

Combine Will

Industry blowing hard. Perfect dose.

Bloomberg | Reuters | POEMS
COMW: SP | CWHX.SI | CBWC.SG
Industry: Manufacturing (Mechanical Engineering)

Phillip Securities Research Pte Ltd

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Report type: Result & Review

Company Overview

China-based COMBINE WILL has 3 businesses. ODM/OEM in premiums, household products & toys. Major customers are world-top players in fast-food, FMCG, and toys. Major supplier of plastic-injection and die-cast moulds. Distributes machines used to make these moulds and others.

- Price declined on 4Q result; and, no dividend.
- Profitable 4Q, as guided. But, barely profitable.
- 2012 guidance – Imperfect dose of a profitable OEM/ODM; slow Mould/Tooling; less Machine Sales.
- RIM values it at \$2.69 but fundamental-related price setting gives a more conservative target.
- Maintain BUY with target price of \$1.34.

What is the news?

A profitable 4Q11, as guided by management, has been delivered. The profit was small. There would not be any dividend payment – breaking the trend since IPO in June 2008. Management also released an outlook statement a day after the result.

- ODM/OEM: 4Q revenue +1.6% y-y; GP% -3.3pps y-y but +1.6pps q-3Q, +2.3pps q-2Q. Believes it could gain market share as OEM “optimizes supplier base”.
- Mould/Tooling: 4Q revenue -19.6% y-y; GP% -12.6pps y-y, -5.1pps q-q. Slower demand, more competition. Economy dependent.
- Machine Sales: 4Q revenue +48.5% y-y; GP% -19.2pps y-y, -5.9pps q-q. Expects FY12 revenue “moderated” vs FY11.

How do we view this?

Although we are bullish about its ODM/OEM customers, there are 2 issues at hand. HK\$52m capex spent in FY11 was on machinery and equipment for better automation, which may substitute expensive labour to an extent but may not enhance its capacity or take advantage of cheaper inland labour. Its current share price of under S\$1, as compared to its net debt per share of S\$1.513, would make banks uneasy to offer cheap credit.

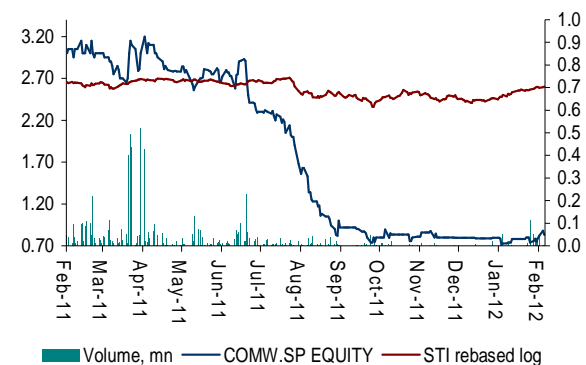
Without Korean IPO or banks vulture-ing about, alternative corporate finance could find this easy meat. The plus factors are: Industry is blowing hard; OEM optimizing supplier base; the FMCGs are doing well and guided strongly; CW offers the perfect dose of engineering/design/quality/deliverability/price (children love its toys; adults love its auto-dispensers).

Investment Actions?

On general market cycle and price/book, this remains a BUY, with target price of \$1.34.

COMBINE WILL

Rating	1	Buy
- Previous Rating	1	Buy
Target Price (SGD)	1.340	
- Previous Target Price (SGD)	1.350	
Closing Price (SGD)	0.690	
Expected Capital Gains (%)	94.2%	
Expected Dividend Yield (%)	0.0%	
Expected Total Return (%)	94.2%	
Raw Beta (POEMS Dataline)	n.a.	
Market Cap. (SGD mn)	23	
Enterprise Value (SGD mn)	72	
3M Average Daily T/O (mn)	0.011	
52 week range (SGD)	0.675-3.140	



Major Shareholders

1. DJKS Holdings	(%)
	73.5

Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Price (*Actual/Current)	2.924	0.690	0.690	0.690
P/B (X)	1.08	0.23	0.22	0.20
EV/EBV (X)	1.03	0.48	0.43	0.47
P/Net Debt (X)	1.94	0.46	0.53	0.35
P/E (X)	5.7	3.3	3.2	2.2
EPS (SGD)	0.514	0.206	0.218	0.319
DPS (SGD)	0.100	0.000	0.000	0.000
Dividend Yield *	3.4%	0.0%	n.a.	n.a.

Source: PSR est.

*Actual mean price between publication of FY result and next 1Q result/xDiv

Valuation Method

RIM (ROE: 13%; 2 years horizon)

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Segment analysis

We note the decline in margins across the segments. We note that improving productivity may ease the pain. Some OEM suppliers may be blown away and CW may take advantage. However it would really be advantageous if it could expand inland to have the cheaper space and labour costs.

An interesting item in the analysis is the overheads after the gross profit line. The HK\$37m in the ODM/OEM segment for FY11 is actually the lowest of the 4 years although FY11 has the highest revenue. A correlation to the high-ish numbers in FY08 and FY10 is the bid to win major customers i.e. the FMCG customer in FY08 ~ products delivered from FY10; the big toy-maker in FY10 ~ products delivered from FY11.

Fig 1. COMBINE WILL's segmental analysis

Segment Analysis	FY08	FY09	FY10	FY11
Revenue HK\$m				
- ODM/OEM	778	686	1,129	1,193
- Moulds & Tooling	418	249	269	267
- Machine Sales	149	123	199	318
Total	1,345	1,058	1,597	1,778
Gross Profit HK\$m				
- ODM/OEM	127	86	161	107
- Moulds & Tooling	61	64	66	48
- Machine Sales	28	17	48	64
Total	216	166	275	220
Gross Profit Margin %				
- ODM/OEM	16.3%	12.5%	14.3%	9.0%
- Moulds & Tooling	14.5%	25.5%	24.5%	18.0%
- Machine Sales	18.7%	13.6%	23.9%	20.2%
Total	16.0%	15.7%	17.2%	12.3%
Overheads HK\$m				
- ODM/OEM	47	40	58	37
- Moulds & Tooling	40	35	26	33
- Machine Sales	26	16	28	35
Total	113	90	111	105
Overheads Margin %				
- ODM/OEM	6.1%	5.8%	5.1%	3.1%
- Moulds & Tooling	9.5%	13.9%	9.5%	12.3%
- Machine Sales	17.4%	13.0%	14.1%	11.2%
Total	8.4%	8.5%	7.0%	5.9%
EBIT HK\$m				
- ODM/OEM	80	46	104	70
- Moulds & Tooling	21	29	40	15
- Machine Sales	2	1	19	29
Total	103	76	163	114
Difference				
- All segments	(5)	(4)	(11)	(19)
EBIT, as disclosed	97	71	152	95

If there are no major new-customer wins, then the overheads in the ODM/OEM segment may be contained at HK\$40m a year.

Other 'hump' items in 4Q11

The high effective tax rate for FY11 is due to non-deductible expenses related to the Korean IPO and the higher profits from the higher-25% tax on China operations. Inventories are high due to January deliveries. Receivables are high due to some customer delivery schedule. Other payable contains some deposit from a Machine Sale customer. Bank loans finance capex.

Let's revisit some per-share fundamentals

After hitting \$0.90 since our previous update, the share price slumped back to \$0.69. This translates to 0.23X NBV.

We retain our target price at 0.45X NBV, which was achieved between 2Q09 and 3Q09. This translates back to a share price of **\$1.34** (previous target: \$1.35).

Fig 2. COMBINE WILL's quarterly P/B behaviour, overlaid on STI

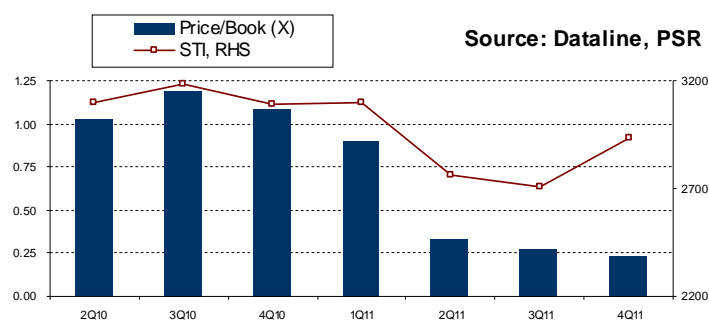
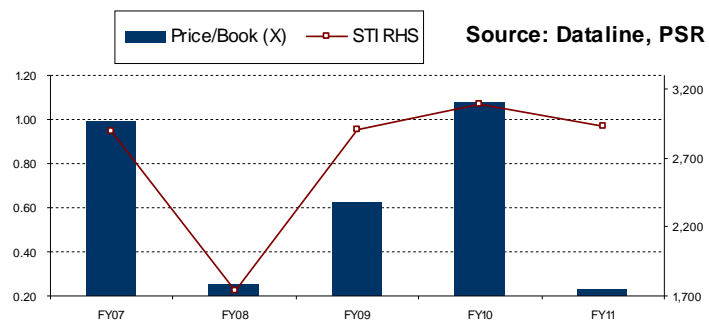


Fig 3. COMBINE WILL's yearly P/B behaviour, overlaid on STI



Valuation, using the Residual Income Method

We apply a ROE of 13% and a 2-year time horizon.

This gives a fair valuation of S\$2.69 (previously \$2.67).

However, due to its low volumes, the Korean IPO hangover, we are using a much more conservative valuation i.e. a P/B valuation similar to the 2Q09 and 3Q09 period.

Target Price

Our target price of S\$1.34 is 94% higher than the previous close of S\$0.69. Hence, **BUY**.

FYE Dec (Forecasts are based on current price; actuals on average prices FY-1Q result dates)	IPO: 23 June 2008							
	FY06	FY07	FY08	FY09	FY10	FY11	FY12F	FY13F
Valuation								
P/B	n.a.	0.99	0.25	0.62	1.08	0.23	0.22	0.20
EV/EBV (X) [EBV=Enterprise Book Value]	n.a.	0.97	0.34	0.70	1.03	0.48	0.43	0.47
P/ND (X) [ND=Net Debt]	n.a.	2.0	1.9	1.9	1.9	0.5	0.5	0.3
P/E (X)	n.a.	2.7	1.5	6.3	5.7	3.3	3.2	2.2
DY (%) based on average prices public-ex dates	n.a.	6.9%	15.7%	6.4%	3.4%	0.0%	n.a.	n.a.
Per share data (SGD)								
NBV	1.207	1.462	2.517	2.504	2.706	2.978	3.196	3.515
EBV	1.949	2.240	2.911	3.396	4.295	4.613	4.629	5.674
ND	0.541	0.723	0.338	0.836	1.508	1.513	1.292	1.998
EV	n.a.	2.169	0.975	2.394	4.432	2.203	1.982	2.688
EPS	0.170	0.529	0.439	0.248	0.514	0.206	0.218	0.319
DPS	0.000	0.100	0.100	0.100	0.100	0.000	0.000	0.000
Growth (%)								
NBV per share (same as total)	n.m.	n.m.	72.2%	-0.5%	8.1%	10.0%	7.3%	10.0%
EBV per share (same as total)	n.m.	n.m.	30.0%	16.7%	26.5%	7.4%	0.3%	22.6%
ND per share (same as total)	n.m.	n.m.	-53.3%	147.4%	80.4%	0.3%	-14.6%	54.6%
Revenue	-6.3%	23.2%	10.7%	-21.3%	50.9%	11.3%	1.8%	8.5%
Net Income (same as EPS)	n.m.	210.6%	-17.1%	-43.5%	107.2%	-59.9%	5.8%	46.2%
Return & Margin (%)								
EBI/EBV	13.6%	23.4%	18.0%	9.4%	14.9%	7.8%	7.2%	7.9%
EBI/EBV (standard deviation, 5 years)	n.a.	n.a.	n.a.	6.9%	5.2%	6.4%	4.8%	3.1%
ROE	n.m.	n.m.	17.4%	9.9%	19.0%	6.9%	6.8%	9.1%
Net Income/Revenue	2.9%	8.2%	5.5%	4.3%	6.5%	2.3%	2.4%	3.2%
Income Statement (HKD mn)								
Revenue	986	1,215	1,345	1,058	1,597	1,778	1,810	1,963
EBIT	49	111	97	71	152	86	74	101
Taxation (net of attributable to finance)	(5)	(13)	(9)	(13)	(23)	(15)	(9)	(13)
EBI	45	98	88	59	130	71	65	88
Net Finance (Expense)/Income	(9)	(10)	(12)	(10)	(16)	(17)	(16)	(18)
Taxation (attributable to finance)	(1)	(1)	(2)	(3)	(3)	(4)	(3)	(4)
Profit After Tax	35	87	74	46	110	50	47	67
Less: Non-controlling Interest	6	(12)	1	1	6	10	4	4
Net Income	29	99	74	45	104	41	43	63
Source: PSR								
Effective tax rate %	13.8%	13.8%	12.8%	25.0%	19.1%	24.0%	20.0%	20.0%

FYE Dec								
Balance Sheet (HKD mn)	FY06	FY07	FY08	FY09	FY10	FY11	FY12F	FY13F
PPE	228	217	237	242	295	304	277	383
Land rights & Intangibles	0	2	2	2	2	2	2	2
Others	0	0	0	0	0	0	0	0
Total non-current enterprise assets (1)	228	219	239	244	297	306	279	386
Inventories	185	269	266	276	412	443	460	539
Accounts Receivables	158	190	129	256	317	378	403	463
Other Receivables	47	84	82	81	173	180	196	203
Total current enterprise assets (2)	390	543	477	613	903	1,001	1,059	1,205
Total Enterprise Assets (3)=(1)+(2)	618	762	716	857	1,200	1,307	1,338	1,590
Accounts Payables	125	150	105	126	172	197	214	234
Other Payables	157	180	104	100	136	193	214	234
Others	5	9	15	6	17	7	(4)	3
Total current enterprise liabilities (4)	286	339	224	232	325	396	424	471
Others	3	3	3	3	3	3	3	3
Total non-current enterprise liabilities (5)	3	3	3	3	3	3	3	3
Total Enterprise Liabilities (6)=(4)+(5)	289	342	228	235	328	399	427	474
Enterprise Book Value (7)=(3)-(6)	328	420	489	622	872	908	911	1,117
Short-term loans	133	209	162	332	566	541	495	635
Current portion of long-term loans	0	0	0	0	35	53	53	53
Total current financial liabilities (8)	133	209	162	332	601	595	548	688
Non-current portion of long-term loans	11	0	0	0	94	141	141	141
Total non-current financial liabilities (9)	11	0	0	0	94	141	141	141
Total Financial Liabilities (10)=(8)+(9)	144	209	162	332	695	736	689	829
Cash and bank	53	74	106	179	160	109	105	106
Pledged deposits	0	0	0	0	229	330	330	330
Total current financial assets (11)	53	74	106	179	389	438	435	436
Others	0	0	0	0	0	0	0	0
Total non-current financial assets (12)	0	0	0	0	0	0	0	0
Total Financial Assets (13)=(11)+(12)	53	74	106	179	389	438	435	436
Net Debt (14)=(10)-(13)	91	136	57	153	306	298	254	393
Non-controlling interest	34	10	9	10	16	24	28	32
Shareholder Equity	203	274	422	458	550	586	629	692
Total Equity (15)	237	284	432	469	566	610	657	723
Financing Activities (16)=(14)+(15)	328	420	489	622	872	908	911	1,117
Cashflow Statements (HKD mn)								
CFO								
PBT	43	101	84	61	136	69	58	83
Adjustments	47	26	62	59	69	71	68	64
Cash from ops before WC ex-financials' changes	89	127	146	120	205	139	126	147
WC ex-financials' changes	(22)	(89)	(38)	(114)	(205)	(10)	(19)	(106)
Cash generated from operations	68	38	108	6	0	130	107	41
Taxes paid, net of attributable finance	(3)	(9)	(3)	(21)	(12)	(33)	(19)	(6)
Cashflow from Operations (17)	64	30	105	(15)	(12)	97	87	35
CFI								
PPE, land rights, intangibles net	(38)	(28)	(66)	(51)	(103)	(52)	(25)	(153)
Cashflow from Investments (18)	(38)	(28)	(66)	(51)	(103)	(52)	(25)	(153)
Cashflow from Enterprise (19)=(17)+(18)	26	2	39	(67)	(115)	45	62	(117)
CFF								
Share issuance	0	0	104	0	0	0	0	0
Purchase of treasury shares	0	0	0	0	0	0	0	0
Loans, net of repayments	(1)	65	(43)	170	363	39	(47)	140
Pledged deposits	0	0	0	0	(229)	(101)	0	0
Issue of term note, net	0	0	0	0	0	0	0	0
Dividends to minority interests	(2)	(1)	(2)	0	0	(2)	0	0
Dividends to shareholders & capital reduction	(25)	(34)	(53)	(17)	(19)	(21)	(0)	0
Finance expense, net of income	(4)	(10)	(12)	(10)	(16)	(17)	(16)	(18)
Taxes paid, attributable finance	(1)	(1)	(2)	(3)	(3)	(4)	(3)	(4)
Cashflow from Financing (20)	(33)	19	(7)	140	96	(106)	(66)	118
Net change in Cash (21)=(19)+(20)	(7)	21	32	73	(19)	(60)	(3)	1
Effects of exchange rates	0	0	0	0	0	9	0	0
CCE, begin	60	53	74	106	179	160	109	105
CCE, end	53	74	106	179	160	109	105	106

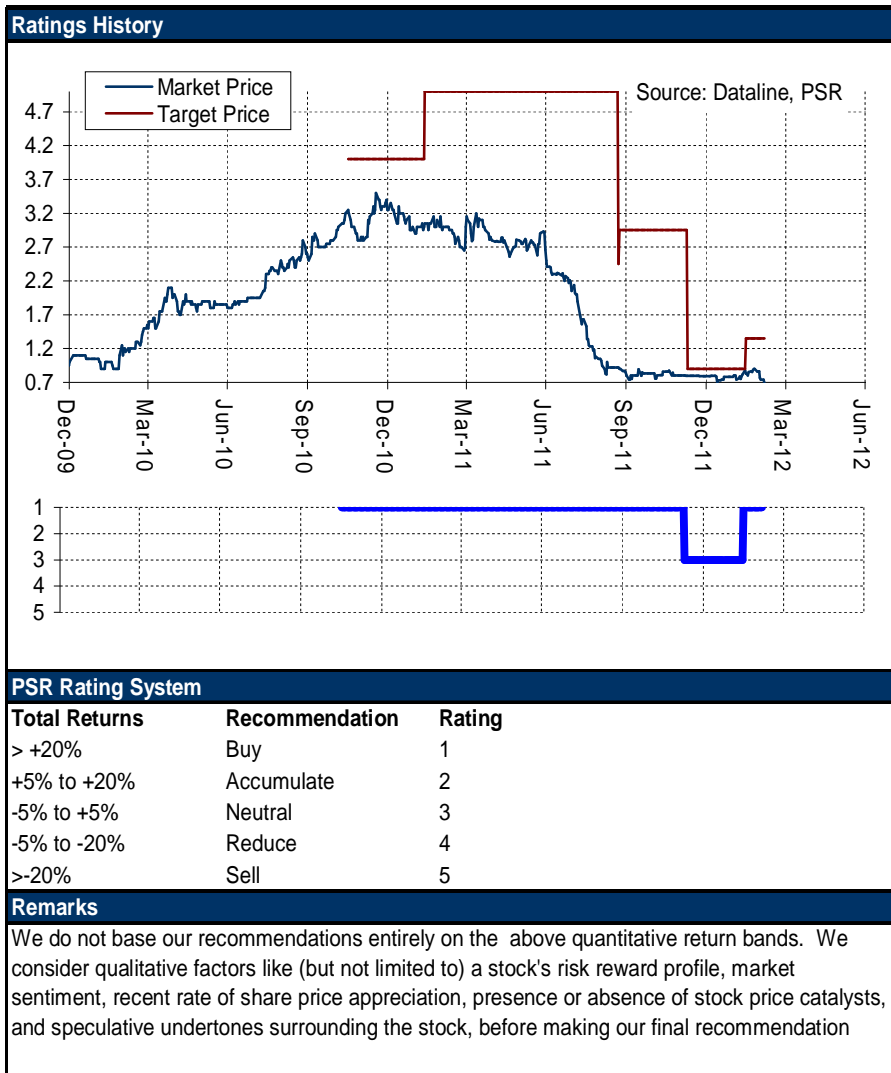
Source: PSR

QE Mar, Jun, Sep, Dec (Forecast on current price;
actuals on average prices q-q result dates)

	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12F	2Q12F	3Q12F	4Q12F
Valuation									
P/B	1.08	0.90	0.33	0.27	0.2317	0.23	0.22	0.22	0.22
EV/EBV (X) [EBV=Enterprise Book Value]	1.03	0.92	0.59	0.54	0.48	0.47	0.45	0.44	0.43
P/ND (X) [ND=Net Debt]	1.9	1.5	0.5	0.4	0.5	0.5	0.5	0.5	0.5
P/E (X) trailing 4qs	5.7	5.1	2.3	2.1	3.3	4.1	4.4	4.1	3.2
DY (%) based on average prices public-ex dates	3.4%	0.0%	0.0%	0.0%	n.a.	n.a.	n.a.	n.a.	n.a.
Per share data (SGD)									
NBV	2.714	2.731	2.764	2.952	2.978	3.017	3.079	3.142	3.196
EBV	4.306	4.453	4.784	4.936	4.613	4.602	4.562	4.634	4.629
ND	1.512	1.629	1.899	1.860	1.513	1.459	1.352	1.355	1.292
EV	4.454	4.090	2.819	2.666	2.203	2.149	2.042	2.045	1.982
EPS	0.172	0.074	0.070	0.051	0.004	0.039	0.062	0.063	0.054
DPS	0.100	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Growth (%q-q)									
NBV per share (same as total)	4.4%	0.7%	1.2%	6.8%	0.9%	1.3%	2.1%	2.1%	1.7%
EBV per share (same as total)	2.1%	3.4%	7.4%	3.2%	-6.5%	-0.2%	-0.9%	1.6%	-0.1%
ND per share (same as total)	-2.4%	7.7%	16.6%	-2.1%	-18.6%	-3.6%	-7.3%	0.3%	-4.7%
Revenue	22.7%	5.2%	3.0%	-11.6%	7.6%	1.3%	-1.1%	2.2%	1.0%
Net Income (same as EPS)	86.2%	-56.8%	-5.7%	-27.6%	-92.6%	934.8%	59.4%	1.9%	-15.1%
Return & Margin (%)									
EBI/EBV	5.0%	2.6%	2.5%	1.5%	1.1%	1.5%	2.0%	2.0%	1.7%
EBI/EBV (standard deviation, 5qs)	n.a.	1.3%	1.5%	1.3%	1.5%	0.7%	0.5%	0.4%	0.4%
ROE	6.3%	2.7%	2.5%	1.7%	0.1%	1.3%	2.0%	2.0%	1.7%
Net Income/Revenue	8.1%	3.4%	3.1%	2.4%	0.2%	1.7%	2.7%	2.7%	2.3%
Income Statement (HKD mn)									
Revenue	431	454	467	413	444	450	445	455	460
EBIT	52	28	28	17	12	15	20	21	18
Taxation (net of attributable to finance)	(8)	(4)	(4)	(2)	(3)	(1)	(3)	(3)	(2)
EBI	44	24	24	15	10	14	18	18	16
Net Finance (Expense)/Income	(5)	(5)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Taxation (attributable to finance)	(1)	(1)	(1)	(1)	(3)	(1)	(1)	(1)	(1)
Profit After Tax	38	19	19	10	2	9	13	13	11
Less: Non-controlling Interest	3	3	5	0	1	1	1	1	1
Net Income	35	15	14	10	1	8	12	12	11
Source: PSR	Effective tax rate %	18.6%	21.4%	19.0%	25.1%	74.4%	20.0%	20.0%	20.0%

QE Mar, Jun, Sep, Dec									
Balance Sheet (HKD mn)	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12F	2Q12F	3Q12F	4Q12F
PPE	295	286	303	295	304	296	288	280	277
Land rights & Intangibles	2	2	2	2	2	2	2	2	2
Others	0	0	0	0	0	0	0	0	0
Total non-current enterprise assets (1)	297	288	306	297	306	298	290	282	279
Inventories	412	475	512	493	443	450	445	455	460
Accounts Receivables	317	311	352	412	378	394	393	398	403
Other Receivables	173	198	201	183	180	184	188	192	196
Total current enterprise assets (2)	903	983	1,065	1,088	1,001	1,028	1,026	1,045	1,059
Total Enterprise Assets (3)=(1)+(2)	1,200	1,271	1,371	1,385	1,307	1,326	1,316	1,327	1,338
Accounts Payables	172	166	180	191	197	209	212	209	214
Other Payables	136	161	195	196	193	209	212	209	214
Others	17	14	18	23	7	(1)	(8)	(6)	(4)
Total current enterprise liabilities (4)	325	341	393	410	396	417	415	412	424
Others	3	3	3	3	3	3	3	3	3
Total non-current enterprise liabilities (5)	3	3	3	3	3	3	3	3	3
Total Enterprise Liabilities (6)=(4)+(5)	328	344	396	413	399	420	418	415	427
Enterprise Book Value (7)=(3)-(6)	872	927	975	972	908	906	898	912	911
Short-term loans	566	699	930	927	541	525	505	505	495
Current portion of long-term loans	35	35	30	34	53	53	53	53	53
Total current financial liabilities (8)	601	734	961	960	595	578	558	558	548
Non-current portion of long-term loans	94	86	81	113	141	141	141	141	141
Total non-current financial liabilities (9)	94	86	81	113	141	141	141	141	141
Total Financial Liabilities (10)=(8)+(9)	695	820	1,042	1,073	736	719	699	699	689
Cash and bank	160	117	96	136	109	103	104	103	105
Pledged deposits	229	364	559	572	330	330	330	330	330
Total current financial assets (11)	389	481	655	707	438	432	433	433	435
Others	0	0	0	0	0	0	0	0	0
Total non-current financial assets (12)	0	0	0	0	0	0	0	0	0
Total Financial Assets (13)=(11)+(12)	389	481	655	707	438	432	433	433	435
Net Debt (14)=(10)-(13)	306	339	387	366	298	287	266	267	254
Non-controlling interest	16	19	25	25	24	25	26	27	28
Shareholder Equity	550	569	563	581	586	594	606	618	629
Total Equity (15)	566	588	588	606	610	619	632	645	657
Financing Activities (16)=(14)+(15)	872	927	975	972	908	906	898	912	911
Cashflow Statements (HKD mn)									
CFO									
PBT	46	24	24	13	8	11	16	17	14
Adjustments	19	18	17	16	19	17	17	17	17
Cash from ops before WC ex-financials' changes	65	42	41	30	27	28	33	34	31
WC ex-financials' changes	(52)	(58)	(50)	3	89	2	7	(24)	(4)
Cash generated from operations	13	(16)	(8)	33	116	30	41	9	27
Taxes paid, net of attributable finance	(6)	(7)	(0)	3	(19)	(9)	(10)	(1)	(0)
Cashflow from Operations (17)	8	(24)	(8)	36	97	21	31	9	27
CFI									
PPE, land rights, intangibles net	(3)	(4)	(33)	(4)	(11)	(5)	(5)	(5)	(10)
Cashflow from Investments (18)	(3)	(4)	(33)	(4)	(11)	(5)	(5)	(5)	(10)
Cashflow from Enterprise (19)=(17)+(18)	5	(28)	(41)	33	85	16	26	4	17
CFF									
Share issuance	0	0	0	0	0	0	0	0	0
Purchase of treasury shares	0	0	0	0	0	0	0	0	0
Loans, net of repayments	289	125	222	31	(339)	(17)	(20)	0	(10)
Pledged deposits	(229)	(135)	(195)	0	229	0	0	0	0
Issue of term note, net	0	0	0	0	0	0	0	0	0
Dividends to minority interests	0	0	0	0	(2)	(0)	0	0	(0)
Dividends to shareholders & capital reduction	0	0	(2)	(19)	0	0	0	0	0
Finance expense, net of income	(5)	(5)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Taxes paid, attributable finance	(1)	(1)	(1)	(1)	(3)	(1)	(1)	(1)	(1)
Cashflow from Financing (20)	54	(15)	20	7	(119)	(22)	(25)	(4)	(14)
Net change in Cash (21)=(19)+(20)	59	(43)	(21)	40	(34)	(6)	1	(1)	2
Effects of exchange rates	0	0	0	0	7	0	0	0	0
CCE, begin	101	160	117	96	136	109	103	104	103
CCE, end	160	117	96	136	109	103	104	103	105

Source: PSR



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