

## Sunpower's underlying net profit<sup>(i)</sup> remained resilient on improved margins at RMB51.1 million in 1Q 2020

### Results Highlights

#### ▪ Sunpower's results stayed resilient

*Gross margin improved by 1.8 percentage points (pps) YoY to 23.0% and group EBITDA margin increased by 3.1 percentage points YoY to 19.5%*

*Underlying net profit margin remained resilient at 7.6%*

*These results continue to demonstrate the reliability and adaptability of Sunpower's business model in weathering temporary headwinds such as the pandemic*

#### ▪ M&S business continued to be stable and growing

*M&S segment result<sup>1</sup> increased 1.9% YoY to RMB53.1 million despite reduced working hours caused by the pandemic*

*Profitability continued to be enhanced by the continuous improvement of core competitive strengths*

*Order book surged to RMB2.8 billion in April 2020 from RMB2.5 billion in January 2020, underlying Sunpower's leading position in the industry and its business excellence*

#### ▪ GI business continued to generate recurring high-quality income and cashflow

*GI projects' operating cashflow remained positive at RMB11.4 million*

*GI EBITDA margin was 30.5%, up 0.1 pps YoY, despite operational constraints caused by the pandemic*

*GI growth in 2020 will continue to be driven by ramp-up of existing plants, profit enhancement of acquired projects, expected commercial production of Shantou Phase 1, trial production of Xintai Zhengda's new plant and potential addition of more earnings-accretive GI projects*

Singapore, 14 May 2020 – Mainboard-listed Sunpower Group Ltd. (“中聖集團”, “Sunpower” or the “Group”), an environmental protection solutions specialist in proprietary energy-saving and clean power technologies with a strong focus on expanding into anti-pollution investment projects (“Green Investments” or “GI”) that generate long-term intrinsic value in the form of recurring quality cash flows, today announced its financial results for the three months to 31 March 2020 (“1Q 2020”).

### Group Financial Highlights (without financial effects of Convertible Bonds and Warrants)

RMB million	1Q 2020	1Q2019
Revenue	672.7	811.6
Gross Profit	154.4	171.5
<b>Gross Profit Margin</b>	<b>23.0%</b>	<b>21.1%</b>
Group EBITDA	131.3	133.4
<b>Group EBITDA margin</b>	<b>19.5%</b>	<b>16.4%</b>
Profit before income tax	66.7	81.7
Underlying net profit <sup>2</sup>	51.1	60.5
<b>Underlying net profit margin</b>	<b>7.6%</b>	<b>7.5%</b>
Underlying EPS <sup>3</sup> (RMB cents)	6.5	8.1

<sup>1</sup> Segment results reflect the operating income of each business segment of the Group, before interest, tax and unallocated corporate expenses as well as fair value adjustments and FX gains or losses for the CBs and warrants.

<sup>2</sup> Underlying net profit is the true operating performance of the Group, after adjusting net profit attributable to shareholders (including effects of Convertible Bonds and Warrants) for amortised interest expenses and fair value gains or losses as well as foreign exchange gains or losses associated with the Convertible Bonds and Warrants.

<sup>3</sup> Based on weighted average number of outstanding ordinary shares of 787.9 million in 1Q 2020 and 744.9 million in 1Q 2019.

## Investment Thesis

Sunpower has been building a sizeable and valuable portfolio of GI project assets to take advantage of the enormous business opportunities available in China's anti-smog sector.

### Key drivers that fuel the opportunities available for the Group's GI segment are:

- The continuous closure of "high-emission" pollutive fossil fuel boilers and a structural shift to centralised "ultra-low emission" clean GI facilities,
- Stringent zoning policies that mandate the relocation of new factories into industrial parks, providing further growth impetus to GI, and
- Organic expansion of customers within the industrial park that GI projects are located.

### GI projects deliver long-term, recurring and high-quality cashflow, due to:

- Strong market position as exclusive steam suppliers within coverage areas, with typically 30-year concessions,
- Captive customer base as steam is a non-discretionary input product and customers can only buy from Sunpower's GI projects, and
- Attractive double-digit internal rate of return (IRR), supported by strong tariff collection as GI projects are able to require prepayments by customers.

### Sunpower is well-equipped to forge strongly ahead in GI, due to:

- Cutting-edge proprietary technologies, including the technology that helps Sunpower to reform and upgrade acquired plants to improve operational efficiency,
- Strong and proven execution capabilities, led by a professional management team that is sophisticated at identifying GI projects with potential to invest in and managing projects,
- Circular Economy zero-waste production model that lowers production costs by re-cycling, re-using and re-purposing of industrial waste products so that nothing is wasted,
- Early-mover advantage in building a sizeable GI portfolio that allows it to invest or acquire at attractive accretive valuations,
- A robust pipeline of attractive projects available for investment that is being actively evaluated,
- Robust balance sheet and supportive strategic institutional investors that believe in the investment merits of the GI business.

The natural expansion into GI has proven to be the right direction, and management intends to further build up GI as Sunpower's value creator and growth driver which forms the bulk of its intrinsic value. This value is expressed in the Net Present Value ("NPV") of cash flows over the concession period that will be substantially higher than the contributions in the latest reported period.<sup>4</sup>

### 8 Projects in Operation + 1 Project in Trial Production



<sup>4</sup> Based on the company's long-term discounted cashflow forecasts

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## Financials

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Sunpower maintained a resilient performance in 1Q 2020 despite operational constraints caused by the pandemic. Despite the challenges, a YoY improvement in the Group's gross margin, EBITDA margin and underlying net profit margin was achieved, demonstrating the resilience of Sunpower's adaptable business model.

Group revenue was lowered 17.1% YoY in 1Q 2020 to RMB672.7 million due to the temporary reduction of operating hours amidst the pandemic. However, group gross margin increased by 1.8 pps to 23.0%, sustained by the continuous improvement in profitability of the M&S segment and the natural business resilience of the GI segment. Further, group EBITDA margin rose 3.1 pps YoY to 19.5%. Underlying net profit was RMB51.1 million, which reflects a 0.1 pps YoY rise in underlying net profit margin to 7.6%.

GI revenue and GI EBITDA achieved were RMB259.1 million and RMB78.9 million in 1Q 2020, respectively. This compares to RMB286.7 million and RMB87.1 million respectively in 1Q 2019. GI EBITDA margin was maintained at 30.5%, up 0.1 pps YoY, demonstrating the strong operating capabilities of the Company.

Operating cashflow from GI projects remained positive in 1Q 2020 at RMB11.4 million despite the reduction of working hours caused by the pandemic. Certain GI plants such as Xinyuan and Xintai Zhengda continued to supply non-stop heating to residential households throughout the quarter. All GI plants resumed production after the pandemic came under control in China in end-February and early March. Despite this temporary road bump, the net present value (NPV) of GI projects' long-term cash flows is still expected to considerably exceed their contributions in the latest reported period.<sup>5</sup>

M&S segment results increased 1.9% YoY to RMB53.1 million despite a 21.2% YoY decrease in revenue to RMB413.6 million. The lower revenue was purely due to the temporary reduction of working hours caused by the pandemic but the improved profitability is the sustainable result of the continued comprehensive enhancement of the Group's core competitive strengths, secured by its technological innovations and sophisticated management.

Notably, the M&S order book increased approximately RMB300 million YoY to RMB2.8 billion as at April 2020. This is the highest level of orders ever secured and is attributable to the Group's market leadership, strong reputation, financial strength and its proven ability to deliver and execute. Sunpower's M&S segment focuses on the high-end market and services a large base of reputable customers in diverse industries. To date, Sunpower has delivered products and solutions to ~1,500 customers and its reputable customers includes Wanhua Chemical, Hengli Petrochemical, CNOOC, CNPC, SINOPEC, ExxonMobil, BASF, BP, Shell, etc. Moreover, ~70% of the Company's customer base are repeat customers, which is a strong testament to Sunpower's leadership in the industry and its strength as a top-tier supplier of environmental protection equipment and services.

In conclusion, Sunpower has successfully navigated through the temporary headwinds of the pandemic in 1Q 2020 due to its reliable and adaptable business model and strong execution capabilities. It has just started to reap the rewards of its expansion into the long-term, recurring, high-quality income and cashflow GI business as well as the continuous enhancement of the core competitive strengths of the M&S business.

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<sup>5</sup> Based on the company's long-term discounted cashflow forecasts.

## GI Business Update

Sunpower's GI business supplies industrial steam to a wide range of diverse industries, such as chemical, printing & dyeing, paper making, F&B, building materials, pharmacy, paint, wood processing, chemical fertilisers, supported by structural demand. Additionally, it also provides pollution-free civil heating to a large base of households as well as electricity to the State Grid.

### Updates on the GI portfolio:

- **Tongshan Xuzhou Project ("Tongshan Project"):** Construction has started on a biomass cogeneration project in Xuzhou City, Jiangsu Province, to supply steam and electricity.
- **Shantou Project:** Phase 1 is in trial production, and Phase 2 construction is also on track to meet expected steam demand in the concession area.
- **Xintai Zhengda's new plant:** Construction of a major part of the plant is almost complete and is expected to start trial production in 1H 2020.
- **Suyuan Plant:** Upgrades on part of facilities have completed to improve operation efficiency.

The Group has invested and committed approximately RMB1.7 billion in project equity to build up its GI portfolio to-date, and is on track to make project equity investments of RMB2.5 billion by 2021.

Sunpower's Investments in GI to-date				
Status	Project	Project Equity (RMB'm) <sup>(i)</sup>	Stake (%)	Production Capacity (no. of boilers x tons/hour of steam + no. of generators x megawatt/hour of electricity)
In operation	Changrun Project (Phase 1)	434.1	100%	2×220 t/h+2×25MW
	Yongxing Plant	306.0	100%	2×100t/h+1×150t/h + 2×18MW
	Xinyuan Plant	85.0	85%	3×75t/h+2×6MW 1×220t/h+1×25MW
	Suyuan Plant	117.2	90%	1×90t/h+2×75t/h +1×B7MW
	Lianshui Project	38.3	95%	2×40 t/h
	Quanjiao Project	49.2	100%	1×40 t/h
	Xintai Zhengda Plant (old facility) <sup>(ii)</sup>	n.a	79.2%	n.a
	Jining Project	10.3	49%	n.a
In trial production	Shantou Project (Phase 1)	167.3	51%	3×150t/h+2×20MW
<b>Sub-total</b>		<b>1,207.4</b>		
Under construction	Xintai Zhengda Project (new facility) <sup>(ii)</sup>	263.1	79.2%	3×130t/h+1×35MW +1×18MW
	Shantou Project (Phase 2)	132.6	51%	2x260t/h+2x30MW
	Tongshan Project (Phase 1) <sup>(iii)</sup>	107.1	85%	1×130t/h+1×35MW
<b>Sub-total</b>		<b>502.8</b>		
<b>Amount invested and committed</b>		<b>1,710.2</b>		

<b>Others</b>	Projects at design stage	<b>220.4</b>		
<b>Pipeline<sup>(iv)</sup></b>		<b>573.2</b>		
<b>Total Target</b>		<b>2,503.8</b>		

Notes: based on current estimates and forecast.

<sup>(i)</sup> Assuming ~40% equity/60% debt

<sup>(ii)</sup> Existing plant still in operation and will remain operational until the commissioning of the new plant

<sup>(iii)</sup> Assuming ~30% equity/ 70% debt

<sup>(iv)</sup> Including a couple of projects in the late stage of evaluation, which form part of the total pipeline of projects under evaluation valued at >RMB3.2 billion

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## Outlook

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Sunpower has regained stable operation while keeping all necessary virus prevention and control guidelines, and is on track to catch up in the rest of 2020. With the pandemic under control in China, it is still unceasingly planning and executing GI's future expansion in 2020.

The CCP Central Committee Politburo meeting on 17 April 2020<sup>6</sup> emphasised the active expansion of domestic demand as the way to support economic recovery. Moreover, the Ministry of Finance reported on 20 April 2020 that greater investments will be made in infrastructure, including industrial park infrastructure<sup>7</sup>, using funds from new special bonds issued by local governments.

In recent months, China's economy and supply chains to the rest of the world have also shown signs of stability and some recovery.<sup>8</sup> The China Purchasing Managers Index (PMI) has rebounded off the February low of 35.7% to 50.8% in April 2020, above the reading of 50.1% a year ago<sup>9</sup>. The International Monetary Fund has predicted that China will maintain positive growth in 2020 and will lead the world's recovery in 2021 with 9.2% real GDP growth rate.<sup>10</sup>

Finally, the latest global data suggests that many countries have passed the initial peaks of their respective outbreaks<sup>11</sup>, and countries such as Austria, France, Norway and Spain<sup>12</sup> as well as certain states in the USA<sup>13</sup> have started or announced plans to gradually lift their lockdowns over the next few months.

Companies with internally strong and resilient adaptable business models are well-positioned to overcome the temporary headwind of the pandemic. Sunpower has built counter-cyclical businesses that are well-adapted to provide reliable and stable financial and operating performance in the long term. Sunpower plans to continue to execute its business in 2020 in a way that amplifies its strengths in order to improve earnings in quantity and quality, namely by:

- Solidifying its market position as an environmentally-clean centralised provider of industrial steam, electricity and heating through continuous ramp-up of existing projects, as well as investments and acquisitions of new projects,
- Riding on opportunities arising from structurally-driven environmental protection and national development trends, such as the closure of small dirty boilers, relocation of factories into industrial parks and development of biomass heating, and

<sup>6</sup> [http://www.gov.cn/xinwen/2020-04/17/content\\_5503621.htm](http://www.gov.cn/xinwen/2020-04/17/content_5503621.htm)

<sup>7</sup> [http://www.mof.gov.cn/zhengwuxinxi/caizhengxinwen/202004/t20200420\\_3501084.htm](http://www.mof.gov.cn/zhengwuxinxi/caizhengxinwen/202004/t20200420_3501084.htm)

<sup>8</sup> <https://marketing1.eastmoney.com/202004171457789111.html>

<sup>9</sup> [http://www.stats.gov.cn/tjsj/zxfb/202004/t20200430\\_1742574.html](http://www.stats.gov.cn/tjsj/zxfb/202004/t20200430_1742574.html)

<sup>10</sup> <https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/>

<sup>11</sup> <https://www.ft.com/coronavirus-latest?shareType=nongift>

<sup>12</sup> <https://www.theguardian.com/world/2020/apr/28/france-and-spain-announcement-lockdowns-ease>

<sup>13</sup> <https://www.bbc.com/news/world-us-canada-52435648>



- Building on the sustainable, stable growth of the M&S business that has been systematically strengthened over many years, supported by an ecosystem of advanced proprietary technologies and deep domain expertise in energy-saving, energy-efficient environmental protection products and solutions.

Barring unforeseen circumstances, the Group expects the following business trends to benefit its 2020 results. Note that Sunpower's financial results should be viewed on a 12-month basis to arrive at a balanced perspective.

- **New drivers, including:**
  - a) Full-year contributions from newly-acquired GI plants that are well positioned to capture new demand following mandatory closures of nearby small dirty boilers, namely Suyuan Plant following its acquisition in 3Q2019, and
  - b) Anticipated additional contributions from Shantou Phase 1 and Xintai Zhengda's new plant
- **Continued ramp-up of existing GI projects, driven by:**
  - a) Continuous connection of new customers following mandatory closures of small dirty boilers and/or mandatory relocation into industrial parks, and
  - b) Organic growth of existing customers and industrial parks served by the Group's GI plants.
- **Potential earnings-accretive M&A of brownfield GI plants.**
- **Resilient and solid M&S business with proven track record**
  - a) Order book has surged to RMB2.8 billion as at April 2020
  - b) Continuous improvement of profitability due to the enhancement of core competitive strengths
  - c) Diversified base of high-end customers across the globe. ~70% are repeat customers
  - d) Cutting-edge proprietary technologies and strong commercialization capabilities
  - e) Ability to acquire quality orders, benefiting from its industry leadership, extensive experience and seasoned management team
  - f) Market reputation and brand awareness

**Mr. Guo Hong Xin, Executive Chairman of Sunpower, commented:**

“Our GI and M&S businesses have sustained Sunpower well through a challenging period. We are very pleased with the resilience of the GI business and the continued improvement in the profitability of the M&S business.

We are well prepared to weather the temporary headwinds of the pandemic. China has the resources and the resolve as a nation and as a people to effectively meet its challenges. Companies with internally strong and resilient adaptable business models are well-positioned to overcome the temporary headwind of the pandemic. As a business, we are pleased that the Company has been armed with a resilient and adaptable business model, which is supported by our innovative technologies, diversified customer base, record order book of RMB2.8 billion and forward-looking management.

We will continue to progress onward in 2020, as we will press forward with our GI expansion strategy and be on the alert for opportunities to utilise our Group's financial strength, strong cash flow and balance sheet to our advantage.

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### **Forward-looking Statement**

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*This press release includes forward-looking statements and financial information provided with respect to the anticipated future performance and involve assumptions and uncertainties based on the Group's view of future events. These forward-looking statements can be identified by terminology such as "will," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates" and similar statements. Among other things, the quotations from management in this press release and the Company's operations and business outlook, contain forward-looking statements. The actual results may vary from the anticipated results and such variations may be material. Accordingly, there can be no assurance that such projections and forward-looking statements can be realized. No representations or warranties are made as to the accuracy or reasonableness of such assumptions of the forward-looking statements and financial information based thereon. The Group undertakes no obligation to update forward-looking statements and financial information to reflect subsequent occurring events or circumstances, or to changes in its expectations, except as may be required by law. The past performance of the Group is not necessarily indicative of the future performance of the Group.*

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### **About Sunpower Group Limited**

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Founded in 1997, Sunpower Group Ltd. (SGX: 5GD.SI) is an environmental protection solutions specialist in proprietary energy saving and clean power technologies, with a strong focus on expanding into anti-pollution investment projects (“Green Investments”) which generate intrinsic value in the form of long-term, recurring and high-quality cash flows.

With proven capabilities in technology innovation and proprietary clean energy solutions, Sunpower is shaping a green future for itself by continuously developing its business segments of Green Investments (GI) and Manufacturing & Services (M&S). Sunpower has rapidly expanded its GI business in recent years by leveraging on its existing core technologies of high-efficiency heat transfer, long distance heat insulated steam distribution, energy saving and ultra-low emission clean power generation. The GI segment is mainly focused on the investment and operation of centralised steam and electricity supply business, which is expected to bring in additional stream of recurring income to the Company.

In the M&S segment, Sunpower has delivered superior quality products and services to approximately 1,500 customers in over 30 countries across the globe to-date. Its reputable customer base includes Wanhua Chemical, Hengli Petrochemical, CNOOC, CNPC, SINOPEC, ExxonMobil, BASF, BP, Shell, etc.

For more information, please refer to: <http://en.sunpower.com.cn>

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