

## Solargiga Energy

### Survived the dark times in 1H

to summarize...

- Reference target price lowered to HK\$2.32 on expected weak Q2 results
- Q2 may recognize lower-end gross margin of expected range of 15% to 25%
- Impact on Solargiga shipment in Q2 is expected to be limited
- Expect margin recovery to be seen since July
- Lowered net profit forecast to RMB126.5m & RMB196.9m for 1H and 2H 2011
- Reference target price represents 13.3x 2011F P/E after dilution

**Update on Q2.** Market prices of solar products fell faster-than-expected in 2011. While ASP of modules and cells continue to fall sharply in Q1 and Q2, the impact is partly transferred to wafers and polysilicon in Q2. As we have discussed in our previous sector update, we expect a margin squeeze this year, yet a low should be seen in Q2 for wafer manufacturers. While there is a longer-term gross margin range between 15% and 25% for wafers, gross margin for Q2 may be as low as 10% to 15%, according to our channel checks. We would downward revise sales, shipment and profit forecast for the coming years. Nevertheless, we remain positive towards wafers and polysilicon producers. For instance, GCL-Poly (3800 HK) issued a profit alert, indicating 300%+ YoY increase in net profit for 1H FY12/11F.

**Revised forecasts and assumptions for 2011 and 2012.** The following table shows our revised profit forecast and assumptions for the 2011 and 2012 on half-year basis. While Q1 was an exceptionally good, we lower Solargiga overall gross margin to 23% for 1H FY12/11F, which largely reflects weak Q2 margin as low as 14.6%. Shipment for the first 6 months is slightly revised down compared to our last report. Nevertheless, we see sign of price stabilization of solar products in Jul. We expect recovery would be seen in 2H this year and realized a slightly higher gross margin than 1H. In addition, Solargiga indicates that they expect to have increasing sales to Japan in 2H. Products to Japan include n-type ingots. According to the management, since Jul, Solargiga is providing a Japanese customer 50 tonnes a month, which translates to annual supply of ~100MW. Although the portion is small, it may partly reduce price pressure of wafers in longer-term. While for 2012, with its vertical integrated model, gross margin is expected to improve and reach 25% with increasing shipment volume.

**Table 1. Revised forecasts and assumptions for 2011 and 2012**

	1H FY12/11F	2H FY12/11F	1H FY12/12F	2H FY12/12F
Ingot shipment MW	57	100	110	145
Wafer shipment MW	101	180	210	300
Cell shipment MW	61	80	70	55
Module shipment MW	9	40	50	80
Total shipment MW	228	400	440	580
Revenue (RMBm)	1,365	2,166	2,262	2,801
Overall gross margin	23%	23%	25%	25%
Overall net margin	9%	9%	11%	11%
Net profit (RMBm)	126	197	239	308
EPS (RMB)	0.056	0.088	0.107	0.137

Source: SBI E2-Capital

Ticker	0757 HK
Rating	Not Rated
Price (HK\$)	1.65
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	1.50-2.64
Market cap. (US\$m)	474.3
Daily t/o (US\$m)	2.1
Free float (%)	65.2

#### Financial summary

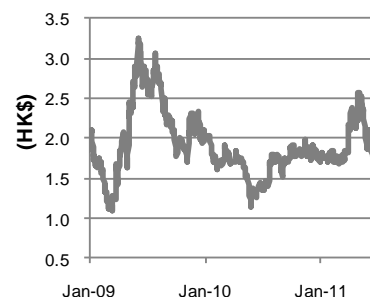
Year to Dec	09A	10A
Turnover (RMBm)	659	1,855
Net Profit (RMBm)	(98.1)	214.1
EPS (RMB)	(0.054)	0.118
P/E (x)	n.a.	11.5
P/B (x)	1.8	1.5
EV/EBITDA (x)	n.a.	7.5
Yield (%)	0.0	2.5
ROE (%)	(7.4)	14.3
ROCE (%)	(6.6)	11.6
N. Gear. (%)	5.9	12.6

Source: SBI

	11F	12F	13F
Consensus EPS (RMB)	0.215	0.270	--
Previous earnings (RMBm)	493.8	639.1	--
Previous EPS (RMB)	--	--	--

#### Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	(7.3)	(26.2)	(10.2)
Actual price changes (%)	(5.2)	(30.4)	(3.5)



Source: Bloomberg

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**Profit and loss forecasts.** Table 3 and Table 4 show our revised profit and loss. Table 3 shows the coming interims for 2011, where we expect net profit to be RMB126.5m and RMB196.9m for 1H FY12/11F and 2H FY12/12F. That said, net profit would increase 207% YoY for 1H FY12/11F, it is actually much lower than 2H FY12/10A due to lower profit margin. While for 2H FY12/11F, as shipment is expected to increase significantly, we still expect an increase in net profit to reach ~RMB200m. Table 4 shows profit and loss forecast on full-year basis.

**Table 2. 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	1,364.5	2,166.3
Cost of sales	(701.2)	(740.4)	(1,051.9)	(1,657.6)
Gross profit / loss	95.2	318.0	312.6	508.8
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)	(8.2)	(13.0)
Administrative expenses	(42.5)	(81.1)	(88.7)	(140.8)
EBIT	60.9	240.0	215.7	355.0
Profit from associates	0.0	0.0	0.0	42.4
Finance Costs	(8.4)	(9.6)	(31.3)	(31.3)
EBT	52.6	230.3	184.4	366.1
Income tax expenses	(12.0)	(59.4)	(46.1)	(80.9)
Profit for the year	40.5	170.9	138.3	285.2
<b>Net profit</b>	<b>41.2</b>	<b>173.0</b>	<b>126.5</b>	<b>196.9</b>
Minority interest	(0.6)	(2.1)	11.9	88.3

**Table 3. Profit and loss forecast (Full-year)**

RMB m	FY12/10A	FY12/11F	FY12/12F
Revenue	1,854.8	3,530.8	5,063.1
Cost of sales	(1,441.5)	(2,709.5)	(3,776.3)
Gross profit	413.2	821.4	1,286.8
Other net revenue	23.2	0.0	0.0
Other net gain	(2.3)	0.0	0.0
Selling and distribution expenses	(9.7)	(21.2)	(30.4)
Administrative expenses	(123.6)	(229.5)	(329.1)
EBIT	300.9	570.7	927.3
Profit from associates	0.0	42.4	122.9
Finance Costs	(18.0)	(62.6)	(76.0)
EBT	282.9	550.5	974.2
Income tax expenses	(71.4)	(127.0)	(212.8)
Profit for the year	211.4	423.5	761.3
<b>Net profit</b>	<b>214.1</b>	<b>323.4</b>	<b>547.6</b>
Minority interest	(2.7)	100.1	213.7
Reported EPS (RMB)	0.118	0.144	0.244

Source: SBI E2-Capital

**Reference target price revised downwards to HK\$2.32 from HK\$2.63.** The counter was a touch higher than our previous reference target of HK\$2.63 in late April. With CB conversion and downward revised profit forecast, we put up a lower reference target price at HK\$2.32, which represents 13.3x P/E for FY12/11F until earning visibility further improve. We basically treat Q2 a missing quarter in profit forecast. We continue to suggest accumulation the counter on weakness. Interim result is due on 30 Aug.

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