



Rating
Buy

Asia
China

Energy
Alternative Energy

Company GCL-Poly Alert

Reuters
3800.HK

Bloomberg
3800 HK

Exchange
HKG
Ticker
3800

Date
2 March 2015

Company Update

Price at 27 Feb 2015 (HKD)	1.86
Price target - 12mth (HKD)	2.20
52-week range (HKD)	3.15 - 1.66
HANG SENG INDEX	24,823

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Reiterate Buy

Reiterate Buy; supported by positive global view by DB US solar team

DB's US solar team published an F.I.T.T. report "*Crossing the Chasm*" today, reiterating their positive view on global solar sector. They expect greater institutional ownership to drive near term positive momentum for the under-owned sector. This supports our Buy call for GCL Poly ("*Inflection point-upgrading to Buy*" published on 11 Feb). We expect GCL to recover from its low valuation with positive catalysts coming, as investors move on from the now-dropped wafer deal.

F.I.T.T report "Crossing the Chasm"

Our US solar team believes the solar industry is going through fundamental change and the opportunity is bigger than it has ever seen before. They expect solar electricity to be more competitive globally, despite of a low oil price era, with another 40% reduction in solar system costs over the next four to five years. They expect global solar penetration rates to increase to 30% by 2050, with lower solar storage costs. Consistent with our view, they expect a balanced supply/demand outlook in 2015-16 based on their analysis on key solar markets, and a gradual polysilicon price decline along with cost savings.

Read-through for GCL Poly; positive catalysts

We forecast 19% earnings CAGR for GCL in 2014-16, driven by volume growth of poly and wafers at largely stable margins as the cost leader, together with downstream solar farm development through GCL New Energy (0451.HK, NR), which should improve earnings stability. The 25bps interest rate cut over the weekend is positive. GCL's earnings rise 3-4% for every 25bps rate cut, due to its relatively high gearing (we assume two rounds of 25bps each in 2015). GCL's cost-saving captive power plant has got the environmental approval on 27 Jan and is waiting for the final sign-off from the government. The ramp-up of its fluidized bed reactor (FBR) poly capacity, further interest rate cuts, and potential rush orders later this year ahead of a possible tariff cut in China could also serve as positive catalysts.

Refocusing on valuation; pessimistic scenario priced in with potential upside

Even on our conservative numbers, with delay in the captive power (to commission in late 2015 vs. soon from company guidance) and FBR expansion (assumed in 2015-17, vs. by end-2015 from company guidance), GCL is still trading at only c.10x 2015PE on solar material business, below historical average of 12x. There could be over 20% upside potential to our earnings forecasts if the company can deliver what it aims to achieve.

SOTP target price of HK\$2.2; risks

Our SOTP target price of HK\$2.2 comprises of HK\$1.6 for the solar material business and HK\$0.6 for the power business. Key downside risks include lower-than-expected prices, volume or cost reduction for poly and wafers, and a larger-than-expected tariff cut for its coal-fired and solar power plants.

Stock data	
Market cap (HKDm)	28,794
Market cap (USDm)	3,713
Shares outstanding (m)	15,480.4
Major shareholders	Zhu Gong Shan (32%)
Free float (%)	48
Avg daily value traded (USDm)	21.1
Source: Deutsche Bank	

Key data			
FYE 12/31	2013A	2014E	2015E
Sales (HKDm)	25,530	35,221	34,498
Net Profit (HKDm)	-664.3	1,655.3	2,267.5
DB EPS (HKD)	-0.05	0.14	0.15
PER (x)	-	13.8	12.1
Yield (net) (%)	0.0	1.1	1.6
Source: Deutsche Bank			

Deutsche Bank AG/Hong Kong

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<http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=3800.HK> MCI (P) 148/04/2014.