

SANY International (631 HK)

Beat expectation: 2Q22 core profit +43% YoY on strong margin recovery

SANYI delivered impressive core net profit growth of 43% YoY in 2Q22. The surprise came from a strong recovery of gross margin, which expanded 3.8ppt YoY and 5.8ppt QoQ to 26.9%, the highest level since 3Q21. Looking ahead, we expect the decline in freight rate and steel price will continue to drive margin improvement in 2H22E. Meanwhile, favourable policy to boost coal production, continuous introduction of intelligent products, on-track growth of robotics orders, as well as robust overseas sales, offer good visibility of earnings growth. Reiterate **BUY** with unchanged TP of HK\$14.6, (23x 2022E P/E unchanged). CMBI will host a NDR at 16:30 today. Please contact your sales representative for details.

- **Key highlights in 1H22 results:** Revenue in 1H22 grew 53% YoY to RMB7.6bn. S&D expense ratio increased 0.4ppt YoY to 5.3% while admin expense ratio dropped 2ppt YoY to 7.4% as a result of lower R&D expense ratio. Reported net profit grew 12% YoY to RMB906mn. Stripping out the one-off gains generated from the disposal of a subsidiary in 1H21, the core net profit growth in 1H22 reached 37% YoY. Operating cash inflow was only RMB99mn (-88% YoY). SANYI explained that it was due to (1) a high base due to customers' down-payment last year (robotics business), (2) more outflow to settle payables in 1H22, and (3) more component inventories for the preparation for upcoming production.
- **Significant recovery of gross margin in 2Q22.** Revenue in 2Q22 grew 37% YoY to RMB3.5bn. Gross margin, an ongoing market concern, sharply improved 3.8ppt to 26.9%, which we believe was helped by easing freight rate and steel price. Core net profit surged 43% YoY to RMB462mn, accelerating from 31% in 1Q22.
- **Robust overseas sales.** In 1H22, overseas revenue surged 1.2x YoY to RMB1.9bn, accounting for 25% of total revenue. Among this, revenue generated from Asia (ex-China) and EU surged 1.3x YoY and 1.7x YoY respectively.
- **Major risk factors:** (1) weakness in mining activities; (2) higher-than-expected expense for new products; (3) rebound of raw material cost and freight rate.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	7,364	10,195	15,293	18,403	21,739
YoY growth (%)	30.2	38.4	50.0	20.3	18.1
Core net income (RMB mn)	1,045	1,087	1,655	1,992	2,327
Core EPS (RMB)	0.34	0.35	0.53	0.63	0.74
YoY growth (%)	19.6	3.0	52.3	20.3	16.8
Consensus EPS (RMB)	N/A	N/A	0.51	0.61	0.74
EV/EBITDA (x)	13.3	11.7	8.6	7.3	6.4
P/E (x)	21.1	16.5	12.8	10.5	9.0
P/B (x)	2.8	2.4	2.1	1.8	1.6
Yield (%)	1.9	1.9	2.4	2.9	3.4
ROE (%)	14.0	13.1	17.7	18.6	18.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$14.60**
 (Previous TP **HK\$14.60**)
 Up/Downside **+79%**
 Current Price **HK\$8.14**

China Capital Goods

Wayne Fung, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

Katherine Ng

(852) 3761 8725

katherineng@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	25,742
Avg 3 mths t/o (HK\$ mn)	16
52w High/Low (HK\$)	10.80/6.85
Total Issued Shares (mn)	3,154

Source: Bloomberg

Shareholding Structure

Sany Heavy Equipment Investments Company	67.7%
Free float	32.3%

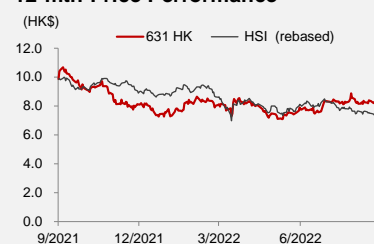
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-5.1%	-4.2%
3-mth	3.0%	10.6%
6-mth	0.7%	14.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. SANY Int'l – Post-results and NDR takeaways: Expect a strong year in 2022E – 31 Mar 2022
2. SANY Int'l – NDR takeaways: Growth to accelerate in 2022E on strong backlog – 20 Jan 2022

Figure 1: SANYI's quarterly results

RMB mn	1Q21	1Q22	Chg (YoY)	2Q21	2Q22	Chg (YoY)
Revenue	2,411	4,116	71%	2,573	3,516	37%
Cost of sales	-1,790	-3,246	81%	-1,980	-2,571	30%
Gross profit	622	870	40%	593	946	59%
Gross margin	25.8%	21.1%		23.1%	26.9%	
Pretax profit	368	509	38%	578	514	-11%
Pretax profit margin	15.3%	12.4%		22.5%	14.6%	
Net profit	339	444	31%	473	462	-2%
Net margin	14.0%	10.8%		18.4%	13.1%	
Adjusted net profit	339	444	31%	322	462	43%
Adjusted net margin	14.0%	10.8%		12.5%	13.1%	

Source: Company data, CMBIGM estimates

Figure 2: Revenue breakdown by regions

Region	2019	2020	2021	1H22
(RMB mn)				
Mainland China	4,595	6,003	8,099	5,704
Asia (ex-China)	588	708	1,048	1,181
European Union	69	137	269	206
USA	139	238	338	147
Others	266	278	441	394
Total	5,656	7,364	10,195	7,632
Change (YoY)				
Mainland China	32.6%	30.6%	34.9%	38.6%
Asia (ex-China)	-3.6%	20.4%	48.1%	130.4%
European Union	-51.3%	98.4%	95.7%	176.7%
USA	70.8%	71.3%	42.1%	16.3%
Others	120.6%	4.7%	58.6%	153.6%
Average	28.1%	30.2%	38.4%	53.1%

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue					
- Mining equipment	4,846	6,896	9,002	10,852	12,811
- Logistics equipment	2,518	3,299	4,911	5,826	6,772
Total revenue	7,364	10,195	15,293	18,403	21,739
Cost of sales	(5,403)	(7,805)	(11,642)	(14,048)	(16,676)
Gross profit	1,961	2,390	3,651	4,355	5,063
Other income	237	391	489	589	696
Other gains and losses	257	347	306	368	435
S&D expenses	(430)	(567)	(856)	(1,031)	(1,217)
Administrative expenses	(707)	(1,053)	(1,499)	(1,785)	(2,087)
Other expenses	(31)	(1)	(46)	(55)	(65)
EBIT	1,286	1,507	2,045	2,441	2,824
Net finance income/(cost)	(96)	(69)	(73)	(69)	(53)
Finance income	36	51	57	61	70
Finance expenses	(132)	(120)	(130)	(130)	(123)
Share of JV and associates	0	0	0	0	0
Pretax profit	1,190	1,438	1,972	2,372	2,771
Income tax	(139)	(129)	(256)	(308)	(360)
After tax profit	1,052	1,309	1,715	2,064	2,411
MI	(6)	(50)	(60)	(72)	(84)
Net profit	1,045	1,259	1,655	1,992	2,327
Core net profit	1,045	1,087	1,655	1,992	2,327
D&A	249	249	323	344	351
EBITDA	1,535	1,756	2,368	2,785	3,175

Cash flow statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Pretax profit	1,190	1,438	1,972	2,372	2,771
Finance cost	132	120	130	130	123
Interest income	(36)	(51)	(57)	(61)	(70)
Share of profit or loss of associates	0	0	0	0	0
Depreciation and amortization	249	249	323	344	351
Income tax paid	(108)	(129)	(256)	(308)	(360)
Change in working capital	105	475	(858)	(910)	(771)
Others	(462)	(1,179)	0	0	0
Cash flow from operation	1,070	923	1,253	1,567	2,043
Net capex on PP&E	(334)	(944)	(500)	(300)	(100)
Interest received	36	51	57	61	70
Others	(349)	598	0	0	0
Cash flow from investing	(647)	(296)	(443)	(239)	(30)
Proceeds from equity financing/(repurchase)	30	0	0	0	0
Net bank borrowings	(113)	317	0	0	100
Dividend paid	(394)	(408)	(385)	(513)	(617)
Interest paid	(132)	(120)	(130)	(130)	(123)
Others	8	(16)	0	0	0
Cash flow from financing	(602)	(227)	(514)	(643)	(640)
Change in cash	(179)	400	295	685	1,373
Cash at beginning of the year	1,103	941	1,349	1,645	2,330
Exchange gains/(losses) and others	17	8	0	0	0
Cash at the end of the year	941	1,349	1,645	2,330	3,703

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	5,448	6,568	6,745	6,701	6,450
PP&E	2,591	3,314	3,518	3,501	3,277
Prepaid land lease payments	1,140	1,114	1,088	1,062	1,036
Goodwill	1,130	1,130	1,130	1,130	1,130
Non-current prepayment	10	10	10	10	10
Others	282	714	713	712	711
Deferred tax assets	296	287	287	287	287
Current assets	12,016	14,217	17,371	19,206	23,558
Prepayment	359	585	585	585	585
Inventories	1,821	2,529	3,851	4,001	5,320
Trade receivables	3,288	4,272	5,532	6,367	7,690
Bills receivables	595	700	976	1,142	1,479
Financial assets	4,024	3,680	3,680	3,680	3,680
Others	988	1,081	1,081	1,081	1,081
Pledged deposits/Time deposits	0	21	21	21	21
Cash	941	1,349	1,645	2,330	3,703
Current liabilities	7,938	9,170	11,170	11,411	13,718
Trade and bills payables	2,893	4,422	6,422	6,663	8,871
Other payables and accruals	1,917	2,659	2,659	2,659	2,659
Bank borrowings	2,645	1,687	1,687	1,687	1,787
Tax payable	197	185	185	185	185
Government grants	96	113	113	113	113
Others	191	103	103	103	103
Non-current liabilities	1,667	2,832	2,832	2,832	2,832
Bank borrowings	493	1,767	1,767	1,767	1,767
Deferred tax liabilities	69	98	98	98	98
Government grants	1,105	967	967	967	967
Total equity	7,859	8,783	10,114	11,665	13,458
Shareholders' equity	7,839	8,701	9,972	11,450	13,160
MI	20	82	142	214	299

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
- Mining equipment	66%	68%	59%	59%	59%
- Logistics equipment	34%	32%	32%	32%	31%
Total	100%	100%	100%	100%	100%
P&L ratios (%)					
Gross margin	27%	23%	24%	24%	23%
EBITDA margin	21%	17%	15%	15%	15%
EBIT margin	17%	15%	13%	13%	13%
Net profit margin	14%	13%	11%	11%	11%
Growth (%)					
Revenue	30%	38%	50%	20%	18%
Gross profit	17%	22%	53%	19%	16%
EBITDA	14%	14%	35%	18%	14%
EBIT	17%	17%	36%	19%	16%
Net profit	14%	20%	31%	20%	17%
Balance sheet ratios					
Current ratio (x)	1.5	1.6	1.6	1.7	1.7
Receivable turnover days	147	135	117	118	118
Inventory turnover days	110	102	100	102	102
Payable turnover days	160	171	170	170	170
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROA	6%	7%	7%	8%	8%
ROE	14%	15%	18%	19%	19%
Per share					
EPS (RMB)	0.336	0.401	0.527	0.634	0.741
BVPS (RMB)	2.52	2.76	3.16	3.63	4.17
DPS (RMB)	0.131	0.122	0.163	0.197	0.230

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.