



**Key Data**

Average FY12E PE (x)	8.1
Average FY12E PB (x)	1.5
Average FY12E dividend yield (%)	2.6
3-month industry ADT (HK\$)	304

Source: Bloomberg, ABCI Securities

**Net income growth in 1HFY12 (% YoY)**

Zoomlion	21.5
Lonking	(76.1)
First Tractor	5.6
Sany Int'l	16.7
Sany Heavy	(13.1)
XCMG	(28.7)

Source: Companies

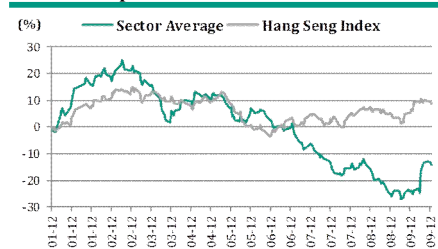
**Average share performance (%)**

	Absolute	Relative*
1-mth	(7.9)	(11.0)
3-mth	(21.0)	(28.8)
6-mth	(33.4)	(30.6)

\*Relative to Hang Seng Index

Source: Bloomberg

**YTD sector performance**



Source: Bloomberg

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**Construction Machinery Sector – Unrated Construction & Farm Machinery Industry**

**Outlook 4Q2012: Industry is recovering gradually**

The construction machinery industry will be bottomed out in 4Q2012 under the launch of infrastructure projects. During the early recovery stage we prefer to large machinery makers, such as Zoomlion (1157 HK, Buy) because of the abundance of cash on hand. As the performance of wheel loader market is still underperforming as of 8M2012, recovery on the market needs to take more time, and we sell Lonking (3339 HK, Sell).

**More infrastructure projects spur demand for construction machinery.**

Construction machinery industry experienced a downturn in the first 3 quarters of 2012, but under the gradual relaxing monetary and launch of infrastructure projects, we expect the industry will be bottomed out during 4Q2012 and back on growth track in 2013. We like market leader with abundant cash on hand and diversified product portfolio, such as Zoomlion.

**Sales of earth-moving machineries and cranes are improving.**

We see the sales figure of earth-moving machineries (except wheel loader market) and cranes are improving. Sales volume growth of mobile cranes turned around from -34.5% YoY in 2Q2012 to 2.5% YoY in 7-8M12. Sales volume growth of earth-moving machineries improved from -31.1% YoY in 2Q2012 to -24.4% YoY in 7-8M2012. Under the launch of a series of infrastructure projects approved by NDRC, we expect the recovery of the earth-moving machineries and cranes markets will be carried on in 4Q2012.

**Concrete machinery sales growth will maintain in 4Q2012.**

Sales volume growth of concrete machinery increased from 6.5% YoY in 2Q2012 to 9.6% in 7-8M2012, with the stable growth of concrete demand in China, we expect the growth of concrete machinery will maintain in 4Q2012. The production volume was up 18.1% YoY in 1-8M2012, similar to 1-7M2012 at 18.9% YoY. The growth of demand for the concrete in Western China was outpacing at 42.3% YoY in 1-8M2012. With more infrastructure expected to be carried out in 4Q2012 and 2013, the growth of concrete will maintain, as well as concrete machinery.

**Risk factors:** Prolong weakening construction industry; Credit and liquidity risk

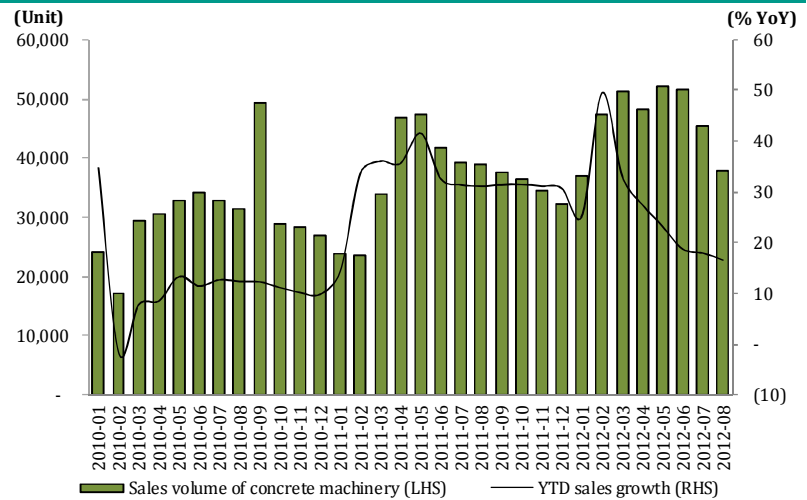
**Summary on selected companies in the sector**

Company	Ticker	Share Price	Target Price (HK\$)	FY12 PE (x)	FY12 PB (x)	FY12 Yield (%)
Zoomlion (Buy)	1157 HK	HK\$8.81	12.51	5.4	1.4	3.7
Lonking (Sell)	3339 HK	HK\$1.30	1.01	7.1	0.7	4.2
First Tractor (Buy)	38 HK	HK\$5.97	6.83	10.3	1.2	2.9
Sany Int'l (Unrated)	631 HK	HK\$4.22	N/A	11.5	1.7	1.7
Sany Heavy (N/A)	600031 CH	Rmb9.60	N/A	7.9	2.8	2.0
XCMG (N/A)	000425 CH	Rmb10.65	N/A	6.4	1.1	1.3

Source: Companies, Bloomberg, ABCI Securities estimates

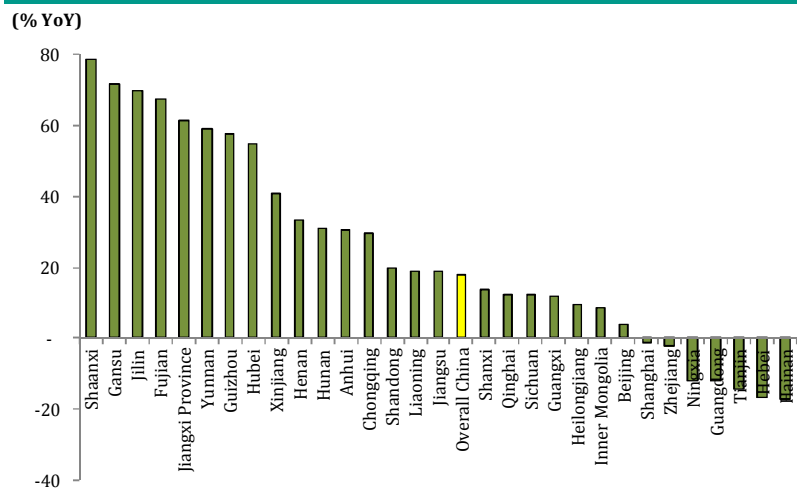


**Growth of concrete machinery in China**



Source: CCMA, ABCI Securities

**YTD concrete production volume growth in China for 1-8M12**



Source: National Bureau of Statistics of China, ABCI Securities

**YoY Growth of sales volume of construction machineries**

(% YoY)	1Q2011	2Q2011	3Q2011	4Q2011	1Q2012	2Q2012	7-8M12
<b>Mobile Crane</b>	43.7	-4.4	-3.6	-6.5	-36.2	-34.5	2.5
Truck Crane	44.5	-6.4	-20.8	-19.1	-44.5	-41.1	-22.5
Crawler Crane	42.9	-2.3	13.5	6.2	-28.0	-27.8	27.5
<b>Earth-moving machineries</b>	49.9	-7.7	-17.4	-24.7	-40.7	-31.1	-24.4
Excavator	58.5	2.5	-17.2	-35.2	-40.0	-32.5	-29.7
Wheel loader	43.7	1.7	4.5	10.6	-27.2	-24.0	-36.2
Bulldozer	65.9	-20.8	-29.0	-30.1	-47.4	-26.1	-6.8
Road roller	31.4	-14.1	-27.8	-43.9	-48.4	-41.9	-24.9
<b>Concrete machineries</b>	36.0	29.7	28.8	27.6	33.1	6.5	9.6

Source: CCMA, ABCI Securities



***QoQ Growth of sales volume of construction machineries***

(% QoQ)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	7-8M12
<b>Mobile Crane</b>	(5.4)	70.3	(36.4)	2.0	34.3	13.8	(36.1)	(0.3)	(8.3)	16.8	3.2
Truck Crane	20.3	43.4	(37.0)	0.4	59.4	(7.2)	(46.7)	2.6	9.3	(1.5)	(31.9)
Crawler Crane	(31.1)	97.1	(35.8)	3.6	9.1	34.8	(25.5)	(3.1)	(26.0)	35.1	38.2
<b>Earth-moving machineries</b>	<b>38.9</b>	<b>47.8</b>	<b>(35.5)</b>	<b>8.5</b>	<b>52.1</b>	<b>(8.8)</b>	<b>(42.0)</b>	<b>(3.8)</b>	<b>23.7</b>	<b>5.9</b>	<b>(42.9)</b>
Excavator	78.3	6.7	(41.0)	38.0	82.5	(31.0)	(52.3)	7.9	69.1	(22.4)	(58.4)
Wheel loader	34.0	41.5	(29.4)	0.6	42.9	0.1	(27.4)	6.5	(6.0)	4.6	(45.2)
Bulldozer	32.5	61.1	(34.1)	(9.7)	72.9	(23.1)	(40.9)	(11.1)	30.3	7.9	(28.7)
Road roller	10.7	81.7	(37.4)	5.0	10.1	18.8	(47.4)	(18.5)	1.4	33.6	(39.2)
<b>Concrete machineries</b>	<b>37.0</b>	<b>23.0</b>	<b>(18.6)</b>	<b>(27.1)</b>	<b>86.5</b>	<b>17.3</b>	<b>(19.1)</b>	<b>(27.8)</b>	<b>94.5</b>	<b>(6.2)</b>	<b>(8.0)</b>

Source: CCMA, ABCI Securities

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Rating	Definition
Buy	Stock return $\times$ Market return rate
Hold	Market return $\pm$ 6% $\leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $\pm$ 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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