



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)

New Technology, New Market

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	1,114	1,870	2,441
(+/- %)	n.a	(32)	68	31
EPS(Rmb)	0.13	0.09	0.15	0.20
(+/- %)	n.a	(32)	68	31
PE(X)	13.4	19.8	11.8	9.0
BPS	0.6	1.0	1.1	1.3
PB(X)	2.8	1.9	1.6	1.4
ROE (%)	40.2	10.9	14.4	16.6
Dividend Yield(%)	1.1	0.8	1.3	1.7

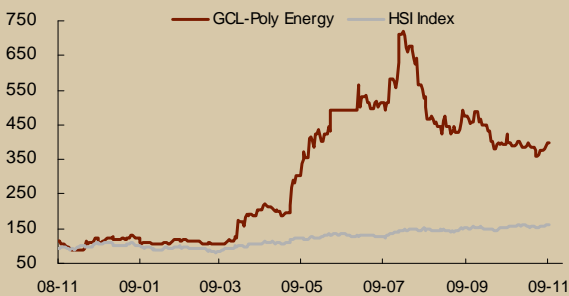
Share information

	H-Share
Bloomberg code	3800.HK
Share price	HK\$2.03
Target price	HK\$3.0
Daily turnover (mn shs)	70.52
52wk high/low	HK\$3.84/0.425
Market cap (HK\$ mn)	25,096
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]	+9.14	-1.46	-15.06	+232.79
[HSI Index]	+4.28	+4.33	+7.20	+55.67
[Sector Index]	+5.76	+1.32	+3.33	+57.81

52wk performance



Source: Company data, Bloomberg, CICC Research

What's new:

SECTOR: 1) Xinguang Silicon, China first poly producer with capacity over 1kMT, recorded a loss in the past two quarters as poly's price dropped close to its production cost (\$55/kg in our estimate vs. GCL's cost of US\$36/kg in June). We expect consolidation to emerge in the sector to slow the drop in poly price 2) The poly spot price started to fall again in October, dropping to US\$60 after staying at US\$70 for previous three months. The oversupply is worse than our expectation, although a falling price trend has been factored into our earnings forecast.

GCL: 1) Capacity ramp is in line with expectation. The production in 3Q amounted to nearly 2,000MT, growing 69% QoQ and a 1,000MT rise on October. 2) GCL is planning to undergo trials on FBR (a poly production method which is cheaper than the Siemens-based method) and electronic-grade poly technology as part of its 18kMT capacity. The construction of the pilot lines is likely to prevent the production from meeting our expectations next year. 3) GCL aims to penetrate into the Taiwan market, and has chosen Wah Lee as its major distributor. The progress, if realized, will expand and upgrade their client spectrum from merely mainland China.

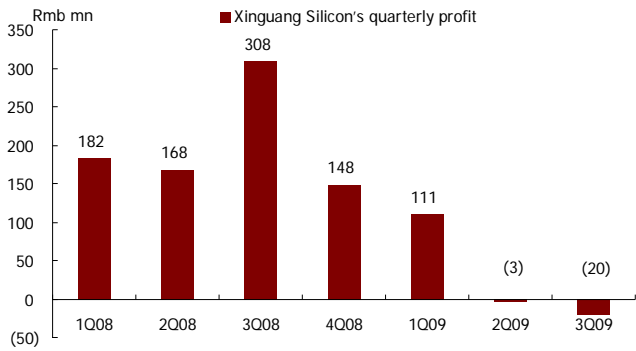
Valuation and recommendation:

We cut the 09-11 earnings forecast by 13-25%, as 1) we have reduce the ASP assumption by \$5 in 2H09/2010/2011 to \$59/55/50 respectively. 2) production assumption in 2010 is revised down by 12% given pilot lines' impact on capacity. The company is trading at 11.8x 2010EPS, still among the lowest of the comparables. The progress of the FBR pilot line and penetration into the Taiwan market is the key to raising valuation, given that cost cut (using new technology) and quality improvement enables a poly maker to merely survive global competition.

Risks:

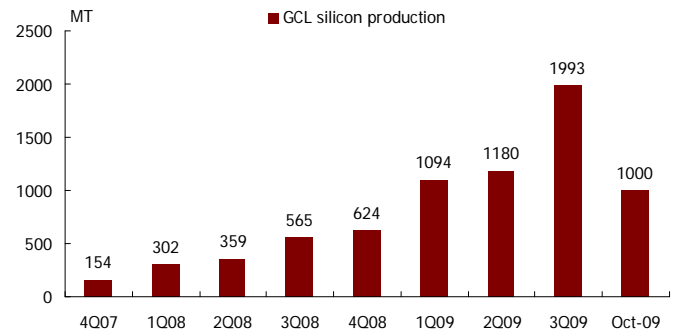
Poly spot price will probably drop more than expected.

Figure 1: Xinguang Silicon's quarterly profit



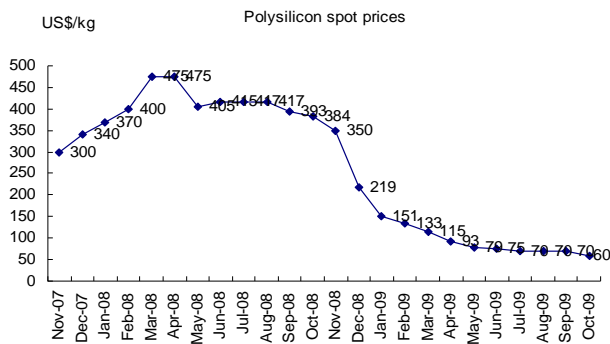
Source: Company data

Figure 3: GCL's quarterly production



Source: Company data

Figure 2: Poly spot price in China



Source: CICC survey

Figure 4: Earnings revision

(Rmb mn)	B/F			A/F			%		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Production (MT)	7500	17000	19000	7,500	15,000	19,000	0%	-12%	0%
Asp (US\$/kg)	70	60	55	66	55	50	-6%	-8%	-9%
Revenue	7,576	11,721	13,387	7,372	10,491	12,940	-3%	-11%	-3%
Gross margin	28%	34%	33%	26%	31%	31%	-2%	-4%	-2%
Net profit	1,305	2,482	2,803	1,114	1,870	2,441	-15%	-25%	-13%
EPS (Rmb)	0.11	0.20	0.23	0.09	0.15	0.20	-15%	-25%	-13%

Source: CICC Research

Figure 5: Key assumptions

	(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	15,000	19,000
Shipment	MT	1,530	7,500	12,200	13,150
ASP	US\$/MT	280	66	55	50
Cost	US\$/MT	65	40	32	31
Gross profit	US\$/MT	215	26	23	19
Gross margin	%	77%	40%	42%	38%
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 6: 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	11
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	1,189	2,312	2,981
Taxation	-129	-27	-393	-491
Minority interests	-297	-48	-48	-48
Net profit	1,647	1,114	1,870	2,441
Dividend	250	167	281	366
Cash Flow (Rmb mn)				
Operating cash flow	5,005	2,717	2,495	4,035
Investment cash flow	-6,743	-2,382	-1,458	-501
Financing cash flow	1,831	-1,361	-2,447	-2,045
Net change in cash	93	-1,025	-1,410	1,488
Balance Sheet (Rmb mn)				
Cash and cash equivalents	2,833	1,807	397	1,885
Trade receivables	570	595	1,064	983
Inventories	326	531	609	798
Current assets	4,572	3,790	3,190	4,740
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	3,148	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	8,196	12,174	13,716	15,742
Total assets	23,402	24,663	25,046	26,648
Financial ratio				
Gross margin	42.5%	26.0%	30.8%	30.8%
EBIT margin	38.3%	20.7%	24.5%	24.4%
Net margin	22.8%	15.1%	17.8%	18.9%
ROE	21.1%	9.4%	14.0%	15.8%
ROA	7.0%	4.5%	7.5%	9.2%
Liability/Asset	65.0%	50.6%	45.2%	40.9%
Net debt/Equity	90.1%	37.2%	31.7%	8.6%
Current ratio	68.9%	80.4%	70.0%	92.4%
Quick ratio	64.0%	69.2%	56.7%	76.9%
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%

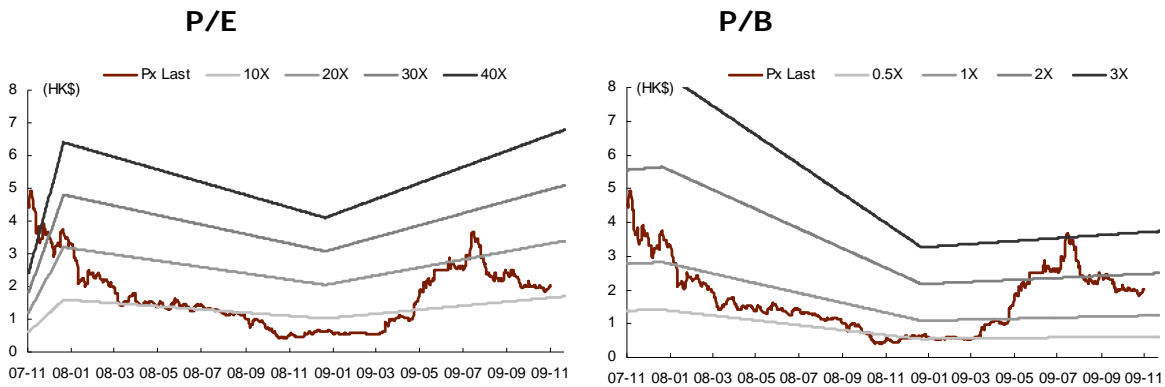
Source: Company data, CICC Research

Figure 2: Valuations of comparables

Company	Ticker	Recommendation	Trading Currency	Last Price 2009-11-12	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	13.10	19,993	1.69	(0.06)	0.87	7.8	(214.8)	15.0	1.3	1.5	1.4
Wacker	WCH.GR	N.A.	EUR	109.96	58,626	8.84	2.46	7.81	12.4	44.8	14.1	2.9	2.7	2.3
REC	REC.NO	N.A.	NOK	33.84	27,428	5.41	(0.53)	2.07	6.3	(64.1)	16.3	1.3	1.2	1.1
Tokuyama	4043.JP	N.A.	JPY	524	13,935	(20.42)	27.40	40.34	n.a.	19.1	13.0	0.8	0.8	0.8
OCI	010060.KS	N.A.	KRW	208500	28,141	14212	18648	26582	14.7	11.2	7.8	3.5	2.8	2.1
GCL-Poly Energy	3800.HK	ACCUMULATE	HKD	2.03	22,085	0.13	0.09	0.15	13.4	19.8	11.8	2.8	1.9	1.7
Average									10.3	(40.8)	13.3	1.9	1.8	1.5
China solar stocks														
Suntech Power	STP.US	N.A.	USD	13.11	13,951	0.52	0.25	0.59	25.2	53.1	22.1	1.9	1.7	1.5
Yingli Green Energy	YGE.US	N.A.	USD	12.72	12,885	0.75	0.10	0.76	17.0	131.1	16.8	2.3	2.0	1.7
LDK	LDK.US	N.A.	USD	5.93	4,583	0.64	(2.28)	0.27	9.3	n.a.	21.7	0.8	1.0	1.1
JAsolar	JASO.US	N.A.	USD	3.87	4,438	0.33	(0.14)	0.24	11.6	n.a.	16.2	0.9	0.9	0.9
Average									15.8	92.1	19.2	1.5	1.4	1.3
Overall average									13.0	(2.8)	15.9	1.7	1.6	1.4

Source: Bloomberg, CICC Research

Figure 3: Historical P/E and P/B bands



Source: Bloomberg, CICC Research

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