

REC first Quarter results, Canadian Solar facing Deutsche Solar's contract cancellation

Written by Robert Dydo
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Last week REC of Norway released its first-quarter results. The company showed operational and financial improvements, despite a loss of \$0.03 per share for the quarter. Total revenue was at \$373M. Polysilicon production using the FBR method was at \$12.50 cash per kg and the module costs were at \$1.01 per watt using the cash-only formula. In this calculation REC excluded Selling and G&A expenses. The company managed to reduce its debt and increase the cash account to \$328M. In comparison to Q1 2011, YoY revenue experienced a 48% loss, while gross margin had a 50% loss.

As part of the reorganization REC has shut down its European wafer capacity. The company operates a vertically integrated plant in Singapore with around 700MW of capacity from wafer to module. In the polysilicon segment FBR production is expected to reach 15,000MT, which is around 40% more than existing capacity. Overall production, adding the Siemens method, is expected to reach 21,500MT of polysilicon for 2012. Overall module cost is expected to reach Euro .66 per watt by the end of the year. The company offers a quote of Euro 0.39 per watt cash cost only to process silicon to module, and uses Euro 0.10 for cost of polysilicon at the market price. However, using only cash costs REC has an ability to produce modules at \$0.57 per watt by the end of the Q4 2012. The company predicts around 190MW of module sales in Q2 2012, and 750MW of modules for the year. REC and SolarWorld are the only two European companies remaining in the global manufacturing arena in relatively viable and stable condition. In the last 12 months a majority of global companies have experienced financial hardships, forcing them to exit the markets. Some companies, particularly ones without a competitive edge, became insolvent.

SolarWorld was indirectly involved in a Form 20-F published by Canadian Solar on Friday. The company's subsidiary, Deutsche Solar, cancelled their contract with Canadian in December 2011, claiming a breach of a 12-year arrangement signed in 2007. Canadian quoted a sum of \$192M as the amount Deutsche Solar is looking for in damages. Canadian reclassified \$27.9M as the loss contingency accrual for preparation for this potential issue. In addition, the company made bad debt allowances of \$17.4M for advances paid to Deutsche Solar. Similar reserves were made for advances paid to LDK Solar, and for the UMG-Si unnamed supplier for a total of 20.2M. LDK arbitration judgement, as per company, is expected in the second part of 2012. LDK is looking for \$63M in compensation, in addition to the already held \$10M.

Canadian also disclosed details of its recent deal with SkyPower. Canadian is expected to pay \$69.8M on closing of the deal and another \$69.8M on May 31, 2012. The rest is payable when performance milestones are met. The \$185M deal provides Canadian with up to 200MW of

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existing projects in Ontario, Canada, using lucrative FiT. Both companies agreed to form a joint venture to pursue other projects globally.