

Key Data

Share price (HK\$)	1.32
Target price (HK\$)	Under review
Upside potential (%)	N/A
52Wk H/L(HK\$)	3.50 / 1.23
Issued shares (mn)	4,280
Share market cap (HK\$m)	5,650
30-day avg vol (HK\$m)	32.1
Major shareholder (%): Li San Yim and spouse	55.69

Source: Company, Bloomberg, ABCI Securities

Sales breakdown in 1HFY12 (%)

Wheel loader	67.9
Excavator	11.2
Fork lift	8.9
Others	11.9

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(3.6)	(4.6)
3-mth	(45.2)	(48.4)
6-mth	(58.1)	(54.1)

*Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

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Previous report
Date: 31 July 2012
Rating: Hold
Target price: HK\$1.55

Lonking (3339 HK) – Sell
Construction & Farm Machinery Industry

Missed the market expectations

Top line and bottom line of the Group for 1HFY12 were 22.4% and 58.4% below market expectations respectively. The major concerns were the decline ASP and the profit margin during the downtrend of the construction machinery industry. We cut our EPS forecast from Rmb0.225 to Rmb0.147, and down grade the rating from “Hold” to “Sell”. The counter is trading at 7.3x FY12E PE. Target price of the stock is under reviewing.

Bottom line missed. Revenue of the Group was down 43.8% YoY to Rmb4,724mn in 1HFY12, while net profit was plunged by 76.1% YoY to Rmb276mn in 1HFY12, missed the street expectation at Rmb665mn. It was due to: 1) gross profit margin (“GPM”) dropped 5.5ppts YoY to 20.7% in 1HFY12; 2) increasing R&D expenses as percentage of revenue; and 3) financial cost up from Rmb176mn in 1HFY11 to Rmb230mn in 1HFY12.

GPM shrunk. The shrink of GPM of the Group mainly due to the price cut of the products under the weak construction machinery market. We estimate that GPM of wheel loaders segment dropped by 1.1ppts, while GPM of excavator segment dropped by 6.9ppts from FY11 to 1HFY12. Although infrastructure project growth has started to regain in 2H12, the recovery of demand for construction machinery is expected to regain in FY13 due to the time-lagging effect estimated as 6 months to 1 year. We expect that GPM of the Group will not has a significant improvement during 2HFY12

Earnings outlook. We cut our earnings forecast from Rmb965mn to Rmb630mn (EPS forecast dropped from Rmb0.225 to Rmb0.147) in FY12. The total receivable turnover days increase from 138.2 days in FY11 to 176.8 days in 1HFY12. The Group planned to control the credit term. It will improve the assets health in long run but sacrifice the P&L in short term. We down grade our rating to the Group from “Hold” to “Sell”. Target price is under reviewing.

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

Forecast and Valuation

FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rmb mn)	12,020	12,720	9,310	11,318	13,940
Chg (%YoY)	74.2	5.8	(26.8)	21.6	23.2
Net Income (Rmb mn)	1,766	1,730	630	994	1,459
Chg (%YoY)	120.8	(2.1)	(63.6)	57.9	46.8
EPS (Rmb)	0.413	0.404	0.147	0.232	0.341
Chg (%YoY)	120.8	(2.1)	(63.6)	57.9	46.8
PE (x)	-	2.7	7.3	4.6	3.1
PB (x)	-	0.72	0.67	0.61	0.54
Yield (%)	-	11.4	4.1	6.5	9.5
ROAA (%)	15.2	11.7	4.0	6.3	8.5
ROAE (%)	39.1	29.7	9.5	13.8	18.1
Net debt/total equity (%)	57.1	55.1	57.4	31.5	14.9

Source: Company, Bloomberg, ABCI Securities estimates

Financial highlights of the Group

	1HFY11	2HFY11	FY11	1HFY12	Change (% YoY)	Change (% HoH)
Revenue (Rmb mn)	8,398	4,323	12,721	4,724	(43.8)	9.3
Wheel loaders	5,682	3,185	8,867	3,208	(43.5)	0.7
Excavators	1,303	410	1,713	530	(59.3)	29.2
Road rollers	272	95	367	72	(73.5)	(24.6)
Forklifts	468	461	929	422	(9.8)	(8.5)
Other machineries	537	102	639	430	(20.0)	322.2
Financial lease income	136	69	205	61	(55.0)	(11.6)
Gross profit (Rmb mn)	2,201	1,013	3,214	978	(55.6)	(3.4)
GPM (%)	26.21	23.43	25.27	20.71	(5.50)ppts	(2.72)ppts
Other income	76	415	491	113	49.1	(72.7)
Selling and distribution cost	(385)	(208)	(593)	(211)	(45.2)	1.5
Administrative expenses	(139)	(155)	(294)	(132)	(5.0)	(15.1)
R&D	(144)	(198)	(342)	(146)	1.3	(26.3)
Other expenses (net)	2	(805)	(803)	4	109.8	(100.5)
Operating profit	1,611	62	1,673	607	(62.3)	884.6
Financial cost	(176)	(219)	(395)	(230)	30.8	5.0
Profit before tax	1,435	633	2,068	377	(73.8)	(40.5)
Tax expenses	(280)	(58)	(338)	(100)	(64.2)	73.2
Minority interest	0.24	(0.61)	(0.37)	(0.06)	(122.7)	(90.9)
Net income (Rmb mn)	1,155	574	1,730	276	(76.1)	(51.9)
Net margin (%)	13.76	13.28	13.60	5.85	(7.91)ppts	(7.44)ppts

Source: Company

Major change of our forecast

	FY12E			FY13E			FY14E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
Revenue (Rmb mn)	9,504	9,310	(2.0)	11,555	11,318	(2.1)	14,205	13,940	(1.9)
Wheel loaders	6,353	6,194	(2.5)	7,853	7,656	(2.5)	9,873	9,626	(2.5)
Excavators	1,259	1,259	-	1,326	1,326	-	1,432	1,432	-
Road rollers	160	160	-	201	201	-	243	243	-
Forklifts	833	833	-	1,082	1,082	-	1,353	1,353	-
Other machineries	767	767	-	920	920	-	1,104	1,104	-
Financial lease income	132	97	(26.7)	173	133	(23.3)	200	182	(8.8)
Gross profit (Rmb mn)	2,327	2,095	(10.0)	2,876	2,648	(7.9)	3,600	3,392	(5.8)
GPM (%)	24.5	22.5	(2.0)ppts	24.9	23.4	(1.5)ppts	25.3	24.3	(1.0)ppts
Net income (Rmb mn)	965	630	(34.7)	1,265	994	(21.4)	1,651	1,459	(11.6)
Net margin (%)	10.2	6.8	(3.4)ppts	10.9	8.8	(2.2)ppts	11.6	10.5	(1.2)ppts
EPS (Rmb)	0.225	0.147	(34.6)	0.295	0.232	(21.3)	0.386	0.341	(11.7)
BPS (Rmb)	1.654	1.599	(3.3)	1.861	1.762	(5.3)	2.132	2.001	(6.1)
DPS (Rmb)	0.068	0.044	(35.1)	0.089	0.070	(21.7)	0.116	0.102	(11.8)

Source: ABCI Securities estimates



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