

GICS: Industrials/Industrial Machinery

Business Summary: Operating in Guangdong Province, Combine Will has three business divisions, ODM/OEM, Moulds & Tooling and Machine Sales. It is an ODM/OEM manufacturer of plastic and die-cast products. It also makes plastic injection and die-casting moulds in addition to selling machines and precision tools for mould making and metal parts processing.

Country of Incorporation: Cayman Islands

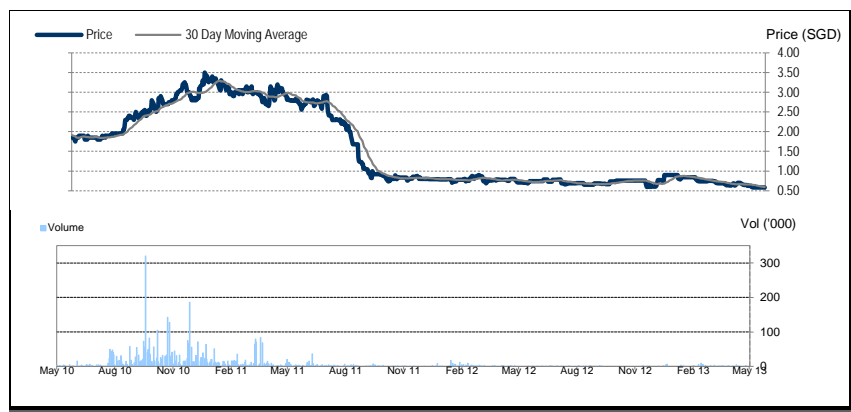
Head Office Location: Xin Cheng Industrial District, Heng Li Zhen, Dongguan, Guangdong Province, The PRC

Place of Operations: China

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Key Stock Statistics

52-week Share Price Range (SGD)	0.58 - 0.90
Avg Vol - 12 months ('000 shares)	2.7
Price Performance (%)	
- 1 month	-9.3
- 3 month	-22.0
- 12 month	-21.5
No. of Outstanding Shares (mln)	32.8
Free Float (%)	26.5
Market Cap (SGD mln)	19.2
Enterprise Value (SGD mln)	-40.6
Major Shareholders (%)	
DJKS Holdings Ltd	73.5

Per Share Data

FY Dec.	2012	2013E	2014E
Book Value (HK cents)	1,927.10	1,929.98	1,961.69
Cash Flow (HK cents)	277.5	165.1	185.9
Reported Earnings (HK cents)	113.1	2.9	31.7
Dividend (HK cents)	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0
PER (x)	3.2	125.7	11.4
P/Cash Flow (x)	1.3	2.2	1.9
P/Book Value (x)	0.2	0.2	0.2
Dividend Yield (%)	0.0	0.0	0.0
ROE (%)	6.1	0.1	1.6
Net Gearing (%)	54.3	50.0	51.9

Unprecedented loss in 1Q13

- **Disappointing 1Q13 results.** Combine Will (CW) 1Q13 results swung to a net loss of HKD7.1 mln compared to a HKD10.0 mln net profit in the previous corresponding quarter. The results are significantly lower than our expectations due to a sharp decline in revenue which led to margin compression. In view of the challenging macro environment, we lower our earnings estimate by 41% and 60% for 2013-2014.
- **Sharp slowdown in 1Q13 revenue.** 1Q13 revenue declined by 23.3% YoY across all segments, with machine sales suffering the most, followed by the ODM/OEM segment. Management said this was mainly due to the slowdown in orders and timing of orders. Overall gross margin was significantly compressed by 10.1 %-point YoY or 6.2 %-point QoQ to 5.5% due to falling revenue. As a result, 1Q13 gross profit declined by 73.1% YoY.
- **Swung into operating loss.** Operating expenses decreased by 17.3% YoY due to consolidation and streamlining at its moulds and tooling segment. However, due to the sharp decline in gross profit, the company reported an operating loss of HKD5.5 mln compared to a HKD19.3 mln operating profit in 1Q12.
- **Rising working capital requirement.** CW reported a negative operating cash flow mainly due to lower operating cash generation and higher working capital requirements. As a result, net gearing increased to 66.7% vs. 54.3% in the previous year.
- **Guiding for weaker financial performance.** Due to the weak macro environment resulting in lower revenue, management guided for weaker financial performance especially in the next two or three quarters, vs. its previous guidance for subdued to moderate growth across its business segments.
- **Key risks include:** (i) the challenging macroeconomic environment impacting demand, (ii) rising labor cost and inflationary pressure, and (iii) volatility in CNY/USD exchange rate.

Earnings Outlook

Revenue Drivers:

- We estimate the group's 2013 revenue growth to decline by 8.9% YoY, mainly led by the ODM/OEM and machine sales segment. The 5% decline in ODM/OEM sales are mainly due to slow global consumer spending, especially in advanced economies.
- We expect demand for moulds and toolings to be subdued due to slowing investment in the manufacturing industry, fewer new car models introduced in the automobile industry and more standardized platform requirements.
- We expect machines sales to be very weak due to competitive pressure. Also, weak economic recovery has put off capex expansion.

Margin Outlook:

- We expect gross margin to fall by 3 %-points mainly due to declining revenue. We estimate 20% of its cost structure are fixed (mainly depreciation and overhead). Besides, the company is also facing a rising labor cost at 10% YoY, which constitutes around 20% of overall cost structure. We think there is a limited room for their customers to squeeze margin further as net profit margin for the ODM/OEM business in the industry is razor-thin.
- We estimate EBIT margin for 2013 to fall by 2.3 %-points, as a result of slower revenue growth. However, we expect the company to have relatively tight control on admin expense.
- We expect the company's overall 2013 net margin to be 1.2%, 1.2 %-points lower than last year. This is generally lower than the average ODM/OEM industry margin of 3-4%.

Bottomline:

- We estimate 2013 net profit to decline by 56.4% YoY due to declining sales and lower margin.
- We also expect other income generation to be higher by HKD10mln due to better contribution from engineering services.

Earnings Performance

FY Dec. / HKD mln	1Q13	1Q12	% Change
Reported Revenue	270.5	352.6	-23.3
Reported Operating Profit	-5.5	19.3	NM
Depreciation & Amortization	-13.6	-13.3	2.2
Net Interest Income / (Expense)	-3.6	-3.4	7.7
Reported Pre-tax Profit	-9.3	14.1	NM
Reported Net Profit	-7.1	10.0	NM
Reported Operating Margin (%)	-2.0	5.5	-
Reported Pre-tax Margin (%)	-3.4	4.0	-
Reported Net Margin (%)	-2.6	2.8	-

Source: Company data

Profit & Loss

FY Dec. / HKD mln	2011	2012	2013E	2014E
Reported Revenue	1,778.2	1,526.6	1,390.8	1,465.9
Reported Operating Profit	95.0	72.0	32.9	51.2
Depreciation & Amortization	-53.6	-54.2	-53.5	-50.9
Net Interest Income / (Expense)	-16.9	-15.9	-14.5	-18.0
Reported Pre-tax Profit	68.9	53.2	0.9	12.3
Effective Tax Rate (%)	27.4	35.1	25.0	25.0
Reported Net Profit	40.6	37.1	0.9	10.4
Reported Operating Margin (%)	5.3	4.7	2.4	3.5
Reported Pre-tax Margin (%)	3.9	3.5	0.1	0.8
Reported Net Margin (%)	2.3	2.4	0.1	0.7

Source: Company data, S&P Equity Research

Key Financial Performance

FY Dec.	2011	2012	2013E	2014E
Revenue Growth(%)	11.3	-14.2	-8.9	5.4
Operating Profit Growth(%)	-37.7	-24.2	-54.4	55.8
Net Profit Growth(%)	-60.9	-8.5	-97.5	1,002.8
EPS Growth(%)	-60.9	-8.5	-97.5	1,002.7
EPS 3-Year CAGR(%)	-21.4	-6.4	-79.1	-36.5

Source: Company data, S&P Equity Research

Key Fundamentals

FY Dec.	2009	2010	2011	2012
Asset turnover (x)	1.1	1.2	1.1	1.0
Receivables turnover (x)	5.5	5.6	5.1	4.3
Inventory turnover (x)	NA	NA	NA	NA
Current Ratio (x)	1.4	1.4	1.4	1.7
Quick Ratio (x)	0.9	1.0	1.0	0.9
Net Gearing (%)	33.4	55.7	50.8	54.3
Debt/Capital (%)	42.6	56.6	56.7	39.3
Interest coverage (x)	5.3	8.1	2.3	2.2
ROA (%)	4.8	7.9	3.1	2.4
ROE (%)	10.3	20.6	9.1	6.1
Payout ratio (%)	41.0	37.2	0.0	0.0

Source: Company data, S&P Equity Research

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Page 3 of 4

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