

## Key Data

H-share price (HK\$)	6.38
Target price (HK\$)	7.76
Upside potential (%)	21.6
52Wk H/L(HK\$)	9.39 / 5.43
Issued shares (mn)	996
H-share	402
A-share	594
H-share market cap (HK\$m)	2,565
30-day avg vol (HK\$m)	15.2
Auditors	BAKER TILLY
Major shareholder (%)	
YTO Group	44.52

Source: Company, Bloomberg, ABCI Securities

## Sales breakdown in 1HFY12 (%)

Agricultural machinery	82.6
Power machinery	11.7
Other machinery	5.0
Financial operations	0.8

Source: Company

## Share performance (%)

	Absolute	Relative*
1-mth	10.0	5.3
3-mth	2.4	(6.3)
6-mth	(11.1)	(17.0)

\*Relative to Hang Seng Index

Source: Bloomberg

## 1 year price performance



Source: Bloomberg

## Analyst

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Previous report  
Date: 3 October 2012  
Rating: Buy  
Target price: 6.83

## First Tractor (38 HK) – Buy Construction & Farm Machinery Industry

### Subsidy on hi-power tractors up, GPM expected improve

NBS announced the sales data for Oct 2012 of tractors yesterday. Under the favorable subsidy policy, the sales growth of hi-power tractors was up 55.1% YoY in 1-10M12. We expect the growth on demand for hi-power tractor to sustain in 2013 and 2014 under the agricultural mechanization. The Group plans to spend Rmb400mn on production capacity ramp up for hi-power tractors in FY13, up from Rmb300mn in FY12. We revise up the GPM projection of the Group, as well as the TP from HK\$6.83 to HK\$7.76. Maintain “Buy”.

**GPM expected increase.** We estimate that its gross profit margin of hi-power tractor is 16% in FY12 vs. that of low-power tractors of 4%. We expect the demand for hi-power tractors will be stimulated by the subsidy policy. Furthermore, the Group plans to enhance the R&D and production capacity ramp up for hi-power tractors. We estimate that the GPM will increase from 13.8% in FY11 to 13.9% in FY12, and to 15.1% in FY13 because of the change of product-mix and product capability enhancement.

**More subsidies on agricultural machinery.** According to our channel check, total govt. subsidies on agricultural machinery in 2012 will be Rmb21.5bn up 22.9% YoY, which is more than our previous estimation at Rmb20.0bn. Under the favorable policies toward agricultural mechanization, we estimate that the subsidy on agricultural machinery will increase by 30% to Rmb27.95bn in 2013. The growth on demand for hi-power tractors is supported.

**We like First Tractor.** As the leading agricultural tractors manufacturer, we believe the Group can capture the growth in the agricultural industry. The government’s subsidies for agricultural machinery will remain an upside catalyst to the industry. After discussing with the management, we revise up the net income of the Group from Rmb595mn to Rmb603mn in FY13. We increase our target price from HK\$6.83 to HK\$7.76, maintain “Buy” rating.

**Risk factors:** Government policy on agriculture industry; Continuity and size of govt subsidy; Intensify market competition in low-to-medium powered tractors

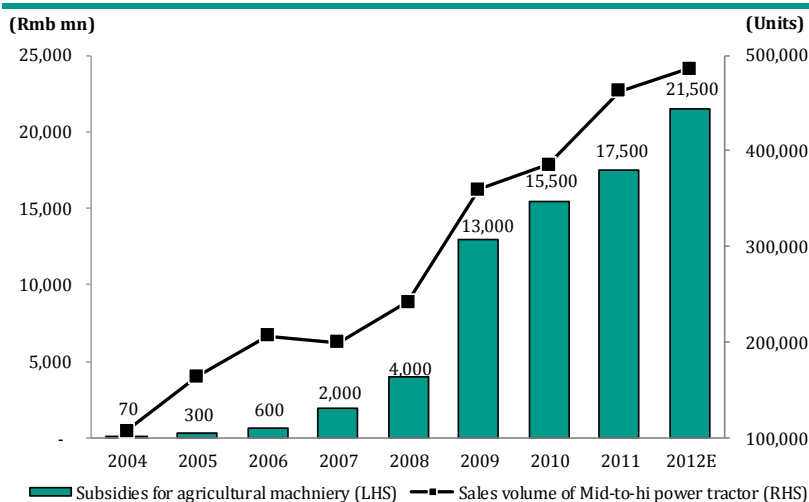
## Forecast and Valuation

FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rmb mn)	10,266	11,328	11,263	13,298	17,982
Chg (%YoY)	14.0	10.3	(0.6)	18.1	35.2
Net Income (Rmb mn)	543	411	414	603	897
Chg (%YoY)	118.3	(24.3)	0.8	45.6	48.8
EPS (Rmb)	0.642	0.486	0.450	0.605	0.901
Chg (%YoY)	118.3	(24.3)	(7.4)	34.7	48.8
PE (x)	-	10.7	11.5	8.6	5.8
PB (x)	-	1.35	1.33	1.33	1.21
Yield (%)	-	-	2.6	3.5	5.2
ROAA (%)	7.3	4.5	4.1	5.4	7.0
ROAE (%)	16.4	11.2	10.5	14.2	19.6
Net debt/total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company, ABCI Securities estimates

### Subsidies for agricultural machinery and sales volume of mid-to-hi power tractors in China

Because of the government's subsidy on mid-to-hi power tractors, the sales volume growth of the mid-to-hi power tractor was stimulated. Under the agricultural mechanization of China, we expect that the subsidy will be carried on in 2013 and 2014.

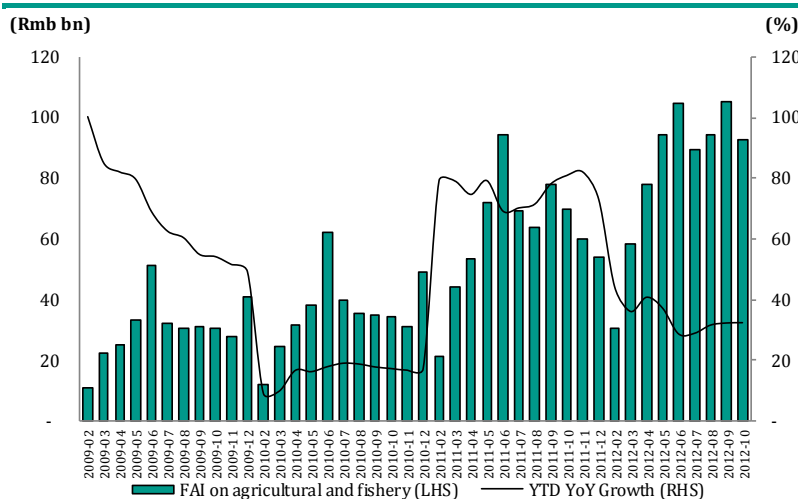


Source: National Bureau of Statistics of China ("NBS"), ABCI Securities estimates

### Agricultural and fishery FAI in China

Under the favorable policy toward agricultural development, the investment on agricultural maintains at a high speed.

The FAI on agricultural and fishery industries was up 32.2% YoY in 1-10M12, which was higher than the average FAI in China at 20.7% YoY under the same period of time.



Source: National Bureau of Statistics of China

### Major changes of our forecast

	FY12E			FY13E			FY14E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
<b>Revenue (Rmb mn)</b>	<b>11,206</b>	<b>11,263</b>	<b>0.5</b>	<b>13,202</b>	<b>13,298</b>	<b>0.7</b>	<b>17,893</b>	<b>17,982</b>	<b>0.5</b>
Agricultural machinery	9,398	9,296	-1.1	10,949	10,847	-0.9	15,318	15,193	-0.8
Power machinery	1,234	1,393	12.9	1,546	1,744	12.8	1,669	1,884	12.9
Other machinery	480	480	-	582	582	-	706	706	-
Financial operations	94	94	-	125	125	-	200	199	-0.5
<b>Gross profit (Rmb mn)</b>	<b>1,592</b>	<b>1,568</b>	<b>-1.5</b>	<b>1,967</b>	<b>2,011</b>	<b>2.2</b>	<b>2,657</b>	<b>2,715</b>	<b>2.2</b>
GPM (%)	14.2	13.9	-0.3ppts	14.9	15.1	0.2ppts	14.8	15.1	0.2ppts
<b>Net income (Rmb mn)</b>	<b>433</b>	<b>414</b>	<b>-4.4</b>	<b>595</b>	<b>603</b>	<b>1.3</b>	<b>883</b>	<b>897</b>	<b>1.6</b>
Net margin (%)	3.9	3.7	-0.2ppts	4.5	4.5	0.0ppts	4.9	5.0	0.1ppts
EPS (Rmb)	0.470	0.450	-4.3	0.597	0.605	1.4	0.887	0.901	1.6
BPS (Rmb)	3.919	3.911	-0.2	3.890	3.886	-0.1	4.274	4.276	0.0
DPS (Rmb)	0.141	0.135	-4.3	0.179	0.182	1.5	0.266	0.270	1.6

Source: ABCI Securities estimates

### Financial results summary of the Group

	1H10	2H10	1H11	3Q11	4Q11	1H12	3Q12	4Q12E
<b>Revenue (Rmb mn)</b>	5,938	4,328	7,165	2,371	1,792	6,304	2,800	2,159
<b>Gross Profit</b>	869	648	913	364	282	884	383	301
<b>GPM (%)</b>	14.63	14.97	12.74	15.35	15.74	14.02	13.68	13.94
<b>Major cost (Rmb mn)</b>								
Selling and distribution cost	(208)	(160)	(227)	(75)	(58)	(190)	(87)	(75)
General Administrative cost	(312)	(334)	(343)	(195)	(139)	(351)	(197)	(151)
Net finance cost	(12)	(1)	(28)	(12)	(5)	(36)	(19)	(27)
<b>Cost / revenue ratio (%)</b>								
Selling and distribution cost	-3.50	-3.70	-3.17	-3.16	-3.24	-3.01	-3.11	-3.45
General Administrative cost	-5.25	-7.72	-4.79	-8.22	-7.77	-5.57	-7.04	-6.97
Net finance cost	-0.20	-0.03	-0.39	-0.51	-0.30	-0.57	-0.68	-1.26
<b>Net profit before MI (Rmb mn)</b>	270	292	297	53	108	308	45	86
<b>Net profit (Rmb mn)</b>	267	276	271	46	94	286	40	88
<b>Net profit margin (%)</b>	4.50	6.37	3.78	1.94	5.24	4.54	1.43	4.08
<b>Growth (%)</b>								
Revenue						(12.02)	18.09	20.48
Net profit						5.54	(13.04)	(6.20)

Source: Company, ABCI Securities estimates

### Peer group valuation

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
DEERE & CO	DE US	260,127	US\$ 85.69	11.03	10.34	15.77	6.72	38.74	33.98
MAHINDRA & MAHIN	MM IN	78,497	INR 906.75	14.54	12.23	17.30	18.80	21.10	19.80
CNH GLOBAL NV	CNH US	81,713	US\$ 43.98	9.58	9.19	17.07	4.27	11.38	9.62
<b>FIRST TRACTOR-H</b>	<b>38 HK</b>	<b>7,637</b>	<b>HK\$ 6.38</b>	<b>11.50</b>	<b>8.60</b>	<b>(7.43)</b>	<b>34.66</b>	<b>10.50</b>	<b>14.20</b>
FIRST TRACTOR -A	601038 CH	7,637	Rmb 6.86	15.26	11.33	(7.43)	34.66	10.50	14.20
ESCORTS LTD	ESC IN	953	INR 64.00	7.17	5.22	(34.97)	37.45	6.19	7.72
<b>Weighted Average*</b>				<b>11.46</b>	<b>10.44</b>	<b>15.36</b>	<b>9.48</b>	<b>29.38</b>	<b>26.12</b>

\*Exclude the A-share of First Tractor

Source: Bloomberg, ABCI Securities estimates

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## Disclosures

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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	$2.6 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility}$
High	$1.5 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 2.6$
Medium	$1.0 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.5$
Low	$180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.0$

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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