



Company Report

Lonking (3339 HK)

February 26, 2013

Rating: Hold

TP: HK\$2.00

Key data

Share price (HK\$)	2.04
Upside potential (%)	-2.0
52Wk H/L(HK\$)	3.41/1.01
Issued shares (mn)	4,280
Market cap (HK\$m)	8,731
30-day avg daily vol (HK\$m)	89.2
Auditors	Ernst & Young
Major shareholder (%)	
Li San Yim & spouse	55.69

Source: Company & Bloomberg

Revenue breakdown by product (%)

Wheel loader	67.9
Excavator	11.2
Forklift	8.9
Others	12.0

*Based on 1HFY12 results

Source: Company

Share performance (%)

	Absolute	Relative ¹
1-mth	-1.9	1.6
3-mth	12.7	8.4
6-mth	40.7	22.8

1: Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst Information

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Previous report

Date: December 24, 2012

Rating: Sell

Target price: HK\$1.48

Looking Forward to New Growth Driver

The recovery of wheel loader is swamped by the weakening coal mining activities. Coming with challenges from international and leading domestic players, we believe that the Group will devote to develop the forklift segment as a new growth driver. Our target valuation is revised up reflecting the improvement of assets quality. We upgrade Lonking from “Sell” to “Hold” with TP:HK\$2.00.

Wheel loader recovery swamped by weak coal price. A-third of sales of wheel loader comes from coal mining activities. The weakening coal price discourages the expansion of mine operators and delays their purchases of mining equipment, including wheel loader. Limited by the weak coal mining activities, the positive effect of the recovery of infrastructure construction activities will be diluted. We estimate that the sales revenue of wheel loader segment of the Group will increase by 26.3% YoY in FY2013.

Forklift the new star coming. Forklift segment will be the new growth driver of Lonking. Revenue of forklift as percentage of total revenue was increasing. We estimate its contribution to increase to 10.6% in FY2013. We expect the Group to increase the output capacity of forklift in 2013.

Good assets and earnings quality. The OCF / Net income ratio of the Group was 75.1% in FY2011 and 132.5% in 1HFY2012, which is better than Zoomlion, Sany Heavy and XCMG. It will lower the assets risk of the Group. The good cash flow and assets quality help Lonking to source financing with low cost. Financial burden will be lower in FY2013.

Upgrade from “Sell” to “Hold”. Lonking is trading at 8.4x of FY2013E PER, 16.8% discount to the mean of its peers at 10.1x. We think the valuation is fair. Although the downstream construction industries are bottoming out, how much the Group can capture is still uncertain under the keen market competition. We increase our target valuation from 5.6x to 8.2x FY2013E EPS, reflecting the improvement of its assets quality and downstream industries bottoming out, and upgrade the rating from “Sell” to “Hold”, with new target price of HK\$2.00.

Risk factors: Challenge from international players; Lagging effect between construction and machineries industries

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rmb mn)	12,020	12,720	7,721	9,785	12,395
Chg (%YoY)	74.2	5.8	(39.3)	26.7	26.7
Net Income (Rmb mn)	1,766	1,730	448	838	1,025
Chg (%YoY)	120.8	(2.1)	(74.1)	87.0	22.3
EPS (Rmb)	0.413	0.404	0.105	0.196	0.240
Chg (%YoY)	120.8	(2.1)	(74.1)	87.0	22.3
PER (x)	-	4.10	15.64	8.36	6.84
PBR (x)	-	1.11	1.04	0.96	0.87
Yield (%)	-	7.35	1.92	3.59	4.39
ROAA (%)	15.2	11.7	2.9	5.3	6.1
ROAE (%)	39.1	29.7	6.8	12.0	13.4
Net gearing (%)	57.1	55.1	46.8	28.3	25.9

Source: Company, ABCI Securities estimates



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Lonking Holdings Limited

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Turmoil of Wheel Loader Market

We estimate the wheel loader segment revenue, which is estimated to account for 64.7% of total revenue and 79.7% of total gross profit in FY2012, to rebound by 26.3% YoY in FY2013, recovering from est. -43.6% YoY in FY2012.

Growth drag down by coal mining activities

Recovery of wheel loader dragged down by weak coal mining capex

The wheel loader segment of Lonking dropped by 43.6% YoY in 1HFY12. The recovery of wheel loader market was not as strong as the other earth moving machineries. The recovery momentum of wheel loader market stopped in 2H2012. We believe that the declining investment of coal mine operators gives the heaviest punch on the recovery of wheel loader market.

According to our channel check, a third of demand for wheel loader in China attributed to coal mining activities. The slowdown in coal mining fixed assets investment ("FAI") is the fatal attack for the sales of wheel loader.

Lukewarm recover expected in FY2013

Limited by the weak coal mining activities, the positive effect of the recovery of infrastructure construction activities will be diluted. We estimate that the sales revenue of wheel loader segment of the Group will increase by 26.3% YoY in FY2013.

Barricade from Diversification via Excavator

We estimate the excavator segment revenue to grow at 30.0% YoY in FY2013, recovered from est. -47.0% YoY in FY2012.

Keen market competition

Facing challenges from the localization of international players, such as Caterpillar, in China

The competition of China's excavator market is keen. The high-end market is dominated by foreign players, such as Caterpillar (CAT US), Komatsu (6301 JP) and Hyundai (009540 KS). Caterpillar announced that it opens a testing field and a large wheel loader manufacturing facility in Jiangsu to support its growing operations in China. The large wheel loader manufacturing facility is designed to suit the needs and requirements for quarry and mining applications in China and the growth markets. We foresee that the pressure from international players will be intensified in the future.

The mid-end excavator market has been dominated by Sany Heavy

In the meanwhile, the mid-to-low end market is dominated by Sany Heavy (600031 CH) and Zoomlion (1157 HK). As the weaker in technological advancement compared with international players of Lonking, and the thinner in sales channel compared with Sany Heavy, the expansion of the excavator segment for Lonking is full of challenges.

Challenges from Zoomlion

The quick expansion of Zoomlion makes the excavator market competition keener

On the other hand, in order to diversify the product portfolio, Zoomlion increases much resource to boost up the earth moving machineries segment. It not only increases the competition in excavator market for Lonking to diversify its sources of income, but also endangers the market position of Lonking in wheel loader market.

Forklift will be a New Supporter

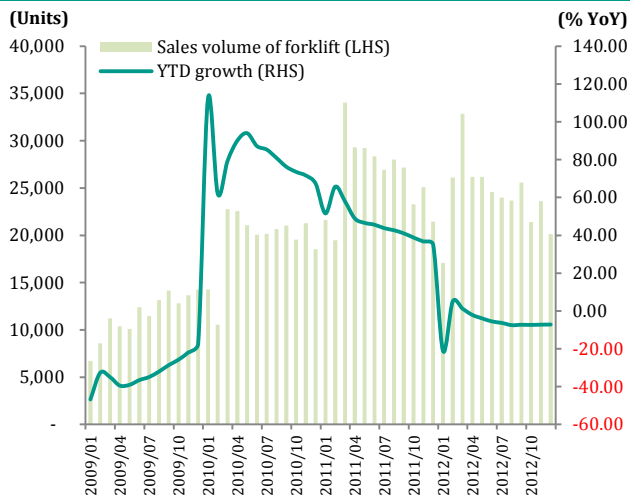
Lonking strategically develop forklift business to diversified the product portfolio from construction machineries

As we believe the Group envisages the threat in earth moving machineries industry, forklift segment is strategically to develop as the new growth driver for the Group. The revenue of forklift was Rmb929mn and Rmb422mn in FY2011 and 1HFY2012, respectively, which were 7.3% and 8.9% as percentage of total revenue during the corresponding periods. We estimate the contribution of forklift of the Group will increase to 10.4% in FY2012.

We expect the Group to increase production capacity of its forklift in 2013. The estimated production capacity of forklift of the Group is 28,000 units as of end-2012, up 40% YoY from 20,000 units as of end-2011.

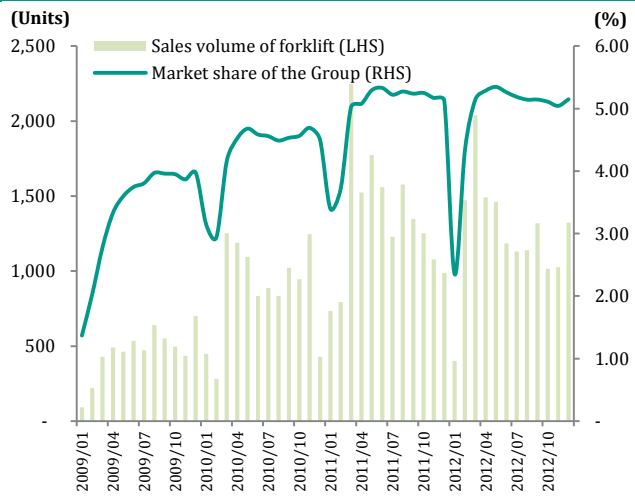
Although the total sales volume of forklift was down 7.2% YoY in China, 2012, the forklift industry is recovering.

Monthly sales volume and YTD growth of forklift in China, 2009-2012



Source: Wind

Monthly sales volume of forklift and market share of Lonking, 2009-2012



Source: Wind, Company, ABCI Securities estimates

The cash collectability of Lonking is good

Good Assets and Earnings Quality

The Group is used to place more importance on earning quality and cash collectability. The operating cash flow ("OCF") was positive in FY2011 and 1-3QFY2012. The OCF/Net income ratio of the Group was 75.1% in FY2011 and 132.5% in 1-3QFY2012. The OCF / Net income ratio of the Group was 38.9%, in average during FY2005 to 1-3QFY2012, which was higher than that of its peers, such as Zoomlion at 2.6% and XCMG at -23.5% during the same period of time.

We predict the Group to cut down account receivables and inventory aggressively in 2012 to release financial resources tied up in working capital. It will lower the assets risk of the Group.

GPM Shrinking

We estimate the gross profit margin (“GPM”) of the Group to shrink by 4.9ppts from 25.3% in FY2011 to 20.4% in FY2012. The GPM of the Group was 20.7% in 1HFY2012. We believe the drop of profitability of the Group was mainly due to two reasons:

Keen competition shrinks the GPM

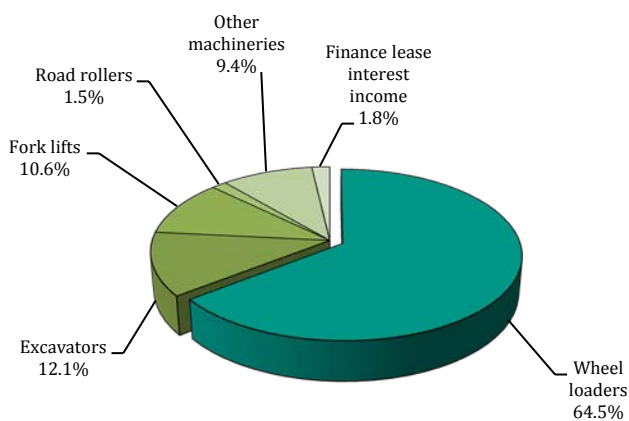
1) The keen competition and declining demand for earth moving machineries lower the profit margin of machinery makers. The GPM of wheel loader segment of Lonking dropped from 27.9% in FY2010 to 26.4% in FY2011, and we estimate that it will decrease to 25.1% in FY2012.

Change of product-mix with more low-margin products

2) The change of product-mix drags down the overall GPM. The GPM of forklift was 12.0% and 13.0% in FY2010 and FY2011, respectively. We estimate that it will drop to 11.7% in FY2012. As the sales of forklift as percentage of total revenue of the Group was increasing from 4.9% in FY2010 to 7.3% in FY2011, and estimated to go to 10.4% in FY2012, the overall GPM of the Group was dragged down.

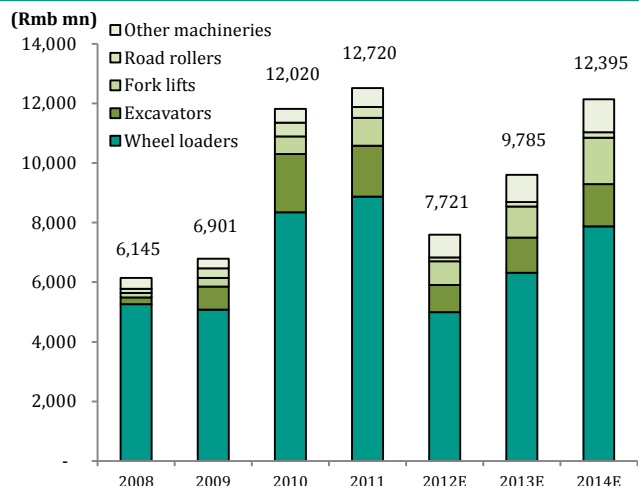
The aforesaid market competition of excavator market and wheel loader market will speed up the elimination of smaller players and squeeze the profit margin of the markets at the same time. We believe that the room for improvement on the segment GPM of the Group is limited. However, with the optimization of cost structure under economies of scales, we expect the forklift segment GPM to improve gradually in 2013 and 2014. We expect the overall GPM of the Group will be 21.5% in FY2013 and 21.6% in FY2014.

Estimated product mix of the Group, FY2013E



Source: Company

Revenue production of the Group, FY 2008-FY2014E



Source: Company, ABCI Securities estimates



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Financial highlights of the Group

	1H10	FY10	1H11	FY11	1H12	1H11 (% YoY)	FY11 (% YoY)	1H12 (% YoY)
Revenue (Rmb mn)	6,566	12,020	8,398	12,721	4,724	27.90	5.83	-43.75
Wheel loaders	4,641	8,343	5,683	8,867	3,208	22.45	6.28	-43.55
Excavators	1,072	1,957	1,303	1,713	530	21.55	-12.44	-59.32
Fork lifts	293	586	468	929	422	59.73	58.71	-9.83
Road rollers	275	469	272	367	72	-1.09	-21.67	-73.53
Other machineries	209	462	536	639	431	156.46	38.34	-19.59
Financial income under lease	76	203	136	205	61	78.95	0.98	-55.15
Gross Profit	1,656	3,427	2,201	3,214	978	32.91	-6.20	-55.57
Wheel loaders		2,326		2,340			0.61	
Excavators		522		445			-14.74	
Fork lifts		70		121			71.93	
Road rollers		84		66			-21.67	
Other machineries		240		57			-76.39	
Financial income under lease		183		185			0.98	
GPM (%)	25.22	28.51	26.21	25.27	20.70	0.99ppts	-3.24ppts	-5.51ppts
Wheel loaders		27.88		26.39			-1.49ppts	
Excavators		26.70		26.00			-0.70ppts	
Fork lifts		12.00		13.00			1.00ppts	
Road rollers		18.00		18.00			0.00ppts	
Other machineries		52.07		8.88			-43.18ppts	
Finance lease interest income		90.00		90.00			0.00ppts	
Major cost (Rmb mn)								
Selling cost	(395)	(617)	(385)	(593)	(211)	-2.53	-3.87	-45.19
Administrative cost	(115)	(247)	(139)	(294)	(132)	20.87	19.31	-5.04
Net finance cost	(86)	(196)	(165)	(367)	(219)	91.86	87.37	32.73
Cost ratio (%)								
Selling cost	6.02	5.13	4.58	4.66	4.47	-1.43ppts	-0.47ppts	-0.12ppts
Administrative cost	1.75	2.05	1.66	2.31	2.79	-0.10ppts	0.26ppts	1.14ppts
Net finance cost	1.31	1.63	1.96	2.89	4.64	0.65ppts	1.26ppts	2.67ppts
Net profit (Rmb mn)	926	1,766	1,154	1,730	276	24.62	-2.08	-76.08
Net profit margin (%)	14.10	14.69	13.74	13.60	5.84	-0.36ppts	-1.10ppts	-7.90ppts
Operating cash flow (Rmb mn)	(315)	(221)	1,079	1,299	366	-442.54	-687.61	-66.08
OCF/Net income (%)	-34.02	-12.51	93.50	75.09	132.61	127.52ppts	87.60ppts	39.11ppts

Source: Company

Major change of our forecast

	FY12E			FY13E			FY14E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
Revenue (Rmb mn)	9,310	7,721	-17.07	11,318	9,785	-13.54	13,940	12,395	-11.08
Wheel loaders	6,194	4,998	-19.31	7,656	6,314	-17.53	9,626	7,869	-18.25
Excavators	1,259	908	-27.88	1,326	1,180	-11.01	1,432	1,423	-0.63
Fork lifts	833	801	-3.84	1,082	1,041	-3.79	1,353	1,561	15.37
Road rollers	160	119	-25.63	201	150	-25.37	243	181	-25.51
Other machineries	767	767	0.00	920	920	0.00	1,104	1,104	0.00
Finance lease interest income	97	128	31.96	133	180	35.34	182	257	41.21
Gross profit (Rmb mn)	1,915	1,575	-17.75	2,429	2,106	-13.30	2,945	2,677	-9.10
GPM (%)	20.57	20.40	-0.17ppts	21.46	21.52	0.06ppts	21.13	21.60	0.47ppts
Net income (Rmb mn)	496	448	-9.65	832	838	0.83	953	1,025	7.62
Net margin (%)	5.33	5.81	0.48ppts	7.35	8.57	1.22ppts	6.83	8.27	1.44ppts
EPS (Rmb)	0.116	0.105	-9.65	0.194	0.196	0.83	0.223	0.240	7.62
BVPS (Rmb)	1.578	1.570	-0.50	1.714	1.707	-0.40	1.870	1.875	0.29
DPS (Rmb)	0.035	0.031	-9.65	0.058	0.059	0.83	0.067	0.072	7.62

Source: ABCI Securities estimates

Upgrade from “Sell” to “Hold”

Top line growth recovery is dragged down, but ...

We lower our top line forecast for FY2013 with downward revise of our capex recovery of coal mining industries

We lower our top line forecasts of the Group due to the glooming coal mining FAI discouraged by the declining coal price. With the downtrend of coal price during 2H2012, we expect the capex and purchases from coal mine operator to decreases in 1H2013. We lower our forecast of coal mining FAI in FY2013. Therefore we lower our top line forecast for Lonking.

... Offset by financial cost control

We lower our financial expenses forecast for FY2013 and FY2014 as we revises up the liquidity of the Group

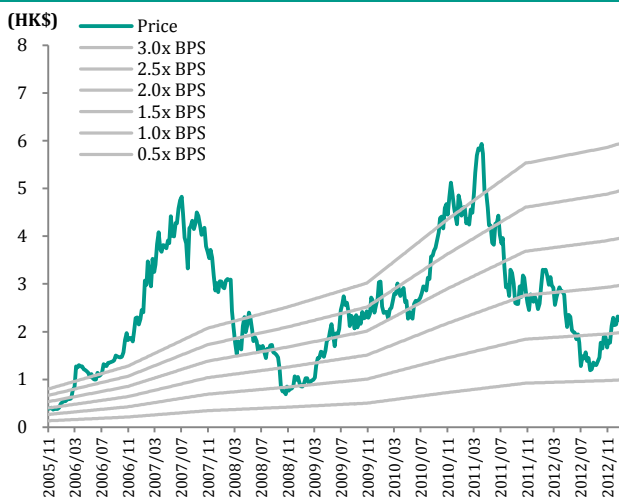
We believe the Group can source financing with lower cost in 2013 and 2014 under the recovery of industry sentiment and its good assets and earnings quality with strong cash flow. We lower our financial cost estimation from Rmb332mn to Rmb225mn for FY2013, and from Rmb321mn to Rmb224mn for FY2014. In all, our net income forecasts of Lonking edge up from Rmb832mn to Rmb838mn for FY2013, and increase from Rmb953mn to Rmb1,025mn for FY2014.

Upgrade from “Sell” to “Hold”

We expect that EPS of Lonking will grow at a CAGR of 51.2% from FY2012 to 14 because of the low base effect in FY2012. However we estimate that the net income for FY2014 is Rmb1,025mn, still lower than the net income of the Group in FY2010 and FY2011. Furthermore, we estimate that the ROAE is 12.0% and 13.4% for FY2013 and FY2014, respectively. We increase our target valuation from 5.6x to 8.2x of FY2013E PER reflecting the downstream construction industries bottoming out and assets quality improvement. However how much of the market recovery the Group can capture is still in question under the keen market competition.

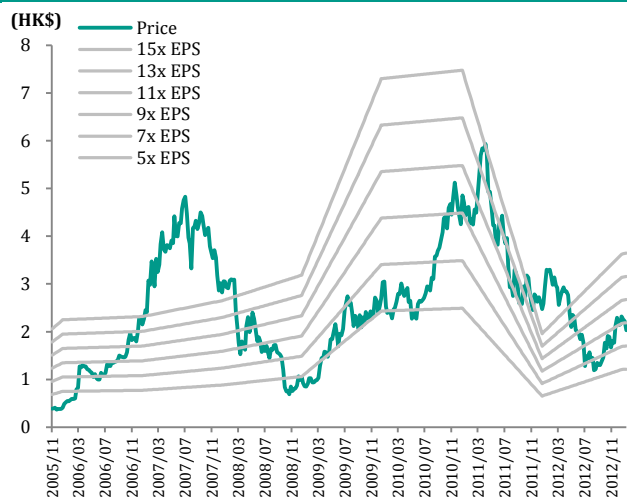
The counter has soared by 65.5% in 6 months. The counter is trading at 8.4x FY2013E PER, which is 16.8% discount to the mean of its peers' (construction machinery makers) at 10.1x. Comparing with the peers, we think the valuation of Lonking is fair but not attractive. We upgrade its rating from “Sell” to “Hold”. Our target price of Lonking increases from HK\$1.48 to HK\$2.00.

PB band of the Group



Source: Company, Bloomberg, ABCI Securities estimates

PE band of the Group



Source: Company, Bloomberg, ABCI Securities estimates



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Peer Groups Valuation

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	453,026	USD 89.16	10.99	9.35	-6.89	17.58	2.67	2.22	36.22	28.19
KOMATSU LTD	6301 JP	188,455	JPY 2286	12.24	11.99	7.64	2.08	2.01	1.83	18.53	13.15
SANY HEAVY INDUS	600031 CH	107,102	CNY 11.30	12.18	10.27	-18.53	18.53	3.66	2.86	34.53	30.21
ZOOMLION HEAVY-H ²	1157 HK	14,643	HKD 10.24	7.15	6.01	10.02	18.81	1.62	1.33	23.10	22.70
ZOOMLION HEAVY-A ²	000157 CH	71,772	CNY 9.19	7.99	6.72	10.02	18.81	1.81	1.48	23.10	22.70
XCMG CONSTRUCT-A	000425 CH	31,291	CNY 12.19	9.11	8.16	-18.41	11.58	1.48	1.29	14.77	15.60
GUANGXI LIUGONG	000528 CH	13,779	CNY 9.84	27.26	17.70	-69.15	54.02	1.18	1.12	3.86	5.42
TEREX CORP	TEX US	26,409	USD 30.98	15.28	11.62	394.63	31.46	1.44	1.27	10.56	13.61
TADANO	6395 JP	9,856	JPY 908	66.45	23.10	-44.83	187.62	1.40	1.31	2.30	6.70
SHANTUI CONST-A	000680 CH	6,986	CNY 4.93	-12.67	13.62	-192.62	-193.06	1.56	1.46	1.25	5.15
XIAMEN XGMA-A	600815 CH	7,924	CNY 6.64	11.69	15.16	-23.24	-22.89	1.22	1.14	10.45	7.51
LONKING HOLDINGS ²	3339 HK	8,731	HKD 2.04	15.64	8.36	-74.07	86.96	1.04	0.96	6.80	12.00
Sector Weighted Average				11.84	10.09	3.70	15.94	2.42	2.03	28.26	23.02
Agricultural Machinery Makers											
DEERE & CO	DE US	257,387	USD 85.55	9.98	9.48	11.06	5.27	3.45	2.78	38.74	39.34
MAHINDRA & MAHIN	MM IN	78,916	INR 894.80	14.11	11.60	19.25	21.67	2.63	2.24	21.10	20.14
CNH GLOBAL NV	CNH US	80,029	USD 43.04	8.87	8.38	3.68	5.79	1.05	0.93	11.99	12.79
FIRST TRACTOR-H ²	38 HK	3,015	HKD 7.50	13.82	9.30	-10.22	48.58	1.31	1.33	9.30	13.00
FIRST TRACTOR-A ²	601038 CH	8,071	CNY 10.92	25.05	16.86	-10.22	48.58	2.38	2.41	9.30	13.00
ESCORTS LTD	ESC IN	1,098	INR 62.35	6.95	5.10	44.88	36.44	0.40	0.40	6.43	7.21
Sector Weighted Average				10.83	9.79	10.73	9.59	2.81	2.31	29.65	30.08
Mining Machinery Makers											
JOY GLOBAL INC	JOY US	49,084	USD 59.70	9.61	9.20	-13.74	4.49	2.07	1.74	34.20	26.91
ZHENGZHOU COAL-H ²	564 HK	2,360	HKD 9.71	7.98	8.61	14.58	-7.32	1.43	1.29	21.09	15.21
ZHENGZHOU COAL-A ²	601717 CH	17,715	CNY 10.33	10.57	11.40	14.58	-7.32	1.89	1.70	21.09	15.21
TIAN DI-A	600582 CH	16,586	CNY 10.98	11.73	9.63	24.66	21.79	2.31	1.91	22.27	21.80
SANY HEAVY EQUIP ²	631 HK	9,998	HKD 3.22	16.12	14.11	-35.50	14.21	1.45	1.35	9.08	9.78
LINZHOU HEAVY-A	002535 CH	5,125	CNY 7.65	14.30	10.48	54.56	36.45	1.51	1.35	10.86	13.28
SUNWARD INTELL-A	002097 CH	3,687	CNY 7.03	50.21	29.29	-71.03	71.43	1.69	1.61	3.36	5.51
Sector Weighted Average				12.36	10.87	-2.96	9.83	1.96	1.69	25.16	20.79
Machinery Part Makers											
CUMMINS INC	CMI US	163,824	USD 111.25	12.68	10.77	0.29	17.66	2.67	2.24	26.17	22.64
WEICHAI POWER-H	2338 HK	60,798	HKD 29.35	13.33	10.99	-36.79	21.30	1.59	1.41	12.19	13.69
TAIYUAN HEAVY-A	600169 CH	10,588	CNY 3.51	351.00	21.94	-93.79	1500.00	1.55	1.44	0.44	6.58
CHINA YUCHAI	CYD US	4,683	USD 16.20	6.00	5.45	-22.64	10.00	0.64	0.60	10.74	11.07
Sector Weighted Average				27.64	11.22	-13.71	83.86	2.31	1.96	21.19	19.43
Industrial Machinery Makers											
VOLVO AB-B	VOLVB SS	251,497	SEK 98.60	14.95	10.80	21.25	38.43	2.25	2.01	14.15	15.54
ATLAS COPCO-A	ATCOA SS	265,106	SEK 185.90	16.33	15.27	-0.59	6.93	5.58	4.78	43.17	36.34
HYUNDAI HEAVY	009540 KS	116,505	KRW 215000	9.50	8.21	-28.68	15.69	0.84	0.77	9.98	8.47
SANDVIK AB	SAND SS	159,406	SEK 106.00	14.29	12.62	13.96	13.18	3.36	2.94	25.42	24.20
DOOSAN HEAVY	034020 KS	32,945	KRW 43650	7.08	5.43	222.60	30.28	0.89	0.83	11.95	13.70
MANITOWOC CO	MTW US	18,328	USD 17.87	14.00	10.21	65.71	37.15	3.10	2.55	18.33	24.89
ANHUI HELI CO-A	600761 CH	5,629	CNY 8.80	11.81	10.03	-0.67	17.72	1.49	1.35	12.08	12.48
Sector Weighted Average				14.16	11.96	14.84	20.26	3.26	2.84	24.74	22.80
Weighted Average				13.94	10.80	6.67	22.42	2.74	2.33	26.54	23.70
Median				12.21	10.38	-0.63	18.67	1.57	1.43	12.14	13.65

* The data in the table is as at February 25, 2013;

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

2: ABCI Securities estimates;

Source: Bloomberg, ABCI Securities estimates

Financial Statements Projection

Consolidated income statements forecast

FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	12,020	12,720	7,721	9,785	12,395
Wheel loaders	8,343	8,867	4,998	6,314	7,869
Excavators	1,957	1,713	908	1,180	1,423
Fork lifts	586	929	801	1,041	1,561
Road rollers	469	367	119	150	181
Other machineries	462	639	767	920	1,104
Financial income under lease	203	205	128	180	257
Cost of sales	(8,593)	(9,507)	(6,146)	(7,679)	(9,718)
Gross profit	3,427	3,213	1,575	2,106	2,677
Other income and gains (loss)	27	479	33	36	40
Selling and distribution	(617)	(593)	(325)	(422)	(643)
Administrative expenses	(247)	(294)	(242)	(282)	(392)
Research and development cost	(241)	(342)	(205)	(216)	(237)
EBIT	2,349	2,463	836	1,223	1,445
Finance costs	(206)	(395)	(301)	(225)	(224)
Associates	-	-	-	-	-
Pre-tax profit	2,143	2,068	535	998	1,221
Profits tax	(376)	(338)	(86)	(160)	(195)
Minority interests	(1)	-	-	(1)	-
Net profit	1,766	1,730	448	838	1,025

Source: Company, ABCI Securities estimates

Income statement key ratios forecast

FY	FY10A	FY11A	FY12E	FY13E	FY14E
Sales mixed (%)					
Wheel loaders	69.4	69.7	64.7	64.5	63.5
Excavators	16.3	13.5	11.8	12.1	11.5
Fork lifts	4.9	7.3	10.4	10.6	12.6
Road rollers	3.9	2.9	1.5	1.5	1.5
Others	3.8	5.0	9.9	9.5	8.8
Financial income under lease	1.7	1.6	1.7	1.8	2.1
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross profit margin	28.5	25.3	20.4	21.5	21.6
EBIT margin	19.5	19.4	10.8	12.5	11.7
Pre-tax margin	17.8	16.3	6.9	10.2	9.9
Net margin	14.7	13.6	5.8	8.6	8.3
Selling & distribution cost / revenue	5.1	4.7	4.2	4.3	5.2
Admin cost / revenue	2.1	2.3	3.1	2.9	3.2
Effective tax rate	17.5	16.3	16.1	16.0	16.0
Growth (%)					
Revenue	74.2	5.8	(39.3)	26.7	26.7
Gross profit	111.8	(6.2)	(51.0)	33.7	27.1
EBIT	115.3	4.9	(66.1)	46.3	18.2
Net income	120.8	(2.1)	(74.1)	87.0	22.3

Source: Company, ABCI Securities estimates

Consolidated balance sheets forecast

As of Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Current assets	7,520	11,347	9,759	11,774	10,683
Cash and equivalent	306	1,684	1,278	1,987	1,964
Restricted cash	328	471	494	519	545
Trade and other receivables	2,770	4,072	4,224	4,550	3,738
Inventories	3,539	4,380	3,366	4,208	3,779
Other	577	740	397	510	657
Non-current assets	5,943	4,793	4,676	5,164	5,838
Land use rights	195	206	200	194	187
Property, plant and equipment	3,034	3,638	4,011	4,026	4,546
Other non-current assets	2,714	949	465	944	1,105
Total assets	13,463	16,140	14,435	16,938	16,521
Current liabilities	5,742	4,808	3,944	6,162	4,975
Trade and other payables	3,862	3,697	2,292	4,464	3,218
Borrowings	1,472	820	1,469	1,469	1,469
Provision	179	151	91	116	147
Other	229	140	92	113	141
Non-current liabilities	2,479	4,926	3,771	3,468	3,518
Borrowings	1,742	4,542	3,373	3,025	3,025
Other	737	384	398	443	493
Total liabilities	8,221	9,734	7,715	9,630	8,493
Minority Interest	2	1	1	2	2
Shareholders' equity	5,240	6,405	6,719	7,306	8,026

Source: Company, ABCI Securities estimates

Balance sheets key ratios forecast

FY	FY10A	FY11A	FY12E	FY13E	FY14E
Balance sheet ratios					
Current ratio (x)	1.3	2.4	2.5	1.9	2.1
Quick ratio (x)	0.7	1.4	1.6	1.2	1.4
Cash ratio (x)	0.1	0.4	0.4	0.4	0.5
Total receivable turnover days	117.1	138.2	213.9	178.0	137.6
Trade and bill receivables turnover days	40.9	72.5	170.0	150.0	100.0
Total payable turnover days	137.3	145.2	177.8	160.5	144.3
Trade and bill payables turnover days	109.5	111.3	120.0	110.0	100.0
Inventory turnover days	124.8	152.1	230.0	180.0	150.0
Total debt / equity ratio (%)	61.3	83.7	72.1	61.5	56.0
Net debt / equity ratio (%)	57.1	55.1	46.8	28.3	25.9
Returns (%)					
ROAA	15.2	11.7	2.9	5.3	6.1
ROAE	39.1	29.7	6.8	12.0	13.4
Payout ratio	31.7	31.3	30.2	30.0	30.0
Per share data (Rmb)					
EPS	0.413	0.404	0.105	0.196	0.240
BVPS	1.224	1.496	1.570	1.707	1.875
DPS	0.129	0.122	0.031	0.059	0.072

Source: Company, ABCI Securities estimates

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ABCI SECURITIES COMPANY LIMITED

Lonking Holdings Limited**Consolidated cash flow statements forecast**

FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Profit before tax	2,143	2,068	535	998	1,221
DD&A	208	292	229	276	328
Change in working capital	(2,492)	(718)	(403)	846	(132)
Income tax paid	(297)	(392)	(96)	(179)	(218)
Others	217	49	504	(418)	(110)
CF Operating	(221)	1,299	769	1,523	1,089
Capex	(483)	(937)	(597)	(285)	(841)
Other	(137)	(309)	464	(45)	(22)
CF Investing	(620)	(1,246)	(133)	(330)	(863)
Capital injection	-	-	-	-	-
Net debt financing	668	2,149	(521)	(348)	-
Dividend payout	(254)	(553)	(522)	(135)	(252)
Others	(288)	(270)	-	-	1
CF Financing	126	1,326	(1,043)	(483)	(251)
Net change in cash	(715)	1,379	(407)	710	(25)
Cash at the beginning	1,021	306	1,684	1,278	1,987
Exchange difference	-	(1)	1	(1)	2
Cash at the end	306	1,684	1,278	1,987	1,964

Source: Company, 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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