

Analyst: Kelvin Li

## Main Board Listing – Research

GCL-Poly Energy Holdings Limited [Stock Code: 3800] 保利協鑫能源控股有限公司

**Global Coordinators, Bookrunner and Lead Manager** : Morgan Stanley Asia Ltd  
**Joint Sponsors** : Morgan Stanley Asia Ltd  
: CCB International Capital Ltd

**Sector** : Power

**Business** : Sales of electricity and steam

|  |  |
|--|--|
| <p><b>Total share offer:</b> *<u>288,000,000</u> shares<br/> <b>(29.3% of the enlarged share capital)</b></p> <p><b>Public Offer:</b> 28,800,000 shares (10%)</p> <p><b>Placing:</b> 259,200,000 shares (90%)</p> <p><i>*All 288,000,000 shares are New Shares</i></p>   | <p><b><u>Business of GCL-Poly Energy</u></b></p> <p>GCL-Poly Energy is one of the largest foreign-owned independent cogeneration plant operators in the PRC which is principally engaged in the development, management and operation of cogeneration plants in Jiangsu and Zhejiang province, PRC.</p> <p>The power plants within the Group and the Associated Cogeneration Plants can be classified by fuel types as follows: 6 coal-fired cogeneration plants; 1 gas-fired cogeneration plant; 5 Resources Comprehensive Utilization Plants; 2 biomass-fuelled cogeneration plants and 1 municipal solid waste incineration plant.</p> <p>Besides sales of electricity, the cogeneration plants provide steam for industrial and commercial purposes, during the power generation process. For the first 4 months of 2007, sales of steam contributed 23.5% of total revenue.</p> <p>As of 30<sup>th</sup> April 2007, the company's total attributable installed capacity and the attributable steam extraction capacity amounted to 464.26MW and 1,017.52 ton/hour.</p> |
| <p><b>Price:</b> HK\$3.30 – HK\$4.10 per share</p> <p><b>Market Cap:</b> HK\$3,280 million– HK\$3,985 million</p> <p><b>Pro forma FY2007E PER:</b> 51.3X – 62.4X</p> <p><b>Adjusted NTA per share:</b> HK\$1.91 – HK\$2.19</p> <p><b>Staffing:</b> 1,153 (as of 26 October 2007)</p>   |  |
| <p><b>HK Public Offer period:</b><br/> 31<sup>st</sup> October 2007 – 5th November 2007</p> <p><b>Receiving banks:</b> Bank of China (Hong Kong)<br/> Bank of Communications</p> <p><b>Share registrar:</b> Computershare Hong Kong<br/> Investor Services Limited</p> <p><b>Listing date:</b> 13<sup>th</sup> November 2007</p> |  |

### **Shareholding Structure after Listing** (Assuming the over-allotment option is not exercised)

|  |               |
|--|---------------|
| Highexcel Investment Ltd (wholly-owned by Mr. Zhu Gong Shan, the Chairman of the Co) | 39.64%        |
| MS China 3 Ltd (an affiliate of Morgan Stanley)                                      | 20.71%        |
| Poly CMIC [a wholly-owned subsidiary of Poly (HK) Investments Ltd (#0119)]           | 10.32%        |
| Public Investors   | 29.33%        |
|  | <u>100.0%</u> |

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### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$961.5 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$3.70 each, being the midpoint of the indicative price range)

|   | HK\$ million |
|---|--------------|
| To acquire the equity interest of several cogeneration power plants | 330.0        |
| For the expansions of the cogeneration power plants                 | 103.0        |
| For loan repayment to MS China 3 Ltd.                               | 275.0        |
| For cash payable due to restructuring                               | 50.0         |
| For the expansion of the Taicang Incineration Plant                 | 38.0         |
| For future expansions and acquisitions and working capital purpose  | 165.5        |

### Financial Highlights

|                            | Year ended 31 <sup>st</sup> December |                 |                 |
|----------------------------|--------------------------------------|-----------------|-----------------|
|                            | 2004<br>RMB'000                      | 2005<br>RMB'000 | 2006<br>RMB'000 |
| Turnover                   | 438,431                              | 822,819         | 910,022         |
| Gross profit               | 73,125                               | 147,017         | 199,269         |
| <b>Attributable profit</b> | <b>4,900</b>                         | <b>27,048</b>   | <b>58,295</b>   |
| Gross margin               | 16.7%                                | 17.9%           | 21.9%           |
| Net margin                 | 1.1%                                 | 3.3%            | 6.4%            |

### Revenue Breakdown (% of Total Revenues)

|                      | Year ended 31 <sup>st</sup> December |           |           |
|----------------------|--------------------------------------|-----------|-----------|
|                      | 2004<br>%                            | 2005<br>% | 2006<br>% |
| Sales of electricity | 91.6                                 | 85.4      | 78.2      |
| Sales of steam       | 8.4                                  | 14.6      | 21.8      |
| Total                | 100.0%                               | 100.0%    | 100.0%    |

### Strengths/Opportunities

- ✓ **Government support on alternative and clean energy sources** As the power plants within the Group and the Associated Cogeneration Plants are all environment friendly, GCL-Poly Energy can benefit from higher on-grid tariff, which was 17% to 33% higher than the conventional coal-fired power plants in 2006. Moreover, compared to the general enterprise income tax rate of 33%, the Company currently enjoys a preferential enterprise income tax rate of 15%, due to its environmental friendly nature.
- ✓ **Advantageous strategic locations in highly developed industrial zones** Jiangsu and Zhejiang Province have recently enjoyed rapid economic growth, with GDP CAGRs from 2001 to 2005 at 17.8% and 18.8% respectively. These two provinces have some of the highest GDP growth rates and utilization hours in PRC. Having 13 power plants located in Jiangsu Province and 2 located in Zhejiang Province, GCL-Poly Energy can benefit from the strong demand for electricity & steam.
- ✓ **Exclusive right to sell steam in certain area** Being a beneficial policy for cogeneration plants, the regulation issued in August 2000, prohibits new installation of boilers for steam generation in an area where steam demand can be satisfied by the existing cogeneration plants. It implies that GCL-Poly Energy can earn stable revenue from its existing cogeneration plants, without interruptions from new rivals.
- ✓ **Aggressive acquisition and expansion plans** GCL-Poly Energy will acquire at least 4 cogeneration plants and expand the existing power plants, right after the global offering. With such clear expanding strategies, it is expected that its attributable capacity and revenue will grow significantly in 2008.

**Weaknesses/Threats**

- × **Further increase in fuel price** Similar to the conventional independent power producers, sales of power is largely determined by on-grid tariffs which is regulated by the relevant provincial government authorities, while cost of coal, represented 82.3% and 78.3% of total cost of sales in fiscal year 2005 and 2006 respectively, varies with the domestic coal price. As a result, the profit margin of GCL-Poly Energy will be narrowed if the coal price further increases.
- × **High valuation** Based on the high end of the indicative offering price, the expected PE ratio in FY2007 reaches 62.4X. Compared with the conventional IPPs, namely Huaneng Power, Datang Power and China Resources Power with PE ratios of 16X, 38X and 40X respectively, GCL-Poly Energy with limited track records, may not be able to justify its aggressive PE multiple, solely by its distinctive environmental friendly power plants.

**Recommendation:     Caveat Emptor**

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