Zacks Equity Research

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SunSi Energies, Inc. (SSIE-OTCBB)

SSIE: Zacks Co. Report – OUTPERFORM

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	06/15/2011
Current Price (06/15/11)	$3.31
Six- Month Target Price	**$4.00**

OUTLOOK

SunSi Energies has reached a milestone having fully paid the financial commitments for the acquisition of 60% of the Wendeng trichlorosilane facility. The required $445,075 cash payment was completed ahead of schedule, and $2.7 million of redeemable SunSi stock (1,349,628 shares) has been converted into stockholders equity on SunSi's balance sheet. With the financial commitments of the acquisition having been met, we are more confident on the expected revenue stream for SunSi. As a result we are increasing our target to $4.00 and upgrading the stock rating to Outperform.

SUMMARY DATA

52-Week High	**$3.60**
52-Week Low	**$0.86**
One-Year Return (%)	**-8.06**
Beta	**0.00**
Average Daily Volume (shrs.)	**2,970**
Shares Outstanding (million)	**27.7**
Market Capitalization ($ mil.)	**$92**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**32.5**
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	**25.5**
P/E using 2013 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small - Value**
Industry	**Chemical – Solar**
Zacks Rank in Industry	**N/A**

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	12.00 E	16.66 E
2012					48.00 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 E	-$0.02 A
2011	-$0.01 A	-$0.01 A	-$0.00 A	$0.02 E	$0.01 E
2012					$0.13 E
2013					$0.15 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/M**

2009 and 2011 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**), and is pursuing others, along with increasing the capacity at Wendeng by 240% to 75,000 metric tons of TCS.
- 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.
- For in-depth details of the company's operations and outlook, see our Initiation report dated April 25, 2011.
- Having completed the financing of the Wendeng transaction without the need to raise additional capital, SunSi's price target is increased to $4.00 and the rating upgraded to Outperform.

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 (60% of the **Wendeng** trichlorosilane production facility and 90% the Zibo **Baokai** trichlorosilane distribution company), which together control TCS production of approximately 47,000 MT. With the acquisition of 90% of the Zibo Baokai distribution company, SunSi began to report revenue on a consolidated basis in the most recent quarter, the third fiscal quarter ending February 28, 2011.

The company was incorporated in Nevada in January 2007 as a gold exploration company[2], 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[3], through which SunSi Energies is acquiring the control of Chinese TCS production and distribution facilities.

[1] Properly known as polycrystalline silicon.

[2] Initially, the company was incorporated as Bold View Resources to explore Cupro mineral claims in the Province of British Columbia.

[3] Located at 401 Jardine House, 1 Connaught Place, Central, Hong Kong.

RECENT NEWS

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 April 18, 2011, SunSi Energies reported fiscal third quarter results for the period ending February 28, 2011. For the first time, SunSi Energies reported revenue as a result of the acquisition of 90% of Zibo Baokai Commerce and Trade Company in December. Revenue for the third fiscal quarter was $4.6 million and gross profit was $93,968. The gross margin was 2.0%. The company continues to conduct due diligence for the acquisition of additional TCS production, resulting in professional fees of $75,533 in the quarter. The addition of three employees increased general and administrative expenses by 194% to $122,053. For the quarter, the company reported a loss of $134,159 or $0.00 per diluted share.

During the third fiscal quarter, the company raised $319,500 through private placements of stock, bringing the total of net proceeds to $775,800 for the first three quarters of fiscal 2011.

Concurrent with the earnings release, management issued guidance for the fourth fiscal quarter. Revenues are expected to be in the $11 million to $13 million range due to the inclusion of the operations from its 60% equity interest in Wendeng He Xie Silicon Company, which will be in addition to the revenue from the Zibo Baokai Commerce and Trade Company acquisition that began to be reported the third fiscal quarter. Earnings per share for the fourth fiscal quarter are expected to be in the $0.01 to $0.02 range.

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. Ultimately, 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 $3.25 price target is based on a 2.15 price-to-sales ratio valuation, the average of the expected range. At $3.00, the current P/S ratio of SunSi's stock is 2.00.

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 22%, a blend of a 2% gross margin on Baokai's distribution revenue and 35% 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 until at least one initial new contract is signed.

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. The quarterly run-rate of sales for the fourth fiscal quarter of 2011 is $4.6 million at Baokai and $7.4 million at Wendeng. By extrapolating the upcoming quarterly results, the annual sales run-rate is $48 million or $1.50 sales-per-share, based on 32 million shares outstanding at fiscal year-end. Comparable companies have a historical price-to-sales valuation range between 1.1 and 3.2. Even though Wendeng's revenues have not yet been reported on a consolidated basis, the Wendeng transaction has been financially completed without the need for additional financing; therefore, we are increasing our target to middle of the upper half of the expected valuation range, namely $4.00 (a 2.7 price-to-sales ratio).

RISKS

- European countries have contributed significantly to global demand for photovoltaic products, having stimulated solar cell energy installations with feed-in tariff programs, especially Germany in 2009 and Spain in 2008. However, these subsidies diminished in the second half of 2010, leading to the conjecture that the global photovoltaic market will experience a decline in 2011.
- As with almost all development stage companies, the accounting firm's opinion in the last 10-K (for the period ending May 31, 2010) contains the standard language for a company without revenues, namely "The consolidated financial statements have been prepared assuming that the Company will continue as a going concern. …the Company has cash flow constraints, an accumulated deficit, and has suffered recurring losses from operations. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern." However, the accounting firm (Child, Van Wagoner & Bradshaw, PLLC) opine that the financial statements "present fairly, in all material respects, the financial position of SunSi Energies." In addition, since the company has begun to report revenues in the latest quarter and has positive working capital of $197,206, management believes that the going concern disclaimer will not appear in the accountant firm's opinion in the upcoming 10-K for the fiscal year ending May 31, 2011.

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 E	2012 E	2012 E
Revenue:	**0**	**0**	**0**	**16,622,360**	**48,000,000**	**57,000,000**
Cost of sales	0	0	0	14,960,417	39,823,143	47,289,982
Gross Profit	**0**	**0**	**0**	**1,661,943**	**8,176,857**	**9,710,018**
Professional fees		124,435	545,049	498,511	530,914	560,000
General & administrative	24,937	45,420	76,586	629,184	1,520,000	1,790,000
Mining exploration	9,440		0	0	0	0
Total Expenses	**34,377**	**169,855**	**621,635**	**1,127,695**	**2,050,914**	**2,350,000**
Pre-tax profit from operations	**(34,377)**	**(169,855)**	**(621,635)**	**534,248**	**6,125,943**	**7,360,018**
Income (loss) before income taxes	(34,377)	(169,855)	(621,635)	534,248	6,125,943	7,360,018
Future income taxes			0	133,562	1,531,486	1,840,004
Net income for the year	**(34,377)**	**(169,855)**	**(621,635)**	**400,686**	**4,594,457**	**5,520,013**
Net income per common share (diluted)	**(0.00)**	**(0.01)**	**(0.02)**	**0.01**	**0.13**	**0.15**
Weighted average common shares outstanding - diluted	26,760,000	26,760,000	26,972,486	28,194,040	35,181,750	36,700,000

Quarterly Earnings Analysis

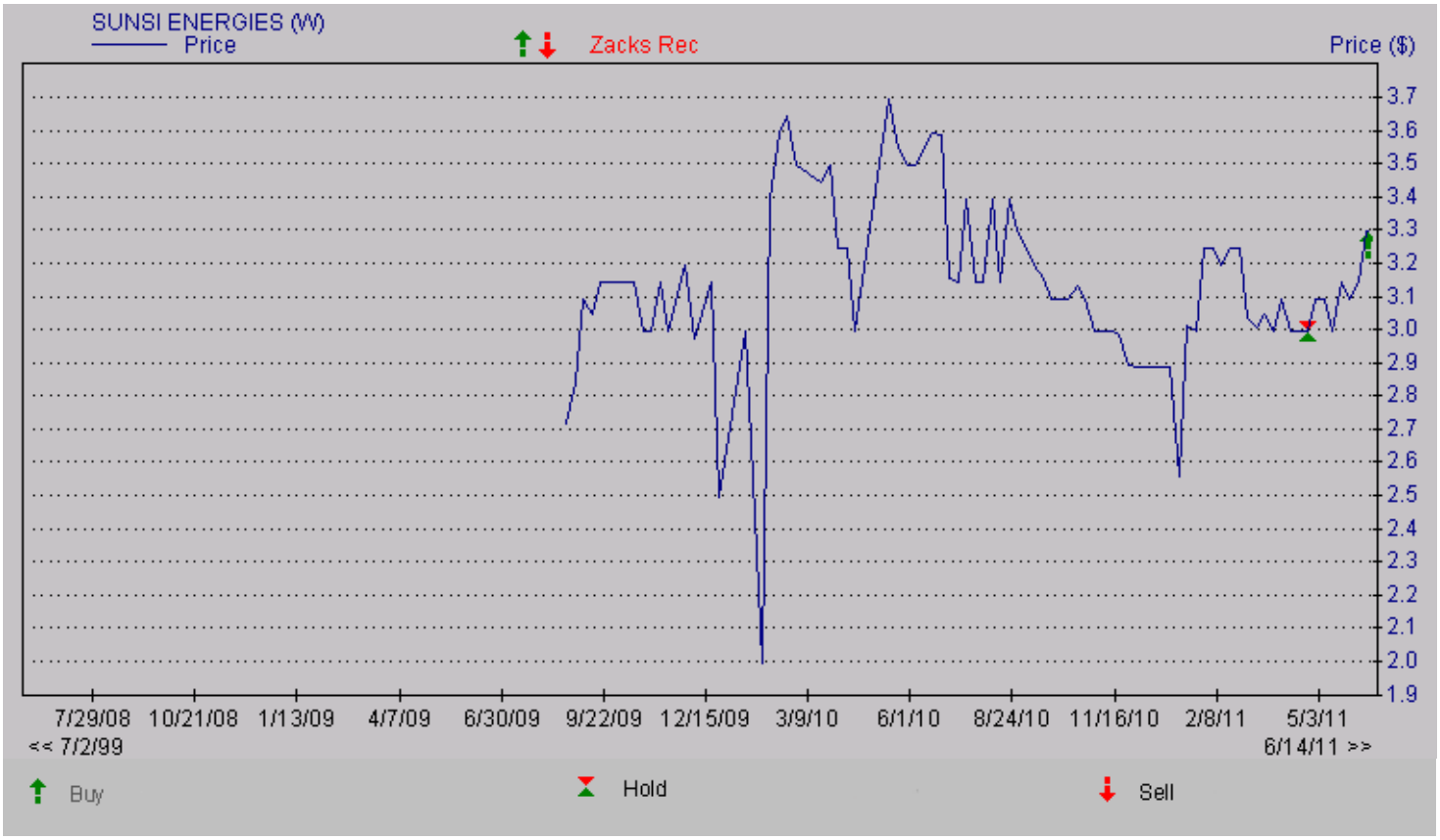
	1Q 2010	2Q 2010	3Q 2010	4Q 2010	**2010**	1Q 2011	2Q 2011	3Q 2011	4Q E 2011	**2011 E**
Revenue:	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**4,622,360**	**12,000,000**	**16,622,360**
Cost of sales	0	0	0	0	**0**	0	0	4,528,392	10,432,025	**14,960,417**
Gross Profit	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**93,968**	**1,567,975**	**1,661,943**
Professional fees	158,406	275,332	16,888	94,423	545,049	117,237	205,741	75,533	100,000	498,511
General & administrative	3,933	2,549	41,477	28,627	76,586	41,159	25,972	122,053	440,000	629,184
Mining exploration										0
Total Expenses	**162,339**	**277,881**	**58,365**	**123,050**	**621,635**	**158,396**	**231,713**	**197,586**	**540,000**	**1,127,695**
Pre-tax profit from operations	**(162,339)**	**(277,881)**	**(58,365)**	**(123,050)**	**(621,635)**	**(158,396)**	**(231,713)**	**(103,618)**	**1,027,975**	**534,248**
Income (loss) before income taxes	(162,339)	(277,881)	(58,365)	(123,050)	(621,635)	(158,396)	(231,713)	(103,618)	1,027,975	534,248
Future income taxes								23,492	256,994	133,562
Net income for the year	**(162,339)**	**(277,881)**	**(58,365)**	**(123,050)**	**(621,635)**	**(158,396)**	**(231,713)**	**(127,110)**	**770,981**	**400,686**
Net income per common share (diluted)	**(0.01)**	**(0.01)**	**(0.00)**	**(0.00)**	**(0.02)**	**(0.01)**	**(0.01)**	**(0.00)**	**0.03**	**0.01**
Weighted average common shares outstanding - diluted	26,760,000	26,894,478	27,075,278	27,160,188	26,972,486	27,428,995	27,483,665	27,681,750	30,181,750	28,194,040

SunSi Energies, Inc.

Consolidated Balance Sheets
(in $ US)

For the years ending May 31	2008	2009	2010	2011 E	2012 E
ASSETS					
Cash and cash equivalents	705	4,190	598,648	1,144,112	1,200,000
Accounts receivable (net)	0	0	0	4,514,514	4,784,218
Deposit	0	0	0	80,000	0
Other receivables	0	0	0	95,000	609,113
Prepaid expense	0	0	0	35,000	245,000
Current Assets	705	4,190	598,648	5,868,626	6,838,331
Property, plant & equipment (net)	0	0	0	0	13,761,085
Intangible assets (net)				273,910	273,910
Total Assets	**705**	**4,190**	**598,648**	**6,142,536**	**20,873,326**
LIABILITIES					
Accounts payable	0	0	0	1,963,458	1,500,000
Accrued liabilities	4,813	143,741	149,538	547,000	435,000
Advances from related party	0	20,836	0	0	0
Advances payable	0	0	230,981	0	0
Compensation payable to related party	0	0	5,671	0	0
Income tax payable	0	0	0	133,562	0
Current Liabilities	4,813	164,577	386,190	2,644,020	1,935,000
Minority interests	0	0	0	7,048	52,400
Share capital	26,760	26,760	27,312	29,389	35,389
Additional paid in capital	11,240	24,816	1,018,764	4,753,488	15,547,488
Retained earnings (deficit)	(42,108)	(211,963)	(833,798)	(1,291,663)	3,302,794
Accumulated other comprehensive income				254	254
SHAREHOLDERS' EQUITY	(4,108)	(160,387)	212,278	3,491,468	18,885,925
Total Liabilities and Equity	**705**	**4,190**	**598,468**	**6,142,536**	**20,873,325**
Common shares outstanding	26,760,000	26,760,000	27,312,500	32,000,000	38,000,000

HISTORICAL ZACKS RECOMMENDATIONS



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