



Key Data

H-share price (HK\$)	9.34
Target price (HK\$)	13.82
Upside potential (%)	48.0
52Wk H/L(HK\$)	14.24 / 7.19
Issued shares (mn)	7,706
H-share	1,430
A-share	6,276
H-share market cap (HK\$m)	13,356
30-day avg vol (HK\$m)	192
Major shareholder (%):	
Hunan SASAC	16.2

Source: Company, Bloomberg, ABCI Securities

Revenue breakdown in FY11 (%)

Concrete Machinery	45.8
Crane	33.7
Environment and sanitation	6.4
Other machinery	10.7
Financial income under lease	3.4

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(3.9)	(4.9)
3-mth	(10.7)	(8.5)
6-mth	(17.6)	(14.7)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst

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Previous report
Date: 19 July 2012
Rating: Buy

Zoomlion (1157 HK) – Buy
Construction & Farm Machinery Industry

Healthy new orders flow – signal of recovery

CFLP released the services PMI. The new order index of construction industry was 57.0% in July, up 2.8ppts MoM, the fifth consecutive month staying over 50%. We like Zoomlion, the market leader in construction machinery industry, because of its strong financial and solid market positions. We expect the Group to regain its sales growth in a quicker way compared with its peers.

New order index of construction industry keeps surging. According to China Federation of Logistics & Purchasing (“CFLP”), the new order index in construction industry surged 2.8ppts from 54.2% in June to 57.0% in July. The index has stayed above 50% for five consecutive months since March this year. It implies that the construction activities in China keep expanding and we believe the demand for construction machinery has bottomed out. The China’s fixed asset investment (“FAI”) was up 20.4% YoY in 1H12. The FAI growth in July will be released on Aug 9, indicating the continued recovery of construction industry.

We prefer to market leader with solid financial positions. Construction machinery producer Zoomlion sets to benefit from the recovery of downstream industry. It is in net cash position and has enough working capital to relax the credit terms to their customers, such that it can pick up the sales growth track in a quicker way compared with its peers. The total cash on hand of the Group was Rmb16.0bn as of end-FY11 with net cash position, while the cash on hand of Lonking (3339 HK, Hold) was Rmb1.7bn with 55.1% of net gearing (“net debt/total equity”) as at end-FY11.

The counter is trading at FY12E PE of 6.5x, which is 40.4% in discount compared with the mean of its peers. **We maintain our “Buy” rating to Zoomlion with target price of HK\$13.82, representing 9.62x of our estimated FY12E EPS.**

Risk factors: Currency and financial risks; Construction cycle risk; Sustainability of recovery of downstream demand

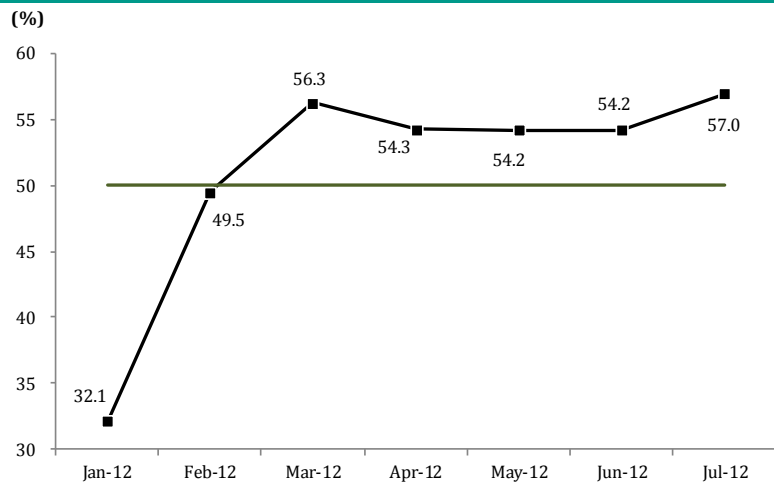
Forecast and Valuation

FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rmb mn)	32,193	46,323	53,568	65,213	77,365
Chg (%YoY)	55.1	43.9	15.6	21.7	18.6
Net Income (Rmb mn)	4,666	8,055	9,144	11,143	13,515
Chg (%YoY)	90.7	72.6	13.5	21.9	21.3
EPS (Rmb)	0.736	1.046	1.168	1.423	1.726
Chg (%YoY)	63.5	42.2	11.6	21.9	21.3
PE (x)	-	7.3	6.5	5.3	4.4
PB (x)	-	1.8	1.5	1.2	1.0
Yield (%)	-	2.9	3.1	3.7	4.5
ROAA (%)	9.6	12.0	11.4	11.6	12.1
ROAE (%)	26.8	25.7	23.4	23.6	23.7
Net debt/total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company, Bloomberg, ABCI Securities estimates

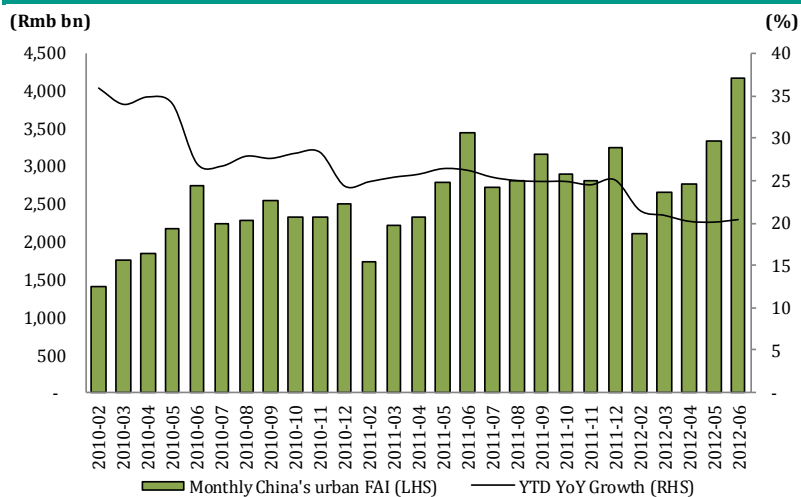


New order index of construction industry in service PMI



Source: CFLP

Monthly China's urban FAI



Source: Nation Bureau of Statistics of China



Disclosures

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