Solar specialists embrace tieups

REUTERS, *Hong Kong/Taipei*

Grappling with sliding prices and margins, solar specialists, or stand-alone makers of wafers and cells, risk being squeezed out of the market by their fully integrated Chinese rivals who are investing billions of dollars in technology.

The new reality is forcing solar specialists, mostly Taiwanese, which have long had a simple business model that generated steady revenues and modest margins, to form partnerships and diversify at a faster pace to stay in the business.

"Unless they add scale quickly enough to slash costs, stand-alone producers will have a hard time competing against bigger integrated players on price," said Min Li, head of alternative energy at Yuanta Securities.

These companies will face a tougher market in the next three to five years as big Chinese solar firms continue expanding despite slowing demand, Li said.

Long-term outlook for stand-alone solar cell makers appears uncertain as countries including Italy and Germany have cut incentives, raising the risk of a shrinking market. Falling subsidies are leading to inventory pile-up, hurting margins.

Specialists such as Sino-American Silicon Products and Solargiga Energy Holdings believe they could fend off competition with joint ventures that will help them expand across the supply chain, while keeping their lead in the wafer business.

"Demand and supply are always unbalanced, no matter, in high or low season, we can always help each other," said Sino-American President Doris Hsu, referring to its partner Solartech, a solar cell maker.

"It's good from a price competitiveness view point, and it's also good for companies to cope with high and low seasons."

JOINING HANDS

Incentive cuts and competition from bigger rivals have also hurt the specialists' shares.

Shares in Motech Industries, Taiwan's largest solar cell company and the world's No. 5, nearest rival Gintech Energy Corp and Sino-American have slipped by a fifth from their highs this year after Italy announced solar-incentive cuts.

Total sales at the top five Taiwanese specialists declined 15 percent in May from April, when they fell 36 percent.

Analysts expect several of these companies to suffer a profit fall of up to 80 percent in 2011, a sharp contrast from a profitable 2010 when a surge in demand from Germany boosted sales.

The sector has seen a spate of joint ventures and partnerships recently as companies join hands to fight competition.

Chinese solar cell company JA Solar's $172 million acquisition of wafer maker Silver Age Holdings, announced early this month, was the latest deal that highlighted a push by specialists at integration.

Silver Age owns China-based wafer producer Solar Silicon Valley Electronic Science and Technology Co.

The deal followed JA Solar's 50-50 joint venture with U.S. wafer company MEMC Electronic Material to build a solar cell factory in China.

On March 12, Sino-American sold a 5 percent stake to Solartech in exchange for 10 percent of Solartech.

The same week, Motech said it was creating a joint venture with Green Energy Technology and Taiwan Polysilicon Corp to make wafers.

TOO LITTLE, TOO LATE

While specialists are attempting integration, partnerships and diversification, the move could prove to be too little and too late as the cash-rich Chinese rivals have already got a headstart at expansion.

Companies such as Taiwanese cell makers Neo Solar Power and Tainergy Tech Co could find it tough as they have stayed clear of joint ventures so far, analysts say.

As entry barriers are low for wafer and cell projects, the industry is prone to over-investment, fuelling a boom-bust cycle that makes company margins volatile, they said.

The biggest threat could be from integrated Chinese solar players such as GCL-Poly Energy Holdings, which until a year ago was supplying only polysilicon, a raw material for solar wafers, analysts said.

By the end of last year, GCL became the world's largest supplier of wafers, according to data from Piper Jaffray Research, overtaking MEMC and Sino-American.

GCL is spending $2.28 billion to boost production, while its peer Chinese firm LDK Solar will increase wafer production by a third by the end of next year.

Chinese solar panel companies are also eating into stand-alone solar-product makers' revenues and profits. Already the world's largest suppliers of modules, these companies offer solar products at very low prices.

Chinese module makers Suntech Power Holdings, Yingli Green Energy Holding and Trina Solar dominate markets including Europe and Japan, two of the world's biggest markets for solar modules that account for bulk of the solar specialists' revenue.

While Suntech and other Chinese module firms do not compete head on with specialists in the supply of wafers and cells, their focus on trimming module prices to win markets could hurt high-cost solar module companies that buy directly from specialists.

"Motech is at a strategic disadvantage as it places its cells in the market through high-cost module makers in the EU and Japan," said analysts at HSBC in a report.

"Most high-cost players will come under increasing pressure amid over-supply. Some of the pressure is likely to reflect in lower margins across the supply chain, i.e., on cell makers like Motech."

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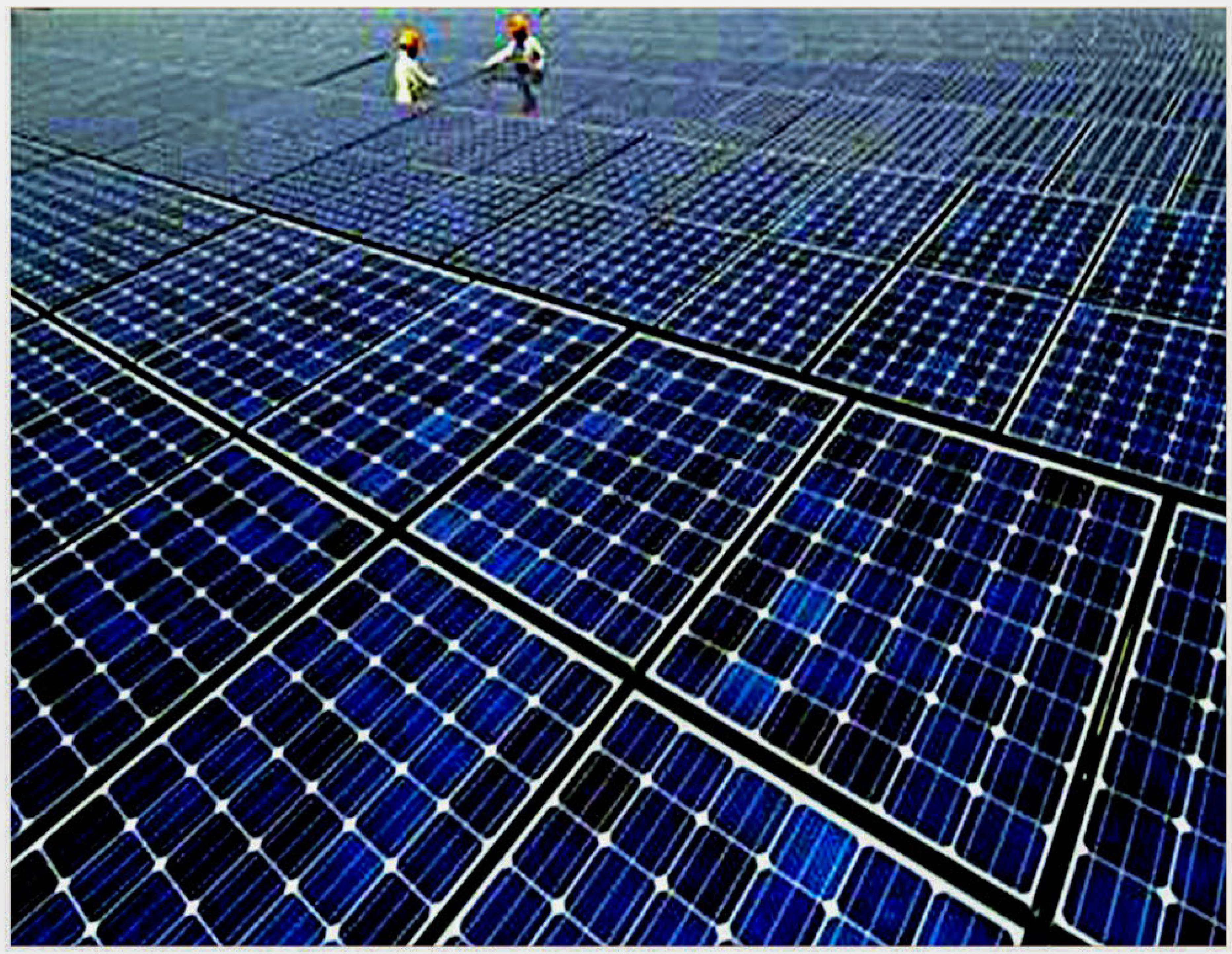

REUTERS

Workers check solar panels at a solar power field in Kawasaki, near Tokyo.

In all, News Corp's papers could be worth $6b

QUENTIN WEBB

The Sun is Britain's biggest newspaper, outselling its two tabloid rivals combined by 50 percent. Yet it might fetch less than 500 million pounds ($800 million), were Rupert Murdoch's embattled News Corp to sell up. Add in The Times and the Sunday Times, and a deal might be struck for 800 million pounds ($1.3 billion). His entire newspaper empire, including the Wall Street Journal, New York Post, and nearly 150 Australian titles, may be worth between $3 and 6 billion. The industry's terrible economics, and the UK hacking scandal, both discourage M&A. But trophy buyers could emerge.

News Corp's newspaper business makes up 18 percent of group revenues, and 13 percent of operating profits, mostly in Australia. Despite Murdoch's apparent determination to retain the UK titles, a selloff may have attractions to News Corp's outside shareholders. Some directors may welcome the opportunity to free management to focus on higher-margin broadcasting businesses -- and to put phone hacking firmly behind the company.

Judged on anything like normal commercial criteria, likely offers may not be that enticing. Rough estimates might value the papers at between a half and one-times annual sales. Half is a bit more than Richard Desmond paid for the UK's Daily Express and Star in 2000. That is in line with the market value of Daily Mirror publisher Trinity Mirror. The UK's Daily and Sunday Telegraph went for 2.1 sales in 2004 but that looks fanciful now, while the nominal sums Alexander Lebedev paid for The Independent and London's Evening Standard look too pessimistic for three of Britain's strongest titles.

Worldwide, News Corp's newspaper arm had revenues of nearly $6.1 billion last year. Using the half-to-one times sales benchmark, that implies a value of $3.05-$6.1 billion for the whole division.

In Britain, the Sun and the now-defunct News of the World's revenues totalled 654 million pounds in 2009-10. Assuming the Sun claws backs lost News of the World sales with a new Sunday edition, it might sell for up to 500 million pounds. Ironically the Sun's most likely buyer may be Desmond -- hardly a less controversial proprietor than Murdoch. The other main UK titles are loss-making. But with 392 million pounds of sales they might get 300 million.

If the benchmark is the three times sales set when Murdoch bought Dow Jones -- the owner of the Wall Street Journal -- the sums could be a lot higher. Admittedly DJ wasn't really a consumer newspaper business. But if that is where News Corp puts the bar, it is hard to see any buyers emerge. Not even the keenest of trophy seekers.

The author is a Reuters Breakingviews columnist. The opinions expressed are his own.

AFP

Protesters gather outside Portculis house as the Home Affairs Select Committee heard evidence in London on July 19 on the phone-hacking scandal.

Is higher growth possible in India with higher interest?

PAI PANANDIKER, *for Reuters*

Last time it was really hefty. The RBI (Reserve Bank of India) administered a double dose of 0.5 percent when on the previous nine occasions it was content with half that hike. What prompted the RBI was the reluctance on the part of inflation to move down --the central bank had thought it could be engineered with a higher dose.

That also did not work. On the contrary, inflation moved a step up to 9.4 percent and expectedly industrial growth moved a step down to 5.6 percent. The latter, however, does not seem to be a concern with RBI though it certainly is with the finance ministry.

The RBI would like inflation down and industrial growth up. But the two generally do not go together and therefore pose a choice. The RBI prefers lower inflation even if it means lower growth. That is because price stability is its mandate.

It is not that in public policy inflation has low priority. It is whether the rate increase is the way to temper inflation. Monetary policy is the only option with the RBI. It is the other measures, however, which are more relevant and can be more effective. These are the responsibility of the government.

Even if the interest hike did not have an impact on inflation it had to be manoeuvred to correct other imbalances that arise. The more obvious reason is that inflation forces the lender to subsidise the borrower. This can cause serious imbalance between savings and investment and accelerate inflation. Therefore the best that can be expected from the RBI in its next round of policy review is a pause in interest hike. More likely it can be its normalised 0.25 percent increase in repo rate.

Does that mean that growth will have to be compromised? Not necessarily. The present inflation is not due to over-heating of the economy but a shortfall in agricultural production. That is why food inflation soared up too high in comparison with inflation in the manufacturing sector. Since a higher rate of interest hits investment activity, it is important that fiscal means are introduced to make up for the higher interest rate.

To keep up growth, investment should be kept going and for that investment should be as profitable as it was before the rate increase. The best way of doing that is to introduce for a limited period investment allowance which was in vogue in the seventies and eighties. All it implies is weighted depreciation with no loss of revenue for the present. It will provide a stimulus to investment and restore profitability.

It is expected that the monsoon will make some difference to inflation. Even if it does, it will be quite some time before a reversal of interest rate comes through. By then investment will drop and growth will slow down and may take another year to pick up again. Hence if the monetary measures are supplemented by fiscal incentives a higher growth would be possible even with higher interest rate.

The views expressed in this column are the author's own and do not represent those of Reuters.