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Company Research

Utilities

November 12, 2009

GCL-Poly (3800 HK)

——Racing to global solar leader

Buy

Initiation of Coverage

Market Data:	Nov 11
Closing Price (HKD)	2.02
Price Target (HKD)	3.70
HSCEI	13,460
HSCCI	4,141
52-week High/Low (HKD)	3.84/0.43
Market Cap (HKD million)	24,974
Shares Outstanding (million)	12,363
Exchange Rate (CNY/HKD)	1.13

Price Performance Chart:

Source: Bloomberg

Related Research:

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Financial summary and valuation:

	2007	2008	2009E	2010E	2011E
Revenue (CNY million)	1.845	3.693	6,155	12,070	13,304
YOY (%)		100.2%	66.7%	96.1%	10.2%
Net income (CNY million)	(212)	180	492	2,561	3,181
YOY (%)	N.A	N.A	173.5%	420.3%	24.2%
EPS (CNY)	(0.57)	0.14	0.10	0.21	0.27
Diluted EPS (CNY)	(0.57)	0.14	0.10	0.21	0.27
ROE (%)	(11.7)	5.4	9.0	18.2	21.5
Net debt/equity (%)	98.5%	90.1%	83.6%	62.5%	59.3%
Dividend Yield (%)	N.A	. N.A	1.07	1.58	2.08
P/E (x)	N.A	12.8	17.9	8.1	6.6
P/B (x)	0.91	0.85	1.64	1.43	1.24
EV/EBITDA (x)	70.6	29.9	20.6	14.6	10.6

Note: Diluted EPS is calculated if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised .P/E is calculated as closing price divided by each year's EPS

Investment Highlight:

- **Solar industry is bottoming out with strong government support and demand recovery. We forecast the annual installation capacity for PV will grow at a CAGR of 21% in next five years.** Although overcapacity remains in the next two years, we believe the extent is much smaller than market expectation. Spot price for each part through the PV value chain has limited downside room. We expect that spot price of polysilicon and wafer price can reach equilibrium price of $60/kg and $0.8/w respectively, due to the strong recovery of global solar demand, especially from the emerging market like China and US.

- **Being now the largest polysilicon producer in China, GCL aims to integrate downstream into the wafer business next year and solar farm operation in the future.** Using the patent technology hydrochlorination and in-house TCS procution, GCL is a polysilicon cost leader in China with total cost USD38/kg in 2Q09, and already very close to the traditional global cost leader MEMC and Wacker. **We expect that GCL still have room for cost cut next year.** GCL's near term expansion will be a 1GW wafer capacity add-up in 2H10E. And it will become one of the dominant players in wafer manufacturing. We appreciated GCL's downstream consolidation strategy because it will mitigate the demand risk and fully utilize its cost leadership in upstream integration.

- **We forecast its revenue will achieve Rmb13,304 million in 2011E.** Therefore, we expect its net profit to increase by 420% YoY and 24% YoY to Rmb2,561 and Rmb3,181 million in 2010E and 2011E respectively as a result of its stable gross margin. Compare to the global solar peers, now trading at around 18x FY10E PER, GCL is now trading at a deep discount. We view its current FY10E PER of 8.1x and FY11E PER of 6.6x as attractive and **initiate our coverage of GCL with a Buy rating and six-month target price of HK$3.70, representing 83% upside potential.**

投资要点：

- 在各国政府的产业政策推动以及需求回暖的驱动下，太阳能行业正见底回升。在未来五年内，我们预测光伏装机容量将以 21%的平均增速快速增长。尽管今后两年产能过剩仍将持续，但我们认为其程度将低于市场预期。太阳能产业链上的各环节价格下跌空间有限。我们预计，在全球太阳能需求回升的驱动下，2010 年多晶硅及硅片价格将在 60 美元/公斤及 0.8 美元/瓦左右。

- 作为目前国内最大的多晶硅生产商，保利协鑫正致力于往下游行业扩张，其硅片业务将在明年投产，将来还将进入太阳能电场的运营。公司目前采用冷氢化的专利技术以及自产三氯氢硅，这使得其生产成本在二季度可低至 38 美元/吨，为国内的成本领先者，并且已经很接近全球的成本领先者如 MEMC 和 Wacker。我们认为公司明年仍将有成本下降的空间。在硅片业务上面，公司明年将有 1GW 产能达产，公司将因此成为硅片行业内其中一个举足轻重的企业。我们赞赏保利协鑫下游扩张的策略，因为其降低了下游需求的风险并且充分发挥了其上游行业的成本优势。

- 我们预测保利协鑫明年的销售收入将达到 133 亿人民币。其净利润在 2008 年和 2009 年将分别增长 420%和 24%至 26 亿元和 32 亿元。和国际上太阳能企业相比较，保利协鑫目前的估值远低于行业平均的 18 倍左右 2010 年市盈率。保利协鑫目前 10 年 8.1 倍和 11 年 6.7 倍非常具有吸引力。因此，我们给予保利协鑫买入评级，目标价 3.70 港元，较现价有 83%上涨空间。

Investment Case

Valuation and Target price

We initiate coverage of GCL-Poly (2380.HK) with a Buy rating and six-month target price of HK$3.70. Our valuation method is the SOTP of its IPP and solar business. For its IPP business, we use target PB to give TP of HKD0.31. For its solar business, we use the average of FCFF method and target PE to give TP of HKD3.39.

Our TP represents 32.7x FY09E and 14.9x FY10E PER based on our forecast and indicated 83% of upside potential compare to current price.

Key assumptions

1. Government policies continue to be in favor of solar power. Global solar cell shipment reach 11GW and ASP for polysilicon and wafer reach $60/ton and $0.8/w respectively in 2010E.

2. Cost cut in polysilicon and wafer manufacturing continues for GCL, we expect that the production cost for polysilicon will reach $35/kg and non-si cost for wafer reach $0.25/w

How we differ from consensus

GCL is now trading at discount to its global peers in terms of FY10E PER. We believe the major concern for the market came from the uncertainty from the 1) Overcapcity of polysilicon; 2) The credibility of its aggressive cost cut; and 3) The strategy of its downstream integration.

We believe that the concern over GCL is over exaggerated. For supply side, we believe the most of the capacity ramp up next year is “ineffective” and therefore the overcapacity situation is not that severe. Secondly, we believe the cost cut of GCL is the main result of its fast learning curve climbing and advanced technical improvement, which is not easy to be copied. Finally, we appreciate their downstream integration strategy to expand its cost leadership.

Catalysts for share price performance

Stronger than expected stimulus package policy. We believe that the FiT policy in China is going to be implemented soon and the tariff could be above the market expectation of RMB1.10-1.20/kwh. Other policy related to alternative energy can also be expected before the Copenhagen conference to be held in December.

Spot price for polysilicon and wafer bottoming out.

Risks to central scenario

1. Spot price keep declining for polysilicon and wafer, due to the fierce competition;
2. High non-Si manufacturing cost in Wafer;
3. Financial condition worsening.

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Chart & Table

Solar industry: light at the end of the tunnel

The PV industry might be one of the major sufferers in the financial turmoil in 2008 because of its strong reliance on financial loans. Typically, a PV project it is highly leveraged with only 10% equity proportion. The demand for solar modules shrank deeply with smaller funds and therefore the spot price each part through the PV value chain slump in the first half of the year.

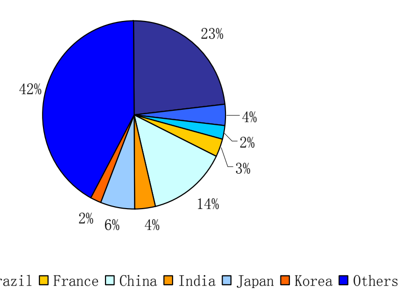
Looking into 2010E, however, we believe the worst has gone in demand because of the strong policy support from the governments and the warming of the financial markets. We believe that driven by the emerging market, solar cells shipment could reach as high as 11GW in 2010E, representing a stunning 62% YOY growth.

Strong policy support from China and US

Accounted for 23% and 14% of global capacity, US and China are top two power consumption countries. However, both countries lagged far behind the global solar craze in the past decade, solar power capacity only account for a totaling 9% of global capacity.

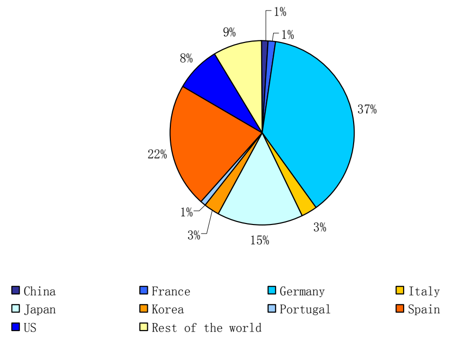
We expect that US and China will be the new land for solar demand due to the strong support from the government. As the two major energy consumers, both countries should bear the burden of carbon emission cut, especially considering their high coal-fired generation portion. We believe more and more policies favorable for solar industry will be announced before the UN Climate Change Conference in Copenhagen in the end of this year.

Chart 1: US and China took up large portion in generation capaciy…



Source：IEA, SWS Research

Chart 2: …But only a small portion in Solar



Source：EPIA, SWS Research

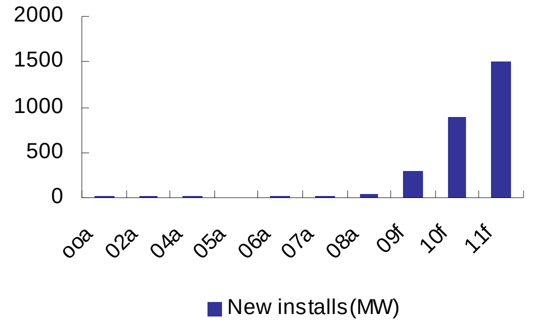
In the upcoming Chinese policy related to solar industry, two needs to be concerned. One is the solar capacity target in the next five-year plan. And the other is the subsidy policy. We expect that the solar industry subsidy policy will be implemented in the form of FiT (Feed-in-tariff) to encourage the development. And the subsidy volume would be more generous than market expectation.

We expect that the FiT could be as high as RMB1.30/kwh in West China and

RMB2.00/kwh in East China, and it will be exceed the prevailing market consensus of RMB1.1-1.2/kwh. And the high tariff will guarantee a decent ROE of 10% for the upcoming PV projects.

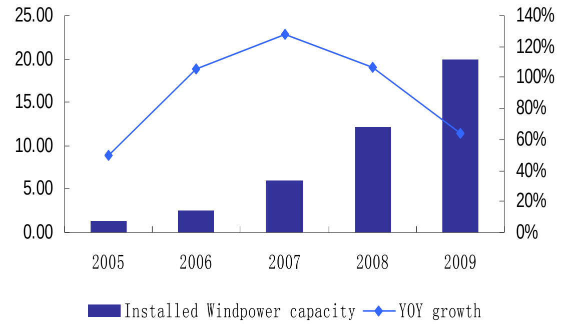
We believe strong demand from China next year is still under estimated. China has shown in countless industries how quickly it can expand when support is there. Windpower is an indicative example, We now expect that once the subsidy policy is determined, China's PV demand could be as high as 900MW, or 8% global demand next year.

Chart 3: Solar installation ramp up in China



Source：IEA, SWS Research

Chart 4: Windpower capacity see a stunning 102% CAGR in five years since policy determined in 2005



Source：BTM, SWS Research

Table 1: Supporting policies for PV projects-Developed market

Coutry	Upfront subsidy	Feed-in tariff
Germany	na	20years FIT with degression rate from 8%-10% starting from 2009 fit(2009)-eur 0.3194-0.430/kwh
Spain	na	15 years of 20 years,2 programs us$0.33-0.43/kwh cap 500MW in 2009
USA-CA	california solar incentives (system size<50kw) step5 of EPPBB(expected performance-based buydown)us$1.55/w	california solar incentives (system size>50kw) step5 of EPPBB(expected performance-based buydown)us$0.22/kwh
Japan	amount:70,000 yen/kw duration:apr 2009~jan 2010	na budget:unknown yet furation:likely start in FY10 meti is discussing over potential fit program,grid will likely buy electricity with 2x of avg retailing price(21 yen/kwh) for

Source：SWS Research

Table 2: Supporting policies for PV projects-Emerging market

Coutry	Upfront subsidy	Feed-in tariff
China	rooftop:15 rmb/w BIPV:20 rmb/w budget:unknown,no official vonfimation standard	government official has rmb1.09/kwh as preferred feed fit for demonstration projects
Italy	only in some regions and max 20% of the investment	20 years rooftop:EUR0.36-0.49/kwh
France	na	20 years rooftop:EUR0.32-0.42/kwh BIPV:EUR 0.57/kwh
Greece	a 40% grant will be valid on top of the new fits for most of the systems(m	general fit law:20years EUR0.4-0.5/kwh depends on system size fixed degression rate starting 2010 small rooftop program:system up to 10kw 25years EUR0.55/kwh no cap

Source：SWS Research

Solar demand is recovering in Europe

European governments still took a positive attitude towards PV sectors. Although Germany and Spain, the two largest PV consumer will shrink in demand due to the policy change. Emerging market in Europe will provide a larger than expected demand next year our view. We are optimistic in Italy (1.3GW), Bulgaria (500MW) and Greece (300MW) will be the major surprises to the market.

Overall, we are still optimistic to global solar market in 2010E, we expect that the total demand can reach 11G in 2010E and the corresponding demand for polysilicon is about 77 thousand tons.

Table 3: Globlal solar cells and polysilicon demand

Solar demand(mw)	2007	2008	2009	2010	2011
Germany	1310	1506	3000	3500	4000
Japan	230	230	450	1000	1200
Spain	560	2511	200	500	600
Italy	110	243	600	1300	1600
Europe-other	169	307	800	1200	1500
Califorina	110	243	417	1000	1200
US-other	97	101	114	500	600
China	20	40	300	900	1500
Global-other	136	380	500	700	800
Off-grid market	210	210	250	300	340
Showcase peojects	200	260	300	350	400
Total measurable demand	3168	6049	6931	11250	13740
YOY		91%	15%	62%	22%
Thin film %	10%	16%	10%	12%	12%
Global sloar cells C-Si	2851	5081	6238	9900	12091
Conversion ratio (T/MW)	13	11	8	8	8
Polysilicon demand (T)	37066	55893	49903	77220	90684

Source：SWS Research

Overcapacity is not that fearful

Overcapacity might be the first word that will slip of the mouth when talking about domestic polysilicon industry, especially when China government named it as a typical overcapacity industry this August.

We also admit that even considering the strong growth in US and China, global solar demand will still hardly meet supply in 2010E. However, we believe the situation is not as bad as something like 40% oversupply, which is now most investors believe.

We believe market is now overestimate the polysilicon supply next year and ignore the fact that some of the expansion projects, especially those in China which are not financially feasible. Therefore our polysilicon supply model is based on "Effective supply" rather than the capacity growth plan issued by producers. We will see that especially in China, the capacity ramp up will not as quickly as market expected. What's more, the restriction in new capacity add-up in polysilicon industry announced by China government also helps to reassure the oversupply and it is good news to incumbent producer.

And therefore ASP decline for solar value chain will not that large, although it is still inevitable.

Table 4: Polysilicon supply will continue to grow

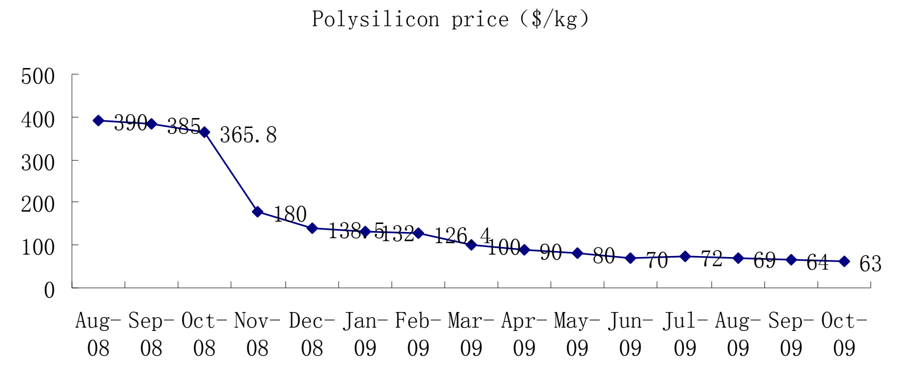
Poly supply(MT)	07a	08a	09e	10e	11e
Primary silicon supply	39664	53675	81000	120000	150000
YOY growth	18%	35%	51%	48%	25%
Semiconductor use	24420	23199	20879	25055	26809
YOY growth	11%	-5%	-10%	20%	7%
Available for solar	15244	30476	60141	95904	125441
	31%	100%	97%	59%	31%
Recycled	6081	5350	4667	18%	3427
Available for solar(MT)	21325	35826	64808	99682	128868
Excess supply	-42%	-36%	30%	29%	42%

Source：Photon; SWS Research

Spot price slump for solar related products might slow down in 1H10E

To guarantee the global leader's ROE above 15%, we expect that the value chain has limited downside room. Especially for polysilicon producer, we believe the spot price will continue to fall until around $60 to reach equilibrium. At such price, for those new entrants with high cash cost will cease operation while the incumbent cost leader could retain decent return.

Chart 5: Polysilicon price trend stable



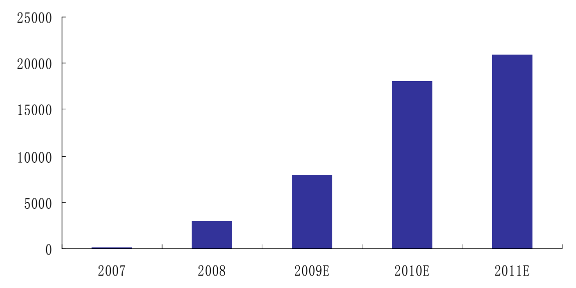
Source：Photon; SWS Research

GCL-Poly: Road to global solar giant

Polysilicon: global cost leader, capacity ramp up

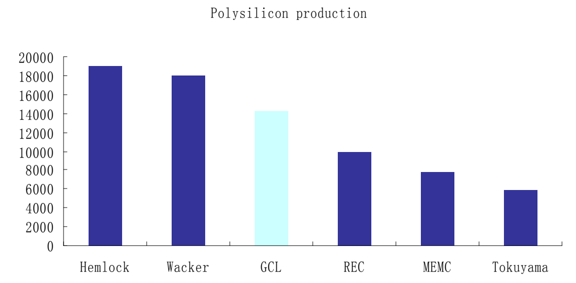
What's the secret of low cost? After the first polysilicon product line commenced operation in 2007, GCL spent only three years to cut cost from $87/kg to $38 in 2Q09. The extremely rapid speed in climbing up learning curve is a mystery to some investors. After the site visit, we believe advanced technology and strong execution ability are the keys. Unlike most of the China new entrants, GCL use "Cold hydrochlorination" method in the hydrochlorination process. The process recycles STC (a by-product of the production process) into TCS (a main material) and is critical to reducing production cost. Cold hydrochlorination is widely used by global leader such as Wacker and Hemlock because it has higher transformation rate and less power consuming. We believe the Cold Method is not easily to be copied by Chinese new entrants given that 1) Current polisilicon price make it financially unfeasible for the R&D process and 2) GCL has procured a patent in China already.

Chart 6: Roadmap of capacity ramp up (MT)



Source：Company; SWS Research

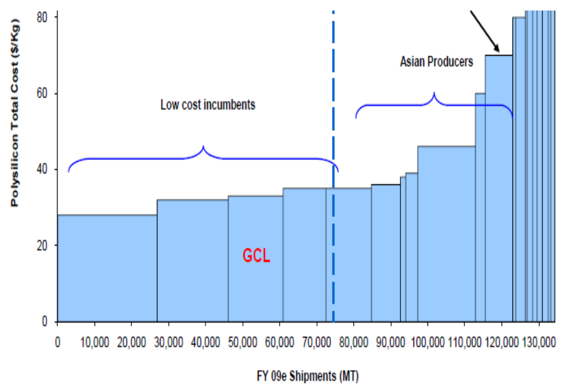
Chart 7: GCL will become the third largest policilicon producer by 2010E



Source：Photon; SWS Research

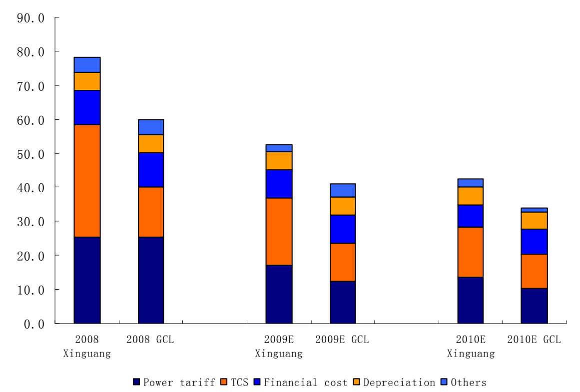
Still have room for cost cut. In our view, to survive in an apparently overcapacity and highly commodity nature industry like PV, cost leadership is extremely important. For GCL, we believe there is still room to cut cost, considering 1) the high power tariff (RMB0.61/kwh), which can be decline by 30% if direct power supply approved by the government. And 2) Capacity ramp up to 21000 Kg through technical improvement to lower unit cost. We expect that the unit cost of polysilicon could reach $35/kg, or 7% lower than current level.

Chart 8: Global cost leader



Source：Photon, SWS Research

Chart 9: Cost structure of polysilicon (Vs. Xinguang Silicon, major domestic rival)



Source：Company, SWS Research

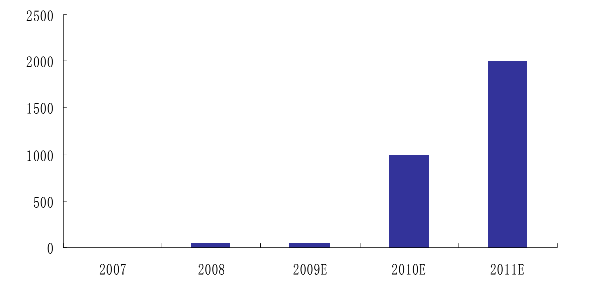
Wafer: past experience help climbing up the learning curve

GCL aimed to extend its business to Wafer manufacturing because 1) The entry barrier is relatively low along the PV value chain and past experience in polysilicon producing could be used. And 2) Some major clients, such as Suntech and Trina need wafers directly instead of polyslicon. The company guided that the first product line of 1GW will commence operation in mid-term next year and production will reach 400-500MW in 2010E. The capacity target is

2GW, and we expect it will be reached in 2011E. By then, the company will sell mostly wafer instead of polysilicon.

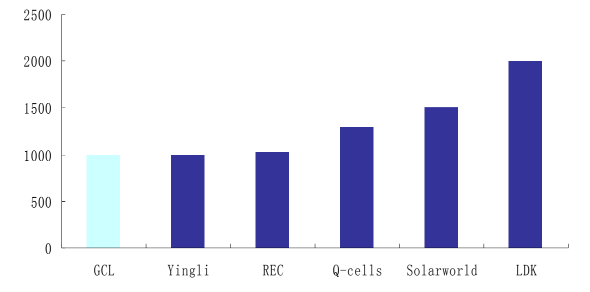
Cost leadership will maintain in Wafer business. Company guided the 1GW product line will commence operation mid-term next year. And the annual output could reach 400-500MW. They expect that due to the low capex cost ($0.35/W, compare to peers $0.5/W) and strong execution ability, the non-si cost could reach $0.18-$0.20/W. Combining with the low cost in-house producing polisilicon, the total cost could reach $0.4-$0.5. And the cost is much lower than industrial average, just second to REC.

Chart 10: Roadmap of capacity ramp up (MW)



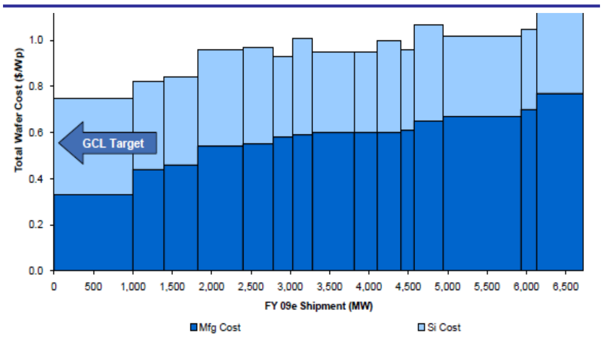
Source： Company; SWS Research

Chart 11: GCL will rank among dominant wafer manufacters by 2010E



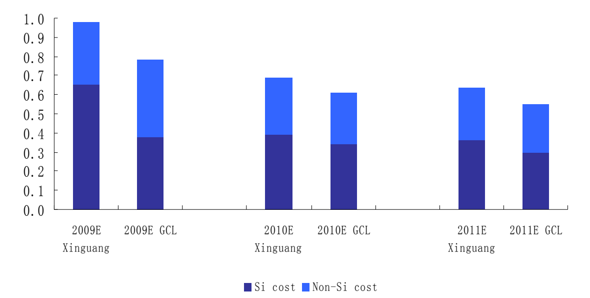
Source：Photon, SWS Research

Chart 12: Global cost leader



Source：Photon, SWS Research

Chart 13: Cost structure of Wafer (Vs. LDK, major domestic rival)



Source： Company , SWS Research

Long-term contract guarantee revenue

As GCL has already become a global leader in PV industry, long-term contract has signed to guarantee future development. We believe that the company already locked in 70% of its output in wafer and polysilicon in long-term contract. Company guided that 15.4GW of Wafer and 33K MT polysilicon has been lock-in in 10-year renegotiable contracts.

Chart 14: Major clients

Source：Company; SWS Research

Table 5: Key assumption of GCL's solar business

	Units	2008	2009E	2010E	2011E
Polysilicon					
Capacity (Year end)	MT	3,000	18,000	21,000	21,000
Shipment (Consolidated)	MT	1,532	4,182	14,240	13,150
ASP	$/MT	256.0	64.0	60.8	54.7
Cost	$/MT	65.0	37.7	35.0	34.2
Wafer					
Capacity (Year end)	MW	39	43	1,000	2,000
Shipment (Consolidated)	MW	39	43	400	900
ASP	$/MW	2.63	0.84	0.80	0.76
Non-si Cost	$/MW	0.92	0.28	0.25	0.25

Source：Company; SWS Research

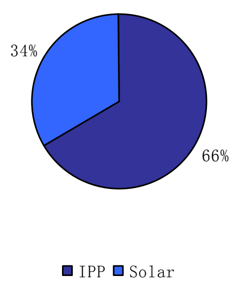
IPP business continue to provide stable cashflow

GCL's previous power generation business is one of the best in China: while most of the IPP made a huge loss in 2008, the company made RMB131 m profit, representing 5.6% ROE, slightly lower than that of CRP (836.HK) 6.6%, which was viewed as the best IPP of China.

Utilization rate rebound in 2010E

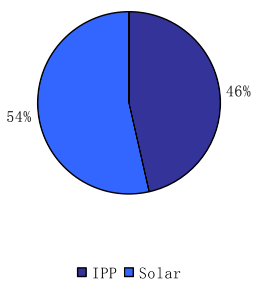
The IPP sector release interim results in September. Net profit reached RMB72 m, or RMB0.073/share, 5% higher than our previous expectation, YOY growth 250.4%.The main reason for the earning surprise came from the better than expected generation: 1H generation as well reached 2589 GWH, or 6.4% YOY growth. It is the only one HK-listed IPP that enjoyed positive growth in utilization hours. Prospecting through year results, we believe the IPP business could generate RMB4 bn of revenue and RMb200m net profit.

Chart 15: Revenue breakdown in 2009E



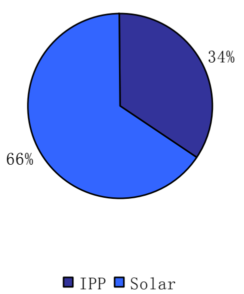
Source：Company, SWS Research

Chart 16: Net profit breakdown in 2009E



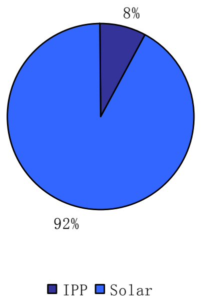
Source：Company, SWS Research

Chart 17: Revenue breakdown in 2010E



Source：Company, SWS Research

Chart 18: Net profit breakdown in 2010E



Source：Company, SWS Research

Deep discount to global solar peers, TP HKD3.70

Undemanding valuation

Trading at around 8.0x/6.7x FY10E/11E PER, we believe GCL is now in a deeply discount to global solar peers. The reason, in our view, lied on the market's suspicion of its high speed climbing the learning curve and the worry on the PV demand next year.

Solar business valuation

We use target P/E multiple method to calculate the intrinsic values of GCL. Our target PE for GCL's 2010E earnings are 15x, representing a 25% discount to global solar peers. And our model forecast that GCL-Poly will earn RMB0.20/share in its solar business. Therefore the valuation of its solar business is HKD3.39.

Table 6: Valuation matrix of global solar stock

Company names		Local price	P/E(x)			P/B(x)		
China Solar Peers	Ticker	(Nov.11)	09E	10E	11E	09E	10E	11E
Suntech	STP.US	13.06	52.9	22.1	18.8	1.88	1.61	1.45
Yingli	YGE.US	12.52	125.2	16.6	14.1	2.03	1.76	1.58
LDK	LDK.US	5.81	N/A	21.3	18.1	1.28	1.56	1.40
JA Solar	JASO.US	4.15	N/A	20.3	17.3	0.96	0.97	0.88
Trina	TSL.US	38.95	19.3	15.7	13.3	1.87	1.89	1.70
Solargiga	757.HK		N/A	28.3	24.1	2.46	2.35	2.11
Average			N/A	20.7	17.6	1.75	1.69	1.52
Polysilicon Producers	Ticker	(Nov.11)	09E	10E	11E	09E	10E	11E
MEMC	WFR US	12.93	N/A	14.8	12.6	1.50	1.43	1.29
Wacker	WCH GR	105.53	44.0	14.0	11.9	2.56	2.21	1.99
Tokuyama	4043 JT	552	27.7	22.8	19.3	0.85	0.82	0.74
Average			N/A	17.2	14.6	1.64	1.49	1.34
Integraded solar Producers	Ticker	(Nov.11)	09E	10E	11E	09E	10E	11E
REC	REC NO	46.03	N/A	16.3	13.9	1.50	1.48	1.33
Solarworld	SWV GR	14.13	15.8	14.4	12.2	1.68	1.53	1.38
Overall average			N/A	18.8	16.0	1.69	1.60	1.44
GCL-Poly	3800.HK	2.02	17.9	8.1	6.6	1.64	1.43	1.24

Source：Company, SWS Research

IPP business valuation

We use target PBR to evaluate the IPP business. Our target PBR for GCL IPP business is 1.5x, which is directly comparable to HK-listed IPP stocks. Therefore the IPP business for GCL worth HKD0.31/share.

Combining the two part of business together, we give out our TP of HKD3.7.

DCF valuation: fair value of HK$3.70

We also use DCF valuation as a cross check. Based on a risk free rate of 3.7% and equity risk premium of 7.0%, as well as a very conservative beta of 1.5, we arrive at a WACC of 9% for GCL. We forecast free cash flow in 2010-2012 explicitly and free cash flow of semi-explicit stage for next 15 years with a growth rate of 10%. We set our terminal growth rate at 1% to be conservative.

Table 7: Three-stage DCF valuation

Result of FCFF Valuation		
million yuan，yuan，million shar	**Value**	**Proportion**
Fast and stable growth value	18530	46%
Terminal value	26368	66%
Core firm value	**44898**	112%
Add：Non-core long-term investr	0	0%
Bank balances and cash	3486	9%
Held for trading investment	0	0%
Total firm value	**48384**	120%
Minus：Interest bearing debt	7579	19%
Minority interests	553	1%
Equity value	**40252**	
Share capital	12360	
Equity value per share (RMB)	**3.26**	
Equity value per share (HKD)	**3.68**	

Source: SWS Research

Investment risk

Weaker than expected demand in solar market

GCL-Poly is highly leveraged on the polysilicon and wafer prices. Therefore, for GCL, the greatest risk came from the uncertainty from the market. In our view, both the overhang in government policy making and the financial condition worsening will become the major headwind for the demand recovery. Our sensitivity test indicated that for 10% decline in polysilicon price, the earnings in 2010E will decline by 13.6%. In the extreme case, even if polisilicon and wafer price dropped by 20% vs. our base case next year, the EPS in FY10E is RMB0.15, and current PER is just 11.8x and still much lower than global solar peers. Therefore we believe the safe margin is large. In 2011E, the earnings are less sensitive because wafer business will take a larger portion.

Table 8: Sensitivity test

Polisilicon price Hike / Wafer price hike	-20%	-10%	0%	10%	20%
-20%	-36%	-22%	-9%	4%	18%
-10%	-32%	-18%	-5%	-9%	-22%
0%	-28%	-14%	0%	14%	28%
10%	-22%	-9%	5%	18%	32%
20%	-18%	-4%	9%	22%	36%

Source: SWS Research

High non-Si manufacturing cost in Wafer

Although we are confident on the strong execution of the management, uncertainty remain when large scale of capacity ramp up in the short time. But we believe in wafer manufacturing field, entry barrier is relatively low and therefore the cost risk is minimal.

Financial condition worsening

Although we see the balance sheet of GCL is still very strong, the continuing CAPEX or the lack of funds from bank loans can still be a threat to the company.

Appendix

Table 9: Consolidated Income Statement of GCL-Poly

million yuan	2007	2008	2009E	2010E	2011E
Gross Profit	237	162	1,656	4,525	5,388
Other Income	(274)	189	0	0	0
Distribution expenses	(125)	(124)	(258)	(449)	(470)
Adminstrative expenses	0	0	0	0	0
EBITDA	237	162	1,416	5,206	6,134
EBIT	220	277	1,137	4,693	5,556
Finance Costs	(162)	(259)	(402)	(501)	(510)
Profit before tax	(216)	207	735	3,491	4,317
Income tax expense	4	(27)	(146)	(836)	(1,043)
Minority interests	(5)	(48)	98	95	93

Source: SWS Research

Table 10: Consolidated Balance Sheet of GCL-Poly

million yuan	2007	2008	2009E	2010E	2011E
Current Assets	1,868	1,598	6,809	11,205	12,118
Bank balances and cash	804	414	5,953	8,379	9,257
Trade and other receivables	566	494	600	1,674	1,900
Inventories	127	259	220	852	983
Long-term investment	12	74	50	50	50
PP&E	5,228	5,877	12,575	`13,830	14,324
Total Assets	7,340	8,027	25,384	28,035	31,442
Current Liabilities	2,306	2,886	6,767	7,647	9,461
Borrowings	1,492	1,562	2,337	2,661	2,861
Trade and other payables	661	881	1,680	1,236	1,850
Other current liabilities	5	8	2,750	3,750	4,750
Long-term liabilities	2,215	1,935	8,049	8,732	8,381
Total Liabilities	4,521	4,821	14,816	16,379	17,842
Minority Interests	389	463	515	585	688
Shareholder Equity	2,818	3,206	10,568	11,656	13,600
Share Capital	93	93	1,103	1,103	1,103
Reserves	2,180	2,323	9,465	10,553	12,497
Total Liabilities and equity	7,340	8,027	25,384	28,035	31,442

Source: SWS research

Table 11: Key Financial Ratios of GCL-Poly

	2007	2008	2009E	2010E	2011E
Ratios per share (yuan)					
Earnings per share	(0.02)	0.01	0.10	0.21	0.26
Operating CF per share	0.17	0.50	0.39	0.46	0.50

Dividend per share	N.A	N.A	0.03	0.06	0.10
Net assets per share	1.34	1.48	1.09	1.25	1.44
Key Operating Ratios(%)					
ROIC	3.8	4.9	7.7	16.6	19.6
ROE	(11.7)	5.4	9.0	18.2	21.5
Gross profit margin	12.8%	4.4%	26.9%	37.5%	40.5%
EBITDA Margin	36.34	27.68	34.17	38.07	39.55
EBIT Margin	23.58	14.73	19.40	21.82	22.10
Growth rate of Revenue(YoY)	18.91%	100.2%	66.7%	96.1%	10.2%
Growth rate of Profit(YoY)	N.A	N.A	173.5%	420.3%	24.2%
Debt-to-asset ratio	62%	60%	58%	58%	57%
Turnover rate of net assets	0.65	1.15	0.58	1.04	0.98
Turnover rate of total assets	0.25	0.46	0.24	0.43	0.42
Effective tax rate (%)	23.1%	23.1%	25%	25%	25%
Dividend yield (%)	N.A	. N.A	1.07	1.58	2.08

Source: SWS research

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