

Solargiga Energy

Strategic alliance taking shape

to summarize...

- First issue with reference target price at HK\$2.63
- Q3 and Q4 FY12/10A results signal Solargiga turnarounds
- Completed vertical integration of ingot, wafer, cell and module in Jan 2011
- Strategically line up with Hemlock and Suniva for development beyond 2011
- Preliminary P/E est. are 8.5x (FY12/11F) and 6.6x (FY12/12F) after dilution

2010 results summary. Revenue of Solargiga Energy reached a record high at RMB1,855m for FY12/10A. Overall gross profit was RMB413.2m for the period at 22.3% gross margin. Net profit was RMB214.1m since it made a loss of RMB98.1m for FY12/09A. The following table shows continual gross margin improvement is seen for the company, reaching 28.9% and 31.1% for Q3 and Q4.

Table 1. FY12/10A quarterly results

RMB m	Q1 FY12/10A	Q2 FY12/10A	Q3 FY12/10A	Q4 FY12/10A
Revenue	334.5	461.9	504.8	553.6
Gross profit	38.3	57.0	146.0	172.0
Profit for the period	10.6	29.1	83.2	91.2

Source: SBI E2-Capital

Completed vertical model with acquisition of solar cell business. The management spent their effort building a vertical integrated solar company as they intend to enhance production yield and secure supplies as well as customers. In Jan 2011, the company completed acquisition of cell manufacturing business from the Chairman and other vendors at HK\$835.2m by issuing 435m new shares at HK\$1.92 per share for 300MW cell manufacturing capacity. If we conservatively assume 65% utilization rate with US\$0.06 earnings per W, forward P/E for this acquisition is 9.2x, which is a fair valuation, in our view. Upon stabilization towards 80% utilization rate and US\$0.10 earnings per W, P/E would become 4.5x.

Expecting business refocus on ingot, wafer and module Table 2 shows management guidance and our expectation on capacity expansion plan. 2011 should be the first year to reflect near-full year performance of Solargiga vertical chain. Beyond 2011, focus would be more on ingot, wafer and module due to its cooperation with poly supplier Hemlock and cell producer Suniva.

Table 2. End-of-year capacity forecast of Solargiga products

MW	FY12/10A	FY12/11F	FY12/12F	FY12/13F
Attributable ingot	800	1,189	1,393	1,782
Wholly owned (mono)	800	800	800	800
51% subsidiary (mono)	0	400	800	1,200
37% subsidiary (multi)	0	500	500	1,000
Attributable wafer	600	1,085	1,485	2,070
Wholly owned (mono)	600	900	1,300	1,700
37% subsidiary (multi)	0	500	500	1,000
Attributable cell	0	300	375	375
Wholly owned	0	300	375	375
Attributable module	26	77	128	179
51% subsidiary	50	150	250	350

Source: SBI E2-Capital

Ticker	0757 HK
Rating	Not Rated
Price (HK\$)	2.24
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	1.14-2.45
Market cap. (US\$m)	519.3
Daily t/o (US\$m)	2.0
Free float (%)	66.4

Financial summary

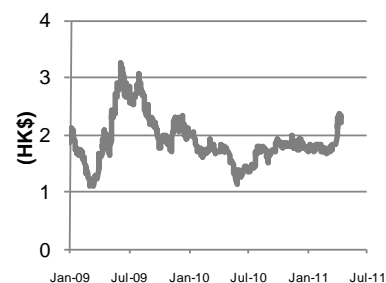
Year to Dec	09A	10A
Turnover (RMBm)	658.7	1,854.8
Net Profit (RMBm)	(98.1)	214.1
EPS (RMB)	(0.05)	0.12
P/E (x)	n.a.	14.92
P/B (x)	2.30	1.99
EV/EBITDA (x)	n.a.	9.6
Yield (%)	0.0	2.0
ROE (%)	-7.4	14.3
ROCE (%)	-7.4	14.3
N. Gear. (%)	5.9	12.6

Source: SBI

	11F	12F	13F
Consensus EPS (RMB)	0.190	0.235	n.a.
Previous earnings (RMBm)	--	--	--
Previous EPS (RMB)	--	--	--

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	24.4	28.0	16.6
Actual price changes (%)	28.0	26.6	26.6



Source: Bloomberg

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Strategic alliance with top solar companies. Suniva from US has been a wafer buyer for Solargiga for years. Throughout solar market ups and downs between 2008 and 2010, Solargiga continued to maintain its output at prices agreed. The management indicated this is the way they win customers. Consequently, it is expected that Suniva is going to build a 500MW to 750MW solar cell production plant in Jinzhou, which is close to Solargiga major manufacturing base's in the city. With estimation of US\$0.08 per W CAPEX on equipment, we expect Suniva to invest between RMB272m and RMB408m in the particular project, which practically has strong tie with Solargiga. Besides, Solargiga signed long-term poly supply contracts with Hemlock (8 years) and Wacker Chemie (6 years). The loose alliance essentially builds a fully integrated value chain producing polysilicon, ingot, wafer, cell and module that could capture solar market uptrend.

Our key assumptions. The following shows our net sales volume assumption for various solar products with overall gross margin. For 2011, focus would be on cell and module volume growth, which is more subject to keen competition among domestic producers, however. Yet overall gross margin would be improved to 28.7% for FY12/11F due to downward extension within the value chain. In the next 3 years, we expect Solargiga to gradually increase wafer contribution and lower cells contribution to net sales.

Table 3. Assumption on net sales and overall gross margin

	FY12/10A	FY12/11F	FY12/12F	FY12/13F
Ingot net sales volume	103	160	255	295
Wafer net sales volume	232	285	510	753
Cell net sales volume	0	145	125	73
Module net sales volume	9	50	130	220
Overall gross margin	22.3%	28.7%	25.9%	27.5%

Source: SBI E2-Capital

Profit and loss forecasts. Table 4 shows our preliminary profit forecast for FY12/11F and FY12/12F are RMB493.8m and RMB639.1m after deducting minority interests. Table 5 shows preliminary profit forecast for half-year periods.

Table 4. Preliminary profit and loss forecast (Full-year)

RMB m	FY12/10A	FY12/11F	FY12/12F
Revenue	1,854.8	3,976.7	5,446.2
Cost of sales	(1,441.5)	(2,836.6)	(4,037.4)
Gross profit	413.2	1,140.0	1,408.8
Other net revenue	23.2	0.0	0.0
Other net gain	(2.3)	(0)	(0)
Selling and distribution expenses	(9.7)	(29.8)	(40.8)
Administrative expenses	(123.6)	(278.4)	(381.2)
EBIT	300.9	831.8	986.7
Profit from associates	0.0	45.9	128.6
Finance Costs	(18.0)	(29.3)	(31.3)
EBT	282.9	848.4	1,084.0
Income tax expenses	(71.4)	(200.6)	(238.9)
Profit for the year	211.4	647.8	845.1
Net profit	214.1	493.8	639.1
Minority interest	(2.7)	154.0	206.0

Table 5. Preliminary profit and loss forecast (Half-year)

RMB m	1H FY12/10A	2H FY12/10A	1H FY12/11F	2H FY12/11F
Revenue	796.4	1,058.4	1,544.7	2,431.9
Cost of sales	(701.2)	(740.4)	(1,071.5)	(1,765.1)
Gross profit / loss	95.2	318.0	473.3	666.8
Other net revenue	12.3	10.9	0.0	0.0
Other net gain	0.1	(2.4)	0.0	0.0
Selling and distribution expenses	(4.3)	(5.4)	(11.6)	(18.2)
Administrative expenses	(42.5)	(81.1)	(108.1)	(170.2)
EBIT	60.9	240.0	353.5	478.3
Profit from associates	0.0	0.0	0.0	45.9
Finance Costs	(8.4)	(9.6)	(14.7)	(14.7)
EBT	52.6	230.3	338.9	509.5
Income tax expenses	(12.0)	(59.4)	(84.7)	(115.9)
Profit for the year	40.5	170.9	254.2	393.6
Net profit	41.2	173.0	232.8	261.0
Minority interest	(0.6)	(2.1)	21.3	132.7

Source: SBI E2-Capital

Peers comparison and valuation. The following table shows Bloomberg forecasts for world wafer producers. While Bloomberg estimation on Solargiga indicates its valuation is above-peers average, with our preliminary estimation P/E for FY12/11F and FY12/12F were 8.5x and 6.6x after dilution (6.9x and 5.3x respectively before dilution). With an average 10x FY12/11F P/E for HK-listed and Taiwan-listed company, our initial reference target price for Solargiga is HK\$2.63.

Table 6. Peers comparison based on market consensus

Company	Ticker	Fiscal Year End	Mkt Cap (US\$m)	P/B (x)	ROE (%)	P/E (x)	
						1-year fwd	2-year fwd
GCL-POLY ENERGY	3800 HK	12/2010	9,473.0	4.5	29.0	<u>10.4</u>	8.6
GREEN ENERGY TEC	3519 TT	12/2010	976.1	2.2	16.5	<u>9.5</u>	8.7
COMTEC SOLAR	712 HK	12/2010	578.9	2.5	17.3	<u>7.3</u>	5.7
SOLARGIGA ENERGY	757 HK	12/2010	519.3	2.4	14.3	<u>9.9</u>	8.0
SINO-AMERICAN	5483 TT	12/2009	1,653.1	2.6	25.2	13.0	<u>10.4</u>
WAFER WORKS	6182 TT	12/2009	471.6	1.9	(3.6)	20.9	<u>13.4</u>
					FY12/11F avg	<u>10.2</u>	
LDK SOLAR	LDK US	12/2010	1,685.9	1.5	27.8	4.9	5.0
RENESOLA	SOL US	12/2010	817.1	1.4	34.4	4.5	4.5

Source: Bloomberg

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