



August 7, 2013
Equity Focus
Rating: HOLD
TP: HK\$ 5.62

H-Share price (HK\$) 5.31
Est. share price return 5.84%
Est. dividend yield 2.31%
Est. total return 8.15%

Previous Rating & TP BUY; HK\$ 5.62
Previous Report Date June 17, 2013

Analyst: Steve Wong
Tel: (852) 2147 8869
Email: stevecwwong@abci.com.hk

Key Data

52Wk H/L(HK\$)	8.58/3.83
Issued shares (mn)	996
H-Shares (mn)	402
A-Shares (mn)	594
Market cap	
H-shares (HK\$ mn)	2,135
A-Shares (RMB mn)	4,526
3-mth avg daily turnover (HK\$ mn)	11.4
Major shareholder(s) (%):	
YTO Group	44.52

Source(s): Company, Bloomberg, ABCI Securities

FY12 Revenue breakdown (%)

Agricultural Machinery	84.97
Power Machinery	10.81
Financial Leasing Income	0.81
Others	3.40

Source(s): Company, ABCI Securities

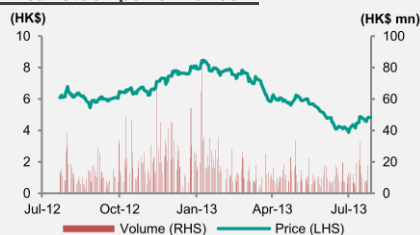
Share performance (%)

	Absolute	Relative*
1-mth	25.53	19.41
3-mth	(15.04)	(9.92)
6-mth	(30.77)	(26.90)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg

First Tractor (38 HK)
Chance to Take Profit

- Suggest investors to take profit on positive news concerning the increased subsidy for high-power tractors
- Total subsidy for agricultural machinery in 2013 is lower than our expectation
- Changes in product mix from mid-power tractors to high-power ones with higher GPMs will not be a significant boost for ROAE before 2015
- Current valuation is at 0.95x FY13E BVPS. We keep our TP at HK\$5.62. As the stock has rallied 11.09% since our last report on June 17, we downgrade the counter from BUY to **HOLD** on limited upside

Raised subsidy cap for high-power tractors. Shares of First Tractor jumped 9.71% on Aug 6 on raised subsidy cap for high-power tractors. Maximum subsidies for tractors with 100 horse-power (hp) and 200hp increased by 25.00% and 38.89% to RMB 150,000 (from RMB 120,000) and RMB 250,000 (from RMB 180,000), respectively. We expect the increase in subsidy will spur demand for high-power tractors, and estimate sales revenue of such products to grow 3.17% in 2H13, compared to the 5.77% decline estimated for 1H13.

Changes in sales mix. According to the MOF, total subsidy amount for agricultural machinery is set to be RMB 21.7bn for 2013, compared to RMB 21.5bn in 2012. Such increase is below our original expectation of RMB 25.0bn. With the raised subsidy caps for high-power tractors, we expect demand for mid-power tractors will shift partially to the high-power ones. We estimate sales revenue of mid-power tractors will deteriorate further from -19.57% YoY in 1H13 to -30.15% YoY in 2H13.

Chance to take profit. Although the maximum subsidy caps for high-power tractors increased, total subsidy for agricultural machinery is less than expected. Therefore, revenue will not improve significantly in 2H13. We raise the FY13E and FY14E net profit to account for the changes in product mix, but FY14E ROAE will not return to the FY11 level given the cyclical downturn in tractor purchases. We maintain our target valuation at 1.0x FY13E BVPS. As the stock has risen by 11.09% since our last report on June 17, we suggest investors to take profit at this point. We keep our TP at HK\$5.62 but downgrade the counter from BUY to **HOLD**. The Group will announce its interim results on Aug 20 and more updates will be provided after the post-result teleconference.

Risk factors: Policy risk affecting sustainability of subsidy regime

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	11,703	11,318	10,893	12,666	14,960
Chg (% YoY)	14.00	(3.29)	(3.76)	16.27	18.11
Net Income (RMB mn)	440	349	327	528	789
EPS (RMB)	0.52	0.35	0.33	0.53	0.79
Chg (% YoY)	(18.97)	(32.56)	(6.30)	61.35	49.63
BVPS (RMB)	4.04	4.39	4.52	5.15	6.00
Chg (% YoY)	5.70	8.76	3.01	14.01	16.37
P/E (x)	-	12.16	12.98	8.04	5.38
P/B (x)	-	0.97	0.94	0.83	0.71
ROAE (%)	13.25	8.97	7.38	10.96	14.23
ROAA (%)	5.52	3.97	3.18	4.55	6.07
DPS(RMB)	-	0.10	0.10	0.16	0.24
Yield (%)	-	2.35	2.31	3.73	5.58
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI estimates

Exhibit 1: Major change in our forecasts

	FY13E			FY14E			FY15E		
	Previous	New	Diff (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
Revenue (RMB mn)	10,779	10,893	1.05	12,319	12,666	2.81	14,283	14,960	4.74
Agricultural Machinery	9,181	9,259	0.85	10,503	10,745	2.31	12,161	12,637	3.91
Power Machinery	1,164	1,198	2.94	1,372	1,473	7.42	1,646	1,842	11.89
Financial Leasing Income	89	90	1.13	81	83	3.01	94	99	5.16
Others	347	347	0.00	364	364	0.00	382	382	0.00
Gross profit (RMB mn)	1,453	1,479	1.77	1,723	1,803	4.65	2,147	2,310	7.59
GPM (%)	13.48	13.58	0.10ppt	13.98	14.23	0.25ppt	15.03	15.44	0.41ppt
Net income (RMB mn)	312	327	4.90	480	528	10.03	690	789	14.46
Net margin (%)	2.89	3.00	0.11ppt	3.89	4.17	0.27ppt	4.83	5.28	0.45ppt
EPS (RMB)	0.313	0.329	4.90	0.482	0.530	10.03	0.693	0.793	14.46
BVPS (RMB)	4.510	4.521	0.24	5.110	5.154	0.87	5.884	5.998	1.95
DPS (RMB)	0.094	0.099	4.90	0.145	0.159	10.03	0.208	0.238	14.46

Source(s): ABCI Securities estimates

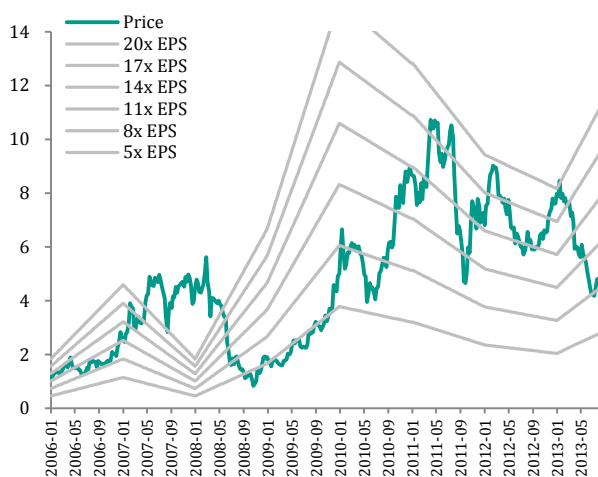
Exhibit 2: Peer group valuation and earnings forecasts summary (August 6, 2013)

Company	Ticker	MKT CAP ¹ (HKD mn)	Share Price	P/E (x)		EPS Change (%)		P/B (x)		ROAE (%)	
				FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
				Agricultural Machinery Makers							
Deere & Co	DE US	249,204	USD 82.80	9.70	9.77	10.54	-0.74	3.20	2.55	38.99	28.32
Mahindra & Mahin	MM IN	66,568	INR 855.60	11.31	9.35	8.85	20.98	2.15	1.83	17.75	16.02
CNH Global NV	CNH US	89,336	USD 47.53	9.03	9.05	11.04	-0.25	1.21	1.06	16.63	16.79
First Tractor-H ²	38 HK	2,135	HKD 5.31	12.98	8.04	-6.30	61.35	0.94	0.83	7.38	10.96
First Tractor-A ²	601038 CH	5,734	RMB 7.62	23.19	14.37	-6.30	61.35	1.69	1.48	7.38	10.96
Escorts Ltd	ESC IN	1,041	INR 67.20	6.65	5.45	63.36	21.86	0.44	0.41	7.65	7.84
Sector Weighted Average				10.01	9.59	10.19	4.10	2.56	2.09	30.07	23.47

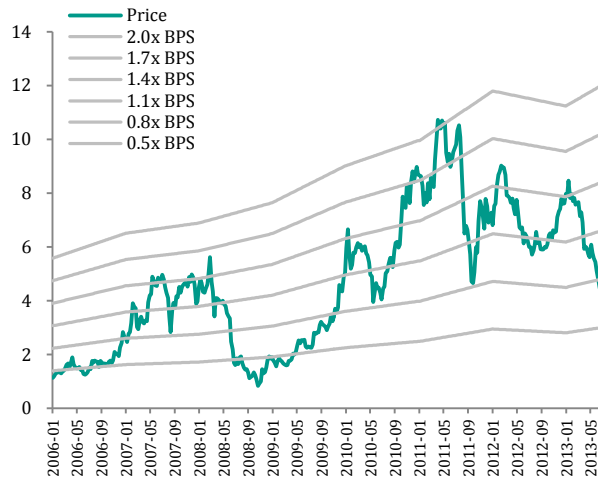
¹ The market capital value of the companies are translated into HKD

² ABCI Securities estimates

Source(s): Bloomberg, ABCI Securities estimates

Exhibit 3: P/E band of First Tractor (HK\$)


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

Exhibit 4: P/B band of First Tractor (HK\$)


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

Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	11,703	11,318	10,893	12,666	14,960
Agricultural Machinery	9,356	9,617	9,259	10,745	12,637
Power Machinery	1,470	1,224	1,198	1,473	1,842
Financial Leasing Income	66	92	90	83	99
Others	811	385	347	364	382
COGS					
Gross profit	1,660	1,543	1,479	1,803	2,310
SG&A	(1,077)	(1,093)	(1,057)	(1,142)	(1,322)
Other income and gains	16	35	9	40	56
Pre-tax profit	599	485	431	700	1,044
Income tax	(85)	(71)	(65)	(105)	(157)
Net profit	514	414	366	595	887
Profit attributable to:					
Minority interests	74	65	39	68	98
Equity shareholders of the Company	440	349	327	528	789
Basic EPS (RMB)	0.52	0.35	0.33	0.53	0.79
DPS (RMB)	-	0.10	0.10	0.16	0.24

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	6,533	7,534	7,968	9,784	10,580
Cash and equivalent	1,541	1,958	2,810	3,521	4,083
Trade and bill receivables	2,446	2,269	2,267	2,452	2,630
Financial leasing receivables	632	839	575	732	828
Inventories	1,195	1,364	1,102	1,744	1,570
Other current assets	719	1,104	1,214	1,336	1,469
Non-current assets	3,240	3,546	3,996	4,392	4,453
Property, plant and equipment	2,168	2,414	2,796	3,114	3,099
Intangible assets	773	855	897	938	978
Long-term investments	199	167	184	202	222
Other non-current assets	100	110	119	138	153
Total assets	9,773	11,080	11,964	14,177	15,032
Current liabilities	5,465	5,362	4,841	6,343	6,271
Trade and bill payables	2,345	2,548	2,094	3,263	2,975
Receipts in advance	1,058	1,110	1,069	1,465	1,527
Short term borrowings	969	451	300	100	100
Other current liabilities	1,093	1,253	1,378	1,516	1,668
Non-current liabilities	356	826	2,047	2,070	2,095
Long-term payables	-	-	-	-	-
Long-term borrowings	186	618	1,818	1,818	1,818
Other non-current liabilities	170	208	229	252	277
Total liabilities	5,821	6,188	6,888	8,413	8,365
Minority interests	538	525	578	635	699
Shareholders' equities	3,414	4,367	4,498	5,129	5,968

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	599	485	431	700	1,044
Changes in depreciation and amortization	140	191	206	210	246
Changes in working capital	67	(13)	388	55	(29)
Interest paid	55	63	111	97	97
Income tax paid	(83)	(99)	(66)	(107)	(158)
Others	(59)	(72)	-	-	-
CF Operating	719	555	1,070	957	1,200
Increase in PP&E	(362)	(405)	(560)	(500)	(200)
Increase in intangible assets	(565)	(82)	(42)	(41)	(40)
Others	117	(260)	-	-	-
CF Investing	(810)	(747)	(602)	(541)	(240)
Capital injection	7	866	-	-	-
Net debt financing	386	(86)	1,049	(200)	-
Dividend payout	(106)	(76)	(100)	(98)	(158)
Interest paid	(54)	(83)	(111)	(97)	(97)
Others	31	(13)	(454)	691	(143)
CF Financing	264	608	384	296	(399)
Net change in cash	173	416	852	712	561
Cash at the beginning	1,393	1,541	1,958	2,810	3,521
Adjustment (Time deposit & FX effect)	(25)	1	-	-	-
Cash at the end	1,541	1,958	2,810	3,521	4,083

Source(s): Company, ABCI Securities estimates

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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