

Equities - China

May 14th, 2014

Greater China Precision Components Ltd. (GCPC)

Rating:	BUY
Risk:	High
Current Price:	EUR 0.72
New Price Target:	EUR 1.50
Old Price Target:	EUR 1.20
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 0.93-0.62
Market Capitalisation:	EUR 22.07m
Shares outstanding	26m
Free Float:	23%

Price Graph



Financial Calendar

Exchange Rate (May 13th, 2014): RMB/EUR 8

Date and Time of Stock Price
May 14, 2014 10 am CET

VEM Aktienbank
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2013 results: Surprisingly good

GCPC has reported very good 2013 results, which surprised us positively. Despite tough competition and pricing pressure the company was able to grow strongly, which we find very satisfying. Sales gained a very good 23.5% to RMB 886.3m. This is particularly extraordinary as half year 2013 results were with a minus of 17.3% compared to 2012 very weak. Consequently, second half must have been very strong.

Responsible for good sales figures were above-average orders from handset as well as tablet manufacturers. Touch screen manufacturing is gaining in importance growing by 82%, but is with a share of 5% of total sales still small. The relationship with amazon is still intense and was responsible for roughly 17% of total 2013 sales.

2013 gross profit margin was with 27.8% higher than last year (2012 gross profit margins 27.1%). But net profit fell compared to last year. 2013 net profit was RMB 70.9m (2012: RMB 76.8m) which is a decrease of 7.8%. Responsible for the weakening in profits were higher Administrative Costs.

The management has decided not to pay a dividend due to ongoing investments, which we find logical.

Company will open new plant in 2014 - high competitive environment will persist

The company is in the middle of constructing a new production facility almost next to its headquarter in Huizhou. The factory will be finished by the end of this year. We find the expansion necessary as the company needs to increase its capacity in order to be capable to receive and to handle larger orders from multinational companies. After the opening, capacity will increase by a good 40% and will give GCPC the opportunity to generate new clients.

Demand for smartphones and tablets will increase in the coming years. On the other hand the competitive environment is still very intense and will continue to be so. Chinese manufacturers are fighting for contracts by giving huge discounts for their products. This will put pressure on future margins of GCPC.

Additionally, so far GCPC is focusing on producing phones made out of plastic. The trend is definitely towards metal casings. This is for sure a challenge for GCPC, but we are confident that the company will manage that.

For 2014, we calculate with a sales increase of 5%, resulting in total sales of RMB 930m. For 2015, when the new factory will be running, we calculate with an increase of 7% and sales of RMB 995.8m.

Margins will come down and we expect an EBIT of RMB 37.2m in 2014, equal to an operating margin of 4%. In 2015 margins should be stable, EBIT should be RMB 39.8m.

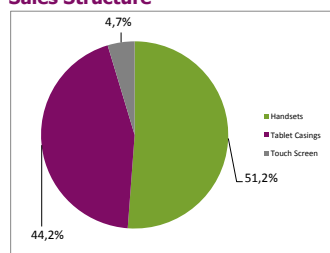
The gold mine project is postponed by several months and will not have an effect on sales and margins in 2014. We do not expect any current investments.

Price target EUR 1.50 - Rating BUY

Despite the uncertainties in regards to the margins and to the goldmine the stock is still ridiculously cheap. Our price target is increased to EUR 1.50 and we are increasing our rating from HOLD to BUY.

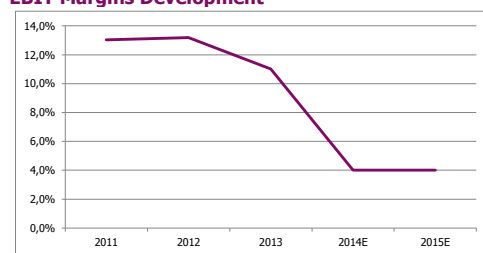
Attention is drawn to the disclaimer and other information on page 4

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, 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

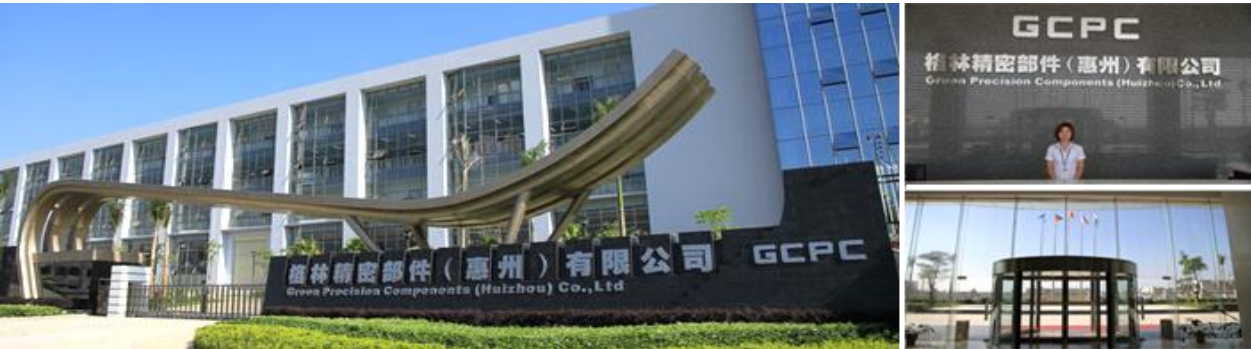
Income Statement	2011	2012	2013	2014E	2015E	Cash Flow Statement	2012	2013	2014E	2015E
in RMB thousand										
Sales	589.607	717.428	886.337	930.654	995.800	Net Profit	77.147	72.183	27.382	29.227
% change		22%	24%	5%	7%	Depreciation & Amortisation		0	31.948	38.060
Gross Profit	160.196	206.318	254.479	232.663	248.950	Change in Working Capital			52.433	18.804
as % of sales	27,2%	28,8%	28,7%	25,0%	25,0%	Cash flow from Operations	141.601	152.377	111.762	86.091
EBIT	76.901	94.668	97.655	37.226	39.832	Investing Activities	-88.176	-188.160	-93.065	-99.580
as % of sales	13,0%	13,2%	11,0%	4,0%	4,0%	Financing Activities	-13.062	38.828	-10.688	-10.687
Tax Payments	-15.844	-17.318	-23.806	-6.845	-7.307	Free Cash Flow	40.363	3.045	8.009	-24.176
Tax Rate	15%	21%	18%	25%	20%	Net Cash	40.879	3.045	8.009	-24.176
Net Profit	60.410	77.147	72.183	27.382	29.227	Opening Cash Balance	20.652	61.531	64.576	72.585
in % of sales	10,2%	10,8%	8,1%	2,9%	2,9%	Closing Cash Balance	61.531	64.576	72.585	48.409
Shares outstanding (in m)	25.903	25.903	25.844	25.903	25.904	Key Ratios				
EPS (reported)	2,33	2,98	2,79	1,06	1,13	P/E			2,1	5,5
						P/Sales			0,2	0,2
						P/Book			0,3	0,3
						ROE			11,6%	4,3%
						ROIC			6,1%	2,2%
						Equity Ratio			84%	80%

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

Latest Images of GCPC Site



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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
06.09.2014	EUR 0.95	Hold	EUR 1.20

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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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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.

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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 : 14.5.2014

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.