Asian Equity Research — SINGAPORE

NOMURA

YHI International [YHI SP]

Winners on wheels

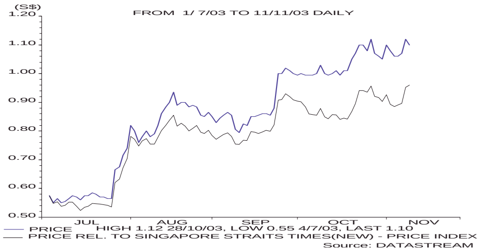
A recent visit to YHI International's (YHI) operations in China gave us a first-hand view of its efforts there. YHI is an integrated tyre distributor and maker of alloy wheels, and looks well placed to gain from the strong growth in China's auto market. YHI stands to benefit from replacement demand for both tyres and alloy wheels, working off its sole distributing rights for Yokohama tyres in China and increased capacity for its plant making alloy wheels in Shanghai. The stock looks undervalued. FY04F and FY05F PERs of 13.8x and 10.8x are below the weighted averages of 15.0x and 13.2x for regional peers, and compare well against the forecast two-year EPS CAGR of 21.1% (which is higher than the average EPS CAGR for peers of 10.1%). A PEG of 0.9x gives fair value of S$1.32/share, which would imply an FY04F PER of 16.5x, a 10% premium to regional peers. This fair value implies 20% upside, and we initiate coverage with a BUY rating.

- **Expansion of China tyre distribution.** As the sole distributor for Yokohama Rubber's passenger tyres in China, and having an established distribution network and 12 years' experience distributing in China, YHI looks well placed to continue working off Yokohama's expansion in China. YHI owns 10% of Yokohama's plant, where plans are to increase capacity from 0.7m to 1.4m pieces by end-2004.

- **Ramping alloy wheel manufacturing in China.** YHI's current capacity of four manufacturing lines in its Shanghai alloy wheel plant may be doubled to eight lines in the coming years. Other than the ODM export market, YHI is targeting the OEM market (car makers based in China) and the replacement market in China.

- **Further leveraging off China distribution network.** We think YHI has yet to tap the full potential of its extensive auto parts distribution network in China. Growth can come from distributing a mid to low-end range of passenger tyres that do not compete directly with the Yokohama range, and other auto products such as batteries.

Price performance chart



Price performance data	1m	3m	1yr
Absolute (S$)	10.0	39.2	N/A
Absolute (US$)	9.3	40.8	N/A
Relative to STI	13.1	27.3	N/A

EPS summary	FY03F	FY04F	FY05F
Previous Nomura forecast	N/A	N/A	N/A
Change (%)	N/A	N/A	N/A
Consensus forecast (S¢)	N/A	N/A	N/A
Variance (%)	N/A	N/A	N/A

Year-end 31 Dec	FY01	FY02	FY03F	FY04F	FY05F
Net profit (S$m)	1.0	11.4	13.8	18.2	23.2
EPS (S cents)	0.6	6.7	6.9	8.0	10.2
EPS growth (%)	N/A	1,004.0	3.3	15.1	27.5
PER (x)	181.3	16.4	15.9	13.8	10.8
BV/share (S cents)	16.2	20.4	33.9	40.2	47.9
P/BV (x)	6.8	5.4	3.2	2.7	2.3
DPS (S cents)	0.0	0.0	0.0	2.0	3.0
Yield (%)	0.0	0.0	0.0	1.8	2.7
EV/EBITDA (x)	30.5	14.3	11.4	9.4	7.6

BUY

Previous **Not Rated**

Price (11 November 2003)

S$1.10

Published date

13 November 2003

Initiating Coverage

Sector

Automobiles and parts

Key data

Shares in issue (m)	**228.6**
Market cap (S$m)	**251.4**
Market cap (US$m)	**144.9**
12-month high/low (S$)	**1.12/0.55**
3-mth avg daily T/O (US$m)	**1.0**
FY03F BV (S¢/share)	**33.9**
FY03F P/BV (x)	**3.2**
Major shareholders (%)	
YHI Holdings	**74.6**
Estimated free float (%)	**23.0**

Analyst

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Please read the important disclosures and analyst certifications on the back page.

Executive summary

Strong growth in China tyre distribution business

Tyre distribution. As the sole distributor for Yokohama Rubber's passenger tyres in China, and having an established distribution network and 12 years' experience distributing in China, YHI looks well placed to continue working off Yokohama's expansion drive in China. Yokohama opened Phase I of its tyre plant in Hangzhou in July 2003. The factory is slated to have full-year output of 0.7m tyres. YHI has a 10% stake in the plant. YHI's network of 148 provincial and city distributors sell Yokohama tyres and several other brands of alloy wheels. To further penetrate the replacement market, YHI plans to raise the brand profile and awareness of the Yokohama brand of tyres. To this end, YHI and Yokohama will set up 200 Yokohama specialist concept retail stores throughout China by end-2006. YHI also plans to strengthen its distribution network in China by having direct tie-ups with 1,200 tyre retail shops in the Yangtze River Delta.

Ramping up alloy wheel manufacturing production

Alloy wheel manufacturing. YHI's plant making alloy wheels in Shanghai reached critical mass last year, when the third production line started operations. Further economies of scale are expected to be realised, owing to the continued ramping of the fourth production line, which started running from July 2003. A fifth line is expected to start operations in 1H04. The factory is running at full capacity, and the orderbook is full until 1H04. Longer term, YHI plans to double its production capacity at its plant in Shanghai to eight lines. All output is currently exported. About 70% of YHI's current sales of alloy wheels are for the ODM market (brands such as Lowenhart, Racing Hart, Giovana, Konig and 5-zigen, to end-customers in North America, Europe, parts of the Middle East, Japan, South Africa, South Korea and Indonesia), with the rest for its in-house brand, Advanti. YHI is looking at both selling its own brand in the replacement market and supplying alloy wheels to car makers in China.

Further leveraging off its China distribution network

Distribution network. We think YHI's strong distribution network in China is not being used to its full potential. The present range of tyres distributed is narrow and belongs only to the premium category (Yokohama tyres). Moreover, apart from Yokohama passenger tyres and the limited range of alloy wheels, YHI does not sell other auto products. We think YHI should start distributing mid to low-end tyres that do not compete directly with the Yokohama range. Since YHI already has distributors, additional costs would not be significant. One possibility would be to secure distribution rights from YHI's existing tyre suppliers (in other territories) for China.

Another untapped growth area is distribution rights for other auto products, such as automotive batteries. Again, YHI could tap its existing battery suppliers, for which it already distributes for other territories. YHI has said it is looking into gaining distribution rights for Hitachi automotive batteries in China — we think the company is close to securing sole distribution rights there. We note that Hitachi is setting up a new automotive battery plant in Dongquan, China.

Business outside Northeast Asia is also growing fast

Other geographies. We note from YHI's geographical breakdown that other countries (excluding Northeast Asia — mainly China and Hong Kong) have done well over the past three years, with the net profit contribution rising from S$3.3m in FY01 to S$7.2m in FY02. We expect continued growth from these areas, especially with the recovery in regional economies. We expect net profit contributions here will grow 8.0% in FY03, 11.4% in FY04 and 12.8% in FY05.

In Malaysia, YHI plans to widen its distribution network by increasing the number of retailers with which it has business relationships from 400 now, to 500 by end-2005. Longer term, YHI may set up an alloy wheel manufacturing plant in ASEAN (possibly in Thailand), once AFTA comes into full force. Such a plant would enable YHI to export alloy wheels to any ASEAN country and enjoy preferential import duty of only 5% (from 30%).

Major strengths and competitive advantages

Strengths and competitive advantages. YHI has an established distribution network, which enables it to distribute to more than 2,000 customers. Its network covers Singapore, Malaysia, China, Taiwan, Hong Kong, Australia and New Zealand. From its main hubs in Singapore, China, Taiwan and Hong Kong, YHI distributes locally and exports to more than 20 countries. YHI distributes a diverse range of automotive products, including tyres, alloy wheels and automotive batteries, as well as industrial products such as industrial batteries and golf buggies. Its large warehousing space (about 22,800 square metres) is a barrier to entry in the business.

In terms of ODM services, YHI is able to design and develop, manufacture, market and distribute alloy wheels within its distribution network. As an ODM, YHI is able to make and distribute third-party premium brands of alloy wheels. YHI has also established strong links with its major suppliers. YHI has been distributing Yokohoma tyres in Singapore since 1974, and has since expanded the countries its covers for Yokohama tyres to Malaysia, Brunei, Indonesia, Vietnam, Cambodia and China. YHI has been the exclusive distributor of Enkei alloy wheels in Singapore since 1975, and also distributes Enkei alloy wheels to other countries such as Malaysia, Indonesia, Hong Kong, China, Australia and New Zealand. YHI has been distributing Hitachi automotive batteries since 1973 and has exclusive rights for Hitachi industrial power products in Australia, and some territories in ASEAN and South Asia.

Balance sheet and capex

Financials. YHI strengthened its balance sheet with the gross IPO proceeds of S$29m. We estimate YHI's pro-forma net gearing of 154% as at June 2003 will fall to 36.8% by end-FY03, 31.4% by end-FY04 and 25.7% by end-FY05. We forecast FY03 interest coverage at a healthy 8.2x. We do not expect major capex in the next two years. The fourth manufacturing line for YHI's alloy wheel plant in Shanghai, which started operations in July 2003, was financed by the IPO proceeds. YHI's purchase of the 10% stake in Yokohama's Hangzhou factory was also financed from the IPO proceeds. Future expansion in these two areas will require additional capex. We think future expansion at YHI's Shanghai plant (we assume one new line every year until it hits eight lines) can be funded by YHI internally. We estimate that YHI should be able to generate operating cashflows (before capex) of S$9.8m to S$12.6m per year over FY03-05.

Risks: forex exposure, bad debts, slowing industry growth and possible termination of contracts

Risk factors. YHI has limited forex exposure, which is mostly hedged — the company made forex gains averaging about S$0.2m pa over FY00-02. Management said the recent appreciation of the yen will have a minimal impact, since its yen-denominated purchases are small. The risk of bad debts cannot be discounted, though the matter looks well under control. Provisions for doubtful and bad debts averaged S$1.4m pa over FY00-02. We also note that sharp growth in China's auto sales is unlikely to be sustained indefinitely. Nomura Financial Research Centre (FRC) estimates China's passenger car sales will grow about 50% y-y in 2003. The higher base means such steep growth is not sustainable, though FRC expects a sales CAGR of 21.4% over 2002-10. Another risk is possible termination of distributorship agreements by the principals, though this is mitigated by YHI's long-term relationships with the principals.

YHI appears undervalued against its regional peers

Valuation. YHI appears undervalued. The stock is on an FY04F PER of 13.8x, low compared with forecast EPS growth of 15.1% in FY04 and 27.5% in FY05 (to give a two-year EPS CAGR of 21.1%). In terms of peer comparison, YHI's FY04F and FY05F PERs of 13.8x and 10.8x are lower than the weighted averages of 15.0x and 13.2x, respectively, for regional peers. YHI's FY03F P/BV of 3.2x is also lower than the weighted average of 3.7x for regional peers, even though the company has a higher expected FY03 ROE of 24.6%, versus 14.5% for peers.

Fair value of S$1.32/share

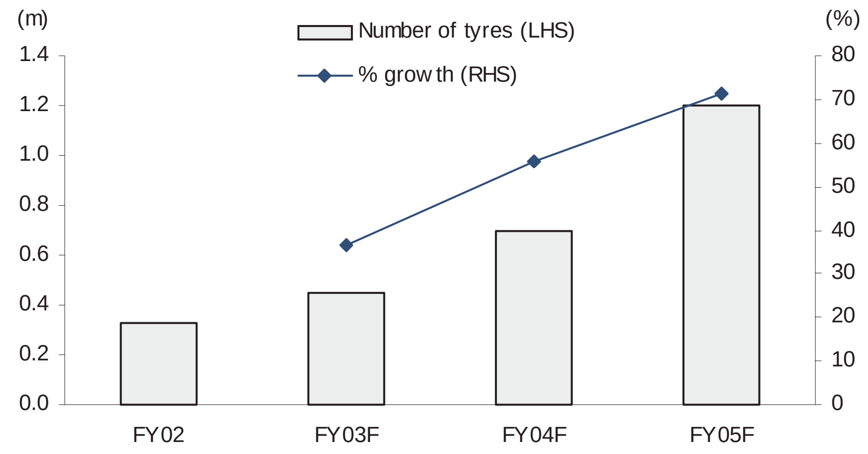
We think YHI should trade at least 10% above its regional peers in PER terms, owing to its higher EPS growth (two-year EPS CAGR seen at 21.1%) and ROEs (21.5% for FY04F). We peg fair value at what we think is an undemanding PEG (FY03F PER / two-year EPS CAGR) of 0.9x. The resulting figure of S$1.32/share implies PERs of 16.5x for FY04 (10% above the average for regional peers) and 12.9x for FY05. This fair value implies 20% upside, which would normally call for a Strong Buy under our rating system. However, YHI's small free float may stop the stock from reaching this over our investment horizon and we initiate coverage with a BUY rating.

Strong growth in China tyre distribution

YHI looks well placed to continue working off rising car sales in China and Yokohama's growth there

As the sole distributor for Yokohama Rubber's passenger tyres in China, and having an established distribution network and 12 years' experience distributing in China, YHI looks well placed to continue working off Yokohama's expansion drive in China. While a late-comer compared with other foreign tyre makers in China, Yokohama is making up for lost time by ramping manufacturing capacity at its plant in China. And rising car ownership in China will underpin demand for replacement tyres (see Appendix for details).

Yokohma tyres distributed in China by YHI



Source: Company data, Nomura Singapore

Phase I of Yokohama's factory in Hangzhou was completed in July, with an annual output of 0.7m tyres

Yokohama completed Phase I of its tyre manufacturing plant in Hangzhou, China, in July 2003. The factory is slated to have full-year output of 0.7m Yokohama passenger radial tyres in FY04, and half of that this year (since it only opened in July). YHI has a 10% stake in the plant and is the only distributor of Yokohama tyres in mainland China. YHI is committed to selling the entire production output from Yokohama's factory in Hangzhou.

Expansion of Yokohama's plant is benefiting YHI

Yokohama has said it will expand the capacity of the plant to 1.4m tyres by end-2004. Construction of the new premises will be on an adjacent site (80,000 square metres), at an estimated cost of US$57m. Assuming a debt-to-equity ratio of 30% and that YHI maintains its 10% stake, its share of the equity financing will be US$1.7m. This can easily be funded by internal resources. We assume YHI will sell 1.2m Yokohama tyres in FY05. Further out, we understand that Yokohama may expand its capacity to 2.2m units.

Setting up more than 200 Yokohama specialist stores

YHI's network of about 148 provincial and city distributors sell Yokohama tyres and several other brands of alloy wheels. To further penetrate the replacement market, YHI plans to raise the brand profile and awareness of the Yokohama brand of tyres. To this end, YHI and Yokohama will set up 200 Yokohama specialist concept retail stores throughout China by end-2006. The funding will be provided by Yokohama, and YHI will help spend about RMB150,000 to RMB250,000 per store to renovate and improve select stores. The concept stores will carry the full range of both locally produced and imported Yokohama tyres and provide automotive services. So far, 12 such stores have been set up; another eight will be ready by year-end.

YHI plans to strengthen its distribution network

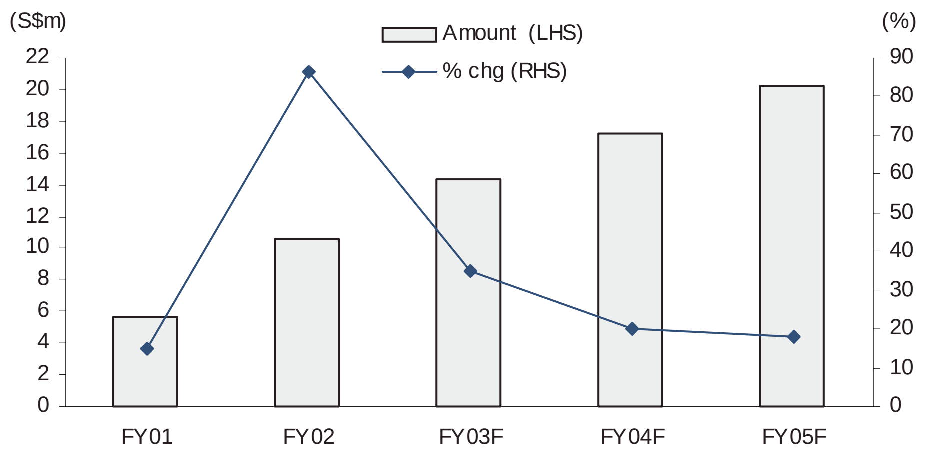
YHI also plans to strengthen its distribution network in China by having direct tie-ups with 1,200 tyre retail shops in the Yangtze River Delta (which covers 16 cities in the areas surrounding Shanghai) by end-2005. Through by-passing the distributors, YHI will have better control over the distribution channels in the area, thereby enhancing profit margins.

Ramping alloy wheel production

Economies of scale have kicked in, with the third production line starting from September 2002 and the fourth line from July

YHI's plant making alloy wheels in Shanghai reached critical mass last year, when the third production line started operations. While YHI's manufacturing operations chalked up gross profits of S$5.0m and S$5.7m in FY00 and FY01, respectively, a lack of the necessary economies of scale meant pre-tax losses of S$1.1m and S$2.4m for the operations. After opening the third production line in September 2002, the operations posted pre-tax profits of S$3.5m in FY02 and S$2.3m in 1H03. Further economies of scale are expected to be realised, owing to the continued ramping of the fourth production line, which started running from July 2003.

Gross profits from manufacturing



Source: Company data, Nomura Singapore

YHI's alloy wheel manufacturing capacity

As at year-end	FY00	FY01	FY02	FY03F	FY04F	FY05F
Number of manufacturing lines						
China	1	2	3	4	5	6
Taiwan	1	1	1	1	1	1
Total	2	3	4	5	6	7
Units per month ('000s)						
Shanghai plant	15 to 20	30 to 40	45 to 60	60 to 80	75 to 100	90 to 120
Taiwan plant	12 to 15	12 to 15	12 to 15	12 to 15	12 to 15	12 to 15
Total	**27 to 35**	**42 to 55**	**57 to 75**	**72 to 95**	**87 to 115**	**102 to 135**

Source: Company data, Nomura Singapore

Capacity in its Shanghai plant may be doubled to eight manufacturing lines

Current capacity at the plant in Shanghai is between 60,000 and 80,000 pieces per month, or 15,000-20,000 pieces for each of the four production lines. The factory is running at full capacity, and the orderbook is full until 1H04. All output is currently exported. YHI has decided to start a fifth line from 1H04. Eventually, depending on demand, YHI plans to double its production capacity at its plant in Shanghai to eight lines. Each new line requires only three to four months to start up, since the factory there has enough space and the infrastructure (for example: power requirements) to support eight lines. We understand each additional line costs about S$4.5m to set up. In our model, we assume YHI opens a new line every year. Future production capacity will also look to produce for the domestic market.

Benefiting from global outsourcing for wheels

About 70% of YHI's current sales of alloy wheels are for the ODM export market, with the rest for its in-house proprietary brand, Advanti. Currently, YHI designs, develops and makes alloy wheels for third-party brands such as LoweHart, Racing Hart, Giovana, Konig and 5-zigen. Output is exported to end-customers in North America, Europe, parts of the Middle East, Japan, South Africa, South Korea and Indonesia. There has been a distinct trend among wheel makers to outsource to more cost-effective producers based in low-cost countries such as China.

Tapping domestic demand in China: own brand sales and for the OEM market

YHI is also looking at both selling its own brand of Advanti alloy wheels in the replacement market and supplying alloy wheels to car makers based in China (the OEM market). Both look strong growth opportunities. In terms of selling its own brand, YHI wants to be a niche player, and to position Advanti alloy wheels as a premium brand. The company plans to raise brand awareness via increased advertising and promotional activities. This is a more lucrative market, since margins are higher in the replacement market than either the OEM market (car producers in China) or the ODM export markets. For the OEM market, YHI is looking to tap demand arising from the expected sharp rise in capacity for passenger cars (see Appendix for details).

Leveraging off its distribution network in China

YHI has yet to make full use of its strong distribution network in China; we think it needs to carry more brands

We think YHI's strong distribution network in China is not being used to its full potential. The company has been distributing tyres in China for 12 years, and has established a strong network of 148 provincial and city distributors, which sell Yokohama tyres and several other brands of alloy wheels, including Enkei, Lowenhart and Racing Hart brands. However, we note that the present range of tyres distributed by YHI is very narrow and belongs only to the premium category (Yokohama tyres). Moreover, apart from Yokohama passenger tyres and the limited range of alloy wheels, YHI does not sell other auto products.

YHI should leverage off its network to distribute mid to low-end passenger tyres that do not compete directly with the Yokohama range

We think YHI should start distributing mid to low-end tyres that do not compete directly with the Yokohama premium range. Since YHI already has distributors, additional costs would not be significant. One possibility would be to secure distribution rights from YHI's existing tyre suppliers (in other territories) for the China market. We think another untapped growth area is distribution rights for other auto products, such as automotive batteries. Again, YHI could tap its existing battery suppliers, for which it already distributes for other territories.

There are also opportunities for other auto products. YHI is looking at distribution rights for Hitachi automotive batteries in China

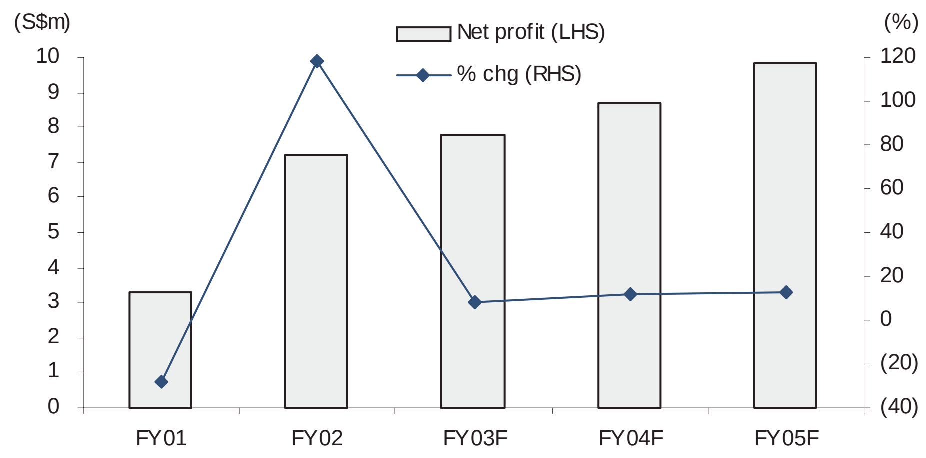
YHI has said it is looking into gaining distribution rights for Hitachi automotive batteries in China — we think the company is close to securing sole distribution rights there. We note that Hitachi, which supplies YHI with its batteries in Singapore, Malaysia, Indonesia, the Philippines, Thailand, the Indian subcontinent and Australia, is setting up a new automotive battery plant in Dongquan, China. The plant will have annual capacity of about 0.72m units by April 2004. While part of the output is slated for the China OEM market and some exports, we understand part will be aimed at the domestic replacement market. We further understand that Hitachi has yet to appoint a distributor for the auto batteries targeted at the domestic replacement market. Given YHI's good working relationship with Hitachi and its strong distribution network in China, we think that YHI is well-placed to secure these distribution rights.

Other areas benefiting from global recovery

Business outside Northeast Asia is also growing fast

We note from YHI's geographical breakdown that other countries (excluding Northeast Asia — mainly China and Hong Kong) have done well over the past three years, with the net profit contribution rising from S$3.3m in FY01 to S$7.2m in FY02. We expect continued growth from these areas, especially with the recovery in regional economies. We expect net profit contributions here will grow 8.0% in FY03, 11.4% in FY04 and 12.8% in FY05.

Net profit contributions from outside Northeast Asia



Source: Company data, Nomura Singapore

Setting up more Yokohama concept stores in Malaysia

YHI (Malaysia), the group's wholly owned subsidiary in Malaysia, accounted for 14% of total tyre distribution sales in FY02. YHI plans to expand its market share in Malaysia by widening its distribution network. The company plans to increase the number of retailers with which it has business relationships from 400 now, to 500 by end-2005. YHI, together with Yokohama, also plans to enter strategic alliances with select local tyre retailers to set up Yokohama concept stores (the plan is for six such branches by 1H04, from only two now).

Longer term, YHI may set a new alloy wheel plant in ASEAN to take advantage of lower duties

Longer term, YHI may set up an alloy wheel manufacturing plant in ASEAN (possibly in Thailand), once AFTA comes into full force. However, we understand from management that this is not a priority right now. Such a plant would enable YHI to export alloy wheels to any ASEAN country and enjoy preferential import duty of only 5% (from 30%). YHI is already seeing the benefits of AFTA in its distribution business. For example, YHI (Malaysia) enjoys preferential import duty of 5% for Yokohama tyres from the Yokohama plant in the Philippines (from January 2003).

Major strengths and competitive advantages

Wide distribution network to more than 2,000 customers

YHI has an established distribution network, which enables it to distribute its products to more than 2,000 customers worldwide. Its network covers Singapore, Malaysia, China, Taiwan, Hong Kong, Australia and New Zealand. From its main hubs in Singapore, China, Taiwan and Hong Kong, YHI distributes locally in these countries and exports to more than 20 countries. We note that 47% of YHI's customers have been with the company for the past five years.

YHI's distribution network — number of customers

Countries	Auto products	Industrial products	Total
Singapore	550	220	770
Malaysia	430	70	500
Taiwan	20	0	20
Hong Kong	230	0	230
China	190	0	190
Australia	360	160	520
New Zealand	410	60	470
Total	**2,190**	**510**	**2,700**

Source: Company data

Integrated ODM services

YHI is able to design and develop, manufacture, market and distribute alloy wheels within its distribution network. It can also design and develop alloy wheels according to customers' specifications. As an ODM, YHI is able to make and distribute third-party premium brands of alloy wheels. For example, YHI is a contract manufacturer and distributor for Lowenhart and Racing Hart wheels for the Japanese and North American markets.

YHI has strong business links with major suppliers

YHI has established strong links with its major suppliers. YHI has been distributing Yokohoma tyres in Singapore since 1974, and has since expanded the countries its covers for Yokohama tyres to Malaysia, Brunei, Indonesia, Vietnam, Cambodia and China. To further firm up links, YHI was invited to take a 10% stake in Yokohama's tyre plant in Hangzhou and Yokohama took a 2.5% stake in YHI when it was listed. YHI has been the exclusive distributor of Enkei alloy wheels in Singapore since 1975, and also distributes Enkei alloy wheels to other countries such as Malaysia, Indonesia, Hong Kong, China, Australia and New Zealand. YHI has been distributing Hitachi automotive batteries since 1973 and has exclusive rights for Hitachi industrial power products in Australia, and some territories in ASEAN and South Asia.

Broad range of automotive and industrial products

YHI distributes a diverse range of automotive products, including tyres, alloy wheels and automotive batteries, as well as industrial products such as industrial batteries and golf buggies. The list includes: 1) Tyres: Yokohama tyres from Japan in Singapore, Malaysia, Brunei, Cambodia, Vietnam, Myanmar and China; Nankang car and truck tyres from Taiwan and Wusung tyres from Korea. 2) Alloy wheels: Enkei from Japan, OZ from Italy, and Racing Hart and Lowenhart from Japan. YHI also distributes its own brand of Advanti alloy wheels. 3) Industrial batteries: Hitachi from Japan, Trojan and Deka from the US and CSB from Taiwan; and 4) Golf buggies: EZGO Golf Buggies (from the US) in Singapore, Malaysia, Brunei and Thailand.

Adequate warehousing is a large barrier to entry

Adequate warehousing is a barrier to entry in the distribution business. YHI's total warehousing space of approximately 22,800 square metres has enabled it to manage its inventory effectively, meet short delivery times and give it an edge in securing goods at competitive prices.

Led by an experienced and strong management team

YHI is led by an experienced management team, under the leadership of its Group Managing Director Richard Tay (who has more than 30 years' experience in the tyre and alloy wheel distribution business) and Executive Directors Tay Tiang Guan and Jackson Tay (which have an average of 25 years' experience in the auto distribution business).

Balance sheet and capex

Gearing has declined with IPO proceeds, and should fall to 25.7% by end-FY05

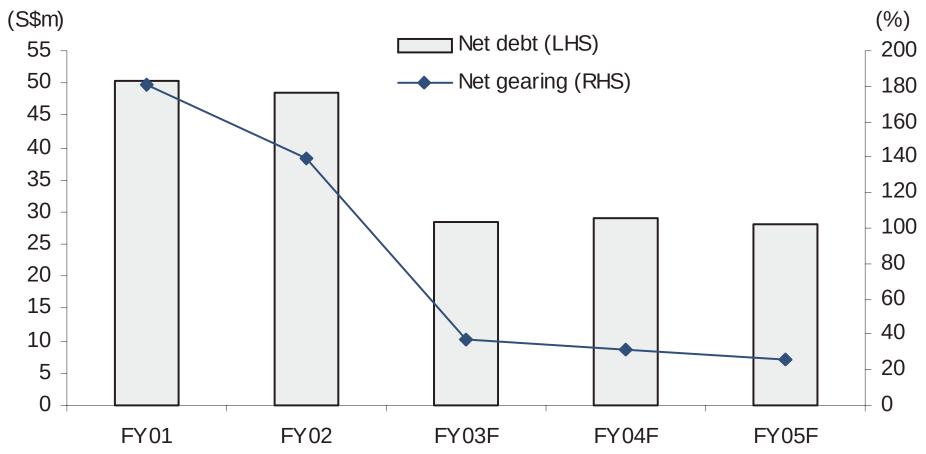
YHI strengthened its balance sheet with the gross IPO proceeds of S$29m (58m new shares at S$0.50 each). From the IPO proceeds, S$4m was used to reduce debt, and another S$9.2m was added to working capital. See the table below for details. We estimate YHI's pro-forma net gearing of 154% as at June 2003 will fall to 36.8% by end-FY03, 31.4% by end-FY04 and 25.7% by end-FY05. We forecast FY03 interest coverage at a healthy 8.2x.

Use of IPO proceeds

(S$m)	
China operations	
Fourth manufacturing line in Shanghai plant	4.5
Warehouse in Shanghai	3.5
10% stake in Yokohama factory in Hangzhou	5.5
Subtotal for China operations	13.5
Repayment of loan	4
Working capital	9.2
IPO expenses	2.3
Total	**29**

Source: Company data, Nomura Singapore

Net debt and net gearing



Source: Company data, Nomura Singapore

Planned capex can be financed internally

We do not expect major capex in the next two years. The fourth manufacturing line for YHI's alloy wheel plant in Shanghai, which started operations in July 2003, was financed by the IPO proceeds. YHI's purchase of the 10% stake in Yokohama's Hangzhou factory was also financed from the IPO proceeds. Future expansion in these two areas will require additional capex.

We expect YHI will start the fifth line in its Shanghai plant next year, and open another line in each subsequent year until capacity reaches eight lines. The estimated cost for each new line is S$4.5m — we think YHI should be able to finance this internally. YHI will need to finance its share (10%) of Phase II expansion at Yokohama's Hangzhou tyre plant. With a total estimated cost here of US$57m, and assuming a debt-to-equity ratio of 30% and that YHI maintains its 10% stake, the company's share of the equity financing will be US$1.7m. This can easily be funded by YHI's internal resources. We estimate that YHI should be able to generate operating cashflow (before capex) of S$9.8m to S$12.6m per year over FY03-05.

Risk factors

YHI has limited US dollar exposure, but all forex risks are hedged anyways

Forex. YHI usually buys the products it distributes within each country and pays in local currencies. It sells these products at prices fixed in the local currencies, but also buys and sells some products in US dollars. See the table below for details. We estimate that the net US dollar exposure (US dollar sales less US dollar purchases) amounts to purchases of less than US$10m pa. YHI hedges almost all of its forex exposure — it made forex gains averaging about S$0.2m pa over FY00-02. Management said the recent appreciation of the yen will have a minimal impact, since its yen-denominated purchases are small.

Forex exposure — percentage of sales and purchases in US dollars

Year to 31 Dec (%)	FY00	FY01	FY02
Sales	21	24	27
Purchases	50	54	54
Forex gain (S$m)	0.247	0.113	0.219

Source: Company data

Credit risk under control

Bad debts. The risk of bad debts cannot be discounted, though the matter looks well under control. Provisions for doubtful and bad debts averaged S$1.4m pa over FY00-02. YHI's policy is to sell to new customers on "cash on delivery" terms, while proven customers may be given credit terms of 60 to 90 days. In China, YHI generally adopts the "cash on delivery" policy, except for large distributors it has dealt with for more than five years, which may be extended a maximum of 30 days' credit. YHI's handling of debts in China has been solid; we understand bad debts over the past 12 years totalled just RMB0.1m. We note the company's average collection period has been relatively stable from FY01 to 1H03, at around 72-78 days.

China's auto market can't sustain such steep growth

Slowdown. The sharp growth in China's auto sales is unlikely to be sustained indefinitely. Nomura FRC estimates China's passenger car sales will grow about 50% in 2003. The higher base means such steep growth is not sustainable. That noted, FRC expects a sales CAGR of 21.4% over 2002-10. This expanding car population will underpin demand for replacement tyres and wheels. We also note that with rising affluence, we think there will be a shift to the more expensive, foreign tyre brands.

Possible termination of its deals with key principals is a risk, though here we note the long-term relationships

Agreements. As for any distributor, the risk of termination of the distributorship agreement by the principal is always a risk. Many such agreements are subject to annual or periodic review. YHI is especially reliant on Yokohama, which accounted for an average of 42% of turnover over FY00-02. However, we note YHI's relationships with its major principals go back many years, especially Yokohama (since 1974), Enkei (1975) and Hitachi (1973), and all have expanded their agreements with YHI over the years outside of Singapore. We think that the risk of termination by the major principals is limited, given YHI's established track record and long-term relationships with the principals.

Valuation

YHI appears undervalued against its regional peers

YHI is trading on an FY04F PER of 13.8x, low compared with forecast EPS growth of 15.1% in FY04 and 27.5% in FY05 (to give a two-year EPS CAGR of 21.1%). In terms of peer comparison, we look at companies involved in either tyre distribution and/or alloy wheel manufacturing in Asia. We have also looked at car makers based in China, since YHI's growth prospects are closely tied to auto sales in China. YHI's FY04F and FY05F PERs of 13.8x and 10.8x are lower than the weighted averages of 15.0x and 13.2x, respectively, for regional peers. YHI's FY03F P/BV of 3.2x is also lower than the weighted average of 3.7x for regional peers, even though the company has a higher expected FY03 ROE of 24.6%, versus 14.5% for peers.

Regional peer valuation

Company	Bloomberg code	Price 11/11/03	Rating	Mkt cap (US$m)	PER (x) FY03F	PER (x) FY04F	PER (x) FY05F	Two-year EPS CAGR (FY03-05, %)	FY03F ROE (%)	FY03F P/BV (x)
Brilliance China Automotive	1114 HK	HK$3.33	NEUTRAL	1,571	12.8	12.3	11.1	7.4	11.8	1.9
Denway Motors	203 HK	HK$6.65	NEUTRAL	2,988	17.1	15.5	13.6	12.1	16.3	5.0
Qingling Motors	1122 HK	HK$1.54	SELL	246	25.7	30.8	25.7	0.0	11.8	0.6
BSA Int'l Bhd	BSAI MK	RM1.53	Not rated	53	7.5	6.8	7.0	3.8	8.3	1.6
Stamford Tyres	STC SP	S$0.55	Not rated	61	10.0	7.9	5.8	31.6	10.4	1.7
Simple average					**14.6**	**14.6**	**12.6**	**11.0**	**11.7**	**2.2**
Weighted average					**15.9**	**15.0**	**13.2**	**10.1**	**14.5**	**3.7**
YHI International	**YHI SP**	**S$1.10**	**BUY**	**144.9**	**15.9**	**13.8**	**10.8**	**21.1**	**24.6**	**3.2**

Source: Bloomberg, I/B/E/S, Nomura International (Hong Kong) Limited

Fair value of S$1.32/share

We think YHI should trade at least 10% above its regional peers in PER terms, owing to its higher EPS growth (two-year EPS CAGR seen at 21.1%) and ROEs (21.5% for FY04F). We peg fair value at what we think is an undemanding PEG (FY03F PER / two-year EPS CAGR) of 0.9x. The resulting figure of S$1.32/share implies PERs of 16.5x for FY04 (10% above the average for regional peers) and 12.9x for FY05. This fair value implies 20% upside, which would normally call for a Strong Buy under our rating system. However, YHI's small free float may stop the stock from reaching this over our investment horizon and we initiate coverage with a BUY rating.

Financials

Income statement

Year-end 31 Dec (S$m)	FY01[1]	FY02[1]	FY03F	FY04F	FY05F
Turnover	144.6	176.9	214.0	255.4	318.7
Cost of sales	(114.8)	(133.4)	(160.5)	(193.8)	(245.2)
Gross profit	29.9	43.5	53.5	61.6	73.6
Other operating income	0.6	0.6	1.0	1.2	1.4
Distribution costs	(10.8)	(12.8)	(18.0)	(18.5)	(21.0)
Administrative costs	(11.2)	(11.7)	(14.0)	(16.5)	(19.0)
Other operating expenses	(2.5)	(1.8)	(1.3)	(1.6)	(1.8)
Operating profit	**5.9**	**17.8**	**21.2**	**26.2**	**33.2**
Net interest expense	(3.6)	(2.9)	(3.0)	(2.0)	(2.0)
Pre-tax profit	**2.3**	**14.9**	**18.2**	**24.2**	**31.2**
Tax	(1.2)	(3.1)	(3.8)	(5.3)	(7.2)
MI	(0.0)	(0.4)	(0.6)	(0.7)	(0.8)
Net profit	**1.0**	**11.4**	**13.8**	**18.2**	**23.2**
EPS (Singapore cents)	**0.6**	**6.7**	**6.9**	**8.0**	**10.2**
AWC (m)	170.6	170.6	199.6	228.6	228.6

[1] Pro-forma results
Source: Company data for historical numbers, Nomura Singapore for estimates/forecasts

Consolidated cashflow statement

Year-end 31 Dec (S$m)	FY01[1]	FY02[1]	FY03F	FY04F	FY05F
Pre-tax profit	N/A	14.9	18.2	24.2	31.2
Depreciation & amortisation	N/A	3.2	3.3	3.5	3.7
Others	N/A	(5.8)	(11.7)	(15.3)	(22.3)
Cashflow from operations	**N/A**	**12.4**	**9.8**	**12.4**	**12.6**
Capital expenditure	N/A	(4.7)	(14.0)	(6.0)	(6.0)
Sales/(purchases) of investments	N/A	0.0	(5.5)	(3.0)	0.0
Others	N/A	0.0	0.7	0.0	(0.2)
Cashflow from investments	**N/A**	**(4.7)**	**(18.9)**	**(9.0)**	**(6.2)**
New loans/(loan repayments)	N/A	1.6	(2.3)	(3.1)	(4.0)
Others	N/A	(5.6)	29.0	(3.7)	(5.6)
Cashflow from financing acts	**N/A**	**(3.9)**	**26.7**	**(6.8)**	**(9.6)**
Change in net cash	N/A	**3.7**	**17.6**	**(3.5)**	**(3.2)**
Net cash at beginning of year	N/A	3.8	7.4	25.1	21.6
Effect of exchange rate on cash	N/A	(0.1)	0.0	0.0	0.0
Net cash at end of year[2]	**N/A**	**7.4**	**25.1**	**21.6**	**18.4**
Gross cash & cash equivalents	N/A	8.9	26.5	23.1	19.9
Bank overdrafts	N/A	(1.5)	(1.5)	(1.5)	(1.5)
Net cash[2]	N/A	7.4	25.1	21.6	18.4

[1] Pro-forma results
Source: Company data for historical numbers, Nomura Singapore for estimates/forecasts

Segment breakdown of turnover, gross profit, and gross margins

Year-end 31 Dec	FY01	FY02	FY03F	FY04F	FY05F
TURNOVER (S$m)					
Distribution					
Auto products					
Tyres & others	78.6	100.8	121.0	147.6	194.8
Alloy wheels	16.5	17.8	18.7	20.6	22.7
Industrial products	16.7	17.5	19.2	21.1	23.2
Total distribution	111.7	136.1	158.9	189.3	240.7
Manufacturing of alloy wheels	32.9	40.8	55.1	66.1	78.0
Total turnover	**144.6**	**176.9**	**214.0**	**255.4**	**318.7**
Number of tyres distributed (m units)					
China	0.23	0.33	0.45	0.70	1.20
Other areas	1.00	1.02	1.15	1.27	1.39
Total	1.23	1.35	1.60	1.97	2.59
Change (y-y, %)	N/A	9.80	18.5	22.8	31.9
Turnover breakdown from distribution (%)					
Auto products					
Tyres & others	54.3	57.0	56.5	57.8	61.1
Alloy wheels	11.4	10.1	8.8	8.1	7.1
Industrial products	11.5	9.9	9.0	8.3	7.3
Total distribution	77.2	76.9	74.3	74.1	75.5
Manufacturing of alloy wheels	22.8	23.1	25.7	25.9	24.5
Total turnover	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
GROSS PROFIT (S$m)					
Distribution					
Auto products					
Tyres & others	15.4	21.6	26.6	31.0	39.0
Alloy wheels	5.0	6.7	7.5	8.0	8.6
Industrial products	3.9	4.6	5.1	5.4	5.7
Total distribution	24.2	32.9	39.2	44.4	53.3
Manufacturing of alloy wheels	5.7	10.6	14.3	17.2	20.3
Total gross profit	**29.9**	**43.5**	**53.5**	**61.6**	**73.6**
GROSS MARGINS (%)					
Distribution					
Auto products					
Tyres & others	19.5	21.4	22.0	21.0	20.0
Alloy wheels	30.3	37.5	40.0	39.0	38.0
Industrial products	23.1	26.6	26.6	25.6	24.6
Total distribution	21.7	24.2	24.7	23.5	22.1
Manufacturing of alloy wheels	17.3	26.0	26.0	26.0	26.0
Total gross margins	**20.7**	**24.6**	**25.0**	**24.1**	**23.1**

Source: Company data for historical numbers, Nomura Singapore for estimates/forecasts

Balance sheet

As at 31 Dec (S$m)	FY01[1]	FY02[1]	FY03F	FY04F	FY05F
Cash & cash equivalents	4.6	8.9	26.5	23.1	19.9
Receivables	28.6	35.5	46.0	54.0	67.0
Inventories	30.1	30.9	36.0	43.0	53.0
Others	1.9	3.1	3.0	3.2	3.5
Current assets	65.3	78.3	111.5	123.3	143.4
Other investments	0.1	0.1	5.6	8.6	8.6
Fixed assets	34.5	35.6	46.3	48.8	51.1
Others	1.3	0.7	0.1	0.2	0.5
Total assets	**101.2**	**114.7**	**163.5**	**180.9**	**203.5**
Trade & other payables	17.3	19.2	28.0	33.0	41.0
ST borrowings	49.9	53.8	47.0	45.0	43.0
Others	0.9	2.5	1.4	1.6	1.8
Current liabilities	68.2	75.6	76.4	79.6	85.8
LT borrowings	5.0	3.6	8.1	7.0	5.0
Others	0.0	0.0	0.1	0.2	0.3
Total liabilities	**73.1**	**79.2**	**84.6**	**86.8**	**91.1**
Share capital	34.1	34.1	45.7	45.7	45.7
Reserves	(6.4)	0.6	31.8	46.3	63.9
Shareholders' funds	**27.7**	**34.7**	**77.6**	**92.0**	**109.6**
Minority interests	0.4	0.8	1.4	2.1	2.9
Capital employed	**28.1**	**35.5**	**78.9**	**94.1**	**112.4**

[1] Pro-forma results
Source: Company data for historical numbers, Nomura Singapore for estimates/forecasts

Growth rates, margins & ratios

Year-end 31 Dec (%)	FY01[1]	FY02[1]	FY03F	FY04F	FY05F
Growth rates					
Turnover	(2.2)	22.3	21.0	19.4	24.8
EBITDA	(23.6)	112.9	16.7	21.1	24.1
Operating profit	(38.0)	201.8	19.3	23.5	26.5
Pre-tax profit	(65.1)	556.9	22.5	32.8	28.7
Net profit	(78.3)	1,004.0	20.9	31.8	27.5
EPS	(78.3)	1,004.0	3.3	15.1	27.5
Margins					
Gross profit	20.7	24.6	25.0	24.1	23.1
EBITDA	6.8	11.9	11.5	11.6	11.6
Operating profit	4.1	10.1	9.9	10.3	10.4
Pre-tax profit	1.6	8.4	8.5	9.5	9.8
Net profit	0.7	6.5	6.5	7.1	7.3
Ratios					
ROE	3.8	36.6	24.6	21.5	23.0
ROA	1.0	10.6	9.9	10.6	12.1
Dividend payout ratio	0.0	0.0	0.0	20.6	24.2
Effective tax rate	52.8	20.9	21.0	22.0	23.0
Assets/equity	365.4	330.1	210.8	196.6	185.7
Net gearing	181.3	139.7	36.8	31.4	25.7
Interest coverage (x)	2.7	7.2	8.2	14.9	18.4
Avg collection period (days)	72.1	73.2	78.5	77.2	76.7
Avg payment period (days)	43.7	39.7	47.8	47.2	47.0
Inventory turnover (days)	76.1	63.7	61.4	61.4	60.7

[1] Pro-forma results
Source: Company data for historical numbers, Nomura Singapore for estimates/forecasts

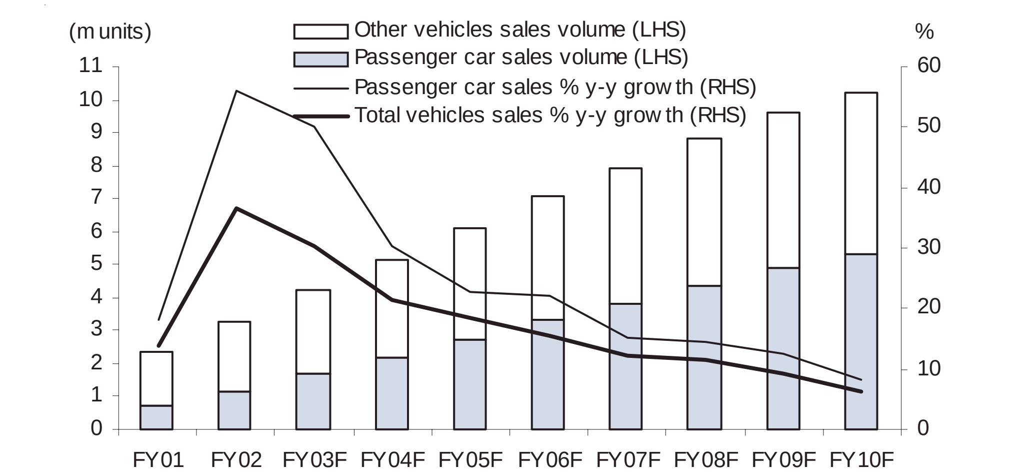
Appendix I — China's car and tyre markets

The auto "boom" in China is expected to continue

The auto "boom" in China is expected to continue. With an estimated car population of 17.8m, penetration is low, at less than two cars per 100 people, versus 42 in Japan and 48 in the US. Penetration should increase in line with GDP per capita. Nomura FRC estimates annual passenger car sales will rise 50% y-y in 2003 to 1.69m. Growth thereafter is expected at 30.3% in FY04 and 22.7% in FY05, with sales in 2010 seen at 5.3m units — a CAGR of 21.4% for new passenger car sales over 2002-10.

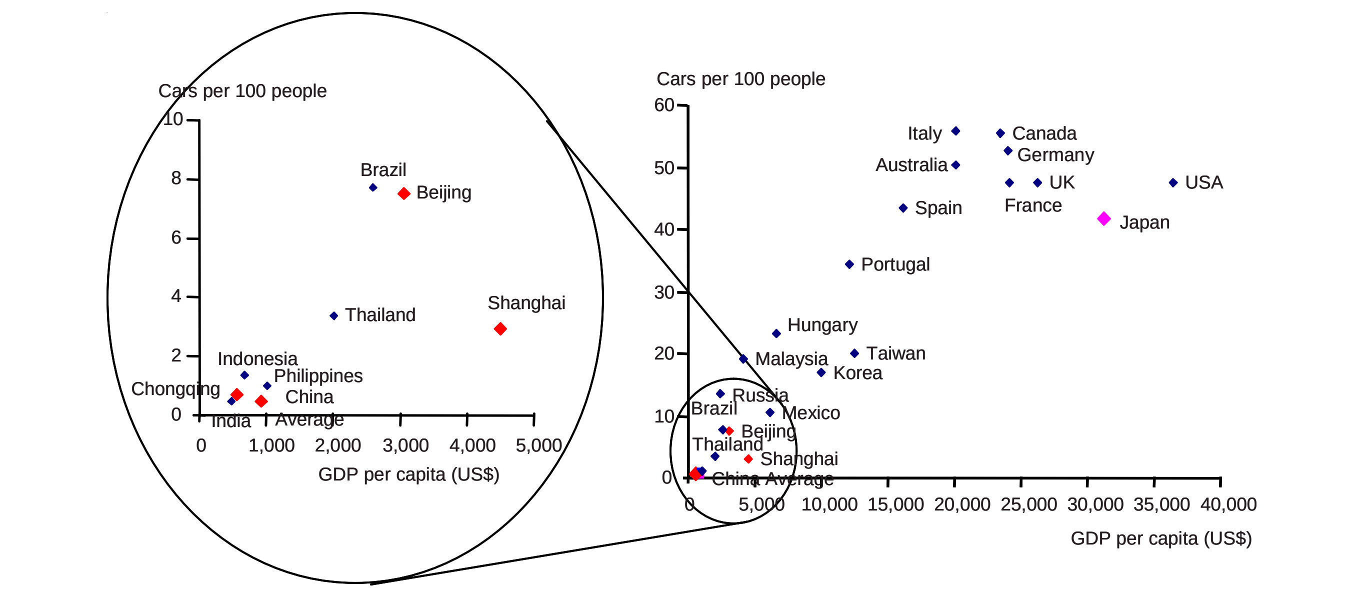
Total annual vehicle sales expected to hit 10m by 2010

Total vehicle and passenger car sales in China



Source: Nomura Financial Research Centre

Diffusion rate for passenger cars



Source: Nomura Financial Research Centre, Nomura Tokyo

Demand for tyres from two sources: for replacement tyres and from car OEMs

This strong growth in car sales should flow through to demand for tyres. Demand for tyres will come from two sources: for replacement tyres and from car makers based in China (OEM demand). Demand for replacement tyres is a function of the total number of cars driven, the distance those cars are driven and the rate at which the tyres wear out. OEM demand is expected to rise on the ramp of capacity of car makers in China (see table for details).

Capacity developments of major passenger car makers in China

Companies	Production capacity (2003F, '000s units)	Production capacity (2008F, '000s units)	% of total capacity (2008F)
Shanghai Volkswagen	450	745	11.9
FAW Volkswagen	350	855	13.7
Tinjian Xiali	250	300	4.8
Shanghai GM	250	550	8.8
Sunlong Fukang	150	300	4.8
Chongqing Changan	150	250	4.0
Guangzhou Honda (Guangzhou Auto JV)	120	300	4.8
Dongfeng Auto & Honda	N/A	450	7.2
Hyundai Beijing Auto	110	350	5.6
Dongfengyuedakia	50	250	4.0
Brilliance China Auto	100	200	3.2
JV of FAW & Toyota	N/A	550	8.8
Dongfeng Nissan	N/A	400	6.4
Others	250	750	12.0
Total	**2,230**	**6,250**	**100.0**
Utilisation rate (%)	76	67	

Source: China Automotive Industry Newsletter, Nomura International (Hong Kong) Limited

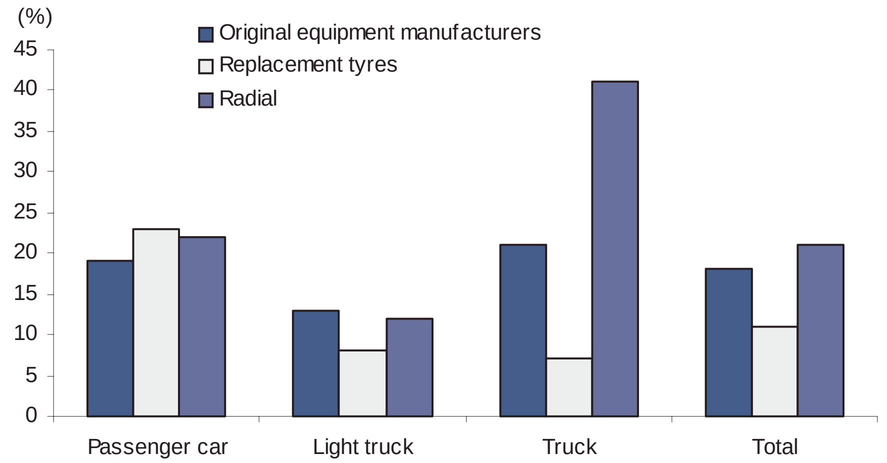
Rising demand for radial tyres is good news for foreign makers such as YHI

There are two types of tyres: radial and bias. Radial tyres are becoming more popular, since they are safer and allow higher driving speeds. All new cars in developed economies come with radial tyres, while only 58% of tyres made in China are radial. Rising demand for radial tyres is good news for foreign makers (including YHI), since they mainly make radial tyres.

Sharp growth in demand for replacement tyres expected

Actual data on demand for replacement tyres are not available. YHI estimates China's annual replacement demand for vehicle radial tyres is about 40m, with 25m for passenger car tyres (this is expected to reach 60m in 2008). According to the China Rubber Industry Association, demand for passenger car replacement tyres is expected to grow 20% pa for the next few years (see chart below). Foreign makers are expected to increase their capacity to tap this demand.

Chinese tyre demand — growth rate by type



Source: China Rubber Industry Association

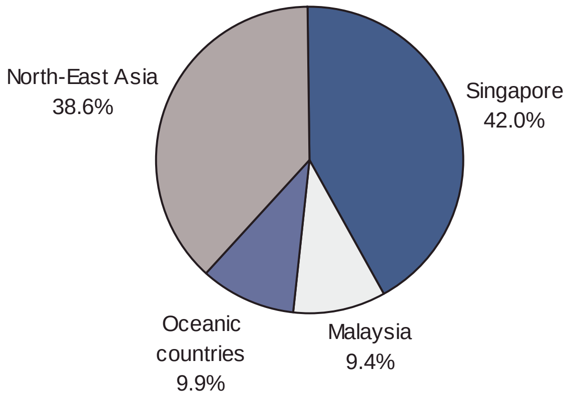
Major foreign tyre companies in China: passenger car tyre production capacity

Number of tyres (m)	2003F	2005F
Michelin	6.4	10
Bridgestone	3.5	7.2
Goodyear	1.9	5.3
Yokohama	0.7	1.4
Sumitomo	0	0.5
Total	12.5	24.4

Source: Company data, Nomura Singapore, Nomura FRC

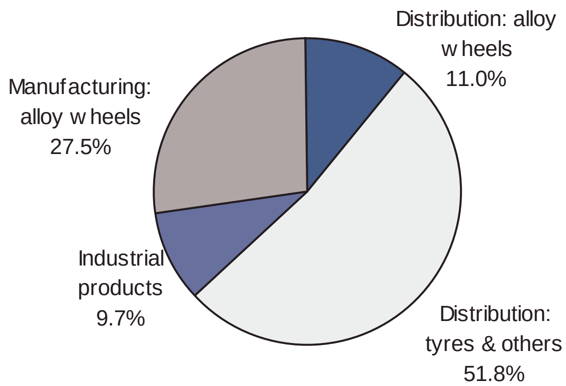
Appendix II — FY02 net profit and market share

Net profit by geography



Source: Company data

Net profit by activity



Source: Company data

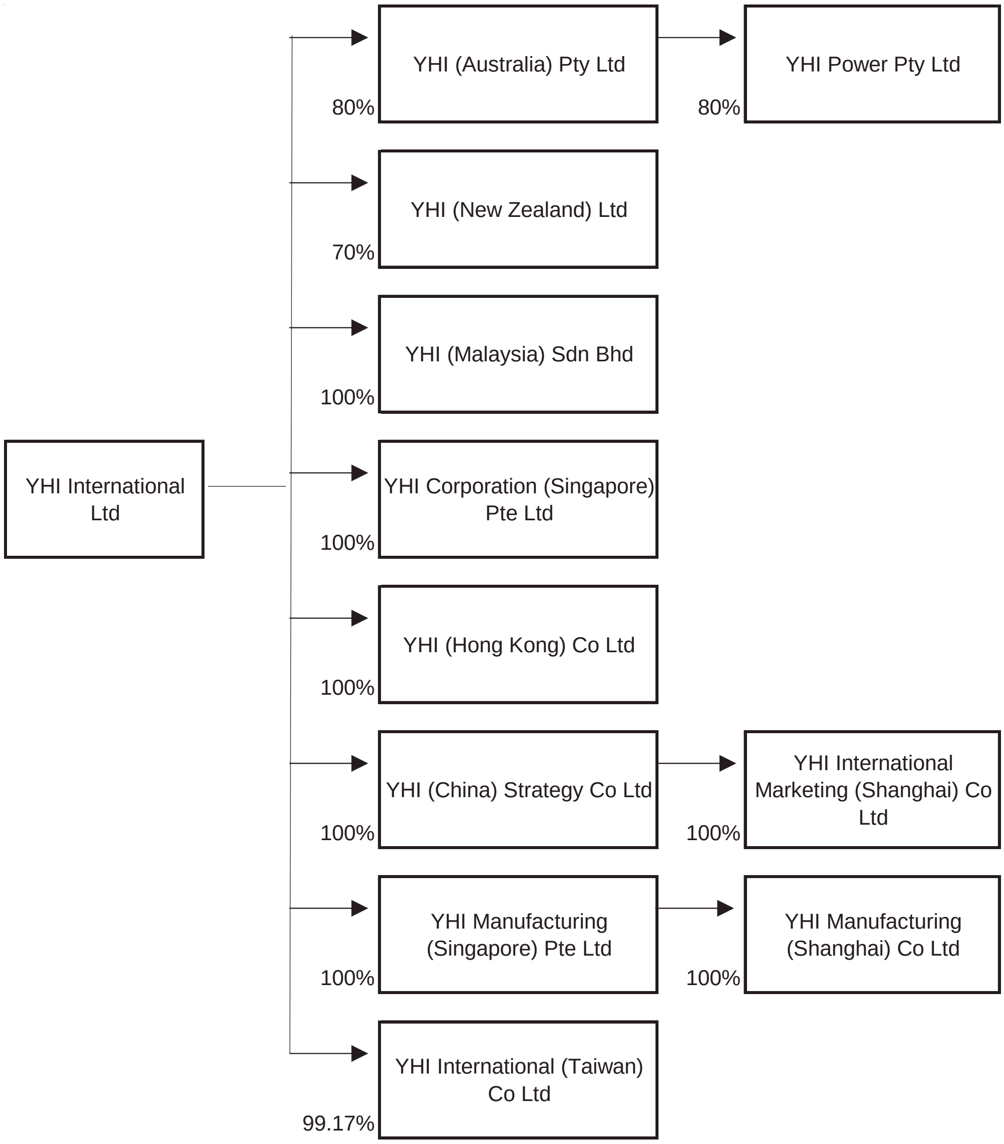
Tyre distribution: YHI's estimated market share in various countries

For FY03F	%
Singapore	20 to 25
Malaysia	Less than 5
China	Less than 5
Australia & New Zealand	Insignificant[1]

[1] less than 1%
Source: Company data

Appendix III — group structure

Group structure



Source: Company data

Appendix IV — details of YHI's distribution agreements

Tyres

Brand	Principal	Origin	Relationship starts (year)[1]	Territories	Duration	Exclusivity
Yokohama	The Yokohama Rubber Co Ltd	Japan	1974	Singapore, Malaysia, Brunei, Combodia and Vietnam[2]	One year. Any extension is subject to mutual written agreement	Exclusive
Yokohama	The Yokohama Rubber Co Ltd	Japan	1974	China[3]	Two years. Any extension is subject to mutual written agreement	Non exclusive
Yokohama	The Yokohama Rubber Co Ltd	Japan	1974	Indonesia	See note 6	Non exclusive
Dunlop	Dunlop Singapore[5]	Japan	1983	Singapore (industrial tyres only)	See note 4	Non exclusive
Simex	Dunlop Singapore[5]	Malaysia	1983	Singapore (OTR tyres only)	See note 4	Non exclusive
Nanking	Nankang Rubber Tire Corp Ltd	Taiwan	1993	New Zealand	One year, from 1 January, 2003, and automatically renewable thereafter for one year unless either advises otherwise	Non exclusive
Tornado	PT Elangperdana Tyre Industry	Indonesia	2000	Australia	Three years. Automatically renewable unless either party gives six months' written notice prior to the expiry period, to terminate	Non exclusive
Tornado	PT Elangperdana Tyre Industry	Indonesia	2002	New Zealand	Three years. Automatically renewable unless either party gives six months' written notice prior to the expiry period, to terminate	Non exclusive
Tornado	PT Elangperdana Tyre Industry	Indonesia	2002	Europe, Southeast Asia except Indonesia, Thailand the Philippines	Two years. Automatically renewable unless either party gives six months' written notice prior to the expiry period, to terminate	Non exclusive

Notes:
[1] The period of the relationship includes the period during which YHI Holdings was the contracting party to the distributorship arrangement prior to YHI assuming the same pursuant to the Restructuring Exercise.
[2] Only for passenger cars and light trucks fitting 4x4 or van tyres.
[3] Only for passenger cars and light trucks fitting 4x4 or van tyres.
[4] The distribution arrangement (including the renewal thereof) is by way of letter of appointment, without express provisions on, *inter alia*, the term of the distribution arrangement and the conditions under which the arrangement may be terminated or renewed.
[5] A business unit of Sime Darby Singapore Ltd.
[6] The distribution arrangement (including renewal thereof) is verbal, without express provisions on, *inter alia*, the term of the distribution arrangement and the condition under which the agreement may be terminated or renewed.

Alloy wheels

Brand	Principal	Origin	Relationship starts (year)[1]	Territories	Duration	Exclusivity
Enkei	Enkei Asia Pacific Ltd	Japan	1975	Singapore, Malaysia, Indonesia, Australia New Zealand, China	Three years. Any extension is subject to mutual written agreement	Exclusive
OZ	O.Z. SpA	Italy	1989	Singapore, Malaysia, Hong Kong, Indonesia	Indefinite duration, but may be terminated with three months' prior notice	Exclusive
Lowenhart; Racing Hart	Takechi Project Co Ltd	Japan	1990	Singapore, Malaysia, Brunei Indonesia, Thailand, the Philippines,Hong Kong, Macau, Australia, New Zealand	One year, with any renewal for further period of two years to be on the same terms and conditions, provided that before expiry, parties agree on YHI's minimum purchase for the renewal period	Exclusive
5-zigen	Dijon Cars Co Ltd	Japan	2002	Hong Kong, New Zealand	See note 2	Exclusive

Notes:
[1] The period of the relationship includes the period during which YHI Holdings was the contracting party to the distributorship arrangement prior to YHI assuming the same pursuant to the Restructuring Exercise.
[2] The distribution arrangement (including renewal thereof) is verbal, without express provisions on, *inter alia*, the term of the distribution arrangement and the conditions under which the agreement may be terminated or renewed.

Automotive batteries

Brand	Principal	Origin	Relationship starts (year)[1]	Territories	Duration	Exclusivity
Yokohama	Tai Kwong-Yokohama Battery Industries	Malaysia	1985	Singapore, Hong Kong	Indefinite duration, unless terminated by either party giving one month's prior written notice	Exclusive

Notes:
[1] The period of the relationship includes the period during which YHI Holdings was the contracting party to the distributorship arrangement prior to YHI assuming the same pursuant to the Restructuring Exercise.

Industrial products

Brand	Principal	Origin	Relationship starts (year)[1]	Nature of product	Product application	Territories	Duration	Exclusivity
Hitachi	Shin-Kobe Electric Machinery Co Ltd	Japan	1973	Sealed lead-acid and Ni-Cd battery	Security systems, fire-fighting equipment, emergency lighting, elevator (lift control panel), uninterrupted power supply, telephone systems (PABX), telecommuications (exchange system)	S'pore, M'sia, Indonesia, Pakistan, Sri Lanka, Bangladesh,Vietnam, Cambodia, Brunei, the Philippines, India, Australia, Thailand	One year, subject to renewal on a yearly basis by mutual agreement	Sole agent other than for Australia
Trojan	Trojan Battery Co	USA	1996	Deep cycle monoblock battery	Golf buggies, utility vehicles, floor scrubber machines, material handling equipment, marine application	Singapore, Brunei, Malaysia, Indonesia, Vietnam, Laos, Sri Lanka, Pakistan, the Philippines	One year, with renewal on a yearly basis by mutual agreement	Non exclusive
Deka	East Penn Manufacturing Co Ltd	USA	1998	Valve regulated lead-acid battery	Solar application, uninterrupted power supply, telecommunications, marine, cable TV application	S'pore, M'sia, Indonesia, Thailand, Vietnam	No express term of duration but distributorship arrangement may be terminated with 30 days' written notice by either party	Non exclusive
BB	B&B Battery Co Ltd	Taiwan	1999	Sealed lead-acid battery	Security systems, fire-fighting equipment, emergency lighting, elevator (lift control panel), uninterrupted power supply, telephone systems (PABX)	Singapore, Malaysia	See note 2	Exclusive
CSB	CSB Battery (Singapore) Pte Ltd	Taiwan	1996	Sealed lead-acid battery	Security systems, fire-fighting equipment, emergency lighting, elevator (lift control panel), uninterrupted power supply, telephone systems (PABX), electric wheelchair	Australia	One year, commencing on 1 January, 2003, and subject to renewal by mutual agreement	Non exclusive
CSB	CSB Battery (Singapore) Pte Ltd	Taiwan	2003	Sealed lead-acid battery	Security systems, fire-fighting equipment, emergency lighting, elevator (lift control panel), uninterrupted power supply, telephone systems (PABX), electric wheelchair	Singapore, Indonesia	One year, commencing on 1 January, 2003, and subject to renewal by mutual agreement	Non exclusive
Vision	Shenzhen Center Power Tech Co Ltd	China	1998	Sealed lead-acid battery	Security systems, fire-fighting equipment, emergency lighting, elevator (lift control panel), uninterrupted power supply, telephone systems (PABX)	Australia	Five years, from 12 July, 2000	Sole agent
EZGO	Textron Inc	USA	2000	Golf buggies	To provide transportation on golf courses	Singapore, Malaysia, Brunei	One year or earlier, with 90 days' prior written notice	Non exclusive

Notes:
[1] The period of the relationship includes the period during which YHI Holdings was the contracting party to the distributorship arrangement prior to YHI assuming the same pursuant to the Restructuring Exercise.
[2] The distribution arrangement (including the renewal thereof) is by way of letter of appointment without express provisions on, *inter alia*, the term of the distribution arrangement and the conditions under which the arrangement may be terminated or renewed.
Source: Company data

Appendix V — tour of Yokohama's tyre factory in Hangzhou and YHI's alloy wheel plant in Shanghai

Yokohama's tyre factory in Hangzhou

YHI's alloy wheel plant in Shanghai: manufacturing process

Yokohama concept store in Hangzhou

YHI's alloy wheel plant in Shanghai: testing equipment

YHI's headquarters in Shanghai

YHI's alloy wheel plant in Shanghai: painting process

Source: Nomura Singapore

Companies mentioed

Company	Bloomberg code	Price (11 Nov 2003)	Rating
Bridgestone	5108 JP	¥1,392	BUY
Brilliance China Automotive	1114 HK	HK$3.325	NEUTRAL
BSA Int'l Bhd	BSAI MK	RM1.53	Not rated
Denway Motors	203 HK	HK$6.65	NEUTRAL
Goodyear	GT US	US$6.62	Not rated
Hitachi Chemical	4217 JP	¥1,778	STRONG BUY
Michelin	ML FP	€33.99	BUY
Qingling Motors	1122 HK	HK$1.54	SELL
Stamford Tyres	STC SP	S$0.545	Not rated
Sumitomo Rubber	5110 JP	¥528	NEUTRAL
Yokohama Rubber	5101 JP	¥292	BUY

Source: Bloomberg, Nomura Singapore

The Nomura rating system

- A rating of "1", or "**Strong buy**", indicates that the analyst expects the stock to outperform the Benchmark by 15% or more over the next six months.
- A rating of "2", or "**Buy**", indicates that the analyst expects the stock to outperform the Benchmark by 5% or more but less than 15% over the next six months.
- A rating of "3", or "**Neutral**", indicates that the analyst expects the stock to either outperform or underperform the Benchmark by less than 5% over the next six months.
- A rating of "4", or "**Reduce**", indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months.
- A rating of "5", or "**Sell**", indicates that the analyst expects the stock to underperform the Benchmark by 15% or more over the next six months.

Nomura sector opinion

A "**Bullish**" stance, indicates that the analyst expects the sector to outperform the Benchmark during the next six months.

A "**Neutral**" stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next six months.

A "**Bearish**" stance, indicates that the analyst expects the sector to underperform the Benchmark during the next six months.

Benchmarks are as follows: **Japan**: TOPIX; **United States**: S&P 500; **Asia**, by region and class of stock-*Australia:* ASX All Ordinaries Index; *China:* Hang Seng Index; *Hong Kong:* Hang Seng Index, Hang Seng China Affiliated Corp Index, Hang Seng China Enterprises Index, HK Growth Enterprises Index; *Indonesia:* Jakarta Composite Index; *Korea:* Korea Composite Index, Kosdaq Composite Index; *Malaysia:* Kuala Lumpur Comp Index, Kuala Lumpur 2nd Board; *Singapore:* STI Index; *Taiwan:* Weighted Index, Taiwan Gre Tai Securities Market Index; *Thailand:* Stock Exchange of Thailand; **Europe**, by sector – *Finance:* FTSE World Europe Banks; *Biotech:* FTSE Techmark Mediscience; *Pharma:* FTSE World Europe Pharm & Biotec; *Support Services:* FTSE World Europe Support Services; *Software:* FTSE World Europe Software & CPU Services; *Hardware/Semiconductors:* FTSE World Europe IT Hardware; *Telecoms:* FTSE World Europe Telecom Services.

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