



Rating
Buy

Asia
China

Industrials
Manufacturing

Company
Lonking Alert

Reuters 3339.HK	Bloomberg 3339 HK	Exchange HSI	Ticker 3339
ADR Ticker LKHL	ISIN US54337B1061		

Date
23 March 2015

Forecast Change

Price at 23 Mar 2015 (HKD)	1.45
Price target - 12mth (HKD)	2.10
52-week range (HKD)	1.68 - 1.27
HANG SENG INDEX	24,375

FY14 results preview

Lonking to release FY014 results on March 30, likely in line with expectation

According to management, Lonking's sales volume for wheel loaders and excavators in 2014 was down 13% to 22,377 units and 11% to 2,049 units, respectively. Forklift, on the other hand, recorded 19% growth on sales volume in 2014. The sales volume performance was below our previous assumption. Accordingly, we are cutting our 2014 earnings forecasts by 13%. The company will release preliminary annual results on March 30. After the earnings revision, we now expect the top line in 2014 to drop 6% yoy to Rmb7.9bn and net profit to increase only 3% to Rmb496m. Our 2014 earnings assumption is largely in line with Bloomberg Finance LP consensus.

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Key changes

Sales (FYE)	8,587 to 7,656	↓	-10.8%
Op prof margin (FYE)	10.1 to 9.8	↓	-3.2%
Net profit (FYE)	567.6 to 496.2	↓	-12.6%

Source: Deutsche Bank

Stock data

Market cap (HKDm)	6,206
Market cap (USDm)	800
Shares outstanding (m)	4,280.1
Major shareholders	Mr Li San Yim's family (54%)
Free float (%)	59
Avg daily value traded (USDm)	1.2

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	8,158	7,656	7,927
Net Profit (CNYm)	480.0	496.2	567.8
DB EPS (CNY)	0.11	0.12	0.13
PER (x)	12.2	10.0	8.7
Yield (net) (%)	3.8	3.0	3.4

Source: Deutsche Bank

Near-term demand outlook still weak, but likely to pick up from September

CCMA released China's wheel loader sales volume dropped 49% in 2M15, implying a continued sluggish demand. We are still cautious about the demand outlook in the upcoming peak season (March-May), as we think the property and mining investment is uncertain. However, demand for wheel loaders (early-cycle product) is likely to pick up from September, as we expect policy-easing measures (including monetary, fiscal and property relaxation) to intensify in April (see our economist Zhiwei Zhang's report dated March 17, *Fiscal Slide worsened, policy easing cycle may start soon*). Rising replacement demand could also support our outlook. Our latest channel checks indicate that some dealers expect demand to pick up in 2H15. We forecast Lonking's wheel loader sales volume to rise 16% yoy in 2H15, vs. -8% in 1H15. In addition, we think the "OBOR" plan could benefit demand in the long run.

Risks under control; financial situation likely to improve

Lonking guided it will continue to adopt a conservative sales strategy this year. We think its credit risk is already under control; the overdue ratio is likely to drop and the balance sheet and cash flow situation should further improve. We expect net gearing to drop to 12% in 2015 from 20% in 2014 and 30% in 2013. In addition, it could benefit from the loan restructuring in 2014-2015 as it obtained long-term bank loans of US\$257m (at rates ranging from 2.32%-5.85% pa) to replace long-term loan notes (at rate of 8.5% pa) in June 2014. We forecast interest expenses at Rmb142m in 2015 (from Rmb180m in 2014 and Rmb238m in 2013). Lonking is confident its efforts on risk management are ahead of its domestic peers and it is well positioned in cash flows.

Cutting earnings; maintaining Buy; 2015E PB valuation (0.66x) looks attractive

We cut our 2014-16 earnings estimates by 12% on average, reflecting lower sales volume assumption. We maintain our target price at HK\$2.1 as earnings forecast downgrade was fully offset by a target price rollover. Our target price is based on an FY15E PE of 13x (10% premium to historical average PE since the beginning of 2008) as we expect EPS growth in 2015 (14%) to be higher than the historical average (0% CAGR during 2008-2013). Downside risks: lower sales volume growth, rising competition and rise in raw material costs.

Deutsche Bank AG/Hong Kong

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