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By Bloomberg News

Dec. 24 (Bloomberg) -- Foxconn Technology Group's decision to start making solar power modules may speed the rate at which margins are narrowing for Chinese manufacturers, another blow for an industry already coping with a plunge in prices.

The Taiwanese company that's the world's biggest contract maker of electronics including Apple Inc.'s iPhone started work on a solar-module plant in China's eastern province of Jiangsu near the headquarters of Suntech Power Holdings Co., the largest silicon-based module manufacturer.

"Foxconn plans to build new factories with undreamed-of scale and lower cost," Jenny Chase, who leads a team of six solar analysts at Bloomberg New Energy Finance, said yesterday. "It will push capacity higher and prices lower."

Prices for solar cells have skidded 62 percent this year as Chinese companies led by Suntech boosted production and won market share from European and Japanese rivals. Foxconn's gross margin of 5.6 was less than half Suntech's in the third quarter, according to data compiled by Bloomberg.

Chase said Foxconn's Ebitda margin ranges from 2 percent to 5 percent compared with as much as 30 percent enjoyed by the companies purely manufacturing solar products.

"Foxconn is good at operating with low margins in electronics and can replicate the success it has there to the solar industry," Lian Rui, a senior analyst for the research company Solarbuzz, said by phone from Shanghai. It "will make the competition fiercer and drive margins down further."

Foxconn's Plans

Foxconn will begin trial production in May, the government of Funing county, where the plant is, said in a website statement on Dec. 22. The company's Hon Hai Precision Industry Co. unit will invest \$30 million as registered capital to set up Fuyu Energy Technology (Funing) Co. in the county, according to a Dec. 20 filing to the Taiwan exchange. The unit will make solar cells. No details about the plant's capacity were given.

Two calls to the office of Edmund Ding, spokesman for Taipei-based Hon Hai, during regular business hours yesterday weren't answered.

Suntech's gross margin declined to 13.3 percent in the third quarter from 17.9 percent a year earlier. JA Solar Holdings Co., based in Shanghai, had a negative 4.3 percent gross margin in the third quarter compared with 22.5 percent last year.

Solar Margins

Asian solar companies enjoyed high margins in the industry as shipments surged last year. The average gross margin for the 10 Asia-based solar companies in Bloomberg Industries' Large Solar Index was 24.6 percent last year. Trina Solar Ltd. had a gross margin of 33.2 percent and Yingli Green Energy Holding Co. 31.5 percent, the Bloomberg data shows.

Foxconn's gross margin was 5.6 percent in the six months through June 30, down from 6.8 percent in the second half of 2010, Bloomberg data also shows.

The average price for solar modules has declined 47 percent this year to \$0.94 a watt, according to Bloomberg New Energy Finance. Three U.S. companies led by Solyndra LLC filed for bankruptcy this year. In Germany, Q-Cells SE, once the world's biggest solar maker, is looking for a partner after its earnings and margins plunged.

"Foxconn's entry into the solar industry has been rumored for a long time," Chase said. "The company's formal entry at a time when ingot, wafer and cell makers are not making their cash costs must be bad news for the incumbent companies."

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