

**Analyst: Paul Sham**

## Main Board Listing – Research

陽光能源控股有限公司

Solargiga Energy Holdings Limited [Stock Code: 0757]
**Global Co-ordinator, Bookrunner, Lead Manager and Sponsor**

: BNP Paribas Capital (Asia Pacific) Limited

**Sector** : Materials

**Business** : Manufacture & Sales of solar ingots and wafers

<b>Total share offer:</b> * <u>338,133,000</u> shares <b>(20% of the enlarged share capital)</b>  <b>Public Offer:</b> 33,814,000 shares (10%) <b>Placing:</b> 304,319,000 shares (90%) <b>Greenshoe:</b> 50,719,000 shares <i>* Comprising 253,600,000 New Shares and 84,533,000 Sale Shares</i>	<b><u>Business of Solargiga</u></b>  Established in September 2000, Solargiga ranked as the mainland's second largest producer of monocrystalline silicon ingots, in terms of production output and sales, during 2004 to 2006, according to the China Electronics Material Industry Association. Silicon ingots and wafers are used for the manufacturing of photovoltaic (PV) cells which are important components of solar energy generation systems.  Solargiga has a production base located in Jinzhou, China, and its principal customers are amongst the major solar energy players in the world such as Sharp, Sumitomo, Suntech, Isofoton and Motech. In the past 3 years, the Group's products were sold to customers in Japan, Taiwan, PRC, Europe and North America for processing into solar cells.  The Group plans to substantially increase its manufacturing capacity in order to meet the ongoing demand and maximize economies of scales. Its annual monocrystalline silicon ingots and wafers production capacity are expected to increase from the current 1,032 tonnes and 16.8 million pieces, to 2,000 tonnes and 56 million pieces in 2008.
<b>Price:</b> HK\$2.92 per share  <b>Market Cap:</b> HK\$4,937 million  <b>Pro forma fully diluted FY07E PER:</b> 15.9x  <b>Adjusted NTA per share:</b> HK\$0.74  <b>Staffing:</b> 741 (as of 10 <sup>th</sup> March 2008)	
<b>HK Public Offer period:</b> 17 <sup>th</sup> March 2008 – 20 <sup>th</sup> March 2008  <b>Receiving banks:</b> Standard Chartered Bank (Hong Kong) The Bank of East Asia  <b>Share registrar:</b> Computershare Hong Kong Investor Services Ltd.  <b>Listing date:</b> 31 <sup>st</sup> March 2008	

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### Shareholding Structure after Listing (Assuming the over-allotment option is not exercised)

Mr. Tan Wenhua – a director and the President of the Group	28.05%
WWIC – wholly-owned by Wafer Works Corp., a listed company on Taiwan Stock Exchange	21.20%
Mr. Chong Kin Nga – a non-executive Director of the Group	6.09%
Mr. Hsu You Yuan and Ms. Zhang Liming – the executive Directors of the Group Mr. Chiao Ping Hai – a non-executive Director of the Group	0.93%
Public Investors – include Japan's Space Energy Corporation, Sumitomo Corporation, and other 12 independent parties, holding a combined 22% of the Group	43.73%
	100%

### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$670.7 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$2.92 each)

	HK\$ million
For the expansion of the ingot manufacturing and wafer production capacity	246.1
For the investment in polysilicon supplies	175.0
For the repayment of bank loans	128.4
For the prepayment of raw materials	100.0
For research and development	10.0
For working capital purpose	11.2

### Financial Highlights

	Year ended 31 <sup>st</sup> December			9 months ended 30 <sup>th</sup> September	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000	2007 RMB'000
Revenue	57,658	173,697	413,303	277,730	715,390
Gross profit	10,543	68,900	169,063	116,123	200,991
Operating profit	7,988	62,842	156,025	104,896	249,366
<b>Attributable profit</b>	<b>4,941</b>	<b>41,303</b>	<b>109,670</b>	<b>72,487</b>	<b>211,326</b>
Gross margin	18.3%	39.7%	40.9%	41.8%	28.1%
Operating margin	13.9%	36.2%	37.8%	37.8%	34.9%
Net margin	8.6%	23.8%	26.5%	26.1%	29.5%

### Revenue Breakdown (% of Total Revenues)

	Year ended 31 <sup>st</sup> December						9 months ended 30 <sup>th</sup> September			
	2004		2005		2006		2006		2007	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Japan	43,653	75.7	96,677	55.7	99,334	24.0	67,562	24.3	284,666	39.8
Taiwan	3,722	6.5	-	0.0	32,220	7.8	18,434	6.6	91,506	12.8
Europe	-	0.0	7,237	4.2	8,158	2.0	240	0.1	61,874	8.6
North America	-	0.0	-	0.0	-	0.0	-	0.0	68,286	9.6
PRC	9,368	16.2	61,713	35.5	272,639	66.0	191,494	69.0	203,895	28.5
Hong Kong	915	1.6	8,070	4.6	952	0.2	-	0.0	-	0.0
Other	-	0.0	-	0.0	-	0.0	-	0.0	5,163	0.7
<b>Total</b>	<b>57,658</b>	<b>100</b>	<b>173,697</b>	<b>100</b>	<b>413,303</b>	<b>100</b>	<b>277,730</b>	<b>100</b>	<b>715,390</b>	<b>100</b>



## **Strengths/Opportunities**

- ✓ **Rapidly growing global solar energy market** The global revenue and market size of solar energy industry is expected to expand at a CAGR of 19% in terms of volume and 12% in terms of value during 2006 to 2011, thanks to the growing concern on global warming which triggers the use of solar energy as an alternative power source. Being a manufacturer of solar ingots and wafers which are the components of PV cells, Solargiga should benefit from the foreseeable strong growth in the upstream segment of the solar energy value chain in the global market.
- ✓ **Strong strategic investors** There are currently 3 strategic investors, Wafer Works of Taiwan, Space Energy Corporation and Sumitomo Corporation of Japan, which are renowned suppliers of silicon raw material and distributors of solar-related products. These 3 investors hold stakes of 21.2%, 9.02% and 1.13% respectively and Solargiga should benefit from their management experience, strategic guidance and business referrals.
- ✓ **Fair valuation** Given its net income increasing at a CAGR of 371% from 2004 to 2006 and its strong growth on the back of foreseeable solar energy demand, Solargiga's FY07E P/E ratio of 15.9x could be seen as a reasonable valuation.

## **Weaknesses/Threats**

- × **Volatile raw material prices** The market price of polysilicon, the main raw material for producing Solargiga's final products, has significantly increased for more than doubled in the recent years due to growing demand for solar power products. The Group's profit margin will be affected if it cannot pass the increased raw material costs onto its customers.
- × **High concentration of customers** The 5 largest customers amounted to 92.1%, 81.7% 55.7% of the Group's total turnover for 2004, 2005 and 2006 while the largest customer represented 60.6%, 39.3%, 14.2% of the Group's turnover for the same periods, respectively. Despite the figure shows improving client mix in the past 3 years, Solargiga's business could be negatively impacted if it could not maintain relationship with any one of the top 5 customers.

**Recommendation:    Trading buy**



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