

Recommendation:
BUY (BUY)

Risk:
HIGH (HIGH)

Fair Value:
EUR 13.32 (13.77)

1 July 2009

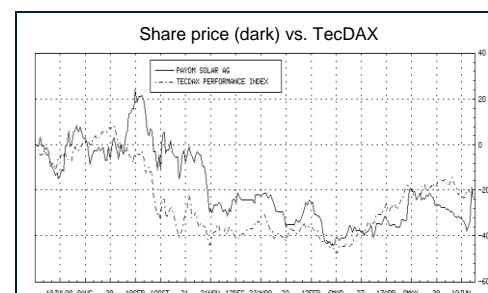
Very weak Q1 2009, but full year expectations remain high

- Payom recently published its annual report for 2008 as well as sales and EBIT figures for Q1'09. The final P&L figures for FY'08 corresponded to the announced preliminary figures and our latest complementary estimates (see our update report from 5 May 2009). As already reported, the FY'08 EBIT margin was burdened by write-offs in inventory (EUR 0.9m) and only reached 2.8%. As we had expected, Payom posted a significantly negative operating cash flow (EUR -9.0m) due to a sharp increase in inventories.
- Due to a severe and snowy winter, sales in the first quarter of 2009 showed a decline of 57.4% and amounted to only EUR 2.22m. EBIT amounted to EUR 0.11m corresponding to an EBIT margin of approx. 4.9%.
- Due to the very positive assessment of the management regarding Q2 and Q3 2009, we stick to our previous sales estimates (EUR 41.0m) for 2009E. This estimate is backed by a large order regarding an open space PV installation with a total capacity of 2.1 MWp (a sales volume of more than EUR 6m in 2009E), as well as another announced PV project with a size of 5 MWp which is planned to be realised on basis of a new framework agreement with Yingli Green Energy regarding poly-crystalline modules.
- We slightly adjusted our earnings estimates for 2009E. In particular, we raised our estimate for Payom's interest expenses, resulting in a new EPS estimate for 2009E of EUR 0.97 (old: 1.02). We believe that the increasing share of large projects in overall sales will result in higher working capital requirements and corresponding utilisation of already existing bank lines in the course of the year (e.g. in Q3), while working capital in the PV project business is traditionally much lower at the end of each year due to less construction activities after the beginning of winter. In particular, closing inventories should be much lower again on 31/12/2009 than at the end of 2008. We therefore expect a strong operating cash flow for 2009E.
- An updated valuation (peer group and DCF) yields a new fair value per share of EUR 13.32 (old: EUR 13.77). 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	16.9	14.1	7.0	4.9	4.0
EV/EBIT	17.1	14.6	7.2	5.1	4.2
P/E	9.9	11.8	8.3	5.9	5.0

Source: CBS Research AG, Payom Solar AG



Source: CBS Research AG, Bloomberg, Payom Solar AG

Change	2009E		2010E		2011E	
	new	old	new	old	new	old
Sales	41.0	41.0	56.0	56.0	67.2	-
EBITDA	2.2	2.2	3.0	3.0	3.7	-
EPS	0.97	1.02	1.38	1.38	1.62	-

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

Share data:

Share price (EUR, closing price 06/30/09):	8.10
Shares outstanding (m):	1.3
Market capitalisation (EUR m):	10.5
Enterprise value (EUR m):	15.0
Ø daily trading volume (6 m., no. of shares):	6,176

Performance data:

High 52 weeks (EUR):	13.30
Low 52 weeks (EUR):	5.40
Absolute performance (12 months):	-22.6%
Relative performance vs. TecDAX:	
1 month	7.5%
3 months	-3.0%
6 months	-20.7%
12 months	-7.0%

Shareholders:

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

Financial calendar:

H1 figures: 2 August 2009

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			-649	-8,386	-33,473	-37,228	-51,296	-61,622
as % of total output			-92.6%	-84.4%	-90.6%	-90.8%	-91.6%	-91.7%
Gross profit			52	1,545	3,456	3,772	4,704	5,578
as % of total output			7.4%	15.6%	9.4%	9.2%	8.4%	8.3%
Personnel expenses			-17	-118	-423	-451	-465	-504
as % of total output			-2.4%	-1.2%	-1.1%	-1.1%	-0.8%	-0.8%
Other operating income			1	0	24	35	38	41
as % of total output			0.1%	0.0%	0.1%	0.1%	0.1%	0.1%
Other operating expenses			-52	-541	-1,993	-1,206	-1,237	-1,390
as % of total output			-7.4%	-5.5%	-5.4%	-2.9%	-2.2%	-2.1%
EBITDA			-16	886	1,064	2,150	3,040	3,725
as % of total output			-2.3%	8.9%	2.9%	5.2%	5.4%	5.5%
Depreciation and amortization			0	-11	-35	-57	-90	-119
as % of total output			0.0%	-0.1%	-0.1%	-0.1%	-0.2%	-0.2%
EBIT			-16	875	1,029	2,094	2,951	3,606
as % of total output			-2.3%	8.8%	2.8%	5.1%	5.3%	5.4%
Net financial result			-3	-37	-85	-291	-360	-565
EBT (Earnings before income taxes)			-18	838	944	1,802	2,590	3,041
as % of total output			-2.6%	8.4%	2.6%	4.4%	4.6%	4.5%
Income taxes			-1	-227	-277	-534	-791	-926
as % of EBT			6.6%	-27.2%	-29.3%	-29.6%	-30.5%	-30.5%
Other taxes (reclassified as operational)			0.0	-0.7	-0.9	-2.1	-2.8	-3.4
Net income			-20	610	667	1,266	1,797	2,112
as % of total output			-2.8%	6.1%	1.8%	3.1%	3.2%	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

Consolidation of valuation methods

	Weighting factor (NEW)	Fair value per share (NEW)	Weighting factor (OLD)*	Fair value per share (OLD)
Peer group valuation	50.0%	9.77	33.3%	8.48
DCF valuation	50.0%	16.86	66.7%	16.41
Fair value per share (EUR)		13.32		13.77

* In our old valuation model, we weighted the result of the peer group valuation with only one-third due to several distortive factors regarding the peer group multiples. By now, we believe that an equal weighting of both methods is appropriate.

Source: CBS Research AG

Peer group valuation

Company name	P / E			EV / EBIT			EV / EBITDA		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
CENTROSOLAR Group AG	n.m.	11.1	7.0	32.9	9.2	7.5	20.8	8.0	6.3
COLEXON Energy AG	6.0	4.9	4.7	5.1	4.1	3.9	4.9	3.9	3.7
Phoenix Solar AG	12.9	8.2	6.4	8.7	6.5	5.2	9.0	6.2	5.1
S.A.G. Solarstrom AG	8.8	6.7	5.2	8.2	6.3	5.0	6.0	4.6	4.0
Average	9.2	7.7	5.8	13.7	6.5	5.4	10.2	5.7	4.8
Median	8.8	7.4	5.8	8.5	6.4	5.1	7.5	5.4	4.5
Minimum	6.0	4.9	4.7	5.1	4.1	3.9	4.9	3.9	3.7
Maximum	12.9	11.1	7.0	32.9	9.2	7.5	20.8	8.0	6.3

EURm, except EPS (EUR)	EPS			EBIT			EBITDA		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Payom Solar: Financial estimates by CBSR	0.97	1.38	1.62	2.1	3.0	3.6	2.2	3.0	3.7
Applied multiples: Median of the peer group multiples	8.8	7.4	5.8	8.5	6.4	5.1	7.5	5.4	4.5
Enterprise value (derived)	-	-	-	17.7	18.8	18.4	16.1	16.4	16.9
+ Excess cash and marketable securities	1.0								
- Financial debt	-5.5								
Market capitalization (derived)	11.1	13.4	12.3	13.2	14.3	14.0	11.6	11.9	12.5
Average of market capitalizations	12.7								
Fair market capitalization	12.7								
Number of shares outstanding (m)	1.3								
Fair value per share (EUR)	9.77								

Source: CBS Research AG; Bloomberg

Discounted Cash Flow Model

EURm	PHASE 1			PHASE 2						PHASE 3	
	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	∞
Total output	41.0	56.0	67.2	77.3	85.0	91.4	96.0	99.8	102.8	104.8	
Y-o-Y growth	11.0%	36.6%	20.0%	15.0%	10.0%	7.5%	5.0%	4.0%	3.0%	2.0%	
EBIT	2.1	3.0	3.6	4.0	4.3	4.2	4.2	4.2	4.2	4.2	
EBIT margin	5.11%	5.27%	5.37%	5.20%	5.00%	4.60%	4.40%	4.20%	4.10%	4.00%	
Income tax on EBIT	-0.6	-0.9	-1.1	-1.2	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	
Depreciation and amortisation	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	
Change in net working capital	3.7	-2.5	-3.0	-2.0	-1.5	-1.3	-0.9	-0.8	-0.6	-0.4	
Net capital expenditure	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	
Free cash flow	5.2	-0.53	-0.6	0.8	1.4	1.6	2.0	2.1	2.3	2.5	
Present values	4.8	-0.5	-0.5	0.5	0.9	1.0	1.1	1.1	1.1	1.0	15.8
Present value Phase 1	3.9										
Present value Phase 2	6.7										
Present value Phase 3	15.8										
Total present value	26.4										
+ Excess cash/Non-operating assets	1.0										
- Financial debt	-5.5										
Fair value of equity	21.9										
Number of shares outstanding (m)	1.3										
Fair value per share (EUR)	16.86										

Risk free rate	3.50%	Target equity ratio*	70.0%
Equity risk premium	6.00%	Beta	1.20
Debt risk premium	2.50%	WACC	8.73%
Tax shield (Phase 3)	30.9%	Terminal growth	2.00%

Sensitivity analysis						
		Terminal growth (Phase 3)				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	7.73%	18.40	19.54	20.88	22.47	24.40
	8.23%	16.67	17.61	18.70	19.98	21.51
	8.73%	15.18	15.96	16.86	17.90	19.12
	9.23%	13.87	14.53	15.28	16.13	17.13
	9.73%	12.72	13.28	13.91	14.62	15.44

*CBSR AG has lowered the equity risk premium generally used in all DCF valuations from 8.0% to 6.0%. Without this change, our DCF model for Payom AG would result in a fair value per share of EUR 12.32.

Source: CBS Research AG

Disclaimer and statement according to § 34b German Securities Trading Act (“Wertpapierhandelsgesetz”) in combination with the provisions on financial analysis (“Finanzanalyseverordnung” FinAnV)

This report has been prepared independently of the company analysed by Close Brothers Seydler Research AG and/ or its cooperation partners and the analyst mentioned on the front page (hereafter all are jointly and/or individually called the ‘author’). None of Close Brothers Seydler Research AG, Close Brothers Seydler Bank AG or its cooperation partners, the Company or its shareholders has independently verified any of the information given in this document.

Section 34b of the German Securities Trading Act in combination with the FinAnV requires an enterprise preparing a security analysis to point out possible conflicts of interest with respect to the company that is the subject of the analysis.

Close Brothers Seydler Research AG is a majority owned subsidiary of Close Brothers Seydler Bank AG (hereafter ‘CBS’). However, Close Brothers Seydler Research AG provides its research work independent from CBS. CBS is offering a wide range of Services not only including investment banking services and liquidity providing services (designated sponsoring). CBS may possess relations to the covered companies as follows (additional information and disclosures will be made available upon request):

- CBS may hold more than 5% interest in the capital stock of the company that is subject of the analysis.
- CBS may have been a participant in the management of a (co)consortium in a selling agent function for the issuance of financial instruments, which themselves or their issuer is the subject of this financial analysis within the last twelve month.
- CBS may have been providing investment banking and/or consulting services during the last 12 months for the company analyzed for which compensation has been or will be paid for.
- CBS may act as designated sponsor for the company's securities on the basis of an existing designated sponsorship contract. The services include the provision of bid and ask offers.
- Due to the designated sponsoring service agreement CBS may regularly possess shares of the company and receives a compensation and/ or provision for its services.
- The designated sponsor service agreement may include a contractually agreed provision of research services.
- The company that is subject of the analysis may agree on a research service agreement with CBS.
- CBS may have significant financial interests in relation to the company that is subject of this analysis.

CBS and/or its employees or clients may take positions in, and may make purchases and/ or sales as principal or agent in the securities or related financial instruments discussed in this analysis. CBS may provide investment banking, consulting, and/ or other services to and/ or serve as directors of the companies referred to in this analysis. No part of the authors compensation was, is or will be directly or indirectly related to the recommendations or views expressed.

CBS Research AG and Payom Solar AG have a contractual agreement about the preparation of research reports. CBS Research AG receives a compensation in return.

Recommendation System:

Close Brothers Seydler Research AG uses a 3-level absolute share rating system. The ratings pertain to a time horizon of up to 6 months:

BUY: The expected performance of the share price is above +10%.

NEUTRAL: The expected performance of the share price trend is between +5% and +10%.

SELL: The expected performance of the share price is below 5%.

Recommendation history for the company analysed in this report:

Date	Recommendation	Price at change date	Fair Value
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

Risk-scaling System:

Close Brothers Seydler Research AG uses a 3-level risk-scaling System. The ratings pertain to a time horizon of up to 6 months:

LOW: The volatility is expected lower than the volatility of the benchmark

MEDIUM: The volatility is expected equal to the volatility of the benchmark

HIGH: The volatility is expected higher than the volatility of the benchmark

The following valuation methods are used when valuing companies: Multiplier models (price/earnings, price/cash flow, price/book value, EV/revenues, EV/EBIT, EV/EBITA, EV/EBITDA), peer group comparisons, historical valuation approaches, discounting models (DCF, DDM), break-up value approaches or asset valuation approaches. The valuation models are dependent upon macroeconomic measures such as interest, currencies, raw materials and assumptions concerning the economy. In addition, market moods influence the valuation of companies.

The figures taken from the statement of income, the cash flow statement and the balance sheet upon which the evaluation of companies is based are estimates referring to given dates and therefore subject to risks.

These may change at any time with prior notice.

The opinions and forecasts contained in this report are those of author alone. Material sources of information for preparing this report are publications in domestic and foreign media such as information services (including but not limited to Reuters, VWD, Bloomberg, DPA-AFX), business press (including but not limited to Börsenzeitung, Handelsblatt, Frankfurter Allgemeine Zeitung, Financial Times), professional publications, published statistics, rating agencies as well as publications of the analysed issuers. Furthermore, discussions were held with the Management for the purpose of preparing the company study. Potentially parts of the analysis have been provided to the issuer prior to going to press; no significant changes were made afterwards, however. Any information in this report is based on data considered to be reliable, but no representations or guarantees are made by author with regard to the accuracy or completeness of the data. The opinions and estimates contained herein constitute our best judgment at this date and time, and are subject to change without notice. Possible errors or incompleteness of the information do not constitute grounds for liability, neither with regard to indirect nor to direct or consequential damages. The views presented on the covered company accurately reflect the personal views of the author. All Employees of the author's company who are involved with the preparation and/or the offering of financial analyzes are subject to internal compliance regulations.

The report is for information purposes, it is not intended to be and should not be construed as a recommendation, offer or solicitation to acquire, or dispose of, any of the securities mentioned in this report. Any reference to past performance should not be taken as indication of future performance. The author does not accept any liability whatsoever for any direct or consequential loss arising from any use of material contained in this report. The report is confidential and it is submitted to selected recipients only. The report is prepared for professional investors only and it is not intended for private investors. Consequently, it should not be distributed to any such persons. Also, the report may be communicated electronically before physical copies were available. It may not be reproduced (in whole or in part) to any other investment firm or any other individual person without the prior written approval from the author. The author is not registered in the United Kingdom nor with any U.S. regulatory body.

It has not been determined in advance whether and in what intervals this report will be updated. Unless otherwise stated current prices refer to the closing price of the previous trading day. Any reference to past performance should not be taken as indication of future performance. The author maintains the right to change his opinions without notice, i.e. the opinions given reflect the author's judgement on the date of this report.

This analysis is intended to provide information to assist institutional investors in making their own investment decisions, not to provide investment advice to any specific investor.

By accepting this report the recipient accepts that the above restrictions are binding. German law shall be applicable and court of jurisdiction for all disputes shall be Frankfurt am Main (Germany).

This report should be made available in the United States solely to investors that are (i) "major US institutional investors" (within the meaning of SEC Rule 15a-6 and applicable interpretations relating thereto) that are also "qualified institutional buyers" (QIBs) within the meaning of SEC Rule 144A promulgated by the United States Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "Securities Act") or (ii) investors that are not "US Persons" within the meaning of Regulation S under the Securities Act and applicable interpretations relating thereto. The offer or sale of certain securities in the United States may be made to QIBs in reliance on Rule 144A. Such securities may include those offered and sold outside the United States in transactions intended to be exempt from registration pursuant to Regulation S. This report does not constitute in any way an offer or a solicitation of interest in any securities to be offered or sold pursuant to Regulation S. Any such securities may not be offered or sold to US Persons at this time and may be resold to US Persons only if such securities are registered under the Securities Act of 1933, as amended, and applicable state securities laws, or pursuant to an exemption from registration.

This publication is for distribution in or from the United Kingdom only to persons who are authorised persons or exempted persons within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom or any order made thereunder or to investment professionals as defined in Section 19 of the Financial Services and Markets

Act 2000 (Financial Promotion) Order 2005 and is not intended to be distributed or passed on, directly or indirectly, to any other class of persons.

This publication is for distribution in Canada only to pension funds, mutual funds, banks, asset managers and insurance companies.

The distribution of this publication in other jurisdictions may be restricted by law, and persons into whose possession this publication comes should inform themselves about, and observe, any such restrictions. In particular this publication may not be sent into or distributed, directly or indirectly, in Japan or to any resident thereof.

Responsible Supervisory Authority:

Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin, Federal Financial Supervisory Authority)

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