

## Key Data

Average FY13 PER (x)	8.8
Average FY13 PBV (x)	1.5
Average FY13 Dividend Yield (%)	2.3
Sector 3 months avg vol (HK\$m)	1,372

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
Sany Heavy	(23.43)
XCMG	(30.48)

\*The growth is as at 1HFY12

Source: Companies

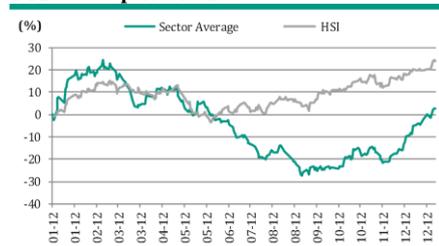
## Average share performance (%)

	Absolute	Relative*
1-mth	22.3	14.95
3-mth	34.1	21.72
6-mth	18.1	-4.88

\*Relative to Hang Seng Index

Source: Bloomberg

## YTD sector performance



Source: Bloomberg

## Analyst

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

### Transportation FAI stays strong in 2013

We expect the construction machinery sector to benefit from the expected strong business growth in the downstream transportation construction sector in 2013. We estimate that the national passenger and freight turnover volume will increase by 10% YoY and 12% YoY this year under the urbanization. We predict FAI in roadway and railway to grow by 13.4% and 16.3-26.0% in 2013 respectively. The new order index of construction activities has stayed above 50% for ten consecutive months. Major economic indicators suggest transportation infrastructure construction activities will grow robustly in 2013.

**Growth on roadway construction backing on track.** We estimate that the growth on roadway FAI will be 13.4% YoY in 2013, up from 7.4% YoY in 1-11M2012. We estimate that the passenger turnover volume and freight turnover volume increased by 10% YoY (vs. est. 8% YoY in 2012) and 12% YoY (vs. est. 10% YoY in 2012), respectively in 2013 under the urbanization and economic growth in China. Under this circumstance, we estimate that the net increment of roadway will be 102,000 km in 2013, up 13.3% YoY from est. 90,000 km in 2012, and estimate that the roadway FAI will grow by 13.4% YoY this year.

**Blossom of Railway construction growth in 2013.** According to NDRC, the estimated railway FAI is Rmb600-650bn in 2013, up 16.3-26.0% YoY from est. Rmb516bn in 2012. China will continue the construction of 24,000 km of railways in 2013-2015, which is expected to require a total investment of Rmb1,800bn. The railway construction is one the major pillar supporting the construction industry in 2013.

**New order index of construction remaining strong.** The new order index of construction industry (the sub-index of non-manufacturing PMI in China) was 57.2% in December 2012, down 0.9 ppts from 58.1% in November 2012. It was the tenth consecutive months of which the index stayed above 50% indicating the expansion of construction industry.

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

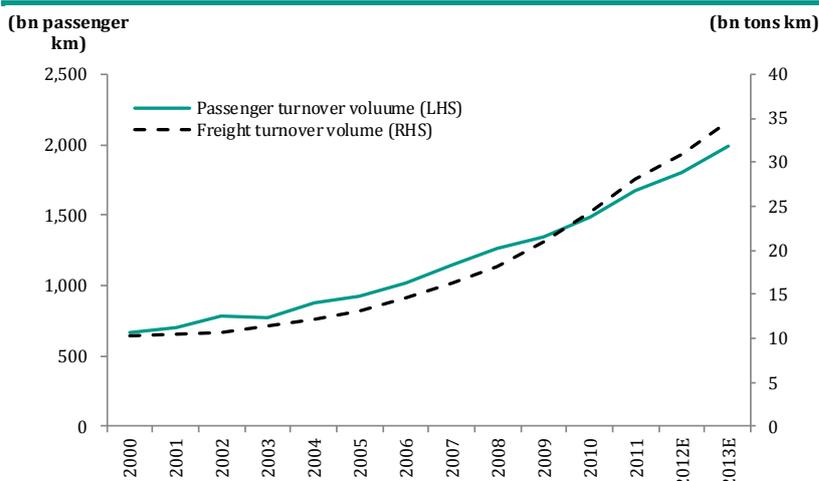
## Summary on selected companies in the sector

Company	Ticker	Share Price	Target Price (HK\$)	FY13 PE (x)	FY13 PB (x)	FY13 Yield (%)
Zoomlion (Buy)	1157 HK	HK\$11.80	14.16	6.4	1.5	3.1
Lonking (Sell)	3339 HK	HK\$2.32	1.48	9.6	1.1	3.1
First Tractor (Buy)	38 HK	HK\$7.98	8.24	10.0	1.4	3.0
Sany Int'l (Buy)	631 HK	HK\$4.40	5.79	11.2	1.6	1.8
Sany Heavy (N/A)	600031 CH	Rmb10.39	N/A	9.1	2.6	1.6
XCMG (N/A)	000425 CH	Rmb11.40	N/A	6.4	0.9	1.4

Source: Companies, Bloomberg, ABCI Securities estimates

### Roadway passenger and freight turnover volume in China

We estimate that the passenger turnover volume and freight turnover volume increased by 10% YoY (vs. est. 8% YoY in 2012) and 12% YoY (vs. est. 10% YoY in 2012), respectively in 2013 under the urbanization and economic growth in China.

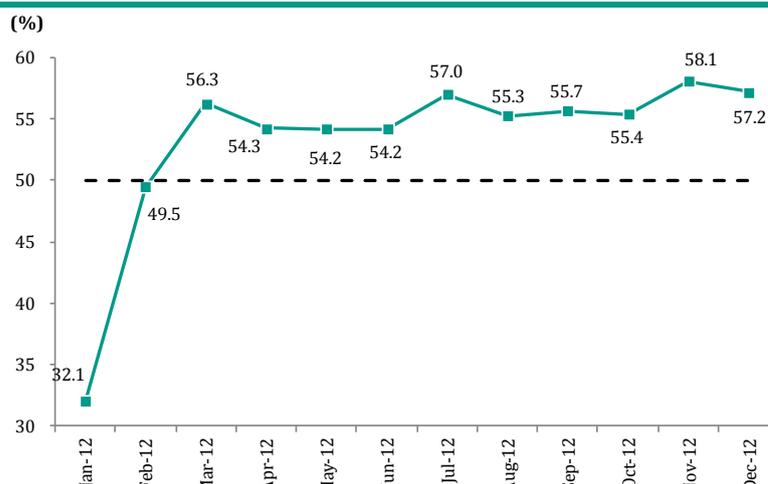


Source: National Bureau of Statistics of China, ABCI Securities estimates

### New order index of construction industry (Sub-index of non-manufacturing PMI)

The new order index of construction industry (the sub-index of non-manufacturing PMI in China) was 57.2% in December 2012

It was the tenth consecutive months of which the index stayed above 50% indicating the expansion of construction industry in China.



Source: National Bureau of Statistics of China

### Peer group valuation and earnings forecasts summary of construction machinery sector

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
<b>Construction Machinery Maker</b>									
CATERPILLAR INC	CAT US	478,514 USD	94.40	10.37	10.90	19.11	(4.84)	37.22	28.95
KOMATSU LTD	6301 JP	197,973 JPY	2,290.00	12.26	12.01	7.64	2.08	18.53	14.20
SANY HEAVY INDUS	600031 CH	98,161 CNY	10.39	10.55	9.06	(13.52)	16.45	32.92	26.14
ZOOMLION HEAVY-H	1157 HK#	88,681 HKD	11.80	7.89	6.37	14.91	23.95	24.00	24.40
ZOOMLION HEAVY-A	000157 CH#	88,681 CNY	9.20	7.65	6.18	14.91	23.95	24.00	24.40
XCMG CONSTRUCT-A	000425 CH	29,256 CNY	11.40	7.29	6.41	(4.70)	13.76	26.18	23.65
GUANGXI LIUGONG	000528 CH	13,678 CNY	9.77	19.01	13.94	(56.07)	36.38	4.01	5.86
TEREX CORP	TEX US	24,734 USD	29.06	14.41	11.29	391.71	27.63	10.60	13.11
TADANO	6395 JP	8,529 JPY	749.00	54.81	19.06	(44.83)	187.62	2.30	6.70
SHANTUI CONST-A	000680 CH	6,843 CNY	4.83	(13.27)	13.34	(186.67)	(199.45)	1.25	5.15
XIAMEN XGMA-A	600815 CH	6,819 CNY	6.86	11.77	13.12	(21.22)	(10.29)	10.71	8.92
LONKING HOLDINGS	3339 HK#	9,930 HKD	2.32	16.08	9.60	(71.30)	67.53	7.50	11.80
<b>Sector Weighted Average</b>				<b>10.70</b>	<b>10.17</b>	<b>17.35</b>	<b>6.07</b>	<b>28.74</b>	<b>23.70</b>

\* 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 4, 2013)

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## Disclosures

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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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