

**BUY S\$0.44 STI : 3,236.60**

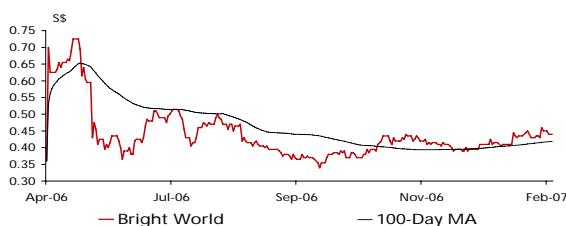
Price Target : 12-Month S\$ 0.62 (Prev S\$ 0.67)

Reason for Report : FY06 Results

Potential Catalyst: Capacity Expansion

**ANALYST**Ai Teng Tan +65 6398 7967  
AiTeng@dbsvickers.comPei Hwa Ho +65 6398 7968  
PeiHwa@dbsvickers.com**FORECASTS AND VALUATION**

FY Dec (RMB m)	2005A	2006A	2007F	2008F
Turnover	321.4	449.3	579.0	745.3
EBITDA	106.6	146.6	175.0	222.8
Pre-tax Profit	96.3	131.9	157.8	196.7
Net Profit	96.3	115.8	138.5	172.6
Net Pft (Pre Ex.)	96.3	115.8	138.5	172.6
EPS (S cts)	6.3	5.7	6.8	8.5
EPS Gth (%)	29	(10)	20	25
Diluted EPS (S cts)	6.3	5.7	6.8	8.5
DPS (S cts)	1.9	1.7	2.1	2.6
BV Per Share (S cts)	14.7	22.9	28.1	34.5
PE (X)	6.9	7.7	6.4	5.2
P/Cash Flow (X)	6.3	6.8	5.7	4.5
EV/EBITDA (X)	6.1	5.5	4.8	3.5
Net Div Yield (%)	4.3	3.9	4.7	5.8
P/Book Value (X)	3.0	1.9	1.6	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	72.6	33.7	26.8	27.3

**SHARE PRICE CHART****AT A GLANCE**

Issued Capital (m shrs)	400.0
Mkt. Cap (S\$m/US\$m)	176 / 115
Major Shareholders	
Kim Pan Ltd (%)	73.8
Prudential Asset Management (S) Ltd (%)	6.0
Free Float (%)	20.2
Avg. Daily Vol. ('000)	1,051

Earnings Rev :	2007: -13.9%	2008: -24.8%
Consensus EPS :	2007: -	2008: -
Variance vs Cons :	2007: -	2008: -

Sector : Technology

Bloomberg/Reuters Code: BWPM SP EQUITY/BWRL.SI

Principal Business: The group is a manufacturer of stamping machines and its related components.

"A director of DBSVR and the CEO of DBSVS is an independent director of the covered company."

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Refer to important disclosures at the end of this report

**Bright World****One step back, two steps forward**

➤ **Story:** BWPM's FY06 earnings grew by a decent 20% y-o-y on 40% rise in sales. However, top and bottom line came in 4% and 6% below our expectations.

➤ **Point:** We have revised downwards our forecasts to account for the lower pricing and higher SGA cost assumptions. In spite of that, we are still upbeat on the company underpinned by China's buoyant industrial growth, particularly in automobile and computer & telecom sectors. Strategies focusing on higher performance machines and penetrating new markets in metal-forming industry back the company's goal of 30% revenue CAGR.

➤ **Relevance:** Current valuation at 6.4x FY07 earnings is undemanding. Maintain **BUY** with reduced target price of S\$0.62, pegged to 9x FY07 earnings.

**FY06 results slightly below expectations.** BWPM reported a decent set of FY06 results with earnings surged 20% y-o-y to RMB115.8m on an upsurge of 40% in revenue to RMB449m, fuelled by increased sales volume of its high performance stamping machines as well as from new markets. Although gross margin rose by 1.2ppt, net margin was down by 4.2ppt to 25.8% due to: (i) higher sales incentive and marketing expense to capture market share; (ii) higher administrative expense (including IPO listing expense); and (iii) 12% corporate tax imposed in FY06 (FY05 was fully tax-exempted).

**Reduced FY07 and FY08 forecasts.** We are revising downwards FY07 and FY08 sales estimates by 9% and 14% respectively to account for a lower pricing assumption. This is to factor in potential price discount for bulk order customers, in particular for high performance machinery. Coupled with higher SGA cost assumed, we cut forecasts on FY07 and FY08 earnings by 13% and 24%, respectively. BWPM would still be able to deliver bottom-line growth of more than 20% after these adjustments.

**Expands product range to drive growth.** In the near-term, BWPM remains focused on small and medium stamping machineries (i.e. below 1,000 tonnes). Apart from growing on higher performance stamping machines, the company is also making its way into other types of metal-forming machinery, e.g. cutting and bending. The new plant, which is expected to commence operations by 4Q07, will be equipped to produce higher tonnage machinery of up to 2,000 tonnes. This would then allow BWPM to provide a wider range of machines to the automobile industry, one of the fastest growing industries in China. In light of this, we believe the company is on track to grow its top line at a CAGR of 30%.

**Maintain BUY with reduced target price of S\$0.62.** We remain upbeat on the company in view of China's buoyant industrial growth. Current valuation is undemanding at 6.4x FY07 earnings. Maintain **BUY**. Our target price is tuned down to S\$0.62, pegged to 9x FY07 earnings, following our earnings revision.

Results Summary and Comments

FY Dec (RMB m)	FY05	FY06	%yoy	Comments
Sales	321.4	449.3	40%	Increased sales volume of its high performance stamping machines, which have significantly higher ASP.
Cost of Goods Sold	(203.7)	(279.3)	37%	
Gross Profit	117.6	170.1	45%	
Other Operating Income	2.4	4.8	98%	
<i>Distribution Costs</i>	(17.3)	(30.2)	75%	Increased sales incentive to market its own "World" brand.
<i>Administration Expenses</i>	(5.2)	(13.9)	164%	
<i>Others</i>	(0.8)	1.4	nm	Write-back of allowance for doubtful debts.
Other Operating Expenses	(23.4)	(42.7)	83%	
EBIT	96.7	132.2	37%	
Interest Income	0.6			
Interest Expense	(1.0)	(2.2)	113%	
Pretax Profit	96.3	131.9	37%	
Tax	0.0	(16.1)	nm	FY04 - FY05: Fully tax-exempted; FY06 - FY09 subject to half tax-exemption.
Net Profit	96.3	115.8	20%	

Margins

Gross Margins	36.6%	37.8%		Increased sales volume of its high performance stamping machines, which commanded higher margins.
SGA% Sales	7.3%	9.5%		
EBIT Margin	30.1%	29.4%		
Net Margin	30.0%	25.8%		
<i>Distribution Costs</i>	5.4%	6.7%		
<i>Administration Expenses</i>	1.6%	3.1%		
<i>Others</i>	0.3%	-0.3%		

Source : Company, DBS Vickers

## Company Focus

Bright World

### Income Statement (RMB m)

FY Dec	2005A	2006A	2007F	2008F
Turnover	321.4	449.3	579.0	745.3
Cost of Goods Sold	(203.7)	(279.3)	(367.1)	(477.0)
<b>Gross Profit</b>	<b>117.6</b>	<b>170.1</b>	<b>211.9</b>	<b>268.3</b>
Other Opg (Exp)/Inc	(20.9)	(37.9)	(54.2)	(71.3)
<b>EBIT</b>	<b>96.7</b>	<b>132.2</b>	<b>157.7</b>	<b>197.0</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.4)	(0.3)	0.1	(0.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>96.3</b>	<b>131.9</b>	<b>157.8</b>	<b>196.7</b>
Tax	0.0	(16.1)	(19.3)	(24.0)
Minority Interest	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>96.3</b>	<b>115.8</b>	<b>138.5</b>	<b>172.6</b>
Net profit before Except.	96.3	115.8	138.5	172.6
EBITDA	106.6	146.6	175.0	222.8
Sales Gth (%)	24	40	29	29
EBITDA Gth (%)	20	38	19	27
EBIT Gth (%)	17	37	19	25
Effective Tax Rate (%)	0.0	12.2	12.2	12.2

### Cash Flow Statement (RMB m)

FY Dec	2005A	2006A	2007F	2008F
Pre-Tax Profit	96.3	131.9	157.8	196.7
Dep. & Amort.	9.9	14.4	17.3	25.8
Tax Paid	0.0	(11.3)	(4.8)	(19.3)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0
Chg in Wkg. Capital	(56.6)	(132.9)	(54.3)	(69.7)
Other Operating CF	0.0	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>49.5</b>	<b>2.1</b>	<b>116.1</b>	<b>133.5</b>
Capital Exp.(net)	(47.6)	(42.9)	(100.0)	(45.0)
Other Invts.(net)	0.0	(21.8)	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(47.6)</b>	<b>(64.7)</b>	<b>(100.0)</b>	<b>(45.0)</b>
Div Paid	0.0	(38.4)	(34.8)	(41.6)
Chg in Gross Debt	20.0	20.0	0.0	0.0
Capital Issues	83.3	164.3	0.0	0.0
Other Financing CF	(78.3)	1.7	0.0	0.0
<b>Net Financing CF</b>	<b>25.0</b>	<b>147.6</b>	<b>(34.8)</b>	<b>(41.6)</b>
Net Cashflow	26.9	85.0	(18.7)	46.9

### Quarterly / Interim Income Statement (RMB m)

FY Dec	1Q2006	2Q2006	3Q2006	4Q2006
Turnover	78.4	114.3	129.5	127.1
Cost of Goods Sold	(51.2)	(74.6)	(77.5)	(75.9)
<b>Gross Profit</b>	<b>27.2</b>	<b>39.7</b>	<b>51.9</b>	<b>51.2</b>
Other Oper. (Exp)/Inc	(8.9)	(11.6)	(6.2)	(11.3)
<b>EBIT</b>	<b>18.3</b>	<b>28.2</b>	<b>45.8</b>	<b>39.9</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.3)	(0.5)	0.0	0.4
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>18.1</b>	<b>27.7</b>	<b>45.8</b>	<b>40.3</b>
Tax	(2.2)	(3.5)	(5.7)	(4.7)
Minority Interest	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>15.9</b>	<b>24.2</b>	<b>40.1</b>	<b>35.6</b>
Net profit bef Except.	15.9	24.2	40.1	35.6
EBITDA	21.8	28.2	45.8	50.9
Sales Gth (%)	(17)	46	13	(2)
EBITDA Gth (%)	(43)	29	63	11
EBIT Gth (%)	(52)	54	63	(13)
Gross Margins (%)	34.7	34.7	40.1	40.3
EBIT Margins (%)	23.4	24.6	35.3	31.4

Source: Company, DBS Vickers

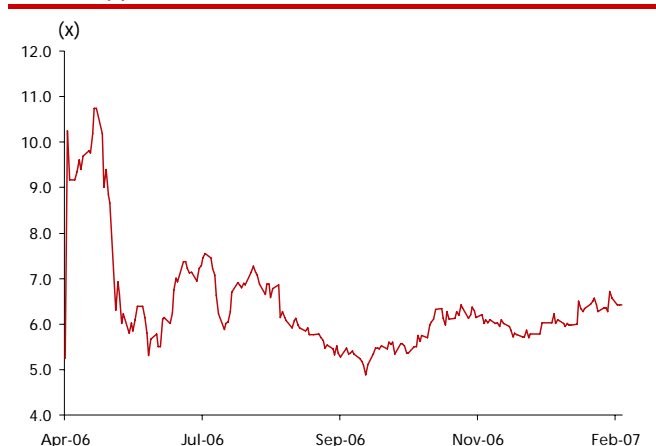
### Balance Sheet (RMB m)

FY Dec	2005A	2006A	2007F	2008F
Net Fixed Assets	141.4	169.9	252.5	271.7
Invts in Assocs & JVs	0.0	0.0	0.0	0.0
Other LT Assets	0.0	21.8	21.8	21.8
Cash & ST Invts	32.2	117.2	98.5	145.4
Other Current Assets	176.6	297.1	369.7	462.9
<b>Total Assets</b>	<b>350.1</b>	<b>605.9</b>	<b>742.5</b>	<b>901.9</b>
ST Debt	20.0	40.0	40.0	40.0
Other Current Liab	107.7	101.8	134.6	162.9
LT Debt	0.0	0.0	0.0	0.0
Other LT Liabilities	22.4	0.0	0.0	0.0
Shareholder's Equity	222.4	464.1	567.9	699.0
Minority Interests	0.0	0.0	0.0	0.0
<b>Total Cap. &amp; Liab.</b>	<b>350.1</b>	<b>605.9</b>	<b>742.5</b>	<b>901.9</b>
Non-Cash Wkg. Cap	68.8	195.3	235.1	300.0
Net Cash/(Debt)	12.2	77.2	58.5	105.4

### Rates & Ratios

FY Dec	2005A	2006A	2007F	2008F
Gross Margin (%)	36.6	37.8	36.6	36.0
EBITDA Margin (%)	33.2	32.6	30.2	29.9
EBIT Margin (%)	30.1	29.4	27.2	26.4
Net Profit Margin (%)	30.0	25.8	23.9	23.2
ROAE (%)	72.6	33.7	26.8	27.3
ROA (%)	34.7	28.0	23.8	24.3
ROCE (%)	72.9	38.5	30.5	31.1
Div Payout Ratio (%)	29.9	30.1	30.0	30.0
Interest Cover (x)	221.8	500.6	NM	518.3
Debtors Turn (days)	69.2	84.5	90.2	90.2
Creditors Turn (days)	72.4	66.7	65.8	65.5
Inventory Turn (days)	116.4	135.1	144.1	142.9
Current Ratio (x)	1.6	2.9	2.7	3.0
Quick Ratio (x)	1.0	2.0	1.7	2.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	238.1	107.3	250.0	112.5
N.Cash/(Debt)PS (RMB)	4.1	19.3	14.6	26.3
Opq CFPS (RMB)	35.4	33.7	42.6	50.8
Free CFPS (RMB)	0.6	(10.2)	4.0	22.1

### PE Chart (x)



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