



**October 31, 2013**  
**Equity Focus**  
**Rating: HOLD**  
**TP: HK\$ 6.73**

H-Share price (HK\$) 7.00  
Est. share price return -3.86%  
Est. dividend yield 2.49%  
Est. total return -1.37%

Previous Rating & TP BUY; HK\$ 7.49  
Previous Report Date August 29, 2013

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**Key Data**

52Wk H/L(HK\$)	12.16 / 4.74
Issued shares (mn)	7,706
H-Shares (mn)	1,430
A-Shares (mn)	6,276
Market cap	
H-shares (HK\$ mn)	10,010
A-Shares (RMB mn)	35,899
3-mth avg daily turnover (HK\$ mn)	89.8
Major shareholder(s) (%):	
Hunan SASAC	16.2
Source(s): Company, Bloomberg, ABCI Securities	

**1H13 Revenue breakdown (%)**

Concrete Machinery	44.28
Crane Machinery	32.74
Earth Moving Machinery	3.18
Environmental and Sanitation Machinery	7.00
Road Construction and Pile Foundation	4.60
Financial Leasing Income	4.08
Others	4.12
Source(s): Company, ABCI Securities	

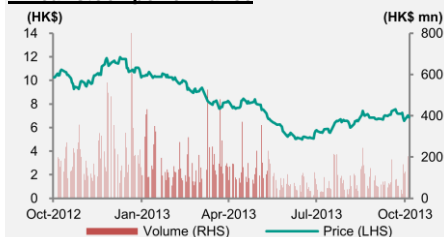
**Share performance (%)**

	Absolute	Relative*
1-mth	2.08	2.14
3-mth	20.56	16.56
6-mth	(11.71)	(12.13)

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance**



Source(s): Bloomberg

**Zoomlion (1157 HK)**  
**Recovery weaker than expected; downgrade to HOLD**

- Decline in revenue (ex. surcharges and business tax) narrowed from 30.75% YoY in 1H13 to 26.27% YoY in 9M13, lower than our expectation by 13.86% and street consensus by 14.93%
- GPM shrank 3.19ppt YoY to 31.18% in 9M13 as sharp decline in sales of concrete pump, which we estimate the sales volume dropped over 50% in 9M13
- Receivables remain high. We believe the Group will continue to tighten credit sales to lower receivables in the short term
- We lower FY13E/14E net income forecasts by 10.73% and 11.24%. TP is lowered to HK\$ 6.73, reflecting 0.8x FY14E P/B. Downgrade to **HOLD**

**Lower-than-expected recovery in 3Q13.** Decline in revenue (ex. surcharges and business tax) narrowed from 30.75% YoY in 1H13 to 26.27% YoY in 9M13. Its revenue of RMB 28.81bn revenue missed our expectation by 13.86% and street consensus by 14.93%, reflecting the Group's lower-than-expected recovery. GPM shrank 3.19ppt YoY to 31.18% in 9M13 as sales of concrete pump fell sharply and shifted the product mix. We estimate sales volume of the product plummeted by ~50% in 9M13. Net income dropped 45.23% YoY to RMB 3,812mn. We expect the sales of concrete machinery to remain sluggish in 4Q13, and we cut our FY13E/14E net income forecast by 10.73% and 11.24%.

**Receivables remained high by end-1H13.** Total account receivables (trade and bill receivables plus long term receivables) was RMB 34,209mn as at end-Sep 2013, compared to RMB 31,089mn at end-2012. Although the Group has lower the proportion of credit sales (financial leasing and installment) from 58.8% in FY12 to 44.0% in 9M13, the figure in absolute terms remains high. Accounts receivables of its competitor, Sany Heavy (600031 CH), was RMB 22,993mn as at end-Sep 2013. Zoomlion's total accounts receivables-to-revenue ratio in 9M13 was 118.76%, compared to 77.35% in Sany Heavy for the same period. We expect Zoomlion to tighten credit sales in 2014 to lower its receivables but it would also imply that short-term growth of the Group will be impeded.

**Downgrade to HOLD on unclear earning visibility.** With its receivables remaining high, we believe the Group would tighten its credit sales further. Based on its unclear earning visibility, we therefore lower our earnings forecasts in FY13E-15E, and downgrade Zoomlion to **HOLD** with a new TP at HK\$ 6.73 (previous: HK\$ 7.49), representing 0.8x FY14E P/B (previous: 1.0x FY13E P/B).

**Risk factors:** 1) Prolonged weakness in machinery industry; 2) Sales growth suppressed by tightened credit sales; 3) Higher receivables relative to peers may enhance default risk; 4) Asset impairment loss due to provision from receivables erode profitability

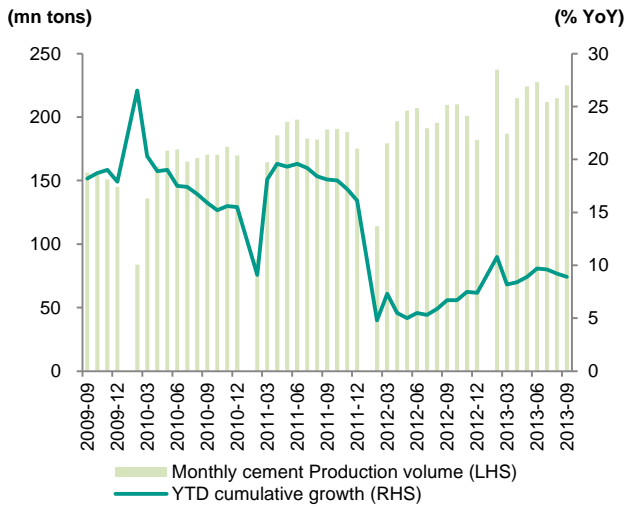
**Results and Valuation**

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	46,323	48,071	38,525	40,904	45,421
Chg (% YoY)	43.89	3.77	(19.86)	6.17	11.04
Net Income (RMB mn)	8,066	7,330	4,841	5,386	6,449
Chg (% YoY)	72.87	(9.12)	(33.95)	11.25	19.74
EPS (RMB)	1.048	0.951	0.628	0.699	0.831
P/E (x)	-	5.91	8.95	8.04	6.76
BVPS (RMB)	4.598	5.290	5.941	6.760	7.675
P/B (x)	-	1.06	0.95	0.83	0.73
DPS (RMB)	0.250	0.200	0.126	0.140	0.166
Yield (%)	-	3.56	2.23	2.49	2.96
ROAE (%)	25.69	19.25	11.19	11.01	11.55
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

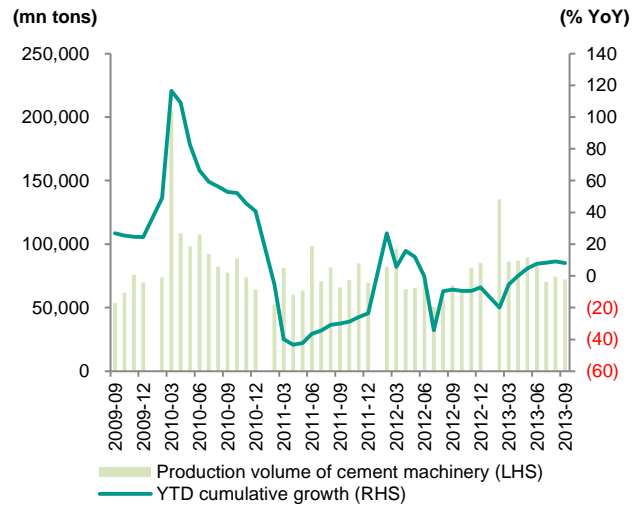
\*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI estimates

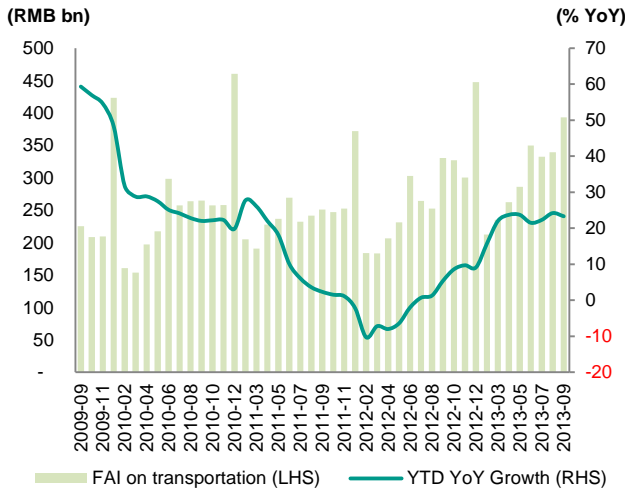
**Signs of recovery in the construction sector.** Production volume of cement in China is recovering in 2013 from trough. Production volume was up 8.9% YoY in 9M13, up 2.2ppt from 6.7% YoY in 9M12. Production volume of cement manufacturing machinery turned around from an 8.6% YoY decline in 9M12 to an 8.0% YoY growth in 9M13, reflecting a rising confidence in the downstream construction industry to be propelled by domestic urbanization and transport infrastructure development in 2014-15. Decline in FAI (including construction machinery procurement) within the construction industry also narrowed in 3Q13. Thus, we believe recovery in upstream construction machinery industry will accelerate in 2014. The industry is bottoming.

**Exhibit 1: Production volume of cement in China, 9M09-9M13**


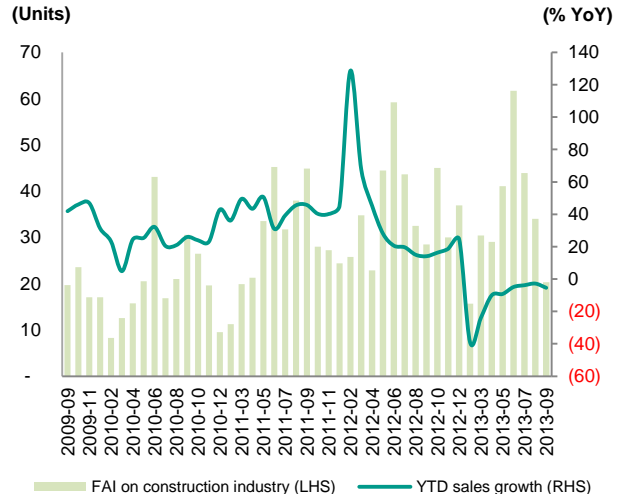
Source(s): NBS

**Exhibit 2: Production volume of cement manufacturing machinery in China, 9M09-9M13**


Source(s): NBS

**Exhibit 3: FAI in transport industry, 9M09- 9M13**


Source(s): NBS

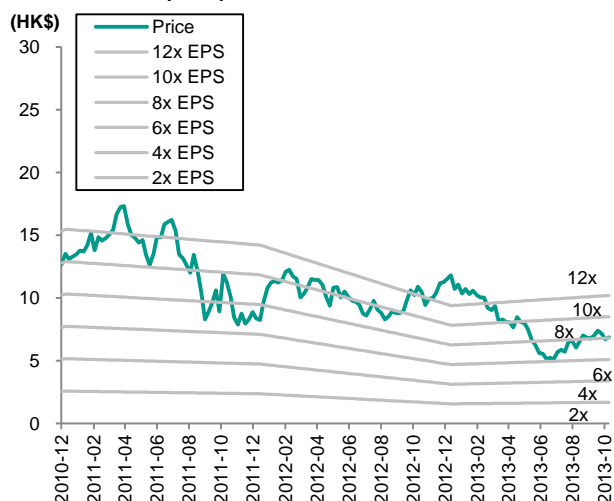
**Exhibit 4: FAI in construction industry, 9M09- 9M13**


Source(s): NBS

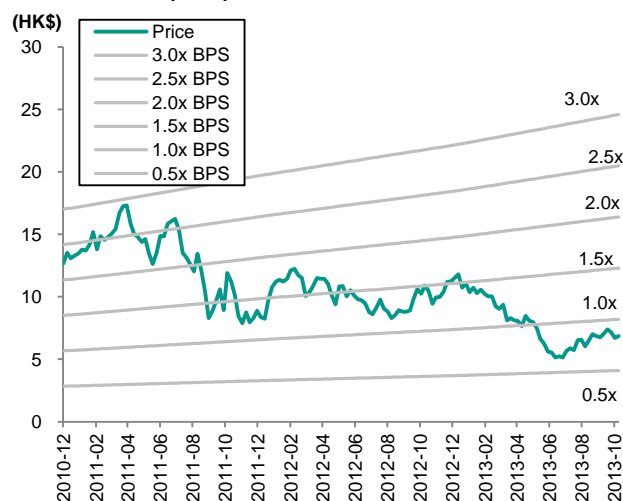
**Exhibit 5: Major changes in our FY13E-15E forecasts**

	FY13E			FY14E			FY15E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
<b>Revenue (RMB mn)</b>	<b>41,144</b>	<b>38,525</b>	<b>(6.37)</b>	<b>43,665</b>	<b>40,904</b>	<b>(6.32)</b>	<b>48,443</b>	<b>45,421</b>	<b>(6.24)</b>
Concrete Machinery	18,097	16,109	(10.98)	19,409	17,323	(10.75)	21,799	19,504	(10.53)
Crane Machinery	14,309	13,782	(3.68)	14,797	14,219	(3.91)	16,322	15,684	(3.91)
Earth Moving Machinery	1,156	1,156	-	1,333	1,333	-	1,537	1,537	-
Environmental and Sanitation Machinery	2,822	2,822	-	3,104	3,104	-	3,415	3,415	-
Road Construction and Pile Foundation	1,480	1,480	-	1,702	1,702	-	1,957	1,957	-
Financial Leasing Income	1,587	1,482	(6.64)	1,456	1,360	(6.61)	1,363	1,274	(6.51)
Others	1,694	1,694	-	1,863	1,863	-	2,049	2,049	-
<b>Gross profit (RMB mn)</b>	<b>13,104</b>	<b>12,088</b>	<b>(7.76)</b>	<b>13,782</b>	<b>12,608</b>	<b>(8.52)</b>	<b>15,677</b>	<b>14,293</b>	<b>(8.83)</b>
GPM (%)	31.85	31.38	(0.47ppt)	31.56	30.82	(0.74ppt)	32.36	31.47	(0.89ppt)
<b>Net income (RMB mn)</b>	<b>5,424</b>	<b>4,841</b>	<b>(10.73)</b>	<b>6,068</b>	<b>5,386</b>	<b>(11.24)</b>	<b>7,337</b>	<b>6,449</b>	<b>(12.10)</b>
Net margin (%)	13.18	12.57	(0.62ppt)	13.90	13.17	(0.73ppt)	15.15	14.20	(0.95ppt)
EPS (RMB)	0.704	0.628	(10.73)	0.782	0.699	(10.64)	0.939	0.831	(11.51)
BVPS (RMB)	6.017	5.941	(1.26)	6.863	6.760	(1.50)	7.867	7.675	(2.44)
DPS (RMB)	0.141	0.126	(10.73)	0.156	0.140	(10.64)	0.188	0.166	(11.51)

Source(s): ABCI Securities estimates

**Exhibit 6: P/E band of Zoomlion (H-shares) in 12M10-10M13 (HK\$)**


Source(s): Company, Bloomberg, ABCI Securities estimates

**Exhibit 7: P/B band of Zoomlion (H-shares) in 12M10-10M13 (HK\$)**


Source(s): Company, Bloomberg, ABCI Securities estimates

**Exhibit 8: 9M13 results summary of Zoomlion and Sany Heavy**

Zoomlion (1157 HK / 000157 CH)				Sany Heavy (600031 CH)			
	9M12	9M13	(% YoY)		9M12	9M13	(% YoY)
Revenue (RMB mn)	39,072	28,806	(26.27)	Revenue (RMB mn)	40,568	29,726	(26.73)
Gross Profit (RMB mn)	13,428	8,982	(33.11)	Gross Profit (RMB mn)	13,466	8,364	(37.89)
GPM (%)	34.37	31.18	(3.19ppt)	GPM (%)	33.19	28.14	(5.06ppt)
Net profit (RMB mn)	6,960	3,812	(45.23)	Net profit (RMB mn)	5,874	2,977	(49.32)
Net profit margin (%)	17.81	13.23	(4.58ppt)	Net profit margin (%)	14.48	10.01	(4.46ppt)
Trade and bill receivables (RMB mn)	20,753	26,293	26.69	Trade and bill receivables (RMB mn)	21,273	22,993	8.09
Long term receivables (RMB mn)	13,823	7,916	(42.73)	Long term receivables (RMB mn)	11	-	(100.00)
Total accounts receivables (RMB mn)	34,576	34,209	(1.06)	Total accounts receivables (RMB mn)	21,284	22,993	8.03
Total accounts receivables / revenue (%)	88.49	118.76	30.26ppt	Total accounts receivables / revenue (%)	52.46	77.35	24.88ppt

Source(s): Companies, ABCI Securities

**Exhibit 9: Peer valuation for machinery manufacturers**

Company	Ticker	Mkt cap (HK\$ mn)	As of 30/10/2013		P/E (x)		EPS (%YoY)		P/B (x)		ROAE (%)	
			CRY	Share Price	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
<b>Construction Machinery Maker</b>												
CATERPILLAR INC	CAT US	422,120	USD	84.07	15.27	14.22	(36.77)	7.37	2.98	2.69	24.59	30.94
KOMATSU LTD	6301 JP	167,013	JPY	2,152	12.65	11.78	28.31	7.34	1.60	1.48	13.28	13.52
SANY HEAVY INDUS	600031 CH	69,282	RMB	7.15	10.47	7.07	(8.93)	48.17	1.93	1.58	18.68	25.21
<b>ZOOMLION HEAVY-H</b>	<b>1157 HK</b>	<b>10,010</b>	<b>HKD</b>	<b>7.00</b>	<b>8.95</b>	<b>8.04</b>	<b>(33.95)</b>	<b>11.25</b>	<b>0.95</b>	<b>0.83</b>	<b>11.19</b>	<b>11.01</b>
ZOOMLION HEAVY-A	000157 CH	45,671	RMB	5.72	9.10	8.18	(33.95)	11.25	0.96	0.85	11.19	11.01
XCMG CONSTRUCT-A	000425 CH	20,758	RMB	7.91	7.37	7.83	(10.58)	(5.87)	0.87	0.81	11.90	10.72
GUANGXI LIUGONG	000528 CH	9,448	RMB	6.60	18.18	13.17	45.20	38.02	0.77	0.74	4.09	6.33
TEREX CORP	TEX US	30,289	USD	35.10	16.80	12.05	117.60	39.44	1.82	1.55	11.56	14.44
TADANO	6395 JP	14,026	JPY	1,372	16.51	14.85	43.64	11.18	1.81	1.63	7.95	11.55
SHANTUI CONST-A	000680 CH	5,383	RMB	3.41	53.28	46.08	113.33	15.63	0.95	0.97	1.23	2.09
XIAMEN XGMA-A	600815 CH	5,112	RMB	4.19	(32.23)	18.62	(181.25)	(273.08)	0.90	0.86	(2.70)	4.70
LONKING HOLDINGS	3339 HK	6,763	HKD	1.58	10.88	8.59	230.78	26.58	0.78	0.71	7.59	8.68
<b>Sector Weighted Average</b>					<b>13.71</b>	<b>12.63</b>	<b>(9.53)</b>	<b>10.87</b>	<b>2.28</b>	<b>2.05</b>	<b>18.99</b>	<b>23.14</b>
<b>Agricultural Machinery Maker</b>												
DEERE & CO	DE US	245,327	USD	82.65	9.32	10.30	14.88	(9.49)	3.30	2.67	40.75	26.87
MAHINDRA & MAHIN	MM IN	69,561	INR	895.10	12.15	10.32	6.00	17.71	2.32	1.99	17.75	15.51
CNH GLOBAL NV	CNH US	93,868	USD	49.96	9.21	9.62	14.35	(4.22)	1.25	1.10	16.85	16.43
FIRST TRACTOR-H	38 HK	2,267	HKD	5.64	14.75	8.40	(12.46)	75.59	1.01	0.88	6.86	11.18
FIRST TRACTOR -A	601038 CH	6,604	RMB	8.74	28.47	16.21	(12.46)	75.59	1.94	1.70	6.86	11.18
ESCORTS LTD	ESC IN	1,433	INR	92.65	6.02	7.10	148.64	(15.19)	0.54	0.71	10.20	8.62
<b>Sector Weighted Average</b>					<b>10.08</b>	<b>10.22</b>	<b>13.17</b>	<b>(2.02)</b>	<b>2.64</b>	<b>2.18</b>	<b>30.76</b>	<b>22.25</b>
<b>Mining Machinery Maker</b>												
JOY GLOBAL INC	JOY US	47,610	USD	57.78	9.89	15.52	(18.89)	(36.27)	2.02	1.91	26.75	17.64
ZHENGZHOU COAL-H	564 HK	1,130	HKD	4.65	7.09	5.75	(46.30)	23.37	0.63	0.59	9.12	10.59
ZHENGZHOU COAL-A	601717 CH	10,624	RMB	6.06	11.51	9.33	(46.30)	23.37	1.03	0.95	9.12	10.59
TIAN DI -A	600582 CH	10,965	RMB	7.10	9.56	8.48	(20.53)	12.65	1.92	2.11	17.45	23.74
SANY HEAVY EQUIP	631 HK	6,812	HKD	2.24	12.51	11.39	(10.34)	9.82	0.95	0.89	7.66	7.94
LINZHOU HEAVY-A	002535 CH	3,864	RMB	5.66	8.30	6.58	58.60	26.10	1.25	1.07	17.19	17.51
SUNWARD INTELL-A	002097 CH	3,544	RMB	6.77	42.31	42.31	633.94	0.00	1.58	1.54	3.94	3.69
<b>Sector Weighted Average</b>					<b>11.51</b>	<b>14.08</b>	<b>8.68</b>	<b>(13.55)</b>	<b>1.73</b>	<b>1.66</b>	<b>20.16</b>	<b>16.08</b>
<b>Machinery Parts Maker</b>												
CUMMINS INC	CMI US	185,662	USD	127.90	16.46	13.39	(10.60)	22.94	3.30	2.82	22.14	22.71
WEICHAI POWER-H	2338 HK	51,576	HKD	30.70	13.13	11.50	25.20	14.22	1.72	1.52	14.13	14.18
TAIYUAN HEAVY-A	600169 CH	11,379	RMB	3.69	27.33	36.90	(198.47)	(25.93)	1.58	1.51	5.95	4.19
CHINA YUCHAI	CYD US	6,706	USD	23.21	8.17	7.31	16.87	11.80	0.86	0.80	10.86	11.32
<b>Sector Weighted Average</b>					<b>16.06</b>	<b>13.90</b>	<b>(11.02)</b>	<b>18.71</b>	<b>2.84</b>	<b>2.45</b>	<b>19.50</b>	<b>19.86</b>
<b>Industrial Machinery Maker</b>												
VOLVO AB-B	VOLVB SS	218,553	SEK	84.00	25.07	13.90	(38.40)	80.27	2.18	2.08	8.37	19.18
ATLAS COPCO-A	ATCOA SS	259,175	SEK	178.90	17.42	16.27	(10.30)	7.06	5.43	4.74	32.46	30.16
HYUNDAI HEAVY	009540 KS	144,843	KRW	260,500	9.94	8.26	45.28	20.38	1.05	0.99	10.56	12.35
SANDVIK AB	SAND SS	135,418	SEK	88.80	15.50	13.53	(12.01)	14.58	3.16	2.89	19.29	20.24
DOOSAN HEAVY	034020 KS	34,484	KRW	44,400	5.53	5.02	(447.41)	10.00	1.03	0.99	20.06	20.04
MANITOWOC CO	MTW US	20,893	USD	20.18	16.11	13.52	62.73	19.15	3.56	2.96	24.77	24.50
ANHUI HELI CO-A	600761 CH	7,213	RMB	11.03	12.04	10.36	34.71	16.27	1.66	1.47	14.79	15.54
<b>Sector Weighted Average</b>					<b>17.24</b>	<b>13.18</b>	<b>(24.37)</b>	<b>30.66</b>	<b>3.15</b>	<b>2.83</b>	<b>19.13</b>	<b>21.76</b>
<b>Overall Weighted Average</b>					<b>14.46</b>	<b>12.58</b>	<b>(10.16)</b>	<b>15.39</b>	<b>2.68</b>	<b>2.37</b>	<b>21.20</b>	<b>21.91</b>

Source(s): Bloomberg, ABCI Securities estimates

**Consolidated income statement (2011A-2015E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>Revenue</b>	<b>46,323</b>	<b>48,071</b>	<b>38,525</b>	<b>40,904</b>	<b>45,421</b>
Concrete Machinery	21,212	23,596	16,109	17,323	19,504
Crane Machinery	15,618	14,132	13,782	14,219	15,684
Earth Moving Machinery	1,048	2,269	1,156	1,333	1,537
Environmental and Sanitation Machinery	2,978	3,034	2,822	3,104	3,415
Road Construction and Pile Foundation	1,737	1,558	1,480	1,702	1,957
Financial Leasing Income	1,583	1,600	1,482	1,360	1,274
Others	2,147	1,882	1,694	1,863	2,049
<b>COGS</b>	<b>(31,316)</b>	<b>(32,546)</b>	<b>(26,437)</b>	<b>(28,296)</b>	<b>(31,128)</b>
<b>Gross profit</b>	<b>15,007</b>	<b>15,525</b>	<b>12,088</b>	<b>12,608</b>	<b>14,293</b>
SG&A	(5,419)	(6,328)	(6,049)	(5,911)	(6,543)
Other income (loss)	14	(339)	(288)	(301)	(94)
<b>Pre-tax profit</b>	<b>9,602</b>	<b>8,858</b>	<b>5,750</b>	<b>6,396</b>	<b>7,656</b>
Income tax	(1,429)	(1,329)	(862)	(959)	(1,148)
<b>Net profit</b>	<b>8,173</b>	<b>7,529</b>	<b>4,887</b>	<b>5,436</b>	<b>6,507</b>
Profit attributable to:					
Minority interests	107	199	46	50	58
<b>Equity shareholders of the Company</b>	<b>8,066</b>	<b>7,330</b>	<b>4,841</b>	<b>5,386</b>	<b>6,449</b>
<b>EPS (RMB)</b>	<b>1.048</b>	<b>0.951</b>	<b>0.628</b>	<b>0.699</b>	<b>0.831</b>
<b>DPS (RMB)</b>	<b>0.250</b>	<b>0.200</b>	<b>0.126</b>	<b>0.140</b>	<b>0.166</b>
<b>EBIT</b>	<b>10,115</b>	<b>9,614</b>	<b>6,284</b>	<b>6,920</b>	<b>8,012</b>
<b>EBITDA</b>	<b>10,571</b>	<b>10,116</b>	<b>6,866</b>	<b>7,512</b>	<b>8,613</b>

Source(s): Company, ABCI Securities estimates

**Consolidated balance sheet (2011A-2015E)**

<b>As of Dec 31 (RMB mn)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>Current assets</b>	<b>47,842</b>	<b>63,243</b>	<b>64,175</b>	<b>67,285</b>	<b>73,461</b>
Cash and equivalent	17,483	22,146	20,121	20,084	26,377
Trade and bill receivables	11,789	17,508	22,836	22,772	24,806
Financial leasing receivables	7,089	9,194	7,302	8,059	6,335
Inventories	9,656	11,733	10,721	12,537	11,343
Other current assets	1,825	2,662	3,194	3,833	4,600
<b>Non-current assets</b>	<b>23,701</b>	<b>25,691</b>	<b>24,762</b>	<b>25,255</b>	<b>23,660</b>
Property, plant and equipment	4,886	6,112	6,475	6,579	6,677
Intangible assets	4,399	4,534	4,639	4,743	4,844
Long-term investments	146	385	424	466	512
Long-term receivables	12,780	10,458	7,911	8,731	6,863
Other non-current assets	1,490	4,202	5,314	4,737	4,764
<b>Total assets</b>	<b>71,543</b>	<b>88,934</b>	<b>88,937</b>	<b>92,540</b>	<b>97,121</b>
<b>Current liabilities</b>	<b>26,652</b>	<b>34,109</b>	<b>25,927</b>	<b>24,845</b>	<b>25,127</b>
Trade and bill payables	12,103	13,483	15,490	15,520	16,887
Receipts in advance	1,166	1,225	701	1,344	927
Short term borrowings	6,049	9,639	4,391	4,891	5,391
Other current liabilities	7,334	9,762	5,345	3,090	1,921
<b>Non-current liabilities</b>	<b>9,296</b>	<b>13,676</b>	<b>16,800</b>	<b>15,130</b>	<b>11,928</b>
Long-term borrowings	7,089	10,674	13,498	11,498	7,932
Other non-current liabilities	2,207	3,002	3,302	3,632	3,996
<b>Total liabilities</b>	<b>35,948</b>	<b>47,785</b>	<b>42,727</b>	<b>39,976</b>	<b>37,054</b>
<b>Minority interests</b>	<b>188</b>	<b>387</b>	<b>426</b>	<b>468</b>	<b>515</b>
<b>Shareholders' equities</b>	<b>35,407</b>	<b>40,762</b>	<b>45,784</b>	<b>52,096</b>	<b>59,551</b>
<b>BPS (RMB)</b>	<b>4.598</b>	<b>5.290</b>	<b>5.941</b>	<b>6.760</b>	<b>7.675</b>

Source(s): Company, ABCI Securities estimates

**Consolidated cash flow statement (2011A-2015E)**

<b>FY ended Dec 31 (RMB mn)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>Profit before tax</b>	<b>9,602</b>	<b>8,858</b>	<b>5,750</b>	<b>6,396</b>	<b>7,656</b>
Changes in depreciation and amortization	456	502	582	592	601
Changes in working capital	(7,643)	(5,559)	(1,454)	(2,300)	4,516
Income tax paid	(975)	(1,657)	(980)	(1,065)	(1,244)
Financial cost	695	623	534	524	356
Others	(41)	193	212	234	257
<b>CF Operating</b>	<b>2,094</b>	<b>2,960</b>	<b>4,644</b>	<b>4,380</b>	<b>12,142</b>
Increase in PP&E	(1,210)	(1,633)	(850)	(600)	(600)
Increase in intangible assets	(372)	(230)	(200)	(200)	(200)
Others	81	(1,536)	(1,075)	(753)	(527)
<b>CF Investing</b>	<b>(1,501)</b>	<b>(3,399)</b>	<b>(2,125)</b>	<b>(1,553)</b>	<b>(1,327)</b>
Capital injection	1,509	-	-	-	-
Net debt financing	(2,393)	7,175	(2,424)	(1,500)	(3,066)
Dividend payout	(1,669)	(1,926)	(1,541)	(968)	(1,077)
Interest paid	(695)	(623)	(534)	(524)	(356)
Others	(27)	(114)	(45)	129	(23)
<b>CF Financing</b>	<b>(3,275)</b>	<b>4,512</b>	<b>(4,544)</b>	<b>(2,864)</b>	<b>(4,522)</b>
<b>Net change in cash</b>	<b>(2,682)</b>	<b>4,073</b>	<b>(2,025)</b>	<b>(37)</b>	<b>6,293</b>
Cash at the beginning	20,335	17,483	22,146	20,121	20,084
Adjustment (Time deposit & FX effect)	(170)	590	-	-	-
<b>Cash at the end</b>	<b>17,483</b>	<b>22,146</b>	<b>20,121</b>	<b>20,084</b>	<b>26,377</b>

Source(s): Company, ABCI Securities estimates

**Consolidated cash flow statement (2011A-2015E)**

<b>FY ended Dec 31</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>Sales mixed (%)</b>					
Concrete Machinery	45.79	49.09	41.82	42.35	42.94
Crane Machinery	33.72	29.40	35.78	34.76	34.53
Earth Moving Machinery	2.26	4.72	3.00	3.26	3.38
Environmental and Sanitation Machinery	6.43	6.31	7.33	7.59	7.52
Road Construction and Pile Foundation	3.75	3.24	3.84	4.16	4.31
Financial Leasing Income	3.42	3.33	3.85	3.33	2.81
Others	4.63	3.92	4.40	4.56	4.51
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	32.40	32.30	31.38	30.82	31.47
Net profit margin	17.41	15.25	12.57	13.17	14.20
Effective tax rate	14.88	15.00	15.00	15.00	15.00
<b>Growth (%)</b>					
Revenue	43.89	3.77	(19.86)	6.17	11.04
Gross profit	53.62	3.45	(22.14)	4.30	13.37
EBIT	73.83	(4.95)	(34.64)	10.12	15.78
EBITDA	69.57	(4.30)	(32.13)	9.41	14.66
Net profit	72.87	(9.12)	(33.95)	11.25	19.74
<b>Balance sheet ratios</b>					
Current ratio (x)	1.80	1.85	2.48	2.71	2.92
Quick ratio (x)	1.43	1.51	2.06	2.20	2.47
Cash ratio (x)	0.66	0.65	0.78	0.81	1.05
Trade and bill receivables days	79.88	124.88	220.00	230.00	210.00
Trade and bill payables turnover days	142.11	143.47	200.00	200.00	190.00
Inventory turnover days	106.84	119.94	155.00	150.00	140.00
Total debt / equity ratio (%)	36.91	49.36	38.71	31.18	22.18
Net debt / equity ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
<b>Returns (%)</b>					
ROAE	25.69	19.25	11.19	11.01	11.55
ROAA	12.15	9.38	5.50	5.99	6.86
Payout ratio	23.88	21.02	20.00	20.00	20.00

Source(s): Company, ABCI Securities estimates

## Disclosures

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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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