



January 14, 2014
Equity Focus
Rating: BUY
TP: HK\$ 2.02

H-Share price (HK\$) 1.66
Est. share price return 21.69%
Est. dividend yield 2.27%
Est. total return 23.96%

Previous Rating & TP BUY; HK\$ 2.01
Previous Report Date December 10, 2013

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Key Data

52Wk H/L(HK\$) 2.35 / 1.32
Issued shares (mn) 4,280
Market cap (HK\$ mn) 7,105
3-mth avg daily turnover (HK\$ mn) 21.4
Major shareholder(s) (%):
Li Sam Yim & spouse 55.69

Source(s): Company, Bloomberg, ABCI Securities

1H13 Revenue breakdown (%)

Wheel loaders 65.13
Excavators 12.65
Fork lifts 10.33
Road rollers 1.27
Financial Leasing Income 0.70
Others 9.92

Source(s): Company, ABCI Securities

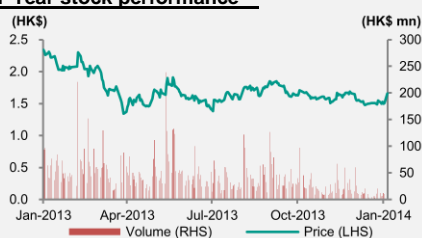
Share performance (%)

	Absolute	Relative*
1-mth	6.41	8.07
3-mth	(1.19)	0.74
6-mth	8.50	0.98

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg

Lonking (3339 HK)

Positive profit alert confirms recovery; reiterate BUY

- The Group announced a positive profit alert on Jan 13 due to improved GPM and reduced operating cost. The alert is not surprising as we have expected the Group's NP to rebound from trough in 2H12 on sales recovery.
- We expect GPM to improve by 1.92ppt YoY to 21.28% in FY13E due to the decline in raw materials prices. We expect the Group's GPM will maintain high in FY14E-15E
- We revise up our FY14E/15E NP forecasts slightly by 5.14%/5.70% on improved GPM. Our TP is HK\$ 2.02 (previous: HK\$ 2.01). The counter is trading at 0.82x FY13E P/B, which reflects a deeper discount than its historical valuation. Reiterate **BUY**

Positive profit alert. The Group announced a positive profit alert on Jan 13 due to an improved GPM, lower operational expenses and FX gain. For FY13E, sales volume of wheel loader, the major product of Lonking, was up ~1% YoY to 25,712 units in 2013 from -12.05% YoY in 1H13. Looking forward, we expect the infrastructure construction, such as railway development and municipal construction, to pace up in 2014-15 to fulfill the 12th 5-Year Plan target. We estimate the sales volume of earth-moving machinery in China will increase by 10%-15% YoY in 2014. Lonking, as one of the top three players in wheel loader market with a market share of ~14.4% in 2013, will benefit on the increased demand.

Forklift demand driven up by logistics industry. Lonking's forklift sales volume was up ~21% YoY to 17,910 units in 2013, thanks to the growth in the logistics industry. According to CFLP, the total value of social logistics goods for 11M13 was up 9.4% YoY to RMB 182.2tn. Under the rapid development of e-commerce, we expect the growth in logistics industry would sustain in 2014-15, supporting the forklift demand.

GPM improved under the low cost of raw materials. The GPM of Lonking is expected to improve for FY13E mainly due to the lower costs of raw materials. E.g., steel price in China dropped 8.11% YoY to RMB 3,400/ton in Dec 2013. We expect the steel price will stay low under the lukewarm manufacturing market, and the GPM of Lonking would stay high in FY14E-15E.

Reiterate BUY on good financial management. The positive profit alert reflects the Lonking's recovery has been on track. Thanks to the prudent control on credit sales and stringent financial management, the Group's earnings quality and cash flow remain sound, outshining its peers in the downturn. The counter is trading at 0.82x FY13E P/B, where the lower quartile has been 1.0x since 2008. We revise up our FY14E/15E NP forecasts by 5.14% and 5.70% for Lonking on improved GPM. Our TP edges up from HK\$ 2.01 to HK\$ 2.02 based on 1.0x FY13E P/B. Reiterate BUY.

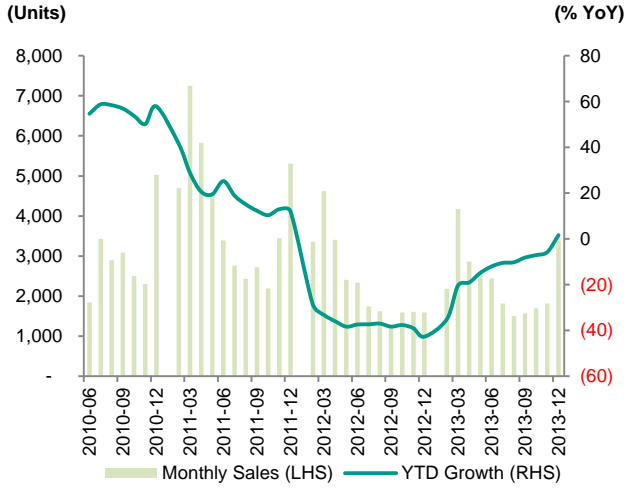
Risk factors: 1) Competition from international players; 2) Market share loss due to stringent risk control on credit sales; 3) China's prudent monetary policy may affect capital inflow and delay construction;

Results and Valuation

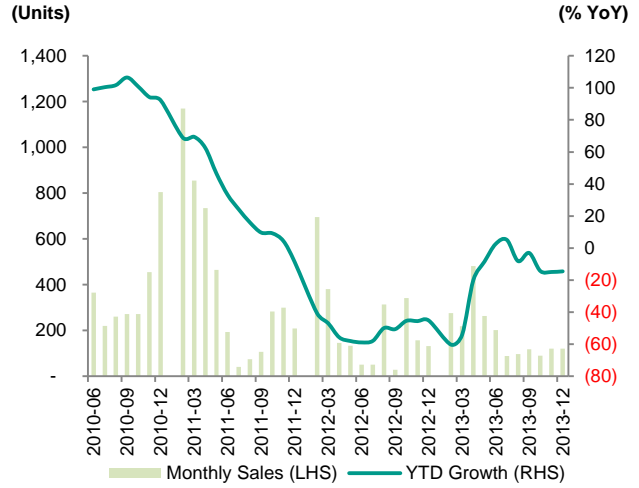
FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	12,721	7,896	7,772	8,786	9,785
Chg (% YoY)	5.83	(37.93)	(1.58)	13.05	11.37
Net Income (RMB mn)	1,730	151	519	665	734
Chg (% YoY)	(2.04)	(91.27)	243.80	28.04	10.36
EPS (RMB)	0.404	0.035	0.121	0.155	0.171
P/E (x)	-	37.79	10.99	8.59	7.78
BVPS (RMB)	1.496	1.459	1.623	1.795	1.980
P/B (x)	-	0.91	0.82	0.74	0.67
DPS (RMB)	0.122	-	0.030	0.039	0.043
Yield (%)	-	-	2.27	2.91	3.21
ROAE (%)	29.71	2.39	7.87	9.09	9.08
Net gearing (%)	50.06	66.26	43.38	27.62	14.43

*Net gearing=Net debt/Total equity

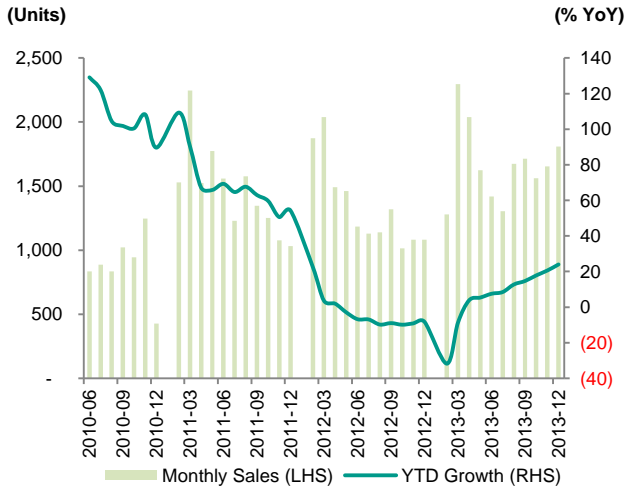
Source(s): Bloomberg, ABCI estimates

Exhibit 1: Lonking's monthly sales volume and cumulative growth of wheel loader in 6M10-12M13


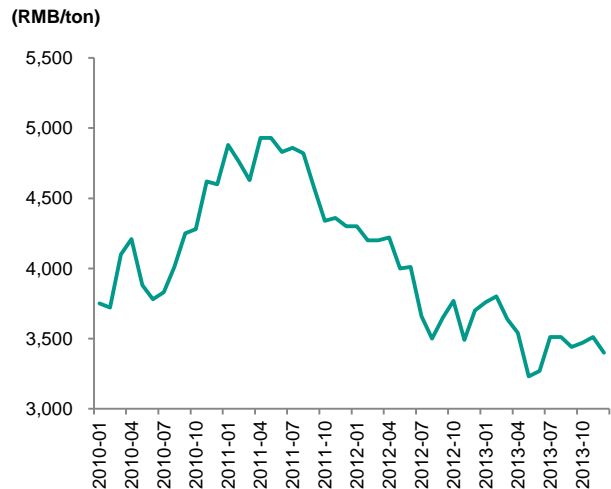
Source(s): Company, Media

Exhibit 2: Lonking's monthly sales volume and cumulative growth of excavator in 6M10-12M13


Source(s): Company, Media

Exhibit 3: Lonking's monthly sales volume and cumulative growth of forklift in 6M10-12M13


Source(s): Company, Media

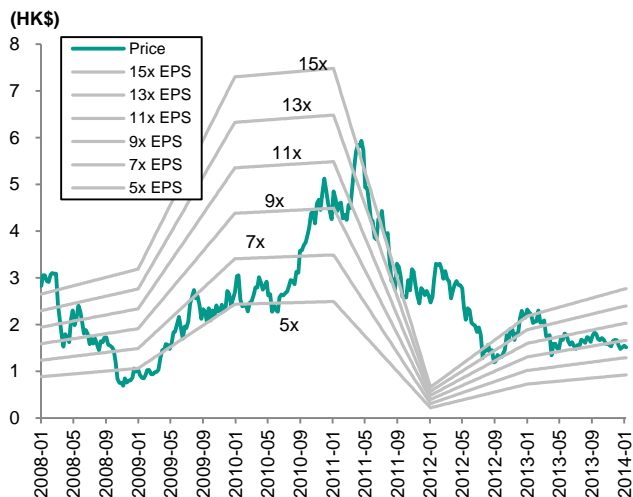
Exhibit 4: China domestic steel rebar 25 mm spot price in Shanghai (RMB/ton)


Source(s): Bloomberg

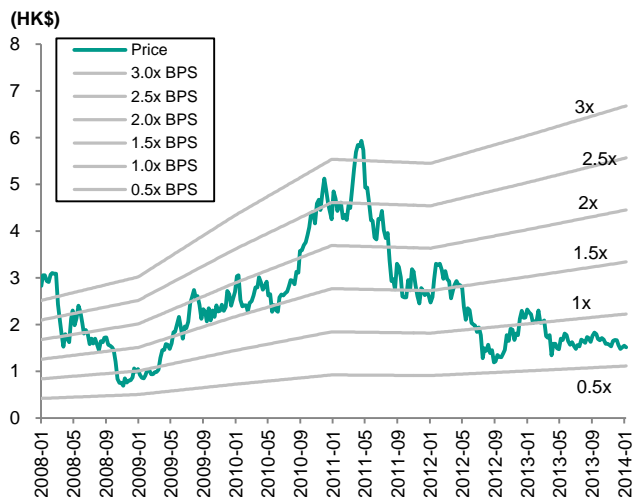
Exhibit 5: Major changes in our forecasts

	FY13E			FY14E			FY15E		
	Previous	New	Diff (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
Revenue (RMB mn)	7,772	7,772	-	8,786	8,786	-	9,785	9,785	-
Wheel loaders	4,867	4,867	-	5,567	5,567	-	6,221	6,221	-
Excavators	930	930	-	965	965	-	1,092	1,092	-
Fork lifts	942	942	-	1,130	1,130	-	1,243	1,243	-
Road rollers	116	116	-	125	125	-	135	135	-
Finance lease interest income	19	19	-	11	11	-	7	7	-
Others	898	898	-	987	987	-	1,086	1,086	-
Gross profit (RMB mn)	1,621	1,654	2.05	1,865	1,915	2.67	2,077	2,133	2.68
GPM (%)	20.86	21.28	0.43ppt	21.23	21.80	0.57ppt	21.23	21.80	0.57ppt
Net income (RMB mn)	499	519	3.94	632	665	5.14	694	734	5.70
Net margin (%)	6.43	6.68	0.25ppt	7.20	7.57	0.37ppt	7.09	7.50	0.40ppt
EPS (RMB)	0.117	0.121	3.94	0.148	0.155	5.14	0.162	0.171	5.70
BVPS (RMB)	1.618	1.623	0.28	1.784	1.795	0.62	1.961	1.980	0.94
DPS (RMB)	0.029	0.030	3.94	0.037	0.039	5.14	0.041	0.043	5.70

Source(s): ABCI Securities estimates

Exhibit 6: P/E band of Lonking in 1M08-1M14 (HK\$)


Source(s): Company, Bloomberg, ABCI Securities estimates

Exhibit 7: P/B band of Lonking in 1M08-1M14 (HK\$)


Source(s): Company, Bloomberg, ABCI Securities estimates

Exhibit 8: Peer group valuation and earnings forecasts summary (share price as of Jan 13, 2014)

Company	Ticker	Mkt cap (HK\$ mn)	As of 13/01/2014		P/E (x)		EPS (%YoY)		P/B (x)		ROAE (%)	
			CRY	Share Price	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Construction Machinery Maker												
CATERPILLAR INC	CAT US	446,644	USD	90.51	16.54	15.68	(37.19)	5.54	3.19	2.87	24.06	29.68
KOMATSU LTD	6301 JP	152,271	JPY	2,064	13.66	12.78	13.89	6.93	1.54	1.44	13.28	12.10
SANY HEAVY INDUS	600031 CH	56,771	RMB	5.81	8.92	6.61	(13.20)	35.02	1.66	1.44	15.59	17.69
ZOOMLION HEAVY-H	1157 HK	10,067	HKD	7.04	9.00	8.09	(33.95)	11.25	0.95	0.84	11.19	11.01
ZOOMLION HEAVY-A	000157 CH	40,660	RMB	5.05	8.04	7.23	(33.95)	11.25	0.85	0.75	11.19	11.01
XCMG CONSTRUCT-A	000425 CH	18,207	RMB	6.88	7.06	7.24	(18.75)	(2.56)	0.76	0.70	10.82	10.10
GUANGXI LIUGONG	000528 CH	8,156	RMB	5.65	14.87	11.35	52.00	31.05	0.66	0.63	4.14	5.33
TEREX CORP	TEX US	35,698	USD	41.36	19.51	14.35	120.83	35.99	2.14	1.84	11.70	14.19
TADANO	6395 JP	13,858	JPY	1,426	14.62	12.88	68.69	13.51	1.88	1.67	7.95	13.75
SHANTUI CONST-A	000680 CH	4,632	RMB	2.91	126.52	43.43	(23.33)	191.30	0.79	0.77	(0.40)	1.80
XIAMEN XGMA-A	600815 CH	4,306	RMB	3.50	(15.91)	(43.75)	(237.50)	(63.64)	0.75	0.76	(4.49)	(1.72)
LONGKING HOLDINGS	3339 HK	7,105	HKD	1.66	10.99	8.59	243.80	28.04	0.82	0.74	7.87	9.09
Sector Weighted Average					15.20	13.38	(13.80)	10.74	2.42	2.18	18.80	22.11
Agricultural Machinery Maker												
DEERE & CO	DE US	259,272	USD	89.76	10.80	11.85	(9.48)	(8.82)	2.74	2.36	40.75	27.82
MAHINDRA & MAHIN	MM IN	68,532	INR	883.00	11.84	10.27	7.29	15.34	2.30	1.97	17.75	15.78
FIRST TRACTOR-H	38 HK	2,227	HKD	5.54	14.49	8.25	(12.46)	75.59	0.99	0.87	6.86	11.18
FIRST TRACTOR -A	601038 CH	6,400	RMB	8.40	27.36	15.58	(12.46)	75.59	1.87	1.63	6.86	11.18
ESCORTS LTD	ESC IN	1,869	INR	121.00	7.86	8.29	148.64	(5.12)	0.70	0.70	10.20	8.47
Sector Weighted Average					11.33	11.55	(5.28)	(1.75)	2.61	2.25	35.06	24.85
Mining Machinery Maker												
JOY GLOBAL INC	JOY US	44,143	USD	55.79	16.95	14.85	(34.57)	14.13	1.93	1.81	26.80	15.43
ZHENGZHOU COAL-H	564 HK	1,154	HKD	4.75	7.25	5.87	(46.30)	23.37	0.65	0.60	9.12	10.59
ZHENGZHOU COAL-A	601717 CH	9,953	RMB	5.63	10.69	8.67	(46.30)	23.37	0.96	0.88	9.12	10.59
TIAN DI -A	600582 CH	9,796	RMB	6.29	8.50	7.58	(20.86)	12.16	1.70	1.87	17.35	23.55
SANY INT'L	631 HK	7,207	HKD	2.37	13.23	12.05	(10.34)	9.82	1.00	0.94	7.66	7.94
LINZHOU HEAVY-A	002535 CH	4,123	RMB	5.99	8.78	8.56	58.60	2.64	1.33	1.17	10.97	14.49
SUNWARD INTELL-A	002097 CH	4,196	RMB	7.95	49.69	49.69	633.94	0.00	1.86	1.80	3.94	3.69
Sector Weighted Average					15.97	14.32	7.23	13.45	1.65	1.57	19.50	14.42
Machinery Parts Maker												
CUMMINS INC	CMI US	200,653	USD	138.10	18.27	14.96	(13.04)	22.16	3.55	3.07	21.57	22.01
WEICHAI POWER-H	2338 HK	47,242	HKD	28.50	12.32	10.45	23.87	17.87	1.56	1.37	13.82	14.35
TAIYUAN HEAVY-A	600169 CH	8,179	RMB	2.63	19.48	26.30	(198.47)	(25.93)	1.13	1.08	5.96	4.20
CHINA YUCHAI	CYD US	6,309	USD	21.83	7.23	7.34	24.28	(1.49)	0.80	0.75	11.53	10.59
Sector Weighted Average					16.97	14.32	(11.28)	19.32	3.05	2.64	19.44	19.80
Industrial Machinery Maker												
VOLVO AB-B	VOLVB SS	224,127	SEK	87.65	30.63	16.62	(47.39)	84.24	2.27	2.18	6.71	13.29
ATLAS COPCO-A	ATCOA SS	255,755	SEK	178.40	17.61	16.57	(11.55)	6.30	5.45	4.80	32.17	29.81
HYUNDAI HEAVY	009540 KS	129,101	KRW	231,500	8.84	7.34	45.28	20.38	0.95	0.90	10.49	12.58
SANDVIK AB	SAND SS	133,088	SEK	88.80	15.92	14.16	(14.32)	12.42	3.23	2.94	18.85	19.89
DOOSAN HEAVY	034020 KS	27,459	KRW	35,250	4.39	3.99	(447.41)	10.00	0.88	0.73	19.68	20.01
MANITOWOC CO	MTW US	25,733	USD	24.85	19.79	16.53	63.12	19.67	4.38	3.41	24.86	24.82
ANHUI HELI CO-A	600761 CH	7,214	RMB	10.94	11.73	10.08	37.21	16.29	1.65	1.45	14.95	15.72
Sector Weighted Average					19.12	14.21	(24.96)	31.99	3.24	2.92	18.54	20.16
Overall Weighted Average					16.24	13.54	(15.43)	17.45	2.78	2.48	21.22	21.29

Source(s): Bloomberg, ABCI Securities estimates

Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	12,721	7,896	7,772	8,786	9,785
Wheel loaders	8,867	5,161	4,867	5,567	6,221
Excavators	1,713	880	930	965	1,092
Fork lifts	929	819	942	1,130	1,243
Road rollers	367	115	116	125	135
Financial Leasing Income	205	105	19	11	7
Others	640	816	898	987	1,086
COGS	(9,507)	(6,367)	(6,118)	(6,871)	(7,652)
Gross profit	3,214	1,529	1,654	1,915	2,133
SG&A	(1,230)	(907)	(871)	(997)	(1,167)
Other income and gains	84	(346)	(157)	(117)	(82)
Pre-tax profit	2,068	276	626	801	884
Income tax	(338)	(124)	(106)	(136)	(150)
Net profit	1,730	152	519	665	734
Profit attributable to:					
Minority interests	0.40	0.09	0.19	0.24	0.27
Equity shareholders of the Company	1,730	152	519	665	734
EPS (RMB)	0.404	0.035	0.121	0.155	0.171
DPS (RMB)	0.122	0.000	0.030	0.039	0.043
EBIT	2,463	653	866	1,020	1,088
EBITDA	2,756	902	1,122	1,280	1,351

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	11,347	7,960	7,454	7,948	7,799
Cash and equivalent	2,155	967	1,411	1,543	1,946
Trade and bill receivables	3,130	2,944	2,592	2,222	2,067
Financial leasing receivables	852	216	109	85	52
Inventories	4,380	2,731	2,130	2,765	2,267
Other current assets	830	1,102	1,212	1,333	1,467
Non-current assets	4,793	5,714	6,302	6,240	6,555
Property, plant and equipment	3,638	3,822	3,875	3,924	3,971
Intangible assets	206	321	342	363	383
Long-term investments	59	66	73	80	88
Long-term receivables	446	66	27	15	6
Other non-current assets	444	1,439	1,985	1,858	2,108
Total assets	16,140	13,674	13,756	14,188	14,354
Current liabilities	4,808	3,257	2,803	3,139	2,891
Trade and bill payables	2,723	1,048	963	1,296	1,011
Receipts in advance	170	67	89	87	109
Short term borrowings	820	1,184	697	597	497
Other current liabilities	1,095	958	1,054	1,159	1,275
Non-current liabilities	4,926	4,172	4,005	3,363	2,987
Long-term payables	-	-	-	-	-
Long-term borrowings	4,542	3,921	3,729	3,068	2,672
Other non-current liabilities	384	251	276	295	314
Total liabilities	9,734	7,429	6,808	6,502	5,878
Minority interests	2	2	3	3	3
Shareholders' equities	6,404	6,243	6,946	7,683	8,473
BVPS (RMB)	1.496	1.459	1.623	1.795	1.980

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Profit before tax	2,068	276	626	801	884
Changes in depreciation and amortization	293	249	256	260	263
Changes in working capital	(718)	195	1,036	102	432
Income tax paid	28	37	30	37	44
Financial cost	395	341	241	219	204
Others	(767)	(19)	(149)	(187)	(209)
CF Operating	1,299	1,079	2,039	1,231	1,617
Increase in PP&E	(887)	(425)	(300)	(300)	(300)
Increase in intangible assets	(21)	(122)	(30)	(30)	(30)
Others	(338)	(582)	-	-	-
CF Investing	(1,246)	(1,129)	(330)	(330)	(330)
Capital injection	-	-	-	-	-
Net debt financing	2,148	(257)	(679)	(760)	(496)
Dividend payout	(356)	(314)	-	(130)	(166)
Interest paid	(395)	(341)	(241)	(219)	(204)
Others	(71)	161	(345)	339	(17)
CF Financing	1,326	(751)	(1,265)	(770)	(883)
Net change in cash	1,379	(801)	444	131	404
Cash at the beginning	634	2,155	967	1,411	1,543
Adjustment (Time deposit & FX effect)	142	(387)	-	-	-
Cash at the end	2,155	967	1,411	1,543	1,946

Source(s): Company, ABCI Securities estimates

Key operating and financial ratios (2011A-2015E)

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Sales mixed (%)					
Wheel loaders	69.70	65.36	62.63	63.37	63.58
Excavators	13.47	11.14	11.97	10.98	11.16
Fork lifts	7.30	10.37	12.12	12.86	12.71
Road rollers	2.88	1.46	1.49	1.43	1.38
Financial Leasing Income	1.61	1.33	0.24	0.12	0.07
Others	5.03	10.33	11.55	11.24	11.10
Profit & loss ratios (%)					
Gross margin	25.26	19.36	21.28	21.80	21.80
Net profit margin	13.60	1.91	6.68	7.57	7.50
Effective tax rate	16.34	44.93	17.00	17.00	17.00
Growth (%)					
Revenue	5.83	(37.93)	(1.58)	13.05	11.37
Gross profit	(6.22)	(52.43)	8.17	15.79	11.36
EBIT	4.85	(73.49)	32.67	17.72	6.65
EBITDA	7.78	(67.27)	24.44	14.01	5.57
Net profit	(2.04)	(91.27)	243.80	28.04	10.36
Balance sheet ratios					
Current ratio (x)	2.36	2.44	2.66	2.53	2.70
Quick ratio (x)	1.45	1.61	1.90	1.65	1.91
Cash ratio (x)	0.45	0.30	0.50	0.49	0.67
Trade and bill receivables days	70.45	140.39	130.00	100.00	80.00
Trade and bill payables turnover days	111.28	108.09	60.00	60.00	55.00
Inventory turnover days	152.02	203.82	145.00	130.00	120.00
Total debt / equity ratio (%)	83.70	81.75	63.69	47.69	37.39
Net debt / equity ratio (%)	50.06	66.26	43.38	27.62	14.43
Returns (%)					
ROAE	29.71	2.39	7.87	9.09	9.08
ROAA	11.69	1.02	3.79	4.76	5.14
Payout ratio	30.23	-	25.00	25.00	25.00

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

I, Wong Cheuk Wai, Steve, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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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 2009-2013

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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