

Comtec Solar (712.HK)

Policy support, Productivity improve



Phillip Securities (Hong Kong) Ltd

Bloomberg | Reuters | POEMS

Phillip Securities Research

712.HK | 712.HK | 712.HK

Industry: New energy

2014-01-29

Rating: Accumulate, CP: HK\$1.38, TP:HK\$1.64

Introduction of the company

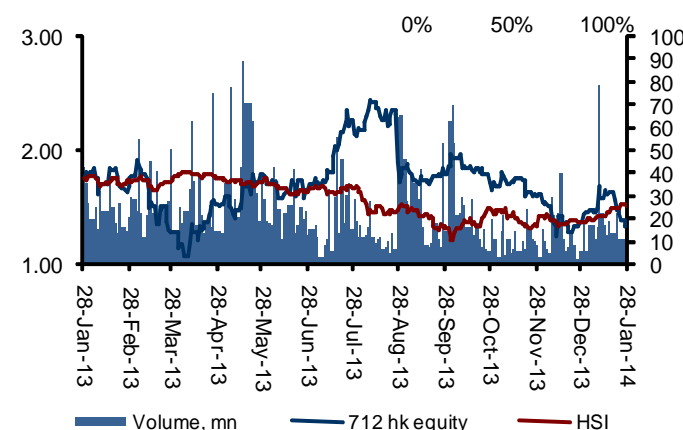
Comtec Solar is a manufacturer in China dealing with the production of solar silicon rob, silicon ingot and silicon slice. Currently, the company has reached international leading level in the aspect of monocrystalline silicon technology, and the average conversion ratio of its "super monocrystalline silicon slice" can reach 23%. It was listed in The Stock Exchange of Hong Kong Ltd. on October 30, 2009.

Summary

- The company realized the revenue of 243 million RMB in the third quarter of 2013 with the net profit of 17.30 million yuan. The rate of margin reached 7.1%, and it declined to some extent compared with the first half year. The net profit of the third quarter declined greatly with the annual loss of 7.635 million yuan in 2013, while the profit in the same period of 2012 reached 14.816 million yuan. Although the company showed signs of a rise in the first half year, the performance of the third quarter was barely satisfactory, thus the share price declined by a big margin.
- Currently, the price of polycrystalline silicon slice has been going up, while the price margin with monocrystalline silicon slice reaches 25%; however, this difference was 34% at the beginning of 2013, during the process of price margin narrowing, the cost performance advantage possessed by polycrystalline silicon slice has been weakened, which will benefit the marketing of monocrystalline silicon slice.
- The price of raw materials of polycrystalline silicon has increased to 18.79 dollars/kilogram from 17.45 dollars/kilogram within the recent month, with the growth of 7.7%, while the price of monocrystalline silicon makes little improvement. Therefore, the rising possibility of the price of raw materials will not move downstream in the short term, which will further compress the profit margin of the company.
- On December 27, 2013, the company signed a supply contract with American solar cell manufacturer, Mission Solar Energy with the term of 3 years, then the company shall supply N-type monocrystalline silicon slice of 500 MW in total from June, 2014 to July, 2017. In the first half year of 2013, the sales volume of monocrystalline silicon slice reached 180 MW, therefore, the sales volume increased annually of this contract will match that of the half year currently.

SATS Ltd

Rating	2.00	Accumulate
- Previous Rating	0.00	Not Rated
Target Price (HKD)	1.64	
- Previous Target Price (HKD)	0.00	
Closing Price (HKD)	1.38	
Expected Capital Gains (%)	18.8%	
Expected Dividend Yield (%)	0.0%	
Expected Total Return (%)	18.8%	
Raw Beta (Past 2yrs weekly data)	NA	
Market Cap. (HKD bn)	1,838	
Enterprise Value (HKD mn)	NA	
52 week range (HKD)	1.03 - 2.53	
Closing Price in 52 week range		



Key Financial Summary

FYE	12/12	12/13F	12/14F	12/15F
Operating Profit (RMB 000)	-124,793	1,302	73,981	135,240
Net Profit, adj. (RMB 000)	-165,049	-17,700	45,164	95,462
EPS, adj. (RMB)	-0.15	-0.01	0.04	0.08
P/E (X)	(7.2)	(107.6)	26.9	13.4
BVPS (RMB)	1.29	1.34	1.35	1.37
P/B (X)	0.8	0.8	0.8	0.8
DPS (RMB)	0.00	0.00	0.00	0.00
Div. Yield	0.0%	0.0%	0.0%	0.0%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

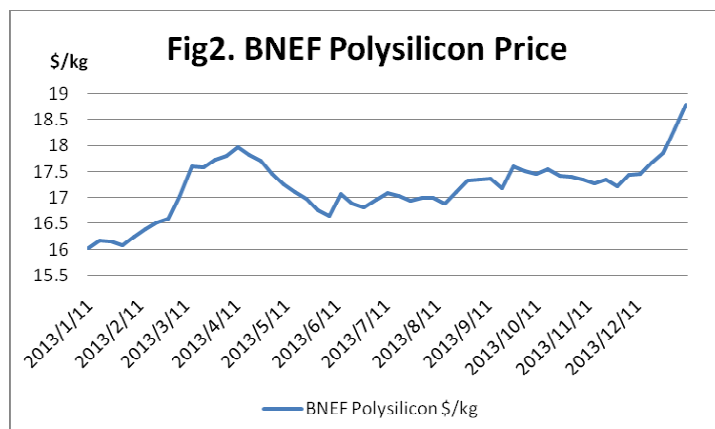
PE

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- The current capacity of the company can reach 600 MW, and the monocrystalline silicon project established at the end of 2013 in Malaysia has brought an extra capacity of 300 MW. Due to the preferential policy of free of duty offered by Malaysia government and low cost of local labor force, it is predicted that the Malaysian project will increase the profit margin of the company in the future after normal operation and help to raise the business performance.
- The distributive photovoltaic will expand greatly in China this year. The State Bureau of Energy has set the target of newly increased photovoltaic assembling units as 12 GW, including distributive type of 8GW. In the late national energy conference, the State Bureau of Energy has increased the target to 14 GW once again, including distributive type of 8.4 GW. Our country offers the allowance of 0.42 yuan/kilowatt-hour to distributive photovoltaic, meanwhile, every place will publish policies to encourage the development of distributive photovoltaic. By the end of 2013, there are 6 provinces and cities publishing the detailed rules and regulations of local allowance.
- It is estimated that the profit margin of the company will witness a stable growth in the following two years, besides, the project in Malaysia will further increase the competitive power and market share of the company. Above all, we give the target price of 1.64 HKD to the company, which is equal to 35 times and 16.6 times of PE ratio in 2014 and 2015 respectively, 18.8% higher than the current price, thus we set an 'accumulate' rating

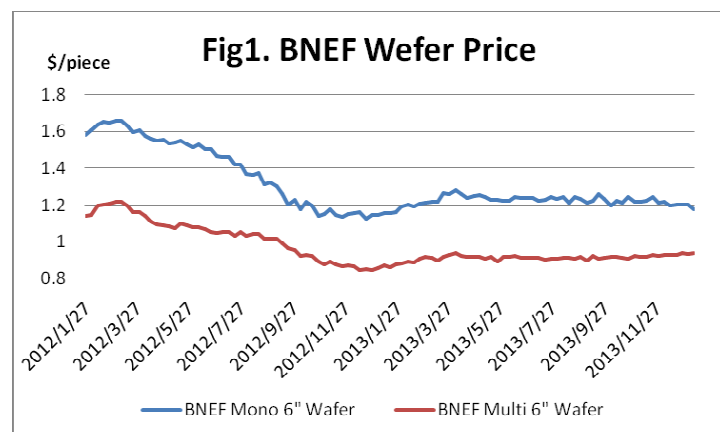


Source: PSR, Bloomberg

Chart1. The policies for the distributed photovoltaic

Province/City	Policies
Zhejiang Province	0.1 Yuan/kwh
Anhui Hefei	0.25 Yuan/kwh + 2 Yuan/w
Jiangxi Province	4 Yuan/w + 3Yuan/w
Jiangsu Province	For the projects not subsidies, electricity price:1.2 Yuan/kwh in 2014,1.15 Yuan/kwh in 2015
Shandong Province	0.78 Yuan/kwh
Henan Luoyang	For 3 years, 0.1 Yuan/w per year

Source: PSR, Energy Trend



Source: PSR, Bloomberg

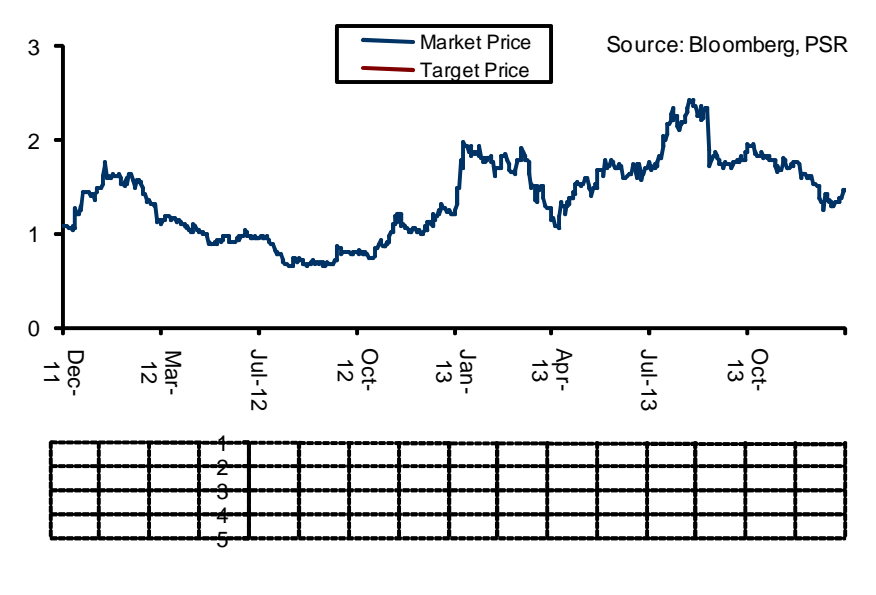
Financial Status

For Financial Summary at the end of report

FYE	FY11	FY12	FY13F	FY14F	FY15F
Valuation Ratios					
P/E (X)	(26.9)	(7.2)	(107.6)	26.9	13.4
P/B (X)	0.7	0.8	0.8	0.8	0.8
Dividend Payout ratio	0.00%	0.00%	0.00%	0.00%	0.00%
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
Per share data (RMB)					
EPS, reported	-0.04	-0.15	-0.01	0.04	0.08
EPS, adj.	-0.04	-0.15	-0.01	0.04	0.08
DPS	0.00	0.00	0.00	0.00	0.00
BVPS	1.46	1.29	1.34	1.35	1.37
Growth					
Revenue	-0.5%	0.9%	0.1%	34.7%	10.0%
Operating income	-92.4%	-705.9%	-101.0%	5582.1%	82.8%
Net Income, adj.	-120.8%	256.3%	-89.3%	-355.2%	111.4%
Key Ratios					
Current ratio	257.24%	143.88%	177.37%	168.47%	160.58%
Gross profit margin	9.09%	8.14%	9.00%	12.00%	15.00%
Net profit margin	-4.56%	-16.09%	-1.72%	3.27%	6.28%
Return on average assets	-2.03%	-6.48%	-0.71%	1.75%	3.64%
Return on average equity	-2.93%	-10.59%	-1.13%	2.71%	5.67%
Liability/asset	37.71%	39.97%	34.94%	35.61%	36.21%
Income statement (thousand RMB)					
Operating revenue	1,016,746	1,025,615	1,026,160	1,382,700	1,520,970
Cost of good sell	(924,276)	(942,163)	(933,806)	(1,216,776)	(1,292,825)
Gross profit	92,470	83,452	92,354	165,924	228,145
Other net profit	40,062	48,015	6,000	9,000	13,500
Administrative expenses	(48,745)	(60,578)	(61,764)	(92,646)	(97,278)
Selling expenses	(1,815)	(4,751)	(6,914)	(8,297)	(9,127)
Other cost	(61,375)	(190,931)	(28,374)	0	0
Operating profit	20,597	(124,793)	1,302	73,981	135,240
Interest expense	(38,596)	(39,036)	(18,952)	(20,847)	(22,932)
Profit before tax	(17,999)	(163,829)	(17,650)	53,134	112,308
Income tax	(28,328)	(1,220)	(50)	(7,970)	(16,846)
Effective income tax rate	-157.39%	-0.74%	-0.28%	15.00%	15.00%
Net profit attributable to equity holders	(46,327)	(165,049)	(17,700)	45,164	95,462
Dividend paid	0	0	0	0	0
Balance Sheet (thousand RMB)					
Cash or cash equivalent	746,100	342,381	267,185	267,185	267,185
Account receivable	213,987	295,567	324,451	356,896	392,586
Inventory	217,959	295,864	439,511	395,560	356,004
Other current assets	152,248	300,343	285,316	285,316	285,316
PPE	855,626	796,195	807,595	847,975	890,373
Prepaid assets	396,425	355,137	358,628	358,628	358,628
Other non-current assets	72,428	54,612	71,411	85,693	102,832
Total Assets	2,654,773	2,440,099	2,554,097	2,597,253	2,652,924
Cash payable	198,692	384,666	324,137	356,551	392,206
Short term loan	318,230	470,100	415,863	415,863	415,863
Other current liability	229	2,991	2,198	2,198	2,198
Non-current liability	483,845	117,656	150,263	150,263	150,263
Total Liabilities	1,000,996	975,413	892,461	924,875	960,530
Total shareholders' equity	1,653,777	1,464,686	1,661,636	1,672,378	1,692,394
Total shareholders' equity and liabilities	2,654,773	2,440,099	2,554,097	2,597,253	2,652,924

Source: PSR

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

Source: PSR, Bloomberg

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

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