

# SANY Heavy Industry – A (600031 CH)

## Excavator sales growth accelerated; Raised earnings est. & TP

**Reiterate BUY.** The acceleration of excavator sales growth in Sep reaffirms our positive view on the industry upcycle. Besides, we remain confident on SANY's market share gain story, on the back of strong R&D and management execution. We raised our 2020E-22E earnings forecast for SANY by 5-6%, after incorporating higher sales volume assumptions. We raised our TP from RMB26.4 to RMB34.6, after rolling over our target P/E multiple (17x) to 2021E P/E, on the back of 17% estimated earnings growth in 2021E.

- **Industry sales growth of excavator accelerated in Sep.** According to the latest figure from CCMA, excavator sales volume by major players in China surged 65% YoY to 26k units in Sep, the highest growth rate since May. Large / mid-size excavator sales growth reached 53%/106% YoY in Sep, which suggested strong demand from infrastructure and property construction projects. In 9M20, excavator sales growth reached 32% YoY.
- **Raise industry sales projection.** Based on **Jiangsu Hengli's (601100 CH, BUY)** latest production plan of hydraulic cylinders (see our latest note on Hengli [\[link\]](#)), we foresee strong excavator demand growth with high visibility in 4Q20E. We raise our industry excavator sales volume assumption in 2020E/21E by 13%/10%. We expect 35%/3% YoY growth in 2020E/21E, with key drivers coming from resilient construction activities, replacement of labour and stringent environmental policies.
- **SANY continues to outpace industry growth.** SANY's excavator sales volume in Sep surged 85% YoY, outpacing the industry growth of 65%. SANY's market share reached 28.5%/26.3% in Sep / 9M20. SANY is one of the very few players that consistently delivers market share gain. We believe import substitution and export market are two structural drivers for SANY going forward.
- **3Q20E results preview:** We forecast SANY to deliver 60% YoY net profit growth in 3Q20E, driven by 44% YoY increase in revenue and operating leverage. SANY is scheduled to report on 29 Oct.
- **Key risks:** (1) Risk of overseas business due to pandemic; (2) Slowdown of construction activities; (3) Risk of expanding to financing business.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	55,822	75,666	94,682	103,771	109,855
YoY growth (%)	46	36	25	10	6
Net income (RMB mn)	6,116	11,207	14,773	17,225	18,417
EPS (RMB)	0.79	1.36	1.75	2.04	2.18
YoY growth (%)	189.6	71.4	28.8	16.6	6.9
Consensus EPS (RMB)	N/A	N/A	1.72	1.95	2.14
EV / EBITDA (x)	25.6	16.2	12.8	11.1	10.5
P/E (x)	34.5	20.1	15.6	13.4	12.5
P/B (x)	6.8	5.2	4.1	3.4	2.8
Yield (%)	1.0	1.6	2.0	2.3	2.5
ROE (%)	21.5	29.5	29.5	27.8	24.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price	RMB34.60
(previous TP)	RMB26.40
Up/Downside	+27%
Current Price	RMB27.29

### China Capital Goods

#### Wayne Fung, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

#### Stock Data

Mkt Cap (RMB mn)	231,302
Avg 3 mths t/o (RMB mn)	1,762
52w High/Low (RMB)	28.34/13.21
Total Issued Shares (mn)	8,435

Source: Bloomberg

#### Shareholding Structure

SANY Group	29.9%
Hong Kong CCASS	9.6%
Liang Wengen	3.4%
Others	57.1%

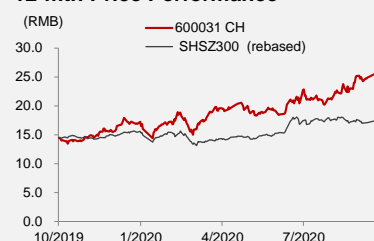
Source: Shanghai Stock Exchange

#### Share Performance

	Absolute	Relative
1-mth	8.3%	7.1%
3-mth	30.9%	24.1%
6-mth	39.2%	11.6%

Source: Bloomberg

#### 12-mth Price Performance

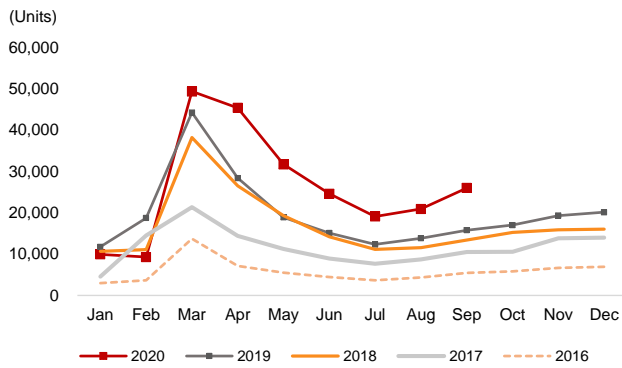


Source: Bloomberg

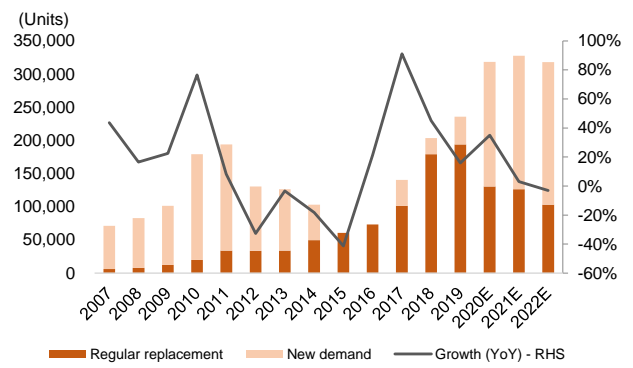
#### Auditor: Ruihua CPA

#### Related Reports

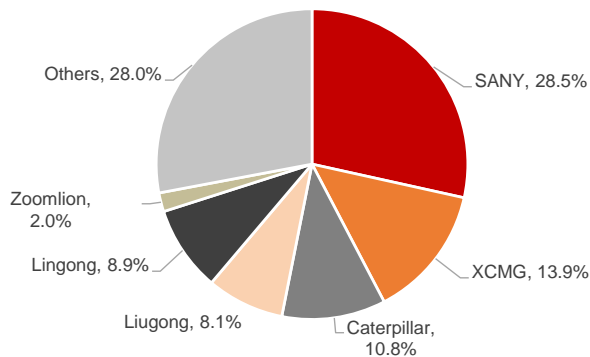
1. SANY Heavy (600031 CH, BUY) – 2Q20 net profit +78% in line; Strong rebound in cash flow - 28 Aug 2020
2. China Construction Machinery & HDT Sector – Raise industry sales forecast in 2020E-21E; Solid upcycle – 30 Jun 2020
3. China Construction Machinery Sector – Four structural drivers to extend the upcycle to 2020-21E – 27 Nov 2019

**Figure 1: China excavator sales +65% YoY in Sep**

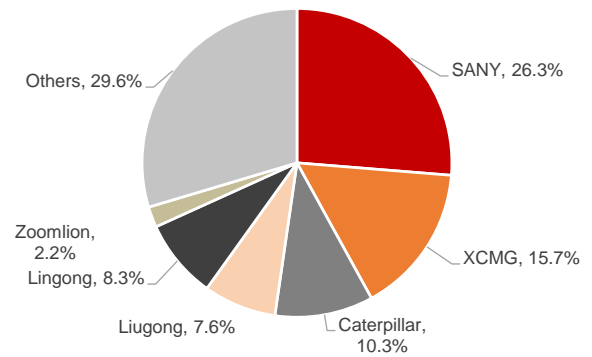
Source: CCMA, CMBIS

**Figure 2: CMBIS excavator sales projection**

Source: CCMA, CMBIS estimates

**Figure 3: China excavator market share in Sep**

Source: CCMA, CMBIS

**Figure 4: China excavator market share in 9M20**

Source: CCMA, CMBIS

**Figure 5: 3Q20E earnings preview**

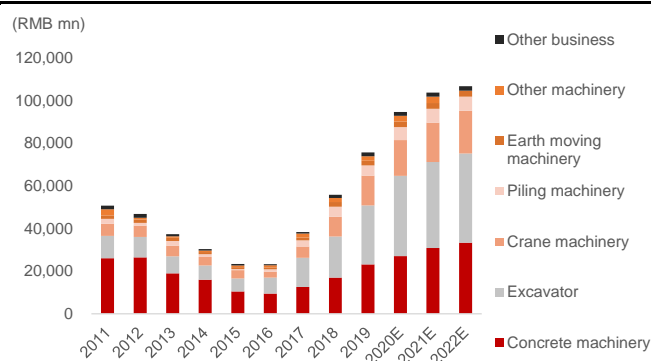
(RMB mn)	1Q19	1Q20	Change YoY	2Q19	2Q20	Change YoY	3Q19	3Q20E	Change YoY
Total revenue	21,295	17,266	-18.9%	22,092	31,921	44.5%	15,305	22,086	44.3%
Cost of sales	-14,754	-12,402	-15.9%	-14,594	-21,860	49.8%	-10,247	-15,019	46.6%
Gross profit	6,541	4,864	-25.6%	7,498	10,061	34.2%	5,057	7,068	39.8%
EBIT	4,076	2,865	-29.7%	4,419	6,689	51.4%	2,305	3,880	68.3%
Pretax profit	3,976	2,640	-33.6%	4,315	7,484	73.4%	2,893	4,605	59.2%
Income tax	-652	-426	-34.6%	-704	-1,060	50.6%	-423	-654	54.5%
After tax profit	3,325	2,214	-33.4%	3,611	6,425	77.9%	2,470	3,951	59.9%
MI	-104	-20	-80.4%	-84	-150	78.5%	-59	-91	54.3%
Net profit	3,221	2,194	-31.9%	3,527	6,274	77.9%	2,411	3,860	60.1%

Source: Company data, CMBIS estimates

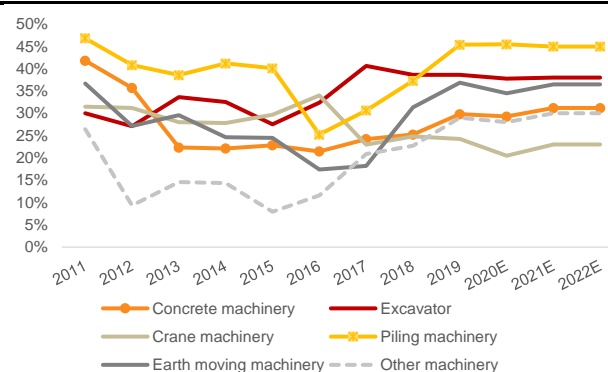
**Figure 6: Change in key assumptions**

(RMB mn)	Old			New			Change		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
<b>Revenue</b>									
Concrete machinery	26,370	30,062	32,467	27,064	30,853	33,321	2.6%	2.6%	2.6%
Excavator	34,691	37,119	38,604	37,672	40,309	41,921	8.6%	8.6%	8.6%
Crane machinery	16,572	18,395	19,866	16,711	18,549	20,033	0.8%	0.8%	0.8%
Piling machinery	6,107	6,413	6,605	6,107	6,413	6,605	0.0%	0.0%	0.0%
Earth moving machinery	2,594	2,724	2,805	2,594	2,724	2,805	0.0%	0.0%	0.0%
Other machinery	2,707	3,005	3,155	2,707	3,005	3,155	0.0%	0.0%	0.0%
<b>Revenue (construction machinery)</b>	<b>89,041</b>	<b>97,717</b>	<b>103,502</b>	<b>92,855</b>	<b>101,852</b>	<b>107,841</b>	4.3%	4.2%	4.2%
Other business	1,827	1,918	2,014	1,827	1,918	2,014	0.0%	0.0%	0.0%
<b>Total revenue</b>	<b>90,868</b>	<b>99,635</b>	<b>105,517</b>	<b>94,682</b>	<b>103,771</b>	<b>109,855</b>	4.2%	4.2%	4.1%
<b>Revenue growth</b>								ppt	
Concrete machinery	13.7%	14.0%	8.0%	16.7%	14.0%	8.0%	3.0	0.0	0.0
Excavator	25.6%	7.0%	4.0%	36.4%	7.0%	4.0%	10.8	0.0	0.0
Crane machinery	18.5%	11.0%	8.0%	19.5%	11.0%	8.0%	1.0	0.0	0.0
Piling machinery	27.0%	5.0%	3.0%	27.0%	5.0%	3.0%	0.0	0.0	0.0
Earth moving machinery	20.8%	5.0%	3.0%	20.8%	5.0%	3.0%	0.0	0.0	0.0
Other machinery	25.0%	11.0%	5.0%	25.0%	11.0%	5.0%	0.0	0.0	0.0
<b>Revenue (construction machinery)</b>	<b>20.4%</b>	<b>9.7%</b>	<b>5.9%</b>	<b>25.6%</b>	<b>9.7%</b>	<b>5.9%</b>	5.2	(0.1)	(0.0)
Other business	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	0.0	0.0	0.0
<b>Total revenue</b>	<b>20.1%</b>	<b>9.6%</b>	<b>5.9%</b>	<b>25.1%</b>	<b>9.6%</b>	<b>5.9%</b>	5.0	(0.0)	(0.0)
<b>Gross margin</b>								ppt	
Concrete machinery	29.5%	31.5%	31.5%	29.3%	31.2%	31.2%	(0.2)	(0.3)	(0.3)
Excavator	38.0%	38.0%	38.0%	37.8%	38.0%	38.0%	(0.2)	0.0	0.0
Crane machinery	21.0%	23.0%	23.0%	20.5%	23.0%	23.0%	(0.5)	0.0	0.0
Piling machinery	45.5%	45.0%	45.0%	45.5%	45.0%	45.0%	0.0	0.0	0.0
Earth moving machinery	34.5%	36.5%	36.5%	34.5%	36.5%	36.5%	0.0	0.0	0.0
Other machinery	29.0%	30.0%	30.0%	28.0%	30.0%	30.0%	(1.0)	0.0	0.0
<b>Gross margin (construction machinery)</b>	<b>32.5%</b>	<b>33.3%</b>	<b>33.2%</b>	<b>32.3%</b>	<b>33.4%</b>	<b>33.3%</b>	(0.1)	0.0	0.0
Other business	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	0.0	0.0	0.0
<b>Blended gross margin</b>	<b>32.0%</b>	<b>32.9%</b>	<b>32.8%</b>	<b>31.9%</b>	<b>33.0%</b>	<b>32.9%</b>	(0.1)	0.0	0.0
<b>Net profit</b>	<b>13,962</b>	<b>16,288</b>	<b>17,589</b>	<b>14,773</b>	<b>17,225</b>	<b>18,417</b>	<b>5.8%</b>	<b>5.8%</b>	<b>4.7%</b>

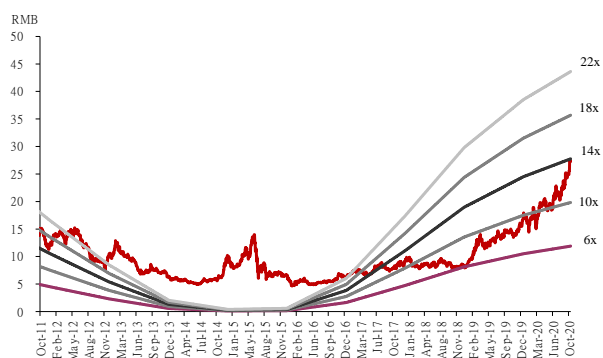
Source: Company data, CMBIS estimates

**Figure 7: SANY revenue breakdown**

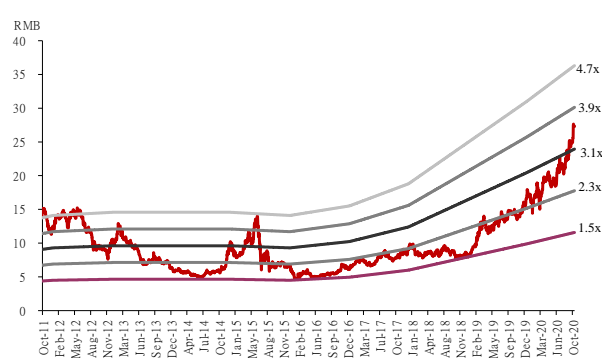
Source: Company data, CMBIS estimates

**Figure 8: SANY gross margin trend**

Source: Company data, CMBIS estimates

**Figure 9: SANY's P/E band**

Source: Company data, CMBIS estimates

**Figure 10: SANY's P/B band**

Source: Company data, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>55,822</b>	<b>75,666</b>	<b>94,682</b>	<b>103,771</b>	<b>109,855</b>
Cost of sales	(38,728)	(50,932)	(64,436)	(69,549)	(73,737)
<b>Gross profit</b>	<b>17,094</b>	<b>24,733</b>	<b>30,246</b>	<b>34,221</b>	<b>36,118</b>
Surcharge	(326)	(371)	(379)	(311)	(330)
S&D expenses	(4,447)	(5,488)	(5,965)	(6,330)	(6,701)
Administrative expenses	(3,800)	(5,696)	(6,912)	(7,264)	(7,580)
Fair value change	(362)	290	300	0	0
Asset impairment	(1,095)	(1,259)	(1,326)	(1,557)	(1,648)
<b>EBIT</b>	<b>7,063</b>	<b>12,209</b>	<b>15,965</b>	<b>18,759</b>	<b>19,860</b>
Net finance income/(cost)	(136)	46	331	660	1,074
Finance income	344	505	892	1,343	1,756
Finance expenses	(479)	(458)	(561)	(683)	(681)
Other gains/(losses)	495	1,059	1,150	1,000	900
Profit of JV and associates	128	140	123	162	171
<b>Pretax profit</b>	<b>7,550</b>	<b>13,454</b>	<b>17,569</b>	<b>20,582</b>	<b>22,006</b>
Income tax	(1,247)	(1,960)	(2,495)	(3,005)	(3,213)
<b>After tax profit</b>	<b>6,303</b>	<b>11,494</b>	<b>15,074</b>	<b>17,577</b>	<b>18,793</b>
MI	(187)	(288)	(301)	(352)	(376)
<b>Net profit</b>	<b>6,116</b>	<b>11,207</b>	<b>14,773</b>	<b>17,225</b>	<b>18,417</b>
D&A	1,932	2,020	2,065	2,097	2,127
<b>EBITDA</b>	<b>8,995</b>	<b>14,230</b>	<b>18,030</b>	<b>20,857</b>	<b>21,987</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pretax profit	7,550	13,454	17,569	20,582	22,006
Finance cost	388	120	561	683	681
Interest income	(344)	(505)	(892)	(1,343)	(1,756)
Profit or loss of associates	(128)	(140)	(123)	(162)	(171)
Fair value change	(276)	(673)	0	0	0
Provision for assets	(8)	249	0	0	0
Depreciation and amortization	1,932	2,020	2,065	2,097	2,127
Income tax paid	(1,247)	(1,960)	(2,495)	(3,005)	(3,213)
Change in working capital	1,788	531	(2,936)	(4,130)	(1,594)
Others	870	167	0	0	0
<b>Cash flow from operation</b>	<b>10,527</b>	<b>13,265</b>	<b>13,750</b>	<b>14,722</b>	<b>18,080</b>
Net capex on PP&E	(1,003)	(2,157)	(1,500)	(3,000)	(3,000)
Investment in JV/associates	(648)	(11)	(50)	(50)	0
Investment in subsidiaries	311	153	(3,380)	0	0
Dividend received	13	14	12	16	0
Interest received	344	505	892	1,343	1,756
Others	(9,781)	(10,485)	(70)	0	0
<b>Cash flow from investing</b>	<b>(10,765)</b>	<b>(11,981)</b>	<b>(4,096)</b>	<b>(1,690)</b>	<b>(1,244)</b>
Equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	1,584	1,756	7,000	(200)	100
Dividend paid	(1,233)	(2,165)	(3,516)	(4,653)	(5,426)
Interest paid	(479)	(458)	(561)	(683)	(681)
Others	955	(283)	0	0	0
<b>Cash flow from financing</b>	<b>827</b>	<b>(1,151)</b>	<b>2,924</b>	<b>(5,536)</b>	<b>(6,007)</b>
Change in cash	589	134	12,577	7,495	10,828
Cash at beginning of the year	4,104	11,985	13,527	26,104	33,599
Exchange and others	7,293	1,408	0	0	0
Cash at the end of the year	11,985	13,527	26,104	33,599	44,428

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>21,879</b>	<b>22,041</b>	<b>24,590</b>	<b>27,522</b>	<b>29,341</b>
PP&E	11,867	10,615	13,792	15,059	16,296
JV/associates	2,328	2,985	3,146	3,342	3,513
Goodwill	51	49	49	49	49
LT trade receivables	366	1,286	789	2,622	3,397
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
<b>Current assets</b>	<b>51,896</b>	<b>68,500</b>	<b>92,292</b>	<b>98,140</b>	<b>116,067</b>
Inventories	11,595	14,252	17,525	17,155	19,209
Trade and bills receivables	20,802	21,793	30,088	27,910	33,489
Other receivables	1,704	3,030	2,676	3,578	3,043
Others	3,272	6,897	6,897	6,897	6,897
Cash	11,985	13,527	26,104	33,599	44,428
<b>Current liabilities</b>	<b>33,935</b>	<b>42,149</b>	<b>49,930</b>	<b>46,087</b>	<b>52,466</b>
Trade and bills payables	17,191	20,295	28,076	24,133	30,412
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
<b>Non-current liabilities</b>	<b>7,337</b>	<b>2,866</b>	<b>9,866</b>	<b>9,566</b>	<b>9,566</b>
Bank borrowings	5,974	1,303	8,303	8,003	8,003
Deferred tax liabilities	650	714	714	714	714
Others	471	728	728	728	728
<b>Equity</b>	<b>32,502</b>	<b>45,527</b>	<b>57,085</b>	<b>70,009</b>	<b>83,375</b>
Shareholders' equity	31,485	44,421	55,678	68,250	81,241
MI	1,017	1,106	1,407	1,759	2,135

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Concrete machinery	30%	31%	29%	30%	30%
Excavator	34%	37%	40%	39%	38%
Crane machinery	17%	18%	18%	18%	18%
Piling machinery	8%	6%	6%	6%	6%
Earth moving machinery	4%	3%	3%	3%	3%
Other machinery	4%	3%	3%	3%	3%
Other business	3%	2%	2%	2%	2%
Total	100%	100%	100%	100%	100%
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	30.6	32.7	31.9	33.0	32.9
EBIT margin	12.7	16.1	16.9	18.1	18.1
Net profit margin	11.3	15.2	15.9	16.9	17.1
<b>Growth (%)</b>					
Revenue	45.6	35.5	25.1	9.6	5.9
Gross profit	48.3	44.7	22.3	13.1	5.5
EBIT	n/a	72.9	30.8	17.5	5.9
Net profit	192.3	83.2	31.8	16.6	6.9
<b>Balance sheet ratio</b>					
Current ratio (x)	1.5	1.6	1.8	2.1	2.2
Receivable turnover days	133	107	104	108	112
Inventory turnover days	91	93	90	91	90
Payable turnover days	133	134	137	137	135
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Profitability (%)</b>					
ROA	9.3	13.6	14.2	14.2	13.6
ROE	21.5	29.5	29.5	27.8	24.6
<b>Per share data</b>					
EPS (RMB)	0.79	1.36	1.75	2.04	2.18
BVPS (RMB)	4.04	5.27	6.58	8.07	9.60
DPS (RMB)	0.28	0.43	0.55	0.64	0.69

Source: Company data, CMBIS estimates

# Disclosures & Disclaimers

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## CMBIS Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIS

<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Securities Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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