Analyse This…

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YHI International Limited

"The World Is Our Market"

YHI SP
BUY; TP:S$0.57
4Q11/FY11 results

Price @24/2/12: S$0.32
52-week range (SGD): 0.26 – 0.32
Market cap: S$187.1m

FY11 results

- **In line.** FY11 in line with expectations. Sales grew 10.2% yoy but raw material costs were also higher, growing 11.8% yoy. Due to the higher raw material costs, gross profit margin fell to 23.7% in FY11 versus 24.8% a year ago. Exceptional gains contributed a gross S$11.5m to profitability.
- **Continue to reward shareholder.** YHI proposed a 1.96 S cts DPS which is in line with its past historical track record of a 30% pay put ratio. At 32 S cts, the dividend yield is 6.1%.
- **Stable growth.** Revenue continued to grow, not sexy we agree but steady with distribution turnover up 10% yoy and manufacturing revenue up 11% yoy. By geography, all markets registered growth.

FY11 at a glance

FYE Dec (S$m)	FY11	FY10	YoY Chg
Revenue	550.6	499.6	10.2%
Gross profit	130.6	123.8	5.5%
EBITDA	68.9	60.8	13.3%
PATMI	38.2	33.0	15.8%
EPS (S cts)	6.53	5.64	15.8%
Financial ratios (%)	**FY11**	**FY10**	**YoY Chg**
Gross profit margin	23.7	24.8	+0.4% pt
EBITDA margin	12.5	12.2	-0.4% pt
Net profit margin	6.9	6.6	+0.7% pt
Balance Sheet	**FY11**	**FY10**	**YoY Chg**
Net gearing (%)	24.0	14.4	+2.7% pts
NTA per share (S cts)	41.9	36.9	13.4%

Source: Company, CIMB

What we think

- **More measured capacity expansion.** YHI has slowed down its expansion plan with the immediate target now for annual production capacity to reach 4.4m by end 2012. We believe capacity additions will be prudent. 4.4m by end 2012 may just be a target. Actual implementation maybe in phases which could stretch beyond 2012.
- **But still, there are catalysts.** What to watch out for this year are :
  1) Distribution business (70% of sales) - Well executed, China will be an important driver in 2012 as YHI starts distributing the Nitto brand tyres, its own brand Advanti alloy wheel and FIAMM batteries. In addition, US and Indonesia hold potential. In Indonesia, YHI has room to expand tyre sales for the mining industry.
  2) Manufacturing business (30% of sales) – Trial production runs started in Shanghai. YHI is now ready for OEM alloy wheels business and is in active discussion with foreign automotive makers in China.
- **Net gearing likely to go up.** FY11 net gearing was 0.24x. We expect further borrowings of S$20m to S$30m to fund an estimated S$20m capex for the 1.0m alloy wheels. We believe an informal net gearing ratio that YHI could be targeting is 0.5x.

Be part of this market

- **What a CEO thinks?** Just to digress, we attended the results briefing of a 'technology" related sub contractor last Friday. While we will not name the company, the CEO said that Asia is the future for the automotive industry given its low car penetration rates and the company is gradually scaling down its other business to move towards being an automotive component supplier.
- **Why HI?** While we leave the CEO mentioned above to transform his Company, investors can partake in the automotive industry growth in Asia via YHI. Valuations are not excessive at 0.7x CY12 P/NTA and a track record of 30% dividend payout translates into a dividend yield of 5.7%-6.9% over FY12-FY13. Our target price of S$0.57 is based on a 20% premium to its historical average forward P/E of 6.5x on CY13 EPS. Maintain **BUY**.

Historical average forward P/E (x)

Source: Bloomberg, Company, CIMB

Financial analysis

FYE Dec	2010	2011	2012F	2013F	2014F
Revenue (S$ m)	499.6	550.6	593.6	658.4	700.1
EBITDA (S$ m)	54.2	67.9	67.3	80.3	91.9
EBITDA margins (%)	10.8	12.3	11.3	12.2	13.1
Pretax profit (S$ m)	45.5	52.3	48.6	58.7	67.4
Net profit (S$ m)	33.0	38.2	35.4	42.8	49.6
EPS (cts)	5.6	6.5	6.1	7.3	8.5
EPS growth (%)	+46%	+16%	-7%	+21%	+16%
P/E (x)	5.7	4.9	5.3	4.4	3.8
Gross DPS (cts)	1.7	2.0	1.8	2.2	2.5
Dividend yield (%)	5.3	6.1	5.7	6.9	7.9
P/NTA (x)	0.9	0.8	0.7	0.6	0.6
ROE (%)	15.8	16.3	13.6	14.8	15.4
Net gearing (%)	14.4	24.1	12.0	8.7	2.5
P/CF (x)	4.6	3.8	3.8	3.1	2.7
EV/EBITDA (x)	4.5	3.6	3.6	3.0	2.7

Source: Company, CIMB