

Recommendation:
BUY (BUY)

Risk:
HIGH (HIGH)

Price Target:
EUR 13.32 (13.32)

29 July 2009

2Q2009 showed some momentum again

We expect a strong second half of 2009

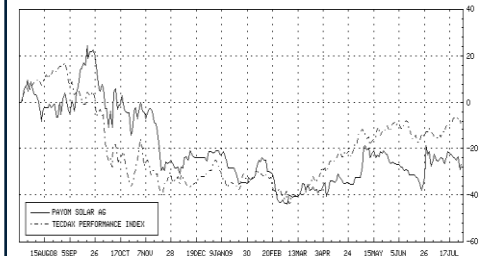
- Today, Payom published sales and EBIT figures for 1H2009. After the very weak 1Q2009 which had been affected by a severe and snowy winter, the business development gained momentum again in Q2. The installed volumes in kWp were approximately on the same level as in 1H2008 again. Nevertheless, due to the massive module price decline, 1H2009 sales dropped by one third to EUR 9,65m (1H2008: EUR 14.45m).
- In 1H2009, EBIT amounted to EUR 0.58m (1H2008: EUR 0,95m), which is a decline of about 40%. Under the assumption that no inventory changes accrued, the EBIT margin was approx. 6.3% in 2Q2009 (2Q2008: 6.1%) and 6.0% in 1H2009 (1H2008: 6.6%), respectively. The margin decline is due to the changed market environment. Last year, Payom was able to sell mainly high-margin thin film modules. After the module price drop, demand has shifted to crystalline modules, to a large extent.
- Payom's CEO remains optimistic for the second half of 2009. He expects sales to significantly outperform our recent estimate (EUR 41m), and still feels very comfortable with our EBIT estimate (EUR 2.1m). The company reports an extraordinarily high order intake during the recent weeks, and we assume that 3Q2009 will be very strong.
- As already reported in our latest update, Payom Solar AG had announced that they have entered an agreement with the shareholders of Solare AG, Cologne, to take over 100% of Solare AG in the course of a share deal. It is planned that Payom will issue 3.25m new shares to the shareholders of Solare AG, raising the shareholders' equity from EUR 1,30m to 4.55m. The exchange ratio of 1:2.5 implies a valuation of Solare's equity of EUR 23.0m. According to an expert opinion, the fair value of Solare (on basis of a Discounted Cash Flow model) amounts to EUR 53.3m. We identify several synergies and opportunities from this planned transaction, which is still subject to the approval of Payom's shareholders' meeting. For the time being, we leave our earnings estimates and our price target unchanged. Our recommendation remains BUY.

Key data

Y/E Dec 31, EUR m	2007	2008	2009E	2010E	2011E
Sales revenues	9.9	36.9	41.0	56.0	67.2
EBITDA	0.9	1.1	2.2	3.0	3.7
EBIT	0.9	1.0	2.1	3.0	3.6
Net result	0.6	0.7	1.3	1.8	2.1
EPS	0.82	0.69	0.97	1.38	1.62
CPS	-1.69	-9.24	3.90	-0.45	-0.63
Gross margin	15.6%	9.4%	9.2%	8.4%	8.3%
EBITDA margin	8.9%	2.9%	5.2%	5.4%	5.5%
EBIT margin	8.8%	2.8%	5.1%	5.3%	5.4%
EV/EBITDA	16.3	13.6	6.7	4.8	3.9
EV/EBIT	16.5	14.1	6.9	4.9	4.0
P/E	9.4	11.2	7.9	5.6	4.7

Source: CBS Research AG, Payom Solar AG

Share price (dark) vs. TecDAX



Source: CBS Research AG, Bloomberg, Payom Solar AG

Change	2009E		2010E		2011E	
	new	old	new	old	new	old
Sales	-	41.0	-	56.0	-	67.2
EBITDA	-	2.2	-	3.0	-	3.7
EPS	-	1.02	-	1.38	-	1.62

Internet: www.payom-solar.de Sector: Renewable Energy
WKN: A0B9AH
Reuters: P1YG.DE ISIN: DE000A0B9AH9
Bloomberg: P1Y GY

Share data:

Share price (EUR, closing price 07/28/09):	7.70
Shares outstanding (m):	7.7
Market capitalisation (EUR m):	10.0
Enterprise value (EUR m):	14.5
Ø daily trading volume (6 m., no. of shares):	7,211

Performance data:

High 52 weeks (EUR):	13.30
Low 52 weeks (EUR):	5.40
Absolute performance (12 months):	-30.4%
Relative performance vs. TecDAX:	
1 month	-17.4%
3 months	-5.7%
6 months	-21.5%
12 months	-24.1%

Shareholders:

RUPAG Group:	28%
Lite-On Technology Corp.:	20%
Management:	14%
Free float:	38%

Financial calendar:

Annual general meeting:	31 August 2009
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Analyst:

Analyst:	Martin Decot
Close Brothers Seydler Research AG	
Phone:	+49 (0) 69-977 84 56 0
Email:	research@cbseydlerresearch.ag

Institutional Sales:

Close Brothers Seydler Bank AG	
Germany:	Raimar Bock
Phone:	+49 (0)69 - 920 54 115
Benelux:	Olaf Coerper
Phone:	+49 (0)69 - 920 54 110
France:	Bruno de Lencquessaing
Phone:	+49 (0)69 - 920 54 116
Close Brothers Seydler Ltd.	
United Kingdom:	Ernie Ferriday
Phone:	+44 2076 55 34 80

www.cbseydlerresearch.ag

Appendix

Profit and loss account

	IFRS	EUR 1,000	2006	2007	2008	2009E	2010E	2011E
Sales			701	9,931	36,929	41,000	56,000	67,200
YoY growth			-	1316.4%	271.9%	11.0%	36.6%	20.0%
Total output			701	9,931	36,929	41,000	56,000	67,200
Cost of materials as % of total output			-649 -92.6%	-8,386 -84.4%	-33,473 -90.6%	-37,228 -90.8%	-51,296 -91.6%	-61,622 -91.7%
Gross profit as % of total output			52 7.4%	1,545 15.6%	3,456 9.4%	3,772 9.2%	4,704 8.4%	5,578 8.3%
Personnel expenses as % of total output			-17 -2.4%	-118 -1.2%	-423 -1.1%	-451 -1.1%	-465 -0.8%	-504 -0.8%
Other operating income as % of total output			1 0.1%	0 0.0%	24 0.1%	35 0.1%	38 0.1%	41 0.1%
Other operating expenses as % of total output			-52 -7.4%	-541 -5.5%	-1,993 -5.4%	-1,206 -2.9%	-1,237 -2.2%	-1,390 -2.1%
EBITDA as % of total output			-16 -2.3%	886 8.9%	1,064 2.9%	2,150 5.2%	3,040 5.4%	3,725 5.5%
Depreciation and amortization as % of total output			0 0.0%	-11 -0.1%	-35 -0.1%	-57 -0.1%	-90 -0.2%	-119 -0.2%
EBIT as % of total output			-16 -2.3%	875 8.8%	1,029 2.8%	2,094 5.1%	2,951 5.3%	3,606 5.4%
Net financial result			-3	-37	-85	-291	-360	-565
EBT (Earnings before income taxes) as % of total output			-18 -2.6%	838 8.4%	944 2.6%	1,802 4.4%	2,590 4.6%	3,041 4.5%
Income taxes as % of EBT			-1 6.6%	-227 -27.2%	-277 -29.3%	-534 -29.6%	-791 -30.5%	-926 -30.5%
Other taxes (reclassified as operational)			0.0	-0.7	-0.9	-2.1	-2.8	-3.4
Net income as % of total output			-20 -2.8%	610 6.1%	667 1.8%	1,266 3.1%	1,797 3.2%	2,112 3.1%
Weighted average shares outstanding (in thousands)			441	741	972	1,300	1,300	1,300
Basic earnings per share (EUR)			-0.04	0.82	0.69	0.97	1.38	1.62

Source: CBS Research AG, Payom Solar AG

Balance sheet

	IFRS	EUR 1,000	2006	2007	2008	2009E	2010E	2011E
Assets								
Noncurrent assets			1,160	1,267	1,312	1,345	1,427	1,479
as % of total assets			60.2%	29.4%	8.7%	8.4%	8.3%	7.1%
Intangible assets (without goodwill)			0	1	7	15	26	34
Goodwill			1,135	1,135	1,135	1,135	1,135	1,135
Property, plant and equipment			6	105	170	217	308	350
Deferred taxes			19	25	0	-23	-42	-40
Current assets			766	3,038	13,685	14,658	15,776	19,456
as % of total assets			39.8%	70.6%	91.3%	91.6%	91.7%	92.9%
Inventories			563	1,680	11,816	7,380	8,960	10,886
Trade accounts receivable			134	1,175	468	2,247	3,437	4,603
Other current receivables			35	142	368	541	672	746
Cash and cash equivalents			34	41	1,033	4,490	2,707	3,221
Total assets			1,926	4,305	14,997	16,003	17,203	20,935
Shareholders' equity and liabilities								
Shareholders' equity			1,561	3,630	9,083	10,348	12,145	14,257
as % of total equity and liabilities			81.0%	84.3%	60.6%	64.7%	70.6%	68.1%
Capital stock			600	800	1,300	1,300	1,300	1,300
Capital reserve			986	2,246	6,531	6,531	6,531	6,531
Unappropriated surplus			-25	584	1,251	2,517	4,314	6,426
Noncurrent liabilities			3	17	118	96	81	75
as % of total equity and liabilities			0.2%	0.4%	0.8%	0.6%	0.5%	0.4%
Deferred tax liabilities			3	17	118	96	81	75
Current liabilities			362	658	5,796	5,559	4,977	6,603
as % of total equity and liabilities			18.8%	15.3%	38.7%	34.7%	28.9%	31.5%
Tax accruals and other accruals			43	250	0	425	307	216
Financial liabilities*			287	201	5,500	4,000	3,000	4,500
Trade accounts payable			6	114	260	643	1,054	1,216
Other liabilities			26	92	36	492	616	672
Total equity and liabilities			1,926	4,305	14,997	16,003	17,203	20,935

Source: CBS Research AG, Payom Solar AG

*Financial debt in the course of the year (average) is higher than at year-end

Cash flow statement

	IFRS	EUR 1,000	2006	2007	2008	2009E	2010E	2011E
Net income of the group			-20	610	667	1,266	1,797	2,112
Depreciation and amortization			0	11	35	57	90	119
Change in accruals			24	207	-250	425	-117	-92
Change in deferred taxes			-8	8	126	0	5	-8
Impairment of inventory			0	0	945	0	0	0
Increase/decrease in inventories, trade receivables, and other assets			-732	-2,265	-10,600	2,484	-2,901	-3,166
Increase/decrease in trade accounts payable and other liabilities			30	174	90	838	535	218
Cash flow from operating activities			-706	-1,255	-8,987	5,069	-591	-818
Net cash outflows from the purchase and retirement of PP&E and intangible assets			-1,141	-112	-106	-111	-192	-168
Cash flow from investing activities			-1,141	-112	-106	-112	-192	-168
Cash inflow from capital stock increases			1,195	1,460	4,786	0	0	0
Net borrowings/retirements of financial debt*			287	-86	5,299	-1,500	-1,000	1,500
Cash flow from financing activities			1,482	1,374	10,085	-1,500	-1,000	1,500
Total change in cash and cash equivalents			-365	7	991	3,458	-1,783	514
Cash and cash equivalents at the start of the period			399	34	41	1,033	4,490	2,707
Cash and cash equivalents at the end of the period			34	41	1,033	4,490	2,707	3,221

Source: CBS Research AG, Payom Solar AG

*Financial debt in the course of the year (average) is higher than at year-end

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Recommendation history for the company analysed in this report:

Date	Recommendation	Price at change date	Price Target
3 February 2009	Buy (Initial Coverage)	EUR 7.10	EUR 13.77
6 March 2009	Buy	EUR 5.92	EUR 13.77
5 May 2009	Buy	EUR 7.08	EUR 13.77
1 July 2009	Buy	EUR 8.10	EUR 13.32

24 July 2009	Buy	EUR 8.08	EUR 13.32
29 July 2009	Buy	EUR 7.70	EUR 13.32

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Graurheindorferstraße 108

53117 Bonn

and

Lurgiallee 12

60439 Frankfurt

 Close Brothers Seydler
Research AG

Schillerstraße 27-29

60313 Frankfurt am Main

www.cbseydlerresearch.ag

Tel.: 0049 - (0)69 - 97 78 45 60