

## Singyes Solar

### Hunan plant commencing operation

to summarize...

- To emerge as a solar application company from system integration
- Hunan plant commenced operation in Jul with 30% to 50% utilization in Sep
- Hunan plant 20MW roof-top under "Golden Sun Project" to contribute next year
- Overall BIPV projects speed up since May this year due to expiry later this year
- Consensus valuation at 4.8x and 3.5x for FY12/11F and FY12/12F

**Singyes Solar from system integrator to solar application company.** Singyes Solar was a system integrator which provides building integrated photovoltaic (BIPV) solution emerging from conventional curtain wall business. For 1H FY12/11A, Singyes was involved in 28 BIPV projects, contributing 28.8% of RMB997.7m turnover in the period. On the other hand, sales of renewable energy products were RMB186.8m, representing 18.7% revenue. That said, contribution of solar related businesses continued increased to 47.6% from 31.1% a year ago. The management expects BIPV and solar products to contribute 60% of revenue in the coming year and positions the company as an integrated solar application provider.

**Hunan plant commenced operation this Jul.** In Jul this year, its new production base in Hunan commenced operation. During our visit in late Sep, around 30% to 50% of total capacity was installed and put into operation, and may reach 70%-80% by the end of the year. It mainly involves fabrication of soled solar panels and other building materials such as glass and steel. In addition to design and fabrication capacity, Singyes also planned equipments for 200MW cells sputtering in Hunan. Singyes sources cells and creates colour cells of high variety for its BIPV customers. Furthermore, the company is constructing a 20MW roof-top under "Golden Sun Project" for itself and plans 8MW smart grid demonstration program in the new plant. Photos at the end of the report show the new production plant, roof-top panels, demo solar house as well as coloured cells of Hunan plant.

**New tariff regime in China and Singyes illustration case.** NDRC announced a nationwide solar PV on-grid tariff earlier that officially fixes a reasonable rate of return aiming to boost demand. For projects approved prior to 1 Jul 2011, applicable on-grid tariff (including tax) would be RMB1.15 per kWh. While for projects approved after 1 Jul 2011, applicable on-grid tariff would be RMB1.00 per kWh. While it appears to be good news for a confirmed feed-in-tariff with fair IRR, level of subsidy is actually lower compared to "Golden Sun Project". For instance, Singyes is constructing 20MW solar system on roof-top of Hunan plant approved under "Golden Sun Project" and expected to contribute stable cash from 2012 onwards. Under previous regime, 50% to 70% construction cost will be subsidized with extra RMB4.0-6.0 per W subsidy on other expenses. With that, total subsidy can be up to RMB10.0-20.0 per W. Meanwhile, under new regime, tariff of RMB1.0 for 1,650 sun hours (5 hours x 330 days) without subsidy on CAPEX represents an IRR of 13.9%.

**Table 1. IRR estimation of 20MW roof-top under new regime**

Basic assumption			
Life of PV project (years)	20		
Number of sun hours a year (hours)	1,650		
New regime			
On-grid tariff including tax (RMB)	1.00		
System cost (RMB per W)	12.5	IRR	13.9%

Source: SBI E2-Capital

Ticker	0750 HK
Rating	Not Rated
Price (HK\$)	3.45
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	3.20 - 8.26
Market cap. (US\$m)	232.5
Daily t/o (US\$m)	1.2
Free float (%)	62.2

#### Financial summary

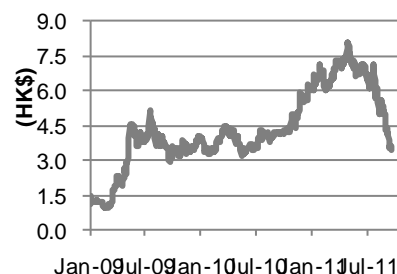
Year to Dec	08A	09A	10A
Turnover (RMBm)	903.3	1,247.4	1,782.4
Net Profit (RMBm)	103.5	151.1	216.4
EPS (RMB)	0.197	0.287	0.412
P/E (x)	14.4	9.8	6.9
P/B (x)	4.2	2.4	1.6
EV/EBITDA (x)	12.3	8.2	6.5
Yield (%)	0.0	1.8	1.1
ROE (%)	29.5	24.1	23.2
ROCE (%)	29.5	24.1	23.2
N. Gear. (%)	Net cash	Net cash	5.9

Source: SBI E2

	11F	12F	13F
Consensus EPS (RMB)	0.60	0.80	1.06
Previous earnings (RMBm)	--	--	--
Previous EPS (RMB)	--	--	--

#### Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	(30.3)	(39.2)	4.7
Actual price changes (%)	(38.3)	(51.5)	(17.7)



Source: Bloomberg

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**Business model of Singyes in BIPV segment.** Singyes acquire contracts by participating in tenders, receiving referrals and directly contacting building owners. After preliminary study of the building structure, Singyes quote a lump-sum price for BIPV to building owners with return estimations. At the same time, Singyes also assists the building owner on application of possible subsidy and related procedures. Through Singyes, building owners receive subsidy upon completion of approved projects. As such, building owners consider whether payback period justify upfront extra investment on BIPV. Therefore, selling prices of modules indirectly affect return while government subsidy directly affect payback period. While for Singyes, lump-sum price is actually considered on price per W basis. According to our channel checks, Singyes lately charges customers around RMB18-20 per W. If total cost for materials, fabrication and installation stays at RMB12.5 per W, Singyes can capture between 30% to 40% gross margin. While 30% to 40% gross margin looks high, it is generally not the concern of building owners. If prices of modules and other supporting materials go up, there is pressure on margin for Singyes and possibly a prolonged payback period for potential clients. In contrary, falling prices of modules represents good opportunities for Singyes, and this is the case since Q2 this year.

**Impact of falling on solar application companies such as Singyes.** In 2011, sharp fall in ASP of modules and cells in Q1-Q2 pressured manufacturers. Margin squeeze was partly passed to wafer producers in Q2 and then poly producers. Singyes is a system integrator that enjoys a stable margin. Pressure is especially small on current downtrend of module prices. For instance, Singyes charges on BIPV customers up to RMB18.0-20.0 per W, according to our channel checks. However, cost on Singyes side including panels, inverters, balance of systems and other supporting materials may be below RMB15 per W as it is on a downtrend. We believe Singyes may enjoy a good margin at least for 2H this year compared to its peers engaging up-stream manufacturing. For 2H, with its new factory plant in Hunan, sales volume may further increase possibly in the second half of 2011 with relatively stable profit margin. In addition, the company has acquired an additional piece of land in Zhuhai in May this year. This 125,639sqm land is planned to accommodate a new Zhuhai-based production plant which targets overseas market.

**Projects speeding up since May this year and longer-term outlook.** Projects entitled to subsidy from "Golden Sun Project" granted last year must be completed soon before Sep. Management indicated that Singyes is completing more BIPV projects since May this year in order for their clients to enjoy the approved subsidy. For BIPV segment, in past years, Singyes recognized 30%-40% revenue in 1H. For 2011, Singyes is expected to recognize a better portion of full year revenue in late Q2 and Q3. That said, 2H numbers are expected to be satisfactory. In longer-term, China in May this year announced a raised solar target of 10,000MW by 2015 and 50,000MW by 2020 on policy side. On the market side, due to recent decline in module price and first fixed tariff, demand for BIPV and building attached photovoltaic (BAPV) system is expected to increase on higher IRR for building owners. That said, while ASP of modules affect IRR of owners and thus overall demand, as a solution provider, Singyes continue to enjoy attractive gross margin of 30%+ both in 2010 when price was on the rise and in 2009 / 2011 when price was on a sharp fall.

**Historical financial results overview.** Singyes announced 2011 interim results in Aug. Revenue increased 44.9% YoY to RMB997.7m for 1H FY12/11A, of which 84% of the increment was contributed by BIPV and sales of solar related products. While costs of modules continued to fall since Q1 this year, impact on Singyes was minimal that gross margin of its solar related segments stayed at 30%-35% within 1 pcp change YoY. Nevertheless, with product mix shifting towards solar related segments, overall gross profit margin and net profit margin improved to 24.6% and 10.9% respectively for the period. Net profit for the period was RMB108.9m. Table 2 and Table 3 show historical profit and loss on full-year basis and half-year basis. Table 4 shows a summary of balance sheet items.

**Table 2. Historical profit and loss (Full-year)**

RMB m	FY12/07A	FY12/08A	FY12/09A	FY12/10A
Revenue	604.7	903.3	1,247.4	1,782.4
Cost of sales	(492.8)	(716.3)	(953.9)	(1,344.9)
Gross profit	111.9	187.0	293.4	437.6
Other income and gains	0.4	1.6	6.2	7.7
Other expenses	(0.7)	(22.5)	(4.7)	(6.6)
Selling and distribution expenses	(7.6)	(11.0)	(19.2)	(29.5)
Administrative expenses	(24.0)	(37.1)	(86.0)	(113.7)
EBIT	80.0	118.0	189.7	295.6
Finance Costs	(1.4)	(0.9)	(8.2)	(14.1)
EBT	78.6	117.1	181.5	281.5
Income tax expenses	(8.2)	(13.5)	(30.3)	(65.0)
Profit for the year	70.4	103.6	151.2	216.5
Net profit	70.3	103.5	151.1	216.4
Reported EPS (RMB)	0.143	0.211	0.308	0.441

Source: SBI E2-Capital

**Table 3. Revised profit and loss forecast (Half-year)**

RMB m	1H FY12/10A	2H FY12/10A	1H FY12/11A
Revenue	688.55	1,093.90	997.70
Cost of sales	(534.08)	(810.78)	(752.28)
Gross profit	154.46	283.12	245.43
Other income and gains	2.00	5.71	1.92
Other expenses	(2.38)	(4.17)	(2.48)
Selling and distribution expenses	(13.17)	(16.31)	(20.02)
Administrative expenses	(57.83)	(55.84)	(73.42)
EBIT	83.09	212.51	151.42
Finance Costs	(5.32)	(8.80)	(13.01)
EBT	77.77	203.71	138.41
Income tax expenses	(18.32)	(46.65)	(29.81)
Profit for the year	59.45	157.05	108.60
Net profit	59.40	157.02	108.88

**Table 4. Selected balance sheet items**

RMB m	FY12/08A	FY12/09A	FY12/10A
Non-current assets	66	136	359
Property, plant and equipment	57	111	267
Other non-current assets	10	25	92
Current assets	483	990	1,378
Construction contracts	59	53	72
Trade receivables	316	560	795
Cash and cash equivalents	71	337	414
Other current assets	37	40	96
Non-current liability	0	61	197
Interest bearing bank loans	0	53	177
Other non-current liabilities	0	8	20
Current liabilities	111	226	477
Trade payables	36	74	74
Other payables and accruals	49	59	82
Interest-bearing bank loans	10	79	300
Other current liabilities	15	14	21
Total Equity	438	839	1,063

Source: SBI E2-Capital

**Our view and valuation.** As we have discussed, Singyes is expected to enjoy a reasonably high gross margin of 30%+ and increased demand for BIPV solution driven by policy factors and market factors. Nevertheless, earnings visibility is relatively limited due to short contract delivery period within 6 months. By mid-Aug, RMB1.4b out of RMB2.3b contracts on hands is expected to recognize in 2H this year, representing 30% to 40% top-line growth for 2011 over 2010. According to Bloomberg consensus, net profit for FY12/11F would be RMB310.5m, which include slight margin expansion for 43.5% YoY growth in bottom-line. On P/E basis, the counter is trading at 4.8x and 3.5x for FY12/11F and FY12/12F. We remain positive towards solar application provider including Singyes Solar. Table 5 shows peers valuation statistics for selected HK-listed companies.

**Table 5. Historical profit and loss (Full-year)**

Company	Ticker	Fiscal year	Mkt Cap (US\$m)	P/E (x) 1-year fwd	P/E (x) 2-year fwd	P/B
GCL-POLY ENERGY	3800 HK Equity	12/2010	4,110.9	4.7	4.2	2.0
SOLARGIGA ENERGY	757 HK Equity	12/2010	221.5	5.8	4.0	0.6
COMTEC SOLAR	712 HK Equity	12/2010	158.6	5.6	3.8	0.5
SHUNFENG PV	1165 HK Equity	12/2010	90.1	n.a.	n.a.	n.a.
TRONY SOLAR	2468 HK Equity	06/2011	266.3	2.2	1.8	n.a.
CHINA SINGYES SOLAR	750 HK Equity	12/2010	232.6	4.8	3.5	1.3

Source: Bloomberg



Photo set 1. Newly commenced factory unit in Hunan



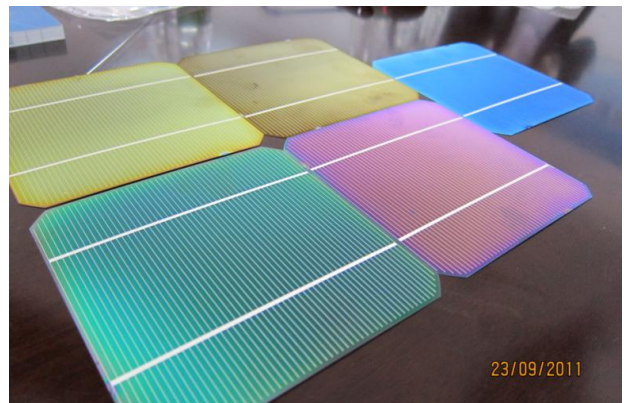
Photo set 2. Hunan factory 20MW Roof-top under "Golden Sun Project"



Photo set 3. Solar house demonstration in Hunan



Photo set 4. House-modified cell with colour appeal



Source: Site visit

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

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