

GCL-POLY (3800.HK)

Industry Restructure leads Results Decline!

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Industry: Environmental Energy Material



Phillip Securities (Hong Kong)

Phillip Securities Research

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Report type: Interim Results Review

Rating: Reduce CP: HKD 1.24 TP: HKD 1.05

Company Overview

GCL-poly is an upstream solar manufacturer. It's the largest polysilicon producer of China and the world's largest solar ingot and wafer manufacturer. Its business covers many branches of clean energy.

Summary

GCL-Poly's operation results suffered sharp decline in the 1HF of 2012. Because of demand decrease in developed market and EU anti-dumping policy, the operating environment of GCL-Poly has been deteriorating since 2011 and put great negative effects on operation results.

According to the semi-annual report of 2012, the capacity of GCL-Poly is still in expansion, but since the product price decrease greatly and the increase of cost is obvious, the operation results are still in down trend.

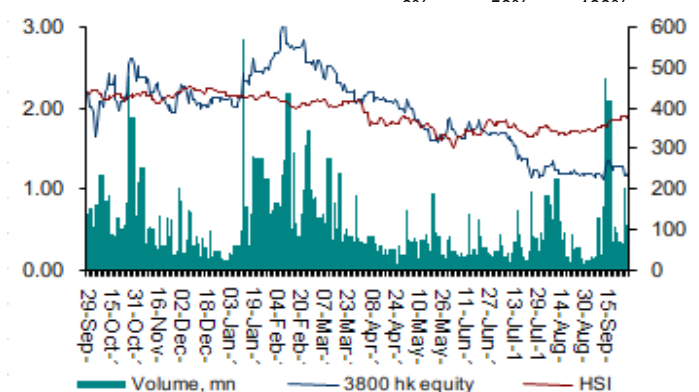
Although GCL-Poly has state several methods to cope with the negative change of the market, but in fact, the adverse change in the PV industry and market can't be solve by technology update or expand new market.

The financial stability maybe worse in the future, as MIIT put differential credit policy for PV companies which not include GCL-Poly, the issue will affect the liquidity and finance cost of GCL in the future.

The EPS of 2011 is HKD 0.28, BVPS is HKD 1.43. According to recent information, the results decline is worse than our previous estimation and the decline will last in the 2H of 2012. We estimate that the EPS will decline to HKD -0.14 and the BVPS will decline to HKD 1.16. Considering the bad market environment, the target price in next 6 months is HKD 1.05 under 0.9x P/B, the rating is Reduce.

GCL-Poly

Rating	4.00	Reduce
- Previous Rating	4.00	Reduce
Target Price (HKD)	1.05	
- Previous Target Price (HKD)	1.2	
Closing Price (HKD)	1.24	
Expected Capital Gains (%)	15.3%	
Expected Dividend Yield (%)	0.8%	
Expected Total Return (%)	14.5%	
Raw Beta (Past 2yrs weekly data)	1.29	
Market Cap. (HKD bn)	18,415	
Enterprise Value (HKD mn)	52,536	
52 week range (HKD)	1.11-3.24	
Closing Price in 52 week range		



Key Financial Summary

FYE	2010	2011	2012E	2013E
Revenue (HKD mn)	18,472	25,506	20,404	22,445
Net Profit, adj. (HKD mn)	4,024	4,275	-2159	-2,714
EPS, adj. (HKD)	0.26	0.28	-0.14	-0.18
P/E (X),adj.	4.77	4.49	-8.89	-7.07
BVPS (HKD)	1.12	1.43	1.16	0.98
P/B (X)	1.10	0.87	1.07	1.27
DPS (HKD)	0.01	0.01	0.01	0.01
Div. Yield (%)	0.8%	0.8%	0.8%	0.8%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

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Financial Data

Income Statement

Unit:MLN HKD	2009	2010	2011	2012E	2013E
Revenue	4943.62	18471.92	25505.56	20404.45	22444.90
Cost	(3453.01)	(11661.23)	(17039.26)	(18743.18)	(20574.91)
Gross Profit	1490.61	6810.70	8466.31	1661.27	1869.99
Other Income	174.50	529.73	516.32	635.07	526.70
Administration Expense	(1287.92)	(1133.13)	(1862.17)	(2048.38)	(2191.86)
Operation Income	377.20	6207.29	7120.46	247.96	204.82
Interest Expense	(348.81)	(606.43)	(1166.32)	(1632.85)	(1950.00)
Non-operating Net Income	85.28	53.50	115.01	109.26	98.33
EBIT	(56.90)	5547.37	5839.13	(1275.63)	(1646.85)
Tax	(93.24)	(1159.32)	(1269.17)	(765.38)	(658.74)
Minority Interest	(49.60)	(364.47)	(295.07)	(118.03)	(408.00)
Net Profit	(199.74)	4023.58	4274.89	(2159.04)	(2713.59)

Balance Sheet

Unit: Million HKD	2009	2010	2011	2012E	2013E
Current Asset	8526.4	12643.5	22015.3	18713.0	16467.4
Non-Current Asset	17652.4	27708.3	45472.9	49110.8	50093.0
Asset	26178.8	40351.8	67488.2	67823.8	66560.4
Current Liability	8114.4	12400.9	21452.1	23597.3	25957.0
Non-Current Liability	5846.2	10571.6	23902.0	26292.2	25503.5
Liability	13960.6	22972.5	45354.1	49889.5	47603.4
Equity	12218.2	17379.3	22134.1	17934.3	18957.0
Shares	15476.0	15476.0	15476.0	15476.0	15476.0
Dividend(HKD)	0.00	0.01	0.01	0.00	0.00
EPS(HKD)	-0.01	0.26	0.28	-0.14	-0.18
BookValue per share(HKD)	0.79	1.12	1.43	1.16	1.22
ROA(%)	-0.76%	9.97%	6.33%	-3.18%	-4.08%
ROE(%)	-1.63%	23.15%	19.31%	-12.04%	-14.31%
P/E(x)	-96.08	4.77	4.49	-8.89	-7.07
P/B(x)	1.57	1.10	0.87	1.07	1.01

(Source: Bloomberg, PSR est.)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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