

Comtec Solar

Turning into a defensive year

to summarize...

- Net profit for the interim was RMB101.6m in line with expectation
- Further shipment guidance change triggers full-scale shipment review
- Margin assumptions generally maintained due to consistent out-performance
- Staying financially healthy during industry consolidation as it did in 2008-2009
- Revised TP to HK\$3.47 from HK\$4.07 per share. Maintain BUY.

What's new? Comtec Solar announced interim results during lunch break yesterday. Revenue increased 33.9% YoY to RMB574.4m for 1H FY12/11A with 23.6% gross margin. That said, revenue and gross profit missed our previous estimation by 6.1% and 11.4% respectively mainly due to lower shipment and gross margin. Net profit increased 48.1% YoY for the period, which was 3.6% lower than our forecast. Note that during the period, there was other gain of RMB15.5m mainly on net exchange gain and disposal gain. On the other hand, subject to tax rate approval, Comtec was accounted at 25% tax rate for the period, potentially providing RMB13.8m extra tax expenses. Considering these as offsetting effects, we see this result in line with our expectation. Table 1 shows actual figures for the interim and our previous forecast. While 1H performance was in line with previously revised estimates, management indicated a gloomier picture on margin and shipment this year.

Table 1. Actual figures for 1H FY12/11A and previous estimates

| | 1H FY12/11A | Our estimates | Deviation |
|---------------------|-------------|---------------|-----------|
| ASP (RMB per W) | 5.25 | 5.27 | -0.4% |
| Wafer shipment MW | 109.4 | 116.0 | -5.7% |
| Revenue (RMBm) | 575 | 612 | -6.1% |
| Gross profit (RMBm) | 135 | 153 | -11.4% |
| Net profit (RMBm) | 101.6 | 105.4 | -3.6% |
| EPS (RMB) | 0.090 | 0.093 | -3.7% |

Source: SBI E2-Capital

Assumptions revision on shipment and margin. Due to utility problem (still) for the new facilities, the management indicated new capacity could only be gradually released in Q3 and fully reflected in Q4. While ramping-up to 1,400MW could be completed by mid of 2012, gradual release of the extra 800MW capacity would be seen since Q3 2012. It triggers our full scale review on shipment. Table 2 shows our revised shipment target as well as slightly revised profit margin forecast. Shipment for 2H 2011, 1H 2012 and 2H 2012 were downward revised to 220MW, 270MW and 450MW from 290MW, 370MW and 570MW to reflect concerns on ramp-up. That said, shipment target of 2011 was reduced to 329MW from 406MW. On the other hand, however, our gross margin forecast stays high at 19%, 23% and 23% for the coming 3 interims due to Comtec's consistency in higher gross margin over its peers, in our view, despite Renosola's (SOL US) margin guidance of 6% to 8% for Q3.

Table 2. Revised forecasts for 1H 2011, 1H 2012 and 2H 2012

| | 1H FY12/11A | 2H FY12/11F | 1H FY12/12F | 2H FY12/12F |
|---------------------------|-------------|-------------|-------------|-------------|
| Nameplate capacity MW | 600 | 600 | 1,400 | 1,400 |
| Wafer shipment MW | 109.4 | 220 | 270 | 450 |
| Revenue (RMBm) | 575 | 915 | 1,056 | 1,627 |
| Overall gross margin | 24% | 19% | 23% | 23% |
| Overall net margin | 18% | 13% | 16% | 16% |
| Net profit (RMBm) | 101.6 | 122.5 | 167.7 | 257.5 |
| EPS before dilution (RMB) | 0.090 | 0.108 | 0.148 | 0.227 |

Source: SBI E2-Capital

Please refer to important disclosures at the end of this report

| Ticker | 0712 HK |
|------------------------|-------------|
| Rating | BUY |
| Price (HK\$) | 1.97 |
| Target Price (HK\$) | 3.47 (+76%) |
| 12m Price Range (HK\$) | 1.92-4.80 |
| Market cap. (US\$m) | 286.4 |
| Daily t/o (US\$m) | 3.0 |
| Free float (%) | 36.6 |

Financial summary

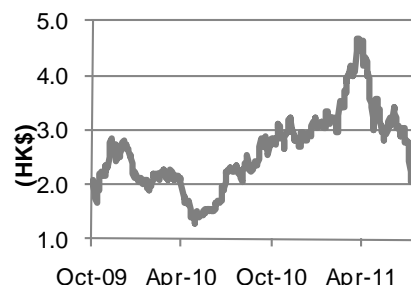
| Year to Dec | 09A | 10A | 11F | 12F | 13F |
|-------------------|-------|-------|-------|-------|-------|
| Turnover (RMBm) | 507 | 1,021 | 1,490 | 2,683 | 4,498 |
| Net Profit (RMBm) | 25 | 223 | 232 | 424 | 723 |
| EPS (RMB) | 0.032 | 0.197 | 0.205 | 0.374 | 0.638 |
| P/E (x) | 121.8 | 13.6 | 7.9 | 4.3 | 2.5 |
| P/B (x) | 2.9 | 2.0 | 1.1 | 0.9 | 0.7 |
| EV/EBITDA (x) | 45.7 | 9.4 | 3.1 | 1.9 | 1.3 |
| Yield (%) | 0 | 0.7 | 1.3 | 2.3 | 3.9 |
| ROE (%) | 2.8 | 17.5 | 14.4 | 22.2 | 29.8 |
| ROCE (%) | 2.8 | 17.5 | 17.2 | 23.7 | 29.3 |
| N. Gear. (%) | Cash | Cash | Cash | 4.7 | 9.7 |

Source: SBI E2

| | 11F | 12F | 13F |
|--------------------------|-------|-------|-------|
| Consensus EPS (RMB) | 0.210 | 0.295 | 0.560 |
| Previous earnings (RMBm) | 282 | 537 | 774 |
| Previous EPS (RMB) | 0.249 | 0.474 | 0.682 |

Price performance

| Year to Dec | 1m | 3m | 12m |
|--------------------------|--------|--------|--------|
| Relative to HSI (%) | (28.0) | (36.6) | (11.6) |
| Actual price changes (%) | (33.9) | (44.8) | (15.8) |



Source: Bloomberg

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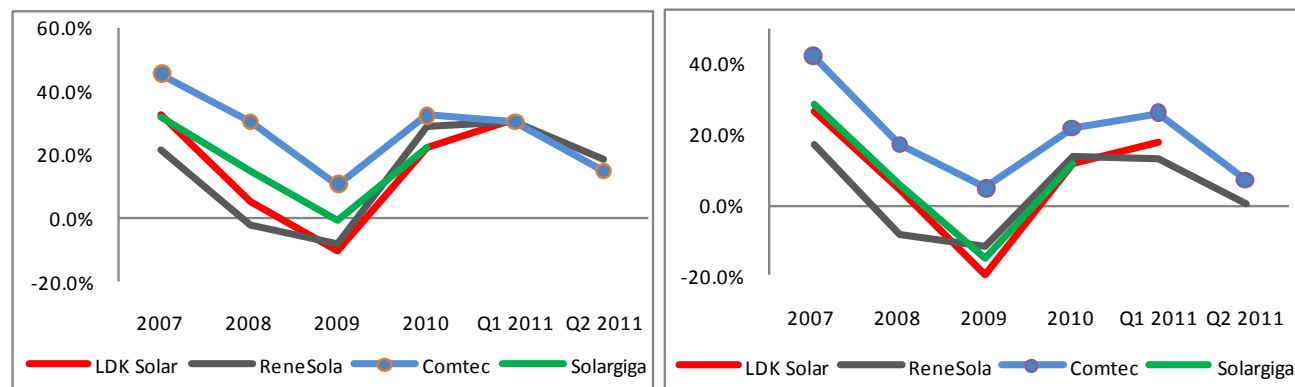
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Table 3. Revised selected key operational data

| | FY12/09A | FY12/10A | FY12/11F | FY12/12F | FY12/13F |
|-------------------------------------|----------|----------|----------|----------|----------|
| Nameplate capacity in progress (MW) | 200 | 600 | 600 | 1,400 | 2,000 |
| Sales volume (MW) | 82 | 165 | 329 | 720 | 1,395 |
| Overall ASP (RMB per W) | 6.18 | 6.17 | 4.52 | 3.73 | 3.22 |
| Gross Margin (%) | 10.9 | 32.4 | 20.9 | 23.0 | 23.2 |

Chart 1. Gross profit margin (LHS) and net profit margin (RHS) of selected solar companies in China



Note: Comtec and Solargiga (HKFRS); LDK and ReneSola (US GAAP)

Source: company data, SBI E2-Capital

Profit and loss forecasts. With our new shipment and margin assumptions, net profit for FY12/11F and FY12/12F would be revised down to RMB232m and RMB424m from RMB282m and RMB537m respectively. That said, net profit growth for 2011 full year may be insignificant at merely 4% YoY. Nevertheless, Comtec would resume strong growth in 2012 after industry consolidation, in our view.

Table 4. Revised profit and loss forecast (Full-year)

| RMB m | FY12/09A | FY12/10A | FY12/11F | FY12/12F | FY12/13F |
|-----------------------------------|----------|----------|-----------|-----------|-----------|
| Revenue | 506.9 | 1,021.4 | 1,489.7 | 2,683.4 | 4,498.2 |
| Cost of sales | (451.8) | (690.8) | (1,179.0) | (2,067.1) | (3,455.2) |
| Gross profit / loss | 55.1 | 330.6 | 310.7 | 616.2 | 1,042.9 |
| Other income | 6.7 | 26.6 | 15.5 | 0.0 | 0.0 |
| Other expenses | (3.4) | (9.1) | 14.1 | 0.0 | 0.0 |
| Selling and distribution expenses | (2.2) | (1.8) | (2.6) | (5.4) | (9.0) |
| Administrative expenses | (18.2) | (75.8) | (48.5) | (88.6) | (148.4) |
| EBIT | 38.0 | 270.5 | 289.3 | 522.3 | 885.5 |
| Finance Costs | (6.7) | (7.4) | (7.9) | (8.3) | (8.7) |
| EBT | 31.3 | 263.1 | 281.3 | 514.0 | 876.8 |
| Income tax expenses | (6.4) | (40.2) | (49.2) | (90.0) | (153.4) |
| Profit for the year | 24.9 | 222.9 | 232.1 | 424.1 | 723.4 |
| Reported EPS (RMB) | 0.032 | 0.210 | 0.205 | 0.374 | 0.638 |

Table 5. Revised profit and loss forecast (Half-year)

| RMB m | 1H FY12/10A | 2H FY12/10A | 1H FY12/11A | 2H FY12/11F |
|-----------------------------------|-------------|-------------|-------------|-------------|
| Revenue | 429.1 | 592.3 | 574.7 | 915.0 |
| Cost of sales | (331.1) | (359.7) | (439.3) | (739.7) |
| Gross profit / loss | 98.0 | 232.6 | 135.4 | 175.3 |
| Other income | 7.9 | 18.7 | 15.5 | 0.0 |
| Other expenses | (1.7) | (7.4) | 14.1 | 0.0 |
| Selling and distribution expenses | (0.8) | (1.0) | (0.8) | (1.8) |
| Administrative expenses | (18.8) | (57.0) | (18.8) | (29.7) |
| EBIT | 84.6 | 185.9 | 145.5 | 143.8 |
| Finance Costs | (3.8) | (3.6) | (8.0) | (8.0) |
| EBT | 80.8 | 182.3 | 137.5 | 135.8 |
| Income tax expenses | (12.2) | (27.9) | (35.9) | (13.3) |
| Profit for the year | 68.6 | 154.4 | 101.6 | 122.4 |

Source: SBI E2-Capital

Our view and revised target price to HK\$3.47 from HK\$4.07. In our last report, although we revised our forecast to reflect short-term earnings contraction and lowered our profit forecast as well as valuation, we believed downside is largely contained. The counter continued to fall and it closed 11.1% lower yesterday after results announcement on weaker-than-consensus earnings and cautious tone for 2H. Yet, we still believe Comtec is prudent enough during consolidation and aggressive enough during expansion despite a pause in 2011. In our updated forecast, net profit for FY12/11F may realize only single-digit growth compared to FY12/10A. Nevertheless, using 15% discount rate, we revise our target price at HK\$3.47. Maintain BUY. We would issue an update report later today. Current price represents attractive valuation at 7.9x and 4.3x P/E for FY12/11F and FY12/12F.

Table 6. Selected balance sheet items

| RMB m | FY12/09A | FY12/10A | FY12/11F | FY12/12F | FY12/13F |
|-------------------------------|----------|----------|----------|----------|----------|
| Non-current assets | 668 | 1,136 | 1,258 | 1,590 | 2,120 |
| Property, plant and equipment | 428 | 716 | 1,136 | 1,496 | 2,050 |
| Other non-current assets | 240 | 420 | 123 | 94 | 71 |
| Current assets | 743 | 777 | 1,527 | 1,731 | 2,095 |
| Inventories | 108 | 248 | 250 | 392 | 615 |
| Trade and other receivables | 166 | 155 | 252 | 448 | 745 |
| Cash and cash equivalent | 399 | 294 | 865 | 726 | 559 |
| Other current assets | 69 | 80 | 160 | 166 | 176 |
| Non-current liability | 4 | 4 | 664 | 672 | 685 |
| CB | 0 | 0 | 655 | 655 | 655 |
| Other non-current liabilities | 4 | 4 | 10 | 18 | 31 |
| Current liabilities | 345 | 397 | 401 | 547 | 777 |
| Trade and other payables | 199 | 194 | 226 | 368 | 592 |
| Short-term bank loans | 146 | 170 | 170 | 170 | 170 |
| Other current liabilities | 1 | 33 | 5 | 9 | 15 |
| Total Equity | 1,062 | 1,511 | 1,720 | 2,102 | 2,753 |

Source: SBI E2-Capital

Disclosure of interests: SBI E2-Capital Securities Limited, a parent company of SBI E2-Capital Financial Services Limited, acted as sub-placing agent for Comtec Solar Systems Group Limited (stock code: 712) in September 2010.

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BUY : absolute upside of >10% over the next six months

HOLD : absolute return of -10% to +10% over the next six months

SELL : absolute downside of >10% over the next six months

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