



Company Report

Zoomlion (1157 HK)

April 2, 2013

Rating: Buy

TP: HK\$10.84

Key data

H-Share price (HK\$)	9.37
Upside potential (%)	15.7
52Wk H/L(HK\$)	12.16/7.61
Issued shares (mn)	7,706
H-share	1,430
A-share	6,276
H-Market cap (HK\$m)	13,399
30-day avg daily vol (HK\$m)	205.0
Auditors	KPMG
Major shareholder (%)	
Hunan SASAC	16.2

Source: Company & Bloomberg

Revenue breakdown by product (%)

Concrete machineries	49.09
Cranes	29.40
Earth Moving Machinery	4.72
Environmental and Sanitation Machinery	6.31
Road Construction and Pile Foundation	3.24
Financial Leasing Income	3.33
Others	3.92

*Based on FY2012 results

Source: Company

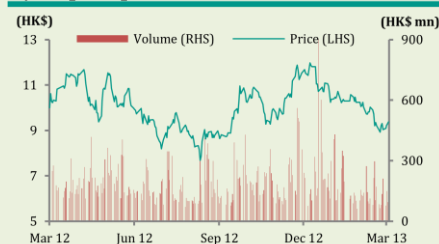
Share performance (%)

	Absolute	Relative ¹
1-mth	-6.67	-4.24
3-mth	-17.95	-16.64
6-mth	6.36	-0.60

1: Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst Information

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Previous report
Date: February 26, 2013
Rating: Buy
Target price: HK\$13.96

Growth Tradeoff for Earnings Quality Improve

Net income was down by 9.1% YoY in FY2012 but net operating cash flow improved 41.4% YoY due to cautious credit sales policy. Looking forward, the prudent sales strategy is expected to lower the short run sales growth but benefit for the asset quality improvement in mid-to-long run. We lower our earnings forecast, and cut our target price from HK\$13.96 to HK\$10.84. The counter is trading at 7.09x FY2013E PER, 13.5% discounted of its historical PER. Considering with its leading position in the construction machinery industry, we think the current valuation is attractive.

Asset quality put in the first priority. Sales of Zoomlion declined in 4Q2012 due to tightening of credit sales of concrete machinery. Bottom line was down by 9.1% YoY in FY2012. GPM dropped significantly by 12.6ppts QoQ in 4QFY12 mainly due to the deep decline in sales of high margin concrete pump in 4Q. Looking forward, we expect sales of concrete pump to remain sluggish in 1H2013. We cut our GPM and earnings forecasts for 2013 accordingly.

Cash flow is improving. The operating cash flow was Rmb2,960mn, up 41.4% YoY in FY2012. The OCF/net income ratio was up from 26.0% in FY2011 to 40.4% in FY2012. After the aggressive sales strategy in 1H2012, the account receivables level at end 2012 were higher than that of end 2011. Under the pressure of high receivable level, we believe it will take a prudent growth business model for the following few years.

Maintain "Buy". The counter is trading at 7.09x FY2013E PER, 13.5% discounted from the mean of its historical PER. As the cash flow of the Group is improving, we maintain our target valuation at 8.2x FY2013E PER. We revise down our earnings forecast of the Group, and cut our target price from HK\$13.96 to HK\$10.84. Considering the mid-to-long run growth opportunity of the Group and its leading position on R&D and production capability, we think its current valuation is attractive. We maintain "Buy" to Zoomlion.

Risk factors: Weak operating cash flow; Policy risk affecting FAI; Lagging effect between construction and machineries industries

Results and valuation

(FY ended Dec 31)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (Rmb mn)	46,323	48,071	53,286	59,426	66,294
Chg (%YoY)	43.89	3.77	10.85	11.52	11.56
Net Income (Rmb mn)	8,066	7,330	8,236	9,490	11,127
Chg (%YoY)	72.87	-9.12	12.36	15.22	17.25
EPS (Rmb)	1.046	0.951	1.062	1.215	1.415
Chg (%YoY)	42.37	-9.20	11.61	14.45	16.46
PER (x)	-	7.91	7.09	6.19	5.32
PBR (x)	-	1.42	1.19	1.00	0.84
Yield (%)	-	2.66	2.82	3.23	3.76
ROAA (%)	12.04	9.38	9.02	9.55	10.01
ROAE (%)	25.69	19.10	18.15	17.41	17.10
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, ABCI Securities estimates



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Slow recovery expected for concrete machinery

The sales revenue of the Group was Rmb23,596mn in FY2012, up 11.24% YoY. The sales growth of concrete machinery was slowdown since 4QFY2012.

Sales revenue of concrete machinery of Zoomlion

	1H11 (Rmb mn)	3Q11 (Rmb mn)	4Q11 (Rmb mn)	1H12 (Rmb mn)	3Q12 (Rmb mn)	4Q12 (Rmb mn)	1H12 (% YoY)	3Q12 (% YoY)	4Q12 (% YoY)
Revenue of Concrete Machinery	11,134	3,875	6,203	16,906	4,279	2,411	51.84	10.43	-61.13

Source: Company

Loss momentum in 4QFY2012

The concrete machineries segment of Zoomlion grew by 51.8% YoY in 1HFY2012. However, the sales volume growth of truck mounted concrete pump started to decelerate in 4QFY2012. The sales growth slowed down to 10.4% YoY in 3QFY2012 and further down to -61.1% YoY in 4QFY2012. We believe the Group started to put more emphasis on the cash collectability and assets quality improvement, which set back its sales expansion.

Asset quality improvement trade off the sales growth

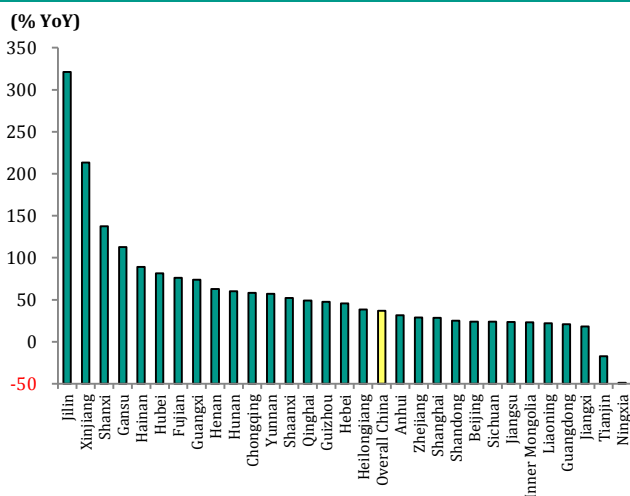
Slow recovery in 2013

With the growth of downstream infrastructure development after the National People's Congress of the PRC (“全国人民代表大会”) and the National Committee of the Chinese People's Political Consultative Conference (“全国政协委员会会议”). The demand for concrete is picking up rapidly. The total production volume of concrete in China increased by 37.0% YoY for the first 2 months of 2013. The concrete machinery sector will recover gradually in 2H13.

Growth on demand for concrete starts to back on track

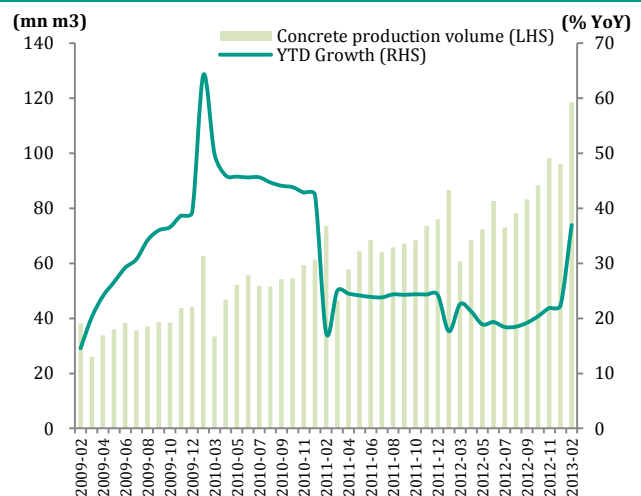
With the elimination of the cement production facilities located in cities, the demand for concrete mixing plant and truck mounted concrete mixer will increase, and their contribution as percentage of revenue will increase.

Production volume growth of concrete breakdown by district in 1-2M2013



Source: NBS

Concrete production volume and YTD growth, 2009-2M2013



Source: Company, ABCI Securities estimates



Cranes segment: downstream industry rebound

The sales revenue of the Group was Rmb14,132mn in FY2012, down 9.5% YoY, mainly because of the slowdown of railway and roadway infrastructure construction which lower the demand for mobile crane.

Sales revenue of crane machinery of Zoomlion

	1H11 (Rmb mn)	3Q11 (Rmb mn)	4Q11 (Rmb mn)	1H12 (Rmb mn)	3Q12 (Rmb mn)	4Q12 (Rmb mn)	1H12 (% YoY)	3Q12 (% YoY)	4Q12 (% YoY)
Revenue of Crane	8,208	2,997	4,413	7,044	3,297	3,791	-14.18	10.01	-14.09

Source: Company

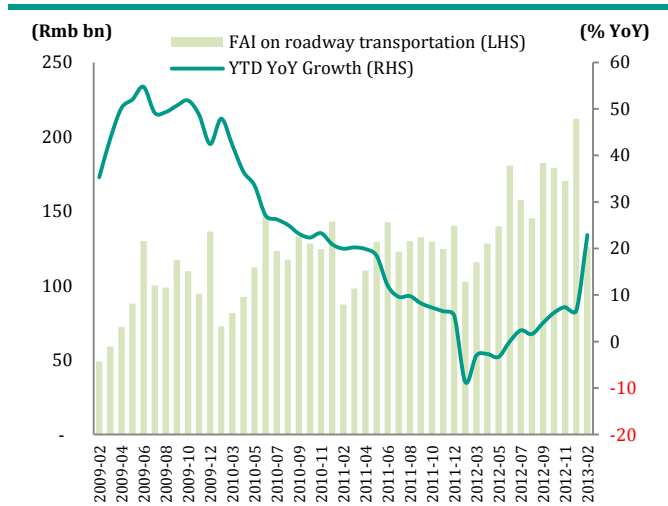
Downstream industry rebound

Mobile cranes recovery is backing on track

The mobile cranes market experienced a deep decline in 2012. The total market sales volume of truck crane was down by 34.8% YoY in 2012. The sales volume of truck crane shrunk to -9.2% in January 2013. With the recovery on the downstream roadway and railway construction, we expect the sales of mobile cranes to regain in 2013 surfing on the recovery momentum since 4Q2012.

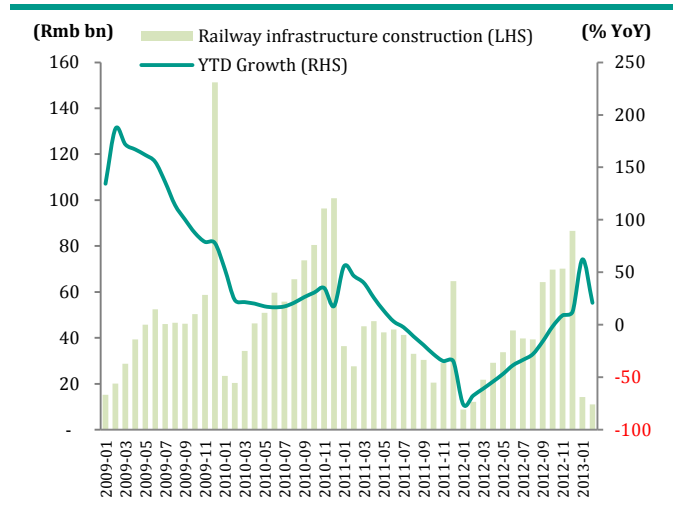
The slowdown of railway activities recovery in February is mainly because of the effect of Chinese New Year. We expect the growth will back on track in March.

Roadway FAI and YTD growth, 2009-2M2013



Source: NBS

Railway infrastructure construction and YTD growth, 2009-2M2013



Source: MOR

Tower crane will be a spotlight in 2013

Strategic expansion in tower crane segment to gain market share

The growth of sales of tower crane (estimated at 20.0 YoY) mitigated the sales decline effect of mobile cranes in FY2012. With the growth of municipal construction projects and water engineering infrastructure, the demand for the tower crane will be supported. Under the strategic development of the segment, Zoomlion has successfully captured the market share from the peers and become the largest player in China. We estimate that the market share of tower crane of the Group increased from 3.4% in 2007 to 33.9% in 2012.

Sharp growth in earth moving machinery segment

Develop the excavator and bulldozer businesses, which are the new growth drivers

Zoomlion started to expand the earth moving machineries, such as excavator and bulldozer in 2012. By getting into the earth moving machinery sector, the Group can diversify its source of incomes.

The sales volume of Zoomlion's excavator elevated by 64.9% YoY from 1,873 units in 2011 to 3,089 units in 2012. The market share of Zoomlion grew from 1.1% in 2011 to 2.7% in 2012.

The sales volume of the Group's bulldozer increased by 14.9% from 692 units in 2011 to 795 units in 2012. The market share of Zoomlion increased from 5.3% in 2011 to 7.8% in 2012.

We expect that the revenue of earth moving machinery segment will experience a fast pace for the following years as the gain in market share with leveraging on the market recovery.

Sales revenue of earth moving machinery of Zoomlion

	1H11 (Rmb mn)	3Q11 (Rmb mn)	4Q11 (Rmb mn)	1H12 (Rmb mn)	3Q12 (Rmb mn)	4Q12 (Rmb mn)	1H12 (% YoY)	3Q12 (% YoY)	4Q12 (% YoY)
Revenue of Crane	673	239	136	1,324	424	521	96.73	77.41	283.09

Source: Company

Operating cash flow improved

Cash collectability is the major concern. But it is improving

The OCF / Net income ratio of the Group was 2.6%, in average, during FY2005 to 1-3QFY2012, which was lower than that of its peers, such as Sany Heavy at 60.8% and Lonking at 38.9% during the same period of time. Although the business environment in FY2012 was tough, we observe a bright spot in the Group's earnings quality. Its net operating cash flow ("OCF") surged 41% YoY to Rmb2,960mn in FY2012. Its OCF / Net income ratio improved from 26.0% in FY2011 to 40.4% in FY2012.

Its relatively low OCF/Net income ratio suggests its current business models and strategies are not sustainable. The Group needs to re-engineer its business practice to generate sufficient internal cash flow to meet business expansion and pay dividends in the future. We expect it will cause the growth slowdown in FY2013.

GPM shrinking due to change of product mix

GPM drop due to increase in low margin products

Gross profit margin ("GPM") dropped by 12.6ppts QoQ in 4QFY2012 due to change of product mix. The sales of high margin products, such as truck mounted concrete pump reduced as percentage of revenue in 4QFY2012.

Looking forward, we estimate that the sales of tower crane, concrete mixing plant and truck mounted concrete mixer will increase as percentage of revenue. We estimate the overall GPM will go further down in FY2013.

Gross profit margin of Zoomlion

	1Q11 (%)	2Q11 (%)	3Q11 (%)	4Q11 (%)	1Q12 (%)	2Q12 (%)	3Q12 (%)	4Q12 (%)
Gross profit margin	31.51	33.36	31.11	33.03	32.10	35.33	35.57	22.99

Source: Company

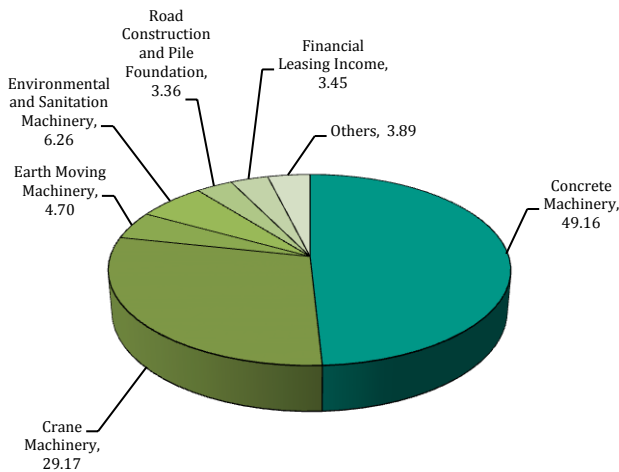


Outlook FY2013 and FY2014

The recovery on downstream construction works are expected to continue in 2013, which support the demand for construction machineries. However, by considering the focus of Zoomlion is the improvement of earnings quality, we expect that the growth on sales and earnings will slow down.

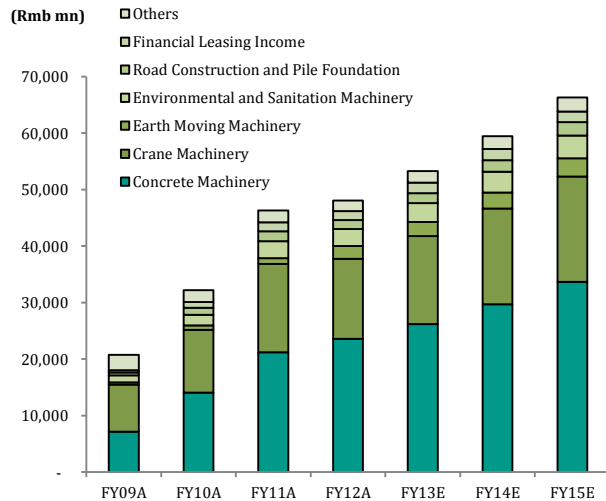
We cut our revenue forecast by 19.7% from Rmb66,353mn to Rmb53,286mn in FY2013 to reflecting the slowdown of growth on sales for the sake of improving earnings quality. We cut our gross profit margin (“GPM”) forecast from 32.2% to 31.9% to as we increase our forecast on the revenue contribution as percentage of total revenue from lower margin products, such as tower crane and concrete mixing plant and truck. In all, we cut our net income forecast by 23.1% from Rmb10,709mn to Rmb8,236mn in FY2013.

Estimated product mix of the Group, FY2013E



Source: Company

Revenue production of the Group, FY2009-FY2015E



Source: Company, ABCI Securities estimates

Maintain “Buy” to Zoomlion

The counter is trading at 7.09x FY2013E PER, 13.5% discounted from the mean of its historical PER and 29.7% discounted from mean of PER of the peer group.

As the cash flow of the Group is improving and the downstream construction industry is recovering, we maintain our target valuation at 8.2x FY2013E PER. As we revise down our earnings forecast of the Group, and we cut our target price from HK\$13.96 to HK\$10.84.

Considering the mid-to-long run growth opportunity of the Group and its leading position on R&D and production capability, we think its current valuation is attractive. We maintain “Buy” to Zoomlion.



Financial highlights of the Group

(Rmb mn)	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	FY11	FY12	Change (% YoY)
Revenue	10,735	13,413	9,059	13,116	11,609	17,511	9,989	8,962	46,323	48,071	3.77
Concrete Machinery	11,134 ¹		3,875	6,203	16,906 ¹		4,279	2,411	21,212	23,596	11.24
Crane Machinery	8,208 ¹		2,997	4,413	7,044 ¹		3,297	3,791	15,618	14,132	-9.51
Earth Moving Machinery	673 ¹		239	136	1,324 ¹		424	521	1,048	2,269	116.51
Environmental and Sanitation Machinery	1,264 ¹		769	945	1,201 ¹		839	994	2,978	3,034	1.88
Road Construction and Pile Foundation	1,006 ¹		298	433	779 ¹		308	471	1,737	1,558	-10.31
Financial Leasing Income	749 ¹		367	467	783 ¹		436	381	1,583	1,600	1.07
Others	1,114 ¹		514	519	1,083 ¹		406	393	2,147	1,882	-12.34
Gross profit	3,383	4,474	2,818	4,332	3,726	6,186	3,553	2,060	15,007	15,525	3.45
GPM (%)	31.51	33.36	31.11	33.03	32.10	35.33	35.57	22.99	32.40	32.30	-0.10ppts
Selling and distribution cost	(419)	(811)	(725)	(1,205)	(540)	(933)	(1,031)	(872)	(3,160)	(3,376)	6.84
Administrative cost	(567)	(599)	(570)	(523)	(546)	(912)	(742)	(752)	(2,259)	(2,952)	30.68
Net financial income (cost)	(90)	(18)	75	(3)	(68)	(135)	(164)	93	(36)	(274)	661.11
Other gain (loss)	66	25	39	(80)	(80)	1	(12)	26	50	(65)	-230.00
Pretax profit	2,373	3,071	1,637	2,521	2,492	4,207	1,604	555	9,602	8,858	-7.75
Pretax profit margin (%)	22.11	22.90	18.07	19.22	21.47	24.02	16.06	6.19	20.73	18.43	-2.30ppts
Minority interest	8	15	8	76	34	93	40	32	107	199	85.98
Net income	2,024	2,604	1,334	2,104	2,089	3,533	1,338	370	8,066	7,330	-9.12
Net margin (%)	18.85	19.41	14.73	16.04	17.99	20.18	13.39	4.13	17.41	15.25	-2.16ppts
Operating cash flow	(1,442)	1,909	623	1,004	(1,298)	1,884	(407)	2781	2,094	2,960	41.36
OCF/Net income (%)	-71.25	73.31	46.70	47.72	-62.13	53.33	-30.42	751.62	25.96	40.38	14.42ppts

1: The breakdown of revenue is for 1H (1Q+2Q)

Source: Company

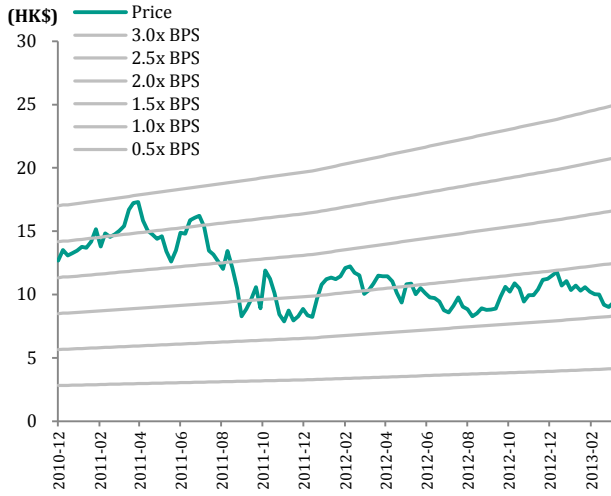
Major change of our forecast

	Our Forecast	FY12A Actual Results	Diff (%)	Previous	FY13E New	Chg (%)	Previous	FY14E New	Chg (%)
Revenue (Rmb mn)	52,951	48,071	-9.22	66,353	53,286	-19.69	86,002	59,426	-30.90
Concrete Machinery	25,899	23,596	-8.89	31,070	26,197	-15.68	41,712	29,721	-28.75
Crane Machinery	16,448	14,132	-14.08	22,527	15,544	-31.00	27,208	16,937	-37.75
Earth Moving Machinery	2,068	2,269	9.72	2,704	2,506	-7.34	4,056	2,830	-30.22
Environmental and Sanitation Machinery	3,127	3,034	-2.97	3,127	3,337	6.73	3,127	3,671	17.40
Road Construction and Pile Foundation	1,998	1,558	-22.00	2,597	1,792	-31.00	3,895	2,060	-47.10
Financial Leasing Income	1,805	1,600	-11.36	2,256	1,840	-18.45	2,895	1,929	-33.37
Others	1,606	1,882	17.15	2,072	2,070	-0.10	3,109	2,277	-26.75
Gross profit (Rmb mn)	17,974	15,525	-13.63	21,368	16,989	-20.49	28,499	19,419	-31.86
GPM (%)	33.94	32.30	-1.65ppts	32.20	31.88	-0.32ppts	33.14	32.68	-0.46ppts
Net income (Rmb mn)	9,014	7,330	-18.68	10,709	8,236	-23.09	14,732	9,490	-35.59
Net margin (%)	17.02	15.25	-1.77ppts	16.14	15.46	-0.68ppts	17.13	15.97	-1.16ppts
EPS (Rmb)	1.151	0.951	-17.35	1.367	1.062	-22.36	1.869	1.215	-34.98
BVPS (Rmb)	5.080	5.290	4.12	6.201	6.339	2.23	7.684	7.544	-1.83
DPS (Rmb)	0.230	0.200	-13.12	0.273	0.212	-22.36	0.374	0.243	-34.98

Source: ABCI Securities estimates

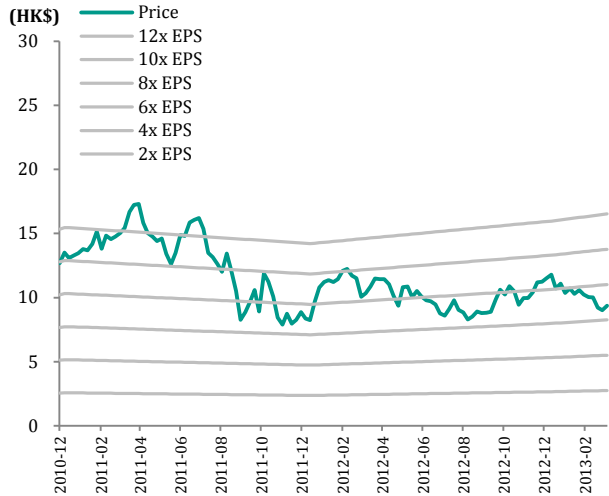


PB band of the Zoomlion H-share



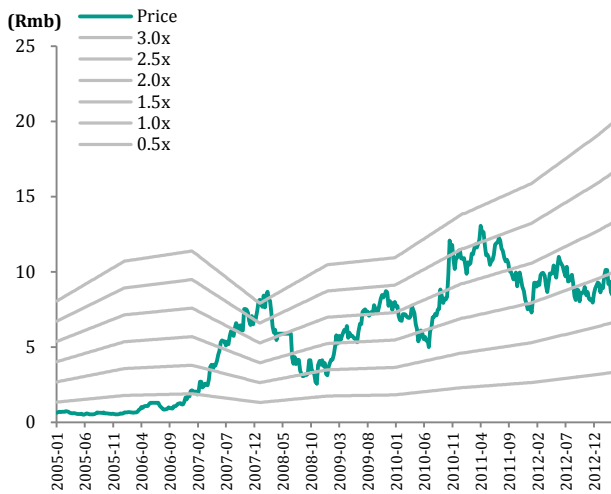
Source: Company, Bloomberg, ABCI Securities estimates

PE band of Zoomlion H-share



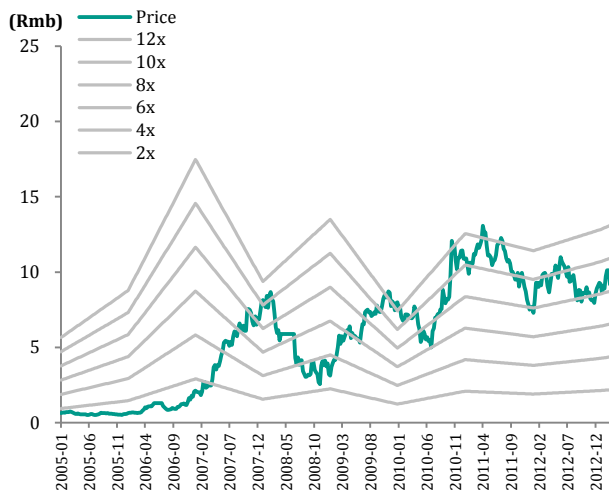
Source: Company, Bloomberg, ABCI Securities estimates

PB band of Zoomlion in A-share market



Source: Company, Bloomberg, ABCI Securities estimates

PE band of Zoomlion in A-share market



Source: Company, Bloomberg, ABCI Securities estimates



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	442,289	USD	86.97	10.72	9.12	-6.89	17.58	2.61	2.16	36.22	28.19
KOMATSU LTD	6301 JP	179,866	JPY	2208	11.83	11.58	7.64	2.08	1.94	1.77	18.53	13.15
SANY HEAVY INDUS	600031 CH	95,441	CNY	10.02	10.80	9.11	-18.53	18.53	3.24	2.53	34.53	30.21
ZOOMLION HEAVY-H ²	1157 HK	13,399	HKD	9.37	7.91	7.09	-9.20	11.61	1.42	1.19	19.10	18.15
ZOOMLION HEAVY-A ²	000157 CH	63,809	CNY	8.13	8.55	7.66	-9.20	11.61	1.54	1.28	19.10	18.15
XCMG CONSTRUCT-A	000425 CH	27,318	CNY	10.59	7.91	7.09	-18.41	11.58	1.29	1.12	14.77	15.60
GUANGXI LIUGONG	000528 CH	11,975	CNY	8.51	23.57	15.31	-69.15	54.02	1.02	0.97	3.86	5.42
TEREX CORP	TEX US	29,667	USD	34.42	16.97	12.91	394.63	31.46	1.60	1.42	10.56	13.61
TADANO	6395 JP	10,730	JPY	1000	73.18	25.44	-44.83	187.62	1.54	1.45	2.30	6.70
SHANTUI CONST-A	000680 CH	6,166	CNY	4.33	-11.13	11.96	-192.62	-193.06	1.37	1.28	1.25	5.15
XIAMEN XGMA-A	600815 CH	7,040	CNY	5.87	10.33	13.40	-23.24	-22.89	1.08	1.01	10.45	7.51
LONGKING HOLDINGS ²	3339 HK	7,576	HKD	1.77	40.12	7.23	-91.27	455.27	0.97	0.83	2.40	12.00
Sector Weighted Average					11.89	9.86	4.13	18.79	2.30	1.94	27.93	22.63
Agricultural Machinery Makers												
DEERE & CO	DE US	260,034	USD	85.98	10.03	9.53	11.06	5.27	3.47	2.80	38.74	39.34
MAHINDRA & MAHIN	MM IN	74,985	INR	857.10	13.51	11.11	19.25	21.67	2.52	2.15	21.10	20.14
CNH GLOBAL NV	CNH US	77,739	USD	41.32	8.52	8.05	3.68	5.79	1.01	0.89	11.99	12.79
FIRST TRACTOR-H ²	38 HK	2,778	HKD	6.91	15.79	8.53	-27.93	85.09	1.26	1.22	8.97	13.00
FIRST TRACTOR-A ²	601038 CH	6,848	CNY	9.22	26.34	14.23	-27.93	85.09	2.10	2.03	8.97	13.00
ESCORTS LTD	ESC IN	920	INR	52.65	5.87	4.30	44.88	36.44	0.34	0.34	6.43	7.21
Sector Weighted Average					10.66	9.59	10.34	10.16	2.81	2.30	29.95	30.40
Mining Machinery Makers												
JOY GLOBAL INC	JOY US	49,076	USD	59.52	9.58	9.17	-13.74	4.49	2.06	1.73	34.20	26.91
ZHENGZHOU COAL-H ²	564 HK	1,988	HKD	8.18	6.67	7.22	14.94	-7.60	1.16	1.08	21.14	15.21
ZHENGZHOU COAL-A ²	601717 CH	16,197	CNY	9.25	9.44	10.21	14.94	-7.60	1.64	1.53	21.14	15.21
TIAN DI-A	600582 CH	16,517	CNY	10.88	11.62	9.54	24.66	21.79	2.29	1.89	22.27	21.80
SANY HEAVY EQUIP ²	631 HK	11,026	HKD	3.59	17.89	15.66	-35.50	14.21	1.61	1.50	9.08	9.78
LINZHOU HEAVY-A	002535 CH	4,463	CNY	6.63	12.39	9.08	54.56	36.45	1.31	1.17	10.86	13.28
SUNWARD INTELL-A	002097 CH	3,579	CNY	6.79	48.50	28.29	-71.03	71.43	1.63	1.56	3.36	5.51
Sector Weighted Average					12.20	10.71	-3.86	9.89	1.92	1.66	25.20	20.85
Machinery Part Makers												
CUMMINS INC	CMI US	170,594	USD	115.81	13.20	11.22	0.29	17.66	2.78	2.33	26.17	22.64
WEICHAI POWER-H	2338 HK	51,795	HKD	25.85	11.68	9.63	-36.79	21.30	1.39	1.23	12.19	13.69
TAIYUAN HEAVY-A	600169 CH	9,427	CNY	3.11	311.00	19.44	-93.79	1500.00	1.37	1.28	0.44	6.58
CHINA YUCHAI	CYD US	4,626	USD	15.99	5.92	5.38	-22.64	10.00	0.64	0.60	10.74	11.07
Sector Weighted Average					24.60	11.08	-12.03	77.41	2.38	2.02	21.78	19.81
Industrial Machinery Makers												
VOLVO AB-B	VOLVB SS	240,185	SEK	94.75	14.36	10.38	21.25	38.43	2.16	1.94	14.15	15.54
ATLAS COPCO-A	ATCOA SS	261,444	SEK	185.00	16.25	15.20	-0.59	6.93	5.55	4.75	43.17	36.34
HYUNDAI HEAVY	009540 KS	111,702	KRW	211000	9.32	8.05	-28.68	15.69	0.82	0.76	9.98	8.47
SANDVIK AB	SAND SS	149,695	SEK	100.20	13.51	11.93	13.96	13.18	3.18	2.78	25.42	24.20
DOOSAN HEAVY	034020 KS	33,181	KRW	45000	7.30	5.60	222.60	30.28	0.92	0.85	11.95	13.70
MANITOWOC CO	MTW US	21,194	USD	20.56	16.11	11.75	65.71	37.15	3.57	2.94	18.33	24.89
ANHUI HELI CO-A	600761 CH	5,406	CNY	8.41	11.29	9.59	-0.67	17.72	1.43	1.29	12.08	12.48
Sector Weighted Average					13.86	11.71	15.33	20.24	3.22	2.80	24.86	22.91
Weighted Average					13.56	10.58	7.03	23.02	2.69	2.28	26.56	23.71
Median					11.65	9.61	-8.04	17.69	1.54	1.35	12.14	13.65

* The data in the table is as at April 1, 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)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	46,323	48,071	53,286	59,426	66,294
Concrete Machinery	21,212	23,596	26,197	29,721	33,645
Crane Machinery	15,618	14,132	15,544	16,937	18,663
Earth Moving Machinery	1,048	2,269	2,506	2,830	3,199
Environmental and Sanitation Machinery	2,978	3,034	3,337	3,671	4,038
Road Construction and Pile Foundation	1,737	1,558	1,792	2,060	2,370
Financial Leasing Income	1,583	1,600	1,840	1,929	1,874
Others	2,147	1,882	2,070	2,277	2,505
Cost of sales	(31,316)	(32,546)	(36,296)	(40,008)	(44,374)
Gross profit	15,007	15,525	16,989	19,419	21,920
Selling and distribution cost	(3,160)	(3,376)	(3,730)	(4,160)	(4,641)
General administrative cost	(2,259)	(2,952)	(3,008)	(3,631)	(4,029)
Finance income	214	349	348	448	600
Finance expenses	(250)	(623)	(746)	(736)	(568)
Profit from operations	9,552	8,923	9,853	11,340	13,282
Other income (loss)	50	(65)	(72)	(79)	(87)
Pre-tax profit	9,602	8,858	9,782	11,261	13,195
Tax expenses	(1,429)	(1,329)	(1,467)	(1,689)	(1,979)
Net profit	8,173	7,529	8,314	9,572	11,216
Attributable to:					
Minority interests	107	199	78	82	88
Net profit to equity owner	8,066	7,330	8,236	9,490	11,127

Source: Company, ABCI Securities estimates

Income statement key ratios forecast

FY	FY11A	FY12A	FY13E	FY14E	FY15E
Sales mixed (%)					
Concrete Machinery	45.79	49.09	49.16	50.01	50.75
Crane Machinery	33.72	29.40	29.17	28.50	28.15
Earth Moving Machinery	2.26	4.72	4.70	4.76	4.82
Environmental and Sanitation Machinery	6.43	6.31	6.26	6.18	6.09
Road Construction and Pile Foundation	3.75	3.24	3.36	3.47	3.57
Financial Leasing Income	3.42	3.33	3.45	3.25	2.83
Others	4.63	3.92	3.89	3.83	3.78
Total	100.00	100.00	100.00	100.00	100.00
Profit & loss ratios (%)					
Gross margin	32.40	32.30	31.88	32.68	33.06
Operating profit margin	20.62	18.56	18.49	19.08	20.03
Pre-tax margin	20.73	18.43	18.36	18.95	19.90
Net profit margin	17.41	15.25	15.46	15.97	16.78
Selling & distribution cost/revenue	6.82	7.02	7.00	7.00	7.00
General administrative cost/revenue	4.88	6.14	5.65	6.11	6.08
Effective tax rate	14.88	15.00	15.00	15.00	15.00
Growth (%)					
Revenue	43.89	3.77	10.85	11.52	11.56
Gross profit	53.62	3.45	9.43	14.30	12.88
Profit from operations	78.61	-6.59	10.43	15.09	17.12
Net profit	72.87	-9.12	12.36	15.22	17.25

Source: Company, ABCI Securities estimates



Consolidated balance sheets forecast

As of Dec 31 (Rmb mn)	FY11A	FY12A	FY13E	FY14E	FY15E
Current assets	47,842	63,243	66,415	77,253	87,907
Cash and equivalent	17,483	22,146	24,288	35,488	44,452
Trade and bill receivables	11,789	17,508	15,455	13,319	13,121
Financial leasing receivables	7,089	9,194	11,345	10,440	10,730
Inventories	9,656	11,733	12,133	14,173	15,004
Other current assets	1,825	2,662	3,194	3,833	4,600
Non-current assets	23,701	25,691	28,919	27,866	30,986
Property, plant and equipment	4,886	6,112	6,242	6,363	6,476
Intangible assets	4,399	4,534	4,639	4,743	4,844
Long term investments	146	385	424	466	512
Financial leasing receivables	12,780	10,458	12,291	11,310	11,624
Other non-current assets	1,490	4,202	5,323	4,985	7,530
Total assets	71,543	88,934	95,334	105,120	118,893
Current liabilities	26,652	34,109	31,881	31,652	33,222
Trade and bill payables	12,103	13,483	14,957	16,391	18,379
Receipts in advance	1,166	1,225	1,439	1,532	1,783
Short term borrowings	6,049	9,639	10,139	10,639	11,139
Other current liabilities	7,334	9,762	5,345	3,090	1,921
Non-current liabilities	9,296	13,676	13,849	14,084	14,928
Trade and bill payables	-	-	-	-	-
Long term borrowings	7,089	10,674	10,547	10,451	10,932
Other non-current liabilities	2,207	3,002	3,302	3,632	3,996
Total liabilities	35,948	47,785	45,730	45,736	48,149
Minority interests	188	387	426	468	515
Shareholders' equities	35,407	40,762	49,179	58,915	70,228

Source: Company, ABCI Securities estimates

Balance sheets key ratios forecast

FY	FY11A	FY12A	FY13E	FY14E	FY15E
Balance sheet ratios					
Current ratio (x)	1.80	1.85	2.08	2.44	2.65
Quick ratio (x)	1.43	1.51	1.70	1.99	2.19
Cash ratio (x)	0.66	0.65	0.76	1.12	1.34
Total receivable turnover days	222.39	265.84	269.13	230.26	192.29
Trade and bill receivables turnover days	79.88	124.88	130.00	100.00	80.00
Total payable turnover days	212.84	137.46	136.80	136.80	136.80
Trade and bill payables turnover days	142.11	143.47	143.00	143.00	143.00
Inventory turnover days	106.84	119.94	120.00	120.00	120.00
Total debt / equity ratio (%)	37.11	49.36	41.70	35.52	31.20
Net debt / equity ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Returns (%)					
ROAA	12.04	9.38	9.02	9.55	10.01
ROAE	25.69	19.10	18.15	17.41	17.10
Payout ratio	20.44	21.02	20.00	20.00	20.00
Per share data (Rmb)					
EPS	1.046	0.951	1.062	1.215	1.415
BVPS	4.208	5.290	6.339	7.544	8.931
DPS	0.217	0.200	0.212	0.243	0.283

Source: Company, ABCI Securities estimates

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Zoomlion Heavy Industry**Consolidated cash flow statements forecast**

FY ended Dec 31 (Rmb mn)	FY11A	FY12A	FY13E	FY14E	FY15E
Profit before tax	9,602	8,858	9,782	11,261	13,195
Depreciation and amortization	456	502	565	576	586
Change in working capital	(7,643)	(7,970)	4,629	9,316	6,214
Income tax paid	(975)	(1,555)	(1,583)	(1,793)	(2,073)
Interest received	214	349	348	448	600
Others	440	2,776	(9,384)	(10,973)	(13,226)
CF Operating	2,094	2,960	4,357	8,835	5,295
Increase in PP&E	(1,210)	(1,633)	(600)	(600)	(600)
Increase in intangible assets	(372)	(230)	(200)	(200)	(200)
Other	81	(1,536)	-	-	-
CF Investing	(1,501)	(3,399)	(800)	(800)	(800)
Capital injection	1,509	-	-	-	-
Net debt financing	(2,393)	7,175	373	405	981
Dividend payout	(1,669)	(1,926)	(1,541)	(1,647)	(1,898)
Others	(722)	(737)	(247)	4,408	5,385
CF Financing	(3,275)	4,512	(1,415)	3,166	4,468
Net change in cash	(2,682)	4,073	2,142	11,200	8,963
Cash at the beginning	20,335	17,483	22,146	24,288	35,488
Effect of foreign exchange rate and others	(170)	590	-	-	-
Cash at the end	17,483	22,146	24,288	35,488	44,452

1: The operating cash flow is including the interest received

2: The investing cash flow is excluding the interest received

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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