

Mossberg's Investor Digest

Best Idea Profile

China Yuchai International Limited (NYSE: CYD)

DESCRIPTION:

Established in 1993, China Yuchai International Limited is a holding company based in Bermuda that owns a controlling interest in Guangxi Yuchai Machinery Company Limited. Founded in 1951, Yuchai is the largest diesel engine, power generator and engine parts manufacturer and distributor in China. Yuchai sells light, medium and heavy-duty diesel engines, parts and generators to auto OEMs and retailers. In addition, the company holds interests in businesses engaged primarily in supply chain management, electronic manufacturing services, property development and investment, and hospitality operations in China and other Far Eastern countries.

KEY INVESTMENT CONSIDERATIONS:

Secular growth for diesel engines in China - China has expanded its highways and toll roads over the past several years, which has also led to a demand for trucks and buses, benefiting CYD's growth since 2005. According to The Infoshop, Asia/Pacific is now the world's largest market for diesel engines and is expected to exceed 1/3 of the market by 2012. As one of a few manufactures that meet European emission standards, Yuchai's sales are likely to benefit from stricter emission standards that are expected to be implemented in China. While the Chinese economy was not immune to the global financial crisis in 2008, it has improved in 2009 with the government providing a financial stimulus to the economy in efforts to attain a GDP growth target of at least 8%. Sales for CYD have rebounded nicely for the first three quarters of FY09 (\$1.44B vs. \$1.52B for all of FY08).

Becoming more investor friendly could drive valuation multiples - CYD recently held its first conference call with the investment community. Third quarter results were announced in November, with management addressing questions from investors for the first time in the company's history. CYD plans to continue to hold regular conference calls. Yuchai also stated that they plan to meet with investors on a road show to the U.S. early in 2010. Increased transparency and exposure by these actions could lead to a larger investor base and should provide support for higher valuation multiples.

A strong cash balance and moderate amount of debt - With nearly \$40 million in cash and \$140 million in short and long-term debt at the end of 3Q09, Yuchai had \$6.97 in net cash per share at the end of its most recently reported quarter.

Strong competitive position - CYD is the largest manufacturer and distributor of diesel engines in China, giving it significant efficiencies of scale. The company recently signed a joint venture with Caterpillar to start a diesel engine remanufacturing business. In addition, Yuchai has a strong reputation among truck manufacturers and consumers for performance and reliability and provides after-sales service to end-users, both of which competitively differentiate CYD from other domestic diesel engine manufacturers.

VALUATION:

The 2009 financial performance estimates in the table below are based on performance during the first nine months of the year and management's comments during the most recent conference call. Based on these estimates, the stock appears attractive on several metrics. The leading provider in a market segment that is experiencing long term secular growth and is valued at less than 2x EV/ EBITDA is very attractive. CYD has hired Ernst & Young as its auditor after having some reporting issues during 2008. Hiring a respected accounting firm combined with increased transparency should give investors more confidence in the truthfulness and accuracy of its numbers and allow valuation multiples to expand.

(NYSE: CYD)	
Investment Data (as of 1/29/10)	
Recent Price	\$13.40
52-Week Range	3.17 - 19.92
Fiscal Year End	December
Dividend	\$0.10
Yield	0.8%
Shares Outstanding	37 MM
Average Trading Volume (3 mos)	500,000
Market Capitalization	\$500 MM
Cash	\$399 MM
Debt	\$140 MM
Enterprise Value (EV)	\$240 MM
Debt/ Equity	0.25
BV/ Share	\$15.38
2009 Revenue (estimate)	1.9B
P/ Revenue	0.3
2009 EPS (estimate)	1.80
P/ EPS	7x
2009 EBITDA	140 MM
EV/ EBITDA	1.7x

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