

**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

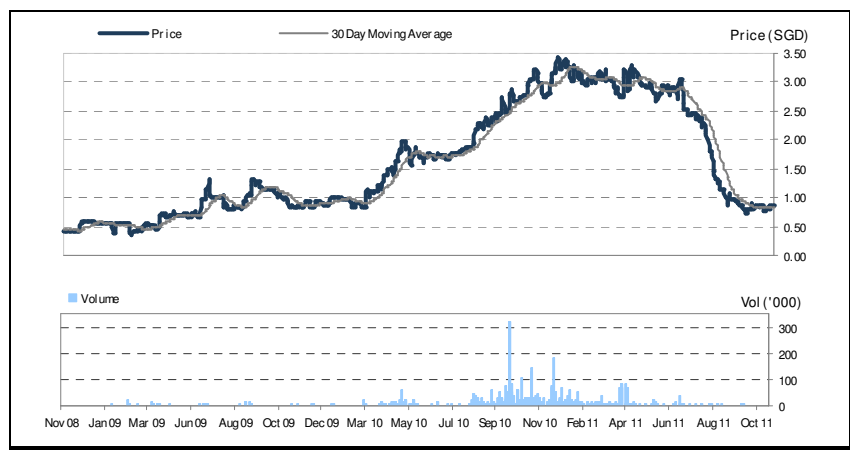
**Head Office Location:** Xin Cheng District, Heng Li Zhen, Dongguan, Guangdong Province, The Peoples Republic of China

**Place of Operations:** China

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**Results Review**

- Net profit for Combine Will (CW) continued to slide for the third consecutive quarter, down by 45.0% YoY to HKD10.0 mln in 3Q11. 9M11 net profit accounted for 59% of our previous full year estimate. The lower-than-expected earnings were mainly attributed to margin pressures and higher finance costs.
- 3Q11 revenue grew to HKD412.9 mln (+17.6% YoY, -11.6% QoQ), mainly driven by ODM/OEM and machine sales business segments. However, the molds and tools business segment continued to soften. On a geographical basis, Asia's revenue growth remained strong but was negated by the decline in North America and Europe.
- 3Q11 gross margin remained under pressure across all business segments at 11.2% vs. 12.2% in the prior quarter, mainly due to direct labor costs. Operating expenses, meanwhile, declined by 5.4% YoY due to lower selling/distribution expense in machine sales and exchange gain of CNY deposits. Operating profit (excluding interest income) declined by 37.8% YoY to HKD17.4 mln.
- 3Q11 net finance costs increased by 28.7% YoY to HKD4.0 mln due to higher utilization of banking facilities. Overall, net gearing remained relatively stable at 63% as at end-3Q11 vs. 56% at end-2010.

**Earnings Outlook / Estimates Revision**

- Management remains cautious on the industry outlook given weaker demand and inflationary pressures, particularly from labor costs. However, management believes that the prospects for the company remain healthy and positive for the next twelve months. Effective measures are being put in place to increase productivity.
- We trim our 2011 and 2012 net profit forecasts by 24% and 42% respectively, to reflect softer demand for the company's products due to the weakening outlook for the global economy. Around one-third of CW's revenue is exposed to the U.S. and Europe directly. Besides, we also factor in higher net finance costs and lower gross margin due to pricing and wage pressure expectations.

**Investment Risks**

- Rising wage inflation in China, particularly in the coastal cities, is an issue. CW operates five plants with more than 10,000 workers in Guangdong Province.
- Continued appreciation of the CNY is 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)	0.74 - 3.50
Avg Vol - 12 months ('000 shares)	56.4
Price Performance (%)	
- 1 month	-3.9
- 3 month	-35.8
- 12 month	-73.1
No. of Outstanding Shares (mln)	32.8
Free Float (%)	26.5
Market Cap (SGD mln)	28.2
Enterprise Value (SGD mln)	-28.1
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	1,714.87	1,810.53
Cash Flow (HK cents)	285.2	475.6	315.4	321.8
Reported Earnings (HK cents)	137.8	316.5	156.8	158.7
Dividend (HK cents)	56.5	117.8	63.0	64.0
Payout Ratio (%)	41.0	37.2	40.2	40.3
PER (x)	3.8	1.6	3.3	3.3
P/Cash Flow (x)	1.8	1.1	1.6	1.6
P/Book Value (x)	0.4	0.3	0.3	0.3
Dividend Yield (%)	10.9	22.7	12.2	12.4
ROE (%)	10.3	20.6	9.2	9.0
Net Gearing (%)	33.4	55.7	62.1	54.6

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**Earnings Performance**

FY Dec. / HKD mln	3Q11	3Q10	% Change
Reported Revenue	412.9	351.2	17.6
Reported Operating Profit	17.4	28.0	-37.8
Depreciation & Amortization	-12.2	-14.1	-13.2
Net Interest Income / (Expense)	-4.0	-3.2	27.7
Reported Pre-tax Profit	13.4	24.8	-46.2
Reported Net Profit	10.0	18.2	-45.0
Reported Operating Margin (%)	4.2	8.0	-
Reported Pre-tax Margin (%)	3.2	7.1	-
Reported Net Margin (%)	2.4	5.2	-

Source: Company data

**Profit & Loss**

FY Dec. / HKD mln	2009	2010	2011E	2012E
Reported Revenue	1,058.2	1,597.0	1,780.8	1,825.3
Reported Operating Profit	71.4	152.4	103.2	104.1
Depreciation & Amortization	-48.4	-52.5	-52.0	-53.5
Net Interest Income / (Expense)	-10.2	-16.3	-16.2	-21.5
Reported Pre-tax Profit	61.1	135.6	76.6	72.3
Effective Tax Rate (%)	25.0	19.1	21.0	20.0
Reported Net Profit	45.2	103.8	51.4	52.0
Reported Operating Margin (%)	6.7	9.5	5.8	5.7
Reported Pre-tax Margin (%)	5.8	8.5	4.3	4.0
Reported Net Margin (%)	4.3	6.5	2.9	2.9

Source: Company data, S&P Equity Research

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