

Chinese Firms Prefer Dying to Being Bought, JinkoSolar Says

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Ariana Lindquist/Bloomberg

Workers of Suntech Power Holdings Co. assemble photovoltaic cells into a solar panel in Wuxi, China. Prices for solar panels dropped 47 percent last year to \$0.94 a watt after the 10 largest makers of the

traditional silicon-based panels, including Suntech, doubled production capacity in 2010.

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Chinese solar-panel makers, which supply more than half the world market, will respond to the supply glut by shutting factories or their entire businesses rather than merging, a [JinkoSolar Holding Co. \(JKS\)](#) official said.

The weakest companies should “weed out” about 75 percent of output capacity so that China has a “reasonable” 20 gigawatts compared with 75 gigawatts estimated by the second quarter of 2013, Zhang Longgen, chief financial officer of the Shanghai-based solar module maker, said in a Jan. 4 telephone interview.

“We won’t see many mergers and acquisitions at home,” Zhang said. “Many Chinese companies are more willing to die rather than be bought because it is against their culture to be acquired.”

The remarks by JinkoSolar, the eighth-biggest producer, shed light on how China may deal with a global oversupply that it helped provoke by accelerating factory expansion and pushing down product prices by almost 50 percent last year.

The crash helped drive three U.S. solar companies including [Solyndra LLC \(SWV\)](#) out of business in 2011. [Solarworld AG \(SWV\)](#) and [Q-Cells SE \(QCE\)](#), [Germany’s](#) biggest solar cell and panel makers, reported wider-than-expected losses, as demand slows and prices weaken.

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The surplus across the solar-components chain that stemmed from cuts in subsidies by European governments and overcapacity has led to speculation that the industry is ripe for consolidation through mergers and acquisitions.

The number of domestic manufacturers will shrink to 15 within five years, according to China's Energy Research Institute at the National Development and Reform Commission.

Organic Growth

"A consolidation through the closure of businesses may be better for the industry as it will ease the oversupply in the entire range of solar products," Peter Yao, an analyst at Bank of China International Holdings Ltd., said today by phone. "Companies looking to expand may find that it is cheaper to do this organically than buying companies."

Prices for solar panels, or modules, dropped 47 percent last year to \$0.94 a watt after the 10 largest makers of the traditional silicon-based panels, including China's [Suntech Power Holdings Co. \(STP\)](#), the biggest, and No. 2-ranked [LDK Solar Co. \(LDK\)](#), together doubled production capacity in 2010, according to Bloomberg New Energy Finance. The companies forecast a decline in shipments for the fourth quarter of last year.

LDK is planning the first Chinese purchase in Germany, the world's biggest market for installations, with its 24.2 million-euro (\$31 million) bid for module maker Sunways AG.

Solar-Fabrik Talks

The deal sparked speculation that Chinese companies are sizing up assets in [Europe](#). Germany's [Solar-Fabrik AG \(SFX\)](#) is in talks with other companies in the industry, including some from China, over

possible cooperation agreements, Chief Executive Officer Guenter Weinberger said Jan. 2.

JinkoSolar has no plans to acquire companies abroad, though it is planning a joint venture in [Canada](#) to make solar modules to supply the local market, Zhang said, without disclosing details.

The company may also build an assembly plant in the U.S., if the nation sets anti-dumping and countervailing duties on Chinese solar imports, Zhang said. The U.S. Commerce Department will make a preliminary determination Feb. 13 on whether to add tariffs on Chinese solar-equipment imports.

U.S. manufacturers said they are being harmed because China's government uses cash grants, discounts on raw materials, preferential loans and tax incentives, and manipulates its currency to boost exports of solar cells, the device attached to panels that converts sunlight into electricity.

Likeliest Survivors

The global supply glut will lead to intense competition among Chinese manufactures, Zhang said. State-owned companies and those whose shares are listed in [China](#) are the likeliest to survive the shakeout, he said.

"The power of these companies is very incredible as they have enough capital to overcome difficult market conditions," he said. "They can shut factories temporarily and resume production when the market recovers."

There is a "small" chance that prices start to recover in the third quarter, Zhang predicted. "We hope the recovery takes a little longer to stabilize the industry and drive the weakest out of the business."

Prices of modules may decline further, especially if spot prices of polysilicon, their raw material, conti-

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nue to slump, he said. Polysilicon prices declined 62 percent in 2011.

Zhang expects demand for the industry in the first quarter of 2012 to fall 10 to 20 percent from the fourth quarter.

“I’m not optimistic about a recovery in global demand,” he said, though the company plans to maintain its production capacity of 1.2 gigawatts this year, Zhang said.

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