

COMBINE WILL

Dull 3Q12. Dull next 2 years.

Bloomberg | Reuters | POEMS
COMW:SP | CWHI.SI | CBWC.SG
Industry: Consumer Goods (Mechanical Engineering)

Phillip Securities Research Pte Ltd

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Report type: Update

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.

- 3Q12 result is as dull as 2Q12.
- Good 2010 profit levels unlikely in next 2 years.
- Conservative valuation model price +16% from here.

What is the news? How do we view this?

3Q12 echoes 2Q12 as labour costs and weak demand continue to bite into net income, although the high inventories in 2Q12 were translated into sales for 3Q12. The inevitable OEM squeeze that we talked about in our last report took care of the bottom line, resulting in HK\$11.9m profit. The HK\$1.7m gain from minority shows that there is a loss in its moulds & tooling segment.

Its top - FMCG, fast-food and toy - customers reported flat revenues in 3Q12 y-y (positive in constant currencies).

Using our RIV model, 11.4% (revised to average of last 5 years) ROE, 2-year horizon, accelerated depreciation, best-inventory-turnover; we get a fair price of S\$1.85. However due to the general market's current obsession with leverage fears, we will use - strictly for target price calculation only - a dilution factor on its share base that equals our forecast of its best unsecured net debt position in the next 2 years divided by its best share price attained in the last 6 months. This factor is about 100%. Therefore our target price is S\$1.85/200% = S\$0.93. In our previous report, we used a discount to NBV, which discount we estimated from history. We believe the share dilution basis reflects the current market's fear-of-leverage situation in a more model-able manner. We also use the highest price in the last 6 months because of the difficulty in buying below that price. The total volume transacted in that period is 194,000 shares, over 126 trading days or just 1,500 shares daily.

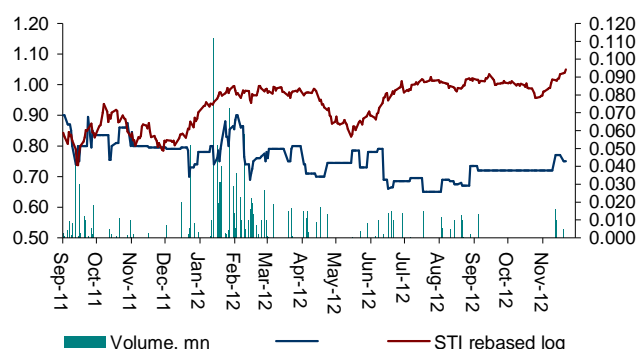
Investment Action

Besides our target price of S\$0.93 being 16% higher than the best done price of S\$0.80 (apart from the 5100 shares at S\$0.90) in the last 6 months, we rate this a **BUY** also because of the conservative metrics built into our valuation.

But, please bear in mind that In our last report, we mentioned net income would not likely reach FY10 level in the next 2 years; and, positive effects of having its own plant in Guangxi would also come later. One would need patience if one expects some price catalysts soon.

COMBINE WILL

Rating	1	Buy
- Previous Rating	1	Buy
Target Price (SGD)	0.930	
- Previous Target Price (SGD)	1.160	
Closing Price (SGD) ~ 6-month highest	0.800	(ignoring the 5,100 shares at 0.900)
Expected Capital Gains (%)	16.3%	
Expected Dividend Yield (%)	0.0%	
Expected Total Return (%)	16.3%	
Calculated Beta (1-year)	0.55	
Market Cap. (SGD mn)	26	
Enterprise Value (SGD mn)	84	
3M Average Daily T/O (mn)	0.001	
52 week range (SGD)	0.615-0.900	



Major Shareholders	(%)
1. DJKS Holdings	73.5

Key Financial Summary

FYE	12/11	12/12F	12/13F	Sep14TF
Price (*Actual/Current)	0.753	0.800	0.800	0.800
P/B (X)	0.26	0.25	0.23	0.21
EV/EBV (X)	0.50	0.42	0.47	0.41
P/Net Debt (X)	0.51	0.77	0.46	0.60
P/E (X)	3.8	4.1	2.3	6.9
EPS (SGD)	0.200	0.194	0.341	0.116
DPS (SGD)	0.000	0.000	0.000	0.000
Dividend Yield *	0.0%	n.a.	n.a.	n.a.

Source: PSR est.

*Actual mean price between publication of Q-end result and now; and 6-month highest.

Valuation Method

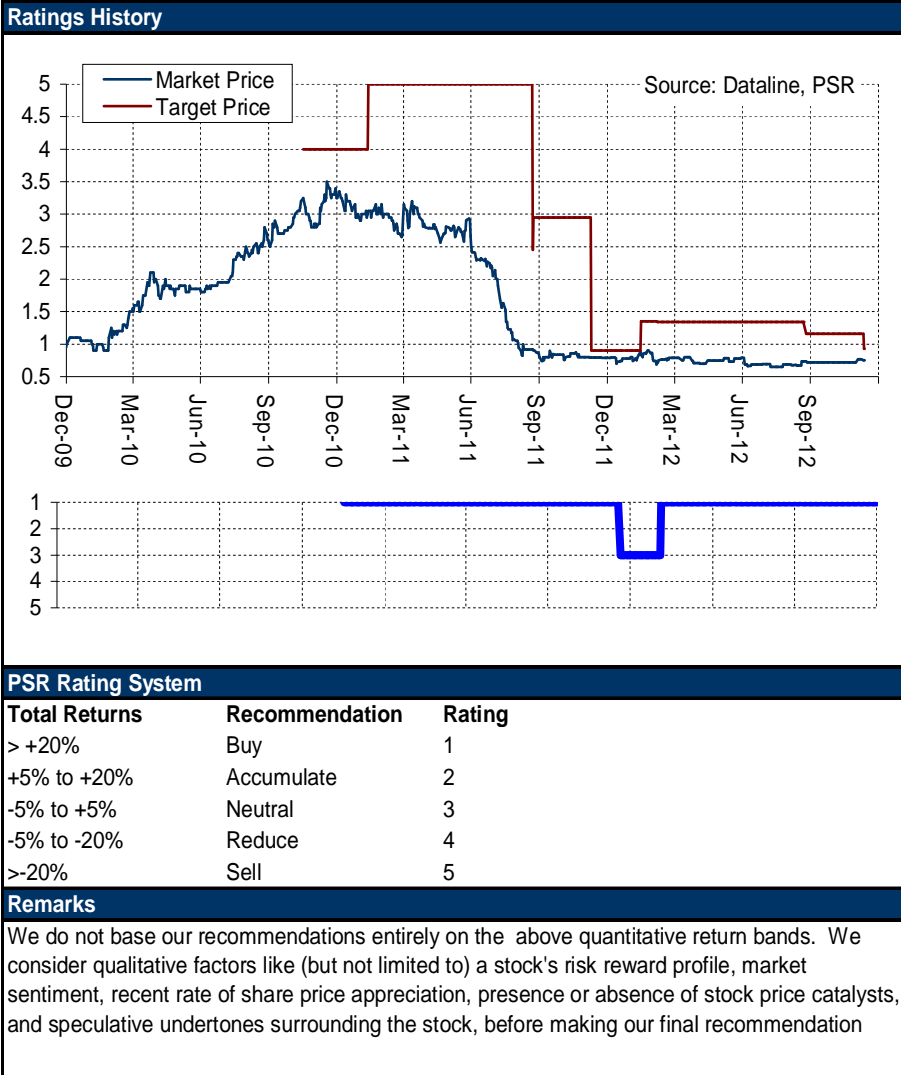
RIV (ROE: 11.4%; 2 years horizon, accelerated depreciation, best inventory-turnover ratio; share-base diluted by unsecured leverage)

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FYE Dec (Forecasts are based on current price; actuals on average prices Q result date & now)	IPO: 23 June 2008							
	FY07	FY08	FY09	FY10	FY11	FY12F	FY13F	Sep14TF
Valuation								
P/B	0.99	0.25	0.62	1.08	0.26	0.25	0.23	0.21
EV/EBV (X) [EBV=Enterprise Book Value]	0.97	0.34	0.70	1.03	0.50	0.42	0.47	0.41
P/ND (X) [ND=Net Debt]	2.0	1.9	1.9	1.9	0.5	0.8	0.5	0.6
P/E (X)	2.7	1.5	6.3	5.7	3.8	4.1	2.3	6.9
DY (%) based on average prices public-ex dates	6.9%	15.7%	6.4%	3.4%	0.0%	n.a.	n.a.	n.a.
Per share data (SGD)								
NBV	1.462	2.517	2.504	2.706	2.886	3.172	3.513	3.757
EBV	2.240	2.911	3.396	4.295	4.471	4.323	5.366	5.195
ND	0.723	0.338	0.836	1.508	1.466	1.036	1.735	1.333
EV	2.169	0.975	2.394	4.432	2.220	1.836	2.535	2.133
EPS	0.529	0.439	0.247	0.511	0.200	0.194	0.341	0.116
DPS	0.100	0.100	0.100	0.100	0.000	0.000	0.000	0.000
Growth (%)								
NBV per share	n.m.	72.2%	-0.5%	8.1%	6.6%	9.9%	10.7%	14.9%
EBV per share	n.m.	30.0%	16.7%	26.5%	4.1%	-3.3%	23.9%	11.0%
ND per share	n.m.	-53.3%	147.4%	80.4%	-2.8%	-29.3%	67.4%	2.8%
Revenue	23.2%	10.7%	-21.3%	50.9%	11.3%	-12.6%	14.5%	11.2%
Net Income	210.6%	-17.1%	-43.7%	107.1%	-60.9%	-2.7%	75.2%	-38.2%
Return & Margin (%)								
EBI/EBV	22.7%	17.4%	8.6%	14.1%	6.7%	5.4%	7.0%	3.0%
EBI/EBV (standard deviation, 5 years)	n.a.	n.a.	7.4%	5.3%	6.5%	5.1%	3.4%	4.1%
ROE	n.m.	17.4%	9.9%	18.9%	6.9%	6.1%	9.7%	3.1%
Net Income/Revenue	8.2%	5.5%	4.3%	6.5%	2.3%	2.5%	3.8%	1.3%
Income Statement (HKD mn)								
Revenue	1215	1345	1058	1597	1778	1553	1779	1811
EBIT	111	97	71	152	86	63	91	59
Taxation (net of attributable to finance)	-15	-12	-18	-29	-25	-17	-17	-28
EBI	95	85	54	123	61	46	74	30
Net Finance (Expense)/Income	-10	-12	-10	-16	-17	-12	-11	-12
Taxation (attributable to finance)	1	2	2	3	6	3	3	3
Profit After Tax	87	74	46	110	50	37	66	22
Less: Non-controlling Interest	-12	1	1	6	10	-1	-1	-1
Net Income	99	74	45	104	41	38	67	23
Effective tax rate %	13.8%	12.8%	25.0%	19.1%	24.0%	25.0%	25.0%	25.0%
FYE Dec Balance Sheet (HKD mn)								
PPE	217	237	242	295	304	292	408	431
Land rights & Intangibles	2	2	2	2	2	2	2	2
Total non-current enterprise assets (1)	219	239	244	297	306	295	410	433
Inventories	269	266	276	412	443	393	504	446
Accounts Receivables	190	129	256	317	378	353	434	393
Other Receivables	84	82	92	175	201	200	200	200
Total current enterprise assets (2)	543	477	624	905	1022	946	1138	1040
Total Enterprise Assets (3)=(1)+(2)	762	716	868	1203	1328	1240	1548	1473
Accounts Payables	150	105	126	172	197	185	237	210
Other Payables	180	104	100	136	193	185	237	210
Others	9	15	17	19	27	17	17	28
Total current enterprise liabilities (4)	339	224	243	327	417	387	491	447
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)	342	228	246	330	420	390	494	451
Enterprise Book Value (7)=(3)-(6)	420	489	622	872	908	851	1054	1022
Short-term loans	209	162	287	566	541	165	358	321
Current portion of long-term loans	0	0	12	35	53	45	37	31
Total current financial liabilities (8)	209	162	299	601	595	210	396	353
Non-current portion of long-term loans	0	0	33	94	141	94	46	10
Total non-current financial liabilities (9)	0	0	33	94	141	94	46	10
Total Financial Liabilities (10)=(8)+(9)	209	162	332	695	736	304	441	362
Cash and bank	74	106	179	160	109	100	100	100
Pledged deposits	0	0	0	229	330	0	0	0
Total current financial assets (11)	74	106	179	389	438	100	100	100
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)	74	106	179	389	438	100	100	100
Net Debt (14)=(10)-(13)	136	57	153	306	298	204	341	262
Non-controlling interest	10	9	10	16	24	22	21	21
Shareholder Equity	274	422	458	550	586	624	691	739
Total Equity (15)	284	432	469	566	610	647	713	760
Financing Activities (16)=(14)+(15)	420	489	622	872	908	851	1054	1022
Cashflow Statements (HKD mn)								
CFO								
PBT	101	84	61	136	69	52	80	101
Adjustments	26	62	59	69	71	65	64	65
Cash from ops before WC ex-financials' changes	127	146	120	205	139	117	144	166
WC ex-financials' changes	-89	-38	-125	-196	-10	55	-88	-19
Cash generated from operations	38	108	-5	9	130	172	57	146
Taxes paid, net of attributable finance	-9	-3	-10	-21	-33	-21	-12	-9
Cashflow from Operations (17)	30	105	-15	-12	97	151	45	137
CFI								
PPE, land rights, intangibles net	-28	-66	-51	-103	-52	-42	-169	-140
Cashflow from Investments (18)	-28	-66	-51	-103	-52	-42	-169	-140
Cashflow from Enterprise (19)=(17)+(18)	2	39	-67	-115	45	109	-124	-3
CFF								
Share issuance	0	104	0	0	0	0	0	0
Purchase of treasury shares	0	0	0	0	0	0	0	0
Loans, net of repayments	65	-43	170	363	39	-430	137	17
Pledged deposits	0	0	0	-229	-101	330	0	0
Issue of term note, net	0	0	0	0	0	0	0	0
Dividends to minority interests	-1	-2	0	0	-2	-1	0	0
Dividends to shareholders & capital reduction	-34	-53	-17	-19	-21	0	0	0
Finance expense, net of income	-10	-12	-10	-16	-17	-12	-11	-12
Taxes paid, attributable finance	-1	-2	-3	-3	-4	-3	-3	-3
Cashflow from Financing (20)	19	-7	140	96	-106	-116	124	3
Net change in Cash (21)=(19)+(20)	21	32	73	-19	-60	-7	0	0
Effects of exchange rates	0	0	0	0	9	-2	0	0
CCE, begin	53	74	106	179	160	109	100	100
CCE, end	74	106	179	160	109	100	100	100

Source: PSR



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