



Sector Rating: Overweight

Key data

Average FY13 PER (x)	9.50
Average FY13 PBV (x)	1.24
Average FY13 Dividend Yield (%)	2.28
Sector 3 months avg vol (HK\$mn)	1,294

Source: Bloomberg, ABCI Securities

Net income growth in 1QFY13 (% YoY)

Zoomlion	-71.66
Lonking ¹	-91.27
First Tractor	-18.84
Sany Int'l ¹	-35.49
ZMJ	-8.35
Sany Heavy	-43.90
XCMG	-38.84

1: The growth is as at FY12

Source: Companies

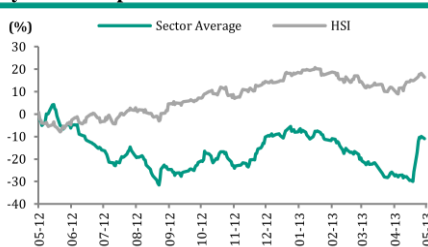
Average share performance (%)

	Absolute	Relative ¹
1-mth	22.9	17.29
3-mth	0.3	1.29
6-mth	15.4	6.89

1: Relative to Hang Seng Index

Source: Bloomberg

1 year sector performance



Source: Bloomberg

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Previous report

Date: March 15, 2013

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Construction and Farm Machinery Capital Goods

Maintain positive tone on construction machinery stocks

The transportation FAI growth edged up to 23.7% YoY in 1-4M13 from 22.0% YoY in 1Q13, indicating rising demand for construction machinery. As the coal mining FAI fell 5.2% YoY in 1-4M and coal output growth is slowing, we stay cautious on coal mining machinery stocks. We prefer the construction machinery makers (Zoomlion and Lonking) to coal mining machinery makers (Sany Int'l and ZMJ).

Construction industry FAI recovering. The decline of FAI on the construction industry for the first 4 months in 2013 narrowed down to -10.0% YoY (the figure for 1Q13 was -23.9% YoY and 1-2M13 was -39.0% YoY), thanks for the growth momentum of infrastructure construction (the overall FAI growth on transportation industry was up from 22.0% YoY in 1Q13 to 23.7% YoY in 1-4M13) spurring the demand for construction machinery. The sales volume decline of excavator was recovering from -47.3% YoY for 1-2M13 to -25.9% YoY for 1Q13, and to -17.0% YoY for 1-4M13.

Falling demand for coal mining machinery. Although the decline of FAI on coal mining industry shrank from the -12.6% YoY for 1Q13 to -5.2% YoY for 1-4M13, we remain cautious on coal mining machinery as the total coal production volume growth is slowing down for 5 consecutive quarters. We expect the coal mining machinery to have a meaningful recovery until 2014.

Prefer construction machinery makers. Considering with the recovery of construction machinery industry and the growth momentum of downstream construction industry, we maintain our buy rating on Zoomlion (1157 HK) and Lonking (3339 HK). However, on the other hand, as there is lack of significant recovery signal on the coal mining machinery industry nor the turnaround signal on the domestic coal production volume, we maintain our "hold" rating on the Sany Int'l (631 HK) and ZMJ (564 HK).

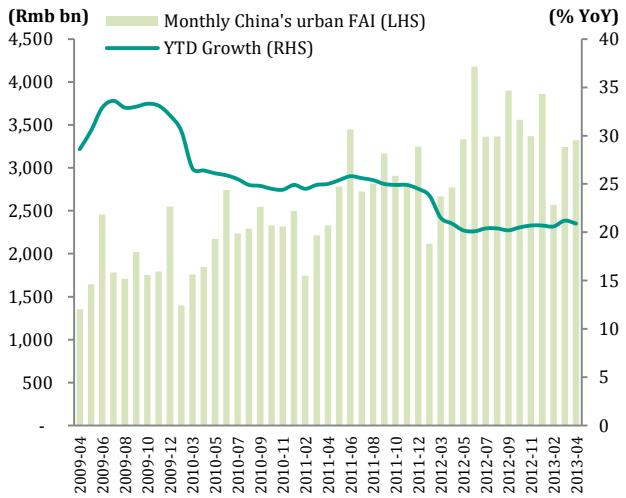
Risk factors: Competition from international players; Credit and liquidity risk

Valuation summary of the sector

Company	Ticker	Rating	Share Price	Target Price (HK\$)	FY13 PER (x)	FY13 PBR (x)	FY13 Yield (%)
Zoomlion	1157 HK	Buy	HK\$8.20	9.45	7.11	1.06	2.81
Lonking	3339 HK	Buy	HK\$1.65	1.86	9.40	0.81	2.66
First Tractor	38 HK	Hold	HK\$6.07	6.14	11.38	1.06	2.64
Sany Int'l	631 HK	Hold	HK\$3.06	3.42	13.41	1.28	1.49
ZMJ	564 HK	Hold	HK\$7.28	7.02	8.30	0.96	3.61
Sany Heavy	600031 CH	N/A	Rmb9.48	N/A	9.90	2.39	1.53
XCMG	000425 CH	N/A	Rmb10.45	N/A	7.00	1.11	1.24

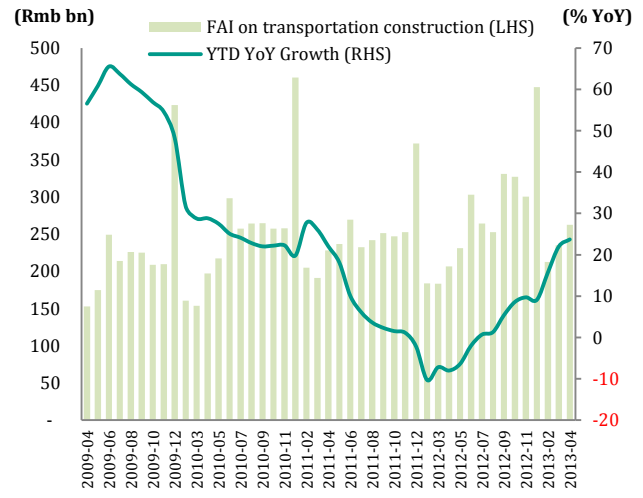
Source: Companies, Bloomberg, ABCI Securities estimates

China FAI, 4M2009-4M2013



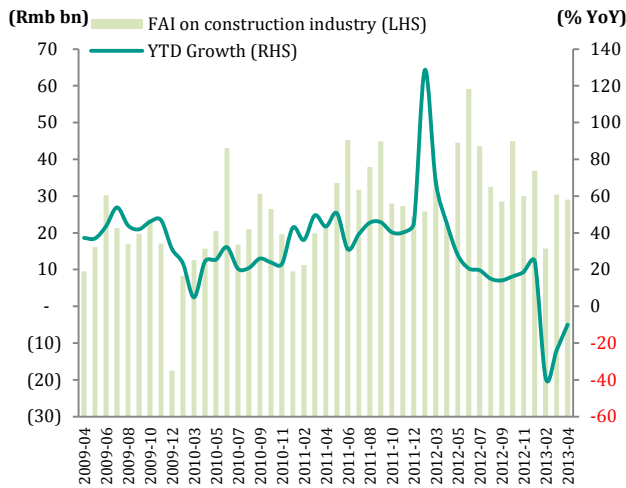
Source: NBS

FAI on overall transportation industry, 4M2009-4M2013



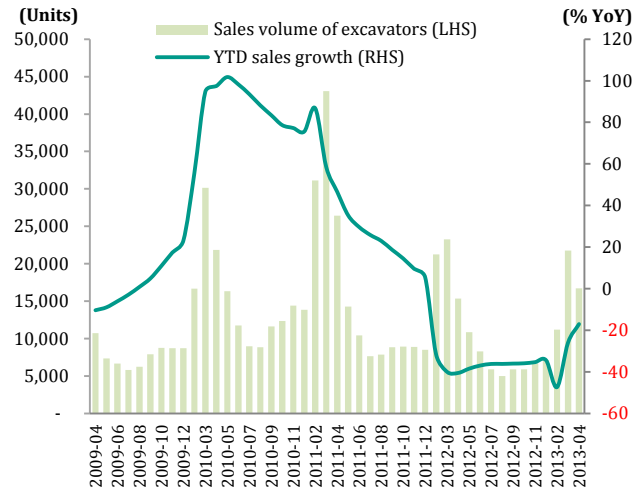
Source: NBS

FAI on construction industry, 4M2009-4M2013



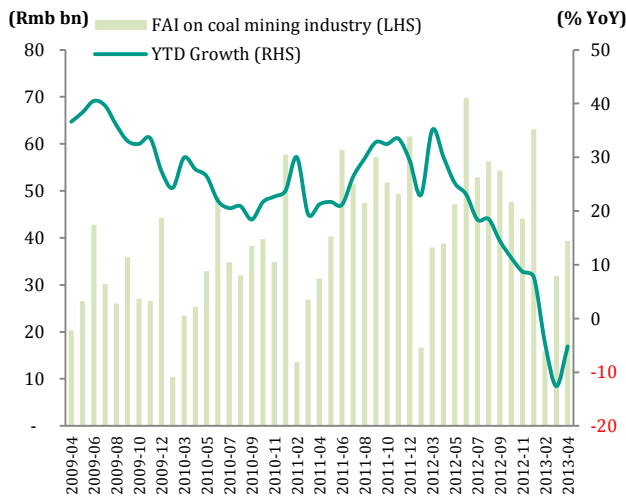
Source: NBS

Excavator sales volume, 4M2009-4M2013



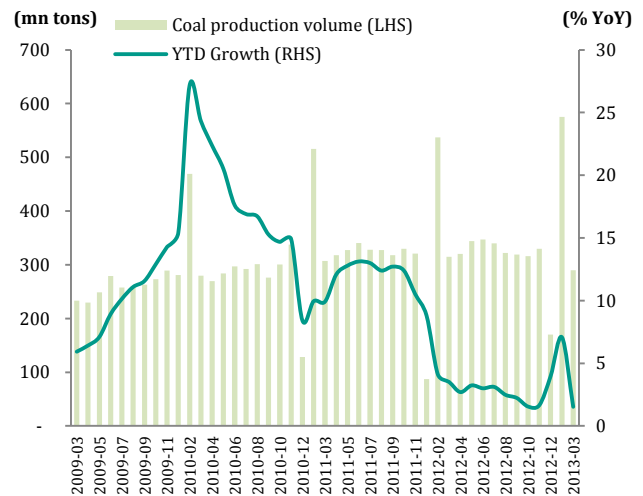
Source: Media, ABCI Securities

FAI on coal mining industry, 4M2009-4M2013



Source: NBS

Total coal production volume, 3M2009-3M2013



Source: NBS

Peer group valuation and earnings forecasts summary of construction and farm machinery sectors

Company	Ticker	MKT CAP ¹ (HKD mn)	Share Price	PER (x)		EPS Change (%)		PBR (x)		ROAE (%)		
				FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	
Construction Machinery Makers												
CATERPILLAR INC	CAT US	452,370	USD	88.62	12.84	11.00	-20.76	16.75	2.87	2.41	30.05	38.06
KOMATSU LTD	6301 JP	214,656	JPY	2861	14.76	13.44	46.12	9.84	2.23	2.01	11.91	15.70
SANY HEAVY INDUS	600031 CH	91,169	RMB	9.48	9.90	7.75	27.73	27.66	2.39	1.84	25.62	28.26
ZOOMLION HEAVY-H ²	1157 HK	11,726	HKD	8.20	7.11	5.90	-2.65	20.57	1.06	0.89	16.06	16.45
ZOOMLION HEAVY-A ²	000157 CH	58,244	RMB	7.35	7.94	6.58	-2.65	20.57	1.18	1.00	16.06	16.45
XCMG CONSTRUCT-A	000425 CH	27,218	RMB	10.45	7.00	6.63	24.42	5.63	1.11	0.96	15.42	15.76
GUANGXI LIUGONG	000528 CH	11,693	RMB	8.23	11.09	7.68	196.80	44.47	0.94	0.87	5.58	8.35
TEREX CORP	TEX US	27,195	USD	31.51	12.31	9.13	166.56	34.82	1.43	1.22	11.99	13.92
TADANO	6395 JP	12,709	JPY	1286	17.73	16.01	25.41	10.72	1.84	1.68	7.13	10.77
SHANTUI CONST-A	000680 CH	6,053	RMB	4.21	20.74	14.03	576.67	47.78	1.12	1.08	4.71	6.93
XIAMEN XGMA-A	600815 CH	6,333	RMB	5.23	20.92	14.53	56.25	44.00	1.02	0.97	3.24	4.40
LONKING HOLDINGS ²	3339 HK	7,062	HKD	1.65	9.40	6.67	299.47	41.03	0.81	0.72	9.09	11.37
Sector Weighted Average					12.55	10.76	17.95	17.56	2.37	2.01	22.26	27.53
Agricultural Machinery Makers												
DEERE & CO	DE US	279,066	USD	92.30	10.74	10.31	11.37	4.13	3.73	3.01	39.93	31.72
MAHINDRA & MAHIN	MM IN	83,054	INR	957.50	15.01	12.72	19.92	18.01	2.82	2.41	15.98	15.96
CNH GLOBAL NV	CNH US	80,613	USD	42.86	8.55	8.21	7.14	4.11	1.09	0.96	15.51	16.51
FIRST TRACTOR-H ²	38 HK	2,440	HKD	6.07	11.38	8.14	22.19	39.69	1.06	0.92	9.55	12.14
FIRST TRACTOR-A ²	601038 CH	6,367	RMB	8.49	19.81	14.18	22.19	39.69	1.85	1.61	9.55	12.14
ESCORTS LTD	ESC IN	1,113	INR	64.25	7.16	5.25	44.91	36.44	0.45	0.41	6.47	8.82
Sector Weighted Average					11.25	10.41	12.48	7.44	3.04	2.50	30.51	25.68
Mining Machinery Makers												
JOY GLOBAL INC	JOY US	49,219	USD	59.71	9.63	9.42	-13.89	2.29	2.08	1.75	27.55	27.02
ZHENGZHOU COAL-H ²	564 HK	1,769	HKD	7.28	8.30	6.14	-28.15	35.26	0.96	0.86	12.02	14.80
ZHENGZHOU COAL-A ²	601717 CH	15,063	RMB	8.52	12.10	8.94	-17.41	35.26	1.40	1.25	12.02	14.80
TIAN DI-A	600582 CH	13,580	RMB	8.86	8.07	7.17	17.43	12.48	1.40	1.19	14.43	16.72
SANY HEAVY EQUIP ²	631 HK	9,398	HKD	3.06	13.41	11.28	14.21	18.85	1.28	1.17	9.78	10.73
LINZHOU HEAVY-A	002535 CH	4,581	RMB	6.74	9.55	7.05	64.19	35.41	1.19	1.05	16.04	22.21
SUNWARD INTELL-A	002097 CH	3,673	RMB	7.07	30.74	22.09	955.05	39.13	1.66	1.56	5.56	7.68
Sector Weighted Average					10.93	9.52	32.65	13.97	1.73	1.49	19.94	20.94
Machinery Part Makers												
CUMMINS INC	CMI US	168,438	USD	114.38	14.21	11.74	-7.38	21.00	2.81	2.40	21.60	26.00
WEICHAI POWER-H	2338 HK	58,047	HKD	30.15	13.34	11.43	21.07	16.63	1.68	1.48	12.27	14.00
TAIYUAN HEAVY-A	600169 CH	9,274	RMB	3.03	22.44	30.30	-198.47	-25.93	1.29	1.24	3.72	4.46
CHINA YUCHAI	CYD US	4,527	USD	15.65	6.00	4.88	8.30	22.99	0.62	0.57	8.31	10.29
Sector Weighted Average					14.16	12.26	-7.59	18.17	2.44	2.10	18.41	21.97
Industrial Machinery Makers												
VOLVO AB-B	VOLVB SS	233,808	SEK	93.55	19.67	11.63	-12.57	69.13	2.30	2.05	11.58	20.73
ATLAS COPCO-A	ATCOA SS	240,334	SEK	172.70	15.85	14.76	-4.86	7.39	5.17	4.49	34.16	31.41
HYUNDAI HEAVY	009540 KS	105,782	KRW	199500	7.62	6.33	45.28	20.38	0.80	0.75	13.40	15.64
SANDVIK AB	SAND SS	138,735	SEK	94.15	14.36	12.10	0.72	18.65	3.13	2.74	20.50	20.73
DOOSAN HEAVY	034020 KS	31,609	KRW	42800	5.33	4.84	-447.41	10.00	0.92	0.87	17.31	17.88
MANITOWOC CO	MTW US	19,594	USD	18.91	16.32	11.25	50.52	45.04	3.37	2.80	24.40	29.73
ANHUI HELI CO-A	600761 CH	5,634	RMB	8.68	9.97	8.65	28.09	15.27	0.60	0.53	13.40	14.41
Sector Weighted Average					15.15	11.65	-15.75	30.91	3.09	2.71	20.99	23.41
Weighted Average					13.22	11.07	4.58	19.79	2.70	2.31	22.90	25.12
Median					11.74	9.27	20.49	20.57	1.35	1.21	12.83	15.67

* The data in the table is as at May 13, 2013;

1: The market capital value of the companies are translated into HKD;

2: ABCI Securities estimates;

Source: Bloomberg, ABCI Securities estimates

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Definition of equity rating

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

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

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

Time horizon of share price target: 12-month

Definition of share price risk

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

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

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

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