

SANY International (631 HK)

Weak revenue growth in the price; overseas growth story still intact

Dragged by the weakness of major global peers, SANYI's share price has been weak since early Oct. Its share price was under further pressure yesterday (1 Nov) following the release of weaker-than-expected revenue growth (26% YoY) despite decent earnings growth (46% YoY) in 3Q23. We revise down our 2023E/24E/25E earnings forecast by 5%/9%/7% after factoring in lower sales growth of road header and CCMU. That said, we believe SANYI's growth story remains intact as new products in overseas such as large mining truck & Telescopic forklift (伸縮臂叉車) will help counter the potential downside of coal mining machinery. Our TP is revised down to HK\$15.4, based on unchanged P/E of 19x (2023E earnings). We believe the risk is largely in the price and we see the current risk/reward profile attractive.

- **Reasons for the slowdown of revenue growth in 3Q23:** Revenue in 3Q23 grew 26% YoY to RMB5bn (mining equipment: +9% to RMB2.9bn; logistics equipment: +10% to RMB1.5bn; oil & gas equipment: RMB520mn; emerging business: c.RMB100mn). Management explained that the slow growth of mining equipment was due to the delay of delivery of certain products including coal mining equipment (due to lower coal price versus last year) and wide-body truck (due to unfavourable weather condition).
- **Coal mining equipment.** For road headers, we now forecast RMB2.6bn of revenue for the full year (-13% YoY), which has already taken into consideration of the weakness in 2H23E. We forecast roader header sales in 2024E will be largely stable, but with higher ASP thanks to more integrated models. For CCMU, we forecast 22% YoY growth for the full year as SANYI has continued to obtain new customers. In 2024E, management expects growth to accelerate with the potential contribution of electro hydraulic control.
- **Mining trucks.** For large mining trucks, we see potential upside as SANYI targets to achieve RMB1bn/2bn sales in 2023E/24E. For wide-body trucks, SANYI is expanding the sales of electric, large-size models. The mainstream models have already been moved to 70T from 60T, while 90T & 100T models have been launched in 4Q. Besides, electric models have been introduced to European customers.
- **Telescopic forklift.** SANYI maintains the target to achieve RMB950mn revenue (+4x YoY) in 2023E and RMB2bn in 2024E (+1x YoY).
- **Latest backlog:** As at end Oct, total backlog stood at RMB11bn (similar to Aug). For CCMU, c.RMB1.9bn of orders will be postponed to 1Q24E.
- **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	20,500	26,596	31,885
YoY growth (%)	38.4	52.4	31.9	29.7	19.9
Adjusted net profit (RMB mn)	1,086.7	1,664.9	2,307.9	2,924.2	3,591.8
EPS (Adjusted) (RMB)	0.35	0.53	0.73	0.93	1.14
Consensus EPS (RMB)	na	na	0.74	0.97	1.29
P/E (x)	20.5	17.0	12.9	10.1	8.3
P/B (x)	3.0	2.8	2.5	2.1	1.8
Yield (%)	1.5	1.9	2.4	3.1	3.8
ROE (%)	15.2	17.8	21.1	22.6	23.4
Net gearing (%)	(18.3)	(11.8)	12.6	11.4	5.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$15.40
(Previous TP) HK\$16.20
Up/Downside 52.5%
Current Price HK\$10.10

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Stock Data

Mkt Cap (HK\$ mn)	32,045.3
Avg 3 mths t/o (HK\$ mn)	38.3
52w High/Low (HK\$)	12.92/6.82
Total Issued Shares (mn)	3172.8

Source: FactSet

Shareholding Structure

Sany Heavy Equipment Investments Company	66.4%
Free float	33.9%

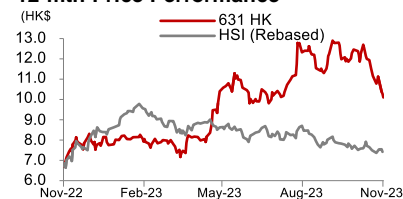
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-18.4%	-15.0%
3-mth	-18.3%	-4.4%
6-mth	-2.9%	13.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

1. SANYI (631 HK, BUY) – Net profit in 2Q23 +19% YoY; Higher R&D spending but still a set of good quality results – 1 Sep 2023 ([link](#))
2. SANYI (631 HK, BUY) – Positive takeaways from Zhuhai plant visit – 26 Jul 2023 ([link](#))
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4. SANYI (631 HK, BUY) – Acquisition of oil & gas frac equipment a positive move – 13 Apr 2023 ([link](#))
5. SANYI (631 HK, BUY) – Core net profit in 2022 +53% YoY in line with expectation; Margin recovery in 4Q – 21 Mar 2023 ([link](#))

Key highlights in 3Q23 results

SANYI's net profit in 3Q23 grew 46% YoY to RMB570mn, largely driven by a strong expansion of gross margin (+7.3ppt YoY, +1.7ppt QoQ) as a result of rising export ratio, favourable FX rates and the effective strategy to focus on high margin products.

In 9M23, net profit grew 37% YoY to RMB1.77bn, accounting for 77% of our full year forecast of RMB2.3bn.

Figure 1: SANYI's quarterly results

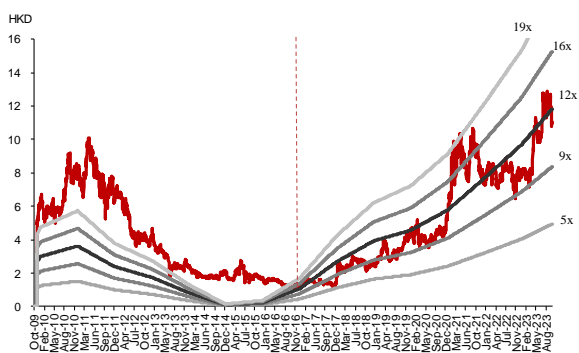
RMB mn	1Q22	1Q23	Chg (YoY)	2Q22	2Q23	Chg (YoY)	3Q22	3Q23	Chg (YoY)	4Q21	4Q22	Chg (YoY)
Revenue	4,116	5,438	32%	3,516	5,401	54%	3,969	4,998	26%	2,653	3,936	48%
Cost of sales	-3,246	-4,108	27%	-2,571	-3,899	52%	-3,090	-3,521	14%	-2,073	-3,002	45%
Gross profit	870	1,330	53%	946	1,502	59%	879	1,476	68%	580	934	61%
Gross margin	21.1%	24.5%		26.9%	27.8%		22.2%	29.5%		21.9%	23.7%	
Pretax profit	509	707	39%	514	733	43%	432	655	52%	194	465	140%
Pretax profit margin	12.4%	13.0%		14.6%	13.6%		10.9%	13.1%		7.3%	11.8%	
Net profit	444	650	46%	462	552	19%	391	570	46%	173	369	113%
Net margin	10.8%	12.0%		13.1%	10.2%		9.8%	11.4%		6.5%	9.4%	
Adjusted net profit	444	650	46%	462	552	19%	391	570	46%	173	369	113%
Adjusted net margin	10.8%	12.0%		13.1%	10.2%		9.8%	11.4%		6.5%	9.4%	

Source: Company data, CMBIGM

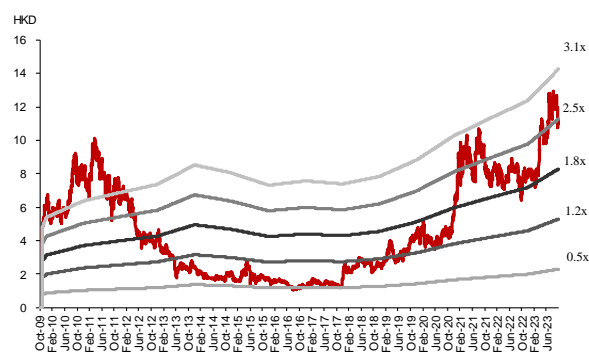
Figure 2: Change in key assumptions

	Old			New			Change		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
(RMB mn)									
Revenue									
Road header	3,321	3,455	3,524	2,600	2,705	2,759	-21.7%	-21.7%	-21.7%
Combined coal mining units (CCMU)	4,007	5,129	6,411	3,621	4,237	4,872	-9.6%	-17.4%	-24.0%
Small-size port machinery	3,942	4,651	5,442	3,860	4,555	5,330	-2.1%	-2.1%	-2.1%
Large-size port machinery	2,066	2,685	3,222	1,928	2,603	3,123	-6.7%	-3.1%	-3.1%
Mining trucks	5,019	7,144	9,086	4,358	6,357	8,400	-13.2%	-11.0%	-7.5%
After sales service	1,250	1,400	1,567	1,250	1,400	1,567	0.0%	0.0%	0.0%
Robot	1,187	1,330	1,489	1,187	1,330	1,489	0.0%	0.0%	0.0%
Lithium battery equipment	600	1,000	1,500	600	1,000	1,500	-	-	-
Oil and gas equipment	1,304	3,131	3,694	1,096	2,410	2,844	-	-	-
Total	22,695	29,924	35,935	20,500	26,596	31,885	-9.7%	-11.1%	-11.3%
Gross margin									
Road header	42.0%	41.0%	41.0%	45.0%	40.0%	40.0%	3.0	(1.0)	(1.0)
Combined coal mining units (CCMU)	17.5%	17.8%	18.0%	18.0%	18.2%	18.3%	0.5	0.4	0.3
Small-size port machinery	25.0%	25.0%	25.0%	29.0%	29.0%	29.0%	4.0	4.0	4.0
Large-size port machinery	11.5%	12.2%	12.7%	12.5%	12.5%	13.0%	1.0	0.3	0.3
Mining trucks	16.5%	17.0%	17.0%	23.0%	24.0%	24.5%	6.5	7.0	7.5
After sales service	38.0%	38.0%	38.0%	40.0%	40.0%	40.0%	2.0	2.0	2.0
Robot	19.0%	20.0%	20.0%	19.0%	20.0%	20.0%	0.0	0.0	0.0
Lithium battery equipment	20.0%	22.0%	25.0%	20.0%	22.0%	25.0%	-	-	-
Oil and gas equipment	35.0%	34.5%	34.5%	35.0%	34.5%	34.5%	-	-	-
Blended gross margin	23.9%	23.8%	23.5%	26.4%	26.0%	26.0%	2.5	2.1	2.5
Change (ppt)									
S&D expense ratio	6.0%	6.0%	6.0%	5.9%	6.0%	6.0%	(0.1)	0.0	0.0
Admin expense ratio	9.2%	9.1%	8.9%	9.1%	9.1%	8.9%	(0.1)	0.0	0.0
Net profit	2,434	3,227	3,875	2,308	2,924	3,592	-5.2%	-9.4%	-7.3%

Source: Company data, CMBIGM estimates

Figure 3: SANYI's P/E band

Source: Bloomberg, Company data, CMBIGM estimates

Figure 4: 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	20,500	26,596	31,885
Cost of goods sold	(5,403)	(7,805)	(11,908)	(15,086)	(19,693)	(23,599)
Gross profit	1,961	2,390	3,628	5,414	6,902	8,286
Selling expense	(430)	(567)	(933)	(1,209)	(1,596)	(1,913)
Admin expense	(707)	(1,053)	(1,177)	(1,865)	(2,420)	(2,838)
Other income	237	391	447	553	745	893
Other expense	(31)	(1)	(25)	(61)	(80)	(96)
Other gains/(losses)	257	347	54	61	133	159
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	1,535	1,756	2,287	3,270	4,146	5,044
Depreciation	249	249	293	378	462	553
EBIT	1,286	1,507	1,994	2,892	3,684	4,492
Interest income	36	51	59	45	38	40
Interest expense	(132)	(120)	(132)	(162)	(181)	(183)
Net Interest income/(expense)	(96)	(69)	(73)	(117)	(143)	(143)
Pre-tax profit	1,190	1,438	1,921	2,775	3,541	4,349
Income tax	(139)	(129)	(252)	(472)	(602)	(739)
After tax profit	1,052	1,309	1,669	2,303	2,939	3,610
Minority interest	(6)	(50)	(4)	5	(15)	(18)
Net profit	1,045	1,259	1,665	2,308	2,924	3,592
Adjusted net profit	1,045	1,087	1,665	2,308	2,924	3,592
Gross dividends	408	385	538	715	907	1,113

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	12,016	14,217	17,191	17,264	22,430	24,343
Cash & equivalents	941	1,349	2,690	2,071	2,106	2,594
Account receivables	3,288	4,272	6,416	7,175	10,458	11,032
Inventories	1,821	2,529	3,283	3,992	5,396	6,113
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	1,088	1,088	1,088
Other current assets	1,583	1,782	1,964	2,187	2,632	2,767
Non-current assets	5,448	6,568	7,763	11,265	12,003	12,750
PP&E	2,591	3,314	4,066	4,928	5,698	6,477
Deferred income tax	296	287	298	298	298	298
Goodwill	1,130	1,130	1,130	3,802	3,802	3,802
Other non-current assets	1,432	1,838	2,269	2,238	2,206	2,174
Total assets	17,464	20,785	24,953	28,529	34,433	37,094
Current liabilities	7,938	9,170	10,836	11,696	15,077	15,034
Short-term borrowings	2,645	1,687	954	1,054	904	754
Account payables	2,893	4,422	6,646	7,407	10,938	11,045
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	4,964	5,264	5,264
Long-term borrowings	493	1,767	2,691	3,641	3,941	3,941
Other non-current liabilities	1,174	1,065	1,323	1,323	1,323	1,323
Total liabilities	9,605	12,002	14,849	16,660	20,341	20,298
Total shareholders equity	7,839	8,701	10,040	11,810	14,018	16,704
Minority interest	20	82	64	59	74	92
Total equity and liabilities	17,464	20,785	24,953	28,529	34,433	37,094

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,190	1,438	1,921	2,775	3,541	4,349
Depreciation & amortization	249	249	293	378	462	553
Tax paid	(108)	(185)	(145)	(472)	(602)	(739)
Change in working capital	105	51	(808)	(931)	(1,601)	(1,318)
Others	(366)	(630)	(177)	117	143	143
Net cash from operations	1,070	923	1,084	1,867	1,944	2,987
Investing						
Capital expenditure	(334)	(885)	(889)	(900)	(1,200)	(1,300)
Acquisition of subsidiaries/ investments	0	0	0	(2,980)	0	0
Others	(313)	589	1,529	(1,935)	38	40
Net cash from investing	(647)	(296)	639	(2,835)	(1,162)	(1,260)
Financing						
Dividend paid	(394)	(451)	(466)	(538)	(715)	(907)
Net borrowings	(132)	(120)	0	(162)	(181)	(183)
Proceeds from share issues	30	26	8	0	0	0
Others	(105)	317	81	1,050	150	(150)
Net cash from financing	(602)	(227)	(377)	350	(746)	(1,239)
Net change in cash						
Cash at the beginning of the year	1,103	941	1,349	2,690	2,071	2,106
Exchange difference	17	8	(6)	0	0	0
Cash at the end of the year	941	1,349	2,690	2,071	2,106	2,594

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

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