

16 January 2013

Equity Focus

Key Data

Average FY13 PER (x)	8.8
Average FY13 PBV (x)	1.5
Average FY13 Dividend Yield (%)	2.4
Sector 3 months avg vol (HK\$mnn)	1,506

Source: Bloomberg, ABCI Securities

Net income growth in 1-3QFY12 (% YoY)

Zoomlion	16.74
Lonking*	-76.08
First Tractor	2.84
Sany Int'l*	16.71
Sany Heavy	-23.43
XCMG	-30.48

*The growth is as at 1HFY12

Source: Companies

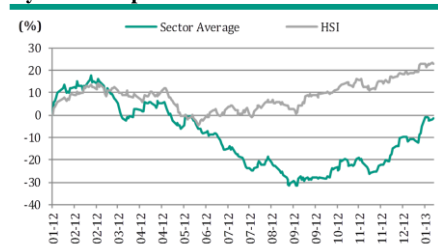
Average share performance (%)

	Absolute	Relative*
1-mth	13.4	9.11
3-mth	29.0	19.66
6-mth	28.8	5.87

*Relative to Hang Seng Index

Source: Bloomberg

1 year sector performance



Source: Bloomberg

Analyst

Steve Wong

Tel: (852) 2147 8869

Email: stevecwong@abci.com.hk

Construction Mach Sector – Overweight Construction & Farm Machinery Industry

More pressures from international players

The recovery in the sales of construction machinery not only benefits the domestic makers, but also attracts the international players to share the cake. The acquisition of IMM by Joy Global (JOY US) and Caterpillar's (CAT US) expansion of manufacturing and R&D facilities in China indicate that the international players will further intensify market competition and we expect that the profit margin recovery of small players such as Lonking (3339 HK) will suffer a barricade in 2013.

Quick update on monthly sales of excavator. Sales volume of excavator in China was up 6.7% MoM in December. The total sales volume was down 34.4% YoY in 2012, which improved from -36.0% YoY in 1-3Q12 and -36.9% YoY in 1H12. The sales of earth moving machineries indicate that the construction machinery industry is recovering.

More pressures from international players. Caterpillar announced that it opens a testing field and a large wheel loader manufacturing facility in Jiangsu to support its growing operations in China and other growth markets. The large wheel loader manufacturing facility is designed to suit the needs and requirements for quarry and mining applications in China and the growth markets. With these new facilities in operation, Caterpillar now has 23 existing manufacturing facilities and four R&D centers in China. It employs 15,000 people in China, vs. 28,000 of Zoomlion (1157 HK) and 50,000 of Sany (600031 CH).

Large players seeking overseas opportunities. While the international players like Caterpillar are growing in China, the Chinese machinery makers like Zoomlion and Sany aim at expanding the overseas business via M&A. Zoomlion buys back the stake from minorities of CIFA, and it becomes the wholly-owned subsidiary of Zoomlion. The technological improvement through M&A can help enhance profit margin and it was one of the reasons why Zoomlion managed to post a double-digit growth in the 1-3QFY12, while the other players suffered from decline in profits.

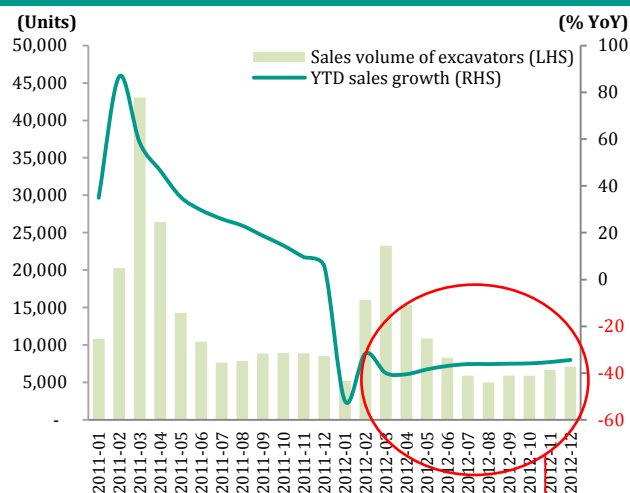
Risk factors: Prolonged weakening of construction industry; Competition from international players; Credit and liquidity risk

Summary on selected companies in the sector

Company	Ticker	Share Price	Target Price (HK\$)	FY13 PE (x)	FY13 PB (x)	FY13 Yield (%)
Zoomlion (Buy)	1157 HK	HK\$10.90	14.16	5.9	1.4	3.4
Lonking (Sell)	3339 HK	HK\$2.32	1.48	9.6	1.1	3.1
First Tractor (Buy)	38 HK	HK\$8.20	8.24	10.2	1.4	2.9
Sany Int'l (Buy)	631 HK	HK\$4.31	5.79	11.0	1.6	1.8
Sany Heavy (N/A)	600031 CH	Rmb10.35	N/A	9.2	2.6	1.6
XCMG (N/A)	000425 CH	Rmb11.85	N/A	6.9	1.0	1.3

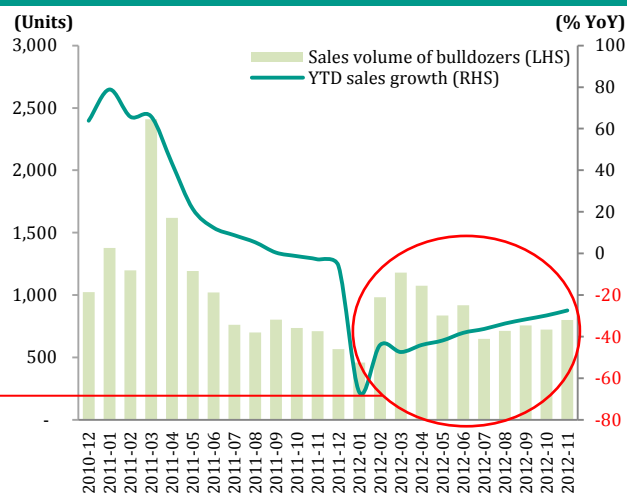
Source: Companies, Bloomberg, ABCI Securities estimates

Monthly sales volume of excavator



Source: CCMA

Monthly sales volume of bulldozer

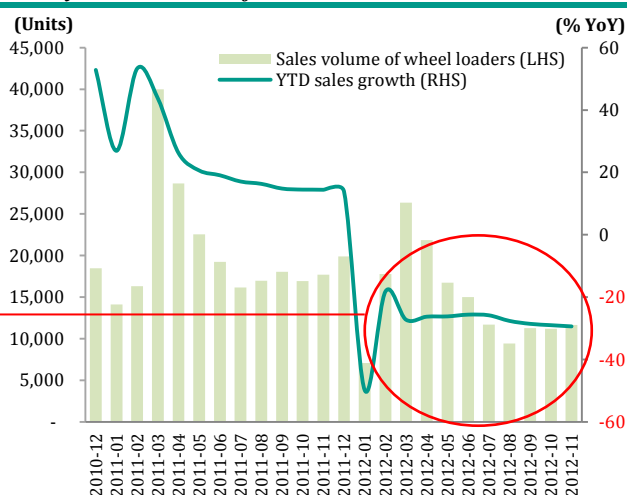


Source: CCMA

Sales volume of excavator in China was up 6.7% MoM in December. The total sales volume was down 34.4% YoY in full year 2012.

The recovery on the sales of construction machinery not only benefits the domestic makers, but the juicy China market also attracts the international players to share the cake.

Monthly sales volume of wheel loader



Source: CCMA

Peer group valuation and earnings forecasts summary of construction machinery sector

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	
Construction Machinery Maker										
CATERPILLAR INC	CAT US	479,772 USD	94.63	10.40	11.03	19.07	(5.65)	37.68	28.59	
KOMATSU LTD	6301 JP	203,699 JPY	2,375.00	12.72	12.46	7.64	2.08	18.53	13.95	
SANY HEAVY INDUS	600031 CH	98,045 CNY	10.35	10.66	9.18	(14.75)	16.17	32.92	26.14	
ZOOMLION HEAVY-H	1157 HK#	86,988 HKD	10.90	7.27	5.87	14.91	23.95	24.00	24.40	
ZOOMLION HEAVY-A	000157 CH#	86,988 CNY	9.12	7.59	6.12	14.91	23.95	24.00	24.40	
XCMG CONSTRUCT-A	000425 CH	30,493 CNY	11.85	7.92	6.93	(8.72)	14.23	26.18	23.65	
GUANGXI LIUGONG	000528 CH	14,318 CNY	10.20	20.82	14.98	(58.12)	38.98	4.01	5.86	
TEREX CORP	TEX US	24,432 USD	28.70	14.24	11.18	391.71	27.38	10.60	13.19	
TADANO	6395 JP	8,405 JPY	744.00	54.45	18.93	(44.83)	187.62	2.30	6.70	
SHANTUI CONST-A	000680 CH	7,032 CNY	4.95	(12.72)	13.67	(192.62)	(193.06)	1.25	5.15	
XIAMEN XGMA-A	600815 CH	8,230 CNY	6.88	12.24	14.16	(24.05)	(13.52)	10.37	8.37	
LONKING HOLDINGS	3339 HK#	9,930 HKD	2.31	16.04	9.57	(71.30)	67.53	7.50	11.80	
Sector Weighted Average				10.80	10.33	16.71	5.58	28.87	23.41	

* The market capital value of the companies are translated into HKD

ABCI Securities estimates

Source: Bloomberg, (The data in the table is as at January 15, 2013)

Disclosures

Analyst Certification

I, Wong Cheuk-Wai, Steve, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

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.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2013 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.
Tel: (852) 2868 2183