Daiwa Capital Markets

Sector

Industrials / China
8 March 2013

The 10-second briefing

Profiting from industry upcycles

China Capital Goods Sector

- The China Capital Goods Sector has outperformed the MSCI Asia ex-Japan Index in most market upturns over the past 10 years
- We highlight favourable industry cycles in the agriculture, aviation, traditional power and railway equipment sub-sectors
- At the stock level, our picks are First Tractor (Outperform [2]), AviChina, Shanghai Electric, and CSR Corp (all rated Buy [1])

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■ Investment case

Given the cyclical nature (hence high beta) of the capital goods sector, the share prices of stocks within the sector have outperformed the relevant indices in most of the market upturns over the past 10 years. As Daiwa expects a market upturn this year, we highlight our fundamental views of seven capital-goods sub-sectors for 2013, and our key calls.

■ **China Capital Goods Sector: key calls**

Capital goods sub-sector	Sector rating	Stock	Stock Rating
Railway	Positive	CSR	Buy
Power (traditional)	Positive	Shanghai Electric	Buy
Aviation	Positive	Avi China	Buy
Agricultural equip	Positive	First Tractor	Outperform
Wind power	Neutral	Xinjiang Goldwin	Hold
Shipbuilding	Negative	Cosco Corp	Underperform
Heavy Machinery	Negative	Lonking	Sell

Source: Daiwa

■ Catalysts

Sector typically outperforms during market upturns. The following table shows the share-price performances of 18 cyclical stocks from seven capital-goods sub-sectors. This group of stocks has outperformed the MSCI Asia ex-Japan Index in six of the eight market upturns of the past 10 years.

■ **China Capital Goods Sector: performance**

	HSCI	HSI	MSCI AxJ	Capital goods average
2003	43%	35%	43%	198%
2004	13%	13%	14%	-3%
2005	6%	5%	19%	25%
2006	44%	34%	30%	239%
2007	40%	39%	37%	148%
2008	-50%	-48%	-54%	-62%
2009	54%	52%	68%	110%
2010	6%	5%	17%	54%
2011	-22%	-20%	-19%	-45%
2012	22%	23%	20%	2%
2013 YTD	2%	1%	0%	5%

Source: Bloomberg, Daiwa
Note: Share prices as at 6 March 2013

Sub-sectors we like. We are Positive on the agriculture equipment sector given government subsidies to spur mechanisation. For the aviation sector, we see upside from policy support to open up the general-aviation market. For the railway equipment sector, forthcoming new orders for high-speed trains by the Ministry of Railways and rising export sales bode well for the rolling-stock makers. And we are Positive on the traditional power equipment sector, as there could be upside to power demand and power capex that translates into new-order growth.

Sub-sectors we don't like. We have a Negative rating for the heavy machinery sector, as we expect demand momentum to be L-shaped (flat) this year rather than see a V-shaped recovery. Separately, we believe the shipbuilding sector will remain in a cyclical downturn throughout 2013. We are Neutral on the wind power equipment sector, as we expect a pause in capacity growth.

■ Valuation

Undemanding valuations. Alongside the favourable trends at play within our preferred sub-sectors, we see clear grounds for outperformance from a valuation standpoint. Most of the stocks we cover are trading currently at between -1SD and their past-five-year average PER (PBR in the case of shipbuilding).

■ Risks

Downside risks to our view include a rapid deceleration in GDP growth, a reduction in FAI in China, and the withdrawal of supportive policies by the government.

Key stock calls

		New	Prev.
CSR Corp (1766 HK)			
Rating		Buy	Buy
Target		8.21	8.21
Upside	▲	33.7%	
Shanghai Electric Group (2727 HK)			
Rating		Buy	Buy
Target		4.10	4.10
Upside	▲	26.9%	
AviChina Industry & Technology (2357 HK)			
Rating		Buy	Buy
Target		4.70	4.70
Upside	▲	22.7%	
First Tractor (38 HK)			
Rating		Outperform	Outperform
Target		9.33	9.33
Upside	▲	19.6%	
Cosco Corp Singapore (COS SP)			
Rating		Underperform	Underperform
Target		0.810	0.760
Downside	▼	12%	

Source: Daiwa forecasts.

Sector stocks: key indicators

								EPS (local curr.)						
		Share	Rating		Target price (local curr.)			FY1			FY2			
Company Name	Stock code	Price	New	Prev.	New	Prev.	% chg	New	Prev.	% chg	New	Prev.	% chg
AviChina Industry & Technology	2357 HK	3.83	Buy	Buy	4.70	4.70	0.0%	0.106	0.106	0.0%	0.141	0.141	0.0%
China High Speed Transmission	658 HK	3.90	Hold	Hold	3.65	3.90	(6.4%)	0.203	0.503	(59.6%)	0.246	0.457	(46.3%)
Cosco Corp Singapore	COS SP	0.920	Underperform	Underperform	0.810	0.760	6.6%	0.042	0.039	6.2%	0.044	0.046	(3.0%)
CSR Corp	1766 HK	6.14	Buy	Buy	8.21	8.21	0.0%	0.321	0.321	0.0%	0.365	0.365	0.0%
Dongfang Electric	1072 HK	15.74	Hold	Hold	11.90	11.90	0.0%	1.222	1.222	0.0%	1.213	1.213	0.0%
First Tractor	38 HK	7.80	Outperform	Outperform	9.33	9.33	0.0%	0.410	0.410	0.0%	0.507	0.507	0.0%
Harbin Electric	1133 HK	6.83	Buy	Buy	9.00	9.00	0.0%	0.934	0.934	0.0%	1.033	1.033	0.0%
Lonking Holdings	3339 HK	2.06	Sell	Sell	1.55	1.55	0.0%	0.138	0.138	0.0%	0.155	0.155	0.0%
Shanghai Electric Group	2727 HK	3.23	Buy	Buy	4.10	4.10	0.0%	0.273	0.273	0.0%	0.315	0.315	0.0%
Xinjiang Goldwind Science & Technology	2208 HK	4.74	Hold	Hold	4.40	3.95	11.4%	0.059	0.199	(70.4%)	0.147	0.229	(36.0%)
Yangzijiang Shipbuilding	YZJ SP	0.955	Underperform	Underperform	0.840	0.840	0.0%	0.588	0.588	0.0%	0.512	0.512	0.0%
Zhuzhou CSR Times Electric	3898 HK	25.80	Hold	Hold	23.80	23.80	0.0%	0.942	0.942	0.0%	1.120	1.120	0.0%
Zoomlion Heavy Industry	1157 HK	9.82	Outperform	Outperform	11.20	11.20	0.0%	1.001	1.001	0.0%	1.123	1.123	0.0%

Source: Daiwa forecasts
Note: Prices are as of close on 6 March 2013

Contents

Company Section

Profiting from industry upcycles

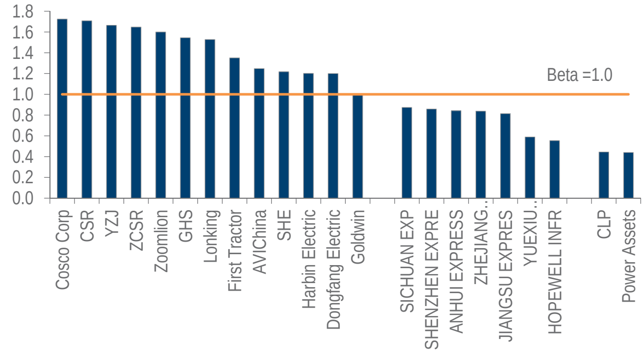
Why invest in the China Capital Goods Sector?

Sector often outperforms in market upturns

The China Capital Goods Sector is highly cyclical and, in general, exhibits a high beta. The 13 capital-goods companies that we cover have betas ranging from 1.0-1.7, well above those of the China toll-road and utilities sectors. The following table shows the share-price performances of a group of cyclical capital-goods makers in seven sub-sectors.

The group outperformed the MSCI Asia ex-Japan Index in six out of the eight market upturns over the past 10 years.

■ **Equity beta: capital goods vs. toll roads and utilities sectors**



Source: Bloomberg

■ **China Capital Goods Sector: share-price performances**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 YTD*
Agricultural equipment											
First Tractor	244%	-47%	-5%	149%	50%	-53%	173%	73%	-16%	4%	3%
Aviation equipment											
AviChina	N.A.	-55%	-46%	103%	155%	-49%	205%	14%	-11%	5%	12%
Heavy machinery											
Zoomlion	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	-38%	37%	-14%
Lonking	N.A.	N.A.	N.A.	505%	34%	-68%	171%	58%	-38%	-22%	1%
Sany	N.A.	-30%	-23%	386%	254%	-63%	163%	85%	-13%	-16%	2%
XCMG	-66%	-19%	-31%	98%	237%	-30%	126%	63%	-50%	-19%	1%
Power (traditional)											
Shanghai Electric	N.A.	N.A.	N.A.	23%	102%	-52%	14%	43%	-30%	-8%	-2%
Dongfang Electric	357%	28%	66%	163%	216%	-71%	114%	85%	-40%	-32%	1%
Harbin Electric	230%	-10%	154%	72%	180%	-74%	8%	77%	-45%	-2%	3%
Railway rolling stock											
CSR	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	35%	79%	-57%	52%	-9%
ZCSR	N.A.	N.A.	N.A.	N.A.	7%	-46%	154%	92%	-44%	69%	-10%
CNR	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	16%	-40%	12%	7%
Shipbuilding											
YZJ	N.A.	N.A.	N.A.	N.A.	N.A.	-77%	166%	58%	-52%	5%	-1%
Cosco Corp	252%	124%	88%	113%	151%	-84%	25%	80%	-59%	2%	3%
Rongsheng	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	-68%	-42%	15%
Guangzhou Shipyard	173%	-14%	-8%	777%	245%	-84%	86%	30%	-56%	14%	0%
Wind power											
China High Speed	N.A.	N.A.	N.A.	N.A.	N.A.	-55%	102%	-36%	-72%	-11%	29%
Xinjiang Goldwind	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	-74%	-21%	44%
Equity index											
HSCI	43%	13%	6%	44%	40%	-50%	54%	6%	-22%	22%	2%
HSI	35%	13%	5%	34%	39%	-48%	52%	5%	-20%	23%	1%
MSCI Asia ex-Japan Index	43%	14%	19%	30%	37%	-54%	68%	17%	-19%	20%	0%
Group average	198%	-3%	25%	239%	148%	-62%	110%	54%	-45%	2%	5%

Source: Bloomberg
*Note: *Share prices as at 6 March 2013.* *This colour denotes outperformance*

Daiwa's stock picks

In this report we feature our fundamental views of seven capital goods sub-sectors and our key stock calls in the respective sub-sectors. The following is a summary of our sector views and key stock calls.

■ China Capital Goods Sector: key stock calls

Capital goods sub-sector	Sector rating	Stock	Stock rating
Railway	Positive	CSR	Buy
Power (traditional)	Positive	Shanghai Electric	Buy
Aviation	Positive	Avi China	Buy
Agricultural equip	Positive	First Tractor	Outperform
Wind power	Neutral	Xinjiang Goldwin	Hold
Shipbuilding	Negative	Cosco Corp	Underperform
Heavy Machinery	Negative	Lonking	Sell

Source: Daiwa

Sub-sectors that we like. We have a Positive rating on the agricultural equipment sector, underpinned by government's policy to provide subsidies to increase mechanisation. We have an Outperform (2) rating for **First Tractor**, the Luoyang-based state-owned tractor manufacturer (the biggest player in the medium- to high-powered tractor segment, with a 23% market share for 2011), which is our top pick in this sector.

In the aviation sector, we see upside from policy support to open low-altitude airspace. We have a Buy rating for **AviChina Industry & Technology (AviChina).**

In the railways sector, upcoming new orders of high-speed trains by the MOR and rising sales to overseas markets bode well for the rolling-stocks makers. We have a Buy rating for **CSR,** one of the two rolling-stock manufacturers in China.

Meanwhile, we have a Positive rating for the traditional power equipment sector, as there could be upside to power demand and power capex that translates into new-order growth. We have a Buy rating on **Shanghai Electric Group (Shanghai Electric)**.

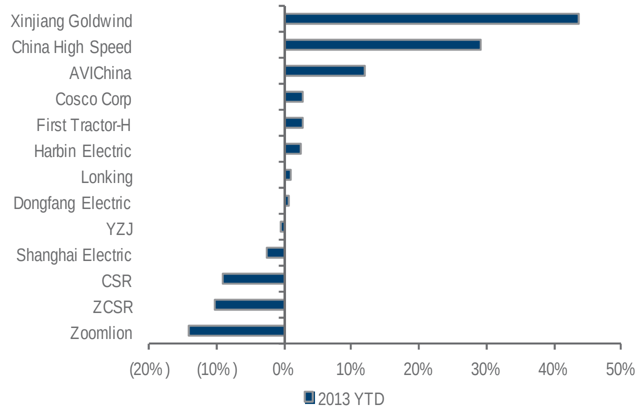
Sub-sectors that we don't like. We have a Negative rating for the heavy machinery sector, as we expect end-market demand momentum to be L-shaped (flat) rather than see a V-shaped recovery this year. We have a Sell (5) rating on **Lonking Holdings (Lonking)**, as we are concerned about the long-term competitiveness of this sub-scale player.

Separately, we believe the China Shipbuilding Sector will remain in a cyclical downturn throughout 2013 due to oversupply, and that ship owners will continue to postpone placing orders for new vessels until the order-book-to-fleet ratio dips below the long-term average.

We have an Underperform (4) rating for **Cosco Corp (Singapore) (Cosco Corp)**, a diversified conglomerate that has interests in shipbuilding, ship repair, and offshore marine engineering.

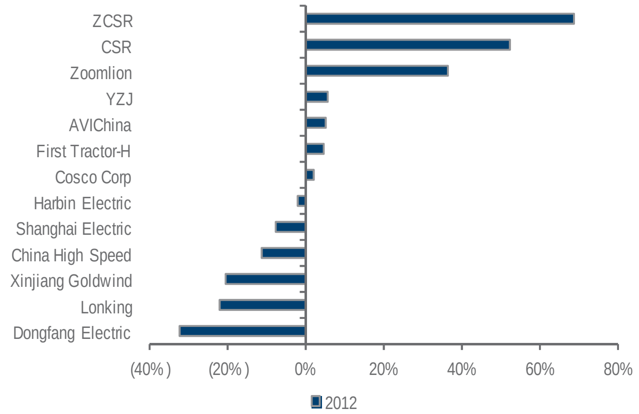
Meanwhile, we have a Neutral rating for the wind power equipment sector, as we believe China is set to take a break from pursuing capacity growth following a decade of high growth. In our view, the strong rebound in the share prices of wind-power stocks so far this year is not supported by the fundamentals and is not sustainable.

■ Capital goods peers: 2013 YTD share-price performances



Source: Bloomberg

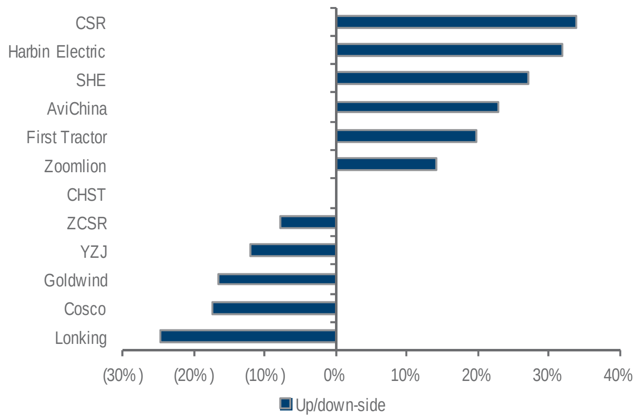
■ Capital goods peers: 2012 share-price performances



Source: Bloomberg

Order of preference. Based on the potential share-price upside, our order of preference in terms of the sub-sectors are railways, power (traditional), aviation and agricultural equipment.

■ **Capital goods peers: share-price upside/(downside) potential to target price**



Source: Bloomberg

Key share-price drivers

Government policies

We see positive government policies supporting the agriculture, aviation, railways, and power sectors this year.

For the agriculture sector, the *No.1 Document*, which is issued by the State Council and outlines the support policies for the agriculture industry, bodes well for the equipment makers in 2013, as we expect the agricultural machinery subsidy to be increased over the next three years under the 12th Five-Year Plan (2011-15).

In the aviation sector, we expect to see more policies facilitating development, with an acceleration in the opening of low-altitude airspace and government subsidies of equipment purchases.

For the railway-equipment sector, we expect strong central government policy support to continue for the MOR, with the approval of new bond issues to meet the MOR's capex plans.

In the traditional power sector, the approval of new nuclear projects in 2013 would be positive for the power-equipment makers.

Earnings revisions cycle

Overall, 2012 was a rather disappointing year for the China Capital Goods Sector. Appendix 1 shows the revisions to the 2013 Bloomberg-consensus earnings forecasts for the key stocks in the seven sub-sectors. The forecasts have been cut to varying degrees for the reasons summarised in the following table.

■ **China Capital Goods Sector: 2013 consensus earnings forecasts**

Capital goods	2013 consensus earnings revisions*	Reason
Moderate cuts		
Aviation	Cuts of up to 20%	Disappointing 2011 and 1Q12 results
Agricultural	Cuts of up to 25%	Lower-than-expected shipments
Railway	Cuts of up to 25%	Delay in major orders from the MOR
Power (traditional)	Cuts of up to 40%	Lower-than-expected power demand
Worst-hit		
Wind power	Cuts of up to 70%	Disappointing shipment numbers
Heavy Machinery	Cuts of up to 60%	Contraction of end-market demand
Shipbuilding	Cuts of up to 90%	Order cancellations

Source: Bloomberg
Note: Since 1 January 2012*

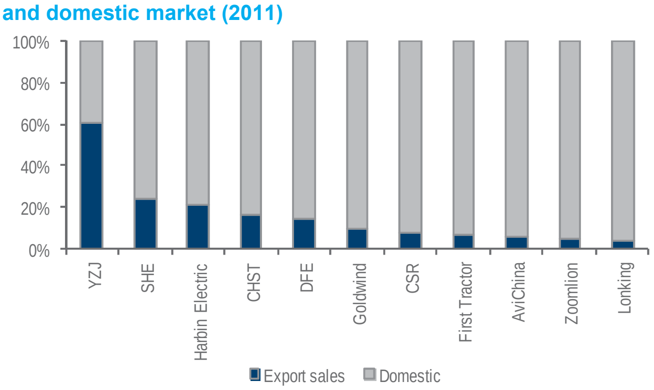
The sectors that saw the biggest cuts were shipbuilding, heavy construction machinery, and wind equipment, while the aviation, agriculture and railways sectors experienced moderate cuts to forecasts.

In general, our analyst team expects an improving trend in earnings for the aviation, agriculture, railways, and traditional power equipment sectors this year.

Overseas expansion

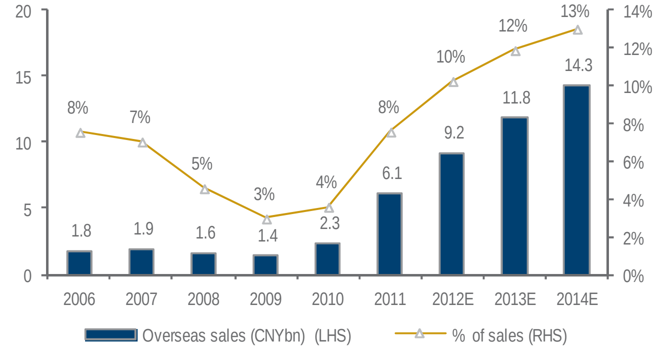
With the exception of Yangzijiang Shipbuilding Holdings (YZJ), the capital-goods companies we cover have businesses that are largely China-focused. However, there is upside potential to business growth from the export businesses of some sectors, including power equipment and railway equipment. In particular, we are positive on the export potential of the railway-equipment sector, as we see growing demand opportunities in developing countries (eg, in Turkey, Brazil, and Argentina) for subway equipment, passenger carriages, and locomotives for both greenfield projects and replacement.

■ **China Capital Goods Sector: breakdown of sales – exports and domestic market (2011)**



Source: Companies

■ CSR: overseas sales (CNYbn)



Source: CSR

■ **Investment summary**

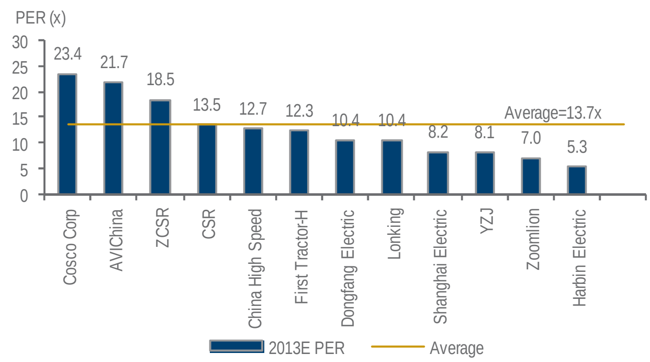
	Policy trend	Demand & supply	Volume growth	EBITDA-margin trend	Key risks	Main catalysts for key stock calls	Valuation	Daiwa Sector rating	Key pick & stock rating
Agriculture	The *No.1 Document* bodes well for policy support in 2013, while we believe the agricultural machinery subsidy will be increased in the last three years of the 12th Five-Year Plan.	The low-powered tractor segment has reached saturation point, with more than 20m units in operation currently, but demand for high-powered tractors of over 100hp should be strong over the next three years.	We forecast total demand for high-to-medium powered tractors of 1.9m units for 2011-15, up from 1.1m units for 2006-10, representing a 73% rise.	The leading makers are expanding their margins based on a change in product mix to high-margin/ high-powered tractors.	Any cut or cancellation of the current agricultural machinery purchase subsidy, and a sharp increase in raw-material prices in the future are the main risks to our positive outlook for the sector.	Strong subsidy support and earnings recovery story from 2013.	Current PER is in line with past-seven-year mean of 12.6x and lower than its global peers' mean.	Positive	First Tractor (Outperform [2])
Aviation	We expect to see more policies facilitating the industry's development, with an acceleration in the opening of low-altitude airspace and government subsidies of equipment purchases.	The opening of the private market in the general aviation segment is likely to increase demand for general aviation aircraft, related flight equipment, and support services. Supply is still dominated by the AVIC group in China.	We forecast the number of general aviation aircraft in operation to double from about 1,000 in 2011 to 2,000 by 2015.	Margins should expand from 2015 onward given private orders have higher margins than those from the public sector (ie, government). Also, new products have higher margins.	Worse-than-expected order-book growth and a slower-than-expected opening-up of China's low-altitude airspace.	1) Acceleration of the opening of low-altitude airspace, 2) more new orders, especially for AviChina's L15 trainer aircraft and Legacy 650 business jet, 3) approvals for the domestic delivery of its L15 trainer, and 4) more asset injections.	Trading currently lower than its average multiple of 30x since its restructuring started in 2008.	Positive	AviChina (Buy [1])
Heavy machinery	Tight government policy on housing sector is likely to continue, which should cap the momentum of housing new starts.	We see significant overcapacity in excavators, with annual capacity at over 400,000 units (compared with our forecast of demand of around 120,000 units for 2013).	We expect excavator shipment momentum to be L-shaped (flat) this year rather than see a V-shaped recovery.	We expect lower margins as a result of fierce market competition and a change in the product mix.	Account receivables risks on credit sales.	A relaxation of the housing policy is the key upside catalyst to our cautious view on the sector.	Trading currently below the sector's past-five-year mean PER.	Negative	Lonking (Sell [5])
Power (traditional)	Power capex could improve given the very low base in 1H12, especially for thermal-power plants; new nuclear projects could be approved in 2013.	While coal-fired power is over-supplied, we expect continuing investments in gas, hydro and nuclear power, which are the key policy areas.	For 2013, we expect flat thermal-equipment revenue YoY, but continued revenue growth for the non-thermal power business, while new orders should rise.	We could see lower margins for thermal equipment for 2013 given the large number of low-priced orders received in 2012.	A lower-than-expected power demand recovery, continuing declines in new order ASPs, a rebound in raw-material prices (especially steel), and execution risks on overseas orders.	Recovering new orders and announcements of new nuclear projects.	Trading currently substantially below the sector's past-five-year PER mean.	Positive	Shanghai Electric (Buy [1])
Railways	Strong central government policy to support MOR in meeting its capex plans is likely to continue.	There is no excess capacity as the market is dominated by CSR and China CNR Corp (the two state-owned rolling-stock makers).	We forecast new orders of up to 400 sets of high-speed trains in 1H13.	We expect a stable blended margin in 2013.	A delay in new orders by the MOR due to funding issues.	Major new orders of high-speed trains by the MOR and upward revisions to the MOR's capex.	Trading currently below the sector's past-five-year mean PER.	Positive	CSR (Buy [1])
Shipbuilding	Likely to see limited support for small private shipbuilders. According to shipbuilders, government would like to see continued consolidation among China shipyards.	We believe 2013 and 2014 will see further consolidation of China's shipyard capacity. This year should see limited new orders for both containerships and bulk carrier vessels. We believe there will be a gradual recovery after 2014.	We expect the commercial shipbuilding sector to remain in a slump over 2013 and 2014.	We expect margins to continue to be weak – due to "tail-heavy" payment schedules and the unfavourable pricing secured for orders.	Further order cancellations, and execution risks on orders on hand, especially for new offshore orders.	Rapid recovery in trade volume and outlook, and significant improvement in freight rates for most commercial shipping vessel types.	Yangzijiang is trading above its past five-year mean, whereas Cosco is trading below its past five-year mean for PER.	Negative	Cosco Corp (Underperform [4])
Wind power	Some supportive policies may be implemented in 2013, but we do not expect them to solve the fundamental issues, such as power curtailments.	We think wind power is over-supplied due to continuing power curtailments.	We do not expect shipments to pick up strongly in 2013.	Gross margins may see only a mild recovery for equipment manufacturers.	The main earnings risks in 2013 will be a slower-than-expected ASP recovery and cost pressure.	Stronger-than-expected government policy support and quicker-than-expected construction progress of ultra-high-voltage lines.	Trading currently well below the sector's past-five-year PER mean, justified by deteriorating earnings outlook.	Neutral	Xinjiang Goldwind Science & Technology (Hold [3])

Source: Daiwa

Valuations

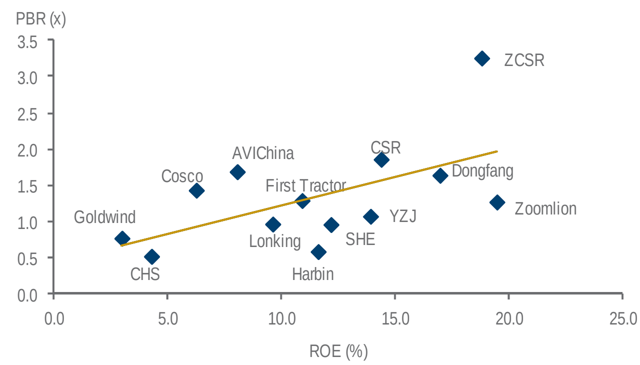
Most of the stocks we cover are trading currently at between -1SD and their past-five-year average PER (PBR in the case of the shipbuilding sector). Among the 13 stocks, Harbin Electric is the cheapest in terms of 2013 PER based on our forecasts. Based on a PBR and ROE regression approach, the stocks on which we have positive ratings – including Harbin Power, Shanghai Electric, and Zoomlion – are trading at discounts to their peers in China.

■ **Capital goods peer comparison: 2013E PER**



Source: Daiwa forecasts
Note: Share prices as at 6 March 2013

■ **Capital goods peer comparison: 2013E PBR vs. ROE**



Source: Daiwa forecasts
Note: Share prices as at 6 March 2013

Agriculture

■ **First Tractor: forward PER**

Source: Bloomberg, Daiwa forecasts

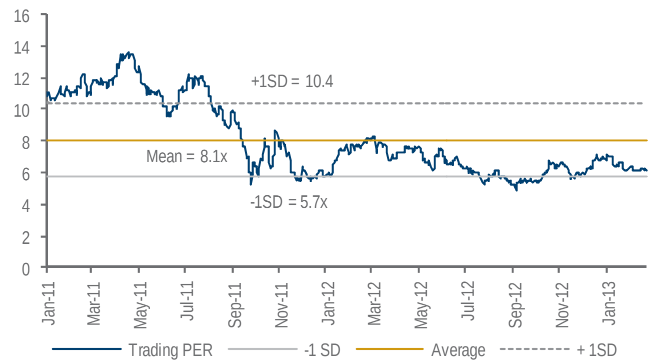
Aviation

■ **AviChina: forward PER**

Source: Bloomberg, Daiwa forecasts

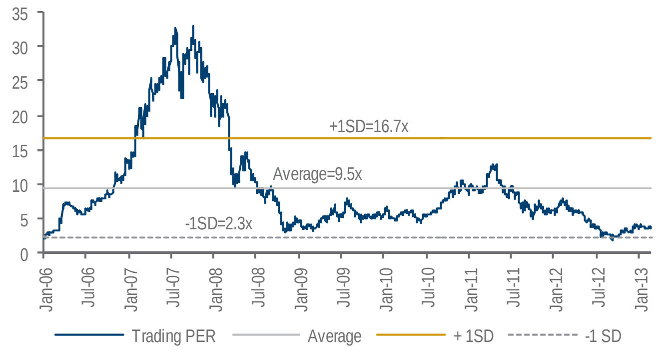
Heavy machinery

■ **Zoomlion: forward PER**



Source: Bloomberg, Daiwa forecasts

■ **Lonking: forward PER**



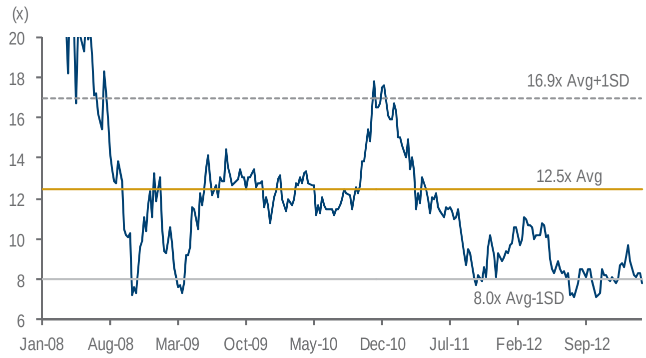
Source: Bloomberg, Daiwa forecasts

■ **Dongfang Electric: forward PER**

Source: Bloomberg, Daiwa forecasts

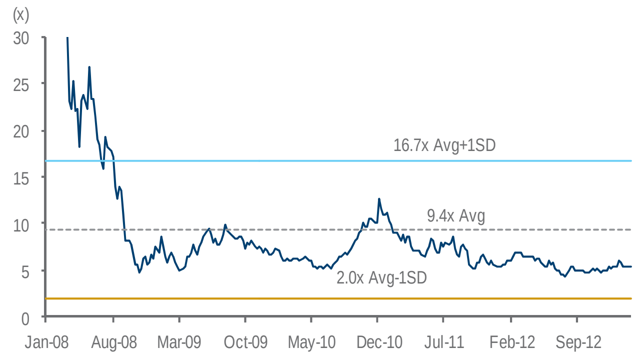
Power equipment

■ **Shanghai Electric: forward PER**



Source: Bloomberg, Daiwa forecasts

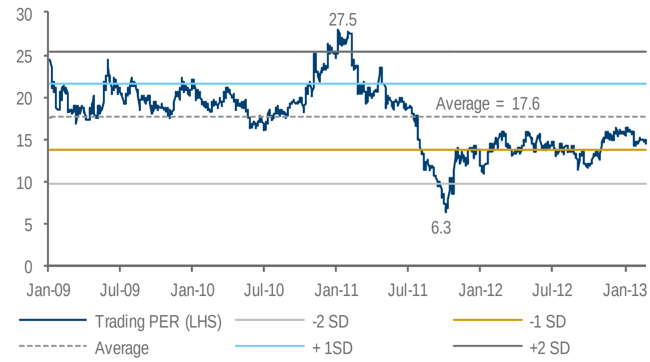
■ **Harbin Electric: forward PER**



Source: Bloomberg, Daiwa forecasts

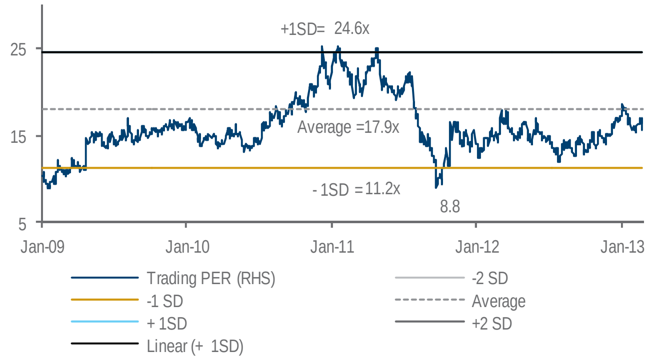
Railway equipment

■ **CSR: forward PER**



Source: Bloomberg, Daiwa forecasts

■ **ZCSR: forward PER**



Source: Bloomberg, Daiwa forecasts

Shipbuilding

■ YZJ: forward PBR

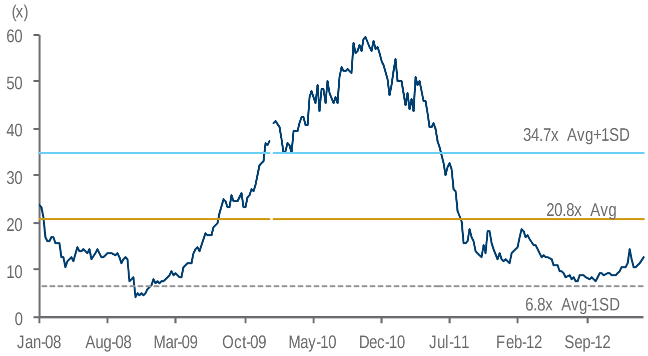
Source: Bloomberg, Daiwa forecasts

■ Cosco Corp: forward PBR

Source: Bloomberg, Daiwa forecasts

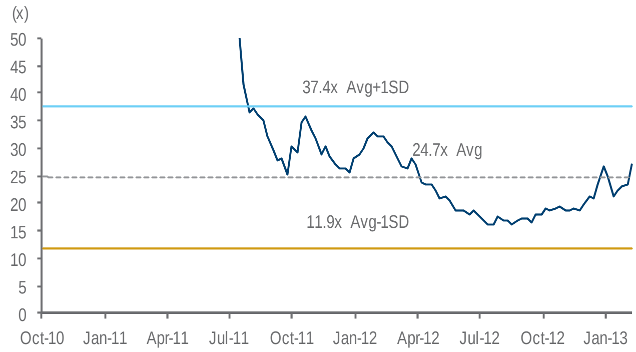
Wind power equipment

■ China High Speed Transmission Equipment: forward PER



Source: Bloomberg, Daiwa forecasts

■ Xinjiang Goldwind Science & Technology: forward PER



Source: Bloomberg, Daiwa forecasts

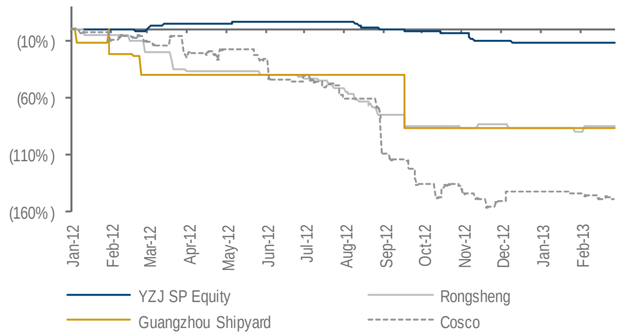
■ **China: Capital Goods Sector**

Company	Bloomberg code	Rating	Share price (local curr.)	Market cap (USDm)	PER (x)		PBR (x)		ROE (%)		EV/EBITDA (x)		Dividend yield (%)	
					2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E
China capital goods peers														
Agriculture														
First Tractor-H	38 HK	Outperform	7.80	1446	12.3	9.3	1.3	1.2	10.9	13.3	7.1	5.6	2.0	2.6
Aircraft sector														
AviChina	2357 HK	Buy	3.83	2703	21.7	16.1	1.7	1.5	8.1	10.0	7.9	6.0	0.7	0.9
Power-equipment sector														
Shanghai Electric	2727 HK	Buy	3.23	7733	8.2	7.3	1.0	0.9	12.2	12.6	2.4	1.9	3.2	3.6
Dongfang Electric	1072 HK	Hold	15.74	4797	10.4	9.7	1.6	1.4	17.0	15.8	4.4	3.8	1.1	1.2
Harbin Electric	1133 HK	Buy	6.83	1212	5.3	4.9	0.6	0.5	11.6	11.4	0.3	-0.5	2.8	2.8
Average				4,581	8.0	7.3	1.1	0.9	13.6	13.2	2.4	1.7	2.4	2.5
Railway rolling-stock sector														
CSR	1766 HK	Buy	6.14	10752	13.5	11.7	1.9	1.7	14.4	15.2	1.3	1.3	2.0	2.2
ZCSR	3898 HK	Hold	25.80	3607	18.5	15.7	3.3	2.8	18.8	19.3	7.2	6.0	1.8	2.3
CNR	601299 CH	NR	4.82	8000	13.2	11.3	1.4	1.3	11.4	12.2	8.6	7.3	1.8	2.1
Average				7,453	15.1	12.9	2.2	1.9	14.9	15.6	5.7	4.9	1.9	2.2
Heavy machinery sector														
Zoomlion	1157 HK	Outperform	9.82	10490	7.0	6.2	1.3	1.1	19.5	19.0	6.0	5.2	3.6	3.8
Lonking	3339 HK	Sell	2.06	1137	10.4	9.9	1.0	0.9	9.6	9.5	9.5	8.9	2.5	3.3
Sany	600031 HK	NR	10.78	13204	10.2	8.3	2.7	2.0	30.2	26.3	7.3	5.8	2.9	1.7
XCMG	000425 HK	NR	11.60	3848	7.8	7.4	1.2	1.1	15.6	15.6	7.3	6.1	1.1	1.4
Average				7,170	8.9	7.9	1.5	1.3	18.7	17.6	7.5	6.5	2.5	2.5
Shipbuilding sector														
YZJ	YZJ SP	Underperform	0.96	2937	8.1	9.3	1.1	1.0	13.9	11.2	5.8	6.4	4.5	3.6
Cosco Corp	COS SP	Underperform	0.92	1653	23.4	20.2	1.4	1.4	6.3	6.9	6.4	5.3	2.0	2.3
Rongsheng	1101 HK	NR	1.43	1291	17.9	18.5	0.5	0.5	2.2	1.3	19.4	18.6	1.2	1.4
Guangzhou Shipyard	317 HK	NR	6.62	1089	31.2	35.4	0.6	0.6	1.9	1.8	n.a.	n.a.	0.6	0.4
Average				1,742	20.2	20.8	0.9	0.9	6.1	5.3	10.5	10.1	2.1	1.9
Wind-power equipment sector														
China High Speed	658 HK	Hold	3.90	685	12.7	10.6	0.5	0.5	4.3	5.0	6.2	6.1	1.6	1.9
Xinjiang Goldwind	2208 HK	Hold	4.74	2441	25.9	20.1	0.8	0.7	3.0	3.8	18.4	13.7	0.9	1.1
Average				1,563	19.3	15.4	0.7	0.6	3.7	4.4	12.3	9.9	1.3	1.5
Total average					14.3	12.9	1.3	1.2	11.7	11.7	7.4	6.3	2.0	2.1

Source: Bloomberg, Daiwa forecasts
Note: Share prices as at 6 March 2013

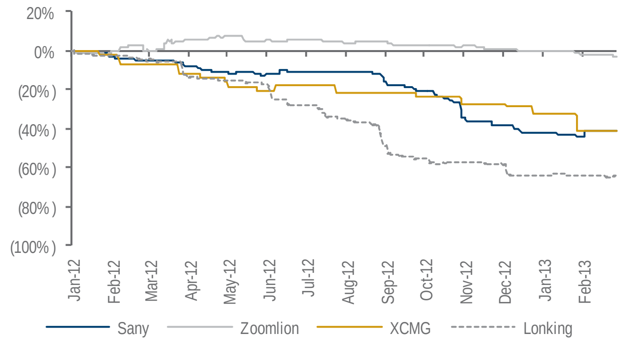
Appendix 1 - Earning revisions

■ Shipbuilding sector: 2013 consensus earnings forecasts



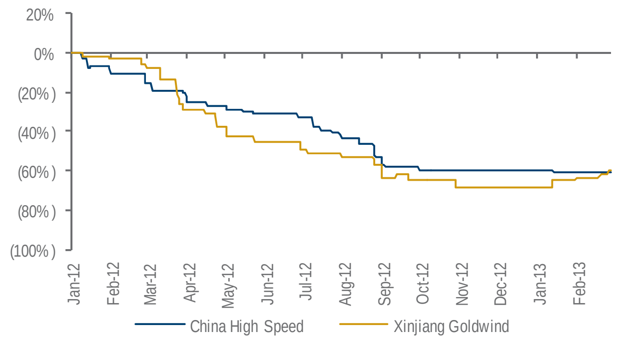
Source: Bloomberg

■ Heavy Machinery sector: 2013 consensus earnings forecasts



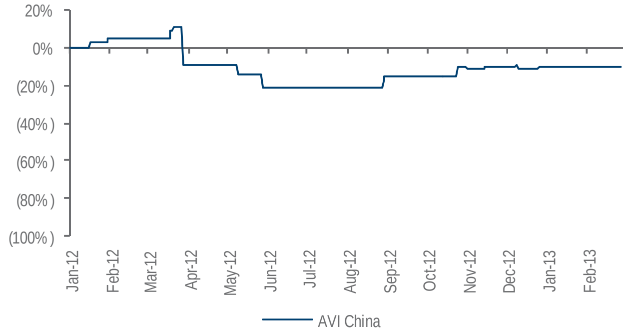
Source: Bloomberg

■ Wind sector: 2013 consensus earnings forecasts



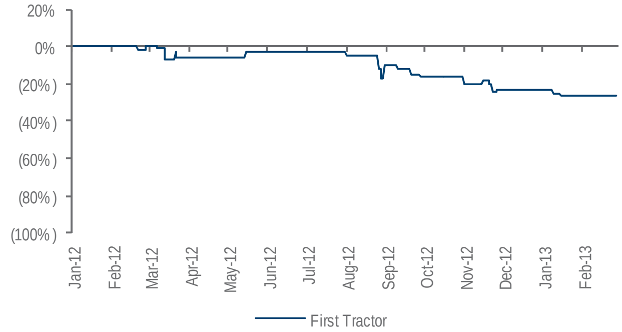
Source: Bloomberg

■ Aviation sector: 2013 consensus earnings forecasts



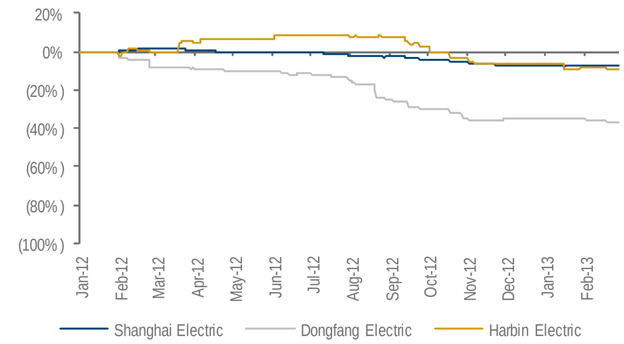
Source: Bloomberg

■ Agricultural sector: 2013 consensus earnings forecasts



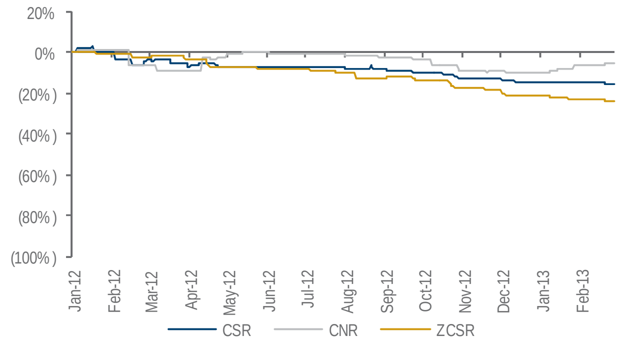
Source: Bloomberg

■ Traditional power sector: 2013 consensus earnings forecasts



Source: Bloomberg

■ Railway sector: 2013 consensus earnings forecasts



Source: Bloomberg

China Railway Equipment Sector – Positive

Joseph Ho, CFA
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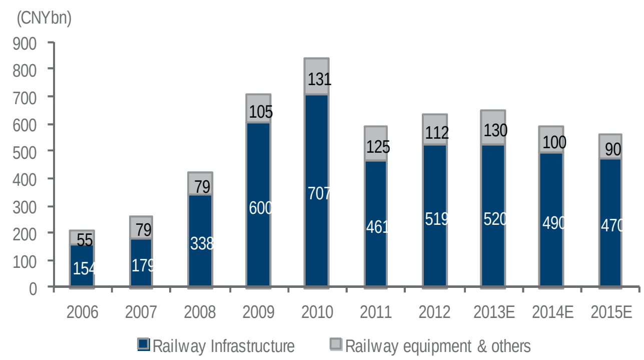
Where are we in the industry cycle?

Major orders for high-speed trains pending from the Ministry of Railways (MOR). In 2012, the ministry focused its resources on the resumption of railway construction projects, which were suspended after the fatal high-speed train accident on 23 July 2011. As such, the MOR postponed most of the new orders for railway equipment purchases and requested delays in the delivery of some trains. In 2013, we expect the MOR to resume placing new orders for high-speed trains, as railway construction has returned on schedule.

We expect the ministry to launch a tender for up to 400 sets of high-speed trains in 1H13 worth up to CNY81bn on our estimates. This major tender will be significant for CSR (1766 HK, HKD6.14, Buy [1]) in that it should help the company to rebuild its order backlog, which had slipped to CNY79bn in 3Q12, down from CNY100bn at the beginning of 2012, in the absence of major tenders from the MOR in last year. The MOR has budgeted for CNY650bn in railway capex for 2013, of which railway equipment and others will amount to CNY130bn, up 16% YoY from the 2012 level.

■ MOR railway FAI



Source: MOR, Daiwa

China in an upcycle for subway investment. In our opinion, China is experiencing an upcycle in demand for subway equipment. In 2012, the National Development and Reform Commission (NDRC) approved a basket of FAI projects worth up to CNY1tn, according to a study by Mingchun Sun, Daiwa's Chief China economist, of which 80 are for subway construction (see following table).

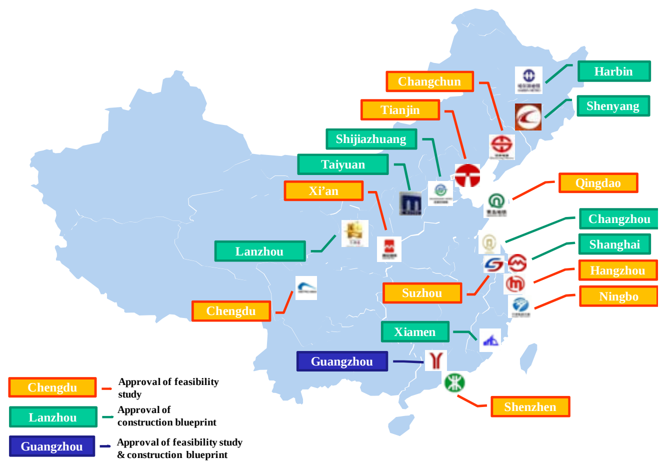
We expect subway mileage to expand to 3,000km by 2015 (the end of the 12th Five Year Plan), up from 1,372km by 2010, and be expanded further to 6,000km by 2020. We expect subway trains demand worth up to CNY108bn for the 13th Five Year Plan, up from CNY59bn for the 12th Five Year Plan based on the incremental subway mileage for the period and assuming: a) subway car density of six cars per kilometre, and b) an ASP of CNY6m per car.

■ NDRC project approval: breakdown by project type

Projects by sector	No. of projects	Amount (CNYbn)	% to Total
Subway construction	31	806	78.2
Steel basement	2	134	13.0
Power station	18	46	4.5
Railway construction	3	28	2.7
Coal mining	7	13	1.3
Innovation and tech	57	2	0.2
Farmland, irrigation	16	1	0.1
Airport construction	16	n.a.	n.a.
Highway construction	15	n.a.	n.a.
Others	2	n.a.	n.a.
Total:	167	1,030	100.0

Source: NDRC

■ China: locations of subway projects approved by the NDRC in 2012



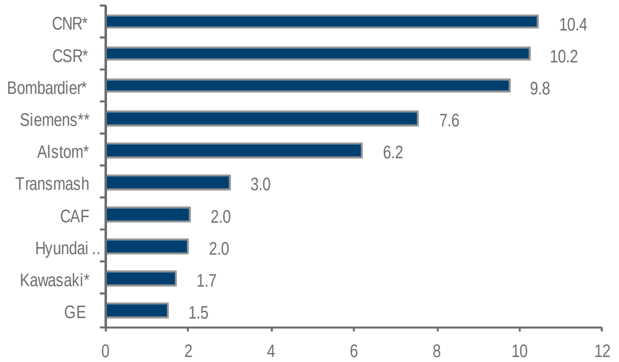
Source: NDRC

Ramp-up of overseas sales to developing countries. CNR and CSR have grown into the world's top-2 rolling stock manufacturers by sales value in 2011, underpinned by the scale advantage and duopolistic nature of their home market, China. The

Chinese rolling stocks makers gained momentum in selling locomotives, subways, freight wagons to developing countries in 2011 and 2012.

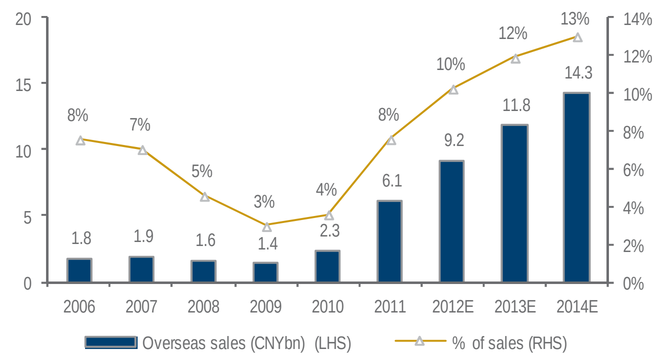
In our opinion, the momentum will continue, underpinned by the cost-advantage, and maturing product quality of the Chinese rolling stocks makers, and export financing support from China's policy banks. In our opinion, CSR's target to generate 15-20% of its sales from overseas markets by 2015 (up from 4% of sales in 2010) is achievable.

■ Global top-10 rolling-stock makers (2011 revenue, USDbn)



*Source: Companies   * rolling stock and signalling revenue*

■ CSR: overseas sales



Source: CSR

■ CSR: major contract wins in overseas markets

Date	Country	Customers	Type	CNYm	USDm
Jan-13	Argentina	Transport Bureau	Subway	3,430	553
Jan-13	Australia	Roy Hill	Freight wagons	900	145
Jan-13	Mauritania	Nationale Miniere	Freight wagons	160	26
Jan-13	Nigeria	Kintech	Passenger trains	100	16
			Total 2013	4,590	740
Sep-12	South Africa	Transnet	Locomotive	2,540	410
Sep-12	Venezuela	CME	Freight wagons	120	19
Aug-12	Australia	FMG	Freight wagons	150	24
Aug-12	Australia	PNN	Freight wagons	280	45
Aug-12	Turkey	Turkey Metro	Subway	2,500	403
Aug-12	Kazakhstan	Kazakhstan Govt	Locomotive	280	45
Aug-12	Overseas	China Import/Export	Freight wagons	410	66
Apr-12	Hong Kong	MTRC	High speed train	1,360	219
Mar-12	Malaysia	Transport Bureau	HSR maintenance	120	19
Mar-12	Ethiopia	Ethiopia Govt	Locomotive plant	310	50
			Total 2012	8,070	1,302

Source: CSR

■ CNR: major contract wins in overseas markets

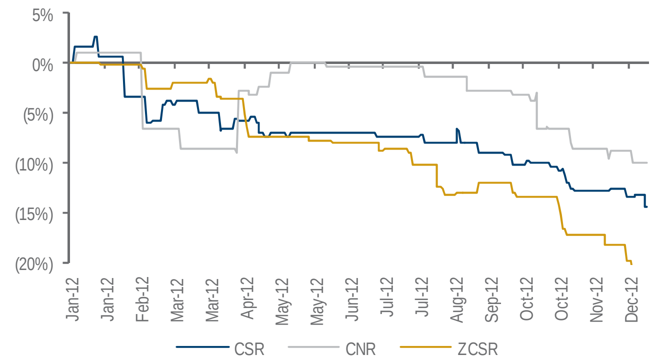
Date	Country	Customers	Type	CNYm	USDm
Jan-13	Turkey	Samsun City Govt	Subway	62	10
			Total 2013	62	10
Nov-12	Hong Kong	MTRC	Locomotive	162	26
Nov-12	Australia	Tasmania	Freight wagons	107	17
Nov-12	Australia	Hamersley	Freight wagons	316	51
Nov-12	US	A.STUCKI	Components	36	6
Oct-12	Brazil	Rio government	Ground EMU	2,300	371
Aug-12	German	Siemens	Components	91	15
Jun-12	Kazakhstan	KZ Hydro	Freight wagons	1,049	169
Apr-12	Australia	Pilbara	Freight wagons	870	140
Apr-12	Thailand	Thai Subway	Passenger carriages	110	18
Apr-12	Estonia	ERC	Locomotive	179	29
			Total 2012	5,220	842

Source: CNR

Our views on the consensus 2013 earnings revisions

We expect downward earnings revisions to bottom out in 1H13. The consensus cut the major railway equipment players' 2013 earnings forecasts moderately by 10-20% in 2012 after the MOR postponed some new orders and the delivery of some railway equipment in 2012. We expect the downward revisions to bottom out around April 2013, as the MOR speeds up delivery of railway equipment and places new orders with the rolling stock makers in 2013.

■ 2013E consensus earnings – railway equipment



Source: Bloomberg

■ China railway equipment sector: 2013E consensus earnings forecasts

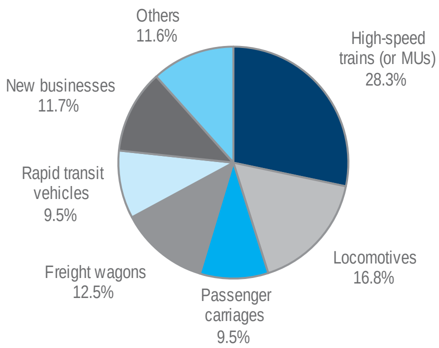
Company	Unit	Start of 2012	End of 2012	Chg during 2012	Current range (low-high)	Current Mean	Daiwa	Variance
CSR	CNYm	5,664	4,770	(16%)	3,591-5,692	4,786	5,037	5%
ZCSR	CNYm	1,670	1,335	(20%)	949-1,304	1,268	1,214	(4%)
CNR	CNYm	3,999	3,596	(10%)	3,447-4,505	3,773	n.a.	n.a.

Source: Bloomberg, Daiwa

Key stock call

CSR (1766 HK, HKD6.14, Buy [1])
We recommend CSR, which is one of the two duopolies in the rolling stock industry in China (note: the other is CNR [601299 CH, Not rated]) and is a key beneficiary of the tenders from MOR. We see scarcity value for CSR as it is the only investable stock for non-QFII investors seeking exposure to China's railway rolling stock industry (key rival, China CNR Corporation, is listed on the A-share market in Shanghai).

■ **CSR: 2013E revenue mix**



Source: Daiwa

China Power Equipment (Traditional) Sector – Positive

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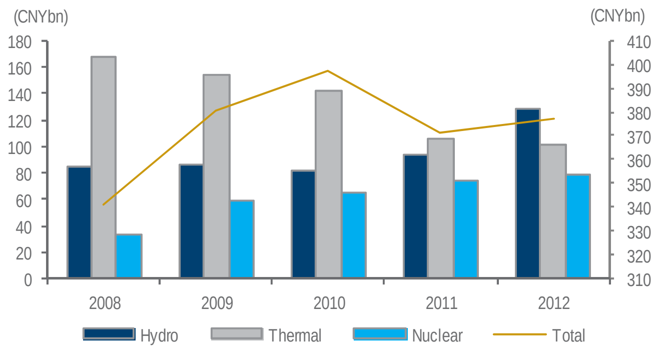
Where are we in the industry cycle?

Capex may increase on a recovery in power demand. In our recent sector report published in December 2012 (*2013 Strategy: 'alphas' vs. 'betas'*), we reaffirmed our positive view on China's traditional power equipment sector and expected that there could be upside surprises in power demand and power capex (which could translate into new order growth for power-equipment suppliers) in 1H13, driven by a recovery in the country's GDP growth, as predicted by Daiwa. Given the cyclical nature of the sector and the relatively low base of 2012, we believe power capex will increase in 2013.

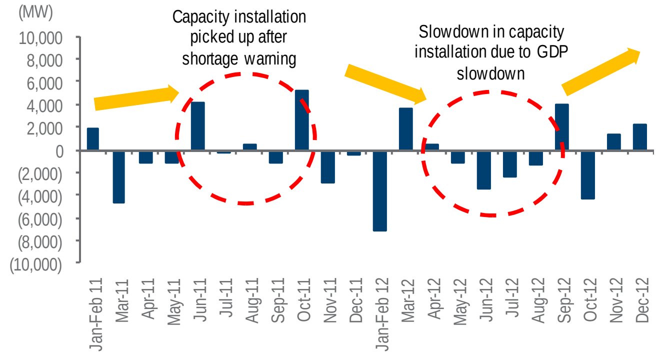
■ China electricity construction investment by power source



Source: CEIC

Thermal investment should recover in 2013. The 4% YoY decline in thermal power construction investment in 2012 was mainly due to: 1) a slowdown in power demand growth (+6% YoY in 2012 vs. +12% YoY in 2011), and 2) a surge in hydro power investment in 2012 (+36% YoY). If there is a rebound of power capex in 2013, we believe thermal power, as China's most important base-load power type, would see the strongest growth. Harbin Electric (HPE) (1133 HK, HKD6.83, Buy [1]) could be one of the biggest beneficiaries given its high profitability exposure to the thermal power equipment business.

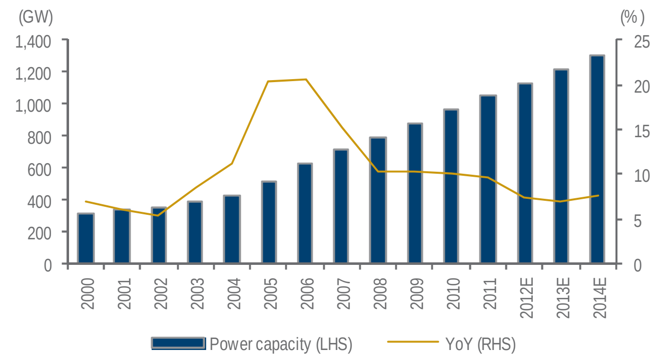
■ China: month thermal-capacity additions (YoY change)



Source: CEIC, Daiwa

Power equipment in a short up-cycle. We believe the traditional power equipment industry is currently at the beginning of a short up-cycle after the downward adjustment in 2012, which was caused by weaker-than-expected power demand due to the slowdown in the economy. We forecast China's total power capacity to increase by 7.1% and 7.6% YoY for 2013 and 2014, respectively, which should help stimulate the growth of new thermal power equipment orders.

■ China: power capacity trend and forecasts

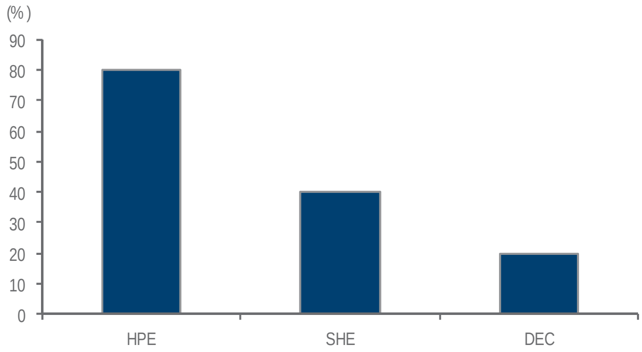


Source: CEIC, Daiwa

New nuclear project approval may happen by mid-2013. Another catalyst in 2013 would be the potential resumption of new nuclear project approvals, which we believe could happen before mid-2013. On 16 March 2011, as a result of the Fukushima crisis in Japan, China's State Council suspended approvals for new nuclear power stations and undertook comprehensive safety checks of all nuclear projects. After close to two years of suspension, on 24 October 2012, China's State Council officially passed two key documents: 1) Nuclear Safety Plans, and 2) Nuclear Medium- and Long-term Development Plans 2011-20, which in our view implied an official green light to restart approving nuclear power investment in China. Based on our industry research, 4-5 projects could be approved during 2013 and all could be related to Gen-III technology.

We believe Shanghai Electric (SHE) (2727 HK, HKD3.23, Buy [1]) will benefit the most from a resumption of nuclear projects given its strong track record in Gen-III nuclear power equipment manufacturing. HPE should also benefit, as it has the highest contribution among its peers of Gen-III reactor orders in its current backlog; however, its nuclear business is still at an early stage and we do not expect to see a positive gross profit contribution until 2014.

■ **Current backlog contribution by Gen-III reactor orders (by value)**



Source: Companies, Daiwa estimates

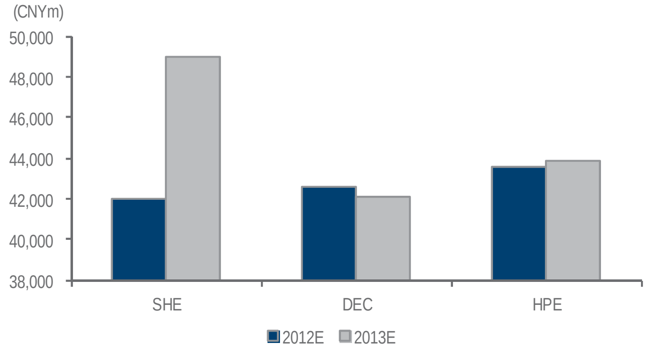
■ **China power-equipment companies' nuclear business: contribution to gross profit**

(in)	2010	2011	2012E	2013E	2014E
DEC	9.0	9.0	10.4	13.4	13.8
SHE*	6.3	6.2	7.7	12.7	16.7
HPE	0.0	0.0	0.0	0.0	3.4

Source: Companies, Daiwa forecasts
**SHE's nuclear business includes both equipment and nuclear forging products*

Stock-picking is key. Although we expect a slight rebound of new orders in 2013, there could be divergent trends at the company level. We think Dongfang Electric's (DEC) (1072 HK, HKD15.74, Hold [3]) investment case is unexciting as: 1) its usual share-price driver, new orders, is unlikely to beat expectations in 2013 (we forecast new orders of CNY42.6bn for 2012 and CNY42.0bn for 2013), driven by the high base of gas-turbine orders received in 2012 (CNY9.7bn for 9M12; CNY4.3bn for 2011), and 2) we are concerned about DEC's ability to win large Gen-III nuclear orders (as the company has focused largely on Gen-II+ projects in the past), and its profitability in the initial years of production could be lower given its lack of production scale and experience. We are confident about SHE and HPE's abilities in new order wins given a potential thermal power recovery, and believe SHE would see further upside in nuclear orders given its strong positioning in Gen-III technology.

■ **China power-equipment companies: new order trend**

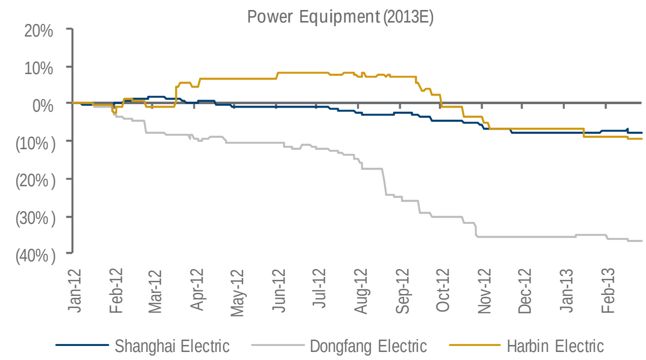


Source: Daiwa forecasts

Our views on the 2013 consensus earnings revisions

The 2013 consensus earnings forecasts for DEC were cut substantially throughout 2012 due we believe to the worsening profitability of its wind turbines manufacturing business and nuclear order backlog risks due to possible cancellation of inland nuclear projects. The slight downward earnings revisions for SHE and HPE were mainly due to lower-than-expected power demand in 2Q12 and 3Q12.

■ **Power equipment: 2013E consensus earnings (construction machinery)**



Source: Bloomberg

In 2013, we expect possible upward earnings revisions for SHE and HPE as China's power demand picks up, which could create positive surprises in the award of new orders. There could be further downward revisions for DEC, as we believe the worst is not over for the company with potential margin erosion in the wind business and nuclear order backlog risks.

■ **Power equipment: 2013E consensus earnings forecasts**

Company	Unit	start of 2012	end of 2012	Chg during 2012	Current range (low-high)	Current Mean	Daiwa	Variance
SHE	CNY m	3,989	3,687	-8	2,840-4,182	3,678	4,036	10%
HPE	CNY m	1,334	1,262	-5	789-1,591	1,241	1,423	15%
DEC	CNY m	3,892	2,520	-35	1,954-2,900	2,484	2,430	(2%)

Source: Bloomberg, Daiwa

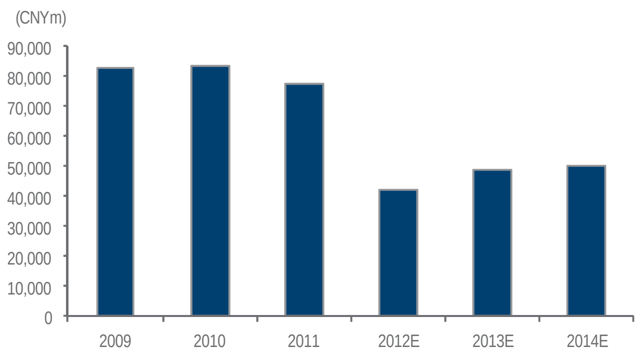
Key stock call

Shanghai Electric (2727 HK, HKD3.23, Buy [1])

Although we expect upside surprises for order flow in 2013, we do not rule out possible disappointments for 2012 earnings, especially given the uncertainties of year-end non-cash provision booking. However, we believe that in an up-cycle, share-price drivers should be focused on order momentum instead of backward-looking earnings growth.

Following likely slow EPS growth for 2012, we expect SHE's earnings growth to accelerate in 2013. SHE is still the most solid player in the sector, in our view. We maintain our six-month target price of HKD4.10, based on a 10x 2013E blended PER for the different business segments. The key near-term downside risk to our forecasts would be worse-than-expected new order growth in 2013.

■ SHE: new orders



Source: Company, Daiwa forecasts

China Aviation Sector – Positive

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Where are we in the industry cycle?

China's general aviation industry has just entered an earnings growth upcycle. The opening up of low-altitude airspace (which, based on the information we have gleaned from various conferences we have attended, might be brought forward to 2013 from the original plan of 2015) would mark the start of a private market for general-aviation aircraft (eg, corporate jets, air charters, gliders, helicopters, air ambulance services, aerial fire-fighting, etc).

Number of general aircraft likely to increase. As a result, the Chinese Government expects the number of general aviation aircraft to double from about 1,000 currently to 2,000 by 2015.

Opening up of the private market. The opening up of this market would lead to a substantial increase in orders for general aviation aircraft, which we forecast to rise at a CAGR of 20% for 2015-20 from 15% for 2011-15 before being opened up.

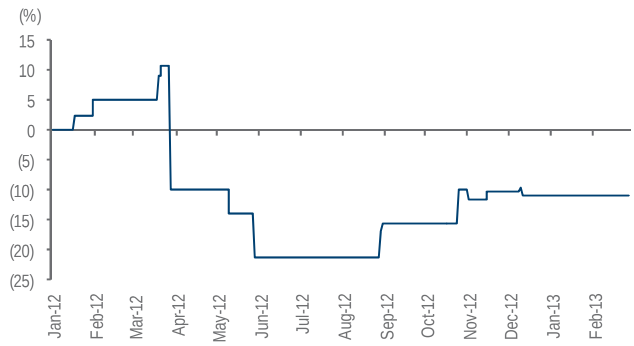
▪ **China Aviation Sector: general aviation aircraft new order growth**

Source: CAAC

Our views on the 2013 consensus earnings revisions

Consensus revisions seem to have bottomed out following the disappointing 2011 results. The Bloomberg consensus cut its 2013 earnings forecasts for AviChina in 1H12 on the back of disappointing results for 2011 and 1Q12. However, the consensus earnings for AviChina started to look more positive in 2H12 due to its strong results in 2Q12-3Q12, and because the company launched new aircraft, eg, the L15 training aircraft, or had aircraft approved for production, eg, the Legacy 650 business jet.

▪ **AviChina: consensus earnings forecast revisions (2013E)**



Source: Bloomberg

More positive policies ahead, which should lead to better sentiment toward AviChina. We expect the consensus to continue to revise up earnings forecasts for AviChina as we expect more positive news on the opening up of low-altitude airspace, government subsidies and new orders in 2013. Our current earnings forecasts for AviChina are at the high end of the Bloomberg consensus, as we are more bullish on some positive catalysts being realised in 2013. However, the variance from the mean is not very high as only six analysts cover the stock.

▪ **AviChina: Daiwa vs. consensus earnings forecast (2013E)**

Company	Unit	start of 2012	end of 2012	Chg during 2012 %	Current range (low-high)	Current Mean	Daiwa	Variance
AviChina	CNYm	825	735	(10.9%)	632-786	735	774	5.3%

Source: Bloomberg

Key stock call

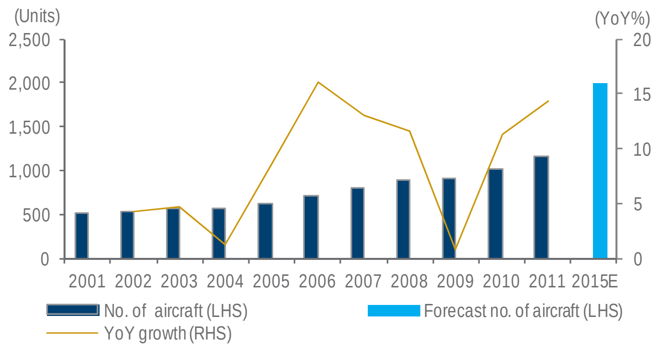
AviChina (2357 HK, HKD3.83, Buy [1])

We recommend AviChina, which is a manufacturer of helicopters, trainers and general aviation aircraft in China. It also produces aircraft components used in helicopters and other general aviation aircraft.

We believe the opening of the general aviation market in China will stimulate future order growth for the company's helicopter and general aviation aircraft, while its component manufacturing business would also benefit indirectly.

In our view, the key share-price catalysts would be the speeding up of the opening of the low-altitude airspace, approval of L15 training aircraft for domestic delivery, further details on the government subsidy programme, and a potential asset injection from the parent.

■ China Aviation Sector: general aviation aircraft growth till 2015E



Source: CAAC forecasts

China Agriculture Equipment Sector – Positive

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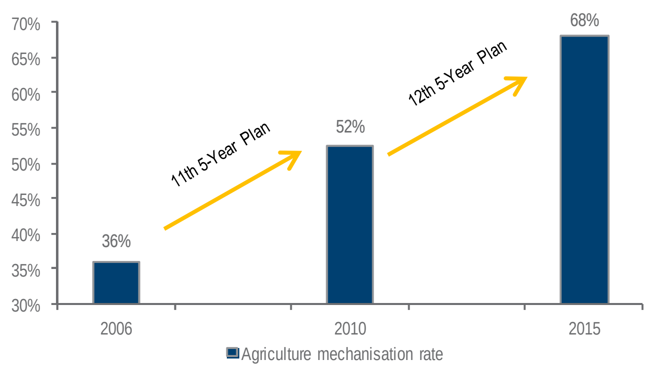
Where are we in the industry cycle?

Agriculture-equipment industry is still at an early stage of development. The Ministry of Agriculture (MOA) recently announced that the nation's 2012 agriculture mechanisation rate was 57%, much lower than that for countries such as the US and Japan, which have mechanisation rates of almost 100%. We forecast China's ratio to rise to 68% for 2015, which will drive the adoption of machinery for agriculture activities.

According to the World Bank, the penetration rate of tractors in China lags those of Japan and the US (China: 188 units/sq km, the US: 271 units/sq km, and Japan: 4,532 units/sq km). There is still a lot of room for China to improve its agriculture mechanisation rate and we believe this will be one of the government's priorities in the last three years of the 12th Five-Year Plan.

■ China Agriculture Equipment Sector: agriculture mechanisation rate

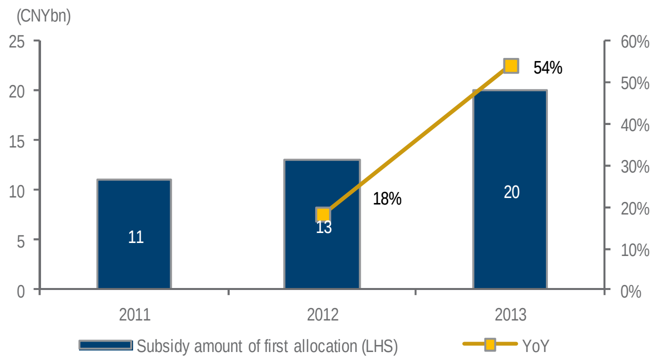


Source: MOA, Daiwa forecasts

Strong agriculture-machinery purchase subsidy support from central government for 2013. The central government is increasing the agriculture machinery purchase subsidies in 2013, which should spur demand for agriculture equipment, especially high-powered products, which receive more subsidies than low-to-medium-powered products.

We forecast the 2013 total agriculture-machinery purchase subsidy to increase by 30% YoY, to CNY28bn, the highest level since 2004. According to the MOA, the first allocation of the 2013 subsidy has already been made to each local government, totalling CNY20bn, up 54% YoY from CNY13bn for 2012. We expect the second allocation this year to be flat YoY.

■ Agriculture machinery purchase subsidy: 2013 first allocation



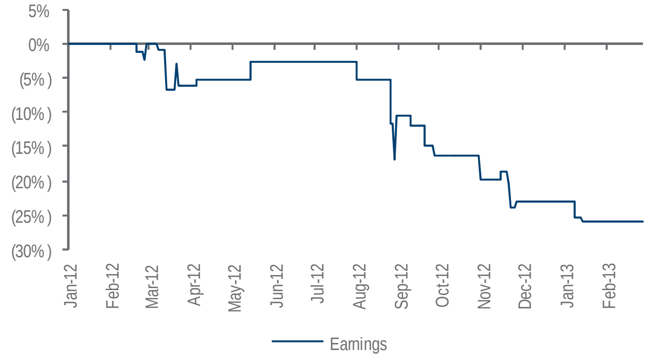
Source: MOA

***2013 No.1 Document* bodes well for future co-operative farming in China.** According to the *2013 No.1 Document* issued by the State Council in February this year, the government will promote the implementation of a land-rights confirmation system, which should accelerate the consolidation and the easing and trading of rural land. We expect family farms and medium-sized co-operative farms to become the main model for the future of China's farming. We believe commercial-scale farming will become a long-term positive share-price catalyst for the country's equipment makers as more large pieces of machinery will be required to replace manual labour.

Consensus earnings-forecast cuts for First Tractor should bottom out

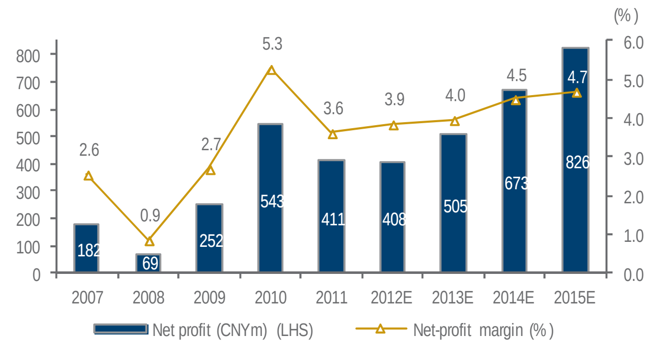
We expect the cuts to the 2012-13 Bloomberg-consensus forecasts for First Tractor to bottom out from the end of 1Q13. We believe that positive policy news flow following the issuance of the *No.1 Document* will support First Tractor's share price after 1Q13.

■ First Tractor: 2013 consensus earnings forecast



Source: Bloomberg

■ First Tractor: net profit (2007-14E)



Source: Company, Daiwa forecasts

The current 2013 Bloomberg-consensus net-profit forecast is 4.3% higher than our forecast of CNY505m. We see the possibility of further minor cuts to the 2013 consensus earnings net-profit forecasts before the 2012 results are announced in late March. Upside catalysts to our 2013 net-profit forecasts would be: 1) a stronger-than-expected full-year agriculture machinery purchase subsidy from the central government, 2) higher-than-expected shipments of high-to-mid-range powered tractors (over 70 hp) , and 3) a decrease in the price of raw materials.

■ China Agriculture Machinery Sector: 2013E consensus net-profit forecast

Company	Currency	Start of 2012	end of 2012	Chg during 2012 (%)	Current range (low-high)	Current mean	Daiwa	Variance
First Tractor	CNYm	725	558	-23	478-641	538	505	(6%)

Source: Bloomberg, Daiwa forecasts

Key stock call

First Tractor (38 HK, HKD7.8, Outperform [2]). Commercial-scale farming and agricultural mechanisation should support earnings growth over the final three years of the 12th Five-Year Plan. The increase we expect in China's agriculture mechanisation rate over the next few years should drive demand for high-powered tractors and benefit First Tractor, which accounts for the lion's share of the country's high-powered tractor market. We forecast a net-profit CAGR of 18% for 2012-15. We have a six-month target price of HKD9.33, based on a target PER of 14.4x on our 2013 EPS forecast, in line with the average for its global agricultural machinery peers (14.7x) and also within the range of company's all-time peak and past-four-year average.

China Wind Equipment Sector – Neutral

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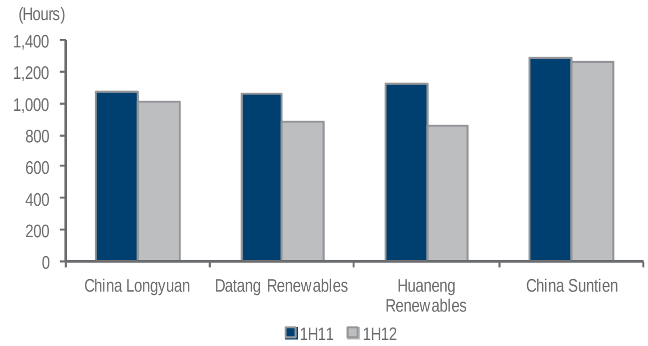
Where are we in the industry cycle?

Capacity installations likely to stay low over the next few years. In our sector report published in May 2012 (*A 360º reassessment II: the wind giant is taking a break*), we suggested that after a decade of high growth, China was set to take a break to pursue capacity growth, and we projected a sequential decline in the country's annual wind power installations over the next few years.

Given the slower-than-expected shipments reported by listed wind-turbine generator (WTG) suppliers, we are revising down our 2012 demand forecast from 16.5GW to 14GW (consistent with recent information from the China Renewable Energy Association). We do not expect demand to improve substantially (we forecast 15.5GW in 2013) until China finds a solution to resolve the grid bottleneck after 2014 or 2015.

Power curtailment still a major issue. As an illustration, the power curtailment rate, as measured by the portion of electricity that is not taken by the power grid companies, has affected wind farms' effective output since 2011. The issue remains a concern, and in 1H12, most of the wind-power companies posted YoY declines. We do not expect to see a large improvement in wind-power utilisation until the UHV power-transmission network is mostly completed in late 2014 or 2015.

■ Wind-power utilisation hours (1H12)



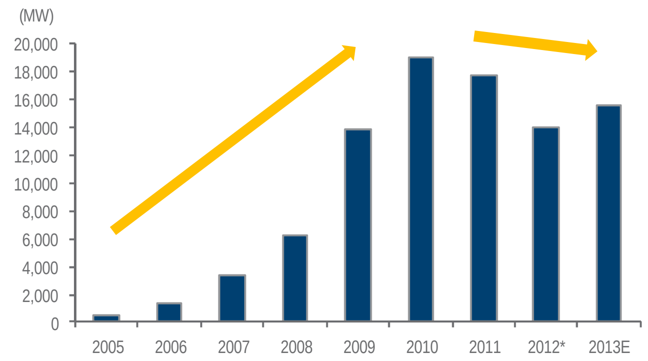
Source: Companies

Destocking of unconnected capacities should continue in 2013. Recent news from Sina, suggests that Mr. Liu Tienan, Head of the National Energy Administration, mentioned at the annual National Energy Conference in early January 2013 that China's wind power capacity addition target for 2013 would be set at 18GW. We view this as the target for actual connected new capacity, which was 15GW in 2012. Despite the 20% YoY growth, we believe the target is simply to resolve the overbuilt inventories. We calculate that at the end of 2012, China had 76GW installed capacity and only 62GW connected capacity, implying an 82% connection rate. Therefore, we do not expect new installations to accelerate substantially while de-stocking of unconnected capacities remains an issue.

Also, in our view, whether the target is achievable will depend on whether the operators have enough incentives to reach the target, given lower project IRRs (which we forecast to come down from 12% in the past few years to 9% in 2013) as a result of continuing power curtailment and a possible reduction in carbon prices. Even if the 18GW target is achieved, it does not imply that the actual installed capacity will grow substantially on top of our 15.5GW installation forecast in 2013E (or +11% YoY).

Unexciting industry outlook. We think the wind industry will remain stagnant in terms of installations over the next few years, after slowing since reaching a peak in 2010, until we see a major resolution of the grid bottleneck by 2015. The listed equipment makers (both WTG and wind gearboxes [critical component of WTG products] makers) have experienced substantial declines in revenue since 2011. The new government policy might be a short-term boost for the equipment makers in 2013, but we remain sceptical about a structural recovery.

■ China: annual wind power capacity installations



Source: CEIC, China Wind Energy Association (CWEA), Daiwa forecasts
*Note: *Preliminary data from CWEA*

Quality matters. For the WTG players, we continue to expect quality to make a key difference, and see Xinjiang Goldwind (XGW) remaining the market leader. However, a threat could come from the dark horse, Guodian United (Not rated), supported by its strong background (owned by the same parent company as China Longyuan [916 HK, HKD6.99, Outperform (2)], the largest wind farm developer in China).

■ WTG market shares based on annual installed capacity

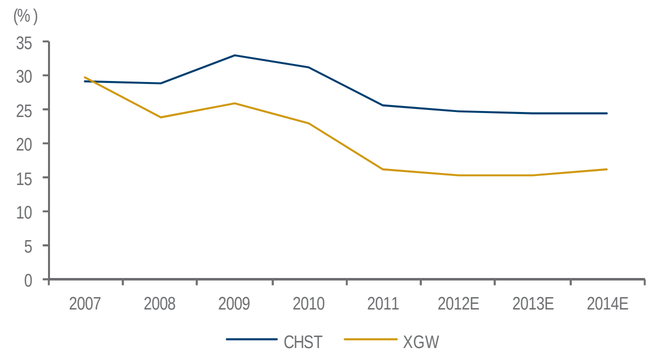
Market share	2007	2008	2009	2010	2011	2012	2013E
Sinovel	20.6	22.5	25.3	23.2	16.7	12.6	10.3
Goldwind	25.1	18.1	19.7	19.7	20.4	17.9	20.6
Dongfang Elec	6.7	16.9	13.1	13.9	5.4	3.7	5.8
GD United	-	-	5.6	8.7	16.1	14.6	19.4
Mingyang	0.1	2.8	5.4	5.5	6.7	10.8	8.7
Vestas	11.2	9.6	4.4	4.7	3.8	2.9	4.3
Xiangdian	0.2	1.9	3.3	2.7	4.0	8.2	6.5
GE	6.4	2.3	2.3	3.1	2.3	2.1	2.6
Suzlon	6.2	2.1	2.1	1.1	0.5	0.5	0.5
Gamesa	17.0	8.1	2.0	3.1	2.1	3.5	1.3
Shanghai Elec	0.7	2.9	2.0	3.2	4.0	5.8	5.8
Windey	2.0	3.7	1.9	0.7	2.1	2.6	1.5
Others	3.8	9.1	12.9	10.4	15.9	14.6	12.7
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Tier-1 market share	62.6	57.4	58.1	56.8	53.2	45.2	50.3

Source: CWEA, Daiwa forecasts

CHST may face headwinds from the US. China High Speed Transmission (CHST), China's largest maker of wind gears, is facing similar growth concerns in China, but will also see headwinds from the US, where Congress has not renewed the key subsidy for wind farms in 2013, leaving installation numbers at considerable risk. In 1H12, the US accounted for 27% of CHST's total revenue.

Gross margin may stay low for a while. In terms of product profitability, we expect the gross-profit margins of both XGW and CHST to fall from a high 30% in 2007 to around 16% for XGW and 25% for CHST after 2012, impacted by increasing competition and industry overcapacity issues. We do not expect gross margins to see a significant improvement in the next few years without a meaningful industry consolidation.

■ Gross profit margin trend of XGW and CHST

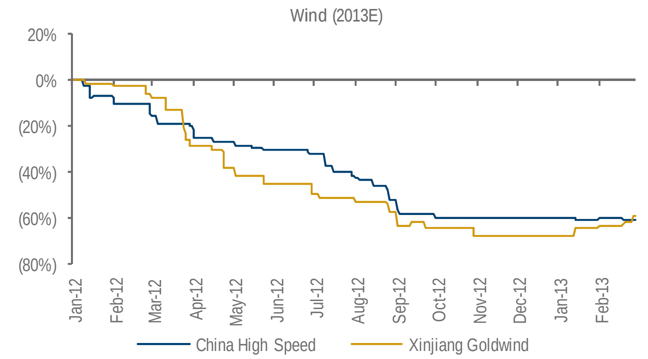


Source: Companies, Daiwa forecasts (Query: Chart does not agree with preceding para)

Our views on 2013 consensus earnings revisions

Given continuing disappointment on shipment numbers, the consensus 2013 earnings forecasts for both companies have been cut substantially. Our revised earning forecasts are 9% higher than consensus for XGW and 15% lower for CHST.

■ 2013E consensus earnings



Source: Bloomberg

■ 2013E consensus earnings forecasts

Company	Unit	start of 2012	end of 2012	Chg during 2012	Current range (low-high)	Current Mean	Daiwa	Variance
XGW	CNY m	891	324	-64	180-618	361	395	9%
CHST	CNY m	1,000	400	-60	273-623	395	335	(15%)

Source: Bloomberg, Daiwa forecasts

Key stock calls

Not a good entry point

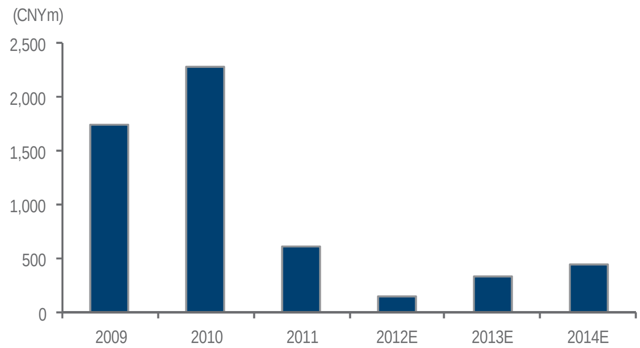
Xinjiang Goldwind (2208 HK, HKD4.74, Hold [3]); China High Speed Transmission (658 HK, HKD3.9, Hold [3])

With our expectation that installations for the entire wind power industry will stay stagnant over the next few years until the grid infrastructure improves significantly, we believe it is much too early to turn structurally bullish on the wind equipment names.

We also hold the view that wind power may not be one of the key areas in which the government would encourage boosting FAI in the next few years. Given that both companies are still heavily exposed to wind power in general, the key catalyst for earnings growth will be China's future installed capacity.

Our DCF-based target prices for both companies suggest limited upside potential. In our view, a rerating would be difficult without substantial upward earnings revisions. Upside and downside risks are higher- and lower-than-expected shipment demand from China.

■ Goldwind: net profit



Source: Company, Daiwa forecasts

China Shipbuilding Sector – Negative

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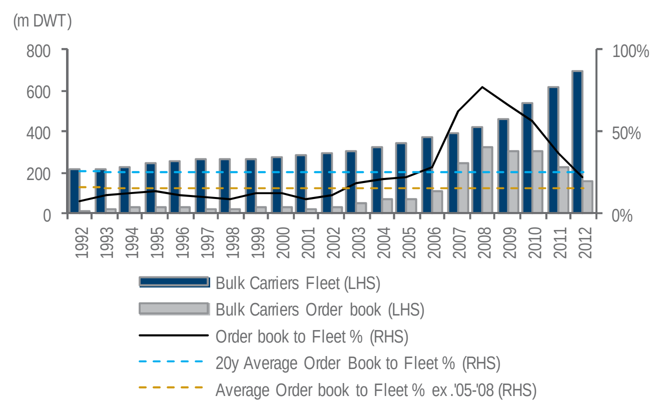
Where are we in the cycle?

Not the year of recovery. We believe China's shipbuilding sector will remain in a cyclical downturn throughout 2013. This is due to the following: 1) an oversupply of vessels – especially bulk carriers and to a lesser extent, containerships, limiting demand for new vessels, 2) rationalisation of excess shipyard capacity has yet to begin, and 3) a weak second-hand vessel market is hindering the recovery of shipbuilding demand.

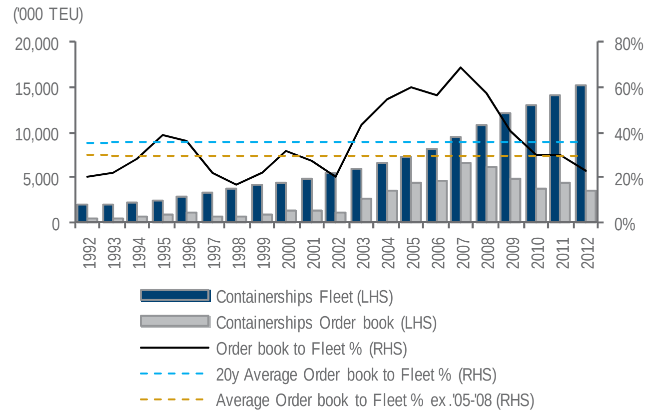
Oversupply of specific product types. 2013 will mark the fourth year of the ongoing shipbuilding downturn. In our opinion, the current down-cycle can be characterised by the rapid increase in the number of small shipbuilders concentrated in China. They mostly rely on orders for bulk carriers and containerships, as most of them have not overcome the technical hurdles that come with building sophisticated vessels, such as liquefied natural gas carriers (LNGCs) and chemical tankers. The following charts show the order book vs. fleet trends of the mentioned vessel types.

■ **Bulk carriers: order book vs. fleet**



Source: Clarkson

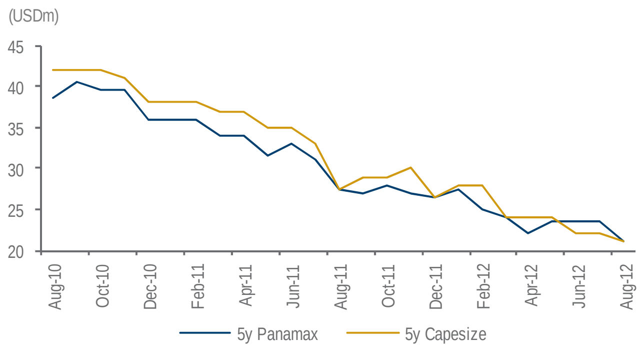
■ **Containerships: order book vs. fleet**



Source: Clarkson

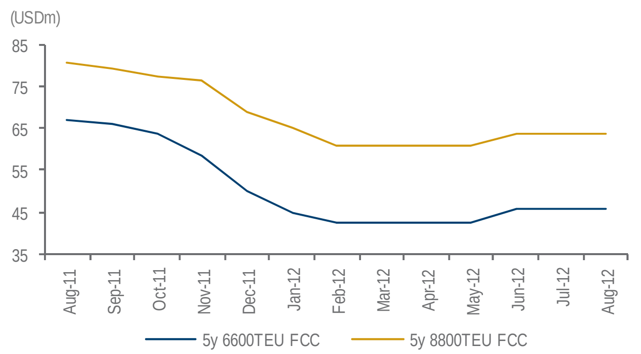
More time before deciding on orders. We believe ship-owners will continue to hold off placing orders for new vessels until the order-book-to-fleet ratio dips further to below the long-term average. As mentioned, the weak second-hand vessel market is another obstacle for new order flow since ship owners will be reluctant to sell out of older vessels at such low prices to fund new ones, in our view.

■ **Second-hand bulk carrier prices**



Source: Clarkson

■ **Second-hand containership prices**

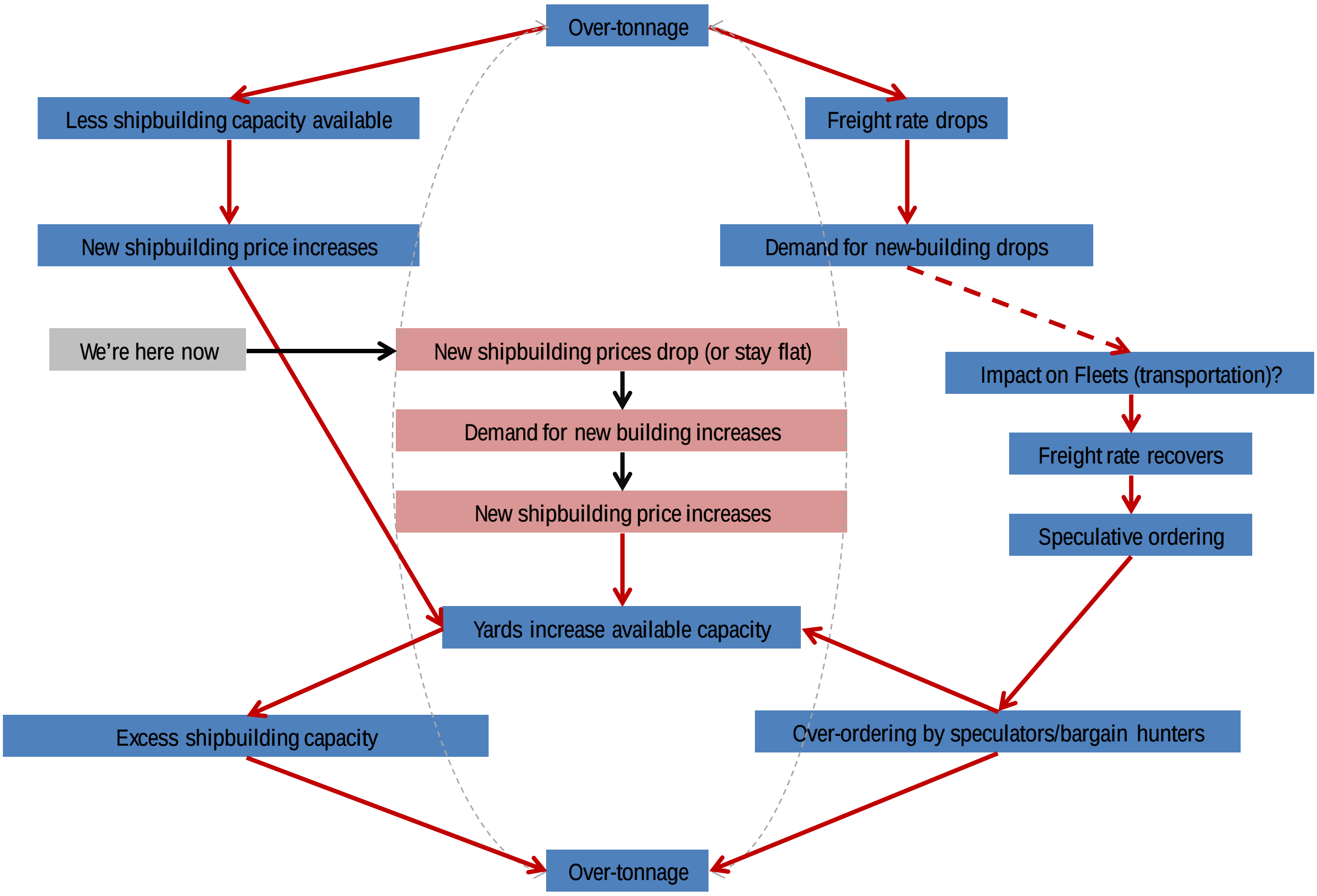


Source: Clarkson

Ongoing consolidation. As indicated above, the situation for containerships' day-rates does not appear as dire as that for bulk carriers; however, we still believe there will be limited demand for new orders and prices could decline further this year. During this period, we would expect further consolidation amongst the Chinese shipyards. Bigger and more established players, such as Yangzijiang (YZJ SP, SGD0.96, Underperform [4]) and Cosco Corp. (COS SP, SGD0.92, Underperform [4]) should be able to weather this period due to their relatively larger balance sheets and ongoing product diversification into the offshore marine segment. However, smaller yards without government assistance would probably exit the industry by 2014 as they finish off their current order books. However, this shipyard capacity rationalisation process will not take place overnight, and therefore we expect order flows and pricing to remain weak for Yangzijiang and Cosco Corp during 2013.

Refer to the chart below for a graphical breakdown of the shipbuilding cycle.

■ Shipbuilding cycle: not a quick recovery

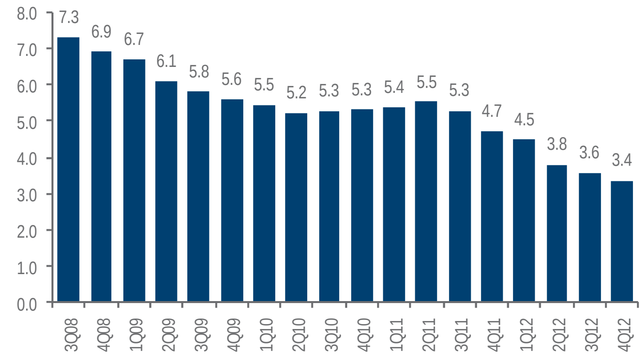


Source: Daiwa

Current order book situation

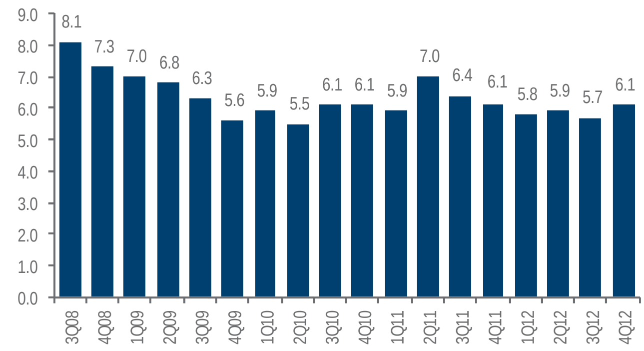
With regard to the names under our coverage, Yangzijiang and Cosco Corp have seen their order books contract steadily over the past four years.

■ Yangzijiang: order book (net basis) (USDbn)



Source: Company, Daiwa estimates

■ Cosco Corp: order book (gross basis) (USDbn)



Source: Company, Daiwa estimates

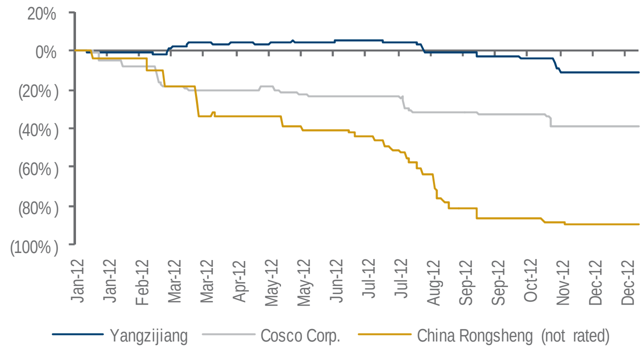
Order book visibility. Both Yangzijiang and Cosco Corp have highlighted that their order books will last until late 2014. This gives both companies some visibility over the next two years; however as they work through their order books, capacity utilisation will continue to decrease if no new orders are forthcoming. In YZJ's case, as many as two of its yards out of five could be placed on standby mode given the lack of orders.

Our views on the 2013 consensus earnings revisions

Likely to see more negative revisions. The consensus lowered earnings forecasts for most Chinese shipbuilders during 2012. China Rongsheng (Not rated) suffered significant earnings downgrades on the back of: 1) order cancellations, thus leading to expected losses in 2012 after three years of profit, and 2) its involvement in an insider-trading scandal.

For the names under our coverage, Yangzijiang and Cosco Corp saw relatively milder cuts to 2013 earnings forecasts. Cosco Corp's earnings forecasts were lowered due to margin contraction and order cancellations, while YZJ's were lowered only in 2H12 due to order cancellations, a lack of new orders and lower-than-expected pricing received for its new offshore products.

■ 2013E consensus earnings (shipbuilding)



Source: Bloomberg, Daiwa estimates
Note: Rebased to January 2012

2013 still looks challenging. In 2013, the likelihood of further earnings downside is high, in our view. We believe order cancellations, costs overruns on offshore projects and a lack of new orders would be likely reasons for further downgrades. Our forecasts are below consensus probably due to our lower margin assumptions.

■ 2013E consensus earnings forecasts

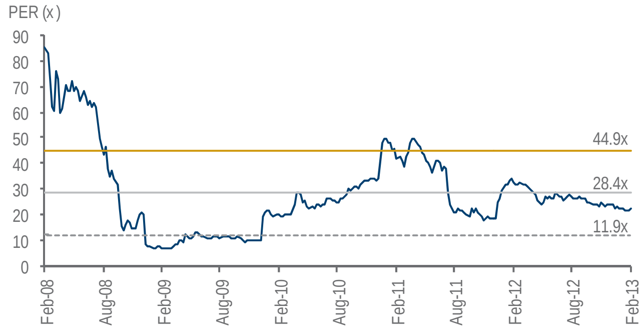
Company	Unit	start of 2012	end of 2012	Chg during 2012	Current (low-high)	Current consensus profit estimate	Daiwa profit estimate	Variance
Cosco Corp.	SGD m	165	100	-39.6	L:75 H:157	99	88	-10.7
Yangzijiang	CNYm	3,119	2,754	-11.7	L:1,712 H:3,331	2,754	2,255	-18.1
China Rongsheng	CNYm	2,867	303	-89.4	L:(286) H:1,077	303	Not rated	n.m.

Source: Bloomberg, Daiwa estimates

Key stock call

Cosco Corp (COS SP, SGD0.92, Underperform [4])
In our view, Cosco Corp is still trading at rather demanding valuations, given its high (implied) PER valuation of 23.4x for 2013E and 20.2x for 2014E. We expect the company's operating-profit margin to remain weak at around 8% for 2013 (versus an average of 28.4% between 2003 and 2007), while in the medium term the outlook appears cloudy given our expectation of a poor flow of new orders.

■ Cosco Corp: past-five-year PER



Source: Bloomberg, Daiwa estimates

China Heavy Machinery Sector – Negative

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Where are we in the industry cycle?

A 21-month-long industry downcycle. Excavator shipments for January 2013 declined, marking the 21st consecutive month of YoY decline amid the downcycle of the excavator market in China which began in May 2011. We estimate excavator shipments fell by about 28% YoY for January after adjusting for the shift in the one-week Lunar New Year holiday from January last year to February this year (so there were four working weeks in January 2013, compared with three working weeks in January 2012).

■ China: monthly excavator shipments

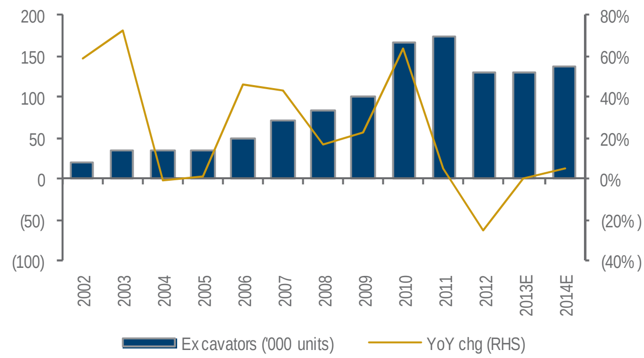
(units)	Excavator	YoY chg (%)	MoM chg (%)
Jan-12	5,221	(53)	(39)
Feb-12	15,618	(24)	199
Mar-12	23,248	(47)	49
Apr-12	15,370	(43)	(34)
May-12	10,870	(24)	(29)
Jun-12	8,287	(21)	(24)
Jul-12	5,886	(23)	(29)
Aug-12	5,495	(30)	(7)
Sep-12	5,905	(33)	7
Oct 12	5,921	(34)	0
Nov 12	6,657	(25)	12
Dec 12	7,105	(16)	7
Jan 13	4,999	(4)*	(30)

Source: China Machinery Business Online (CMBOL)
**28% YoY decline after adjusted for the impact of shift in Lunar New Year*

We expect demand momentum to be L-shaped (flat) this year rather than see a V-shaped recovery. While we seem to be approaching the bottom of the industry cycle, we only expect demand momentum to be L-shaped (flat) in 2013 instead of seeing a V-shaped recovery. There are two reasons for this. First, we see a minimal chance of the Chinese government launching another large FAI stimulus package, similar to the CNY4tn FAI stimulus package it introduced in 2008. Second, China has a substantially expanded fleet size of excavators after strong shipments over 2008-11. For instance, we estimate the excavator fleet size almost doubled to 1.2m units in 2012, up from 0.6m units in 2008.

Working hours of excavators are still 10-15% below the levels in 4Q12 and January, according to Global Positioning System-based data points gathered by the key players. As such, we do not see any imminent need for the machinery owners to purchase new machinery. Demand will come largely as a result of replacement purposes, in our opinion.

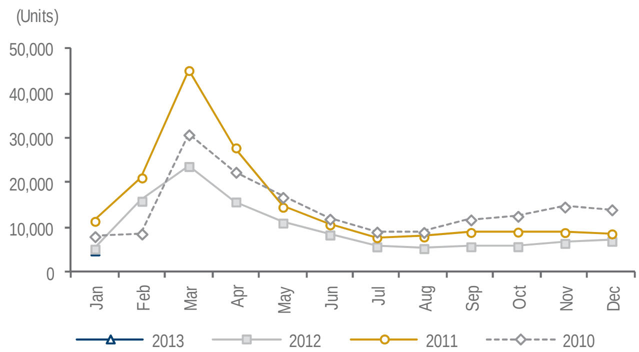
■ China: annual excavator shipment (2002-2014E)



Source: CMBOL, Daiwa

Our view on upcoming monthly data points. We expect the upcoming excavator data points from February to April to remain lower than for the same period last year. Channel inventory should be reduced further during this industry high season (note: Sany Heavy Industry [Not rated] currently has about 1.5 months of excavator inventory). We believe the first positive YoY growth data point might be seen as early as in May (note: China Machinery Business Online [CMBOL] provides sell-in numbers, not sell-through figures). Overall, we forecast up to 5% YoY growth in China excavator industry shipments for 2013.

■ China: monthly excavator shipments

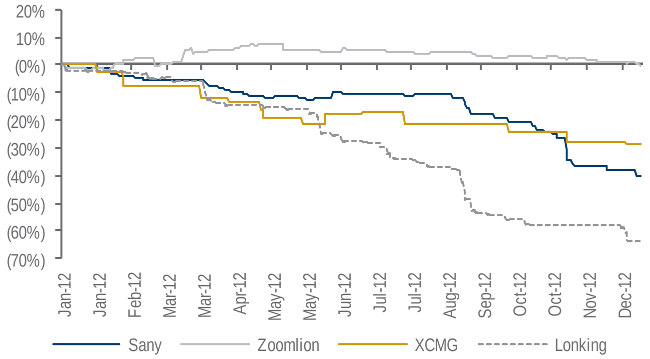


Source: CMBOL

Our views on the 2013 consensus earnings revisions

Excavators were the worst-hit sub-segment in the construction machinery sector in 2012. Companies with large exposure to excavators including Sany Heavy and Lonking have seen their earnings for 2013 cut substantially by the consensus. Zoomlion (1157 HK, HKD9.82, Outperform [2]), which dominates the concrete machinery segment together with Sany Heavy, has little exposure to the excavator sub-segment and has seen only minor cuts to its 2013 consensus earnings forecasts.

■ 2013E consensus earnings (construction machinery)



Source: Bloomberg

■ China: excavator shipments of key makers in 2012

		Shipment (units)		YoY chg (%)	Market share (%)	
Rank	Company	2011	2012		2011	2012
1	Sany	20,613	15,619	(24)	11.2	13.1
2	Komatsu	20,151	9,183	(54)	11.0	7.7
3	Doosan	16,778	9,175	(45)	9.1	7.7
4	Hyundai	17,294	8,540	(51)	9.4	7.2
5	Hitachi	15,282	8,383	(45)	8.3	7.0
6	Kobelco	12,965	7,787	(40)	7.1	6.5
7	CAT	11,225	7,636	(32)	6.1	6.4
8	Volvo	9,479	6,789	(28)	5.2	5.7
9	Yuchai	9,890	5,499	(44)	5.4	4.6
10	Liugong	7,438	5,295	(29)	4.1	4.5
11	Strong	5,635	4,536	(20)	3.1	3.8
12	SDLG	3,517	4,091	16	1.9	3.4
13	Foton Lovol	5,526	4,010	(27)	3.0	3.4
14	Xiagong	4,253	3,443	(19)	2.3	2.9
15	Lonking	5,153	3,357	(35)	2.8	2.8
16	Zoomlion	1,873	3,089	65	1.0	2.6
17	Sunward	5,008	3,082	(38)	2.7	2.6
18	Lishide	2,858	2,784	(3)	1.6	2.3
19	Sumitomo	2,528	1,485	(41)	1.4	1.2
	Other	6,039	5,157	(15)	3.3	4.3
	Total	183,505	118,940	(35)	100.0	100.0

Source: CMBOL

■ 2013E consensus earnings forecasts

Company	Unit	start of 2012	end of 2012	Chg during 2012	Current range (low-high)	Current Mean	Daiwa	Variance
Zoomlion	CNY m	9,312	9,353	0	7,411-10,838	9,398	8,654	(3%)
Lonking	CNY m	2,088	773	-63	413-1,061	773	610	(21%)

Source: Daiwa

Key stock call

Lonking (3339 HK, HKD2.06, Sell [5])

A slow recovery in 2013 and lack of long-term growth prospects. In our view, Lonking remains the weakest industry player among the listed peers in terms of balance sheet strength, product mix and scale of operation. We maintain our Sell rating on the stock. In 2012, the company issued profit warnings three times amid the slump in end-market demand, market-share losses (slipped to No. 3 in 2012 from No.1 in 2011) and margin contraction in its core wheel-loader business (which accounted for two-thirds of 2012E sales).

We forecast a 65% YoY decline in 2012 net profit to CNY605m and a return to around the 2006 levels of CNY624m. We see limited growth prospects for Lonking as other key segments, including excavators, concrete machinery, and truck cranes have been dominated by the larger competitors.

■ China Heavy Machinery Sector: peer comparison

(CNYbn)	Zoomlion	Sany	XCMG	Lonking
Stock code	1157 HK	600031 CH	000425 CH	3339 HK
Income statements				
2013E sales	52.8	58.5	35.4	9.3
2013E net profit	8.7	8.1	2.9	0.7
Balance sheet	3Q12	3Q12	3Q12	2Q12
Cash	18.8	9.2	6.3	1.6
Debt	18.0	27.4	10.9	4.8
Shareholders' equity	40.4	23.0	16.6	6.4
Net (debt)/cash	0.8	(18.2)	(4.6)	(3.2)
Net gearing (%)	Cash	79	28	50

Source: Bloomberg, Daiwa

The 10-second briefing

AviChina Industry & Technology
2357 HK

Target (HKD): **4.70 → 4.70**
Upside: **22.7%**
6 Mar price (HKD): **3.83**

Just starting to enter an upcycle

- We believe China's aviation manufacturing industry has just entered an upcycle, driven by general aviation
- Opening-up of low-altitude airspace and government subsidy programme should be main catalysts for sector and AviChina
- Could gain domestic delivery licence for L15 and see more asset injections, which would boost investor sentiment; reaffirm Buy

1 **Buy** (unchanged)
2 Outperform
3 Hold
4 Underperform
5 Sell

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■ What's new

We expect AviChina's business and share price to benefit from an upcycle in China aircraft manufacturing that we believe has just started, and from further positive industry and company-specific news flow that is likely during 2013.

■ What's the impact

We expect China to speed up the opening of low-altitude airspace this year, which should spark a major development phase in the company's general aviation business. Prior to a formal government announcement on the opening-up of airspace, we expect individual provinces to announce increased investment in aviation infrastructure. For example, we heard recently that Beijing was likely to install soon a new system to manage low-altitude flights.

In addition, we expect to hear more details this year about: 1) potential government subsidies for general aviation aircraft and equipment replacement, 2) the establishment of a pilot-training school in China (a crucial step forward for the industry, in our view), and 3) the construction of general aviation airports.Also, we envisage further positive share-price catalysts for AviChina in the form of likely announcements of: 1) new orders for its L15 trainer aircraft, its Legacy 650 business jet and its Y12F general-aviation aircraft, 2) approvals for domestic deliveries of its L15 trainer aircraft, and 3) further asset injections from the parent company.

■ What we recommend

We reiterate our Buy (1) rating on AviChina, on which we maintain our DCF-based six-month target price of HKD4.70. Risks to our target price include a slower-than-expected opening of low-altitude airspace and weaker-than-expected order growth. The stock trades at a 2013E PER of 21.7x, lower than its average PER of 30x since the company embarked on restructuring in 2008. While its current valuation looks high relative to those of other China industrial companies, we believe this is justified given the strong earnings-growth potential we see for AviChina and as China's general aviation industry is in its initial growth phase.

■ How we differ

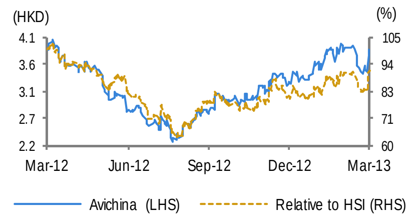
We are one of six brokers covering AviChina, and remain positive on its earnings outlook given the favourable news flow we envisage in the months ahead.

Forecast revisions (%)

Year to 31 Dec	12E	13E	14E
Revenue change	-	-	-
Net profit change	-	-	-
Core EPS (FD) change	-	-	-

Source: Daiwa forecasts

Share price performance



12-month range	2.27-4.01
Market cap (USDbn)	2.66
3m avg daily turnover (USDm)	5.91
Shares outstanding (m)	5,391
Major shareholder	AVIC (56.7%)

Financial summary (CNY)

Year to 31 Dec	12E	13E	14E
Revenue (m)	15,469	19,821	24,970
Operating profit (m)	1,200	1,645	2,277
Net profit (m)	574	774	1,045
Core EPS (fully-diluted)	0.106	0.141	0.191
EPS change (%)	50.4	32.9	35.0
Daiwa vs Cons. EPS (%)	1.4	4.0	10.3
PER (x)	28.9	21.7	16.1
Dividend yield (%)	0.5	0.7	0.9
DPS	0.016	0.021	0.029
PBR (x)	1.8	1.7	1.5
EV/EBITDA (x)	11.5	7.9	6.0
ROE (%)	7.2	8.1	10.0

Source: FactSet, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Revenue growth from helicopters (%)	7.0	3.4	(5.4)	8.3	22.0	32.7	45.2	15.0
Revenue growth from trainers (%)	54.6	(10.8)	(0.6)	8.5	6.3	21.3	54.8	38.0
Revenue growth from aviation parts and components (%)	0.0	0.0	0.0	117.2	11.2	17.4	17.4	30.9
Aluminium price change (%)	0.0	0.0	(35.0)	30.3	10.1	(4.6)	10.6	4.3

Profit and loss (CNYm)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Aircraft revenue	5,327	4,979	3,028	5,268	6,555	8,019	11,072	13,521
Aviation components revenue	0	0	2,627	5,705	6,346	7,450	8,749	11,450
Other Revenue	11,213	0	0	0	0	0	0	0
Total Revenue	16,541	4,979	5,654	10,973	12,901	15,469	19,821	24,970
Other income	213	62	118	136	130	130	130	130
COGS	(13,691)	(3,963)	(4,285)	(8,097)	(9,889)	(11,882)	(14,922)	(18,707)
SG&A	(2,497)	(580)	(786)	(1,498)	(1,712)	(2,053)	(2,630)	(3,314)
Other op.expenses	(1,090)	(135)	(182)	(390)	(438)	(464)	(753)	(803)
Operating profit	(524)	364	519	1,125	991	1,200	1,645	2,277
Net-interest inc./(exp.)	(329)	(83)	(68)	(53)	(37)	44	19	(60)
Assoc/forex/extraord./others	57	39	33	32	(29)	(10)	0	30
Pre-tax profit	(797)	320	484	1,104	925	1,234	1,664	2,246
Tax	(52)	(40)	(61)	(145)	(143)	(190)	(257)	(347)
Min. int./pref. div./others	(178)	(1,342)	(185)	(74)	(379)	(470)	(633)	(855)
Net profit (reported)	(1,026)	(1,063)	237	885	403	574	774	1,045
Net profit (adjusted)	(1,026)	135	248	503	348	574	774	1,045
EPS (reported)(CNY)	(0.221)	(0.229)	0.051	0.181	0.082	0.106	0.141	0.191
EPS (adjusted)(CNY)	(0.221)	0.029	0.053	0.103	0.071	0.106	0.141	0.191
EPS (adjusted fully-diluted)(CNY)	(0.221)	0.029	0.053	0.103	0.071	0.106	0.141	0.191
DPS (CNY)	0.000	0.000	0.000	0.010	0.011	0.016	0.021	0.029
EBIT	(524)	364	519	1,125	991	1,200	1,645	2,277
EBITDA	566	499	701	1,515	1,429	1,664	2,399	3,079

Cash flow (CNYm)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Profit before tax	(797)	320	484	1,104	925	1,234	1,664	2,246
Depreciation and amortisation	1,090	135	182	390	438	464	753	803
Tax paid	(66)	(51)	(66)	(126)	(177)	(190)	(257)	(347)
Change in working capital	(393)	(605)	571	1,211	(940)	(144)	(304)	(428)
Other operational CF items	180	(72)	(98)	(103)	(3)	(67)	(77)	(107)
Cash flow from operations	14	(274)	1,072	2,475	243	1,297	1,780	2,167
Capex	(895)	(426)	(250)	(941)	(662)	(500)	(500)	(500)
Net (acquisitions)/disposals	58	149	90	217	189	(583)	189	189
Other investing CF items	281	(215)	(1,108)	(1,830)	(179)	(462)	(462)	(462)
Cash flow from investing	(556)	(493)	(1,268)	(2,555)	(652)	(1,545)	(773)	(773)
Change in debt	7,896	1,879	2,061	1,712	2,315	1,500	1,500	1,500
Net share issues/(repurchases)	0	0	0	894	0	1,740	0	0
Dividends paid	(66)	(32)	(102)	(96)	(172)	(55)	(86)	(116)
Other financing CF items	(8,075)	(1,476)	(1,909)	493	(2,293)	(1,854)	(1,326)	(1,326)
Cash flow from financing	(245)	371	50	3,004	(150)	1,331	88	58
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	(786)	(395)	(145)	2,924	(559)	1,083	1,094	1,452
Free cash flow	(880)	(700)	822	1,534	(419)	797	1,280	1,667

Source: FactSet, Daiwa forecasts

Financial summary continued ...

■ Balance sheet (CNYm)

As at 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Cash & short-term investment	3,145	3,736	3,637	9,110	8,502	9,585	10,679	12,131
Inventory	5,278	5,265	3,414	5,679	7,996	9,588	12,285	15,476
Accounts receivable	3,238	3,910	2,445	3,569	4,230	5,072	6,499	8,187
Other current assets	2,368	2,077	8,931	9,273	2,404	2,567	2,844	3,171
Total current assets	14,028	14,987	18,427	27,632	23,132	26,812	32,307	38,966
Fixed assets	7,326	7,066	2,166	4,004	4,166	9,170	8,931	8,643
Goodwill & intangibles	332	241	225	247	51	51	51	0
Other non-current assets	1,093	995	1,253	2,153	2,230	2,230	2,230	5,139
Total assets	22,779	23,289	22,071	34,035	29,578	38,263	43,519	52,747
Short-term debt	4,963	5,681	1,458	2,073	1,887	1,251	1,251	1,251
Accounts payable	6,761	7,262	3,222	5,490	6,781	8,106	10,292	12,809
Other current liabilities	2,979	3,041	6,401	8,408	6,299	7,577	9,077	10,897
Total current liabilities	14,702	15,984	11,081	15,971	14,967	16,934	20,620	24,957
Long-term debt	1,112	949	1,152	957	1,171	2,546	2,795	5,902
Other non-current liabilities	306	225	231	339	263	263	263	263
Total liabilities	16,120	17,158	12,464	17,267	16,401	19,744	23,678	31,123
Share capital	4,644	4,644	4,644	4,949	4,949	5,474	5,474	5,474
Reserves/R.E./others	(1,156)	(1,984)	720	3,467	1,823	3,780	4,469	5,397
Shareholders' equity	3,488	2,660	5,363	8,416	6,772	9,255	9,943	10,872
Minority interests	3,170	3,471	4,244	8,353	6,405	9,265	9,898	10,753
Total equity & liabilities	22,779	23,289	22,071	34,035	29,578	38,263	43,519	52,747
EV	22,364	22,596	19,361	17,986	16,586	19,101	18,889	18,491
Net debt/(cash)	2,930	2,894	(1,028)	(6,080)	(5,443)	(5,787)	(6,633)	(4,977)
BVPS (CNY)	0.751	0.573	1.155	1.721	1.376	1.691	1.816	1.986

■ Key ratios (%)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Sales (YoY)	(3.3)	(69.9)	13.6	94.1	17.6	19.9	28.1	26.0
EBITDA (YoY)	(22.5)	(11.9)	40.5	116.2	(5.7)	16.4	44.1	28.4
Operating profit (YoY)	n.a.	n.a.	42.6	117.0	(11.9)	21.0	37.1	38.4
Net profit (YoY)	n.a.	n.a.	84.3	102.7	(30.8)	64.8	34.9	35.0
Core EPS (fully-diluted) (YoY)	n.a.	n.a.	84.3	92.5	(31.2)	50.4	32.9	35.0
Gross-profit margin	17.2	20.4	24.2	26.2	23.3	23.2	24.7	25.1
EBITDA margin	3.4	10.0	12.4	13.8	11.1	10.8	12.1	12.3
Operating-profit margin	n.a.	7.3	9.2	10.3	7.7	7.8	8.3	9.1
Net profit margin	(6.2)	2.7	4.4	4.6	2.7	3.7	3.9	4.2
ROAE	n.a.	4.4	6.2	7.3	4.6	7.2	8.1	10.0
ROAA	n.a.	0.6	1.1	1.8	1.1	1.7	1.9	2.2
ROCE	n.a.	2.9	4.2	7.0	5.5	6.2	7.1	8.6
ROIC	(5.2)	3.4	5.1	10.1	9.1	9.9	10.7	12.9
Net debt to equity	84.0	108.8	net cash	net cash	net cash	net cash	net cash	net cash
Effective tax rate	n.a.	12.5	12.6	13.1	15.4	15.4	15.4	15.4
Accounts receivable (days)	76.7	262.0	205.1	100.0	110.3	109.7	106.5	107.3
Current ratio (x)	1.0	0.9	1.7	1.7	1.5	1.6	1.6	1.6
Net interest cover (x)	n.a.	4.4	7.6	21.3	26.6	n.a.	n.a.	37.8
Net dividend payout	n.a.	n.a.	0.0	5.6	13.6	15.0	15.0	15.0
Free cash flow yield	n.a.	n.a.	5.0	9.3	n.a.	4.8	7.7	10.1

Source: FactSet, Daiwa forecasts

■ Company profile

AviChina Industry & Technology Company Ltd (AVC) is mainly engaged in the development, manufacture, sales and upgrading of aviation equipment and related products. The major shareholder of the company's H shares is Aviation Industry Corporation of China (AVIC), with a 56.7% stake

The 10-second briefing

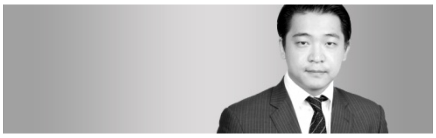
China High Speed Transmission
658 HK

Target (HKD): **3.90 → 3.65**
Downside: **6.4%**
6 Mar price (HKD): **3.90**

Various moving parts in 2013

- With China's GDP recovering, CHST's non-wind gear business could see some improvement in 2013
- We do not expect China demand for its wind gears to improve significantly given persistent power-curtailment issues
- We also see downside risks to its US shipments given a delay in the subsidy renewal; maintain Hold rating

1 Buy
2 Outperform
3 **Hold** (unchanged)
4 Underperform
5 Sell



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■ What's new
We now expect a substantial slowdown in CHST's 2013 US shipments and weak performances for the company's non-wind businesses over the next few years.

■ What's the impact
While revenue from CHST's wind-gear business was stable during 1H12, many of its non-wind industrial-gear products saw YoY revenue declines in the period, including high-speed gears, gears for construction materials, general-purpose gears and marine gears, affected mainly by China's slowing economy at that time.

With China's economy rebounding in 2013, we forecast about a 20% YoY revenue recovery for CHST's industrial products this year. However, this should be offset by a slowdown in US sales (mostly wind gears), which accounted for 27% of total 1H12 sales. Although the US Congress recently passed a 12-month extension of the Production Tax Credit (PTC), the key subsidy for wind farms that expired in December 2012, there is still some uncertainty as to how much the US installations could fall in 2013 (we forecast a 50% YoY drop). Even if CHST's share of orders with General Electric were to rise, we forecast a 20% YoY fall in its US shipments for 2013, offsetting a slow recovery that we expect in its China business.

Given our revised outlook, we are cutting 2012-14E revenue by 4-11%, which translates into cuts of 35-60% in our EPS forecasts over the period.

■ What we recommend
As a result of our forecast cuts, we lower our DCF-based six-month target price to HKD3.65 (from HKD3.90). The stock trades currently at a 0.5x 2013E PBR, while we forecast a 4-5% ROE for the next few years, which seems reasonable.

Catalysts and risks to our view would be higher- and lower-than-expected shipment demand from China or the US.

■ How we differ
Our 2013-14 EPS forecasts are much lower than those of the Bloomberg consensus as we are less positive on the company's US shipments.

Forecast revisions (%)

Year to 31 Dec	12E	13E	14E
Revenue change	(11.3)	(7.2)	(2.1)
Net profit change	(59.6)	(46.3)	(35.2)
Core EPS (FD) change	(59.6)	(46.3)	(35.2)

Source: Daiwa forecasts

Share price performance

12-month range	2.09-4.80
Market cap (USDbn)	0.69
3m avg daily turnover (USDm)	11.77
Shares outstanding (m)	1,363
Major shareholder	Fortune Apex Limited (15.6%)

Financial summary (CNY)

Year to 31 Dec	12E	13E	14E
Revenue (m)	6,789	7,452	7,932
Operating profit (m)	796	894	970
Net profit (m)	277	335	403
Core EPS (fully-diluted)	0.203	0.246	0.296
EPS change (%)	(50.2)	20.8	20.5
Daiwa vs Cons. EPS (%)	(21.8)	(24.0)	(15.4)
PER (x)	15.4	12.7	10.6
Dividend yield (%)	1.3	1.6	1.9
DPS	0.041	0.049	0.059
PBR (x)	0.6	0.5	0.5
EV/EBITDA (x)	6.4	6.2	6.1
ROE (%)	3.7	4.3	5.0

Source: FactSet, Daiwa forecasts

Financial summary

■ Key assumptions

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Wind gearbox capacity (MW)	1,300	3,500	6,000	9,000	12,000	12,000	12,000	12,000
Wind gearbox delivery (MW)	1,356	3,266	6,462	6,985	8,629	8,265	8,265	8,843
Wind gearbox margin (%)	27.5	27.7	31.9	29.6	27.2	26.8	26.8	26.8

■ Profit and loss (CNYm)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Wind Gear	717	1,801	3,805	5,458	4,770	4,508	4,508	4,785
Gear for Construction	362	491	794	668	701	652	782	782
Other Revenue	825	1,147	1,048	1,267	1,650	1,629	2,161	2,365
Total Revenue	1,905	3,439	5,647	7,393	7,121	6,789	7,452	7,932
Other income	0	0	0	0	0	0	0	0
COGS	(1,352)	(2,447)	(3,786)	(5,094)	(5,302)	(5,109)	(5,630)	(6,001)
SG&A	(279)	(247)	(242)	(378)	(227)	(179)	(203)	(272)
Other op.expenses	(105)	(200)	(286)	(420)	(638)	(705)	(725)	(689)
Operating profit	169	545	1,334	1,501	954	796	894	970
Net-interest inc./(exp.)	17	15	(74)	(116)	(278)	(497)	(530)	(527)
Assoc/forex/extraord./others	139	204	(94)	265	19	52	65	74
Pre-tax profit	324	764	1,166	1,650	695	350	429	516
Tax	(18)	(72)	(200)	(257)	(147)	(78)	(100)	(120)
Min. int./pref. div./others	0	(0)	1	(10)	9	5	6	7
Net profit (reported)	307	692	966	1,384	557	277	335	403
Net profit (adjusted)	307	692	966	1,384	557	277	335	403
EPS (reported)(CNY)	0.290	0.560	0.780	1.080	0.409	0.203	0.246	0.296
EPS (adjusted)(CNY)	0.290	0.560	0.780	1.080	0.409	0.203	0.246	0.296
EPS (adjusted fully-diluted)(CNY)	0.290	0.560	0.780	1.080	0.409	0.203	0.246	0.296
DPS (CNY)	0.080	0.220	0.260	0.330	0.000	0.041	0.049	0.059
EBIT	169	545	1,334	1,501	954	796	894	970
EBITDA	251	689	1,549	1,871	1,509	1,421	1,531	1,566

■ Cash flow (CNYm)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Profit before tax	324	764	1,166	1,650	695	350	429	516
Depreciation and amortisation	82	144	215	369	555	626	638	597
Tax paid	(18)	(72)	(200)	(257)	(147)	(78)	(100)	(120)
Change in working capital	(257)	123	(1,323)	480	565	2,460	(346)	(249)
Other operational CF items	77	(811)	(135)	(1,215)	(4,970)	4,364	(794)	2,207
Cash flow from operations	208	149	(277)	1,029	(3,302)	7,723	(173)	2,951
Capex	(646)	(1,107)	(1,756)	(1,674)	(1,198)	(800)	(800)	(800)
Net (acquisitions)/disposals	12	(557)	19	(5)	157	20	0	0
Other investing CF items	(52)	(1,505)	972	0	0	0	0	0
Cash flow from investing	(685)	(3,169)	(766)	(1,679)	(1,041)	(780)	(800)	(800)
Change in debt	(403)	2,301	1,208	683	4,367	702	1,300	0
Net share issues/(repurchases)	2,679	0	0	1,950	(1)	0	0	0
Dividends paid	(35)	(88)	(274)	(423)	0	(55)	(67)	(81)
Other financing CF items	(443)	(29)	(101)	92	28	(5)	(6)	(7)
Cash flow from financing	1,797	2,185	832	2,303	4,394	641	1,227	(87)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	1,320	(835)	(210)	1,653	51	7,584	254	2,064
Free cash flow	(438)	(958)	(2,034)	(646)	(4,500)	6,923	(973)	2,151

Source: FactSet, Daiwa forecasts

Financial summary continued ...

Balance sheet (CNYm)

As at 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Cash & short-term investment	1,516	682	471	2,124	2,175	2,702	3,693	3,557
Inventory	689	1,336	1,313	1,258	1,799	1,734	1,910	2,036
Accounts receivable	649	1,294	2,613	3,811	4,938	4,707	5,167	5,500
Other current assets	180	1,550	640	950	1,342	1,342	1,342	1,342
Total current assets	3,035	4,861	5,037	8,142	10,253	10,485	12,112	12,435
Fixed assets	1,405	2,362	3,845	4,870	5,589	5,839	6,064	6,268
Goodwill & intangibles	55	61	120	214	289	311	311	311
Other non-current assets	291	1,194	1,233	1,705	2,270	2,541	2,541	2,541
Total assets	4,786	8,478	10,235	14,932	18,401	19,176	21,028	21,554
Short-term debt	421	1,292	1,556	1,209	4,991	7,300	7,300	7,300
Accounts payable	1,156	2,049	1,566	2,613	2,826	2,723	3,001	3,198
Other current liabilities	16	54	166	1,405	181	139	152	164
Total current liabilities	1,592	3,395	3,288	5,226	7,998	10,163	10,453	10,663
Long-term debt	73	68	1,012	2,043	2,627	1,020	2,320	2,320
Other non-current liabilities	12	1,280	1,484	148	154	154	154	154
Total liabilities	1,678	4,743	5,785	7,417	10,779	11,336	12,927	13,137
Share capital	95	95	95	103	103	103	103	103
Reserves/R.E./others	3,010	3,636	4,326	7,289	7,370	7,592	7,860	8,182
Shareholders' equity	3,105	3,731	4,421	7,393	7,473	7,694	7,962	8,285
Minority interests	3	4	29	122	149	145	139	132
Total equity & liabilities	4,786	8,478	10,235	14,932	18,401	19,176	21,028	21,554
EV	3,235	4,356	5,785	4,830	9,017	9,166	9,470	9,599
Net debt/(cash)	(1,022)	679	2,097	1,128	5,444	5,618	5,927	6,063
BVPS (CNY)	2.936	3.018	3.568	5.770	5.482	5.645	5.842	6.078

Key ratios (%)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Sales (YoY)	60.8	80.6	64.2	30.9	(3.7)	(4.7)	9.8	6.4
EBITDA (YoY)	30.3	175.0	124.6	20.8	(19.3)	(5.8)	7.8	2.3
Operating profit (YoY)	26.9	223.3	144.5	12.6	(36.4)	(16.6)	12.3	8.5
Net profit (YoY)	258.1	125.8	39.6	43.2	(59.7)	(50.2)	20.8	20.5
Core EPS (fully-diluted) (YoY)	107.1	93.1	39.3	38.5	(62.2)	(50.2)	20.8	20.5
Gross-profit margin	29.0	28.8	33.0	31.1	25.5	24.7	24.4	24.3
EBITDA margin	13.2	20.0	27.4	25.3	21.2	20.9	20.6	19.7
Operating-profit margin	8.9	15.9	23.6	20.3	13.4	11.7	12.0	12.2
Net profit margin	16.1	20.1	17.1	18.7	7.8	4.1	4.5	5.1
ROAE	16.9	20.3	23.7	23.4	7.5	3.7	4.3	5.0
ROAA	8.8	10.4	10.3	11.0	3.3	1.5	1.7	1.9
ROCE	6.7	12.5	22.0	16.9	7.3	5.1	5.3	5.4
ROIC	9.6	15.2	20.2	16.7	6.9	4.7	5.0	5.2
Net debt to equity	net cash	18.2	47.4	15.3	72.9	73.0	74.4	73.2
Effective tax rate	5.5	9.4	17.2	15.5	21.2	22.2	23.2	23.2
Accounts receivable (days)	113.0	103.1	126.3	158.6	224.2	259.3	241.8	245.4
Current ratio (x)	1.9	1.4	1.5	1.6	1.3	1.0	1.2	1.2
Net interest cover (x)	n.a.	n.a.	18.1	13.0	3.4	1.6	1.7	1.8
Net dividend payout	27.6	39.3	33.3	30.6	0.0	20.0	20.0	20.0
Free cash flow yield	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.a.	50.5

Source: FactSet, Daiwa forecasts

Company profile

Founded in 1969, China High Speed Transmission is engaged mainly in the design, development, manufacture and distribution of a range of mechanical transmission equipment that has wide industrial applications. Its products include wind and marine gear transmission equipment, transmission equipment for high-speed locomotives and urban light-rail and traditional transmission equipment.

Daiwa Capital Markets

Company

Industrials / Singapore
8 March 2013

The 10-second briefing

Cosco Corp Singapore
COS SP

Target (SGD): **0.760 → 0.810**
Downside: **12.0%**
6 Mar price (SGD): **0.920**

Challenges abound in 2013

- Operating margins likely to remain depressed in 2013
- More competition could emerge in the offshore and marine segment as other Chinese shipyards move into this space
- Raising target price to SGD0.810, but maintaining Underperform rating as we still see challenges

1 Buy
2 Outperform
3 Hold
4 **Underperform** (unchanged)
5 Sell

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■ What's new
COS's 2012 results missed the Bloomberg consensus forecasts due to continued margin weakness, and we believe its outlook remains subdued.

■ What's the impact
Ailing shipbuilders moving to O&M projects: As Chinese shipyards struggle with the shipbuilding slump, competitors such as Yangzijiang (YZJ) look to the O&M business. Relative to commercial vessels, demand for O&M vessels has been stronger in recent years, but Chinese players have not secured attractive pricing for their orders. We have concerns heightened competition may depress its margins further.

Increased net debt/equity: COS's 2012 results showed large YoY increases in both interest expense and gearing, as the company offered favourable payment terms for customers and thus had to fund its clients' rig construction using its own working capital. Combined with the weak margins COS received for its orders, we believe there is a limit to how many more 'tail-heavy' orders COS can tender for.

What to look out for in 2013?
A key development to look out for this year is whether COS can secure more contracts from repeat customers. COS has been in the O&M business slightly longer than YZJ. By now, it has completed and delivered several projects, revealing more about the market's confidence in its products and providing some indication on the sustainability of its O&M business.

■ What we recommend
We reduce our 2014-15E EPS by 3% and 5%, respectively, as we envisage continued weakness in COS's margins and order flow, and thus maintain our Underperform (4) rating. Our SOTP-based six-month target price is raised to SGD0.810 (from SGD0.760), as we now assign a 2013 PER of 18.1x (previously 16.2x), reflecting our less negative stance on the shipbuilding industry than six months ago, at a 5% discount to the stock's past-10-year average of 19.1x. Risks to our call include better-than-expected cost controls and order wins.

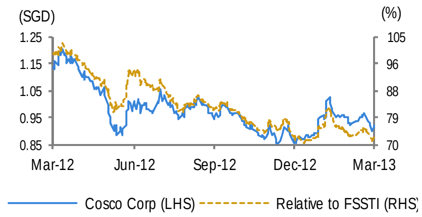
■ How we differ
Our operating-profit margin assumptions are below those of the Bloomberg consensus.

Forecast revisions (%)

Year to 31 Dec	13E	14E	15E
Revenue change	-	-	-
Net profit change	6.2	(3.0)	(4.9)
Core EPS (FD) change	6.2	(3.0)	(4.8)

Source: Daiwa forecasts

Share price performance



12-month range	0.855-1.205
Market cap (USDbn)	1.65
3m avg daily turnover (USDm)	5.86
Shares outstanding (m)	2,239
Major shareholder	China Ocean Shipping Group (53.4%)

Financial summary (SGD)

Year to 31 Dec	13E	14E	15E
Revenue (m)	3,576	3,170	2,713
Operating profit (m)	299	298	309
Net profit (m)	93	99	114
Core EPS (fully-diluted)	0.042	0.044	0.051
EPS change (%)	(11.6)	5.9	14.7
Daiwa vs Cons. EPS (%)	(2.9)	(7.9)	n.a.
PER (x)	22.0	20.8	18.1
Dividend yield (%)	1.8	2.0	2.3
DPS	0.017	0.018	0.021
PBR (x)	1.5	1.5	1.4
EV/EBITDA (x)	7.6	4.9	4.4
ROE (%)	7.1	7.2	7.9

Source: FactSet, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Ending order-book (SGDm)	7,484	8,118	7,625	6,708	5,099	3,676	2,680	2,204
No.of bulk-carriers (no. of ships)	12	12	12	10	10	10	0	0
Total tonnage (dwt)	698,306	698,306	698,306	698,306	698,306	698,306	698,306	698,306

Profit and loss (SGDm)

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Shipping	257	133	129	66	53	43	64	85
Offshore & Marine	3,196	2,751	3,719	4,096	3,681	3,523	3,096	2,618
Other Revenue	23	15	13	1	1	10	10	10
Total Revenue	3,476	2,899	3,861	4,163	3,734	3,576	3,170	2,713
Other income	208	146	178	219	123	117	104	89
COGS	(2,846)	(2,601)	(3,385)	(3,782)	(3,249)	(3,166)	(2,773)	(2,320)
SG&A	(378)	(224)	(210)	(266)	(278)	(228)	(202)	(173)
Other op.expenses	0	0	0	0	0	0	0	0
Operating profit	460	220	444	334	329	299	298	309
Net-interest inc./(exp.)	26	(9)	(28)	(18)	(61)	(70)	(70)	(70)
Assoc/forex/extraord./others	(43)	(74)	(56)	(75)	(139)	(129)	(130)	(132)
Pre-tax profit	443	137	360	241	130	100	98	107
Tax	(32)	(41)	(43)	(74)	(60)	(55)	(54)	(56)
Min. int./pref. div./others	(108)	14	(68)	(27)	36	48	55	63
Net profit (reported)	303	110	249	140	106	93	99	114
Net profit (adjusted)	303	110	249	140	106	93	99	114
EPS (reported)(SGD)	0.135	0.049	0.111	0.062	0.047	0.042	0.044	0.051
EPS (adjusted)(SGD)	0.135	0.049	0.111	0.062	0.047	0.042	0.044	0.051
EPS (adjusted fully-diluted)(SGD)	0.135	0.049	0.111	0.062	0.047	0.042	0.044	0.051
DPS (SGD)	0.070	0.030	0.040	0.030	0.020	0.017	0.018	0.021
EBIT	460	220	444	334	329	299	298	309
EBITDA	580	374	612	498	508	489	492	507

Cash flow (SGDm)

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Profit before tax	443	137	360	241	130	100	98	107
Depreciation and amortisation	121	153	168	164	179	190	194	198
Tax paid	(65)	(82)	(109)	(104)	(82)	(75)	(74)	(77)
Change in working capital	406	(435)	(775)	(575)	(957)	575	(1,776)	(694)
Other operational CF items	169	63	91	222	150	179	179	179
Cash flow from operations	1,074	(164)	(265)	(52)	(580)	969	(1,379)	(288)
Capex	(665)	(470)	(176)	(258)	(123)	(150)	(50)	(50)
Net (acquisitions)/disposals	15	12	7	(2)	9	9	9	9
Other investing CF items	16	42	21	25	35	35	35	35
Cash flow from investing	(634)	(416)	(148)	(235)	(79)	(107)	(7)	(7)
Change in debt	470	482	(61)	1,117	965	294	0	0
Net share issues/(repurchases)	18	46	0	0	0	0	0	0
Dividends paid	(178)	(191)	(70)	(97)	(68)	(37)	(40)	(45)
Other financing CF items	(9)	(41)	(42)	(44)	(71)	(71)	(71)	(71)
Cash flow from financing	301	296	(172)	977	826	186	(110)	(116)
Forex effect/others	46	(36)	(96)	30	(59)	0	0	0
Change in cash	787	(320)	(682)	720	108	1,048	(1,496)	(410)
Free cash flow	409	(634)	(441)	(310)	(703)	819	(1,429)	(338)

Source: FactSet, Daiwa forecasts

Financial summary continued …

Balance sheet (SGDm)

As at 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Cash & short-term investment	1,890	1,550	867	1,585	1,693	2,478	3,859	4,063
Inventory	946	678	518	491	352	607	494	381
Accounts receivable	1,570	1,452	1,977	2,010	2,739	2,623	1,303	1,115
Other current assets	190	206	187	160	105	92	82	71
Total current assets	4,596	3,886	3,549	4,247	4,889	5,799	5,737	5,631
Fixed assets	2,082	2,349	2,208	2,412	2,226	2,176	2,024	1,867
Goodwill & intangibles	10	10	9	10	9	9	9	9
Other non-current assets	112	178	287	332	270	268	263	258
Total assets	6,799	6,422	6,053	7,001	7,394	8,253	8,033	7,765
Short-term debt	45	176	555	1,668	1,468	1,761	1,761	1,761
Accounts payable	4,442	3,559	3,145	2,697	2,244	2,693	2,360	1,976
Other current liabilities	85	135	118	131	66	65	65	66
Total current liabilities	4,572	3,870	3,817	4,496	3,778	4,520	4,187	3,803
Long-term debt	611	939	437	498	1,559	1,559	1,559	1,559
Other non-current liabilities	7	2	4	6	7	7	7	7
Total liabilities	5,190	4,812	4,259	5,000	5,344	6,086	5,753	5,369
Share capital	224	224	224	224	224	224	224	224
Reserves/R.E./others	920	860	975	1,077	1,058	1,114	1,173	1,241
Shareholders' equity	1,144	1,084	1,199	1,301	1,282	1,338	1,397	1,465
Minority interests	465	527	596	699	768	829	883	930
Total equity & liabilities	6,799	6,422	6,053	7,001	7,394	8,253	8,033	7,765
EV	1,289	2,150	2,777	3,336	4,157	3,727	2,401	2,243
Net debt/(cash)	(1,234)	(435)	125	581	1,334	842	(539)	(743)
BVPS (SGD)	0.511	0.484	0.535	0.581	0.572	0.597	0.624	0.654

Key ratios (%)

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Sales (YoY)	53.7	(16.6)	33.2	7.8	(10.3)	(4.2)	(11.4)	(14.4)
EBITDA (YoY)	(1.6)	(35.6)	63.9	(18.7)	2.1	(3.7)	0.6	2.9
Operating profit (YoY)	(9.7)	(52.1)	101.6	(24.9)	(1.4)	(9.2)	(0.2)	3.5
Net profit (YoY)	(10.1)	(63.6)	126.1	(43.9)	(24.3)	(11.6)	5.9	14.7
Core EPS (fully-diluted) (YoY)	(10.2)	(63.6)	126.0	(43.9)	(24.3)	(11.6)	5.9	14.7
Gross-profit margin	18.1	10.3	12.3	9.1	13.0	11.5	12.5	14.5
EBITDA margin	16.7	12.9	15.9	12.0	13.6	13.7	15.5	18.7
Operating-profit margin	13.2	7.6	11.5	8.0	8.8	8.4	9.4	11.4
Net profit margin	8.7	3.8	6.4	3.4	2.8	2.6	3.1	4.2
ROAE	29.0	9.9	21.8	11.2	8.2	7.1	7.2	7.9
ROAA	5.6	1.7	4.0	2.1	1.5	1.2	1.2	1.4
ROCE	24.5	8.8	16.1	9.6	7.1	5.7	5.4	5.5
ROIC	115.6	19.9	25.2	10.3	5.9	4.2	5.6	8.6
Net debt to equity	net cash	net cash	10.4	44.7	104.1	63.0	net cash	net cash
Effective tax rate	7.1	29.8	12.0	30.8	46.2	54.7	55.3	52.8
Accounts receivable (days)	125.5	190.3	162.1	174.8	232.1	273.6	226.0	162.6
Current ratio (x)	1.0	1.0	0.9	0.9	1.3	1.3	1.4	1.5
Net interest cover (x)	n.a.	24.0	15.7	18.4	5.4	4.3	4.2	4.4
Net dividend payout	51.8	61.0	36.0	48.1	42.4	40.7	40.7	41.4
Free cash flow yield	19.9	n.a.	n.a.	n.a.	n.a.	39.8	n.a.	n.a.

Source: FactSet, Daiwa forecasts

Company profile

Cosco Corp Singapore is the Singapore-listed, 53.4%-owned subsidiary of China Ocean Shipping Group, the largest shipping group in China. The company is involved in ship repair, shipbuilding, offshore conversion, and the offshore rig-building business. It also has a dry-bulk-shipping business through its fleet of 11 dry-bulk carriers.

The 10-second briefing

CSR Corp
1766 HK

Target (HKD): **8.21 → 8.21**
Upside: **33.7%**
6 Mar price (HKD): **6.14**

Signs of positive momentum

- Potentially sizeable order from the MOR for high-speed trains would help rebuild CSR's order backlog
- Subway expansion in China and rising sales overseas should be growth drivers in the medium term
- Reiterate Buy rating

1 **Buy** (unchanged)
2 Outperform
3 Hold
4 Underperform
5 Sell

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■ What's new

We believe the downward consensus revisions to CSR's 2013E earnings seen since July 2011 will bottom out this year. The Ministry of Railways (MOR) is expected to place a sizeable new order for high-speed trains in 1H13, CSR's overseas sales look set to gain more traction, and demand for subway equipment in China should gain momentum in 2013.

■ What's the impact

MOR high-speed train tender expected in 2013. We believe the MOR will launch a tender in 1H13 for up to 400 sets of high-speed trains worth up to CNY80bn. We estimate that CSR should secure half of the orders, thereby helping it to rebuild its shrinking order book, which stood at CNY79bn at end-September 2012 (vs. CNY100bn at end-2011).

Subway and overseas sales. With over a 60% market share in China's subway-rolling market, CSR should continue to benefit from ongoing subway expansion in the country. Also, overseas sales (8% of 2011 sales) are gaining momentum and should contribute to sales growth in 2013-14.

We expect EPS growth to resume in 2013. We look for EPS to start rising again in 2013 after the EPS dilution on the new share issuance in March 2012.

■ What we recommend

Scarcity value. CSR is the only investable stock for non-QFII investors seeking exposure to China's railway rolling stock industry (key rival, China CNR Corporation, is listed on the A-share market in Shanghai). This scarcity value should explain CSR's global valuation premium. We reiterate our Buy (1) rating and six-month target price of HKD8.21, based on 18.0x our 2013E EPS and close to the stock's four-year forward PER of 17.8x. Risks would include product-quality issues, a delay in the MOR's tender for high-speed trains, and train accidents.

■ How we differ

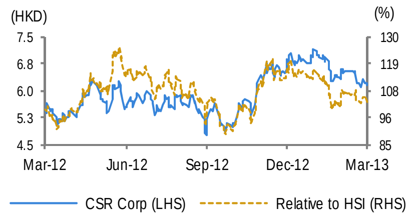
Our 2013E EPS are above consensus, as we believe consensus revisions will bottom out in 2013 on expectations of growing overseas sales and new orders from the MOR.

Forecast revisions (%)

Year to 31 Dec	12E	13E	14E
Revenue change	-	-	-
Net profit change	-	-	-
Core EPS (FD) change	-	-	-

Source: Daiwa forecasts

Share price performance



12-month range	4.78-7.14
Market cap (USDbn)	1.60
3m avg daily turnover (USDm)	13.44
Shares outstanding (m)	2,024
Major shareholder	CSR Group (54.3%)

Financial summary (CNY)

Year to 31 Dec	12E	13E	14E
Revenue (m)	89,446	99,472	109,882
Operating profit (m)	5,539	6,778	7,891
Net profit (m)	4,272	5,037	5,827
Core EPS (fully-diluted)	0.321	0.365	0.422
EPS change (%)	(1.7)	13.7	15.7
Daiwa vs Cons. EPS (%)	(0.3)	2.5	1.0
PER (x)	15.3	13.5	11.7
Dividend yield (%)	2.5	3.0	3.4
DPS	0.124	0.146	0.169
PBR (x)	2.0	1.9	1.7
EV/EBITDA (x)	1.3	1.3	1.3
ROE (%)	15.2	14.4	15.2

Source: FactSet, Daiwa forecasts

Financial summary

■ Key assumptions

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Locomotive YoY sales growth (%)	(1.3)	14.8	73.1	27.4	(0.6)	(15.0)	10.0	5.0
High Speed Trains (MUs) YoY sales growth (%)	140.6	111.8	40.0	83.3	44.3	16.0	15.0	15.0
Locomotive fleet size (units)	18,306.0	17,357.0	17,860.0	18,343.0	19,590.0	21,112.0	22,786.0	24,544.0
High Speed Trains (MUs) fleet size (units)	105.0	176.0	285.0	447.0	652.0	850.0	1,050.0	1,250.0
China railway mileage ('000 km)	78.0	80.0	86.0	91.0	93.0	99.0	106.0	113.0

■ Profit and loss (CNYm)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Locomotives	7,121	8,172	14,142	18,019	17,905	15,219	16,741	17,578
High speed trains (MUs)	2,692	5,703	7,981	14,628	21,107	24,484	28,156	32,380
Other Revenue	17,588	21,894	24,270	32,487	41,699	49,743	54,575	59,925
Total Revenue	27,401	35,768	46,393	65,133	80,711	89,446	99,472	109,882
Other income	30	53	13	33	23	68	30	30
COGS	(23,383)	(29,842)	(38,953)	(53,913)	(65,715)	(72,921)	(80,428)	(88,676)
SG&A	(2,997)	(4,129)	(5,328)	(7,729)	(9,659)	(10,859)	(12,136)	(13,186)
Other op.expenses	(42)	(128)	(286)	(485)	(125)	(194)	(160)	(160)
Operating profit	1,009	1,723	1,840	3,039	5,235	5,539	6,778	7,891
Net-interest inc./(exp.)	(240)	(259)	(201)	(356)	(946)	(650)	(600)	(600)
Assoc/forex/extraord./others	424	466	763	977	1,153	1,003	910	910
Pre-tax profit	1,194	1,930	2,402	3,660	5,442	5,892	7,088	8,201
Tax	(125)	(245)	(285)	(416)	(699)	(908)	(1,059)	(1,226)
Min. int./pref. div./others	(262)	(301)	(438)	(718)	(879)	(712)	(992)	(1,148)
Net profit (reported)	807	1,384	1,678	2,526	3,864	4,272	5,037	5,827
Net profit (adjusted)	807	1,384	1,678	2,526	3,864	4,272	5,037	5,827
EPS (reported)(CNY)	0.115	0.117	0.142	0.213	0.326	0.321	0.365	0.422
EPS (adjusted)(CNY)	0.115	0.117	0.142	0.213	0.326	0.321	0.365	0.422
EPS (adjusted fully-diluted)(CNY)	0.115	0.117	0.142	0.213	0.326	0.321	0.365	0.422
DPS (CNY)	n.a.	0.032	0.040	0.040	0.180	0.124	0.146	0.169
EBIT	291	930	827	1,757	3,699	3,778	4,720	5,557
EBITDA	1,009	1,723	1,840	3,039	5,235	5,539	6,778	7,891

■ Cash flow (CNYm)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Profit before tax	1,194	1,930	2,402	3,660	5,442	5,892	7,088	8,201
Depreciation and amortisation	718	793	1,013	1,282	1,536	1,761	2,058	2,334
Tax paid	(125)	(245)	(285)	(416)	(699)	(908)	(1,059)	(1,226)
Change in working capital	(1,037)	(737)	2,841	(5,323)	(2,152)	(838)	(1,079)	(1,051)
Other operational CF items	503	(584)	(2,129)	3,898	2,009	(353)	(310)	(310)
Cash flow from operations	1,253	1,158	3,841	3,100	6,136	5,554	6,698	7,948
Capex	(1,676)	(3,530)	(4,207)	(5,072)	(5,628)	(6,000)	(6,000)	(6,000)
Net (acquisitions)/disposals	0	0	0	0	0	0	0	0
Other investing CF items	(673)	480	(334)	(576)	(1,915)	0	0	0
Cash flow from investing	(2,349)	(3,049)	(4,541)	(5,648)	(7,543)	(6,000)	(6,000)	(6,000)
Change in debt	3,834	(3,952)	953	4,651	10,408	0	0	0
Net share issues/(repurchases)	0	10,737	0	0	0	8,360	0	0
Dividends paid	(1,030)	0	(474)	(474)	(2,131)	(1,709)	(2,015)	(2,331)
Other financing CF items	(302)	(967)	(376)	493	621	0	0	0
Cash flow from financing	2,502	5,818	104	4,670	8,898	6,651	(2,015)	(2,331)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	1,406	3,926	(597)	2,122	7,491	6,205	(1,316)	(382)
Free cash flow	(423)	(2,372)	(366)	(1,972)	508	(446)	698	1,948

Source: FactSet, Daiwa forecasts

Financial summary continued ...

■ Balance sheet (CNYm)

As at 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Cash & short-term investment	7,792	11,065	11,273	13,781	23,092	29,650	28,644	28,571
Inventory	5,839	8,389	11,415	17,794	17,842	19,798	21,837	24,076
Accounts receivable	4,507	6,395	7,637	12,900	17,890	19,827	22,049	24,357
Other current assets	3,653	5,239	6,360	5,803	4,783	4,783	4,783	4,783
Total current assets	21,791	31,088	36,685	50,277	63,607	74,057	77,312	81,786
Fixed assets	7,068	10,242	13,509	17,065	21,157	25,396	29,338	33,004
Goodwill & intangibles	3	48	52	49	54	54	54	54
Other non-current assets	3,829	4,138	4,991	6,327	7,968	7,968	7,968	7,968
Total assets	32,690	45,516	55,237	73,718	92,786	107,475	114,672	122,812
Short-term debt	6,278	3,747	3,193	5,812	18,099	18,099	18,099	18,099
Accounts payable	7,841	11,542	18,651	24,969	27,855	30,910	34,092	37,588
Other current liabilities	7,563	8,363	8,223	12,034	13,230	13,230	13,230	13,230
Total current liabilities	21,682	23,652	30,067	42,815	59,185	62,239	65,422	68,918
Long-term debt	2,086	665	2,172	4,204	2,325	2,325	2,325	2,325
Other non-current liabilities	2,541	2,556	2,678	2,859	3,189	3,189	3,189	3,189
Total liabilities	26,309	26,873	34,917	49,878	64,698	67,753	70,935	74,431
Share capital	7,000	11,840	11,840	11,840	11,840	11,840	11,840	11,840
Reserves/R.E./others	(2,689)	4,181	5,490	7,404	10,722	21,645	24,667	28,163
Shareholders' equity	4,311	16,021	17,330	19,244	22,562	33,485	36,507	40,003
Minority interests	2,070	2,621	2,990	4,597	5,526	6,238	7,230	8,378
Total equity & liabilities	32,690	45,516	55,237	73,718	92,786	107,475	114,672	122,812
EV	12,610	5,936	7,049	10,799	12,826	6,980	8,978	10,199
Net debt/(cash)	572	(6,653)	(5,908)	(3,765)	(2,668)	(9,226)	(8,220)	(8,147)
BVPS (CNY)	0.616	1.353	1.464	1.625	1.906	2.426	2.645	2.898

■ Key ratios (%)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Sales (YoY)	n.a.	30.5	29.7	40.4	23.9	10.8	11.2	10.5
EBITDA (YoY)	n.a.	70.8	6.8	65.2	72.3	5.8	22.4	16.4
Operating profit (YoY)	n.a.	219.9	(11.1)	112.6	110.5	2.1	24.9	17.7
Net profit (YoY)	n.a.	71.5	21.3	50.5	52.9	10.6	17.9	15.7
Core EPS (fully-diluted) (YoY)	n.a.	1.4	21.3	50.5	52.9	(1.7)	13.7	15.7
Gross-profit margin	14.7	16.6	16.0	17.2	18.6	18.5	19.1	19.3
EBITDA margin	3.7	4.8	4.0	4.7	6.5	6.2	6.8	7.2
Operating-profit margin	1.1	2.6	1.8	2.7	4.6	4.2	4.7	5.1
Net profit margin	2.9	3.9	3.6	3.9	4.8	4.8	5.1	5.3
ROAE	n.a.	13.6	10.1	13.8	18.5	15.2	14.4	15.2
ROAA	n.a.	3.5	3.3	3.9	4.6	4.3	4.5	4.9
ROCE	n.a.	4.9	3.4	5.9	9.0	7.0	7.6	8.4
ROIC	13.0	15.9	12.3	15.6	20.1	16.8	17.5	17.7
Net debt to equity	13.3	net cash	net cash	net cash	net cash	net cash	net cash	net cash
Effective tax rate	10.5	12.7	11.9	11.4	12.8	15.4	14.9	14.9
Accounts receivable (days)	n.a.	55.6	55.2	57.5	69.6	77.0	76.8	77.1
Current ratio (x)	1.0	1.3	1.2	1.2	1.1	1.2	1.2	1.2
Net interest cover (x)	1.2	3.6	4.1	4.9	3.9	5.8	7.9	9.3
Net dividend payout	0.0	27.4	28.2	18.7	55.2	38.6	40.0	40.0
Free cash flow yield	n.a.	n.a.	n.a.	n.a.	5.1	n.a.	7.0	19.5

Source: FactSet, Daiwa forecasts

■ Company profile

CSR Corp is one of the two major manufacturers of rolling stock in China. Its core businesses cover R&D, manufacturing, sales, the refurbishment and leasing of locomotives, passenger carriages, freight wagons, multiple units, and rapid-transit vehicles, and key related components, as well as other businesses that use proprietary rolling-stock technology.

The 10-second briefing

First Tractor
38 HK

Target (HKD): **9.33 → 9.33**
Upside: **19.6%**
6 Mar price (HKD): **7.80**

2013 off to a good start

- First Tractor's earnings growth looks set to recover during the remaining three years of the 12th Five Year Plan
- Strong subsidy support to drive earnings growth in 2013, with the developing scale of farming a long-term demand driver
- We have a long-term positive view on China's agriculture sector, and maintain our Outperform (2) rating on First Tractor

1 Buy
2 Outperform (unchanged)
3 Hold
4 Underperform
5 Sell

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■ What's new

We expect First Tractor's earnings growth to accelerate over the last three years of the 12th Five Year Plan, on the back of China's pledge to perfect the land circulation system, encourage commercial-scale farming, and promote mechanisation in agriculture.

■ What's the impact

2013-15 a fast growth period. The Ministry of Agriculture (MOA) has set a target of helping leading local agriculture machinery makers reach annual sales of CNY15bn by the end of 2015. With First Tractor being the biggest player in the market (revenue of CNY11bn in 2011), we estimate it achieving the MOA's target in 2014. The government's focus on rural issues should provide the company with more incentive to push its sales in the remaining three years of the 12th Five Year Plan (2013-15).

Strong 2013 subsidy the near-term catalyst for 2013 earnings growth. In February 2013, the MOA announced a 54% YoY increase in the first allocation of subsidy funds for agriculture machinery purchases in 2013. We forecast 30% YoY growth in the 2013 subsidy amount based on our expectation of a flat second subsidy allocation. We forecast First Tractor's subsidy income to account for 10% of the industry's total subsidies in 2013.

Commercial-scale farming the long-term driver. Based on the MOA and our estimates, over 20% of China's arable land is occupied by small-to-medium scale farming in the form of family or cooperative farms. We see the government's incentive to penetrate and expand the commercial-scale farming model as driving the future demand for high-powered tractor products.

■ What we recommend

We maintain our Outperform (2) rating and six-month target price of HKD9.33, based on a 14.4x 2013E PER, in line with its global peers' average. The main downside risk would be future cuts to subsidies or a sharp rise in raw-material prices.

■ How we differ

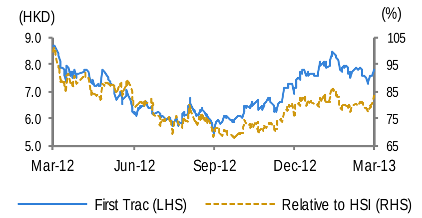
Our 2014E net profit is 4.4% higher than consensus based on our optimistic forecast for 2014 high-powered tractor shipments.

Forecast revisions (%)

Year to 31 Dec	12E	13E	14E
Revenue change	-	-	-
Net profit change	-	-	-
Core EPS (FD) change	-	-	-

Source: Daiwa forecasts

Share price performance



12-month range	5.45-8.73
Market cap (USDbn)	1.00
3m avg daily turnover (USDm)	2.91
Shares outstanding (m)	996
Major shareholder	YTO Group (44.6%)

Financial summary (CNY)

Year to 31 Dec	12E	13E	14E
Revenue (m)	10,593	12,738	14,948
Operating profit (m)	557	677	858
Net profit (m)	408	505	673
Core EPS (fully-diluted)	0.410	0.507	0.676
EPS change (%)	(15.6)	23.8	33.3
Daiwa vs Cons. EPS (%)	(7.3)	(4.3)	4.4
PER (x)	15.3	12.3	9.3
Dividend yield (%)	1.6	2.0	2.7
DPS	0.102	0.127	0.169
PBR (x)	1.4	1.3	1.2
EV/EBITDA (x)	8.1	7.1	5.6
ROE (%)	10.5	10.9	13.3

Source: FactSet, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Agriculture machinery sales (CNYm)	4,869.3	5,572.2	7,739.5	8,784.9	9,862.9	9,051.7	10,596.8	12,213.0
Agriculture machinery gross-profit margin (%)	n.a.	n.a.	11.4	11.7	10.7	10.9	11.5	12.1
Hi-powered tractor shipments (unit)	23,057.0	24,994.0	36,637.0	43,927.0	47,633.0	41,500.0	51,875.0	62,250.0
Hi-powered tractor gross-profit margin (%)	n.a.	n.a.	17.6	17.9	15.3	16.0	16.5	17.0
Hi-powered tractor ASP ('000 CNY)	n.a.	n.a.	92.7	95.4	100.2	102.2	104.3	106.4

Profit and loss (CNYm)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Agriculture machinery and business	4,869	5,572	7,739	8,785	9,863	9,052	10,597	12,213
Power machinery business	685	777	1,833	1,942	2,211	2,207	2,701	3,168
Other Revenue	1,548	1,584	(223)	(461)	(745)	(666)	(560)	(433)
Total Revenue	7,102	7,934	9,349	10,266	11,329	10,593	12,738	14,948
Other income	169	40	51	157	48	60	60	40
COGS	(6,255)	(7,109)	(7,985)	(8,727)	(9,756)	(9,096)	(10,904)	(12,746)
SG&A	(531)	(519)	(679)	(676)	(662)	(632)	(776)	(865)
Other op.expenses	(203)	(218)	(363)	(372)	(393)	(367)	(442)	(519)
Operating profit	282	128	373	648	565	557	677	858
Net-interest inc./(exp.)	(32)	(38)	(10)	(27)	(50)	(52)	(41)	(32)
Assoc/forex/extraord./others	(13)	(0)	11	25	20	32	38	45
Pre-tax profit	238	90	374	646	536	537	674	871
Tax	(40)	(10)	(87)	(84)	(79)	(79)	(99)	(128)
Min. int./pref. div./others	(16)	(12)	(34)	(19)	(47)	(50)	(70)	(70)
Net profit (reported)	182	69	252	543	411	408	505	673
Net profit (adjusted)	182	69	252	543	411	408	505	673
EPS (reported)(CNY)	0.215	0.081	0.298	0.642	0.486	0.410	0.507	0.676
EPS (adjusted)(CNY)	0.215	0.081	0.298	0.642	0.486	0.410	0.507	0.676
EPS (adjusted fully-diluted)(CNY)	0.215	0.081	0.298	0.642	0.486	0.410	0.507	0.676
DPS (CNY)	0.030	0.050	0.120	0.080	0.000	0.102	0.127	0.169
EBIT	282	128	373	648	565	557	677	858
EBITDA	398	256	475	807	707	741	900	1,107

Cash flow (CNYm)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Profit before tax	238	90	374	646	536	537	674	871
Depreciation and amortisation	116	128	103	159	141	184	223	249
Tax paid	(40)	(10)	(87)	(84)	(79)	(79)	(99)	(128)
Change in working capital	(176)	913	(378)	(51)	166	(155)	(286)	(39)
Other operational CF items	(52)	(825)	327	(127)	(301)	(200)	(100)	(100)
Cash flow from operations	86	297	338	543	464	287	412	853
Capex	(187)	(122)	(155)	(567)	(604)	(600)	(600)	(500)
Net (acquisitions)/disposals	0	0	0	0	0	0	0	0
Other investing CF items	155	33	101	(297)	11	0	0	0
Cash flow from investing	(31)	(89)	(54)	(864)	(593)	(600)	(600)	(500)
Change in debt	112	(363)	(140)	856	130	50	50	50
Net share issues/(repurchases)	256	0	0	0	0	810	0	0
Dividends paid	(25)	(42)	(102)	(169)	0	(102)	(126)	(168)
Other financing CF items	(9)	120	(3)	(344)	134	0	0	0
Cash flow from financing	333	(286)	(245)	343	264	758	(76)	(118)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	388	(77)	39	23	135	445	(264)	235
Free cash flow	(100)	176	183	(24)	(141)	(313)	(188)	353

Source: FactSet, Daiwa forecasts

Financial summary continued …

■ Balance sheet (CNYm)

As at 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Cash & short-term investment	1,147	759	1,260	1,363	1,512	1,958	1,693	1,928
Inventory	842	846	1,060	1,377	1,111	1,121	1,494	1,746
Accounts receivable	723	658	556	586	853	673	809	949
Other current assets	1,117	1,588	1,024	2,039	1,856	2,156	2,406	2,656
Total current assets	3,829	3,851	3,900	5,364	5,332	5,908	6,402	7,279
Fixed assets	1,256	1,163	1,103	1,177	1,367	1,783	2,160	2,411
Goodwill & intangibles	53	53	100	215	767	767	767	767
Other non-current assets	349	468	941	1,585	1,702	1,852	1,952	2,052
Total assets	5,488	5,535	6,044	8,342	9,168	10,310	11,281	12,509
Short-term debt	460	167	157	427	970	970	970	970
Accounts payable	1,144	1,996	1,730	2,027	2,193	1,869	2,091	2,444
Other current liabilities	762	342	937	1,607	1,913	2,163	2,413	2,663
Total current liabilities	2,366	2,505	2,824	4,061	5,077	5,002	5,474	6,078
Long-term debt	214	144	13	600	186	236	286	336
Other non-current liabilities	155	144	131	137	130	130	130	130
Total liabilities	2,735	2,793	2,969	4,798	5,392	5,368	5,890	6,543
Share capital	846	846	846	846	846	996	996	996
Reserves/R.E./others	1,729	1,719	1,999	2,306	2,478	3,444	3,823	4,328
Shareholders' equity	2,575	2,565	2,845	3,152	3,323	4,440	4,819	5,324
Minority interests	178	178	230	392	452	502	572	642
Total equity & liabilities	5,488	5,535	6,044	8,342	9,168	10,310	11,281	12,509
EV	5,935	5,961	5,371	6,287	6,327	5,981	6,366	6,251
Net debt/(cash)	(473)	(448)	(1,090)	(336)	(356)	(751)	(437)	(621)
BVPS (CNY)	3.044	3.032	3.363	3.726	3.929	4.458	4.838	5.346

■ Key ratios (%)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Sales (YoY)	n.a.	11.7	17.8	9.8	10.4	(6.5)	20.3	17.4
EBITDA (YoY)	n.a.	(35.6)	85.4	69.7	(12.4)	4.9	21.4	23.0
Operating profit (YoY)	n.a.	(54.6)	190.9	73.9	(12.8)	(1.5)	21.5	26.8
Net profit (YoY)	n.a.	(62.3)	268.5	115.0	(24.3)	(0.6)	23.8	33.3
Core EPS (fully-diluted) (YoY)	n.a.	(62.3)	268.5	115.0	(24.3)	(15.6)	23.8	33.3
Gross-profit margin	11.9	10.4	14.6	15.0	13.9	14.1	14.4	14.7
EBITDA margin	5.6	3.2	5.1	7.9	6.2	7.0	7.1	7.4
Operating-profit margin	4.0	1.6	4.0	6.3	5.0	5.3	5.3	5.7
Net profit margin	2.6	0.9	2.7	5.3	3.6	3.9	4.0	4.5
ROAE	n.a.	2.7	9.3	18.1	12.7	10.5	10.9	13.3
ROAA	n.a.	1.2	4.4	7.5	4.7	4.2	4.7	5.7
ROCE	n.a.	4.0	11.8	16.6	11.9	10.1	10.6	12.3
ROIC	10.3	5.0	13.4	21.7	14.6	12.5	12.6	14.2
Net debt to equity	net cash	net cash	net cash	net cash	net cash	net cash	net cash	net cash
Effective tax rate	16.8	10.5	23.3	13.0	14.7	14.7	14.7	14.7
Accounts receivable (days)	n.a.	31.8	23.7	20.3	23.2	26.3	21.2	21.5
Current ratio (x)	1.6	1.5	1.4	1.3	1.1	1.2	1.2	1.2
Net interest cover (x)	8.9	3.4	35.7	23.8	11.4	10.7	16.5	26.8
Net dividend payout	14.0	61.7	40.2	12.5	0.0	25.0	25.0	25.0
Free cash flow yield	n.a.	2.8	2.9	n.a.	n.a.	n.a.	n.a.	5.7

Source: FactSet, Daiwa forecasts

■ Company profile

First Tractor Company Limited manufactures and sells agriculture tractors and other construction machines, such as forklifts. The company also manufactures and sells harvesting machines and diesel engines as well as provides financial services in the form of trading financing and finance leasing, etc.

Daiwa Capital Markets

Company

Industrials / China
8 March 2013

The 10-second briefing

Lonking Holdings
3339 HK

Target (HKD): **1.55 → 1.55**
Downside: **24.8%**
6 Mar price (HKD): **2.06**

Lack of long-term growth prospects

- We expect 2012 net profit to fall close to the 2006 level and look for a slow earnings recovery in 2013
- We see limited long-term growth prospects, as larger domestic competitors have dominated other segments besides the core wheel-loader division
- Reaffirm Sell rating

1 Buy
2 Outperform
3 Hold
4 Underperform
5 Sell (unchanged)

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■ What's new

Lonking remains the weakest industry player among listed peers on balance sheet strength, product mix and scale of operations, in our view.

■ What's the impact

2012 profit expected to fall close to 2006 level. In 2012, Lonking issued three profit warnings amid the slump in end-market demand, market- share losses (No. 3 in 2012 vs. No.1 in 2011), and margin contraction in its core wheel-loader business (two-thirds of 2012 sales, on our estimates). For 2012, we forecast a 65% YoY decline in net profit to CNY605m, close to the 2006 level of CNY624m.

Slow recovery possible in 2013; lack of long-term growth prospects. We see limited growth prospects for Lonking, as larger competitors such as Sany and Zoomlion have dominated other segments, including excavators, concrete machinery and truck cranes. Unless China repeats its 2008 CNY4tn FAI stimulus programme, we believe the possibility is remote that net profit could return to the peak level of CNY1.7bn seen in 2010.

Expected to fall short of market expectations again in 2013. We forecast a low-teens EPS recovery for 2013. Some market forecasts look for a net profit rebound of over 75% YoY to CNY1.06bn, which we believe is unachievable.

■ What we recommend

We maintain our six-month target price of HKD1.55, based on 8x our 2013E EPS. We reiterate our Sell (5) rating in the context of our expectation of an L-shaped rather than a V-shaped recovery in China's end-market demand for heavy machinery in 2013. Risks to our call would include any takeover bids for the company and a rapid relaxation of China's tight housing policy.

■ How we differ

Our 2013-14E EPS are below consensus, as we do not expect a V-shaped recovery in end-market demand given the substantially expanded fleet size of wheel-loaders and excavators in China.

Forecast revisions (%)

Year to 31 Dec	12E	13E	14E
Revenue change	-	-	-
Net profit change	-	-	-
Core EPS (FD) change	-	-	-

Source: Daiwa forecasts

Share price performance

12-month range	1.01-2.97
Market cap (USDbn)	1.14
3m avg daily turnover (USDm)	11.71
Shares outstanding (m)	4,280
Major shareholder	Lim San Yim & Family (55.1%)

Financial summary (CNY)

Year to 31 Dec	12E	13E	14E
Revenue (m)	8,876	9,348	9,834
Operating profit (m)	1,141	1,070	1,114
Net profit (m)	605	680	716
Core EPS (fully-diluted)	0.138	0.155	0.163
EPS change (%)	(65.0)	12.4	5.2
Daiwa vs Cons. EPS (%)	2.0	(12.1)	(25.6)
PER (x)	12.0	10.7	10.1
Dividend yield (%)	2.6	2.9	3.0
DPS	0.042	0.048	0.050
PBR (x)	1.0	1.0	0.9
EV/EBITDA (x)	8.9	9.5	8.9
ROE (%)	9.2	9.6	9.5

Source: FactSet, Daiwa forecasts

Financial summary

■ Key assumptions

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Wheel loaders shipment (units)	26,150.0	26,892.0	25,056.0	40,139.0	42,886.0	28,000.0	30,800.0	32,340.0
Wheel loaders ASP (CNY '000)	188.8	195.7	202.7	207.9	206.8	209.8	210.0	210.0
Excavators shipment (units)	0.0	675.0	2,026.0	4,118.0	3,995.0	3,300.0	3,630.0	3,811.5
Excavators ASP (CNY '000)	0.0	370.0	382.6	475.2	428.9	329.5	320.0	320.0

■ Profit and loss (CNYm)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Wheel loaders	4,937	5,262	5,078	8,343	8,867	5,873	6,468	6,791
Excavators	13	223	775	1,957	1,713	1,087	1,162	1,220
Other Revenue	359	660	1,048	1,720	2,141	1,915	1,718	1,823
Total Revenue	5,309	6,145	6,901	12,020	12,721	8,876	9,348	9,834
Other income	138	327	132	45	491	213	80	80
COGS	(4,117)	(4,970)	(5,283)	(8,593)	(9,507)	(6,970)	(7,285)	(7,668)
SG&A	(538)	(585)	(607)	(863)	(887)	(675)	(753)	(807)
Other op.expenses	(2)	(23)	(51)	(259)	(355)	(303)	(319)	(325)
Operating profit	790	893	1,091	2,348	2,463	1,141	1,070	1,114
Net-interest inc./(exp.)	(112)	(155)	(185)	(206)	(338)	(399)	(230)	(230)
Assoc/forex/extraord./others	0	0	0	0	0	0	0	0
Pre-tax profit	678	738	906	2,142	2,125	742	840	884
Tax	(55)	(73)	(106)	(376)	(395)	(137)	(160)	(168)
Min. int./pref. div./others	0	0	(0)	(1)	(0)	0	0	0
Net profit (reported)	624	666	800	1,766	1,729	605	680	716
Net profit (adjusted)	624	666	800	1,766	1,729	605	680	716
EPS (reported)(CNY)	0.146	0.156	0.187	0.413	0.404	0.141	0.159	0.167
EPS (adjusted)(CNY)	0.146	0.156	0.187	0.413	0.404	0.141	0.159	0.167
EPS (adjusted fully-diluted)(CNY)	0.144	0.154	0.182	0.402	0.393	0.138	0.155	0.163
DPS (CNY)	0.000	0.100	0.160	0.100	0.100	0.042	0.048	0.050
EBIT	725	798	956	2,144	2,233	861	785	834
EBITDA	790	893	1,091	2,348	2,463	1,141	1,070	1,114

■ Cash flow (CNYm)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Profit before tax	678	738	906	2,142	2,125	742	840	884
Depreciation and amortisation	65	95	135	204	230	280	285	280
Tax paid	(55)	(73)	(106)	(376)	(395)	(137)	(160)	(168)
Change in working capital	(205)	(373)	587	(1,182)	(2,540)	515	(413)	(35)
Other operational CF items	(409)	(474)	(728)	(1,009)	1,879	2	(124)	(124)
Cash flow from operations	74	(86)	794	(221)	1,299	1,403	428	837
Capex	(454)	(1,052)	(846)	(483)	(916)	(600)	(300)	(300)
Net (acquisitions)/disposals	0	0	0	0	0	0	0	0
Other investing CF items	(1,562)	1,214	216	(137)	(112)	0	0	0
Cash flow from investing	(2,016)	162	(630)	(620)	(1,028)	(600)	(300)	(300)
Change in debt	1,577	631	70	668	2,123	(1,146)	0	0
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(349)	(240)	(170)	(315)	(519)	(182)	(204)	(215)
Other financing CF items	1,057	(33)	62	(227)	(497)	0	0	0
Cash flow from financing	2,285	358	(38)	126	1,107	(1,328)	(204)	(215)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	343	435	127	(715)	1,378	(525)	(76)	322
Free cash flow	(380)	(1,138)	(52)	(704)	383	803	128	537

Source: FactSet, Daiwa forecasts

Financial summary continued …

Balance sheet (CNYm)

As at 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Cash & short-term investment	478	895	1,021	306	1,684	1,160	1,084	1,406
Inventory	1,491	2,348	2,335	3,539	4,380	3,437	3,593	3,572
Accounts receivable	873	643	811	1,781	3,130	2,553	2,689	2,829
Other current assets	2,258	1,256	1,834	1,893	2,153	2,653	2,753	2,853
Total current assets	5,100	5,141	6,001	7,520	11,347	9,803	10,119	10,659
Fixed assets	1,117	2,060	2,758	3,034	3,638	3,958	3,973	3,993
Goodwill & intangibles	0	0	0	0	0	0	0	0
Other non-current assets	304	642	1,007	2,909	1,155	653	677	701
Total assets	6,520	7,843	9,766	13,463	16,140	14,414	14,768	15,353
Short-term debt	0	361	1,401	1,472	795	500	500	500
Accounts payable	1,086	1,340	2,082	3,074	2,723	1,719	1,597	1,681
Other current liabilities	751	819	896	1,196	1,289	1,289	1,289	1,289
Total current liabilities	1,837	2,520	4,379	5,742	4,808	3,508	3,386	3,470
Long-term debt	1,844	2,114	1,144	1,742	4,541	3,691	3,691	3,691
Other non-current liabilities	22	50	453	737	385	385	385	385
Total liabilities	3,703	4,683	5,976	8,220	9,734	7,583	7,461	7,545
Share capital	113	111	222	444	444	444	444	444
Reserves/R.E./others	2,703	3,048	3,567	4,796	5,960	6,384	6,860	7,362
Shareholders' equity	2,816	3,159	3,789	5,240	6,405	6,828	7,305	7,806
Minority interests	1	1	1	2	2	2	2	2
Total equity & liabilities	6,520	7,843	9,766	13,463	16,140	14,414	14,768	15,353
EV	8,439	8,653	8,597	9,981	10,726	10,105	10,181	9,859
Net debt/(cash)	1,366	1,580	1,524	2,907	3,652	3,031	3,107	2,785
BVPS (CNY)	0.658	0.738	0.885	1.224	1.496	1.595	1.707	1.824

Key ratios (%)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Sales (YoY)	42.8	15.8	12.3	74.2	5.8	(30.2)	5.3	5.2
EBITDA (YoY)	24.1	13.1	22.2	115.2	4.9	(53.7)	(6.3)	4.1
Operating profit (YoY)	20.0	10.1	19.8	124.3	4.1	(61.4)	(8.9)	6.2
Net profit (YoY)	(0.1)	6.7	20.2	120.7	(2.1)	(65.0)	12.4	5.2
Core EPS (fully-diluted) (YoY)	(0.1)	6.7	18.4	120.7	(2.1)	(65.0)	12.4	5.2
Gross-profit margin	22.4	19.1	23.4	28.5	25.3	21.5	22.1	22.0
EBITDA margin	14.9	14.5	15.8	19.5	19.4	12.9	11.4	11.3
Operating-profit margin	13.6	13.0	13.9	17.8	17.6	9.7	8.4	8.5
Net profit margin	11.8	10.8	11.6	14.7	13.6	6.8	7.3	7.3
ROAE	27.2	22.3	23.0	39.1	29.7	9.2	9.6	9.5
ROAA	13.3	9.3	9.1	15.2	11.7	4.0	4.7	4.8
ROCE	21.6	15.5	16.0	29.0	22.1	7.6	7.0	7.1
ROIC	23.8	18.0	19.2	28.8	22.0	9.3	8.5	8.6
Net debt to equity	48.5	50.0	40.2	55.5	57.0	44.4	42.5	35.7
Effective tax rate	8.1	9.9	11.7	17.5	18.6	18.4	19.0	19.0
Accounts receivable (days)	53.4	45.0	38.5	39.3	70.5	116.9	102.3	102.4
Current ratio (x)	2.8	2.0	1.4	1.3	2.4	2.8	3.0	3.1
Net interest cover (x)	6.5	5.2	5.2	10.4	6.6	2.2	3.4	3.6
Net dividend payout	0.0	64.3	85.6	24.2	24.7	30.0	30.0	30.0
Free cash flow yield	n.a.	n.a.	n.a.	n.a.	5.4	11.4	1.8	7.6

Source: FactSet, Daiwa forecasts

Company profile

Lonking Holdings (Lonking) was the no. 3 wheel-loader maker by volume in China, with about an 15% market share for 2012. The company's key products include wheel loaders, excavators, road rollers and fork lifts. Lonking was listed on The Stock Exchange of Hong Kong in November 2005.

The 10-second briefing

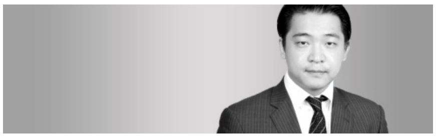
Shanghai Electric Group
2727 HK

Target (HKD): **4.10 → 4.10**
Upside: **26.9%**
6 Mar price (HKD): **3.23**

A better year in 2013

- SHE's earnings growth could accelerate in 2013 after likely slow growth in 2012
- Over the medium term, high-end thermal and nuclear exports could unlock earnings growth in overseas markets
- Still the most solid player in the sector; reiterate Buy rating

1 Buy (unchanged)
2 Outperform
3 Hold
4 Underperform
5 Sell



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■ What's new
Following the potentially slow EPS growth for 2012, we expect Shanghai Electric's (SHE) earnings growth to accelerate in 2013.

■ What's the impact
We believe the company's 2012 earnings, due to be announced at the end of March, could lag behind the economic recovery given the long lead time for equipment suppliers. Although we expect upside surprises in order flow in 2013, we do not rule out earnings disappointments in 2012, especially on the uncertainties of year-end non-cash provision booking. Following SHE's double-digit EPS growth in 2010 and 2011, we forecast 7% YoY EPS growth for 2012.

However, in an upcycle, share-price drivers should be focused on order momentum instead of backward-looking earnings growth, in our view. SHE received CNY27bn worth of new orders (including services and ancillary products) for 9M12 (1H12: CNY11.3bn). We now forecast the company's new orders in 2012 to reach CNY42bn, and improve to CNY49bn in 2013.

Over the medium term, we believe two developments could unlock the company's earnings growth potential: 1) given the technological localisation of nuclear (Gen-III) and gas-fired power plants in China, we expect the country to be ready to compete in overseas markets after 2015, with the usual low-cost and fast-delivery track records seen in the coal-fired business, and 2) we see SHE forging more technological alliances with global leaders, such as Alstom (Not rated), where high-end boiler technology could be transferred, allowing SHE to export high-end equipment.

■ What we recommend
We reiterate our Buy (1) rating and six-month target price of HKD4.10, based on a 10x 2013E blended PER for the different business segments. The key near-term downside risk to our forecasts would be worse-than-expected new order growth in 2013.

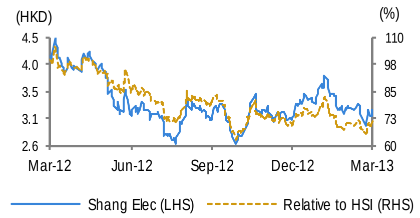
■ How we differ
Our 2013-14 EPS forecasts are 8-13% higher than those of the Bloomberg consensus, as we are more optimistic about margin expansion for the nuclear and gas divisions, as well as the new joint venture with the State Grid.

Forecast revisions (%)

Year to 31 Dec	12E	13E	14E
Revenue change	-	-	-
Net profit change	-	-	-
Core EPS (FD) change	-	-	-

Source: Daiwa forecasts

Share price performance



12-month range	2.62-4.44
Market cap (USDbn)	5.34
3m avg daily turnover (USDm)	10.64
Shares outstanding (m)	12,823
Major shareholder	Shanghai Electric Group (57.8%)

Financial summary (CNY)

Year to 31 Dec	12E	13E	14E
Revenue (m)	71,402	77,545	81,762
Operating profit (m)	3,906	4,799	5,591
Net profit (m)	3,501	4,036	4,536
Core EPS (fully-diluted)	0.273	0.315	0.354
EPS change (%)	7.2	15.3	12.4
Daiwa vs Cons. EPS (%)	(1.4)	7.8	12.7
PER (x)	9.5	8.2	7.3
Dividend yield (%)	3.2	3.6	4.1
DPS	0.082	0.094	0.106
PBR (x)	1.0	1.0	0.9
EV/EBITDA (x)	2.4	2.4	1.9
ROE (%)	11.5	12.2	12.6

Source: FactSet, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
New orders (CNYm)	77,400	83,774	83,037	83,791	77,883	42,000	49,000	50,000
Order backlog (CNYm)	123,000	160,589	191,118	230,705	256,252	244,199	237,447	230,241
Thermal equipment delivery (MW)	27,972	25,857	25,780	25,394	26,996	24,296	25,296	26,511
Nuclear equipment margin (%)	0.0	0.0	10.7	15.0	17.0	19.0	20.0	20.0

Profit and loss (CNYm)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
New Energy	0	0	3,998	6,200	7,170	8,011	10,643	12,495
High efficiency and clean energy	0	0	27,446	27,161	30,172	30,675	32,043	33,500
Other Revenue	55,929	59,058	26,178	29,596	30,576	32,716	34,858	35,767
Total Revenue	55,929	59,058	57,622	62,957	67,918	71,402	77,545	81,762
Other income	0	0	0	0	0	0	0	0
COGS	(46,881)	(49,029)	(48,772)	(52,679)	(55,740)	(58,762)	(63,541)	(66,505)
SG&A	(4,022)	(4,543)	(4,094)	(4,271)	(4,733)	(4,767)	(4,975)	(5,199)
Other op.expenses	(1,792)	(2,734)	(2,986)	(4,071)	(3,898)	(3,968)	(4,230)	(4,467)
Operating profit	3,235	2,752	1,771	1,936	3,547	3,906	4,799	5,591
Net-interest inc./(exp.)	51	144	100	88	83	153	198	265
Assoc/forex/extraord./others	2,319	1,178	1,358	2,002	1,461	1,499	1,565	1,611
Pre-tax profit	5,604	4,075	3,229	4,026	5,091	5,557	6,562	7,467
Tax	(1,313)	(396)	(7)	(228)	(715)	(889)	(1,181)	(1,419)
Min. int./pref. div./others	(1,480)	(1,112)	(768)	(1,014)	(1,109)	(1,167)	(1,345)	(1,512)
Net profit (reported)	2,811	2,566	2,453	2,784	3,267	3,501	4,036	4,536
Net profit (adjusted)	2,811	2,566	2,453	2,784	3,267	3,501	4,036	4,536
EPS (reported)(CNY)	0.236	0.215	0.196	0.220	0.255	0.273	0.315	0.354
EPS (adjusted)(CNY)	0.236	0.215	0.196	0.220	0.255	0.273	0.315	0.354
EPS (adjusted fully-diluted)(CNY)	0.236	0.215	0.196	0.220	0.255	0.273	0.315	0.354
DPS (CNY)	0.059	0.064	0.059	0.066	0.076	0.082	0.094	0.106
EBIT	3,235	2,752	1,771	1,936	3,547	3,906	4,799	5,591
EBITDA	4,077	3,586	2,759	3,052	4,719	5,154	6,140	7,024

Cash flow (CNYm)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Profit before tax	5,604	4,075	3,229	4,026	5,091	5,557	6,562	7,467
Depreciation and amortisation	843	834	988	1,116	1,172	1,248	1,341	1,433
Tax paid	(1,313)	(396)	(7)	(228)	(715)	(889)	(1,181)	(1,419)
Change in working capital	(1,831)	187	2,493	950	(446)	(7,511)	(4,160)	(1,302)
Other operational CF items	79	(1,072)	952	(237)	(2,301)	(161)	(174)	(186)
Cash flow from operations	3,382	3,627	7,654	5,627	2,801	(1,756)	2,388	5,993
Capex	(4,831)	(3,000)	(1,955)	(2,297)	(1,329)	(2,000)	(2,000)	(2,000)
Net (acquisitions)/disposals	(304)	190	(282)	(306)	(23)	(771)	(838)	(883)
Other investing CF items	2,023	2,953	(507)	414	(485)	0	0	0
Cash flow from investing	(3,111)	143	(2,744)	(2,189)	(1,837)	(2,771)	(2,838)	(2,883)
Change in debt	1,717	713	(194)	(321)	(1,321)	0	0	0
Net share issues/(repurchases)	0	0	0	2,220	0	0	0	0
Dividends paid	(700)	(763)	(735)	(835)	(980)	(1,050)	(1,210)	(1,360)
Other financing CF items	424	(3,785)	(1,538)	(691)	161	32	33	35
Cash flow from financing	1,441	(3,836)	(2,468)	373	(2,140)	(1,018)	(1,177)	(1,325)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	1,712	(66)	2,442	3,811	(1,175)	(5,545)	(1,627)	1,785
Free cash flow	(1,449)	627	5,699	3,330	1,473	(3,756)	388	3,993

Source: FactSet, Daiwa forecasts

Financial summary continued …

Balance sheet (CNYm)

As at 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Cash & short-term investment	21,478	21,218	25,762	30,405	33,291	27,722	26,066	27,813
Inventory	16,291	21,372	19,532	19,872	20,885	22,539	24,372	25,509
Accounts receivable	12,132	11,430	13,614	15,977	18,365	19,111	20,756	21,884
Other current assets	9,032	9,777	11,200	10,590	11,402	10,359	10,099	9,822
Total current assets	58,933	63,797	70,108	76,844	83,942	79,731	81,292	85,028
Fixed assets	10,230	11,312	12,279	13,461	13,618	14,369	15,029	15,596
Goodwill & intangibles	1,975	763	1,593	1,361	1,474	1,474	1,474	1,474
Other non-current assets	4,883	6,007	5,645	6,546	7,680	8,670	9,748	10,895
Total assets	76,021	81,878	89,626	98,212	106,715	104,245	107,543	112,993
Short-term debt	667	667	901	396	685	685	685	685
Accounts payable	11,120	12,044	14,399	17,507	22,650	23,931	25,715	26,822
Other current liabilities	33,720	37,913	42,025	42,976	44,049	36,615	33,888	33,467
Total current liabilities	45,507	50,624	57,325	60,878	67,385	61,231	60,288	60,974
Long-term debt	1,824	2,537	2,342	2,021	701	701	701	701
Other non-current liabilities	1,179	693	895	810	974	1,040	1,110	1,186
Total liabilities	48,510	53,854	60,562	63,709	69,059	62,971	62,099	62,861
Share capital	11,892	12,508	12,508	12,824	12,824	12,824	12,824	12,824
Reserves/R.E./others	7,778	9,003	9,967	14,179	16,434	18,885	21,710	24,886
Shareholders' equity	19,669	21,510	22,475	27,002	29,257	31,708	34,534	37,710
Minority interests	7,842	6,514	6,589	7,500	8,399	9,566	10,911	12,423
Total equity & liabilities	76,021	81,878	89,626	98,212	106,715	104,245	107,543	112,993
EV	19,116	19,041	14,451	9,536	6,402	12,366	14,530	13,412
Net debt/(cash)	(18,987)	(18,014)	(22,518)	(27,988)	(31,905)	(26,336)	(24,680)	(26,427)
BVPS (CNY)	1.654	1.801	1.797	2.132	2.282	2.473	2.693	2.941

Key ratios (%)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Sales (YoY)	27.0	5.6	(2.4)	9.3	7.9	5.1	8.6	5.4
EBITDA (YoY)	13.3	(12.0)	(23.1)	10.6	54.6	9.2	19.1	14.4
Operating profit (YoY)	20.1	(14.9)	(35.7)	9.3	83.2	10.1	22.9	16.5
Net profit (YoY)	37.2	(8.7)	(4.4)	13.5	17.4	7.2	15.3	12.4
Core EPS (fully-diluted) (YoY)	37.8	(9.1)	(8.7)	12.1	15.9	7.2	15.3	12.4
Gross-profit margin	16.2	17.0	15.4	16.3	17.9	17.7	18.1	18.7
EBITDA margin	7.3	6.1	4.8	4.8	6.9	7.2	7.9	8.6
Operating-profit margin	5.8	4.7	3.1	3.1	5.2	5.5	6.2	6.8
Net profit margin	5.0	4.3	4.3	4.4	4.8	4.9	5.2	5.5
ROAE	15.4	12.5	11.2	11.3	11.6	11.5	12.2	12.6
ROAA	4.0	3.3	2.9	3.0	3.2	3.3	3.8	4.1
ROCE	11.9	9.0	5.6	5.6	9.3	9.6	10.7	11.4
ROIC	29.4	26.8	21.3	28.0	49.7	31.7	22.0	20.4
Net debt to equity	net cash	net cash	net cash	net cash	net cash	net cash	net cash	net cash
Effective tax rate	23.4	9.7	0.2	5.7	14.0	16.0	18.0	19.0
Accounts receivable (days)	73.0	72.8	79.3	85.8	92.3	95.8	93.8	95.2
Current ratio (x)	1.3	1.3	1.2	1.3	1.2	1.3	1.3	1.4
Net interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net dividend payout	24.9	29.7	30.0	30.0	30.0	30.0	30.0	30.0
Free cash flow yield	n.a.	1.9	17.2	10.0	4.4	n.a.	1.2	12.0

Source: FactSet, Daiwa forecasts

Company profile

Shanghai Electric Group is one of China's oldest and largest industrial conglomerates engaged in the design, manufacture, sale and servicing of a wide range of products and services. Its products include power, electro-mechanical, heavy-machinery, and transportation equipment, and environmental-protection systems.

Daiwa Capital Markets

Company

Industrials / China
8 March 2013

The 10-second briefing

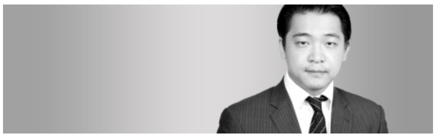
Xinjiang Goldwind Science & Technology
2208 HK

Target (HKD): **3.95 → 4.40**
Downside: **7.2%**
6 Mar price (HKD): **4.74**

More leveraged to China demand

- We cut 2012E new capacity adds for China from 16.5GW to 14GW, and only expect a slow recovery over the next few years
- With its sales exposed mostly to China, we expect XGW's earnings to stay low for the next few years
- We remain upbeat about XGW's leading market share, but see a possible threat from another dark horse; maintain Hold

1 Buy
2 Outperform
3 **Hold** (unchanged)
4 Underperform
5 Sell



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■ What's new
Given XGW's weaker-than-expected 2012 preliminary results and the unexciting outlook we see for its industry, we now expect its earnings to remain low for the next few years.

■ What's the impact
During 9M12, XGW's earnings were impacted adversely by lower-than-expected shipments. Based on our revised forecast for China's new capacity installation in 2012 (from 16.5GW to 14GW), we are reducing our shipment forecasts for XGW by 11-13%, to 2.8GW for 2012, 3.2GW for 2013 and 3.3GW for 2014 (of which we expect 20MW/100MW/200MW to be derived from overseas). The company announced a preliminary net profit for 2012 of CNY153m on 27 February.

Though XGW may have defended its market leadership in 2012 after regaining it in 2011, we continue to believe its No.1 spot will be challenged over the next two years by a new dark horse, Guodian United (Not listed). We forecast XGW's market share to increase from 18% in 2012 to 20% in 2013, in a slowly recovering China market (capacity adds from 14GW in 2012E to 15.5GW in 2013E). Unlike China High Speed Transmission (CHST), XGW has little exposure to overseas markets, so domestic demand is likely to be its dominant earnings driver over the next few years. If the grid bottleneck is resolved after 2014 or 2015, XGW should be better positioned than CHST as a recovery story.

■ What we recommend
Given XGW's low base earnings already, our 9-15% cuts to our top-line forecasts for 2012-14E translate into EPS cuts of 25-70% for the period. However, the medium-term outlook should slowly improve with the government tackling to resolve the grid bottleneck (especially after 2015). We raise our DCF-based six-month target price to HKD4.40 (from HKD3.95) to incorporate the positive cash flow impact. Near term, we believe a rerating would be difficult without substantial upward earnings-forecast revisions. Catalysts and risks would be higher- or lower-than-expected shipment demand from China.

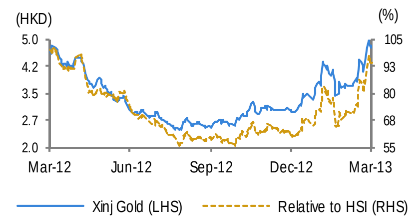
■ How we differ
We are less optimistic than the market about XGW's new orders and ASP recovery for the next two years.

Forecast revisions (%)

Year to 31 Dec	12E	13E	14E
Revenue change	(14.5)	(8.3)	(8.7)
Net profit change	(70.4)	(36.0)	(25.1)
Core EPS (FD) change	(70.4)	(36.0)	(25.1)

Source: Daiwa forecasts

Share price performance



12-month range	2.47-4.92
Market cap (USDbn)	1.65
3m avg daily turnover (USDm)	3.41
Shares outstanding (m)	2,695
Major shareholder	Xinjiang Wind (14.8%)

Financial summary (CNY)

Year to 31 Dec	12E	13E	14E
Revenue (m)	11,012	12,593	13,387
Operating profit (m)	182	314	490
Net profit (m)	159	395	510
Core EPS (fully-diluted)	0.059	0.147	0.189
EPS change (%)	(74.4)	149.0	29.1
Daiwa vs Cons. EPS (%)	(14.6)	13.7	13.4
PER (x)	64.5	25.9	20.1
Dividend yield (%)	0.3	0.9	1.1
DPS	0.013	0.033	0.042
PBR (x)	0.8	0.8	0.7
EV/EBITDA (x)	23.6	18.4	13.7
ROE (%)	1.2	3.0	3.8

Source: FactSet, Daiwa forecasts

Financial summary

■ Key assumptions

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Wind equipment delivery (MW)	755	1,373	2,036	4,008	3,106	2,799	3,194	3,348
Wind equipment margin (%)	29.3	23.0	25.4	23.1	13.7	13.1	12.9	13.6
Shipment - 750KW (MW)	669	854	444	154	1	0	0	0
Shipment – 1.5MW (MW)	86	519	1,592	3,851	2,882	2,449	2,694	2,748
Shipment – 2.5MW (MW)	0	0	0	3	218	350	450	500

■ Profit and loss (CNYm)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Wind turbines	3,079	6,299	10,347	17,005	12,254	10,163	11,635	12,333
Wind power services	10	30	215	293	363	544	653	718
Other Revenue	0	88	104	177	139	305	305	336
Total Revenue	3,089	6,417	10,667	17,475	12,756	11,012	12,593	13,387
Other income	0	0	0	0	0	0	0	0
COGS	(2,177)	(4,896)	(7,909)	(13,454)	(10,699)	(9,254)	(10,615)	(11,185)
SG&A	(227)	(373)	(831)	(1,252)	(1,251)	(1,009)	(1,057)	(1,084)
Other op.expenses	(42)	(151)	(135)	(262)	(478)	(568)	(607)	(628)
Operating profit	643	998	1,791	2,507	328	182	314	490
Net-interest inc./(exp.)	(18)	(23)	(39)	(88)	(204)	(405)	(378)	(391)
Assoc/forex/extraord./others	(3)	172	238	380	741	474	612	617
Pre-tax profit	622	1,146	1,991	2,799	864	251	548	715
Tax	8	(121)	(200)	(416)	(146)	(43)	(98)	(136)
Min. int./pref. div./others	(5)	(119)	(45)	(93)	(111)	(50)	(54)	(70)
Net profit (reported)	625	906	1,746	2,290	607	159	395	510
Net profit (adjusted)	625	906	1,746	2,290	607	159	395	510
EPS (reported)(CNY)	0.310	0.405	0.779	0.990	0.230	0.059	0.147	0.189
EPS (adjusted)(CNY)	0.310	0.405	0.779	0.990	0.230	0.059	0.147	0.189
EPS (adjusted fully-diluted)(CNY)	0.310	0.405	0.779	0.990	0.230	0.059	0.147	0.189
DPS (CNY)	0.025	0.125	0.063	0.735	0.051	0.013	0.033	0.042
EBIT	643	998	1,791	2,507	328	182	314	490
EBITDA	653	1,070	1,869	2,671	521	423	594	791

■ Cash flow (CNYm)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Profit before tax	622	1,146	1,991	2,799	864	251	548	715
Depreciation and amortisation	11	72	78	164	194	241	280	301
Tax paid	(0)	(37)	(286)	(416)	(146)	(43)	(98)	(136)
Change in working capital	0	109	(226)	(2,011)	(4,904)	1,927	(574)	(86)
Other operational CF items	0	(91)	158	(107)	(265)	(142)	68	34
Cash flow from operations	632	1,200	1,714	429	(4,257)	2,235	223	829
Capex	(300)	(1,554)	(1,337)	(1,626)	(1,048)	(1,595)	(1,095)	(595)
Net (acquisitions)/disposals	22	0	0	0	0	0	0	0
Other investing CF items	0	(22)	(100)	(197)	(580)	0	0	0
Cash flow from investing	(278)	(1,576)	(1,437)	(1,823)	(1,629)	(1,595)	(1,095)	(595)
Change in debt	422	709	1,292	343	5,075	400	400	0
Net share issues/(repurchases)	1,752	0	0	6,840	0	0	0	0
Dividends paid	(100)	(50)	(280)	(1,700)	(135)	(35)	(88)	(113)
Other financing CF items	139	325	(117)	776	(781)	(99)	53	26
Cash flow from financing	2,213	983	895	6,259	4,159	265	365	(88)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	2,567	607	1,173	4,865	(1,727)	905	(507)	146
Free cash flow	332	(355)	377	(1,197)	(5,306)	640	(872)	234

Source: FactSet, Daiwa forecasts

Financial summary continued …

Balance sheet (CNYm)

As at 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Cash & short-term investment	2,680	3,286	4,459	9,324	7,597	8,502	7,995	8,142
Inventory	972	2,119	2,854	4,391	5,148	4,125	4,653	4,750
Accounts receivable	764	2,619	2,920	7,583	10,299	7,719	8,482	8,283
Other current assets	498	1,036	1,054	1,539	2,322	1,640	1,640	1,640
Total current assets	4,914	9,061	11,286	22,836	25,367	21,987	22,771	22,815
Fixed assets	404	1,303	2,441	3,783	4,580	5,907	6,700	6,975
Goodwill & intangibles	18	560	596	610	716	742	765	783
Other non-current assets	132	286	560	1,169	1,767	1,767	1,767	1,767
Total assets	5,468	11,211	14,883	28,398	32,430	30,404	32,003	32,341
Short-term debt	470	50	602	1,502	5,467	5,467	5,467	5,467
Accounts payable	935	2,545	3,760	8,130	7,581	6,085	6,689	6,435
Other current liabilities	870	2,909	2,520	2,824	2,665	1,864	1,977	2,042
Total current liabilities	2,275	5,504	6,882	12,456	15,713	13,416	14,133	13,945
Long-term debt	153	1,282	2,022	1,465	2,575	2,975	3,375	3,375
Other non-current liabilities	91	288	451	845	874	670	738	772
Total liabilities	2,519	7,073	9,356	14,767	19,162	17,061	18,246	18,092
Share capital	500	1,000	1,400	2,695	2,695	2,695	2,695	2,695
Reserves/R.E./others	2,383	2,722	3,801	10,594	10,179	10,204	10,564	10,986
Shareholders' equity	2,883	3,722	5,201	13,289	12,874	12,898	13,258	13,681
Minority interests	66	415	326	342	394	444	498	568
Total equity & liabilities	5,468	11,211	14,883	28,398	32,430	30,404	32,003	32,341
EV	8,249	8,700	8,614	3,962	10,434	9,978	10,939	10,863
Net debt/(cash)	(2,057)	(1,955)	(1,835)	(6,357)	445	(60)	847	701
BVPS (CNY)	5.767	3.722	3.715	4.932	4.778	4.787	4.920	5.077

Key ratios (%)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Sales (YoY)	n.a.	107.7	66.2	63.8	(27.0)	(13.7)	14.4	6.3
EBITDA (YoY)	n.a.	63.8	74.7	42.9	(80.5)	(18.8)	40.4	33.2
Operating profit (YoY)	n.a.	55.2	79.6	39.9	(86.9)	(44.4)	72.4	56.1
Net profit (YoY)	n.a.	45.1	92.6	31.2	(73.5)	(73.8)	149.0	29.1
Core EPS (fully-diluted) (YoY)	n.a.	30.6	92.6	27.0	(76.8)	(74.4)	149.0	29.1
Gross-profit margin	29.5	23.7	25.9	23.0	16.1	16.0	15.7	16.5
EBITDA margin	21.1	16.7	17.5	15.3	4.1	3.8	4.7	5.9
Operating-profit margin	20.8	15.5	16.8	14.3	2.6	1.7	2.5	3.7
Net profit margin	20.2	14.1	16.4	13.1	4.8	1.4	3.1	3.8
ROAE	n.a.	27.4	39.1	24.8	4.6	1.2	3.0	3.8
ROAA	n.a.	10.9	13.4	10.6	2.0	0.5	1.3	1.6
ROCE	n.a.	22.1	26.3	20.3	1.7	0.8	1.4	2.1
ROIC	72.0	58.0	54.9	38.9	2.6	1.1	1.8	2.7
Net debt to equity	net cash	net cash	net cash	net cash	3.5	net cash	6.4	5.1
Effective tax rate	n.a.	10.5	10.0	14.9	16.9	16.9	17.9	18.9
Accounts receivable (days)	n.a.	96.2	94.8	109.7	255.8	298.6	234.8	228.6
Current ratio (x)	2.2	1.6	1.6	1.8	1.6	1.6	1.6	1.6
Net interest cover (x)	35.5	43.2	46.1	28.4	1.6	0.4	0.8	1.3
Net dividend payout	8.0	30.9	8.0	74.2	22.2	22.2	22.2	22.2
Free cash flow yield	3.2	n.a.	3.7	n.a.	n.a.	6.3	n.a.	2.3

Source: FactSet, Daiwa forecasts

Company profile

Xinjiang Goldwind Science & Technology is a leading manufacturer of wind-turbine generators (WTG) and provider of complete wind-power solutions in China. The company is the largest WTG manufacturer in China, with total WTG shipments exceeding 3,000MW for 2011, representing a 20.4% market share. It has expanded overseas to Europe, the US and Australia.

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