

Equity Research
New Energy
Solar

Cut FY15F Recurring EPS by 30%, Maintain 'Buy' on Attractive Valuation.

Dispose 12GW ingot and wafer capacity at 1.4x PBR. GCL announced that it plans to sell its all 12GW ingot and wafer production capacity to Chairman Zhu and a third party at: 1) HK\$ 9.9 billion cash. 2) 50% of the price premium to Shanghai Chaori within two years. EGM will be held in this month for independent shareholders vote.

Management argued to lower gearing and expand polysilicon capacity. Management explained that the deal could: 1) bring HK\$ 684 million additional cash and waive HK\$ 16.6 billion existing debt. As a result, net gearing will drop to 39% from 147% by 1H14. 2) lower the proportion of short term debt. The company will focus on polysilicon segment because of its high margin and positive outlook.

80,000 tons polysilicon production volume in FY15. Management target to add 25,000 tons FBR capacity and improve its Siemens capacity by 10,000 tons by FY15. As a result, GCL will have 100,000 tons polysilicon capacity by next year end. Management is confident on quality and selling price of its FBR product. What's more, management expected captive power plant will be launched by this year end. We fine-tune our model to factor in volume and production cost assumptions change.

Maintain 'Buy' on attractive valuation. Our model shows that contribution from wafer segment will be hardly to compensate by lower net interest cost and faster ramping up of new polysilicon capacity in coming two years. We trim GCL's FY15-FY16 recurring EPS by 30% and 12% respectively and lower our target price to HK\$ 3.00. The new target price for GCL corresponds to 7.5x FY15F EV/EBITDA.

Major downside risks includes: 1) Slower than expected new FBR capacity ramp up. 2) Further delayed of captive power plant launch. 2) Lower than expected polysilicon price. 3) Lower valuation due to market concerns on connected transaction and corporate governance issues. 4) Disappointing disposal deal price of utility asset in future.

Financials

	FY13A	FY14F	FY15F	FY16F
Revenue (HK\$ mn)	25,530	35,532	22,958	28,437
Gross margin	11.9%	20.8%	24.8%	29.9%
EBITDA margin	22.9%	27.5%	31.7%	36.3%
EBIT margin	9.8%	17.0%	20.9%	27.2%
Net profit margin	-2.6%	6.1%	23.2%	17.5%
Interest Coverage (x)	0.9	2.2	5.6	7.7
Net gearing ratio	163.4%	131.0%	24.2%	11.4%
EV/EBITDA(x)	10.0	6.0	5.5	3.9

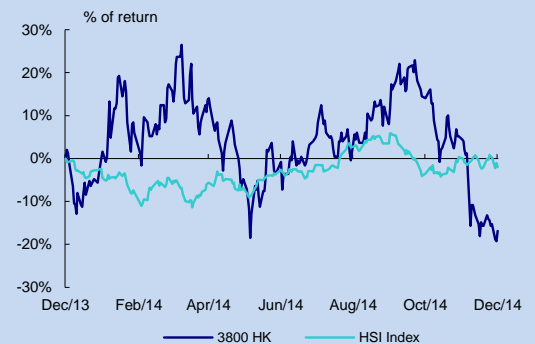
Source: Company data, CSCI estimates

GCL Poly Energy (3800.HK)

Rating	Buy(Unchanged)
Target Price	HK\$ 3.00
Price	HK\$ 2.07
Upside	44%

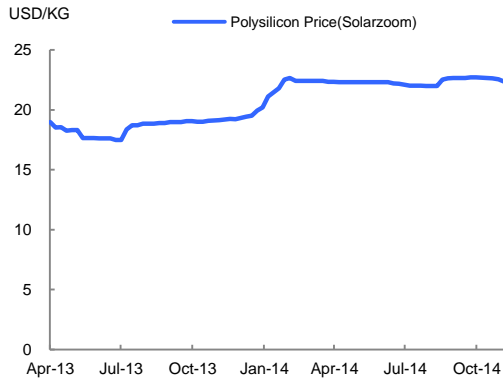
Market data	12/03/2014
52-wk range(HK\$):	3.17/1.95
Market cap.(HK\$ mn):	32,056
Shares out. (mn):	15,486
Major shareholders:	
ZHU Gongshan's family	32.42%
Avg. Daily Vol. (mn):	135.1

Valuation	13A	14F	15F	16F
EPS (HKD)	(0.043)	0.140	0.344	0.322
PE (x)	na	14.8	6.0	6.4
PB (x)	2.0	1.8	1.4	1.1
EV/EBITDA (x)	16.3	6.0	5.5	3.9

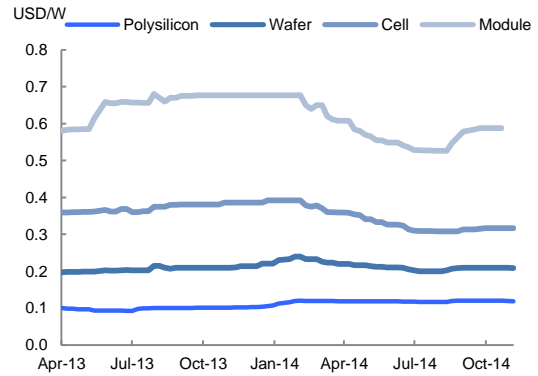
Stock rel HSI performance (%)


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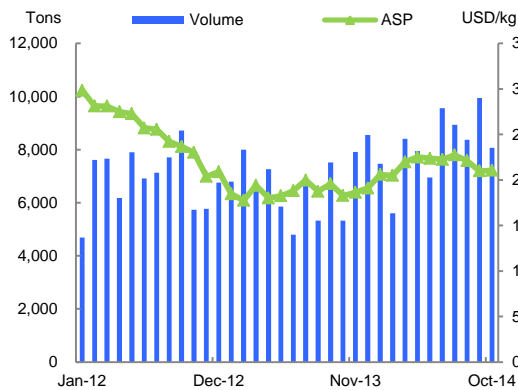
03 December 2014

Figure 1: Polysilicon Price Changes


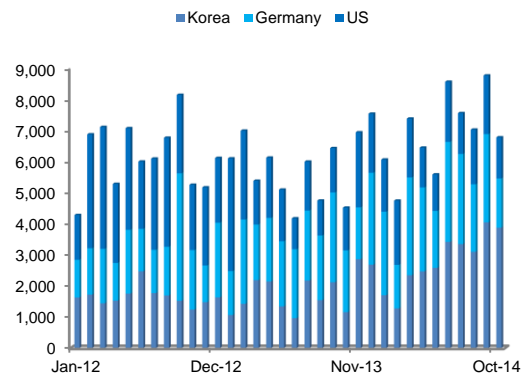
Source: Solarzoom, CSCI

Figure 2: Photovoltaic Products Prices Changes


Source: Solarzoom, CSCI

Figure 3: China Imported Polysilicon Prices and Volumes Changes


Source: China Customs, CSCI

Figure 4: China Monthly Imported Polysilicon Volumes Breakdown


Source: China Customs, CSCI

Table 1: Major Assumptions of GCL-Poly Energy (03800 HK)

	Old Est.			New Est.			%		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Capacity									
Polysilicon (Tons)	75,000	90,000	110,000	68,000	100,000	125,000	-9%	11%	14%
Wafer (MW)	13,000	17,000	20,000	13,000	na	na	0%	na	na
Production volume									
Polysilicon (Tons)	64,741	75,000	95,000	66,841	80,000	120,000	3%	7%	26%
Wafer (MW)	11,803	14,000	17,000	12,503	na	na	6%	na	na
Shipment									
Polysilicon (Tons)	13,463	2,222	7,525	14,463	80,000	120,000	7%	3500%	1495%
Wafer (MW)	11,676	14,000	17,000	12,376	na	na	6%	na	na
ASP									
Polysilicon (USD/KG)	22.3	19.0	18.0	22.1	19.0	18.0	-1%	0%	0%
Wafer (USD/W)	23.3%	21.0%	20.5%	22.2%	na	na	-4.5%	na	na
Unit cost									
Polysilicon (USD/KG)	15.6	13.0	12.5	15.6	12.4	10.7	0%	-5%	-15%
Wafer Excl.IP (USD/W)	0.163	0.147	0.141	0.162	na	na	0%	na	na

Source: the Company, CSCI

Table 2: Peers Comparison

Company	Stock Code	Currency	Last price	PE				PB				ROE(%)	D/Y(%)	Market Cap
				13A	14F	15F	16F	13A	14F	15F	16F	14F	14F	HKD
EPC														
China Singyes Solar Tech	750 HK	HKD	11.92	8.1	9.6	7.6	6.7	1.6	2.0	1.6	1.3	22.4	1.0	8,289.1
Shanghai Aerospace Automob-A	600151 CH	CNY	9.95	71.3	32.3	21.7	15.6	2.8	3.1	2.7	2.4	7.5	0.2	15,679.3
Power Construction Corp Of-A	601669 CH	CNY	4.3	6.5	8.9	8.0	7.0	0.9	1.1	1.0	0.9	12.4	3.5	52,032.0
Zhejiang Chint Electrics-A	601877 CH	CNY	29.30	16.3	16.5	13.9	11.9	4.8	4.8	3.9	3.2	31.4	3.6	37,236.5
Zhongli Science And Tech-A	002309 CH	CNY	19.79	46.4	18.1	13.2	12.1	3.0	3.0	2.5	2.2	12.9	n.a.	14,175.8
Xinyi Solar Holdings Ltd	968 HK	HKD	2.32	21.8	26.7	14.5	12.1	3.9	4.1	3.3	2.7	17.1	1.3	14,105.6
Simple Average				28.41	18.67	13.14	10.91	2.84	3.01	2.52	2.10	17.28	1.94	23,586.39
Mkt-cap Weighted Avg.				21.88	16.21	12.20	10.26	2.68	2.84	2.37	1.98	17.97	2.45	33,976.92
Polysilicon/wafer														
Gcl-Poly Energy Holdings Ltd	3800 HK	HKD	2.07	n.a.	14.1	10.2	8.6	2.3	1.7	1.5	1.3	12.3	0.7	32,062.5
Oci Co Ltd	010060 KS	KRW	84,900.00	n.a.	n.a.	19.6	11.0	1.6	0.7	0.7	0.7	(0.3)	0.5	14,112.1
Wacker Chemie Ag	WCH GR	EUR	91.11	1,607.6	29.3	28.0	18.3	1.8	2.0	1.9	1.8	7.0	0.9	45,439.8
Sunedison Inc	SUNE US	USD	21.32	n.a.	n.a.	n.a.	n.a.	15.0	39.9	n.a.	n.a.	(254.5)	0.0	44,794.8
Rec Silicon Asa	REC NO	NOK	2.28	n.a.	n.a.	108.2	18.0	1.0	0.7	0.7	0.7	7.3	0.0	5,822.1
Tbea Co Ltd-A	600089 CH	CNY	10.83	21.4	17.3	12.7	11.2	1.9	1.7	1.6	1.4	10.4	1.5	44,230.5
Daqo New Energy Corp-Adr	DQ US	USD	27.57	7.8	8.2	4.6	3.3	1.8	1.2	1.0	0.8	12.6	n.a.	1,910.6
Au Optronics Corp	2409 TT	TWD	15.20	21.2	9.4	8.8	10.6	0.6	0.8	0.8	0.7	8.7	1.9	36,488.6
Tianjin Zhonghuan Semicond-A	002129 CH	CNY	21.48	232.3	89.5	48.8	n.a.	4.7	n.a.	n.a.	n.a.	n.a.	n.a.	28,259.4
Xian Longji Silicon Materia-A	601012 CH	CNY	17.08	118.5	30.9	18.1	12.7	2.8	2.8	2.4	2.0	8.8	0.2	11,593.7
Comtec Solar Systems Group	712 HK	HKD	1.08	50.4	23.2	14.5	15.6	1.0	0.7	0.7	0.7	3.5	0.7	1,503.2
Simple Average				294.18	27.73	27.36	12.16	3.14	5.22	1.24	1.11	(18.42)	0.71	
Mkt-cap Weighted Avg.				311.01	21.90	18.81	9.12	4.25	7.84	1.04	0.94	(36.60)	0.79	
Cell/module														
First Solar Inc	FSLR US	USD	46.42	12.7	17.4	10.4	11.4	1.2	1.0	0.9	0.8	5.5	0.0	36,070.1
Sunpower Corp	SPWR US	USD	25.80	58.8	18.8	19.3	13.8	3.1	2.7	2.4	2.1	12.9	0.0	26,273.1
Canadian Solar Inc	CSIQ US	USD	23.21	56.3	5.7	4.8	4.3	3.9	1.6	1.1	0.8	37.9	0.0	9,878.9
Trina Solar Ltd-Spon Adr	TSL US	USD	9.61	n.a.	11.4	7.9	7.3	1.2	0.8	0.7	0.7	7.6	0.0	6,863.2
Yingli Green Energy Hold-Adr	YGE US	USD	2.56	n.a.	n.a.	77.6	16.7	9.4	20.5	39.4	17.1	(127.2)	0.0	3,608.1
Jinkosolar Holding Co-Adr	JKS US	USD	21.86	205.5	7.7	5.9	5.0	2.4	1.3	1.0	0.9	22.6	n.a.	5,214.4
Ja Solar Holdings Co Ltd-Adr	JASO US	USD	8.48	n.a.	7.9	5.5	5.2	0.5	0.5	0.5	0.4	6.5	n.a.	2,844.2
Renesola Ltd-Adr	SOL US	USD	1.62	n.a.	n.a.	54.0	8.5	2.1	1.2	1.2	0.9	(0.3)	n.a.	1,276.8
Hanwha Solarone Co -Spon Adr	HSOL US	USD	1.65	n.a.	n.a.	n.a.	n.a.	0.8	n.a.	n.a.	n.a.	n.a.	n.a.	1,169.2
Simple Average				83.30	11.48	23.17	9.04	2.73	3.69	5.90	2.97	(4.30)	0.00	
Mkt-cap Weighted Avg.				38.94	14.15	14.79	10.52	2.41	2.25	2.81	1.79	6.89	0.00	
Solar farm														
Shunfeng Photovoltaic Intl	1165 HK	HKD	5.90	n.a.	31.2	15.1	7.8	5.8	n.a.	n.a.	n.a.	n.a.	n.a.	16,475.1
United Photovoltaics Group L	686 HK	HKD	0.87	n.a.	31.1	22.3	8.7	11.8	1.2	1.0	0.9	(18.8)	n.a.	3,794.3
Gcl New Energy Holdings Ltd	451 HK	HKD	1.20	n.a.	n.a.	n.a.	n.a.	1.3	n.a.	n.a.	n.a.	n.a.	n.a.	16,646.2

Solarcity Corp	SCTY US	USD	51.11	n.a.	n.a.	n.a.	n.a.	8.4	8.4	9.1	12.6	(37.6)	n.a.	38,045.8
Jiangsu Akcome Science & T-A	002610 CH	CNY	17.76	320.7	47.6	21.2	13.0	2.3	3.1	2.6	2.0	8.6	1.1	8,114.9
Huabei Expressway Co Ltd-A	000916 CH	CNY	5.45	14.0	19.5	14.6	12.4	0.9	1.4	1.3	1.2	6.6	1.5	7,487.8
Simple Average				167.35	32.34	18.31	10.47	5.09	3.52	3.52	4.21	(10.29)	1.30	
Mkt-cap Weighted Avg.				29.89	12.85	6.79	3.97	5.59	3.96	4.22	5.63	(15.25)	0.22	

Source: Bloomberg, CSCI

Financial Statements and Ratios

Income Statement					
Year end Dec (HKD mn)	2012A	2013A	2014F	2015F	2016F
Net sales	22,348	25,530	35,532	22,958	28,437
COGS	(20,599)	(22,490)	(28,126)	(17,257)	(19,946)
Gross profit	1,749	3,040	7,406	5,701	8,491
Other income	784	965	1,211	3,416	1,025
Selling expenses	(96)	(42)	(70)	(34)	(43)
G&A expenses	(1,899)	(1,786)	(2,331)	(1,399)	(1,539)
EBITDA(Adjusted)	3,563	5,842	9,770	7,281	10,333
Total D&A	2,792	3,344	3,740	2,480	2,602
EBIT(Adjusted)	771	2,498	6,030	4,801	7,731
Financial expense - Net	(2,309)	(2,416)	(2,600)	(850)	(1,000)
Share-based expenses	(4)	441	1	0	0
Other income/(expense)	(1,486)	(458)	(484)	(194)	(203)
Profit before tax	(3,261)	(256)	3,133	6,640	6,731
Tax expense	(124)	(190)	(694)	(790)	(1,481)
Profit after tax	(3,385)	(446)	2,440	5,617	5,251
Minority interest	(130)	(218)	(272)	(281)	(263)
Net profit	(3,516)	(664)	2,168	5,337	4,988
EPS (Basic) - HKD	(0.227)	(0.043)	0.140	0.344	0.322
DPS- HKD	0.000	0.000	0.000	0.000	0.000
Recurring Net profit	(1,727)	(75)	2,399	2,880	4,988
EPS (recurring) - HKD	(0.112)	(0.005)	0.155	0.186	0.322

Cash Flow Statement					
Year end Dec (HKD mn)	2012A	2013A	2014F	2015F	2016F
Net income	(3,516)	(664)	2,168	5,337	4,988
Depreciation& amortization	2,792	3,344	3,740	2,480	2,602
Changes in WC	(844)	3,458	524	(1,755)	(1,685)
Other adjustments	3,893	2,369	(459)	355	69
Cash from Operations	2,326	8,507	5,972	6,417	5,974
Capital expenditures	(3,850)	(4,019)	(4,421)	(3,000)	(4,000)
Other investing activities	(1,460)	(2,649)	(123)	165	173
Cash from investing	(5,311)	(6,668)	(4,544)	(2,835)	(3,827)
Debt issue	3,858	2,042	2,706	(7,000)	(1,074)
Dividends paid	(851)	0	0	0	0
Other financing activities	(2,390)	(2,370)	2	2	2
Cash from financing	617	(329)	2,708	(6,998)	(1,072)
Exchange Rate Adjustment	(20)	163	0	0	0
Net change in Cash	(2,387)	1,673	4,136	(3,417)	1,075
Beginning Cash	6,883	4,496	6,169	10,304	6,887
Ending Cash	4,496	6,169	10,304	6,887	7,962

Source: the Company, CSCI

Financial Ratio					
Revenue growth (%)	(12.4)	14.2	39.2	(35.4)	23.9
Operating profit growth (%)	(113.6)	(326.9)	165.4	(16.3)	61.1
Net profit growth (%)	(182.2)	(81.1)	(426.3)	146.2	(6.5)
Adjusted EPS growth (%)	(182.2)	(81.1)	(426.1)	146.1	(6.6)
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Gross margin (%)	7.8	11.9	20.8	24.8	29.9
EBIT(Adjusted) margin (%)	3.5	9.8	17.0	20.9	27.2
EBITDA(Adjusted) margin (%)	15.9	22.9	27.5	31.7	36.3
EV/EBITDA(x)	16.3	10.0	6.0	5.5	3.9
ROE (%)	(21.7)	(4.1)	11.8	22.6	17.4
ROA (%)	(5.2)	(0.9)	2.6	9.2	8.0
Inventory turnover days	59.6	33.0	25.8	39.4	28.0
Account receivable days	147.4	142.5	116.8	152.9	108.4
Account payable days	167.5	181.8	189.1	180.0	157.9
Current ratio (x)	0.7	0.7	0.8	1.3	1.5
Interest Coverage (x)	(0.4)	0.9	2.2	5.6	7.7
Net gearing ratio	167.8	163.4	131.0	24.2	11.4

Balance Sheet					
Year end Dec (HKD mn)					
PPE, net	42,233	43,995	44,677	31,000	32,520
Prepaid lease	1,727	1,811	1,865	1,306	1,045
Deposits for PPE	134	674	741	815	897
Goodwill	676	652	672	692	713
Others	880	1,453	1,415	1,398	1,435
Non current assets	45,650	48,585	49,370	35,211	36,609
Cash	4,496	6,169	10,304	6,887	7,962
Pledged bank deposits	5,015	8,080	9,050	5,882	6,177
Account receivable	8,681	11,057	11,682	7,548	9,349
Inventories	2,248	1,657	2,312	1,418	1,639
Others	1,729	1,094	1,010	866	753
Current assets	22,169	28,057	34,358	22,602	25,880
Short-term bank loan	19,705	24,916	21,813	2,905	2,520
Trade payable	9,128	13,737	15,411	8,510	8,743
Advance payments	811	955	1,051	1,135	1,203
Finance leases	464	654	883	442	486
Others	332	1,782	3,990	4,219	4,466
Current liability	30,439	42,045	43,148	17,212	17,418
Long-term bank loan	12,817	8,340	11,745	6,779	5,880
Long-term notes	3,059	3,161	3,161	3,161	3,161
Convertible bonds	0	1,542	1,542	1,542	1,542
Finance leases	865	1,416	1,459	729	744
Advance payments	1,736	1,093	1,148	1,205	1,266
Others	1,131	1,039	1,079	1,120	1,163
Non current liability	19,609	16,593	20,134	14,537	13,756
Non-controlling interests	1,560	1,859	2,131	2,412	2,675
Equity attributable to owners of the Company	16,210	16,146	18,314	23,652	28,640
Total equity	17,770	18,005	20,446	26,064	31,315

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 12 months

Buy	Relative Performance >15%;
Accumulate	Relative Performance is 5% to 15%;
Neutral	Relative Performance is -5% to 5%;
Reduce	Relative Performance is -5% to -15%;
Sell	Relative Performance is <-15%;

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