

Eyes on the Ground

Singapore

NON RATED



Current price:	S\$0.50
Consensus Tgt Price:	S\$
Up/downside:	N/A
Reuters:	SUNP.SI
Bloomberg:	SPWG SP
Market cap:	US\$257.3m
	S\$365.1m
Average daily turnover:	US\$0.34m
	S\$0.47m
Current shares o/s:	737.7m
Free float:	37.4%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	6.5	33.8	157.8
Relative (%)	1.6	31.6	154.9

Major shareholders	% held
Hong Xin Guo	20.0
Ming Ma	17.4
Lin Yucheng	13.6

Sunpower Group

Level up heat

- Environmental equipment specialist with a 20-year track record, proprietary heat insulation technology and a diverse customer base.
- Recent expansion into BOT projects (Rmb966m) boosted 9M16 EPC revenue and offers recurring income from FY17.
- Strong order momentum sustained by new EPC and equipment sales projects.
- Positive operating cashflow; net gearing of 20.8% as at end-Sep 16 to support higher leverage and ROEs.
- Currently trades at 12x historical P/E, cheaper than overall peers' average of 31x.

Environmental equipment specialist with proprietary technology

An environmental equipment specialist based in China, Sunpower recently diversified into green investments of power plants by leveraging on its proprietary heat insulation and clean coal technology. Backed by established relationships with domestic SOEs (CNPC, Sinopec) and MNCs (BASF, Shell), the company is a potential beneficiary of Chinese policies on stricter air quality and replacement of inefficient coal-fired boilers.

Solidifying recurring income base via BOT/BOO model

Sunpower announced its first win of long-term contracts in late 2015, funded by its 342.9m new share placement. These projects typically take the form of BOT/BOO, have concession periods of 30 years, 12-15% leveraged IRR (based on debt-to-equity ratio of 60/40) and payback periods of 6-9 years. With investments of Rmb966m, such projects contributed to higher EPC revenue in 9M16 and could offer recurring income from FY17. Management hints at more projects that are currently under evaluation.

Strong order momentum with expanding customer base

Apart from its penetration into green investments, Sunpower continues to gain traction in its existing businesses, such as the new EPC project win of Rmb23m from a subsidiary of China Shenhua Energy, and Rmb99m worth of equipment sales to several enterprises in China. Management estimates these will contribute positively to the company's FY17 earnings, while its order book was at Rmb1.08bn as at end-Aug 16.

Doubled 9M16 core net profit to sustain earnings re-rating?

Sunpower's 9M16 core net profit more than doubled from 9M15's Rmb41m, as a result of both topline growth (+15% yoy) and gross margin expansion (9M16: 25%, vs. 9M15: 23%). 9M16 core EPS, however only grew 9% yoy due to dilution from new share placement. It had a net gearing of 20.8% as at end-Sep 16, signaling potential for higher leverage and better ROEs (current: 11%). 9M16 operating cashflow was also healthy at Rmb256m, higher than 9M15's Rmb49m.

A cheaper environmental concession play

The company currently trades at 12.2x historical P/E, which is significantly cheaper than overall industry peers' average of 31.2x. It also has a record of paying dividends (implied 0.2% dividend yield), despite not having a dividend policy. Failure to collect electricity tariffs from end users under the BOT arrangement will pose risks to the company.

Analyst(s)



NGOH Yi Sin

T (65) 6210 8604

E yisin.ngoh@cimb.com

William TNG, CFA

T (65) 6210 8676

E william.tng@cimb.com

Figure 1: Financial Summary

FYE Dec (Rmb'm)	FY13	FY14	FY15	9MFY15	9MFY16
Revenue	1,302.6	1,235.2	1,435.3	918.4	1,057.5
Operating EBITDA	118.8	116.5	150.8	94.6	151.8
Recurring Net Profit	50.7	44.9	80.2	40.7	89.2
Core EPS (RMB cents)	16.4	15.1	20.5	10.6	11.6
Core EPS Growth (%)	na	-8%	36%	na	9%
FD Core P/E^ (x)	14.5	15.7	12.2	16.8	15.4
DPS (Scents)	0.10	0.10	0.12	-	-
Dividend Yield (%)	0.2%	0.2%	0.2%	-	-
Net Gearing (%)	41.2%	32.8%	-0.9%	26.2%	20.8%
P/BV (x)	1.4	1.4	1.82	1.3	1.7
Recurring ROE^ (%)	9.4%	8.3%	8.4%	7.3%	11.0%

^Annualised P/E and ROE for 9M data

SOURCES: CIMB, COMPANY REPORTS

Level up heat

BACKGROUND

Proven record in energy-saving and environmental protection sector ▶

Established in 1997 and listed on the SGX Mainboard since 2005, Sunpower (“中圣集团”) is a specialist in the design and manufacture of energy-saving and environmental protection products with heat transfer technologies. Its core business segments are:-

- **Environmental Equipment Manufacturing:** Sunpower mainly develops and manufactures specialised equipment such as high-efficiency heat exchangers and pressure vessels, heat pipes and heat pipe exchangers, reactors, low temperature water pre-heaters and pipeline energy saving products (figure 2). These equipment are often sold to established clients such as BASF, Sinopec, DuPont and Exxon Mobil.
- **EPC Integrated Solutions:** the EPC component of BOT/ TOT/ BOO projects, as well as flare-gas recovery and energy saving systems, zero liquid discharge (figure 3). Its order book was at Rmb1.08b as at end-Aug 16.
- **Green Investments:** This is a new strategic focus of the company on build-operate-transfer (BOT), transfer-operate-transfer (TOT) and build-operate-own (BOO) projects of centralised steam and electricity plants. These projects typically have concession periods of up to 30 years, with leveraged IRR of 12-15% (target capital structure of 60:40 debt-to-equity) and payback periods of 6-7 years (or 8-9 years for larger scale projects). Depending on the size of boilers, construction can take 8-9 months. Management does not rule out plans to expand into other green areas such as sludge treatment.

Figure 2: Sunpower sells complete sets of core equipment to BASF (Germany-based) operations in various countries



SOURCES: COMPANY REPORTS

Figure 3: The flare gas & glare gas recovery system used in a national key project “Shenhua coal liquefaction project”.



SOURCES: COMPANY REPORTS

Proprietary technology ▶

Sunpower’s technological edge lies in producing coal boilers that are more efficient and less costly than those of its peers, as well as vis-à-vis natural gas, according to the management. Every year, the company invests c.3% of total revenue into R&D and currently has about 2,000 employees with more than 250

dedicated to research. The company has also, as at end-14, registered 119 technological patents. The following studies conducted by the company reflect how its technology is superior compared to its peers.

Making coal energy cleaner than natural gas

Sunpower utilises coal powder at its centralised heating facilities, which have a higher combustion efficiency of 98% (vs. 60-70% combustion efficiency of crushed coal), but comparable to full combustion of natural gas. This pulverised coal is then treated to ensure low levels of pollution emission, which surpasses the PRC’s national emission standard for natural gas.

Figure 4: Sunpower’s emission control capability more than meets regulatory standards

Emission Type	National Emission Standard for coal-fired boiler	Regional Emission Standard for coal-fired boiler	National Emission Standard for Natural Gas	Emission Standard for State-Targeted Regions	SP Emission Capability
Dust	50mg/m ³	30mg/m ³	20mg/m ³	20mg/m ³	Less than 5mg/m ³
SOx	300mg/m ³	200mg/m ³	50mg/m ³	50mg/m ³	Less than 35mg/m ³
NOx	300mg/m ³	200mg/m ³	200mg/m ³	150mg/m ³	Less than 50mg/m ³

Source: emission standard of air pollutants for boiler (GB 13271-2014)

SOURCES: COMPANY REPORTS

Insulation technology translates into greater reach

Industrial companies face a common challenge to transfer heat produced by traditional coal-fired boilers across long distances with minimal heat loss. While the national standard for temperature decline in steam transportation is 15 degree Celsius per km, Sunpower is able to reduce such temperature loss to 5 degree Celsius per km. It would be able to supply steam to factories located further away (now: within 30 km), eliminating the need for individual factories to build small-scale boilers in industrial parks.

Figure 5: Sunpower’s heat insulated steam distribution pipelines can achieve the best heating effect vs. typical designs by peers, according to company studies

Standard	Usual design	SP’s long distance pipeline
Reduction in temperature 温降	15°C/Km	≤5°C/Km
Differential pressure 压降	0.06~0.1MPa/Km	0.02~0.03MPa/Km
Radius transportation 输送半径	8Km	≤30Km

SOURCES: COMPANY REPORTS

Customers ▶

Sunpower has a diversified customer base comprising Chinese SOEs, corporations (the likes of Sinopec, CNPC, CNOOC, ChemChina), and international clients (e.g. BP, Shell, BASF, DOW). Most customers come from petrochemical, steel and transportation industries. Being a member of both

Sinopec's materials supply network and CNPC's first-tier network pre-qualifies the company to supply products to companies in the Sinopec and CNPC groups.

Competitors ➤

Sunpower operates in a niche area of supplying alternative energy solutions for coal boilers. Some of its close competitors include Elion Clean Energy (“亿利洁能”), Bestoo (“百通能源”), Chant Group (“长青集团”) and Devotion Corporation (“迪森股份”).

INDUSTRY OUTLOOK

Stricter air quality rules could result in opportunities for cleaner coal energy ➤

The Chinese government has in recent years intensified its efforts to address climate change, and has rolled out several environmental policies targeted at minimising harmful gas emissions. Some of these initiatives include the Environmental Law, the Air Pollution Law and the 13th Five-Year Plan, which stipulates that the air quality of all cities at the prefecture level and above must meet the 80% “good” and “excellent” standards by 2020.

More specifically, the Clean and Efficient Use of Coal Action Plan (2015-2020) issued by the National Energy Administration (NEA) in China targets high efficiency coal-boilers to account for over 50% of total coal boilers by 2020. Subsequent replacement of such obsolete coal-fired boilers has a potential market value of S\$108bn, based on the company's internal estimates.

FINANCIALS

Strong order momentum ➤

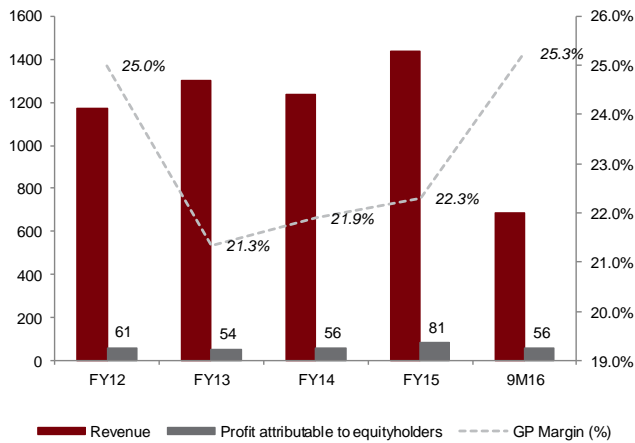
Since its IPO in 2005, Sunpower's topline and income base have generally been on an upward trend, from Rmb241m and Rmb18.6m respectively to sales of Rmb1.4b and net profit of Rmb81m in 2015, as it penetrated further into existing petrochemical, steel and transport industries. The company recently gained three new contracts (a Rmb21m supply of flare systems to Yanchang Petroleum, a Rmb23m EPC contract from one of China's largest coal companies and Rmb99m worth of equipment sales to several enterprises), which are projected to have a material impact in FY17, according to its recent announcements.

Recent penetration into green investments to provide recurring income base ➤

Sunpower believes its future growth lies in green investments, and the company is currently evaluating more projects, including options to venture into sludge treatment. Such green investments (BOT/ BOO/ TOT) typically require high upfront capex (estimated investment size of Rmb966m till date), for which the proceeds from the recent share placements totaling Rmb258m will come in handy (figure 8). In return, the company will grow its recurring income base by selling centralised steam and electricity to industrial customers, thus cushioning any volatility in its EPC business.

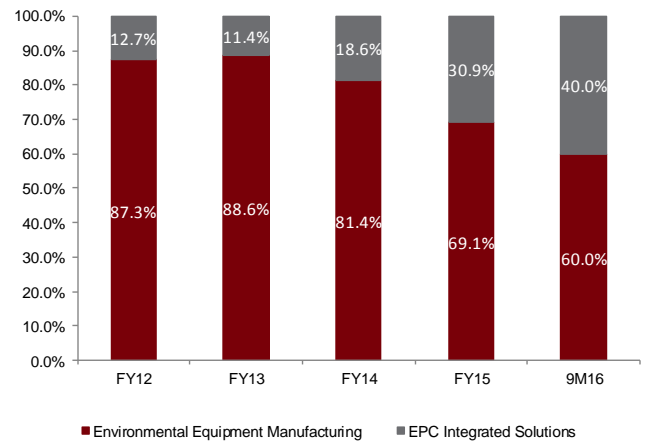
However, we highlight a key risk of BOT agreement lies in securing sufficient end-user uptake and collectivity of tariffs. According to management, over 90% of Changrun end-users are print and dye companies with proven track record of operations, which could help mitigate such risks.

Figure 6: Sunpower's historical financials (Rmb'm)



SOURCES: CIMB, COMPANY REPORTS

Figure 7: Sunpower's segmental breakdown (%)



SOURCES: CIMB, COMPANY REPORTS

Figure 8: Management expects these BOT projects to commence operation in FY17

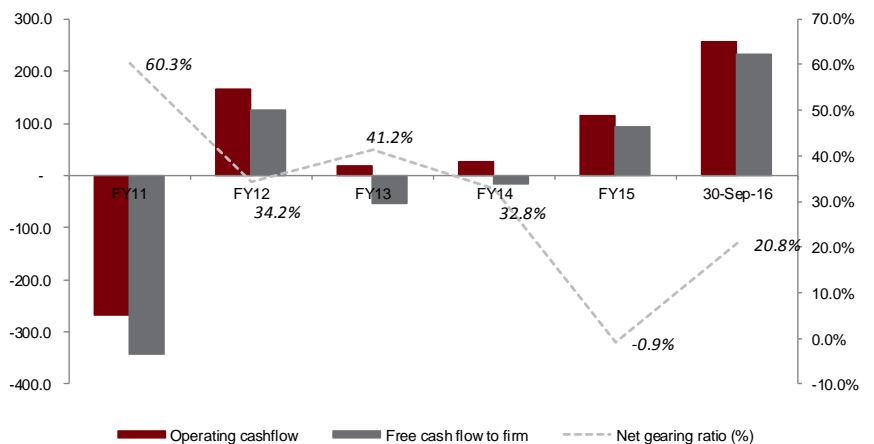
Deadline	Project	Investment (RMB m)	Designed capacity (t/h)	Comments
2Q16	Jiangsu Lianshui steam plant	95	80	30 years BOT
3Q16	Anhui Quanjiao steam plant (phase I)	54	40	30 years BOT
1Q17	Haze treatment project: Changrun Project phase I. Centralised steam and electricity facility in industrial park	817	440	begin FY16. include 2 boilers, 2 generators, steam distribution pipelines. 30 years BOO/ BOT

SOURCES: COMPANY REPORTS

Decent balance sheet to support green investments and historical dividend yield of 0.2% ➤

Apart from profitability, Sunpower has also consistently recorded positive operating cashflow (with the exception of FY05 and FY11). With a net gearing ratio of 20.8% as at end-Sep 16, management believes there is potential to improve its current annualised ROE of 11%. Notwithstanding the absence of a dividend policy, the company has been paying out dividends based on ~5% payout ratio, implying a dividend yield of ~0.2% on average.

Figure 9: Decent financial strength to support more BOT investments in the future



SOURCES: CIMB, COMPANY REPORTS

VALUATION

Significantly cheaper than its industry peers ▶

Sunpower currently trades at 12.2x historical P/E which is on par with ASEAN peers' average of 17.8x, but more expensive at 1.82x CY15 P/BV (8.4% ROE) vs. industry average of 0.93x (5.4% ROE). However, relative to its peers in China/ Hong Kong, Sunpower is trading at a significant discount of 72% to its peers' average of 44x CY15 P/E and 2.88x historical P/BV (7.9% ROE).

Figure 10: Peers Comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	Historical PE (x)	Historical PBV (x)	Historical recurring ROE (%)	Historical Dividend Yield (%)
Sunpower Group Ltd	SPWG SP	Not Rated	0.50	na	256	12.2	1.82	8.4	0.2
ASEAN peers									
China Everbright Water	CEWL SP	Hold	0.50	0.54	910	17.1	1.00	6.1	0.7
CITIC Envirotech	CEL SP	Add	1.29	1.52	1,025	25.3	1.32	7.4	0.4
SIIC Environment Holdings Ltd	SIIC SP	Not Rated	0.60	na	943	16.1	1.12	7.2	0.0
KNM Group Bhd	KNMG MK	Not Rated	0.34	na	162	12.6	0.27	0.9	0.0
Simple average (excluding SPWG)						17.8	0.93	5.4	0.3
APAC peers									
Beijing Enterprises Water	371 HK	Add	5.43	6.20	6,117	19.2	2.92	15.4	1.7
China Everbright	257 HK	Hold	8.55	8.80	4,941	18.4	2.23	12.5	2.2
CIMC Enric Holdings Ltd	3899 HK	Not Rated	3.79	na	946	11.5	1.22	-13.8	2.7
Wuxi Huaguang Boiler Co Ltd	600475 CH	Not Rated	21.33	na	791	49.0	3.67	7.6	0.7
China Power International Deve	2380 HK	Not Rated	2.86	na	2,711	4.0	0.69	12.4	10.0
China Resources Power Holdings	836 HK	Not Rated	12.62	na	7,820	6.0	0.86	11.8	8.7
China Power New Energy Develop	735 HK	Not Rated	4.47	na	684	40.3	5.63	3.0	0.9
CLP Holdings Ltd	2 HK	Not Rated	74.45	na	24,244	12.0	1.97	17.5	3.6
Elion Clean Energy Co Ltd	600277 CH	Not Rated	7.05	na	2,135	117.5	1.54	2.6	0.5
Guangdong Chant Group Inc	002616 CH	Not Rated	20.02	na	1,100	66.1	3.96	7.6	1.8
Guangzhou Devotion Thermal Tec	300335 CH	Not Rated	19.68	na	1,032	140.6	6.99	10.1	0.1
Simple average (excluding SPWG)						44.0	2.88	7.9	3.0
Overall average (excluding SPWG)						30.9	1.90	6.6	1.6

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2016		
1598 companies under coverage for quarter ended on 30 September 2016		
	Rating Distribution (%)	Investment Banking clients (%)
Add	57.7%	7.5%
Hold	31.7%	2.8%
Reduce	9.8%	0.6%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2015, Anti-Corruption Progress Indicator 2015.

AAV – Very Good, 3B, ADVANC – Excellent, 3A, AEONTS – Good, 1, AMATA – Very Good, 2, ANAN – Very Good, 3A, AOT – Very Good, 2, AP – Good, 3A, ASK – Very Good, 3B, ASP – Very Good, 4, BANPU – Very Good, 4, BAY – Very Good, 4, BBL – Very Good, 4, BCH – not available, no progress, BCP - Excellent, 5, BEM – not available, no progress, BDMS – Very Good, 3B, BEAUTY – Good, 2, BEC - Good, 3B, BH - Good, 2, BIGC - Excellent, 3A, BJC – Good, 1, BLA – Very Good, 4, 1, BTS - Excellent, 3A, CBG – Good, 1, CCET – not available, 1, CENTEL – Very Good, 3A, CHG – Good, 3B, CK – Excellent, 3B, COL – Very Good, 3A, CPALL – Good, 3A, CPF – Very Good, 3A, CPN - Excellent, 5, DELTA - Very Good, 3A, DEMCO – Very Good, 3A, DTAC – Excellent, 3A, EA – not available, 3A, ECL – Good, 4, EGCO - Excellent, 4, EPG – not available, 3B, GFPT - Very Good, 3A, GLOBAL – Very Good, 2, GLOW - Good, 3A, GPSC – not available, 3B, GRAMMY - Excellent, 3B, GUNKUL – Very Good, 1, HANA - Excellent, 4, HMPRO - Excellent, 3A, ICHI – Very Good, 3A, INTUCH - Excellent, 4, ITD – Good, 1, IVL - Excellent, 4, JAS – not available, 3A, JASIF – not available, no progress, JUBILE – Good, 3A, KAMART – not available, no progress, KBANK - Excellent, 4, KCE - Excellent, 4, KGI – Good, 4, KKP – Excellent, 4, KSL – Very Good, 2, KTB - Excellent, 4, KTC – Very Good, 3A, LH - Very Good, 3B, LPN – Excellent, 3A, M - Good, 2, MAJOR - Good, 1, MAKRO – Good, 3A, MALEE – not available, 2, MBKET – Good, 2, MC – Very Good, 3A, MCOT – Excellent, 3A, MEGA – Very Good, 2, MINT - Excellent, 3A, MTLN – Good, 2, NYT – Good, no progress, OISHI – Very Good, 3B, PLANB – Good, 3B, PS – Excellent, 3A, PSL - Excellent, 4, PTT - Excellent, 5, PTTEP - Excellent, 4, PTTGC - Excellent, 5, QH – Very Good, 2, RATCH – Excellent, 3A, ROBINS – Excellent, 3A, RS – Very Good, 1, SAMART - Excellent, 3B, SAPPE - Good, 3B, SAT – Excellent, 5, SAWAD – Good, 1, SC – Excellent, 3B, SCB - Excellent, 4, SCBLIF – not available, no progress, SCC – Excellent, 5, SCN – Good, 1, SCCC - Good, 3A, SIM - Excellent, 3B, SIRI - Good, 1, SPALI - Excellent, 3A, SPRC – not available, no progress, STA – Very Good, 1, STEC – Very Good, 3B, SVI – Very Good, 3A, TASCO – Very Good, 3A, TCAP – Very Good, 4, THAI – Very Good, 3A, THANI – Very Good, 5, THCOM – Excellent, 4, THRE – Very Good, 3A, THREL – Very Good, 3A, TICON – Very Good, 3A, TISCO - Excellent, 4, TK – Very Good, 3B, TKN – not available, no progress, TMB - Excellent, 4, TPCH – Good, 3B, TOP - Excellent, 5, TRUE – Very Good, 2, TTW – Very Good, 2, TU – Very Good, 3A, UNIQ – not available, 2, VGI – Excellent, 3A, WHA – Good, 3A, WORK – not available, no progress.

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Level 4: Certified

Level 5: Extended.

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.