



Company Report

Comtec Solar (712 HK) – Sell Semiconductor Industry 12-month target price: HK\$0.46

Key data

Share price (HK\$)	0.67
Target price (HK\$)	0.46
Upside potential (%)	-31.3%
52Wk H/L(HK\$)	1.82/ 0.65
Issued shares (mn)	1,133.9
Market cap (HK\$mn)	759.7
30-day avg turnover (HK\$mn)	0.86
Major shareholder (%):	
Zhang John*	59.0
Public Mutual Berhad	6.0

* Chairman of Co.

Source: Company & Bloomberg

Revenue composition in FY11 (%)

Mono wafers	95.9%
Mono ingots	1.0%
Others	3.1%

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(8.2)	(7.7)
3-mth	(26.4)	(31.3)
6-mth	(59.1)	(55.6)

*Relative to Hang Seng Index

Source: Bloomberg

Share price performance



Source: Bloomberg

Analyst

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Key takeaways from analyst meeting

The solar industry is still suffering from over-capacity problem with no sign of recovery in the short term. Comtec recorded a loss in 1H2012 but its relatively low gearing and product differentiation strategy should allow the group to survive through the downturn. We estimate 2012 FD EPS to be -Rmb0.0572. We give it a 1-year target price of HK\$0.46, based on 0.3x 2012 PB. Sell.

Recorded net loss: In 1H2012, revenue dropped 20.6% YoY to Rmb456.2mn; GP dropped 58.0% YoY to Rmb56.8mn and the group posted net loss of Rmb121.1mn versus net profit of Rmb101.6mn in 1H2011.

Product differentiation: Comtec differentiates itself from other wafers players by producing super-mono wafers which can achieve 23% of cell conversion efficiency, versus 17-18% of industry average. The super-mono wafers involve higher production costs but also allow the group to charge a premium over p-type wafers. However, in our opinion, as total solar installations costs are still expensive relative to wind and hydro power, prices instead of conversion efficiency are still one of the major reasons in driving demand. Comparing with less efficient wafers, there are more rooms for production costs reduction for super mono wafers, but the group will eventually have to share the benefits to the customers through lowering their ASP. We are in doubt that whether the group can actually expand their GP margin through better products.

Healthy balance sheet but may deteriorate with market: We did see an increase in inventories turnover days and trade receivables turnover days since the end of Dec 2011. It is likely that the group's financial health will deteriorate with the worsening market. Nevertheless, given its relatively low gearing and product differentiation strategy, we believe the group can survive through the market downturn.

Valuation: We estimate 2012 FD EPS to be Rmb-0.0572. We give it a 1-year target price of HK\$0.46, based on 0.3x 2012 PB. Sell.

Risks: Policy risks on polysilicon imports, faster drop in ASP and demand, expected loss making in FY12

Results and valuation

(FY ended Dec 31)	FY09A	FY10A	FY11A	FY12F	FY13F
Revenue (Rmb mn)	506.9	1,021.4	1,016.7	1,040.0	1,179.8
YoY Chg (%)	-33.5%	101.5%	-0.5%	2.3%	13.4%
Net Income (Rmb mn)	24.9	222.9	-46.3	-73.2	26.7
YoY Chg (%)	-81.0%	793.9%	-120.8%	58.0%	-136.5%
FD EPS (Rmb)	0.0322	0.2101	-0.0409	-0.0572	0.0209
YoY Chg (%)	-86.3%	552.5%	-119.5%	39.9%	-136.5%
NBV (Rmb/share)	1.0290	1.3332	1.4585	1.2539	1.2775
PE (x)	-	-	-	-	26.06
PB (x)	-	-	0.37	0.43	0.43
ROAA (%)	2.24%	13.42%	-2.03%	-3.38%	2.21%
ROAE (%)	1.94%	15.20%	-2.99%	-10.29%	5.03%
Net D/E (%)	-23.9%	-8.2%	-1.5%	21.4%	24.9%

*We assume Rmb1 = HK\$1.23; Source: Company, ABCI Securities estimates



Key takeaways

Recorded net loss: In 1H2012, revenue dropped 20.6% YoY to Rmb456.2mn; GP dropped 58.0% YoY to Rmb56.8mn and the group posted net loss of Rmb121.1mn versus net profit of Rmb101.6mn in 1H2011.

Although shipments increased by 99.8% YoY to 218.6MW, revenue dropped due to 63.5% YoY decline in ASP. Average ASP in 1H2012 was US\$0.31/W compared to US\$0.85/W in 1H2011. Polysilicon costs, on the other hand, dropped 54.2% YoY to US\$29.2/kg in 1H2012. As production costs dropped at a slower pace than wafer prices, GP margin of the group dropped from 23.6% in 1H2011 to 12.5% in 1H2012.

Product differentiation: Comtec differentiates itself from other wafers players by producing super-mono wafers which can achieve 23% of cell conversion efficiency, versus 17-18% of industry average. The super-mono wafers involve higher production costs but also allow the group to charge a premium over p-type wafers. However, in our opinion, as total solar installations costs are still expensive relative to wind and hydro power, prices instead of conversion efficiency are still one of the major reasons in driving demand. Comparing with less efficient wafers, there are more rooms for production costs reduction for super mono wafers, but the group will eventually have to share the benefits to the customers through lowering their ASP. We are in doubt that whether the group can actually expand their GP margin through better products.

Healthy financial positions in comparison with peers: The group repurchased, in Jan 2012 75% of the convertible bonds issued in Jun 2011, for a cash payment of approx. Rmb491mn and warrants issuance of approx. HK\$117mn with exercise price at HK\$1.24. The proceeds from the CB issuance were originally for capacity expansion but due to industry-wide over capacity and continues decline in ASP, the group decided to reduce debt level instead of expanding. The repurchase of CB is expected to lower non-cash finance costs to Rmb1mn/month from Rmb4mn/month. We believe the repurchase is a prudent move to remain financially healthy so as to survive in current environment. As at 30 Jun 2012, net debt to equity of the group was 10.6%, much lower 80.4% of Solargiga (757) and 113.5% of GCL-Poly (3800). However, we did see an increase in inventories turnover days from 92 days by the end of 31 Dec 2011 to 145 days by the end of 30 Jun 2012 while trade receivables turnover days increased slight from 66 days to 70 days for the same period. It is likely that the group's financial health will deteriorate with the worsening market. Nevertheless, given its relatively low gearing and product differentiation strategy, we believe the group can survive through the market downturn.

Valuation: Assuming GP margin to be 12.8% in 2012, we estimate 2012 FD EPS to be Rmb-0.0572. We give it a 1-year target price of HK\$0.46, based on 0.3x 2012 PB. Sell.

Risks: Policy risks on polysilicon imports, faster drop in ASP and demand

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Exhibit 1: Consensus

FY ended Dec 31 (Rmbmn)	New Forecast		Consensus		Difference	
	2012F	2013F	2012F	2013F	2012F	2013F
Revenue	1,040	1,180	1,016.00	1,606.00	2.36%	-26.54%
Gross profit	133	132	142.75	267.51	-7.11%	-50.55%
Net profit	-73	27	-24	83	204.93%	-67.84%
FD EPS (Rmb/share)	-0.0572	0.0209	-0.0188	0.065	204.42%	-67.88%

Source: Bloomberg, ABCI Securities estimates

Half-year results

FY ended Dec 31 (Rmbmn)	1H11	2H11	1H12	HoH	YoY
Revenue	574.7	442.0	456.2	3.2%	-20.6%
Cost of Sales	(439.3)	(485.0)	(399.4)	17.6%	-9.1%
Gross Profit	135.4	(43.0)	56.8	-	-58.0%
Other income	15.5	24.6	38.7	57.8%	149.8%
Other gains and losses	14.1	(75.5)	(166.0)	-119.9%	-
D&S	(0.8)	(1.0)	(2.0)	-92.7%	162.2%
Admin	(18.8)	(30.0)	(22.6)	24.7%	20.3%
EBIT	145.5	(124.9)	(95.1)	23.9%	-
Finance costs	(8.0)	(30.6)	(23.1)	24.6%	188.6%
EBT	137.5	(155.5)	(118.1)	24.0%	-
Tax	(35.9)	7.6	(3.0)	-	-91.7%
Net profit to owners of company	101.6	(148.0)	(121.1)	18.1%	-

Source: Company, ABCI Securities estimates



Profit Forecast

FY ended Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
Revenue	506.9	1,021.4	1,016.7	1,040.0	1,179.8
Cost of Sales	(451.8)	(690.8)	(924.3)	(907.4)	(1,047.5)
Gross Profit	55.1	330.6	92.5	132.6	132.3
Other income	4.9	26.6	40.1	25.0	25.0
Other gains and losses	1.8	(9.1)	(61.4)	(170.0)	(50.0)
D&S	(2.2)	(1.8)	(1.8)	(3.1)	(3.5)
Admin	(18.2)	(75.8)	(48.7)	(37.4)	(41.3)
Other expenses	(3.4)	0.0	0.0	-	-
EBIT	38.0	270.5	20.6	(53.0)	62.4
Finance costs	(6.7)	(7.4)	(38.6)	(33.1)	(31.0)
EBT	31.3	263.1	(18.0)	(86.1)	31.4
Tax	(6.4)	(40.2)	(28.3)	12.9	(4.7)
Net profit to owners of company	24.9	222.9	(46.3)	(73.2)	26.7
D&A	22.6	39.2	52.9	47.4	0.0
EBITDA	60.6	309.7	73.5	(5.6)	62.4
No. of issued shares (mn)	1,031.7	1,133.6	1,133.9	1,133.9	1,133.9
Issuable shares (mn):					
Share option scheme - exercise @HK\$1.49	-	2.6	2.4	2.4	2.4
Share option scheme - exercise @HK\$0.98	-	-	-	9.9	9.9
Share option scheme - exercise @HK\$2.51	-	-	0.5	0.5	0.5
Warrants - exercise @ HK\$4.1	-	-	95.1	23.8	23.8
Warrants - exercise @ HK\$1.24	-	-	-	94.4	94.4
CB - convertible@HK\$3.9	-	-	200.0	50.0	50.0
Total	1,031.7	1,136.2	1,136.3	1,278.8	1,278.8
Per share value (Rmb)					
Basic EPS (Rmb)	0.0322	0.2103	(0.0409)	(0.0645)	0.0235
FD EPS (Rmb)	0.0322	0.2101	(0.0409)	(0.0572)	0.0209
NBV (Rmb/share)	1.0290	1.3332	1.4585	1.2539	1.2775

Financial Ratio Analysis

FY ended Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
Profitability					
GP Margin	10.9%	32.4%	9.1%	12.8%	11.2%
EBITDA Margin	12.0%	30.3%	7.2%	-0.5%	5.3%
EBIT Margin	7.5%	26.5%	2.0%	-5.1%	5.3%
NP Margin	4.9%	21.8%	-4.6%	-7.0%	2.3%
ROAA	2.2%	13.4%	-2.0%	-3.4%	2.2%
ROAE	1.9%	15.2%	-3.0%	-10.3%	5.0%
Liquidity					
Inventories turnover days	57	94	92	150	150
Trade receivables turnover days	93	57	66	90	120
Trade payables turnover days	124	104	77	120	150
Current ratio	2.15	1.96	2.57	1.56	1.60
Quick ratio	1.84	1.33	2.15	0.91	1.02
Equity/ Assets	75.3%	79.0%	62.3%	58.7%	57.6%
Net Debt/ Total Equity	-23.9%	-8.2%	-1.5%	21.4%	24.9%

Source: Company, ABCI Securities estimates



Balance Sheet Forecast

As of Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
PPE	427.6	715.8	855.6	675.5	635.2
Prepaid lease	15.2	21.5	40.1	40.7	39.8
Others	224.9	398.5	428.7	428.7	428.7
Non-current assets	667.7	1,135.8	1,324.5	1,144.9	1,103.8
Inventories	108.4	247.8	218.0	527.8	505.3
Trade and other receivables	166.1	155.5	214.0	298.9	476.8
Bills receivable	32.0	2.0	36.7	8.9	42.8
Advance to suppliers	36.9	77.2	82.2	191.1	191.1
Prepaid lease payments -current	0.3	0.5	0.9	0.9	0.9
Taxation recoverable	0.0	0.0	15.2	15.2	15.2
Bank balances and cash	399.2	293.7	17.3	97.7	41.3
Pledged bank deposits	0.0	0.0	746.1	136.0	136.0
Current assets	743.0	776.6	1,330.3	1,276.4	1,409.3
Trade and other payables	198.5	193.7	198.7	398.0	463.0
Customers' deposits received	0.0	13.8	0.2	0.2	0.2
Taxation payable	0.7	19.1	0.0	0.0	0.0
Short-term bank loans	146.0	170.0	318.2	420.0	420.0
Current liabilities	345.3	396.6	517.2	818.2	883.2
Deferred tax liabilities	3.8	4.5	9.6	9.6	9.6
Convertible bonds	0.0	0.0	402.4	100.0	100.0
Long term bank loans	0.0	0.0	18.1	18.1	18.1
Provision for onerous contracts		0.0	39.1	39.1	39.1
Warrants		0.0	14.6	14.6	14.6
Other financial liabilities					
Non-current liabilities	3.8	4.5	483.8	181.4	181.4
Total assets	1,410.7	1,912.4	2,654.8	2,421.3	2,513.1
Net assets	1,061.6	1,511.3	1,653.8	1,421.7	1,448.5
Capital & reserves:					
Share capital	0.9	1.0	1.0	1.0	2.0
Reserves	1,060.7	1,510.3	1,652.8	1,420.8	1,446.5
Equity to owners	1,061.6	1,511.3	1,653.8	1,421.8	1,448.5

Source: Company, ABCI Securities estimates

Cash Flow Forecast

As of Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
EBITDA	60.6	309.7	73.5	(13.1)	62.4
Change in inventories.	(49.2)	(139.4)	(36.2)	(309.9)	22.6
Change in trade and other receivables	(73.3)	7.9	(58.5)	(84.9)	(177.9)
Change in in bills receivable	(32.0)	30.0	(34.7)	27.8	(33.9)
Change in advance to suppliers	(18.0)	(136.0)	(129.1)	(108.8)	0.0
Change in trade and other payables	41.9	(18.3)	41.0	199.3	65.0
Change in customers' deposits received	(0.2)	13.7	(13.5)	0.0	0.0
Others	(0.4)	44.8	126.2	0.9	41.1
Cash (used in)/generated from operations	(70.5)	112.4	(31.4)	(288.8)	(20.7)
Income tax paid	1.3	(20.3)	(57.5)	12.9	(4.7)
CF from operating activities	(69.2)	92.1	(88.9)	(275.8)	(25.4)
Cash flows from investing activities	(171.2)	(400.8)	(256.0)	590.1	0.0
Cash flows from financing activities	474.5	203.2	797.4	(233.8)	(31.0)
(Decrease) increase in cash and cash equivalents	234.1	(105.6)	452.4	80.4	(56.5)
Cash and cash equivalents at beginning of the year	165.1	399.2	293.7	17.3	97.7
Cash and cash equivalents at end of the year	399.2	293.7	746.1	97.7	41.3

Source: The group (for historical figures only), ABCI Securities estimates



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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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