

# Update

## Equities - China

April 29th, 2011



## Greater China Precision Components Ltd. (GCPC)

New Rating:	<b>Buy</b>
Risk:	Moderate
Current Price:	EUR 0,46
Price Target:	EUR 1,10
Potential:	139%
Sector:	Mob. Components

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

### Trading Data

Price High/Low 52 w	EUR 1,05 - 0,34
Market Capitalisation:	EUR 12,0 mn.
Shares outstanding	26,3 mn.
Free Float:	23,0%

### Price Graph



### Financial Calendar

Annual General Meeting	June 18, 2011
H1 Report 2011	September 2, 2011

Exchange Rate (Dec. 31, 2010):	RMB/EUR 8,8
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### Date and Time of Stock Price

April 29, 2011 10 am CET

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

### 2010 results: Good sales figures - as expected margins under pressure but still double digit

GCPC has reported its 2010 results. Sales have increased by a very satisfying 24,1% to RMB 305,1 mn. (EUR 34,6 mn.). Sales increase was achieved due to strong order inflow from existing mainly Chinese customers.

As expected, profit margins came under pressure, but less than we had feared. Operating profits came in at RMB 38,4 mn. (EUR 4,36 mn.), equal to an EBIT margin of 12,5%. Weaker 2010 margins compared to fiscal year 2009, where operating margins have reached 14,9%, were mainly due to ongoing rising labor costs and a decrease in average selling prices. In 2010 competition was very strong and consequently clients were able to achieve substantial price discounts.

Net profit was RMB 33,0 mn. (EUR 3,7 mn.) resulting in a net profit margin of 10,8%; still double digit, which we find positive.

For fiscal year 2010 the company plans to pay a dividend per share of RMB 0,30, which is equal to a very attractive dividend yield of 6,9%.

### 2011 Outlook: Sales growth expected, margins should stabilize

In general, cost pressure should persist in 2011, as labor costs will continue to increase and ongoing high competition will dampen average selling prices.

In our view GCPC has mainly two possibilities to slow down its margins erosion: an increase in production efficiency and the move towards middle to high end products, which are characterized by higher margins.

In 2010 the company has moved to a new production site, which has caused some production adjustments last year. This should now be settled and we expect that GCPC will be able to enforce and focus on cost control, as well as finally benefitting from new production techniques. Additionally, the company has signed some new contracts with international clients, which should help to improve its product mix.

We are particularly pleased that GCPC was able to sign Amazon as its new customer. GCPC will produce casings for Amazons eBook readers-Kindle series. Shipping has already started. This should be a great reference for future additional client wins. We expect more announcements from this side in the coming months.

For fiscal year 2011 we calculate with a sales gain of 18,0% to RMB 359,9 mn.. EBIT margins should stabilize and should come in at 13,0%, which is equal to an operating profit of EUR 46,8 mn.. For 2012 we expect an EBIT margin expansion to 13,6%, as product mix should continue to improve and cost control should finally take effect.

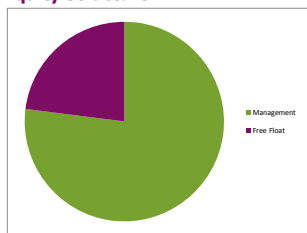
We expect, that the very attractive current dividend policy will continue in 2011, as the company should be able to generate enough cash enabling to pay out a high dividend.

### Value Play: Rating increase from Hold to Buy

Although the company might still be burdened by decreasing profit margins in the first half of 2011, the stock is very attractively valued. The current dividend yield of 6,9% is far above average and our DCF model as well as our peer group analysis show an undervaluation of the stock. Consequently, we are raising our recommendation from Hold to Buy. The high dividend yield should prevent the stock price from falling and a hopefully beginning positive news flow will give some stimulus to a positive price move.

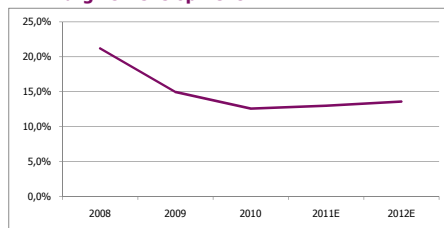
Our fair value is EUR 1,10. We recommend purchasing the stock.

**Equity Structure**



Source: GCPC

**EBIT Margins Development**



Source: GCPC and VEM Aktienbank

**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.

Source: GCPC and VEM Aktienbank

**Summary of Financials**

Year Ending December, 31

Income Statement	2008	2009	2010	2011E	2012E	Cash Flow Statement	2008	2009	2010	2011E	2012E
in RMB thousand											
Sales	202.247	245.894	305.060	359.971	449.964	Net Profit	42.022	31.376	32.294	40.952	53.560
% change		22%	24%	18%	25%	Depreciation & Amortisation	10.829	12.744	20.323	19.263	
EBIT	42.864	36.749	38.407	46.802	61.211	Change in Working Capital	-87.731	-330	5.913	-26.786	
as % of sales	21,2%	14,9%	12,6%	13,0%	13,6%	Cash flow from Operations	-34.880	43.790	50.914	67.188	46.038
Net Profit	42.022	31.376	32.294	40.952	53.560	Investing Activities	-145.933	-39.090	-20.672	-28.798	-35.997
in % of sales	20,8%	12,8%	10,6%	11,4%	11,9%	Financing Activities	-36.180	-30.140	-17.782	-9.920	-12.975
Shares outstanding (in Mio)	27.500	26.400	26.302	26.302	26.302	Free Cash Flow	-216.993	-25.440	12.460	28.470	-2.934
EPS (reported)	1,53	1,19	1,23	1,56	2,04	Net Cash	-216.993	-25.440	12.460	28.470	-2.934
						Opening Cash Balance	277.300	60.307	34.867	47.327	75.797
						Closing Cash Balance	60.307	34.867	47.327	75.797	72.863
<b>Balance Sheet</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>Key Ratios</b>				<b>2011E</b>	<b>2012E</b>
in RMB thousand											
Tangibles	168.324	251.336	260.401	275.754	292.488	P/E				4,5	3,4
Trade Debtors	120.074	141.206	135.438	133.140	166.425	P/Sales				0,4	0,3
Other current Assets	0	4.694	5.594	6.601	8.251	EV/EBITDA				2,2	1,8
Inventories	31.556	65.949	54.947	63.683	79.086	EV/EBIT				3,1	2,4
Cash	92.912	45.670	49.911	71.502	68.568	P/B				0,4	0,4
Liabilities	109.795	115.128	85.963	99.320	122.873	ROE				8,7%	10,5%
Total Equity	388.124	416.448	439.498	470.530	511.115	ROIC				8,7%	10,5%
						Equity Ratio				100%	100%

GCPC, VEM Aktienbank

**SWOT Analyse**

**Strengths**

- Strong Expertise in manufacturing precision plastic components
- Fully integrated product offering from design to assembly
- Close relationship with major global ODMs and EMSs

**Weaknesses**

- Lack of bargaining power with customers
- Dependence on a few top customers for revenues
- Short-term contracts due to limited lifecycle of products

**Opportunities**

- Broaden product portfolio to include more assembly services and plastic components
- Capacity expansion could help Company to form direct relationship with major OEMs

**Threats**

- Expansion Strategy could lead to competition with current customers
- 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
02.09.2010	EUR 0,66	Hold	EUR 1,10

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Company	Disclosure
Greater China Precision Components Ltd.	3 - 5 - 8 - 9 - 10 - 11 - 12
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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 that is, or 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.
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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 : April 29, 2011

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.