



**Key Data**

H-share price (HK\$)	9.51
Target price (HK\$)	12.12
Upside potential (%)	27.4
52Wk H/L(HK\$)	12.70 / 7.60
Issued shares (mn)	7,706
H-share	1,430
A-share	6,276
H-share market cap (HK\$m)	13,599
30-day avg vol (HK\$m)	167.0
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	6.1	0.6
3-mth	2.4	(6.9)
6-mth	(11.8)	(15.1)

\*Relative to Hang Seng Index

Source: Bloomberg

**1 year price performance**



Source: Bloomberg

**Analyst**

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Previous report  
Date: 5 September 2012  
Rating: Buy  
Target price: HK\$12.51

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

**Expect flat growth in 3QFY12, results season kick off**

The leading construction machinery makers are going to announce 3QFY12 results in Oct, kicked off by Caterpillar (CAT US) on 22 Oct. The cautious tone of CAT on the construction machinery industry in China is expected to bring fluctuation to the share price of Zoomlion (announce 3Q results in late Oct). A flat YoY growth on Zoomlion 3Q results earnings is expected. We lower our earnings forecast and cut the target price from HK\$12.51 to HK\$12.12. Maintain “Buy” rating as upstream infrastructure construction projects is bottoming out.

**A longer time lagging.** After discussing with the Group, we downward adjust our FY12 revenue forecast reflecting the time lagging between construction machinery orders regain and infrastructure project starts. Machinery leasing agent is expected to delay their procurement from 2HFY12 to 1HFY13. We lower our revenue forecast from Rmb57,851mn to Rmb51,767mn (down 10.5%) in FY12, but upward adjust revenue forecast from Rmb60,916mn to Rmb61,868mn (up 1.6%) in FY13.

**Mid-term benefited from infrastructure growth recovery.** Infrastructure construction growth is recovering. Railway infrastructure construction was up 63.4% MoM (111.4% YoY) in Sept. The decline in railway infrastructure construction shrunk from -28.0% YoY in 1-8M12 to -15.8% YoY in 1-9M12. The on field operating hour of concrete pump of Zoomlion is estimated to increase from 81hr/month in 1Q12 to 90hr/month in 3Q12.

**Earnings outlook.** We revise downward our net income forecast from Rmb10,465mn to Rmb9,189mn in FY12 as the delay of purchases from downstream machinery agents, and tune down our net income forecast from Rmb11,379mn to Rmb11,029mn in FY13 mainly due to change of sales-mix inclined to lower margin products, such as tower crane. As the Group still benefits from the urbanization of China in mid-to-long run. We maintain our rating at “Buy”, but target price is cut down to HK\$12.12 from HK\$12.51 reflecting the delay in downstream machinery purchases.

**Risk factors:** Prolong weakening construction industry; Credit and liquidity risks; Market competition intensifies

**Forecast and Valuation**

FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
<b>Revenue (Rmb mn)</b>	32,193	46,323	51,767	61,868	73,202
<i>Chg (%YoY)</i>	55.1	43.9	11.8	19.5	18.3
<b>Net Income (Rmb mn)</b>	4,666	8,055	9,189	11,029	13,692
<i>Chg (%YoY)</i>	90.7	72.6	14.1	20.0	24.1
<b>EPS (Rmb)</b>	0.736	1.046	1.173	1.408	1.748
<i>Chg (%YoY)</i>	63.5	42.2	12.2	20.0	24.1
<b>PE (x)</b>	-	7.4	6.6	5.5	4.4
<b>PB (x)</b>	-	1.8	1.5	1.2	1.0
<b>Yield (%)</b>	-	2.8	3.0	3.6	4.5
<b>ROAA (%)</b>	9.6	12.0	11.4	11.4	12.2
<b>ROAE (%)</b>	26.8	25.7	23.5	23.4	24.0
<b>Net debt/total equity (%)</b>	Net cash	Net cash	Net cash	Net cash	Net cash

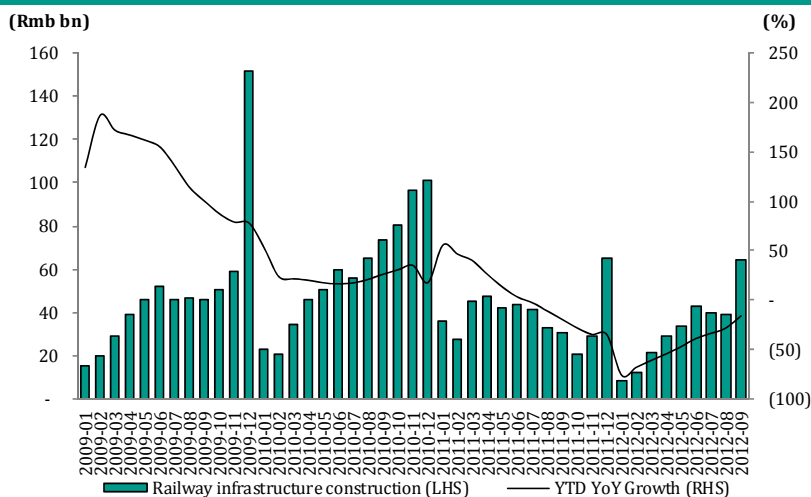
Source: Company, Bloomberg, ABCI Securities estimates

### Expected 3QFY12 results announcement date

Company	Ticker	Expected date	Remarks
Caterpillar	CAT US	22/10/2012	
Liugong	000528 CH	27/10/2012	Tentative
Komatsu	6301 JP	30/10/2012	
Sany Heavy	600031 CH	30/10/2012	Tentative
XCMG	000425 CH	30/10/2012	Tentative
Zoomlion	1157 HK	31/10/2012	Tentative

Source: Companies, ABCI Securities

### Monthly infrastructure construction for railway in China



Period	Cumulative Infra. Const (Rmb bn)	Growth (% YoY)	Monthly Infra. Const (Rmb bn)	Growth (% YoY)	Growth (% MoM)
Jan-12	8.7	-76.0	8.7	-76.0	-86.5
Feb-12	20.8	-67.5	12.1	-56.3	38.2
Mar-12	42.6	-60.9	21.8	-51.6	80.6
Apr-12	71.7	-54.1	29.1	-38.3	33.6
May-12	105.5	-46.9	33.8	-20.3	16.0
Jun-12	148.7	-38.6	43.2	-0.9	28.0
Jul-12	188.4	-33.5	39.7	-3.6	-8.1
Aug-12	227.8	-28.0	39.3	19.0	-1.0
Sep-12	292.1	-15.8	64.3	111.4	63.4

Source: The Ministry of Railways of the PRC

### Major change of our forecast

	FY12E			FY13E			FY14E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
<b>Revenue (Rmb mn)</b>	<b>57,851</b>	<b>51,767</b>	<b>-10.5</b>	<b>60,916</b>	<b>61,868</b>	<b>1.6</b>	<b>72,136</b>	<b>73,202</b>	<b>1.5</b>
Concrete Machinery	32,526	27,272	-16.2	32,651	33,179	1.6	37,265	38,814	4.2
Crane	14,392	13,934	-3.2	15,177	16,338	7.6	17,270	18,613	7.8
Environment & sanitation	3,038	3,127	2.9	3,341	3,440	3.0	3,675	3,784	3.0
Other machinery	5,918	5,672	-4.2	7,694	6,806	-11.5	11,541	9,529	-17.4
Financial income under lease	1,977	1,762	-10.9	2,053	2,105	2.5	2,385	2,462	3.2
<b>Gross profit (Rmb mn)</b>	<b>20,023</b>	<b>17,644</b>	<b>-11.9</b>	<b>20,900</b>	<b>20,655</b>	<b>-1.2</b>	<b>25,398</b>	<b>25,183</b>	<b>-0.8</b>
GPM (%)	34.6	34.1	-0.5ppts	34.3	33.4	-0.9ppts	35.2	34.4	-0.8ppts
<b>Net income (Rmb mn)</b>	<b>10,465</b>	<b>9,189</b>	<b>-12.2</b>	<b>11,379</b>	<b>11,029</b>	<b>-3.1</b>	<b>13,819</b>	<b>13,692</b>	<b>-0.9</b>
Net margin (%)	18.1	17.8	-0.3ppts	18.7	17.8	-0.9ppts	19.2	18.7	-0.5ppts
EPS (Rmb)	1.336	1.173	-12.2	1.453	1.408	-3.1	1.764	1.748	-0.9
BVPS (Rmb)	5.209	5.078	-2.5	6.375	6.209	-2.6	7.79	7.611	-2.3
DPS (Rmb)	0.267	0.235	-12.1	0.291	0.282	-3.2	0.353	0.350	-0.8

Source: 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	$2.6 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility}$
High	$1.5 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 2.6$
Medium	$1.0 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.5$
Low	$180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.0$

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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