

Singapore Equity Explorer

YHI International

Bloomberg: YHI SP | Reuters: YHII.SI

DBS Group Research . Equity

8 Jun 2011

NOT RATED S\$0.33 STI : 3,115.95

Return *: 1

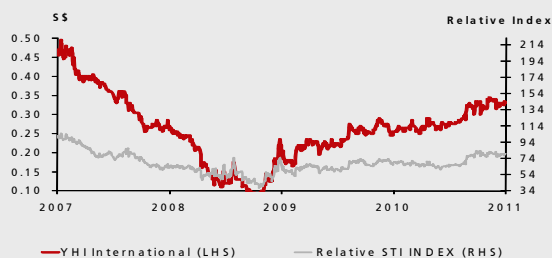
Risk: Moderate

Potential Target * : 12-Month S\$ 0.55 (66% upside)

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	65	77
Pre-tax Profit	32	45	50	58
Net Profit	23	33	36	41
Net Pft (Pre Ex.)	23	33	36	41
EPS (S cts)	3.9	5.6	6.1	7.0
EPS Pre Ex. (S cts)	3.9	5.6	6.1	7.0
EPS Gth Pre Ex (%)	16	46	8	15
Diluted EPS (S cts)	3.9	5.6	6.1	7.0
Net DPS (S cts)	1.1	1.7	1.8	2.1
BV Per Share (S cts)	33.6	37.6	41.9	46.8
PE (X)	8.5	5.9	5.4	4.7
PE Pre Ex. (X)	8.5	5.9	5.4	4.7
P/Cash Flow (X)	5.5	4.7	4.4	3.7
EV/EBITDA (X)	5.0	3.9	3.7	3.3
Net Div Yield (%)	3.5	5.1	5.5	6.4
P/Book Value (X)	1.0	0.9	0.8	0.7
Net Debt/Equity (X)	0.2	0.1	0.1	0.2
ROAE (%)	12.0	15.8	15.3	15.9

Consensus EPS (S cts):

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

Revvng forward

- **Distributor of tyres and manufacturer of aluminium alloy rims**
- **Entry into OEM market for rims expected to drive earnings from FY12F onwards**
- **Fair value of S\$0.55 with 66% potential upside and a return rating of 1 based on 9x FY11F PE. Moderate risk rating.**

The Business

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 automotive and industrial buggies for aftermarkets.

Entry into OEM market - a key growth driver. YHI was predominantly an aftermarket alloy rim manufacturer. Going forward, it will ramp up its capacity for the OEM segment. We estimate 16%/12% revenue and earnings growth CAGR 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.

The Stock

Fair value of S\$0.55 based on 9x FY11F PE. YHI currently trades below its long term average historical PE of 9.1x and PB of 1.4x. There are currently no forward consensus PE and PB valuations. Pegged to 9x PE, our fair value for YHI is S\$0.55.

Potential upside surprise from higher than expected tyre and wheel demand and margins. We see potential for earnings upgrades from better demand and margins in distribution and manufacturing.

Supply and demand issues are potential risks to our forecasts.

Risks include supply cut from tyre principals and inability to secure sufficient rim OEM production to sustain growth.

At A Glance

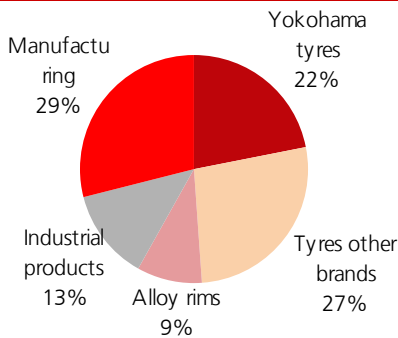
Issued Capital (m shrs)	585
Mkt. Cap (S\$m/US\$m)	193 / 157
Major Shareholders	
Tay Family (%)	58.4
Free Float (%)	41.6
Avg. Daily Vol. ('000)	100

*This Equity Explorer report represents a preliminary assessment of the subject company, and does not represent initiation into DBSV's coverage universe. As such DBSV does not commit to regular updates on an ongoing basis. The rating system is distinct from stocks in our regular coverage universe and is explained further on the back page of this report.

The Business Model

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. Since securing distribution rights to distribute Yokohama tyres in 1974, YHI has become the largest independent distributor for Yokohama tyres globally. YHI was established as a sole proprietorship 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.

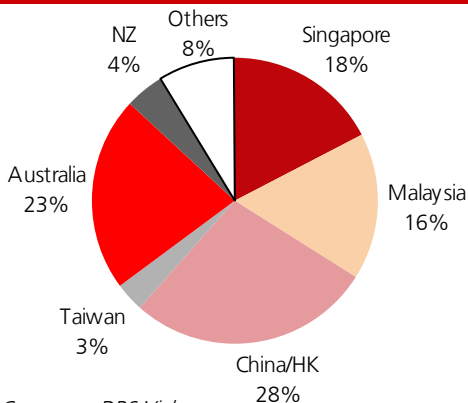
Segmental Revenue Breakdown FY10



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. Sales in the China/HK market stems from the manufacturing and sale of alloy wheels. 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

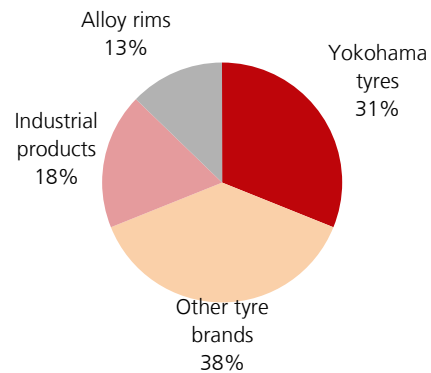
Market	Key activities	% FY10 revenue
Singapore	Distribution	18%
Malaysia	Distribution/Manufacturing	16%
China/HK	Manufacturing	28%
Australia	Distribution	23%
Total		85%

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 22% to 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 level of differentiation. Differentiation due to branding, design and quality helps YHI to gain some control over selling prices. However, selling prices tend to trend in line with 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 as an ODM manufacturer for after-market sale. 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 between US\$45 to US\$60. Selling prices at the retail level are

generally less volatile than cost of aluminium input used in the manufacturing process. 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 a 60 to 90 day 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

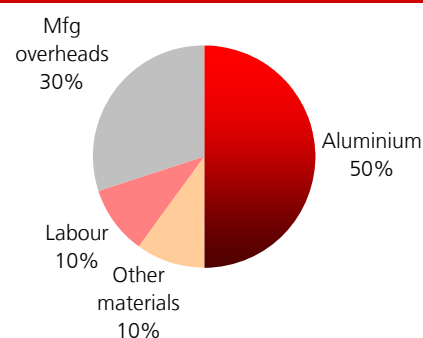
Plants	Location	Area (m ²)	Production Lines	Annual Production Capacity (m)
YHI Manufacturing	Shanghai PRC	47,000	6	1.0
YHI Advanti	Suzhou PRC	75,600	7	1.2
YHI International	Taoyan Taiwan	21,000	2	0.4
YHI Manufacturing	Sepang Malaysia	30,000	4	0.8
YHI Precision Mould	Shanghai PRC	12,000	-	-
Total		185,600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

Source: Company

Aluminium is a key cost component in wheel manufacturing.

The key cost in alloy wheel manufacturing is aluminium. Aluminium ingots account for approximately 50% of YHI's manufacturing cost of sales. Other materials (10%) include spray paint and finishing materials. Manufacturing overheads (30%) include depreciation, fuel, wheel moulds, and fuel.

Manufacturing cost Breakdown



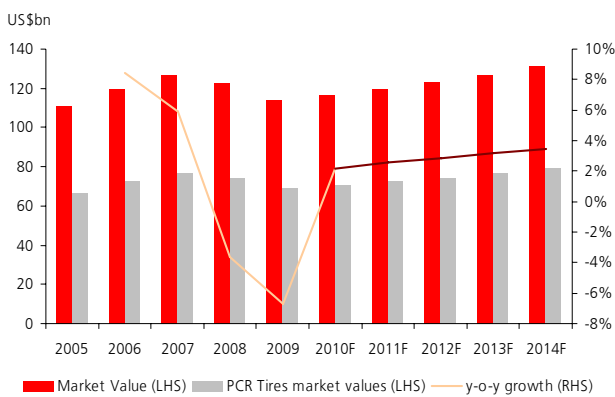
Source: Company, DBS Vickers

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. Passenger car and truck tyres generated US\$69.1m or 60.5% of the market's overall value. YHI, predominantly a passenger tyre distributor in Asia Pacific operates in this sweet spot where it is well positioned to capitalise on the region's growing demand for tyres.

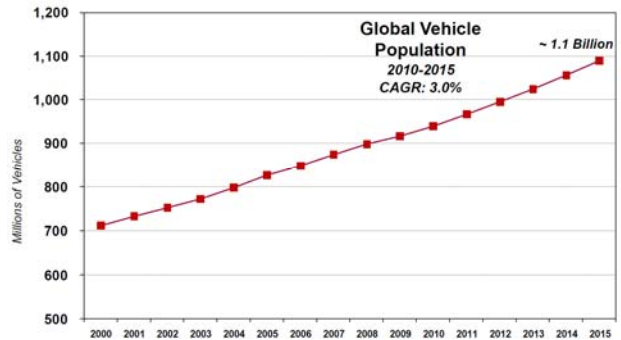
2.9% CAGR growth in market value for global tyres



Source: Datamonitor

Tyre industry is expecting higher tyre demand driven by robust auto sales. After the low level of global automotive sales of 65m units in 2009, 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 armoured themselves with capacity expansion. Hankook is planning to open 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 starting construction on a new plant in India. Pirelli has also started construction of a new plant in Mexico slated for operation in 2012.

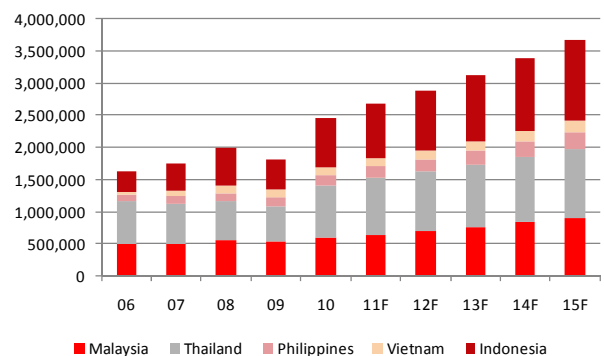
Steady growth in global vehicle population



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 are expected 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, we project Asean ex Singapore & Brunei vehicle sales CAGR of 8.5% over the next five years, which we believe 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 markets where it is also distributing its brands of tyres. However, manufacturers and distributors like YHI tend to have certain pricing power due to 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 generally has high turnover from replacement demand from existing vehicles. Tyre wear is high with four passenger car tyres replaced every 30 months on average.

Strong distribution network and relationships with principals forms 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, we are expecting an additional 20m vehicles to 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 have 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 wheel demand in China to reach 100m units annually by 2015. Current vehicle production of 18m units represents 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 a S\$200m/S\$12m revenue/net profit company in FY02 to a S\$500m/S\$33m company in FY10. YHI had a net gearing of 1.2x in FY02, but this has now improved to 0.14x. YHI is tightly held, with the Tay family owning 58% of the company. Management 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 the automotive business.

Key Management Team

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

Financials

Key Assumptions

FY Dec	2007A	2008A	2009A	2010A	2011F	2012F
Manufacturing business						
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
Revenues (\$\$ m)						
Manufacturing	153	158	128	145	167	209
Distribution	274	300	286	354	425	468
Total	427	458	414	500	592	677
Operating profit (\$\$ m)						
Manufacturing	7	5	8	5	7	9
Distribution	27	27	26	37	43	48
Total	34	32	34	43	50	57
Operating profit Margins (%)						
Manufacturing	4.9	2.9	6.0	3.5	4.2	4.2
Distribution	9.8	9.2	9.3	10.6	10.1	10.3
Total	8.1	7.0	8.2	8.5	8.4	8.4

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

Target S\$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.

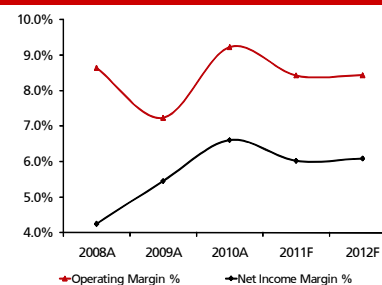
Source: Company, DBS Vickers

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)
Gross Profit	99	111	96	124	140	160
Other Opng (Exp)/Inc	(62)	(72)	(66)	(78)	(90)	(103)
Operating Profit	37	40	30	46	50	57
Other Non Opg (Exp)/Inc	(1)	(7)	6	(1)	0	0
Associates & JV Inc	2	1	0	4	4	5
Net Interest (Exp)/Inc	(5)	(6)	(4)	(4)	(3)	(3)
Exceptional Gain/(Loss)	0	0	0	0	0	0
Pre-tax Profit	34	27	32	45	50	58
Tax	(6)	(6)	(7)	(10)	(12)	(13)
Minority Interest	(2)	(2)	(2)	(3)	(3)	(3)
Preference Dividend	0	0	0	0	0	0
Net Profit	26	19	23	33	36	41
Net Profit before Except.	26	19	23	33	36	41
EBITDA	48	45	48	61	65	77
Growth						
Revenue Gth (%)	13.8	7.3	(9.5)	20.6	18.5	14.2
EBITDA Gth (%)	5.3	(7.0)	7.3	26.6	7.6	17.0
Opg Profit Gth (%)	N/A	6.8	(24.3)	53.8	8.2	14.4
Net Profit Gth (%)	(4.6)	(26.0)	16.1	46.0	8.1	15.4
Margins & Ratio						
Gross Margins (%)	23.2	24.3	23.2	24.8	23.6	23.7
Opg Profit Margin (%)	8.7	8.6	7.2	9.2	8.4	8.4
Net Profit Margin (%)	6.2	4.2	5.4	6.6	6.0	6.1
ROAE (%)	16.6	11.2	12.0	15.8	15.3	15.9
ROA (%)	8.7	5.9	6.9	9.5	9.0	8.9
ROCE (%)	12.7	11.4	8.2	12.2	11.5	11.5
Div Payout Ratio (%)	30.1	30.1	29.8	30.0	30.0	30.0
Net Interest Cover (x)	8.2	6.5	7.9	12.8	14.6	17.2

Source: Company, DBS Vickers

Margins Trend



5-year plan to reach annual sales target of S\$1bn 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.

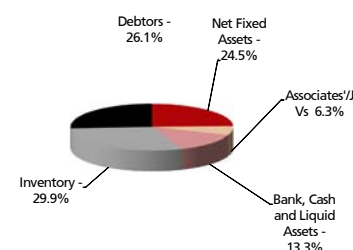
Margins to normalize from FY10. FY10 gross margins improved as YHI sold tyres at higher selling prices on lower priced FY09 inventory. In FY11F, we are expecting margins to normalize from FY10 to gross margin levels between FY09 and FY10.

Net margins fell between FY07-FY09 mainly due to cost fluctuations led by volatility of 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	25	29
Other LT Assets	16	16	17	17	17	17
Cash & ST Invt	23	21	37	44	63	66
Inventory	93	98	93	99	114	130
Debtors	84	75	78	86	102	117
Other Current Assets	10	9	10	14	14	14
Total Assets	331	323	333	362	434	486
ST Debt	85	84	63	66	66	66
Other Current Liab	64	47	50	54	73	83
LT Debt	8	7	14	9	34	44
Other LT Liabilities	1	1	1	2	2	2
Shareholder's Equity	168	180	197	220	245	274
Minority Interests	5	4	8	10	13	17
Total Cap. & Liab.	331	323	333	362	434	486
Non-Cash Wkg. Capital	123	136	130	145	157	177
Net Cash/(Debt)	(70)	(70)	(40)	(32)	(37)	(45)
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	2.1	2.2
Quick Ratio (x)	0.7	0.7	1.0	1.1	1.2	1.2
Net Debt/Equity (X)	0.4	0.4	0.2	0.1	0.1	0.2
Net Debt/Equity ex MI (X)	0.4	0.4	0.2	0.1	0.2	0.2
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



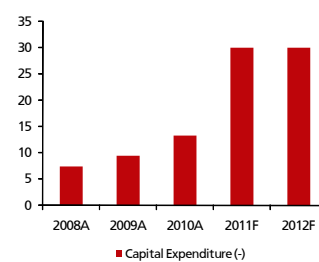
Net gearing of 14% or net debt of 5.5Scts per share. Expect gearing to reach 19% in FY12F to fund capex expansion. Capex is expected to be S\$150m over the next five years. We believe the company is likely to consider loan financing over equity financing if further funding is required.

Source: Company, DBS Vickers

Cash Flow Statement (\$\$ m)

FY Dec	2007A	2008A	2009A	2010A	2011F	2012F
Pre-Tax Profit	34	27	32	45	50	58
Dep. & Amort.	10	12	12	12	13	17
Tax Paid	(7)	(7)	(9)	(7)	(3)	(12)
Assoc. & JV Inc/(loss)	(2)	(1)	0	(4)	(4)	(5)
Chg in Wkg.Cap.	(40)	(12)	8	(16)	(20)	(22)
Other Operating CF	4	3	6	3	0	0
Net Operating CF	(1)	22	49	33	36	37
Capital Exp.(net)	(15)	(7)	(9)	(13)	(30)	(30)
Other Invts.(net)	(2)	0	(1)	0	0	0
Invts in Assoc. & JV	0	0	3	0	0	0
Div from Assoc & JV	0	0	0	0	0	0
Other Investing CF	0	1	(2)	0	0	0
Net Investing CF	(17)	(6)	(9)	(13)	(30)	(30)
Div Paid	(23)	(8)	(7)	(7)	(11)	(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
Net Financing CF	19	(18)	(21)	(14)	14	(2)
Currency Adjustments	0	0	0	(1)	0	0
Chg in Cash	1	(2)	19	5	20	4
Opg CFPS (\$ cts)	6.6	5.8	7.0	8.5	9.5	10.1
Free CFPS (\$ cts)	(2.7)	2.5	6.8	3.4	1.0	1.2

Capital Expenditure



Capex of S\$150m over the next 5 years. This is 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.

Consistent dividend payout of 30% over the last four years. Projected dividend in FY11 translates to a dividend yield of 5.5%.

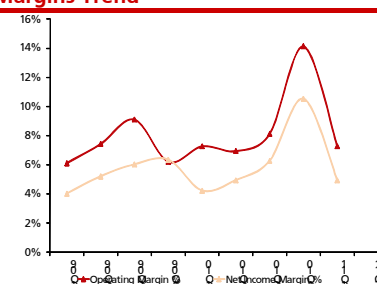
Source: Company, DBS Vickers

Quarterly / Interim Income Statement (\$S m)

FY Dec	4Q2009	1Q2010	2Q2010	3Q2010	4Q2010	1Q2011
Revenue	112	114	121	132	133	129
Cost of Goods Sold	(87)	(88)	(92)	(101)	(95)	(98)
Gross Profit	25	26	28	31	38	30
Other Oper. (Exp)/Inc	(18)	(18)	(20)	(20)	(19)	(21)
Operating Profit	7	8	8	11	19	9
Other Non Opg (Exp)/Inc	5	0	(1)	0	1	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
Pre-tax Profit	11	7	8	11	19	9
Tax	(2)	(2)	(2)	(2)	(4)	(2)
Minority Interest	(1)	(1)	(1)	(1)	(1)	0
Net Profit	7	5	6	8	14	6
Net profit bef Except.	7	5	6	8	14	6
EBITDA	15	11	12	14	23	13
Growth						
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 (%)	(31.6)	18.8	1.0	28.4	74.5	(50.0)
Net Profit Gth (%)	5.7	(32.6)	23.6	39.4	68.4	(54.5)
Margins						
Gross Margins (%)	22.3	23.2	23.6	23.5	28.5	23.6
Opg Profit Margins (%)	6.2	7.2	6.9	8.1	14.1	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 selling prices and demand for the next few quarters to trend upwards. No seasonality in the tyre and wheel business and consistent q-o-q sales growth led by strong demand for tyres.

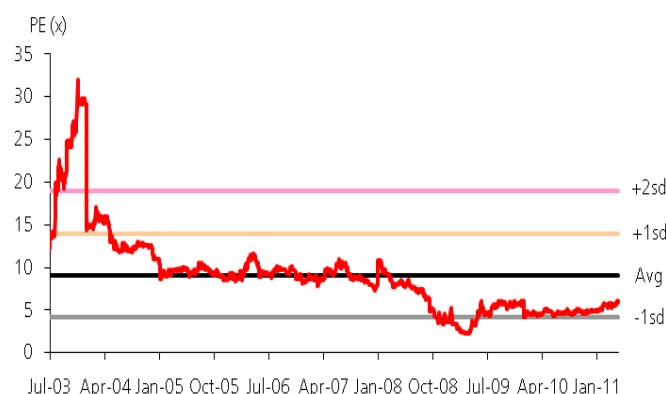
Gross margins for 1Q11 were maintained at the average of 23%.

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.

Valuations

Trading below historical valuations. YHI currently trades below its long term historical average PE of 9.1x and PB multiple of 1.4x. There are currently no forward consensus PE and PB valuations. Pegged to 9x PE, our fair value for YHI is S\$0.55.

Historical PE Band



Source: DBS Vickers

Historical PB Band



Source: DBS Vickers

Higher 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 17%/10%. This can be attributed to the better product mix it has over its peers. 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 from tyre distribution.

Peers comparison				
	Net Gearing	ROE	Gross Margins	Net Margins
	T12m	T12m	T12m	T12m
YHI International	16%	15%	25%	7%
Lizhong Wheel	36%	10%	13%	4%
Stamford Tyres	25%	10%	22%	3%
Peer average	31%	10%	17%	3%

Source: Bloomberg, DBS Vickers

Risk Assessment

Good earnings visibility. We believe YHI has good earnings visibility. As tyre demand is projected to be robust, sales growth is largely dependent on tyre allocation from its principals who are expanding their tyre production. Higher production of alloy wheels to China's car manufacturers will also lower volatility in margins and earnings in the future.

Financials above peers. YHI has better gearing than its peers. 1Q11 net gearing was 16%. Peer companies such as Lizhong Wheel and Stamford Tyres have an average gearing of 31%. Gross and net margins are higher than peer average.

Well managed company with little potential of share dilution. Tay family has approximately 60% stake in YHI and hence the company has a low free float (41.6%). Management has not raised equity capital since listing and we believe it has no intention to raise additional funds through the equity markets. Therefore risk of dilution is low. The company also has no convertible instruments, which can lead to significant shareholder dilution. YHI has a board of experienced directors who have also governed other SGX listed government linked companies. There are no major issues in investor relations and earnings track record for YHI thus far. Overall, we find the company well managed by the family members and well governed by a credible board.

Qualitative Risk Assessment: Moderate

Category	Risk Rating 1 (Low) - 3 (High)	Wgt	Wgtd Score
Earnings	1	40%	0.4
Financials	2	20%	0.4
Shareholdings	1	40%	0.4
Overall			1.2

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- | | |
|---|---|
| 1 | (>20% potential returns over the next 12 months) |
| 2 | (0 - 20% potential returns over the next 12 months) |
| 3 | (negative potential return over the next 12 months) |

The risk assessment is qualitative in nature and is rated as either high, low or moderate risk. (see section on risk assessment)

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