

# SANY International (631 HK)

**Net profit +54% YoY; Strong cash flow a +ve surprise**

**SUMMARY.** SANYI reported a strong set of 1H19 results with net profit surging 54% YoY to RMB552mn, driven by revenue growth across all major segments. Most importantly, we are surprised that the operating cash flow surged 6.7x YoY to RMB516mn, which we believe should ease market concerns regarding the Company's cash collection policy. We maintain our positive stance on SANYI as we believe the product upgrade and replacement cycle will continue to boost earnings growth over the coming years. Reiterate **BUY** with TP of HK\$4.72 (based on 1.8x 2019E P/B, on the back of 13-15% ROE in 2019E-20E).

- **Key highlights on 1H19 results.** Revenue grew 39% YoY to RMB3.04bn, driven by 46%/29% increase in mining/port equipment sales. The strong growth of mining equipment revenue was driven by 50% YoY increase in combined coal mining units (CCMU) and ~270% YoY increase in mining trucks which is a positive surprise. Blended gross margin was 30.5% in 1H19, up from 27.4% in 1H18 (after adjusting for the accounting policy change that reclassified transportation cost from S&D expense to COGS). The administrative expense ratio (excluding R&D) reduced by 1.3ppt to 4.2%. Besides, the effective tax rate reduced by 5.7ppt YoY to 13.7%. All these contributed to a 54% YoY increase in net profit. The results implied 48% YoY increase in 2Q19 net profit.
- **Significant improvement in operating cash flow.** The operating cash inflow in 1H19 jumped 6.7x YoY to RMB516mn. The improvement was due to the improvement in inventory management, the use of bills and more efforts in cash collection. We see this as positive surprise as market had been concerned about the Company's cash collection policy given the long credit period for large size port machinery.
- **Analyst briefing today (9:30 a.m.).** Venue: Harbour View Ballroom II and III, 4/F, Four Seasons Hotel Hong Kong.
- **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	6,832	8,087	9,011
YoY growth (%)	34.7	78.0	54.7	18.4	11.4
Net income (RMB mn)	229	600	877	1,075	1,202
EPS (RMB)	0.08	0.20	0.28	0.35	0.39
YoY growth (%)	n/a	161.6	44.3	21.8	11.8
EV/EBITDA (x)	14.7	8.2	5.7	4.8	4.3
P/E (x)	34.9	13.5	9.4	7.7	6.9
P/B (x)	1.3	1.3	1.2	1.1	1.0
Yield (%)	6.8	3.7	3.2	3.9	4.4
ROE (%)	3.7	9.4	13.1	14.5	14.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$4.72**  
 (Previous TP **HK\$4.72**)  
 Up/Downside **+52%**  
 Current Price **HK\$3.10**

## China Capital Goods Sector

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## Stock Data

Mkt Cap (HK\$ mn)	9,605
Avg 3 mths t/o (HK\$ mn)	14
52w High/Low (HK\$)	4.12/2.06
Total Issued Shares (mn)	3,098.3

Source: Bloomberg

## Shareholding Structure

Sany Heavy Equipment	67.7%
Investments Company	
Free float	32.3%

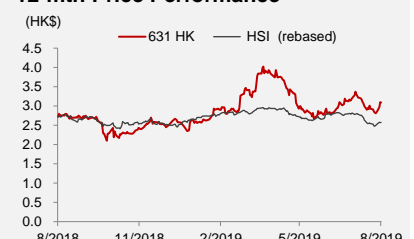
Source: HKEx

## Share Performance

	Absolute	Relative
1-mth	-3.1%	+6.2%
3-mth	+5.8%	+12.1%
6-mth	+6.9%	+16.2%
12-mth	+15.7%	+21.7%

Source: Bloomberg

## 12-mth Price Performance



Source: Bloomberg

**Auditor: Ernst & Young**

## Related Reports

1. Sany Int'l (631 HK, BUY) – Zhuhai site visit reaffirmed our positive stance – 16 May 2019
2. China Construction Machinery Sector - Further upside on potential earnings surprise – 16 Apr 2019
3. Sany Int'l (631 HK, BUY) - Clear growth strategy with support from parent company – 25 Mar 2019

**Figure 1: Revenue and segment profit breakdown in 1H19**

(RMB mn)	1H18	1H19	Change (YoY)
<b>Revenue</b>			
<u>Energy equipment sales</u>	1,304	1,929	48.0%
Sales	1,240	1,809	45.9%
Others	64	120	88.5%
<u>Port machinery sales</u>	1,051	1,315	25.1%
Sales	956	1,235	29.2%
Others	95	80	-15.9%
Total revenue	2,355	3,244	37.8%
<b>Segment EBIT</b>			
Energy equipment	237	395	66.6%
Port machinery	192	255	32.8%
Total segment results	429	649	51.5%
<b>Segment margin</b>			
Energy equipment	18.2%	20.5%	
Port machinery	18.2%	19.4%	
Average	18.2%	20.0%	

Source: Company data, CMBIS

**Figure 2: Key financials in 1H19**

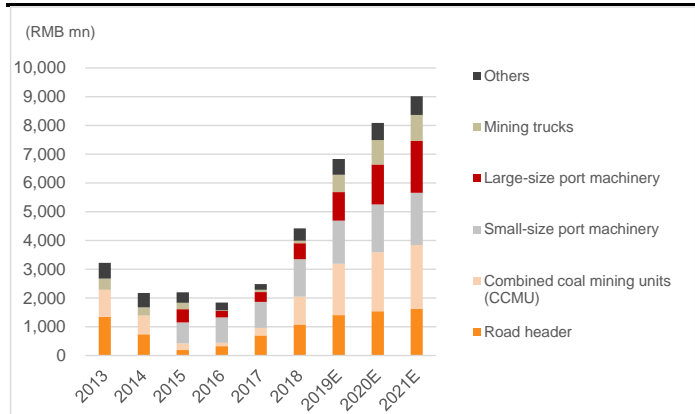
YE Dec 31(RMB mn)	1H18	1H19	Change (YoY)
<b>Revenue</b>			
Energy equipment	1,240	1,809	45.9%
Port machinery	956	1,235	29.2%
<b>Total revenue</b>	<b>2,196</b>	<b>3,044</b>	<b>38.6%</b>
Cost of sales	(1,486)	(2,100)	41.3%
<b>Gross profit</b>	<b>710</b>	<b>944</b>	<b>32.9%</b>
Other income	155	200	29.2%
Other gains and losses	4	22	459.6%
S&D expenses	(205)	(181)	-11.9%
Administrative expenses	(206)	(336)	62.9%
Other expenses	(29)	0	-100.0%
<b>EBIT</b>	<b>429</b>	<b>649</b>	<b>51.5%</b>
Net finance income/(cost)	16	(9)	n/a
Finance income	23	25	8.2%
Finance expenses	(7)	(34)	n/a
Share of profit of JV and associates	0	0	n/a
<b>Pretax profit</b>	<b>445</b>	<b>640</b>	<b>43.9%</b>
Income tax	(86)	(88)	1.8%
<b>After tax profit</b>	<b>359</b>	<b>553</b>	<b>54.0%</b>
MI	(1)	(1)	10.5%
<b>Net profit</b>	<b>358</b>	<b>552</b>	<b>54.1%</b>
<b>Adjusted net profit</b>	<b>350</b>	<b>503</b>	<b>43.8%</b>
D&A	112	132	17.4%
<b>EBITDA</b>	<b>541</b>	<b>781</b>	<b>44.4%</b>

Source: Company data, CMBIS

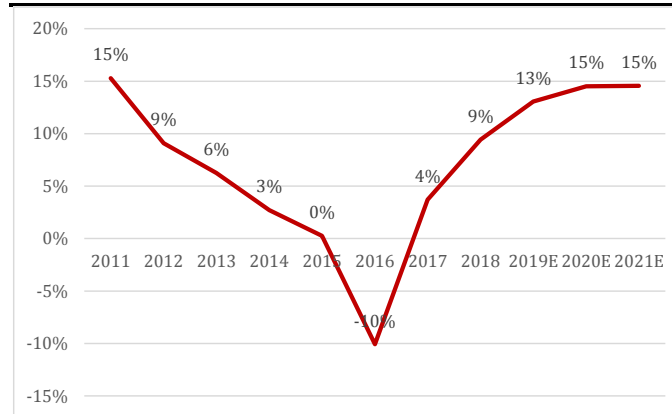
**Figure 3: Key highlights on 2Q19 results**

RMB mn	1Q18	1Q19	Chg (YoY)	2Q18	2Q19	Chg (YoY)
Revenue	997	1,531	54%	1,199	1,513	26%
Cost of sales	(715)	(1,063)	49%	(771)	(1,037)	35%
Gross profit	281	468	66%	429	476	11%
Gross margin	28.2%	30.6%		35.7%	31.4%	
Pretax profit	186	324	74%	259	316	22%
Pretax profit margin	18.7%	21.2%		21.6%	20.9%	
<b>Net profit</b>	<b>172</b>	<b>276</b>	<b>61%</b>	<b>186</b>	<b>275</b>	<b>48%</b>
Net margin	17.3%	18.0%		15.5%	18.2%	

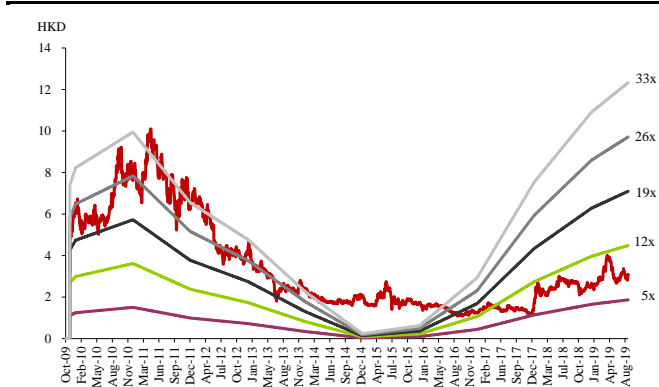
Source: Company data, CMBIS

**Figure 4: SANYI's segment revenue growth trend**

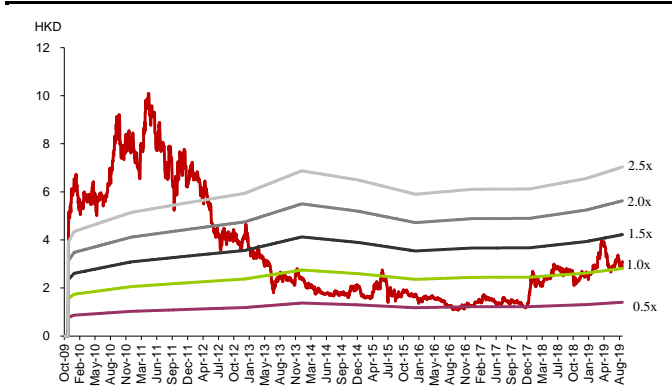
Source: Company data, CMBIS estimates

**Figure 5: SANYI's ROE trend**

Source: Company data, CMBIS estimates

**Figure 6: SANYI's P/E band**

Source: Bloomberg, Company data, CMBIS estimates

**Figure 7: 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	4,230	4,928	5,260
- Port machinery	1,279	1,856	2,603	3,159	3,751
<b>Total revenue</b>	<b>2,481</b>	<b>4,417</b>	<b>6,832</b>	<b>8,087</b>	<b>9,011</b>
Cost of sales	(1,744)	(3,119)	(4,856)	(5,747)	(6,407)
<b>Gross profit</b>	<b>738</b>	<b>1,298</b>	<b>1,976</b>	<b>2,341</b>	<b>2,603</b>
Other income	304	242	355	380	396
Other gains and losses	0	35	0	0	0
S&D expenses	(299)	(329)	(499)	(582)	(649)
Administrative expenses	(342)	(492)	(738)	(793)	(847)
Other expenses	(118)	(33)	(48)	(57)	(63)
<b>EBIT</b>	<b>282</b>	<b>720</b>	<b>1,047</b>	<b>1,289</b>	<b>1,441</b>
Net finance income/(cost)	32	6	15	13	14
Finance income	35	24	48	51	52
Finance expenses	(3)	(18)	(33)	(38)	(38)
Share of JV and associates	0	0	0	0	0
<b>Pretax profit</b>	<b>315</b>	<b>726</b>	<b>1,062</b>	<b>1,302</b>	<b>1,455</b>
Income tax	(84)	(123)	(181)	(221)	(247)
<b>After tax profit</b>	<b>231</b>	<b>603</b>	<b>882</b>	<b>1,081</b>	<b>1,208</b>
MI	(2)	(3)	(4)	(5)	(6)
<b>Net profit</b>	<b>229</b>	<b>600</b>	<b>877</b>	<b>1,075</b>	<b>1,202</b>
<b>Adjusted net profit</b>	<b>173</b>	<b>409</b>	<b>727</b>	<b>925</b>	<b>1,052</b>
D&A	249	224	310	350	390
<b>EBITDA</b>	<b>531</b>	<b>944</b>	<b>1,357</b>	<b>1,639</b>	<b>1,830</b>

### Cash flow statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pretax profit	315	726	1,062	1,302	1,455
Finance cost	3	18	33	38	38
Interest income	(35)	(24)	(48)	(51)	(52)
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)	(181)	(221)	(247)
Change in working capital	276	(251)	(671)	(679)	(607)
Others	(181)	(275)	0	0	0
<b>Cash flow from operation</b>	<b>607</b>	<b>280</b>	<b>505</b>	<b>739</b>	<b>976</b>
Net capex on PP&E	(249)	(201)	(400)	(500)	(500)
Interest received	22	24	48	51	52
Others	(661)	(359)	0	0	0
<b>Cash flow from investing</b>	<b>(888)</b>	<b>(536)</b>	<b>(352)</b>	<b>(449)</b>	<b>(448)</b>
Proceeds from equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	266	968	500	0	0
Dividend paid	0	(440)	(304)	(263)	(323)
Interest paid	0	(17)	(33)	(38)	(38)
Others	0	0	0	0	0
<b>Cash flow from financing</b>	<b>266</b>	<b>512</b>	<b>163</b>	<b>(301)</b>	<b>(361)</b>
Change in cash	(15)	257	316	(12)	168
Cash at beginning of the year	833	814	1,070	1,386	1,374
Exchange gains/(losses) and others	(4)	(1)	0	(0)	0
Cash at the end of the year	814	1,070	1,386	1,374	1,542

### Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current assets</b>	<b>6,102</b>	<b>5,896</b>	<b>5,986</b>	<b>6,137</b>	<b>6,247</b>
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
<b>Current assets</b>	<b>5,097</b>	<b>7,029</b>	<b>9,059</b>	<b>9,605</b>	<b>11,040</b>
Prepayment	268	634	634	634	634
Inventories	1,246	1,534	2,324	2,494	2,948
Trade receivables	1,560	2,127	2,852	3,130	3,782
Bills receivables	266	499	699	808	970
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	1,386	1,374	1,542
<b>Current liabilities</b>	<b>2,919</b>	<b>5,169</b>	<b>6,713</b>	<b>6,591</b>	<b>7,252</b>
Trade and bills payables	1,193	1,820	2,863	2,742	3,402
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
<b>Non-current liabilities</b>	<b>1,918</b>	<b>1,313</b>	<b>1,313</b>	<b>1,313</b>	<b>1,313</b>
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
<b>Total equity</b>	<b>6,362</b>	<b>6,442</b>	<b>7,019</b>	<b>7,837</b>	<b>8,722</b>
<b>Shareholders' equity</b>	<b>6,304</b>	<b>6,431</b>	<b>7,004</b>	<b>7,816</b>	<b>8,695</b>
MI	58	12	16	21	27

### Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
Energy equipment	48%	58%	62%	61%	58%
Port machinery	52%	42%	38%	39%	42%
<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	30%	29%	29%	29%	29%
EBITDA margin	21%	21%	20%	20%	20%
EBIT margin	11%	16%	15%	16%	16%
Net profit margin	9%	14%	13%	13%	13%
<b>Growth (%)</b>					
Revenue	35%	78%	55%	18%	11%
Gross profit	167%	76%	52%	18%	11%
EBITDA	n/a	78%	44%	21%	12%
EBIT	n/a	155%	45%	23%	12%
Net profit	n/a	162%	46%	23%	12%
<b>Balance sheet ratios</b>					
Current ratio (x)	1.7	1.4	1.3	1.5	1.5
Receivable turnover days	229	152	133	135	140
Inventory turnover days	226	163	145	153	155
Payable turnover days	225	176	176	178	175
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	2%	5%	6%	7%	7%
ROA	4%	9%	13%	15%	15%
<b>Per share</b>					
EPS (RMB)	0.08	0.20	0.28	0.347	0.388
BVPS (RMB)	2.07	2.11	2.26	2.52	2.81
DPS (RMB)	0.18	0.10	0.09	0.104	0.116

Source: Company data, CMBIS estimates

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