

## Hoku's Dilemma: What Happens When Your Customers Can't Pay?

The new polysilicon producer in Idaho needs upfront money from customers to help build the factory. But one customer has missed payments, and another won't be buying as much of the raw material as planned.

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*In December 2008, Hoku's factory was almost ready for the placement of its reactors.*

*Hoku Scientific*

Credit crunch and lagging market demand have prompted many solar companies to renegotiate contracts with their suppliers in recent months. The latest announcements by Hoku Scientific (NSDQ: HOKU) provide an example of how all this haggling might help or hurt companies that are trying to survive the downturn.

Hoku, based in Pocatello, Idaho, is entering the polysilicon production business and building its first, \$390 million factory. While construction is on schedule, the same can't be said for payments from all of its customers. Most of those customers have been ponying up millions in advance to secure enough polysilicon for making solar panels. The money, in turn, helps Hoku to build the factory that can produce up to 4,000 metric tons per year.

Wealthy Rise International, part of the China-based Solargiga Energy Holdings, has yet to pay the \$43 million that was due by the end of 2008, Hoku said Wednesday. Solargiga also owes an additional \$25 million down the road.

Aside from waiting for Solargiga to pay up, Hoku also is getting less money from another customer, Jiangxi Jinko Solar Co. in China. Jinko, formerly called Jiangxi Kinko Energy Co., was able to get Hoku to agree to shrink its contract from \$298 million to \$178 million over a 10-year period. To sweeten the new deal, Jinko has agreed to make silicon wafers at a discount for Hoku.

Overall, Hoku has received \$106 million from all of its customers (except Solargiga) so far, the company said. Hoku warned that if Solargiga defaults altogether – and you factor in the reduced

contract from Jinko – then Hoku will get \$216 million instead of \$306 million from customers that have agreed to pay for their contracts in advance.

In addition to using customer prepayments, Hoku has planned to look for an extra \$84 million in cash and loans to complete the factory (see company's cost breakdown).

If that happens, then Hoku could have trouble finishing its factory in Pocatello. The company already is looking at jiggering its construction plan and seeking new customers for the polysilicon that is meant for Solargiga.

"We recognize that receipt of the prepayments associated with any new polysilicon contracts could be several months later than previously expected," said Dustin Shindo, Hoku's CEO, in a statement. "As a result, if needed, we could reduce and/or delay our planned capital expenditures."

While Hoku is working to make sure no other customers will back out of their agreements, it is continuing to get pieces of equipment to put together the factory. It has gotten six reactors from GEC/MSA in Germany and installed two of them.

The company expects to get another 10 reactors in March this year. It has ordered 28 overall. Hoku plans to start shipping silicon later this year.

Selling polysilicon is only one of Hoku's businesses. It also designs and installs solar energy systems and develops fuel cells.

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