# SUNSI ENERGIES, INC.
## Best Play on the Solar Market

Rob Goldman
rob@goldmanresearch.com

May 6, 2011

| SUNSI ENERGIES, INC. (OTC:QB - SSIE - $3.10) | |
|---|---|
| Price Target: $6.00 | Rating: Speculative Buy |

## COMPANY SNAPSHOT

SunSi Energies, Inc. has emerged as one of China's primary owners and operators of high quality Trichlorosilane (TCS) production facilities. TCS is the main raw material used in the production of polysilicon, which is essential to the solar photovoltaic (PV) industry. Approximately 75-80% of the production of all solar panels in the world use TCS. By leveraging the fast-growing solar market, the Company expects to enjoy high top-line and bottom-line growth. SunSi is believed to be the first and only "pure play" public company in the world focused 100% on the production of TCS. In addition to its 60% ownership of its Wendeng facility in Weihai City, China, SunSi also owns certain TCS distribution rights. SunSi plans to grow its portfolio of facilities through acquisition, and seeks to become the world's largest TCS producer.

## KEY STATISTICS

| | |
|---|---|
| Price as of 5/6/11 | $3.10 |
| 52 Wk High – Low | $4.00 – 0.86 |
| Est. Shares Outstanding | 27.7M |
| Market Capitalization | $85.9M |
| 3 Mo Avg Vol | NMF |
| Exchange | OTC:QB |

## COMPANY INFORMATION

SunSi Energies, Inc.
45 Main Street, Suite 309
Brooklyn NY 11201
646-205-0291
www.sunsienergies.com
info@sunsienergies.com

## INVESTMENT HIGHLIGHTS

**SunSi Energies is poised to become the dominant player in a key segment of the fast-growing, multi-billion dollar solar industry.** SunSi owns and operates facilities that produce Trichlorosilane (TCS.) TCS is the main raw material used in the production of polysilicon, which is essential to the solar photovoltaic (PV) industry. Without TCS, there is no solar industry.

**The opportunity is huge.** SunSi recently acquired major stakes in a TCS facility in China, and has acquired the distribution rights to another facility. Currently, SunSi controls roughly 15% of the Chinese market where the government plans to spend $454 billion in alternative energy over the next 10 years, the majority of which is intended to affect a five-fold increase in Chinese solar production by 2020. Five times as much solar equals five times as much TCS demand.

**SunSi is in an enviable position.** The specialty chemical company is taking advantage of the appetite for alternative energy sources and is uniquely positioned to generate huge growth due to its economies of scale, high quality product, scalability, existing barriers to entry and favorable "green energy and green products" industry drivers.

**SunSi's shares are a steal and the best way to play the solar market.** This leader in a key segment of the fast-growing solar industry is growing at more than 25% annually, is profitable, and has a balance sheet with no long term debt. Plus, SunSi has a clean capital structure, with no warrants or options. Based upon recent M&A, expected sales, near-term expansion and business development, we believe that SunSi will record $45M in sales and $4.0M in net profit in CY11 and increase sales and production by more than three-fold in 2012 to $140M in CY12 sales and $15M in net income.

By using a projected forward multiple of 12x on CY12 EPS, we derive a low-end 6-month target of $6.00. Looking ahead, we forecast that the shares could reach $12 by year-end 2012, based on our estimates and average industry multiples. As a dominant player in arguably the most profitable segment of the solar space, we rate SunSi Energies a Speculative Buy.

## COMPANY OVERVIEW

Through its operations in China, SunSi Energies, Inc. manufactures a specialty chemical known as Trichlorosilane (TCS). TCS is a compound critical to the production of extremely pure polysilicon, from which solar photovoltaic (PV) cells and other products are made. In fact, between 70-75% of all solar panels in use today are made with PV cells. It should be noted that TCS producers generate the highest profit margins of all players in the solar market food chain.

Through acquisition and internal growth and expansion of high quality, strategically located TCS production facilities, SunSi Energies seeks to become the world's largest TCS producer. Following the execution of two transactions over the past few months, SunSi controls 15% of the TCS market in China, which numbers 25-30 companies. We should note that China offers a number of competitive advantages to the Company. In addition to being the lowest cost producer of TCS, the Chinese government plans to spend $454 billion in alternative energy over the next 10 years, the majority of which is intended to affect a five-fold increase in Chinese solar production by 2020. Plus, with inexpensive raw material, low labor costs, major, scalable facilities, a base of large clients, and an estimated 65% of global solar production capacity, China is the place to be for solar production.

Therefore, management early on elected to concentrate its initial efforts on China. At the end of 2010, SunSi acquired 90% of Zibo Baokai Commerce and Trade Co. which owns exclusive worldwide distribution rights for TCS produced by Zibo Baoyun Chemical Plant which currently has an annual production capacity of 25,000 MT of TCS.

In March of 2011, SunSi acquired a 60% equity interest in TCS producer Wendeng He Xie Silicon Co. of Weihai City, China. In our view, this is a landmark transaction for SunSi as Wendeng is noted for its high quality production facility and Tier 1, multi-billion dollar clientele. Current capacity of Wendeng is 20,000 MT but will rise to 55,000 MT by year-end, following an expansion of the production facilities.

Under the terms of the agreement, SunSi will pay the sole shareholder of Wendeng approximately $3.15 million in cash in two installments, including $455,000 and $2.7 million within a three month and six month period, respectively. This payment will be guaranteed with the issuance of 1,349,628 common shares of SunSi, which is required to be re-purchased by the Company within a six month period, and equates to a price of $2.00 per share. Additionally as part of the transaction, an existing shareholder of SunSi will contribute 1,574,566 shares of SunSi common stock to the Wendeng shareholder.

As a result of the transactions, SunSi has emerged as what may be the largest TCS-only producer in China, controlling 50,000 MT of TCS production. More important, since SunSi is able to consolidate results of both operations, SunSi is a profitable TCS provider that should record $45M in revenue from these entities alone, prior to the completion of the Wendeng expansion. Leveraging these successes, and based upon pent-up demand for SunSi's TCS, management is confident it can secure or build additional facilities that would nearly double year-end 2011 production capacity to 140,000 MT, which could result in a projected $140M in sales.

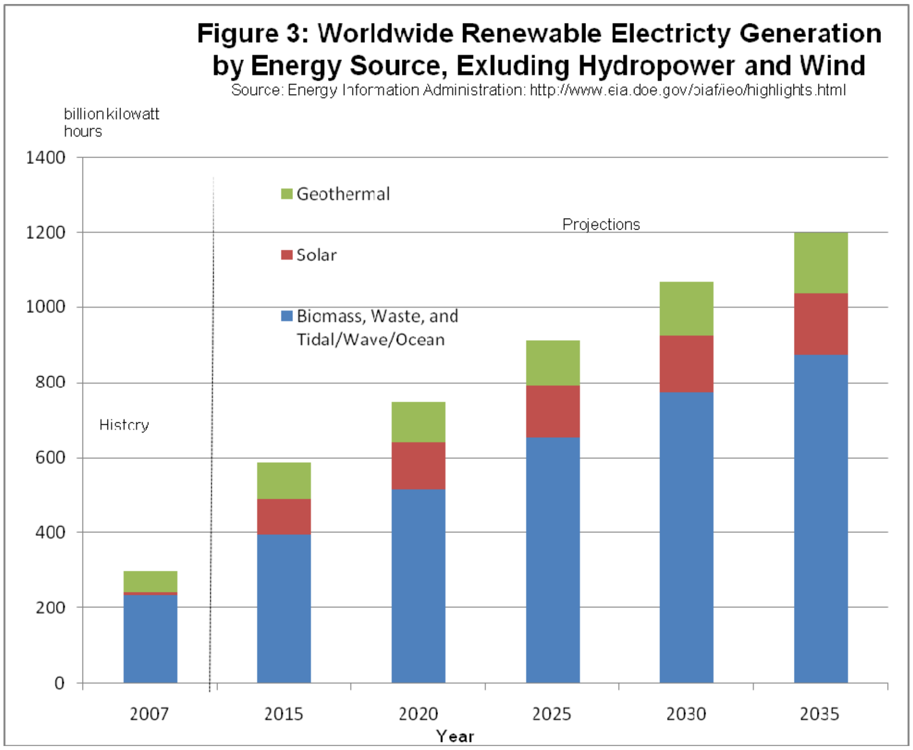
Image 1. Exterior of TCS Facility

Image 2. Interior of TCS Facility

# INDUSTRY OVERVIEW

The Solar Space

On a global scale, energy consumption is on the rise and is expected to continue to grow. Given the rising costs of traditional energy sources, and renewed concerns regarding the use of nuclear power following the Japan disaster, attention, and substantial investment dollars have once again turned to alternative energy sources, including solar energy. While there is a somewhat inverse relationship in the cost of traditional and alternative energy sources, demand is high for solar energy production, implementation and utilization. China, Thailand, Indonesia, and India dominate lead the way in Global PV Power Capacity and the implementation is rising dramatically worldwide, with the help of lower prices, desire to go “green” and various government incentives.




As evidenced above, we are currently in the midst of a major expansion in solar power utilization. As a result, investments in many segments of the space and in links of the supply chain (such as TCS) should be very profitable. The current solar PV (photovoltaic) method of converting solar radiation into electricity using semiconductors, or panels, is the dominant technology in this sector. The two technologies utilized in PV industry are the traditional Polycrystalline silicon (TCS) used in 70%-75% of the market, and thin-film cells. Though thin-film cells may be less expensive to produce, they are far less efficient in energy conversion---roughly half that of TCS cells. In addition, the manufacturing process currently requires some scarce elements. Conversely, companies that provide the TCS to solar panel companies are well positioned for future growth.

Interestingly, although some producers of polysilicon also produce TCS in the same facilities, many are outsourcing to firms such as those in the SunSi family, due to the inherent lower cost. Thus, any firms seeking to build new TCS facilities or expand existing non-TCS specific facilities may not succeed as it makes more sense to outsource this key raw material and focus on their own core product manufacturing.

## COMPETITIVE ADVANTAGES

- Due to the base in China a number of barrier to entry exist including low raw material cost, low labor expense, top-notch facilities, and nearby access to major solar production entities
- China is committed to investing and implementing the use of alternative energy, especially solar. It is expected that there will be a five-fold increase in TCS production by 2020.
- While there has been an increase in sales of thin-film versus PV due to the lower production costs, since thin film is unable to convert energy at a rate as high as PV, it is less efficient
- Management has significant experience as multinational operators
- With no long-term debt and emerging as a leading, profitable TCS production owner and operator SunSi should enjoy huge growth through customer and facility acquisition

## INVESTMENT RISKS

In our view, the greatest risk to investors is execution risk with respect to the Company's M&A strategy. In addition, delays in procurement, a drop in TCS pricing or a reduction in solar implementation could hamper growth. Although unlikely, new technologies or methodologies could emerge that could render SunSi's business plan and model obsolete. Other risk factors including the possible need for additional capital to fund its growth and product demand, and competition from larger firms that produce both polysilicon and TCS are all consistent with firms of SunSi's current size and standing. We note that if government incentives regarding solar implementation would to decrease, that would be a negative for the industry and SunSi. Finally, given that ostensibly all production is in China, an element of geopolitical risk exists as well.

## FINANCIALS

**Table I. Projected Income Statement**

**Sunsi Energies, Inc.**

| | 2011E | 2012E | 2013P* |
|---|---|---|---|
| **Revenue** | | | |
| **Total Revenue** | **$45,000,000** | **$140,000,000** | **$210,000,000** |
| Cost of Sales | $36,000,000 | $93,800,000 | $138,600,000 |
| Gross Profit | $9,000,000 | $46,200,000 | $71,400,000 |
| Selling, General & Admin Exp | $2,800,000 | $23,000,000 | $39,000,000 |
| **Operating Income (incl min int)** | **$6,200,000** | **$23,200,000** | **$32,400,000** |
| Taxes | $2,170,000 | $8,120,000 | $11,340,000 |
| **Net Income** | **$4,030,000** | **$15,080,000** | **$21,060,000** |
| Net Income per share | $0.13 | $0.46 | $0.62 |
| Est Shares Outstanding | 31,300,000 | 32,500,000 | 34,000,000 |

* denotes preliminary

The SunSi business model is pretty straightforward, especially considering there is no long term debt on the books. It should be noted that out estimates included the expense for minority interest, although we did not break that out by line item, along with certain operating expenses. Demand is high among existing and new customers for Wendeng, and our baseline expense estimates rely to a degree on Wendeng financials, as a result. However, the model is therefore subject to some slight modifications going forward, particularly with respect to the timing of expansion completion or additional M&A. At present our assumption is that gross margin will being to tweak higher from 20% in 2011 to 33% in 2012, due to economies of scale. The tax rate is fully expenses, though that could provide modest upside going forward. As the Company did not have meaningful financials for 2010, we begin our pro forma income statement below with CY2011. We are confident in our $40M revenue and $4.0M net estimates for 2011 and believe upside exists in our $140M and $15M forecasts for 2012, particularly on the bottom line. At the current price of $3.10, the stock is trading at a paltry 23x our CY11 forecast and a ridiculous 6.8x our CY12 estimates.

## VALUATION AND CONCLUSION

SunSi is well-positioned to emerge as the leading provider of TCS and the only publicly-traded our play TCS producer in the market. With significant barriers to entry, competitive advantages over new and existing players, management has built a model that cleverly leverages the demand for solar. As a result, this model should enable SunSi to generate significant revenue and profit.

In our view, shares are a steal at the current level, especially since TCS represents the highest profit in the solar food chain. This leader in a key segment of the fast-growing solar industry is growing at more than 25% annually, is profitable, and has a balance sheet with no long term debt. Plus, SunSi has a clean capital structure, with no warrants or options. Based upon recent M&A, expected sales, near-term expansion and business development, we believe that SunSi will record $45M in sales and $4.0M in net profit in CY11 and increase sales and production by more than three-fold in 2012 to $140M in CY12 sales and $15M in net income.

By using a projected forward multiple of 12x on CY12 EPS, we derive a low-end 6-month target of $6.00. If demand, pricing, or M&A accelerate, the target would have to be adjusted higher. Looking ahead, we forecast that the shares could reach $12 by year-end 2012, based on our estimates and average industry multiples. As a dominant player in arguably the most profitable and fast-growing segment of the solar space, we believe that SunSi is the best way to play the solar market. Thus, we rate SunSi Energies a Speculative Buy.

**Analyst: Robert Goldman**

Rob Goldman has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell-side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

**Analyst Certification**

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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