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UPDATE 2-China Sunergy posts surprise Q1 profit

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(Recasts; adds details, share movement, background, analyst comments, conference call details)

By Shradhha Sharma

BANGALORE, May 20 (Reuters) - Solar cell maker China Sunergy Co Ltd (CSUN.O: Quote, Profile, Research, Stock Buzz) posted a surprise first-quarter profit, boosted by strong sales of its high-efficiency cells and higher prices.

China Sunergy is contemplating going to the market in the second quarter to raise cash for its capital expenditure needs, a company executive said in a conference call with analysts.

"Liquidity looks better, but CSUN may still seek capital to fund long-term polysilicon supply contracts," Robert Stone, an analyst with Cowen and Co, said.

In a note to clients, Stone said he also raised his 2009 earnings estimate for the company to 60 cents per American Depository Share (ADS) from 50 cents, on lower projected debt.

China Sunergy has about $100 million cash on hand and sees capital expenditures of about $60 million for the year, of which about $20 million has already been funded, Jefferies & Co analyst Paul Clegg said. The company said it plans to fund the remaining $40 million through cash raised from the market.

The company's shares, which fell as much as 10 percent earlier, pared losses to trade down 7 cents at $12.99 in afternoon trade on Nasdaq.

"It could have been someone who bought the stock a week ago and decided that since they (China Sunergy) weren't raising full-year guidance, it was time to take profits," Stone said, referring to the decline in share price earlier in the day.

The stock had risen 31 percent in the last five days. Stone said the run-up in the shares was in anticipation of better-than-expected results.

The company's suggestion on the call that it would tap the market for cash could have been one of the factors that pulled down the stock earlier in the day, Clegg said.

The company is not considering using its own cash for its capital expenditure needs as it plans to use cash reserves for shoring up its balance sheet for future growth, Clegg said.

SURPRISE PROFIT

For the first quarter, China Sunergy posted net income attributable to ordinary shareholders of $0.5 million, or 1 cent per ADS, compared with $4.9 million, or 17 cents per ADS, a year earlier.

Revenue rose 32 percent to $77 million.

Analysts on average were expecting a loss of 5 cents per ADS, before special items, on revenue of $73.3 million, according to Reuters Estimates.

Blended average selling price (ASP) rose more than 9 percent to $3.23 per watt due to a higher production of high efficiency cells, strong product demand and a stronger Chinese currency, the company said.

"Despite the three-week interruption to our operations caused by the snow storms in January, and the higher wafer costs during the quarter, we managed to turn around and get back to profitability," Chief Executive Allen Wang said in a statement.

China Sunergy had been posting losses each quarter since it went public in May last year.

For the first quarter, wafer costs rose more than 18 percent to $2.64 per watt, helped by the stronger Chinese currency, the company said.

China Sunergy expects gross margin of between 9 percent and 10 percent and production volume in the range of 30 megawatts to 32 megawatts in the second quarter. Gross margin for the first quarter was 9.2 percent.

It backed its 2008 production target of 125 MW to 145 MW. (Editing by Himani Sarkar and Deepak Kannan)

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