STANDARD & POOR'S

Combine Will Intl Hldgs

Bloomberg: **COMW SP** | Reuters: **CWIH.SI** | Price: **SGD0.67** | Date: **November 20, 2012**

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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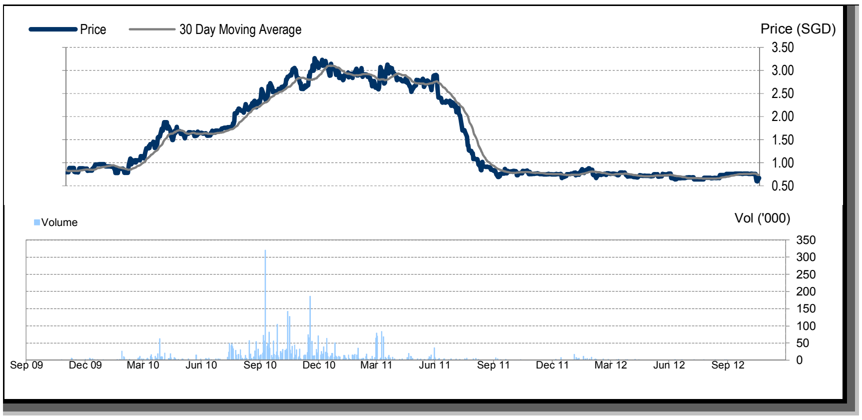

Key Stock Statistics

52-week Share Price Range (SGD)		**0.60 - 0.90**
Avg Vol - 12 months ('000 shares)		**4.3**
Price Performance (%)	- 1 month	**-12.5**
	- 3 month	**2.3**
	- 12 month	**-24.0**
No. of Outstanding Shares (mln)		**32.8**
Free Float (%)		**26.5**
Market Cap (SGD mln)		**21.8**
Enterprise Value (SGD mln)		**-36.5**
Major Shareholders (%)		
DJKS Holdings Ltd		**73.5**

Per Share Data

FY Dec.	**2011**	**2012E**	**2013E**
Book Value (HK cents)	1,786.57	1,908.76	2,036.91
Cash Flow (HK cents)	286.2	278.0	286.6
Reported Earnings (HK cents)	123.7	122.2	128.2
Dividend (HK cents)	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0
PER (x)	3.4	3.4	3.3
P/Cash Flow (x)	1.5	1.5	1.5
P/Book Value (x)	0.2	0.2	0.2
Dividend Yield (%)	0.0	0.0	0.0
ROE (%)	9.1	6.6	6.5
Net Gearing (%)	50.8	57.7	45.1

3Q12 Earnings Growth Led by ODM/OEM Segment

- **Better than expected 3Q12 results.** Combine Will (CW) reported 18.8% YoY increase in net profit to HKD11.9 mln, reversing the declining trend seen since 1Q11. The results are better than we expected due to improved ODM/OEM business, better operating expense control and lower finance expense. We raise our 2012 net profit forecast by 14.2% to reflect higher contribution from ODM/OEM and lower admin expense.
- **Improvement in ODM/OEM business.** 3Q12 revenue grew to HKD428.0 mln (+3.7% YoY, +12.8% QoQ), mainly driven by decent ODM/OEM business offsetting the weakness in moulds and tooling and machine sales. Gross margin at ODM/OEM improved by 240 bps YoY, 120 bps QoQ to 10.6%. However, molds and tooling segment reported a small gross loss while machine sales segment gross margin continued to slide. As a result, 3Q12 gross profit declined by 7.7% YoY to HKD42.8 mln.
- **Good operating cost control.** Operating expenses decreased by 8.8% YoY due to consolidation and streamlining at its moulds and tooling segment. As a result, operating profit (excluding other income) declined by 4.5% YoY to HKD10.8 mln.
- **Rising working capital requirement.** CW reported a negative operating cash flow mainly due to lower margin and rising working capital requirement. As a result, net gearing increased to 60% vs 48% in previous quarter.
- **Guiding for continuous improvement in sales from the ODM/OEM segment.** Despite the continued challenging market outlook, CW expects to see continuous improvement in sales from the ODM/OEM segment, but the demand for moulds and tooling, as well as machine sales remain weak. Also, margins will remain under pressure. The management expects topline growth in 2013 to be flat, and will continue to invest In R&D, automation and infrastructure to help stabilize production costs.
- **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.

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Earnings Outlook

Revenue Drivers:

- We estimate the group's 2012 revenue growth to decrease by 8.8% YoY, on lower revenue for all the business segments. We expect revenue for ODM/OEM division to increase by 4% YoY this year, with moulds and toolings as well as machine sales segment to decline sharply. ODM/OEM sales are mainly driven by global consumer spending, especially in advanced economies. With the challenging macroeconomic outlook, we expect the demand to be uninspiring.
- We expect moulds and tooling to decline by 29% YoY due to slowing investment in the manufacturing industry, fewer new car models introduced in the automobile industry and more standardized platform requirements. The automobile industry (including commercial and passenger vehicles), which is the major driver for moulds and machinery industry, is expected to continue to grow at a slow pace this year at mid-single digit rate vs 2.5% last year.
- Given the weak sales outlook for its key customers in the machine sales segment and the competitive environment, we expect machine sales to contract by 40% due to delays in equipment spending and investment.
- With the modest recovery in global macro economy expected in 2013, we expect revenue to see slow growth of 3.3% YoY.

Margin Outlook:

- With rising labor cost and inflationary pressure, we expect margins to continue to be squeezed in 2012. We expect overall gross margin to be lower by 110bps to 11.3% this year as the wage pressure will be offset by the increased productivity as well as increased competition amid slower demand.
- We estimate EBIT margin for 2012 to contract to 4.2% from 5.3% in 2012 as a result of negative operating leverage given the decline in revenue growth and lower gross margin.
- We expect the company's overall 2012 net margin to be 2.5% vs 2.3%. This is generally in line with the average ODM/OEM industry margin. We do not expect the company to report a loss, in line with management expectation of remaining in the black in 2012.
- Given the weak recovery and continuous inflationary pressure in 2013, we expect gross margin to remain under pressure at 11.5%.

Bottomline:

- We expect 2012 profit to decline marginally by 1.2% YoY, where good control in admin expense and lower finance expense offset the revenue contraction and margin compression. We estimate 2013 net profit to improve by 4.9% YoY due to slight topline growth and margin improvement.
- We also expect finance costs to be lower in 2012 and 2013 due to debt repayment using its cash deposits.

Earnings Performance

FY Dec. / HKD mln	3Q12	3Q11	% Change
Reported Revenue	428.0	412.9	3.7
Reported Operating Profit	10.8	11.3	-4.5
Depreciation & Amortization	-13.3	-12.2	8.9
Net Interest Income / (Expense)	-2.6	-4.0	-35.9
Reported Pre-tax Profit	14.3	13.4	7.2
Reported Net Profit	11.9	10.0	18.8
Reported Operating Margin (%)	2.5	2.7	-
Reported Pre-tax Margin (%)	3.3	3.2	-
Reported Net Margin (%)	2.8	2.4	-

Source: Company data

Profit & Loss

FY Dec. / HKD mln	2010	2011	2012E	2013E
Reported Revenue	1,597.0	1,778.2	1,621.5	1,675.0
Reported Operating Profit	152.4	95.0	68.7	73.2
Depreciation & Amortization	-52.5	-53.6	-51.4	-52.3
Net Interest Income / (Expense)	-16.3	-16.9	-12.3	-12.0
Reported Pre-tax Profit	135.6	68.9	53.4	60.1
Effective Tax Rate (%)	19.1	27.4	25.0	24.0
Reported Net Profit	103.8	40.6	40.1	42.0
Reported Operating Margin (%)	9.5	5.3	4.2	4.4
Reported Pre-tax Margin (%)	8.5	3.9	3.3	3.6
Reported Net Margin (%)	6.5	2.3	2.5	2.5

Source: Company data, S&P Equity Research

Key Financial Performance

FY Dec.	2010	2011	2012E	2013E
Revenue Growth(%)	50.9	11.3	-8.8	3.3
Operating Profit Growth(%)	113.6	-37.7	-27.7	6.5
Net Profit Growth(%)	129.7	-60.9	-1.2	4.9
EPS Growth(%)	129.7	-60.9	-1.2	4.9
EPS 3-Year CAGR(%)	-8.5	-21.4	-3.9	-26.0

Source: Company data, S&P Equity Research

Key Fundamentals

FY Dec.	2008	2009	2010	2011
Asset turnover (x)	1.6	1.1	1.2	1.1
Receivables turnover (x)	8.4	5.5	5.6	5.1
Inventory turnover (x)	NA	NA	NA	NA
Current Ratio (x)	1.5	1.4	1.4	1.4
Quick Ratio (x)	0.8	0.9	1.0	1.0
Net Gearing (%)	13.4	33.4	55.7	50.8
Debt/Capital (%)	28.2	42.6	56.6	56.7
Interest coverage (x)	5.7	5.3	8.1	2.3
ROA (%)	9.2	4.8	7.9	3.1
ROE (%)	22.0	10.3	20.6	9.1
Payout ratio (%)	22.6	41.0	37.2	0.0

Source: Company data, S&P Equity Research

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