GCL-Poly(3800.HK)
Valuation level will increase

Phillip Securities (Hong Kong) Ltd

Bloomberg | Reuters | POEMS

Phillip Securities Research

3800.HK | 3800.HK | 3800.HK

Industry: New energy

2014-05-05

Rating: Buy, CP: HK$2.37, TP:HK$3.75

Introduction of the company

As one of the largest global solar photovoltaic enterprises at present, GCL-Poly Energy Holdings Limited has become the largest photovoltaic material supplier in the world, and went public on the Hong Kong Stock Exchange in November of 2007.

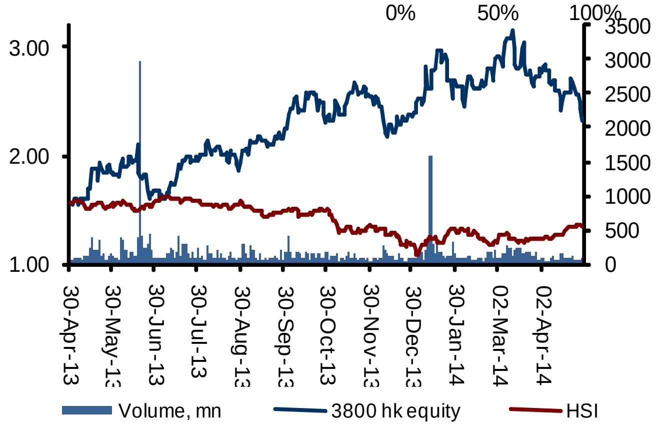
Summary

- The corporate performance in 2013 indicates that: the annual revenue is HKD25.53 billion, with an increase of 14.2%; the gross profit is HKD3.04 billion, with a huge increase of 73.8%; the loss attributed to shareholders is HKD0.664 billion, with a decrease of 81.1% compared with the HKD3.526 billion loss in the same period of 2012, and 4.29 cents loss per share.
- The annual corporate production of polysilicon is 50,440 tons, with an increase of 36.1%; the amount of sales is 16,329 tons, with an increase of 29.7%. From the second half year of 2014, the corporation started to gradually put the silane fluidized bed technique whose capacity is 25,000 tons into production. Silane fluidized bed is the most advanced polysilicon production technique in the current world, by using which the cost of producing polysilicon can be further decreased. The expected annual sales of polysilicon this year will exceed 20,000 tons.
- The annual production amount of silicon wafers is 8,634 MW and the sales amount is 9,296 MW, which are increased by 53.6% and 66.2% respectively. The fact that the sales amount exceeded the production amount fully indicates hot sales of silicon wafer business. Therefore, the corporation will expand its capacity in 2014, from the current 10GW capacity to 15GW, to satisfy the sales condition of short supply. The expected sales amount of silicon wafers this year will exceed 11,000 MW.
- The corporation now owns 30 thermal power plants, wind farms and photovoltaic power plants in total. Equity capacity has reached 1,150 MW and provides profits of HKD6.71 billion, with an increase of 15.5%. The corporation achieved annual photovoltaic grid-connected amount of 270 MW in 2013, and has achieved 303 MW cumulatively up till now. The corporation will spend HKD1.4 billion to purchase 68% shares of Tyson Group, taking Tyson Group as its future distributed platform for PV business.

SATS Ltd

Rating	**1.00**	**Buy**
- Previous Rating	*3.00*	*Neutral*
Target Price (HKD)	**3.75**	
- Previous Target Price (HKD)	*2.36*	
Closing Price (HKD)	2.32	
Expected Capital Gains (%)	61.6%	
Expected Dividend Yield (%)	0.9%	
Expected Total Return (%)	**62.5%**	
Raw Beta (Past 2yrs weekly data)	N/A	
Market Cap. (HKD bn)	35,928	
Enterprise Value (HKD mn)	N/A	
52 week range (HKD)	1.47 - 3.17	
Closing Price in 52 week range		

0% 50% 100%



Key Financial Summary

FYE	**12/12**	**12/13**	**12/14F**	**12/15F**
Operating Profit (HKD 000)	-948,313	1,719,289	4,865,489	6,926,787
Net Profit, adj. (HKD 000)	-3,515,515	-664,263	1,521,594	2,905,628
EPS, adj. (HKD)	-0.22	-0.04	0.10	0.19
P/E (X)	(10.5)	(58.0)	23.2	12.2
BVPS (HKD)	1.05	1.04	1.12	1.28
P/B (X)	2.2	2.2	2.1	1.8
DPS (HKD)	0.06	0.00	0.02	0.02
Div. Yield	2.6%	0.0%	0.9%	0.9%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

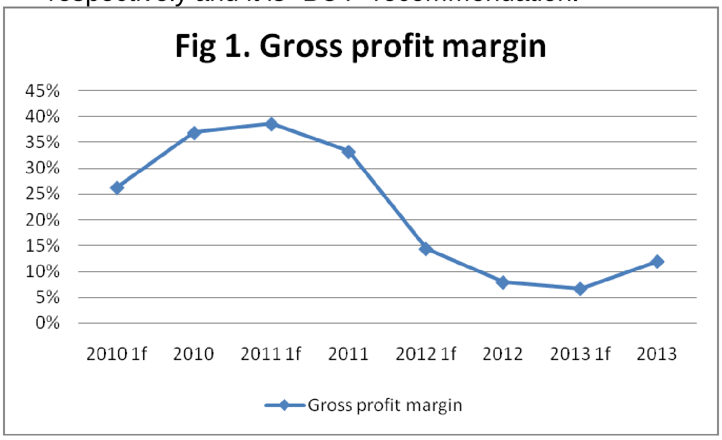
PE

Phillip Research

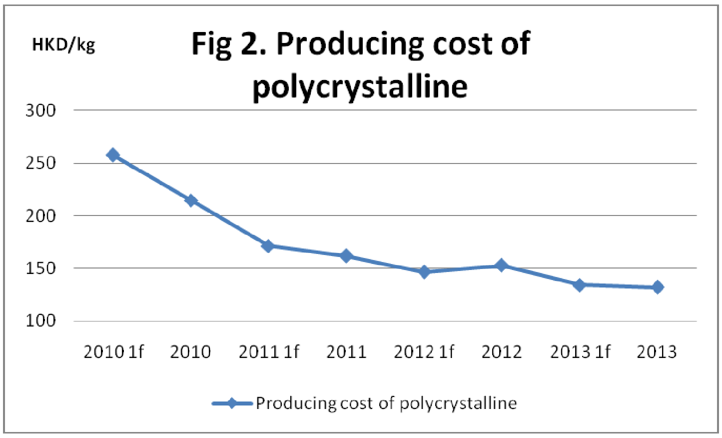
research@phillip.com.cn

+86 21 51499400-104

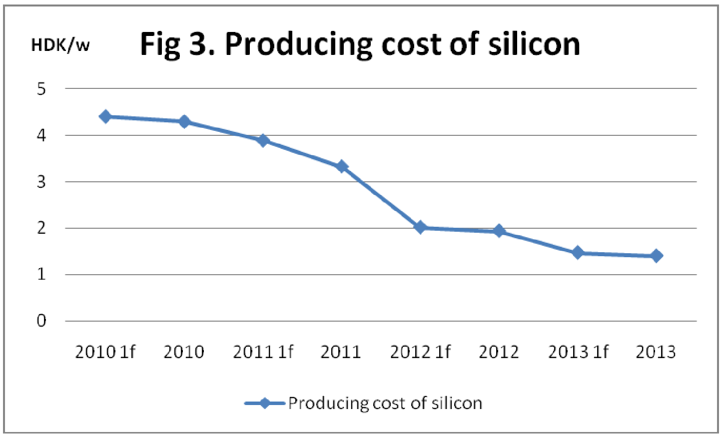
- After the revival of PV industry and frequent increase of polysilicon price, a lot of small enterprises which stopped production have recovered production, large-scale enterprises have expressed that they will increase the capacity in the future. The future PV industry will probably face the problem of excessive capacity again, and some polysilicon and solar products which just picked up may face the risk of price reduction again.
- Shanghai and Hong Kong Finance will enable mainland investors to have more convenient opportunities and invest in Hong Kong stocks. Domestic large-scale PV enterprises have been basically all listed in US or HK Stocks. The current industry position and stock price have made GCL-Poly worth to invest. It is believed that at that time a lot of mainland investors will choose GCL-Poly as the investment target for PV industry, and the valuation level of future corporation will probably increase consequently.
- After experiencing the trough of PV industry in last two years, the corporation global market share of polysilicon has increased to 24% from 15%; the silicon wafer market share has increased to 26% from 16%. The corporation started to make profits in the second half year of 2013. The application of new techniques in upperstream and the business development of electricity stations in downstream have made the cooperation prospect even better. After the implementation of Shanghai and Hong Kong Finance, the corporate valuation level will increase. Combining with the PV industry P/E ratio in A and H share market, we gave the corporate target price HKD3.75 within 12 months, which is 38/20 times of prospective P/E ratio in 2014/2015 respectively and it is "BUY" recommendation.



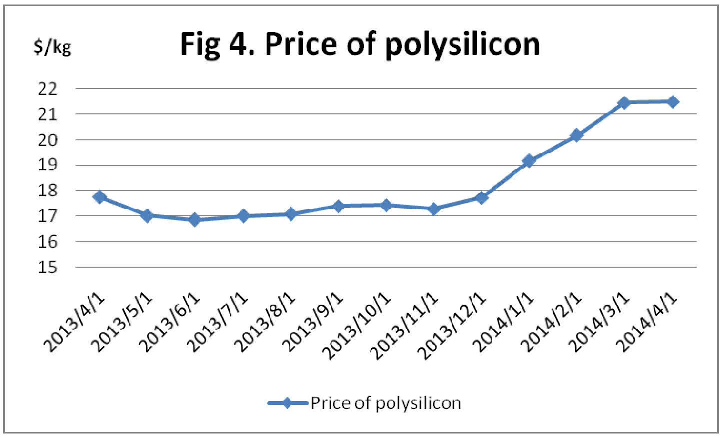
Source: PSR, Company Report



Source: PSR, Company Report



Source: PSR, Company Report



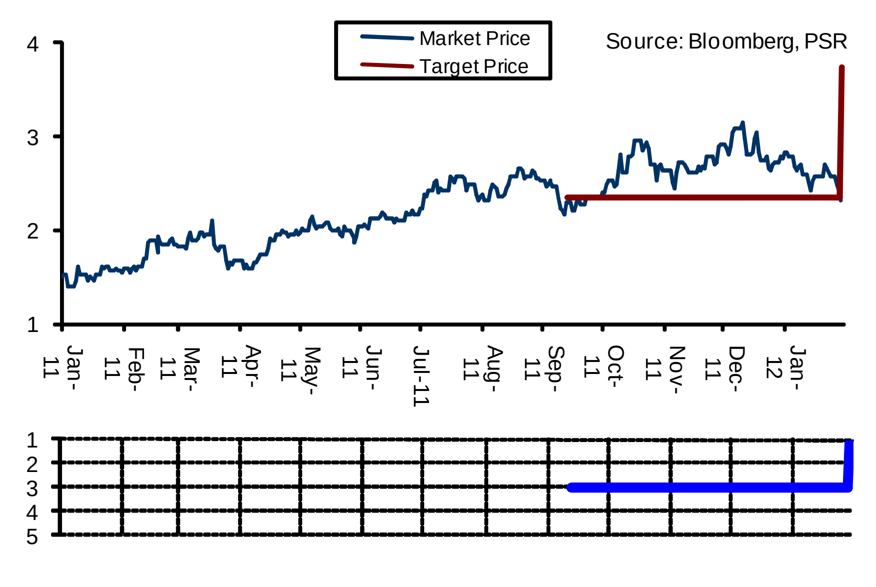
Source: PSR, Company Report

Financial Status

FYE	FY11	FY12	FY13	FY14F	FY15F
Valuation Ratios					
P/E (X)	8.3	(10.5)	(58.0)	23.2	12.2
P/B (X)	1.7	2.2	2.2	2.1	1.8
Dividend Payout ratio	0.00%	-27.27%	0.00%	20.00%	10.53%
Dividend Yield	0.00%	2.59%	0.00%	0.86%	0.86%
Per share data (HKD)					
EPS, reported	0.28	-0.22	-0.04	0.10	0.19
EPS, adj.	0.28	-0.22	-0.04	0.10	0.19
DPS	0.00	0.06	0.00	0.02	0.02
BVPS	1.33	1.05	1.04	1.12	1.28
Growth					
Revenue	38.1%	-12.4%	14.2%	20.5%	21.0%
Operating income	14.0%	-113.5%	-281.3%	183.0%	42.4%
Net Income, adj.	6.2%	-182.2%	-81.1%	-329.1%	91.0%
Key Ratios					
Current ratio	102.63%	72.83%	66.73%	63.83%	65.35%
Gross profit margin	33.19%	7.83%	11.91%	20.00%	22.00%
Net profit margin	16.76%	-15.73%	-2.60%	4.95%	7.80%
Return on average assets	7.93%	-5.20%	-0.92%	1.96%	3.59%
Return on average equity	23.28%	-19.12%	-4.11%	9.08%	15.63%
Liability/asset	67.20%	73.80%	76.51%	75.04%	73.34%
Income statement (thousand HKD)	**FY11**	**FY12**	**FY13**	**FY14F**	**FY15F**
Operating revenue	**25,505,564**	**22,348,026**	**25,530,002**	**30,765,523**	**37,230,431**
Cost of good sell	(17,039,258)	(20,598,931)	(22,490,373)	(24,612,418)	(29,039,737
Gross profit	**8,466,306**	**1,749,095**	**3,039,629**	**6,153,105**	**8,190,694**
Other net profit	613,221	783,826	965,126	1,187,105	1,424,526
Adiministractive expenses	(1,699,527)	(1,899,497)	(1,785,594)	(1,874,874)	(1,968,617
Selling expenses	(56,712)	(95,593)	(42,148)	(50,578)	(60,693
Other cost	(321,038)	(1,486,144)	(457,724)	(549,269)	(659,123
Operating profit	**7,002,250**	**(948,313)**	**1,719,289**	**4,865,489**	**6,926,787**
Investment income	3,204	(3,753)	21,370	21,370	21,370
Interest expense	(1,166,322)	(2,309,342)	(2,415,617)	(2,657,179)	(2,922,897
Profit before tax	**5,839,132**	**(3,261,408)**	**(255,713)**	**2,229,680**	**4,025,260**
Income tax	(1,269,174)	(123,876)	(190,092)	(445,936)	(805,052
Effective income tax rate	21.74%	-3.80%	-74.34%	20.00%	20.00%
Net profit for the period	**4,569,958**	**(3,385,284)**	**(445,805)**	**1,783,744**	**3,220,208**
Minority interest	295,065	130,231	218,458	262,150	314,580
Net profit attributable to equity holders	**4,274,893**	**(3,515,515)**	**(664,263)**	**1,521,594**	**2,905,628**
Dividend paid	0	851,086	0	309,592	309,592
Balance Sheet (thousand HKD)	**FY11**	**FY12**	**FY13**	**FY14F**	**FY15F**
Cash or cash eqivalent	10,932,396	9,510,442	14,249,031	14,249,031	13,249,031
Account receivable	7,064,744	8,681,408	11,057,441	8,845,953	11,499,739
Inventory	3,626,703	2,247,825	1,656,867	1,822,554	2,187,064
Other current assets	391,447	1,729,244	1,094,020	1,312,824	1,575,389
PPE	41,181,267	42,232,520	43,995,130	46,757,740	48,639,045
Intangible assets	1,061,677	898,617	853,009	807,401	761,793
Other non-current assets	3,230,003	2,518,370	3,737,110	4,753,186	5,533,467
Total Assets	**67,488,237**	**67,818,426**	**76,642,608**	**78,548,689**	**83,445,528**
Cash payable	8,207,049	9,127,716	13,737,306	9,616,114	10,577,726
Short term loan	11,582,443	19,705,114	24,915,536	27,407,090	28,777,444
Other current liability	1,662,575	1,606,579	3,392,060	4,071,672	4,275,256
Long term loan	17,703,856	12,817,239	8,340,370	10,008,036	10,508,438
Other non-current liability	6,198,182	6,791,318	8,252,250	7,839,638	7,056,738
Total Liabilities	**45,354,105**	**50,047,966**	**58,637,522**	**58,942,550**	**61,195,602**
Shareholders' equity	20,567,110	16,210,027	16,146,060	17,375,308	19,796,012
Minority interest	1,567,022	1,560,433	1,859,026	2,230,831	2,453,914
Total shareholders' equity	**22,134,132**	**17,770,460**	**18,005,086**	**19,606,139**	**22,249,926**
Total shareholders' equity and liabilities	67,488,237	67,818,426	76,642,608	78,548,689	83,445,528

Source: PSR

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

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

Source: PSR, Bloomberg

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 ± 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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.
This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.
Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on http://www.phillip.com.hk.

Contact Information (Regional Member Companies)

SINGAPORE
Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

MALAYSIA
Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

HONG KONG
Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

JAPAN
PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website:www.phillip.co.jp

INDONESIA
PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Hengfeng Road,
Greentech Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 63532643
Website: www.phillip.com.cn

THAILAND
Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website www.phillip.co.th

FRANCE
King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM
King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

UNITED STATES
Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005

AUSTRALIA
PhillipCapital Australia
Level 37, 530 Collins Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96298380
Fax (613) 96148309
Website: www.phillipcapital.com.au