



Company Rating:  
**Hold**

Target price: HK\$10.15

Key data

H-share price (HK\$)	8.96
Upside potential (%)	13.3
52Wk H/L(HK\$)	12.66/8.11
Issued shares (mn)	1,621
H-share	243
A-share	1,378
H-share market cap (HK\$mn)	2,177
30-day avg daily vol (HK\$mn)	10.6
Auditors	Deloitte
Major shareholder (%)	
Henan Sasac	32.1

Source: Company & Bloomberg

Revenue breakdown by product (%)

Hydraulic roof supports	71.32
Other machineries	2.33
Steel and other materials trading	21.70
Others	4.65

\*Based on FY2012 results

Source: Company

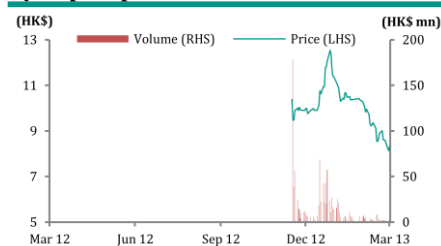
Share performance (%)

	Absolute	Relative <sup>1</sup>
1-mth	-12.84	-8.57
3-mth	-10.22	-8.73
6-mth	N/A	N/A

1: Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst Information

Steve Wong

Tel: (852) 2147 8869  
Email: stevecwong@abci.com.hk

Previous report

Date: February 26, 2013

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ZMJ (564 HK)

Construction & Farm Machinery Industry

Good results 2012 but hard to sustain in 2013

FY12 net profit was up 33% YoY and was 0.46% / 0.31% above prospectus/our forecast. Business environment is deteriorating as gross profit margin of its key product (hydraulic roof support) dropped significantly in 2HFY2012. So far, no turn around signal is observed in its downstream customers in the coal mining industry. Downside earnings risk is high but stock price is temporarily backed by low PER & PBR and reasonable gross yield.

**GPM expected shrinking.** We estimate that steel accounted for 58.7% of total cost of production. As the steel price had rebounded in 4Q2012 and market environment in 2H2012 was tough, its overall gross profit margin was squeezed to 24.6% in 2HFY2012 from 28.3% in 1HFY2012. We estimate GPM of its key product hydraulic roof support declined by 6.5ppts from 37.2% in 1HFY12 to 30.7% in 2HFY2012.

**Downstream Capex expected to decline.** In view of the sluggish coal price and the continued consolidation of coal mining industry, we estimate total capex of coal mine industry to cut by 20% YoY in 2013. The overall demand for coal mining machinery will reduce accordingly. So far, the FAI of the coal mining industry has plunged by 4.7% YoY for the first 2 months of 2013.

**Cautious earnings outlook.** We cautiously forecast flattish growth on the top line in FY13 in view of gloomy outlook of the downstream coal mining industry. Margin contraction will lead to 7.6% decline in bottom line this year. We maintain our "Hold" rating on the H-share as it is at undemanding PER rating and 4.2% gross yield.

**Risk factors:** Competition from international players; Concentration of product type; Prolonged downturn of coal mining industry; Inflation of raw materials

Forecast and Valuation

FY ended Dec 31	FY10A	FY11A	FY12A	FY13E	FY14E
Revenue (Rmb mn)	6,358	8,060	10,213	10,503	12,237
Chg (%YoY)	27.31	26.76	26.71	2.85	16.50
Net Income (Rmb mn)	883	1,194	1,589	1,468	1,742
Chg (%YoY)	40.01	35.29	33.09	-7.60	18.63
FD EPS (Rmb)	0.630	0.853	0.980	0.906	1.075
Chg (%YoY)	40.01	35.29	14.94	-7.60	18.63
PER (x)	-	-	7.34	7.95	6.70
PBR (x)	-	-	1.27	1.19	1.02
Yield (%)	-	-	4.17	4.08	4.87
ROAA (%)	12.80	12.30	13.60	9.50	10.00
ROAE (%)	27.19	21.97	21.14	15.21	15.90
Net debt/total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company, ABCI Securities estimates

### Financial highlights of the Group

	FY11	1Q12	1H12	1-3Q12	FY12	1Q12 (% YoY)	1H12 (% YoY)	1-3Q12 (% YoY)	FY12 (% YoY)
<b>Revenue (Rmb mn)</b>	<b>8,060</b>	<b>2,187</b>	<b>4,724</b>	<b>7,307</b>	<b>10,213</b>	<b>22.11</b>	<b>25.94</b>	<b>19.98</b>	<b>26.71</b>
Hydraulic roof supports	5,642		3,272		7,284		22.32		29.09
Other machineries	122		145		238		160.57		94.55
Steel and other materials trading	1,855		1,121		2,216		82.57		19.48
Others	441		185		475		-23.22		7.75
<b>GPM (%)</b>	<b>24.22</b>	<b>22.50</b>	<b>28.26</b>	<b>24.72</b>	<b>26.28</b>	<b>1.22ppts</b>	<b>1.48ppts</b>	<b>1.77ppts</b>	<b>2.06ppts</b>
Hydraulic roof supports	29.70		37.20		33.60		3.50ppts		3.90ppts
Other machineries	11.30		11.60				-1.80ppts		
Steel and other materials trading	9.90		6.60				-2.00ppts		
Others	17.91		14.52				-3.16ppts		
<b>Major cost (Rmb mn)</b>									
Selling cost	(224)	(66)	(176)	(225)	(332)	57.14	94.56	51.55	48.51
Administrative cost (including R&D)	(360)	(94)	(200)	(329)	(479)	2.17	30.94	126.67	33.23
Net finance income	59	12	41	66	93	200.00	485.71	60.98	57.87
<b>Cost ratio (%)</b>									
Selling cost	2.78	3.02	3.73	3.08	3.25	0.67ppts	1.31ppts	0.64ppts	0.48ppts
Administrative cost	4.46	4.30	4.23	4.50	4.69	-0.84ppts	0.16ppts	2.12ppts	0.23ppts
Finance cost	-0.73	-0.55	-0.87	-0.90	-0.91	-0.33ppts	-0.68ppts	-0.23ppts	-0.18ppts
<b>Net profit (Rmb mn)</b>	<b>1,194</b>	<b>419</b>	<b>812</b>	<b>1,205</b>	<b>1,589</b>	<b>45.49</b>	<b>37.63</b>	<b>31.12</b>	<b>33.09</b>
<b>Net profit margin (%)</b>	<b>14.81</b>	<b>19.16</b>	<b>17.19</b>	<b>16.49</b>	<b>15.56</b>	<b>3.08ppts</b>	<b>1.46ppts</b>	<b>1.40ppts</b>	<b>0.75ppts</b>

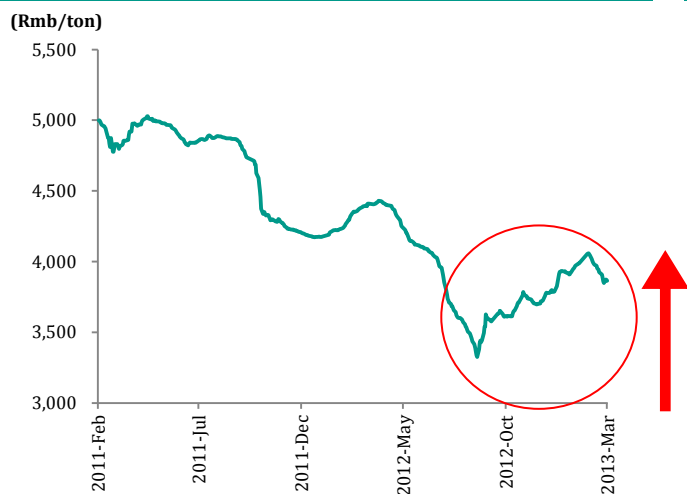
Source: Company

### Our earnings forecast vs. actual earnings

	Our FY2012 Estimate	Actual FY2012 Reported	Difference (%)
<b>Revenue (Rmb mn)</b>	<b>9,729</b>	<b>10,213</b>	<b>4.97</b>
Hydraulic roof supports	6,252	7,284	16.49
<b>Gross profit (Rmb mn)</b>	<b>2,500</b>	<b>2,684</b>	<b>7.33</b>
<b>GPM (%)</b>	<b>25.70</b>	<b>26.28</b>	<b>0.58ppts</b>
<b>Net income (Rmb mn)</b>	<b>1,584</b>	<b>1,589</b>	<b>0.31</b>
<b>Net margin (%)</b>	<b>16.28</b>	<b>15.56</b>	<b>-0.72ppts</b>
EPS (Rmb)	0.977	0.980	0.31
BVPS (Rmb)	5.458	5.651	3.53
DPS (Rmb)	0.195	0.300	53.50

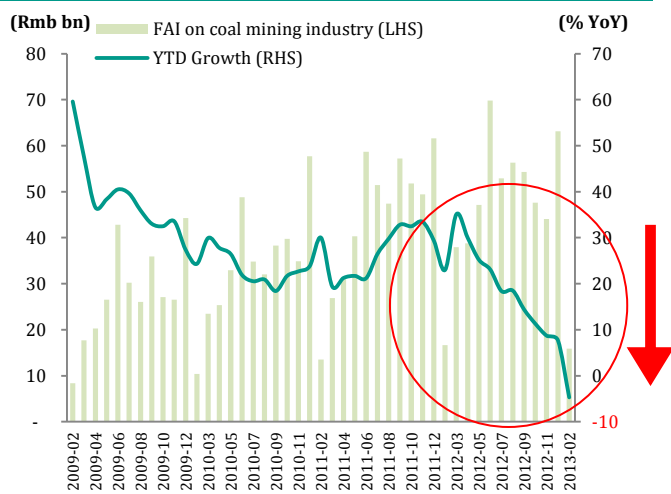
Source: Company, ACBI Securities estimates

### China steel plate average spot price, 2M2011-2M2013



Source: Bloomberg

### Coal mining FAI, 2009-2M2013



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	448,793	USD	88.27	10.88	9.26	-6.89	17.58	2.64	2.19	36.22	28.19
KOMATSU LTD	6301 JP	180,207	JPY	2252	12.06	11.81	7.64	2.08	1.98	1.80	18.53	13.15
SANY HEAVY INDUS	600031 CH	103,817	RMB	10.91	11.76	9.92	-18.53	18.53	3.53	2.76	34.53	30.21
ZOOMLION HEAVY-H <sup>2</sup>	1157 HK	13,170	HKD	9.21	6.41	5.39	10.02	18.81	1.45	1.19	23.10	22.70
ZOOMLION HEAVY-A <sup>2</sup>	000157 CH	67,667	RMB	8.63	7.50	6.31	10.02	18.81	1.70	1.39	23.10	22.70
XCMG CONSTRUCT-A	000425 CH	30,049	RMB	11.66	8.71	7.81	-18.41	11.58	1.42	1.24	14.77	15.60
GUANGXI LIUGONG	000528 CH	12,976	RMB	9.23	25.57	16.60	-69.15	54.02	1.10	1.05	3.86	5.42
TEREX CORP	TEX US	30,253	USD	35.21	17.36	13.21	394.63	31.46	1.64	1.45	10.56	13.61
TADANO	6395 JP	11,141	JPY	1057	77.35	26.89	-44.83	187.62	1.63	1.53	2.30	6.70
SHANTUI CONST-A	000680 CH	6,644	RMB	4.67	-12.01	12.90	-192.62	-193.06	1.48	1.39	1.25	5.15
XIAMEN XGMA-A	600815 CH	7,584	RMB	6.33	11.14	14.45	-23.24	-22.89	1.16	1.09	10.45	7.51
LONKING HOLDINGS <sup>2</sup>	3339 HK	7,362	HKD	1.72	13.14	7.03	-74.07	86.96	0.88	0.81	6.80	12.00
<b>Sector Weighted Average</b>					<b>11.91</b>	<b>10.01</b>	<b>5.61</b>	<b>16.30</b>	<b>2.39</b>	<b>2.00</b>	<b>28.29</b>	<b>23.05</b>
<b>Agricultural Machinery Makers</b>												
DEERE & CO	DE US	273,851	USD	90.57	10.56	10.03	11.06	5.27	3.66	2.95	38.74	39.34
MAHINDRA & MAHIN	MM IN	76,601	INR	874.00	13.78	11.33	19.25	21.67	2.57	2.19	21.10	20.14
CNH GLOBAL NV	CNH US	76,084	USD	40.45	8.34	7.88	3.68	5.79	0.98	0.87	11.99	12.79
FIRST TRACTOR-H <sup>2</sup>	38 HK	2,882	HKD	7.17	13.16	8.86	-10.22	48.58	1.25	1.26	9.30	13.00
FIRST TRACTOR-A <sup>2</sup>	601038 CH	7,027	RMB	9.47	21.72	14.62	-10.22	48.58	2.06	2.09	9.30	13.00
ESCORTS LTD	ESC IN	941	INR	53.80	6.00	4.40	44.88	36.44	0.35	0.35	6.43	7.21
<b>Sector Weighted Average</b>					<b>10.93</b>	<b>9.94</b>	<b>10.80</b>	<b>9.28</b>	<b>2.95</b>	<b>2.42</b>	<b>30.26</b>	<b>30.70</b>
<b>Mining Machinery Makers</b>												
JOY GLOBAL INC	JOY US	48,661	USD	59.03	9.50	9.10	-13.74	4.49	2.04	1.72	34.20	26.91
ZHENGZHOU COAL-H <sup>2</sup>	564 HK	2,177	HKD	8.96	7.34	7.95	14.94	-7.60	1.27	1.19	21.14	15.21
ZHENGZHOU COAL-A <sup>2</sup>	601717 CH	17,301	RMB	9.89	10.09	10.92	14.94	-7.60	1.79	1.63	21.14	15.21
TIAN DI-A	600582 CH	15,561	RMB	10.26	10.96	9.00	24.66	21.79	2.16	1.79	22.27	21.80
SANY HEAVY EQUIP <sup>2</sup>	631 HK	10,692	HKD	3.45	17.21	15.07	-35.50	14.21	1.55	1.44	9.08	9.78
LINZHOU HEAVY-A	002535 CH	4,816	RMB	7.16	13.38	9.81	54.56	36.45	1.41	1.26	10.86	13.28
SUNWARD INTELL-A	002097 CH	3,817	RMB	7.25	51.79	30.21	-71.03	71.43	1.74	1.66	3.36	5.51
<b>Sector Weighted Average</b>					<b>12.32</b>	<b>10.80</b>	<b>-3.70</b>	<b>9.80</b>	<b>1.91</b>	<b>1.65</b>	<b>25.09</b>	<b>20.72</b>
<b>Machinery Part Makers</b>												
CUMMINS INC	CMI US	169,574	USD	115.08	13.11	11.15	0.29	17.66	2.76	2.32	26.17	22.64
WEICHAI POWER-H	2338 HK	56,608	HKD	26.30	11.89	9.80	-36.79	21.30	1.42	1.26	12.19	13.69
TAIYUAN HEAVY-A	600169 CH	9,873	RMB	3.26	326.00	20.38	-93.79	1500.00	1.44	1.34	0.44	6.58
CHINA YUCHAI	CYD US	4,634	USD	16.02	5.93	5.39	-22.64	10.00	0.64	0.60	10.74	11.07
<b>Sector Weighted Average</b>					<b>25.52</b>	<b>11.10</b>	<b>-12.73</b>	<b>79.17</b>	<b>2.35</b>	<b>1.99</b>	<b>21.53</b>	<b>19.65</b>
<b>Industrial Machinery Makers</b>												
VOLVO AB-B	VOLVB SS	247,954	SEK	96.90	14.69	10.61	21.25	38.43	2.21	1.98	14.15	15.54
ATLAS COPCO-A	ATCOA SS	257,533	SEK	180.20	15.83	14.80	-0.59	6.93	5.41	4.63	43.17	36.34
HYUNDAI HEAVY	009540 KS	109,519	KRW	207000	9.14	7.90	-28.68	15.69	0.80	0.74	9.98	8.47
SANDVIK AB	SAND SS	153,501	SEK	101.80	13.72	12.12	13.96	13.18	3.23	2.82	25.42	24.20
DOOSAN HEAVY	034020 KS	31,172	KRW	42300	6.86	5.26	222.60	30.28	0.87	0.80	11.95	13.70
MANITOWOC CO	MTW US	21,158	USD	20.53	16.09	11.73	65.71	37.15	3.56	2.93	18.33	24.89
ANHUI HELI CO-A	600761 CH	5,369	RMB	8.36	11.22	9.53	-0.67	17.72	1.42	1.28	12.08	12.48
<b>Sector Weighted Average</b>					<b>13.85</b>	<b>11.66</b>	<b>15.06</b>	<b>20.43</b>	<b>3.19</b>	<b>2.77</b>	<b>24.75</b>	<b>22.85</b>
<b>Weighted Average</b>					<b>13.69</b>	<b>10.67</b>	<b>7.47</b>	<b>22.16</b>	<b>2.72</b>	<b>2.31</b>	<b>26.70</b>	<b>23.89</b>
<b>Median</b>					<b>11.82</b>	<b>9.98</b>	<b>-0.63</b>	<b>18.67</b>	<b>1.59</b>	<b>1.42</b>	<b>12.14</b>	<b>13.65</b>

\* The data in the table is as at March 20, 2013;

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

2: ABCI Securities estimates;

Source: 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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**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.  
Tel: (852) 2868 2183**