

MITA No. 030/06/2006

8 February 2007

Bright World Precision Mach Ltd

Maintain

BUY

Previous Rating: BUY

S\$0.44

Fair Value: S\$0.57

Stock Code:

Reuters:

BWRL.SI

Bloomberg:

BWPM.SP

Event:

Results

General Data

Issued Capital (m)	400
Mkt Cap (S\$m/US\$m)	176 / 115
Major Shareholder	Kim Pan (74.2%)
Free Float (%)	19.7
NTA per share (RMB)	1.11
Daily Vol 3-mth ('000)	1,097
52Wk High (S\$)	0.735
52Wk Low (S\$)	0.340

Disappointing 4Q06 results

Disappointing 4Q06 results. Bright World Precision Machinery (BWPM) reported a rather disappointing set of 4Q06 results; although revenue of RMB127.1m (+34.4% YoY) was 2.1% ahead of our forecast, it was down 1.8% QoQ. It was also short of the RMB140m sales guidance given earlier, but we understand this is due to an order push-out, which has already been delivered and will be booked in 1Q07. Meanwhile, net profit fell 4.8% (also down 11.3% QoQ) to RMB35.6m, or nearly 14.0% below our forecast. This is mainly due to a sharp increase in expenses, both operating (+35.5% YoY) and administrative (+247.9% YoY). For FY06, revenue grew 39.8% to RMB449.3m (vs. our RMB446.7m forecast), while net profit rose 20.3% to RMB115.8m, which fell 4.7% short of our forecast and was 10.9% below BWPM's RMB130m guidance. It declared a final dividend of RMB0.087 per share, or 30% of its earnings.

May just be a hiccup. Although the first quarter is traditionally a soft one due to the long Chinese New Year break, the slowdown in 1Q07 may be partly mitigated by the order push-out mentioned earlier. We also think that the disappointing 4Q06 performance is just a hiccup - we remain upbeat on the manufacturing sector outlook in China in 2007, especially the metal stamping industry, driven by the stellar growth in the automobile manufacturing industry. With its expansion on track, we believe BWPM is poised to ride on this growth. We also note that BWPM remains confident that it can sustain 30% YoY revenue growth for both 1Q07 and FY07, as well as its gross margin at 36-38%.

Readjusting our FY07 estimates. Nevertheless, we are adjusting our FY07 estimates to reflect lower margin assumptions. We now expect BWPM to post a net profit of RMB141.9m on sales of RMB568.4m, versus our earlier forecast of RMB178.1m and RMB596.7m, respectively. This still translates to a very healthy 26.5% topline and 22.5% bottomline growth.

Keeps BUY, but with lower S\$0.57 fair value. In line with our lower FY07 estimates and slightly more conservative FY08 estimates, we are lowering our DCF-based fair value from S\$0.63 to S\$0.57, which translates to FY07F PE of 8.1x. The stock is also currently trading at an undemanding 6.2x FY07F PER. As there is still a potential upside of nearly 30% from here, as well as an expected net yield of 4.8%, we keep our **BUY** rating.

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Year to 31 Dec	Turnover (RMB m)	EBITDA (RMB m)	Net Profit (RMB m)	EPS (RMB cents)	EPS Growth (%)	Consensus EPS (RMB cents)	PER (x)	Net Div Yield (%)
FY 05	321.4	104.2	96.3	24.1		-	9.2	4.3
FY 06	449.3	141.8	115.8	28.9	20.3	-	7.6	3.9
FY 07F	568.4	178.1	141.9	35.5	22.5	30.4	6.2	4.8
FY 08F	711.6	228.2	177.1	44.3	24.9	42.3	5.0	6.0

Please refer to the important disclosures at the back of this document.

Bright World Precision Machinery Ltd's Key Financial Data

Bright World Precision Results Year Ended 31 Dec (RMB m)	4Q05 (RMBm)	4Q06 (RMBm)	% Chg (YoY)	3Q06 (RMBm)	% Chg (QoQ)
Revenue	94.6	127.1	34.4	129.5	-1.8
Operating expenses	-0.7	-11.8	1,540.7	-8.9	33.4
EBITDA	40.3	44.1	9.4	49.4	-10.7
Depreciation & amortisation	-2.8	-4.2	51.4	-3.7	12.8
Operating Profit	37.6	39.9	6.3	45.7	-12.6
Net interest	-0.2	0.4	n.m.	0.0	n.m.
Associates	-	-	n.m.	-	n.m.
Exceptionals	-	-	n.m.	-	n.m.
Pre-tax profit	37.4	40.4	7.8	45.8	-11.9
Tax	-	-4.7	n.m.	-5.7	n.m.
Minority interests	-	-	n.m.	0.0	n.m.
Net profit	37.4	35.6	-4.8	40.1	-11.3
Net margin	0.4	0.3	-29.2	0.3	-9.6

EARNINGS FORECAST

Year Ended 31 Dec (RMB m)	FY05	FY06	FY07F	FY08F
Revenue	321.4	449.3	568.4	711.6
EBITDA	104.2	141.8	178.1	228.2
Depreciation & amortisation	-9.9	-14.4	-18.9	-28.9
Operating Profit	94.3	127.4	159.2	199.2
Net interest	-0.5	-0.2	-0.4	-0.4
Associates	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0
Pre-tax profit	96.3	131.9	161.2	201.3
Tax	0.0	-16.1	-19.3	-24.2
Minority interests	0.0	0.0	0.0	0.0
Net profit	96.3	115.8	141.9	177.1
Earnings per share (RMB cents)	24.1	28.9	35.5	44.3
Fully diluted earnings per share (RMB cents)	24.1	28.9	35.5	44.3

BALANCE SHEET**As at 31 Dec (RMB m)**

	FY05	FY06	FY07F	FY08F
Cash	32.2	117.2	156.8	180.2
Other current assets	176.6	297.1	329.6	401.1
Fixed assets	141.4	169.9	250.9	327.2
Other long term assets	0.0	21.8	21.4	20.9
Total assets	350.1	605.9	758.6	929.5
Current liabilities less debt	107.7	101.8	147.4	183.7
Debt	20.0	40.0	40.0	40.0
Other long term liabilities	0.0	0.0	0.0	0.0
Total liabilities	127.7	141.8	187.4	223.7
Shareholders equity	222.4	464.1	571.2	705.8
Minority interests	0.0	0.0	0.0	0.0
Total equity and liabilities	350.1	605.9	758.6	929.5
NTA per share (RMB cents)	55.6	110.6	137.5	171.2

CASH FLOW**Year Ended 31 Dec (RMB m)**

	FY05	FY06	FY07F	FY08F
Operating profit before working cap. changes	106.6	146.6	180.6	230.7
Working capital changes	-40.6	-132.9	13.6	-40.1
Interest and tax	-0.4	-11.6	-19.8	-24.6
Net cash from operations	65.5	2.1	174.4	166.0
Capex	-47.7	-42.9	-100.0	-100.0
Other investing flows	0.1	-21.8	0.0	0.0
Investing cash flow	-47.6	-64.7	-100.0	-100.0
Change in equity	83.3	164.3	0.0	0.0
Net change in debt	20.0	20.0	0.0	0.0
Dividends paid	0.0	-38.4	-34.7	-42.6
Others	-110.3	17.6	0.0	0.0
Financing cash flow	-7.0	163.6	-34.8	-42.6
Net cash flow	10.9	100.9	39.6	23.5
Cash at beginning of year	5.3	32.2	117.2	156.8
Add: Bank overdraft and fixed deposit pledged to banks	16.0	-16.0	0.0	0.0
Cash at end of year	32.2	117.1	156.8	180.2

KEY RATIOS

PER (x)	9.2	7.6	6.2	5.0
Price/NTA (x)	4.0	2.0	1.6	1.3
EV/EBITDA (x)	1.6	0.7	0.3	0.2
Dividend yield (%)	4.3	3.9	4.8	6.0
ROIC (%)	39.7	23.0	23.2	23.8
ROE (%)	43.3	24.9	24.8	25.1
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash
PE to growth (x)	n.m.	0.4	0.3	0.2

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report holds NIL shares in the above security.

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