

Equities - China

September 6th, 2013

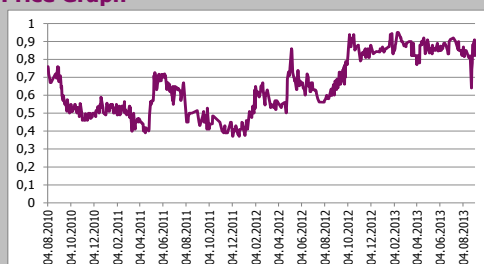
Rating:	Hold
Risk:	High
Current Price:	EUR 0.91
New Price Target:	EUR 1.20
Old Price Target:	EUR 2.90
Sector:	Mob. Components

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 1.02 -0.62
Market Capitalisation:	EUR 25.4m
Shares outstanding	26m
Free Float:	23%

Price Graph



Financial Calendar

May 2014	2013 Yearly Results
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Exchange Rate (Sept. 2013):	RMB/EUR 8.4
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Date and Time of Stock Price Sept. 06, 2013 10 am CET

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

Greater China Precision Components Ltd. (GCPC)

H1 results: Surprising first sales decrease in Years

GCPC has reported its first half 2013 results, which came in lower than expected. The company generated sales of RMB 252.0m, a decrease of -17.3% compared to last year. Reason for the negative trend are lower orders from the mobile handset as well as tablet casings segment.

Profit margins came down as well. H1 2013 gross profit margin was 19.2% compared to 24% in H1 2012. Net profit was RMB 8.3m, which is equal to a net profit margin of a weak 3% (H1 2012 net profit margin: 12.3%).

Result shows, how vulnerable as well as dependable the company is due to the current client structure. One or two order cancellations can have a quite high impact on the operative performance as well as on profitability.

The company is not expecting any short term changes and believes that margins will stay under pressure and sales will be lower than last year; overall a non satisfying outlook.

Company plans to acquire a Chinese Gold Mine

Additionally, the company has announced to acquire 52% of Yuanfa Mining Co. Limited (YMCL), a Chinese gold mine. The purchase price will be RMB 65.2m (equal to EUR 7.5m), payable in cash. The purchase is depended on the approval by an extraordinary general meeting scheduled on October 8th, 2013.

So far the YMCL is not producing any gold and has no licence to do so. GCPC expects to receive the production approval in the second quarter of 2014. Company calculates that it is possible to generate annual net profit of RMB 94.8m or EUR 11.3m. It is expected that YMCL will break even in approximately 3 years from the purchase.

It is quite obvious that YMCL is not at all compatible with the core business of GCPC. There are no synergies and of course certain risks in regards to that acquisition. We see among others the following risk factors related to YMCL: reserves and resources are based on assumptions and it is not clear, whether the company will be able to generate expected output; company might not get exploration licence or licence approval might be postponed; if the PRC government takes the view that the acquisition does not comply with rules in regards to foreign investments, the company might be severely penalised; profit assumptions are highly dependable on the gold price; the company might need additional financing which is not secured.

At this point we are not very fond of the announcement. There seem to be too many uncertainties and as a gold mine is not a logical and beneficial addition to the existing business model, we do not see any synergies or actually any sense in the purchase (besides the fact that running a goldmine might be very profitable in the longer run).

Reducing Sales and Profit targets

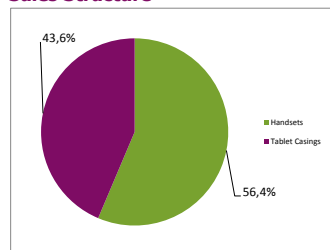
As we still see a lot of insecurities in regards to the gold mine acquisition, we only considered GCPCs core business in our future estimates. The company seems to face a lot of competition and decreasing orders in the mobile as well as the tablet business. We have talked to the management and they believe this trend will continue till 2014. Consequently, we have reduced our sales as well as profit estimates. For 2013 we now calculate with a sales decrease of -10% to RMB 645.6m (old: RMB 713m). Margins should stay under pressure. Our 2013 net profit estimate is RMB 38.4m, which is equal to an operating profit margin of 5.9% (old: 11.4%). For 2014 we are estimating another sales decrease of -10%, which should result in 2014 sales of RMB 581m. Margins should stay under pressure and net margins should reach 3.1% in 2014, which is equal to a net profit of RMB 18.2m.

Reducing price target - New Rating HOLD

The company is facing quite a few uncertainties. Earnings estimates had to be trimmed, new potential purchased gold mine seems to be a risky investment to us. Peer group analysis as well as DCF Model generate a new price target of EUR 1.4, which is 44% above the current share price of GCPC's stock. We add a 20% discount to the fair value due to high uncertainties due to the proposed acquisition and end up with a final price target of EUR 1.2.

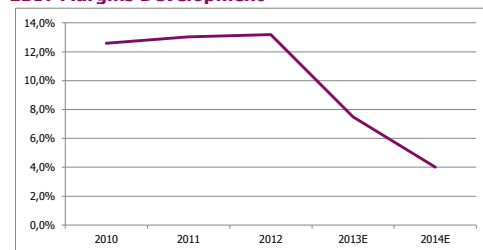
We are reducing our rating from BUY to HOLD and recommend to wait for further clarification in regards to YMCL before investing in the stock.

Sales 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 and tablet 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. GCPC operates its business through its subsidiary, Huizhou Green.

Source: GCPC and VEM Aktienbank

Summary of Financials

Year Ending December, 31

Income Statement						Cash Flow Statement				
	2010	2011	2012	2013E	2014E		2011	2012	2013E	2014E
in RMB thousand										
Sales	305,060	589,607	717,428	645,685	581,117	Net Profit			38,375	18,193
% change		93%	22%	-10%	-10%	Depreciation & Amortisation			28,942	35,733
Gross Profit	76,217	160,196	206,318	154,964	127,846	Change in Working Capital			39,960	20,379
as % of sales	25.0%	27.2%	28.8%	24.0%	22.0%	Cash flow from Operations	23,318	141,601	107,277	74,305
EBIT	38,407	76,901	94,668	48,426	23,245					
as % of sales	12.6%	13.0%	13.2%	7.5%	4.0%	Investing Activities	-51,360	-88,176	-96,853	-58,112
Tax Payments	-5,876	-15,844	-17,318	-9,594	-4,548	Financing Activities	5,208	-13,062	-11,396	-11,396
Tax Rate	15%	21%	18%	20%	20%	Free Cash Flow	-22,834	40,363	-972	4,797
Net Profit	32,294	60,410	77,147	38,375	18,193	Net Cash	-22,318	40,363	-972	4,797
in % of sales	10.6%	10.2%	10.8%	5.9%	3.1%	Opening Cash Balance	42,970	20,652	61,015	60,043
Shares outstanding (in m)	26,302	25,903	25,903	25,903	25,903	Closing Cash Balance	20,652	61,015	60,043	64,841
EPS (reported)	1.23	2.33	2.98	1.48	0.70					
Balance Sheet						Key Ratios				
	2010	2011	2012	2013E	2014E			2013E	2014E	
in RMB thousand										
Tangibles	235,018	254,719	289,418	357,329	379,708	P/E		4.9	10.3	
Trade Debtors	135,438	322,410	322,114	265,350	238,815	P/Sales		0.3	0.3	
Other current Assets	86,652	195,122	169,230	167,678	159,470	P/Book		0.4	0.4	
Inventories	54,947	134,641	109,107	107,555	99,347					
Cash	42,970	20,652	61,140	60,168	64,966	ROE		6.5%	3.1%	
Liabilities	85,963	335,076	309,355	291,000	276,635	ROIC		4.4%	2.1%	
Total Equity	439,498	491,761	558,982	585,961	592,758	Equity Ratio		84%	85%	

GCPC, VEM Aktienbank

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 at a very efficient rate	Dependence on a few top customers for revenues
New client gains and value added products should support growth and margins	Short-term contracts due to limited lifecycle of products
Increase in internationalisation	Possible purchase of gold mine makes future growth predictability difficult
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
02.09.2010	EUR 0.66	Hold	EUR 1.10
29.04.2011	EUR 0.46	Buy	EUR 1.10
21.09.2011	EUR 0.44	Buy	EUR 0.67
04.03.2012	EUR 0.70	Buy	EUR 1.50
03.09.2012	EUR 0.70	Buy	EUR 1.50
30.04.2013	EUR 0.855	BUY	EUR 2.90

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Company	Disclosure
Greater China Precision Components Ltd.	3 - 5 - 8 - 9 - 10 - 11

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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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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 : Sept 6th, 2013

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.