Zacks Small-Cap Research

September 19, 2011
Steven Ralston, CFA

www.zacks.com
111 North Canal Street, Chicago, IL 60606

SunSi Energies, Inc. (SSIE-OTCQB)

SSIE: Zacks Co. Report – OUTPERFORM

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	06/15/2011
Current Price (09/16/11)	$3.94
Six- Month Target Price	**$4.75**

OUTLOOK

SunSi Energies has achieved several significant milestones over the past nine months: two acquisitions, internally constructed capacity additions, a new customer outside of China and the company's first profitable quarter. Management continues to grow the company aggressively through capacity expansion, additional customers and potentially other acquisitions. We are now more confident on the expected growing revenue stream of SunSi. Again, we raise our target, this time to $4.75.

SUMMARY DATA

52-Week High	**$4.00**
52-Week Low	**$2.49**
One-Year Return (%)	**23.1**
Beta	**-0.02**
Average Daily Volume (shrs.)	**5,889**
Shares Outstanding (million)	**29.4**
Market Capitalization ($ mil.)	**$116**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
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	**39.4**
P/E using 2013 Estimate	**17.9**
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	10.46 A	15.08 A
2012	11.71 E	11.78 E	12.97 E	15.07 E	51.53 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	$0.00 A	-$0.02 A
2012	$0.03 E	$0.03 E	$0.04 E	$0.06 E	$0.10 E
2013					$0.22 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**) in the last nine months, and is pursuing others, along with increasing the capacity at Wendeng by 240% to 75,000 metric tons of TCS.
- Due to the two acquisitions, SunSi has achieved operating company status and has 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 OTCQB to AMEX in the near future.
- 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 $4.75 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 (60% of the **Wendeng** trichlorosilane production facility and 90% the Zibo **Baokai** trichlorosilane distribution company), 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[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] Polysilicon is 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 September 12, 2011, SunSi Energies reported fiscal fourth quarter and full fiscal year results for the period ending May 31, 2011. Revenue for the fourth fiscal quarter was $10.46 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. Gross profit was $1.94 million resulting in a gross margin of 18.6%. For the quarter, the company reported a profit of $104,719 or $0.00 per diluted share.

For the full 2011 fiscal year, SunSi reported revenues of $15.08 million, $9.755 million from Baokai (5 ½ months of operations) and $5.328 million from Wendeng (2 ½ months). The overall gross margin was 13.5%, with Wendeng achieving a gross margin of 34.2%. Being a distributor, Baokai's gross margin is fixed at 2% until new customers are acquired. During fiscal 2011, professional fees were $618,992 due to required due diligence for the acquisition of TCS production in China. General and administrative expenses were $1,315,137. The tax provision of $256,227 reflects the 25% statutory tax rate in China. In fiscal 2011, SunSi recorded a loss attributable to SunSi's shareholders of $419,546 or $.02 per diluted share compared to a loss of $621,835 or $.02 per diluted share in fiscal 2010. Approximately 55% of the company's loss was due to non-cash depreciation and amortization expenses. The company raised approximately $1.28 million through the issuance of common stock during fiscal 2011.

Management expects to issue guidance for fiscal 2012 concurrent with the earnings release for the first fiscal quarter on September 20th; however, management did indicate that it expects the company to be profitable on an annual basis going forward. Also, management still plans to control TCS production of at least 140,000 metric tons by the end of calendar 2012. Management initiated the process of up-listing to the AMEX with the total shareholder count, having increased shareholders of record to over 400.

In late August and early September, SunSi Energies reached two milestones in the span of two weeks with the announcements that the company's first-phase capacity expansion of its Wendeng TCS production facility is substantially complete and that Russia-based Nitol Solar has purchased 117 metric tons of TCS from the Wendeng facility in China. These two significant events compelled us to raise our price target to $4.75.

SunSi expanded the capacity of the Wendeng trichlorosilane facility by 50% from 20,000 metric tons (MT) to 30,000 MT. The company is currently performing quality control tests and fine-tuning procedures; however, when the incremental capacity becomes fully operational in late October, the new facilities are expected to run at 100% capacity due to high demand from two large polysilicon producers in China and now also from Nitol Solar in Russia. 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. SunSi Energies owns a 60% interest in the Wendeng trichlorosilane production facility.

In addition, SunSi announced that Nitol Solar, one of the world's largest polysilicon producers, has 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 already 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.

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 $4.75 price target is based on a 3.2 price-to-sales ratio valuation, the high-end of the expected range. At $3.94, the current P/S ratio of SunSi's stock is 2.65.

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 21%, 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.

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 $5.3 million at Baokai and $6.4 million at Wendeng. By extrapolating the upcoming quarterly results, the annual sales run-rate is $46.8 million or $1.60 sales-per-share, based on 31.5 million shares outstanding at the next fiscal year-end. 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, the capacity at Wendeng being increased by 50% to 30,000 MT and the announcement of the Nitol Solar order, we increased our target to top-end of the expected valuation range, namely $4.75 (a 3.2 price-to-sales ratio).

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**	**51,525,780**	**57,000,000**
Cost of sales	0	0	0	13,044,999	40,860,803	45,201,950
Gross Profit	**0**	**0**	**0**	**2,037,789**	**10,664,977**	**11,798,050**
Professional fees		124,435	545,049	618,992	495,000	560,000
General & administrative	24,937	45,420	76,586	1,315,137	4,398,988	1,790,000
Mining exploration	9,440		0	0	0	0
Total Expenses	**34,377**	**169,855**	**621,635**	**1,934,129**	**4,893,988**	**2,350,000**
Pre-tax profit from operations	**(34,377)**	**(169,855)**	**(621,635)**	**103,660**	**5,770,990**	**9,448,050**
Income (loss) before income taxes	(34,377)	(169,855)	(621,635)	103,660	5,770,990	9,448,050
Future income taxes				256,227	1,340,990	2,362,012
Net income (loss)				(152,567)	4,430,000	7,086,037
Net income attributable to noncontrolling				266,979	1,397,262	1,545,710
Net income (loss) attributable to SunSi	**(34,377)**	**(169,855)**	**(621,635)**	**(152,567)**	**3,032,738**	**7,086,037**
Net income per common share (diluted)	**(0.00)**	**(0.01)**	**(0.02)**	**(0.01)**	**0.10**	**0.22**
Weighted average common shares outstanding - diluted	26,760,000	26,760,000	26,972,486	27,675,252	30,079,232	32,500,000

Quarterly Earnings Analysis

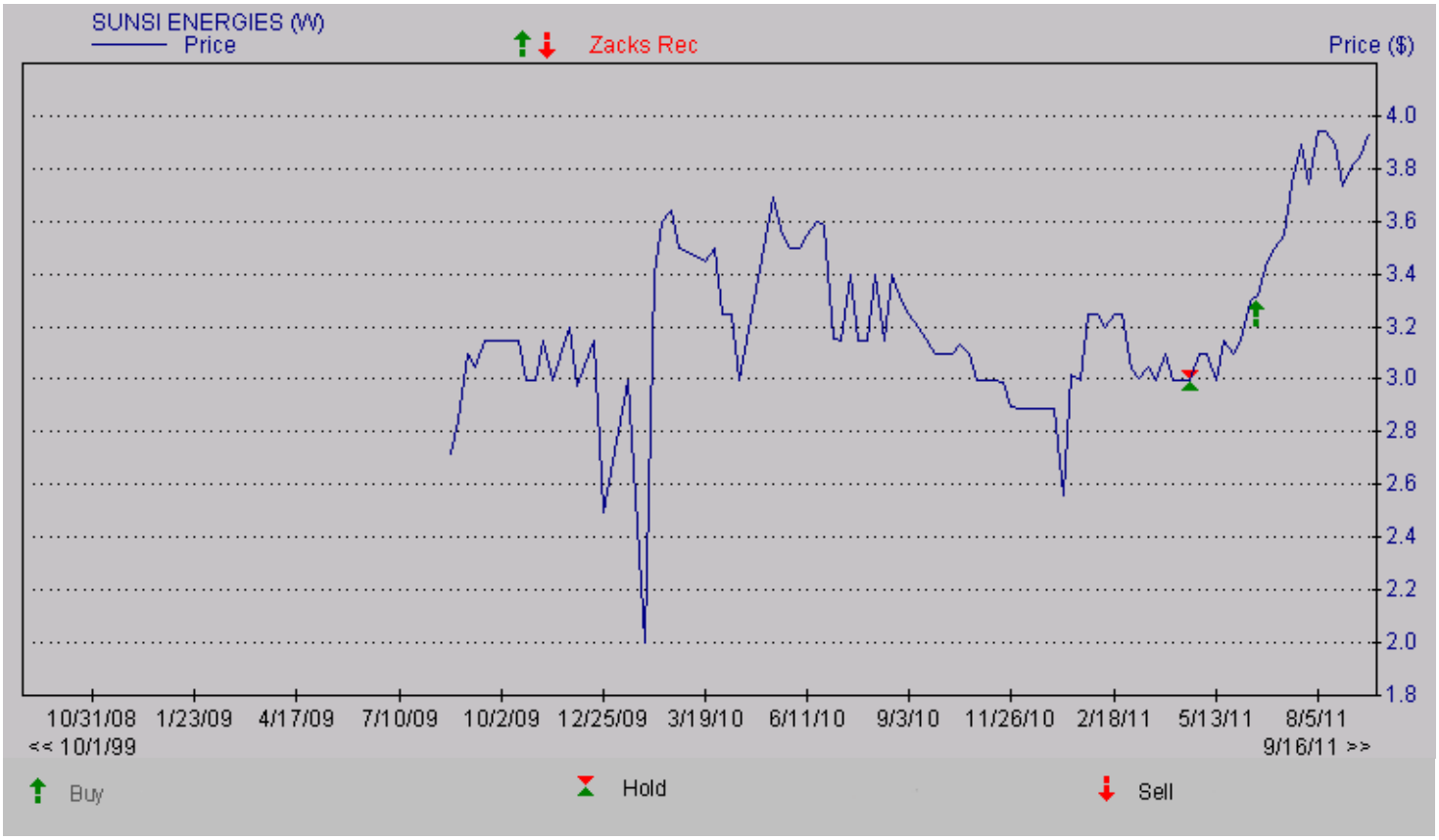
	1Q 2011	2Q 2011	3Q 2011	4Q 2011	**2011**	1Q E 2012	2Q E 2012	3Q E 2012	4Q E 2012	**2012 E**
Revenue: Baokai					9,755,030	5,320,925	5,374,135	5,427,876	5,482,155	21,605,091
Revenue: Wendeng					5,327,758	6,393,310	6,393,310	7,544,105	9,589,964	29,920,689
Total revenues	0	0	4,622,360	10,460,428	**15,082,788**	11,714,235	11,767,444	12,971,981	15,072,119	**51,525,780**
Cost of sales	0	0	4,528,392	8,516,607	**13,044,999**	9,421,305	9,473,450	10,283,340	11,682,708	**40,860,803**
Gross Profit	**0**	**0**	**93,968**	**1,943,821**	**2,037,789**	**2,292,930**	**2,293,995**	**2,688,642**	**3,389,411**	**10,664,977**
Professional fees	117,237	111,585	75,533	314,638	618,992	115,000	120,000	125,000	135,000	495,000
General & administrative	41,159	120,128	122,053	1,031,798	1,315,137	1,083,387	1,094,221	1,105,164	1,116,215	4,398,988
Mining exploration										
Total Expenses	**158,396**	**231,713**	**197,585**	**1,346,435**	**1,934,129**	**1,198,387**	**1,214,221**	**1,230,164**	**1,251,215**	**4,893,988**
Pre-tax profit from operations	**(158,396)**	**(231,713)**	**(103,617)**	**597,386**	**103,660**	**1,094,543**	**1,079,773**	**1,458,478**	**2,138,196**	**5,770,990**
Income (loss) before income taxes	(158,396)	(231,713)	(103,617)	597,386	103,660	1,094,543	1,079,773	1,458,478	2,138,196	5,770,990
Future income taxes			23,492	232,735	256,227	288,308	288,442	338,064	426,177	1,340,990
Net income (loss)	(158,396)	(231,713)	(127,109)	364,651	(152,567)	806,235	791,332	1,120,414	1,712,019	4,430,000
Net income attributable to noncontrolling			7,048	259,931	266,979	300,406	300,546	352,250	444,060	1,397,262
Net income (loss) attributable to SunSi	**(158,396)**	**(231,713)**	**(134,157)**	**104,720**	**(419,546)**	**806,235**	**791,332**	**1,120,414**	**1,712,019**	**3,032,738**
Net income per common share (diluted)	**(0.01)**	**(0.01)**	**(0.00)**	**0.00**	**(0.02)**	**0.03**	**0.03**	**0.04**	**0.06**	**0.10**
Weighted average common shares outstanding - diluted	27,428,995	27,483,665	27,681,750	28,965,266	27,675,252	29,436,928	29,880,000	30,000,000	31,000,000	30,079,232
Gross Margin	N/M	N/M	2.0%	18.6%	13.5%	19.6%	19.5%	20.7%	22.5%	20.7%

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	7,000,000
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	11,150,000
Fixed assets	0	0	0	7,559,369	10,500,000
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**	**32,176,323**
LIABILITIES					
Accounts payable	4,813	143,741	149,538	5,320,381	5,750,000
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	7,785,000
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	32,437
Additional paid in capital	11,240	24,816	1,018,764	5,057,252	16,454,252
Retained earnings (deficit)	(42,108)	(211,963)	(833,798)	(1,253,344)	1,779,394
Accumulated other comprehensive income	0	0	0	100,896	150,000
SHAREHOLDERS' EQUITY	(4,108)	(160,387)	212,278	3,934,241	18,416,083
Total Liabilities and Equity	**705**	**4,190**	**598,468**	**22,582,567**	**32,176,323**
Common shares outstanding	26,760,000	26,760,000	27,312,500	29,436,928	31,500,000

HISTORICAL ZACKS RECOMMENDATIONS



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