

Equities

Hong Kong/China

Company Update

Company Report

GCL-Poly (3800 HK)

27 March 2015

Leading in Cost and Downstream Expansion

GCL announced its FY14 results last night with net profit of HKD1.95bn, which is largely in line with our expectation except for one-off expenses from GCL New Energy (451.HK). We expect further production cost reduction and downstream expansion to become the major earning growth drivers of GCL, Maintain Buy.

- Strong rebound in Poly/Wafer business.** GCL-Poly achieved a 40% YoY increase in its Polysilicon/Wafer manufacturing business, the core business of the company. Gross margin in this segment rebounded from 9.3% to 23.4% thanks to the recovery of solar sector. GCL operated at nearly full capacity in FY14 and we believe the company can keep up with full utilization rate in FY15 due to robust downstream demand.
- Captive power plant and FBR production line progress well.** Management revealed that the long-awaited captive power plant has obtained relevant approvals from local authority and will commence operation by the end of May, finally. GCL expects the captive power plant could lower its polysilicon cash cost from USD13.5 per watt to USD11.5 per watt. As to another major cost reduction method, the FBR production line expansion is on track according to the company. GCL targets to produce 5,000 to 8,000 ton polysilicon from its FBR line this year, with a cost of USD8 per watt.
- Downstream expansion looks promising.** GCL ramped up 616MW solar power plants last year and has 1.2GW under construction through GCL New Energy. The company expects to complete 2GW and 2.5GW in FY15 and FY16 respectively. Given the GCL started its downstream expansion in 2H14, we are impressed by the progress it made and it shows strong execution of the company. We expect the downstream business to generate meaningful contribution and account for 7% of revenue in FY15. The figure will grow to 20% in two years in our estimation.
- Deteriorated balance sheet remain as the major concern.** Although the net gearing of GCL decreased from 147% to 125% in FY14, it is still at a high level. On the other hand, the finance cost rose by 26% YoY to HKD 3bn, mainly due to a heavier use of discounted bills. Given GCL's aggressive downstream expansion plan, we view any balance sheet improvement to be unlikely in near term.
- Reiterate Buy.** We lower our earning estimates by 5% while maintain the target price at HK\$3.0, representing 14.3x 2015E PE.

Investment Summary

FY-end Dec	2013	2014	2015E	2016E	2017E
Turnover (HK\$ m)	25,530	37,225	36,341	40,491	44,649
Growth (%)	14.2	45.8	(2.4)	11.4	10.3
Net Profit (HK\$ m)	(664)	1,955	3,257	4,981	6,312
Growth (%)	NA	NA	66.6	52.9	26.7
EPS (HK\$)	(0.04)	0.13	0.21	0.32	0.41
Growth (%)	NA	NA	66.6	52.9	26.7
PER (x)	N/A	16.0	9.6	6.3	5.0
OCF/Share (HK cents)	55	40	82	77	116
P/B (x)	1.9	1.7	1.5	1.3	1.0
DPS (HK\$)	-	-	0.02	0.03	0.04
Yield (%)	-	-	1.0	1.6	2.0

Sources: Company data, CER estimates

China / Alternative Energy / Solar

BUY

Share Price	Target Price	Upside
HK\$2.02	HK\$3.00	48.51%

(As of 26 March 2015)

Daniel Yang
 CE No: BDJ027
 (852) 2823 2532
 Daniel.Yang@ebson.hk

52 Week Price Range (HK\$)	1.64-3.08
Yield (%)	-

Latest Key Data

FF no of shares (m)	10,451
FF (%)	67.47
FF market cap (HK\$ m)	21,111
12M daily turnover (HK\$ m)	252.24
12M volatility (%)	49.61

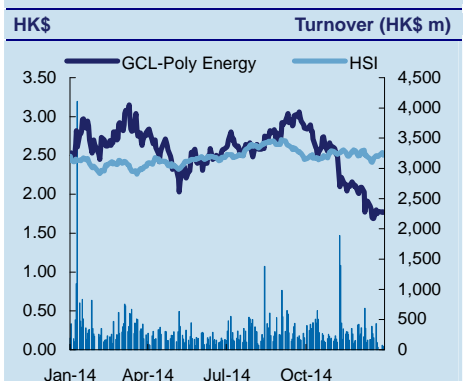
Performance (%)

	1M	YTD	12M
Absolute	8.6	12.2	(25.2)
Relative to HSCEI	10.8	12.8	(45.7)

Major Shareholder (%)

Asia Pacific Energy Fund Ltd	32.4
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Price Chart



Sources: Bloomberg, CER estimates

Company Background

GCL-Poly is a leading manufacturer of polysilicon and wafer for global solar market. It has ramped up its polysilicon production capacity to 65,000MT and wafer production capacity of 13G. GCL forayed into the downstream solar projects business in recent years. Meanwhile, GCL owns and invests in a total of 19 cogeneration power plants, two incineration power plants and one wind power plant in China.

Profit & Loss (Consolidated)

FY-end 31 Dec (HK\$ m)	2013	2014	2015E	2016E	2017E
Sales	25,530	37,225	36,341	40,491	44,649
Cost of sales	(22,490)	(29,574)	(26,637)	(27,867)	(29,570)
Gross profit	3,039	7,651	9,705	12,623	15,079
Other income	965	1,316	1,316	1,316	1,316
Operating expenses	(2,285)	(3,186)	(3,218)	(3,517)	(3,816)
Operating profit	1,719	5,781	7,803	10,422	12,579
Finance cost	(2,416)	(3,034)	(3,280)	(3,505)	(3,813)
Share of P/L of asso. & JCE	441	48	-	-	-
Pre-tax profit	(256)	2,795	4,523	6,917	8,766
Tax	(190)	(639)	(905)	(1,383)	(1,753)
Minorities	(218)	(201)	(361)	(554)	(701)
Net profit	(664)	1,955	3,257	4,981	6,312
EBITDA	5,547	9,327	12,099	15,739	19,162
EBIT	2,160	5,756	7,803	10,423	12,579
EPS (HK\$)	(0.04)	0.13	0.21	0.32	0.41
DPS (HK\$)	-	-	0.02	0.03	0.04

Sources: Company, CER estimates

Cash Flow (Consolidated)

FY-end 31 Dec (HK\$ m)	2012	2013	2014E	2015E	2016E
Operating cash flow	2,326	8,507	7,704	10,401	10,079
Profit before tax	(3,261)	(256)	2,737	4,646	6,658
Depreciation & amortization	2,742	3,278	3,450	3,570	3,723
Change in working capital	(844)	3,458	(832)	648	(1,053)
Others	3,689	2,027	2,349	1,536	752
Investment cash flow	(5,311)	(6,668)	(1,475)	(1,562)	(2,333)
Net Capex	(4,970)	(3,483)	(1,827)	(1,989)	(2,769)
Disposal	128	181	-	-	-
Others	(469)	(3,366)	352	427	436
Free cash flow	(2,985)	1,839	6,229	8,839	7,746
Financing cash flow	617	(329)	(544)	(6,926)	(6,641)
Change in share capital	-	-	-	-	-
Net change in debt	3,953	2,042	2,475	(3,780)	(3,490)
Dividend paid	(851)	-	-	(418)	(686)
Others	(3,336)	(1,713)	(3,018)	(2,727)	(2,465)
Net impact of exchange fluctuation	(20)	163	-	-	-
Net cash flow	2,388	1,673	5,685	1,913	1,105

Sources: Company, CER estimates

Balance Sheet (Consolidated)

FY-end 31 Dec (HK\$ m)	2013	2014	2015E	2016E	2017E
Total assets	76,643	90,004	87,624	100,009	112,389
Current assets	28,057	34,319	28,757	30,284	28,447
Cash & cash equiv	14,249	17,338	13,629	13,059	12,193
Marketable securities & ST inv	12	22	22	22	22
Account & notes receivable	11,057	13,658	12,357	14,069	13,023
Inventories	2,462	2,696	2,121	2,460	2,579
Others	277	605	628	674	630
Non-current assets	48,585	55,685	58,867	69,771	83,941
LT investments	536	562	562	562	562
Net fixed assets	43,995	50,612	54,115	64,993	79,135
Others	4,054	4,511	4,199	4,216	4,244
Total liabilities	58,638	68,641	64,595	72,134	78,435
Current liabilities	42,045	48,072	43,669	48,488	51,443
Account payable	13,737	20,831	15,653	16,151	16,676
ST borrowings	26,331	25,162	25,938	30,259	32,689
Others	1,977	2,079	2,078	2,078	2,078
Non-current liabilities	16,593	20,569	20,927	23,646	26,991
Long-term debts	14,460	18,794	19,152	21,871	25,216
Others	2,133	1,775	1,775	1,775	1,775
Total equities	18,005	21,363	23,029	27,875	33,954
Shareholders' equity	16,146	18,406	20,572	24,865	28,694
Minority shareholders	1,859	2,957	2,457	3,010	3,712
Total liabilities + SH equities	76,643	90,004	87,624	100,009	112,389
Net cash / (debt)	(26,542)	(26,617)	(31,461)	(39,071)	(45,712)
Working capital	(13,988)	(13,753)	(14,912)	(18,249)	(22,996)
Total capital employed	34,598	41,932	43,955	51,521	60,946
SH equity + Minorities	18,005	21,363	23,029	27,875	33,954
Net gearing (%)	147.4	124.6	136.6	140.2	134.6

Sources: Company, CER estimates

Financial Summary

FY-end 31 Dec	2013	2014	2015E	2016E	2017E
Growth (%)					
Revenue	14.2	45.8	-2.4	11.4	10.3
EBITDA	195.5	63.4	33.5	30.1	21.7
EBIT	NA	149.5	44.8	33.6	20.7
Net profit	NA	NA	66.6	52.9	26.7
EPS	NA	NA	66.6	52.9	26.7
Margins (%)					
Gross	11.9	20.5	26.7	31.2	33.8
EBITDA	21.7	28.6	33.3	38.9	42.9
EBIT	8.5	17.7	21.5	25.7	28.2
Net	-1.8	7.1	10.0	13.7	15.7
Others (%)					
Effective tax rate	-74.3	23.0	20.0	20.0	20.0
Payout ratio	-	-	10.0	10.0	10.0
RoCE	6.2	13.9	17.8	20.2	20.6
Average RoE	-3.7	10.0	15.3	19.6	20.4
Average RoA	-0.9	2.3	3.9	5.3	5.9
Interest cover (x)	0.9	1.9	2.4	3.0	3.3
Receivables turnover days	111	121	120	100	103
Inventory turnover days	32	27	33	30	33
Payables turnover days	114	95	100	100	100

Sources: Company, CER estimates

Everbright Research Limited Rating System

Buy	Expected to outperform the benchmark index by >15% over the next six months
Accumulate	Expected to outperform the benchmark index by 5 - 15% over the next six months
Hold	Expected to outperform or underperform the benchmark index by <5% over the next six months
Reduce	Expected to underperform the benchmark index by 5 - 15% over the next six months
Sell	Expected to underperform the benchmark index by >15% over the next six months

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Address: 17/F., Far East Finance Center, No. 16 Harcourt Road, Hong Kong.
Contact No.: (852) 2860-1101