



Company Report

GCL-Poly (3800 HK)

March 15, 2013

Rating: Sell
TP: HK\$1.50

Key data

Share price (HK\$)	1.86
Upside potential (%)	-19.4
52Wk H/L(HK\$)	2.66 / 1.11
Issued shares (mn)	15,476
Market cap (HK\$mn)	28,785
30-day avg vol (HK\$mn)	490.1
Auditors	Deloitte
Major shareholder (%):	
Zhu Gong Shan*	32.4
China Investment Corp	20.1

Source: Company & Bloomberg

Share performance (%)

	Absolute	Relative*
1-mth	(6.1)	(3.6)
3-mth	25.7	25.6
6-mth	48.8	31.9

*Relative to Hang Seng Index

Source: Bloomberg

1 year share price performance



Source: Bloomberg

Analyst

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Key takeaways from teleconference

Excluding impairment loss of HK\$1.2bn, GCL FY12 annual results is largely in line with consensus. Stock has risen by over 25% in the past 3 months due to positive policy news, but we believe current share price not only has reflected the turnaround factor in 2014, but also has over-reacted to the positive news. We set our TP at HK\$1.5, based on estimated FY13 NBV of HK\$1.0 and PB of 1.5x. The PB level represents a 20% discount to its 2-year historical PB average. We believe the valuation is reasonable given that the group will not post a positive profit until 2014.

Results in line with expectation: GCL recorded FY12 revenue of HK\$22,348mn, down 12.3% YoY. Loss for FY12 reached HK\$3,515.4mn (vs NP of HK\$4,274.9mn in FY11/ loss of HK\$330.3mn in 1HFY12) and was 194% lower than consensus mainly due to the HK\$1.2bn impairment loss in fixed asset and goodwill. Results were largely in line with consensus when excluding the non-cash item of impairment loss. Annual wafers shipments was 5,594MW, up 25.7% YoY but 2HFY12 shipments were down 24.4% HoH. We estimated utilization rate for polysilicon and wafers production dropped to 26% and 44% respectively in 4Q2012 (vs 84.5% and 45% in 3Q2012).

Lower-than-expected profit contribution from solar farm: Solar farms, which secure part of the group's self-produced wafers, become a new revenue stream to the group. The group booked a revenue of HK\$2,652mn in 2HFY12 for the 140MW solar farm sales in the US but only HK\$28mn was booked as segment profit, implicating a margin of 1.05%. We are disappointed with the low margin of the new revenue stream, which was supposed to be one of the turnaround factors to the group. By the end of 2012, the group had 327MW solar farm projects to be constructed overseas, but based on the US sales in 2HFY12, we expect the profit contribution from the new solar farms to the group will be relatively small in FY13. Apart from overseas solar farms, the group plans to accomplish 300-500MW solar farms projects in China in 2013 but we expect revenue contribution will not start until 1QFY14. We estimate revenue from the 300 MW domestic solar farms to be around HK\$825mn with 8% IRR.

Results and valuation

(FY ended Dec 31)	FY10	FY11	FY12	FY13F	FY14F
Revenue (HK\$ mn)	18,471	25,505	22,348	22,281	23,868
YoY Chg (%)	273.7	38.1	-12.4	-0.3	7.1
Net Income (HK\$ mn)	4,023	4,274	(3,515)	(666)	878
YoY Chg (%)	-	6.2	-182.2	-81.1	-231.8
FD EPS (HK\$)	0.2589	0.2731	(0.2249)	(0.0426)	0.0562
YoY Chg (%)	-	5.4	-182.3	-81.0	-231.8
NBV (HK\$/share)	1.0438	1.3294	1.0474	1.0043	1.0610
PE (x)	-	6.81	-	-	33.11
PB (x)	-	1.40	1.78	1.85	1.75
ROAA (%)	12.10	7.93	-5.01	-0.90	2.34
ROAE (%)	27.19	21.64	-16.37	-3.78	9.70
Net D/E(%)	41.9	101.2	157.7	157.9	168.7

Source: Company, ABCI Securities estimates



Sector outlook: Recent rebound of share price was policy-driven. National Energy Administration (NEA) plans to raise cumulative solar PV installed capacity target up by 67% to 35GW by 2015, implying that 8-10GW of new capacity will be installed every year throughout 2013-2015. Meanwhile, market is expecting China to impose anti-dumping duties on imported polysilicon before 5 Apr, which may stop domestic polysilicon price from falling further.

However, we are still cautious on the sector outlook in view of overcapacity and trade disputes between China and its major trade partners. Total world's polysilicon production capacity reached 300,000MT in 2012 and demand was estimated to be 220,000MT, implying an oversupply of 36%. World's wafers production capacity, on the other hand, which reached 46GW is estimated to be in oversupply by 53%. We believe the oversupply situation is unlikely to be alleviated in 2013 especially when the government continues to provide financial support to the major players in the industry to prevent them from bankruptcy. The government support is slowing down the elimination of inefficient and non-competitive capacities, thus leading to a slower-than-expected industry consolidation.

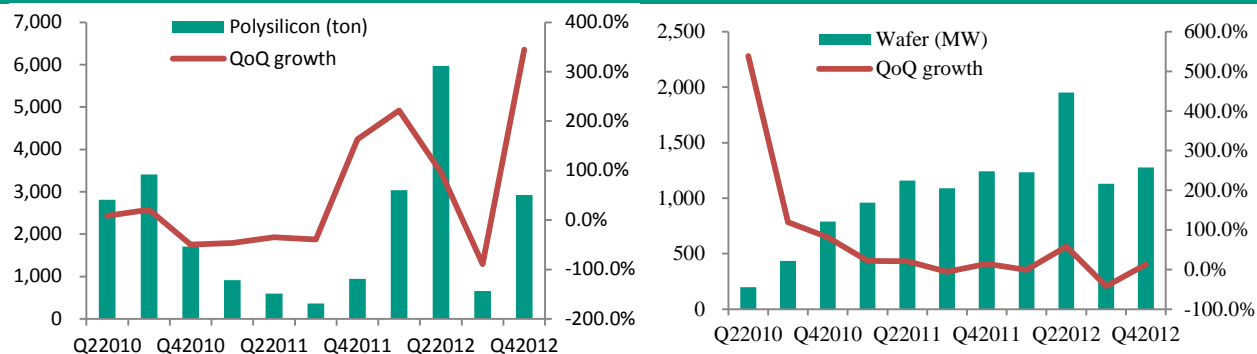
While Chinese's trade policy may help supporting domestic polysilicon price, the EU policy may counter off the positive effect. The EU, which accounts for 85% of the Chinese's solar exports, is going to announce in June whether to impose anti-dumping and anti-subsidy duties on the Chinese imports. Therefore, we see limited room for ASP growth in 2013.

Valuation: Although GCL assured investors China Development Bank will provide Rmb15bn credit limit to the group, we are still concern on the group's financial burden. Net D/E rose from 101% as at 30 Jun 2012 to 157.7% by the end of 2012. Assuming 6% of interest rate, we estimated financial cost to be over HK\$1,800mn in FY13.

Rather than ASP change, we believe the group will only be breakeven when production cost of polysilicon reduces by 30% to US12/kg given that the new FBR technology came into stream in 1Q2014. We estimate that the group will continue to post a loss in 2013 and breakeven in 2014. The counter is trading at 1.80x FY12 PB. Current share price, in our view, not only has reflected the turnaround factor in 2014, but also has over-reacted to the positive news, but also has over-reacted to the policy news. We set our TP at HK\$1.5, based on estimated FY13 NBV of HK\$1.0 and PB of 1.5x. The PB level represents a 20% discount to its 2-year historical PB average. We believe the valuation is reasonable given that the group will not post a positive profit until 2014.



Exhibit 1: Group: Polysilicon and wafer production



Source: Company, ABCI Securities

Exhibit 3: Consensus

FY ended Dec 31 (Rmbmn)	New Forecast		Consensus		Difference	
	2013F	2014F	2013F	2014F	2013F	2014F
Revenue	22,281	23,868	26,266	30,221	-15.17%	-21.02%
Adjusted EBITDA	2,000	3,955	2,821	426,721	-29.11%	-99.07%
Net profit	(666)	878	(77)	1,540	770.18%	-42.98%
FD EPS (Rmb/share)	(0.0426)	0.0562	(0.0030)	0.123	1320.66%	-54.32%

Source: Bloomberg, ABCI Securities estimates

Exhibit 4: Major Assumptions

FY ended Dec 31	2011	2012	2013F	2014F
ASP				
Polysilicon (US\$/kg)	47.7	20.8	20.0	19.0
YoY Growth (%)	-8.4%	-56.4%	-3.8%	-5.0%
Wafer (US\$/W)	0.54	0.25	0.23	0.22
YoY Growth (%)	-34.1%	-53.7%	-8.0%	-5.0%
Production cost				
Polysilicon (US\$/kg)	20.8	19.7	17.0	12.0
Polysilicon (US\$/W)	0.12	0.11	0.09	0.07
Non-silicon cost (US\$/W)	0.18	0.12	0.10	0.10
Total wafer production cost (US\$/W)	0.30	0.25	0.19	0.17
YoY Growth (%)	-29.8%	-16.8%	-22.3%	-14.3%

Source: Company, ABCI Securities estimates



Profit Forecast

FY ended Dec 31 (Rmbmn)	2010	2011	2012	2013F	2014F
Solar sales	13,474.9	19,751.8	12,943.8	12,671.3	12,037.7
Power sales	4,428.6	5,028.1	5,878.7	7,334.3	9,554.3
Others	568.4	725.7	945.0	2,275.7	2,275.7
Total sales	18,471.9	25,505.6	22,348.0	22,281.2	23,867.7
Cost of Sales	(11,661.2)	(17,039.3)	(20,598.9)	(20,281.4)	(19,912.4)
GP	6,810.7	8,466.3	1,749.1	1,999.8	3,955.2
Other income	575.2	613.2	783.8	668.4	716.0
Dist and selling expenses	(46.3)	(56.7)	(95.6)	(111.4)	(119.3)
Admin expenses	(996.3)	(1,617.2)	(1,857.5)	(1,114.1)	(1,193.4)
Other expenses	(187.5)	(321.0)	(1,486.1)	(334.2)	(358.0)
Share of results of associates	10.7	15.2	3.4	-	-
Share-based payment expenses	(12.7)	(82.3)	(42.0)	-	-
Share of lossees of jointly controlled entities	-	(12.0)	(7.2)	-	-
EBIT	6,153.8	7,005.5	(952.1)	1,108.6	3,000.5
Finance costs	(606.4)	(1,166.3)	(2,309.3)	(1,817.2)	(1,787.4)
EBT	5,547.4	5,839.1	(3,261.4)	(708.6)	1,213.1
Tax	(1,159.3)	(1,269.2)	(123.8)	0.0	(279.0)
MI	(364.5)	(295.1)	(130.2)	42.5	(56.0)
NP	4,023.6	4,274.9	(3,515.4)	(666.1)	878.0
D&A	1,247.9	2,044.0	4,013.1	2,660.2	2,860.2
EBITDA	7,401.7	9,049.5	3,061.0	3,768.8	5,860.7
No. of issued shares (mn)	15,474.0	15,470.7	15,476.1	15,477.5	15,477.5
Issuable shares (mn):					
Pre-IPO Share Option	26.6	26.3	26.3	26.3	26.3
Share options	39.0	158.9	128.2	125.1	125.1
Total	15,539.5	15,655.9	15,630.7	15,629.0	15,629.0
Per share value (Rmb)					
DPS (Rmb)	-	0.051	0.000	0.000	0.011
Basic EPS (Rmb)	0.2600	0.2763	(0.2272)	(0.0430)	0.0567
Fully-diluted EPS (Rmb)	0.2589	0.2731	(0.2249)	(0.0426)	0.0562
NBV (Rmb/share)	1.0438	1.3294	1.0474	1.0043	1.0610

Financial Ratio Analysis

FY ended Dec 31 (Rmbmn)	2010	2011	2012	2013F	2014F
Profitability					
GP Margin	36.9%	33.2%	7.8%	9.0%	16.6%
EBITDA Margin	40.1%	35.5%	13.7%	16.9%	24.6%
EBIT Margin	33.3%	27.5%	-4.3%	5.0%	12.6%
NP Margin	30.0%	22.9%	-14.6%	-3.2%	5.1%
ROAA	7.9%	-5.0%	-0.8%	-0.9%	2.3%
ROAE	21.6%	-16.4%	-2.9%	-3.8%	9.7%
Working capital management					
Avg. inventories/COGS (days)	37.2	44.1	41.8	60.0	90.0
Avg. trade & bill receivables/turnover (days)	38.9	67.5	128.6	180.0	220.0
Avg. trade & bill payables/COGS (days)	103.1	132.8	153.6	180.0	180.0
Leverage					
Current ratio	1.02	1.03	0.73	0.80	0.88
Quick ratio	0.89	0.91	0.65	0.67	0.70
Net debt/total equity	41.9%	101.2%	157.7%	157.9%	168.7%

Source: The group (for historical figures only), ABCI Securities estimate



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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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