

SANY International (631 HK)

Scale-down of solar power expansion plan a positive move

We revise down our 2024E-26E earnings forecast by 9-13% to reflect lower growth of mining trucks and oil & gas equipment segments. That said, we are encouraged by SANYI's decision to slow the pace of solar manufacturing business expansion. With potentially less capex and better profit contribution from solar farm disposal, we are now less concerned on the balance sheet pressure. Besides, mining trucks and logistics equipment sales remain strong in overseas markets. Maintain **BUY** with a new TP of HK\$7.2 (previously HK\$7.9), based on an unchanged 11x 2024E P/E, the average P/E since 2017.

■ **1H24 results highlights.** Total revenue dropped 0.8% YoY to RMB10.7bn as the growth of logistics equipment, oil & gas equipment and new business was offset by the decline in mining equipment. Revenue from China dropped 9% YoY to RMB6.9bn while overseas revenue grew 18% YoY to RMB3.8bn. EBIT dropped 18% YoY to RMB1.2bn (mining equipment: +3% YoY; logistics machinery +13% YoY; emerging industries business: RMB255mn loss). Net profit dropped 14% YoY to RMB1bn. In 2Q24, revenue increased 4% YoY to RMB5.6bn. Net profit dropped 6% YoY to RMB517mn (mining equipment -6% YoY to RMB830mn; logistics equipment +24% to RMB530mn; loss for the balance).

■ **EPC will become the focus of solar power segment.** SANYI expects to complete the sale of 260MW project (Shanxi phase 1) this year, which will translate to revenue recognition. Construction for phase 2, which consists of a total of 540MW (240MW +300MW), is expected to be fully completed in Jun 2025. SANYI expects some revenue contribution from phase 2 project sale this year. We estimate the EPC unit gross margin to be ~RMB0.5/watt. SANYI is also in discussion for some GW-scale projects in Shanxi. It will also invest 2GW of module capacity, which is part of the bidding for a 1.5GW EPC project. SANYI is confident of achieving profit in EPC.

■ **High visibility on logistics equipment.** SANYI revealed that backlog reached RMB5bn. Management is confident of achieving 30% segment earnings CAGR in 2024E-25E, driven by overseas markets. Products such as telescopic forklifts and small-size port machinery will be key drivers.

■ **Potential stabilisation of mining equipment.** The decrease in mining equipment revenue in 1H24 was due to a decline in coal mining equipment sales, lower ASP of hydraulic supports, delay of customers' orders on large mining trucks and weakness of domestic wide-body trucks. Management expects the demand for coal mining equipment will be gradually stabilised in 4Q24E. For mining trucks, management reveals that large overseas miners will likely resume procurement in 2H24E. For the segment as a whole, management targets to achieve a stable profit (YoY) for the full year.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	15,537	20,278	21,922	24,859	28,302
YoY growth (%)	52.4	30.5	8.1	13.4	13.9
Adjusted net profit (RMB mn)	1,664.9	1,929.0	1,843.1	2,177.9	2,612.1
YoY growth (%)	53.2	15.9	(4.5)	18.2	19.9
EPS (Adjusted) (RMB)	0.53	0.61	0.58	0.68	0.82
Consensus EPS (RMB)	na	na	0.71	0.86	0.93
P/E (x)	7.7	6.8	7.1	6.0	5.0
P/B (x)	1.3	1.1	1.0	0.9	0.8
Yield (%)	4.2	4.3	4.1	4.8	5.8
ROE (%)	17.8	17.8	15.1	15.9	16.8
Net gearing (%)	(11.8)	21.2	26.9	19.4	13.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$7.20**
(Previous TP) HK\$7.90
Up/Downside **60.4%**
Current Price **HK\$4.49**

China Capital Goods

Wayne FUNG, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	14,245.9
Avg 3 mths t/o (HK\$ mn)	37.8
52w High/Low (HK\$)	12.92/3.89
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	-0.7%	-3.7%
3-mth	-28.6%	-25.8%
6-mth	-26.2%	-31.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

1. SANYI (631 HK, BUY) - Expect an improving trend after a weak 1Q24 – 20 May 2024 ([link](#))
2. SANYI (631 HK, BUY) – Expect an unexciting set of results in 1Q24E; Potential recovery in 2H24E – 14 May 2024 ([link](#))
3. SANYI (631 HK, BUY) – Solar power business remains major investor concern during site visit – 29 Mar 2024 ([link](#))

Figure 1: SANYI's 2Q24 results

RMB mn	1Q23	1Q24	Chg (YoY)	2Q23	2Q24	Chg (YoY)	3Q22	3Q23	Chg (YoY)	4Q22	4Q23	Chg (YoY)
Revenue	5,438	5,130	-6%	5,401	5,626	4%	3,969	4,998	26%	3,936	4,441	13%
Cost of sales	-4,108	-3,852	-6%	-3,899	-4,278	10%	-3,090	-3,521	14%	-3,002	-3,303	10%
Gross profit	1,330	1,278	-4%	1,502	1,348	-10%	879	1,476	68%	934	1,139	22%
Gross margin	24.5%	24.9%		27.8%	24.0%		22.2%	29.5%		23.7%	25.6%	
Pretax profit	707	558	-21%	733	594	-19%	432	655	52%	465	165	-65%
Pretax profit margin	13.0%	10.9%		13.6%	10.6%		10.9%	13.1%		11.8%	3.7%	
Net profit	650	516	-21%	552	517	-6%	391	570	46%	369	157	-57%
Net margin	12.0%	10.1%		10.2%	9.2%		9.8%	11.4%		9.4%	3.5%	
Adjusted net profit	650	516	-21%	552	517	-6%	391	570	46%	369	157	-57%
Adjusted net margin	12.0%	10.1%		10.2%	9.2%		9.8%	11.4%		9.4%	3.5%	

Source: Company data, CMBIGM

Figure 2: SANYI's segment breakdown in 1H24

(RMB mn)	1H23	1H24	Change (YoY)
Revenue			
<u>Mining equipment</u>	7,393	6,100	-17.5%
Sales	7,214	5,938	-17.7%
Others	179	161	-9.8%
<u>Logistics equipment</u>	3,172	3,377	6.5%
Sales	3,066	3,282	7.1%
Others	106	95	-10.8%
<u>Oil & Gas equipment</u>	335	862	157.0%
Sales	336	846	151.5%
Others	(1)	16	n/a
<u>Emerging industry equipment</u>	223	702	214.7%
Sales	223	690	209.1%
Others	(0)	12	n/a
Total sales	10,839	10,756	-0.8%
Segment EBIT			
Mining equipment	880	903	2.7%
Logistics machinery	505	568	12.6%
Oil & Gas equipment	57	(36)	n/a
Emerging industry equipment	(1)	(255)	24218.7%
Total segment results	1,441	1,180	-18.1%
Segment margin			ppt
Mining equipment	12.2%	15.2%	3.0
Logistics machinery	16.5%	17.3%	0.8
Oil & Gas equipment	17.0%	-4.3%	-21.3
Emerging industry equipment	-0.5%	-36.9%	-36.5
Average	13.3%	11.0%	-2.3

Source: Company data, CMBIGM

Figure 3: SANYI's results in 1H24

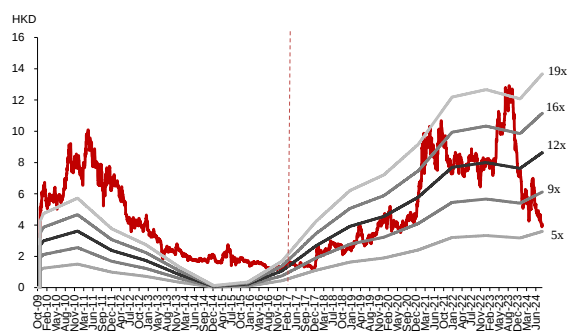
YE Dec 31(RMB mn)	1H23	1H24	Change (YoY)
Total sales	10,839	10,756	-0.8%
Cost of sales	(8,007)	(8,130)	1.5%
Gross profit	2,832	2,626	-7.3%
Other income	298	309	3.9%
Other gains and losses	(122)	(54)	-55.7%
S&D expenses	(536)	(563)	5.1%
Administrative expenses	(968)	(1,109)	14.5%
Other expenses	(49)	(3)	-94.8%
EBIT	1,455	1,207	-17.1%
Net finance income/(cost)	(15)	(54)	270.7%
Finance income	59	59	-0.2%
Finance expenses	(74)	(113)	53.3%
Share of profit of JV and associates	0	0	n/a
Pretax profit	1,441	1,153	-20.0%
Income tax	(257)	(166)	-35.6%
After tax profit	1,183	987	-16.6%
MI	19	46	145.6%
Net profit	1,202	1,033	-14.1%
D&A	196	327	67.2%
EBITDA	1,651	1,534	-7.1%

Source: Company data, CMBIGM

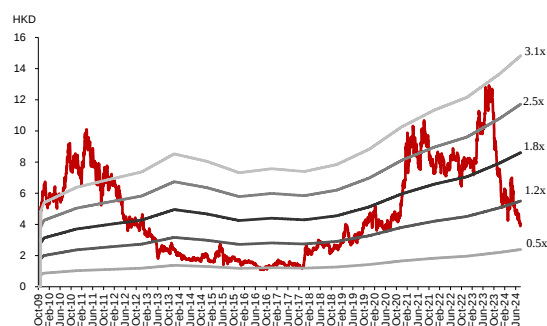
Figure 4: Change in key assumptions for SANYI

	Old			New			Change		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
(RMB mn)									
Revenue									
Road header	2,324	2,324	2,348	2,299	2,299	2,322	-1.1%	-1.1%	-1.1%
Combined coal mining units (CCMU)	4,019	4,341	4,688	3,874	4,184	4,519	-3.6%	-3.6%	-3.6%
Small-size port machinery	6,200	7,316	8,633	6,051	7,140	8,426	-2.4%	-2.4%	-2.4%
Large-size port machinery	1,560	1,763	1,974	1,452	1,641	1,838	-6.9%	-6.9%	-6.9%
Mining trucks	4,682	5,369	5,909	3,590	3,905	4,268	-23.3%	-27.3%	-27.8%
After sales service	1,750	2,188	2,734	1,680	2,050	2,501	-4.0%	-6.3%	-8.6%
Lithium battery	308	370	444	91	317	634	-70.6%	-14.2%	43.0%
Oil and gas equipment	2,410	2,531	2,658	1,680	1,848	1,996	-30.3%	-27.0%	-24.9%
Solar power	2,500	2,875	3,306	1,085	1,248	1,435	-56.6%	-56.6%	-56.6%
Hydrogen	120	228	365	120	228	365	0.0%	0.0%	0.0%
Total	25,874	29,304	33,058	21,922	24,859	28,302	-15.3%	-15.2%	-14.4%
Gross margin									
Road header	40.0%	39.7%	39.5%	40.2%	39.7%	39.5%	0.2	0.0	0.0
Combined coal mining units (CCMU)	18.7%	18.5%	18.4%	17.5%	18.0%	18.3%	(1.2)	(0.5)	(0.1)
Small-size port machinery	33.0%	33.0%	33.0%	32.0%	32.0%	32.0%	(1.0)	(1.0)	(1.0)
Large-size port machinery	11.0%	11.5%	12.0%	15.5%	16.0%	16.0%	4.5	4.5	4.0
Mining trucks	22.0%	22.2%	22.4%	26.0%	26.0%	26.0%	4.0	3.8	3.6
After sales service	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	0.0	0.0	0.0
Lithium battery	20.0%	20.0%	20.0%	15.0%	18.0%	20.0%	(5.0)	(2.0)	0.0
Oil and gas equipment	25.0%	28.0%	30.0%	11.0%	13.0%	15.0%	(14.0)	(15.0)	(15.0)
Solar power	10.0%	12.0%	15.0%	14.0%	15.0%	15.0%	4.0	3.0	0.0
Hydrogen	-10.0%	0.0%	5.0%	-10.0%	0.0%	5.0%	0.0	0.0	0.0
Blended gross margin	25.2%	25.7%	26.3%	26.0%	26.3%	26.5%	0.8	0.6	0.2
Change (ppt)									
S&D expense ratio	6.3%	6.3%	6.3%	6.5%	6.5%	6.5%	0.2	0.2	0.2
Admin expense ratio	11.5%	11.2%	11.0%	11.5%	11.2%	11.0%	0.0	0.0	0.0
Net profit	2,034	2,471	3,016	1,843	2,178	2,612	-9.4%	-11.9%	-13.4%

Source: Company data, CMBIGM estimates

Figure 5: SANYI's P/E band

Source: Bloomberg, company data, CMBIGM estimates

Figure 6: 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; (3) a rebound of raw material costs; and (4) a rising debt ratio due to high potential capex on new businesses.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	10,195	15,537	20,278	21,922	24,859	28,302
Cost of goods sold	(7,805)	(11,908)	(14,831)	(16,215)	(18,327)	(20,799)
Gross profit	2,390	3,628	5,447	5,707	6,533	7,504
Selling expense	(567)	(933)	(1,262)	(1,425)	(1,616)	(1,840)
Admin expense	(1,053)	(1,177)	(2,213)	(2,521)	(2,784)	(3,113)
Other income	391	447	441	482	547	623
Other expense	(1)	(25)	(42)	(22)	(50)	(57)
Other gains/(losses)	347	54	(144)	44	50	57
Share of (losses)/profits of associates/JV	0	0	0	3	3	4
EBITDA	1,756	2,287	2,751	2,978	3,498	4,097
Depreciation	249	293	525	710	815	920
EBIT	1,507	1,994	2,226	2,268	2,683	3,177
Interest income	51	59	193	195	209	237
Interest expense	(120)	(132)	(158)	(303)	(325)	(337)
Net Interest income/(expense)	(69)	(73)	35	(107)	(117)	(99)
Pre-tax profit	1,438	1,921	2,260	2,161	2,566	3,078
Income tax	(129)	(252)	(422)	(389)	(462)	(554)
After tax profit	1,309	1,669	1,839	1,772	2,104	2,524
Minority interest	(50)	(4)	90	71	74	88
Net profit	1,259	1,665	1,929	1,843	2,178	2,612
Adjusted net profit	1,087	1,665	1,929	1,843	2,178	2,612
Gross dividends	385	538	556	535	632	758

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	14,217	17,191	20,778	22,053	25,061	27,902
Cash & equivalents	1,349	2,690	3,241	2,937	4,131	4,834
Account receivables	4,272	6,416	8,356	9,662	10,634	12,318
Inventories	2,529	3,283	3,432	3,676	4,258	4,632
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	2,314	2,574	2,653
Non-current assets	6,568	7,763	14,185	14,977	15,665	16,249
PP&E	3,314	4,066	7,276	8,274	9,168	9,956
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	37,031	40,727	44,151
Current liabilities	9,170	10,836	16,173	16,524	18,350	19,882
Short-term borrowings	1,687	954	2,653	2,853	3,103	3,203
Account payables	4,422	6,646	8,098	8,250	9,826	11,258
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	24,276	26,402	27,934
Total shareholders equity	8,701	10,040	11,589	12,877	14,520	16,501
Minority interest	82	64	(51)	(122)	(196)	(284)
Total equity and liabilities	20,785	24,953	34,963	37,031	40,727	44,151

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,438	1,921	2,260	2,161	2,566	3,078
Depreciation & amortization	249	293	525	710	815	920
Tax paid	(185)	(145)	(431)	(389)	(462)	(554)
Change in working capital	51	(808)	476	(1,428)	(238)	(706)
Others	(630)	(177)	(307)	104	113	96
Net cash from operations	923	1,084	2,524	1,159	2,795	2,834
Investing						
Capital expenditure	(885)	(889)	(2,294)	(1,500)	(1,500)	(1,500)
Acquisition of subsidiaries/ investments	0	0	(2,509)	0	0	0
Others	589	1,529	(162)	196	209	237
Net cash from investing	(296)	639	(4,965)	(1,304)	(1,291)	(1,263)
Financing						
Dividend paid	(451)	(466)	(729)	(556)	(535)	(632)
Net borrowings	(120)	(113)	(126)	(303)	(325)	(337)
Proceeds from share issues	26	8	104	0	0	0
Others	317	194	3,712	700	550	100
Net cash from financing	(227)	(377)	2,961	(159)	(310)	(868)
Net change in cash						
Cash at the beginning of the year	941	1,349	2,690	3,241	2,937	4,131
Exchange difference	8	(6)	32	0	0	0
Cash at the end of the year	1,349	2,690	3,241	2,937	4,131	4,834

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

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

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

CMB International Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.