

# SANY International (631 HK)

## Firing on all cylinders

We visited SANYI's headquarters and mining equipment smart factory in Shenyang, Liaoning last week. Our discussion with the senior management and plant managers reaffirm our positive stance. We continue to like SANYI's strong commitment to deliver growth through strategic expansion in different segments and the continuous launch of new products. We revise up our 2023E-25E earnings forecast by 22-43%, after factoring in strong demand for hybrid mining trucks, CCMU, as well as the contribution of lithium battery equipment and petroleum equipment from acquisition. We now expect SANYI to deliver 33% earnings CAGR in 2023E-25E. We revise up our TP to HK\$16.2, based on 19x 2023E. Reiterate **BUY**. SANYI is the key pick in our universe.

- Surprising demand for new mining trucks with diesel-electric hybrid power.** The new mining truck has payload of 150 tonnes. Two sets of engines (Weichai brand; 500kw each) are installed as main source of power, while two sets of electric drive systems (CRRC Time Electric brand) provide additional power storage and output. ASP is ~RMB8.4mn, which is ~20% below major competitors' models. Gross margin can reach 30% (for direct sales). The monthly output is 10 units at present. SANYI targets to deliver >100 units in 2023E and we forecast the volume will reach 180 units 2024E when the new model (payload of 200 tonnes or above) is launched. We estimate this hybrid mining truck achieved RMB300mn revenue in 4M23. We expect revenue contribution to reach ~RMB840mn/1.5bn in 2023E/24E, up substantially from RMB200mn in 2022.
- Strong growth of wide-body trucks.** Production capacity of wide-body trucks in Shenyang is 500 units/month. It takes only an hour to produce a unit of wide-body truck. We saw large amount of trucks ready for delivery. Sales volume in 4M23 reached 1,500 units (China: 900 units; Overseas: 600 units), representing 36% of our full year forecast. ASP in China/overseas are RMB0.9mn / >RMB1.0mn. Going forward, ASP will likely increase given higher contribution of 2nd generation model and electric model.
- Fast-growing CCMU driven by hydraulic support.** Production capacity of hydraulic support is 500 units/month. We observed that the production line was busy with high utilization rate. SANYI saw strong orders for hydraulic support and electrohydraulic control systems. We estimate CCMU revenue grew 40% YoY in 4M23, with gross margin expansion.
- On-track growth of road header.** Monthly capacity of road header is ~80 units in Shenyang base. Sales in 4M23 was ~340 units and we expect the full year volume to reach ~945 units (+5% YoY). Going forward, ASP growth through transformation to intelligent model remains the key driver.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	10,195	15,537	22,695	29,924	35,935
YoY growth (%)	38.4	52.4	46.1	31.9	20.1
Adjusted net profit (RMB mn)	1,086.7	1,664.9	2,434.0	3,226.7	3,874.5
EPS (Adjusted) (RMB)	0.35	0.53	0.77	1.03	1.23
Consensus EPS (RMB)	na	na	0.71	0.92	1.23
P/E (x)	17.7	12.8	11.5	8.7	7.2
P/B (x)	2.6	2.1	2.4	2.0	1.6
Yield (%)	1.7	2.5	2.7	3.6	4.3
ROE (%)	15.2	17.8	22.1	24.5	24.4
Net gearing (%)	(18.3)	(11.8)	16.5	12.9	0.3

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

<b>Target Price</b>	<b>HK\$16.20</b>
(Previous TP)	HK\$13.00
<b>Up/Downside</b>	<b>65.1%</b>
<b>Current Price</b>	<b>HK\$9.81</b>

### 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)	31,125.2
Avg 3 mths t/o (HK\$ mn)	48.5
52w High/Low (HK\$)	11.28/6.44
Total Issued Shares (mn)	3172.8

Source: FactSet

### Shareholding Structure

Sany Heavy Equipment	66.4%
Investments Company	
Free float	33.9%

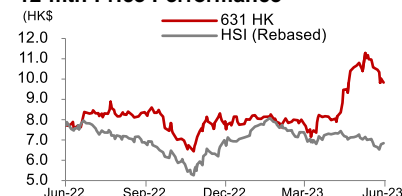
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-8.0%	-4.2%
3-mth	26.3%	34.7%
6-mth	30.1%	27.2%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related reports:

SANYI (631 HK, BUY) – Acquisition of oil & gas frac equipment a positive move – 13 Apr 2023 ([link](#))

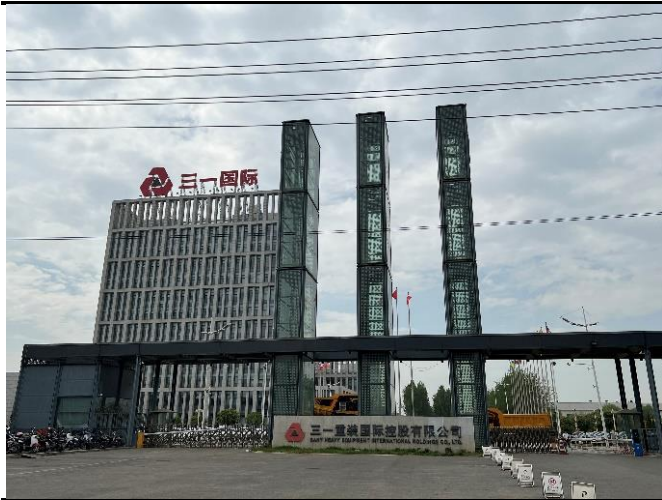
SANYI (631 HK, BUY) – Core net profit in 2022 +53% YoY in line with expectation; Margin recovery in 4Q – 21 Mar 2023 ([link](#))

SANYI (631 HK, BUY) – Expansion to new energy equipment sector with an ambitious target – 9 Jan 2023 ([link](#))

SANYI (631 HK, BUY) – Key takeaways from post-results call and NDR – 2 Nov 2022 ([link](#))

## SANYI's Shenyang production base

Figure 1: SANYI's headquarters in Shenyang



Source: CMBIGM

Figure 2: SANYI hybrid mining truck (150T)



Source: CMBIGM

Figure 3: SANYI's wide body mining trucks (60T) awaiting delivery



Source: CMBIGM

Figure 4: SANYI's 2nd generation wide body truck equipped with hydraulic cylinders to enhance shock absorption



Source: CMBIGM

## Modelled in the acquisition of SANY Petroleum Equipment

SANYI announced on 12 Apr that it plans to acquire SANY Petroleum Intelligent Equipment (三一石油智能装备) from the controlling shareholder. This marks the expansion into oil & gas fracturing equipment segment, which we think is positive given the expected increase in oilfield spending (in particular unconventional field) amid the tight supply of oil and the consideration of energy security by different countries.

By leveraging strong R&D capability and smart factories, SANY Petroleum will launch more electric and intelligent products. Besides, SANY Petroleum plans to expand the oilfield service business, on the back of SANY brand and solid capability.

The acquisition price of RMB2.98bn (all cash) implies only 7.7x 2022 P/E, lower than the 9.5x (2023E) of **Yantai Jereh (002353 CH)** and SANYI's current valuation (11.5x 2023E).

The EGM for the acquisition will be held on 9 Jun and we see high chance that the acquisition will be approved. **We project SANY Petroleum to deliver 25%/20% earnings growth in 2023E/24E. We have modelled six-month earnings contribution in 2023E and full year contribution starting 2024E, translating into additional earnings of 10% and 18%, respectively, for SANYI.**

**Figure 5: Key financials of SANY Petroleum Intelligent Equipment**

	2020	2021	2022
(RMB mn)			
<b><u>Income statement</u></b>			
<b>Revenue</b>	<b>895</b>	<b>1,740</b>	<b>2,087</b>
Oil & gas equipment	-	-	1,854
Oil service	-	-	226
Others	-	-	7
Cost of sales	(638)	(1,121)	(1,346)
<b>Gross profit</b>	<b>257</b>	<b>619</b>	<b>741</b>
Selling & distribution expense	(48)	(105)	(121)
Administrative expense	(155)	(186)	(198)
<b>EBIT</b>	<b>53</b>	<b>329</b>	<b>421</b>
Others	(4)	(6)	1
Finance expense	(14)	(14)	(8)
<b>Pretax profit</b>	<b>71</b>	<b>348</b>	<b>428</b>
Income tax	(2)	(44)	(42)
<b>Net profit</b>	<b>70</b>	<b>304</b>	<b>386</b>
<b><u>Balance sheet</u></b>			
Total assets	1,311	1,657	2,301
Total liabilities	1,004	1,046	1,735
Net assets	307	612	567
<b><u>Growth rate</u></b>			
Revenue	-	94.6%	19.9%
EBIT	-	517.5%	28.2%
Net profit	-	338.0%	26.7%
<b><u>Key ratios</u></b>			
Gross margin	28.7%	35.6%	35.5%
Selling & distribution expense ratio	5.4%	6.0%	5.8%
Administrative expense ratio	17.4%	10.7%	9.5%
Effective tax rate	2.5%	12.6%	9.8%
After tax profit margin	7.8%	17.5%	18.5%
Total assets to liabilities ratio	76.6%	63.1%	75.4%
ROAA	-	20.5%	19.5%
ROAE	-	66.3%	65.4%

Source: Company data, CMBIGM

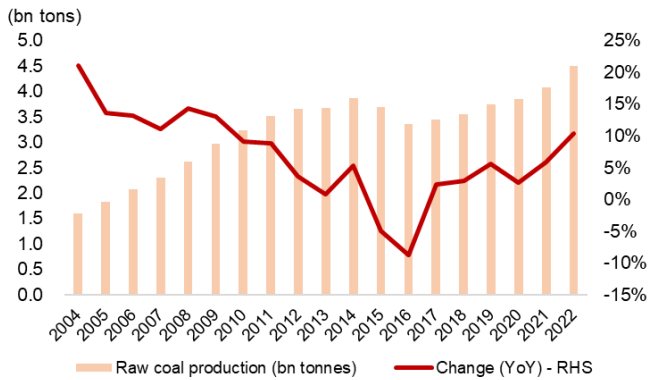
Figure 6: Change in key assumptions

	Old			New			Change		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
(RMB mn)									
<b>Revenue</b>									
Road header	2,917	3,124	3,218	3,321	3,455	3,524	13.9%	10.6%	9.5%
Combined coal mining units (CCMU)	3,288	3,683	4,051	4,007	5,129	6,411	21.8%	39.3%	58.2%
Small-size port machinery	3,942	4,533	5,213	3,942	4,651	5,442	0.0%	2.6%	4.4%
Large-size port machinery	1,667	2,000	2,300	2,066	2,685	3,222	23.9%	34.3%	40.1%
Mining trucks	3,777	5,048	6,531	5,019	7,144	9,086	32.9%	41.5%	39.1%
After sales service	1,087	1,196	1,316	1,250	1,400	1,567	14.9%	17.0%	19.2%
Robot	1,725	2,156	2,588	1,187	1,330	1,489	-31.2%	-38.3%	-42.4%
Lithium battery equipment	-	-	-	600	1,000	1,500	-	-	-
Oil and gas equipment	-	-	-	1,304	3,131	3,694	-	-	-
<b>Total</b>	<b>18,403</b>	<b>21,739</b>	<b>25,215</b>	<b>22,695</b>	<b>29,924</b>	<b>35,935</b>	<b>23.3%</b>	<b>37.6%</b>	<b>42.5%</b>
<b>Gross margin</b>									
Road header	42.0%	41.0%	41.0%	42.0%	41.0%	41.0%	0.0	0.0	0.0
Combined coal mining units (CCMU)	18.0%	18.0%	18.0%	17.5%	17.8%	18.0%	(0.5)	(0.2)	0.0
Small-size port machinery	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	0.0	0.0	0.0
Large-size port machinery	10.0%	12.0%	12.0%	11.5%	12.2%	12.7%	1.5	0.2	0.7
Mining trucks	16.0%	16.0%	17.0%	16.5%	17.0%	17.0%	0.5	1.0	0.0
After sales service	37.0%	37.0%	37.0%	38.0%	38.0%	38.0%	1.0	1.0	1.0
Robot	20.0%	21.0%	21.0%	19.0%	20.0%	20.0%	(1.0)	(1.0)	(1.0)
Lithium battery equipment	-	-	-	20.0%	22.0%	25.0%	-	-	-
Oil and gas equipment	-	-	-	35.0%	34.5%	34.5%	-	-	-
<b>Blended gross margin</b>	<b>23.7%</b>	<b>23.3%</b>	<b>23.1%</b>	<b>23.9%</b>	<b>23.8%</b>	<b>23.5%</b>	<b>0.2</b>	<b>0.5</b>	<b>0.5</b>
							Change (ppt)		
S&D expense ratio	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	0.0	0.0	0.0
Admin expense ratio	9.2%	9.1%	8.9%	9.2%	9.1%	8.9%	0.0	0.0	0.0
<b>Net profit</b>	<b>1,993</b>	<b>2,325</b>	<b>2,713</b>	<b>2,434</b>	<b>3,227</b>	<b>3,875</b>	<b>22.1%</b>	<b>38.8%</b>	<b>42.8%</b>

Source: Company data, CMBIGM

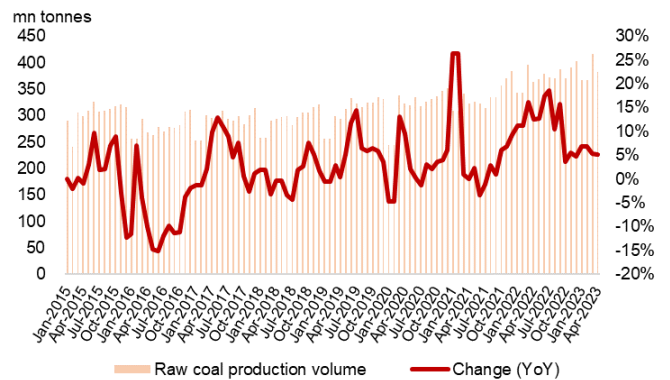
**Industry trend**

**Figure 7: China raw coal production (annual)**



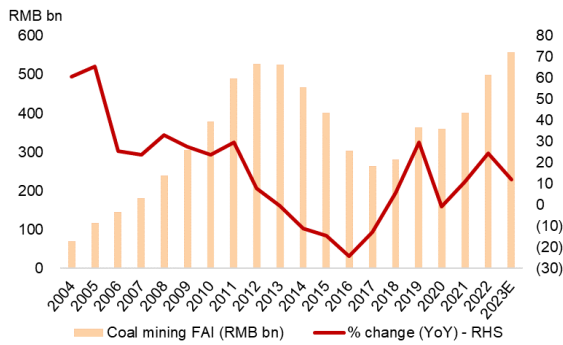
Source: Wind, CCTDCOAL, CMBIGM

**Figure 8: China raw coal production (monthly)**



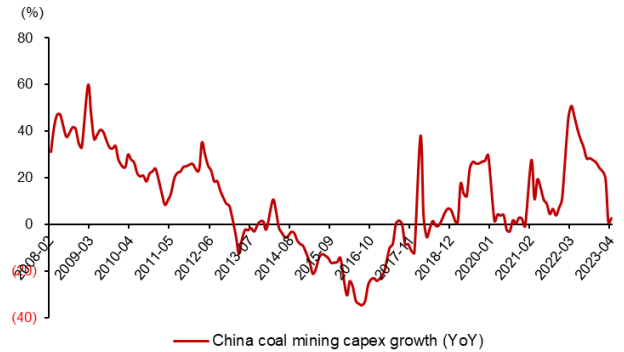
Source: Wind, CCTDCOAL, CMBIGM

**Figure 9: China coal mining FAI**



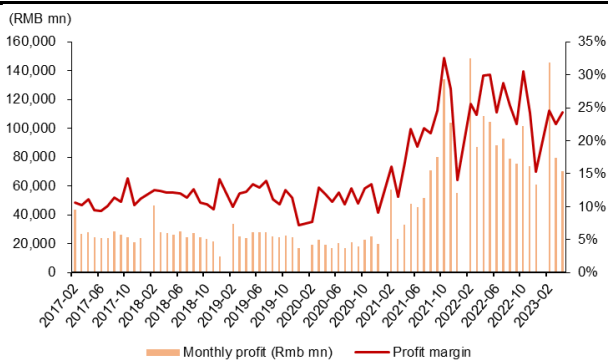
Source: Wind, NBS, CMBIGM

**Figure 10: China coal mining FAI growth (YTD)**



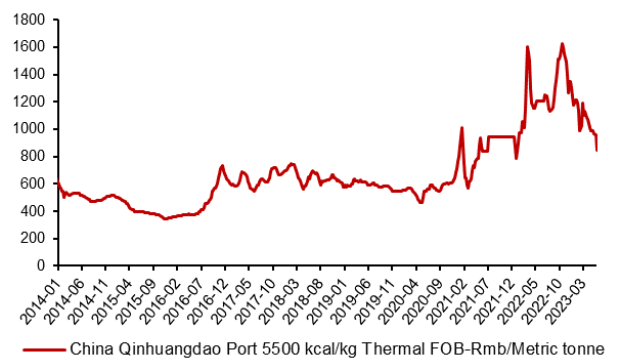
Source: Wind, NBS, CMBIGM

**Figure 11: China coal miners' monthly profit & margin**



Source: Wind, NBS, CMBIGM

**Figure 12: China Qinhuangdao Port 5500 kcal price**



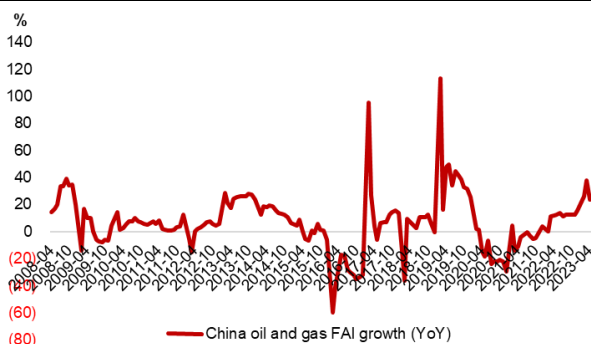
Source: Bloomberg, CMBIGM

**Figure 13: Global upstream oil E&P capex**



Source: S&P Global Commodity Insights, COSL, CMBIGM

**Figure 14: China oil and gas FAI growth (YTD)**



Source: Wind, NBS, CMBIGM

**Figure 15: Brent crude oil price**

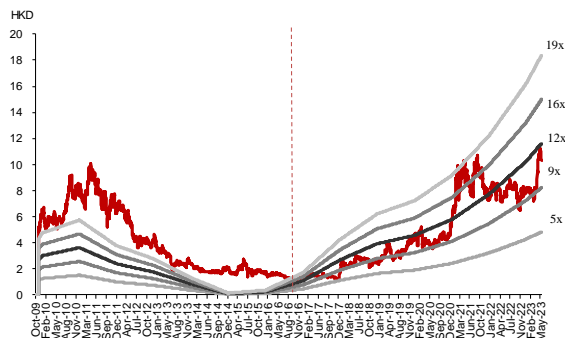


Source: Bloomberg, CMBIGM

## Valuation

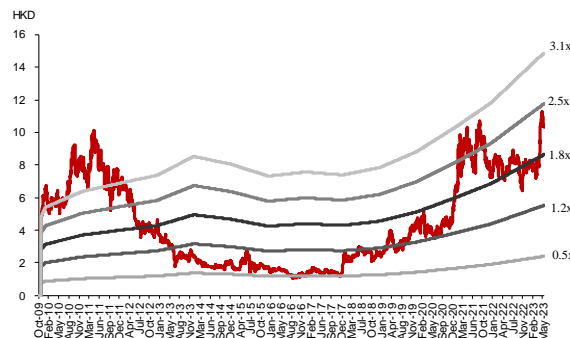
We revise up our TP to HK\$16.2 from HK\$13. Our new TP is based on 19x 2023E P/E (previously 18x), equivalent to high end of the trading range since the upcycle starting in 2017. We believe our target multiple is justified, given the 33% estimated earnings CAGR in 2023E-25E.

**Figure 16: SANYI's P/E band**



Source: Bloomberg, Company data, CMBIGM estimates

**Figure 17: SANYI's P/B band**



Source: Bloomberg, Company data, CMBIGM estimates

**Major risk factors:** (1) weakness in mining activities; (2) development of new products below expectation; and (3) rebound of raw material costs.

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
<b>Revenue</b>	<b>7,364</b>	<b>10,195</b>	<b>15,537</b>	<b>22,695</b>	<b>29,924</b>	<b>35,935</b>
Cost of goods sold	(5,403)	(7,805)	(11,908)	(17,271)	(22,792)	(27,479)
<b>Gross profit</b>	<b>1,961</b>	<b>2,390</b>	<b>3,628</b>	<b>5,424</b>	<b>7,132</b>	<b>8,456</b>
Selling expense	(430)	(567)	(933)	(1,362)	(1,795)	(2,156)
Admin expense	(707)	(1,053)	(1,177)	(2,088)	(2,723)	(3,198)
Other income	237	391	447	658	868	1,042
Other expense	(31)	(1)	(25)	(68)	(90)	(108)
Other gains/(losses)	257	347	54	454	598	719
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
<b>EBITDA</b>	<b>1,535</b>	<b>1,756</b>	<b>2,287</b>	<b>3,396</b>	<b>4,452</b>	<b>5,307</b>
Depreciation	249	249	293	378	462	553
<b>EBIT</b>	<b>1,286</b>	<b>1,507</b>	<b>1,994</b>	<b>3,018</b>	<b>3,990</b>	<b>4,755</b>
Interest income	36	51	59	43	34	43
Interest expense	(132)	(120)	(132)	(162)	(181)	(183)
Net Interest income/(expense)	(96)	(69)	(73)	(119)	(147)	(140)
<b>Pre-tax profit</b>	<b>1,190</b>	<b>1,438</b>	<b>1,921</b>	<b>2,899</b>	<b>3,843</b>	<b>4,615</b>
Income tax	(139)	(129)	(252)	(377)	(500)	(600)
<b>After tax profit</b>	<b>1,052</b>	<b>1,309</b>	<b>1,669</b>	<b>2,522</b>	<b>3,344</b>	<b>4,015</b>
Minority interest	(6)	(50)	(4)	(88)	(117)	(141)
<b>Net profit</b>	<b>1,045</b>	<b>1,259</b>	<b>1,665</b>	<b>2,434</b>	<b>3,227</b>	<b>3,875</b>
<b>Adjusted net profit</b>	<b>1,045</b>	<b>1,087</b>	<b>1,665</b>	<b>2,434</b>	<b>3,227</b>	<b>3,875</b>
Gross dividends	408	385	524	755	1,000	1,201
<b>BALANCE SHEET</b>						
<b>YE 31 Dec (RMB mn)</b>						
<b>Current assets</b>	<b>12,016</b>	<b>14,217</b>	<b>17,191</b>	<b>19,532</b>	<b>23,880</b>	<b>28,017</b>
Cash & equivalents	941	1,349	2,690	1,590	1,843	3,506
Account receivables	3,288	4,272	6,416	8,631	11,373	12,256
Inventories	1,821	2,529	3,283	5,046	6,069	7,331
Prepayment	359	585	700	700	700	700
ST bank deposits	0	21	50	50	50	50
Financial assets at FVTPL	4,024	3,680	2,088	1,088	1,088	1,088
Other current assets	1,583	1,782	1,964	2,427	2,756	3,086
<b>Non-current assets</b>	<b>5,448</b>	<b>6,568</b>	<b>7,763</b>	<b>11,265</b>	<b>12,003</b>	<b>12,750</b>
PP&E	2,591	3,314	4,066	4,928	5,698	6,477
Deferred income tax	296	287	298	298	298	298
Goodwill	1,130	1,130	1,130	3,802	3,802	3,802
Other non-current assets	1,432	1,838	2,269	2,238	2,206	2,174
<b>Total assets</b>	<b>17,464</b>	<b>20,785</b>	<b>24,953</b>	<b>30,797</b>	<b>35,883</b>	<b>40,767</b>
<b>Current liabilities</b>	<b>7,938</b>	<b>9,170</b>	<b>10,836</b>	<b>13,731</b>	<b>15,928</b>	<b>17,798</b>
Short-term borrowings	2,645	1,687	954	1,054	904	754
Account payables	2,893	4,422	6,646	9,442	11,789	13,808
Tax payable	197	185	155	155	155	155
Other current liabilities	2,205	2,875	3,080	3,080	3,080	3,080
<b>Non-current liabilities</b>	<b>1,667</b>	<b>2,832</b>	<b>4,014</b>	<b>4,964</b>	<b>5,264</b>	<b>5,264</b>
Long-term borrowings	493	1,767	2,691	3,641	3,941	3,941
Other non-current liabilities	1,174	1,065	1,323	1,323	1,323	1,323
<b>Total liabilities</b>	<b>9,605</b>	<b>12,002</b>	<b>14,849</b>	<b>18,695</b>	<b>21,192</b>	<b>23,061</b>
<b>Total shareholders equity</b>	<b>7,839</b>	<b>8,701</b>	<b>10,040</b>	<b>11,950</b>	<b>14,422</b>	<b>17,296</b>
Minority interest	20	82	64	152	269	410
<b>Total equity and liabilities</b>	<b>17,464</b>	<b>20,785</b>	<b>24,953</b>	<b>30,797</b>	<b>35,883</b>	<b>40,767</b>



<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	1,190	1,438	1,921	2,899	3,843	4,615
Depreciation & amortization	249	249	293	378	462	553
Tax paid	(108)	(185)	(145)	(377)	(500)	(600)
Change in working capital	105	51	(808)	(1,646)	(1,748)	(455)
Others	(366)	(630)	(177)	119	147	140
<b>Net cash from operations</b>	<b>1,070</b>	<b>923</b>	<b>1,084</b>	<b>1,374</b>	<b>2,205</b>	<b>4,252</b>
<b>Investing</b>						
Capital expenditure	(334)	(885)	(889)	(900)	(1,200)	(1,300)
Others	(313)	589	1,529	(1,937)	34	43
<b>Net cash from investing</b>	<b>(647)</b>	<b>(296)</b>	<b>639</b>	<b>(2,837)</b>	<b>(1,166)</b>	<b>(1,257)</b>
<b>Financing</b>						
Dividend paid	(394)	(451)	(466)	(524)	(755)	(1,000)
Net borrowings	(132)	(120)	0	(162)	(181)	(183)
Proceeds from share issues	30	26	8	0	0	0
Others	(105)	317	81	1,050	150	(150)
<b>Net cash from financing</b>	<b>(602)</b>	<b>(227)</b>	<b>(377)</b>	<b>364</b>	<b>(786)</b>	<b>(1,333)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,103	941	1,349	2,690	1,590	1,843
Exchange difference	17	8	(6)	0	0	0
<b>Cash at the end of the year</b>	<b>941</b>	<b>1,349</b>	<b>2,690</b>	<b>1,590</b>	<b>1,843</b>	<b>3,506</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	30.2%	38.4%	52.4%	46.1%	31.9%	20.1%
Gross profit	17.5%	21.9%	51.8%	49.5%	31.5%	18.6%
EBITDA	14.0%	14.4%	30.2%	48.5%	31.1%	19.2%
EBIT	17.3%	17.2%	32.3%	51.4%	32.2%	19.2%
Net profit	13.6%	20.5%	32.2%	46.2%	32.6%	20.1%
Adj. net profit	20.8%	4.0%	53.2%	46.2%	32.6%	20.1%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	26.6%	23.4%	23.4%	23.9%	23.8%	23.5%
EBITDA margin	20.9%	17.2%	14.7%	15.0%	14.9%	14.8%
Adj. net profit margin	14.2%	10.7%	10.7%	10.7%	10.8%	10.8%
Return on equity (ROE)	14.0%	15.2%	17.8%	22.1%	24.5%	24.4%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.2)	(0.2)	(0.1)	0.2	0.1	0.0
Current ratio (x)	1.5	1.6	1.6	1.4	1.5	1.6
Receivable turnover days	146.8	135.3	125.5	121.0	122.0	120.0
Inventory turnover days	110.1	101.7	89.1	88.0	89.0	89.0
Payable turnover days	159.6	171.0	169.6	170.0	170.0	170.0
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	25.4	17.7	12.8	11.5	8.7	7.2
P/B	3.4	2.6	2.1	2.4	2.0	1.6
Div yield (%)	1.5	1.7	2.5	2.7	3.6	4.3

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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