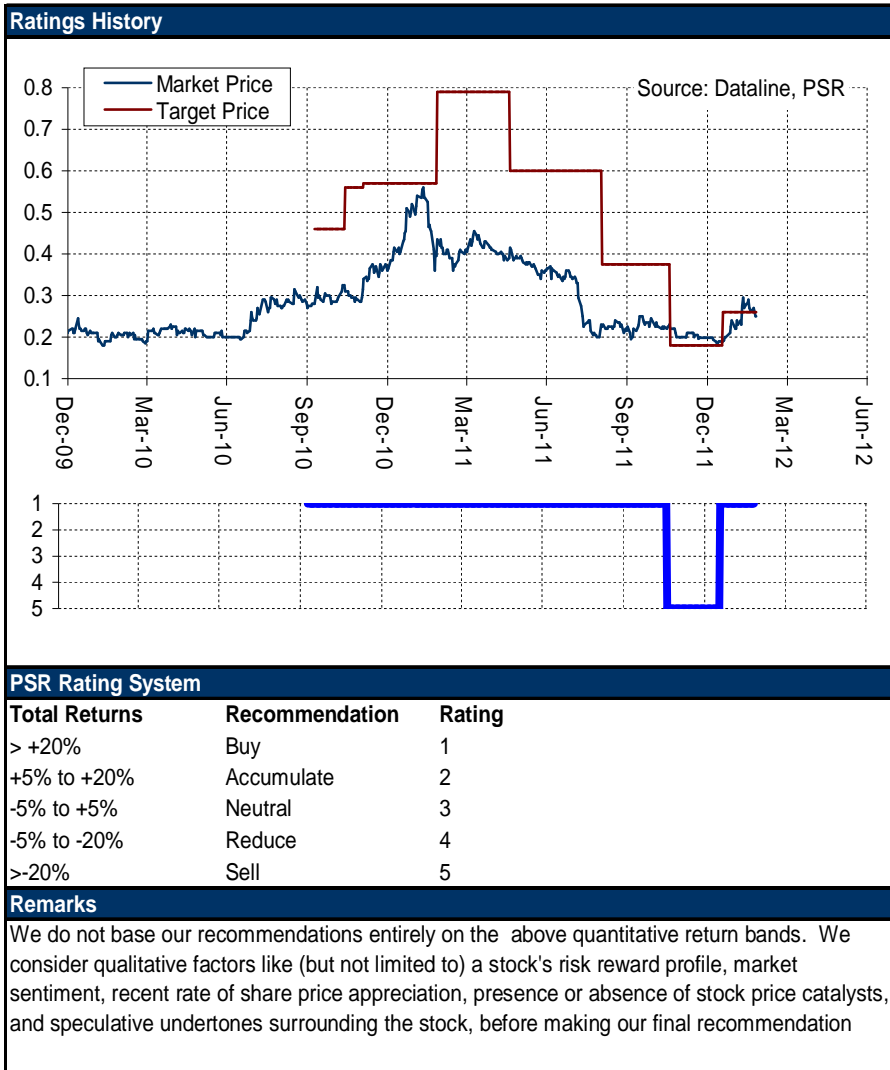
FYE Dec								
Balance Sheet (RMB mn)	FY06	FY07	FY08	FY09	FY10	FY11	FY12F	FY13F
PPE	59	94	92	94	136	198	228	214
Land rights & Intangibles	22	21	20	19	38	52	51	49
Others	0	0	4	5	5	8	8	8
Total non-current enterprise assets (1)	81	115	116	118	179	258	286	270
Inventories	54	151	209	210	159	290	332	421
Accounts Receivables	189	277	312	404	610	807	927	1,170
Other Receivables	49	54	101	44	97	101	117	148
Total current enterprise assets (2)	292	481	623	658	866	1,199	1,376	1,739
Total Enterprise Assets (3)=(1)+(2)	373	596	739	776	1,045	1,457	1,663	2,010
Accounts Payables	165	302	361	388	561	547	630	799
Other Payables	13	35	69	65	87	112	129	156
Others	1	4	3	5	13	8	15	29
Total current enterprise liabilities (4)	180	341	433	457	661	667	775	984
Others	0	0	0	1	1	2	2	2
Total non-current enterprise liabilities (5)	0	0	0	1	1	2	2	2
Total Enterprise Liabilities (6)=(4)+(5)	180	341	433	458	663	669	776	986
Enterprise Book Value (7)=(3)-(6)	193	256	306	318	382	788	886	1,024
Short-term loans	77	131	142	218	215	412	452	521
Current portion of long-term loans	0	0	0	0	0	0	0	0
Total current financial liabilities (8)	77	131	142	218	215	412	452	521
Non-current portion of long-term loans	30	33	20	25	44	30	0	0
Total non-current financial liabilities (9)	30	33	20	25	44	30	0	0
Total Financial Liabilities (10)=(8)+(9)	107	164	162	243	259	442	452	521
Cash and bank	70	90	75	196	236	108	99	100
Pledged deposits	9	19	25	45	47	38	44	103
Total current financial assets (11)	79	109	101	241	283	146	143	203
Others	0	0	0	0	0	0	0	0
Total non-current financial assets (12)	0	0	0	0	0	0	0	0
Total Financial Assets (13)=(11)+(12)	79	109	101	241	283	146	143	203
Net Debt (14)=(10)-(13)	28	55	61	2	(24)	296	309	318
Non-controlling interest	7	10	14	20	24	24	32	43
Shareholder Equity	158	191	231	295	382	468	546	663
Total Equity (15)	165	201	245	316	406	492	578	706
Financing Activities (16)=(14)+(15)	193	256	306	318	382	788	886	1,024
Cashflow Statements (RMB mn)								
CFO								
PBT	42	40	48	89	113	103	124	185
Adjustments	11	17	47	18	23	43	56	60
Cash from ops before WC ex-financials' changes	53	57	95	107	136	145	180	245
WC ex-financials' changes	(39)	(31)	(71)	(9)	(43)	(323)	(77)	(168)
Cash generated from operations	15	25	24	98	94	(178)	103	78
Taxes paid, net of attributable finance	(3)	(1)	(7)	(14)	(10)	(22)	(21)	(32)
Cashflow from Operations (17)	12	25	17	84	83	(200)	82	45
CFI								
PPE, land rights, intangibles net	(49)	(40)	(8)	(13)	(70)	(91)	(51)	(10)
Cashflow from Investments (18)	(49)	(40)	(8)	(13)	(70)	(91)	(51)	(10)
Cashflow from Enterprise (19)=(17)+(18)								
CFF								
Share issuance	0	0	0	0	0	0	0	0
Purchase of treasury shares	0	0	0	0	0	0	0	0
Loans, net of repayments	62	57	(3)	82	16	183	10	69
Pledged deposits	17	(10)	(6)	(20)	(2)	9	(6)	(59)
Issue of term note, net	0	0	0	0	29	0	0	0
Dividends to minority interests	(1)	(1)	(1)	0	(2)	6	0	0
Dividends to shareholders & capital reduction	(0)	0	0	0	0	(5)	0	0
Finance expense, net of income	(5)	(10)	(13)	(11)	(12)	(26)	(34)	(34)
Taxes paid, attributable finance	(0)	(1)	(1)	(2)	(2)	(5)	(10)	(11)
Cashflow from Financing (20)	73	36	(24)	49	27	162	(40)	(34)
Net change in Cash (21)=(19)+(20)	36	21	(15)	120	40	(129)	(9)	1
Effects of exchange rates	(0)	(0)	(0)	0	(0)	0	0	0
CCE, begin	34	70	90	75	196	236	108	99
CCE, end	70	90	75	196	236	107	99	100

Source: PSR

QE Mar, Jun, Sep, Dec (Forecast on current price; actuals on average prices q-q result dates)									
	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12F	2Q12F	3Q12F	4Q12F
Valuation									
P/B	1.84	1.61	0.91	0.76	0.88	0.86	0.84	0.80	0.75
EV/EBV (X)	[EBV=Enterprise Book Value]	1.78	1.42	0.90	0.82	0.90	0.88	0.87	0.86
P/ND (X)	[ND=Net Debt]	(29.4)	7.4	1.6	1.1	1.4	1.5	1.4	1.2
P/E (X) trailing 4qs		8.1	7.0	4.1	3.4	4.4	4.7	5.3	5.7
DY (%) based on average prices public-ex dates		24.2%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Per share data (SGD)									
NBV	0.224	0.229	0.246	0.273	0.284	0.292	0.299	0.312	0.332
EBV	0.224	0.294	0.404	0.480	0.479	0.470	0.495	0.546	0.539
ND	(0.014)	0.050	0.139	0.186	0.180	0.163	0.180	0.217	0.188
EV	0.399	0.418	0.363	0.393	0.430	0.413	0.430	0.467	0.438
EPS	0.021	0.008	0.013	0.017	0.017	0.007	0.007	0.013	0.020
DPS	0.100	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Growth (%q-q)									
NBV per share (same as total)	8.7%	2.3%	7.7%	11.0%	4.0%	2.6%	2.4%	4.3%	6.5%
EBV per share (same as total)	-8.8%	31.6%	37.3%	18.8%	-0.2%	-1.8%	5.1%	10.4%	-1.3%
ND per share (same as total)	-154.8%	-453.0%	179.9%	34.0%	-3.0%	-9.3%	9.9%	20.9%	-13.5%
Revenue	28.1%	-33.5%	0.4%	40.6%	48.4%	-44.1%	8.5%	15.6%	66.0%
Net Income (same as EPS)	73.6%	-59.9%	54.3%	29.8%	-1.7%	-56.2%	-1.9%	78.7%	59.4%
Return & Margin (%)									
EBI/EBV	11.1%	3.9%	4.9%	4.7%	3.3%	3.2%	3.1%	3.8%	5.1%
EBI/EBV (standard deviation, 5qs)	n.a.	3.1%	2.8%	2.9%	3.2%	0.8%	0.9%	0.7%	0.8%
ROE	9.4%	3.7%	5.3%	6.2%	5.8%	2.5%	2.4%	4.1%	6.1%
Net Income/Revenue	10.5%	6.5%	9.6%	8.5%	5.8%	4.5%	4.1%	6.3%	6.0%
Income Statement (RMB mn)									
Revenue	341	227	228	320	475	266	288	333	553
EBIT	51	22	36	42	29	28	28	42	59
Taxation (net of attributable to finance)	(9)	(2)	(3)	(5)	(3)	(3)	(3)	(7)	(14)
EBI	43	20	33	37	26	25	25	34	45
Net Finance (Expense)/Income	(3)	(6)	(6)	(7)	(7)	(9)	(9)	(9)	(7)
Taxation (attributable to finance)	(1)	(1)	(1)	(1)	(1)	(3)	(3)	(3)	(2)
Profit After Tax	39	13	26	29	17	13	13	23	36
Less: Non-controlling Interest	3	(2)	4	1	(10)	1	2	2	3
Net Income	36	15	22	27	27	12	12	21	33
Source: PSR	Effective tax rate %	19.3%	22.9%	11.5%	18.7%	20.9%	30.8%	30.8%	30.8%

QE Mar, Jun, Sep, Dec									
Balance Sheet (RMB mn)	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12F	2Q12F	3Q12F	4Q12F
PPE	136	140	167	177	198	193	188	183	228
Land rights & Intangibles	38	37	52	51	52	52	51	51	51
Others	5	5	5	4	8	8	8	8	8
Total non-current enterprise assets (1)	179	182	223	233	258	253	247	242	286
Inventories	159	176	399	502	290	319	346	400	332
Accounts Receivables	610	789	626	717	807	693	752	870	927
Other Receivables	97	319	302	192	101	87	95	110	117
Total current enterprise assets (2)	866	1,284	1,327	1,411	1,199	1,099	1,193	1,379	1,376
Total Enterprise Assets (3)=(1)+(2)	1,045	1,466	1,550	1,644	1,457	1,352	1,440	1,621	1,663
Accounts Payables	561	864	759	755	547	472	512	592	630
Other Payables	87	87	102	109	112	97	105	121	129
Others	13	2	9	5	8	8	8	8	15
Total current enterprise liabilities (4)	661	954	870	869	667	576	625	721	775
Others	1	1	1	2	2	2	2	2	2
Total non-current enterprise liabilities (5)	1	1	1	2	2	2	2	2	2
Total Enterprise Liabilities (6)=(4)+(5)	663	955	871	870	669	578	627	723	776
Enterprise Book Value (7)=(3)-(6)	382	511	678	774	788	774	814	898	886
Short-term loans	215	304	357	390	412	412	412	452	452
Current portion of long-term loans	0	0	0	0	0	0	0	0	0
Total current financial liabilities (8)	215	304	357	390	412	412	412	452	452
Non-current portion of long-term loans	44	44	44	29	30	30	30	30	0
Total non-current financial liabilities (9)	44	44	44	29	30	30	30	30	0
Total Financial Liabilities (10)=(8)+(9)	259	348	402	419	442	442	442	482	452
Cash and bank	236	189	120	86	108	152	124	98	99
Pledged deposits	47	73	49	34	38	21	23	27	44
Total current financial assets (11)	283	262	169	120	146	173	147	124	143
Others	0	0	0	0	0	0	0	0	0
Total non-current financial assets (12)	0	0	0	0	0	0	0	0	0
Total Financial Assets (13)=(11)+(12)	283	262	169	120	146	173	147	124	143
Net Debt (14)=(10)-(13)	(24)	86	233	299	296	269	295	357	309
Non-controlling interest	24	28	33	34	24	25	27	29	32
Shareholder Equity	382	397	413	441	468	480	492	512	546
Total Equity (15)	406	425	446	474	492	505	518	541	578
Financing Activities (16)=(14)+(15)	382	511	678	774	788	774	814	898	886
Cashflow Statements (RMB mn)									
CFO									
PBT	49	17	30	35	22	19	19	33	53
Adjustments	8	9	10	13	7	9	9	9	7
Cash from ops before WC ex-financials' changes	56	26	40	48	29	28	28	42	59
WC ex-financials' changes	75	(115)	(171)	(84)	8	9	(45)	(90)	49
Cash generated from operations	131	(89)	(132)	(35)	37	37	(17)	(48)	108
Taxes paid, net of attributable finance	(0)	(13)	4	(9)	(4)	(3)	(3)	(7)	(7)
Cashflow from Operations (17)	131	(102)	(128)	(44)	33	34	(20)	(55)	102
CFI									
PPE, land rights, intangibles net	(58)	(7)	(7)	(15)	(22)	5	5	5	(45)
Cashflow from Investments (18)	(58)	(7)	(7)	(15)	(22)	5	5	5	(45)
Cashflow from Enterprise (19)=(17)+(18)									
CFF									
Share issuance	0	0	0	0	0	0	0	0	0
Purchase of treasury shares	0	0	0	0	0	0	0	0	0
Loans, net of repayments	9	89	54	18	22	0	0	40	(30)
Pledged deposits	(28)	(26)	24	15	(4)	17	(2)	(4)	(18)
Issue of term note, net	0	0	0	0	0	0	0	0	0
Dividends to minority interests	(2)	6	0	0	0	0	0	0	0
Dividends to shareholders & capital reduction	0	(0)	(5)	(0)	0	0	(0)	0	0
Finance expense, net of income	(3)	(6)	(6)	(7)	(7)	(9)	(9)	(9)	(7)
Taxes paid, attributable finance	(1)	(1)	(1)	(1)	(1)	(3)	(3)	(3)	(2)
Cashflow from Financing (20)	(25)	62	66	25	10	5	(13)	24	(56)
Net change in Cash (21)=(19)+(20)	48	(47)	(69)	(34)	21	44	(28)	(26)	1
Effects of exchange rates	0	0	0	0	0	0	0	0	0
CCE, begin	188	236	189	120	86	108	152	124	98
CCE, end	236	189	120	86	108	152	124	98	99

Source: PSR



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