



Key Data

H-share price (HK\$)	8.16
Target price (HK\$)	12.51
Upside potential (%)	53.3
52Wk H/L(HK\$)	13.98 / 7.19
Issued shares (mn)	7,706
H-share	1,430
A-share	6,276
H-share market cap (HK\$m)	11,669
30-day avg vol (HK\$m)	166.6
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	(9.6)	(8.0)
3-mth	(23.6)	(27.2)
6-mth	(32.2)	(25.0)

*Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

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Previous report
Date: 19 July 2012
Rating: Buy
Target price: HK\$13.82

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

An outperforming player with credit risk turmoil

Top and bottom line for 1HFY12 were 9.6% and 23.9% above market expectations respectively. It managed to post an earnings growth of 23.6% YoY in 1HFY12 due to aggressive credit sales strategy. Although we revise up its FY12 EPS forecast by 14.1% to Rmb1.336 to reflect its better-than-expected half-year result, we revise down its PER rating due to increase in credit risk. New TP at HK\$12.51. Maintain “Buy”.

Beat market expectations. Revenue was up 20.6% YoY to Rmb29,120mn, and net profit boosted by 23.6% YoY to Rmb5,749mn in 1HFY12, beat the street expectation at Rmb4,538mn. It was due to: 1) excellent concrete machinery segment performance (segment revenue up 51.8% YoY); and 2) gross profit margin (“GPM”) surged 1.5pts YoY to 34.0% in 1HFY12.

Results outperform. The 1HFY12 results of the Group were outperforming the peers’. The top line grew at 20.6% YoY, which was higher than that of Sany (600031 CH) at 4.9% YoY, XCMG (000425 CH) at -8.1% YoY and Liugong (000528 CH) at -31.6% YoY. We believe the strong growth of the Group mainly contributed from the aggressive sales strategy. However, the total receivables turnover days of the Group increased from 222.0 days in FY11 to 234.8 days in 1HFY12, which was longer than that of Sany at 113.7 days in 1HFY12.

Earnings outlook. We upward adjust our earnings forecast from Rmb9,144mn to Rmb10,465mn (EPS forecast dropped from Rmb1.168 to Rmb1.336) in FY12 as the revenue growth (20.6% YoY) in 1HFY12 beat our expectation at 15% YoY. But the receivables of the Group maintain at a high level compared with its peers’, which increase the credit risk problem. We believe the credit risk problem will affect the sales strategy in FY13 and FY14. But the Group still benefits from the urbanization of China in long run. We maintain our rating at “Buy”, but target price is adjusted down to HK\$12.51 to reflect the increase in credit risk of the business.

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	57,851	60,916	72,136
<i>Chg (%YoY)</i>	55.1	43.9	24.9	5.3	18.4
Net Income (Rmb mn)	4,666	8,055	10,465	11,379	13,819
<i>Chg (%YoY)</i>	90.7	72.6	29.9	8.7	21.4
EPS (Rmb)	0.736	1.046	1.336	1.453	1.764
<i>Chg (%YoY)</i>	63.5	42.2	27.7	8.7	21.4
PE (x)	-	6.3	5.0	4.6	3.8
PB (x)	-	1.6	1.3	1.0	0.9
Yield (%)	-	3.3	4.0	4.4	5.3
ROAA (%)	9.6	12.0	12.8	11.9	12.4
ROAE (%)	26.8	25.7	26.4	23.6	23.7
Net debt/total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company, Bloomberg, ABCI Securities estimates

Financial highlights of the Group

	1HFY11	2HFY11	FY11	1HFY12	Change (% YoY)	Change (% HoH)
Revenue (Rmb mn)	24,148	22,175	46,323	29,120	20.6	31.3
Concrete Machinery	11,134	10,078	21,212	16,906	51.8	67.8
Crane	8,208	7,410	15,618	7,044	(14.2)	(4.9)
Environment & sanitation	1,264	1,714	2,978	1,201	(5.0)	(29.9)
Other machinery	2,793	2,139	4,932	3,186	14.1	48.9
Financial leasing income	749	834	1,583	783	4.5	(6.1)
Gross profit (Rmb mn)	7,857	7,150	15,007	9,912	26.2	38.6
GPM (%)	32.5	32.2	32.4	34.0	1.5 ppts	1.8 ppts
Concrete Machinery	36.3	34.8	35.6	36.2	(0.1) ppts	1.5 ppts
Crane	26.3	25.2	25.8	27.4	1.1 ppts	2.2 ppts
Environment & sanitation	32.2	29.8	30.8	27.7	(4.5) ppts	(2.0) ppts
Other machinery	23.4	23.1	23.3	24.2	0.8 ppts	1.1 ppts
Financial leasing income	79.7	93.4	86.9	96.9	17.2 ppts	3.5 ppts
Major cost (Rmb mn)						
Selling cost	(1,230)	(1,930)	(3,160)	(1,473)	19.8	(23.7)
Administrative cost	(1,166)	(1,093)	(2,259)	(1,458)	25.0	33.4
Finance cost	(108)	(161)	(269)	(203)	88.0	26.1
Net income (Rmb mn)	4,651	3,404	8,055	5,749	23.6	68.9
Net margin (%)	19.3	15.4	17.4	19.7	0.5 ppts	4.4 ppts

Source: Company

Major change of our forecast

	FY12E			FY13E			FY14E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
Revenue (Rmb mn)	53,568	57,851	8.0	65,213	60,916	(6.6)	77,365	72,136	(6.8)
Concrete Machinery	28,360	32,526	14.7	34,759	32,651	(6.1)	39,488	37,265	(5.6)
Crane	13,894	14,392	3.6	16,620	15,177	(8.7)	19,438	17,270	(11.2)
Environment & sanitation	3,574	3,038	(15.0)	3,931	3,341	(15.0)	4,324	3,675	(15.0)
Other machinery	5,918	5,918	-	7,694	7,694	-	11,541	11,541	-
Financial income under lease	1,822	1,977	8.5	2,209	2,053	(7.1)	2,574	2,385	(7.3)
Gross profit (Rmb mn)	17,733	20,023	12.9	20,959	20,900	(0.3)	25,330	25,398	0.3
GPM (%)	33.1	34.6	1.5 ppts	32.1	34.3	2.2 ppts	32.7	35.2	2.5 ppts
Net income (Rmb mn)	9,144	10,465	14.4	11,143	11,379	2.1	13,515	13,819	2.2
Net margin (%)	17.1	18.1	1.0 ppt	17.1	18.7	1.6 ppts	17.5	19.2	1.7 ppts
EPS (Rmb)	1.168	1.336	14.4	1.423	1.453	2.1	1.726	1.764	2.2
BPS (Rmb)	5.074	5.209	2.7	6.216	6.375	2.6	7.600	7.790	2.5
DPS (Rmb)	0.234	0.267	14.1	0.285	0.291	2.1	0.345	0.353	2.3

Source: ABCI Securities estimates

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	$2.6 \leq 180$ 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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