



Company Report

Zoomlion (1157 HK)

February 26, 2013

Rating: Buy

TP: HK\$13.96

Key data

H-Share price (HK\$)	10.24
Upside potential (%)	36.3
52Wk H/L(HK\$)	12.48/7.61
Issued shares (mn)	7,706
H-share	1,430
A-share	6,276
H-Market cap (HK\$mn)	14,643
30-day avg daily vol (HK\$mn)	230.6
Auditors	KPMG
Major shareholder (%)	
Hunan SASAC	16.2

Source: Company & Bloomberg

Revenue breakdown by product (%)

Concrete machineries	54.2
Cranes	26.4
ESM	5.2
Other machineries	11.1
Financial income under leasing	3.1

*Based on 1-3QFY2012 results

Source: Company

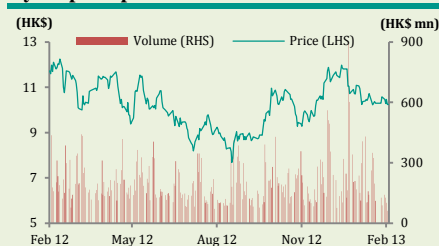
Share performance (%)

	Absolute	Relative ¹
1-mth	0.1	3.6
3-mth	2.8	-1.1
6-mth	15.8	1.1

1: Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst Information

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Previous report

Date: December 20, 2012

Rating: Buy

Target price: HK\$14.16

Benefit from Diversified Product-Mix

Growth slowdown of concrete pump following quick expansion in 2009 to 1H12 is expected to be partially offset by recovery on cranes segment. Zoomlion will be benefited from its diversified product-mix structure in 2013. As the leading position of Zoomlion, we are positive on the growth prospects of the Group and expect it to capture the growth regain of the market effectively in 2013-14. Maintain "Buy".

Cranes segment expected regain. Leveraging on the recovery of the downstream roadway and railway construction industries, we expect the sales of mobile cranes to regain in 2013, and its recovery momentum in 4Q12 will carry on in 2013. Furthermore, with strategic development on tower crane sub-segment, we expect its market share in tower crane market will continue to surge in 2013. We believe tower crane sub-segment to be one of the spotlights for the Group in FY2013. We estimate the cranes segment revenue to grow at 37.0% YoY in FY2013, recovered from est. 5.3% YoY in FY2012.

Concrete machineries expected slowdown. After the fast expansion of truck mounted concrete pump business from 2009 to 1H2012, we expect that the market takes time to digest the additional capacity and slows down the purchases in 2013. Although the growth of truck mounted concrete mixer and batch plants is expected to maintain at a relatively high pace of growth in 2013, we believe it cannot fully offset the slowdown effect of concrete pump. We estimate the concrete machineries segment revenue to grow at 20.0% YoY in FY2013, slowed down from est. 22.1% YoY in FY2012.

Maintain "Buy". Zoomlion is trading at 6.0x of FY2013E PER, which is 40.6% discount to the mean of its peers at 10.1x. We expect that EPS will grow at a CAGR of 27.8% during FY2012-14, and think the valuation of Zoomlion is attractive. We maintain our target valuation at 8.2x FY2013E EPS, and lower our target price from HK\$14.16 to HK\$13.96, based on FY2013E earnings cut reflecting the slowdown of concrete machineries. But we are positive on the mid-to-long term growth prospects of the Group, and maintain "Buy" rating on Zoomlion.

Risk factors: Weak operating cash flow; Policy risk affecting FAI; Lagging effect between construction and machineries industries

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rmb mn)	32,193	46,323	52,951	66,353	86,002
Chg (%YoY)	55.1	43.9	14.3	25.3	29.6
Net Income (Rmb mn)	4,666	8,055	9,014	10,709	14,732
Chg (%YoY)	90.7	72.6	11.9	18.8	37.6
EPS (Rmb)	0.736	1.046	1.151	1.367	1.881
Chg (%YoY)	63.5	42.2	10.0	18.8	37.6
PER (x)	-	7.96	7.15	6.01	4.37
PBR (x)	-	1.98	1.62	1.33	1.06
Yield (%)	-	2.60	2.80	3.33	4.57
ROAA (%)	9.6	12.0	11.2	10.9	12.7
ROAE (%)	26.8	25.7	23.1	22.7	25.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company, ABCI Securities estimates



Contents

Concrete Machineries Slowdown.....	3
Cranes Regain	3
Earth Moving Machineries an Rising Star	4
Give Up Environmental and Sanitation Machineries	4
Our Concern: Weak Earnings Quality	4
Outlook FY2013 and FY2014.....	5
Maintain “Buy” to Zoomlion	7
Peer Groups Valuation.....	9
Financial Statements Projection	10
Disclosures	13



Concrete Machineries Slowdown

The momentum of slowdown of concrete machineries will carry on in FY2013.

We estimate the concrete machineries segment revenue to grow at 20.0% YoY in FY2013, slowed down from est. 22.1% YoY in FY2012.

Loss momentum in 4QFY2012

The concrete machineries segment of Zoomlion grew by 51.8% YoY in 1HFY2012, however, according to Zoomlion, the sales volume growth of truck mounted concrete pump started to decelerate in 4QFY2012. We estimate that the sales revenue of the concrete machineries segment of the Group will grow by 22.1% YoY in FY2012, slowed down from 50.6% YoY in FY2011.

Expected slowdown in FY2013

Truck mounted concrete pump slowdown in 2013

After the aggressive sales strategies for capturing market share, the earnings quality, measured by operating cash flow / net income ratio of Zoomlion is lower than that of the international players, as well as the domestic players. We believe the Group will put more emphasis on the cash collectability and assets quality improvement in 2013, but set back its sales expansion. We estimate that the sales revenue growth of truck mounted concrete pump will cool down in FY2013.

Growth of concrete mixer and batch plant cannot fully offset slowdown of concrete pump

On the other hand, as the Group has put more effort to sell truck mounted concrete mixer and batch plant, we believe the gain in market share of the Group can offset the effect from the decelerating growth of demand. We expect the sales volume growth of truck mounted concrete mixer and batch plant to outpace the market growth.

Cranes Regain

We estimate the cranes segment revenue to grow at 37.0% YoY in FY2013, recovered from est. 5.3% YoY in FY2012.

Mobile cranes rebound

Mobile cranes recover

The mobile cranes market experienced a deep decline in 2012. The total market sales volume of truck crane was down by 36.4% YoY in 2012. According to CCMA, the sales volume of truck crane of Zoomlion was dropped by 36.2% YoY, which was in line with the market, in 2012. With the recovery on the downstream roadway and railway construction, we expect the sales of mobile cranes to regain in 2013 surfing on the recovery momentum since 4Q2012.

Tower crane will be a spotlight in 2013

Strategic expansion in tower crane segment to gain market share

Although the gross profit margin of tower crane is lower than that of mobile cranes because of the keener market competition of tower crane, in order to diversify the risk from the downstream construction cycle, Zoomlion puts more effort to develop the tower crane business. We estimate that the market share of tower crane of the Group increased from 3.4% in 2007 to 29.8% in 2011, and increases to 33.9% in 2012.



The decrease in sales of truck cranes was partially offset by the increase in sales of tower cranes. The growth of tower crane sub-segment was primarily attributable to the increase in the penetration into additional markets, particularly the second-and-third tier cities, by the Group. We expect the tower crane sales revenue of the Group will grow at a higher rate in FY2013 and FY2014 compared with the mobile cranes.

Earth Moving Machineries an Rising Star

Develop the excavator and bulldozer businesses, which are the new growth drivers

By learning from the successful story from the development of the excavator business by Sany Heavy, the Group started to expand the earth moving machineries, such as excavator in 2012. The sales volume of Zoomlion's excavator is estimated to elevate by 64.9% YoY from 1,873 units in FY2011 to 3,089 units in FY2012. Yet, the revenue and gross profit contribution of the earth moving machineries segment were 4.5% and 3.3% in 1HFY2012, and estimated at 5.0% and 3.7% in FY2012, respectively. It was yet a significant source of income for the Group in 2013.

We estimate the sales revenue growth of earth moving machineries segment was 152.7% YoY in FY2012 and 64.2% YoY in FY2013.

Give Up Environmental and Sanitation Machineries

Give up ESM and focus on construction machineries

We expect revenue of the environmental and sanitation machineries ("ESM") segment of Zoomlion to stay flat in FY2013 and FY2014. The Group intends to sell its 80% equity interest in ESM Company, a wholly-owned subsidiary of Zoomlion, by public tendering on Hunan Province United Assets and Equity Exchange. However, until December 31, 2012, no transfer application has been submitted to Hunan Province United Assets and Equity Exchange. Zoomlion decides to continue to extend the publication period of the tender.

The contribution of the ESM segment revenue to the Group is estimated to drop from 6.4% in FY2011 to 5.9% in FY2012, and decrease to 5.2% in FY2013.

Our Concern: Weak Earnings Quality

Cash collectability is the major concern

Although the operating cash flow ("OCF") was positive in 1-3QFY2012, the OCF / Net income ratio of the Group was 2.6% in 1-3QFY2012, which was lower than that in 1-3QFY2011 at 18.3%. The OCF / Net income ratio of the Group was 2.6%, in average, during FY2005 to 1-3QFY2012, which was lower than that of its peers, such as Sany Heavy at 60.8% and Lonking at 38.9% during the same period of time.

Its relatively poor earnings quality suggests its current business models and strategies are not sustainable. The Group needs to re-engineer its business practice to generate sufficient internal cash flow to meet business expansion and pay dividends.

Outlook FY2013 and FY2014

The recovery on downstream construction works are expected to continue in 2013, which support the demand for construction machineries. With the direction of prudent policy loosening remaining unchanged, the growth of money supply will stimulate the short term sales growth of machineries. We expect the sales growth of mobile cranes will back on track in FY2013.

However, we believe that the truck mounted concrete pump needs time to be digested by the market for the additional capacity on field after the fast growth achieved from 2009 to 2012. We expect its concrete machineries segment revenue growth of the Group will set back in FY2013.

Technological improvement vs. Change of product-mix

The Producer Price Index (“PMI”) of China was sitting below 0% since 1Q2012. The PPI was -1.9% in December 2012. The negative growth of PPI indicates that the raw material cost pressure of the Group becomes lower.

Furthermore, by leveraging on the R&D capability and M&A activities in overseas market, the technological improvement helps the Group to increase the profitability. Gross profit margin (“GPM”) of the concrete machineries segment and cranes segment improved by 1.4ppts YoY and 2.0ppts YoY to 37.1% and 27.4%, respectively in 1-3QFY2012.

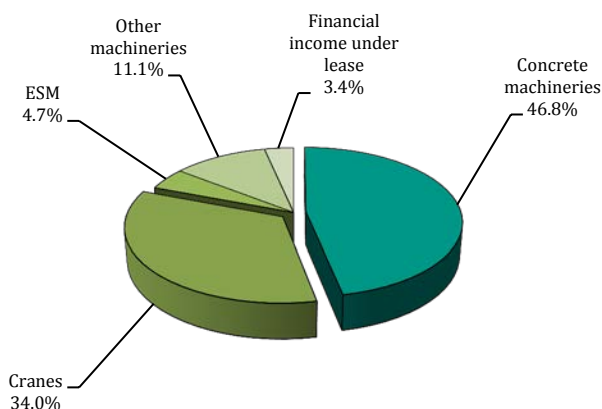
However, on the other hand, due to more sales from lower margin products, such as truck-mounted concrete mixer and tower crane, as percentage of total revenue in FY2013, the change of product-mix will drag down the Group’s overall GPM. We lower our GPM forecast by 1.2ppts for FY2013 from 33.4% previously to 32.2%.

We estimate that the GPM of the Group will drop by 1.7ppts YoY to 32.2% in FY2013. We estimate that net income of the Group will grow by 21.5% YoY in FY2013.

Product GPM will increase under technological improvement, but the overall GPM will be dragged down by change of product-mix

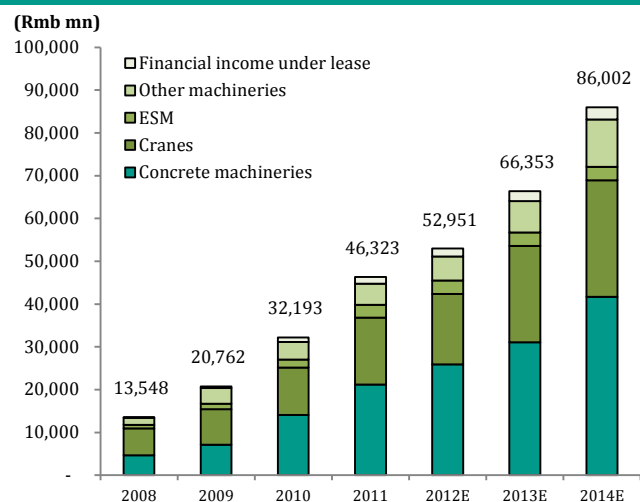
We lower GPM forecast for FY2013 due to change of product-mix

Estimated product mix of the Group, FY2013E



Source: Company

Revenue production of the Group, FY2008-FY2014E



Source: Company, ABCI Securities estimates



Financial highlights of the Group

	1Q11	1H11	1-3Q11	FY11	1Q12	1H12	1-3Q12	1Q12 (% YoY)	1H12 (% YoY)	1-3Q12 (% YoY)
Revenue (Rmb mn)	10,735	24,148	33,207	46,323	11,609	29,120	39,109	8.14	20.59	17.77
Concrete Machineries		11,134	15,009	21,212		16,906	21,185		51.84	41.15
Crane		8,208	11,205	15,618		7,044	10,341		-14.18	-7.71
ESM		1,264	2,033	2,978		1,201	2,040		-4.98	0.34
Other machineries		2,793	3,844	4,932		3,186	4,323		14.07	12.46
Financial income under lease		749	1,116	1,583		783	1,220		4.54	9.32
Gross profit (Rmb mn)	3,383	7,857	11,410	15,007	3,726	9,912	13,465	10.14	26.16	18.01
Concrete Machineries		4,041	5,371	7,544		6,123	7,869		51.52	46.51
Crane		2,159	2,854	4,023		1,927	2,838		-10.75	-0.56
Environment and sanitation		407	641	917		333	593		-18.18	-7.49
Other machineries		653	1,609	1,147		770	980		17.92	-39.09
Financial income under lease		597	935	1,376		759	1,185		27.14	26.74
GPM (%)	31.51	32.54	34.36	32.40	32.10	34.04	34.43	0.58ppts	1.50ppts	0.07ppts
Concrete Machineries		36.29	35.79	35.56		36.22	37.14		-0.08ppts	1.36ppts
Crane		26.30	25.47	25.76		27.36	27.44		1.05ppts	1.97ppts
Environment and sanitation		32.20	31.53	30.79		27.73	29.07		-4.47ppts	-2.46ppts
Other machineries		23.38	41.86	23.26		24.17	22.67		0.79ppts	-19.19ppts
Financial income under lease		79.71	83.78	86.92		96.93	97.13		17.23ppts	13.35ppts
Major cost										
Selling and distribution cost	(419)	(1,230)	(1,955)	(3,160)	(540)	(1,473)	(2,504)	28.88	19.76	28.08
General administrative cost	(322)	(1,021)	(1,474)	(1,861)	(416)	(1,207)	(1,734)	29.19	18.22	17.64
Other expenses (net)	(90)	(108)	(33)	(36)	(68)	(203)	(367)	-24.44	87.96	1012.12
Major cost/revenue (%)										
Selling and distribution cost	3.90	5.09	5.89	6.82	4.65	5.06	6.40	0.75ppts	-0.04ppts	0.52ppts
General administrative cost	3.00	4.23	4.44	4.02	3.58	4.14	4.43	0.58ppts	-0.08ppts	-0.01ppts
Other expenses (net)	0.84	0.45	0.10	0.08	0.59	0.70	0.94	-0.25ppts	0.25ppts	0.84ppts
Net income (Rmb mn)	2,024	4,628	5,962	8,055	2,089	5,622	6,960	3.21	21.48	16.74
Net margin (%)	18.85	19.17	17.95	17.39	17.99	19.31	17.80	-0.86ppts	0.14ppts	-0.16ppts
Operating cash flow (Rmb mn)	(1,298)	356	1090	1,880	(1,442)	454	179	11.09	27.53	-83.58
OCF/Net income (%)	-64.13	7.69	18.28	23.34	-69.03	8.08	2.57	-4.90ppts	0.38ppts	-15.71ppts

Source: Company

Major change of our forecast

	FY12E			FY13E			FY14E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
Revenue (Rmb mn)	51,767	52,951	2.29	61,868	66,353	7.25	73,202	86,002	17.49
Concrete Machineries	27,272	25,899	-5.03	33,179	31,070	-6.36	38,814	41,712	7.47
Cranes	13,934	16,448	18.04	16,338	22,527	37.88	18,613	27,208	46.18
ESM	3,127	3,127	0.00	3,440	3,127	-9.10	3,784	3,127	-17.36
Other machineries	5,672	5,672	0.00	6,806	7,373	8.33	9,529	11,060	16.07
Financial income under lease	1,762	1,805	2.44	2,105	2,256	7.17	2,462	2,895	17.59
Gross profit (Rmb mn)	17,644	17,974	1.87	20,655	21,368	3.45	25,183	28,499	13.17
GPM (%)	34.08	33.94	-0.14ppts	33.39	32.20	-1.18ppts	34.40	33.14	-1.26ppts
Net income (Rmb mn)	9,189	9,014	-1.91	11,029	10,709	-2.90	13,692	14,732	7.60
Net margin (%)	17.75	17.02	-0.73ppts	17.83	16.14	-1.69ppts	18.70	17.13	-1.57ppts
EPS (Rmb)	1.173	1.151	-1.89	1.408	1.367	-2.88	1.748	1.881	7.61
BVPS (Rmb)	5.078	5.080	0.05	6.209	6.201	-0.14	7.611	7.735	1.63
DPS (Rmb)	0.235	0.230	-2.05	0.282	0.273	-3.02	0.350	0.376	7.49

Source: ABCI Securities estimates

Maintain “Buy” to Zoomlion

Revenue forecast revised up, but ...

More tower crane, more mobile cranes in FY2013

We revise up our earnings forecast of Zoomlion by 2.3% and 7.3% for FY2012 and FY2013, respectively as we increase our projection on sales volume growth recovery of mobile cranes in China. Furthermore, we have revised up our estimation on the expansion of tower crane sub-segment of the Group.

... Bottom line cut by 2.9% in FY2013

The change of product-mix in FY2013 will drag down the GPM of the Group.

As the GPM of cranes segment is lower than that of the truck-mounted concrete pump of the Group. The change of product-mix in FY2013 will drag down the GPM of the Group. We lower our gross profit margin projection by 1.2ppts to 32.2% in FY2013.

We lower our gross profit margin projection by 1.2ppts to 32.2% in FY2013

Gross margins of concrete machinery and crane segment

	Concrete Machineries (%)	Cranes Segment (%)	Overall GPM (%)
FY2006	30.6	24.0	26.4
FY2007	32.1	26.5	28.6
FY2008	27.6	26.3	27.4
FY2009	28.5	23.7	25.7
FY2010	32.0	27.8	30.3
FY2011	35.6	25.8	32.4
FY2012E	37.5	23.3	33.9
FY2013E	36.0	23.3	32.2
FY2014E	36.7	22.5	33.1

Source: Company, ABCI securities estimates

Furthermore, as the Group issued Senior Notes of USD600mn in 2012 with interest rate at 6.125% per annual for the sake of expanding the overseas businesses. The increase in financial cost will erode the profitability of Zoomlion in FY2013.

Maintain “Buy” with TP: HK\$13.96

Positive on the mid-to-long term growth prospects of the Group because of its diversified product-mix structure and leading position in construction machineries industries, Maintain “Buy”

We expect that the regain in cranes segment cannot fully offset the slowdown of truck mounted concrete pump as the lower in profit margin of cranes segment compared than that of concrete machineries segment, so we cut our net income forecasts of Zoomlion for FY2013.

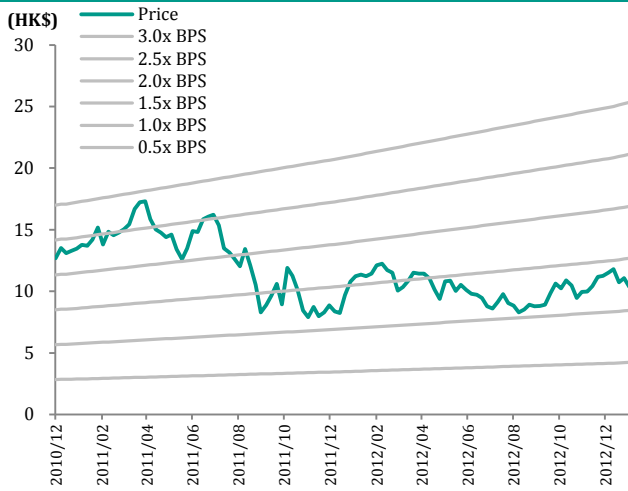
However, we still maintain our positive view on the mid-to-long term growth prospects of the Group because of its diversified product-mix structure and leading position in construction machineries industries. We maintain our target valuation at 8.2x of FY2013E PER.

Zoomlion is trading at 6.0x of FY2013E PER, which is 40.6% discount to the weighted average of its peers' (construction machinery makers) at 10.1x. The historical average was 9.6x and ranged between 5.7x to 18.5x. Considering with the recovery trend of downstream construction industry, we expect that EPS of Zoomlion will grow at a CAGR of 27.8% during FY2012-14, and its ROAE will be 22.7% and 25.6% in FY2013 and FY2014, respectively. Comparing with the peers, the valuation of Zoomlion is attractive.



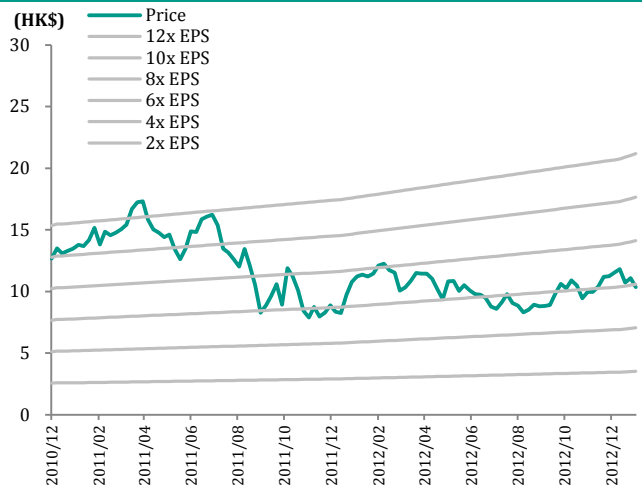
Although we cut our target price from HK\$14.16 to HK\$13.96 reflecting the slowdown of sales and earnings growth in FY2013, the counter has fallen 15.4% from the peak in December 2012 and we believe the current level is an attractive entry point. We think the government investment is about to accelerate after the National People's Congress of the PRC (“全国人民代表大会”) and the National Committee of the Chinese People's Political Consultative Conference (“全国政协委员会会议”). The sentiment of the stock will maintain in uptrend. We maintain “Buy” rating on Zoomlion.

PB band of the Zoomlion H-share



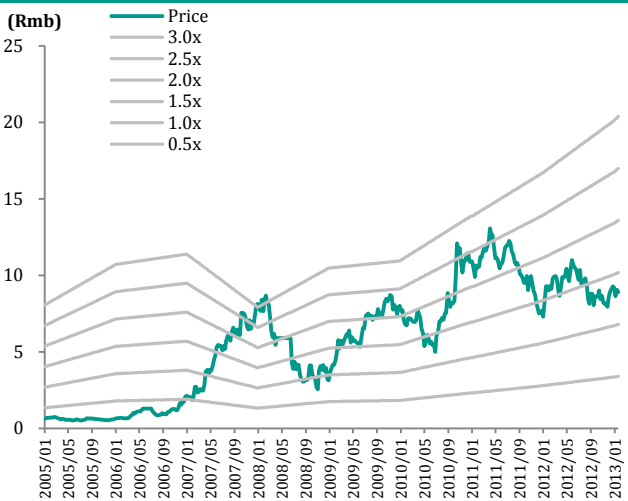
Source: Company, Bloomberg, ABCI Securities estimates

PE band of Zoomlion H-share



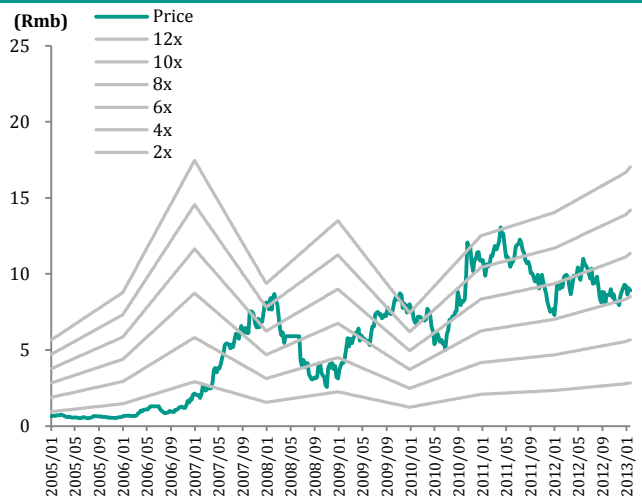
Source: Company, Bloomberg, ABCI Securities estimates

PB band of Zoomlion in A-share market



Source: Company, Bloomberg, ABCI Securities estimates

PE band of Zoomlion in A-share market



Source: Company, Bloomberg, ABCI Securities estimates



Peer Groups Valuation

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	453,026	USD 89.16	10.99	9.35	-6.89	17.58	2.67	2.22	36.22	28.19	
KOMATSU LTD	6301 JP	188,455	JPY 2286	12.24	11.99	7.64	2.08	2.01	1.83	18.53	13.15	
SANY HEAVY INDUS	600031 CH	107,102	CNY 11.30	12.18	10.27	-18.53	18.53	3.66	2.86	34.53	30.21	
ZOOMLION HEAVY-H ²	1157 HK	14,643	HKD 10.24	7.15	6.01	10.02	18.81	1.62	1.33	23.10	22.70	
ZOOMLION HEAVY-A ²	000157 CH	71,772	CNY 9.19	7.99	6.72	10.02	18.81	1.81	1.48	23.10	22.70	
XCMG CONSTRUCT-A	000425 CH	31,291	CNY 12.19	9.11	8.16	-18.41	11.58	1.48	1.29	14.77	15.60	
GUANGXI LIUGONG	000528 CH	13,779	CNY 9.84	27.26	17.70	-69.15	54.02	1.18	1.12	3.86	5.42	
TEREX CORP	TEX US	26,409	USD 30.98	15.28	11.62	394.63	31.46	1.44	1.27	10.56	13.61	
TADANO	6395 JP	9,856	JPY 908	66.45	23.10	-44.83	187.62	1.40	1.31	2.30	6.70	
SHANTUI CONST-A	000680 CH	6,986	CNY 4.93	-12.67	13.62	-192.62	-193.06	1.56	1.46	1.25	5.15	
XIAMEN XGMA-A	600815 CH	7,924	CNY 6.64	11.69	15.16	-23.24	-22.89	1.22	1.14	10.45	7.51	
LONKING HOLDINGS ²	3339 HK	8,731	HKD 2.04	15.64	8.36	-74.07	86.96	1.04	0.96	6.80	12.00	
Sector Weighted Average				11.84	10.09	3.70	15.94	2.42	2.03	28.26	23.02	
Agricultural Machinery Makers												
DEERE & CO	DE US	257,387	USD 85.55	9.98	9.48	11.06	5.27	3.45	2.78	38.74	39.34	
MAHINDRA & MAHIN	MM IN	78,916	INR 894.80	14.11	11.60	19.25	21.67	2.63	2.24	21.10	20.14	
CNH GLOBAL NV	CNH US	80,029	USD 43.04	8.87	8.38	3.68	5.79	1.05	0.93	11.99	12.79	
FIRST TRACTOR-H ²	38 HK	3,015	HKD 7.50	13.82	9.30	-10.22	48.58	1.31	1.33	9.30	13.00	
FIRST TRACTOR-A ²	601038 CH	8,071	CNY 10.92	25.05	16.86	-10.22	48.58	2.38	2.41	9.30	13.00	
ESCORTS LTD	ESC IN	1,098	INR 62.35	6.95	5.10	44.88	36.44	0.40	0.40	6.43	7.21	
Sector Weighted Average				10.83	9.79	10.73	9.59	2.81	2.31	29.65	30.08	
Mining Machinery Makers												
JOY GLOBAL INC	JOY US	49,084	USD 59.70	9.61	9.20	-13.74	4.49	2.07	1.74	34.20	26.91	
ZHENGZHOU COAL-H ²	564 HK	2,360	HKD 9.71	7.98	8.61	14.58	-7.32	1.43	1.29	21.09	15.21	
ZHENGZHOU COAL-A ²	601717 CH	17,715	CNY 10.33	10.57	11.40	14.58	-7.32	1.89	1.70	21.09	15.21	
TIAN DI-A	600582 CH	16,586	CNY 10.98	11.73	9.63	24.66	21.79	2.31	1.91	22.27	21.80	
SANY HEAVY EQUIP ²	631 HK	9,998	HKD 3.22	16.12	14.11	-35.50	14.21	1.45	1.35	9.08	9.78	
LINZHOU HEAVY-A	002535 CH	5,125	CNY 7.65	14.30	10.48	54.56	36.45	1.51	1.35	10.86	13.28	
SUNWARD INTELL-A	002097 CH	3,687	CNY 7.03	50.21	29.29	-71.03	71.43	1.69	1.61	3.36	5.51	
Sector Weighted Average				12.36	10.87	-2.96	9.83	1.96	1.69	25.16	20.79	
Machinery Part Makers												
CUMMINS INC	CMI US	163,824	USD 111.25	12.68	10.77	0.29	17.66	2.67	2.24	26.17	22.64	
WEICHAI POWER-H	2338 HK	60,798	HKD 29.35	13.33	10.99	-36.79	21.30	1.59	1.41	12.19	13.69	
TAIYUAN HEAVY-A	600169 CH	10,588	CNY 3.51	351.00	21.94	-93.79	1500.00	1.55	1.44	0.44	6.58	
CHINA YUCHAI	CYD US	4,683	USD 16.20	6.00	5.45	-22.64	10.00	0.64	0.60	10.74	11.07	
Sector Weighted Average				27.64	11.22	-13.71	83.86	2.31	1.96	21.19	19.43	
Industrial Machinery Makers												
VOLVO AB-B	VOLVB SS	251,497	SEK 98.60	14.95	10.80	21.25	38.43	2.25	2.01	14.15	15.54	
ATLAS COPCO-A	ATCOA SS	265,106	SEK 185.90	16.33	15.27	-0.59	6.93	5.58	4.78	43.17	36.34	
HYUNDAI HEAVY	009540 KS	116,505	KRW 215000	9.50	8.21	-28.68	15.69	0.84	0.77	9.98	8.47	
SANDVIK AB	SAND SS	159,406	SEK 106.00	14.29	12.62	13.96	13.18	3.36	2.94	25.42	24.20	
DOOSAN HEAVY	034020 KS	32,945	KRW 43650	7.08	5.43	222.60	30.28	0.89	0.83	11.95	13.70	
MANITOWOC CO	MTW US	18,328	USD 17.87	14.00	10.21	65.71	37.15	3.10	2.55	18.33	24.89	
ANHUI HELI CO-A	600761 CH	5,629	CNY 8.80	11.81	10.03	-0.67	17.72	1.49	1.35	12.08	12.48	
Sector Weighted Average				14.16	11.96	14.84	20.26	3.26	2.84	24.74	22.80	
Weighted Average				13.94	10.80	6.67	22.42	2.74	2.33	26.54	23.70	
Median				12.21	10.38	-0.63	18.67	1.57	1.43	12.14	13.65	

* The data in the table is as at February 25, 2013;

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

2: ABCI Securities estimates;

Source: Bloomberg, ABCI Securities estimates

Financial Statements Projection

Consolidated income statements forecast

FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	32,193	46,323	52,951	66,353	86,002
Concrete Machineries	14,085	21,212	25,899	31,070	41,712
Cranes	11,077	15,618	16,448	22,527	27,208
ESM	1,874	2,978	3,127	3,127	3,127
Other machineries	4,114	4,932	5,672	7,373	11,060
Financial income under lease	1,043	1,583	1,805	2,256	2,895
Cost of sales	(22,424)	(31,316)	(34,977)	(44,985)	(57,503)
Gross profit	9,769	15,007	17,974	21,368	28,499
Other income and gains (loss)	150	259	486	564	656
Selling and distribution	(2,146)	(3,160)	(3,971)	(4,732)	(6,311)
Administrative expenses	(1,645)	(1,861)	(2,363)	(2,648)	(3,290)
Research and development cost	(265)	(398)	(582)	(730)	(946)
EBIT	5,863	9,847	11,544	13,822	18,608
Finance costs	(461)	(269)	(788)	(1,042)	(1,059)
Associates	14	24	(1)	-	-
Pre-tax profit	5,416	9,602	10,755	12,780	17,549
Profits tax	(828)	(1,440)	(1,613)	(1,917)	(2,632)
Minority interests	78	(107)	(128)	(154)	(185)
Net profit	4,666	8,055	9,014	10,709	14,732

Source: Company, ABCI Securities estimates

Income statement key ratios forecast

FY	FY10A	FY11A	FY12E	FY13E	FY14E
Sales mixed (%)					
Concrete Machineries	43.8	45.8	48.9	46.8	48.5
Cranes	34.4	33.7	31.1	34.0	31.6
ESM	5.8	6.4	5.9	4.7	3.6
Other machineries	12.8	10.7	10.7	11.1	12.9
Financial income under lease	3.2	3.4	3.4	3.4	3.4
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross profit margin	30.3	32.4	33.9	32.2	33.1
EBIT margin	18.2	21.3	21.8	20.8	21.6
Pre-tax margin	16.8	20.7	20.3	19.3	20.4
Net margin	14.5	17.4	17.0	16.1	17.1
Selling & distribution cost / revenue	6.7	6.8	7.5	7.1	7.3
Admin cost / revenue	5.1	4.0	4.5	4.0	3.8
Effective tax rate	15.3	15.0	15.0	15.0	15.0
Growth (%)					
Revenue	55.1	43.9	14.3	25.3	29.6
Gross profit	82.9	53.6	19.8	18.9	33.4
EBIT	86.1	68.0	17.2	19.7	34.6
Net income	90.7	72.6	11.9	18.8	37.6

Source: Company, ABCI Securities estimates

Consolidated balance sheets forecast

As of Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Current assets	43,670	47,842	69,046	83,880	97,288
Cash and equivalent	18,758	16,002	19,255	21,280	23,008
Restricted cash	1,577	1,481	1,629	1,792	1,971
Trade and other receivables	13,386	18,878	35,706	43,828	51,665
Due from related parities	27	99	77	97	125
Inventories	8,678	9,656	11,426	15,688	18,971
Others	1,244	1,726	953	1,195	1,548
Non-current assets	19,372	23,701	20,603	23,161	27,319
PP&E	4,135	4,886	5,266	5,611	5,854
Intangible assets	3,163	3,009	2,956	2,905	2,856
Available-for-sale financial assets	50	43	43	43	43
Others	12,024	15,763	12,338	14,602	18,566
Total assets	63,042	71,543	89,649	107,041	124,607
Current liabilities	26,067	26,652	35,258	43,049	47,760
Trade and other payables	17,203	19,314	22,981	29,485	32,747
tax payable	757	1,289	2,155	3,150	4,332
Borrowings	8,107	6,049	10,121	10,415	10,682
Non-current liabilities	9,540	9,296	11,457	12,335	13,220
Borrowings	7,690	7,089	8,148	8,211	8,144
Others	1,850	2,207	3,309	4,124	5,076
Total liabilities	35,607	35,948	46,715	55,384	60,980
Minority Interest	59	188	188	189	188
Shareholders' equity	27,376	35,407	42,746	51,468	63,439

Source: Company, ABCI Securities estimates

Balance sheets key ratios forecast

FY	FY10A	FY11A	FY12E	FY13E	FY14E
Balance sheet ratios					
Current ratio (x)	1.7	1.8	2.0	1.9	2.0
Quick ratio (x)	1.3	1.4	1.6	1.6	1.6
Cash ratio (x)	0.8	0.7	0.6	0.5	0.5
Total receivable turnover days	213.7	222.4	273.3	284.7	266.3
Trade and bill receivables turnover days	74.4	79.9	108.1	110.0	95.0
Total payable turnover days	226.5	212.8	220.7	212.9	197.5
Trade and bill payables turnover days	166.8	142.1	135.0	130.0	120.0
Inventory turnover days	121.7	106.8	110.0	110.0	110.0
Total debt / equity ratio (%)	57.7	37.1	42.7	36.2	29.7
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROAA	9.6	12.0	11.2	10.9	12.7
ROAE	26.8	25.7	23.1	22.7	25.6
Payout ratio	15.5	20.4	20.0	20.0	20.0
Per share data (Rmb)					
EPS	0.736	1.046	1.151	1.367	1.881
BVPS	3.818	4.208	5.080	6.201	7.735
DPS	0.112	0.217	0.230	0.273	0.376

Source: Company, ABCI Securities estimates

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FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Profit before tax	5,416	9,602	10,755	12,780	17,549
DD&A	396	437	813	986	1,225
Change in working capital	(5,533)	(7,643)	(12,055)	(8,032)	(11,732)
Income tax paid	(519)	(975)	(1,092)	(1,298)	(1,782)
Others	691	459	4,242	2,229	1,579
CF Operating	451	1,880	2,663	6,665	6,839
Capex	(903)	(1,176)	(1,140)	(1,280)	(1,420)
Other	(930)	(111)	(1,732)	(1,913)	(1,750)
CF Investing	(1,833)	(1,287)	(2,872)	(3,193)	(3,170)
Capital injection	16,275	-	-	-	-
Net debt financing	1,623	(2,659)	5,131	357	200
Dividend payout	(152)	(711)	(1,669)	(1,803)	(2,142)
Others	(991)	95	-	-	-
CF Financing	16,755	(3,275)	3,462	(1,446)	(1,942)
Net change in cash	15,373	(2,682)	3,253	2,026	1,727
Cash at the beginning	3,439	18,758	16,002	19,255	21,280
Exchange difference	(54)	(74)	-	(1)	1
Cash at the end	18,758	16,002	19,255	21,280	23,008

Source: Company, 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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