

Key Data

H-share price (HK\$)	7.14
Target price (HK\$)	8.24
Upside potential (%)	15.4
52Wk H/L(HK\$)	9.39 / 5.43
Issued shares (mn)	996
H-share	402
A-share	594
H-share market cap (HK\$m)	2,870
30-day avg vol (HK\$m)	16.1
Auditors	BAKER TILLY
Major shareholder (%)	
YTO Group	44.52

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	12.9	11.0
3-mth	15.8	4.6
6-mth	6.6	(9.0)

*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: 21 November 2012
Rating: Buy
Target price: 7.76

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

More favorable policies are expected in 2013

First Tractor rallied and outperformed the market in the last 3 months. We anticipate the momentum will carry on as more good news are expected to come out from the Agriculture Industrialization Conference (“农业产业化会议”) kicked off yesterday. We expect more subsidies on agricultural machinery in 2013. The Group as the largest tractor maker is expected to be able to capture the industry growth. Furthermore, GPM of the Group is expected to improve via vertical integration. We increase our target price from HK\$7.76 to HK\$8.24 as we increase our earnings forecast in FY13 and FY14. Maintain “Buy”.

Agriculture Industrialization Conference kicked off. More favorable policies are expected to be cast on the agricultural industry. Under 12th 5-Year Plan, it targets to increase the total agricultural machinery output from 977mn kW as at end-2011 to 1,000mn kW by 2015. Based on the 5 years replacement cycle of the hi-to-mid power tractor according to our channel check, we estimate that the sales volume of hi-to-mid power tractor will grow by 16.4% YoY in 2013, up from est. 3.1% YoY in 2012.

Vertical integration improves GPM. We revise up our GPM forecast of the Group from 15.1% to 16.0% in FY13 and from 15.1% to 15.9% in FY14 as the Group vertically integrates the production chain, such as the manufacturing of axles, cylinder bodies, and chassis parts of tractors, which is estimated to account for 10% of production cost in FY12 via acquisitions of its suppliers expected to be carried out in Dec 2012.

We prefer leading agricultural machinery maker. First Tractor, as the largest hi-to-mid power tractor maker in China with market share of 35.4% based on sales volume in 2011 according to Tractors Industry Statistics Association, is believed to effectively capture the growth of industry. Our net income forecasts on FY13 and FY14 are revised up from Rmb603mn to Rmb641mn and from Rmb897mn to Rmb901mn, respectively.

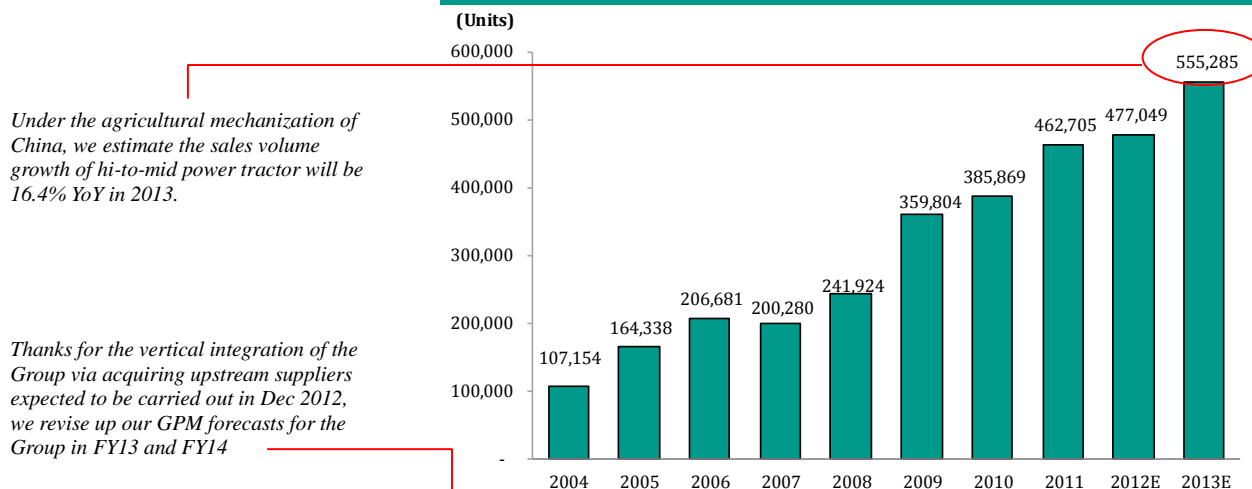
Risk factors: Government policy on agriculture industry; Continuity and size of government subsidy; Intensify market competition in low-to-medium powered tractors

Forecast and Valuation

FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rmb mn)	10,266	11,328	11,263	13,319	18,028
Chg (%YoY)	14.0	10.3	(0.6)	18.3	35.4
Net Income (Rmb mn)	543	411	435	641	901
Chg (%YoY)	118.3	(24.3)	6.0	47.2	40.6
EPS (Rmb)	0.642	0.486	0.473	0.643	0.904
Chg (%YoY)	118.3	(24.3)	(2.7)	36.1	40.6
PE (x)	-	12.0	12.1	8.9	6.3
PB (x)	-	1.51	1.24	1.26	1.16
Yield (%)	-	-	2.5	3.4	4.7
ROAA (%)	7.3	4.5	4.1	5.3	6.5
ROAE (%)	16.4	11.2	10.1	12.8	16.9
Net debt/total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company, ABCI Securities estimates

Sales volume projection of mid-to-hi power tractors in China



Source: National Bureau of Statistics of China ("NBS"), ABCI Securities estimates

Major changes of our forecast

	Previous	FY12E New	Chg (%)	Previous	FY13E New	Chg (%)	Previous	FY14E New	Chg (%)
Revenue (Rmb mn)	11,263	11,263	-	13,298	13,319	0.2	17,982	18,028	0.3
Agricultural machinery	9,296	9,296	-	10,847	10,847	-	15,193	15,193	-
Power machinery	1,393	1,393	-	1,744	1,744	-	1,884	1,884	-
Other machinery	480	480	-	582	603	3.6	706	751	6.4
Financial operations	94	94	-	125	125	-	199	200	0.5
Gross profit (Rmb mn)	1,568	1,568	-	2,011	2,129	5.9	2,715	2,862	5.4
GPM (%)	13.9	13.9	-	15.1	16.0	0.9	15.1	15.9	0.8
Net income (Rmb mn)	414	435	5.1	603	641	6.2	897	901	0.4
Net margin (%)	3.7	3.9	0.2	4.5	4.8	0.3	5.0	5.0	0.0
EPS (Rmb)	0.450	0.473	5.1	0.605	0.643	6.2	0.901	0.904	0.4
BPS (Rmb)	3.911	4.612	17.9	3.886	4.549	17.1	4.276	4.939	15.5
DPS (Rmb)	0.135	0.142	5.1	0.182	0.193	6.2	0.270	0.271	0.4

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
DEERE & CO	DE US	254,889	US\$ 83.97	10.08	9.47	9.15	6.42	38.74	37.70
MAHINDRA & MAHIN	MM IN	79,738	INR 933.00	14.84	12.48	18.24	18.89	21.10	19.80
CNH GLOBAL NV	CNH US	90,774	US\$ 48.86	10.65	10.21	17.07	4.27	11.38	9.62
FIRST TRACTOR-H	38 HK	8,571	HK\$ 7.14	12.13	8.92	(2.67)	36.08	10.10	12.80
FIRST TRACTOR -A*	601038 CH	8,571	Rmb 7.71	16.31	11.99	(2.67)	36.08	10.10	12.80
ESCORTS LTD	ESC IN	904	INR 61.50	6.94	5.22	(35.41)	32.98	6.43	8.00
Weighted Average*				11.11	10.16	12.14	8.90	29.16	28.00

*The weighted average is excluding the A-share of First Tractor

Source: Bloomberg, ABCI Securities estimates

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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**