

## Company Rating:

# Buy

## Target price: HK\$9.45

### Key data

H-share price (HK\$)	7.61
Upside potential (%)	24.1
52Wk H/L(HK\$)	12.16/7.49
Issued shares (mn)	7,706
H-share	1,430
A-share	6,276
H-share market cap (HK\$m)	10,882
30-day avg daily vol (HK\$m)	205.0
Auditors	KPMG
Major shareholder (%)	
Hunan SASAC	16.2

Source: Company & Bloomberg

### Revenue breakdown by product (%)

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

\*Based on FY12 results

Source: Company

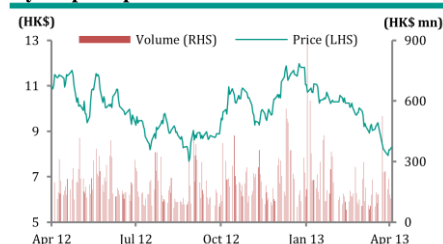
### Share performance (%)

	Absolute	Relative <sup>1</sup>
1-mth	-17.37	-14.49
3-mth	-30.18	-25.02
6-mth	-23.59	-25.79

1: Relative to Hang Seng Index

Source: Bloomberg

### 1 year price performance



Source: Bloomberg

### Analyst Information

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Previous report  
Date: April 2, 2013  
Rating: Buy  
Target price: HK\$10.84

## Zoomlion (1157 HK)

### Construction & Farm Machinery Industry

#### Negative Shock on Earnings Warning

Recovery of Zoomlion was slower than our expectation. We cut our earnings forecast for FY13 and target price from HK\$10.84 to HK\$9.45. Healthy growth of infrastructure and housing FAI but substantial decline in construction FAI in 1Q13 suggested Zoomlion was adversely affected by contractors delaying machinery purchase. The latest macro data is still favorable to Zoomlion in mid-to-long run, although we lower earnings forecast in response to sluggish sales and profit for 1Q13.

**Healthy recovery of infrastructure FAI.** FAI of railway, roadway and water engineering construction were up 5.8% YoY, 21.7% YoY and 36.5% YoY in 1Q13, respectively (vs. 2.4% YoY, 6.6% YoY and 19.5% YoY in full year 2012). The backlog (as of end 2012) of CRG (390 HK), CRCC (1186 HK) and CCCC (1800 HK), major transportation construction contractors, were up 23.0% YoY, 24.5% YoY and 16.4% YoY. The strong backlog of contractors and the continued recovery of infrastructure FAI indicate the recovery of construction industry is sustainable. Zoomlion is expected to benefit from the recovery cycle of construction industry.

**Sales decline in 1Q13.** Although construction industry showed recovery in 1Q13, Zoomlion warned its net income would plunge 60-80%YoY to Rmb418-836mn in 1QFY13 due to substantial decrease in sales on weak market demand for construction machinery. The preliminary net income in 1QFY13 was below our expectation by 42.8-71.4%. The negative growth on construction industry FAI indicates the delay in purchases on machinery during 1Q13. The lagging effect of construction and machinery industries is the major risk.

**Reiterate Buy.** The market sentiment is expected to stay cautious in short run and the stock is still bottoming. We cut our earnings forecast for the longer-than-our-expected recovery period, but retain our target PER at 8.2x FY13E PER for our positive view on the growth prospect in mid-to-long run. Our new target price is HK\$9.45, maintain "Buy".

**Risk factors:** Weak operating cash flow; Policy risk affecting FAI; Lagging effect between construction and machineries industries

### Forecast and Valuation

FY ended Dec 31	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (Rmb mn)	46,323	48,071	50,751	56,561	63,076
Chg (%YoY)	43.89	3.77	5.57	11.45	11.52
Net Income (Rmb mn)	8,066	7,330	7,136	8,662	10,544
Chg (%YoY)	72.87	-9.12	-2.65	21.38	21.73
EPS (Rmb)	1.048	0.951	0.926	1.117	1.350
Chg (%YoY)	42.37	-9.20	-2.65	20.57	20.90
PER (x)	-	6.43	6.60	5.47	4.53
PBR (x)	-	1.16	0.98	0.83	0.70
Yield (%)	-	3.27	3.03	3.65	4.42
ROAA (%)	12.15	9.38	7.90	8.90	9.74
ROAE (%)	25.69	19.25	16.06	16.45	16.83
Net debt/total equity (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

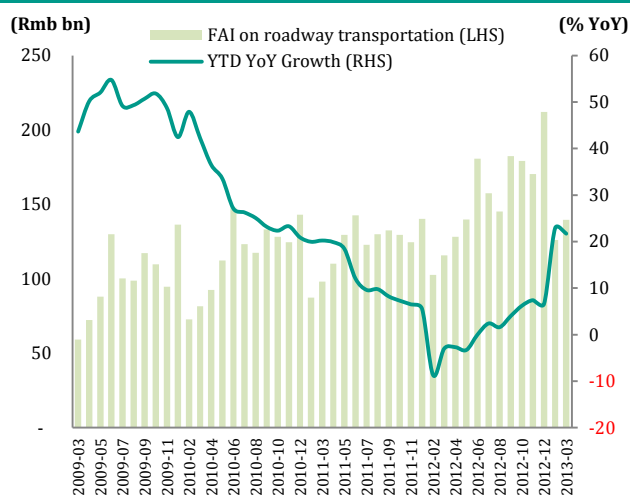
Source: Company, ABCI Securities estimates

### Major change of our forecast

	FY13E			FY14E			FY15E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
<b>Revenue (Rmb mn)</b>	<b>53,286</b>	<b>50,751</b>	<b>-4.76</b>	<b>59,426</b>	<b>56,561</b>	<b>-4.82</b>	<b>66,294</b>	<b>63,076</b>	<b>-4.85</b>
Concrete Machinery	26,197	24,249	-7.43	29,721	27,501	-7.47	33,645	31,128	-7.48
Crane Machinery	15,544	15,048	-3.19	16,937	16,388	-3.24	18,663	18,057	-3.25
Earth Moving Machinery	2,506	2,506	0.00	2,830	2,830	0.00	3,199	3,199	0.00
Environmental and Sanitation Machinery	3,337	3,337	0.00	3,671	3,671	0.00	4,038	4,038	0.00
Road Construction and Pile Foundation	1,792	1,792	0.00	2,060	2,060	0.00	2,370	2,370	0.00
Financial Leasing Income	1,840	1,749	-4.95	1,929	1,832	-5.01	1,874	1,780	-5.05
Others	2,070	2,070	0.00	2,277	2,277	0.00	2,505	2,505	0.00
<b>Gross profit (Rmb mn)</b>	<b>16,989</b>	<b>15,352</b>	<b>-9.63</b>	<b>19,419</b>	<b>18,071</b>	<b>-6.94</b>	<b>21,920</b>	<b>20,835</b>	<b>-4.95</b>
<b>GPM (%)</b>	<b>31.88</b>	<b>30.25</b>	<b>-1.63ppts</b>	<b>32.68</b>	<b>31.95</b>	<b>-0.73ppts</b>	<b>33.06</b>	<b>33.03</b>	<b>-0.03ppts</b>
<b>Net income (Rmb mn)</b>	<b>8,236</b>	<b>7,136</b>	<b>-13.36</b>	<b>9,490</b>	<b>8,662</b>	<b>-8.73</b>	<b>11,127</b>	<b>10,544</b>	<b>-5.24</b>
<b>Net margin (%)</b>	<b>15.46</b>	<b>14.06</b>	<b>-1.40ppts</b>	<b>15.97</b>	<b>15.31</b>	<b>-0.65ppts</b>	<b>16.78</b>	<b>16.72</b>	<b>-0.07ppts</b>
EPS (Rmb)	1.062	0.926	-12.77	1.215	1.117	-8.11	1.415	1.350	-4.61
BVPS (Rmb)	6.339	6.239	-1.58	7.544	7.374	-2.25	8.931	8.719	-2.38
DPS (Rmb)	0.212	0.185	-12.77	0.243	0.223	-8.11	0.283	0.270	-4.61

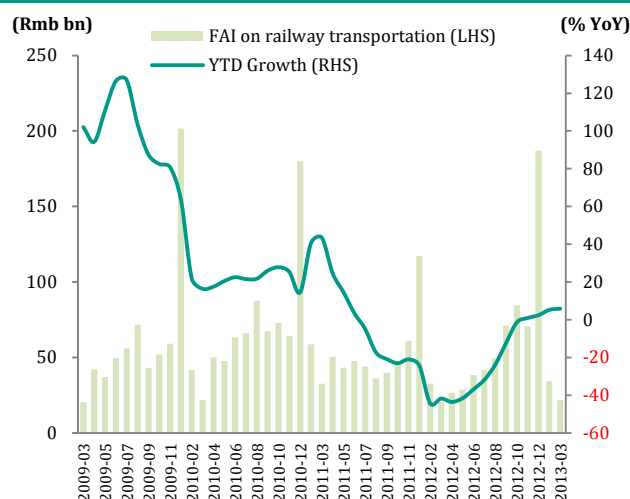
Source: ABCI Securities estimates

### The roadway FAI in China, 3M2009-3M2013



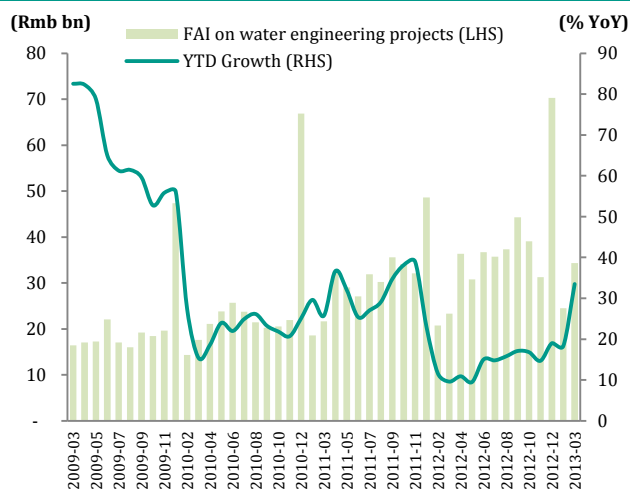
Source: NBS

### The railway FAI in China, 3M2009-3M2013



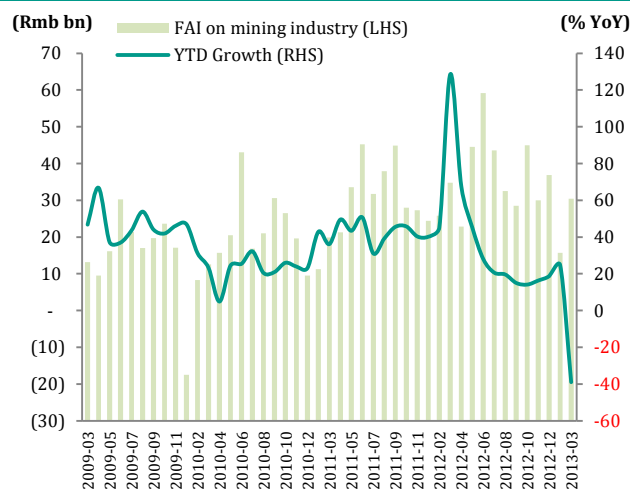
Source: NBS

### The water engineering FAI in China, 3M2009-3M2013



Source: NBS

### The construction industry FAI in China, 3M2009-3M2013



Source: NBS

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

Company	Ticker	MKT CAP <sup>1</sup> (HKD mn)	Share Price	PER (x)		EPS Change (%)		PBR (x)		ROAE (%)		
				FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	
<b>Construction Machinery Makers</b>												
CATERPILLAR INC	CAT US	432,450	USD	85.05	10.49	8.92	-6.89	17.58	2.55	2.11	36.22	28.19
KOMATSU LTD	6301 JP	189,241	JPY	2433	13.03	12.76	7.64	2.08	2.14	1.95	18.53	13.15
SANY HEAVY INDUS	600031 CH	94,409	CNY	9.88	10.65	8.98	-18.53	18.53	3.20	2.50	34.53	30.21
<b>ZOOMLION HEAVY-H<sup>2</sup></b>	<b>1157 HK</b>	<b>10,882</b>	<b>HKD</b>	<b>7.61</b>	<b>6.43</b>	<b>6.60</b>	<b>-9.20</b>	<b>-2.65</b>	<b>1.16</b>	<b>0.98</b>	<b>19.25</b>	<b>16.06</b>
ZOOMLION HEAVY-A <sup>2</sup>	000157 CH	60,076	CNY	7.63	8.02	8.30	-9.20	-2.65	1.44	1.23	19.25	16.06
XCMG CONSTRUCT-A	000425 CH	26,190	CNY	10.12	7.56	6.78	-18.41	11.58	1.23	1.07	14.77	15.60
GUANGXI LIUGONG	000528 CH	11,534	CNY	8.17	22.63	14.69	-69.15	54.02	0.98	0.93	3.86	5.42
TEREX CORP	TEX US	26,249	USD	30.46	15.02	11.43	394.63	31.46	1.41	1.25	10.56	13.61
TADANO	6395 JP	11,372	JPY	1110	81.23	28.24	-44.83	187.62	1.71	1.61	2.30	6.70
SHANTUI CONST-A	000680 CH	6,015	CNY	4.21	-10.82	11.63	-192.62	-193.06	1.33	1.25	1.25	5.15
XIAMEN XGMA-A	600815 CH	6,774	CNY	5.63	9.91	12.85	-23.24	-22.89	1.04	0.97	10.45	7.51
LONKING HOLDINGS <sup>2</sup>	3339 HK	6,335	HKD	1.48	33.70	8.44	-91.27	299.47	0.82	0.72	2.39	9.09
<b>Sector Weighted Average</b>					<b>11.97</b>	<b>10.06</b>	<b>3.11</b>	<b>15.86</b>	<b>2.30</b>	<b>1.94</b>	<b>27.93</b>	<b>22.37</b>
<b>Agricultural Machinery Makers</b>												
DEERE & CO	DE US	260,473	USD	86.14	10.05	9.54	11.06	5.27	3.48	2.80	38.74	39.34
MAHINDRA & MAHIN	MM IN	70,948	INR	813.30	12.82	10.54	19.25	21.67	2.39	2.04	21.10	20.14
CNH GLOBAL NV	CNH US	77,782	USD	41.35	8.52	8.06	3.68	5.79	1.01	0.89	11.99	12.79
FIRST TRACTOR-H <sup>2</sup>	38 HK	2,388	HKD	5.94	13.60	10.33	-32.56	31.64	1.09	1.03	8.97	10.26
FIRST TRACTOR-A <sup>2</sup>	601038 CH	6,639	CNY	8.91	25.40	13.75	-32.56	84.69	2.03	1.93	8.97	10.26
ESCORTS LTD	ESC IN	952	INR	54.65	6.09	4.47	44.88	36.44	0.35	0.35	6.43	7.21
<b>Sector Weighted Average</b>					<b>10.49</b>	<b>9.50</b>	<b>10.21</b>	<b>9.62</b>	<b>2.79</b>	<b>2.29</b>	<b>30.07</b>	<b>30.47</b>
<b>Mining Machinery Makers</b>												
JOY GLOBAL INC	JOY US	44,905	USD	54.47	8.77	8.39	-13.74	4.49	1.89	1.58	34.20	26.91
ZHENGZHOU COAL-H <sup>2</sup>	564 HK	1,694	HKD	6.97	5.71	6.18	14.94	-7.60	0.99	0.92	21.14	15.21
ZHENGZHOU COAL-A <sup>2</sup>	601717 CH	15,880	CNY	9.04	9.22	9.98	14.94	-7.60	1.60	1.49	21.14	15.21
TIAN DI-A	600582 CH	15,230	CNY	10.00	10.68	8.77	24.66	21.79	2.10	1.74	22.27	21.80
SANY HEAVY EQUIP <sup>2</sup>	631 HK	10,043	HKD	3.27	16.37	14.33	-35.50	14.21	1.47	1.37	9.08	9.78
LINZHOU HEAVY-A	002535 CH	4,262	CNY	6.31	11.79	8.64	54.56	36.45	1.24	1.11	10.86	13.28
SUNWARD INTELL-A	002097 CH	3,329	CNY	6.45	46.07	26.88	-71.03	71.43	1.55	1.48	3.36	5.51
<b>Sector Weighted Average</b>					<b>11.33</b>	<b>9.96</b>	<b>-3.56</b>	<b>9.82</b>	<b>1.77</b>	<b>1.54</b>	<b>25.12</b>	<b>20.78</b>
<b>Machinery Part Makers</b>												
CUMMINS INC	CMI US	172,479	USD	117.11	13.35	11.34	0.29	17.66	2.81	2.36	26.17	22.64
WEICHAI POWER-H	2338 HK	55,936	HKD	26.65	12.09	9.97	-36.79	21.30	1.44	1.28	12.19	13.69
TAIYUAN HEAVY-A	600169 CH	9,397	CNY	3.09	309.00	19.31	-93.79	1500.00	1.36	1.27	0.44	6.58
CHINA YUCHAI	CYD US	4,067	USD	14.06	5.21	4.73	-22.64	10.00	0.56	0.52	10.74	11.07
<b>Sector Weighted Average</b>					<b>24.41</b>	<b>11.22</b>	<b>-12.33</b>	<b>75.96</b>	<b>2.40</b>	<b>2.03</b>	<b>21.68</b>	<b>19.75</b>
<b>Industrial Machinery Makers</b>												
VOLVO AB-B	VOLVB SS	227,773	SEK	88.10	13.36	9.65	21.25	38.43	2.01	1.80	14.15	15.54
ATLAS COPCO-A	ATCOA SS	261,098	SEK	181.20	15.92	14.89	-0.59	6.93	5.44	4.65	43.17	36.34
HYUNDAI HEAVY	009540 KS	100,721	KRW	191000	8.44	7.29	-28.68	15.69	0.74	0.68	9.98	8.47
SANDVIK AB	SAND SS	146,060	SEK	95.95	12.93	11.43	13.96	13.18	3.04	2.66	25.42	24.20
DOOSAN HEAVY	034020 KS	29,490	KRW	40150	6.51	5.00	222.60	30.28	0.82	0.76	11.95	13.70
MANITOWOC CO	MTW US	19,171	USD	18.60	14.58	10.63	65.71	37.15	3.23	2.66	18.33	24.89
ANHUI HELI CO-A	600761 CH	5,359	CNY	8.31	11.15	9.48	-0.67	17.72	1.41	1.27	12.08	12.48
<b>Sector Weighted Average</b>					<b>13.26</b>	<b>11.26</b>	<b>14.76</b>	<b>19.97</b>	<b>3.15</b>	<b>2.74</b>	<b>25.30</b>	<b>23.26</b>
<b>Weighted Average</b>					<b>13.35</b>	<b>10.46</b>	<b>6.33</b>	<b>21.87</b>	<b>2.65</b>	<b>2.25</b>	<b>26.71</b>	<b>23.73</b>
<b>Median</b>					<b>11.47</b>	<b>9.81</b>	<b>-8.04</b>	<b>17.69</b>	<b>1.44</b>	<b>1.28</b>	<b>12.14</b>	<b>13.65</b>

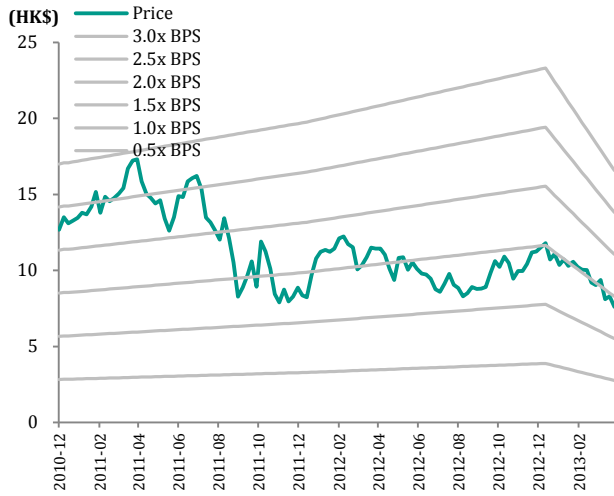
\* The data in the table is as at April 15, 2013;

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

2: ABCI Securities estimates;

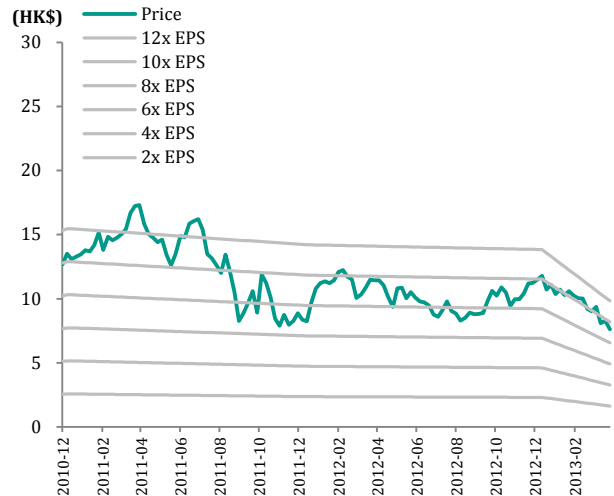
Source: Bloomberg, ABCI Securities estimates

**PB band of the Zoomlion H-share**



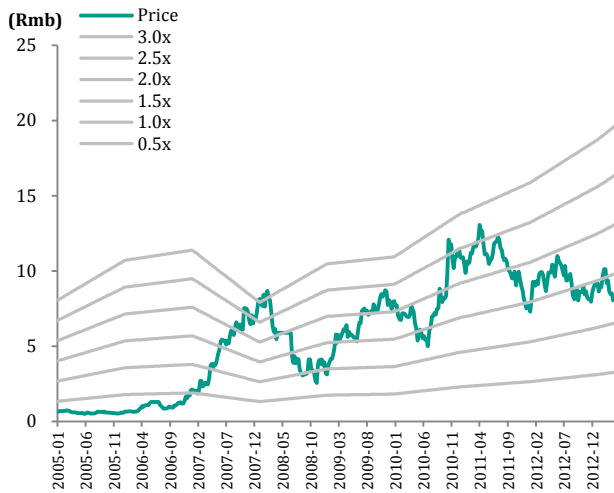
Source: Company, Bloomberg, ABCI Securities estimates

**PE band of Zoomlion H-share**



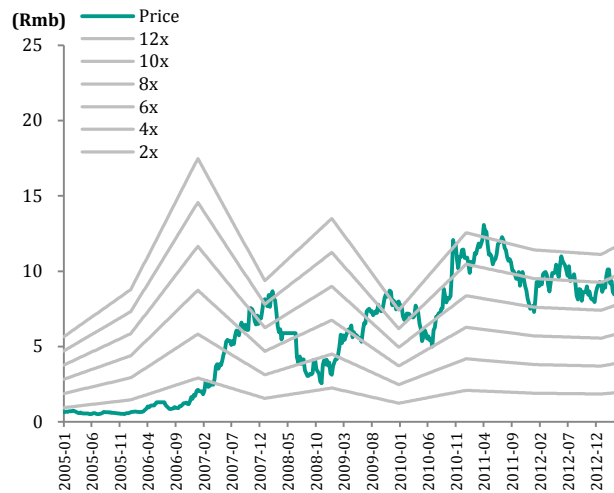
Source: Company, Bloomberg, ABCI Securities estimates

**PB band of Zoomlion in A-share market**



Source: Company, Bloomberg, ABCI Securities estimates

**PE band of Zoomlion in A-share market**



Source: Company, Bloomberg, 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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