

# SANY International (631 HK)

1Q20 earnings -7% within expectation; New product launch underway

SANYI's net profit in 1Q20 came in at RMB257mn, down only 7% YoY despite the impact of COVID-19, which is resilient in our view. Management maintains its revenue growth target of at least 20% YoY this year, with potential to reach >25%. We remain confident of SANYI's growth story, given solid backlog and the continuous launch of new product across different segments. Maintain **BUY** with TP of HK\$5.92, based on 15x 2020E P/E, on the back of forecasted earnings growth of 20%/33% in 2020E/21E.

- **Key highlights on 1Q20 results.** Revenue increased 1% YoY to RMB1.55bn, driven by a 12% increase in mining equipment sales (to RMB980mn) but offset by a 13% decrease in logistic equipment sales (to RMB570mn). Gross margin was 26.2%, down from 30.6% in 1Q19 but improved from 25.9% in 4Q19, due mainly to change in product mix. Thanks to the effective cost control measures and other income, net profit only dropped 7% YoY to RMB257mn. Operating cash inflow was RMB330mn, higher than the net profit.
- **Strong growth of mining truck sales in 1Q20.** Mining truck sales surged 1.6x YoY to RMB190mn, driven by strong shipment of 260 units (on track to reach full year target of 1,000 units). While the gross margin of mining truck was only 8-9% in 1Q20 (lower than the Company's blended margin), rising sales volume and further cost reduction measures will likely drive margin expansion from such a low base.
- **Expect more contracts of pure water hydraulic support.** After winning a tender from Shenhua in Mar (contract value: RMB275mn), SANYI is confident of winning another tender in the near term. While the ASP of pure water hydraulic support (~RMB90mn) is higher than that of the traditional one (RMB80mn), SANYI believes lower maintenance and operating cost (water vs chemicals) make pure water support more attractive to customers.
- **Higher domestic demand for small-size port machinery to offset the weakness in overseas.** Small-size port machinery was hit by the weak overseas demand due to the pandemic and lockdown, with orders in Mar dropped 15-20%. That said, SANYI started to see more opportunities in domestic market. For instance, China State Railway Group is expected to start equipment procurement, SANYI is confident of winning contracts on empty container handlers. It targets to achieve 10-15% revenue growth in small-size port machinery segment this year.

## Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	4,417	5,656	7,043	9,022	10,543
YoY growth (%)	78.0	28.1	24.5	28.1	16.9
Net income (RMB mn)	600	920	1,113	1,487	1,790
EPS (RMB)	0.20	0.30	0.36	0.48	0.58
YoY growth (%)	161.6	51.3	20.3	33.6	20.4
Consensus EPS (RMB)	N/A	N/A	0.37	0.49	0.59
EV/EBITDA (x)	10.9	7.7	6.7	5.1	4.3
P/E (x)	18.9	13.1	10.9	8.2	6.8
P/B (x)	1.8	1.7	1.5	1.4	1.2
Yield (%)	2.7	3.1	3.7	4.9	5.9
ROE (%)	9.4	13.6	14.8	17.7	18.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$5.92**  
 (Previous TP **HK\$5.92**)  
 Up/Downside **+37%**  
 Current Price **HK\$4.32**

## China Capital Goods

**Wayne Fung, CFA**

(852) 3900 0826

waynefung@cmbi.com.hk

## Stock Data

Mkt Cap (HK\$ mn)	13,395
Avg 3 mths t/o (HK\$ mn)	34
52w High/Low (HK\$)	5.22/2.62
Total Issued Shares (mn)	3,100.7
Source: Bloomberg	

## Shareholding Structure

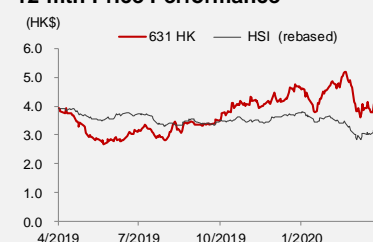
Sany Heavy Equipment	67.7%
Investments Company	
Free float	32.3%
Source: HKEx	

## Share Performance

	Absolute	Relative
1-mth	-6.9%	-7.3%
3-mth	-6.9%	10.9%
6-mth	23.8%	35.9%

Source: Bloomberg

## 12-mth Price Performance



Source: Bloomberg

**Auditor: Ernst & Young**

## Related Reports

1. Sany Int'l (631 HK, BUY) – COVID-19 impact manageable; Domestic orders recovering – 1 Apr 2020
2. Sany Int'l (631 HK, BUY) – Better visibility on policy support; Lifted earnings forecast and TP – 6 Mar 2020
3. China Construction Machinery Sector - Scenario analysis on the resumption of factory production – 10 Feb 2020

- **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.

**Figure 1: SANYI's quarter results**

RMB mn	1Q19	1Q20	Chg (YoY)	2Q18	2Q19	Chg (YoY)	3Q18	3Q19	Chg (YoY)	4Q18	4Q19	Chg (YoY)
Revenue	1,531	1,553	1%	1,199	1,513	26%	1,163	1,313	13%	1,058	1,300	23%
Cost of sales	-1,063	-1,146	8%	-771	-1,037	35%	-877	-925	5%	-756	-963	27%
Gross profit	468	407	-13%	429	476	11%	285	388	36%	302	337	11%
Gross margin	30.6%	26.2%		35.7%	31.4%		24.5%	29.6%		28.6%	25.9%	
Pretax profit	324	296	-9%	259	316	22%	169	268	58%	112	161	44%
Pretax profit margin	21.2%	19.1%		21.6%	20.9%		14.6%	20.4%		10.6%	12.4%	
Net profit	276	257	-7%	186	275	48%	153	237	55%	90	131	46%
Net margin	18.0%	16.5%		15.5%	18.2%		13.1%	18.1%		8.5%	10.1%	

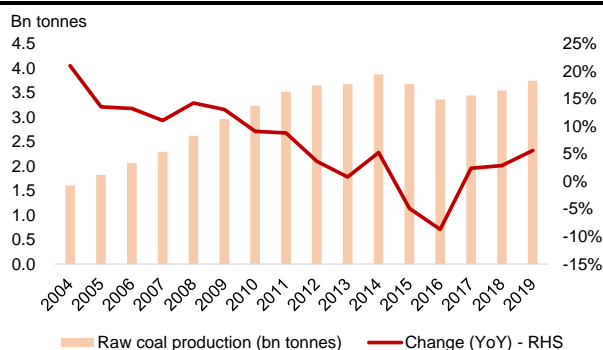
Source: Company data, CMBIS

**Figure 2: Key assumptions**

(RMB mn)	2018	2019	2020E	2021E	2022E
<b>Revenue</b>					
Road header	1,079	1,408	1,552	1,860	2,108
Combined coal mining units (CCMU)	966	1,073	1,481	1,999	2,299
Small-size port machinery	1,305	1,547	1,547	1,856	2,042
Large-size port machinery	551	686	974	1,218	1,315
Mining trucks	88	388	879	1,289	1,830
Others	428	554	610	800	950
Total	4,417	5,656	7,043	9,022	10,543
<b>Growth (YoY)</b>					
Road header	53.8%	30.5%	10.2%	19.8%	13.3%
Combined coal mining units (CCMU)	268.0%	11.1%	38.0%	35.0%	15.0%
Small-size port machinery	45.3%	18.5%	0.0%	20.0%	10.0%
Large-size port machinery	61.3%	24.5%	42.0%	25.0%	8.0%
Mining trucks	10.0%	340.9%	126.5%	46.6%	42.0%
Others	116.4%	29.4%	10.1%	31.1%	18.8%
Total	78.0%	28.1%	24.5%	28.1%	16.9%
<b>Gross margin</b>					
Road header	39.9%	40.6%	41.5%	41.5%	41.5%
Combined coal mining units (CCMU)	14.7%	25.1%	27.0%	28.0%	28.0%
Small-size port machinery	32.1%	33.0%	34.5%	34.5%	34.0%
Large-size port machinery	15.0%	9.0%	12.0%	12.0%	15.0%
Mining trucks	10.0%	12.0%	15.0%	20.0%	20.0%
Others	45.0%	38.0%	45.0%	45.0%	45.0%
Blended gross margin	28.9%	29.5%	29.8%	30.3%	30.4%

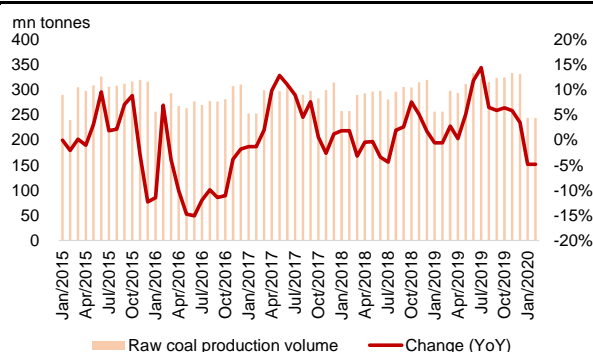
Source: Company data, CMBIS estimates

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

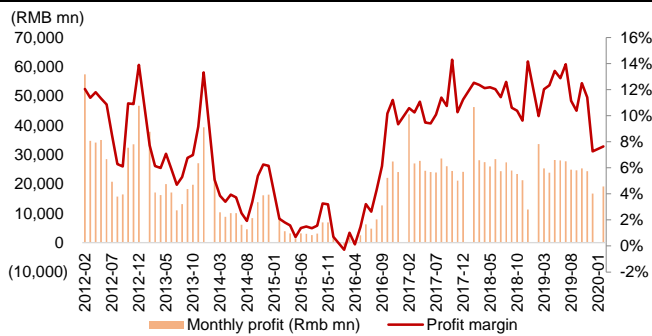


Source: Wind, CCTDCOAL, CMBIS

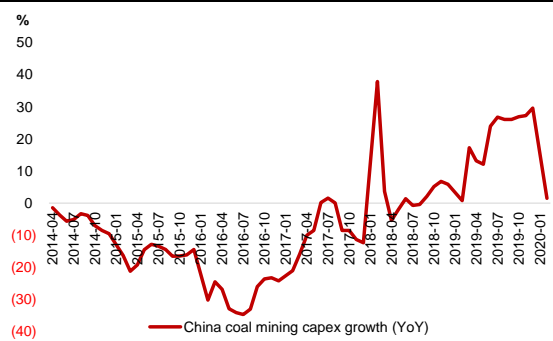
**Figure 4: China raw coal production (monthly)**



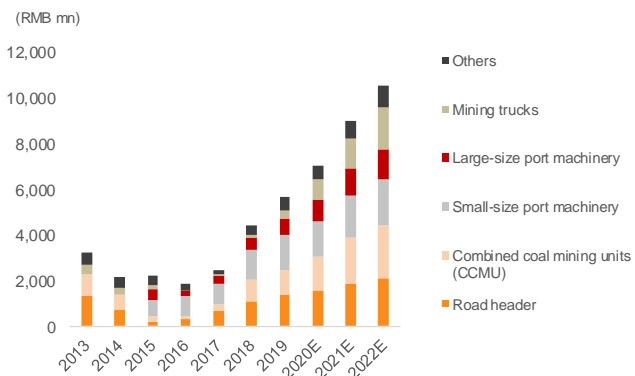
Source: Wind, CCTDCOAL, CMBIS

**Figure 5: China coal miners' monthly profit & margin**

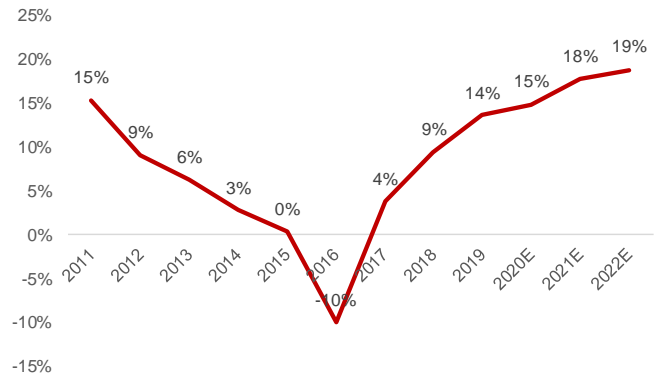
Source: Wind, NBS, CMBIS

**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

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue					
- Mining equipment	2,561	3,423	4,400	5,788	6,996
- Logistics equipment	1,856	2,233	2,643	3,234	3,547
<b>Total revenue</b>	<b>4,417</b>	<b>5,656</b>	<b>7,043</b>	<b>9,022</b>	<b>10,543</b>
Cost of sales	-3,119	-3,987	-4,942	-6,286	-7,340
<b>Gross profit</b>	<b>1,298</b>	<b>1,669</b>	<b>2,101</b>	<b>2,736</b>	<b>3,203</b>
Other income	242	342	423	541	633
Other gains and losses	35	121	0	0	0
S&D expenses	-329	-388	-458	-568	-633
Administrative expenses	-492	-643	-789	-992	-1,139
Other expenses	-33	-4	-7	-9	-11
<b>EBIT</b>	<b>720</b>	<b>1,097</b>	<b>1,270</b>	<b>1,707</b>	<b>2,054</b>
Net finance income/(cost)	6	-27	27	25	32
Finance income	24	58	93	91	97
Finance expenses	-18	-85	-65	-65	-65
Share of JV and associates	0	0	0	0	0
<b>Pretax profit</b>	<b>726</b>	<b>1,070</b>	<b>1,297</b>	<b>1,733</b>	<b>2,086</b>
Income tax	-123	-148	-182	-243	-292
<b>After tax profit</b>	<b>603</b>	<b>922</b>	<b>1,116</b>	<b>1,490</b>	<b>1,794</b>
MI	-3	-2	-2	-3	-4
<b>Net profit</b>	<b>600</b>	<b>920</b>	<b>1,113</b>	<b>1,487</b>	<b>1,790</b>
D&A	224	249	278	318	326
<b>EBITDA</b>	<b>944</b>	<b>1,346</b>	<b>1,548</b>	<b>2,026</b>	<b>2,380</b>

### Cash flow statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pretax profit	726	1,070	1,297	1,733	2,086
Finance cost	18	85	65	65	65
Interest income	-24	-58	-93	-91	-97
Share of profit or loss of associates	0	0	0	0	0
Depreciation and amortization	224	249	278	318	326
Income tax paid	-137	-148	-182	-243	-292
Change in working capital	-251	-213	-675	-943	-620
Others	-275	-185	0	0	0
<b>Cash flow from operation</b>	<b>280</b>	<b>801</b>	<b>692</b>	<b>840</b>	<b>1,468</b>
Net capex on PP&E	-93	-174	-500	-500	-100
Interest received	24	58	93	91	97
Others	-466	-2,195	0	0	0
<b>Cash flow from investing</b>	<b>-536</b>	<b>-2,311</b>	<b>-407</b>	<b>-409</b>	<b>-3</b>
Proceeds from equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	968	1,860	0	0	0
Dividend paid	-440	-304	-372	-445	-595
Interest paid	-17	-85	-65	-65	-65
Others	0	57	0	0	0
<b>Cash flow from financing</b>	<b>512</b>	<b>1,527</b>	<b>-437</b>	<b>-511</b>	<b>-660</b>
Change in cash	257	17	-153	-80	805
Cash at beginning of the year	814	1,070	1,103	950	870
Exchange gains/(losses) and others	-1	16	0	0	0
Cash at the end of the year	1,070	1,103	950	870	1,676

### 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>5,430</b>	<b>5,612</b>	<b>5,386</b>
PP&E	2,463	2,413	2,649	2,845	2,632
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>11,719</b>	<b>12,918</b>	<b>14,845</b>
Prepayment	634	615	615	615	615
Inventories	1,534	1,438	2,028	2,415	2,813
Trade receivables	2,127	2,634	3,270	4,145	4,636
Bills receivables	499	424	733	750	983
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	950	870	1,676
<b>Current liabilities</b>	<b>5,169</b>	<b>6,421</b>	<b>7,280</b>	<b>7,617</b>	<b>8,118</b>
Trade and bills payables	1,820	1,832	2,691	3,027	3,529
Other payables and accruals	1,423	1,535	1,535	1,535	1,535
Bank borrowings	1,400	2,512	2,512	2,512	2,512
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>1,980</b>	<b>1,980</b>	<b>1,980</b>
Bank borrowings	0	747	747	747	747
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>7,889</b>	<b>8,934</b>	<b>10,133</b>
<b>Shareholders' equity</b>	<b>6,431</b>	<b>7,132</b>	<b>7,873</b>	<b>8,915</b>	<b>10,111</b>
MI	12	14	16	19	23

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
- Mining equipment	58%	61%	62%	64%	66%
- Logistics equipment	42%	39%	38%	36%	34%
<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%	30%	30%	30%
EBITDA margin	21%	24%	22%	22%	23%
EBIT margin	16%	19%	18%	19%	19%
Net profit margin	14%	16%	16%	17%	17%
<b>Growth (%)</b>					
Revenue	78%	28%	25%	28%	17%
Gross profit	76%	29%	26%	30%	17%
EBITDA	78%	43%	15%	31%	18%
EBIT	155%	52%	16%	34%	20%
Net profit	162%	53%	21%	34%	20%
<b>Balance sheet ratios</b>					
Current ratio (x)	1.4	1.6	1.6	1.7	1.8
Receivable turnover days	152	154	153	150	152
Inventory turnover days	163	136	128	129	130
Payable turnover days	176	167	167	166	163
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	5%	6%	7%	8%	9%
ROA	9%	14%	15%	18%	19%
<b>Per share</b>					
EPS (RMB)	0.20	0.30	0.359	0.480	0.578
BVPS (RMB)	2.11	2.30	2.54	2.88	3.26
DPS (RMB)	0.10	0.12	0.144	0.192	0.231

Source: Company data, CMBIS estimates

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

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