



Key Data

H-share price (16/7/2012)	HK\$9.47
Price target	HK\$13.82
Upside potential	45.9%
52Wk H/L(HK\$)	16.30 / 7.19
Issued shares (mn)	7,706
H-share	1,430
A-share	6,276
H-share market cap (HK\$mn)	13,542
30-day avg vol (HK\$mn)	194
Auditors	KPMG
Major shareholder:	
Hunan SASAC	16.2%

Source: Zoomlion & Bloomberg

Share performance

	Absolute	Relative*
1-mth	-10.0%	-9.5%
3-mth	-16.8%	-10.5%
6-mth	-4.3%	-4.9%

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Report Date: 19 July, 2012

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Previous report: 1 June, 2012

Zoomlion (1157) – BUY (Maintain)

12-month target price: HK\$13.82 (Up from HK\$13.59)

Industry recovering signals are observed

The strong sales performance on concrete machinery segment distinguishes Zoomlion with other construction machinery manufacturers which suffered significant profit decline in 1HFY12. We estimate revenue growth of Zoomlion will be up 15% YoY in 1HFY12. Furthermore, we believe the current market price of the Group has already factored in all the bad news and we have observed the industry recovering signals. It is a good time to accumulate Zoomlion on dip.

Recovery signals appear. The FAI growth of infrastructure (railway and roadway) is recovery. The growth of production of cement is accelerating in 2Q12. The new order index in China services PMI of construction industry in China was 54.2 in June, staying above 50 for 4 consecutive months. All these signals indicate that the construction machinery industry is going to recover.

Strong growth in concrete machinery segment. According to our channel check, the sales volume of the truck-mounted concrete pump of Zoomlion increased 40%-50% YoY during 1HFY12. The strong demand for concrete pump was mainly driven from the replacement demand for long-arm truck-mounted concrete pump and the strong growth of construction works in 3rd to 4th tiers cities.

Benefit from interest rate cuts. The PBOC cut the one-year lending interest rate by 25bps and 31bps on June 8 and July 5, respectively. It will help to stimulate the purchases of construction machinery because of the lower cost of financing. Also, the pace of infrastructure construction is expected to speed up in 2H12 under the gradual relaxing monetary environment. We believe the sales growth of the Group will start to back on track in 2HFY12.

We maintain our valuation on Zoomlion at 7.9x of FY13E EPS. We upward adjust our earnings forecasts for the Group according to the sales data released from CCMA. Net income forecast increases from Rmb9,033mn to Rmb9,144mn in FY12 and Rmb10,956mn to Rmb11,143mn in FY13. **We maintain our “BUY” rating with target price HK\$13.82, up from HK\$13.59.**

Results and forecast

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rmb mn)	32,193	46,323	53,568	65,213	77,365
Chg (YoY)	55.1	43.9	15.6	21.7	18.6
Gross Profit (Rmb mn)	9,769	15,007	17,733	20,959	25,330
Chg (YoY)	82.9	53.6	18.2	18.2	20.9
Net Income (Rmb mn)	4,666	8,055	9,144	11,143	13,515
Chg (YoY)	90.7	72.6	13.5	21.9	21.3
Fully diluted EPS (Rmb)	0.736	1.046	1.168	1.423	1.726
Chg (YoY)	63.5	42.2	11.6	21.9	21.3
PE (x)	10.9	7.4	6.6	5.4	4.5
PB (x)	2.1	1.8	1.5	1.2	1.0
Yield (%)	1.4	2.8	3.0	3.7	4.5
ROAA (%)	9.6	12.0	11.4	11.6	12.1
ROAE (%)	26.8	25.7	23.4	23.6	23.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Zoomlion, ABCI Securities estimates

*We assume Rmb1 = HK\$1.23



Strong growth of concrete machinery segment

Thanks for the strong growth of the concrete machinery segment, the Group was immunized from the deep decline of earth-moving machineries and mobile cranes markets. According to our channel check, the sales volume of the Group's truck-mounted concrete pump was up 40%-50% YoY in 1HFY12.

We estimate the revenue of concrete machinery segment of the Group will lift 33.7% YoY from Rmb21,212mn in FY11 to Rmb28,360mn in FY12. The strong growth of concrete machinery segment was mainly driven by the replacement demand for long-arm truck-mounted concrete pump over the short-arm truck-mounted concrete pump and the strong growth of construction works in 3rd to 4th tiers cities.

Latest statistics released by National Bureau of Statistics of China ("NBS") indicate the cement output growth kept recovering in 2Q12. The output of cement grew by 4.0% YoY, 4.3% YoY and 6.5% YoY for April, May and June, respectively. We believe the gradually increase in output growth rate signals the continued recovery of the demand for cement as well as concrete machinery in 2Q12.

Cement production volume across China

	Total cement production in 1H11 (mn tons)	Total cement production in 1H12 (mn tons)	YoY Growth (%)
Tibet	0.90	1.22	35.12
Xinjiang	11.83	15.50	31.12
Qinghai	4.32	5.56	28.73
Shaanxi	28.81	36.63	27.13
Gansu	13.00	16.11	23.89
Hubei	41.13	50.79	23.49
Fujian	30.25	36.27	19.91
Guizhou	22.61	27.01	19.43
Yunnan	30.65	35.95	17.30
Shanxi	16.47	19.24	16.86
Anhui	39.95	46.60	16.63
Henan	65.59	71.82	9.50
Ningxia	5.86	6.30	7.60
Hunan	39.79	42.29	6.27
Guangxi	38.13	40.47	6.14
Jiangsu	75.37	79.94	6.06
Overall China	942.33	994.16	5.50
Inner Mongolia	23.80	25.10	5.45
Jilin	19.36	20.09	3.76
Shandong	73.13	75.42	3.12
Chongqing	24.04	24.47	1.78
Jiangxi Province	31.54	31.78	0.76
Tianjin	3.69	3.70	0.34
Heilongjiang	17.70	17.58	(0.72)
Shanghai	3.53	3.50	(0.95)
Hainan	7.13	7.03	(1.37)
Liaoning	24.27	23.66	(2.53)
Hebei	66.28	64.51	(2.66)
Sichuan	75.43	71.67	(4.98)
Guangdong	53.99	49.71	(7.93)
Zhejiang	55.88	50.78	(9.14)
Beijing	4.18	3.40	(18.82)

Source: NBS

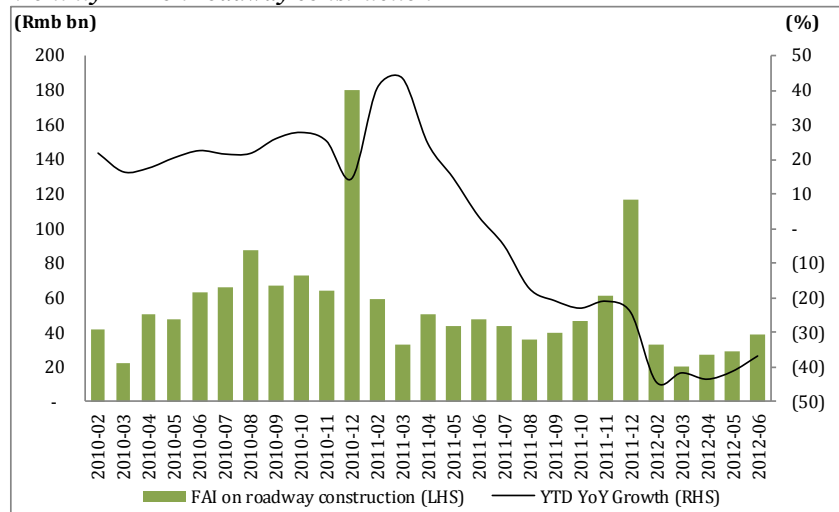


Looking forward to recovery of cranes segment

According to CCMA, the total sales volume of truck crane and crawler crane of the Group was 2,770 units, down 50.1% YoY, and 130 units, down 47.8% YoY. Under the gradual relaxing monetary environment started from cutting the benchmark interest rate in June and July, we believe the railway and roadway construction projects will back on the long-term growth track in 2H12. It is expected to spur up the demand for the truck crane and crawler crane (“mobile cranes”).

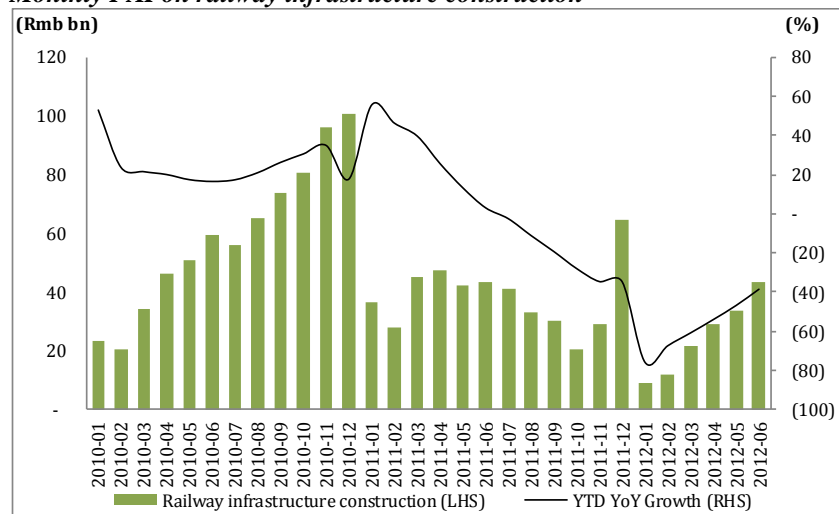
Furthermore, thanks for the strategic development of tower crane sub-segment of the Group, the sales volume of tower crane rocketed 166.6% from 5,175 units in FY10 to 13,795 units in FY11. We believe the sales volume of tower crane of Zoomlion will increase 10.0% YoY in 1HFY12 and 21.0% YoY in FY12. We believe the sales of crane segment of the Group will regain the momentum during 2HFY12. Under these circumstances, we estimate the overall crane segment sales will down 25.9% YoY in 1H1FY2, but the full year decline will mitigate to down 11.0% YoY in FY12.

Monthly FAI on roadway construction



Source: NBS

Monthly FAI on railway infrastructure construction



Source: The Ministry of Railway of the PRC

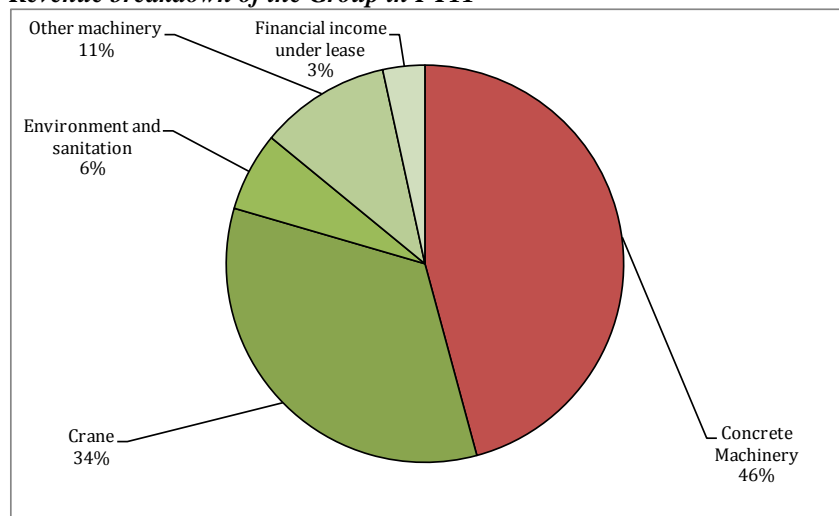


Gross margin improve due to change of product-mix

We estimate the gross profit margin (“GPM”) will increase from 32.4% in FY11 to 33.1% in FY12. The improvement on GPM is mainly caused by the change of product-mix:

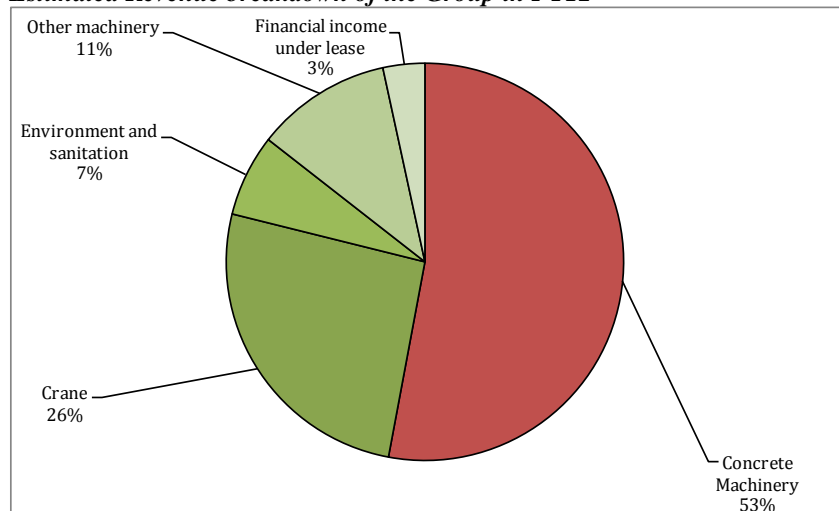
- 1) The replacement demand for long-arm truck-mounted concrete pump, which is higher in GPM than that of the short-arm;
- 2) GPM of crane segment is lower than that of concrete machinery segment. The decline of sales of crane will lower its weighting to the total revenue, and hence the contribution of the Group’s GPM. The overall GPM of the Group will increase.

Revenue breakdown of the Group in FY11



Source: Company data

Estimated Revenue breakdown of the Group in FY12



Source: ABCI Securities estimate



Maintain “BUY”

We maintain our valuation on Zoomlion at 7.9x of FY13E EPS as no significant change which causes the fundamental of the Group deviated from our expectation since our last report on June 1, 2012. In accordance with the sales data released from CCMA, we upward adjust our revenue and net income forecasts for the Group. Revenue forecast increases from Rmb53,468mn to Rmb53,568mn, up 15.6% YoY in FY12 and Rmb65,014mn to Rmb65,213mn, up 21.7% YoY in FY13. Net income forecast increases from Rmb9,033mn to Rmb9,144mn, up 13.5% YoY in FY12 and Rmb10,956mn to Rmb11,143mn, up 21.9% YoY in FY13. **We maintain our “BUY” rating with target price HK\$13.82, up from HK\$13.59 in our previous report.** The counter is trading at 5.4x of FY13E PE (or 6.6x of FY12E PE).

Benefited from interest rate cuts

The Group will benefit from the one year lending interest rate cuts of 25bps and 31bps by the PBOC announced on June 8, 2012 and July 5, 2012, respectively. Construction machinery industry will be benefited, since:

- 1) Most of the Group’s customers are construction machinery leasing agent, the cut of interest rate can lower their cost of financing. This will stimulate their purchases on construction machinery.
- 2) Under the relaxing of monetary, the infrastructure projects, such as roadway and railway will be funded in a quicker way. The downstream construction pace is expected to recover in 2H12. This will increase the demand for construction machinery.

The FAI growth of infrastructure is recovery. The growth of production of cement is accelerating in 2Q12. The new order index in China services PMI of construction industry in China was 54.2 in June, staying above 50 for 4 consecutive months. All these indicate that the construction machinery industry is going to recover. Under these circumstances, it is a good time to buy on the dip.

Revised estimates of Zoomlion

	FY12 Prior	Revised	Chg (%)	FY13 Prior	Revised	Chg (%)
(Rmb mn)						
Revenue	53,468	53,568	0.2	65,014	65,213	0.3
Gross profit	17,549	17,733	1.0	20,788	20,959	0.8
SG&A	7,159	7,178	0.3	8,078	8,105	0.3
EBIT	11,399	11,164	(2.1)	13,772	13,580	(1.4)
Pre-tax profit	10,591	10,723	1.2	12,865	13,085	1.7
Net income	9,033	9,144	1.2	10,956	11,143	1.7
(Rmb)						
EPS	1.153	1.168	1.2	1.399	1.423	1.7
BVPS	4.832	5.074	5.0	5.675	6.216	9.5
DPS	0.231	0.234	1.2	0.280	0.285	1.7
(%)						
			Chg (ppt)			Chg (ppt)
Gross margin	32.8	33.1	0.28	32.0	32.1	0.16
Net margin	16.9	17.1	0.18	16.9	17.1	0.24
ROAA	11.4	11.4	0.00	11.8	11.6	(0.20)
ROAE	23.7	23.4	(0.30)	24.9	23.6	(1.30)

Source: ABCI Securities estimates



Peer group valuation

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
ZOOMLION HEAVY INDUSTRY - H	1157 HK	91,146	HK\$	9.47	6.6	5.4	11.6	21.9	23.4	23.6
LONGKING HOLDINGS LTD	3339 HK	7,276	HK\$	1.70	6.3	5.0	(45.5)	26.6	14.0	15.9
FIRST TRACTOR CO-H	38 HK	5,101	HK\$	6.03	7.9	6.4	28.9	24.3	14.1	15.0
Weighted Average					6.6	5.4	8.5	22.3	22.3	22.7
SANY HEAVY INDUSTRY CO LTD-A	600031 CH	112,457	RMB	12.18	**	**	**	**	**	**
ZOOMLION HEAVY INDUSTRY S-A	000157 CH	91,146	RMB	10.17	8.2	7.1	17.5	16.4	21.3	20.7
XCMG CONSTRUCTION MACHIN-A	000425 CH	32,579	RMB	12.99	7.3	6.2	7.8	17.8	26.2	23.7
GUANGXI LIUGONG MACHINERY-A	000528 CH	15,309	RMB	11.19	9.2	7.5	3.7	22.8	16.8	16.7
TAIYUAN HEAVY INDUSTRY CO-A	600169 CH	8,959	RMB	3.04	18.8	16.5	0.6	13.6	7.1	8.1
SHANTUI CONSTMACHI-A	000680 CH	7,200	RMB	5.20	14.5	11.2	(14.8)	29.3	8.2	11.0
XIAMEN XGMA MACHINERY CO L-A	600815 CH	7,334	RMB	7.55	11.7	9.4	(12.4)	23.9	14.6	14.2
ANHUI HELI CO LTD-A	600761 CH	4,869	RMB	7.79	9.8	8.1	6.3	20.8	13.5	13.9
SUNWARD INTELLIGENT EQUIPM-A	002097 CH	3,797	RMB	7.41	18.8	15.1	(18.3)	24.1	10.1	12.5
INNER MONGOLIA NORTH HAULE-A	600262 CH	2,439	RMB	11.80	16.9	14.8	(5.4)	14.3	14.3	16.3
Weighted Average					9.5	8.0	9.6	18.2	19.7	19.2
CATERPILLAR INC	CAT US	410,733	US\$	81.15	8.4	7.4	25.9	14.8	39.5	36.9
DEERE & CO	DE US	236,883	US\$	76.78	9.3	8.8	23.3	5.9	40.9	35.1
CNH GLOBAL N.V.	CNH US	67,127	US\$	36.10	7.8	7.3	18.0	6.7	12.0	11.0
TEREX CORP	TEX US	13,666	US\$	16.06	9.1	6.0	329.0	51.8	9.3	13.0
MANITOWOC COMPANY INC	MTW US	11,159	US\$	10.88	14.0	7.6	(1,071.3)	84.9	19.1	27.7
Weighted Average					8.7	7.8	14.4	12.9	36.5	33.3
VOLVO AB-B SHS	VOLVB ST	183,589	SEK	78.25	9.5	8.1	(5.9)	17.7	18.8	19.9
ATLAS COPCO AB-A SHS	ATCOA ST	194,973	SEK	149.10	13.0	12.3	7.6	5.8	42.0	35.7
SANDVIK AB	SAND ST	120,661	SEK	87.35	10.9	9.9	72.7	9.8	27.3	25.8
Weighted Average					11.2	10.2	18.4	11.1	29.9	27.5
HITACHI LTD	6501 JP	210,328	JPY	461	7.6	9.5	(21.4)	(19.9)	11.7	12.4
KOMATSU LTD	6301 JP	169,348	JPY	1,751	9.4	8.7	7.6	7.6	17.8	16.6
TADANO LTD	6395 JP	7,491	JPY	588	43.0	15.0	(44.8)	187.6	6.3	7.7
Weighted Average					9.1	9.3	(8.9)	(3.8)	14.3	14.2
DOOSAN HEAVY INDUSTRIES	034020 KS	41,786	KRW	58,300	10.5	8.2	190.0	27.6	9.9	12.3
HYUNDAI HEAVY INDUSTRIES	009540 KS	121,709	KRW	236,500	8.1	7.8	(8.2)	4.1	12.1	12.0
Weighted Average					8.7	7.9	39.3	9.8	11.6	12.1
Weighted Average					9.4	8.5	12.1	10.0	26.7	25.0
Median					9.3	8.0	7.7	17.8	15.7	16.5

*: The data in the table is as at 16-July-2012;

** : We are restricted to provide forecast of Sany Heavy Industry (600031 CH) and please refer to the disclosure in the back page.

Source: Bloomberg, ABCI Securities estimates



Financial statements

Consolidated income statements forecast

FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	32,193	46,323	53,568	65,213	77,365
Concrete Machinery	14,085	21,212	28,360	34,759	39,488
Crane	11,077	15,618	13,894	16,620	19,438
Environment and sanitation	1,874	2,978	3,574	3,931	4,324
Other machinery	4,114	4,932	5,918	7,694	11,541
Financial income under lease	1,043	1,583	1,822	2,209	2,574
Cost of sales	(22,424)	(31,316)	(35,835)	(44,254)	(52,035)
Gross profit	9,769	15,007	17,733	20,959	25,330
Other income and gains	150	259	609	726	774
Selling and distribution	(2,146)	(3,160)	(4,018)	(4,641)	(5,609)
Administrative expenses	(1,645)	(1,861)	(2,700)	(2,903)	(3,444)
Research & development	(265)	(398)	(460)	(560)	(665)
EBIT	5,863	9,847	11,164	13,580	16,386
Finance costs	(461)	(269)	(441)	(495)	(510)
Associates	14	24	-	-	-
Pre-tax profit	5,416	9,602	10,723	13,085	15,876
Profits tax	(828)	(1,440)	(1,608)	(1,963)	(2,381)
Minority interests	78	(107)	30	20	20
Net income	4,666	8,055	9,144	11,143	13,515

Key ratios

FY	FY10A	FY11A	FY12E	FY13E	FY14E
Sales mixed (%)					
Concrete Machinery	43.8	45.8	52.9	53.3	51.0
Crane	34.4	33.7	25.9	25.5	25.1
Environment and sanitation	5.8	6.4	6.7	6.0	5.6
Other machinery	12.8	10.7	11.1	11.8	15.0
Financial income under lease	3.2	3.4	3.4	3.4	3.3
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross profit margin	30.3	32.4	33.1	32.1	32.7
EBIT margin	18.2	21.3	20.8	20.8	21.2
Pre-tax margin	16.8	20.7	20.0	20.1	20.5
Net margin	14.5	17.4	17.1	17.1	17.5
Selling & distribution cost / revenue	6.7	6.8	7.5	7.1	7.3
Admin cost / revenue	5.1	4.0	5.0	4.5	4.5
Effective tax rate	15.3	15.0	15.0	15.0	15.0
Growth (%)					
Revenue	55.1	43.9	15.6	21.7	18.6
Gross profit	82.9	53.6	18.2	18.2	20.9
EBIT	86.1	68.0	13.4	21.6	20.7
Net income	90.7	72.6	13.5	21.9	21.3

Source: Zoomlion, ABCI Securities estimates



Consolidated balance sheets forecast

As of Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Non-current assets	19,372	23,701	20,886	23,359	26,424
PP&E	4,135	4,886	5,260	5,616	5,946
Intangible assets	3,163	3,009	2,956	2,905	2,856
Available-for-sale financial assets	50	43	43	43	43
Others	12,024	15,763	12,627	14,795	17,579
Current assets	43,670	47,842	68,294	79,771	94,118
Cash and equivalent	18,758	16,002	20,016	23,862	24,087
Restricted cash	1,577	1,481	1,629	1,792	1,971
Trade and other receivables	13,386	18,878	34,646	37,136	50,903
Due from related parties	27	99	78	95	113
Inventories	8,678	9,656	10,961	15,713	15,651
Others	1,244	1,726	964	1,173	1,393
Total assets	63,042	71,543	89,180	103,130	120,542
Current liabilities	26,067	26,652	33,302	37,544	43,195
Trade and other payables	17,203	19,314	24,597	27,348	31,289
tax payable	757	1,289	2,155	3,147	4,357
Borrowings	8,107	6,049	6,549	7,049	7,549
Non-current liabilities	9,540	9,296	12,998	13,812	14,781
Borrowings	7,690	7,089	9,689	9,689	9,689
Others	1,850	2,207	3,309	4,123	5,092
Total liabilities	35,607	35,948	46,300	51,356	57,976
Minority Interest	59	188	187	187	188
Shareholders' equity	27,376	35,407	42,693	51,587	62,378

Key ratios

FY	FY10A	FY11A	FY12E	FY13E	FY14E
Balance sheet ratios					
Current ratio (x)	1.7	1.8	2.1	2.1	2.2
Quick ratio (x)	1.3	1.4	1.7	1.7	1.8
Cash ratio (x)	0.8	0.7	0.6	0.7	0.6
Total receivable turnover days	213.7	222.4	267.0	267.7	273.9
Total payable turnover days	226.5	212.8	223.6	214.2	205.7
Inventory turnover days	121.7	106.8	105.0	110.0	110.0
Total debt / equity ratio (%)	57.7	37.1	38.0	32.4	27.6
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROAE	26.8	12.0	11.4	11.6	12.1
ROAA	9.6	25.7	23.4	23.6	23.7
Payout ratio	15.5	20.4	20.0	20.0	20.0
Per share data (Rmb)					
EPS	0.736	1.046	1.168	1.423	1.726
BVPS	3.818	4.208	5.074	6.216	7.600
DPS	0.112	0.217	0.234	0.285	0.345

Source: Zoomlion, ABCI Securities estimates



Consolidated cash flow statements forecast

FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Profit before tax	5,416	9,602	10,723	13,085	15,876
DD&A	396	437	819	975	1,139
Change in working capital	(5,533)	(7,643)	(9,041)	(6,292)	(12,168)
Income tax paid	(519)	(975)	(1,089)	(1,329)	(1,612)
Others	691	459	4,093	1,797	1,937
CF Operating	451	1,880	5,505	8,236	5,172
Capex	(903)	(1,176)	(1,140)	(1,280)	(1,420)
Other	(930)	(111)	(1,782)	(1,782)	(1,798)
CF Investing	(1,833)	(1,287)	(2,922)	(3,062)	(3,218)
Capital injection	16,275	-	-	-	-
Net debt financing	1,623	(2,659)	3,100	500	500
Dividend payout	(152)	(711)	(1,669)	(1,829)	(2,229)
Others	(991)	95	-	-	-
CF Financing	16,755	(3,275)	1,431	(1,329)	(1,729)
Net change in cash	15,373	(2,682)	4,014	3,845	225
Cash at the beginning	3,439	18,758	16,002	20,016	23,862
Exchange difference	(54)	(74)	-	1	-
Cash at the end	18,758	16,002	20,016	23,862	24,087

Source: Zoomlion, ABCI Securities estimates



Disclosures

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