

GCL New Energy (451.HK)

Rapid Increase of Installed Capacity

Hong Kong | New Energy | Update Report

18 Jun 2015

A Power Plant Platform under GCL

The company is a platform for PV power plant EPC and operation under GCL-POLY, was listed through buying a shell on May 9, 2014 and included in MSCI Hong Kong Index Constituent Stocks on Nov. 13. In 2014, the company recorded revenues of HK\$1.173 billion, with loss attributable to the shareholders being HK\$113 million. The main reason was that PV projects only contributed HK\$800,000 to its revenues for the whole year while its business results relied mostly on previous Printed Circuit Board (PCB).

Rapid Increase of Newly Installed Capacity

By the end of 2014, the company had an installed capacity of 615MW, and planned to increase installed capacity in the next three years by 2GW, 2.5GW and 3GW respectively through self-construction, joint development and acquisition. Among new projects to be implemented in 2015, 30% is for self-construction and most are joint development and acquisition but the company plans to increase the proportion of self-construction power plants and is enlarging its team. It is estimated that the company can generate and connect 500MW to the grid in H1 this year, taking the power plant capacity connected to the grid up to 1.1GW.

High Efficiency of Power Generation

There is no power restriction issue in the company's projects connected to the grid, with equity IRR above 12% and Generating Equipment Availability Hours of about 1200 hours. When choosing projects in the future, the Company will avoid those in West China where there are long hours of sunshine and more power restrictions, and put more projects in the middle of the country. In additions, the company also has projects of distributed power generation, such as "Fishing and PV Generation" and "Grazing and PV Generation", which generate high yields, electricity sale income, agriculture income and subsidy from the government. It is promising for the distributed generation to spread widely.

Multiple Modes of Financing

Besides bank loans to get financed, the company has also issued convertible bonds, which helped reduce the financing cost. What's more, it also formed a joint venture of assets management with Galaxy Capital to raise fund, as well as the fund support from GCL-POLY. For the future, the company plans to raise funds in the form of Yield Co. The diversified modes of financing help the company have lower financial cost than other companies in the industry.

Valuation

With the backing up of GCL, the company has technology advantages in PV power plant construction and operation while enjoying the preference of material supply from GCL-POLY and GCL System Integration. The three years to come will see the company have a significant increase of installed capacity. Calculated on the basis of 2.6GW and 35% net profit margin to be achieved supposedly at the end of 2015, the company is estimated to record revenues of HK\$3.333 billion from electricity sales and net profit of HK\$1.167 billion for the electricity sale operation. Without considering convertible bonds, its current stock price is 8.8X PE. We set its target price for the next 12 months at HK\$1.61, equivalent to 15X PE expected for 2016. We give the company a "Buy" rating. (Closing price as at 16 June 2015)

Buy

CMP: HKD 0.76

(Closing price as at 16 June 2015)

TARGET: HKD 1.61

COMPANY DATA

O/S SHARES(MN) :	13872
MARTKET CAP (HKD BN) :	105.43
52-WK HI/LO (HKD) :	0.43/1.44

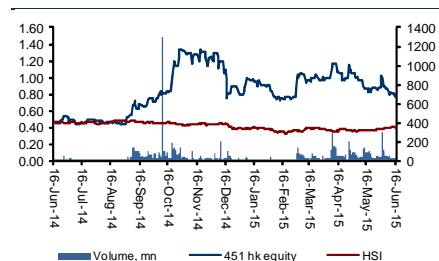
SHARE HOLDING PARTTEN , %

China Three Gorges Corporation	62.28
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PRICE PERFORMANCE , %

	1MTH	3MTH	1YR
2208HK	-8.14	-18.56	68.8
HSI	-4.69	-30.72	53.52

PRICE & HSI



Source: Phillip Securities (HK) Research

Key Financial Summary

FYE	12/13	12/14	12/15F	12/16F
Net Profit, adj. (RMB 000)	(173.00)	(113.00)	494.00	1346.00
EPS, adj. (RMB)	(0.02)	(0.01)	0.05	0.11
P/E (X)	(38.00)	(76.00)	15.20	6.91
BVPS (RMB)	0.03	0.23	0.25	0.30
P/B (X)	25.33	3.30	3.04	2.53
DPS (RMB)	0.00	0.00	0.00	0.00
Div. Yield	0.0%	0.0%	0.0%	0.0%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

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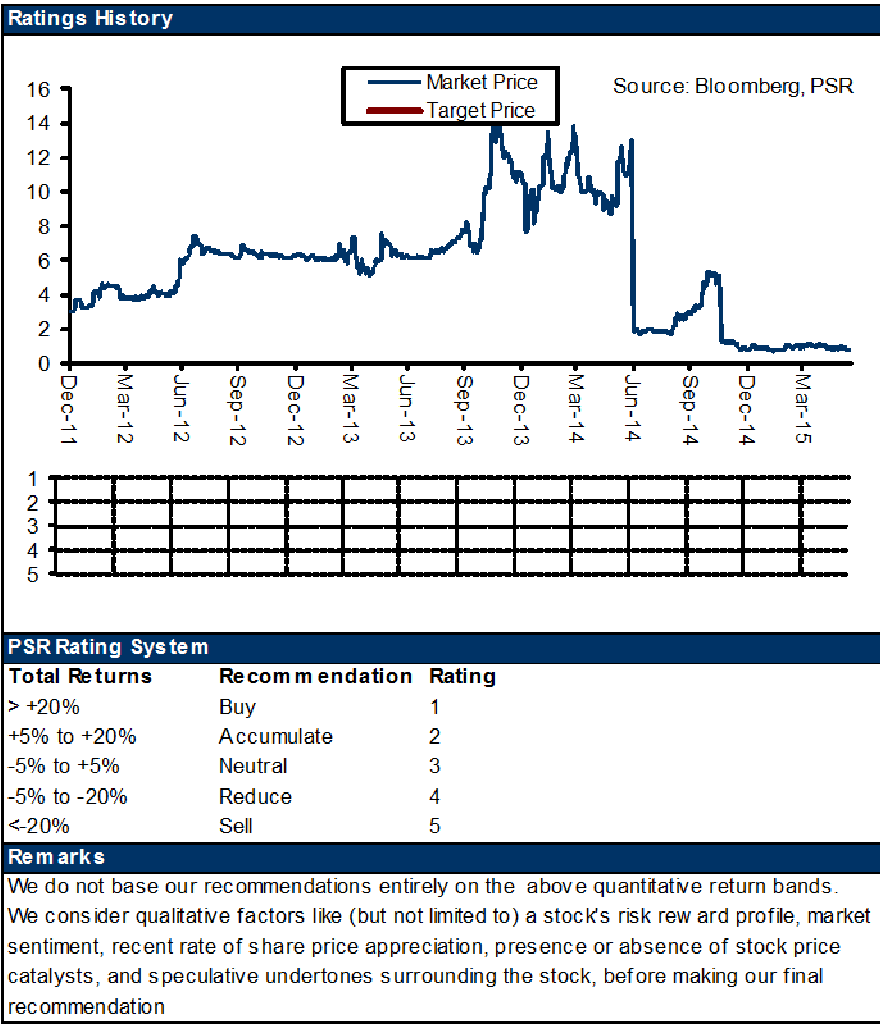
Financials

For Financial Summary at the end of report

FYE	FY12	FY13	FY14	FY15F	FY16F
Valuation Ratios					
P/E (X)	(1.3)	(38.0)	(76.0)	15.2	6.9
P/B (X)	0.2	25.3	3.3	3.0	2.5
Dividend Payout ratio	0.00%	0.00%	0.00%	0.00%	0.00%
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
Per share data (HKD)					
EPS, reported	-0.58	-0.02	-0.01	0.05	0.11
EPS, adj.	-0.58	-0.02	-0.01	0.05	0.11
DPS	0.00	0.00	0.00	0.00	0.00
BVPS	4.61	0.03	0.23	0.25	0.30
Growth					
Revenue	14.7%	3.4%	-25.8%	120.1%	94.3%
Net Income, adj.	-657.1%	343.6%	-34.7%	-537.2%	172.5%
Income statement (HKD mn)					
	FY12	FY13	FY14	FY15F	FY16F
Operating revenue	1,528	1,580	1,173	2,582	5,018
Profit before tax	23	50	(137)	1,750	4,765
Net profit attributable to equity holders	(39)	(173)	(113)	494	1,346

Source: PSR

(Financial figures as at 16 June 2015)



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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