

Sector Rating: Overweight

Key data

Average FY13 PER (x)	8.72
Average FY13 PBV (x)	1.39
Average FY13 Dividend Yield (%)	2.72
Sector 3 months avg vol (HK\$m)	2,257

Source: Bloomberg, ABCI Securities

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

Zoomlion	16.74
Lonking ¹	-76.08
First Tractor	2.84
Sany Int'l ²	-35.49
ZMJ	31.12
Sany Heavy	-23.43
XCMG	-30.48

1: The growth is as at 1HFY12

2: The growth is as at FY12

Source: Companies

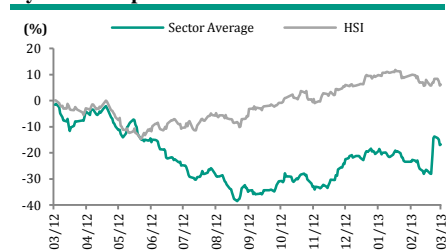
Average share performance (%)

	Absolute	Relative ¹
1-mth	8.27	11.93
3-mth	9.30	9.06
6-mth	26.51	17.17

1: Relative to Hang Seng Index

Source: Bloomberg

1 year sector performance



Source: Bloomberg

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Previous report

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Construction and Farm Machinery Capital Goods

Recovery facing headwinds

Market is shocked when they realize sales volume of earth moving machinery and concrete machinery tumbled for 1-2M2013. Profit taking activities may drive the construction machinery stocks down in the short-term as the sector has outperformed the market sharply. The declining growth of coal mining activities and the possible delay on the approval of new railway projects are major headwinds to the sector.

Disappointed sales on earth moving machinery. The sales volume of excavators tumbled by 47% YoY for 1-2M2013 because of the sluggish coal mining activities. The sluggish sales of excavators also suggest weaker sales of other types of earth moving machines. Sany Heavy (600031 CH), market leader of local excavator industry, posted 28% YoY decline in sales of excavators during the same period but its market share in excavator industry edged up to 16.9% for 1-2M2013 from 13.5% in 2012. We stay cautious on short-term outlook of Lonking (3339 HK).

Zoomlion's concrete machinery sales volume down 30%. According to our channel check, the overall sales volume of concrete machinery industry plunged ~40% YoY in the 1-2M2013. Concrete machinery sales of Sany Heavy, a major competitor of Zoomlion (1157 HK), may tumble over 40% for 1-2M2013.

Slow recovery pace. The declining growth of coal mining activities will continue this year. The reformation of MOR may lead to delay on the approval of new railway projects and add uncertainty on financing existing or new projects. The healthy recovery pace of the construction machinery industry observed in the 4Q2012 may slow down in 1H2013.

Stay with leading players. It would be a good timing to accumulate the stocks of market leaders with comprehensive business sales channel, strong R&D capabilities and production scales on the bad news. Zoomlion is bargained, at 5.5x FY2013E PER or 42.7% discounted to the sector average at 9.6x. First Tractor (38 HK) is immune to the slowdown of coal mining activities and the uncertainty caused by the reformation of MOR.

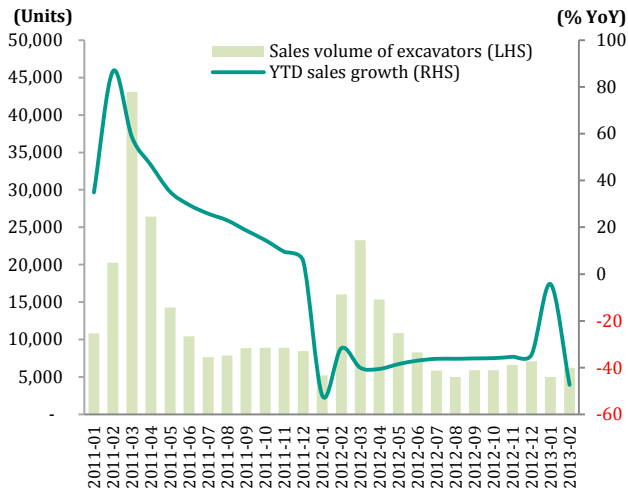
Risk factors: Competition from international players; Credit and liquidity risk

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\$9.35	13.96	5.49	1.21	3.64
Lonking	3339 HK	Hold	HK\$1.85	2.00	7.59	0.87	3.95
First Tractor	38 HK	Buy	HK\$7.30	9.27	9.05	1.29	3.31
Sany Int'l	631 HK	Hold	HK\$3.23	3.42	14.16	1.35	1.41
ZMJ	564 HK	Hold	HK\$8.58	10.15	7.61	1.14	2.63
Sany Heavy	600031 CH	N/A	Rmb10.53	N/A	9.57	2.66	2.94
XCMG	000425 CH	N/A	Rmb11.30	N/A	7.57	1.20	1.15

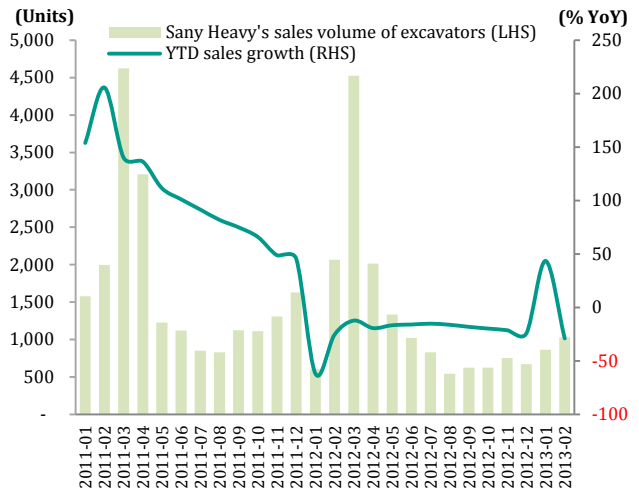
Source: Companies, Bloomberg, ABCI Securities estimates

Total sales volume of excavator, 2011-2M2013



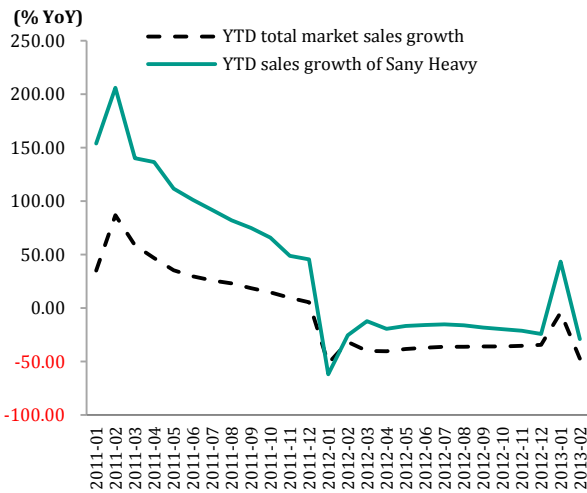
Source: CCMA, Media

Sany Heavy's sales volume of excavator, 2011-2M2013



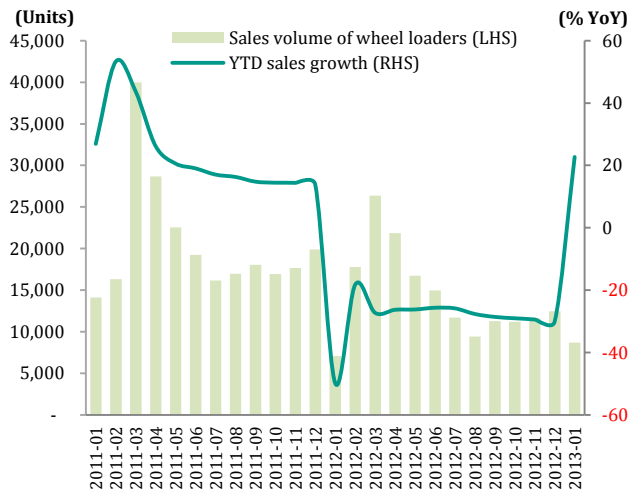
Source: CCMA, Media

Growth spread of Sany Heavy and total market sales in China's excavator market, 2011-2M2013



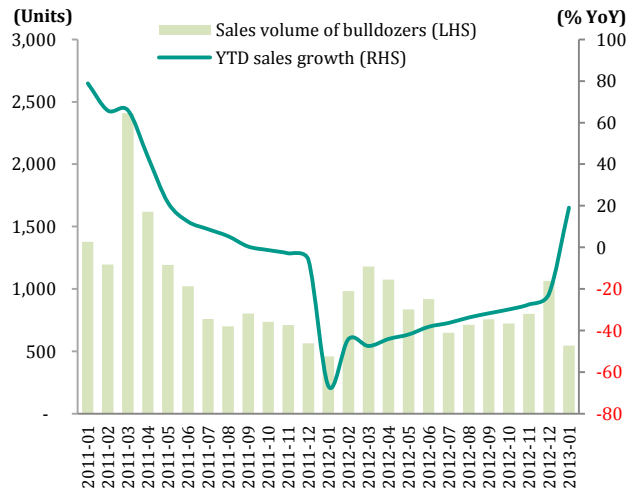
Source: ABCI Securities

Total sales volume of wheel loader, 2011-1M2013



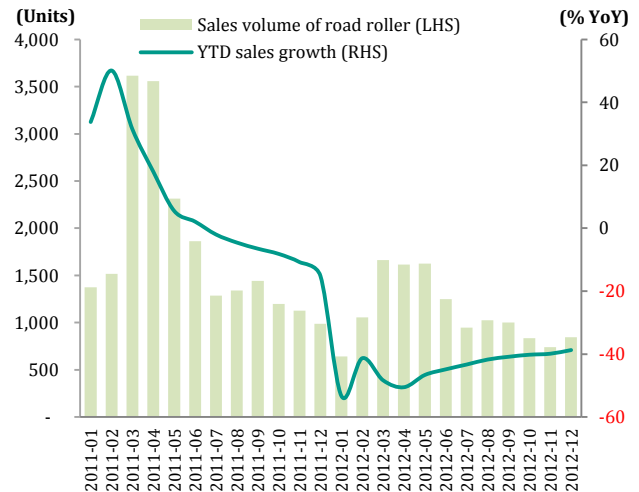
Source: CCMA, Media

Total sales volume of bulldozer, 2011-1M2013



Source: CCMA, Media

Total sales volume of road roller, 2011-1M2013



Source: CCMA, Media

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 (%)		
				FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	
Construction Machinery Makers												
CATERPILLAR INC	CAT US	453,653	USD	89.28	11.01	9.36	-6.89	17.58	2.67	2.22	36.22	28.19
KOMATSU LTD	6301 JP	176,045	JPY	2221	11.89	11.65	7.64	2.08	1.95	1.78	18.53	13.15
SANY HEAVY INDUS	600031 CH	100,069	RMB	10.53	11.35	9.57	-18.53	18.53	3.41	2.66	34.53	30.21
ZOOMLION HEAVY-H ²	1157 HK	13,371	HKD	9.35	6.53	5.49	10.02	18.81	1.48	1.21	23.10	22.70
ZOOMLION HEAVY-A ²	000157 CH	65,649	RMB	8.38	7.28	6.13	10.02	18.81	1.65	1.35	23.10	22.70
XCMG CONSTRUCT-A	000425 CH	29,083	RMB	11.30	8.45	7.57	-18.41	11.58	1.38	1.20	14.77	15.60
GUANGXI LIUGONG	000528 CH	12,285	RMB	8.75	24.24	15.74	-69.15	54.02	1.05	1.00	3.86	5.42
TEREX CORP	TEX US	29,402	USD	34.24	16.88	12.84	394.63	31.46	1.59	1.41	10.56	13.61
TADANO	6395 JP	11,193	JPY	1072	78.45	27.28	-44.83	187.62	1.66	1.55	2.30	6.70
SHANTUI CONST-A	000680 CH	6,380	RMB	4.49	-11.54	12.40	-192.62	-193.06	1.42	1.33	1.25	5.15
XIAMEN XGMA-A	600815 CH	7,622	RMB	6.37	11.21	14.54	-23.24	-22.89	1.17	1.09	10.45	7.51
LONKING HOLDINGS ²	3339 HK	7,961	HKD	1.85	14.23	7.59	-74.07	86.96	0.95	0.87	6.80	12.00
Sector Weighted Average					11.87	9.95	5.34	16.43	2.38	2.00	28.41	23.12
Agricultural Machinery Makers												
DEERE & CO	DE US	276,012	USD	91.34	10.65	10.12	11.06	5.27	3.69	2.97	38.74	39.34
MAHINDRA & MAHIN	MM IN	80,841	INR	921.10	14.52	11.94	19.25	21.67	2.71	2.31	21.10	20.14
CNH GLOBAL NV	CNH US	82,636	USD	43.96	9.06	8.56	3.68	5.79	1.07	0.95	11.99	12.79
FIRST TRACTOR-H ²	38 HK	2,935	HKD	7.30	13.31	9.05	-10.22	48.58	1.26	1.29	9.30	13.00
FIRST TRACTOR-A ²	601038 CH	6,882	RMB	9.32	21.38	14.39	-10.22	48.58	2.03	2.05	9.30	13.00
ESCORTS LTD	ESC IN	1,027	INR	58.60	6.53	4.79	44.88	36.44	0.38	0.38	6.43	7.21
Sector Weighted Average					11.23	10.21	10.79	9.33	2.98	2.45	29.95	30.38
Mining Machinery Makers												
JOY GLOBAL INC	JOY US	50,699	USD	61.54	9.91	9.48	-13.74	4.49	2.13	1.79	34.20	26.91
ZHENGZHOU COAL-H ²	564 HK	2,085	HKD	8.58	7.05	7.61	14.58	-7.32	1.26	1.14	21.09	15.21
ZHENGZHOU COAL-A ²	601717 CH	16,460	RMB	9.57	9.79	10.57	14.58	-7.32	1.75	1.58	21.09	15.21
TIAN DI-A	600582 CH	15,858	RMB	10.47	11.19	9.18	24.66	21.79	2.20	1.82	22.27	21.80
SANY HEAVY EQUIP ²	631 HK	9,999	HKD	3.23	16.03	14.16	-35.50	14.21	1.44	1.35	9.08	9.78
LINZHOU HEAVY-A	002535 CH	4,903	RMB	7.30	13.64	10.00	54.56	36.45	1.44	1.29	10.86	13.28
SUNWARD INTELL-A	002097 CH	3,755	RMB	7.14	51.00	29.75	-71.03	71.43	1.71	1.64	3.36	5.51
Sector Weighted Average					12.28	10.78	-3.75	9.90	1.95	1.68	25.39	20.97
Machinery Part Makers												
CUMMINS INC	CMI US	173,432	USD	117.77	13.42	11.41	0.29	17.66	2.83	2.37	26.17	22.64
WEICHAI POWER-H	2338 HK	53,607	HKD	25.85	11.68	9.63	-36.79	21.30	1.39	1.23	12.19	13.69
TAIYUAN HEAVY-A	600169 CH	9,769	RMB	3.23	323.00	20.19	-93.79	1500.00	1.42	1.33	0.44	6.58
CHINA YUCHAI	CYD US	4,585	USD	15.86	5.87	5.34	-22.64	10.00	0.63	0.59	10.74	11.07
Sector Weighted Average					25.42	11.25	-12.19	78.31	2.41	2.04	21.73	19.78
Industrial Machinery Makers												
VOLVO AB-B	VOLVB SS	253,368	SEK	98.75	14.97	10.81	21.25	38.43	2.25	2.02	14.15	15.54
ATLAS COPCO-A	ATCOA SS	264,738	SEK	185.00	16.25	15.20	-0.59	6.93	5.55	4.75	43.17	36.34
HYUNDAI HEAVY	009540 KS	113,121	KRW	212500	9.38	8.11	-28.68	15.69	0.83	0.76	9.98	8.47
SANDVIK AB	SAND SS	156,999	SEK	103.80	13.99	12.36	13.96	13.18	3.29	2.88	25.42	24.20
DOOSAN HEAVY	034020 KS	31,994	KRW	43150	7.00	5.37	222.60	30.28	0.88	0.82	11.95	13.70
MANITOWOC CO	MTW US	20,795	USD	20.19	15.82	11.54	65.71	37.15	3.50	2.89	18.33	24.89
ANHUI HELI CO-A	600761 CH	5,297	RMB	8.26	11.09	9.42	-0.67	17.72	1.40	1.27	12.08	12.48
Sector Weighted Average					14.14	11.92	14.96	20.38	3.26	2.84	24.77	22.85
Weighted Average					13.80	10.80	7.46	22.07	2.76	2.35	26.72	23.91
Median					11.68	10.12	-0.67	18.81	1.59	1.35	12.19	13.69

* The data in the table is as at March 14, 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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