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Check on China: China Sunergy Co., Ltd.

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Shannon Roxborough

China is one of the world's fastest-growing but most polluted economies, second only to the United States in harmful greenhouse gas emissions. In the face of record crude prices, its ever-growing demand for energy, and domestic and international pressure to clean up its environmental act, Beijing's plan to reduce foreign oil imports, increase alternative energy production and curb pollution is in full swing.

One company with plans to capitalize on the country's efforts to harness the power of the sun and diversify its energy mix is Nanjing photovoltaic (PV) solar cell maker **China Sunergy Co., Ltd.** (NasdaqGM:[CSUN](#) - [News](#)).

Government officials have pledged to have renewable energy make up a tenth of China's total energy consumption by 2010. And this isn't just political posturing. On the solar front, the country has emerged as a global hotspot for the industry, eclipsing the United States in solar electricity production in 2007 and becoming the second-largest solar cell-producing nation after Japan. Over the past two years, China's PV solar cell production — a process that uses silicon wafers to convert sunlight directly into electricity — has increased more than six fold.

Indeed, China's solar energy industry has been on a tear, and it is not difficult to find examples of the national push toward sun power. One need only look at the roof of the newly erected National Indoor Stadium (for the 2008 Olympics) in Beijing that is home to 1,124 solar panels. Look further and one will see panels on roofs, walls, traffic signals and street lights in Rizhao, a coastal city on the Shandong Peninsula in northeastern China, and on new construction in the city of Shenzhen, across the border from Hong Kong, which has mandated that all new buildings 12 stories or higher must install solar water heaters on their rooftops.

China Sunergy is basking in the growth, selling its products to Chinese and foreign solar module manufacturers and solar power system

integrators. But unlike most of its competitors, who primarily cater to the overseas market, China Sunergy does most of its business domestically (though it does have customers in Europe and South Africa).

The rising cost of polysilicon is hurting profit margins in the industry as a whole, but despite swinging to a fourth-quarter 2007 loss (\$2.3 million, or \$0.06 per share, compared with a net loss of \$38 million, or \$2.18 per share, a year earlier), China Sunergy beat the Street's estimates (analysts on average were expecting a loss of \$0.10 a share). Revenues rose 1.1% to \$71.5 million, from \$70.7 million. The company has cut its production target for 2008 to a range of 125 megawatts to 145 megawatts, from its previous forecast of 160 megawatts to 170 megawatts. The cut was due to a combination of bad weather, which has delayed the delivery of production equipment, and a planned upgrade of its production lines to manufacture higher efficiency solar cells.

China Sunergy hopes to eventually soak up the sun as China's solar energy production continues to rise in order to meet its growing demand (primarily from off-the-grid projects in the countryside, since more than 30 million people in small villages still have no access to electricity). But it's not only rural areas that have high hopes for solar. Shanghai, a city of 17 million, has plans to invest almost \$1.5 billion to install solar panels on 100,000 rooftops by 2015, providing 50% subsidies as an incentive, for starters.

The global market for solar panels and cells has grown at a 38% compound annual growth rate since 2001, resulting in a serious shortage of polysilicon that has caused prices to skyrocket over 1,000% to about \$350 per kilogram since 2003 (London-based Ambrian Capital predicts prices will reach \$500 per kilogram by 2012).

Just over a month after announcing a supplementary deal to supply Germany's aleo solar AG with high-efficiency solar cells, China Sunergy reported in late March that its vice president of operations resigned to "pursue other opportunities." The company's shares, which have lost almost half their value since January, closed at \$11.56 on Wednesday.

Investment house Jeffries & Company, which downgraded the stock to "underperform" in March from "hold," has a price target of \$6. Though the firm raised its earnings-per-share estimates for 2008 and 2009, to \$0.01 from a loss of \$0.18, and to \$0.47 from \$0.39, respectively, the analysts have expressed concerns about China Sunergy's ability to access polysilicon. The comes despite the fact that China has scaled-up production the raw material in an effort to combat supply issues. They also said there is a risk that the company may not be able to sustain growth at a time when markets are sagging.

China Sunergy will announce first-quarter 2008 results during an earning conference call before markets open on May 20 (at 8:00 a.m. ET). The call will be simulcast live online (and available for replay until June 2) at <http://www.chinasunergy.com>.

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