

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

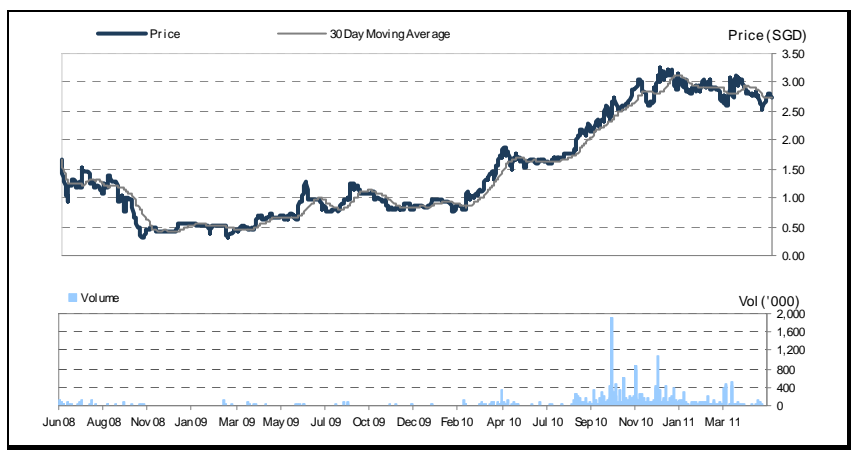
Head Office Location: Xin Cheng District, Heng Li Zhen, Dongguan, Guangdong Province, The Peoples Republic of China

Place of Operations: China

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Results Review

- 1Q11 results were a little disappointing, due to lower-than-expected margins, following wage hikes. Net profit of HKD15.5 mln (down 18% YoY and 56% QoQ), came in at only 13% of our previous full year 2011 estimate.
- 1Q11 revenue grew 20% YoY and 5% QoQ to HKD453.6 mln, drive by increased orders from existing and new customers. ODM/OEM sales grew 26% YoY and 9% QoQ to about HKD314 mln on continuing orders for premiums (i.e. toys given away as gifts by fast food chains) and household products (including an automatic soap dispenser for a relatively new global consumer goods customer that the group has been working with on product development for a few years). Machine sales remained at a high level (flat YoY but up 37% QoQ to about HKD74 mln) on demand from auto part manufacturers.
- The balance sheet remains manageable despite a significant increase in borrowings the fund the higher working capital requirements. Total debt as of end-1Q11 was HKD820 mln, of which HKD734 mln was short term. Net gearing was 124%, up from 97% at end-2010 and 34% at end-1Q10.
- The board has recommended a special dividend of 9 SG cents per share for 2010, on top of the 10 SG cents final dividend (based on post-10-into-1 share consolidation) that has already been paid.

Earnings Outlook / Estimates Revision

- Following the surge in revenue and earnings in 2010, driven by improved global economic recovery and significant orders from new customers, growth is expected to moderate and normalize.
- Key challenges that the group faces include CNY appreciation (which squeezes margin as revenues are mainly in USD), rising labor costs and raw material prices. Management plans to counter these challengers by passing on some of the higher costs to customers, increasing productivity through greater automation and other measures, and by raising business volumes to improve economies of scale.
- Although we expect some margin improvement in the quarters ahead, we have cut our earnings estimates by 26% for 2011 and 14% for 2012, to reflect the impact of higher costs.

Investment Risks

- Rising wage inflation in China, particularly in the coastal cities, is an issue. Combine Will operates five plants with more than 10,000 workers in Guangdong Province. Continued appreciation of the CNY is also 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)	1.80 - 3.50
Avg Vol - 12 months ('000 shares)	118.3
Price Performance (%)	
- 1 month	-1.1
- 3 month	-6.8
- 12 month	44.7
No. of Outstanding Shares (mln)	32.8
Free Float (%)	26.5
Market Cap (SGD mln)	90.2
Enterprise Value (SGD mln)	201.5
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	1,886.30	2,179.65
Cash Flow (HK cents)	285.2	475.6	437.4	524.4
Reported Earnings (HK cents)	137.8	316.5	272.4	355.3
Dividend (HK cents)	56.5	117.8	62.0	62.0
Payout Ratio (%)	41.0	37.2	22.8	17.4
PER (x)	12.6	5.5	6.4	4.9
P/Cash Flow (x)	6.1	3.7	4.0	3.3
P/Book Value (x)	1.2	1.0	0.9	0.8
Dividend Yield (%)	3.3	6.8	3.6	3.6
ROE (%)	10.3	20.6	15.3	17.5
Net Gearing (%)	33.4	42.2	24.6	13.1

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Earnings Performance

FY Dec. / HKD mln	1Q11	1Q10	% Change
Reported Revenue	453.6	377.8	20.1
Reported Operating Profit	28.1	27.5	2.2
Depreciation & Amortization	-13.6	-12.7	6.6
Net Interest Income / (Expense)	-4.5	-3.1	46.0
Reported Pre-tax Profit	23.6	24.4	-3.4
Reported Net Profit	15.5	18.8	-17.6
Reported Operating Margin (%)	6.2	7.3	-
Reported Pre-tax Margin (%)	5.2	6.5	-
Reported Net Margin (%)	3.4	5.0	-

Source: Company data

Profit & Loss

FY Dec. / HKD mln	2009	2010	2011E	2012E
Reported Revenue	1,058.2	1,597.0	1,820.7	2,008.3
Reported Operating Profit	71.4	152.4	136.9	172.4
Depreciation & Amortization	-48.4	-52.5	-54.1	-55.4
Net Interest Income / (Expense)	-10.2	-16.3	-17.4	-16.7
Reported Pre-tax Profit	61.1	135.6	118.5	154.3
Effective Tax Rate (%)	25.0	19.1	20.0	20.0
Reported Net Profit	45.2	103.8	89.3	116.6
Reported Operating Margin (%)	6.7	9.5	7.5	8.6
Reported Pre-tax Margin (%)	5.8	8.5	6.5	7.7
Reported Net Margin (%)	4.3	6.5	4.9	5.8

Source: Company data, S&P Equity Research

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Page 3 of 4

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