

SANY Heavy (600031 CH)

Expect a better 2H24E but consensus remains high; Maintain HOLD

During the post-results call, SANY Heavy (SANY) remained positive on the overseas outlook despite the recent weakness of excavators in Europe and the US. SANY expects the sales in the US to see potential stabilisation in 2025E, while the growth in emerging countries will continue to be strong. For 2H24E, SANY expects China's sales to stabilize (-12% in 1H24) while overseas sales growth will accelerate (+4.8% in 1H24). Given that our 2024E-26E earnings forecasts (unchanged after 1H24 results) remain 13-29% below consensus even taking into consideration of growth acceleration in 2H, we maintain our **HOLD** rating with an unchanged TP of RMB14.8, based on 24x 2024E P/E.

- **2Q24 results highlights.** Revenue dropped 3% YoY to RMB21.2bn. Gross margin slightly contracted 0.4ppt YoY to 28.6%. S&D / administrative expense ratio increased 0.3ppt / 0.4ppt YoY to 8%/3%, while R&D expense ratio reduced 0.5ppt YoY to 6.2% (a continuous reduction trend since late 2022). Pre-tax profit slightly increased 0.5% YoY, as the FX loss (versus large gain in 2Q23) was offset by a reduction of fair value loss. Net profit increased 5.5% YoY to RMB2bn, helped by lower tax rate. Operating cash inflow surged 1x YoY to RMB4bn from a low base.
- **Overseas revenue growth driven by Africa in 1H24.** Overseas revenue in 1H24 (62% of total revenue) grew 4.8% YoY to RMB23.5bn. In terms of region, Africa surged 66% YoY to RMB2.3bn (10% of overseas revenue). Asia Pacific (ex-China) grew 3% YoY to RMB9.2bn (39% of overseas). Europe grew 1% YoY to RMB8.2bn (35% of overseas). America revenue dropped 4% YoY to RMB3.8bn (16% of overseas). In terms of products, overseas' excavator / concrete machinery / crane were -7%/+10%/+20%. Overseas gross margin expanded 0.6ppt YoY to 31.6%.
- **Outlook for emerging markets:** SANY expects Africa (+60% YoY in 1H24), Latin America (+70% in 1H24) and the Middle East will see explosive growth potential across different products. India is expected to maintain 30% growth going forward and SANY will increase the production capacity there. For Indonesia (where SANY has 30% market share for excavators), sales were affected by the election but have been recovered recently.
- **Outlook for Europe and the US.** Sales in the US market were affected by high inventories, and SANY expects a recovery in 2025E. For Europe, cranes will see decent growth in 2H24E.
- **Outlook for China.** Small-size excavators have maintained an accelerated growth trend, while medium & large-size excavators are stabilizing. Concrete machinery and cranes remain on a downtrend.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	80,822	74,019	77,600	84,438	91,222
YoY growth (%)	(24.4)	(8.4)	4.8	8.8	8.0
Adjusted net profit (RMB mn)	4,272.8	4,527.5	5,225.5	6,205.8	6,878.4
EPS (Reported) (RMB)	0.50	0.53	0.62	0.73	0.81
YoY growth (%)	(64.5)	6.0	15.5	18.8	10.8
Consensus EPS (RMB)	na	na	0.71	0.91	1.14
P/E (x)	32.0	30.2	26.2	22.0	19.9
P/B (x)	2.1	2.0	1.9	1.8	1.7
Yield (%)	1.0	1.4	1.6	1.9	2.1
Net gearing (%)	(5.3)	6.2	4.6	2.7	(1.7)

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price RMB14.80
Up/Downside (8.2%)
Current Price RMB16.12

China Capital Goods

Wayne FUNG, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	136,790.1
Avg 3 mths t/o (RMB mn)	667.4
52w High/Low (RMB)	17.46/12.70
Total Issued Shares (mn)	8485.7

Source: FactSet

Shareholding Structure

SANY Group	29.2%
Liang Wengen	2.8%

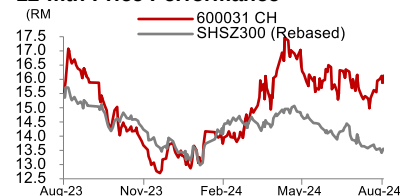
Source: SSE

Share Performance

	Absolute	Relative
1-mth	3.3%	4.8%
3-mth	-0.7%	7.5%
6-mth	15.6%	22.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports

Capital Goods sector - RMB300bn capital to finance equipment replacement – 26 Jul 2024 ([link](#))

Capital Goods – Domestic excavator sales +29% YoY in May – 7 Jun 2024 ([link](#))

SANY Heavy - 2023 net profit a miss; 1Q24 still weak; Stay on the sidelines – 29 Apr 2024 ([link](#))

Figure 1: SANY Heavy's 2Q24 results

(RMB mn)	1Q23	1Q24	Chg YoY	2Q23	2Q24	Chg YoY	3Q22	3Q23	Chg YoY	4Q22	4Q23	Chg YoY
Total revenue	17,997	17,830	-0.9%	21,918	21,230	-3.1%	19,093	16,222	-15.0%	21,658	17,883	-17.4%
Cost of sales	-12,985	-12,767	-1.7%	-15,574	-15,169	-2.6%	-14,547	-11,450	-21.3%	-15,692	-13,303	-15.2%
Gross profit	5,011	5,063	1.0%	6,344	6,062	-4.5%	4,546	4,771	5.0%	5,966	4,580	-23.2%
Other income	-90	-113	25.5%	-132	-98	-26.1%	-69	-81	18.7%	-115	-120	4.4%
S&D expenses	-1,301	-1,380	6.1%	-1,685	-1,691	0.4%	-1,597	-1,572	-1.6%	-1,844	-1,660	-10.0%
Administrative expenses	-721	-670	-7.2%	-580	-641	10.5%	-646	-647	0.2%	-745	-703	-5.6%
R&D expense	-1,407	-1,294	-8.1%	-1,468	-1,319	-10.2%	-1,610	-1,353	-15.9%	-2,377	-1,636	-31.2%
Fair value change	-92	191	n/a	-905	-7	-99.3%	-204	417	n/a	331	602	82.2%
Asset impairment	-99	-150	51.2%	-541	-302	-44.2%	-263	-252	-4.1%	-285	-365	28.0%
EBIT	1,300	1,648	26.7%	1,033	2,004	94.1%	158	1,282	713.2%	931	698	-25.0%
Net finance income/(expense)	93	-155	n/a	896	-105	n/a	401	-482	n/a	-780	-45	-94.3%
Other gains/(losses)	322	309	-4.1%	333	349	4.8%	521	-11	n/a	446	-153	n/a
Share of profit of JV & associates	9	44	394.0%	4	27	662.3%	-6	-3	-45.0%	3	41	1203.9%
Pretax profit	1,724	1,845	7.0%	2,265	2,275	0.5%	1,074	786	-26.8%	600	542	-9.7%
Income tax	-163	-221	36.0%	-329	-250	-24.1%	-84	-135	60.7%	84	-84	n/a
After tax profit	1,562	1,623	4.0%	1,936	2,025	4.6%	990	651	-34.2%	683	458	-33.0%
MI	-50	-43	-13.5%	-47	-32	-30.9%	-27	-4	-85.9%	-8	22	n/a
Net profit	1,512	1,580	4.5%	1,889	1,993	5.5%	963	647	-32.8%	676	480	-29.0%
Key ratios:			ppt			ppt			ppt			ppt
Gross margin	27.8%	28.4%	0.5	28.9%	28.6%	-0.4	23.8%	29.4%	5.6	27.5%	25.6%	-1.9
S&D expense ratio	7.2%	7.7%	0.5	7.7%	8.0%	0.3	8.4%	9.7%	1.3	8.5%	9.3%	0.8
Administrative expense ratio	4.0%	3.8%	-0.3	2.6%	3.0%	0.4	3.4%	4.0%	0.6	3.4%	3.9%	0.5
R&D expense ratio	7.8%	7.3%	-0.6	6.7%	6.2%	-0.5	8.4%	8.3%	-0.1	11.0%	9.1%	-1.8
Net profit margin	8.7%	9.1%	0.4	8.8%	9.5%	0.7	5.2%	4.0%	-1.2	3.2%	2.6%	-0.6
Effective tax rate	9.4%	12.0%	2.6	14.5%	11.0%	-3.5	7.8%	17.2%	9.3	-14.0%	15.5%	29.4

Source: Company data, CMBIGM estimates

Figure 2: SANY Heavy's overseas revenue breakdown

Overseas revenue breakdown by region							
(RMB mn)	2022	2023	Chg YoY	% of total	1H23	1H24	Chg YoY
Asia Pacific (ex-China)	14,850	16,500	11%	38%	8,938	9,170	3%
Europe	11,780	16,250	38%	38%	8,182	8,270	1%
America	7,100	7,580	7%	18%	3,958	3,790	-4%
Africa	2,850	2,920	2%	7%	1,388	2,310	66%
Total	36,580	43,250	18%	100%	22,466	23,540	5%

Source: Company data, CMBIGM estimates

Figure 3: SANY Heavy's 1H24 revenue and gross margin breakdown

(RMB mn)	1H23	1H24	Change (YoY)
Revenue			
Concrete machinery	8,395	7,957	-5.2%
Excavator	15,150	15,215	0.4%
Crane machinery	7,364	6,620	-10.1%
Piling machinery	1,254	1,165	-7.1%
Earth moving machinery	1,363	1,578	15.7%
Other machinery	5,107	5,295	3.7%
Revenue (construction machinery)	38,633	37,830	-2.1%
Interest income from financing	418	322	-22.9%
Other business	864	908	5.1%
Total revenue	39,915	39,060	-2.1%
Gross margin			Change (ppt)
Concrete machinery	22.1%	22.2%	0.1
Excavator	34.3%	34.2%	(0.1)
Crane machinery	25.0%	27.6%	2.6
Piling machinery	32.7%	30.8%	(1.9)
Earth moving machinery	28.9%	29.2%	0.3
Other machinery	23.9%	21.0%	(2.9)
Gross margin (construction machinery)	28.2%	28.3%	0.1
Interest income from financing	50.7%	57.1%	6.5
Other business	26.7%	24.0%	(2.7)
Blended gross margin	28.4%	28.5%	0.0

Source: Company data, CMBIGM

Figure 4: SANY Heavy's 1H24 financials

YE Dec 31(RMB mn)	1H23	1H24	Change (YoY)
Total revenue	39,915	39,060	-2.1%
Cost of sales	-28,559	-27,936	-2.2%
Gross profit	11,356	11,124	-2.0%
Surcharge	-222	-211	-5.2%
S&D expenses	-2,986	-3,071	2.8%
Administrative expenses	-1,301	-1,310	0.7%
R&D expense	-2,875	-2,612	-9.1%
Fair value change	-998	184	n/a
Asset impairment	-641	-452	-29.4%
EBIT	2,333	3,652	56.6%
Net finance income/(cost)	989	-261	n/a
Finance income	1,539	218	-85.9%
Finance expenses	-550	-479	-13.0%
Other gains/(losses)	654	657	0.4%
Share of profit of JV and associates	12	71	471.7%
Pretax profit	3,989	4,120	3.3%
Income tax	-492	-471	-4.2%
After tax profit	3,497	3,648	4.3%
MI	-97	-76	-21.9%
Net profit	3,400	3,573	5.1%
Recurring net profit	3,400	3,573	5.1%
D&A	1,512	1,814	20.0%
EBITDA	3,845	5,467	42.2%
Key ratios			
Gross margin	28.4%	28.5%	0.0
S&D expense ratio	7.5%	7.9%	0.4
Administrative expense ratio	3.3%	3.4%	0.1
R&D expense ratio	7.2%	6.7%	-0.5
Net profit margin	8.8%	9.3%	0.6
Effective tax rate	12.3%	11.4%	-0.9

Source: Company data, CMBIGM

Figure 5: Key assumptions for SANY Heavy

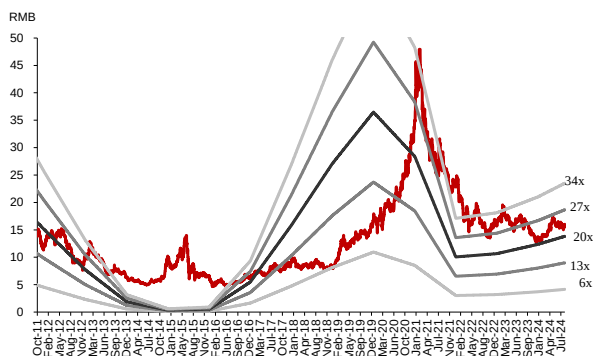
(RMB mn)	2019	2020	2021	2022	2023	2024E	2025E	2026E
Revenue								
Concrete machinery	23,200	27,052	26,674	15,080	15,315	15,640	16,815	18,160
Excavator	27,624	37,528	41,751	35,756	27,636	28,647	31,512	34,033
Crane machinery	13,979	19,409	21,859	12,670	12,999	13,165	14,093	15,220
Piling machinery	4,810	6,825	5,166	3,065	2,085	2,111	2,217	2,328
Earth moving machinery	2,148	2,804	2,706	3,081	2,485	3,127	3,283	3,448
Other machinery	2,166	3,206	5,405	8,449	11,001	12,321	13,800	15,180
Revenue (construction machinery)	73,926	96,825	103,561	78,101	71,521	75,012	81,720	88,369
Interest income from financing	567	712	760	804	797	837	879	923
Other business	1,740	2,517	2,553	1,918	1,700	1,751	1,839	1,931
Total revenue	76,233	100,054	106,874	80,822	74,019	77,600	84,438	91,222
Revenue growth								
Concrete machinery	36.8%	16.6%	-1.4%	-43.5%	1.6%	2.1%	7.5%	8.0%
Excavator	43.5%	35.9%	11.3%	-14.4%	-22.7%	3.7%	10.0%	8.0%
Crane machinery	49.6%	38.8%	12.6%	-42.0%	2.6%	1.3%	7.0%	8.0%
Piling machinery	2.5%	41.9%	-24.3%	-40.7%	-32.0%	1.2%	5.0%	5.0%
Earth moving machinery	0.7%	30.6%	-3.5%	13.9%	-19.3%	25.8%	5.0%	5.0%
Other machinery	10.7%	48.0%	68.6%	56.3%	30.2%	12.0%	12.0%	10.0%
Revenue (construction machinery)	36.1%	31.0%	7.0%	-24.6%	7.0%	4.9%	8.9%	8.1%
Interest income from financing	0.0%	25.6%	6.7%	5.8%	-0.8%	5.0%	5.0%	5.0%
Other business	17.2%	44.7%	1.4%	-24.9%	-11.3%	3.0%	5.0%	5.0%
Total revenue	36.6%	31.2%	6.8%	-24.4%	6.8%	4.8%	8.8%	8.0%
Gross margin								
Concrete machinery	29.8%	27.3%	25.0%	21.8%	22.3%	23.0%	23.0%	23.0%
Excavator	38.6%	34.7%	28.9%	27.9%	33.2%	33.1%	33.7%	33.8%
Crane machinery	24.3%	21.7%	19.6%	15.8%	24.7%	25.2%	25.3%	25.3%
Piling machinery	45.4%	45.0%	40.7%	36.5%	34.1%	33.4%	33.5%	33.5%
Earth moving machinery	36.9%	31.1%	28.6%	22.3%	30.0%	30.0%	30.0%	30.0%
Other machinery	29.0%	24.7%	20.8%	19.9%	23.4%	21.5%	22.5%	23.0%
Gross margin (construction machinery)	33.3%	30.3%	26.1%	24.0%	27.7%	27.6%	28.0%	28.1%
Interest income from financing	52.1%	55.9%	60.8%	54.7%	52.7%	52.0%	52.0%	52.0%
Other business	8.4%	11.5%	15.7%	24.8%	27.1%	26.0%	26.0%	26.0%
Blended gross margin	32.8%	30.0%	26.1%	24.3%	28.0%	27.8%	28.2%	28.3%

Source: Company data, CMBIGM estimates

Valuation

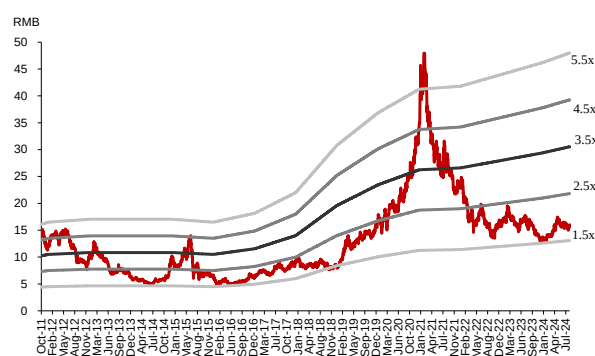
Our TP of RMB14.8, based on 24x 2024E P/E which is equivalent to 0.5SD above the average of 20x since 2017. We apply an above average target multiple as we see initial signs of stabilisation of excavator sales in China's market, and we expect a moderate recovery in 2025E.

Figure 6: SANY's P/E band



Source: Company data, Bloomberg, CMBIGM estimates
 Note: 12M forward P/E on daily basis

Figure 7: SANY's P/B band



Source: Company data, Bloomberg, CMBIGM estimates
 Note: 12M forward P/B on daily basis

Upside risk: stabilization of property investment in China

Downside risks: further slowdown of overseas demand; further deterioration of China's demand

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	106,874	80,822	74,019	77,600	84,438	91,222
Cost of goods sold	(78,978)	(61,164)	(53,312)	(56,020)	(60,618)	(65,404)
Gross profit	27,896	19,658	20,707	21,580	23,820	25,818
Operating expenses	(17,057)	(17,147)	(16,394)	(16,033)	(17,280)	(18,579)
Selling expense	(6,699)	(6,302)	(6,218)	(6,674)	(7,262)	(7,845)
Admin expense	(2,771)	(2,639)	(2,651)	(2,716)	(2,955)	(3,193)
R&D expense	(6,509)	(6,923)	(5,865)	(5,665)	(5,995)	(6,386)
Others	(1,079)	(1,283)	(1,660)	(979)	(1,068)	(1,156)
Operating profit	10,839	2,512	4,313	5,547	6,540	7,239
Share of (losses)/profits of associates/JV	(17)	27	50	60	61	62
EBITDA	12,861	4,906	7,201	8,794	10,148	11,046
Depreciation	2,022	2,394	2,888	3,248	3,608	3,808
Interest income	664	696	980	725	790	886
Interest expense	(539)	(403)	(517)	(663)	(665)	(667)
Net Interest income/(expense)	125	294	463	62	125	219
Others	2,910	2,000	491	500	600	600
Pre-tax profit	13,857	4,832	5,317	6,169	7,326	8,120
Income tax	(1,530)	(428)	(710)	(864)	(1,026)	(1,137)
Minority interest	(292)	(132)	(79)	(80)	(95)	(105)
Adjusted net profit	12,034	4,273	4,527	5,226	6,206	6,878

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	93,719	105,762	97,633	104,695	106,631	116,924
Cash & equivalents	14,812	21,343	18,072	19,093	20,411	23,913
Account receivables	19,655	25,022	24,165	26,860	28,661	31,321
Inventories	18,463	19,738	19,768	23,207	21,966	26,057
Other current assets	40,789	39,659	35,629	35,535	35,593	35,633
Non-current assets	44,838	52,993	53,569	58,997	57,496	60,617
PP&E	13,340	19,681	23,508	25,178	26,488	25,598
Deferred income tax	1,599	2,499	3,070	3,070	3,070	3,070
Investment in JVs & assos	2,333	2,239	2,401	2,431	2,462	2,493
Intangibles	3,960	4,519	4,918	4,500	4,083	3,665
Goodwill	46	48	50	50	50	50
Financial assets at FVTPL	0	0	0	0	0	0
Other non-current assets	23,559	24,007	19,622	23,767	21,344	25,742
Total assets	138,557	158,755	151,202	163,692	164,127	177,541
Current liabilities	61,432	67,630	54,415	63,462	59,739	68,714
Short-term borrowings	8,244	11,064	9,551	9,651	9,751	9,851
Account payables	28,560	28,908	22,693	31,639	27,816	36,692
Tax payable	1,081	1,191	1,063	1,063	1,063	1,063
Other current liabilities	23,547	26,467	21,109	21,109	21,109	21,109
Non-current liabilities	12,029	25,116	27,614	27,614	27,614	27,614
Long-term borrowings	9,603	21,625	23,556	23,556	23,556	23,556
Other non-current liabilities	2,426	3,491	4,059	4,059	4,059	4,059
Total liabilities	73,461	92,746	82,029	91,076	87,353	96,329
Total shareholders equity	63,691	64,966	68,040	71,403	75,467	79,801
Minority interest	1,404	1,043	1,133	1,213	1,307	1,412
Total equity and liabilities	138,557	158,755	151,202	163,692	164,127	177,541

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	13,857	4,832	5,317	6,169	7,326	8,120
Depreciation & amortization	2,022	2,394	2,888	3,248	3,608	3,808
Tax paid	(1,530)	(428)	(710)	(864)	(1,026)	(1,137)
Change in working capital	(1,222)	(2,264)	(3,067)	(1,239)	(2,017)	(2,314)
Others	(1,222)	(436)	1,281	(122)	(186)	(281)
Net cash from operations	11,904	4,099	5,708	7,192	7,705	8,196
Investing						
Capital expenditure	(9,977)	(5,538)	(4,128)	(4,500)	(4,500)	(2,500)
Acquisition of subsidiaries/ investments	812	(20)	(92)	0	0	0
Others	(124)	3,720	1,527	755	821	917
Net cash from investing	(9,288)	(1,838)	(2,694)	(3,745)	(3,679)	(1,583)
Financing						
Dividend paid	(5,057)	(3,822)	(1,359)	(1,862)	(2,142)	(2,544)
Net borrowings	4,180	7,779	(2,049)	100	100	100
Proceeds from share issues	0	0	0	0	0	0
Others	(438)	870	(4,122)	(663)	(665)	(667)
Net cash from financing	(1,315)	4,826	(7,530)	(2,425)	(2,708)	(3,112)
Net change in cash						
Cash at the beginning of the year	12,596	14,812	21,343	18,072	19,093	20,411
Exchange difference	915	(556)	1,244	0	0	0
Cash at the end of the year	14,812	21,343	18,072	19,093	20,411	23,913
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	6.8%	(24.4%)	(8.4%)	4.8%	8.8%	8.0%
Gross profit	(7.1%)	(29.5%)	5.3%	4.2%	10.4%	8.4%
Operating profit	(35.7%)	(76.8%)	71.7%	28.6%	17.9%	10.7%
EBITDA	(31.4%)	(61.9%)	46.8%	22.1%	15.4%	8.9%
Adj. net profit	(22.0%)	(64.5%)	6.0%	15.4%	18.8%	10.8%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	26.1%	24.3%	28.0%	27.8%	28.2%	28.3%
Operating margin	10.1%	3.1%	5.8%	7.1%	7.7%	7.9%
EBITDA margin	12.0%	6.1%	9.7%	11.3%	12.0%	12.1%
Adj. net profit margin	11.3%	5.3%	6.1%	6.7%	7.3%	7.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.1)	0.1	0.0	0.0	(0.0)
Current ratio (x)	1.5	1.6	1.8	1.6	1.8	1.7
Receivable turnover days	93.4	145.7	181.4	183.0	180.0	178.0
Inventory turnover days	87.0	114.0	135.2	140.0	136.0	134.0
Payable turnover days	140.4	171.5	176.6	177.0	179.0	180.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	11.4	32.0	30.2	26.2	22.0	19.9
P/B	2.1	2.1	2.0	1.9	1.8	1.7
Div yield (%)	2.8	1.0	1.4	1.6	1.9	2.1

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

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CMB International Global Markets Limited

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

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