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# Shah Capital Urges Changes at China Yuchai International

By Emily Glazer

A major investor of [China Yuchai International](#) Ltd., a Singapore holding company for a Chinese diesel engine manufacturer, is proposing the company increase its stake in the manufacturer, among other changes.

Investment firm Shah Capital Management is expected to release a 13D filing on its proposal as soon as Tuesday evening, said Shah Capital President Himanshu Shah.

In a letter to China Yuchai's chairman and a director sent on June 13, Raleigh, N.C.-based Shah Capital, which owns about 6.2% of China Yuchai and is one of its largest shareholders, urged the company to increase its stake in its main operating subsidiary, divest stakes in two underperforming companies and hire an investment bank to dual-list the company on the Hong Kong Stock Exchange. Currently shares trade on the New York Stock Exchange.

China Yuchai, through its China-based subsidiary Guangxi Yuchai Machinery Company Ltd., manufactures, assembles and sells diesel engines for construction equipment, trucks, buses and cars in China and overseas markets. It also produces diesel power generators, mostly used in the construction and mining industries.

"China Yuchai is a No. 1 company in terms of research and development, distribution, market share....the balance sheet is rock solid," Shah said. "But that is not reflected at all in the valuation in the marketplace today."

Shah said he thinks shares should be worth more than \$50 even though it is trading around \$18.

Investor relations spokespeople from China Yuchai declined to comment.

Philip Ting, chief executive of [Hong Leong Asia](#) Ltd., the controlling shareholder of China Yuchai, said in a letter to Shah Capital reviewed by The Wall Street Journal that China Yuchai's annual shareholder meeting is an "appropriate forum to discuss the various points raised in [the] letter."

That meeting is typically in late June, according to past meeting dates listed by the company.

Shah Capital, which manages about \$200 million in assets, proposes that China Yuchai would be worth more if it increased its stake in its main operating subsidiary Guangxi Yuchai Machinery Company from

76.4% to 100%.

Shah Capital also urges China Yuchai to sell its remaining roughly 50% stake in real estate company [HL Global Enterprises](#) Ltd. and roughly 8% stake in [Thakral](#) Corp. , a consumer electronics distribution company.

These sales would help the investment community to see China Yuchai as a diesel engine company only, not a conglomerate, which could suffer from a so-called conglomerate discount, Shah said.

If China Yuchai increases its stake in Guangxi Yuchai Machinery Company to 100%, it would be eligible to dual list on the Hong Kong Stock Exchange. Some of its peers trade with higher valuations on the Hong Kong Stock Exchange despite their smaller size or less competitive market positions, Shah said.

China Yuchai had an initial public offering on the New York Stock Exchange in 1994. For its most recent year ending December 31, 2012, China Yuchai reported about \$2.14 billion in revenue, according to a financial filing.

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