

Key Data

Average FY13 PER (x)	7.9
Average FY13 PBV (x)	1.3
Average FY13 Dividend Yield (%)	3.4
Sector 3 months avg vol (HK\$m)	1,214

Source: Bloomberg, ABCI Securities

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

Zoomlion	16.74
Lonking*	(76.08)
First Tractor	2.84
Sany Int'l*	16.71
Sany Heavy	(23.43)
XCMG	(30.48)

*The growth is as at 1HFY12

Source: Companies

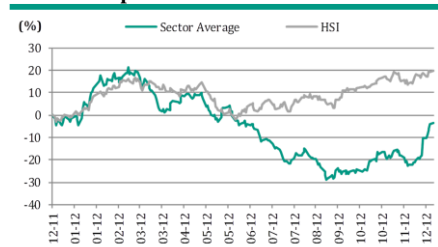
Average share performance (%)

	Absolute	Relative*
1-mth	22.2	17.1
3-mth	30.4	19.3
6-mth	0.2	-13.9

*Relative to Hang Seng Index

Source: Bloomberg

YTD sector performance



Source: Bloomberg

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Construction Machinery Sector – Positive Construction & Farm Machinery Industry

FAI growth recovery signal remains strong

The downstream FAI remained strong in 1-11M12. Together with the new order index of construction activities staying above 50% for nine consecutive months, we expect that the recovery in construction activities is gradually translating into equipment demand, which boosts growth momentum of the FAI. We estimate that the per capita urban FAI will rise to Rm61,117 in 2013, up 18.5% YoY and FAI will remain a key mainland growth driver, posting a YoY growth of 22.5% in 2013. We prefer the leading construction machinery makers with diversified product portfolio as they are at better position to benefit from the recovery of the sector in 2013.

FAI in China grew stably in 1-11M. According to National Bureau of Statistics of China, the urban FAI was up 20.7% YoY in 1-11M12, slightly lower than the market expectation of 20.8%. The total construction starts was Rmb28,733bn in 1-11M12, up 28.8% YoY (vs. 26.7% YoY in 1-10M12). Under the favorable policies on infrastructure industry, we expect the FAI in China to grow by 22.5% YoY in 2013.

Railway construction spurs demand for mobile cranes. The total FAI on railway construction was Rmb464bn in 1-11M12, up 0.9% YoY and improved from -1.4% YoY in 1-10M12. We expect the momentum of recovery on railway construction will continue to accelerate which will increase the demand for mobile cranes. It will benefit the leading mobile crane makers, such as Zoomlion (1157 HK) and XCMG (000425 CH).

Surging FAI supports sales of construction machinery in 2013. The new order index of construction industry (the sub-index of non-manufacturing PMI in China) was 58.1% in November 2012, up 2.7 ppts from 55.4% in October 2012. It was the ninth consecutive months of which the index stayed above 50% indicating the expansion of construction industry in China. Given the approval of a series of infrastructure projects by NDRC, we expect the recovery of the earth-moving machineries sector in 2013.

Risk factors: Prolonged weakening construction industry; Credit and liquidity risk

Summary on selected companies in the sector

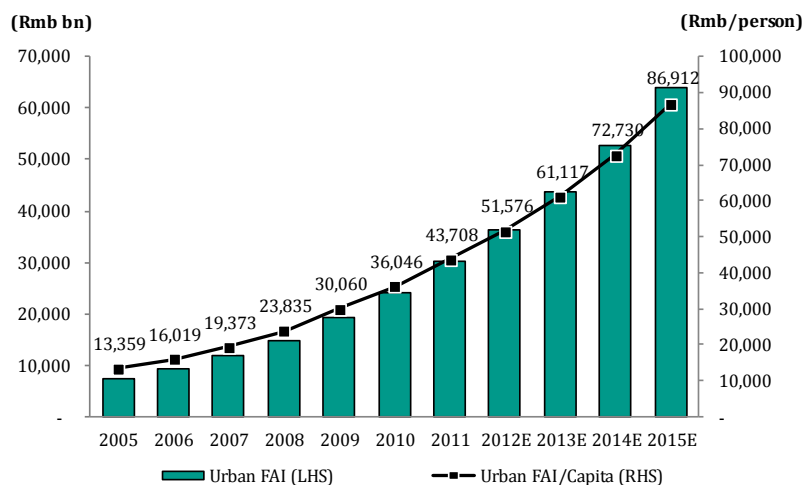
Company	Ticker	Share Price	Target Price (HK\$)	FY13 PE (x)	FY13 PB (x)	FY13 Yield (%)
Zoomlion (Buy)	1157 HK	HK\$10.62	14.16	5.7	1.3	3.5
Lonking (Sell)	3339 HK	HK\$2.15	1.48	8.9	1.0	3.4
First Tractor (Buy)	38 HK	HK\$7.50	8.24	9.4	1.3	3.2
Sany Int'l (Buy)	631 HK	HK\$3.69	5.79	9.5	1.3	2.1
Sany Heavy (N/A)	600031 CH	Rmb8.89	N/A	7.5	2.2	6.9
XCMG (N/A)	000425 CH	Rmb11.02	N/A	6.2	0.9	1.4

Source: Companies, Bloomberg, ABCI Securities estimates

Urban FAI and the per capita urban FAI ratio in China

We estimate that the per capita urban FAI will go to Rmb51,576, up 18.0% YoY in 2012, and go to Rmb61,117 in 2013, up 18.5% YoY.

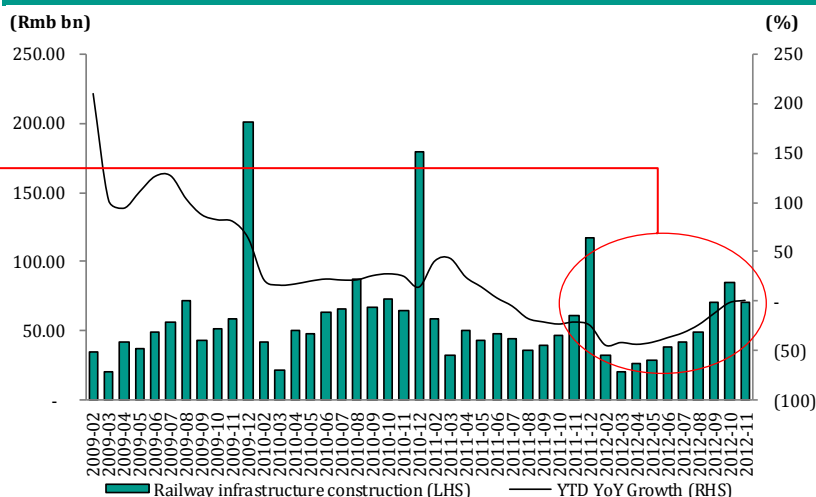
The per capita urban FAI is expected to grow at a CAGR of 20.6% from 2011-2015



Source: National Bureau of Statistics of China, ABCI Securities estimates

Railway FAI in China

The total FAI on railway construction was Rmb464bn in 1-11M12, up 0.9% YoY and improved from -1.4% YoY in 1-10M12.



Source: National Bureau of Statistics of China, ABCI Securities

Peer group valuation and earnings forecasts summary of construction machinery sector

Company	Ticker	MKT CAP* (HKD mn)	Share Price	PE (x)		EPS Change (%)		ROE (%)	
				Current Year	Next Year	Current Year	Next Year	Current Year	Next Year
Construction Machinery Maker									
CATERPILLAR INC	CAT US	440,875 USD	86.99	9.55	10.02	19.19	(4.69)	37.22	28.95
KOMATSU LTD	6301 JP	175,424 JPY	1,897.00	10.16	9.95	7.64	2.08	18.53	14.16
SANY HEAVY INDUS	600031 CH	83,982 CNY	8.89	8.73	7.50	(10.62)	16.40	32.92	26.14
ZOOMLION HEAVY-H	1157 HK#	82,565 HKD	10.62	7.09	5.72	14.91	23.95	24.00	24.40
ZOOMLION HEAVY-A	000157 CH#	82,565 CNY	8.63	7.18	5.79	14.91	23.95	24.00	24.40
XCMG CONSTRUCT-A	000425 CH	28,279 CNY	11.02	7.05	6.20	(4.70)	13.76	26.18	23.65
GUANGXI LIUGONG	000528 CH	13,060 CNY	9.33	17.37	12.96	(54.10)	34.08	4.01	5.86
TEREX CORP	TEX US	21,155 USD	24.86	12.26	9.55	394.39	28.42	10.49	13.00
TADANO	6395 JP	7,613 JPY	625.00	45.74	15.90	(44.83)	187.62	2.30	6.70
SHANTUI CONST-A	000680 CH	6,446 CNY	4.55	(20.97)	12.57	(151.67)	(266.82)	1.25	5.15
XIAMEN XGMA-A	600815 CH	6,530 CNY	6.57	11.14	12.44	(20.27)	(10.51)	10.83	8.99
LONKING HOLDINGS	3339 HK#	9,202 HKD	2.15	14.84	8.86	(71.30)	67.53	7.50	11.80
Sector Weighted Average				9.41	9.04	17.51	5.56	28.79	23.75

* The market capital value of the companies are translated into HKD

ABCI Securities estimates

Source: Bloomberg, (The data in the table is as at December 10, 2012)

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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	$2.6 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility}$
High	$1.5 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 2.6$
Medium	$1.0 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.5$
Low	$180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.0$

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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