



October 28, 2013
 Equity Focus
 Rating: HOLD
 TP: HK\$ 5.13

H-Share price (HK\$) 4.66
 Est. share price return 10.09%
 Est. dividend yield 4.22%
 Est. total return 14.31%

Previous Rating & TP HOLD; HK\$ 5.20
 Previous Report Date August 26, 2013

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Key Data

52Wk H/L(HK\$)	12.66 / 4.45
Issued shares (mn)	1,621
H-Shares (mn)	243
A-Shares (mn)	1,378
Market cap	
H-shares (HK\$ mn)	1,132
A-Shares (RMB mn)	8,544
3-mth avg daily turnover (HK\$ mn)	7.6
Major shareholder(s) (%):	
Henan SASAC	32.14

Source(s): Company, Bloomberg, ABCI Securities

1H13 Revenue breakdown (%)

Hydraulic roof supports	67.95
Other machineries	1.01
Steel and other materials trading	20.80
Others	10.24

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	(2.31)	(0.47)
3-mth	(3.92)	(7.01)
6-mth	(27.86)	(28.34)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg

ZMJ (564 HK)

Prolonged downturn erodes profits ; maintain HOLD

- 9M13 revenue dropped 20.37% YoY to RMB 5,805mn. Net income dropped 41.99% YoY to RMB 698mn, which was 5.93% lower than our estimates by 5.93% and 19.54% lower than market consensus
- ZMJ's account receivables were RMB 4,480mn at end-Sep, up 36.54% YoY. The surging receivable reflects the poor business environment in the coal mining machinery sector
- We revise down FY13E/14E net by 12.92% and 9.13%. CAPEX growth among coal mine operators is expected to stay low, and we reiterate our **HOLD** rating with new TP at HK\$5.13

Earnings declined in 3Q13. 9M13 revenue was RMB 5,805mn (excluding the surcharges and business tax), down 20.37% YoY, inheriting the downtrend in 1H13 in which revenue declined by 20.02% YoY. Profitability deteriorated under the sluggish industry environment, with 9M13 net income down by 41.99% YoY to RMB 698mn, compared to the 33.99% YoY decline in 1H13. GPM shrank 5.17ppt from 25.25% in 1H13 to 20.08% in 3Q13. 9M13 GPM was 23.45%, down 3.41ppt YoY from 26.86% in 1H13 to 8.85% in 9M13, but is still higher than 7.94% in FY12.

No recovery signal in sight. Machinery investment from coal mine operators is weak. The FAI on coal mining industry has been spiraling down since 1Q13. According to NBS, the total FAI on coal mining industry was RMB 372.5bn in 9M13, down 0.3% YoY. Going forward, as China's coal price is still bottoming (dropped 11.29% YTD) with no signs of improvement, we expect the CAPEX among the coal mine operators to stay flat in 2H13-1H14. We expect the challenging business condition to persist in 2014.

Receivables surged over 30% YoY. The Group's revenue declined in the first three quarters in 2013, while its account receivables surged to RMB 4,480mn at end-Sep 2013, higher than the RMB 3,667mn at end-2012 and RMB 3,281mn at end-Sep 2012. The account receivables-to-revenue ratio in 9M13 increased 32.17ppt YoY from 45.01% to 77.17%, reflecting the liquidity shortage among the coal mine operators. Therefore, coal mining machinery players are adversely impacted.

Maintain HOLD with TP lowered to HK\$ 5.13. We expect coal-mining sector will remain stagnant in 2H13 under the weak coal prices and reduced manufacturing activities. We lower our FY13E revenue forecast by 5.03% to RMB 7,095mn, and FY13E net profit forecast by 12.92% to RMB 853mn. We lower our TP to HK\$ 5.13 from HK\$ 5.20, representing 0.7x FY13E P/B. The counter is trading at 0.64x of FY13E P/B. Maintain HOLD on persisting slowdown in the sector.

Risk factors: 1) Competition from international players; 2) Concentration of product type; 3) Prolonged downturn in the coal mining industry; 4) Inflation in raw material prices.

Results and Valuation

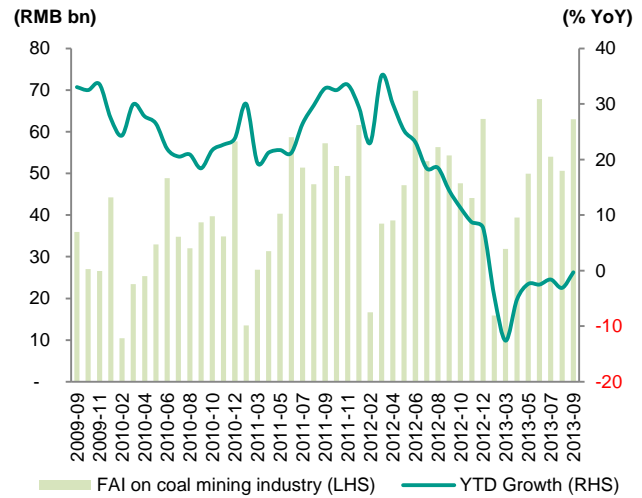
FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	8,060	10,213	7,095	8,338	8,647
Chg (% YoY)	26.76	26.71	(30.53)	17.51	3.71
Net Income (RMB mn)	1,194	1,589	853	1,053	1,133
Chg (% YoY)	35.31	33.08	(46.30)	23.37	7.59
EPS (RMB)	0.853	0.980	0.526	0.650	0.699
P/E (x)	-	3.82	7.11	5.76	5.36
BVPS (RMB)	4.196	5.651	5.889	6.381	6.885
P/B (x)	-	0.66	0.64	0.59	0.54
DPS(RMB)	0.138	0.300	0.158	0.195	0.210
Yield (%)	-	8.02	4.22	5.21	5.60
ROAE (%)	21.97	21.14	9.12	10.59	10.54
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: Coal price in China (Qinhuangdao 5,800kc), 9M11-9M13 (US\$ / metric ton)


Source(s): Bloomberg

Exhibit 2: FAI on coal mining industry in China, 9M09-9M13


Source(s): NBS

Exhibit 3: Key financial summary of ZMJ in 1-3Q13

	1-3Q12	FY12	1-3Q13	(% YoY)
Revenue (RMB mn)	7,290	10,213	5,805	(20.37)
Gross Profit (RMB mn)	1,958	2,684	1,361	(30.49)
GPM (%)	26.86	26.28	23.45	(3.41)
Net profit (RMB mn)	1,201	1,589	698	(41.99)
Net profit margin (%)	16.53	15.56	12.04	(4.49)
Trade and bill receivables (RMB mn)	3,281	3,667	4,480	36.54
Trade and bill receivables / revenue (%)	45.01	35.91	77.17	32.17

Source(s): Company

Exhibit 4: Major changes in our FY13E-15E forecasts

	FY13E			FY14E			FY15E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
Revenue (RMB mn)	7,471	7,095	(5.03)	8,775	8,338	(4.98)	9,106	8,647	(5.04)
Hydraulic roof supports	5,161	4,896	(5.14)	6,189	5,873	(5.10)	6,305	5,980	(5.15)
Other machineries	119	119	-	131	131	-	144	144	-
Steel and other materials trading	1,662	1,551	(6.67)	1,828	1,706	(6.67)	2,011	1,877	(6.67)
Others	529	529	-	627	627	0.04	646	646	(0.01)
Gross profit (RMB mn)	1,767	1,614	(8.66)	2,100	1,973	(6.02)	2,196	2,091	(4.76)
GPM (%)	23.64	22.74	(0.90ppt)	23.93	23.67	(0.26ppt)	24.11	24.18	0.07ppt
Net income (RMB mn)	980	853	(12.92)	1,159	1,053	(9.13)	1,221	1,133	(7.23)
Net margin (%)	13.12	12.03	(1.09ppt)	13.20	12.63	(0.58ppt)	13.41	13.10	(0.31ppt)
EPS (RMB)	0.605	0.526	(12.92)	0.715	0.650	(9.13)	0.753	0.699	(7.23)
BVPS (RMB)	5.967	5.889	(1.31)	6.501	6.381	(1.85)	7.040	6.885	(2.20)
DPS (RMB)	0.181	0.158	(12.92)	0.214	0.195	(9.13)	0.226	0.210	(7.23)

Source(s): ABCI Securities estimates

Exhibit 5: Peer valuation table for machinery manufacturer

Company	Ticker	Mkt cap (HK\$ mn)	As of 27/10/2013		P/E (x)		EPS (%YoY)		P/B (x)		ROAE (%)	
			CRY	Share Price	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Construction Machinery Maker												
CATERPILLAR INC	CAT US	425,660	USD	84.77	15.28	14.20	(36.29)	7.59	3.01	2.72	24.59	30.94
KOMATSU LTD	6301 JP	179,805	JPY	2,298	12.42	11.54	39.52	7.63	1.68	1.53	13.28	14.74
SANY HEAVY INDUS	600031 CH	69,221	RMB	7.13	10.20	7.09	(6.80)	43.78	1.92	1.58	19.58	25.00
ZOOMLION HEAVY-H	1157 HK	9,581	HKD	6.70	7.65	6.88	(26.01)	11.14	0.89	0.78	12.45	12.18
ZOOMLION HEAVY-A	000157 CH	43,598	RMB	5.45	7.74	6.97	(26.01)	11.14	0.91	0.79	12.45	12.18
XCMG CONSTRUCT-A	000425 CH	20,640	RMB	7.85	7.32	7.77	(10.58)	(5.87)	0.87	0.80	11.96	10.72
GUANGXI LIUGONG	000528 CH	9,624	RMB	6.71	17.66	12.98	52.00	36.05	0.78	0.75	4.30	6.53
TEREX CORP	TEX US	30,696	USD	35.57	17.12	12.20	116.46	40.33	1.84	1.57	11.52	14.46
TADANO	6395 JP	12,151	JPY	1,179	14.51	13.02	40.44	11.44	1.58	1.42	7.95	11.49
SHANTUI CONST-A	000680 CH	5,536	RMB	3.50	54.69	47.30	113.33	15.63	0.96	0.98	1.23	2.06
XIAMEN XGMA-A	600815 CH	5,293	RMB	4.33	(33.31)	19.24	(181.25)	(273.08)	0.93	0.89	(2.70)	4.70
LONKING HOLDINGS	3339 HK	6,805	HKD	1.59	10.94	8.65	230.78	26.58	0.79	0.72	7.59	8.68
Sector Weighted Average					13.53	12.48	(5.63)	10.56	2.30	2.06	19.12	23.41
Agricultural Machinery Maker												
DEERE & CO	DE US	248,013	USD	83.55	9.42	10.41	14.88	(9.49)	3.34	2.70	40.75	26.87
MAHINDRA & MAHIN	MM IN	67,434	INR	867.75	11.98	10.18	4.22	17.63	2.25	1.93	17.75	15.27
CNH GLOBAL NV	CNH US	93,873	USD	49.96	9.21	9.62	14.35	(4.22)	1.25	1.10	16.85	16.43
FIRST TRACTOR-H	38 HK	2,251	HKD	5.60	13.69	8.48	(6.30)	61.35	0.99	0.87	7.38	10.96
FIRST TRACTOR -A	601038 CH	7,040	RMB	9.30	28.30	17.54	(6.30)	61.35	2.06	1.80	7.38	10.96
ESCORTS LTD	ESC IN	1,442	INR	93.25	6.06	7.15	148.64	(15.19)	0.54	0.71	10.20	8.62
Sector Weighted Average					10.11	10.29	13.04	(2.41)	2.65	2.19	30.87	22.26
Mining Machinery Maker												
JOY GLOBAL INC	JOY US	47,868	USD	58.09	9.95	15.61	(18.89)	(36.27)	2.03	1.92	26.75	17.64
ZHENGZHOU COAL-H	564 HK	1,132	HKD	4.66	7.11	5.76	(46.30)	23.37	0.64	0.59	9.12	10.59
ZHENGZHOU COAL-A	601717 CH	10,890	RMB	6.20	11.08	9.04	(46.30)	23.37	1.05	0.97	9.12	10.59
TIAN DI -A	600582 CH	10,475	RMB	6.77	7.92	7.22	(8.56)	9.71	1.07	0.97	20.11	14.13
SANY HEAVY EQUIP	631 HK	6,934	HKD	2.28	12.73	11.59	(10.34)	9.82	0.96	0.90	7.66	7.94
LINZHOU HEAVY-A	002535 CH	4,206	RMB	6.15	9.02	6.03	58.60	49.56	1.36	1.13	17.19	20.44
SUNWARD INTELL-A	002097 CH	3,671	RMB	7.00	43.75	43.75	633.94	0.00	1.64	1.59	3.94	3.69
Sector Weighted Average					11.44	14.01	11.41	(12.75)	1.63	1.53	20.52	15.04
Machinery Parts Maker												
CUMMINS INC	CMI US	196,836	USD	135.59	16.75	13.75	(6.84)	21.76	3.40	2.79	23.00	22.27
WEICHAI POWER-H	2338 HK	54,101	HKD	32.30	13.76	12.08	25.73	13.89	1.81	1.60	14.19	14.20
TAIYUAN HEAVY-A	600169 CH	11,401	RMB	3.69	27.33	36.90	(198.47)	(25.93)	1.58	1.51	5.95	4.19
CHINA YUCHAI	CYD US	7,100	USD	24.57	8.65	7.74	16.87	11.80	0.91	0.85	10.86	11.32
Sector Weighted Average					16.38	14.24	(7.78)	17.90	2.94	2.44	20.19	19.60
Industrial Machinery Maker												
VOLVO AB-B	VOLVB SS	230,038	SEK	88.10	22.78	12.60	(28.90)	80.82	2.27	2.10	9.83	18.08
ATLAS COPCO-A	ATCOA SS	270,121	SEK	184.70	17.75	16.48	(9.10)	7.71	5.54	4.85	32.84	30.38
HYUNDAI HEAVY	009540 KS	144,226	KRW	260,000	9.93	8.24	45.28	20.38	1.05	0.99	10.56	12.35
SANDVIK AB	SAND SS	137,843	SEK	89.55	15.50	13.55	(11.27)	14.46	3.18	2.91	19.49	19.00
DOOSAN HEAVY	034020 KS	33,860	KRW	43,700	5.44	4.94	(447.41)	10.00	1.05	1.01	20.49	20.82
MANITOWOC CO	MTW US	21,205	USD	20.48	16.94	13.01	57.01	30.19	3.67	3.04	24.48	27.27
ANHUI HELI CO-A	600761 CH	7,364	RMB	11.24	12.38	10.64	33.53	16.30	1.70	1.50	14.79	15.54
Sector Weighted Average					16.85	12.94	(21.10)	31.61	3.24	2.90	19.73	21.51
Overall Weighted Average					14.33	12.51	(7.41)	15.62	2.73	2.40	21.52	21.84

Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	8,060	10,213	7,095	8,338	8,647
Hydraulic roof supports	5,642	7,284	4,896	5,873	5,980
Other machineries	122	238	119	131	144
Steel and other materials trading	1,855	2,216	1,551	1,706	1,877
Others	441	475	529	627	646
COGS	(6,108)	(7,529)	(5,482)	(6,364)	(6,556)
Gross profit	1,952	2,684	1,614	1,973	2,091
SG&A	(583)	(811)	(700)	(827)	(861)
Other income and gains	52	38	122	127	141
Pre-tax profit	1,421	1,911	1,036	1,273	1,371
Income tax	(208)	(297)	(155)	(191)	(206)
Net profit	1,213	1,614	880	1,082	1,165
Profit attributable to:					
Minority interests	19	24	27	30	32
Equity shareholders of the Company	1,194	1,589	853	1,053	1,133
EPS (RMB)	0.853	0.980	0.526	0.650	0.699
DPS (RMB)	0.138	0.300	0.158	0.195	0.210
EBIT	1,428	1,914	1,039	1,276	1,372
EBITDA	1,519	2,059	1,130	1,387	1,496

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	8,509	10,452	11,126	12,111	12,654
Cash and equivalent	3,817	4,921	5,258	5,139	6,280
Trade and bill receivables	2,338	3,685	4,090	4,590	4,412
Inventories	1,644	1,479	1,374	1,939	1,474
Other current assets	711	366	403	443	488
Non-current assets	1,927	2,555	2,716	2,927	3,142
Property, plant and equipment	1,496	1,715	1,786	1,946	2,094
Intangible assets	288	323	320	315	311
Other non-current assets	143	516	610	666	738
Total assets	10,435	13,007	13,842	15,037	15,795
Current liabilities	4,203	3,580	4,057	4,432	4,346
Trade and bill payables	1,972	2,341	2,164	2,369	2,301
Short term borrowings	15	-	49	29	9
Other current liabilities	2,216	1,239	1,844	2,033	2,037
Non-current liabilities	84	73	26	29	32
Long-term borrowings	65	49	-	-	-
Other non-current liabilities	19	24	26	29	32
Total liabilities	4,287	3,653	4,083	4,460	4,378
Minority interests	275	193	212	234	257
Shareholders' equities	5,874	9,161	9,547	10,343	11,160
BVPS (RMB)	4.196	5.651	5.889	6.381	6.885

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Profit before tax	1,421	1,911	1,036	1,273	1,371
Changes in depreciation and amortization	74	158	417	11	(212)
Changes in working capital	(674)	(1,655)	(537)	(919)	514
Financial cost	7	4	3	2	1
Income tax paid	(284)	(321)	(167)	(206)	(222)
Others	(7)	45	99	103	114
CF Operating	537	142	850	264	1,567
Increase in PP&E	(437)	(219)	(71)	(160)	(148)
Increase in intangible assets	(70)	(32)	3	5	5
Others	284	345	-	-	-
CF Investing	(223)	94	(68)	(155)	(143)
Capital injection	-	1,797	-	-	-
Net debt financing	(105)	(31)	-	(20)	(20)
Interest paid	(7)	(4)	(3)	(2)	(1)
Dividend payout	(193)	(209)	(486)	(256)	(316)
Others	114	1	-	-	-
CF Financing	(191)	1,554	(489)	(278)	(337)
Net change in cash	123	1,790	293	(169)	1,087
Cash at the beginning	3,636	3,239	4,479	4,772	4,604
Adjustment (Time deposit & FX effect)	(520)	(550)	-	1	1
Cash at the end	3,239	4,479	4,772	4,604	5,691

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Sales mixed (%)					
Hydraulic roof supports	70.00	71.32	69.00	70.44	69.16
Other machineries	1.52	2.33	1.68	1.57	1.67
Steel and other materials trading	23.01	21.70	21.86	20.47	21.71
Others	5.47	4.65	7.46	7.52	7.47
Profit & loss ratios (%)					
Gross margin	24.22	26.28	22.74	23.67	24.18
Net profit margin	15.05	15.80	12.41	12.98	13.48
Effective tax rate	14.62	15.56	15.00	15.00	15.00
Growth (%)					
Revenue	26.76	26.71	(30.53)	17.51	3.71
Gross profit	19.43	37.47	(39.87)	22.29	5.97
EBIT	31.79	34.07	(45.75)	22.84	7.55
EBITDA	34.47	35.50	(45.11)	22.71	7.87
Net profit	35.31	33.08	(46.30)	23.37	7.59
Balance sheet ratios					
Current ratio (x)	2.02	2.92	2.74	2.73	2.91
Quick ratio (x)	1.63	2.51	2.40	2.30	2.57
Cash ratio (x)	0.91	1.37	1.30	1.16	1.44
Trade and bill receivables days	99.10	107.63	200.00	190.00	190.00
Trade and bill payables turnover days	103.96	104.54	150.00	130.00	130.00
Inventory turnover days	87.96	75.70	95.00	95.00	95.00
Total debt / equity ratio (%)	1.30	0.52	0.50	0.27	0.08
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROAE	21.97	21.14	9.12	10.59	10.54
ROAA	12.25	13.56	6.36	7.29	7.35
Payout ratio	16.14	30.60	30.00	30.00	30.00

Source(s): Company, ABCI Securities estimates

Disclosures

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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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