



Rating
Hold

Company
Zoomlion Alert

Date
30 March 2015

Asia
China

Industrials
Manufacturing

Reuters 1157.HK	Bloomberg 1157 HK	Exchange HSI	Ticker 1157
ADR Ticker ZLIOY	ISIN US98978W1018		

Results

Price at 27 Mar 2015 (HKD)	4.83
Price target - 12mth (HKD)	4.77
52-week range (HKD)	6.34 - 3.59
HANG SENG INDEX	24,486

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2014 results missed DBe and market, challenging 2015 outlook

2014 net profit down 85% yoy, missed DBe and company's guidance

Zoomlion's 2014 net profit plunged 85% yoy to RMB594m, 79% and 44% below our estimate and consensus, respectively. The result also missed the group's guidance (down 70%-80% yoy) in the profit warning announced in January. The plunge was mainly due to a sales decline, higher SG&A expenses and surge in finance cost. Reported DPS was RMB0.05, indicating a payout ratio of 63% in 2014 (vs. 30% in 2013). Under PRC GAAP, Zoomlion recorded a profit loss of RMB406m in 4Q14, the first time since it listed on HK.

Sluggish demand across major segments in 2014

Zoomlion's top line in 2014 declined 33% yoy to RMB25.9bn on the back of a 39%/41%/41%/10% yoy sales drop in concrete/crane/road construction/earth working machinery, which fully offset the 23% yoy growth in environmental and sanitation machinery. Zoomlion attributes the sluggish demand in concrete machinery and crane machinery to the slowdown in real estate investment.

Margins contracted

2014 gross margin contracted to 27.9% from 29.2% in 2013 (vs. our estimate of 27.1%), mainly due to product mix downgrade, decline in ASP and higher unit fixed cost, in our view. The SG&A expenses (incl. R&D expenses) to sales ratio expanded to 22.5% in 2014 (vs. 17.9% in 2013 and our estimate of 16.2%), partly due to unreasonable sales resource allocation based on the sales target set at the beginning of the year. These, coupled with the 49% rise in net financial cost, resulted in a 7.7ppt decline in net margin in 2014.

Worsening cash flow situation; increase in net gearing and overdue ratio

Operating CF deteriorated to -RMB8.4bn in 2014, from -RMB5.0bn in 1H14. We think this is mainly due to the profit decline, a sharp increase and decrease in receivables and trade payables respectively and increase in cash paid for repurchase of equipment at fair market value from banks to which Zoomlion previously factored its receivables without recourse. Meanwhile, it recorded net gearing of 36% at end-2014 (vs. 5% at end-2013) and overdue ratio (for financial leasing A/R) of 29% in 2014 (vs 22% in 1H14). The control of credit risk is worse than our expectation.

1Q15 profit warning; management guidance on 2015 sales

In its annual results announcement, Zoomlion mentioned that it will make a loss in 1Q15 or see a significant yoy decline in net profit. Meanwhile, it guided a sales target of RMB30.8bn in FY15 vs. our estimate of RMB36.0bn. Hence, we think there is downside risk to our 2015 earnings forecast for Zoomlion.

We are awaiting more clarity from company presentation on 30 March

We have a Hold recommendation on Zoomlion, as we think the stock is fairly valued considering the challenging near-term earnings outlook. We will review our model after attending the company's results presentation on 30 March.

Stock data

Market cap (HKDm)	37,220
Market cap (USDm)	4,800
Shares outstanding (m)	7,706.0
Major shareholders	-
Free float (%)	100
Avg daily value traded (USDm)	7.4

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	38,542	34,812	35,963
Net Profit (CNYm)	3,844.0	2,837.0	3,031.4
DB EPS (CNY)	0.50	0.37	0.39
PER (x)	12.3	10.5	9.8
Yield (net) (%)	2.5	2.9	3.0

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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