

SANY International (631 HK)

Solar power business remains major investor concern during site visit

We attended SANYI's 2023 post-results meeting together with >70 investors and analysts in the Company's production base in Zhuhai on 28 Mar. During the meeting, most of the questions were related to the solar power business. Given SANYI's determination to invest in solar power over the coming years, together with our lower estimates for the existing business, we revise down our 2024E/25E earnings forecast by 27%/30%. We forecast its net debt/equity ratio in 2024E/25E will further increase from the level of 21% as at end-2023. Putting solar aside, we expect overseas large mining trucks & telescopic handlers will help counter the potential down-cycle of coal mining machinery. Trading at 7x 2024E P/E, we believe the recent de-rating has largely reflected the risks. Maintain **BUY** with a new TP of HK\$8, based on 11x 2024E P/E, equivalent to the historical average (previously 19x 2023E P/E).

■ **Investors' concerns on solar business.** Most investors are concerned that stepping into such a highly competitive industry with substantial capex may erode profit and exert pressure on the balance sheet. Management did not provide a precise capex guidance, but reiterated that it's necessary to invest in solar in order to achieve business diversification. Currently, SANYI has 5GW of solar cell & module capacity. SANYI targets to deliver RMB5bn revenue in 2024E, comprising ~RMB3.45bn from solar products, RMB150mn from equipment, and RMB1.4bn from solar farms and EPC. Management believes part of the investment in solar farms could be recycled through disposal, which will help reduce the cash flow pressure.

■ **Large mining truck a key driver in 2024E.** Revenue from large mining trucks surged 4.9x YoY to RMB1.1bn in 2023. SANYI targets to achieve RMB1.8bn of sales (VAT-included) in 2024E, driven mainly by overseas markets such as Russia and Indonesia. SANYI has already localized sales and production in Indonesia, and plans to achieve localisation in Russia in future.

■ **Telescopic handler (伸縮臂叉車) another growth driver.** Revenue from telescopic handlers surged 2.6x YoY to RMB760mn in 2023. SANYI targets to achieve RMB1.5bn of sales (VAT-included) in 2024E (overseas sales: 90%), as a key growth driver in the logistics equipment segment. Since the telescopic handlers are manufactured at SANYI's India production base, they are not subject to tariffs imposed by the US or the EU.

■ **Solid backlog for large-size port machinery.** Large-size port machinery revenue was RMB1.2bn in 2023, which is below our expectations as some customers postponed the delivery to 2024E. SANYI targets to achieve RMB1.3bn of overseas sales in 2024E (up from RMB750mn in 2023). The current backlog of RMB3.6bn (from customers such as PSA, Maersk) provides visibility to revenue in 2024E/25E.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	15,537	20,278	26,717	30,513	34,629
YoY growth (%)	52.4	30.5	31.8	14.2	13.5
Adjusted net profit (RMB mn)	1,664.9	1,929.0	2,131.3	2,508.8	3,019.4
YoY growth (%)	53.2	15.9	10.5	17.7	20.4
EPS (Adjusted) (RMB)	0.53	0.61	0.67	0.79	0.95
Consensus EPS (RMB)	na	na	0.97	1.23	na
P/E (x)	8.8	7.7	6.9	5.9	4.9
P/B (x)	1.5	1.3	1.1	1.0	0.9
Yield (%)	3.7	3.8	4.2	4.9	5.9
ROE (%)	17.8	17.8	17.2	17.8	18.6
Net gearing (%)	(11.8)	21.2	30.8	32.8	24.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$8.00**

(Previous TP) HK\$15.40

Up/Downside **59.0%**

Current Price **HK\$5.03**

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Stock Data

Mkt Cap (HK\$ mn)	15,959.2
Avg 3 mths t/o (HK\$ mn)	41.7
52w High/Low (HK\$)	12.92/5.03
Total Issued Shares (mn)	3172.8

Source: FactSet

Shareholding Structure

Sany Heavy Equipment	66.4%
Investments Company	
Free float	33.9%

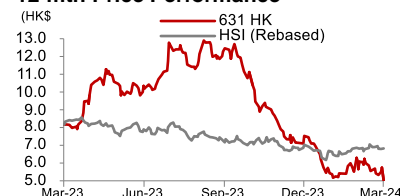
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-11.1%	-11.2%
3-mth	-33.2%	-31.2%
6-mth	-59.6%	-57.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

- SANYI (631 HK, BUY) - Weak revenue growth in the price; overseas growth story still intact – 2 Nov 2023 ([link](#))
- 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](#))
- SANYI (631 HK, BUY) – Positive takeaways from Zhuhai plant visit – 26 Jul 2023 ([link](#))
- SANYI (631 HK, BUY) – Firing on all cylinders – 8 Jun 2023 ([link](#))
- SANYI (631 HK, BUY) – Acquisition of oil & gas frac equipment a positive move – 13 Apr 2023 ([link](#))

Key highlights in 2023 results

SANYI's net profit in 2023 grew only 16% YoY to RMB1.9bn (below our estimate of RMB2.3bn), implying a 57% YoY decline in net profit in 4Q23.

The lower-than-expected results in 2023 came from (1) a lower-than-expected oil and gas equipment segment profit in 2H23, (2) a 1.6x YoY increase in the impairment of receivables, and (3) a 88% YoY increase in administrative expenses due to a 96% YoY increase in R&D expenses (to RMB1.68bn).

Besides, the capex in 2023 increased 1.1x YoY to RMB3.28bn as a result of investment in emerging industry equipment segment (mainly solar power and hydrogen). As at end-2023, the net debt/equity ratio was 21%, versus net cash over the past few years.

Figure 1: SANYI's quarterly results

RMB mn	1Q22	1Q23	Chg (YoY)	2Q22	2Q23	Chg (YoY)	3Q22	3Q23	Chg (YoY)	4Q22	4Q23	Chg (YoY)
Revenue	4,116	5,438	32%	3,516	5,401	54%	3,969	4,998	26%	3,936	4,441	13%
Cost of sales	(3,246)	(4,108)	27%	(2,571)	(3,899)	52%	(3,090)	(3,521)	14%	(3,002)	(3,303)	10%
Gross profit	870	1,330	53%	946	1,502	59%	879	1,476	68%	934	1,139	22%
Gross margin	21.1%	24.5%		26.9%	27.8%		22.2%	29.5%		23.7%	25.6%	
Pretax profit	509	707	39%	514	733	43%	432	655	52%	465	165	-65%
Pretax profit margin	12.4%	13.0%		14.6%	13.6%		10.9%	13.1%		11.8%	3.7%	
Net profit	444	650	46%	462	552	19%	391	570	46%	369	157	-57%
Net margin	10.8%	12.0%		13.1%	10.2%		9.8%	11.4%		9.4%	3.5%	
Adjusted net profit	444	650	46%	462	552	19%	391	570	46%	369	157	-57%
Adjusted net margin	10.8%	12.0%		13.1%	10.2%		9.8%	11.4%		9.4%	3.5%	

Source: Company data, CMBIGM

Figure 2: 2023 results highlights

YE Dec 31 (RMB mn)	2022	2023	Change (YoY)	1H22	1H23	Change (YoY)	2H22	2H23	Change (YoY)
Total sales	15,537	20,278	30.5%	7,632	10,839	42.0%	7,905	9,439	19.4%
Cost of sales	(11,908)	(14,831)	24.5%	(5,816)	(8,007)	37.7%	(6,092)	(6,824)	12.0%
Gross profit	3,628	5,447	50.1%	1,815	2,832	56.0%	1,813	2,615	44.2%
Other income	447	441	-1.4%	250	298	19.3%	197	143	-27.5%
Other gains and losses	54	(144)	n/a	(38)	(122)	225.3%	92	(22)	n/a
S&D expenses	(933)	(1,262)	35.3%	(401)	(536)	33.7%	(532)	(726)	36.5%
Administrative expenses	(1,177)	(2,213)	88.0%	(563)	(968)	72.0%	(614)	(1,245)	102.7%
Other expenses	(25)	(42)	70.0%	(1)	(49)	6488.3%	(24)	6	n/a
EBIT	1,994	2,226	11.6%	1,063	1,455	36.9%	931	770	-17.3%
Net finance income/(cost)	(73)	35	n/a	(39)	(15)	-62.7%	(34)	49	n/a
Finance income	59	193	229.0%	33	59	77.6%	25	134	428.6%
Finance expenses	(132)	(158)	20.0%	(73)	(74)	1.9%	(59)	(84)	42.2%
Share of profit of JV and associates	0	0	n/a	0	0	n/a	0	0	n/a
Pretax profit	1,921	2,260	17.7%	1,024	1,441	40.7%	897	820	-8.6%
Income tax	(252)	(422)	67.4%	(111)	(257)	131.1%	(141)	(164)	17.0%
After tax profit	1,669	1,839	10.2%	913	1,183	29.7%	756	655	-13.4%
MI	(4)	90	n/a	(7)	19	n/a	3	72	2587.5%
Net profit	1,665	1,929	15.9%	906	1,202	32.7%	759	727	-4.2%
D&A	293	525	79.6%	158	196	23.5%	134	330	145.8%
EBITDA	2,287	2,751	20.3%	1,222	1,651	35.1%	1,065	1,100	3.3%

Source: Company data, CMBIGM

Figure 3: Revenue and EBIT breakdown in 2023

(RMB mn)	2022	2023	Change (YoY)	1H22	1H23	Change (YoY)	2H22	2H23	Change (YoY)
Revenue									
<u>Mining equipment</u>	11,377	12,952	13.8%	5,640	7,393	31.1%	5,737	5,559	-3.1%
Sales	10,980	12,604	14.8%	5,480	7,214	31.7%	5,501	5,390	-2.0%
Others	397	348	-12.2%	161	179	11.3%	236	170	-28.2%
<u>Logistics equipment</u>	4,798	6,011	25.3%	2,241	3,172	41.5%	2,557	2,839	11.0%
Sales	4,607	5,821	26.3%	2,152	3,066	42.4%	2,455	2,755	12.2%
Others	191	190	-0.3%	89	106	18.9%	102	84	-17.1%
<u>Oil & Gas equipment</u>	-	1,517		-	335		-	1,181	
Sales	-	1,502		-	336		-	1,166	
Others	-	14		-	(1)		-	15	
<u>Emerging industry equipment</u>	-	466		-	223		-	243	
Sales	-	497		-	223		-	274	
Others	-	(31)		-	(0)		-	(31)	
Total sales	15,588	20,424	31.0%	7,632	10,839	42.0%	7,956	9,585	20.5%
Segment EBIT									
Mining equipment	1,552	1,591	2.5%	855	880	2.9%	697	712	2.1%
Logistics machinery	442	811	83.7%	208	505	142.5%	233	306	31.2%
Oil & Gas equipment	0	117	-	-	57	-	0	60	-
Emerging industry equipment	0	(295)	-	-	(1)	-	0	(294)	-
Total segment results	1,994	2,224	11.6%	1,063	1,441	35.5%	931	1,018	9.4%
Segment margin						<i>ppt</i>			<i>ppt</i>
<i>Mining equipment</i>	14.1%	12.6%	-0.2	15.6%	12.2%	-3.4	12.7%	13.2%	0.5
<i>Logistics machinery</i>	9.6%	13.9%	0.1	9.7%	16.5%	6.8	9.5%	11.1%	1.6
<i>Oil & Gas equipment</i>	0.0%	7.8%	-	-	17.0%	-	-	5.1%	-
<i>Emerging industry equipment</i>	0.0%	-59.3%	-	-	-0.5%	-	-	-107.3%	-
Average	12.8%	10.9%	-0.1	13.9%	13.3%	-0.6	11.7%	10.6%	-1.1

Source: Company data, CMBIGM

Figure 4: Revenue breakdown by region

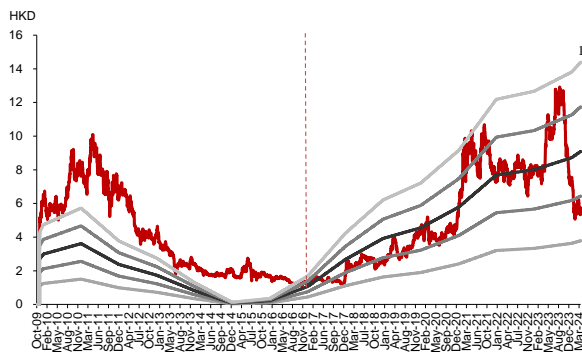
Region	2022	2023
(RMB mn)		
Mainland China	11,314	13,916
Asia (ex-China)	2,490	2,824
European Union	186	271
USA	549	478
Russia	549	1,512
Africa	339	544
Others	110	733
Total	15,537	20,278
Change (YoY)		
Mainland China	39.7%	23.0%
Asia (ex-China)	137.6%	13.4%
European Union	-30.9%	45.9%
USA	62.5%	-12.9%
Russia		175.6%
Africa		60.3%
Others	-75.0%	566.0%
Average	52.4%	30.5%
Breakdown		
Mainland China	72.8%	68.6%
Asia (ex-China)	16.0%	13.9%
European Union	1.2%	1.3%
USA	3.5%	2.4%
Russia	3.5%	7.5%
Africa	2.2%	2.7%
Others	0.7%	3.6%
Average	100.0%	100.0%

Source: Company data, CMBIGM

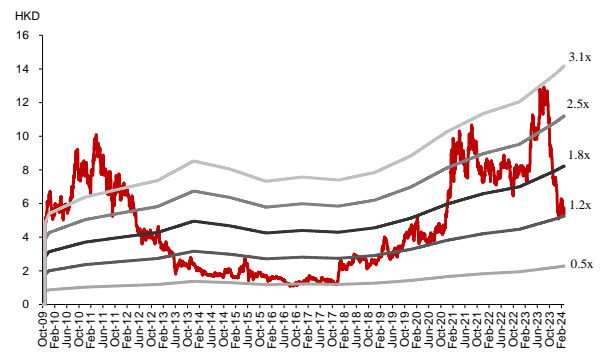
Figure 5: Change in key assumptions

	Old			New			Change		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
(RMB mn)									
Revenue									
Road header	2,705	2,759	-	2,495	2,545	2,622	-7.7%	-7.7%	-
Combined coal mining units (CCMU)	4,237	4,872	-	3,983	4,302	4,646	-6.0%	-11.7%	-
Small-size port machinery	4,555	5,330	-	5,952	7,023	8,288	30.7%	31.8%	-
Large-size port machinery	2,603	3,123	-	1,620	1,831	2,050	-37.8%	-41.4%	-
Mining trucks	6,357	8,400	-	4,768	5,490	6,056	-25.0%	-34.6%	-
After sales service	1,400	1,567	-	1,680	2,016	2,419	20.0%	28.6%	-
Robot	1,330	1,489	-	880	968	1,065	-33.8%	-35.0%	-
Lithium battery equipment	1,000	1,500	-	308	462	624	-69.2%	-69.2%	-
Oil and gas equipment	2,410	2,844	-	2,410	2,772	3,188	0.0%	-2.5%	-
Solar power	-	-	-	2,500	2,875	3,306	-	-	-
Hydrogen	-	-	-	120	228	365	-	-	-
Total	26,596	31,885	-	26,717	30,513	34,629	0.5%	-4.3%	-
Gross margin									
Road header	40.0%	40.0%	-	40.0%	39.7%	39.5%	0.0	(0.3)	-
Combined coal mining units (CCMU)	18.2%	18.3%	-	18.2%	18.1%	18.0%	0.0	(0.2)	-
Small-size port machinery	29.0%	29.0%	-	32.3%	32.4%	32.5%	3.3	3.4	-
Large-size port machinery	12.5%	13.0%	-	11.0%	11.5%	12.0%	(1.5)	(1.5)	-
Mining trucks	24.0%	24.5%	-	21.0%	21.0%	21.0%	(3.0)	(3.5)	-
After sales service	40.0%	40.0%	-	40.0%	40.0%	40.0%	0.0	0.0	-
Robot	20.0%	20.0%	-	20.0%	20.0%	21.0%	0.0	0.0	-
Lithium battery equipment	22.0%	25.0%	-	20.0%	20.0%	20.0%	(2.0)	(5.0)	-
Oil and gas equipment	34.5%	34.5%	-	34.5%	34.5%	34.0%	0.0	0.0	-
Solar power	-	-	-	10.0%	12.0%	15.0%	-	-	-
Hydrogen	-	-	-	-10.0%	0.0%	5.0%	-	-	-
Blended gross margin	26.0%	26.0%	-	25.5%	25.6%	26.0%	(0.5)	(0.4)	-
S&D expense ratio	6.0%	6.0%	-	6.3%	6.3%	6.3%	0.3	0.3	-
Admin expense ratio	9.1%	8.9%	-	11.5%	11.2%	11.0%	2.4	2.3	-
Net profit	2,924	3,592	-	2,131	2,509	3,019	-27.1%	-30.2%	-

Source: Company data, CMBIGM estimates

Figure 6: SANYI's P/E band

Source: Bloomberg, Company data, CMBIGM estimates

Figure 7: SANYI's P/B band

Source: Bloomberg, Company data, CMBIGM estimates

- **Major risk factors:** (1) weakness of coal mining activities in China; (2) higher-than-expected loss from emerging business; and (3) a rebound of raw material costs.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	10,195	15,537	20,278	26,717	30,513	34,629
Cost of goods sold	(7,805)	(11,908)	(14,831)	(19,913)	(22,691)	(25,632)
Gross profit	2,390	3,628	5,447	6,804	7,822	8,997
Selling expense	(567)	(933)	(1,262)	(1,683)	(1,922)	(2,182)
Admin expense	(1,053)	(1,177)	(2,213)	(3,072)	(3,417)	(3,809)
Other income	391	447	441	588	671	762
Other expense	(1)	(25)	(42)	(53)	(61)	(69)
Other gains/(losses)	347	54	(144)	53	61	69
Share of (losses)/profits of associates/JV	0	0	0	3	3	4
EBITDA	1,756	2,287	2,751	3,454	4,147	4,902
Depreciation	249	293	525	815	990	1,130
EBIT	1,507	1,994	2,226	2,639	3,157	3,772
Interest income	51	59	193	186	168	174
Interest expense	(120)	(132)	(158)	(303)	(325)	(337)
Net interest income/(expense)	(69)	(73)	35	(116)	(157)	(162)
Pre-tax profit	1,438	1,921	2,260	2,523	3,000	3,610
Income tax	(129)	(252)	(422)	(454)	(540)	(650)
After tax profit	1,309	1,669	1,839	2,069	2,460	2,960
Minority interest	(50)	(4)	90	62	49	59
Net profit	1,259	1,665	1,929	2,131	2,509	3,019
Adjusted net profit	1,087	1,665	1,929	2,131	2,509	3,019
Gross dividends	385	538	556	618	728	876
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	14,217	17,191	20,778	24,684	24,607	30,003
Cash & equivalents	1,349	2,690	3,241	2,348	2,007	2,780
Account receivables	4,272	6,416	8,356	11,114	11,456	14,159
Inventories	2,529	3,283	3,432	4,969	4,853	6,383
Prepayment	585	700	1,261	1,261	1,261	1,261
ST bank deposits	21	50	43	43	43	43
Financial assets at FVTPL	3,680	2,088	2,160	2,160	2,160	2,160
Other current assets	1,782	1,964	2,284	2,787	2,825	3,215
Non-current assets	6,568	7,763	14,185	16,372	17,885	18,759
PP&E	3,314	4,066	7,276	9,669	11,388	12,466
Deferred income tax	287	298	336	336	336	336
Goodwill	1,130	1,130	2,537	2,537	2,537	2,537
Other non-current assets	1,838	2,269	4,036	3,830	3,624	3,419
Total assets	20,785	24,953	34,963	41,056	42,493	48,762
Current liabilities	9,170	10,836	16,173	20,253	19,548	23,584
Short-term borrowings	1,687	954	2,653	2,853	3,103	3,203
Account payables	4,422	6,646	8,098	11,978	11,023	14,959
Tax payable	185	155	237	237	237	237
Other current liabilities	2,875	3,080	5,184	5,184	5,184	5,184
Non-current liabilities	2,832	4,014	7,252	7,752	8,052	8,052
Long-term borrowings	1,767	2,691	5,249	5,749	6,049	6,049
Other non-current liabilities	1,065	1,323	2,003	2,003	2,003	2,003
Total liabilities	12,002	14,849	23,425	28,005	27,600	31,636
Total shareholders equity	8,701	10,040	11,589	13,165	15,055	17,347
Minority interest	82	64	(51)	(113)	(162)	(222)
Total equity and liabilities	20,785	24,953	34,963	41,056	42,493	48,762

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,438	1,921	2,260	2,523	3,000	3,610
Depreciation & amortization	249	293	525	815	990	1,130
Tax paid	(185)	(145)	(422)	(454)	(540)	(650)
Change in working capital	51	(808)	1,300	(918)	(1,219)	(687)
Others	(630)	(177)	(1,140)	113	154	158
Net cash from operations	923	1,084	2,524	2,079	2,384	3,562
Investing						
Capital expenditure	(885)	(889)	(3,298)	(3,000)	(2,500)	(2,000)
Acquisition of subsidiaries/ investments	0	0	(2,980)	0	0	0
Others	589	1,529	(1,667)	187	168	175
Net cash from investing	(296)	639	(4,965)	(2,813)	(2,332)	(1,825)
Financing						
Dividend paid	(451)	(466)	(538)	(556)	(618)	(728)
Net borrowings	(120)	0	0	(303)	(325)	(337)
Proceeds from share issues	26	8	0	0	0	0
Others	317	81	3,499	700	550	100
Net cash from financing	(227)	(377)	2,961	(159)	(393)	(964)
Net change in cash						
Cash at the beginning of the year	941	1,349	2,690	3,241	2,348	2,007
Exchange difference	8	(6)	32	0	0	0
Cash at the end of the year	1,349	2,690	3,241	2,348	2,007	2,780

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

Disclosures & Disclaimers

Analyst Certification

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