

China Construction Machinery and HDT Sector

Lift forecast on excavator on strong demand; BUY SANY & Hengli

We believe Chinese government's strong determination to boost infrastructure spending will further extend the upcycle of the construction machinery sector. Speedy issuance of special bond issuance in 1Q, significant improvement in contractors' cash flow and fast recovery of machinery utilization hours are all favourable factors to boost upcoming machinery demand. We expect strong demand in 2Q, evidenced by strong hydraulic component demand and ASP hike on excavator and concrete machinery. We continue to prefer names with high exposure to domestic infrastructure. We lifted earnings forecast and TP for **SANY Heavy (600031 CH, BUY, TP: RMB23.5, Top pick)** and **Jiangsu Hengli (601100 CH, BUY, TP: RMB85)**, due to higher assumptions on excavator demand. We also like laggard plays such as **Sinotruk (3808 HK, BUY, TP: HK\$20.5)** and **Zoomlion (1157 HK, BUY, TP: HK\$6.90; 000157 CH, TP: RMB6.85)**.

- **Special bond issuance +54% YoY in 1Q20.** According to MoF, a total of RMB1.1trn was raised from special bond issuance in 1Q, with average duration reaching 14.5 years, much higher than the average of nine years in 2019. From the viewpoint of infrastructure investment, the increase in duration can better match the long payback period of infrastructure and municipal projects. We expect the full year net issuance to exceed RMB3tn, up from RMB2.05tn in 2019.
- **Significant improvement in contractors' cash flow bodes well for upcoming investment on the back of strong backlog.** CRCC (1186 HK, NR) and CRG (390 HK, NR) reported operating cash inflow of RMB40bn and RMB22bn, respectively, surging 6.3x and 86% YoY, in 2019. Such significant improvement, together with their accelerated order intake growth since 2Q19, will likely drive strong project execution this year.
- **Lifted forecast on excavator demand in 2020E-21E.** According to CCMA, the sales volume of excavator by 25 major producers in Mar surged 4.3x MoM (or 12% YoY) to 49,408 units. **We raise our 2020E/21E excavator sales growth forecast from 10%/0% to 12%/5%.** We believe our full year growth forecast for this year is achievable as the implied growth of 25% between Apr and Dec will be well-supported by infrastructure spending. **We estimate every 1% increase in China infrastructure FAI will boost excavator demand by 6.5k units, or ~2.5% incremental growth to our estimate in 2020E.**
- **SANY Heavy – ASP hike suggests strong pricing power.** SANY raised ASP of concrete pump trucks by 5-10% last week, due to strong downstream demand and tight supply of imported chassis. Over the weekend, SANY raised ASP of excavator as well (5%/10% for large to medium-size / small-size excavator). This suggests strong pricing power to protect the Company's gross margin. We raise SANY Heavy's 2020E/21E earnings forecast by 3%/6% after incorporating our new forecast on excavator into our model.
- **Jiangsu Hengli – Strong order intakes.** We understand that Hengli's order intake for cylinders (for Apr and May) is expected to surge 50% YoY, while that for pump & valves growth will likely exceed 50% YoY, suggesting robust demand in 2Q20E. We raise our earnings forecast in 2020E/21E by 6%/8%, after revising up our projection on both hydraulic cylinders, pump & valves.

OUTPERFORM (Maintain)

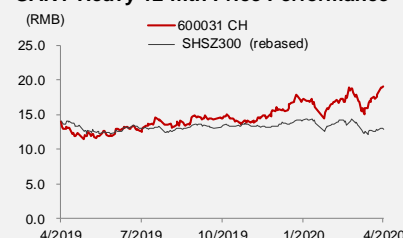
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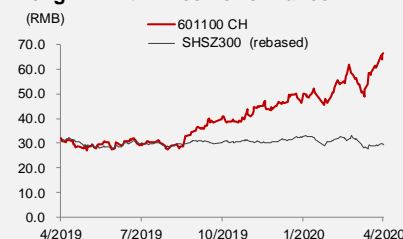
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SANY Heavy 12-mth Price Performance



Source: Bloomberg

Hengli 12-mth Price Performance



Source: Bloomberg

Related Reports

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2. SANY International (631 HK, BUY) – COVID-19 impact manageable; Domestic orders recovering – 1 Apr 2020
3. Zoomlion (1157 HK, BUY) – Dividend cut a surprise; Positive on the recovery story – 31 Mar 2020
4. Weichai Power (2338 HK, BUY) – Correction offers buying opportunity; Diversification strategy on track – 30 Mar 2020
5. China Construction Machinery Sector – Focus on China infrastructure names amid volatile market – 16 Mar 2020
6. SANY Heavy Industry – A (600031 CH, BUY) – To acquire financing company from parent co. – 12 Dec 2019
7. China Construction Machinery Sector – Four structural drivers to extend the upcycle to 2020-21E – 27 Nov 2019

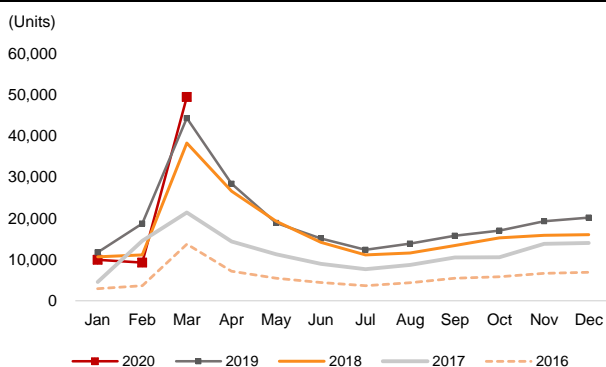
Excavator to benefit most from infrastructure spending growth

Robust demand for excavator in Mar. According to CCMA, the sales volume of excavator by 25 major producers in Mar surged 4.3x MoM (or 12% YoY) to 49,408 units, a record high. Sales volume in China grew 11% YoY to 46,610 units while export volume increased by 18% YoY to 2,798 units. The good set of figures suggested robust demand despite the impact of COVID-19 and reaffirmed our positive stance on the sector.

Small-size excavator outperformed. Large and medium-size excavator sales were largely stable in Mar, while small-size excavator grew 18% YoY. We believe the better sales of small-size excavator was due to the recovery of small-scale municipal projects, rural area construction, replacement of labour and substitution of wheel loaders. With the launch of more large-scale infrastructure projects and potential recovery of property construction activities, we expect the demand for large and medium-size excavator to pick up further, which will offer upside potential in 2Q.

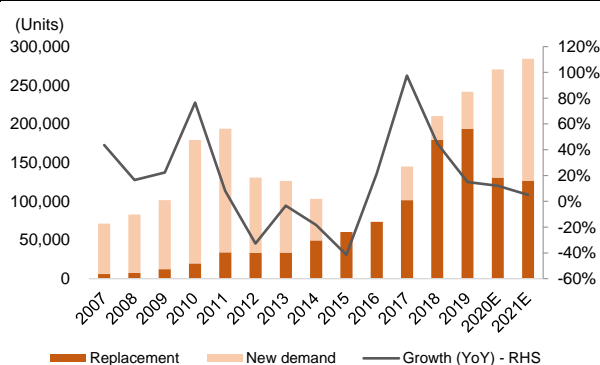
Lift forecast on excavator demand in 2020E/21E. We raise our 2020E/21E excavator sales growth forecast from 10%/0% to 12%/5%. We believe our full year forecast of 270k units for this year is achievable as the implied growth of 25% between Apr and Dec will be well-supported by infrastructure spending. We estimate every 1% increase in China infrastructure FAI will boost excavator demand by 6.5k units, or ~2.5% incremental growth to our estimate in 2020E.

Figure 1: China monthly excavator sales



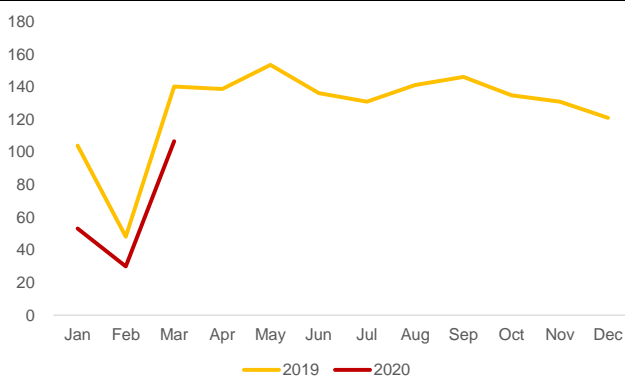
Source: CCMA, CMBIS

Figure 2: CMBI excavator sales projection



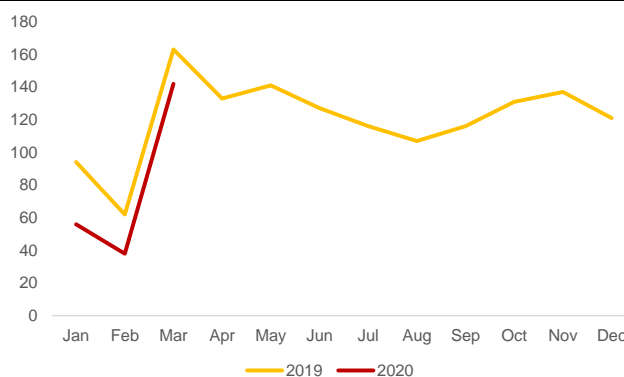
Source: CCMA, CMBIS estimates

Figure 3: Excavator utilisation hours (China)

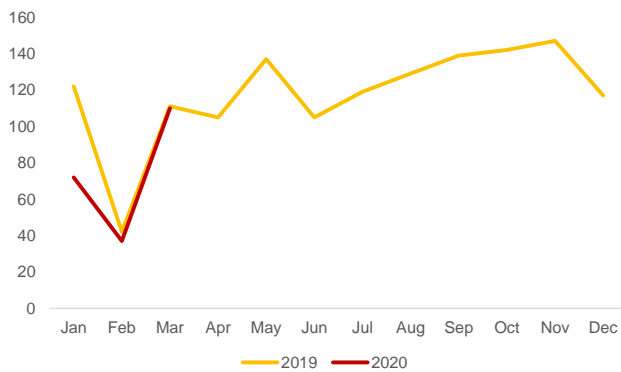


Source: CCMA, CMBIS

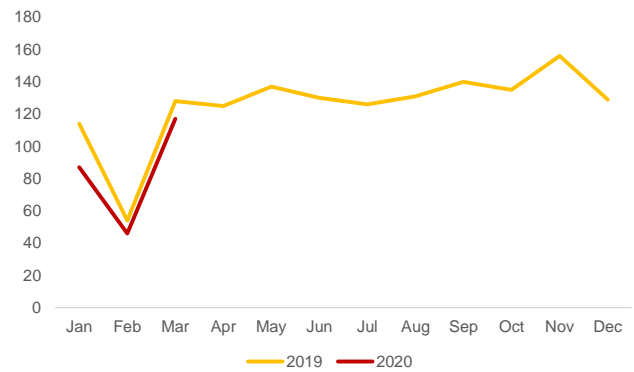
Figure 4: Excavator utilisation hours (Shandong)



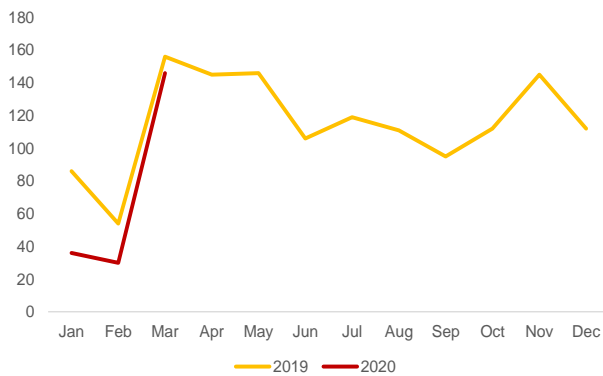
Source: CCMA, CMBIS

Figure 5: Excavator utilisation hours (Guangdong)

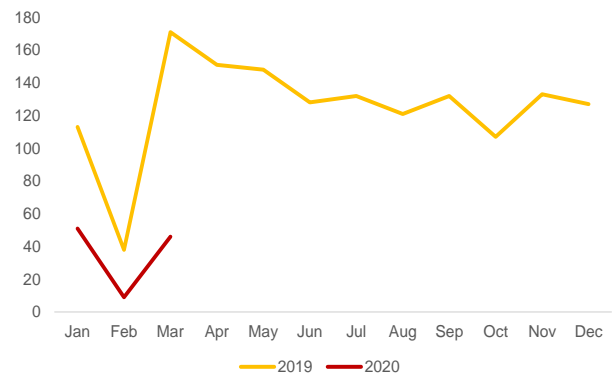
Source: CCMA, CMBIS

Figure 6: Excavator utilisation hours (Guangxi)

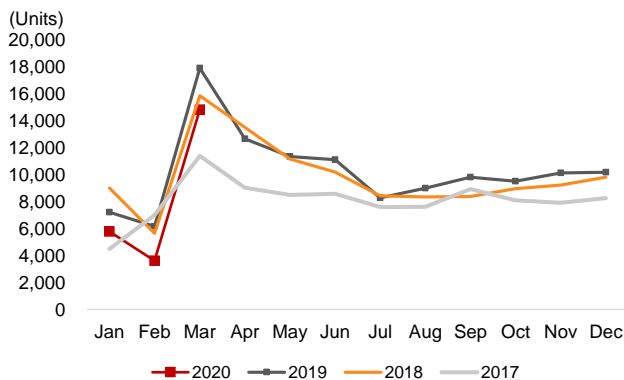
Source: CCMA, CMBIS

Figure 7: Excavator utilisation hours (Henan)

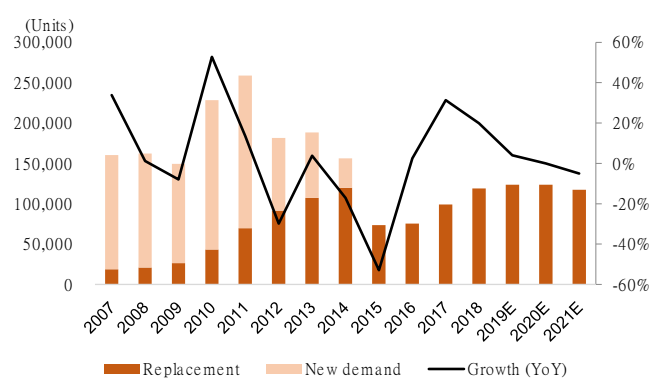
Source: CCMA, CMBIS

Figure 8: Excavator utilisation hours (Hubei)

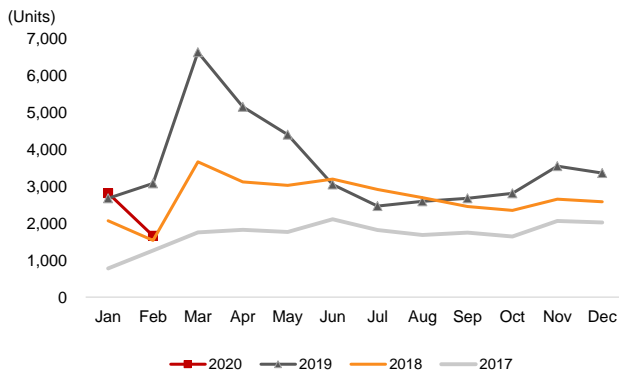
Source: CCMA, CMBIS

Figure 9: China monthly wheel loader sales

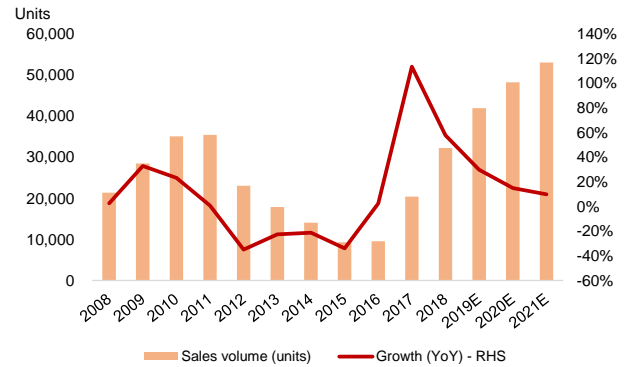
Source: CCMA, CMBIS

Figure 10: CMBIS wheel loader projection

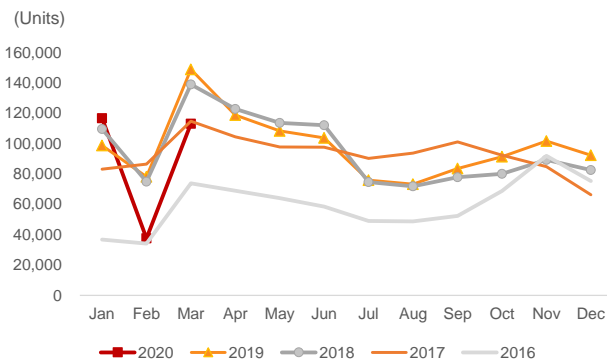
Source: CCMA, CMBIS estimates

Figure 11: China monthly truck crane sales

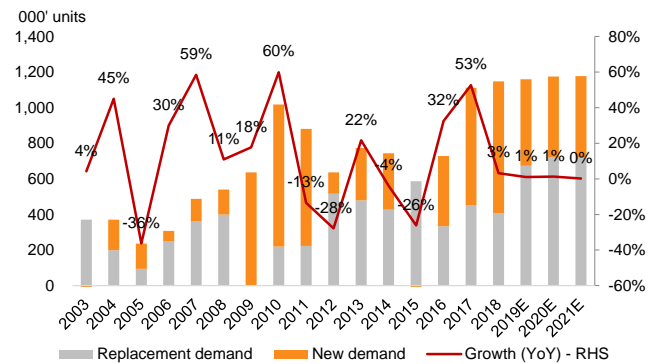
Source: CCMA, CMBIS

Figure 12: CMBIS truck crane sales projection

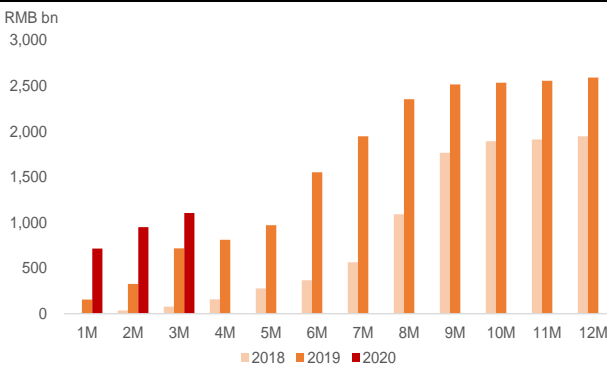
Source: CCMA, CMBIS estimates

Figure 13: China monthly HDT sales

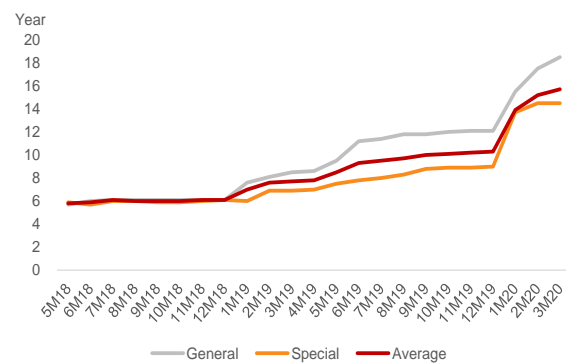
Source: Cvworl, CMBIS

Figure 14: CMBIS HDT sales projection

Source: Cvworl, Wind, CMBIS estimates

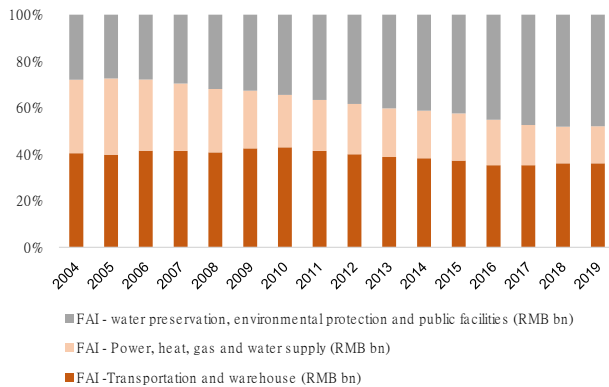
Figure 15: Local gov't special bond issue amount

Source: Ministry of Finance, CMBIS

Figure 16: Local gov't bond average duration (YTD)

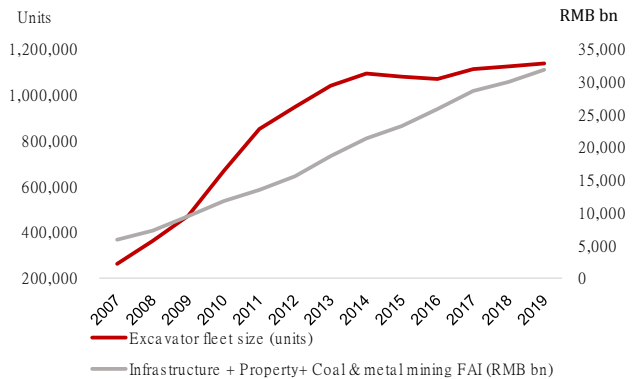
Source: Ministry of Finance, CMBIS

Figure 17: Breakdown of infrastructure FAI



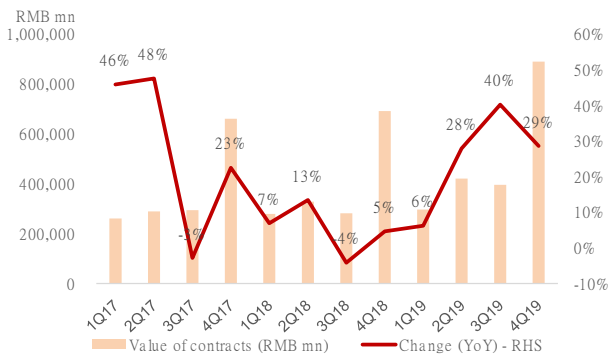
Source: Wind, NBS, CMBIS

Figure 18: Construction related FAI versus excavator fleet size



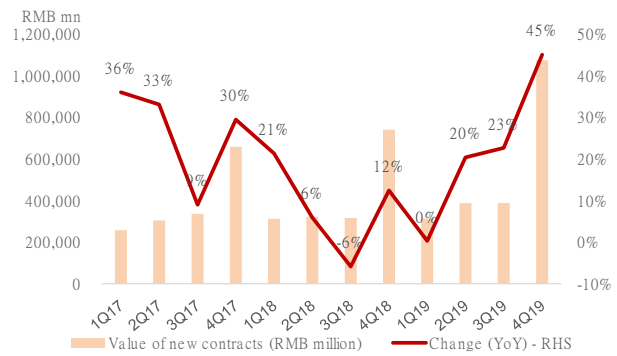
Source: CCMA, Wind, NBS, CMBIS estimates

Figure 19: CRCC (1186 HK) value of new contracts



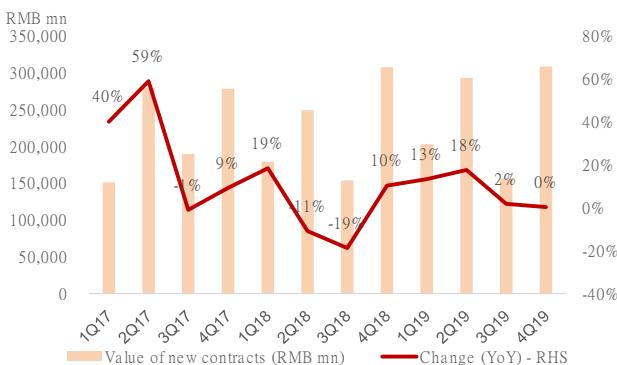
Source: Wind, NBS, CMBIS

Figure 20: CRG (390 HK) value of new contracts



Source: Wind, NBS, CMBIS

Figure 21: CCCC (1800 HK) value of new contracts



Source: Wind, NBS, CMBIS

Figure 22: CRCC and CRG reported significant improvement in operating cash flow in 2019

Operating cash flow (RMB mn)	2018	2019	Change (YoY)
CRCC	5,448	40,006	634%
CRG	11,962	22,198	86%
CCCC	9,098	5,931	-35%
Total	26,508	68,135	157%

Source: Company data, CMBIS

Figure 23: Timetable for the implementation of NES

		Year																							
Type of vehicles		00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23
Heavy duty vehicle	Diesel																								
	Gasoline																								
	Gas fueled																								
Light duty vehicle	Diesel																								
	Gasoline																								
	Gas fueled																								
Off road vehicle	Diesel																								

National emission standard ■ No regulation ■ I ■ II ■ III ■ IV ■ V ■ VI(a) ■ VI(b)

Source: Ministry of Ecology and Environmental, CMBIS

SANY Heavy (600031 CH, BUY, TP: RMB23.5, Upside 23%)

ASP hike suggests strong demand and solid bargaining power. SANY announced last week that it raised ASP of concrete pump trucks by 5-10%, due to strong downstream demand and tight supply of imported chassis. Over the weekend, the Company raised ASP of excavator as well (5% /10% for large to medium-size / small-size excavator, respectively). This suggests strong pricing power to protect the Company's gross margin.

Change in earnings forecast: We raise SANY Heavy's 2020E/21E earnings forecast by 3%/6% after incorporating our new forecast on excavator into our model. We continue to expect SANY to deliver above industry growth.

New TP of RMB23.5. SANY traded at an average of >70x forward P/E over the past decade. The key reason for the high earnings multiple was due to the low earnings base during the trough cycle (2014-16), and thus market shifted to asset base valuation (bottomed out at 1.5x PB three times over the past decade). SANY's earnings and valuation bottomed out in 2016 and has entered an upcycle. Since 2017, the forward P/E averaged at 11x, which we believe is more relevant to set a base for our target valuation. Our new TP is set at RMB23.5 (from RMB19.0), based on 14.3x 2020E target P/E (up from 11x), 30% premium to the average P/E since 2017 to reflect the earnings upcycle.

Figure 24: Earnings summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	38,335	55,822	76,999	89,944	97,763
YoY growth (%)	65	46	38	17	9
Net income (RMB mn)	2,092	6,116	11,127	13,701	15,385
EPS (RMB)	0.27	0.79	1.35	1.63	1.83
YoY growth (%)	925.0	189.6	70.3	20.9	12.3
Consensus EPS (RMB)	-	-	1.327	1.569	1.749
EV / EBITDA (x)	26.8	17.9	10.6	8.9	8.2
P/E (x)	69.8	24.1	14.2	11.7	10.4
P/B (x)	5.7	4.7	3.6	3.0	2.6
Yield (%)	0.9	1.5	2.8	4.3	4.8
ROE (%)	8.7	21.5	29.3	27.9	26.5
Net gearing (%)	30.4	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

Figure 25: Change in key assumptions

(RMB mn)	Old		New		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue						
Concrete machinery	30,750	33,825	30,750	33,825	0.0%	0.0%
Excavator	28,140	29,547	29,396	31,641	4.5%	7.1%
Crane machinery	16,419	18,061	16,419	18,061	0.0%	0.0%
Piling machinery	6,464	6,787	6,464	6,917	0.0%	1.9%
Earth moving machinery	2,941	3,088	2,941	3,147	0.0%	1.9%
Other machinery	2,259	2,372	2,259	2,372	0.0%	0.0%
Revenue (construction machinery)	86,972	93,680	88,229	95,962	1.4%	2.4%
Other business	1,715	1,801	1,715	1,801	0.0%	0.0%
Total revenue	88,688	95,481	89,944	97,763	1.4%	2.4%
Revenue growth					ppt	
Concrete machinery	20.0%	10.0%	20.0%	10.0%	0.0	0.0
Excavator	12.0%	5.0%	17.0%	7.6%	5.0	2.6
Crane machinery	18.0%	10.0%	18.0%	10.0%	0.0	0.0
Piling machinery	10.0%	5.0%	10.0%	7.0%	0.0	2.0
Earth moving machinery	10.0%	5.0%	10.0%	7.0%	0.0	2.0
Other machinery	5.0%	5.0%	5.0%	5.0%	0.0	0.0
Revenue (construction machinery)	15.4%	7.7%	17.1%	8.8%	1.7	1.1
Other business	5.0%	5.0%	5.0%	5.0%	0.0	0.0
Total revenue	15.2%	7.7%	16.8%	8.7%	1.6	1.0
Gross margin					ppt	
Concrete machinery	32.0%	32.0%	32.0%	32.0%	0.0	0.0
Excavator	36.0%	35.5%	36.3%	36.4%	0.3	0.9
Crane machinery	27.5%	27.5%	27.5%	27.5%	0.0	0.0
Piling machinery	44.0%	43.0%	44.0%	44.0%	0.0	1.0
Earth moving machinery	36.5%	36.5%	36.5%	36.5%	0.0	0.0
Other machinery	31.0%	31.0%	31.0%	31.0%	0.0	0.0
Gross margin (construction machinery)	33.5%	33.2%	33.6%	33.6%	0.1	0.4
Other business	11.0%	11.0%	11.0%	11.0%	0.0	0.0
Blended gross margin	33.0%	32.7%	33.2%	33.2%	0.1	0.4
Net profit	13,352	14,473	13,701	15,385	2.6%	6.3%

Source: Company data, CMBIS estimates

SANY Heavy Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Total revenue	38,335	55,822	76,999	89,944	97,763
Cost of sales	(26,806)	(38,728)	(51,684)	(60,111)	(65,330)
Gross profit	11,529	17,094	25,314	29,833	32,433
Surcharge	(279)	(326)	(462)	(540)	(587)
S&D expenses	(3,832)	(4,447)	(5,390)	(6,206)	(6,648)
Administrative expenses	(2,533)	(3,800)	(5,005)	(5,666)	(5,964)
Fair value change	403	(362)	0	0	0
Asset impairment	(1,189)	(1,095)	(1,155)	(1,349)	(1,466)
EBIT	4,098	7,063	13,303	16,071	17,769
Net finance income/(cost)	(1,319)	(136)	263	669	1,048
Finance income	72	344	687	997	1,368
Finance expenses	(1,391)	(479)	(425)	(329)	(320)
Other gains/(losses)	(13)	495	0	0	0
Profit of JV and associates	102	128	172	176	178
Pretax profit	2,869	7,550	13,737	16,916	18,995
Income tax	(642)	(1,247)	(2,267)	(2,791)	(3,134)
After tax profit	2,227	6,303	11,471	14,125	15,861
MI	(135)	(187)	(344)	(424)	(476)
Net profit	2,092	6,116	11,127	13,701	15,385
Recurring net profit	2,092	6,116	11,127	13,701	15,385
D&A	1,913	1,932	1,935	1,950	1,962
EBITDA	6,012	8,995	15,238	18,021	19,731

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pretax profit	2,869	7,550	13,737	16,916	18,995
Finance cost	1,271	388	425	329	320
Interest income	(72)	(344)	(687)	(997)	(1,368)
Profit or loss of associates	(102)	(128)	(172)	(176)	(178)
Fair value change	(383)	(276)	0	0	0
Provision for assets	903	(8)	0	0	0
Depreciation and amortization	1,913	1,932	1,935	1,950	1,962
Income tax paid	(642)	(1,247)	(2,267)	(2,791)	(3,134)
Change in working capital	2,126	1,788	(1,924)	(2,797)	(251)
Others	682	870	0	0	0
Cash flow from operation	8,565	10,527	11,047	12,433	16,346
Net capex on PP&E	(34)	(1,003)	(1,400)	(1,000)	(1,000)
Investment in JV/associates	229	(648)	(100)	(100)	(100)
Investment in subsidiaries	2,046	311	0	0	0
Dividend received	19	13	17	18	18
Interest received	72	344	687	997	1,368
Others	(1,115)	(9,781)	(70)	(70)	0
Cash flow from investing	1,218	(10,765)	(865)	(155)	286
Equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	(12,158)	1,584	(1,000)	(300)	(200)
Dividend paid	(229)	(1,233)	(2,178)	(4,451)	(6,851)
Interest paid	(1,391)	(479)	(425)	(329)	(320)
Others	695	955	0	0	0
Cash flow from financing	(13,085)	827	(3,602)	(5,079)	(7,370)
Change in cash	(3,302)	589	6,579	7,199	9,261
Cash at beginning of the year	7,442	4,104	11,985	18,564	25,763
Exchange and others	(36)	7,293	0	0	0
Cash at the end of the year	4,104	11,985	18,564	25,763	35,024

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	22,030	21,879	21,781	21,189	20,544
PP&E	12,805	11,867	11,717	11,157	10,587
JV/associates	1,404	2,328	2,583	2,842	3,102
Goodwill	51	51	51	51	51
LT trade receivables	273	366	478	508	564
Intangible assets	4,092	3,880	3,564	3,245	2,853
AFS investments	681	1,121	1,121	1,121	1,121
Others	1,272	1,115	1,115	1,115	1,115
Deferred tax assets	1,452	1,152	1,152	1,152	1,152
Current assets	36,207	51,896	64,704	76,579	88,043
Inventories	7,642	11,595	13,894	15,750	16,467
Trade and bills receivables	19,239	20,802	23,499	26,771	27,333
Other receivables	1,789	1,704	2,937	2,484	3,409
Others	2,696	3,272	3,272	3,272	3,272
Cash	4,104	11,985	18,564	25,763	35,024
Current liabilities	22,983	33,935	38,153	40,061	42,170
Trade and bills payables	10,938	17,191	21,608	23,517	25,525
Bank borrowings	5,256	8,336	8,136	8,136	8,236
Tax payable	533	524	524	524	524
Others	2,446	3,567	3,567	3,567	3,567
Non-current liabilities	8,882	7,337	2,504	2,204	1,904
Bank borrowings	7,577	5,974	1,141	841	541
Deferred tax liabilities	646	650	650	650	650
Others	406	471	471	471	471
Equity	26,373	32,502	45,829	55,503	64,513
Shareholders' equity	25,498	31,485	44,467	53,718	62,253
MI	876	1,017	1,361	1,785	2,261

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Concrete machinery	33%	30%	33%	34%	35%
Excavator	36%	34%	33%	33%	32%
Crane machinery	14%	17%	18%	18%	18%
Piling machinery	8%	8%	8%	7%	7%
Earth moving machinery	4%	4%	3%	3%	3%
Other machinery	5%	4%	3%	3%	2%
Other business	2%	3%	2%	2%	2%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	30.1	30.6	32.9	33.2	33.2
EBIT margin	10.7	12.7	17.3	17.9	18.2
Net profit margin	5.8	11.3	14.9	15.7	16.2
Growth (%)					
Revenue	64.7	45.6	37.9	16.8	8.7
Gross profit	89.0	48.3	48.1	17.8	8.7
EBIT	n/a	n/a	88.3	20.8	10.6
Net profit	928.5	192.3	81.9	23.1	12.3
Balance sheet ratio					
Current ratio (x)	1.6	1.5	1.7	1.9	2.1
Receivable turnover days	182	133	107	104	103
Inventory turnover days	94	91	90	90	90
Payable turnover days	126	133	137	137	137
Net debt / total equity (%)	30.4	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	3.5	9.3	13.9	14.9	14.9
ROE	8.7	21.5	29.3	27.9	26.5
Per share data					
EPS (RMB)	0.27	0.79	1.35	1.63	1.83
BVPS (RMB)	3.33	4.04	5.28	6.38	7.40
DPS (RMB)	0.18	0.28	0.54	0.81	0.91

Source: Company data, CMBIS estimates

Jiangsu Hengli (601100 CH, BUY, TP: RMB85, Upside: 28%)

Robust order intake in Apr and May. We understand that Hengli's order intake for cylinders (for Apr and May) is expected to surge 50% YoY, while that for pump & valves growth will likely exceed 50% YoY, suggesting robust demand in 2Q20E. We raise our earnings forecast in 2020E/21E by 6%/8%, after revising up our projection on hydraulic cylinders, pump & valves.

New TP of RMB85.0. We lift our TP to RMB85 from RMB54, as we revise up our target P/E from 30x to 45x (2020E), equivalent to the history average. Our higher multiple is justified by the strong infrastructure spending upcycle, on-track market share gain and continuous launch of new products to achieve import substitution.

Figure 26: Earnings summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	2,795	4,211	5,547	7,029	8,415
YoY growth (%)	104.0	50.6	31.7	26.7	19.7
Net income (RMB mn)	382	837	1,270	1,670	2,027
EPS (RMB)	0.43	0.95	1.44	1.89	2.30
YoY growth (%)	442.9	119.1	51.8	31.5	21.4
Consensus EPS (RMB)	-	-	1.327	1.569	1.749
EV / EBITDA (x)	89.0	53.0	35.7	27.9	23.6
P/E (x)	153.5	70.1	46.1	35.1	28.9
P/B (x)	15.2	12.9	10.6	8.6	7.1
Yield (%)	0.2	0.5	0.7	0.9	1.1
ROE (%)	10.4	19.9	25.2	27.0	26.8
Net gearing (%)	5.0	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

Figure 27: Change in key assumptions

	Old		New		Change	
(RMB mn)	2020E	2021E	2020E	2021E	2020E	2021E
Revenue						
Hydraulic cylinder for excavator	2,478	2,602	2,703	2,973	9.1%	14.3%
Specialised hydraulic cylinder for heavy equipment	1,673	1,924	1,743	2,004	4.2%	4.2%
Hydraulic pump and valve	1,508	2,111	1,558	2,259	3.3%	7.0%
Completed set of equipment	339	424	339	424	0.0%	0.0%
Component	627	677	639	702	1.9%	3.7%
Revenue (hydraulic business)	6,625	7,738	6,981	8,363	5.4%	8.1%
Other business	47	52	47	52	0.0%	0.0%
Total revenue	6,672	7,790	7,029	8,415	5.3%	8.0%
Revenue growth						
Hydraulic cylinder for excavator	10.0%	5.0%	20.0%	10.0%	10.0	5.0
Specialised hydraulic cylinder for heavy equipment	20.0%	15.0%	25.0%	15.0%	5.0	0.0
Hydraulic pump and valve	50.0%	40.0%	55.0%	45.0%	5.0	5.0
Completed set of equipment	25.0%	25.0%	25.0%	25.0%	0.0	0.0
Component	8.0%	8.0%	10.0%	10.0%	2.0	2.0
Revenue (hydraulic business)	20.4%	16.8%	26.9%	19.8%	6.5	3.0
Other business	10.0%	10.0%	10.0%	10.0%	0.0	0.0
Total revenue	20.3%	16.8%	26.7%	19.7%	6.4	3.0
Gross margin						
Hydraulic cylinder for excavator	40.0%	40.0%	40.0%	40.0%	0.0	0.0
Specialised hydraulic cylinder for heavy equipment	40.0%	40.0%	40.0%	40.0%	0.0	0.0
Hydraulic pump and valve	35.0%	37.0%	36.0%	37.0%	1.0	0.0
Completed set of equipment	21.0%	21.0%	21.0%	21.0%	0.0	0.0
Component	35.0%	35.0%	35.0%	35.0%	0.0	0.0
Gross margin (hydraulic business)	37.4%	37.7%	37.7%	37.8%	0.3	0.1
Other business	50.0%	50.0%	50.0%	50.0%	0.0	0.0
Average gross margin	37.5%	37.8%	37.8%	37.9%	0.3	0.1
Net profit	1,572	1,877	1,670	2,027	6.2%	8.0%

Source: Company data, CMBIS estimates

Jiangsu Hengli Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Total revenue	2,795	4,211	5,547	7,029	8,415
Cost of sales	-1,878	-2,671	-3,471	-4,371	-5,227
Gross profit	917	1,540	2,076	2,658	3,188
Surcharge	-36	-43	-55	-70	-84
S&D expenses	-96	-115	-139	-169	-202
Administrative expenses	-287	-385	-488	-597	-715
Asset impairment	-38	-119	0	0	0
EBIT	460	879	1,394	1,821	2,186
Net finance income/(cost)	-85	30	15	34	68
Finance income	23	168	73	85	111
Finance expenses	-108	-138	-58	-51	-44
Other gains/(losses)	71	54	67	84	101
Profit of JV and associates	0	0	0	0	0
Pretax profit	447	963	1,475	1,940	2,355
Income tax	-66	-126	-207	-272	-330
After tax profit	381	837	1,269	1,668	2,025
MI	1	-0	1	2	2
Net profit	382	837	1,270	1,670	2,027
D&A	201	232	254	284	309
EBITDA	661	1,110	1,648	2,106	2,495

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pretax profit	447	963	1,475	1,940	2,355
Finance cost	78	-32	58	51	44
Profit or loss of associates	0	0	0	0	0
Loss/(gain) on disposal	-0	3	0	0	0
Depreciation & amortization	201	232	254	284	309
Income tax paid	-66	-126	-207	-272	-330
Change in working capital	-499	-345	-578	-471	-514
Others	31	122	0	0	0
Cash flow from operation	154	799	1,003	1,533	1,864
Net capex on PP&E	-211	-362	-400	-500	-400
Investment in JV/associates	0	0	0	0	0
Investment in subsidiaries	0	-117	0	0	0
Investment in intangibles	0	-19	-10	-10	-10
Dividend received	0	0	0	0	0
Others	126	217	0	0	0
Cash flow from investing	-86	-281	-410	-510	-410
Proceeds from equity	0	0	0	0	0
Net bank borrowings	351	-8	-150	-150	-150
Dividend paid	-42	-139	-265	-406	-534
Interest paid	-45	-3	-58	-51	-44
Others	-113	-1	0	0	0
Cash flow from financing	151	-152	-473	-607	-728
Change in cash	220	366	120	416	726
Cash at beginning of the year	870	1,146	1,571	1,691	2,107
Exchange and others	57	59	0	0	0
Cash at the end of the year	1,146	1,571	1,691	2,107	2,833

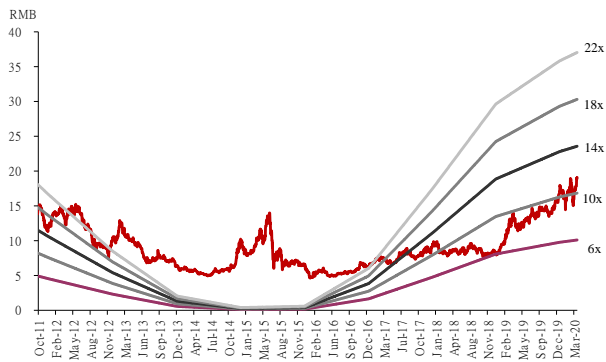
Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	2,862	2,828	2,984	3,210	3,311
PP&E	2,063	2,233	2,390	2,617	2,720
JV/associates	0	0	0	0	0
Goodwill	47	0	0	0	0
Intangible assets	272	279	278	277	275
AFS investments	332	10	10	10	10
Others	133	257	257	257	257
Deferred tax assets	15	49	49	49	49
Current assets	3,295	4,443	5,319	6,432	7,829
Inventories	821	1,050	1,423	1,691	2,032
Trade and bill receivables	990	1,328	1,711	2,140	2,471
Prepayment	141	135	135	135	135
Others	197	358	358	358	358
Pledged deposits	0	0	0	0	0
Cash	1,146	1,571	1,691	2,107	2,833
Current liabilities	1,692	1,981	2,059	2,186	2,243
Trade and bill payables	509	691	868	1,096	1,253
Bank borrowings	939	905	805	705	605
Tax payable	33	24	24	24	24
Advance from customers	97	154	154	154	154
Others	114	208	208	208	208
Non-current liabilities	591	715	665	615	565
Bank borrowings	401	353	303	253	203
Deferred tax liabilities	9	47	47	47	47
Deferred income	182	165	165	165	165
Others	0	150	150	150	150
Equity	3,873	4,575	5,579	6,841	8,332
Shareholders' equity	3,845	4,547	5,552	6,816	8,309
MI	28	28	27	25	23

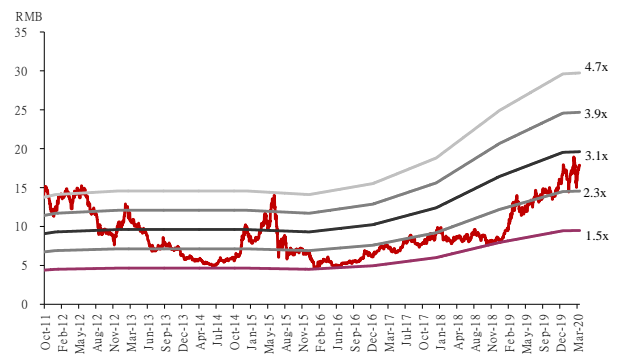
Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Cylinder for excavator	41%	43%	41%	38%	35%
Cylinder for heavy equipment	37%	27%	25%	25%	24%
Hydraulic pump and valve	9%	11%	18%	22%	27%
Completed set of equipment	6%	5%	5%	5%	5%
Component	6%	13%	10%	9%	8%
Other business	1%	1%	1%	1%	1%
Total revenue	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	32.8	36.6	37.4	37.8	37.9
EBIT margin	16.5	20.9	25.1	25.9	26.0
Net profit margin	13.6	19.9	22.9	23.7	24.1
Growth (%)					
Revenue	104.0	50.6	31.7	26.7	19.7
Gross profit	204.0	67.9	34.8	28.0	20.0
EBIT	(3,759)	90.9	58.7	30.7	20.1
Net profit	442.9	119.1	51.8	31.5	21.4
Balance sheet ratio					
Current ratio (x)	1.9	2.2	2.6	2.9	3.5
Receivable turnover days	102	100	100	100	100
Inventory turnover days	137	128	130	130	130
Payable turnover days	82	82	82	82	82
Net debt / total equity (%)	5.0	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	6.7	12.5	16.3	18.6	19.5
ROE	10.4	19.9	25.2	27.0	26.8
Per share data					
EPS (RMB)	0.43	0.95	1.44	1.89	2.30
BVPS (RMB)	4.36	5.16	6.30	7.73	9.42
DPS (RMB)	0.16	0.30	0.46	0.61	0.74

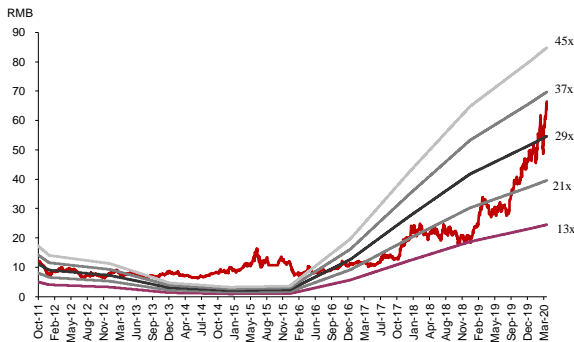
Source: Company data, CMBIS estimates

Figure 28: SANY Heavy P/E band

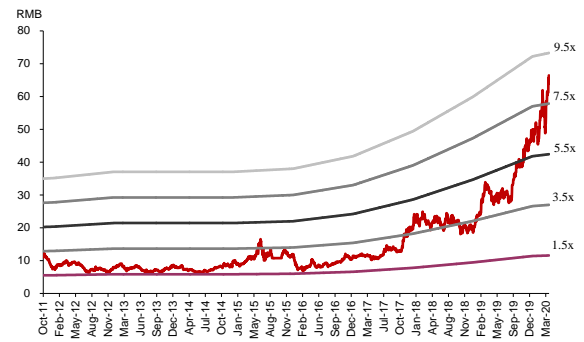
Source: Bloomberg, Company data, CMBIS estimates

Figure 29: SANY Heavy P/B band

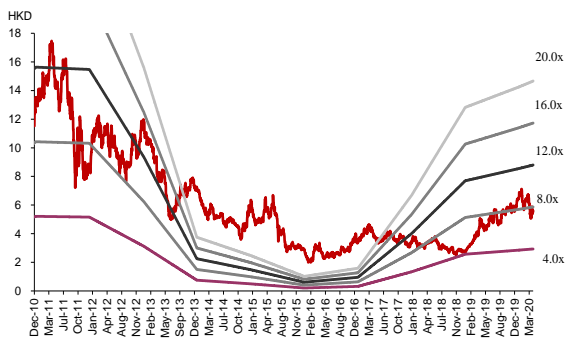
Source: Bloomberg, Company data, CMBIS estimates

Figure 30: Jiangsu Hengli P/E band

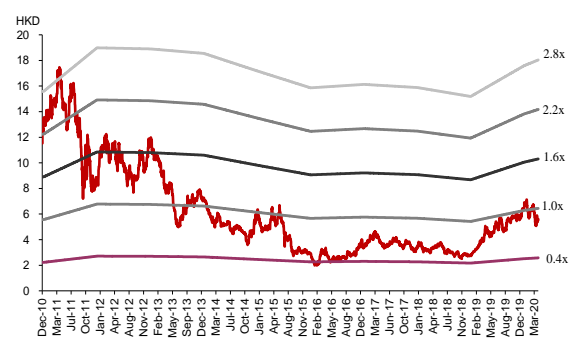
Source: Bloomberg, Company data, CMBIS estimates

Figure 31: Jiangsu Hengli P/B band

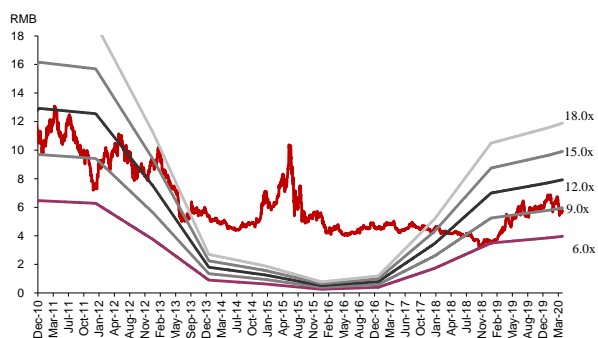
Source: Bloomberg, Company data, CMBIS estimates

Figure 32: Zoomlion - H P/E band

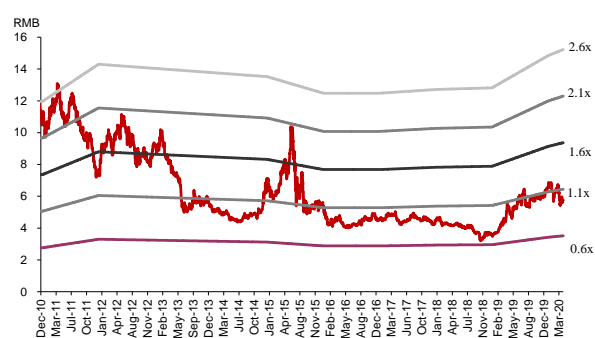
Source: Bloomberg, Company data, CMBIS estimates

Figure 33: Zoomlion - H P/B band

Source: Bloomberg, Company data, CMBIS estimates

Figure 34: Zoomlion- A P/E band

Source: Bloomberg, Company data, CMBIS estimates

Figure 35: Zoomlion – A P/B band

Source: Bloomberg, Company data, CMBIS estimates

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