



Polysilicon Powers MEMC's Growth

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MEMC Electronic Materials and its few peers are living large off an industry shortage of their solar product, but fresh competition likely will change that. It's just not clear when.

More than 100 companies are scrambling to get their piece of MEMC's WFR fast-growing market for polysilicon, analysts say. Polysilicon is a key ingredient used to make solar cells.

With solar product sales soaring, demand has outstripped supply, creating historic shortages for polysilicon and raising prices.

Many of the new rivals hope to enter the fray this year and next, though some have faced financing and plant construction delays.

Analysts don't agree on when the arrival of the new entrants should end the shortage. Some see it by year's end, others as late as 2011.

Efficient Operation

In any case, many analysts say MEMC should continue to fare well, thanks to its solid financial position and operating efficiencies.

"There are going to be some successful new entrants," said John Hardy, an analyst at American Technology Research. "The demand remains so robust that both incumbents and (some) new entrants, to some degree, will be successful."

An end to the shortage would be welcome news for the solar cell industry.

Solar's rapid growth has been fueled by governments handing out generous financial incentives as part of the global push to go green. With those incentives, the industry can better compete with traditional forms of power generation.

The solar industry is developing new technologies to lower prices, but it needs the cost of polysilicon to fall as well. Joanne Itow, an analyst at research firm Semico, estimates that polysilicon accounts for 40% to 45% of the value of a solar cell.

Some industry players are hoping that by 2012 the cost of solar will reach parity with traditional power generation.

For now, MEMC, which is expanding its own production capacity, benefits greatly from the high demand for polysilicon. Its fourth-quarter sales rose 27% and per-share profit rose 41%.

Credit high demand and limited supply. The industry shortage has pushed up the spot-market price -- for smaller, open-market purchases -- of polysilicon to \$400-\$450 per kilogram.

Some see it going as high as \$500 per kilogram.

Last quarter, prices were \$350 to \$400 per kilogram, Satya Kumar, an analyst at Credit Suisse, wrote in a research note.

Back in 2005, the price was less than \$50, says Ted Sullivan, an analyst at Lux Research.

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Sullivan estimates that the long-term contract prices are \$70 to more than \$100 per kilogram.

The industry knows prices must come down -- and they will, says Travis Bradford, an analyst at the Prometheus Institute for Sustainable Development.

"In the grand history of the world, nobody has been able to maintain" big profit margins on commodity products, and that will include polysilicon, Bradford said.

He and Itow expect the shortage to dissipate by year's end. But Bradford expects prices to remain "sticky" for a year or two because there's still enough demand from solar cell makers that have built big manufacturing plants.

Sullivan says the prices will begin to come down by year-end, and he sees an oversupply by 2010.

He says prices will fall to levels of less than \$50 per kilogram by early next decade.

Polysilicon prices will hit near \$500 per kilogram before they start to fall near year's end and into 2009, Jeff Osborne, an analyst at Thomas Weisel Partners, wrote in a recent research note.

Lower Cost Structure

Osborne says he likes MEMC even with falling pricing because it has the lowest operating costs in the polysilicon-making industry. And he says that while polysilicon prices once averaged \$20-\$30 per kilogram, he doesn't see them going below \$50 per kilogram.

Hardy, too, says MEMC is in a good spot.

"They obviously already have an existing capacity and a much lower cost structure," he said.

Among rivals are newer entrants DC Chemical of South Korea and M. Setek of Japan.

Analysts say those companies have been racking up contracts and gaining respect in the industry as they ramp up new production capacity for polysilicon.

Also, LDK SolarLDK and other solar cell makers, which are the customers of polysilicon makers, have been looking to get into the polysilicon business.

Hardy, however, points out that some newcomers have had troubles getting enough financing, plant capacity and skilled workers.

"There's a lot of (research and development) know-how" required in the business, he said.

Osborne points to negative news from the newer entrants of late. He says Russia's Nitel, a newer polysilicon maker, pulled an initial public offering; Hoku Scientific (NASDAQ:HOKU) HOKU had to tap funding from solar products maker Suntech STP; and China's Jiangsu Zhongneng PV Technology Development reduced shipments to a customer.

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