

# SANY International (631 HK)

## Product mix enhancement to drive further valuation upside

We believe the fast-growing mining trucks sales will enable SANYI to benefit from the rising metal prices. Besides, industrial robot and crusher will serve as important growth drivers for SANYI. While we took our earnings forecast in 2020E-22E down by 6-9%, mainly due to the change in product mix and lower government subsidies, we believe the continuous introduction of new products will help SANYI achieve sustainable growth which will lift valuation. We revised up our TP from HK\$5.66 (15x 2020E P/E) to HK\$10.50 (24x 2021E P/E, on the back of 24% earnings CAGR in 2021E-22E). Maintain **BUY**.

- **Wide-body truck will serve as the key growth driver.** We estimate the sales volume of wide-body truck reached 1.1k units in 2020E. We forecast SANYI to deliver 2k units in 2021E, driven by both domestic and overseas demand. In particular, we understand that SANYI already won 600 units of backlog in overseas. At present, 60t is the major model. SANYI has started introducing 70t wide-body truck in the market and is on-track to launch 80t and 100t models in future. We estimate the revenue contribution by wide-body truck will increase from 12% in 2019 to 23% in 2022E.
- **Crusher machinery a new growth driver.** Driven by environmental protection policies, there has been an uptrend of machine-made sand output in China with the proportion rising from ~60% in 2011 to ~75% in 2019. Such trend has continued to boost the demand for crusher machinery. SANYI plans to launch crusher machinery in 2021E with a focus on mid-to-high end segment. We expect this will serve a new growth driver starting 2021E.
- **Robot business the next growth driver.** In early 2020, SANYI and SANY Group (parent company) set up a JV, namely SANY Robot Technology (stake: 65%/35%), to develop the technologies in the field of sensory perception, autonomous decision and automatic control. The JV focuses on the components for electric forklift, automated guided vehicle (AGV) and industrial robot. We estimate the JV started generating revenue through internal sales in 2020 (2-3% of total revenue).
- **Acquisition to expand robot business.** In Jan 2021, SANYI acquired 70% stake in SANY Construction Robot (Xian) Research Institute from SANY Construction Technology (a company owned by the major shareholder of SANYI) for a consideration of RMB17.8mn (3.2x 2020 P/B). The acquisition will help SANYI expand to construction robots.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	4,417	5,656	7,351	9,788	11,734
YoY growth (%)	78.0	28.1	30.0	33.2	19.9
Net income (RMB mn)	600	920	997	1,238	1,541
EPS (RMB)	0.20	0.30	0.32	0.40	0.49
YoY growth (%)	161.6	51.3	7.5	23.2	24.5
Consensus EPS (RMB)	N/A	N/A	0.36	0.47	0.61
EV/EBITDA (x)	24.0	16.8	15.5	12.7	10.4
P/E (x)	38.8	27.0	25.1	20.4	16.4
P/B (x)	3.6	3.5	3.2	2.9	2.6
Yield (%)	1.3	1.5	1.6	2.0	2.4
ROE (%)	9.4	13.6	13.4	15.1	16.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price	HK\$10.50
(Previous TP)	HK\$5.66)
Up/Downside	+18%
Current Price	HK\$8.88

### China Capital Goods

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### Stock Data

Mkt Cap (HK\$ mn)	27,771
Avg 3 mths t/o (HK\$ mn)	38
52w High/Low (HK\$)	9.35/3.39
Total Issued Shares (mn)	3,100.7
Source: Bloomberg	

### Shareholding Structure

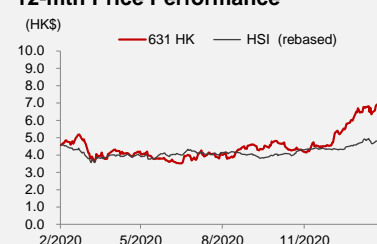
Sany Heavy Equipment	67.7%
Investments Company	
Free float	32.3%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	32.5%	24.0%
3-mth	111.9%	83.7%
6-mth	120.9%	84.7%

Source: Bloomberg

### 12-mth Price Performance

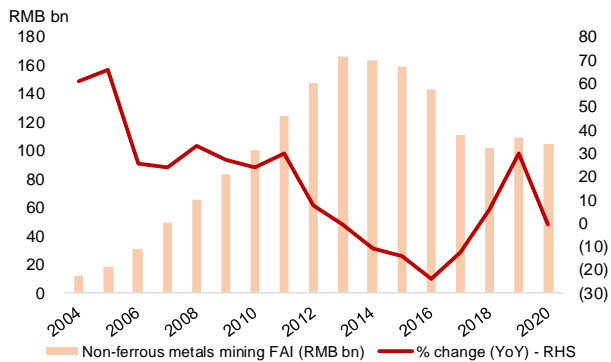


Source: Bloomberg

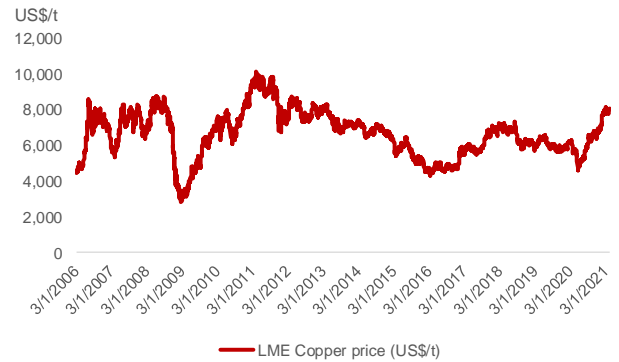
### Auditor: Ernst & Young

### Related Reports

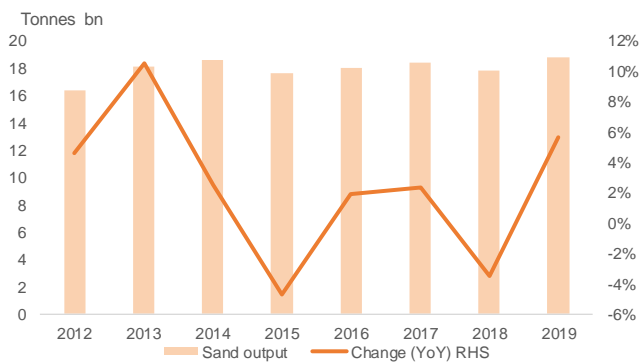
1. SANY Int'l (631 HK, BUY) – 3Q earnings below expectation on higher expense but growth remains solid – 23 Oct 2020
2. SANY Int'l (631 HK, BUY) – Share price pullback offers buying opportunity; 24% Earnings CAGR at <10x P/E – 20 Aug 2020
3. SANY Int'l (631 HK, BUY) – 1Q20 earnings -7% within expectation; New product launch underway – 16 Apr 2020

**Figure 1: China non-ferrous metal FAI**

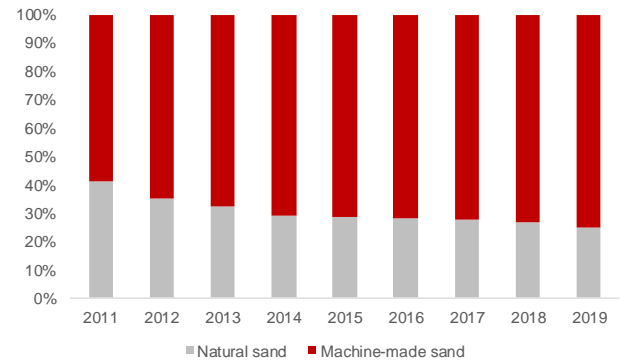
Source: Wind, NBS, CMBIS

**Figure 2: LME copper price**

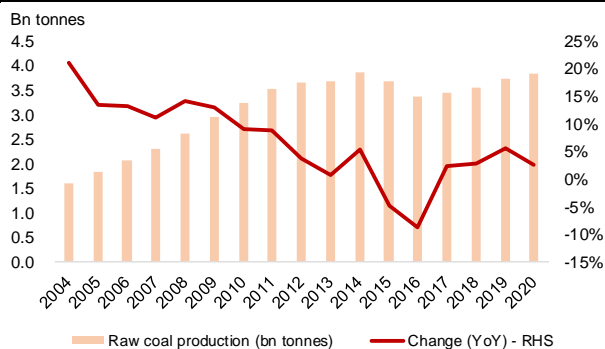
Source: Bloomberg, CMBIS

**Figure 3: China sand output**

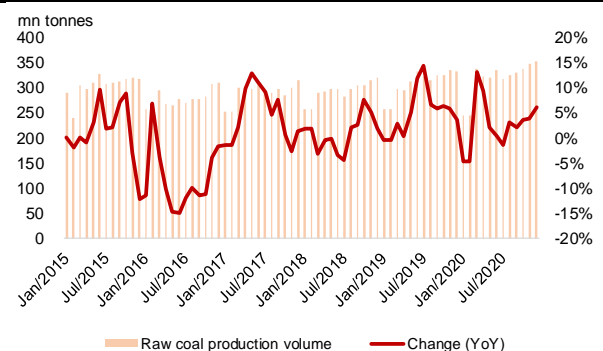
Source: China Aggregates Association, CMBIS

**Figure 4: China natural sand vs machine-made sand**

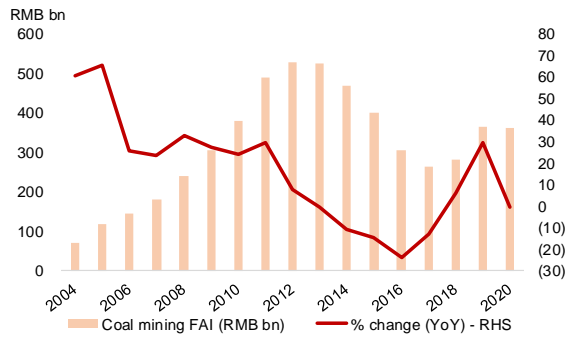
Source: China Aggregates Association, CMBIS

**Figure 5: China raw coal production (annual)**

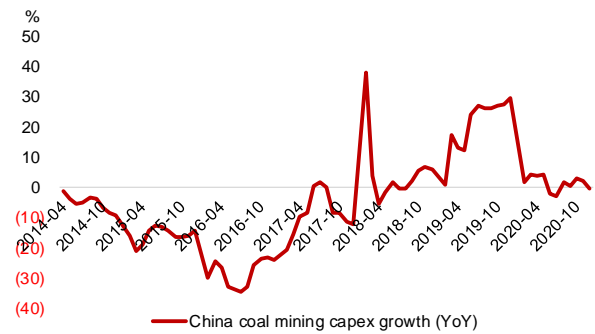
Source: Wind, CCTDCOAL, CMBIS

**Figure 6: China raw coal production (monthly)**

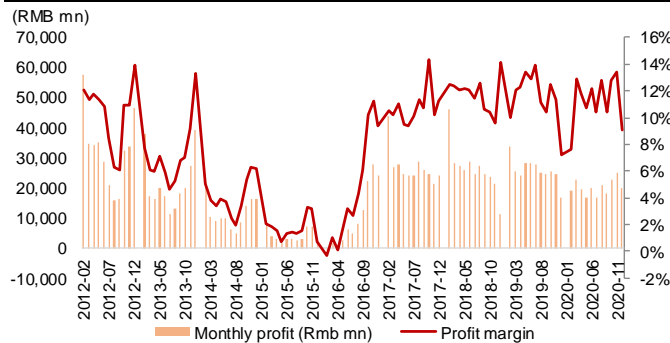
Source: Wind, CCTDCOAL, CMBIS

**Figure 7: China coal mining FAI**

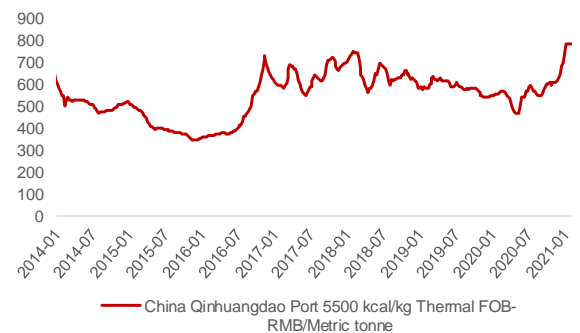
Source: Wind, NBS, CMBIS

**Figure 8: China coal mining FAI growth (YTD)**

Source: Wind, NBS, CMBIS

**Figure 9: China coal miners' monthly profit & margin**

Source: Wind, NBS, CMBIS

**Figure 10: China Qinhuangdao Port 5500 kcal price**

Source: Bloomberg, CMBIS

**Figure 11: SANYI's crusher**

Source: Company data, CMBIS

**Figure 12: SANYI's Electric wide body truck (SKT90E)**

Source: Company data, CMBIS

## New earnings forecast

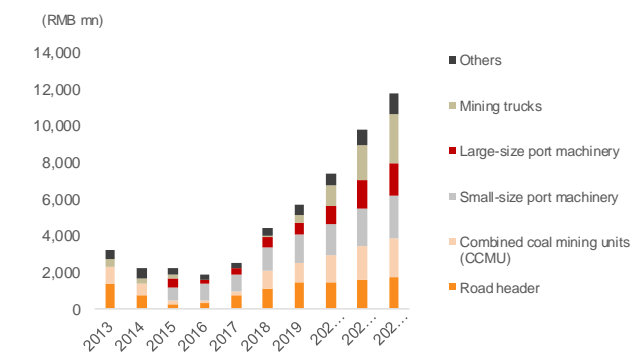
We revised down our earnings forecast in 2020E by 6% to ~RMB1bn, due mainly to our lower assumption on government grant. We forecast revenue growth of 30% and gross margin of 27% for the full year. In 2021E/22E, our earnings forecast is revised down by 9%/8% due to lower margin and higher expense despite higher revenue assumptions. That said, our new estimates still represent 24% earnings CAGR in 2021E-22E. As at mid-Jan, SANYI has a solid backlog amounted to RMB3.7bn.

Figure 13: Key assumptions on SANYI

	2020E	Old 2021E	2022E	2020E	New 2021E	2022E	2020E	Change 2021E	2022E
(RMB mn)									
<b>Revenue</b>									
Road header	1,436	1,568	1,696	1,436	1,568	1,696	0.0%	0.0%	0.0%
Combined coal mining units (CCMU)	1,470	1,985	2,282	1,470	1,838	2,168	0.0%	-7.4%	-5.0%
Small-size port machinery	1,740	2,088	2,339	1,740	2,088	2,339	0.0%	0.0%	0.0%
Large-size port machinery	974	1,656	1,822	974	1,559	1,746	0.0%	-5.9%	-4.2%
Mining trucks	953	1,407	2,007	1,120	1,855	2,686	17.5%	31.8%	33.8%
Others	610	800	950	610	880	1,100	0.0%	10.0%	15.8%
Total	7,184	9,504	11,095	7,351	9,788	11,734	2.3%	3.0%	5.8%
<b>Growth (YoY)</b>									
Road header	2.0%	9.2%	8.2%	2.0%	9.2%	8.2%	0.0	0.0	0.0
Combined coal mining units (CCMU)	37.0%	35.0%	15.0%	37.0%	25.0%	18.0%	0.0	(10.0)	3.0
Small-size port machinery	12.5%	20.0%	12.0%	12.5%	20.0%	12.0%	0.0	0.0	0.0
Large-size port machinery	42.0%	70.0%	10.0%	42.0%	60.0%	12.0%	0.0	(10.0)	2.0
Mining trucks	145.6%	47.6%	42.6%	188.7%	65.6%	44.8%	43.0	18.0	2.1
Others	10.1%	31.1%	18.8%	10.1%	44.3%	25.0%	0.0	13.1	6.3
Total	27.0%	32.3%	16.7%	30.0%	33.2%	19.9%	3.0	0.9	3.1
<b>Gross margin</b>									
Road header	40.0%	40.5%	40.5%	40.0%	40.0%	40.0%	0.0	(0.5)	(0.5)
Combined coal mining units (CCMU)	26.5%	27.5%	27.5%	26.0%	26.5%	26.5%	(0.5)	(1.0)	(1.0)
Small-size port machinery	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	0.0	0.0	0.0
Large-size port machinery	8.0%	10.0%	11.0%	8.0%	9.0%	11.0%	0.0	(1.0)	0.0
Mining trucks	12.5%	14.5%	17.0%	12.5%	14.5%	16.0%	0.0	0.0	(1.0)
Others	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	0.0	0.0	0.0
Blended gross margin	27.6%	26.9%	27.1%	27.1%	26.2%	26.3%	(0.4)	(0.7)	(0.8)
<b>Net profit</b>	<b>1,063</b>	<b>1,366</b>	<b>1,667</b>	<b>997</b>	<b>1,238</b>	<b>1,541</b>	<b>-6.1%</b>	<b>-9.4%</b>	<b>-7.5%</b>

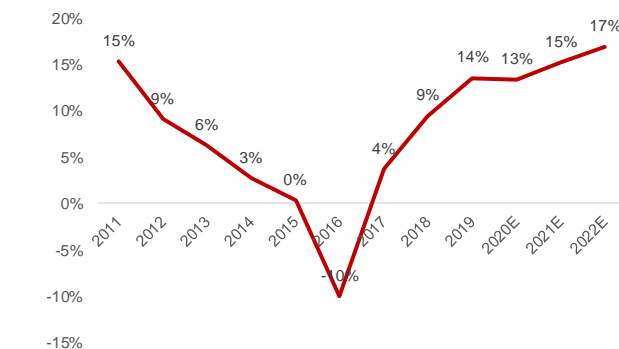
Source: Company data, CMBIS estimates

Figure 14: SANYI's segment revenue growth trend



Source: Company data, CMBIS estimates

Figure 15: SANYI's ROE trend

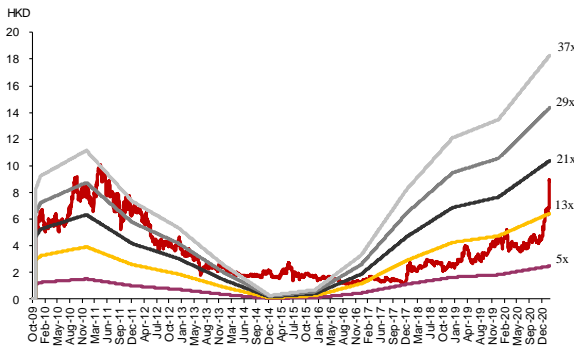


Source: Company data, CMBIS estimates

## Valuation

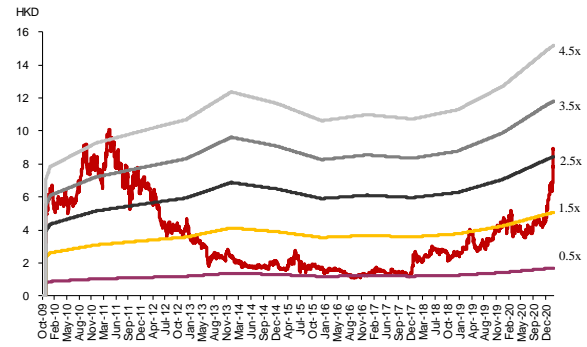
SANYI's share price recently broke the valuation range of 8-13x which has been maintained for four years. We believe the breakthrough was driven by (1) strong coal and base metal prices; and (2) the Company's new business initiative. We expect the re-rating to continue as we forecast SANYI's earnings growth to accelerate in 2021E/22E. We revised up our TP to HK\$10.50, based on 24x 2021E P/E, on the back of 24% earnings CAGR.

**Figure 16: SANYI's PE band**



Source: Bloomberg, Company data, CMBIS estimates

**Figure 17: 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.

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue					
- Mining equipment	2,561	3,423	4,514	5,965	7,430
- Logistics equipment	1,856	2,233	2,836	3,823	4,305
<b>Total revenue</b>	<b>4,417</b>	<b>5,656</b>	<b>7,351</b>	<b>9,788</b>	<b>11,734</b>
Cost of sales	-3,119	-3,987	-5,358	-7,223	-8,648
<b>Gross profit</b>	<b>1,298</b>	<b>1,669</b>	<b>1,993</b>	<b>2,565</b>	<b>3,087</b>
Other income	242	342	338	489	563
Other gains and losses	35	121	74	0	0
S&D expenses	-329	-388	-470	-617	-728
Administrative expenses	-492	-643	-735	-949	-1,080
Other expenses	-33	-4	-7	-10	-12
<b>EBIT</b>	<b>720</b>	<b>1,097</b>	<b>1,192</b>	<b>1,478</b>	<b>1,831</b>
Net finance income/(cost)	6	-27	-30	-36	-35
Finance income	24	58	101	108	109
Finance expenses	-18	-85	-131	-144	-144
Share of JV and associates	0	0	0	0	0
<b>Pretax profit</b>	<b>726</b>	<b>1,070</b>	<b>1,162</b>	<b>1,442</b>	<b>1,796</b>
Income tax	-123	-148	-163	-202	-251
<b>After tax profit</b>	<b>603</b>	<b>922</b>	<b>999</b>	<b>1,240</b>	<b>1,545</b>
MI	-3	-2	-2	-2	-3
<b>Net profit</b>	<b>600</b>	<b>920</b>	<b>997</b>	<b>1,238</b>	<b>1,541</b>
D&A	224	249	267	302	338
<b>EBITDA</b>	<b>944</b>	<b>1,346</b>	<b>1,458</b>	<b>1,780</b>	<b>2,169</b>

### Cash flow statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pretax profit	726	1,070	1,162	1,442	1,796
Finance cost	18	85	131	144	144
Interest income	-24	-58	-101	-108	-109
Share of profit or loss of associates	0	0	0	0	0
Depreciation and amortization	224	249	267	302	338
Income tax paid	-137	-100	-163	-202	-251
Change in working capital	-251	-22	-407	-671	-864
Others	-275	-424	0	0	0
<b>Cash flow from operation</b>	<b>280</b>	<b>801</b>	<b>888</b>	<b>906</b>	<b>1,053</b>
Net capex on PP&E	-93	-216	-500	-500	-400
Interest received	24	58	101	108	109
Others	-466	-2,153	0	0	0
<b>Cash flow from investing</b>	<b>-536</b>	<b>-2,311</b>	<b>-399</b>	<b>-392</b>	<b>-291</b>
Proceeds from equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	968	1,860	800	0	0
Dividend paid	-440	-304	-372	-399	-495
Interest paid	-17	-85	-131	-144	-144
Others	0	57	0	0	0
<b>Cash flow from financing</b>	<b>512</b>	<b>1,527</b>	<b>297</b>	<b>-543</b>	<b>-639</b>
Change in cash	257	17	787	-28	123
Cash at beginning of the year	814	1,070	1,103	1,890	1,862
Exchange gains/(losses) and others	-1	16	0	0	-0
Cash at the end of the year	1,070	1,103	1,890	1,862	1,985

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>5,896</b>	<b>5,209</b>	<b>5,442</b>	<b>5,641</b>	<b>5,703</b>
PP&E	2,463	2,413	2,661	2,873	2,950
Prepaid land lease payments	1,678	1,027	1,013	999	985
Goodwill	1,130	1,130	1,130	1,130	1,130
Non-current prepayment	145	145	145	145	145
Others	90	146	146	146	146
Deferred tax assets	391	348	348	348	348
<b>Current assets</b>	<b>7,029</b>	<b>10,338</b>	<b>12,771</b>	<b>13,882</b>	<b>15,705</b>
Prepayment	634	615	615	615	615
Inventories	1,534	1,438	2,114	2,517	3,075
Trade receivables	2,127	2,634	3,327	4,128	4,873
Bills receivables	499	424	703	638	1,034
Financial assets	1,046	3,276	3,276	3,276	3,276
Others	84	844	844	844	844
Pledged deposits/Time deposits	34	2	2	2	2
Cash	1,070	1,103	1,890	1,862	1,985
<b>Current liabilities</b>	<b>5,169</b>	<b>6,421</b>	<b>8,861</b>	<b>9,328</b>	<b>10,165</b>
Trade and bills payables	1,820	1,832	3,071	3,539	4,375
Other payables and accruals	1,423	1,535	1,535	1,535	1,535
Bank borrowings	1,400	2,512	3,712	3,712	3,712
Tax payable	268	253	253	253	253
Government grants	91	94	94	94	94
Others	168	195	195	195	195
<b>Non-current liabilities</b>	<b>1,313</b>	<b>1,980</b>	<b>1,580</b>	<b>1,580</b>	<b>1,580</b>
Bank borrowings	0	747	347	347	347
Deferred tax liabilities	16	37	37	37	37
Government grants	1,298	1,195	1,195	1,195	1,195
<b>Total equity</b>	<b>6,442</b>	<b>7,146</b>	<b>7,773</b>	<b>8,614</b>	<b>9,664</b>
<b>Shareholders' equity</b>	<b>6,431</b>	<b>7,132</b>	<b>7,757</b>	<b>8,596</b>	<b>9,642</b>
MI	12	14	16	18	21

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
- Mining equipment	58%	61%	61%	61%	63%
- Logistics equipment	42%	39%	39%	39%	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	29%	30%	27%	26%	26%
EBITDA margin	21%	24%	20%	18%	18%
EBIT margin	16%	19%	16%	15%	16%
Net profit margin	14%	16%	14%	13%	13%
<b>Growth (%)</b>					
Revenue	78%	28%	30%	33%	20%
Gross profit	76%	29%	19%	29%	20%
EBITDA	78%	43%	8%	22%	22%
EBIT	155%	52%	9%	24%	24%
Net profit	162%	53%	8%	24%	25%
<b>Balance sheet ratios</b>					
Current ratio (x)	1.4	1.6	1.4	1.5	1.5
Receivable turnover days	152	154	148	139	140
Inventory turnover days	163	136	121	117	118
Payable turnover days	176	167	167	167	167
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROA	5%	6%	6%	7%	8%
ROE	9%	14%	13%	15%	17%
<b>Per share</b>					
EPS (RMB)	0.20	0.30	0.321	0.396	0.493
BVPS (RMB)	2.11	2.30	2.50	2.75	3.08
DPS (RMB)	0.10	0.12	0.128	0.158	0.197

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



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<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

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