SUNSI ENERGIES, INC.
A Gift for Investors

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SUNSI ENERGIES, INC. (OTC:QB – SSIE - $2.74)	
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. Roughly 75-80% of all solar panel production worldwide uses TCS. By leveraging the fast-growing solar market, SunSi 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 through acquisition, and seeks to become the world's largest TCS producer.

KEY STATISTICS

Price as of 1/27/11	$2.74
52 Wk High – Low	$5.00 – 2.40
Est. FD Shares Out.	29.7M
Market Capitalization	$81.4M
3 Mo Avg Vol	6,600
Exchange	OTC:QB

COMPANY INFORMATION

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INVESTMENT HIGHLIGHTS

From time to time opportunity knocks on the proverbial investors' door. Some view it with caution. Others as an opportunity. In the case of SunSi Energies, Inc. (OTCQB - $2.74 – SSIE) we view this opportunity as a gift. In fact, we think that the worst case scenario for investors who buy the stock is what is termed as a dead cat bounce, which would be a swift 15-20% rise from current levels.

Backstory:

SSIE reported less than stellar 2Q12 results 12 days ago. We hinted at the turn of the year that volatility in the stock was reflective of price erosion and oversupply in the polysilicon market at year-end 2011. Admittedly, the top-line was a big sequential decline from 1Q12. However, it reflected the aforementioned market conditions which basically turned on a dime during the period and not 2012 calendar year business. The stock sold off sharply last week in response to a research report downgrade which cited the weak quarter, and a resultant change in investor sentiment.

Leading Indicators vs. Lagging Indicators:

It is clear to us that the timing of the selloff is a knee-jerk reaction, and one with very poor timing, presenting a great buying opportunity.

The prospects for the solar industry are led by producers of polysilicon, which serve as a leading indicator for the market. The market for raw materials (such as SunSi's TCS) to these producers is a lagging indicator reflected only after the worst has already transpired.

The first indication of a cyclical hiccup in the market occurred when there was an oversupply of polysilicon in the market, and prices subsequently plunged. In response, the polysilicon solar producers' stocks dropped late last year.

However, these same stocks are up 20% in 2012, as prices have more than stabilized. In fact, according to a Bloomberg article that appeared just this past Friday, prices have risen 4 of the past 5 weeks and demand is booming with growth of over 30% expected worldwide, fueled by China.

It is odd that on the same day of SSIE's selloff, an article was published touting the fact that solar is back, and that the worst is over, as evidenced by the leading indicator, polysilicon prices and sales. These events indicate that in the near future, SSIE's TCS business will, and may already have, experienced the same characteristics, right behind the polysilicon players. As a result, SSIE should be moving higher, not lower.

The Good, the Bad, the Opportunity:

The Good

The good for SunSi is easy to see. This is helped by the fact that management issued a press release early this morning which affirms the theme of the Bloomberg solar industry article and provides insight into SSIE's overall positioning. Clearly, prices in the space have stabilized and China is fueling the industry's growth, which dovetails with the SSIE strategy. Moreover, the Company has successfully diversified its geographic revenue base with an order in 2011 and recent press releases appear to indicate new foreign orders are in process. Based on the Company's marketing efforts, we believe that more orders could be closed this quarter, strengthening SSIE's position.

SSIE is a provider of TCS to some of the largest polysilicon producers in the world, which is an affirmation of its high-quality, low-cost offering. Industry consolidation may also boost its market share, as SSIE is positioned to be the dominant pure-play provider. A reduction in cost of goods, as noted in the release, will also boost gross margin profitability, beginning in the current quarter.

Investors should expect a return to normalized sales volume and pricing in 1H12 and greater profitability.

We remain very positive that the move to NASDAQ is forthcoming, which will boost share volume and the stock price.

The Bad

Perception is that solar is "in the rough" and that it will be a while before SSIE can get back to par. The NASDAQ move has taken a bit longer than expected, which may have spooked some investors.

The Opportunity

The selloff which is wrongly based in part on market perception presents a great time to establish a position. It reflects the past, not the present or the future and is a gift to savvy investors. As noted above, with SSIE serving as a lagging indicator, a move higher, in tandem with the other solar stocks is around the corner. Each time management scores a new "win" outside of China the stock should also benefit investors. Finally, the move to NASDAQ, in our view, is a fait accompli, serving as a big driver back to $4.00 or higher.

We maintain our Speculative Buy rating and believe that the stock could reach $6.00 during 1H12.

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*.

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