Motech Industries Inc ---Maintain NEUTRAL

Positive sentiments not supported by fundamentals **EPS: ▼ TP: ▲**

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- At the AGM, Motech guided June sales to grow 50-100% from May and 3Q demand to pick up, while the magnitude remains uncertain.
- Recent strong share performance, in our view, has been driven by increased oil price and expected government subsidy programmes in various countries. However, we remain cautious on the global oversupply for solar PV in 2009 and believe ASP decline should continue.
- We cut FY09-10E earnings by 57.4% and 36.2% to reflect the continuously declining ASP and margins. Motech's YTD solar cell shipment has been a disappointing 100 MWp, accounting for only 25% of the lower end of the company guided 400-500 MWp. Our new earnings forecast already assumes an aggressive 2H09 recovery.
- We maintain our NEUTRAL rating for Motech and derive our target price of NT$94 (was NT$81) from 1.6x mid-2010E BVPS (was 10x FY09E EPS), due to the expected volatile earnings in FY09-10E. Among the solar companies under our coverage, we still favour Motech to others due to its built scale and better long-term competitiveness. However, we suggest profit-taking here as current valuation is not supported by fundamentals.

Bbg/RIC	**6244 TT / 6244.TWO**	**Price (17 Jun 09, NT$)**			**114.00**
Rating (prev. rating)	**N (N) [V]**	**TP (NT$) (prev. TP)**			**94.00 (81.00)**
Shares outstanding (mn)	249.72	Est. pot. % chg. to TP			(18)
Daily trad vol–6m avg (mn)	7.2	52-wk range (NT$)			223.0 - 50.4
Daily trad val–6m avg (US$ mn)	20.3	Mkt cap (NT$/US$ mn)			28,468.5/ 863.9
Free float (%)	71.2	**Performance**	**1M**	**3M**	**12M**
Major shareholders	V Chairman Tseng	Absolute	21.8	50.0	(42.5)
	(4.4%)	Relative	27.0	19.9	(24.5)

Year	**12/07A**	**12/08A**	**12/09E**	**12/10E**	**12/11E**
Revenues (NT$ mn)	15,578	22,859	20,303	27,818	31,522
EBITDA (NT$ mn)	2,904	3,502	2,034	2,829	3,767
Net profit (NT$ mn)	1,958	2,302	842	1,539	2,414
EPS (NT$)	8.45	9.27	3.37	6.16	9.67
- Change from prev. EPS (%)	n.a.	n.a.	-57	-36	n.a.
- Consensus EPS (NT$)	n.a.	n.a.	5.1	8.1	10.3
EPS growth (%)	5.7	9.7	(63.6)	82.9	56.8
P/E (x)	13.5	12.3	33.8	18.5	11.8
Dividend yield (%)	5.5	2.6	1.0	1.8	2.7
EV/EBITDA (x)	9.1	8.4	15.9	11.5	8.2
P/B (x)	1.8	2.1	2.0	1.9	1.7
ROE (%)	18.2	16.6	6.0	10.1	14.1
Net debt/equity (%)	net cash	6	26	25	13

Note 1: Founded in 1981, Motech Industries started as a manufacturer of high-end test and measurement instruments such as Digital Multi Meter (DMM) and power supplies. After 1999, it set up solar cell department and transforms to a solar cell producer.

Likely 3Q recovery, while magnitude still uncertain

At the AGM held on 16 June, Motech chairman guided June sales to grow 50-100% and expects 3Q demands to pick, while the magnitude of recovery remains uncertain.

FY09-10E earnings revision

We cut FY09-10E earnings by 57.4% and 36.2%, respectively, to reflect the continuously declining ASP and margins. The company had guided 400-500 MWp solar cell shipment for 2009, versus our 396 MWp forecast which already assumes aggressive 2H09 growth. We expect Motech to manage wafer cost better than its competitors due to lower exposure to contract wafer supply (about 30%), and therefore, be able to maintain >10% gross margin in 2H09.

Figure 1: FY09-10E earnings revision

		New		Old		Change (%)	
(NT$ mn)	**2008E**	**2009E**	**2010E**	**2009E**	**2010E**	**2009E**	**2010E**
Net sales	22,859	20,303	27,818	28,449	36,565	-28.6	-23.9
Net income	2,302	842	1,539	1,974	2,413	-57.4	-36.2
EPS - CS adj. (NT$)	9.27	3.37	6.16	7.91	9.67	-57.4	-36.2
NS YoY (%)	*46.7*	*-11.2*	*37.0*	*24.5*	*28.5*		
GM (%)	15.3	8.6	9.7	12.0	11.4		
OpM (%)	12.1	5.4	6.6	7.9	7.7		
NM (%)	10.1	4.1	5.5	6.9	6.6		

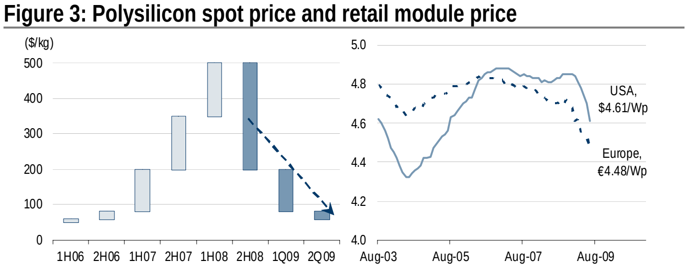
Source: Company data, Credit Suisse estimates

Figure 2: Highlights of key assumptions and quarterly P&L

P&L (NT$ mn)	**1Q09**	**2Q09E**	**3Q09E**	**4Q09E**	**2009E**
Cell ASP (US$/Wp)	2.00	1.52	1.43	1.33	1.50
Cell shipment (MWp)	59	67	135	135	396
Wafer cost (US$/Wp)	1.56	1.11	1.01	0.94	1.08
Net sales	4,021	3,536	6,603	6,143	20,303
Net income	51	9	450	332	842
EPS - CS adj. (NT$)	0.20	0.04	1.80	1.33	3.37
NS QoQ (%)	*-21.5*	*-12.1*	*86.7*	*-7.0*	--
NS YoY (%)	*-18.0*	*-42.0*	*-2.0*	*19.9*	*-11.2*
GM (%)	4.5	5.7	11.2	10.1	8.6
OpM (%)	1.7	2.2	8.0	6.9	5.4
NM (%)	1.3	0.2	6.8	5.4	4.1

Source: Company data, Credit Suisse estimates

Figure 3: Polysilicon spot price and retail module price

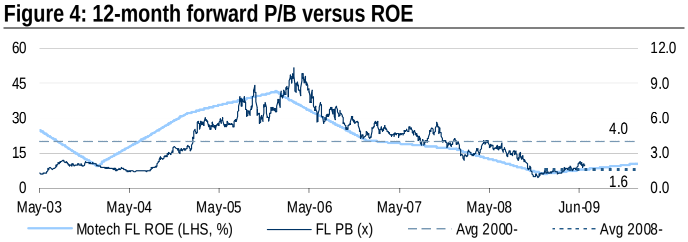


Source: SolarBuzz, Credit Suisse estimates

Valuation

We are turning to P/B multiple for our valuation for Motech as FY09-10E earnings are expected to be volatile. Our new target price of NT$94 is derived from 1.6x mid-2010E BVPS of NT$58.5. The 1.6x target P/B is based on capital asset pricing model (CAPM) and implies 12.7% ROE and 8.6% growth rate. We maintain our NEUTRAL rating for Motech despite the 18% price downside suggested by our new target price (18% correction can be done within a week due to high volatility of solar stocks), while we do recommend profit-taking at current valuation.

Figure 4: 12-month forward P/B versus ROE



Source: TEJ, Credit Suisse estimates

Companies Mentioned *(Price as of 17 Jun 09)*
Motech Industries Inc (6244.TWO, NT$114.00, NEUTRAL [V], TP NT$94.00)

Disclosure Appendix

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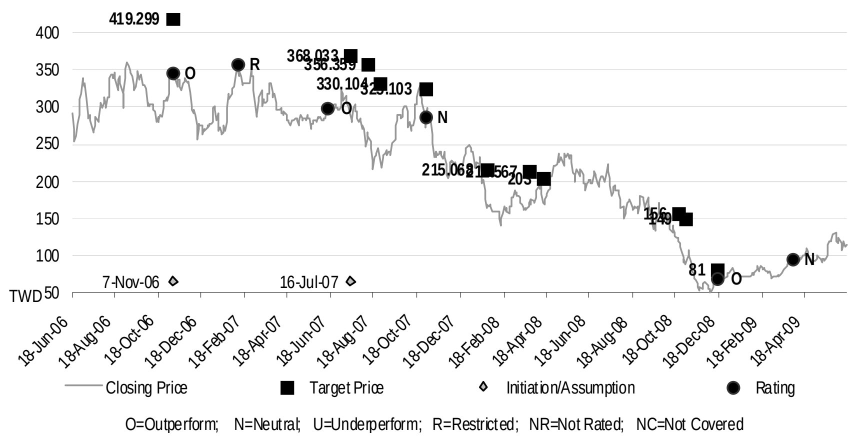
3-Year Price, Target Price and Rating Change History Chart for 6244.TWO

6244.TWO Date	Closing Price (TWD)	Target Price (TWD)	Rating	Initiation/ Assumption
7-Nov-06	345.809	419.299	O	X
6-Feb-07	356.813		R	
14-Jun-07	299.061		O	
16-Jul-07	291.158	368.033		X
10-Aug-07	260.082	356.359		
27-Aug-07	231.74	330.104		
29-Oct-07	285.923	325.103	N	
24-Jan-08	162.968	215.068		
25-Mar-08	170.887	212.567		
14-Apr-08	170.887	203		
22-Oct-08	119.5	156		
31-Oct-08	88.4	149		
16-Dec-08	69.5	81	O	
31-Mar-09	94		N	



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Price Target: (12 months) for (6244.TWO)
Method: Our NT$94 target price for Motech is derived from 1.6x mid-10E book value per share (BVPS) of NT$58.5. The 1.6x target price to book is in turn derived with capital asset pricing model (CAPM) and implies 12.5% ROE and 8.5% growth rate. The company was trading on average at 4x forward BVPS since its listing in 2003. We use the conservative 1.6x target price to book (P/B) to reflect our concerns on the continuously declining solar cell ASP and profitability.
Risks: Potential risks to our target price of NT$94 for Motech include: 1) intensified competition from new entrants, 2) higher-than-expected pressure on product ASP due to oversupply, and 3) lack of access to the end market.

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