China Sunergy reveals dismal third-quarter margins and production

January, 2008: Following the release of dismal third-quarter results, pure cell manufacturer China Sunergy Co. Ltd. is banking on the start up of commercial production of its new selective-emitter cell technology to dig itself out of an ever-deepening hole.

But recovery from a tailspinning gross margin and declining production numbers could prove difficult.

On Nov. 19, the Nanjing-based company, blaming constrained silicon supply, reported a 12 percent drop in third-quarter revenue to $36.8 million. This was reflected in a gross margin of just 2.1 percent, down from 4.9 percent in the second quarter and 16.9 percent in the first. The margin for sales of cells was even worse at just 1.5 percent, compared to 5.9 percent in the second quarter.
Cell production came in at just 17.8 MW, down from 20.1 MW in the previous quarter (see PI 9/2007, p. 134). According to CEO Allen Wang, Sunergy is forecasting a fourth-quarter production of about 20 MW, »implying« an annual total of 78 MW. This, however, is 29 percent below the guidance of 110 MW that Sunergy gave ahead of its initial public offering on the US Nasdaq market in May (see PI 6/2007, p. 142). The company confirmed it is facing three class-action suits in the US, but gave no details except to say it »expects to contest the complaint vigorously.«

Wang, who is still holding fast to a 2008 forecast of 160 to 170 MW, is placing his main hope for a turnaround on its selective-emitter p-type cell technology. Sunergy says production began in November after one of its six lines was upgraded with a screen-printing machine from Italy‘s Baccini. Fourth-quarter production is now expected to be just 1.5 MW, half of what Sunergy had promoted during the second quarter. The company is targeting up to 40 MW of selective-emitter cells in 2008, based on plans to install four more lines by June, all capable of producing the new cells as of July. The average efficiency for these new cells in October was 17.5 percent, with CTO Zhao Jianhua predicting future batches averaging 18 percent.

In a conference call, Fisher Chen, vice president of financing and investor relations, said that Sunergy has an agreement for 60 MW of wafers from a Taiwanese manufacturer as well as 1,000 tons of polysilicon from two unidentified Chinese start-ups in 2008. But Chen not only admitted the quality of the silicon is unknown, he said the deal was based on floating prices. As a result, Chen disclosed that average selling prices (ASP), which rose from $2.82 per W to $2.85 in the third quarter, may need to be raised further. And if deposits to pay for other long-term polysilicon deals come in high, he noted that Sunergy may have to seek additional funding. The current capital expenditure through the end of 2008 is $39 million. As of the third quarter, Sunergy had $76.4 million in cash and cash equivalents. Chen said Sunergy was »very close« to making an offer to a potential candidate to replace its CFO who resigned in August. Earlier, the company had said a replacement would be hired by the time third-quarter results were released.

On the day it released the third-quarter results, Sunergy announced a deal to supply Canadian Solar Inc.‘s Chinese module factory with 12 MW of cells in the first half of 2008 and 13 MW in the second. Sunergy, which gave no figure for the sale, said 24 percent of the pricing would be fixed with the remainder determined on a quarterly basis.

On Nov. 19, stock analyst Sanjay Shrestha of Lazard Capital Markets reiterated a sell rating, while a day later Robert Stone of Cowen and Company once again issued a neutral rating. Sunergy‘s stock, which hit a high of $8.50 during trading on Nov. 19, fell 25 percent to a low of $6.40 during trading the following day. By Nov. 28, the price of its American Depositary Shares closed at $7.08.

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