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LDK Solar's Outlook Too Warm And Fuzzy

Carl Gutierrez

Investors weren't buying the company's sunny outlook given near-term uncertainty.

Posted by davwhite | 11/20/08 08:33 AM EST

LDK did not paint a completely rosy story. That is part of the reason the share prices have gone down. LDK likely waited until the last minute to buy its polysilicon for Q4 production. It was no doubt hoping for the drop that likely came soon after it bought. Instead it ended buying near the high of the market. This is likely the reason for the decrease in the gross margin guidance for Q4 for LDK. LDK guided higher on revenue, but earnings may even be slightly lower??? I think the lower

gross margin really has people worried. I believe it is due to

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the polysilicon purchases made for

Q4. This should disappear in Q1, as the current polysilicon prices are much more favorable. Further these prices seem much more likely to decline further in the near term. JASO is idling some of its production. Some other solars are in the same boat. LDK should benefit on margin because of this. They have sold 2009 production already at fixed prices (at least most of it). This means they should not experience the near term price decreases other solar makers are experiencing. Other solar makers may have to cut production to prevent the prices from deteriorating further. Since LDK's prices are fixed, they should not have to do this. Their picture is rosy because they are well managed.

A second negative was that the polysilicon factories are slightly behind schedule due to extra work done to address environmental concerns. This is another way of saying they had some extra trouble with the TCS, which is very toxic. Analysts had always claimed this would be the case. They are now harping on this. Still LDK apparently does not feel that the delay is very significant. They are sticking with their

2009 polysilicon production goal. This actually all sounds

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reasonable to me.

The analysts want to believe that LDK is lying to them

somehow. However, it appears rather that LDK has managed

the current situation well. LDK traded some of the extra profits

it could have reaped this year for securi

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