

# Combine Will Intl Hlds

Bloomberg: **COMW SP**

Reuters: **CWIH.SI**

Price: **SGD0.55**

Date: **March 7, 2014**

**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

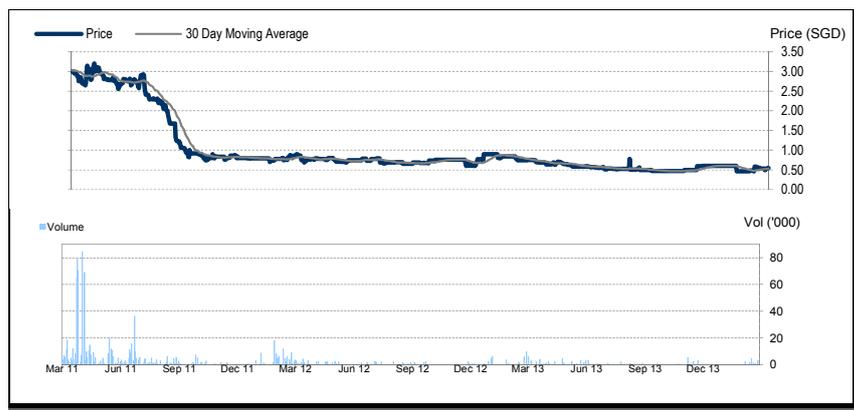
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**Place of Operations:** China

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**Analyst:** Pey Heng Yap, CFA



## Key Stock Statistics

52-week Share Price Range (SGD)	0.47 - 0.78
Avg Vol - 12 months ('000 shares)	2.2
Price Performance (%)	
- 1 month	13.5
- 3 month	-9.2
- 12 month	-21.6
No. of Outstanding Shares (mln)	32.8
Free Float (%)	26.5
Market Cap (SGD mln)	17.9
Enterprise Value (SGD mln)	-50.8
Major Shareholders (%)	
DJKS Holdings Ltd	73.5

## Per Share Data

FY Dec.	2013	2014E	2015E
Book Value (HK cents)	1,981.96	2,008.33	2,053.19
Cash Flow (HK cents)	176.7	176.1	205.5
Reported Earnings (HK cents)	22.1	26.4	44.9
Dividend (HK cents)	0.0	0.0	0.0
Payout Ratio (%)	NA	0.0	0.0
PER (x)	15.0	12.6	7.4
P/Cash Flow (x)	1.9	1.9	1.6
P/Book Value (x)	0.2	0.2	0.2
Dividend Yield (%)	0.0	0.0	0.0
ROE (%)	NA	1.3	2.2
Net Gearing (%)	47.4	40.5	43.3

## 4Q13 Results: ODM/OEM Recovery Underway

- Disposal gain and lower admin expense boost 4Q13 profit.** Combine Will's (CW) 4Q13 net profit improved significantly to HKD32.5 mln vs. a small profit in the prior year, due to a one-off disposal gain and better admin expense control. The profit beat our expectations, as ODM/OEM revenue growth and margin recovered faster than expected. As a result, we raise our earnings estimates to CNY8.6 mln and CNY14.7 mln for 2014 and 2015 respectively, vs. a small profit previously. However, bottomline performance risks remain, as net profit margins remain low at 0.6% and 1.0% respectively for 2014 and 2015, due to cost pressure and the modest global demand recovery.
- Gross margin recovery underway.** 4Q13 revenue increased by 22.7% YoY and 7.1% QoQ. Gross margin declined by 290 bps YoY but improved by 283bps QoQ across all businesses. Gross loss at moulds and toolings business narrowed, due to ongoing efforts to restructure the segment.
- Better admin expense control.** Admin expenses fell by 39.0% YoY due to strong cost containment, offsetting some of the unrealized HKD/CNY carry trade loss. Net gearing continued to improve to 47.4% from 55.1% in 3Q13.
- Mixed bag outlook.** Management expects sales will continue to improve for ODM/OEM business, driven by new product launches from existing customers. Restructuring will continue for moulds and tooling business as demand continues to shrink. Demand for machine sales unit has not picked up, as most of the customers remain cautious on capital spending.
- Key risks include:** (i) Continued lackluster global demand, (ii) Rising input and labor costs; and (iii) CNY depreciation where the company could suffer realized loss on its HKD/CNY carry trade.

## Earnings Outlook

### Revenue Drivers:

- We expect 2014 revenue to grow modestly by 2.4% YoY, mainly driven by the improving outlook for the ODM/OEM business. We expect ODM/OEM revenue to grow by 10.0%, due to modest recovery in 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. Given that CW continues to streamline the moulds and toolings business, we expect this segment to halve in 2014.
- We expect the sales and machines business revenue to be flat due to competition amid slow customer expansion.

### Margin Outlook:

- We expect 2014 gross margin to improve by 171 bps, mainly driven by increased sales and productivity in ODM/OEM business. We also expect cost savings to flow through from the moulds and toolings business restructuring. These will help to offset input price inflation and rising labor cost. We think there is limited room for CW's customers to squeeze margins further, as CW and most of its peers suffered losses in 2013.
- We estimate EBIT margin for 2014 to fall by 41 bps, due to an absence of the one-off disposal gain and potential HKD/CNY carry trade loss due to CNY depreciation since end-2013.
- We expect net margin in 2014 to remain low at 0.6%, similar to 2013. We expect interest expense to fall as the HKD/CNY carry trade starts to unwind by end of 1Q14.

### Bottomline:

- As a result, we expect the company to report core profit of HKD8.6 mln in 2014 vs. a core loss of HKD9.8 mln in the prior year.

## Earnings Performance

FY Dec. / HKD mln	4Q13	4Q12	% Change
Reported Revenue	449.3	366.3	22.7
Reported Operating Profit	39.7	18.0	>100
Depreciation & Amortization	-10.6	-14.0	-24.2
Net Interest Income / (Expense)	-1.7	-7.9	-78.9
Reported Pre-tax Profit	33.2	10.9	>100
Reported Net Profit	32.5	4.8	>100
Reported Operating Margin (%)	8.8	4.9	-
Reported Pre-tax Margin (%)	7.4	3.0	-
Reported Net Margin (%)	7.2	1.3	-

Source: Company data

## Profit & Loss

FY Dec. / HKD mln	2012	2013	2014E	2015E
Reported Revenue	1,526.6	1,420.0	1,454.5	1,535.9
Reported Operating Profit	72.0	28.5	23.3	27.0
Depreciation & Amortization	-54.2	-51.0	-49.1	-52.7
Net Interest Income / (Expense)	-15.9	-9.2	-1.9	-7.9
Reported Pre-tax Profit	53.2	5.5	10.6	18.4
Effective Tax Rate (%)	35.1	70.7	20.0	20.0
Reported Net Profit	37.1	7.3	8.6	14.7
Reported Operating Margin (%)	4.7	2.0	1.6	1.8
Reported Pre-tax Margin (%)	3.5	0.4	0.7	1.2
Reported Net Margin (%)	2.4	0.5	0.6	1.0

Source: Company data, S&P Equity Research

## Key Financial Performance

FY Dec.	2012	2013	2014E	2015E
Revenue Growth(%)	-14.2	-7.0	2.4	5.6
Operating Profit Growth(%)	-24.2	-60.4	-18.3	15.8
Net Profit Growth(%)	-8.5	-80.4	19.1	70.1
EPS Growth(%)	-8.5	-80.4	19.1	70.1
EPS 3-Year CAGR(%)	-6.4	-58.8	-40.3	-26.5

Source: Company data, S&P Equity Research

## Key Fundamentals

FY Dec.	2010	2011	2012	2013
Asset turnover (x)	1.2	1.1	1.0	0.8
Receivables turnover (x)	5.6	5.1	4.3	4.0
Inventory turnover (x)	NA	NA	NA	NA
Current Ratio (x)	1.4	1.4	1.7	1.3
Quick Ratio (x)	1.0	1.0	0.9	1.0
Net Gearing (%)	55.7	50.8	54.3	47.4
Debt/Capital (%)	56.6	56.7	39.3	64.1
Interest coverage (x)	8.1	2.3	2.2	-1.6
ROA (%)	7.9	3.1	2.4	NA
ROE (%)	20.6	9.1	6.1	NA
Payout ratio (%)	37.2	0.0	0.0	NA

Source: Company data, S&P Equity Research

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