STANDARD
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Combine Will Intl Hldgs

Bloomberg: **COMW SP** | Reuters: **CWIH.SI** | Price: **SGD0.67** | Date: **October 9, 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

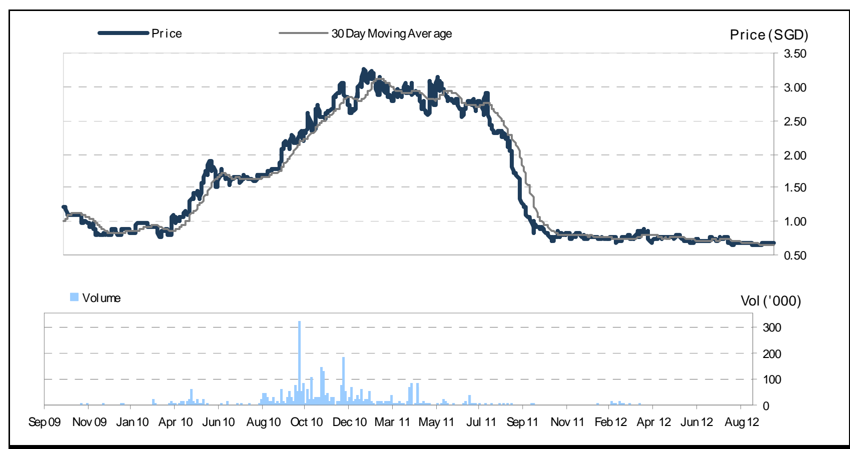
Head Office Location: Xin Cheng Industrial District, Heng Li Zhen, Dongguan, Guangdong Province, The PRC

Place of Operations: China

Website: www.combinewill.com

IR Contact: Ann Chan | ann@29communications.com.sg | +65-96694816

Analyst: Pey Herng Yap, CFA



Key Stock Statistics

52-week Share Price Range (SGD)		0.65 - 0.92
Avg Vol - 12 months ('000 shares)		4.9
Price Performance (%)	- 1 month	3.1
	- 3 month	-14.6
	- 12 month	-27.2
No. of Outstanding Shares (mln)		32.8
Free Float (%)		26.5
Market Cap (SGD mln)		22.0
Enterprise Value (SGD mln)		-31.7
Major Shareholders (%)		
DJKS Holdings Ltd		73.5

Per Share Data

FY Dec.	2011	2012E	2013E
Book Value (HK cents)	1,786.57	1,892.34	2,020.26
Cash Flow (HK cents)	286.2	282.4	305.7
Reported Earnings (HK cents)	123.7	105.8	127.9
Dividend (HK cents)	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0
PER (x)	3.4	4.0	3.3
P/Cash Flow (x)	1.5	1.5	1.4
P/Book Value (x)	0.2	0.2	0.2
Dividend Yield (%)	0.0	0.0	0.0
ROE (%)	9.1	5.8	6.5
Net Gearing (%)	50.8	35.3	26.4

Navigating to a Better 2013

- **Challenging near-term outlook**: With the double headwind of slowing demand and rising labour costs, we see a harsh winter for Chinese manufacturers ahead, and Combine Will is no exception. We expect FY12 net profit to fall 14.5% YoY to SGD34.7 mln after a weak 1H12. While profitability is likely to be lackluster this year, we expect the company to weather the current tough environment, supported by its decent cost management, established customer relationships and a healthy balance sheet. With the modest macro-economy recovery expected in 2013, we expect net profit to grow by 21.0% due to improving demand.
- **To benefit from industry consolidation:** Over the medium term, we expect the company to gain market share amid industry consolidation. The company continues to focus on its ODM/OEM business model as the key driver, which is inherently a low margin business and dependant on external demand. The management prefers to stick with its core competency as a manufacturer, and unlike its peers, the company does not plan to venture into unchartered territory like OBM.
- **Moves to lower costs:** Management guides that they will continue to invest in R&D, automation and infrastructure improvement. Also, a new factory in Guangxi is underway to take advantage of lower labor cost. We believe the relentless drive for lowering cost structure and improving productivity are keys to survive for the ODM/OEM manufacturers.
- **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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Company Background

Core Business: Hong Kong-owned China based Combine Will is best known as an Original Design Manufacturer / Original Equipment Manufacturer (ODM/OEM) manufacturer of plastic and die-cast corporate gifts (known as corporate premiums), toys and other consumer products.

The group also supplies plastic injection and die-cast moulds and tooling equipment in Southern China, primarily for the auto and consumer and household products industries, and distributes, installs and services machines used for mould making and processing of metal parts. Combine Will operates five production plants located in Dongguan and Heyuan, Guangdong Province with total staff strength of approximately 12,000.

Its customers include well-known multinational companies covering a broad spectrum of industries including consumer hygiene, toys and international fast-food chains. Automobile parts suppliers make up the majority of its moulds and tooling equipment clients. Among the machines that it distributes, sells and services are Mori Seki, Yeong Chin, Zeiss, Seco and Accutex.

Listing History: Combine Will was listed on the SGX Mainboard in June 2008.

Key Management & Shareholders: The Group was co-founded by Dominic Tam Jo Tak and John Yau Hing Wah, who are Executive Chairman/CEO and Executive Director, respectively and remain the key shareholders with 73.5% stake. Their stake is held under DJKS Holdings Ltd through HL Bank Nominees (S) Pte Ltd.

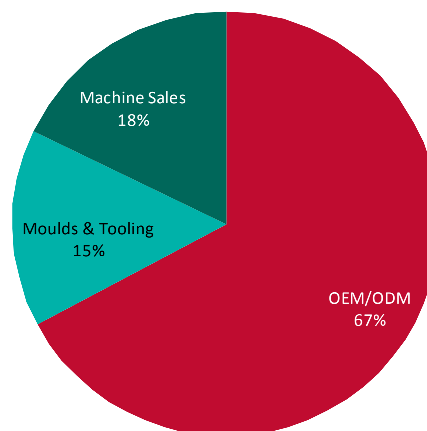
Both Mr. Tam and Mr. Yau are well experienced in the toy manufacturing business. Prior to creating Combine Will, Mr. Tam worked with a number of toy manufacturers, including Galco International Toys, LJN Toys, ERTL (HK), and Ideal Toys. He has been and remains a committee member of The Toys Manufacturer's Association of Hong Kong since 2002.

Mr. Yau is responsible for the operations of OEM/ODM business. Armed with more than 20 years experience in the toys industry, Mr. Yau was a director at Wah Sing Toys for around ten years and worked with Kingsway Toy and Marx Toy previously.

Mr. Simon Chiu Hau Shun is the other Executive Director and has been with the firm since 2000. Mr. Chiu is responsible for the human resources, administration and corporate affairs for the Group.

Main Modes of Revenue Generation: Revenues are driven by the ODM/OEM business (67% of 2011 revenue) followed by machine sales, and moulds and tooling. Exports are key to its ODM/OEM business with its clients based internationally and selling their end-products globally. On a geographical basis (based on location of order), Asia is the largest contributor to revenue (76%), followed by Europe (14%) and US (10%). However, we think this may not be the true reflection of the end market demand given some of the products are bound for re-export and orders may be placed out of re-export markets such as Singapore.

2011 Revenue Breakdown by Business Division



Source: Company data

Main Costs: Given that Combine Will is more of an OEM manufacturer, the cost-of-goods sold are mainly related to direct material (~50%) and labor cost (~20%), followed by fixed factory overhead (~18%). At the operating level, the main cost is administrative expense (approximately 7% of total revenue) followed by selling, distribution and marketing cost (1-2% of total revenue).

Corporate Governance: The board consists of six members, of which three are independent non-executive directors. While there is no separation between the duties of Chairman and CEO each of the three Board Committees, namely the Audit Committee, Remuneration Committee and Nominating Committee, is comprised entirely of the three independent directors.

Board of Directors

Name	Title	Date of Appointment / Re-appointment
Tam Jo Tak, Dominic	Executive Chairman, CEO	Dec.2007
Yau Hing Wah, John	Executive Director	Dec.2007
Chiu Hau Shun, Simon	Executive Director	Oct. 2007
Cheung Hok Fung, Alexander	Lead Independent Director	Mar.2008
Chia Seng Hee, Jack	Independent Director	Mar.2008
Ning Li	Independent Director	May.2009

Source: Company data

Key Subsidiaries & Associates

- 100%-owned Combine Will (Dongguan) Ind Co Ltd – Manufacturing of plastic toys, die casting and premium items on OEM basis.

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- 100%-owned Loong Run Industrial Co Ltd – Investment holding and trading of plastic toys, die-cast and premium items on OEM basis.
- 100%-owned Loong Run Toys Co Ltd – Manufacturing of plastic toys, die casting and premium items on OEM basis.
- 100%-owned Legacy Giftware Ltd - Investment holding and trading of plastic toys, die-cast and premium items on OEM basis.
- 70%-owned Bliss Electronic (China) Co Ltd – Manufacturing of electronic parts.
- 100%-owned Altrust Precision Tooling Co Ltd – Investment holding and trading of moulds
- 100%-owned Kam Hing Product Design and Development Co Ltd – Trading of models and moulds.
- 100%-owned Altrust Precision Tooling (Dongguan) Co Ltd – Manufacturing of moulds.
- 60%-owned Headonway Ind Co Ltd – Manufacturing of models and molds.
- 60%-owned Unifaith Machine Tools Co Ltd – Trading of machinery and tools.
- 60%-owned Hopewell Precision Machine Tools Co Ltd – Trading of machinery.
- 100% owned APT International Holdings-Investment holding
- 100%-owned Heyuan Loong Run Toys Co Ltd - Manufacturing and trading of plastic toys.

Earnings Outlook

Revenue Drivers:

- We estimate the group's 2012 revenue growth to decline by 14.5% YoY, on lower revenue for all the business segments. We expect revenue for ODM/OEM division to decline by 6% YoY this year, with moulds and tooling as well as machine sales to be impacted more severely. 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 weak.

- 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. We expect moulds and tooling to decline by 25% YoY due to slowing investment in the manufacturing industry, lack of new model introduction in the automobile industry and more standardized platform requirements.

- 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 30% due to delays in equipment spending and investment.

- With the modest recovery in global macro economy expected in 2013, we expect revenue to see moderate growth of 20.6% YoY driven mainly by improving demand and slight improvement in margin due to positive leverage.

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 60 bps to 11.8% 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 4.4% 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 2.2% 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.

Bottomline:

- We expect 2012 profit to be under pressure due to revenue contraction and margin compression, owing to higher wages, a competitive market place and a challenging demand outlook. We estimate 2012 net profit to decline by 14.5% YoY to HKD34.7 mln.

- 1H12 net profit came in at HKD20.4 mln, down 31.4% YoY due to declining revenue (-20.5% YoY) and margin compression. This implies that 2H12 net profit may decline

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by 34.5% YoY excluding a one time listing charge in prior corresponding period.

- We also expect finance costs to be lower this year due to debt repayment using its cash deposits.

Profit & Loss

FY Dec. / HKD mln	2010	2011	2012E	2013E
Reported Revenue	1,597.0	1,778.2	1,568.4	1,688.4
Reported Operating Profit	152.4	95.0	68.6	77.8
Depreciation & Amortization	-52.5	-53.6	-57.9	-58.3
Net Interest Income / (Expense)	-16.3	-16.9	-12.7	-13.5
Reported Pre-tax Profit	135.6	68.9	51.9	62.7
Effective Tax Rate (%)	19.1	27.4	24.0	24.0
Reported Net Profit	103.8	40.6	34.7	42.0
Reported Operating Margin (%)	9.5	5.3	4.4	4.6
Reported Pre-tax Margin (%)	8.5	3.9	3.3	3.7
Reported Net Margin (%)	6.5	2.3	2.2	2.5

Source: Company data, S&P Equity Research

Balance Sheet

FY Dec. / HKD mln	2010	2011
Total Assets	1,591.5	1,765.9
Fixed Assets	295.0	303.6
Current Assets	1,294.1	1,459.9
Other LT Assets	2.4	2.4
Current Liabilities	927.9	1,011.4
LT Liabilities	97.6	144.4
Share Capital	246.0	246.0
Shareholders' Funds	549.7	586.0

Source: Company data, S&P Equity Research

Cash Flow

FY Dec. / HKD mln	2010	2011	2012E	2013E
Operating Cash Flow	-34.9	67.6	128.8	74.1
Investing Cash Flow	-331.7	-143.3	-50.0	-30.0
Financing Cash Flow	344.5	15.6	-134.0	0.0
Net Cash Flow	-19.0	-53.2	-55.2	44.1
Ending Cash	160.0	106.8	53.5	97.5
Capex	-104.2	-51.7	-50.0	-30.0

Source: Company data, S&P Equity Research

Key Financial Performance

FY Dec.	2010	2011	2012E	2013E
Revenue Growth(%)	50.9	11.3	-11.8	7.6
Operating Profit Growth(%)	113.6	-37.7	-27.8	13.4
Net Profit Growth(%)	129.7	-60.9	-14.5	20.9
EPS Growth(%)	129.7	-60.9	-14.5	20.9
EPS 3-Year CAGR(%)	-8.5	-21.4	-8.4	-26.1

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)	NA	NA	NA	NA
Inventory turnover (x)	NA	NA	NA	NA
Current Ratio (x)	1.5	1.4	1.4	1.4
Quick Ratio (x)	NA	NA	NA	NA
Net Gearing (%)	13.4	33.4	55.7	50.8
Debt/Capital (%)	NA	NA	NA	NA
Interest coverage (x)	NA	NA	NA	NA
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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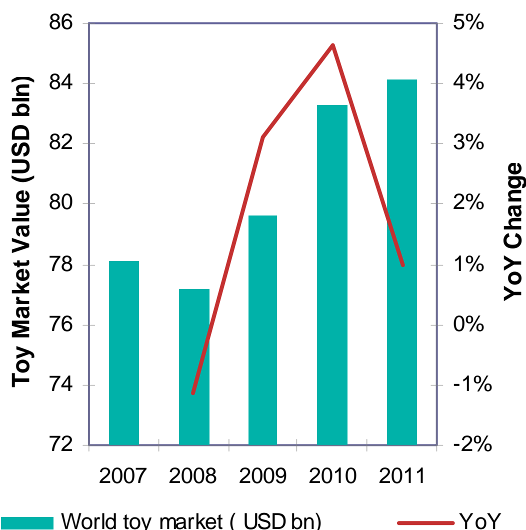
Industry Outlook

Combine Will's activities are subject to industry developments and both global and China demand factors. Given the sluggish economic outlook, with the U.S. expected to grow just 2.1% in 2012 and 1.8% in 2013, Europe in recession currently and China to moderate to the 7.8%-8.2% growth range in 2012-2013, the global demand for toys, moulds and tooling equipment as well as machinery spending is likely to be lackluster through 1Q13, in our view.

ODM/OEM

Global sales of toys are likely to remain sluggish in 2012 after growing just 1.0% in 2011. However, China's export of traditional toys has seen relatively stable growth at 8.3% YoY in 1H12 in value terms. This implies that China's export share of global toy sales continues to expand this year.

World Toy Market, 2007-2011

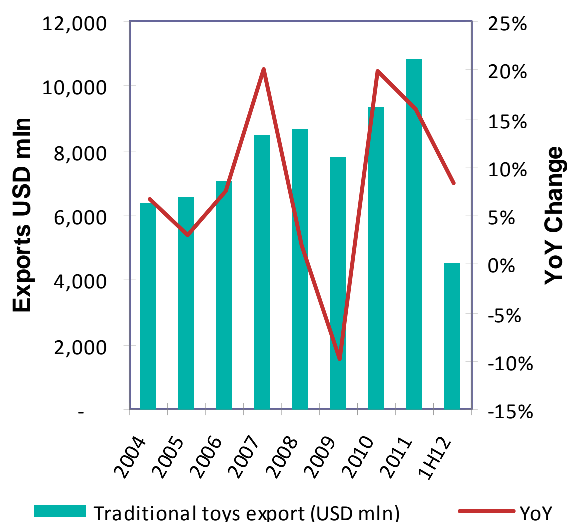


Source: NPD

We believe that in addition to the difficult demand outlook, the toy manufacturing industry may consolidate as cost pressures remain. Wages are rising and more stringent quality requirements will likely add to production costs. Hence, we think a number of smaller producers will exit the industry.

Since the financial crisis, the toy factories in China are facing tough conditions, due to weak overseas demand as well as rapidly rising wages and soaring material costs. Factory wages have been rising 15-20% per year, which is hurting the labor-intensive toy industry badly. The statistics also show that around 20% of these enterprises are loss making as of end-June 2012. According to channel checks with other companies and from local news reports, it is expected that wages may continue to rise by 15% this year. According to China's 12th five-year economic plan (2011-2015), the annual average growth of China's minimum wages should be at least 13%.

China Traditional Toy Export, 2004-1H12



Source: CEIC

Top Toy Export Destinations (2008)

Destination	Export Value USD mln	% of Toy Exports
USA	9,467	37%
Hong Kong	4,586	18%
Germany	1,665	7%
Japan	1,615	6%
Netherlands	1,331	5%
Britain	1,284	5%

Source: China Toy Association

In addition, China's toy industry has always been beset by quality issues. EU directives and US Consumer Product Safety Commission (CPSC) continuously introduce new and more stringent toy safety standards. This in turn will put pressure on the toy manufacturers to upgrade and improve the toy manufacturing, which means additional cost incur to comply with the stricter safety standard. The impact of the new quality standards will be a squeeze on the smaller manufacturers, which could lead to a gradual consolidation in the industry.

Due to the weak external demand, the industry is also looking to capitalize on the demand from the domestic market and/or shift the focus towards own brand manufacture (OBM). Nevertheless, the success stories of such manufacturers are limited which we believe is due to the inherent weakness in branding, design and technology capability, distribution channel and limited financial resources.

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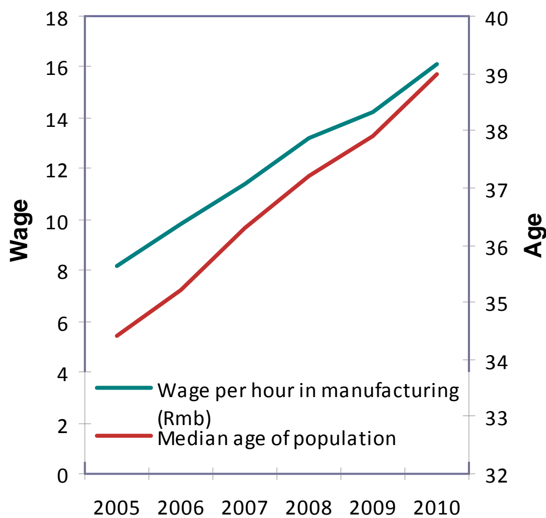
China's Rising Wages and Aging Population

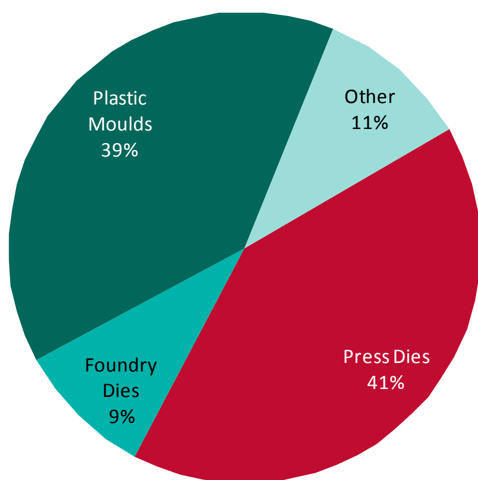


Source: Euromonitor

Moulds and Tooling

The moulds and tooling industry has grown in parallel with the broader Chinese economy. According to the China Die & Mould Industry Association (CDMIA), the China die & mould industry has experienced 15% annual growth for over ten years. The gross value of industrial production was CNY163.08 bln in 2011, up 28.8% YoY with gross profit of CNY9.40 bln.

Types of Moulds Produced in China



Source: CDMIA

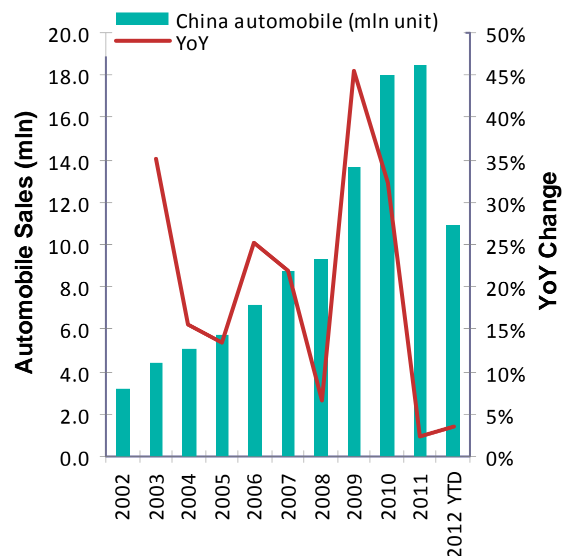
In China, the mould is largely used in the auto and technology (consumer electronics, OA equipment and semiconductor) industries. The boom in the auto industry is the driving force behind China's auto mould and die industry and the recent slowing in growth is also going to negatively impact the demand for auto moulds. According to a CDMIA survey on various Chinese well-developed and leading die and mould manufacturers, new orders have been declining since the beginning of 4Q11. Over the longer term, growth may be stronger for higher value-add moulds (large, precision and complication moulds are still in short supply according to CDMIA).

Meanwhile, rising cost pressures and insufficient of skilled labour further exacerbates the difficult operating environment. Therefore, it is expected that China' die and mould industry growth will be slower compared to last year, possibly with a growth rate closer to 10%, according to the Chinamac Journal. However, exports will continue to grow faster than the industry's overall growth given the improving competiveness of Chinese made products in terms of performance-price-ratio.

The China Association of Automobile Manufacturers is keeping its forecast for 5-8% growth in overall automobile sales this year, which could be overly optimistic, in our view. For the first seven months this year, automobile volume rose by 3.6% YoY, setting up for one of its slowest growth after anaemic growth of 2.5% last year, mainly due to a drop in commercial vehicle sales – not surprising given slowing manufacturing activity as exports lag.

In the longer term, however, we believe China's auto industry should continue to record a decent growth rate due to: (i) rising per capita income; (ii) the low penetration rate (the ratio of vehicles to population in China is 0.12 vs. 0.82 in the U.S.); and (iii) potential export market.

Annual Volume of Vehicles Sold in China (2002-July 2012)



Source: China Association of Automobile Manufacturers

Machine Sales

China had installed USD38.4 bln worth of machine tools in 2011 (as defined by production minus exports plus imports), with average 23.9% CAGR growth for the past five years (2006-2011). One third of the machine tools consumed in China are being imported, which mainly comprises of high end CNC machines.

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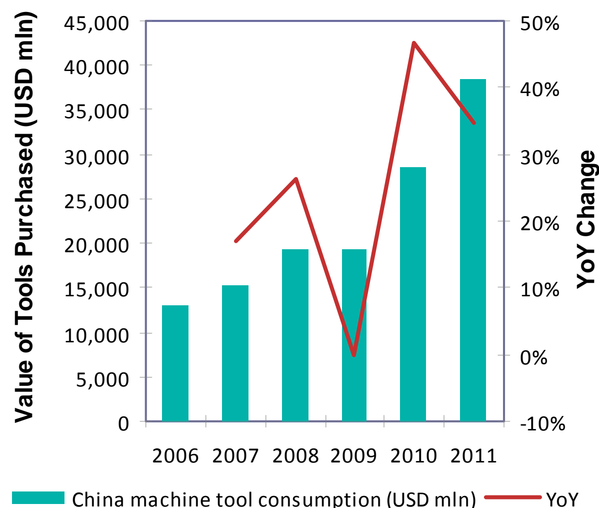
Machine Tool Consumption in China (2006-2011)



Source: Gardner

According to ResearchInChina, the major markets for machine tools in China are the auto, equipment manufacturing and military industries, which represent approximately 45%, 25% and 20% of total demand. Machine tool manufacturing is identified as a Strategic Emerging Industry in China's 12th Five-Year Plan. Therefore, it is expected that policies like favourable government treatment and push for "Indigenous Innovation" will encourage both supply and demand for high-end machine tools.

We expect the sales revenue of China machine tool industry will continue to increase, but the growth will be slower probably at 10-20% range. With the slowing economy and rising cost, we expect the downstream industry to face margin pressure, which may restrain the capital expenditure in the near term. However, a push towards improving productivity through technology given China's diminishing excess resources should bode well for future demand of high-end machinery.

Risks

China's manufacturing industry is currently facing challenges due to weak global demand and rising labour costs. This adds onto periodic risks from the timing mismatch between selling prices and input costs (raw material costs were slow to drop) and currency volatility. While we think input cost pressure has eased, this may be offset by continued upticks in labour costs. As such, we believe OEM/ODM companies that have high dependence on export, are weak in term of technology capability and cost competitiveness, and are generally less efficient due to a lack of scale will struggle to survive. Hence, we believe prolonged industry consolidation is likely.

Growth Strategy

Despite the weak external demand and high dependence on exports, Combine Will's management remains focused on its OEM/ODM business instead of venturing into OBM. In any case, OEM/ODM will remain the revenue driver in the future compared to other business segments. Management guides that they will continue to invest in R&D, automation and infrastructure improvement. The company also plans to launch new products like plastic electronics toys and introduce new technology such as Fabric in Mould, which is a special process for decorating plastic parts to provide a unique finish. Also, a new factory in Guangxi is underway to take advantage of the province's relatively lower wage cost.

Combine Will's moulds and tooling division will continue to play a supporting role for its ODM/OEM business. Given the weak economic climate, the company plans to consolidate, and where necessary, rationalise and streamline operations.

For the machine sales segment, the company will remain proactive in its marketing efforts with a continued emphasis on providing value-added services, particularly in the area of after-sales servicing.

Strengths

- Ability to provide a one-stop integrated service, from idea conception, design, mould development and manufacturing.
- The vertical integration of its manufacturing process enables Combine Will to better meet customer needs and maintain high quality standards.
- Established customer relationships with global brands. Combine Will enjoys a high level of business from repeat customers.

Weaknesses

- Sensitivity to global demand given the ODM/OEM business is mainly export driven. In addition, toys and premiums are also discretionary items and spending on these items may be cut during times of economic hardship.
- Foreign currency exposure - while revenues are predominantly earned in USD and HKD, a significant portion of its costs are denominated in CNY. A spike in the CNY could negatively affect profit margins and export competitiveness.
- Significant dependence on key customers. In 2011, two major customers contributed more than 40% of group revenues.

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Management Guidance

Management remains confident of its prospects over the rest of 2012 with increased contribution from the ODM/OEM segment despite challenging economic conditions. In addition, the Group is on track with its plans to set up a new production facility in Guangxi Province to take advantage of lower wages and to position the group to better service its customers.

For the moulds and tooling segment, the company will continue to consolidate and streamline various business operations to contain costs. For machine sales segment, the company will increase marketing efforts to maintain existing relationships and broaden its customer base.

As such, the company is cautiously optimistic that the Group will remain profitable for the year.

Dividend Policy

Combine Will does not have a formal dividend policy. The company paid out dividends amounting to 20% and 41% of net profit in 2008 to 2010, respectively. The company did not have any dividend payout in 2011.

Auditors' History

From 2007 to current: RSM Nelson Wheeler, Hong Kong. Mr. Wong Poh Weng has been the Partner in Charge since 2011.

Peer Comparison

Given ODM/OEM segment constitutes more than 65% of the total revenue for Combine Will and will remain the growth driver for the future, we think toys companies with significant exposure to ODM/OEM business model are appropriate comparables vs. those with OBM business model. The peers we have chosen are South China (00413 HK, HKD0.53, NR), Lung Cheong (00348 HK, HKD0.195, NR), and Huawei Technology (002502 CH, CNY11.45, NR).

Wah Shing Toys, a subsidiary of South China (China), is an ODM/OEM for toy and consumer entertainment-related goods. Wah Shing Toys has six factories in Guangdong and Guangxi provinces with toys contributing around 75% to the overall group revenue, with the remainder from a mix of electronics, shoes and investments.

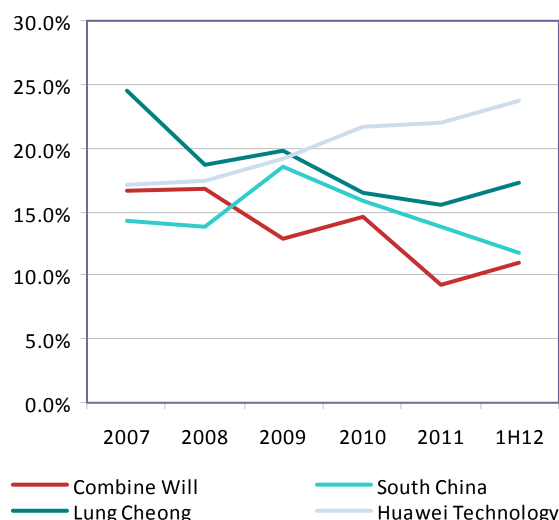
The Lung Cheong group mainly develops, manufactures and sells toys, moulds and materials. Most of the revenue is derived from the toys sales, which include electronics and plastics (69%), radio control (28%) and consumer electronics (3%).

Huawei Technology develops, manufactures and sells toys in China, including smart toys (35%), plastics toys (33%), model toys (10%) and cartoon/animated toys (14%). Around 30% of the total revenue derives from domestic market.

Company	Revenue 2011 (HKD mln)	ODM/OEM as % of revenue	No of employees
Combine Will	1,778.2	67.1%	12,000
South China	3,098.0	~75%	17,800
Lung Cheong[a]	419.7	78.8%	1,247
Huawei Toy	590.4[b]	~50%	1,272

Source: Company data Note: a) Lung Cheong's financial year ended in 31 March 2012. b) Assume exchange rate HKD/CNY in 2011 at 1.23.

Gross margin



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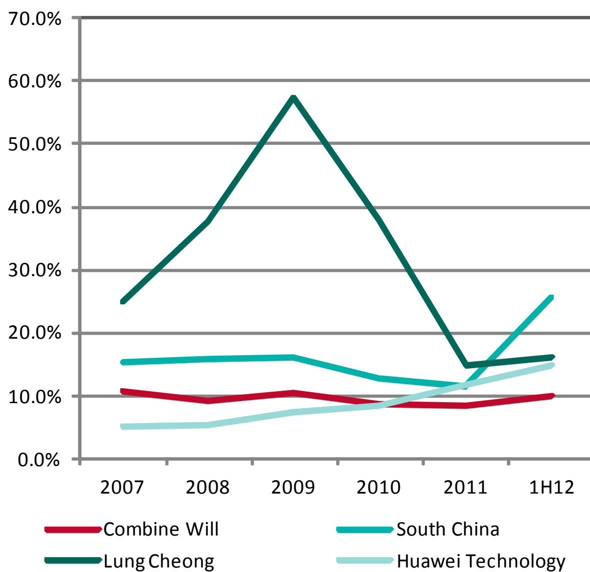
Source: Company data, S&P Equity Research Note: ODM/OEM division for Combine Will

Combine Will's gross margin contracted faster than its peers over the past few years, which could reflect difficulty in containing escalating costs and may also be due to an unfavourable product mix. Given Lung Cheong and Huawei Technology continue to focus more on OBM than OEM/ODM, it is likely that the margin advantage will widen as OBM business model generally commands a higher margin.

Operating expense per revenue

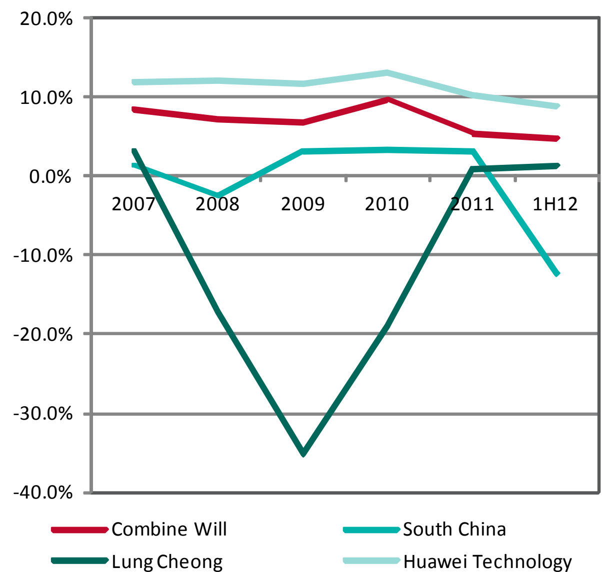


Source: Company data, S&P Equity Research

However, the company has been more effective in containing its other operating costs (R&D, administrative, selling and distribution and general cost). This has added efficiency as revenue grows.

We also think that this is helped by Combine Will's business focus and that it does not expand into non-related activities, which may require higher administrative costs. We also think that Combine Will's OEM/ODM business model requires fewer resources to expand compared to the OBM model.

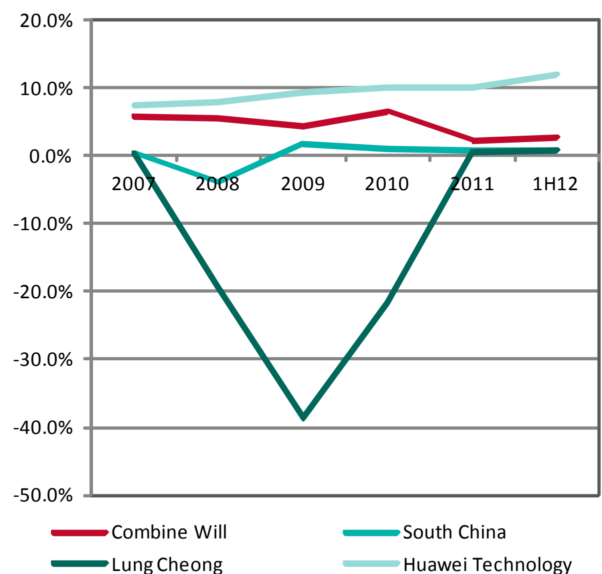
Operating margin



Source: Company data, S&P Equity Research Note: Adjusted operating profit margin. Only include R&D, selling, general and administrative expense. Exclude interest income, fair valuation gain, impairment and other one-time off expense.

Due to tight control on operating expenses, Combine Will's operating margin is higher than Lung Cheong's and South China's. In addition, its margins are more stable compared to its peers. We believe that the Huawei Technology enjoys the highest margin due its higher technology capability and larger share of OBM business model.

Recurring net profit margin (%)



Source: Company data, S&P Equity Research Note: Exclude associates contribution for South China

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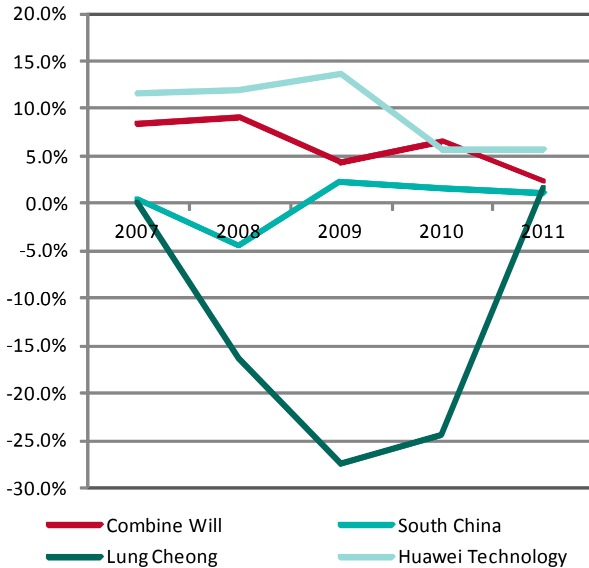
Combine Will enjoys a decent net margin compared to its peers. It is expected that ODM/OEM manufacturers to have 2-3% net margin in the longer term due to low value-added services.

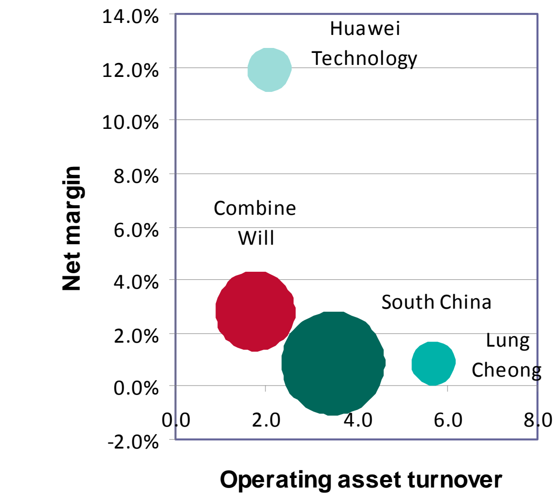
Return on Assets (ROA)



Source: Company data, S&P Equity Research Note: Exclude associates and properties investment for South China

Peer group ROAs are converging, which we suspect reflects the impact of macro / industry events on profitability in the past one year. However, individual expansion plans may impact ROAs from time to time. Combine Will's new Guangxi plant may enable the firm to boost its ROA should planned cost savings materialize.

Revenue, Net margin vs Operating Asset Turnover



Source: Company data, S&P Equity Research Note: Operating asset includes fixed equipment, receivables, inventory and cash minus trade payables and short term liabilities. Bubble size indicates revenue in FY2011.

The above graph indicates that Combine Will manages its balance sheet moderately well in that its utilization of its operating assets is generating a decent return.

Overall, we think Combine Will's efficiency and cost structure is fair relative to its peer group at this stage. The planned consolidation in some of its Moulds & Tooling activities and cost savings from its new Guangxi plant may help boost the company's peer group standing over the next one-two years.

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Recent News & Developments

Aug 10, 2012: Announced Q212 net profit of HKD10.4 mln (-27.4% YoY) with revenues declining 18.8% YoY.

May 23, 2012: Combine Will proposed acquisition of land in Guangxi, Wuzhou with an approx. area of 100 acres for expansion of ODM/OEM operations.

May 23, 2012: Announced plan to dispose 70% of shares in Altrust Japan for HKD3.0 mln and liquidate Advanced Precision Tooling USA LLC ("APT USA") of which 60% is held by the company. The move being inline with earlier stated objective to streamline the moulds and tooling business.

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