



Company Report

GCL-Poly (3800 HK) – Sell Semi-conductor Equipment 12-month target price: HK\$1.06

Key data

Share price (HK\$)	1.39
Target price (HK\$)	1.06
Upside potential (%)	-23.5%
52Wk H/L(HK\$)	1.11 / 3.24
Issued shares (mn)	15,474.3
Market cap (HK\$mn)	25,842.1
30-day avg turnover (HK\$mn)	105.4
Major shareholder (%):	
Zhu Gong Shan*	32.4
China Investment Corp	20.1

*Chairman of the company

Source: Company & Bloomberg

Revenue composition in 1HFY12 (%)

Solar	70.5%
Wafers	56.7%
Polysilicon	13.8%
Power	24.0%
Others	5.5%

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	13.9	15.6
3-mth	17.8	12.3
6-mth	(16.3)	(24.8)

*Relative to Hang Seng Index

Source: Bloomberg

Share price performance



Source: Bloomberg

Analyst

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Key takeaways from teleconference

We participated in GCL Q3 investor teleconference. We believe recent rebound in share price is short-lived and is spurred by speculative demand on further announcement of subsidy that will be provided to the solar industry in China. With poor sales and increase in unit cost caused by low utilization rate, we revise our TP from HK\$1.24 to HK\$1.06, representing 0.9x FY2013 PB. Maintain Sell.

Poor sales: Polysilicon sales dropped 89.0% QoQ to 657MT which is 85% lower than our estimate while wafers sales dropped 42.1% QoQ to 1,130MW, which is 25% lower than our estimate. The unexceptionally poor sales are the results of slowing installation demand in Europe after subsidy cut on solar on-grid tariffs as well as the high difficulty in raising funds to finance solar projects amid the European debt crisis.

Low utilization rate leading to higher unit cost: Polysilicon/wafer production dropped 41.3% QoQ/10.0% QoQ to 7,631MT/1,689MW. With annual production capacity of 65,000MT for polysilicon and 8,000MW for wafers, the Q3 production figures indicated that utilization rate of polysilicon/wafer production dropped to 47%/85% from 80%/94% in Q2. The group has always achieved a competitive unit cost through mass production. However, we believe the group has to reduce a pile up in inventory at the expense of higher unit costs in Q3 and coming quarters. The group has also stopped to give out unit cost figures in Q3 which leads to lower transparency on earnings.

Additional revenue from solar farms: The group announced on 15 Nov that it received US\$50.5mn by selling the two solar PV projects (48MW). It solidifies the group's position to further expand from their over 1GW solar farm pipeline they have in the US. In addition, the group is constructing 2GW solar projects in different provinces in China, including Jiangsu, Henan, IM, Gansu and Ningxia. Revenue is expected to come in May 2013. With on grid tariff of Rmb1/kwh, expected IRR will be 15%, and we estimate the project will bring in ~HK\$375mn of profit to the group in 2013. The own construction of solar farm is also considered as a way to secure wafers as well as polysilicon orders for the group itself.

Results and valuation

(FY ended Dec 31)	FY09A	FY10A	FY11A	FY12F	FY13F
Revenue (Rmb mn)	4,943.6	18,471.9	25,505.6	18,180.2	18,770.7
YoY Chg (%)	40.4%	273.7%	38.1%	-28.7%	3.2%
Net Income (Rmb mn)	(199.7)	4,023.6	4,274.9	(1,052.6)	(381.2)
YoY Chg (%)	-	-	6.2%	-124.6%	-63.8%
FD EPS (Rmb)	(0.0161)	0.2589	0.2731	(0.0673)	(0.0244)
YoY Chg (%)	-	-	5.5%	-124.66%	-63.78%
NBV (Rmb/share)	0.9395	1.0438	1.3294	1.2061	1.1814
PE (x)	-	-	4.50	-20.64	-57.00
PB (x)	-	-	0.93	1.15	1.18
ROAA (%)	-	12.10%	7.93%	-1.32%	-0.90%
ROAE (%)	-	27.19%	21.64%	-5.24%	-3.83%
Net D/E (%)	26.7%	41.9%	101.2%	170.0%	201.1%

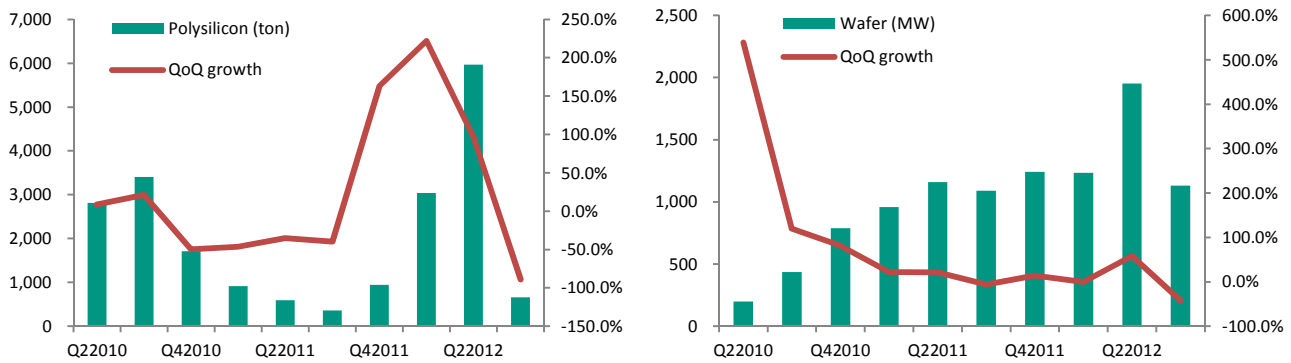
*We assume Rmb1 = HK\$1.23; Source: Company, ABCI Securities estimates



Valuation: We believe recent rebound in share price is short-lived and is spurred by speculative demand on further announcement of subsidy that will be provided to the solar industry in China. Since Q3 sales is much lower than expected, we lower our polysilicon sales volume target by 40% to 7,000MT and wafer sales volume target by 18% to 5,300MW and we revised our FY2012 FD EPS down to HK\$-0.068. We estimated sales to increase by 3.2%YoY to HK\$18,770mn in FY2013 with additional revenues from sales of solar farm in the US and sales of electricity from China solar projects. But the oversupply in polysilicon and wafers will continue to put sales and price pressure to the group's production segment. We estimate the group will continue to make a loss in FY2013 unless there is a turnaround in demand for solar products. In addition, trade disputes between EU and China, large volatility in product sales and no disclosure in costs has led to a lower visibility to earnings and hence risks. The counter is trading at est. FY2013 PB of 1.18x. We revise our 1-year TP from HK\$1.24 to HK\$1.06, representing 0.9x FY2013 PB. Maintain Sell.

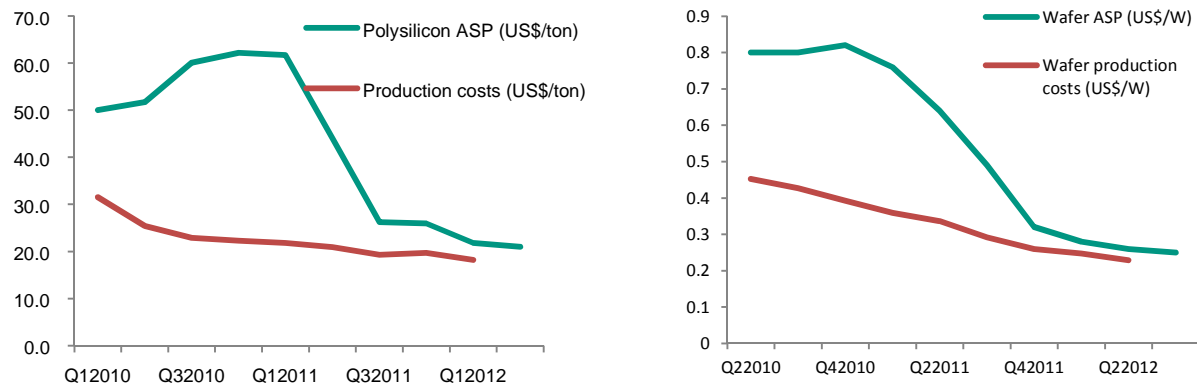
Risk factors: Falling ASP, increasing gearing, possible cash call, insolvency risks, expected loss in FY12 and FY13

Exhibit 1: Group: Polysilicon and wafer production



Source: Company, ABCI Securities

Exhibit 2: Group: ASP and production costs of polysilicon and wafer



Source: Company, ABCI Securities



Profit Forecast

FY ended Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
Solar sales	3,177.3	13,474.9	20,517.0	11,928.8	9,202.7
Power sales	1,766	4,429	4,989	5,138.2	7,292.4
Others	0.0	568.4	725.7	1,113.2	2,275.7
Total sales	4,943.6	18,471.9	25,505.6	18,180.2	18,770.7
Cost of Sales	(3,453.0)	(11,661.2)	(17,039.3)	(16,646.1)	(16,489.4)
GP	1,490.6	6,810.7	8,466.3	1,534.1	2,281.3
Other income	219.3	575.2	613.2	527.2	563.1
Dist and selling expenses	(7.5)	(46.3)	(56.7)	(90.9)	(93.9)
Admin expenses	(408.3)	(996.3)	(1,617.2)	(909.0)	(938.5)
Other expenses	(159.3)	(187.5)	(321.0)	(218.2)	(281.6)
Share of results of associates	9.9	10.7	15.2	-	-
Share-based payment expenses	(852.7)	(12.7)	(82.3)	-	-
Share of losses of jointly controlled entities	-	-	(12.0)	-	-
EBIT	291.9	6,153.8	7,005.5	843.2	1,530.5
Finance costs	(348.8)	(606.4)	(1,166.3)	(1,727.4)	(2,057.2)
EBT	(56.9)	5,547.4	5,839.1	(884.2)	(526.7)
Tax	(93.2)	(1,159.3)	(1,269.2)	(112.5)	121.1
MI	(49.6)	(364.5)	(295.1)	(55.9)	24.3
NP	(199.7)	4,023.6	4,274.9	(1,052.6)	(381.2)
D&A	347.5	1,247.9	2,044.0	2,760.2	3,260.2
EBITDA	639.4	7,401.7	9,049.5	3,603.4	4,790.7
No. of issued shares (mn)	12,363.4	15,474.0	15,470.7	15,474.7	15,474.7
Issuable shares (mn):					
Pre-IPO Share Option	27.0	26.6	26.3	26.3	26.3
Share options	42.0	39.0	158.9	131.3	131.3
Total	12,432.3	15,539.5	15,655.9	15,632.4	15,632.4
Per share value (Rmb)					
DPS (Rmb)	-	0.051	0.055	0.000	0.000
Basic EPS (Rmb)	-0.0162	0.2600	0.2763	-0.0680	-0.0246
Fully-diluted EPS (Rmb)	-0.0161	0.2589	0.2731	-0.0673	-0.0244
NBV (Rmb/share)	0.9395	1.0438	1.3294	1.2061	1.1814

Financial Ratio Analysis

FY ended Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
Profitability					
GP Margin	30.2%	36.9%	33.2%	8.4%	12.2%
EBITDA Margin	12.9%	40.1%	35.5%	19.8%	25.5%
EBIT Margin	5.9%	33.3%	27.5%	4.6%	8.2%
NP Margin	-4.0%	21.8%	16.8%	-5.8%	-2.0%
ROAA	12.1%	7.9%	-0.7%	-1.3%	-0.9%
ROAE	27.2%	21.6%	-2.7%	-5.2%	-3.8%
Working capital management					
Avg. inventories/COGS (days)	-	37.2	56.5	80.0	100.0
Avg. trade & bill receivables/turnover (days)	-	38.9	67.3	150.0	180.0
Avg. trade & bill payables/COGS (days)	-	103.1	126.6	100.0	100.0
Leverage					
Current ratio	1.05	1.02	1.03	1.42	1.20
Quick ratio	0.96	0.89	0.86	1.18	0.95
Interest coverage	1.83	12.21	7.76	2.09	2.33
Net debt/total equity	26.7%	41.9%	101.2%	170.0%	201.1%

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



Balance Sheet Forecast

As of Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
Non-current assets	17,652.4	27,708.3	45,472.9	52,712.7	59,452.5
Inventories	727.3	1,646.7	3,626.7	3,670.2	5,365.1
Trade and other receivables	1,569.5	2,370.2	7,040.1	7,902.5	10,611.2
Others	114.7	160.6	416.0	416.0	416.0
Pledged and restricted bank deposits	803.7	1,960.8	4,049.7	4,049.7	4,049.7
Bank balances and cash	5,311.3	6,505.1	6,882.7	5,754.4	5,254.7
Current assets	8,526.4	12,643.5	22,015.3	21,792.9	25,696.7
Trade and other payables	2,395.5	4,192.7	7,628.1	1,493.1	7,542.2
Amounts due to related company	139.4	88.2	630.0	630.0	630.0
Loan from a related company	56.8	0.0	0.0	0.0	0.0
Advances from customers	436.8	988.8	1,022.4	1,022.4	1,022.4
Deferred income	25.8	41.4	75.6	75.6	75.6
Tax payables	27.3	567.7	80.2	80.2	80.2
Bank borrowings — due within one year	5,032.7	6,410.8	11,582.4	11,582.4	11,582.4
Obligations under finance leases	0.0	111.3	433.3	433.3	433.3
Convertible loan notes	0.0	0.0	0.0	0.0	0.0
Current liabilities	8,114.4	12,400.9	21,452.1	15,317.0	21,366.2
Amounts due to related companies	-	-	23.6	23.6	23.6
Advances from customers	1,906.6	1,978.0	2,068.0	2,068.0	2,068.0
Deferred income	168.9	320.4	404.6	404.6	404.6
Obligations under finance leases	0.0	441.5	1,264.6	1,264.6	1,264.6
Bank borrowings — due after one year	3,539.7	7,379.4	17,703.9	32,703.9	37,703.9
Long-term notes	0.0	0.0	1,831.2	1,831.2	1,831.2
Deferred tax liabilities	231.0	452.4	606.2	606.2	606.2
Non-current liabilities	5,846.2	10,571.6	23,902.0	38,902.0	43,902.0
Total assets	26,178.8	40,351.8	67,488.2	74,505.6	85,149.2
Net assets	12,218.2	17,379.3	22,134.1	20,286.5	19,881.0
Capital and Reserves					
Share Capital	1,547.2	1,547.4	1,547.1	1,547.1	1,547.1
Reserves	10,068.1	14,604.8	19,020.0	17,116.5	16,735.3
Equity attributable to Co. owners	11,615.3	16,152.2	20,567.1	18,663.6	18,282.4
MI	603.0	1,227.1	1,567.0	1,622.9	1,598.6
Total equity	12,218.2	17,379.3	22,134.1	20,286.5	19,881.0

Cash Flow Forecast

As of Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
EBITDA	1,531.7	7,397.0	9,049.5	3,603.4	4,790.7
Change in inventories.	(364.9)	(760.7)	(1,808.7)	(43.5)	(1,694.9)
Change in trade and other receivables	(779.3)	(367.3)	(4,249.4)	(862.3)	(2,708.7)
Change in trade payables	(237.4)	1,469.8	887.6	(6,135.0)	6,049.2
Others	348.7	603.2	742.0	0.0	0.0
Cash (used in)/generated from operations	498.8	8,341.9	4,621.0	(3,437.5)	6,436.3
Income tax paid	(146.9)	(512.4)	(1,857.2)	(112.5)	121.1
CF from operating activities	351.9	7,829.5	2,763.8	(3,550.0)	6,557.5
Cash flows from investing activities	(1,557.6)	(10,775.3)	(18,245.3)	(10,000.0)	(10,000.0)
Cash flows from financing activities	4,537.0	3,938.3	15,534.0	12,421.7	2,942.8
Change in cash and cash equivalents	3331.3	992.6	52.5	(1,128.3)	(499.7)
Cash and cash equivalents at beg of year	1979.6	5,311.3	6,505.1	6,882.7	5,754.4
Effect of foreign exchange rates, net	0.4	203.6	325.1	-	-
Cash and cash equivalents at end of year	5311.3	6,507.5	6,882.7	5,754.4	5,254.7

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



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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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