



Company Report

ZMJ (564 HK)

February 26, 2013

Rating: Hold
TP: HK\$10.15

Key data

H-Share price (HK\$)	9.71
Upside potential (%)	4.5
52Wk H/L(HK\$)	12.66/9.38
Issued shares (mn)	1,621
H-share	243
A-share	1,378
H-Market cap (HK\$mn)	2,360
30-day avg daily vol (HK\$mn)	14.7
Auditors	Deloitte
Major shareholder (%)	
Henan Sasac	32.1

Source: Company & Bloomberg

Revenue breakdown by product (%)

Hydraulic roof supports	69.3
Other machineries	3.1
Steel and other materials trading	23.7
Others	3.9

*Based on 1HFY12 results

Source: Company

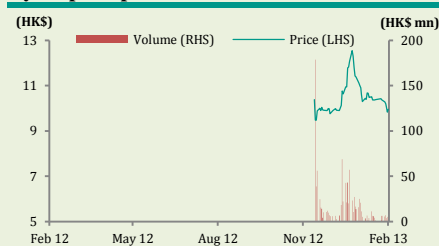
Share performance (%)

	Absolute	Relative ¹
1-mth	-6.1	-2.8
3-mth	N/A	N/A
6-mth	N/A	N/A

1: Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst Information

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Previous report

Date: N/A

Rating: N/A

Target price: N/A

Facing Attack from Two Ways

On one hand, the sluggish coal mining industries shrinks the cake for mining machinery makers in 2013. The growth and profit margin are facing challenges in FY2013. On the other hand, the expansions of international leading mining machinery makers, as well as domestic peers, heat up the market competition in mid-to-long run. As lack of catalyst drives up the stock, we initiate “Hold” rating to the Group with TP HK\$10.15.

Bad sentiment of coal mining machineries. The weakening coal price discourages the mine operators to expand in 2H2012 and 2013. The purchases of mining machineries are expected to delay to 2H2013. Slowdown of the coal mining industries will drag down the growth of ZMJ in FY2013. We estimate that the segment revenue growth of hydraulic roof support will be cooled down to 7.0% YoY in FY2013, from 10.8% YoY in FY2012.

Threats from international players. International leading mining machinery makers, such as Caterpillar (CAT US) and Joy Global (JOY US), expand in China via M&As. The localization of international players will enhance their competitiveness and erode the market share from the Group.

Expansion of Sany Int’l. Sany Int’l (631 HK), the largest roadheader makers, is pushing its boundaries to hydraulic roof support market. Though the harsh environment expected in 2013 will postpone the schedule, considering with the successful history of winning market share from Caterpillar in excavator market by Sany Heavy (600031 CH), the sister company of Sany Int’l, it is a large threat for ZMJ.

Initiate “Hold”. ZMJ is trading at 8.6x FY2013E PER, which is 21.1% discount to the mean of its peers at 10.9x. There is lack of positive catalyst to drive the stock up. Therefore we initiate “Hold” to ZMJ with target price HK\$10.15, based on FY2013E PER of 9.0x, or 40% discount of our target valuation at 15.0x for Sany Int’l reflecting the weaker in growth opportunity and profitability.

Risk factors: Competition from international players; Concentration of product type; Prolong downturn of coal mining industries

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rmb mn)	6,358	8,060	9,729	10,503	12,237
Chg (%YoY)	27.3	26.8	20.7	8.0	16.5
Net Income (Rmb mn)	883	1,194	1,584	1,468	1,742
Chg (%YoY)	40.0	35.3	32.7	(7.3)	18.6
EPS (Rmb)	0.630	0.853	0.977	0.906	1.075
Chg (%YoY)	40.0	35.3	14.6	(7.3)	18.6
PER (x)	-	9.26	7.98	8.61	7.26
PBR (x)	-	1.97	1.43	1.29	1.11
Yield (%)	-	1.74	2.51	2.32	2.76
ROAA (%)	12.8	12.3	12.5	9.5	10.0
ROAE (%)	27.2	22.0	21.1	15.2	15.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company, ABCI Securities estimates



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Zhengzhou Coal Mining Machinery Group

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Sluggish Coal Price Discouraging Capex Growth

Market downturn the fetal attack in 2012 and 2013

*Growth of coal mining FAI was decreasing from:
35.1% YoY in 1Q12 to
23.1% YoY in 1-2Q12; to
14.4% YoY in 1-3Q12; to
7.7% YoY in 2012*

Revenue was up 20.0% YoY to Rmb7,307mn in 1-3QFY2012. It was better than that of the peers. The total FAI on coal mining industries was up 14.4% YoY during the same period of time. Although we expect the Group to post good results in FY2012, the growth of sales is likely to tumble in FY2013.

Qinhuangdao 5800kc index (reflecting China coal price) was falling from the peak at USD156.2/ton in November 2011 to USD115.7/ton in January 2013. The growth of fixed assets investment (“FAI”) of coal mining industries is decreasing during 2012. The weak coal prices slows down coal mining FAI and hence the coal mining machinery makers which discourage the mine operators to increase capex.

So far, we do not see any recovery signal from the latest monthly coal mining FAI unveiled by NBS. We expect the purchases of machineries from coal mine operators during 1H2013 will maintain lukewarm.

Weak Growth on Hydraulic Roof Support

The growth on revenue of the Group was slowing down in 3QFY12 with the coal mining FAI in China. We expect the sales growth of hydraulic roof support will maintain at a slow pace in FY2013. We estimate that the segment revenue growth of the Group will be slowed down to 7.0% YoY in FY2013, from 10.8% YoY in FY2012.

Threat from Caterpillar

Caterpillar, the giant global player, gets into the hydraulic roof support market via acquiring ERA

Caterpillar acquired ERA Mining Machinery Limited (“ERA”, 8043 HK, delisted), the third largest hydraulic roof support maker in China with market share of est. 6.1% based on our estimated sales revenue in 2012, in order to enrich the comprehensiveness of the product portfolio of the Caterpillar. Although Caterpillar found an accounting misconduct at Zhengzhou Siwei Mechanical & Electrical Manufacturing Company Limited (“Siwei”), wholly owned subsidiary of ERA, as a result in a non-cash goodwill impairment charge of USD580mn, according to Caterpillar, it does not change the plans to develop and expand the businesses in China.

The expansion of Caterpillar in China is expected to threaten the market position of ZMJ, especially the high-end hydraulic roof support market. We believe the growth of segment revenue will be challenged.

Expansion of Sany Int'l

Facing challenge of new comer with proven track record of fighting for market share

Sany Int'l (631 HK), the largest makers of roadheader in China, started to expand its businesses of hydraulic roof support (via a product combo called combined coal mining unit, or known as CCMU) since 2009. Although the product is still loss-making in FY2012, the profitability of CCMU will be improved by economies of scales with the expansion strategies of Sany Int'l gradually.

By considering with the successful history of capturing market share in excavator market by Sany Group from the international players, the ambition of Sany Int'l would be a huge attack for ZMJ.



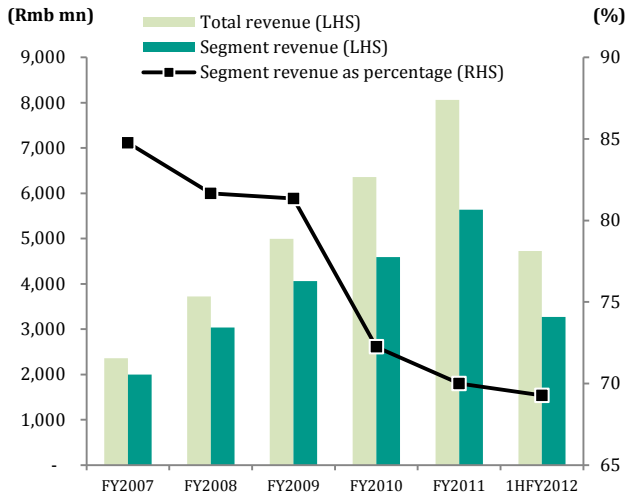
Lack on Income Source Diversification

Over dependence on hydraulic roof support

ZMJ seeks business diversification via developing other coal mining machineries such as roadheader and coal face shearer. The segment revenue of hydraulic roof support as percentage total revenue of the Group was dropping from 84.8% in FY2007 to 70.0% in FY2011 and 69.3% in 1HFY2012. However, the segment gross profit as percentage of total gross profit was increasing from 78.9% in FY2007 to 85.8% in FY2011 and 91.2% in 1HFY2012. The product cycle risk of the Group is high compared with that of peers.

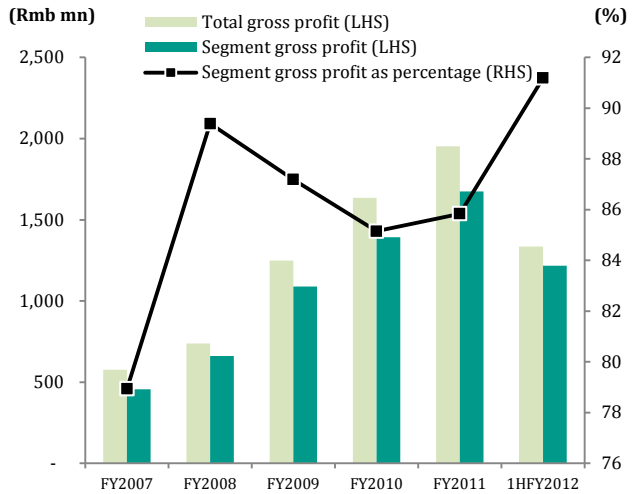
In contrast, Sany Int'l has carried out business diversification in a more successful way. The segment revenue as percentage of total revenue decreased from 94.7% in FY2007 to 67.3% in FY2011 and 63.0% in 1HFY2012. The segment gross profit as percentage of total gross profit decreased from 94.4% in FY2007 to 85.9% in FY2011 and 78.3% in 1HFY2012.

Hydraulic roof support segment revenue vs. total revenue of ZMJ, FY2007-1HFY2012



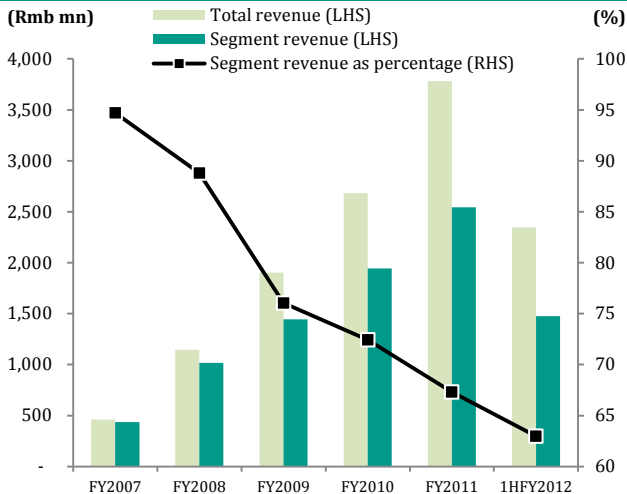
Source: Company, ABCI Securities

Hydraulic roof support segment gross profit vs. total gross profit of ZMJ, FY2007-1HFY2012



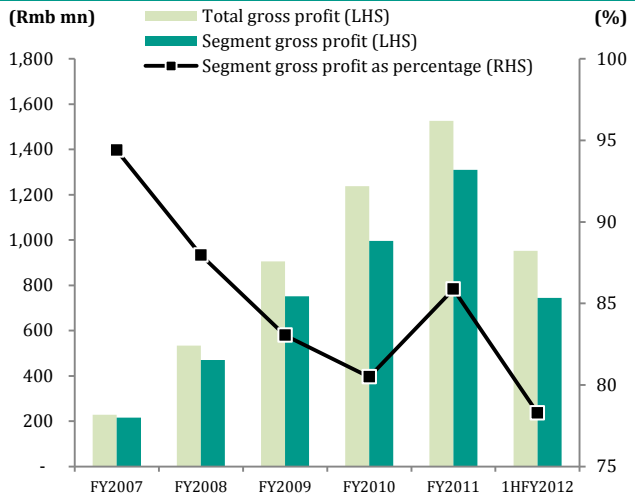
Source: Company, ABCI Securities

Roadheader segment revenue vs. total revenue of Sany Int'l, FY2007-1HFY2012



Source: Company

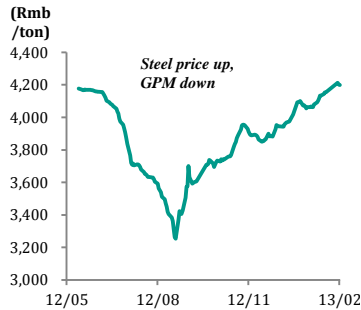
Roadheader segment gross profit vs. total gross profit of Sany Int'l, FY2007-1HFY2012



Source: Company, ABCI Securities estimates

Expect GPM Drop with Increase of Steel Price

China domestic hot rolled steel sheet spot average price, 5M2012-2M2013



Source: Bloomberg

The gross profit margin (“GPM”) of the Group increased by 1.5ppts YoY from 26.8% in 1HFY2011 to 28.3% in 1HFY2012. The increase in GPM was mainly because of the GPM enhancement of hydraulic roof support segment. The high-end hydraulic roof support of ZMJ increased 5.4ppts YoY from 42.0% in 1HFY2011 to 47.4% in 1HFY2012, and the low-end hydraulic roof support increased 4.0ppts YoY from 25.2% in 1HFY2011 to 29.2% in 1HFY2012.

With the rebound of steel price, which is the major raw material of hydraulic roof support and accounted for 59.8% of total cost of production of ZMJ in 1HFY2012, we believe the GPM to reduce in FY2013. We estimate GPM of the Group will shrink by 3.2ppts YoY from est. 25.7% in FY2012 to 22.5% in FY2013.

Good Assets and Earnings Quality

The Group was in net cash position as of June 2012, which represents that the Group can source financing in an easier way in the future. The asset quality is one of the comparative advantages of the Group comparing with other machinery markers.

The cash flow of ZMJ is relatively good. The operating cash flow (“OCF”) / Net income ratio of the Group, in average, during FY2007 to 1HFY2012 was 61.2%, which is higher than that of Sany Int’l at 9.2%. The higher in OCF / Net income ratio reflects a cash flow of the Group.

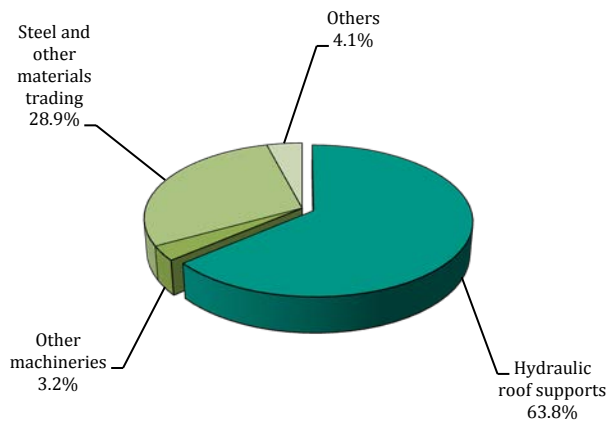
Furthermore, the trade and bill receivable turnover days of the Group, ranging from 75.0 days to 103.5 days in FY2008 to FY2011 was shorter than that of Sany Int’l, ranging from 105.0 days to 166.8 days during the same period of time. The shorter in trade and bill receivable turnover days reflects that the Group has a better cash collectability and liquidity.

However, with the challenges from international players, as well as Sany Int’l expansion in hydraulic roof support market, we expect that the Group will trade off part of the earnings quality for defending market position.

Good operating cash flow with net cash position

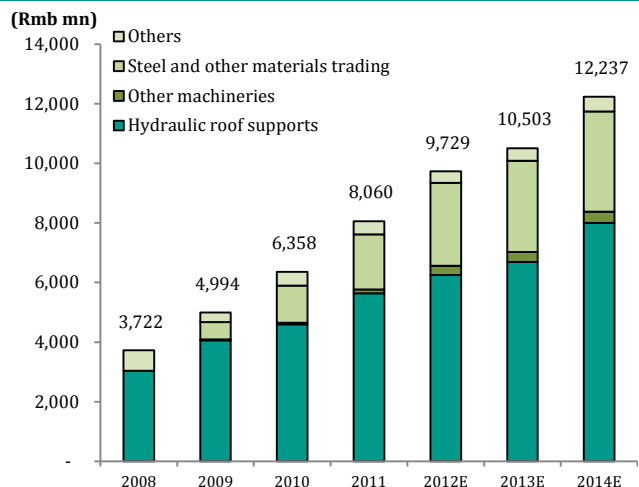
Cash cow expected to be weakened under the keener market competition

Estimated product mix of the Group, FY2013



Source: Company

Revenue production of the Group, FY2008-FY2014E



Source: Company, ABCI Securities estimates



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Zhengzhou Coal Mining Machinery Group

Financial highlights of the Group

	1Q11	1H11	1-3Q11	FY11	1Q12	1H12	1-3Q12	1Q12 (% YoY)	1H12 (% YoY)	1-3Q12 (% YoY)
Revenue (Rmb mn)	1,791	3,751	6,090	8,060	2,187	4,724	7,307	22.11	25.94	19.98
Hydraulic roof supports		2,675		5,642		3,272			22.32	
Other machineries		56		122		145			160.57	
Steel and other materials trading		614		1,855		1,121			82.57	
Others		241		441		185			-23.22	
Gross profit (Rmb mn)	381	1,005	1,398	1,952	492	1,335	1,806	29.13	32.90	29.23
Hydraulic roof supports		902		1,676		1,217			35.02	
Other machineries		7		14		17			125.57	
Steel and other materials trading		53		184		74			40.11	
Others		43		79		27			-36.96	
GPM (%)	21.27	26.78	22.95	24.22	22.50	28.26	24.72	1.22ppts	1.48ppts	1.77ppts
Hydraulic roof supports		33.70		29.70		37.20			3.50ppts	
Other machineries		13.40		11.30		11.60			-1.80ppts	
Steel and other materials trading		8.60		9.90		6.60			-2.00ppts	
Others		17.68		17.91		14.52			-3.16ppts	
Major cost										
Selling and distribution cost	(42)	(90)	(148)	(224)	(66)	(176)	(225)	57.14	94.56	51.55
General administrative cost	(92)	(153)	(145)	(360)	(94)	(200)	(329)	2.17	30.94	126.67
Other expenses (net)	4	7	41	(7)	12	41	66	200.00	485.71	60.98
Major cost/revenue (%)										
Selling and distribution cost	2.35	2.41	2.44	2.78	3.02	3.73	3.08	0.67ppts	1.31ppts	0.64ppts
General administrative cost	5.14	4.07	2.38	4.46	4.30	4.23	4.50	-0.84ppts	0.16ppts	2.12ppts
Other expenses (net)	-0.22	-0.19	-0.67	0.09	-0.55	-0.87	-0.90	-0.33ppts	-0.68ppts	-0.23ppts
Net income (Rmb mn)	288	590	919	1,194	419	812	1,205	45.49	37.63	31.12
Net margin (%)	16.08	15.73	15.09	14.81	19.16	17.19	16.49	3.08ppts	1.46ppts	1.40ppts
Operating cash flow (Rmb mn)	348	371	499	537	(47)	(108)	260	-113.51	-129.11	-47.90
OCF/Net income (%)	120.83	62.88	54.30	44.98	-11.22	-13.30	21.58	-132.05ppts	-76.18ppts	-32.72ppts

Source: Company

Earnings quality of ZMJ and Sany Int'l

		FY2007	FY2008	FY2009	FY2010	FY2011	1-3Q FY12	Total value
ZMJ	Net income (Rmb mn)	204	481	630	883	1,194	1,205	4,597
564 HK	Operating cash flow (Rmb mn)	227	360	577	851	537	260	2,812
	OCF/Net income (%)	111.34	74.91	91.50	96.42	44.98	21.58	61.17
SANY INT'L	Net income (Rmb mn)	106	189	490	671	774	484 ¹	2,715
631 HK	Operating cash flow (Rmb mn)	(21)	(148)	505	280	(220)	(147) ¹	250
	OCF/Net income (%)	-19.80	-78.28	103.01	41.75	-28.36	-30.36	9.19

1: The earnings data of Sany Int'l is as of 1HFY12

Source: Companies, ABCI Securities

Cash conversion cycle of ZMJ and Sany Int'l

		FY 2007	FY2008	FY2009	FY2010	FY2011	Average
ZMJ	Account receivable turnover (days)		75.04	88.50	103.49	99.10	94.32
564 HK	Account payable turnover (days)		72.57	82.65	95.22	103.96	93.48
	Inventory turnover (days)		147.07	119.57	91.74	87.96	106.71
	Cash conversion cycle (days)		149.53	125.43	100.01	83.11	107.55
SANY INT'L	Account receivable turnover (days)	106.75	105.00	122.97	134.22	166.77	152.66
631 HK	Account payable turnover (days)	237.53	127.13	109.46	83.04	82.24	105.23
	Inventory turnover (days)	274.30	183.72	170.74	119.03	89.32	130.97
	Cash conversion cycle (days)	143.52	161.59	184.25	170.21	173.84	178.39

Source: Companies, ABCI Securities

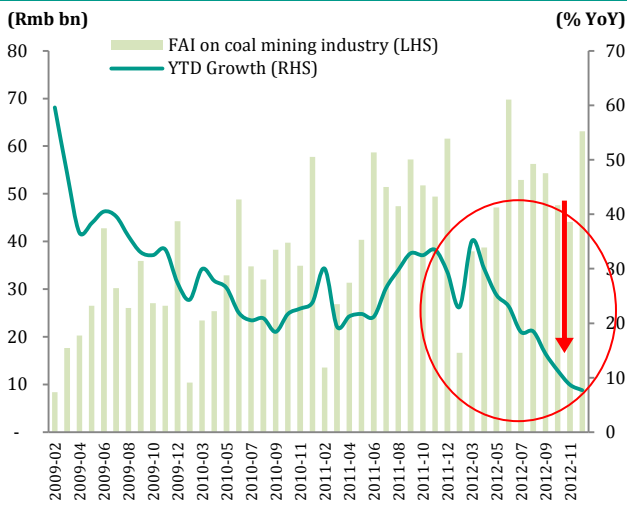


Initiate with "Hold"

Suffering with declining coal mining activities

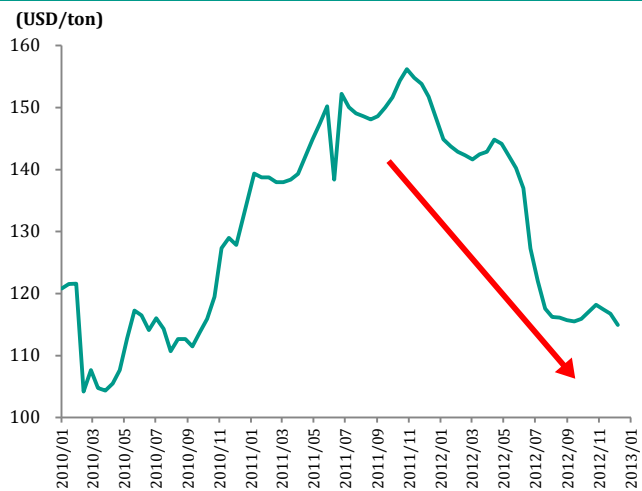
The growth of FAI of coal mining industries is decelerating from 35.1% YoY in 1Q2012 to 23.1% YoY in 1H2012, and further down to 7.7% YoY in 2012. The weakening coal price discourages the growth on capex of coal mine operators. We believe ZMJ will experience a harsh year in 2013.

Fixed assets investment on coal mining activities, 2012



Source: NBS

Coal price in China: Qinhuangdao 5800kc, 2010-1M2013

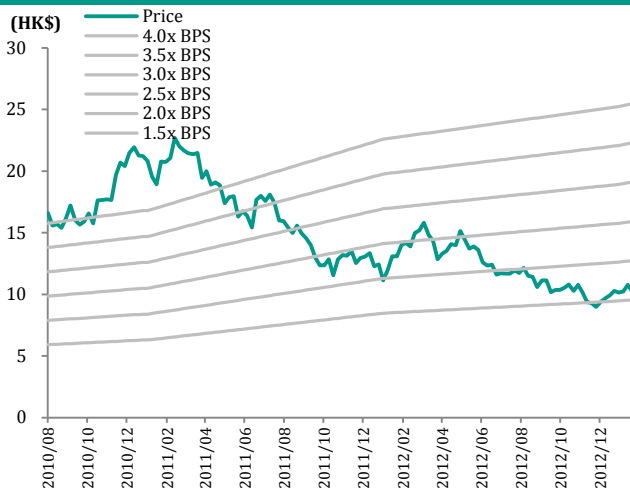


Source: Bloomberg

Initiate "Hold" with TP:HK\$10.15

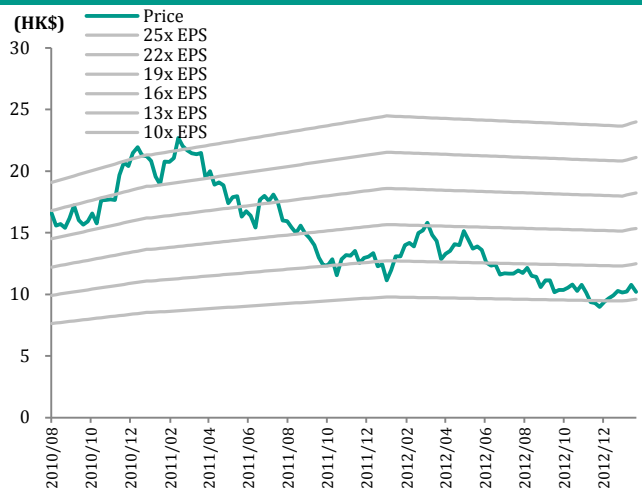
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PB band of the ZMJ in A-share market



Source: Company, Bloomberg, ABCI Securities estimates

PE band of the ZMJ in A-share market



Source: Company, Bloomberg, ABCI Securities estimates



Peer Groups Valuation

Peer group valuation and earnings forecasts summary of construction and farm machinery sectors

Company	Ticker	MKT CAP ¹ (HKD mn)	Share Price	PER (x)		EPS Change (%)		PBR (x)		ROAE (%)		
				FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	
Construction Machinery Makers												
CATERPILLAR INC	CAT US	453,026	USD 89.16	10.99	9.35	-6.89	17.58	2.67	2.22	36.22	28.19	
KOMATSU LTD	6301 JP	188,455	JPY 2286	12.24	11.99	7.64	2.08	2.01	1.83	18.53	13.15	
SANY HEAVY INDUS	600031 CH	107,102	CNY 11.30	12.18	10.27	-18.53	18.53	3.66	2.86	34.53	30.21	
ZOOMLION HEAVY-H ²	1157 HK	14,643	HKD 10.24	7.15	6.01	10.02	18.81	1.62	1.33	23.10	22.70	
ZOOMLION HEAVY-A ²	000157 CH	71,772	CNY 9.19	7.99	6.72	10.02	18.81	1.81	1.48	23.10	22.70	
XCMG CONSTRUCT-A	000425 CH	31,291	CNY 12.19	9.11	8.16	-18.41	11.58	1.48	1.29	14.77	15.60	
GUANGXI LIUGONG	000528 CH	13,779	CNY 9.84	27.26	17.70	-69.15	54.02	1.18	1.12	3.86	5.42	
TEREX CORP	TEX US	26,409	USD 30.98	15.28	11.62	394.63	31.46	1.44	1.27	10.56	13.61	
TADANO	6395 JP	9,856	JPY 908	66.45	23.10	-44.83	187.62	1.40	1.31	2.30	6.70	
SHANTUI CONST-A	000680 CH	6,986	CNY 4.93	-12.67	13.62	-192.62	-193.06	1.56	1.46	1.25	5.15	
XIAMEN XGMA-A	600815 CH	7,924	CNY 6.64	11.69	15.16	-23.24	-22.89	1.22	1.14	10.45	7.51	
LONKING HOLDINGS ²	3339 HK	8,731	HKD 2.04	15.64	8.36	-74.07	86.96	1.04	0.96	6.80	12.00	
Sector Weighted Average				11.84	10.09	3.70	15.94	2.42	2.03	28.26	23.02	
Agricultural Machinery Makers												
DEERE & CO	DE US	257,387	USD 85.55	9.98	9.48	11.06	5.27	3.45	2.78	38.74	39.34	
MAHINDRA & MAHIN	MM IN	78,916	INR 894.80	14.11	11.60	19.25	21.67	2.63	2.24	21.10	20.14	
CNH GLOBAL NV	CNH US	80,029	USD 43.04	8.87	8.38	3.68	5.79	1.05	0.93	11.99	12.79	
FIRST TRACTOR-H ²	38 HK	3,015	HKD 7.50	13.82	9.30	-10.22	48.58	1.31	1.33	9.30	13.00	
FIRST TRACTOR-A ²	601038 CH	8,071	CNY 10.92	25.05	16.86	-10.22	48.58	2.38	2.41	9.30	13.00	
ESCORTS LTD	ESC IN	1,098	INR 62.35	6.95	5.10	44.88	36.44	0.40	0.40	6.43	7.21	
Sector Weighted Average				10.83	9.79	10.73	9.59	2.81	2.31	29.65	30.08	
Mining Machinery Makers												
JOY GLOBAL INC	JOY US	49,084	USD 59.70	9.61	9.20	-13.74	4.49	2.07	1.74	34.20	26.91	
ZHENGZHOU COAL-H ²	564 HK	2,360	HKD 9.71	7.98	8.61	14.58	-7.32	1.43	1.29	21.09	15.21	
ZHENGZHOU COAL-A ²	601717 CH	17,715	CNY 10.33	10.57	11.40	14.58	-7.32	1.89	1.70	21.09	15.21	
TIAN DI-A	600582 CH	16,586	CNY 10.98	11.73	9.63	24.66	21.79	2.31	1.91	22.27	21.80	
SANY HEAVY EQUIP ²	631 HK	9,998	HKD 3.22	16.12	14.11	-35.50	14.21	1.45	1.35	9.08	9.78	
LINZHOU HEAVY-A	002535 CH	5,125	CNY 7.65	14.30	10.48	54.56	36.45	1.51	1.35	10.86	13.28	
SUNWARD INTELL-A	002097 CH	3,687	CNY 7.03	50.21	29.29	-71.03	71.43	1.69	1.61	3.36	5.51	
Sector Weighted Average				12.36	10.87	-2.96	9.83	1.96	1.69	25.16	20.79	
Machinery Part Makers												
CUMMINS INC	CMI US	163,824	USD 111.25	12.68	10.77	0.29	17.66	2.67	2.24	26.17	22.64	
WEICHAI POWER-H	2338 HK	60,798	HKD 29.35	13.33	10.99	-36.79	21.30	1.59	1.41	12.19	13.69	
TAIYUAN HEAVY-A	600169 CH	10,588	CNY 3.51	351.00	21.94	-93.79	1500.00	1.55	1.44	0.44	6.58	
CHINA YUCHAI	CYD US	4,683	USD 16.20	6.00	5.45	-22.64	10.00	0.64	0.60	10.74	11.07	
Sector Weighted Average				27.64	11.22	-13.71	83.86	2.31	1.96	21.19	19.43	
Industrial Machinery Makers												
VOLVO AB-B	VOLVB SS	251,497	SEK 98.60	14.95	10.80	21.25	38.43	2.25	2.01	14.15	15.54	
ATLAS COPCO-A	ATCOA SS	265,106	SEK 185.90	16.33	15.27	-0.59	6.93	5.58	4.78	43.17	36.34	
HYUNDAI HEAVY	009540 KS	116,505	KRW 215000	9.50	8.21	-28.68	15.69	0.84	0.77	9.98	8.47	
SANDVIK AB	SAND SS	159,406	SEK 106.00	14.29	12.62	13.96	13.18	3.36	2.94	25.42	24.20	
DOOSAN HEAVY	034020 KS	32,945	KRW 43650	7.08	5.43	222.60	30.28	0.89	0.83	11.95	13.70	
MANITOWOC CO	MTW US	18,328	USD 17.87	14.00	10.21	65.71	37.15	3.10	2.55	18.33	24.89	
ANHUI HELI CO-A	600761 CH	5,629	CNY 8.80	11.81	10.03	-0.67	17.72	1.49	1.35	12.08	12.48	
Sector Weighted Average				14.16	11.96	14.84	20.26	3.26	2.84	24.74	22.80	
Weighted Average				13.94	10.80	6.67	22.42	2.74	2.33	26.54	23.70	
Median				12.21	10.38	-0.63	18.67	1.57	1.43	12.14	13.65	

* The data in the table is as at February 25, 2013;

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

2: ABCI Securities estimates;

Source: Bloomberg, ABCI Securities estimates



Financial Statements Projection

Consolidated income statements forecast

FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	6,358	8,060	9,729	10,503	12,237
Hydraulic roof supports	4,593	5,642	6,252	6,689	8,007
Other machineries	53	122	305	336	369
Steel and other materials trading	1,248	1,855	2,782	3,060	3,366
Others	465	441	389	418	494
Cost of sales	(4,724)	(6,108)	(7,229)	(8,135)	(9,421)
Gross profit	1,635	1,952	2,500	2,368	2,816
Other income	42	91	159	193	211
Selling and distribution	(154)	(224)	(297)	(317)	(377)
Administrative expenses	(299)	(255)	(373)	(383)	(446)
Research and development cost	(87)	(104)	(96)	(104)	(121)
Other net gain (loss)	(54)	(32)	-	-	-
EBIT	1,083	1,428	1,893	1,758	2,082
Finance costs	(19)	(7)	(4)	(3)	(3)
Associates	-	-	-	-	-
Pre-tax profit	1,064	1,421	1,889	1,755	2,079
Tax expenses	(172)	(208)	(283)	(263)	(312)
Minority interests	(10)	(19)	(21)	(23)	(26)
Net income	883	1,194	1,584	1,468	1,742

Source: Company, ABCI Securities estimates

Income statement key ratios forecast

FY	FY10A	FY11A	FY12E	FY13E	FY14E
Sales mixed (%)					
Hydraulic roof supports	72.2	70.0	64.3	63.7	65.4
Other machineries	0.8	1.5	3.1	3.2	3.0
Steel and other materials trading	19.6	23.0	28.6	29.1	27.5
Others	7.3	5.5	4.0	4.0	4.0
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	25.7	24.2	25.7	22.5	23.0
EBIT margin	17.0	17.7	19.5	16.7	17.0
Pre-tax margin	16.7	17.6	19.4	16.7	17.0
Net margin	13.9	14.8	16.3	14.0	14.2
Selling & distribution cost / revenue	2.4	2.8	3.1	3.0	3.1
Administrative cost / revenue	4.7	3.2	3.8	3.6	3.6
R&D cost / revenue	1.4	1.3	1.0	1.0	1.0
Effective tax rate	16.1	14.6	15.0	15.0	15.0
Growth (%)					
Revenue	27.3	26.8	20.7	8.0	16.5
Gross profit	30.9	19.4	28.1	(5.3)	18.9
EBIT	37.0	31.8	32.6	(7.1)	18.5
Net income	40.0	35.3	32.7	(7.3)	18.6

Source: Company, ABCI Securities estimates



Consolidated balance sheets forecast

As of Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Current assets	7,679	8,509	12,652	13,448	15,722
Cash and equivalent	3,636	3,239	6,122	7,011	7,277
Restricted cash	392	578	635	699	769
Trade and other receivables	2,039	2,338	2,993	2,762	3,943
Inventories	1,300	1,644	2,119	2,116	2,788
Other current assets	311	711	782	860	946
Non-current assets	1,374	1,927	2,242	2,638	3,143
Property, plant and equipment	1,059	1,496	1,685	1,974	2,359
Land use rights	217	284	379	373	368
Intangible assets	1	4	7	10	13
Other non-current assets	98	143	170	281	403
Total assets	9,053	10,435	14,893	16,086	18,865
Current liabilities	3,778	4,203	5,316	5,459	6,596
Trade and other payables	1,508	1,972	2,385	2,518	3,160
Other payables	551	532	974	827	975
Short term borrowings	70	15	-	-	-
Other	1,650	1,684	1,957	2,113	2,461
Non-current liabilities	135	84	125	138	154
Long term borrowings	115	65	50	50	50
Other	20	19	76	89	104
Total liabilities	3,913	4,287	5,441	5,597	6,750
Minority interests	145	275	302	332	365
Shareholders' equities	4,995	5,874	9,150	10,157	11,750

Source: Company, ABCI Securities estimates

Balance sheets key ratios forecast

FY	FY10A	FY11A	FY12E	FY13E	FY14E
Balance sheet ratios					
Current ratio (x)	2.0	2.0	2.4	2.5	2.4
Quick ratio (x)	1.7	1.6	2.0	2.1	2.0
Cash ratio (x)	1.1	0.9	1.3	1.4	1.2
Total receivables turnover days	103.5	99.1	100.0	100.0	100.0
Trade and bill receivables days	103.5	99.1	100.0	100.0	100.0
Total payables turnover days	127.6	136.3	148.0	150.4	144.9
Trade and bill payables turnover days	95.2	104.0	110.0	110.0	110.0
Inventory turnover days	91.7	88.0	95.0	95.0	95.0
Total debt / equity ratio (%)	3.6	1.3	0.5	0.5	0.4
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROAA	12.8	12.3	12.5	9.5	10.0
ROAE	27.2	22.0	21.1	15.2	15.9
Payout ratio	5.5	16.1	20.0	20.0	20.0
Per share data (Rmb)					
EPS	0.630	0.853	0.977	0.906	1.075
BVPS	3.464	4.000	5.458	6.061	7.023
DPS	0.034	0.138	0.195	0.181	0.215

Source: Company, ABCI Securities estimates

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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Zhengzhou Coal Mining Machinery Group**Consolidated cash flow statements forecast**

FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Profit before tax	1,064	1,421	1,889	1,755	2,079
DD&A	102	74	40	(150)	(61)
Change in working capital	(143)	(674)	(276)	221	(1,064)
Income tax paid	(172)	(284)	(305)	(284)	(336)
Others	-	-	114	145	159
CF Operating	851	537	1,462	1,687	777
Increase in PP&E	(647)	(437)	(189)	(289)	(385)
Increase in intangible assets	(60)	(70)	(98)	3	2
Other	(1,921)	284	47	(51)	19
CF Investing	(2,628)	(223)	(240)	(337)	(364)
Capital injection	-	-	1,740	-	-
Net debt financing	(190)	(105)	(31)	-	-
Dividend payout	(110)	(133)	(48)	(461)	(149)
Others	2,756	46	-	-	1
CF Financing	2,456	(191)	1,661	(461)	(148)
Net change in cash	679	123	2,883	889	264
Cash at the beginning	1,007	3,636	3,239	6,122	7,011
Adjustment for pledge deposit	1,950	(520)	(0)	0	1
Cash at the end	3,636	3,239	6,122	7,011	7,277

Source: 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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