

Sunpower records recurring GI revenue growth of 53.1% YoY with steam sales volume up 22.6% in 1Q 2022

Results Highlights

- **GI recurring revenue recorded strong YoY growth, driven by continued ramp-up of existing projects including Shantou Project**

Total steam sales volume rose 22.6% YoY to 2.16 million tons in 1Q 2022

GI recurring revenue rose 53.1% YoY to RMB648.7 million in 1Q 2022

- **GI recurring PATMI and EBITDA registered YoY growth, despite geopolitical challenges and pressure arising from resurgence of pandemic**

GI EBITDA was RMB133.5 million in 1Q 2022, representing an increase of 15.7% YoY

GI recurring PATMI grew 6.4% YoY to RMB28.7 million

- **Focused on long-term development and continuously expanding customer base amidst temporary headwinds**

Singapore, 15 May 2022 – Mainboard-listed Sunpower Group Ltd. (“中聖集團”, “Sunpower” or the “Group”), a leading provider of clean industrial steam with a sizeable portfolio of 100%-recurring, long-term, cash-generating Green Investments (“GI”) projects that use innovative integrated environmental-protection technologies to facilitate the development of circular economy industrial parks through its centralized steam facilities, announced its results for the three months to 31 March 2022 (“1Q 2022”).

GI Financial Highlights (Without Financial Effects of Convertible Bonds and Warrants)

RMB million	1Q 2022	1Q 2021	YoY Chg
GI recurring revenue ¹	648.7	423.6	53.1%
GI recurring EBITDA ²	133.5	115.4	15.7%
GI recurring PATMI ³	28.7	27.0	6.4%
GI operating cashflow ⁴	(57.4)	70.9	n/a

Group Results from Continuing Operations⁵ (Without Financial Effects of CBs and Warrants)

RMB million	1Q 2022	1Q 2021	YoY Chg
Revenue	738.5	423.6	74.3%
Gross profit	105.8	85.1	24.3%
Profit/(Loss) for the period from continuing operations ⁶	31.1	27.1	14.7%

The Company uses the terms “GI recurring revenue”, “GI recurring EBITDA”, “GI recurring PATMI”, and “GI operating cashflow” to reflect the operating results of the GI business. This document should be read in conjunction with the financial statements released at the same time.

¹ GI recurring revenue refers to recurring revenue generated by the GI business. It excludes one-time contributions from internal EPC services for BOT projects that are provided by the Group’s internal project management department, recognised in accordance with *IFRIC 12 Service Concession Arrangements*.

² GI recurring EBITDA refers to the recurring Earnings before Interest, Tax, Depreciation and Amortisation of the GI Business. It excludes gains or costs incurred by way of the Manufacturing & Services (M&S) business disposal such as excess cash dividends, gain on disposal, withholding tax, etc.; one-time contributions from internal EPC services for BOT projects that are provided by the Group’s internal project management department, recognised under *IFRIC 12 Service Concession Arrangements*; as well as expenses incurred by the Company that are not related to the running of the GI Business, such as listing-related expenses and remuneration of the employees at the group level, etc., which reflects the operating results of the GI business.

³ GI recurring PATMI refers to the recurring Profit After Tax and Minority Interests of the GI Business. It excludes gains or costs incurred by way of the M&S disposal such as excess cash dividends, gain on disposal, withholding tax, etc.; one-time revenue contributions from internal EPC services for BOT projects that are provided by the Group’s internal project management department, recognised under *IFRIC 12 Service Concession Arrangements*; and expenses incurred by the Company that are not related to the running of the GI Business, such as listing-related expenses and remuneration of the employees at the group level, etc., which reflects the profit of the GI business attributable to the Group.

⁴ GI operating cashflow refers to cashflow generated by operating activities of the GI Business.

⁵ Continuing operations refer to the GI business after the M&S business disposal was completed on 30 April 2021.

⁶ “Profit/(Loss) for the period from continuing operations” in the “WITHOUT financial effects of Convertible Bonds and Warrants” column of the P&L statement, which adjusts “Profit/(Loss) for the period from continuing operations” 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.

Key Investment Highlights

- **Leading provider of industrial steam with development strategy aligned with national policies**
Sunpower has scaled up to 10 projects in operation and 1 under construction with a proven track record, leading market position and strong brand equity. Its long-term growth strategy is aligned with national energy policies on CO₂ reduction, energy conservation and smog control. Multiple pollution sources can be eliminated with just one centralised GI plant within a circular economy industrial park that helps the park attain zero emissions and allows Sunpower to increase revenue and reduce cost.
- **Superior GI business model that generates 100%-recurring, long-term income and cash flows**
GI's superior business model is based on exclusive concessions of typically 30 years with first right to renew that confer a strong market position to supply steam, a non-discretionary input product, to a large base of customers that provides resilient counter-cyclical demand, bolstered by technologies that act as entry barriers against competition. Direct B2B arrangements enable GI plants to require either pre-payment or post-payment after use. There is also a contractual price formation mechanism that links feedstock cost to steam price and allows reliable long-term profitability across cycles.
- **Excellent financial performance with high margins and strong cash generation**
Sunpower has proven its ability to sustain excellent financial performance with high profitability and strong cash generation.
- **Well-positioned to gain long-term growth potential**
With a sizeable portfolio of GI projects, Sunpower is well-positioned to benefit from the natural organic growth of its customers and industrial parks due to the mandatory closures of small dirty boilers, and the relocation of more factories into industrial parks as result of the zoning policy. Long-term sustainable growth will come from the large addressable market and strong project pipeline.
- **Practises ESG and sustainability values in every aspect**
Sunpower is committed to better sustainability in its business by incorporating environmental, social and governance (ESG) values it does. In addition, it is a pioneer in the development of the circular economy and helping China to attain its Carbon Peak and Carbon Neutrality targets.
- **Professional & disciplined management with strong execution and entrepreneurship**
The key management are professional and disciplined executives with extensive experience, strong execution capabilities, entrepreneurship as well as a refined and standardised management approach.
- **DCP and CDH are strategic institutional investors that support the group**
They are among the largest and most experienced private equity investors in China with a strong track record of investing and nurturing many leading companies in China.



Financials

Total steam sales volume grew 22.6% YoY to 2.16 million tons for 1Q 2022 due to the continued ramp-up of the GI projects including Shantou Project, bolstered by strong demand from end-customers.

GI recurring revenue grew 53.1% YoY to RMB648.7 million. The significant growth was mainly attributable to the ramp-up of steam sales volume and an increase in steam price achieved through the utilisation of the price formation mechanism that links feedstock cost to steam price. GI recurring EBITDA grew 15.7% YoY to RMB133.5 million, while GI recurring PATMI grew 6.4% YoY to RMB28.7 million.

The results were achieved despite challenges that mainly included the rising and volatile trend of feedstock price as a result of the geopolitical issues and the resurgence of the pandemic in certain areas in China. In order to offset the impact brought by these challenges, the Company continued to execute a series of mitigation measures (the “**Mitigation Measures**”) which included but were not limited to raising steam prices with customers; diversifying the feedstock mix to include biomass, sludge and general solid waste; continued implementation of the cost-reduction strategy of controlling unit material use; stocking up on feedstock when prices are conducive; optimisation of steam transmission efficiency; strengthening the ramp-up of GI plant utilisation by connecting to more customers; and further reinforcing the refined management of the plants.

The GI business recorded an operating cash outflow of RMB57.4 million mainly due to increased working capital requirements arising from an increase in trade receivables and contract assets, an increase in financial assets at fair value through other comprehensive income and other receivables and prepayments, a decrease in inventories, trade payables and other payables, as well as interest and tax paid.

Group revenue from continuing operations rose 74.3% YoY to RMB738.5 million in 1Q 2022 due to the continued ramp-up of the GI business and contributions from internal EPC services for BOT projects that are provided by the Group’s internal project management department, recognised in accordance with IFRIC 12 Service Concession Arrangements. Profit/(Loss) for the period from continuing operations, without financial effects of Convertible Bonds and Warrants, was RMB31.1 million in 1Q 2022, up 14.7% YoY from 1Q 2021.

GI Project Updates

Sunpower supplies industrial steam to a diverse range of industries supported by structural demand. It also provides pollution-free civil heating to a large base of households, and electricity to the State Grid. The Group is a leader in the industry of centralised steam facilities and a pioneer in facilitating the development of circular economy industrial parks that are promoted by the “14th Five-Year Plan for Circular Economy Development” of the NDRC.

- **Changrun Project:** New customers are being connected. Boiler #2, previously used for backup, is being used to supply steam commercially.
- **Tongshan Project:** The plant has commenced commercial production.
- **Xintai Zhengda Project:** The project has been completed and in commercial operation. New customers are being connected.
- **Yongxing Plant:** JV plant to supply industrial steam using general solid waste as feedstock, which will diversify the Group’s feedstock mix, is expected to start construction in 2022.
- **Shanxi Xinjiang Project:** Construction is progressing smoothly and the plant is expected to start operations in 2022.

- **Quanjiao, Lianshui Projects:** New customers are being connected.

- **Sizeable GI portfolio:**
 - 10 existing plants in operation
 - 1 new plant under construction
 - Robust pipeline of projects under evaluation
- **Exclusive concessions: Typically ~30 years with right of first renewal**
- **Total length of GI pipelines has reached ~372 km, enhancing defacto project exclusivity in coverage areas**
- **Number of GI customer industries: >20**
- **Current number of customers: 525**



Outlook

According to news reports, the pandemic in China has re-surfaced since 1Q 2022, and containment measures such as lockdowns have resulted in the operations of downstream enterprises being affected.⁷ The government has strengthened the implementation of its dynamic clearance policy in order to swiftly and precisely control the pandemic before it gains momentum.⁸

As disclosed on 26 April 2022, the pandemic resurgence in some areas in China had resulted in the normal operations of some customers and some projects of the Company being temporarily affected. The Company is closely monitoring the situation and has proactively prepared and implemented contingency plans and measures. As at the date of this announcement, the GI projects that were temporarily affected have seen a recovery in their operations.

The prices of energy and other commodities have been pushed up due to geopolitical issues.⁹ Hence, the National Development and Reform Commission (NDRC) has stepped up its efforts to further stabilise feedstock prices and ensure energy security. On 5 March 2022, it said that it will boost the production of more modern mines and enhance reserve capacity, guarantee transportation and further improve pricing mechanisms.¹⁰

In addition, the People's Bank of China announced on 4 May 2022 that it will increase the special refinancing quota to support the clean and efficient utilisation of feedstock by RMB100 billion to RMB300 billion. This financial support instrument will be specially provided to support the development and use of feedstock and enhance the capacity of reserves.¹¹

Barring unforeseen circumstances, the Group expects the business trends summarised below to benefit its business in FY2022. Please note that Sunpower's financial results¹² should be viewed on a 12-month basis to arrive at a balanced perspective.

Continued ramp-up and enhancement of each existing GI plant, namely:

⁷ <https://www.wsj.com/articles/manufacturers-grind-to-a-halt-in-china-as-lockdowns-expand-11649343420>

⁸ <http://www.chinadaily.com.cn/a/202204/07/WS624e1dd2a310fd2b29e55678.html>

⁹ <https://www.worldbank.org/en/news/press-release/2022/04/26/food-and-energy-price-shocks-from-ukraine-war>

¹⁰ <https://www.reuters.com/business/energy/china-boost-coal-output-reserves-ensure-power-supply-ndrc-2022-03-05/>

¹¹ <https://baijiahao.baidu.com/s?id=1731959499327935701&wfr=spider&for=pc>

¹² Under the terms of the Amendments to the Convertible Bond Purchase Agreements, the performance target for the financial year ended 31 December 2021 ("FY2021") has been replaced with a new performance target for the financial year ended 31 December 2022 ("FY2022"). Refer to the 31 March 2021 circular to shareholders for more details.

- Continuous connection of new customers, following mandatory closures of small dirty boilers, mandatory location and/or relocation of new factories into industrial parks, expansion of coverage area, and/or organic growth of customers and industrial parks served by the Group’s GI plants.

Additional contributions from expansion of existing plants and new plants, namely:

- Expected production launch of Shantou Project Phase 2 in 2022.
- Xintai Zhengda Project’s new plant has been in operation.
- Tongshan Project has commenced commercial production.
- Shanxi Xinjiang Project which is expected to start operations in 2022.

Continued execution of holistic strategy to further enhance profitability, namely:

- Leverage on the price formation mechanism that links feedstock costs to steam prices with greater flexibility and reduction of feedstock price volatility to achieve a new equilibrium in profitability.
- Continue to deploy the Mitigation Measures.

For 2022 and beyond, Sunpower intends to continue to execute the following two-pronged strategy with emphasis on the quality of development that amplifies its strengths:

- (1) Solidify its market position as an environmentally-clean centralised provider of steam through (a) the continuous ramp-up 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; (c) continuous closure of small “dirty” boilers; and (d) the continuous cultivation of the earnings quality and asset returns of existing projects.
- (2) Tap into its proven ability to identify and invest in additional promising GI projects that meet the investment hurdles of the Company.

Mr. Ma Ming, CEO and Executive Director of Sunpower, commented:

“Despite the challenges, revenue grew in the double-digits on a YoY basis and the company was profitable in 1Q 2022, as it has been since the listing in 2005¹³. This demonstrates the reliability of our business model and the strong efforts that we have made to navigate the temporary headwinds.”

“In the short term, there may be temporary road bumps ahead due to the resurgence of the pandemic in China and the geopolitical issues worldwide. We are working hard on proactively implementing contingency plans and measures, and actively monitoring the situation for further measures that we can take. We still expect industrial steam sales volume to remain firm for the whole of 2022.”

“In the longer term, the Group remains in a strong position to benefit from the prospects of the centralised steam supply industry and the long-term development of industrial parks as it has a strong supplier role in the provision of clean steam, a non-discretionary production input, to industrial users. With the proven success and advantages of the GI business model, led by a tireless and disciplined management team, the Group expects to be able to generate a high Net Present Value (NPV) of high-quality, recurring income and cashflows in the long term.”

-END-

¹³ In reference to Profit/(Loss) for the period WITHOUT financial effects of Convertible Bonds and Warrants.

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.

About Sunpower Group Ltd.

Sunpower Group Ltd. (SGX: 5GD.SI) is a leading provider of industrial steam with a sizeable portfolio of 100%-recurring, long-term cash-generating Green Investments (“GI”) projects that use innovative integrated environmental-protection technology to facilitate the development of the circular economy and help China to attain its carbon peak and carbon neutrality goals. It was founded in China in 1997 and listed on the Singapore Exchange (SGX) in 2005.

In 2020, Sunpower disposed its Manufacturing and Services (“M&S”) business for an attractive consideration that unlocked value and improved investment returns for investors. To reward shareholders and bondholders, a substantial Special Dividend of S\$0.2412 a share was declared and paid in 2021. Following the monetisation of M&S, the sole principal business of the Group is the “Green Investments” (“GI”) business where it has a sizeable portfolio of GI projects that generate 100% recurring, long-term, high-quality income and cashflow.

Sunpower is successfully expanding the GI business by leveraging on its robust and replicable business model with unique competitive edge to unlock the long-term growth potential. With the application of innovative technology packages that raise high entry barriers, a proven effective management team to provide leadership and execution capabilities in operations and risk management, and the strong support of strategic investors DCP and CDH, Sunpower is continuously shaping a green future for itself as it takes its green, low-carbon, circular economy GI business to greater heights.

Sunpower actively undertakes the responsibility of promoting the sustainable development of the economy and society, and has been recognised by various environmental and industry associations. To date, Sunpower has been included as a member of China Association of Environmental Protection Industry (中国环境保护产业协会), Renewable Energy Generation Branch of China Electric Power Promotion Council(中国电力发展促进会可再生能源发电分会), Shandong Province Electric Power Enterprise Association (山东省电力企业协会), Energy Association of Jiangsu Province (江苏省能源行业协会), and Jiangsu Association of Environmental Protection Industry (江苏省环境保护产业协会), and as a director member of Hebei Association of Environmental Protection Industry (河北省环境保护产业协会).

For more information, please refer to Sunpower's investor relations website, <http://sunpower.listedcompany.com/>.

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