

STAMFORD TYRES (STC SP : S\$0.71)
On the growth path
BUY (Initial)
02 March 2004

Year end April (S\$m)	2001	2002	2003	2004F	2005F	2006F
Net Profit	1.81	2.75	8.18	11.9	14.3	16.5
<i>IBES Estimate</i>	-	-	-	11.8	15.1	19.4
Basic EPS (cts)	1.21	1.83	5.35	6.16	6.93	7.58
Diluted EPS (cts)	1.20	1.75	4.53	5.16	6.18	7.16
Basic EPS Growth	-79.3%	51.8%	192.3%	15.2%	12.5%	9.3%
Diluted EPS Growth	-79.4%	45.7%	159.3%	13.9%	19.8%	15.9%
Basic PE (x)	58.9	38.8	13.3	11.5	10.2	9.4
Diluted PE (x)	59.2	40.6	15.7	13.8	11.5	9.9
DPS (cts)	1.00	1.00	1.00	1.25	1.25	1.50
Dividend Yield (%)	1.4%	1.4%	1.4%	1.8%	1.8%	2.1%

Stamford Tyres benefits from increased production of tyres by its principal partners. Increased sales have resulted in improved margins. New products and product lines should strengthen its competitive position and boost net profit. BUY with 12-month target of S\$0.865 which would rise to S\$0.99 should Stamford Tyres announce new investment in China.

(1) Benefit from strong relationship with principals

- In the current buoyant market for cars and accessories in the ASEAN and China markets, ability to secure more allocation from principals is the key to higher earnings for distributors like Stamford Tyre. In this respect, Stamford Tyre is benefiting from its close relationship with Sumitomo Rubber Industries and Continental AG.

(a) Sumitomo Rubber Industries (SRI)

- We believed that Stamford Tyre has benefited from diversion of tires from the Japanese market, which suffered from severe business conditions and drop in overall market demand, to overseas market in Southeast Asia. Stamford Tyre is a principal distributor for SRI and has benefited from this supply surge, enjoying higher allocation, which is readily absorbed by a buoyant Southeast Asia automotive market.
- Stamford Tyre's major brand is Falken, produced by Ohtsu Tire, which has been consolidated into SRI group structure effective 1 July 2003. This arrangement allows Ohtsu's two Japanese manufacturing plants to benefit from the manufacturing technology of SRI, the fifth largest tyre company in the world.
- Sales of Falken tyres accounted for 41% of group turnover. This ratio remained steady despite the 9.6% cumulative annual growth rate in revenue over the past six years.

(b) Continental

- Stamford Tyre has distributed tyres for the German-listed automotive company for more than a decade. Continental produces tyres under the brands of Continental, UniRoyal, Gislaved, Viking and Barum, and supplies to original auto manufacturers like Porsche, BMW, Mercedes Benz, Volkswagen and DAF.



- Continental's tyres accounted for about 13% of Stamford Tyre's revenue. After restructuring its European tyre operations in 2001, with production re-located to Slovakia, Romania, Czech Republic and Portugal, Continental is paying attention to other regions. A new chapter begun in February 2003 when Continental acquired a 30% stake in Malaysia Sime Darby tyre business, with an option to increase by another 21% in two years. We expect Stamford Tyre to build on its existing links and add product allocation to its repertoire for ASEAN market.

(2) New proprietary products will add to growth

(a) Tyres

- Stamford Tyre has identified niches in the wide spectrum of tyre products and introduced its proprietary brands, Firenza and Sumo tyres. Plans are afoot to raise production and sales of these brands to account for 20% of group revenue in the medium term.

(i) Firenza

- Firenza brand is high-performance radial tyres contract manufactured in Japan with moulds and manufacturing technology provided by Sumitomo. Such tyres were introduced in 2001 and are focused on the Southeast Asia, Middle East and Australian markets.
- The July 2003 restructuring of production capacity at Sumitomo's four Japanese tyre factories has raised production efficiency and optimised production capacity, which allows a higher off-take (or contract manufacturing) for Firenza. This was supplemented from 4Q03 onwards by additional off-take from Sumitomo's two tyre plants in Indonesia.
- Although management did not provide details on the incremental output, we estimate that the increase is substantial and should raise output of Firenza tyres by 30% in FY04 and another 20% in FY05. Sales of these tyres should not be an issue as the price points are competitive.

(ii) Sumo

- Sumo Tire brands is a range of light truck, truck bias tyres, agricultural tyres and off-the-road tyres of Asian origin. The tyres are "competitively-priced" with Indian specification and contract manufactured the tyres in three Chinese plants and one Thai factory. Such nylon-based tyres are popular in areas where road conditions are poor, and travelling speed is relatively slow with few highways in sight. Targeted markets for these tyres are in India, Pakistan, Latin America, Africa and Southeast Asia.

(b) Alloy wheels

- Stamford Tyre produced Stamford Sport Wheels (SSW), its proprietary brand of alloy wheels at three Taiwanese plants under a private off-take arrangement. SSW caters to both passenger cars and Sport Utilities Vehicles (SUV). The wheels are produced in partnership with selected Taiwanese parties who provide both designs and manufacturing expertise.

- A new alloy wheel plant is being built in Bangkok, Thailand, which will begin production by end 2004. Output will increase gradually to 480,000 alloy wheels annually on two lines by FY06. With a growing domestic automobile industry in Thailand and its cost competitiveness for the export market under the ASEAN Free Trade Area arrangement, the new alloy wheel plant is expected to be profitable from FY06.
- Management is confident of the business prospects and will install advanced manufacturing processes, including latest casting technology, in the S\$7.5m new plant. The Singapore government scientific agency, SIMTech of A*Star, is providing technical assistance in the development of technology for the aluminium alloy wheel manufacturing.
- There is no danger of SSW cannibalising the existing businesses. Stamford Tyres currently distributes both Japanese (Rays, Yok, Gram Lights, Versus, 5 Zigen, SSR, United Arrows) and European (Momo, TSW, BBS, Alessio, Hamann) alloy wheels. These products are targeted at different consumers in the market.

(3) Geographic diversification adds to its attraction

(a) China is an important market that will grow bigger

- Stamford Tyres has a two-prong approach in the China market.
- The company distributes Falken and Firenza passenger car tyres, Ohtsu and Sumo truck and commercial tyres, and SSW alloy wheels directly through more than 100 dealers. This business currently accounts for 10% of group revenue.
- A second approach is through its 50%-owned joint venture with Tan Chong International, Tyre Pacific Hong Kong (TPHK), which distribute imported Dunlop tyres in China, Macau, Vietnam and Hong Kong. This joint venture currently accounts for 9% of group turnover, and contributes to 14% of group net profit.
- The joint venture will assume greater importance in the medium term after TPHK announced its 40:60% joint venture with Sumitomo Rubber Industries, SRI-TP. The latter will distribute Dunlop tyres manufactured by SRI in China. SRI announced in Dec 03 its intention to set up a sales network of more than 400 stores in China within two years to grab a 10% share of the China market by 2010. Its first factory would start production in April 2004 with 5,000 pieces per day by end 2004 and 10,000 pieces per day by end 2006.
- China will contribute a growing profit for Stamford Tyres after the next three years. However, existing profit centres in Southeast Asia, Middle East and Australia will also grow rapidly in this period. Hence the contribution of China to group profit is likely to remain relatively steady

(b) Korea and Australia are immediate expansion

- Expansion plans are being rolled out for the Korean and Australian market. Stamford Tyre has won the distributorship for Falken tyres in Korea and will take the opportunity to build up its proprietary Firenza and Sumo tyres, and SSW alloy wheels in the Korean market. The Australian market is promising as demand for bigger rim tyres and wheels fit in with the Firenza and SSW specifications.

- Although Stamford Tyre would be new in these two markets, market potential is strong because the replacement market size is bigger than that of China, and comparable to that of Southeast Asia market.

Car Population at end 2002 of Selected Markets that Stamford Tyre has presence

Singapore	0.406m	0.9%
Malaysia	5.001m	10.9%
Thailand	7.093m	15.5%
Indonesia	3.704m	8.1%
South Korea	9.8m	21.4%
Australia	10.1m	22.1%
China	9.690m	21.2%
Total	45.8m	100.0%

(4) Expansion of related business segments provides incremental gains with minimal effort

(a) Retailing of tyres and automotive products

- The five auto MegaMarts in Singapore, namely Jurong, MacPherson, Bukit Batok, Leng Kee and Woodlands, retail tyres and a plethora of automotive products. They also act as marketing outlets for its tyre distribution business. Two new Megamarts are coming up in Hougang and Loyang. As parts of the operating costs are defrayed as distribution costs for its tyres and alloy wheels businesses, the retail business is highly profitable, although its business volume pales in comparison.

(b) Fleet Management, Services for Commercial Trucks and Off-The-Road Vehicles

- Stamford Tyre provides fleet tyre management and maintenance services. These long term supply and lease contracts with PT International Nickel Indonesia Tbk, PT Freeport Indonesia, PSA Corporation, SembWaste and Colex Holdings provides the group with steady recurring income. Given its expertise in tyres service and maintenance, and skills in repair and retreading, fleet tyre management is a profitable venture with minimal downside risks.

(c) Distribution of Car Tuning Parts and Industrial Products

- Alongside its tyres and wheels, Stamford Tyres also distributes high performance car tuning parts. These include Japanese make "Espelir" Springs and Coilover kits, "Project μ " brake pads, brake rotors and brake callipers, and "Momo" car accessories. Its industrial products include "Fiamm" batteries for heavy duty vehicles, "Yokohama" conveyor belting for selected large mining companies, and "Arnco" industrial tyrefill for tyre puncture proofing. Stamford Tyre markets these products to existing clients for passenger and off-the-road tyres through its distribution network. Hence, there is no incremental cost while deriving additional income.

(5) Valuation and Recommendation

- The bulk of Stamford Tyres' earnings is in the Southeast Asian region, with growth coming from both Southeast and Northeast Asia. We believe that an appropriate valuation parameter would be a blended PE ratio of Hong Kong-listed automotive companies exposed to the China market, as well as Singapore and Malaysia companies. This yields a PE band of 13 to 14x. The corresponding price points would be 80 to 86.5 cents.
- The big tyres manufacturers are trading at average current PE rating of 19x to 20x. This is not relevant for Stamford Tyres as tyre manufacturers are global players. The market capitalisation of US\$13b for Bridgestone and US\$4.5b for Michelin would easily overwhelm that of accessories makers in Asia ex-Japan. Even Stamford Tyres principal, Sumitomo Rubber Industries has a significantly larger market capitalisation of US\$1.5b.
- Our 12-month target for Stamford Tyres is S\$0.865. However, we note that any new investment by Stamford Tyres in China could potentially raise our price target as the market is likely to subscribe to a higher PE band of 15x to 16x. This is due to the higher PE rating of 24x for Chinese companies listed on Shanghai and Shenzhen Exchanges, and PE rating of 16x for Chinese companies listed in Hong Kong with exposure to the Chinese automobile markets. We speculate that Stamford Tyres' future investment may include collaboration with a Japanese principal to produce truck tyres in China. In that scenario, our price target would rise to S\$0.99 for a fair valuation of 16x prospective earnings.
- We initiate coverage with BUY recommendation.

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Appendix 1 : Key stock information

Issued Capital (m shares) : 198.7
Market Capitalisation : S\$141.07m
Major shareholders :
Wee Kok Wah and family - 32.3%

Bloomberg Code : STC SP
Average Daily Volume (52-week) : 0.912m
52 High / Low : S\$0.735 / S\$0.152



Appendix 2 : Earnings Forecast

Year end April	2001	2002	2003	2004F	2005F	2006F
Revenue	119.56	120.40	146.08	187.72	219.25	250.87
Singapore	76.80	72.43	85.38	93.89	101.40	108.50
Malaysia	15.35	19.64	24.62	34.45	41.34	47.54
Hong Kong / China	9.21	10.26	16.86	22.73	30.00	39.00
Thailand	7.04	6.38	8.81	20.22	25.88	32.61
Indonesia	-	2.03	5.35	8.02	10.02	12.03
Latin America / Miami	7.33	6.67	2.47	1.96	1.57	1.26
Others	3.76	2.94	2.58	6.45	9.03	9.94
Operating profit	6.00	5.67	9.44	13.61	16.32	18.98
Singapore	5.46	4.58	5.75	6.63	7.24	7.82
Malaysia	1.18	1.33	2.02	3.16	3.80	4.37
Hong Kong / China	0.90	0.70	1.49	2.10	2.78	3.62
Thailand	-0.13	0.02	0.12	0.98	1.32	1.74
Indonesia	-	-0.19	0.15	0.28	0.37	0.46
Latin America / Miami	-0.35	-0.05	0.17	0.10	0.08	0.06
Others	-0.45	-0.48	0.23	0.59	0.86	0.97
Unallocated	-0.60	-0.24	-0.48	-0.24	-0.12	-0.06
Exceptional item	-	2.82	0.59	-	-	-
Finance costs	-4.62	-4.37	-2.88	-2.30	-2.19	-2.08
Joint venture (HK/China)	1.43	1.07	2.49	2.87	3.01	3.16
Pretax profit	2.81	5.19	9.66	14.17	17.14	20.06
Taxation	-1.15	-2.43	-1.46	-2.25	-2.86	-3.51
Minority interests	0.14	-0.01	-0.01	-0.01	-0.02	-0.02
Net profit	1.81	2.75	8.18	11.91	14.27	16.54
Basic EPS (cents)	1.21	1.83	5.35	6.16	6.94	7.58
Diluted EPS (cents)	1.20	1.75	4.53	5.16	6.18	7.16
PE (Basic) @ 71 cents	58.9	38.8	13.3	11.5	10.2	9.4
PE (Diluted) @ 71 cents	59.2	40.6	15.7	13.8	11.5	9.9
Returns on Equity	4.7%	6.6%	17.8%	21.1%	20.3%	19.5%
Returns on Assets	5.6%	7.2%	9.1%	11.2%	12.2%	12.9%
Operating Profit Growth						
Total Operating Profit	-23.0%	-5.5%	66.5%	44.1%	19.9%	16.3%
Singapore	8.1%	-16.1%	25.5%	15.5%	9.1%	8.1%
Malaysia	43.6%	12.9%	51.7%	56.8%	20.1%	15.1%
Hong Kong / China	11.1%	-22.2%	112.3%	41.5%	32.1%	30.1%
Thailand	-93.3%	-115.7%	481.0%	703.3%	34.4%	32.3%
Indonesia			-179.3%	87.5%	31.3%	26.0%
Operating margins						
Singapore	7.1%	6.3%	6.7%	7.1%	7.1%	7.2%
Malaysia	7.7%	6.8%	8.2%	9.2%	9.2%	9.2%
Hong Kong / China	9.8%	6.8%	8.8%	9.3%	9.3%	9.3%
Thailand	-1.9%	0.3%	1.4%	4.8%	5.1%	5.3%
Indonesia		-9.2%	2.8%	3.5%	3.7%	3.8%

Appendix 3 : Balance Sheet

At end Apr (\$m)	2001	2002	2003	2004F	2005F	2006F
Fixed assets	38.19	36.34	36.06	41.56	48.06	54.56
Associates and Joint Ventures	7.53	8.39	9.64	11.07	12.58	14.16
Other non-current assets	0.06	1.15	0.78	0.74	0.70	0.67
Current assets	86.72	86.75	95.57	99.20	103.31	109.40
- Cash and Bank Balances	2.20	3.74	8.90	14.18	18.37	23.85
- Inventories	35.70	39.44	38.00	39.15	40.30	40.59
- Other Current Assets	48.82	43.58	48.67	45.87	44.64	44.96
Total Assets	132.50	132.63	142.04	152.57	164.65	178.78
Current liabilities	54.71	52.66	56.43	57.96	60.63	64.92
- Short term loans	4.51	6.27	3.77	5.33	8.15	14.14
- Other Current liabilities	50.20	46.39	52.66	52.64	52.47	50.78
Long term debts	37.47	35.49	34.88	29.59	25.41	19.92
Other non-current liabilities	1.00	1.61	1.29	1.36	1.42	1.49
Total Liabilities	93.19	89.76	92.60	88.91	87.46	86.34
Share equity	15.00	15.01	15.30	19.33	20.58	21.83
Share reserves	24.16	27.72	33.99	44.15	56.42	70.40
Shareholders' fund	39.16	42.73	49.28	63.48	77.00	92.23
Minority interests	0.15	0.15	0.16	0.18	0.19	0.21
Current Ratio	1.6	1.6	1.7	1.7	1.7	1.7
Inventory Turnover (days)	107.2	113.9	96.7	75.0	66.1	58.9
Receivable Turnover (days)	150.5	133.3	109.3	87.0	71.6	62.2
Gross Borrowings	41.4	41.8	38.7	34.9	33.6	34.1
Net gearing (%)	96.5%	89.0%	60.4%	32.7%	19.7%	11.1%
Net Asset Value per share (cts)	26.1	28.5	32.2	32.8	37.4	42.3

Comments :

Gearing will decline steadily over the next few years because of decrease in borrowings and strong growth in shareholders' funds. Strong earnings will underpin the rise in net asset value (NAV) per share.

Despite the expected exercise of 37.2m warrants into shares at 10 cents per unit, we expect the dilutive impact on NAV per share to be offset by faster rate of accumulation of retained earnings.

Appendix 4 : Cash flow analysis

Year end April (\$m)	2001	2002	2003	2004F	2005F	2006F
Profit from operating activities	6.00	5.67	9.44	13.61	16.32	18.98
Depreciation of fixed assets	2.51	3.29	2.80	3.02	2.92	2.99
Other non-cash adjustments	0.43	0.62	0.30	0.41	0.35	0.38
Operating profit before working capital	8.94	9.58	12.54	17.04	19.59	22.35
Working capital	1.32	-1.87	3.75	1.07	0.98	1.93
Cash generated from operations	10.26	7.71	16.29	18.11	20.57	24.28
Interest, taxation and other operating expenses	-4.73	-2.78	-5.06	-4.52	-5.01	-5.55
Net cash from operating activities	5.54	4.93	11.24	13.59	15.56	18.73
Investment in fixed assets	-8.47	-2.78	-2.85	-5.50	-6.50	-6.50
Other investments	0.59	0.65	1.04	0.50	0.43	0.46
Net cash from investing activities	-7.88	-2.13	-1.81	-5.00	-6.07	-6.04
Proceeds from issue of shares	0.00	0.01	0.29	4.18	1.25	1.25
Cash from other financing activities	7.11	-1.63	-2.86	-2.20	-2.37	-2.97
Net cash from financing activities	7.12	-1.62	-2.57	1.97	-1.12	-1.72
Net increase in cash and cash equivalents	4.77	1.19	6.85	10.57	8.37	10.97
Check for Balancing	4.77	1.19	6.85	10.57	8.37	10.97
Operating Cash flow per share (cents)	3.69	3.28	7.35	7.03	7.56	8.58
Free Cash flow per share (cents)	-1.56	1.87	6.16	4.45	4.61	5.81

Comment :

Despite investment in new alloy wheel plant in Thailand, net cash inflow will be positive because of strong growth in revenue and profitability.

Appendix 5 : Corporate Information

- Stamford Tyres is a regional distributor of a complete range of tyres and wheels with supporting services. The company started as a tyre service retail shop over 70 years ago and has grown into a publicly-listed corporation with sales and operations in more than 30 countries.
- Stamford Tyres was founded by the late Wee Boon Kwee during the 1930s as a tyre retail and petrol service station operator in Singapore. The business was located on Stamford Road, from which the company derived its name.
- In the 1940s, a tyre re-treading plant was established to provide additional services for the British army and help grow the business.
- In the 1970s, tyre distribution operation was added. With the expansion, the company needed larger premises and moved to its present location in Jurong Industrial Estate.
- In 1991, the business was restructured. Stamford Tyres was incorporated and listed on the Second Board of Singapore Stock Exchange (SESDAQ).
- Following its listing, Stamford Tyres rapidly expanded in the region and beyond. Currently, the company operates an international distribution network, providing a complete range of tyres and wheels with supporting services to tyre and wheel distributors and retailers in more than 30 countries in Asia Pacific, Africa and Latin America.
- Stamford Tyres conducts its global operations from its Singapore headquarters. Its modern facilities include an 18,000 sm warehouse, a 3,000 sm automotive Mega Mart and 1,800 sm Corporate Head Office.

Stamford Tyres has three major business activities

(I) Tyre distribution

- Stamford Tyres distributes tyres, wheels, and tyre-related products in the regional markets, through an extensive network of operations.

Major Brands

- (a) Falken Tire, a major brand owned by Sumitomo Rubber Industries in Japan, specialises in the production of passenger car tyres and a full range of SUV tyres, light truck and truck radials. Stamford Tyres distributes Falken tyres in Southeast Asia, China, Korea, Indian sub-continent, South Africa, Papua New Guinea, Mauritius, Latin America and Caribbean Islands.
- (b) Continental AG, a German tyre manufacturer, supplies passenger car radials, light truck radials, bus and truck radials, and industrial tyres and agricultural tyres for commercial vehicles. The Continental Group also supplies original equipment tyres for passenger car and commercial vehicles including Porsche, BMW, Mercedes Benz, Volkswagen and DAF. Stamford Tyres distributes Continental tyres in Singapore, Malaysia, Thailand, Brunei and Indonesia.
- (c) Toyo is a major Japanese full-line tyre manufacturer, including off-the-road radial tyres to meet the needs of mining customers. Stamford Tyres distributes off-the-road as well as truck and bus radial tyres for Toyo in Singapore, Brunei, Malaysia, Indonesia and Vietnam.

Proprietary Brands

- (a) Firenza is a range of high-performance radial tyres. The 35 to 55 Series of Firenza ST03 are contract manufactured in Japan (by Sumitomo) utilising Japan's design, technology and mould. The Firenza has been extended into to include the Firenza ST05 range, covering the 60 to 65 Series sizes. Firenza tyres are sold in Southeast Asia, Taiwan, Korea, Hong Kong, the Middle East and Australia. They are produced in Japan, and lately, also Indonesia.
- (b) Sumo Tire brand is a range of light truck, truck bias tyres, agricultural tyres and off-the-road tyres of Asian origin. These designs have been modified by Stamford Tyres to meet difficult operating conditions in its targeted countries. Sumo tyres are manufactured to internationally-accepted standards at plants in China and Thailand, and distributed to many countries.
- (c) Stamford Sports Wheels brand of alloy wheels offers aesthetics and performance tailored for passenger cars and SUV. The sizes range from 13" to 22" in a wide range of designs. SSW alloy wheels are manufactured by selected partners in Taiwan and Thailand.

Other products for distribution

(A) Tyres

Brands	Origin	Products
General Tyre	USA	Truck & Bus radials, Off-the-Road, and agricultural tyres
Aeolus	China	Light truck, truck and bus tyres, Off-the-Road
San Jiao	China	Light truck and truck, bus, Off-the-Road and agricultural
Huang Hai	China	Light truck & truck, bus tyres
Sterling	India	Industrial solid tyres

(B) Alloy Wheels

Brands	Origin	Products
Super Star	Japan	Light Alloy Wheels
5 Zigen	Japan	Light Alloy Wheels and Sports Mufflers
Rays	Japan	Forged Light Alloy Wheels
Momo	Italy	Light Alloy Wheels
Alessio	Italy	Light Alloy Wheels
BBS	Germany	Light Alloy Wheels
Hamann	Germany	Light Alloy Wheels
TSW	South Africa	Light Alloy Wheels

(C) Car Tuning Parts (High Performance)

Brands	Products
Espelir	Specialise in Springs, Coilover kits
Project μ	Specialise in Brake Pads, Brake Rotors, Brake Callipers
Momo	Car Accessories

(D) Industrial Products)

Brands	Products
Fiamm, Italy	Batteries
Yokohama	Industrial Rubber Products - Conveyor Belting for large mining companies

List of principals that Stamford Tyres services

(A) TYRES

Manufacturer	Products	Territories
SRI Tire Trading Ltd	Full range of Falken tyres	Singapore, Malaysia, Hong Kong, Brunei, Indonesia, Thailand, China, Mauritius, Papua New Guinea, India, South Africa, Latin America, South Korea, Vietnam, New Caledonia
Toyo Tire & Rubber Co., Ltd	Off-the-road tyres, Toyo truck & light truck tyres	Singapore, Malaysia, Brunei, Indonesia
Continental Aktiengesellschaft (Made in Europe/South Africa/North America)	Full range of Continental and General (from North America) tyres	Singapore, Brunei, Indonesia, Thailand, Malaysia
Cheng Shin Rubber Industries Co., Ltd	Maxxis passenger car tyres and light truck tyres	Indonesia
SUMO - China & Thai factories	SUMO truck and light truck tyres, agriculture tyres, off-the-road tyres	No restriction
Firenza – SRI Tire Trading Ltd	Firenza passenger car tyre	All area except for USA and Europe
Conveyor belt – The Yokohama Rubber Co. Ltd	Yokohama conveyor belt	Indonesia
Batteries – FIAMM Automotive Batteries S.P.A.	Automotive batteries for passenger car, truck and heavy equipment	Singapore, Indonesia

(B) ALLOY WHEELS

Manufacturer/principle	Products	Territories
Hijion	Car alloy wheels (OE and aftermarket)	Singapore, Malaysia, Indonesia, Thailand
ACE	Car alloy wheels (OE and aftermarket)	Singapore, Malaysia, Indonesia, Thailand, Australia
Litai Alloy	Car alloy wheels (OE)	Singapore
AMP	Car alloy wheels (aftermarket)	Singapore, Malaysia, Indonesia, Thailand, Australia
Merit Alloy	Car alloy wheels (aftermarket)	Singapore, Malaysia, Indonesia, Thailand
Momo	Car alloy wheels (aftermarket)	Singapore, Malaysia, Indonesia, Thailand
DIJON	Car alloy wheels (aftermarket)	Singapore, Malaysia, Indonesia, Thailand
KYO EI	Car alloy wheels (aftermarket)	Singapore, Malaysia, Indonesia, Thailand, Australia
BBS	Car alloy wheels (aftermarket)	Singapore, Malaysia, Indonesia, Thailand
Alessio Sport Wheels	Car alloy wheels (aftermarket)	Singapore, Malaysia, Indonesia, Thailand

Appendix 6 : Relative valuation (01 March 2004) (Bloomberg data)

Listed Tyre Manufacturers

Companies	Listing	Mkt Cap (L)	Mkt Cap (US\$)	Current PE	Historical PE
Bridgestone	Japan	Y1,414,625m	12,981.78m	24.39	22.31
Michelin	France	E5,590.66m	4,491.57m	9.74	17.42
Sumitomo	Japan	Y159,108m	1,460.11m	26.56	72.25
Yokohama	Japan	Y113,057.3m	1,037.51m	12.55	14.16
Toyo Tire	Japan	Y54,414m	499.35m	23.64	32.02
Average				19.38	31.63
Goodyear	US	US\$1,490.27m	1,490.27m	Loss	Loss

Other Automotive Accessories Makers

	Companies	Listing	Mkt Cap	Current PE	Historical PE
M1	BSA International	Malaysia	M\$204.6m	8.81	10.02
M2	Ingress Corp	Malaysia	M\$156.8m	9.88	14.39
M3	APM Automotive	Malaysia	M\$552.38m	9.07	11.32
M4	Delloyd Ventures	Malaysia	M\$303.9m	n.a.	9.94
M5	Hirota Holdings	Malaysia	M\$123.3m	n.a.	11.11
	Average			9.25	11.36

(M1) Manufactures and sells aluminium alloy wheels, distributes automotive wheels, tires & related accessories

(M2) Manufactures roll-formed plastic mouldings and weather strips, automotive door frames, panel-based electrical equipment and other automotive components. Also provides engineering services for power and utility industries.

(M3) Manufactures and distributes automotive parts and components, including air-conditioners, electrical components, coil springs, metal component parts, PVC body side moulding, shock absorbers, tapered leaf springs, vehicle interior linings, seats, radiators and other automotive parts.

(M4) Manufactures, trades, retails and exports automotive and electronic automotive parts and accessories. Provides repair and maintenance services for motor vehicles, cultivates palm oil, manufactures and distributes agri-chemicals, and manages a website portal.

(M5) Manufactures seat belts and insulator parts for motor vehicles, noise and heat reduction materials and automotive components. Manufactures electrical and consumer products, trades car frontal airbags modules and manufactures plastic articles.

	Companies	Listing	Mkt Cap	Current PE	Historical PE
I1	Prima Alloy	Indonesia	Rp42.92b	Loss	Loss
I2	Astra Otoparts	Indonesia	Rp1,136.06b	5.5	6.0
I3	Andhi Chandra Automotive Products	Indonesia	Rp381.90b	n.a.	33.93
I4	Selamat Sempurna	Indonesia	Rp337.65b	n.a.	8.39
I5	Indospring Tbk	Indonesia	Rp27.19	n.a.	0.88
	Average			n.a.	12.3

(I1) Manufactures, sells and exports rims. Main product is aluminium alloy wheel

(I2) Manufactures and distributes automotive and motorcycle parts. Produces forged, cast, electrical, rubber and plastic automotive parts and OEM original equipment manufacturing. Also produces replacement market automobile and motorcycles parts for local and export markets

(I3) Manufactures auto parts such as oil and air filters, and other components for diesel machinery and automobiles.

(I4) Manufactures automotive components such as filters, radiators, condensers, air conditioners, brake pipes, fuel pipes, fuel tanks, mufflers and machinery spare parts.

(I5) Manufactures leaf and coil springs for motor vehicles under license of Mitsubishi Steel Manufacturing, Japan. Manufactures valve springs with license agreement from Murata Spring Co. Ltd. Japan

	Companies	Listing	Mkt Cap (HK\$)	Current PE	Historical PE
H1	QingLing Motor	Hong Kong	3,624.11m	18.70	25.87
H2	Denway Motors	Hong Kong	32,103.09m	21.28	28.24
H3	AviChina Industries	Hong Kong	7,476.21m	14.37	13.17
H4	Brilliance China	Hong Kong	13,848.18m	15.09	22.61
H5	Great Wall Auto	Hong Kong	7,010.69m	11.55	18.30
	Average			16.20	21.64

(H1) Produces and sells Isuzu light duty trucks, pick up trucks, multi-purpose sports vehicles, heavy-duty trucks, other vehicles and automotive parts and accessories.

(H2) Manufactures, assembles and trade motor vehicles, automotive equipment and parts, manufactures and trades audio equipment

(H3) Researches, develops, manufactures and sells vehicles and civilian aircraft

(H4) Manufactures and distributes minibuses and sedans in China; manufactures and trade automotive components

(H5) Manufactures and sells pick up trucks and sports utility vehicles (SUVs) in China under its Great Wall brand name. Also researches and develops, and manufactures principal automotive parts and components for use in the assembly of pick-up trucks and SUVs.

	Companies	Listing	Mkt Cap	Current PE	Historical PE
S1	YHI International	Singapore	S\$328.83m	15.88	18.47
S2	Stamford Tyres	Singapore	S\$141.07m	10.92	13.08
S3	JackSpeed Corp	Singapore	S\$47.82m	n.a.	12.57
	Average			13.4	14.71

(S1) Distributes automotive products comprising tyres, alloy wheels, automotive batteries and related products. Designs, develops and manufactures alloy wheels.

(S2) Retailers and distributes tires for passenger, commercial, industrial and agricultural vehicles. Also provides tire re-treading services and trade wheels, batteries, industrial rubber products and automotive equipment.

(S3) Produces custom-fitted automotive leather trim for car seats. Also provides leather wrapping for other automotive interior products, such as steering wheels, consoles, gear shift knobs and hand brakes.

	Companies	Listing	Mkt Cap RMB m	Current PE	Historical PE
C1	Shanghai Automotive	Shanghai	39,362.39	20.83	20.66
C2	Torch Investment	Shenzhen	12,611.78	-	62.07
C3	Dongfeng Automobile	Shanghai	11,350.0	18.76	18.19
C4	Fuyao Group Glass	Shanghai	9,849.69	29.45	31.47
C5	Weifu High-Technology	Shenzhen	5,300.86	25.27	28.47
C6	Anhui Jianghua	Shanghai	3,693.80	-	17.86
C7	Shanghai Aerospace Automobile	Shanghai	3,499.44	-	31.69
C8	Dongfeng Electronic	Shanghai	3,154.90	-	60.03
	Average			23.58	33.81

(C1) Manufactures and markets automobiles and related parts and accessories. Also manufacture automobile chassis, transmission systems, steering systems, suspension springs, anti-lock braking systems, and auto lights.

(C2) Manufactures and sells commercial vehicles, automobile brake systems, and other auto parts. Also produces wire fences, metal products and electric machinery. Markets automobile parts globally.

(C3) Designs, manufactures and markets diesel engines, light-trucks, castings and related parts.

(C4) Manufactures and distributes automobile glass, decorated glassware and other industrial glassware. Also provides glass installation service. Market products internationally.

(C5) Manufactures and markets fuel injection pumps for diesel engines, injectors and related parts.

(C6) Manufactures and markets bus and truck chassis, gear boxes, other auto parts and business automobiles.

(C7) Manufactures and markets automobile air conditioners, sensors, antennas, and other auto parts. Also research and develops aerospace technology.

(C8) Manufactures and markets motor vehicle parts and instruments, including sensors, bearings, valves, and other related auto parts. Also operates in automobiles and parts trading.

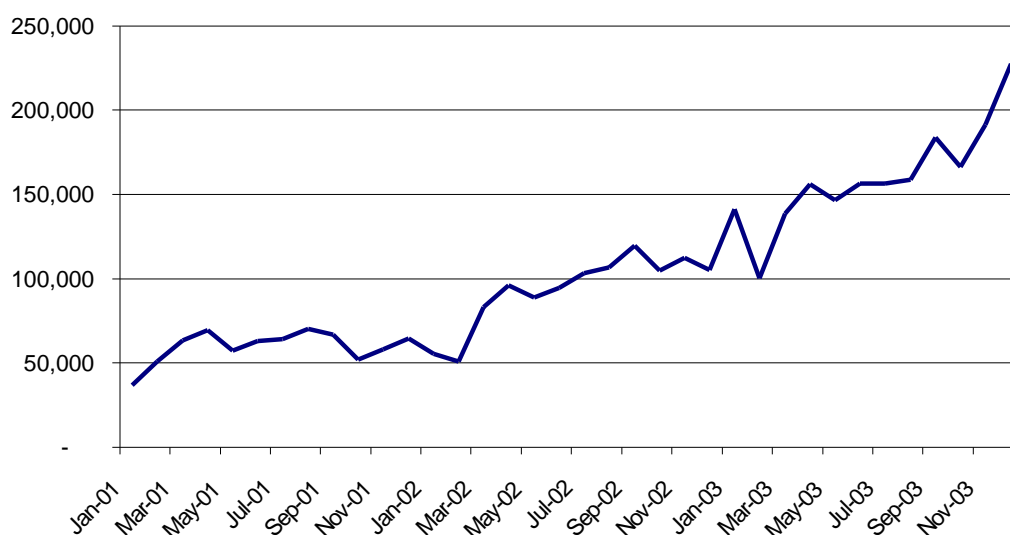
Appendix 7 : China Automobile Market

- The automotive industry in China is one of the most vibrant in the world. Driven by an increasingly affluent domestic population and the growing investment by major automobile giants in China, the automotive industry is expected to become one of the largest markets in the world.

(1) Production and Sales

- Both production and sales have increased sharply in recent years. Annual production increased at an alarming rate from 1m in 1992 to 2m in 2000 and 4.44m in 2003.
- Total automobile production rose 35% in 2003 to 4.44m and China has overtaken France and Germany to become the world's third-largest producer of autos, behind the US and Japan. Car production in 2003 jumped 83% from 1.2m in 2002 to 2m in 2003.

China Auto Production



Source : China Association of Automobile Manufacturers

- Passenger car sales rose 76% to 1.97m units in 2003, from 1.12m in 2002, according to China Association of Automobile Manufacturers. Total sales of vehicles, including trucks, buses and other vehicles, gained 34% to 4.39m in 2003. Imports of passenger cars rose 46.4% to 103,017 units in 2003. Imports of all types of automobiles, including sport utility vehicles and vans, rose 34.6% to 172,683 units. China uses quotas to control vehicle imports, which account for less than 5% of China's total vehicle sales.

China Automobile Output and Sales in 2003

Types	Output	Growth	Sales (*)	Growth
Passenger Cars	2,018,900	83.25%	1,971,600	75.28%
Trucks	1,229,600	10.04%	1,211,400	10.35%
Buses	1,195,200	11.94%	1,207,800	15.15%
Total	4,443,700	35.20%	4,390,800	34.21%

Source : China Association of Automobile Manufacturers

(*) Figures are for domestically produced vehicles

- The ten leading plants accounted for 79.8% (3.55m) of China's 4.44m automobile production in 2003. FAW Group Corporation, based in Changchun, Jilin, is top with 858,700 units, followed by Shanghai Automotive Industry Corporation with 796,900, and Dongfeng Motor Corporation in Hubei, with 470,300 units. The other seven plants produced 101,100 to 406,800 units each. They are Changan Automobile Group, Beijing Automotive Industry Corporation, Harbin Hafei Motor Co., Jinbei Automobile Co., Guangzhou Automobile Industry Group Co. Ltd, Changhe Aircraft Industry Co., and SAIC Chery Automobile Co. Ltd.
- Sales from the top five domestic automakers exceeded 300,000 units in 2003 and accounted for 65% of sales of domestically made vehicles in China market. These are First Automotive Works Corp, Shanghai Automotive Industry Corp, Dongfeng Motor Corp, Changan Motor Corp and Beijing Automotive Industry Holding Corp.
- China Association of Automobile Manufacturers projected a 20% increase in China's 2004 vehicle production to 5.34m units, after growing 35% to 4.44m in 2003. Passenger car production is projected to increase to 2.62m units, while truck and bus output will increase by less than 10%.
- Passenger car production rose 8.1% YoY to 140,700 units in January 2004, despite 6 fewer working days in January 2004 compared to January 2003. Car sales rose 6.8% YoY to 155,550 in January 2004. Both production and sales will increase in February 2004 because of discounts and new models offered by automakers.
- China imposed high tariffs on auto imports, and foreign manufacturers who wish to sell a large number of cars in China must also manufacture there. Volkswagen, General Motors and Honda together account for 60-65% of all passenger car sales in China. China will cut tariffs on auto imports to 25% by mid 2006, from between 38.2% and 43% now, in line with WTO commitments. Tariff rates were reduced from 50.7%-83.8% to current level in January 2003. Auto imports of 172,683 vehicles in 2003, is less than 5% of the market.

(2) Expansion Plans

- Both local assemblers and foreign producers are increasing production capacity.
- Ford Motor and Chinese partner Changan Automobile Group signed an agreement in late February 2004 for land use rights at Jiangning Economic and Technical Development in Nanjing. (Nanjing is home to two ventures between Fiat SpA and Nanjing Automobile Corp., which make vans and cars.) This would be Ford's second plant to make passenger vehicles in China. Ford has a US\$98m venture with Chongqing Changan Automobile, China Number 4 car maker, which builds Fiesta compacts and Mondeo sedans in Chongqing. Ford and Changan Group, the Chinese parent agreed in October 2003 to spend up to US\$1.5b to expand the venture's manufacturing capacity sevenfold from 20,000 to 150,000 a year.
- GM China will introduce one new model annually in China. Production capacity will increase by 50% in the next two years to accommodate the manufacture of Cadillacs, which will supplement its existing Buick and Chevrolet. The Chinese government in Nov 2003 allowed GM to export directly to China without going through a Chinese partner.
- Nissan has invested heavily in China and hopes to expand sales to 900,000 vehicles annually by 2010 through its partnership with Dongfeng Motor Corp., the state-controlled Chinese car maker, from just a few thousand in 2003. Nissan expects car prices in China to fall 3% or more annually for the next four or five years.

- Chinese automotive parts maker, Shanghai Automotive Co. took over SA-Yizheng Automotive Co from its parent as part of a plan to venture into the automobile assembly business. Shanghai Automotive Industry Corp (group), the parent of Shanghai-listed Shanghai Automotive aims to produce at least 50,000 vehicles under its own brands by 2007. The listed unit would manage the project. SAIC has joint ventures with General Motors Corp and Volkswagen AG to produce cars under the foreign automakers' brands. SAIC's sales in 2003 under these foreign brands exceeded 800,000 vehicles in 2003. SAIC has an existing minivan brand, Saibao, which sold about 2,000 units in 2003.

Selected planned expansion by automotive companies

Companies	Type	Current (*)	Additional (*)
First Automobile Works & Volkswagen	Sedan	800,000	800,000
First Automobile Works	Sedan	50,000	200,000
First Automobile Works	Trucks	200,000	100,000
First Automobile Works & Audi	Sedan	35,000	
BYD Automobile	Sedan	35,000	300,000
Dongfeng Motor Corp & Honda	Sedan	-	240,000
Guangzhou & Honda	Sedan	-	240,000
Shanghai Automobile Industry & GM	Sedan	200,000	100,000
Changan Automobile & Ford Motor	Sedan	20,000	130,000
Brilliance China Automotive & BMW	Sedan	-	30,000

(*) Number of units per annum

- Accounting firm KPMG predicted that by 2005, China will be capable of building 4.9 sedans a year, equal to the output of Germany, but will be lower than the projected demand of 2.6m sedans in China domestic market.
- According to The China Daily, total annual automobile manufacturing capacity will exceed 14m units by 2007, more than double the estimated domestic demand by then. China is likely to become the world third largest single country market behind the US and Japan by 2004.

(3) Car Financing

- 85% of China's consumers pay cash for their vehicles. However, this is changing with China's 2001 entry into the World Trade Organisation, which opened the auto-finance industry. Although most credit are offered by Chinese banks, China banking regulator approved financing ventures by General Motors Corp., Toyota Motor Corp. and Volkswagen AG in December 2003 to offer car loans. Only companies that have been profitable for at least three consecutive years can apply to offer car financing, and will be allowed to lend as much as 10 times their paid-up capital. The maximum loan quantum has been reduced from 90% of car prices, excluding tax and insurance payments, in November 2003 to 80% in January 2004. Foreign non-banking financial institutions must meet capital requirements, hire enough staff and pick locations within 1H04. Car financing ventures cannot offer interest rates that are more than 10% lower or 30% higher than bank lending rates, effectively ruling out zero-percent financing that automakers have used to boost sales in US and South Korea markets.
- Several automotive analysts have attributed the strong surge in car sales to the growth in car loans. According to the People's Bank of China, banks approved RMB 65b loans to buy cars in the first 11 months of 2002, up from a total of RMB 42m for the four years from 1998 to 2001. Chinese banks lent about US\$4b for car purchases in 1H03, or about 15% of total sales. China big four banks, Industrial & Commercial Bank of China, Bank of China, China Construction Bank and Agricultural Bank of China were the only entities allowed to offer car loans, as part of a 1998 pilot programme.

(4) Price declines

- Falling car prices are likely to spur sales growth in late 2003 and 2004. According to China Central Bank in January 2004, average car prices in China fell 7.7% YoY in December 2003. This was followed by a 9.1% YoY price decline in January 2004. In 2003, Daimler-Chrysler AG's Beijing Jeep venture slashed the price on one Cherokee model by 29%. Honda Motor Co. reduced the price of its Accord 2.4L by 13% while Volkswagen AG came down 8% on the price of a standard Santana. Tianjin First Automotive Work Xiali Automobile Co., a Chinese partner of Toyota Motor Corp. cut prices by 10% in early 2004 to boost demand and keep pace with reductions by rival Geely Group. The Xiali model would fall to RMB 35,800 (US\$4,325). Geely had earlier reduced prices on its Haoqing model by RMB 5,000 to RMB 32,999 making it the cheapest car produced in China.
- Early entrants in the Chinese market, such as Volkswagen AG and General Motors Corp, for years have been able to charge premium prices for their cars in China because of a lack of competing models and because they sold mostly to China's wealthiest consumers. But as more manufacturers enter the market and go after a broader range of consumers, price premiums that were once 30% or more are quickly disappearing. Chinese consumers also have become increasingly sophisticated and comb the internet and car magazines for information on new models and prices. Chinese car prices are expected to fall to the same level as other major markets by 2006. The price reductions span most segments of the market, but the most aggressive cuts in 2003 came in the mid range cars and jeeps.

(5) Strong market potential

- Despite the increased number of car ownership, the China auto market remains largely untapped according to AWSJ report (21 Oct 2003), with a ratio of less than two cars per 100 people in cities, and less than one car per 100 in the countryside. In comparison, the ratio is 1: 1.5 for the US, 1:2 for Australia, and 1:6 for Malaysia. According to China Xinhua news agency, fewer than one in 250 of China's 1.3b people own a car. China only allowed private ownership of automobiles in 1994. The number of private car owners in China rose 43% to 4.89m in 2003. Private vehicles, including trucks and vans, reached 12.4m units at end 2003. Total vehicle population at end 2003 was 24.2m, up 21.4% from 21.4m at end 2002.
- The high end of the passenger car market is booming, and one-third of the cars sold in China are priced at the luxury end of the market. BMW produces 325i while Daimler-Chrysler produces Mercedes E Class and C Class in China.

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