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Sungrow Power Supply

Investment Memo

# **Sungrow Power Supply Investment Memo**

## **1. Executive Summary**

Sungrow Power Supply Co., Ltd. is a **leading player** in the global renewable energy market, with strong expertise in solar inverters, energy storage systems, and renewable energy investments. Despite slowing growth in 2024, the company has shown significant revenue and profit growth over the past few years, positioning itself as a solid competitor in the industry. Sungrow's market capitalization is currently valued at ¥125.64 billion, but its conservative DCF analysis suggests a **significantly higher enterprise value** of approximately ¥1.42 trillion, indicating that the company may be undervalued in the market.

Sungrow’s financial performance remains robust, with strong profitability, improving cash flow, and a healthy cash position. While there are challenges such as competition and reliance on government policies, Sungrow has ample growth opportunities in the expanding renewable energy market, particularly in energy storage and international expansion. Overall, Sungrow’s **strong market position** and **undervaluation** present an attractive investment opportunity for those looking to capitalize on the future growth of the renewable energy sector.

## **2. Company Overview and Industry Background**

**Company Overview**

## **Name:** Sungrow Power Supply Co., Ltd.

## **Founded:** 1997

## **Headquarters:** Hefei, China

## **CEO:** Mr. Cao Renxian (Founder)

## **Main Business Line Breakdown:**

**Solar Inverters and Power Electronics Conversion Equipment**

* Revenue: ¥29,127,038,840.90, accounting for 37.41% of total revenue
* Growth: Increased by 5.33% compared to the previous year
* Description: Sungrow is a global leader in the solar inverter market. The company designs, manufactures, and supplies solar inverters that convert DC (direct current) power generated by solar panels into AC (alternating current) for grid integration. Their inverters are used in residential, commercial, and large-scale utility solar power plants, providing efficient and reliable solutions for solar energy generation.

**New Energy Investment and Development**

* Revenue: ¥21,003,004,297.89, accounting for 26.98% of total revenue
* Growth: Decreased by 15.08% compared to the previous year
* Description: Sungrow is actively involved in the investment and development of renewable energy projects, including large-scale photovoltaic (solar) power plants and wind farms. The company invests in green energy projects, develops them, and generates power from these sources. This division focuses on the integration of energy generation, storage, and distribution, ensuring a diversified energy portfolio.

**Energy Storage Systems**

* Revenue: ¥24,959,166,127.81, accounting for 32.06% of total revenue
* Growth: Increased by 40.21% compared to the previous year
* Description: Sungrow offers a range of energy storage solutions, which include both grid-scale storage systems and residential energy storage products. These systems store excess energy generated from renewable sources like solar and wind, allowing for better grid stability, energy efficiency, and sustainability. Energy storage is key to managing renewable energy fluctuations, and Sungrow is well-positioned as a leading provider in this growing market.

**Industry Overview**

**Renewable Energy:** The global renewable energy sector is growing rapidly due to a shift towards more sustainable energy sources. As countries seek to reduce carbon emissions and meet climate goals, the demand for solar energy and energy storage solutions continues to rise.

**Solar Power Industry:** Solar energy is a key player in the renewable energy transition. The global installed capacity of solar power is expected to exceed 10,000GW by 2030. China, as the global leader in solar panel production and application, supports the solar power market through strong policy incentives.

**Energy Storage Industry:** Energy storage is essential for managing renewable energy intermittency. As more solar and wind energy is integrated into grids, energy storage systems play a crucial role in stabilizing power grids and ensuring reliable energy supply. This market is expected to grow rapidly, and Sungrow is well-positioned to lead in energy storage solutions.

**Global Market Demand:**

* **China:** As the largest market for solar and energy storage in the world, China provides significant opportunities for Sungrow. The company has maintained its leadership in the domestic market, supported by strong governmental policies and incentives.
* **International Markets:** Sungrow is expanding its reach in international markets, particularly in Europe, Latin America, and Southeast Asia. Its comprehensive product offerings and global market presence make it a key player in the international renewable energy sector.

## **3. Finance Performance Analysis** **(2020–2024)**

**Revenue Growth**

Sungrow has shown strong revenue growth between 2020 and 2024, driven by its leadership in solar inverters, energy storage systems, and renewable energy investments. The following table summarizes the company’s revenue performance during these years:

|  |  |  |
| --- | --- | --- |
| **Year** | **Revenue (CNY)** | **Growth Rate** |
| 2020 | ¥19,290,000,000 | N/A |
| 2021 | ¥24,140,000,000 | 25.10% |
| 2022 | ¥40,260,000,000 | 66.60% |
| 2023 | ¥72,250,000,000 | 79.80% |
| 2024 | ¥77,860,000,000 | 7.70% |

**Key Insights:**

* **2020-2024:** Sungrow's revenue grew rapidly, with especially high growth in 2022 and 2023.
* The **7.7% growth in 2024** shows a slowdown, likely due to increased competition and market saturation in certain product categories, but still solid growth overall.

**Profitability**

The following table shows Sungrow's **net profit** and **profit margins** from 2020 to 2024:

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Net Profit (CNY)** | **Profit Margin** | **Growth Rate** |
| 2020 | ¥1,950,000,000 | 10.10% | N/A |
| 2021 | ¥1,580,000,000 | 6.50% | -19.00% |
| 2022 | ¥3,590,000,000 | 8.90% | 127.20% |
| 2023 | ¥9,440,000,000 | 13.10% | 163.70% |
| 2024 | ¥11,040,000,000 | 14.20% | 16.90% |

**Key Insights:**

* Net profit surged from 2020 to 2024, especially in 2022 and 2023, with growth rates of **127.2%** and **163.7%**, indicating improving operational efficiency and margin expansion.
* 2024: The 16.9% growth in net profit is solid but reflects **a slower growth rate**, suggesting possible market challenges or increased competition.

**Cash Flow**

Sungrow's cash flow has shown significant **volatility**, with a sharp decline in 2021 followed by a strong recovery in 2023 and 2024, indicating challenges in consistency but improving financial health.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year** | **Operating Cash Flow** | **Free Cash Flow** | **Growth Rate (OCF)** | **Growth Rate (FCF)** |
| 2020 | 3,090,000,000 | 2,069,000,000 | N/A | N/A |
| 2021 | -1,640,000,000 | -1,919,000,000 | -153.07% | -192.75% |
| 2022 | 1,210,000,000 | 3,045,000,000 | N/A | N/A |
| 2023 | 6,984,000,000 | 8,905,000,000 | 477.19% | 192.45% |
| 2024 | 12,070,000,000 | 11,281,000,000 | 72.82% | 26.68% |

**Key Insights:**

* **Operating Cash Flow:**

Sungrow’s operating cash flow has seen a **sharp recovery** after a negative value in **2021**. The company showed strong growth of 477.19% in 2023 and 72.82% in 2024, demonstrating improved cash generation from operations.

* **Free Cash Flow:**

**Free cash flow (FCF)** experienced a similar trend, with **a rebound** in 2023 (192.45% growth) and a more **modest growth of 26.68%** in 2024. This indicates that Sungrow was able to effectively generate cash after capital expenditures.

* **Cash Flow Instability:**

Sungrow’s **cash flow has been unstable**, with a dramatic drop in 2021, followed by strong recovery in 2023 and 2024. The volatility suggests that the company might be sensitive to factors such as capital expenditures, market conditions, or policy changes.

**Debt and Capital Structure**

Sungrow's debt-to-equity ratio increased from 0.19 in 2020 to 0.23 in 2024, indicating that the company has increased its reliance on debt financing over the years to support its expansion and investment activities. While the company showed equity growth, the rise in debt suggests that Sungrow may be pursuing more aggressive growth strategies, leveraging debt to accelerate business development.

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Total Liabilities** | **Equity** | **Debt-to-Equity Ratio** |
| 2020 | 2,101,370,000 | 10,864,700,000 | 0.19 |
| 2021 | 2,436,760,000 | 16,703,680,000 | 0.15 |
| 2022 | 5,998,630,000 | 19,738,220,000 | 0.30 |
| 2023 | 6,037,440,000 | 29,454,500,000 | 0.20 |
| 2024 | 9,341,390,000 | 40,198,750,000 | 0.23 |

**Key Insights:**

* **Total Liabilities and Equity Growth:**

**Total Liabilities**: Sungrow’s liabilities increased significantly over the five years, from **¥2.10 billion** in **2020** to **¥9.34 billion** in **2024**.

**Equity:** The company's equity also grew substantially, from **¥10.86 billion** in 2020 to **¥40.20** **billion** in 2024, showing strong retained earnings and profitability over time.

* **Debt-to-Equity Ratio:**

Increase in Debt: The debt-to-equity ratio rose from 0.19 in 2020 to 0.23 in 2024, indicating that Sungrow has increased its reliance on debt financing over the years.

**Current Ratio**

|  |  |
| --- | --- |
| **Year** | **Current Ratio** |
| 2020 | 1.547 |
| 2021 | 1.545 |
| 2022 | 1.466 |
| 2023 | 1.508 |
| 2024 | 1.578 |

**Key Insights:**

* **Healthy and Stable Current Ratio**: From 2020 to 2024, Sungrow's **Current Ratio** remained between **1.45 and 1.58**, indicating that the company has sufficient current assets to cover its short-term liabilities. Generally, a **current ratio above 1** suggests that the company is in good shape to meet its short-term obligations, and **Sungrow's financial condition remains stable in the short term**.
* **Slight Fluctuation**: There is a slight dip in **2022** with a ratio of **1.466**, followed by a recovery in **2024** (reaching **1.578**). This fluctuation could indicate some changes in the company’s **management of current liabilities** or **short-term asset management** during that period. However, the overall trend remains within a healthy range.

**ROE Ratio**

|  |  |
| --- | --- |
| **Year** | **ROE** |
| 2020 | 17.99% |
| 2021 | 9.47% |
| 2022 | 18.21% |
| 2023 | 32.05% |
| 2024 | 27.45% |

**Key Insights:**

* Sungrow's ROE shows a strong improvement over the years, especially in 2023, which can be attributed to high profit growth. The decrease in 2024 is modest and still reflects a strong return, though it indicates a slight slowdown in profitability growth compared to previous years.
* Overall, Sungrow has shown excellent performance in terms of capital efficiency, with a strong ROE throughout the period.

**Profitability Analysis**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year** | **Net Income Growth** | **Net Income Margin %** | **EBITDA Growth** | **EBITDA Margin %** |
| 2020 | 118.96% | 10.13% | 92.23% | 12.64% |
| 2021 | -19.01% | 6.56% | -19.74% | 8.11% |
| 2022 | 127.04% | 8.93% | 100.69% | 9.75% |
| 2023 | 162.69% | 13.07% | 205.52% | 16.60% |
| 2024 | 16.92% | 14.18% | 18.65% | 18.28% |

**Key Insights:**

* Sungrow’s financial performance from 2020 to 2024 shows strong growth in profitability, with net income and EBITDA improving significantly during the first few years.
* However, 2024 showed slower growth, reflecting possible market saturation, competition, or higher operational costs.
* Profitability ratios (Net Income Margin and EBITDA Margin) have improved over time, indicating that Sungrow has managed to optimize operations and increase profitability despite market challenges.

## **4. Valuation Analysis**

Based on the current stock price of ¥60.6 and total shares outstanding of 2.07 billion, Sungrow's market capitalization is approximately ¥125.64 billion. This valuation reflects Sungrow's market position within the renewable energy sector, especially in solar inverters, energy storage systems, and its strong growth potential. Despite a slowdown in some growth metrics in 2024, Sungrow continues to show solid performance and substantial market value.

**DCF Analysis (Conservative Assumptions)**

This analysis estimates the **Enterprise Value (EV)** of Sungrow using a **9% Weighted Average Cost of Capital (WACC)** and conservative assumptions. The Free Cash Flow (FCF) was projected with **a 3% annual growth rate** from 2025 to 2029, reflecting a cautious outlook on the company's future performance. Additionally, a **2% terminal growth rate** was applied to estimate the company's long-term value. The final calculated Enterprise Value is approximately **¥1.42** trillion.

The conservative **Discounted Cash Flow (DCF) analysis** highlights a significant discrepancy between **Sungrow’s Enterprise Value (EV)** and its **Market Value (MV)**. The **Enterprise Value (EV)** was calculated at **¥1.42 trillion**, reflecting the company’s long-term growth potential and profitability. However, **Sungrow’s market capitalization (MV)** is only **¥1.429 trillion**, much lower than its intrinsic value.

This valuation discrepancy suggests that **Sungrow** is potentially **undervalued** in the market. The company's **market capitalization (MV)** of **¥125.64 billion** does not fully reflect its true value based on the current financial outlook, which is driven by **strong revenue growth**, **profitability**, and improving **cash flow generation**.

Sungrow also maintains a **strong cash position**, with **cash and equivalents** reported at **¥19.8 billion**. This liquidity strengthens the company’s ability to manage both short-term obligations and fund future expansion opportunities. Despite an increase in **total debt**, which stood at **¥9.34 billion** by 2024, Sungrow’s **free cash flow** and **operating cash flow** have demonstrated significant improvement, making the company’s debt load manageable.

**Comparable Company Analysis**

We need to identify companies that are in the same industry (solar power, renewable energy) and have similar operations in terms of size, market reach, and technology. Key players to compare with Sungrow could include:

* First Solar (FSLR) – A U.S.-based solar energy company specializing in manufacturing solar modules and utility-scale PV power plants.
* Enphase Energy (ENPH) – A global energy management technology company specializing in solar microinverters, energy management, and storage systems.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Company** | **P/E Ratio** | **EV/EBITDA** | **Revenue Growth** | **Net Profit Margin** | **ROE** |
| **Sungrow** | 9.84x | 8.5x | 8.38% | 12.95% | 27.45% |
| **FSLR** | 10.8x | 6.5x | 30.70% | 30.72% | 7.75% |
| **ENPH** | 18.48x | 3.93x | 35% | 10.43% | 6.60% |

Sungrow's financial performance, based on the Comparable Company Analysis (Comps), shows that it is relatively **undervalued compared** to some of its peers in the renewable energy sector. With a P/E ratio of 9.84x and an EV/EBITDA of 8.5x, Sungrow's valuation is competitive, especially when compared to First Solar (10.8x) and Enphase Energy (18.48x). The company has achieved a revenue growth of 8.38% in 2024, which, while lower than peers like Enphase Energy (35%), is still solid. Sungrow's net profit margin of 12.95% and Return on Equity (ROE) of 31.71% reflect strong profitability and efficient use of capital. These factors suggest that Sungrow is in a solid position in the market, and the company's potential undervaluation may provide an attractive investment opportunity.

**Sum of the Parts Analysis**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Business Segment** | **2024 Revenue (¥)** | **Comparable Company** | **EV/Sales Multiple** | **Value Estimate** |
| **Solar Inverters** | ¥29.13 billion | First Solar | 5.2 | ¥151.47 billion |
| **Energy Storage Systems** | ¥21.00 billion | Enphase Energy | 3.96 | ¥83.16 billion |
| **Renewable Energy Investments** | ¥24.96 billion | Brookfield Renewable Partners | 6.62 | ¥165.64 billion |
| **Total Enterprise Value (EV)** |  |  |  | ¥400.27 billion |

The total enterprise value (EV) for Sungrow, based on the **SOTP analysis**, is approximately **¥400.27 billion**. This valuation is driven by the **Solar Inverters** and **Renewable Energy Investments** segments, with **Energy Storage Systems** also contributing positively to Sungrow’s overall market valuation. The strong growth prospects across these sectors highlight Sungrow's potential as a key player in the renewable energy market.

**Conclusion**

The SOTP analysis and DCF analysis both highlight that Sungrow is undervalued by the market. Its solid financial performance, market position in key renewable energy sectors, and potential for future growth make it an attractive investment opportunity.

## **5. SWOT Analysis**

**Strengths**

* **Market Leadership:** Sungrow is a leader in the global solar inverter market, with strong expertise in renewable energy technology, especially solar and energy storage solutions. This market leadership positions the company as a key player in the rapidly expanding renewable energy sector.
* **Diverse Product Portfolio:** The company’s product portfolio includes not only solar inverters but also energy storage systems and renewable energy investments. This diversification allows Sungrow to capitalize on multiple growing renewable energy segments.
* **Strong Financial Position:** Sungrow’s financial performance has shown steady growth in revenue, profitability, and cash flow. The company has maintained a solid cash position of ¥19.8 billion, supporting its operations and future growth.
* **Global Reach:** Sungrow’s market presence spans multiple regions, including Asia, Europe, and the Americas, enabling it to benefit from diverse renewable energy markets and mitigate regional risks.

**Weaknesses**

* **Dependence on Government Policies:** Like many renewable energy companies, Sungrow’s success is closely tied to government subsidies, incentives, and policy changes related to renewable energy. Any changes in policy or reduced subsidies could affect Sungrow’s growth prospects.
* **Cash Flow Volatility:** While Sungrow’s cash flow has improved significantly in recent years, the company experienced substantial volatility, especially in 2021, when both operating cash flow and free cash flow were negative. This highlights the potential risk of cash flow instability due to market fluctuations or increased capital expenditures.
* **Slower Growth in 2024:** Sungrow’s revenue growth in 2024 slowed to 7.7%, a significant decrease compared to the high growth rates in 2022 and 2023. This may indicate market saturation or increased competition, potentially limiting future growth if these trends continue.

**Opportunities**

* **Growth in Renewable Energy Markets:** The global shift towards clean and renewable energy is a significant opportunity for Sungrow, especially as countries and regions commit to reducing carbon emissions and expanding renewable energy capacity. Sungrow can leverage its expertise in solar and energy storage technologies to capitalize on this transition.
* **Energy Storage Expansion:** Energy storage systems are critical for grid stability and the integration of renewable energy sources. Sungrow's focus on energy storage presents significant growth potential, particularly with increasing demand for efficient energy storage solutions.
* **International Expansion:** While Sungrow has a strong market presence in China, further international expansion into emerging markets and developed regions could significantly increase its revenue and market share. Collaborations with global companies and entry into new markets can provide a competitive edge.
* **Technological Advancements:** Continued investment in research and development (R&D) can drive technological advancements in solar inverters and energy storage systems. Innovations could lead to higher efficiency, cost reductions, and improved product offerings, further strengthening Sungrow’s competitive position.

**Threats**

* **Intense Competition:** The renewable energy sector is highly competitive, with numerous companies offering solar and energy storage solutions. Companies like First Solar, Enphase Energy, and Trina Solar pose significant competition to Sungrow, particularly with their strong R&D capabilities and established market presence. This could lead to pricing pressures and market share challenges for Sungrow, especially in a rapidly evolving industry.
* **Regulatory Risks:** Changes in government policies, regulations, or incentives related to renewable energy could pose risks for Sungrow. Increased competition for government subsidies or regulatory challenges could impact the company’s profitability and growth prospects. Additionally, shifting regulatory landscapes in different countries could create barriers to entry or increase operational costs.
* **Raw Material Price Fluctuations:** The prices of materials required for manufacturing solar inverters and energy storage systems, such as silicon and lithium, can be volatile. Rising material costs could impact Sungrow's margins, especially if it is unable to pass on the cost increases to customers. This could also affect the company’s ability to maintain competitive pricing while safeguarding profitability.
* **Economic Slowdown:** A global economic slowdown or recessions in key markets could reduce demand for renewable energy products, impacting Sungrow’s sales and profitability. Additionally, fluctuations in currency exchange rates could affect revenue from international markets. As economic uncertainty increases, consumer spending on renewable energy projects may decrease, affecting the company’s financial performance.
* **Uncertainty in China-US Relations:** Ongoing geopolitical tensions and trade relations between China and the United States could create uncertainties for Sungrow. Any potential disruptions in trade policies, tariffs, or supply chain logistics could hinder the company’s ability to expand in international markets or result in increased operational costs. These tensions may also impact foreign investment, research collaborations, and market access for Sungrow in North America and beyond.

**Conclusion**

Sungrow’s position in the renewable energy market is strong, but it faces several challenges, including competition, policy changes, and market volatility. While the company has significant growth opportunities through technological advancements and international expansion, its reliance on government incentives and the risks associated with fluctuating raw material prices are areas to watch. Understanding these factors is critical for investors and stakeholders in evaluating Sungrow's long-term potential.

## **6. Appendix**

Financial Statements



2024 Annual report (Mandrin)

