

# SANY International (631 HK)

3Q earnings below expectation on higher expense but growth remains solid

SANYI's net profit in 3Q20 grew only 11% YoY to RMB264mn, due to higher spending on R&D, selling and distribution expense. That said, we see these the essential measures to drive the launch of new products. On the positive side, strong revenue growth and gross margin expansion in 3Q20 are encouraging. We believe the growth story driven by new and intelligent products remains solid. We trimmed our earnings forecast in 2020E-22E by 4-5%, mainly due to higher expense assumptions. Accordingly, we fine-tuned our TP from HK\$5.89 to HK\$5.66, based on unchanged 2020E P/E multiple of 15x. Maintain **BUY**.

- Key highlight on 3Q20 results:** SANYI's revenue grew 29% YoY to RMB1.69bn, driven by 31% growth of mining equipment and 15% growth of port equipment. Gross margin significantly rebounded 2ppt QoQ to 29.5%, which should ease concerns on the margin side. Net profit increased 11% YoY to RMB264mn. In 9M20, revenue and net profit grew 26% and 14%, respectively, to RMB5.5bn and RMB902mn.
- Reasons for higher expense.** Management explained in the post-results call that R&D expense increased 68% YoY in 3Q, due to the spending on the research of electronic control unit and driverless system. Besides, the number of R&D staff increased by 30%. R&D expense accounted for 5.6% of revenue in 3Q and the ratio is expected to increase to 6-7% in future. On the other hand, higher selling and distribution expenses were incurred due to the fast-growing wide-body trucks in both China and overseas.
- Explosive growth of wide-body trucks.** Sales volume of wide-body truck reached 1k units in 9M20 and SANYI expects 1.3k units for the full year. SANYI expected the sales to grow 60-100% YoY in 2021E and a further 50% YoY in 2022E. Besides, large-size trucks (rated load: 70 tonnes) will be launched in the near future. Research and development on other large-size models (80t-100t) is on a good track.
- New product development underway.** SANYI is expanding in the electronic control unit segment. The Company won six sets of electronic control unit in a tender and targets to deliver 30 sets (value at RMB200) in 2021E (including in-house application). On the other hand, SANYI has initiated research on the breaker machinery. The product will be launched in 2021E with a focus on mid-to-high end segment.

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## Earnings Summary

| (YE 31 Dec)         | FY18A    | FY19A    | FY20E    | FY21E    | FY22E    |
|---------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn)    | 4,417    | 5,656    | 7,184    | 9,504    | 11,095   |
| YoY growth (%)      | 78.0     | 28.1     | 27.0     | 32.3     | 16.7     |
| Net income (RMB mn) | 600      | 920      | 1,063    | 1,366    | 1,667    |
| EPS (RMB)           | 0.20     | 0.30     | 0.34     | 0.44     | 0.54     |
| YoY growth (%)      | 161.6    | 51.3     | 14.8     | 28.5     | 22.1     |
| Consensus EPS (RMB) | N/A      | N/A      | 0.36     | 0.46     | 0.59     |
| EV/EBITDA (x)       | 12.2     | 8.6      | 7.5      | 6.0      | 5.0      |
| P/E (x)             | 20.7     | 14.4     | 12.5     | 9.8      | 8.0      |
| P/B (x)             | 1.9      | 1.9      | 1.7      | 1.5      | 1.3      |
| Yield (%)           | 2.5      | 2.8      | 3.2      | 4.1      | 5.0      |
| ROE (%)             | 9.4      | 13.6     | 14.2     | 16.5     | 17.9     |
| Net gearing (%)     | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$5.66**  
 (Previous TP **HK\$5.89**)  
 Up/Downside **+20%**  
 Current Price **HK\$4.73**

## China Capital Goods

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## Stock Data

|                          |           |
|--------------------------|-----------|
| Mkt Cap (HK\$ mn)        | 14,759    |
| Avg 3 mths t/o (HK\$ mn) | 22        |
| 52w High/Low (HK\$)      | 5.22/3.39 |
| Total Issued Shares (mn) | 3,100.7   |

Source: Bloomberg

## Shareholding Structure

|                      |       |
|----------------------|-------|
| Sany Heavy Equipment | 67.7% |
| Investments Company  |       |
| Free float           | 32.3% |

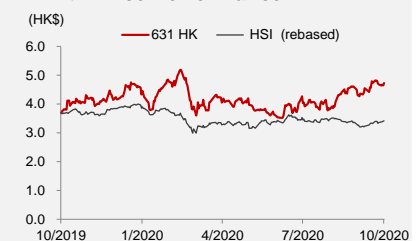
Source: HKEx

## Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 3.3%     | 0.0%     |
| 3-mth | 8.9%     | 12.8%    |
| 6-mth | 14.8%    | 10.4%    |

Source: Bloomberg

## 12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

## Related Reports

- SANY Int'l (631 HK, BUY) – Share price pullback offers buying opportunity; 24% Earnings CAGR at <10x P/E – 20 Aug 2020
- SANY Int'l (631 HK, BUY) – 1Q20 earnings -7% within expectation; New product launch underway – 16 Apr 2020
- SANY Int'l (631 HK, BUY) – COVID-19 impact manageable; Domestic orders recovering – 1 Apr 2020

- **Road header.** SANYI's market share in roader header increased to 60% in 9M20 from 53% in 2019. According to SANYI, the intelligent road header products are well received in the market. SANYI targets to deliver a total of 40 units this year. Sales of road headers in 2021E will be driven by these intelligent products.
- **Pure water hydraulic support.** For the contract awarded early this year (value: RMB275), SANYI expects the delivery time will be in Nov. Besides, SANYI was awarded another contract (value: RMB173mn), which is expected to be delivery in Mar 2021E.
- **Large-size port machinery.** Latest backlog stood at RMB1.5bn (China: RMB800-900mn; Overseas: RMB700mn). SANYI will continue to focus on intelligent products that carry higher margins. SANYI expects the gross margin to expand to 20% in 2021E, driven by more high margin overseas orders.
- **Light tower plant construction.** SANYI expects light tower plants will drive down the production cost significantly and improve product quality in the long-run. The average payback period of the construction projects is around two years. Tenders for the plant construction will be completed by the year end.
- **Major risk factors:** (1) failure to contain COVID-19 in overseas; (2) decline in mining activities; (3) higher-than-expected expense to drive the introduction of new products.

Figure 1: SANYI's 3Q20 results

| RMB mn               | 1Q19    | 1Q20    | Chg (YoY) | 2Q19    | 2Q20    | Chg (YoY) | 3Q19  | 3Q20    | Chg (YoY) | 9M19    | 9M20    | Chg (YoY) |
|----------------------|---------|---------|-----------|---------|---------|-----------|-------|---------|-----------|---------|---------|-----------|
| Revenue              | 1,531   | 1,553   | 1%        | 1,513   | 2,262   | 50%       | 1,313 | 1,689   | 29%       | 4,356   | 5,504   | 26%       |
| Cost of sales        | (1,063) | (1,146) | 8%        | (1,037) | (1,639) | 58%       | (925) | (1,190) | 29%       | (3,024) | (3,975) | 31%       |
| Gross profit         | 468     | 407     | -13%      | 476     | 623     | 31%       | 388   | 499     | 29%       | 1,332   | 1,529   | 15%       |
| Gross margin         | 30.6%   | 26.2%   |           | 31.4%   | 27.5%   |           | 29.6% | 29.5%   |           | 30.6%   | 27.8%   |           |
| Pretax profit        | 324     | 296     | -9%       | 316     | 458     | 45%       | 268   | 278     | 4%        | 909     | 1,032   | 14%       |
| Pretax profit margin | 21.2%   | 19.1%   |           | 20.9%   | 20.2%   |           | 20.4% | 16.5%   |           | 20.9%   | 18.7%   |           |
| Net profit           | 276     | 257     | -7%       | 275     | 383     | 39%       | 237   | 264     | 11%       | 790     | 902     | 14%       |
| Net margin           | 18.0%   | 16.5%   |           | 18.2%   | 16.9%   |           | 18.1% | 15.6%   |           | 18.1%   | 16.4%   |           |

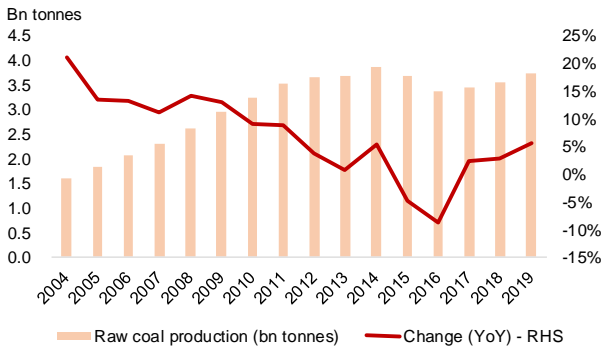
Source: Company data, CMBIS

Figure 2: Key assumptions on SANYI

| (RMB mn)                          | 2018   | 2019   | 2020E  | 2021E | 2022E  |
|-----------------------------------|--------|--------|--------|-------|--------|
| <b>Revenue</b>                    |        |        |        |       |        |
| Road header                       | 1,079  | 1,408  | 1,436  | 1,568 | 1,696  |
| Combined coal mining units (CCMU) | 966    | 1,073  | 1,470  | 1,985 | 2,282  |
| Small-size port machinery         | 1,305  | 1,547  | 1,740  | 2,088 | 2,339  |
| Large-size port machinery         | 551    | 686    | 974    | 1,656 | 1,822  |
| Mining trucks                     | 88     | 388    | 953    | 1,407 | 2,007  |
| Others                            | 428    | 554    | 610    | 800   | 950    |
| Total                             | 4,417  | 5,656  | 7,184  | 9,504 | 11,095 |
| <b>Growth (YoY)</b>               |        |        |        |       |        |
| Road header                       | 53.8%  | 30.5%  | 2.0%   | 9.2%  | 8.2%   |
| Combined coal mining units (CCMU) | 268.0% | 11.1%  | 37.0%  | 35.0% | 15.0%  |
| Small-size port machinery         | 45.3%  | 18.5%  | 12.5%  | 20.0% | 12.0%  |
| Large-size port machinery         | 61.3%  | 24.5%  | 42.0%  | 70.0% | 10.0%  |
| Mining trucks                     | 285.1% | 340.9% | 145.6% | 47.6% | 42.6%  |
| Others                            | 67.9%  | 29.4%  | 10.1%  | 31.1% | 18.8%  |
| Total                             | 78.0%  | 28.1%  | 27.0%  | 32.3% | 16.7%  |
| <b>Gross margin</b>               |        |        |        |       |        |
| Road header                       | 39.9%  | 40.6%  | 40.0%  | 40.5% | 40.5%  |
| Combined coal mining units (CCMU) | 14.7%  | 25.1%  | 26.5%  | 27.5% | 27.5%  |
| Small-size port machinery         | 32.1%  | 33.0%  | 33.0%  | 33.0% | 33.0%  |
| Large-size port machinery         | 15.0%  | 9.0%   | 8.0%   | 10.0% | 11.0%  |
| Mining trucks                     | 10.0%  | 12.0%  | 12.5%  | 14.5% | 17.0%  |
| Others                            | 45.0%  | 38.0%  | 40.0%  | 40.0% | 40.0%  |
| Blended gross margin              | 28.9%  | 29.5%  | 27.6%  | 26.9% | 27.1%  |

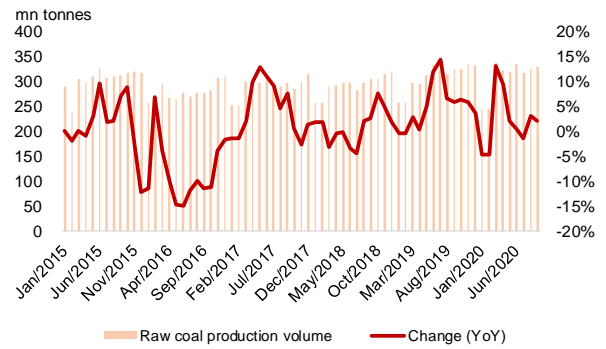
Source: Company data, CMBIS estimates

**Figure 3: China raw coal production (annual)**



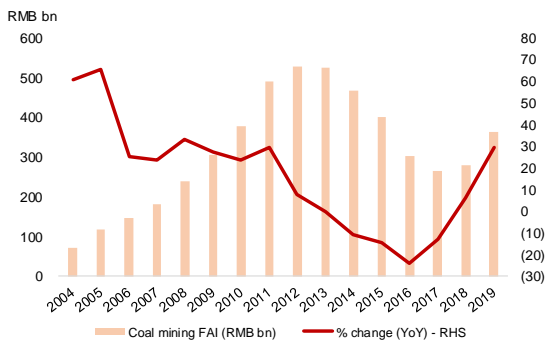
Source: Wind, CCTDCOAL, CMBIS

**Figure 4: China raw coal production (monthly)**



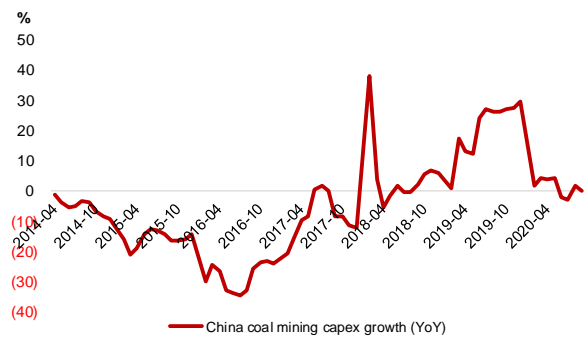
Source: Wind, CCTDCOAL, CMBIS

**Figure 5: China coal mining FAI growth**



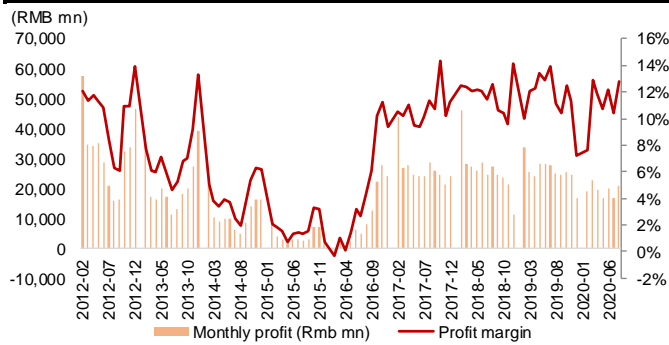
Source: Wind, NBS, CMBIS

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



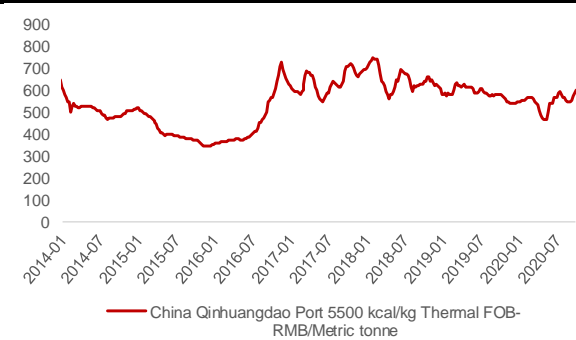
Source: Wind, NBS, CMBIS

**Figure 7: China coal miners' monthly profit & margin**



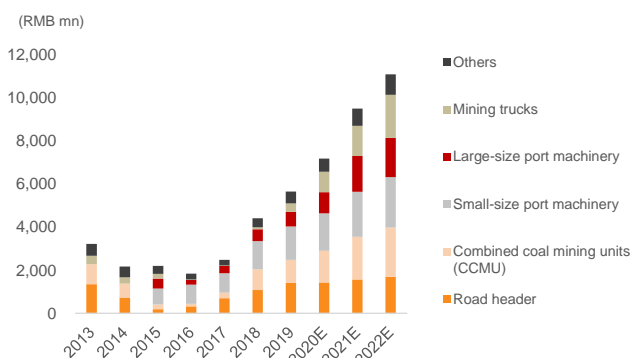
Source: Wind, NBS, CMBIS

**Figure 8: China Qinhuangdao Port 5500 kcal price**



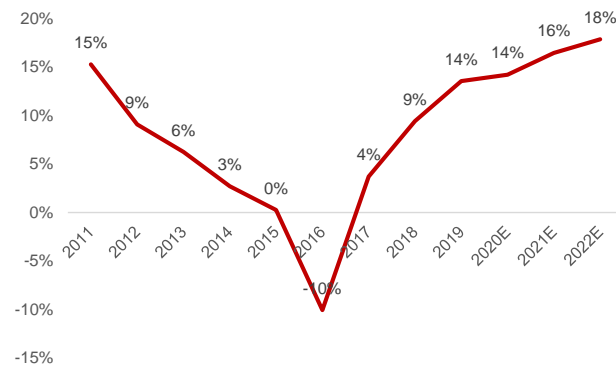
Source: Bloomberg, CMBIS

**Figure 9: SANYI's segment revenue growth trend**



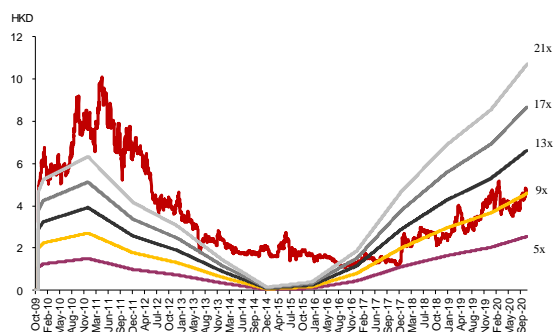
Source: Company data, CMBIS estimates

**Figure 10: SANYI's ROE trend**



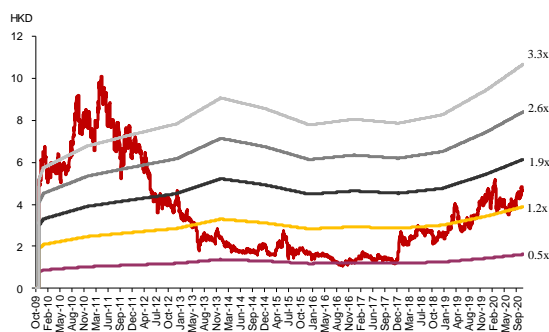
Source: Company data, CMBIS estimates

**Figure 11: SANYI's PE band**



Source: Bloomberg, Company data, CMBIS estimates

**Figure 12: 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         |
| <b>Total revenue</b>       | <b>4,417</b> | <b>5,656</b> | <b>7,184</b> | <b>9,504</b> | <b>11,095</b> |
| Cost of sales              | (3,119)      | (3,987)      | (5,204)      | (6,945)      | (8,088)       |
| <b>Gross profit</b>        | <b>1,298</b> | <b>1,669</b> | <b>1,979</b> | <b>2,560</b> | <b>3,008</b>  |
| Other income               | 242          | 342          | 395          | 570          | 666           |
| Other gains and losses     | 35           | 121          | 79           | 0            | 0             |
| S&D expenses               | (329)        | (388)        | (460)        | (599)        | (688)         |
| Administrative expenses    | (492)        | (643)        | (718)        | (893)        | (999)         |
| Other expenses             | (33)         | (4)          | (7)          | (10)         | (11)          |
| <b>EBIT</b>                | <b>720</b>   | <b>1,097</b> | <b>1,268</b> | <b>1,628</b> | <b>1,976</b>  |
| Net finance income/(cost)  | 6            | (27)         | (30)         | (37)         | (33)          |
| Finance income             | 24           | 58           | 101          | 107          | 110           |
| Finance expenses           | (18)         | (85)         | (131)        | (144)        | (144)         |
| Share of JV and associates | 0            | 0            | 0            | 0            | 0             |
| <b>Pretax profit</b>       | <b>726</b>   | <b>1,070</b> | <b>1,238</b> | <b>1,592</b> | <b>1,943</b>  |
| Income tax                 | (123)        | (148)        | (173)        | (223)        | (272)         |
| <b>After tax profit</b>    | <b>603</b>   | <b>922</b>   | <b>1,065</b> | <b>1,369</b> | <b>1,671</b>  |
| MI                         | (3)          | (2)          | (2)          | (3)          | (3)           |
| <b>Net profit</b>          | <b>600</b>   | <b>920</b>   | <b>1,063</b> | <b>1,366</b> | <b>1,667</b>  |
| D&A                        | 224          | 249          | 267          | 302          | 338           |
| <b>EBITDA</b>              | <b>944</b>   | <b>1,346</b> | <b>1,535</b> | <b>1,930</b> | <b>2,314</b>  |

### Cash flow statement

| YE 31 Dec (RMB mn)                          | FY18A        | FY19A          | FY20E        | FY21E        | FY22E        |
|---|--------------|----------------|--------------|--------------|--------------|
| Pretax profit                               | 726          | 1,070          | 1,238        | 1,592        | 1,943        |
| Finance cost                                | 18           | 85             | 131          | 144          | 144          |
| Interest income                             | (24)         | (58)           | (101)        | (107)        | (110)        |
| Share of profit or loss of associates       | 0            | 0              | 0            | 0            | 0            |
| Depreciation and amortization               | 224          | 249            | 267          | 302          | 338          |
| Income tax paid                             | (137)        | (100)          | (173)        | (223)        | (272)        |
| Change in working capital                   | (251)        | (22)           | (517)        | (776)        | (668)        |
| Others                                      | (275)        | (424)          | 0            | 0            | 0            |
| <b>Cash flow from operation</b>             | <b>280</b>   | <b>801</b>     | <b>845</b>   | <b>931</b>   | <b>1,374</b> |
| Net capex on PP&E                           | (93)         | (216)          | (500)        | (500)        | (400)        |
| Interest received                           | 24           | 58             | 101          | 107          | 110          |
| Others                                      | (466)        | (2,153)        | 0            | 0            | 0            |
| <b>Cash flow from investing</b>             | <b>(536)</b> | <b>(2,311)</b> | <b>(399)</b> | <b>(393)</b> | <b>(290)</b> |
| Proceeds from equity financing/(repurchase) | 0            | 0              | 0            | 0            | 0            |
| Net bank borrowings                         | 968          | 1,860          | 800          | 0            | 0            |
| Dividend paid                               | (440)        | (304)          | (372)        | (425)        | (546)        |
| Interest paid                               | (17)         | (85)           | (131)        | (144)        | (144)        |
| Others                                      | 0            | 57             | 0            | 0            | 0            |
| <b>Cash flow from financing</b>             | <b>512</b>   | <b>1,527</b>   | <b>297</b>   | <b>(569)</b> | <b>(690)</b> |
| Change in cash                              | 257          | 17             | 742          | (31)         | 394          |
| Cash at beginning of the year               | 814          | 1,070          | 1,103        | 1,846        | 1,815        |
| Exchange gains/(losses) and others          | (1)          | 16             | 0            | (0)          | (0)          |
| Cash at the end of the year                 | 1,070        | 1,103          | 1,846        | 1,815        | 2,209        |

### Balance sheet

| YE 31 Dec (RMB mn)             | FY18A        | FY19A         | FY20E         | FY21E         | FY22E         |
|--------------------------------|--------------|---------------|---------------|---------------|---------------|
| <b>Non-current assets</b>      | <b>5,896</b> | <b>5,209</b>  | <b>5,442</b>  | <b>5,641</b>  | <b>5,703</b>  |
| PP&E                           | 2,463        | 2,413         | 2,661         | 2,873         | 2,950         |
| 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           |
| <b>Current assets</b>          | <b>7,029</b> | <b>10,338</b> | <b>12,696</b> | <b>13,935</b> | <b>15,549</b> |
| 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         | 4,190         | 4,808         |
| 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         | 1,846         | 1,815         | 2,209         |
| <b>Current liabilities</b>     | <b>5,169</b> | <b>6,421</b>  | <b>8,720</b>  | <b>9,214</b>  | <b>9,766</b>  |
| 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           |
| <b>Non-current liabilities</b> | <b>1,313</b> | <b>1,980</b>  | <b>1,580</b>  | <b>1,580</b>  | <b>1,580</b>  |
| 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         |
| <b>Total equity</b>            | <b>6,442</b> | <b>7,146</b>  | <b>7,838</b>  | <b>8,782</b>  | <b>9,906</b>  |
| <b>Shareholders' equity</b>    | <b>6,431</b> | <b>7,132</b>  | <b>7,822</b>  | <b>8,763</b>  | <b>9,884</b>  |
| MI                             | 12           | 14            | 16            | 19            | 22            |

### Key ratios

| YE 31 Dec                   | FY18A       | FY19A       | FY20E       | FY21E       | FY22E       |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Sales mix (%)</b>        |             |             |             |             |             |
| - Mining equipment          | 58%         | 61%         | 61%         | 59%         | 61%         |
| - Logistics equipment       | 42%         | 39%         | 39%         | 41%         | 39%         |
| <b>Total</b>                | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> |
| <b>P&amp;L ratios (%)</b>   |             |             |             |             |             |
| Gross margin                | 29%         | 30%         | 28%         | 27%         | 27%         |
| EBITDA margin               | 21%         | 24%         | 21%         | 20%         | 21%         |
| EBIT margin                 | 16%         | 19%         | 18%         | 17%         | 18%         |
| Net profit margin           | 14%         | 16%         | 15%         | 14%         | 15%         |
| <b>Growth (%)</b>           |             |             |             |             |             |
| Revenue                     | 78%         | 28%         | 27%         | 32%         | 17%         |
| Gross profit                | 76%         | 29%         | 19%         | 29%         | 18%         |
| EBITDA                      | 78%         | 43%         | 14%         | 26%         | 20%         |
| EBIT                        | 155%        | 52%         | 16%         | 28%         | 21%         |
| Net profit                  | 162%        | 53%         | 16%         | 29%         | 22%         |
| <b>Balance sheet ratios</b> |             |             |             |             |             |
| Current ratio (x)           | 1.4         | 1.6         | 1.5         | 1.5         | 1.6         |
| Receivable turnover days    | 152         | 154         | 151         | 144         | 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    |
| <b>Returns (%)</b>          |             |             |             |             |             |
| ROE                         | 5%          | 6%          | 6%          | 7%          | 8%          |
| ROA                         | 9%          | 14%         | 14%         | 16%         | 18%         |
| <b>Per share</b>            |             |             |             |             |             |
| EPS (RMB)                   | 0.20        | 0.30        | 0.343       | 0.441       | 0.538       |
| BVPS (RMB)                  | 2.11        | 2.30        | 2.52        | 2.83        | 3.19        |
| DPS (RMB)                   | 0.10        | 0.12        | 0.137       | 0.176       | 0.215       |

Source: Company data, CMBIS estimates

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