

11 September 2012

## Equity Focus

### First Tractor (38 HK) – Buy Construction & Farm Machinery Industry

#### Key Data

H-share price (HK\$)	5.92
Target price (HK\$)	6.83
Upside potential (%)	15.4
52Wk H/L(HK\$)	9.39 / 3.75
Issued shares (mn)	995
H-share	402
A-share	150
Domestic share	443
H-share market cap (HK\$mn)	2,380
30-day avg vol (HK\$mn)	11.6
Auditors	BAKER TILLY
Major shareholder (%)	
YTO Group*	44.52

\* Domestic share

Source: Company, Bloomberg, ABCI Securities

#### Sales breakdown in 1HFY12 (%)

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

Source: Company

#### Share performance (%)

	Absolute	Relative*
1-mth	(10.1)	(8.5)
3-mth	(7.4)	(11.3)
6-mth	(32.0)	(27.6)

\*Relative to Hang Seng Index

Source: Bloomberg

#### 1 year price performance



Source: Bloomberg

#### Analyst

Steve Wong  
Tel: (852) 2147 8869  
Email: stevecwong@abci.com.hk

Previous report  
Date: N/A  
Rating: N/A  
Target price: N/A

#### Strong FAI growth in agriculture benefit the leading player

The FAI on agricultural and fishery industries was up 31.5% YoY in the first 8 months, which was outpacing the average growth of total FAI in China at 20.2% under the same period. We initiate “Buy” rating to First Tractor (38 HK) because of its leading position in agricultural tractors market, which let the Group effectively capture the downstream agricultural industries growth under the favorable government policies toward rural area.

**Strong growth in agricultural FAI.** Under the encouraging policies on “agricultural, rural area and farmer” or known as “Sannong”, China’s government speeds up the mechanization of agricultural industries. The Fixed Assets Investment (“FAI”) on the agricultural and fishery industry in the first 8 months was Rmb549.1bn, up 31.5 YoY, which was higher than that in the first 7 months at 28.8% YoY. It reflects the industry is expanding and will benefit the upstream agricultural machinery sector.

**Improvement on income of rural area.** The attributable income of the rural area is elevating at a CAGR of 11.4% from Rmb2,366/person in 2001 to Rmb6,977/person in 2011. The average growth on retail price in first 8 months for vegetable and grain were 18.8% and 4.0%, respectively. It spurred on the purchases on agricultural machinery for the sake of enhancing the planting efficiency and production volume.

**We like First Tractor.** As the leading agricultural tractors manufacturer, we believe the Group can capture the growth in the agricultural industry. The government’s subsidies for agricultural machinery will remain an upside catalyst to the industry. The Group raised capital in the A-share market to finance the development of high-power tractor and expand the production capacity. We initiate “Buy” rating to the Group with TP:HK\$6.83, based on 9.3x of our FY13E EPS, of which 9.3x is mean of PE minus 1 standard deviation in the past five years.

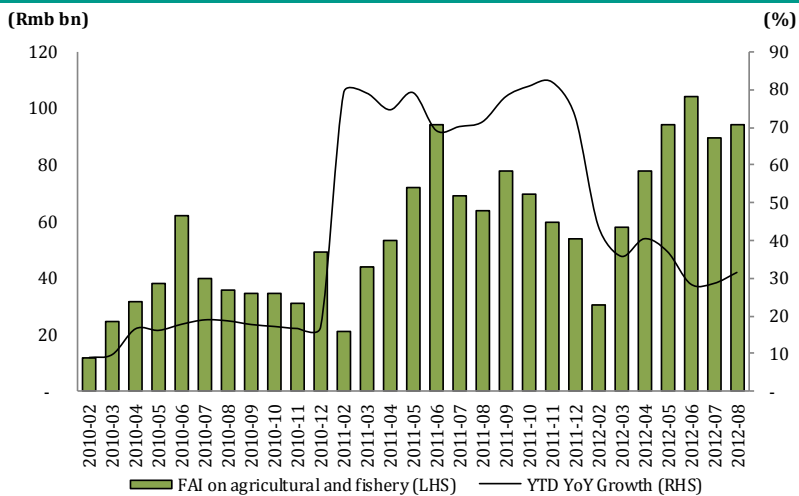
**Risk factors:** Government policy on agriculture industry; Intensify market competition in low-to-medium powered tractors

#### Forecast and Valuation

FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rmb mn)	10,266	11,328	11,206	13,202	17,893
Chg (%YoY)	14.0	10.3	(1.1)	17.8	35.5
Net Income (Rmb mn)	543	411	433	595	883
Chg (%YoY)	118.3	(24.3)	5.4	37.3	48.5
EPS (Rmb)	0.642	0.486	0.470	0.597	0.887
Chg (%YoY)	118.3	(24.3)	(3.2)	27.0	48.5
PE (x)	-	9.9	10.2	8.1	5.4
PB (x)	-	1.25	1.23	1.24	1.13
Yield (%)	-	-	2.9	3.7	5.5
ROAA (%)	7.3	4.5	4.3	5.3	6.9
ROAE (%)	16.4	11.2	11.0	14.0	19.3
Net debt/total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

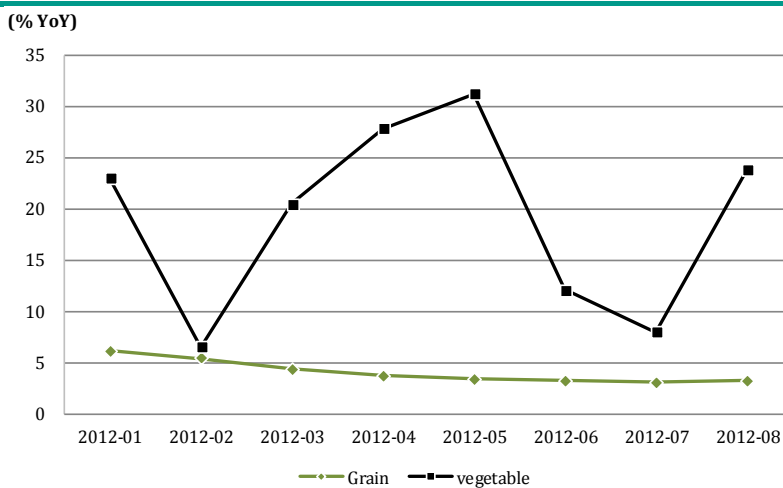
Source: Company, Bloomberg, ABCI Securities estimates

**Monthly FAI on agricultural and fishery industries**



Source: National Bureau of Statistics of China

**Price growth of agricultural products**



Source: National Bureau of Statistics of China

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## Disclosures

### Analyst Certification

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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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**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.**

**Tel: (852) 2868 2183**