

## Solargiga Energy

### Cushioned by vertical integration model

to summarize...

- Net profit RMB113m up 174% YoY; below expectation yet satisfactory
- 2H FY12/11F numbers further lowered on expected slow 3Q recovery
- Revised net profit for FY12/11F and 12F were to RMB258.3m and RMB437.3m
- The ticker fell to as low as HK\$0.98, 7.0x 11F P/E based on revised forecast
- Revise reference target price lowered to HK\$1.74 (from HK\$2.32)

**Interim results below expectation yet satisfactory.** Solargiga announced interim results for 1H FY12/11A last week. Revenue came in at RMB1,274m, up 60% YoY. However, it was 6.7% lower than our previous estimates on lower-than-expected ASP of solar products. Gross profit margin was up to 23% for the period compared to 12% a year ago yet falling from a high level of 30% in 2H last year. Net profit was RMB113m for 1H FY12/11A, up from RMB41m a year ago. While it was satisfactory, it was actually 11% lower than our previous estimates. Table 1 shows key financial items for the past 3 interims. Table 2 shows the degree of deviation of the actual performance from our previous estimates.

**Table 1. Actual figures for the past 3 interims**

RMBm	1H FY12/10A	2H FY12/10A	1H FY12/11A	YoY
Revenue	796	1,058	1,274	+60%
Gross profit	95	318	287	+202%
Net Profit	41	173	113	+174%
Gross margin	12%	30%	23%	+11 pcp
Shipment (MW)	155	187	218	+41%

**Table 2. Actual figures for 1H FY12/11A and previous estimates**

RMBm	1H FY12/11A	Our estimates	Deviation
Revenue	1,274	1,365	(6.7%)
Gross profit	287	313	(8.3%)
Net Profit	113	127	(11.0%)
Overall shipment (MW)	218	228	(4.4%)
N-series products (MW)	12	n.a.	n.a.

Source: SBI E2-Capital

**Outlook for 2H onwards.** In our last update in Jul, we predicted 2Q was more or less a nil bottom line contributing quarter. That became reality that the net profit of RMB113m was largely contributed by 1Q. While 2H this year should not regain gross margin level of ~30% as 2H last year and Q1 this year, we believe change in product mix of increasing output of downstream products would support some recovery overall gross margin in 2H. Besides, near-doubling of shipment in 2H compared to 1H should partly offset the impact of margin squeeze. That said, while 2H FY12/11F would be weaker than 2H last year, we continue to expect a satisfactory YoY growth for 2011 full year. Table 3 shows revised forecast and assumptions for the coming 3 interims. Net profit forecast for 2H FY12/11F, 1H FY12/12F and 2H FY12/12F are RMB153m, RMB200m and RMB237m respectively partly on high shipment growth, especially in 2H this year.

Ticker	0757 HK
Rating	Not Rated
Price (HK\$)	1.12
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	0.98-2.64
Market cap. (US\$m)	322.0
Daily t/o (US\$m)	0.9
Free float (%)	65.8

#### Financial summary

Year to Dec	09A	10A
Turnover (RMBm)	659	1,855
Net Profit (RMBm)	(98.1)	214.1
EPS (RMB)	(0.054)	0.118
P/E (x)	-	7.8
P/B (x)	1.2	1.0
EV/EBITDA (x)	-	5.3
Yield (%)	0.0	3.7
ROE (%)	-	14.3
ROCE (%)	-	16.3
N. Gear. (%)	5.9	12.6

Source: SBI

	11F	12F	13F
Consensus EPS (RMB)	0.135	0.190	0.190
Previous earnings (RMBm)	323.4	547.6	--
Previous EPS (RMB)	--	--	--

#### Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)			
Actual price changes (%)			



Source: Bloomberg

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**Table 3. Revised forecasts and assumptions for 2011 and 2012**

	1H FY12/11A	2H FY12/11F	1H FY12/12F	2H FY12/12F
Ingot shipment (F) MW	16	40	50	60
Wafer shipment (F) MW	70	150	180	245
Cell shipment (F) MW	74	80	70	55
Module shipment (F) MW	16	40	50	80
Processing (F) MW	42	90	90	120
Total shipment (F) MW	218	400	440	560
Revenue (RMBm)	1,274	1,718	1,775	2,106
Overall gross margin	23%	21%	23%	23%
Overall net margin	9%	8%	11%	11%
Net profit (RMBm)	113	153	200	237
EPS (RMB)	0.050	0.068	0.089	0.106

Source: SBI E2-Capital

**Profit and loss forecasts.** Table 4 shows our revised profit and loss for 2H FY12/12F. Table 5 shows profit and loss forecast on full-year basis. Net profit for FY12/11F and FY12/12F were adjusted to RMB258.3m and RMB437.3m from RMB323.4m and RMB547.6m, which mainly reflects defer in major recovery to 1H FY12/12F rather than 2H this year.

**Table 4. Profit and loss forecast (Half-year)**

RMB m	1H FY12/10A	2H FY12/10A	1H FY12/11A	2H FY12/11F
Revenue	796.4	1,058.4	1,274.1	1,718.0
Cost of sales	(701.2)	(740.4)	(986.9)	(1,356.9)
Gross profit / loss	95.2	318.0	287.3	361.1
Other net revenue	12.3	10.9	12.9	0.0
Other net gain	0.1	(2.4)	4.9	0.0
Selling and distribution expenses	(4.3)	(5.4)	(8.0)	(10.7)
Administrative expenses	(42.5)	(81.1)	(137.8)	(128.9)
EBIT	60.9	240.0	159.4	221.5
Profit from associates	0.0	0.0	(0.0)	38.0
Finance Costs	(8.4)	(9.6)	(19.1)	(27.7)
EBT	52.6	230.3	140.2	231.9
Income tax expenses	(12.0)	(59.4)	(26.9)	(48.5)
Profit for the year	40.5	170.9	113.3	183.4
<b>Net profit</b>	<b>41.2</b>	<b>173.0</b>	<b>113.4</b>	<b>153.1</b>
Minority interest	(0.6)	(2.1)	(0.0)	30.3

**Table 5. Profit and loss forecast (Full-year)**

RMB m	FY12/10A	FY12/11F	FY12/12F
Revenue	1,854.8	2,992.2	3,880.6
Cost of sales	(1,441.5)	(2,343.8)	(2,993.8)
Gross profit	413.2	648.4	886.8
Other net revenue	23.2	12.9	0.0
Other net gain	(2.3)	4.9	0.0
Selling and distribution expenses	(9.7)	(18.7)	(19.4)
Administrative expenses	(123.6)	(266.6)	(310.4)
EBIT	300.9	380.9	557.0
Profit from associates	0.0	38.0	110.1
Finance Costs	(18.0)	(46.8)	(53.8)
EBT	282.9	372.1	613.3
Income tax expenses	(71.4)	(83.5)	(125.8)
Profit for the year	211.4	288.6	487.5
<b>Net profit</b>	<b>214.1</b>	<b>258.3</b>	<b>437.3</b>
Minority interest	(2.7)	30.3	50.2
Reported EPS (RMB)	0.118	0.115	0.195

Source: SBI E2-Capital

**Reference target price lowered to HK\$1.74 (from HK\$2.32).** With slow 3Q recovery, we lowered our reference target price to HK\$1.74, representing 12.5x P/E for FY12/11F on a fully diluted basis. While vertical integration model has already cushioned part of the impact of margin squeeze in 2Q, in our view, we believe further gradual margin improvement is to be seen after Q2. On the other hand, total shipment increased to 115.5MW in Q2 from 102.2MW in Q1. Shipment volume remains on the uptrend. Therefore, we retain our original shipment forecast of 400MW in 2H. We continue to suggest accumulation the counter on weakness.

**Table 6. Major shareholders**

	Shareholding
Chairman Tan Wenhua	28.4%
Director Chong Kin Ngai	6.2%
Wafer Works	15.3%
Others / Public	50.1%
Total	100%

Source: HKEx

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