



Combine Will International Holdings Ltd

Diversification out of China

SINGAPORE | CONSUMER | SITE VISIT



StocksBnB.com

18 September 2018

- Cost savings from cheaper labour force in Indonesia
- Diversifying out of China gives Combine Will an edge over other vendors
- Current share price of \$1.05 represents a PE of 10.2 based on 1H18 annualised earnings

What is the news?

We attended Combine Will International Holdings Ltd (Combine Will) grand opening of its Combine Will Industrial Indonesia factory (CWII). It is their first factory to operate out of China. The factory is 30,000 square metres and located in the Central Java Sragen Regency.

Company Background

Combine Will was listed on the mainboard on the Singapore exchange in 2008. Combine Will is an original design manufacturer (ODM) & original equipment manufacturer (OEM) that supplies corporate premiums, toys and consumer products. Combine Will also supplies plastic injection and die-casting moulds and is a distributor of machinery and precision tools for mould making. ODM/OEM accounts for 83% of revenue, machine sales account for 13% and moulds & tooling 4%. Clientele includes multinational companies ranging from toys, fast-moving consumer goods to international fast food chains. Combine Will operates six factories in China with a combined strength of 10,000 workers. The Indonesian factory currently employs 1,500 workers and should double by 2019.

Diversifying out of China and into Indonesia

CWII enjoy higher cost efficiencies as labour intensive production processes are relocated to Indonesia. It made economic sense to the management and is furthermore supported by one of Combine Will's key customer who is an international fast food giant. Combine Will is one of the few vendors that supply toy premiums to this multi-billion dollar company. The timing cannot be more apt as trade tensions between US-China is at its peak. The Indonesian presence gives Combine Will an edge over other vendors as the customer is seeking vendors with geographical diversification.

Site Visit highlights

Manufacturing process. Combine Will uses injection moulding for its plastic parts. Injection moulding is a method of casting plastic by using intense force. The raw material is forced into a mould, and once the material is hardened, it is cast out from the machine. This process is also known as the shape-forming process and can be used on aluminium, ceramic and steel. See (Fig. 3 & 4).

Cheaper labour cost in Indonesia for its labour-intensive production. In the manufacturing process, automation is to mould basic plastic parts (Fig. 5 & 8). However, there is a limit to automation due to constant changes in the design of the toy premium. The labour intensive processes are in assembly, spray painting, packaging and customisation.

Order visibility. Combine Will have been working closely with their major customers for approximately 26-years. The factory is earmarked for major customers and should provide some visibility of orders in the future. Combine Will to date manufactured around 2bn toys.

Valuation

The current price of S\$1.05 represents a price to earnings of 10.2 based on annualised 1H18 earnings.

Not Rated

CLOSING PRICE	SGD 1.050
FORECAST DIV	N.A.
TARGET PRICE	N.A.
TOTAL RETURN	N.A.

COMPANY DATA

O/S SHARES (MN) :	32
MARKET CAP (USD mn / SGD mn) :	25 / 34
52 - WK HI/LO (SGD) :	14 / 0.2
3M Average Daily T/O (mn) :	0.01

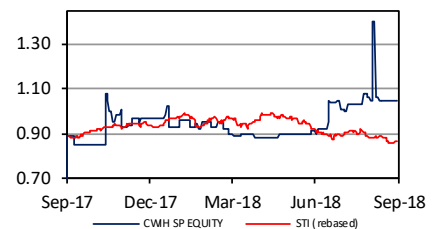
MAJOR SHAREHOLDERS (%)

DJKS Holdings Ltd	74.6%
-------------------	-------

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	0.0	14.8	18.0
STI RETURN	(2.0)	(4.9)	15

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, HKD mn	FY 14	FY 15	FY 16	FY 17
Revenue	2,068	1,968	1,191	1,364
Gross Profit	168	170	66	106
EBIT	416	42.1	(215)	28.5
Net Profit	19	17	(38)	12
ROE (x)	2.8%	2.6%	-6.8%	2.1%
ROA (x)	12%	1%	-4.0%	12%

Source: Company, PSR

Alvin Chia (+65 6212 1852)

Research Analyst

alvinchiawy@phillip.com.sg

Figure 1: Entrance to the factory



Source: PSR

Figure 2: Outside one of many factory blocks



Source: PSR

Figure 3: Plastic resin for injection moulding



Source: PSR

Figure 4: Machine that process the resins



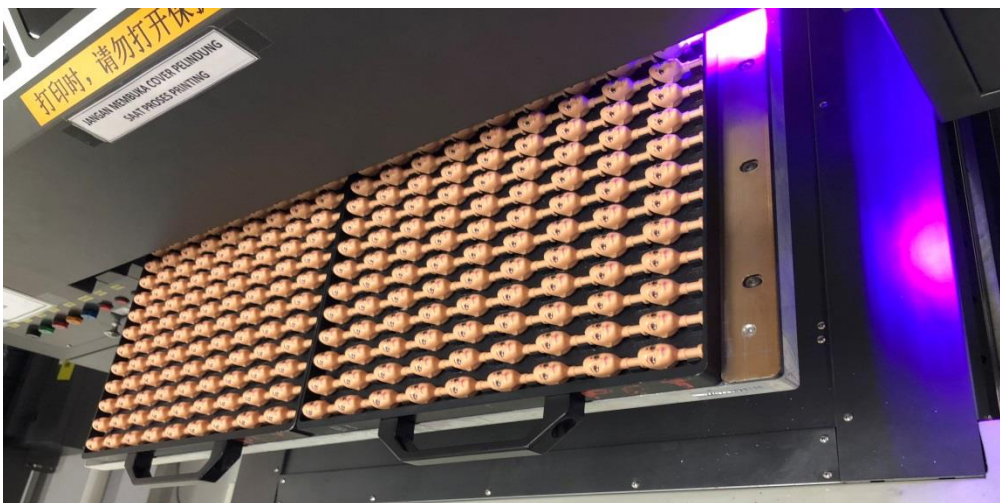
Source: PSR

Figure 5: Workers placing doll head (without eyes) on to the holding plate for printing



Source: PSR

Figure 6: Printing of doll's eyes



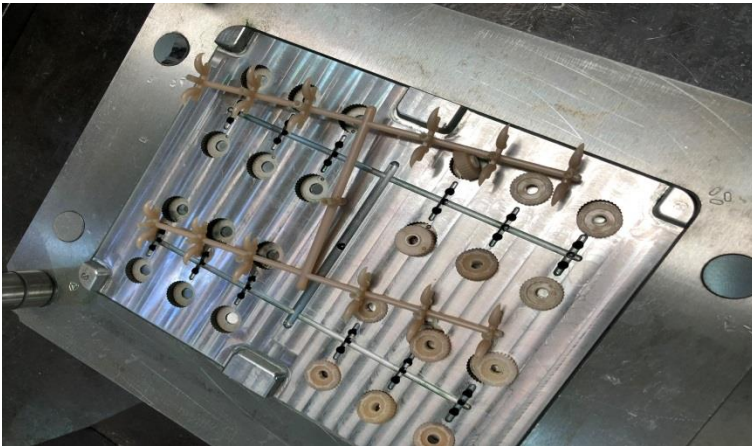
Source: PSR

Figure 7: Spray painting section



Source: PSR

Figure 8: Example of plastic mould



Source: PSR

Financials

Income Statement

Y/E Dec, HKD '000	FY14	FY15	FY16	FY17
Revenue	2,068,137	1,967,649	1,190,929	1,363,944
Gross Profit	167,798	170,209	65,635	106,229
EBITDA	100,664	97,897	25,412	73,101
Depreciation & Amortisation	59,050	55,783	46,929	44,633
EBIT	41,614	42,114	(21,517)	28,468
Net Finance Inc/(Exp)	(18,964)	(20,916)	(15,061)	(12,612)
Profit before tax	22,650	21,198	(36,578)	15,856
Taxation	(4,040)	(4,199)	(1,015)	(3,775)
Net profit before NCI	18,642	17,539	(35,472)	10,489
Non-controlling interest	(32)	(540)	(2,121)	1,592
Net profit, reported	18,610	16,999	(37,593)	12,081

Per share data (HKD)

Y/E Dec	FY14	FY15	FY16	FY17
EPS, reported	0.58	0.54	(1.10)	0.32
DPS	-	-	0.26	-
BVPS	0.21	0.20	0.17	0.18

Per share data (SGD)

Y/E Dec	FY14	FY15	FY16	FY17
FX rate (HKD/SGD)	0.16	0.18	0.18	0.18
EPS, reported	0.09	0.10	(0.20)	0.06
DPS	-	-	0.05	-
BVPS	0.03	0.04	0.03	0.03

Cash Flow

Y/E Dec, HKD '000	FY14	FY15	FY16	FY17
CFO				
Profit before tax	22,650	21,198	(36,578)	15,856
Adjustments	78,208	67,478	66,450	57,836
WC changes	41,270	(31,679)	28,631	157,987
Cash generated from ops	142,128	56,997	58,503	231,679
Tax paid	(6,857)	(663)	(7,950)	(3,048)
Others	(18,962)	(20,916)	(15,061)	(12,612)
Cashflow from ops	116,309	35,418	35,492	216,019
CFI				
CAPEX, net	(58,061)	(46,538)	(71,631)	(56,356)
Others	474,392	(112,653)	433,767	57
Cashflow from investments	416,331	(159,191)	362,136	(56,299)
CFE				
Share issuance, net	-	-	-	-
Loans, net of repayments	(496,040)	121,587	(466,897)	-
Dividends	-	-	(8,315)	-
Others	(42,828)	22,001	69,146	(133,647)
Cashflow from financing	(538,868)	143,588	(406,066)	(133,647)
Net change in cash	(6,228)	19,815	(8,438)	26,073
Effects of exchange rates	(7,370)	(18,732)	(3,116)	3,602
CCE, end	53,860	54,943	43,389	73,064

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, HKD '000	FY14	FY15	FY16	FY17
ASSETS				
PPE	246,865	217,491	219,293	207,501
Others	2,417	2,417	1,927	1,927
Total non-current assets	249,282	219,908	221,220	209,428
Accounts receivables	408,293	357,355	278,927	260,793
Cash	53,860	54,943	43,389	73,064
Inventories	557,146	513,217	495,853	525,127
Others	513,788	615,381	121,801	180,050
Total current assets	1,533,087	1,540,896	939,970	1,039,034
Total Assets	1,782,369	1,760,804	1,161,190	1,248,462
LIABILITIES				
Accounts payables	335,990	205,268	129,674	212,657
Short term loans	284,033	294,988	347,616	215,295
Tax payable	11,683	15,350	10,381	6,096
Others	453,223	582,236	109,661	212,598
Total current liabilities	1,084,929	1,097,842	597,332	646,646
Long term loans	18,367	-	-	-
Deferred tax liabilities	3,140	3,140	2,650	2,650
Total non-current liabilities	21,507	3,140	2,650	2,650
Total Liabilities	1,106,436	1,100,982	599,982	649,296
EQUITY				
Non-controlling interests	12,448	11,813	9,432	11,177
Shareholder Equity	663,485	648,009	551,776	587,989

Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17
P/E (X)	11.17	10.94	(5.34)	18.28
P/B (X)	0.31	0.30	0.34	0.33
EV/EBITDA (X)	15.96	14.10	29.42	12.86
Dividend Yield	0.0%	0.0%	4.4%	0.0%
Growth & Margins				
Growth				
Revenue	-	-4.9%	-39.5%	14.5%
EBITDA	-	-2.7%	-74.0%	187.7%
EBIT	-	1.2%	-151.1%	N.M.
Net profit, adj.	-	-8.7%	-321.1%	N.M.
Margins				
Gross margin	8.1%	8.7%	5.5%	7.8%
EBITDA margin	4.9%	5.0%	2.1%	5.4%
EBIT margin	2.0%	2.1%	-1.8%	2.1%
Net profit margin	0.9%	0.9%	-3.2%	0.9%
Key Ratios				
ROE (%)	2.8%	2.6%	-6.8%	2.1%
ROA (%)	1.2%	1.1%	-4.0%	1.2%
Net Debt / (Cash)	248,540	240,045	304,227	142,231
Net Gearing (X)	0.0%	0.0%	0.0%	0.0%

Contact Information (Singapore Research Team)
Head of Research

 Paul Chew – paulchewkl@phillip.com.sg
Marketing & Operations

 Mohamed Amiruddin - amiruddin@phillip.com.sg
Banking and Finance

 Tin Min Ying – tinmy@phillip.com.sg
Oil & Gas | Energy

 Chen Guangzhi - chengz@phillip.com.sg
Telco | Technology

 Alvin Chia - alvinchiawy@phillip.com.sg
Transport | REITs (Industrial)

 Richard Leow - richardleowwt@phillip.com.sg
REITs (Commercial, Retail, Healthcare) | Property

 Dehong Tan - tandh@phillip.com.sg
Technical Analysis

 Jeremy Ng - jeremyngch@phillip.com.sg
REITs (Commercial, Retail, Healthcare) | Property

 Tara Wong - tarawongsj@phillip.com.sg
China/HK Equity

 Zheng Jieyuan – zhengjy@phillip.com.sg
Contact Information (Regional Member Companies)
SINGAPORE
Phillip Securities Pte Ltd

 Raffles City Tower
 250, North Bridge Road #06-00
 Singapore 179101
 Tel +65 6533 6001
 Fax +65 6535 6631
 Website: www.poems.com.sg
MALAYSIA
Phillip Capital Management Sdn Bhd

 B-3-6 Block B Level 3 Megan Avenue II,
 No. 12, Jalan Yap Kwan Seng, 50450
 Kuala Lumpur
 Tel +603 2162 8841
 Fax +603 2166 5099
 Website: www.poems.com.my
HONG KONG
Phillip Securities (HK) Ltd

 11/F United Centre 95 Queensway
 Hong Kong
 Tel +852 2277 6600
 Fax +852 2868 5307
 Websites: www.phillip.com.hk
JAPAN
Phillip Securities Japan, Ltd.

 4-2 Nihonbashi Kabuto-cho Chuo-ku,
 Tokyo 103-0026
 Tel +81-3 3666 2101
 Fax +81-3 3666 6090
 Website: www.phillip.co.jp
INDONESIA
PT Phillip Securities Indonesia

 ANZ Tower Level 23B,
 Jl Jend Sudirman Kav 33A
 Jakarta 10220 – Indonesia
 Tel +62-21 5790 0800
 Fax +62-21 5790 0809
 Website: www.phillip.co.id
CHINA
Phillip Financial Advisory (Shanghai) Co Ltd

 No 550 Yan An East Road,
 Ocean Tower Unit 2318,
 Postal code 200001
 Tel +86-21 5169 9200
 Fax +86-21 6351 2940
 Website: www.phillip.com.cn
THAILAND
Phillip Securities (Thailand) Public Co. Ltd

 15th Floor, Vorawat Building,
 849 Silom Road, Silom, Bangrak,
 Bangkok 10500 Thailand
 Tel +66-2 6351700 / 22680999
 Fax +66-2 22680921
 Website www.phillip.co.th
FRANCE
King & Shaxson Capital Limited

 3rd Floor, 35 Rue de la Bienfaisance 75008
 Paris France
 Tel +33-1 45633100
 Fax +33-1 45636017
 Website: www.kingandshaxson.com
UNITED KINGDOM
King & Shaxson Capital Limited

 6th Floor, Candlewick House,
 120 Cannon Street,
 London, EC4N 6AS
 Tel +44-20 7426 5950
 Fax +44-20 7626 1757
 Website: www.kingandshaxson.com
UNITED STATES
Phillip Capital Inc

 141 W Jackson Blvd Ste 3050
 The Chicago Board of Trade Building
 Chicago, IL 60604 USA
 Tel +1-312 356 9000
 Fax +1-312 356 9005
 Website: www.phillipusa.com
AUSTRALIA
Phillip Capital Limited

 Level 10, 330 Collins Street
 Melbourne, Victoria 3000, Australia
 Tel +61-03 8633 9803
 Fax +61-03 8633 9899
 Website: www.phillipcapital.com.au
SRI LANKA
Asha Phillip Securities Limited

 2nd Floor, Lakshmans Building,
 No. 321, Galle Road,
 Colombo 03, Sri Lanka
 Tel: (94) 11 2429 100
 Fax: (94) 11 2429 199
 Website: www.ashaphillip.net
INDIA
PhillipCapital (India) Private Limited

 No.1, 18th Floor, Urmi Estate
 95, Ganpatrao Kadam Marg
 Lower Parel West, Mumbai 400-013
 Maharashtra, India
 Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
 Website: www.phillipcapital.in
TURKEY
PhillipCapital Menkul Degerler

 Dr. Cemil Bengü Cad. Hak Is Merkezi
 No. 2 Kat. 6A Caglayan
 34403 Istanbul, Turkey
 Tel: 0212 296 84 84
 Fax: 0212 233 69 29
 Website: www.phillipcapital.com.tr
DUBAI
Phillip Futures DMCC

 Member of the Dubai Gold and
 Commodities Exchange (DGEX)
 Unit No 601, Plot No 58, White Crown Bldg,
 Sheikh Zayed Road, P.O.Box 212291
 Dubai-UAE
 Tel: +971-4-3325052 / Fax: + 971-4-3328895

CAMBODIA
Phillip Bank Plc

 Ground Floor of B-Office Centre, #61-64,
 Norodom Blvd Corner Street 306, Sangkat
 Boeung Keng Kang 1, Khan Chamkamorn,
 Phnom Penh, Cambodia
 Tel: 855 (0) 7796 6151/855 (0) 1620 0769
 Website: www.phillipbank.com.kh

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's license under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.