

Combine Will Intl Hldgs

Bloomberg: **COMW SP**

Reuters: **CWIH.SI**

Price: **SGD0.50**

Date: **August 21, 2013**

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

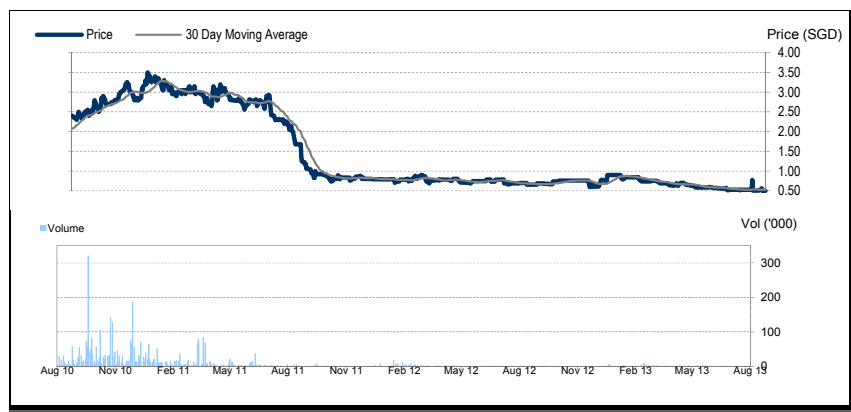
Head Office Location: Xin Cheng Industrial District, Heng Li Zhen, Dongguan, Guangdong Province, The PRC

Place of Operations: China

Website: www.combinewill.com

IR Contact: Joyce Jiang | +86-769-8337 2813 Ext 8354

Analyst: Pey Heng Yap, CFA



Key Stock Statistics

52-week Share Price Range (SGD)	0.50 - 0.90
Avg Vol - 12 months ('000 shares)	2.8
Price Performance (%)	
- 1 month	-4.8
- 3 month	-14.5
- 12 month	-23.1
No. of Outstanding Shares (mln)	32.8
Free Float (%)	26.5
Market Cap (SGD mln)	16.4
Enterprise Value (SGD mln)	-52.7
Major Shareholders (%)	
DJKS Holdings Ltd	73.5

Per Share Data

FY Dec.	2012	2013E	2014E
Book Value (HK cents)	1,927.10	1,849.89	1,860.78
Cash Flow (HK cents)	277.5	85.0	169.7
Reported Earnings (HK cents)	113.1	-77.2	10.9
Dividend (HK cents)	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0
PER (x)	2.7	NM	27.9
P/Cash Flow (x)	1.1	3.6	1.8
P/Book Value (x)	0.2	0.2	0.2
Dividend Yield (%)	0.0	0.0	0.0
ROE (%)	6.1	-4.1	0.6
Net Gearing (%)	54.3	34.8	38.1

2Q13: Widening loss

- Disappointing 2Q13 results.** Combine Will (CW) 2Q13 net loss widened to HKD29.7 mln vs HKD7.1 mln in 1Q13. The results are significantly lower than we expected due to an unprecedented gross loss in its ODM/OEM business. In view of the challenging macro environment, we expect CW to report a net loss in 2013 (vs breakeven previously) and eke out a small profit in 2014 on an improving but sluggish global demand recovery.
- Borderline gross profit.** 2Q13 revenue declined 26.0% YoY across all segments. The management said this was mainly due to the slowdown in orders and price pressure. Compounded by higher labor cost, overall gross margin was significantly compressed by 1020 basis points (bps) YoY (-540 bps QoQ) to 0.1%. OEM/ODM business suffered the most, with a negative gross margin of 4%.
- Negative operating leverage and operating cash flow.** Operating loss widened to HKD24.1 mln with the rising admin expenses (+8.7% YoY) and lower subsidies and engineering income. CW also reported a negative operating cash flow, which led to an increase in net gearing to 70.0% from 66.7% in the prior quarter.
- Guiding for weaker financial performance.** Management guided that challenges remain in 2H13, as softening demand and price pressure in ODM/OEM and Moulds and Tooling segments are expected.
- Key risks include:** (i) Continued lackluster global demand, (ii) rising input and labor costs; and (iii) Weakening balance sheet position if the company continues to face negative operating cash flow.

Earnings Outlook

Revenue Drivers:

- We estimate the group's 2013 revenue growth to decline 16.8% YoY, mainly led by weakness in the ODM/OEM and machine sales segment. We forecast a 14% decline in ODM/OEM sales mainly due to slow global consumer spending.
- We expect the demand for moulds and toolings to be weak 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 subdued due to competitive pressure as well as lower fiscal spending that reduces government contracts and the slow global demand recovery that limits capacity expansion.

Margin Outlook:

- We expect 2013 gross margin to fall by 480 bps mainly due to lower sales, competitive pressure and rising labor cost. We estimate 20% of its cost structure is fixed (mainly depreciation and overhead). However, we think there is limited room for CW's customers to squeeze margins further as CW's products are currently sold close to the cash cost.
- We estimate EBIT margin for 2013 to fall by 500 bps, as a result of lower gross margin and other income. However, we expect the company to have relatively tight control on admin expenses.

Bottomline:

- We expect the company to report an unprecedented loss of HKD25.3 mln in 2013. This implies that we expect the company to report a small profit in 2H13 as demand starts to pick up modestly driven on seasonal orders.

Earnings Performance

FY Dec. / HKD mln	2Q13	2Q12	% Change
Reported Revenue	280.9	379.6	-26.0
Reported Operating Profit	-24.2	17.8	NM
Depreciation & Amortization	0.0	-13.3	NM
Net Interest Income / (Expense)	-2.2	-3.0	-26.6
Reported Pre-tax Profit	-30.2	13.8	NM
Reported Net Profit	-29.7	10.4	NM
Reported Operating Margin (%)	-8.6	4.7	-
Reported Pre-tax Margin (%)	-10.7	3.6	-
Reported Net Margin (%)	-10.6	2.7	-

Source: Company data

Profit & Loss

FY Dec. / HKD mln	2011	2012	2013E	2014E
Reported Revenue	1,778.2	1,526.6	1,270.4	1,351.4
Reported Operating Profit	95.0	72.0	-4.2	23.6
Depreciation & Amortization	-53.6	-54.2	-53.5	-52.4
Net Interest Income / (Expense)	-16.9	-15.9	-13.1	-13.7
Reported Pre-tax Profit	68.9	53.2	-28.9	4.6
Effective Tax Rate (%)	27.4	35.1	NM	20.0
Reported Net Profit	40.6	37.1	-25.3	3.6
Reported Operating Margin (%)	5.3	4.7	-0.3	1.7
Reported Pre-tax Margin (%)	3.9	3.5	-2.3	0.3
Reported Net Margin (%)	2.3	2.4	-2.0	0.3

Source: Company data, S&P Equity Research

Key Financial Performance

FY Dec.	2011	2012	2013E	2014E
Revenue Growth(%)	11.3	-14.2	-16.8	6.4
Operating Profit Growth(%)	-37.7	-24.2	-105.9	-657.8
Net Profit Growth(%)	-60.9	-8.5	-168.2	-114.1
EPS Growth(%)	-60.9	-8.5	-168.2	-114.1
EPS 3-Year CAGR(%)	-21.4	-6.4	NM	-55.5

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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Stephen Biggar (US) stephen.biggar@spcapitaliq.com
Lorraine Tan (Asia Pacific) lorraine.tan@spcapitaliq.com
Roger Hirst (Europe) roger.hirst@spcapitaliq.com

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