

## SANY Heavy Industry – A (600031 CH)

### 2021 results: Big miss on a surprising net loss in 4Q21; Yet to see meaningful recovery in the near term

SANY's earnings in 2021 declined 22% YoY to RMB12bn, 14%/21% below our/consensus earnings, due to an unexpected net loss of RMB533mn in 4Q21. Such surprising set of results was largely due to a sharp contraction in gross margin by 9.3ppt YoY (-5.5ppt QoQ) as well as an increase in expense ratio in 4Q21. We slashed our 2022E/23E earnings forecast by 30%/32% (43%/45% below consensus), largely a result of lower margin assumptions as we expect fierce competition in the domestic market and high freight rate for export. We cut our TP to RMB15.2, based on 14x 2022E PE (average since the upcycle starting 2017). Maintain **HOLD**. We see 1.5x forward P/B (equivalent to RMB12.2; 28% downside) a key support level under the bear case scenario.

- Key highlights in 4Q21 results.** While the 30% YoY decline in revenue in 4Q21 is in line with our estimates, a 9.3ppt gross margin contraction (to 19.4%) is a surprise to us. Meanwhile, both SG&A ratio and R&D spending ratio increased. All these drove the bottom line to a net loss of RMB533mn, versus net profit of RMB2.5bn in 3Q21 and RMB3bn in 4Q20. For the full year, net profit dropped 22% YoY to RMB12bn in 2021. Operating cash inflow dropped 11% YoY to RMB11.9bn, largely in line with the net profit.
- Significant margin contraction for excavator.** Blended gross margin dropped 7.2ppt YoY to 22.3% in 2H21, largely due to the 10.5ppt YoY decline in excavator's gross margin (to 24%). We expect fierce competition to continue this year given the weak demand (industry sales in 1Q22: -39% YoY). We revise down our gross margin assumption for excavator to 25% in 2022E/23E. This, together with our new margin assumptions for other machinery, took our blended gross margin forecast down by 3.7ppt/4ppt to 23.2%/23.3% in 2022E/23E.
- Valuation under the bear case scenario: 1.5x P/B.** We still value SANY with earnings multiple at present. That said, we think market will potentially switch to asset-based valuation if the downcycle continues. We see 1.5x forward P/B (equivalent to RMB12.2) a key support level (Figure 13) given that it was bottom in the previous trough cycle (2014-17).
- Upside risks:** (1) stabilization of property investment; (2) decline in freight rate. **Downside risks:** (1) further weakness in 1Q22 results (due to report on 28 Apr); (3) slowdown of overseas demand.

#### Earnings Summary

| (YE 31 Dec)         | FY20A    | FY21A    | FY22E    | FY23E    | FY24E    |
|---------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn)    | 100,054  | 106,874  | 97,989   | 102,217  | 108,250  |
| YoY growth (%)      | 31       | 7        | -8       | 4        | 6        |
| Net income (RMB mn) | 15,431   | 12,034   | 9,163    | 9,503    | 10,029   |
| EPS (RMB)           | 1.82     | 1.42     | 1.08     | 1.12     | 1.19     |
| YoY growth (%)      | 33.2     | -22.0    | -23.9    | 3.7      | 5.5      |
| Consensus EPS (RMB) | -        | -        | 1.81     | 1.90     | 2.05     |
| EV / EBITDA (x)     | 7.1      | 10.3     | 12.5     | 11.8     | 11.2     |
| P/E (x)             | 9.2      | 11.8     | 15.6     | 15.0     | 14.2     |
| P/B (x)             | 2.5      | 2.2      | 2.1      | 1.9      | 1.7      |
| Yield (%)           | 3.5      | 2.7      | 2.1      | 2.1      | 2.3      |
| ROE (%)             | 29.8     | 20.0     | 13.8     | 13.1     | 12.7     |
| Net gearing (%)     | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

### HOLD (Maintain)

|               |           |
|---------------|-----------|
| Target Price  | RMB15.20  |
| (Previous TP) | RMB19.50) |
| Up/Downside   | -10%      |
| Current Price | RMB16.84  |

#### China Capital Goods

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#### Stock Data

|                          |            |
|--------------------------|------------|
| Mkt Cap (RMB mn)         | 143,027    |
| Avg 3 mths t/o (RMB mn)  | 1,872      |
| 52w High/Low (RMB)       | 33.35/16.2 |
| Total Issued Shares (mn) | 8,435      |

Source: Bloomberg

#### Shareholding Structure

|                 |       |
|-----------------|-------|
| SANY Group      | 29.2% |
| Hong Kong CCASS | 7.2%  |
| Liang Wengen    | 2.8%  |
| Others          | 60.8% |

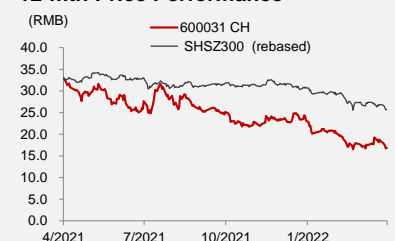
Source: Company data, Shanghai Stock Exchange

#### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -5.0%    | 0.8%     |
| 3-mth | -27.4%   | -13.5%   |
| 6-mth | -33.1%   | -17.3%   |

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: Ruihua CPA

#### Related Reports

- China Construction Machinery – Consensus yet to reflect the earnings downside; D/G SANY Heavy & Zoomlion-A – 19 Apr 2022 ([link](#))

**Figure 1: SANY Heavy's 4Q21 financials**

| (RMB mn)                           | 1Q20          | 1Q21          | Chg YoY       | 2Q20          | 2Q21          | Chg YoY       | 3Q20          | 3Q21          | Chg YoY       | 4Q20          | 4Q21          | Chg YoY       |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Total revenue</b>               | <b>17,444</b> | <b>33,513</b> | <b>92.1%</b>  | <b>32,097</b> | <b>33,985</b> | <b>5.9%</b>   | <b>23,883</b> | <b>20,783</b> | <b>-13.0%</b> | <b>26,630</b> | <b>18,593</b> | <b>-30.2%</b> |
| Cost of sales                      | -12,490       | -23,463       | 87.8%         | -21,934       | -24,926       | 13.6%         | -16,618       | -15,601       | -6.1%         | -18,992       | -14,988       | -21.1%        |
| <b>Gross profit</b>                | <b>4,954</b>  | <b>10,050</b> | <b>102.3%</b> | <b>10,163</b> | <b>9,059</b>  | <b>-10.9%</b> | <b>7,265</b>  | <b>5,182</b>  | <b>-28.7%</b> | <b>7,638</b>  | <b>3,604</b>  | <b>-52.8%</b> |
| Other income                       | -70           | -96           | 38.5%         | -126          | -158          | 25.5%         | -99           | -87           | -11.9%        | -113          | -81           | -28.7%        |
| S&D expenses                       | -942          | -2,005        | 112.9%        | -1,604        | -1,974        | 23.1%         | -1,224        | -1,145        | -6.5%         | -1,562        | -1,576        | 0.9%          |
| Administrative expenses            | -439          | -655          | 49.3%         | -461          | -621          | 34.6%         | -559          | -675          | 20.9%         | -742          | -819          | 10.4%         |
| R&D expense                        | -631          | -1,423        | 125.5%        | -1,060        | -1,635        | 54.2%         | -1,277        | -1,334        | 4.5%          | -2,023        | -2,116        | 4.6%          |
| Fair value change                  | 197           | 2             | -99.1%        | 85            | 64            | -24.7%        | 160           | -20           | n/a           | -5            | 7             | n/a           |
| Asset impairment                   | -124          | -197          | 59.4%         | -205          | -248          | 21.2%         | -208          | -82           | -60.7%        | -144          | -183          | 26.9%         |
| <b>EBIT</b>                        | <b>2,946</b>  | <b>5,676</b>  | <b>92.7%</b>  | <b>6,791</b>  | <b>4,486</b>  | <b>-33.9%</b> | <b>4,058</b>  | <b>1,840</b>  | <b>-54.7%</b> | <b>3,049</b>  | <b>-1,163</b> | <b>n/a</b>    |
| Net finance income/(expense)       | -312          | 149           | n/a           | 308           | -10           | n/a           | -245          | 68            | n/a           | -33           | -82           | 146.3%        |
| Other gains/(losses)               | 131           | 714           | 445.8%        | 466           | 812           | 74.3%         | 765           | 853           | 11.4%         | 578           | 531           | -8.3%         |
| Share of profit of JV & associates | -44           | 52            | n/a           | 23            | 2             | -93.2%        | 36            | 33            | -8.5%         | 14            | -103          | n/a           |
| <b>Pretax profit</b>               | <b>2,720</b>  | <b>6,591</b>  | <b>142.3%</b> | <b>7,588</b>  | <b>5,290</b>  | <b>-30.3%</b> | <b>4,614</b>  | <b>2,794</b>  | <b>-39.5%</b> | <b>3,609</b>  | <b>-818</b>   | <b>n/a</b>    |
| Income tax                         | -447          | -942          | 111.0%        | -1,084        | -642          | -40.8%        | -655          | -231          | -64.8%        | -484          | 285           | n/a           |
| <b>After tax profit</b>            | <b>2,274</b>  | <b>5,648</b>  | <b>148.4%</b> | <b>6,504</b>  | <b>4,648</b>  | <b>-28.5%</b> | <b>3,959</b>  | <b>2,563</b>  | <b>-35.3%</b> | <b>3,124</b>  | <b>-533</b>   | <b>n/a</b>    |
| MI                                 | -24           | -110          | 361.7%        | -155          | -112          | -27.8%        | -105          | -70           | -33.2%        | -145          | 0             | n/a           |
| <b>Net profit</b>                  | <b>2,250</b>  | <b>5,538</b>  | <b>146.2%</b> | <b>6,349</b>  | <b>4,536</b>  | <b>-28.6%</b> | <b>3,854</b>  | <b>2,493</b>  | <b>-35.3%</b> | <b>2,979</b>  | <b>-533</b>   | <b>n/a</b>    |
| <b>Key ratios:</b>                 |               |               | <i>ppt</i>    |               |               | <i>ppt</i>    |               |               | <i>ppt</i>    |               |               | <i>ppt</i>    |
| Gross margin                       | 28.4%         | 30.0%         | 1.6           | 31.7%         | 26.7%         | -5.0          | 30.4%         | 24.9%         | -5.5          | 28.7%         | 19.4%         | -9.3          |
| S&D expense ratio                  | 5.4%          | 6.0%          | 0.6           | 5.0%          | 5.8%          | 0.8           | 5.1%          | 5.5%          | 0.4           | 5.9%          | 8.5%          | 2.6           |
| Administrative expense ratio       | 2.5%          | 2.0%          | -0.6          | 1.4%          | 1.8%          | 0.4           | 2.3%          | 3.2%          | 0.9           | 2.8%          | 4.4%          | 1.6           |
| R&D expense ratio                  | 3.6%          | 4.2%          | 0.6           | 3.3%          | 4.8%          | 1.5           | 5.3%          | 6.4%          | 1.1           | 7.6%          | 11.4%         | 3.8           |
| Net profit margin                  | 13.0%         | 16.9%         | 3.8           | 20.3%         | 13.7%         | -6.6          | 16.6%         | 12.3%         | -4.2          | 11.7%         | -2.9%         | -14.6         |
| Effective tax rate                 | 16.4%         | 14.3%         | -2.1          | 14.3%         | 12.1%         | -2.1          | 14.2%         | 8.3%          | -5.9          | 13.4%         | 34.9%         | 21.4          |

Source: Company data, CMBIGM estimates

**Figure 2: SANY Heavy's 2021 financials**

| YE Dec 31(RMB mn)                    | 2020           | 2021           | Change (YoY) |
|--------------------------------------|----------------|----------------|--------------|
| <b>Total revenue</b>                 | <b>100,054</b> | <b>106,874</b> | 6.8%         |
| Cost of sales                        | (70,034)       | (78,978)       | 12.8%        |
| <b>Gross profit</b>                  | <b>30,021</b>  | <b>27,896</b>  | -7.1%        |
| Surcharge                            | (408)          | (422)          | 3.6%         |
| S&D expenses                         | (5,332)        | (6,699)        | 25.6%        |
| Administrative expenses              | (2,201)        | (2,771)        | 25.9%        |
| R&D expense                          | (4,992)        | (6,509)        | 30.4%        |
| Fair value change                    | 436            | 54             | -87.7%       |
| Asset impairment                     | (681)          | (710)          | 4.3%         |
| <b>EBIT</b>                          | <b>16,844</b>  | <b>10,839</b>  | -35.7%       |
| Net finance income/(cost)            | (282)          | 125            | n/a          |
| Finance income                       | 515            | 664            | 29.0%        |
| Finance expenses                     | (797)          | (539)          | -32.3%       |
| Other gains/(losses)                 | 1,941          | 2,910          | 50.0%        |
| Share of profit of JV and associates | 29             | (17)           | n/a          |
| <b>Pretax profit</b>                 | <b>18,531</b>  | <b>13,857</b>  | -25.2%       |
| Income tax                           | (2,671)        | (1,530)        | -42.7%       |
| <b>After tax profit</b>              | <b>15,861</b>  | <b>12,326</b>  | -22.3%       |
| MI                                   | (429)          | (292)          | -31.9%       |
| <b>Net profit</b>                    | <b>15,431</b>  | <b>12,034</b>  | -22.0%       |
| D&A                                  | 1,894          | 2,022          | 6.7%         |
| <b>EBITDA</b>                        | <b>18,738</b>  | <b>12,861</b>  | -31.4%       |

Source: Company data, CMBIGM

Figure 3: SANY Heavy's revenue and gross margin breakdown in 2021

| (RMB mn)                                     | 2020           | 2021           | Change (YoY)        | 1H20          | 1H21          | Change (YoY)        | 2H20          | 2H21          | Change (YoY)        |
|--|----------------|----------------|---------------------|---------------|---------------|---------------------|---------------|---------------|---------------------|
| <b>Revenue</b>                               |                |                |                     |               |               |                     |               |               |                     |
| Concrete machinery                           | 27,052         | 26,674         | -1.4%               | 13,506        | 17,700        | 31.0%               | 13,546        | 8,974         | -33.7%              |
| Excavator                                    | 37,528         | 41,751         | 11.3%               | 18,649        | 26,007        | 39.5%               | 18,879        | 15,743        | -16.6%              |
| Crane machinery                              | 19,409         | 21,859         | 12.6%               | 9,427         | 14,034        | 48.9%               | 9,982         | 7,825         | -21.6%              |
| Piling machinery                             | 6,825          | 5,166          | -24.3%              | 3,752         | 3,586         | -4.4%               | 3,073         | 1,580         | -48.6%              |
| Earth moving machinery                       | 2,804          | 2,706          | -3.5%               | 1,501         | 1,801         | 19.9%               | 1,303         | 905           | -30.5%              |
| Other machinery                              | 3,206          | 5,405          | 68.6%               | 1,311         | 2,501         | 90.7%               | 1,895         | 2,905         | 53.3%               |
| <b>Revenue (construction machinery)</b>      | <b>96,825</b>  | <b>103,561</b> | <b>7.0%</b>         | <b>48,148</b> | <b>65,629</b> | <b>36.3%</b>        | <b>48,677</b> | <b>37,932</b> | <b>-22.1%</b>       |
| Interest income from financing               | 712            | 760            | 6.7%                | 354           | 370           | 4.7%                | 359           | 390           | 8.7%                |
| Other business                               | 2,517          | 2,553          | 1.4%                | 1,040         | 1,499         | 44.1%               | 1,477         | 1,054         | -28.7%              |
| <b>Total revenue</b>                         | <b>100,054</b> | <b>106,874</b> | <b>6.8%</b>         | <b>49,541</b> | <b>67,498</b> | <b>36.2%</b>        | <b>50,513</b> | <b>39,376</b> | <b>-22.0%</b>       |
| <b>Gross margin</b>                          |                |                | <b>Change (ppt)</b> |               |               | <b>Change (ppt)</b> |               |               | <b>Change (ppt)</b> |
| Concrete machinery                           | 27.3%          | 25.0%          | (2.3)               | 28.9%         | 27.0%         | (2.0)               | 25.7%         | 21.1%         | (4.6)               |
| Excavator                                    | 34.7%          | 28.9%          | (5.7)               | 34.9%         | 31.9%         | (3.0)               | 34.5%         | 24.0%         | (10.5)              |
| Crane machinery                              | 21.7%          | 19.6%          | (2.1)               | 20.0%         | 21.3%         | 1.3                 | 23.2%         | 16.4%         | (6.8)               |
| Piling machinery                             | 45.0%          | 40.7%          | (4.2)               | 43.6%         | 43.0%         | (0.5)               | 46.6%         | 35.5%         | (11.2)              |
| Earth moving machinery                       | 31.1%          | 28.6%          | (2.5)               | 32.8%         | 29.8%         | (3.0)               | 29.1%         | 26.2%         | (2.9)               |
| Other machinery                              | 24.7%          | 20.8%          | (3.8)               | 28.7%         | 19.6%         | (9.1)               | 21.9%         | 21.9%         | 0.0                 |
| <b>Gross margin (construction machinery)</b> | <b>30.3%</b>   | <b>26.1%</b>   | <b>(4.2)</b>        | <b>30.7%</b>  | <b>28.4%</b>  | <b>(2.3)</b>        | <b>29.9%</b>  | <b>22.1%</b>  | <b>(7.7)</b>        |
| Interest income from financing               | 55.9%          | 60.8%          | 4.9                 | 54.1%         | 59.4%         | 5.3                 |               |               | 0.0                 |
| Other business                               | 11.5%          | 15.7%          | 4.3                 | 12.1%         | 17.1%         | 5.0                 | 11.0%         | 13.9%         | 2.8                 |
| <b>Blended gross margin</b>                  | <b>30.0%</b>   | <b>26.1%</b>   | <b>(3.9)</b>        | <b>30.5%</b>  | <b>28.3%</b>  | <b>(2.2)</b>        | <b>29.5%</b>  | <b>22.3%</b>  | <b>(7.2)</b>        |

Source: Company data, CMBIGM estimates

Figure 4: SANY Heavy's overseas revenue breakdown in 2021

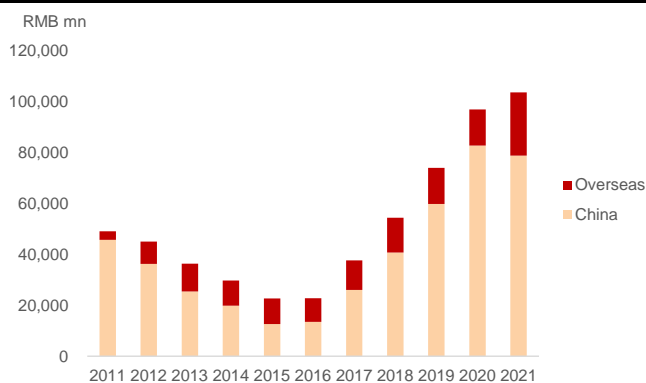
| Overseas revenue breakdown by region |               |            |             | 1H21          |            |             | 2H21          |            |             |
|--------------------------------------|---------------|------------|-------------|---------------|------------|-------------|---------------|------------|-------------|
| (RMB mn)                             | 2021          | Chg YoY    | % of total  | 1H21          | Chg YoY    | % of total  | 2H21          | Chg YoY    | % of total  |
| Asia Pacific (ex-China)              | 10,520        | 94%        | 42%         | 5,667         | 120%       | 46%         | 4,853         | 70%        | 39%         |
| Europe                               | 8,180         | 42%        | 33%         | 3,751         | 47%        | 30%         | 4,429         | 38%        | 36%         |
| America                              | 4,040         | 108%       | 16%         | 1,961         | 173%       | 16%         | 2,079         | 70%        | 17%         |
| Africa                               | 2,110         | 118%       | 8%          | 1,065         | 100%       | 9%          | 1,045         | 140%       | 8%          |
| <b>Total</b>                         | <b>24,850</b> | <b>76%</b> | <b>100%</b> | <b>12,444</b> | <b>95%</b> | <b>100%</b> | <b>12,406</b> | <b>60%</b> | <b>100%</b> |

| Overseas revenue breakdown by product |               |            |             | 1H21          |            |             | 2H21          |            |             |
|---------------------------------------|---------------|------------|-------------|---------------|------------|-------------|---------------|------------|-------------|
| (RMB mn)                              | 2021          | Chg YoY    | % of total  | 1H21          | Chg YoY    | % of total  | 2H21          | Chg YoY    | % of total  |
| Excavator                             | 10,700        | 101%       | 43%         | 5,036         | 129%       | 40%         | 5,664         | 81%        | 46%         |
| Concrete machinery                    | 7,110         | 24%        | 29%         | 3,629         | 33%        | 29%         | 3,481         | 16%        | 28%         |
| Crane                                 | 4,090         | 137%       | 16%         | 2,512         | 183%       | 20%         | 1,578         | 88%        | 13%         |
| Piling machinery                      | 2,950         | 121%       | 12%         | 1,267         | 122%       | 10%         | 1,683         | 120%       | 14%         |
| <b>Total</b>                          | <b>24,850</b> | <b>76%</b> | <b>100%</b> | <b>12,444</b> | <b>95%</b> | <b>100%</b> | <b>12,406</b> | <b>60%</b> | <b>100%</b> |

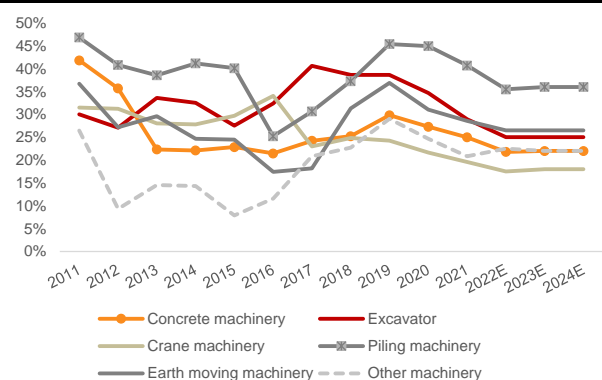
Source: Company data, CMBIGM estimates

Figure 5: SANY Heavy's revenue breakdown by region



Source: Company data, CMBIGM

Figure 6: SANY Heavy's gross margin breakdown and trend

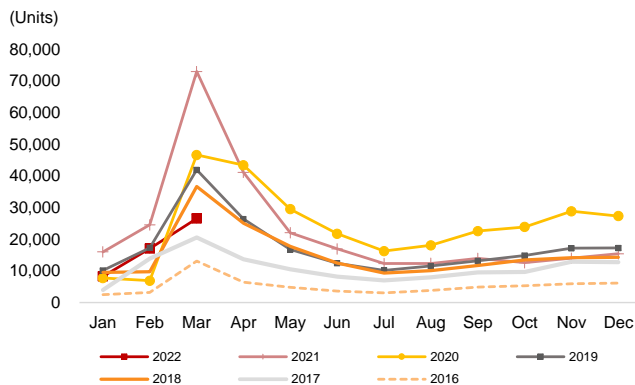


Source: Company data, CMBIGM estimates

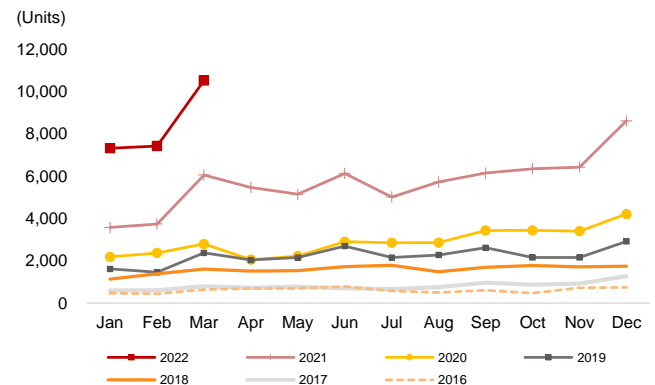
**Figure 7: Change in key assumptions for SANY Heavy**

| (RMB mn)                                     | Old           |                |       | New           |                |                | Change        |               |       |
|--|---------------|----------------|-------|---------------|----------------|----------------|---------------|---------------|-------|
|  | 2022E         | 2023E          | 2024E | 2022E         | 2023E          | 2024E          | 2022E         | 2023E         | 2024E |
| <b>Revenue</b>                               |               |                |       |               |                |                |               |               |       |
| Concrete machinery                           | 25,329        | 26,595         | -     | 24,689        | 25,923         | 27,219         | -2.5%         | -2.5%         | -     |
| Excavator                                    | 38,550        | 39,321         | -     | 38,620        | 39,393         | 41,362         | 0.2%          | 0.2%          | -     |
| Crane machinery                              | 18,319        | 19,785         | -     | 19,350        | 20,898         | 22,987         | 5.6%          | 5.6%          | -     |
| Piling machinery                             | 6,511         | 6,836          | -     | 4,794         | 5,034          | 5,285          | -26.4%        | -26.4%        | -     |
| Earth moving machinery                       | 2,019         | 2,120          | -     | 2,075         | 2,179          | 2,244          | 2.8%          | 2.8%          | -     |
| Other machinery                              | 4,328         | 4,545          | -     | 5,135         | 5,392          | 5,661          | 18.6%         | 18.6%         | -     |
| <b>Revenue (construction machinery)</b>      | <b>95,056</b> | <b>99,202</b>  | -     | <b>94,663</b> | <b>98,818</b>  | <b>104,760</b> | -0.4%         | -0.4%         | -     |
| Interest income from financing               | 941           | 1,017          | -     | 722           | 744            | 781            | -23.3%        | -26.8%        | -     |
| Other business                               | 2,908         | 3,053          | -     | 2,604         | 2,656          | 2,709          | -10.4%        | -13.0%        | -     |
| <b>Total revenue</b>                         | <b>97,964</b> | <b>102,255</b> | -     | <b>97,989</b> | <b>102,217</b> | <b>108,250</b> | 0.0%          | 0.0%          | -     |
| <b>Gross margin</b>                          |               |                |       |               |                |                |               |               |       |
| Concrete machinery                           | 24.2%         | 24.5%          | -     | 21.8%         | 22.0%          | 22.0%          | (2.4)         | (2.5)         | -     |
| Excavator                                    | 29.5%         | 30.0%          | -     | 25.0%         | 25.0%          | 25.0%          | (4.5)         | (5.0)         | -     |
| Crane machinery                              | 20.0%         | 21.0%          | -     | 17.5%         | 18.0%          | 18.0%          | (2.5)         | (3.0)         | -     |
| Piling machinery                             | 42.0%         | 42.0%          | -     | 35.5%         | 36.0%          | 36.0%          | (6.5)         | (6.0)         | -     |
| Earth moving machinery                       | 29.0%         | 29.0%          | -     | 26.5%         | 26.5%          | 26.5%          | (2.5)         | (2.5)         | -     |
| Other machinery                              | 19.0%         | 19.0%          | -     | 22.5%         | 22.0%          | 22.0%          | 3.5           | 3.0           | -     |
| <b>Gross margin (construction machinery)</b> | <b>26.6%</b>  | <b>27.0%</b>   | -     | <b>23.1%</b>  | <b>23.2%</b>   | <b>23.1%</b>   | (3.6)         | (3.9)         | -     |
| Interest income from financing               | 58.0%         | 58.0%          | -     | 62.0%         | 62.0%          | 62.0%          | 4.0           | 4.0           | -     |
| Other business                               | 14.0%         | 14.0%          | -     | 15.7%         | 15.7%          | 15.7%          | 1.7           | 1.7           | -     |
| <b>Blended gross margin</b>                  | <b>26.8%</b>  | <b>27.2%</b>   | -     | <b>23.2%</b>  | <b>23.3%</b>   | <b>23.2%</b>   | (3.7)         | (4.0)         | -     |
| S&D expense ratio                            | 5.6%          | 5.6%           | -     | 6.2%          | 6.2%           | 6.2%           | 0.6           | 0.6           | -     |
| Administrative expense ratio                 | 2.3%          | 2.3%           | -     | 2.5%          | 2.5%           | 2.5%           | 0.2           | 0.2           | -     |
| R&D expense ratio                            | 5.0%          | 5.0%           | -     | 5.0%          | 5.0%           | 5.0%           | 0.0           | 0.0           | -     |
| <b>Net profit</b>                            | <b>12,995</b> | <b>13,943</b>  | -     | <b>9,163</b>  | <b>9,503</b>   | <b>10,029</b>  | <b>-29.5%</b> | <b>-31.8%</b> | -     |

Source: Company data, CMBIGM estimates

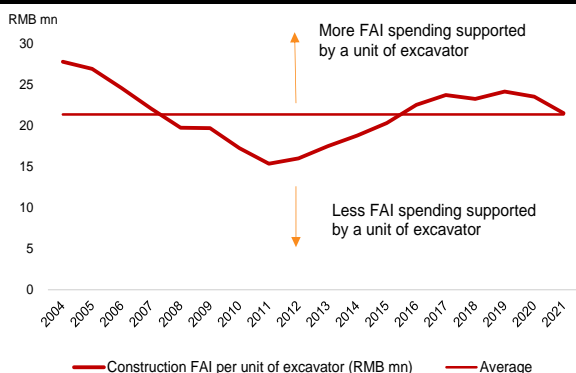
**Figure 8: Excavator sales in China dropped 54% YoY in 1Q22**

Source: CCMA, CMBIGM

**Figure 9: Excavator export volume surged 89% in 1Q22**

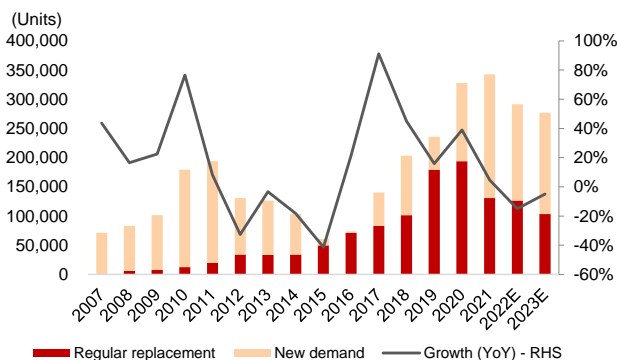
Source: CCMA, CMBIGM

**Figure 10: Construction related FAI per unit of excavator in operation**



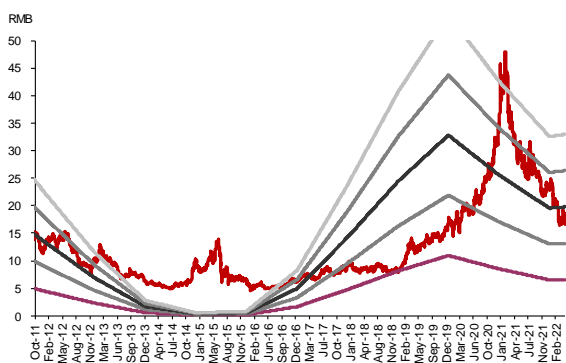
Note: Construction related FAI = Infrastructure + property + mining  
Source: CCMA, Wind, CMBIGM

**Figure 11: CMBIGM excavator sales projection**



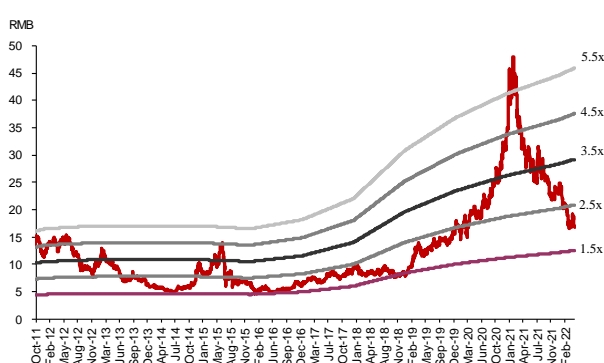
Source: CCMA, CMBIGM estimates

**Figure 12: SANY's P/E band**



Source: Company data, Bloomberg, CMBIGM estimates

**Figure 13: SANY's P/B band**



Source: Company data, Bloomberg, CMBIGM estimates

## Financial Summary

### Income statement

| YE 31 Dec (RMB mn)          | FY20A          | FY21A          | FY22E         | FY23E          | FY24E          |
|-----------------------------|----------------|----------------|---------------|----------------|----------------|
| <b>Total revenue</b>        | <b>100,054</b> | <b>106,874</b> | <b>97,989</b> | <b>102,217</b> | <b>108,250</b> |
| Cost of sales               | -70,034        | -78,978        | -75,302       | -78,451        | -83,131        |
| <b>Gross profit</b>         | <b>30,021</b>  | <b>27,896</b>  | <b>22,687</b> | <b>23,767</b>  | <b>25,119</b>  |
| Surcharge                   | -408           | -422           | -294          | -307           | -325           |
| S&D expenses                | -5,332         | -6,699         | -6,075        | -6,337         | -6,711         |
| Administrative expenses     | -2,201         | -2,771         | -2,450        | -2,555         | -2,706         |
| R&D Expense                 | -4,992         | -6,509         | -4,899        | -5,111         | -5,412         |
| Fair value change           | 436            | 54             | 100           | 100            | 100            |
| Asset impairment            | -681           | -710           | -686          | -716           | -758           |
| <b>EBIT</b>                 | <b>16,844</b>  | <b>10,839</b>  | <b>8,383</b>  | <b>8,841</b>   | <b>9,306</b>   |
| Net finance income/(cost)   | -282           | 125            | 5             | 121            | 336            |
| Finance income              | 515            | 664            | 653           | 780            | 1,002          |
| Finance expenses            | -797           | -539           | -648          | -659           | -666           |
| Other gains/(losses)        | 1,941          | 2,910          | 2,100         | 2,100          | 2,100          |
| Profit of JV and associates | 29             | -17            | 121           | 130            | 138            |
| <b>Pretax profit</b>        | <b>18,531</b>  | <b>13,857</b>  | <b>10,609</b> | <b>11,192</b>  | <b>11,880</b>  |
| Income tax                  | -2,671         | -1,530         | -1,220        | -1,455         | -1,604         |
| <b>After tax profit</b>     | <b>15,861</b>  | <b>12,326</b>  | <b>9,389</b>  | <b>9,737</b>   | <b>10,276</b>  |
| MI                          | -429           | -292           | -225          | -234           | -247           |
| <b>Net profit</b>           | <b>15,431</b>  | <b>12,034</b>  | <b>9,163</b>  | <b>9,503</b>   | <b>10,029</b>  |
| D&A                         | 1,894          | 2,022          | 2,228         | 2,411          | 2,565          |
| <b>EBITDA</b>               | <b>18,738</b>  | <b>12,861</b>  | <b>10,610</b> | <b>11,252</b>  | <b>11,872</b>  |

### Cash flow summary

| YE 31 Dec (RMB mn)              | FY20A          | FY21A         | FY22E         | FY23E         | FY24E         |
|---------------------------------|----------------|---------------|---------------|---------------|---------------|
| Pretax profit                   | 18,531         | 13,857        | 10,609        | 11,192        | 11,880        |
| Finance cost                    | 797            | 539           | 648           | 659           | 666           |
| Interest income                 | -515           | -664          | -653          | -780          | -1,002        |
| Profit or loss of associates    | -29            | 17            | -121          | -130          | -138          |
| Fair value change               | -1,341         | -1,198        | 0             | 0             | 0             |
| Provision for assets            | 495            | 134           | 0             | 0             | 0             |
| Depreciation and amortization   | 1,894          | 2,022         | 2,228         | 2,411         | 2,565         |
| Income tax paid                 | -2,671         | -1,530        | -1,220        | -1,455        | -1,604        |
| Change in working capital       | -3,531         | -1,222        | -1,778        | -1,069        | -785          |
| Others                          | -267           | -49           | 0             | 0             | 0             |
| <b>Cash flow from operation</b> | <b>13,363</b>  | <b>11,904</b> | <b>9,712</b>  | <b>10,828</b> | <b>11,583</b> |
| Net capex on PP&E               | -4,133         | -9,977        | -4,500        | -3,500        | -3,000        |
| Investment in JV/associates     | -47            | 812           | -50           | -50           | 0             |
| Investment in subsidiaries      | 4              | 0             | 0             | 0             | 0             |
| Dividend received               | 11             | 475           | 0             | 0             | 0             |
| Interest received               | 515            | 664           | 653           | 780           | 1,002         |
| Others                          | -7,599         | -1,263        | -180          | -180          | 0             |
| <b>Cash flow from investing</b> | <b>-11,250</b> | <b>-9,288</b> | <b>-4,077</b> | <b>-2,950</b> | <b>-1,998</b> |
| Equity financing/(repurchase)   | 0              | 0             | 0             | 0             | 0             |
| Net bank borrowings             | 3,020          | 4,180         | 300           | 300           | 100           |
| Dividend paid                   | -3,516         | -5,057        | -3,822        | -2,932        | -3,041        |
| Interest paid                   | -797           | -552          | -648          | -659          | -666          |
| Others                          | -1,160         | 114           | 0             | 0             | 0             |
| <b>Cash flow from financing</b> | <b>-2,452</b>  | <b>-1,315</b> | <b>-4,170</b> | <b>-3,291</b> | <b>-3,607</b> |
| Change in cash                  | -339           | 1,301         | 1,465         | 4,587         | 5,978         |
| Cash at beginning of the year   | 12,157         | 12,596        | 14,812        | 16,277        | 20,864        |
| Exchange and others             | 778            | 915           | 0             | 0             | 0             |
| Cash at the end of the year     | 12,596         | 14,812        | 16,277        | 20,864        | 26,842        |

### Balance sheet

| YE 31 Dec (RMB mn)             | FY20A         | FY21A         | FY22E         | FY23E          | FY24E          |
|--------------------------------|---------------|---------------|---------------|----------------|----------------|
| <b>Non-current assets</b>      | <b>34,827</b> | <b>44,838</b> | <b>45,897</b> | <b>49,147</b>  | <b>48,219</b>  |
| PP&E                           | 10,841        | 13,340        | 15,928        | 17,341         | 18,104         |
| JV/associates                  | 3,420         | 2,333         | 2,504         | 2,684          | 2,822          |
| Goodwill                       | 50            | 46            | 46            | 46             | 46             |
| LT trade receivables           | 5,555         | 7,966         | 7,068         | 8,055          | 6,774          |
| Intangible assets              | 3,228         | 3,960         | 3,824         | 3,680          | 3,352          |
| AFS investments                | 0             | 0             | 0             | 0              | 0              |
| Others                         | 5,240         | 10,294        | 10,294        | 10,294         | 10,294         |
| Deferred tax assets            | 1,441         | 1,599         | 1,599         | 1,599          | 1,599          |
| <b>Current assets</b>          | <b>91,428</b> | <b>93,719</b> | <b>98,760</b> | <b>104,350</b> | <b>114,416</b> |
| Inventories                    | 19,198        | 18,463        | 18,260        | 19,998         | 20,542         |
| Trade and bills receivables    | 21,512        | 19,655        | 22,225        | 22,583         | 24,869         |
| Other receivables              | 1,869         | 738           | 1,947         | 854            | 2,112          |
| Others                         | 13,446        | 12,817        | 12,817        | 12,817         | 12,817         |
| Cash                           | 12,596        | 14,812        | 16,277        | 20,864         | 26,842         |
| <b>Current liabilities</b>     | <b>62,049</b> | <b>61,432</b> | <b>61,465</b> | <b>63,001</b>  | <b>64,904</b>  |
| Trade and bills payables       | 32,207        | 28,560        | 28,793        | 30,529         | 32,332         |
| Bank borrowings                | 8,466         | 8,244         | 8,044         | 7,844          | 7,944          |
| Tax payable                    | 2,030         | 1,081         | 1,081         | 1,081          | 1,081          |
| Others                         | 11,413        | 12,742        | 12,742        | 12,742         | 12,742         |
| <b>Non-current liabilities</b> | <b>6,018</b>  | <b>12,029</b> | <b>12,529</b> | <b>13,029</b>  | <b>13,029</b>  |
| Bank borrowings                | 4,532         | 9,603         | 10,103        | 10,603         | 10,603         |
| Deferred tax liabilities       | 600           | 577           | 577           | 577            | 577            |
| Others                         | 849           | 1,842         | 1,842         | 1,842          | 1,842          |
| <b>Equity</b>                  | <b>58,188</b> | <b>65,095</b> | <b>70,662</b> | <b>77,467</b>  | <b>84,702</b>  |
| Shareholders' equity           | 56,562        | 63,691        | 69,033        | 75,603         | 82,592         |
| MI                             | 1,625         | 1,404         | 1,630         | 1,863          | 2,110          |

### Key ratios

| YE 31 Dec                          | FY20A    | FY21A    | FY22E    | FY23E    | FY24E    |
|------------------------------------|----------|----------|----------|----------|----------|
| <b>Sales mix (%)</b>               |          |          |          |          |          |
| Concrete machinery                 | 27%      | 25%      | 25%      | 25%      | 25%      |
| Excavator                          | 38%      | 39%      | 39%      | 39%      | 38%      |
| Crane machinery                    | 19%      | 20%      | 20%      | 20%      | 21%      |
| Piling machinery                   | 7%       | 5%       | 5%       | 5%       | 5%       |
| Earth moving machinery             | 3%       | 3%       | 2%       | 2%       | 2%       |
| Other machinery                    | 3%       | 5%       | 5%       | 5%       | 5%       |
| Interest income                    | 1%       | 1%       | 1%       | 1%       | 1%       |
| Other business                     | 3%       | 2%       | 3%       | 3%       | 3%       |
| Total                              | 100%     | 100%     | 100%     | 100%     | 100%     |
| <b>Profit &amp; loss ratio (%)</b> |          |          |          |          |          |
| Gross margin                       | 30.0     | 26.1     | 23.2     | 23.3     | 23.2     |
| EBIT margin                        | 16.8     | 10.1     | 8.6      | 8.6      | 8.6      |
| Net profit margin                  | 15.9     | 11.5     | 9.6      | 9.5      | 9.5      |
| <b>Growth (%)</b>                  |          |          |          |          |          |
| Revenue                            | 31.2     | 6.8      | (8.3)    | 4.3      | 5.9      |
| Gross profit                       | 19.9     | (7.1)    | (18.7)   | 4.8      | 5.7      |
| EBIT                               | 36.1     | (35.7)   | (22.7)   | 5.5      | 5.3      |
| Net profit                         | 36.3     | (22.0)   | (23.9)   | 3.7      | 5.5      |
| <b>Balance sheet ratio</b>         |          |          |          |          |          |
| Current ratio (x)                  | 1.5      | 1.5      | 1.6      | 1.7      | 1.8      |
| Receivable turnover days           | 91       | 93       | 106      | 107      | 105      |
| Inventory turnover days            | 87       | 87       | 89       | 89       | 89       |
| Payable turnover days              | 137      | 140      | 139      | 138      | 138      |
| Net debt / total equity (%)        | Net cash | Net cash | Net cash | Net cash | Net cash |
| <b>Profitability (%)</b>           |          |          |          |          |          |
| ROA                                | 13.7     | 9.1      | 6.5      | 6.4      | 6.3      |
| ROE                                | 29.8     | 20.0     | 13.8     | 13.1     | 12.7     |
| <b>Per share data</b>              |          |          |          |          |          |
| EPS (RMB)                          | 1.82     | 1.42     | 1.08     | 1.12     | 1.19     |
| BVPS (RMB)                         | 6.67     | 7.50     | 8.13     | 8.90     | 9.73     |
| DPS (RMB)                          | 0.60     | 0.45     | 0.35     | 0.36     | 0.38     |

Source: Company data, CMBIGM estimates



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