

SANY International (631 HK)

Share price pullback offers buying opportunity; 24% Earnings CAGR at <10x P/E

BUY on weakness. SANYI's share price dropped 9% over the past two days after the release of 1H20 results, due to lower-than-expected core net profit and concerns over the slow recovery of gross margin in 2Q. We argue that the slow recovery of margin is a result of the Company's new product initiatives to drive growth, instead of a weakening pricing power. We forecast SANYI to deliver earnings CAGR of 24% in 2020E-22E, driven by fast-growing wide-body mining truck, solid backlog of large-size port machinery and clear plans to reduce cost. We slightly trimmed our earnings forecast in 2020E-22E by 1-4%, and revised our TP to HK\$5.89 (based on unchanged 2020E earnings multiple of 15x). Valuation is attractive at 9.6x 2020E P/E after the share price pullback.

Key takeaways from post-result NDR:

- **Latest backlog:** SANYI's total backlog stood at RMB3.2bn. Backlog for mining equipment amounted to RMB1.4-1.5bn (Road header: RMB180mn; CCMU: RMB1.1bn; Mining truck: RMB110mn). Backlog for logistic equipment amounted to RMB1.8bn (Large-size: RMB1.56bn; Small-size: RMB250mn).
- **Revenue growth to accelerate in 2H20E.** Management is confident of achieving 30% YoY revenue growth in 2H20E (versus 25% in 1H), helped by the re-opening of economies in overseas, as well as solid demand for road header and CCMU in China. Besides, wide-body mining truck will continue to see strong sales growth after growing 1.8x YoY in 1H20. Management targets to achieve total revenue growth of ~25% for the full year.
- **Measures to improve margin.** Gross margin of wide-body truck in 1H20 was only 11% but has been on a rising trend. Further increase in sales volume, coupled with the launch of electric models, will continue to drive margin expansion. On the other hand, SANYI is upgrading certain production plants to "light tower plants", which will be the key to enhance production efficiency. In particular, the capacity expansion of phase two in Zhuhai will help improve the gross margin of large-size port machinery over the medium term (only ~8% in 1H20). SANYI expects to maintain a blended gross margin of 29% for the Company as whole.
- **Major risk factors:** (1) failure to contain COVID-19 in overseas; (2) decline in coal mining activities; (3) weaker-than-expected international trade.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	4,417	5,656	7,184	9,504	11,096
YoY growth (%)	78.0	28.1	27.0	32.3	16.7
Net income (RMB mn)	600	920	1,106	1,432	1,757
EPS (RMB)	0.20	0.30	0.36	0.46	0.57
YoY growth (%)	161.6	51.3	19.5	29.5	22.7
Consensus EPS (RMB)	N/A	N/A	0.37	0.50	0.63
EV/EBITDA (x)	9.4	6.6	5.6	4.4	3.7
P/E (x)	16.5	11.5	9.6	7.4	6.1
P/B (x)	1.5	1.5	1.4	1.2	1.1
Yield (%)	3.1	3.5	4.2	5.4	6.6
ROE (%)	9.4	13.6	14.8	17.1	18.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$5.89**
 (Previous TP **HK\$5.92**)
 Up/Downside **+56%**
 Current Price **HK\$3.78**

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Stock Data

Mkt Cap (HK\$ mn)	11,763
Avg 3 mths t/o (HK\$ mn)	20
52w High/Low (HK\$)	5.22/2.85
Total Issued Shares (mn)	3,100.7
Source: Bloomberg	

Shareholding Structure

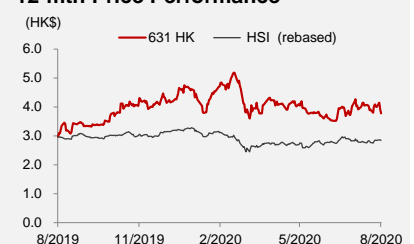
Sany Heavy Equipment	67.7%
Investments Company	
Free float	32.3%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-2.7%	-3.8%
3-mth	-4.6%	-10.0%
6-mth	-17.0%	-9.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. Sany Int'l (631 HK, BUY) – 1Q20 earnings -7% within expectation; New product launch underway – 16 Apr 2020
2. Sany Int'l (631 HK, BUY) – COVID-19 impact manageable; Domestic orders recovering – 1 Apr 2020

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1H20 highlight: A mixed set of results but not a bad one

SANYI's reported net profit in 1H20 grew 16% YoY to RMB640mn, driven by 25% increase in revenue (better than expected) but partially offset by a 4ppt reduction of gross margin to 27% (below expectations). Besides, the earnings growth was helped by an increase in reversal of impairment loss and write-back of inventory, which were both non-operational items. Excluding these items, the net profit would increase by only 7% YoY to RMB554mn, based on our calculation. Operating cash inflow increased 26% YoY RMB649mn in 1H20, which was healthy in our view.

The 1H20 results imply significant revenue growth of 50% in 2Q20 (versus 1% in 1Q20 due to COVID outbreak in China). Gross margin slightly improved to 27.5% in 2Q from 26.2% in 1Q, but represented a reduction from 31.4% in 2Q19. This was due to the fast-growing wide-body truck and the recovery of large-size port machinery which carried lower margin than the Company's average.

Figure 1: SANYI's quarter results

RMB mn	1Q19	1Q20	Chg (YoY)	2Q19	2Q20	Chg (YoY)
Revenue	1,531	1,553	1%	1,513	2,262	50%
Cost of sales	-1,063	-1,146	8%	-1,037	-1,639	58%
Gross profit	468	407	-13%	476	623	31%
Gross margin	30.6%	26.2%		31.4%	27.5%	
Pretax profit	324	296	-9%	316	458	45%
Pretax profit margin	21.2%	19.1%		20.9%	20.2%	
Net profit	276	257	-7%	275	383	39%
Net margin	18.0%	16.5%		18.2%	16.9%	

Source: Company data, CMBIS

Figure 2: SANYI's 1H earnings

YE Dec 31(RMB mn)	1H19	1H20	Change (YoY)
Revenue			
Mining equipment	1,809	2,370	31.0%
Logistics equipment	1,235	1,446	17.1%
Total revenue	3,044	3,815	25.3%
Cost of sales	(2,100)	(2,785)	32.6%
Gross profit	944	1,030	9.1%
Other income	200	215	7.6%
Other gains and losses	22	57	161.4%
S&D expenses	(181)	(180)	-0.6%
Administrative expenses	(336)	(311)	-7.5%
Other expenses	0	(2)	n/a
EBIT	649	810	24.7%
Net finance income/(cost)	(9)	(56)	n/a
Finance income	25	19	-23.7%
Finance expenses	(34)	(75)	118.9%
Share of profit of JV and associates	0	0	n/a
Pretax profit	640	754	17.8%
Income tax	(88)	(115)	31.8%
After tax profit	553	639	15.5%
MI	(1)	1	n/a
Net profit	552	640	15.9%
D&A	132	124	-5.7%
EBITDA	781	934	19.6%

Source: Company data, CMBIS

Figure 3: SANYI's 1H20 segment breakdown

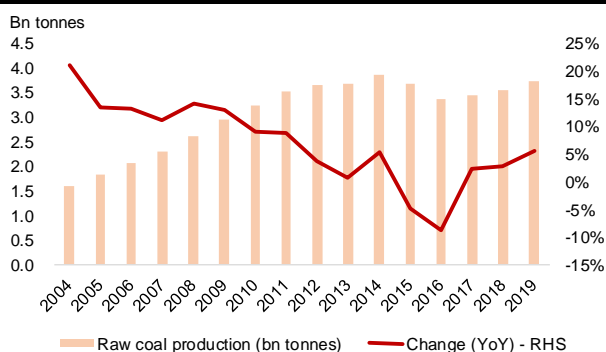
(RMB mn)	1H19	1H20	Change (YoY)
Revenue			
<u>Mining equipment sales</u>	1,929	2,547	32.0%
Sales	1,809	2,370	31.0%
Others	120	178	47.8%
<u>Logistics equipment sales</u>	1,315	1,483	12.8%
Sales	1,235	1,446	17.1%
Others	80	38	-52.9%
Total revenue	3,244	4,030	24.2%
Segment EBIT			
Energy equipment	395	561	42.0%
Port machinery	255	249	-2.1%
Total segment results	649	810	24.7%
Segment margin			ppt
Energy equipment	20.5%	22.0%	1.5
Port machinery	19.4%	16.8%	-2.6
Average	20.0%	20.1%	0.1

Source: Company data, CMBIS

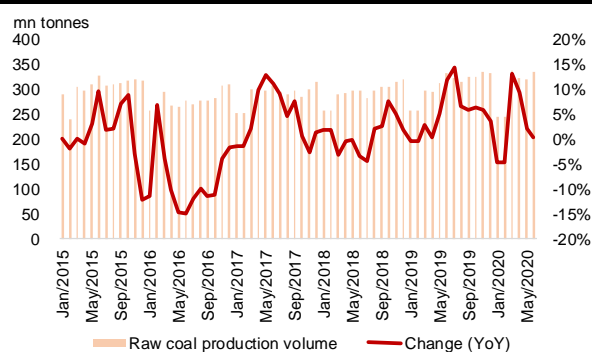
Figure 4: Change in key assumptions

	2020E	Old 2021E	2022E	2020E	New 2021E	2022E	2020E	Change 2021E	2022E
(RMB mn)									
Revenue									
Road header	1,552	1,860	2,108	1,436	1,568	1,696	-7.5%	-15.7%	-19.5%
Combined coal mining units (CCMU)	1,481	1,999	2,299	1,470	1,985	2,282	-0.7%	-0.7%	-0.7%
Small-size port machinery	1,547	1,856	2,042	1,740	2,088	2,339	12.5%	12.5%	14.5%
Large-size port machinery	974	1,218	1,315	974	1,656	1,822	0.0%	36.0%	38.5%
Mining trucks	879	1,289	1,830	953	1,407	2,007	8.4%	9.2%	9.7%
Others	610	800	950	610	800	950	0.0%	0.0%	0.0%
Total	7,043	9,022	10,543	7,184	9,504	11,096	2.0%	5.3%	5.2%
Growth (YoY)								Change (ppt)	
Road header	10.2%	19.8%	13.3%	2.0%	9.2%	8.2%	(8.2)	(10.6)	(5.2)
Combined coal mining units (CCMU)	38.0%	35.0%	15.0%	37.0%	35.0%	15.0%	(1.0)	0.0	0.0
Small-size port machinery	0.0%	20.0%	10.0%	12.5%	20.0%	12.0%	12.5	0.0	2.0
Large-size port machinery	42.0%	25.0%	8.0%	42.0%	70.0%	10.0%	0.0	45.0	2.0
Mining trucks	126.5%	46.6%	42.0%	145.6%	47.6%	42.6%	19.1	1.0	0.6
Others	10.1%	31.1%	18.8%	10.1%	31.1%	18.8%	0.0	0.0	0.0
Total	24.5%	28.1%	16.9%	27.0%	32.3%	16.7%	2.5	4.2	(0.1)
Gross margin								Change (ppt)	
Road header	41.5%	41.5%	41.5%	40.0%	40.5%	40.5%	(1.5)	(1.0)	(1.0)
Combined coal mining units (CCMU)	27.0%	28.0%	28.0%	26.5%	27.5%	27.5%	(0.5)	(0.5)	(0.5)
Small-size port machinery	34.5%	34.5%	34.0%	33.0%	33.0%	33.0%	(1.5)	(1.5)	(1.0)
Large-size port machinery	12.0%	12.0%	15.0%	8.0%	10.0%	11.0%	(4.0)	(2.0)	(4.0)
Mining trucks	15.0%	20.0%	20.0%	12.5%	14.5%	17.0%	(2.5)	(5.5)	(3.0)
Others	45.0%	45.0%	45.0%	40.0%	40.0%	40.0%	(5.0)	(5.0)	(5.0)
Blended gross margin	29.8%	30.3%	30.4%	27.6%	26.9%	27.1%	(2.3)	(3.4)	(3.3)
Net profit	1,113	1,487	1,790	1,106	1,432	1,757	-0.7%	-3.7%	-1.9%

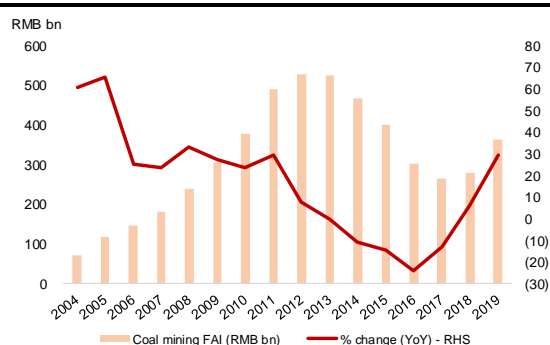
Source: Company data, CMBIS estimates

Figure 5: China raw coal production (annual)

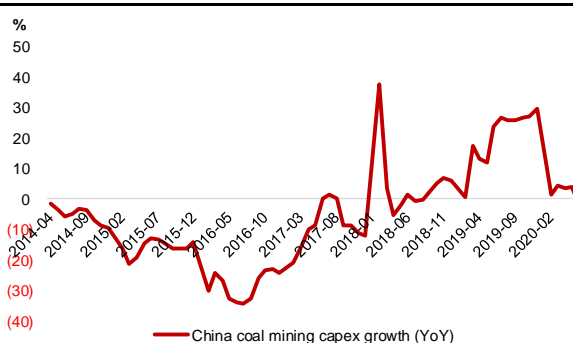
Source: Wind, CCTDCOAL, CMBIS

Figure 6: China raw coal production (monthly)

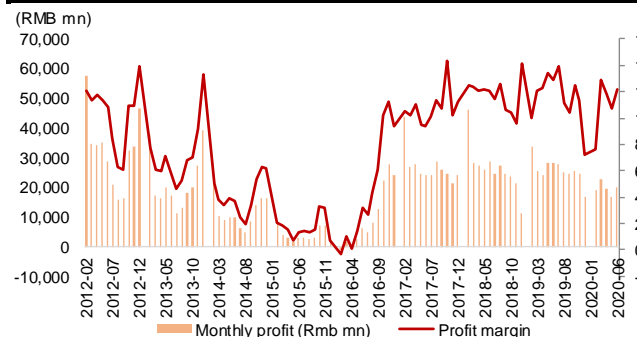
Source: Wind, CCTDCOAL, CMBIS

Figure 7: China coal mining FAI growth

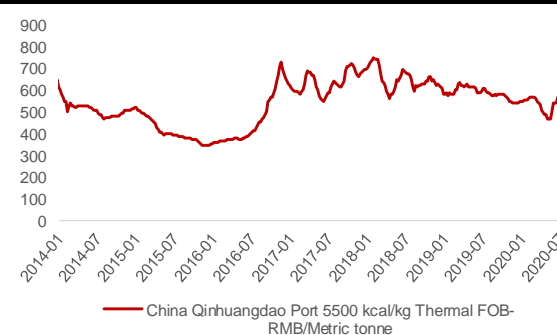
Source: Wind, NBS, CMBIS

Figure 8: China coal mining FAI growth (YTD)

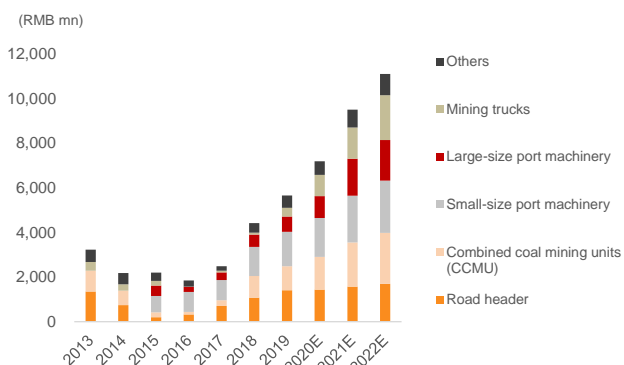
Source: Wind, NBS, CMBIS

Figure 9: China coal miners' monthly profit & margin

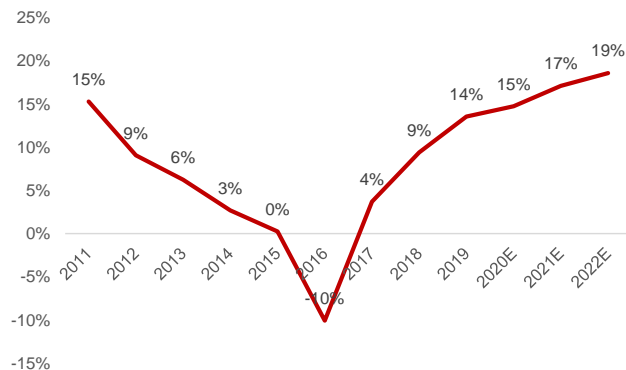
Source: Wind, NBS, CMBIS

Figure 10: China Qinhuangdao Port 5500 kcal price

Source: Bloomberg, CMBIS

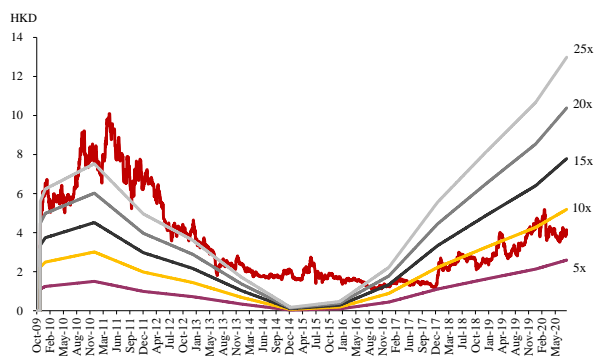
Figure 11: SANYI's segment revenue growth trend

Source: Company data, CMBIS estimates

Figure 12: SANYI's ROE trend

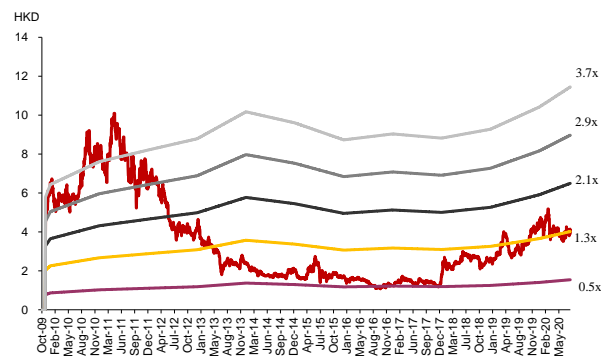
Source: Company data, CMBIS estimates

Figure 13: SANYI's PE band



Source: Bloomberg, Company data, CMBIS estimates

Figure 14: SANYI's PB band



Source: Bloomberg, Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue					
- Mining equipment	2,561	3,423	4,347	5,600	6,745
- Logistics equipment	1,856	2,233	2,836	3,904	4,351
Total revenue	4,417	5,656	7,184	9,504	11,096
Cost of sales	(3,119)	(3,987)	(5,204)	(6,945)	(8,088)
Gross profit	1,298	1,669	1,979	2,560	3,008
Other income	242	342	395	570	666
Other gains and losses	35	121	79	0	0
S&D expenses	(329)	(388)	(445)	(561)	(644)
Administrative expenses	(492)	(643)	(682)	(855)	(943)
Other expenses	(33)	(4)	(7)	(10)	(11)
EBIT	720	1,097	1,318	1,704	2,076
Net finance income/(cost)	6	(27)	(30)	(36)	(29)
Finance income	24	58	101	108	115
Finance expenses	(18)	(85)	(131)	(144)	(144)
Share of JV and associates	0	0	0	0	0
Pretax profit	726	1,070	1,289	1,668	2,047
Income tax	(123)	(148)	(180)	(234)	(287)
After tax profit	603	922	1,108	1,435	1,761
MI	(3)	(2)	(2)	(3)	(4)
Net profit	600	920	1,106	1,432	1,757
D&A	224	249	267	302	311
EBITDA	944	1,346	1,585	2,006	2,386

Cash flow statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pretax profit	726	1,070	1,289	1,668	2,047
Finance cost	18	85	131	144	144
Interest income	(24)	(58)	(101)	(108)	(115)
Share of profit or loss of associates	0	0	0	0	0
Depreciation and amortization	224	249	267	302	311
Income tax paid	(137)	(100)	(180)	(234)	(287)
Change in working capital	(251)	(22)	(517)	(828)	(564)
Others	(275)	(424)	0	0	0
Cash flow from operation	280	801	888	944	1,536
Net capex on PP&E	(93)	(216)	(500)	(500)	(100)
Interest received	24	58	101	108	115
Others	(466)	(2,153)	0	0	0
Cash flow from investing	(536)	(2,311)	(399)	(392)	15
Proceeds from equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	968	1,860	800	0	0
Dividend paid	(440)	(304)	(372)	(442)	(573)
Interest paid	(17)	(85)	(131)	(144)	(144)
Others	0	57	0	0	0
Cash flow from financing	512	1,527	297	(586)	(717)
Change in cash	257	17	786	(34)	835
Cash at beginning of the year	814	1,070	1,103	1,889	1,855
Exchange gains/(losses) and others	(1)	16	0	0	0
Cash at the end of the year	1,070	1,103	1,889	1,855	2,690

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	5,896	5,209	5,442	5,641	5,430
PP&E	2,463	2,413	2,661	2,873	2,677
Prepaid land lease payments	1,678	1,027	1,013	999	985
Goodwill	1,130	1,130	1,130	1,130	1,130
Non-current prepayment	145	145	145	145	145
Others	90	146	146	146	146
Deferred tax assets	391	348	348	348	348
Current assets	7,029	10,338	12,740	14,027	15,978
Prepayment	634	615	615	615	615
Inventories	1,534	1,438	2,126	2,516	2,890
Trade receivables	2,127	2,634	3,309	4,242	4,756
Bills receivables	499	424	678	676	904
AFS investments	1,046	3,276	3,276	3,276	3,276
Others	84	844	844	844	844
Pledged deposits/Time deposits	34	2	2	2	2
Cash	1,070	1,103	1,889	1,855	2,690
Current liabilities	5,169	6,421	8,720	9,214	9,766
Trade and bills payables	1,820	1,832	2,931	3,424	3,977
Other payables and accruals	1,423	1,535	1,535	1,535	1,535
Bank borrowings	1,400	2,512	3,712	3,712	3,712
Tax payable	268	253	253	253	253
Government grants	91	94	94	94	94
Others	168	195	195	195	195
Non-current liabilities	1,313	1,980	1,580	1,580	1,580
Bank borrowings	0	747	347	347	347
Deferred tax liabilities	16	37	37	37	37
Government grants	1,298	1,195	1,195	1,195	1,195
Total equity	6,442	7,146	7,882	8,874	10,062
Shareholders' equity	6,431	7,132	7,866	8,855	10,040
MI	12	14	16	19	22

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
- Mining equipment	58%	61%	61%	59%	61%
- Logistics equipment	42%	39%	39%	41%	39%
Total	100%	100%	100%	100%	100%
P&L ratios (%)					
Gross margin	29%	30%	28%	27%	27%
EBITDA margin	21%	24%	22%	21%	22%
EBIT margin	16%	19%	18%	18%	19%
Net profit margin	14%	16%	15%	15%	16%
Growth (%)					
Revenue	78%	28%	27%	32%	17%
Gross profit	76%	29%	19%	29%	18%
EBITDA	78%	43%	18%	27%	19%
EBIT	155%	52%	20%	29%	22%
Net profit	162%	53%	20%	29%	23%
Balance sheet ratios					
Current ratio (x)	1.4	1.6	1.5	1.5	1.6
Receivable turnover days	152	154	151	145	148
Inventory turnover days	163	136	125	122	122
Payable turnover days	176	167	167	167	167
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	5%	6%	7%	8%	9%
ROA	9%	14%	15%	17%	19%
Per share					
EPS (RMB)	0.20	0.30	0.357	0.462	0.567
BVPS (RMB)	2.11	2.30	2.54	2.86	3.24
DPS (RMB)	0.10	0.12	0.143	0.185	0.227

Source: Company data, CMBIS estimates

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