



Sector Report

Construction and Farm Machinery

February 26, 2013

Sector Rating: Overweight

Key data

Average FY13E PER (X)	9.26
Average FY13E PBR (X)	1.49
Average FY13 Dividend Yield (%)	2.53
Sector 3 mon avg daily vol (HK\$m)	2,159

Source: Bloomberg, ABCI estimates

Net income growth in 1-3QFY2012 (% YoY)

Zoomlion (1157 HK)	16.74
Lonking ¹ (3339 HK)	-76.08
First Tractor (38 HK)	2.84
Sany Int'l ² (631 HK)	-35.49
ZMJ (564 HK)	31.12
Sany Heavy (600031 CH)	-23.43
XCMG (000425 CH)	-30.48

1: The growth is as of 1HFY2012

2: The growth is as of FY2012

Source: Company

Average share performance (%)

	Absolute	Relative ¹
1-mth	11.9	15.49
3-mth	30.1	26.15
6-mth	33.9	18.90

1: Relative to Hang Seng Index

Source: Bloomberg

1 year performance on the sector



Source: Bloomberg

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Previous sector report

Date: N/A

Rating: N/A

Sector rating: N/A

2013, Good Year for Construction & Farm Machineries

2013, the third year of 12th 5-Year Plan and starting year of new generation of China's government, the government's capital investment is expected to boost based on the historical trend. Coming with the favorable agricultural mechanization policy, a strong growth is expected in the construction and agricultural machineries markets. We like leading machinery makers for their good R&D and production capabilities, as well as their well-established sales channels helping for fully capturing the markets' recovery.

2013 A year of recovery. After deep decline in 2012, the sales channels of machineries markets have destocked, and we expect the construction machineries markets to rebound in 2013 following the blossomy construction projects starts. We expect more infrastructure and affordable housing projects to be kicked off during 2013 by the new generation of China's Government.

Recovery of construction machineries. Concrete machinery maker Zoomlion has nationwide sales channels. This favors it to diversify into tower crane and earth moving machineries segments in 2013. Besides, its strong financial position helps to enlarge the working capital with low financing cost to meet the growth of demand for machineries in 2013. We maintain "Buy" on Zoomlion. We also upgrade Lonking from "Sell" to "Hold". The largest uncertainty of Lonking is the magnitude of sales recovery under the challenges from the expansion of international players, such as Caterpillar and leading domestic players, such as Zoomlion and Sany Heavy.

Favorable policy toward agricultural machineries. More subsidies for agricultural machineries are expected in 2013 under the favorable agricultural policy explicitly mentioned on No. 1 Central Document 2013. Sales rally is induced, and we reiterate our "Buy" rating on First Tractor.

Harsh year for coal mining machineries. Weak coal price discourages capex in coal mining industries. Sales growth of coal mining machinery makers are expected to decline. We downgrade Sany Int'l from "Buy" to "Hold" and initiate ZMJ with "Hold".

Risk factors: Challenges from international players; Product concentration risk; Risk of cease from favorable policy

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\$10.24	13.96	6.01	1.33	3.33
Lonking	3339 HK	Hold	HK\$2.04	2.00	8.36	0.96	3.59
First Tractor	38 HK	Buy	HK\$7.50	9.27	9.30	1.33	3.23
Sany Int'l	631 HK	Hold	HK\$3.22	3.42	14.11	1.35	1.42
ZMJ	564 HK	Hold	HK\$9.71	10.15	8.61	1.29	2.32
Sany Heavy	600031 CH	N/A	Rmb11.30	N/A	10.27	2.86	2.74
XCMG	000425 CH	N/A	Rmb12.19	N/A	8.16	1.29	1.07

Source: Companies, Bloomberg, ABCI Securities estimates



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Executive Summary

2013, good for construction and farm machinery sectors

We are positive to the construction and farm machinery sectors, but stay cautious on coal mining machinery sector in 2013. 2013 is the third year of 12th 5-Year Plan and the start year of new generation of China's government. We believe the momentum on construction and capital investment will increase in 2013. The demand for construction machineries will increase subsequently. Furthermore, under the favorable agricultural policies, the amount of subsidies will increase in 2013, which boost the sales of farm machineries.

Coal mining machineries sector is expected to be punched in 2013

However, the sluggish coal mining activities discourages the capex growth of the mine owners in 2013. The coal mining machineries sector will be adversely affected accordingly.

1) Like construction machinery makers

During the recovery stage of the construction industries, we like leading players with low debt ratio and abundant cash on hand such that they can leverage on low cost financing to enlarge the scale of working capital to meet the growth of demand for machineries in 2013. Furthermore, the players with comprehensive sales channels across China and good reputation among the sectors can effectively capture the recovery of the markets. Under this circumstance, we maintain "Buy" on Zoomlion and upgrade Lonking from "Sell" to "Hold".

Zoomlion, maintain "Buy"

Zoomlion, as the market leader with diversified product portfolio, can capture the strong recovery of mobile cranes effectively

Zoomlion, the largest construction machinery makers in China, with diversified product portfolio ranging from concrete machineries to cranes (both mobile and tower cranes) and quick expansion of earth moving machineries, can effectively capture the growth of different downstream industries. With the strong sales channels across China and good reputation of the brand, we like Zoomlion and positive for mid-to-long run.

Valuation is attractive. Maintain "Buy" on Zoomlion

We estimate that EPS of Zoomlion will grow at a CAGR of 27.8% from 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 at 6.0x of FY2013E PER is attractive. We maintain "Buy" rating on Zoomlion.

The largest drawback of Zoomlion is the weak cash flow

The largest drawback of Zoomlion is its weak cash flow. The relatively poor earnings quality suggests its current business models and strategies are not sustainable. We believe that it needs to re-engineer its business practice to generate sufficient internal cash flow to meet business expansion and pay dividends. We expect it to affect the earnings growth in short run.

Lonking, upgrade from "Sell" to "Hold"

Good assets and earning quality is the major selling point of Lonking

The good asset and earnings quality bring a higher valuation to Lonking. We predict it to cut down account receivables and inventory aggressively in 2012 to release financial resources tied up in working capital. It will lower the assets risk of Lonking.

The valuation of Lonking is fair but without catalyst to drive up the stock. Upgrade from "Sell" to "Hold" on Lonking

We estimate that EPS of Lonking will grow at a CAGR of 51.2% from FY2012-14, and ROAE will be 12.0% and 13.4% in FY2013 and FY2014, respectively. We think the valuation of Lonking at 8.4x FY2013E PER is fair. Although the downstream construction industries are bottoming out, how much Lonking can capture is still uncertain under the keen market competition. We put a "Hold" to the stock, upgrade from "Sell".



2) Agricultural machinery makers benefited from government policies

Under the urbanization, China's government encourages the mechanization of agricultural industries in order to offset the reduction of rural workforce. We expect the amount of subsidies for hi-powered tractor will increase by 20.9% YoY in 2013, which boosts the corresponding sales this year. We like leading tractor makers which dominates the market with production capabilities of hi-powered tractor. We reiterate "Buy" on First Tractor.

First Tractor, reiterate "Buy"

First Tractor, the largest makers of mid-to-hi-powered agricultural tractors in China, can leverage on the strong production and R&D capabilities for hi-powered tractor. With ambitious vertical integration via M&As during 2012, the GPM improvement will take a full year effect this year.

The earning quality and cash collectability of First Tractor are good. Its operating cash flow ("OCF")/Net income ratio was 102.7%, in average, during FY2005 to 1-3QFY2012, which was higher than that of other machinery makers.

We expect that EPS of First Tractor will grow at a CAGR of 49.6% from FY2012 to FY2014, and ROAE will be 13.0% and 18.2% in FY2013 and FY2014, respectively. Comparing with the peers, we think the valuation of First Tractor at 9.3x of FY2013E PER is not demanding. We reiterate "Buy" on First Tractor.

First Tractor benefit from subsidy program for h- powered tractor

A sales rally is expected in FY2013. The valuation of First Tractor is not demanding. Reiterate "Buy"

3) 2013 a harsh year for coal mining machinery makers

The sluggish coal price discourages the capex growth of coal mine operators. We expect the growth of coal mining machinery makers will slow down in 2013.

Sany Int'l, downgrade from "Buy" to "Hold"

Although we are positive to the market expansion strategies of Sany Int'l, which is the largest roadheader maker in China, pushing its boundaries from roadheader to other coal mining machineries, as well as supplementary equipment under the proven track record of Sany Group's expansion in concrete machineries and excavator markets, the lukewarm coal mining machineries market creates negative impact of Sany Int'l in short run. We have put Sany Int'l at "Under review" from "Buy" rating on January 21, 2012. We downgrade the stock from "Buy" to "Hold".

ZMJ, initiate with "Hold"

The harsh business environment creates short run unfavorable impact for ZMJ, the largest hydraulic roof support makers in China. For mid-to-long run, it is facing challenges from Sany Int'l and Caterpillar. We initiate ZMJ with "Hold".

Positive on Sany Int'l in long run, but expect the Group to suffer from weak capex of coal mining industries in short run. Downgrade from "Buy" to "Hold"

Expect to suffer from harsh business environment. Initiate "Hold" to ZMJ



Financial comparison summary of leading machinery makers in China

	Caterpillar (CAT US)	Sany Heavy (600031 CH)	Zoomlion ¹ (1157 HK)	Lonking ¹ (3339 HK)	Deere & Co (DE US)	First Tractor ¹ (38 HK)	Joy Global (JOY US)	Sany Int'l ^{1,2} (631 HK)	ZMJ ^{1,3} (564 HK)
FY2011 revenue (Rmb mn)	378,900 ⁴	50,776	46,323	12,720	198,761 ⁴	11,328	27,747 ⁴	3,780	8,060
FY2012E revenue (Rmb mn)	410,986 ⁴	51,313	52,951	7,721	208,593 ⁴	11,263	34,241 ⁴	3,641	9,729
Size of company	*****	****	****	**	*****	***	****	*	***
Earnings growth									
FY2005-FY2011 CAGR of revenue (%)	8.76 *	64.88 ****	55.69 ****	29.65 ***	7.02 *	15.52 **	14.76 **	88.26 *****	36.07 ***
FY2012-FY2014E CAGR of revenue (%)	2.63 **	13.84 ***	27.44 ****	26.70 ****	4.45 **	31.21 *****	-2.97 *	9.09 **	12.15 **
FY2005-FY2011 CAGR of net income (%)	9.53 *	84.92 ****	72.06 ****	39.38 **	11.63 **	41.33 ****	26.60 **	138.92 *****	55.62 **
FY2012-FY2014E CAGR of net income (%)	2.36 *	19.61 ***	27.85 ****	51.20 *****	4.33 **	45.57 *****	-4.47 *	16.51 ***	4.86 **
Overall earnings growth capability:	*	****	****	****	**	****	**	****	***
Profitability		<i>Win</i>	<i>Win</i>	<i>Win</i>		<i>Win</i>		<i>Win</i>	
Average GPM in FY2005-FY2011 (%)	24.96 ***	35.17 ****	28.12 ****	23.59 ***	26.59 **	11.77 **	31.65 ****	46.90 *****	23.87 **
Average GPM in FY2012-FY2014E (%)	26.30 ***	33.87 ****	33.07 ****	21.17 **	26.77 **	14.77 **	33.70 ****	37.36 ****	23.75 **
Avg net margin in FY2005-FY2011 (%)	6.93 ***	13.33 ****	13.01 ****	12.59 ****	7.10 **	2.18 **	12.36 ****	19.49 ****	12.58 ****
Avg net margin in FY2012-FY2014E (%)	9.04 ***	14.00 ****	16.73 ****	7.57 **	9.29 **	4.43 **	13.48 ****	14.37 ****	14.83 ****
Average ROAA in FY2006-FY2011 (%)	5.34 **	15.41 ****	11.79 ***	14.01 ****	4.66 **	3.75 **	16.21 ****	10.61 ***	13.85 ****
Average ROAA in FY2012-FY2014E (%)	10.06 ***	17.52 ****	11.60 **	4.77 *	10.87 **	5.30 **	13.89 ****	7.07 **	10.67 **
Average ROAE in FY2006-FY2011 (%)	36.67 ****	39.03 ****	33.24 ****	30.69 ****	28.37 **	8.95 **	48.91 ****	31.05 **	44.01 ****
Average ROAE in FY2012-FY2014E (%)	31.41 ****	30.36 ****	23.80 ***	10.73 *	36.86 **	13.80 **	28.28 ****	9.86 *	17.40 **
Overall profitability capability:	***	****	****	***	***	**	****	***	****
Earning quality and liquidity		<i>Win</i>	<i>Win</i>				<i>Win</i>		<i>Win</i>
Total OCF/Net income ratio during FY2005- FY2011 (%)	160.85 *****	61.01 ***	2.57 *	38.90 **	82.76 ****	102.71 *****	99.01 *****	9.05 *	61.17 **
Avg receivables turnover days during FY2006-FY2011 (days)	66.68 ***	65.05 ****	83.20 **	56.22 ****	44.53 ****	47.36 ****	64.71 ****	152.65 ****	94.27 **
Avg cash conversion cycle during FY2006-FY2011 (days)	103.30 ***	44.44 ****	61.64 ****	99.14 ****	-14.56 ****	30.30 ****	152.49 **	178.39 **	107.50 **
Net debt to equity ratio FY2012E (%)	255.20 *	37.30 ****	Net cash *****	46.80 ***	158.78 **	Net cash *****	49.72 **	Net cash *****	Net cash *****
Overall earning quality and liquidity:	***	****	**	***	****	****	***	**	***
Overall capabilities	**	****	****	***	***	****	***	***	***
Valuation		<i>Winner!</i>	<i>Winner!</i>			<i>Winner!</i>			
Closing price on Feb 25, 2013 (In local currency)	89.16	11.30	10.24	2.04	85.55	7.50	59.70	3.22	9.71
FY2013E EPS (In reported currency)	9.54	1.10	1.37	0.20	8.90	0.65	6.51	0.18	0.91
FY2013E BPS (In reported currency)	40.22	3.96	6.20	1.71	30.84	4.54	34.37	1.92	6.06
FY2013E DPS (In reported currency)	2.15	0.31	0.27	0.06	1.95	0.19	0.71	0.04	0.18
FY2013E PER (x)	9.35	10.27	6.01	8.36	9.61	9.30	9.18	14.11	8.61
FY2013E PBR (x)	2.22	2.86	1.33	0.96	2.77	1.33	1.74	1.35	1.29
FY2013E Dividend Yield (%)	2.41	2.74	3.33	3.59	2.28	3.23	1.20	1.42	2.32

1: The financial ratio forecasts are estimated by ABCI Securities;

2: The historical CAGR of Sany Int'l are calculated as FY2006-FY2011 due to the limit of financial data available;

3: The historical CAGR of ZMJ are calculated as FY2007-FY2011 due to the limit of financial data available;

4: The revenue of the companies intentionally translated from USD to RMB for comparison convenience;

Source: Companies, Bloomberg, ABCI Securities estimates

Valuation not demanding



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Construction and Farm Machinery Sector

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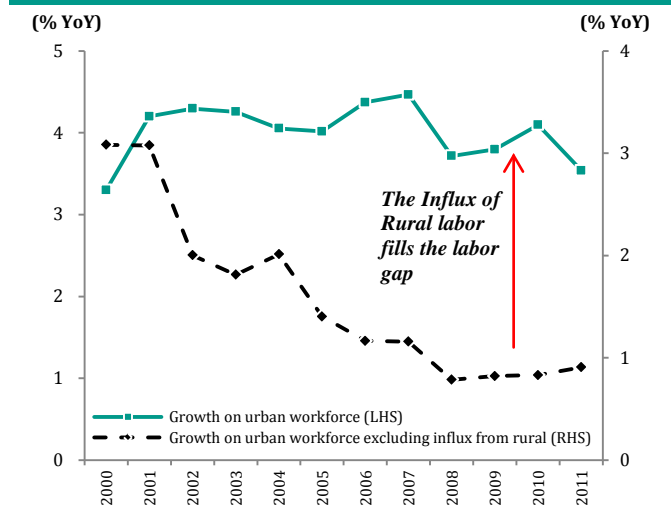
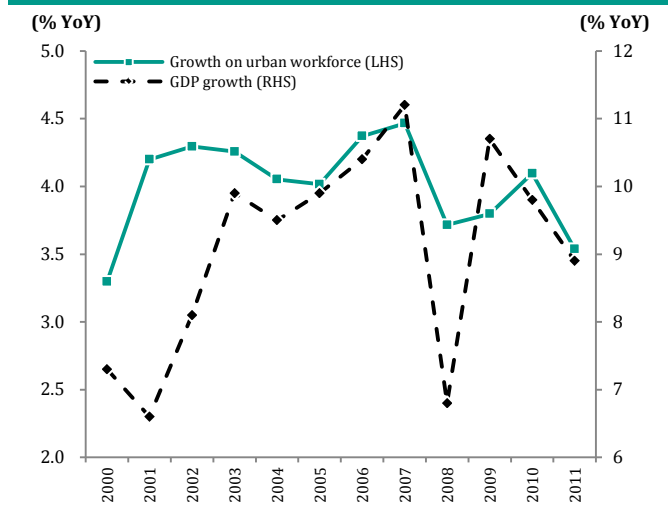
Urbanization and Fixed Assets Investment

The correlation between growth on urban workforce and GDP in China was 44.0% from 2000 to 2011

The growth of GDP is positively correlated with the growth of urban workforce. However, the natural growth of urban workforce (increase in urban workforce excluding the workforce influx from rural area) is decelerating since 2000. In order to support the economic output growth, there is need to introduce additional workforce from rural area via urbanization.

Growth of urban workforce and GDP in China, 2000-2011

Growth of urban workforce and urban workforce excluding influx from rural area, 2000-2011



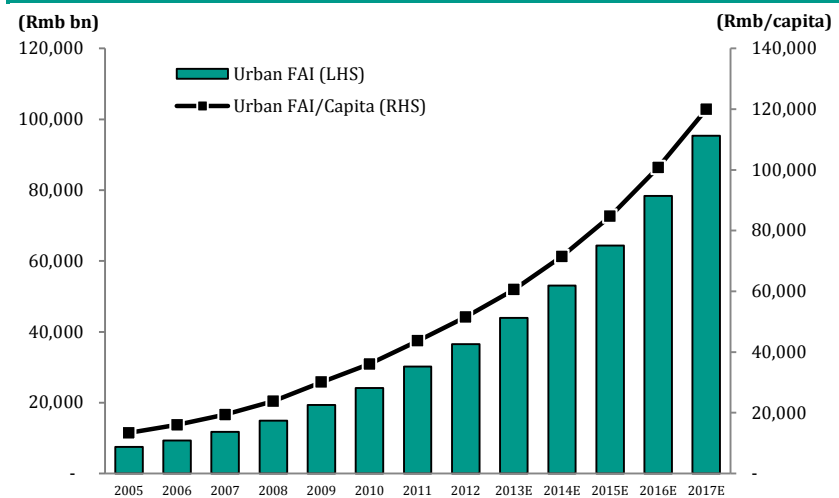
Source: NBS

Source: NBS, ABCI Securities estimates

According to the 12th 5-Year Plan, the targeted urbanization rate is over 55% by 2015. The urbanization rate was 51.3% as of end-2011. We estimate that it will go up to 52.3% as of end-2012.

We estimate the urban population will increase from 690.8mn in 2011 to 795.1 in 2017 based on our estimation of GDP growth in China and labor increment rate under urbanization. The per capita urban FAI ratio is increasing since 11th 5-Year Plan under the urbanization. We estimate that the increase in fixed assets per capita will increase from Rmb51,546/capita p.a. in 2012 to Rmb119,930/capita p.a. in 2017 for the sake of developing remoter area. We expect the urban FAI will growth at a CAGR of 21.2% from Rmb36,484bn in 2012 to Rmb95,353bn in 2015.

China's urban FAI and per capita urban FAI projection, 2005-2017E



Source: NBS, ABCI Securities estimates

Under the urbanization of China, we estimate the total and urban FAI will grow at CAGR of 21.6% and 21.2% during 2011 to 2017, respectively.

Downstream Construction Industries

The growth of construction machineries industries is directly affected by the business cycle of downstream construction industries in mid-to-long run. By analyzing the growth trends of downstream construction industries, we can have a clearer picture on the prospects of construction machineries in China.

According to China Construction Machinery Business Online, in 2011, contribution on demand for construction machineries:

Infrastructure: 40.0%
Properties: 17.0%
Mining activities: 15.0%

According to China Construction Machinery Business Online, the infrastructure construction projects in China contributed 40.0% of the total demand for construction machineries in terms of sales revenue in 2011. Among the sales of machineries used in infrastructure construction, 16.0% went to railway construction projects, and 16.0% went to roadway construction projects, and 8.0% went to water engineering projects.

The properties construction is another growth driver supporting the growth of construction machineries industries, which accounted for 17.0% of demand for construction machinery in 2011. Construction machineries, especially for the earth moving machineries such as excavators, are used in mining activities. The mining activities accounted for 15.0% of demand for construction machineries in 2011.

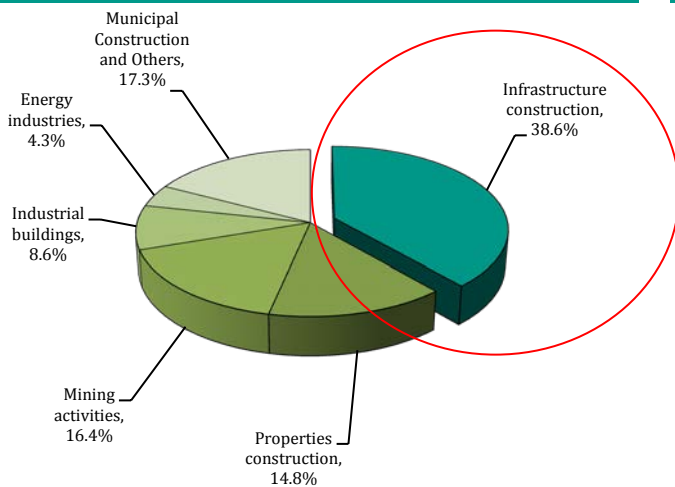
Based on the data from China Construction Machinery Business Online combined with our estimation, we estimate that total contribution in 2013-2017 on demand for construction machineries:

Infrastructure: 38.6%
Mining activities: 16.4%
Properties: 14.8%

By considering the growth prospects of different downstream construction industries (for details on different downstream industries, please refer to the following chapters), we expect that the infrastructure construction industries are still the major source of demand for construction machineries. We estimate the infrastructure construction projects in China to contribute 38.6% of the total demand for construction machineries in terms of sales revenue in 2013 to 2017. The second place is expected to be mining activities with contribution of 16.4%. Properties construction is expected to be the third place with contribution of 14.8%.

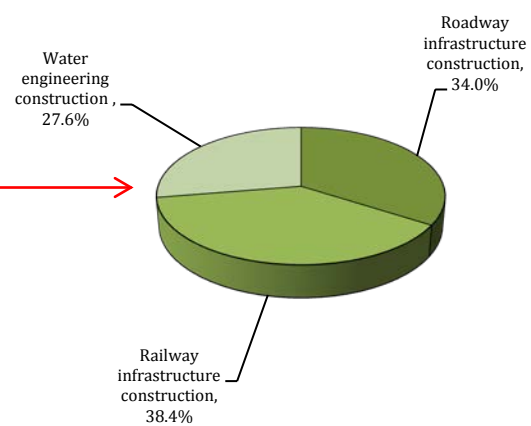
We estimate that the total sales revenue of construction machineries will grow at CAGR of 19.1% during 2013-2017.

Estimated domestic demand for construction machineries breakdown by downstream Industries in China, 2013-2017E



Source: ABCI Securities estimates, China Construction Machinery Business Online

Estimated domestic demand for construction machineries breakdown by construction types within infrastructure construction industries, 2013-2017E

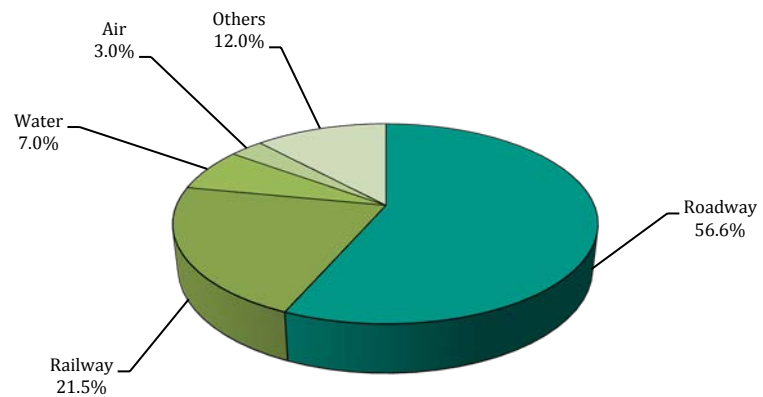


Source: ABCI Securities estimates, China Construction Machinery Business Online

Infrastructure Construction

To boost economic growth, China has massively invested in transportation infrastructure in recent years. Fixed assets investment in transportation infrastructure industry was Rmb3,029.6bn in 2012. Roadway construction was the largest part of the transportation infrastructure construction accounted for 56.6% of FAI on transportation infrastructure in 2012, while railway construction was in the second place accounted for 21.5%.

Breakdown of transportation FAI in China, 2012



Source: NBS

1) Roadway infrastructure construction

Roadway construction is one of the key types of infrastructure construction in China, which is estimated to contribute 34.0% of demand for construction machineries among the infrastructure construction industries (or 13.1% of total demand for construction machineries in China) in 2013-2017.

Roadway burden increasing

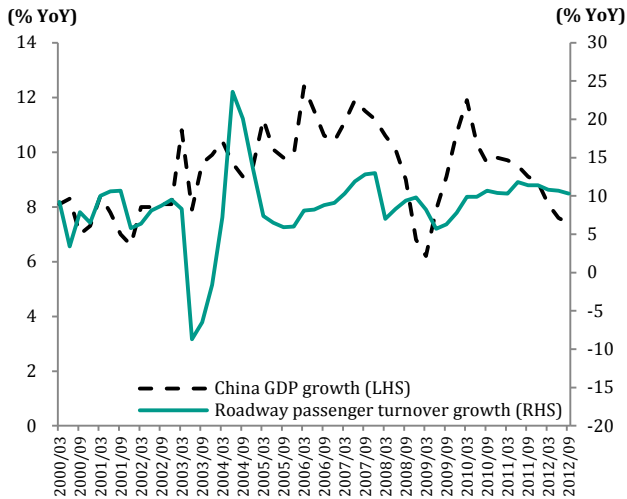
The roadway passenger and freight turnover volume were up 10.2% YoY and 16.7% YoY in 1-11M12, respectively. Both passenger turnover volume and freight turnover volume were increasing since 2000. As the growth of passenger turnover volume and freight turnover volume positively correlated to the urbanization and economic growth, based on our house view on GDP and retail sales growth, we estimate that the roadway passenger turnover volume and freight turnover volume to increase at a CAGR of 10% and 15% from 2012 to 2017, respectively, under the urbanization and economic growth in China.

We project that both of the passenger and freight load factors will grow at CAGR of 8.5% during 2012-2017.

“Load factor” is a measure of the amount of utilization of the total available capacity of a transport vehicle. It is useful for calculating the average occupancy on various routes of airlines, railway or roadway.

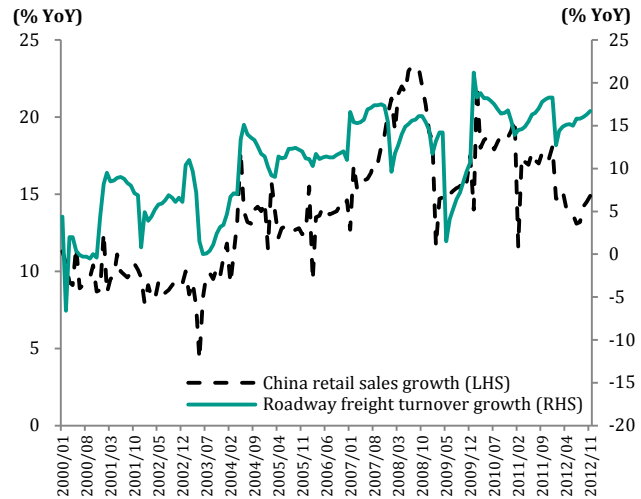
The roadway passenger and freight load factors (“turnover volume / total length of roadway”) were estimated at 439,408 people and 7,824 tons, respectively, in 2012. Based on the historical trend, we project that the passenger and freight load factors will grow at CAGR of 8.5% to 660,719 people and 11,765 tons in 2012-2017, respectively.

Growth of China GDP vs. roadway passenger turnover growth, 2000-2012



Source: NBS, ABCI Securities

Growth of China retail sales vs. roadway freight turnover growth, 2000-2012



Source: NBS, ABCI Securities

Target 4.5mn km under 12th 5-Year Plan

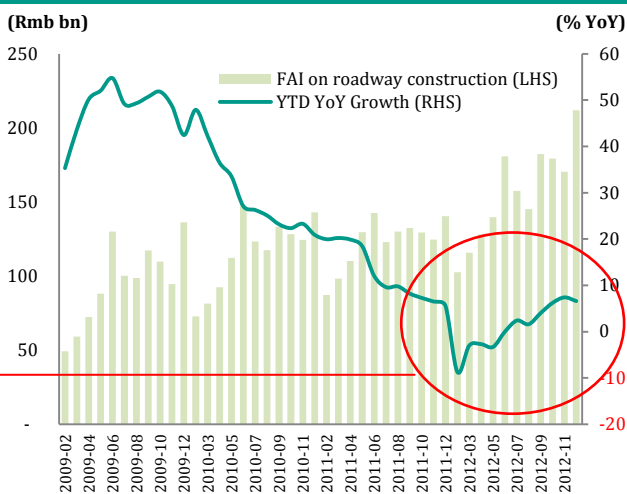
We estimate the roadway FAI will grow at a CAGR of 14.7% from 2012 to 2017

According to the 12th 5-Year Plan for roadway construction released by Ministry of Transport of the PRC, the Ministry targets to have approximately 4.5mn km of roadway by 2015. The total length of roadway was 4.1mn km in 2011, and estimated to be 4.2mn km in 2012. We estimate that the average fixed assets investment on roadway was Rmb19.0mn/km in 2012. We estimate that the total FAI on roadway transportation will be Rmb12,805bn in 2013 to 2017.

The roadway transportation FAI is recovering from bottom at 2Q2012

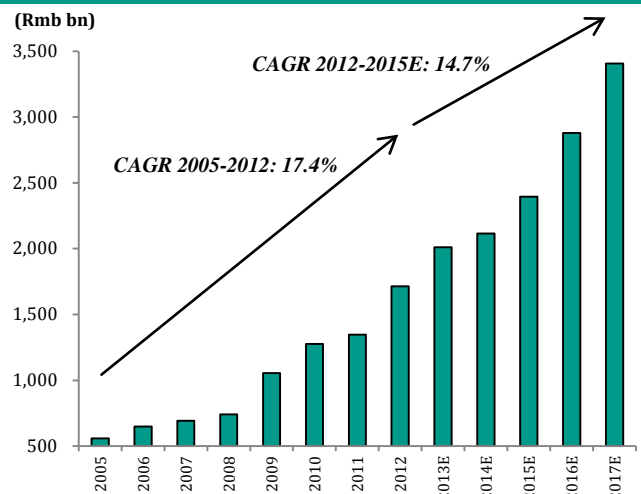
Based on the growth projection on load factors of roadway and the guideline of 12th 5-Year Plan, we estimate the roadway FAI will grow at a CAGR of 14.7% from 2012 to 2017.

Monthly fixed assets investment on roadway transportation in China and YTD growth rate, 2009-2012



Source: NBS, ABCI Securities

Projection of fixed assets investment on roadway transportation in China, 2005-2017E



Source: NBS, ABCI Securities estimates

2) Railway infrastructure construction

Railway construction is another key type of infrastructure construction besides roadway in China, which is estimated to account for 38.4% of demand for construction machineries among the infrastructure construction industries (or 14.8% of total demand for construction machineries in China) during 2013-2017.

The growth of railway construction brings the demand for mobile cranes and concrete machinery, while supports the revenue growth of mobile crane makers, such as Zoomlion, Sany Heavy and XCMG.

Investment in the railway system has slowed over safety and corruption concerns. But the slowdown appears over as investment hikes will continue into 2015 according to spokesman of Ministry of Railway of the PRC.

Growth of railway turnover volume

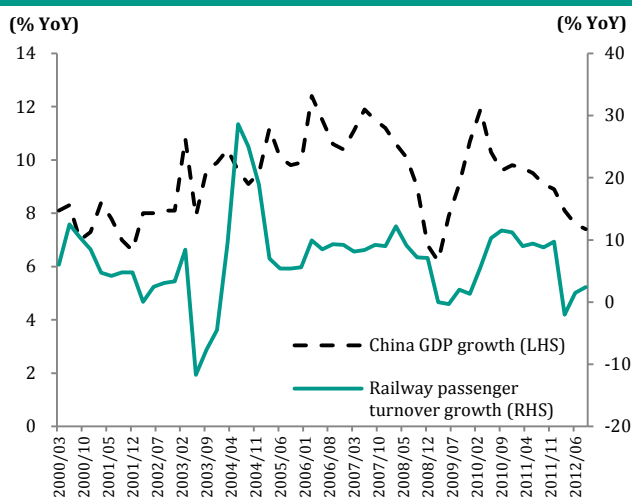
Similar to roadway transportation, the passenger and freight turnover volume of railway is increasing since 2000. The passenger and freight turnover volume of railway increased at a CAGR of 7.3% and 5.0% respectively from 2005 to 2012. The railway passenger and freight turnover volume were up 2.7% YoY and -1.1% YoY in 1-11M12, respectively.

Similar to roadway transportation, the growth of turnover volume of railway is positively correlated to growth of GDP and retail sales in China. We estimate that the passenger turnover volume and freight turnover volume increased at a CAGR of 7.6% and 8.8%, respectively from 2012 to 2017.

We assume the load factors of railway passenger and freight to stay flat during 2012-2017.

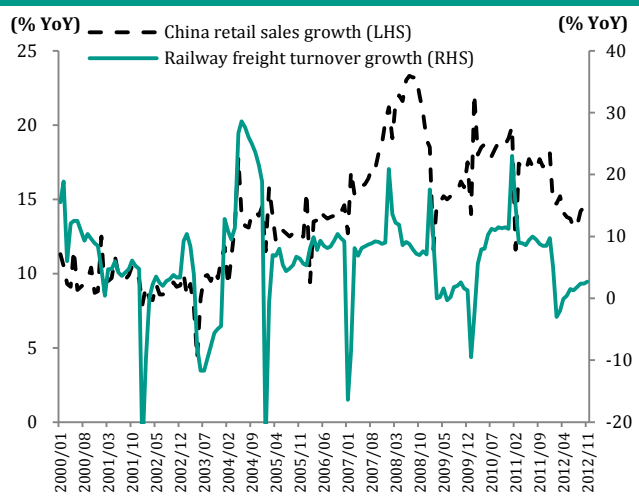
The load factors of railway passenger and freight were estimated at 9.9mn people and 29.3mn tons, respectively, in 2012. Based on the historical trend, we assume the load factors stay flat in 2012 to 2017.

Growth of China GDP vs. railway passenger turnover growth, 2000-2012



Source: NBS, ABCI Securities

Growth of China retail sales vs. railway freight turnover growth, 2000-2012



Source: NBS, ABCI Securities

NDRC: Expect railway construction investment of Rmb600-650bn in 2013

We estimate the railway FAI will increase by 17.5% during 2012-2017.

According to 12th 5-Year Plan for Railway Construction released by Ministry of Railway, the Ministry targets to have approximately 120,000km of rail tracks in operation by 2015.

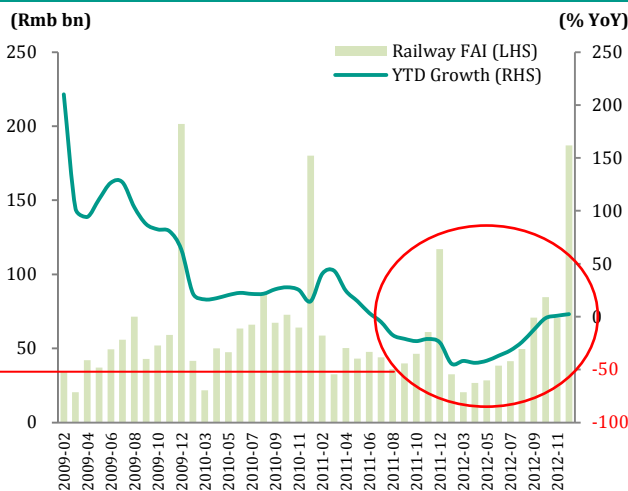
According to NDRC, the estimated infrastructure investment in railway is Rmb600-650bn in 2013, up 15.7-25.4% YoY from Rmb518.5bn in 2012. China will continue the construction of 24,000 km of railways in 2013-2015, which is expected to require a total investment of Rmb1,800bn. The railway construction is one the major pillar supporting the construction industry in 2013.

The railway investment in China escalated at a CAGR of 26.3% from Rmb127bn in 2005 to Rmb651bn in 2012. The total length of railway increased from 75,400km in 2005 to est. 99,550km in 2012. The average building cost was Rmb171mn/km in during 2005 to 2012.

Based on the historical trend, we estimate that the building cost increases at a CAGR of 2.9% from 2012 to 2017. Based on the growth projection on railway burden and the guideline of 12th 5-Year Plan, we estimate the railway FAI to increase by 17.5% from 2012 to 2017.

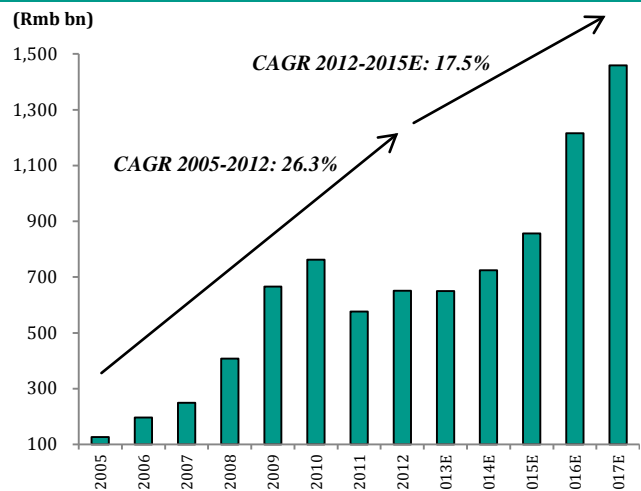
The railway transportation FAI is recovering from bottom at 2Q2012

Monthly fixed assets investment on railway transportation in China and YTD growth rate, 2009-2012



Source: NBS, ABCI Securities

Projection of fixed assets investment on railway transportation in China, 2005-2017E



Source: NBS, ABCI Securities estimates

Railway income expected improve

China has raised the price of railway freight by 13% to help operators cope with rising operating costs. It is expected to bring an additional Rmb30bn income to the Ministry of Railway in 2013. According to the audit report from China Central Depository & Clearing Company Limited, Ministry of Railway has suffered a net loss of Rmb85.4mn in 1-3QFY2012. The fee adjustment can help the Ministry to improve the profitability and cash flow for infrastructure investment.

3) Water engineering projects

We estimate the total FAI on water engineering will increase at a CAGR of 26.4% during 2012-2017

Water engineering projects the type of infrastructure construction in China, which is estimate to account for 27.6% of demand for construction machineries among the infrastructure construction industries (or 10.7% of total demand for construction machineries in China) during 2013-2017.

Uneven distribution of water creates demand for construction

China's current water crisis is driven by uneven distribution of water. Because of its large and diverse geography, China has a wide spectrum of terrains and climate zones. While Southern and Eastern China enjoy abundant rainfall, the Northern and Western regions of the country receive very little. This weather pattern can lead to unfortunate and seemingly contradictory effects, with some provinces battling floods while others are suffering from months-long droughts.

We estimate that China's Government will invest Rmb4,000bn in total for the 10 years starting from 2011

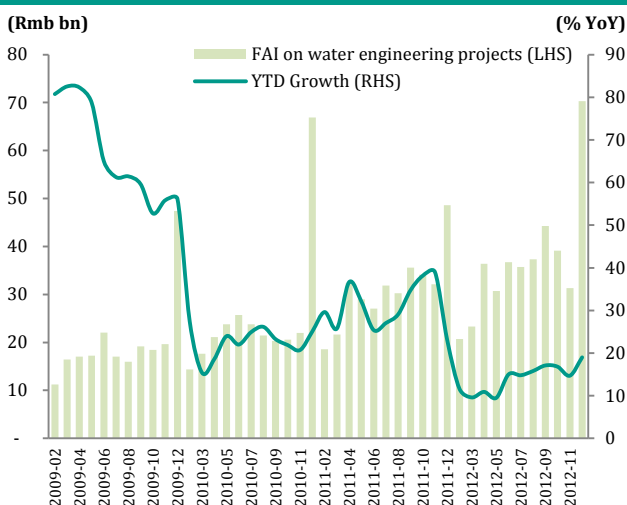
China's Government has prioritized water engineering projects as an important aspect of its investment in infrastructure. The total FAI on water engineering projects increased at a CAGR of 25.3% from Rmb84.8bn in 2005 to Rmb406.0bn in 2012. We estimate that China's Government will invest Rmb3,252.8bn in total during 2013-2020.

Development of hydropower in China

Further, according to the 12th 5-Year Plan for the Power Industry issued by China Electricity Council, plans are underway to significantly develop hydropower infrastructure in China. The hydropower installed capacity across China was 212 GW in 2011. By 2015, the hydropower installed capacity across China is expected to be over 300 GW.

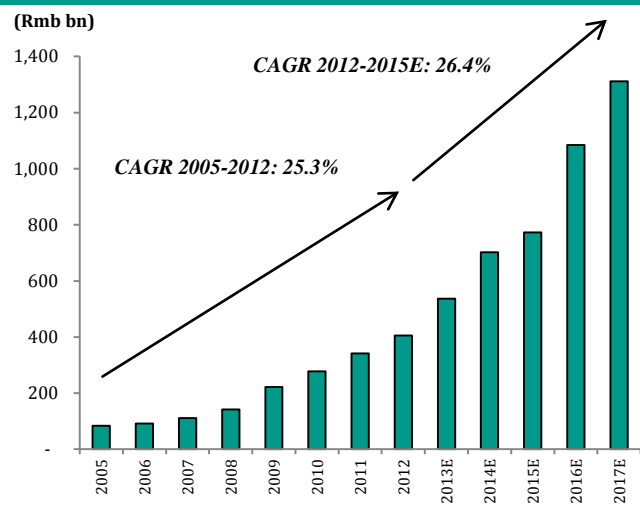
We assume the construction per additional hydropower capacity to increase at 10% p.a. from 2012 to 2017. The total FAI on water engineering will increase at a CAGR of 26.4% from 2012 to 2017.

Monthly fixed assets investment on water engineering projects in China and YTD growth rate, 2009-2012



Source: NBS, ABCI Securities

Projection of fixed assets investment on water engineering projects, 2005-2017E



Source: NBS, China Electricity Council, ABCI Securities estimates

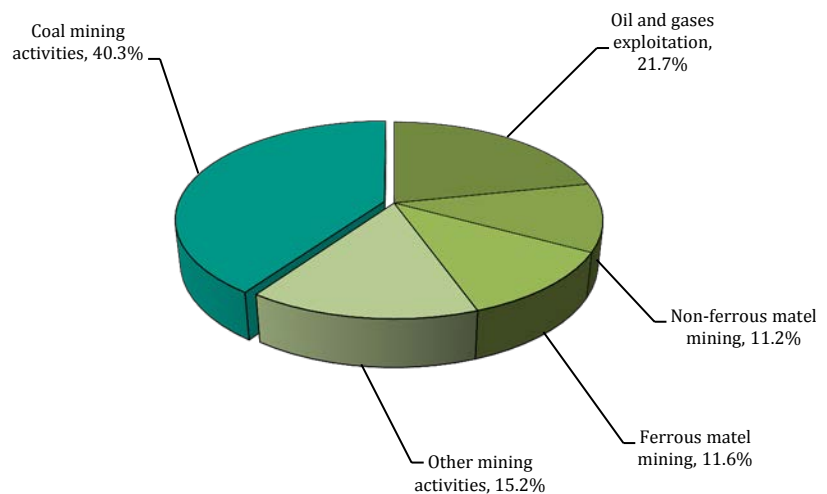
Mining Activities

Mining activities is expected to contribute 16.4% of total sales revenue of construction machineries industry during 2013-2017. In China, the mining activities are majorly comprised with: 1) coal mining activities; 2) oil and gases exploitation; 3) ferrous metal mining and 4) non-ferrous metal mining.

Coal mining activities is the major source of demand for mining machineries

The coal mining activities accounted for the largest part of fixed assets investment in mining industries, of which 40.3% of FAI in mining industries was attributed to coal mining activities in 2012.

Fixed assets investment on mining industries breakdown, 2012



Source: NBS, ABCI Securities

1) Coal mining activities

A large part of fixed assets investment on mining activities is accounted by coal mining activities. Coal is the primary source of energy in China, which is estimate to account for 70% of the total energy needs in 2012. Under the “12th 5-Year Plan for the coal industry” released by the National Energy Administration, the production and demand for coal will be restricted to 3,900mn tons a year by 2015 mainly because of the environmental protection concern. However, we think the target is too aggressive, and estimate that the production volume will grow at a CAGR of 4.4% to 4,203mn tons in 2015 from 3,692mn tons in 2012 under the targeting average economic growth of 7% p.a. during 2012 to 2015. The actual production volume of coal was used to be over the targeted production volume.

Target coal production vs. Actual coal production

Year	Target coal production volume (mn tons)	5-Year CAGR (%)	Actual coal production volume (mn tons)	5-Year CAGR (%)	Actual over target volume (%)
1990	1,000	N/A	1,080	N/A	8.00
1995	1,230	4.23	1,360	4.72	10.57
2000	1,450	3.35	1,384	0.35	-4.55
2005	1,460	0.14	2,350	11.17	60.96
2010	2,600	12.23	3,235	6.60	24.42
2015E	3,900	8.45	4,203	5.37	7.77

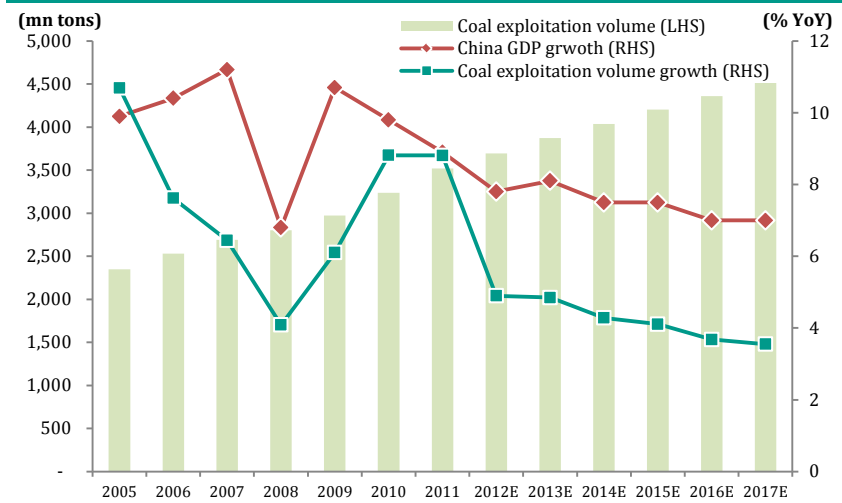
The actual production volume was used to be over the target production volume since 1990

Source: Media, NBS, ABCI Securities estimates

Slowdown on growth of coal exploitation

The growth of FAI on coal mining industry was decelerating since 2Q2012 mainly due to the drop of domestic coal price. With the recovery of global economy, the growth of coal mining industry and the corresponding FAI are expected to back on track in 2H2013. However, under the environmental policies against the dependence of coal on power generation, the growth rate on coal exploitation in China is expected to slow down during 2013 to 2017.

Relationship between coal exploitation growth and GDP growth, 2005-2017E



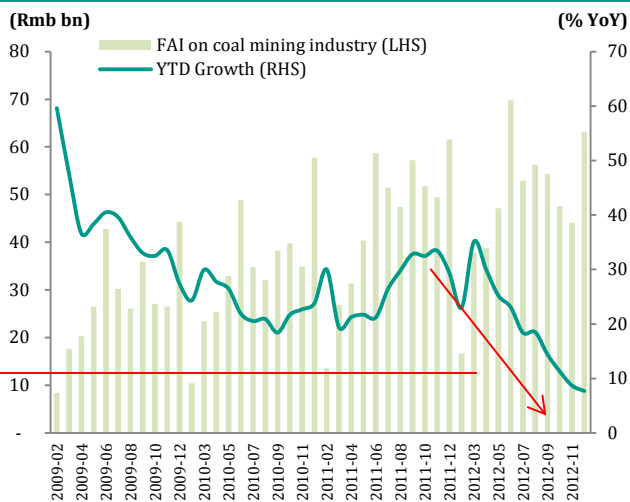
We expect the dependence of coal to economic growth will at a diminish rate

Source: NBS, ABCI Securities estimates

The fixed assets investment per coal exploitation volume ratio was growth at CAGR of 16.4% from Rmb49.5/ton in 2005 to Rmb143.3/ton in 2012. We assume the ratio to increase at 10% p.a. from 2012 to 2017. We estimate the FAI on coal mining industry will grow at a CAGR of 14.5% from 2012 to 2017.

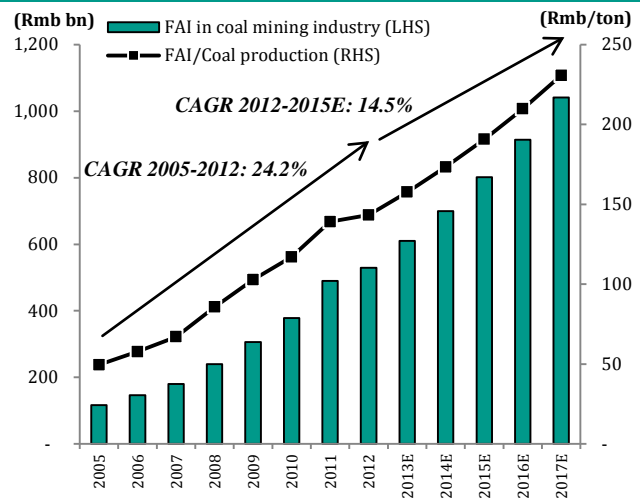
Coal mining FAI is slowing down under the sluggish coal price

Monthly fixed assets investment on coal mining activities in China and YTD growth rate, 2009-2012



Source: NBS, ABCI Securities

Fixed assets investment projection on coal mining activities, 2005-2017E



Source: NBS, ABCI Securities estimates

2) Oil and gases exploitation, non-ferrous and ferrous metal mining activities

We estimate the total FAI on mining activities will increase at a CAGR of 21.4% during 2012-2017

Based on our GDP growth forecast and dependence on oil, gases, non-ferrous and ferrous metal for the economic growth, we have the following forecasts on exploitation volumes of the resources and the corresponding fixed assets investment.

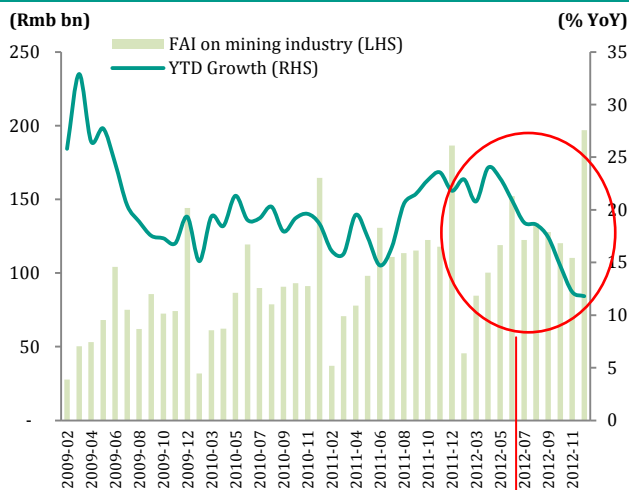
Projection and assumption on major mining activities

Major mining activities		2005	2010	2011	2012E	2015E	2017E	CAGR 2005-2012E (%)	CAGR 2012-2017E (%)
Oil	(mn tons)	180.8	202.4	202.9	206.5	217.0	223.4	1.9	1.6
FAI/oil production	(Rmb/tons)	809.3	1,446.5	1,506.8	1,381.9	1,509.8	1,601.7	7.9	3.0
Gas	(bn m ³)	50.0	94.8	102.7	109.8	131.9	145.4	11.9	5.8
FAI/gas production	(Rmb/m ³)	2.9	3.1	3.0	2.6	3.1	3.1	-1.7	3.6
Ferrous metal production	(mn tons)	420.5	1,071.6	1,326.9	1,532.6	1,980.9	2,252.6	20.3	8.0
FAI/ferrous metal production	(Rmb/tons)	66.1	99.1	94.3	99.8	94.3	94.3	6.0	-1.1
Non-ferrous metal production	(mn tons)	15.9	31.2	34.4	37.2	44.5	48.9	13.0	5.6
FAI/non-ferrous metal production	(Rmb/tons)	1,150.1	3,218.8	3,709.9	3,966.1	3,316.8	3,316.8	19.3	-3.5
Coal exploitation	(mn tons)	2,350.0	3,235.0	3,520.0	3,692.5	4,203.3	4,512.9	6.7	4.1
FAI/Coal exploitation	(Rmb/ton)	49.5	117.0	139.1	143.3	190.7	230.7	16.4	10.0

Source: NBS, ABCI Securities estimates

Based on the assumptions and forecasts above, we estimate that the fixed assets investment on mining industries will grow at a CAGR of 21.4% from 2012 to 2017.

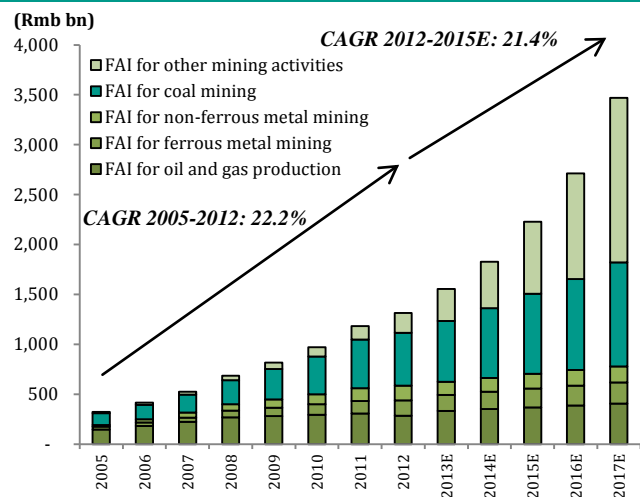
Monthly fixed assets investment on mining industries in China and YTD growth rate, 2009-2012



Source: NBS, ABCI Securities

The growth rate of mining activities FAI was dragged down by the slowdown coal mining industries.

Fixed assets investment projection on mining industries, 2005-2017E



Source: NBS, China Electricity Council, ABCI Securities estimates

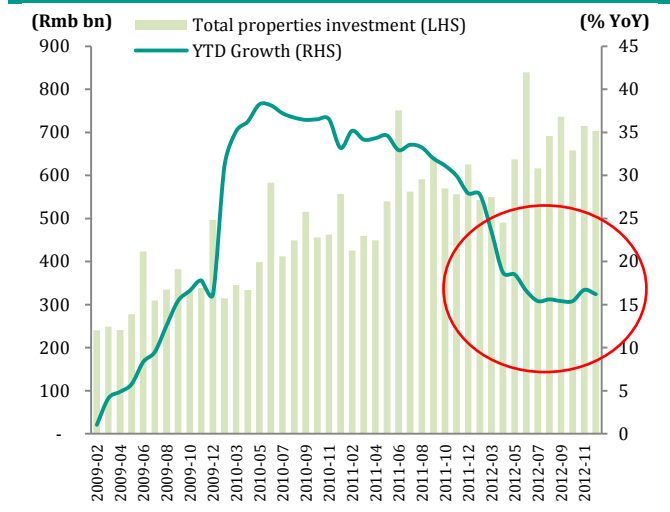


China Properties Development

Investment in urban infrastructure and affordable housing will be the focus of central government spending in 2013 to help sustain growth according to National Development and Reform Commission (“NDRC”). According to Housing and Urban-rural Development of the PRC, The country plans to start construction on 6mn affordable housing units and complete the construction of 4.6mn units in 2013. The completion was 5mn units in 2011 and another 5mn units in 2012. It means that 26mn units of affordable housing are needed to be finished in 2013 to 2015 in order to achieve the target of 36mn units by 2015 stated in 12th 5-Year Plan. We believe the local governments are likely to put more effort and complete the affordable housing projects that are behind schedule in 2013. With the recovery on the new starts of properties construction in China, we expect that the properties investment will grow at CAGR of 16.0% during 2012 to 2017.

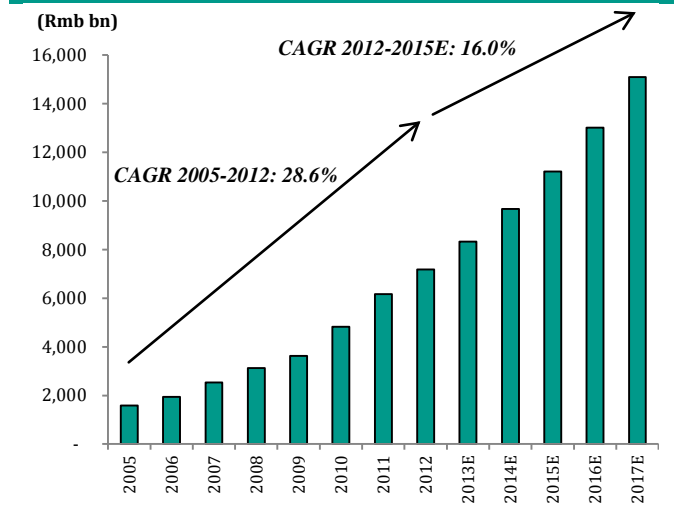
We expect that the properties investment will grow at CAGR of 16.0% during 2012 to 2017.

Monthly properties investment in China and YTD growth rate, 2009-2012



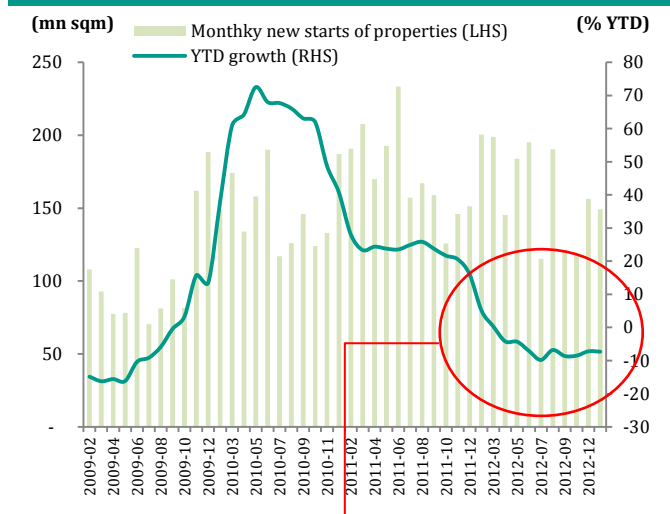
Source: NBS, ABCI Securities

Properties investment projection in China, 2005-2017E



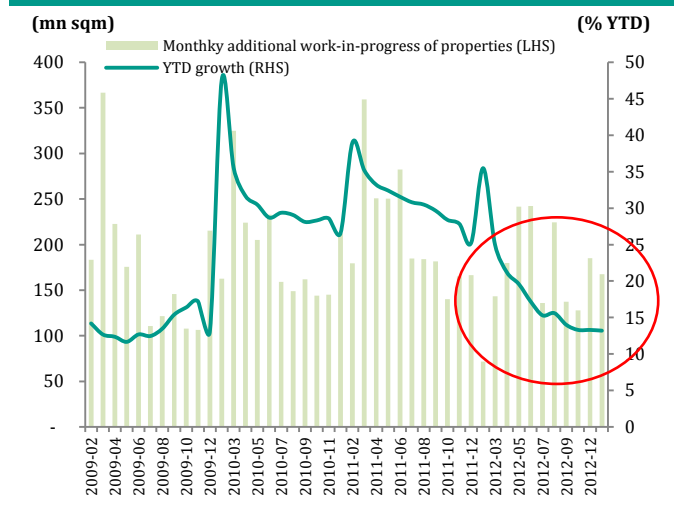
Source: NBS, ABCI Securities estimates

Monthly properties new starts in China (based on area) and YTD growth rate, 2009-2012



Source: NBS, ABCI Securities

Monthly properties new starts in China (based on investment value) and YTD growth rate, 2009-2012



Source: NBS, ABCI Securities estimates

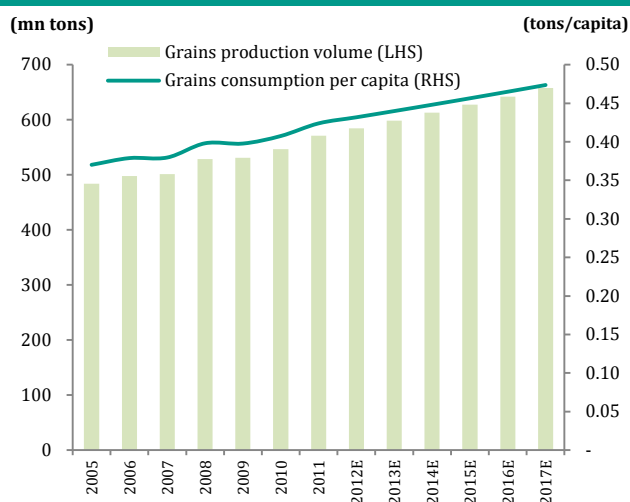
The properties investment and new starts are bottoming out

Agricultural Development

We estimate that the fixed assets investment on agricultural and fishery industries will grow at a CAGR of 40.0% during 2012-2017

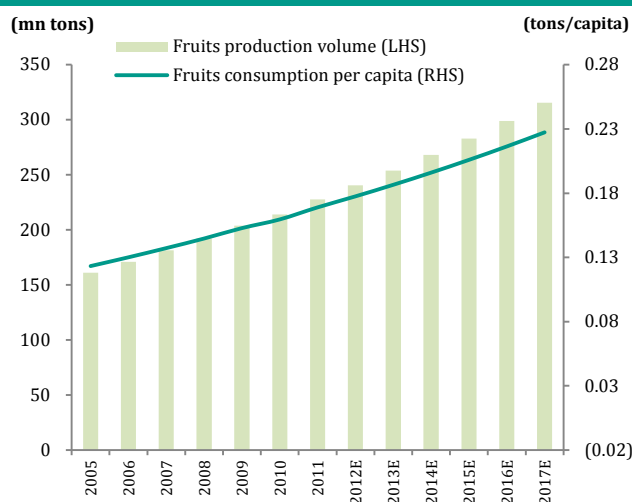
As mention aforehand, China's Government put much emphasis on urbanization. Under the urbanization, both the rural population and workforce are decreasing, while the food consumption in China is increasing with the growth of total population and wealth improvement from economic development. It triggers the development of agricultural machineries in order to push the agricultural mechanization for the sake of offsetting the loss of rural workforce.

Grains production volume and consumption rate, 2005-2017E



Source: NBS, ABCI Securities estimates

Fruits production volume and consumption rate, 2005-2017E



Source: NBS, ABCI Securities estimates

The consumption volume per capita of grains and fruits increased at a CAGR of 2.2% and 5.3% from 0.37tons/person and 0.12tons/person in 2005 to 0.43tons/person to 0.18tons/person in 2012, respectively. The total consumption volume of grains and fruits increased at a CAGR of 2.7% and 5.9% from 484.0mn tons and 161.2mn tons in 2005 to est. 584.8mn tons and est. 240.4mn tons in 2012. We estimate that the total crops consumption (and production) will increase at a CAGR of 3.4% from 2012 to 2017.

We see the FAI on agricultural industries per corps production ratio was increasing with the agriculture mechanization, and expect the ratio will increase in 2013 to 2015.

Summary of agricultural development under 12th 5-Year Plan of China

	2005	2010	2015E	Change from 2010 to 2015E (%)	
Agriculture products supply	Total plantation area of grains (mn hectares)	104.3	109.9	106.7	(2.9)
	Production capacity of grains (mn tons)	484.0	500.0	540.0	8.0
	Total output of meat (mn tons)	69.4	79.3	85.0	7.3
	Total output of milk (mn tons)	28.7	37.8	50.0	32.3
	Total output of aquatic product (mn tons)	44.2	53.7	60.0	11.7
Agricultural machinery & equipment	Total agricultural machinery power (mn KW)	68.0	92.0	100.0	8.7
	Agricultural mechanization rate (%)	36.0	52.0	60.0	8.0
	Effective irrigation area (mn hectares)	55.0	55.2	62.5	13.3

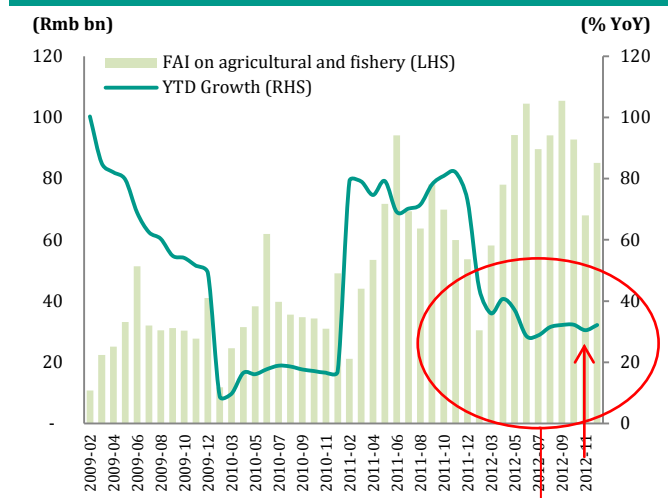
Source: Chinese Academy of Agricultural Sciences



The fixed asset investment on agricultural and fishery industries per crops production volume ratio increased at CAGR of 35.4% from Rmb130.6/ton in 2005 to est. Rmb1,090.6/ton in 2012. We estimate flat growth of the ratios at CAGR of 35.4% from 2012 to 2017.

Based on the assumptions and forecasts above, we estimate that the fixed assets investment on agricultural and fishery industries will grow at a CAGR of 40.0% from 2012 to 2017.

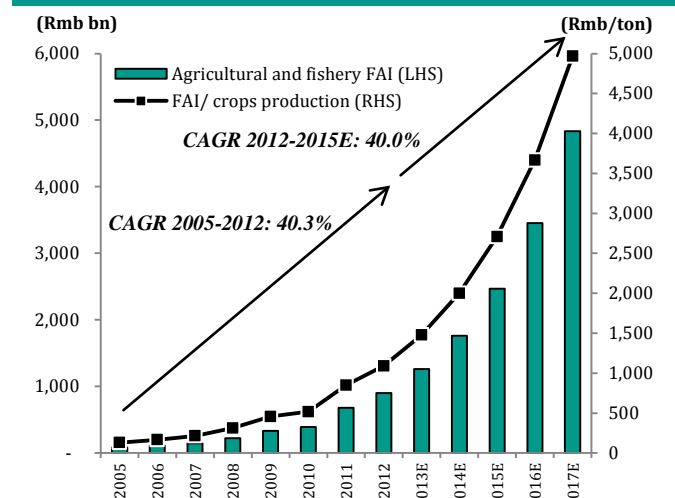
Monthly fixed assets investment on agricultural and fishery industries in China and YTD growth rate, 2009-2012



Source: NBS, ABCI Securities

The FAI of agricultural and fishery industries grew by 32.2% YoY in 2012, faster than the average urban FAI growth at 20.6% YoY.

Fixed assets investment projection on agricultural and fishery industries, 2005-2017E



Source: NBS, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Construction and Farm Machinery Sector

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Summary on Our Projection of Different Types of Construction and Farm Machineries

Based on our growth estimation on downstream industries including infrastructure construction, properties, mining and agriculture, we foresee that the growth of demand for construction and farm machineries still maintain at a high level.

Concrete machineries

Slowdown expected in concrete pump market in 2013 after the strong expansion since 2009

After the fast expansion of concrete pump market in 2009 to 1H2012, the downstream industries take time to digest the additional capacity. We expect the growth of concrete pump to slow down in 2013, and pick up the growth track in 2014.

In contrast, the growth of truck mounted concrete mixer and batch plant are expected to accelerate in 2013 due to the consolidation of cement industry. The obsoleted cement production line is being eliminated. And the new production lines will be built in the remote places away from cities for the sake of environmental concerns. The longer in transportation of concrete creates more demand for concrete mixer and batching plant.

Sales volume growth projection of concrete machineries

	CAGR 2005-2012 (%)	CAGR 2012-2017E (%)
Concrete machineries		
Concrete pump	44.6	18.1
Concrete mixer	35.5	23.3
Batching plant	34.3	24.9

Source: CCMA, ABCI Securities estimates

Cranes

Mobile cranes recover with railway and roadway construction in 2013

After the deep decline in sales volume of mobile cranes (truck and crawler cranes) in 2012, with the recovery on downstream roadway and railway infrastructure construction in 2H2012 and 2013, the sales are expected to regain in 2013.

Growth of tower cranes will supported by demand driven by water engineering in 2013

For the tower crane market, the favorable policies on water engineering development and municipal construction projects, we expect the growth of tower crane market to maintain at a relatively higher pace in mid-to-long run.

Sales volume growth projection of cranes

	CAGR 2005-2012 (%)	CAGR 2012-2017E (%)
Cranes		
Truck cranes	11.7	24.1
Crawler cranes	17.8	30.2
Tower cranes	29.0	26.0

Source: CCMA, NBS, ABCI Securities estimates

Earth moving machineries

The recovery of Wheel loader and excavator will be dragged down by the weak coal mining activities in 2013

The earth moving machineries suffered severe retreat in 2012. Following the recovery on construction industries, the sales situation is expected to improve in 2013. However, the weakening coal price discourages the capex growth in the coal mining industries in 2013, and hence the recovery pace of wheel loader and excavator will be dragged down. Sales of bulldozer will outperform in 2013 as it is less dependence on coal mining activities.

Sales volume growth projection of earth moving machineries

	CAGR 2005-2012 (%)	CAGR 2012-2017E (%)
Earth moving machineries		
Excavator	19.2	25.0
Wheel loader	7.0	23.3
Bulldozer	10.4	24.0

Source: CCMA, ABCI Securities estimates

Coal mining machineries

2013 a harsh year for coal mining machineries

Coal mining machineries are expected to suffer a huge punch from the weakening coal mining activities under the sluggish coal price.

Sales volume growth projection of main types of construction and farm machineries

	CAGR 2005-2012 (%)	CAGR 2012-2017E (%)
Coal mining machineries		
Hydraulic roof support	18.2	6.7
Roadheader	23.2	6.0

Source: ABCI Securities estimates

Agricultural machineries

Sales rally of mid-to-hi powered tractor is expected in 2013 due to subsidy programs

Under the favorable agricultural policies, the amount of subsidy toward agricultural machineries is expected to increase in 2013, which will boost the demand for mid-to-hi powered tractor. We expect that a sales rally on mid-to-hi powered tractor will appear in 2013.

Sales volume growth projection of main types of construction and farm machineries

	CAGR 2005-2012 (%)	CAGR 2012-2017E (%)
Agricultural machineries		
Mid-to-hi powered tractor	16.2	34.5

Source: NBS, ABCI Securities estimates



Concrete Machineries Manufacturing Industry

Production volume of concrete and cement

	Concrete		Cement	
	(mn m ³)	(%YoY)	(mn tons)	(%YoY)
2007	242	37.50	1,350	11.66
2008	294	21.49	1,383	2.44
2009	410	39.46	1,637	18.37
2010	584	42.44	1,864	13.87
2011	726	24.32	2,058	10.41
2012	888	22.31	2,194	6.61

Source: Wind

Concrete machinery is used in many different construction projects, including the properties projects and infrastructure. Concrete machinery primarily consists of truck-mounted concrete pumps, trailer-mounted concrete pumps, concrete batching plants, truck mixers and placing booms.

The production volume growth of concrete directly affects the growth of concrete machinery. China produced 2,058mn tons of cement and 726mn m³ of concrete in 2011, which grew by 6.6% YoY and 22.3% YoY to 2,194mn tons and 888mn m³ in 2012, respectively. The demand for concrete machineries is also affected by the growth of money supply.

Growth of concrete production volume

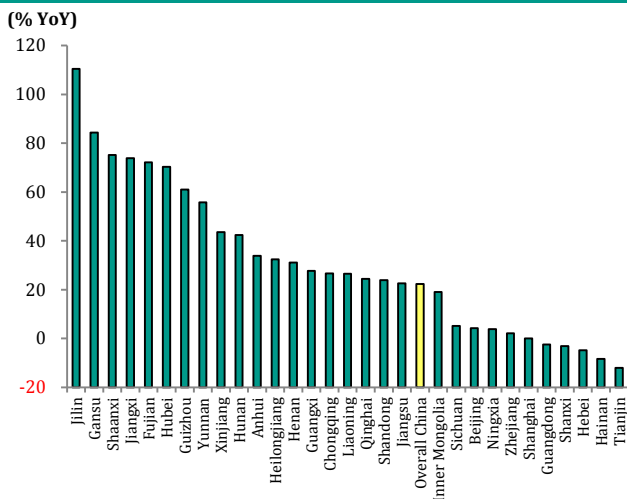
The concrete production volume increased by 22.3% YoY in 2012. The growth on concrete production volume in rural area was outpacing and maintained at relatively high speed. The growth on concrete production volume in 2012 in Northern China was 13.8% YoY; Eastern China was 14.0% YoY; Western China was 23.5% YoY; Southern China was 29.7% and Central China was 41.1%.

The growth of concrete production volume was recovering since 1H2012 with the China FAI. The FAI on infrastructure rebound from -7.2% YoY in 1H2012 to 7.4% YoY in 2012. With more infrastructure construction expected in 2013 under the approval of a batch of infrastructure projects by NDRC in 4Q12, the demand for concrete is expected to increase and supports the demand for concrete machineries.

The growth of production volume of concrete in Northern and Western China are outpacing the other places

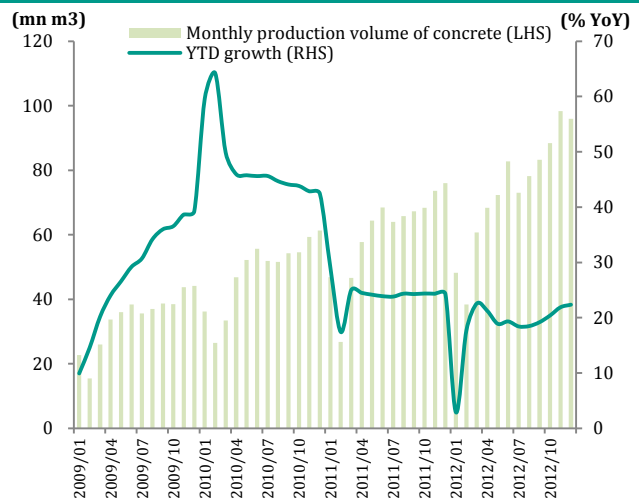
Such fast growth of production volume supported the sales growth of concrete machineries in 2012

Growth of agricultural and fishery FAI and infrastructure FAI vs. concrete sales volume in China, 2012



Source: NBS, ABCI Securities estimates

Monthly concrete production volume and YTD growth, 2009-2012

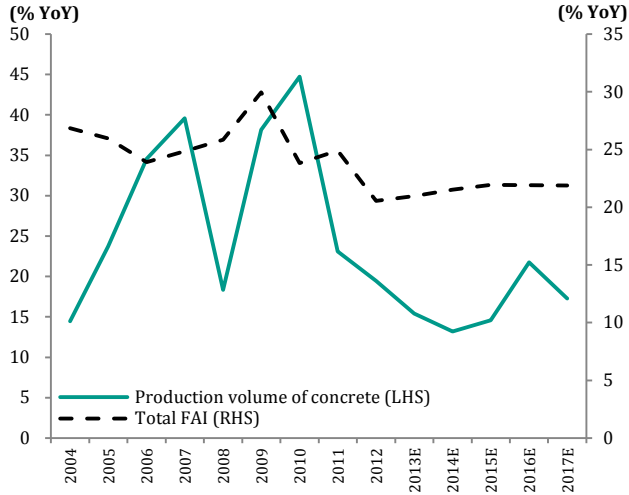


Source: NBS, ABCI Securities estimates

Based on our channel check, we estimate that 36.8% of sales volume of cement was used in properties construction, 15.8% was used in agricultural construction project and 47.4% was used in infrastructure construction. With the aforesaid growth projection on the fixed assets investment on the properties, agriculture and infrastructure, we estimate that the concrete production volume will increase at CAGR of 16.4% from 2012 to 2017.

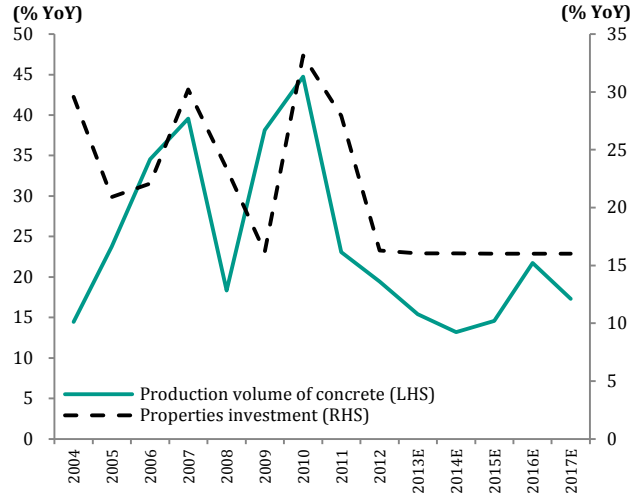


Growth of total FAI vs. concrete production volume, 2004-2017E



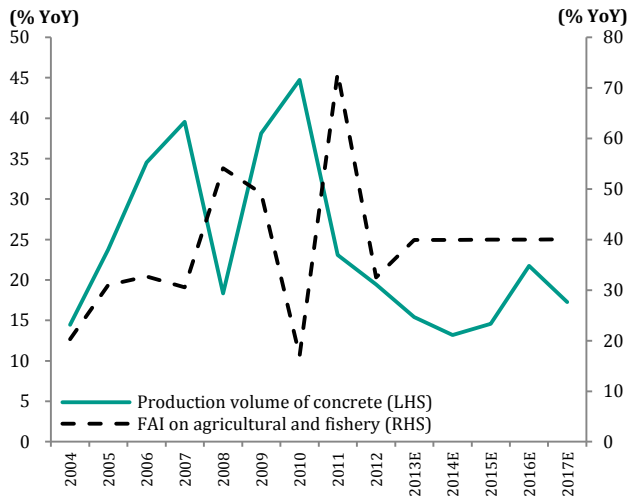
Source: NBS, ABCI Securities estimates

Growth of properties investment vs. concrete sales volume, 2004-2017E



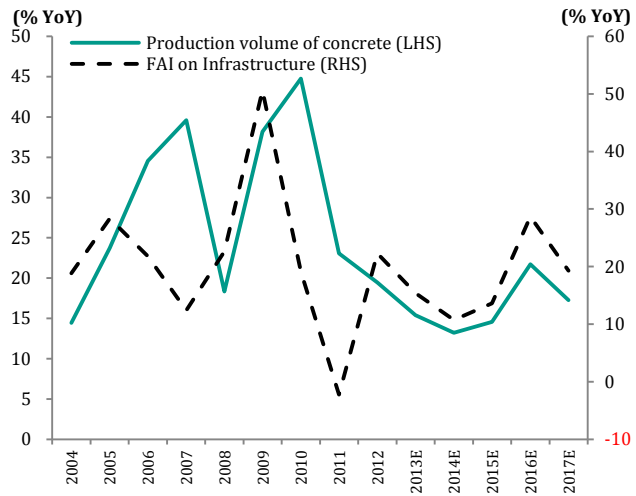
Source: NBS, ABCI Securities estimates

Growth of agricultural and fishery FAI vs. concrete production volume, 2004-2017E



Source: NBS, ABCI Securities estimates

Growth of infrastructure FAI vs. concrete sales production, 2004-2017E



Source: NBS, ABCI Securities estimates

Growth slowdown of concrete pump

After the fast expansion in 2009-1H2012, we believe the growth of concrete pump will slow down.

Sany Heavy and Zoomlion, the top two concrete pump makers in China with market share over 80% in 2012, carried out aggressive sales campaign during 2009 to 1H2012 leveraging on market consolidation. After the strong growth on sales of concrete pump we believe that the market needs time to digest the additional capacity.

Furthermore, in order to cut down the level of receivables, we believe both Sany Heavy and Zoomlion will tighten the credit sales in 2013. Therefore, a slowdown is expected on concrete pump market in 2013.

Jumping star 2013: concrete mixer and batching plant

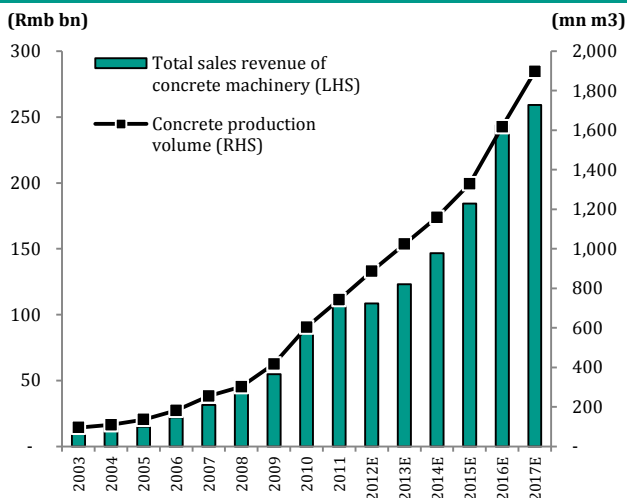
Our sales volume estimation-
CAGR during 2012-2017 (vs.
actual CAGR during 2005-2012):

Concrete pump: 18.1% (vs.44.6%)
Concrete mixer: 23.3%(vs.35.5%)
Batching plant: 24.9%(vs.34.3%)

On the other hand, the concrete mixer and batching plant will maintain at a relatively high growth in 2013 under the additional demand induced by the production restriction of downstream cement industries.

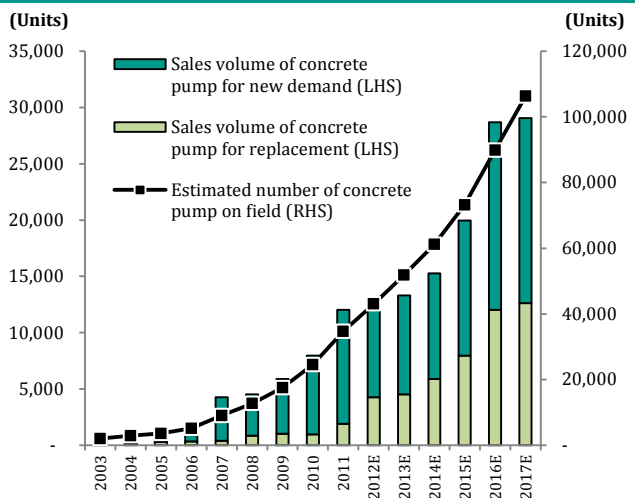
With the long term growth estimation of concrete in China, we expect that the sales volume of concrete machineries will grow at a CAGR of 22.4% from 2012 to 2017, and the sales revenue of concrete machinery will grow at a CAGR of 19.0% from 2012 to 2017.

Growth projection of total sales revenue of concrete machineries and concrete production volume, 2003-2017E



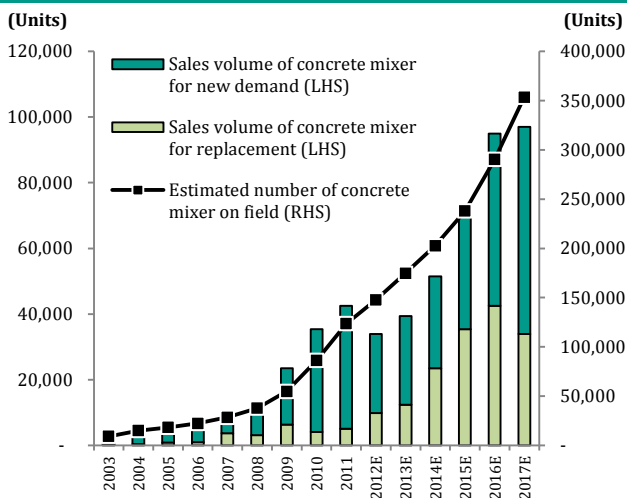
Source: China Construction Machinery Business Online, ABCI Securities estimates

Growth projection of sales volume of concrete pump, 2003-2017E



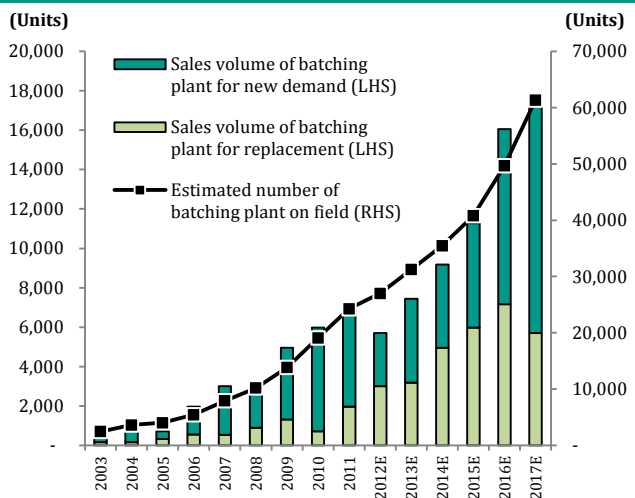
Source: NBS, CCMA, ABCI Securities estimates

Growth projection of truck mounted concrete mixer, 2003-2017E



Source: NBS, CCMA, ABCI Securities estimates

Growth projection of concrete batching plant, 2003-2017E



Source: NBS, CCMA, ABCI Securities estimates

Competitive landscape

According to China Construction Machinery Business Online, sales revenue of concrete machineries in China was Rmb106.7bn in 2011. The sales revenue of concrete machineries segment of Sany Heavy, Zoomlion and XCMG, the top three concrete machinery makers in China, was Rmb26.1bn, Rmb21.2bn and Rmb2.0bn, respectively in FY2011. We estimate that the market shares of the three players based on sales revenue was 24.4%, 19.9% and 1.9%, respectively.

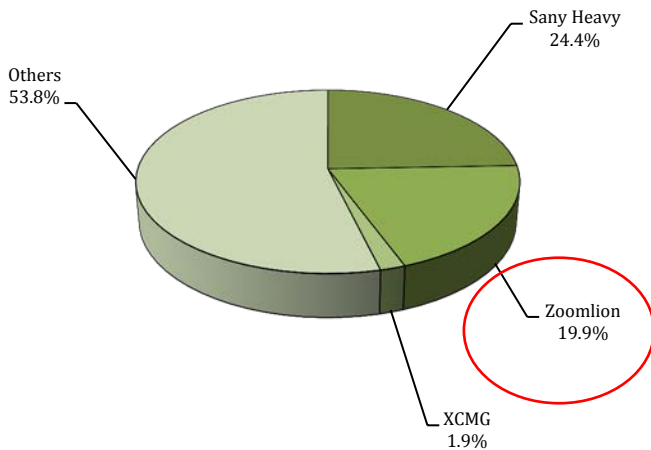
The aggressive sales strategies helped Zoomlion to capture market share in 2012 but traded off the earnings quality.

Under the aggressive sales expansion strategies of Zoomlion and XCMG during 1-3QFY12, we estimate that the market share of Zoomlion and XCMG were up by 1.9ppts and 2.4ppts to 21.8% and 4.3%, respectively in 2012. In the meanwhile, for the sake of improving assets quality, Sany Heavy tightened the sales credit to its customers and lost market share to its peers in 2012. We estimate that the market share of Sany Heavy dropped by 1.1ppts to 23.3% in 2012.

We believe the growth of Zoomlion in concrete machineries segment will slow down in 2013 for the sake of risk concern

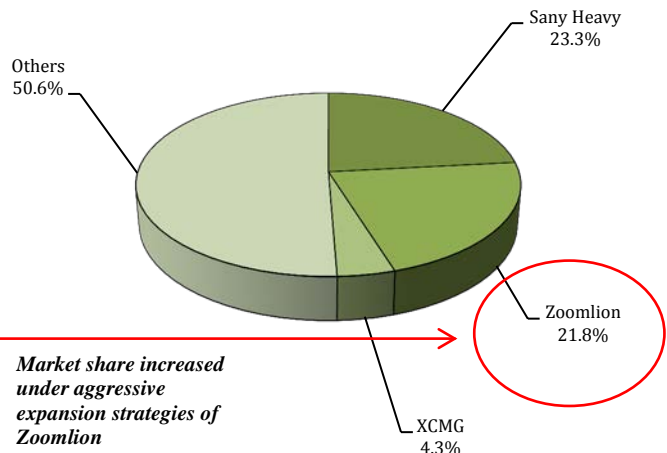
Considering that Zoomlion started to focus on the assets quality and cash collectability since 4QFY12, we believe that the sales strategies of Zoomlion will be less aggressive in 2013 compared with what it has done in 2012. The sales growth of Zoomlion will slow down. As the two largest concrete machinery makers constrain their credit sales in 2013, it provides opportunities for smaller players, such as XCMG to grow their market share in 2013. However, we believe that the high-end market will still be dominated by Zoomlion and Sany Heavy.

Estimated market share of top concrete machinery makers in China based on sales revenue, 2011



Source: ABCI Securities estimates

Estimated market share of top concrete machinery makers in China based on sales revenue, 2012



Source: ABCI Securities estimates

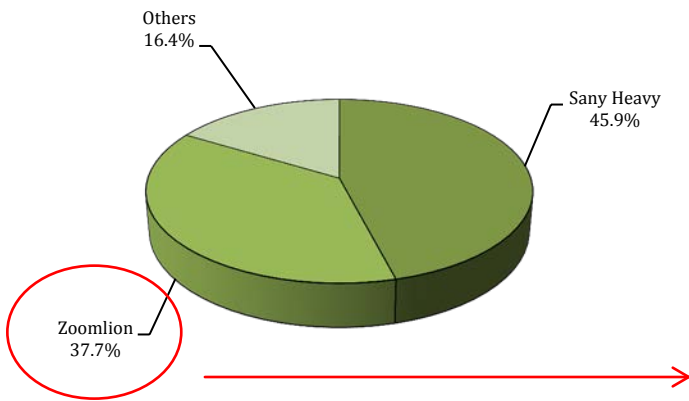
Concrete pump sub-segment

The ASP of truck-mounted concrete pumps is generally higher than other concrete machineries. We estimate that the total sales revenue of concrete pump (truck mounted plus trailer mounted) contributed 28.2% of the total sales revenue in the concrete machineries industry in 2012. Truck mounted concrete pump sub-segment is highly concentrated in China. We estimate that Sany Heavy and Zoomlion shared 83.6% of the market in 2011, each with a market share of 45.9% and 37.7%, respectively based on sales revenue.

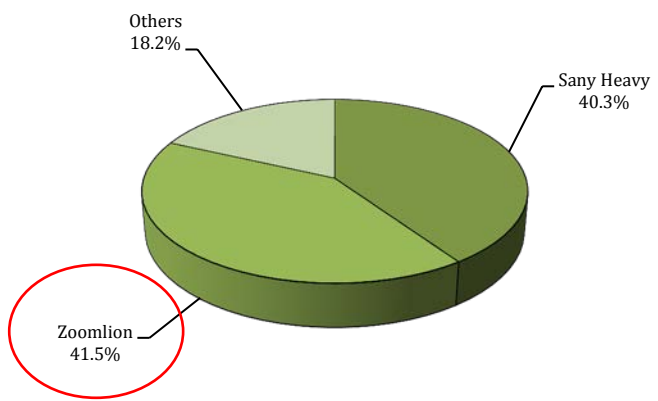
China's trailer mounted concrete pump segment, together with truck mounted stationary concrete pump segment, is also highly concentrated. We estimate that Sany Heavy and Zoomlion accounted for 84.9% of the market in 2011, each with market share of 45.5% and 39.4%, respectively based on sales revenue.

Under the aforesaid sales campaign of Zoomlion during 1-3QFY12, the sales volume growth of truck mounted concrete pump and trailer mounted concrete pump of Zoomlion were remarkable in 2012. According to Zoomlion, its market share in truck mounted concrete pump increased to 41.5% in 2012, and that of trailer mounted concrete pump jumped to 50.2%.

Estimated market share of Sany Heavy and Zoomlion in truck mounted concrete pump sub-segment of China based on sales revenue, 2011



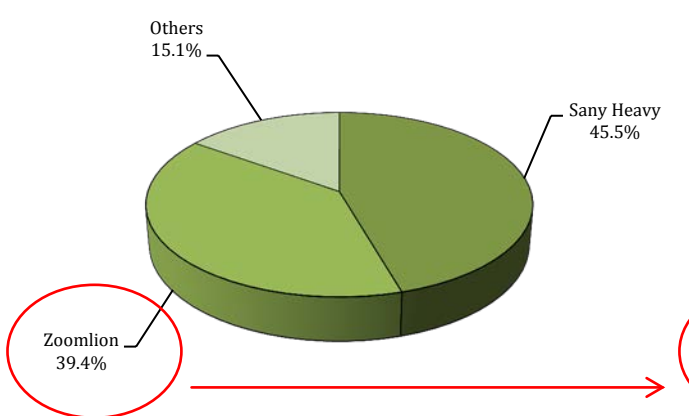
Estimated market share of Sany Heavy and Zoomlion in truck mounted concrete pump sub-segment of China based on sales revenue, 2012



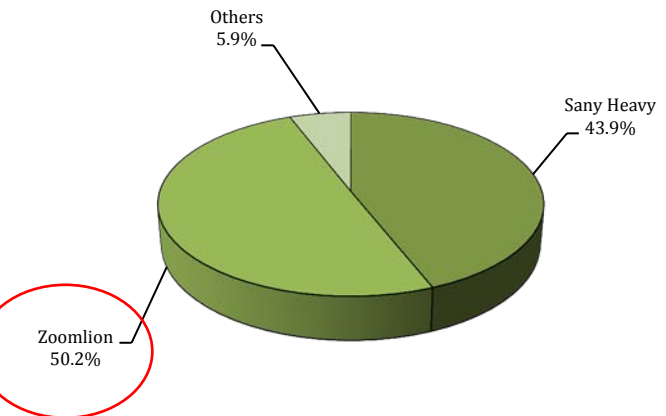
Source: ABCI Securities estimates

Source: ABCI Securities estimates

Estimated market share of Sany Heavy and Zoomlion in trailer mounted concrete pump sub-segment of China based on sales revenue, 2011



Estimated market share of Sany Heavy and Zoomlion in trailer mounted concrete pump sub-segment of China based on sales revenue, 2012



Source: ABCI Securities estimates

Source: ABCI Securities estimates



Cranes Manufacturing Industry

Strong recovery is expected in the cranes industry

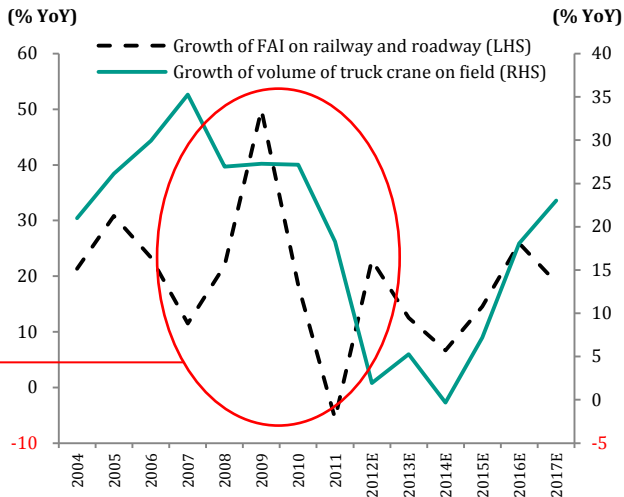
Due to the downturn of railway and roadway construction, sales of mobile cranes (truck crane and crawler crane) suffered a decline in 2012. With the recovery on railway and roadway industries, we expect the sales of mobile cranes will experience a regain in 2013. In the meanwhile the sales volume growth of tower crane will be supported by the properties development and infrastructure projects in 2013.

1) Mobile cranes recovery expected strong

The railway and roadway construction projects are the major source of demand for mobile cranes. With the aforesaid growth projection on the fixed assets investment on the transportation infrastructure, we estimate that the sales volume growth of truck crane will grow at a CAGR of 30.2%, and crawler crane will grow at a CAGR of 24.1% during 2012 to 2017.

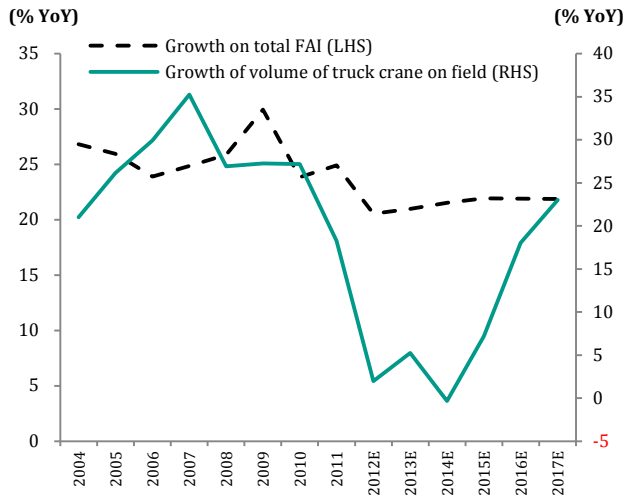
The relationship of railway and roadway FAI and sales volume growth of mobile cranes is strong

Growth of railway and roadway FAI vs. volume of truck crane, 2004-2017E



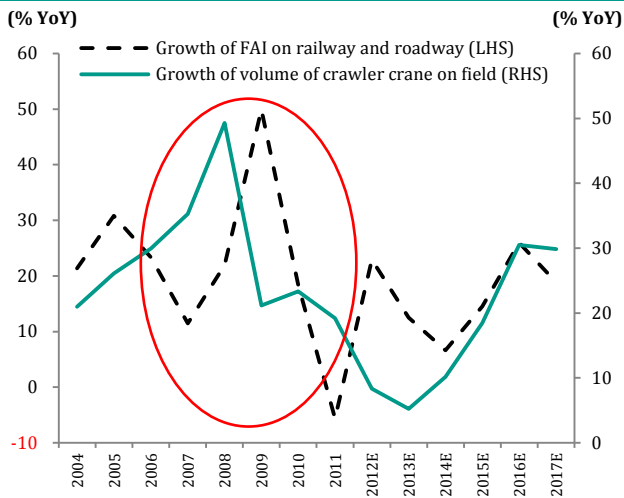
Source: NBS, CCMA, ABCI Securities estimates

Growth of total FAI vs. volume of truck crane, 2004-2017E



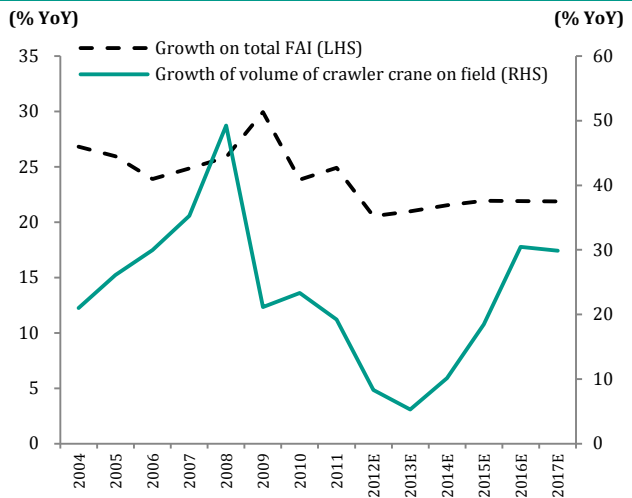
Source: NBS, CCMA, ABCI Securities estimates

Growth of railway and roadway FAI vs. volume of crawler crane, 2004-2017E



Source: NBS, CCMA, ABCI Securities estimates

Growth of total FAI vs. volume of crawler crane, 2004-2017E



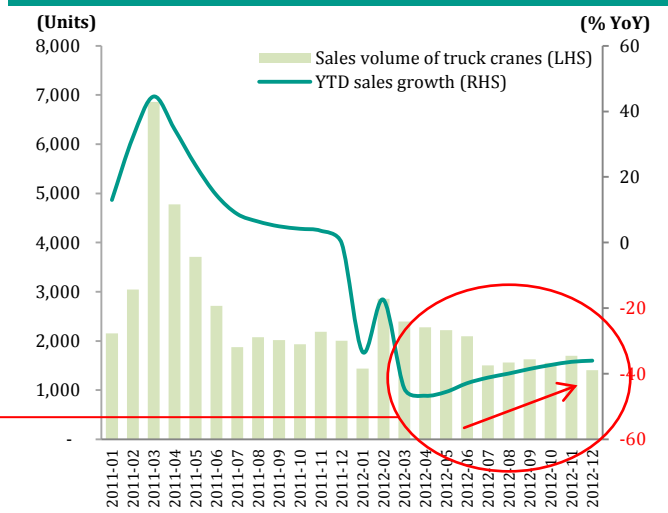
Source: NBS, CCMA, ABCI Securities estimates

Rebound of mobile crane

The sales volume on mobile cranes has been recovering since 2H2012, and the decline on sales volume is shrinking. We expect that the momentum of sales recover will carry on in 2013.

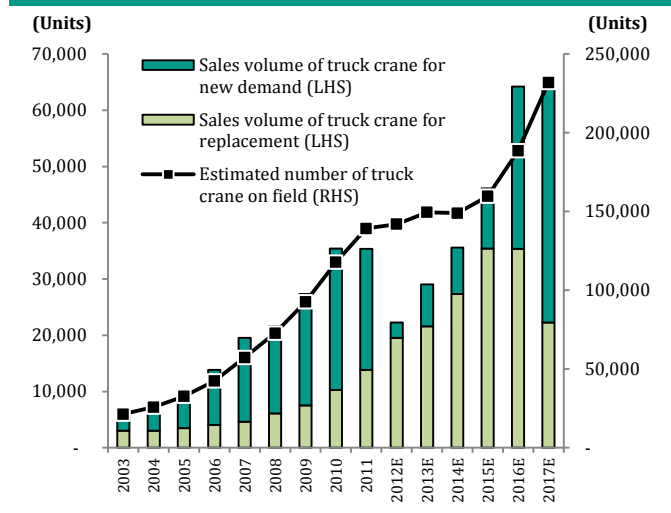
Momentum of sales recovery is expected to carry on in 2013

Monthly sales volume of truck crane and YTD growth rate, 2011-2012



Source: CCMA, ABCI Securities

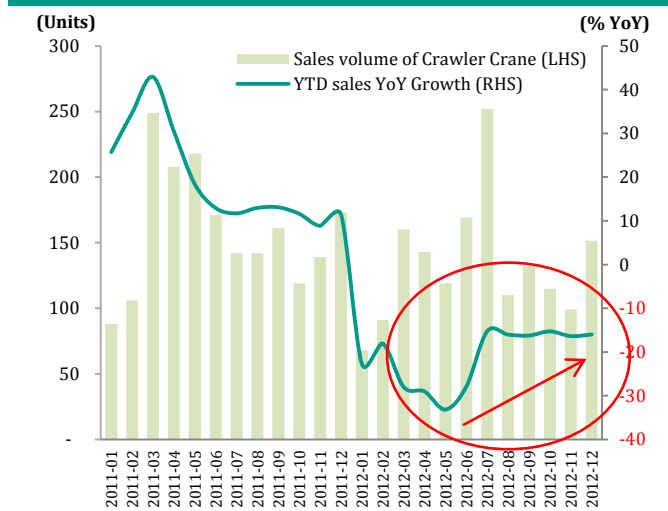
Growth projection of sales volume of truck crane, 2003-2017E



Source: NBS, CCMA, ABCI Securities estimates

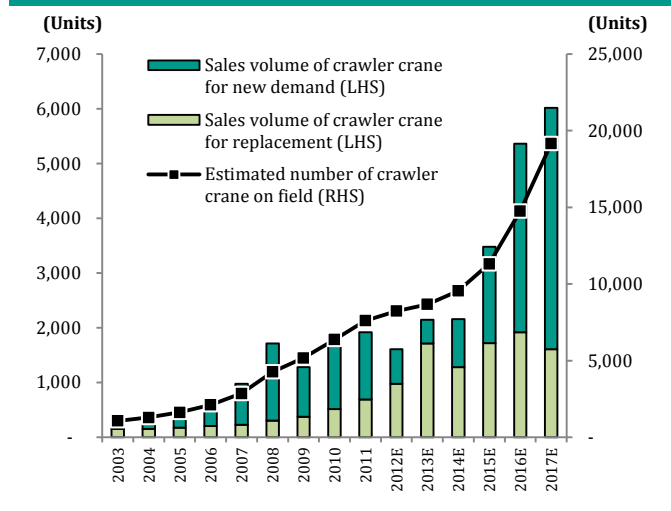
We expect the sales volume of truck and crawler cranes will rebound in 2013. We estimate the sales volume of truck crane will grow by 30.3% YoY in 2013, up from -37.0% YoY in 2012, and sales volume of crawler crane will grow by 33.5% YoY in 2013, up from -16.0% YoY in 2012.

Monthly sales volume of crawler crane and YTD growth rate, 2011-2012



Source: NBS, CCMA, ABCI Securities estimates

Growth projection of sales volume of crawler crane, 2003-2017E



Source: NBS, CCMA, ABCI Securities estimates

Competitive landscape of mobile crane sub-segment

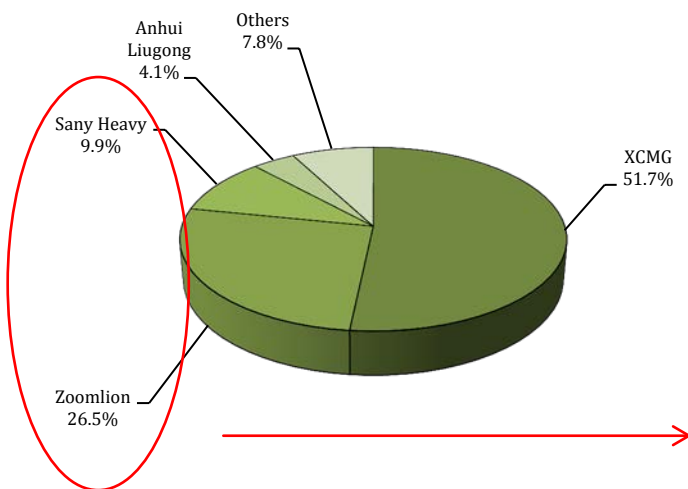
According to Construction Machinery Business Online, 46,928 units of mobile cranes were sold in China, 2011. Among mobile cranes, truck cranes and crawler cranes accounted 75.6% and 4.1% of total sales volume of mobile cranes in 2011. The balance of 20.4% was from the sales of trailer cranes (20.1%) and wheeled cranes (0.3%) in 2011.

According to CCMA, the sales volume of truck crane and crawler crane were dropped by 36.4% YoY and 16.0% YoY, respectively in 2012. Under the sales declining environment, the market share of small players in the mobile crane market shrunk. It speeds up the market consolidation.

The largest player of truck crane was XCMG with which we estimate that it took 48.8% of market share in 2012, dropped by 2.9ppts from 51.7% in 2011. With the expansion strategy, we estimate that the market share of Zoomlion increased from 26.5% in 2011 to 28.3% in 2012. The market share of Sany Heavy is estimated to increase from 9.9% in 2011 to 11.7% in 2012. We expect Zoomlion and Sany Heavy to put more emphasis on mobile cranes segments in 2013 to offset the impact of slowdown of concrete pump. Their market shares are expected to further increase in 2013.

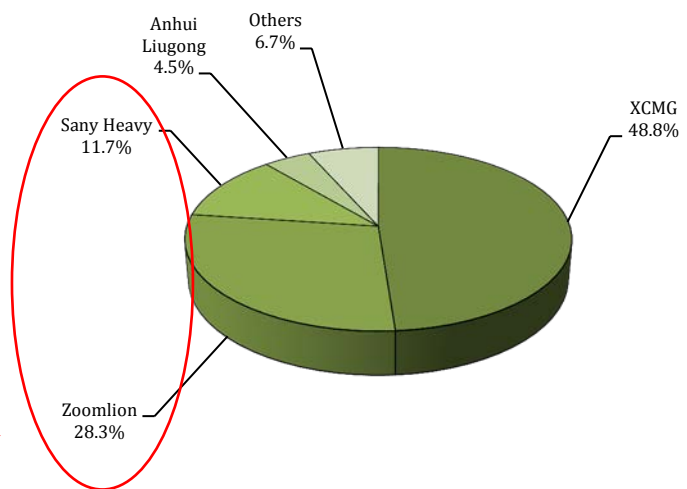
Zoomlion and Sany Heavy will put more effort on mobile cranes segments in 2013

Estimated market share of top truck crane makers in China based on sales revenue, 2011



Source: ABCI Securities estimates

Estimated market share of top truck crane makers in China based on sales revenue, 2012



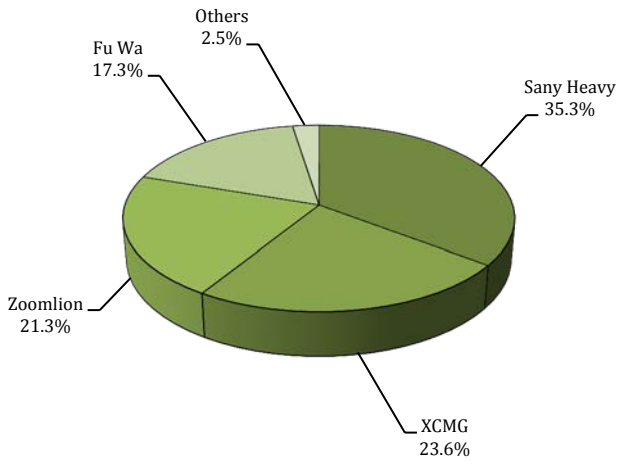
Source: ABCI Securities estimates

The largest player of crawler crane was Sany Heavy with market share of est. 35.7% in 2012, the second and third largest players were expected to be Zoomlion and XCMG with market share of 22.8% and 21.1%, respectively in 2012.

Similar to the truck crane market, the sales volume and revenue of small players declined in a deeper way compared with that of large players during the bearish market. We estimate that the total market share of small player dropped by 0.6ppts from est. 2.5% in 2011 to est. 1.9% in 2012.

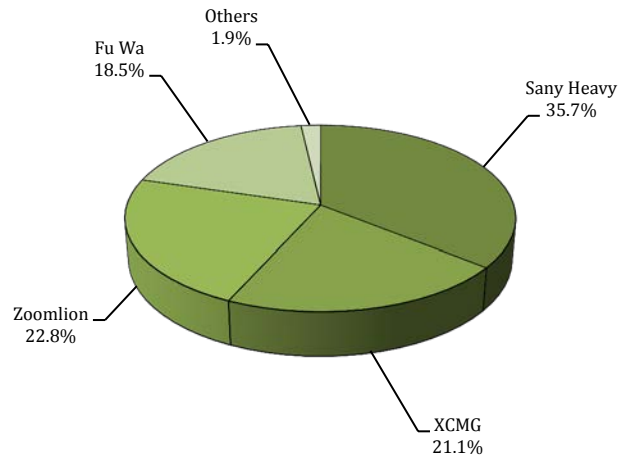


Estimated market share of top crawler crane makers in China based on sales revenue, 2011



Source: ABCI Securities estimates

Estimated market share of top crawler crane makers in China based on sales revenue, 2012



Source: ABCI Securities estimates



2) Tower cranes growth supported by properties and infrastructure development

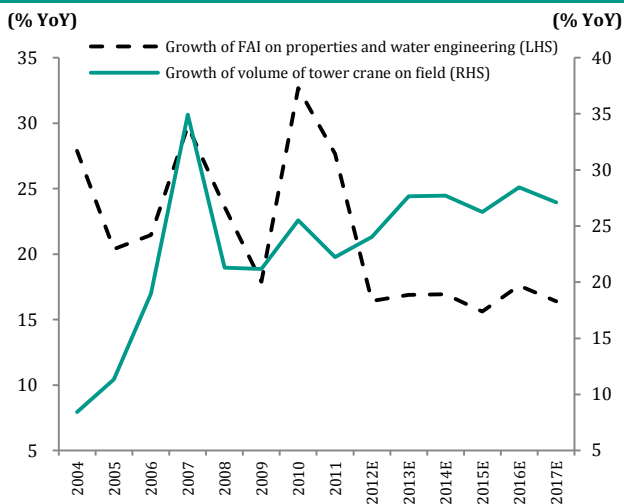
Tower cranes are a modern form of balance crane that consist of the same basic parts. Fixed to the ground on a concrete slab (and sometimes attached to the sides of structures as well), tower cranes often give the best combination of height and lifting capacity and are used in the construction of tall buildings.

The potential growth of the tower crane market will be driven by large-scale construction projects, including urban renovation projects, wind farm projects, nuclear power plant projects and other energy-saving and emission reduction projects, including the renovation of steel plants, power plants and concrete plants, which both the public and private sectors in China have undertaken to implement.

The properties and water engineering construction projects are the major source of demand for tower cranes. With the aforesaid growth projection on the fixed assets investment on the water engineering infrastructure and assumption on properties construction, we estimate that the sales volume growth of tower crane will grow at a CAGR of 26.0% in 2012 to 2017.

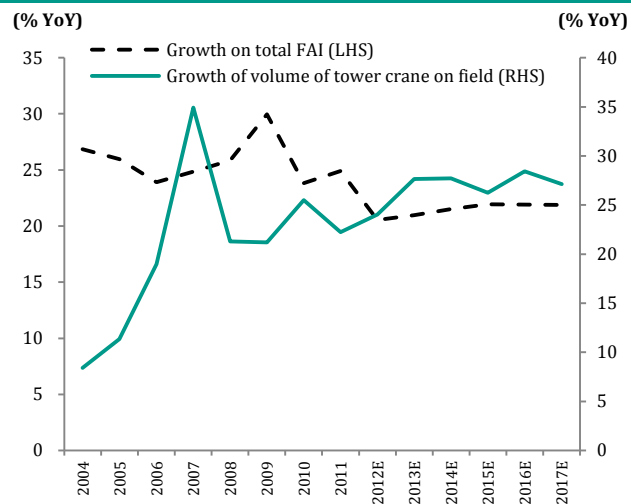
The growth of tower crane is supported by properties and infrastructure development

Growth of properties and water engineering FAI vs. volume of tower crane on field, 2004-2017E



Source: NBS, CCMA, ABCI Securities estimates

Growth of total FAI vs. volume of tower crane on field, 2004-2017E

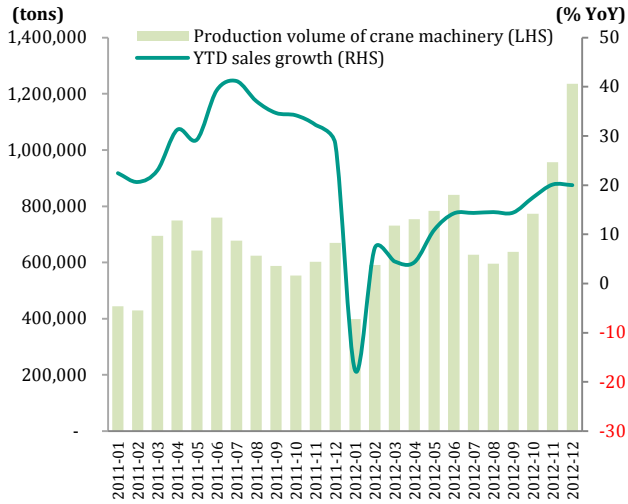


Source: NBS, CCMA, ABCI Securities estimates

With the high growth on tower crane estimated at 42.3% YoY in 2012, we believe the tower crane market will back to the long term normal growth level. We estimate that it will grow by 21.0% YoY in 2013.

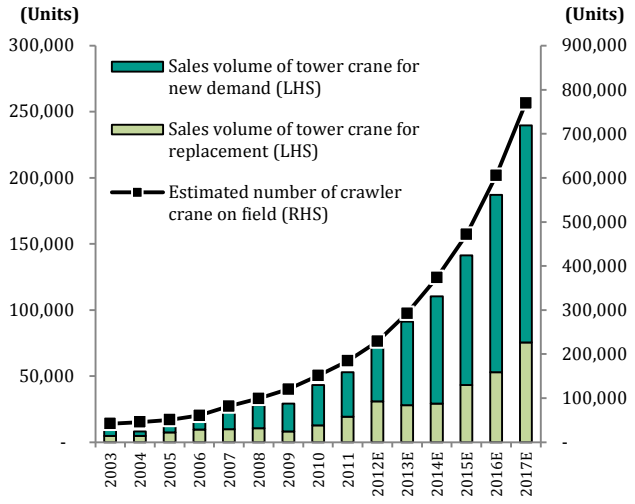


Monthly production volume of cranes and YTD growth rate, 2011-2012



Source: NBS, CCMA, ABCI Securities estimates

Growth projection of sales volume of tower crane, 2003-2017E



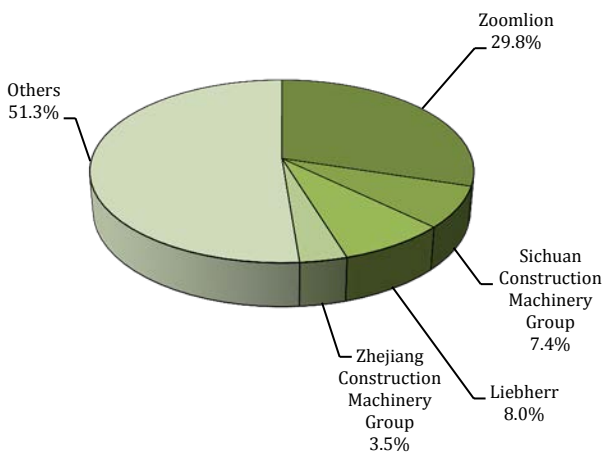
Source: NBS, CCMA, ABCI Securities estimates

Competitive landscape of tower crane sub-segment

Unlike mobile crane market, as the relatively lower in technological requirement, the market concentration is low. The total market share of small players was estimated at 45.3% in 2012.

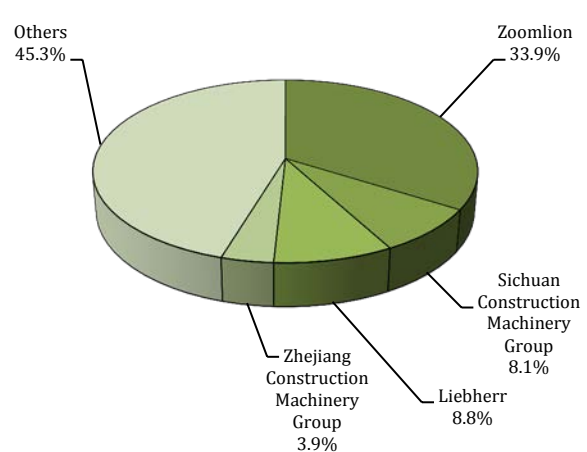
The largest player of the tower crane market was Zoomlion with est. market share of 33.9% in 2012, increased by 4.1ppts from est. 29.8% in 2011.

Estimated market share of top tower crane makers in China based on sales revenue, 2011



Source: ABCI Securities estimates

Estimated market share of top tower crane makers in China based on sales revenue, 2012

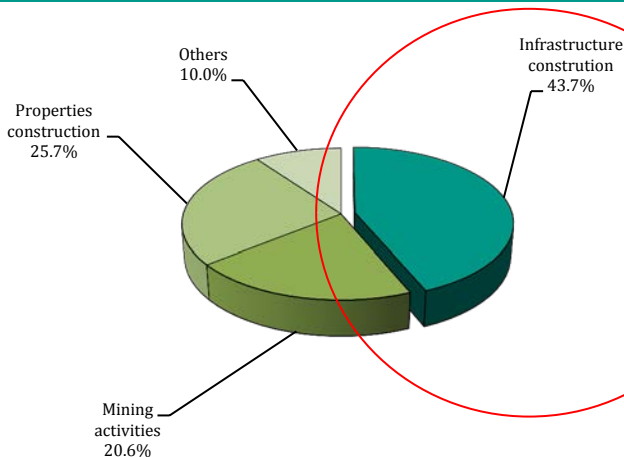


Source: ABCI Securities estimates

Earth Moving Machineries Manufacturing Industry

The major sources of demand for earth moving machinery are infrastructure construction (railway, roadway and water engineering construction), mining activities and properties construction.

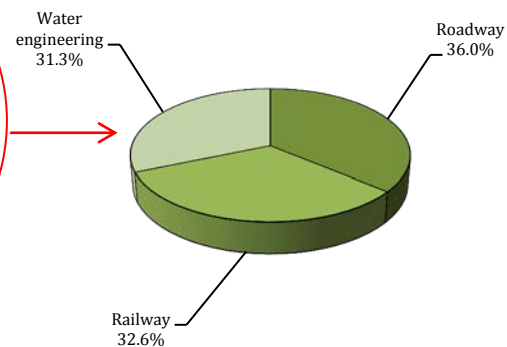
Estimated total demand for earth moving machineries breakdown by downstream industries, 2013-2017E



Source: ABCI Securities estimates

The recovery momentum of earth moving machineries is expected to dragged down by weakening coal mining activities

Estimated total demand for earth moving machineries breakdown by construction types within infrastructure construction, 2013-2017E



Source: ABCI Securities estimates

Sales volume of earth moving machineries (excavator, wheel loader and bulldozer) had suffered a serious decline in 2012. With the recovery on infrastructure construction and growth momentum of properties development, we expect the recovery of earth moving machineries industry to carry on in 2013. However, as the deteriorating business environment of coal mining industry, we expect the capex from coal mine operators will stay flat in 2013, which will drag down the pace of recovery.

Challenges from international players

The recovery of construction machineries not only benefits the domestic makers, but also attracts the international players to share the cake. Leading international players, such as Caterpillar (CAT US), expand their manufacturing and R&D facilities in China ambitiously. The market competition in earth moving machineries industry is expected to be intensified, and we expect that the profit margin recovery of the smaller players such as Lonking (3339 HK) will face a barricade in 2013

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).

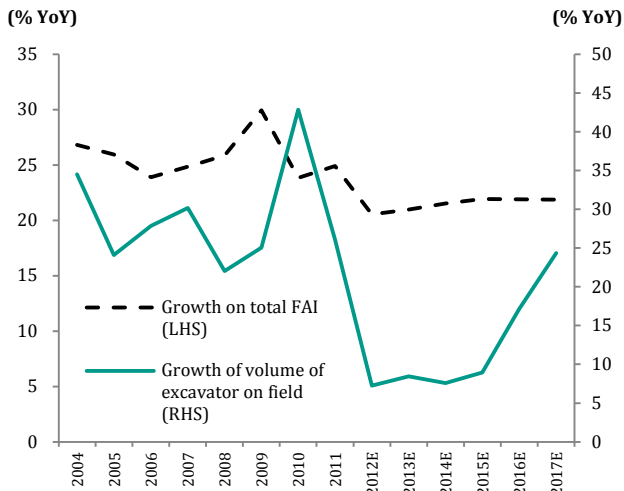
The expansion of international players creates challenges and keener market competition



1) Excavator

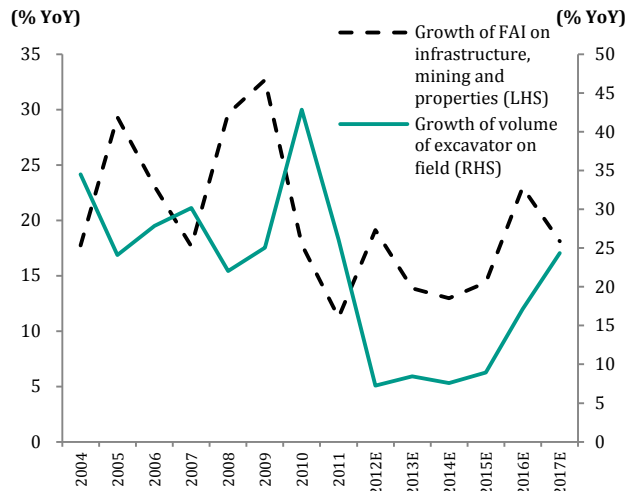
Excavators are heavy equipment consisting of a boom, bucket arm, bucket, undercarriage and cab on a rotating platform, or house, to dig and move earth below and above the worksite. Excavators are used in a variety of industries, including infrastructure, roadway construction, surface mining, railway construction and power plant construction.

Growth of total FAI vs. volume of excavator on field in China, 2004-2017E



Source: NBS, CCMA, ABCI Securities estimates

Growth of properties, infrastructure and mining FAI vs. volume of wheel loader on field, 2004-2017E

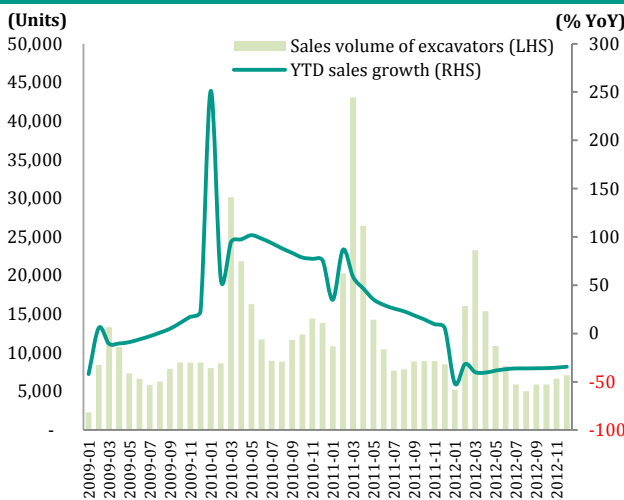


Source: NBS, CCMA, ABCI Securities estimates

Excavator sales growth pick up in 2013

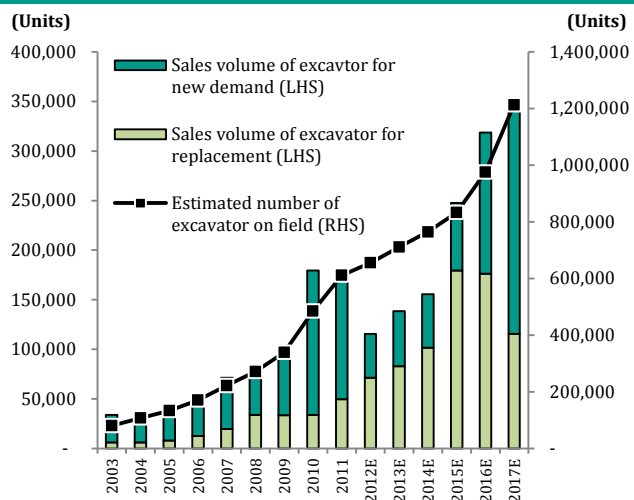
The sales volume on excavator has been recovering since 2H2012, and the decline on sales volume is shrinking. With the growth of infrastructure, properties development, we estimate that the sales volume of excavator in China will rebound from -34.4% YoY in 2012 to 19.8% YoY in 2013. We estimate that the sales volume of excavator will grow at a CAGR of 25.0% from 2012 to 2017.

Monthly sales volume of excavator and YTD growth rate, 2009-2012



Source: NBS, CCMA, ABCI Securities

Growth projection of sales volume of excavator, 2003-2017E



Source: NBS, CCMA, ABCI Securities estimates

Competitive landscape of excavator sub-segment

The market share of leading domestic players is elevating.

The industry concentration of China’s excavators market is not high and the China excavators market was dominated by foreign brands. The top five players in China held a market share of 50.6% in 2011. With the expansion of domestic players, the market share of local players increases. Sany Heavy is the largest player in the market based on sales volume. According to China Construction Machinery Business Online, it has a market share of 11.6% in 2011. The second largest player was Komatsu with market share of 11.3% in 2011, and the third largest player was Hyundai Heavy Industry with market share of 9.7% in 2011. The second to seventh largest players in the China excavator market are foreign brands.

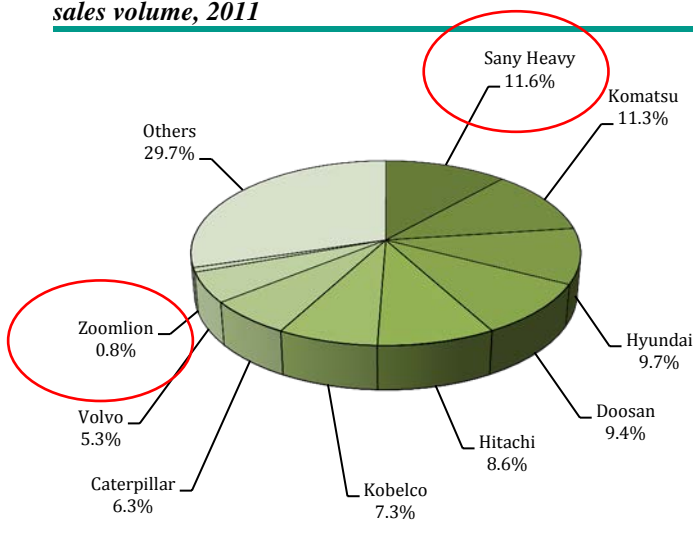
According to the sales statistics data from CCMA, we estimate that the market share of Sany Heavy increased 3.0ppts from 11.6% in 2011 to 14.6% in 2012.

Zoomlion joins the market after Sany Heavy’s success

Furthermore, in order to diversify the product portfolio, Zoomlion aggressively expands its earth moving machineries businesses. By leveraging on its comprehensive sales channels in China, we estimate that the market share Zoomlion in the excavator market increased 1.7ppts from 0.8% in 2011 to 2.5% in 2012.

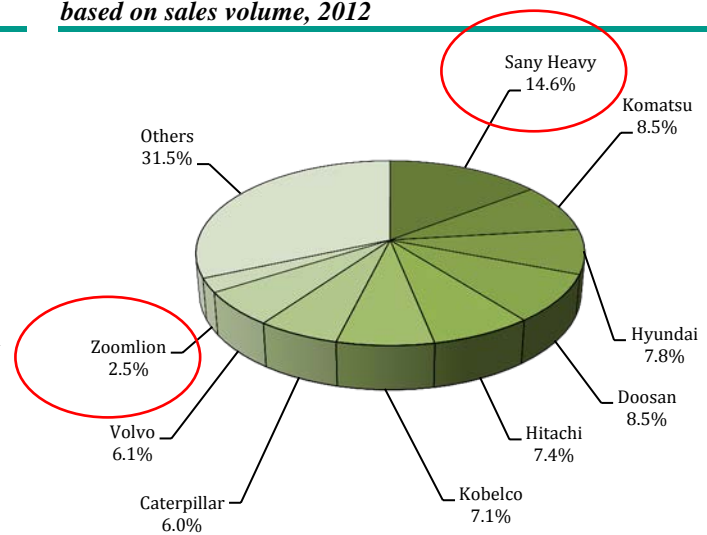
We expect the domestic players will carry on their expansion plan in 2013. With enhancing its technological knowhow by acquiring international machineries manufacturers, the technological gap between the international players and domestic players will narrow down. We expect the market share of leading domestic players, such as Zoomlion and Sany Heavy will increase in 2013.

Market share of top excavator makers in China based on sales volume, 2011



Source: China Construction Machinery Business Online

Estimated market share of top excavator makers in China based on sales volume, 2012



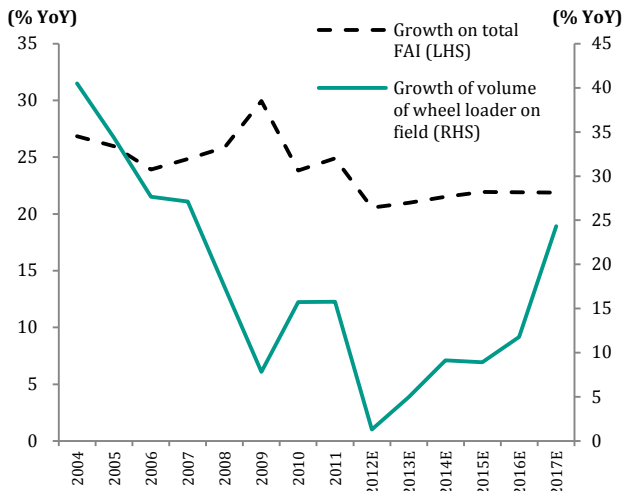
Source: CCMA, ABCI Securities estimates



2) Wheel loader

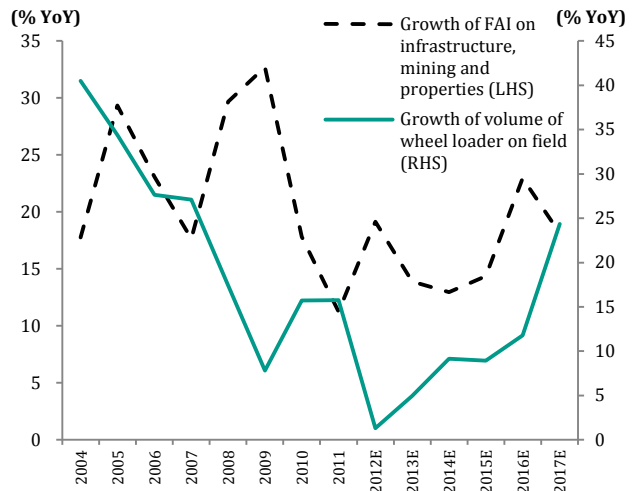
Wheel loaders are industrialized vehicles for lifting, loading and carrying heavy loads during building, construction, mining or other industrial-related activities. They can be used in a wide array of industrial tasks, ranging from relatively simple and small scale construction work to industrial projects of high complexity.

Growth of total FAI vs. volume of wheel loader on field in China, 2004-2017E



Source: NBS, CCMA, ABCI Securities estimates

Growth of properties, infrastructure and mining FAI vs. volume of wheel loader on field, 2004-2017E

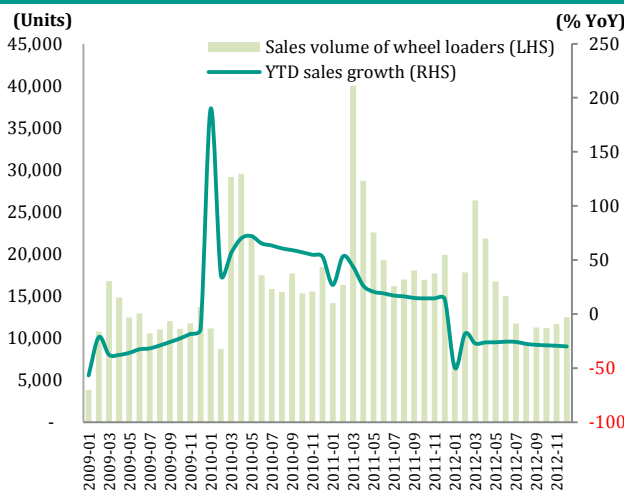


Source: NBS, CCMA, ABCI Securities estimates

Wheel loader expected to turnaround in 2013

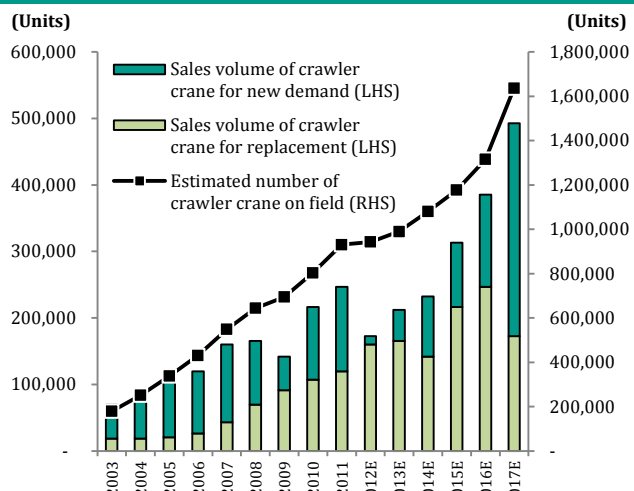
Similar to the situation of excavator, the sales volume on wheel loader has been recovering since 2H2012. With the growth of infrastructure, properties development, we estimate that the sales volume of wheel loader in China will turnaround from -30.0% YoY in 2012 to 22.9% YoY in 2013. We estimate that sales volume of wheel loader will grow at a CAGR of 23.3% from 2012 to 2017.

Monthly sales volume of wheel loader and YTD growth rate, 2009-2012



Source: NBS, CCMA, ABCI Securities

Growth projection of sales volume of wheel loader, 2003-2017E



Source: NBS, CCMA, ABCI Securities estimates

Competitive landscape of wheel loader sub-segment

The top three players based on the estimated sales volume in 2012 were Liugong with est. 18.9% of market share, SDLG with est. 18.8% of market share and Lonking with est. 13.9% of market share.

According to the CCMA, Lonking was the largest wheel loader manufacturer in China based on the sales volume in 2011. It accounted for 18.1% of market share in volume. However, we estimate its market share dropped by 4.2ppts to 13.9% in 2012 because of tightening the sales credit to customers for the sake of improving the assets and earning quality.

The market share of Liugong and SDLG increased to 18.9% and 18.8% respectively in 2012. Guangxi LiuGong Machinery Co. Ltd. (“LiuGong” 000528 CH) was founded in 1958 in Liuzhou. Based upon units sold, LiuGong is one of the largest wheel loader manufacturers in the world and the largest player in China. It is being listed in Shenzhen Stock Exchange.

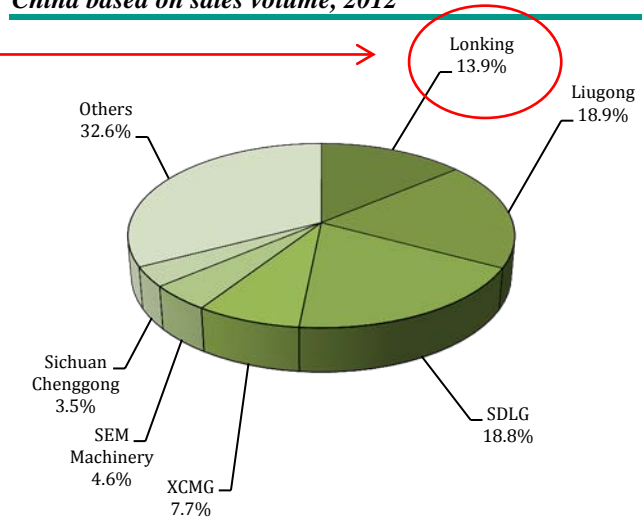
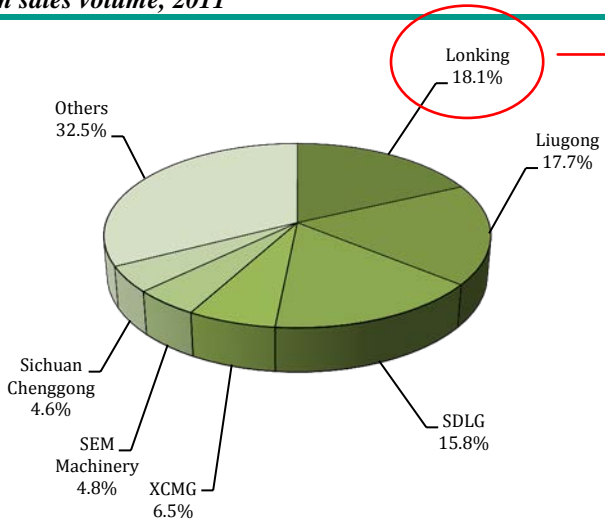
Shandong Lingong Construction Machinery Company Limited (“SDLG”) has been cooperated with Volvo (VOLVB SS) since 2006. Volvo is a leading international manufacturer of trucks, buses, construction equipment, drive systems for marine and industrial uses, and aircraft engine components. SDLG is a leading brand in China for wheel loaders. Its other products include excavators, compactors and backhoe loaders. The SDLG brand products are sold in China and other emerging markets.

Lonking: Market share decline

SDLG, cooperated with Volvo, another example of expansion of international players in China

Market share of top wheel loader makers in China based on sales volume, 2011

Estimated market share of top wheel loader makers in China based on sales volume, 2012



Source: CCMA

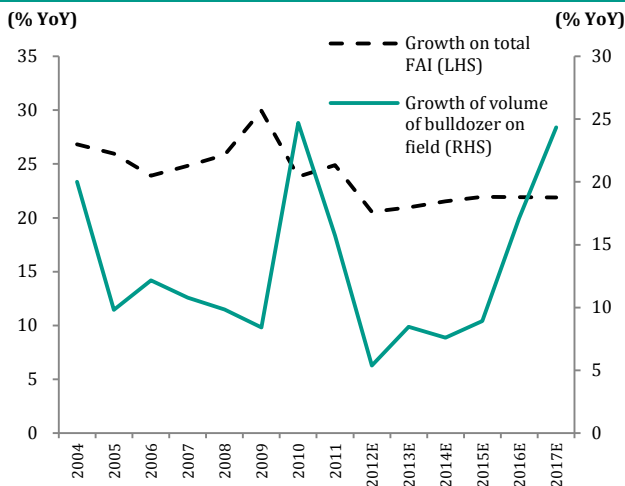
Source: CCMA, ABCI Securities estimates



3) Bulldozer

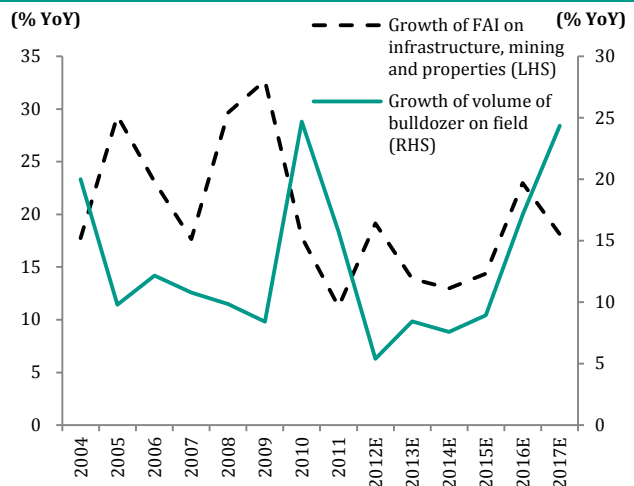
A bulldozer is a crawler equipped with a substantial metal plate, which is known as a blade, used to push large quantities of soil, sand, rubble, or other such material during construction or conversion work and typically equipped at the rear with a claw-like device, known as a ripper to loosen densely-compacted materials.

Growth of total FAI vs. volume of bulldozer on field in China, 2004-2017E



Source: NBS, CCMA, ABCI Securities estimates

Growth of properties, infrastructure and mining FAI vs. volume of bulldozer on field, 2004-2017E



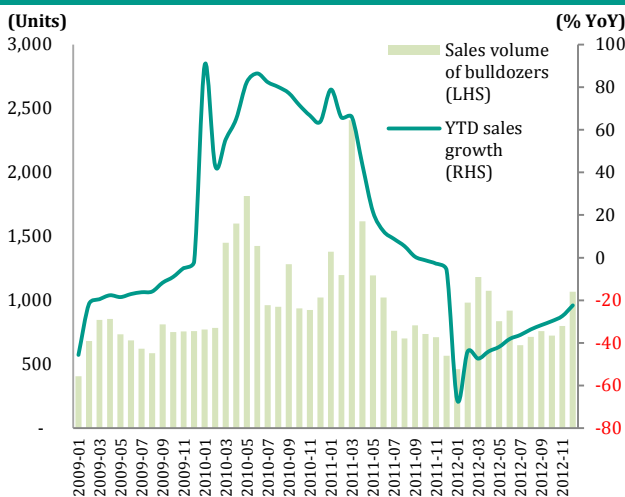
Source: NBS, CCMA, ABCI Securities estimates

Recovery of bulldozer is expected to be the strongest among the earth moving machineries markets

We estimate that the sales volume of bulldozer in China will rebound from -22.4% YoY in 2012 to 30.3% YoY in 2013. Without the drag down effect from coal mining industries, the recovery of bulldozer is stronger than that of excavator and wheel loader in 2013.

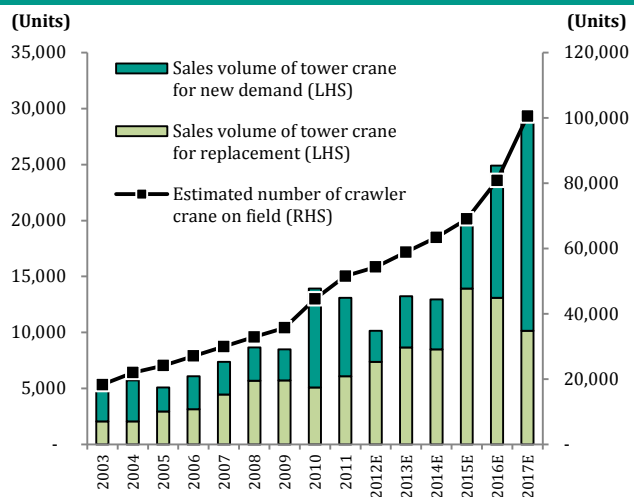
We estimate that the sales volume of bulldozer will grow at a CAGR of 24.0% during 2012 to 2017.

Monthly sales volume of bulldozer and YTD growth rate, 2009-2012



Source: NBS, CCMA, ABCI Securities

Growth projection of sales volume of bulldozer, 2003-2017E



Source: NBS, CCMA, ABCI Securities estimates

Competitive landscape of bulldozer sub-segment

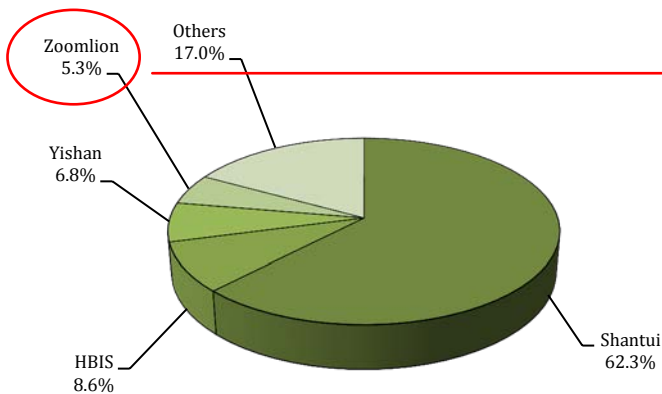
The concentration of bulldozer market is high. The largest player of the market was Shantui Construction Machinery Co. Ltd. (“Shantui”, 000680 CH) with estimated market share of 63.8% in 2012.

Shantui was founded in 1980. It is one of the top 50 manufacturers of construction equipment in the world, and one of leading construction machinery maker in China. Shantui is synonymous with bulldozers in China. It is a leading supplier of undercarriages, track roller, top roller, sprocket, idler gear, transmissions and metal structural components. Shantui started to be listed on the Shenzhen Stock Exchange in 1997.

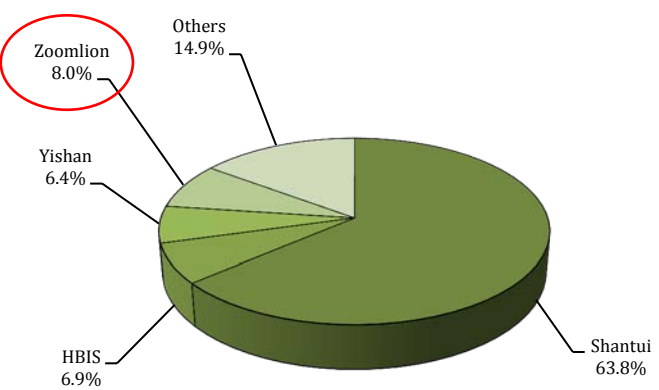
According to the CCMA, the market share of Zoomlion was 5.3% in 2011 based on the sales volume. Its market share is estimated to increase to 8.0% in 2012. For the sake of widening the profit-mix, Zoomlion puts more resources on developing the earth moving machineries business. We expect that the market share of Zoomlion in bulldozer market will keep increasing in 2013.

Market share of Zoomlion increases

Market share of top bulldozer makers in China based on sales volume, 2011



Estimated market share of top bulldozer makers in China based on sales volume, 2012



Source: CCMA

Source: CCMA, ABCI Securities estimates

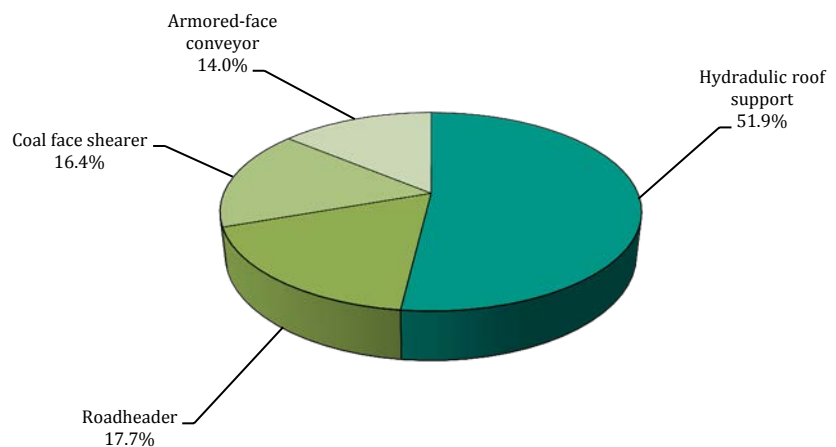
Coal Mining Machineries Manufacturing Industry

The weakening coal price swamps the growth of coal mining machineries in 2013

The growth of demand for coal mining machineries is subject to the production volume growth of coal and the mechanization of the coal mining industry in China. We estimate the FAI on coal mining industry will grow at a CAGR of 14.5% from 2012 to 2017.

Coal mining machinery is referring to the machineries through which coal mining operations are carried out underground. The machineries are comprised with 4 kinds of machineries: 1) roadheader, 2) hydraulic roof support, 3) coal face shearer, and 4) armoured face conveyor.

Breakdown on the total sales revenue of coal mining machinery, 2012E



Source: China National Coal Mining Machinery Industry Association, ABCI Securities estimates

Long run growth driver

In order to enhance the mining efficiency as well as the mining safety, China's government puts much emphasis on the development of automation and mechanization in the coal mining industry.

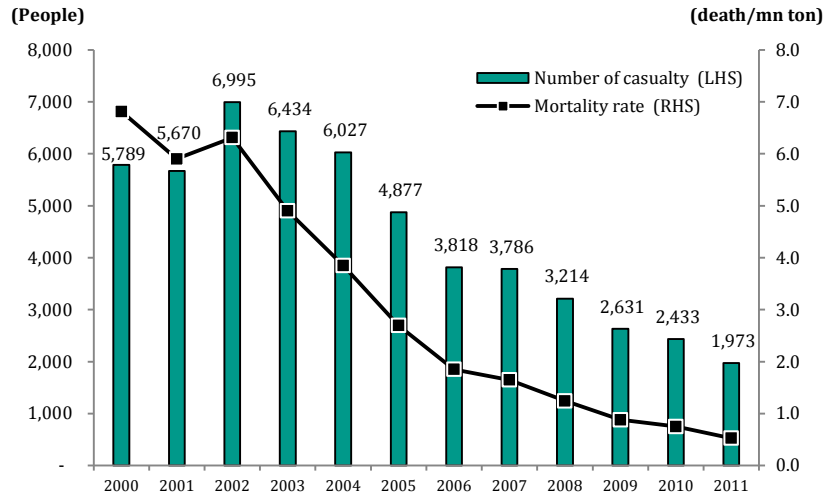
Long run benefited from mechanization in the coal mining industry

China accounted for the largest number of coal-mining fatalities, which was 70% of the world's total fatalities, although China produced only 44% of the world's coal production in 2010. The number of death per mn tons of coal production ("mortality rate") was 0.53 death/mn tons in 2011. China's government targets to lower the mortality rate to below 0.1 death/mn tons by 2020. The mortality rate was 0.035 death/mn tons in US in 2010. The increasing concern of mining safety speeds up the mechanization of the coal mining industry.

The consolidation of mining industry has been speeded up by the forced close down of sub-scale private mines. The number of coal mine in China dropped from 25,000 in 2005 to 15,000 in 2010. Large mine operators have economies of scale to purchase the advance mining machines. Under the consolidation, the market share of large scale mine operators increase. In order to enhance the coal mining safety, the demand of mining machines is expected to increase in the future.



Number of coal mine casualty and mortality rate in China, 2000-2011



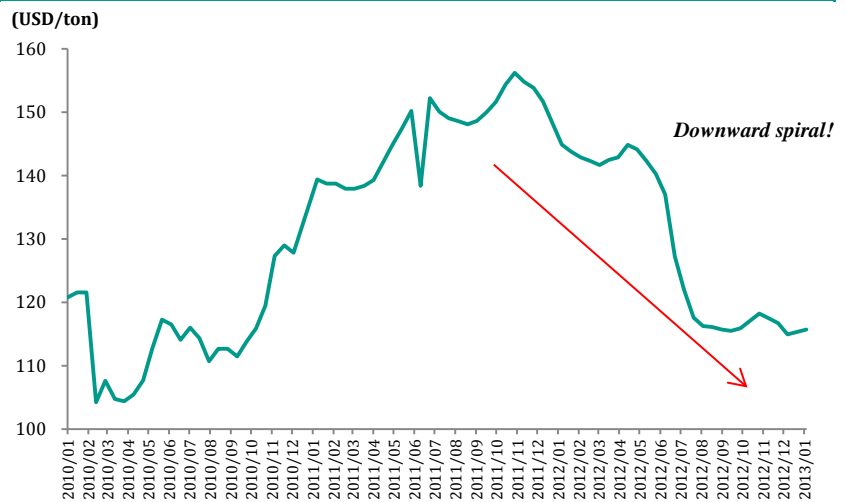
Source: State Administration of Coal Mine Safety, Media, ABCI Securities

Furthermore, the coal mining efficiency is another growth driver of coal mining machinery in China. The current mechanization rate for mining machinery in China is low. According to the 12th 5-Year Plan for coal mining industry, China will consolidate the small coal mines in order to enhance the safety standard and production efficiency. The mechanization rate for coal exploitation aims at 75% by 2015 increased from 65% in 2011.

Mid-term uncertainty

The demand for coal mining machinery is dependent on the growth of capex of the coal mine operators. As the coal price has been decreasing since 2Q2012, and we still cannot see a significant recovery, the capex plan of mine operators is expected to slow down or even decline in 2013. It is the major risk on the coal mining machinery industry.

Coal price: Qinhuangdao 5800kc, 2010-1M2013



China coal price is in downward spiral. It discourages the capex growth of mine operators

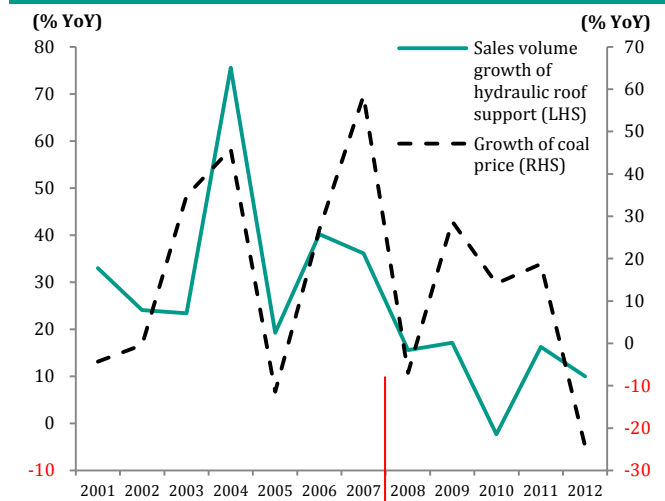
Source: Bloomberg

1) Hydraulic roof support

Hydraulic roof supports control the height of, and provide support to, the mine roof of the working face during the coal mining process to form a moveable underground mining area, allowing the armored-face conveyor and shearer to operate underneath. Hydraulic roof supports generally account for over 50% of the total value of a coal mining and excavating system.

We estimate that the total sales volume of hydraulic roof support in China, as one of the key machineries of mechanization of underground coal mining, will growth at a CAGR of 6.7% from 2012 to 2017. However, under the capex pressure of mine operators, we estimate the growth of sales volume of hydraulic roof support will slow down from est. 10.0% YoY in 2012 to 4.2% YoY in 2013.

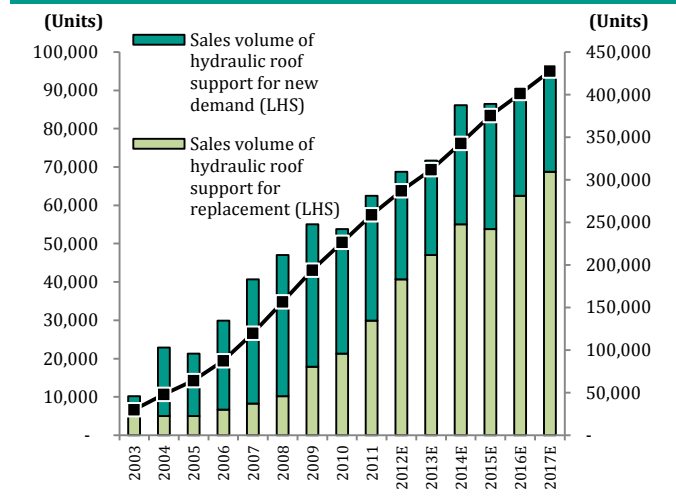
Growth of coal price vs. sales volume of hydraulic roof support, 2011-2012



Source: NBS, CCMA, ABCI Securities

Strong relationship of coal price and hydraulic roof support

Growth projection of sales volume of hydraulic roof support, 2003-2017E



Source: NBS, CCMA, ABCI Securities estimates

Competitive landscape of hydraulic roof support sub-segment

The largest maker based on sales volume was ZMJ (564 HK/601717 CH) with market share increasing by 3.6ppts from 22.6% in 2011 to est. 26.2% in 2012. The second and third largest players were Pingdingshan Coal Mine Machinery and China Coal (1898 HK).

Pingdingshan Coal Mine Machinery was founded in 1968. It is a SOE owned by Henan provincial government. Pingdingshan Coal Mining Machinery is the appointed factory to manufacture hydraulic support and emulsion pump station. It used to be subordinate to National Colliery Mechanical Equipment Group Company of former Coal Industry Ministry and now to Coal Industry Bureau of Henan Province. The total assets value of the company was estimated at Rmb3.5bn.

China Coal sells the coal mining machineries via China Coal Beijing coal mining machinery co ltd, a wholly owned subsidiary of China Coal. The company was founded in 1958. It has 3,500 employees with total assets estimated at Rmb3.0bn. It is the largest manufacturer of hydraulic support exports.

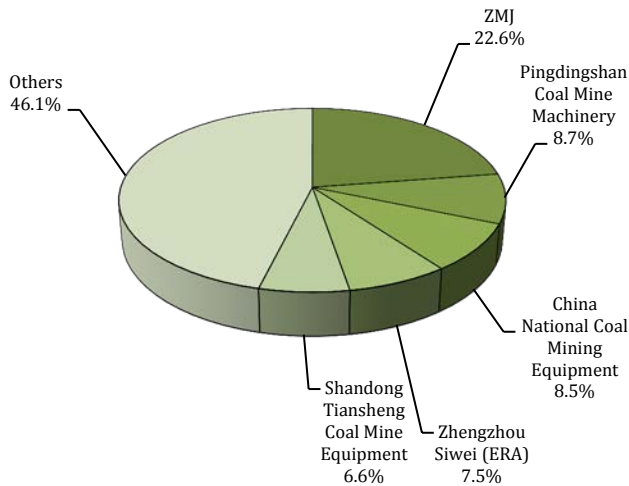


ERA Mining Machinery is one of the leading hydraulic roof support manufacturers via its wholly owned subsidiary Zhengzhou Siwei Mechanical & Electrical Manufacturing Co., Ltd. ("Siwei"). The market share of ERA is estimated at 6.1% in 2012, which is the fourth largest player of the hydraulic roof support market based on sales volume. The company had been taken over by Caterpillar (CAT US), the largest construction machinery maker in the world in 2012.

However, Caterpillar announced in January 2013, that an internal investigation of ERA, including its wholly owned subsidiary, Siwei, has uncovered deliberate, multi-year, coordinated accounting misconduct concealed at Siwei, located in Zhengzhou. Caterpillar's investigation determined several Siwei senior managers engaged in deliberate misconduct beginning several years prior to Caterpillar's acquisition of Siwei. This deliberate misconduct at Siwei will result in a non-cash goodwill impairment charge of approximately USD580mn.

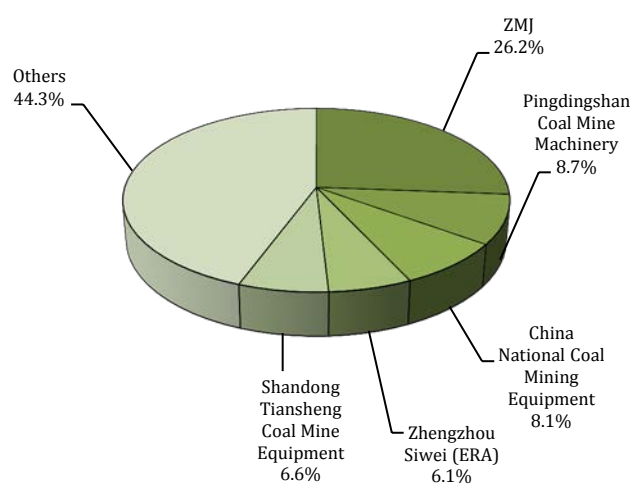
With the increasing expansion of international players, such as Caterpillar and Joy Global in China market via M&A, the competition of the coal mining machineries market is expected to be keener in the future. The profit margin of the domestic coal mining machinery makers is expected to narrow down in two ways: 1) the shrink of GPM in the price war; and 2) the increase in R&D investment from the pressure of international players.

Market share of top hydraulic roof support makers in China based on sales volume, 2011



Source: China National Coal Machinery Industry Association

Estimated market share of top hydraulic roof support makers in China based on sales volume, 2012



Source: ABCI Securities estimates

2) Roadheader

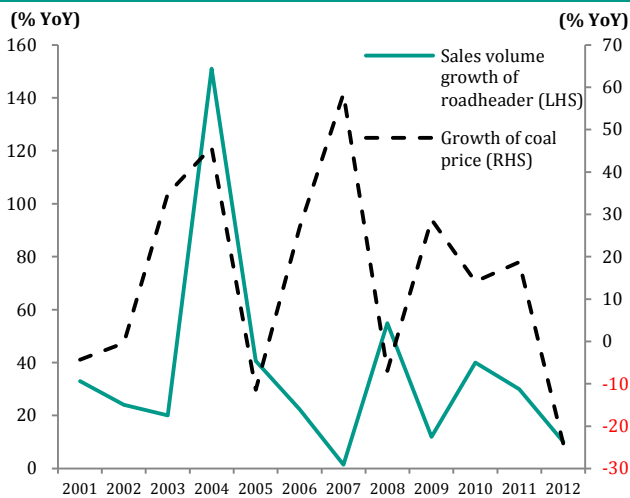
We estimate that the sales revenue of roadheader will grow at CAGR of 10.9% from 2012 to 2017

Roadheader is a kind of machine which can cut, load, convey and transport coal and rock, which can be used in underground coal mine as well as metal mines and construction work carried out in tunnels. It is a piece of excavating equipment consisting of a boom-mounted cutting head, a loading device usually involving a conveyor, and a crawler travelling track to move the entire machine forward into the rock face.

The cutting head can be a general purpose rotating drum mounted in line or perpendicular to the boom, or can be special function heads such as jack-hammer like spikes, compression fracture micro-wheel heads like those on larger tunnel boring machines, a slicer head like a gigantic chain saw for dicing up rock, or simple jaw-like buckets of traditional excavators.

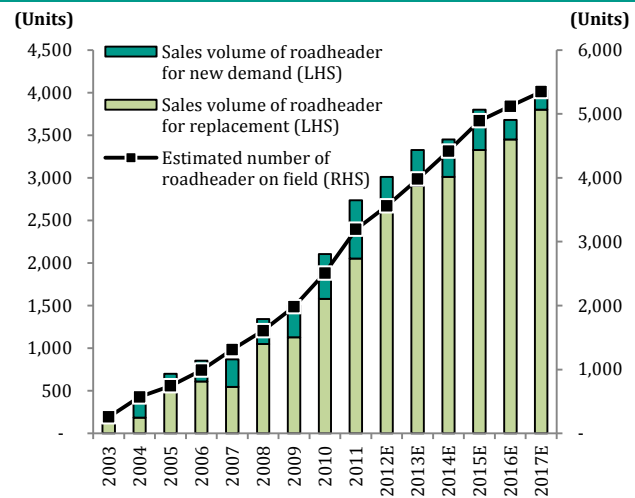
As the declining coal price discourages the purchases from coal mine operators, the growth on total sales volume is expected to slow down from est. 9.4% YoY in 2012 to est. 10.5% YoY in 2013. We estimate that the total sales volume of roadheader in China will grow at a CAGR of 6.0% from 2012 to 2017.

Growth of coal price vs. sales volume of roadheader, 2001-2012



Source: NBS, CCMA, ABCI Securities

Growth projection of sales volume of roadheader, 2003-2017E



Source: NBS, CCMA, ABCI Securities estimates

Competitive landscape of roadheader sub-segment

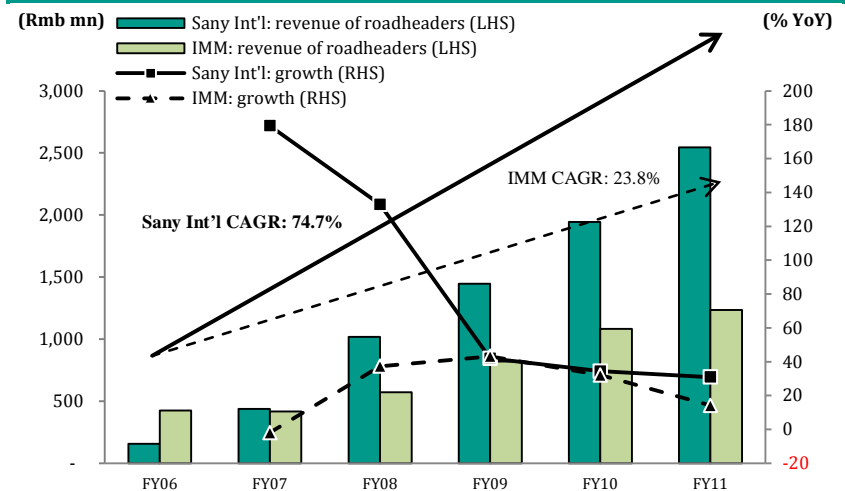
According to the China National Coal Mining Machinery Industry Association, Sany Int'l is the largest roadheader manufacturer in China based on the sales revenue in 2011. We estimate that it had a market share of 32.2% based on its sales volume in 2011.

The second largest player was IMM, which sells its products in China using the brands of "Jixi", "Jiamusi", "Huainan Longwall" and "Qingdao Tianxun". IMM was acquired by Joy Global and delisted from Hong Kong Stock Exchange in 2011.



With the input of R&D and promotion & sales channel expansion, the technological advancement and comprehensive sales network of Sany Int'l let it capture the market share from its peers'. The sales revenue of roadheader of Sany Int'l grew at a CAGR of 74.7% from FY06 to FY11, which was higher than that of IMM at 23.8% during the same period.

Sales revenue of roadheader growth of Sany Int'l and IMM, FY2006-FY2011

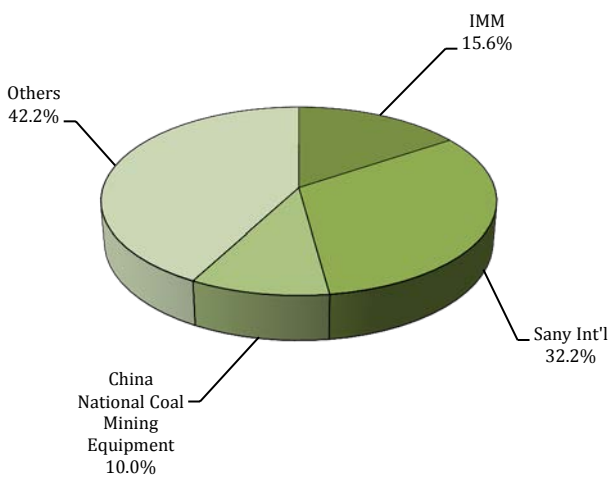


The growth of Sany Int'l in roadheader industry is outpacing that of IMM, the second largest roadheader maker in China

Source: Companies, ABCI Securities

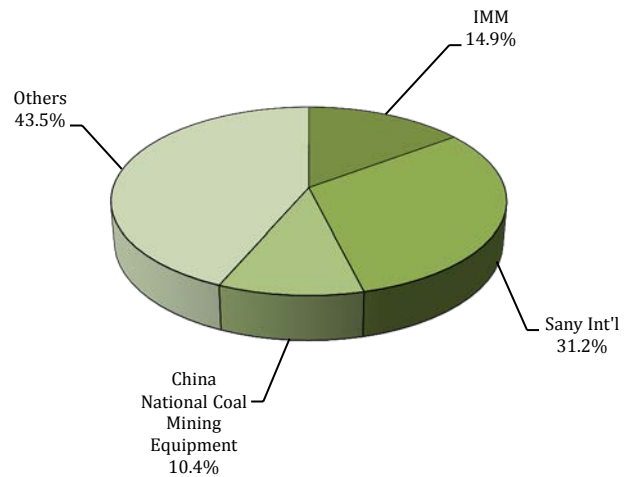
However, with the acquisition of IMM by Joy Global completed in 2012, the pressure from international players will lead the profit margin to shrink and to create barricade on the earnings growth for domestic players.

Market share of top roadheader makers in China based on sales volume, 2011



Source: China National Coal Machinery Industry Association

Estimated market share of top roadheader makers in China based on sales volume, 2012



Source: ABCI Securities estimates



Agricultural Tractor Manufacturing Industry

We estimate the sales volume growth of mid-to-hi powered tractor will growth at a CAGR of 34.5% from 2012-2017

Agricultural tractor is an engineering vehicle specifically designed to deliver a high tractive effort (or torque) at slow speeds, for the purposes of hauling a trailer or machinery used in agriculture. Most commonly, the term is used to describe a farm vehicle that provides the power and traction to mechanize agricultural tasks, especially (and originally) tillage. Agricultural implements may be towed behind or mounted on the tractor, and the tractor may also provide a source of power if the implement is mechanized.

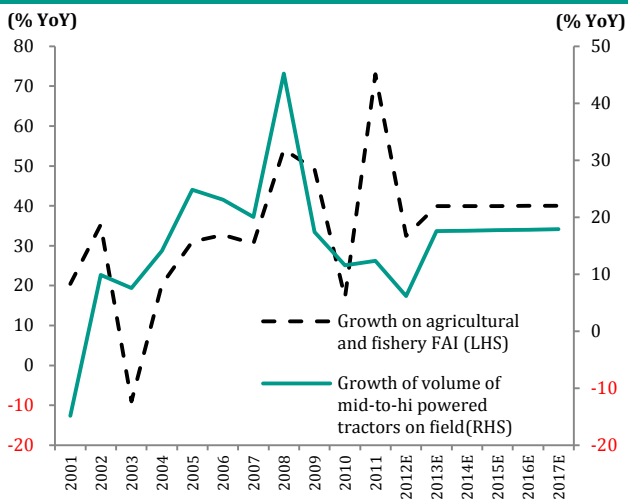
According to National Bureau of Statistics of China ("NBS"), the total production volume of mid-to-hi-powered tractors in China grew by CAGR of 32.5% from 48,699 units in 2003 to 462,705 units in 2011. The production volume of mini-to-low-powered tractors in China grew by CAGR of 1.9% from 2.04mn units in 2003 to 2.37mn units in 2011.

The growth of mini-to-low powered tractors was far less than the mid-to-hi-powered tractors', because of the subsidy program for hi-powered tractor from China's government. The growth of mid-to-hi powered tractors market accelerates with the amount of subsidies.

According to our channel check, total government subsidies on agricultural machinery in 2012 will be Rmb21.5bn up 22.9% YoY, which is more than our previous estimation at Rmb20.0bn. Under the favorable policies toward agricultural mechanization and urbanization, we estimate that the amount of subsidies on agricultural machinery will increase by 20.9% to Rmb26.0bn in 2013. The growth on demand for hi-power tractors is supported.

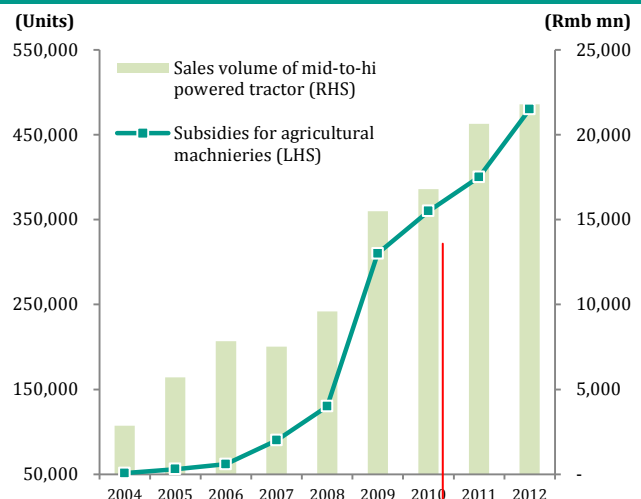
We estimate the sales volume growth of mid-to-hi powered tractor will growth at a CAGR of 34.5% from 2012-2017.

Growth of agricultural and fishery FAI vs. volume of mid-to-hi powered tractor on field, 2001-2017E



Source: NBS, ABCI Securities estimates

Production volume of mid-to-hi powered tractor and subsidies for agricultural machineries, 2004-2012



Source: NBS, CCMA, ABCI Securities estimates

The growth of mid-to-hi powered tractor industry is related to the amount of government's subsidies

Competitive landscape of agricultural tractor segment

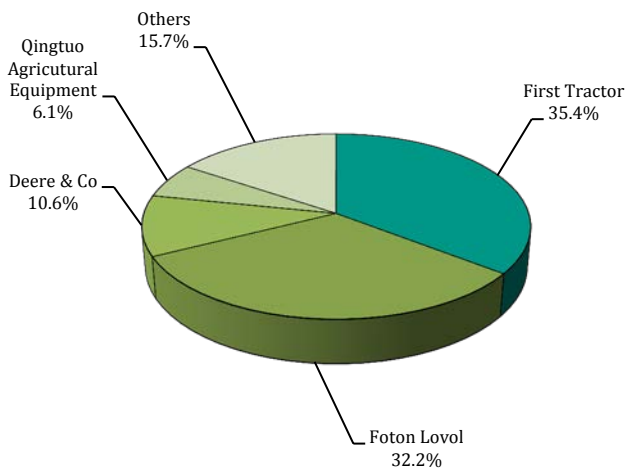
According to the Tractors Industry Statistics Association (机械工业拖拉机行业统计学会), First Tractor is the largest hi-powered agricultural tractors manufacturer in China based on the sales volume in 2011.

First Tractor, the largest hi-powered tractor makers in China

With the input of R&D and promotion & sales channel expansion, the technological advancement and comprehensive sales network of First Tractor let it capture the market share from its peers'. The market share of hi-powered tractors of First Tractor grew from 29.4% in 2004 to 35.4% in 2011. We estimate that the market share of First Tractor in China will increase to 37.1% in 2012.

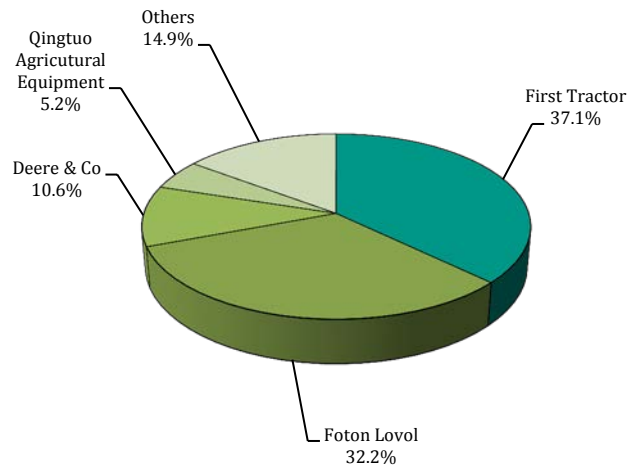
It is also one of the leading players of mid-powered and low-powered tractors. It is the third largest player in both of the mid-powered and low-powered tractors market based on the sales volume in 2011, occupied 15.0% and 11.9% of market share, respectively.

Market share of top hi-powered tractors makers in China based on sales volume, 2011



Source: Tractors Industry Statistics Association

Estimated market share of top hi-powered tractors makers in China based on sales volume, 2012



Source: ABCI Securities estimates

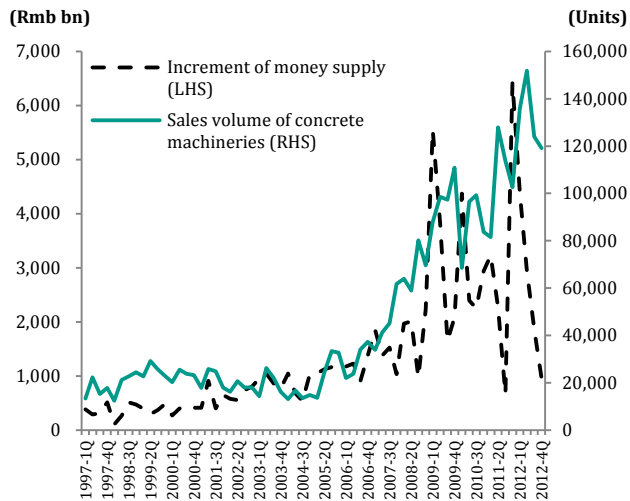
Money supply affect machineries sales

Money supply directly affect the sales of machineries in short run

The short-term relationship between the sales of machineries and the money supply is stronger

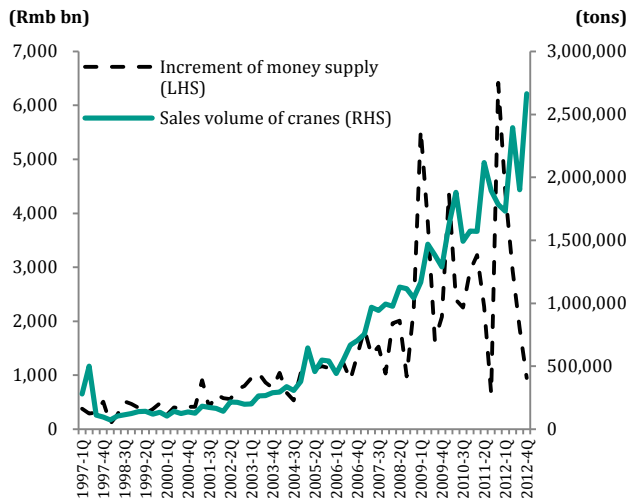
The money supply in China directly affects the sales of machineries in short period of time. It is because the major customers of machineries manufacturers are lessors of machineries which rent the construction machineries to the constructors, who are the end-users. The larger the money supply, the greater the motivation of purchasing the machineries is, and hence and a stronger sale of machinery manufacturers is induced. According to our statistical analysis, the short-term relationship between the sales of machineries and the money supply is stronger than that between the sales of machineries and fixed asset investment (“FAI”).

The increment of money supply in China vs. the sales volume of concrete machineries, 1997-2012



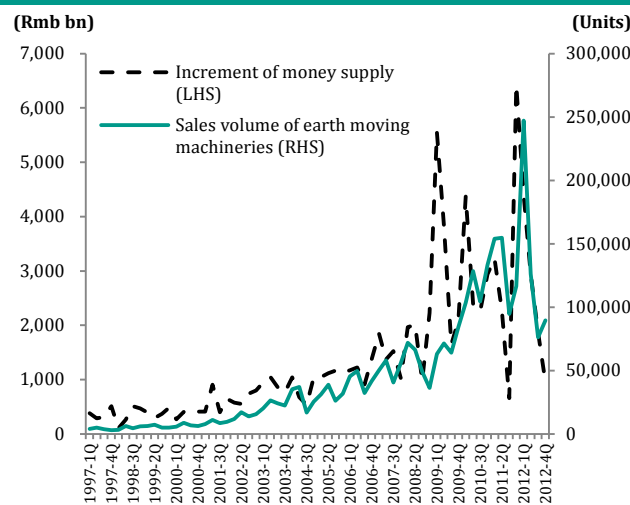
Source: NBS, CCMA, ABCI Securities

The increment of money supply in China vs. the sales volume of cranes, 1997-2012



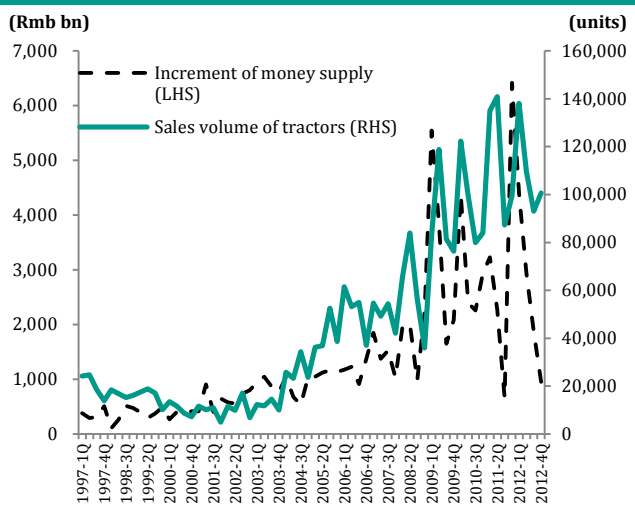
Source: NBS, CCMA, ABCI Securities

The increment of money supply in China vs. the sales volume of earth moving machineries, 1997-2012



Source: NBS, CCMA, ABCI Securities

The increment of money supply in China vs. the production volume of tractors, 1997-2012



Source: NBS, ABCI Securities



Short-term impact of money supply and FAI to the sales of machineries

	Correlation (Adj. R ²) between the sales of machineries and the following factors (%)			Statistical error of the of the relationship between the sales of the machineries and the following factors		
	FAI	M2 Supply	SHIBOR	FAI	M2 Supply	SHIBOR
Concrete Machineries	(2.88)	9.35	46.08	0.5014	0.3618	0.0781
Cranes	(13.74)	29.38	55.17	0.6344	0.1781	0.0434
Excavator	7.46	41.65	60.29	0.3822	0.0998	0.0293
Wheel loader	35.26	37.81	84.81	0.1373	0.1215	0.0012
Bulldozer	37.15	62.29	66.98	0.1254	0.0248	0.0160
Road roller	17.20	81.52	87.17	0.2821	0.0023	0.0007

Source: ABCI Securities

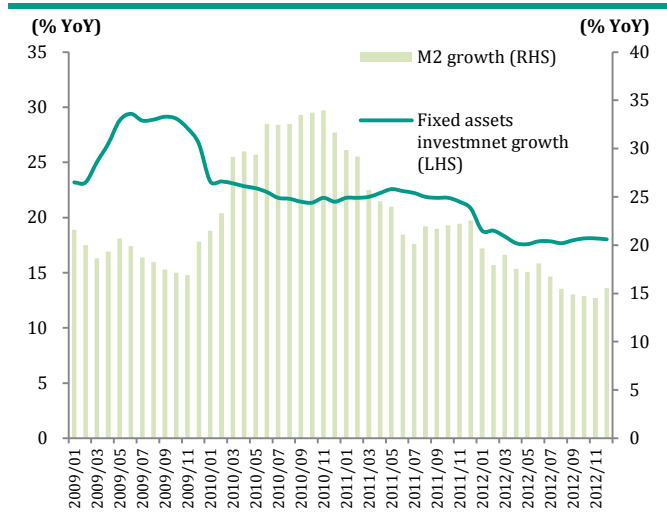
Abundant liquidity in 2012, but won't be another 2009

The growth of money supply is expected to stimulate the purchases of machineries

The M2 growth in 2012 was 14.5%. According to our economist, the economic growth of China has stabilized. The stabilization of economic conditions has made aggressive policy easing less necessary. Therefore we believe the sharp boost on the machineries industries by the Rmb4,000bn injection in 2009/10 will less likely appear in 2013.

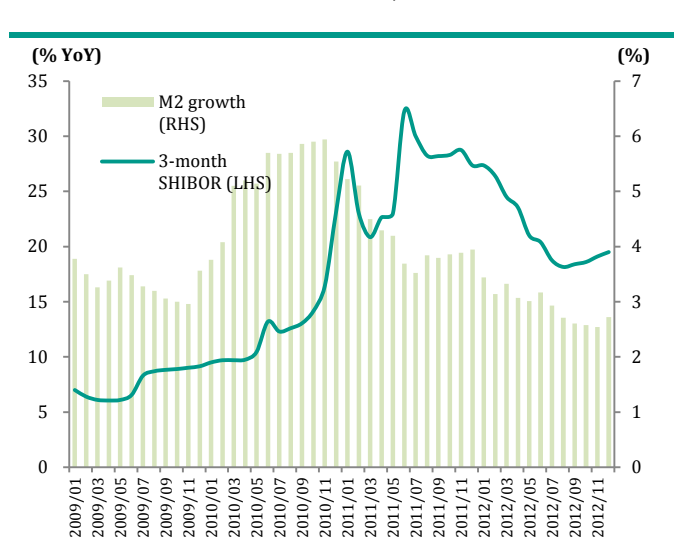
Nevertheless, the direction of prudent policy loosening remains unchanged. Our economist believes that the PBOC will maintain abundant liquidity through reverse repos and interest rate liberalization in 2013. The estimation on M2 growth in 2013 is 15% YoY. The growth of money supply is expected to stimulate the purchases of machineries. It creates the support to the recovery momentum on the construction and farm machineries industries.

China's FAI vs. growth of money supply in China, 2009-2012



Source: Bloomberg

China's FAI vs. 3-month SHIBOR, 2009-2012



Source: Bloomberg

Economic forecast from our economist

(%)	2011	2012	1Q13F	2013F
Real GDP	9.2	7.8	7.9	8.1
FAI (YTD)	23.8	20.6	22.0	22.5
M2	13.6	13.8	14.5	15.0

Source: ABCI Securities estimates



Summary on Financial Comparison

We compare the growth of earnings, profit margins and earnings quality of the domestic machinery makers, as well as the corresponding international leading players for reference.

1) Construction machinery makers

The CAGR of top and bottom line of Zoomlion from FY2005 to FY2011 were 55.7% and 72.1%, respectively.

The CAGR of top and bottom line of Sany Heavy from FY2005 to FY2011 were 64.9% and 84.9%, respectively.

For 2012, the revenue of contracted projects overseas increased by 12.7% YoY to USD116.6bn, according to the Ministry of Commerce ("MOC"); whereas the value of new orders grew by 10.0% YoY to USD156.53bn.

Zoomlion and Sany Heavy, the two domestic leading construction machinery makers, thanks for the strong growth of concrete machineries market, their revenue rocketed from FY2005 to FY2011. Looking forward, we expect the growth of concrete pump market will slow down in 2013 to 2017 after the fast expansion status. We foresee that they will seek new growth drivers to offset the slowdown of concrete machineries segment. Zoomlion will shift focus to tower crane and earth moving machineries segments, while Sany Heavy will further push its excavator and truck crane segments. With the economies of scales, good reputation of Zoomlion and Sany Heavy across China with comprehensive sales and service network, we believe the development of new growth drivers is likely to be successful.

Besides, the leading players will ambitiously expand the overseas markets in developing countries, such as Middle East and Africa. The China's "Going out" policy encourages domestic construction contractors to seek business or investment opportunities overseas. By leveraging on the growth of China's construction contractors in overseas market, the expansion of Zoomlion and Sany Heavy in overseas markets will be smoothed. Both Zoomlion and Sany Heavy target to increase the revenue from sales to overseas markets to 30% as percentage of total revenue of the groups by FY2015, up from below est. 5% in FY2012. Against this backdrop, we believe the growth of Zoomlion and Sany Heavy to outpace the market in mid-to-long run.

The earnings quality of Zoomlion is our major concern. Its relatively poor earnings quality suggests its current business models are not sustainable, and it needs to re-engineer its business practice to generate sufficient internal cash flow to meet business expansion.

Lonking puts more importance on earnings quality and cash collectability. We predict Lonking to cut down account receivables and inventory aggressively in 2012 to release financial resources tied up in working capital. It will lower the assets risk of Lonking.

High growth benefited from concrete machineries

Financial comparison summary table for construction machinery makers

	Zoomlion	Sany Heavy	XCMG	Liugong	Lonking
Earnings growth					
FY2005-11 CAGR of revenue (%)	55.69	64.88	48.38	27.94	29.65
FY2005-11 CAGR of net income (%)	72.06	84.92	31.21	36.07	39.38
1-3QFY2012 revenue (% YoY)	17.77	-1.46	-1.70	-30.33	-43.75 ¹
1-3QFY2012 net income (% YoY)	16.74	-23.43	-30.48	-73.00	-76.08 ¹
Profitability					
Average GPM during FY2005-11 (%)	28.12	35.17	15.05	18.59	23.59
Average net margin during FY2005-11 (%)	13.01	13.33	5.20	7.00	12.59
1-3QFY2012 GPM (%)	34.43	33.41	21.13	16.17	20.70 ¹
1-3QFY2012 net margin (%)	17.80	14.43	7.93	3.34	5.84 ¹
Earnings quality					
Average OCF/Net income during FY2005-3QFY2012 (%)	2.57	61.01	-23.51	24.80	38.90
Average trade and bill receivables turnover (days)	83.20	65.05	62.82	42.82	56.22
1-3QFY2012 OCF/Net income (%)	2.57	14.09	-187.60	343.94	132.61 ¹

1: The financial data of Lonking was as at 1HFY2012;
Source: Companies

Truck mounted concrete pump bring a higher profit margin to the Groups

Weak earnings quality needs to re-engineer its business practice

Private enterprises places more emphasis on cash collectability

2) Coal mining machinery makers

FY2013 is a harsh year for coal mining machinery makers

Sany Int'l and ZMJ, as the leading coal mining machinery makers in China, efficiently capture the growth of downstream coal mining industries and experienced a strong growth from FY2007 to FY2011. However, the weakening coal price delays the purchases from mining operators, which will lead a decline on sales of coal mining machineries in mid-to-short run. The sales of Sany Int'l and ZMJ are expected to be tumbled in 1HFY2013. Looking forward, in long run, the leading coal mining machinery makers will benefit from the market consolidation of downstream coal mining industries.

Sany Int'l leverages on the R&D capabilities of Sany Group to develop supplementary coal mining equipment for the sake of increasing the sources of income

However, the juicy China market attracts the international giant players, such as Caterpillar and Joy Global to expand. Their ambitious expansion in China will change the competitive landscape and subsequently intensify competition in the China market. We expect the profit margin improvement will be challenged for Sany Int'l and ZMJ.

3) Agricultural machinery makers

First Tractor is benefited from favorable policies.

Benefited from the mechanization of agricultural industries, First Tractor experienced a high growth from FY2005 to FY2011. Looking forward, China's government will continue to put more subsidies on the agricultural machineries such that the efficiency of plantation in China can be enhanced for the sake of offsetting the negative effects from the rural workforce diminishing under urbanization.

Sales rally expected in FY2013 and 14

The GPM of First Tractor is relatively lower than the international players', but it is improving. We believe it will focus on R&D of diesel engine, the key component of tractors, for the coming years. There is room for First Tractor to further enhance its GPM. Furthermore, it carried out a series of upstream vertical integration via M&As. The cost structure optimization will take full year effect, and hence, boost up GPM in FY2013 and FY2014.

Financial comparison summary table for coal mining makers and agricultural machinery maker

	ZMJ ¹	Sany Int'l ¹	Tian Di ¹	First Tractor	China Yuchai Int'l
Earnings growth					
FY2005-11 CAGR of revenue (%)	36.07	69.17	38.14	15.52	17.63
FY2005-11 CAGR of net income (%)	55.62	64.38	21.81	41.33 ²	51.20
1-3QFY2012 revenue (% YoY)	19.98	31.61 ³	27.92	-4.53	-10.89
1-3QFY2012 net income (% YoY)	31.12	16.35 ³	29.27	2.84	-20.73
Profitability					
Average GPM during FY2005-11 (%)	23.87	46.90	31.17	11.77	20.89
Average net margin during FY2005-11 (%)	12.58	19.49	10.48	2.18	4.14
1-3QFY2012 GPM (%)	24.72	40.59 ³	30.09	13.92	20.37
1-3QFY2012 net margin (%)	16.49	20.64 ³	8.14	3.58	3.40
Earnings quality					
Average OCF/Net income during FY2005-3QFY2012 (%)	61.17	9.05	77.08	102.71	132.23
Average trade and bill receivables turnover (days)	94.32	152.66	118.30	47.36	94.62
1-3QFY2012 OCF/Net income (%)	21.58	-30.37 ³	-30.99	-152.76	N/A

1: The historical CAGRs of ZMJ, Sany Int'l and Tian Di were from FY2007-11;

2: The CAGR of net income of First Tractor was from FY2008-11;

3: The financial data of Sany Int'l was as at 1HFY2012;

Source: Companies

High profit margin due to its technological advancement on roadheader

Weak cash flow due to the input of working capital under fast expansion

Strong cash flow

Strong growth under the favorable policy on agricultural machineries development

Earnings Growth Comparison

1) Construction machinery makers

The domestic players, thanks for the fast growing construction, enjoy a higher growth compared with the international players.

Zoomlion and Sany Heavy are the winners with highest growth of net income from FY2005 to FY2011

The earnings growth of domestic players is higher than that of the international players thanks for the fast growing juicy China market. The top line and bottom line of domestic construction machinery makers grew at CAGR of 45.3% and 52.7% respectively from FY2005 to FY2011, while that of the international players were 4.9% and 3.3% respectively.

Within the group of domestic players, Zoomlion and Sany Heavy, the two largest construction machinery makers, were the greatest jumpers. The net income of Zoomlion and Sany Heavy escalated at CAGR of 72.1% and 84.9%, respectively, from FY2005 to FY2011. They are outperforming the peers thanks for focusing on concrete machineries manufacturing businesses.

Growth on earnings of construction machinery makers

		FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	CAGR (%)
Domestic players									
ZOOMLION 1157 HK	Revenue (Rmb mn)	3,253	4,638	8,973	13,548	20,762	32,193	46,323	55.69
	Gross profit (Rmb mn)	848	1,223	2,568	3,706	5,340	9,769	15,007	61.43
	Net income (Rmb mn)	310	482	1,439	1,544	2,447	4,666	8,055	72.06
SANY HEAVY 600031 CH	Revenue (Rmb mn)	2,527	5,190	9,138	14,244	18,976	33,955	50,776	64.88
	Gross profit (Rmb mn)	878	1,790	3,153	4,779	6,744	12,513	18,524	66.22
	Net income (Rmb mn)	216	592	1,606	1,319	2,473	5,587	8,649	84.92
XCMG 000425 CH	Revenue (Rmb mn)	3,078	2,783	3,256	15,840	20,618	25,662	32,850	48.38
	Gross profit (Rmb mn)	261	290	239	2,920	3,909	5,453	6,708	71.74
	Net income (Rmb mn)	(129)	6	25	1,496	1,741	2,935	3,379	31.21 ¹
GUANGXI LIUGONG 000528 CH	Revenue (Rmb mn)	4,058	5,440	7,613	9,246	10,134	15,304	17,798	27.94
	Gross profit (Rmb mn)	655	948	1,470	1,461	2,089	3,379	3,330	31.12
	Net income (Rmb mn)	208	361	573	340	866	1,544	1,321	36.07
LONKING 3339 HK	Revenue (Rmb mn)	2,678	3,718	5,309	6,145	6,901	12,020	12,720	29.65
	Gross profit (Rmb mn)	553	957	1,192	1,175	1,618	3,427	3,213	34.10
	Net income (Rmb mn)	236	624	630	666	800	1,766	1,730	39.38
Average Growth	Revenue (% YoY)		39.59	57.51	72.13	31.12	53.94	34.69	45.31
	Gross profit (% YoY)		62.98	65.55	62.85	40.30	75.34	35.44	52.92
	Net income (% YoY)		145.33	106.89	25.55	55.24	98.12	40.23	52.73
International players									
CATERPILLAR CAT US	Revenue (USD mn)	36,339	41,517	44,958	51,324	32,396	42,588	60,138	8.76
	Gross profit (USD mn)	9,013	10,945	11,200	11,756	7,465	11,307	15,734	9.73
	Net income (USD mn)	2,854	3,537	3,541	3,557	895	2,700	4,928	9.53
TEREX CORP TEX US	Revenue (USD mn)	6,157	7,648	9,138	8,387	3,858	4,418	6,505	0.92
	Gross profit (USD mn)	947	1,443	1,882	1,571	297	603	960	0.23
	Net income (USD mn)	189	400	614	72	(398)	359	45	-21.18
KOMATSU 6301 JP	Revenue (USD mn) ²	13,361	14,259	16,197	19,694	20,201	15,438	21,567	8.31
	Gross profit (USD mn) ²	3,426	3,776	4,593	5,725	5,109	3,559	5,847	9.32
	Net income (USD mn) ²	550	1,011	1,408	1,833	787	362	1,764	21.46
TADANO 6395 JP	Revenue (USD mn) ²	951	1,069	1,234	1,528	1,627	1,131	1,056	1.76
	Gross profit (USD mn) ²	230	251	300	378	355	228	184	-3.61
	Net income (USD mn) ²	36	50	66	102	55	(10)	(79)	N/A
Average Growth	Revenue (% YoY)		13.53	10.91	13.15	-28.23	9.46	40.41	4.94
	Gross profit (% YoY)		20.55	9.50	8.10	-31.93	18.68	44.78	3.92
	Net income (% YoY)		37.74	12.64	-1.15	-75.93	154.67	95.22	3.27

1: The CAGR of net income of XCMG is calculated from FY2008 to FY2011;

2: The earnings of Komatsu and Tandano were translated from JPY to USD;

Source: Bloomberg, Companies, ABCI Securities

2) Coal mining machinery makers

The domestic players, thanks for the strong dependence on coal of the economic growth in China, enjoy a higher growth

As the strong dependence on coal of the manufacturing activities, the fixed assets investment on coal mining activities in China was outpacing the developed countries. The earnings growth of domestic players is higher than that of the international players. The top line and bottom line of domestic coal mining machinery makers grew at CAGR of 36.8% and 41.0% respectively from FY2007 to FY2011, while that of the international players were 11.1% and 15.1% respectively.

Within the group of domestic coal mining machinery maker, Tian Di (600582 CH) was the largest player based on revenue in FY2011. It is a China's State Owned Enterprise ("SOE"). However the growth rate on earnings of Tian Di was lower than that of ZMJ, the second largest player based on revenue in FY11, and Sany Int'l, the third largest player based on revenue in FY11.

Sany Int'l and ZMJ are the winners with highest growth of net income from FY2007 to FY2011

ZMJ and Sany Int'l were the greatest jumpers in coal mining machineries manufacturing industry. The net income of ZMJ and Sany Int'l increased at CAGR of 55.6% and 64.4%, respectively during FY2007 to FY2011.

Growth on earnings of coal mining machinery makers

		FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	CAGR (%) ¹
Domestic players									
ZMJ 564 HK	Revenue (Rmb mn)			2,351	3,722	4,994	6,358	8,060	36.07
	Gross profit (Rmb mn)			577	739	1,249	1,635	1,952	35.62
	Net income (Rmb mn)			204	481	630	883	1,194	55.62
SANY INT'L 631 HK	Revenue (Rmb mn)		160	462	1,147	1,901	2,684	3,780	69.17
	Gross profit (Rmb mn)		82	228	534	905	1,238	1,526	60.79
	Net income (Rmb mn)		10	106	189	490	671	774	64.38
TIAN DI 600582 CH	Revenue (Rmb mn)	908	2,275	3,258	4,924	6,524	7,867	11,863	38.14
	Gross profit (Rmb mn)	215	596	1,009	1,851	2,245	2,703	3,671	38.10
	Net income (Rmb mn)	106	219	414	493	708	853	912	21.81
IMM 1683 HK (Delisted)	Revenue (Rmb mn)			858	1,280	1,520	1,943	2,098	25.06
	Gross profit (Rmb mn)			353	475	575	842	910	26.70
	Net income (Rmb mn)			151	150	229	350	337	22.11
ERA 8043 HK (Delisted)	Revenue (Rmb mn) ²				1,021	1,237	1,500	1,585	15.77 ³
	Gross profit (Rmb mn) ²				137	204	296	243	21.22 ³
	Net income (Rmb mn) ²				66	115	115	(12)	N/A
Average Growth	Revenue (% YoY)		150.49	52.76	59.83	33.75	25.81	34.57	36.84
	Gross profit (% YoY)		177.03	82.45	66.05	38.59	29.66	23.66	36.48
	Net income (% YoY)		106.87	127.22	50.02	57.53	32.13	11.64	40.98
International players									
CATERPILLAR CAT US	Revenue (USD mn)	36,339	41,517	44,958	51,324	32,396	42,588	60,138	7.54
	Gross profit (USD mn)	9,013	10,945	11,200	11,756	7,465	11,307	15,734	8.87
	Net income (USD mn)	2,854	3,537	3,541	3,557	895	2,700	4,928	8.61
JOY GLOBAL JOY US	Revenue (USD mn)	1,927	2,402	2,547	3,419	3,598	3,524	4,404	14.67
	Gross profit (USD mn)	562	755	827	990	1,153	1,174	1,506	16.18
	Net income (USD mn)	148	416	280	374	455	461	610	21.50
Average Growth	Revenue (% YoY)		14.77	8.17	15.24	-34.25	28.11	39.97	11.11
	Gross profit (% YoY)		22.19	2.79	5.98	-32.39	44.82	38.14	12.53
	Net income (% YoY)		31.69	-3.35	2.89	-65.67	134.25	75.16	15.06

1: The CAGR of the companies were calculated as from FY2007 to FY2011;

2: The earnings of ERA was translated from HKD to RMB;

3: The CAGR of ERA was calculated as from FY2008 to FY2011;

Source: Bloomberg, Companies, ABCI Securities

3) Agricultural machinery makers

Thanks for the agriculture development in developing countries, the growth of agricultural machinery makers in China and India are higher than that in developed countries

Thanks for the mechanization of agricultural industries and the subsidies on agricultural machineries under favorable rural development policies in China, the earnings growth of domestic players is higher than that of the international players which put more focus on the developed countries markets, such as Deere & Co and CNH Global. Mahindra & Mahindra and Escorts are two agricultural tractors makers in India, which are benefited from the fast growth of agricultural development in India. The growth on top line of the two companies is comparable with First Tractor, the largest hi-powered tractor maker in China, and China Yuchai Int'l, one of the leading diesel engine developers and manufacturers for agricultural machineries.

With the better cost structure and profit margin enhancement via technological improvement, the top line and bottom line of domestic agricultural machinery makers grew at CAGR of 16.6% and 46.3% respectively from FY2005 to FY2011, while that of the international players were 13.1% and 17.2% respectively.

First Tractor and China Yuchai Int'l had a higher growth on net income from FY2005 to FY2011

First Tractor is the only leading agricultural machinery maker listed in Hong Kong. According to the Tractors Industry Statistics Association (机械工业拖拉机行业统计学会), It is the largest hi-powered agricultural tractors manufacturer in China based on the sales volume in 2011. It captured 35.4% of market share based on the sales volume.

Growth on earnings of coal mining machinery makers

		FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	CAGR (%)
Domestic players									
FIRST TRACTOR 38 HK	Revenue (Rmb mn)	4,766	6,101	7,102	7,933	9,005	10,266	11,328	15.52
	Gross profit (Rmb mn)	358	592	847	824	1,287	1,517	1,559	27.80
	Net income (Rmb mn)	(50)	73	182	69	249	543	411	41.33 ¹
CHINA YUCHAI INT'L CYD US	Revenue (Rmb mn) ²	5,829	6,902	10,203	10,368	13,178	16,291	15,442	17.63
	Gross profit (Rmb mn) ²	1,302	1,356	2,076	1,820	2,546	4,029	3,442	17.58
	Net income (Rmb mn) ²	68	199	561	252	628	1,123	818	51.20
Average Growth	Revenue (% YoY)		22.73	33.09	5.75	21.21	19.72	0.80	16.58
	Gross profit (% YoY)		17.35	50.05	-9.57	45.00	44.69	-9.84	22.69
	Net income (% YoY)		1,408.08	172.94	-56.85	173.58	89.93	-26.20	46.27
International players									
DEERE & CO DE US	Revenue (USD mn)	21,003	21,661	23,714	28,053	22,793	25,548	31,547	7.02
	Gross profit (USD mn)	5,216	5,423	6,444	7,470	5,613	7,479	9,007	9.53
	Net income (USD mn)	1,447	1,694	1,822	2,053	874	1,865	2,800	11.63
CNH GLOBAL NV CNH US	Revenue (USD mn)	12,575	12,998	15,964	18,476	13,760	15,608	19,185	7.29
	Gross profit (USD mn)	2,641	3,065	3,810	4,422	2,898	3,717	4,559	9.53
	Net income (USD mn)	163	292	559	825	(190)	452	939	33.89
MAHINDRA & MAHIN MM IN	Revenue (USD mn) ³	1,695	2,216	3,277	3,620	4,080	5,190	6,941	26.49
	Gross profit (USD mn) ³	491	654	1,003	1,231	1,273	1,774	3,612	39.47
	Net income (USD mn) ³	151	287	380	323	302	554	580	25.10
ESCORTS LTD ESC IN	Revenue (USD mn) ³	394	535	698	545	558	744	763	11.64
	Gross profit (USD mn) ³	67	130	161	119	156	201	179	17.81
	Net income (USD mn) ³	27	(11)	(1)	(8)	6	30	24	-1.96
Average Growth	Revenue (% YoY)		4.89	16.69	16.13	-18.74	14.32	24.09	13.11
	Gross profit (% YoY)		10.18	23.15	15.97	-24.93	32.52	31.77	19.08
	Net income (% YoY)		26.52	21.98	15.72	-68.94	192.54	49.69	17.17

1: The CAGR of net income of First Tractor was calculated from FY2006 to FY2011;

2: The earnings of China Yuchai Int'l was translated from USD to RMB;

3: The earnings of Mahindra & Mahin and Escorts were translated from INR to USD

Source: Bloomberg, Companies, ABCI Securities

Profitability Comparison

1) Construction machinery makers

By leveraging on the competitive manufacturing cost structure in China as compared with developed countries including relatively low labor and operating costs, a large talent pool of qualified engineers, and local tax and other incentives that make China an attractive location for product development and manufacturing, the domestic construction machinery makers has been able to strengthen their competitiveness and profitability. The profit margins of the domestic construction machinery makers are higher than that of the international players.

Zoomlion and Sany Heavy are the winners of highest net margin and gross margin during FY2005 to FY2011

The average gross profit margin (“GPM”) of the domestic players during FY2005 to FY2011 was 24.1%, which was 1.8ppts ahead of the international players at 22.3%. The average net margin of the domestic players during FY2005 to FY2011 was 10.2%, which was 5.8ppts ahead of the international players at 4.4%.

Profit margins of construction machinery makers

		FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	Average	
Domestic players										Winners!
ZOOMLION	Revenue (Rmb mn)	3,253	4,638	8,973	13,548	20,762	32,193	46,323		
1157 HK	Gross profit margin (%)	26.07	26.37	28.62	27.35	25.72	30.34	32.40	28.12	
	Net margin (%)	9.55	10.40	16.04	11.40	11.79	14.49	17.39	13.01	
SANY HEAVY	Revenue (Rmb mn)	2,527	5,190	9,138	14,244	18,976	33,955	50,776		
600031 CH	Gross profit margin (%)	34.75	34.48	34.51	33.55	35.54	36.85	36.48	35.17	
	Net margin (%)	8.56	11.41	17.58	9.26	13.03	16.45	17.03	13.33	
XCMG	Revenue (Rmb mn)	3,078	2,783	3,256	15,840	20,618	25,662	32,850		
000425 CH	Gross profit margin (%)	8.49	10.43	7.34	18.43	18.96	21.25	20.42	15.05	
	Net margin (%)	-4.19	0.20	0.76	9.44	8.45	11.44	10.28	5.20	
GUANGXI LIUGONG	Revenue (Rmb mn)	4,058	5,440	7,613	9,246	10,134	15,304	17,798		
000528 CH	Gross profit margin (%)	16.15	17.43	19.31	15.81	20.61	22.08	18.71	18.59	
	Net margin (%)	5.13	6.64	7.53	3.68	8.54	10.09	7.42	7.00	
LONKING	Revenue (Rmb mn)	2,678	3,718	5,309	6,145	6,901	12,020	12,720		
3339 HK	Gross profit margin (%)	20.63	25.74	22.45	19.12	23.44	28.51	25.26	23.59	
	Net margin (%)	8.81	16.79	11.86	10.83	11.59	14.69	13.60	12.59	
Average profit margin	Gross profit margin (%)	21.22	22.89	22.44	22.85	24.85	27.81	26.65	24.10	
	Net margin (%)	5.57	9.09	10.75	8.92	10.68	13.43	13.15	10.23	
International players										
CATERPILLAR	Revenue (USD mn)	36,339	41,517	44,958	51,324	32,396	42,588	60,138		
CAT US	Gross profit margin (%)	24.80	26.36	24.91	22.91	23.04	26.55	26.16	24.96	
	Net margin (%)	7.85	8.52	7.88	6.93	2.76	6.34	8.19	6.93	
TEREX CORP	Revenue (USD mn)	6,157	7,648	9,138	8,387	3,858	4,418	6,505		
TEX US	Gross profit margin (%)	15.39	18.87	20.60	18.73	7.70	13.65	14.76	15.67	
	Net margin (%)	3.06	5.23	6.72	0.86	-10.33	8.11	-3.06	2.28	
KOMATSU	Revenue (USD mn) ¹	13,361	14,259	16,197	19,694	20,201	15,438	21,567		
6301 JP	Gross profit margin (%)	25.64	26.48	28.35	29.07	25.29	23.05	27.11	26.43	
	Net margin (%)	4.11	7.09	8.70	9.31	3.90	2.34	8.18	6.23	
TADANO	Revenue (USD mn) ¹	951	1,069	1,234	1,528	1,627	1,131	1,056		
6395 JP	Gross profit margin (%)	24.17	23.47	24.27	24.71	21.81	20.12	17.45	22.29	
	Net margin (%)	3.80	4.64	5.33	6.68	3.40	-0.85	-7.45	2.22	
Average profit margin	Gross profit margin (%)	22.50	23.80	24.53	23.85	19.46	20.84	21.37	22.34	
	Net margin (%)	4.71	6.37	7.15	5.94	-0.07	3.99	2.97	4.41	

1: The earnings of Komatsu and Tandano were translated from JPY to USD

Source: Bloomberg, Companies, ABCI Securities

Profit margins improvement of domestic players

The average net margin of the domestic players increased by 7.6ppts from 5.6% in FY2005 to 13.2% in FY2011

Furthermore, with improving the R&D capability and technological advancement, as well as production structure optimization, the profit margin of domestic players was increasing from FY2005 to FY2011, while that of international players is shrinking. The average GPM of the domestic players increased by 5.5ppts from 21.2% in FY2005 to 26.7% in FY2011, while that of the international players dropped by 1.1ppts from 22.5% in FY2005 to 21.4% in FY2011. The average net margin of the domestic players increased by 7.6ppts from 5.6% in FY2005 to 13.2% in FY2011, while that of the international players dropped by 1.7ppts from 4.7% in FY2005 to 3.0% in FY2011.

Technological improvement via M&A of leading domestic players

Zoomlion and Sany Heavy adopt technology advancement via M&As in overseas

Net margin of Zoomlion up 7.8ppts, and Sany Heavy up 8.4ppts from FY2005 to FY2011

By leveraging of economies of scales and relatively strong fund sourcing capability, the leading domestic construction machinery makers, such as Zoomlion and Sany Heavy, carried out a series of M&A and joint venture activities to elevate the profit margin. Net income margin of Zoomlion was up 7.8ppts from 9.6% in FY2005 to 17.4% in FY2011, and that of Sany Heavy was up 8.4ppts from 8.6% in FY2005 to 17.0% in FY2011. The increment of net margin of Zoomlion and Sany Heavy outstood the other domestic peers.

Key M&A and joint venture of Zoomlion and Sany Heavy in recent years

Domestic players	Type of activities	Target international player	Detail of activities	Background of target
Zoomlion	M&A	CIFA	<p>Zoomlion acquired Compagnia Italiana Forme Acciaio S.p.A (“CIFA”) in 2008. CIFA was a concrete machinery manufacturer based in Italy and the acquisition of CIFA. Zoomlion has contributed EUR162.6mn to the total purchase price of EUR271mn of CIFA.</p> <p>The board of Zoomlion approved to acquire the rest of stake of CIFA from minorities with consideration of USD235.8mn (EUR178.7mn) in December 2012. After this transaction, CIFA will be the whole owned subsidiary of Zoomlion.</p>	CIFA is a worldwide leading concrete machinery manufacturer, having 23% and 20% market share in mixers and pumps respectively in Western Europe, and captures 16% of market share in both mixers and pumps in its core market, which includes west Europe, east Europe, Middle East and Africa.
Sany Heavy	M&A	Putzmeister	<p>Sany Heavy acquired Putzmeister Holding GmbH (“Putzmeister”) in 2012. The total cash consideration for the acquisition was EUR360mn, of which Sany Heavy contributed EUR324mn completed the acquisition in April 2012.</p> <p>As a result of the acquisition, Sany Heavy holds a 90% equity interest in Putzmeister.</p>	Putzmeister is a developer and manufacturer of concrete machinery for the construction industry with over 50 years of experience based in Germany. Putzmeister was the third largest manufacturer of concrete machinery in the world and the largest manufacturer of concrete machinery in the global market excluding China based on sales revenue in 2011.
Sany Heavy	Joint Venture	Palfinger	<p>Sany Heavy entered into two joint venture agreements with Palfinger AG (“Palfinger”) in February 2012. Each party will hold a 50% interest in both joint ventures. Sany Heavy contributed Rmb158.2mn for the joint venture agreements.</p> <p>One joint venture will focus on the manufacture and distribution of truck-mounted knuckle boom cranes and telescopic boom cranes in China and the other joint venture will focus on the distribution and after-sales services for truck cranes primarily in Europe and the Commonwealth of Independent States.</p>	Palfinger is the largest manufacturer of truck-mounted knuckle boom cranes in the world based on sales revenue in 2011. Within the truck-mounted knuckle boom crane market, Palfinger is the leading manufacturer in the North American, Brazilian and European markets based on sales revenue in 2011 according to Yengst Associates.

Source: Companies



Product-mix optimization

Besides technological improvement via M&A and joint ventures, the difference in product-mix is the other way to help the leading construction machinery makers to stand out of the peers.

The concrete machineries have a higher gross profit margin (“GPM”) compared with the other types of machineries. As half of the revenue of Zoomlion and Sany Heavy in FY2011 and 1HFY2012 were contributed by concrete machineries, the overall profit margins of Zoomlion and Sany Heavy are higher than that of the peers’

Thanks for the higher in margin of concrete machineries, Zoomlion and Sany Heavy have a better GPM

Truck mounted concrete pump is the key product for Zoomlion and Sany Heavy.

We estimate it to account for over 20% of total revenue for both machinery makers in FY2012.

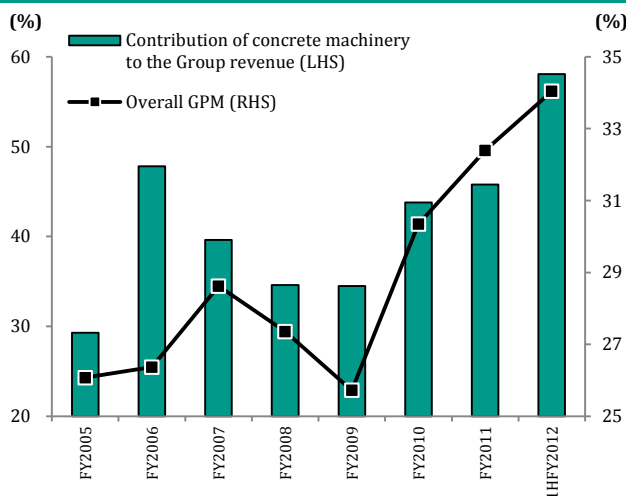
The GPM of truck mounted concrete pump is estimated to be 52% in FY2012

Estimated segment gross profit margin of domestic construction machinery makers, FY2008-1HFY2012

	FY2008	FY2009	FY2010	FY2011	1HFY2012
Concrete machinery					
Zoomlion	27.6	28.5	32.0	35.6	36.2
Sany Heavy	37.4	41.5	41.7	41.8	42.2
XCMG	22.0	23.3	27.1	27.6	26.7
Average	29.0	31.1	33.6	35.0	35.0
Cranes					
Zoomlion	26.3	23.7	27.8	25.8	27.4
Sany Heavy	30.4	27.7	29.5	31.5	30.5
XCMG	23.0	22.1	24.9	24.0	24.5
Average	26.6	24.5	27.4	27.1	27.5
Earth moving machinery					
Zoomlion	N/A	16.2	21.4	20.4	25.3
Sany Heavy	27.0	28.0	30.3	30.0	29.9
XCMG	9.0	11.2	13.4	16.5	15.8
Lonking	19.1	23.4	28.5	25.3	20.7
Average	18.4	19.7	23.4	23.0	22.9

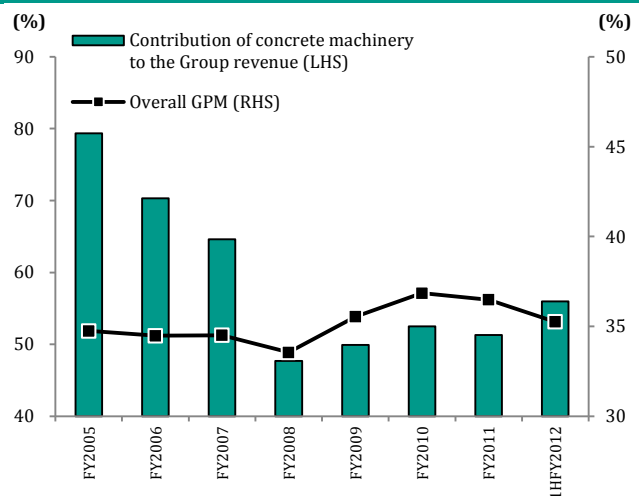
Source: Companies, ABCI Securities estimates

Contribution of concrete machineries segment to Zoomlion’s total revenue vs. Group’s GPM, FY2005-1HFY2012



Source: Company, ABCI Securities estimates

Contribution of concrete machineries segment to total Sany Heavy’s revenue vs. Group’s GPM, FY2005-1HFY2012

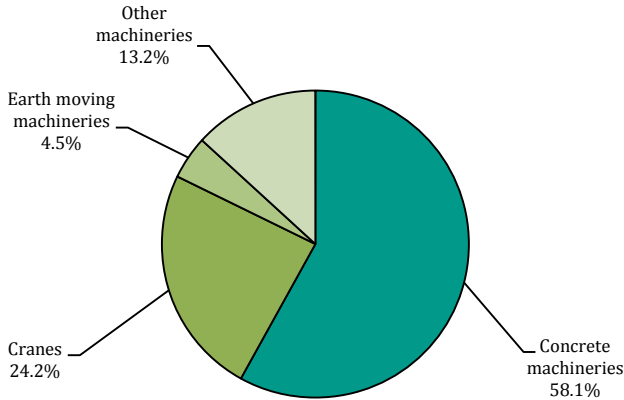


Source: Company, ABCI Securities estimates



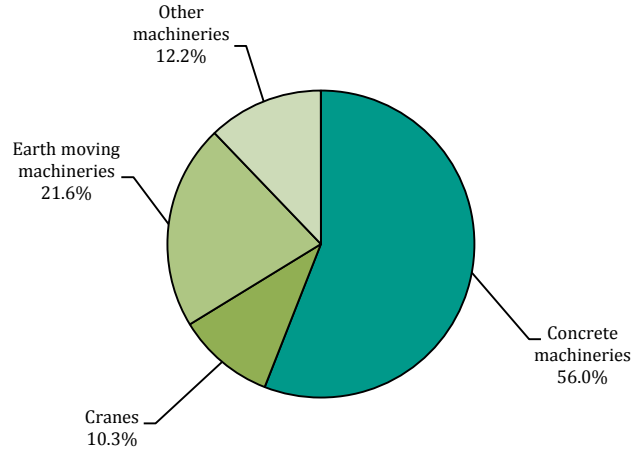
Over 50% of revenue of Zoomlion and Sany Heavy were contributed by sales of concrete machineries in 1HFY2012. Within the concrete machineries segment, we estimate that the sales revenue of truck mounted concrete pump, which GPM is estimated at over 50% for both companies in 1HFY2012, accounted for 50% of segment revenue for both Zoomlion and Sany Heavy.

Revenue breakdown of Zoomlion in 1HFY12



Source: Company

Revenue breakdown of Sany Heavy in 1HFY12

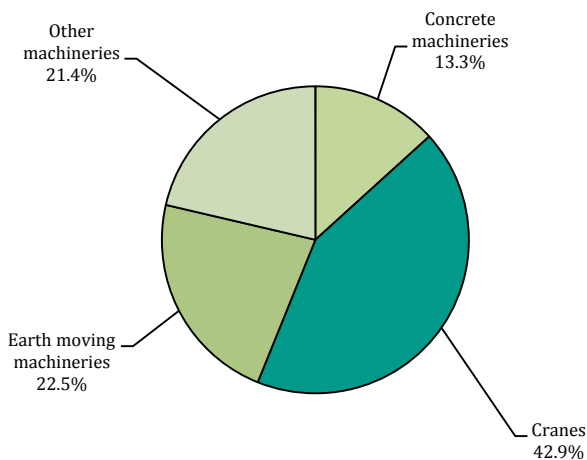


Source: Company

The contribution of concrete machineries of XCMG was lower than that of Zoomlion and Sany Heavy. Besides, the segment GPM of concrete machineries of XCMG was lower than Zoomlion and Sany Heavy because of the technological laid-back. Therefore the GPM of XCMG was lower than that of Zoomlion and XCMG.

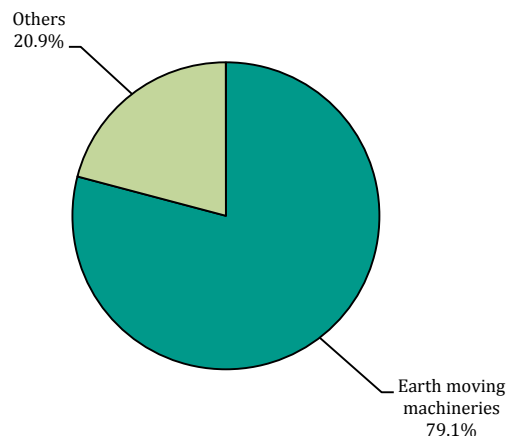
For Lonking, as it is focusing on the wheel loader (type of earth moving machineries), the GPM of Lonking is lower than that of Zoomlion and Sany Heavy.

Revenue breakdown of XCMG in 1HFY12



Source: Company

Revenue breakdown of Lonking in 1HFY12



Source: Company

2) Coal mining machinery makers

The average net margin of the domestic players during FY2005 to FY2011 was 12.8%, which was 3.2ppts ahead of the international players at 9.6%

Sany Int'l is the winners of profit margins

Similar to construction machineries market, the domestic coal mining machinery makers were benefited from the effective cost structure of China comprised with low labor and operating cost, the profit margin of domestic players is higher than that of international players.

The average gross profit margin ("GPM") of the domestic players during FY2005 to FY2011 was 31.8%, which was 3.5ppts ahead of the international players at 28.3%. The average net margin of the domestic players during FY2005 to FY2011 was 12.8%, which was 3.2ppts ahead of the international players at 9.6%.

Profit margins of coal mining machinery makers

		FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	Average
Domestic players									
ZMJ 564 HK	Revenue (Rmb mn)			2,351	3,722	4,994	6,358	8,060	
	Gross profit margin (%)			24.54	19.85	25.00	25.71	24.22	23.87
	Net margin (%)			8.66	12.92	12.62	13.88	14.81	12.58
SANY INT'L 631 HK	Revenue (Rmb mn)		160	462	1,147	1,901	2,684	3,780	
	Gross profit margin (%)		51.24	49.46	46.60	47.61	46.15	40.36	46.90
	Net margin (%)		6.22	22.98	16.48	25.79	24.99	20.48	19.49
TIAN DI 600582 CH	Revenue (Rmb mn)	908	2,275	3,258	4,924	6,524	7,867	11,863	
	Gross profit margin (%)	23.70	26.21	30.98	37.59	34.41	34.36	30.94	31.17
	Net margin (%)	11.66	9.63	12.71	10.00	10.85	10.85	7.68	10.48
IMM 1683 HK (Delisted)	Revenue (Rmb mn)			858	1,280	1,520	1,943	2,098	
	Gross profit margin (%)			41.19	37.13	37.85	43.35	43.39	40.58
	Net margin (%)			17.66	11.75	15.05	18.02	16.05	15.71
ERA 8043 HK (Delisted)	Revenue (Rmb mn) ¹				1,021	1,237	1,500	1,585	
	Gross profit margin (%)				13.38	16.51	19.72	15.36	16.24
	Net margin (%)				6.50	9.32	7.64	-0.73	5.68
Average profit margin	Gross profit margin (%)	23.70	38.73	36.54	30.91	32.28	33.86	30.85	31.75
	Net margin (%)	11.66	7.92	15.50	11.53	14.73	15.08	11.66	12.79
International players									
CATERPILLAR CAT US	Revenue (USD mn)	36,339	41,517	44,958	51,324	32,396	42,588	60,138	
	Gross profit margin (%)	24.80	26.36	24.91	22.91	23.04	26.55	26.16	24.96
	Net margin (%)	7.85	8.52	7.88	6.93	2.76	6.34	8.19	6.93
JOY GLOBAL INC JOY US	Revenue (USD mn)	1,927	2,402	2,547	3,419	3,598	3,524	4,404	
	Gross profit margin (%)	29.16	31.44	32.45	28.96	32.04	33.30	34.20	31.65
	Net margin (%)	7.68	17.34	10.98	10.95	12.64	13.09	13.84	12.36
Average profit margin	Gross profit margin (%)	26.98	28.90	28.68	25.93	27.54	29.93	30.18	28.31
	Net margin (%)	7.77	12.93	9.43	8.94	7.70	9.72	11.02	9.64

1: The revenue of ERA was translated from HKD to RMB
Source: Bloomberg, Companies, ABCI Securities

GPM of Sany Int'l in downward spiral

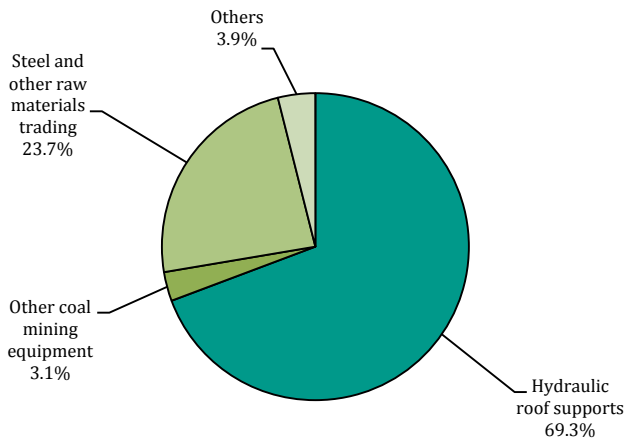
CCMU dragged down the GPM of Sany Int'l

The GPM of Sany Int'l dropped from 51.2% in FY2006 to 40.4% in FY2011. It was mainly due to the change of product-mix. It developed the combined coal mine unit ("CCMU", a combo of hydraulic roof support, armoured face conveyor, and coal face shearer) since FY2009, which dragged down the GPM of Sany Int'l. The contribution of roadheader, which GPM was estimated at 51.5% in FY2011 (vs. est. -5.5% of GPM of CCMU in FY2011), of Sany Int'l dropped from 97.9% in FY2006 to 67.3% in FY2011.

For ZMJ, the largest hydraulic roof support manufacturer in China based on sales volume in 2011, sought product portfolio diversification via developing other types of underground coal mining machineries, such as roadheader in 2009.

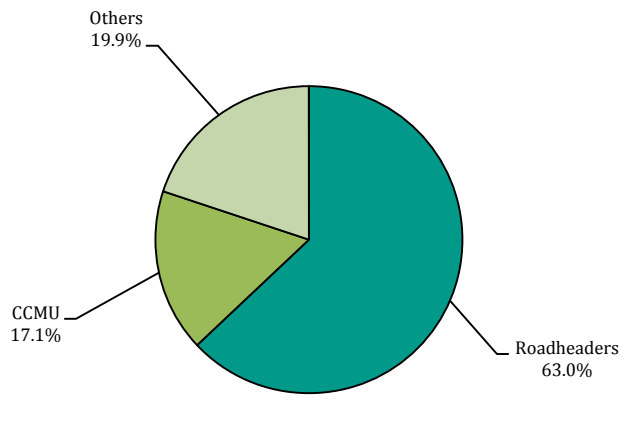
Although both ZMJ and Sany Int'l stay in the same industry (coal mining machineries), they focus on different types of machineries. ZMJ focuses on hydraulic roof support, which contributed 69.3% of total revenue in 1HFY2012, while Sany Int'l focuses on roadheader, which contributed 63.0% of total revenue in 1HFY2012.

Revenue breakdown of ZMJ in 1HFY12



Source: Company

Revenue breakdown of Sany Int'l in 1HFY12



Source: Company

Pressure from international players

The juicy China market not only benefits the domestic makers, but also attracts the international players to share the cake.

*Joy Global acquired IMM
Caterpillar acquired ERA*

IMM, the second largest maker of roadheader based on sales volume in 2011 and sells its products in China using the brands of “Jixi”, “Jiamusi”, “Huainan Longwall” and “Qingdao Tianxun”, was acquired by Joy Global and delisted from Hong Kong Stock Exchange in 2012. ERA, the third largest hydraulic roof support maker and sells its products in China using the brand of “Siwei”, was acquired by Caterpillar and delisted from Hong Kong Stock Exchange in 2012.

As the participation of international players with higher in technological advancement, we believe the market competition of coal mining machineries industry to become keener. The GPM improvement of domestic players is expected to face barricade and a larger expense is expected for R&D in order to maintain the competitive edge.

3) Agricultural machinery makers

The lower in technological advancement of domestic players led a lower in profit margin.

But we see the GPM is increasing since FY2005 reflecting the reward of technological improvement.

The domestic agricultural machinery makers have a lower in technological advancement compared with the international players. Because of the laid-back of agricultural mechanization development and the fragmental of agricultural industries, the agricultural machineries market was dominant by the low-end products.

The average GPM of the domestic players during FY2005 to FY2011 was 16.3%, which was 10.6ppts below the international players at 26.9%. The average net margin of the domestic players during FY2005 to FY2011 was 3.2%, which was 2.1ppts below the international players at 5.3%.

However, with the favorable agriculture development policies, the subsidies on agricultural machineries had a large jump from Rmb4bn in 2008 to Rmb13bn in 2009. The demand for mid-to-hi powered tractor was stimulated and the contribution of hi-powered tractor to total revenue of First Tractor increased from 29.8% in FY2008 to 37.7% in FY2009 (and it went to 42.1% in FY2011), while that of low powered tractor dropped from 10.6% in FY2008 to 8.6% in FY2009 (and it went to 6.0% in FY2011). Therefore the GPM of the First Tractor increased by 3.9ppts from 10.4% in FY2008 to 14.3% in FY2009.

With the subsidy program on hi-powered tractor, we expect the GPM of First Tractor will further increase in FY2013 and FY2014 as the contribution of hi-powered tractor increase as percentage of total revenue.

Profit margins of agricultural machinery makers

		FY2005	FY2006	FY 2007	FY2008	FY2009	FY2010	FY2011	Average
Domestic players									
FIRST TRACTOR 38 HK	Revenue (Rmb mn)	4,766	6,101	7,102	7,933	9,005	10,266	11,328	
	Gross profit margin (%)	7.51	9.71	11.93	10.39	14.29	14.78	13.76	11.77
	Net margin (%)	-1.06	1.19	2.56	0.86	2.76	5.29	3.63	2.18
CHINA YUCHAI INT'L CYD US	Revenue (Rmb mn) ¹	5,829	6,902	10,203	10,368	13,178	16,291	15,442	
	Gross profit margin (%)	22.34	19.64	20.35	17.55	19.32	24.73	22.29	20.89
	Net margin (%)	1.17	2.89	5.50	2.43	4.77	6.89	5.30	4.14
Average profit margin	Gross profit margin (%)	14.92	14.68	16.14	13.97	16.81	19.76	18.03	16.33
	Net margin (%)	0.06	2.04	4.03	1.65	3.76	6.09	4.46	3.16
International players									
DEERE & CO DE US	Revenue (USD mn)	21,003	21,661	23,714	28,053	22,793	25,548	31,547	
	Gross profit margin (%)	24.84	25.03	27.17	26.63	24.63	29.28	28.55	26.59
	Net margin (%)	6.89	7.82	7.68	7.32	3.83	7.30	8.88	7.10
CNH GLOBAL NV CNH US	Revenue (USD mn)	12,575	12,998	15,964	18,476	13,760	15,608	19,185	
	Gross profit margin (%)	21.00	23.58	23.87	23.93	21.06	23.81	23.76	23.00
	Net margin (%)	1.30	2.25	3.50	4.47	-1.38	2.90	4.89	2.56
MAHINDRA & MAHIN MM IN	Revenue (USD mn) ²	1,695	2,216	3,277	3,620	4,080	5,190	6,941	
	Gross profit margin (%)	28.96	29.52	30.61	34.00	31.19	34.19	52.04	34.36
	Net margin (%)	8.92	12.95	11.59	8.92	7.40	10.68	8.35	9.83
ESCORTS LTD ESC IN	Revenue (USD mn) ²	394	535	698	545	558	744	763	
	Gross profit margin (%)	16.98	24.26	23.02	21.82	27.86	27.04	23.45	23.49
	Net margin (%)	6.80	-2.01	-0.20	-1.40	1.10	3.97	3.12	1.63
Average profit margin	Gross profit margin (%)	22.94	25.60	26.17	26.59	26.19	28.58	31.95	26.86
	Net margin (%)	5.98	5.25	5.64	4.82	2.74	6.21	6.31	5.28

1: The revenue of China Yuchai Int'l was translated from USD to RMB;

2: The revenue of Mahindra & Mahin and Escorts were translated from INR to USD;

Source: Bloomberg, Companies, ABCI Securities

Favourable policies toward agriculture development

We believe the favorable policies toward agriculture development will be continued in the next 10 years for the sake of increasing production efficiency to offset the loss of rural workforce under urbanization. Therefore we expect the overall GPM of First Tractor will increase. It is because: 1) the increase in demand for hi-powered tractor under the favorable subsidies policies; and 2) the upstream vertical integration and technological advancement. First Tractor acquired three agricultural machineries parts makers from YTO Group, the parent company of First Tractor.

Vertical integration will help First Tractor to boost up the GPM

Gross profit margin breakdown of the agricultural machinery segment of First Tractor

GPM (%)	FY08E ¹	FY09	FY10	FY11
High power tractor	14.10	17.62	17.91	15.29
Mid power tractor	6.34	7.93	7.52	6.86
Low power tractor	2.60	3.25	3.77	3.73
Crawler tractor	10.89	13.61	13.97	14.03
Other agricultural machinery	4.21	5.26	4.38	5.63
Overall agricultural machinery segment GPM	8.49	11.66	11.66	10.71

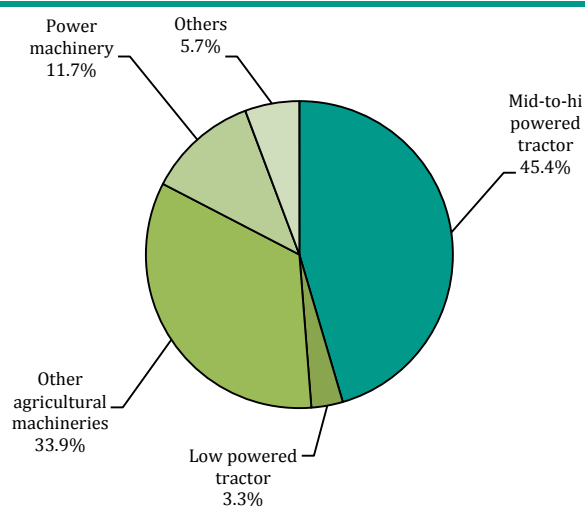
*1: The breakdown of GPM in FY08 was estimated by ABCI Securities
Source: Company, ABCI Securities estimate*

Sales mix of First Tractor within agricultural machineries segment

GPM (%)	FY08	FY09	FY10	FY11
High power tractor	42.4	49.6	51.5	51.0
Mid power tractor	8.3	8.8	11.8	15.9
Low power tractor	15.1	11.3	6.9	7.2
Crawler tractor	9.0	8.9	6.0	4.4
Other agricultural machinery	35.6	29.0	31.9	27.0
Intersegment elimination	-10.4	-7.6	-8.1	-5.6

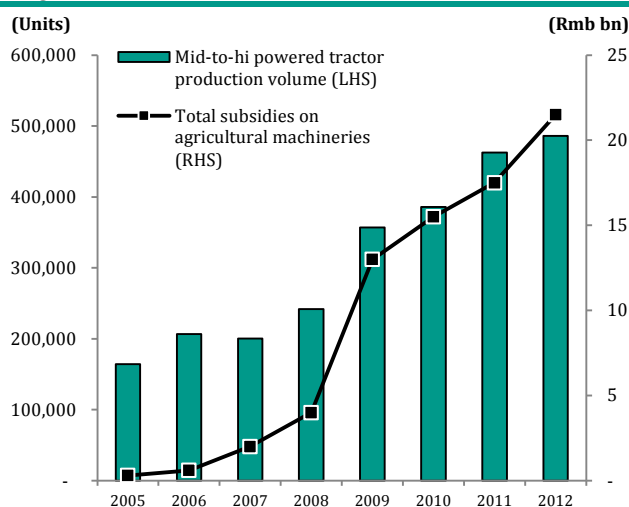
Source: Company

Revenue breakdown of First Tractor in 1HFY12



Source: Company

Sales volume of mid-to-hi powered tractors vs. subsidies on agricultural machineries, 2005-2012



Source: China Agricultural Machinery Industry Yearbook, NBS

Earnings and Assets Quality Comparison

1) Construction machinery makers

Domestic players' cash flow is relatively weaker under the fast expansion

The drawback of fast growing China market is the demanding working capital to support the net cash outflow. The average operating cash flow per net income ratio ("OCF/Net income") was 20.8% among the five leading domestic players during FY2005 to 1-3QFY2012, while that of the international players was 132.4% during the same period of time.

Earnings quality of construction machinery makers

		FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	1-3Q FY2012	Total value
Domestic players										
ZOOMLION	Net income (Rmb mn)	310	482	1,439	1,544	2,447	4,666	8,055	6,960	25,904
1157 HK	Operating cash flow (Rmb mn)	208	394	273	(1,355)	(1,366)	451	1,880	179	665
	OCF/Net income (%)	67.06	81.74	18.97	-87.76	-55.82	9.67	23.34	2.57	2.57
SANY HEAVY	Net income (Rmb mn)	216	592	1,606	1,319	2,473	5,587	8,649	5,874	26,316
600031 CH	Operating cash flow (Rmb mn)	15	406	502	559	4,717	6,749	2,279	828	16,055
	OCF/Net income (%)	6.82	68.55	31.27	42.39	190.75	120.80	26.35	14.09	61.01
XCMG	Net income (Rmb mn)	(129)	6	25	1,496	1,741	2,935	3,379	1,967	11,419
000425 CH	Operating cash flow (Rmb mn)	67	25	228	(75)	2,472	531	(2,241)	(3,691)	(2,685)
	OCF/Net income (%)	-51.68	444.74	922.06	-5.02	141.95	18.11	-66.34	-187.60	-23.51
GUANGXI LIUGONG	Net income (Rmb mn)	208	361	573	340	866	1,544	1,321	331	5,544
000528 CH	Operating cash flow (Rmb mn)	163	285	340	(633)	1,496	667	(2,082)	1,138	1,375
	OCF/Net income (%)	78.27	78.87	59.41	-186.06	172.85	43.21	-157.55	343.94	24.80
LONKING	Net income (Rmb mn)¹	236	624	630	666	800	1,766	1,730	276	6,727
3339 HK	Operating cash flow (Rmb mn)¹	74	310	80	(86)	794	(221)	1,299	366	2,616
	OCF/Net income (%)¹	31.49	49.66	12.72	-12.92	99.25	-12.52	75.11	132.61	38.90
Average earnings quality	OCF/Net income (%)	26.39	144.71	208.89	-49.87	109.80	35.85	-19.82	61.10	20.75
International players										
CATERPILLAR	Net income (USD mn)	2,854	3,537	3,541	3,557	895	2,700	4,928	4,984	26,996
CAT US	Operating cash flow (USD mn)	3,113	5,799	7,935	4,797	6,499	5,009	7,010	3,262	43,424
	OCF/Net income (%)	109.07	163.95	224.09	134.86	726.15	185.52	142.25	65.45	160.85
TEREX CORP	Net income (USD mn)	189	400	614	72	(398)	359	45	139	1,419
TEX US	Operating cash flow (USD mn)	273	492	361	186	(38)	(663)	19	139	770
	OCF/Net income (%)	145.04	123.11	58.87	259.11	9.46	-184.99	42.26	99.78	54.31
KOMATSU	Net income (USD mn)²	550	1,011	1,408	1,833	787	362	1,764	1,491	9,206
6301 JP	Operating cash flow (USD mn)²	1,130	1,204	1,677	1,413	787	1,964	1,677	702	10,554
	OCF/Net income (%)	205.68	119.09	119.04	77.10	99.97	542.81	95.07	47.06	114.64
TADANO	Net income (USD mn)²	36	50	66	102	55	(10)	(79)	15	235
6395 JP	Operating cash flow (USD mn)²	107	50	73	65	(52)	85	76	66	469
	OCF/Net income (%)	296.90	100.61	110.51	63.48	-93.25	-884.14	-96.28	448.26	199.69
Average earnings quality	Gross profit margin (%)	189.17	126.69	128.13	133.64	185.58	-85.20	45.82	165.14	132.37

Private enterprises place more importance on cash collectability

1: The earnings data of Lonking is as of 1HFY12;

2: The earnings of Komatsu and Tandano were translated from JPY to USD;

Source: Bloomberg, Companies, ABCI Securities

Earning quality of domestic players

The OCF/Net income ratio of Sany Heavy was 61.0% from FY2005 to 1-3QFY12, which was higher than that of Zoomlion at 2.6% and that of XCMG at -23.5%. The earning quality of Sany Heavy is better than that of Zoomlion. In fact, the earning quality and the capability on cash collection is the key concern for Zoomlion, as well as the other construction machinery makers. The cash collection power of domestic players is relatively lower than that of international players

Receivable comparison of domestic construction machinery makers as of 1HFY2012

(Rmb mn)	Zoomlion	Sany Heavy	XCMG	Liugong	Lonking
Trade & bill receivable and financial leasing assets	42,348	24,079	18,315	6,898	4,240
Contingent liabilities ¹	11,787	36,219	3,255	4,896	1,449
Total	54,135	60,298	21,570	11,794	5,689
Total assets	87,593	70,874	40,928	24,963	15,537
Total equity	39,285	23,732	16,242	9,332	6,369
To total assets ratio (%)					
Trade & bill receivable and financial leasing assets	48.35	33.97	44.75	27.63	27.29
Contingent liabilities	13.46	51.10	7.95	19.61	9.33
Total	61.80	85.08	52.70	47.25	36.62
To total equity ratio (%)					
Trade & bill receivable and financial leasing assets	107.80	101.46	112.77	73.92	66.57
Contingent liabilities	30.00	152.62	20.04	52.47	22.75
Total	137.80	254.08	132.81	126.38	89.32

Winner!

1: Contingent liabilities include the sales of the companies which are funded by finance leases entered into by the end-user customers and banks or other finance leases provider. The companies are required to repurchase the equipment from the banks or other finance leases provider when end-user customers and their guarantors fail to repay the obligations;

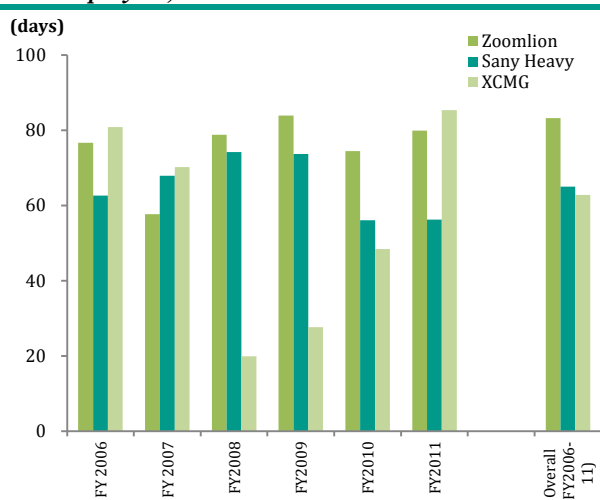
Source: Companies, ABCI Securities

Lonking has a better assets quality with lower trade & bill receivable and contingent liabilities as percentage of equity

The level of risky assets (the sum of trade & bill receivables and contingent liabilities) of Lonking is the lowest among the five leading domestic construction machinery makers. The risky assets to total equity ratio of Lonking was 89.3% as at June 2012, which was the lowest among the five players. The low risky assets level is in line with the higher OCF/Net income ratio of Lonking. It reflects the prudence on the expansion strategy of Lonking. The OCF/Net income ratio of the Lonking was 38.9% during FY2005 to 1-3QFY2012, which was higher than that of Zoomlion at 2.6% and XCMG at -23.5%.

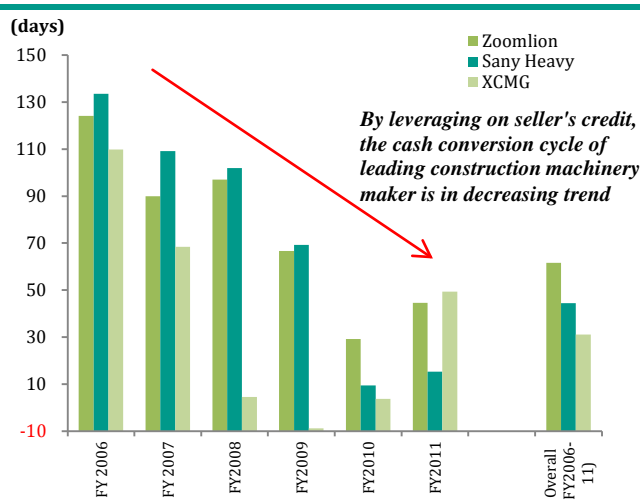
Out of the top three largest domestic players (Zoomlion, Sany Heavy and XCMG) the risky assets level of Zoomlion and XCMG were about the same as of 1HFY12. But the risky assets level of Sany Heavy was far higher than that of Zoomlion and XCMG. The risky assets to total equity ratio of Sany Heavy was 254.1% as at June 2012, which is 1.8x and 1.9x higher than that of Zoomlion and XCMG.

Account receivables turnover days of the top three domestic players, FY2006-FY2011



Source: Companies, ABCI Securities

Cash conversion cycle of the top three domestic players, FY2006-FY2011



Source: Companies, ABCI Securities



Cash conversion capability

Trade and bill receivable turnover days of Zoomlion is relatively longer compared with peers'

The trade and bill receivable (“account receivable”) turnover days of Zoomlion is the longest with 83.2 days in average during FY2006 to FY2011. Sany Heavy and XCMG are stay at a similar level. The receivable turnover days of Sany Heavy and XCMG are 65.1 and 62.8 days, respectively.

Although the average account receivable turnover of XCMG was 62.8 days, which was shorter than that of Zoomlion and Sany Heavy, it was increasing since FY2008. We see the cash collection period of XCMG is elongating while that of Zoomlion and Sany Heavy maintained at a relatively stable level during FY2006 to FY2011.

Cash conversion cycle of domestic construction machinery makers

		FY2005	FY2006	FY 2007	FY2008	FY2009	FY2010	FY2011	Average
Domestic players									
ZOOMLION 1157 HK	Revenue (Rmb mn)		4,638	8,973	13,548	20,762	32,193	46,323	21,073
	Cost of production (Rmb mn)		3,415	6,405	9,842	15,422	22,424	31,316	14,804
	Trade & bill receivable (Rmb mn)	973	976	1,860	3,989	5,552	7,574	12,701	4,804
	Trade & bill payables (Rmb mn)	724	870	2,133	4,689	8,212	12,282	12,103	5,859
	Inventory (Rmb mn)	980	1,502	2,632	5,171	6,272	8,678	9,656	4,984
	<i>Account receivable turnover (days)</i>		76.68	57.68	78.79	83.87	74.41	79.88	83.20
	<i>Account payable turnover (days)</i>		85.18	85.58	126.50	152.67	166.79	142.11	144.46
	<i>Inventory turnover (days)</i>		132.61	117.79	144.69	135.41	121.67	106.84	122.89
	<i>Cash conversion cycle (days)</i>		124.12	89.89	96.98	66.61	29.29	44.61	61.64
	SANY HEAVY 600031 CH	Revenue (Rmb mn)		5,190	9,138	14,244	18,976	33,955	50,776
Cost of production (Rmb mn)			3,400	5,985	9,465	12,232	21,442	32,252	14,129
Trade & bill receivable (Rmb mn)		779	1,003	2,398	3,394	4,269	6,164	9,495	3,929
Trade & bill payables (Rmb mn)		600	880	1,705	3,120	5,091	10,064	10,999	4,637
Inventory (Rmb mn)		1,209	1,592	2,343	3,918	3,993	5,687	8,134	3,839
<i>Account receivable turnover (days)</i>			62.64	67.92	74.22	73.70	56.08	56.28	65.05
<i>Account payable turnover (days)</i>			79.45	78.83	93.05	122.51	128.98	119.18	119.79
<i>Inventory turnover (days)</i>			150.31	119.98	120.72	118.03	82.39	78.21	99.18
<i>Cash conversion cycle (days)</i>			133.50	109.07	101.88	69.22	9.49	15.31	44.44
XCMG 000425 CH		Revenue (Rmb mn)		2,783	3,256	15,840	20,618	25,662	32,850
	Cost of production (Rmb mn)		2,492	3,017	12,921	16,709	20,209	26,143	13,582
	Trade & bill receivable (Rmb mn)	552	681	571	1,159	1,964	4,846	10,508	2,897
	Trade & bill payables (Rmb mn)	912	1,075	1,096	4,594	5,903	8,451	9,322	4,479
	Inventory (Rmb mn)	1,186	1,196	945	3,663	3,499	5,903	6,721	3,302
	<i>Account receivable turnover (days)</i>		80.86	70.19	19.93	27.64	48.43	85.30	62.82
	<i>Account payable turnover (days)</i>		145.50	131.35	80.36	114.64	129.62	124.07	120.37
	<i>Inventory turnover (days)</i>		174.42	129.54	65.09	78.23	84.91	88.13	88.74
	<i>Cash conversion cycle (days)</i>		109.78	68.37	4.65	-8.78	3.72	49.36	31.19
	GUANGXI LIUGONG 000528 CH	Revenue (Rmb mn)		5,440	7,613	9,246	10,134	15,304	17,798
Cost of production (Rmb mn)			4,492	6,143	7,784	8,046	11,925	14,468	8,810
Trade & bill receivable (Rmb mn)		316	582	920	1,023	1,632	1,713	2,786	1,282
Trade & bill payables (Rmb mn)		774	910	1,447	1,171	2,981	5,507	3,530	2,331
Inventory (Rmb mn)		1,233	1,273	1,793	2,437	2,228	4,013	5,026	2,572
<i>Account receivable turnover (days)</i>			30.10	35.99	38.34	47.80	39.89	46.13	42.82
<i>Account payable turnover (days)</i>			68.41	70.03	61.40	94.19	129.90	113.98	96.59
<i>Inventory turnover (days)</i>			101.80	91.08	99.17	105.81	95.52	114.02	106.55
<i>Cash conversion cycle (days)</i>			63.50	57.04	76.11	59.42	5.51	46.17	52.78
LONKING 3339 HK		Revenue (Rmb mn)		3,718	5,309	6,145	6,901	12,020	12,720
	Cost of production (Rmb mn)		2,761	4,117	4,970	5,283	8,593	9,507	5,872
	Trade & bill receivable (Rmb mn)	350	680	879	591	858	1,835	3,220	1,202
	Trade & bill payables (Rmb mn)	280	332	1,085	1,341	2,082	3,074	2,723	1,560
	Inventory (Rmb mn)	704	953	1,491	2,348	2,335	3,539	4,380	2,250
	<i>Account receivable turnover (days)</i>		50.55	53.58	43.66	38.32	40.88	72.52	56.22
	<i>Account payable turnover (days)</i>		40.48	62.85	89.08	118.24	109.50	111.28	96.95
	<i>Inventory turnover (days)</i>		109.52	108.34	140.98	161.77	124.76	152.02	139.86
	<i>Cash conversion cycle (days)</i>		119.59	99.08	95.56	81.85	56.14	113.26	99.14

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Cash conversion cycle of domestic construction machinery makers (cont'd)

		FY2005	FY2006	FY 2007	FY2008	FY2009	FY2010	FY2011	Average
<i>Average liquidity</i>	<i>Account receivable turnover (days)</i>		60.17	57.07	50.99	54.27	51.94	68.02	62.02
	<i>Account payable turnover (days)</i>		83.80	85.73	90.08	120.45	132.96	122.12	115.63
	<i>Inventory turnover (days)</i>		133.73	113.34	114.13	119.85	101.85	107.84	111.45
	<i>Cash conversion cycle (days)</i>		110.10	84.69	75.04	53.67	20.83	53.74	57.84

Source: Companies, Bloomberg, ABCI Securities

The domestic player can leverage on the sellers' credit to share the liquidity risk to their suppliers

The average account receivable turnover of the leading international players, such as Caterpillar at 66.7 days during FY2006 to FY2011 and Terex at 48.9 days, was shorter than the domestic players'. However, the average cash conversion cycle of Caterpillar at 103.3 days and Terex at 98.2 days are longer than that of Zoomlion at 61.4 days, Sany Heavy at 44.4 days and XCMG at 31.2 days. It reflects that the domestic player can leverage on the sellers' credit to transfer part of the liquidity risk to their suppliers.

Cash conversion cycle of international construction machinery makers

		FY2005	FY2006	FY 2007	FY2008	FY2009	FY2010	FY2011	Average
International players									
CATERPILLAR	Revenue (USD mn)		41,517	44,958	51,324	32,396	42,588	60,138	45,487
CAT US	Cost of production (USD mn)		30,572	33,758	39,568	24,931	31,281	44,404	34,086
	Trade & bill receivable (USD mn)	7,526	8,607	8,249	9,397	5,611	8,494	10,285	8,310
	Trade & bill payables (USD mn)	3,471	4,085	4,723	4,827	2,993	5,856	8,161	4,874
	Inventory (USD mn)	5,224	6,351	7,204	8,781	6,360	9,587	14,544	8,293
	<i>Account receivable turnover (days)</i>		70.92	68.42	62.75	84.55	60.44	56.99	66.68
	<i>Account payable turnover (days)</i>		45.11	47.62	44.05	57.24	51.63	57.61	52.19
	<i>Inventory turnover (days)</i>		69.10	73.28	73.73	110.84	93.04	99.18	88.80
	<i>Cash conversion cycle (days)</i>		94.91	94.09	92.43	138.14	101.85	98.56	103.30
TEREX CORP	Revenue (USD mn)		7,648	9,138	8,387	3,858	4,418	6,505	6,659
TEX US	Cost of production (USD mn)		6,205	7,256	6,816	3,561	3,815	5,544	5,533
	Trade & bill receivable (USD mn)	735	951	1,196	804	594	783	1,178	891
	Trade & bill payables (USD mn)	913	1,034	1,213	789	525	570	765	830
	Inventory (USD mn)	1,318	1,502	1,934	1,734	1,344	1,449	1,758	1,577
	<i>Account receivable turnover (days)</i>		40.22	42.87	43.52	66.12	56.85	55.01	48.86
	<i>Account payable turnover (days)</i>		57.29	56.52	53.60	67.34	52.38	43.93	54.75
	<i>Inventory turnover (days)</i>		82.95	86.43	98.22	157.71	133.58	105.56	104.03
	<i>Cash conversion cycle (days)</i>		65.89	72.78	88.13	156.49	138.05	116.64	98.15
KOMATSU	Revenue (USD mn) ¹		14,259	16,197	19,694	20,201	15,438	21,567	17,893
6301 JP	Cost of production (USD mn) ¹		10,483	11,605	13,969	15,091	11,879	15,720	13,125
	Trade & bill receivable (USD mn) ¹	2,691	3,343	4,279	5,774	4,020	5,517	6,927	4,650
	Trade & bill payables (USD mn) ¹	2,261	2,560	3,267	4,268	2,305	2,551	4,017	3,033
	Inventory (USD mn) ¹	2,608	3,108	3,919	5,716	5,455	4,885	6,161	4,550
	<i>Account receivable turnover (days)</i>		77.23	85.87	93.15	88.48	112.74	105.30	94.86
	<i>Account payable turnover (days)</i>		83.92	91.64	98.45	79.49	74.61	76.25	84.34
	<i>Inventory turnover (days)</i>		99.51	110.51	125.89	135.10	158.86	128.24	126.55
	<i>Cash conversion cycle (days)</i>		92.82	104.75	120.59	144.09	197.00	157.28	137.07
TADANO	Revenue (USD mn) ¹		1,069	1,234	1,528	1,627	1,131	1,056	1,274
6395 JP	Cost of production (USD mn) ¹		818	935	1,150	1,272	903	871	992
	Trade & bill receivable (USD mn) ¹	418	419	498	614	431	382	392	451
	Trade & bill payables (USD mn) ¹	230	258	329	433	340	179	222	284
	Inventory (USD mn) ¹	192	217	279	440	548	482	400	366
	<i>Account receivable turnover (days)</i>		142.92	135.55	132.85	117.25	131.28	133.75	129.08
	<i>Account payable turnover (days)</i>		108.91	114.55	120.97	110.95	104.78	83.84	104.68
	<i>Inventory turnover (days)</i>		91.21	96.72	114.11	141.84	208.24	184.77	134.54
	<i>Cash conversion cycle (days)</i>		125.23	117.72	125.99	148.14	234.74	234.68	158.94
<i>Average liquidity</i>	<i>Account receivable turnover (days)</i>								
	<i>Account payable turnover (days)</i>		82.82	83.18	83.07	89.10	90.33	87.76	84.87
	<i>Inventory turnover (days)</i>		73.81	77.58	79.27	78.76	70.85	65.41	73.99
	<i>Cash conversion cycle (days)</i>		85.69	91.74	102.99	136.37	148.43	129.44	113.48

1: The earnings and financial position of Komatsu and Tadano are translated from JPY to USD;

Source: Companies, Bloomberg, ABCI Securities

2) Coal mining machinery makers

The average operating cash flow per net income ratio (“OCF/Net income”) was 41.8% among the five domestic players during FY2005 to 1-3QFY12, while that of the international players was 129.9%.

Domestic players' cash flow is relatively weaker under the fast growing stage

By comparing the two coal mining machinery makers listed in Hong Kong, the cash flow of ZMJ is better than that of Sany Int'l. We believe the weaker in cash flow of Sany Int'l is because of the faster in expansion of Sany Int'l. The CAGR of top line of Sany Int'l were 69.2% during FY2007 to FY2011. The CAGR of ZMJ's top line and bottom line were 36.1% during the same period of time.

The fast growth of Sany Int'l bring negative cash flow to the Group

By considering with the “better-than-peer” OCF/Net income ratio of Sany Heavy, which is a sister company of Sany Int'l, we are positive on the management quality and business execution capability of Sany Group. We believe the OCF/Net income ratio will be improved gradually. However, with the deteriorating business environment of coal mining machineries industry impacted by the falling coal price, we expect that the cash collectability of ZMJ and Sany Int'l will not be improve significantly in 2013.

Earnings quality of coal mining machinery makers

		FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	1-3Q FY12	Total value
Domestic players										
ZMJ	Net income (Rmb mn)			204	481	630	883	1,194	1,205	4,597
564 HK	Operating cash flow (Rmb mn)			227	360	577	851	537	260	2,812
	OCF/Net income (%)			111.34	74.91	91.50	96.42	44.98	21.58	61.17
SANY INT'L	Net income (Rmb mn)		10	106	189	490	671	774	484	2,725
631 HK	Operating cash flow (Rmb mn)		(3)	(21)	(148)	505	280	(220)	(147)	247
	OCF/Net income (%)		-29.41	-19.80	-78.28	103.01	41.75	-28.36	-30.36	9.05
TIAN DI	Net income (Rmb mn)	106	219	414	493	708	853	912	809	4,513
600582 CH	Operating cash flow (Rmb mn)	77	82	259	785	639	1,038	849	(251)	3,479
	OCF/Net income (%)	72.70	37.67	62.59	159.46	90.22	121.61	93.09	-30.99	77.08
IMM	Net income (Rmb mn)			151	150	229	350	337	N/A	1,217
1683 HK (Delisted)	Operating cash flow (Rmb mn)			107	200	11	(140)	132	N/A	311
	OCF/Net income (%)			70.78	133.30	4.82	-39.85	39.19	N/A	25.55
ERA	Net income (Rmb mn) ³				66	115	115	(12)	N/A	285
8043 HK (Delisted)	Operating cash flow (Rmb mn) ³				(4)	31	248	(172)	N/A	103
	OCF/Net income (%)				-6.53	26.97	216.71	1,483.96	N/A	36.33
Average earnings quality	OCF/Net income (%)	72.70	4.13	56.23	56.57	63.30	87.33	326.57	-13.26	41.84
International players										
CATERPILLAR	Net income (USD mn)	2,854	3,537	3,541	3,557	895	2,700	4,928	4,984	26,996
CAT US	Operating cash flow (USD mn)	3,113	5,799	7,935	4,797	6,499	5,009	7,010	3,262	43,424
	OCF/Net income (%)	109.07	163.95	224.09	134.86	726.15	185.52	142.25	65.45	160.85
JOY GLOBAL INC	Net income (USD mn)	148	416	280	374	455	461	610	549	3,294
JOY US	Operating cash flow (USD mn)	201	330	382	577	445	583	505	237	3,261
	OCF/Net income (%)	135.97	79.33	136.53	154.24	97.79	126.43	82.78	43.19	99.01
Average earnings quality	OCF/Net income (%)	122.52	121.64	180.31	144.55	411.97	155.98	112.52	54.32	129.93

1: The earnings data of Sany Int'l is as of 1HFY12;

2: IMM and ERA were privatized and delisted in 2012;

3 The earnings of ERA is translated from HKD to RMB;

Source: Bloomberg, Companies, ABCI Securities

Other than the difference in business stage, credit control strategy is another reason on the difference in liquidity of the two coal mining machinery makers. Sany Int'l uses its own money to fund its customer, while ZMJ leverages on banking facilities. There is no contingent liability from Sany Int'l as of 1HFY2012. If we put the contingent liabilities to join with the account receivables of ZMJ as a total consideration, the risky assets to total equity ratio of ZMJ was 77.9% as of 1HFY2012, which was higher than that of Sany Int'l at 49.3%.

Receivable comparison of domestic coal mining machinery makers as of 1HFY2012

(Rmb mn)	ZMJ	Sany Int'l
Trade & bill receivable and financial leasing assets	2,977	2,788
Contingent liabilities ¹	1,873	-
Total	4,850	2,788
Total assets	9,920	7,919
Total equity	6,225	5,659
To total assets ratio (%)		
Trade & bill receivable and financial leasing assets	30.01	35.21
Contingent liabilities	18.88	-
Total	48.89	35.21
To total equity ratio (%)		
Trade & bill receivable and financial leasing assets	47.82	49.27
Contingent liabilities	30.09	-
Total	77.91	49.27

The assets quality of Sany Int'l is better than that of ZMJ

Winner!

1: Contingent liabilities include the sales of the companies which are funded by finance leases entered into by the end-user customers and banks or other finance leases provider. The companies are required to repurchase the equipment from the banks or other finance leases provider when end-user customers and their guarantors fail to repay the obligations;
Source: Companies, ABCI Securities

Domestic players leveraging on seller's credit

The domestic coal mining machinery makers make use of the seller's credit to help with the short term financing.

The domestic coal mining machinery makers make use of the seller's credit to help with the short term financing. The account receivable turnover of domestic players in average during FY2006 to FY2011 was 173.0 days, 2.6x on the average value of 65.7 days for Caterpillar and Joy Global, the two largest international mining machinery makers.

Cash conversion cycle of domestic coal mining machinery makers

	FY2005	FY2006	FY 2007	FY2008	FY2009	FY2010	FY2011	Average
Domestic players								
ZMJ								
564 HK								
Revenue (Rmb mn)				3,711	4,994	6,358	8,060	5,781
Cost of production (Rmb mn)				2,972	3,746	4,724	6,108	4,387
Trade & bill receivable (Rmb mn)			670	856	1,566	2,039	2,338	1,494
Trade & bill payables (Rmb mn)			443	739	957	1,508	1,972	1,124
Inventory (Rmb mn)			1,016	1,380	1,075	1,300	1,644	1,283
<i>Account receivable turnover (days)</i>				75.04	88.50	103.49	99.10	94.32
<i>Account payable turnover (days)</i>				72.57	82.65	95.22	103.96	93.48
<i>Inventory turnover (days)</i>				147.07	119.57	91.74	87.96	106.71
<i>Cash conversion cycle (days)</i>				149.53	125.43	100.01	83.11	107.55
SANY INT'L								
631 HK								
Revenue (Rmb mn)			462	1,147	1,901	2,683	3,780	1,995
Cost of production (Rmb mn)			233	612	996	1,445	2,254	1,108
Trade & bill receivable (Rmb mn)		74	196	464	817	1,156	2,298	834
Trade & bill payables (Rmb mn)		95	209	218	380	278	738	320
Inventory (Rmb mn)		108	243	374	558	384	719	398
<i>Account receivable turnover (days)</i>			106.75	105.00	122.97	134.22	166.77	152.66
<i>Account payable turnover (days)</i>			237.53	127.13	109.46	83.04	82.24	105.23
<i>Inventory turnover (days)</i>			274.30	183.72	170.74	119.03	89.32	130.97
<i>Cash conversion cycle (days)</i>			143.52	161.59	184.25	170.21	173.84	178.39

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Cash conversion cycle of domestic coal mining machinery makers (cont'd)

		FY2005	FY2006	FY 2007	FY2008	FY2009	FY2010	FY2011	Average
TIAN DI 600582 CH	Revenue (Rmb mn)		2,275	3,258	4,924	6,524	7,867	11,863	6,118
	Cost of production (Rmb mn)		1,679	2,248	3,073	4,279	5,164	8,192	4,106
	Trade & bill receivable (Rmb mn)	312	811	1,287	1,668	2,374	3,078	4,352	1,983
	Trade & bill payables (Rmb mn)	204	725	816	1,496	1,774	2,223	3,161	1,486
	Inventory (Rmb mn)	178	848	1,000	1,825	1,885	2,048	2,566	1,478
	<i>Account receivable turnover (days)</i>		90.02	117.52	109.53	113.06	126.48	114.30	118.30
	<i>Account payable turnover (days)</i>		101.00	125.07	137.35	139.48	141.25	119.93	132.07
	<i>Inventory turnover (days)</i>		111.52	149.97	167.77	158.22	138.99	102.77	131.43
	<i>Cash conversion cycle (days)</i>		100.54	142.42	139.94	131.80	124.22	97.14	117.66
	IMM 1683 HK (Delisted)	Revenue (Rmb mn)			858	1,280	1,520	1,943	2,098
Cost of production (Rmb mn)				504	805	944	1,101	1,188	908
Trade & bill receivable (Rmb mn)			382	596	720	1,046	1,441	1,920	1,018
Trade & bill payables (Rmb mn)			194	315	418	353	401	554	373
Inventory (Rmb mn)			202	325	414	310	425	446	354
<i>Account receivable turnover (days)</i>				208.11	187.68	212.11	233.64	292.39	241.25
<i>Account payable turnover (days)</i>				184.17	166.27	149.00	125.04	146.76	149.69
<i>Inventory turnover (days)</i>				190.66	167.50	139.89	121.86	133.73	142.06
<i>Cash conversion cycle (days)</i>				214.61	188.91	203.00	230.46	279.36	233.61
ERA 8043 HK (Delisted)		Revenue (Rmb mn) ¹				1,021	1,237	1,500	1,585
	Cost of production (Rmb mn) ¹				885	1,033	1,204	1,341	1,116
	Trade & bill receivable (Rmb mn) ¹			191	526	841	1,357	1,815	946
	Trade & bill payables (Rmb mn) ¹			254	585	769	1,142	1,732	896
	Inventory (Rmb mn) ¹			96	92	162	171	548	214
	<i>Account receivable turnover (days)</i>				128.05	201.67	267.46	365.25	258.48
<i>Account payable turnover (days)</i>				173.13	239.17	289.65	391.08	293.28	
<i>Inventory turnover (days)</i>				38.96	44.92	50.48	97.81	69.98	
<i>Cash conversion cycle (days)</i>				-6.12	7.43	28.29	71.98	35.18	
<i>Average liquidity</i>	<i>Account receivable turnover (days)</i>		90.02	144.13	121.06	147.66	173.06	207.56	173.00
	<i>Account payable turnover (days)</i>		101.00	182.26	135.29	143.95	146.84	168.79	154.75
	<i>Inventory turnover (days)</i>		111.52	204.98	141.00	126.67	104.42	102.32	116.23
	<i>Cash conversion cycle (days)</i>		100.54	166.85	126.77	130.38	130.64	141.09	134.48

1: The earnings and financial position of ERA is translated from HKD to RMB;

Source: Companies, Bloomberg, ABCI Securities

By leveraging on seller's credit, the average cash conversion cycle of domestic players was 134.5 days, vs. 127.9 days of the international players.

Cash conversion cycle of international coal mining machinery makers

		FY2005	FY2006	FY 2007	FY2008	FY2009	FY2010	FY2011	Average
International players									
CATERPILLAR CAT US	Revenue (USD mn)		41,517	44,958	51,324	32,396	42,588	60,138	45,487
	Cost of production (USD mn)		30,572	33,758	39,568	24,931	31,281	44,404	34,086
	Trade & bill receivable (USD mn)	7,526	8,607	8,249	9,397	5,611	8,494	10,285	8,310
	Trade & bill payables (USD mn)	3,471	4,085	4,723	4,827	2,993	5,856	8,161	4,874
	Inventory (USD mn)	5,224	6,351	7,204	8,781	6,360	9,587	14,544	8,293
	<i>Account receivable turnover (days)</i>		70.92	68.42	62.75	84.55	60.44	56.99	66.68
	<i>Account payable turnover (days)</i>		45.11	47.62	44.05	57.24	51.63	57.61	52.19
	<i>Inventory turnover (days)</i>		69.10	73.28	73.73	110.84	93.04	99.18	88.80
	<i>Cash conversion cycle (days)</i>		94.91	94.09	92.43	138.14	101.85	98.56	103.30
	JOY GLOBAL INC JOY US	Revenue (USD mn)		2,402	2,547	3,419	3,598	3,524	4,404
Cost of production (USD mn)			1,647	1,721	2,429	2,446	2,351	2,898	2,248
Trade & bill receivable (USD mn)		352	431	560	632	581	674	885	588
Trade & bill payables (USD mn)		161	200	199	292	207	292	453	258
Inventory (USD mn)		548	640	727	805	770	765	1,334	798
<i>Account receivable turnover (days)</i>			59.50	71.00	63.63	61.52	64.99	64.61	64.71
<i>Account payable turnover (days)</i>			40.01	42.32	36.89	37.24	38.74	46.92	41.84
<i>Inventory turnover (days)</i>			131.67	144.99	115.11	117.54	119.17	132.20	129.62
<i>Cash conversion cycle (days)</i>			151.16	173.67	141.84	141.82	145.42	149.88	152.49
<i>Average liquidity</i>		<i>Account receivable turnover (days)</i>		65.21	69.71	63.19	73.03	62.72	60.80
	<i>Account payable turnover (days)</i>		42.56	44.97	40.47	47.24	45.18	52.27	47.01
	<i>Inventory turnover (days)</i>		100.38	109.14	94.42	114.19	106.10	115.69	109.21
	<i>Cash conversion cycle (days)</i>		123.03	133.88	117.14	139.98	123.64	124.22	127.89

Source: Companies, Bloomberg, ABCI Securities

3) Agricultural machinery makers

The OCF/Net income ratio of First Tractor was 102.7% during FY2005 to 1-3QFY12, which is comparable to its international players. The earnings quality and cash collection capability of First Tractor are better than the machinery makers in other markets, such as Zoomlion at 2.6%, Sany Heavy at 61.0%, ZMJ at 61.2% and Sany Int'l at 9.1%.

The cash collectability and liquidity of First Tractor are remarkable and comparable to international players as well. The account receivable turnover of First Tractor was 47.4 days in average during FY2006 to FY2011, vs. that of Deere & Co, one of the largest agricultural machineries in the world at 44.5 days. For the liquidity, the cash conversion cycle of First Tractor was 30.3 days during FY2006 to FY2011. It was better than that of Zoomlion, Sany Heavy, ZMJ and Sany Int'l.

The cash collection capability of First Tractor is better than the other machinery makers

Earnings quality of agricultural machinery makers

		FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	1-3Q FY12	Total value
Domestic players										
FIRST TRACTOR 38 HK	Net income (Rmb mn)	(50)	73	182	69	249	543	411	326	1,801
	Operating cash flow (Rmb mn)	249	247	90	297	369	461	635	(498)	1,850
	OCF/Net income (%)	-493.36	338.61	49.63	433.54	148.46	84.95	154.57	-152.68	102.71
CHINA YUCHAI INT'L CYD US	Net income (Rmb mn) ¹	68	199	561	252	628	1,123	818	342	3,992
	Operating cash flow (Rmb mn) ¹	243	634	90	632	3,970	1,472	(1,762)	N/A	5,279
	OCF/Net income (%)	354.35	318.11	16.09	250.62	631.73	131.12	-215.31	N/A	132.23
Average earnings quality	OCF/Net income (%)	-69.51	328.36	32.86	342.08	390.10	108.03	-30.37	-152.68	117.47
International players										
DEERE & CO DE US	Net income (USD mn)	1,447	1,694	1,822	2,053	874	1,865	2,800	2,377	14,931
	Operating cash flow (USD mn)	1,217	973	2,759	1,949	1,985	2,282	2,326	(1,135)	12,356
	OCF/Net income (%)	84.09	57.46	151.47	94.94	227.22	122.37	83.09	-47.76	82.76
CNH GLOBAL NV CNH US	Net income (USD mn)	163	292	559	825	(190)	452	939	947	3,987
	Operating cash flow (USD mn)	549	607	(95)	650	2,212	1,402	994	(321)	5,998
	OCF/Net income (%)	336.81	207.88	-16.99	78.79	-1,164	310.18	105.86	-33.90	150.44
MAHINDRA & MAHIN MM IN	Net income (USD mn) ²	151	287	380	323	302	554	580	N/A	2,577
	Operating cash flow (USD mn) ²	(72)	(2)	(26)	122	685	504	(177)	N/A	1,033
	OCF/Net income (%)	-47.61	-0.83	-6.89	37.76	226.84	90.82	-30.49	N/A	40.09
ESCORTS LTD ESC IN	Net income (USD mn) ²	27	(11)	(1)	(8)	6	30	24	N/A	66
	Operating cash flow (USD mn) ²	(52)	47	(50)	2	38	13	33	N/A	31
	OCF/Net income (%)	-193.22	-434.98	3,562.61	-27.09	618.60	42.37	140.04	N/A	46.65
Average earnings quality	Gross profit margin (%)	45.02	-42.62	922.55	46.10	-22.89	141.44	74.62	-40.83	79.98

1: The earnings of China Yuchai Int'l is translated from USD to RMB;

2: The earnings of Mahindra & Mahindra and Escorts were translated from INR to USD;

Source: Bloomberg, Companies, ABCI Securities

Receivable comparison of First Tractor as of 1HFY12

	(Rmb mn)	(%)
Trade & bill receivable and financial lease asset	3,884	To total assets ratio
Contingent liabilities ¹	696	Trade & bill receivable and financial lease asset
Total	4,580	Contingent liabilities
		Total
Total assets	10,258	
Total equity	6,174	To total equity ratio
		Trade & bill receivable and financial lease asset
		Contingent liabilities
		Total

1: Contingent liabilities include the sales which are funded by finance leases entered into by the end-user customers and banks or other finance leases provider. The companies are required to repurchase the equipment from the banks or other finance leases provider when end-user customers and their guarantors fail to repay the obligations;

Source: Companies, ABCI Securities



Cash conversion cycle of domestic agricultural machinery makers

		FY2005	FY2006	FY 2007	FY2008	FY2009	FY2010	FY2011	Average
Domestic players									
FIRST TRACTOR 38 HK	Revenue (Rmb mn)		6,101	7,102	7,934	9,005	10,266	11,329	8,623
	Cost of production (Rmb mn)		5,509	6,255	7,109	7,718	8,749	9,769	7,518
	Trade & bill receivable (Rmb mn)	449	745	926	814	951	1,556	2,391	1,119
	Trade & bill payables (Rmb mn)	844	472	576	1,456	1,730	2,027	2,193	1,328
	Inventory (Rmb mn)	755	852	842	842	1,060	1,377	1,111	977
	<i>Account receivable turnover (days)</i>		35.71	42.94	40.02	35.77	44.57	63.58	47.36
	<i>Account payable turnover (days)</i>		43.60	30.58	52.17	75.34	78.38	78.84	64.49
	<i>Inventory turnover (days)</i>		53.25	49.43	43.23	44.97	50.83	46.47	47.43
	<i>Cash conversion cycle (days)</i>		45.37	61.79	31.08	5.40	17.02	31.21	30.30
	CHINA YUCHAI INT'L CYD US	Revenue (Rmb mn) ¹		6,902	10,203	10,368	13,178	16,291	15,442
Cost of production (Rmb mn) ¹			5,546	8,127	8,548	10,632	12,261	12,000	9,519
Trade & bill receivable (Rmb mn) ¹		1,146	1,441	3,318	2,534	2,507	4,256	6,690	3,127
Trade & bill payables (Rmb mn) ¹		1,643	1,975	2,680	2,609	6,191	7,943	7,233	4,325
Inventory (Rmb mn) ¹		1,636	1,567	1,759	2,247	2,130	2,646	2,416	2,057
<i>Account receivable turnover (days)</i>			68.41	85.13	103.01	69.81	75.76	129.36	94.62
<i>Account payable turnover (days)</i>			119.04	104.52	112.91	151.06	210.37	230.79	165.83
<i>Inventory turnover (days)</i>			105.41	74.68	85.51	75.13	71.10	76.98	78.88
<i>Cash conversion cycle (days)</i>			54.79	55.29	75.60	-6.12	-63.51	-24.44	7.68
Average liquidity		<i>Account receivable turnover (days)</i>		52.06	64.03	71.52	52.79	60.17	96.47
	<i>Account payable turnover (days)</i>		81.32	67.55	82.54	113.20	144.37	154.81	115.16
	<i>Inventory turnover (days)</i>		79.33	62.05	64.37	60.05	60.96	61.73	63.16
	<i>Cash conversion cycle (days)</i>		50.08	58.54	53.34	-0.36	-23.24	3.38	18.99

1: The earnings and financial position of China Yuchai Int'l is translated from USD to RMB;

Source: Companies, Bloomberg, ABCI Securities

Cash conversion cycle of international agricultural machinery makers

		FY2005	FY2006	FY 2007	FY2008	FY2009	FY2010	FY2011	Average
International players									
DEERE & CO DE US	Revenue (USD mn)		21,661	23,714	28,053	22,793	25,548	31,547	25,553
	Cost of production (USD mn)		16,238	17,270	20,584	17,180	18,069	22,540	18,647
	Trade & bill receivable (USD mn)	3,118	3,038	3,055	3,235	2,617	3,464	3,295	3,117
	Trade & bill payables (USD mn)	4,321	4,483	5,632	6,394	5,317	6,482	7,805	5,776
	Inventory (USD mn)	2,135	1,957	2,337	3,042	2,397	3,063	4,371	2,757
	<i>Account receivable turnover (days)</i>		51.87	46.89	40.92	46.86	43.44	39.10	44.53
	<i>Account payable turnover (days)</i>		98.95	106.89	106.63	124.40	119.17	115.68	113.07
	<i>Inventory turnover (days)</i>		45.99	45.38	47.69	57.78	55.15	60.19	53.98
	<i>Cash conversion cycle (days)</i>		-1.09	-14.62	-18.01	-19.77	-20.58	-16.39	-14.56
	CNH GLOBAL NV CNH US	Revenue (USD mn)		12,998	15,964	18,476	13,760	15,608	19,185
Cost of production (USD mn)			9,933	12,154	14,054	10,862	11,891	14,626	12,253
Trade & bill receivable (USD mn)		5,841	6,549	10,593	10,713	8,426	14,028	14,491	10,092
Trade & bill payables (USD mn)		1,609	1,881	2,907	2,735	1,915	2,367	2,952	2,338
Inventory (USD mn)		2,466	2,735	3,488	4,485	3,297	2,937	3,662	3,296
<i>Account receivable turnover (days)</i>			173.96	195.97	210.45	253.84	262.55	271.29	230.24
<i>Account payable turnover (days)</i>			64.12	71.89	73.26	78.13	65.72	66.37	69.64
<i>Inventory turnover (days)</i>			95.56	93.44	103.53	130.75	95.68	82.34	98.17
<i>Cash conversion cycle (days)</i>			205.40	217.51	240.72	306.47	292.51	287.26	258.76
MAHINDRA & MAHIN MM IN		Revenue (USD mn) ¹		2,216	3,277	3,620	4,080	5,190	6,941
	Cost of production (USD mn) ¹		1,562	2,273	2,389	2,807	3,415	3,329	2,629
	Trade & bill receivable (USD mn) ¹	237	415	686	774	746	717	793	624
	Trade & bill payables (USD mn) ¹	336	483	845	761	1,097	1,022	1,303	835
	Inventory (USD mn) ¹	271	358	616	673	703	794	1,026	635
	<i>Account receivable turnover (days)</i>		53.73	61.32	73.59	67.99	51.46	39.71	53.97
	<i>Account payable turnover (days)</i>		95.71	106.68	122.72	120.80	113.22	127.48	115.97
	<i>Inventory turnover (days)</i>		73.58	78.23	98.46	89.45	79.99	99.78	88.08
	<i>Cash conversion cycle (days)</i>		31.60	32.88	49.33	36.64	18.23	12.01	26.08

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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Construction and Farm Machinery Sector**Cash conversion cycle of international agricultural machinery makers (Cont'd)**

		FY2005	FY2006	FY 2007	FY2008	FY2009	FY2010	FY2011	Average
ESCORTS LTD	Revenue (USD mn) ¹		535	698	545	558	744	763	640
ESC IN	Cost of production (USD mn) ¹		405	538	426	403	543	584	483
	Trade & bill receivable (USD mn) ¹	81	116	146	155	92	101	102	113
	Trade & bill payables (USD mn) ¹	77	174	125	121	106	133	143	125
	Inventory (USD mn) ¹	56	67	81	80	71	98	94	78
	<i>Account receivable turnover (days)</i>		<i>67.27</i>	<i>68.53</i>	<i>100.77</i>	<i>80.67</i>	<i>47.18</i>	<i>48.44</i>	<i>64.48</i>
	<i>Account payable turnover (days)</i>		<i>113.29</i>	<i>101.36</i>	<i>105.14</i>	<i>102.69</i>	<i>80.17</i>	<i>86.13</i>	<i>94.80</i>
	<i>Inventory turnover (days)</i>		<i>55.80</i>	<i>50.35</i>	<i>69.06</i>	<i>68.44</i>	<i>56.64</i>	<i>59.91</i>	<i>59.10</i>
	<i>Cash conversion cycle (days)</i>		<i>9.78</i>	<i>17.52</i>	<i>64.69</i>	<i>46.43</i>	<i>23.65</i>	<i>22.22</i>	<i>28.79</i>
<i>Average liquidity</i>	<i>Account receivable turnover (days)</i>		<i>86.71</i>	<i>93.18</i>	<i>106.43</i>	<i>112.34</i>	<i>101.16</i>	<i>99.63</i>	<i>98.30</i>
	<i>Account payable turnover (days)</i>		<i>93.02</i>	<i>96.71</i>	<i>101.94</i>	<i>106.50</i>	<i>94.57</i>	<i>98.91</i>	<i>98.37</i>
	<i>Inventory turnover (days)</i>		<i>67.73</i>	<i>66.85</i>	<i>79.69</i>	<i>86.60</i>	<i>71.86</i>	<i>75.55</i>	<i>74.83</i>
	<i>Cash conversion cycle (days)</i>		<i>61.42</i>	<i>63.32</i>	<i>84.18</i>	<i>92.44</i>	<i>78.45</i>	<i>76.28</i>	<i>74.77</i>

1: The earnings and financial position of Mahindra & Mahindra and Escorts are translated from INR to USD;

Source: Companies, Bloomberg, ABCI Securities



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Construction and Farm Machinery Sector

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Sector Valuation and Recommendations

1) Zoomlion (1157 HK) – Buy with TP:HK\$13.96

Fully capture the recovery of downstream construction industry by leveraging on its leading position. Benefit from product diversification. Zoomlion, 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 Zoomlion 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 in 2013. The sentiment of the stock will maintain in uptrend. We maintain "Buy" rating on Zoomlion.

2) Lonking (3339 HK) – Hold with TP:HK\$2.00

Although construction is recovering, it is dragged down by weak capex of coal mining industries. Still not see catalyst driving the stock up in short run. Lonking, upgrade from Sell to Hold

We expect that EPS of Lonking will grow at a CAGR of 51.2% from FY2012 to 14 because of the low base effect in FY2012. However we estimate that the net income for FY2014 is Rmb1,025mn, still lower than the net income of Lonking in FY2010 and FY2011. Furthermore, we estimate that the ROAE is 12.0% and 13.4% for FY2013 and FY2014, respectively. We increase our target valuation from 5.6x to 8.2x of FY2013E PER reflecting the downstream construction industries bottoming out and assets quality improvement. However how much of the market recovery it can capture is still in question under the keen market competition.

The counter has soared by 40.7% in 6 months. The counter is trading at 8.4x FY2013E PER, which is 16.8% discount to the mean of its peers' (construction machinery makers) at 10.1x. Comparing with the peers, we think the valuation of Lonking is fair but not attractive. We upgrade its rating from "Sell" to "Hold". Our target price of Lonking increases from HK\$1.48 to HK\$2.00.

3) First Tractor (38 HK) – Buy with TP:HK\$9.27

Benefit from favorable agricultural policy and subsidy program. Sales expected to boost in FY2013. First Tractor, Reiterate Buy

First Tractor is trading at 9.3x of FY2013E EPS, which is 5.1% discount to the weighted average of its peers' (agricultural machinery makers) at 9.8x. We expect that EPS of First Tractor will grow at a CAGR of 49.6% from FY2012 to FY2014, and ROAE will be 13.0% and 18.2% in FY2013 and FY2014, respectively. Comparing with the peers, we think the valuation of First Tractor is not demanding.



We expect the favorable subsidy programs on agricultural machineries will carry on in 2013 and 2014. We increase our estimation on the revenue and net income of First Tractor for FY2013, and increase our target price from HK\$8.24 to HK\$9.27. We reiterate "Buy" to First Tractor.

4) Sany Int'l (631 HK) – Hold with TP:HK\$3.42

Weak coal price discouraging capex growth. Short run suffer. Sany Int'l, downgrade from Buy to Hold

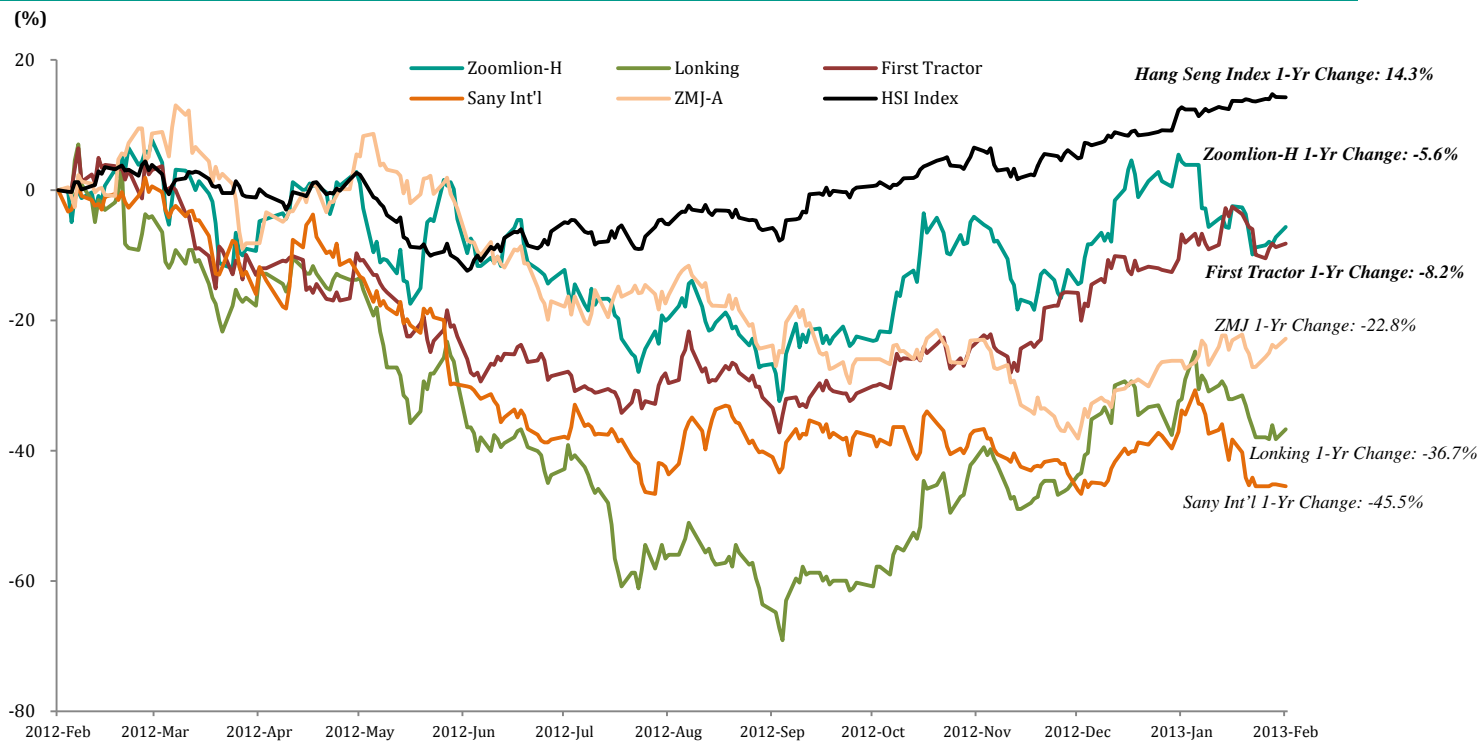
Sany Int'l is trading at 14.1x FY2013E PER, which is 29.4% premium to the mean of its peers (mining machinery makers) at 10.9x. The valuation of the stock is at the bottom since it has been listed in 2009. We have put Sany Int'l at "Under review" from "Buy" rating on January 21, 2012. Although we believe the current valuation has already reflected the negative factors, there is lack of positive catalyst to drive it up. Therefore we down grade Sany Int'l to "Hold" with target price HK\$3.42, based on FY2013E PER of 15.0x (40% discount on the average PER in 3-Yr).

5) ZMJ (564 HK) – Hold with TP:HK\$10.15

Weak coal price discouraging capex growth. ZMJ, Initiate Hold

ZMJ is trading at 8.6x FY2013E PER, which is 21.1% discount to the mean of its peers at 10.9x. There is lack of positive catalyst to drive the counter up. Therefore we initiate "Hold" to ZMJ with target price HK\$10.15, based on FY2013E PER of 9.0x, or 40% discount of our target valuation at 15.0x for Sany Int'l reflecting the weaker in growth opportunity and profitability.

Share price performance of the machinery makers vs. Hang Seng Index



Source: Bloomberg, ABCI Securities



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



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Construction and Farm Machinery Sector

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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

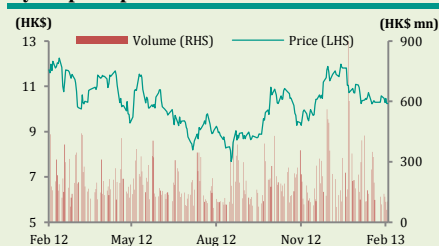
Share performance (%)

	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

Steve Wong

Tel: (852) 2147 8869

Email: stevecwong@abci.com.hk

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

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.

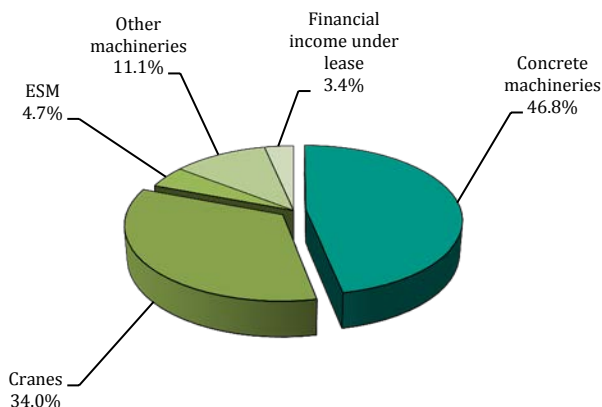
However, on the other hand, due to more sales from lower margin products, such as truck-mounted concrete mixer and tower crane, as percentage of total revenue in FY2013, the change of product-mix will drag down the Group’s overall GPM. We lower our GPM forecast by 1.2ppts for FY2013 from 33.4% previously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

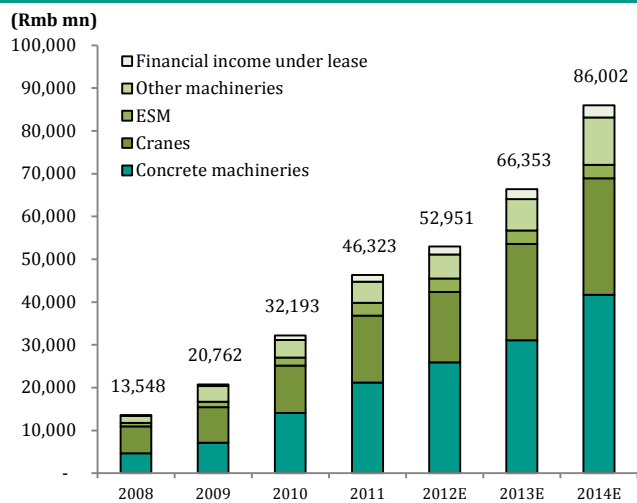
We lower GPM forecast for FY2013 due to change of product-mix

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	1,090	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.

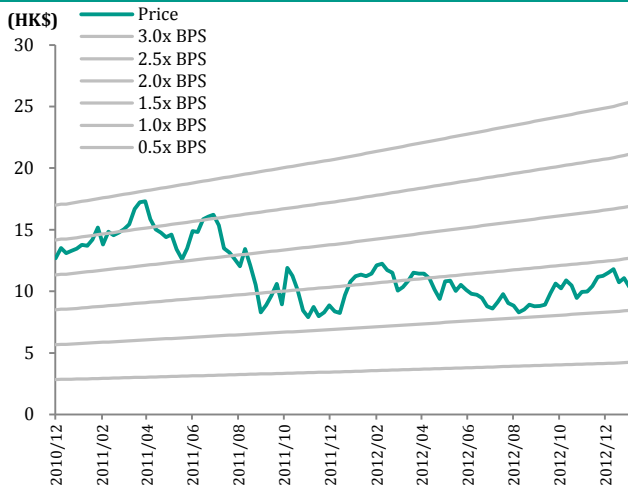
However, we still maintain our positive view on the mid-to-long term growth prospects of the Group because of its diversified product-mix structure and leading position in construction machineries industries. We maintain our target valuation at 8.2x of FY2013E PER.

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.



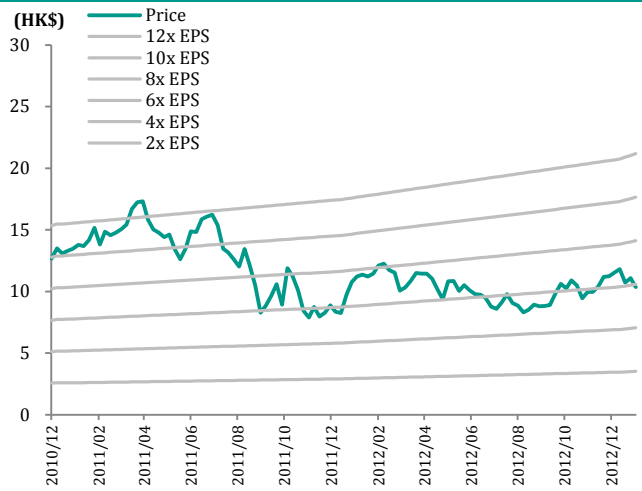
Although we cut our target price from HK\$14.16 to HK\$13.96 reflecting the slowdown of sales and earnings growth in FY2013, the counter has fallen 15.4% from the peak in December 2012 and we believe the current level is an attractive entry point. We think the government investment is about to accelerate 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



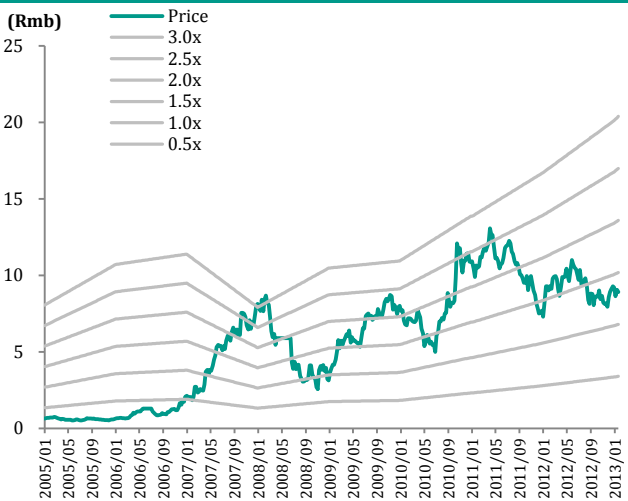
Source: Company, Bloomberg, ABCI Securities estimates

PE band of Zoomlion H-share



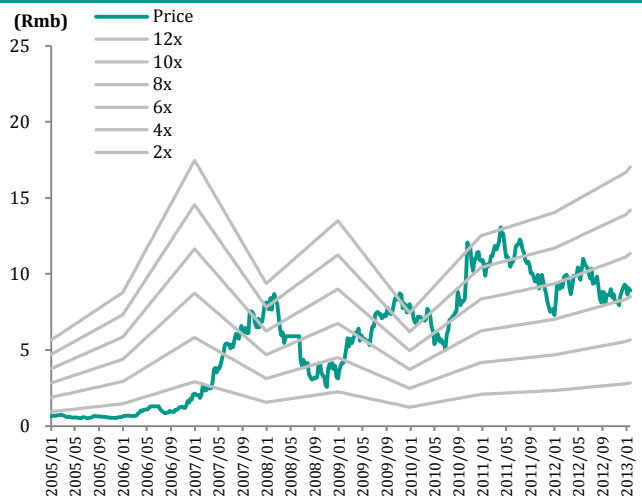
Source: Company, Bloomberg, ABCI Securities estimates

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



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

**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Zoomlion Heavy Industry**Consolidated cash flow statements forecast**

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



Company Report

Lonking (3339 HK)

February 26, 2013

Rating: Hold

TP: HK\$2.00

Key data

Share price (HK\$)	2.04
Upside potential (%)	-2.0
52Wk H/L(HK\$)	3.41/1.01
Issued shares (mn)	4,280
Market cap (HK\$m)	8,731
30-day avg daily vol (HK\$m)	89.2
Auditors	Ernst & Young
Major shareholder (%)	
Li San Yim & spouse	55.69

Source: Company & Bloomberg

Revenue breakdown by product (%)

Wheel loader	67.9
Excavator	11.2
Forklift	8.9
Others	12.0

*Based on 1HFY12 results

Source: Company

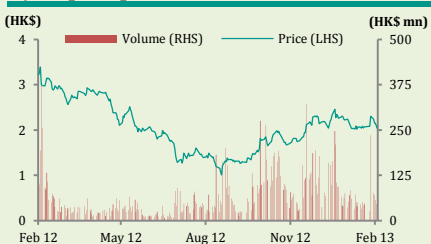
Share performance (%)

	Absolute	Relative ¹
1-mth	-1.9	1.6
3-mth	12.7	8.4
6-mth	40.7	22.8

1: Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst Information

Steve Wong

Tel: (852) 2147 8869

Email: stevecwwong@abci.com.hk

Previous report

Date: December 24, 2012

Rating: Sell

Target price: HK\$1.48

Looking Forward to New Growth Driver

The recovery of wheel loader is swamped by the weakening coal mining activities. Coming with challenges from international and leading domestic players, we believe that the Group will devote to develop the forklift segment as a new growth driver. Our target valuation is revised up reflecting the improvement of assets quality. We upgrade Lonking from “Sell” to “Hold” with TP:HK\$2.00.

Wheel loader recovery swamped by weak coal price. A-third of sales of wheel loader comes from coal mining activities. The weakening coal price discourages the expansion of mine operators and delays their purchases of mining equipment, including wheel loader. Limited by the weak coal mining activities, the positive effect of the recovery of infrastructure construction activities will be diluted. We estimate that the sales revenue of wheel loader segment of the Group will increase by 26.3% YoY in FY2013.

Forklift the new star coming. Forklift segment will be the new growth driver of Lonking. Revenue of forklift as percentage of total revenue was increasing. We estimate its contribution to increase to 10.6% in FY2013. We expect the Group to increase the output capacity of forklift in 2013.

Good assets and earnings quality. The OCF / Net income ratio of the Group was 75.1% in FY2011 and 132.5% in 1HFY2012, which is better than Zoomlion, Sany Heavy and XCMG. It will lower the assets risk of the Group. The good cash flow and assets quality help Lonking to source financing with low cost. Financial burden will be lower in FY2013.

Upgrade from “Sell” to “Hold”. Lonking is trading at 8.4x of FY2013E PER, 16.8% discount to the mean of its peers at 10.1x. We think the valuation is fair. Although the downstream construction industries are bottoming out, how much the Group can capture is still uncertain under the keen market competition. We increase our target valuation from 5.6x to 8.2x FY2013E EPS, reflecting the improvement of its assets quality and downstream industries bottoming out, and upgrade the rating from “Sell” to “Hold”, with new target price of HK\$2.00.

Risk factors: Challenge from international players; Lagging effect between construction and machineries industries

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rmb mn)	12,020	12,720	7,721	9,785	12,395
Chg (%YoY)	74.2	5.8	(39.3)	26.7	26.7
Net Income (Rmb mn)	1,766	1,730	448	838	1,025
Chg (%YoY)	120.8	(2.1)	(74.1)	87.0	22.3
EPS (Rmb)	0.413	0.404	0.105	0.196	0.240
Chg (%YoY)	120.8	(2.1)	(74.1)	87.0	22.3
PER (x)	-	4.10	15.64	8.36	6.84
PBR (x)	-	1.11	1.04	0.96	0.87
Yield (%)	-	7.35	1.92	3.59	4.39
ROAA (%)	15.2	11.7	2.9	5.3	6.1
ROAE (%)	39.1	29.7	6.8	12.0	13.4
Net gearing (%)	57.1	55.1	46.8	28.3	25.9

Source: Company, ABCI Securities estimates



Turmoil of Wheel Loader Market

We estimate the wheel loader segment revenue, which is estimated to account for 64.7% of total revenue and 79.7% of total gross profit in FY2012, to rebound by 26.3% YoY in FY2013, recovering from est. -43.6% YoY in FY2012.

Growth drag down by coal mining activities

Recovery of wheel loader dragged down by weak coal mining capex

The wheel loader segment of Lonking dropped by 43.6% YoY in 1HFY12. The recovery of wheel loader market was not as strong as the other earth moving machineries. The recovery momentum of wheel loader market stopped in 2H2012. We believe that the declining investment of coal mine operators gives the heaviest punch on the recovery of wheel loader market.

According to our channel check, a third of demand for wheel loader in China attributed to coal mining activities. The slowdown in coal mining fixed assets investment ("FAI") is the fatal attack for the sales of wheel loader.

Lukewarm recover expected in FY2013

Limited by the weak coal mining activities, the positive effect of the recovery of infrastructure construction activities will be diluted. We estimate that the sales revenue of wheel loader segment of the Group will increase by 26.3% YoY in FY2013.

Barricade from Diversification via Excavator

We estimate the excavator segment revenue to grow at 30.0% YoY in FY2013, recovered from est. -47.0% YoY in FY2012.

Keen market competition

Facing challenges from the localization of international players, such as Caterpillar, in China

The competition of China's excavator market is keen. The high-end market is dominated by foreign players, such as Caterpillar (CAT US), Komatsu (6301 JP) and Hyundai (009540 KS). Caterpillar announced that it opens a testing field and a large wheel loader manufacturing facility in Jiangsu to support its growing operations in China. 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. We foresee that the pressure from international players will be intensified in the future.

The mid-end excavator market has been dominated by Sany Heavy

In the meanwhile, the mid-to-low end market is dominated by Sany Heavy (600031 CH) and Zoomlion (1157 HK). As the weaker in technological advancement compared with international players of Lonking, and the thinner in sales channel compared with Sany Heavy, the expansion of the excavator segment for Lonking is full of challenges.

Challenges from Zoomlion

The quick expansion of Zoomlion makes the excavator market competition keener

On the other hand, in order to diversify the product portfolio, Zoomlion increases much resource to boost up the earth moving machineries segment. It not only increases the competition in excavator market for Lonking to diversify its sources of income, but also endangers the market position of Lonking in wheel loader market.

Forklift will be a New Supporter

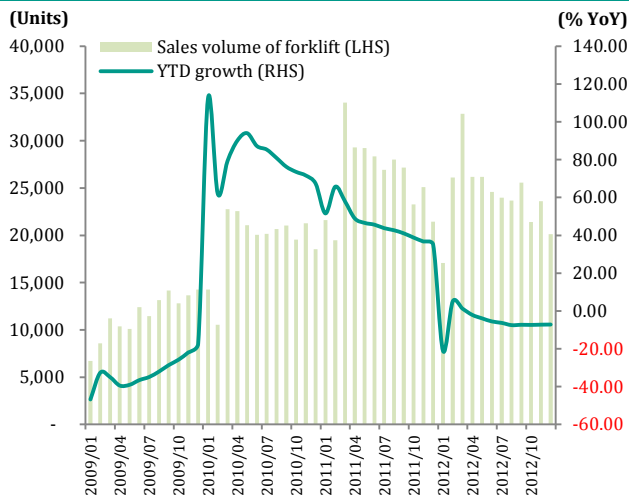
Lonking strategically develop forklift business to diversified the product portfolio from construction machineries

As we believe the Group envisages the threat in earth moving machineries industry, forklift segment is strategically to develop as the new growth driver for the Group. The revenue of forklift was Rmb929mn and Rmb422mn in FY2011 and 1HFY2012, respectively, which were 7.3% and 8.9% as percentage of total revenue during the corresponding periods. We estimate the contribution of forklift of the Group will increase to 10.4% in FY2012.

We expect the Group to increase production capacity of its forklift in 2013. The estimated production capacity of forklift of the Group is 28,000 units as of end-2012, up 40% YoY from 20,000 units as of end-2011.

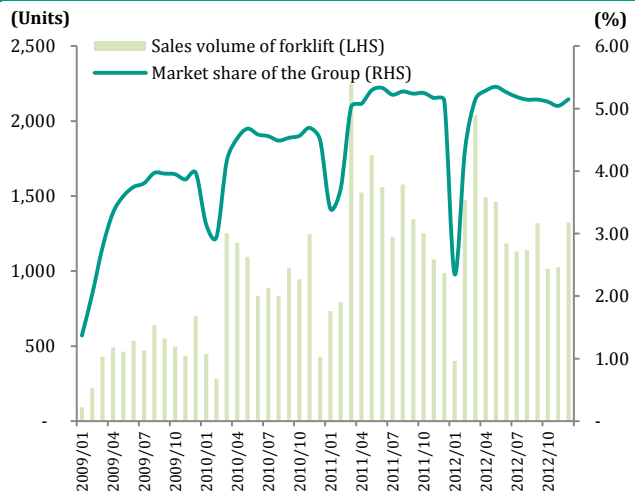
Although the total sales volume of forklift was down 7.2% YoY in China, 2012, the forklift industry is recovering.

Monthly sales volume and YTD growth of forklift in China, 2009-2012



Source: Wind

Monthly sales volume of forklift and market share of Lonking, 2009-2012



Source: Wind, Company, ABCI Securities estimates

The cash collectability of Lonking is good

Good Assets and Earnings Quality

The Group is used to place more importance on earning quality and cash collectability. The operating cash flow ("OCF") was positive in FY2011 and 1-3QFY2012. The OCF/Net income ratio of the Group was 75.1% in FY2011 and 132.5% in 1-3QFY2012. The OCF / Net income ratio of the Group was 38.9%, in average during FY2005 to 1-3QFY2012, which was higher than that of its peers, such as Zoomlion at 2.6% and XCMG at -23.5% during the same period of time.

We predict the Group to cut down account receivables and inventory aggressively in 2012 to release financial resources tied up in working capital. It will lower the assets risk of the Group.

GPM Shrinking

We estimate the gross profit margin (“GPM”) of the Group to shrink by 4.9ppts from 25.3% in FY2011 to 20.4% in FY2012. The GPM of the Group was 20.7% in 1HFY2012. We believe the drop of profitability of the Group was mainly due to two reasons:

Keen competition shrinks the GPM

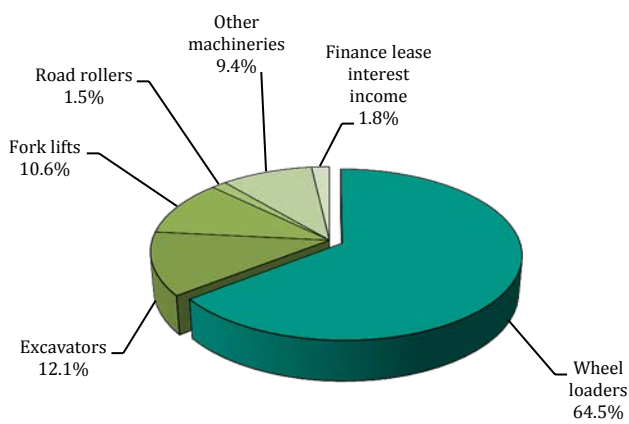
1) The keen competition and declining demand for earth moving machineries lower the profit margin of machinery makers. The GPM of wheel loader segment of Lonking dropped from 27.9% in FY2010 to 26.4% in FY2011, and we estimate that it will decrease to 25.1% in FY2012.

Change of product-mix with more low-margin products

2) The change of product-mix drags down the overall GPM. The GPM of forklift was 12.0% and 13.0% in FY2010 and FY2011, respectively. We estimate that it will drop to 11.7% in FY2012. As the sales of forklift as percentage of total revenue of the Group was increasing from 4.9% in FY2010 to 7.3% in FY2011, and estimated to go to 10.4% in FY2012, the overall GPM of the Group was dragged down.

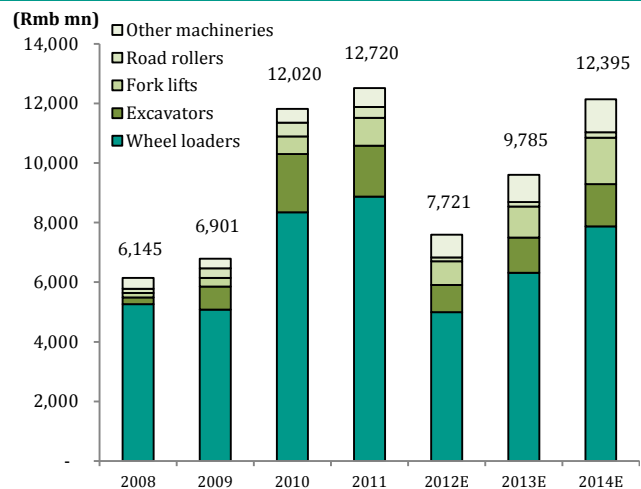
The aforesaid market competition of excavator market and wheel loader market will speed up the elimination of smaller players and squeeze the profit margin of the markets at the same time. We believe that the room for improvement on the segment GPM of the Group is limited. However, with the optimization of cost structure under economies of scales, we expect the forklift segment GPM to improve gradually in 2013 and 2014. We expect the overall GPM of the Group will be 21.5% in FY2013 and 21.6% in FY2014.

Estimated product mix of the Group, FY2013E



Source: Company

Revenue production of the Group, FY 2008-FY2014E



Source: Company, ABCI Securities estimates



Financial highlights of the Group

	1H10	FY10	1H11	FY11	1H12	1H11 (% YoY)	FY11 (% YoY)	1H12 (% YoY)
Revenue (Rmb mn)	6,566	12,020	8,398	12,721	4,724	27.90	5.83	-43.75
Wheel loaders	4,641	8,343	5,683	8,867	3,208	22.45	6.28	-43.55
Excavators	1,072	1,957	1,303	1,713	530	21.55	-12.44	-59.32
Fork lifts	293	586	468	929	422	59.73	58.71	-9.83
Road rollers	275	469	272	367	72	-1.09	-21.67	-73.53
Other machineries	209	462	536	639	431	156.46	38.34	-19.59
Financial income under lease	76	203	136	205	61	78.95	0.98	-55.15
Gross Profit	1,656	3,427	2,201	3,214	978	32.91	-6.20	-55.57
Wheel loaders		2,326		2,340			0.61	
Excavators		522		445			-14.74	
Fork lifts		70		121			71.93	
Road rollers		84		66			-21.67	
Other machineries		240		57			-76.39	
Financial income under lease		183		185			0.98	
GPM (%)	25.22	28.51	26.21	25.27	20.70	0.99ppts	-3.24ppts	-5.51ppts
Wheel loaders		27.88		26.39			-1.49ppts	
Excavators		26.70		26.00			-0.70ppts	
Fork lifts		12.00		13.00			1.00ppts	
Road rollers		18.00		18.00			0.00ppts	
Other machineries		52.07		8.88			-43.18ppts	
Finance lease interest income		90.00		90.00			0.00ppts	
Major cost (Rmb mn)								
Selling cost	(395)	(617)	(385)	(593)	(211)	-2.53	-3.87	-45.19
Administrative cost	(115)	(247)	(139)	(294)	(132)	20.87	19.31	-5.04
Net finance cost	(86)	(196)	(165)	(367)	(219)	91.86	87.37	32.73
Cost ratio (%)								
Selling cost	6.02	5.13	4.58	4.66	4.47	-1.43ppts	-0.47ppts	-0.12ppts
Administrative cost	1.75	2.05	1.66	2.31	2.79	-0.10ppts	0.26ppts	1.14ppts
Net finance cost	1.31	1.63	1.96	2.89	4.64	0.65ppts	1.26ppts	2.67ppts
Net profit (Rmb mn)	926	1,766	1,154	1,730	276	24.62	-2.08	-76.08
Net profit margin (%)	14.10	14.69	13.74	13.60	5.84	-0.36ppts	-1.10ppts	-7.90ppts
Operating cash flow (Rmb mn)	(315)	(221)	1,079	1,299	366	-442.54	-687.61	-66.08
OCF/Net income (%)	-34.02	-12.51	93.50	75.09	132.61	127.52ppts	87.60ppts	39.11ppts

Source: Company

Major change of our forecast

	FY12E			FY13E			FY14E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
Revenue (Rmb mn)	9,310	7,721	-17.07	11,318	9,785	-13.54	13,940	12,395	-11.08
Wheel loaders	6,194	4,998	-19.31	7,656	6,314	-17.53	9,626	7,869	-18.25
Excavators	1,259	908	-27.88	1,326	1,180	-11.01	1,432	1,423	-0.63
Fork lifts	833	801	-3.84	1,082	1,041	-3.79	1,353	1,561	15.37
Road rollers	160	119	-25.63	201	150	-25.37	243	181	-25.51
Other machineries	767	767	0.00	920	920	0.00	1,104	1,104	0.00
Finance lease interest income	97	128	31.96	133	180	35.34	182	257	41.21
Gross profit (Rmb mn)	1,915	1,575	-17.75	2,429	2,106	-13.30	2,945	2,677	-9.10
GPM (%)	20.57	20.40	-0.17ppts	21.46	21.52	0.06ppts	21.13	21.60	0.47ppts
Net income (Rmb mn)	496	448	-9.65	832	838	0.83	953	1,025	7.62
Net margin (%)	5.33	5.81	0.48ppts	7.35	8.57	1.22ppts	6.83	8.27	1.44ppts
EPS (Rmb)	0.116	0.105	-9.65	0.194	0.196	0.83	0.223	0.240	7.62
BVPS (Rmb)	1.578	1.570	-0.50	1.714	1.707	-0.40	1.870	1.875	0.29
DPS (Rmb)	0.035	0.031	-9.65	0.058	0.059	0.83	0.067	0.072	7.62

Source: ABCI Securities estimates

Upgrade from “Sell” to “Hold”

Top line growth recovery is dragged down, but ...

We lower our top line forecast for FY2013 with downward revise of our capex recovery of coal mining industries

We lower our top line forecasts of the Group due to the glooming coal mining FAI discouraged by the declining coal price. With the downtrend of coal price during 2H2012, we expect the capex and purchases from coal mine operator to decrease in 1H2013. We lower our forecast of coal mining FAI in FY2013. Therefore we lower our top line forecast for Lonking.

... Offset by financial cost control

We lower our financial expenses forecast for FY2013 and FY2014 as we revises up the liquidity of the Group

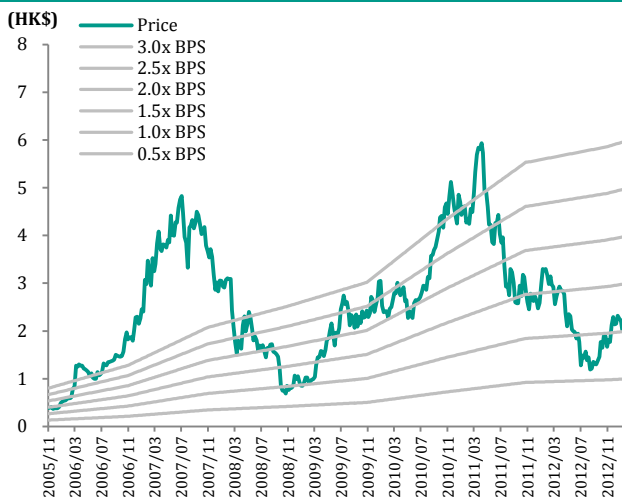
We believe the Group can source financing with lower cost in 2013 and 2014 under the recovery of industry sentiment and its good assets and earnings quality with strong cash flow. We lower our financial cost estimation from Rmb332mn to Rmb225mn for FY2013, and from Rmb321mn to Rmb224mn for FY2014. In all, our net income forecasts of Lonking edge up from Rmb832mn to Rmb838mn for FY2013, and increase from Rmb953mn to Rmb1,025mn for FY2014.

Upgrade from “Sell” to “Hold”

We expect that EPS of Lonking will grow at a CAGR of 51.2% from FY2012 to 14 because of the low base effect in FY2012. However we estimate that the net income for FY2014 is Rmb1,025mn, still lower than the net income of the Group in FY2010 and FY2011. Furthermore, we estimate that the ROAE is 12.0% and 13.4% for FY2013 and FY2014, respectively. We increase our target valuation from 5.6x to 8.2x of FY2013E PER reflecting the downstream construction industries bottoming out and assets quality improvement. However how much of the market recovery the Group can capture is still in question under the keen market competition.

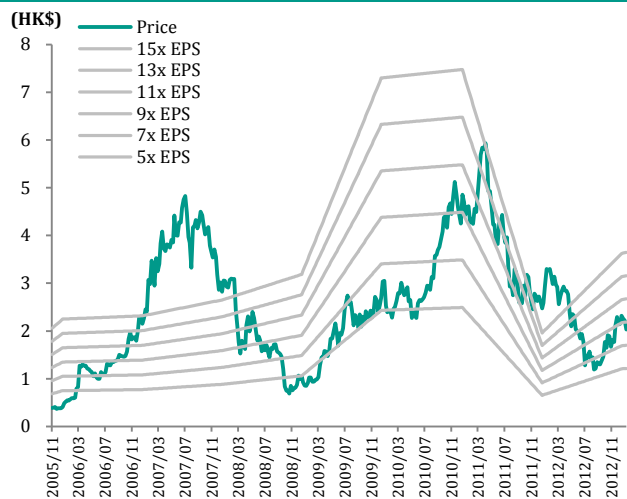
The counter has soared by 65.5% in 6 months. The counter is trading at 8.4x FY2013E PER, which is 16.8% discount to the mean of its peers' (construction machinery makers) at 10.1x. Comparing with the peers, we think the valuation of Lonking is fair but not attractive. We upgrade its rating from “Sell” to “Hold”. Our target price of Lonking increases from HK\$1.48 to HK\$2.00.

PB band of the Group



Source: Company, Bloomberg, ABCI Securities estimates

PE band of the Group



Source: Company, Bloomberg, ABCI Securities estimates

Financial Statements Projection

Consolidated income statements forecast

FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	12,020	12,720	7,721	9,785	12,395
Wheel loaders	8,343	8,867	4,998	6,314	7,869
Excavators	1,957	1,713	908	1,180	1,423
Fork lifts	586	929	801	1,041	1,561
Road rollers	469	367	119	150	181
Other machineries	462	639	767	920	1,104
Financial income under lease	203	205	128	180	257
Cost of sales	(8,593)	(9,507)	(6,146)	(7,679)	(9,718)
Gross profit	3,427	3,213	1,575	2,106	2,677
Other income and gains (loss)	27	479	33	36	40
Selling and distribution	(617)	(593)	(325)	(422)	(643)
Administrative expenses	(247)	(294)	(242)	(282)	(392)
Research and development cost	(241)	(342)	(205)	(216)	(237)
EBIT	2,349	2,463	836	1,223	1,445
Finance costs	(206)	(395)	(301)	(225)	(224)
Associates	-	-	-	-	-
Pre-tax profit	2,143	2,068	535	998	1,221
Profits tax	(376)	(338)	(86)	(160)	(195)
Minority interests	(1)	-	-	(1)	-
Net profit	1,766	1,730	448	838	1,025

Source: Company, ABCI Securities estimates

Income statement key ratios forecast

FY	FY10A	FY11A	FY12E	FY13E	FY14E
Sales mixed (%)					
Wheel loaders	69.4	69.7	64.7	64.5	63.5
Excavators	16.3	13.5	11.8	12.1	11.5
Fork lifts	4.9	7.3	10.4	10.6	12.6
Road rollers	3.9	2.9	1.5	1.5	1.5
Others	3.8	5.0	9.9	9.5	8.8
Financial income under lease	1.7	1.6	1.7	1.8	2.1
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross profit margin	28.5	25.3	20.4	21.5	21.6
EBIT margin	19.5	19.4	10.8	12.5	11.7
Pre-tax margin	17.8	16.3	6.9	10.2	9.9
Net margin	14.7	13.6	5.8	8.6	8.3
Selling & distribution cost / revenue	5.1	4.7	4.2	4.3	5.2
Admin cost / revenue	2.1	2.3	3.1	2.9	3.2
Effective tax rate	17.5	16.3	16.1	16.0	16.0
Growth (%)					
Revenue	74.2	5.8	(39.3)	26.7	26.7
Gross profit	111.8	(6.2)	(51.0)	33.7	27.1
EBIT	115.3	4.9	(66.1)	46.3	18.2
Net income	120.8	(2.1)	(74.1)	87.0	22.3

Source: Company, ABCI Securities estimates



Consolidated balance sheets forecast

As of Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Current assets	7,520	11,347	9,759	11,774	10,683
Cash and equivalent	306	1,684	1,278	1,987	1,964
Restricted cash	328	471	494	519	545
Trade and other receivables	2,770	4,072	4,224	4,550	3,738
Inventories	3,539	4,380	3,366	4,208	3,779
Other	577	740	397	510	657
Non-current assets	5,943	4,793	4,676	5,164	5,838
Land use rights	195	206	200	194	187
Property, plant and equipment	3,034	3,638	4,011	4,026	4,546
Other non-current assets	2,714	949	465	944	1,105
Total assets	13,463	16,140	14,435	16,938	16,521
Current liabilities	5,742	4,808	3,944	6,162	4,975
Trade and other payables	3,862	3,697	2,292	4,464	3,218
Borrowings	1,472	820	1,469	1,469	1,469
Provision	179	151	91	116	147
Other	229	140	92	113	141
Non-current liabilities	2,479	4,926	3,771	3,468	3,518
Borrowings	1,742	4,542	3,373	3,025	3,025
Other	737	384	398	443	493
Total liabilities	8,221	9,734	7,715	9,630	8,493
Minority Interest	2	1	1	2	2
Shareholders' equity	5,240	6,405	6,719	7,306	8,026

Source: Company, ABCI Securities estimates

Balance sheets key ratios forecast

FY	FY10A	FY11A	FY12E	FY13E	FY14E
Balance sheet ratios					
Current ratio (x)	1.3	2.4	2.5	1.9	2.1
Quick ratio (x)	0.7	1.4	1.6	1.2	1.4
Cash ratio (x)	0.1	0.4	0.4	0.4	0.5
Total receivable turnover days	117.1	138.2	213.9	178.0	137.6
Trade and bill receivables turnover days	40.9	72.5	170.0	150.0	100.0
Total payable turnover days	137.3	145.2	177.8	160.5	144.3
Trade and bill payables turnover days	109.5	111.3	120.0	110.0	100.0
Inventory turnover days	124.8	152.1	230.0	180.0	150.0
Total debt / equity ratio (%)	61.3	83.7	72.1	61.5	56.0
Net debt / equity ratio (%)	57.1	55.1	46.8	28.3	25.9
Returns (%)					
ROAA	15.2	11.7	2.9	5.3	6.1
ROAE	39.1	29.7	6.8	12.0	13.4
Payout ratio	31.7	31.3	30.2	30.0	30.0
Per share data (Rmb)					
EPS	0.413	0.404	0.105	0.196	0.240
BVPS	1.224	1.496	1.570	1.707	1.875
DPS	0.129	0.122	0.031	0.059	0.072

Source: Company, ABCI Securities estimates

**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Lonking Holdings Limited**Consolidated cash flow statements forecast**

FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Profit before tax	2,143	2,068	535	998	1,221
DD&A	208	292	229	276	328
Change in working capital	(2,492)	(718)	(403)	846	(132)
Income tax paid	(297)	(392)	(96)	(179)	(218)
Others	217	49	504	(418)	(110)
CF Operating	(221)	1,299	769	1,523	1,089
Capex	(483)	(937)	(597)	(285)	(841)
Other	(137)	(309)	464	(45)	(22)
CF Investing	(620)	(1,246)	(133)	(330)	(863)
Capital injection	-	-	-	-	-
Net debt financing	668	2,149	(521)	(348)	-
Dividend payout	(254)	(553)	(522)	(135)	(252)
Others	(288)	(270)	-	-	1
CF Financing	126	1,326	(1,043)	(483)	(251)
Net change in cash	(715)	1,379	(407)	710	(25)
Cash at the beginning	1,021	306	1,684	1,278	1,987
Exchange difference	-	(1)	1	(1)	2
Cash at the end	306	1,684	1,278	1,987	1,964

Source: Company, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Lonking Holdings Limited

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Company Report

Sany Int'l (631 HK)

February 26, 2013

Rating: Hold

TP: HK\$3.42

Key data

Share price (HK\$)	3.22
Upside potential (%)	6.2
52Wk H/L(HK\$)	6.89/3.27
Issued shares (mn)	3,105
Market cap (HK\$m)	9,998
30-day avg daily vol (HK\$m)	44.1
Auditors	Ernst & Young
Major shareholder (%)	
Liang Wengen ¹	72.29

¹: Directly plus indirectly holds

Source: Company & Bloomberg

Revenue breakdown by product (%)

Roadheaders	63.0
Combined coal mine units	17.1
Others	19.9

*Based on 1HFY12 results

Source: Company

Share performance (%)

	Absolute	Relative ¹
1-mth	-11.2	-8.0
3-mth	-14.8	-18.1
6-mth	-22.7	-32.6

¹: Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst Information

Steve Wong

Tel: (852) 2147 8869

Email: stevecwwong@abci.com.hk

Previous report

Date: January 21, 2013

Rating: Under review

Target price: Under review

Wining Time Not Coming Yet

We believe a sales growth blooming to come with the successful market share capturing of CCMU market, as well as supplementary coal mining equipment. However, the lukewarm coal mining machineries market creates pressure on the Group to cut the selling price in FY2013. We believe 2013 would be a harsh time for the Group. Our earnings forecasts of the Group were cut for FY2013 and 14. We downgrade the Sany Int'l to "Hold", with TP:HK\$3.42.

Sluggish coal price. The sluggish coal price discourages the coal mining operators to grow the capex and purchases of mining equipment in 2013. The slowdown of coal mining machineries industry brings turmoil to Sany Int'l in 2013. We expect a sales decline on the Group during 1HFY2013. So far, we do not see any recovery signal from the latest monthly coal mining FAI unveiled by NBS.

Expansion schedule postpone. Aggressive M&A of international giants like Caterpillar (CAT US) and Joy Global (JOY US) created hurdles for the Group to push out its boundaries from roadheader in FY2013. CCMU is still in low profitability as lack of economies of scales. We believe that Sany Int'l will slow down the pace of expansion in 2013 under for the sake of stabilizing its earnings margins.

The ultimate winner. We believe the Group is able to capture market shares and become leading player in CCMU market as well as the other supplementary coal mining equipment markets because of the proven track records of Sany Heavy (its sister company) beating up Caterpillar and Komatsu as the largest excavator makers in China in 2011 and 2012.

Down grade to "Hold". Sany Int'l is trading at 14.1x FY2013E PER. We have put the Group at "Under review" from "Buy" rating on January 21, 2012. Although we believe the current valuation has already reflected the negative factors, there is lack of positive catalyst in short run. Therefore we down grade Sany Int'l to "Hold" with target price HK\$3.42, based on FY2013E PER of 15.0x (40% discount on average PER in the past 3-Yr).

Risk factors: Competition from international players; Concentration of product type; Prolong downturn of coal mining industries

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12A	FY13E	FY14E
Revenue (Rmb mn)	2,684	3,780	3,641	4,156	4,333
Chg (%YoY)	41.1	40.9	(3.7)	14.2	4.2
Net Income (Rmb mn)	671	774	500	571	678
Chg (%YoY)	36.7	15.5	(35.5)	14.2	18.9
EPS (Rmb)	0.215	0.249	0.160	0.183	0.218
Chg (%YoY)	36.7	15.5	(35.5)	14.2	18.9
PER (x)	-	10.52	16.12	14.11	11.87
PBR (x)	-	1.52	1.45	1.35	1.23
Yield (%)	-	1.73	2.00	1.42	1.68
ROAA (%)	11.8	11.6	6.5	6.9	7.8
ROAE (%)	15.0	15.3	9.1	9.8	10.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABC SECURITIES COMPANY LIMITED

Sany Heavy Equipment International Holdings

Sluggish Coal Price Discouraging Capex Growth

Weakening coal price, the major challenge for recovery of coal mining operators' capex

The business of the Group in 2HFY2012 was adversely affected by the significant decline of capex of coal miners due to weak coal prices. Qinhuangdao 5800kc index (reflecting China coal price) was falling from the peak at USD156.2/ton in November 2011 to USD115.7/ton in January 2013.

The growth of fixed assets investment ("FAI") of coal mining industries decelerated from 13.1% YoY in 3Q2012 to 0.2% YoY in 4Q2012. The weak coal prices trampled down the growth of coal mining FAI and hence the coal mining machinery makers which discourage the mine operators to increase capex.

So far, we do not see any recovery signal from the latest monthly coal mining FAI unveiled by NBS. We expect that the purchases of machineries from coal mine operators during 1H2013 will be prudent. A slow recovery on mining activities may appear in 2H2013 following the recovery of manufacturing activities.

Slow Recovery on Roadheader

Roadheader is the key product of the Group. We estimate that it accounts for 62.2% of total revenue and 79.5% of total gross profit in FY2012.

Based on our replacement cycle analysis, we estimate that the sales volume growth of roadheader is 10.5% YoY in 2013. Because of the leading position of Sany Int'l in roadheader market with market share of est. 31.2% based on our estimated sales volume in 2012, we expect the sales recovery of the Group will be in line with the market pace at 10.5% YoY in FY2013.

We assume the average selling price to stay flat in 2013. Therefore, we estimate the roadheader segment revenue to increase by 10.5% YoY in FY2013, slowly recover from est. -10.1% YoY in FY2012.

Hurdles for Diversification via CCMU

We estimate that the sales revenue growth of combined coal mining unit ("CCMU") will decelerate from est. 11.8% YoY in FY2012 to 10.2% YoY in FY2013. We expect the product diversification process of the Group will face two major hurdles in the coming years.

Hurdle from international giants

The aggressive expansion of Caterpillar and Joy Global create challenges

The juicy China's market has attracted the appetite of international players, such as Joy Global (JOY US) and Caterpillar (CAT US). With M&A activities in China, the international machinery makers not only engulf the sales channels from domestic players, but also the production bases such that they can lower the production cost via localization.

The challenge from expansion of international players in China creates hurdle for Sany Int'l to push its boundaries from roadheader to CCMU.

Low profitability of CCMU

Harsh business environment block the profitability improvement

As the lack of economies of scales, the profitability of CCMU is low in the Group. The gross profit margin (“GPM”) of CCMU was estimated at -5.5% in FY2011 and 1.0% in FY2012. The low GPM of CCMU will drag down the Group’s overall profitability. We believe the management of the Group will slow down the pace of development of CCMU in 2013 under the harsh business environment for the sake of stabilizing the Group’s earnings capabilities.

We are positive in long run

Indeed, CCMU of Sany Int’l is a combo of hydraulic roof support, armored-face conveyor and coal face shearer. According to China National Coal Mining Machinery Industry Association, the total revenue of hydraulic roof support is estimated to be 51.9% as percentage of total revenue of the industry.

We believe the Group is able to capture the market share in long run by leveraging the R&D capabilities, the reputation of the brand of “Sany” and the comprehensive sales channel and supporting network.

Positive in long run as the proven track record of Sany Group

Given that Sany Heavy (600031 CH), a sister company of Sany Int’l, has successfully capture the market share from international players in the excavator market since 2009, and becomes the largest players in China market based on sales volume in 2011 and 2012, we believe the effective managing and execution power of Sany Group with long track record of marketing campaigns will bring success to the expansion of CCMU of Sany Int’l ultimately.

Other Segments

Leveraging on Sany Group’s R&D capabilities

Besides, the Group seeks product diversification from supplementary coal mining machineries as well, other than CCMU. We believe that the development of products, such as coal mine concrete pump, can leverage on the technological knowhow from Sany Heavy. The market share of truck mounted concrete pump of Sany Heavy is estimated at 40.3% based on sales revenue in FY2012 after acquiring Putzmeister Holding GmbH (“Putzmeister”) in 2012. Putzmeister is a developer and manufacturer of concrete machineries for the construction industries with over 50 years of experience based in Germany.

The other segments of the Group include sales of spear parts of underground mining machineries, underground coal mine vehicle and coal mine concrete pump. The total revenue from other segments contributed 16.8% of total Group’s revenue in FY2011 and 19.9% in 1HFY2012.

Based on the sales of roadheader in FY2009 to FY2011, we believe the growth of spear parts and after sales services will maintain at a relatively high level at 30.2% YoY in FY2013.

However, we estimate that the segments growth will be in line with the growth of roadheader segment and CCMU segment in long run. We estimate it to grow at a CAGR of 17.2% from FY2012 to FY2014.

GPM Expected to Remain Downtrend in FY2013

Weakening GPM is expected during the market downturn

During the harsh time of coal mining machineries industry, we believe it is difficult to enhance the product selling price in 2013. We expect the average selling price of the Group will stay flat in 2013. However, with the demand for low-end products overwhelming the high-end products during the capex slowdown from downstream industries, we expect the GPM of the Group to remain at a relatively low level in 2013. We estimate that the GPM of the Group will be 36.9% in FY2013, which is similar to GPM in FY2012 at 36.5%, but lower than that in FY2010 at 46.2% and in FY2011 at 40.4%.

Good Assets Quality

Low debt level lowers the financial burden

The Group was in net cash position and low debt level as of December 31, 2012, which represents that the Group can source financing in an easier way in the future. The asset quality is one of the comparative advantages of the Group comparing with other machinery markers.

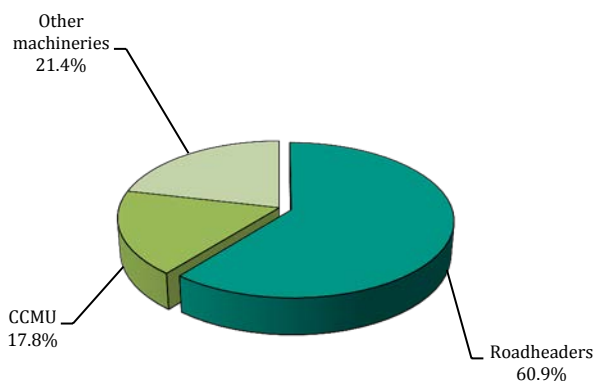
Cash flow taking time to improve

Cash flow takes time to improve under the growth stage

The cash flow of Sany Int'l is relatively weak peers'. The average operating cash flow / net income ratio of the Group during FY2006 to 1HFY2012 was 9.1%, which is lower than that of ZMJ at 61.2%, Caterpillar at 160.9% and Joy Global at 99.0%. We believe that the weak cash flow of Sany Int'l is because of the expansion of businesses. Sany Int'l is now staying at fast growing stage, where the CAGR of top line of Sany Int'l were 69.2% during FY2007 to FY2011. The CAGR of ZMJ's top line and bottom line were 36.1% during the same period of time.

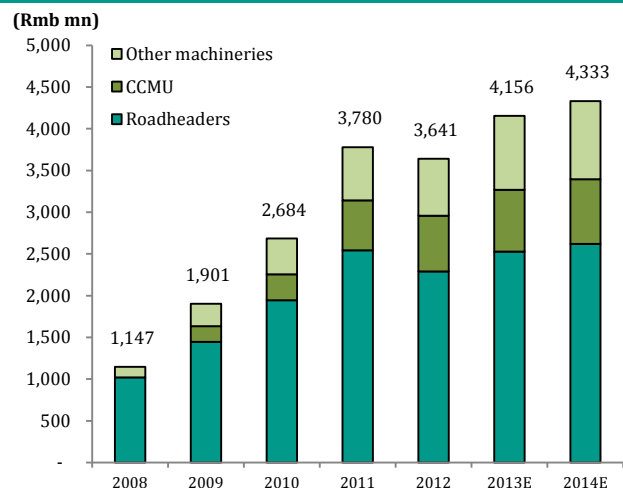
We believe the cash flow of the Group to be improved gradually with the stabilization of the new businesses.

Estimated product mix of the Group, FY2013E



Source: Company

Revenue production of the Group, FY2008-FY2014E



* The breakdown of revenue is estimated by ABCI Securities for FY2012
Source: Company, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Sany Heavy Equipment International Holdings

Financial highlights of the Group

	1H10	FY10	1H11	FY11	1H12	FY12	1H11 (% YoY)	FY11 (% YoY)	1H12 (% YoY)	FY12 (% YoY)
Revenue (Rmb mn)	1,310	2,684	1,782	3,780	2,345	3,641	36.02	40.87	31.61	-3.69
Roadheaders	930	1,943	1,338	2,544	1,477		43.93	30.92	10.36	
CCMU	225	312	225	599	402		0.00	92.02	78.62	
Others	155	428	219	637	467		40.83	48.74	113.23	
Gross Profit	590	1,238	810	1,526	952	1,329	37.21	23.19	17.54	-12.91
Roadheaders	474	997	709	1,310	745		49.58	31.43	5.07	
CCMU	26	36	12	(33)	20		-51.75	-192.64	62.38	
Others	90	206	88	248	187		-3.18	20.59	113.23	
GPM (%)	45.05	46.15	45.45	40.36	40.59	36.50	0.40ppts	-5.79ppts	-4.86ppts	-3.87ppts
Roadheaders	51.00	51.30	53.00	51.50	50.46		2.00ppts	0.20ppts	-2.54ppts	
CCMU	11.40	11.40	5.50	-5.50	5.00		-5.90ppts	-16.90ppts	-0.50ppts	
Others	58.18	48.10	40.00	39.00	40.00		-18.18ppts	-9.10ppts	0.00ppts	
Major cost (Rmb mn)										
Selling cost	(152)	(335)	(215)	(465)	(307)	(566)	41.90	38.73	42.92	21.66
Administrative cost	(95)	(249)	(172)	(382)	(167)	(375)	80.72	53.56	-2.70	-1.84
Net finance cost	-	(6)	(3)	(5)	(1)	(5)	N/A	-19.02	-80.65	-0.02
Cost ratio (%)										
Selling cost	11.57	12.50	12.07	12.31	13.11	15.55	0.50ppts	-0.19ppts	1.04ppts	3.24ppts
Administrative cost	7.26	9.27	9.64	10.11	7.13	10.30	2.38ppts	0.84ppts	-2.51ppts	0.19ppts
Net finance cost	0.00	0.22	0.17	0.12	0.03	0.13	0.17ppts	-0.09ppts	-0.15ppts	0.00ppts
Net profit (Rmb mn)	342	671	416	774	484	500	21.64	15.48	16.35	-35.49
Net profit margin (%)	26.11	24.99	23.35	20.48	20.64	13.72	-2.76ppts	-4.50ppts	-2.71ppts	-6.76ppts
Operating cash flow (Rmb mn)	(887)	280	(364)	(220)	(147)	86	-58.96	-178.44	-59.62	-139.16
OCF/Net income (%)	-259.36	41.75	-87.50	-28.36	-30.37	17.22	171.86ppts	-70.11ppts	57.13ppts	45.57ppts

Source: Company

Major change of our forecast

	Forecast	FY12A Actual	Diff (%)	Previous	FY13E New	Chg (%)	Previous	FY14E New	Chg (%)
Revenue (Rmb mn)	3,681	3,641	-1.09	5,471	4,156	-24.03	6,921	4,333	-37.40
Roadheaders	2,288	2,288	0.01	3,546	2,529	-28.68	4,543	2,622	-42.28
CCMU	670	670	-0.02	817	738	-9.62	1,010	773	-23.42
Others	723	683	-5.57	1,108	889	-19.78	1,369	938	-31.51
Gross profit (Rmb mn)	1,397	1,329	-4.89	2,257	1,532	-32.10	2,920	1,678	-42.54
GPM (%)	37.95	36.50	-1.46ppts	41.26	36.87	-4.38ppts	42.19	38.72	-3.46ppts
Net income (Rmb mn)	507	500	-1.47	979	571	-41.71	1,284	678	-47.18
Net margin (%)	13.77	13.72	-0.05ppts	17.89	13.73	-4.16ppts	18.55	15.65	-2.90ppts
EPS (Rmb)	0.160	0.160	0.29	0.314	0.183	-41.71	0.412	0.218	-47.18
BVPS (Rmb)	1.840	1.787	-2.90	2.202	1.916	-12.97	2.550	2.095	-17.86
DPS (Rmb)	0.033	0.052	56.86	0.063	0.037	-41.71	0.082	0.044	-47.18

Source: ABCI Securities estimates

Down grade to “Hold”

Disappointing results FY2012

Pain in short term as the market downturn

The Group managed to post disappointing results for FY20102. Its half-year net income in 2HFY2012 tumbled 95.7% YoY, dragging down annual net income by 35.5% YoY. So far, we have not observed any recovery signal of coal mining machinery industry from the latest coal mining FAI. The coal mining machinery sector will remain sluggish in the 1Q2013.

We believe the coal mining industry to longer time to recover, and we cut our earnings forecasts of the Group for FY2013 and FY2014. Net income estimation was cut from Rmb979mn to Rmb589mn in FY2013, and from Rmb1,284mn to Rmb695mn in FY2014.

Positive in mid-to-long run

But positive in long run as the leading market position with strong Sany Group's reputation and R&D capability

With the strong R&D and product production capability and leveraging on the operating and business expansion experience of Sany Group, we believe Sany Int'l is likely to push its boundaries from Roadheader to other coal mining machineries successfully. The product diversification not only increases the sources of income of the Group, but also enhances the comprehensiveness to the product portfolio. We are positive to the Group in long run.

Down grade to “Hold” with TP: HK\$3.42

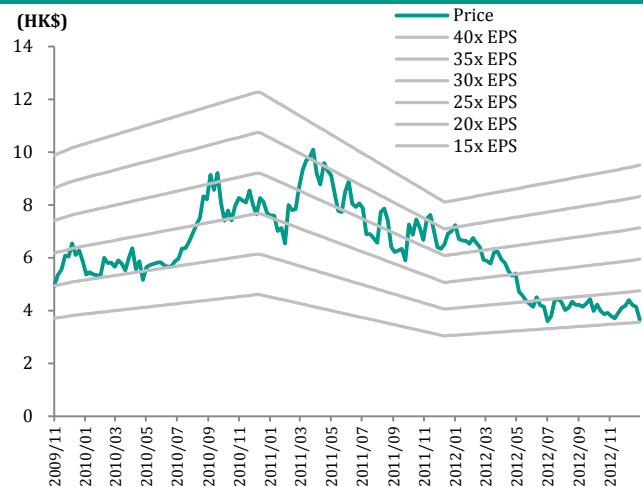
Sany Int'l is trading at 14.1x FY2013E PER, which is 29.4% premium to the mean of its peers (mining machinery makers) at 10.9x. The valuation of the stock is at the bottom since it has been listed in 2009. We have put the Group at “Under review” from “Buy” rating on January 21, 2012. Although we believe the current valuation has already reflected the negative factors, there is lack of positive catalyst to drive the counter up. Therefore we down grade Sany Int'l to “Hold” with target price HK\$3.42, based on FY2013E PER of 15.0x (40% discount on the average PER in the past 3-Yr).

PB band of the Group



Source: Company, Bloomberg, ABCI Securities estimates

PE band of the Group



Source: Company, Bloomberg, ABCI Securities estimates



Financial Statements Projection

Consolidated income statements forecast

FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12A	FY13E	FY14E
Revenue	2,684	3,780	3,641	4,156	4,333
Roadheaders	1,943	2,544	2,288 ¹	2,529	2,622
CCMU	312	599	670 ¹	738	773
Other machineries	428	637	683 ¹	889	938
Cost of sales	(1,445)	(2,255)	(2,312)	(2,624)	(2,655)
Gross profit	1,238	1,526	1,329	1,532	1,678
Other income	89	217	231	226	253
Selling and distribution	(335)	(465)	(566)	(626)	(649)
Administrative expenses	(128)	(196)	(271)	(303)	(320)
Research and development cost	(121)	(186)	(104)	(125)	(130)
Other expenses	(18)	(11)	(22)	(22)	(20)
EBIT	726	884	597	684	812
Finance costs	(6)	(5)	(5)	(5)	(6)
Associates	-	-	-	-	-
Pre-tax profit	720	880	593	679	806
Tax expenses	(49)	(105)	(93)	(106)	(126)
Minority interests	-	-	(1)	(2)	(2)
Net income	671	774	500	571	678

1: Estimated by ABCI Securities

Source: Company, ABCI Securities estimates

Income statement key ratios forecast

FY	FY10A	FY11A	FY12A	FY13E	FY14E
Sales mixed (%)					
Roadheaders	72.4	67.3	62.9 ¹	60.9	60.5
CCMU	11.6	15.8	18.4 ¹	17.8	17.8
Other machineries	16.0	16.8	18.8 ¹	21.4	21.6
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross profit margin	46.2	40.4	36.5	36.9	38.7
EBIT margin	27.0	23.4	16.4	16.4	18.7
Pre-tax margin	26.8	23.3	16.3	16.3	18.6
Net margin	25.0	20.5	13.7	13.7	15.7
Selling & distribution cost / revenue	12.5	12.3	15.5	15.1	15.0
Admin cost / revenue	4.8	5.2	7.4	7.3	7.4
Effective tax rate	4.5	4.9	2.9	3.0	3.0
	6.8	12.0	15.6	15.6	15.6
Growth (%)					
Revenue	41.1	40.9	(3.7)	14.2	4.2
Gross profit	36.8	23.2	(12.9)	15.3	9.5
EBIT	38.4	21.9	(32.5)	14.5	18.7
Net income	36.7	15.5	(35.5)	14.2	18.9

1: Estimated by ABCI Securities

Source: Company, ABCI Securities estimates



Consolidated balance sheets forecast

As of Dec 31 (Rmb mn)	FY10A	FY11A	FY12A	FY13E	FY14E
Current assets	4,527	4,826	4,608	5,186	5,406
Cash and equivalent	1,940	802	949	905	1,478
Restricted cash	38	55	94	103	113
Trade and other receivables	1,156	2,298	2,334	2,904	2,556
Inventories	384	719	860	865	808
Other current assets	1,009	951	372	409	450
Non-current assets	1,357	2,641	3,371	3,273	3,612
Property, plant and equipment	838	1,657	2,234	2,221	2,471
Land use rights	326	435	529	518	510
Intangible assets	-	-	43	143	213
Other non-current assets	193	549	565	391	418
Total assets	5,883	7,466	7,979	8,459	9,017
Current liabilities	850	1,763	1,809	1,824	1,757
Trade and other payables	278	738	723	715	595
Other payables	447	726	704	869	919
Short term borrowings	-	-	189	189	189
Other	126	299	194	52	55
Non-current liabilities	281	330	474	523	577
Long term borrowings	-	-	-	-	-
Other	281	330	474	523	577
Total liabilities	1,132	2,092	2,284	2,347	2,334
Minority interests	-	-	67	73	81
Shareholders' equities	4,752	5,374	5,629	6,038	6,602

Source: Company, ABCI Securities estimates

Balance sheets key ratios forecast

FY	FY10A	FY11A	FY12A	FY13E	FY14E
Balance sheet ratios					
Current ratio (x)	5.3	2.7	2.5	2.8	3.1
Quick ratio (x)	4.9	2.3	2.1	2.4	2.6
Cash ratio (x)	2.3	0.5	0.6	0.6	0.9
Total receivables turnover days	134.2	166.8	232.2	230.0	230.0
Trade and bill receivables days	134.2	166.8	232.2	230.0	230.0
Total payables turnover days	205.3	177.2	228.2	209.4	212.9
Trade and bill payables turnover days	83.0	82.2	115.3	100.0	90.0
Inventory turnover days	119.0	89.3	124.6	120.0	115.0
Total debt / equity ratio (%)	-	-	3.3	3.1	2.8
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROAA	11.8	11.6	6.5	6.9	7.8
ROAE	15.0	15.3	9.1	9.8	10.7
Payout ratio	19.8	18.2	32.3	20.0	20.0
Per share data (Rmb)					
EPS	0.215	0.249	0.160	0.183	0.218
BVPS	1.527	1.727	1.787	1.916	2.095
DPS	0.043	0.045	0.052	0.037	0.044

Source: Company, ABCI Securities estimates



Consolidated cash flow statements forecast

FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Profit before tax	720	880	593	679	806
DD&A	12	(46)	91	(20)	(127)
Change in working capital	(440)	(928)	(213)	(419)	335
Income tax paid	(27)	(125)	(36)	(41)	(48)
Others	15	-	(349)	8	11
CF Operating	280	(220)	86¹	207	977
Increase in PP&E	(435)	(819)	(577)	13	(250)
Increase in intangible assets	7	(152)	(151)	(102)	(42)
Other	(1,844)	1,083	966	-	-
CF Investing	(2,273)	112	238¹	(89)	(292)
Capital injection	-	-	-	-	-
Net debt financing	-	-	189	-	-
Dividend payout	(110)	(133)	(141)	(161)	(114)
Others	20	(25)	(1)	-	1
CF Financing	(89)	(158)	47¹	(161)	(113)
Net change in cash	(2,082)	(265)	371	(44)	572
Cash at the beginning	3,096	1,940	802	949	905
Adjustment for pledge deposit	926	(873)	(224)	(0)	1
Cash at the end	1,940	802	949	905	1,478

1: Actual data based on the result announcement

Source: Company, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Sany Heavy Equipment International Holdings

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Company Report

ZMJ (564 HK)

February 26, 2013

Rating: Hold

TP: HK\$10.15

Key data

H-Share price (HK\$)	9.71
Upside potential (%)	4.5
52Wk H/L(HK\$)	12.66/9.38
Issued shares (mn)	1,621
H-share	243
A-share	1,378
H-Market cap (HK\$mn)	2,360
30-day avg daily vol (HK\$mn)	14.7
Auditors	Deloitte
Major shareholder (%)	
Henan Sasac	32.1

Source: Company & Bloomberg

Revenue breakdown by product (%)

Hydraulic roof supports	69.3
Other machineries	3.1
Steel and other materials trading	23.7
Others	3.9

*Based on 1HFY12 results

Source: Company

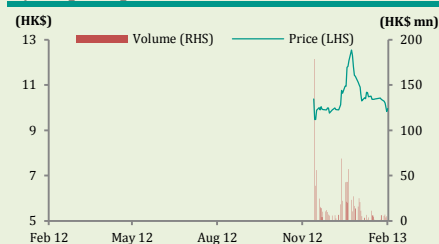
Share performance (%)

	Absolute	Relative ¹
1-mth	-6.1	-2.8
3-mth	N/A	N/A
6-mth	N/A	N/A

1: Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst Information

Steve Wong

Tel: (852) 2147 8869

Email: stevecwong@abci.com.hk

Previous report

Date: N/A

Rating: N/A

Target price: N/A

Facing Attack from Two Ways

On one hand, the sluggish coal mining industries shrinks the cake for mining machinery makers in 2013. The growth and profit margin are facing challenges in FY2013. On the other hand, the expansions of international leading mining machinery makers, as well as domestic peers, heat up the market competition in mid-to-long run. As lack of catalyst drives up the stock, we initiate “Hold” rating to the Group with TP HK\$10.15.

Bad sentiment of coal mining machineries. The weakening coal price discourages the mine operators to expand in 2H2012 and 2013. The purchases of mining machineries are expected to delay to 2H2013. Slowdown of the coal mining industries will drag down the growth of ZMJ in FY2013. We estimate that the segment revenue growth of hydraulic roof support will be cooled down to 7.0% YoY in FY2013, from 10.8% YoY in FY2012.

Threats from international players. International leading mining machinery makers, such as Caterpillar (CAT US) and Joy Global (JOY US), expand in China via M&As. The localization of international players will enhance their competitiveness and erode the market share from the Group.

Expansion of Sany Int’l. Sany Int’l (631 HK), the largest roadheader makers, is pushing its boundaries to hydraulic roof support market. Though the harsh environment expected in 2013 will postpone the schedule, considering with the successful history of winning market share from Caterpillar in excavator market by Sany Heavy (600031 CH), the sister company of Sany Int’l, it is a large threat for ZMJ.

Initiate “Hold”. ZMJ is trading at 8.6x FY2013E PER, which is 21.1% discount to the mean of its peers at 10.9x. There is lack of positive catalyst to drive the stock up. Therefore we initiate “Hold” to ZMJ with target price HK\$10.15, based on FY2013E PER of 9.0x, or 40% discount of our target valuation at 15.0x for Sany Int’l reflecting the weaker in growth opportunity and profitability.

Risk factors: Competition from international players; Concentration of product type; Prolong downturn of coal mining industries

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rmb mn)	6,358	8,060	9,729	10,503	12,237
Chg (%YoY)	27.3	26.8	20.7	8.0	16.5
Net Income (Rmb mn)	883	1,194	1,584	1,468	1,742
Chg (%YoY)	40.0	35.3	32.7	(7.3)	18.6
EPS (Rmb)	0.630	0.853	0.977	0.906	1.075
Chg (%YoY)	40.0	35.3	14.6	(7.3)	18.6
PER (x)	-	9.26	7.98	8.61	7.26
PBR (x)	-	1.97	1.43	1.29	1.11
Yield (%)	-	1.74	2.51	2.32	2.76
ROAA (%)	12.8	12.3	12.5	9.5	10.0
ROAE (%)	27.2	22.0	21.1	15.2	15.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company, ABCI Securities estimates



Sluggish Coal Price Discouraging Capex Growth

Market downturn the fetal attack in 2012 and 2013

*Growth of coal mining FAI was decreasing from:
35.1% YoY in 1Q12 to
23.1% YoY in 1-2Q12; to
14.4% YoY in 1-3Q12; to
7.7% YoY in 2012*

Revenue was up 20.0% YoY to Rmb7,307mn in 1-3QFY2012. It was better than that of the peers. The total FAI on coal mining industries was up 14.4% YoY during the same period of time. Although we expect the Group to post good results in FY2012, the growth of sales is likely to tumble in FY2013.

Qinhuangdao 5800kc index (reflecting China coal price) was falling from the peak at USD156.2/ton in November 2011 to USD115.7/ton in January 2013. The growth of fixed assets investment (“FAI”) of coal mining industries is decreasing during 2012. The weak coal prices slows down coal mining FAI and hence the coal mining machinery makers which discourage the mine operators to increase capex.

So far, we do not see any recovery signal from the latest monthly coal mining FAI unveiled by NBS. We expect the purchases of machineries from coal mine operators during 1H2013 will maintain lukewarm.

Weak Growth on Hydraulic Roof Support

The growth on revenue of the Group was slowing down in 3QFY12 with the coal mining FAI in China. We expect the sales growth of hydraulic roof support will maintain at a slow pace in FY2013. We estimate that the segment revenue growth of the Group will be slowed down to 7.0% YoY in FY2013, from 10.8% YoY in FY2012.

Threat from Caterpillar

Caterpillar, the giant global player, gets into the hydraulic roof support market via acquiring ERA

Caterpillar acquired ERA Mining Machinery Limited (“ERA”, 8043 HK, delisted), the third largest hydraulic roof support maker in China with market share of est. 6.1% based on our estimated sales revenue in 2012, in order to enrich the comprehensiveness of the product portfolio of the Caterpillar. Although Caterpillar found an accounting misconduct at Zhengzhou Siwei Mechanical & Electrical Manufacturing Company Limited (“Siwei”), wholly owned subsidiary of ERA, as a result in a non-cash goodwill impairment charge of USD580mn, according to Caterpillar, it does not change the plans to develop and expand the businesses in China.

The expansion of Caterpillar in China is expected to threaten the market position of ZMJ, especially the high-end hydraulic roof support market. We believe the growth of segment revenue will be challenged.

Expansion of Sany Int'l

Facing challenge of new comer with proven track record of fighting for market share

Sany Int'l (631 HK), the largest makers of roadheader in China, started to expand its businesses of hydraulic roof support (via a product combo called combined coal mining unit, or known as CCMU) since 2009. Although the product is still loss-making in FY2012, the profitability of CCMU will be improved by economies of scales with the expansion strategies of Sany Int'l gradually.

By considering with the successful history of capturing market share in excavator market by Sany Group from the international players, the ambition of Sany Int'l would be a huge attack for ZMJ.

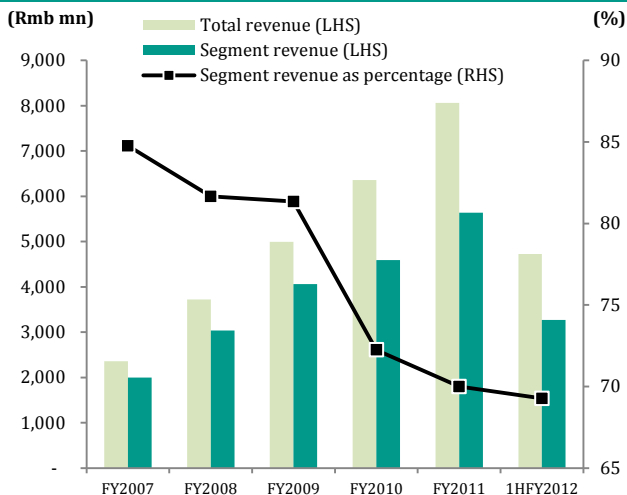
Lack on Income Source Diversification

Over dependence on hydraulic roof support

ZMJ seeks business diversification via developing other coal mining machineries such as roadheader and coal face shearer. The segment revenue of hydraulic roof support as percentage total revenue of the Group was dropping from 84.8% in FY2007 to 70.0% in FY2011 and 69.3% in 1HFY2012. However, the segment gross profit as percentage of total gross profit was increasing from 78.9% in FY2007 to 85.8% in FY2011 and 91.2% in 1HFY2012. The product cycle risk of the Group is high compared with that of peers.

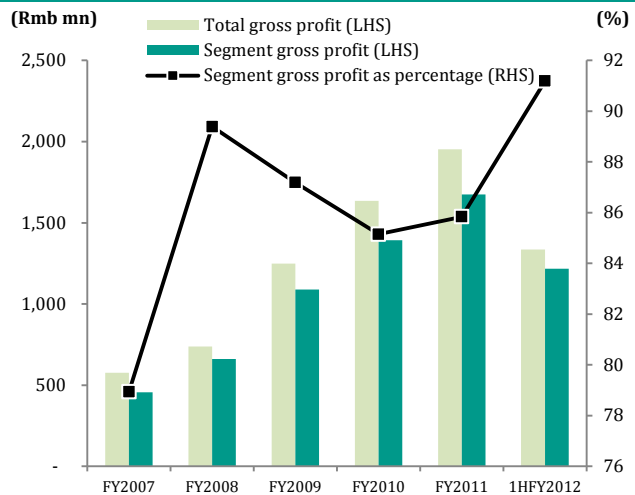
In contrast, Sany Int'l has carried out business diversification in a more successful way. The segment revenue as percentage of total revenue decreased from 94.7% in FY2007 to 67.3% in FY2011 and 63.0% in 1HFY2012. The segment gross profit as percentage of total gross profit decreased from 94.4% in FY2007 to 85.9% in FY2011 and 78.3% in 1HFY2012.

Hydraulic roof support segment revenue vs. total revenue of ZMJ, FY2007-1HFY2012



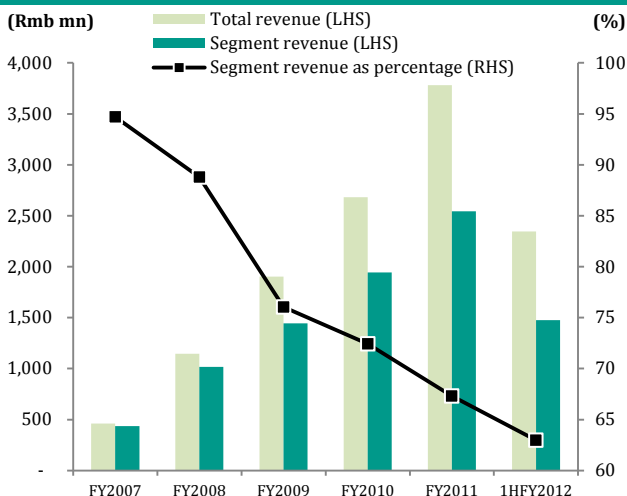
Source: Company, ABCI Securities

Hydraulic roof support segment gross profit vs. total gross profit of ZMJ, FY2007-1HFY2012



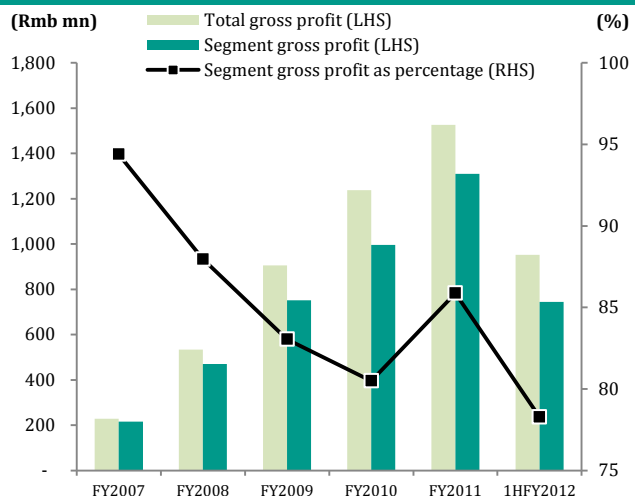
Source: Company, ABCI Securities

Roadheader segment revenue vs. total revenue of Sany Int'l, FY2007-1HFY2012



Source: Company

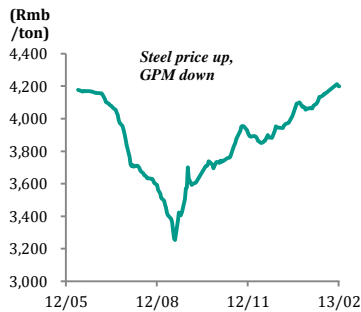
Roadheader segment gross profit vs. total gross profit of Sany Int'l, FY2007-1HFY2012



Source: Company, ABCI Securities estimates

Expect GPM Drop with Increase of Steel Price

China domestic hot rolled steel sheet spot average price, 5M2012-2M2013



Source: Bloomberg

The gross profit margin (“GPM”) of the Group increased by 1.5ppts YoY from 26.8% in 1HFY2011 to 28.3% in 1HFY2012. The increase in GPM was mainly because of the GPM enhancement of hydraulic roof support segment. The high-end hydraulic roof support of ZMJ increased 5.4ppts YoY from 42.0% in 1HFY2011 to 47.4% in 1HFY2012, and the low-end hydraulic roof support increased 4.0ppts YoY from 25.2% in 1HFY2011 to 29.2% in 1HFY2012.

With the rebound of steel price, which is the major raw material of hydraulic roof support and accounted for 59.8% of total cost of production of ZMJ in 1HFY2012, we believe the GPM to reduce in FY2013. We estimate GPM of the Group will shrink by 3.2ppts YoY from est. 25.7% in FY2012 to 22.5% in FY2013.

Good Assets and Earnings Quality

The Group was in net cash position as of June 2012, which represents that the Group can source financing in an easier way in the future. The asset quality is one of the comparative advantages of the Group comparing with other machinery markers.

The cash flow of ZMJ is relatively good. The operating cash flow (“OCF”) / Net income ratio of the Group, in average, during FY2007 to 1HFY2012 was 61.2%, which is higher than that of Sany Int’l at 9.2%. The higher in OCF / Net income ratio reflects a cash flow of the Group.

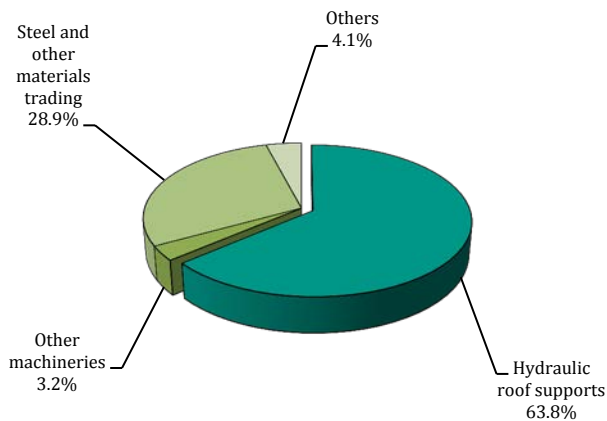
Furthermore, the trade and bill receivable turnover days of the Group, ranging from 75.0 days to 103.5 days in FY2008 to FY2011 was shorter than that of Sany Int’l, ranging from 105.0 days to 166.8 days during the same period of time. The shorter in trade and bill receivable turnover days reflects that the Group has a better cash collectability and liquidity.

However, with the challenges from international players, as well as Sany Int’l expansion in hydraulic roof support market, we expect that the Group will trade off part of the earnings quality for defending market position.

Good operating cash flow with net cash position

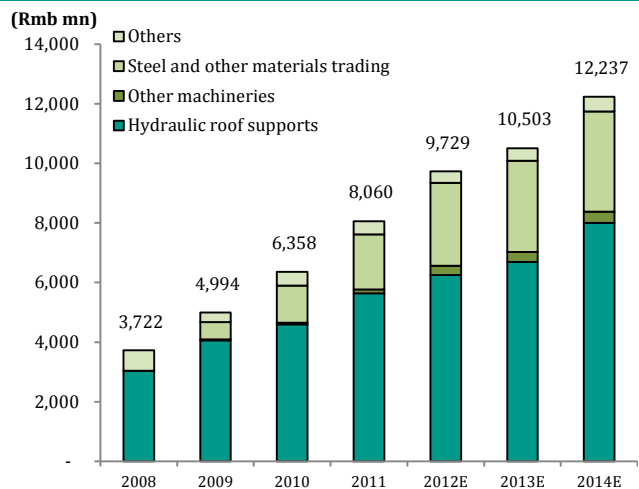
Cash cow expected to be weakened under the keener market competition

Estimated product mix of the Group, FY2013



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)	1,791	3,751	6,090	8,060	2,187	4,724	7,307	22.11	25.94	19.98
Hydraulic roof supports		2,675		5,642		3,272			22.32	
Other machineries		56		122		145			160.57	
Steel and other materials trading		614		1,855		1,121			82.57	
Others		241		441		185			-23.22	
Gross profit (Rmb mn)	381	1,005	1,398	1,952	492	1,335	1,806	29.13	32.90	29.23
Hydraulic roof supports		902		1,676		1,217			35.02	
Other machineries		7		14		17			125.57	
Steel and other materials trading		53		184		74			40.11	
Others		43		79		27			-36.96	
GPM (%)	21.27	26.78	22.95	24.22	22.50	28.26	24.72	1.22ppts	1.48ppts	1.77ppts
Hydraulic roof supports		33.70		29.70		37.20			3.50ppts	
Other machineries		13.40		11.30		11.60			-1.80ppts	
Steel and other materials trading		8.60		9.90		6.60			-2.00ppts	
Others		17.68		17.91		14.52			-3.16ppts	
Major cost										
Selling and distribution cost	(42)	(90)	(148)	(224)	(66)	(176)	(225)	57.14	94.56	51.55
General administrative cost	(92)	(153)	(145)	(360)	(94)	(200)	(329)	2.17	30.94	126.67
Other expenses (net)	4	7	41	(7)	12	41	66	200.00	485.71	60.98
Major cost/revenue (%)										
Selling and distribution cost	2.35	2.41	2.44	2.78	3.02	3.73	3.08	0.67ppts	1.31ppts	0.64ppts
General administrative cost	5.14	4.07	2.38	4.46	4.30	4.23	4.50	-0.84ppts	0.16ppts	2.12ppts
Other expenses (net)	-0.22	-0.19	-0.67	0.09	-0.55	-0.87	-0.90	-0.33ppts	-0.68ppts	-0.23ppts
Net income (Rmb mn)	288	590	919	1,194	419	812	1,205	45.49	37.63	31.12
Net margin (%)	16.08	15.73	15.09	14.81	19.16	17.19	16.49	3.08ppts	1.46ppts	1.40ppts
Operating cash flow (Rmb mn)	348	371	499	537	(47)	(108)	260	-113.51	-129.11	-47.90
OCF/Net income (%)	120.83	62.88	54.30	44.98	-11.22	-13.30	21.58	-132.05ppts	-76.18ppts	-32.72ppts

Source: Company

Earnings quality of ZMJ and Sany Int'l

		FY2007	FY2008	FY2009	FY2010	FY2011	1-3Q FY12	Total value
ZMJ	Net income (Rmb mn)	204	481	630	883	1,194	1,205	4,597
564 HK	Operating cash flow (Rmb mn)	227	360	577	851	537	260	2,812
	OCF/Net income (%)	111.34	74.91	91.50	96.42	44.98	21.58	61.17
SANY INT'L	Net income (Rmb mn)	106	189	490	671	774	484 ¹	2,715
631 HK	Operating cash flow (Rmb mn)	(21)	(148)	505	280	(220)	(147) ¹	250
	OCF/Net income (%)	-19.80	-78.28	103.01	41.75	-28.36	-30.36	9.19

1: The earnings data of Sany Int'l is as of 1HFY12

Source: Companies, ABCI Securities

Cash conversion cycle of ZMJ and Sany Int'l

		FY 2007	FY2008	FY2009	FY2010	FY2011	Average
ZMJ	Account receivable turnover (days)		75.04	88.50	103.49	99.10	94.32
564 HK	Account payable turnover (days)		72.57	82.65	95.22	103.96	93.48
	Inventory turnover (days)		147.07	119.57	91.74	87.96	106.71
	Cash conversion cycle (days)		149.53	125.43	100.01	83.11	107.55
SANY INT'L	Account receivable turnover (days)	106.75	105.00	122.97	134.22	166.77	152.66
631 HK	Account payable turnover (days)	237.53	127.13	109.46	83.04	82.24	105.23
	Inventory turnover (days)	274.30	183.72	170.74	119.03	89.32	130.97
	Cash conversion cycle (days)	143.52	161.59	184.25	170.21	173.84	178.39

Source: Companies, ABCI Securities

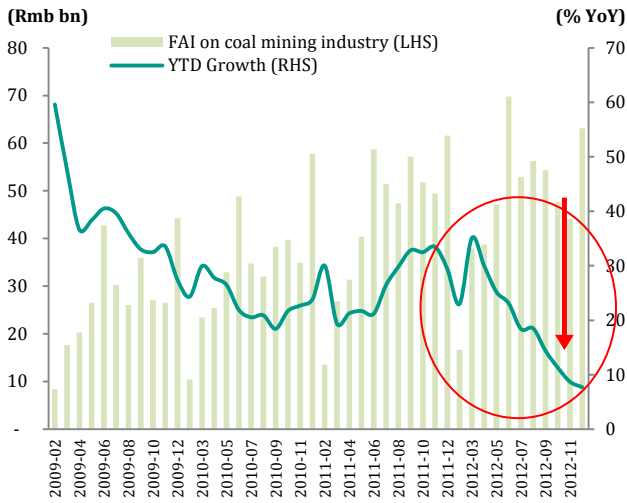


Initiate with "Hold"

Suffering with declining coal mining activities

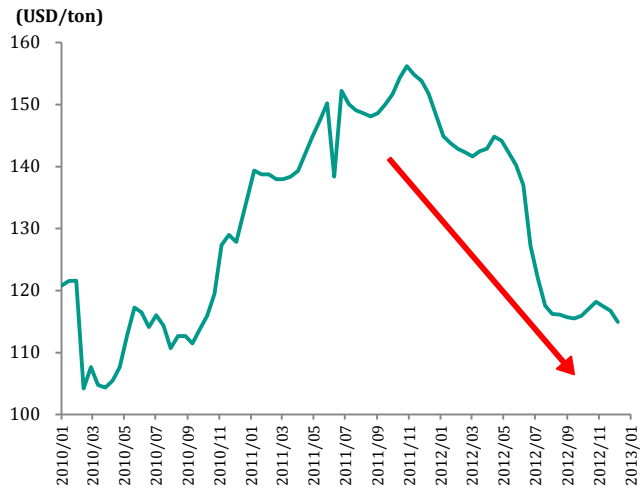
The growth of FAI of coal mining industries is decelerating from 35.1% YoY in 1Q2012 to 23.1% YoY in 1H2012, and further down to 7.7% YoY in 2012. The weakening coal price discourages the growth on capex of coal mine operators. We believe ZMJ will experience a harsh year in 2013.

Fixed assets investment on coal mining activities, 2012



Source: NBS

Coal price in China: Qinhuangdao 5800kc, 2010-1M2013

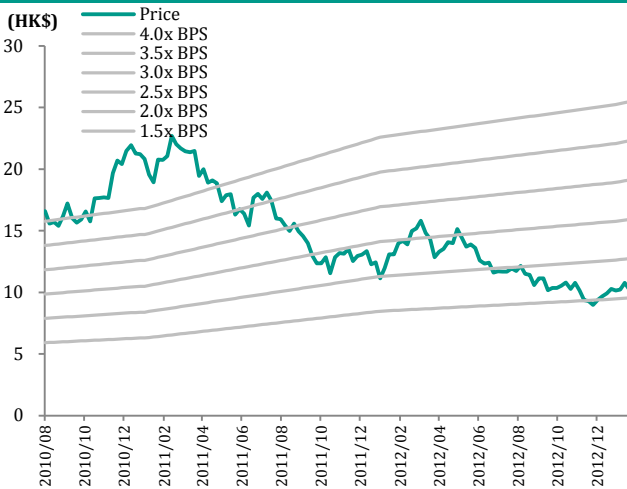


Source: Bloomberg

Initiate "Hold" with TP:HK\$10.15

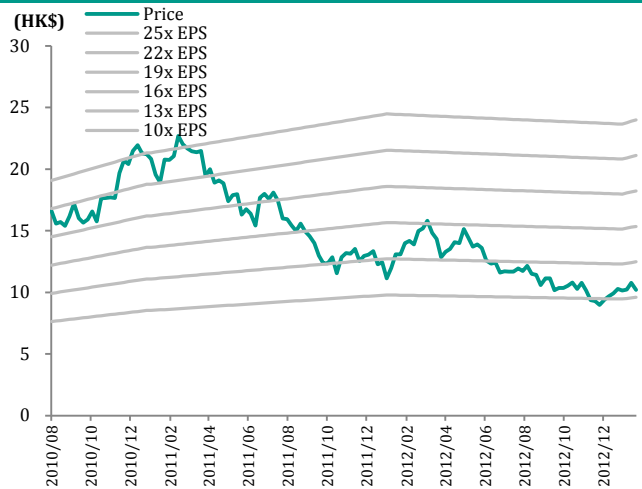
ZMJ is trading at 8.6x FY2013E PER, which is 21.1% discount to the mean of its peers at 10.9x. There is lack of positive catalyst to drive the counter up. Therefore we initiate "Hold" to ZMJ with target price HK\$10.15, based on FY2013E PER of 9.0x, or 40% discount of our target valuation at 15.0x for Sany Int'l (631 HK) reflecting the weaker in growth opportunity and profitability.

PB band of the ZMJ in A-share market



Source: Company, Bloomberg, ABCI Securities estimates

PE band of the ZMJ in A-share market



Source: Company, Bloomberg, ABCI Securities estimates



Financial Statements Projection

Consolidated income statements forecast

FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	6,358	8,060	9,729	10,503	12,237
Hydraulic roof supports	4,593	5,642	6,252	6,689	8,007
Other machineries	53	122	305	336	369
Steel and other materials trading	1,248	1,855	2,782	3,060	3,366
Others	465	441	389	418	494
Cost of sales	(4,724)	(6,108)	(7,229)	(8,135)	(9,421)
Gross profit	1,635	1,952	2,500	2,368	2,816
Other income	42	91	159	193	211
Selling and distribution	(154)	(224)	(297)	(317)	(377)
Administrative expenses	(299)	(255)	(373)	(383)	(446)
Research and development cost	(87)	(104)	(96)	(104)	(121)
Other net gain (loss)	(54)	(32)	-	-	-
EBIT	1,083	1,428	1,893	1,758	2,082
Finance costs	(19)	(7)	(4)	(3)	(3)
Associates	-	-	-	-	-
Pre-tax profit	1,064	1,421	1,889	1,755	2,079
Tax expenses	(172)	(208)	(283)	(263)	(312)
Minority interests	(10)	(19)	(21)	(23)	(26)
Net income	883	1,194	1,584	1,468	1,742

Source: Company, ABCI Securities estimates

Income statement key ratios forecast

FY	FY10A	FY11A	FY12E	FY13E	FY14E
Sales mixed (%)					
Hydraulic roof supports	72.2	70.0	64.3	63.7	65.4
Other machineries	0.8	1.5	3.1	3.2	3.0
Steel and other materials trading	19.6	23.0	28.6	29.1	27.5
Others	7.3	5.5	4.0	4.0	4.0
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	25.7	24.2	25.7	22.5	23.0
EBIT margin	17.0	17.7	19.5	16.7	17.0
Pre-tax margin	16.7	17.6	19.4	16.7	17.0
Net margin	13.9	14.8	16.3	14.0	14.2
Selling & distribution cost / revenue	2.4	2.8	3.1	3.0	3.1
Administrative cost / revenue	4.7	3.2	3.8	3.6	3.6
R&D cost / revenue	1.4	1.3	1.0	1.0	1.0
Effective tax rate	16.1	14.6	15.0	15.0	15.0
Growth (%)					
Revenue	27.3	26.8	20.7	8.0	16.5
Gross profit	30.9	19.4	28.1	(5.3)	18.9
EBIT	37.0	31.8	32.6	(7.1)	18.5
Net income	40.0	35.3	32.7	(7.3)	18.6

Source: Company, ABCI Securities estimates



Consolidated balance sheets forecast

As of Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Current assets	7,679	8,509	12,652	13,448	15,722
Cash and equivalent	3,636	3,239	6,122	7,011	7,277
Restricted cash	392	578	635	699	769
Trade and other receivables	2,039	2,338	2,993	2,762	3,943
Inventories	1,300	1,644	2,119	2,116	2,788
Other current assets	311	711	782	860	946
Non-current assets	1,374	1,927	2,242	2,638	3,143
Property, plant and equipment	1,059	1,496	1,685	1,974	2,359
Land use rights	217	284	379	373	368
Intangible assets	1	4	7	10	13
Other non-current assets	98	143	170	281	403
Total assets	9,053	10,435	14,893	16,086	18,865
Current liabilities	3,778	4,203	5,316	5,459	6,596
Trade and other payables	1,508	1,972	2,385	2,518	3,160
Other payables	551	532	974	827	975
Short term borrowings	70	15	-	-	-
Other	1,650	1,684	1,957	2,113	2,461
Non-current liabilities	135	84	125	138	154
Long term borrowings	115	65	50	50	50
Other	20	19	76	89	104
Total liabilities	3,913	4,287	5,441	5,597	6,750
Minority interests	145	275	302	332	365
Shareholders' equities	4,995	5,874	9,150	10,157	11,750

Source: Company, ABCI Securities estimates

Balance sheets key ratios forecast

FY	FY10A	FY11A	FY12E	FY13E	FY14E
Balance sheet ratios					
Current ratio (x)	2.0	2.0	2.4	2.5	2.4
Quick ratio (x)	1.7	1.6	2.0	2.1	2.0
Cash ratio (x)	1.1	0.9	1.3	1.4	1.2
Total receivables turnover days	103.5	99.1	100.0	100.0	100.0
Trade and bill receivables days	103.5	99.1	100.0	100.0	100.0
Total payables turnover days	127.6	136.3	148.0	150.4	144.9
Trade and bill payables turnover days	95.2	104.0	110.0	110.0	110.0
Inventory turnover days	91.7	88.0	95.0	95.0	95.0
Total debt / equity ratio (%)	3.6	1.3	0.5	0.5	0.4
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROAA	12.8	12.3	12.5	9.5	10.0
ROAE	27.2	22.0	21.1	15.2	15.9
Payout ratio	5.5	16.1	20.0	20.0	20.0
Per share data (Rmb)					
EPS	0.630	0.853	0.977	0.906	1.075
BVPS	3.464	4.000	5.458	6.061	7.023
DPS	0.034	0.138	0.195	0.181	0.215

Source: Company, ABCI Securities estimates

**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Zhengzhou Coal Mining Machinery Group**Consolidated cash flow statements forecast**

FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Profit before tax	1,064	1,421	1,889	1,755	2,079
DD&A	102	74	40	(150)	(61)
Change in working capital	(143)	(674)	(276)	221	(1,064)
Income tax paid	(172)	(284)	(305)	(284)	(336)
Others	-	-	114	145	159
CF Operating	851	537	1,462	1,687	777
Increase in PP&E	(647)	(437)	(189)	(289)	(385)
Increase in intangible assets	(60)	(70)	(98)	3	2
Other	(1,921)	284	47	(51)	19
CF Investing	(2,628)	(223)	(240)	(337)	(364)
Capital injection	-	-	1,740	-	-
Net debt financing	(190)	(105)	(31)	-	-
Dividend payout	(110)	(133)	(48)	(461)	(149)
Others	2,756	46	-	-	1
CF Financing	2,456	(191)	1,661	(461)	(148)
Net change in cash	679	123	2,883	889	264
Cash at the beginning	1,007	3,636	3,239	6,122	7,011
Adjustment for pledge deposit	1,950	(520)	(0)	0	1
Cash at the end	3,636	3,239	6,122	7,011	7,277

Source: Company, ABCI Securities estimates



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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Zhengzhou Coal Mining Machinery Group

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Company Report

First Tractor (38 HK)

February 26, 2013

Rating: Buy

TP: HK\$9.27

Key data

H-share price (HK\$)	7.50
Upside potential (%)	23.6
52Wk H/L(HK\$)	9.20/5.43
Issued shares (mn)	996
H-share	402
A-share	594
H-share market cap (HK\$mn)	3,015
30-day avg daily vol (HK\$mn)	24.8
Auditors	Baker Tilly
Major shareholder (%)	
YTO Group	44.52

Source: Company & Bloomberg

Revenue breakdown by product (%)

Agricultural machinery	82.6
Power machinery	11.7
Other machinery	5.0
Financial operations	0.8

*Based on 1HFY12 results

Source: Company

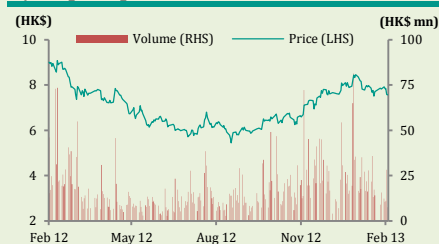
Share performance (%)

	Absolute	Relative ¹
1-mth	-7.2	-3.9
3-mth	6.5	2.4
6-mth	21.1	5.7

1: Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst Information

Steve Wong

Tel: (852) 2147 8869

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Previous report

Date: January 21, 2013

Rating: Buy

Target price: HK\$8.24

Subsidy Policies Spur Sales 2013

China's government explicitly expresses to enhance the scales of subsidy programs toward agricultural machineries. We expect a sales rally to appear on First Tractor, the largest hi-powered agricultural tractors maker in China. The M&As of the Group during FY2012 will take a full year effect in FY2013, and GPM is expected to enhance under upward vertical integration. We reiterate "Buy" on First Tractor, and revise up TP from HK\$8.24 to HK\$9.27.

Rally from the stimulation of subsidy programs. China's government explicitly expresses to increase the scale of subsidy programs on agricultural machineries. Sales of hi-powered tractors will be boosted up in 2013. The production volume of hi-powered tractors is estimated to increase by 40% YoY in 2012. The growth of production volume reflects that the bullish view of tractor makers.

Full year effect of M&A in 2013. We estimate that GPM will improve by 1.8ppts from est. 13.7% in FY2012 to 15.5% in FY2013 under the full year effect of vertical integration via M&As during 2012.

Good earnings quality. OCF / Net income ratio of the Group was 99.0%, in average, during FY2005 to 1-3QFY2012. The good assets quality let the Group source funding with lower cost. We believe the Group to issue Rmb800mn bonds with interest rate at 5% p.a. in order to support the working capital and repay part of the bank loans with interest rate above 6% p.a. The financial burden is expected to reduce in FY2013 and 14.

Reiterate "Buy" to First Tractor. The counter is trading at 9.3x of FY2013E PER, 5.1% discount to the weighted average of its peers' at 9.8x. We think the valuation of First Tractor is not demanding given that we estimate the EPS will grow at CAGR of 49.6% from FY2012 to 14. We expect the subsidy programs on agricultural machineries to carry on in 2013 and 14. We reiterate "Buy" on First Tractor, and increase our target price from HK\$8.24 to HK\$9.27.

Risk factors: Product concentration risk; Development of agricultural machineries subject to policy risk; Raw material inflation risk

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rmb mn)	10,266	11,328	10,770	13,872	19,129
Chg (%YoY)	14.0	10.3	(4.9)	28.8	37.9
Net Income (Rmb mn)	543	411	402	645	971
Chg (%YoY)	118.3	(24.3)	(2.3)	60.7	50.6
EPS (Rmb)	0.642	0.486	0.436	0.648	0.975
Chg (%YoY)	118.3	(24.3)	(10.2)	48.6	50.6
PER (x)	-	12.56	13.82	9.30	6.18
PBR (x)	-	1.58	1.31	1.33	1.22
Yield (%)	-	-	2.17	3.23	4.86
ROAA (%)	7.3	4.5	3.9	5.2	6.6
ROAE (%)	16.4	11.2	9.3	13.0	18.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company, ABCI Securities estimates

2013 Bullish Year for Agricultural Tractor

*More subsidies expected in 2013.
Hi-powered tractor sales boost up*

We estimate the segment revenue of agricultural tractors of the Group, estimated to account for 83.6% of total revenue and 72.0% of total gross profit in FY2012, to grow by 26.9% YoY in FY2013, up from est. -3.7% YoY in FY2012.

Favourable agricultural policies

Under 12th 5-Year Plan, it targets to increase the total agricultural machinery output from 977mn kW as at end-2011 to 1,000mn kW by 2015. Based on the assumption of 5 years replacement cycle for the hi-to-mid power tractors (primary market), we estimate the sales volume growth of mid-to-hi powered tractor will growth at a CAGR of 34.5% during 2012-2017.

Subsidies for mid-to-hi powered tractors

Low powered tractor is not covered in the subsidy program. We estimate the sales of hi powered tractor will be boosted up

Under the favorable policies toward agricultural mechanization, we estimate that the subsidy on agricultural machinery will increase by 20.9% YoY to Rmb26bn in 2013. The sales of hi-powered tractors will be stimulated in 2013. We believe First Tractor, as the largest mid-to-hi powered agricultural tractor maker in China, is able to fully capture the market growth.

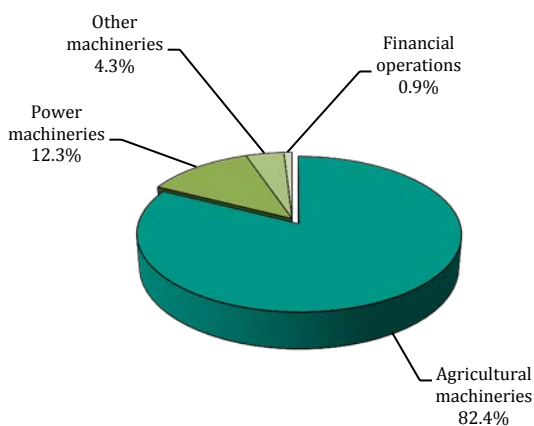
Sales pick up in 3QFY2012

The total sales volume of mid-to-hi powered tractors in China is estimated to drop by 6.0% YoY during 1H2012

Although the Group posted a revenue decline of 12.0% YoY in 1HFY2012 due to the delayed launch of the subsidies for agricultural machineries, with the launch of government subsidies during 2H2012, the sales of tractors was picking up. The revenue decline situation of the Group shrunk from -12.0% YoY in 1HFY2012 to -4.5% YoY in 1-3QFY2012.

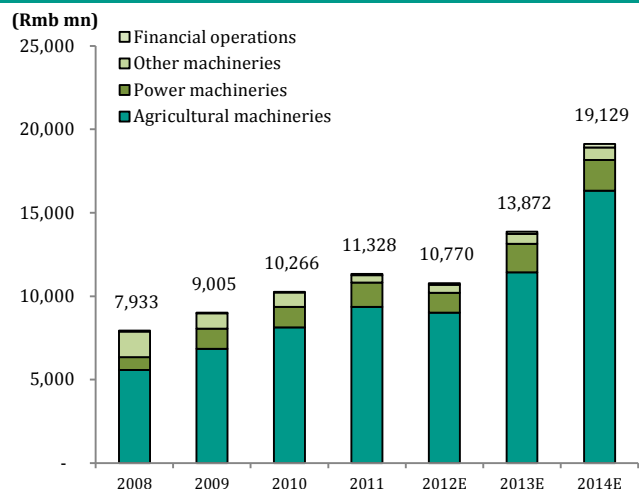
The total market sales volume of tractors is expected to decline in China, 2012, nevertheless, the production volume of hi-powered tractor increased by 40.9% YoY in 1-11M2012 according to NBSC, while that in 2011 was -55.6% YoY. The high growth of production volume reflects that the tractor makers, including First Tractor, are bullish on the sales situation in 2013.

Estimated product mix of the Group, FY2013



Source: Company

Revenue production of the Group, FY2008-FY2014E



Source: Company, ABCI Securities estimates

Diesel Engine, Value Added to Tractor

R&D of diesel engine bring a better profitability of the segment

Diesel engine for agricultural machineries used, classified as power machineries segment within the Group, is the second largest business segment of the Group. Segment revenue (from external customer) contributed 13.0% and 11.7% of total revenue in FY2011 and 1HFY2012, respectively. The Group is the largest maker of large horsepower diesel engine in China according to Chinaauto.net in 2011.

First Tractor focuses on high-end diesel engine for the hi-powered tractor. With the replacement of low-powered tractors with hi-powered tractors under the encouragement of rural development policy, we estimate that sales revenue of diesel engine increases by 43.0% in FY2013.

Breakdown of sales of power machineries of the Group

Sales mix (%)	FY2008	FY2009	FY2010	FY2011	1HFY12
External customer	64.9	65.7	63.1	66.5	63.2
Internal customer	35.1	34.3	36.9	33.5	36.8

Source: Company

The hi-powered tractors of the Group was embedded with high-end diesel engine produced by the Group

With the launch of new generation of diesel engine, we expect that the segment GPM will go further up in FY2013 and FY2014. The technological development of diesel engine not only enhances the segment GPM, but also gives a higher added value to the hi-powered tractor of the Group. Besides, the profit margin of hi-powered tractors will increase as we expect the production cost to lower under vertical integration.

We expect the growth of revenue of diesel engine segment to be in line with the hi-powered tractor market growth. We estimate that the segment revenue growth will recover from est. -18.8% YoY in FY2012 to 43.0% YoY in FY2013.

GPM comparison of leading diesel engine makers

GPM (%)	Ticker	FY2008	FY2009	FY2010	FY2011
First Tractor ¹	38 HK	20.0	20.2	20.2	18.5
Weichai Power	2338 HK	17.4	21.6	24.3	21.7
Anhui Quanchai	600218 CH	8.3	10.2	9.5	8.4
China Yuchai	CYD US	17.6	19.3	24.7	22.3
Cummins Inc	CMI US	20.5	20.1	24.0	25.4

1: GPM of power machinery segment of the Group

Source: Companies, ABCI Securities estimates

Good Assets and Earnings Quality

Good cash flow compared with other machinery makers

The earning quality and cash collectability of the Group is good. The operating cash flow ("OCF")/Net income ratio of the Group was 99.0%, in average, during FY2005 to 1-3QFY2012, which was higher than that of other machinery makers, such as Zoomlion at 2.6% and Sany Heavy at 60.8% during the same period of time.

Earnings quality of First Tractor

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	1-3Q FY2012	Total value
Net income (Rmb mn)	(50)	73	182	69	249	543	411	326	1,801
Operating cash flow (Rmb mn)	249	247	90	303	361	441	590	(498)	1,783
OCF/Net income (%)	-493.36	338.61	49.63	442.45	145.33	81.19	143.74	-152.68	99.01

Source: Bloomberg, Companies, ABCI Securities

GPM Improvement

We estimate that the gross profit margin (“GPM”) of the Group will improve by 1.8ppts from 13.7% in FY2012 to 15.5% in FY2013. The GPM of the Group was 13.9% in 1-3QFY2012. We believe the increase in profitability of the Group in FY2013 will be attributed to the vertical integration.

*Vertical integration via M&As
brings higher profit margin*

The upward vertical integration via M&A will help to lower the production cost of the Group. After raising fund from A-share market in 2012, the Group acquired part of its suppliers during 2012. It helps the Group to optimize the cost structure and hence, lower the production cost.

The M&A can reduce First Tractor’s connected transactions with its controlling shareholder and associates. Moreover, the M&A can boost the Group’s core manufacturing capability and are conducive to further integration of internal resources and enhancement of the synergy. We believe that the Group can enhance its cost control capability and expand the business scale via the series M&A.

Major M&A activities during 2012

M&A Target	Transaction Detail	Background of M&A Target
Yituo (Luoyang) Shentong Construction Machinery Company Limited (“YLST”)	On June 1, 2012, First Tractor acquired an additional 24% equity interest in YLST at a consideration of Rmb1. The carrying amount of the non-controlling interests in YLST on the date of acquisition was a deficit balance of approximately Rmb2.98mn. The Group recognized a decrease in on-controlling interests of approximately Rmb2.98mn and a decrease in equity attributable to owners of First Tractor of Rmb2.98mn.	YLST is principally engaged in manufacture and sale of mining trucks.
YTO Shunxing (Luoyang) Spare Parts Co., Ltd. (“YTO Shunxing”)	On May 31, 2012, the Group acquired a further 60% equity interest in YTO Shunxing at a consideration of Rmb20.77mn from independent third parties. After the acquisition, First Tractor holds 100% equity interest in YTO Shunxing.	YTO Shunxing is principally engaged in the processing, sale and service of crankshaft, chain wheel and other spare parts. Revenue and profit of YTO Shunxing are Rmb0.46mn and a loss of Rmb0.14mn, respectively in 1HFY2012.
YTO Group Finance Company Limited (“YTO Finance”)	On May 30, 2012, the Company entered into the Equity Transfer Agreement with Dongfang Industry to acquire 0.8% equity interest in YTO Finance held by Dongfang Industry at the appraised value of Rmb4.59mn. Upon completion of the acquisition, First Tractor will hold 88.6% equity interest in YTO Finance.	YTO Finance, a non-banking financial institution incorporated with the approval of the People’s Bank of China in 1992, is an important platform for internal capital centralization and enhancing capital utilization efficiency management within First Tractor.
YTO (Luoyang) Flag Auto-Body Company Limited (“YTO Flag”)	On November 15, 2012, First Tractor has conditionally agreed to purchase 100% equity interest in YTO Flag at a total consideration of Rmb165.61mn	The net profit of YTO Flag was Rmb56.69mn in FY2011. YTO Flag is principally engaged in the production and sale of covering parts, driving cabins, auto parts and other components of automobiles, agricultural machineries and construction machineries.
YTO (Luoyang) Foundry Company Limited (“YTO Foundry”)	On November 15, 2012, First Tractor has conditionally agreed to purchase 100% equity interest in YTO Foundry at a total consideration of Rmb104.48mn	The net profit of YTO Foundry was Rmb33.60mn in FY2011. YTO Foundry is principally engaged in the processing and sale of casting blank and semi-finished products. It was established in September 2003.
YTO (Luoyang) Drive Axle Company Limited (“YTO Axle”)	On November 15, 2012, First Tractor has conditionally agreed to purchase 100% equity interest in YTO Axle at a total consideration of Rmb225.28mn.	YTO Axle was established in September 2012 as a wholly-owned subsidiary of YTO Kintra. The net profit of YTO Kintra was Rmb20.15mn in FY2011. YTO Axle is principally engaged in the production and sale of off-road machinery drive axles.

Source: Company



Financial highlights of the Group

	1H11	1-3Q11	FY11	1H12	1-3Q12	1H12 (% YoY)	1-3Q12 (% YoY)
Revenue (Rmb mn)	7,165	9,536	11,328	6,304	9,104	-12.02	-4.53
Agricultural machineries	5,999		9,356	5,208		-13.19	
Power machineries	866		1,470	735		-15.13	
Other machineries	274		436	313		14.17	
Financial operations	26		66	48		83.88	
Gross Profit	913	1,277	1,559	884	1,267	-3.18	-0.78
Agricultural machineries	692		1,058	624		-9.85	
Power machineries	157		409	168		6.86	
Other machineries	39		32	48		22.10	
Financial operations	24		60	44		83.88	
GPM (%)	12.74	13.39	13.76	14.02	13.92	1.28ppts	-13.39ppts
Agricultural machineries	11.54		11.30	11.98		0.44ppts	
Power machineries	18.15		27.80	22.85		4.70ppts	
Other machineries	14.40		7.45	15.40		1.00ppts	
Financial operations	90.00		91.31	90.00		0.00ppts	
Major cost (Rmb mn)							
Selling cost	(227)	(302)	(360)	(190)	(277)	-16.30	-8.28
Administrative cost	(343)	(538)	(677)	(351)	(548)	2.33	1.86
Net finance cost	(28)	(40)	(45)	(36)	(55)	28.57	37.50
Cost ratio (%)							
Selling cost	3.17	3.17	3.18	3.01	3.04	-0.15ppts	-0.12ppts
Administrative cost	4.79	5.64	5.98	5.57	6.02	0.78ppts	0.38ppts
Net finance cost	0.39	0.42	0.40	0.57	0.60	0.18ppts	0.18ppts
Net profit (Rmb mn)	271	317	411	286	326	5.54	2.84
Net profit margin (%)	3.78	3.32	3.63	4.54	3.58	0.75ppts	0.26ppts
Operating cash flow (Rmb mn)	(143)	77	635	4	(498)	-102.80	-746.75
OCF/Net income (%)	-52.77	24.29	154.57	1.40	-152.76	54.17ppts	-177.05ppts

Source: Company

Major change of our forecast

	FY12E			FY13E			FY14E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
Revenue (Rmb mn)	11,263	10,770	-4.38	13,319	13,872	4.15	18,028	19,129	6.11
Agricultural machineries	9,296	9,006	-3.12	10,847	11,430	5.37	15,193	16,321	7.42
Power machineries	1,393	1,194	-14.29	1,744	1,708	-2.06	1,884	1,844	-2.12
Other machineries	480	480	0.00	603	603	0.00	751	751	0.00
Financial operations	94	90	-4.26	125	131	4.80	200	213	6.50
Gross profit (Rmb mn)	1,568	1,480	-5.61	2,129	2,151	1.03	2,862	2,997	4.72
GPM (%)	13.92	13.74	-0.18ppts	15.98	15.51	-0.48ppts	15.88	15.67	-0.21ppts
Net income (Rmb mn)	435	402	-7.76	641	645	0.71	901	971	7.87
Net margin (%)	3.86	3.73	-0.14ppts	4.81	4.65	-0.16ppts	5.00	5.08	0.08ppts
EPS (Rmb)	0.473	0.436	-7.76	0.643	0.648	0.71	0.904	0.975	7.87
BVPS (Rmb)	4.612	4.597	-0.33	4.549	4.537	-0.26	4.939	4.956	0.35
DPS (Rmb)	0.142	0.131	-7.76	0.193	0.194	0.71	0.271	0.293	7.87

Source: ABCI Securities estimates

Maintain “Buy”

Benefit from favorable policies

Production volume has increased to meet rally

We estimate that the revenue of hi-powered tractor as percentage of total Group's revenue was 41.5% in FY2012.

The production volume of hi-powered tractors in China is expected to increase by over 40% YoY in 2012 to meet the sales rally in 2013. Under the subsidy programs for hi-powered tractors, the demand is expected to boost up in 2013. First Tractor, as the largest maker of hi-powered tractor in China, we believe that it is able to surf on the rally triggered by favorable policies for industrialization of agriculture in 2013.

Increase sales and net income forecasts

A sales rally of hi-powered tractor will be the major key growth driver in 2013, as well as 2014.

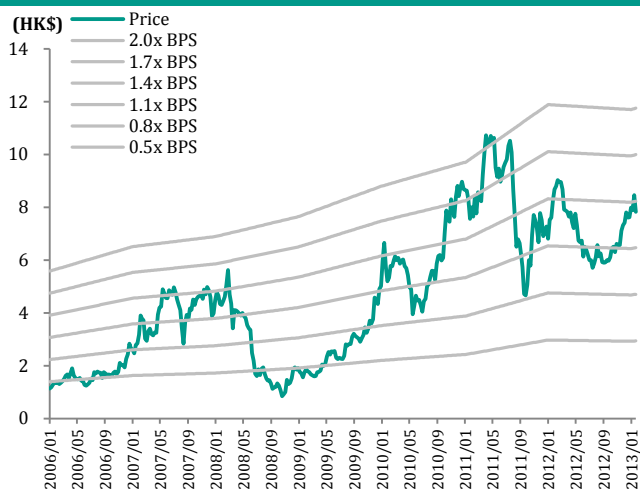
We increase our revenue forecasts from Rmb13,319mn to Rmb13,872mn in FY2013; and from Rmb18,028mn to Rmb19,129mn in FY2014 as we enhance our estimation of the sales-driven-effect of subsidy program on hi-powered tractor in 2013 and 2014. Our net income forecasts for First Tractor increase from Rmb641mn to Rmb645mn in FY2013; and from Rmb901mn to Rmb971mn in FY2014.

Reiterate “Buy” with target price increases to HK\$9.27

First Tractor is trading at 9.3x of FY2013E EPS, which is 5.1% discount to the weighted average of its peers' (agricultural machinery makers) at 9.8x. We expect that EPS of First Tractor will grow at a CAGR of 49.6% from FY2012 to FY2014, and ROAE will be 13.0% and 18.2% in FY2013 and FY2014, respectively. Comparing with the peers, we think the valuation of First Tractor is not demanding.

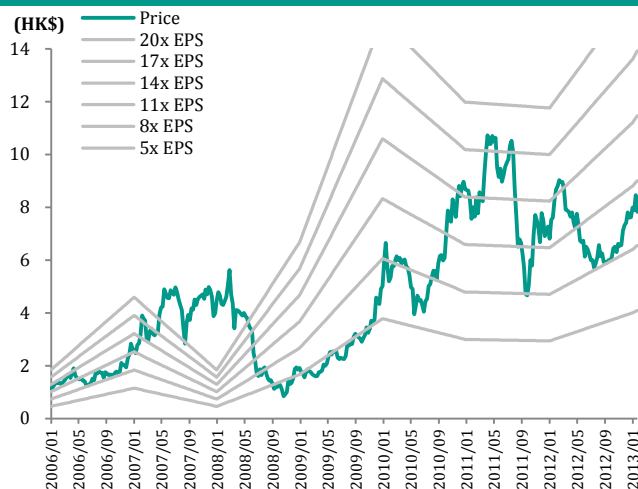
We expect the favorable subsidy programs on agricultural machineries will carry on in 2013 and 2014. We increase our estimation on the revenue and net income of the Group for FY2013, and increase our target price from HK\$8.24 to HK\$9.27. We reiterate “Buy” to First Tractor. Our target valuation represents 11.5x of FY2013E PER, the average PER in 3-Yr.

PB band of the Group



Source: Company, Bloomberg, ABCI Securities estimates

PE band of the Group



Source: Company, Bloomberg, ABCI Securities estimates



Financial Statements Projection

Consolidated income statements forecast

FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	10,266	11,328	10,770	13,872	19,129
Agricultural machineries	8,141	9,356	9,006	11,430	16,321
Power machineries	1,225	1,470	1,194	1,708	1,844
Other machineries	855	436	480	603	751
Financial operations	45	66	90	131	213
Cost of sales	(8,749)	(9,769)	(9,290)	(11,721)	(16,132)
Gross profit	1,517	1,559	1,480	2,151	2,997
Other income and gains	170	68	62	62	63
Selling and distribution	(368)	(360)	(326)	(432)	(565)
Administrative expenses	(646)	(677)	(677)	(944)	(1,278)
EBIT	673	590	539	838	1,217
Finance costs	(28)	(54)	(42)	(57)	(56)
Associates	1	-	-	-	-
Pre-tax profit	646	536	497	781	1,161
Profits tax	(84)	(79)	(70)	(109)	(163)
Minority interests	(20)	(47)	(26)	(27)	(28)
Net profit	543	411	402	645	971

Source: Company, ABCI Securities estimates

Income statement key ratios forecast

FY	FY10A	FY11A	FY12E	FY13E	FY14E
Sales mixed (%)					
Agricultural machineries	79.3	82.6	83.6	82.4	85.3
Power machineries	11.9	13.0	11.1	12.3	9.6
Other machineries	8.3	3.8	4.5	4.3	3.9
Financial operations	0.5	0.6	0.8	1.0	1.2
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross profit margin	14.8	13.8	13.7	15.5	15.7
EBIT margin	6.6	5.2	5.0	6.0	6.4
Pre-tax margin	6.3	4.7	4.6	5.6	6.1
Net margin	5.3	3.6	3.7	4.7	5.1
Selling & distribution cost / revenue	3.6	3.2	3.0	3.1	3.0
Admin cost / revenue	6.3	6.0	6.3	6.8	6.7
Effective tax rate	13.0	14.7	14.1	14.0	14.0
Growth (%)					
Revenue	14.0	10.3	(4.9)	28.8	37.9
Gross profit	17.9	2.8	(5.1)	45.3	39.3
EBIT	73.0	(12.3)	(8.6)	55.5	45.2
Net income	118.3	(24.3)	(2.3)	60.7	50.6

Source: Company, ABCI Securities estimates



Consolidated balance sheets forecast

As of Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Non-current assets	2,463	3,118	3,418	5,094	5,578
Property, plant and equipment	1,831	2,064	2,328	3,886	4,283
Intangible assets	-	62	153	153	153
Investment properties	35	34	36	37	39
Other non-current assets	389	273	226	354	449
Current assets	6,155	6,369	7,501	8,991	9,601
Cash and equivalent	1,183	1,389	2,086	2,033	2,652
Restricted cash	180	123	130	136	143
Trade and other receivables	1,656	2,486	3,027	3,678	3,987
Inventories	1,377	1,111	1,435	2,098	1,438
Other	1,759	1,260	823	1,046	1,381
Total assets	8,618	9,487	10,919	14,085	15,179
Current liabilities	4,262	5,355	5,495	8,163	8,740
Trade and other payables	2,998	2,987	3,006	4,928	5,044
Borrowings	426	969	949	1,234	1,294
Other	838	1,399	1,540	2,001	2,402
Non-current liabilities	811	356	586	798	898
Borrowings	600	186	386	498	448
Other	211	170	200	300	450
Total liabilities	5,073	5,711	6,081	8,961	9,638
Minority Interest	393	452	452	453	452
Shareholder's equity	3,152	3,324	4,386	4,671	5,089

Source: Company, ABCI Securities estimates

Balance sheets key ratios forecast

FY	FY10A	FY11A	FY12E	FY13E	FY14E
Balance sheet ratios					
Current ratio (x)	1.4	1.2	1.4	1.1	1.1
Quick ratio (x)	1.1	1.0	1.1	0.8	0.9
Cash ratio (x)	0.3	0.3	0.4	0.3	0.3
Total receivable turnover days	60.8	84.0	115.7	107.7	92.0
Trade and bill receivables turnover days	44.6	63.6	90.0	85.0	70.0
Total payable turnover days	111.9	111.8	117.7	123.5	112.8
Trade and bill payables turnover days	78.4	78.8	85.0	95.0	90.0
Inventory turnover days	50.8	46.5	50.0	55.0	40.0
Total debt / equity ratio (%)	32.6	34.7	30.4	37.1	34.2
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROAA	7.3	4.5	3.9	5.2	6.6
ROAE	16.4	11.2	9.3	13.0	18.2
Payout ratio	31.2	-	30.0	30.0	30.0
Per share data (Rmb)					
EPS	0.642	0.486	0.436	0.648	0.975
BVPS	3.726	3.856	4.597	4.537	4.956
DPS	0.200	-	0.131	0.194	0.293

Source: Company, ABCI Securities estimates

**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

First Tractor Company Limited**Consolidated cash flow statements forecast**

FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Profit before income tax	646	536	497	781	1,161
Depreciation and amortization	158	138	151	185	240
Change in working capital	(134)	43	(845)	608	467
Income tax paid	(95)	(76)	(67)	(106)	(157)
Others	(114)	(6)	309	(65)	(285)
Net cash from operating activities	461	635	45	1,403	1,426
Capex	(871)	(398)	(404)	(1,733)	(626)
Other	(153)	(367)	-	-	-
Net cash from investing activities	(1,024)	(765)	(404)	(1,733)	(626)
Capital injection	-	-	876	-	-
Net debt financing	419	955	180	397	10
Dividend payout	(206)	(74)	-	(120)	(194)
Others	358	(617)	-	-	1
Net cash from financing activities	571	264	1,056	277	(183)
Net change in cash	8	134	697	(53)	617
Cash at the beginning of the year	1,260	1,363	1,389	2,086	2,033
Adjustment	95	(108)	-	-	2
Cash at the end of the year	1,363	1,389	2,086	2,033	2,652

Source: Company, ABCI Securities estimates



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Construction and Farm Machinery Sector





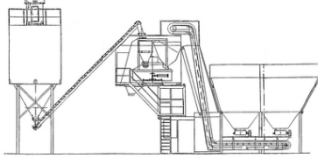

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Appendix I – Brief Introduction of Different Types of Construction and Farm Machineries

1) Introduction of concrete machineries

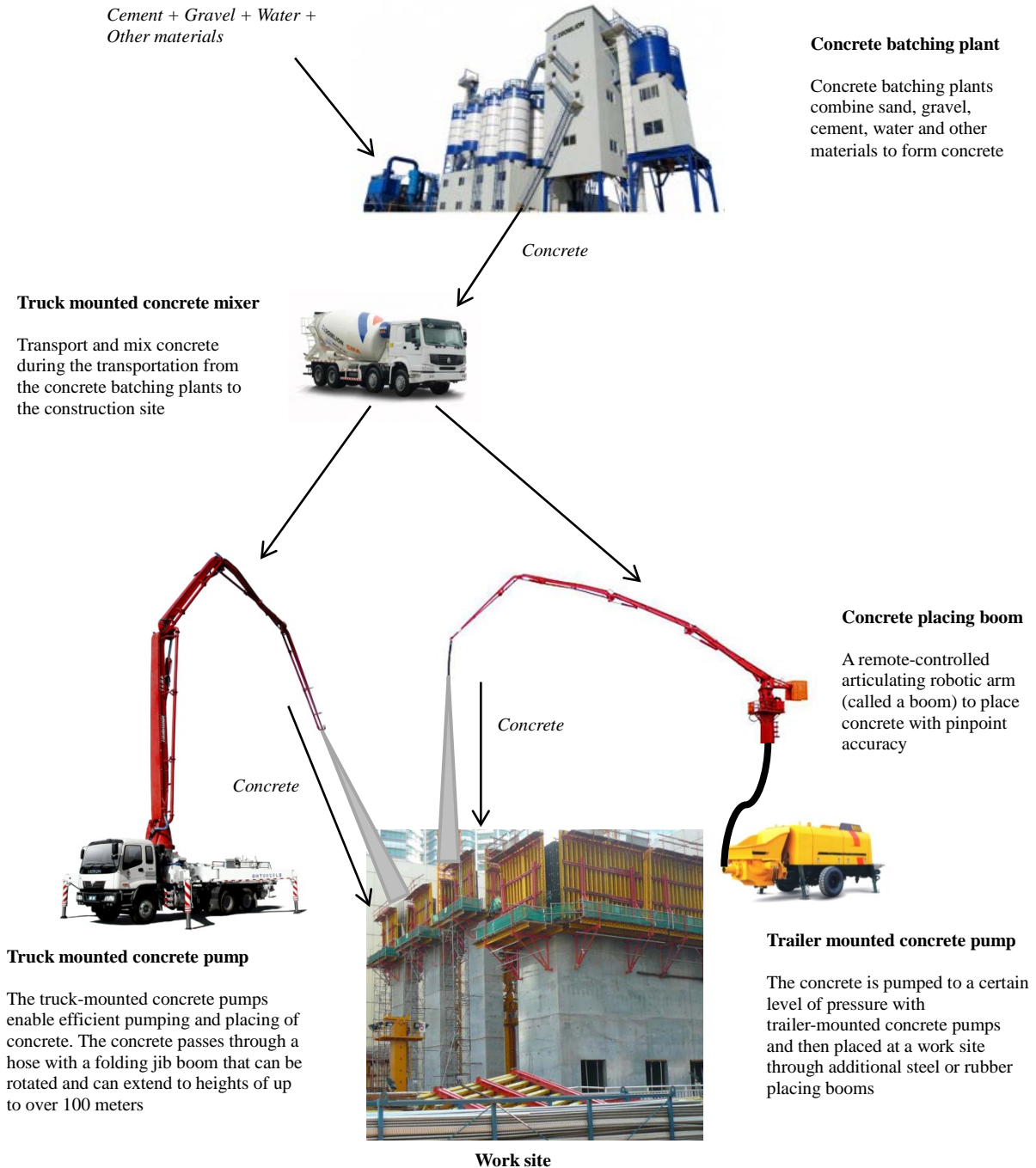
Key types of concrete machineries and brief introduction

Product	Key Features	Sample model
Truck-mounted concrete pump	<p>The truck-mounted concrete pumps enable efficient pumping and placing of concrete. The concrete passes through a hose with a folding jib boom that can be rotated and can extend to heights of up to over 100 meters. The concrete is pumped using the appropriate amount of pressure and is accurately and efficiently placed at a work site through a remote-controlled articulating robotic arm, or a boom.</p> <p>Truck-mounted concrete pumps are used on large construction projects because they are capable of pumping at very high volumes.</p> <p>Truck-mounted concrete pumps can pump liquid concrete at a rate of 120 cubic meters to 240 cubic meters per hour and can extend to heights of 25 meters to over 100 meters.</p>	 
Trailer-mounted concrete pump	<p>The concrete is pumped to a certain level of pressure with trailer-mounted concrete pumps and then placed at a work site through additional steel or rubber placing booms. The booms are manually attached to the trailers and can be positioned wherever liquid concrete is needed.</p> <p>Trailer-mounted concrete pumps are fitted with pipes, which allow them to send concrete to areas that are difficult to access. Trailer-mounted concrete pumps can pump liquid concrete with a grain size of up to 80 mm at a rate of up to 126 cubic meters per hour.</p> <p>Trailer-mounted concrete pumps are ideal for smaller volume projects or projects which require long pumping distance or height.</p>	
Concrete batching plant	<p>Concrete batching plants combine sand, gravel, cement, water and other materials to form concrete, which is then transported to the construction site by concrete mixing trucks.</p> <p>Concrete batching plants can be disassembled and easily transferred to other construction sites. Traditionally, batching plants had the potential to cause air quality concerns from dust, waste water concerns from wash water runoff as well as waste concerns from accumulated stacks of improperly mixed or leftover concrete.</p> <p>The new models of concrete batching plants, however, include features that recycle leftover concrete, and include sophisticated systems to save and treat waste wash water for reuse. The new concrete batching plants include advanced technologies to control dust from the worksite.</p> <p>Concrete batching plants are widely used in infrastructure projects, particularly, in connection with roads, highways, bridges, docks and airports.</p>	 
Truck-mounted Concrete Mixer	<p>Truck mixers transport and mix concrete during the transportation from the concrete batching plants to the construction site. The concrete mixer prevents the concrete, consisting of sand, gravel, cement, water and other materials from hardening during transportation. Truck mixers are widely used in large infrastructure projects.</p>	

Source: ABCI Securities



How concrete machineries work together



2) Introduction of cranes




Key types of cranes and brief introduction

Product	Key Features	Sample model
Truck crane	<p>Truck cranes are able to travel on highways, eliminating the need for special equipment to transport the crane. In order to increase the stability of the crane at a worksite, a truck crane's outriggers are extended horizontally from the chassis, and the truck crane is then raised by the outrigger cylinder vertically.</p> <p>Truck cranes are able to lift objects from 20 tonnes to 1,200 tonnes. Truck cranes are widely used in infrastructure projects, particularly in connection with bridges, high-rise buildings, high-speed railways, power plants and the installation of wind turbines.</p>	
Crawler crane	<p>Crawler crane is a crane mounted on an undercarriage with a set of tracks, or crawlers, that provide stability and mobility. Crawler cranes are used to lift and lower materials as well as move materials horizontally, and can lift loads from 50 tonnes to 3,600 tonnes.</p> <p>Some crawler cranes models are specifically used for wind power projects, as well as high-powered crawler cranes. Crawler cranes have enhanced safety features and are easy to operate and maneuver. They feature optimal chassis design and employ advanced technologies to provide comprehensive operating information about the product to the end-user customer. Crawler cranes are competitive due to their fast operating and lifting speeds.</p> <p>Crawler cranes are widely used in large infrastructure projects, particularly in connection with highways, bridges and high-rise buildings.</p>	
Tower crane	<p>Tower cranes are a modern form of balance crane that consist of the same basic parts. Fixed to the ground on a concrete slab (and sometimes attached to the sides of structures as well), tower cranes often give the best combination of height and lifting capacity and are used in the construction of tall buildings.</p> <p>The base is then attached to the mast which gives the crane its height. Further the mast is attached to the slewing unit (gear and motor) that allows the crane to rotate. On top of the slewing unit there are three main parts which are: the long horizontal jib (working arm), shorter counter-jib, and the operators cab.</p> <p>The long horizontal jib is the part of the crane that carries the load. The counter-jib carries a counterweight, usually of concrete blocks, while the jib suspends the load to and from the center of the crane. The crane operator either sits in a cab at the top of the tower or controls the crane by radio remote control from the ground. In the first case the operator's cab is most usually located at the top of the tower attached to the turntable, but can be mounted on the jib, or partway down the tower. The lifting hook is operated by the crane operator using electric motors to manipulate wire rope cables through a system of sheaves. The hook is located on the long horizontal arm to lift the load which also contains its motor.</p> <p>In order to hook and unhook the loads, the operator usually works in conjunction with a signaller (known as a 'dogger', 'rigger' or 'swamper'). They are most often in radio contact, and always use hand signals. The rigger or dogger directs the schedule of lifts for the crane, and is responsible for the safety of the rigging and loads.</p>	

Source: ABCI Securities

3) Introduction of earth moving machineries





Key types of earth moving machineries and brief introduction

Product	Key Features	Sample model
Excavator	<p>Excavators are heavy construction equipment consisting of a boom, stick, bucket and cab on a rotating platform (known as the "house").</p> <p>The house sits atop an undercarriage with tracks or wheels. A cable-operated excavator uses winches and steel ropes to accomplish the movements.</p> <p>They are a natural progression from the steam shovels and often called power shovels. All movement and functions of a hydraulic excavator are accomplished through the use of hydraulic fluid, with hydraulic cylinders and hydraulic motors.</p> <p>Due to the linear actuation of hydraulic cylinders, their mode of operation is fundamentally different from cable-operated excavators.</p>	
Wheel loader	<p>Wheel loader is a type of tractor, usually wheeled, sometimes on tracks, that has a front-mounted square wide bucket connected to the end of two booms (arms) to scoop up loose material from the ground, such as dirt, sand or gravel, and move it from one place to another without pushing the material across the ground.</p> <p>Wheel loader is commonly used to move a stockpiled material from ground level and deposit it into an awaiting dump truck or into an open trench excavation.</p> <p>The loader assembly may be a removable attachment or permanently mounted. Often the bucket can be replaced with other devices or tools – for example, many can mount forks to lift heavy pallets or shipping containers, and a hydraulically opening "clamshell" bucket allows a loader to act as a light dozer or scraper. The bucket can also be augmented with devices like a bale grappler for handling large bales of hay or straw.</p> <p>Wheel loaders are used mainly for uploading materials into trucks, laying pipe, clearing rubble, and digging. It is not the most efficient machine for digging as it cannot dig very deep below the level of its wheels, like a backhoe can. The capacity of a loader bucket can be anywhere from 0.5 to 36 m³ depending upon the size of the machine and its application. The front loader's bucket capacity is generally much bigger than a bucket capacity of a backhoe loader.</p>	
Bulldozer	<p>bulldozer is a crawler (continuous tracked tractor) equipped with a substantial metal plate (known as a blade) used to push large quantities of soil, sand, rubble, or other such material during construction or conversion work and typically equipped at the rear with a claw-like device (known as a ripper) to loosen densely-compacted materials.</p> <p>Bulldozers can be found on a wide range of sites, mines and quarries, military bases, heavy industry factories, engineering projects and farms.</p> <p>Most often, bulldozers are large and powerful tracked heavy equipment. The tracks give them excellent ground holding capability and mobility through very rough terrain. Wide tracks help distribute the bulldozer's weight over a large area (decreasing pressure), thus preventing it from sinking in sandy or muddy ground.</p> <p>The bulldozer's primary tools are the blade and the ripper. The bulldozer blade is a heavy metal plate on the front of the tractor, used to push objects, and shoving sand, soil and debris. The ripper is the long claw-like device on the back of the bulldozer. Rippers can come as a single (single shank/giant ripper) or in groups of two or more (multi shank rippers). Usually, a single shank is preferred for heavy ripping. The ripper shank is fitted with a replaceable tungsten steel alloy tip.</p>	

Source: ABCI Securities

4) Introduction of coal mining machineries



Key types of coal mining machineries and brief introduction

Product	Key Features	Sample model
Roadheader	Roadheader is used to cut, load, convey and transport coal and rock, which can be used in underground coal mining activities. It is a piece of excavating equipment consisting of a boom-mounted cutting head, a loading device usually involving a conveyor, and a crawler travelling track to move the entire machine forward into the rock face.	
Hydraulic roof support	A large mobile roof-supporting machinery designed to support the roof of a coal mining work site where coal mining activities are being carried out, in order to protect and ensure the safety of miners and their coal mining equipment.	
Coal face shearer	A coal mining machine that has rotating drums that are able to simultaneously mine and collect coal. The collected coal is then removed from the work area by a conveyor system.	
Armored-face conveyor	A machinery which is able to handle bulk materials and provide an efficient means of conveying coal from the coal mining sites.	

Source: ABCI Securities

5) Introduction of agricultural machineries

Key types of agricultural machineries and brief introduction










Product	Key Features	Sample model
Agricultural tractor	It is designed to deliver a high tractive effort at slow speeds, for the purposes of hauling a trailer or machinery used in agriculture. It is a farm vehicle that provides the power and traction to mechanize agricultural tasks, especially tillage. Agricultural implements may be towed behind or mounted on the tractor, and the tractor may also provide a source of power if the implement is mechanized.	
Diesel engine (for agricultural machineries)	Diesel engine is an internal combustion engine that uses the heat of compression to initiate ignition to burn the fuel, which is injected into the combustion chamber. The diesel engine has the highest thermal efficiency of any regular internal or external combustion engine due to its very high compression ratio. Low-speed diesel engines (as used in ships and other applications where overall engine weight is relatively unimportant) can have a thermal efficiency that exceeds 50%.	

Source: ABCI Securities







Appendix II – List of Market Share of Major Products of Leading Machinery Makers in China

Market share of major products of leading construction machinery makers in China

	Concrete machineries			Cranes			Earth moving machineries		
	Concrete Pump	Concrete mixer	Batching plant	Truck crane	Crawler crane	Tower crane	Excavator	Wheel loader	Bulldozer
									
Zoomlion (1157 HK)	●●●●●	●●	●●	●●●●	●●	●●●	●		●
Sany Heavy (600031 CH)	●●●●●	●●	●●	●●	●●●		●●●		
XCMG (000425 CH)	●			●●●●●	●●		●	●●	
Liugong (000528 CH)							●	●●●●	
Lonking (3339 HK)							●	●●●	



Source: ABCI Securities estimates

Market share of major products of leading coal mining machinery makers in China

	Roadheader	Hydraulic roof support	Coal face shearer	Armored face conveyor
				
Sany Int'l (631 HK)	●●●●	●	●	●
ZMJ (564 HK)	●	●●●	●	●
Tian Di (600582 CH)	●		●●	
IMM (Delisted)	●●	●	●●	●●
ERA (Delisted)		●●		

Source: ABCI Securities estimates

Market share of major products of leading agricultural machinery makers in China

	Agricultural tractor	Diesel engine (for agricultural machineries)
		
First Tractor (38 HK) China Yuchai Int'l (CYD US)	●●●●	●●● ●●

Source: 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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