IPO Watch March 12, 2008, 7:53AM EST text size: TT

Solar Power Maker to Try Again for HK IPO

Solargiga Energy Holdings plans to raise $127 million in a stripped-down version of its Hong Kong initial public offering, which was delayed in January

by Anette Jonsson

Solargiga Energy Holdings, which makes monocrystalline wafers and ingots for solar cells, has relaunched a scaled-down version of its Hong Kong initial public offering that was postponed in January. The offering comes as a bit of a surprise since the solar power sector is one of the worst hit this year, but the fact that the company has decided to go ahead suggests it is confident it will have enough buyers at the adjusted terms.

A clear sign of this is the fact that the deal is offered at a fixed price of HK$2.92 per share, which will give a total deal size of HK$987.3 million ($127 million)—mdash;or 56% less than the $292 million it sought when the deal was first launched two months ago. The institutional offer is also limited to two days, compared with the usual two weeks. However, the shorter bookbuild, which is possible because the company did a full roadshow in January, will also reduce the risk that the market could fall sharply while the books are open.

Only a day ago, China Pacific Insurance abandoned its $3.2 billion H-share offering due to the sharp drop in the Hong Kong stockmarket during the first five days of its pre-marketing period. The Hang Seng Index was lower in morning trading yesterday, losing as much as 1.9% at one point, but for the second day in a row it rebounded strongly in the afternoon to close 1.3% higher at 22,995 points. The index has shed more than 2,100 points, or 8.5%, since Solargiga called off its initial offering just before the pricing on January 26.

According to sources, Solargiga is selling 253.6 million new shares, which is the same number it planned to sell in January, but the number of existing shares on offer has been reduced to 84.5 million since the chairman has decided not to offload any of his shares and some of the minority shareholders will offer fewer shares than initially planned. As a result, the total number of shares on offer is now 338.1 million (20% of the company), compared with 422.7 million (25% of the company) in January. BNP Paribas is the sole bookrunner.

The continued decline in the share price of Solargiga's US-listed peers since it was last in the market, has forced the listing candidate to trim its own valuation by severely lowering the offer price. The new price of HK$2.92 is 46% below the top end of the initially proposed price range of HK$4.57 to HK$5.38. However, Solargiga lowered the initial range a few days into the January roadshow to HK$4.08 to HK$4.88, which would have limited the total proceeds to about $265 million.

The latest price values the company at 11 times its projected 2008 earnings, which equals a 13% discount to London- and US-listed Renesola, which also makes wafers and ingots and currently trades at 12.7 times on a fully-diluted basis. Other comparables include US-listed

Yingli Green Energy Holding, which is active throughout the solar power value chain, and LDK Solar, which makes wafers but is a significantly larger company than Solargiga. Yingli currently trades at a 2008 P/E multiple of 15.7, while LDK is valued at about 12.5 times this year's earnings.

Valuations in the sector have deteriorated sharply over the past couple of months as the share prices of these major comps have fallen by between 50% and 61%. When Solargiga first launched its institutional roadshow in mid-January, Renesola was trading at a 2008 P/E ratio of 21 times, LDK was at 25 times, and Yingli was quoted at 39 times. The initial price range in January valued Solargiga at up to 20 times.

It is somewhat ironic that Solargiga has decided to do the deal at this low a valuation since sources said the reason the deal was pulled in January was that the owners didn't want to price the offering at the bottom following a rebound in the secondary market. Had they gone ahead then, the company would have secured about $159 million before expenses, while now it will only get $95 million. This, together with the fact that it has squeezed in a deal just in time for its end-of-March deadline, suggests that it is in dire need of the money to keep its expansion plans on track. Had it waited any longer, it would have had to update its financials before being able to relaunch the offering, which would likely have delayed the deal by another couple of months.

Solargiga will list on March 31, which is the absolute last day possible under its current approvals. The two-day institutional bookbuild, which ends today, will be followed by a normal 3.5-day retail offering for 10% of the total deal that will kick off next Monday. However, sources say, the IPO will be fully covered after the institutional offering.

"The company has had good indications from investors who are happy to come in with sizeable orders at HK$2.92, and this gave it the confidence to go ahead," one source notes.

Taiwan-listed Ralec Electronic, which was to be a cornerstone investor in the January offering with a $15 million investment, has not committed to invest in the deal on similar terms this time around, however. But Solargiga has found a new cornerstone investor in the form of a subsidiary of Hong Kong-listed New World Development, which will buy $20 million worth of shares, or about 15.7% of the deal.

Solargiga will be the first solar power company to list in Hong Kong. Among its key selling points is the fact that it has a different production technique that allows it to use less raw material than some of its peers—mdash;an obvious advantage given that the solar power sector as a whole is still struggling to cope with a shortage of silicon that is used to make wafers. The company's gross margin is also one of the highest in the industry at about 33% for the first nine months of 2007. This compares with about 20% for Renesola.

Solargiga was started in China by chairman Tan, but in the middle of last year merged with a subsidiary of Taiwan-listed Wafer Works, which makes silicon wafers for semiconductor and solar power applications among others. Solargiga is currently owned in equal parts by Tan and Wafer Works, but also has a number of small shareholders who received stock in the company in connection with the merger.

http://www.businessweek.com/print/globalbiz/content/mar2008/gb20080312_026455.htm