

## Mid-Morning Alert

# SUNSI ENERGIES, INC.

## SunSi Announces Major Deal

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### SUNSI ENERGIES, INC. (OTC:QB – SSIE - \$1.80)

Price Target: \$5.00

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 4/19/12	\$1.80
52 Wk High – Low	\$5.00 - \$1.05
Est. FD Shares Out.	30.0M
Market Capitalization	\$54M
3 Mo Avg Vol	6.600
Exchange	OTC:QB

#### COMPANY INFORMATION

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#### INVESTMENT HIGHLIGHTS

##### Today's Event:

Early this morning, SunSi announced it is acquiring 51% of TransPacific Energy, Inc., a U.S.-based company that designs and sells energy systems which maximize heat recovery and convert waste heat into electrical energy.

TPE produces Organic Rankine Cycles, which use enhanced heat transfer techniques to maximize heat recovery and efficiently convert waste heat directly from industrial processes, thermal solar, geothermal biomass and landfill as well as other untapped heat into renewable electrical energy.

##### First take:

This deal vaults SunSi into an even stronger position in the renewable energy space as synergies abound. Since 51% will be acquired, financials will be consolidated and management indicated it will be revenue-generating and we infer that it could be accretive on an EBITDA basis. Therefore, our back-of-the envelope calculation, based on what we think could be \$5M in revenue in 2012 is that **TPE increases SSIE's value by \$.40 - \$.50 per share from current levels**, as dilution in this SSIE stock transaction appears negligible.

##### Key Takeaways:

TPE's core technology uses multiple component fluids that are environmentally sound, non-toxic and non-flammable. They provide a major advantage over other ORC systems since the TPE systems can capture and convert heat directly from the heat source at temperatures ranging from 100°F to 1000°F while other ORC systems are limited to narrow temperatures range between 200° F and 300° F.

The market is huge in the U.S. industrial world alone. Nearly 10% of the estimated 500,000 smokestacks in the U.S. produce up to 75% of untapped waste heat at above 500° F. This waste heat could generate at least 50,000 megawatts of power. Utilizing this waste heat could generate more than \$100 billion in revenue.

With multiple vertical markets, including solar, the opportunity to bring TPE's technology to China, and the deep synergies between the two firms, it looks like a win-win for investors.

## **DEAL OVERVIEW**

SunSi will acquire 51% of the common stock of TransPacific Energy in exchange for SunSi common stock. The transaction is scheduled to close no later than the end of May but it seems that both parties expect that the closing could occur before then. It should be noted that if SSIE management has proven anything, it is that they have had a great deal of success identifying, making, and integrating strategic acquisitions into their business model.

We would not be surprised if an “earn out” based on revenue generation milestones is in the cards given the relative size of the current initial consideration.

Investors should expect that 2012 is the initial sales execution year for the TPW business with deeper customer penetration and large-scale contracts occurring in 2013 and beyond. This is the typical roadmap for many renewable energy companies. Separately, it should be interesting to see how long it takes before the SunSi-TPE relationship bears fruit in China. We expect that the bulk of revenue in 2012 would be in the U.S. which, in turn, could help SunSi’s traditional TCS business. The bottom line is that sales to China could see a big boost in 2013.

The size of the market for the reduction of emissions alone is enormous and SunSi can open doors to China where 70% of the polysilicon producers must comply with government environmental guidelines. Plus, with \$454 billion earmarked for renewable energy projects, TPE could establish a real foothold in China through SunSi.

## **SOLAR ISSUES BOTTOMED? SSIE CORE COULD BE BACK ON TRACK IN Q2**

During the stock decline on low volume of the past 2 weeks, we elected to perform industry due diligence and channel checks to gauge the true direction of the solar market, and thus the outlook for SunSi. Our channel checks resulted in slightly divergent views, but they were generally favorable. SunSi is in the TCS production business; however the Company is reliant to a degree, on the polysilicon players and polysilicon pricing, which have gotten whacked.

Polysilicon pricing started off the year sharply higher, as the oversupply was drawn down upon and followed by the recent weakness. The belief is that it has not yet bottomed due to macro factors. While we believe that the market may be 10% away from a bottom, we are less concerned with polysilicon pricing than we are with overall demand for end-product as that is the key corollary to SunSi’s business.

The primary takeaway for us is that we get the sense that SunSi customers and prospects in China and abroad are renewing their pricing and production inquiries ahead of transacting business in the next few weeks. Demand is driven by the need to meet end-user demand, which will result in greater capacity utilization. Some even believe that the demand is related to some semblance of price stabilization will occur.

**As a result, we believe that new orders over the next few weeks from existing customers in China and perhaps new customers abroad will provide a needed spark to SunSi’s share price.**

With this expected flurry of business development and activity investors who may have been spooked should be comforted. We maintain our Speculative Buy but are trimming our price target to \$5.00 from \$6.00 to reflect the recent drop in the share price.

## Mid-Morning Alert

**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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