ReneSola's (SOL) CEO Xianshou Li on Q1 2018 Results - Earnings Call Transcript

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ReneSola Ltd (NYSE:SOL) Q1 2018 Results Earnings Conference Call June 20, 2018 8:30 AM ET

Executives

Ralph Fong - Director, Blueshirt Group Asia, IR

Xianshou Li - Chief Executive Officer

Xiaoliang Liang - Chief Financial Officer

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Analysts

Justin Clare - ROTH Capital Partners

Paul Strigler - Esplanade

Operator

Hello, ladies and gentlemen, and thank you for standing by for ReneSola's First Quarter 2018 Earnings Conference Call. [Operator Instructions] Please note that we're recording today's conference call.

I will now turn over the call to Mr. Ralph Fong, Director of the Blueshirt Group Asia. Please go ahead, Mr. Fong.

Ralph Fong

Thank you, Karina, and hello, everyone. Thank you for joining us on ReneSola's conference call to discuss first quarter results. We released first quarter 2018 results earlier today and they are available on the company's website, as well as from newswire services. You can also follow along with today's call by downloading a short presentation available on the company's website at renesolapower.com.

On the call with me today are Mr. Xianshou Li, Chief Executive Officer; Mr. Xiaoliang Liang, Chief Financial Officer; Mr. Doran Hole, Group Vice President of Strategy; Mrs. Jessie Jang [ph], Director of Financial Reporting; and Mr. Johnny Pan, Director of Investor Relations. Johnny will read Mr. Li's prepared remarks regarding ReneSola's operating highlights, and Mr. Liang will then review our first quarter 2018 financial results.

Before we continue, please note that today's discussion will contain forward-looking statements made under the Safe Harbor provisions of U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, the Company's results may be materially different from the views expressed today.

Further information regarding these and other risks and uncertainties is included in the company's Annual Report on Form 20-F and other documents filed with the U.S. Securities and Exchange Commission. ReneSola does not assume any obligation to update any forward-looking information. Please note that unless otherwise stated, all figures mentioned during the conference call are in U.S. dollars.

With that, let me now turn the call over to Johnny, who will translate Mr. Li's prepared remarks. Johnny?

Johnny Pan

Thank you, Ralph. So following are Mr. Li's prepared remarks.

Xianshou Li

Thank you, everyone for joining our call this morning. We appreciate you interest in ReneSola.

To get started, I will provide a summary of our Q1 financial performance and the review of our operating highlights, then I will make some brief comments on the recent policy changes in China solar market. I will then turn the call to Xiaoliang Liang our new CFO, who will cover the financial results for the first quarter and provide guidance for 2018. We will then open the call to Q&A.

First, I am very pleased to present our solid Q1 financial results. We raised our revenue guidance a couple of weeks ago to a range of US$40 million to US$45 million up from our original guidance range of $US30 million to US$35 million. Q1 revenue came in at US$44.8 million. Operating income grew 20% sequentially and the net income increased over 200% on Q4 2017. Overall we are very pleased with our Q1 results.

Now let me turn your attention to our Q1 operating results. Our solar power project pipeline remains strong at around 1.1 gigawatts of which 748 megawatts are late stage projects. We continue to execute our downstream strategy to pursue opportunities in small scale solar projects in diversified regions.

In Q1, we installed 6.3 megawatts of rooftop projects in China and a 6.8 megawatts of ground-mount projects in North Carolina and recognized a revenue from the sales of utility projects of 18.5 megawatts in the U.K.

Following Q1 we announced today the closing of sale of utility-scale project located in North Carolina to New York-based Greenbacker Renewable Energy Company. Greenbacker is a publicly registered, non-traded Limited Liability Company that owns and operates at diversified portfolio of renewable energy power plant, energy efficiency projects and other sustainable investments.

The North Carolina project has a capacity of 6.8 megawatts and represents ReneSola's second project sale to Greenbacker. We completed the first project sale to Greenbacker in April 2017.

ReneSola country owns and operates 230 megawatts of solar assets. Our assets are globally diversified providing us with attractive risk profile. Over the 230 megawatts of assets, we operate 193.6 megawatts of rooftop projects in China, 15.4 megawatts in Romania, and 4.3 megawatts of rooftop projects in the U.K. We now have approximately 28 megawatts over China rooftop projects under construction. We anticipate adding 100 to 150 megawatts of rooftop projects in China this year.

We have a robust pipeline of future projects across different geographic regions in various stage of development. Our late stage pipeline features 748 megawatts in the U.S., Canada, Poland, France, Hungary, Spain, Turkey, India and the China. 156 megawatts of projects are under construction.

Our early total pipeline features power projects around the world bringing total capacity to approximately 1.1 gigawatts. In addition, we are actively pursuing opportunities in new markets including South Korea and India.

Now let me turn your attention to our downstream efforts in several key geographic regions. First, China, the rooftop markets in China has been a solid and lucrative opportunities for us. Rooftop solar provides steady cash flow, and attractive IRRs. We now have approximately 184 megawatts of rooftop projects under operation concentrated in a handful of eastern provinces with attractive development environment, including Zhejiang, Shanghai and Jiangsu province. Those are the most developed regions in China.

The commercial and industry electricity price in those provinces are very high and the electricity off takers are initially creditable enterprisers, making self-consumption DG projects in those provinces attractive real assets investments.

In the first quarter of 2018, we installed 6.3 megawatts of rooftop projects in China. After the recent policy change in China solar markets, we still believe un-subsidized in net-metering and self consumption projects especially those commercial and industrial rooftop with a high PPA price will be continuously attractive. As I mentioned earlier, we anticipate adding 100 to 150 megawatts of solar rooftop projects in China in 2018.

On the financial front, we have developed a solid relationship with a number of financing institutions to fund the projects. In May 2018 we closed an equity investment agreement with a strategic investor. The investor invested RMB 200 million in cash to acquire a 40.13% of ReneSola's China DG Holdco, the company's subsidiary that holds the DG projects in China.

Beyond this partnership, we are also actively engaging other potential strategy to investors to fund our IPP business in the attractive China DG market. We would like to jointly own our attractive China DG assets with strategic investors, so that we can leverage our development expertise and continuously contribute as project developer and operation and maintenance service provider.

So U.S. remains a large and important market for us. We'll have approximately 189 megawatts of late-stage project, of which approximately 45 megawatts is community solar in multiple states, including Minnesota, Maryland, and Europe. On top of that, we are pursuing small utility scale project in Utah, Oregon, Washington, Texas, and in California.

As we mentioned in today’s press release, we recently sold our 6.75 megawatts North Carolina project to Greenbacker and expect to recognize revenue in Q2. In addition, earlier this week we entered into a sale agreement with Nautilus to sell our 13.5 megawatts community solar project in Minnesota. Our first project sale of 13.3 megawatts community solar projects with Nautilus was in August 2017.

In Canada we have 17.3 megawatts of late-stage projects. 7 megawatts of which are under construction and shall connect with a grid by the end of 2018. This 7 megawatts of projects are eligible for the FIT3 scheme in the country.

Next let’s talk about Poland. As we discussed in previous earnings call, last year the government auction awarded us 55 megawatts of projects, each with will size to one [ph] megawatt. These projects are under construction and shall be connected to the grid later this year. On the financing front, we have secured a project financing front Sequoia Economic Infrastructure Income Fund was a 55 megawatts of projects totally €36 million.

In Turkey, we currently hold 50% of proceeds generated from our pipeline or project totaling approximately 110 megawatts. As of Q1 2018, the company had 10 megawatts of completed projects which are currently in the sale process. We intend to sell the remaining interest in Turkish pipeline and exit Turkish market.

In France, in Q1 we formed a strategic partnership with Green City Energy in order to jointly develop four solar parks in the South of France with a total installed capacity of 69 megawatts which will generate approximately 105 million kilowatt hour of solar power per year. In addition, we were awarded 16 projects with a combined capacity of 4.65 megawatts in Q1 bringing the total project pipeline to 73.7 megawatts in France.

In Hungary, we continuously invest in small scale DG projects. We secured a project pipeline of 42.6 megawatts, which are currently under construction. The project portfolio in Hungary comprises a number of micro projects each with size of 0.5 megawatts. This fits well with our overall downstream strategy to pursuing opportunities in small scale project. In addition, we are working closely with investors and with local banks to secure project financing for those projects.

In recent months we successfully entered the India solar market and secured a project pipeline of 22 megawatts which are self consumption projects with long-term PPA in place backed up by a top rating commercial and industrial off-takers. We are very excited about the large market potential in India commercial and industrial DG markets. We are confident that we are able to replicate our success in China DG markets in India.

Beyond those geographies I just mentioned, we're actively pursuing opportunities in other international markets including Spain and South Korea. For instance in Spain, we have a pipeline of 162 megawatts. As you can see we have geographically diversified project portfolio and I am very excited about the opportunities we are pursuing.

Before we move to next section, I would like to take a moment to comment on how the recent policy change in China solar market affect our business outlook. We believe the most severe impact will be to solar manufacturing business and we believe our business in China is somewhat insulated from the most inactive impact because our project portfolio is mostly net-metering or self-consumption.

We expect our existing project to continue to receive subsidies to which they are entitled. We expect our future projects to benefit from a likely significant decline in prices for equipment and construction in second half of 2018.

Lower equipment cost and a stable electrical rates will enable us to find a un-subsidized net-metering and a self-consumption projects at grid parity with reasonable rates of return.

On the other hand, China DG is only one driver of our growth. Our China business complements our extensive pipeline of high quality projects around this world. We currently have a global late-stage projects pipeline of 748 megawatts, only 10% of which is China DG. More importantly, our pipeline in Europe represents almost 60% and our U.S. pipeline represents more than 25%. We anticipate significant declines in module prices that will benefit our overseas projects by increasing returns and thus project values.

From a market opportunity standpoint, we observed a tremendous growth in global solar project development mainly derived from due to the generation community solar and other small scale solar projects.

In 2017, new installed PV capacity in Europe grew by more than 20% on year-over-year basis. Two-thirds of the growth was contributed by small scale private and commercial PV systems. There are several reasons why distributed generation are experiencing higher growth and large scale utility projects.

First, small-scale DG projects are supported by the government in multiple jurisdictions, including China, Poland, Turkey, Canada, Hungary, and so on. Second, compared to last scale utility projects, small-scale DG projects are usually secured with higher PPA price and thus bringing higher returns.

Third, small-scale projects especially rooftop projects show more flexibility compared to ground-mount projects as the electricity generated for those projects can be sold to end users directly in load centers with less transmission loss. ReneSola adds a experience to global project developer can leverage its development expertise in this niche market.

Before I turn the call over to Xiaoliang, I would like to reiterate our business model and strategy. In China, we implement an IPP model for DG projects, to jointly own DG operating assets with strategic investors and to leverage our development expertise. We will focus on developing and subsidized net-metering and a self-consumption project with high quality rooftop and top rating commercial and industrial electricity users in well developed eastern provinces.

Importantly, China DG is only one driver of our growth. Our China business compliments our extensive pipeline and high quality project around the world. Overseas, we implement an asset-light project development model. We either sell project rights at shovel-ready stage of build and transfer project after grid connection.

We have achieved a very high gross margin in the project right sales. We expect our overseas business to benefit significantly from decline in module prices resulting from those policy change in China.

ReneSola has steadily built business momentum since the divestiture of manufacturing business, and we are confident growth can continue. In summary, downstream project represent a lot opportunities globally. And I am excited about opportunities ahead of us. We believe that our talented team, diversified geographic coverage and a record of accomplishments will continue to position us for profitable growth.

With that, now turn the call to Xiaoliang for comments on our financial performance. Xiaoliang?

Xiaoliang Liang

Thank you, Mr. Li, and Johnny, and thank you, everyone for joining us on the call today. This will be my first exposure to many of you. I look forward to meeting and speaking with all of you in the near future and I would encourage you to reach out as appropriate.

I am very excited about the return in ReneSola. I'm very familiar with the company, its leadership and the opportunities and the challenges before us.

As of January 1, 2018, we adopted the new revenue recognition policy, ASC 606 revenue from contracts with customers, using the modified retrospective method in accordance with U.S. GAAP ASC 606. As a result of adopting ASC 606, the company recognized that the cumulative effect of initially applying the revenue standard as an increase of approximately US$0.87 million to the opening balances of retained earnings.

The adjustments primarily arose from the timing of revenue recognition for first, subscription service fee in the sale of project asset rights. And the second, supplies of modules and invertors under cooperation arrangements with the counterparty.

Under ASC 360, Real Estate Sales and ASC 605, Revenue Recognition, subscription service fee in the sale of project assets rights and the revenue related to modules and invertors supplied under cooperation arrangements are considered contingent and, therefore the portion of the revenue is not recognized until the contingency has been removed that is upon having the right to receive the subscription fee and the achievement of COD, or upon the ultimate sale of the project assets under the cooperation arrangement.

Upon adoption of ASC 606, subscription fee is recognized over time as a separate performance obligation, and the revenue of supplies of modules and the invertors is recognized upon the delivery with the control transferred and the company has right to payment.

In addition, the company had a sale of project assets with a right of return if certain conditions are not met. Under the ASC 360 Real Estate Sales, revenue was not recognized because of the contingency consideration. Upon adoption of ASC 606, revenue was not recognized because of the substantive return right and the Company was not able to assert return was not probable as of December 31, 2017.

As such, deferred project revenue as of December 31, 2017 in the amount of $US21 million would have been classified as a refund liability and the corresponding deferred project costs would have been classified as the company's right to recover products from customers on settling the refund liability. Such refund liability was recognized as revenue totaling US$22 million with an increase due to final price adjustment in the first quarter of 2018.

With that, I will now review our financial performance for the first quarter of 2018 and discuss our outlook. Let’s first into our income statement. For the first quarter revenue was US$44.8 million compared to US64.8 million last quarter and US$0.2 million in the same period last year. Q1 revenue also compares to the updated guidance range of US$40 million to US$45 million.

Now let me breakdown our Q1 revenue by segment. Revenue from the project development business during the quarter was US$31.8 million as we recognized the revenue from sales of utility projects of 18.5 megawatts in the U.K. Revenue from the EPC business was US$8.7 million. We recognized the revenue from the provision of EPC services of 15.8 megawatts in China.

Revenue from the sale of electricity was US$4.2 million, gross profit was US$8.4 million compared to a gross profit of US6.8 million in Q4 2017 and the loss of US$0.2 million in Q1 2017. Gross margin was 18.7%, compared to 10.5% last quarter, primarily due to improved margin from the overseas project development business and EPC business in China. First quarter EBITDA was US$9 million up 94% from Q4.

Now, let's turn our attention to our operating income. For the first quarter 2018, operating income was US$5.9 million, compared to operating income of US$4.9 million in Q4 2017, and operating loss of US$1.5 million in Q1 2017. Operating margin was 13.1%, up from 7.6% from Q4 2017.

First quarter operating expenses was US$2.5 million, up from US$1.9 million last quarter and from US$1.3 million in the same period last year. Sales and the marketing expenses in Q1 was US$0.1 million, down from US$0.6 million in Q4 2017.

General and administrative expenses was US$2.4 million, up from US$1.7 million in Q4 2017, mainly due to the increased salary expenses associated with additional new hires. Below the operating line, first quarter non-operating expenses totaled US$0.4 million. This includes interest expenses of US$1.5 million and foreign exchange profit of US$1.1 million.

The ForEx gain was mainly driven by the appreciation of Euro against the U.S. dollar and the South Korean, Won. Income before tax and non-controlling interests for the first quarter was US$5.4 million, compared to an income of US$2 million last quarter and a loss of US$3.2 million in the same quarter last year.

Net income was US$5.4 million compared to a income of US$1.7 million in Q4 2017, and a loss of US$3.2 million in Q1, 2017.

Now the balance sheet. We had cash and cash equivalents of US$10.9 million as of March 31, 2018, compared to US$13.4 million as of December 31, 2017. Long-term borrowings were US$32.7 million as of March 31, 2018, compared to US$32.5 million as of December 31, 2017.

Long-term sale-lease back and capital lease liabilities associated with the financial leasing payables for rooftop project in China was $78.2 million as of March 31, 2018, compared to $67.5 million as of December 31, 2017. The increase was mainly due to the corresponding growth of the Company's DG operating assets.

Finally, let's conclude with guidance. For the second quarter of 2018, we expect our project business to generate revenue in the range of US$20 million to US$30 million, and overall gross margin in the range of 20% to 25%.

We also expect to connect 15 megawatts to 20 megawatts of DG projects in China, and to monetize 6.8 megawatts project in international markets. For 2018, we expect to generate revenue in the range of US$130 million to US$140 million with overall gross margin in the range of 20% to 25%.

We intend to connect 100 megawatts to 550 megawatts of DG projects in China, and to monetize 80 to 100 megawatts project in international markets.

With that, we would now like to open up the call for any questions that you may have for us.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Justin Clare from ROTH Capital Partners. Please ask your question.

Justin Clare

So, first off, I wanted to start off with the recent policy changes in China. So, looks like only 10 gigawatts of DG projects will be able to access the national subsidy in 2018, and it looks like the 10 gigawatt limit has already been reached.

I was just wondering how the policy changes have affected your pipeline because it looks like some projects may have own out, so if you could just give us a little bit more color on that?

Xianshou Li

Mr. Li, just said, the new provision in China has really severe impact to the whole industry. But reality is that the projects with new permits after May 31, will not receive subsidies but if the project gets permits before May 31, they still have subsidies.

So the benefit is that the DG industry will have grid parity faster. So it's good news for commercial and industrial rooftop projects. Some module price were declined in the second half of 2018, and so commercial industry rooftop projects will reach grid parity sooner.

Justin Clare

So then considering that, of the 100 to 150 megawatts you plan to connect in China in 2018, can you share how many of those projects you expect to receive the subsidies for and how many of those won't be subsidized at least at a national level?

Xianshou Li

Mr. Li, says that on May 31, we’re already connected, DG projects around 20 to 30 megawatts. And we also have 30 megawatts under construction. Those FIT are around 50 to 60 megawatts will have the national subsidies. So, for the remaining, we probably need to do a subsidized net metering and a self-consumption project at grid parity.

Justin Clare

And then if we could turn to the impact the policy has had on costs, can you just talk through - how much you seen module prices changed and then other equipment costs, what is the impact then on your overall cost structure that you have seen so far and then how much lower do you think cost could get in the second half of the year?

Xianshou Li

Different costs at May 31, was under RMB5.5 per watt. So, now, solar system price is RMB4.5 and by the end of the year we’re expecting RMB4 per watts.

Justin Clare

That's a pretty significant decline. So, considering the decline in the cost structure that you’re expecting, can you update us on what you're expected project IRRs will be as we move through the year?

Xianshou Li

Mr. Li, says, if the system costs at RMB5.5 per watts, and the project away subsidies to IRR shall be identical with the situations that if the system cost it at around RMB4 to RMB4.5 per watts without subsidy.

Justin Clare

So, next year - I wanted to shift to your guidance, so I was wondering if you could share the expected revenue mix between electricity sales, project sales and then the EP business for both Q2 and 2018.

Xiaoliang Liang

For Q2, project development would take around 40% of the full revenue and IPP business will take around 30%. EPC business will take another 30%.

And for 2018, project development will take around 65%. IPP business will be around 20%, and EPC business will be around 15%.

Justin Clare

And then just one final question I had here. Given the changes in policy in China, has there been any change in the financing environment? Are you still able to access debt financing before your projects and have the borrowing costs changed at all?

Xianshou Li

Mr. Li, said, earlier this month, June, financial institutions, like financial leasing companies, see evaluating projects, and they are being conservative earlier this month. But since last week, they start to recover and Mr. Li, thinks they will recover more in first quarter.

Operator

Your next question comes from the line of Bing Wang [ph]. Please ask the question.

Unidentified Analyst

And my first question is what is the company’s strategy in U.S. market? And how do you differentiate yourself with other project developers in U.S.?

Xianshou Li

So, Mr. Li, said, for U.S. the cost is recently a lot of changing policies, such as 201 and 301, so he’s a little bit conservative about U.S. So, in the U.S. we intend to sell the project rights and create a connected project.

And, Doran would like to provide any other comment. Doran is our CEO of North America. He’s online.

Doran Hole

So, thank you, Johnny, and thanks for having me on the call. Just a couple of quick comments about the U.S. market and the way that we approach it versus other developers who are active in U.S. market. Our approach in the U.S., we are quite a bit more calculated in terms of project acquisitions or greenfield opportunities.

When assessing whether to bring projects on the pipeline or push the projects in a particular market, we are, as our **slides** show, very active in pursuing community markets in Minnesota. We have greenfield opportunities that we're working on in New York, and we are keeping our eyes very closely on other markets where community solar is popular and is emerging like Illinois.

These are strategic decisions of ours based on the level of project revenue and our own pedigree in terms of experience in developing small-scale projects at a low cost.

The second point I would make actually does relate to cost. We are, I think also differentiating ourselves by virtue of how we approach cost controls as it relates to spending money on vendors, on service providers, on even our own advisors, where we do try to introduce some cost tension into the equation to keep our cost low.

So, I think between those two elements, that's really where the strength of our business in the U.S. comes from.

Unidentified Analyst

So, can I ask my second question?

Xianshou Li

Yes, go ahead.

Unidentified Analyst

Could you briefly introduce a little bit off the U.S. team setup?

Doran Hole

Johnny, I'll take that. We have a staff and we are currently adding a few additional folks in the U.S. to fill up the team. On the finance and M&A side, we have a team of three people who manage the sales and financing of our assets.

On the development side, we have a group of developers peppered around the country, who work in their respective jurisdictions, those are in California, Florida, the Northeast, Minnesota, Texas, and then in supporting that we have a team of engineering staff, as well as project management staff to actually do the nuts and bolts of project development to bring projects through to NTP.

The total staffing count is probably going to be close to in the high 20s by the time we finish filling the last few slots. That's the broad overview of the staffing that we have here in the U.S.

Unidentified Analyst

My third question is, how do you anticipate the potential growth for community solar in U.S? And do you see it will continue to grow or will it be affected by the 201 that would increase the price for modules and other solar equipment?

Doran Hole

So, my expectation is that the community solar market overall in the United States will continue to grow. There are conversations taking place at local political levels in multiple jurisdictions, and when you read the news you'll hear about local politicians talking about introducing community solar in places like North Carolina and Oregon and Michigan and Texas, even.

Even though those programs haven't taken off in a large-scale like they have been, for example, Minnesota or New York, the expectation is that those formats will continue to emerge in other jurisdictions.

And this is generally driven by local policy and local politics. And as that is the case, the incentives provided by those local jurisdictions will largely influence the overall economics, and frankly I believe they all influence the overall economics far more than the 201 petition results that have impacted economics.

As Johnny and Mr. Li, explained, with the change in the strategy for the Chinese incentive programs creating some over capacity, and there's been quite a bit of publicity about this, the expectation is that module prices will again fall and that will create an additional benefit on the development side for developers like ReneSola, who are developing projects from the very early stage of acquiring site control accrued to when a project is shovel ready, and we monetize or sell the projects at that point in time.

So, the two issues that you mentioned are somewhat disconnected. One relates to overall cost for projects that apply more or less across our entire development portfolio. The other relating to the growth of community solar which I do expect it to grow in one way or another in multiple markets in the U.S. over the next several years.

Johnny Pan

I'd just like to comment one point. The significant decline for module price will also offset 201 impact as Doran just mentioned.

Operator

[Operator Instructions] Your next question comes from the line of [inaudible]. Please ask your question.

Unidentified Analyst

Thank you for the presentation. I just have two questions. And the first one is, what are business model in Europe and is it similar to the one in U.S.? Thanks.

Johnny Pan

It's very similar but still some difference because in Europe we are more straightforward because we don't need tax equity like we do need in U.S. So project strategy will be much easier, give us more flexibility.

So project financing terms in most European jurisdictions are also very attractive comparing to those of emerging market. We are able to finance higher percentage of CapEx through project financing. So we just need a very few amount to equity commitment on grid connectivity projects which allows us to partially grid connected projects instead of selling whole projects at 100%.

We are now talking with several potential investors to jointly own great connected projects that would have sold to investors in 2018 we have approximately 100 megawatts in Europe to be connected to the grid. Mainly our projects in Poland and Hungary by monetize source projects 100% are partially, we cannot only recycle our capital and invest into more projects but also retain some interest in grid connected projects with our strategic investors.

And also driven new provisions in China solar market, as I just mentioned earlier we have really significant impacts on the module price. That substantial improved our project return for example US$0.05 decline in module price would increase our project gross margin in Europe by 4% to 5%. Most so our Hungarian project and Polish project would directly enjoy such benefits.

Unidentified Analyst

So do we have any range of the gross margin for the project in Europe?

Xianshou Li

We're targeting more than 20% for gross margin for our European projects. This includes our development margin and EPC margin. And importantly we are project developer. Our development expertise and experience allow us to invest in earlier project development stages where maybe risky for other investors who are more comfortable in buying grid connected projects such as alternative assets measurement firms, pension firms but we can systematically might get this away - how we operate our business.

Operator

Your next question comes from the line of Paul Strigler from Esplanade. Please ask your question.

Paul Strigler

Can you just share with us sort of broad brush sort of what your balance sheet would like if you hit your 2018 guidance? I noticed that your sale leaseback liabilities increased quarter-over-quarter, I think because your China DG assets deployments but also your short-term debt increased quite a bit just trying to figure out what your capital structure looks like if you do deploy the call 125 megawatts China DG and you all didn’t sell the 90 megawatts of IPP assets?

Johnny Pan

Do you want leverage ratio something like this.

Paul Strigler

No, just sort of how much I guess - looks like your cash is generally stable if you add restricted and unrestricted and above call it 13ish million. So I guess if you just look at the debt side including the sale leaseback liabilities what is that look like around year end?

Xianshou Li

Mr. Li just said in Q1 our leverage ratio is around slightly over 17% but in Q2 because we have a strategic investor who invested in our channel DG Holdco. So that bring our leverage ratio down to around 68% in Q2 and…

And Mr. Li also comments that in most of the major market like U.S. and Europe developed - project financing is very easy to access. And we also secured development loans and also construction loans and we can also - to get financial from equity side like what we do in our channel DG markets. We can some interest over our projects to investors and we don’t actually need financing from the listed entity level at the moment.

Paul Strigler

And then just one last question on , its look like you guys plan to deploy about 70 or so megawatts of un-subsidized grid parity China DG largely in the second half. Are those contracted or are you seeing increased competition in the China DG space now that the subsidiaries have been capped. Are you seeing other sort of DG developers coming in with aggressive bids to win new business aggressive discounts to sort of retail electricity - C&I electricity pricing or are those 70 or so megawatts already contracted and you've already agreed on the sort of the PPA pricing et cetera?

Xianshou Li

And Mr. Li just commented that it seems that no subsidiary in the second half of 2018 so it's really very large market with huge potential. So the electricity price - commercial and industrial electricity price is relatively stable in the markets. And since we don't needed subsidy we have more choices for the off-takers.

Paul Strigler

Are they actually - isn't China scheduled or haven't they lowered the commercial and industrial electricity price this year. Wasn't that part of the sort of stimulus of the economy its actually decreasing? So the price that your potential customers on DG side would pay hasn't electricity price actually decreased a tiny bit this year if they were to buy from the grid?

Xianshou Li

Yes this year commercial and industrial electricity price reduced a slightly bit around $0.02 or $0.03 and been provide - per kilowatt hour, very minimal.

Operator

[Operator Instructions] There are no further questions at this time. Please continue.

Xianshou Li

Thank you, Karina. Let me make some closing remarks on behalf of Mr. Li. So fundamentals of our projects business have significantly improved over the last few quarters and we will maintain our commitments to grow in profitability managing our operations and strengthening our financial positions.

We are very excited about the opportunity ahead of us and I look forward to providing you with our business updates in a few months. Thank you all again for your participation. This concludes our call today. You may all disconnect.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.