

China / Hong Kong Company Update

TCL Zhonghuan Renewable Energy Technology

Bloomberg: 002129 CH Equity | Reuters: 002129.SZ

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Jan 2024

BUY

Last Traded Price (15 Jan 2024): RMB14.69 (CSI300 Index : 3,281)
Price Target 12-mth: RMB23.00 (57% upside) (Prev RMB40.00)

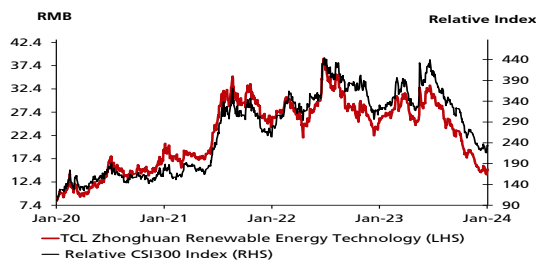
Analyst

Patricia Yeung +852 36684189 patricia_yeung@dbs.com
Ian Chui +852 36684174 ianchui@dbs.com

What's New

- Poised to benefit from long term adoption of TOPCon technology as a leading N-type wafer maker
- Impacted by falling wafer prices due to oversupply and keen competition
- Cut FY24 EPS estimate on lower wafer ASP and GPM assumptions, reflecting the challenging pricing environment
- Current valuation indicates considerable pessimism; we maintain a BUY rating albeit with a reduced TP of Rmb23

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Turnover	67,010	77,481	79,774	90,403
EBITDA	12,279	16,255	16,994	19,693
Pre-tax Profit	7,449	9,676	8,818	9,960
Net Profit	6,819	8,013	7,303	8,248
EPS (RMB)	1.69	1.98	1.81	2.04
EPS Gth (%)	28.3	17.5	(8.9)	12.9
DPS (RMB)	0.10	0.12	0.11	0.12
BV Per Share (RMB)	9.31	11.29	13.09	15.14
PE (X)	8.7	7.4	8.1	7.2
P/Cash Flow (X)	11.7	5.3	3.8	3.3
P/Free CF (X)	nm	nm	nm	nm
EV/EBITDA (X)	7.5	6.3	6.3	5.7
Net Div Yield (%)	0.7	0.8	0.7	0.8
P/Book Value (X)	1.6	1.3	1.1	1.0
Net Debt/Equity (X)	0.5	0.6	0.7	0.7
ROAE(%)	19.7	19.3	14.8	14.5
Earnings Rev (%)		(22)	(34)	NEW
Consensus EPS (RMB)		1.94	2.41	2.67
Other Broker Recs:		B:23	S:1	H:3

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

TOPCon adoption drives N-type wafer demand

Investment Thesis

Leading N-type wafer manufacturer. Based on the TCL Zhonghuan's (TZE) latest plans, the company is the second largest solar wafer maker globally with 180GW of manufacturing capacity as of end-2023.

Short-term ASP headwinds remain. TZE's long term earnings growth should be underpinned by its wafer capacity expansion. The company is also looking to develop wafer factories in Saudi Arabia. However, in the short term, oversupply, and keen competition among solar midstream players in China continue to suppress wafer ASP. To reflect the price declines, we cut our FY24F wafer ASP assumption by 15% and gross margin by 0.6ppts.

Wafer price recovery could act as a positive catalyst. The exit of weaker solar midstream players could relieve the oversupply situation and help wafer ASP to stabilize. Key signs of an inflection point in solar wafer ASP include cancellation/delay of expansion plans, asset sales, debt defaults, and/or bankruptcy of weaker players. TZE specializes in producing large format N-type wafers. The company could gain long-term market share riding on the dual trends of increasing wafer sizes and adoption of TOPCon (N -type) modules.

Our target price is lowered to Rmb23 to reflect the impact of declining wafer price on EPS. We also lowered our target P/E to 11.5x, 1.5 SD (previous: 1SD) below the long-term average of 20x. Current FY24F P/E of c.8x is near its historical low. We reckon TZE is a key beneficiary of higher N-type adoption and current pessimism is unjustified.

Key Risks

Intensifying competition in both production and innovation; raw material/input cost fluctuation; unexpected slowdown in solar installations; and hostile trade policies from overseas governments.

At A Glance

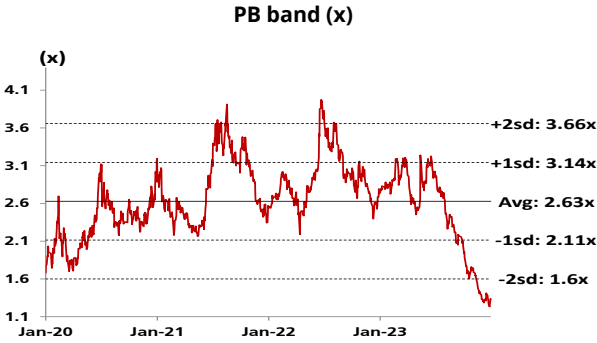
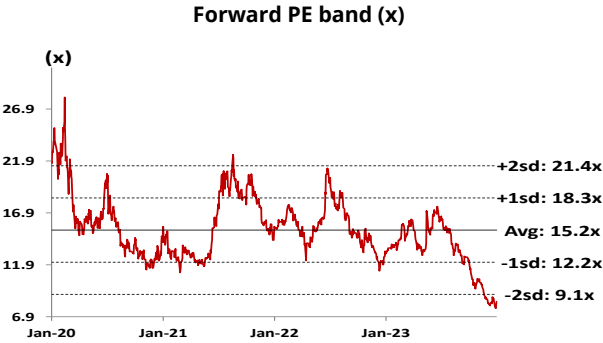
Issued Capital (m shrs)	4,019
Mkt Cap (RMBm/US\$m)	60,245 / 8,405
Major Shareholders (%)	
TCL Technology Group (Tianjin) Co., Ltd.	27.4
Free Float (%)	72.6
3m Avg. Daily Val. (US\$m)	162.4
GICS Industry: Industrials / Capital Goods	

TCL Zhonghuan Renewable Energy Technology

Company Background

TCL Zhonghuan (TZE) is the second-largest solar wafer globally. TZE plans to achieve 180GW, 7GW, and 30GW of wafer, cell, and module production capacity in 2023. Furthermore, TZE plans to develop 25GW of TOPCon cell capacity, which is to be ramped up in 2025-26.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

TCL Zhonghuan Renewable Energy Technology

Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Silicon wafer sales volume (MW)	47,523	61,608.9	111,150.0	138,700.0	152,570.0

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (RMB m)					
Silicon Wafer	31,797	50,901	57,321	57,223	66,093
Solar module	6,119	10,842	14,330	16,471	17,969
Semiconductor Material	2,034	3,265	3,755	3,942	4,140
Semiconductor equipment	92	0	0	0	0
PV Power station	533	619	650	669	689
Other segment	531	1,384	1,425	1,468	1,512
Total	41,105	67,010	77,481	79,774	90,403

Gross profit (RMB m)

Silicon Wafer	7,226	9,647	12,611	11,731	13,549
Solar module	811	798	2,006	2,141	2,336
Semiconductor Material	492	823	946	994	1,043
Semiconductor equipment	(8)	0	0	0	0
PV Power station	276	348	365	348	359
Other segment	116	327	883	797	755
Total	8,914	11,943	16,811	16,011	18,042

Gross profit Margins (%)

Silicon Wafer	22.7	19.0	22.0	20.5	20.5
Solar module	13.3	7.4	14.0	13.0	13.0
Semiconductor Material	24.2	25.2	25.2	25.2	25.2
Semiconductor equipment	(8.4)	N/A	N/A	N/A	N/A
PV Power station	51.9	56.2	56.2	52.0	52.0
Other segment	21.9	23.6	61.9	54.3	49.9
Total	21.7	17.8	21.7	20.1	20.0

Source: Company, DBS HK

TCL Zhonghuan Renewable Energy Technology

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	41,105	67,010	77,481	79,774	90,403
Cost of Goods Sold	(32,190)	(55,067)	(60,670)	(63,764)	(72,361)
Gross Profit	8,914	11,943	16,811	16,011	18,042
Other Opng (Exp)/Inc	(3,069)	(3,826)	(6,265)	(6,254)	(7,088)
Operating Profit	5,845	8,117	10,547	9,756	10,955
Other Non Opg (Exp)/Inc	(6)	124	(12)	37	49
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(840)	(792)	(858)	(975)	(1,044)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	5,000	7,449	9,676	8,818	9,960
Tax	(565)	(376)	(871)	(794)	(896)
Minority Interest	(406)	(254)	(792)	(722)	(816)
Preference Dividend	0	0	0	0	0
Net Profit	4,030	6,819	8,013	7,303	8,248
Net Profit before Except.	4,030	6,819	8,013	7,303	8,248
EBITDA	8,446	12,279	16,255	16,994	19,693
Growth					
Revenue Gth (%)	115.7	63.0	15.6	3.0	13.3
EBITDA Gth (%)	78.8	45.4	32.4	4.5	15.9
Opg Profit Gth (%)	119.7	38.9	29.9	(7.5)	12.3
Net Profit Gth (%)	270.0	69.2	17.5	(8.9)	12.9
Margins & Ratio					
Gross Margins (%)	21.7	17.8	21.7	20.1	20.0
Opg Profit Margin (%)	14.2	12.1	13.6	12.2	12.1
Net Profit Margin (%)	9.8	10.2	10.3	9.2	9.1
ROAE (%)	15.8	19.7	19.3	14.8	14.5
ROA (%)	5.9	7.3	7.0	5.8	5.9
ROCE (%)	9.1	10.0	10.1	8.3	8.3
Div Payout Ratio (%)	8.4	5.9	5.9	5.9	5.9
Net Interest Cover (x)	7.0	10.3	12.3	10.0	10.5

Source: Company, DBS HK

TCL Zhonghuan Renewable Energy Technology

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	29,615	41,624	54,433	66,333	79,302
Invt in Associates & JVs	5,891	7,798	7,798	7,798	7,798
Other LT Assets	18,014	27,883	28,389	28,869	29,327
Cash & ST Invt	12,924	11,234	5,104	4,927	4,579
Inventory	3,129	6,430	5,899	6,073	6,882
Debtors	3,244	4,086	6,497	7,151	7,814
Other Current Assets	5,161	10,079	10,941	11,036	11,480
Total Assets	77,979	109,134	119,059	132,189	147,181
ST Debt	7,975	2,986	3,986	4,986	5,986
Creditors	8,940	16,576	14,941	15,474	16,954
Other Current Liab	3,528	3,458	3,797	3,815	3,895
LT Debt	12,633	31,911	34,911	39,911	44,911
Other LT Liabilities	3,233	7,143	7,143	7,143	7,143
Shareholder's Equity	31,672	37,618	45,630	52,933	61,180
Minority Interests	9,997	9,442	8,650	7,927	7,112
Total Cap. & Liab.	77,979	109,134	119,059	132,189	147,181
Non-Cash Wkg. Capital	(934)	562	4,597	4,972	5,327
Net Cash/(Debt)	(7,684)	(23,663)	(33,794)	(39,970)	(46,319)
Debtors Turn (avg days)	25.8	20.0	24.9	31.2	30.2
Creditors Turn (avg days)	99.6	91.3	104.7	98.1	92.9
Inventory Turn (avg days)	32.5	34.2	40.9	38.6	37.1
Asset Turnover (x)	0.6	0.7	0.7	0.6	0.6
Current Ratio (x)	1.2	1.4	1.3	1.2	1.1
Quick Ratio (x)	0.8	0.7	0.5	0.5	0.5
Net Debt/Equity (X)	0.2	0.5	0.6	0.7	0.7
Net Debt/Equity ex MI (X)	0.2	0.6	0.7	0.8	0.8
Capex to Debt (%)	27.6	31.9	48.9	43.6	43.4

Source: Company, DBS HK

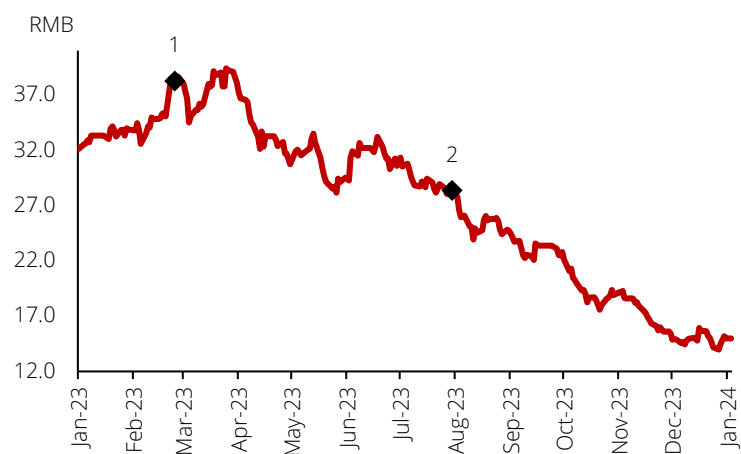
Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	4,435	7,073	9,676	8,818	9,960
Dep. & Amort.	2,977	4,582	5,720	7,201	8,689
Tax Paid	0	0	(871)	(794)	(896)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	79	(161)	792	722	816
Chg in Wkg.Cap.	(4,123)	(7,262)	(4,036)	(375)	(355)
Other Operating CF	913	826	0	0	0
Net Operating CF	4,282	5,057	11,282	15,573	18,213
Capital Exp.(net)	(5,678)	(11,120)	(19,035)	(19,582)	(22,115)
Other Invt.(net)	(1,789)	(5,169)	(1,110)	(1,012)	(1,142)
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(359)	(2)	0	0	0
Net Investing CF	(7,826)	(16,292)	(20,145)	(20,594)	(23,257)
Div Paid	(1,255)	(1,639)	(475)	(433)	(489)
Chg in Gross Debt	1,165	14,279	4,000	6,000	6,000
Capital Issues	10,090	462	0	0	0
Other Financing CF	(729)	(2,448)	(792)	(722)	(816)
Net Financing CF	9,270	10,654	2,733	4,845	4,695
Currency Adjustments	(26)	199	0	0	0
Chg in Cash	5,700	(382)	(6,130)	(176)	(349)
Opg CFPS (RMB)	2.74	3.05	3.79	3.95	4.59
Free CFPS (RMB)	(0.46)	(1.50)	(1.92)	(0.99)	(0.97)

Source: Company, DBS HK

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Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	8-Mar-23	RMB48.04	RMB75.00	BUY
2	11-Aug-23	RMB28.83	RMB40.00	BUY

Source: DBS HK

Analyst: Patricia Yeung
Ilan Chui

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DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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DBS Bank (Hong Kong) Limited

 13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

TCL Zhonghuan Renewable Energy Technology

DBS Regional Research Offices

HONG KONG

DBS Bank (Hong Kong) Ltd

Contact: Dennis Lam

13th Floor One Island East,
18 Westlands Road, Quarry Bay, Hong Kong

Tel: 852 3668 4181

Fax: 852 2521 1812

e-mail: dbsvhk@dbs.com

SINGAPORE

DBS Bank Ltd

Contact: Andy Sim

12 Marina Boulevard,
Marina Bay Financial Centre Tower 3

Singapore 018982

Tel: 65 6878 8888

e-mail: groupresearch@dbs.com

Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif

DBS Bank Tower
Ciputra World 1, 32/F

Jl. Prof. Dr. Satrio Kav. 3-5

Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: indonesiaresearch@dbs.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul

989 Siam Pivat Tower Building,
9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: research@th.dbs.com

Company Regn. No 0105539127012

Securities and Exchange Commission, Thailand