

SANY International (631 HK)

Robotic business a surprise; More growth drivers ahead

With the strong support of SANY Group (parent company), SANYI is rapidly growing its robot business and we see high visibility in 2021E. Besides, crusher products will be launched in 2H21E which will become another driver. All these, together with fast growing wide-body trucks, will help SANYI achieve diversification and enhance growth quality. We slightly revise up our earnings forecast in 2021E-22E by 4-5% and lift our TP to HK\$11.9 (24x 2021E P/E, on the back of 24% earnings CAGR in 2021E-22E). We believe further support from SANY Group and potential M&A will offer additional upside. Reiterate **BUY**.

- **Robot business supported by group company's orders.** At present, there are three major products, namely robotic integrated system, automated guided vehicle (AGV) and electric forklift. Revenue from robot reached RMB400mn in 2020, accounting for ~5% of total revenue. The sales were driven mainly by SANY Group's lighthouse factories upgrade and construction. The upcoming upgrade of dozens of lighthouse factories will offer high visibility to SANYI's robot business. At present, backlog reaches RMB530mn. This, together with RMB140mn orders for electric forklift, accounts for 14% of total backlog of the Company. SANYI plans to achieve external sales next year after establishing solid track record.
- **High growth of wide-body truck to continue.** Sales volume of wide-body truck reached ~1.2k units in 2020E. SANYI targets to deliver 2k units this year. SANYI expects gross margin for wide-body truck will continue to expand (currently 14%) with the launch of 80t/100t models and rising sales in overseas.
- **Crusher machinery to be launched in 2H21E.** SANYI believes the low industry concentration in crusher industry (several thousand players) will offer room for penetration. SANYI plans to launch crusher machinery in 2H21E with a focus on the high end in order to achieve import substitution. SANYI will leverage on SANY Group's distribution network to speed up the sales. Going forward, SANYI will not only offer equipment sales but also EPC and services for customers.
- **Major risk factors:** (1) weakness in mining activities; (2) higher-than-expected expense to drive the introduction of new products.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	4,417	5,656	7,364	9,718	12,006
YoY growth (%)	78.0	28.1	30.2	32.0	23.5
Net income (RMB mn)	600	920	1,045	1,295	1,603
EPS (RMB)	0.20	0.30	0.34	0.41	0.51
YoY growth (%)	161.6	51.3	12.5	23.3	23.8
Consensus EPS (RMB)	N/A	N/A	0.36	0.47	0.61
EV/EBITDA (x)	21.0	14.7	12.9	10.6	8.7
P/E (x)	34.9	24.3	20.7	16.1	13.0
P/B (x)	3.3	3.2	2.8	2.4	2.1
Yield (%)	1.3	1.5	1.9	2.8	3.5
ROE (%)	9.4	13.6	14.0	15.6	17.4
Net gearing (%)	Net cash				

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$11.90
(Previous TP	HK\$10.50)
Up/Downside	+49%
Current Price	HK\$8.00

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Stock Data

Mkt Cap (HK\$ mn)	25,018
Avg 3 mths t/o (HK\$ mn)	60
52w High/Low (HK\$)	9.90/3.39
Total Issued Shares (mn)	3,100.7

Source: Bloomberg

Shareholding Structure

Sany Heavy Equipment Investments Company	67.7%
Free float	32.3%

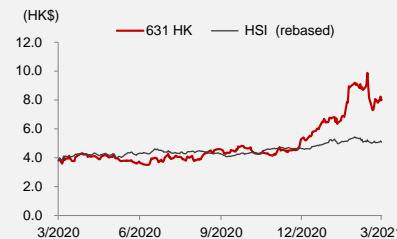
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.0%	-5.3%
3-mth	56.1%	40.6%
6-mth	79.5%	49.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. SANY Int'l (631 HK, BUY) – Product mix enhancement to drive further valuation upside – 16 Feb 2021
2. SANY Int'l (631 HK, BUY) – 3Q earnings below expectation on higher expense but growth remains solid – 23 Oct 2020
3. SANY Int'l (631 HK, BUY) – Share price pullback offers buying opportunity; 24% Earnings CAGR at <10x P/E – 20 Aug 2020

2020 earnings highlights

Net profit in 2020 grew 14% to RMB1.05bn, 5% above our estimates, due to better-than-expected expense ratio. Revenue grew 30% YoY to RMB7.36bn, driven by 42%/13% growth of mining /logistic equipment. Gross margin was 26.3%, slightly down from 26.6% in 2019 due to a change in product mix. It's worth noting that SANYI boosted R&D spending by 16% YoY (to RMB448mn) while administrative expense increased only 10% YoY, suggesting good expense control. In 4Q20, revenue grew 43% YoY, accelerating from 29% in 3Q20. Net profit grew 8% YoY to RMB142mn. SANYI proposed dividend per share of HK\$0.15, representing 39% payout ratio.

Figure 1: Highlights of 2020 results

YE Dec 31(RM B mn)	2019	2020	Change (YoY)	2020E	A vs E	1H 19	1H 20	Change (YoY)	2H 19	2H 20	Change (YoY)
Revenue											
Mining equipment	3,423	4,846	416%	4,514	7.4%	1,809	2,370	310%	1,614	2,477	53.4%
Logistics equipment	2,233	2,518	2.7%	2,836	-112%	1,235	1,446	17.1%	998	1,072	7.4%
Total revenue	5,656	7,364	30.2%	7,351	0.2%	3,044	3,815	25.3%	2,612	3,549	35.8%
Cost of sales	-3,987	-5,403	35.5%	-5,358	0.8%	-2,100	-2,785	32.6%	-1,887	-2,618	38.7%
Gross profit	1,669	1,961	17.5%	1,993	-16%	944	1,030	9.1%	725	931	28.4%
Other income	342	237	-30.6%	338	-29.8%	200	215	7.6%	142	22	-84.5%
Other gains and losses	121	257	113.0%	74	249.6%	22	57	1614%	99	200	102.5%
S&D expenses	-388	-430	11.0%	-470	-8.5%	-181	-180	-0.6%	-207	-251	21.1%
Administrative expenses	-643	-707	10.0%	-735	-8.8%	-336	-311	-7.5%	-307	-396	29.1%
Other expenses	-4	-31	638.5%	-7	326.6%	0	-2	n/a	-4	-30	n/a
EBIT	1,097	1,286	17.3%	1,192	7.9%	649	810	24.7%	448	477	6.4%
Net finance income/(cost)	-27	-96	252.3%	-30	223.9%	-9	-56	n/a	-18	-40	n/a
Finance income	58	36	-37.8%	101	-64.2%	25	19	-23.7%	33	17	-48.8%
Finance expenses	-85	-132	54.8%	-131	1.1%	-34	-75	18.9%	-51	-57	11.7%
Share of profit of JV and associates	0	0	n/a	0	n/a	0	0	n/a	0	0	n/a
Pretax profit	1,070	1,190	11.3%	1,162	2.4%	640	754	17.8%	429	436	1.6%
Income tax	-148	-139	-6.2%	-153	-14.7%	-88	-115	318%	-60	-23	-612%
After tax profit	922	1,052	14.1%	999	5.2%	553	639	15.5%	369	413	11.9%
MI	-2	-6	910%	-2	220.5%	-1	1	n/a	-1	-7	n/a
Net profit	920	1,045	13.6%	997	4.8%	552	640	15.9%	368	405	10.2%
D&A	249	249	-0.2%	267	-6.6%	132	124	-5.7%	118	125	6.0%
EBITDA	1,346	1,535	14.0%	1,458	5.3%	781	934	19.6%	566	601	6.3%

Source: Company data, CMBIS estimates

Figure 2: Quarter results highlights

RMB mn	1Q19	1Q20	Chg (YoY)	2Q19	2Q20	Chg (YoY)	3Q19	3Q20	Chg (YoY)	4Q19	4Q20	Chg (YoY)
Revenue	1,531	1,553	1%	1,513	2,262	50%	1,313	1,689	29%	1,300	1,860	43%
Cost of sales	-1,063	-1,146	8%	-1,037	-1,639	58%	-925	-1,190	29%	-963	-1,428	48%
Gross profit	468	407	-13%	476	623	31%	388	499	29%	337	432	28%
Gross margin	30.6%	26.2%		31.4%	27.5%		29.6%	29.5%		25.9%	23.2%	
Pretax profit	324	296	-9%	316	458	45%	268	278	4%	161	158	-2%
Pretax profit margin	21.2%	19.1%		20.9%	20.2%		20.4%	16.5%		12.4%	8.5%	
Net profit	276	257	-7%	275	383	39%	237	264	11%	131	142	8%
Net margin	18.0%	16.5%		18.2%	16.9%		18.1%	15.6%		10.1%	7.6%	

Source: Company data, CMBIS estimates

Figure 3: SANYI's robotic integrated system



Source: Company, CMBIS

Figure 4: SANYI's AGV

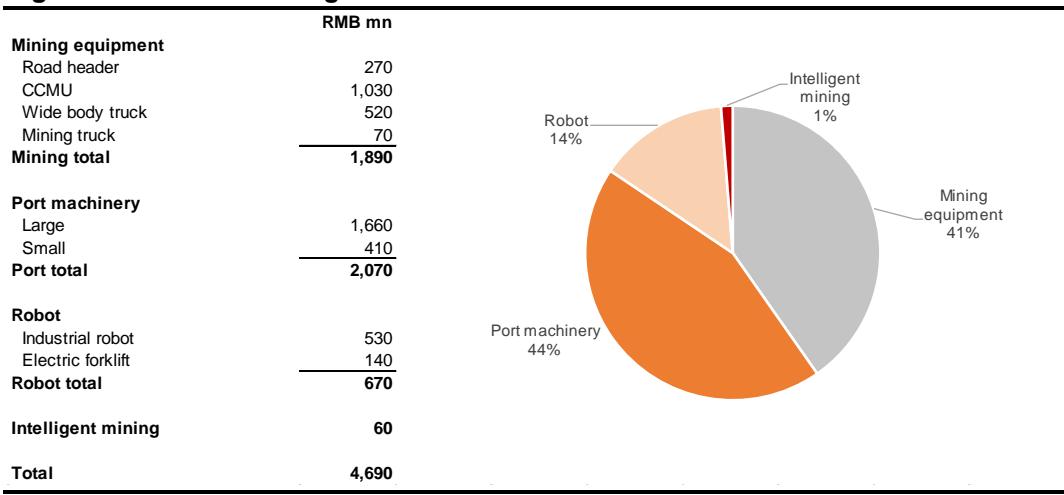


Source: Company, CMBIS

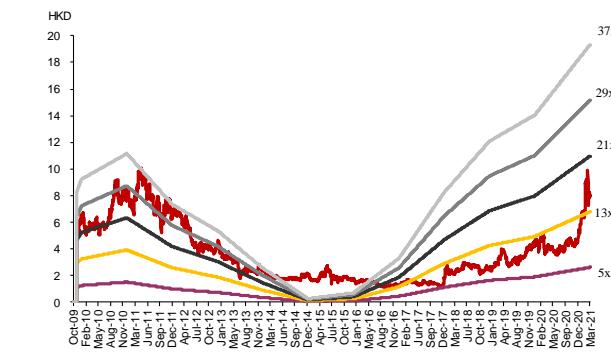
Figure 5: Change in key assumptions on SANYI

	Old 2021E	2022E	New 2021E	2022E	Change 2021E	2022E
(RMB mn)						
Revenue						
Road header	1,568	1,696	1,568	1,696	0.0%	0.0%
Combined coal mining units (CCMU)	1,838	2,168	1,793	2,116	-2.4%	-2.4%
Small-size port machinery	2,088	2,339	2,088	2,360	0.0%	0.9%
Large-size port machinery	1,559	1,746	1,412	1,624	-9.4%	-6.9%
Mining trucks	1,855	2,686	1,855	2,709	0.0%	0.9%
Others	880	1,100	1,000	1,500	13.6%	36.4%
Total	9,788	11,734	9,718	12,006	-0.7%	2.3%
 <i>Blended gross margin</i>	 26.2%	 26.3%	 26.3%	 26.6%	 <i>Change (ppt)</i>	 0.1
 <i>S&D expense ratio</i>	 6.3%	 6.2%	 5.6%	 5.5%	 <i>Change (ppt)</i>	 (0.7)
 <i>Admin expense ratio</i>	 9.7%	 9.2%	 9.4%	 9.3%	 <i>Change (ppt)</i>	 (0.3)
 Net profit	 1,238	 1,541	 1,295	 1,603	 4.6%	 4.0%

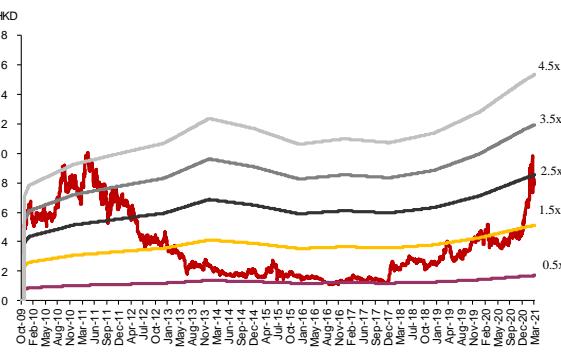
Source: CMBIS estimates

Figure 6: SANYI's backlog in Mar 2021

Source: Company data, CMBIS

Figure 7: SANYI's PE band

Source: Bloomberg, Company data, CMBIS estimates

Figure 8: SANYI's PB band

Source: Bloomberg, Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue					
- Mining equipment	2,561	3,423	4,846	6,017	7,721
- Logistics equipment	1,856	2,233	2,518	3,701	4,284
Total revenue	4,417	5,656	7,364	9,718	12,006
Cost of sales	-3,119	-3,987	-5,403	-7,160	-8,810
Gross profit	1,298	1,669	1,961	2,558	3,196
Other income	242	342	237	340	384
Other gains and losses	35	121	257	155	156
S&D expenses	-329	-388	-430	-544	-660
Administrative expenses	-492	-643	-707	-913	-1,117
Other expenses	-33	-4	-31	-29	-36
EBIT	720	1,097	1,286	1,567	1,923
Net finance income/(cost)	6	-27	-96	-58	-56
Finance income	24	58	36	54	56
Finance expenses	-18	-85	-132	-112	-112
Share of JV and associates	0	0	0	0	0
Pretax profit	726	1,070	1,190	1,509	1,867
Income tax	-123	-148	-139	-211	-261
After tax profit	603	922	1,052	1,298	1,606
MI	-3	-2	-6	-3	-3
Net profit	600	920	1,045	1,295	1,603
D&A	224	249	249	308	353
EBITDA	944	1,346	1,535	1,874	2,276

Cash flow statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Pretax profit	726	1,070	1,190	1,509	1,867
Finance cost	18	85	132	112	112
Interest income	-24	-58	-36	-54	-56
Share of profit or loss of associates	0	0	0	0	0
Depreciation and amortization	224	249	249	308	353
Income tax paid	-137	-100	-139	-211	-261
Change in working capital	-251	-22	237	-501	-706
Others	-275	-424	-563	0	0
Cash flow from operation	280	801	1,070	1,162	1,309
Net capex on PP&E	-93	-216	-401	-500	-500
Interest received	24	58	36	54	56
Others	-466	-2,153	-282	0	0
Cash flow from investing	-536	-2,311	-647	-446	-444
Proceeds from equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	968	1,860	-122	0	0
Dividend paid	-440	-262	-338	-408	-583
Interest paid	-17	-85	-132	-112	-112
Others	0	15	-9	0	0
Cash flow from financing	512	1,527	-602	-520	-695
Change in cash	257	17	-179	196	170
Cash at beginning of the year	814	1,070	1,103	941	1,138
Exchange gains/(losses) and others	-1	16	17	0	0
Cash at the end of the year	1,070	1,103	941	1,138	1,307

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	5,896	5,209	5,448	5,640	5,788
PP&E	2,463	2,413	2,591	2,810	2,983
Prepaid land lease payments	1,678	1,027	1,140	1,114	1,088
Goodwill	1,130	1,130	1,130	1,130	1,130
Non-current prepayment	145	145	10	10	10
Others	90	146	282	282	282
Deferred tax assets	391	348	296	296	296
Current assets	7,029	10,338	12,016	13,205	15,036
Prepayment	634	615	359	359	359
Inventories	1,534	1,438	1,821	2,220	2,704
Trade receivables	2,127	2,634	3,288	3,847	4,836
Bills receivables	499	424	595	630	818
Financial assets	1,046	3,276	4,024	4,024	4,024
Others	84	844	988	988	988
Pledged deposits/Time deposits	34	2	0	0	0
Cash	1,070	1,103	941	1,138	1,307
Current liabilities	5,169	6,421	7,938	8,430	9,385
Trade and bills payables	1,820	1,832	2,893	3,385	4,339
Other payables and accruals	1,423	1,535	1,917	1,917	1,917
Bank borrowings	1,400	2,512	2,645	2,645	2,645
Tax payable	268	253	197	197	197
Government grants	91	94	96	96	96
Others	168	195	191	191	191
Non-current liabilities	1,313	1,980	1,667	1,667	1,667
Bank borrowings	0	747	493	493	493
Deferred tax liabilities	16	37	69	69	69
Government grants	1,298	1,195	1,105	1,105	1,105
Total equity	6,442	7,146	7,859	8,749	9,772
Shareholders' equity	6,431	7,132	7,839	8,726	9,746
MI	12	14	20	23	26

Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
- Mining equipment	58%	61%	66%	62%	64%
- Logistics equipment	42%	39%	34%	38%	36%
Total	100%	100%	100%	100%	100%
P&L ratios (%)					
Gross margin	29%	30%	27%	26%	27%
EBITDA margin	21%	24%	21%	19%	19%
EBIT margin	16%	19%	17%	16%	16%
Net profit margin	14%	16%	14%	13%	13%
Growth (%)					
Revenue	78%	28%	30%	32%	24%
Gross profit	76%	29%	17%	30%	25%
EBITDA	78%	43%	14%	22%	21%
EBIT	155%	52%	17%	22%	23%
Net profit	162%	53%	14%	24%	24%
Balance sheet ratios					
Current ratio (x)	1.4	1.6	1.5	1.6	1.6
Receivable turnover days	152	154	147	134	132
Inventory turnover days	163	136	110	103	102
Payable turnover days	176	167	160	160	160
Net debt / total equity (%)	Net cash				
Returns (%)					
ROA	5%	6%	6%	7%	8%
ROE	9%	14%	14%	16%	17%
Per share					
EPS (RMB)	0.20	0.30	0.336	0.414	0.512
BVPS (RMB)	2.11	2.30	2.52	2.79	3.12
DPS (RMB)	0.09	0.11	0.131	0.186	0.231

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

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