

Comtec Solar

Sufficient cash and cash flow to repurchase CB

to summarize...

- Q3 results in line at 10.2% gross and 4.8% net margin on n-type wafer sales
- Net-debt-to-equity at 6.0% end of Sep; to repurchase CB and cancel warrants
- China launches policies and raises targets to drive domestic demand
- Comtec sales to Philippines facilities of SunPower posed less political risk
- Remains focus on n-type wafers and targets to diversify to Sanyo in 1H 13F
- Continue to see Comtec bottomed mid-2012. Remain BUY; TP HK\$1.48

Q3 results in line at 10.2% gross and 4.8% net margin on n-type wafer sales.

Comtec Solar announced Q3 results last Fri during lunch break. For the latest 3 months, revenue was high at RMB311.9m on stabilizing wafer ASP and increased shipment with its 600MW capacity. Table 1 shows Q3 key financial figures. While its wafer peers are yet to announce Q3 results, we expect Comtec to out-perform its peers with 10.2% gross margin and 4.8% core net margin. For the 9 months this year, revenue and core net profit were RMB768.1m and RMB59.7m respectively, which excluded RMB166m one-off fair value loss items relating to CB and warrants issued. For 2012F, our previous forecasts of RMB990.3m revenue and RMB89.4m core net profit remain achievable, in our view; and we slightly adjust the numbers to RMB1,094.0m and RMB84.3m on higher volume and slower margin recovery.

Table 1. Q3 key financial figures

RMBm	1H 11A	2H 11A	1H 12A	Q3 12A
Revenue	574.7	442.0	456.2	311.9
Inventory write-down	-	(66.0)	-	-
Reported gross profit	135.4	(42.9)	56.8	31.9
CB & warrants related	-	41.0	(151.2)	-
Loss on other one-off items	-	(135.3)	(14.8)	-
Reported net profit	101.6	(147.9)	(121.1)	14.8
Adjusted net profit	101.6	12.4	44.9	14.8
Adjusted gross margin	23.6%	5.2%	12.5%	10.2%
Adjusted net margin	17.7%	2.8%	9.8%	4.8%

Source: SBI E2-Capital

Net-debt-to-equity at 6.0% end of Sep; to repurchase CB and cancel warrants.

For end of Sep, Comtec indicated that its net-to-equity ratio was 6.0%. By end of the period, Comtec had RMB510.9m cash and other financial assets. On debt side, the company had RMB472.5m short-term bank loan, RMB19.5m long-term bank loan and RMB109.6m CB on the balance sheet. After Friday market close, Comtec also announced to repurchase remaining RMB163.6m CB. Due to accounting treatment, upon repurchase of the CB, RMB163.6m is to settle RMB109.6m CB liability on the balance sheet. As such, net-debt-to-equity would still be healthily low at 9.6%.

China launches policies and raises targets to drive domestic demand. National Energy Administration (国家能源局) issued 《太阳能发电发展“十二五”规划》, raising solar installation target by 40% to 21GW by end of 2015F. Original 10GW distributed generation target for BIPV (building integrated photovoltaic) and BAPV (building attached photovoltaic) was further raised to 15GW in Oct. As a package of support towards, there were also plans of China Development Bank (国家开发银行) extending credits towards “6 big and 6 small” solar companies and rumors about proposal of RMB0.4-0.6 per kWh FiT in China. With these measures, China targets to driver domestic demand to offset external pressure such as trade conflicts.

Ticker	0712 HK
Rating	BUY
Price (HK\$)	1.14
Target Price (HK\$)	1.48 (+29.8%)
12m Price Range (HK\$)	0.63 - 1.81
Market cap. (US\$m)	165.7
Daily t/o (US\$m)	1.0
Free float (%)	36.6

Financial summary

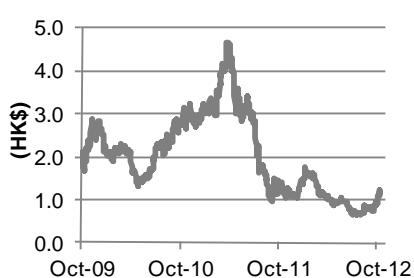
Year to Dec	10A	11A	12F	13F	14F
Turnover (RMBm)	1,021	1,017	1,094	1,335	1,656
Re.Net Profit (RMBm)	223	(46)	(136)	163	202
EPS (RMB)	0.210	(0.041)	(0.120)	0.143	0.178
P/E (x)	4.7	-	-	6.4	5.2
P/B (x)	0.69	0.63	0.69	0.62	0.56
EV/EBITDA (x)	3.0	8.6	424.3	3.9	3.2
Yield (%)	2.3	0.0	0.0	1.6	1.9
ROE (%)	17.3	-	-	10.2	11.4
ROCE (%)	19.5	1.3	-	11.6	12.2
N. Gear. (%)	Cash	cash	3.4	17.9	25.3

Source: SBI E2

	12F	13F	14F
Consensus EPS (RMB)	(0.03)	0.087	0.113
Previous earnings (RMBm)	60.2	201.9	240.1
Previous EPS (RMB)	0.049	0.164	0.196

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	50.0	50.9	(22.3)
Actual price changes (%)	52.0	60.6	(13.0)



Source: Bloomberg

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Comtec sales to Philippines facilities of SunPower posed less political risk. US International Trade Commission (ITC) voted 6-0 to approve duties on Chinese solar panels in Nov. EU started subsidy probe of Chinese solar panels and China took EU solar dispute to WTO. As for Comtec, we believe its sales to SunPower (SPWR US) in Philippines and potential sales in 2013F to Sanyo (6764 JP) in Malaysia are less affected by trade conflicts. As we have discussed in post-6-month interim update, of RMB456m revenue in 1H FY12/12A, 74.6% was sales to SunPower, which accounted for almost all of Comtec n-type wafer sales. Table 2 and 3 show our quick assessment of SunPower financial position by Q3 2012A. We expect Comtec to stay focus with particular customer for it to better monitor counterparty risk. At Sep end 2012, net debt-to-equity ratio of SunPower was slightly lowered to satisfactory level of 37.9% from 39.5% 3 months earlier.

Table 2. Comtec reliance on SunPower in 1H 2012A

	1H FY12/12A
Comtec Solar	
Total revenue	RMB456m
Revenue of n-type wafers	RMB340m
Revenue to SunPower in Philippines	RMB339m

Table 3. SunPower's key financial figures in Q3 2012A

	Q3 FY12/12A
SunPower	
Market capitalization	US\$736m
Capacity	Ramping-up from 680MW to 1,200MW
Total revenue (non-GAAP)	US\$607m
Gross margin (non-GAAP)	14.1%
Operating income (non-GAAP)	US\$11m
Total debt (CB plus bank loan)	US\$827m
Total cash (cash on hands plus pledged cash)	US\$402m
Net debt-to-equity ratio	37.9%

Source: SBI E2-Capital

Remains focus on n-type wafers and targets to diversify to Sanyo in 1H 13F. In addition to current client, SunPower, Comtec is working to diversify its customer base in a controlled manner. Sanyo (6764 JP) is another potential n-type customer for Comtec. Comtec is working with Sanyo on qualification process. While their standards on product quality and reliability are rigorous, according to the management, Comtec targets to receive approval by the end of the year. As such, the management targets to commerce sales in 1H 2013F. According to our channel checks, Panasonic (6752 JP), parent company of Sanyo, planned to establish a new solar manufacturing plant of 300MW in Malaysia after Sanyo closing Californian solar facility earlier this March.

Continue to see Comtec bottomed in mid 2012. Remain BUY with TP slightly revised to HK\$1.48 from HK\$1.44. Comtec was trading up to HK\$1.21 from HK\$0.67 since our last update in Sep after interim results announcement. We maintain our view that Comtec was bottoming-out in mid of the year that outperforms its peers in short-term. 10% to 15% gross margin in 2H is generally achievable partly on price stability of polysilicon. There is potential for improvement in volume in 2H. While Comtec continued to emphasize on counterparty risk with limited number of customers in short-term, sales of n-type wafers may continue to support higher utilization of its 600MW capacity. With 100-120MW wafer sales in 1H, we further review the number up to as much as 263MW with 87.5% utilization for 2H. Table 4 shows revised selected key operational data. Table 5 and Table 6 show profit and loss and selected balance sheet items respectively. Noted that we simply assume remaining CB repurchase to take place at end of Q3, and the one-off loss on the repurchase is assumed at RMB54m, which will be included in 2H this year. Our target price is slightly adjusted to HK\$1.48 from HK\$1.44, representing 16.0x and 8.3x P/E on revised core net profit of RMB84.3m and RMB162.7m for FY12/12F and FY12/13F respectively. Remain BUY for medium-term prospects.

Table 4. Revised selected key operational data on half-yearly basis

	1H FY12/11A	2H FY12/11A	1H FY12/12A	2H FY12/12F
Nameplate capacity MW	600	600	600	600
Shipment MW	109	113	135	263
Revenue (RMBm)	575	442	456	638
Overall gross margin	24%	-9.7%	12.5%	14.6%
Overall net margin	18%	-33%	-27%	-2%
Net profit (RMBm)	101.6	(147.9)	(121.1)	(14.6)
EPS (RMB)	0.090	(0.130)	(0.107)	(0.013)
Adjusted net profit (RMBm)	101.6	12.4	44.9	39.4

Source: SBI E2-Capital

Table 5. Profit and loss forecast (Full-year)

RMB m	FY12/10A	FY12/11A	FY12/12F	FY12/13F	FY12/14F
Revenue	1,021.4	1,016.7	1,094.0	1,335.3	1,655.5
Cost of sales	(690.8)	(924.3)	(944.1)	(1,034.3)	(1,282.6)
Gross profit / loss	330.6	92.5	149.8	301.1	372.9
Other income	26.6	40.1	38.7	0.0	0.0
Other expenses	(9.1)	(61.4)	(220.0)	0.0	0.0
Selling and distribution expenses	(1.8)	(1.8)	(4.8)	(5.9)	(7.3)
Administrative expenses	(75.8)	(48.7)	(53.5)	(65.3)	(80.9)
EBIT	270.5	20.6	(89.8)	229.9	284.6
Finance Costs	(7.4)	(38.6)	(34.6)	(32.7)	(40.1)
EBT	263.1	(18.0)	(124.4)	197.2	244.5
Income tax expenses	(40.2)	(28.3)	(11.3)	(34.5)	(42.8)
Reported profit for the year	222.9	(46.3)	(135.7)	162.7	201.7
Reported EPS (RMB)	0.210	(0.041)	(0.120)	0.143	0.178
Adjusted net profit	222.9	155.1	84.3	162.7	201.7

Table 6. Selected balance sheet items

RMB m	FY12/10A	FY12/11A	FY12/12F	FY12/13F	FY12/14F
Non-current assets	1,136	1,324	1,206	1,593	1,910
Property, plant and equipment	716	856	763	1,150	1,468
Other non-current assets	420	469	442	442	442
Current assets	777	1,330	894	942	939
Inventories	248	218	246	269	307
Trade and other receivables	155	214	277	302	329
Cash and cash equivalent	294	746	267	267	198
Other current assets	80	152	104	104	104
Non-current liability	4	484	42	42	42
CB	0	402	0	0	0
Other non-current liabilities	4	81	42	42	42
Current liabilities	397	517	539	812	949
Trade and other payables	194	199	239	262	299
Short-term bank loans	170	318	300	550	650
Other current liabilities	33	0	0	0	0
Total Equity	1,511	1,654	1,518	1,681	1,858

Source: SBI E2-Capital

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