



December 3, 2013
Equity Focus
Rating: BUY
TP: HK\$ 7.68

H-Share price (HK\$) 6.42
Est. share price return 19.63%
Est. dividend yield 3.14%
Est. total return 22.77%

Previous Rating & TP BUY; HK\$ 6.40
Previous Report Date October 31, 2013

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Key Data

52Wk H/L(HK\$)	8.58 / 3.83
Issued shares (mn)	996
H-Shares (mn)	402
A-Shares (mn)	594
Market cap	
H-shares (HK\$ mn)	2,581
A-Shares (RMB mn)	5,554
3-mth avg daily turnover (HK\$ mn)	26.9
Major shareholder(s) (%):	
YTO Group	44.52

Source(s): Company, Bloomberg, ABCI Securities

1H13 Revenue breakdown (%)

Agricultural Machinery	85.28
Power Machinery	12.83
Financial Leasing Income	0.50
Others	1.39

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	14.36	10.89
3-mth	27.15	18.75
6-mth	16.88	8.62

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg

First Tractor (38 HK)
Reiterate BUY on agricultural mechanization

- China once again reiterated its determination to modernize agriculture by mechanization
- First Tractor plans to construct production lines to manufacture the new forms of high-powered wheeled tractors to improve production capability, product quality and cost structure
- We stay positive on the Group's mid-to long-term prospect, and revise up our target valuation from 1.0x FY14E BVPS to 1.2x and TP to HK\$ 7.68 from HK\$6.40. Reiterate **BUY**.

The Chinese leader reiterated the emphasis on agricultural reform. Chinese President Xi Jinping has reiterated the country's determination to reform agricultural during an inspection tour of east China's Shandong Province, stressing the decisive role of technology in enhancing enterprises' competitiveness and promoting agricultural development. With the Chinese leaders having repeatedly stated the importance of agriculture development on various occasions, we believe the Chinese government will push forward reforms to facilitate agricultural modernization, which will benefit First Tractor, the largest agricultural tractor maker in China, in the long run.

Data suggests income of farmer has increased in 9M13. Raising rural household income has been a priority of Chinese Government. PPI of farm crops in China was up 4.66% YoY, while the overall PPI and rural CPI was down 1.30% YoY and rose 3.30% YoY in 9M13, indicating farmers' revenue could be rising faster than production costs. We believe the improving income of farmers would lead to increased procurement for farm machineries in 2014. In fact, the trend may have started in 2013 as the fixed-assets investment (FAI) on agricultural and fishery industry for 10M13 was up 29.3% YoY, outpacing the overall FAI in China that rose 20.1% YoY.

Reiterate BUY; raise TP to HK\$ 7.68. The Group plans to set up new production lines to manufacture the new forms of high-powered wheeled tractors to improve production capability and the product quality. The facility is expected to be completed by 2015, enhancing the Group's production capability and optimizing the production cost. We stay positive on the Group's mid-to long-term prospect, and revise up our target valuation from 1.0x FY14E BVPS to 1.2x. Our new TP is HK\$ 7.68 (previous: HK\$ 6.40), reiterate **BUY**.

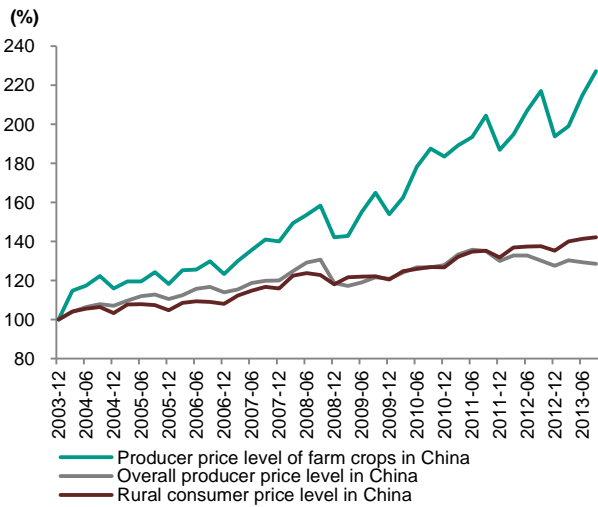
Risk factors: 1) Policy risk affecting sustainability of subsidy regime; 2) SG&A-to-revenue ratio increases on keen competition; 3) Expected earnings decline in FY13E

Results and Valuation

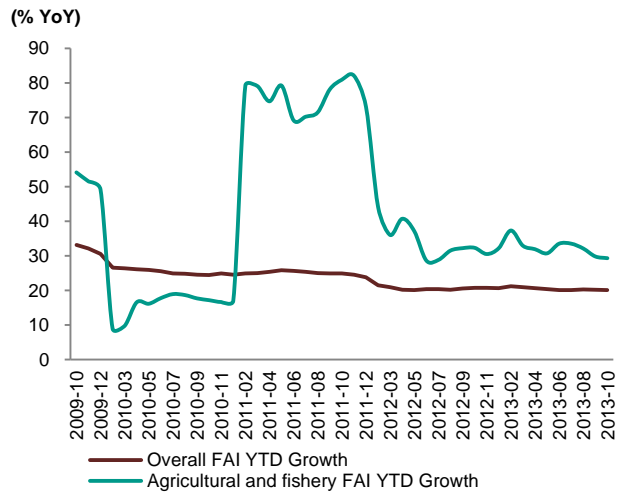
FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	11,703	11,318	11,114	13,293	16,320
Chg (% YoY)	14.00	(3.29)	(1.80)	19.61	22.77
Net Income (RMB mn)	440	349	306	537	799
Chg (% YoY)	(18.97)	(20.68)	(12.37)	75.59	48.76
EPS (RMB)	0.520	0.351	0.307	0.539	0.802
P/E (x)	-	14.70	16.79	9.56	6.43
BVPS (RMB)	4.035	4.453	4.501	5.141	5.991
P/B (x)	-	1.16	1.15	1.00	0.86
DPS (RMB)	0.000	0.100	0.092	0.162	0.241
Yield (%)	-	1.94	1.79	3.14	4.67
ROAE (%)	13.25	8.90	6.86	11.18	14.41
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

*Net gearing=Net debt/Total equity

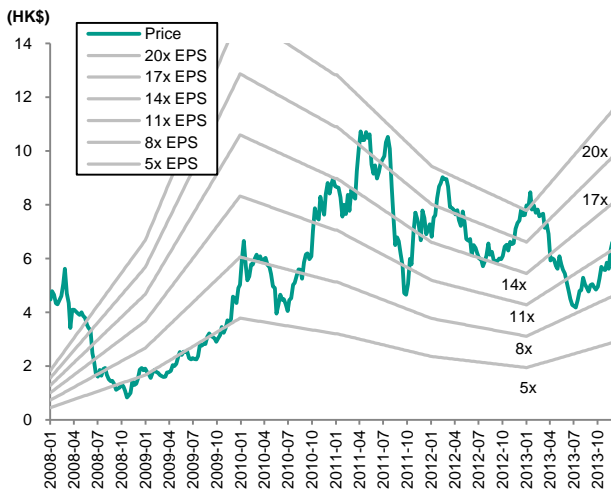
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 1: Producer price level of farm crops vs. overall producer price level in China


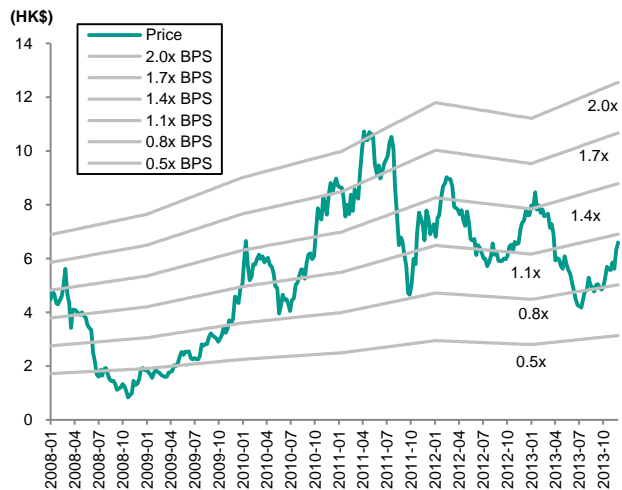
* Price level at end-2013 as 100
 Source(s): NBS, ABCI securities

Exhibit 2: Fixed-assets investment (FAI) in agricultural and fishery industry vs. overall FAI in China


Source(s): NBS

Exhibit 3: P/E band of First Tractor (H-shares) in 1M08-11M13 (HK\$)


Source(s): Company, Bloomberg, ABCI Securities estimates

Exhibit 4: P/B band of First Tractor (H-shares) in 1M08-11M13 (HK\$)


Source(s): Company, Bloomberg, ABCI Securities estimates

Exhibit 5: Peer valuation for machinery manufacturers

Company	Ticker	Mkt cap (HK\$ mn)	As of 02/12/2013 CRY	Share Price	P/E (x)		EPS (%YoY)		P/B (x)		ROAE (%)	
					FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Construction Machinery Maker												
CATERPILLAR INC	CAT US	417,359	USD	84.60	15.47	14.57	(37.20)	6.14	2.98	2.69	24.05	29.86
KOMATSU LTD	6301 JP	156,744	JPY	2,109	13.72	12.85	15.92	6.78	1.57	1.48	13.28	12.32
SANY HEAVY INDUS	600031 CH	68,124	RMB	7.03	11.54	7.82	(18.80)	47.62	2.00	1.74	15.59	17.69
ZOOMLION HEAVY-H	1157 HK	11,297	HKD	7.90	10.10	9.08	(33.95)	11.25	1.07	0.94	11.19	11.01
ZOOMLION HEAVY-A	000157 CH	44,715	RMB	5.60	8.91	8.01	(33.95)	11.25	0.94	0.83	11.19	11.01
XCMG CONSTRUCT-A	000425 CH	20,208	RMB	7.70	7.90	8.11	(18.75)	(2.56)	0.85	0.79	10.82	10.10
GUANGXI LIUGONG	000528 CH	9,377	RMB	6.55	18.30	13.13	43.20	39.39	0.77	0.73	4.01	4.83
TEREX CORP	TEX US	31,339	USD	36.32	17.14	12.55	120.73	36.57	1.88	1.60	11.55	14.42
TADANO	6395 JP	13,911	JPY	1,421	14.56	12.83	68.69	13.51	1.87	1.67	7.95	13.75
SHANTUI CONST-A	000680 CH	5,146	RMB	3.26	141.74	48.66	(23.33)	191.30	0.92	0.94	(0.40)	1.91
XIAMEN XGMA-A	600815 CH	4,966	RMB	4.07	(18.50)	19.38	(237.50)	(195.45)	0.90	0.87	(4.49)	4.56
LONKING HOLDINGS	3339 HK	7,148	HKD	1.67	11.49	9.08	230.78	26.58	0.83	0.75	7.59	8.68
Sector Weighted Average					14.80	13.11	(14.04)	11.84	2.28	2.06	18.43	21.77
Agricultural Machinery Maker												
DEERE & CO	DE US	250,024	USD	84.24	10.13	11.09	(9.38)	(8.71)	2.57	2.21	40.75	27.87
MAHINDRA & MAHIN	MM IN	73,131	INR	949.70	12.66	10.94	7.96	15.67	2.47	2.11	17.75	15.85
FIRST TRACTOR-H	38 HK	2,581	HKD	6.42	16.79	9.56	(12.46)	75.59	1.15	1.00	6.86	11.18
FIRST TRACTOR -A	601038 CH	7,065	RMB	9.35	30.45	17.34	(12.46)	75.59	2.08	1.82	6.86	11.18
ESCORTS LTD	ESC IN	1,766	INR	115.25	7.49	7.89	148.64	(5.12)	0.67	0.67	10.20	8.47
Sector Weighted Average					11.15	11.16	(4.84)	(0.94)	2.52	2.16	34.59	24.66
Mining Machinery Maker												
JOY GLOBAL INC	JOY US	46,601	USD	56.56	9.71	15.36	(19.10)	(36.77)	1.98	1.87	26.74	17.66
ZHENGZHOU COAL-H	564 HK	1,346	HKD	5.54	8.45	6.85	(46.30)	23.37	0.76	0.70	9.12	10.59
ZHENGZHOU COAL-A	601717 CH	10,800	RMB	6.16	11.70	9.48	(46.30)	23.37	1.05	0.97	9.12	10.59
TIAN DI -A	600582 CH	10,966	RMB	7.10	9.59	8.55	(20.86)	12.16	1.92	2.11	17.35	23.55
SANY HEAVY EQUIP	631 HK	8,545	HKD	2.81	15.69	14.28	(10.34)	9.82	1.19	1.11	7.66	7.94
LINZHOU HEAVY-A	002535 CH	4,922	RMB	7.21	10.57	10.30	58.60	2.64	1.59	1.40	10.97	14.49
SUNWARD INTELL-A	002097 CH	3,612	RMB	6.90	43.13	43.13	633.94	0.00	1.61	1.57	3.94	3.69
Sector Weighted Average					11.95	14.40	9.32	(13.82)	1.72	1.66	19.37	15.70
Machinery Parts Maker												
CUMMINS INC	CMI US	192,257	USD	132.36	17.52	14.30	(13.05)	22.46	3.42	2.92	21.58	22.00
WEICHAI POWER-H	2338 HK	55,558	HKD	33.90	14.62	12.33	24.13	18.64	1.85	1.62	13.80	14.38
TAIYUAN HEAVY-A	600169 CH	10,547	RMB	3.42	25.33	34.20	(198.47)	(25.93)	1.47	1.41	5.96	4.20
CHINA YUCHAI	CYD US	6,700	USD	23.19	7.68	7.79	24.28	(1.49)	0.85	0.80	11.53	10.59
Sector Weighted Average					16.97	14.52	(11.69)	19.13	2.94	2.53	19.08	19.41
Industrial Machinery Maker												
VOLVO AB-B	VOLVB SS	219,902	SEK	86.45	29.62	16.33	(46.34)	81.33	2.24	2.13	7.15	13.76
ATLAS COPCO-A	ATCOA SS	258,039	SEK	181.90	17.87	16.77	(11.08)	6.51	5.56	4.88	32.31	29.98
HYUNDAI HEAVY	009540 KS	148,104	KRW	266,000	10.15	8.44	45.28	20.38	1.09	1.04	10.49	12.61
SANDVIK AB	SAND SS	136,288	SEK	91.40	16.29	14.58	(13.79)	11.69	3.30	3.01	19.05	19.95
DOOSAN HEAVY	034020 KS	29,281	KRW	37,650	4.69	4.26	(447.41)	10.00	0.94	0.92	20.91	21.85
MANITOWOC CO	MTW US	21,315	USD	20.59	16.43	13.82	62.73	18.91	3.63	2.84	24.80	24.48
ANHUI HELI CO-A	600761 CH	7,390	RMB	11.30	12.27	10.59	35.44	15.85	1.70	1.50	14.92	15.41
Sector Weighted Average					18.80	14.21	(24.05)	30.46	3.24	2.92	18.66	20.26
Overall Weighted Average					15.84	13.43	(15.12)	16.50	2.71	2.42	20.98	21.15

Source(s): Bloomberg, ABCI Securities estimates

Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	11,703	11,318	11,114	13,293	16,320
Agricultural Machinery	9,356	9,617	9,264	11,049	13,514
Power Machinery	1,470	1,224	1,346	1,725	2,243
Financial Leasing Income	66	92	99	95	117
Others	811	385	404	424	446
COGS					
Gross profit	1,660	1,543	1,664	2,011	2,576
SG&A	(1,077)	(1,093)	(1,167)	(1,220)	(1,444)
Other income and gains	16	35	(94)	(78)	(76)
Pre-tax profit	599	485	402	713	1,056
Income tax	(85)	(71)	(60)	(107)	(158)
Net profit	514	414	342	606	898
Profit attributable to:					
Minority interests	74	65	36	69	99
Equity shareholders of the Company	440	349	306	537	799
EPS (RMB)	0.520	0.351	0.307	0.539	0.802
DPS (RMB)	0.000	0.100	0.092	0.162	0.241
EBIT	662	569	514	810	1,154
EBITDA	802	760	727	1,027	1,407

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	6,533	7,648	8,163	8,967	10,718
Cash and equivalent	1,541	1,969	2,252	2,486	2,842
Trade and bill receivables	2,446	2,335	2,841	2,986	3,274
Financial leasing receivables	632	748	816	676	1,172
Inventories	1,195	1,470	1,015	1,457	1,931
Other current assets	719	1,126	1,239	1,362	1,499
Non-current assets	3,240	3,690	4,128	4,501	4,578
Property, plant and equipment	2,168	2,559	2,932	3,243	3,219
Intangible assets	773	822	865	907	948
Long-term investments	199	167	184	202	222
Other non-current assets	100	142	147	149	189
Total assets	9,773	11,338	12,290	13,468	15,296
Current liabilities	5,465	5,556	5,182	5,643	6,536
Trade and bill payables	2,345	2,703	2,216	2,420	2,851
Receipts in advance	1,058	1,047	1,176	1,483	1,781
Short term borrowings	969	451	300	100	100
Other current liabilities	1,093	1,355	1,491	1,640	1,804
Non-current liabilities	356	826	2,047	2,070	2,095
Long-term borrowings	186	618	1,818	1,818	1,818
Other non-current liabilities	170	208	229	252	277
Total liabilities	5,821	6,382	7,229	7,712	8,631
Minority interests	538	525	578	635	699
Shareholders' equities	3,414	4,431	4,483	5,120	5,967
BVPS (RMB)	4.035	4.453	4.501	5.141	5.991

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Profit before tax	599	485	402	713	1,056
Changes in depreciation and amortization	140	191	214	217	253
Changes in working capital	67	(13)	(141)	(485)	(296)
Financial cost	55	63	111	97	97
Income tax paid	(83)	(99)	(63)	(110)	(162)
Others	(59)	(72)	-	-	-
CF Operating	719	555	523	432	949
Increase in PP&E	(362)	(405)	(560)	(500)	(200)
Increase in intangible assets	(565)	(49)	(43)	(42)	(41)
Others	117	(293)	-	-	-
CF Investing	(810)	(747)	(603)	(542)	(241)
Capital injection	7	866	-	-	-
Net debt financing	386	(86)	1,049	(200)	-
Dividend payout	(106)	(76)	(100)	(92)	(161)
Interest paid	(54)	(83)	(111)	(97)	(97)
Others	31	(13)	(476)	733	(94)
CF Financing	264	608	363	344	(352)
Net change in cash	173	416	283	234	356
Cash at the beginning	1,393	1,541	1,969	2,252	2,486
Adjustment (Time deposit & FX effect)	(25)	12	-	-	-
Cash at the end	1,541	1,969	2,252	2,486	2,842

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Sales mixed (%)					
Agricultural Machinery	79.95	84.97	83.35	83.12	82.81
Power Machinery	12.56	10.81	12.11	12.98	13.74
Financial Leasing Income	0.56	0.81	0.89	0.71	0.72
Others	6.93	3.40	3.64	3.19	2.73
Profit & loss ratios (%)					
Gross margin	14.18	13.63	14.97	15.13	15.79
Net profit margin	3.76	3.08	2.75	4.04	4.90
Effective tax rate	14.19	14.64	15.00	15.00	15.00
Growth (%)					
Revenue	14.00	(3.29)	(1.80)	19.61	22.77
Gross profit	9.43	(7.05)	7.84	20.88	28.09
EBIT	(1.78)	(14.05)	(9.75)	57.78	42.37
EBITDA	(4.41)	(5.24)	(4.28)	41.19	36.96
Net profit	(18.97)	(20.68)	(12.37)	75.59	48.76
Balance sheet ratios					
Current ratio (x)	1.20	1.38	1.58	1.59	1.64
Quick ratio (x)	0.98	1.11	1.38	1.33	1.34
Cash ratio (x)	0.28	0.35	0.43	0.44	0.43
Trade and bill receivables days	63.02	77.09	85.00	80.00	70.00
Trade and bill payables turnover days	81.61	94.25	95.00	75.00	70.00
Inventory turnover days	47.65	49.76	48.00	40.00	45.00
Total debt / equity ratio (%)	29.23	21.57	41.85	33.32	28.78
Net debt / equity ratio (%)		Net Cash	Net Cash	Net Cash	Net Cash
Returns (%)					
ROAE	13.25	8.90	6.86	11.18	14.41
ROAA	5.52	3.92	2.90	4.71	6.24
Payout ratio	-	28.54	30.00	30.00	30.00

Source(s): Company, 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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