

## Comtec Solar

### Cost leader riding on sector recovery

to summarize...

- Announced stronger-than-expected Q2 results
- Profit margin continues to beat world peers
- Confirms capacity expansion plan to 1,000MW as we expected
- Valuation still more attractive than peers average
- Reiterate BUY and maintained target price at HK\$2.68

**1H FY12/10 results.** Comtec Solar posted stronger-than-expected results for 1H FY12/10A. Revenue increased 133% YoY to RMB429.1m for 1HFY12/10A. Gross margin significantly improved to 27.7% in Q2, beating the management's long-term estimates of 15%-20%. Net profit increased 1448% YoY to RMB65.6m, compared to 1200%+ YoY suggested in the profit alert last month. Table 1 shows the actual figure and our estimates for 1H FY12/10A. Notice that deviation increased as it went down the table to the bottom line, suggesting better-than-expected operational efficiency.

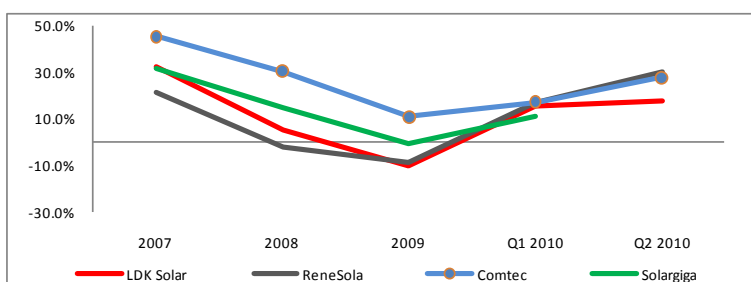
**Table 1. Profit and Loss for 1H FY12/10A**

RMB m	1H FY12/10A	Our estimates	deviation (%)
Revenue	429.1	449.3	-4.5
Gross profit / loss	98.0	92.5	+6.0
EBIT	84.6	75.7	+11.7
Profit for the year	68.6	57.9	+18.4

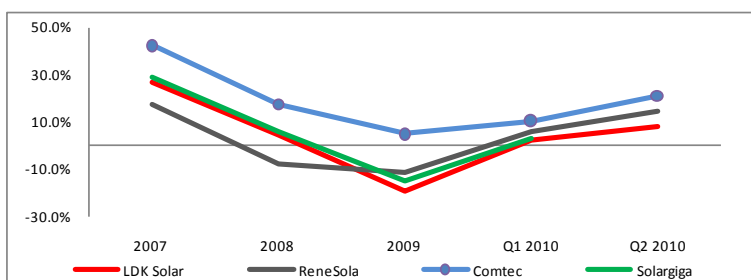
Source: SBI E2-Capital

**Continue to record high margin beating its peers.** We updated the gross margins and net margins of Comtec Solar, Renesola (SOLA LN) and LDK Solar (LDK US) and they were shown in Figure 1 and Figure 2 respectively. We believe Comtec would continue to beat its peers by its quality and efficiency. Note that Solargiga (0757 HK) is expected to report Q2 earnings next week.

**Figure 1. Gross profit margin of Comtec Solar is consistently higher**



**Figure 2. Net profit margin of Comtec Solar is also consistently higher**



Source: SBI E2-Capital

Ticker	0712 HK
Rating	BUY
Price (HK\$)	2.29
Target Price (HK\$)	2.68 (+17%)
12m Price Range (HK\$)	1.22-2.95
Market cap. (US\$m)	302.9
Daily t/o (US\$m)	0.7
Free float (%)	27.9

#### Financial summary

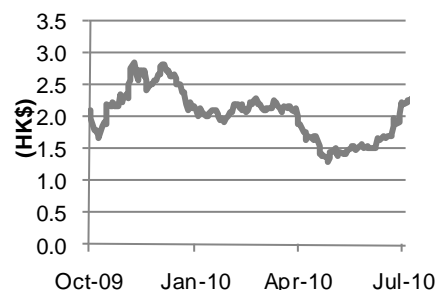
Year to Dec	08A	09A	10F	11F	12F
Turnover (RMBm)	762	507	1,245	2,883	4,199
Net Profit (RMBm)	130	25	205	337	452
EPS (RMB)	-	0.032	0.199	0.327	0.438
P/E (x)	-	83.3	10.1	6.2	4.6
P/B (x)	-	2.0	1.7	1.3	1.1
EV/EBITDA (x)	-	29.9	6.2	4.1	3.1
Yield (%)	-	0	1.0	1.6	2.2
ROE (%)	-	2.7	18.7	24.8	26.2
ROCE (%)	-	2.7	18.7	24.8	26.2
N. Gear. (%)	Cash	Cash	Cash	12%	20%

Source: SBI/Bloomberg

	10F	11F	12F
Consensus EPS (RMB)	0.190	0.340	0.440
Previous earnings (RMBm)	171.8	312.3	456.4
Previous EPS (RMB)	0.167	0.303	0.442

#### Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	28.4	50.9	n.a.
Actual price changes (%)	34.7	62.4	n.a.



Source: Bloomberg

**Kevin Mak**

(852) 2533 3708

kevinmak@sbie2capital.com

**Strong ASP and demand outlook for 2H 2010.** The management pointed out that wafer prices are especially strong since Q3 this year. In Q2, wafer ASP rose to US\$0.83/W. In Jul, wafer ASP rose further to US\$0.86-0.87/W. Currently in Aug, slight upward adjustment to Jul ASP is seen. Profit margin in Q3 may be even higher than that in Q2, though previous market consensus suggested a sharp downturn, partly due to tariff cut in Germany. Our channels suggest that wafer buyers are now willing to pay a higher price in Q3 and Q4 and willing to provide considerable down-payment in order to secure stable quality wafer supply up to next year. Customers of Comtec Solar are expanding rapidly and they are also willing to secure wafer supply by longer-term volume-fixed contracts, in our view. Nevertheless, we continue to believe that ASP of wafer is on the downtrend and assumes ASP to be US\$0.75 per W for 2011 for conservative reason.

**Gradual capacity expansion towards 1,000MW.** In view of increased market visibility, the management announced its plan to raise wafer capacity up to 1,000MW by the end of next year, which is in line with our hypothesis. With net cash position on hand by end of 1H FY12/10A, we believe Comtec will be able to concentrate on wafers and continue its wafer capacity expansion. Given the improved market sentiment, the management indicated that they could choose from a number of places for the next round of expansion with subsidy provided. Hence, CAPEX for the next expansion to 1,000MW from 600MW will possibly be staying around RMB400m.

Nevertheless, the ramp-up of the latest expansion to 600MW may be further delayed to Q4. The management attributed the delay to permits application and construction progress, yet assured that completion can be made by the end of the year. Considering further ramp-up delay, we modify our assumptions with respect to the company's ramp-up ability, lowering its effective capacity for coming years. Sales volume of wafer, excluding OEM processing in Q1, for 2010 is largely lowered to below 230MW from 280MW.

**Change in numbers.** We revised our profit forecast by taking account into 1) the increase in ASP and profit margin in short-term; 2) longer-term margin normalization towards 15%-20%; 3) effective capacity and thus sales volume drop due to new ramp-up assumptions. Table 2 shows the revised pro-forma profit and loss for 2010 to 2012. For instance, net profit forecast was revised by +19.3%, +8.0% and -1.1% for FY12/10F, FY12/11F and FY12/12F respectively. Table 3 shows selected key operational data estimates for 2010 to 2012. Overall ASP and gross margin for 2010F and 2011F are revised upwards.

**Table 2. Revised pro-forma profit and loss**

RMB m	FY12/08A	FY12/09A	FY12/10F	FY12/11F	FY12/12F
Revenue	762.10	506.88	1,245.0	2,883.4	4,199.3
Cost of sales	(530.80)	(451.76)	(935.8)	(2,319.5)	(3,406.8)
Gross profit / loss	231.30	55.12	309.2	563.9	792.5
Other income	47.13	6.70	0.0	0.0	0.0
Other expenses	(80.29)	(3.41)	(0.0)	(0.0)	(0.0)
Selling and distribution expenses	(1.40)	(2.22)	(3.7)	(8.6)	(12.6)
Administrative expenses	(23.89)	(18.19)	(42.8)	(99.1)	(144.3)
EBIT	172.86	38.00	262.7	456.2	635.6
Finance Costs	(6.30)	(6.67)	(6.6)	(6.4)	(33.6)
EBT	166.57	31.33	256.1	449.8	602.0
Income tax expenses	(36.09)	(6.39)	(51.2)	(112.4)	(150.5)
Profit for the year	130.48	24.94	204.9	337.3	451.5

**Table 3. Selected key operational data**

	FY12/08A	FY12/09A	FY12/10F	FY12/11F	FY12/12F
Ingot and Wafer Capacity at year end (MW)	55	200	600	1,000	1,500
Sales volume (MW)	44	82	227	600	950
Overall ASP (RMB per W)	17.32	6.18	5.49	4.81	4.42
Gross Margin (%)	30.4%	10.9%	24.8%	19.6%	18.9%

Source: Company data, SBI E2-Capital

**Valuation.** We continued to use discount cash flow to value Comtec Solar. We maintained TP at HK\$2.68 considering short-term sentiment and longer-term trend, where net profit forecast was revised by +19.3%, +8.0% and -1.1% for FY12/10F, FY12/11F and FY12/12F respectively. Table 4 shows our target price of HK\$2.68 applying 15% discount rate.

Based on our target price of HK\$2.68 per share and estimated net profit of RMB204.9m and RMB337.3m for FY12/10F and FY12/11F, forward P/E will be 11.9x and 7.2x for FY12/10F and FY12/11F. With respective estimated net equity, P/B for the said target price would be 2.0x and 1.6x for FY12/10F and FY12/11F. Reiterate BUY.

**Table 4. Our target price**

Discount Rate	12.5%	15.0%	17.5%
Market cap (RMB)	3,248m	2,430m	1,899m
CNY / HKD	1.1374	1.1374	1.1374
Market cap (HK\$)	3,694m	2,764m	2,160m
number of shares	1,031.7m	1,031.7m	1,031.7m
Target price	HK\$3.58	HK\$2.68	HK\$2.09

Source: SBI E2-Capital

**Table 5. Implied multiples of our target price HK\$2.68**

	FY12/10F	FY12/11F	FY12/12F
Implied P/B (x)	2.0	1.6	1.2
Implied P/E (x)	11.9	7.2	5.4
Implied EV/EBITDA (x)	7.3	4.7	3.6

Source: SBI E2-Capital

**Peers comparison.** Since our initial report, stock price of Comtec Solar rose 59.0% from HK\$1.44 to current spot price of HK\$2.29. Despite the sharp rise within Q3, compared to its peers Comtec is trading only an average P/B of 2.0x for FY12/10F and below average P/E at 10.8x and 6.0x for FY12/10F and FY12/11F based on market consensus.

**Table 6. Peers comparison based on market consensus**

Company	Ticker	Fiscal Year End	Mkt Cap (US\$m)	P/B (x)	ROE (%)	P/E (x)	
						FY12/10F	FY12/11F
SINO-AMERICAN	5483 TT	12/2009	4,200.7	3.3	5.5	19.6	15.4
WAFER WORKS CORP	6182 TT	12/2009	1,902.0	2.1	(3.6)	18.6	12.2
GREEN ENERGY TEC	3519 TT	12/2009	2,119.1	2.0	1.8	15.9	15.1
SOLARGIGA ENERGY	757 HK	12/2009	405.7	2.0	(7.4)	18.0	11.8
<b>COMTEC SOLAR</b>	<b>712 HK</b>	<b>12/2009</b>	<b>302.9</b>	<b>2.0</b>	<b>3.1</b>	<b>10.1</b>	<b>6.2</b>
LDK SOLAR CO-ADR	LDK US	12/2009	118.5	0.9	(28.8)	8.6	11.2
RENESOLA LTD	SOLA LN	12/2009	55.8	1.5	(16.3)	7.1	5.4
PV CRYSTALOX SOL	PVCS LN	12/2009	31.8	1.2	11.7	15.7	12.9
			Average	1.9	--	14.3	11.2

Source: Bloomberg

---

SBI E2-Capital is a dedicated small/mid cap investment banking/ stockbrokerage house. Find our research on: sbie2capital.com, thomsononeanalytics.com, factset.com and multex.com

**SBI E2-Capital stock ratings:**

**STRONG BUY** : absolute upside of >50% over the next three months

**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

Investors should assume that SBI E2-Capital is seeking or will seek investment banking or other related businesses with the companies in this report.

**Analyst certification:** The views expressed in this report accurately reflect the analyst's personal views of the subject securities and that the analyst has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

**Disclaimer:** This research report is not an offer to sell or the solicitation of an offer to buy or subscribe for any securities. The securities referred to in this report may not be eligible for sale in some jurisdictions. The information contained in this report has been compiled by the Research Department of SBI E2-Capital Securities Limited ('SBI E2-Capital') from sources that it believes to be reliable but no representation, warranty or guarantee is made or given by SBI E2-Capital or any other person as to its accuracy or completeness. All opinions and estimates expressed in this report are (unless otherwise indicated) entirely those of SBI E2-Capital as of the date of this report only and are subject to change without notice. Neither SBI E2-Capital nor any other person, accepts any liability whatsoever for any loss howsoever arising from any use of this report or its contents or otherwise arising in connection therewith. Each recipient of this report shall be solely responsible for making its own independent investigation of the business, financial condition and prospects of the companies referred to in this report. SBI E2-Capital and their respective officers, directors and employees, including persons involved in the preparation or issuance of this report, may from time to time (1) have positions in, and buy or sell, the securities of companies referred to in this report (or related investments); (2) have a consulting, investment banking or broking relationship with any company referred to in this report; and (3) to the extent permitted under applicable law, have acted upon or used the information contained or referred to in this report including effecting transactions for their own account in an investment (or related investment) in respect of any company referred to in this report, prior to or immediately following its publication. This report may not have been distributed to all recipients at the same time. This report is issued only for the information of and may only be distributed to professional investors and dealers in securities and must not be copied, published, reproduced or redistributed (in whole or in part) by any recipient for any purpose. This report is distributed in Hong Kong by SBI E2-Capital. Any recipient of this report who requires further information regarding any securities referred to in this report should contact the relevant office of SBI E2-Capital located in such recipient's home jurisdiction.

Copyright © SBI E2-Capital Securities Limited 2008. All rights reserved.

---