



Key Data

Average FY13 PER (x)	8.6
Average FY13 PBV (x)	1.5
Average FY13 Dividend Yield (%)	2.4
Sector 3 months avg vol (HK\$m)	1,544

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
ZMJ	12.85
Sany Heavy	-23.43
XCMG	-30.48

*The growth is as at 1HFY12

Source: Companies

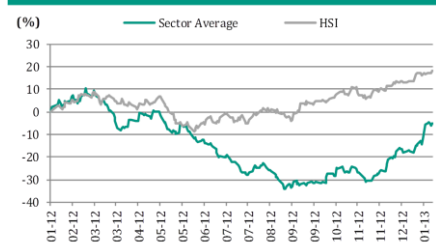
Average share performance (%)

	Absolute	Relative*
1-mth	12.0	8.20
3-mth	24.6	17.02
6-mth	30.0	6.43

*Relative to Hang Seng Index

Source: Bloomberg

1 year sector performance



Source: Bloomberg

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**Construction Mach Sector – Overweight
Construction & Farm Machinery Industry**

Agricultural, construction Good; Coal mining Bad

After the release of 2012 economic data by NBS on Friday, we anticipate that the market liquidity will flow from coal mining machinery sector to agricultural machinery sector and construction machinery sector. We are of the view that the weakening coal price limits the growth of coal mining capex while the growth momentum of the FAI on agricultural industries and infrastructure construction will carry on in 2013.

Agricultural FAI is a spotlight. 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. We expect that the Consecutive No. 1 Central Documents (“中央一号文件”, which will address central government policy for 2013) will be released before the Chinese New Year Holiday, and more subsidies on agricultural machineries are expected in 2013 under the mechanization of agricultural industries. The total subsidies were Rmb21,500mn in 2012, up 22.9% YoY. First Tractor (38 HK), as leading agricultural machineries makers, will be the leading beneficiary.

Cement production volume is recovering with infrastructure. The cement production volume was up from 5.9% YoY in 1H12 to 7.4% YoY in 2012, and the FAI on infrastructure rebound from -7.2% YoY in 1H12 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 cement (and concrete as well) will support demand for concrete machineries. Zoomlion (1157 HK), as concrete machineries maker, will be a beneficiary.

Fixed assets investment of coal mining industries are shrinking. The FAI of coal mining industries increased by 7.7% YoY from Rmb62bn in 2011 to Rmb63bn in 2012. Weak coal prices trampled down the growth of coal mining FAI and hence the coal mining machineries makers which discourage the mine operators to increase capex. We expect that sales growth of coal mining machinery makers, such as Sany Int'l (631 HK) and ZMJ (564 HK) will be adversely affected in 1H13.

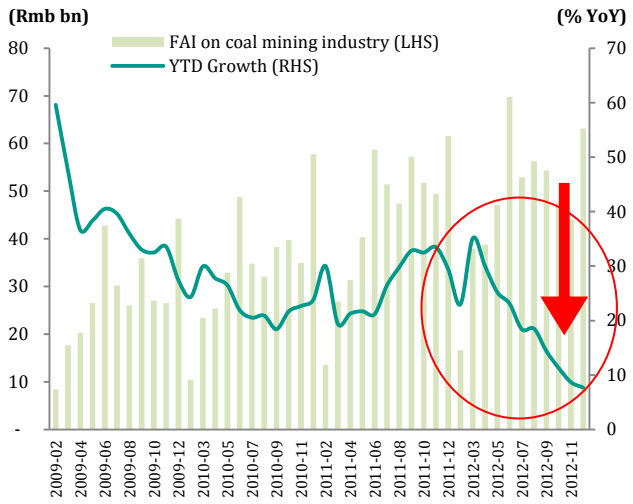
Risk factors: Prolonged weakening of construction industry; Competition from international players; Credit and liquidity risk

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\$11.08	14.16	5.9	1.4	3.4
Lonking (Sell)	3339 HK	HK\$2.22	1.48	9.2	1.0	3.2
First Tractor (Buy)	38 HK	HK\$8.46	Under review	10.5	1.5	2.8
Sany Int'l (Under-review)	631 HK	HK\$4.14	Under review	10.6	1.5	1.9
ZMJ (Not rated)	564 HK	HK\$11.38	N/A	7.7	1.5	2.6
Sany Heavy (N/A)	600031 CH	Rmb10.19	N/A	9.1	2.6	1.6
XCMG (N/A)	000425 CH	Rmb12.05	N/A	7.0	1.0	1.3

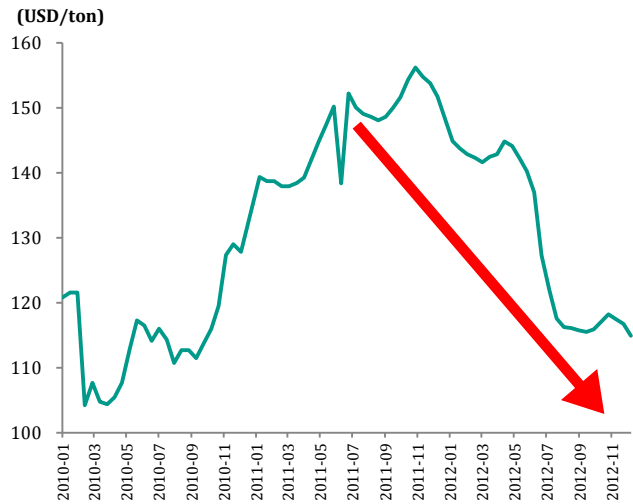
Source: Companies, Bloomberg, ABCI Securities estimates

Fixed assets investment on coal mining activities, 2012



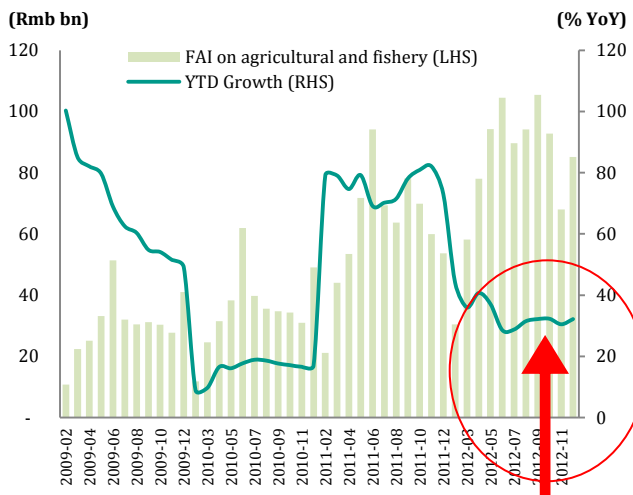
Source: NBS

Coal price in China: Qinhuangdao 5800kc



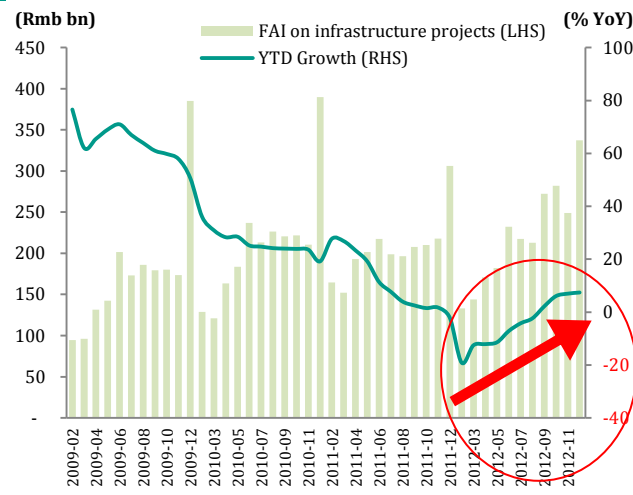
Source: Bloomberg

Fixed assets investment on agricultural and fishery, 2012



Source: NBS

Fixed assets investment on infrastructure, 2012

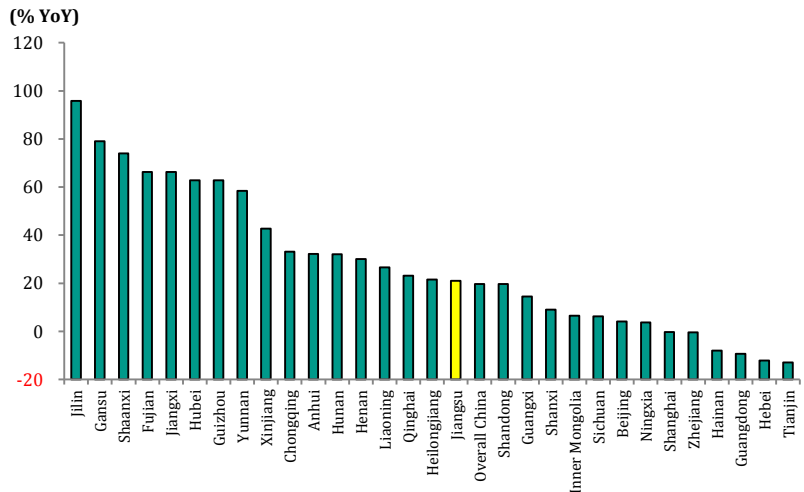


Source: NBS

Concrete production volume in 1-11M12

The cement production volume growth was up from 5.9% YoY in 1H12 to 7.4% YoY in full year 2012.

The concrete production volume growth was up from 18.8% YoY in 1H12 to 19.6% YoY in 1-11M12.



Source: NBS

Peer group valuation and earnings forecasts summary of construction and farm machinery sectors

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	485,166	USD	95.70	10.52	11.15	19.07	-5.65	37.68	28.59
KOMATSU LTD	6301 JP	200,992	JPY	2,372.00	12.70	12.44	7.64	2.08	18.53	13.95
SANY HEAVY INDUS	600031 CH	96,441	CNY	10.19	10.59	9.11	-15.54	16.32	31.91	25.99
ZOOMLION HEAVY-H#	1157 HK	86,654	HKD	11.08	7.36	5.94	14.91	23.95	24.00	24.40
ZOOMLION HEAVY-A#	000157 CH	86,654	CNY	9.06	7.54	6.08	14.91	23.95	24.00	24.40
XCMG CONSTRUCT-A	000425 CH	30,979	CNY	12.05	8.05	7.05	-8.72	14.23	26.18	23.65
GUANGXI LIUGONG	000528 CH	14,066	CNY	10.03	21.12	15.13	-59.40	39.58	3.98	5.77
TEREX CORP	TEX US	24,924	USD	29.28	14.52	11.40	391.71	27.38	10.60	13.19
TADANO	6395 JP	8,438	JPY	756.00	55.32	19.24	-44.83	187.62	2.30	6.70
SHANTUI CONST-A	000680 CH	7,210	CNY	5.08	-13.06	14.03	-192.62	-193.06	1.25	5.15
XIAMEN XGMA-A	600815 CH	8,199	CNY	6.86	12.21	14.12	-24.05	-13.52	10.37	8.37
LONKING HOLDINGS#	3339 HK	9,587	HKD	2.22	15.48	9.24	-71.30	67.53	7.50	11.80
Sector Weighted Average					10.86	10.40	16.88	5.48	28.85	23.44
Agricultural Machinery Maker										
DEERE & CO	DE US	270,929	USD	90.10	10.78	10.14	8.26	6.34	38.74	38.88
MAHINDRA & MAHIN	MM IN	77,955	INR	882.45	13.88	11.43	19.51	21.43	21.10	20.13
CNH GLOBAL NV	CNH US	83,052	USD	44.69	9.66	9.37	17.98	3.14	12.16	10.97
FIRST TRACTOR-H#	38 HK	11,611	HKD	8.46	14.42	10.54	-2.67	36.08	10.10	12.80
FIRST TRACTOR -A	601038 CH	11,611	CNY	11.07	23.42	17.21	-2.67	36.08	10.10	12.80
ESCORTS LTD	ESC IN	1,249	INR	70.80	6.63	5.04	72.39	31.52	6.43	8.09
Sector Weighted Average					11.51	10.40	11.57	9.92	29.34	29.19
Mining Machinery Maker										
JOY GLOBAL INC	JOY US	56,066	USD	68.23	10.92	10.41	-13.18	4.83	34.20	26.91
ZHENGZHOU COAL-H#	564 HK	21,251	HKD	11.38	9.34	7.62	14.77	22.49	21.12	19.65
ZHENGZHOU COAL-A#	601717 CH	21,251	CNY	10.76	10.99	8.97	14.77	22.49	21.12	19.65
TIAN DI -A	600582 CH	17,853	CNY	11.80	12.37	10.26	27.06	20.55	21.45	20.90
SANY HEAVY EQUIP#	631 HK	12,855	HKD	4.14	12.44	10.56	7.26	17.83	14.53	15.13
LINZHOU HEAVY-A	002535 CH	4,992	CNY	7.44	14.23	10.19	51.09	39.58	10.86	13.28
SUNWARD INTELL-A	002097 CH	3,845	CNY	7.32	52.29	30.50	-71.03	71.43	3.36	5.51
Sector Weighted Average					12.29	10.31	3.24	16.62	24.99	21.71
Machinery Parts Maker										
CUMMINS INC	CMI US	168,273	USD	114.20	13.59	12.68	-12.25	7.14	27.13	23.75
WEICHAI POWER-H	2338 HK	62,193	HKD	33.90	14.10	11.76	-31.18	19.93	12.30	13.75
TAIYUAN HEAVY-A	600169 CH	11,601	CNY	3.84	-27.43	26.48	-186.92	-203.57	-6.60	6.40
CHINA YUCHAI	CYD US	5,169	USD	17.89	6.63	6.02	-22.64	10.00	10.74	11.07
Sector Weighted Average					11.65	12.96	-25.43	0.53	21.47	20.15
Industrial Machinery Maker										
VOLVO AB-B	VOLVB SS	233,684	SEK	91.95	14.54	12.40	-27.81	17.25	14.56	16.16
ATLAS COPCO-A	ATCOA SS	258,332	SEK	182.10	15.84	15.86	7.61	-0.11	43.33	34.97
HYUNDAI HEAVY	009540 KS	127,631	KRW	229,000.00	8.16	7.26	-11.66	12.43	9.98	11.35
SANDVIK AB	SAND SS	155,299	SEK	103.70	13.52	13.21	65.70	2.29	25.76	23.59
DOOSAN HEAVY	034020 KS	36,486	KRW	47,000.00	7.62	5.85	222.60	30.28	11.95	13.60
MANITOWOC CO	MTW US	16,791	USD	16.38	22.32	12.41	-1,017.50	79.84	18.33	25.70
ANHUI HELI CO-A	600761 CH	5,830	CNY	9.10	13.46	11.28	-9.87	19.38	11.08	11.58
Sector Weighted Average					13.62	12.54	-5.80	10.20	24.79	22.68
Weighted Average					11.95	11.28	4.57	7.77	26.83	23.78
Median					12.70	11.18	-2.67	19.93	16.44	16.00

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

ABCI Securities estimates

Source: Bloomberg, (The data in the table is as at January 18, 2013)

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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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