

Singyes Solar

BIPV construction engineering that matters

to summarize...

- 97% gross profit incremental from BIPV business in 1H 2012A
- Business economics enjoy high BIPV target in China by 12th 5-year-plan
- Singyes offers 17% pre-tax IRR to industrials on Golden Sun Program 2012
- BIPV continues to be growth driver in 2H of increasing number of EPC projects
- Grand plan of developing solar farm investment segment as a business unit
- Valuation at 5.5x 2012F and 4.6x 2013F P/E based on Bloomberg consensus

97% gross profit incremental from BIPV business in 1H 2012A. For 1H FY12/12A, Singyes Solar announced strong income and profit growth YoY. In the latest interim, the company recognized RMB1,289m revenue, up 29% YoY from a year ago, of which BIPV income increased 77% to RMB509m. On gross profit measurement, 97% increment in 1H 2012A came from BIPV segment. Under our estimation of 30%-35% gross margin for BIPV projects, we expect Singyes has completed ~40MW BIPV project in 1H 2012A, versus ~10MW in 1H 2011A and ~25MW in 2H 2011A. Net profit for the period increased 24% YoY to RMB136m for the period. We believe BIPV pipeline from Golden Sun Program and Roof-top Program in China is determinant to Singyes performance in short-term. For instance, with 90MW EPC BIPV projects granted in 2012, at least 50MW EPC projects are to be completed 2H this year. Upside remains on other owners of Golden Sun Program projects to rely on Singyes to rush for completion in 2012A for entitlement of subsidy.

Table 1. Singyes 1H FY12/12A key statistics

	1H 2011A	2H 2011A	1H 2012A	YoY
Revenue	998	1,408	1,289	+29%
BIPV revenue	288	538	509	+77%
Other revenue	710	870	780	+10%
Gross profit	245	335	319	+30%
BIPV gross profit	103	176	175	+70%
Other gross profit	142	159	144	+1%
Net profit	110	181	136	+24%
Est. BIPV completed in MW	~10	~25	~40	--
Est. margin at 30%-35% (RMB per W)	~10	~7	~4.5	--

Source: SBI E2-Capital

Business economics enjoy high BIPV target in China by 12th 5-year-plan. This Jul, National Energy Administration (国家能源局) issued 《太阳能发电发展“十二五”规划》, raising solar installation target by 40% to 21GW by end of 2015F. 10GW of which is designed as distributed generation such as BIPV (building integrated photovoltaic) and BAPV (building attached photovoltaic) applications mainly for eastern coast of China. Singyes business focus emerged from conventional curtain wall towards BIPV and BAPV system integrator since 2007 and BIPV accounted for 55% gross profit in 1H 2012A. Since 2008, Singyes continued to earn 30%-40% BIPV gross margin on providing total PV solution to building owner from project design, subsidy application to installation matters. In 2010, its 20MW solar farm project on the roof top of its factory premises in Hunan was short-listed in the “2010 Golden Sun Demonstration Project” and passed technical inspection in mid 2012. Singyes benefit exactly from the new policy direction with its expertise in building construction engineering, solar PV execution and subsidy application, in our view.

Ticker	0750 HK
Rating	Not Rated
Price (HK\$)	3.92
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	2.37 - 4.17
Market cap. (US\$m)	317.0
Daily t/o (US\$m)	0.69
Free float (%)	61.6

Financial summary

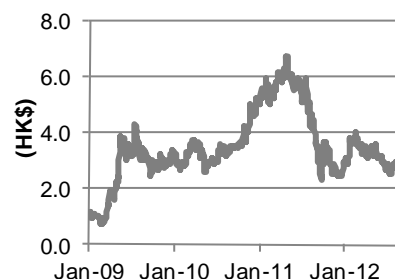
Year to Dec	09A	10A	11A
Turnover (RMBm)	1,247.4	1,782.4	2,406.2
Net Profit (RMBm)	151.1	216.4	290.9
EPS (RMB)	0.239	0.343	0.568
P/E (x)	13.3	9.3	6.9
P/B (x)	3.2	2.1	1.5
EV/EBITDA (x)	10.9	8.1	6.7
Yield (%)	1.5	0.9	1.2
ROE (%)	24.1	23.2	21.6
ROCE (%)	17.7	18.3	17.6
N. Gear. (%)	Net.cash	6.0	31.8

Source: SBI E2

	11F	12F	13F
Consensus EPS (RMB)	0.580	0.686	0.769
Previous earnings (RMBm)	--	--	--
Previous EPS (RMB)	--	--	--

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	12.6	30.3	37.8
Actual price changes (%)	18.8	40.5	62.8



Source: Bloomberg

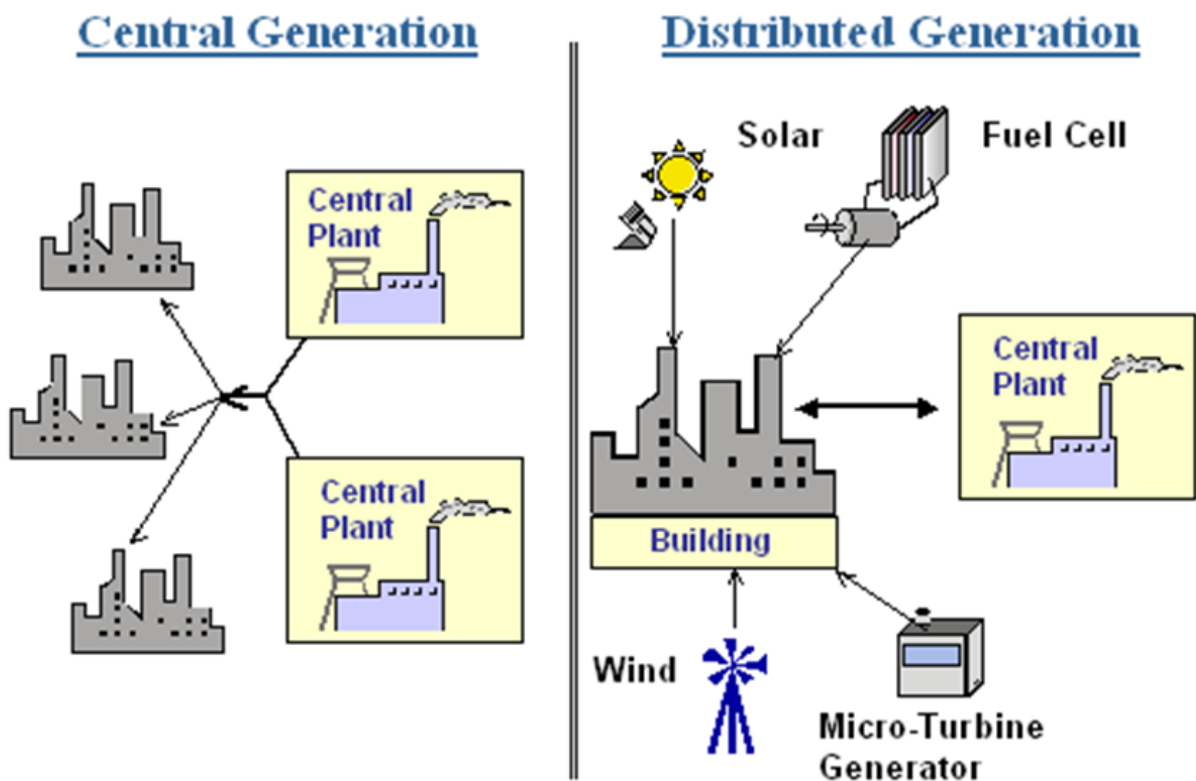
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New solar target of 21GW by 2015F and 50GW by 2020F with continued emphasis on BIPV solution. Solar installed capacity target by 2015F was repeatedly revised from 5GW to 10GW to 15GW and finally set at 21GW in Jul 2012. Table 2 shows a detailed breakdown of the target in 2015F and 2020F. For 2015F, as we have mentioned, of 21GW total installed capacity target, 10GW is designed for distributed generation purpose. Distributed generation is an approach that employs small-scale technologies to produce electricity close to end users of power. In many cases, distributed generators can provide lower-cost electricity and higher power reliability. Distributed generation takes place on two-levels: the local level and the end-point level. Local level power generation plants often include renewable energy technologies that are site specific, such as wind turbines, geothermal energy production, solar systems (photovoltaic and combustion), and some hydro-thermal plants. These plants tend to be smaller and less centralized than the traditional model plants. At the end-point level the individual energy consumer can apply many of these same technologies with similar effects. In the case of solar PV, building owner could utilize BIPV / BAPV techniques for power generation. DG technologies can operate as isolated "islands" of electric energy production or they can serve as small contributors to the power grid. From 2010A to 2020F, DG is expected to consist of 50%+ installed capacity out of total in China. On the other hand, since there were 0.60GW and 1.71GW Golden Sun Program for projects 2011 and 2012 respectively, in the coming 2 years until 2015F BIPV demand could be up to 3GW+ a year, in our view.

Table 2. New target in 12th 5-year-plan

	2010A	2015F	Remarks for 2015F	2020F
Total solar farm	0.45GW	11GW		23GW
Solar PV farm	0.45GW	10GW	Solar / wind-solar / hydro-solar farm	20GW
Solar thermoelectric farm	0GW	1GW	Develop demonstration projects	3GW
Distributed generation	0.41GW	10GW	BIPV / BAPV; Industrial / Economic zone usage	27GW
Total	0.86GW	21GW		50GW

Illustration 1. Solar in distributed generation (DG) vs central generation



Source: National Fuel Cell Research Centre, University of California, Irvine

Singyes offers 17% pre-tax IRR to industrials on Golden Sun Program 2012. Since announcement of Golden Sun Program in 2009, Singyes obtain 8.5%+ shares in the subsidy program in the last 3 years, receiving 24MW, 60MW and 150MW projects respectively (including both EPC and self-invested projects). Table 3 shows Singyes share in Golden Sun Program between 2010 and 2012 with respective level of subsidy. While subsidy fell from RMB12 per W for 2010 projects to RMB9 for 2011's and then to RMB5.5 for 2012's, as a percentage of system cost of the particular year the subsidy ratio was on the rise from around 50% for 2010 to 65% for 2012. As such, post-subsidy system cost was down to as low as RMB3 per W in 2012A largely on sharp decline in system costs that fully absorbed decrease in government subsidy. Table 4 is an IRR illustration of 2012 projects from project owner point of view with zero financial leverage. Under our assumptions below, 20-year IRR of 2012 projects could reach 17% with Golden Sun Program subsidy support.

Table 3. Singyes share in China Golden Sun Program

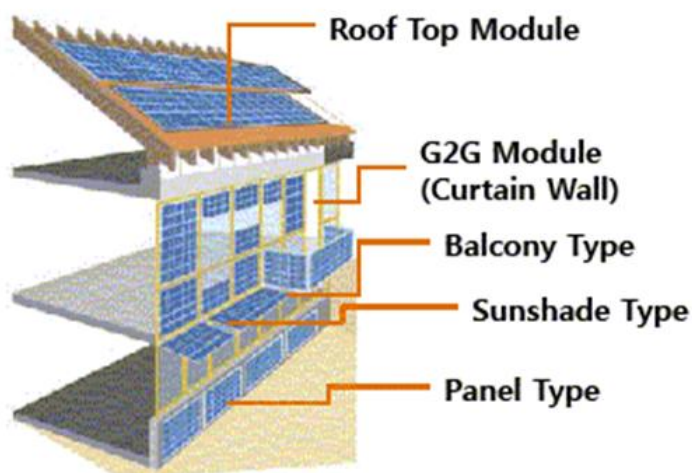
	2010 projects	2011 projects	2012 projects
Singyes Solar	24	60	150
Others	248	540	1,559
Golden Sun Program for the year	272	600	1,709
Reference system cost (RMB per W)	25	15	8.5
Level of subsidy (RMB per W)	12	9	5.5

Table 4. Pre-tax IRR illustration of 20MW roof-top of Singyes offer

	China BIPV - no subsidy	China BIPV with Golden Sun
<u>Basic settings</u>		
Illustration size (MW)	20.0	20.0
Reference tariff (RMB per kWh)	0.625	0.625
<u>Basic assumptions</u>		
System cost (RMB per W)	8.5	8.5
Total installation cost (RMB per W)	11.1	11.1
Pre-subsidy cost (RMBm)	222.0	222.0
Post-subsidy cost (RMBm)	--	112.0
Operating and maintenance (% of revenue)	-1.5%	-1.5%
Number of sun hours a day	5	5
Number of days with sufficient sunlight	270	270
<u>Outcome</u>		
Cash sales income per year (RMBm)	16.88	16.88
Pre-tax cash income per year (RMBm)	16.62	16.62
<u>Pre-tax project IRR</u>	4.7%	16.5%

Source: SBI E2-Capital

Illustration 2. Potential types of modules in BIPV / BAPV applications



Source: SIS Solar Ventures

BIPV continues to be growth driver in 2H of increasing number of EPC projects. Table 5 shows Singyes participation in Golden Sun Program 2012. As mentioned earlier, Singyes obtained 150MW BIPV projects for 2012. Noted that, however, around 90MW are EPC projects from third-party that there are around 60MW self-investment projects located in Hunan and Guangdong. If Singyes is to complete the 90MW 2012 EPC projects this year, the company is estimated to complete another 50MW BIPV projects. In addition, Singyes obtained 15.7MW Solar Roof-top Program 2012. As such, EPC delivery in 1H and 2H may be up to 40MW and 64.9MW respectively according to our estimation. If Singyes obtain another 10MW EPC Golden Sun 2012 projects from other project owner in 2H, total completion of EPC BIPV projects would be up to 75MW in 2H. Assuming an average of RMB4 per W gross profit for BIPV projects, segment gross profit could be up to RMB300m, which represents another 70% YoY increase in 2H. Even if other segments record no YoY increase in gross profit, total gross profit may go up to RMB778m in 2012F under the above assumptions, up from RMB580m in 2011A.

Table 5. Singyes EPC potential in 2012F

Name of project	Size / potential size	EPC potential for 2012F
Golden Sun Program 2012 granted	150.0MW	
Golden Sun Program 2012 self-investment projects	60.8MW	
Golden Sun Program 2012 projects of third-party owner	89.2MW	
Solar Roof-top	15.7MW	
Extra Golden Sun Program 2012 EPC	10.0MW	114.9MW

Source: SBI E2-Capital

Grand plan of developing solar farm investment segment as a business unit. Singyes completed the 20MW roof-top under “2010 Golden Sun Demonstration Project” on its factory in Hunan. For 2012 projects, the company expects to invest in its 60MW self-investment projects. Upon completion, Singyes will own as much as 80MW BIPV solar projects itself. The management expects to further building up considerable size of solar farm portfolio as a diversification. We believe First Solar (FSLR US) has demonstrated a good way to make money during this difficult time for solar industry. It typically sells its projects to an energy company once it received relevant permits. With financing arranged and utility secured to buy electricity, the transaction can be done. For Q1 this year, about 53% of US\$497m sales of First Solar came from developing and selling solar farms. With strong project pipeline, Warren Buffett and NextEra Energy (NEE US) are among the company's best customers. As for Singyes, with strong pipeline in China in Golden Sun Program as well as Solar Roof Top Program, solar farm investment segment can 1) target to sell projects at a margin in short-run; or 2) grow the segment for potential spin-off in medium-term; or 3) generate stable cash flow over long-run. In any case, we believe Singyes is to maintain a balance between improving its profitability and staying at tolerable financial leverage

Table 6. Singyes participation in Golden Sun Program 2012

Name of project	Project size
Total	150.0MW
Projects of third-party owner	89.2MW
Self-investment projects	60.8MW
湘潭国家级经济开发区集中连片光伏发电项目（二期）	30.7MW
湖南常德经济技术开发区屋顶光伏发电项目	20.1MW
兴业太阳能广东艺华铝业光伏屋顶示范项目	5.0MW
珠海高新区兴业新能源产业园屋顶光伏发电及智能微电网示范项目	5.0MW

Source: SBI E2-Capital

Increasing CAPEX and working capital to be supported by financial institutions. At end of Jun this year, Singyes had RMB345m cash on hand and RMB867m short-term bank loan. As such, net debt was RMB522m versus shareholders' equity of RMB1,645m. Singyes is currently financially healthy despite heavy working capital needed mainly in terms of receivables. In Aug this year, Singyes announced that China Development Bank granted a RMB41m 10-year term loan to the company at PBOC 5-year rate plus 5% (not 5 pcp), which is at present 6.8775% on 6.55% benchmark rate. Singyes believe the term loan represented support from CDB and the government. It may be relatively easier for Singyes to secure additional loans from other banks in the future.

Table 7. China Development Bank 10-year term loan support to Singyes

<u>By end of 1H FY12/12A</u>	
Cash and cash equivalents	RMB345m
Interest-bearing bank loans	RMB867m
Net Debt	RMB522m
Shareholders' equity	RMB1,645m
China Development Bank line	10-year term loan of RMB41m Interest rate at PBOC 5-year rate plus 5% (not 5 pcp)

Source: SBI E2-Capital

Profit and loss summary. Table 8 and table 9 show profit and loss summary of Singyes Solar on yearly basis and half-yearly basis respectively. While there were substantial decrease in solar panel prices and ongoing concerns on trade war among US-China and EU-China, Singyes continued to see strong top-line growth and experienced slight improvement in net margin from 11% towards 12% from FY12/08A to FY12/11A. For Singyes as a system integrator, panel price reduction was merely raw material cost reduction. As Singyes kept minimal inventory such as RMB128m by end of Jun 2012, profit margin of Singyes was largely stable. Table 10 shows detailed revenue breakdown as well as gross profit margin for 1H F2012A of Singyes.

Table 8. Full year profit and loss summary

RMB m	FY12/08A	FY12/09A	FY12/10A	FY12/11A
Revenue	903.3	1,247.4	1,782.4	2,406.2
Cost of sales	(716.3)	(953.9)	(1,344.9)	(1,825.6)
Gross profit	187.0	293.4	437.6	580.6
Other income and gains	1.6	6.2	7.7	41.8
Other expenses	(22.5)	(4.7)	(6.6)	(6.0)
Selling and distribution expenses	(11.0)	(19.2)	(29.5)	(48.1)
Administrative expenses	(37.1)	(86.0)	(113.7)	(160.8)
EBIT	118.0	189.7	295.6	407.5
Finance Costs	(0.9)	(8.2)	(14.1)	(36.0)
EBT	117.1	181.5	281.5	371.5
Income tax expenses	(13.5)	(30.3)	(65.0)	(80.0)
Profit for the year	103.6	151.2	216.5	292.8
Net profit	103.5	151.1	216.4	290.9
Reported EPS (RMB)	0.211	0.308	0.441	0.568

Table 9. Half-year profit and loss summary

RMB m	1H FY12/11A	2H FY12/11A	1H FY12/12A
Revenue	997.7	1,408.5	1,288.8
Cost of sales	(752.3)	(1,073.3)	(970.1)
Gross profit	245.4	335.2	318.7
Other income and gains	1.9	39.9	7.3
Other expenses	(2.5)	(3.5)	(3.4)
Selling and distribution expenses	(20.0)	(28.1)	(27.3)
Administrative expenses	(73.4)	(87.4)	(90.4)
EBIT	151.4	256.1	204.9
Finance Costs	(13.0)	(23.0)	(31.9)
EBT	138.4	233.1	173.0
Income tax expenses	(29.8)	(50.2)	(37.8)
Profit for the year	108.6	184.2	135.2
Net profit	108.9	182.0	135.8

Table 10. Detailed sales breakdown and gross profit margin for 1H FY12/12A

	1H FY12/11A	2H FY12/11A	1H FY12/12A	Latest gross margin
Conventional curtain wall	418.9	562.3	493.0	15.3%
- Public work	195.1	208.4	90.2	--
- Commercial and industrial buildings	137.2	299.6	359.7	--
- High-end residential buildings	86.6	54.3	43.1	--
BIPV	287.8	538.2	508.6	34.5%
- Public work	185.9	272.4	180.3	--
- Commercial and industrial buildings	101.9	265.8	328.3	--
Sales of goods	289.4	304.5	284.4	23.8%
- Conventional materials	102.6	153.1	113.9	18.7%
- Renewable energy and new material goods	186.8	151.4	170.5	27.2%
Rendering of design services	0.8	2.3	0.8	--
Sale of electricity	0.8	1.2	2.0	--
Total revenue	997.7	1,408.5	1,288.8	24.7%

Source: SBI E2-Capital

Balance sheet summary and a look into Singyes financing requirement in 2H. Table 11 shows selected balance sheet items since 2009. By the end of Jun 2012, shareholders' equity was RMB1,645m with total bank loan of RMB867m and cash on hand of RMB345m. That said, net debt was RMB522m and net-debt-to-equity ratio was healthy at 32% by end of the latest interim. Here, we simply assume in 2H Singyes merely need additional working capital for extra 35MW BIPV on top of 40MW completed in 1H to achieve 75MW EPC BIPV contracts in 2H. If 15% to 20% working capital is needed for the BIPV business after taking receivables and payables into account on RMB11 per W basis, Singyes may need RMB60m to RMB80m additional working capital. On the other hand, as the company needs to develop its 60MW self-investment projects alone, another RMB500m by end of year is needed on RMB8.5 per W cost basis. That said, Singyes may need RMB500m to RMB600m capital to maintain organic growth in BIPV business as well as to develop solar farm investment segment before receiving Golden Sun Program subsidy of RMB200m. While annual operating cash flow before working capital change was RMB420m in 2011A and may be as high as RMB300m+ in 2H 2012F, internal cash generation in 2H and RMB345m cash on hand are expected to support the said capital requirement before receiving subsidy. Base on this quick estimation, Singyes may have to renew its RMB818m short-term loan while there is no immediate need of securing extra financing especially with CDB 10-year term loan support announced earlier in Aug this year.

Table 11. Selected balance sheet items

RMB m	FY12/09A	FY12/10A	FY12/11A	1H FY12/12A
Non-current assets	136	359	1,440	1,697
Property, plant and equipment	111	267	1,261	1,547
Other non-current assets	25	92	179	150
Current assets	990	1,378	1,510	1,707
Inventories	9	19	64	128
Trade receivables	560	795	992	988
Cash and cash equivalents	337	414	316	345
Other current assets	84	150	138	247
Non-current liability	61	197	249	211
Interest bearing bank loans	53	177	96	49
Deferred income	0	0	115	114
Other non-current liabilities	8	20	38	48
Current liabilities	226	477	1,173	1,541
Trade payables	74	74	298	476
Other payables and accruals	59	82	215	233
Interest-bearing bank loans	79	300	569	818
Other current liabilities	14	21	91	13
Total Equity	839	1,063	1,528	1,653
Shareholders' equity	824	1,044	1,524	1,645

Source: SBI E2-Capital

Valuation at 5.6x 2012F and 4.7x 2013F P/E based on Bloomberg consensus. 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. BIPV segment remains to be short-to-medium term driver. As for solar farm investment, Singyes is expected to utilize its healthy balance sheet for medium-to-long term return. According to Bloomberg consensus, net profit for FY12/12F would be RMB375.5m. On P/E basis, the counter is trading at 5.5x and 4.6x for FY12/12F and FY12/13F. We remain positive towards solar application provider including Singyes Solar. Table 12 shows peers valuation statistics for selected HK-listed companies. Most of its peers focused on manufacturing solar products may not recognize meaningful profit in 2012F and trading at discounted book value compared to 1.4x P/B of Singyes on Bloomberg consensus.

Table 12. Historical profit and loss (Full-year)

Company	Ticker	Fiscal year	Mkt Cap (HK\$m)	P/E (x) 1-year fwd	P/E (x) 2-year fwd	P/B
GCL-POLY ENERGY	3800 HK Equity	12/2011	18,259.8	n.a.	35.8	1.0
TRONY SOLAR HOLD	2468 HK Equity	06/2011	998.4	n.a.	n.a.	0.3
COMTEC SOLAR	712 HK Equity	12/2011	895.8	n.a.	7.2	0.5
SOLARGIGA ENERGY	757 HK Equity	12/2011	874.4	n.a.	n.a.	0.5
SHUNFENG PHOTOVO	1165 HK Equity	12/2011	269.9	n.a.	n.a.	0.3
CHINA SINGYES SO	750 HK Equity	12/2011	2,529.3	5.6	4.7	1.4

Source: Bloomberg

Table 13. Major shareholders

	Shareholding
Chairman Liu Hongwei	38.32%
Public	61.68%
Total	100.00%

Source: HKEx

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