

## Key Data

H-share price (HK\$)	11.88
Target price (HK\$)	14.16
Upside potential (%)	19.2
52Wk H/L(HK\$)	12.48 / 7.60
Issued shares (mn)	7,706
H-share	1,430
A-share	6,276
H-share market cap (HK\$m)	16,988
30-day avg vol (HK\$m)	199.0
Major shareholder (%):	
Hunan SASAC	16.2

Source: Company, Bloomberg, ABCI Securities

## Sales breakdown in 1HFY12 (%)

Concrete Machinery	58.1
Crane	24.2
Environment and sanitation	4.1
Other machinery	10.9
Financial income under lease	2.7

Source: Company

## Share performance (%)

	Absolute	Relative*
1-mth	24.0	16.7
3-mth	32.9	23.1
6-mth	8.1	-6.7

\*Relative to Hang Seng Index

Source: Bloomberg

## 1 year price performance



Source: Bloomberg

## Analyst

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Previous report  
Date: 9 November 2012  
Rating: Buy  
Target price: HK\$14.16

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

### Recovery pace gains stronger momentum

According to China Construction Machinery Business Online, the sales volume of excavators and bulldozers increased by 12.4% MoM and 10.5% MoM, respectively in November 2012. The recovery signal on construction machinery industry becomes stronger. Zoomlion, one the largest construction machinery makers in China with diversified product portfolio, will benefit from the recovery of the industry. We reiterate our Buy rating on Zoomlion with a TP of HK\$14.16.

**Construction machinery recovering from the trough.** The sales volume of excavators and bulldozer increased by 12.4% MoM and 10.5% MoM in November 2012, respectively. The decline in sales volume of excavator and bulldozer shrunk from -35.9% YoY and -29.8% YoY in 1-10M12 to -35.3% YoY and -27.4% YoY in 1-11M12. President of Komatsu (6301 JP) Kunio Noji said in a recent interview that continued improvement in the sales volume of China's construction machinery makers demonstrates signs of recovery in the industry.

**Tower crane segment recorded strong growth.** We estimate that the sales revenues and volumes of tower crane will grow by 63.3% YoY in FY12 and 50% YoY in November respectively while the contribution of tower crane segment to the total revenues will surge to 13.4% in FY12 from 8.9% in FY11. Surging growth in volumes and revenues further enhances growth momentum of the Group.

**Expected slowdown of concrete machinery sales in 4QFY12.** We forecast that the sales revenues of concrete machinery will drop by 5% YoY in November 2012. The sales volume of concrete pump will reduce to 350 units in November 2012, down 22.2% YoY from 450 units in November 2011. We estimate that the sales growth of concrete machinery segment will decelerate in 4QFY12 due to delaying procurement from downstream leasing agents. However, in light of the demand for replacement of concrete pump estimated at 2,264 units in 2013, the growth of concrete pump will accelerate to 17.8% in FY13.

**Risk factors:** Prolonged slowdown of construction industry; Credit and liquidity risks; Intense market competition.

## Forecast and Valuation

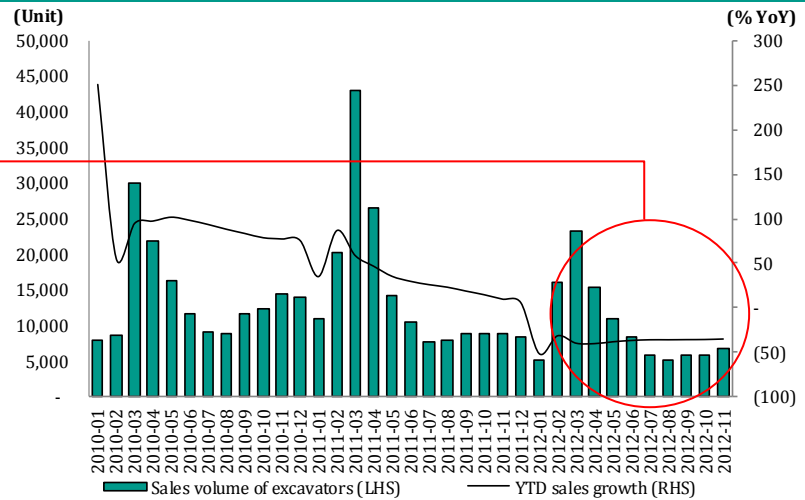
FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rmb mn)	32,193	46,323	52,322	65,346	79,177
Chg (%YoY)	55.1	43.9	13.0	24.9	21.2
Net Income (Rmb mn)	4,666	8,055	9,414	11,668	14,581
Chg (%YoY)	90.7	72.6	16.9	23.9	25.0
EPS (Rmb)	0.736	1.046	1.202	1.490	1.862
Chg (%YoY)	63.5	42.2	14.9	23.9	25.0
PE (x)	-	9.2	8.0	6.5	5.2
PB (x)	-	2.3	1.9	1.5	1.2
Yield (%)	-	2.2	2.5	3.1	3.9
ROAA (%)	9.6	12.0	11.7	11.9	12.7
ROAE (%)	26.8	25.7	24.0	24.4	24.9
Net debt/total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company, Bloomberg, ABCI Securities estimates



Monthly sales volume of excavators in China

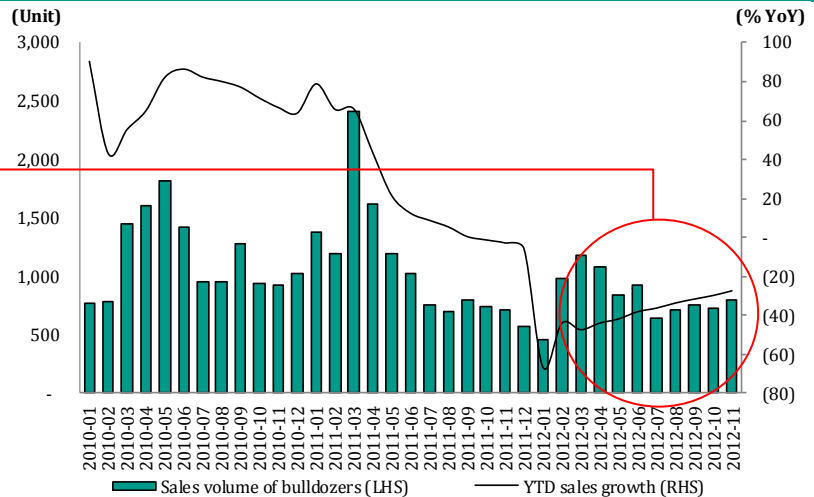
The sales volume of excavators increased by 12.4% MoM in November 2012. The decline in sales volume of excavator shrunk from -35.9% YoY in 1-10M 12 to -35.3% YoY in 1-11M12



Source: China Construction Machinery Business Online

Monthly sales volume of bulldozer in China

The sales volume of bulldozer increased by 10.5% MoM in November 2012. The decline in sales volume of bulldozer shrunk from -29.8% YoY in 1-10M 12 to -27.4% YoY in 1-11M12



Source: China Construction Machinery Business Online

Peer group valuation and earnings forecasts summary of construction machinery sector

Company	Ticker	MKT CAP* (HKD mn)	Share Price	PE (x)		EPS Change (%)		ROE (%)	
				Current Year	Next Year	Current Year	Next Year	Current Year	Next Year
<b>Construction Machinery Maker</b>									
CATERPILLAR INC	CAT US	460,030	USD 90.77	9.97	10.46	19.19	(4.69)	37.22	28.95
KOMATSU LTD	6301 JP	190,175	JPY 2,106.00	11.28	11.05	7.64	2.08	18.53	14.16
SANY HEAVY INDUS	600031 CH	93,821	CNY 9.93	10.03	8.61	(13.08)	16.46	32.92	26.14
ZOOMLION HEAVY-H	1157 HK#	88,828	HKD 11.88	7.95	6.45	14.91	23.94	24.00	24.40
ZOOMLION HEAVY-A	000157 CH#	88,828	CNY 9.20	7.65	6.18	14.91	23.94	24.00	24.40
XCMG CONSTRUCT-A	000425 CH	29,515	CNY 11.50	7.36	6.47	(4.70)	13.76	26.18	23.65
GUANGXI LIUGONG	000528 CH	13,875	CNY 9.91	19.28	14.14	(56.07)	36.38	4.01	5.86
TEREX CORP	TEX US	23,146	USD 27.20	13.50	10.58	391.46	27.59	10.37	13.00
TADANO	6395 JP	8,041	JPY 676.00	49.47	17.20	(44.83)	187.62	2.30	6.70
SHANTUI CONST-A	000680 CH	7,042	CNY 4.97	(22.90)	13.73	(151.67)	(266.82)	1.25	5.15
XIAMEN XGMA-A	600815 CH	6,849	CNY 6.89	11.68	13.05	(20.27)	(10.51)	10.83	8.99
LONKING HOLDINGS	3339 HK#	9,887	HKD 2.31	16.01	9.56	(71.30)	67.53	7.50	11.80
<b>Sector Weighted Average</b>				<b>10.13</b>	<b>9.69</b>	<b>17.23</b>	<b>5.70</b>	<b>28.67</b>	<b>23.67</b>

\* The market capital value of the companies are translated into HKD

# ABCI Securities estimates

Source: Bloomberg, (The data in the table is as at December 19, 2012)

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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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