

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

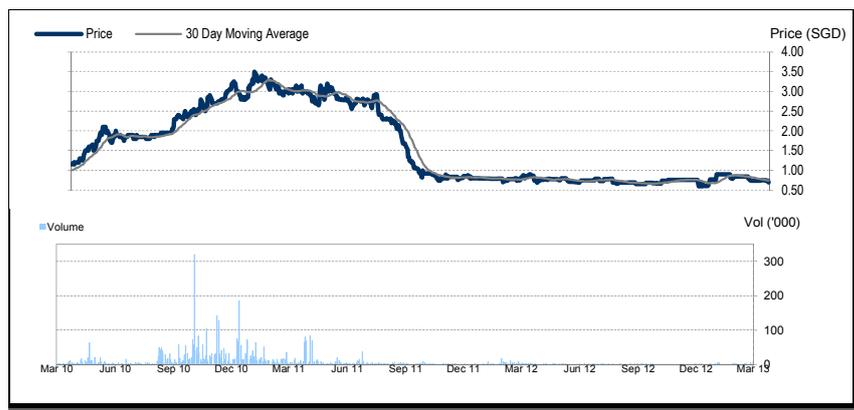
Head Office Location: Xin Cheng Industrial District, Heng Li Zhen, Dongguan, Guangdong Province, The PRC

Place of Operations: China

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Key Stock Statistics

52-week Share Price Range (SGD)	0.60 - 0.90
Avg Vol - 12 months ('000 shares)	2.8
Price Performance (%)	
- 1 month	-6.7
- 3 month	-9.7
- 12 month	-6.1
No. of Outstanding Shares (mln)	32.8
Free Float (%)	26.5
Market Cap (SGD mln)	22.8
Enterprise Value (SGD mln)	-36.5
Major Shareholders (%)	
DJKS Holdings Ltd	73.5

Per Share Data

FY Dec.	2012	2013E	2014E
Book Value (HK cents)	1,927.10	2,047.46	2,178.06
Cash Flow (HK cents)	277.5	278.6	280.8
Reported Earnings (HK cents)	113.1	120.4	130.6
Dividend (HK cents)	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0
PER (x)	3.8	3.6	3.3
P/Cash Flow (x)	1.6	1.6	1.5
P/Book Value (x)	0.2	0.2	0.2
Dividend Yield (%)	0.0	0.0	0.0
ROE (%)	6.1	6.1	6.2
Net Gearing (%)	54.3	43.8	38.5

4Q12 results weak, moderate growth in 2013

- **Lower-than-expected 4Q12 results.** Combine Will (CW) reported a 59.2% YoY decline in core net profit to HKD4.8 mln (excluding listing fees in 4Q11). The results are lower than we expected due to declining revenue, higher finance and tax expense.
- **Declining 4Q12 revenue, but with improving gross margin.** The decline in 4Q12 revenue to HKD366.3 mln (-17.6% YoY, -14.4% QoQ) was a negative surprise as 4Q tends to be seasonally stronger. Revenue decline was across all segments, and management said this was mainly due to the timing of orders. Overall gross margin improved by 70 bps YoY, 160 bps QoQ to 11.6%. As a result, 4Q12 gross profit declined by a relatively contained 12.4% YoY to HKD42.6 mln.
- **In-line operating expense.** Operating expenses decreased by 10.4% YoY due to consolidation and streamlining at its molds and tooling segment. As a result, core operating profit (excluding other income and one time listing fee) declined by 19.1% YoY to HKD9.1 mln.
- **Rising working capital requirement.** CW reported a negative operating cash flow mainly due to higher days of inventory and lower prepayment from machine sales. As a result, net gearing increased to 54.3% vs. 50.8% in the previous year.
- **Cautiously optimistic for ODM/OEM segment.** With product broadening of its existing customers, as well as improving productivity, CW management is guiding for moderate growth for its ODM/OEM segment. Nevertheless, molds and tooling as well as the machine sales segment are expected to remain subdued this year.
- **Key risks include:** (i) the challenging macroeconomic environment impacting demand, (ii) rising labor cost and inflationary pressure, and (iii) volatility in CNY/USD exchange rate.

Earnings Outlook**Revenue Drivers:**

- We estimate the group's 2013 revenue growth to increase by 5.8% YoY, mainly driven by the ODM/OEM segment as global economies improve modestly this year. ODM/OEM sales are mainly driven by global consumer spending, especially in advanced economies
- We expect the demand for molds and toolings to be subdued due to slowing investment in the manufacturing industry, fewer new car models introduced in the automobile industry and more standardized platform requirements.
- We expect machines sales to remain weak due to competitive pressure.

Margin Outlook:

- We expect the company to offset the inflationary pressure, including labor cost, with increased productivity and automation. Therefore, we expect overall gross margin to remain stable this year. We see limited room for their customers to squeeze the margin further as net profit margin for the ODM/OEM business in the industry is razor-thin.
- We estimate EBIT margin for 2013 to be relatively stable, as a result of slower revenue growth and relatively tight control on admin expense.
- We expect the company's overall 2013 net margin to be 2.4%, similar with last year. This is generally in line with the average ODM/OEM industry margin.

Bottomline:

- We estimate 2013 net profit to improve by 6.4% YoY due to slight topline growth and stable margin.
- We also expect net finance costs to be lower in 2013 due to debt repayment using its cash deposits.

Earnings Performance

FY Dec. / HKD mln	4Q12	4Q11	% Change
Reported Revenue	366.3	444.4	-17.6
Reported Operating Profit	9.1	0.3	>100
Depreciation & Amortization	-14.0	-13.2	6.3
Net Interest Income / (Expense)	-6.9	-4.5	54.4
Reported Pre-tax Profit	10.9	7.9	37.6
Reported Net Profit	4.8	0.7	>100
Reported Operating Margin (%)	2.5	0.1	-
Reported Pre-tax Margin (%)	3.0	1.8	-
Reported Net Margin (%)	1.3	0.2	-

Source: Company data

Profit & Loss

FY Dec. / HKD mln	2011	2012	2013E	2014E
Reported Revenue	1,778.2	1,526.6	1,615.7	1,701.7
Reported Operating Profit	95.0	72.0	68.2	72.8
Depreciation & Amortization	-53.6	-54.2	-52.2	-49.6
Net Interest Income / (Expense)	-16.9	-15.9	-13.4	-13.1
Reported Pre-tax Profit	68.9	53.2	54.3	58.9
Effective Tax Rate (%)	27.4	35.1	25.0	25.0
Reported Net Profit	40.6	37.1	39.5	42.8
Reported Operating Margin (%)	5.3	4.7	4.2	4.3
Reported Pre-tax Margin (%)	3.9	3.5	3.4	3.5
Reported Net Margin (%)	2.3	2.4	2.4	2.5

Source: Company data, S&P Equity Research

Key Financial Performance

FY Dec.	2011	2012	2013E	2014E
Revenue Growth(%)	11.3	-14.2	5.8	5.3
Operating Profit Growth(%)	-37.7	-24.2	-5.3	6.8
Net Profit Growth(%)	-60.9	-8.5	6.4	8.5
EPS Growth(%)	-60.9	-8.5	6.4	8.5
EPS 3-Year CAGR(%)	-21.4	-6.4	-27.6	1.8

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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