

SANY International (631 HK)

Good crisis management to remove impact of power suspension; Solid coal mining equipment order intakes

SANYI held a conference call last Friday to update the latest development of power suspension: (1) The Company has already shifted more than half of the production process to nighttime which is free from power outage; (2) The switch to suppliers outside Liaoning will help secure component supplies; (3) The Company saw good order intakes of road headers and other coal mining machines. We believe SANYI demonstrates good crisis management to mitigate the impact and put the capacity utilization rate back to normal within a short period of time. We maintain our TP of HK\$14.3 (based on 23x P/E, on the back of 23% earnings CAGR in 2021E-23E). Reiterate **BUY**.

- What's the latest situation?** SANYI suffered from an unscheduled power outage on 23 Sep in Liaoning production base. However, situation improved starting 24 Sep, as staggering power usage (错峰用电) is applied while unscheduled outage will not happen again according to Liaoning government. SANYI has shifted more than half of the production process to the nighttime, for both Liaoning and Guangdong factories. In Changsha factory (mainly small-size port machinery), power consumption is not high, and the power supply is secured by the local government.
- What will be the change in expense?** The shift of production work to the night time will increase the labour cost but such increase will be offset by the lower power expense due to the lower tariff at night time. SANYI estimates the annual electricity expense to be ~RMB50mn.
- Impact on the supply chain?** SANYI has visited 76 suppliers for mining equipment components in Liaoning, among which 11 suppliers are affected by the power outage (in particular, the cast metals manufacturers). In response to such situation, SANYI has helped some of the suppliers to install independent power generation sets. Besides, SANYI has expanded the procurement from the suppliers located in Dalian and the surrounding regions.
- Strong order intakes.** The monthly order of road header is ~60 sets this year, compared with ~40 sets last year. Besides, ~30% of the orders are for intelligent models. For the entire coal mining equipment segment, orders have already covered the capacity in 1Q22E. For port machinery, SANYI saw 60% YoY sales growth of large-size port machinery over the past couple of months.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	5,656	7,364	10,171	12,562	15,089
YoY growth (%)	28.1	30.2	38.1	23.5	20.1
Net income (RMB mn)	920	1,045	1,341	1,623	1,960
EPS (RMB)	0.30	0.34	0.43	0.52	0.63
YoY growth (%)	51.3	12.5	27.7	21.0	20.8
Consensus EPS (RMB)	N/A	N/A	0.42	0.54	0.66
EV/EBITDA (x)	17.1	15.0	12.1	10.1	8.5
P/E (x)	28.1	23.9	17.9	14.8	12.3
P/B (x)	3.6	3.2	2.7	2.5	2.2
Yield (%)	1.3	1.6	2.5	3.0	3.7
ROE (%)	13.6	14.0	16.1	17.5	18.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$14.30
(Previous TP)	HK\$14.30)
Up/Downside	+55%
Current Price	HK\$9.22

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Stock Data

Mkt Cap (HK\$ mn)	29,033
Avg 3 mths t/o (HK\$ mn)	54
52w High/Low (HK\$)	10.80/4.11
Total Issued Shares (mn)	3,100.7

Source: Bloomberg

Shareholding Structure

Sany Heavy Equipment	67.7%
Investments Company	
Free float	32.3%

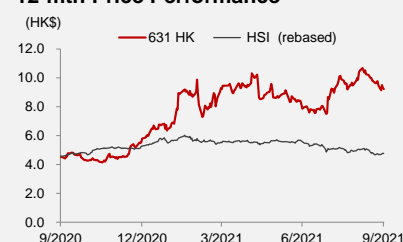
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.3%	0.6%
3-mth	14.2%	34.3%
6-mth	2.9%	18.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

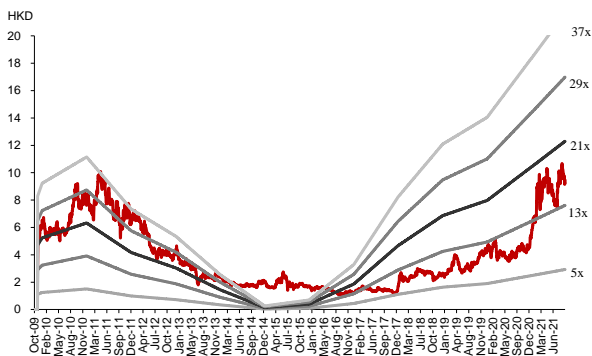
Related Reports

- SANY Int'l – Sustainable growth driven by intelligent mining products and robotic business – 6 Sep 2021
- SANY Int'l – Robotic business a surprise; More growth drivers ahead – 22 Mar 2021
- SANY Int'l – Product mix enhancement to drive further valuation upside – 16 Feb 2021

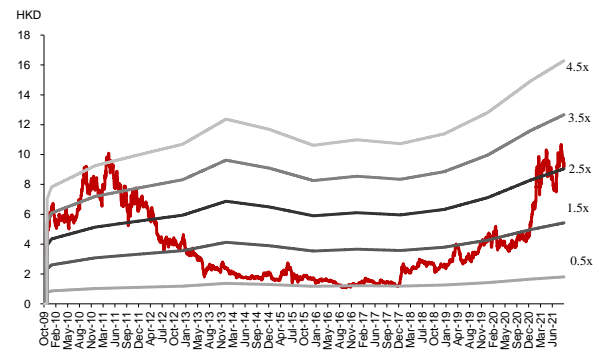
Figure 1: Key assumptions on SANYI

(RMB mn)	2019	2020	2021E	2022E	2023E
Revenue					
Road header	1,408	1,250	1,703	1,912	2,047
Combined coal mining units (CCMU)	1,073	1,640	2,132	2,537	2,918
Small-size port machinery	1,547	1,800	2,250	2,655	3,106
Large-size port machinery	686	720	850	1,317	1,712
Mining trucks	388	950	1,548	2,200	3,002
After sales service	554	580	609	646	684
Robot	-	400	1,080	1,296	1,620
Total	5,656	7,340	10,171	12,562	15,089
Growth (YoY)					
Road header	30.5%	-11.2%	36.2%	12.3%	7.1%
Combined coal mining units (CCMU)	11.1%	52.8%	30.0%	19.0%	15.0%
Small-size port machinery	18.5%	16.4%	25.0%	18.0%	17.0%
Large-size port machinery	24.5%	5.0%	18.0%	55.0%	30.0%
Mining trucks	340.9%	144.8%	62.9%	42.1%	36.4%
After sales service	29.4%	4.7%	5.0%	6.0%	6.0%
Robot	-	-	170.0%	20.0%	25.0%
Total	28.1%	29.8%	38.6%	23.5%	20.1%
Gross margin					
Blended gross margin	29.5%	27.6%	25.4%	26.3%	26.1%

Source: Company data, CMBIS estimates

Figure 2: SANYI's PE band

Source: Bloomberg, Company data, CMBIS estimates

Figure 3: SANYI's PB band

Source: Bloomberg, Company data, CMBIS estimates

Major risk factors: (1) weakness in mining activities; (2) higher-than-expected expense to drive the introduction of new products; (3) unexpected power outage.

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue					
- Mining equipment	3,423	4,846	5,870	7,165	8,514
- Logistics equipment	2,233	2,518	3,221	4,101	4,955
Total revenue	5,656	7,364	10,171	12,562	15,089
Cost of sales	-3,987	-5,403	-7,589	-9,252	-11,158
Gross profit	1,669	1,961	2,583	3,310	3,931
Other income	342	237	509	402	483
Other gains and losses	121	257	132	163	196
S&D expenses	-388	-430	-580	-691	-800
Administrative expenses	-643	-707	-997	-1,181	-1,403
Other expenses	-4	-31	-31	-38	-45
EBIT	1,097	1,286	1,616	1,966	2,362
Net finance income/(cost)	-27	-96	-58	-57	-54
Finance income	58	36	54	56	58
Finance expenses	-85	-132	-112	-112	-112
Share of JV and associates	0	0	0	0	0
Pretax profit	1,070	1,190	1,558	1,909	2,308
Income tax	-148	-139	-187	-248	-300
After tax profit	922	1,052	1,371	1,661	2,008
MI	-2	-6	-30	-38	-48
Net profit	920	1,045	1,341	1,623	1,960
D&A	249	249	293	328	349
EBITDA	1,346	1,535	1,909	2,294	2,711

Cash flow statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pretax profit	1,070	1,190	1,558	1,909	2,308
Finance cost	85	132	112	112	112
Interest income	-58	-36	-54	-56	-58
Share of profit or loss of associates	0	0	0	0	0
Depreciation and amortization	249	249	293	328	349
Income tax paid	-100	-139	-187	-248	-300
Change in working capital	-22	237	-590	-738	-909
Others	-424	-563	0	0	0
Cash flow from operation	801	1,070	1,132	1,308	1,502
Net capex on PP&E	-216	-401	-500	-500	-300
Interest received	58	36	54	56	58
Others	-2,153	-282	0	0	0
Cash flow from investing	-2,311	-647	-446	-444	-242
Proceeds from equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	1,860	-122	0	0	0
Dividend paid	-262	-338	-408	-604	-730
Interest paid	-85	-132	-112	-112	-112
Others	15	-9	0	0	0
Cash flow from financing	1,527	-602	-520	-716	-843
Change in cash	17	-179	166	148	418
Cash at beginning of the year	1,070	1,103	941	1,107	1,255
Exchange gains/(losses) and others	16	17	-0	-0	-0
Cash at the end of the year	1,103	941	1,107	1,255	1,673

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	5,209	5,448	5,655	5,828	5,779
PP&E	2,413	2,591	2,825	3,023	3,000
Prepaid land lease payments	1,027	1,140	1,114	1,088	1,062
Goodwill	1,130	1,130	1,130	1,130	1,130
Non-current prepayment	145	10	10	10	10
Others	146	282	282	282	282
Deferred tax assets	348	296	296	296	296
Current assets	10,338	12,016	13,640	15,116	17,523
Prepayment	615	359	359	359	359
Inventories	1,438	1,821	2,462	2,658	3,578
Trade receivables	2,634	3,288	4,069	5,017	5,897
Bills receivables	424	595	631	815	1,004
Financial assets	3,276	4,024	4,024	4,024	4,024
Others	844	988	988	988	988
Pledged deposits/Time deposits	2	0	0	0	0
Cash	1,103	941	1,107	1,255	1,673
Current liabilities	6,421	7,938	8,806	9,397	10,477
Trade and bills payables	1,832	2,893	3,760	4,351	5,431
Other payables and accruals	1,535	1,917	1,917	1,917	1,917
Bank borrowings	2,512	2,645	2,645	2,645	2,645
Tax payable	253	197	197	197	197
Government grants	94	96	96	96	96
Others	195	191	191	191	191
Non-current liabilities	1,980	1,667	1,667	1,667	1,667
Bank borrowings	747	493	493	493	493
Deferred tax liabilities	37	69	69	69	69
Government grants	1,195	1,105	1,105	1,105	1,105
Total equity	7,146	7,859	8,822	9,880	11,158
Shareholders' equity	7,132	7,839	8,772	9,791	11,021
MI	14	20	50	89	137

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
- Mining equipment	61%	66%	58%	57%	56%
- Logistics equipment	39%	34%	32%	33%	33%
Total	100%	100%	100%	100%	100%
P&L ratios (%)					
Gross margin	30%	27%	25%	26%	26%
EBITDA margin	24%	21%	19%	18%	18%
EBIT margin	19%	17%	16%	16%	16%
Net profit margin	16%	14%	13%	13%	13%
Growth (%)					
Revenue	28%	30%	38%	24%	20%
Gross profit	29%	17%	32%	28%	19%
EBITDA	43%	14%	24%	20%	18%
EBIT	52%	17%	26%	22%	20%
Net profit	53%	14%	28%	21%	21%
Balance sheet ratios					
Current ratio (x)	1.6	1.5	1.5	1.6	1.7
Receivable turnover days	154	147	132	132	132
Inventory turnover days	136	110	103	101	102
Payable turnover days	167	160	160	160	160
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROA	6%	6%	7%	8%	9%
ROE	14%	14%	16%	17%	19%
Per share					
EPS (RMB)	0.30	0.336	0.429	0.519	0.627
BVPS (RMB)	2.30	2.52	2.80	3.13	3.52
DPS (RMB)	0.11	0.131	0.193	0.234	0.282

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

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