

**BUY S\$0.41 STI : 2,735.30**

Price Target : 12-Month S\$ 0.67

Reason for Report : 3Q FY06 Results

Potential Catalyst: Capacity Expansion

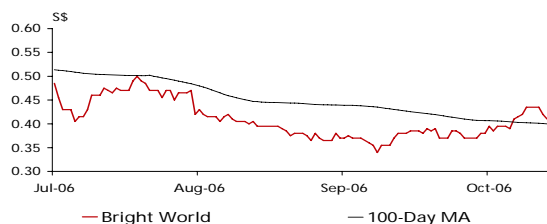
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**FORECASTS AND VALUATION**

FY Dec (CNY m)	2005A	2006F	2007F	2008F
Turnover	321.4	466.7	637.3	870.7
EBITDA	106.6	152.8	202.6	277.8
Pre-tax Profit	96.3	138.6	181.9	258.9
Net Profit	96.3	122.0	160.0	227.8
Net Pft (Pre Ex.)	96.3	122.0	160.0	227.8
EPS (\$ cts)	6.4	6.0	7.9	11.3
EPS Gth (%)	29	(5)	31	42
Diluted EPS (\$ cts)	6.4	6.0	7.9	11.3
DPS (\$ cts)	1.9	1.8	2.4	3.4
BV Per Share (\$ cts)	14.7	15.6	21.8	30.7
PE (X)	6.4	6.8	5.2	3.6
P/Cash Flow (X)	5.8	6.1	4.6	3.3
EV/EBITDA (X)	5.7	5.4	3.8	2.4
Net Div Yield (%)	4.6	4.4	5.8	8.3
P/Book Value (X)	2.8	2.6	1.9	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	72.6	45.3	42.4	43.1

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

Issued Capital (m shrs)	400.0
Mkt. Cap (\$m/US\$m)	164 / 105
Major Shareholders	
Wang Wei Yao (%)	74.8
Prudential Asset Management (S) Ltd (%)	6.0
Free Float (%)	19.7
Avg. Daily Vol. ('000)	1,962

Earnings Rev :	FY06: -	FY07: -
Consensus EPS :	FY06: 6.0 S cts	FY07: 8.1 S cts
Variance vs Cons :	FY06: -	FY07: +2.5

Sector : TECHNOLOGY

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

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

**Bright World****A stellar set of 3Q results**

➤ **Story:** Bright World (BWPM) posted a stellar set of 3Q results. Net profit of RMB40.1m (+77% yoy, +66% qoq) was slightly above our expectation due to the reversal of expenses over-accrued and write-back of provisions.

➤ **Point:** Outlook remains bullish as China should continue to be favored as a manufacturing hub. We expect 4Q sales to be up 14% qoq in view of a seasonally stronger 4Q. However, bottomline growth will be lower sequentially given the absence of expense reversals and write-backs.

➤ **Relevance:** We are maintaining estimates for FY06 and FY07. We continue to like BWPM on the back of its market leading position in China. Maintain Buy with target price of S\$0.67, pegged to industry average PE of 8.5x.

**A stellar set of 3Q results.** Net profit of RMB40.1m (+77% yoy, +66% qoq) was slightly above our expectation due to the reversal of expenses over-accrued and write-back of provisions. In 3Q06, total revenue contribution from high performance machines has increased to 55% from 50% in 2Q06. Gross margin expanded 5.4ppt qoq to 40.1% due to: (i) better economies of scale in the seasonally stronger 2H, (ii) increased sales of high performance machines, and (iii) lower iron prices.

**Outlook remains positive.** Metal stamping machine demand should remain robust given that China would continue to be a key manufacturing hub. Looking into 4Q, we expect sales to be up 14% qoq, driven by a seasonally stronger quarter. Gross margin would continue to improve but in view of the absence of expense reversal and write-back, EBIT margin could decrease by 2.7ppt qoq to 32.6%. On balance, we are expecting net profit in 4Q to be flat qoq but still rising 12% yoy. Iron prices are expected to remain stable in 4Q.

**New plant kicking in 2H07.** BWPM has commenced groundwork for the piece of land adjacent to its current plant in July 2006. The new plant could double production capacity by FY08. Near term, we expect production capacity to grow 25% in FY07 as the current plant continues to expand and the new plant starts operating in 2H07. If these plans are on track, we believe BWPM could realize its internal target of growing net profit at a CAGR of 30% for FY07-FY08.

**Maintain Buy with target price of S\$0.67.** Our forecasts for FY06 and FY07 are intact. We continue to like BWPM for its market leading position in China, vertically integrated operations and strong R&D capability. Maintain Buy with a target price of S\$0.67, pegged to industry average PE of 8.5x (FY07).

"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

Results Summary and Comments

Bright World Precision Machinery Ltd

Currency RMB\$

FY Dec (m)	3Q05	2Q06	3Q06	%yoy	%qoq	Comments
Sales	82.8	114.3	129.5	56%	13%	Increased sales volume of its high performance stamping machines which have significantly higher ASP.
Cost of Goods Sold	(50.1)	(74.6)	(77.5)	55%	4%	
Gross Profit	32.6	39.7	51.9	59%	31%	Marketing network expansion and increased effort to market its own "World" brand Mainly due to listing expense
<i>Distribution Costs</i>	(4.2)	(7.5)	(7.0)	69%	-6%	
<i>Administration Expenses</i>	(1.8)	(5.0)	(3.1)	77%	-38%	
<i>Others</i>	(4.1)	0.1	1.3	-	927%	
Other Operating Expenses	(10.1)	(12.4)	(8.9)	-12%	-29%	
EBIT	22.5	28.2	45.8	104%	63%	
Interest Expense	(0.1)	(0.9)	(0.7)	744%	-26%	
Pretax Profit	22.6	27.7	45.8	102%	65%	
Tax	0.0	(3.5)	(5.7)	nm	61%	FY06 - FY09 subject to half tax-exemption
Net Profit	22.6	24.2	40.1	77%	66%	

Margins

Gross Margins	39.4%	34.7%	40.1%	Increased sales volume of its high performance stamping machines which commanded higher margins.		
SGA% Sales	12.2%	10.9%	6.9%			
EBIT Margin	27.2%	24.6%	35.3%			
Net Margin	27.4%	21.1%	31.0%			
<i>Distribution Costs</i>	5.0%	6.6%	5.4%			
<i>Administration Expenses</i>	2.1%	4.4%	2.4%			
<i>Others</i>	5.0%	-0.1%	-1.0%			

Source : Company, DBS Vickers

## Company Focus

Bright World

### Income Statement (CNY m)

FY Dec	2005A	2006F	2007F	2008F
Turnover	321.4	466.7	637.3	870.7
Cost of Goods Sold	(203.7)	(288.7)	(400.2)	(539.9)
<b>Gross Profit</b>	<b>117.6</b>	<b>177.9</b>	<b>237.1</b>	<b>330.9</b>
Other Opg (Exp)/Inc	(20.9)	(38.6)	(54.3)	(73.9)
<b>EBIT</b>	<b>96.7</b>	<b>139.3</b>	<b>182.7</b>	<b>256.9</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	(0.4)	(0.7)	(0.9)	2.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>96.3</b>	<b>138.6</b>	<b>181.9</b>	<b>258.9</b>
Tax	0.0	(16.6)	(21.8)	(31.1)
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>122.0</b>	<b>160.0</b>	<b>227.8</b>
Net profit before Except.	96.3	122.0	160.0	227.8
EBITDA	106.6	152.8	202.6	277.8
Sales Gth (%)	24	45	37	37
EBITDA Gth (%)	20	43	33	37
EBIT Gth (%)	17	44	31	41
Effective Tax Rate (%)	0.0	12.0	12.0	12.0

### Cash Flow Statement (CNY m)

FY Dec	2005A	2006F	2007F	2008F
Pre-Tax Profit	96.3	138.6	181.9	258.9
Dep. & Amort.	9.9	13.5	19.8	20.8
Tax Paid	0.0	0.0	(16.6)	(21.8)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0
Chg in Wkg. Capital	(56.6)	(52.4)	(61.5)	(84.2)
Other Operating CF	0.0	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>49.5</b>	<b>99.7</b>	<b>123.5</b>	<b>173.7</b>
Capital Exp.(net)	(47.6)	(80.0)	(30.0)	(30.0)
Other Invts.(net)	0.0	0.0	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>(80.0)</b>	<b>(30.0)</b>	<b>(30.0)</b>
Div Paid	0.0	(28.8)	(36.6)	(48.0)
Chg in Gross Debt	20.0	0.0	0.0	0.0
Capital Issues	83.3	0.0	0.0	0.0
Other Financing CF	(78.3)	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>25.0</b>	<b>(28.8)</b>	<b>(36.6)</b>	<b>(48.0)</b>
Net Cashflow	26.9	(9.1)	56.9	95.6

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

FY Dec	1Q2006	2Q2006	3Q2006	4Q2006
Turnover	78.4	114.3	129.5	144.4
Cost of Goods Sold	(51.2)	(74.6)	(77.5)	(85.3)
<b>Gross Profit</b>	<b>27.2</b>	<b>39.7</b>	<b>51.9</b>	<b>59.1</b>
Other Oper. (Exp)/Inc	(8.9)	(11.6)	(6.2)	(12.0)
<b>EBIT</b>	<b>18.3</b>	<b>28.2</b>	<b>45.8</b>	<b>47.1</b>
Associates & JV Inc	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.3)	(0.5)	0.0	0.0
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>47.0</b>
Tax	(2.2)	(3.5)	(5.7)	(5.3)
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>41.8</b>
Net profit bef Except.	15.9	24.2	40.1	41.8
EBITDA	21.8	28.2	45.8	57.1
Sales Gth (%)	(17)	46	13	12
EBITDA Gth (%)	(43)	29	63	25
EBIT Gth (%)	(52)	54	63	3
Gross Margins (%)	34.7	34.7	40.1	40.9
EBIT Margins (%)	23.4	24.6	35.3	32.6

Source: Company, DBS Vickers

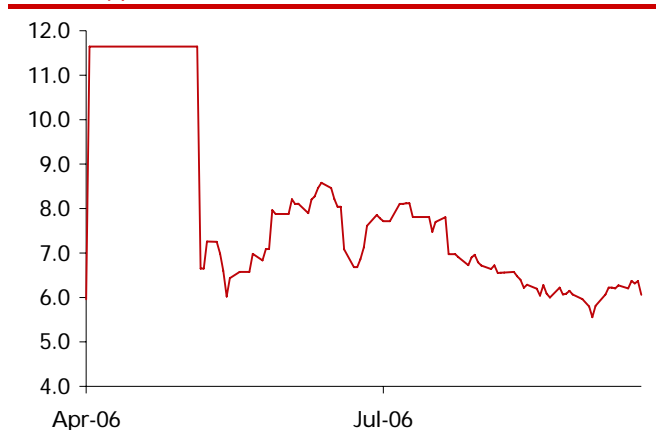
### Balance Sheet (CNY m)

FY Dec	2005A	2006F	2007F	2008F
Net Fixed Assets	141.4	207.9	218.0	227.2
Invts in Assocs & JVs	0.0	0.0	0.0	0.0
Other LT Assets	0.0	0.0	0.0	0.0
Cash & ST Invts	32.2	23.0	80.0	175.6
Other Current Assets	176.6	250.3	336.8	455.3
<b>Total Assets</b>	<b>350.1</b>	<b>481.2</b>	<b>634.8</b>	<b>858.1</b>
ST Debt	20.0	20.0	20.0	20.0
Other Current Liab	107.7	145.7	175.8	219.3
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	315.5	439.0	618.8
Minority Interests	0.0	0.0	0.0	0.0
<b>Total Cap. &amp; Liab.</b>	<b>350.1</b>	<b>481.2</b>	<b>634.8</b>	<b>858.1</b>
Non-Cash Wkg. Cap	68.8	104.6	161.0	236.0
Net Cash/(Debt)	12.2	3.0	60.0	155.6

### Rates & Ratios

FY Dec	2005A	2006F	2007F	2008F
Gross Margin (%)	36.6	38.1	37.2	38.0
EBITDA Margin (%)	33.2	32.7	31.8	31.9
EBIT Margin (%)	30.1	29.9	28.7	29.5
Net Profit Margin (%)	30.0	26.1	25.1	26.2
ROAE (%)	72.6	45.3	42.4	43.1
ROA (%)	34.7	33.8	33.0	35.0
ROCE (%)	72.9	51.7	48.4	48.5
Div Payout Ratio (%)	29.9	30.0	30.0	30.0
Interest Cover (x)	221.8	187.2	207.7	N/A
Debtors Turn (days)	69.2	79.6	81.7	81.7
Creditors Turn (days)	72.4	67.1	67.9	68.0
Inventory Turn (days)	116.4	124.0	125.3	126.9
Current Ratio (x)	1.6	1.6	2.1	2.6
Quick Ratio (x)	1.0	0.9	1.3	1.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	238.1	400.0	150.0	150.0
N.Cash/(Debt)PS (RMB	4.1	0.8	15.0	38.9
Opq CFPS (RMB cts)	35.4	38.0	46.3	64.5
Free CFPS (RMB cts)	0.64	4.91	23.38	35.91

### PE Chart (x)



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