

Key Data

Average FY13 PER (x)	7.3
Average FY13 PBV (x)	1.3
Average FY13 Dividend Yield (%)	2.9
Sector 3 months avg vol (HK\$m)	1,245

Source: Bloomberg, ABCI Securities

Net income growth in 1-3QFY12 (% YoY)

Zoomlion	16.74
Lonking*	(76.08)
First Tractor	2.84
Sany Int'l*	16.71
Sany Heavy	(23.43)
XCMG	(30.48)

*The growth is as at 1HFY12

Source: Companies

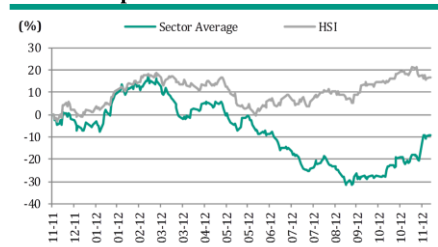
Average share performance (%)

	Absolute	Relative*
1-mth	12.0	14.20
3-mth	21.1	15.70
6-mth	-6.6	-20.17

*Relative to Hang Seng Index

Source: Bloomberg

YTD sector performance



Source: Bloomberg

Analyst

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Construction Machinery Sector – Positive Construction & Farm Machinery Industry

Sales stimulated by downstream FAI

Urbanization is the key to rebalancing China's economy and for the next leg of growth. We see the improvement on the sales performance of construction machinery and expect the recovery will carry on in 4Q12 and 2013 as well. We like the leading construction machinery makers with diversified product-portfolio and abundant cash on hand, such that they are able to efficiently capture the recovery of construction machinery sector expected in 2013.

Concrete machinery sales remains strong. The targeted urbanization rate is 55% by 2020, up from est. 51.8% in 2012. In such a case, we project the total construction growth on infrastructure, mining and properties will be 19.8% YoY in 2013, up 7.1ppt YoY. The sales volume growth on concrete is expected to recover from 19.5% YoY in 2012 to 29.0% YoY in 2013. The total sales volume was 435,544 units, up 30.8% YoY in 1-3Q12.

Mobile cranes sales regain with strong railway infrastructure. According to MOR, the planned infrastructure investment maintain strong at Rmb530bn in 2013, up from Rmb516bn in 2012. With the recovery of railway infrastructure started in 2012, we expect the mobile cranes sector to recover in 2013 as the one year time-lag between the growth on sales of mobile cranes and railway infrastructure investment. We estimate the sales revenue growth on mobile cranes will be 58.5% YoY in 2013, recovering from -33.1% YoY in 2012. The average sales volume growth of mobile cranes was -27.4% YoY in 1-3Q12.

Earth moving machinery sales supported by FAI in 2013. Under the launch of a series of infrastructure projects approved by NDRC, we expect the recovery of the earth-moving machineries will be carried on in 2013. The total sales revenue growth on earth moving machinery (excavator, wheel loader, bulldozer and road roller) is estimated to recover from -23.4% YoY in 2012 to 45.1% YoY in 2013. The average sales volume growth of earth moving machinery was -34.3% YoY in 1-3Q12.

Risk factors: Prolong weakening construction industry; Credit and liquidity risk

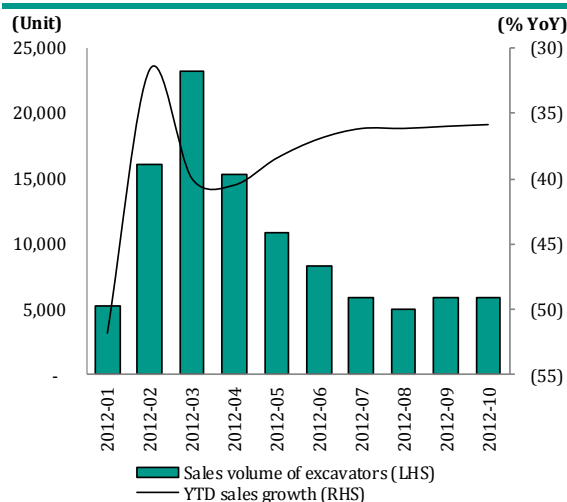
Summary on selected companies in the sector

Company	Ticker	Share Price	Target Price (HK\$)	FY13 PE (x)	FY13 PB (x)	FY13 Yield (%)
Zoomlion (Buy)	1157 HK	HK\$9.27	14.16	5.0	1.2	4.0
Lonking (Sell)	3339 HK	HK\$1.72	1.48	7.1	0.8	4.2
First Tractor (Buy)	38 HK	HK\$6.59	7.76	8.8	1.4	3.4
Sany Int'l (Buy)	631 HK	HK\$3.86	5.79	9.9	1.4	2.0
Sany Heavy (N/A)	600031 CH	Rmb8.92	N/A	7.2	2.2	1.9
XCMG (N/A)	000425 CH	Rmb10.28	N/A	5.7	0.8	1.5

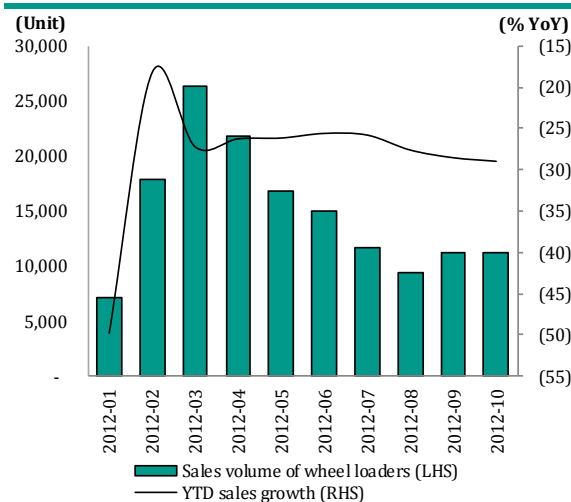
Source: Companies, Bloomberg, ABCI Securities estimates



Monthly sales volume of excavator in China in 1-10M12



Monthly sales volume wheel loader in China in 1-10M12

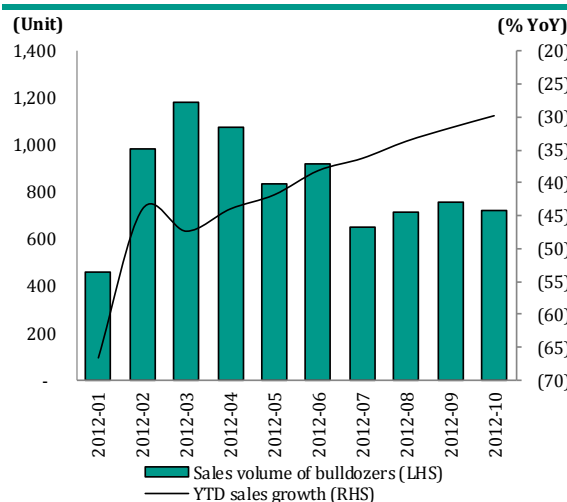


The sales decline of earth-moving machineries (except wheel loader) is improving. We expect the recovery will carry on in 4Q12 and 2013 as well.

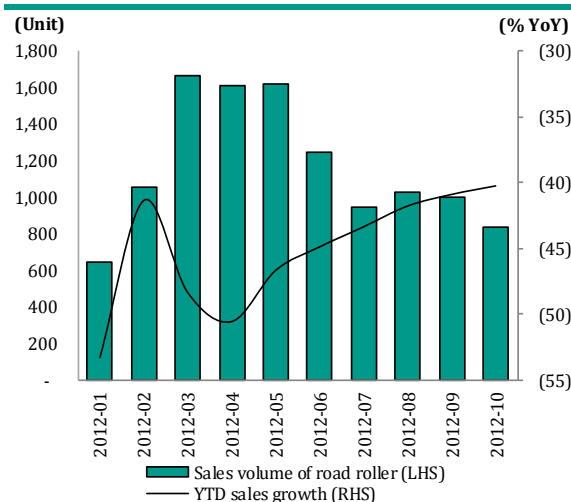
Source: CCMA

Source: CCMA

Monthly sales volume of bulldozer in China in 1-10M12



Monthly sales volume of road roller in China in 1-10M12



Source: CCMA

Source: CCMA



YoY Growth of sales volume of construction machineries

(% YoY)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12
Mobile Crane	34.8	92.6	16.7	(0.3)	43.7	(4.4)	(3.6)	(6.5)	(36.2)	(34.5)	(5.2)
Truck Crane	43.5	55.4	9.4	9.1	44.5	(6.4)	(20.8)	(19.1)	(44.5)	(41.1)	(21.5)
Crawler Crane	26.0	129.7	24.1	(9.8)	42.9	(2.3)	13.5	6.2	(28.0)	(27.8)	11.0
Earth-moving machineries	77.1	99.3	41.3	37.3	49.9	(7.7)	(17.4)	(24.7)	(40.7)	(31.1)	(25.3)
Excavator	94.7	101.7	47.3	54.9	58.5	2.5	(17.2)	(35.2)	(40.0)	(32.5)	(31.1)
Wheel loader	56.2	72.5	45.8	34.8	43.7	1.7	4.5	10.6	(27.2)	(24.0)	(36.6)
Bulldozer	55.5	112.7	58.0	27.2	65.9	(20.8)	(29.0)	(30.1)	(47.4)	(26.1)	(6.4)
Road roller	101.9	110.5	14.2	32.1	31.4	(14.1)	(27.8)	(43.9)	(48.4)	(41.9)	(26.9)
Concrete machineries	7.7	14.6	14.2	(0.1)	36.0	29.7	28.8	27.6	33.1	6.5	8.7

Source: CCMA, ABCI Securities

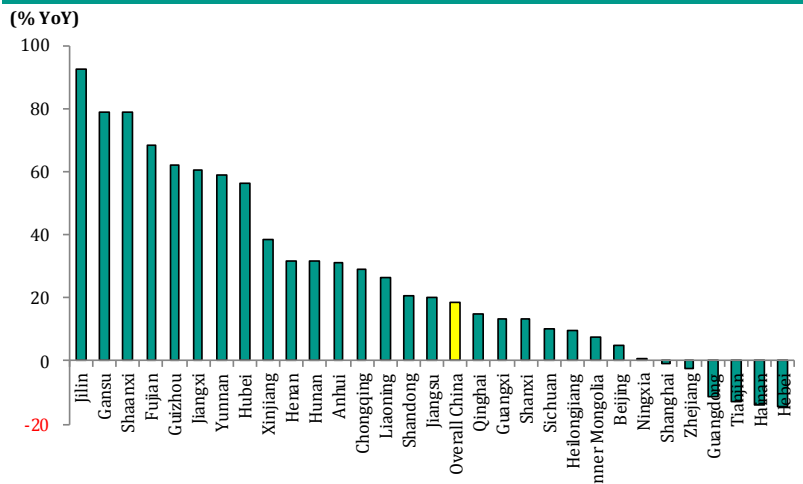
We see the improvement on the sales performance of construction machinery. The decline on sales for most of the machinery (except wheel loader) was diminishing in 3Q12. Although the industry got a QoQ decline in 3Q12 because of the seasonal factor, the magnitude of QoQ decline in 2012 was milder than that in 2010 and 2011.

QoQ Growth of sales volume of construction machineries

(% QoQ)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12
Mobile Crane	(5.4)	70.3	(36.4)	2.0	34.3	13.8	(36.1)	(0.3)	(8.3)	16.8	(7.2)
Truck Crane	20.3	43.4	(37.0)	0.4	59.4	(7.2)	(46.7)	2.6	9.3	(1.5)	(28.9)
Crawler Crane	(31.1)	97.1	(35.8)	3.6	9.1	34.8	(25.5)	(3.1)	(26.0)	35.1	14.6
Earth-moving machineries	38.9	47.8	(35.5)	8.5	52.1	(8.8)	(42.0)	(3.8)	23.7	5.9	(37.4)
Excavator	78.3	6.7	(41.0)	38.0	82.5	(31.0)	(52.3)	7.9	69.1	(22.4)	(51.3)
Wheel loader	34.0	41.5	(29.4)	0.6	42.9	0.1	(27.4)	6.5	(6.0)	4.6	(39.5)
Bulldozer	32.5	61.1	(34.1)	(9.7)	72.9	(23.1)	(40.9)	(11.1)	30.3	7.9	(25.1)
Road roller	10.7	81.7	(37.4)	5.0	10.1	18.8	(47.4)	(18.5)	1.4	33.6	(33.8)
Concrete machineries	37.0	23.0	(18.6)	(27.1)	86.5	17.3	(19.1)	(27.8)	94.5	(6.2)	(17.5)

Source: CCMA, ABCI Securities

Concrete production volume in China in 1-3Q12



The production volume of the concrete in China was 6.03m³ in 1-3Q12, up 18.8% YoY. The growth on concrete in Western and Northwestern area of China was outpacing, which support the demand for concrete machinery

Source: National Bureau of Statistics of China, ABCI Securities

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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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