

SANY International (631 HK)

Raising earnings forecast & TP on new product development

We forecast SANYI's new products such as pure-water hydraulic support and off-highway wide body mining trucks will see meaningful delivery in 2020E. These, together with the solid backlog of large-size port equipment, will serve as earnings growth drivers in 2020E. We continue to like SANYI's on track new product development and diversification. We raise our 2020E/21E earnings forecast by 4% and 10%, mainly due to higher sales projection on mining truck and large-size port machinery. We raised our TP to HK\$5.6 from HK\$5.0, after rolling over the valuation base from 2019E to 2020E (based on unchanged 2x P/B multiple, on the back of 15-17% ROE in 2020E-21E). Reiterate **BUY**.

- **Explosive growth of wide body mining trucks sales in 2020E.** Wide body trucks can be widely applied in various mine operations. SANYI's mainstream product is SKT90s with rated load of 60-tonne. SANYI targets to penetrate to the customers who are inefficiently using traditional dump trucks in mine operation at present. We estimate SANYI delivered 400 units of wide body truck in 2019E with ASP of RMB650-750k, and we forecast SANYI to deliver 900 units in 2020E, up 125% YoY. SANYI has already established 1,200 units of annual production capacity for wide body trucks. In the long term, SANYI targets to boost the annual capacity to >4k units.
- **Pure water hydraulic support a key driver in the coal mining equipment segment.** SANYI targets to deliver two sets of pure water hydraulic support to its customers in 2020E, which we estimate will contribute RMB500mn revenue and become a key driver in the combined coal mining unit (CCMU) segment. For road header, we expect the growth will be driven by ASP increase boosted by the continuous product upgrade.
- **Growth visibility on port equipment.** We expect SANYI's large-size port machinery to continue to benefit from the trend of port automation. We forecast the backlog on hand should support 50% revenue growth in 2020E.
- **Major risk factors:** (1) decline in coal mining activities; (2) increase in component cost; (3) 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)	22.0	12.4	8.3	6.7	5.6
P/E (x)	51.6	20.0	14.0	11.0	9.2
P/B (x)	1.9	1.9	1.8	1.6	1.4
Yield (%)	4.6	2.5	2.1	2.7	3.3
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\$5.00)
Up/Downside	+22%
Current Price	HK\$4.58

China Capital Goods

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Stock Data

Mkt Cap (HK\$ mn)	14,200
Avg 3 mths t/o (HK\$ mn)	22
52w High/Low (HK\$)	4.68/2.30
Total Issued Shares (mn)	3,100.7
Source: Bloomberg	

Shareholding Structure

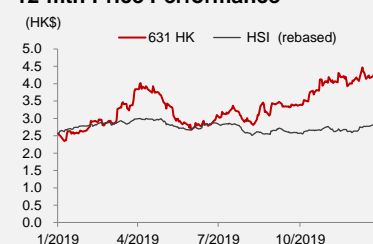
Sany Heavy Equipment	67.7%
Investments Company	
Free float	32.3%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	+13.9%	+5.0%
3-mth	+38.3%	+25.5%
6-mth	+50.3%	+52.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

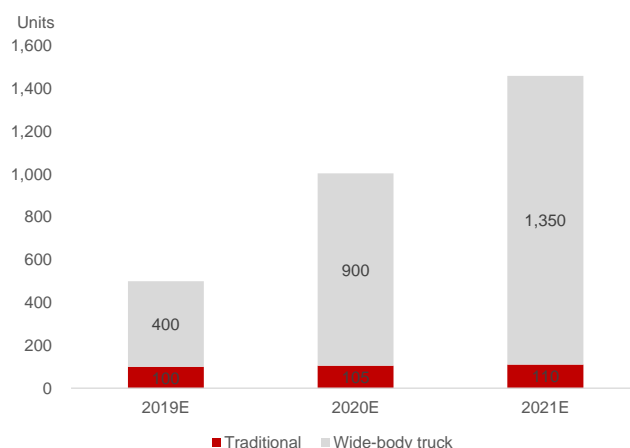
1. Sany Int'l (631 HK, BUY) – 3Q19 margin beat but revenue missed; Profit +55% YoY in line – 23 Oct 2019
2. Sany Int'l (631 HK, BUY) – Net profit +54% YoY; Strong cash flow a +ve surprise – 22 Aug 2019
3. Sany Int'l (631 HK, BUY) – Zhuhai site visit reaffirmed our positive stance – 16 May 2019

Figure 1: SANYI's off-highway wide-body truck



Source: Company, CMBIS

Figure 2: SANYI's mining truck sales projection



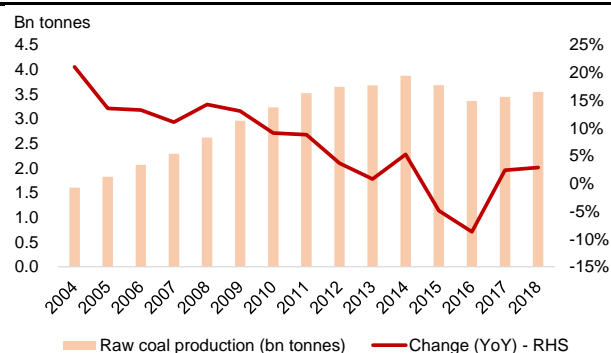
Source: Company data, CMBIS estimates

Figure 3: Change in key assumptions

	Old			New			Change		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
(RMB mn)									
Revenue									
Road header	1,349	1,551	1,737	1,457	1,675	1,876	8.0%	8.0%	8.0%
Combined coal mining units (CCMU)	1,314	1,774	2,093	1,111	1,666	2,000	-15.4%	-6.0%	-4.5%
Small-size port machinery	1,462	1,608	1,769	1,436	1,593	1,753	-1.8%	-0.9%	-0.9%
Large-size port machinery	700	980	1,274	799	1,214	1,518	14.2%	24.0%	19.2%
Mining trucks	600	850	900	512	879	1,225	-14.7%	3.4%	36.1%
Others	570	600	650	570	650	800	0.0%	8.3%	23.1%
Total	5,994	7,362	8,422	5,884	7,678	9,172	-1.8%	4.3%	8.9%
Growth (YoY)									
Road header	25.0%	15.0%	12.0%	35.0%	15.0%	12.0%	10.0	0.0	(0.0)
Combined coal mining units (CCMU)	36.0%	35.0%	18.0%	15.0%	50.0%	20.0%	(21.0)	15.0	2.0
Small-size port machinery	12.0%	10.0%	10.0%	10.0%	11.0%	10.0%	(2.0)	1.0	0.0
Large-size port machinery	27.0%	40.0%	30.0%	45.0%	52.0%	25.0%	18.0	12.0	(5.0)
Mining trucks	581.8%	41.7%	5.9%	481.8%	71.6%	39.4%	(100.0)	30.0	33.5
Others	33.2%	5.3%	8.3%	33.2%	14.0%	23.1%	0.0	8.8	14.7
Total	35.7%	22.8%	14.4%	33.2%	30.5%	19.5%	(2.5)	7.7	5.1
Gross margin									
Road header	46.5%	46.5%	46.0%	46.5%	46.5%	46.0%	0.0	0.0	0.0
Combined coal mining units (CCMU)	26.5%	27.0%	27.5%	26.5%	27.0%	27.5%	0.0	0.0	0.0
Small-size port machinery	34.5%	34.5%	34.5%	34.5%	34.5%	34.5%	0.0	0.0	0.0
Large-size port machinery	10.0%	13.0%	13.0%	10.0%	13.0%	13.0%	0.0	0.0	0.0
Mining trucks	12.0%	14.0%	15.0%	11.0%	14.0%	17.0%	(1.0)	0.0	2.0
Others	48.2%	48.0%	48.0%	48.2%	48.0%	48.0%	0.0	0.0	0.0
Blended gross margin	31.6%	31.1%	30.8%	31.9%	30.9%	30.6%	0.3	(0.2)	(0.2)
Net profit									
	918	1,130	1,282	916	1,172	1,410	-0.2%	3.7%	10.0%

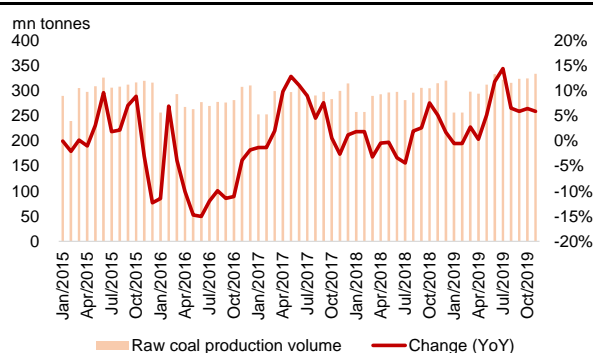
Source: Company data, CMBIS estimates

Figure 4: China raw coal production (annual)

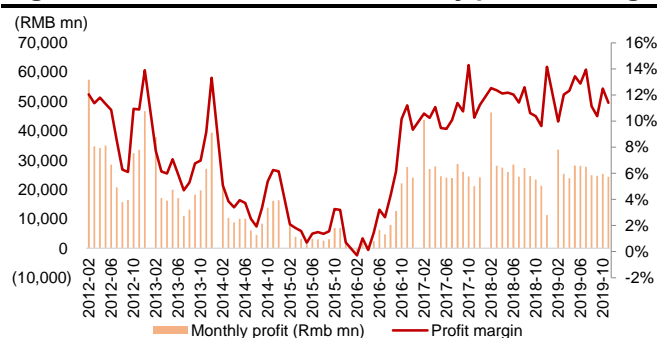


Source: Wind, CCTDCOAL, CMBIS

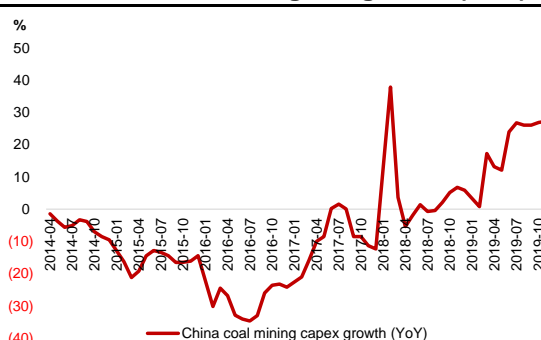
Figure 5: China raw coal production (monthly)



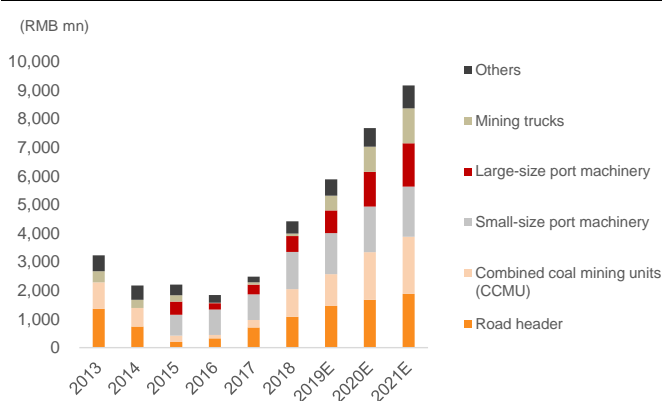
Source: Wind, CCTDCOAL, CMBIS

Figure 6: China coal miners' monthly profit & margin

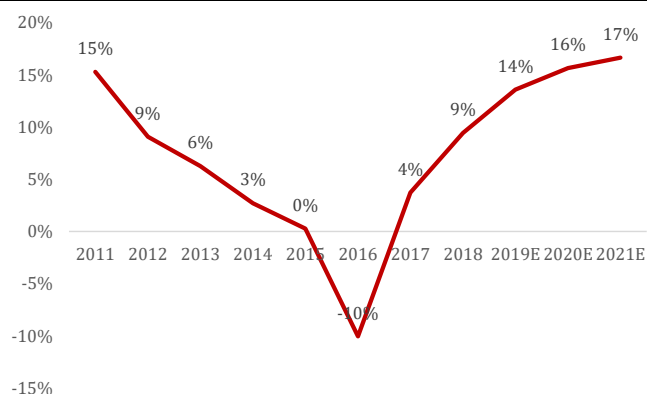
Source: Wind, NBS, CMBIS

Figure 7: China coal mining FAI growth (YTD)

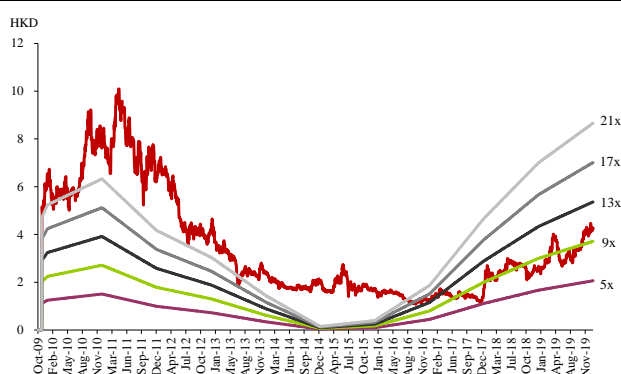
Source: Wind, NBS, CMBIS

Figure 8: SANYI's segment revenue growth trend

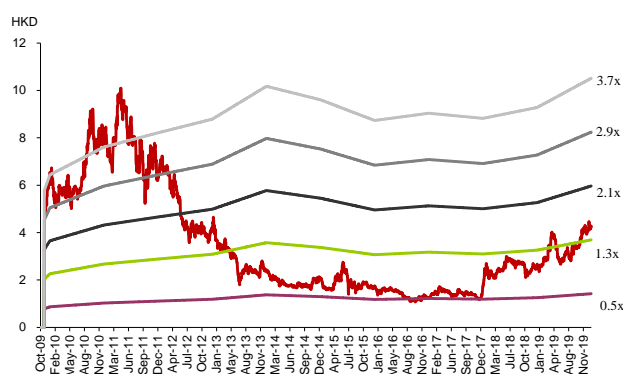
Source: Company data, CMBIS estimates

Figure 9: SANYI's ROE trend

Source: Company data, CMBIS estimates

Figure 10: SANYI's P/E band

Source: Bloomberg, Company data, CMBIS estimates

Figure 11: 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
Total revenue	2,481	4,417	5,884	7,678	9,172
Cost of sales	(1,744)	(3,119)	(4,006)	(5,307)	(6,364)
Gross profit	738	1,298	1,878	2,371	2,807
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)
EBIT	282	720	1,089	1,396	1,679
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
Pretax profit	315	726	1,109	1,420	1,707
Income tax	(84)	(123)	(189)	(241)	(290)
After tax profit	231	603	920	1,178	1,417
MI	(2)	(3)	(5)	(6)	(7)
Net profit	229	600	916	1,172	1,410
Adjusted net profit	173	409	766	1,022	1,260
D&A	249	224	310	350	390
EBITDA	531	944	1,399	1,746	2,069

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
Cash flow from operation	607	280	962	864	1,142
Net capex on PP&E	(249)	(201)	(400)	(500)	(500)
Interest received	22	24	52	61	66
Others	(661)	(359)	0	0	0
Cash flow from investing	(888)	(536)	(348)	(439)	(434)
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
Cash flow from financing	266	512	163	(313)	(390)
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
Non-current assets	6,102	5,896	5,986	6,137	6,247
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
Current assets	5,097	7,029	8,279	10,120	11,018
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
Current liabilities	2,919	5,169	5,893	6,982	6,925
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
Non-current liabilities	1,918	1,313	1,313	1,313	1,313
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
Total equity	6,362	6,442	7,058	7,962	9,027
Shareholders' equity	6,304	6,431	7,042	7,940	8,998
MI	58	12	16	22	29

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Energy equipment	48%	58%	60%	62%	63%
Port machinery	52%	42%	40%	38%	37%
Total	100%	100%	100%	100%	100%
P&L ratios (%)					
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%
Growth (%)					
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%
Balance sheet ratios					
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
Returns (%)					
ROE	2%	5%	7%	8%	8%
ROA	4%	9%	14%	16%	17%
Per share					
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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