



March 27, 2014
Equity Focus
Rating: BUY
TP: HK\$ 1.73

H-Share price (HK\$) 1.50
Est. share price return 15.33%
Est. dividend yield 2.61%
Est. total return 17.94%

Previous Rating & TP BUY; HK\$ 2.02
Previous Report Date January 14, 2014

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Key Data

52Wk H/L(HK\$)	1.96 / 1.32
Issued shares (mn)	4,280
Market cap (HK\$ mn)	6,420
3-mth avg daily turnover (HK\$ mn)	13.7
Major shareholder(s) (%): Li Sam Yim & spouse	55.69

Source(s): Company, Bloomberg, ABCI Securities

FY13 Revenue breakdown (%)

Wheel loaders	65.21
Excavators	9.57
Fork lifts	12.05
Road rollers	1.47
Financial Leasing Income	0.59
Others	11.11

Source(s): Company, ABCI Securities

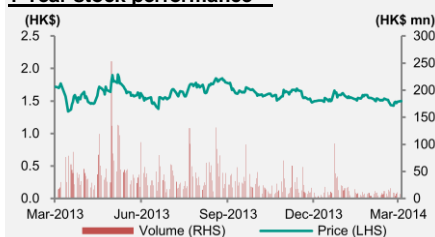
Share performance (%)

	Absolute	Relative*
1-mth	2.61	4.96
3-mth	4.67	10.84
6-mth	(9.25)	(3.77)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg

Lonking (3339 HK)
Sound recovery; reiterate BUY

- FY13 revenue up 3.31% YoY to RMB 8.16bn; net income rebounded 217.88% YoY to RMB 480mn, lower than our forecast by 6.07% due to provision loss on loan receivables
- Lonking is recovering. Net gearing (including the non-current pledged deposit) came down from 50.25% to 29.80%; operating cash flow improved from RMB 1.08bn in FY12 to RMB 1.58bn in FY13
- We lower our FY14E net income by 19.12%, assuming that provision loss on receivables would increase as the monetary environment tightens, and revise TP down to HK\$ 1.73. The counter is trading at 0.69x FY14E P/B, which is below the median of its historical P/B at 1.6x (since 2008). We maintain **BUY** on Lonking for its improving earnings, profitability and assets quality

Profitability recuperates and earnings recovery. Revenue of the Group was up 3.31% YoY to RMB 8.16bn in FY13, exceeding our forecast by 4.97% and market expectation by 2.19%. Gross profit was up 25.83% YoY to RMB 1.92bn. Net income rebounded 217.88% YoY to RMB 480mn in FY13, lower than our forecast by 7.53% because the provision loss on receivables (RMB 239mn in FY13 vs. RMB 82mn in FY12) was larger than our expectation. Management said the Group may make further provision in 2014, which we believe would become a major market concern.

GPM improved. GPM improved from 19.36% in FY12 to 23.58% in FY13, thanks to the increased utilization that helped lower the fixed cost per unit. Utilization rose from 52% in FY12 to 62% in FY13. In particular, utilization in wheel loader segment, the key business that contributed to 65.21% and 82.21% of FY13 total revenue and gross profit, climbed 13ppt to 63% from a year ago. Based on the expanding construction activities (construction service PMI was 59.9% in Feb 2014), we expect Lonking's utilization to stay high in FY14, providing support to the segmental GPM. According to management, ASP remained firm in 1Q14.

Cash flow is improving. Under the stringent credit sales control, the Group's liquidity has improved. Operating cash flow increased from RMB 1.08bn in FY12 to RMB 1.58bn in FY13, and Lonking repurchased part of the CB during the year. Net gearing by end-2013 dropped to 29.80% from 50.25% by end-2012. We expect profitability and assets quality of Lonking would continue to improve in 2014 under the recovery of earth-moving machinery sector.

Reiterate BUY on good financial management. We expect Lonking's provision on receivables in 2014 would increase under the tight monetary environment. Thus, we lower our FY14 net income forecast by 19.12%, and TP was revised down to HK\$ 1.73 (from HK\$ 2.02). The counter is trading at 0.69x FY14E P/B and 9.59x FY14E P/E, below the median of its historical P/B and P/E at 1.6x and 9.7x since 2008. We maintain **BUY** on Lonking for its improving earnings, profitability and assets quality.

Risk factors: 1) Provision loss on receivables; 2) Market share loss due to stringent risk control on credit sales; 3) China's prudent monetary policy may affect capital inflow and delay construction;

Results and Valuation

FY ended Dec 31	2011A	2012A	2013A	2014E	2015E
Revenue (RMB mn)	12,721	7,896	8,158	9,245	10,286
Chg (% YoY)	5.83	(37.93)	3.32	13.33	11.25
Net Income (RMB mn)	1,730	151	480	538	650
Chg (% YoY)	(2.04)	(91.27)	217.88	12.00	20.98
EPS (RMB)	0.404	0.035	0.112	0.126	0.152
P/E (x)	-	34.15	10.74	9.59	7.93
BVPS (RMB)	1.496	1.459	1.599	1.736	1.909
P/B (x)	-	0.83	0.75	0.69	0.63
DPS (RMB)	0.122	-	0.050	0.031	0.038
Yield (%)	-	-	4.19	2.61	3.15
ROAE (%)	29.71	2.39	7.34	7.53	8.34
Net gearing (%)	50.06	50.25	29.80	28.59	9.47

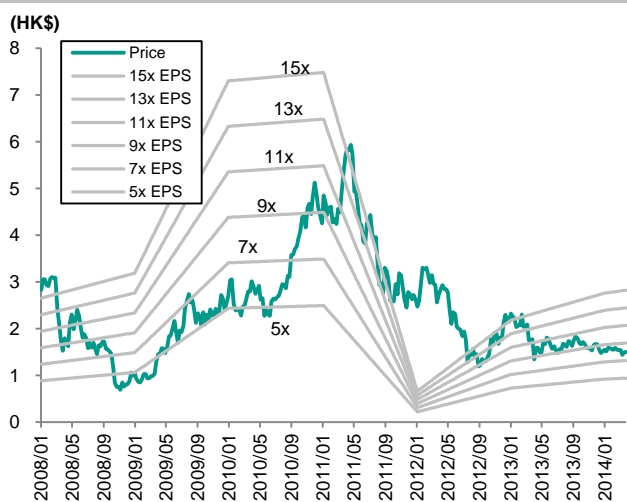
*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI Securities estimates

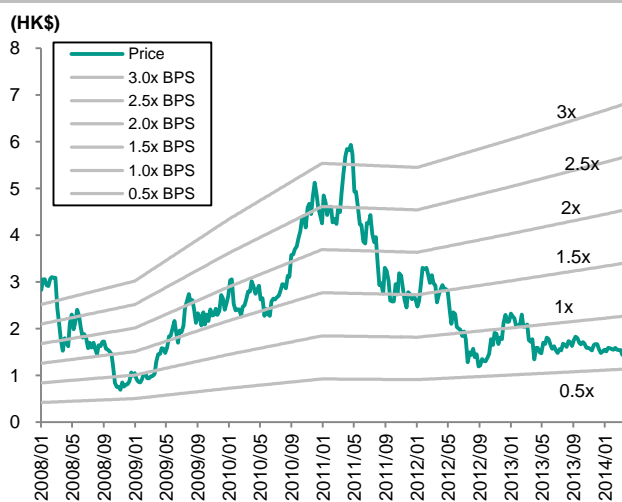
Exhibit 1: Major changes in our forecasts, and comparison of FY13 actual results and our estimates

	FY13A			FY14E			FY15E		
	Estimate	Actual	Diff (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
Revenue (RMB mn)	7,772	8,158	4.97	8,786	9,245	5.23	9,785	10,286	5.12
Wheel loaders	4,867	5,320	9.31	5,567	5,977	7.36	6,221	6,667	7.17
Excavators	930	781	(16.04)	965	965	0.00	1,092	1,092	0.00
Fork lifts	942	983	4.37	1,130	1,180	4.37	1,243	1,298	4.37
Road rollers	116	120	3.31	125	125	0.00	135	135	0.00
Finance lease interest income	19	48	154.91	11	11	6.76	7	8	6.60
Others	898	905	0.94	987	987	0.00	1,086	1,086	0.00
Gross profit (RMB mn)	1,654	1,924	16.33	1,915	2,069	8.05	2,133	2,302	7.96
GPM (%)	21.28	23.58	2.30ppt	21.80	22.38	0.58ppt	21.80	22.38	0.59ppt
Net income (RMB mn)	519	480	(7.54)	665	538	(19.12)	734	650	(11.34)
Net margin (%)	6.68	5.88	(0.80ppt)	7.57	5.81	(1.75ppt)	7.50	6.32	(1.17ppt)
EPS (RMB)	0.121	0.112	(7.54)	0.155	0.126	(19.12)	0.171	0.152	(11.34)
BVPS (RMB)	1.623	1.599	(1.49)	1.795	1.736	(3.29)	1.980	1.909	(3.59)
DPS (RMB)	0.030	0.050	66.43	0.039	0.031	(19.12)	0.043	0.038	(11.34)

Source(s): Company, ABCI Securities estimates

Exhibit 2: P/E band of Lonking in 1M08-3M14 (HK\$)


Source(s): Company, Bloomberg, ABCI Securities estimates

Exhibit 3: P/B band of Lonking in 1M08-3M14 (HK\$)


Source(s): Company, Bloomberg, ABCI Securities estimates

Exhibit 4: Peer valuation and earnings forecasts

Company	Ticker	Mkt cap (HK\$ mn)	As of 27/3/2014 CRY Share Price	P/E (x)		EPS (%YoY)		P/B (x)		ROAE (%)		
				FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	
Construction Machinery Maker												
CATERPILLAR INC	CAT US	483,949	USD	97.80	16.85	14.20	(1.14)	18.66	3.15	2.88	23.99	26.19
KOMATSU LTD	6301 JP	155,818	JPY	2,086	13.52	12.80	16.33	5.58	1.54	1.44	13.28	12.23
SANY HEAVY INDUS	600031 CH	53,836	RMB	5.66	9.74	7.74	(22.53)	25.82	1.61	1.40	14.84	15.04
ZOOMLION HEAVY-H	1157 HK	7,665	HKD	5.36	6.85	6.16	(33.95)	11.25	0.72	0.64	11.19	11.01
ZOOMLION HEAVY-A	000157 CH	38,483	RMB	4.91	7.82	7.02	(33.95)	11.25	0.83	0.73	11.19	11.01
XCMG CONSTRUCT-A	000425 CH	17,388	RMB	6.75	10.31	8.77	(45.42)	17.56	0.75	0.69	7.27	8.18
GUANGXI LIUGONG	000528 CH	8,235	RMB	5.86	16.79	11.93	39.60	40.69	0.69	0.65	4.00	5.30
TEREX CORP	TEX US	36,269	USD	42.23	15.17	11.51	37.09	31.87	1.91	1.61	11.71	13.78
TADANO	6395 JP	12,663	JPY	1,287	13.21	11.62	68.49	13.66	1.70	1.51	7.95	13.75
SHANTUI CONST-A	000680 CH	4,525	RMB	2.92	(20.14)	(41.71)	(583.33)	(51.72)	0.83	0.84	(4.32)	(2.00)
XIAMEN XGMA-A	600815 CH	4,096	RMB	3.42	(5.70)	(13.68)	(475.00)	(58.33)	0.80	0.84	(12.17)	(5.99)
LONGING HOLDINGS	3339 HK	6,420	HKD	1.50	10.74	9.59	217.88	12.00	0.75	0.69	7.34	7.53
Sector Weighted Average					14.63	12.34	(2.68)	16.14	2.42	2.21	18.88	20.22
Agricultural Machinery Maker												
DEERE & CO	DE US	253,350	USD	88.33	10.51	11.65	(8.46)	(9.78)	2.87	2.48	40.75	28.94
MAHINDRA & MAHIN	MM IN	77,045	INR	970.40	13.01	11.17	7.30	16.47	2.61	2.22	17.75	15.79
FIRST TRACTOR-H	38 HK	1,652	HKD	4.11	10.75	6.12	(12.46)	75.59	0.73	0.64	6.86	11.18
FIRST TRACTOR -A	601038 CH	5,993	RMB	8.08	26.32	14.99	(12.46)	75.59	1.79	1.57	6.86	11.18
ESCORTS LTD	ESC IN	1,843	INR	116.65	7.58	7.25	148.64	4.63	0.68	0.64	9.45	9.11
Sector Weighted Average					11.34	11.55	(4.13)	(1.83)	2.77	2.38	34.61	25.45
Mining Machinery Maker												
JOY GLOBAL INC	JOY US	44,686	USD	57.52	17.72	15.52	(35.47)	14.17	2.04	1.90	26.80	13.28
ZHENGZHOU COAL-H	564 HK	1,067	HKD	4.39	6.70	5.43	(46.30)	23.37	0.60	0.55	9.12	10.59
ZHENGZHOU COAL-A	601717 CH	10,205	RMB	5.93	11.26	9.13	(46.30)	23.37	1.01	0.93	9.12	10.59
TIAN DI -A	600582 CH	13,977	RMB	9.22	13.46	12.29	(2.14)	9.49	2.02	2.10	14.64	16.74
SANY INT'L	631 HK	5,352	HKD	1.76	9.83	8.95	(10.34)	9.82	0.74	0.70	7.66	7.94
LINZHOU HEAVY-A	002535 CH	6,098	RMB	9.10	13.34	10.22	84.32	30.50	2.01	1.71	9.75	18.07
SUNWARD INTELL-A	002097 CH	4,316	RMB	8.40	52.50	52.50	633.94	0.00	1.96	1.91	3.80	3.69
Sector Weighted Average					17.07	15.18	12.35	14.79	1.81	1.71	18.92	13.02
Machinery Parts Maker												
CUMMINS INC	CMI US	208,544	USD	143.99	16.31	13.30	11.36	22.58	3.20	2.77	21.56	22.34
WEICHAJ POWER-H	2338 HK	45,054	HKD	28.35	12.30	10.38	23.40	18.48	1.56	1.37	13.38	13.67
TAIYUAN HEAVY-A	600169 CH	8,900	RMB	2.94	21.78	29.40	(198.47)	(25.93)	1.26	1.21	5.96	4.20
CHINA YUCHAI	CYD US	6,130	USD	21.20	7.79	7.29	(10.82)	6.99	0.78	0.73	10.38	10.32
Sector Weighted Average					15.62	13.21	5.92	19.93	2.81	2.44	19.41	20.01
Industrial Machinery Maker												
VOLVO AB-B	VOLVB SS	258,293	SEK	100.50	21.16	12.84	168.36	64.74	2.60	2.31	7.15	12.48
ATLAS COPCO-A	ATCOA SS	260,361	SEK	179.90	16.95	15.31	6.65	10.75	4.82	4.20	32.62	29.52
HYUNDAI HEAVY	009540 KS	115,131	KRW	209,500	8.00	6.64	255.44	20.38	0.84	0.80	10.38	12.27
SANDVIK AB	SAND SS	134,515	SEK	89.55	15.18	12.91	47.50	17.58	3.04	2.76	19.37	18.99
DOOSAN HEAVY	034020 KS	26,521	KRW	34,550	4.30	3.91	64.50	10.00	0.77	0.70	17.59	18.67
MANITOWOC CO	MTW US	32,169	USD	30.72	18.34	14.68	56.54	24.90	4.14	3.26	25.01	26.61
ANHUI HELI CO-A	600761 CH	7,741	RMB	12.06	10.76	9.66	14.39	11.42	1.60	1.41	15.15	16.41
Sector Weighted Average					16.33	12.52	101.42	30.41	3.11	2.74	18.60	19.59
Overall Weighted Average					14.96	12.49	35.48	18.98	2.74	2.43	21.11	20.47

Source(s): Bloomberg, ABCI Securities estimates

Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013A	2014E	2015E
Revenue	12,721	7,896	8,158	9,245	10,286
Wheel loaders	8,867	5,161	5,320	5,977	6,667
Excavators	1,713	880	781	965	1,092
Fork lifts	929	819	983	1,180	1,298
Road rollers	367	115	120	125	135
Financial Leasing Income	205	105	48	11	8
Others	640	817	905	987	1,086
COGS	(9,507)	(6,367)	(6,234)	(7,176)	(7,983)
Gross profit	3,214	1,529	1,924	2,069	2,302
SG&A	(1,230)	(907)	(915)	(1,045)	(1,222)
Other income and gains	84	(346)	(438)	(377)	(297)
Pre-tax profit	2,068	276	571	648	784
Income tax	(338)	(124)	(90)	(110)	(133)
Net profit	1,730	152	480	538	651
Profit attributable to:					
Minority interests	0.40	0.09	0.29	0.20	0.24
Equity shareholders of the Company	1,730	151	480	538	651
EPS (RMB)	0.404	0.035	0.112	0.126	0.152
DPS (RMB)	0.122	0.000	0.050	0.031	0.038
EBIT	2,463	653	809	867	987
EBITDA	2,756	902	1,065	1,126	1,251

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013A	2014E	2015E
Current assets	11,347	7,960	8,061	7,824	8,526
Cash and equivalent	2,155	967	1,195	897	1,946
Trade and bill receivables	3,130	2,944	2,939	2,127	2,382
Financial leasing receivables	852	216	23	193	(52)
Inventories	4,380	2,731	2,342	2,890	2,360
Other current assets	830	1,102	1,562	1,718	1,890
Non-current assets	4,793	5,714	5,482	6,004	5,594
Property, plant and equipment	3,638	3,822	3,720	3,924	3,971
Intangible assets	206	321	316	363	383
Long-term investments	59	66	6	7	7
Long-term receivables	446	66	3	34	(6)
Other non-current assets	444	1,439	1,437	1,676	1,239
Total assets	16,140	13,674	13,543	13,828	14,120
Current liabilities	4,808	3,257	3,052	3,090	3,022
Trade and bill payables	2,723	1,048	1,101	1,258	1,148
Receipts in advance	170	67	96	89	117
Short term borrowings	820	1,184	813	597	497
Other current liabilities	1,095	958	1,042	1,146	1,260
Non-current liabilities	4,926	4,172	3,646	3,305	2,925
Long-term payables	-	-	-	-	-
Long-term borrowings	4,542	3,921	3,425	3,068	2,672
Other non-current liabilities	384	251	221	236	253
Total liabilities	9,734	7,429	6,698	6,395	5,947
Minority interests	2	2	3	3	3
Shareholders' equities	6,404	6,243	6,843	7,431	8,170
BVPS (RMB)	1.496	1.459	1.599	1.736	1.909

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013A	2014E	2015E
Profit before tax	2,068	276	571	648	784
Changes in depreciation and amortization	293	249	256	260	263
Changes in working capital	(718)	195	732	213	478
Income tax paid	28	37	63	26	36
Financial cost	395	341	238	219	204
Others	(767)	(19)	(284)	(159)	(193)
CF Operating	1,299	1,079	1,576	1,207	1,571
Increase in PP&E	(887)	(425)	(300)	(300)	(300)
Increase in intangible assets	(21)	(122)	(30)	(30)	(30)
Others	(338)	(582)	11	-	-
CF Investing	(1,246)	(1,129)	(319)	(330)	(330)
Capital injection	-	-	-	-	-
Net debt financing	2,148	(257)	(867)	(573)	(496)
Dividend payout	(356)	(314)	-	(216)	(134)
Interest paid	(395)	(341)	(238)	(219)	(204)
Others	(71)	161	(42)	(168)	643
CF Financing	1,326	(751)	(1,147)	(1,175)	(191)
Net change in cash	1,379	(801)	110	(298)	1,050
Cash at the beginning	634	2,155	967	1,195	897
Adjustment (Time deposit & FX effect)	142	(387)	118	-	-
Cash at the end	2,155	967	1,195	897	1,946

Source(s): Company, ABCI Securities estimates

Key operating and financial ratios (2011A-2015E)

FY ended Dec 31	2011A	2012A	2013A	2014E	2015E
Sales mixed (%)					
Wheel loaders	69.70	65.36	65.21	64.65	64.82
Excavators	13.47	11.14	9.57	10.43	10.62
Fork lifts	7.30	10.37	12.05	12.76	12.62
Road rollers	2.88	1.46	1.47	1.36	1.32
Financial Leasing Income	1.61	1.33	0.59	0.12	0.07
Others	5.03	10.33	11.11	10.68	10.56
Profit & loss ratios (%)					
Gross margin	25.26	19.36	23.58	22.38	22.38
Net profit margin	13.60	1.91	5.88	5.81	6.32
Effective tax rate	16.34	44.93	15.76	17.00	17.00
Growth (%)					
Revenue	5.83	(37.93)	3.32	13.33	11.25
Gross profit	(6.22)	(52.43)	25.83	7.56	11.26
EBIT	4.85	(73.49)	23.89	7.12	13.93
EBITDA	7.78	(67.27)	18.08	5.76	11.03
Net profit	(2.04)	(91.27)	217.88	12.00	20.98
Balance sheet ratios					
Current ratio (x)	2.36	2.44	2.64	2.53	2.82
Quick ratio (x)	1.45	1.61	1.87	1.60	2.04
Cash ratio (x)	0.45	0.30	0.39	0.29	0.64
Trade and bill receivables days	70.45	140.39	131.61	100.00	80.00
Trade and bill payables turnover days	111.28	108.09	62.91	60.00	55.00
Inventory turnover days	152.02	203.82	148.51	133.05	120.00
Total debt / equity ratio (%)	83.70	81.75	61.91	49.31	38.78
Net debt / equity ratio (%)	50.06	50.25	29.80	28.59	9.47
Returns (%)					
ROAE	29.71	2.39	7.34	7.53	8.34
ROAA	11.69	1.02	3.53	3.93	4.66
Payout ratio	30.23	-	45.00	25.00	25.00

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

I, Wong Cheuk Wai, Steve, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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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 2009-2013

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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