

SANY International (631 HK)

Expect an improving trend after a weak 1Q24

SANYI's 1Q24 net profit decline (-21% YoY) was more than our expectation of -15% YoY, as the growth of logistics equipment was offset by the weakness of mining equipment and emerging industries. Looking forward, we see an improving trend given (1) the reduction of loss after the disposal of robot business; (2) wide-body trucks, large mining trucks and logistics equipment remain strong in overseas markets; and (3) potential acceleration of port equipment orders in 2H24E, driven by the government's equipment upgrade policy. We fine-tune our 2024E/25E earnings by -5%/-2%. Maintain **BUY** with a new TP of HK\$7.9 (based on an unchanged 11x 2024E P/E).

■ **1Q24 results highlights.** Revenue dropped 6% YoY to RMB5.1bn (Mining equipment: RMB2.8bn, -26% YoY; Logistics equipment: RMB1.8bn, +23% YoY; Oil & gas equipment and emerging industries: RMB560mn). Net profit dropped 21% YoY to RMB516mn, as oil & gas equipment and emerging industries reported loss in 1Q24.

■ **Domestic logistics equipment to benefit from equipment upgrade policy.** During the post-results call, SANYI revealed that major ports in China (SANYI's customers) have already proposed plans to upgrade their port equipment, such as the replacement of small-size diesel port machinery (NES II) with electric models. SANYI is confident of strong order intakes starting from 2H24E.

■ **Overseas growth remains exciting.** For wide-body trucks, SANYI delivered ~200 units in 4M24, and targets to achieve 1,800 units for the full year which will be equivalent to ~RMB2.6bn (VAT-included) sales. For large mining trucks, delivery was not smooth in 1Q24 due to some issues related to products, but such issues have been resolved and delivery is expected to speed up starting from Jun (current backlog ~70 units, valued at RMB600mn). For logistics equipment, telescopic handler sales were more than doubled in 1Q24. We continue to see telescopic handler as a key growth driver this year.

■ **Still see chance for domestic mining equipment to achieve growth in 2024E.** In China, SANYI still managed to achieve some market share gains for road headers despite the industry downtrend in 1Q24. For combined coal mining units (CCMU), SANYI believes that the rising adoption of pure water hydraulic support will boost growth of CCMU this year, which will likely offset the weakness of road headers and wide-body trucks. SANYI sees 0-5% growth for the domestic mining equipment segment this year.

■ **Solar power still a drag in the foreseeable future.** SANYI currently has 5GW of capacity for crystal growing/wafer slicing/solar cells, as well as 1.5GW for modules. SANYI targets to deliver 3-4GW of modules this year. For EPC, SANYI targets to complete 800MW EPC projects this year. We still expect loss for the full year given the continued declines of solar supply chain pricing.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	15,537	20,278	25,874	29,304	33,058
YoY growth (%)	52.4	30.5	27.6	13.3	12.8
Adjusted net profit (RMB mn)	1,664.9	1,929.0	2,034.4	2,470.9	3,015.7
YoY growth (%)	53.2	15.9	5.5	21.5	22.0
EPS (Adjusted) (RMB)	0.53	0.61	0.64	0.78	0.95
Consensus EPS (RMB)	na	na	0.75	0.91	1.04
P/E (x)	12.2	10.7	10.1	8.3	6.8
P/B (x)	2.0	1.8	1.6	1.4	1.2
Yield (%)	2.6	2.7	2.9	3.5	4.2
ROE (%)	17.8	17.8	16.5	17.6	18.7
Net gearing (%)	(11.8)	21.2	29.1	29.6	23.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$7.90**

(Previous TP) HK\$8.00

Up/Downside **13.0%**

Current Price **HK\$6.99**

China Capital Goods

Wayne FUNG, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	22,177.9
Avg 3 mths t/o (HK\$ mn)	90.9
52w High/Low (HK\$)	12.92/4.25
Total Issued Shares (mn)	3172.8

Source: FactSet

Shareholding Structure

Sany Heavy Equipment Investments Company	66.4%
Free float	33.9%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	32.1%	9.8%
3-mth	19.9%	-0.9%
6-mth	-23.1%	-31.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

1. SANYI (631 HK, BUY) – Expect an unexciting set of results in 1Q24E; Potential recovery in 2H24E – 14 May 2024 ([link](#))
2. SANYI (631 HK, BUY) – Solar power business remains major investor concern during site visit – 29 Mar 2024 ([link](#))
3. SANYI (631 HK, BUY) - Weak revenue growth in the price; overseas growth story still intact – 2 Nov 2023 ([link](#))
4. SANYI (631 HK, BUY) – Net profit in 2Q23 +19% YoY; Higher R&D spending but still a set of good quality results – 1 Sep 2023 ([link](#))
5. SANYI (631 HK, BUY) – Positive takeaways from Zhuhai plant visit – 26 Jul 2023 ([link](#))

Figure 1: SANYI's 1Q24 results

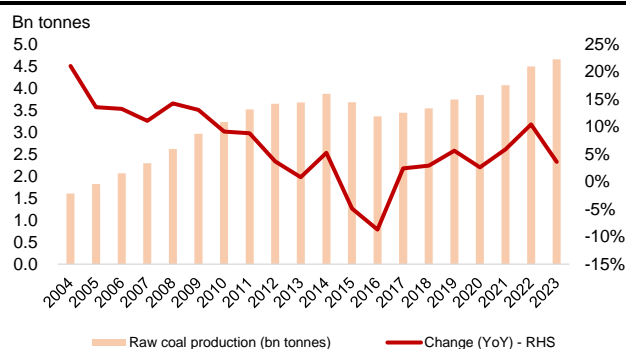
RMB mn	1Q23	1Q24	Chg (YoY)	2Q22	2Q23	Chg (YoY)	3Q22	3Q23	Chg (YoY)	4Q22	4Q23	Chg (YoY)
Revenue	5,438	5,130	-6%	3,516	5,401	54%	3,969	4,998	26%	3,936	4,441	13%
Cost of sales	-4,108	-3,852	-6%	-2,571	-3,899	52%	-3,090	-3,521	14%	-3,002	-3,303	10%
Gross profit	1,330	1,278	-4%	946	1,502	59%	879	1,476	68%	934	1,139	22%
Gross margin	24.5%	24.9%		26.9%	27.8%		22.2%	29.5%		23.7%	25.6%	
Pretax profit	707	558	-21%	514	733	43%	432	655	52%	465	165	-65%
Pretax profit margin	13.0%	10.9%		14.6%	13.6%		10.9%	13.1%		11.8%	3.7%	
Net profit	650	516	-21%	462	552	19%	391	570	46%	369	157	-57%
Net margin	12.0%	10.1%		13.1%	10.2%		9.8%	11.4%		9.4%	3.5%	

Source: Company data, CMBIGM

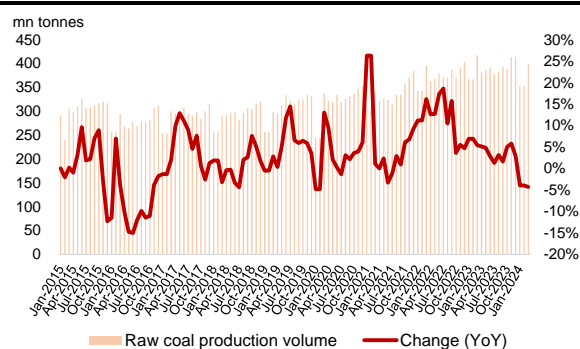
Figure 2: Change in key assumptions for SANYI

	Old			New			Change		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
(RMB mn)									
Revenue									
Road header	2,495	2,545	2,622	2,324	2,324	2,348	-6.9%	-8.7%	-10.5%
Combined coal mining units (CCMU)	3,983	4,302	4,646	4,019	4,341	4,688	0.9%	0.9%	0.9%
Small-size port machinery	5,952	7,023	8,288	6,200	7,316	8,633	4.2%	4.2%	4.2%
Large-size port machinery	1,620	1,831	2,050	1,560	1,763	1,974	-3.7%	-3.7%	-3.7%
Mining trucks	4,768	5,490	6,056	4,682	5,369	5,909	-1.8%	-2.2%	-2.4%
After sales service	1,680	2,016	2,419	1,750	2,188	2,734	4.2%	8.5%	13.0%
Robot	880	968	1,065	0	0	0	n/a	n/a	n/a
Lithium battery equipment	308	462	624	308	370	444	0.0%	-20.0%	-28.9%
Oil and gas equipment	2,410	2,772	3,188	2,410	2,531	2,658	0.0%	-8.7%	-16.6%
Solar power	2,500	2,875	3,306	2,500	2,875	3,306	0.0%	0.0%	0.0%
Hydrogen	120	228	365	120	228	365	0.0%	0.0%	0.0%
Total	26,717	30,513	34,629	25,874	29,304	33,058	-3.2%	-4.0%	-4.5%
Gross margin									
Road header	40.0%	39.7%	39.5%	40.0%	39.7%	39.5%	0.0	0.0	0.0
Combined coal mining units (CCMU)	18.2%	18.1%	18.0%	18.7%	18.5%	18.4%	0.5	0.4	0.4
Small-size port machinery	32.3%	32.4%	32.5%	33.0%	33.0%	33.0%	0.7	0.6	0.5
Large-size port machinery	11.0%	11.5%	12.0%	11.0%	11.5%	12.0%	0.0	0.0	0.0
Mining trucks	21.0%	21.0%	21.0%	22.0%	22.2%	22.4%	1.0	1.2	1.4
After sales service	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	0.0	0.0	0.0
Robot	20.0%	20.0%	21.0%	0.0%	0.0%	0.0%	n/a	n/a	n/a
Lithium battery equipment	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	0.0	0.0	0.0
Oil and gas equipment	34.5%	34.5%	34.0%	25.0%	28.0%	30.0%	(9.5)	(6.5)	(4.0)
Solar power	10.0%	12.0%	15.0%	10.0%	12.0%	15.0%	0.0	0.0	0.0
Hydrogen	-10.0%	0.0%	5.0%	-10.0%	0.0%	5.0%	0.0	0.0	0.0
Blended gross margin	25.5%	25.6%	26.0%	25.2%	25.7%	26.3%	(0.2)	0.1	0.3
Change (ppt)									
S&D expense ratio	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	0.0	0.0	0.0
Admin expense ratio	11.5%	11.2%	11.0%	11.5%	11.2%	11.0%	0.0	0.0	0.0
Net profit	2,131	2,509	3,019	2,034	2,471	3,016	-4.5%	-1.5%	-0.1%

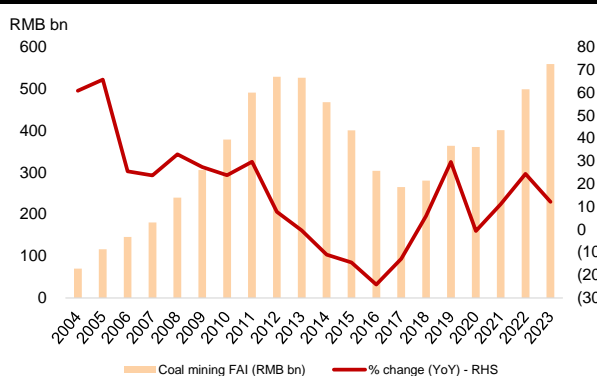
Source: Company data, CMBIGM estimates

Figure 3: China raw coal production (annual)

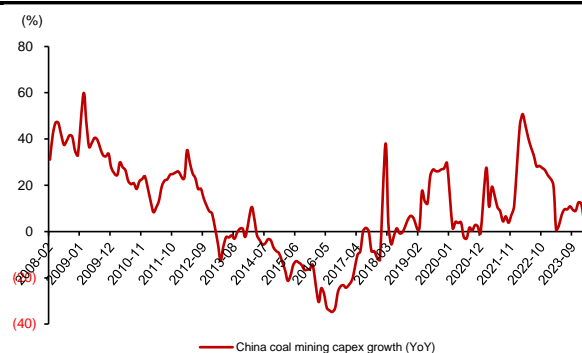
Source: Wind, CCTDCOAL, CMBIGM

Figure 4: China raw coal production (monthly)

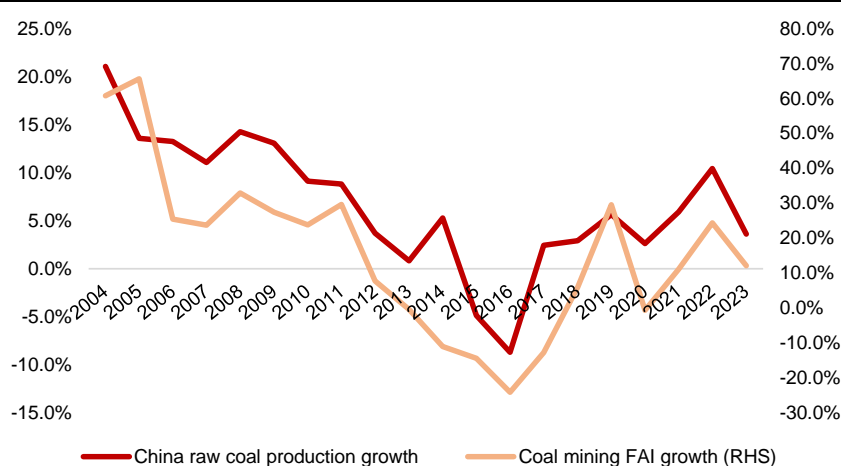
Source: Wind, CCTDCOAL, CMBIGM

Figure 5: China coal mining FAI

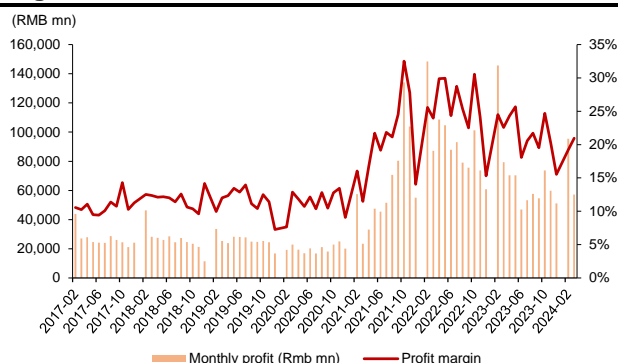
Source: Wind, NBS, CMBIGM

Figure 6: China coal mining FAI monthly growth (YTD)

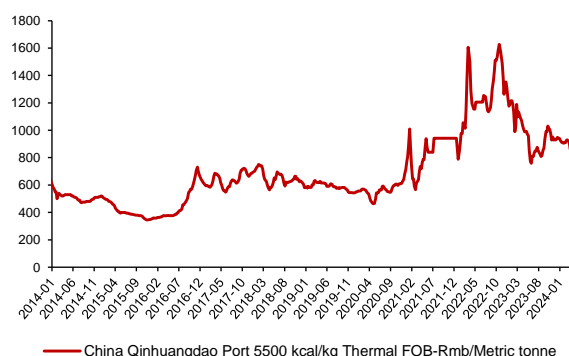
Source: Wind, NBS, CMBIGM

Figure 7: China raw coal production vs coal mining FAI

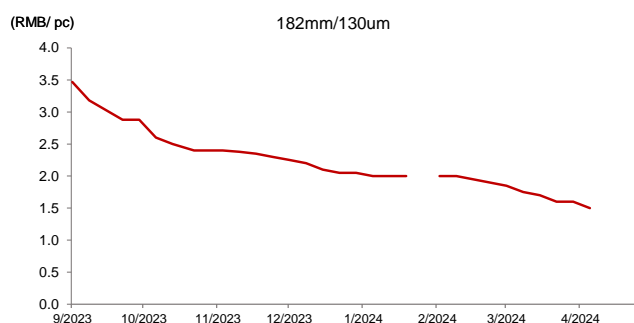
Source: Wind, NBS, CMBIGM

Figure 8: China coal miners' monthly profit & margin

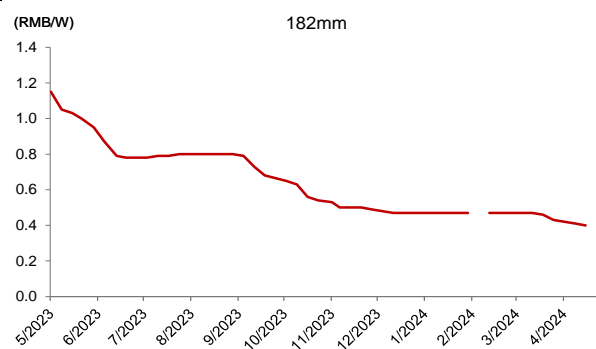
Source: Wind, NBS, CMBIGM

Figure 9: China Qinhuangdao Port 5500 kcal coal price

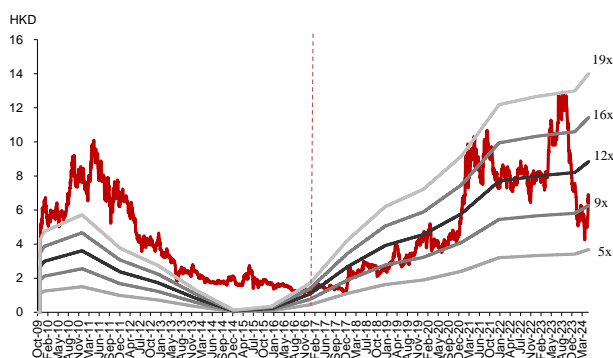
Source: Bloomberg, CMBIGM

Figure 10: China N-type wafer price

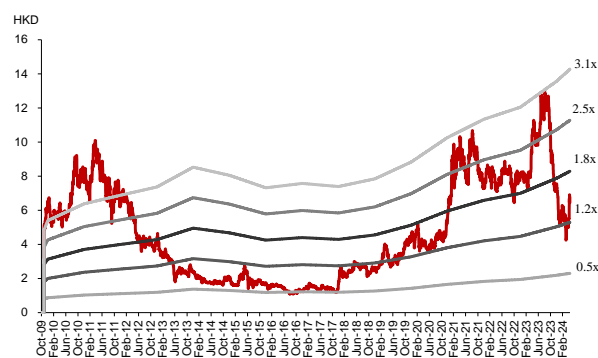
Source: Infolink, CMBIGM

Figure 11: China TOPCon cell price

Source: Infolink, CMBIGM

Figure 12: SANYI's P/E band

Source: Bloomberg, company data, CMBIGM estimates

Figure 13: SANYI's P/B band

Source: Bloomberg, company data, CMBIGM estimates

Major risk factors: (1) weakness of coal mining activities in China; (2) higher-than-expected loss from emerging business; (3) a rebound of raw material costs; and (4) a rising debt ratio due to high potential capex on new businesses.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	10,195	15,537	20,278	25,874	29,304	33,058
Cost of goods sold	(7,805)	(11,908)	(14,831)	(19,343)	(21,767)	(24,365)
Gross profit	2,390	3,628	5,447	6,531	7,537	8,693
Selling expense	(567)	(933)	(1,262)	(1,630)	(1,846)	(2,083)
Admin expense	(1,053)	(1,177)	(2,213)	(2,976)	(3,282)	(3,636)
Other income	391	447	441	569	645	727
Other expense	(1)	(25)	(42)	(52)	(59)	(66)
Other gains/(losses)	347	54	(144)	52	59	66
Share of (losses)/profits of associates/JV	0	0	0	3	3	4
EBITDA	1,756	2,287	2,751	3,313	4,047	4,835
Depreciation	249	293	525	815	990	1,130
EBIT	1,507	1,994	2,226	2,498	3,057	3,705
Interest income	51	59	193	190	180	185
Interest expense	(120)	(132)	(158)	(303)	(325)	(337)
Net interest income/(expense)	(69)	(73)	35	(112)	(146)	(152)
Pre-tax profit	1,438	1,921	2,260	2,386	2,911	3,553
Income tax	(129)	(252)	(422)	(429)	(524)	(640)
After tax profit	1,309	1,669	1,839	1,956	2,387	2,914
Minority interest	(50)	(4)	90	78	84	102
Net profit	1,259	1,665	1,929	2,034	2,471	3,016
Adjusted net profit	1,087	1,665	1,929	2,034	2,471	3,016
Gross dividends	385	538	556	590	717	875

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	14,217	17,191	20,778	23,996	24,088	28,889
Cash & equivalents	1,349	2,690	3,241	2,599	2,530	2,953
Account receivables	4,272	6,416	8,356	10,500	11,016	13,438
Inventories	2,529	3,283	3,432	4,729	4,455	5,959
Prepayment	585	700	1,261	1,261	1,261	1,261
ST bank deposits	21	50	43	43	43	43
Financial assets at FVTPL	3,680	2,088	2,160	2,160	2,160	2,160
Other current assets	1,782	1,964	2,284	2,703	2,622	3,074
Non-current assets	6,568	7,763	14,185	16,372	17,885	18,759
PP&E	3,314	4,066	7,276	9,669	11,388	12,466
Deferred income tax	287	298	336	336	336	336
Goodwill	1,130	1,130	2,537	2,537	2,537	2,537
Other non-current assets	1,838	2,269	4,036	3,830	3,624	3,419
Total assets	20,785	24,953	34,963	40,369	41,973	47,647
Current liabilities	9,170	10,836	16,173	19,678	19,186	22,662
Short-term borrowings	1,687	954	2,653	2,853	3,103	3,203
Account payables	4,422	6,646	8,098	11,404	10,661	14,038
Tax payable	185	155	237	237	237	237
Other current liabilities	2,875	3,080	5,184	5,184	5,184	5,184
Non-current liabilities	2,832	4,014	7,252	7,752	8,052	8,052
Long-term borrowings	1,767	2,691	5,249	5,749	6,049	6,049
Other non-current liabilities	1,065	1,323	2,003	2,003	2,003	2,003
Total liabilities	12,002	14,849	23,425	27,430	27,238	30,714
Total shareholders equity	8,701	10,040	11,589	13,068	14,949	17,248
Minority interest	82	64	(51)	(129)	(213)	(315)
Total equity and liabilities	20,785	24,953	34,963	40,369	41,973	47,647

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,438	1,921	2,260	2,386	2,911	3,553
Depreciation & amortization	249	293	525	815	990	1,130
Tax paid	(185)	(145)	(431)	(429)	(524)	(640)
Change in working capital	51	(808)	476	(555)	(903)	(1,001)
Others	(630)	(177)	(307)	109	142	148
Net cash from operations	923	1,084	2,524	2,325	2,617	3,191
Investing						
Capital expenditure	(885)	(889)	(2,294)	(3,000)	(2,500)	(2,000)
Acquisition of subsidiaries/ investments	0	0	(2,509)	0	0	0
Others	589	1,529	(162)	191	180	185
Net cash from investing	(296)	639	(4,965)	(2,809)	(2,320)	(1,815)
Financing						
Dividend paid	(451)	(466)	(729)	(556)	(590)	(717)
Net borrowings	(120)	(113)	(126)	(303)	(325)	(337)
Proceeds from share issues	26	8	104	0	0	0
Others	317	194	3,712	700	550	100
Net cash from financing	(227)	(377)	2,961	(159)	(365)	(953)
Net change in cash						
Cash at the beginning of the year	941	1,349	2,690	3,241	2,599	2,530
Exchange difference	8	(6)	32	0	0	0
Cash at the end of the year	1,349	2,690	3,241	2,599	2,530	2,953

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

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.