



January 22, 2014  
Equity Focus  
Rating: BUY  
TP: HK\$ 7.68

H-Share price (HK\$) 5.50  
Est. share price return 39.64%  
Est. dividend yield 3.66%  
Est. total return 43.30%

Previous Rating & TP BUY; HK\$ 7.68  
Previous Report Date December 3, 2013

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

**Key Data**

|                                    |             |
|------------------------------------|-------------|
| 52Wk H/L(HK\$)                     | 8.55 / 3.83 |
| Issued shares (mn)                 | 996         |
| H-Shares (mn)                      | 402         |
| A-Shares (mn)                      | 594         |
| Market cap                         |             |
| H-shares (HK\$ mn)                 | 2,211       |
| A-Shares (RMB mn)                  | 5,221       |
| 3-mth avg daily turnover (HK\$ mn) | 26.9        |
| Major shareholder(s) (%):          |             |
| YTO Group                          | 44.52       |

Source(s): Company, Bloomberg, ABCI Securities

**1H13 Revenue breakdown (%)**

|                          |       |
|--------------------------|-------|
| Agricultural Machinery   | 85.28 |
| Power Machinery          | 12.83 |
| Financial Leasing Income | 0.50  |
| Others                   | 1.39  |

Source(s): Company, ABCI Securities

**Share performance (%)**

|       | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | (7.95)   | (8.42)    |
| 3-mth | 0.71     | 1.02      |
| 6-mth | 16.91    | 11.74     |

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance**



Source(s): Bloomberg

First Tractor (38 HK)

Agricultural mechanization to support long-term growth; reiterate BUY

- The PRC government will accelerate agricultural mechanization to boost farming efficiency and reduce labor required at times when rural workforce is shrinking under urbanization.
- Consolidation of the farming industry will accelerate as farmers were encouraged to franchise their lands to larger farming entities. Demand for agricultural machinery will be spurred by the increased farm size that enhances the economies of scale
- The counter is trading below the third quartile of its historical valuation at 0.86x FY14E P/B and 8.19x FY14 P/E., we deem the current valuation as undemanding. Reiterate **BUY** with TP at HK\$7.68 on favorable agriculture policy

**No.1 Central Document (the Document) stressed rural development.** Food security was prioritized, topping the reform list for 2014. In order to increase the stability of food supply, the PRC government will accelerate the agricultural mechanization to increase production efficiency and reduce the labor required in the face of a shrinking work force under urbanization. The rural population dropped 1.55% (or 12.6mn people) to 629.6mn people at end-2013 while the average level of mechanization in China was ~59% in 2013. MOA targets to boost national farm mechanization from 57.17% in 2012 to over 60%/70% by 2015/2020. We estimate the total subsidy for agricultural machinery purchases to increase from RMB 21.8bn in 2013 to RMB 23bn in 2014.

**Rural land reform to speed up consolidation of agriculture.** Another highlight of the Document is reform of rural land. New policy encourages farmers to franchise their lands to large-scale farming entities such as farmers' cooperatives and agricultural enterprises. We believe the consolidation will significantly raise agricultural productivity and the increased economies of scale will also spur demand for agricultural machinery.

**Agricultural and fishery FAI is accelerating.** The agricultural and fishery FAI in 4Q13 accelerated, bringing the yearly total to RMB 1,161bn, up 32.4% YoY, as compared to 29.8% in 9M13. Thanks to urbanization, agricultural and fishery FAI growth in the rural has been outpacing the overall FAI in China since 2012 (2013 FAI: +19.6% YoY). Increasing agriculture CAPEX reiterates the government's determination to modernize the farming industry. The Document also outlined initiatives to increase financial support to rural regions. All these will benefit the Group, the leading agricultural tractor maker in China, in the long term.

**Reiterate BUY on positive prospects.** The counter is trading below the third quartile of its historical valuation at 0.86x FY14E P/B and 8.19x FY14 P/E. We believe the Group will benefit from increased sales of high-powered tractor under China's reform to accelerate farm mechanization. Based on the Group's positive prospect, we reiterate **BUY** on First Tractor with TP at HK\$ 7.68, representing 1.2x FY14E P/B.

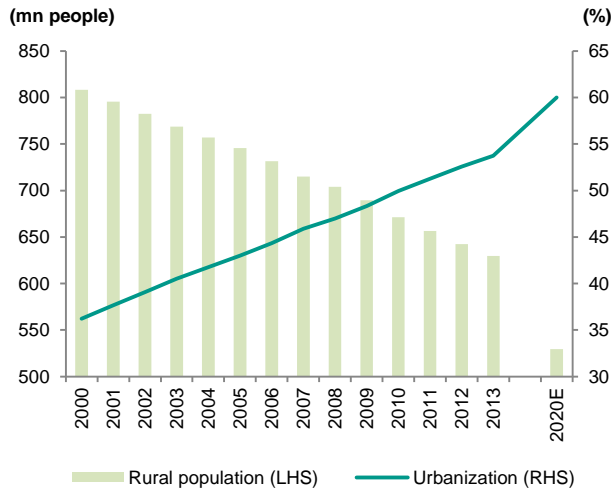
**Risk factors:** 1) Policy risk affecting sustainability of subsidy regime; 2) SG&A-to-revenue ratio increases on keen competition; 3) Expected earnings decline in FY13E

**Results and Valuation**

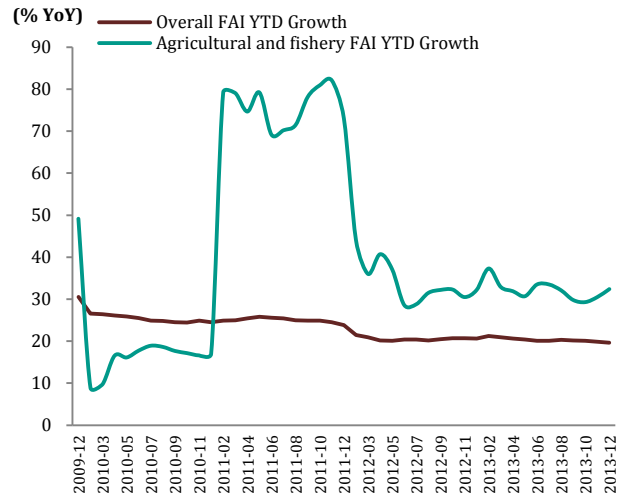
| FY ended Dec 31     | 2011A    | 2012A    | 2013E    | 2014E    | 2015E    |
|---------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn)    | 11,703   | 11,318   | 11,114   | 13,293   | 16,320   |
| Chg (% YoY)         | 14.00    | (3.29)   | (1.80)   | 19.61    | 22.77    |
| Net Income (RMB mn) | 440      | 349      | 306      | 537      | 799      |
| Chg (% YoY)         | (18.97)  | (20.68)  | (12.37)  | 75.59    | 48.76    |
| EPS (RMB)           | 0.520    | 0.351    | 0.307    | 0.539    | 0.802    |
| P/E (x)             |          | 12.59    | 14.39    | 8.19     | 5.51     |
| BVPS (RMB)          | 4.035    | 4.453    | 4.501    | 5.141    | 5.991    |
| P/B (x)             |          | 0.99     | 0.98     | 0.86     | 0.74     |
| DPS (RMB)           | 0.000    | 0.100    | 0.092    | 0.162    | 0.241    |
| Yield (%)           |          | 2.27     | 2.09     | 3.66     | 5.45     |
| ROAE (%)            | 13.25    | 8.90     | 6.86     | 11.18    | 14.41    |
| Net gearing (%)     | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash |

\*Net gearing=Net debt/Total equity

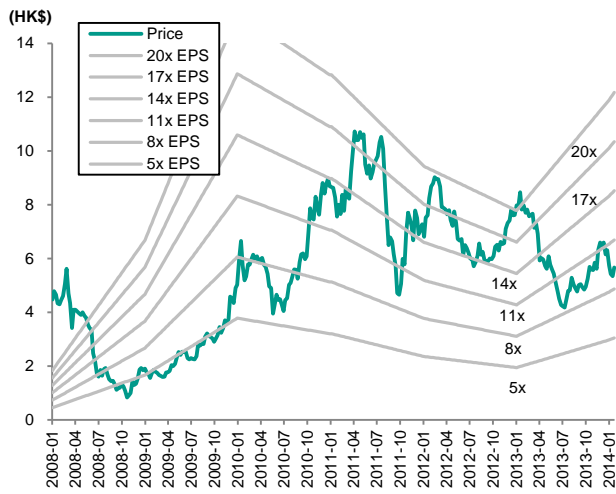
Source(s): Bloomberg, ABCI Securities estimates

**Exhibit 1: Rural population and urbanization rate of China**


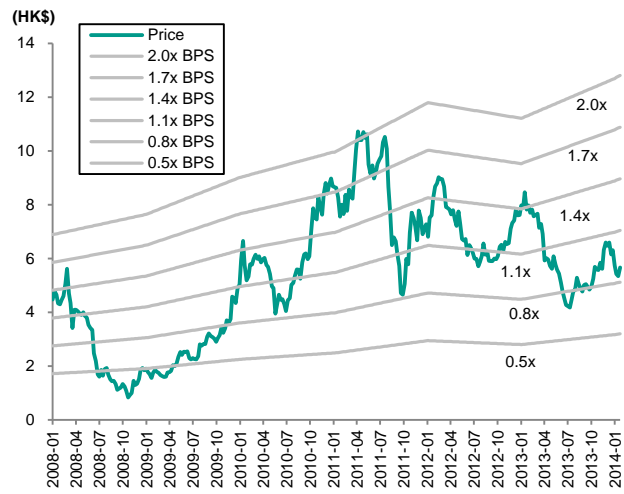
Source(s): NBS, ABCI securities estimates

**Exhibit 2: Fixed-assets investment (FAI) in agricultural and fishery industry vs. overall FAI in China**


Source(s): NBS

**Exhibit 3: P/E band of First Tractor (H-shares) in 1M08-1M14 (HK\$)**


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

**Exhibit 4: P/B band of First Tractor (H-shares) in 1M08-1M14 (HK\$)**


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

**Exhibit 5: Peer valuation for machinery manufacturers**

| Company                             | Ticker       | Mkt cap<br>(HK\$ mn) | As of<br>21/01/2014<br>CRY<br>Share<br>Price | P/E (x)     |              | EPS (%YoY)   |                | P/B (x)       |             | ROAE (%)    |              |              |
|-------------------------------------|--------------|----------------------|--|-------------|--------------|--------------|----------------|---------------|-------------|-------------|--------------|--------------|
|                                     |              |                      |  | FY13E       | FY14E        | FY13E        | FY14E          | FY13E         | FY14E       | FY13E       | FY14E        |              |
| <b>Construction Machinery Maker</b> |              |                      |  |             |              |              |                |               |             |             |              |              |
| CATERPILLAR INC                     | CAT US       | 451,356              | USD  | 91.44       | 16.74        | 15.95        | (37.30)        | 5.00          | 3.23        | 2.90        | 23.99        | 29.44        |
| KOMATSU LTD                         | 6301 JP      | 152,009              | JPY  | 2,087       | 13.80        | 12.90        | 14.03          | 6.93          | 1.55        | 1.46        | 13.28        | 12.12        |
| SANY HEAVY INDUS                    | 600031 CH    | 56,342               | RMB  | 5.77        | 8.86         | 6.56         | (13.20)        | 35.02         | 1.64        | 1.43        | 15.59        | 17.69        |
| ZOOMLION HEAVY-H                    | 1157 HK      | 9,295                | HKD  | 6.50        | 8.31         | 7.47         | (33.95)        | 11.25         | 0.88        | 0.77        | 11.19        | 11.01        |
| ZOOMLION HEAVY-A                    | 000157 CH    | 40,472               | RMB  | 5.03        | 8.01         | 7.20         | (33.95)        | 11.25         | 0.85        | 0.74        | 11.19        | 11.01        |
| XCMG CONSTRUCT-A                    | 000425 CH    | 18,168               | RMB  | 6.87        | 7.05         | 7.23         | (18.75)        | (2.56)        | 0.76        | 0.70        | 10.82        | 10.10        |
| GUANGXI LIUGONG                     | 000528 CH    | 8,324                | RMB  | 5.77        | 15.18        | 11.59        | 52.00          | 31.05         | 0.67        | 0.64        | 4.14         | 5.33         |
| TEREX CORP                          | TEX US       | 36,381               | USD  | 42.14       | 19.89        | 14.58        | 120.73         | 36.39         | 2.18        | 1.88        | 11.71        | 14.21        |
| TADANO                              | 6395 JP      | 14,334               | JPY  | 1,494       | 15.31        | 13.49        | 68.69          | 13.51         | 1.97        | 1.75        | 7.95         | 13.75        |
| SHANTUI CONST-A                     | 000680 CH    | 4,677                | RMB  | 2.94        | 127.83       | 43.88        | (23.33)        | 191.30        | 0.80        | 0.78        | (0.40)       | 1.80         |
| XIAMEN XGMA-A                       | 600815 CH    | 4,365                | RMB  | 3.55        | (16.14)      | (44.38)      | (237.50)       | (63.64)       | 0.76        | 0.77        | (4.49)       | (1.72)       |
| LONKING HOLDINGS                    | 3339 HK      | 6,891                | HKD  | 1.61        | 10.66        | 8.33         | 243.80         | 28.04         | 0.80        | 0.72        | 7.87         | 9.09         |
| <b>Sector Weighted Average</b>      |              |                      |  |             | <b>15.39</b> | <b>13.59</b> | <b>(13.87)</b> | <b>10.44</b>  | <b>2.45</b> | <b>2.21</b> | <b>18.80</b> | <b>22.03</b> |
| <b>Agricultural Machinery Maker</b> |              |                      |  |             |              |              |                |               |             |             |              |              |
| DEERE & CO                          | DE US        | 257,383              | USD  | 89.35       | 10.75        | 11.80        | (9.48)         | (8.90)        | 2.73        | 2.35        | 40.75        | 27.82        |
| MAHINDRA & MAHIN                    | MM IN        | 70,846               | INR  | 913.95      | 12.26        | 10.63        | 7.29           | 15.34         | 2.38        | 2.04        | 17.75        | 15.78        |
| <b>FIRST TRACTOR-H</b>              | <b>38 HK</b> | <b>2,211</b>         | <b>HKD</b>                                   | <b>5.50</b> | <b>14.39</b> | <b>8.19</b>  | <b>(12.46)</b> | <b>75.59</b>  | <b>0.98</b> | <b>0.86</b> | <b>6.86</b>  | <b>11.18</b> |
| FIRST TRACTOR -A                    | 601038 CH    | 6,693                | RMB  | 8.79        | 28.63        | 16.30        | (12.46)        | 75.59         | 1.95        | 1.71        | 6.86         | 11.18        |
| ESCORTS LTD                         | ESC IN       | 1,861                | INR  | 120.65      | 7.84         | 8.26         | 148.64         | (5.12)        | 0.70        | 0.70        | 9.45         | 8.47         |
| <b>Sector Weighted Average</b>      |              |                      |  |             | <b>11.43</b> | <b>11.60</b> | <b>(5.18)</b>  | <b>(1.60)</b> | <b>2.62</b> | <b>2.25</b> | <b>34.88</b> | <b>24.76</b> |
| <b>Mining Machinery Maker</b>       |              |                      |  |             |              |              |                |               |             |             |              |              |
| JOY GLOBAL INC                      | JOY US       | 44,503               | USD  | 56.23       | 17.16        | 14.99        | (34.85)        | 14.49         | 1.95        | 1.82        | 26.80        | 15.43        |
| ZHENGZHOU COAL-H                    | 564 HK       | 1,171                | HKD  | 4.82        | 7.35         | 5.96         | (46.30)        | 23.37         | 0.66        | 0.61        | 9.12         | 10.59        |
| ZHENGZHOU COAL-A                    | 601717 CH    | 9,841                | RMB  | 5.57        | 10.58        | 8.58         | (46.30)        | 23.37         | 0.95        | 0.87        | 9.12         | 10.59        |
| TIAN DI -A                          | 600582 CH    | 10,381               | RMB  | 6.67        | 10.18        | 8.89         | (29.95)        | 14.50         | 1.81        | 1.99        | 15.37        | 21.28        |
| SANY HEAVY EQUIP                    | 631 HK       | 6,690                | HKD  | 2.20        | 12.28        | 11.18        | (10.34)        | 9.82          | 0.93        | 0.87        | 7.66         | 7.94         |
| LINZHOU HEAVY-A                     | 002535 CH    | 4,609                | RMB  | 6.70        | 9.82         | 9.57         | 58.60          | 2.64          | 1.48        | 1.30        | 10.97        | 14.49        |
| SUNWARD INTELL-A                    | 002097 CH    | 4,536                | RMB  | 8.60        | 53.75        | 53.75        | 633.94         | 0.00          | 2.01        | 1.95        | 3.94         | 3.69         |
| <b>Sector Weighted Average</b>      |              |                      |  |             | <b>16.56</b> | <b>14.85</b> | <b>8.63</b>    | <b>13.84</b>  | <b>1.68</b> | <b>1.61</b> | <b>19.24</b> | <b>14.20</b> |
| <b>Machinery Parts Maker</b>        |              |                      |  |             |              |              |                |               |             |             |              |              |
| CUMMINS INC                         | CMI US       | 200,184              | USD  | 137.74      | 18.21        | 14.93        | (12.96)        | 21.97         | 3.54        | 3.06        | 21.56        | 22.02        |
| WEICHAI POWER-H                     | 2338 HK      | 48,748               | HKD  | 29.25       | 12.64        | 10.73        | 23.87          | 17.87         | 1.60        | 1.40        | 13.82        | 14.35        |
| TAIYUAN HEAVY-A                     | 600169 CH    | 8,546                | RMB  | 2.75        | 20.37        | 27.50        | (198.47)       | (25.93)       | 1.18        | 1.13        | 5.96         | 4.20         |
| CHINA YUCHAI                        | CYD US       | 6,371                | USD  | 22.04       | 7.30         | 7.41         | 24.28          | (1.49)        | 0.81        | 0.76        | 11.53        | 10.59        |
| <b>Sector Weighted Average</b>      |              |                      |  |             | <b>16.99</b> | <b>14.38</b> | <b>(11.26)</b> | <b>19.10</b>  | <b>3.04</b> | <b>2.64</b> | <b>19.38</b> | <b>19.75</b> |
| <b>Industrial Machinery Maker</b>   |              |                      |  |             |              |              |                |               |             |             |              |              |
| VOLVO AB-B                          | VOLVB SS     | 229,799              | SEK  | 90.00       | 32.10        | 17.05        | (48.46)        | 88.23         | 2.34        | 2.24        | 6.64         | 13.45        |
| ATLAS COPCO-A                       | ATCOA SS     | 259,722              | SEK  | 180.80      | 17.88        | 16.85        | (11.69)        | 6.12          | 5.52        | 4.86        | 32.12        | 29.66        |
| HYUNDAI HEAVY                       | 009540 KS    | 130,666              | KRW  | 236,500     | 9.03         | 7.50         | 45.28          | 20.38         | 0.97        | 0.92        | 10.49        | 12.61        |
| SANDVIK AB                          | SAND SS      | 139,049              | SEK  | 92.90       | 16.87        | 14.79        | (15.42)        | 14.06         | 3.37        | 3.06        | 18.75        | 19.93        |
| DOOSAN HEAVY                        | 034020 KS    | 28,593               | KRW  | 37,050      | 4.61         | 4.19         | (447.41)       | 10.00         | 0.86        | 0.78        | 19.01        | 19.51        |
| MANITOWOC CO                        | MTW US       | 26,517               | USD  | 25.60       | 20.40        | 17.00        | 62.99          | 20.00         | 4.51        | 3.51        | 24.85        | 24.93        |
| ANHUI HELI CO-A                     | 600761 CH    | 7,387                | RMB  | 11.21       | 12.02        | 10.33        | 37.21          | 16.29         | 1.69        | 1.48        | 14.95        | 15.72        |
| <b>Sector Weighted Average</b>      |              |                      |  |             | <b>19.84</b> | <b>14.58</b> | <b>(25.85)</b> | <b>33.37</b>  | <b>3.31</b> | <b>2.98</b> | <b>18.45</b> | <b>20.14</b> |
| <b>Overall Weighted Average</b>     |              |                      |  |             | <b>16.62</b> | <b>13.79</b> | <b>(15.77)</b> | <b>17.94</b>  | <b>2.82</b> | <b>2.52</b> | <b>21.12</b> | <b>21.22</b> |

Source(s): Bloomberg, ABCI Securities estimates

**Consolidated income statement (2011A-2015E)**

| <b>FY Ended Dec 31 (RMB mn)</b>           | <b>2011A</b>    | <b>2012A</b>   | <b>2013E</b>   | <b>2014E</b>    | <b>2015E</b>    |
|---|-----------------|----------------|----------------|-----------------|-----------------|
| <b>Revenue</b>                            | <b>11,703</b>   | <b>11,318</b>  | <b>11,114</b>  | <b>13,293</b>   | <b>16,320</b>   |
| Agricultural Machinery                    | 9,356           | 9,617          | 9,264          | 11,049          | 13,514          |
| Power Machinery                           | 1,470           | 1,224          | 1,346          | 1,725           | 2,243           |
| Financial Leasing Income                  | 66              | 92             | 99             | 95              | 117             |
| Others                                    | 811             | 385            | 404            | 424             | 446             |
| <b>COGS</b>                               | <b>(10,043)</b> | <b>(9,775)</b> | <b>(9,450)</b> | <b>(11,282)</b> | <b>(13,743)</b> |
| <b>Gross profit</b>                       | <b>1,660</b>    | <b>1,543</b>   | <b>1,664</b>   | <b>2,011</b>    | <b>2,576</b>    |
| SG&A                                      | (1,077)         | (1,093)        | (1,167)        | (1,220)         | (1,444)         |
| Other income and gains                    | 16              | 35             | (94)           | (78)            | (76)            |
| <b>Pre-tax profit</b>                     | <b>599</b>      | <b>485</b>     | <b>402</b>     | <b>713</b>      | <b>1,056</b>    |
| Income tax                                | (85)            | (71)           | (60)           | (107)           | (158)           |
| <b>Net profit</b>                         | <b>514</b>      | <b>414</b>     | <b>342</b>     | <b>606</b>      | <b>898</b>      |
| Profit attributable to:                   |                 |                |                |                 |                 |
| Minority interests                        | 74              | 65             | 36             | 69              | 99              |
| <b>Equity shareholders of the Company</b> | <b>440</b>      | <b>349</b>     | <b>306</b>     | <b>537</b>      | <b>799</b>      |
| <b>EPS (RMB)</b>                          | <b>0.520</b>    | <b>0.351</b>   | <b>0.307</b>   | <b>0.539</b>    | <b>0.802</b>    |
| <b>DPS (RMB)</b>                          | <b>0.000</b>    | <b>0.100</b>   | <b>0.092</b>   | <b>0.162</b>    | <b>0.241</b>    |
| <b>EBIT</b>                               | <b>662</b>      | <b>569</b>     | <b>514</b>     | <b>810</b>      | <b>1,154</b>    |
| <b>EBITDA</b>                             | <b>802</b>      | <b>760</b>     | <b>727</b>     | <b>1,027</b>    | <b>1,407</b>    |

Source(s): Company, ABCI Securities estimates

**Consolidated balance sheet (2011A-2015E)**

| <b>As of Dec 31 (RMB mn)</b>   | <b>2011A</b> | <b>2012A</b>  | <b>2013E</b>  | <b>2014E</b>  | <b>2015E</b>  |
|--------------------------------|--------------|---------------|---------------|---------------|---------------|
| <b>Current assets</b>          | <b>6,533</b> | <b>7,648</b>  | <b>8,163</b>  | <b>8,967</b>  | <b>10,718</b> |
| Cash and equivalent            | 1,541        | 1,969         | 2,252         | 2,486         | 2,842         |
| Trade and bill receivables     | 2,446        | 2,335         | 2,841         | 2,986         | 3,274         |
| Financial leasing receivables  | 632          | 748           | 816           | 676           | 1,172         |
| Inventories                    | 1,195        | 1,470         | 1,015         | 1,457         | 1,931         |
| Other current assets           | 719          | 1,126         | 1,239         | 1,362         | 1,499         |
| <b>Non-current assets</b>      | <b>3,240</b> | <b>3,690</b>  | <b>4,128</b>  | <b>4,501</b>  | <b>4,578</b>  |
| Property, plant and equipment  | 2,168        | 2,559         | 2,932         | 3,243         | 3,219         |
| Intangible assets              | 773          | 822           | 865           | 907           | 948           |
| Long-term investments          | 199          | 167           | 184           | 202           | 222           |
| Other non-current assets       | 100          | 142           | 147           | 149           | 189           |
| <b>Total assets</b>            | <b>9,773</b> | <b>11,338</b> | <b>12,290</b> | <b>13,468</b> | <b>15,296</b> |
| <b>Current liabilities</b>     | <b>5,465</b> | <b>5,556</b>  | <b>5,182</b>  | <b>5,643</b>  | <b>6,536</b>  |
| Trade and bill payables        | 2,345        | 2,703         | 2,216         | 2,420         | 2,851         |
| Receipts in advance            | 1,058        | 1,047         | 1,176         | 1,483         | 1,781         |
| Short term borrowings          | 969          | 451           | 300           | 100           | 100           |
| Other current liabilities      | 1,093        | 1,355         | 1,491         | 1,640         | 1,804         |
| <b>Non-current liabilities</b> | <b>356</b>   | <b>826</b>    | <b>2,047</b>  | <b>2,070</b>  | <b>2,095</b>  |
| Long-term borrowings           | 186          | 618           | 1,818         | 1,818         | 1,818         |
| Other non-current liabilities  | 170          | 208           | 229           | 252           | 277           |
| <b>Total liabilities</b>       | <b>5,821</b> | <b>6,382</b>  | <b>7,229</b>  | <b>7,712</b>  | <b>8,631</b>  |
| <b>Minority interests</b>      | <b>538</b>   | <b>525</b>    | <b>578</b>    | <b>635</b>    | <b>699</b>    |
| <b>Shareholders' equities</b>  | <b>3,414</b> | <b>4,431</b>  | <b>4,483</b>  | <b>5,120</b>  | <b>5,967</b>  |
| <b>BVPS (RMB)</b>              | <b>4.035</b> | <b>4.453</b>  | <b>4.501</b>  | <b>5.141</b>  | <b>5.991</b>  |

Source(s): Company, ABCI Securities estimates

**Consolidated cash flow statement (2011A-2015E)**

| <b>FY ended Dec 31 (RMB mn)</b>          | <b>2011A</b> | <b>2012A</b> | <b>2013E</b> | <b>2014E</b> | <b>2015E</b> |
|--|--------------|--------------|--------------|--------------|--------------|
| <b>Profit before tax</b>                 | <b>599</b>   | <b>485</b>   | <b>402</b>   | <b>713</b>   | <b>1,056</b> |
| Changes in depreciation and amortization | 140          | 191          | 214          | 217          | 253          |
| Changes in working capital               | 67           | (13)         | (141)        | (485)        | (296)        |
| Financial cost                           | 55           | 63           | 111          | 97           | 97           |
| Income tax paid                          | (83)         | (99)         | (63)         | (110)        | (162)        |
| Others                                   | (59)         | (72)         | -            | -            | -            |
| <b>CF Operating</b>                      | <b>719</b>   | <b>555</b>   | <b>523</b>   | <b>432</b>   | <b>949</b>   |
| Increase in PP&E                         | (362)        | (405)        | (560)        | (500)        | (200)        |
| Increase in intangible assets            | (565)        | (49)         | (43)         | (42)         | (41)         |
| Others                                   | 117          | (293)        | -            | -            | -            |
| <b>CF Investing</b>                      | <b>(810)</b> | <b>(747)</b> | <b>(603)</b> | <b>(542)</b> | <b>(241)</b> |
| Capital injection                        | 7            | 866          | -            | -            | -            |
| Net debt financing                       | 386          | (86)         | 1,049        | (200)        | -            |
| Dividend payout                          | (106)        | (76)         | (100)        | (92)         | (161)        |
| Interest paid                            | (54)         | (83)         | (111)        | (97)         | (97)         |
| Others                                   | 31           | (13)         | (476)        | 733          | (94)         |
| <b>CF Financing</b>                      | <b>264</b>   | <b>608</b>   | <b>363</b>   | <b>344</b>   | <b>(352)</b> |
| <b>Net change in cash</b>                | <b>173</b>   | <b>416</b>   | <b>283</b>   | <b>234</b>   | <b>356</b>   |
| Cash at the beginning                    | 1,393        | 1,541        | 1,969        | 2,252        | 2,486        |
| Adjustment (Time deposit & FX effect)    | (25)         | 12           | -            | -            | -            |
| <b>Cash at the end</b>                   | <b>1,541</b> | <b>1,969</b> | <b>2,252</b> | <b>2,486</b> | <b>2,842</b> |

Source(s): Company, ABCI Securities estimates

**Consolidated cash flow statement (2011A-2015E)**

| <b>FY ended Dec 31</b>                | <b>2011A</b> | <b>2012A</b> | <b>2013E</b> | <b>2014E</b> | <b>2015E</b> |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Sales mixed (%)</b>                |              |              |              |              |              |
| Agricultural Machinery                | 79.95        | 84.97        | 83.35        | 83.12        | 82.81        |
| Power Machinery                       | 12.56        | 10.81        | 12.11        | 12.98        | 13.74        |
| Financial Leasing Income              | 0.56         | 0.81         | 0.89         | 0.71         | 0.72         |
| Others                                | 6.93         | 3.40         | 3.64         | 3.19         | 2.73         |
| <b>Profit &amp; loss ratios (%)</b>   |              |              |              |              |              |
| Gross margin                          | 14.18        | 13.63        | 14.97        | 15.13        | 15.79        |
| Net profit margin                     | 3.76         | 3.08         | 2.75         | 4.04         | 4.90         |
| Effective tax rate                    | 14.19        | 14.64        | 15.00        | 15.00        | 15.00        |
| <b>Growth (%)</b>                     |              |              |              |              |              |
| Revenue                               | 14.00        | (3.29)       | (1.80)       | 19.61        | 22.77        |
| Gross profit                          | 9.43         | (7.05)       | 7.84         | 20.88        | 28.09        |
| EBIT                                  | (1.78)       | (14.05)      | (9.75)       | 57.78        | 42.37        |
| EBITDA                                | (4.41)       | (5.24)       | (4.28)       | 41.19        | 36.96        |
| Net profit                            | (18.97)      | (20.68)      | (12.37)      | 75.59        | 48.76        |
| <b>Balance sheet ratios</b>           |              |              |              |              |              |
| Current ratio (x)                     | 1.20         | 1.38         | 1.58         | 1.59         | 1.64         |
| Quick ratio (x)                       | 0.98         | 1.11         | 1.38         | 1.33         | 1.34         |
| Cash ratio (x)                        | 0.28         | 0.35         | 0.43         | 0.44         | 0.43         |
| Trade and bill receivables days       | 63.02        | 77.09        | 85.00        | 80.00        | 70.00        |
| Trade and bill payables turnover days | 81.61        | 94.25        | 95.00        | 75.00        | 70.00        |
| Inventory turnover days               | 47.65        | 49.76        | 48.00        | 40.00        | 45.00        |
| Total debt / equity ratio (%)         | 29.23        | 21.57        | 41.85        | 33.32        | 28.78        |
| Net debt / equity ratio (%)           |              | Net Cash     | Net Cash     | Net Cash     | Net Cash     |
| <b>Returns (%)</b>                    |              |              |              |              |              |
| ROAE                                  | 13.25        | 8.90         | 6.86         | 11.18        | 14.41        |
| ROAA                                  | 5.52         | 3.92         | 2.90         | 4.71         | 6.24         |
| Payout ratio                          | -            | 28.54        | 30.00        | 30.00        | 30.00        |

Source(s): Company, ABCI Securities estimates

## Disclosures

### Analyst Certification

I, Wong Cheuk Wai, Steve, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

### Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

### 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.

### Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on

investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

---

Copyright 2014 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,  
8 Cotton Tree Drive, Central, Hong Kong.**

**Tel: (852) 2868 2183**