

# SANY International (631 HK)

Significant increase in 2019E earnings; Normal operation at present

SANYI issued a positive profit alert revealing that its net profit in 2019E will increase significantly YoY. While the profit growth rate was not disclosed, we forecast the growth to reach 51% YoY. SANYI's backlog remains solid at present and management is well-prepared to ensure a smooth operation. We maintain our TP of HK\$5.6, based on 2x 2020E P/B multiple, on the back of 15-17% ROE in 2020E-21E. Reiterate **BUY**.

- **The +ve profit alert is within our expectation.** The earnings growth was driven by (1) strong revenue growth on both the mining and port equipment revenue, (2) gross margin expansion on products such as combined coal mining units (CCMU) and reach stackers, (3) reduction on SG&A expense ratio (excluding R&D expense) due to good cost control.
- **No production capacity in Hubei Province.** SANYI's production bases are located in Shenyang, Zhuhai and Changsha. Shenyang production base is mainly for the production of mining machinery, while Zhuhai base is mainly for the large-size port machinery. For Changsha base (with a focus on small-size port machinery), the production lines have been gradually shifting to Zhuhai base.
- **The outbreak of nCoV should not have material impact on SANYI.** Based on our understanding, SANYI's customers are less affected by the nCoV outbreak and there is no order cancellation at present. Similar to other production plants in China, SANYI will resume its production on 10 Feb and the Company is well-prepared to raise its capacity utilization rate.
- **Positive stance unchanged.** We continue to like SANYI's on track new product development and diversification. We expect pure-water hydraulic support and off-highway wide body mining trucks will see meaningful delivery in 2020E. Besides, solid backlog of large-size port equipment will continue to offer earnings visibility in 2020E.
- **Major risk factors:** (1) failure to contain nCoV; (2) decline in coal mining activities; (3) increase in component cost; (4) weaker-than-expected international trade.

## Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	2,481	4,417	5,884	7,678	9,172
YoY growth (%)	34.7	78.0	33.2	30.5	19.5
Net income (RMB mn)	229	600	916	1,172	1,410
EPS (RMB)	0.08	0.20	0.30	0.38	0.45
YoY growth (%)	n/a	161.6	50.7	27.2	20.2
EV/EBITDA (x)	18.2	10.2	6.9	5.5	4.7
P/E (x)	43.0	16.7	11.7	9.2	7.6
P/B (x)	1.6	1.6	1.5	1.4	1.2
Yield (%)	5.5	3.0	2.6	3.3	3.9
ROE (%)	3.7	9.4	13.6	15.7	16.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$5.60**  
 (Previous TP **HK\$5.60**)  
 Up/Downside **+47%**  
 Current Price **HK\$3.82**

## China Capital Goods

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## Stock Data

Mkt Cap (HK\$ mn)	11,844
Avg 3 mths t/o (HK\$ mn)	21
52w High/Low (HK\$)	4.78/2.59
Total Issued Shares (mn)	3,100.7

Source: Bloomberg

## Shareholding Structure

Sany Heavy Equipment	67.7%
Investments Company	
Free float	32.3%

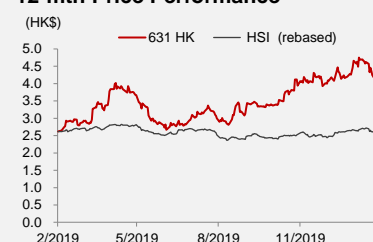
Source: HKEx

## Share Performance

	Absolute	Relative
1-mth	-15.0%	-7.8%
3-mth	-3.8%	-0.9%
6-mth	+26.3%	+29.2%

Source: Bloomberg

## 12-mth Price Performance



Source: Bloomberg

**Auditor: Ernst & Young**

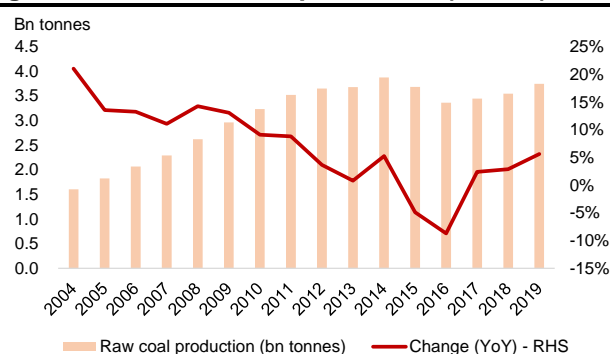
## Related Reports

1. China Construction Machinery Sector – SANY & Hengli issued +ve profit alert; Expect SANYI the next – 21 Jan 2020
2. Sany Int'l (631 HK, BUY) – 3Q19 margin beat but revenue missed; Profit +55% YoY in line – 23 Oct 2019
3. Sany Int'l (631 HK, BUY) – Net profit +54% YoY; Strong cash flow a +ve surprise – 22 Aug 2019
4. Sany Int'l (631 HK, BUY) – Zhuhai site visit reaffirmed our positive stance – 16 May 2019

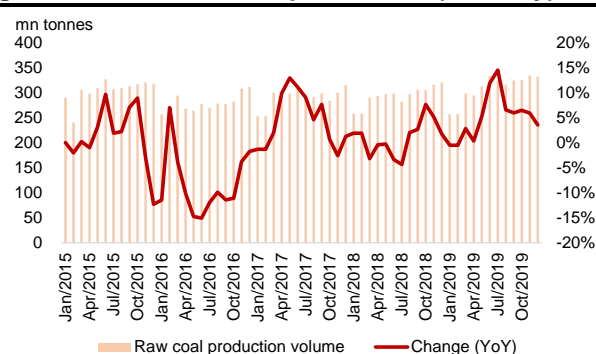
**Figure 1: Key assumptions**

(RMB mn)	2018	2019E	2020E	2021E
<b>Revenue</b>				
Road header	1,079	1,457	1,675	1,876
Combined coal mining units (CCMU)	966	1,111	1,666	2,000
Small-size port machinery	1,305	1,436	1,593	1,753
Large-size port machinery	551	799	1,214	1,518
Mining trucks	88	512	879	1,225
Others	428	570	650	800
Total	4,417	5,884	7,678	9,172
<b>Growth (YoY)</b>				
Road header	53.8%	35.0%	15.0%	12.0%
Combined coal mining units (CCMU)	268.0%	15.0%	50.0%	20.0%
Small-size port machinery	45.3%	10.0%	11.0%	10.0%
Large-size port machinery	61.3%	45.0%	52.0%	25.0%
Mining trucks	10.0%	481.8%	71.6%	39.4%
Others	116.4%	33.2%	14.0%	23.1%
Total	78.0%	33.2%	30.5%	19.5%
<b>Gross margin</b>				
Road header	39.9%	46.5%	46.5%	46.0%
Combined coal mining units (CCMU)	14.7%	26.5%	27.0%	27.5%
Small-size port machinery	34.0%	34.5%	34.5%	34.5%
Large-size port machinery	15.0%	10.0%	13.0%	13.0%
Mining trucks	10.0%	11.0%	14.0%	17.0%
Others	45.0%	48.2%	48.0%	48.0%
Blended gross margin	29.4%	31.9%	30.9%	30.6%

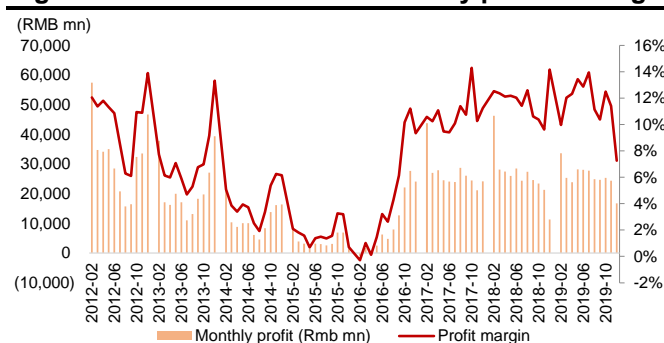
Source: Company data, CMBIS estimates

**Figure 2: China raw coal production (annual)**

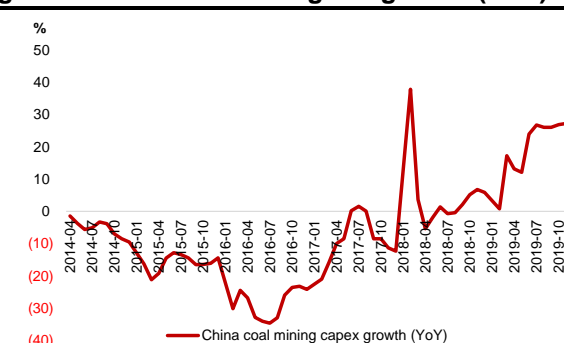
Source: Wind, CCTDCOAL, CMBIS

**Figure 3: China raw coal production (monthly)**

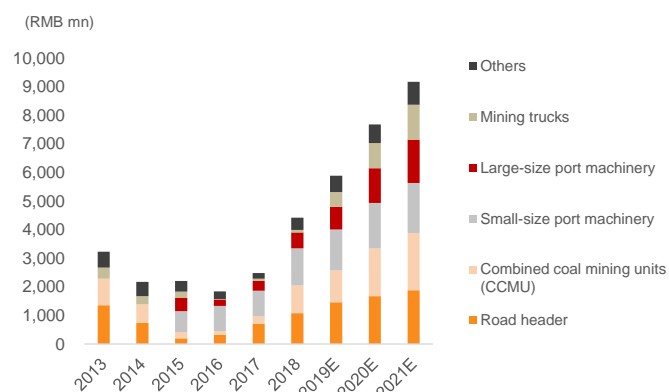
Source: Wind, CCTDCOAL, CMBIS

**Figure 4: China coal miners' monthly profit & margin**

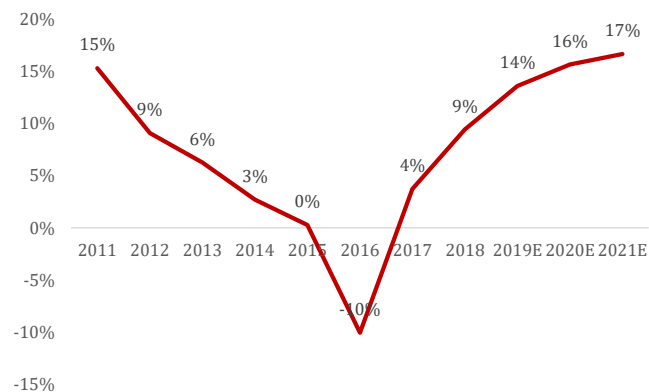
Source: Wind, NBS, CMBIS

**Figure 5: China coal mining FAI growth (YTD)**

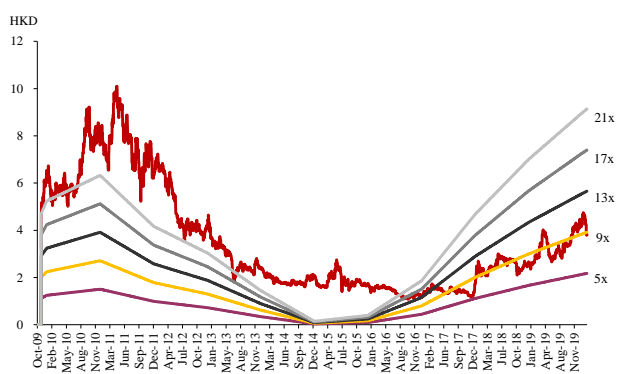
Source: Wind, NBS, CMBIS

**Figure 6: SANYI's segment revenue growth trend**

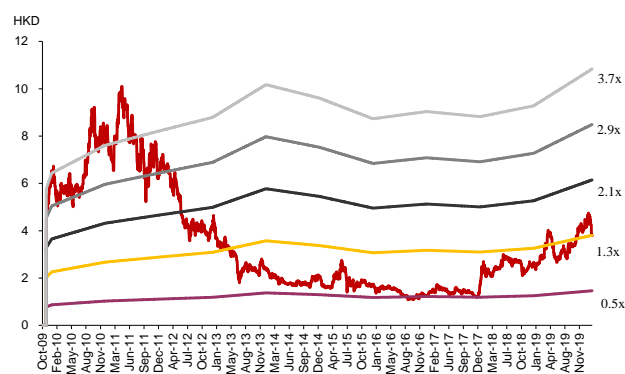
Source: Company data, CMBIS estimates

**Figure 7: SANYI's ROE trend**

Source: Company data, CMBIS estimates

**Figure 8: SANYI's P/E band**

Source: Bloomberg, Company data, CMBIS estimates

**Figure 9: SANYI's P/B band**

Source: Bloomberg, Company data, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue					
- Energy equipment	1,202	2,561	3,536	4,740	5,741
- Port machinery	1,279	1,856	2,348	2,938	3,431
<b>Total revenue</b>	<b>2,481</b>	<b>4,417</b>	<b>5,884</b>	<b>7,678</b>	<b>9,172</b>
Cost of sales	(1,744)	(3,119)	(4,006)	(5,307)	(6,364)
<b>Gross profit</b>	<b>738</b>	<b>1,298</b>	<b>1,878</b>	<b>2,371</b>	<b>2,807</b>
Other income	304	242	306	369	440
Other gains and losses	0	35	0	0	0
S&D expenses	(299)	(329)	(424)	(545)	(642)
Administrative expenses	(342)	(492)	(630)	(745)	(862)
Other expenses	(118)	(33)	(41)	(54)	(64)
<b>EBIT</b>	<b>282</b>	<b>720</b>	<b>1,089</b>	<b>1,396</b>	<b>1,679</b>
Net finance income/(cost)	32	6	19	23	28
Finance income	35	24	52	61	66
Finance expenses	(3)	(18)	(33)	(38)	(38)
Share of JV and associates	0	0	0	0	0
<b>Pretax profit</b>	<b>315</b>	<b>726</b>	<b>1,109</b>	<b>1,420</b>	<b>1,707</b>
Income tax	(84)	(123)	(189)	(241)	(290)
<b>After tax profit</b>	<b>231</b>	<b>603</b>	<b>920</b>	<b>1,178</b>	<b>1,417</b>
MI	(2)	(3)	(5)	(6)	(7)
<b>Net profit</b>	<b>229</b>	<b>600</b>	<b>916</b>	<b>1,172</b>	<b>1,410</b>
<b>Adjusted net profit</b>	<b>173</b>	<b>409</b>	<b>766</b>	<b>1,022</b>	<b>1,260</b>
D&A	249	224	310	350	390
<b>EBITDA</b>	<b>531</b>	<b>944</b>	<b>1,399</b>	<b>1,746</b>	<b>2,069</b>

### Cash flow statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pretax profit	315	726	1,109	1,420	1,707
Finance cost	3	18	33	38	38
Interest income	(35)	(24)	(52)	(61)	(66)
Share of profit or loss of associates	0	0	0	0	0
Depreciation and amortization	249	224	310	350	390
Income tax paid	(20)	(137)	(189)	(241)	(290)
Change in working capital	276	(251)	(248)	(640)	(636)
Others	(181)	(275)	0	0	0
<b>Cash flow from operation</b>	<b>607</b>	<b>280</b>	<b>962</b>	<b>864</b>	<b>1,142</b>
Net capex on PP&E	(249)	(201)	(400)	(500)	(500)
Interest received	22	24	52	61	66
Others	(661)	(359)	0	0	0
<b>Cash flow from investing</b>	<b>(888)</b>	<b>(536)</b>	<b>(348)</b>	<b>(439)</b>	<b>(434)</b>
Proceeds from equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	266	968	500	0	0
Dividend paid	0	(440)	(304)	(275)	(352)
Interest paid	0	(17)	(33)	(38)	(38)
Others	0	0	0	0	0
<b>Cash flow from financing</b>	<b>266</b>	<b>512</b>	<b>163</b>	<b>(313)</b>	<b>(390)</b>
Change in cash	(15)	257	778	113	318
Cash at beginning of the year	833	814	1,070	1,848	1,961
Exchange gains/(losses) and others	(4)	(1)	0	0	0
Cash at the end of the year	814	1,070	1,848	1,961	2,279

### Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current assets</b>	<b>6,102</b>	<b>5,896</b>	<b>5,986</b>	<b>6,137</b>	<b>6,247</b>
PP&E	2,585	2,463	2,567	2,732	2,856
Prepaid land lease payments	562	1,678	1,664	1,650	1,636
Goodwill	1,130	1,130	1,130	1,130	1,130
Non-current prepayment	1,333	145	145	145	145
Others	57	90	90	90	90
Deferred tax assets	436	391	391	391	391
<b>Current assets</b>	<b>5,097</b>	<b>7,029</b>	<b>8,279</b>	<b>10,120</b>	<b>11,018</b>
Prepayment	268	634	634	634	634
Inventories	1,246	1,534	1,649	2,277	2,431
Trade receivables	1,560	2,127	2,451	3,229	3,556
Bills receivables	266	499	533	856	954
AFS investments	682	0	0	0	0
Others	246	1,130	1,130	1,130	1,130
Pledged deposits/Time deposits	15	34	34	34	34
Cash	814	1,070	1,848	1,961	2,279
<b>Current liabilities</b>	<b>2,919</b>	<b>5,169</b>	<b>5,893</b>	<b>6,982</b>	<b>6,925</b>
Trade and bills payables	1,193	1,820	2,044	3,132	3,075
Other payables and accruals	1,318	1,423	1,423	1,423	1,423
Bank borrowings	0	1,400	1,900	1,900	1,900
Tax payable	297	268	268	268	268
Government grants	97	91	91	91	91
Others	14	168	168	168	168
<b>Non-current liabilities</b>	<b>1,918</b>	<b>1,313</b>	<b>1,313</b>	<b>1,313</b>	<b>1,313</b>
Bank borrowings	429	0	0	0	0
Deferred tax liabilities	34	16	16	16	16
Government grants	1,455	1,298	1,298	1,298	1,298
<b>Total equity</b>	<b>6,362</b>	<b>6,442</b>	<b>7,058</b>	<b>7,962</b>	<b>9,027</b>
<b>Shareholders' equity</b>	<b>6,304</b>	<b>6,431</b>	<b>7,042</b>	<b>7,940</b>	<b>8,998</b>
MI	58	12	16	22	29

### Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
Energy equipment	48%	58%	60%	62%	63%
Port machinery	52%	42%	40%	38%	37%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>P&amp;L ratios (%)</b>					
Gross margin	30%	29%	32%	31%	31%
EBITDA margin	21%	21%	24%	23%	23%
EBIT margin	11%	16%	19%	18%	18%
Net profit margin	9%	14%	16%	15%	15%
<b>Growth (%)</b>					
Revenue	35%	78%	33%	30%	19%
Gross profit	167%	76%	45%	26%	18%
EBITDA	n/a	78%	48%	25%	18%
EBIT	n/a	155%	51%	28%	20%
Net profit	n/a	162%	53%	28%	20%
<b>Balance sheet ratios</b>					
Current ratio (x)	1.7	1.4	1.4	1.4	1.6
Receivable turnover days	229	152	142	135	135
Inventory turnover days	226	163	145	135	135
Payable turnover days	225	176	176	178	178
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	2%	5%	7%	8%	8%
ROA	4%	9%	14%	16%	17%
<b>Per share</b>					
EPS (RMB)	0.08	0.20	0.30	0.378	0.455
BVPS (RMB)	2.07	2.11	2.27	2.56	2.90
DPS (RMB)	0.18	0.10	0.09	0.114	0.136

Source: Company data, CMBIS estimates

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