

Nat Resources & Energy
Independent Power Producers
 Equity – Hong Kong

GCL-Poly Energy Holdings (3800 HK)

Buy

Target price (HKD)	2.70
Share price (HKD)	2.09
Upside/Downside (%)	29.2

Performance	1M	3M	12M
Absolute (%)	19.4	16.8	-25.1
Relative ^a (%)	21.1	11.7	-32.9

Index ^a	HANG SENG INDEX
RIC	3800.HK
Bloomberg	3800 HK
Market cap (USDm)	4,174
Market cap (HKDm)	32,373
Enterprise value (HKDm)	55774
Free float (%)	38

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Buy: China's solar build-out will support growth

- ▶ **FY14e results preview: revenue/net attributable profit: HKD35,496m/HKD2,325m, i.e. 2H/FY14e c51/55%. Co already announced positive profit alert of FY14 net attributable profit of no less than HKD1,800m**
- ▶ **We look for guidance on FBR/Captive power plant/FY15 wafer production/Capex**
- ▶ **We establish a Buy rating and set a fair value TP of HKD2.70**

FY14e results preview. GCL-Poly is reporting results tomorrow (26 March 2015). Analyst conference call will be held 9pm HKT on the same day. We expect FY14 revenue/net attributable profit of HKD35,496m/HKD2,325m, 2H14e revenue/net attributable profit represents 51/55% of FY14e. The company issued a positive profit alert on 4 March 2015 that its FY14 net attributable profit will be no less than HKD1,800m as a result of increased solar product demand and reduced cost.

Will look for updates on: a) Captive power plant – when has it been/will it be commissioned. Latest guidance on cost reduction (USD/kg) if the plant is commissioned. b) Fluidized Bed Reactor (FBR) planned production for FY15 and guidance on all-in/cash cost. c) FY15e Wafer production and ASP outlook. d) Capex for FY15e.

Investment thesis. We prefer upstream manufacturers because technical entry barriers are higher for poly and wafer makers. We believe GCL-Poly, a large upstream manufacturer of the polysilicon and wafers, will remain competitive given its production cost leadership, strong R&D team and developing solar farm business.

Valuation and risks. Our fair value TP of HKD2.70 is based on: We value the core poly/wafer business at HKD2.41 per share, based on a FY15-16e ROE-implied PB of 1.71x applied to our 2015e BVPS of HKD1.42. We value the solar farm development business at HKD0.33 per share, based on DCF methodology (ROE 16.1%, CoE: 10.4%, g: 1%). We establish a Buy rating for the stock in line with our new rating structure details on which can be found on [Changes to the HSBC rating structure](#), 23 March 2015.

Key downside risks to our call include lower-than-expected ASPs or capacity utilisation, reduced solar subsidies, lower-than-expected new solar capacity in China, and new equity issuance to address balance sheet concerns.

Financials & valuation

Financial statements

Year to	12/2013a	12/2014e	12/2015e	12/2016e
Profit & loss summary (HKDm)				
Revenue	25,530	35,496	36,068	41,953
EBITDA	5,106	9,066	11,148	11,930
Depreciation & amortisation	-3,387	-3,541	-3,754	-3,807
Operating profit/EBIT	1,741	5,528	7,397	8,123
Net interest	-2,207	-2,355	-2,393	-2,291
PBT	-467	3,174	5,003	5,836
HSBC PBT	-359	3,368	5,000	5,832
Taxation	-190	-673	-1,108	-1,292
Net profit	-664	2,319	3,745	4,396
HSBC net profit	-741	2,325	3,743	4,394

Cash flow summary (HKDm)

Year to	12/2013a	12/2014e	12/2015e	12/2016e
Cash flow from operations	7,868	13,431	8,646	11,302
Capex	-3,480	-5,956	-3,799	-2,500
Cash flow from investment	-6,668	-5,956	-5,296	-2,497
Dividends	0	0	0	0
Change in net debt	-940	-5,955	-2,457	-8,017
FCF equity	2,267	5,120	2,454	6,514

Balance sheet summary (HKDm)

Year to	12/2013a	12/2014e	12/2015e	12/2016e
Intangible fixed assets	853	830	830	830
Tangible fixed assets	43,995	46,169	46,214	43,407
Current assets	28,057	41,295	41,997	50,535
Cash & others	6,169	16,507	16,964	22,981
Total assets	76,396	91,233	91,979	97,711
Operating liabilities	21,348	26,939	25,790	28,979
Gross debt	33,256	37,639	35,639	33,639
Net debt	27,087	21,132	18,675	10,658
Shareholders funds	16,146	18,164	21,909	26,306
Invested capital	45,389	44,847	46,286	42,812

Ratio, growth and per share analysis

Year to	12/2013a	12/2014e	12/2015e	12/2016e
Y-o-y % change				
Revenue	14.2	39.0	1.6	16.3
EBITDA	171.5	77.6	23.0	7.0
Operating profit		217.6	33.8	9.8
PBT			57.7	16.6
HSBC EPS			61.0	17.4

Ratios (%)

Year to	12/2013a	12/2014e	12/2015e	12/2016e
Revenue/IC (x)	0.6	0.8	0.8	0.9
ROIC	5.4	9.6	12.6	14.2
ROE	-4.6	13.6	18.7	18.2
ROA	3.8	5.6	6.4	6.8
EBITDA margin	20.0	25.5	30.9	28.4
Operating profit margin	6.8	15.6	20.5	19.4
EBITDA/net interest (x)	2.3	3.9	4.7	5.2
Net debt/equity	150.4	101.7	75.7	36.5
Net debt/EBITDA (x)	5.3	2.3	1.7	0.9
CF from operations/net debt	29.0	63.6	46.3	106.0

Per share data (HKD)

Year to	12/2013a	12/2014e	12/2015e	12/2016e
EPS reported (fully diluted)	-0.04	0.15	0.24	0.28
HSBC EPS (fully diluted)	-0.05	0.15	0.24	0.28
DPS	0.00	0.00	0.00	0.00
Book value	1.04	1.17	1.42	1.70

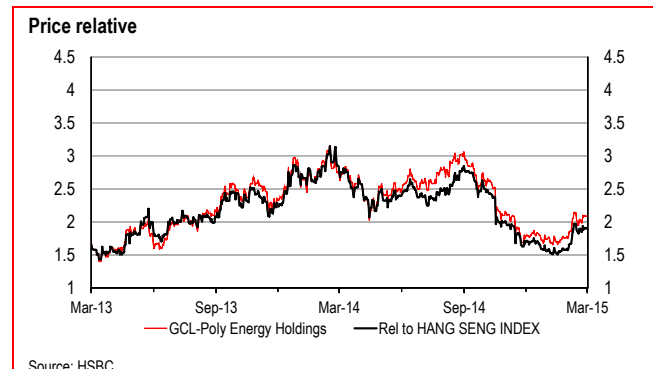
Key forecast drivers

Year to	12/2013a	12/2014e	12/2015e	12/2016e
Poly ASP (USD/kg)	17.4	21.9	20.5	19.0
Poly Unit CoGS (USD/kg)	17.0	15.4	13.1	13.0
Wafer ASP (USD/W)	0.21	0.22	0.22	0.22
Wafer Processing (USD/W)	0.09	0.08	0.08	0.08

Valuation data

Year to	12/2013a	12/2014e	12/2015e	12/2016e
EV/sales	2.4	1.6	1.5	1.1
EV/EBITDA	12.1	6.2	4.8	3.8
EV/IC	1.4	1.2	1.2	1.1
PE*		13.9	8.6	7.4
P/Book value	2.0	1.8	1.5	1.2
FCF yield (%)	6.5	14.8	7.1	18.8
Dividend yield (%)	0.0	0.0	0.0	0.0

Note: * = Based on HSBC EPS (fully diluted)



Note: price at close of 24 Mar 2015

Disclosure appendix

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From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Rating distribution for long-term investment opportunities

As of 25 March 2015, the distribution of all ratings published is as follows:

Buy	41%	(30% of these provided with Investment Banking Services)
Hold	39%	(28% of these provided with Investment Banking Services)
Sell	20%	(20% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

Share price and rating changes for long-term investment opportunities

GCL-Poly Energy Holdings (3800.HK) Share Price performance HKD Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
Underweight (V)	Overweight (V)	08 January 2013
Overweight (V)	Neutral (V)	29 August 2013
Neutral (V)	Underweight (V)	24 January 2014
Underweight (V)	Overweight (V)	11 May 2014
Overweight (V)	Neutral (V)	29 August 2014
Neutral (V)	Overweight (V)	14 November 2014
Target Price	Value	Date
Price 1	1.40	18 May 2012
Price 2	1.25	20 July 2012
Price 3	1.00	23 August 2012
Price 4	2.50	08 January 2013
Price 5	2.60	17 January 2013
Price 6	2.10	29 August 2013
Price 7	2.50	24 January 2014
Price 8	2.80	11 May 2014
Price 9	2.70	14 November 2014

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
GCL-POLY ENERGY HOLDINGS	3800.HK	2.07	25-Mar-2015	11

Source: HSBC

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