



## BLOG: Arch Pei

### Arch: Faith in the Chinese Solar Story

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Chinese solar companies are among enterprises hardest hit by recent stock market turmoil. Almost all of the public companies have seen their stock prices fall more than 80%. On Dec 11th, Suntech (NYSE:STP) was trading at seven-times its trailing P/E while JA Solar (Nasdaq:JASO) was at 7.35x, and Yingli (NYSE:YGE) at 6.75x. Wall Street analysts are busy downgrading these once hot stocks, and investors are busy reducing or avoiding them. It is strange that everyone saw potential when the companies traded at 15x P/E, and sees risk now that they trade at 7x P/E.

Some believe that the Chinese solar story is over, much like the U.S. dot.com bubble popped in 2000, but I am inclined to disagree. The Chinese solar story is only just beginning, and the most exciting part is still to come. The biggest problem for now is that negative news keeps flowing in and horrifying investors. I guess the current situation could be revised in the near future by one or more of the following factors:

First, the inauguration of President Obama and the execution of his alternative energy incentive plan. Everyone wants to know how much the U.S. market can grow over the next few years, but the exact speed will be determined only when the new president and congress take office. A sudden advance in the U.S. market will boost the solar industry, and Suntech, Yingli and Trina Solar (NYSE:TSL) have already established their presence there.

Second, a possible jump in Chinese domestic demand for solar energy. There are lots of on- and off-grid solar plants under construction throughout China, although still not enough. If the National Development and Reform Commission and Ministry of Finance choose to give a priority to solar energy, increase installation targets and government subsidies, domestic growth may accelerate rapidly.

Third, a halt in euro depreciation and a rise in oil prices. The macro environment was not on solar energy's side this year, but it will not remain this way forever. A halt in euro depreciation will stimulate the European demand for Chinese solar products, while a stop of oil decline will make investors more interested in alternative energy investment. These conditions may appear early next year.

I still believe in the long term growth of Chinese solar companies. It is one of the best growth stories we can see for now. Though I do not know when the market will be bullish again on Chinese solar companies, most of them still look quite attractive to me.

#### ABOUT ARCH PEI



Arch Pei works with JL McGregor & Company's sector research team with a focus on China's solar industry.

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