

SANY Heavy Industry – A (600031 CH)

2019 net profit +83% YoY in line; Expect a strong 2Q20

SANY Heavy's net profit in 2019 surged 83% YoY to RMB 11.2bn, in line with our estimate of RMB11.1bn and within the range of RMB10.8-11.8bn released by SANY's profit alert statement in Jan. Operating cash inflow in 2019 increased 26% YoY to RMB13.3bn, above the net profit, helped by good working capital management. Proposed DPS of RMB0.42 implied 31.4% payout ratio, with the absolute payout reaching a record high. SANY targets to achieve RMB85bn revenue in 2020E, implying 12% YoY growth. We maintain our bullish stance on SANY as our check suggested that demand for excavators will likely exceed expectations in 2Q, which will serve as a key share price catalyst. We have left our earnings forecast unchanged. Reiterate **BUY** with unchanged TP of RMB23.5 (based on 14.3x 2020E P/E).

- **Key highlights on 2019 results.** Revenue grew 36% YoY to RMB75.7bn in 2019. Revenue of concrete machinery /excavator /crane machinery grew 37%/44%/50% YoY. Gross margin expanded 2.1ppt YoY to 32.7%, driven mainly by 4.6ppt margin expansion on concrete machinery. Administrative expense remained stable at RMB2bn despite the strong revenue growth, indicating stringent cost control. R&D expense increased by 108% YoY to RMB3.6bn as SANY continued to invest in intelligent production and products development. Net profit surged 83% YoY to RMB11.2bn, a historical high.
- **Off balance sheet liabilities increased but acceptable.** As at end-2019, the financial guarantee exposure increased by 49% YoY to RMB23bn. The growth was broadly in line with the revenue growth. Besides, such amount remained far below the peak level of RMB36.7bn reported in 2012. We believe the overall risk is acceptable at present.
- **Key risks:** (1) Failure to contain COVID-19; (2) Risk of overseas business; (3) Increase in raw material cost; (4) Risk of expanding to financing business.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	55,822	75,666	88,022	96,234	101,903
YoY growth (%)	46	36	16	9	6
Net income (RMB mn)	6,116	11,207	13,692	15,503	16,511
EPS (RMB)	0.79	1.36	1.62	1.84	1.96
YoY growth (%)	189.6	71.4	19.8	13.2	6.5
Consensus EPS (RMB)	N/A	N/A	1.584	1.764	2.153
EV / EBITDA (x)	18.0	11.4	9.2	8.4	8.1
P/E (x)	24.2	14.1	11.8	10.4	9.8
P/B (x)	4.7	3.6	3.0	2.5	2.1
Yield (%)	1.5	2.2	2.7	3.0	3.2
ROE (%)	21.5	29.5	27.7	25.8	23.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **RMB23.50**
 (previous TP **RMB23.50**)
 Up/Downside **+23%**
 Current Price **RMB19.11**

China Capital Goods

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Stock Data

Mkt Cap (RMB mn)	161,203
Avg 3 mths t/o (RMB mn)	1,697
52w High/Low (RMB)	20.30/11.17
Total Issued Shares (mn)	8,435.5

Source: Bloomberg

Shareholding Structure

SANY Group	30.0%
Hong Kong CCASS	8.7%
Liang Wengen	3.4%
Others	57.89%

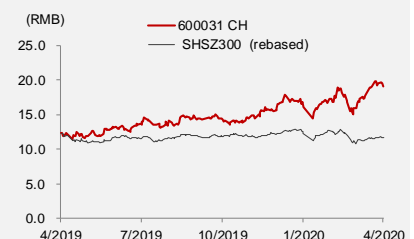
Source: Shanghai Stock Exchange

Share Performance

	Absolute	Relative
1-mth	22.6%	16.7%
3-mth	15.4%	24.2%
6-mth	34.5%	36.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ruihua CPA

Related Reports

1. China Construction Machinery Sector – Lift forecast on excavator on strong demand; BUY SANY & Hengli – 13 Apr 2020
2. China Construction Machinery Sector – Focus on China infrastructure names amid volatile market – 16 Mar 2020
3. SANY Heavy Industry-A (600031 CH, BUY) – To acquire financing company from parent co. – 12 Dec 2019
4. China Construction Machinery Sector – Four structural drivers to extend the upcycle to 2020-21E – 27 Nov 2019

Figure 1: Key highlights on 4Q19 results

	1Q18	1Q19	Change YoY	2Q18	2Q19	Change YoY	3Q18	3Q19	Change YoY	4Q18	4Q19	Change YoY
Total revenue	12,159	21,295	75.1%	15,965	22,092	38.4%	12,954	15,305	18.1%	14,744	16,975	15.1%
Cost of sales	-8,278	-14,754	78.2%	-10,946	-14,594	33.3%	-9,052	-10,247	13.2%	-10,451	-11,337	8.5%
Gross profit	3,881	6,541	68.6%	5,018	7,498	49.4%	3,902	5,057	29.6%	4,293	5,638	31.3%
Other income	-62	-87	40.9%	-95	-129	35.7%	-77	-70	-10.0%	-92	-85	-7.6%
S&D expenses	-1,084	-1,437	32.5%	-1,474	-1,574	6.8%	-874	-1,057	20.9%	-1,014	-1,420	40.1%
Administrative expenses	-628	-992	58.0%	-640	-1,105	72.6%	-822	-1,330	61.8%	-1,710	-2,269	32.7%
Fair value change	223	211	-5.4%	-399	45	n/a	-199	-203	1.9%	13	237	1695.0%
Asset impairment	-192	-160	-16.8%	-213	-315	48.3%	-185	-93	-49.5%	-506	-691	36.6%
EBIT	2,137	4,076	90.7%	2,197	4,419	101.1%	1,744	2,305	32.1%	985	1,410	43.1%
Net finance income/(expense)	-425	-122	-71.2%	195	111	-43.0%	133	152	14.3%	-39	-95	144.1%
Other gains/(losses)	95	-8	n/a	-24	-242	906.6%	-32	413	n/a	455	895	96.7%
Share of profit of JV and associates	27	31	13.5%	35	27	-23.5%	54	23	-57.6%	12	59	384.7%
Pretax profit	1,834	3,976	116.9%	2,403	4,315	79.6%	1,900	2,893	52.3%	1,413	2,270	60.6%
Income tax	-281	-652	131.9%	-441	-704	59.6%	-350	-423	21.0%	-175	-181	3.6%
After tax profit	1,553	3,325	114.1%	1,962	3,611	84.1%	1,551	2,470	59.3%	1,238	2,088	68.6%
MI	-52	-104	97.9%	-74	-84	14.6%	-56	-59	5.6%	-6	-41	640.8%
Net profit	1,500	3,221	114.7%	1,888	3,527	86.8%	1,495	2,411	61.3%	1,233	2,047	66.1%
Ratios:			<i>ppt</i>			<i>ppt</i>			<i>ppt</i>			<i>ppt</i>
Gross margin	31.9%	30.7%	-1.2	31.4%	33.9%	2.5	30.1%	33.0%	2.9	29.1%	33.2%	4.1
EBIT margin	17.6%	19.1%	1.6	13.8%	20.0%	6.2	13.5%	15.1%	1.6	6.7%	8.3%	1.6
After tax profit margin	12.8%	15.6%	2.8	12.3%	16.3%	4.1	12.0%	16.1%	4.2	8.4%	12.3%	3.9

Source: Company data, CMBIS

Figure 2: Key highlights on 2019 results

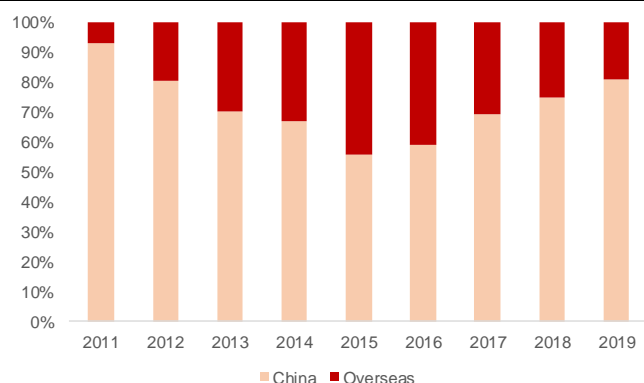
YE Dec 31(RMB mn)	2018	2019	Change (YoY)	2019E	A vs E	1H18	1H19	Change (YoY)	2H18	2H19	Change (YoY)
Total revenue	55,822	75,666	35.5%	76,999	-1.7%	28,124	43,386	54.3%	27,698	32,279	16.5%
Cost of sales	-38,728	-50,932	31.5%	-51,684	-1.5%	-19,225	-29,348	52.7%	-19,503	-21,585	10.7%
Gross profit	17,094	24,733	44.7%	25,314	-2.3%	8,899	14,039	57.8%	8,195	10,695	30.5%
Surcharge	-326	-371	13.6%	-462	-19.7%	-157	-216	37.7%	-169	-155	-8.7%
S&D expenses	-4,447	-5,488	23.4%	-5,390	1.8%	-2,559	-3,011	17.7%	-1,888	-2,477	31.2%
Administrative expenses	-3,800	-5,696	49.9%	-5,005	13.8%	-1,268	-2,097	65.4%	-2,532	-3,599	42.1%
Fair value change	-362	290	-180.1%	0	n/a	-176	255	n/a	-186	34	n/a
Asset impairment	-1,095	-1,259	15.0%	-1,155	9.0%	-405	-475	17.4%	-690	-784	13.6%
EBIT	7,063	12,209	72.9%	13,303	-8.2%	4,334	8,495	96.0%	2,729	3,714	36.1%
Net finance income/(cost)	-136	46	-134.2%	263	-82.3%	-230	-11	-95.1%	95	58	-39.0%
Finance income	344	505	46.9%	687	-26.6%	140	261	87.1%	204	244	19.5%
Finance expenses	-479	-458	-4.3%	-425	8.0%	-370	-272	-26.3%	-109	-186	70.0%
Other gains/(losses)	495	1,059	114.2%	0	n/a	71	-250	-452.3%	424	1,309	208.9%
Share of profit of JV and associates	128	140	8.8%	172	-18.8%	62	57	-7.4%	66	82	23.9%
Pretax profit	7,550	13,454	78.2%	13,737	-2.1%	4,237	8,291	95.7%	3,314	5,163	55.8%
Income tax	-1,247	-1,960	57.2%	-2,267	-13.5%	-722	-1,355	87.7%	-525	-604	15.2%
After tax profit	6,303	11,494	82.4%	11,471	0.2%	3,514	6,936	97.4%	2,789	4,559	63.4%
MI	-187	-288	53.7%	-344	-16.4%	-126	-188	49.2%	-61	-100	63.0%
Net profit	6,116	11,207	83.2%	11,127	0.7%	3,389	6,748	99.1%	2,728	4,459	63.5%
D&A	1,932	2,020	4.6%	1,935	4.4%	951	958	0.7%	981	1,062	8.3%
EBITDA	8,995	14,230	58.2%	15,238	-6.6%	5,285	9,453	78.9%	3,710	4,776	28.7%

Source: Company data, CMBIS estimates

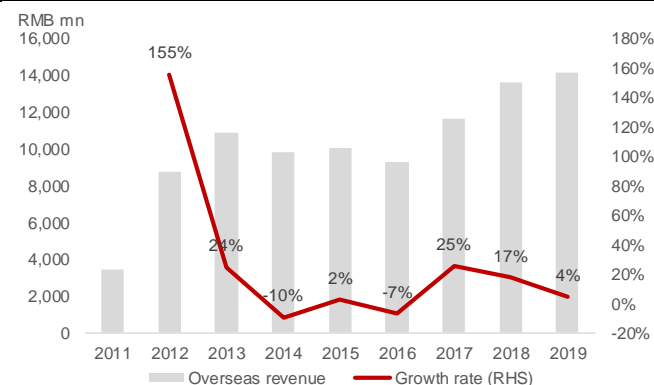
Figure 3: Revenue and gross margin breakdown in 2019

(RMB mn)	2018	2019	Change (YoY)	2019E	A vs E	1H18	1H19	Change (YoY)	2H18	2H19	Change (YoY)
Revenue											
Concrete machinery	16,964	23,200	36.8%	25,625	-9.5%	8,549	12,923	51.2%	8,415	10,277	22.1%
Excavator	19,247	27,624	43.5%	25,125	9.9%	11,160	15,910	42.6%	8,087	11,714	44.9%
Crane machinery	9,347	13,979	49.6%	13,914	0.5%	4,102	8,500	107.2%	5,245	5,479	4.4%
Piling machinery	4,691	4,810	2.5%	5,876	-18.2%	2,165	2,964	36.9%	2,525	1,846	-26.9%
Earth moving machinery	2,132	2,148	0.7%	2,673	-19.7%	869	1,250	43.9%	1,264	898	-29.0%
Other machinery	1,956	2,166	10.7%	2,151	0.7%	760	948	24.7%	1,195	1,217	1.9%
Revenue (construction machinery)	54,336	73,926	36.1%	75,365	-1.9%	27,605	42,495	53.9%	26,731	31,431	17.6%
Other business	1,485	1,740	17.2%	1,634	6.5%	519	891	71.8%	966	849	-12.2%
Total revenue	55,822	75,666	35.5%	76,999	-1.7%	28,124	43,386	54.3%	27,698	32,279	16.5%
Gross margin			<i>Change (ppt)</i>		<i>ppt</i>			<i>Change (ppt)</i>			<i>Change (ppt)</i>
Concrete machinery	25.2%	29.8%	4.6	31.0%	-1.2	23.8%	29.6%	5.8	26.7%	30.2%	3.4
Excavator	38.7%	38.6%	(0.0)	36.8%	1.8	40.8%	36.8%	(3.9)	35.8%	41.1%	5.3
Crane machinery	24.8%	24.3%	(0.6)	26.5%	-2.2	24.6%	25.8%	1.3	25.1%	21.8%	(3.2)
Piling machinery	37.3%	45.4%	8.1	44.5%	0.9	36.8%	44.4%	7.6	37.7%	47.0%	9.3
Earth moving machinery	31.3%	36.9%	5.5	36.5%	0.4	32.4%	36.5%	4.1	30.6%	37.4%	6.8
Other machinery	22.7%	29.0%	6.3	31.0%	-2.0	22.4%	31.2%	8.8	22.9%	27.3%	4.4
Gross margin (construction machinery)	31.1%	33.3%	2.1	33.4%	-0.1	32.0%	32.8%	0.8	30.2%	33.9%	3.7
Other business	12.5%	8.4%	(4.1)	11.0%	-2.6	11.6%	10.5%	(1.1)	13.0%	6.1%	(6.9)
Blended gross margin	30.6%	32.7%	2.1	32.9%	-0.2	31.6%	32.4%	0.7	29.6%	33.1%	3.5

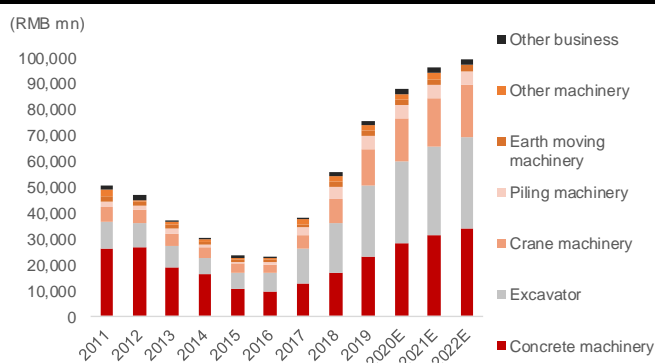
Source: Company data, CMBIS estimates

Figure 4: SANY's revenue breakdown by region

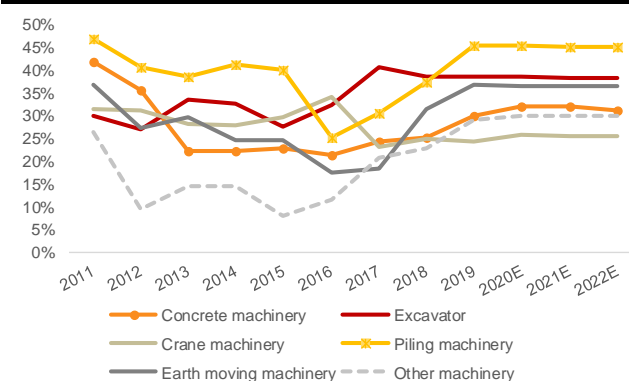
Source: Company data, CMBIS

Figure 5: SANY's overseas revenue

Source: Company data, CMBIS

Figure 6: SANY revenue breakdown

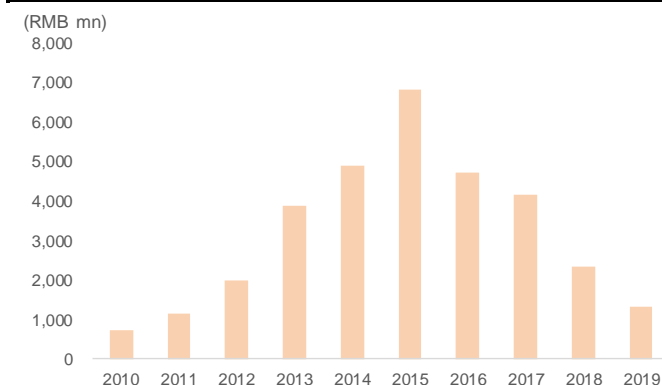
Source: Company data, CMBIS estimates

Figure 7: SANY gross margin trend

Source: Company data, CMBIS estimates

Figure 8: Financial guarantee issued by SANY

Source: Company data, CMBIS

Figure 9: Write-off due to customers' default

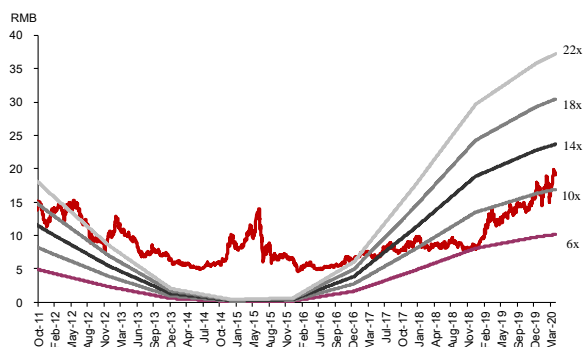
Source: Company data, CMBIS

Figure 10: Key operating assumptions

(RMB mn)	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Revenue											
Concrete machinery	26,509	19,030	16,022	10,474	9,503	12,600	16,964	23,200	28,036	31,401	33,913
Excavator	9,499	7,920	6,657	6,118	7,470	13,669	19,247	27,624	31,689	34,110	35,384
Crane machinery	5,307	5,036	4,019	3,855	2,710	5,244	9,347	13,979	16,872	18,728	20,164
Piling machinery	1,350	2,137	1,251	499	1,187	2,913	4,691	4,810	5,062	5,315	5,474
Earth moving machinery	1,543	1,489	1,019	964	875	1,343	2,132	2,148	2,262	2,375	2,446
Other machinery	808	729	737	769	1,030	1,887	1,956	2,166	2,274	2,388	2,507
Revenue (construction machinery)	45,017	36,340	29,705	22,679	22,773	37,657	54,336	73,926	86,195	94,316	99,888
Other business	1,814	987	660	688	507	678	1,485	1,740	1,827	1,918	2,014
Total revenue	46,831	37,328	30,365	23,367	23,280	38,335	55,822	75,666	88,022	96,234	101,903
Revenue growth											
Concrete machinery	1.8%	-28.2%	-15.8%	-34.6%	-9.3%	32.6%	34.6%	36.8%	20.8%	12.0%	8.0%
Excavator	-9.3%	-16.6%	-15.9%	-8.1%	22.1%	83.0%	40.8%	43.5%	14.7%	7.6%	3.7%
Crane machinery	-7.7%	-5.1%	-20.2%	-4.1%	-29.7%	93.5%	78.3%	49.6%	20.7%	11.0%	7.7%
Piling machinery	-39.7%	58.3%	-41.5%	-60.1%	137.7%	145.5%	61.0%	2.5%	5.2%	5.0%	3.0%
Earth moving machinery	-7.8%	-3.5%	-31.6%	-5.4%	-9.3%	53.6%	58.7%	0.7%	5.3%	5.0%	3.0%
Other machinery	-72.0%	-9.8%	1.1%	4.3%	34.0%	83.3%	3.6%	10.7%	5.0%	5.0%	5.0%
Revenue (construction machinery)	-8.3%	-19.3%	-18.3%	-23.7%	0.4%	65.4%	44.3%	36.1%	16.6%	9.4%	5.9%
Other business	6.1%	-45.6%	-33.2%	4.3%	-26.4%	33.9%	118.9%	17.2%	5.0%	5.0%	5.0%
Total revenue	-7.8%	-20.3%	-18.7%	-23.0%	-0.4%	64.7%	45.6%	35.5%	16.3%	9.3%	5.9%
Gross margin											
Concrete machinery	35.7%	22.3%	22.1%	22.8%	21.5%	24.2%	25.2%	29.8%	32.0%	32.0%	31.0%
Excavator	27.1%	33.6%	32.6%	27.5%	32.4%	40.6%	38.7%	38.6%	38.6%	38.4%	38.2%
Crane machinery	31.2%	28.0%	27.8%	29.7%	34.0%	23.0%	24.8%	24.3%	25.7%	25.5%	25.5%
Piling machinery	40.8%	38.6%	41.2%	40.1%	25.2%	30.7%	37.3%	45.4%	45.5%	45.0%	45.0%
Earth moving machinery	27.2%	29.6%	24.6%	24.5%	17.4%	18.2%	31.3%	36.9%	36.5%	36.5%	36.5%
Other machinery	9.3%	14.6%	14.3%	7.9%	11.6%	20.9%	22.7%	29.0%	30.0%	30.0%	30.0%
Gross margin (construction machinery)	32.7%	26.7%	25.9%	25.2%	26.1%	30.1%	31.1%	33.3%	34.1%	33.8%	33.3%
Other business	7.0%	8.0%	19.0%	10.3%	28.9%	27.7%	12.5%	8.4%	11.0%	11.0%	11.0%
Blended gross margin	31.7%	26.2%	25.8%	24.8%	26.2%	30.1%	30.6%	32.7%	33.6%	33.4%	32.9%

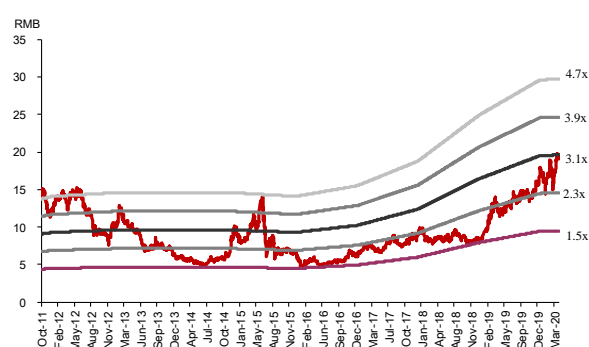
Source: Company data, CMBIS

Figure 11: SANY's P/E band



Source: Company data, CMBIS estimates

Figure 12: SANY's P/B band



Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	55,822	75,666	88,022	96,234	101,90
Cost of sales	-38,728	-50,932	-58,470	-64,126	-68,401
Gross profit	17,094	24,733	29,552	32,108	33,501
Surcharge	-326	-371	-440	-481	-510
S&D expenses	-4,447	-5,488	-5,985	-6,255	-6,522
Administrative expenses	-3,800	-5,696	-6,162	-6,640	-6,929
Fair value change	-362	290	0	0	0
Asset impairment	-1,095	-1,259	-1,408	-1,444	-1,529
EBIT	7,063	12,209	15,556	17,288	18,012
Net finance income/(cost)	-136	46	387	832	1,341
Finance income	344	505	816	1,252	1,759
Finance expenses	-479	-458	-429	-420	-418
Other gains/(losses)	495	1,059	300	300	300
Profit of JV and associates	128	140	202	200	177
Pretax profit	7,550	13,454	16,444	18,619	19,830
Income tax	-1,247	-1,960	-2,401	-2,718	-2,895
After tax profit	6,303	11,494	14,044	15,901	16,935
MI	-187	-288	-351	-398	-423
Net profit	6,116	11,207	13,692	15,503	16,511
D&A	1,932	2,020	2,031	2,043	2,053
EBITDA	8,995	14,230	17,587	19,331	20,066

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pretax profit	7,550	13,454	16,444	18,619	19,830
Finance cost	388	120	429	420	418
Interest income	-344	-505	-816	-1,252	-1,759
Profit or loss of associates	-128	-140	-202	-200	-177
Fair value change	-276	-673	0	0	0
Provision for assets	-8	249	0	0	0
Depreciation and amortization	1,932	2,020	2,031	2,043	2,053
Income tax paid	-1,247	-1,960	-2,401	-2,718	-2,895
Change in working capital	1,788	531	-1,240	-2,041	-653
Others	870	167	0	0	0
Cash flow from operation	10,527	13,265	14,247	14,872	16,818
Net capex on PP&E	-1,003	-2,157	-1,500	-1,000	-1,000
Investment in JV/associates	-648	-11	-50	-50	0
Investment in subsidiaries	311	153	0	0	0
Dividend received	13	14	20	20	0
Interest received	344	505	816	1,252	1,759
Others	-9,781	-10,485	-70	0	0
Cash flow from investing	-10,765	-11,981	-784	222	759
Equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	1,584	1,756	-300	-200	100
Dividend paid	-1,233	-2,165	-3,516	-4,313	-4,884
Interest paid	-479	-458	-429	-420	-418
Others	955	-283	0	0	0
Cash flow from financing	827	-1,151	-4,245	-4,933	-5,202
Change in cash	589	134	9,218	10,161	12,375
Cash at beginning of the year	4,104	11,985	13,527	22,744	32,905
Exchange and others	7,293	1,408	0	0	0
Cash at the end of the year	11,985	13,527	22,744	32,905	45,280

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	21,879	22,041	21,169	21,178	19,603
PP&E	11,867	10,615	10,446	9,767	9,077
JV/associates	2,328	2,985	3,217	3,447	3,624
Goodwill	51	49	49	49	49
LT trade receivables	366	1,286	643	1,466	768
Intangible assets	3,880	3,339	3,048	2,683	2,319
AFS investments	1,121	0	0	0	0
Others	1,115	2,656	2,656	2,656	2,656
Deferred tax assets	1,152	1,109	1,109	1,109	1,109
Current assets	51,896	68,500	82,904	95,225	110,46
Inventories	11,595	14,252	14,583	17,041	16,691
Trade and bills receivables	20,802	21,793	27,403	25,855	29,982
Other receivables	1,704	3,030	2,275	3,525	2,617
Others	3,272	6,897	6,897	6,897	6,897
Cash	11,985	13,527	22,744	32,905	45,280
Current liabilities	33,935	42,149	45,452	46,494	48,112
Trade and bills payables	17,191	20,295	23,598	24,540	26,058
Bank borrowings	8,336	10,771	10,771	10,871	10,971
Tax payable	524	1,490	1,490	1,490	1,490
Others	3,567	4,162	4,162	4,162	4,162
Non-current liabilities	7,337	2,866	2,566	2,266	2,266
Bank borrowings	5,974	1,303	1,003	703	703
Deferred tax liabilities	650	714	714	714	714
Others	471	728	728	728	728
Equity	32,502	45,527	56,054	67,642	79,693
Shareholders' equity	31,485	44,421	54,598	65,788	77,416
MI	1,017	1,106	1,457	1,854	2,278

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Concrete machinery	30%	31%	32%	33%	33%
Excavator	34%	37%	36%	35%	35%
Crane machinery	17%	18%	19%	19%	20%
Piling machinery	8%	6%	6%	6%	5%
Earth moving machinery	4%	3%	3%	2%	2%
Other machinery	4%	3%	3%	2%	2%
Other business	3%	2%	2%	2%	2%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	30.6	32.7	33.6	33.4	32.9
EBIT margin	12.7	16.1	17.7	18.0	17.7
Net profit margin	11.3	15.2	16.0	16.5	16.6
Growth (%)					
Revenue	45.6	35.5	16.3	9.3	5.9
Gross profit	48.3	44.7	19.5	8.6	4.3
EBIT	n/a	72.9	27.4	11.1	4.2
Net profit	192.3	83.2	22.2	13.2	6.5
Balance sheet ratio					
Current ratio (x)	1.5	1.6	1.8	2.0	2.3
Receivable turnover days	133	107	106	105	104
Inventory turnover days	91	93	90	90	90
Payable turnover days	133	134	137	137	135
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	9.3	13.6	14.1	14.1	13.4
ROE	21.5	29.5	27.7	25.8	23.1
Per share data					
EPS (RMB)	0.79	1.36	1.62	1.84	1.96
BVPS (RMB)	4.04	5.27	6.47	7.80	9.18
DPS (RMB)	0.28	0.43	0.51	0.58	0.62

Source: Company data, CMBIS estimates

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