

## Equity Focus

## Lonking (3339 HK) July 15, 2013

**Rating: BUY**  
**TP: HK\$ 1.86**

Previous Rating & TP: BUY, HK\$ 1.86  
Previous Report: June 24, 2013

### Key Data

Share price (HK\$)	1.56
Upside potential (%)	19.23
52Wk H/L(HK\$)	2.48/1.01
Issued shares (mn)	4,280
Market cap (HK\$ mn)	6,677
3-mth avg daily turnover (HK\$ mn)	53.3
Major shareholder(s) (%):	
Li San Yim & spouse	55.69

Source: Company, Bloomberg, ABCI Securities

### FY12 Revenue breakdown (%)

Wheel loaders	65.36
Excavators	11.14
Fork lifts	10.37
Road rollers	1.46
Finance lease interest income	1.33
Others	10.33

Source: Company, ABCI Securities

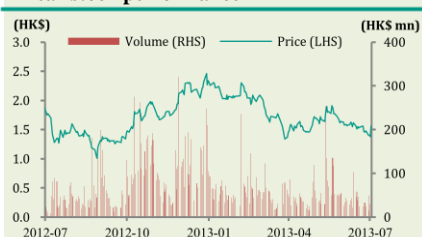
### Share performance (%)

	Absolute	Relative*
1-mth	(1.27)	(0.91)
3-mth	(1.89)	1.86
6-mth	(30.97)	(24.53)

\*Relative to HSI

Source: Bloomberg, ABCI Securities

### 1-Year stock performance



Source: Bloomberg, ABCI Securities

### Analyst Information

**Steve Wong**  
Tel: (852) 2147 8869  
Email: [stevecwong@abci.com.hk](mailto:stevecwong@abci.com.hk)

### Recovery Momentum Continued in June

Lonking announced its sales volume of wheel loaders was up 4.41% YoY, and that of the excavator and fork lift was up 294.12% YoY and 19.93% YoY, respectively, in June. We see a strong recovery signal in Lonking's sales in 2Q13. Looking forward, with the stable growth in construction downstream industries, we expect sales growth will continue to improve in 2H13. The counter is trading below 1.0x BVPS (vs. an average P/B of 2.43x since 2006). Reiterate BUY with TP at HK\$ 1.86 on recovery signals in machinery sector.

**Sales recovery continued in June.** Monthly sales data of Lonking showed growth in June. Overall performance in 1H13, decline in sales volume of wheel loader continued to narrow from -14.84% in 5M13 to -12.05% in 1H13, while YoY sales volume growth of excavator and fork lift accelerated from 97.74% and 11.01% in 5M13 to 294.12% and 19.93 in 1H13, respectively. With the recovery in construction downstream industries (transportation FAI was 23.7% in 5M13 vs. 9.1% in full year of 2012), liquidity of upstream machinery leasing agents is expected to increase.

**Sales growth momentum expected to continue.** Thanks to the prudent corporate governance on credit sales control, earnings quality and cash flow management are sound (positive operating cash flow for FY11 and FY12). We believe there is room for Lonking to increase its working capital in 2H13 in order to ride on the machinery sector recovery. We are positive on its revenue growth, and expect the growth momentum in earnings will continue in 2H13.

**Reiterate BUY.** The counter is trading at 0.76x FY13E P/B. As market statistics indicate the Group and its downstream peers are recovering, its P/B deserves an upward re-rating in 2H13. We believe the current valuation is undemanding. Maintain BUY

**Risk factors:** 1) Competition from international players; 2) Recovery of machinery industries usually lags behind the construction ones; 3) Sustainability of recovery in construction and related sectors.

### Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue(RMB mn)	12,721	7,896	8,778	9,940	11,086
Chg (%YoY)	5.83	(37.93)	11.17	13.23	11.53
Net Income (RMB mn)	1,730	151	603	851	1,015
Chg (%YoY)	(2.04)	(91.27)	299.47	41.03	19.32
EPS (RMB)	0.40	0.04	0.14	0.20	0.24
Chg (%YoY)	(2.04)	(91.27)	299.47	41.03	19.32
BVPS (RMB)	1.50	1.46	1.64	1.85	2.09
Chg (% YoY)	22.21	(2.52)	12.61	12.84	12.92
P/E (x)	-	35.52	8.89	6.30	5.28
P/B (x)	-	0.86	0.76	0.68	0.60
ROE (%)	29.71	2.39	9.09	11.37	12.02
ROA (%)	11.69	1.02	4.16	5.54	6.35
DPS(RMB)	0.12	0.00	0.04	0.05	0.06
Yield (%)	-	0.00	2.81	3.97	4.73

Sources: Company, Bloomberg, ABCI Securities estimates (Rmb1.0=HK\$1.245)

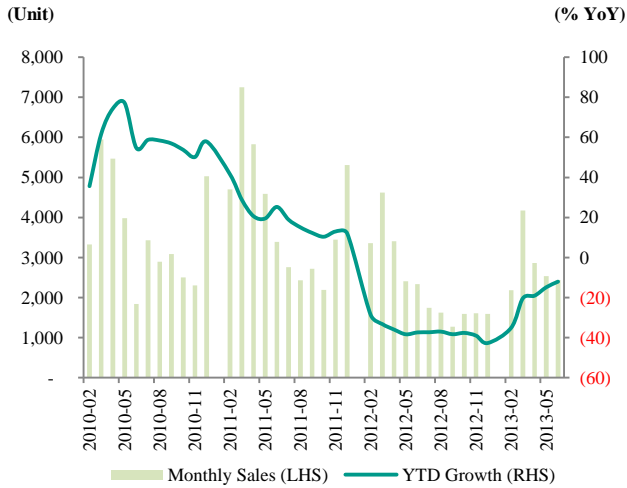


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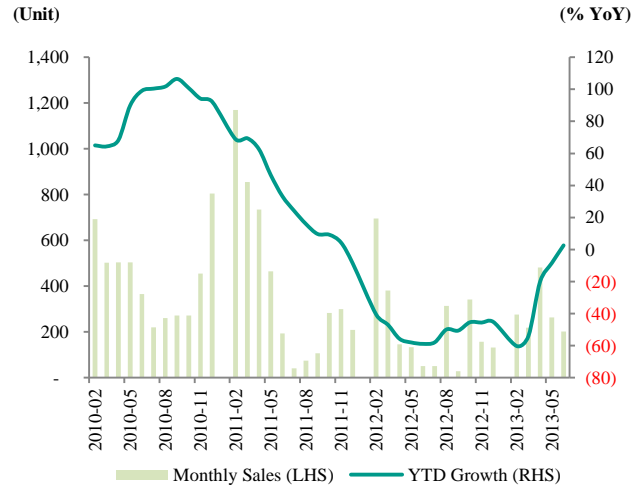
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Exhibit 1: Sales volume and YTD growth of wheel loader of Lonking in 1M10 – 1H13



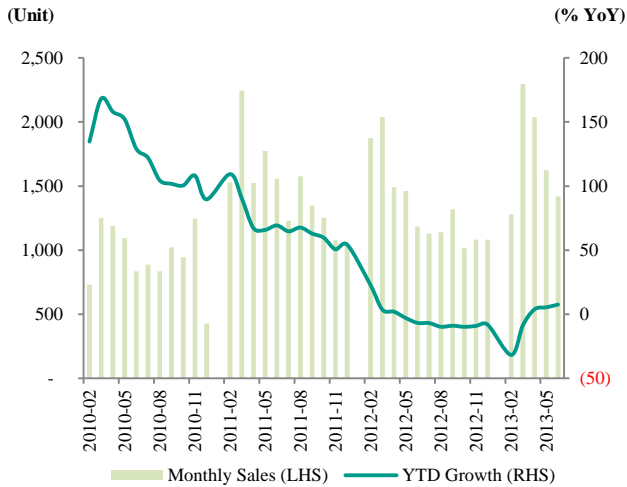
Sources: CCMA, Media

Exhibit 2: Sales volume and YTD growth of excavator of Lonking in 1M10 – 1H13



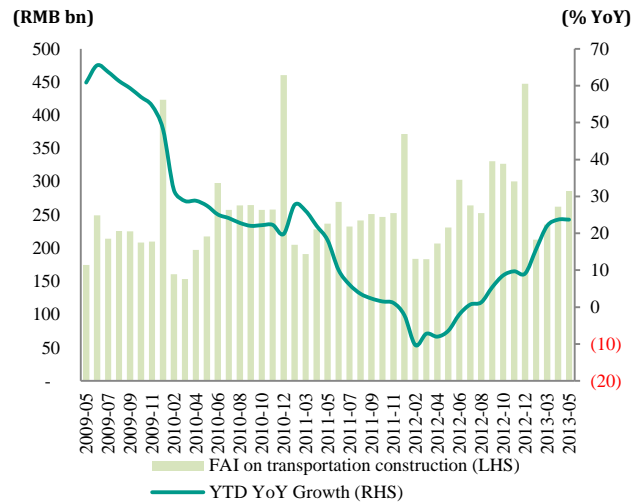
Sources: CCMA, Media

Exhibit 3: Sales volume and YTD growth of fork lift of Lonking in 1M10 – 1H13



Sources: CCMA, Media

Exhibit 4: Transportation FAI in 5M09 – 5M13



Source: NBS



Exhibit 5: Peer group valuation and earnings forecasts summary (July 12, 2013)

Company	Ticker	MKT CAP <sup>1</sup> (HKD mn)	Share Price	PER (x)		EPS Change (%)		P/B (x)		ROE (%)		
				FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	
<b>Construction Machinery Makers</b>												
CATERPILLAR INC	CAT US	442,344	USD	86.70	12.72	10.95	-21.76	16.21	2.81	2.36	29.80	37.50
KOMATSU LTD	6301 JP	184,818	JPY	2400	12.32	11.24	46.88	9.62	1.78	1.61	13.28	15.65
SANY HEAVY INDUS	600031 CH	70,082	RMB	7.28	8.01	6.23	21.20	28.49	1.92	1.53	25.04	27.02
ZOOMLION HEAVY-H <sup>2</sup>	1157 HK	7,479	HKD	5.23	4.54	3.76	-2.65	20.57	0.67	0.57	16.06	16.45
ZOOMLION HEAVY-A <sup>2</sup>	000157 CH	42,279	RMB	5.33	5.76	4.77	-2.65	20.57	0.85	0.72	16.06	16.45
XCMG CONSTRUCT-A	000425 CH	20,649	RMB	7.92	5.33	5.08	23.92	4.91	0.82	0.72	15.09	15.31
GUANGXI LIUGONG	000528 CH	9,173	RMB	6.45	8.96	6.45	188.00	38.89	0.74	0.70	4.73	7.47
TEREX CORP	TEX US	24,447	USD	28.34	14.34	9.41	105.83	52.48	1.31	1.13	10.44	12.84
TADANO	6395 JP	15,266	JPY	1505	18.49	16.54	40.71	11.77	2.01	1.81	7.95	11.51
SHANTUI CONST-A	000680 CH	4,937	RMB	3.43	21.44	16.10	433.33	33.13	0.92	0.91	4.31	5.68
XIAMEN XGMA-A	600815 CH	4,836	RMB	3.99	-44.33	14.25	-156.25	-411.11	0.83	0.79	-1.82	5.67
<b>LONKING HOLDINGS<sup>2</sup></b>	<b>3339 HK</b>	<b>6,677</b>	<b>HKD</b>	<b>1.56</b>	<b>8.89</b>	<b>6.30</b>	<b>299.47</b>	<b>41.03</b>	<b>0.76</b>	<b>0.68</b>	<b>9.09</b>	<b>11.37</b>
<b>Sector Weighted Average</b>					<b>11.43</b>	<b>10.11</b>	<b>11.05</b>	<b>14.81</b>	<b>2.22</b>	<b>1.89</b>	<b>22.81</b>	<b>27.85</b>
<b>Agricultural Machinery Makers</b>												
DEERE & CO	DE US	253,609	USD	84.25	9.89	9.72	10.32	1.78	3.25	2.60	38.89	29.33
MAHINDRA & MAHIN	MM IN	71,632	INR	901.00	11.82	9.75	9.65	21.25	2.27	1.93	17.75	16.15
CNH GLOBAL NV	CNH US	82,320	USD	43.79	8.72	8.36	5.87	4.34	1.11	0.98	15.58	16.51
FIRST TRACTOR-H <sup>2</sup>	38 HK	1,680	HKD	4.18	10.72	6.97	-10.68	53.83	0.74	0.66	7.04	10.02
FIRST TRACTOR-A <sup>2</sup>	601038 CH	5,465	RMB	7.28	23.24	15.11	-10.68	53.83	1.61	1.42	7.04	10.02
ESCORTS LTD	ESC IN	1,311	INR	82.85	8.40	6.89	59.32	21.91	0.55	0.51	7.46	7.65
<b>Sector Weighted Average</b>					<b>10.17</b>	<b>9.51</b>	<b>9.12</b>	<b>6.60</b>	<b>2.62</b>	<b>2.13</b>	<b>29.99</b>	<b>24.12</b>
<b>Mining Machinery Makers</b>												
JOY GLOBAL INC	JOY US	42,354	USD	51.38	8.76	9.23	-18.56	-5.10	1.74	1.52	26.52	24.66
ZHENGZHOU COAL-H <sup>2</sup>	564 HK	1,200	HKD	4.94	5.63	4.16	-28.15	35.26	0.65	0.58	12.02	14.80
ZHENGZHOU COAL-A <sup>2</sup>	601717 CH	11,060	RMB	6.35	9.02	6.67	-28.15	35.26	1.05	0.93	12.02	14.80
TIAN DI-A	600582 CH	9,942	RMB	6.48	6.19	5.29	11.98	17.10	0.94	0.80	23.20	16.34
SANY HEAVY EQUIP <sup>2</sup>	631 HK	6,428	HKD	2.10	9.20	7.74	14.21	18.85	0.88	0.81	9.78	10.73
LINZHOU HEAVY-A	002535 CH	3,559	RMB	5.23	7.41	5.47	64.19	35.41	1.18	0.98	17.19	19.58
SUNWARD INTELL-A	002097 CH	3,058	RMB	5.88	25.57	39.20	955.05	-34.78	1.38	1.35	5.66	3.49
<b>Sector Weighted Average</b>					<b>9.06</b>	<b>9.17</b>	<b>28.71</b>	<b>6.79</b>	<b>1.41</b>	<b>1.24</b>	<b>21.17</b>	<b>19.82</b>
<b>Machinery Part Makers</b>												
CUMMINS INC	CMI US	169,677	USD	115.28	14.42	11.88	-8.00	21.40	2.84	2.42	22.78	21.99
WEICHAI POWER-H	2338 HK	46,382	HKD	24.40	10.72	9.16	21.87	17.07	1.37	1.20	13.74	14.05
TAIYUAN HEAVY-A	600169 CH	7,353	RMB	2.40	12.63	24.00	-238.58	-47.37	1.00	0.96	8.23	4.08
CHINA YUCHAI	CYD US	5,022	USD	17.37	6.27	5.34	13.99	17.33	0.64	0.60	10.60	11.60
<b>Sector Weighted Average</b>					<b>13.43</b>	<b>11.57</b>	<b>-8.87</b>	<b>18.22</b>	<b>2.43</b>	<b>2.09</b>	<b>20.21</b>	<b>19.57</b>
<b>Industrial Machinery Makers</b>												
VOLVO AB-B	VOLVB SS	226,390	SEK	91.35	21.78	11.70	-22.90	86.10	2.33	2.09	10.79	20.15
ATLAS COPCO-A	ATCOA SS	235,015	SEK	169.90	15.91	14.89	-6.75	6.87	5.07	4.47	33.46	30.41
HYUNDAI HEAVY	009540 KS	98,456	KRW	188000	7.18	5.96	45.28	20.38	0.76	0.72	10.58	12.39
SANDVIK AB	SAND SS	122,488	SEK	83.85	13.39	11.48	-3.78	16.65	2.86	2.54	19.94	19.61
DOOSAN HEAVY	034020 KS	31,184	KRW	42750	5.32	4.84	-447.41	10.00	1.20	1.15	22.14	24.24
MANITOWOC CO	MTW US	20,723	USD	20.01	16.77	11.59	54.94	44.68	3.56	2.97	24.66	29.54
ANHUI HELI CO-A	600761 CH	5,178	RMB	7.97	9.51	8.27	23.24	15.04	1.20	1.07	13.45	14.07
<b>Sector Weighted Average</b>					<b>15.66</b>	<b>11.60</b>	<b>-20.92</b>	<b>35.80</b>	<b>3.06</b>	<b>2.71</b>	<b>20.37</b>	<b>22.68</b>
<b>Weighted Average</b>					<b>12.68</b>	<b>10.59</b>	<b>-0.99</b>	<b>20.15</b>	<b>2.55</b>	<b>2.20</b>	<b>23.01</b>	<b>24.41</b>
<b>Median</b>					<b>9.51</b>	<b>8.77</b>	<b>11.98</b>	<b>18.85</b>	<b>1.20</b>	<b>1.07</b>	<b>13.45</b>	<b>15.31</b>

<sup>1</sup> The market capital value of the companies are translated into HKD;

<sup>2</sup> ABCI Securities estimates;

Sources: Bloomberg, ABCI Securities estimates

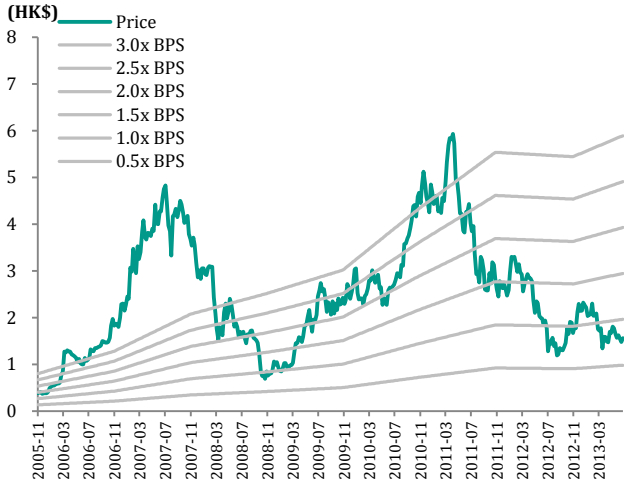


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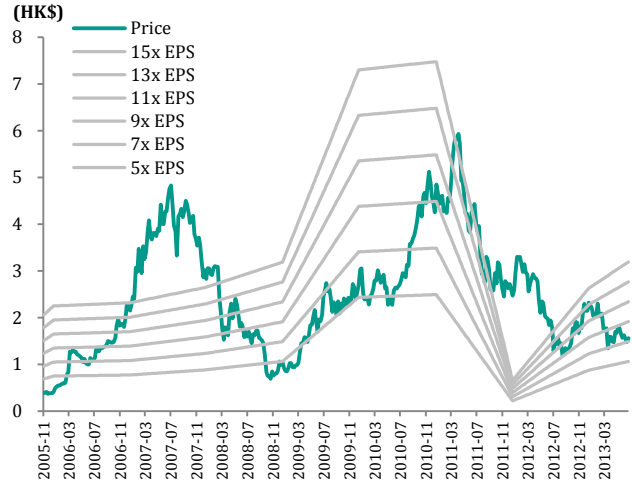
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Exhibit 6: P/B band of Lonking



Sources: Company, Bloomberg, ABCI Securities estimates

Exhibit 7: P/E band of Lonking



Sources: Company, Bloomberg, ABCI Securities estimates



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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return - 6% $\leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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**Office address:** ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

**Tel:** (852) 2868 2183