

Comtec Solar

An early signal to rapid growth

to summarize...

- Comtec Solar released profit alert, even stronger than our expectation
- New energy development plan is under State Council's review
- Market forecasts on World and China demand are revised up
- Slight change in Q2 numbers; ramp-up delay factored in
- Revise up our TP by 47.3% to HK\$2.68 on lowered discount rate; reiterate BUY

Profit alert indicates profit rose by more than 12 times. Comtec estimates net profit for 1H FY12/10F should be no less than RMB57.6m. The figure is actually much stronger than our original forecast of RMB44.0m. We attribute the difference to the confirmed subsidy cut in German which pushed demand earlier to 2Q. Therefore, we upward revise the numbers for Q2 on the shift, yet we maintain our prudent assumptions going forward for the rest of the year. Table 1 shows our revised forecast for 1H FY12/10F as well as 2H FY12/10F. We will closely monitor the run rate to see whether the momentum from 2Q is sustained through to 3Q.

Table 1. Pro-forma Profit and Loss for 1H and 2H FY12/10F

RMB m	1H FY12/10F	2H FY12/10F
Revenue	449.29	1,009.87
Cost of sales	(356.82)	(826.52)
Gross profit / loss	92.48	183.35
Selling and distribution expenses	(1.34)	(3.02)
Administrative expenses	(15.44)	(34.70)
EBIT	75.69	145.63
Finance Costs	(3.29)	(3.29)
EBT	72.40	142.34
Income tax expenses	(14.48)	(28.47)
Profit for the year	57.92	113.87

Source: SBI E2-Capital

New energy development plan review boosts investor confidence. Earlier last week, Development and Planning Department of the National Energy Administration noted that the new-energy development plan has been submitted to the State Council for approval. The plan will focus on the raising contribution from non-fossil energy and carbon reduction, which would cover 2011 to 2020 involving RMB5,000b investment. We believe the new-energy development plan itself is not new to the market; however, its submission for approval is a positive sign of moving forward with conflicts largely resolved. This step forward should boost confidence with respect to government support towards alternative energy sector.

Surprisingly large auction of solar projects in China. In late Jun, China has launched a large scale solar farms tender invitation up to 280MW, including 13 projects with size between 20MW and 30MW. The size of this auction alone is larger than many has expected for the current year in China. We treat it as another evidence of government support towards the sector. As such, the increased transparency should apply a lower risk premium to Comtec Solar.

Upward forecast revision on world solar demand. Indeed, as mentioned in our solar sector update earlier this month, there are upward revisions of solar demand. For instance, Solar inverter market leader, SMA Solar Technology, has made a significant upward revision on company revenue and market demand forecast. The company expects the worldwide solar market could reach 14GW, compared to our assumption between 8GW and 12GW based on EPIA estimates.

Ticker	0712 HK
Rating	BUY
Price (HK\$)	2.04
Target Price (HK\$)	2.68 (+31.4%)
12m Price Range (HK\$)	1.22-2.95
Market cap. (US\$m)	270.0
Daily t/o (US\$m)	0.6
Free float (%)	27.9

Financial summary

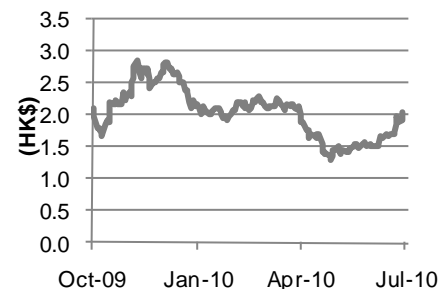
Year to Dec	08A	09A	10A	11F	12F
Turnover (RMBm)	762	507	1,459	2,884	4,244
Net Profit (RMBm)	130	25	172	312	456
EPS (RMB)	-	0.032	0.167	0.303	0.442
P/E (x)	-	69.1	10.0	5.5	3.8
P/B (x)	-	1.6	1.4	1.2	0.9
EV/EBITDA (x)	-	24.1	6.0	3.7	2.7
Yield (%)	-	0	1.0	1.8	2.6
ROE (%)	-	2.7	16.1	23.7	27.2
ROCE (%)	-	2.7	16.1	23.7	27.2
N. Gear. (%)	Cash	Cash	Cash	16%	24%

Source: SBI/Bloomberg

	10F	11F	12F
Consensus EPS (RMB)	0.167	0.33	0.44
Previous earnings (RMBm)	151.2	298.2	436.0
Previous EPS (RMB)	0.147	0.289	0.423

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	31.5	(2.9)	n.a.
Actual price changes (%)	33.3	(4.2)	n.a.



Source: Bloomberg

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Slight change in Q2 numbers; ramp-up delay factored in. In response to the profit alert announcement, we assumed wafer ASP at US\$0.82 per W, raised utilization rate to 90% and lowered polysilicon cost to US\$2 per kg for Q2. For the following quarters, we introduced minor changes to our assumptions. In late Jun, Comtec Solar announced that its ramp-up of additional 400MW wafer capacity would be deferred to the end of Sep 2010 instead of a possible completion by end of Jun. The management explained that installation should begin as early as Jul yet the new facility could only operate at full capacity by the end of Q3. This had little impact on our estimates as we had incorporated an especially low utilization rate of 50%-55% for Q3 based on its period end capacity of 600MW in our last report. The following tables shows our profit and loss forecast and assumptions for the company.

Table 2. Pro-forma Profit and Loss

RMB m	FY12/08A	FY12/09A	FY12/10F	FY12/11F	FY12/12F
Revenue	762.10	506.88	1,459.16	2,883.72	4,244.39
Cost of sales	(530.80)	(451.76)	(1,183.33)	(2,351.14)	(3,443.41)
Gross profit / loss	231.30	55.12	275.83	532.58	800.98
Other income	47.13	6.70	0.00	0.00	0.00
Other expenses	(80.29)	(3.41)	0.00	0.00	0.00
Selling and distribution expenses	(1.40)	(2.22)	(4.37)	(8.63)	(12.70)
Administrative expenses	(23.89)	(18.19)	(50.14)	(99.09)	(145.84)
EBIT	172.86	38.00	221.32	424.86	642.44
Finance Costs	(6.30)	(6.67)	(6.59)	(8.52)	(33.86)
EBT	166.57	31.33	214.73	416.34	608.57
Income tax expenses	(36.09)	(6.39)	(42.95)	(104.08)	(152.14)
Profit for the year	130.48	24.94	171.79	312.25	456.43

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	283.5	608	960
Overall ASP (RMB per W)	17.32	6.18	5.29	4.74	4.42
Gross Margin (%)	30.4%	10.9%	18.9%	18.5%	18.9%

Source: Company data, SBI E2-Capital

Valuation. We continued to use discount cash flow to value Comtec Solar. We revised up our target price by 47.3% to HK\$2.68 per share from HK\$1.82 due to a combination of factors: 1) Excellent execution power shown in the Q2 forecast results; 2) Improved market sentiment towards solar sector in view of China's progress and thus justify a lower discount rate at 15% (previously 17.5%); 3) reduced terminal growth rate due to 2% after 2020.

Based on our target price of HK\$2.68 per share and estimated net profit of RMB171.8m and RMB 312.3m for FY12/10F and FY12/11F, forward P/E will be 14.1x and 7.8x 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)	3,479m	2,542m	1,887m
CNY / HKD	1.1374	1.1374	1.1374
Market cap (HK\$)	3,710m	2,761m	2,147m
number of shares	1,031.7m	1,031.7m	1,031.7m
Target price	HK\$3.60	HK\$2.68	HK\$2.08

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	1.3
Implied P/E (x)	14.1	7.8	5.3
Implied EV/EBITDA (x)	8.5	5.0	3.6

Source: SBI E2-Capital

Peers comparison. Since our last report stock prices of various solar companies varies. Based on current market consensus, Comtec Solar is trading at 10.5x and 5.2x P/E for FY12/10F and FY12/11F, much lower than average of 14.7x and 10.9x for FY12/10F and FY12/11F. Comtec Solar is our top pick in the sector.

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	3,480.0	2.7	5.5	18.6	14.4
WAFER WORKS CORP	6182 TT	12/2009	1,675.6	1.8	(3.6)	16.4	10.7
GREEN ENERGY TEC	3519 TT	12/2009	1,635.7	1.6	1.8	12.9	13.2
SOLARGIGA ENERGY	757 HK	12/2009	396.4	1.9	(7.4)	23.0	12.5
COMTEC SOLAR	712 HK	12/2009	270.0	1.7	3.1	10.7	5.4
LDK SOLAR CO-ADR	LDK US	12/2009	115.2	1.0	(28.8)	11.7	10.2
RENESOLA LTD	SOLA LN	12/2009	56.7	1.7	(16.3)	7.8	6.8
PV CRYSTALOX SOL	PVCS LN	12/2009	32.7	1.2	11.7	16.6	12.4
			Average	1.7	(4.2)	14.7	10.7

Source: Bloomberg

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