

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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Analyst: Pey Heng Yap, CFA



Results Review

- Net profit for Combine Will (CW) continued to slide for four consecutive quarters. Excluding the KOSDAQ listing related expense, 4Q11 core profit declined by 66% YoY, which is inline with our expectations.
- 4Q11 revenue grew to HKD412.9 mln (+3% YoY, +8% QoQ), mainly driven by machine sales offsetting weakness in the moulds and tooling segment. Gross margin remained under pressure across all business segments at 10.9% vs. 11.2% in prior quarter.
- Operating expenses increased significantly by 46% YoY due to KOSDAQ listing related expense of HKD11 mln (Note: The dual listing plan is currently being deferred). Excluding this one-off item, underlying 4Q11 operating profit (excluding interest income) declined by 55% YoY to HKD23.4 mln.
- 4Q11 net finance costs decreased by 17% YoY to HKD4.5 mln due to higher interest income from time deposits offsetting higher utilization of banking facilities. Overall, the net gearing remained relatively stable at 51%, similar to end-2010.
- No dividend was declared for the year as management would like to conserve cash position for equipment/production investment and R&D.

Earnings Outlook / Estimates Revision

- Management expects 2012 remain to be a challenging year given the uncertain global outlook, inflationary pressure particularly from labor costs and CNY appreciation. For ODM/OEM business, the company will focus on optimizing the suppliers and gaining market share, and expects to be profitable in 2012. For moulds and tooling business, the company will focus on consolidating and streamlining due to the slower business outlook. Machine sales are expected to moderate.
- Our 2012 net profit forecast remains largely unchanged. We expect the net margin to remain low at 2.6% vs. 2.9% (adjusted for one-off listing expense) in 2011.

Investment Risks

- Rising wage inflation in China 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)	0.70 - 3.20
Avg Vol - 12 months ('000 shares)	23.4
Price Performance (%)	
- 1 month	-7.5
- 3 month	-7.5
- 12 month	-75.3
No. of Outstanding Shares (mln)	32.8
Free Float (%)	26.5
Market Cap (SGD mln)	24.3
Enterprise Value (SGD mln)	-30.4
Major Shareholders (%)	
DJKS Holdings Ltd	73.5

Per Share Data

FY Dec.	2010	2011	2012E	2013E
Book Value (HK cents)	1,675.91	1,786.57	1,941.16	2,075.79
Cash Flow (HK cents)	475.6	286.2	321.3	367.4
Reported Earnings (HK cents)	316.5	123.7	154.6	198.6
Dividend (HK cents)	117.8	0.0	0.0	64.0
Payout Ratio (%)	37.2	0.0	0.0	32.2
PER (x)	1.5	3.7	3.0	2.3
P/Cash Flow (x)	1.0	1.6	1.4	1.2
P/Book Value (x)	0.3	0.3	0.2	0.2
Dividend Yield (%)	25.7	0.0	0.0	13.9
ROE (%)	20.6	7.1	8.3	9.9
Net Gearing (%)	55.7	50.8	50.9	42.4

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Earnings Performance

FY Dec. / HKD mln	4Q11	4Q10	% Change
Reported Revenue	444.4	431.1	3.1
Reported Operating Profit	12.4	51.5	-75.9
Depreciation & Amortization	-13.2	-13.2	0.0
Net Interest Income / (Expense)	-4.5	-5.4	-17.1
Reported Pre-tax Profit	7.9	46.1	-82.8
Reported Net Profit	0.7	34.9	-97.9
Reported Operating Margin (%)	2.8	12.0	-
Reported Pre-tax Margin (%)	1.8	10.7	-
Reported Net Margin (%)	0.2	8.1	-

Source: Company data

Profit & Loss

FY Dec. / HKD mln	2010	2011	2012E	2013E
Reported Revenue	1,597.0	1,778.2	1,946.8	2,108.3
Reported Operating Profit	152.4	95.0	103.0	124.8
Depreciation & Amortization	-52.5	-53.6	-54.7	-55.3
Net Interest Income / (Expense)	-16.3	-16.9	-17.7	-17.7
Reported Pre-tax Profit	135.6	68.9	76.5	98.3
Effective Tax Rate (%)	19.1	27.4	22.0	22.0
Reported Net Profit	103.8	40.6	50.7	65.2
Reported Operating Margin (%)	9.5	5.3	5.3	5.9
Reported Pre-tax Margin (%)	8.5	3.9	3.9	4.7
Reported Net Margin (%)	6.5	2.3	2.6	3.1

Source: Company data, S&P Equity Research

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