

## Comtec Solar

### Priority on counter-party credit risk control

to summarize...

- Various impairment pressured 2011A results; unadjusted net loss RMB46.3m
- Technology and capital issues key to potential expansion resumption in 2012
- Management's priority on credit risk control over shipment incremental for 2012
- Expecting mild shipment and margin recovery in 2H of the year
- Expecting low net debt-to-equity in short-to-medium terms after CB repurchase
- Target price lowered to HK\$2.02 from HK\$2.66. Remained BUY

**Various impairment pressured on 2011A results.** Comtec Solar announced annual results for FY12/11A last month. Revenue was down by 0.5% to RMB1,016.7m for FY12/11A as its shipment increased by 26.7% YoY to 222.1MW while overall ASP fell by 21.5%. While top-line was largely in line with our expectation, actual gross margin was low at 9.1%, a comparable level to its peers as HK\$66.0m inventory write-down was included in COGS. In addition, Comtec Solar recognized various impairment losses, including RMB89.1m impairment on PP&E and RMB46.2m other impairments & provisions. Nevertheless, Comtec also recognized RMB72.1m fair value change of warrants. As such, there was a net loss of RMB46.3m, compared to our estimation of RMB33.9m for the period. The following tables show annual results as well as our estimates on various key items.

**Table 1. Annual results overview**

	FY12/10A	FY12/11A	11A vs 10A
Revenue	1,021.4	1,016.7	(0.5%)
Gross profit	330.9	92.5	(72.0%)
EBIT	270.5	20.6	(92.4%)
EBT	263.1	(18.0)	n.a.
Net profit	222.9	(46.3)	n.a.

**Table 2. Actual figures for FY12/11A and previous estimates**

	FY12/11A	Our estimates	Deviation
Revenue	1,016.7	1,021.7	(4.6%)
Inventory write-down on COGS	(66.0)	(59.0)	n.a.
Gross profit (re-stated)	92.5	94.1	(1.7%)
Other impairment & provisions	(135.4)	(0)	n.a.
Warrants fair value gain	72.1	0	n.a.
Net profit	(46.3)	33.9	n.a.
Net profit (adjusted)	83.0	92.9	(10.7%)

Source: SBI E2-Capital

**Technology and capital issues prior to expansion resumption.** While Comtec has 600MW capacity by the end of 2011, resumption of expansion depends on technology issues and capital concerns, according to the management. In fact, Comtec is increasingly utilizing diamond wire which targets to reduce non-silicon costs on wire saw as well as slurry costs. With potential utilization of technology (such as Float-Zone crystal growing) in connection to continuous ingot casting for higher quality wafer instead of conventional Czochralski (Cz) pulling, reduced material cost at higher conversion efficiency especially for n-type wafer is likely. Potentially with secured technology and sufficient capital, the management indicated they would have higher incentive to further expand capacity some time this year.

Please refer to important disclosures at the end of this report

Ticker	0712 HK
Rating	BUY
Price (HK\$)	1.17
Target Price (HK\$)	2.02 (+72.6%)
12m Price Range (HK\$)	0.94 - 4.80
Market cap. (US\$m)	170.1
Daily t/o (US\$m)	1.4
Free float (%)	36.6

#### Financial summary

Year to Dec	10A	11A	12F	13F	14F
Turnover (RMBm)	1,021	1,017	790	1,258	1,494
Net Profit (RMBm)	223	(46)	60	202	240
EPS (RMB)	0.210	(0.041)	0.049	0.164	0.196
P/E (x)	4.8	n.a.	17.9	5.3	4.5
P/B (x)	0.7	0.7	0.7	0.6	0.5
EV/EBITDA (x)	3.1	9.1	2.8	1.9	1.7
Yield (%)	2.2	0.0	0.5	1.7	2.1
ROE (%)	17.3	(2.9)	3.7	12.0	12.7
ROCE (%)	19.5	1.3	7.2	17.0	16.3
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

Source: SBI E2

	12F	13F	14F
Consensus EPS (RMB)	0.080	0.120	0.180
Previous earnings (RMBm)	103.6	218.5	n.a.
Previous EPS (RMB)	0.091	0.193	n.a.

#### Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	(22.0)	(13.5)	(65.5)
Actual price changes (%)	(25.0)	(7.9)	(70.8)



Source: Bloomberg

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**Cautious approach towards sales in 2012.** As we have indicated in our previous report, management indicated that during market consolidation, while there is demand, some of the potential customers place orders on condition of especially long credit terms. As such, Comtec Solar may not take such orders. Continuing into 2012, Comtec targets to meet n-type wafer orders as much as possible, yet on the other hand for p-type wafers they would be more cautious and place higher priority on credit risk control compared to shipment volume. On clear shift in sales strategy, we further downward adjust shipment and margin for 2012F and 2013F. Table 3 shows certain key data on half-year basis for 2011A and 2012F while Table 4 shows selected key data on yearly count. Under revised assumption, shipment is expected to be 310MW and 510MW for FY12/12F and FY12/13F, representing increment of 39.6% and 64.5% YoY respectively.

	1H FY12/11A	2H FY12/11A	1H FY12/12F	2H 12/12F
Nameplate capacity MW	600	600	600	600
Wafer shipment MW	109	113	125	185
Revenue (RMBm)	575	442	311	479
Overall gross margin	24%	-10%	10%	19%
Overall net margin	18%	-33%	4%	12%
Net profit (RMBm)	101.6	(147.9)	11.2	58.8
EPS (RMB)	0.090	(0.130)	0.010	0.052

	FY12/10A	FY12/11A	FY12/12F	FY12/13F	FY12/14F
Nameplate capacity in progress (MW)	600	600	600	1,000	1,500
Sales volume (MW)	165	222	310	510	706
Overall ASP (RMB per W)	6.17	4.58	2.55	2.47	2.11
Gross Margin (%)	32.4%	9.1%	15.2%	25.3%	25.6%

Source: SBI E2-Capital

**Profit and loss forecasts.** With expectation of only fair increase in shipment in 2012F, our revenue and profit forecast are also revised down. As ASP estimation was RMB2.55 per W and RMB2.47 per W for FY2012F and FY2013F, revised net profit was RMB56.2m and RMB199.8m for the 2 years, down from RMB103.6m and RMB218.5m respectively.

RMB m	FY12/10A	FY12/11A	FY12/12F	FY12/13F	FY12/14F
Revenue	1,021.4	1,016.7	790.4	1,257.6	1,493.6
Cost of sales	(690.8)	(924.3)	(670.5)	(938.8)	(1,111.2)
Gross profit / loss	330.6	92.5	119.9	318.8	382.5
Other income	26.6	40.1	0.0	0.0	0.0
Other expenses	(9.1)	(61.4)	(0.0)	(0.0)	(0.0)
Selling and distribution expenses	(1.8)	(1.8)	(1.6)	(2.5)	(3.0)
Administrative expenses	(75.8)	(48.7)	(39.5)	(62.9)	(74.7)
EBIT	270.5	20.6	78.8	253.4	304.8
Finance Costs	(7.4)	(38.6)	(10.7)	(11.2)	(13.7)
EBT	263.1	(18.0)	68.1	242.2	291.1
Income tax expenses	(40.2)	(28.3)	(11.9)	(42.4)	(50.9)
Profit for the year	222.9	(46.3)	56.2	199.8	240.1
Reported EPS (RMB)	0.210	(0.041)	0.046	0.163	0.196

Source: SBI E2-Capital

**Financial position remained strong.** By the end of 2011A, Comtec had RMB746.1m cash and cash equivalents. With previous announced 75% CB repurchase, the company is expected to repay HK\$490.875m, which would reduce cash on hand to RMB347.2m. With RMB318.2m short-term borrowing, RMB18.1m long-term borrowing as well as RMB133.0m remaining 25% CB, net debt was RMB122.1m. At RMB1,653.8m net equity by end of 2011, net debt to equity ratio was 7.4%. Its balance sheet is not stretch and we expect the company to survive the prolonged consolidation.

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	910	1,237	1,595
Property, plant and equipment	716	856	765	1,153	1,585
Other non-current assets	420	469	145	83	10
Current assets	777	1,330	1,059	976	885
Inventories	248	218	134	188	194
Trade and other receivables	155	214	144	215	235
Cash and cash equivalent	294	746	715	505	381
Other current assets	80	152	66	69	75
Non-current liability	4	484	136	142	144
CB	0	402	101	101	101
Other non-current liabilities	4	81	35	41	43
Current liabilities	397	517	239	297	343
Trade and other payables	194	199	138	193	198
Short-term bank loans	170	318	100	100	140
Other current liabilities	33	0	1	4	5
Total Equity	1,511	1,654	1,594	1,774	1,994

Source: SBI E2-Capital

**Target price lowered to HK\$2.02 from HK\$2.66.** Solar industry shakeout continues as solar products prices remained at low level of US\$25-30 per kg polysilicon and US\$1.1 per wafer piece. Nevertheless, we believe leading Chinese players would continue to survive, especially as US government appeared to be half-hearted in an attempt to place 2.9% to 4.7% tariff on solar panels manufactured in China. Yet, the market remained difficult that even the leading Germany solar cell producer Q-Cells (QCE EU) filed bankruptcy earlier this month. For Comtec Solar, we lowered our forecast further and look forward to improvement in 2H this year on shipment as well as pricing with technological improvement. The counter is currently trading at 0.65x P/B based on RMB1,653.8m net equity FY12/11A. We revise our Target Price to HK\$2.02 from HK\$2.66 on lowered profit forecast in the next 2 years based on 33.5x and 10.0x P/E for FY12/12F and FY12/13F. Remained BUY.

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