



## GCL-Poly (3800) –Q1 Results Notes

We participated in GCL Q1FY12 investor teleconference. The counter is now trading at est FY12 PE of 27.7x and PB of 1.24x. Current P/B valuation is in line with comparable peers, with an average PB of 1.3x. We believe current valuation is fair and downside risk is limited to 20% (ie: share price of HK\$1.45, representing PB of 1.0x). Our TP is set at HK\$1.74, representing 1.2x PB. We revised our rating from Sell to Hold.

### Key takeaways:

- Wafer shipments dropped:** Wafer shipments dropped 0.6%QoQ to 1,234MW in Q1FY12. Average ASP of wafers dropped 12.5%QoQ to US\$0.28/W while total wafer production cost dropped 8.8%QoQ to US\$0.257/W. We estimated that the faster drop in ASP than cost has cut GP margin of the wafer business from 18.7% in Q4FY11 to 11.7% in Q1FY12.
- Ramp up in polysilicon capacity:** Polysilicon sales increased by 221%QoQ to 3,041 tons in Q1FY12 as the 17,000tons of new capacity installed in Q4FY11 came into operation while self-consumption of polysilicon decreased due to a decline in wafer production. Average ASP of polysilicon dropped 0.84%QoQ in Q1FY12. However, production cost of polysilicon rose slightly by 2.1%QoQ to US\$19.7/kg. The increase was due to a low utilization rate in Jan because of the long holiday, resulting to an increase in fixed unit cost of production. Despite a relative stable ASP, we estimate the GP margin of the polysilicon segment dropped from 26.3% in Q4FY11 to 24.2% in Q1FY12.
- Target full capacity production in 2012:** Despite a relatively low utilization rate in Jan due to seasonal factor, the management indicated that both wafers and polysilicon production operated in full capacity during Feb-Apr. The group targets wafers production to reach 8,000MW while polysilicon production to reach at least 55,000 tons in which 70% is planned for in-house wafer production and 30% will be sold to third parties. Production capacity of wafers and polysilicon is 8,000MW and 65,000 tons respectively in FY12. Hence the target production represents 100% utilization rate for wafers and 84.6% for polysilicon.
- Continue to be a cost leader in the industry:** The group targets to lower polysilicon production costs (incl non-cash costs) to below US\$18.5/kg and wafer processing costs to below US\$0.13/W by the end of Q2FY12. Given that depreciation accounted for 50% of production costs, we estimate that cash cost of polysilicon was US\$9.25/kg, which is the lowest amongst the top-tiers producers. The second lowest cost producer would be REC, (the world's fifth largest polysilicon producer) which announced in Apr that its cash cost was cut to US\$12.5/kg by using the FBR technology.
- Our view:** We believe the management is too aggressive to set annual wafer production target at 8,000MW given that Q1FY12 sales and production amounted to 1,234MW and 1,164MW only. In our view, the high production target is set in order to lower fixed unit cost as well as to squeeze incompetent peers out of the market. We target wafer

### Share Data

Price (17/05/2012)	HK\$1.80
52 wk high/low (HK\$)	4.82/1.67
Stock code	3800
Issued shares (mn)	15,473.82
Market cap (HK\$ mn)	27,852.87
Free-float	62.48%
15-day avg vol (mn)	66.36
Auditors	Deloitte
<b>Major shareholders:</b>	
Zhu Gong Shan*	32.42%
China Investment Corp	20.11%

\* Chairman of the company

FY ended Dec 31	2010	2011	2012E
Sales (HK\$ mn)	18,471.9	25,505.6	22,663.7
Chg (% YoY)	273.7%	38.1%	-11.1%
NP (HK\$ mn)	4,023.6	4,274.9	1,019.4
Chg (% YoY)	-	6.2%	-76.2%
FD EPS (HK\$)	0.2589	0.2731	0.0651
Chg (% YoY)	-	5.46%	-76.2%
PER (x)	6.95	6.59	27.65
DPS (HK\$)	0.0510	0.0550	0.0125
Yield	2.83%	3.06%	0.70%
NBV (HK\$/share)	1.1231	1.4307	1.4501
P/B (x)	1.60	1.26	1.24

Source: Company reports, ABCI Securities estimates

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Report date: 18 May, 2012

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GCL-Poly Energy Holdings Limited

shipments to reach 6,500MW (up 44% YoY) and polysilicon sales to reach 18,600 tons in FY12. We estimate FY12 FD EPS to be HK\$0.0651, down 76.2% YoY.

Due to its cost leadership within the industry, we are confident that the group can survive the market downturn. We also noticed that wafers sales had been higher than production for the last two quarters and the difference has widened from 30MW in Q4FY11 to 70MW in Q1FY12. We considered it a good sign as we believe inventories level of wafers are declining.

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- Potential upside risk:** The group started to construct solar farms in US and China since last year. Currently, 92MW of projects are under construction and some of them are expected to complete in 2HFY12. No details have been given on the projects, but there might be new income flow coming in 2HFY12, which we have not factor in into our earnings forecast. Solar farm pipeline projects of the group amounted to 3GW, we believe the investment in the downstream solar projects is a strategy to secure a sales channel for its core poly/wafer business. This will hopefully allow GCL to maintain a certain level of utilization rate in its upstream business.

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For the yr ended 31 Dec (HK\$ mn)	2010	2011	2012E
Solar sales	13,474.9	20,517.0	17,525.0
Power sales	4,429	4,989.0	5,138.7
Others	568.4	-	-
<b>Total sales</b>	18,471.9	25,505.6	22,663.7
Cost of Sales	(11,661.2)	(17,039.3)	(18,586.6)
<b>GP</b>	<b>6,810.7</b>	<b>8,466.3</b>	<b>4,077.1</b>
Other income	575.2	613.2	543.9
Dist and selling expenses	(46.3)	(56.7)	(68.0)
Admin expenses	(996.3)	(1,699.5)	(1,518.5)
Other expenses	(187.5)	(321.0)	(226.6)
Share of results of associates	10.7	15.2	-
Share-based payment expenses	(12.7)	-	-
Share of lossees of jointly controlled entities	-	(12.0)	-
<b>EBIT</b>	<b>6,153.8</b>	<b>7,005.5</b>	<b>2,807.9</b>
Finance costs	(606.4)	(1,166.3)	(1,364.3)
<b>EBT</b>	<b>5,547.4</b>	<b>5,839.1</b>	<b>1,443.7</b>
Tax	(1,159.3)	(1,269.2)	(332.0)
MI	(364.5)	(295.1)	(92.3)
<b>NP</b>	<b>4,023.6</b>	<b>4,274.9</b>	<b>1,019.4</b>
GP margin	36.9%	33.2%	18.0%
EBT margin	33.3%	27.5%	12.4%
NP margin	21.8%	16.8%	4.5%

Source: ABCI Securities estimates



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