

# Singapore Company Focus

## YHI International

Bloomberg: YHI SP | Reuters: YHII.SI

DBS Group Research . Equity

8 Aug 2011

**BUY S\$0.330** STI : 2,994.80

(Reinstating Coverage)

**Price Target** : 12-Month S\$ 0.54

**Reason for Report** : Reinstating coverage

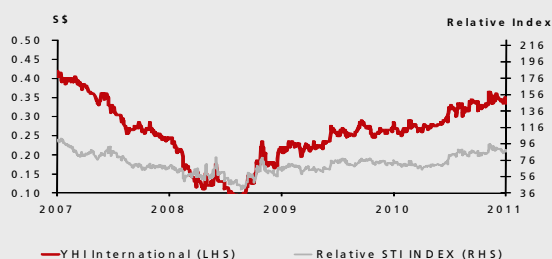
**Potential Catalyst**: OEM wheel manufacturing business in FY12F

**DBSV vs Consensus**: FY11F core earnings below consensus on lower margin assumptions, FY12F in line

### Analyst

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### Price Relative



### Forecasts and Valuation

FY Dec (\$\$ m)	2009A	2010A	2011F	2012F
Turnover	414	500	592	677
EBITDA	48	61	64	74
Pre-tax Profit	32	45	57	55
Net Profit	23	33	40	39
Net Pft (Pre Ex.)	23	33	35	39
EPS (S cts)	3.9	5.6	6.9	6.7
EPS Pre Ex. (S cts)	3.9	5.6	5.9	6.7
EPS Gth (%)	16	46	22	(2)
EPS Gth Pre Ex (%)	16	46	5	14
Diluted EPS (S cts)	3.9	5.6	6.9	6.7
Net DPS (S cts)	1.1	1.7	2.1	2.0
BV Per Share (S cts)	33.6	37.6	42.4	47.1
PE (X)	8.5	5.9	4.8	4.9
PE Pre Ex. (X)	8.5	5.9	6.0	4.9
P/Cash Flow (X)	3.9	5.8	5.4	5.5
EV/EBITDA (X)	5.0	3.9	3.5	3.2
Net Div Yield (%)	3.5	5.1	6.2	6.1
P/Book Value (X)	1.0	0.9	0.8	0.7
Net Debt/Equity (X)	0.2	0.1	0.1	0.1
ROAE (%)	12.0	15.8	17.2	15.0

Consensus EPS (S cts): 6.3 6.5  
Other Broker Recs: B: 1 S: 0 H: 0

ICB Industry : Consumer Goods

ICB Sector: Automobiles & Parts

Principal Business: Distributor of tyres and manufacturer of aluminium alloy wheels

Source of all data: Company, DBS Vickers, Bloomberg

## Ride on explosive auto markets in Asean and China

- **Distributor of tyres and manufacturer of aluminium alloy rims**
- **Entry into OEM market for rims expected to drive earnings from FY12F onwards**
- **TP of S\$0.54 based on 8x blended FY11/FY12F core earnings, upside of 63%, reinstate coverage with Buy**

### Distributor of tyres and manufacturer of aluminium alloy rims.

YHI distributes tyres and manufactures aluminium alloy rims. The company is the largest independent distributor for Yokohama tyres worldwide. It also distributes a range of batteries for automotive and industrial buggies.

### Entry into OEM market – a key growth driver.

Management aims to hit total revenue of S\$1b by FY15F or a CAGR growth of 15% from S\$500m in FY10. YHI was predominantly an aftermarket alloy rim manufacturer. Going forward, it will ramp up its capacity for the OEM segment as China faces shortage for OEM rims. We estimate YoY growth of 16%/12% in revenue and 5%/14% core earnings for FY11F/FY12F. YHI's competitive edge is in its extensive distribution network and rim manufacturing capabilities that allows it to distribute the rims it manufactures.

### Target price of S\$0.54 based on 8x blended FY11/FY12F core earnings.

YHI currently trades below its long term average historical PE of 9x and P/BV of 1.4x. We believe an 8x earnings valuation is justifiable for YHI which is equivalent to the long term average PE valuation from since 2004. There are currently no consensus valuation. Pegged to 8x blended FY11/FY12F core earnings, we reinstate our coverage of YHI with a buy recommendation and target price of S\$0.54.

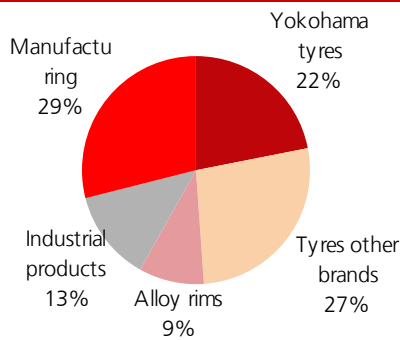
### At A Glance

Issued Capital (m shrs)	585
Mkt. Cap (S\$m/US\$m)	193 / 158
Major Shareholders	
YHI Holdings Pte (%)	58.4
Free Float (%)	41.6
Avg. Daily Vol. ('000)	136

**Company Background**

**Distributor of tyres and manufacturer of alloy rims.** YHI is a distributor of automotive and industrial products particularly tyres and an Original Design Manufacturer (ODM) and distributor of alloy wheels. The company’s distribution network spans from Asean, HK/China, UAE to Australia/New Zealand. YHI secured distribution rights for Yokohama tyres in 1974, and has since become the largest independent distributor for Yokohama tyres globally. YHI was established as a sole proprietor in 1948 and was listed on the mainboard of the SGX in 2003. Revenue split between distribution and manufacturing was approximately 70/30 in FY10.

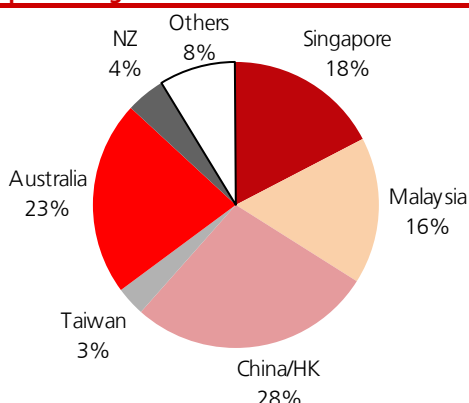
**Segmental Revenue Breakdown FY10**



Source: Company, DBS Vickers

**Key markets are Singapore, Malaysia, HK/China and Australia.** YHI’s key markets (Singapore, Malaysia, China/HK, Australia) accounted for c.85% of FY10 revenue. Activities in Singapore and Malaysia are predominantly distribution of tyres and alloy wheels. Manufacturing and sale of alloy wheels is the core activity in China/HK. In Australia and New Zealand, YHI is a distributor of tyres, rims and automotive battery products.

**Geographical Segment Breakdown FY10**



Source: Company, DBS Vickers

**Key markets’ contribution in FY10**

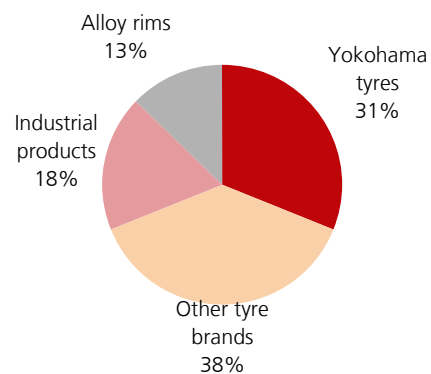
Market	Key activities	% FY10 revenue
Singapore	Distribution	18%
Malaysia	Distribution/Manufacturing	16%
China/HK	Manufacturing	28%
Australia	Distribution	23%
Total		85%

Source: Company, DBS Vickers

**TYRE DISTRIBUTION**

**REVENUE DRIVERS**

**Revenue Breakdown FY10**



Source: Company, DBS Vickers

**Distributes tyres for various brands, in particular Yokohama.** YHI distributes tyres in Asean, HK/China, UAE and Australia/New Zealand. It has an extensive range of tyres for passenger cars to commercial and off-the-road vehicles. The key tyre brands it represents are Yokohama, Nankang, Nexen, Pirelli and its own proprietary brand – Neuton Tyres. YHI’s key principal is Yokohama, which contributed to 22% of group revenue in FY10.

YHI also carries a range of rechargeable batteries for commercial and industrial applications. The brands include Hitachi, Trojan, CSB, Vision and its own proprietary brand – Neuton POWER. Other products include E-Z-GO golf and utility buggies.

The tyre business operates in a competitive market structure where the product is homogeneous with some differentiation. Differentiation in branding, design and quality helps YHI to gain some control over selling prices. However, selling prices of tyres correlate closely to rubber prices. As a distributor, YHI is able to protect its margins by passing on higher costs to its customers. Since FY05 to FY10, operating profit margin for the distribution segment has remained relatively stable between 9% and 10%.

**Low customer concentration risk.** YHI's customers are mainly retail outlets, wholesalers and vehicle fleet owners. YHI has a customer base of more than 5,000. Its largest customer contributes less than 5% of total distribution revenues.

### COST STRUCTURE

**Tyres procured from key principals.** YHI procures tyres from its key principals including Yokohama (mostly from Yokohama's Thailand and Philippines plants and a small quantity from Yokohama Japan), for distribution and sale to its customers. Quantities are typically pre-negotiated with the tyre manufacturers on an annual basis with delivery throughout the year. For its proprietary Neuton brand, YHI outsources production to third party manufacturers in Indonesia and Thailand. Sales volume of Neuton Tyres in FY10 was 400,000 pieces. YHI typically stocks up its tyre inventory for one to three months.

### RIM MANUFACTURING

#### REVENUE DRIVERS

**Alloy rim manufacturer.** The company manufactures alloy wheels for passenger cars on ODM-basis for after-market sales. Between FY03 to FY10, we estimate that the average selling price of wheels was c.US\$55. In the last five years, YHI's average selling price for wheels has ranged from US\$45

to US\$60. Selling prices at the retail level are generally less volatile compared with the relatively more volatile aluminium input prices. Manufacturers and brand owners therefore tend to absorb the fluctuations in aluminium costs. Current operating capacity of its wheel plants is 3.4m wheels per annum. Apart from manufacturing wheels, YHI also leverages on its distribution network to market and promote the wheels.

**Manufacturing for third party brands.** YHI's customers in the ODM segment are those who contract YHI to manufacture alloy wheels for their own brands. YHI has ODM customers from Canada, USA, Jamaica, Puerto Rico, Finland, Norway, Sweden, Belgium, France, Holland, Ireland, Italy, Russia, United Kingdom, Cyprus, Greece, Dubai, Pakistan, South Africa, Indonesia, Japan and South Korea. Key brands are OZ, Konig, Enkei, Racing Hart, Yokohama Wheel, Lowenhardt and its own proprietary brand Advanti. YHI allocates 30% of its production to Advanti and 70% to other brands. Sales are typically made on 60 to 90 days credit term basis.

### COST STRUCTURE

**Manufacturing locations in China.** YHI has four plants in Shanghai and Suzhou in China, Taoyuan in Taiwan and Sepang in Malaysia. Annual production capacities are listed below.

#### Manufacturing capacity

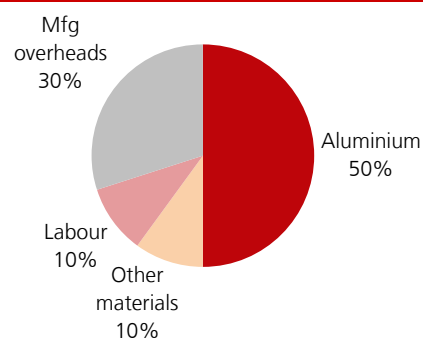
Plants	Location	Area (m <sup>2</sup> )	Production Lines	Annual Production Capacity (m)
YHI Manufacturing	Shanghai PRC	47,000	6	1.0
YHI Advanti	Suzhou PRC	75,600	7	1.2
YHI International	Taoyan Taiwan	21,000	2	0.4
YHI Manufacturing	Sepang Malaysia	30,000	4	0.8
YHI Precision Mould	Shanghai PRC	12,000	-	-
<b>Total</b>		<b>185,600</b>	<b>19</b>	<b>3.4</b>

Source: Company

#### Aluminium is a key cost component in wheel manufacturing.

Cost of aluminium ingot is the key cost component, accounting for 50% of total production costs for alloy wheel. Other materials (10%) include spray paint and finishing materials. Manufacturing overheads (30%) include depreciation, fuel, wheel moulds, and fuel.

#### Manufacturing cost Breakdown



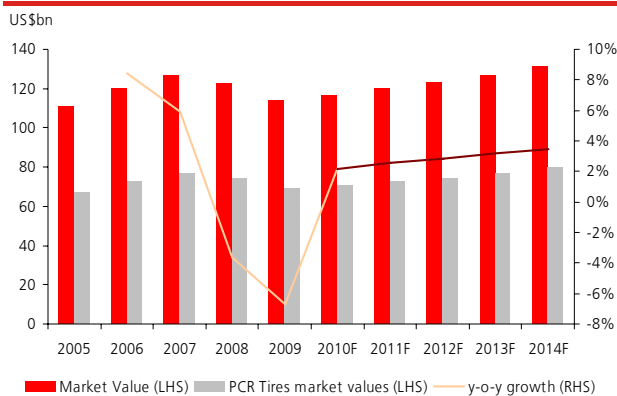
Source: Company, DBS Vickers

**Growth Prospects**

**TYRE DISTRIBUTION**

**Operates in a sweet spot dealing in predominantly passenger tyres in the Asia Pacific.** According to Datamonitor, the market value for global tyre industry is expected to grow at 2.9% CAGR from US\$114.2bn in 2009 to US\$131.4bn in 2014, with Asia Pacific accounting for 34% of the global tyre market. Annual value of passenger car and truck tyres is estimated to be US\$69.1m or 60.5% of the market's overall value. YHI operates in this sweet spot as a predominantly passenger tyre distributor in Asia Pacific. Hence, it is well positioned to capitalise on the growing demand for tyres in the region.

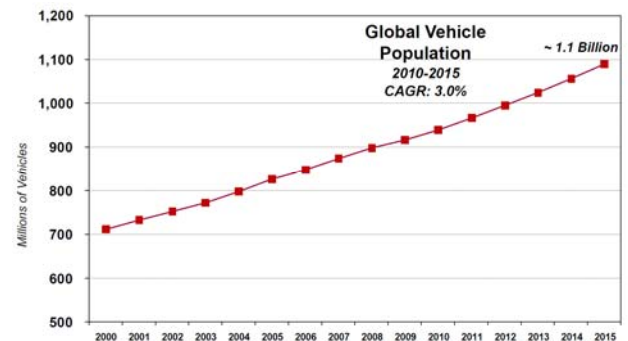
**2.9% CAGR growth in market value for global tyres**



Source: Datamonitor

**Tyre industry is expecting higher tyre demand driven by robust auto sales.** Global automotive sales hit a low of 65m units in 2009. Thereafter, Datamonitor estimates global automotives sales to grow by 8.2% CAGR to reach 96.5m units in 2014. In anticipation of this recovery, most of the major tyre players have armed themselves with capacity expansion. Hankook is planning to open a new plant in Indonesia this year ready for operation by 2014. Continental's new plant in China started operations in July 2010. In 2010, Bridgestone increased the capacity of its existing plants in Thailand, Japan and Indonesia while also start to construct its new plant in India. Pirelli has also started construction of a new plant in Mexico slated for operation in 2012.

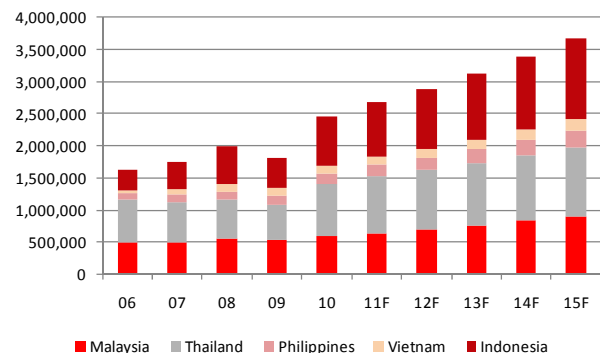
**Steady growth in global vehicle population**



Source: IHG Global Insight Automotive Inc., DBS Vickers

**Robust vehicle sales growth in ASEAN to sustain demand for tyres in the foreseeable future.** In Asean (YHI's key market for tyres) alone, automobile unit sales have grown at a CAGR of 11% from 2006 to 2010 and will continue to grow at a CAGR of 8.5% from 2011 to 2015. We believe the strong automotive sales from 2006 to 2010 will be the key catalyst for replacement tyre demand over the next few years. Furthermore, vehicles sales in Asean ex Singapore & Brunei are projected to grow by CAGR of 8.5% over the next five years, which will also sustain aftermarket tyre demand over the foreseeable future.

**Vehicle sales growth in ASEAN**



Source: Asean Automotive Federation, BMI, DBS Vickers

**Tyre industry is competitive, but strong demand and product differentiation ensures pricing power and profitability.** YHI's direct competitors are distributors of major competing brands such as Dunlop, Goodyear, Bridgestone, Falken, Toyo and Michelin tyres in similar distribution markets. However, manufacturers and distributors like YHI tend to have certain pricing power depending on its branding and performance capabilities of their tyres. Selling prices of tyres are predominantly determined by end demand for replacement tyres and natural rubber prices. The current uptrend in tyre prices has been predominantly demand driven. The tyre business is generally highly driven by replacement demand for

existing vehicles. Typically, passenger car tyres are replaced every 30 months on average.

**Strong distribution network and relationships with principals form natural entry barrier to competition.** YHI has a strong relationship with Yokohama and an extensive distribution network that creates a natural entry barrier for potential competitors. YHI has over the years developed a strong distribution network globally, in particular Asean. Furthermore, the company is the largest independent distributor for Yokohama globally. YHI estimates that its current market share in the Asean and China to be 1%. Going forward, YHI will seek to grow its business by entering the China Original Equipment Manufacturer (OEM) wheel market.

## RIM MANUFACTURING

**Robust vehicle growth in China.** In 2010, China's vehicle market produced 18m vehicles. We estimate that China has a vehicle population of more than 200m, of which more than 85m are automobiles. In 2011, another 20m new vehicles will be sold. China produced 35m aluminium automotive wheels in 2008 including 30m for OEM sale, 1.5m for inventory, and 1.5m for aftermarket. We believe China has more than 100 aluminium wheel manufacturers, yet only a handful has a large manufacturing scale. The notable wheel manufacturers include Dicastal, SGX listed Lizhong Wheel (8.7m capacity), and Wanfeng Auto Wheel.

**Entry into OEM market to drive growth from FY12F.** Over the next five years, YHI will take advantage of the high vehicle production trend in China to produce OEM wheels. Current wheel capacity is 3.4m and YHI will target to expand this capacity to 8.4m by 2015, 2.5x of its current capacity. Management projects OEM annual wheel demand in China to reach 100m units by 2015. Current vehicle production of 18m units will translate into OEM demand of 72m wheels (90m including one spare wheel) annually.

## Management & Strategy

**Managed by the Tay family.** As YHI is a family founded and owned business, management style tends to be centralised. Both Mr Richard Tay and Mr Tay Tiang Guan are the founder's sons and have been in charge of the business before IPO in 2003. They have grown the business from S\$200m/S\$12m revenue/net profit company in FY02 to S\$500m/S\$33m company in FY10. YHI has also improved its net gearing from 1.2x in FY02 to 0.14x in FY10. YHI is tightly held, with the Tay family owning 58% of the company. Management's remuneration in FY10 is not disclosed as the company seeks to avoid possible poaching of its staff.

**Consistent management strategy.** Management has over the years concentrated on the company's strength in tyre distribution and wheel manufacturing. Since listing, the leadership of YHI has not changed under Mr Richard Tay and Mr Tay Tiang Guan. Management has never attempted to acquire an unrelated business in pursuit of growth, and instead remained focused in its core competency, which is the automotive business.

## Key Management Team

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Manager	Current Appointment	Previous Experience
Richard Tay (age 61)	Executive Chairman and Group MD – responsible for formulating and setting of overall business strategies and policies for the Group	Has more than 39 years of business experience in the areas of sales and distribution of automotive products. Founder's son.
Tay Tiang Guan (age 60)	Executive Director –responsible for spearheading ASEAN operations tyre and industrial product distribution business.	Has more than 33 years of business experience in the automotive and industrial products industry. Founder's son.
Thomas Lee (joined 2009, age 52)	CEO manufacturing group – responsible for overall business operations of the alloy wheels business.	Has over 21 years of experience in the alloy wheels industry Senior VP & Chief of China, Lioho Machine Works
Gary Su (joined 2009, age 47)	Group CFO – responsible for financial operations of the group	Has CPA and 20 years in finance and accounting industry.

*Source: Company*

## Competitive Strengths

**Distribution network.** YHI's tyre distribution to vehicle after sales markets enables it to take advantage of growing vehicle population regionally. We believe YHI's distribution network is a valuable asset to the company. Its distribution network extends across more than 30 countries including Asean, HK/China, UAE and Australia/New Zealand with more than 5,000 customers. YHI is therefore capable of facilitating rapid and extensive product penetration into the various markets for its principals.

**Integrated tyre and wheel business model.** YHI's wheel business provides synergistic product to complement tyre distribution. YHI has been able to leverage sales of its proprietary brands Neuton tyres and Advanti rims through its distribution network. The Neuton range of tyres was launched in FY06 and has grown to 400,000 volume sales in FY10. Advanti rims today account for 30% of its production since its launch in 1996.

**Asian manufacturing presence.** In 4Q10, EU imposed 22.3% anti-dumping import duties for wheels exported from China. As a result of its manufacturing presence in Malaysia, YHI was able to circumvent the import duties by moving its wheel production for EU to Malaysia.

## Growth Strategies

### Revenue growth through expansion of OEM business.

Management aims to grow combined manufacturing and distribution revenue to S\$1b by FY15F, implying a CAGR of 15% from S\$500m in FY10.

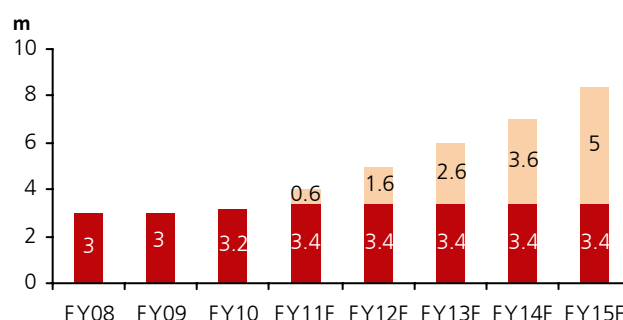
### FY15F revenue target

S\$m	FY10	FY15F	CAGR
Manufacturing	145	400	23%
Distribution	354	600	11%
Total	500	1,000	15%

Source: Company

**Capacity expansion to target China initially followed by Malaysia, Japan, USA markets thereafter.** Management aims to expand capacity from 3.4m wheels currently to 8.4m wheels at its existing manufacturing facilities in China, Taiwan and Malaysia by FY15F, largely to cater for the OEM segment in China. Estimated capex will be S\$150m over this period funded by internal resources and bank borrowings. YHI will look to break into China market first. YHI is slated for trial/qualifying process with China automakers in 2H11 before commencing supply in FY12F.

### Capacity expansion to 8.4m pieces by FY15F



Source: Company, DBS Vickers

**Distribution segment growth to be driven by proprietary brands, more extensive product range.** We believe growth in distribution business will come from three sources. 1) higher allocation from Yokohama. 2) proprietary brand Neuton tyres, and 3) off the road (OTR) tyres. Apart from obtaining higher tyre allocation from Yokohama (+0.5m from FY10), management has planned to expand the 29 sizes of Neuton tyres to 60 sizes. It aims to increase sales to 700,000 units in FY12 from 400,000 units in FY10. Management has also targeted to grow OTR tyres business in Vietnam, Myanmar and Indonesia.

**Key Risks**

**Operational factors a risk to our forecasts.** The key risks to our forecasts are mainly operational including tyre allocation and ability to secure OEM supply contracts. Tyre allocation cuts by principals especially Yokohama would severely affect tyre supply and consequently sales, while inability to secure OEM wheel supply contracts would affect our wheel manufacturing estimates. However, we believe the supply and demand risks are low given that end demand for tyres and wheels are on the rise.

**Aluminium price trading near 2007 levels but not at mid 2006 and early 2008 peaks.** Aluminium prices have been a challenge for rim manufacturers. Aluminium price accounts for 50% of wheel manufacturing costs. Aluminium prices are generally on an uptrend but current price of US\$2,300/mt is not excessive compared with the peaks in 2006 and 2008 peaks of close to US\$3,000/mt.

**Aluminium prices still lower than 2006 and 2008 peaks**

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Source: Bloomberg, DBS Vickers



**Key Assumptions**

FY Dec	2007A	2008A	2009A	2010A	2011F	2012F
Capacity (m)	2.4	3.0	3.0	3.2	4.0	5.0
Utilisation (%)	90.0	79.9	67.3	72.3	68.0	69.0
ASP (\$)	70.8	65.9	63.6	62.8	61.5	60.6

Wheel manufacturing capacity to reach 8.4m units by FY15F. Another 6 lines of wheel manufacturing capacity and conduct of trial/qualifying process with the automakers in 2H11 for sales to car manufacturers in the China OEM market from FY12F.

**Segmental Breakdown**

FY Dec	2007A	2008A	2009A	2010A	2011F	2012F
<b>Revenues (\$\$ m)</b>						
Manufacturing	153	158	128	145	167	209
Distribution	274	300	286	354	425	468
<b>Total</b>	<b>427</b>	<b>458</b>	<b>414</b>	<b>500</b>	<b>592</b>	<b>677</b>
<b>Operating profit (\$\$)</b>						
Manufacturing	7	5	8	5	8	9
Distribution	27	27	26	37	42	48
<b>Total</b>	<b>34</b>	<b>32</b>	<b>34</b>	<b>43</b>	<b>50</b>	<b>57</b>
<b>Operating profit Margins (%)</b>						
Manufacturing	4.9	2.9	6.0	3.5	4.9	4.2
Distribution	9.8	9.2	9.3	10.6	9.8	10.3
<b>Total</b>	<b>8.1</b>	<b>7.0</b>	<b>8.2</b>	<b>8.5</b>	<b>8.4</b>	<b>8.4</b>

Higher volume sales driven by higher tyre allocation. Assume increase of more than 0.5m pieces from Yokohama besides other principals in FY11F.

Target \$1bn sales by FY15F and 40/60 manufacturing/distribution revenue contribution.

Risks – Tyre allocation cuts would affect tyre supply and consequently sales. Inability to secure OEM wheel supply contracts would affect manufacturing business. We believe the supply and demand risks are low given that end demand for tyres and wheels are on the rise.

Source: Company, DBS Vickers

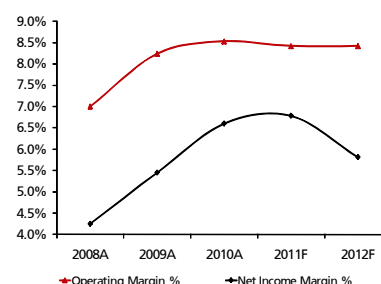
**YHI International**

**Income Statement (\$\$ m)**

FY Dec	2007A	2008A	2009A	2010A	2011F	2012F
Revenue	427	458	414	500	592	677
Cost of Goods Sold	(328)	(347)	(318)	(376)	(452)	(516)
<b>Gross Profit</b>	<b>99</b>	<b>111</b>	<b>96</b>	<b>124</b>	<b>140</b>	<b>160</b>
Other Opng (Exp)/Inc	(65)	(79)	(62)	(81)	(90)	(103)
<b>Operating Profit</b>	<b>34</b>	<b>32</b>	<b>34</b>	<b>43</b>	<b>50</b>	<b>57</b>
Other Non Opg (Exp)/Inc	1	0	2	3	0	0
Associates & JV Inc	2	1	0	4	3	2
Net Interest (Exp)/Inc	(5)	(6)	(4)	(4)	(3)	(3)
Exceptional Gain/(Loss)	0	0	0	0	8	0
<b>Pre-tax Profit</b>	<b>34</b>	<b>27</b>	<b>32</b>	<b>45</b>	<b>57</b>	<b>55</b>
Tax	(6)	(6)	(7)	(10)	(13)	(13)
Minority Interest	(2)	(2)	(2)	(3)	(3)	(3)
Preference Dividend	0	0	0	0	0	0
<b>Net Profit</b>	<b>26</b>	<b>19</b>	<b>23</b>	<b>33</b>	<b>40</b>	<b>39</b>
Net Profit before Except.	26	19	23	33	35	39
EBITDA	48	45	48	61	64	74
<b>Growth</b>						
Revenue Gth (%)	13.8	7.3	(9.5)	20.6	18.5	14.2
EBITDA Gth (%)	5.3	(7.0)	7.3	26.6	5.1	15.7
Opg Profit Gth (%)	2.6	(6.7)	6.4	24.8	17.0	14.3
Net Profit Gth (%)	(4.6)	(26.0)	16.1	46.0	21.8	(2.1)
<b>Margins &amp; Ratio</b>						
Gross Margins (%)	23.2	24.3	23.2	24.8	23.6	23.7
Opg Profit Margin (%)	8.1	7.0	8.2	8.5	8.4	8.4
Net Profit Margin (%)	6.2	4.2	5.4	6.6	6.8	5.8
ROAE (%)	16.6	11.2	12.0	15.8	17.2	15.0
ROA (%)	8.7	5.9	6.9	9.5	10.0	8.5
ROCE (%)	11.8	9.2	9.4	11.3	11.4	11.4
Div Payout Ratio (%)	30.1	30.1	29.8	30.0	30.0	30.0
Net Interest Cover (x)	7.6	5.3	9.0	11.9	14.6	17.2

Source: Company, DBS Vickers

**Margins Trend**



5-year target of S\$1bn sales per year by 2015. Growth will be predominantly driven by penetration into the OEM segment. Management will also implement a new marketing strategy to expand its distribution business segment.

Gain from divestment of 49% stake in Yokohama Tire Sales (Shanghai) Co. Ltd and 10% stake in Hang Zhou Yokohama Tire Co Ltd.

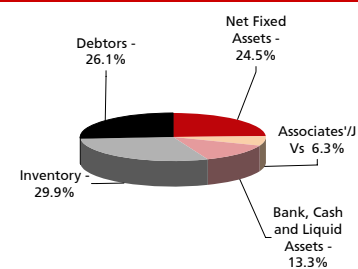
Margins to normalize from FY10. FY10 gross margins improved as YHI sold tyres at higher selling prices on lower priced FY09 inventory. In FY11F, we are expecting margins to normalize from FY10 to gross margin levels between FY09 and FY10.

Net margins fell between FY07-FY09 mainly due to cost fluctuations led by volatile aluminium prices in the wheel manufacturing business.

### Balance Sheet (\$ m)

FY Dec	2007A	2008A	2009A	2010A	2011F	2012F
Net Fixed Assets	89	87	82	81	99	114
Invt in Associates & JVs	17	17	17	21	9	11
Other LT Assets	16	16	17	17	17	17
Cash & ST Invt	23	21	37	44	84	86
Inventory	93	98	93	99	114	130
Debtors	84	75	78	86	102	117
Other Current Assets	10	9	10	14	14	14
<b>Total Assets</b>	<b>331</b>	<b>323</b>	<b>333</b>	<b>362</b>	<b>439</b>	<b>488</b>
ST Debt	85	84	63	66	66	66
Other Current Liab	64	47	50	54	74	82
LT Debt	8	7	14	9	34	44
Other LT Liabilities	1	1	1	2	2	2
Shareholder's Equity	168	180	197	220	248	276
Minority Interests	5	4	8	10	14	17
<b>Total Cap. &amp; Liab.</b>	<b>331</b>	<b>323</b>	<b>333</b>	<b>362</b>	<b>439</b>	<b>488</b>
Non-Cash Wkg. Capital	123	136	130	145	155	178
Net Cash/(Debt)	(70)	(70)	(40)	(32)	(16)	(25)
Debtors Turn (avg days)	64.5	63.6	67.5	60.0	58.1	59.1
Creditors Turn (avg days)	65.4	56.2	54.7	49.7	46.4	47.7
Inventory Turn (avg days)	92.2	104.1	113.7	96.1	88.1	88.6
Asset Turnover (x)	1.4	1.4	1.3	1.4	1.5	1.5
Current Ratio (x)	1.4	1.6	1.9	2.0	2.2	2.3
Quick Ratio (x)	0.7	0.7	1.0	1.1	1.3	1.4
Net Debt/Equity (X)	0.4	0.4	0.2	0.1	0.1	0.1
Net Debt/Equity ex MI (X)	0.4	0.4	0.2	0.1	0.1	0.1
Capex to Debt (%)	16.1	8.1	12.3	17.7	29.8	27.1
Z-Score (X)	NA	3.0	3.3	3.7	3.4	3.4

### Asset Breakdown (2010)



Divested 49% stake in Yokohama Tire Sales (Shanghai) Co. Ltd and 10% stake in Hang Zhou Yokohama Tire Co Ltd.

Net gearing of 14% or net debt of 5.5Scts per share. Expect gearing to reach 19% in FY12F to fund capex expansion. Total capex of S\$150m over the next five years. We believe the company is likely to consider loan over equity financing if further funding is required.

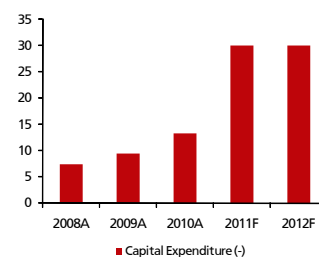
Source: Company, DBS Vickers

**Cash Flow Statement (\$\$ m)**

FY Dec	2007A	2008A	2009A	2010A	2011F	2012F
Pre-Tax Profit	34	27	32	45	57	55
Dep. & Amort.	10	12	12	12	13	17
Tax Paid	(7)	(7)	(9)	(7)	(3)	(13)
Assoc. & JV Inc/(loss)	(2)	(1)	0	(4)	(3)	(2)
Chg in Wkg.Cap.	(40)	(12)	8	(16)	(20)	(22)
Other Operating CF	4	3	6	3	(8)	0
<b>Net Operating CF</b>	<b>(1)</b>	<b>22</b>	<b>49</b>	<b>33</b>	<b>36</b>	<b>35</b>
Capital Exp.(net)	(15)	(7)	(9)	(13)	(30)	(30)
Other Invt.(net)	(2)	0	(1)	0	0	0
Invt in Assoc. & JV	0	0	3	0	23	0
Div from Assoc & JV	0	0	0	0	0	0
Other Investing CF	0	1	(2)	0	0	0
<b>Net Investing CF</b>	<b>(17)</b>	<b>(6)</b>	<b>(9)</b>	<b>(13)</b>	<b>(8)</b>	<b>(30)</b>
Div Paid	(23)	(8)	(7)	(7)	(12)	(12)
Chg in Gross Debt	32	(3)	(11)	(3)	0	0
Capital Issues	0	0	0	0	0	0
Other Financing CF	10	(7)	(3)	(3)	25	10
<b>Net Financing CF</b>	<b>19</b>	<b>(18)</b>	<b>(21)</b>	<b>(14)</b>	<b>13</b>	<b>(2)</b>
Currency Adjustments	0	0	0	(1)	0	0
Chg in Cash	1	(2)	19	5	41	3
Opg CFPS (S cts)	6.6	5.8	7.0	8.5	9.5	9.8
Free CFPS (S cts)	(2.7)	2.5	6.8	3.4	1.0	0.9

Source: Company, DBS Vickers

**Capital Expenditure**



Capex of S\$150m over the next 5 years to increase the current capacity of 3.2m units to 8.5m units by 2015. On average, budgeted capex spending for FY11F and FY12F is S\$30m.

Cash proceeds from divestment of 49% stake in Yokohama Tire Sales (Shanghai) Co. Ltd and 10% stake in Hang Zhou Yokohama Tire Co Ltd.

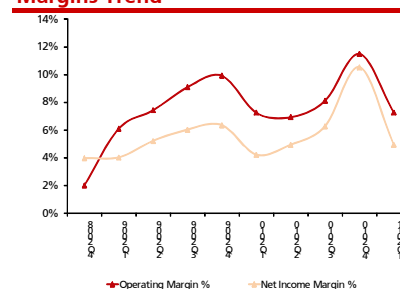
Consistent dividend payout of 30% over the last four years. Projected dividend in FY11 translates to a dividend yield of 6.2%.

**Quarterly / Interim Income Statement (\$\$ m)**

FY Dec	4Q2009	1Q2010	2Q2010	3Q2010	4Q2010	1Q2011
Revenue	112	114	121	132	133	129
Cost of Goods Sold	(95)	(88)	(92)	(101)	(95)	(98)
<b>Gross Profit</b>	<b>25</b>	<b>26</b>	<b>28</b>	<b>31</b>	<b>38</b>	<b>30</b>
Other Oper. (Exp)/Inc	(14)	(18)	(20)	(20)	(22)	(21)
<b>Operating Profit</b>	<b>11</b>	<b>8</b>	<b>8</b>	<b>11</b>	<b>15</b>	<b>9</b>
Other Non Opg (Exp)/Inc	0	0	(1)	0	4	0
Associates & JV Inc	0	0	2	1	1	1
Net Interest (Exp)/Inc	(1)	(1)	(1)	(1)	(1)	(1)
Exceptional Gain/(Loss)	0	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>11</b>	<b>7</b>	<b>8</b>	<b>11</b>	<b>19</b>	<b>9</b>
Tax	(2)	(2)	(2)	(2)	(4)	(2)
Minority Interest	(1)	(1)	(1)	(1)	(1)	0
<b>Net Profit</b>	<b>7</b>	<b>5</b>	<b>6</b>	<b>8</b>	<b>14</b>	<b>6</b>
Net profit bef Except.	7	5	6	8	14	6
EBITDA	15	11	12	14	23	13
<b>Growth</b>						
Revenue Gth (%)	0.4	1.5	5.7	9.7	0.3	(2.8)
EBITDA Gth (%)	11.7	(24.6)	8.6	20.1	61.9	(45.0)
Opg Profit Gth (%)	9.6	(25.8)	1.0	28.4	42.2	(38.7)
Net Profit Gth (%)	5.7	(32.6)	23.6	39.4	68.4	(54.5)
<b>Margins</b>						
Gross Margins (%)	22.3	23.2	23.6	23.5	28.5	23.6
Opg Profit Margins (%)	9.9	7.2	6.9	8.1	11.5	7.3
Net Profit Margins (%)	6.3	4.2	4.9	6.3	10.5	4.9

Source: Company, DBS Vickers

**Margins Trend**



1Q11 sales dipped marginally q-o-q as wheel manufacturing slowed slightly. European orders were switched from its China plant to Taiwan and Malaysia plants as a result of the EU's decision to impose 22.3% anti-dumping duties of alloy wheel imports from China in CY4Q10. Production therefore slowed as moulds were relocated from China to Taiwan and Malaysia in 1Q11.

Expect higher selling prices and demand for the next few quarters. No seasonality in the tyre and wheel business and consistent q-o-q sales growth led by strong demand for tyres.

Gross margins for 1Q11 were maintained at the average of 23%.

Strong tyre demand has led to price increases resulting in margin expansion for 4Q10. Overall, FY10 yielded higher margins due to tyre sales of lower costing FY09 inventory at higher prices.

**Valuation**

**Better ROE than peers.** YHI's margins and ROEs are above its peers' average. YHI's gross margin/ROE is 25%/15%, higher than peers' average of 18%/11%. This can be attributed to YHI's better product mix. YHI's wheel manufacturing/tyre distribution split is 30%/70% compared to Stamford Tyres' 90%/10% and Lizhong Wheel's 100%/0%. Having a more balanced split ensures that YHI is able to enjoy both higher margins from wheel manufacturing and volume growth compared to tyre distribution.

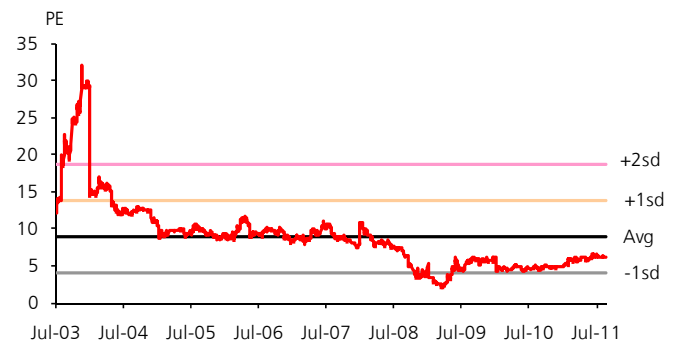
**Better financial matrices than peers**

	Net Gearing	ROE	Gross Margins	Net Margins
YHI International	16%	15%	25%	7%
Lizhong Wheel	36%	10%	13%	4%
Stamford Tyres	15%	12%	23%	4%
<b>Peers' average</b>	<b>26%</b>	<b>11%</b>	<b>18%</b>	<b>4%</b>

Source: Bloomberg, DBS Vickers

**Trading below historical valuations.** YHI currently trades below its long-term historical average PE of 9x and P/BV multiple of 1.4x. There are currently no forward consensus PE and P/BV valuations. We believe an 8x earnings valuation is justifiable for YHI which is equivalent to the long term average PE valuation from since 2004. Pegged to 8x blended FY11/FY12F core earnings, our target price for YHI is S\$0.54.

**Historical PE Band**



Source: DBS Vickers

**Historical PB Band**



Source: DBS Vickers

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