

SANY International (631 HK)

Acquisition of oil & gas frac equipment a positive move

SANYI announced yesterday (12 April) after market close that it plans to acquire SANY Petroleum Intelligent Equipment (三一石油智能装备) from the controlling shareholder. This marks the expansion into oil & gas fracturing equipment segment, which we think is positive given the expected increase in oilfield spending (in particular unconventional field) amid the tight supply of oil and the consideration of energy security by different countries. The acquisition price of RMB2.98bn (all cash) implies only 7.7x 2022 P/E, lower than the 12.8x of Yantai Jereh (002353 CH) and SANYI's current valuation (~11x). Assuming 30% earnings growth of SANY Petroleum this year, the acquisition will boost SANYI's 2023E earnings by ~20% (annualized). Given SANYI's net cash position, ROE will be enhanced as the idle cash will be utilised. We continue to like SANYI's strategy to boost earnings growth through acquisitions. We have yet to revise our earnings forecast as the deal is subject to shareholders' approval. Reiterate **BUY** with TP of HK\$13 (18x 2023E P/E).

- **Business of SANY Petroleum.** SANY Petroleum is principally engaged in (1) the R&D, production & sale of drilling, workover, automated pipe handling equipment and spare parts; and (2) the provision of after sales and oil & gas field technical services. According to SANYI, SANYI Petroleum's fracturing truck had a market share of 25.3% in 2022.
- **Key financials of SANY Petroleum.** Revenue/net profit in 2022 grew 20%/27% to RMB2.1bn/ 386mn. Around 89% of revenue was generated from equipment sales, while the balance came largely from oilfield services. Revenue from SOE increased from 17% in 2020 to 29% in 2022, and is expected to further increase to 30-40% going forward. As at end-2022, the net assets value amounted to RMB567mn.
- **Growth potential of SANY Petroleum.** By leveraging strong R&D capability and smart factories, SANY Petroleum will launch more electric and intelligent products. Besides, SANY Petroleum plans to expand the oilfield service business, on the back of SANY brand and solid capability.
- **Major risk factors:** (1) weakness in mining activities; (2) development of new products below expectation; and (3) rebound of raw material costs.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	10,195	15,537	18,403	21,739	25,215
YoY growth (%)	38.4	52.4	18.4	18.1	16.0
Adjusted net profit (RMB mn)	1,086.7	1,664.9	1,992.7	2,325.5	2,712.8
EPS (Adjusted) (RMB)	0.35	0.53	0.63	0.74	0.86
Consensus EPS (RMB)	na	na	0.61	0.74	na
P/E (x)	17.7	12.8	10.9	9.4	8.0
P/B (x)	2.6	2.1	1.9	1.7	1.4
Yield (%)	1.7	2.5	2.8	3.3	3.9
ROE (%)	15.2	17.8	18.5	18.8	19.1
Net gearing / (net cash) (%)	(18.3)	(11.8)	(15.8)	(20.3)	(26.3)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$13.00

(Previous TP) HK\$13.00)

Up/Downside 64.3%

Current Price HK\$7.91

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Stock Data

Mkt Cap (HK\$ mn)	25,096.8
Avg 3 mths t/o (HK\$ mn)	7.9
52w High/Low (HK\$)	8.88/6.44
Total Issued Shares (mn)	3172.8

Source: FactSet

Shareholding Structure

Sany Heavy Equipment Investments Company	67.7%
Free float	32.3%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	7.2%	2.0%
3-mth	-1.7%	4.1%
6-mth	12.8%	-7.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

SANYI (631 HK, BUY) – Core net profit in 2022 +53% YoY in line with expectation; Margin recovery in 4Q – 21 Mar 2023 ([link](#))

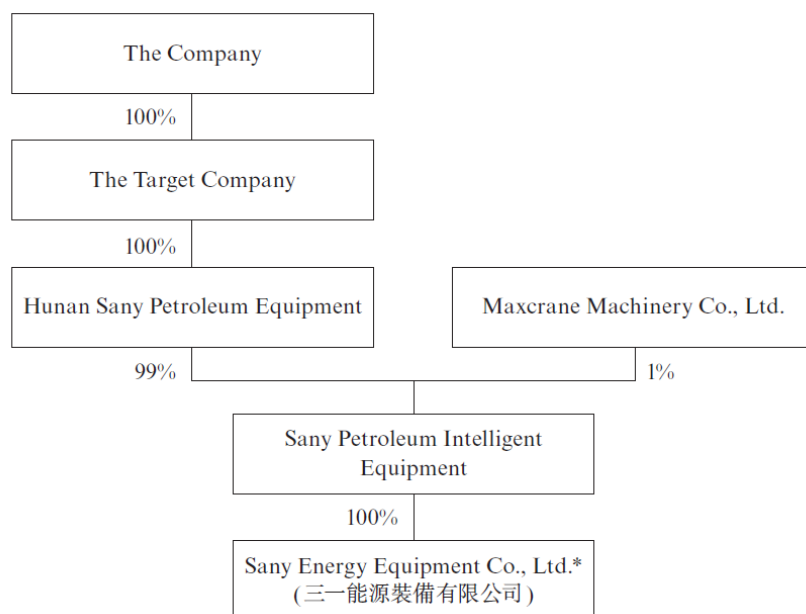
SANYI (631 HK, BUY) – Expansion to new energy equipment sector with an ambitious target – 9 Jan 2023 ([link](#))

SANYI (631 HK, BUY) – Key takeaways from post-results call and NDR – 2 Nov 2022 ([link](#))

Figure 1: Key financials of SANY Petroleum Intelligent Equipment

	2020	2021	2022
(RMB mn)			
<u>Income statement</u>			
Revenue	895	1,740	2,087
Oil & gas equipment	-	-	1,854
Oil service	-	-	226
Others	-	-	7
Cost of sales	(638)	(1,121)	(1,346)
Gross profit	257	619	741
Selling & distribution expense	(48)	(105)	(121)
Administrative expense	(155)	(186)	(198)
EBIT	53	329	421
Others	(4)	(6)	1
Finance expense	(14)	(14)	(8)
Pretax profit	71	348	428
Income tax	(2)	(44)	(42)
Net profit	70	304	386
<u>Balance sheet</u>			
Total assets	1,311	1,657	2,301
Total liabilities	1,004	1,046	1,735
Net assets	307	612	567
<u>Growth rate</u>			
Revenue	-	94.6%	19.9%
EBIT	-	517.5%	28.2%
Net profit	-	338.0%	26.7%
<u>Key ratios</u>			
Gross margin	28.7%	35.6%	35.5%
Selling & distribution expense ratio	5.4%	6.0%	5.8%
Administrative expense ratio	17.4%	10.7%	9.5%
Effective tax rate	2.5%	12.6%	9.8%
After tax profit margin	7.8%	17.5%	18.5%
Total assets to liabilities ratio	76.6%	63.1%	75.4%
ROAA	-	20.5%	19.5%
ROAE	-	66.3%	65.4%


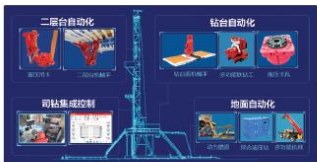

Source: Company data, CMBIGM

Figure 2: Group structure upon the completion of acquisition

Source: Company data, CMBIGM




Note: The Company refers to SANYI. The Target Company refers to SANY Petroleum Intelligent Equipment

Figure 3: SANY Petroleum's key products

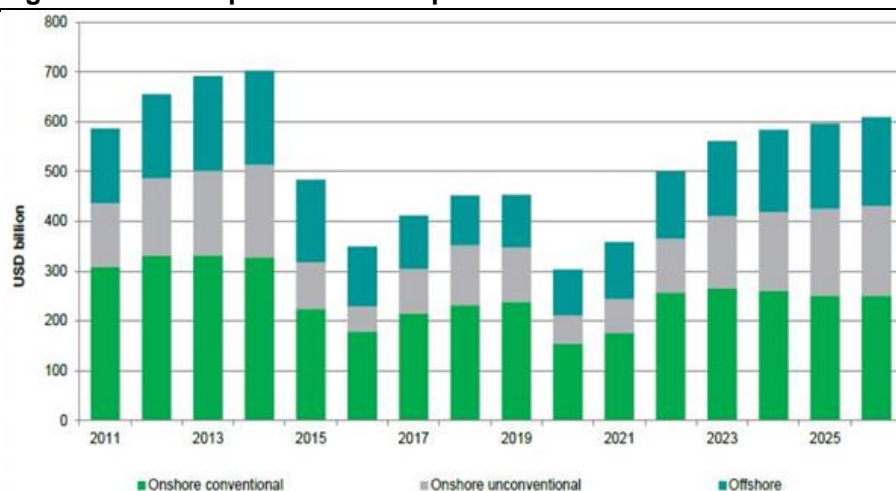
Product Type	Illustrations	Key features
Frac spreads		<ul style="list-style-type: none"> Industry-exclusive AT automatic chassis Remote control for easy start/stop, over 10 times more efficient than similar products in the industry Apply adaptive fuel saving technology and reduce the use of fuel by more than 5%
Automated pipe handling system		<ul style="list-style-type: none"> Multi-machine synergy for over 30% increase in overall efficiency Reduction in the number of drillers by more than 25% Machine vision technology enhances well site safety management
High power electric frac pumper		<ul style="list-style-type: none"> All-round six-fold protection with dual IP54 design inverter skids for further protection Inverter with IGCT (Insulated Gate Commutated Thyristor) technology route with high power capacity Intelligent maintenance system, fault code visualisation analysis system, real-time online diagnosis of equipment information

Source: Company data, CMBIGM

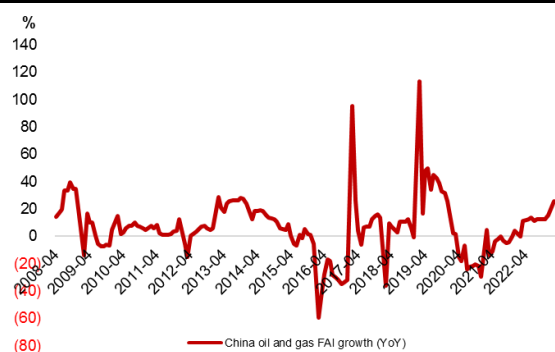
Figure 4: SANY Petroleum's key products

Product Type	Illustrations	Key features
Distributed electric frac pumper		<ul style="list-style-type: none"> Distributed multi-motor drive, easy to achieve continuous high load operation, 36% lower investment cost, single machine operating cost savings of at least RMB300,000/year Greater reliability with IP68 protection rating, which could far exceed the conventional rating IP44 Permanent magnet synchronous motor with wider speed range and higher efficiency
Hybrid crawler-mounted rig		<ul style="list-style-type: none"> Diesel-electric hybrid powered with more than 15% increase in total power Ultra-powerful powerhead with 278kW powerhead Independently developed automatic pressure adjustment technology Multiple interlocking, patented floating device, safe and convenient
Hybrid crawler-mounted pipework unit		<ul style="list-style-type: none"> Variable gauge chassis, good load stability, safe and reliable 360-degree view system for full vehicle monitoring without blind spot Two-stage electric leakage protection for on-site electrical safety

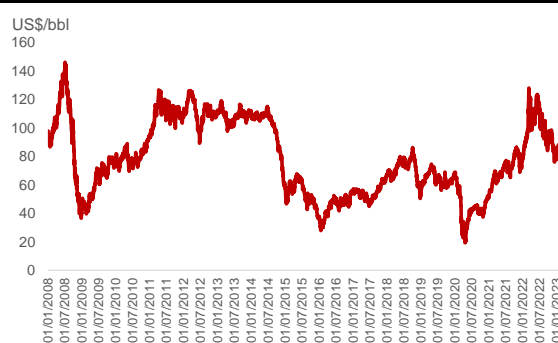
Source: Company data, CMBIGM

Figure 5: Global upstream E&P capex

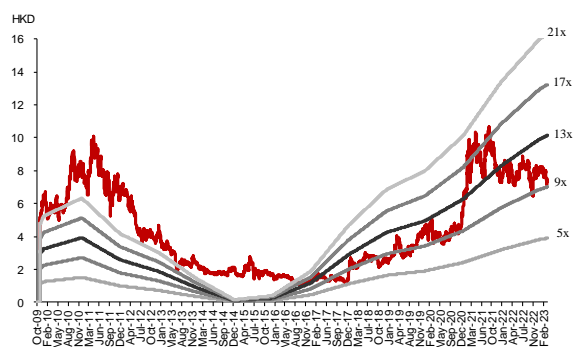
Source: S&P Global Commodity Insights, COSL, CMBIGM

Figure 6: China oil and gas FAI growth (YTD)

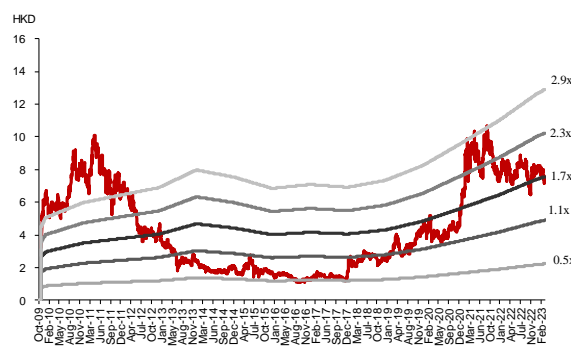
Source: Wind, NBS, CMBIGM

Figure 7: Brent crude oil price

Source: Bloomberg, CMBIGM

Figure 8: SANYI's P/E band

Source: Bloomberg, Company data, CMBIGM estimates

Figure 9: SANYI's P/B band

Source: Bloomberg, Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	7,364	10,195	15,537	18,403	21,739	25,215
Cost of goods sold	(5,403)	(7,805)	(11,908)	(14,048)	(16,676)	(19,395)
Gross profit	1,961	2,390	3,628	4,355	5,063	5,820
Operating expenses	(1,137)	(1,620)	(2,110)	(2,797)	(3,283)	(3,757)
Selling expense	(430)	(567)	(933)	(1,104)	(1,304)	(1,513)
Admin expense	(707)	(1,053)	(1,177)	(1,693)	(1,978)	(2,244)
Operating profit	463	737	476	902	1,065	1,236
Other income	237	391	447	589	696	807
Other expense	(31)	(1)	(25)	(55)	(65)	(76)
Other gains/(losses)	257	347	54	368	435	504
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	1,535	1,756	2,283	2,814	3,235	3,712
Depreciation	249	249	288	355	390	414
EBIT	1,286	1,507	1,994	2,460	2,846	3,298
Interest income	36	51	59	55	62	72
Interest expense	(132)	(120)	(132)	(141)	(138)	(139)
Net Interest income/(expense)	(96)	(69)	(73)	(86)	(76)	(67)
Pre-tax profit	1,190	1,438	1,921	2,374	2,770	3,231
Income tax	(139)	(129)	(252)	(309)	(360)	(420)
After tax profit	1,052	1,309	1,669	2,065	2,410	2,811
Minority interest	(6)	(50)	(4)	(72)	(84)	(98)
Net profit	1,045	1,259	1,665	1,993	2,325	2,713
Adjusted net profit	1,045	1,087	1,665	1,993	2,325	2,713
Gross dividends	408	385	524	618	721	841

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	12,016	14,217	17,191	18,379	22,817	24,848
Cash & equivalents	941	1,349	2,690	3,331	4,287	5,614
Account receivables	3,288	4,272	6,416	5,583	8,473	7,831
Inventories	1,821	2,529	3,283	4,569	4,752	6,088
Prepayment	359	585	700	700	700	700
ST bank deposits	0	21	50	50	50	50
Financial assets at FVTPL	4,024	3,680	2,088	2,088	2,088	2,088
Other current assets	1,583	1,782	1,964	2,058	2,467	2,477
Non-current assets	5,448	6,568	7,763	7,909	8,019	7,955
PP&E	2,591	3,314	4,066	4,238	4,375	4,338
Deferred income tax	296	287	298	298	298	298
Goodwill	1,130	1,130	1,130	1,130	1,130	1,130
Other non-current assets	1,432	1,838	2,269	2,243	2,216	2,189
Total assets	17,464	20,785	24,953	26,288	30,836	32,803
Current liabilities	7,938	9,170	10,836	10,629	13,384	13,261
Short-term borrowings	2,645	1,687	954	954	1,054	1,054
Account payables	2,893	4,422	6,646	6,439	9,095	8,972
Tax payable	197	185	155	155	155	155
Other current liabilities	2,205	2,875	3,080	3,080	3,080	3,080
Non-current liabilities	1,667	2,832	4,014	4,014	4,014	4,014
Long-term borrowings	493	1,767	2,691	2,691	2,691	2,691
Other non-current liabilities	1,174	1,065	1,323	1,323	1,323	1,323
Total liabilities	9,605	12,002	14,849	14,642	17,398	17,275
Total shareholders equity	7,839	8,701	10,040	11,508	13,216	15,208
Minority interest	20	82	64	136	220	319
Total equity and liabilities	17,464	20,785	24,953	26,287	30,835	32,802

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,190	1,438	1,921	2,374	2,770	3,231
Depreciation & amortization	249	249	288	355	390	414
Tax paid	(108)	(185)	(252)	(309)	(360)	(420)
Change in working capital	105	51	(854)	(754)	(826)	(828)
Others	(366)	(630)	(19)	86	76	67
Net cash from operations	1,070	923	1,084	1,751	2,050	2,465
Investing						
Capital expenditure	(334)	(1,053)	(1,013)	(500)	(500)	(350)
Others	(313)	757	1,652	55	62	72
Net cash from investing	(647)	(296)	639	(445)	(438)	(278)
Financing						
Dividend paid	(394)	(408)	(385)	(524)	(618)	(721)
Net borrowings	(132)	(120)	0	(141)	(138)	(139)
Proceeds from share issues	30	0	0	0	0	0
Others	(105)	301	8	0	100	0
Net cash from financing	(602)	(227)	(377)	(665)	(656)	(860)
Net change in cash						
Cash at the beginning of the year	1,103	941	1,349	2,690	3,331	4,287
Exchange difference	17	8	(6)	0	0	0
Cash at the end of the year	941	1,349	2,690	3,331	4,287	5,614
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	30.2%	38.4%	52.4%	18.4%	18.1%	16.0%
Gross profit	17.5%	21.9%	51.8%	20.0%	16.3%	14.9%
Operating profit	1.0%	59.2%	(35.4%)	89.4%	18.1%	16.0%
EBITDA	14.0%	14.4%	30.0%	23.3%	15.0%	14.7%
EBIT	17.3%	17.2%	32.3%	23.3%	15.7%	15.9%
Net profit	13.6%	20.5%	32.2%	19.7%	16.7%	16.7%
Adj. net profit	20.8%	4.0%	53.2%	19.7%	16.7%	16.7%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	26.6%	23.4%	23.4%	23.7%	23.3%	23.1%
Operating margin	6.3%	7.2%	3.1%	4.9%	4.9%	4.9%
EBITDA margin	20.9%	17.2%	14.7%	15.3%	14.9%	14.7%
Adj. net profit margin	14.2%	10.7%	10.7%	10.8%	10.7%	10.8%
Return on equity (ROE)	14.0%	15.2%	17.8%	18.5%	18.8%	19.1%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)
Current ratio (x)	1.5	1.6	1.6	1.7	1.7	1.9
Receivable turnover days	146.8	135.3	125.5	119.0	118.0	118.0
Inventory turnover days	110.1	101.7	89.1	102.0	102.0	102.0
Payable turnover days	159.6	171.0	169.6	170.0	170.0	170.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	11.3	17.7	12.8	10.9	9.4	8.0
P/B	1.5	2.6	2.1	1.9	1.7	1.4
Div yield (%)	3.5	1.7	2.5	2.8	3.3	3.9

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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