

Sunpower outperformed in 2020 with record PATMI¹ of RMB377.0 million

Results Highlights

- **Exceeded performance targets in FY2020**

Revenue rose 12.6% YoY to record RMB4,058.8 million while PATMI¹ hits another record of RMB377.0 million

Results exceeded convertible bond performance target of RMB370 million in 2020

Underlying operating cashflow grew 17.4% YoY to RMB535.9 million²

Proposed first and final ordinary dividend of S\$0.003 per share for FY2020, the 11th consecutive year of dividends. Raised by 20% from S\$0.0025 per share in FY2019

- **GI business contributions grew in importance to the Group, despite the pandemic**

GI revenue rose 15.6% YoY to RMB1,335.2 million in FY2020

GI EBITDA rose 12.9% YoY to RMB488.7 million in FY2020

GI growth to continue to be driven by ramp-up of existing plants, supply area coverage, customer base expansion and capacity expansion of certain existing plants, as well as the addition of more potential earnings-accretive projects

- **M&S business maintained stable full-year uptrend**

M&S revenue was RMB2,723.6 million in FY2020

Order book was RMB2.9 billion as at end-January 2021, compared to RMB2.8 billion as at end-September 2020

Singapore, 25 February 2021 – Mainboard-listed Sunpower Group Ltd. (“中聖集團”, “Sunpower” or the “Group”), an environmental protection solutions specialist in energy-saving and clean power technologies with a strong focus on anti-pollution investment projects (“Green Investments” or “GI”) that generate intrinsic value in the form of long-term, recurring, high-quality income and cash flows, today announced its financial results for the financial year to 31 December 2020 (“FY2020”).

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

RMB million	FY2020	FY2019	YoY Chg
Revenue	4,058.8	3,604.6	12.6% ↑
Group gross profit	981.5	888.6	10.5% ↑
Group EBITDA	798.2	706.6	13.0% ↑
Profit before income tax	515.9	454.2	13.6% ↑
PATMI¹	377.0	352.2	7.0% ↑
EPS³ (RMB cents)	47.8	45.2	5.7% ↑

pps – percentage points

Investment Thesis

¹ PATMI refers to the “Profit for the year attributable to equity holders” in the “WITHOUT financial effects of Convertible Bonds and Warrants” column of the P&L statement, which adjusts “Profit for the year attributable to equity holders” in the “WITH financial effects of Convertible Bonds and Warrants” column for amortised interest expenses, fair value adjustments and foreign exchange gains or losses associated with the Convertible Bonds and Warrants.

² Underlying operating cash flow adjusting for CB interest of RMB22.7 million.

³ Based on weighted average number of outstanding ordinary shares (excluding treasury shares) of 789.3 million in FY2020 and 779.3 million in FY2019.

The GI business is Sunpower's value creator and growth driver. With its sizeable and valuable portfolio of GI projects, the Group is well placed to benefit from the enormous business opportunities in China's anti-smog services sector.

Key drivers that fuel the opportunities for the Group's GI business are:

- National clean-air policies that mandate continuous closure of small dirty coal-fired boilers, unlocking demand for clean steam, heat and electricity supplied by large centralised clean GI plants,
- Strict zoning policies that provide further growth impetus to GI business as they mandate the location and/or relocation of factories into industrial parks with such centralised infrastructure, and
- Long term growth potential from the organic expansion of customers and industrial parks served by the GI projects.

GI projects generate long-term, recurring, high-quality cashflow and double-digit IRR:

- Strong market position as exclusive steam suppliers within coverage areas due to typically 30-year operating concessions, with first right to renew,
- High entry barriers from the application of leading technologies, integrated operations and systems, and professional management with many years of experience in environmental protection, and
- Strong tariff collection, as steam is a non-discretionary input product necessary for customers' production activities.

Business model underpinned by the following competitive advantages:

- Solid foundation to procure high-quality GI projects given a proven track record, experienced business teams and robust systems for the identification, selection and evaluation of projects,
- GI projects are highly sought after investment assets with a resilient and adaptable business model that provide high entry barriers against new entrants,
- Early-mover advantage that allows investment in new projects or acquisition of existing projects at attractive accretive valuations,
- Strong track record by business teams seasoned in project management to successfully operate GI projects with excellent results,
- Application of leading technologies and Circular Economy zero-waste production model to build new plants and upgrade acquired plants for maximum operational efficiency, and
- Strong capital support from renowned private equity funds DCP and CDH, as well as multiple potential sources of capital to fund the GI business growth strategy.

Sunpower believes it is in a favourable position to further expand in a large addressable market by procuring new GI projects with exclusive long-term concessions, to embark on new phases of expansion for certain existing GI projects, and to further cultivate the earnings quality of existing GI projects.

9 Projects in Operation



Financials

Despite the challenges of the pandemic in 2020, the Group's business remained healthy and reliable. With continuing strong operational execution, Sunpower outperformed with record FY2020 results that exceeded the convertible bond performance target of RMB370 million.

Group results: In FY2020, group revenue rose 12.6% YoY to RMB4,058.8 million, group EBITDA increased 13.0% YoY to RMB798.2 million and group PATMI improved 7.0% YoY to RMB377.0 million. Underlying operating cashflow grew 17.4% YoY to RMB535.9 million.

GI segment: As the primary value creator and growth driver of the Group, GI continued to grow its contributions to the Group and provide long-term, recurring, high-quality cashflows despite the challenges caused by the pandemic. Although the pandemic initially caused operating hours to be reduced in the early part of 2020, the Company achieved YoY growth due to its strong capability to rapidly resume and maintain normal operations after the pandemic came under control. As a result, GI revenue in FY2020 rose 15.6% YoY to RMB1,335.2 million while GI EBITDA grew 12.9% YoY to RMB488.7 million.

M&S segment: Revenue was up 11.2% YoY to RMB2,723.6 million in FY2020. This was driven by growing domestic market demand in 2020 bolstered by a series of supporting economic measures targeted at helping the economy to recover amidst pandemic. The order book was RMB2.9 billion as at end-January 2021, compared to RMB2.8 billion as at end-September 2020.

M&S Business Update⁴

On 31 December 2020, the Group announced (the “**Announcement**”) the Proposed Disposal of the entire Manufacturing and Services (M&S) business. The Consideration is RMB2.29 billion in cash, to be paid in two tranches, subject to conditions precedent being satisfied or waived by the Purchaser. The Advance Payment of RMB229 million, being an amount equal to 10% of the Consideration, has been paid into the escrow account in accordance with the terms of the SPA.

As stated in the Announcement, the Board believes that the Proposed Disposal presents a good opportunity to unlock value for the shareholders as it allows the Group to divest its investment in the M&S Business for an attractive consideration. To this end, subject to the Special Dividend Conditions, the Company intends to distribute a portion of the net proceeds arising from the Proposed Disposal to the shareholders (as well as the bondholders in accordance with the existing terms of the Convertible Bond Purchase Agreements) by declaring the Proposed Special Dividend in recognition of the support of the shareholders and to enable them to enjoy the benefits from the Proposed Disposal. In addition, the Proposed Disposal will enable the Group to strategically focus on the Group's GI Business, which the Board believes has significant potential to deliver long-term benefit to the Group and build sustainable value for its shareholders. Moreover, the disposal will provide additional capital to undertake the existing GI Projects and general working capital which will support the growth strategy of the GI business.

GI Business Update

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

Updates on GI projects:

⁴ All capitalised terms and expressions appearing shall, unless otherwise defined herein, bear the same meanings as ascribed to them in the Announcement that was released on 31 December 2020.

- **Shantou Project:** Phase 1 has started commercial production, and Phase 2 is under construction to meet expected strong steam demand in the concession area.
- **Xinyuan Plant:** To further expand its clean heat supply coverage area in Jimo District of Qingdao City with the signing of a concession agreement to supply a 2 million m² area in Jimo International Trade Park. This is in line with the Group's expectation in 2017 when Xinyuan Plant was acquired, that the district's development potential will lead to growth in its business.
- **Changrun Project:** Recently acquired the exclusive right to supply steam to Sanli, one of the largest towel and blanket enterprises in China, for 25 years. Steam supply is expected to start in 2021. Sanli guarantees that all of its existing textile and printing & dyeing related assets and production businesses in Gaoyang County will be retained at their original operating sites during the effective term of the Agreement. In addition, Sanli commits to maintain its existing production capacity utilisation to ensure its demand for steam, except for when it is unable to do so due to force majeure events.
- **New facility of Xintai Zhengda Project:** Part of the project has started commercial operation, and the remaining part is under construction.
- **Shanxi Xinjiang Project** is expected to complete its construction by early 2022.

To date, the Group has invested and committed approximately RMB1.93 billion in project equity to build up its GI portfolio. The Group currently has a total of 11 GI projects, of which nine (9) are operational, while other GI projects such as part of the new facility of the Xintai Zhengda Project, phase 2 of Shantou Project, Tongshan Xuzhou Project and Shanxi Xinjiang Project are under construction.

Sunpower's Investments in GI to-date				
Status	Project	Project Equity (RMB'm) ⁽ⁱ⁾	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) ⁽ⁱⁱ⁾	n/a	86.5%	n/a
	Jining Project	10.3	49%	n/a
	Shantou Project (Phase 1)	167.3	51%	3×150t/h+2×20MW
Sub-total		1,207.4		
Under construction	Xintai Zhengda Project (new facility) ⁽ⁱⁱⁱ⁾	287.1	86.5%	3×130t/h+1×35MW +1×18MW
	Shantou Project (Phase 2)	132.6	51%	2x260t/h+2x30MW
	Tongshan Project (Phase 1) ^(iv)	126.0	100%	1×130t/h+1×35MW

	Shanxi Xinjiang Project (Phase 1)	131.2	100%	1×130t/h+1×C15MW
	Changrun Project - Connection to Sanli	50.0	100%	n/a
Sub-total		726.9		
Amount invested and committed		1,934.3		

Notes: based on current estimates and forecast.

(i) Assuming ~40% equity/60% debt

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

(iii) As disclosed above, part of new facility of Xintai Zhengda project has started commercial operation, and the remaining part is under construction

(iv) Assuming ~30% equity/ 70% debt

Outlook

China's economy did well in 2020 with annual GDP growth of 2.3%. According to the National Bureau of Statistics of China (NBSC), China is expected to be the world's only major economy to achieve positive growth in 2020.⁵ For 2021, NBSC pointed to the country's vast domestic market as one of the multiple factors that will help to sustain steady economic recovery.⁶

At the recent Central Economic Work Conference in Beijing attended by President Xi Jinping and Premier Li Keqiang, it was emphasized that 2021 will be a year of special importance in China's modernization drive. An important task will be the formation of a strong domestic market as the mainstay support for the dual circulation development model. It was also emphasized that China must continue the fight against pollution and achieve the synergistic effect of reducing pollution and carbon emissions⁷, which Sunpower's efficient centralised GI plants assist to reduce.

For 2021, Sunpower intends to continue to execute the following two-pronged strategy with emphasis on the quality of development that amplifies its strengths:

- By solidifying its market position as an environmentally clean centralised provider of industrial steam, heating and electricity through (a) the continuous ramp-up of utilisation of its existing GI portfolio, supported by further expansion of the coverage areas and customer base of the projects but with less intense capital expenditure; (b) proceeding with the planned construction of the expansion phases of certain existing projects; and (c) the continuous cultivation of the earnings quality and asset returns of existing projects, as well as
- By tapping into its proven ability to identify and invest in additional promising GI projects that meet the investment hurdles of the Company.

Barring unforeseen circumstances, the Group expects the business trends summarized below to benefit the GI business in FY2021. Please note that Sunpower's financial results⁸ should be viewed on a 12-month basis to arrive at a balanced perspective.

Anticipated additional contributions from new plants, namely

- Shantou Project, where Phase 1 is in commercial operation and expected to ramp up rapidly, while Phase 2 construction is expected to be completed in 2021.

⁵ <http://enapp.chinadaily.com.cn/a/202101/18/AP6004ebb7a310f03332f93d7b.html>

⁶ <http://enapp.chinadaily.com.cn/a/202101/19/AP600610d3a310f03332f93ebf.html>

⁷ <http://m.zt5.com/gp/cjx/509101.html>

⁸ Under the terms of the Proposed Amendments to the Convertible Bond Purchase Agreements, the performance target for the financial year ended 31 December 2021 ("FY2021") will be replaced with a new performance target for the financial year ended 31 December 2022 ("FY2022"). Refer to Appendix 4 of 31 December 2020 announcement for more details.

- Xintai Zhengda Project, where part of the new facility is in commercial operation, and construction of the remaining part is expected to be completed in 2021.
- Tongshan Project, where construction of Phase 1 is expected to be completed in 2021.

Continued ramp-up of existing GI plants, mainly driven by

- Continuous connection of new customers, following mandatory closures of small dirty boilers, mandatory location and/or relocation of new factories into industrial parks, and/or organic growth of customers and industrial parks served by the Group's GI plants.
- Anticipated increase in demand for steam when Xinyuan Plant starts to supply clean heating to its new 2 million m² concession area in Jimo International Trade Park.
- Changrun Project starts to supply Sanli under its 25-year exclusive supply contract once the construction of the connecting pipeline network is completed in 2021.

Mr. Guo Hongxin, Executive Chairman of Sunpower, commented:

“We faced a challenging year in 2020 but our excellent management of operations allowed us to maintain healthy and reliable business growth and closed out the year with record results, exceeding the 2020 performance target of CB. In addition, a first and final dividend of S\$0.003 per share has been recommended. Despite the constraints of the pandemic, I am pleased that the GI business achieved a breakthrough in major projects in 2020, as two existing projects, Shantou Project phase 1 and part of Xintai Zhengda Project's new facility, moved from trial production to commercial operation phase, while construction started for two new GI projects, Tongshan Xuzhou Project and Shanxi Xinjiang Project.

The sizeable GI portfolio already forms the bulk of Sunpower's intrinsic value⁹ and has allowed the Group to grow into a company driven by long-term, recurring, high-quality income and cash flow in less than 3 years from the time the first tranche of CBs was issued. Going forward, the Group will intensify efforts to cultivate and enhance the existing GI projects to achieve even higher quality growth, which will further boost the investment returns and value of its assets in the long term, and will also seek suitable opportunities to expand the portfolio, either by procuring new GI projects with exclusive long-term concessions or to embark on further phases of expansion for certain existing projects.”

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Forward-looking Statement

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.

⁹ Expressed as the Net Present Value (“NPV”) of cash flows over the concession period that will be substantially higher than the latest contributions

About Sunpower Group Limited

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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