

**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

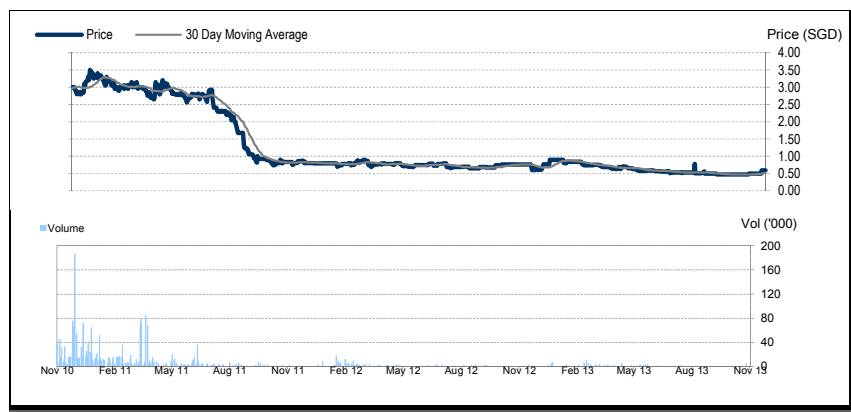
**Head Office Location:** Xin Cheng Industrial District, Heng Li Zhen, Dongguan, Guangdong Province, The PRC

**Place of Operations:** China

**Website:** www.combinewill.com

**IR Contact:** Joyce Jiang | +86-769-8337 2813 Ext 8354

**Analyst:** Pey Heng Yap, CFA



## Key Stock Statistics

52-week Share Price Range (SGD)	<b>0.47 - 0.90</b>
Avg Vol - 12 months ('000 shares)	<b>2.7</b>
Price Performance (%)	
- 1 month	<b>26.6</b>
- 3 month	<b>19.0</b>
- 12 month	<b>-10.5</b>
No. of Outstanding Shares (mln)	<b>32.8</b>
Free Float (%)	<b>26.5</b>
Market Cap (SGD mln)	<b>19.5</b>
Enterprise Value (SGD mln)	<b>-47.9</b>
Major Shareholders (%)	
DJKS Holdings Ltd	<b>73.5</b>

## Per Share Data

FY Dec.	2012	2013E	2014E
Book Value (HK cents)	1,927.10	1,862.44	1,873.02
Cash Flow (HK cents)	277.5	103.5	168.4
Reported Earnings (HK cents)	113.1	-64.7	10.6
Dividend (HK cents)	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0
PER (x)	3.3	NM	35.1
P/Cash Flow (x)	1.3	3.6	2.2
P/Book Value (x)	0.2	0.2	0.2
Dividend Yield (%)	0.0	0.0	0.0
ROE (%)	6.1	-3.4	0.6
Net Gearing (%)	54.3	38.3	39.9

## One-off gain boosts 3Q13 profit; outlook improves

- Disposal gain boosts 3Q13 profit.** Combine Will's (CW) 3Q13 net profit declined by 3% YoY, better than expected due to a disposal gain of HKD8 mln. Management guides for a similar disposal gain in 4Q13 and, as such, we reduce 2013 net loss estimate by 16.3%. Our view for CW to eke out a small profit in 2014 remains unchanged. Cost pressure and sluggish global demand recovery remain headwinds.
- Declining gross margin.** 3Q13 revenue declined by 2.0% YoY, a significant improvement compared to the sharp decline of 24.7% in 1H13. A surge in orders from two existing European ODM/OEM customers helped lift revenue. However, gross margin remains under pressure due to limited pricing power and cost pressure. Overall gross margin was significantly compressed by 410 basis points (bps) YoY to 5.9%. Moulds and toolings business suffered the most, with a gross loss margin of 9.8%.
- Better than expected operating expense control.** Admin expenses fell by 26.5% YoY due to exchange gain and strong cost control. Operating cash flow turned positive from the previous quarter, which led to a reduction in net gearing to 55.1% from 70.0%.
- Guiding for better financial performance.** Management expects upward momentum into 4Q13 and better overall financial performance for next 12 months. In addition, the management is looking into automation and strong overhead controls to mitigate cost impact.
- Key risks include:** (i) Continued lackluster global demand, (ii) rising input and labor costs; and (iii) CNY appreciation which hurts global competitiveness.

## Earnings Outlook

### Revenue Drivers:

- We estimate the group's 2013 revenue growth to decline 11.6% YoY, with weakness across the board. We forecast a 8% decline in ODM/OEM sales mainly due to slow global consumer spending.
- We expect the moulds and toolings business to be weak due to slowing investment in the automotive manufacturing industry as well as ongoing cost containment exercises by customers.
- We expect machines sales to be subdued due to price competition along with slow global growth that is curtailing customer expansion plans.
- We expect 2014 revenue to grow modestly by 3.0% YoY. We expect ODM/OEM to grow by 6.7% due to modest recovery in global consumer spending. We think the sales and machines business revenue may be flat due to competition amid slow customer expansion. Given CW continues to streamline the moulds and toolings business, we expect this segment to decline by 20%.

### Margin Outlook:

- We expect 2013 gross margin to fall 700 bps mainly due to lower sales and rising labor cost. We estimate 20% of its cost structure is fixed (mainly depreciation and overhead). We think there is limited room for CW's customers to squeeze margins further as CW's products are barely profitable.
- We estimate EBIT margin for 2013 to fall by 470 bps, as a result of lower gross margin. However, we expect a one-off disposal gain from property sale as well as tight control on admin expenses helps to buffer the sharp decline in gross margin partially.
- We expect gross margin in 2014 to improve by 320 bps to 8%, mainly driven by ODM/OEM due to increased productivity and sales. We expect machine sales gross margin to decline by 1% YoY given intensifying competition. Given the streamlining exercises on the machines sales business, we think this will lift the gross margin to 5.2% vs. 1% in previous year.

### Bottomline:

- As a result, we expect the company to report an unprecedented loss of HKD21.2 mln in 2013. This implies that we expect the company to report a small profit in 2H13 as demand starts to pick up modestly driven on seasonal orders.
- We think the company will be able to eke out a small profit in 2014 with improvement across all boards. We believe the profitability will mainly be driven by ODM/OEM segment which helps to offset the loss in the moulds and toolings segment.

## Earnings Performance

FY Dec. / HKD mln	3Q13	3Q12	% Change
Reported Revenue	419.4	428.0	-2.0
Reported Operating Profit	18.4	16.9	8.9
Depreciation & Amortization	-12.7	-13.3	-4.2
Net Interest Income / (Expense)	-1.8	-1.7	4.6
Reported Pre-tax Profit	11.8	14.3	-17.6
Reported Net Profit	11.5	11.9	-3.0
Reported Operating Margin (%)	4.4	4.0	-
Reported Pre-tax Margin (%)	2.8	3.3	-
Reported Net Margin (%)	2.8	2.8	-

Source: Company data

## Profit & Loss

FY Dec. / HKD mln	2011	2012	2013E	2014E
Reported Revenue	1,778.2	1,526.6	1,349.1	1,395.4
Reported Operating Profit	95.0	72.0	0.3	21.9
Depreciation & Amortization	-53.6	-54.2	-55.4	-52.1
Net Interest Income / (Expense)	-16.9	-15.9	-10.2	-12.6
Reported Pre-tax Profit	68.9	53.2	-23.2	3.8
Effective Tax Rate (%)	27.4	35.1	NM	20.0
Reported Net Profit	40.6	37.1	-21.2	3.5
Reported Operating Margin (%)	5.3	4.7	0.0	1.6
Reported Pre-tax Margin (%)	3.9	3.5	-1.7	0.3
Reported Net Margin (%)	2.3	2.4	-1.6	0.2

Source: Company data, S&P Equity Research

## Key Financial Performance

FY Dec.	2011	2012	2013E	2014E
Revenue Growth(%)	11.3	-14.2	-11.6	3.4
Operating Profit Growth(%)	-37.7	-24.2	-99.7	8,612.6
Net Profit Growth(%)	-60.9	-8.5	-157.2	-116.4
EPS Growth(%)	-60.9	-8.5	-157.2	-116.4
EPS 3-Year CAGR(%)	-21.4	-6.4	NM	-55.9

Source: Company data, S&P Equity Research

## Key Fundamentals

FY Dec.	2009	2010	2011	2012
Asset turnover (x)	1.1	1.2	1.1	1.0
Receivables turnover (x)	5.5	5.6	5.1	4.3
Inventory turnover (x)	NA	NA	NA	NA
Current Ratio (x)	1.4	1.4	1.4	1.7
Quick Ratio (x)	0.9	1.0	1.0	0.9
Net Gearing (%)	33.4	55.7	50.8	54.3
Debt/Capital (%)	42.6	56.6	56.7	39.3
Interest coverage (x)	5.3	8.1	2.3	2.2
ROA (%)	4.8	7.9	3.1	2.4
ROE (%)	10.3	20.6	9.1	6.1
Payout ratio (%)	41.0	37.2	0.0	0.0

Source: Company data, S&P Equity Research

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Page 3 of 6

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Page 4 of 6



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Stephen Biggar (US) [stephen.biggar@spcapital.com](mailto:stephen.biggar@spcapital.com)

Lorraine Tan (Asia Pacific) [lorraine.tan@spcapitaliq.com](mailto:lorraine.tan@spcapitaliq.com)

Roger Hirst (Europe) [roger.hirst@spcapitaliq.com](mailto:roger.hirst@spcapitaliq.com)

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Page 5 of 6

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