

10 August 2012

Equity Focus

Key Data

| | |
|----------------------------|-------------|
| H-share price (HK\$) | 6.80 |
| 52Wk H/L(HK\$) | 9.39 / 3.75 |
| Issued shares (mn) | 996 |
| H-share | 402 |
| A-share | 594 |
| H-share market cap (HK\$m) | 2,734 |
| 30-day avg vol (HK\$m) | 10.6 |
| Major shareholder (%): | |
| YTO Group* | 44.57 |

*: Domestic shares

Source: Company, Bloomberg, ABCI Securities

Revenue breakdown in FY11 (%)

| | |
|------------------------|------|
| Agricultural machinery | 82.6 |
| Power machinery | 13.0 |
| Other machinery | 3.8 |
| Financial operations | 0.6 |

Source: Company

Share performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | 11.9 | 7.5 |
| 3-mth | (7.8) | (8.8) |
| 6-mth | (26.9) | (24.0) |

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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First Tractor (38 HK) – Unrated Construction & Farm Machinery Industry

A-share price jumped 80% in two days

The FAI of the agricultural and fisheries industries grew by 28.8% YoY in the first 7 months this year, because of the stimulation policies in rural area. We believe First Tractor, the largest agricultural tractor maker in China, will be the major beneficiary. It succeeded in raising Rmb0.8bn from the A-share IPO this week, strengthening its financial position. Its A-share price has surged to Rmb9.74 in the first two days of dealing, 80% premium of its IPO price or 76.2% premium to its H-share.

The FAI of agricultural industry is outpacing. According to National Bureau of Statistics of China (“NBS”), the fixed assets investment (“FAI”) of agricultural and fisheries industries was Rmb455.0bn in Jan-July 2012. It was up 28.8% YoY in the first 7 months of 2012, which was higher than that of the overall FAI in China at 20.4% YoY over the same period.

First Tractor benefits from favorable policies. We believe that the fast growth of the FAI in agricultural industry is because of stimulation policies imposed by China’s government for agricultural industry. The total government subsidies for the tractors purchases in rural area increased from Rmb70mn in 2004 to Rmb17,500mn in 2011. Under the favorable policy environment, we believe that First Tractor, the largest agricultural tractors maker in China, is able to be benefited.

Share price is rocketing in A-share market. The Group raised Rmb810mn from the A-share market in order to expand its production capacity for the hi-power tractors. The share price in A-share market (601038 CH) has rocketed 80.4% to Rmb9.74 since debut on Aug 8, against IPO price of Rmb5.40. We estimate that its post-IPO NBV will increase to Rmb4.15 in FY12. The H-share is trading at FY12 P/B of 1.3x FY12E PB. The bullish performance of its A-share indicates bullish view of domestic investors on the group.

Risk factors: Currency and financial risks; Transferability of the inflated raw material cost; Sustainability of government favorable policy

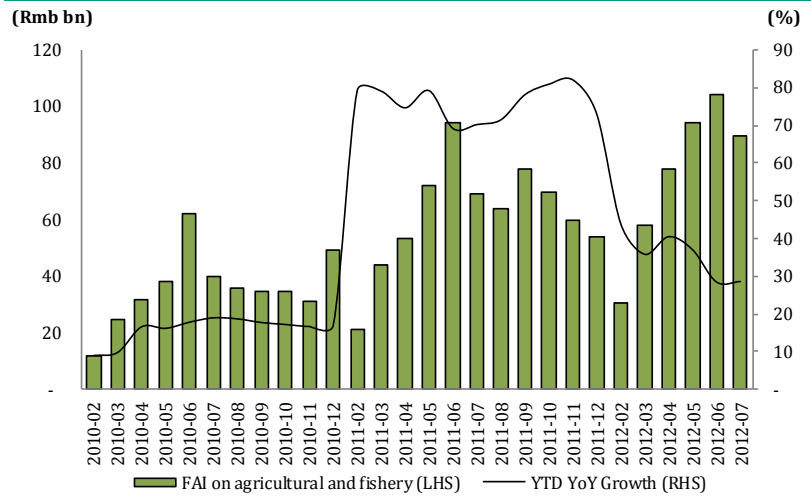
Forecast and Valuation

| FY ended Dec 31 | FY07A | FY08A | FY09E | FY10A | FY11A |
|----------------------------------|----------|----------|----------|--------|--------|
| Revenue (Rmb mn) | 7,102 | 7,934 | 9,005 | 10,266 | 11,329 |
| <i>Chg (%YoY)</i> | 16.4 | 11.7 | 13.5 | 14.0 | 10.4 |
| Net Income (Rmb mn) | 182 | 69 | 249 | 543 | 411 |
| <i>Chg (%YoY)</i> | 149.5 | (62.3) | 262.8 | 118.3 | (24.3) |
| EPS (Rmb) | 0.23 | 0.08 | 0.294 | 0.642 | 0.486 |
| <i>Chg (%YoY)</i> | 145.9 | (64.5) | 262.7 | 118.3 | (24.3) |
| PE (x) | -- | -- | -- | -- | 11.4 |
| PB (x) | -- | -- | -- | -- | 1.3 |
| Yield (%) | -- | -- | -- | -- | -- |
| ROAA (%) | 3.5 | 1.2 | 4.4 | 7.5 | 4.5 |
| ROAE (%) | 7.6 | 2.7 | 9.3 | 18.2 | 12.7 |
| Net debt/total equity (%) | Net Cash | Net Cash | Net Cash | 3.7 | 20.6 |

Source: Company, Bloomberg, ABCI Securities estimates

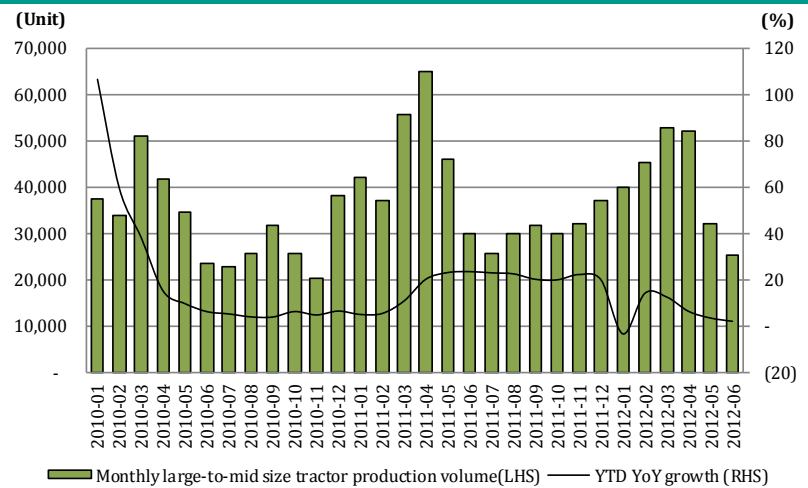


Monthly China's agricultural and fishery FAI



Source: Nation Bureau of Statistics of China

Monthly sales volume of large-to-mid size tractors in China



Source: Wind



Disclosures

Analyst Certification

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