

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 molds in addition to selling machines and precision tools for mold making and metal parts processing.

Country of Incorporation: Cayman Islands

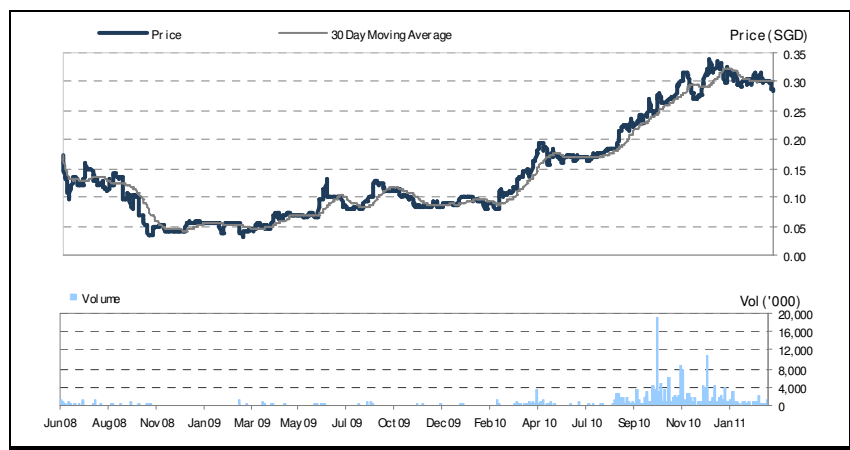
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Place of Operations: China

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**Results Review**

- Combine Will's 4Q10 and 2010 earnings of HKD34.9 mln (up 96% YoY) and HKD103.8 mln (up 130% YoY), respectively, were within our expectations.
- 2010 revenue grew 51% to HKD1.60 bln, driven by economic recovery and strong orders from new and existing customers. ODM/OEM sales jumped 65% to HKD1.13 bln on higher demand for premiums (i.e. toys given away as gifts by fast food chains and similar retailers) and household products (including a soap dispenser for a relatively new customer, who is a global seller of household products). Machine sales also did well, growing 61% to HKD198.6 mln on high demand from auto part manufacturers.
- The group has had to significantly increase borrowings in line with the surge in business volume, but the balance sheet remains manageable. Total debt as of end-2010 stood at HKD469.7 mln, of which HKD94.5 mln were long-term borrowings. Net gearing was a comfortable 56%.
- The board declared a final dividend of 1 SG cent per share, same as last year.

Earnings Outlook / Estimates Revision

- Management is bullish. Combine Will sees its key customers for its ODM/OEM business doing well and consequently, expects more orders in 2011. In particular, management mentions customers for premiums and liquid soap dispensers.
- However, the group, like other manufacturers in China, particularly in the coastal cities, is facing cost pressures from the appreciating CNY and rising wages. In response, the group has been investing in automation and exploring other lower-cost manufacturing locations in China.
- We raise our 2011-2012 earnings estimates by 6%-7%, after factoring higher margins seen in the recent results and management's positive outlook.

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)	0.13 - 0.35
Avg Vol - 12 months ('000 shares)	1,129.9
Price Performance (%)	
- 1 month	-6.6
- 3 month	-18.6
- 12 month	119.2
No. of Outstanding Shares (mln)	328.0
Free Float (%)	26.5
Market Cap (SGD mln)	93.5
Enterprise Value (SGD mln)	143.5
Major Shareholders (%)	
DJKS Holdings Ltd	73.5

Per Share Data

	2009	2010	2011E	2012E
FY Dec.				
Book Value (HK cents)	139.78	167.59	198.40	233.68
Cash Flow (HK cents)	28.5	47.6	53.3	58.2
Reported Earnings (HK cents)	13.8	31.7	36.8	41.3
Dividend (HK cents)	5.6	6.0	6.0	6.0
Payout Ratio (%)	41.0	19.0	16.3	14.5
PER (x)	12.6	5.5	4.7	4.2
P/Cash Flow (x)	6.1	3.7	3.3	3.0
P/Book Value (x)	1.2	1.0	0.9	0.7
Dividend Yield (%)	3.2	3.4	3.4	3.4
ROE (%)	10.3	20.6	20.1	19.1
Net Gearing (%)	33.4	42.2	15.6	2.9

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Earnings Performance

FY Dec. / HKD mln	4Q10	4Q09	% Change
Reported Revenue	431.1	338.8	27.2
Reported Operating Profit	51.5	30.1	70.9
Depreciation & Amortization	-13.2	-12.6	4.9
Net Interest Income / (Expense)	-5.4	-3.4	57.9
Reported Pre-tax Profit	46.1	26.7	72.6
Reported Net Profit	34.9	17.8	96.0
Reported Operating Margin (%)	12.0	8.9	-
Reported Pre-tax Margin (%)	10.7	7.9	-
Reported Net Margin (%)	8.1	5.3	-

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	178.2	197.2
Depreciation & Amortization	-48.4	-52.5	-54.1	-55.4
Net Interest Income / (Expense)	-10.2	-16.3	-17.3	-16.3
Reported Pre-tax Profit	61.1	135.6	159.8	179.1
Effective Tax Rate (%)	25.0	19.1	20.0	20.0
Reported Net Profit	45.2	103.8	120.7	135.4
Reported Operating Margin (%)	6.7	9.5	9.8	9.8
Reported Pre-tax Margin (%)	5.8	8.5	8.8	8.9
Reported Net Margin (%)	4.3	6.5	6.6	6.7

Source: Company data, S&P Equity Research

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