

COMPANY BACKGROUND

Comtec Solar Systems Group Limited, which commenced its solar business in 2004, manufactures and sells monocrystalline wafers to solar cell manufacturers worldwide. Based in Nanhui District, Shanghai, it had 934 employees as of 2010. It plans to expand its annual production capacity of wafers from 600MW at end-2010 to >1GW at end-2011. John ZHANG, the chairman, owns a 58.7% stake.

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Reason for Report:

Change in Price Target

Changes	Previous	Current
Rating	--	Overweight
Price Tgt (HK\$)	3.90	5.40
FY11E Rev (Rmb m)	3,240.10	3,164.60
FY12E Rev (Rmb m)	4,380.60	5,457.60
FY11E EPS (Rmb)	0.42	0.38
FY12E EPS (Rmb)	0.49	0.57

Price (HK\$):	4.08
52 Week High (HK\$):	4.32
52 Week Low (HK\$):	1.22
12-Month Price Target (HK\$):	5.40
8x FY12E EPS	
Shares Out (mil):	1,133.6
Market Cap. (HK\$m):	4,625.1
Market Cap. (US\$m):	594.6
Free Float Market Cap (m) (\$):	245.0
Div (ann Rmb):	0.00
Avg Daily Vol (000):	7877
Book Value/Share (HK\$) :	1.5
Net cash per share (HK\$) :	0.1
Est LT EPS Growth :	20%
P/E to LT EPS Growth (FY11):	0.5x
Est Next Rep Date :	Aug 2011
Fiscal Year End:	Dec

FY10 for Book Value/share and Net Cash/share
Auditor: Deloitte

Rev (Rmb m)	FY10A	FY11E	FY12E
H1	429.0A	956.1E	2,500.4E
H2	<u>592.3A</u>	<u>2,208.5E</u>	<u>2,957.2E</u>
FY	1,021.4A	3,164.6E	5,457.6E

EPS (Rmb)	FY10A	FY11E	FY12E
H1	0.07A	0.14E	0.23E
H2	<u>0.17A</u>	<u>0.25E</u>	<u>0.33E</u>
FY	0.26A	0.38E	0.57E
FY P/E	13.2x	9.0x	6.0x

Comtec

卡姆丹克太阳能

Overweight**(712 HK - HK\$4.08)****Investment from TPG to Accelerate Capacity Expansion****CONCLUSION:**

The introduction of a new investment worth HK\$1.17bil from TPG has prompted us to raise our FY12E EPS by 15% upon lifting our end-2012 capacity assumption from 1.2GW to ~1.6GW. Meanwhile, we lower our FY11E EPS by 11% due to dilution caused by the issuance of CBs and warrants to TPG. We believe TPG will not only help Comtec in terms of funding and operations but also corporate governance, as the former will appoint two directors to the board. We maintain our target P/E of 8x but roll forward the base year from FY11 to FY12, as investors are likely to shift the focus to next year, when the expansion pace is expected to accelerate thanks to TPG's investment. Reiterate OW and lift the PT from HK\$3.90 to HK\$5.40.

- **FY12E capacity to increase 50% from end-FY11E.** The issuance of CBs to TPG should raise HK\$780mil. The new funds will finance Comtec's capacity expansion of 500MW, which is expected to be completed by 1Q12. As a result, the total annual wafer capacity would increase from 1GW at end-11 to 1.5GW. We have not included other potential expansions in our FY12E forecast as management has not yet finalized the location for plant construction (after expanding to 1.5GW). Meanwhile, Comtec should be able to raise an additional HK\$390mil if all warrants are exercised. This would be used as working capital to support the enlarged business scale after the capacity expansion.
- **Huge growth potential on N-type products.** Comtec has been sending product samples to SunPower and we expect it to pass all the quality tests this year. Management reveals it would only take a week to adjust the capacity of its existing P-type to N-type, the adjustment being largely dependent on the customers' demand. To recap, N-type wafers can be used to produce cells with higher conversion rate (~22% vs. ~18% for P-type). We now forecast 375MW of P-type capacity (i.e. 25% of total capacity of 1.5GW by 2012) to shift to N-type. We estimate this will create an additional 75MW (5% of total capacity) without incurring much additional cost. On the cost side, we estimate that N-type wafers (on a per-watt basis) could offer ~20% cost effectiveness (*see p. 2*).
- **TDR issue plan remains unchanged.** Comtec still aims to complete its TDR listing within two months. Based on the issue price of HK\$4, the company would raise HK\$400mil. Management expects most of the proceeds to be applied as prepayment to secure polysilicon supply.

INVESTMENT RECOMMENDATION:

We raise our PT to HK\$5.40 from HK\$3.90, based on 8x FY12E EPS of HK\$0.677 (multiple unchanged). Reiterate OW.

RISKS TO ACHIEVEMENT OF TARGET PRICE:

(1) Cyclical industry; (2) production ramp risk; (3) high earnings sensitivity; (4) concentrated customer base; (5) policy risks; and (6) limited equipment suppliers.

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- **Recap of key terms of the investment agreement.** (a) CBs: Rmb654mil, due in 2016, zero coupon, exercise price at HK\$3.90, convertible into 200mil shares, net proceeds of HK\$780mil for capex; (b) warrants: exercise price at HK\$4.10, exercisable within five years, convertible into 95mil shares, net proceeds of HK\$390mil for working capital if exercised. TPG will own a 20.65% stake in Comtec if all CBs and warrants are converted to ordinary shares. The converted shares are subject to a six-month lock-up period. The deal is subject to shareholders' approval in an EGM.
- **High yield rate to be the competitive edge.** Management said other players can also—theoretically—produce N-type wafers. However, most of them have failed to reach a high yield rate, making the product unprofitable. On the contrary, Comtec can produce N-type wafers at ~95% yield rate. Going forward, management believes major competitors in the N-type wafer market will come from South Korea, such as Woongjin Energy.
- **EPS accretive on stronger shipment growth and lower average cost on N-type products after major fundraising.** We raise our FY12E net profit forecast by 46% and our EPS forecast by 15% (fully diluted basis on conversion of CBs and exercise of warrants). Currently, we have only modeled in 25% of the capacity to be switched to N-type, and we see further earnings upside potential in case the upgrade is faster than expected.

Key changes in assumptions:

- **Capacity and shipment volume.** 1) Based on US\$0.20 capex/watt, we have raised our 2012E capacity forecast from 1.2GW to 1.5GW. 2) We forecast, given the higher conversion efficiency rate of N-type wafers (e.g. ~22% vs. ~18% of P-type), an additional 20% power-generating capacity will be created for each piece of wafer with the same size. We conservatively forecast 25% of the 1.5GW capacity (vs. management's expectation of 30%-40%) will be switched to N-type capacity, effectively raising the total capacity by 75MW (or 6%) to 1,575MW. On the shipment front, we have now modeled 1.26GW (vs. our previous forecast of 1GW).
- **Cost reduction.** Given the similar cost between each piece of N-type and P-type wafer, a higher conversion rate would effectively lower the unit production cost. We are therefore lowering our FY12E unit cost assumption by 2.7% to US\$0.516/watt.

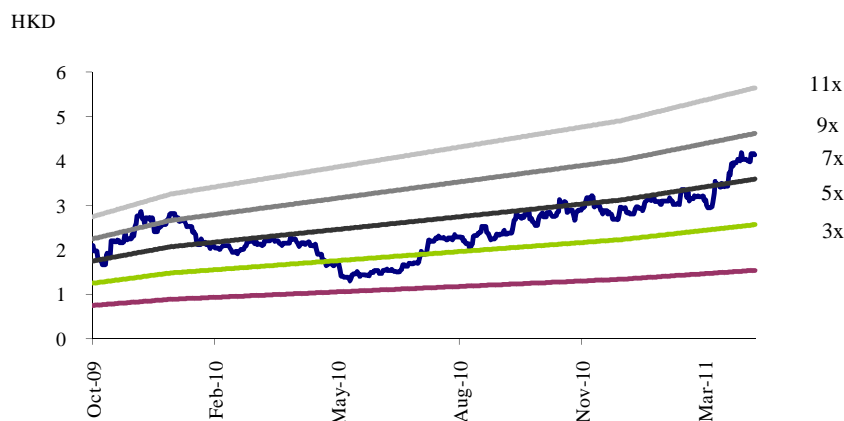
Exhibit 1: Key Changes in Assumptions

		2011E	2012E
Year end capacity (MW)			
Wafer	New	1,000	1,575
	Old	1,000	1,200
	Change	0.0%	31.3%
Ingot	New	1,000	1,575
	Old	1,000	1,200
	Change	0.0%	31.3%
Sales volume (MW)			
Wafer	New	620	1,260
	Old	620	1,000
	Change	0.0%	26.1%
Wafer ASP			
US\$ /Watt	New	0.780	0.662
	Old	0.780	0.659
	Change	0.1%	0.5%
Unit cost			
Total cost (US\$ /Watt)	New	0.601	0.516
	Old	0.608	0.530
	Change	-1.2%	-2.7%
Non silicon unit cost (US\$/Watt)	New	0.234	0.204
	Old	0.235	0.212
	Change	-0.5%	-4.0%
Silicon unit cost (US\$/Watt)	New	0.367	0.312
	Old	0.373	0.318
	Change	-1.7%	-1.8%

Source: Piper Jaffray Asia Securities estimates

Exhibit 2: Comtec's P/E Band

3-Year Average Rolling Forward P/E = 6.5X



Sources: Bloomberg, Piper Jaffray Asia Securities estimates

Exhibit 3: Comtec's Operating Statistics

	2008A	2009A	2010A	2011E	2012E
Year end capacity (MW)					
Wafer	55	200	600	1,000	1,575
Ingot	63	208	600	1,000	1,575
Sales volume (MW)					
Wafer	32	78	166	620	1,260
Ingot	12	3	0	0	0
Total (including ingot)	44	82	166	620	1,260
y/y change	-	84.2%	102.8%	274.6%	103.2%
Wafer ASP					
Rmb /Watt	17.0	6.0	6.1	5.1	4.3
US\$ /Watt	2.477	0.871	0.914	0.780	0.662
y/y change	-	-64.8%	5.0%	-14.6%	-15.1%
Unit cost					
Total wafer cost (Rmb /Watt)	11.9	5.2	4.2	3.9	3.4
(US\$ /Watt)	1.736	0.766	0.621	0.601	0.516
y/y change	-	-55.9%	-19.0%	-3.2%	-14.2%
Non silicon unit cost (Rmb /Watt)	3.1	2.2	2.1	1.5	1.3
(US\$ /Watt)	0.450	0.326	0.307	0.234	0.204
y/y change	-	-27.6%	-5.8%	-23.8%	-13.0%
Silicon cost (Rmb /Watt)	8.8	3.0	2.1	2.4	2.0
(US\$ /Watt)	1.286	0.440	0.314	0.367	0.312
y/y change	-	-65.8%	-28.8%	17.0%	-14.9%
Poly silicon cost (US\$/kg)	214	73	52	62	53

Sources: Company data, Piper Jaffray Asia Securities estimates

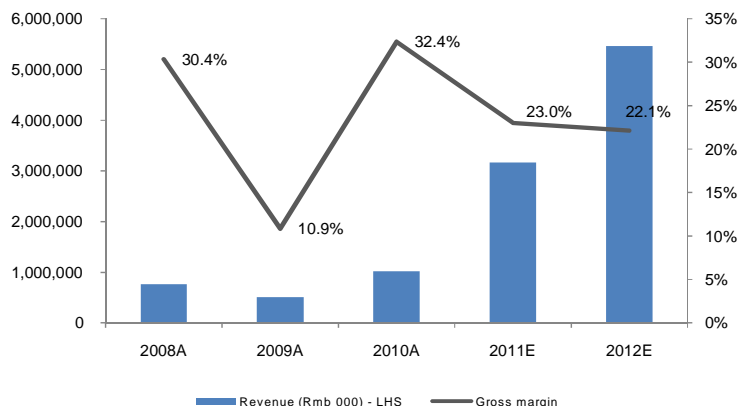
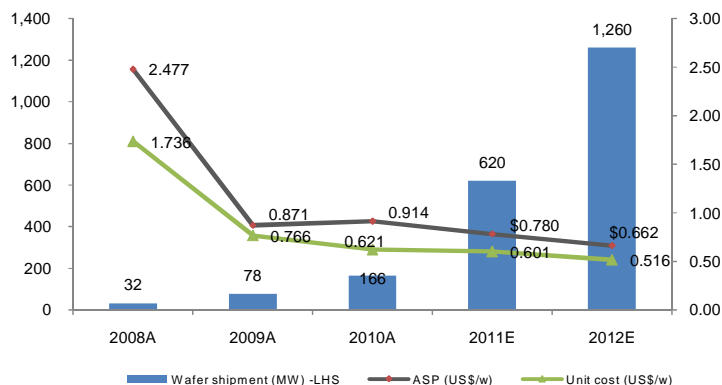
Exhibit 4: Earnings Sensitivity

2011E gross margin sensitivity

		Wafer ASP (US\$/Watt)				
		0.702	0.741	0.780	0.819	0.859
Poly-silicon cost (US\$/kg)	56	19.7%	23.9%	27.7%	31.2%	34.3%
	59	17.1%	21.4%	25.4%	28.9%	32.2%
	62	14.5%	19.0%	23.0%	26.7%	30.0%
	65	11.8%	16.5%	20.7%	24.4%	27.9%
	68	9.2%	14.0%	18.3%	22.2%	25.7%
		Wafer ASP (US\$/Watt)				
		0.702	0.741	0.780	0.819	0.859
Non-silicon cost (US\$/Watt)	0.210	17.8%	22.1%	26.0%	29.5%	32.7%
	0.222	16.1%	20.5%	24.5%	28.1%	31.4%
	0.234	14.5%	19.0%	23.0%	26.7%	30.0%
	0.246	12.8%	17.4%	21.5%	25.3%	28.7%
	0.257	11.1%	15.8%	20.0%	23.8%	27.3%

2011E net profit sensitivity (Rmb 000)

		Wafer ASP (US\$/Watt)				
		0.702	0.741	0.780	0.819	0.859
Poly-silicon cost (US\$/kg)	56	361,722	486,660	611,598	736,536	861,474
	59	300,595	425,533	550,470	675,408	800,346
	62	239,467	364,405	489,343	614,280	739,218
	65	178,339	303,277	428,215	553,153	678,091
	68	117,212	242,150	367,087	492,025	616,963
		Wafer ASP (US\$/Watt)				
		0.702	0.741	0.780	0.819	0.859
Non-silicon cost (US\$/Watt)	0.210	317,379	442,317	567,255	692,192	817,130
	0.222	278,423	403,361	528,299	653,236	778,174
	0.234	239,467	364,405	489,343	614,280	739,218
	0.246	200,511	325,449	450,387	575,325	700,262
	0.257	161,555	286,493	411,431	536,369	661,306



Sources: Company data, Piper Jaffray Asia Securities estimates

Comtec Solar Systems

Income Statement

(Rmb'000, except for per share amount)

	1H10A	2H10A	1H11E	2H11E	1H12E	2H12E	2008A	2009A	2010A	2011E	2012E
Revenue	429,062	592,309	956,148	2,208,494	2,500,394	2,957,182	762,103	506,876	1,021,371	3,164,642	5,457,576
Solar wafer	429,062	588,661	956,148	2,208,494	3,164,642	2,500,394	725,466	485,725	1,017,723	3,164,642	5,457,576
Others	-	3,648	-	-	-	-	36,637	21,151	3,648	-	-
COGS	(331,048)	(359,738)	(716,444)	(1,719,891)	(1,990,002)	(2,259,490)	(530,802)	(451,760)	(690,786)	(2,436,335)	(4,249,492)
Gross profit	98,014	232,571	239,704	488,603	510,392	697,692	231,301	55,116	330,585	728,307	1,208,084
Other op. income	7,504	15,320	1,434	4,895	4,251	12,122	41,485	3,292	22,824	6,329	16,373
Other expenses	(1,734)	(466)	-	-	-	-	(80,285)	(3,410)	(2,200)	-	-
Distribution & selling expenses	(791)	(1,002)	(3,825)	(8,834)	(10,002)	(11,829)	(1,401)	(2,221)	(1,793)	(12,659)	(21,830)
Adm. & general expenses	(18,806)	(54,750)	(38,246)	(75,681)	(90,014)	(106,459)	(23,888)	(18,185)	(73,556)	(113,927)	(196,473)
Operating Profit	84,187	191,673	199,068	408,983	414,627	591,527	167,212	34,592	275,860	608,051	1,006,154
Interest expenses	(3,799)	(3,602)	(5,850)	(6,046)	(8,223)	(9,963)	(6,295)	(6,669)	(7,401)	(11,896)	(18,186)
Other gain/(losses)	390	(5,758)	300	304	350	754	5,648	3,407	(5,368)	604	1,104
Profit before taxation	80,778	182,313	193,518	403,242	406,754	582,318	166,565	31,330	263,091	596,759	989,072
Taxation	(12,219)	(27,932)	(32,898)	(74,519)	(73,216)	(104,817)	(35,086)	(6,389)	(40,151)	(107,417)	(178,033)
Net Income	68,559	154,381	160,620	328,723	333,538	477,501	131,479	24,941	222,940	489,343	811,039
Exceptional items	(5,133)	(41,971)	-	-	-	-	(78,131)	(1,567)	(47,104)	-	-
Recurring Net Income	73,692	196,352	160,620	328,723	333,538	477,501	209,610	26,508	270,044	489,343	811,039
EPS (Rmb)	0.061	0.136	0.142	0.252	0.233	0.334	0.127	0.024	0.210	0.375	0.568
Recurring EPS (Rmb)	0.065	0.173	0.142	0.252	0.233	0.334	0.203	0.026	0.255	0.375	0.568
DPS (Rmb)	-	0.000	-	0.000	-	0.000	-	0.007	0.000	0.000	0.000
Core EBIT	89,320	233,644	199,068	408,983	414,627	591,527	245,343	36,159	322,964	608,051	1,006,154
Core EBITDA	108,302	254,267	222,433	449,414	448,195	628,985	266,178	59,100	362,569	671,847	1,077,180
Wafer volume (MW, including ingot)	77	89	170	450	560	700	44	81	166	620	1,260
Wafer ASP (Rmb/W)	5.6	6.6	5.6	4.9	4.5	4.2	17.0	6.0	6.1	5.1	4.3
Ingot ASP (Rmb/W)	-	-	-	-	-	-	14.6	6.0	-	-	-
Growth Rates:											
Revenue	133%	84%	123%	273%	162%	34%	118%	-33%	102%	210%	72%
Core EBIT	585%	911%	123%	75%	108%	45%	54%	-85%	793%	88%	65%
Core EBITDA	353%	623%	105%	77%	101%	40%	59%	-78%	513%	85%	60%
Recurring Net Income	835%	954%	118%	67%	108%	45%	42%	-87%	919%	81%	66%
Margins and Ratios:											
Gross margin	22.8%	39.3%	25.1%	22.1%	20.4%	23.6%	30.4%	10.9%	32.4%	23.0%	22.1%
EBIT margin	20.8%	39.4%	20.8%	18.5%	16.6%	20.0%	32.2%	7.1%	31.6%	19.2%	18.4%
EBITDA margin	25.2%	42.9%	23.3%	20.3%	17.9%	21.3%	34.9%	11.7%	35.5%	21.2%	19.7%
Net margin	16.0%	26.1%	16.8%	14.9%	13.3%	16.1%	17.3%	4.9%	21.8%	15.5%	14.9%
Recurring Net margin	17.2%	33.2%	16.8%	14.9%	13.3%	16.1%	27.5%	5.2%	26.4%	15.5%	14.9%

Sources: Company data, Piper Jaffray Asia Securities Limited estimates

Date: April 19, 2011

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Comtec Solar Systems
Balance Sheet
(Rmb'000, except for per share amount)

	2008A	2009A	2010A	2011E	2012E
Cash and cash equivalents	165,091	399,238	293,677	109,281	627,007
Trade receivables	92,824	166,128	155,467	424,717	575,838
Inventories	33,083	108,354	247,803	456,027	724,387
Others current assets	52,330	69,231	79,638	266,365	333,480
Total current assets	343,328	742,951	776,585	1,256,390	2,260,713
Property, plant and equipment	245,615	427,582	715,847	1,538,384	1,685,525
Advances to suppliers	183,305	183,810	279,499	597,581	762,256
Others	45,013	56,332	140,461	140,461	140,461
Total non-current assets	473,933	667,724	1,135,807	2,276,427	2,588,242
Total assets	817,261	1,410,675	1,912,392	3,532,817	4,848,955
Trade and other payables	108,788	198,537	193,746	577,760	720,696
Bank borrowings	140,000	146,000	170,000	262,568	297,000
Customers' deposits received	202	25	13,770	13,770	13,770
Others current liabilities	5,103	714	19,077	19,077	19,077
Total current liabilities	254,093	345,276	396,593	873,175	1,050,543
Bank borrowings	-	-	-	-	-
Others	3,251	3,774	4,456	4,456	4,456
Total non-current liabilities	3,251	3,774	4,456	4,456	4,456
Total liabilities	257,344	349,050	401,049	877,631	1,054,999
Share capital	239	910	998	998	998
Preferred share capital	11	-	-	-	-
Reserves	559,667	1,060,715	1,510,345	2,654,188	3,792,958
Shareholders' equity	559,917	1,061,625	1,511,343	2,655,186	3,793,956
BVPS (Rmb)	0.54	1.03	1.33	1.86	2.66

Note: We assume full conversion of CB and exercise of warrant in 2011 and 2012 respectively

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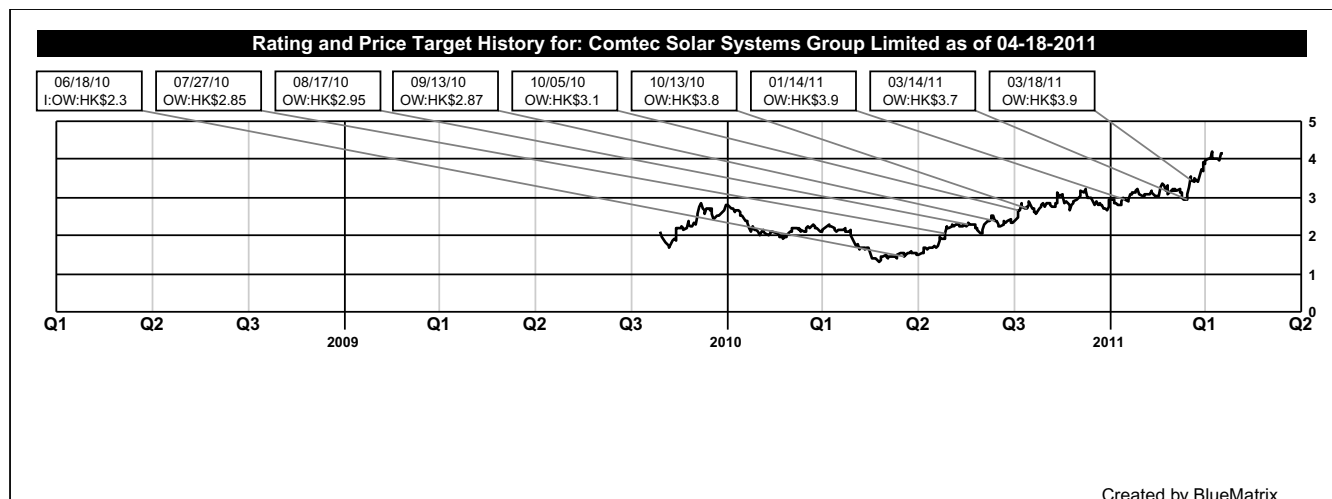
Statement of Cash Flow

	2008A	2009A	2010A	2011E	2012E
Profit before tax	166,565	31,330	263,091	596,759	989,072
Depreciation & Amortization	20,835	22,941	39,605	63,796	71,026
Change in working capital	(363,544)	(130,723)	(242,052)	(598,270)	(508,335)
Others	22,031	7,224	31,445	(96,126)	(160,951)
Net operating cash flow	(154,113)	(69,228)	92,089	(33,840)	390,812
Capex	(72,200)	(172,319)	(395,154)	(886,333)	(218,167)
Others	(8,210)	1,147	(5,695)	604	1,104
Net investing cash flow	(80,410)	(171,172)	(400,849)	(885,729)	(217,062)
Change in debt	120,000	6,000	24,000	92,568	34,432
Capital Contribution	140,384	-	-	-	-
Payment of transaction costs of new shares issuance	(4,802)	(37,780)	(6,085)	-	-
Dividends paid	-	-	(7,532)	-	-
Proceeds from issue of new shares	-	514,479	200,217	654,500	327,731
Others	(6,056)	(8,152)	(7,401)	(11,896)	(18,186)
Net financing cash flow	249,526	474,547	203,199	735,172	343,977
Increase / Decrease in cash	15,003	234,147	(105,561)	(184,396)	517,726
Net cash (debt)	25,091	253,238	123,677	(153,287)	330,007

Finance Ratios

	2008A	2009A	2010A	2011E	2012E
P/E (x)	17.7	139.1	13.8	9.1	6.0
EPS growth (%)	42.3	(87.4)	891.6	47.1	51.5
PEG (x)	0.42	(1.59)	0.02	0.19	0.12
Yield (%)	0.0	0.2	0.0	0.0	0.0
EV/EBITDA (x)	n/a	85.3	13.9	7.5	4.7
P/B (x)	n/a	3.5	2.6	1.8	1.3
Revenue growth (%)	118	33	102	210	
Gross margin (%)	30.4	10.9	32.4	23.0	22.1
Net profit margin (%)	17.3	4.9	21.8	15.5	14.9
Recurring net margin (%)	27.5	5.2	26.4	15.5	14.9
Days receivables	33	93	57	33	33
Days payables	71	124	104	57	55
Days inventories	23	57	94	52	50
Current ratio (x)	1.4	2.2	2.0	1.4	2.2
Quick ratio (x)	1.2	1.8	1.3	0.9	1.5
Asset/Equity (x)	1.5	1.3	1.3	1.3	1.3
Net debt/equity (%)	Net cash	Net cash	Net cash	6	Net cash
ROA (%)	18.3	2.2	13.4	18.0	19.4
ROE (%)	37.1	3.1	17.3	23.5	25.2

Important Research Disclosures



Notes: The boxes on the Rating and Price Target History chart above indicate the date of the Research Note, the rating, and the price target. Each box represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first Note written during the past three years.

Legend:

I: Initiating Coverage

R: Resuming Coverage

T: Transferring Coverage

D: Discontinuing Coverage

S: Suspending Coverage

OW: Overweight

N: Neutral

UW: Underweight

B: Buy (Piper Jaffray discontinued use of the B, N, and S ratings on June 30, 2009)

N: Neutral

S: Sell

AL On/AL Off: Placed on/removed from the Alpha List maintained by Piper Jaffray (AL use discontinued March 2010)

NA: Not Available

UR: Under Review

Distribution of Ratings/IB Services Piper Jaffray				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	311	50.20	70	22.51
HOLD [N]	262	42.30	25	9.54
SELL [UW]	47	7.60	2	4.26

Note: Distribution of Ratings/IB Services shows the number of companies currently in each rating category from which Piper Jaffray and its affiliates received compensation for investment banking services within the past 12 months. FINRA rules require disclosure of which ratings most closely correspond with "buy," "hold," and "sell" recommendations. Piper Jaffray ratings are not the equivalent of buy, hold or sell, but instead represent recommended relative weightings. Nevertheless, Overweight corresponds most closely with buy, Neutral with hold and Underweight with sell. See Stock Rating definitions below.

Important Research Disclosures

Analyst Certification — Chi Man Wong, Sr Research Analyst — Wayne KW Fung, Research Analyst

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- **Neutral (N):** Anticipated to perform in line relative to the median of the group of stocks covered by the analyst.
- **Underweight (UW):** Anticipated to underperform relative to the median of the group of stocks covered by the analyst.

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