

Key Data

H-share price (HK\$)	10.46
Target price (HK\$)	14.16
Upside potential (%)	35.4
52Wk H/L(HK\$)	12.48 / 7.60
Issued shares (mn)	7,706
H-share	1,430
A-share	6,276
H-share market cap (HK\$m)	14,958
30-day avg vol (HK\$m)	175.1
Major shareholder (%):	
Hunan SASAC	16.2

Source: Company, Bloomberg, ABCI Securities

Sales breakdown in 1HFY12 (%)

Concrete Machinery	58.1
Crane	24.2
Environment and sanitation	4.1
Other machinery	10.9
Financial income under lease	2.7

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	20.4	15.3
3-mth	14.9	5.1
6-mth	2.5	(4.3)

*Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

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Previous report
Date: 12 October 2012
Rating: Buy
Target price: HK\$12.12

Zoomlion (1157 HK) – Buy Construction & Farm Machinery Industry

Importance of infrastructure reiterated on 18th Congress, Good sign for leading machinery makers

18th Congress kicks off. Wen Jiabao emphasizes the importance of infrastructure construction during his opening speech. We expect growth momentum of construction machinery sector will regain in 2013. We like Zoomlion, the leading players, for its solid profitability and abundance of net cash on hand at Rmb1,762mn as of 3QFY12, vs. net debt of Sany at Rmb16,489mn and net debt of XCMG at Rmb4,315mn. We revise up our earnings forecast, as well as the target price from HK\$12.12 to HK\$14.16. Maintain “Buy” rating as the bottom out of upstream construction industry.

We expect more construction in 2013. We expect that China’s construction machinery makers benefit from the stimulus fuelled rebound in 2013. The new order index on construction services (sub index of non-manufacturing PMI) was staying above 50% for 8 consecutive months since March. We expect that the construction projects will maintain at a high momentum in 2013. We like Zoomlion because of its leading position in concrete machinery market with net cash position.

The Group has a solid earnings performance. The Group managed to improve its GPM and posted flat YoY growth in bottom line in 3QFY12, while its largest peers, Sany (600031 CH) and XCMG (000425 CH) suffered from margin contraction and posted sharp decline in net income. GPM of the Group edged up to 35.6% in 3QFY12 from 35.3% in 2QFY12, mainly because of the increase in sales of long-arm truck-mounted concrete pump capturing from competitors. We revise net income upward by 5.8% to Rmb11,668mn in FY13; and 6.5% to Rmb14,581mn in FY14.

Railway construction recovery spurs crane sales. The decline in railway infrastructure construction shrunk from -15.8% YoY in 1-9M12 to -1.5% YoY in 1-10M12. With the recovery on railway construction, we revise up our revenue forecast on crane segment for the Group by 11.8% from Rmb16,338mn to Rmb18,258mn in FY13.

Risk factors: Prolong weakening construction industry; Credit and liquidity risks; Market competition intensifies

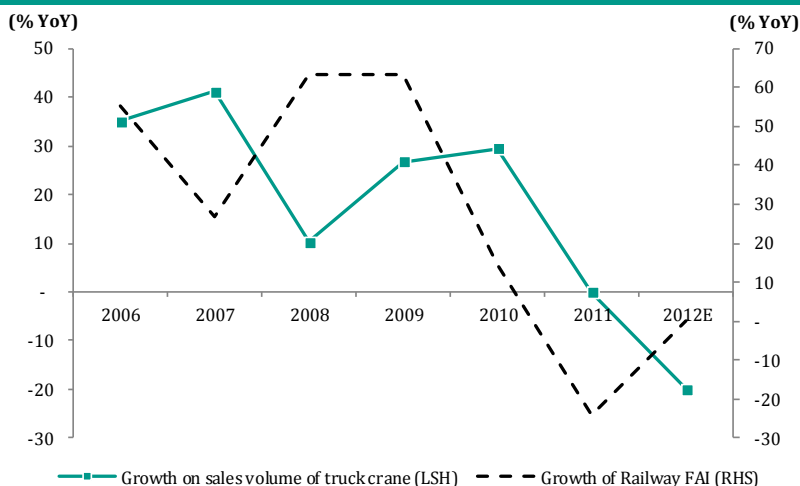
Forecast and Valuation

FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rmb mn)	32,193	46,323	52,322	65,346	79,177
Chg (%YoY)	55.1	43.9	13.0	24.9	21.2
Net Income (Rmb mn)	4,666	8,055	9,414	11,668	14,581
Chg (%YoY)	90.7	72.6	16.9	23.9	25.0
EPS (Rmb)	0.736	1.046	1.202	1.490	1.862
Chg (%YoY)	63.5	42.2	14.9	23.9	25.0
PE (x)	-	8.1	7.1	5.7	4.6
PB (x)	-	2.0	1.7	1.3	1.1
Yield (%)	-	2.5	2.8	3.5	4.4
ROAA (%)	9.6	12.0	11.7	11.9	12.7
ROAE (%)	26.8	25.7	24.0	24.4	24.9
Net debt/total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company, Bloomberg, ABCI Securities estimates

Relationship on sales of truck crane and railway FAI in China

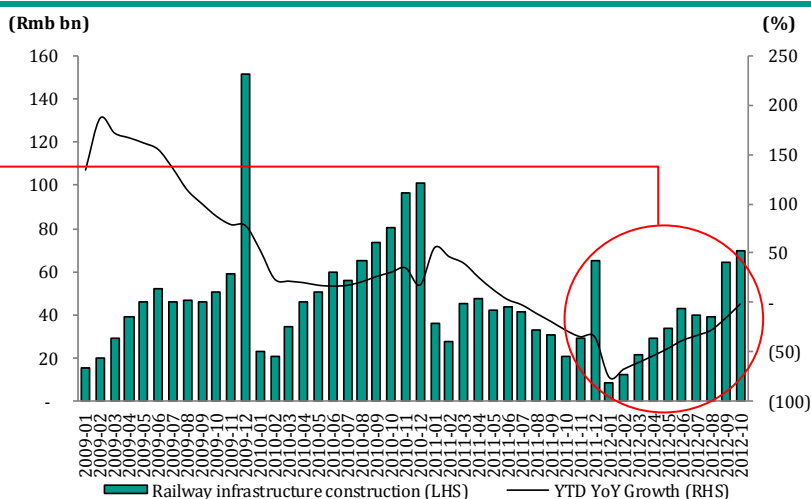
The growth (or decline) of demand for truck crane (a key type of mobile crane of which we estimate that it contributed 20.3% of total revenue of Zoomlion in FY11) in China is lagged behind the railway infrastructure construction by one year.



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

Monthly infrastructure construction for railway in China

The decline in infrastructure construction for railway in China was improving. We expect it will spur the demand for mobile crane in 2013.



Period	Cumulative Infra. Const (Rmb bn)	Growth (% YoY)	Monthly Infra. Const (Rmb bn)	Growth (% YoY)	Growth (% MoM)
Jan-12	8.7	-76.0	8.7	-76.0	-86.5
Feb-12	20.8	-67.5	12.1	-56.3	38.2
Mar-12	42.6	-60.9	21.8	-51.6	80.6
Apr-12	71.7	-54.1	29.1	-38.3	33.6
May-12	105.5	-46.9	33.8	-20.3	16.0
Jun-12	148.7	-38.6	43.2	-0.9	28.0
Jul-12	188.4	-33.5	39.7	-3.6	-8.1
Aug-12	227.8	-28.0	39.3	19.0	-1.0
Sep-12	292.1	-15.8	64.3	111.4	63.4
Oct-12	361.8	-1.5	69.8	240.8	8.6

Source: The Ministry of Railways of the PRC

Quarter results on the 3 China's leading construction machinery makers

	FY10				FY11				FY12		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Zoomlion (1157 HK)											
Revenue (Rmb mn)	5,899	10,190	7,812	8,292	10,735	13,413	9,059	13,116	11,609	17,511	9,989
Gross Profit	1,553	3,098	2,167	2,951	3,383	4,474	2,818	4,332	3,726	6,186	3,553
GPM (%)	26.3	30.4	27.7	35.6	31.5	33.4	31.1	33.0	32.1	35.3	35.6
Net income (Rmb mn)	735	1,467	924	1,540	2,024	2,604	1,334	2,093	2,089	3,533	1,338
Net income margin (%)	12.5	14.4	11.8	18.6	18.9	19.4	14.7	16.0	18.0	20.2	13.4
Growth (%)											
Revenue					82.0	31.6	16.0	58.2	8.1	30.6	10.3
Net income					175.4	77.5	44.4	35.9	3.2	35.7	0.3
Operating cash flow (Rmb mn)					-1,298	1,654	-6,188	7,712	-1,442	1,896	2,390
Operating cash flow/net income (%)					-63.9	63.2	-461.4	355.4	-67.9	52.3	173.4
Sany Heavy (600031 CH)											
Revenue (Rmb mn)	7,330	9,616	8,958	8,051	13,988	16,375	10,940	9,473	14,678	17,082	8,939
Gross Profit	2,665	3,706	3,308	2,834	5,243	6,333	4,050	2,898	5,640	5,620	2,336
GPM (%)	36.4	38.5	36.9	35.2	37.5	38.7	37.0	30.6	38.4	32.9	26.1
Net income (Rmb mn)	1,107	1,768	1,570	1,142	2,663	3,276	1,732	978	2,804	2,356	714
Net income margin (%)	15.1	18.4	17.5	14.2	19.0	20.0	15.8	10.3	19.1	13.8	8.0
Growth (%)											
Revenue					90.8	70.3	22.1	17.7	4.9	4.3	-18.3
Net income					140.6	85.3	10.3	-14.4	5.3	-28.1	-58.8
Operating cash flow (Rmb mn)					-3,405	3,656	-1,767	3,795	-2,434	687	2,575
Operating cash flow/net income (%)					-120.4	103.9	-93.4	337.9	-82.8	27.6	331.8
XCMG (000425 CH)											
Revenue (Rmb mn)	5,557	8,038	5,874	6,283	9,722	9,793	5,718	7,738	7,988	9,973	6,842
Gross Profit	1,139	1,624	1,219	1,585	2,016	2,215	1,312	1,276	1,653	2,092	1,495
GPM (%)	20.5	20.2	20.8	25.2	20.7	22.6	22.9	16.5	20.7	21.0	21.9
Net income (Rmb mn)	529	849	614	943	1,018	1,211	602	548	741	849	378
Net income margin (%)	9.5	10.6	10.5	15.0	10.5	12.4	10.5	7.1	9.3	8.5	5.5
Growth (%)											
Revenue					75.0	21.8	-2.7	23.2	-17.8	1.8	19.7
Net income					92.4	42.6	-2.0	-41.9	-27.2	-29.9	-37.2
Operating cash flow (Rmb mn)					-1,422	506	-579	-535	-1,442	-1,895	-3,440
Operating cash flow/net income (%)					-139.7	41.8	-96.2	-97.6	-194.6	-223.2	-914.9

Source: Companies, ABCI Securities

Major changes of our forecast

	FY12E			FY13E			FY14E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
Revenue (Rmb mn)	51,767	52,322	1.1	61,868	65,346	5.6	73,202	79,177	8.2
Concrete Machinery	27,272	27,807	2.0	33,179	34,611	4.3	38,814	40,533	4.4
Crane	13,934	13,934	0.0	16,338	18,258	11.8	18,613	22,653	21.7
Environment & sanitation	3,127	3,127	0.0	3,440	3,440	0.0	3,784	3,784	0.0
Other machinery	5,672	5,672	0.0	6,806	6,806	0.0	9,529	9,529	0.0
Financial income under lease	1,762	1,782	1.1	2,105	2,231	6.0	2,462	2,678	8.8
Gross profit (Rmb mn)	17,644	18,230	3.3	20,655	22,435	8.6	25,183	27,437	9.0
GPM (%)	34.1	34.8	0.8ppts	33.4	34.3	0.9ppts	34.4	34.7	0.3ppts
Net income (Rmb mn)	9,189	9,414	2.4	11,029	11,668	5.8	13,692	14,581	6.5
Net margin (%)	17.8	18.0	0.2ppts	17.8	17.9	0.1ppts	18.7	18.4	-0.3ppts
EPS (Rmb)	1.173	1.202	2.4	1.408	1.490	5.8	1.748	1.862	6.5
BVPS (Rmb)	5.078	5.121	0.9	6.209	6.339	2.1	7.611	7.859	3.3
DPS (Rmb)	0.235	0.240	2.4	0.282	0.298	5.8	0.350	0.372	6.4

Source: 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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