

China Construction Machinery

SANY & Hengli issued +ve profit alert; Expect SANYI the next

After the positive profit alert released by **Zoomlion (1157 HK / 000157 CH, BUY)** last week followed by favourable share price reaction, **SANY Heavy (600031 CH, BUY, Top pick)** and **Jiangsu Hengli (601100 CH, BUY)** also released positive alert yesterday with net profit in 2019E up 76-93% YoY and 47-53% YoY respectively. The strong earnings growth reaffirms our positive stance on both companies. On the other hand, within our universe, we expect **SANYI (631 HK, BUY)** will potentially issue positive alert as well, which should serve as near term share price catalyst.

- **SANY Heavy's net profit in 2019E surged 76-93% YoY.** According to the Company, the net profit range is RMB10.8-11.8bn, with mid-point of RMB11.3bn slightly above our estimate of RMB11.1bn. This implies 4Q19E earnings of RMB1.64-2.64bn, up 33%-114% YoY, with a mid-point of RMB2.14bn higher than our estimate of RMB1.97bn. The growth was driven by all business lines including excavator, crane, concrete, and pilling machinery. Besides, production efficiency enhancement and operating leverage also helped drive the earnings growth. Going forward, we expect an extended upcycle of excavator, together with the strong cycle of concrete and crane machinery, will continue to offer earnings surprise in 2020E.
- **Jiangsu Hengli's net profit in 2019E grew 47-53% YoY.** The net profit range is RMB1.23-1.28bn, with a mid-point of ~RMB1.255bn, largely in line with our forecast of RMB1.27bn and consensus estimates of RMB1.24bn. The result implies 4Q19E net profit of RMB313-363mn, up 167-210% YoY. Significant profit growth in 4Q19E, after a profit decline in 3Q19, was driven by a sharp improvement in product demand that boosted the utilization rate (two shifts per day). We continue to like Hengli's on-going market share gain on hydraulic cylinder and fast-growing sales of pumps, valves and motors with huge room of import substitution.
- **What to expect next? SANYI.** We expect SANYI's net profit to grow 51% YoY to RMB916mn in 2019E, driven by strong delivery of road header and mining truck, as well as operating margin expansion on better gross margin and lower expense ratios. Please refer to our latest company note on SANYI "Raising earnings forecast & TP on new product development".

Summary of profit alerts

Company	Ticker	Net profit (2019E) RMB mn	Growth YoY	Note
Zoomlion	1157 HK / 000157 CH	4,300-4,500	112-123%	Profit alert released
SANY Heavy	600031 CH	10,800-11,800	76-93%	Profit alert released
Jiangsu Hengli	601100 CH	1,230-1,280	47-53%	Profit alert released
SANY Int'l	631 HK	916	51%	CMBIS estimates

Source: Company data, CMBIS estimates

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China Capital Goods

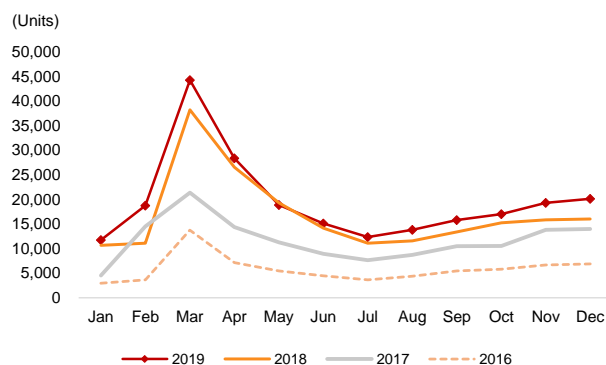
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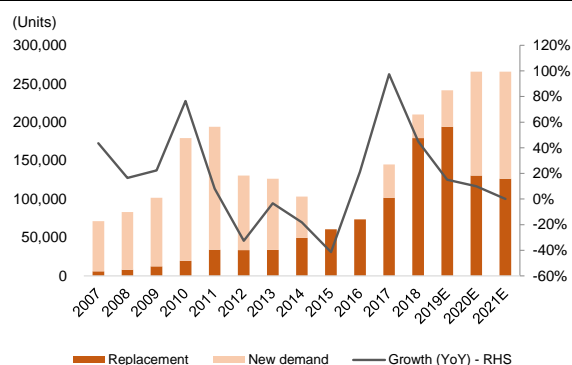
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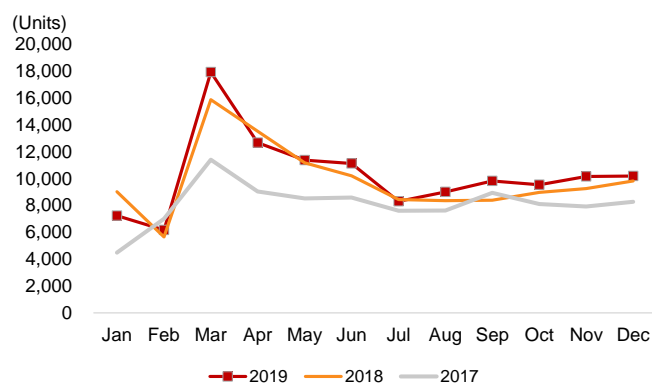
1. Zoomlion-A (000157 CH, BUY) – 2019E net profit to grow 113-123% YoY; in line with expectation – 16 Jan 2020
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3. China Construction Machinery Sector - Excavator sales growth accelerated to 26% in Dec; above expectation – 10 Jan 2020
4. SANY International (631 HK, BUY) – Raising earnings forecast & TP on new product development – 7 Jan 2020
5. SANY Heavy Industry – A (600031 CH, BUY) – To acquire financing company from parent co. – 12 Dec 2019
6. China Construction Machinery Sector – Four structural drivers to extend the upcycle to 2020-21E – 27 Nov 2019

Figure 1: China monthly excavator sales

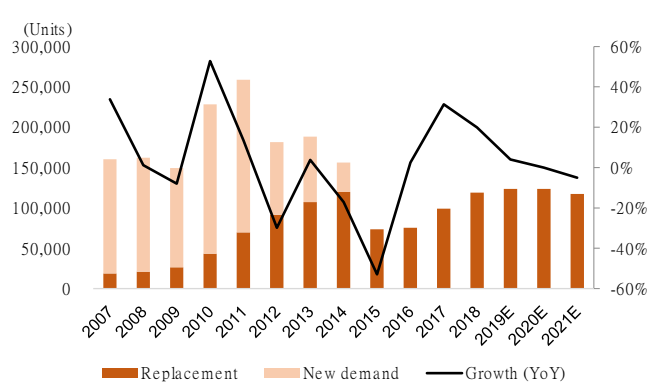
Source: CCMA, CMBIS

Figure 2: CMBI excavator sales projection

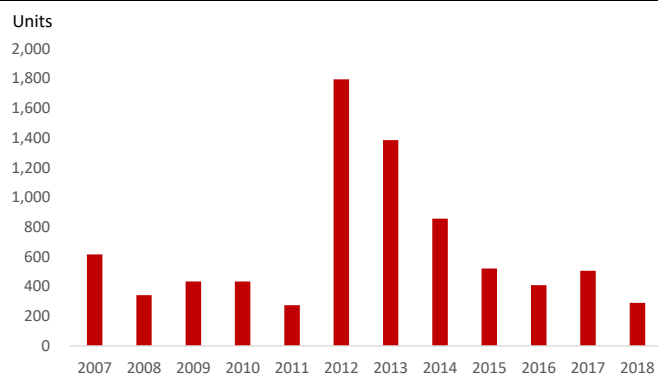
Source: CCMA, CMBIS estimates

Figure 3: China monthly wheel loader sales

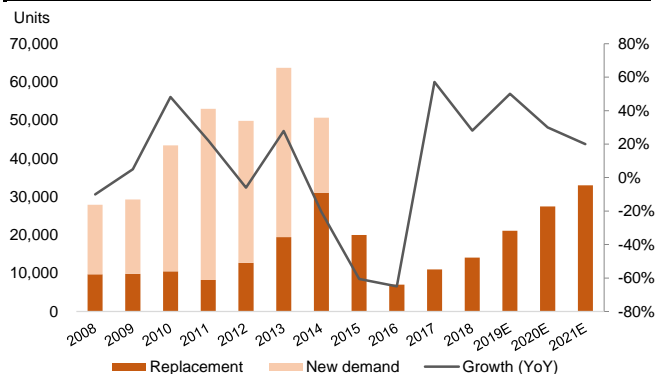
Source: CCMA, CMBIS

Figure 4: CMBI wheel loader projection

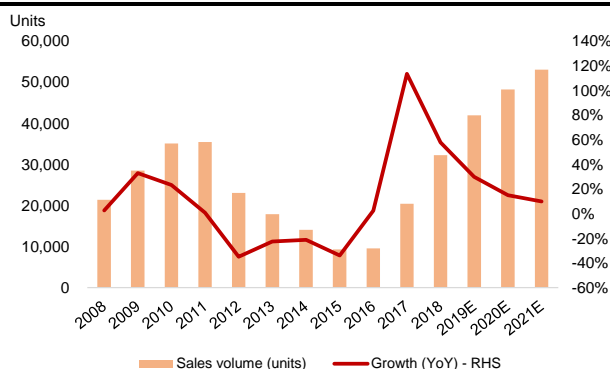
Source: CCMA, CMBIS estimates

Figure 5: China tower crane inventory level

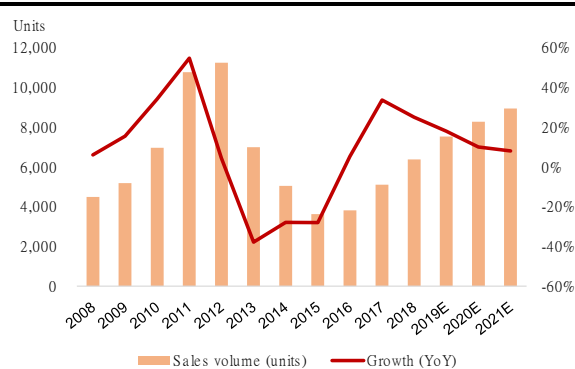
Source: CCMA, CMBIS

Figure 6: CMBI tower crane sales projection

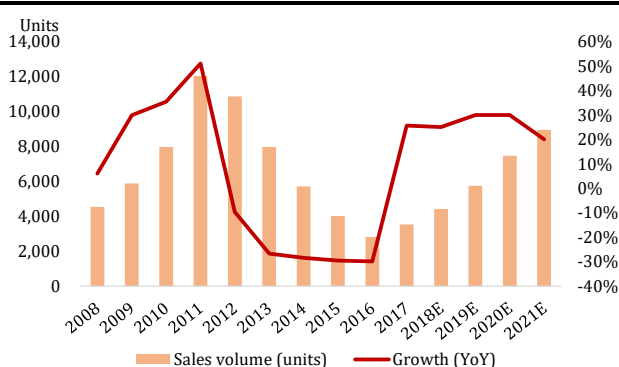
Source: CCMA, CMBIS estimates

Figure 7: CMBI truck crane sales projection

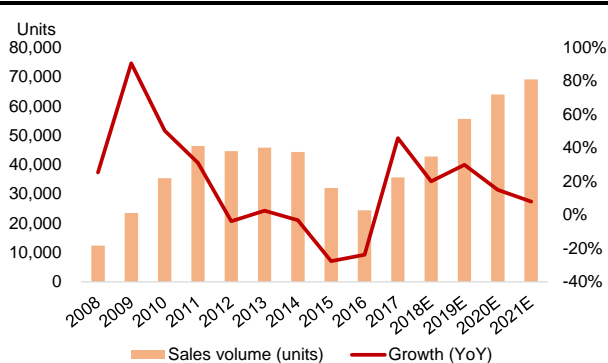
Source: CCMA, CMBIS estimates

Figure 8: CMBI concrete pump sales projection

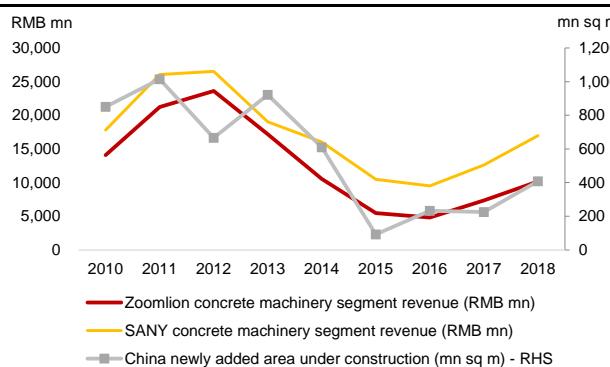
Source: CCMA, CMBIS estimates

Figure 9: China concrete pump truck sales forecast

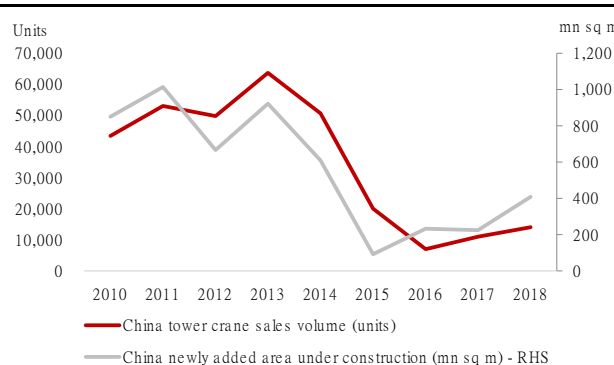
Source: CCMA, CMBIS estimates

Figure 10: China concrete mixer truck sales forecast

Source: CCMA, CMBIS estimates

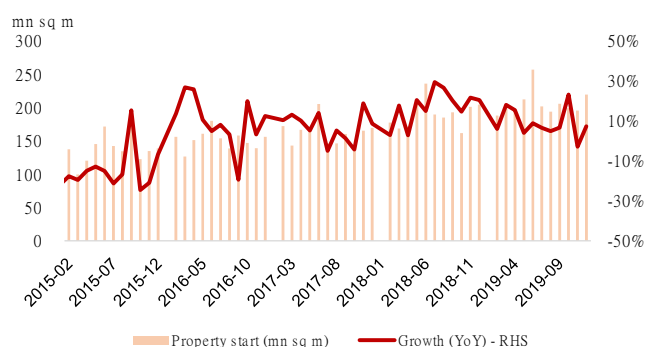
Figure 11: Zoomlion & SANY revenue vs Area under construction

Source: Company data, Wind, NBS, CMBIS

Figure 12: China tower crane sales volume vs Area under construction

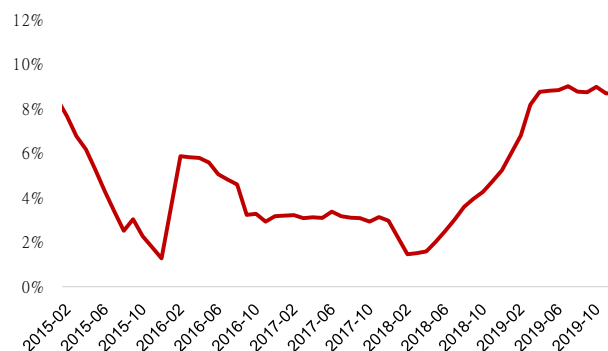
Source: Wind, CCMA, NBS, CMBIS

Figure 13: Property start and growth



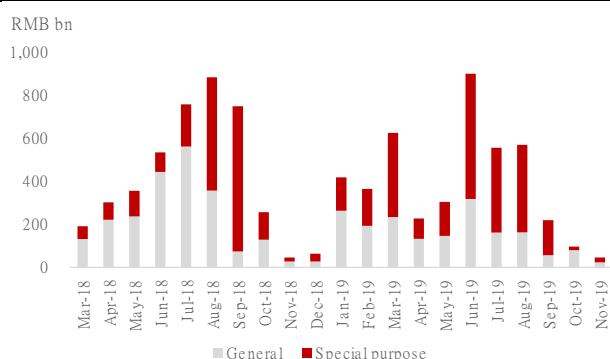
Source: Wind, NBS, CMBIS

Figure 14: Area under construction (growth)



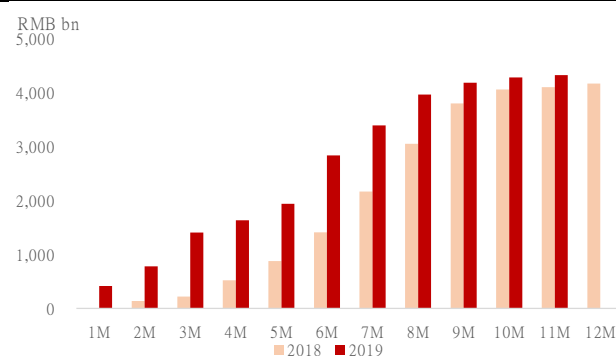
Source: Wind, NBS, CMBIS

Figure 15: Local gov't debt monthly issue amount



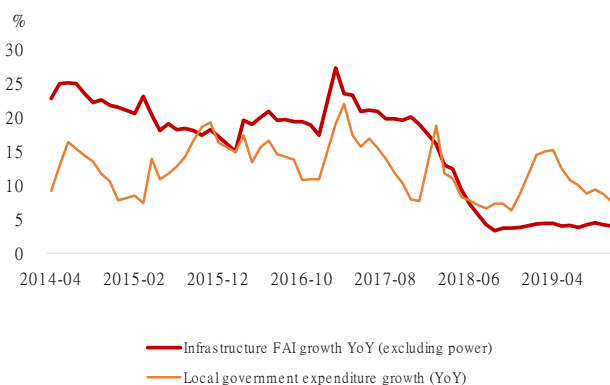
Source: Ministry of Finance, CMBIS

Figure 16: Local gov't debt issue amount (YTD)



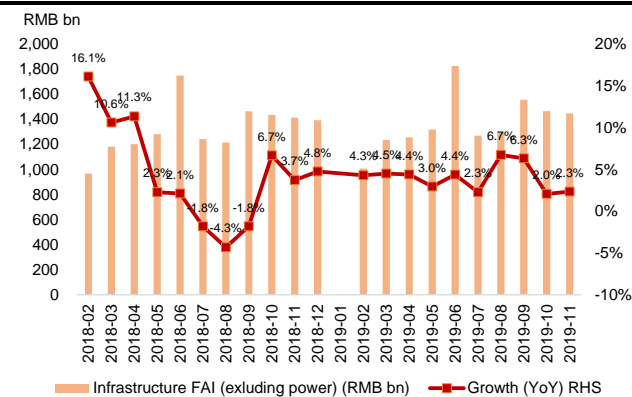
Source: Ministry of Finance, CMBIS

Figure 17: Infrastructure FAI vs local gov't spending



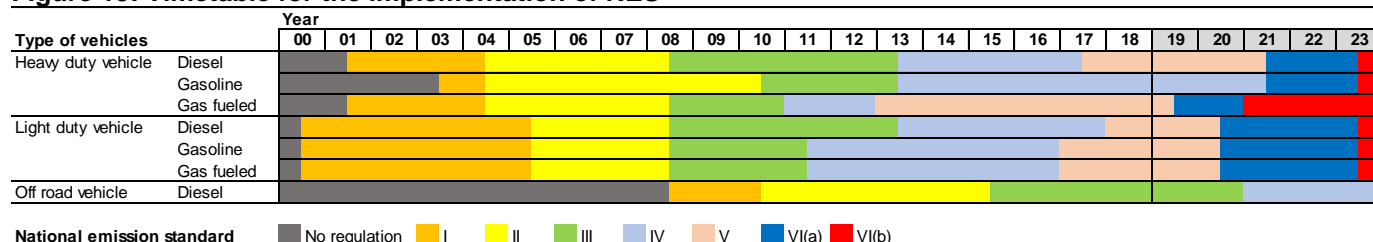
Source: Wind, NBS, CMBIS

Figure 18: Infrastructure FAI growth (monthly)



Source: Wind, NBS, CMBIS

Figure 19: Timetable for the implementation of NES



Source: Ministry of Ecology and Environmental, CMBIS

Figure 20: Peers comp

Ticker	Company	Rating	Price (local currency)	TP (local currency)	Upside/ (downside)	Market cap (US\$ mn)	PE (x)		PB (x)		EV/EBITDA (x)		Dividend yield (%)	
							FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
HK listed														
631 HK Equity	SANY INTERNATIONAL	BUY	4.57	5.60	23%	1,814	14.0	11.0	1.8	1.6	8.3	6.7	2.1	2.7
3339 HK Equity	LONKING	HOLD	2.42	1.90	-21%	1,326	6.4	7.1	1.0	1.0	3.0	3.3	10.0	9.0
1157 HK Equity	ZOOMLION HEAVY-H	BUY	6.98	7.92	13%	7,687	10.6	9.1	1.3	1.1	7.7	6.9	5.6	6.6
2338 HK Equity	WEICHAI POWER-H	BUY	15.88	17.90	13%	16,547	11.6	10.9	2.5	2.3	5.6	5.3	4.8	5.1
3808 HK Equity	SINOTRUK HK LTD	BUY	16.22	19.40	20%	5,734	8.7	8.0	1.4	1.3	4.0	3.7	4.0	4.4
1839 HK Equity	CIMC VEHICLES -H	BUY	6.22	6.90	11%	1,406	6.5	6.6	1.0	0.9	4.5	4.3	4.6	4.5
564 HK Equity	ZHENGZHOU COAL-H	NR	4.35	-	-	1,609	5.6	5.1	0.6	0.5	4.8	4.3	2.6	2.9
HK listed average							9.0	8.3	1.4	1.2	5.4	4.9	4.8	5.0
A share														
000338 CH Equity	WEICHAI POWER-A	BUY	14.51	15.90	10%	16,575	12.0	11.3	2.6	2.3	5.8	5.5	4.6	4.9
601100 CH Equity	JIANGSU HENGLI-A	BUY	50.02	54.00	8%	6,404	34.7	28.1	7.9	6.6	26.9	22.2	0.9	1.1
603338 CH Equity	ZHEJIANG DINGLI -A	BUY	72.12	72.00	0%	3,630	41.7	30.1	8.0	6.5	35.5	24.9	0.4	0.6
600031 CH Equity	SANY HEAVY-A	BUY	17.25	19.00	10%	21,098	12.8	10.9	3.3	2.7	9.6	8.3	3.1	4.6
000157 CH Equity	ZOOMLION HEAVY-A	BUY	6.86	7.55	10%	7,700	11.8	10.1	1.4	1.3	8.6	7.7	5.1	5.9
000425 CH Equity	XCMG-A	NR	5.70	-	-	6,481	11.9	9.7	1.4	1.3	10.4	9.1	1.9	2.4
000528 CH Equity	GUANGXI LIUGONG-A	NR	7.02	-	-	1,504	9.8	8.7	1.0	0.9	10.0	9.1	3.7	4.0
603638 CH Equity	YANTAI EDDIE P	NR	30.40	-	-	1,822	35.9	26.5	8.7	6.9	26.2	19.5	0.5	0.7
600761 CH Equity	ANHUI HELI CO-A	NR	10.42	-	-	1,120	12.3	10.8	1.6	1.4	5.5	5.0	3.6	3.8
603298 CH Equity	HANGCHA GROUP-A	NR	13.91	-	-	1,249	13.6	11.7	2.0	1.8	7.4	6.2	2.7	3.5
000951 CH Equity	CNHTC JINAN T-A	NR	20.80	-	-	2,026	12.0	10.5	2.0	1.8	8.8	8.2	2.8	3.2
601717 CH Equity	ZHENGZHOU COAL-A	NR	6.83	-	-	1,612	9.9	9.1	1.1	0.9	8.5	7.6	1.5	1.6
600582 CH Equity	TIAN DI -A	NR	3.21	-	-	1,928	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
A-share average							14.5	12.0	2.5	2.1	10.6	9.0	2.8	3.3
Overseas														
CAT US Equity	CATERPILLAR INC	NR	147.8	-	-	81,672	13.6	13.8	5.7	4.0	8.0	8.3	2.5	2.8
DE US Equity	DEERE & CO	NR	176.2	-	-	55,469	18.7	15.9	4.4	4.0	14.1	12.2	1.9	2.0
6305 JP Equity	HITACHI CONST	NR	3,330.0	-	-	6,667	12.5	12.2	1.4	1.3	8.1	8.0	2.7	2.9
6301 JP Equity	KOMATSU LTD	NR	2,659.0	-	-	24,068	12.6	12.2	1.3	1.3	7.8	7.7	4.1	4.2
042670 KS Equity	DOOSAN INFRACORE	NR	5,260.0	-	-	945	4.1	3.8	0.5	0.4	6.1	6.0	0.0	0.0
VOLVB SS Equity	VOLVO AB-B	NR	160.3	-	-	36,676	9.6	13.2	2.4	2.3	6.8	8.6	5.0	4.0
Average							11.8	11.8	2.6	2.2	8.5	8.5	2.7	2.6
Hydraulic components														
PH US Equity	PARKER HANNIFIN	NR	207.0	-	-	26,592	19.5	17.5	4.0	3.5	12.4	11.2	1.7	1.8
ETN US Equity	EATON CORP PLC	NR	95.7	-	-	39,554	16.7	16.6	2.5	2.5	11.9	12.0	2.9	3.1
7012 JP Equity	KAWASAKI HVY IND	NR	2,415.0	-	-	3,755	17.6	11.6	0.8	0.8	7.7	7.0	2.9	3.0
7242 JP Equity	KYB CORP	NR	3,165.0	-	-	758	8.7	5.8	0.5	0.5	n/a	#N/A/N/A	0.0	0.2
6474 JP Equity	NACHI-FUJIKOSHI	NR	4,650.0	-	-	1,078	13.6	11.8	0.9	0.8	5.4	5.1	2.2	2.2
6268 JP Equity	NABTESCO CORP	NR	3,425.0	-	-	3,989	23.5	20.1	2.3	2.1	11.5	10.4	2.1	2.2
Average							16.6	13.9	1.8	1.7	9.8	9.1	2.0	2.1

Source: Bloomberg, CMBIS estimates

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