

## Company Rating: **Hold**

**Target price: HK\$7.02**

### Key data

H-share price (HK\$)	6.72
Upside potential (%)	4.5
52Wk H/L(HK\$)	12.66/6.50
Issued shares (mn)	1,621
H-share	243
A-share	1,378
H-share market cap (HK\$mn)	1,633
30-day avg daily vol (HK\$mn)	5.6
Auditors	Deloitte
Major shareholder (%)	
Henan Sasac	32.1

Source: Company & Bloomberg

### Revenue breakdown by product (%)

Hydraulic roof supports	71.32
Other machineries	2.33
Steel and other materials trading	21.70
Others	4.65

\*Based on FY2012 results

Source: Company

### Share performance (%)

	Absolute	Relative <sup>1</sup>
1-mth	-20.24	-20.44
3-mth	-34.95	-31.43
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: March 21, 2013

Rating: Hold

Target price: HK\$10.15

## ZMJ (564 HK)

### Construction & Farm Machinery Industry

#### Lack of Turnaround Signal

**1QFY13 net profit was down 8.4% YoY, despite of QoQ improvement in gross profit margin. We see earnings downside risk is mounting in 2Q13 as downstream coal miners reduce capex and major input materials cost is rising. The market is pricing in this risk into the stock price which is at FY13 PBR of 0.89x. Maintain "Hold".**

**Revenue declining.** Revenue and net income declined by 9.0% YoY and 8.4% YoY to Rmb1,990mn and Rmb384mn in 1QFY13 respectively. The profitability of the Group improved QoQ. Gross profit dropped 12.5% YoY in 1QFY13, the GPM reduced from 30.4% in 1QFY12, but improved from 24.4% in 4QFY12, to 28.1% in 1QFY13. However, with the increase in steel price, of which we estimate that it accounted for 58.7% of total cost of sales in FY12, further QoQ improvement of GPM in 2HFY13 is hard.

**Negative net operating cash flow.** Its receivable level surged in 1QFY13. The total trade receivables increased by 19.9% or Rmb728mn (or 37% of 1QFY13 revenue) from Rmb3,667mn at end 2012 to Rmb4,395mn at end-March 2013. It recorded net cash outflow of Rmb254mn from operating activities for 1QFY13, against net cash outflow of Rmb47mn from operating activities for 1QFY12.

**Unlikely to turnaround in 2Q.** Looking forward, the coal mining activities are still sluggish. In view of sluggish coal price in 1Q13, the coal mining operators will reduce or postpone their capex plans. Turnaround of coal mining equipment industry is unlikely in 2Q13. We expect that the earliest industry recovery will be in 4Q13. We lower our earnings forecast and target price from HK\$10.15 to HK\$7.02. The stock has factored in part of the industry cycle risk and its share price is 11.0% below its FY13 NBV of Rmb6.07 or 35% below its last year IPO price of HK\$10.38.

**Risk factors:** Competition from international players; Concentration of product type; Prolonged downturn of coal mining industry; Inflation of raw materials

### Forecast and Valuation

FY ended Dec 31	FY10A	FY11A	FY12A	FY13E	FY14E
Revenue (Rmb mn)	6,358	8,060	10,213	9,600	11,199
Chg (%YoY)	27.31	26.76	26.71	-6.00	16.65
Net Income (Rmb mn)	883	1,194	1,589	1,142	1,544
Chg (%YoY)	40.01	35.29	33.09	-28.15	35.26
FD EPS (Rmb)	0.630	0.853	0.980	0.704	0.953
Chg (%YoY)	40.01	35.29	14.94	-28.15	35.26
PER (x)	-	6.41	5.51	7.66	5.67
PBR (x)	-	1.30	0.96	0.89	0.79
Yield (%)	-	2.52	5.56	3.91	5.30
ROAA (%)	12.80	12.30	13.60	8.20	9.80
ROAE (%)	27.19	21.97	21.14	12.02	14.80
Net debt/total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

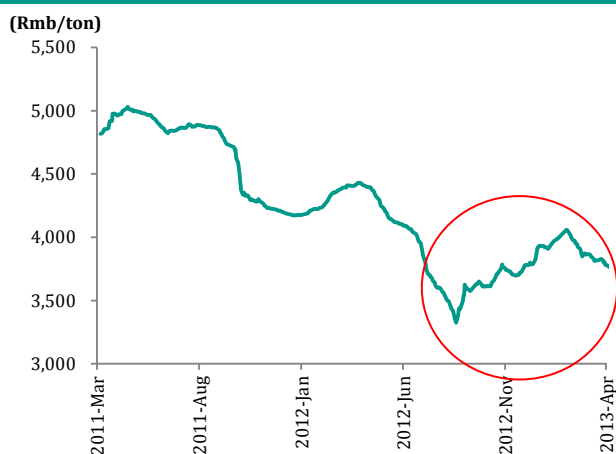
Source: Company, ABCI Securities estimates

### Financial highlights of the Group

	FY11	1Q12	1H12	1-3Q12	FY12	1Q13	FY12 (% YoY)	1Q13 (% YoY)
<b>Revenue (Rmb mn)</b>	<b>8,060</b>	<b>2,187</b>	<b>4,724</b>	<b>7,307</b>	<b>10,213</b>	<b>1,990</b>	<b>26.71</b>	<b>-9.01</b>
Hydraulic roof supports	5,642		3,272	7,284			29.09	
Other machineries	122		145	238			94.55	
Steel and other materials trading	1,855		1,121	2,216			19.48	
Others	441		185	475			7.75	
<b>GPM (%)</b>	<b>24.22</b>	<b>30.32</b>	<b>28.26</b>	<b>24.72</b>	<b>26.28</b>	<b>28.14</b>	<b>2.06ppts</b>	<b>-2.17ppts</b>
Hydraulic roof supports	29.70		37.20	33.60			3.90ppts	
Other machineries	11.30		11.60					
Steel and other materials trading	9.90		6.60					
Others	17.91		14.52					
<b>Major cost (Rmb mn)</b>								
Selling cost	(224)	(66)	(176)	(225)	(332)	(55)	48.51	-16.67
Administrative cost (including R&D)	(360)	(94)	(200)	(329)	(479)	(95)	33.23	1.06
Net finance income	59	12	41	66	93	(3)	57.87	-125.00
<b>Cost ratio (%)</b>								
Selling cost	2.78	3.02	3.73	3.08	3.25	2.76	0.48ppts	-0.25ppts
Administrative cost	4.46	4.30	4.23	4.50	4.69	4.77	0.23ppts	0.48ppts
Finance cost	-0.73	-0.55	-0.87	-0.90	-0.91	0.15	-0.18ppts	0.70ppts
<b>Net profit (Rmb mn)</b>	<b>1,194</b>	<b>419</b>	<b>812</b>	<b>1,205</b>	<b>1,589</b>	<b>384</b>	<b>33.09</b>	<b>-8.35</b>
<b>Net profit margin (%)</b>	<b>14.81</b>	<b>19.16</b>	<b>17.19</b>	<b>16.49</b>	<b>15.56</b>	<b>19.30</b>	<b>0.75ppts</b>	<b>0.14ppts</b>
<b>Operating cash flow (Rmb mn)</b>	<b>537</b>	<b>(47)</b>	<b>(108)</b>	<b>260</b>	<b>142</b>	<b>(254)</b>	<b>-73.56</b>	<b>N/A</b>
<b>OCF/Net income (%)</b>	<b>44.98</b>	<b>-11.22</b>	<b>-13.30</b>	<b>21.58</b>	<b>8.94</b>	<b>-66.15</b>	<b>-36.05ppts</b>	<b>-54.93ppts</b>

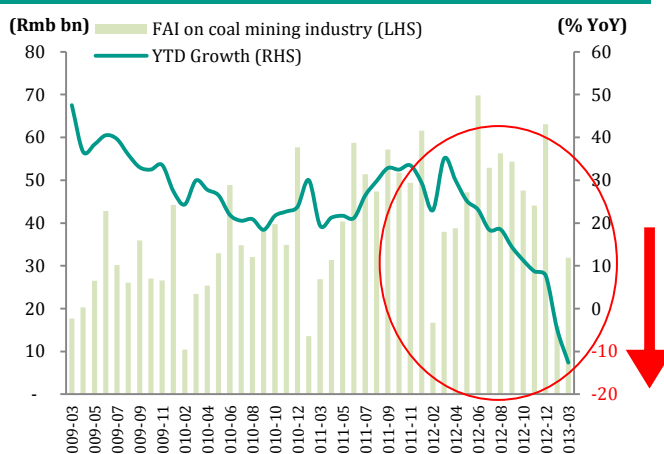
Source: Company

### China steel plate average spot price, 3M2011-4M2013



Source: Bloomberg

### Coal mining FAI, 3M2009-3M2013



Source: NBS

### Major change of our forecast

	Previous	FY13E New	Chg (%)	Previous	FY14E New	Chg (%)
<b>Revenue (Rmb mn)</b>	<b>11,694</b>	<b>9,600</b>	<b>-17.90</b>	<b>13,645</b>	<b>11,199</b>	<b>-17.93</b>
Hydraulic roof supports	7,788	6,390	-17.95	9,307	7,634	-17.98
Other machineries	336	275	-18.18	369	302	-18.18
Steel and other materials trading	3,060	2,504	-18.18	3,366	2,754	-18.18
Others	510	432	-15.39	603	509	-15.59
<b>Gross profit (Rmb mn)</b>	<b>2,714</b>	<b>2,049</b>	<b>-24.51</b>	<b>3,225</b>	<b>2,646</b>	<b>-17.94</b>
<b>GPM (%)</b>	<b>23.21</b>	<b>21.34</b>	<b>-1.87ppts</b>	<b>23.63</b>	<b>23.63</b>	<b>0.00ppts</b>
<b>Net income (Rmb mn)</b>	<b>1,586</b>	<b>1,142</b>	<b>-28.01</b>	<b>1,894</b>	<b>1,544</b>	<b>-18.48</b>
<b>Net margin (%)</b>	<b>13.56</b>	<b>11.89</b>	<b>-1.67ppts</b>	<b>13.88</b>	<b>13.79</b>	<b>-0.09ppts</b>
EPS (Rmb)	0.978	0.704	-28.01	1.169	0.953	-18.48
BVPS (Rmb)	6.237	6.067	-2.72	7.201	6.809	-5.45
DPS (Rmb)	0.294	0.211	-28.01	0.351	0.286	-18.48

Source: ABCI Securities estimates

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

Company	Ticker	MKT CAP <sup>1</sup> (HKD mn)	Share Price	PER (x)		EPS Change (%)		PBR (x)		ROAE (%)		
				FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	
<b>Construction Machinery Makers</b>												
CATERPILLAR INC	CAT US	427,807	USD	83.78	10.33	8.79	-6.89	17.58	2.51	2.08	36.22	28.19
KOMATSU LTD	6301 JP	199,133	JPY	2587	13.86	13.57	7.64	2.08	2.28	2.07	18.53	13.15
SANY HEAVY INDUS	600031 CH	95,256	RMB	9.94	10.71	9.04	-18.53	18.53	3.22	2.51	34.53	30.21
ZOOMLION HEAVY-H <sup>2</sup>	1157 HK	11,712	HKD	8.19	6.92	7.10	-9.20	-2.65	1.24	1.05	19.25	16.06
ZOOMLION HEAVY-A <sup>2</sup>	000157 CH	60,961	RMB	7.72	8.12	8.34	-9.20	-2.65	1.46	1.24	19.25	16.06
XCMG CONSTRUCT-A	000425 CH	26,655	RMB	10.27	7.68	6.88	-18.41	11.58	1.25	1.09	14.77	15.60
GUANGXI LIUGONG	000528 CH	11,411	RMB	8.06	22.33	14.50	-69.15	54.02	0.96	0.92	3.86	5.42
TEREX CORP	TEX US	25,453	USD	29.53	14.56	11.08	394.63	31.46	1.37	1.21	10.56	13.61
TADANO	6395 JP	10,961	JPY	1081	79.11	27.50	-44.83	187.62	1.67	1.56	2.30	6.70
SHANTUI CONST-A	000680 CH	5,975	RMB	4.17	-10.72	11.52	-192.62	-193.06	1.32	1.24	1.25	5.15
XIAMEN XGMA-A	600815 CH	6,407	RMB	5.31	9.35	12.12	-23.24	-22.89	0.98	0.91	10.45	7.51
LONKING HOLDINGS <sup>2</sup>	3339 HK	6,591	HKD	1.54	35.06	8.78	-91.27	299.47	0.85	0.75	2.39	9.09
<b>Sector Weighted Average</b>					<b>12.04</b>	<b>10.19</b>	<b>2.83</b>	<b>15.72</b>	<b>2.31</b>	<b>1.95</b>	<b>27.80</b>	<b>22.25</b>
<b>Agricultural Machinery Makers</b>												
DEERE & CO	DE US	257,443	USD	85.12	9.93	9.43	11.06	5.27	3.44	2.77	38.74	39.34
MAHINDRA & MAHIN	MM IN	78,951	INR	897.65	14.15	11.63	19.25	21.67	2.64	2.25	21.10	20.14
CNH GLOBAL NV	CNH US	80,075	USD	42.56	8.77	8.29	3.68	5.79	1.04	0.92	11.99	12.79
FIRST TRACTOR-H <sup>2</sup>	38 HK	2,380	HKD	5.92	13.56	10.30	-32.56	31.64	1.08	1.03	8.97	10.26
FIRST TRACTOR-A <sup>2</sup>	601038 CH	6,083	RMB	8.14	23.21	12.57	-32.56	84.69	1.85	1.76	8.97	10.26
ESCORTS LTD	ESC IN	1,010	INR	57.50	6.41	4.70	44.88	36.44	0.37	0.37	6.43	7.21
<b>Sector Weighted Average</b>					<b>10.70</b>	<b>9.66</b>	<b>10.40</b>	<b>9.77</b>	<b>2.79</b>	<b>2.30</b>	<b>29.77</b>	<b>30.14</b>
<b>Mining Machinery Makers</b>												
JOY GLOBAL INC	JOY US	46,308	USD	56.16	9.04	8.65	-13.74	4.49	1.95	1.63	34.20	26.91
ZHENGZHOU COAL-H <sup>2</sup>	564 HK	1,633	HKD	6.72	5.51	7.66	14.94	-28.15	0.96	0.89	21.14	12.02
ZHENGZHOU COAL-A <sup>2</sup>	601717 CH	15,027	RMB	8.53	8.70	12.11	14.94	-28.15	1.51	1.41	21.14	15.21
TIAN DI-A	600582 CH	13,792	RMB	9.03	9.65	7.92	24.66	21.79	1.90	1.57	22.27	21.80
SANY HEAVY EQUIP <sup>2</sup>	631 HK	10,043	HKD	3.27	16.37	14.33	-35.50	14.21	1.47	1.37	9.08	9.78
LINZHOU HEAVY-A	002535 CH	4,423	RMB	6.53	12.21	8.95	54.56	36.45	1.29	1.15	10.86	13.28
SUNWARD INTELL-A	002097 CH	3,381	RMB	6.53	46.64	27.21	-71.03	71.43	1.57	1.50	3.36	5.51
<b>Sector Weighted Average</b>					<b>11.28</b>	<b>10.36</b>	<b>-4.25</b>	<b>6.18</b>	<b>1.76</b>	<b>1.52</b>	<b>25.30</b>	<b>20.83</b>
<b>Machinery Part Makers</b>												
CUMMINS INC	CMI US	162,160	USD	110.08	12.54	10.66	0.29	17.66	2.64	2.22	26.17	22.64
WEICHAI POWER-H	2338 HK	57,311	HKD	27.50	12.48	10.29	-36.79	21.30	1.49	1.32	12.19	13.69
TAIYUAN HEAVY-A	600169 CH	9,302	RMB	3.05	305.00	19.06	-93.79	1500.00	1.34	1.25	0.44	6.58
CHINA YUCHAI	CYD US	4,114	USD	14.22	5.27	4.79	-22.64	10.00	0.57	0.53	10.74	11.07
<b>Sector Weighted Average</b>					<b>24.08</b>	<b>10.80</b>	<b>-13.00</b>	<b>77.63</b>	<b>2.27</b>	<b>1.93</b>	<b>21.43</b>	<b>19.59</b>
<b>Industrial Machinery Makers</b>												
VOLVO AB-B	VOLVB SS	231,619	SEK	92.60	14.04	10.14	21.25	38.43	2.11	1.89	14.15	15.54
ATLAS COPCO-A	ATCOA SS	243,888	SEK	174.90	15.37	14.37	-0.59	6.93	5.25	4.49	43.17	36.34
HYUNDAI HEAVY	009540 KS	108,007	KRW	203500	8.99	7.77	-28.68	15.69	0.79	0.73	9.98	8.47
SANDVIK AB	SAND SS	134,496	SEK	91.20	12.29	10.86	13.96	13.18	2.89	2.53	25.42	24.20
DOOSAN HEAVY	034020 KS	29,533	KRW	39950	6.48	4.97	222.60	30.28	0.82	0.76	11.95	13.70
MANITOWOC CO	MTW US	19,072	USD	18.50	14.50	10.57	65.71	37.15	3.21	2.64	18.33	24.89
ANHUI HELI CO-A	600761 CH	5,465	RMB	8.45	11.34	9.64	-0.67	17.72	1.43	1.30	12.08	12.48
<b>Sector Weighted Average</b>					<b>13.15</b>	<b>11.08</b>	<b>14.74</b>	<b>20.41</b>	<b>3.03</b>	<b>2.63</b>	<b>24.70</b>	<b>22.77</b>
<b>Weighted Average</b>					<b>13.29</b>	<b>10.45</b>	<b>6.17</b>	<b>21.77</b>	<b>2.60</b>	<b>2.21</b>	<b>26.44</b>	<b>23.49</b>
<b>Median</b>					<b>12.21</b>	<b>10.29</b>	<b>-6.89</b>	<b>17.72</b>	<b>1.47</b>	<b>1.32</b>	<b>12.19</b>	<b>13.61</b>

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

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

2: ABCI Securities estimates;

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 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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