



**Key Data**

H-share price (HK\$)	5.97
Target price (HK\$)	6.83
Upside potential (%)	14.4
52Wk H/L(HK\$)	9.39 / 3.75
Issued shares (mn)	995
H-share	402
A-share	150
Domestic share	443
H-share market cap (HK\$mn)	2,400
30-day avg vol (HK\$mn)	12.7
Auditors	BAKER TILLY
Major shareholder (%)	
YTO Group*	44.52

\* Domestic share

Source: Company, Bloomberg, ABCI Securities

**Sales breakdown in 1HFY12 (%)**

Agricultural machinery	82.6
Power machinery	11.7
Other machinery	5.0
Financial operations	0.8

Source: Company

**Share performance (%)**

	Absolute	Relative*
1-mth	(4.0)	(8.0)
3-mth	(6.4)	(14.7)
6-mth	(23.9)	(24.1)

\*Relative to Hang Seng Index

Source: Bloomberg

**1 year price performance**



Source: Bloomberg

**Analyst**

Steve Wong  
Tel: (852) 2147 8869  
Email: stevecwong@abci.com.hk

Previous report  
Date: 11 September 2012  
Rating: Buy  
Target price: 6.83

**First Tractor (38 HK) – Buy**  
Construction & Farm Machinery Industry

**Expand financial leasing business to spur the sales growth**

The Group proposed to issue bonds with not more than Rmb1,500mn in order to increase the working capital to expand the financial leasing business. We expect this will spur up the sales growth as relaxing the credit sales to its customers. We estimate that the net gearing of the Group will go up to 17.3% in FY13 at most, which is lower than that of Lonking (3339 HK, Sell), a similar-sized machinery maker, at 57.4%.

**Enhance business via financial leveraging.** The Group proposed to issue not more than Rmb1,500mn of bonds with maturities less than 5 years. We estimate that the maximum gearing increment (assume no repayment of existing bank loans) will increase from current net cash position to 17.3% in FY13. The use of proceeds is mainly for increase in working capital for expanding the financial leasing business. The total receivable including contingent liabilities level of the Group was 103.7% of total equity as of 30/6/12, which was lower than the world largest farming machinery maker, Deere & Co (DE US) at 419.7%.

**Sales recovery.** After discussing with the management of the Group, we estimate the Group's sales volume of hi- and mid- powered tractor will be up by 5% YoY in 3QFY12 (vs. down 10.6% YoY in 1HFY12), which is in line with the recovery of the tractors industry from which the distribution of subsidies for agricultural machineries has speeded up during 2H2012. We estimate that revenue will edge down by 1.1% YoY in FY12, improved from -12.0% YoY in 1HFY12. The YTD market sales volume in 8M2012 was -7.8%, which shrunk from -9.6% in 7M2012 and -10.3% in 1H2012.

**We like First Tractor.** The counter is trading at 10.3x FY12E PE. As the bond issuing details, such as coupon rate and issuing size, are subject to the approval of EGM expected to be held on 9 Nov 2012, we maintain our earnings forecast on the Group. We maintain our 'Buy' rating on the Group with target price HK\$6.83.

**Risk factors:** Government policy on agriculture industry; Intensify market competition in low-to-medium powered tractors

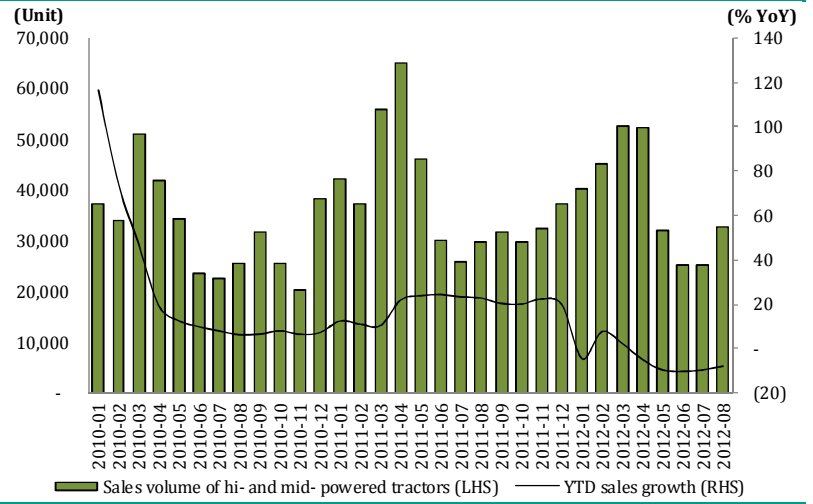
**Forecast and Valuation**

FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rmb mn)	10,266	11,328	11,206	13,202	17,893
Chg (%YoY)	14.0	10.3	(1.1)	17.8	35.5
Net Income (Rmb mn)	543	411	433	595	883
Chg (%YoY)	118.3	(24.3)	5.4	37.3	48.5
EPS (Rmb)	0.642	0.486	0.470	0.597	0.887
Chg (%YoY)	118.3	(24.3)	(3.2)	27.0	48.5
PE (x)	-	10.0	10.3	8.1	5.5
PB (x)	-	1.26	1.24	1.25	1.14
Yield (%)	-	-	2.9	3.7	5.5
ROAA (%)	7.3	4.5	4.3	5.3	6.9
ROAE (%)	16.4	11.2	11.0	14.0	19.3
Net debt/total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company, Bloomberg, ABCI Securities estimates



Monthly hi- and mid- powered tractors market sales volume



Source: National Bureau of Statistics of China



## 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.

### Disclosures of Interests

ABC International Securities Company Limited and/or its member companies ("ABC") may pursue financial interests to the companies mentioned in the report.

### 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.

### Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABC International Securities Company Limited is under no obligation to update or keep current the information contained herein. ABC International Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABC International Securities Company Limited, into other areas, units, groups or affiliates of ABC International Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABC International Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price



**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

---

and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

---

Copyright 2012 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.**

**Tel: (852) 2868 2183**