

## UPDATE Equities | China | Manufacturing

September 2, 2010

### New Recommendation

**Hold**

#### Risk:

**Very High**

Actual Price: EUR 0,66

Fair Value: EUR 1,10

old Fair Value: EUR 1,93

Sector: Manufacturing  
Segment: Mobile Components

Reuters Code: 49G.DE  
Bloomberg Code: 49G GY Equity  
ISIN: SG9999005052  
Home Page: www.greater-cpc.com  
Fiscal Year End: December

### Trading Data

High/Low 52 w: EUR 1,05 - 0,61  
Market Cap: EUR 17,2 mill.  
Shares outst.: 26,1 mill.  
Free Float: 23,00%

### Price Graph



### Financial Calendar

Financial Results 2010 April 2011

Exchange Rate: RMB/EUR 8,7

**Date and Time of Stock Price**  
September 2, 2010 10am CET

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Attention is drawn to the disclaimer and other  
Information on page 3

## Greater China Precision Components Ltd. (GCPC)

### First half 2010 results: Satisfying top line growth, weak on the margins side

GCPC has reported its figures for the first half of 2010. Sales increased by very satisfying 63,4% compared to the same period last year and reached RMB 150,3 mill. (EUR 17,28 mill.). Mainly responsible for the growth were strong orders from existing Chinese clients.

Worse than expected were profit margins. EBIT margins came in at 10,3%, resulting in an operating profit of RMB 15,6 mill. EBIT margin in H1 2009 was still a very healthy 16,7%.

Responsible for the disappointing margin announcement was a general pricing pressure due to high competition and consequently lower average unit selling prices. Labor costs also rose, having a negative effect on the profitability.

Net profit was RMB 11,9 mill. (EUR 1,37 mill.), equal to a net profit margin of 7,9% (H1 2009 : 14,4%); This was as well below our expectations.

### Although sales growth should stay strong, margins pressure should continue for a while

GCPC's current profitability trend is disappointing. Although we expected unit cost pressure and higher labor costs, we assumed that efficiency gains might support margins and will help that net profit margins will stay in the double digit range in 2010. This did not occur. It rather seems like GCPC has hardly any pricing power and must accept unit prices demanded by its clients, resulting in very weak gross margins. Additionally, the company's diversification strategy towards higher margins products still seems to be in a far too early stage to have a positive effect on the income development. We do not expect that this will change soon as it seems to be a longer process than originally hoped for.

Although we stick to our sales estimates for 2010 and 2011 we are lowering our profit estimates. 2010 sales should come in at RMB 307,6 mill. (+25%). We now expect EBIT margins to be 9,4% (old estimate 14,9%) resulting in an operating profit of RMB 29,0 mill. (EUR 3,2 mill.). For 2011 we expect sales of RMB 386,1 mill. (+26%) and an operating margin of 9,8%.

We do not totally exclude that margins might rise again in the longer run, but it seems like the company has to work very aggressively on new product development, efficiency improvements to even higher automatisations and new client wins. This will take time.

### Reducing rating from Buy to Hold

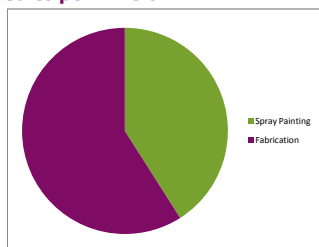
Our revised margins outlook has quite a negative effect on the fair value calculation of GCPC's stock, especially using a peer group analysis. Our new target price is EUR 1,10 (old: EUR 1,93).

In order to reach our target price we have used a DCF model in combination with a peer group analysis (50%/50%).

Although our target price is higher than the current stock price, we doubt that the stock price will appreciate short to mid term to this level. We still like the company in the long run, but we do not expect that the margins situation will change short term and we doubt that news flow will be extremely positive in the next coming months.

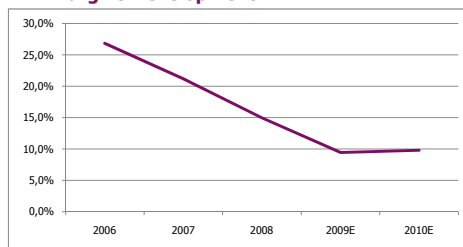
Consequently, we are reducing our price target from Buy to Hold and are willing to upgrade the rating, once the "dark margins clouds" have disappeared.

## Sales per Division



Source: GCPC

## EBIT Margins Development



## Company Description

GCPC is one of the leading one-stop providers of mobile handsets casings in China. Its primary business is the manufacturing of spray painted mobile handset casings. GCPC provides customers with services such as product design development, moulding and prototyping, raw materials and components procurement, plastic injection, spray painting and assembling services. All of its products are sold to customers that are based in China. It operates its business through its subsidiary, Huizhou Green.

## Summary of Financials

Year Ending December, 31

Income Statement						Cash Flow Statement					
	2007	2008	2009	2010E	2011E		2007	2008	2009	2010E	2011E
in RMB thousand											
Sales	244.103	202.247	245.894	307.646	386.148	Net Profit	64.411	42.022	31.376	25.388	33.172
% change		-17%	22%	25%	26%	Depreciation & Amortisation	8.605	10.829	12.744	17.469	21.022
						Change in Working Capital	-30.028	-87.731	-330	10.485	-4.117
EBIT	65.563	42.864	36.749	29.015	37.911	Cash flow from Operations	42.988	-34.880	43.790	53.342	50.078
as % of sales	26,9%	21,2%	14,9%	9,4%	9,8%						
						Investing Activities	-28.225	-145.933	-39.090	-39.994	-42.476
						Financing Activities	247.740	-36.180	-30.140	-2.539	-3.317
Net Profit	64.411	42.022	31.376	25.388	33.172	Free Cash Flow	262.503	-216.993	-25.440	10.810	4.284
in % of sales	26,4%	20,8%	12,8%	8,3%	8,6%						
	23,00%					Dividends					
						Net Cash	262.503	-216.993	-25.440	10.810	4.284
Shares outstanding (in Mio)	21.233	27.500	26.400	26.100	26.100	Opening Cash Balance	9.744	272.247	55.254	29.814	40.624
EPS (reported)	3,03	1,53	1,19	0,97	1,27	Closing Cash Balance	272.247	55.254	29.814	40.624	44.908
Balance Sheet						Key Ratios					
in RMB thousand											
						P/E				7,2	5,5
Tangibles	92.825	168.324	251.336	287.989	309.443	P/Sales				0,5	0,4
Trade Debtors	86.640	120.074	141.206	130.644	142.822	EV/EBITDA				3,1	2,5
Other current Assets	4.609					EV/EBIT				5,0	3,9
Inventories	21.773	31.556	65.949	73.245	90.771	P/B				0,4	0,4
Cash	277.300	92.912	45.670	41.686	45.970	Dividend Yield				0,0%	0,0%
Long-term Liabilities	20.000					ROE				5,8%	7,1%
Short-term Liabilities	110.465	109.795	115.128	123.526	150.612	ROIC				5,7%	6,9%
Total Equity	353.176	388.124	416.448	438.632	468.487	Equity Ratio				98%	98%
						Tax Rate				12,5%	112,5%

GCPC, VEM Aktienbank AG

## SWOT Analyse

Strengths	Weaknesses
Strong Expertise in manufacturing precision plastic components	Lack of bargaining power with customers
Fully integrated product offering from design to assembly	Dependence on a few top customers for revenues
Close relationship with major global ODMs and EMSs	Short-term contracts due to limited lifecycle of products
Opportunities	Threats
Broaden product portfolio to include more assembly services and plastic components	Expansion Strategy could lead to competition with current customers
Capacity expansion could help Company to form direct relationship with major OEMs	Dynamic industry with rapidly changing technologies
	Emergence of India as major manufacturing hub could slow down component industry growth in China

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**Summary of VEM's recommendations over the last 12 month concerning the securities of the company being subject of this analysis**

Date of publication	Share Price at this date	Recommendation	New Fair Value (at date of publication)
22.10.2007	IPO	Buy	EUR 4,45
11.12.2007	EUR 2,14	Buy	EUR 4,80
02.04.2008	EUR 1,39	Buy	EUR 3,45
24.08.2008	EUR 0,78	Hold	EUR 1,50
15.04.2009	EUR 0,50	Buy	EUR 1,50
07.09.2010	EUR 0,80	Buy	EUR 1,30
30.04.2010	EUR 0,71	Buy	EUR 1,93

**Disclosure of potential conflicts of interests according to Section 34b of the German Securities Trading Act (WpHG) in combination with the German Ordinance on the Analysis of Financial Instruments (FinAnV) at the date of publication of the analysis:**

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Company	Disclosure
Greater China Precision Components Ltd.	3 - 5 - 8 - 9 - 10 - 11
1. There is a major shareholding (a shareholding exceeding 5 percent of the share capital) between persons and/or enterprises mentioned above and the issuer that is, or whose instruments are, the subject of this financial analysis.	financial
2. The remuneration of the persons and/or enterprises mentioned above is dependent on investment banking transactions of the responsible enterprise or an undertaking with it.	associated
3. The persons and/or enterprises mentioned above regularly hold shares of the issuer that is, or whose financial instruments are, the subject of this financial analysis, in its portfolio.	trading
4. The persons and/or enterprises mentioned above own a short position in shares of the issuer that is, or whose financial instruments are, the subject of this financial analysis, of at least 1 percent of the share capital.	analysis, of
5. The persons and/or enterprises mentioned above manage the financial instruments of the issuer that is, or whose financial instruments are, the subject of this financial analysis, on a market by placing buy or sell orders (Market Making/Designated Sponsoring).	on a
6. The persons and/or enterprises mentioned above act as Corporate Broker for the issuer that is, or whose financial instruments are, the subject of this financial analysis.	
7. The persons and/or enterprises mentioned above have, within the past 12 month, been part of a consortium for the issue of shares of the issuer that is, or whose financial instruments are, the subject of this financial analysis, in the way of a public offering.	
8. The persons and/or enterprises mentioned above have acted as investment bank or selling agent in connection with initial public offering of the issuer that is, or whose financial instruments are, the subject of this financial analysis, in the way of a public offering.	
9. The persons and/or enterprises mentioned above have, within the past 12 month, been party to an agreement on provision of investment banking services with the issuer whose financial instruments are, the subject of this financial analysis, or have received services or a promise to perform under the terms of such an agreement during the same period.	that is, or
10. The persons and/or enterprises mentioned above expect or aim, within the next 3 month, for fees, allowances or payments of any other kind for investment banking services from the issuer that is, or whose financial instruments are, the subject of this financial analysis.	from the
11. The persons and/or enterprises mentioned above have entered into an agreement on the preparation of this financial agreement with the issuer that is, or whose financial instruments are, the subject of this financial analysis.	
12. Prior to its first publication, this financial analysis has been made available to the issuer that is, or whose financial instruments are, the subject of this financial analysis.	
13. The persons and/or members of the management or supervisory board of the issuer mentioned above are members of the management or supervisory board of the issuer that is, or whose financial instruments are, the subject of this financial analysis.	whose
14. The persons and/or enterprises mentioned above have any other significant economic interests relating to the issuer that is, or whose financial instruments are, the subject of this financial analysis.	this

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This financial analysis is based on public available information (Company presentations, Annual Reports, Quarterly Reports, Press Information, prospectus, ad-hoc announcements etc.). Moreover, management interviews for more detailed information about the current business development were held with the company.

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The valuations underlying the ratings of the securities analysed by VEM are based on generally accepted and widely used methods of fundamental valuation, such as DCF model, Peer group comparison, NAV valuation and - where applicable - a Sum-of-the-parts model.

VEM applies an absolute equity rating system with 3 grades. Each grade complies with following expectations (Ratings refer to time period of 6 months):

BUY: The expected return (composed of the projected change of the share price and the anticipated dividend yield) is at least + 10 %.

HOLD: The expected return (composed of the projected change of the share price and the anticipated dividend yield) ranges from - 10 % and + 10 %.

SELL: The expected return (composed of the projected change of the share price and the anticipated dividend yield) is worse than - 10 %.

For further important details concerning the valuation methods applied in the preparation of this analysis, the meaning of the specific investment recommendation (including the recommended investment period, the risks associated with the investment and the sensitivity of the valuation parameters) please see the Section "Valuation" in this analysis.

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**Additional important information:**

Date of first publication of this analysis by VEM : September 2nd, 2010

Date and Time of relevant Share Price (see first page):

A schedule for an update of this Analysis is not appointed yet. VEM reserves the right to update any individual analysis without prior notice.