

Report type: Update

Company Overview

Nanjing-based SUNPOWER, using proprietary heat-transfer technologies, manufactures energy & environmental protection products. Its customer base includes prominent global players and Chinese giants; mainly, in the chemical, petrochemical, solar energy and coal liquefaction industries

- Hump of a 3Q12 includes receivable impairment; and, a sale reversal.
- Shareholder *A Jurczakowski* is still selling.
- Revised target price removed 10% premium (used previously) to RIV; and, added 9% discount due to general market's concern for leverage.

What is the news? How do we view this?

3Q12 is an inevitable hump of a quarter – necessary in its path to build a better company. The RMB10m impairment allowance of trade receivable is not the first; in 2009, it made RMB21m allowance. Its conscious efforts since 2005 to diversify products & customers (industries & geographies) have avoided a worse bottom-line that could have been caused by the reversal due to a customer's inability to take delivery at 60% stage of a project. There were project delays in 2005. 3Q12 PATMI of RMB11.5m is better than 3Q08 by only 18%. However, its 64.5% subsidiary returned a profit after making losses for 3 consecutive quarters.

Compared to our forecast, revenue for 3Q12 was down RMB102m to RMB236m; 9.4% EBIT vs forecast 11%; and, RMB6.8m PATMI vs forecast RMB19.7m.

We add 3Q14 to our forecast: RMB340m revenue, RMB23.3m PATMI. Our RIV model remains about the same as before but we ignore the 10% premium added previously. This gives a fair value of S\$0.274.

As the general market is now concerned with leverage, we have used its unsecured term note to dilute its share base (strictly for purpose of estimating target price). This brings our target price by another 9% below fair value, or S\$0.25.

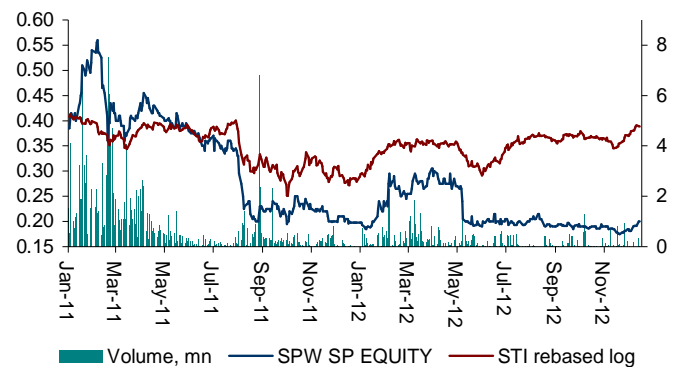
However, we would want to buy at S\$0.20 or below as all the closing prices since our last report were at S\$0.20 or below; and, the *Jurczakowski* factor remains. Mr *Jurczakowski* is still selling down his original 11.1% stake. Latest count is 5.96% (6.93% at our report in September). He contributed 45% of the market. Once he goes below 5%, we would not be able to track his holdings accurately, but could still guess. Mr *Li*, its second largest shareholder, has not sold any share yet.

Investment Action

BUY below S\$0.20, with target of S\$0.25.

SUNPOWER Group

Rating	1	Buy
- Previous Rating	1	Buy
Target Price (SGD)	0.250	
- Previous Target Price (SGD)	0.300	
Buy at not more than (SGD)	0.200	
Expected Capital Gains (%)	25.0%	
Expected Dividend Yield (%)	1.6%	
Expected Total Return (%)	26.6%	
Beta (1 year)	1.14	
Beta (6 months)	1.00	
Market Cap. (SGD mn)	61	
Enterprise Value (SGD mn)	98	
3M Average Daily T/O (mn)	0.141	
52 week range (SGD)	0.172-0.310	



Major Shareholders

	(%)
1. Guo Hongxin	23.2
2. Li Laisuo	20.1
3. Ma Ming	17.4

Key Financial Summary

FYE	12/11	12/12F	12/13F	09/14TF
Price *	0.275	0.184	0.184	0.184
P/B (X)	0.97	0.59	0.51	0.46
EV/EBV (X)	0.95	0.67	0.55	0.53
P/Net Debt (X)	1.53	1.60	2.99	2.09
P/E (X)	5.0	5.1	3.7	3.4
EPS (SGD)	0.055	0.036	0.049	0.054
DPS (SGD)	0.003	0.003	0.003	0.003
Dividend Yield	1.1%	1.6%	1.6%	1.6%

Source: PSR est.

*Actual mean price between two significant events/now

Valuation Method

RIV (ROE: 20%; 2 years horizon)

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