

Suntech moves MSK production to China, raises fresh funds

March, 2007: Suntech Power Holdings in February raised \$500 million in fresh funds to expand its cell and module production in China and also opened new offices in London, England and Olney, Maryland in the US to focus on building-integrated products from new subsidiary MSK Corp.

Approximately \$150 million of the \$500 million debt offering to institutional investors will be used to expand PV cell and module production lines as well as start thin-film production lines. About \$100 million will be used to procure raw materials, and another \$100 million will repay a bridge loan taken out as part of the company's acquisition of MSK (see PI 9/2006, p. 140). Suntech, which in August acquired two-thirds of MSK for \$107 million in cash and stock, has offered \$53 million in stock and/or cash for the remaining one-third, and expects the purchase to be finalized in late 2007.

Integration of MSK is proceeding faster than expected, according to Suntech officials. Already in February the company ceased production at MSK's Japan-based manufacturing facilities and transferred manufacturing to China. This caused MSK production to be lower than anticipated in the 2006 fourth quarter, according to a preliminary earnings report on Feb. 2. Suntech estimated its total PV output during the quarter, not including MSK, at 48 to 49 MW, with revenues of between \$188 and \$192 million – implying an average sales price of about \$3.92 per W compared to \$3.70 per W in the previous quarter.

Suntech estimated MSK output at between 6.5 and 7 MW during the quarter, which was a downward adjustment from an earlier estimate of up to 15 MW. Revenues for MSK were also adjusted downward, to between \$30 and \$35 million from between \$60 and \$64 million. Full financial details for the fourth quarter and year 2006 were scheduled to be released on March 12.

For 2007, Suntech raised its capacity target from 390 to 420 MW and its production goal from 250 to 280 MW. In 2006, Suntech estimates it shipped between 157.5 and 159 MW of PV cells and modules, an increase from its previous estimate of between 130 and 140 MW. The earlier forecast did not include module output from MSK.

The company declined to identify the specific number of Japanese employees laid off or the costs of transferring MSK production to China. But according to Steve Chan, Suntech's VP of business development, the impact on MSK headcount »is mitigated by a few key factors.« MSK's module production is relatively automated compared to Suntech's, so the number of production employees »is relatively small.« Also, »MSK was producing at much below their stated 200 MW capacity due to cell supply shortages,« he says, adding, »Their headcount was already shrunken before the Suntech purchase.«

MSK will continue as a brand focused on building-integrated PV. In early February, Suntech announced that it would begin to offer MSK products in North America. Leonard May, the new VP of business development for Suntech America, views MSK's OEM products, amorphous-silicon laminates, and custom modules, as the first opportunities. In late January, the Chinese company also established Suntech Europe Ltd. in London. Jerry Stokes, MSK's former VP of international sales and marketing, was appointed president of Suntech Europe.

The stock market apparently appreciated Suntech's news published on Feb. 2: while the stock price closed at \$35.88 on Feb. 2 – that's \$1.09 down from the previous day – it closed at \$39.55 the next day of trading, on Feb. 5.