

MITA No. 013/06/2008

4 July 2008

Yongmao Holdings Ltd

Not Rated

Scaling new heights

S\$0.375

Stock Code: YNMH.SI
 Reuters: E6A
 ISIN Code: YMAO SP
 Bloomberg:
 Event: Company Visit

General Data	
Issued Capital (m)	441
Mkt Cap (S\$m/US\$m)	166/121
Major Shareholders	Tian Sun (57.71%)
Free Float (%)	21.0%
NAV per share (RMB cents)	100.33
Historical PER (x)	-
Net Dividend Yield (%)	-
Daily Vol 3-mth ('000)	337
52Wk High (S\$)	0.500
52Wk Low (S\$)	0.325

Market View	
Consensus EPS (RMB cents)	33.0
Forward PER (x)	5.7
Number of "BUY"	1
Number of "HOLD"	-
Number of "SELL"	-

In a sweet spot of the construction boom. We attended a plant visit hosted by PRC-based crane manufacturer Yongmao Holdings Ltd (Yongmao) recently. Yongmao, which is a 20%-owned associate of Tat Hong Holdings Ltd, sells a variety of cranes within the PRC (25% of FY08 revenue) and to overseas markets including the Middle East, USA and Europe. Being the only Chinese crane manufacturer that has obtained the CE mark, Yongmao has established a strong brand equity and its products command a premium in pricing over its PRC-based competitors'.

Growth drivers in place. Having already impressed in FY08 with a 134.6% surge in revenue to RMB652.8m and a 106.8% growth in net profit to RMB122.5m, Yongmao is poised for further growth, driven by (i) capacity expansion to meet excess demand, which so far has been outsourced to its related company, Beijian, (ii) the introduction of new products such as crawler cranes which will enlarge the scope of its target market, and (iii) inorganic growth, specifically, the injection of a 66% stake in Beijian that is currently owned by its chairman. Upon completion, Yongmao will capture a larger portion of profits along the value chain.

Strong macro indicators. The macro environment paints a rosy backdrop for Yongmao. Infrastructural investments in emerging markets have been projected to grow by US\$2 trillion p.a. over the next three years, driven mainly by China, Middle East and Russia. In China alone, investments in fixed assets from Jan - May 08 have already expanded by 25.6% YoY. We expect Yongmao, which has established its presence in many of these countries, to benefit from the construction boom.

Investment risks. Yongmao's key investment risks lie in its unhedged exposure to forex and steel price fluctuations. The bulk of its revenues are denominated in USD and Euro, while costs are denominated mainly in RMB. This resulted in forex losses which amounted to RMB2.2m in FY08. As for its exposure to escalations in steel prices, Yongmao has been able to maintain its gross profit margin at 37.1% in FY08 (vs 38.0% in FY07) via upward price revisions. We believe that Yongmao should be able to pass on most of these cost increases to its customers given its strong bargaining power. We do not have a rating on the stock.

Lee Wen Ching
 (65) 6531 9806
 e-mail: wenching@ocbc-research.com

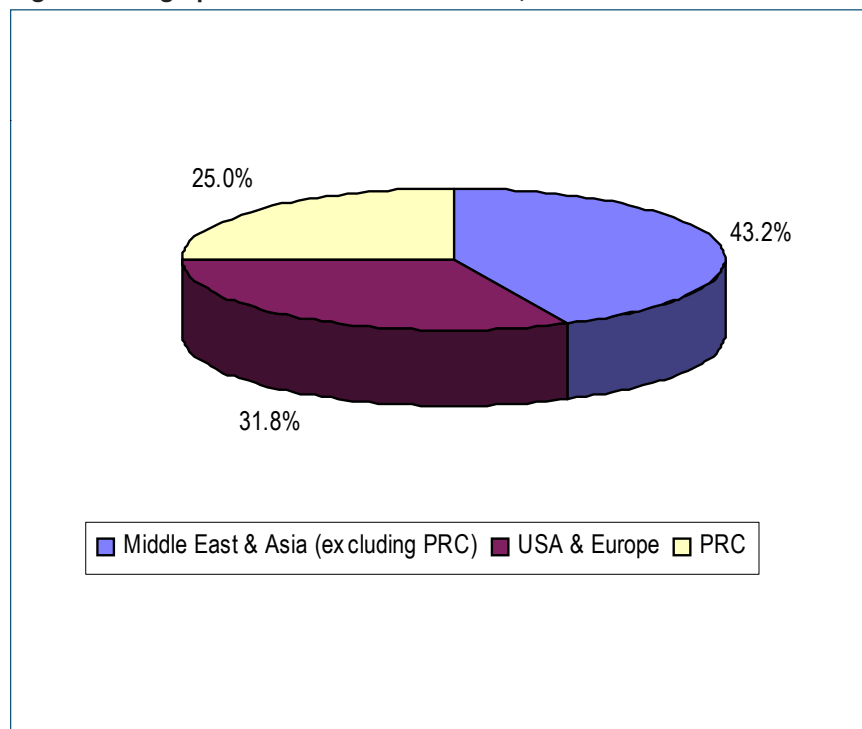
Year to 31 Mar	Turnover (RMB m)	Gross Profit (RMB m)	Net Profit (RMB m)	EPS (RMB cents)	EPS Growth (%)
FY 07	278.3	105.7	59.2	17.8	-
FY 08	652.8	242.2	122.5	32.3	81.5

BACKGROUND

Founded in 1992 and listed on SGX in February 2008, Yongmao Holdings Ltd (Yongmao) is engaged in the business of designing and manufacturing tower cranes and tower crane components and accessories. The group, based in the PRC, offers a variety of tower cranes designs, which are broadly classified into four series: *Topless STT*, *ST*, *Luffing STL* and *Derrick Q*.

Yongmao sells its products under its brands “Yongmao” and “Suncrane”. Its products are sold both domestically and exported to countries such as the US, Africa, Middle East, Europe and Asia. For FY08, Middle East & Asia contributed 43.2% of the group’s revenue, while USA & Europe accounted for 31.8%, and the PRC market accounted for 25.0%.

Figure 1: Geographical breakdown of revenue, FY08

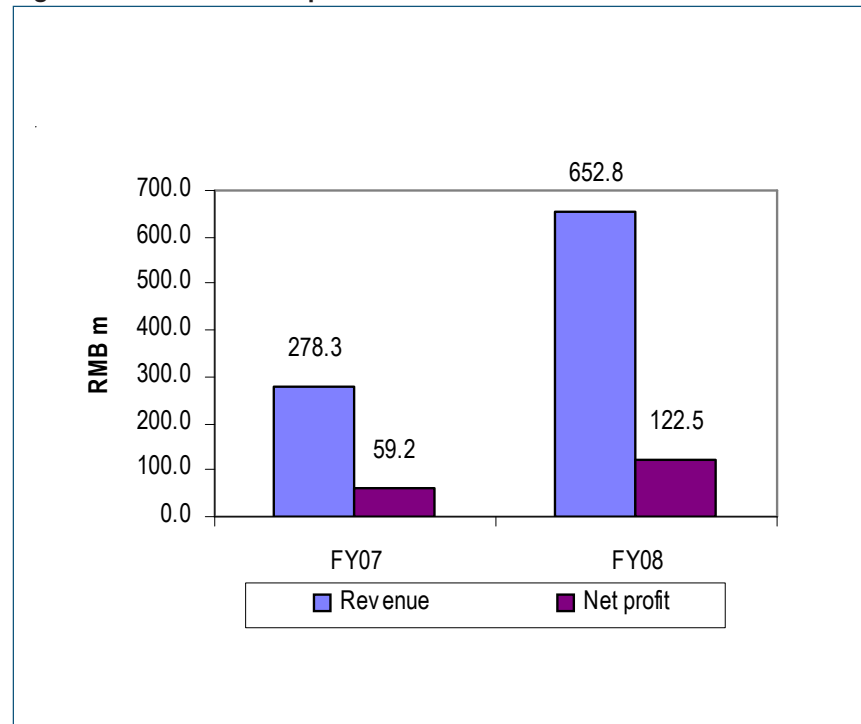


Source: Company

RESULTS REVIEW

Yongmao reported a strong set of FY08 results. Revenue surged 134.6% to RMB652.8m, while net profit soared by 106.8% to RMB122.5m. Its strong sales growth was supported by broad-based growth across all its geographical segments as the group enjoyed strong demand for its tower cranes arising from construction booms across markets.

Figure 2: Revenue and net profit



Source: Company

PEER COMPARISON

Table 1: Peer comparison

SGX peers	CCY	Last Price	Market Cap (\$m)	Gross Margin (%)	Net Margin (%)	PER 1 (x)	PER 2 (x)	P/Book (x)	P/Sales (x)	ROE (%)
Tat Hong	SGD	1.830	908.9	39.0	14.0	10.3	8.7	2.5	1.5	28.6
Tiong Woon	SGD	0.425	143.5	39.8	22.6	6.4	6.9	1.3	1.4	23.2
Simple average				39.4	18.3	8.3	7.8	1.9	1.4	25.9

International peers	CCY	Last Price	Market Cap (\$m)	Gross Margin (%)	Net Margin (%)	PER 1 (x)	PER 2 (x)	P/Book (x)	P/Sales (x)	ROE (%)
Changsha Zoomlion	RMB	14.00	4,202.5	28.4	14.9	16.0	11.3	5.9	2.4	44.9
Favelle Favco	MYR	1.08	79.8	15.5	4.2	9.6	6.2	1.4	0.4	15.4
Caterpillar	USD	70.42	62,040.8	24.9	7.9	12.6	11.7	4.7	1.0	45.0
Komatsu	JPY	2770.00	36,064.7	28.8	9.3	13.5	29.7	3.1	1.2	25.1
Manitowoc	USD	28.83	5,371.6	22.8	8.4	9.8	8.4	2.5	0.9	31.7
Terex	USD	47.22	6,827.9	20.6	6.7	7.4	6.7	1.9	0.5	30.0
Average				23.5	8.6	11.5	12.3	3.2	1.1	32.0

Yongmao Holdings	SGD	0.375	165.5	37.1	18.8	5.9	5.7	1.9	1.1	27.5
------------------	-----	-------	-------	------	------	-----	-----	-----	-----	------

Source: Bloomberg

Yongmao's net margin of 18.8% is in line with its SGX-listed peers' average and more than twice that of its international peers' average of 8.6%. It offers a strong ROE of 27.5%, slightly higher than its SGX-listed peers' average of 25.9% and its internationally listed peers' average of 32.0%.

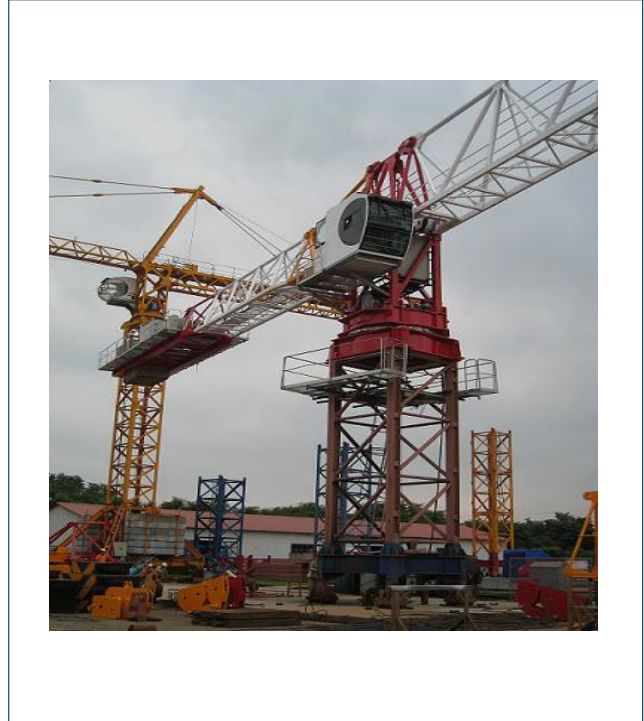
Yongmao's valuations remain undemanding. At 5.7x forward PER, it is trading at a discount to its SGX-listed peers' average of 7.8x forward PER and its international peers' average of 12.3x forward PER. We do not have a rating on the stock.

Exhibit 1: Enlarged capacity in Fushun (projected completion by Sep 08)



Source: OIR

Exhibit 2: Production at existing capacity in Fushun



Source: OIR

Exhibit 3: Production at existing capacity in Fushun



Source: OIR

Yongmao's Key Financial Data

EARNINGS	FY07	FY08	% Chg
Year Ended 31 Mar (RMB m)			(YoY)
Revenue	278.3	652.8	134.6%
Cost of sales	-172.6	-410.7	137.9%
Gross Profit	105.7	242.2	129.2%
Other operating income	0.5	2.8	405.5%
Administrative expenses	-11.5	-35.8	211.9%
Distribution costs	-34.7	-72.5	109.0%
Other operating expenses	-0.8	-2.7	226.6%
Finance costs	0.0	0.0	0.0%
Listing expenses	0.0	-7.5	nm
Profit before tax	59.2	126.5	113.5%
Taxation	0.0	-4.0	nm
Net profit attributable to shareholders	59.2	122.5	106.8%
Weighted average EPS (RMB cents)	17.8	32.3	81.0%

BALANCE SHEET

As at 31 Mar (RMB m)	FY07	FY08
Cash and cash equivalents	50.3	200.3
Inventories	56.6	105.6
Other current assets	118.9	236.8
Plant property and equipment	19.0	171.0
Intangible assets	5.2	5.0
Other non-current assets	23.0	0.0
Total assets	273.1	718.8
Bank borrowings	13.5	0.0
Trade & other payables	49.9	124.8
Other current liabilities	67.9	148.8
Total Liabilities	131.3	273.6
Share capital	83.5	312.5
Reserves	58.3	132.7
Total Equity	141.8	445.2
Total Liabilities and Equity	273.1	718.8
NAV per share (RMB cents)	42.7	100.3
NTA per share (RMB cents)	41.1	99.2

CASH FLOW		
Year Ended 31 Mar (RMB m)	FY07	FY08
Operating profit before working cap. changes	62.6	132.7
Working capital changes	-28.2	-40.1
Interest paid	0.0	0.0
Net cash from operating activities	34.3	92.5
Proceeds from sale of available-for-sale financial assets	-23.0	23.0
Purchase of plant property and equipment	-10.2	-161.0
Other investing flows	0.2	-12.5
Net cash from investing activities	-33.0	-150.5
Bank borrowings (repaid) / obtained	13.5	-13.5
Issue of new shares	64.9	198.2
IPO expenses	0.0	-7.6
Dividends paid	0.0	-17.5
Other financing flows	-42.2	48.4
Net Cash from financing activities	36.1	208.0
Net cash flow	37.5	150.0
Cash at beginning of year	12.8	50.3
Cash at end of year	50.3	200.3
Key Ratios		
PER (x)	10.7	5.9
P/NTA (x)	4.6	1.9
Gross profit margin (%)	38.0	37.1
Net profit margin (%)	21.3	18.8
Final dividend yield (%)	0.0	2.7
ROE (%)	41.8	27.5
Net gearing (%)	Net Cash	Net Cash

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report holds NIL shares in the above security.

RATINGS AND RECOMMENDATIONS:

OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented. However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/-10% from the current price; Sell = More than 10% downside from the current price.

DISCLAIMER FOR RESEARCH REPORT

This report is solely for information and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities mentioned herein. Whilst we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee its accuracy or completeness, and you should not act on it without first independently verifying its contents. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. You may wish to seek advice from a financial adviser regarding the suitability of the securities mentioned herein, taking into consideration your investment objectives, financial situation or particular needs, before making a commitment to invest in the securities. OCBC Investment Research Pte Ltd, OCBC Securities Pte Ltd and their respective connected and associated corporations together with their respective directors and officers may have or take positions in the securities mentioned in this report and may also perform or seek to perform broking and other investment or securities related services for the corporations whose securities are mentioned in this report as well as other parties generally.

Privileged/Confidential information may be contained in this message. If you are not the addressee indicated in this message (or responsible for delivery of this message to such person), you may not copy or deliver this message to anyone. Opinions, conclusions and other information in this message that do not relate to the official business of my company shall not be understood as neither given nor endorsed by it.

Co.Reg.no.: 198301152E

For OCBC Investment Research Pte Ltd



Carmen Lee
Head of Research