



CICC
 中国国际金融有限公司
 CHINA INTERNATIONAL CAPITAL
 CORPORATION LIMITED

Company Update

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Alternative Energy

RESEARCH

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ACCUMULATE

GCL-Poly (3800.HK)

M&A Sparks Noncash Loss; JV Deal Raises Capital

Financial highlights

(Rmb mn)	2008A	2009E	2010E	2011E
Revenue	7,215	7,372	10,491	12,940
(+/- %)	n.a	2	42	23
Gross Profit	3,064	1,916	3,234	3,982
(+/- %)	n.a	(37)	69	23
Operation Profit	2,875	1,525	2,570	3,161
(+/- %)	n.a	(47)	69	23
Net Profit	1,647	(6,786)	1,871	2,441
(+/- %)	n.a	(512)	(128)	31
EPS(Rmb)	0.13	-0.55	0.15	0.20
(+/- %)	n.a	(512)	128	31
PE(X)	15.3	-3.7	13.5	10.3
BPS	1.4	1.1	1.3	1.4
PB(X)	1.4	1.8	1.6	1.4
ROE (%)	18.1	-41.8	12.4	14.5
Dividend Yield(%)	1.0	0.6	1.1	1.5

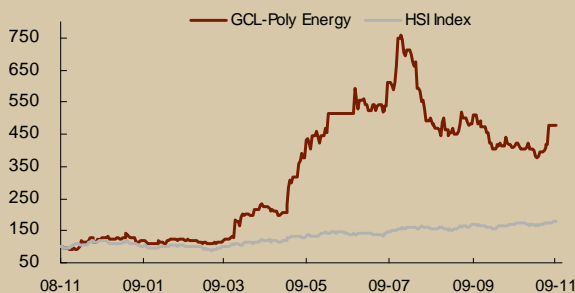
Share information

	H-Share
Bloomberg code	3800.HK
Share price	HK\$2.31
Target price	HK\$3.0
Daily turnover (mn shs)	0.00
52wk high/low	HK\$3.84/0.425
Market cap (HK\$ mn)	28,560
Issued shares (mn)	12,363
Free float (mn)	12,363
Major shareholders (%)	GONG SHAN ZHU (49.83%)

Recent price performance

	Last week	1m	3m	YTD
[3800.HK]	+14.36	+15.50	-1.28	+278.69
[HSI Index]	+0.94	+2.88	+12.35	+58.75
[Sector Index]	+1.98	+4.78	+16.04	+60.93

52wk performance



Source: Company data, Bloomberg, CICC Research

What's new:

GCL will likely record HK\$9bn impairment loss in goodwill arising from the acquisition of Jiangsu Zhongneng.

China Investment Corporation (CIC) will purchase 3.1bn of GCL's new shares, 20% of them enlarged shares, at a price of HK\$1.79/sh. The capital raised will be used for working capital, debt repayment and funding a JV with CIC. The pair will initially sink US\$500mn (CIC 49%, GCL 51%), into the project, aimed at overseas solar power station operation.

Valuation and recommendation:

The goodwill loss results from the difference of the stock price at the date of acquisition (HK\$3.46) and the contract price of shares payment for the acquisition (HK\$2.20). See Figure 1 for the detailed process of goodwill loss calculation. The loss is a nonrecurring and noncash one, and does not affect GCL's cash flow or ability to pay dividends. We cut our 09 earnings -Rmb6.8bn and leave 2010~11 forecasts unchanged. The provision doesn't change our book value forecast that was based on the goodwill derived from the price of HK\$2.2.

The deal makes CIC GCL's No.2 major shareholder, behind company chairman Zhu Gongshan. The capital raised will dilute 2010 EPS by 20% and enhance 2010 BPS by 6%. Leveraged on: 1) CIC's capital through both the share issue and the JV; and, 2) possible debt financing from CIC, GCL is better positioned to get involved into overseas solar power operation where IRR is easily over 10% and project financing is the bottleneck. Also, downstream business is likely to drive demand for GCL's poly and wafer products.

Risks:

Foreign governments are likely unwilling to subsidize solar stations both operated by Chinese entities and install China-made modules. GCL should consider purchasing modules from the target country rather than from China.

Figure 1: The process of goodwill impairment loss calculation

Rmb mn	At the date of acquisition	At the end of 2009	Comments
Stock price (HK\$)	3.46	2.20	HK\$2.20 is the contract price for acquisition
×Total share paid (mn shares)	10,000	10,000	
=Cost of shares	30,448	19,360	
+Cash and secured notes paid	38	38	
=Cost of acquisition	30,486	19,398	
-Fair value of Jiangsu Zhongneng	17,600	17,600	
=Goodwill arising from the acquisition	12,886 (1)	1,798 (2)	
Impairment loss (Max)		11,088	=(1)-(2)
Discount rate		72%	Management guided that is resulted from some unfloatable shares
Impairment loss		7,983	

Source: Company data, CICC Research

Figure 2: Polysilicon business in first three quarters

	1Q09	2Q09	3Q09	4Q09E	1H09	2H09E	1-3Q09	2009E
Shipment(MT)	1,025	892	1,686	3,897	1,917	5,583	3,603	7,500
ASP(US\$/kg)	93	66	62	61	80	61	72	66
Cost(US\$/kg)	49	39	40	38	43	38	42	40
Gross margin	47.8%	41.0%	36.1%	37.9%	41.4%	35.5%	46.7%	39.9%

Source: Company data, CICC Research

Figure 3: Valuations of comparables

Company	Ticker	Recommendation	Trading Currency	Last Price 2009-11-18	Market Cap (Rmb mn)	EPS			P/E			P/B		
						2008A	2009E	2010E	2008A	2009E	2010E	2008A	2009E	2010E
Polysilicon stocks														
MEMC	WFR.US	N.A.	USD	13.28	20,269	1.69	(0.06)	0.87	7.9	(210.8)	15.2	1.4	1.5	1.4
Wacker	WCH.GR	N.A.	EUR	111.64	59,398	8.84	2.37	7.78	12.6	47.1	14.4	2.9	2.7	2.3
REC	REC.NO	N.A.	NOK	35.87	29,063	5.41	(0.54)	2.06	6.6	(67.0)	17.4	1.3	1.2	1.1
Tokuyama	4043.JP	N.A.	JPY	493	13,192	(20.42)	26.26	38.23	n.a.	18.8	12.9	0.7	0.8	0.7
OCI	010060.KS	N.A.	KRW	208000	28,181	14212	18648	26582	14.6	11.2	7.8	3.4	2.8	2.1
GCL-Poly Energy	3800.HK	ACCUMULATE	HKD	2.31	25,131	0.13	(0.55)	0.15	15.3	(3.7)	13.5	1.4	1.8	1.6
Average									10.4	(40.2)	13.5	2.0	1.8	1.6
China solar stocks														
Suntech Power	STP.US	N.A.	USD	15.14	16,112	0.52	0.24	0.57	29.1	64.2	26.5	2.2	1.9	1.8
Yingli Green Energy	YGE.US	N.A.	USD	14.30	14,486	0.75	0.08	0.79	19.1	185.7	18.1	2.6	2.2	2.0
LDK	LDK.US	N.A.	USD	7.53	5,821	0.64	(2.32)	0.27	11.8	n.a.	28.0	1.0	1.4	1.4
JAsolar	JASO.US	N.A.	USD	4.14	4,748	0.33	(0.13)	0.24	12.5	n.a.	17.2	0.9	1.0	1.0
Average									18.1	124.9	22.4	1.7	1.6	1.5
Overall average									14.3	7.0	17.5	1.8	1.7	1.5

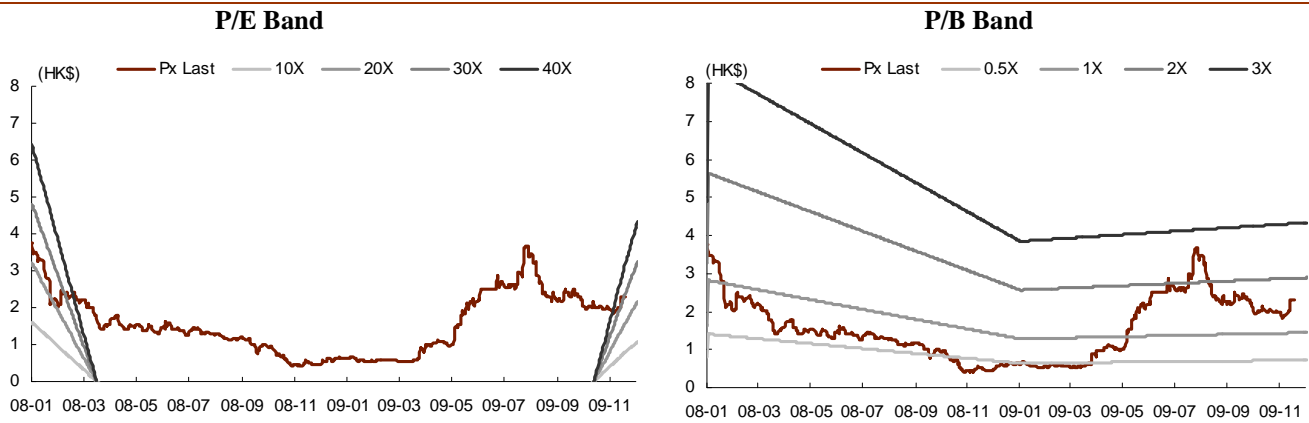
Source: Bloomberg, CICC Research

Figure 4: Historical and forecasted financial data

P&L (Rmb mn)	2008A	2009E	2010E	2011E
Revenue	7,215	7,372	10,491	12,940
Cost of goods sold	-4,151	-5,456	-7,257	-8,958
Gross profit	3,064	1,916	3,234	3,982
Other income	271	83	11	12
Distribution costs	-7	-7	-10	-13
Administrative expenses	-427	-442	-629	-776
Finance costs	-732	-380	-302	-225
Operating profit	2,875	1,525	2,570	3,161
PBT	2,073	-6,710	2,312	2,981
Taxation	-129	-27	-393	-491
Minority interests	-297	-48	-48	-48
Net profit	1,647	-6,786	1,871	2,441
Dividend	250	150	281	366
Cash Flow (Rmb mn)				
Operating cash flow	5,005	2,718	2,495	4,035
Investment cash flow	-6,743	-2,382	-1,458	-501
Financing cash flow	1,831	-1,344	-2,447	-2,045
Net change in cash	93	-1,008	-1,410	1,488
Balance Sheet (Rmb mn)				
Cash and cash equivalents	2,833	1,824	414	1,902
Trade receivables	570	595	1,064	983
Inventories	326	531	609	798
Current assets	4,572	3,807	3,207	4,758
Long-term investments	245	290	335	379
Fixed assets, net	10,001	12,001	12,939	12,945
Intangible assets and other assets	16,864	8,964	8,964	8,964
Bank borrowings - due within 1 year	2,648	1,148	548	48
Trade and other payables	1,686	2,746	3,148	4,128
Current liabilities	6,636	4,712	4,554	5,129
Long term loans	5,698	5,698	4,698	3,698
Non-current liabilities	8,570	7,777	6,777	5,777
Total liabilities	15,206	12,489	11,331	10,906
Minority interests	408	360	311	263
Shareholders' equity	18,196	14,291	15,833	17,860
Total assets	33,402	26,781	27,164	28,765
Financial ratio				
Gross margin	42.5%	26.0%	30.8%	30.8%
EBIT margin	38.3%	-86.5%	24.5%	24.4%
Net margin	22.8%	-92.0%	17.8%	18.9%
ROE	9.3%	-48.7%	12.1%	13.9%
ROA	4.9%	-25.3%	6.9%	8.5%
Liability/Asset	45.5%	46.6%	41.7%	37.9%
Net debt/Equity	40.6%	31.6%	27.3%	7.5%
Current ratio	68.9%	80.8%	70.4%	92.8%
Quick ratio	64.0%	69.5%	57.1%	77.2%
Receivable turnover days	14	28	28	28
Inventory turnover days	-14	-28	-28	-28
Pay-out ratio	15.2%	n.a	15.0%	15.0%

Source: Company data , CICC Research

Figure 5: Historical P/E & P/B Bands



Source: Bloomberg, CICC Research

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