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China Sunergy manager resigns as production guidance lowered

April, 2008: Problems have continued to plague China Sunergy Co. Ltd. as yet another high-ranking manager has resigned, the fourth since the PV manufacturer went public in May 2007.

In a brief announcement in the end of fourth-quarter and full-year results for 2007, published on March 27, Sunergy revealed that Yin Guangyou, a board director and vice president of operations, had stepped down on March 24, »to pursue other opportunities.« Interestingly, the company, which mainly produces cells, said that while a search for a new board member would continue, there were no plans to refill Yin's role as COO. Yin's resignation follows the departure of Sunergy's vice president of financing in January (see PI 3/2008, p. 90), as well as its former CFO in August and former CEO in July (see PI 9/2007, p. 134).

On the financial front, Sunergy's blended gross margin was 6.4 percent for the fourth quarter. While a vast improvement over the 2.1 percent in the third quarter, when it reported dismal numbers (see PI 12/2007, p. 87), the gross margin for last year was just 7.7 percent, well below the 17.8 percent recorded for 2006. New CFO Kenneth Luk predicted profitability, positive cash flow, and a blended gross margin of between 7.5 and 8.5 percent in the first quarter of 2008.

Luk bases his optimism on the higher margins expected for Sunergy's new monocrystalline cell technologies – its selective-emitter (SE) cells (see PI 3/2008, p. 91) and what it now refers to



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as its »high-efficiency« p-type cells, or HP cells. It puts the efficiency of its the SE cells at an average of 17.3 percent based on a small pilot run in November. Four new SE lines are expected to be in production by the end of the year. By the end of the second quarter, Sunergy also says it will convert four of its traditional p-type lines to produce HP cells, which it currently claims have reached an average efficiency of »over 17 percent« in a 0.3 MW pilot run.

But due to the time needed to upgrade the lines and delays in delivery of unspecified equipment for its SE lines, as well as bad weather in January, Sunergy has lowered its cell production forecast for the year from between 160 and 170 MW to just 125 to 145 MW, including 25 to 35 MW of SE cells and 40 to 50 MW of HP cells. Given that Sunergy had earlier talked about having 10 lines in operation at some point during the year with a 300 to 320 MW capacity, this would leave two p-type lines, presumably for multicrystalline cells, which the company says it is increasingly producing to serve demand in Europe. Sunergy's only mention of its long-promised n-type cells, the development of which it describes as progressing »smoothly,« was as part of an \$8 million investment in a new Shanghai-based R&D center for 100 researchers to be finished by early-2009.

Two stock market analysts seemed less than impressed with Sunergy. On March 20, before the results came out, Jefferies & Co. had already downgraded its recommendation from »hold« to »underperform,« while Lazard Capital Markets reiterated a »sell« rating on March 25.

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