

Introduction

- ✓ Sustainable investing in China requires integrating climate strategy with financial performance.
- ✓ ESG credibility and decarbonization impact vary across firms and markets.
- ✓ This project evaluates Sungrow and Yum China for their climate alignment, financial strength and business growth to assess long-term investment potential.

Research Objectives

- ✓ Assess ESG strategy credibility and climate alignment
- ✓ Analyze financials, valuation, growth model and risk-return profiles
- ✓ Evaluate ESG-financial integration across sectors and markets
- ✓ Identify key risks and revaluation catalysts
- ✓ Deliver clear investment views and recommendations for each stock

Yum China Holdings, Inc.

Company Positioning

- Market leader in China's Western QSR market.
- Customize localization strategy
- Boasts 525m+ members.
- Multi-brand portfolio.

Growth Model

- Stable revenue growth.
- Restaurant margin rose to 15.7% in 2024.
- Increased 56% new stores in past 4 years, target at 20,000 units by 2026.
- Capital Efficiency: Reduced average capital expenditure per store.
- Scalability: Moderate capital outlay, manageable breakeven volumes, and rising digital penetration enhance scalability.

ESG Analysis

- **Top Global Ratings** : AA MSCI ESG Ratings, 5yrs S&P Industry No.1, Sustainalytics Low Risk.
- **People Empowerment**: 6800+ employees trained in digital tools.
- **Environment**: 370% increase in renewable energy usage in 2024.
- **Food Innovation & Safety**: Developed salt-and sugar-reduced menus; improved safety protocols by applying AI.

Business Model

- **Aggressive Expansion** : Increase franchise stores to 40-50% (asset-light structure) and prioritize lower-tier city.
- **Menu Innovation**: 95% local sourcing, 50-70 new menu/yr, and competitive pricing.
- **Digital Transformation**: Partnering with delivery platforms and 525m+ loyalty members boosted 39% company sales from digital channels.
- **High Supply Chain Efficiency**: 125m/yr for quality control and infrastructure..

Cost Structure

- Restaurant operation costs take up 60% of revenue; CapEx was 700m+ in 2024.
- 2024 Financials: Record revenues (11.3B), operating profit (1.2B, 10.3% margin), and stable 15.7% restaurant margin.

Quantitative Analysis

Strategic Impact 🧠 :

- Value Pizza Strategy: +50% YoY sales in RMB <50 pizzas → +2-3% SSS → +USD 339M revenue / +USD 53M profit
- WOW Concept Stores: 200+ new stores in lower-tier cities → +USD 73M projected revenue

Shareholder's Return:

- Cap Returns: 1.5b in 2024; 3b planned for 2025-26.
- Shareholder Yield: ~9%.
- Div: 0.13/share cash div for Q4 2024.
- Valuation: Trading below its 5-year average and peers, suggesting potential for re-rating.

Conclusion

- ✓ #1 Western QSR in China: KFC commands 16.4% market share.
- ✓ Financial Edge: Delivers superior cash generation and shareholder return, underscoring strong financial discipline and capital efficiency.
- ✓ ESG Leadership: Top 1% in restaurants globally (3rd consecutive year); per-restaurant CO₂ ↓8% (2024); 14,700 managers awarded RSUs.
- ✓ Risk Mitigation: Franchise mix optimisation and pricing strategy in inflationary context.
- ✓ Digital Dominance: 525M+ loyalty members drive 65% system sales; 39% digital sales penetration.

Investment Recommendations

✓ Strengths:

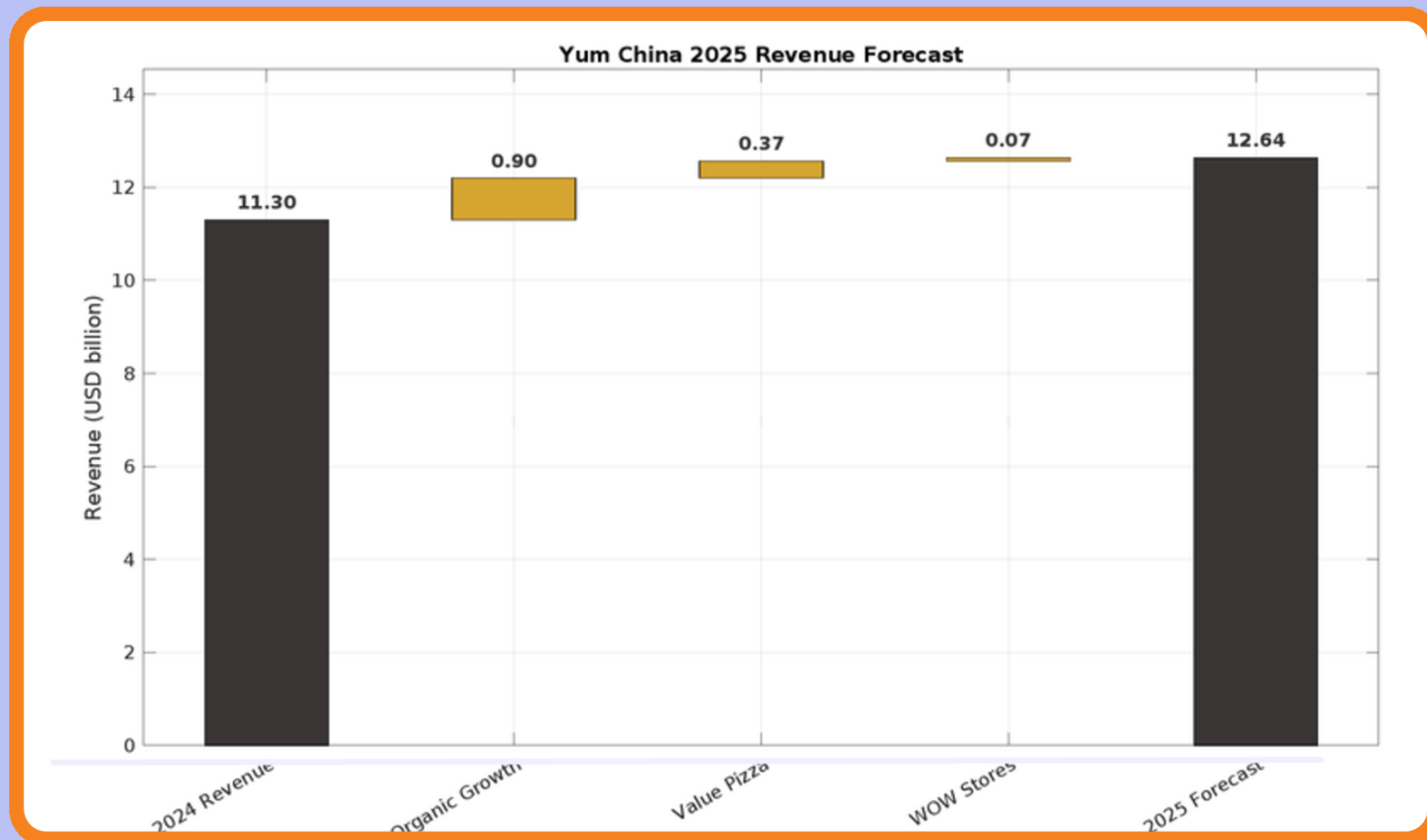
Market leadership, ESG-embedded strategy, proven digital scalability, considerable shareholder yield.

⚠ Watch Risks:

Cost inflation, labor costs: 28.2% of sales, policy shifts, China consumption slowdown, potential cannibalisation.

Final Call: Hold (with upward bias)

Supported by scalable execution and defensible margins; monitor 2025 rollout impact.



Sungrow Power Supply Co., Ltd.

Company Positioning

- World's #1 solar inverter supplier since 2015
- Expanded into ESS with 16% global share
- Global footprint across 170+ countries

Industry Tailwinds

- Strong global policy support for renewables
- ESS demand accelerating at 30% CAGR
- Vertically integrated players gain cost advantages.

ESG Analysis

- **AA MSCI ESG Rating** (Top 9% globally); early adoption of EU CSRD/ESRS reporting.
- **Carbon Avoidance Impact**: 515 GW of inverters and >10 GWh of ESS help clients avoid 300M tons CO₂ annually.
- **Operational Efficiency**: ESG-driven initiatives cut water use per unit by 36% and slash waste disposal costs.
- **ESG Alpha**: Green products command 5-7% premiums in Europe; ESG-linked loans reduce financing costs by up to 1.2%.

Attractive Multiples Support Investment Case

Key valuation metrics from MarketScreener as of FY2024

Theme	Supporting Metrics	What It Shows
Growth	PEG (0.8x), Forward P/E (13.9x)	Strong earnings growth not fully priced in
Margin Expansion	EV/EBITDA (9.99x), EV/Revenue (1.84x)	Improved profitability at reasonable valuation
Capital Efficiency	P/B (4.15x), FCF Yield (6.49%)	High returns on capital and strong cash generation

Peer Comparison Highlights Undervaluation

Metric	Sungrow	LONGi	Industry Median	Insight
P/E Ratio	13.9x	~13.8x	~16.0x	Undervalued vs. sector & loss-making peer
EV/EBITDA	9.99x	~27.6x	~11.1x	Slight discount to industry norm
EV/Revenue	1.84x	1.07x	~5.7x	Deep discount indicates upside potential
PEG Ratio	0.8x	0x	~1.2x	Signals strong growth at fair price
FCF Yield	6.49%	~14.2%	~2-4%	Attractive for long-term investors

Catalysts for Revaluation

- **Innovation & Product Leadership**: PowerTitan 3.0 and 35kV Hybrid Inverters.
- **Policy & Market Tailwinds**: Net-Zero Enforcement Globally; Geographical Diversification Revenues from Europe, India, and the Middle East.
- **Financial Leverage through ESG**: Green Financing.
- **Potential Re-Rating Triggers**: Q3-Q4 2025 Earnings; . If Sungrow can stabilize ESS margins and demonstrate free cash flow improvement, it could lead to upward revisions.

Domestic Market Risks

Market Saturation & Malicious Pricing

Solar inverter and ESS segments are approaching maturity. Intense price undercutting and oversupply have distorted market pricing, potentially triggering unsustainable margin competition.

Policy & Raw Material Volatility

Shifting subsidies and uneven regulatory enforcement create unpredictable revenue streams for domestic projects. Lithium and cobalt remain volatile, affecting battery costs.

Overseas Market Risks

Trade Barriers & Localization Pressure

SAnti-dumping probes and oversupply have distorted market pricing, potentially triggering unsustainable margin competition.

Regulatory & Execution Risk

Managing projects across regions like Texas, Saudi Arabia, and Chile involves political, legal, and logistical hurdles.

Conclusion

- ✓ Global Leader in Clean Tech:#1 in global inverter shipments since 2015; expanding presence in Energy Storage Systems (ESS).
- ✓ Strategic Diversification: ESS now contributes 42% of revenue, shielding margins from solar overcapacity.
- ✓ International Exposure: >50% of revenue from 170+ countries; reducing China dependency.
- ✓ Technology Edge: PowerTitan 3.0 ESS and DNV-certified inverters enable premium pricing, better margins.
- ✓ Valuation Support: Trades at 13.9x forward P/E with a strong 6.49% FCF yield—cheap vs. industry peers.

Investment Recommendations

✓ Strengths:

Global leader in inverters and ESS. Proven execution + R&D edge. ESG-integrated profitability.

⚠ Watch Risks:

Margin erosion (price war, cost inflation). Execution under rising debt. Policy/tariff shocks.

Final Call: Hold / Accumulate on Weakness

Monitor 2025 margin delivery & supply chain normalization.