



**Key Data**

H-share price (31/5/2012)	HK\$11.38
Price target	HK\$13.59
Upside potential	19.4%
52Wk H/L(HK\$)	16.44 / 7.19
Issued shares (mn)	7,706
H-share	1,430
A-share	6,276
H-share market cap (HK\$m)	16,273
30-day avg vol (HK\$m)	213
Auditors	KPMG
Major shareholder:	
Hunan SASAC	16.2%

Source: Zoomlion & Bloomberg

**Share performance**

	Absolute	Relative*
1-mth	-0.7%	12.1%
3-mth	-4.2%	9.7%
6-mth	47.2%	41.7%

Source: Bloomberg

\*Relative to Hang Seng Index

**1 year price performance**



Source: Bloomberg

**Report Date:** 1 June, 2012

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**Zoomlion Heavy Industry (1157) – BUY**  
**12-month target price at HK\$13.59**

**Zoomlion is a leading construction machinery manufacturer** mainly providing concrete machinery and crane. The Group occupied 37.1% and 21.9% in concrete pump machinery and mobile crane market, respectively in FY11. We expect urban FAI to grow at a CAGR of 21.2% from 2011 to 2015. The Group is a major beneficiary from this development trend.

**We believe the sales of the Group will rebound in 2HFY12.** The PBOC has stated to loosen the monetary policy since last year. The increase in money supply induces the demand for the construction machinery because: 1) the machinery leasing agents have a lower cost of financing to purchase the construction machinery from the Group; and 2) the pace of development projects, such as affordable housing and railway construction, will speed up and the demand for construction machinery will be boosted subsequently.

**Its solid market position helps the Group to buck the trend.** The construction machinery market experienced a decline in 1QFY12. Most of its peers were suffered, such as XCMG's net income down 27.3% YoY dramatically in 1QFY12, while Zoomlion managed to post 3.2% YoY growth in net income during the same period.

**It expands the overseas market to diversify the business risk.** The Group targets to boost the sales from overseas markets by increasing the contribution from 5.5% in FY11 to 30% in FY15. The Group has raised US\$390mn via issuing Senior Notes in April this year to fund the overseas expansion.

Zoomlion is now trading at 6.6x FY13E PE. Our 12-month target price of HK\$13.59 is based on 7.9x (vs. mean PE of 9.3x since listing) of our FY13E EPS. We believe this valuation is justified as the estimated FY13E EPS is Rmb1,399, growing at a CAGR of 15.6% from FY11 to FY13. We believe re-rating will appear when the sales growth of the Group starts to regain momentum in 2HFY12. **We initiate Zoomlion with a "BUY" recommendation.**

**Results and forecast**

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
<b>Revenue (Rmb mn)</b>	32,193	46,323	53,468	65,014	77,175
<b>Chg (YoY)</b>	55.1	43.9	15.4	21.6	18.7
<b>Gross Profit (Rmb mn)</b>	9,769	15,007	17,549	20,788	25,119
<b>Chg (YoY)</b>	82.9	53.6	16.9	18.5	20.8
<b>Net Income (Rmb mn)</b>	4,666	8,055	9,033	10,956	13,314
<b>Chg (YoY)</b>	90.7	72.6	12.1	21.3	21.5
<b>Fully diluted EPS (Rmb)</b>	0.736	1.046	1.153	1.399	1.700
<b>Chg (YoY)</b>	63.5	42.2	10.3	21.3	21.5
<b>PE (x)</b>	13.1	8.8	8.0	6.6	5.4
<b>PB (x)</b>	2.5	2.2	1.9	1.6	1.4
<b>Yield (%)</b>	1.2	2.3	2.5	3.0	3.7
<b>ROAE (%)</b>	26.8	25.7	23.7	24.9	25.9
<b>ROAA (%)</b>	9.6	12.0	11.4	11.8	12.5
<b>Net gearing (%)</b>	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Zoomlion, ABCI Securities estimates

\*We assume Rmb1 = HK\$1.23



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## A Leading Machinery Manufacturer in China

### One of the leading machineries manufacturers

Zoomlion Heavy Industry Science & Technology Co. Ltd (the “Group”) is a leading China-based construction machinery manufacturer majorly providing concrete machinery and crane, with a presence in mainly in Asia and Europe. The Group offers more than 800 models of machinery and equipment covering more than 80 different product types across 12 industrial parks located in Hunan Province, Shaanxi Province and Shanghai Municipality, China and one located in Senago, Italy, specializing in the manufacture and assembly of different types of construction machinery.

The 1QFY12 results of the Zoomlion showed a tepid YoY growth on both the top line (up 8.1% YoY) and bottom line (up 3.2% YoY) due to the slowdown of infrastructure construction works during 1QFY12. However, we believe the infrastructure construction work will resume under the guideline of State Council announced during 2QFY12. The sales growth of Zoomlion is expected to regain in 2HFY12.

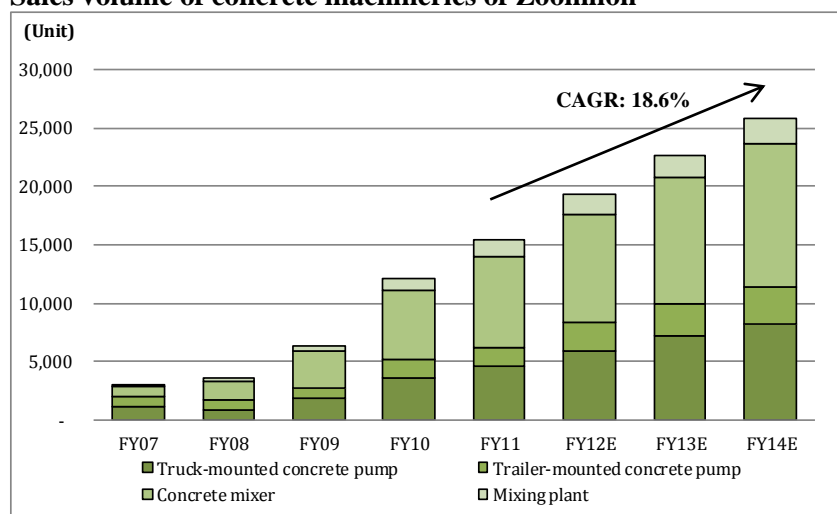
We estimate revenue will increase to Rmb53,468mn, up 15.4% YoY, in FY12. We estimate net income will increase to Rmb9,033mn in FY12, up 12.1% YoY. Fully diluted EPS will increase 10.3% YoY to Rmb1.153 in FY12.

### A leading manufacturer of concrete machinery

According to the sales data released by China Construction Machinery Association (“CCMA”), its sales volume of truck-mounted concrete pump accounted for 37.1% of market share in FY11, which followed by 51.0% of market share made by SANY Heavy Industry (600031 CH).

We estimate that the sales volume of the key types of concrete machinery of the Group will grow at a CAGR of 18.6% from FY11 to FY14.

### Sales volume of concrete machineries of Zoomlion



Source: Zoomlion, CCMA, ABCI Securities estimates

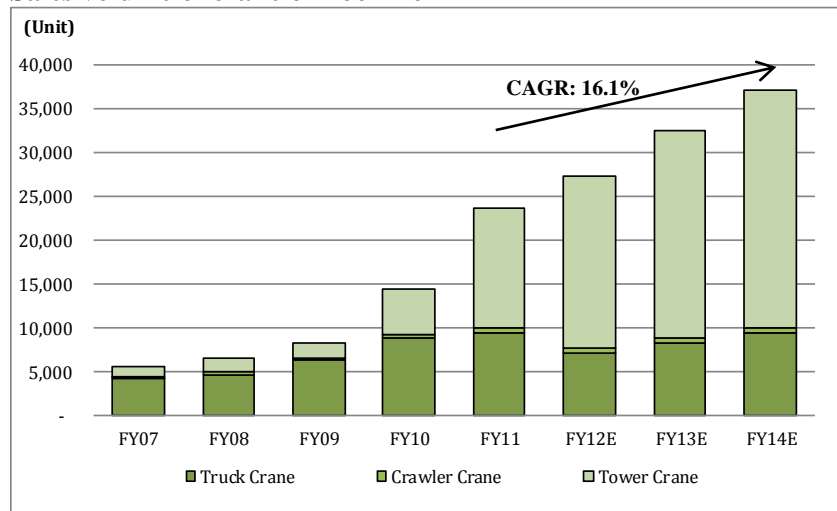


### The 2<sup>nd</sup> largest manufacturer of mobile crane

The Group is also the second largest mobile crane manufacturer in China. It occupied 21.9% of market share of mobile crane in FY11. It followed the 50.6% of market share made by XCMG Construction Machinery (000425 CH).

We estimate that the sales volume of crane of the Group will grow at a CAGR of 16.1% from FY11 to FY14.

### Sales volume of crane of Zoomlion



Source: Zoomlion, ABCI Securities estimates

### Expansion of overseas market

Zoomlion not only focuses on the businesses in China, but also the overseas markets. The targeted markets include Italy, Germany, Japan, India, South Africa, Australia and the US.

The Group acquired Compagnia Italiana Forme Acciaio S.p.A (“CIFA”). The acquisition helped to position the Group to be a global concrete machinery manufacturer by combining the leading market position in China with CIFA’s technological capabilities and its distribution and service network in Europe.

The total revenue from overseas sales accounted for 5.5% of total revenue in FY11, which dropped from 20.4% in FY08. This drop in contribution from overseas markets was primarily because of the emphasis inclining toward the Chinese domestic market, which experienced a fast growth during FY08 to FY11.

However, due to the slowdown in domestic market, Zoomlion has refocused on the overseas market. The Group targets to expand the contribution from overseas markets to 30% by 2015.

In order to expand the overseas business, the Group issued the 6.875% guaranteed Senior Notes due 2017 in the principal amount of US\$400mn in April 2012 on Singapore Exchange (“SGX-ST”). The amount of net proceeds is approx. US\$390mn.

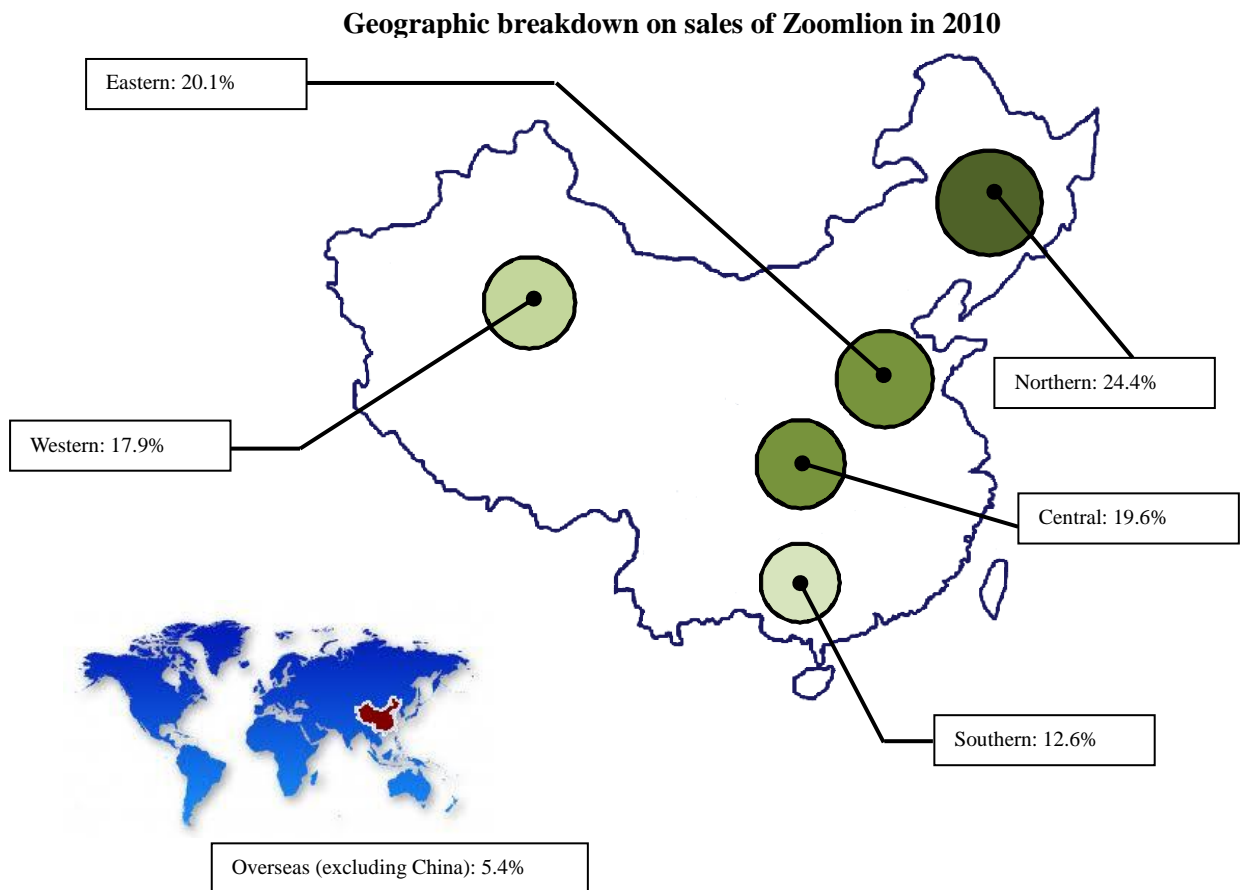


### Geographically diversification

The Group is the first China-based construction machinery manufacturers that have established a global operational and research platform, as well as the sales and distribution network. It delivered products to over 80 different countries through its strong overseas distribution and service network in FY11.

As at end-2011, the distribution network consisted of 40 outlets, 28 service centers and 13 parts and components depots owned and operated by Zoomlion. Besides the self-operated distribution network, there are 17 outlets, 82 service centers and 25 parts and components depots owned and operated by 43 third-party dealers.

In order to expand the overseas market, the Group acquired CIFA in 2008. The acquisition of CIFA has enabled the Group to integrate CIFA's distribution and service network in Europe, Middle East and Africa.



Source: Zoomlion, ABCI Securities



## Product Portfolio Analysis

The major types of products of Zoomlion are concrete machinery and crane, which are mainly used in the construction sites. These two major products accounted for 79.5% of the total revenue in FY11.

### Concrete Machinery

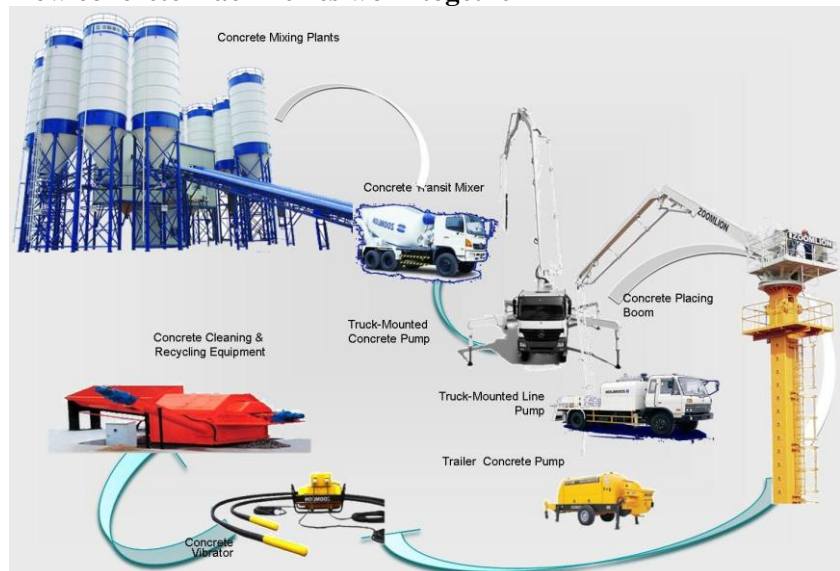
Concrete machinery is the key product of Zoomlion, contributing 45.8% of the total revenue in FY11. The Group produces a wide range of concrete machinery used for the production, transportation and laying of concrete in commercial and residential construction sites, as well as infrastructure projects.

The concrete machinery primarily includes truck-mounted or trailer-mounted concrete pumps, concrete placing booms truck-mounted concrete mixers, and concrete mixing plants. The Group's concrete machinery business division is comprised of two product brands: Zoomlion and CIFA.

CIFA is a worldwide leading concrete machinery manufacturer, having 23% and 20% market share in mixers and pumps respectively in Western Europe, and captures 16% of market share in both mixers and pumps in its core market, which includes west Europe, east Europe, Middle East and Africa. Zoomlion acquired 100% equity stake of CIFA in 2008.

According to the CCMA, the market share of truck-mounted concrete pump of Zoomlion and SANY in China were 37.1% and 51.0%, respectively in FY11. The third largest player was XCMG, accounted 8.1% of market share in FY11.

### How concrete machineries work together



Source: CIFA Website



## Crane

The second pillar of Zoomlion is crane business division, which accounted for 33.7% of the total revenue in FY11. The Group offers truck cranes, crawler cranes and tower cranes. The truck cranes and crawler cranes are primarily used in the construction, repair and maintenance of infrastructure, buildings and manufacturing facilities to lift and transport equipment and materials. Tower cranes are stationary and assembled on the construction or work sites and are able to carry greater loads and reach greater heights due to the increased stability.

Sales revenue of truck cranes accounted for approx. half of the revenues in the crane business division. Thanks for the market consolidation in China, Zoomlion's market share of crane in terms of sales volume improved significantly. Its market share of truck cranes was lifting from 21.9% in FY08 to 26.7% in FY11, and its market share of crawler crane in China rocketed from 14.5% in FY08 to 25.9% in FY11. Its market share of tower crane in China also increased from 5.5% in FY08 to 13.9% in FY11.

The Group is the second largest player in the overall mobile crane market in China in terms of sales volume. It occupied 21.9% of market share in FY11, followed the 50.6% of market share made by XCMG. The third player was SANY, which accounted for 8.3% of market share in FY11.

## Environmental and sanitation machineries (“ESM”)

The Group also provides the environment and sanitation machineries (“ESM”), which are less correlated with the business cycle of construction industry. ESM is used for the cleaning and maintenance of urban areas as well as processing domestic solid waste. The Group offers a wide range of environmental and sanitation machinery, including road sweepers, washing vehicles, waste treatment equipment, sewer dredging maintenance vehicles and snow removal vehicles.

However, due to the great difference in nature between the ESM and the core products (concrete machinery and crane), the resources for the production of ESM cannot be efficiently cooperated with that of concrete machinery and crane. Besides, the Group thinks that the growth opportunity of ESM business is limited and the business volume, which contributed 6.4% of total sales in FY11, is far less than that of concrete machinery and crane. In order to concentrate the resources to develop the core business, Zoomlion considers disposing its ESM business.

## Other types of machinery











The Group also offers road construction machinery, pile foundation machinery and earth working machinery as well. The miscellaneous contributed 10.7% of sales in FY11.

## Financial income from leasing

The rest of 3.4% of sales in FY11 was attributed to the financial income from its leasing business. 34.8% of the sales were made in financial lease in FY11. The Group offered financial lease service via its wholly-owned subsidiary. It is a common way among the international player, such as Caterpillar (CAT US).



Table of major products of Zoomlion

	Product	Key Features	Sample model
<b>Concrete Machinery</b>	<b>Truck-mounted Concrete Pump</b>	Transport and deliver concrete through a hose attached along a folding boom with a jib that can be rotated in various angles and directions	
	<b>Trailer-mounted Concrete Pump</b>	Deliver and pump concrete. With higher maximum concrete delivery height compared with the truck-mounted concrete pumps	
	<b>Concrete Mixing Plant</b>	Capable of mixing hard concrete, semi-hard concrete, plastic concrete and other kinds of concrete in different ratios (Zoomlion designs the plants and installs, but not constructs)	
	<b>Truck-mounted Concrete Mixer</b>	Transport concrete from the concrete mixing plant to the construction site while continuously mixing the concrete during transport	
<b>Crane</b>	<b>Truck Crane</b>	Lift through a telescopic boom with an attached scalable jib that can reach varying maximum heights	
	<b>Crawler Crane</b>	Move materials and equipment on rough or uneven terrain, and are often located for long periods of time on a single construction or work site such as a building site, highway or utility project	
	<b>Tower Crane</b>	Used in space-constrained urban areas and in long-term or high-rise building sites	
<b>Environmental and Sanitation Machinery</b>	<b>Road Sweeper</b>	Used for sweeping and dust-removal	
	<b>Washing Vehicle</b>	With various working width, spraying width and water pressure system used	
	<b>Waste Treatment Equipment</b>	Comprehensive range of waste treatment equipment to provide complete waste treatment systems for its customers	

Source: Zoomlion





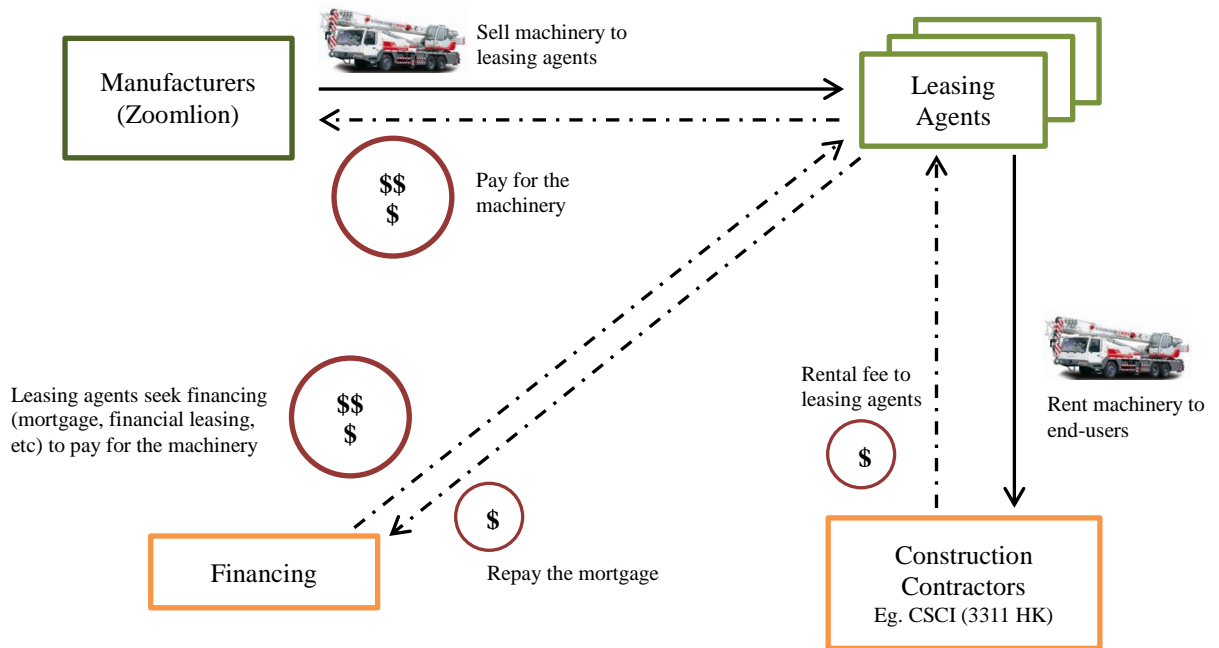
### Industry Analysis

Zoomlion focuses on the construction machinery manufacturing business. As 94.5% of total revenue of the Group in FY11 was driven from domestic market, the sales performance of the Group is subjected to the macroeconomics in China.

### Short term growth catalyst – Money supply

Although the end-users of the construction machineries are contractors or project developers, the customers of Zoomlion are machinery leasing agents. Money supply in the market significantly affects the purchases made by the leasing agent because of the concern over cost of financing. The larger the money supply, the greater the motivation of purchasing the machineries is, and hence and a stronger sale of machinery manufacturers is induced.

### Business operation diagram



Source: ABCI Securities

Under this circumstance, we believe that, besides FAI and urbanization in China, the money supply is also one of the key factors affecting sales performance of Zoomlion.

Statistically, the relationship between the short term growth of the sales of machineries and the money supply is stronger than that between the sales of machineries and fixed-asset investment (FAI). For more detail on the statistical deduction, please see our appendix.

In order to curb the speculation activities in the property market and to contain inflation pressure, China has imposed a series of monetary tightening measures since 2011. The austerity measures caused the decline of sales in the construction machinery industry in 1Q12.



### Inflation under control and relief of tight monetary

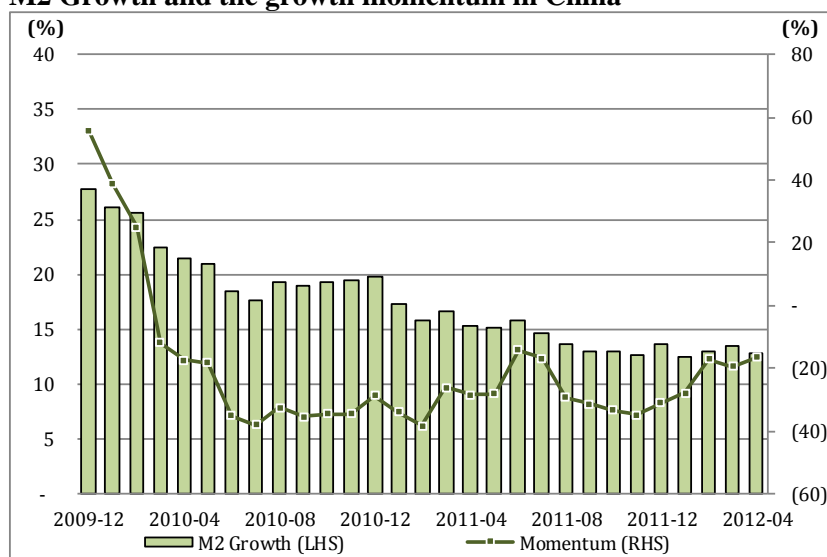
The inflation was cooled down. CPI mitigated from the peak at 6.5% in July-2011 to 4.1 at year end of 2011. And it further dropped to 3.5% in April-2012. Therefore there is room for Chinese Government to expand monetary policy gradually in order to support the economic growth under the turmoil of recession of global economy triggered by the Euro debt problem.

We expect that the M2 growth rate will climb up to 14% for the rest of this year. The expected growth of money supply provides liquidity to meet the Government goals, such as: completion of 5mn units of affordable housing in 2012 and 6,366km of new railway tracks by 2015.

### Tight monetary cause the decline of machinery in 4MFY12

The YoY growth of M2 was dropping from 27.7% in year end of 2009 to 12.8% in April 2012. The 1 year interest rate increased from 5.81% in year end 2009 to 6.56% in April 2012, while the RRR increase from 15.5% to 20.5% under the same period of time. The figure below shows the M2 growth in China. We define M2 growth momentum as percentage change of M2 growth YoY.

### M2 Growth and the growth momentum in China



Source: Bloomberg

The increase of RRR and interest rate in China tightened the money supply gradually during the period. It caused the increase in cost of financing which discouraged the purchases from leasing agent and also slowed down the infrastructure construction works. Therefore the sales volume of construction machinery dropped significantly at the beginning of this year.

The market sales volume of truck crane was dropped by 46.7% YoY in the first 4 months in 2012. The volume sale of excavator and wheel loader declined 40.5% and 26.3%, respectively under the same period.

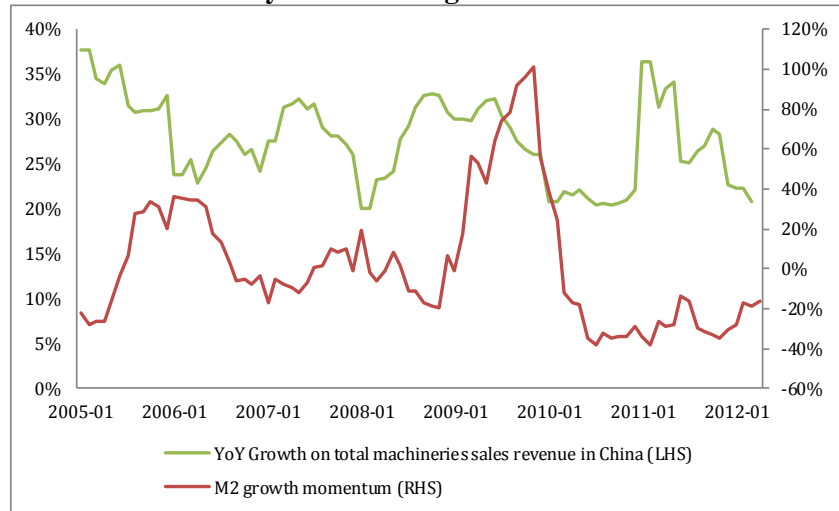
The construction machinery market experienced a decline in 1QFY12. Most of its peers were suffered, such as XCMG's net income down 27.3% YoY dramatically in 1QFY12, while Zoomlion managed to post 3.2% YoY growth in net income during the same period.



### Our projection on machinery sales

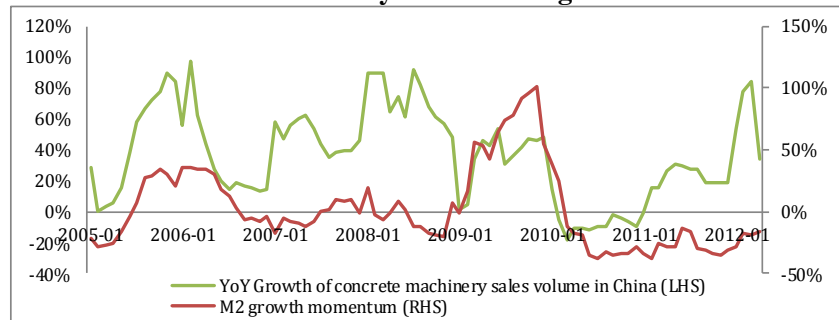
The short term sales performance of concrete machineries and crane are subject to the money supply environment. We estimate that the total sales volume of mobile crane in China will regain in the 2H12 and the full year decline rate will mitigate to 5% in 2012 from 40% in 1Q12. On the other hand, under the demand driven by the replacement needs, concrete machinery experienced an ultra-fast growth at 84.7% YoY in 1Q12. Although we believe such fast growth will be cooled down, the full year sales growth will maintain at a relatively high level of 25% YoY.

#### Growth of machinery sales vs. M2 growth momentum



Source: Wind

#### Growth of concrete machinery sales vs. M2 growth momentum



Source: Wind

#### Growth of crane sales vs. M2 growth momentum



Source: Wind



## Long term growth drivers

We identify the long term growth drivers of Zoomlion are as followed:

1. Urbanization of China inducing a large number of construction projects;
  2. Construction projects under 12<sup>th</sup> 5 Year Plan for economic growth.
- All these create demand for construction machinery

## Urbanization of China

### Population influx to cities under urbanization

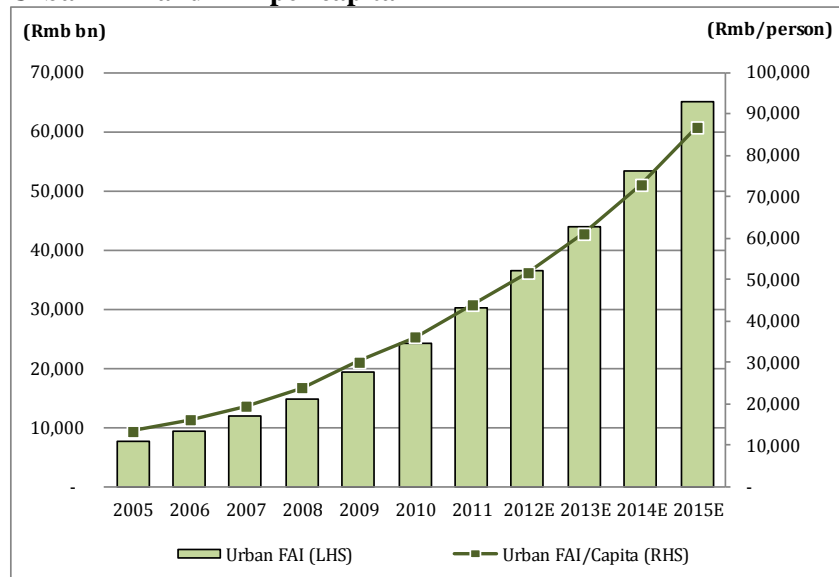
In order to relief the labour shortage problem in the cities, Chinese Government has placed lot of emphasis on urbanization to release the workforce from the rural to urban area. The machineries sector benefits from the induced construction projects from urbanization of China.

The urbanization rate of China in 2000 was 35.8%, while it surged to 51.3% in 2011. The urbanization rate of China is still far below than that in many developed countries. The Chinese Government plans to enhance the urbanization rate to 55.0% by 2020. Against this backdrop, we estimate that there will be 5.9mn of people in total migrating from rural area to cities by during 2012-15. It will induce a large number of construction works.

### Growth momentum of FAI per capita remain strong

The urban FAI per urban capita grew at a CAGR of 20.3% from Rmb5,712 in 2000 to Rmb43,708 in 2011 under the rocketing economic growth of China. Considering with the functionality of supporting GDP targeted at 7.5% in 2012, we estimate the urban FAI in China to grow at a CAGR of 21.2% from 2011 to 2015. The construction will create demand for construction machinery and support the sales growth of Zoomlion.

### Urban FAI and FAI per capita



Source: National Statistics Bureau, ABCI Securities estimates



## Construction work under 12<sup>th</sup> 5 Year Plan

### Affordable housing create demand for construction machinery

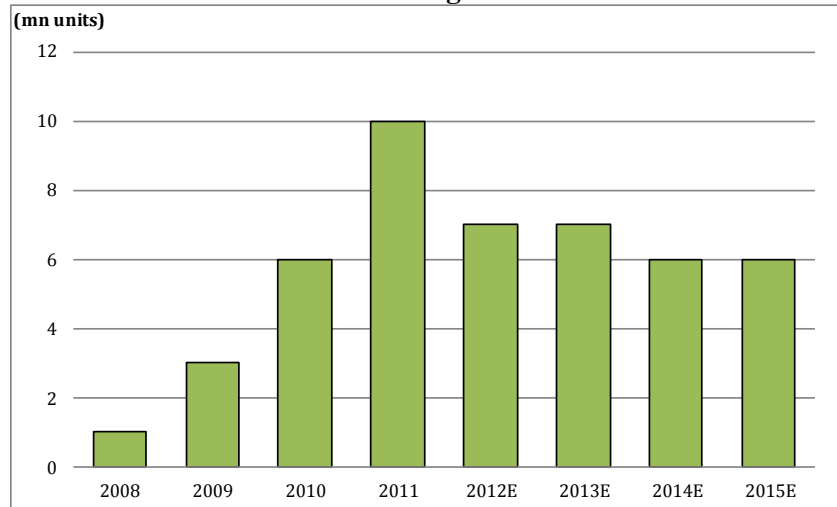
The construction of affordable housing creates demand for construction machineries. It will be one of the growth drivers for sales of Zoomlion in the 12<sup>th</sup> 5-year of China.

Under the 12<sup>th</sup> 5-Year Plan, Chinese Government targets to build 36mn units of affordable housing. About 10mn units of affordable housing were started and 4.3mn units were completed in 2011. Since 2012, Government stated that they focus on execution of construction rather than the number of construction starts.

According to National Development and Reform Commission, it targets to start 7mn units and complete 5mn units in 2012 and to complete the construction of 36mn units of affordable house by 2015.

We believe the local governments are likely to put more effort and complete the affordable housing projects that are behind schedule in 2012. The total number of starts was about 2.3mn units and the completion was about 1.5mn units in the first 4 months in 2012. The total investment was about Rmb247bn.

### Units of starts of affordable housing in China



Source: State Council, ABCI Securities estimates



### Fixed asset investment of railway 2012

We expect the construction of railway will resume in 2Q to 3Q12. It will spur on the demand for construction machineries, especially the trunk crane. The sales of mobile crane of Zoomlion will regain in 2HFY12.

2,022km rail tracks were completed in 2011, down 45.2% YoY. It was less than half of the 5,000km targeted. Several projects that are due to start construction this year have been deferred to 2013 or possibly later because of lack of funds, while others due to be completed in 2012 will be delayed between six months to a year. Total length of the proposed projects has a combined network of 10,620km lines. It created a pressure to Ministry of Railway to catch up the lag-behind. We expect that the construction pace will start to regain in 2Q to 3Q12.

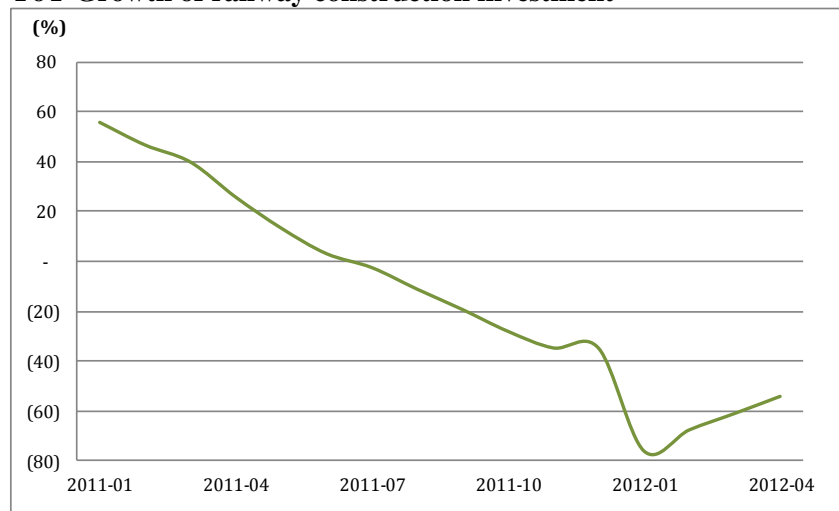
The expected fixed asset investment of railway construction is Rmb500bn in 2012, according to the Ministry of Railways. A total of 6,366km of new lines is targeted to be built in 2012. Based on the target, FAI per km is approx. Rmb78.5mn.

The financial problem of Ministry of Railway will be a great burden for construction expansion of railways. According to the documents released by ShangHai Clearing House on 2012-May-2, Ministry of Railway had a net loss of Rmb6,979mn recorded during 1QFY12, largely deteriorated from net loss of Rmb3,760mn in 1QFY11.

Therefore the total FAI for railway construction has been slowed down significantly. The total FAI was Rmb89.6bn during the first 4 months in 2012 down 48.3% YoY. The total investment of infrastructure construction was Rmb71.7bn, down 54.1% YoY during the same period. It represents a completion of 17.9% of the targeted Rmb500bn FAI in 2012.

In order to catch up with the expansion target, Ministry of Railway has issued a short term note with fund raising of Rmb20bn. Furthermore, the banks have sourced a funding channel of over Rmb20bn to the Ministry. Under these circumstances, the construction works of railway is likely to resume, and the sales of mobile crane of Zoomlion will regain in 2HFY12.

### YoY Growth of railway construction investment



Source: Ministry of Railway of the PRC



Profitability comparison on the leading manufacturers

		FY08	FY09	FY10	FY11	CAGR (FY08-11)
<b>1157 HK</b>	Revenue (Rmb mn)	13,548	20,762	32,193	46,323	50.7%
<b>ZOOMLION</b>	Gross profit (Rmb mn)	3,706	5,340	9,769	15,007	59.4%
	Net income (Rmb mn)	1,544	2,447	4,666	8,066	73.5%
	Gross margin	27.4%	25.7%	30.3%	32.4%	
	Net margin	11.4%	11.8%	14.5%	17.4%	
	ROA	9.7%	8.6%	9.6%	12.0%	
	ROE	35.5%	39.0%	26.8%	25.7%	
<b>3339 HK</b>	Revenue (Rmb mn)	6,145	6,901	12,020	12,721	27.5%
<b>LONKING</b>	Gross profit (Rmb mn)	1,174	1,618	3,427	3,214	39.9%
	Net income (Rmb mn)	666	800	1,766	1,730	37.5%
	Gross margin	19.1%	23.4%	28.5%	25.3%	
	Net margin	10.8%	11.6%	14.7%	13.6%	
	ROA	9.3%	9.1%	15.2%	11.7%	
	ROE	22.3%	23.0%	39.1%	29.7%	
<b>38 HK</b>	Revenue (Rmb mn)	7,934	9,005	10,132	11,329	12.6%
<b>FIRST TRACTOR</b>	Gross profit (Rmb mn)	825	1,287	1,463	1,560	23.6%
	Net income (Rmb mn)	69	249	542	458	88.3%
	Gross margin	10.4%	14.3%	14.4%	13.8%	
	Net margin	0.9%	2.8%	5.4%	4.0%	
	ROA	1.2%	4.2%	7.3%	5.1%	
	ROE	2.7%	9.2%	18.1%	14.1%	
<b>000528 CH</b>	Revenue (Rmb mn)	9,246	10,134	15,304	17,798	24.4%
<b>GUANGXI LIUGONG</b>	Gross profit (Rmb mn)	1,461	2,089	3,379	3,330	31.6%
	Net income (Rmb mn)	340	866	1,544	1,321	57.2%
	Gross margin	15.8%	20.6%	22.1%	18.7%	
	Net margin	3.7%	8.5%	10.1%	7.4%	
	ROA	6.3%	10.9%	11.0%	6.4%	
	ROE	13.4%	25.7%	24.6%	14.9%	
<b>000425 CH</b>	Revenue (Rmb mn)	15,840	20,618	25,126	32,850	27.5%
<b>XCMG</b>	Gross profit (Rmb mn)	2,920	3,909	5,364	6,708	32.0%
	Net income (Rmb mn)	1,496	1,741	2,926	3,379	31.2%
	Gross margin	18.4%	19.0%	21.3%	20.4%	
	Net margin	9.4%	8.4%	11.6%	10.3%	
	ROA	20.4%	13.0%	14.5%	11.3%	
	ROE	66.5%	45.2%	35.3%	24.7%	
<b>600031 CH</b>	Revenue (Rmb mn)	13,727	18,917	33,824	50,517	54.4%
<b>SANY HEAVY INDUS</b>	Gross profit (Rmb mn)	4,096	6,668	12,334	18,199	64.4%
	Net income (Rmb mn)	1,232	2,640	5,615	8,649	91.5%
	Gross margin	29.8%	35.2%	36.5%	36.0%	
	Net margin	9.0%	14.0%	16.6%	17.1%	
	ROA	9.8%	14.6%	21.0%	20.9%	
	ROE	23.3%	35.8%	55.4%	55.8%	
<b>600169 CH</b>	Revenue (Rmb mn)	7,024	8,036	9,599	10,306	13.6%
<b>TAIYUAN HEAVY-A</b>	Gross profit (Rmb mn)	1,006	1,105	1,432	1,357	10.5%
	Net income (Rmb mn)	452	554	652	390	-4.8%
	Gross margin	14.3%	13.8%	14.9%	13.2%	
	Net margin	6.4%	6.9%	6.8%	3.8%	
	ROA	5.9%	5.5%	5.1%	2.3%	
	ROE	22.9%	19.9%	15.5%	7.0%	

Source: Bloomberg



## Financial analysis and projection

### Revenue projection

#### Revenue growth slowdown

Revenue of Zoomlion grew from Rmb13,548mn in FY08 to Rmb46,323mn in FY11, representing a CAGR of 50.7%. We estimate that revenue in FY12, FY13 & FY14 are Rmb53,468mn, Rmb65,014mn and Rmb77,175mn, respectively. Total revenue will grow at a CAGR of 18.5% from FY11 to FY14. The slowdown of the sales growth is due to the high-base effect.

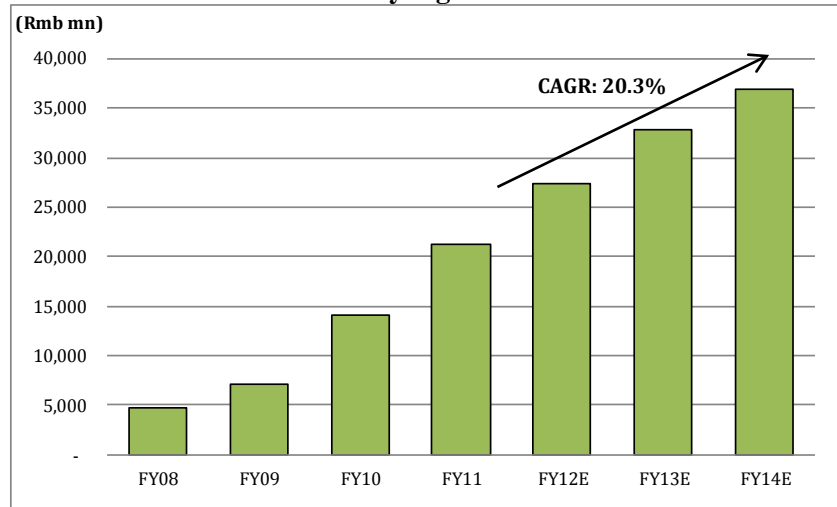
#### Concrete Machinery segment

Concrete Machinery segment is one of the two major pillars of the Group, which contributed 45.8% of the total revenue in FY11. The total concrete machinery sales volume in the market was up 34.5% YoY from 128,831 units in 4M11 to 172,476 units in 4M12. We estimate that the sales volume of truck-mounted concrete pump of Zoomlion increased 40% YoY in 1QFY12.

The steep growth of concrete machinery sales volume deviated from the decelerating M2 momentum, which dropped from 15.3% in 4M11 to 12.8% in 4M12, and the slowdown of cement production, which YoY growth slid from 11.7% in 4M11 to 6.7% in 4M12. We believe the abnormal growth of concrete machinery is mainly driven from the replacement demand for which the leasing agent bought in 2003 to 2004 and the strong demand in 3<sup>rd</sup> - 4<sup>th</sup> tiers cities induced by the large infrastructure construction works.

However, due to the mild growth of cement production volume, we are doubt on the sustainability on the fast segment growth as it did in 1QFY12. We estimate that the growth of the segment will be lower in 2HFY12. The full year segment revenue growth will be dragged down to 28.7% YoY. We project that the segment sales revenue will be Rmb27,308mn in FY12, Rmb32,825mn in FY13 and Rmb36,895mn in FY14. It transforms into 20.3% of CAGR from FY11-14.

#### Revenue of concrete machinery segment



Source: Zoomlion, ABCI Securities estimates





### Crane segment

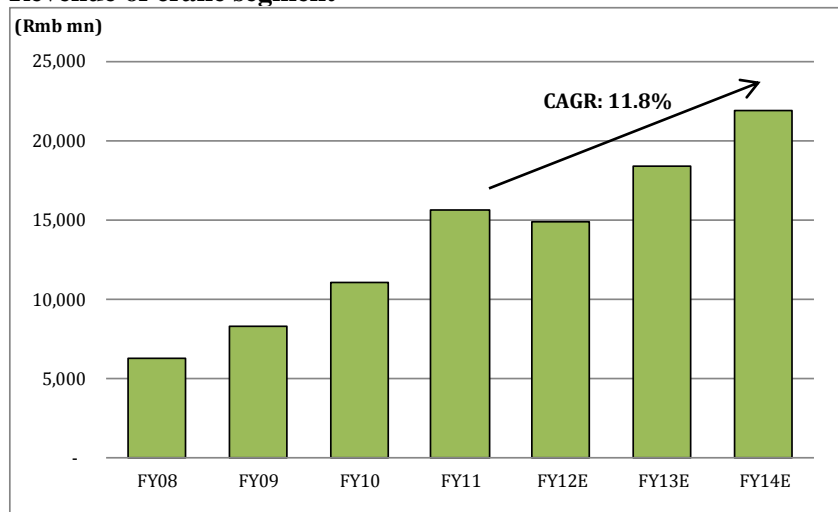
Besides concrete machinery, another pillar of the Group is crane segment, which contributed 33.7% of the total revenue in FY11. The total sales volume of truck crane of the Group was down about 40% YoY in 1QFY12, while that of tower crane was up about 30% YoY in 1QFY12.

We believe the decline on the sales volume of truck crane mainly due to the deceleration of money supply during 2011 and the slowdown of railways construction. However, since the Ministry of Railway has found the funding to support the construction, we expect the construction works to resume in 2Q12. We think that the Group's sales performance of trunk crane sub-segment will be recovered in 2HFY12.

On the other hand, the sales volume of tower crane of the Group up 30% YoY during 1Q12. We believe it is benefited from the strong demand for the tower crane coming from the large construction in 3<sup>rd</sup> - 4<sup>th</sup> tiers cities.

Although the sales of truck crane of the Group will be regained in 2HFY12, the poor sales performance expected in 1HFY12 has drawn down the full year sales. We estimate that the overall revenue of crane segment of Zoomlion will drop 4.9% YoY in FY12. However, the urbanization creates demand for crane in long run. We project that segment sales will be Rmb21,848mn in FY14. It transforms into 11.8% of CAGR in FY11-14.

### Revenue of crane segment



Source: Zoomlion, ABCI Securities estimates

### Benefit from the resume of Government's infrastructure project

According to the State Council, it reinforces that the construction of suspended infrastructure projects are resumed. Moreover, it encourages private sector to invest in railways, public utilities, energy, telecom industries, etc. It shows the determination of Central Government using FAI, especially the railway constructions, to support the GDP growth. The sales of machinery, especially the truck crane will be stimulated.

We believe 2012 will be a challenging year for Zoomlion. However, a regain on the sales growth is expected to appear in 2H12 if the money supply is recovered.

### ESM segment

Environmental and sanitation machineries segment was a growing star in the Group. 6.4% of the revenue was attributed by the ESM segment in FY11.

However, because of the concern over the effective-use of resources and the limit of the growth potential of ESM, Zoomlion announced to dispose 80% of equity interest in ESM segment in order to focus on the major construction machineries segments (concrete machinery segment and crane segment).

Revenue from ESM was Rmb2,978mn in FY11, up 58.9% from Rmb1,874mn in FY10. Net income from the segment was Rmb363mn in FY11, up 77.1% yoy from Rmb205mn in FY10. The appraised value of the total equity of ESM segment is Rmb3,479mn, which represents 9.6x of FY11 net income of this segment.

It is expected that the transaction will bring Rmb2,783mn of cash to the Group. The additional cash will be retained as working capital. However, as at April 2012, there was no transfer application has been submitted to Hunan Province United Assets and Equity Exchange by any intended buyer.

As there is no further information on the disposal of ESM segment, we include this business segment in our valuation model of Zoomlion. We estimate that the growth of revenue of ESM segment is 20% YoY in FY12.

### Sales performance comparison on Zoomlion, SANY and XCMG

		1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
<b>1157 HK</b>	<b>Revenue (Rmb mn)</b>	5,899	10,190	7,812	8,292	10,735	13,413	9,059	13,116	11,609
<b>ZOOMLION</b>	<b>YoY Growth</b>	67.7%	77.2%	40.7%	39.5%	82.0%	31.6%	16.0%	58.2%	8.1%
	<b>Net income</b>	735	1,467	924	1,540	2,024	2,604	1,334	2,104	2,089
	<b>YoY Growth</b>	144.2%	87.2%	55.2%	100.8%	175.5%	77.5%	44.3%	36.6%	3.2%
<b>600031 CH</b>	<b>Revenue (Rmb mn)</b>	7,304	9,724	8,927	8,015	13,922	16,275	10,879	9,440	14,648
<b>SANY</b>	<b>YoY Growth</b>	114.6%	90.3%	58.4%	68.1%	90.6%	67.4%	21.9%	17.8%	5.2%
	<b>Net income</b>	1,107	1,943	1,570	1,171	2,663	3,276	1,732	978	2,804
	<b>YoY Growth</b>	221.7%	158.5%	77.9%	76.9%	140.6%	68.6%	10.3%	-16.5%	5.3%
<b>000425 CH</b>	<b>Revenue (Rmb mn)</b>	5,544	7,867	5,861	6,247	9,684	9,749	5,699	7,719	7,970
<b>XCMG</b>	<b>YoY Growth</b>	42.0%	49.4%	16.9%	-54.3%	74.7%	23.9%	-2.8%	23.5%	-17.7%
	<b>Net income</b>	529	877	614	946	1,018	1,210	602	547	741
	<b>YoY Growth</b>	87.2%	47.1%	44.8%	-27.4%	92.6%	38.0%	-1.9%	-42.1%	-27.3%
<b>FAI</b>	<b>Urban FAI (Rmb bn)</b>	2,979	6,825	6,782	7,555	3,947	8,510	8,771	8,966	4,787
	<b>YoY Growth</b>	26.4%	25.2%	23.1%	23.9%	32.5%	24.7%	29.3%	18.7%	21.3%

Source: Bloomberg, National Statistics Bureau

## Profitability analysis

### Gross margin projection

Gross margins (“GM”) of Zoomlion’s different segments had been increasing since FY08. GM of concrete machineries significantly enhanced 8ppts from 27.6% in FY08 to 35.6% in FY11. The improvement of profitability of concrete machinery mainly due to the incremental contribution of long-arm truck-mounted concrete pump with higher GM, estimated at 50%, and cost reduction resulting from economies of scale.

In order to earn more market share among the lower tiers cities, we believe the Group will place more effort on promoting the truck-mounted concrete mixer and concrete mixing plant. Furthermore, as the demand for truck-mounted concrete mixer is stronger than that of truck-mounted concrete pump, it will bring a stable income to the Group.

Since the lower in GM of truck-mounted concrete mixer, estimated at 20%, and concrete mixing plant, estimated at 13%, we project that the concrete machinery segment GM will lower to 33.1% in FY12.

For the crane segment, the segment GM was volatile at the range of 26-28% during FY08-FY11. The fluctuation of margin for crane is because of the unstable product-mix different from year to year depending on the weighting between railway construction and properties construction.

Tower crane will be used more frequently in properties construction, while truck crane will be used more frequently in railway construction. If properties construction outpacing the railway construction, the demand for tower crane, which has a lower GM, will be higher, and hence, the segment GM will be dragged down. We estimate that GM of truck crane is 30% and that of tower crane is 20%.

We expect that the properties construction project outpaces the railway construction in 2012. Therefore the total sales growth of tower crane will outpace the truck crane in FY12. We believe the segment GM will therefore edge down by 1ppt YoY to 24.8% in FY12.

The overall gross margin of Zoomlion increased 5ppts from 27.4% in FY08 to 32.4% in FY11. Since railway and infrastructure construction works is expected to resume in 2Q12, we estimate that the overall GM will be 32.8% in FY12.

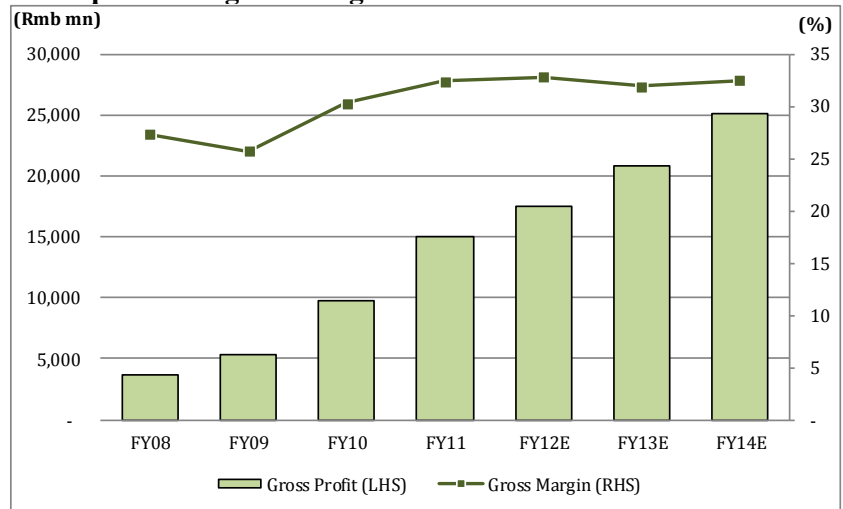
### Gross margins of concrete machinery and crane segment

	Concrete Machinery	Crane	Overall
<b>FY08</b>	27.6	26.3	27.4
<b>FY09</b>	28.5	23.7	25.7
<b>FY10</b>	32.0	27.8	30.3
<b>FY11</b>	35.6	25.8	32.4
<b>FY12E</b>	33.1	24.8	32.8
<b>FY13E</b>	32.4	25.3	32.0
<b>FY14E</b>	32.5	25.3	32.5

Source: Zoomlion, ABCI securities estimates



### Gross profit and gross margin



Source: Zoomlion, ABCI Securities estimates

### Net margin projection

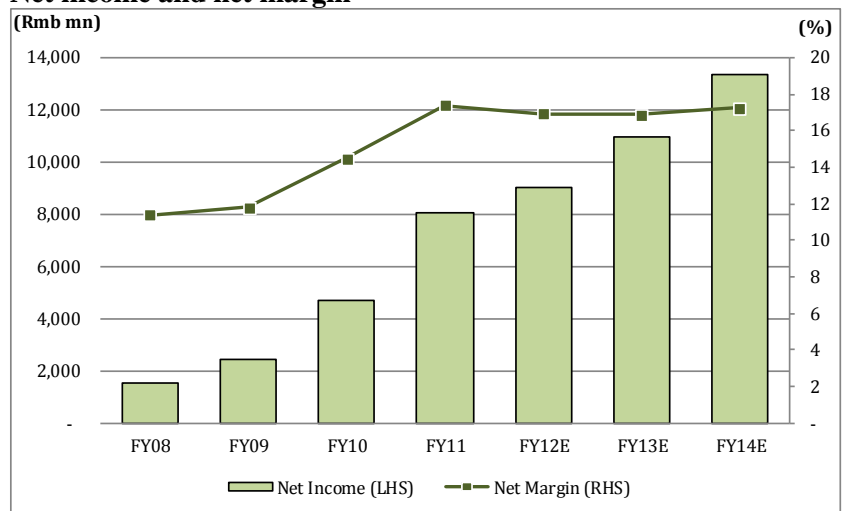
The ratio of “selling and distribution cost per revenue” decreased from 7.1% in FY08 to 6.8% in FY11. The cost control on the distribution network of the Group was improving.

The total number of staff of Zoomlion is 28,833 at end-2011. The revenue per staff per year was Rmb1.61mn in FY11, which was higher than that of SANY at Rmb0.97mn but lower than XCMG at Rmb1.98mn.

Furthermore, the ratio of “general and administrative expenses per revenue” reduced from 5.4% in FY08 to 4.0% in FY11. The overall net margin of the Group improved from 11.4% in FY08 to 17.4% in FY11, and further up to 18% in 1QFY12.

However, by considering with the expansion in overseas market, we believe the SG&A cost ratio will increase in FY12. We estimate that net margin will edge down 0.5ppts to 16.9% in FY12.

### Net income and net margin



Source: Zoomlion, ABCI Securities estimates



### Capex and utilization

We estimate capex in FY12 is Rmb1,200mn. Half of capex will be spent on expanding the production bases. The rest of the planned capex will be spent on plant and equipment purchases.

The utilization rate of the Group is high. Some product lines' are even over 100%, such as Trailer-mounted concrete pump and Tower crane.

The Group needs to expand the production capacity to further enhance the profitability, but the conservative capacity expansion plan limits the sales and revenue growth of the Group.

### Production capacity and utilization rate of Zoomlion in 2011

	Production Capacity (Unit)	Production Volume (Unit)	Utilization Rate (%)
<b>Concrete Machinery</b>			
Truck-mounted concrete pump	4,888	4,598	94.1
Trailer mounted concrete pump	1,500	1,670	111.3
Truck mounted concrete mixer	15,260	7,791	51.1
Concrete mixing plant	1,500	1,375	91.7
<b>Crane Machinery</b>			
Truck crane	12,120	7,852	64.8
Crawler crane	900	507	56.3
Tower crane	13,000	13,795	106.1
<b>Environmental and Sanitation Machinery</b>			
Road sweeper	3,600	3,066	85.2
Washing vehicle	2,400	1,809	75.4
Refuse Compression and transfer vehicle	4,000	3,671	91.8
<b>Road construction and pile foundation machinery</b>			
Road construction machinery	560	468	83.6
Rotary Drilling Rig	420	312	74.3
<b>Earth working machinery</b>			
Excavator	2,700	1,897	70.3
Bulldozer	1,200	760	63.3
Hydraulic cylinder	220,000	221,586	100.7
Hydraulic valve	180,000	133,204	74.0

Source: Zoomlion



### Financial leasing analysis

One of the major concerns on the construction and earth working machinery manufacturers is the receivable problem. During the fast expansion period after the influx of stimulating money of Rmb4,000bn in 2009, the cost of financing was reduced significantly. The small-to-mid construction and earth working machinery manufacturers, in order to capture more market share and boost the sales, relaxed their credit sales to customers. The down payment of the machinery purchases was largely cut. Down payment from some small manufacturers was even cut to zero. In the meanwhile, the repayment period was elongated up to 36 months from 6 to 24 months.

The aggressive sales-boosting actions of small-to-mid machinery manufacturers have created a pressure to the market to relax their credit sales. Against this backdrop, the receivable turnover days of Zoomlion extended and the gross investment of financial lease increased speedy.

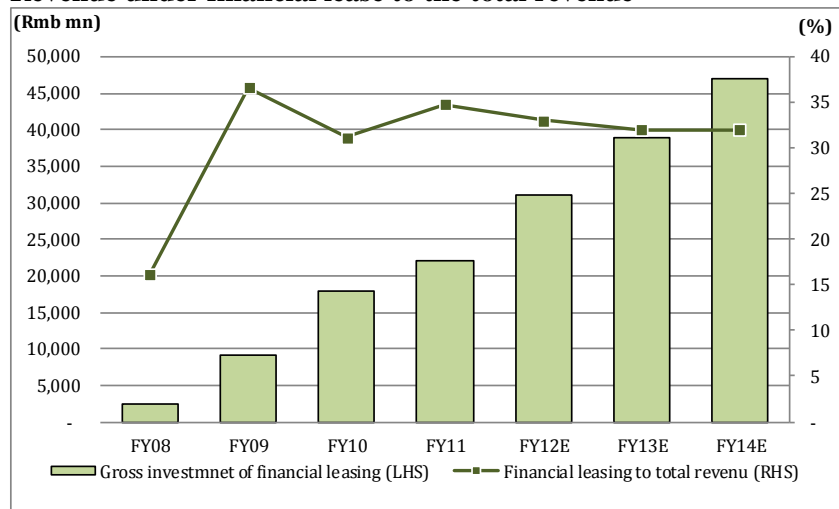
29.4% of the sales of Zoomlion were made in full cash payment in FY11. 16.0% were made in mortgage. 34.8% were made in financial lease. And 19.8% were made installment in FY11. The ratio of full cash payment decreased from 33.9% in FY09 to 29.4% in FY11.

The gross investment of financial lease was largely increased from Rmb2,456mn in FY08 to Rmb21,995mn in FY11. 34.8% of the sales were made in financial lease in FY11, and it will edge down to 33% in FY12 under our assumption of monetary relief in 2H12. We expect that the gross investment will lift to Rmb31,016mn in FY12.

However, by considering with the high cash ratio, which is estimated at 1.0x in FY12, and the net cash position of Zoomlion, the liquidity is unlikely a problem even the receivable turnover days is expected to hike in FY12.

We expect that: 1) The receivable turnover days increase from 74 days in FY11 to 81 days in FY12, 2) The inventory turnover days increase from 107 days in FY11 to 115 days in FY12, and 3) The payable days decrease from 142 days in FY11 to 136 days in FY12.

### Revenue under financial lease to the total revenue



Source: Zoomlion, ABCI Securities estimates



## Valuation

### Growth will pick up in 2HFY12

Due to the slowdown of infrastructure construction works during 1Q12 and the high-base effect, the construction machinery market experienced a decline in 1QFY12. Most of its peers were suffered, such as XCMG's net income down 27.3% YoY dramatically in 1QFY12, while Zoomlion managed to post 3.2% YoY growth in net income during the same period thanks for its solid market position.

Furthermore, GM was up 0.6ppts YoY (down 0.9ppts QoQ) from 31.5% in 1QFY11 (33.0% in 4QFY11), respectively to 32.1% in 1QFY12. The stability on the gross margin during the economic downturn shows the strong bargaining power of the Group toward its customers.

We expect the resume of infrastructure projects, especially the railway constructions will start in 2Q12, and the sales growth of truck crane of Zoomlion will start to regain in 2HFY12. We estimate the decline in crane segment will shrink from approx. 40% in 1QFY12 to 4.9% in FY12. On the other hand, although, the ultra-high growth of the concrete machinery segment in 1QFY12 is likely to cool down, we believe it will maintain at a high level, estimated at 28.7% YoY. Under these circumstances, we estimate revenue will be Rmb53,468mn, up 15.4% YoY, in FY12.

Since the Group has issued a five year Senior Notes at 6.875% per annum in April 2012 for the sake of expanding overseas market, we believe the SG&A and financial cost ratio will increase in FY12. We estimate that net margin will edge down 0.7ppts to 16.7% in FY12. We project that net income will be Rmb9,033mn in FY12, up 12.1% YoY.

### Initiate "BUY" with TP: HK\$13.59

Zoomlion is trading at 6.6x FY13E PE, which is 25.8% discount to the mean of its peers at 8.9x. The A-share of Zoomlion historically is being traded at 7.7x PE. While we acknowledge that A-share market valuations are not directly comparable, we believe that Zoomlion is undervalued.

The Group, as the leading manufacturer of construction machinery, will be benefited from the infrastructure construction projects in China driven by economic growth and urbanization in long run. We believe the short term uncertainty on the construction project slowdown and the regain on sales will be clarified very soon.

Our 12-month target price of HK\$13.59 is based on 7.9x of our FY13E EPS. Our valuation of 7.9x is 15% discount to its mean PE at 9.3x since listing because of the prudence concern on the uncertainty of magnitude of rebound. We believe this valuation is justified as the estimated FY13E EPS is Rmb1.399, growing at a CAGR of 15.6% from FY11 to FY13. We believe re-rating will appear when the sales growth of the Group starts to regain momentum in 2HFY12. **We initiate Zoomlion with a "BUY" recommendation.**



Peer group valuation

Company	Ticker	MKT CAP (HKD mn)	Share Price	PE (x)		EPS Change (%)		ROE (%)	
				Current Year	Next Year	Current Year	Next Year	Current Year	Next Year
ZOOMLION HEAVY INDUSTRY - H	1157 HK	99,127	HK\$ 11.38	8.0	6.6	10.3	21.3	23.7	24.9
LONKING HOLDINGS LTD	3339 HK	10,315	HK\$ 2.41	5.7	4.9	0.8	(8.8)	31.8	25.9
FIRST TRACTOR CO-H	38 HK	5,803	HK\$ 6.88	9.0	7.2	(24.4)	11.1	12.9	13.5
<b>Weighted Average</b>				<b>7.9</b>	<b>6.5</b>	<b>7.7</b>	<b>18.1</b>	<b>23.9</b>	<b>24.4</b>
SANY HEAVY INDUSTRY CO LTD-A	600031 CH	138,231	RMB 14.94	11.2	9.1	17.2	23.1	37.8	34.0
ZOOMLION HEAVY INDUSTRY S-A	000157 CH	99,127	RMB 11.03	9.0	7.7	17.1	15.9	21.4	21.0
XCMG CONSTRUCTION MACHIN-A	000425 CH	38,328	RMB 15.25	8.3	7.3	12.4	13.8	26.2	23.7
GUANGXI LIUGONG MACHINERY-A	000528 CH	18,989	RMB 13.85	9.7	8.1	21.7	20.4	16.8	16.7
TAIYUAN HEAVY INDUSTRY CO-A	600169 CH	12,424	RMB 6.31	26.5	26.0	(1.5)	2.1	5.6	7.7
SHANTUI CONSTMACHI-A	000680 CH	10,175	RMB 11.00	19.0	14.0	(7.9)	35.9	8.2	11.0
XIAMEN XGMA MACHINERY CO L-A	600815 CH	9,939	RMB 10.21	15.6	11.6	(11.5)	34.0	14.6	14.2
ANHUI HELI CO LTD-A	600761 CH	6,602	RMB 12.65	13.0	10.7	8.1	21.6	13.5	13.9
SUNWARD INTELLIGENT EQUIPM-A	002097 CH	5,279	RMB 10.28	24.5	19.4	(13.1)	26.2	(0.7)	25.5
INNER MONGOLIA NORTH HAULE-A	600262 CH	2,916	RMB 14.08	20.1	17.6	(5.4)	14.3	9.7	24.0
<b>Weighted Average</b>				<b>11.4</b>	<b>9.5</b>	<b>13.8</b>	<b>19.7</b>	<b>26.6</b>	<b>25.3</b>
CATERPILLAR INC	CAT US	456,862	US\$ 90.18	9.3	7.8	27.3	18.5	40.6	39.6
DEERE & CO	DE US	236,515	US\$ 75.81	9.2	8.6	23.3	6.4	41.6	37.4
CNH GLOBAL N.V.	CNH US	74,597	US\$ 40.08	8.6	8.0	19.3	6.4	12.2	11.2
TEREX CORP	TEX US	15,093	US\$ 17.72	9.7	6.3	344.9	54.7	9.7	13.8
MANITOWOC COMPANY INC	MTW US	10,944	US\$ 10.66	13.1	7.1	(1,118.8)	83.7	20.5	27.6
<b>Weighted Average</b>				<b>9.2</b>	<b>8.0</b>	<b>15.6</b>	<b>15.3</b>	<b>37.4</b>	<b>35.6</b>
VOLVO AB-B SHS	VOLVB ST	186,261	SEK 81	9.7	8.1	(4.0)	19.2	19.1	20.3
ATLAS COPCO AB-A SHS	ATCOA ST	190,777	SEK 150	13.1	12.2	7.3	7.4	42.3	36.4
SANDVIK AB	SAND ST	125,277	SEK 93	11.5	10.3	73.8	11.9	27.5	26.1
<b>Weighted Average</b>				<b>11.4</b>	<b>10.2</b>	<b>19.7</b>	<b>12.9</b>	<b>30.0</b>	<b>27.9</b>
HITACHI LTD	6501 JP	204,970	JPY 449	7.4	8.9	(21.4)	(16.7)	12.4	12.9
KOMATSU LTD	6301 JP	181,735	JPY 1,878	10.1	9.1	7.6	10.7	18.0	17.5
TADANO LTD	6395 JP	7,431	JPY 583	42.7	14.8	(44.8)	187.6	6.3	7.5
<b>Weighted Average</b>				<b>9.3</b>	<b>9.1</b>	<b>(8.5)</b>	<b>(0.2)</b>	<b>14.9</b>	<b>14.9</b>
DOOSAN HEAVY INDUSTRIES	034020 KS	37,666	KRW 54,000	9.4	7.6	199.1	24.4	10.2	12.5
<b>Weighted Average</b>				<b>9.4</b>	<b>7.6</b>	<b>199.1</b>	<b>24.4</b>	<b>10.2</b>	<b>12.5</b>
<b>Mean</b>				<b>10.0</b>	<b>8.9</b>	<b>14.7</b>	<b>12.9</b>	<b>28.8</b>	<b>27.5</b>
<b>Median</b>				<b>9.7</b>	<b>8.6</b>	<b>8.1</b>	<b>18.1</b>	<b>18.0</b>	<b>21.0</b>

Source: Bloomberg, ABCI Securities estimates

\*The data in the table is as at 31-May-2012





## Financial statements

### Consolidated income statements forecast

FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
<b>Revenue</b>	<b>32,193</b>	<b>46,323</b>	<b>53,468</b>	<b>65,014</b>	<b>77,175</b>
Concrete Machinery	14,085	21,212	27,308	32,825	36,895
Crane	11,077	15,618	14,850	18,362	21,848
Environment and sanitation	1,874	2,978	3,574	3,931	4,324
Other machinery	4,114	4,932	5,918	7,694	11,541
Financial income under lease	1,043	1,583	1,818	2,202	2,567
<b>Cost of sales</b>	<b>(22,424)</b>	<b>(31,316)</b>	<b>(35,919)</b>	<b>(44,226)</b>	<b>(52,056)</b>
<b>Gross profit</b>	<b>9,769</b>	<b>15,007</b>	<b>17,549</b>	<b>20,788</b>	<b>25,119</b>
Other income and gains	(115)	(139)	532	481	453
Selling and distribution	(2,146)	(3,160)	(4,010)	(4,603)	(5,562)
Administrative expenses	(1,645)	(1,861)	(2,672)	(2,894)	(3,436)
<b>EBIT</b>	<b>5,863</b>	<b>9,847</b>	<b>11,399</b>	<b>13,772</b>	<b>16,574</b>
Finance costs	(461)	(269)	(808)	(907)	(934)
Associates	14	24	-	-	-
<b>Pre-tax profit</b>	<b>5,416</b>	<b>9,602</b>	<b>10,591</b>	<b>12,865</b>	<b>15,640</b>
Profits tax	(828)	(1,440)	(1,589)	(1,930)	(2,346)
Minority interests	78	(107)	31	21	20
<b>Net income</b>	<b>4,666</b>	<b>8,055</b>	<b>9,033</b>	<b>10,956</b>	<b>13,314</b>

### Key ratios

FY	FY10A	FY11A	FY12E	FY13E	FY14E
<b>Sales mixed (%)</b>					
Concrete Machinery	43.8	45.8	51.1	50.5	47.8
Crane	34.4	33.7	27.8	28.2	28.3
Environment and sanitation	5.8	6.4	6.7	6.0	5.6
Other machinery	12.8	10.7	11.0	11.9	15.0
Financial income under lease	3.2	3.4	3.4	3.4	3.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	30.3	32.4	32.8	32.0	32.5
EBIT margin	18.2	21.3	21.3	21.2	21.5
Pre-tax margin	16.8	20.7	19.8	19.8	20.3
Net margin	14.5	17.4	16.9	16.9	17.3
Selling & distribution cost / revenue	6.7	6.8	7.5	7.1	7.2
Admin cost / revenue	5.1	4.0	5.0	4.5	4.5
Effective tax rate	15.3	15.0	15.0	15.0	15.0
<b>Growth (%)</b>					
Revenue	55.1	43.9	15.4	21.6	18.7
Gross profit	82.9	53.6	16.9	18.5	20.8
EBIT	86.1	68.0	15.8	20.8	20.3
Net income	90.7	72.6	12.1	21.3	21.5

Source: Zoomlion, ABCI Securities estimates



Consolidated balance sheets forecast

As of Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
<b>Non-current assets</b>	<b>19,372</b>	<b>23,701</b>	<b>21,001</b>	<b>23,078</b>	<b>26,298</b>
PP&E	4,135	4,886	5,261	5,619	5,951
Intangible assets	3,163	3,009	2,956	2,905	2,856
Available-for-sale financial assets	50	43	43	43	43
Others	12,024	15,763	12,741	14,511	17,448
<b>Current assets</b>	<b>43,670</b>	<b>47,842</b>	<b>65,500</b>	<b>76,262</b>	<b>87,656</b>
Cash and equivalent	18,758	16,002	33,262	33,699	35,156
Restricted cash	1,577	1,481	1,629	1,792	1,971
Trade and other receivables	13,386	18,878	16,519	23,745	26,527
Due from related parties	27	99	78	95	112
Inventories	8,678	9,656	13,050	15,760	22,500
Others	1,244	1,726	962	1,171	1,390
<b>Total assets</b>	<b>63,042</b>	<b>71,543</b>	<b>86,501</b>	<b>99,340</b>	<b>113,954</b>
<b>Current liabilities</b>	<b>26,067</b>	<b>26,652</b>	<b>32,518</b>	<b>37,998</b>	<b>43,687</b>
Trade and other payables	17,203	19,314	23,814	27,814	31,814
tax payable	757	1,289	2,155	3,135	4,324
Borrowings	8,107	6,049	6,549	7,049	7,549
<b>Non-current liabilities</b>	<b>9,540</b>	<b>9,296</b>	<b>12,998</b>	<b>13,804</b>	<b>14,761</b>
Borrowings	7,690	7,089	9,689	9,689	9,689
Others	1,850	2,207	3,309	4,115	5,072
<b>Total liabilities</b>	<b>35,607</b>	<b>35,948</b>	<b>45,516</b>	<b>51,802</b>	<b>58,448</b>
<b>Minority Interest</b>	<b>59</b>	<b>188</b>	<b>188</b>	<b>188</b>	<b>188</b>
<b>Shareholders' equity</b>	<b>27,376</b>	<b>35,407</b>	<b>40,797</b>	<b>47,350</b>	<b>55,318</b>

Key ratios

FY	FY10A	FY11A	FY12E	FY13E	FY14E
<b>Balance sheet ratios</b>					
Current ratio (x)	1.7	1.8	2.0	2.0	2.0
Quick ratio (x)	1.3	1.4	1.6	1.6	1.5
Cash ratio (x)	0.8	0.7	1.1	0.9	0.8
Receivable turnover days	70	74	81	85	90
Payable turnover days	167	142	136	129	123
Inventory turnover days	122	107	115	119	134
Total debt / equity ratio (%)	58	37	40	35	31
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROAE	26.8	25.7	23.7	24.9	25.9
ROAA	9.6	12.0	11.4	11.8	12.5
Payout ratio	15.5	20.4	20.0	20.0	20.0
<b>Per share data (Rmb)</b>					
EPS	0.736	1.046	1.153	1.399	1.700
BVPS	3.818	4.208	4.832	5.675	6.698
DPS	0.112	0.217	0.231	0.280	0.340

Source: Zoomlion, ABCI Securities estimates



Consolidated cash flow statements forecast

FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
<b>Profit before tax</b>	<b>5,416</b>	<b>9,602</b>	<b>10,591</b>	<b>12,865</b>	<b>15,640</b>
DD&A	396	437	818	973	1,137
Change in working capital	(5,533)	(7,643)	3,465	(5,937)	(5,522)
Income tax paid	(519)	(975)	(996)	(1,210)	(1,470)
Others	691	459	4,184	(2,474)	(3,924)
<b>CF Operating</b>	<b>451</b>	<b>1,880</b>	<b>18,062</b>	<b>4,217</b>	<b>5,861</b>
Capex	(903)	(1,176)	(1,140)	(1,280)	(1,420)
Other	(930)	(111)	(1,093)	(1,193)	(1,293)
<b>CF Investing</b>	<b>(1,833)</b>	<b>(1,287)</b>	<b>(2,233)</b>	<b>(2,473)</b>	<b>(2,713)</b>
Capital injection	16,275	-	-	-	-
Net debt financing	1,623	(2,659)	3,100	500	500
Dividend payout	(152)	(711)	(1,669)	(1,807)	(2,191)
Others	(991)	95	-	-	-
<b>CF Financing</b>	<b>16,755</b>	<b>(3,275)</b>	<b>1,431</b>	<b>(1,307)</b>	<b>(1,691)</b>
<b>Net change in cash</b>	<b>15,373</b>	<b>(2,682)</b>	<b>17,260</b>	<b>437</b>	<b>1,457</b>
Cash at the beginning	3,439	18,758	16,002	33,262	33,699
Exchange difference	(54)	(74)	-	-	-
<b>Cash at the end</b>	<b>18,758</b>	<b>16,002</b>	<b>33,262</b>	<b>33,699</b>	<b>35,156</b>

Source: Zoomlion, ABCI Securities estimates



## Uncertainties

### Idle machineries in the field

The leasing agents have purchased a large number of construction machineries during 2009-2010. It creates an oversupply of machinery. The idle machineries in the field need time to be digested. It limited the growth of the sales of the Group.

The regain on the sales growth will be followed by the recovery on the money supply, which reactivates the construction projects, as well as the real estate market. We are positive on the machinery sector in long-run in line with the ascent of economic growth in China.

## Risk factors

### Concentration of product type

The Group focuses on the concrete machinery and crane manufacturing business, which accounted by 79.5% in FY11. The sales performance of construction machinery is cyclical and strongly subject to monetary policy and macroeconomics.

### Currency and financial risk

In April-2012, the Group has issued Senior Notes of US\$400mn at 6.875% due 2017 in order to fund the expansion of overseas market. We estimate that the Notes accounted for 16.0% of total debt in FY12, and increase the interest cost by US\$18.3mn in FY12.

### Concentration of customers and suppliers

The Group has over 30,000 customers at year end of 2011. The sales to the largest customer accounted for approximately 1.2%, 1.5% and 1.0%, respectively in FY09-11. The sales to five largest customers accounted for approximately 4.6%, 5.0% and 3.6%, respectively in FY09-11. We see the concentration of customers was dropping.

The largest supplier accounted for approximately 3.1%, 5.0% and 6.3%, respectively in FY09-11. The purchases to five largest suppliers accounted for approximately 10.4%, 16.5% and 17.9%, respectively in FY09-11. The concentration of the suppliers was increasing.

### Labour cost inflation

The total staff cost per revenue edged down from 6.7% in FY09 to 6.6% in FY11. Average salary per year increased from Rmb74,712 in FY09 to Rmb106,683 in FY11. In the meanwhile, the per-staff-per-year-revenue increased from Rmb1.12mn in FY09 to Rmb1.61mn in FY09 and the per-staff-per-year-net-income increased from Rmb132,192 in FY09 to Rmb279,357 in FY11.



### Liquidity risk

The ratio of full cash payment decreased from 33.9% in FY09 to 29.4% in FY11. The gross investment of financial lease was largely increased from Rmb2,456mn in FY08 to Rmb21,995mn in FY11. 34.8% of the sales were made in financial lease in FY11, up from 31.2% in FY10.

We expect that the cash conversion cycle increased from 25 days in FY10 to 39 days in FY11. We estimate it will go further up to 61 days in FY12.



## Appendix 1 – Regression analysis on money supply & FAI to the sales of machineries

### Impact of money supply and FAI to the sales of machineries

	Correlation (Adj. R <sup>2</sup> ) between the sales of machineries and the following factors (%)		
	FAI	M2 Supply	SHIBOR
Excavator	7.46	41.65	60.29
Crane	(13.74)	29.38	55.17
Wheel loader	35.26	37.81	84.81
Bulldozer	37.15	62.29	66.98
Concrete Machineries	(2.88)	9.35	46.08
Road roller	17.20	81.52	87.17

	Statistical error of the of the relationship between the sales of the machineries and the following factors		
	FAI	M2 Supply	SHIBOR
Excavator	0.3822	0.0998	0.0293
Crane	0.6344	0.1781	0.0434
Wheel loader	0.1373	0.1215	0.0012
Bulldozer	0.1254	0.0248	0.0160
Concrete Machineries	0.5014	0.3618	0.0781
Road roller	0.2821	0.0023	0.0007

Source: ABCI Securities

We have performed regression analysis on the quarterly sales of different types of machinery to the FAI, M2 growth and change of SHIBOR.

From the statistical results, we can see the correlations between the sales of machineries and the money supply, measured by M2 and SHIBOR, are stronger than that between the FAI and sales of machineries. On the other hand, the probabilities of error of the correlations are much higher for FAI than that for both M2 growth and change of SHIBOR.

All these show that money supply plays a more important role for the short-term sales performance of the machinery manufacturers.



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## Zoomlion Heavy Industry

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