Zacks Small-Cap Research

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SunSi Energies, Inc. (SSIE-OTC)

SSIE: Zacks Co. Report – OUTPERFORM

Price target raised again, this time to $5.25, due to the expected increase in overall revenues, but especially at the higher margin Wendeng facility.

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	06/15/2011
Current Price (12/23/11)	$3.84
Six- Month Target Price	**$5.25**

OUTLOOK

SunSi Energies achieved several significant milestones over the last 12 months: two acquisitions, a capacity addition of 10,000 MT at Wendeng, a new customer outside of China and the company's first profitable quarter. Management continues to grow the company aggressively through organic capacity expansion and potentially other acquisitions. We are now more confident on the expected growing revenue stream of SunSi Energies. The expected increase in overall revenues, but especially at the higher margin Wendeng facility, compels us again to raise our target, this time to $5.25.

SUMMARY DATA

52-Week High	**$4.10**
52-Week Low	**$3.00**
One-Year Return (%)	**32.9**
Beta	**-0.04**
Average Daily Volume (shrs.)	**13,560**
Shares Outstanding (million)	**29.9**
Market Capitalization ($ mil.)	**$115.0**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2012 Estimate	**48.0**
P/E using 2013 Estimate	**34.9**
Zacks Rank	**3**

Risk Level	**Above Average**
Type of Stock	**Small - Growth**
Industry	**Chemical – Solar**
Zacks Rank in Industry	**21 of 43**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Aug)	Q2 (Nov)	Q3 (Feb)	Q4 (May)	Year (May)
2010	0.00 A	0.00 A	0.00 A	0.00 A	0.00 A
2011	0.00 A	0.00 A	4.62 A	10.46 A	15.08 A
2012	10.27 A	12.43 E	14.10 E	14.28 E	51.08 E
2013					57.00 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Aug)	Q2 (Nov)	Q3 (Feb)	Q4 (May)	Year (May)
2010	-$0.01 A	-$0.01 A	-$0.00 A	-$0.00 A	-$0.02 A
2011	-$0.01 A	-$0.01 A	-$0.00 A	$0.00 A	-$0.02 A
2012	-$0.00 A	$0.01 E	$0.03 E	$0.03 E	$0.08 E
2013					$0.11 E

Zacks Projected EPS Growth Rate - Next 5 Years % **15**

2012 quarterly EPS do not equal annual EPS due to rounding.

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KEY POINTS

- SunSi's management team sought out the optimal investment opportunity in the growing solar industry. Management's objective is to become the largest trichlorosilane (TCS) producer in China through the acquisition, development and operation of a portfolio of trichlorosilane production facilities in that country.
- Management has aggressively, but with the appropriate due diligence, completed two acquisitions (**Wendeng** and **Baokai**) in the last year, and is pursuing others, along with increasing the capacity at Wendeng by 150% to 75,000 metric tons of TCS.
- Due to the two acquisitions, SunSi has achieved operating company status and reported its first profitable quarter.
- SunSi is the only US publicly traded company to solely focus on the production of trichlorosilane, primarily for the solar industry. As such, the company is positioned to benefit from the growth of the solar energy industry, specifically the increasing demand for solar-grade polysilicon.
- Management expects to upgrade the company's listing from OTC to NASDAQ.
- For in-depth details of the company's operations, see our Initiation report dated April 25, 2011.
- The price target for SunSi's stock was increased to $5.25 due to the company achieving several milestones over the last few months.

OVERVIEW

A Nevada corporation with administrative offices in Brooklyn, NY, SunSi Energies (SSIE: OTCQB) focuses exclusively on the production and sales of trichlorosilane (TCS), the basic chemical ingredient used in the production of purified polysilicon[1], an essential raw material in the production of solar cells for photovoltaic (PV) panels. Having evaluated the value chain related to the production of photovoltaic solar cells, management believes that the highest profit and growth potential lies in the production of TCS. Therefore, management's objective is to acquire, develop and operate a portfolio of TCS facilities, which (with subsequent capacity expansions) will increase the company's total annual capacity to 140,000 metric tons (MT) by the end of fiscal 2012. Between December 2010 and March 2011, the company acquired majority ownership positions in two Chinese companies (90% the Zibo **Baokai**[2] trichlorosilane distribution company and 60% of the **Wendeng**[3] trichlorosilane production facility), which together now control TCS production of approximately 55,000 MT. With the acquisition of 90% of the Zibo Baokai distribution company, SunSi began to report revenue on a consolidated basis in the third fiscal quarter ending February 28, 2011. The following quarter, SunSi reported the company's first profitable quarter.

The company was incorporated in Nevada in January 2007 as a gold exploration company[4], but subsequently was restructured on March 24, 2009 and renamed SunSi Energies, Inc under a completely new management team. The focus of the company's business strategy became the acquisition, development and operation of trichlorosilane production facilities in China in order to serve the growing requirements of the solar photovoltaic industry worldwide. SunSi Energies owns 100% of a Hong Kong-based company, SunSi Energies Hong Kong Limited[5], through which SunSi Energies is acquiring the control of Chinese TCS production and distribution facilities.

Management plans to control TCS production of at least 140,000 metric tons by the end of calendar 2012. During the second fiscal quarter of 2012, SunSi Energies reached two milestones: 1) the first-phase capacity expansion of its Wendeng TCS production facility by 50% from 20,000 metric tons (MT)

[1] Polysilicon is properly known as polycrystalline silicon.
[2] On December 8, 2010, SunSi HK acquired a 90% equity interest in Zibo Baokai Commerce and Trade Co., Ltd.
[3] On March 18, 2011, SunSi HK acquired a 60% equity interest in Wendeng He Xie Silicon Industry Co., Ltd.
[4] Initially, the company was incorporated as Bold View Resources to explore Cupro mineral claims in the Province of British Columbia.
[5] Located at 401 Jardine House, 1 Connaught Place, Central, Hong Kong.

to 30,000 MT was completed and 2) Russia-based Nitol Solar will purchase 117 metric tons of TCS from the Wendeng facility in China. The Wendeng facility is a scalable facility, and management plans to initiate a second expansion phase in order to bring total capacity to 75,000 MT when funding is secured. In addition, SunSi announced that Nitol Solar, one of the world's largest polysilicon producers, placed an initial order for 117 metric tons of trichlorosilane from Wendeng. This order not only represents SunSi's first customer outside of China, but also begins to fulfill management's vision of supplying the polysilicon solar marketplace internationally. Ultimately, management expects to provide TCS to North American and European markets. The company is in discussions with companies based in the U.S., Europe and Taiwan. Also, the large size of this initial order validates management's view that major polysilicon producers will outsource TCS production to specialty chemical manufacturers in order to focus on the manufacture of polysilicon and side-step the required capital to build new in-house TCS capacity. **These two significant events and the subsequent expected increase of revenues at Wendeng compels us to raise our price target to $5.25.**

RECENT NEWS

On December 8, 2011, SunSi Energies filed a Form 8-K stating that the company has elected to **change** its **fiscal year** end from May 31 **to December 31**.

On September 5, 2011, SunSi Energies completed a 495,000 share offering and received $989,980 in gross proceeds.

On October 17, 2011, SunSi Energies reported **fiscal first quarter results** for the period ending August 31, 2011. Revenue for the first fiscal quarter was $10.27 million. Having acquired its interests in the Baokai and Wendeng facilities within the last six months, the company did not record any revenues in the comparable prior-year quarter; hence year-over-year comparative analysis does not assist in the evaluation of the company's financial performance. However, sequential quarterly analysis is appropriate as SunSi ramps up capacity. Despite the price of TCS[6] having declined approximately 15% since January 2011 (currently in the $1,250 to $1,500 per metric ton range[7]), sales at Wendeng increased 18.4% sequentially. However, Baokai's revenues declined 22.8% contributing to the 1.9% sequential decline in overall revenues.

Gross profit increased 4.8% sequentially to $2.04 million resulting in an overall gross margin of 19.8% with Wendeng achieving a gross margin of 31.4% and Baokai 1.5%. Being a distributor, Baokai's gross margin is low since current sales come from pre-existing customers (prior to the acquisition). Sales to new customers (when signed) are expected to carry a higher gross margin.

Sequentially, professional fees declined 27.8% to $227,067 due to the less due diligence expenses required after the closing of the Wendeng acquisition. General and administrative expenses sequentially increased 42.0% to $1,465,092, primarily due to higher investor relations and promotion expenses of approximately $204,000. The tax provision of $146,748 reflects the 25% statutory tax rate in China. For the quarter, the company reported a loss of $34,800 or ($0.00) per diluted share. **The company raised $890,982** through the issuance of 495,000 shares of common stock during the quarter.

At the end of the first fiscal quarter (August 31, 2011), **cash and cash equivalents increased 89.4% to $1,213,642** ($728,584 in China, $478,868 in the U.S. and $6,190 in Hong Kong). SunSi Energies is seeking funding (either equity or debt) to expand the capacity of the Wendeng facility from 30,000 metric tons (MT) to 75,000 MT. The expansion cost is estimated to be $15.0 million, of which the 40% minority partner is expected to contribute $5.0 million.

[6] The price of trichlorosilane (TCS) in China is typically based on the current spot market.
[7] Prices include 17% V.A.T. taxes.

On September 28, 2011, SunSi Energies announced the filing of an application for listing on the NASDAQ Capital Market.

On September 28, 2011, SunSi Energies issued **guidance for fiscal 2012**. Revenues are expected to be in the range of $49 million to $52 million compared to $15.1 million in fiscal 2011, primarily due to recording a full year of revenue from Baokai and Wendeng, but also from the increase of TCS capacity at the Wendeng trichlorosilane facility from 20,000 MT to 30,000 MT.

On June 15, 2011, SunSi Energies announced that the company's financial commitments for the acquisition of 60% of Wendeng trichlorosilane facility have been completed. The required $445,075 cash payment was made to Liu Dongqiang, the 40% shareholder of Wendeng, who also waived his right of redemption and elected to retain 1,349,628 shares of SunSi common stock, converting $2.7 million of redeemable stock into stockholders equity on SunSi's balance sheet. Therefore, the purchase price for the 60% equity interest in Wendeng is now fully paid.

On March 7, 2011, SunSi Energies acquired a 60% equity interest in the Wendeng He Xie Silicon Company Ltd (**Wendeng**), a trichlorosilane production facility located in Weihai City, China for $3.15 million. Management expects the acquisition to be immediately accretive, making SunSi profitable on a consolidated basis. At closing the acquisition, SunSi began consolidating all of Wendeng's revenues, and 60% of its profits.

On December 8, 2010, SunSi Energies acquired 90% of **Zibo Baokai** Commerce and Trade Company, a trichlorosilane distribution company located in Zibo, China for $273,910. Zibo Baokai owns the right to distribute the trichlorosilane production of Zibo Commerce and Trade Company in the China market, and therefore enables SunSi to sell approximately 25,000 metric tons of trichlorosilane per year. As a result, SunSi will begin generating revenue immediately from the close of the acquisition.

VALUATION

The appropriate valuation methodology for SunSi Energies is based on price-to-sales (P/S) due the character of SunSi's enterprise, namely a small-capitalization company with current negative profitability, but with a sales profile that should grow through acquisitions and capacity additions. During fiscal 2012, the growing revenue stream should manifest itself into positive earnings, which is expected as early as the upcoming quarter. Based on historical norms for similar companies, a price-to-sales valuation range between 1.1 and 3.2 is expected. Our $5.25 price target is based on a 3.2 price-to-sales ratio valuation, the high-end of the expected range.

The valuation process for small and mid-cap companies serving the alternative energy industry is based upon profiling the potential level of a specific company's profitability through gross margin analysis, and then applying that input to a price-to-sales valuation methodology. The gross margin indicates a company's structural cost advantage based on cost of goods sold. Analyzing a company's level of profitability is often the most important aspect of equity valuation analysis. Upon accounting for Wendeng's operations, SunSi's overall gross margin is expected to be approximately 22%, a blend of a 2% gross margin on Baokai's distribution revenue and 32% on Wendeng's production sales. Even though SunSi's management expects to be able to increase Baokai's gross margin by signing contracts with new customers, our valuation methodology will not incorporate for a higher overall gross margin.

Price-to-sales valuation incorporates a company's ability to increase revenues and gain market share. Given management's stated business plan is to focus on solar-grade trichlorosilane, a differentiated product in an industry with high barriers to entry, and to increase the sales base by acquisitions and capacity additions, SunSi Energies is expected to expand its sales base significantly. In fiscal 2012, the annual sales base is expected to be $51.1 million or $1.64 sales-per-share, based on an average of 31.2

million shares outstanding. Comparable companies have a historical price-to-sales valuation range between 1.1 and 3.2. With the Wendeng transaction having been completed without the need for additional financing and the capacity at Wendeng being increased by 50% to 30,000 MT, we expect SunSi's stock to achieve the top-end of the expected valuation range, namely $5.25 (a 3.2 price-to-sales ratio).

FINANCIAL STATEMENT ANALYSIS

SunSi Energies, Inc.

Consolidated Statements of Operations and Retained Earnings

Annual Earnings Analysis

For the years ending May 31 (in $ US)	2008	2009	2010	2011	2012 E	2013 E
Revenue	**0**	**0**	**0**	**15,082,788**	**51,078,809**	**57,000,000**
Cost of sales	0	0	0	13,044,999	39,564,891	43,605,000
Gross Profit	**0**	**0**	**0**	**2,037,789**	**11,513,918**	**13,395,000**
Professional fees		124,435	545,049	618,992	607,067	619,208
General & administrative	24,937	45,420	76,586	1,315,137	5,948,861	6,008,350
Mining exploration	9,440	-	-	-	-	-
Total Expenses	**34,377**	**169,855**	**621,635**	**1,934,129**	**6,555,928**	**6,627,558**
Pre-tax profit from operations	**(34,377)**	**(169,855)**	**(621,635)**	**103,660**	**4,957,990**	**6,767,442**
Income (loss) before income taxes	(34,377)	(169,855)	(621,635)	103,660	4,957,990	6,767,442
Future income taxes	0	0	0	256,227	1,300,187	1,556,512
Net income (loss)	(34,377)	(169,855)	(621,635)	(152,567)	3,657,803	5,210,930
Net income attributable to noncontrolling	-	-	-	266,979	1,223,005	1,488,837
Net income (loss) attributable to SunSi	**(34,377)**	**(169,855)**	**(621,635)**	**(419,546)**	**2,434,798**	**3,722,093**
Net income per common share (diluted)	**(0.00)**	**(0.01)**	**(0.02)**	**(0.02)**	**0.08**	**0.11**
Weighted average common shares outstanding - diluted	26,760,000	26,760,000	26,972,486	27,675,252	31,238,782	32,500,000

Quarterly Earnings Analysis

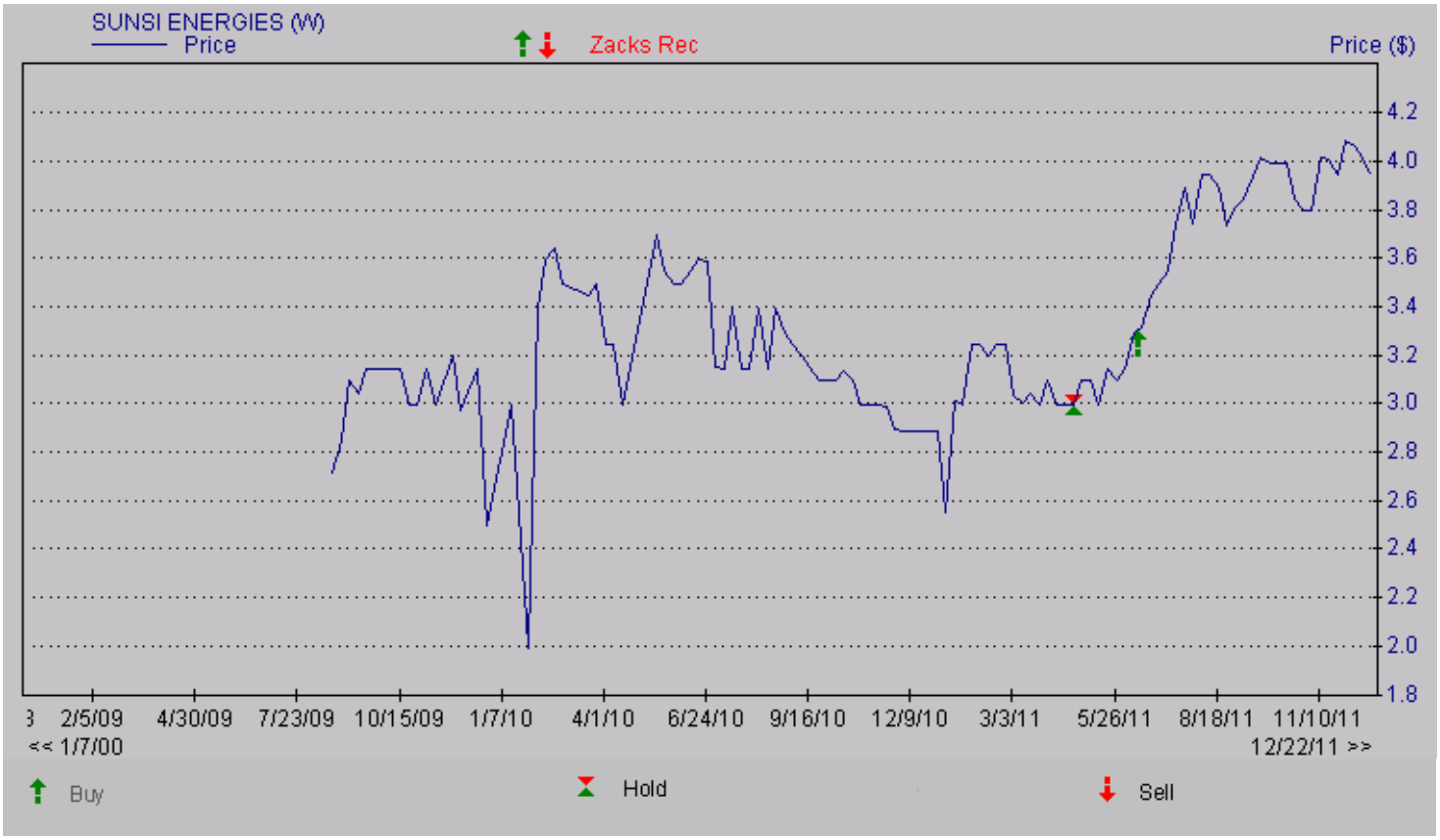
	1Q (Aug) 2011	2Q (Nov) 2011	3Q (Feb) 2011	4Q (May) 2011	(May) **2011**	1Q (Aug) 2012	2Q E (Nov) 2012	3Q E (Feb) 2012	4Q E (May) 2012	(May) **2012 E**
Revenue: Baokai			4,622,360	5,132,670	9,755,030	3,960,018	4,546,344	4,637,271	4,730,016	17,873,649
Revenue: Wendeng				5,327,758	5,327,758	6,306,773	7,883,466	9,460,160	9,554,761	33,205,160
Total revenues	**0**	**0**	**4,622,360**	**10,460,428**	**15,082,788**	**10,266,791**	**12,429,810**	**14,097,430**	**14,284,777**	**51,078,809**
Cost of sales: Baokai	0	0	4,528,392	5,009,669	9,538,061	3,901,763	4,455,417	4,544,525	4,635,416	17,537,122
Cost of sales: Wendeng	0	0		3,506,938	3,506,938	4,328,631	5,360,757	6,385,608	6,401,690	22,476,686
Cost of sales	0	0	4,528,392	8,516,607	13,044,999	8,230,394	9,642,738	10,769,310	10,922,449	39,564,891
Gross Profit	**0**	**0**	**93,968**	**1,943,821**	**2,037,789**	**2,036,397**	**2,787,072**	**3,328,120**	**3,362,329**	**11,513,918**
Professional fees	117,237	111,585	75,533	314,638	618,992	227,067	120,000	125,000	135,000	607,067
General & administrative	41,159	120,128	122,053	1,031,798	1,315,137	1,465,092	1,479,743	1,494,540	1,509,486	5,948,861
Mining exploration	-	-	-	-	-	-	-	-	-	-
Total Expenses	**158,396**	**231,713**	**197,585**	**1,346,435**	**1,934,129**	**1,692,159**	**1,599,743**	**1,619,540**	**1,644,486**	**6,555,928**
Pre-tax profit from operations	**(158,396)**	**(231,713)**	**(103,617)**	**597,386**	**103,660**	**344,238**	**1,187,329**	**1,708,580**	**1,717,843**	**4,957,990**
Income (loss) before income taxes	(158,396)	(231,713)	(103,617)	597,386	103,660	344,238	1,187,329	1,708,580	1,717,843	4,957,990
Future income taxes			23,492	232,735	256,227	146,749	296,832	427,145	429,461	1,300,187
Net income (loss)	(158,396)	(231,713)	(127,109)	364,651	(152,567)	197,489	890,497	1,281,435	1,288,382	3,657,803
Net income attributable to noncontrolling			7,048	259,931	266,979	232,290	290,362	348,434	351,919	1,223,005
Net income (loss) attributable to SunSi	**(158,396)**	**(231,713)**	**(134,157)**	**104,720**	**(419,546)**	**(34,800)**	**600,135**	**933,000**	**936,463**	**2,434,798**
Net income per common share (diluted)	**(0.01)**	**(0.01)**	**(0.00)**	**0.00**	**(0.02)**	**(0.00)**	**0.02**	**0.03**	**0.03**	**0.08**
Weighted average common shares outstanding - diluted	27,428,995	27,483,665	27,681,750	28,965,266	27,675,252	29,665,127	29,880,000	32,680,000	32,730,000	31,238,782
Gross Margin	N/M	N/M	2.0%	18.6%	13.5%	19.8%	22.4%	23.6%	23.5%	22.5%
Gross margin: Baokai	N/M	N/M	2.0%	2.4%	2.2%	1.5%	2.0%	2.0%	2.0%	1.9%
Gross margin: Wendeng	N/M	N/M	N/M	34.2%	34.2%	31.4%	32.0%	32.5%	33.0%	32.3%

SunSi Energies, Inc.

Consolidated Balance Sheets
(in $ US)

For the years ending May 31	2008	2009	2010	2011	2012 E
ASSETS					
Cash and cash equivalents	705	4,190	598,648	640,880	1,800,000
Accounts receivable (net)	0	0	0	4,669,490	5,840,000
Note receivable	0	0	0	941,314	1,100,000
Inventory	0	0	0	563,579	850,000
Prepaid expense & other current assets	0	0	0	399,086	400,000
Current Assets	705	4,190	598,648	7,214,349	9,990,000
Fixed assets	0	0	0	7,559,369	13,995,360
Goodwill	0	0	0	3,357,277	5,000,000
Intangible assets (net)				3,025,489	4,000,000
Related party receivables				1,177,204	1,100,000
Other assets				248,879	426,323
Total Assets	**705**	**4,190**	**598,648**	**22,582,567**	**34,511,683**
LIABILITIES					
Accounts payable	4,813	143,741	149,538	5,320,381	4,900,000
Accrued liabilities	0	0	0	256,444	435,000
Advances payable	0	0	230,981	0	0
Advances from related party	0	20,836	0	0	0
Related party payables	0	0	5,671	5,535,149	0
Income tax payable	0	0	0	1,561,112	1,600,000
Current Liabilities	4,813	164,577	386,190	12,673,086	6,935,000
Minority interests	0	0	0	3,267,752	3,267,752
Redeemable common stock and capital				2,707,488	2,707,488
Share capital	26,760	26,760	27,312	29,437	32,737
Additional paid in capital	11,240	24,816	1,018,764	5,057,252	20,237,252
Retained earnings (deficit)	(42,108)	(211,963)	(833,798)	(1,253,344)	1,181,454
Accumulated other comprehensive income	0	0	0	100,896	150,000
SHAREHOLDERS' EQUITY	(4,108)	(160,387)	212,278	3,934,241	21,601,443
Total Liabilities and Equity	**705**	**4,190**	**598,468**	**22,582,567**	**34,511,683**
Common shares outstanding	26,760,000	26,760,000	27,312,500	29,436,928	33,000,000

HISTORICAL ZACKS RECOMMENDATIONS



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