

SANY International (631 HK)

Better visibility on policy support; Lifted earnings forecast and TP

The latest government policy regarding the support of intelligent coal mining development reaffirms that SANYI's strategy on the development of intelligent mining equipment is a right direction, which further enhances our confidence on SANYI's growth potential. We expect more local governments to offer policy support going forward, which will drive the demand for equipment upgrade. In view of better visibility, we raise our earnings forecast in 2021E by 12% after revising up our assumptions on coal mining equipment, and we lift our TP from HK\$5.60 to HK\$6.24, based on 15x 2020E P/E, on the back of strong earnings growth of 28%/34% in 2020E/21E. Reiterate **BUY**.

- **Policy support on intelligent coal mining development.** NDRC, together with seven authorities, released a circular early this week regarding "The guiding opinions on the acceleration of intelligent coal mining development" (关于加快煤矿智能化发展的指导意见) ([link](#)). The circular provides guidelines on intelligent mine development covering the period until 2035. Local governments are encouraged to formulate the action plans and policies going forward.
- **Shanxi Province already proposed pilot projects.** Shanxi is the largest coal producing province, with output from major coal mines (460mn tonnes) accounting for ~12% of the total output in China in 2019 (3.72bn tonnes). Shanxi authorities recently released a development plan on intelligent mining by identifying 10 coal mines as pilot projects (figure 1). The total annual capacity of the pilot projects is ~56mn tonnes, accounting for 12% of the annual production in Shanxi. Some of the mines are SANYI's customers and we expect the Company to benefit from that.
- **Raise TP to HK\$6.24.** We switch our valuation methodology from P/B (previously 2x) to P/E, as applying earnings multiple looks better to capture earnings upcycle. Our target P/E is set at 15x, based on the peak valuation during the earnings recovery trend starting from 2017. We believe our target valuation is justified given our earnings growth forecast of 27%/34% in 2020E/21E.
- **Major risk factors:** (1) failure to contain COVID-19; (2) decline in coal mining activities; (3) increase in component cost; (4) weaker-than-expected international trade.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	2,481	4,417	5,884	7,678	9,666
YoY growth (%)	34.7	78.0	33.2	30.5	25.9
Net income (RMB mn)	229	600	916	1,173	1,573
EPS (RMB)	0.08	0.20	0.30	0.38	0.51
YoY growth (%)	N/A	161.6	50.7	27.3	34.1
Consensus EPS (RMB)	N/A	N/A	0.29	0.38	0.49
EV/EBITDA (x)	25.0	14.0	9.5	7.6	5.9
P/E (x)	58.5	22.7	15.9	12.5	9.3
P/B (x)	2.1	2.1	2.1	1.8	1.6
Yield (%)	4.1	2.2	1.9	2.4	3.2
ROE (%)	3.7	9.4	13.6	15.7	18.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$6.24**
 (Previous TP **HK\$5.60**)
 Up/Downside **+20%**
 Current Price **HK\$5.19**

China Capital Goods

Wayne Fung, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	16,093
Avg 3 mths t/o (HK\$ mn)	26
52w High/Low (HK\$)	5.20/2.62
Total Issued Shares (mn)	3,100.7
Source: Bloomberg	

Shareholding Structure

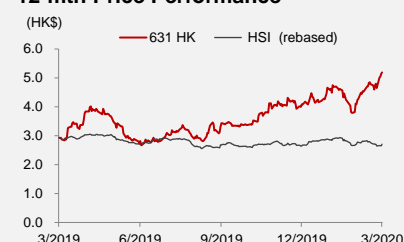
Sany Heavy Equipment	67.7%
Investments Company	
Free float	32.3%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	+25.1%	+27.2%
3-mth	+28.5%	+27.7%
6-mth	+55.3%	+57.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. Sany Int'l (631 HK, BUY) - Significant increase in 2019E earnings; Normal operation at present - 4 Feb 2020
2. China Construction Machinery Sector - SANY & Hengli issued +ve profit alert; Expect SANYI the next - 21 Jan 2020
3. Sany Int'l (631 HK, BUY) - Raising earnings forecasts & TP on new product development - 7 Jan 2020

Key targets highlighted in the guiding opinions on intelligent coal mining by NDRC

- **By 2021:** Construction of various types of pilot intelligent coal mines will be completed. Workers will be reduced through the automation and digitization in the area of mine design, geological protection, production and safety.
- **By 2025:** Construction of intelligent mines will be completed (for the large-scale and severely damaged mines). Unmanned coal mining machinery (for underground mining), continuous operations and driver-less transportation trucks (for open pit) will be applied.
- **By 2035:** Various types of mines will be basically upgraded to intelligent operation.

Figure 1: Shanxi Province intelligent coal mining pilot projects

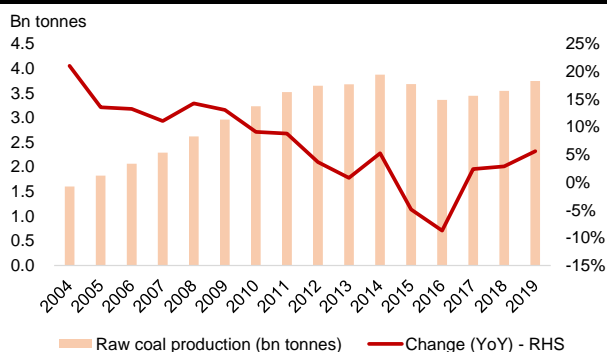
Company	Mines	Annual capacity mn tonnes
Shanxi Coking Coal Group	焦煤集团 山西焦煤集团岚县正利煤业	1.5
Datong Coal Mining Group	同煤集团 同煤大唐塔山煤矿	15.0
	大同煤矿集团有限责任公司同忻矿	8.0
Yangquan Coal Industry	阳煤集团 山西新元煤炭	3.0
Shanxi Lu'an Mining Industry	潞安集团 山西潞安矿业(集团)高河煤矿	7.5
	山西潞安矿业集团慈林山煤业李村矿井	3.0
Jincheng Anthracite Mining	晋煤集团 山西晋城无烟煤矿业集团寺河煤矿	5.0
Jinneng Group	晋能集团 山西长治王庄煤业	2.4
Shanxi Coal Import & Export Group	山煤集团 山西煤炭进出口集团左云长春兴煤业	4.5
Huajin China Coal	中煤华晋 山西中煤华晋能源王家岭矿	6.0
Total		55.9

Source: CoalChina, CMBIS

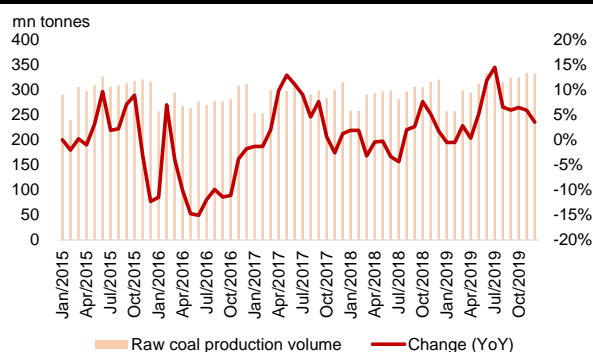
Figure 2: Change in key assumptions

	Old		New		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
(RMB mn)						
Revenue						
Road header	1,675	1,876	1,675	2,007	0.0%	7.0%
Combined coal mining units (CCMU)	1,666	2,000	1,666	2,250	0.0%	12.5%
Small-size port machinery	1,593	1,753	1,593	1,753	0.0%	0.0%
Large-size port machinery	1,214	1,518	1,214	1,518	0.0%	0.0%
Mining trucks	879	1,225	879	1,289	0.0%	5.2%
Others	650	800	650	850	0.0%	6.3%
Total	7,678	9,172	7,678	9,666	0.0%	5.4%
Growth (YoY)					Change (ppt)	
Road header	15.0%	12.0%	15.0%	19.8%	0.0	7.8
Combined coal mining units (CCMU)	50.0%	20.0%	50.0%	35.0%	0.0	15.0
Small-size port machinery	11.0%	10.0%	11.0%	10.0%	0.0	0.0
Large-size port machinery	52.0%	25.0%	52.0%	25.0%	0.0	0.0
Mining trucks	71.6%	39.4%	71.6%	46.6%	0.0	7.2
Others	14.0%	23.1%	14.0%	30.8%	0.0	7.7
Total	30.5%	19.5%	30.5%	25.9%	0.0	6.4
Gross margin					Change (ppt)	
Road header	46.5%	46.0%	46.5%	46.5%	0.0	0.5
Combined coal mining units (CCMU)	27.0%	27.5%	27.0%	29.0%	0.0	1.5
Small-size port machinery	34.5%	34.5%	34.5%	34.5%	0.0	0.0
Large-size port machinery	13.0%	13.0%	13.0%	13.0%	0.0	0.0
Mining trucks	14.0%	17.0%	14.0%	18.0%	0.0	1.0
Others	48.0%	48.0%	48.0%	48.0%	0.0	0.0
Blended gross margin	30.9%	30.6%	30.9%	31.3%	0.0	0.7
Net profit	1,172	1,410	1,173	1,573	0.1%	11.6%

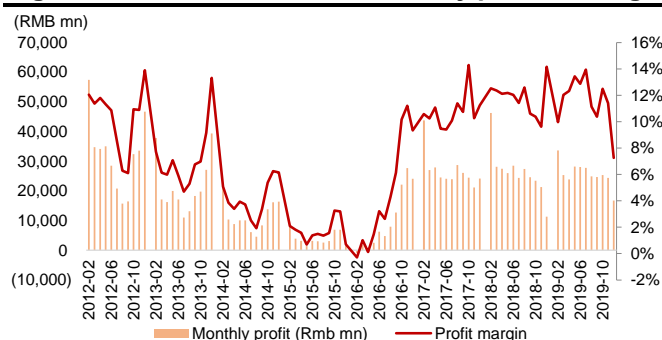
Source: Company data, CMBIS estimates

Figure 3: China raw coal production (annual)

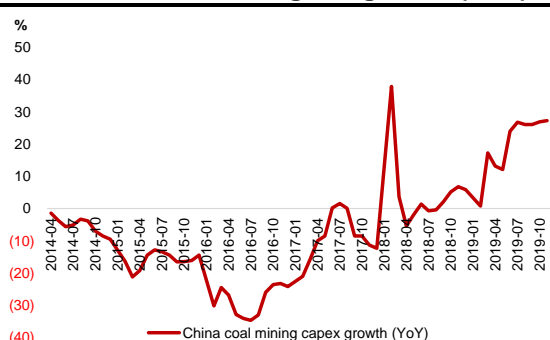
Source: Wind, CCTDCOAL, CMBIS

Figure 4: China raw coal production (monthly)

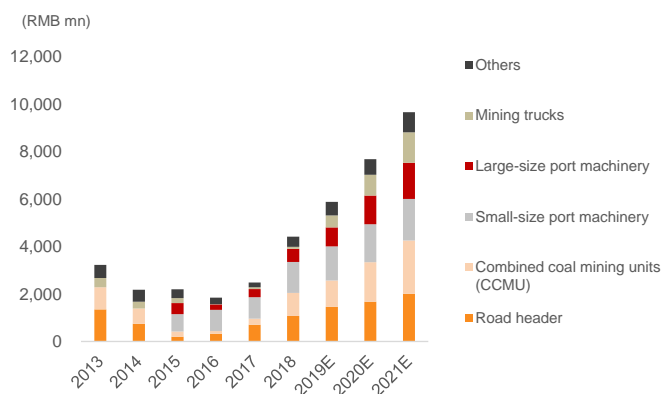
Source: Wind, CCTDCOAL, CMBIS

Figure 5: China coal miners' monthly profit & margin

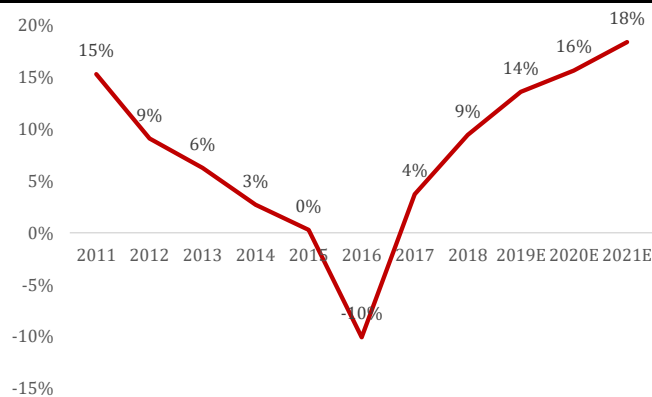
Source: Wind, NBS, CMBIS

Figure 6: China coal mining FAI growth (YTD)

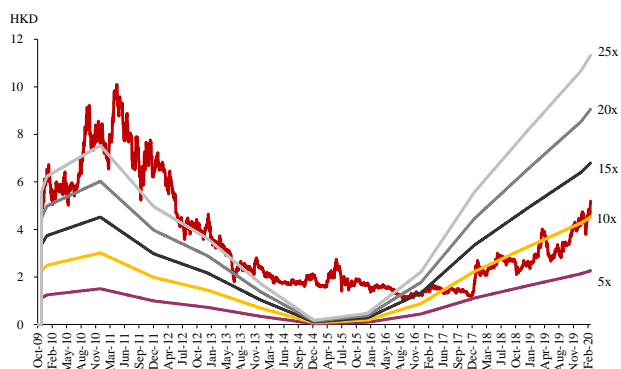
Source: Wind, NBS, CMBIS

Figure 7: SANYI's segment revenue growth trend

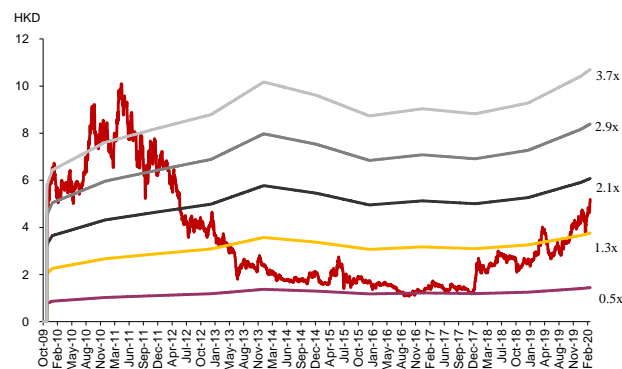
Source: Company data, CMBIS estimates

Figure 8: SANYI's ROE trend

Source: Company data, CMBIS estimates

Figure 9: SANYI's P/E band

Source: Bloomberg, Company data, CMBIS estimates

Figure 10: SANYI's P/B band

Source: Bloomberg, Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue					
- Energy equipment	1,202	2,561	3,536	4,740	6,226
- Port machinery	1,279	1,856	2,348	2,938	3,441
Total revenue	2,481	4,417	5,884	7,678	9,666
Cost of sales	(1,744)	(3,119)	(4,006)	(5,307)	(6,639)
Gross profit	738	1,298	1,878	2,371	3,028
Other income	304	242	306	369	464
Other gains and losses	0	35	0	0	0
S&D expenses	(299)	(329)	(424)	(545)	(667)
Administrative expenses	(342)	(492)	(630)	(745)	(880)
Other expenses	(118)	(33)	(41)	(54)	(68)
EBIT	282	720	1,089	1,396	1,878
Net finance income/(cost)	32	6	19	24	28
Finance income	35	24	52	62	66
Finance expenses	(3)	(18)	(33)	(38)	(38)
Share of JV and associates	0	0	0	0	0
Pretax profit	315	726	1,109	1,420	1,905
Income tax	(84)	(123)	(189)	(241)	(324)
After tax profit	231	603	920	1,179	1,581
MI	(2)	(3)	(5)	(6)	(8)
Net profit	229	600	916	1,173	1,573
D&A	249	224	310	350	390
EBITDA	531	944	1,399	1,746	2,267

Cash flow statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pretax profit	315	726	1,109	1,420	1,905
Finance cost	3	18	33	38	38
Interest income	(35)	(24)	(52)	(62)	(66)
Share of profit or loss of associates	0	0	0	0	0
Depreciation and amortization	249	224	310	350	390
Income tax paid	(20)	(137)	(189)	(241)	(324)
Change in working capital	276	(251)	(248)	(569)	(946)
Others	(181)	(275)	0	0	0
Cash flow from operation	607	280	962	935	997
Net capex on PP&E	(249)	(201)	(400)	(500)	(500)
Interest received	22	24	52	62	66
Others	(661)	(359)	0	0	0
Cash flow from investing	(888)	(536)	(348)	(438)	(434)
Proceeds from equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	266	968	500	0	0
Dividend paid	0	(440)	(304)	(275)	(352)
Interest paid	0	(17)	(33)	(38)	(38)
Others	0	0	0	0	0
Cash flow from financing	266	512	163	(313)	(390)
Change in cash	(15)	257	778	185	173
Cash at beginning of the year	833	814	1,070	1,848	2,032
Exchange gains/(losses) and others	(4)	(1)	0	(0)	(0)
Cash at the end of the year	814	1,070	1,848	2,032	2,205

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	6,102	5,896	5,986	6,137	6,247
PP&E	2,585	2,463	2,567	2,732	2,856
Prepaid land lease payments	562	1,678	1,664	1,650	1,636
Goodwill	1,130	1,130	1,130	1,130	1,130
Non-current prepayment	1,333	145	145	145	145
Others	57	90	90	90	90
Deferred tax assets	436	391	391	391	391
Current assets	5,097	7,029	8,279	10,121	11,451
Prepayment	268	634	634	634	634
Inventories	1,246	1,534	1,649	2,248	2,590
Trade receivables	1,560	2,127	2,451	3,186	3,805
Bills receivables	266	499	533	856	1,051
AFS investments	682	0	0	0	0
Others	246	1,130	1,130	1,130	1,130
Pledged deposits/Time deposits	15	34	34	34	34
Cash	814	1,070	1,848	2,032	2,205
Current liabilities	2,919	5,169	5,893	6,982	7,192
Trade and bills payables	1,193	1,820	2,044	3,132	3,343
Other payables and accruals	1,318	1,423	1,423	1,423	1,423
Bank borrowings	0	1,400	1,900	1,900	1,900
Tax payable	297	268	268	268	268
Government grants	97	91	91	91	91
Others	14	168	168	168	168
Non-current liabilities	1,918	1,313	1,313	1,313	1,313
Bank borrowings	429	0	0	0	0
Deferred tax liabilities	34	16	16	16	16
Government grants	1,455	1,298	1,298	1,298	1,298
Total equity	6,362	6,442	7,058	7,963	9,192
Shareholders' equity	6,304	6,431	7,042	7,941	9,162
MI	58	12	16	22	30

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Energy equipment	48%	58%	60%	62%	64%
Port machinery	52%	42%	40%	38%	36%
Total	100%	100%	100%	100%	100%
P&L ratios (%)					
Gross margin	30%	29%	32%	31%	31%
EBITDA margin	21%	21%	24%	23%	23%
EBIT margin	11%	16%	19%	18%	19%
Net profit margin	9%	14%	16%	15%	16%
Growth (%)					
Revenue	35%	78%	33%	30%	26%
Gross profit	167%	76%	45%	26%	28%
EBITDA	n/a	78%	48%	25%	30%
EBIT	n/a	155%	51%	28%	34%
Net profit	n/a	162%	53%	28%	34%
Balance sheet ratios					
Current ratio (x)	1.7	1.4	1.4	1.4	1.6
Receivable turnover days	229	152	142	134	132
Inventory turnover days	226	163	145	134	133
Payable turnover days	225	176	176	178	178
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	2%	5%	7%	8%	9%
ROA	4%	9%	14%	16%	18%
Per share					
EPS (RMB)	0.08	0.20	0.30	0.379	0.508
BVPS (RMB)	2.07	2.11	2.27	2.56	2.96
DPS (RMB)	0.18	0.10	0.09	0.114	0.152

Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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