



Company Report

First Tractor (38 HK)

February 26, 2013

Rating: Buy

TP: HK\$9.27

Key data

H-share price (HK\$)	7.50
Upside potential (%)	23.6
52Wk H/L(HK\$)	9.20/5.43
Issued shares (mn)	996
H-share	402
A-share	594
H-share market cap (HK\$mn)	3,015
30-day avg daily vol (HK\$mn)	24.8
Auditors	Baker Tilly
Major shareholder (%)	
YTO Group	44.52

Source: Company & Bloomberg

Revenue breakdown by product (%)

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

*Based on 1H FY12 results

Source: Company

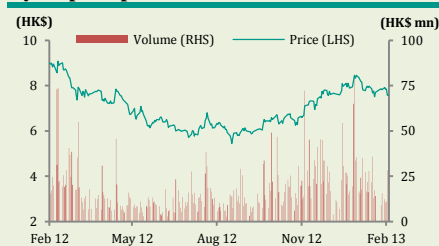
Share performance (%)

	Absolute	Relative ¹
1-mth	-7.2	-3.9
3-mth	6.5	2.4
6-mth	21.1	5.7

1: Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst Information

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Previous report

Date: January 21, 2013

Rating: Buy

Target price: HK\$8.24

Subsidy Policies Spur Sales 2013

China's government explicitly expresses to enhance the scales of subsidy programs toward agricultural machineries. We expect a sales rally to appear on First Tractor, the largest hi-powered agricultural tractors maker in China. The M&As of the Group during FY2012 will take a full year effect in FY2013, and GPM is expected to enhance under upward vertical integration. We reiterate "Buy" on First Tractor, and revise up TP from HK\$8.24 to HK\$9.27.

Rally from the stimulation of subsidy programs. China's government explicitly expresses to increase the scale of subsidy programs on agricultural machineries. Sales of hi-powered tractors will be boosted up in 2013. The production volume of hi-powered tractors is estimated to increase by 40% YoY in 2012. The growth of production volume reflects that the bullish view of tractor makers.

Full year effect of M&A in 2013. We estimate that GPM will improve by 1.8ppts from est. 13.7% in FY2012 to 15.5% in FY2013 under the full year effect of vertical integration via M&As during 2012.

Good earnings quality. OCF / Net income ratio of the Group was 99.0%, in average, during FY2005 to 1-3QFY2012. The good assets quality let the Group source funding with lower cost. We believe the Group to issue Rmb800mn bonds with interest rate at 5% p.a. in order to support the working capital and repay part of the bank loans with interest rate above 6% p.a. The financial burden is expected to reduce in FY2013 and 14.

Reiterate "Buy" to First Tractor. The counter is trading at 9.3x of FY2013E PER, 5.1% discount to the weighted average of its peers' at 9.8x. We think the valuation of First Tractor is not demanding given that we estimate the EPS will grow at CAGR of 49.6% from FY2012 to 14. We expect the subsidy programs on agricultural machineries to carry on in 2013 and 14. We reiterate "Buy" on First Tractor, and increase our target price from HK\$8.24 to HK\$9.27.

Risk factors: Product concentration risk; Development of agricultural machineries subject to policy risk; Raw material inflation risk

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rmb mn)	10,266	11,328	10,770	13,872	19,129
Chg (%YoY)	14.0	10.3	(4.9)	28.8	37.9
Net Income (Rmb mn)	543	411	402	645	971
Chg (%YoY)	118.3	(24.3)	(2.3)	60.7	50.6
EPS (Rmb)	0.642	0.486	0.436	0.648	0.975
Chg (%YoY)	118.3	(24.3)	(10.2)	48.6	50.6
PER (x)	-	12.56	13.82	9.30	6.18
PBR (x)	-	1.58	1.31	1.33	1.22
Yield (%)	-	-	2.17	3.23	4.86
ROAA (%)	7.3	4.5	3.9	5.2	6.6
ROAE (%)	16.4	11.2	9.3	13.0	18.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

First Tractor Company Limited

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2013 Bullish Year for Agricultural Tractor

*More subsidies expected in 2013.
Hi-powered tractor sales boost up*

We estimate the segment revenue of agricultural tractors of the Group, estimated to account for 83.6% of total revenue and 72.0% of total gross profit in FY2012, to grow by 26.9% YoY in FY2013, up from est. -3.7% YoY in FY2012.

Favourable agricultural policies

Under 12th 5-Year Plan, it targets to increase the total agricultural machinery output from 977mn kW as at end-2011 to 1,000mn kW by 2015. Based on the assumption of 5 years replacement cycle for the hi-to-mid power tractors (primary market), we estimate the sales volume growth of mid-to-hi powered tractor will growth at a CAGR of 34.5% during 2012-2017.

Subsidies for mid-to-hi powered tractors

*Low powered tractor is not covered in the subsidy program.
We estimate the sales of hi powered tractor will be boosted up*

Under the favorable policies toward agricultural mechanization, we estimate that the subsidy on agricultural machinery will increase by 20.9% YoY to Rmb26bn in 2013. The sales of hi-powered tractors will be stimulated in 2013. We believe First Tractor, as the largest mid-to-hi powered agricultural tractor maker in China, is able to fully capture the market growth.

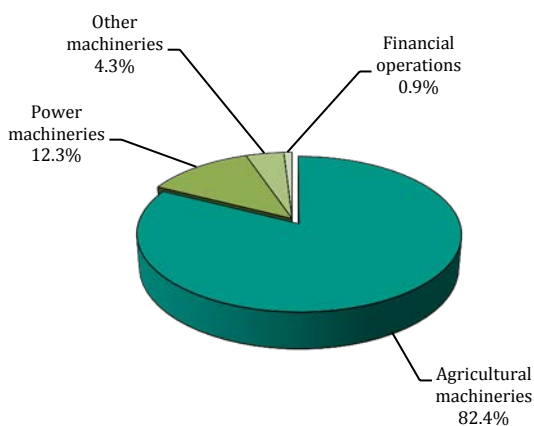
Sales pick up in 3QFY2012

The total sales volume of mid-to-hi powered tractors in China is estimated to drop by 6.0% YoY during 1H2012

Although the Group posted a revenue decline of 12.0% YoY in 1HFY2012 due to the delayed launch of the subsidies for agricultural machineries, with the launch of government subsidies during 2H2012, the sales of tractors was picking up. The revenue decline situation of the Group shrunk from -12.0% YoY in 1HFY2012 to -4.5% YoY in 1-3QFY2012.

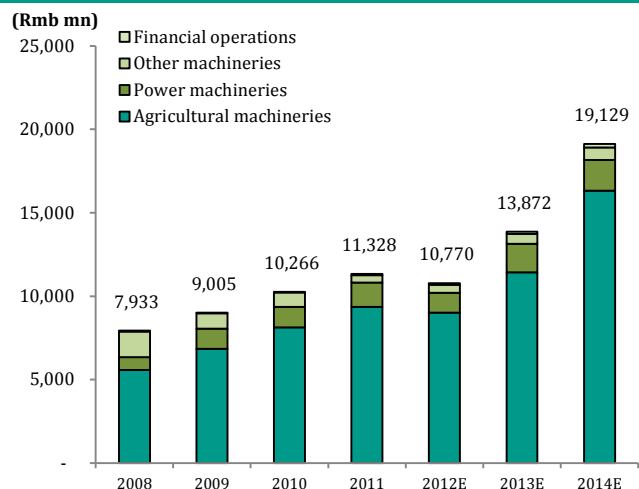
The total market sales volume of tractors is expected to decline in China, 2012, nevertheless, the production volume of hi-powered tractor increased by 40.9% YoY in 1-11M2012 according to NBSC, while that in 2011 was -55.6% YoY. The high growth of production volume reflects that the tractor makers, including First Tractor, are bullish on the sales situation in 2013.

Estimated product mix of the Group, FY2013



Source: Company

Revenue production of the Group, FY2008-FY2014E



Source: Company, ABCI Securities estimates

Diesel Engine, Value Added to Tractor

R&D of diesel engine bring a better profitability of the segment

Diesel engine for agricultural machineries used, classified as power machineries segment within the Group, is the second largest business segment of the Group. Segment revenue (from external customer) contributed 13.0% and 11.7% of total revenue in FY2011 and 1HFY2012, respectively. The Group is the largest maker of large horsepower diesel engine in China according to Chinaauto.net in 2011.

First Tractor focuses on high-end diesel engine for the hi-powered tractor. With the replacement of low-powered tractors with hi-powered tractors under the encouragement of rural development policy, we estimate that sales revenue of diesel engine increases by 43.0% in FY2013.

Breakdown of sales of power machineries of the Group

Sales mix (%)	FY2008	FY2009	FY2010	FY2011	1HFY12
External customer	64.9	65.7	63.1	66.5	63.2
Internal customer	35.1	34.3	36.9	33.5	36.8

Source: Company

The hi-powered tractors of the Group was embedded with high-end diesel engine produced by the Group

With the launch of new generation of diesel engine, we expect that the segment GPM will go further up in FY2013 and FY2014. The technological development of diesel engine not only enhances the segment GPM, but also gives a higher added value to the hi-powered tractor of the Group. Besides, the profit margin of hi-powered tractors will increase as we expect the production cost to lower under vertical integration.

We expect the growth of revenue of diesel engine segment to be in line with the hi-powered tractor market growth. We estimate that the segment revenue growth will recover from est. -18.8% YoY in FY2012 to 43.0% YoY in FY2013.

GPM comparison of leading diesel engine makers

GPM (%)	Ticker	FY2008	FY2009	FY2010	FY2011
First Tractor ¹	38 HK	20.0	20.2	20.2	18.5
Weichai Power	2338 HK	17.4	21.6	24.3	21.7
Anhui Quanchai	600218 CH	8.3	10.2	9.5	8.4
China Yuchai	CYD US	17.6	19.3	24.7	22.3
Cummins Inc	CMI US	20.5	20.1	24.0	25.4

1: GPM of power machinery segment of the Group

Source: Companies, ABCI Securities estimates

Good Assets and Earnings Quality

Good cash flow compared with other machinery makers

The earning quality and cash collectability of the Group is good. The operating cash flow ("OCF")/Net income ratio of the Group was 99.0%, in average, during FY2005 to 1-3QFY2012, which was higher than that of other machinery makers, such as Zoomlion at 2.6% and Sany Heavy at 60.8% during the same period of time.

Earnings quality of First Tractor

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	1-3Q FY2012	Total value
Net income (Rmb mn)	(50)	73	182	69	249	543	411	326	1,801
Operating cash flow (Rmb mn)	249	247	90	303	361	441	590	(498)	1,783
OCF/Net income (%)	-493.36	338.61	49.63	442.45	145.33	81.19	143.74	-152.68	99.01

Source: Bloomberg, Companies, ABCI Securities

GPM Improvement

We estimate that the gross profit margin (“GPM”) of the Group will improve by 1.8ppts from 13.7% in FY2012 to 15.5% in FY2013. The GPM of the Group was 13.9% in 1-3QFY2012. We believe the increase in profitability of the Group in FY2013 will be attributed to the vertical integration.

*Vertical integration via M&As
brings higher profit margin*

The upward vertical integration via M&A will help to lower the production cost of the Group. After raising fund from A-share market in 2012, the Group acquired part of its suppliers during 2012. It helps the Group to optimize the cost structure and hence, lower the production cost.

The M&A can reduce First Tractor’s connected transactions with its controlling shareholder and associates. Moreover, the M&A can boost the Group’s core manufacturing capability and are conducive to further integration of internal resources and enhancement of the synergy. We believe that the Group can enhance its cost control capability and expand the business scale via the series M&A.

Major M&A activities during 2012

M&A Target	Transaction Detail	Background of M&A Target
Yituo (Luoyang) Shentong Construction Machinery Company Limited (“YLST”)	On June 1, 2012, First Tractor acquired an additional 24% equity interest in YLST at a consideration of Rmb1. The carrying amount of the non-controlling interests in YLST on the date of acquisition was a deficit balance of approximately Rmb2.98mn. The Group recognized a decrease in on-controlling interests of approximately Rmb2.98mn and a decrease in equity attributable to owners of First Tractor of Rmb2.98mn.	YLST is principally engaged in manufacture and sale of mining trucks.
YTO Shunxing (Luoyang) Spare Parts Co., Ltd. (“YTO Shunxing”)	On May 31, 2012, the Group acquired a further 60% equity interest in YTO Shunxing at a consideration of Rmb20.77mn from independent third parties. After the acquisition, First Tractor holds 100% equity interest in YTO Shunxing.	YTO Shunxing is principally engaged in the processing, sale and service of crankshaft, chain wheel and other spare parts. Revenue and profit of YTO Shunxing are Rmb0.46mn and a loss of Rmb0.14mn, respectively in 1HFY2012.
YTO Group Finance Company Limited (“YTO Finance”)	On May 30, 2012, the Company entered into the Equity Transfer Agreement with Dongfang Industry to acquire 0.8% equity interest in YTO Finance held by Dongfang Industry at the appraised value of Rmb4.59mn. Upon completion of the acquisition, First Tractor will hold 88.6% equity interest in YTO Finance.	YTO Finance, a non-banking financial institution incorporated with the approval of the People’s Bank of China in 1992, is an important platform for internal capital centralization and enhancing capital utilization efficiency management within First Tractor.
YTO (Luoyang) Flag Auto-Body Company Limited (“YTO Flag”)	On November 15, 2012, First Tractor has conditionally agreed to purchase 100% equity interest in YTO Flag at a total consideration of Rmb165.61mn	The net profit of YTO Flag was Rmb56.69mn in FY2011. YTO Flag is principally engaged in the production and sale of covering parts, driving cabins, auto parts and other components of automobiles, agricultural machineries and construction machineries.
YTO (Luoyang) Foundry Company Limited (“YTO Foundry”)	On November 15, 2012, First Tractor has conditionally agreed to purchase 100% equity interest in YTO Foundry at a total consideration of Rmb104.48mn	The net profit of YTO Foundry was Rmb33.60mn in FY2011. YTO Foundry is principally engaged in the processing and sale of casting blank and semi-finished products. It was established in September 2003.
YTO (Luoyang) Drive Axle Company Limited (“YTO Axle”)	On November 15, 2012, First Tractor has conditionally agreed to purchase 100% equity interest in YTO Axle at a total consideration of Rmb225.28mn.	YTO Axle was established in September 2012 as a wholly-owned subsidiary of YTO Kintra. The net profit of YTO Kintra was Rmb20.15mn in FY2011. YTO Axle is principally engaged in the production and sale of off-road machinery drive axles.

Source: Company



Financial highlights of the Group

	1H11	1-3Q11	FY11	1H12	1-3Q12	1H12 (% YoY)	1-3Q12 (% YoY)
Revenue (Rmb mn)	7,165	9,536	11,328	6,304	9,104	-12.02	-4.53
Agricultural machineries	5,999		9,356	5,208		-13.19	
Power machineries	866		1,470	735		-15.13	
Other machineries	274		436	313		14.17	
Financial operations	26		66	48		83.88	
Gross Profit	913	1,277	1,559	884	1,267	-3.18	-0.78
Agricultural machineries	692		1,058	624		-9.85	
Power machineries	157		409	168		6.86	
Other machineries	39		32	48		22.10	
Financial operations	24		60	44		83.88	
GPM (%)	12.74	13.39	13.76	14.02	13.92	1.28ppts	-13.39ppts
Agricultural machineries	11.54		11.30	11.98		0.44ppts	
Power machineries	18.15		27.80	22.85		4.70ppts	
Other machineries	14.40		7.45	15.40		1.00ppts	
Financial operations	90.00		91.31	90.00		0.00ppts	
Major cost (Rmb mn)							
Selling cost	(227)	(302)	(360)	(190)	(277)	-16.30	-8.28
Administrative cost	(343)	(538)	(677)	(351)	(548)	2.33	1.86
Net finance cost	(28)	(40)	(45)	(36)	(55)	28.57	37.50
Cost ratio (%)							
Selling cost	3.17	3.17	3.18	3.01	3.04	-0.15ppts	-0.12ppts
Administrative cost	4.79	5.64	5.98	5.57	6.02	0.78ppts	0.38ppts
Net finance cost	0.39	0.42	0.40	0.57	0.60	0.18ppts	0.18ppts
Net profit (Rmb mn)	271	317	411	286	326	5.54	2.84
Net profit margin (%)	3.78	3.32	3.63	4.54	3.58	0.75ppts	0.26ppts
Operating cash flow (Rmb mn)	(143)	77	635	4	(498)	-102.80	-746.75
OCF/Net income (%)	-52.77	24.29	154.57	1.40	-152.76	54.17ppts	-177.05ppts

Source: Company

Major change of our forecast

	FY12E			FY13E			FY14E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
Revenue (Rmb mn)	11,263	10,770	-4.38	13,319	13,872	4.15	18,028	19,129	6.11
Agricultural machineries	9,296	9,006	-3.12	10,847	11,430	5.37	15,193	16,321	7.42
Power machineries	1,393	1,194	-14.29	1,744	1,708	-2.06	1,884	1,844	-2.12
Other machineries	480	480	0.00	603	603	0.00	751	751	0.00
Financial operations	94	90	-4.26	125	131	4.80	200	213	6.50
Gross profit (Rmb mn)	1,568	1,480	-5.61	2,129	2,151	1.03	2,862	2,997	4.72
GPM (%)	13.92	13.74	-0.18ppts	15.98	15.51	-0.48ppts	15.88	15.67	-0.21ppts
Net income (Rmb mn)	435	402	-7.76	641	645	0.71	901	971	7.87
Net margin (%)	3.86	3.73	-0.14ppts	4.81	4.65	-0.16ppts	5.00	5.08	0.08ppts
EPS (Rmb)	0.473	0.436	-7.76	0.643	0.648	0.71	0.904	0.975	7.87
BVPS (Rmb)	4.612	4.597	-0.33	4.549	4.537	-0.26	4.939	4.956	0.35
DPS (Rmb)	0.142	0.131	-7.76	0.193	0.194	0.71	0.271	0.293	7.87

Source: ABCI Securities estimates

Maintain “Buy”

Benefit from favorable policies

Production volume has increased to meet rally

We estimate that the revenue of hi-powered tractor as percentage of total Group’s revenue was 41.5% in FY2012.

The production volume of hi-powered tractors in China is expected to increase by over 40% YoY in 2012 to meet the sales rally in 2013. Under the subsidy programs for hi-powered tractors, the demand is expected to boost up in 2013. First Tractor, as the largest maker of hi-powered tractor in China, we believe that it is able to surf on the rally triggered by favorable policies for industrialization of agriculture in 2013.

Increase sales and net income forecasts

A sales rally of hi-powered tractor will be the major key growth driver in 2013, as well as 2014.

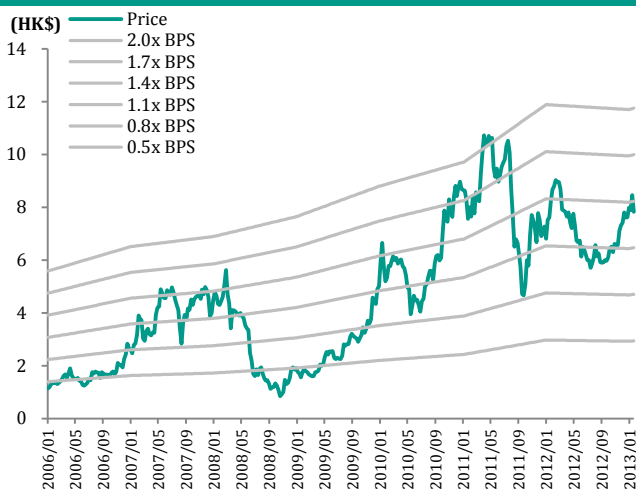
We increase our revenue forecasts from Rmb13,319mn to Rmb13,872mn in FY2013; and from Rmb18,028mn to Rmb19,129mn in FY2014 as we enhance our estimation of the sales-driven-effect of subsidy program on hi-powered tractor in 2013 and 2014. Our net income forecasts for First Tractor increase from Rmb641mn to Rmb645mn in FY2013; and from Rmb901mn to Rmb971mn in FY2014.

Reiterate “Buy” with target price increases to HK\$9.27

First Tractor is trading at 9.3x of FY2013E EPS, which is 5.1% discount to the weighted average of its peers’ (agricultural machinery makers) at 9.8x. We expect that EPS of First Tractor will grow at a CAGR of 49.6% from FY2012 to FY2014, and ROAE will be 13.0% and 18.2% in FY2013 and FY2014, respectively. Comparing with the peers, we think the valuation of First Tractor is not demanding.

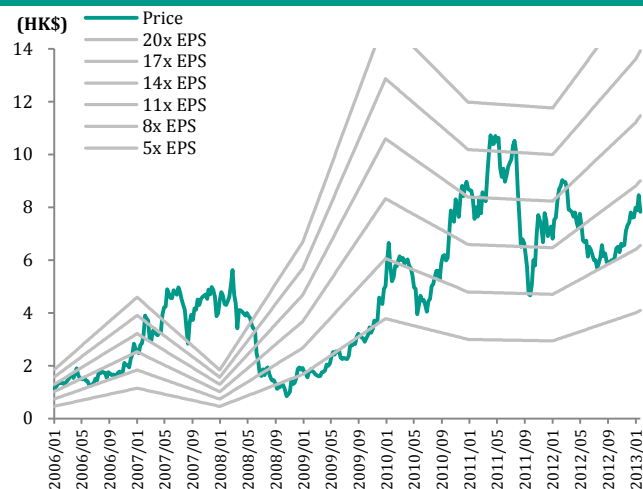
We expect the favorable subsidy programs on agricultural machineries will carry on in 2013 and 2014. We increase our estimation on the revenue and net income of the Group for FY2013, and increase our target price from HK\$8.24 to HK\$9.27. We reiterate “Buy” to First Tractor. Our target valuation represents 11.5x of FY2013E PER, the average PER in 3-Yr.

PB band of the Group



Source: Company, Bloomberg, ABCI Securities estimates

PE band of the Group



Source: Company, Bloomberg, ABCI Securities estimates



Peer Groups Valuation

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

Company	Ticker	MKT CAP ¹ (HKD mn)	Share Price	PER (x)		EPS Change (%)		PBR (x)		ROAE (%)		
				FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	
Construction Machinery Makers												
CATERPILLAR INC	CAT US	453,026	USD 89.16	10.99	9.35	-6.89	17.58	2.67	2.22	36.22	28.19	
KOMATSU LTD	6301 JP	188,455	JPY 2286	12.24	11.99	7.64	2.08	2.01	1.83	18.53	13.15	
SANY HEAVY INDUS	600031 CH	107,102	CNY 11.30	12.18	10.27	-18.53	18.53	3.66	2.86	34.53	30.21	
ZOOMLION HEAVY-H ²	1157 HK	14,643	HKD 10.24	7.15	6.01	10.02	18.81	1.62	1.33	23.10	22.70	
ZOOMLION HEAVY-A ²	000157 CH	71,772	CNY 9.19	7.99	6.72	10.02	18.81	1.81	1.48	23.10	22.70	
XCMG CONSTRUCT-A	000425 CH	31,291	CNY 12.19	9.11	8.16	-18.41	11.58	1.48	1.29	14.77	15.60	
GUANGXI LIUGONG	000528 CH	13,779	CNY 9.84	27.26	17.70	-69.15	54.02	1.18	1.12	3.86	5.42	
TEREX CORP	TEX US	26,409	USD 30.98	15.28	11.62	394.63	31.46	1.44	1.27	10.56	13.61	
TADANO	6395 JP	9,856	JPY 908	66.45	23.10	-44.83	187.62	1.40	1.31	2.30	6.70	
SHANTUI CONST-A	000680 CH	6,986	CNY 4.93	-12.67	13.62	-192.62	-193.06	1.56	1.46	1.25	5.15	
XIAMEN XGMA-A	600815 CH	7,924	CNY 6.64	11.69	15.16	-23.24	-22.89	1.22	1.14	10.45	7.51	
LONKING HOLDINGS ²	3339 HK	8,731	HKD 2.04	15.64	8.36	-74.07	86.96	1.04	0.96	6.80	12.00	
Sector Weighted Average				11.84	10.09	3.70	15.94	2.42	2.03	28.26	23.02	
Agricultural Machinery Makers												
DEERE & CO	DE US	257,387	USD 85.55	9.98	9.48	11.06	5.27	3.45	2.78	38.74	39.34	
MAHINDRA & MAHIN	MM IN	78,916	INR 894.80	14.11	11.60	19.25	21.67	2.63	2.24	21.10	20.14	
CNH GLOBAL NV	CNH US	80,029	USD 43.04	8.87	8.38	3.68	5.79	1.05	0.93	11.99	12.79	
FIRST TRACTOR-H ²	38 HK	3,015	HKD 7.50	13.82	9.30	-10.22	48.58	1.31	1.33	9.30	13.00	
FIRST TRACTOR-A ²	601038 CH	8,071	CNY 10.92	25.05	16.86	-10.22	48.58	2.38	2.41	9.30	13.00	
ESCORTS LTD	ESC IN	1,098	INR 62.35	6.95	5.10	44.88	36.44	0.40	0.40	6.43	7.21	
Sector Weighted Average				10.83	9.79	10.73	9.59	2.81	2.31	29.65	30.08	
Mining Machinery Makers												
JOY GLOBAL INC	JOY US	49,084	USD 59.70	9.61	9.20	-13.74	4.49	2.07	1.74	34.20	26.91	
ZHENGZHOU COAL-H ²	564 HK	2,360	HKD 9.71	7.98	8.61	14.58	-7.32	1.43	1.29	21.09	15.21	
ZHENGZHOU COAL-A ²	601717 CH	17,715	CNY 10.33	10.57	11.40	14.58	-7.32	1.89	1.70	21.09	15.21	
TIAN DI-A	600582 CH	16,586	CNY 10.98	11.73	9.63	24.66	21.79	2.31	1.91	22.27	21.80	
SANY HEAVY EQUIP ²	631 HK	9,998	HKD 3.22	16.12	14.11	-35.50	14.21	1.45	1.35	9.08	9.78	
LINZHOU HEAVY-A	002535 CH	5,125	CNY 7.65	14.30	10.48	54.56	36.45	1.51	1.35	10.86	13.28	
SUNWARD INTELL-A	002097 CH	3,687	CNY 7.03	50.21	29.29	-71.03	71.43	1.69	1.61	3.36	5.51	
Sector Weighted Average				12.36	10.87	-2.96	9.83	1.96	1.69	25.16	20.79	
Machinery Part Makers												
CUMMINS INC	CMI US	163,824	USD 111.25	12.68	10.77	0.29	17.66	2.67	2.24	26.17	22.64	
WEICHAI POWER-H	2338 HK	60,798	HKD 29.35	13.33	10.99	-36.79	21.30	1.59	1.41	12.19	13.69	
TAIYUAN HEAVY-A	600169 CH	10,588	CNY 3.51	351.00	21.94	-93.79	1500.00	1.55	1.44	0.44	6.58	
CHINA YUCHAI	CYD US	4,683	USD 16.20	6.00	5.45	-22.64	10.00	0.64	0.60	10.74	11.07	
Sector Weighted Average				27.64	11.22	-13.71	83.86	2.31	1.96	21.19	19.43	
Industrial Machinery Makers												
VOLVO AB-B	VOLVB SS	251,497	SEK 98.60	14.95	10.80	21.25	38.43	2.25	2.01	14.15	15.54	
ATLAS COPCO-A	ATCOA SS	265,106	SEK 185.90	16.33	15.27	-0.59	6.93	5.58	4.78	43.17	36.34	
HYUNDAI HEAVY	009540 KS	116,505	KRW 215000	9.50	8.21	-28.68	15.69	0.84	0.77	9.98	8.47	
SANDVIK AB	SAND SS	159,406	SEK 106.00	14.29	12.62	13.96	13.18	3.36	2.94	25.42	24.20	
DOOSAN HEAVY	034020 KS	32,945	KRW 43650	7.08	5.43	222.60	30.28	0.89	0.83	11.95	13.70	
MANITOWOC CO	MTW US	18,328	USD 17.87	14.00	10.21	65.71	37.15	3.10	2.55	18.33	24.89	
ANHUI HELI CO-A	600761 CH	5,629	CNY 8.80	11.81	10.03	-0.67	17.72	1.49	1.35	12.08	12.48	
Sector Weighted Average				14.16	11.96	14.84	20.26	3.26	2.84	24.74	22.80	
Weighted Average				13.94	10.80	6.67	22.42	2.74	2.33	26.54	23.70	
Median				12.21	10.38	-0.63	18.67	1.57	1.43	12.14	13.65	

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

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

2: ABCI Securities estimates;

Source: Bloomberg, ABCI Securities estimates



Financial Statements Projection

Consolidated income statements forecast

FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	10,266	11,328	10,770	13,872	19,129
Agricultural machineries	8,141	9,356	9,006	11,430	16,321
Power machineries	1,225	1,470	1,194	1,708	1,844
Other machineries	855	436	480	603	751
Financial operations	45	66	90	131	213
Cost of sales	(8,749)	(9,769)	(9,290)	(11,721)	(16,132)
Gross profit	1,517	1,559	1,480	2,151	2,997
Other income and gains	170	68	62	62	63
Selling and distribution	(368)	(360)	(326)	(432)	(565)
Administrative expenses	(646)	(677)	(677)	(944)	(1,278)
EBIT	673	590	539	838	1,217
Finance costs	(28)	(54)	(42)	(57)	(56)
Associates	1	-	-	-	-
Pre-tax profit	646	536	497	781	1,161
Profits tax	(84)	(79)	(70)	(109)	(163)
Minority interests	(20)	(47)	(26)	(27)	(28)
Net profit	543	411	402	645	971

Source: Company, ABCI Securities estimates

Income statement key ratios forecast

FY	FY10A	FY11A	FY12E	FY13E	FY14E
Sales mixed (%)					
Agricultural machineries	79.3	82.6	83.6	82.4	85.3
Power machineries	11.9	13.0	11.1	12.3	9.6
Other machineries	8.3	3.8	4.5	4.3	3.9
Financial operations	0.5	0.6	0.8	1.0	1.2
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross profit margin	14.8	13.8	13.7	15.5	15.7
EBIT margin	6.6	5.2	5.0	6.0	6.4
Pre-tax margin	6.3	4.7	4.6	5.6	6.1
Net margin	5.3	3.6	3.7	4.7	5.1
Selling & distribution cost / revenue	3.6	3.2	3.0	3.1	3.0
Admin cost / revenue	6.3	6.0	6.3	6.8	6.7
Effective tax rate	13.0	14.7	14.1	14.0	14.0
Growth (%)					
Revenue	14.0	10.3	(4.9)	28.8	37.9
Gross profit	17.9	2.8	(5.1)	45.3	39.3
EBIT	73.0	(12.3)	(8.6)	55.5	45.2
Net income	118.3	(24.3)	(2.3)	60.7	50.6

Source: Company, ABCI Securities estimates



Consolidated balance sheets forecast

As of Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Non-current assets	2,463	3,118	3,418	5,094	5,578
Property, plant and equipment	1,831	2,064	2,328	3,886	4,283
Intangible assets	-	62	153	153	153
Investment properties	35	34	36	37	39
Other non-current assets	389	273	226	354	449
Current assets	6,155	6,369	7,501	8,991	9,601
Cash and equivalent	1,183	1,389	2,086	2,033	2,652
Restricted cash	180	123	130	136	143
Trade and other receivables	1,656	2,486	3,027	3,678	3,987
Inventories	1,377	1,111	1,435	2,098	1,438
Other	1,759	1,260	823	1,046	1,381
Total assets	8,618	9,487	10,919	14,085	15,179
Current liabilities	4,262	5,355	5,495	8,163	8,740
Trade and other payables	2,998	2,987	3,006	4,928	5,044
Borrowings	426	969	949	1,234	1,294
Other	838	1,399	1,540	2,001	2,402
Non-current liabilities	811	356	586	798	898
Borrowings	600	186	386	498	448
Other	211	170	200	300	450
Total liabilities	5,073	5,711	6,081	8,961	9,638
Minority Interest	393	452	452	453	452
Shareholder's equity	3,152	3,324	4,386	4,671	5,089

Source: Company, ABCI Securities estimates

Balance sheets key ratios forecast

FY	FY10A	FY11A	FY12E	FY13E	FY14E
Balance sheet ratios					
Current ratio (x)	1.4	1.2	1.4	1.1	1.1
Quick ratio (x)	1.1	1.0	1.1	0.8	0.9
Cash ratio (x)	0.3	0.3	0.4	0.3	0.3
Total receivable turnover days	60.8	84.0	115.7	107.7	92.0
Trade and bill receivables turnover days	44.6	63.6	90.0	85.0	70.0
Total payable turnover days	111.9	111.8	117.7	123.5	112.8
Trade and bill payables turnover days	78.4	78.8	85.0	95.0	90.0
Inventory turnover days	50.8	46.5	50.0	55.0	40.0
Total debt / equity ratio (%)	32.6	34.7	30.4	37.1	34.2
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROAA	7.3	4.5	3.9	5.2	6.6
ROAE	16.4	11.2	9.3	13.0	18.2
Payout ratio	31.2	-	30.0	30.0	30.0
Per share data (Rmb)					
EPS	0.642	0.486	0.436	0.648	0.975
BVPS	3.726	3.856	4.597	4.537	4.956
DPS	0.200	-	0.131	0.194	0.293

Source: Company, ABCI Securities estimates

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ABCI SECURITIES COMPANY LIMITED

First Tractor Company Limited**Consolidated cash flow statements forecast**

FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Profit before income tax	646	536	497	781	1,161
Depreciation and amortization	158	138	151	185	240
Change in working capital	(134)	43	(845)	608	467
Income tax paid	(95)	(76)	(67)	(106)	(157)
Others	(114)	(6)	309	(65)	(285)
Net cash from operating activities	461	635	45	1,403	1,426
Capex	(871)	(398)	(404)	(1,733)	(626)
Other	(153)	(367)	-	-	-
Net cash from investing activities	(1,024)	(765)	(404)	(1,733)	(626)
Capital injection	-	-	876	-	-
Net debt financing	419	955	180	397	10
Dividend payout	(206)	(74)	-	(120)	(194)
Others	358	(617)	-	-	1
Net cash from financing activities	571	264	1,056	277	(183)
Net change in cash	8	134	697	(53)	617
Cash at the beginning of the year	1,260	1,363	1,389	2,086	2,033
Adjustment	95	(108)	-	-	2
Cash at the end of the year	1,363	1,389	2,086	2,033	2,652

Source: Company, ABCI Securities estimates

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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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