

GCL Technology Holdings (3800 HK)

Buy: A winner in the downcycle

Equities
Electrical Equipment

Hong Kong

- ◆ 1H23 results in line; GCL maintains cost leadership without notable ASP discount to peers
- ◆ Encouraging quality upgrade: 1) c80% output meeting N-type standard, and 2) 20% share in the N-type poly mkt supplies
- ◆ Maintain Buy and lower TP to HKD2.60 from HKD3.00

1H23 results in line: GCL Tech' 1H23 net profits came in at RMB5,518m, down 20% y-o-y, in line with our estimates. We also note that there is an impairment loss of RMB801m for the remaining rod poly assets in Xuzhou. Meanwhile, production/sales volume surged 177%/153% y-o-y to 111kt/89.6kt in 1H23, ahead of peers.

Meeting the N-type standard: GCL said it currently owns around 20% of the high equality N-type polysilicon supply in China, as its above 80% of its granular polysilicon production could meet the N-type standard. This looks encouraging to us, as investors have been concerned about the quality of granular poly. GCL shared that the metal impurities content of granular poly has largely come down. Thus, the company's current priority is to lower the powder content on the surface of granular poly, which they expect to make meaningful progress in the next six months. We view granular silicon preservers better cost and value that does not compromise discounts for customers; it now accounts for 20% market share in the N-type poly supplies.

Cost leadership without notable ASP discount: Unit production cost of granular silicon in Leshan reached RMB36/kg in July (RMB40/kg in March), which should be the lowest globally. Going forward, GCL is upgrading its modular production capacity from 20kt to 60kt for factory in the future. This would bring further cost reductions on depreciation and labor, and help maintain its leadership in costs among peers. On the other hand, the price discount of granular poly did not seem really material. In 1H23, GCL's poly ASP was RMB140/kg in 1H, comparing to RMB136/kg of Daqo (DQ US, Hold, USD37.10) and RMB165/kg of Xinte (1799 HK, Reduce, HKD14.00) which made less sales in 2Q 2023 when spot price was lower.

Maintain Buy. We cut our earnings estimates by 10% after lowering our ASP for 2023e. We lower our SOTP derived TP to HKD2.60 from HKD3.00 after our CNY/HKD revision. With 80.6% implied upside, we maintain our Buy rating on GCL. The company is our only Buy-rated polysilicon producer. GCL's cost advantage should help outperform peers in profitability through the polysilicon downcycle, while its continued progress in product quality upgrade and lowest carbon footprint should help gain market share in the longer term. **Key downside risk:** weaker-than-expected poly price.



MAINTAIN BUY

TARGET PRICE (HKD)

2.60

PREVIOUS TARGET (HKD)

3.00

SHARE PRICE (HKD)

1.44

(as of 29 Aug 2023)

UPSIDE/DOWNSIDE

+80.6%

MARKET DATA

Market cap (HKDm)	38,870	Free float	70%
Market cap (USDm)	4,954	BBG	3800 HK
3m ADTV (USDm)	23	RIC	3800.HK

FINANCIALS AND RATIOS (CNY)

Year to	12/2022a	12/2023e	12/2024e	12/2025e
HSBC EPS	0.60	0.32	0.25	0.57
HSBC EPS (prev)	0.60	0.35	0.24	0.56
Change (%)	0.0	-10.2	4.8	1.9
Consensus EPS	0.58	0.45	0.40	0.38
PE (x)	2.2	4.2	5.4	2.4
Dividend yield (%)	3.0	3.0	3.0	3.0
EV/EBITDA (x)	1.3	0.6	0.8	0.3
ROE (%)	44.7	18.5	12.9	24.2

52-WEEK PRICE (HKD)



Source: Refinitiv IBES, HSBC estimates

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Financials & valuation: GCL Technology Holdings

Buy

Financial statements

Year to	12/2022a	12/2023e	12/2024e	12/2025e
Profit & loss summary (CNYm)				
Revenue	35,930	42,677	42,517	53,728
EBITDA	16,470	12,183	10,615	21,432
Depreciation & amortisation	-1,956	-2,163	-2,283	-2,499
Operating profit/EBIT	14,513	10,020	8,333	18,932
Net interest	-240	-225	-225	-278
PBT	18,303	10,672	8,433	19,205
HSBC PBT	18,303	10,672	8,433	19,205
Taxation	-1,880	-1,601	-1,265	-2,881
Net profit	16,973	8,436	6,666	15,182
HSBC net profit	16,030	8,436	6,666	15,182
Cash flow summary (CNYm)				
Cash flow from operations	7,869	20,324	5,086	8,516
Capex	-15,317	-12,000	-6,000	-6,000
Cash flow from investment	-16,547	-12,000	-6,000	-6,000
Dividends	-1,083	-1,083	-1,083	-1,083
Change in net debt	1,594	-12,888	1,139	-2,239
FCF equity	-7,447	8,324	-914	2,516
Balance sheet summary (CNYm)				
Intangible fixed assets	529	514	499	484
Tangible fixed assets	26,531	25,209	29,118	32,811
Current assets	37,571	46,102	44,860	56,152
Cash & others	6,636	12,734	11,595	16,834
Total assets	85,564	93,947	96,748	112,092
Operating liabilities	26,784	38,958	34,591	30,610
Gross debt	13,226	6,437	6,437	9,437
Net debt	6,590	-6,298	-5,158	-7,397
Shareholders' funds	42,682	48,392	55,058	70,240
Invested capital	31,212	20,133	28,292	42,004

Ratio, growth and per share analysis

Year to	12/2022a	12/2023e	12/2024e	12/2025e
Y-o-y % change				
Revenue	113.0	18.8	-0.4	26.4
EBITDA	224.9	-26.0	-12.9	101.9
Operating profit	299.5	-31.0	-16.8	127.2
PBT	216.5	-41.7	-21.0	127.7
HSBC EPS	197.2	-47.4	-21.0	127.7
Ratios (%)				
Revenue/IC (x)	1.4	1.7	1.8	1.5
ROIC	50.1	33.2	29.3	45.8
ROE	44.7	18.5	12.9	24.2
ROA	22.2	10.3	7.7	15.9
EBITDA margin	45.8	28.5	25.0	39.9
Operating profit margin	40.4	23.5	19.6	35.2
EBITDA/net interest (x)	68.8	54.1	47.1	77.2
Net debt/equity	14.5	-13.0	-9.3	-10.3
Net debt/EBITDA (x)	0.4	-0.5	-0.5	-0.3
CF from operations/net debt	119.4			
Per share data (CNY)				
EPS Rep (diluted)	0.64	0.32	0.25	0.57
HSBC EPS (diluted)	0.60	0.32	0.25	0.57
DPS	0.04	0.04	0.04	0.04
Book value	1.58	1.79	2.03	2.59

Key forecast drivers

Year to	12/2022a	12/2023e	12/2024e	12/2025e
Poly capacity (k tons)	180	420	420	420
Poly shipments (k tons)	94	251	372	407
Poly ASP (RMB/kg, VAT inclusive)	213	96	71	100
Poly COGS (RMB/kg)	55	38	32	32

Valuation data

Year to	12/2022a	12/2023e	12/2024e	12/2025e
EV/sales	0.6	0.2	0.2	0.1
EV/EBITDA	1.3	0.6	0.8	0.3
EV/IC	0.7	0.4	0.3	0.1
PE*	2.2	4.2	5.4	2.4
PB	0.8	0.7	0.7	0.5
FCF yield (%)	-20.6	23.1	-2.5	7.0
Dividend yield (%)	3.0	3.0	3.0	3.0

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2022a	Governance Indicators	12/2022a
GHG emission intensity*	844.3	No. of board members	11
Energy intensity*	2,346.0	Average board tenure (years)	6.5
CO ₂ reduction policy	Yes	Female board members (%)	9.1
Social Indicators		12/2022a	
Employee costs as % of revenues	5.2	Board members independence (%)	45.5
Employee turnover (%)	18.5		
Diversity policy	Yes		

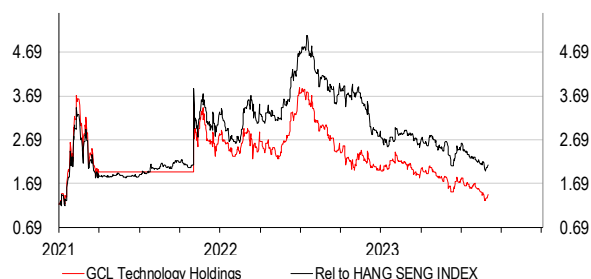
Source: Company data, HSBC

* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (HKD)	1.44	Free float	70%
Target price (HKD)	2.60	Sector	Electrical Equipment
RIC (Equity)	3800.HK	Country/Region	Hong Kong
Bloomberg (Equity)	3800 HK	Analyst	Daniel Yang
Market cap (USDm)	4,954	Contact	+852 299 66976

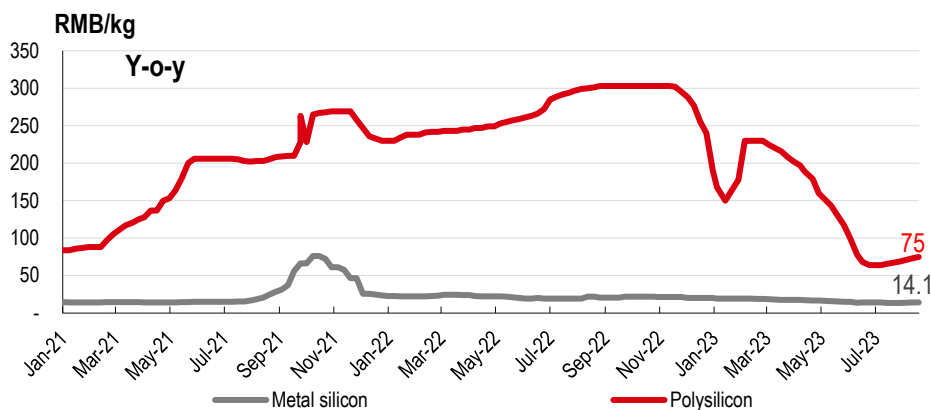
Price relative



Source: HSBC

Note: Priced at close of 29 Aug 2023

China polysilicon price rebounded recently



Source: PV Info Link, Wind

GCL Tech: 1H23 results

(RMBm)	1H22*	1H23	Y-o-y
Total Revenue	14,775	20,946	42%
-Solar material	14,679	20,836	42%
-Solar power	96	110	14%
Cost of sales	(7,692)	(12,168)	58%
Gross profit	7,083	8,778	24%
Gross margin	47.9%	41.9%	-6.0ppts
Net OpEx	(1,040)	(2,182)	110%
Distribution & selling expenses	(63)	(123)	95%
Admin expenses	(737)	(1,138)	54%
Other expenses, gains and losses, net	(537)	(1,429)	166%
Other income	454	507	12%
Operating Profit	6,043	6,596	9%
OP Margin	40.9%	31.5%	-9.4ppts
Share of profit from Associates	2,106	1,037	-51%
Share of profit from JCE	3	2	-28%
EBIT	8,152	7,636	-6%
Finance costs	(93)	(215)	133%
Tax expense	(961)	(1,175)	22%
Tax rate	12%	16%	3.9ppts
Profit after tax	6,688	6,245	-7%
Profit/(loss) from discontinued operations	(410)	0	nm
Minority Interest	(220)	727	-430%
Net Profit attributable to shareholders	6,909	5,518	-20%

Source: Company data

Earnings revisions

We lower GCL Tech's earnings estimates by 10% for 2023e, to factor in a lower ASP assumption. We maintain our earnings forecast largely unchanged in 2024-25e.

GCL Tech: earnings revision

RMBm	2023e	2024e	2025e
Revenue			
New	42,677	42,517	53,728
Old	40,679	39,552	50,984
% change	5%	7%	5%
Net profit/loss			
New	8,436	6,666	15,182
Old	9,392	6,360	14,905
% change	-10%	5%	2%

Source: HSBC estimates

GCL Tech: Sum-of-the-parts (SOTP) valuation

	2023e
Polysilicon	
Net assets (RMBm)	47,148
Book value (RMB)	1.75
Sharecount	27,077
Multiple	1.30x
FX (RMB/HKD)	1.10
Implied value (HKD)	2.50
Solar farms	
Assets (RMBm)	1,912
Liabilities (RMBm)	668
Net assets (RMBm)	1,243
Book value (RMB)	0.04
Multiple	1.50x
FX (RMB/HKD)	1.10
Implied value (HKD)	0.07
SOTP TP (HKD)	2.60

Source: HSBC estimates

Valuation and risks

	Valuation	Risks to our view
GCL Tech 3800 HK Buy	Current price: HKD1.44 Target price: HKD2.60 Up/downside: +80.6%	Downside risks: (1) Significant drop in the polysilicon price; (2) a drop in demand from the US or other global buyers due to trade disputes; and (3) surging upstream raw material prices.

We continue to use a sum-of-the-parts methodology to value GCL. We apply a 2023e PB multiple of 1.32x (previously 1.42x) for GCL's polysilicon business, which is a 30% premium to the average 2023e PB multiple of global peers given its leadership in cost structure of polysilicon production. We use a 1.5x (unchanged) 2023e PB valuation multiple for its solar farm business, benchmarked to current renewables project operators in the Hong Kong market. We use a RMB-HKD assumption of 1.10 (from 1.15). Our rounded target price implies 80.6% upside from current levels; we maintain our Buy rating on the stock. GCL is our preferred stock among polysilicon names as its advantages in cost and capacity ramp-up should help enhance its market leadership during the down-cycle.

Priced at 29 Aug 2023
 Source: HSBC estimates

Disclosure appendix

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Upside/Downside is the percentage difference between the target price and the share price.

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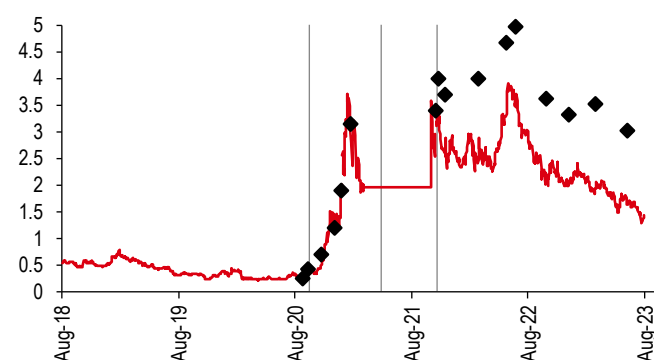
Buy	61%	(13% of these provided with Investment Banking Services in the past 12 months)
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Share price and rating changes for long-term investment opportunities

GCL Technology Holdings (3800.HK) share price performance HKD Vs HSBC rating history



Source: HSBC

Rating & target price history

From	To	Date	Analyst
Reduce	Hold	09 Oct 2020	Evan Li
Hold	Restricted	25 May 2021	
Restricted	Buy	14 Nov 2021	Evan Li
Target price	Value	Date	Analyst
Price 1	.22	22 Sep 2020	Evan Li
Price 2	.40	09 Oct 2020	Evan Li
Price 3	.67	23 Nov 2020	Evan Li
Price 4	1.19	03 Jan 2021	Evan Li
Price 5	1.88	24 Jan 2021	Evan Li
Price 6	3.12	23 Feb 2021	Evan Li
Price 7	Restricted	25 May 2021	
Price 8	3.37	14 Nov 2021	Evan Li
Price 9	3.97	24 Nov 2021	Evan Li
Price 10	3.67	16 Dec 2021	Daniel Yang
Price 11	3.97	29 Mar 2022	Daniel Yang
Price 12	4.66	24 Jun 2022	Daniel Yang
Price 13	4.96	26 Jul 2022	Daniel Yang
Price 14	3.60	30 Oct 2022	Daniel Yang
Price 15	3.30	06 Jan 2023	Daniel Yang
Price 16	3.50	31 Mar 2023	Daniel Yang
Price 17	3.00	10 Jul 2023	Daniel Yang

Source: HSBC

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Company	Ticker	Recent price	Price date	Disclosure
GCL TECHNOLOGY HOLDINGS	3800.HK	1.44	29 Aug 2023	4, 7, 11

Source: HSBC

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