

Company Rating:

Buy

Target price: HK\$1.86

Key data

H-share price (HK\$)	1.62
Upside potential (%)	14.8
52Wk H/L(HK\$)	2.48/1.01
Issued shares (mn)	4,280
Share market cap (HK\$mn)	6,934
30-day avg daily vol (HK\$mn)	54.2
Auditors	Ernst & Young
Major shareholder (%)	
Li San Yim & spouse	55.69

Source: Company & Bloomberg

Revenue breakdown by product (%)

Wheel loaders	65.36
Excavators	11.14
Fork lifts	10.37
Road rollers	1.46
Finance lease interest income	1.33
Others	10.33

*Based on FY12 results

Source: Company

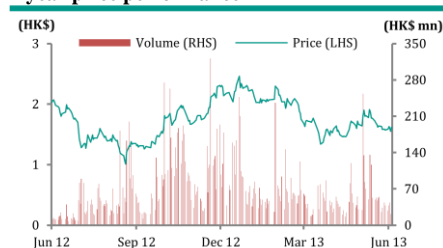
Share performance (%)

	Absolute	Relative ¹
1-mth	-10.50	-0.09
3-mth	-5.26	4.03
6-mth	-24.30	-15.92

1: Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

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Previous report

Date: April 15, 2013

Rating: Buy

Target price: HK\$1.86

Lonking (3339 HK)

Construction & Farm Machinery Industry

Sales Recovery Momentum on Track

Lonking unveiled its sales volume of wheel loaders was up 5.2% YoY in May, the first month with positive YoY growth since Feb 2012. Owing to effective cost control and reduction of financial cost, Lonking expects its profit to jump for 1H13 results. We expect its net income to increase by 40.57% YoY and 299.47% YoY for 1HFY13 and FY13, respectively. The counter is trading below 1x BVPS (vs average PBR at 2.43x since 2006). As recovery signal is observed, we reiterate "Buy"

Recovery on track. We are of the view that the sales recovery momentum is on track. The sales volume decline of the Group is narrowing and the overall industry is improving. Looking forward, with the expanding construction activities (construction activity index has been staying 50% for 12 months, and the index was 62.2% in May), we believe its sales recovery will carry on in 2H13. Lonking's wheel loader sales volume decline reduced from -19.1% YoY in 1-4M13 to -14.8% YoY in 1-5M13. Its sales volume of wheel loaders in May was 2,531 in May, up 5.2% YoY, the first month with positive YoY growth since Feb 2012.

Positive Profit Alert. The Group announced a positive profit alert for its 1H FY13 results. The growth in net income was mainly due to appreciation gain and decrease in operating cost. Based on estimated outstanding FX loans of USD342mn, we predict the Group to post a FX gain of Rmb37.3mn in 1HFY13. With the expected total cost reduction at Rmb102.7mn, we estimate the net income for 1HFY13 will increase by 40.57% YoY.

Reiterate a Buy rating. The counter is trading at 0.79x FY13E PBR. As market statistics indicate the Group and its downstream industry are recovering, its PBR is deserved for upward re-rating in the 2H13. With the prudent corporate governance, we expect to see improvement in earnings quality and receivable level its interim-results. We reiterate "Buy" recommendation.

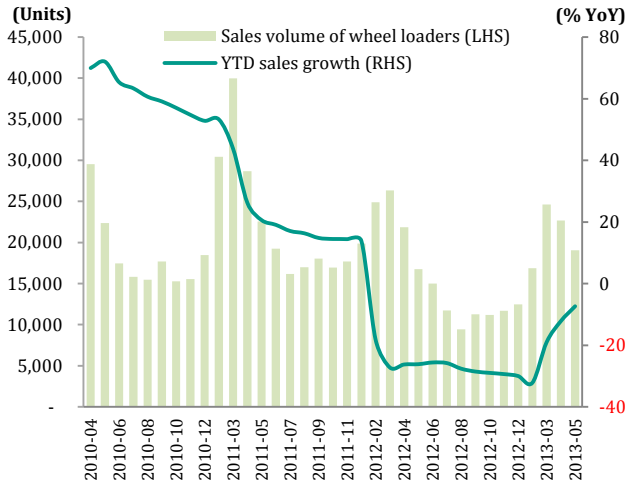
Risk factors: Product concentration risk; Development of agricultural machineries subject to policy risk; Raw material inflation risk

Forecast and Valuation

FY ended Dec 31	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (Rmb mn)	12,721	7,896	8,778	9,940	11,086
Chg (%YoY)	5.83	-37.93	11.17	13.23	11.53
Net Income (Rmb mn)	1,730	151	603	851	1,015
Chg (%YoY)	-2.04	-91.27	299.47	41.03	19.32
EPS (Rmb)	0.404	0.035	0.141	0.199	0.237
Chg (%YoY)	-2.04	-91.27	299.47	41.03	19.32
PER (x)	-	36.88	9.23	6.55	5.49
PBR (x)	-	0.89	0.79	0.70	0.62
Yield (%)	-	-	2.71	3.82	4.56
ROAA (%)	11.69	1.02	4.16	5.54	6.35
ROAE (%)	29.71	2.39	9.09	11.37	12.02
Net debt/total equity (%)	50.06	66.26	51.25	28.17	15.01

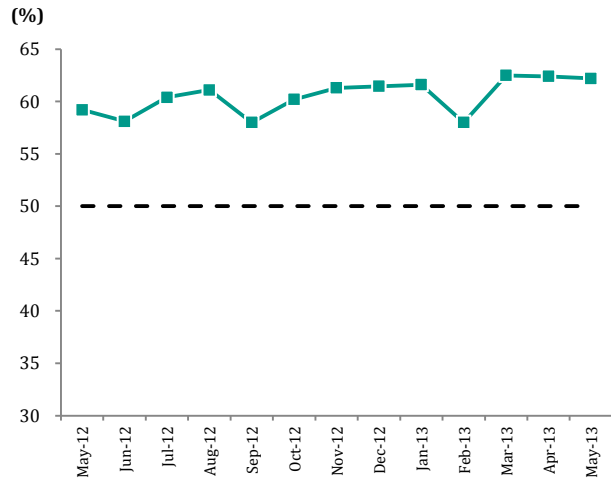
Source: Company, ABCI Securities estimates

Sales volume and YTD growth of wheel loader, 4M2010 – 5M2013



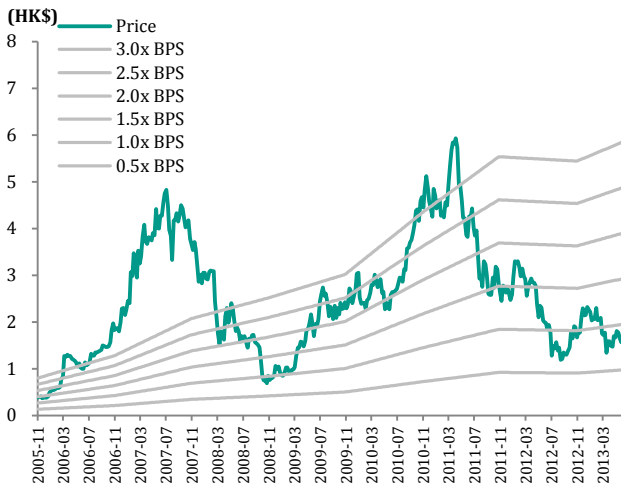
Source: CCMA, Media

China non-manufacturing PMI sub index: construction activity, 5M2012 – 5M2013



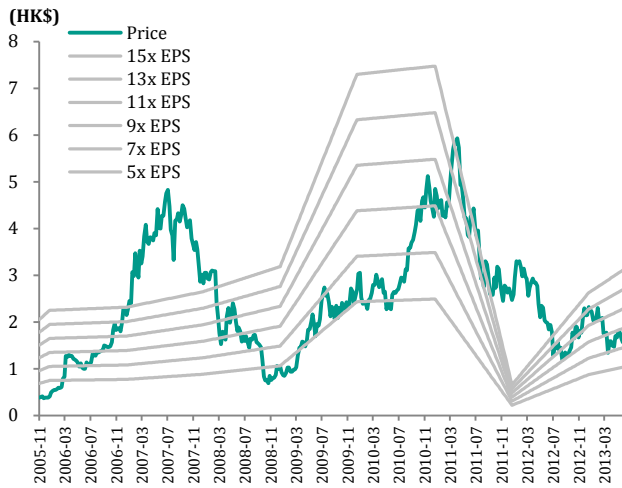
Source: NBS

PB band of the Group



Source: Company, Bloomberg, ABCI Securities estimates

PE band of the Group



Source: Company, Bloomberg, ABCI Securities estimates

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

Company	Ticker	MKT CAP ¹ (HKD mn)	Share Price	PER (x)		EPS Change (%)		PBR (x)		ROAE (%)		
				FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	
Construction Machinery Makers												
CATERPILLAR INC	CAT US	424,136	USD	83.12	12.15	10.47	-21.47	16.11	2.69	2.26	29.93	37.67
KOMATSU LTD	6301 JP	180,762	JPY	2320	11.80	10.72	48.24	10.02	1.72	1.56	13.28	15.73
SANY HEAVY INDUS	600031 CH	74,465	RMB	7.73	8.37	6.45	23.20	29.76	2.04	1.62	25.59	27.46
ZOOMLION HEAVY-H ²	1157 HK	8,022	HKD	5.61	4.87	4.04	-2.65	20.57	0.72	0.61	16.06	16.45
ZOOMLION HEAVY-A ²	000157 CH	45,642	RMB	5.75	6.21	5.15	-2.65	20.57	0.92	0.78	16.06	16.45
XCMG CONSTRUCT-A	000425 CH	23,115	RMB	8.86	5.96	5.68	23.92	4.91	0.92	0.80	15.09	15.31
GUANGXI LIUGONG	000528 CH	10,062	RMB	7.07	9.87	6.93	186.40	42.46	0.81	0.77	4.97	7.70
TEREX CORP	TEX US	23,009	USD	26.67	12.54	8.54	121.56	46.87	1.24	1.06	10.44	12.81
TADANO	6395 JP	13,701	JPY	1335	16.47	14.82	40.10	11.14	1.79	1.60	7.95	11.40
SHANTUI CONST-A	000680 CH	5,372	RMB	3.73	23.31	17.51	433.33	33.13	1.00	0.99	4.31	5.68
XIAMEN XGMA-A	600815 CH	5,397	RMB	4.45	35.60	15.89	-21.88	124.00	0.89	0.84	-1.82	5.43
LONKING HOLDINGS²	3339 HK	6,934	HKD	1.62	9.23	6.55	299.47	41.03	0.79	0.70	9.09	11.37
Sector Weighted Average					11.41	9.69	13.72	18.12	2.13	1.82	22.77	27.75
Agricultural Machinery Makers												
DEERE & CO	DE US	248,284	USD	82.47	9.68	9.43	10.41	2.55	3.18	2.55	38.90	29.62
MAHINDRA & MAHIN	MM IN	75,070	INR	939.65	12.36	10.17	9.41	21.51	2.37	2.02	17.73	16.17
CNH GLOBAL NV	CNH US	76,371	USD	40.62	8.10	7.78	7.14	4.11	1.03	0.91	15.58	16.51
FIRST TRACTOR-H ²	38 HK	1,809	HKD	4.50	11.54	7.50	-10.68	53.83	0.80	0.71	7.04	10.02
FIRST TRACTOR-A ²	601038 CH	5,664	RMB	7.54	24.07	15.65	-10.68	53.83	1.67	1.48	7.04	10.02
ESCORTS LTD	ESC IN	1,092	INR	68.45	6.94	5.69	59.32	21.91	0.45	0.42	7.46	7.65
Sector Weighted Average					10.07	9.33	9.36	7.31	2.59	2.11	29.98	24.28
Mining Machinery Makers												
JOY GLOBAL INC	JOY US	41,469	USD	50.30	8.58	9.03	-18.56	-5.03	1.71	1.49	26.52	24.66
ZHENGZHOU COAL-H ²	564 HK	1,390	HKD	5.72	6.52	4.82	-28.15	35.26	0.76	0.67	12.02	14.80
ZHENGZHOU COAL-A ²	601717 CH	12,444	RMB	7.14	10.14	7.49	-28.15	35.26	1.18	1.05	12.02	14.80
TIAN DI-A	600582 CH	11,346	RMB	7.39	7.06	6.03	11.98	17.10	1.07	0.91	23.20	16.34
SANY HEAVY EQUIP ²	631 HK	7,095	HKD	2.31	10.12	8.52	14.21	18.85	0.97	0.89	9.78	10.73
LINZHOU HEAVY-A	002535 CH	4,106	RMB	6.03	8.54	6.31	64.19	35.41	1.36	1.13	17.19	19.58
SUNWARD INTELL-A	002097 CH	3,294	RMB	6.33	27.52	42.20	955.05	-34.78	1.49	1.45	5.66	3.49
Sector Weighted Average					9.47	9.47	30.65	7.86	1.43	1.25	20.80	19.48
Machinery Part Makers												
CUMMINS INC	CMI US	163,576	USD	111.12	13.87	11.44	-7.84	21.28	2.73	2.33	22.82	22.00
WEICHAI POWER-H	2338 HK	48,902	HKD	24.85	10.95	9.36	21.53	17.00	1.39	1.22	13.83	14.08
TAIYUAN HEAVY-A	600169 CH	8,308	RMB	2.71	20.07	27.10	-198.47	-25.93	1.15	1.11	3.72	4.17
CHINA YUCHAI	CYD US	5,155	USD	17.83	6.44	5.49	14.94	17.33	0.70	0.65	11.32	12.33
Sector Weighted Average					13.30	11.43	-7.97	18.53	2.34	2.01	19.91	19.41
Industrial Machinery Makers												
VOLVO AB-B	VOLVB SS	222,722	SEK	89.95	20.57	11.24	-19.63	83.05	2.28	2.04	11.12	20.38
ATLAS COPCO-A	ATCOA SS	220,001	SEK	159.70	14.78	13.73	-5.63	7.63	4.75	4.08	33.93	31.15
HYUNDAI HEAVY	009540 KS	92,808	KRW	182000	6.95	5.77	45.28	20.38	0.73	0.69	10.56	12.33
SANDVIK AB	SAND SS	121,316	SEK	83.10	12.97	10.93	-1.61	18.70	2.82	2.48	20.42	20.52
DOOSAN HEAVY	034020 KS	28,197	KRW	39700	4.94	4.49	-447.41	10.00	0.87	0.81	19.41	18.57
MANITOWOC CO	MTW US	17,919	USD	17.30	14.93	10.30	50.52	44.87	3.08	2.57	24.06	29.70
ANHUI HELI CO-A	600761 CH	5,519	RMB	8.49	10.02	8.88	24.56	12.87	1.31	1.19	13.04	13.51
Sector Weighted Average					14.84	10.93	-18.60	35.98	2.89	2.53	20.39	22.81
Weighted Average					12.37	10.18	1.15	21.46	2.45	2.09	22.97	24.42
Median					10.14	8.88	11.98	20.38	1.24	1.11	13.28	15.31

* The data in the table is as at June 21, 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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