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Jinko Solar

## Research Tactical Idea

Stock Rating

Underweight

Industry View

Attractive

Price Target

US\$16.40

We believe the share price will fall in absolute terms over the next 30 days.

1) The company is due to report 1Q17 earnings on June 5, which we believe will miss consensus by more than 50%. 2) We see tremendous pressure ahead in the next 12-18 months for solar manufacturers – we have cut JKS's earnings for FY17e to Rmb45mn, implying a negative net profit outlook in 2H17, and we expect 2018 to be a loss-making year. 3) We see policy uncertainty ahead, further reducing demand and prices, or pushing up costs, such as: 1) the green certificate mechanism in China, starting from July 1, 2017; 2) discussion of a 5-18% Goods and Services Tax (GST) on modules imported from China; and 3) a decision on Section 201 (Minimum Import Price) in the US.

We estimate that there is about an 80%+ (or "highly likely") probability for the scenario.

Estimated probabilities are illustrative and assigned subjectively based on our assessment of the likelihood of the scenario.

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## Jinko Solar ( JKS.N, JKS US )

China Utilities / China

<b>Stock Rating</b>	<b>Underweight</b>
<b>Industry View</b>	<b>Attractive</b>
Price target	US\$16.40
Shr price, close (May 25, 2017)	US\$21.46
52-Week Range	US\$24.01-12.73
Sh out, dil, curr (mn)	34
Mkt cap, curr (mn)	Rmb4,995
EV, curr (mn)	Rmb2,109
Avg daily trading value (mn)	US\$2

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## Valuation Methodology and Risks

### **JKS.N**

We use P/B valuation for module makers amid the industry downcycle, focusing on the company's asset returns and asset value. We do not use other valuation methods, such as P/E, EV/EBITDA, DCF, as the profitability is too volatile to assess the company's value, and negative free cash flow.

We apply a forward P/B multiple of 0.55x (lowered from the previous 0.6x, due to a further de-rating as we see disappointing profitability and more challenges ahead), towards the lower end of Jinko's historical P/B of 0.3x-1.4. We note that the low P/B multiple of <0.4x in 2011-12 was during a period of loss making, which could be a downside risk to our current target price if sentiment gets worse.

Our new price target is US\$16.4, reflecting our revised estimates and valuation multiple, which implies a forward P/E multiple of 87x.

### **Upside risks to our price target:**

1. Technology improvement supports faster-than-expected cost reductions, stimulating demand and better-than-expected profit margin.
2. Supportive policies

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(as of April 30, 2017)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
<b>Overweight/Buy</b>	<b>1167</b>	<b>36%</b>	<b>297</b>	<b>42%</b>	<b>25%</b>	<b>563</b>	<b>37%</b>
<b>Equal-weight/Hold</b>	<b>1403</b>	<b>43%</b>	<b>311</b>	<b>44%</b>	<b>22%</b>	<b>677</b>	<b>45%</b>
<b>Not-Rated/Hold</b>	<b>59</b>	<b>2%</b>	<b>8</b>	<b>1%</b>	<b>14%</b>	<b>8</b>	<b>1%</b>
<b>Underweight/Sell</b>	<b>624</b>	<b>19%</b>	<b>87</b>	<b>12%</b>	<b>14%</b>	<b>270</b>	<b>18%</b>
<b>TOTAL</b>	<b>3,253</b>		<b>703</b>			<b>1518</b>	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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### Stock Price, Price Target and Rating History (See Rating Definitions)

Jinko Solar (JKS.N) - As of 5/25/17 in USD  
Industry : China Utilities



Stock Rating History: 5/1/14 : NA/A; 4/8/15 : 0/A

Price Target History: 4/8/15 : 34; 11/10/15 : 33.4; 1/25/16 : 33.8; 4/18/16 : 35.3; 8/2/16 : 27.2; 4/18/17 : 19.4

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)  
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■  
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Ratings/Industry View  
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)  
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COMPANY (TICKER)	RATING (AS OF)	PRICE* (05/26/2017)
<b>Eva Hou</b>		
China Everbright International Limited (0257.HK)	O (10/25/2016)	HK\$9.92
China XD Electric (601179.SS)	E (11/01/2015)	Rmb5.36
Goldwind (002202.SZ)	E (05/14/2015)	Rmb14.73
Goldwind (2208.HK)	E (02/03/2017)	HK\$11.52
Henan Pinggao Electric (600312.SS)	E (01/28/2016)	Rmb13.78
NARI Technology (600406.SS)	O (11/01/2015)	Rmb16.63
Shanghai Electric (2727.HK)	E (03/29/2016)	HK\$3.39
Titan Wind Energy Suzhou Co Ltd (002531.SZ)	O (02/03/2017)	Rmb6.91
XJ Electric (000400.SZ)	O (11/01/2015)	Rmb16.31
<b>Joseph Lam, CFA</b>		
Beijing Capital Company Limited (600008.SS)	E (07/27/2016)	Rmb7.07
Beijing Enterprises Holdings (0392.HK)	E (02/10/2017)	HK\$36.35
Beijing Enterprises Water Group Limited (0371.HK)	O (07/27/2016)	HK\$6.11
Beijing Origin Water Technology (300070.SZ)	O (07/27/2016)	Rmb18.56
China Gas Holdings (0384.HK)	O (02/15/2016)	HK\$11.90
China Resources Gas Group Ltd (1193.HK)	O (08/15/2013)	HK\$24.70
Chongqing Gas Group Corporation (600917.SS)	U (02/15/2016)	Rmb9.48
ENN Energy Holdings Ltd (2688.HK)	O (04/07/2010)	HK\$41.35
Guangdong Investment (0270.HK)	O (07/27/2016)	HK\$11.30
Kunlun Energy (0135.HK)	E (11/25/2014)	HK\$7.11
Towngas China (1083.HK)	E (02/15/2016)	HK\$4.82
<b>Qin Zhang</b>		
Dongjiang Environment (002672.SZ)	U (11/16/2015)	Rmb16.68
Dongjiang Environment (0895.HK)	E (11/16/2015)	HK\$12.08
Tus-Sound Environmental Resources (000826.SZ)	E (01/12/2016)	Rmb33.51
Xingrong Environment (000598.SZ)	U (08/28/2015)	Rmb5.50
<b>Sheng Zhong</b>		
Canadian Solar (CSIQ.O)	U (08/02/2016)	US\$13.72
Daqo New Energy (DQ.N)	O (01/25/2016)	US\$22.75
GCL-Poly Energy (3800.HK)	U (08/03/2016)	HK\$0.86
Jinko Solar (JKS.N)	O (04/08/2015)	US\$21.46
TBEA (600089.SS)	U (11/10/2015)	Rmb9.67
Xian LONGi Silicon (601012.SS)	O (08/03/2016)	Rmb14.83
<b>Simon H.Y. Lee, CFA</b>		
CGN New Energy Holdings (1811.HK)	E (03/03/2016)	HK\$1.15
CGN Power Co., Ltd (1816.HK)	U (06/09/2016)	HK\$2.30
China Hengshi Foundation (1197.HK)	O (02/03/2017)	HK\$2.86
China High Speed Transmission (0658.HK)	E (01/05/2017)	HK\$8.07
China Longyuan Power Group (0916.HK)	E (02/14/2014)	HK\$5.91
China Resources Power (0836.HK)	E (07/24/2016)	HK\$15.38
China Suntain Green Energy Co., Ltd. (0956.HK)	O (08/18/2016)	HK\$1.52
China Yangtze Power Co. (600900.SS)	O (06/08/2016)	Rmb14.64
Datang Int'l Power (601991.SS)	U (01/16/2015)	Rmb5.04
Datang Int'l Power (0991.HK)	E (01/11/2016)	HK\$2.79
GD Power Development (600795.SS)	E (07/15/2016)	Rmb3.51
Huadian Power Int'l (1071.HK)	E (07/24/2016)	HK\$3.66
Huadian Power Int'l (600027.SS)	U (07/24/2016)	Rmb4.84
Huaneng Power (600011.SS)	U (07/24/2016)	Rmb7.95
Huaneng Power (0902.HK)	E (07/24/2016)	HK\$5.84
Huaneng Renewables (0958.HK)	E (03/15/2013)	HK\$2.61
SDIC Power Holdings (600886.SS)	E (02/05/2016)	Rmb7.70

Stock Ratings are subject to change. Please see latest research for each company.  
 \* Historical prices are not split adjusted.

