

**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 District, Heng Li Zhen, Dongguan, Guangdong Province, The Peoples Republic of China

**Place of Operations:** China

**Website:** www.combinewill.com

**IR Contact:** Kathy Zhang | staff@financialpr.com.sg | +65-64382990

**Analyst:** Vincent Ng



**Results Review**

- Combine Will (CW) delivered a second consecutive disappointing quarterly result, with 2Q11 net profit falling 55% YoY and 8% QoQ to HKD14.3 mln. 1H11 net profit of HKD29.8 mln was down 41% YoY and 44% from 2H10. 2Q and 1H earnings accounted for only 16% and 33%, respectively, of our previous full year estimate.
- Lower-than-expected margins were the reason behind the variance, as increasing raw material and labor costs reduced gross margin to 12.2% in 2Q11 from 15.0% in 1Q and 17.4% in 2Q10.
- The group's core ODM/OEM business (biggest revenue contributor, accounting for more than 60% of total) suffered the most, with that unit's gross profit down HKD28.2 mln or 59% YoY. Sharply higher Machine Sales provided some offset, with that unit's gross profit up HKD10.7 mln or 87% YoY.
- The balance sheet remains manageable despite total debt increasing by HKD346.5 mln to HKD1.04 bln between end-2010 and end-2Q10, as the group borrows more to fund increased working capital requirements. Net gearing stood at 69% at end-2Q11 vs. 56% at end-2010 and 40% at end-2Q10. Much of the increased borrowings were due to the group borrowing USD and swapping to CNY, to finance its China operations and as a hedge against the weakening USD.

**Earnings Outlook / Estimates Revision**

- In view of the higher-than-expected cost increases, we have cut our 2011–2012 earnings estimates by 23%–24%. CW is experiencing a slowdown following a record 2010, in line with the consolidation seen in the contract manufacturing sector in China. Rapid economic growth is resulting in higher material and labor costs, and the appreciation of the CNY against the USD over the past 12 months has not helped.
- CW announced last week (Sep 21) that it has deferred its plans for a dual listing on Korea's KOSDAQ, in view of the current poor market conditions. There is currently no plan to resume the dual listing exercise and a fresh application would be made if CW decides to list on KOSDAQ in the future. This deprives CW of an opportunity to raise fresh equity, possibly at higher valuations, but we believe the group can manage its cash flow through bank facilities, with continued support from its major customers.

**Investment Risks**

- Rising wage inflation in China, particularly in the coastal cities, is an issue. Combine Will operates five plants with more than 10,000 workers in Guangdong Province. Continued appreciation of the CNY is also negative for the group, as its revenues are mainly in USD and HKD, while costs include a significant CNY component.

**Key Stock Statistics**

52-week Share Price Range (SGD)	0.82 - 3.50
Avg Vol - 12 months ('000 shares)	91.5
Price Performance (%)	
- 1 month	-19.4
- 3 month	-70.3
- 12 month	-67.8
No. of Outstanding Shares (mln)	32.8
Free Float (%)	26.5
Market Cap (SGD mln)	28.5
Enterprise Value (SGD mln)	84.1
Major Shareholders (%)	
DJKS Holdings Ltd	73.5

**Per Share Data**

FY Dec.	2009	2010	2011E	2012E
Book Value (HK cents)	1,397.76	1,675.91	1,820.20	2,032.68
Cash Flow (HK cents)	285.2	475.6	371.3	443.5
Reported Earnings (HK cents)	137.8	316.5	206.3	274.5
Dividend (HK cents)	56.5	117.8	62.0	62.0
Payout Ratio (%)	41.0	37.2	30.1	22.6
PER (x)	3.9	1.7	2.6	1.9
P/Cash Flow (x)	1.9	1.1	1.4	1.2
P/Book Value (x)	0.4	0.3	0.3	0.3
Dividend Yield (%)	10.6	22.2	11.7	11.7
ROE (%)	10.3	20.6	11.8	14.2
Net Gearing (%)	33.4	42.2	29.1	21.5

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Page 1 of 4

**Earnings Performance**

FY Dec. / HKD mln	2Q11	2Q10	% Change
Reported Revenue	467.3	436.9	7.0
Reported Operating Profit	27.9	44.9	-37.8
Depreciation & Amortization	-13.3	-12.2	9.5
Net Interest Income / (Expense)	-3.8	-4.7	-17.7
Reported Pre-tax Profit	24.0	40.2	-40.2
Reported Net Profit	14.3	31.9	-55.1
Reported Operating Margin (%)	6.0	10.3	-
Reported Pre-tax Margin (%)	5.1	9.2	-
Reported Net Margin (%)	3.1	7.3	-

Source: Company data

**Profit & Loss**

FY Dec. / HKD mln	2009	2010	2011E	2012E
Reported Revenue	1,058.2	1,597.0	1,820.7	2,008.3
Reported Operating Profit	71.4	152.4	108.3	137.5
Depreciation & Amortization	-48.4	-52.5	-54.1	-55.4
Net Interest Income / (Expense)	-10.2	-16.3	-17.4	-16.9
Reported Pre-tax Profit	61.1	135.6	90.0	119.4
Effective Tax Rate (%)	25.0	19.1	20.0	20.0
Reported Net Profit	45.2	103.8	67.7	90.0
Reported Operating Margin (%)	6.7	9.5	6.0	6.8
Reported Pre-tax Margin (%)	5.8	8.5	4.9	5.9
Reported Net Margin (%)	4.3	6.5	3.7	4.5

Source: Company data, S&amp;P Equity Research

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