Results Review

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ACCUMULATE

GCL-Poly (3800.HK)

Results in Line, Cheap Valuation

Financial highlights

(Rmb mn)	2008A	2009E	2010E	2011E
Revenue	7,215	7,576	11,721	13,387
(+/- %)	*n.a*	*5*	*55*	*14*
Gross Profit	3,064	2,120	4,033	4,429
(+/- %)	*n.a*	*(31)*	*90*	*10*
Operation Profit	2,875	1,716	3,294	3,587
(+/- %)	*n.a*	*(40)*	*92*	*9*
Net Profit	1,647	1,305	2,482	2,803
(+/- %)	*n.a*	*(21)*	*90*	*13*
EPS(Rmb)	0.13	0.11	0.20	0.23
(+/- %)	*n.a*	*(21)*	*90*	*13*
PE(X)	15.4	19.4	10.5	9.3
BPS	0.6	1.0	1.1	1.3
PB(X)	3.3	2.1	1.9	1.6
ROE (%)	40.2	12.7	18.6	18.0
Dividend Yield(%)	1.0	0.8	1.4	1.6

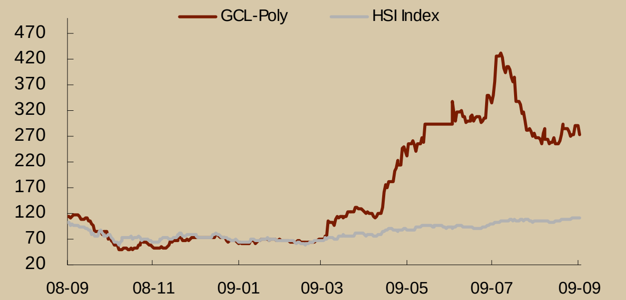
Share information

	H-Share
Bloomberg code	3800.HK
Share price	HK$2.33
Target price	HK$3.00
Daily turnover (mn shs)	28.78
52wk high/low	HK$3.84/0.365
Market cap (HK$ mn)	28,805
Issued shares (mn)	12,362
Free float (mn)	12,362
Major shareholders (%)	GONG SHAN ZHU (50.26%)

Recent price performance

	Last week	1m	3m	YTD
[3800.HK]	-1.69	+2.19	-19.10	+281.97
[HSI Index]	+2.58	+6.31	+22.43	+49.25
[Power Equipment Index]	-0.38	+9.15	+22.72	+57.35

52wk performance



Source: Company data, Bloomberg, CICC Research

Result in line with expectation

In 1H09 GCL achieved a net profit of Rmb72mn in traditional IPP business and, by our estimates, nearly Rmb400mn in polysilicon business (GCL disclosed EBITDA of Rmb472mn in the polysilicon sector).

Positives:

- Poly production has amounted to 2274MT in 1H09 compared with only 1850MT in 2008 thanks to capacity ramp ups of the phase 3 project (15000MT).
- There is very little poly inventory, which indicates strong demand recently.
- Poly cost has been reduced to US$38/kg in 2Q from US$47 in 1Q due to a more mature STC recycling process and a higher proportion of self-made TCS.

Negatives:

- Impacted by the financial crisis, Poly ASP has dropped to US$63/kg in 2Q from US$93/kg in 1Q.

Trends to watch:

We revise down 09 EPS to 0.11 from the previous 0.13 by reducing ASP to US$65/kg and raising costs to US$35/kg in 2H09. We keep our earnings forecast for 2010-2011 unchanged.

Valuation and recommendation

GCL is traded at 10.5x 2010 EPS, the lowest among poly producers worldwide. We believe the stock price is undervalued given that as it possesses the same hydroclorination technique and the cheapest raw material and labor costs, GCL is likely to have the strongest potential to achieve the lowest production cost amongst comparables, in our view.

Our target price is HK$3.0 implying 13.2x 2010 EPS, still lower than the average P/E of the comparables' 14.4x.

Recap of investor conference call

Q#1: What's the polysilicon production outlook for Q3 and Q4? What will be the average polysilicon price in Q3? What about government support?

A: Q3 and Q4 will have much higher production volume, achieving 5200MT for the 2nd half year in total. The average polysilicon price in Q3 should remain stable at about USD65 per kg. The Chinese government has been exploring a new pricing program for solar stations. In fact Jiangsu Province has already started a feed-in-tariff of RMB2.15 per kWh. Other provinces will be looking at Jiangsu and considering their own pricing plans. By the way, GLC-Poly's 20MW solar project is approved.

Q#2: Please clarify what GT Solar is working on with GCL-Poly, as I am under impression that MSA was the reactor supplier instead of GT Solar?

A: Mostly to improve operating efficiency in polysilicon production. GT's 3G reactor is much better with lower electricity consumption, shorter cycle time, and more TCS in-house production. MSA's reactor was used in phases 1-2, and phase 3 is uses local ones. GCL is considering more cooperation with GT Solar.

Q#3: How confident is GCL of achieving a 1GW wafer capacity by the middle of next year?

A: We will make use of internally produced polysilicon and have closed deals with suppliers, hence we are confident about the 1GW target.

Q#4: What is the premium for long-term polysilicon contracts?

A: USD 60-65 per kg for long-term contracts and 65-70 for the spot market.

Q#5: What is the expected utilization rate in Q4, 80% of capacity?

A: Yes, we are confident with 80% by the end of 2009.

Q#6: What is the timeline and magnitude for the direct power purchase plan? How is the production allocated between Q3 and Q4?

A: The central government encourages direct power purchase by large consumers. In fact, Jiangsu Province has already put together a tentative policy and submitted it to the central government for approval. GCL-Poly is among the first batch on the list submitted. We expect Q3 production to be 2000 MT, and 3200 MT in Q4.

Q#7: Only EBITDA is disclosed, what about the EBT for the solar business?

A: Depreciation and interest expense is not much. The EBT is a little more than 10% lower than EBITDA.

Q#8: How will the 1GW wafer capacity be financed? Are there any plans to use bank loans or other financial instruments?

A: We plan USD300m for the 1GW production. The first half EBITDA is strong so we have enough cash on hand for the new investment. In fact, there is more than enough for the next 12 months. No additional bank money is needed.

Q#9: How is the Q4 demand for solar in general and polysilicon?

Long-term demand is quite strong lately. We expect the trend to remain for Q4 with lower module prices and lower polysilicon prices. Also, in China and around the world, not many producers can ramp up capacity quickly, so Q4 should be a good quarter for us.

Q#10: What is the polysilicon spot price expectation for Q4?

A: It should be stable since the demand is strong. The government just approved 10MW projects, and each province has their own solar projects.

Q#11: An 18,000MT capacity is quite far from the current 10,000MT level. Will the capacity be fully rounded up by the end of 2009?

A: Yes. In fact, the current capacity is already 15,000 tonnes.

Figure 1: 1H09 results analysis

	1Q09	2Q09	1H09	2H09E	2009E
Polysilicon					
Shipment of Polysilicon(MT)	1,100	817	1,917	5,583	7,500
ASP of Polysilicon(US$/kg)	93	63	80	65	70
Cost of Polysilicon (US$/kg)	47	38	43	35	40
Gross margin of Polysilicon	49.0%	39.8%	41.4%	45.1%	43.4%
Net Profit (Rmb mn CICC estimate)	na	na	401	705	1,105
IPP					
Net profit(Rmb mn)	na	na	72	128	200
Total					
Net profit(Rmb mn)	na	na	473	833	1,305

Source: Company data, CICC Research

Figure 2: Main assumptions for earnings forecast

	(Units)	2008	2009E	2010E	2011E
Polysilicon					
Capacity at the end of year	MT	3,000	18,000	21,000	21,000
Production	MT	1,530	7,500	17,000	19,000
Shipment	MT	1,530	7,500	14,200	13,150
ASP	US$/MT	280	70	60	55
Cost	US$/MT	65	40	32	31
Gross profit	US$/MT	215	30	28	24
Gross margin	%	77%	43%	47%	43%
Wafer					
Capacity at the end of year	MW	0	0	1,000	1,500
Shipment	MW	39	39	400	900
ASP	US$/W	1.9	1.1	0.8	0.8
Cost	US$/W	1.0	0.8	0.5	0.5
Gross profit	US$/W	0.9	0.3	0.3	0.3
Gross margin	%	56%	31%	37%	38%

Source: Company data, CICC Research

Figure 3: Historical and forecasted financial data

P&L (Rmb mn)	2008A	2009E	2010E	2011E
Revenue	7,215	7,576	11,721	13,387
Cost of goods sold	-4,151	-5,456	-7,688	-8,958
Gross profit	3,064	2,120	4,033	4,429
Other income	271	84	15	19
Distribution costs	-7	-8	-12	-13
Administrative expenses	-427	-455	-703	-803
Finance costs	-732	-380	-302	-225
Operating prorift	2,875	1,716	3,294	3,587
PBT	2,073	1,381	3,036	3,407
Taxation	-129	-27	-506	-556
Minority interests	-297	-48	-48	-48
Net profit	1,647	1,305	2,482	2,803
Dividend	250	196	372	420
Cash Flow (Rmb mn)				
Operating cash flow	5,005	2,877	3,259	4,085
Investment cash flow	-6,743	-2,382	-1,423	-570
Financing cash flow	1,831	-1,408	-2,613	-1,956
Net change in cash	93	-913	-777	1,559
Balance Sheet (Rmb mn)				
Cash and cash equivalnets	2,833	1,919	1,142	2,701
Trade receivables	570	628	1,226	891
Inventories	326	531	676	730
Current assets	4,572	3,952	4,257	5,346
Long-term investments	245	290	335	379
Fixed assets,net	10,001	12,001	12,939	12,945
Intangible assets and other assets	6,864	6,864	6,864	6,864
Bank borrowings - due within 1 year	2,648	1,148	548	48
Trade and other payables	1,686	2,746	3,499	3,777
Current liabilities	6,636	4,712	4,939	4,745
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	11,716	10,521
Minority interests	408	360	311	263
Shareholders' equity	8,196	12,337	14,398	16,732
Total assets	23,402	24,826	26,114	27,253
Financial ratio				
Gross margin	42.5%	28.0%	34.4%	33.1%
EBIT margin	38.3%	22.7%	28.1%	26.8%
Net margin	22.8%	17.2%	21.2%	20.9%
ROE	21.1%	10.9%	17.6%	17.0%
ROA	7.0%	5.3%	9.5%	10.3%
Liability/Asset	65.0%	50.3%	44.9%	38.6%
Net debt/Equity	90.1%	35.8%	25.0%	3.2%
Current ratio	68.9%	83.9%	86.2%	112.7%
Quick ratio	64.0%	72.6%	72.5%	97.3%
Receivable turnover days	14	28	28	28
Inventory turnover days	-14	-28	-28	-28
Pay-out ratio	15.2%	15.0%	15.0%	15.0%

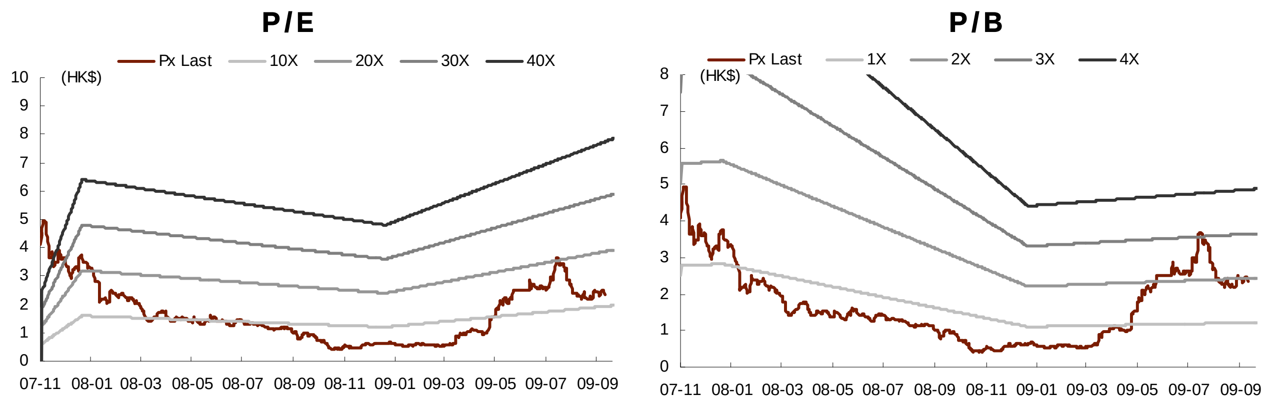
Source: Company data, CICC Research

Figure 4: Valuations of comparables

Company	Ticker	Trading Currency	Last Price 09-9-21	Market Cap (Rmb mn)	EPS 2008A	EPS 2009E	EPS 2010E	P/E 2008A	P/E 2009E	P/E 2010E	P/B 2008A	P/B 2009E	P/B 2010E
Polysilicon stocks													
MEMC	WFR.US	USD	18.94	28,914	1.69	0.09	1.05	11.2	212.8	18.1	1.9	2.0	1.9
Wacker	WCH.GR	EUR	102.54	53,539	8.84	2.55	7.38	11.6	40.3	13.9	2.8	2.5	2.2
REC	REC.NO	NOK	51.70	39,779	5.41	1.12	3.45	9.6	46.1	15.0	1.7	1.6	1.5
Tokuyama	4043.JP	JPY	703	17,725	(20.42)	33.90	47.46	n.a.	20.7	14.8	1.0	1.0	1.0
OCI	010060.KS	KRW	273000	32,366	14212	18648	26582	19.2	14.6	10.3	4.5	3.7	2.7
GCL-Poly Energy	3800.HK	HKD	2.33	25,349	0.13	0.11	0.20	15.4	19.4	10.5	3.3	2.1	1.9
Average								**12.9**	**66.9**	**14.4**	**2.4**	**2.2**	**1.8**
China solar stocks													
Suntech Power	STP.US	USD	16.96	18,054	0.52	0.24	0.65	32.6	71.0	26.3	2.5	2.0	1.9
Yingli Green Energy	YGE.US	USD	14.05	14,237	0.75	0.15	0.75	18.7	92.4	18.8	2.6	2.2	1.9
LDK	LDK.US	USD	9.39	7,260	0.64	(2.39)	0.21	14.7	n.a.	45.1	1.2	1.6	1.8
JAsolar	JASO.US	USD	4.60	5,277	0.33	(0.24)	0.21	13.8	n.a.	21.6	1.0	1.1	1.1
Average								**20.0**	**81.7**	**28.0**	**1.8**	**1.7**	**1.7**
Overall average								**16.4**	**71.1**	**20.4**	**2.1**	**2.0**	**1.8**

Source: Bloomberg. CICC Research

Figure 5: Historical P/E and P/B bands



Source: Bloomberg, CICC Research

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