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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Equity Focus

Zoomlion (1157 HK)

July 24, 2013

Rating: BUY

TP: HK\$ 9.45

Previous Rating & TP: BUY, HK\$ 9.45
Previous Report: April 16, 2013

Key Data

H-Share price (HK\$)	5.54
Upside potential (%)	70.58
52Wk H/L(HK\$)	12.16/ 4.74
Issued shares (mn)	7,706
H-Shares (mn)	1,430
A-Shares (mn)	6,276
Market cap (HK\$ mn)	49,491
H-Shares (HK\$ mn)	7,922
A-Shares (RMB mn)	32,886
3-mth avg daily turnover (HK\$ mn)	112.0
Major shareholder(s) (%):	
Hunan SASAC	16.20

Sources: Company, Bloomberg, ABCI Securities

FY12 Revenue breakdown (%)

Concrete machineries	49.09
Cranes	29.40
Earth Moving Machinery	4.72
Environmental and Sanitation Machinery	6.31
Road Construction and Pile Foundation	3.24
Financial Leasing Income	3.33
Others	3.92

Sources: Company, ABCI Securities

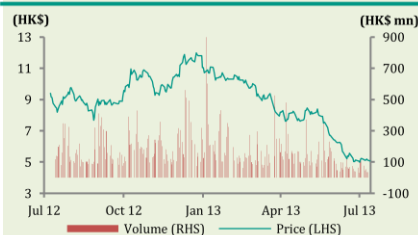
Share performance (%)

	Absolute	Relative*
1-mth	(1.25)	(8.69)
3-mth	(32.93)	(32.11)
6-mth	(49.36)	(45.33)

*Relative to HSI

Sources: Bloomberg, ABCI Securities

1-Year stock performance



Sources: Bloomberg, ABCI Securities

Analyst Information

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Sales Return Ratio Expected to Improve

Sales return ratio of Zoomlion increased significantly in 3-4Q12 on weaker-than-expected recovery of the construction industry. Looking forward, with major railway and urban rail projects in the pipeline, we estimate a total of RMB 417.7bn and RMB 520.9bn of capital will be injected respectively in 2013-15. We expect sales return ratio to decrease in FY13. The Group's current valuation at 0.70x FY13E P/B is undemanding. Maintain BUY.

Sales return ratio expected to decrease. Sales return ratio (sales return / total sales revenue) increased in 2H12 on weaker-than-expected recovery of construction industry. With more paid-in capital from the construction projects expected in 2H13, the liquidity of the machinery leasing agents will improve. We expect sales return ratio to be lower in FY13 than to FY12.

Insights from excavator sales recovery. Excavator sales in June improved. Declines in sales volume narrowed from 14.3% YoY in 5M13 to 12.8% YoY in 1H13. With the expected injection of paid-in capital to the ongoing railway and urban rail projects, the recovery momentum will accelerate in 2H13. Although the recovery of excavator sales will not benefit Zoomlion directly because of its low contribution to revenue, it nevertheless indicates that the construction machinery sector is recovering.

Reiterate BUY. According to our channel check, banks' attitude towards loaning to major railway and urban rail projects remain positive. We believe the risk of funding shortage is low. Considering the project pipeline consisting of the (1) "Four North-South" and "Four East-West" railway projects with a remaining investment of ~RMB 417.7bn, and (2) the urban rail development in Beijing, Shanghai, Guangzhou, Shenzhen, Nanjing, Chongqing, and Wuhan with a total investment of ~RMB 520.9bn, we believe the Group's current valuation at 0.70x FY13 P/B is undemanding. Thus, we maintain "BUY" on the counter.

Risk factors: 1) Recovery of machinery industries usually lags behind that of the construction sector and 2) sustainability of recovery in the machinery sector.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	46,323	48,071	50,751	56,561	63,076
Chg (% YoY)		3.77	5.57	11.45	11.52
Net Income (RMB mn)	8,066	7,330	7,136	8,662	10,544
Chg (% YoY)		(9.12)	(2.65)	21.38	21.73
EPS (RMB)	1.05	0.95	0.93	1.12	1.35
Chg (% YoY)		(9.20)	(2.65)	20.57	20.90
BVPS (RMB)	4.60	5.29	6.24	7.37	8.72
Chg (% YoY)		15.03	17.95	18.19	18.24
P/E (x)	-	4.61	4.74	3.93	3.25
P/B (x)	-	0.83	0.70	0.59	0.50
DPS(RMB)	0.25	0.20	0.19	0.22	0.27
Yield (%)	-	4.56	4.22	5.09	6.15
ROAE (%)	25.69	19.25	16.06	16.45	16.83
ROAA (%)	12.15	9.38	7.90	8.90	9.74

Source(s): Company, Bloomberg, ABCI Securities estimates (Rmb1.0=HK\$1.263)

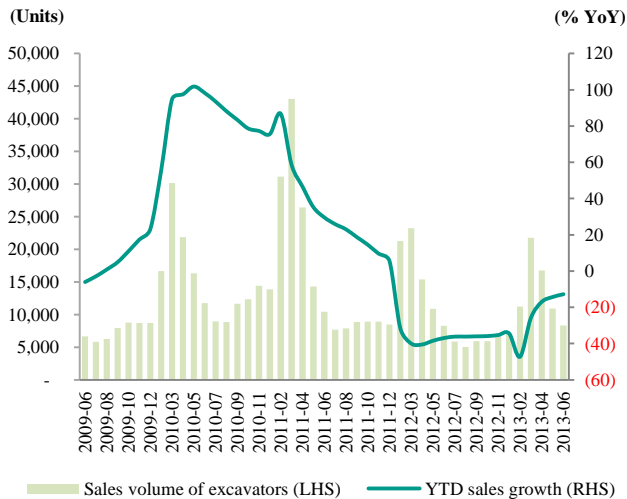


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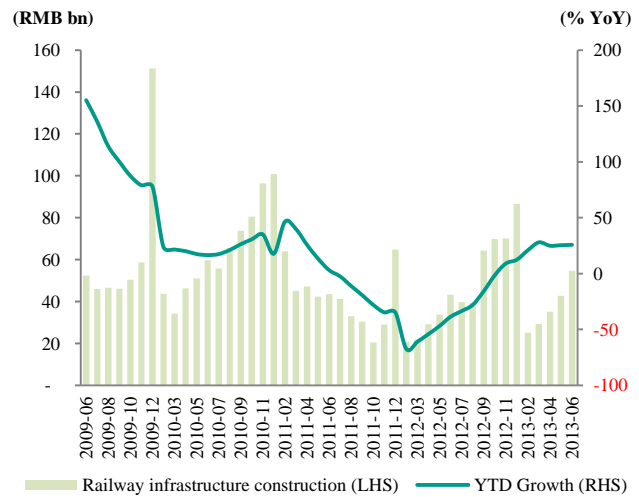
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Exhibit 1: Sales volume and YTD growth of excavator in China (June 2009 – June 2012)



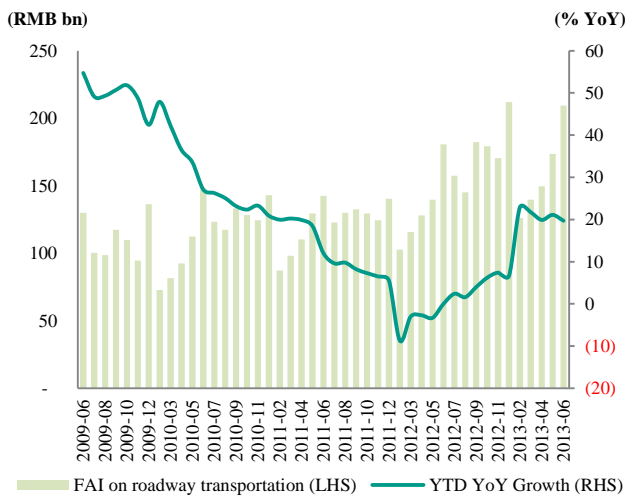
Source(s): CCMA, Media

Exhibit 2: China's railway infrastructure construction investment and YTD growth in June 2009 – June 2012



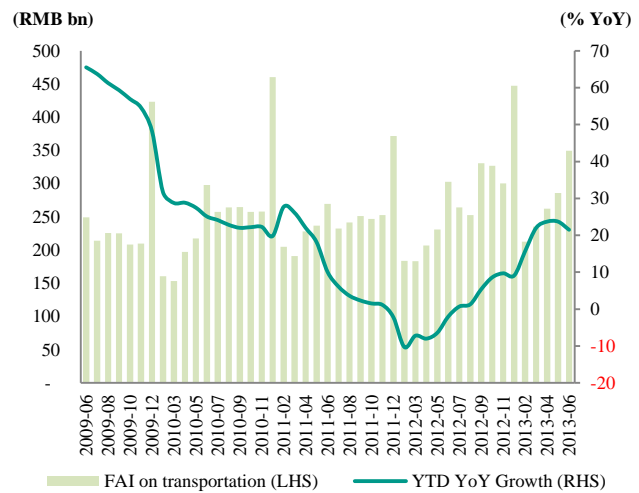
Source(s): MOR, China Railway Corporation

Exhibit 3: Roadway FAI and YTD growth in June 2009 – June 2012



Source(s): NBS

Exhibit 4: Transportation FAI in June 2009 – June 2013



Source(s): NBS

Exhibit 5: Sales return and sales return ratio of Zoomlion in FY12

	Total sales revenue (RMB mn)	Sales return (RMB mn)	Net sales revenue (RMB mn)	Sales return ratio (%)
1Q12	116.41	0.32	116.09	0.27
2Q12	175.92	0.82	175.1	0.47
3Q12	102.9	3.01	99.89	2.93
4Q12	94.24	4.61	89.63	4.89
FY12	489.47	8.76	480.71	1.79

Source(s): Company



Exhibit 6: Peer group valuation and earnings forecasts summary (July 23, 2013)

Company	Ticker	MKT CAP ¹ (HKD mn)	Share Price	PER (x)		EPS Change (%)		P/B (x)		ROAE (%)		
				FY2013	FY2014	FY2013	FY2014	FY2013	FY2014	FY2013	FY2014	
Construction Machinery Makers												
CATERPILLAR INC	CAT US	438,807	USD	86.00	12.63	10.86	(21.76)	16.21	2.85	2.40	29.80	37.50
KOMATSU LTD	6301 JP	183,607	JPY	2397	12.27	11.19	46.88	9.62	1.76	1.60	13.28	15.65
SANY HEAVY INDUS	600031 CH	68,741	RMB	7.14	8.10	6.22	21.20	28.49	1.88	1.50	25.04	27.02
ZOOMLION HEAVY-H ²	1157 HK	7,922	HKD	5.54	4.74	3.93	(2.65)	20.57	0.70	0.59	16.06	16.45
ZOOMLION HEAVY-A ²	000157 CH	41,569	RMB	5.24	5.66	4.69	(2.65)	20.57	0.84	0.71	16.06	16.45
XCMG CONSTRUCT-A	000425 CH	20,181	RMB	7.74	5.21	4.96	23.92	4.91	0.81	0.70	15.09	15.31
GUANGXI LIUGONG	000528 CH	8,989	RMB	6.32	8.78	6.32	188.00	38.89	0.72	0.68	4.73	7.47
TEREX CORP	TEX US	25,018	USD	29.00	14.58	9.62	105.83	52.48	1.35	1.16	10.44	12.84
TADANO	6395 JP	15,528	JPY	1539	18.91	16.92	40.71	11.77	2.06	1.85	7.95	11.51
SHANTUI CONST-A	000680 CH	4,822	RMB	3.35	20.94	15.73	433.33	33.13	0.90	0.89	4.31	5.68
XIAMEN XGMA-A	600815 CH	4,728	RMB	3.90	(43.33)	13.93	(156.25)	(411.11)	0.81	0.77	(1.82)	5.67
LONKING HOLDINGS ²	3339 HK	6,891	HKD	1.61	9.05	6.41	299.47	41.03	0.78	0.69	9.09	11.37
Sector Weighted Average					11.40	10.06	11.19	14.88	2.23	1.90	22.79	27.83
Agricultural Machinery Makers												
DEERE & CO	DE US	255,224	USD	84.78	9.95	9.84	10.32	1.78	3.27	2.62	38.89	29.33
MAHINDRA & MAHIN	MM IN	73,459	INR	918.00	12.05	9.96	9.65	21.25	2.31	1.97	17.75	16.15
CNH GLOBAL NV	CNH US	84,169	USD	44.77	8.92	8.55	5.87	4.34	1.14	1.00	15.58	16.51
FIRST TRACTOR-H ²	38 HK	1,950	HKD	4.85	12.26	7.97	(10.68)	53.83	0.85	0.75	7.04	10.02
FIRST TRACTOR-A ²	601038 CH	5,255	RMB	7.00	22.34	14.52	(10.68)	53.83	1.55	1.37	7.04	10.02
ESCORTS LTD	ESC IN	1,380	INR	86.65	8.57	7.03	59.32	21.91	0.57	0.53	7.46	7.65
Sector Weighted Average					10.27	9.64	9.12	6.64	2.64	2.15	29.90	24.07
Mining Machinery Makers												
JOY GLOBAL INC	JOY US	41,541	USD	50.39	8.59	9.05	(18.56)	(5.10)	1.71	1.49	26.52	24.66
ZHENGZHOU COAL-H ²	564 HK	1,186	HKD	4.88	5.49	4.06	(28.15)	35.26	0.64	0.57	12.02	14.80
ZHENGZHOU COAL-A ²	601717 CH	11,496	RMB	6.60	9.37	6.93	(28.15)	35.26	1.09	0.97	12.02	14.80
TIAN DI-A	600582 CH	9,774	RMB	6.37	6.23	5.42	11.98	17.10	0.92	0.79	23.20	16.34
SANY HEAVY EQUIP ²	631 HK	7,171	HKD	2.35	10.15	8.54	14.21	18.85	0.97	0.89	9.78	10.73
LINZHOU HEAVY-A	002535 CH	3,572	RMB	5.25	7.44	5.49	64.19	35.41	1.18	0.99	17.19	19.58
SUNWARD INTELL-A	002097 CH	3,355	RMB	6.45	28.04	43.00	955.05	(34.78)	1.52	1.48	5.66	3.49
Sector Weighted Average					9.29	9.46	32.32	7.01	1.40	1.23	20.89	19.60
Machinery Part Makers												
CUMMINS INC	CMI US	173,709	USD	118.01	14.78	12.23	(8.00)	21.40	2.90	2.48	22.78	21.99
WEICHAI POWER-H	2338 HK	46,583	HKD	25.20	11.06	9.49	21.87	17.07	1.40	1.23	13.74	14.05
TAIYUAN HEAVY-A	600169 CH	8,089	RMB	2.64	13.89	26.40	(238.58)	(47.37)	1.10	1.05	8.23	4.08
CHINA YUCHAI	CYD US	4,912	USD	16.99	113.27	5.23	13.99	17.33	0.67	0.62	10.60	11.60
Sector Weighted Average					16.08	12.02	(9.57)	18.07	2.49	2.14	20.22	19.56
Industrial Machinery Makers												
VOLVO AB-B	VOLVB SS	240,502	SEK	94.15	22.75	12.20	(22.90)	86.10	2.40	2.16	10.79	20.15
ATLAS COPCO-A	ATCOA SS	241,534	SEK	169.00	15.98	15.07	(6.75)	6.87	5.05	4.43	33.46	30.41
HYUNDAI HEAVY	009540 KS	109,469	KRW	207500	7.92	6.58	45.28	20.38	0.84	0.79	10.58	12.39
SANDVIK AB	SAND SS	123,121	SEK	81.75	13.30	11.45	(3.78)	16.65	2.79	2.50	19.94	19.61
DOOSAN HEAVY	034020 KS	33,067	KRW	45000	5.60	5.09	(447.41)	10.00	1.24	1.18	22.14	24.24
MANITOWOC CO	MTW US	21,346	USD	20.61	17.28	11.94	54.94	44.68	3.67	3.06	24.66	29.54
ANHUI HELI CO-A	600761 CH	5,211	RMB	8.02	9.57	8.32	23.24	15.04	1.21	1.08	13.45	14.07
Sector Weighted Average					16.07	11.85	(20.86)	36.18	3.05	2.70	20.17	22.56
Weighted Average					13.14	10.75	(1.18)	20.51	2.57	2.21	22.88	24.30
Median					10.00	8.86	11.98	18.85	1.21	1.08	13.45	15.31

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

² ABCI Securities estimates;

Source(s): Bloomberg, ABCI Securities estimates

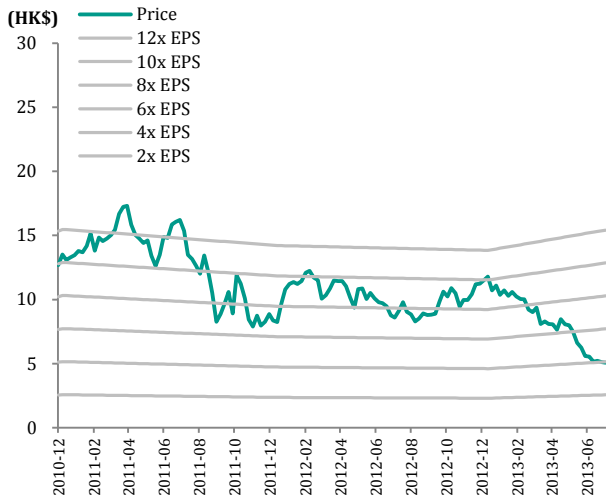


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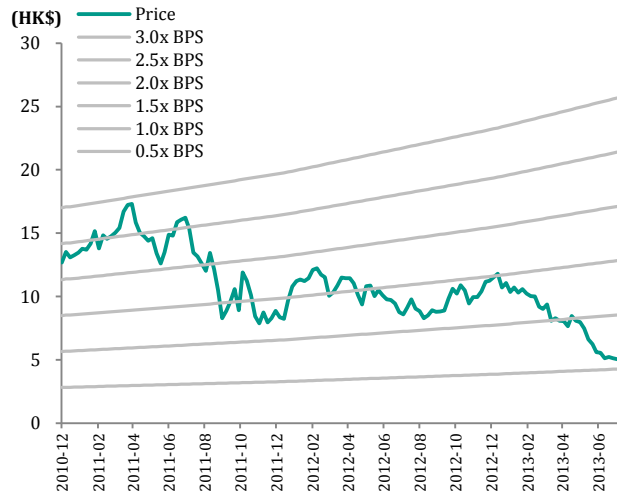
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Exhibit 7: P/E band of Zoomlion



Source(s): Company, Bloomberg, ABCI Securities estimates

Exhibit 8: P/B band of Zoomlion



Source(s): Company, Bloomberg, ABCI Securities estimates



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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