Solar Photovoltaic

Stronger-than-expected Q2 condition

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to summarize…

- Solar inverter market leader, SMA Solar Technology has made a significant upward revision on market demand forecast to 14GW.
- China has launched a 280MW tender invitation, which is larger in scale than expected
- Our view on gradual subsidy reduction remains: a priced-in natural course of cost reduction and subsidy exit
- Top pick: Comtec Solar (712 HK, HK$1.67, BUY), a pure wafer producer with good valuation on the back of post-crisis expansion

Market demand. Solar inverter market leader, SMA Solar Technology has made a significant upward revision on company revenue and market demand forecast. The company expects the worldwide solar market could reach 14GW, compared to our assumption between 8GW and 12GW based on EPIA estimates.

Tender invitation in China. In late Jun, China has launched a large scale solar farms tender invitation up to 280MW, including 13 projects with size between 20MW and 30MW (compared to the 10MW project said to be largest in China last year). The size of this auction alone is larger than many has expected for the current year in China.

Subsidy in Germany and Spain. Germany and Spain are cutting feed-in-tariff (FIT). However, at this point we see limited impact on Chinese solar companies. Our channels suggest that FIT cut in Germany forced solar builders to source Chinese wafers and modules which are at lower costs without simply killing solar demand. For Spain, estimate for government contribution is already small in EPIA estimates. Besides, falling ASP of solar projects alone is partially offsetting the effect of subsidy reduction. Subsidy reduction may be viewed as an inevitable step following ASP reduction.

Our pick. Within the solar universe, we have a BUY call on Comtec Solar (712 HK, HK$1.63) and positive view on Solargiga (757 HK, HK$1.41) and GCL-Poly (3800 HK, HK$1.63). Whereas our view is neutral on Singyes (750 HK, HK3.66). Summary notes on these companies are as follow:

Comtec Solar (0712 HK, HK$1.63, BUY) – fast growing companies beginning to see return

- Ramp-up of additional 400MW wafer capacity is expected to complete by the end of Sep 2010, followed by another 400MW expansion up to 1,000MW by 2011
- We expect the company to produce and sell 36W, 40W, 80W and 120W wafers for Q1, Q2, Q3 and Q4 this year, which is 276MW for FY12/10F, up from 82MW for FY12/09A
- ASP of wafers is stronger-than-expected at US$0.8 per Wp at the end of Q2
- Demand for wafer is strong; don't see decrease in demand brought by German and Spain subsidy cut
- Keep targeting non-silicon production of US$0.27 per W by end of the year
- Under our estimation, the tick is now trading at 9.5x and 5.0x P/E for FY12/10F and FY12/11F
- We have a BUY call with initial target price at HK$1.82 on the ticker

Solargiga (0757 HK, HK$1.41, Not Rated) – selective exposure to different parts of the value chain

- Entered into a cooperation agreement with the Xining Economic & Technology Development Zone for production of 2,000 tonnes ingot which represents 300MW+ in 2 phases by mid 2013.
- Extra wire saws and ingot pullers are expected to install in Jul and Aug respectively this year
- Additional 350MW ingot, 210MW wafer and 50MW module facilities expected to commence production in Q4
- Non-silicon processing cost estimated between US$0.30 to US$0.33 per W
- Being more optimistic: gross margin may improve to 15%-25% by the end of the year
- Ingot and wafer target capacity remain at 1,000MW and 630MW respectively for 2011
- Based on market consensus, the ticker is trading at 18.0x and 10.3x P/E for FY12/10F and FY12/11F. We believe Solargiga is another good choice for wafer producers yet it is not a pure wafer play.

Singyes (0750 HK, HK$3.66, Not Rated) – winner of raw material price reduction

- Demand for building integrated photovoltaic (BIPV) is strong in China given clear subsidy regime
- Latest round of subsidy application submitted before May; results may released after mid of July
- Reduction in material is indeed favourable to drive domestic demand without sacrificing profit margin
- 3 to 5-year CAPEX plan remains the same. Spending of RMB100m this year should be financed by bank loan
- Expect solar related business contribute increasing profit shares, possibly 50% gross profit share in 2010
- Expect the company to introduce new solar products for 2H FY12/10F
- Based on market consensus, the ticker is trading at 7.7x and 6.2x P/E for FY12/10F and FY12/11F. We believe investors would confirm its execution power if results of the latest subsidy applications meet market expectation.

GCL-Poly (3800 HK, HK$1.63, Not Rated) – the ambitious player building capacity fast

- Participates in the 280MW tender invitation
- The FIT in China may be settled at RMB1.15 per kWh, which is more or less the break-even level
- Recently entered 2 solar projects investment agreement in US with respect to solar PV electricity generation
- Completed 1,200MW wafer capacity in June and expected to ramp up wafer capacity to the target of 2,000MW by the end of Oct 2010
- Notices ASPs of solar products within the value chain are staying strong with some degree of upward adjustment except polysilicon, which reflects especially strong market supply of polysilicon
- Current cost of production of polysilicon is about US$33 per kg, lower than Chinese peers average
- Based on market consensus, the ticker is trading at 12.1x and 9.4x P/E for FY12/10F and FY12/11F. We believe investors are not giving full credit to its ambitious plan and we would recommend accumulating the ticker on weakness.