



Key Data

Share price (HK\$)	1.29
Target price (HK\$)	1.01
Upside potential (%)	-21.7
52Wk H/L(HK\$)	3.50 / 1.01
Issued shares (mn)	4,280
Share market cap (HK\$mn)	5,521
30-day avg vol (HK\$mn)	46.8
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	(5.0)	(8.4)
3-mth	(34.5)	(39.4)
6-mth	(50.7)	(50.7)

*Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

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Previous report
Date: 6 September 2012
Rating: Sell
Target price: HK\$1.01

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

Falling sales and losing market share

We maintain our bearish view on the counter as the latest market statistics indicate sales of its major product wheel loader continue to slide. Even worst, its market share dropped to 15.5% from 18.1% in 2011. We estimate its FY12 EPS to plunge 63.7%YoY to Rmb0.147, or 18% below market consensus. Share price will be weighed by market downward revision of earnings. We maintain “Sell” rating and target price at HK\$1.01

Still underperform compared with the industry. After discussing with the Group, we estimate that the sales volume of wheel loader was -37.0% YoY in the first 8 months of 2012, which slightly recovered from -37.3% YoY in the first 7 months of 2012, but deeper than the total market sales volume decline at -27.6% YoY under the same period of time. Because of high gearing, the Group carried out prudent sales strategies and tightened the credit terms to its customer. The sales growth of the Group was below that of the market most of the time since 2011 (*About the growth spread of the Group against the industry, please refer to chart on page 2*).

Take longer-than-expected to recover. Although Premier Wen Jiabao expresses to increase infrastructure spending and employ proactive fiscal policy to spur growth, we believe the large players, such as Zoomlion (1157 HK, Buy) and Sany (600031 CH) will take the benefit first as they have enough cash on hand (or source fund at a lower rate) to release the credit terms and expand the business size by injecting more working capital. The small players, such as Lonking, are expected to take more time to recover the sales performance.

Maintain “Sell” rating. The counter is trading at 7.1x FY12E PE. Since the Group is still declining at a deeper way compared with the market, we maintain our valuation at 5.6x FY12E PE and earning forecast. We maintain our “Sell” rating and the target price at HK\$1.01.

Risk factors: Prolong weakening construction industry; Losing market share to peers; Credit and liquidity risk

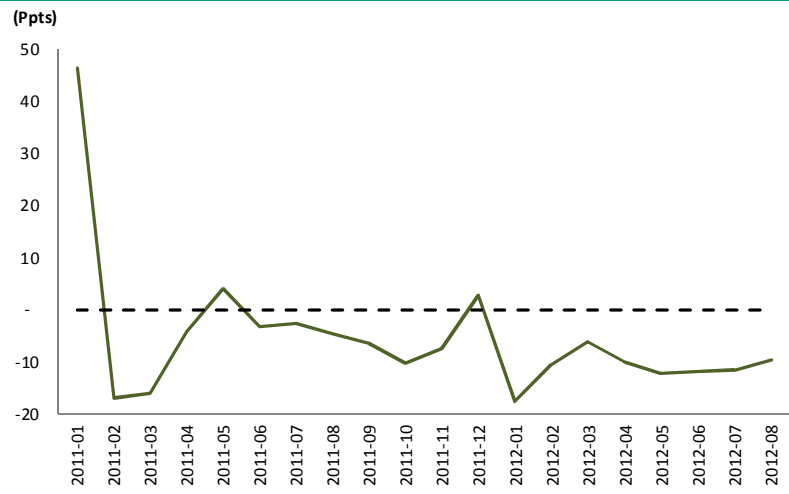
Forecast and Valuation

FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rmb mn)	12,020	12,720	9,310	11,318	13,940
<i>Chg (%YoY)</i>	74.2	5.8	(26.8)	21.6	23.2
Net Income (Rmb mn)	1,766	1,730	630	994	1,459
<i>Chg (%YoY)</i>	120.8	(2.1)	(63.6)	57.9	46.8
EPS (Rmb)	0.413	0.404	0.147	0.232	0.341
<i>Chg (%YoY)</i>	120.8	(2.1)	(63.6)	57.9	46.8
PE (x)	-	2.6	7.1	4.5	3.1
PB (x)	-	0.70	0.66	0.60	0.52
Yield (%)	-	11.6	4.2	6.6	9.8
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



Growth spread of sales volume growth of wheel loader of Lonking and the industry



Source: CCMA, ABCI Securities

Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return \times Market return rate
Hold	Market return \pm 6% \leq Stock return $<$ Market return rate
Sell	Stock return $<$ Market return \pm 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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