

SANY International (631 HK)

Net profit in 2Q23 +19% YoY; Higher R&D spending but still a set of good quality results

While SANYI's net profit in 2Q23 grew only 19% YoY to RMB552mn, it was largely due to an increase in R&D spending. We do not think this is negative given SANYI's good track record in new product development through R&D commitment. The strong revenue growth (+54% YoY) and gross margin expansion (+0.9ppt YoY, +3.3ppt QoQ to 27.8%) in 2Q23 are impressive, in our view. It is worth noting that SANYI's emerging industry business (Li-ion battery equipment, solar modules and electrolysis hydrogen production equipment) generated revenue of RMB223mn in 1H23 and we expect this will become market focus going forward. Reiterate **BUY** with unchanged TP of HK\$16.2 (19x 2023E). SANYI remains our sector top pick.

- Net profit +33% YoY in 1H23:** Revenue in 1H23 grew 42% YoY to RMB10.8bn (Mining equipment: +32% to RMB7.2bn; Logistics equipment: +42% to RMB3bn; Oil & Gas equipment: RMB336mn; Emerging industry equipment: RMB223mn). Gross margin expanded 2.3ppt YoY to 26.1%. R&D expense substantially increased 80% YoY to RMB748mn. Logistics equipment's EBIT margin expanded 6.8ppt YoY to 16.5% which offset the 3.4ppt YoY contraction in mining equipment margin. Besides, Oil & Gas equipment reported 17% EBIT margin. Net profit grew 33% YoY to RMB1.2bn, representing 49% of our full year forecast (run rate in 1H22: 54%). Operating cash inflow surged 9x YoY to RMB985mn from a low base. SANYI maintained a net cash positive as at end-Jun 2023.
- Overseas sales accounted for 30% of revenue in 1H23.** Overseas revenue surged 68% YoY to RMB3.2bn, accounting for 30% of total revenue (25% in 1H22). Among this, Asia (ex-China) and other regions (ex-Europe & US) are the two key regions, which grew 33% YoY and 2.2x YoY respectively.
- Post-results conference call at 10:00 (HKT) today.** Senior management of SANY Group and SANYI will speak in the call. Please contact us for dial-in details.
- Major risk factors:** (1) weakness in mining activities; (2) development of new products below expectation; and (3) rebound of raw material costs.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	10,195	15,537	22,695	29,924	35,935
YoY growth (%)	38.4	52.4	46.1	31.9	20.1
Adjusted net profit (RMB mn)	1,086.7	1,664.9	2,434.0	3,226.7	3,874.5
EPS (Adjusted) (RMB)	0.35	0.53	0.77	1.03	1.23
Consensus EPS (RMB)	na	na	0.74	0.97	1.29
P/E (x)	17.7	12.8	14.6	11.0	9.1
P/B (x)	2.6	2.1	3.0	2.5	2.1
Yield (%)	1.7	2.5	2.1	2.8	3.4
ROE (%)	15.2	17.8	22.1	24.5	24.4
Net gearing (%)	(18.3)	(11.8)	16.5	12.9	0.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$16.20**

(Previous TP) **HK\$16.20**

Up/Downside **33.4%**

Current Price **HK\$12.14**

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Stock Data

Mkt Cap (HK\$ mn)	38,517.8
Avg 3 mths t/o (HK\$ mn)	44.8
52w High/Low (HK\$)	12.78/6.44
Total Issued Shares (mn)	3172.8

Source: FactSet

Shareholding Structure

Sany Heavy Equipment	66.4%
Investments Company	
Free float	33.9%

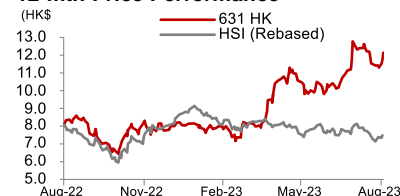
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-5.0%	2.4%
3-mth	16.5%	17.2%
6-mth	55.0%	66.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

- SANYI (631 HK, BUY) – Positive takeaways from Zhuhai plant visit – 26 Jul 2023 ([link](#))
- SANYI (631 HK, BUY) – Firing on all cylinders – 8 Jun 2023 ([link](#))
- SANYI (631 HK, BUY) – Acquisition of oil & gas frac equipment a positive move – 13 Apr 2023 ([link](#))
- SANYI (631 HK, BUY) – Core net profit in 2022 +53% YoY in line with expectation; Margin recovery in 4Q – 21 Mar 2023 ([link](#))
- SANYI (631 HK, BUY) – Expansion to new energy equipment sector with an ambitious target – 9 Jan 2023 ([link](#))

Figure 1: SANYI's 1H23 earnings

YE Dec 31(RMB mn)	1H22	1H23	Change (YoY)
Revenue			
Mining equipment	5,480	7,214	31.7%
Logistics equipment	2,152	3,066	42.4%
Total sales	7,632	10,839	42.0%
Cost of sales	(5,816)	(8,007)	37.7%
Gross profit	1,815	2,832	56.0%
Other income	250	298	19.3%
Other gains and losses	(38)	(122)	225.3%
S&D expenses	(401)	(536)	33.7%
Administrative expenses	(563)	(968)	72.0%
Other expenses	(1)	(49)	6488.3%
EBIT	1,063	1,455	36.9%
Net finance income/(cost)	(39)	(15)	-62.7%
Finance income	33	59	77.6%
Finance expenses	(73)	(74)	1.9%
Share of profit of JV and associates	0	0	n/a
Pretax profit	1,024	1,441	40.7%
Income tax	(111)	(257)	131.1%
After tax profit	913	1,183	29.7%
MI	(7)	19	n/a
Net profit	906	1,202	32.7%
Adjusted net profit			
D&A	158	196	23.5%
EBITDA	1,222	1,651	35.1%

Source: Company data, CMBIGM

Figure 2: SANYI's segment revenue and EBIT in 1H23

(RMB mn)	1H22	1H23	Change (YoY)
Revenue			
<u>Mining equipment</u>	5,640	7,393	31.1%
Sales	5,480	7,214	31.7%
Others	161	179	11.3%
<u>Logistics equipment</u>	2,241	3,172	41.5%
Sales	2,152	3,066	42.4%
Others	89	106	18.9%
<u>Oil & Gas equipment</u>	-	335	-
Sales	-	336	-
Others	-	(1)	-
<u>Emerging industry equipment</u>	-	223	-
Sales	-	223	-
Others	-	(0)	-
Total sales	7,632	10,839	42.0%
Segment EBIT			
Mining equipment	855	880	2.9%
Logistics machinery	208	505	142.5%
Oil & Gas equipment	-	57	-
Emerging industry equipment	-	(1)	-
Total segment results	1,063	1,441	35.5%
Segment margin			<i>ppt</i>
Mining equipment	15.6%	12.2%	-3.4
Logistics machinery	9.7%	16.5%	6.8
Oil & Gas equipment	-	17.0%	-
Emerging industry equipment	-	-0.5%	-
Average	13.9%	13.3%	-0.6

Source: Company data, CMBIGM

Figure 3: SANYI's revenue breakdown by region in 1H23

Region	1H22	1H23
(RMB mn)		
Mainland China	5,704	7,595
Asia (ex-China)	1,170	1,614
European Union	206	123
USA	147	195
Others	405	1,313
Total	7,632	10,839

Change (YoY)

Mainland China	38.6%	33.1%
Asia (ex-China)	128.3%	37.9%
European Union	176.7%	-40.2%
USA	16.3%	32.4%
Others	160.6%	224.6%
Average	53.1%	42.0%

Breakdown

Mainland China	74.7%	70.1%
Asia (ex-China)	15.3%	14.9%
European Union	2.7%	1.1%
USA	1.9%	1.8%
Others	5.3%	12.1%
Average	100.0%	100.0%

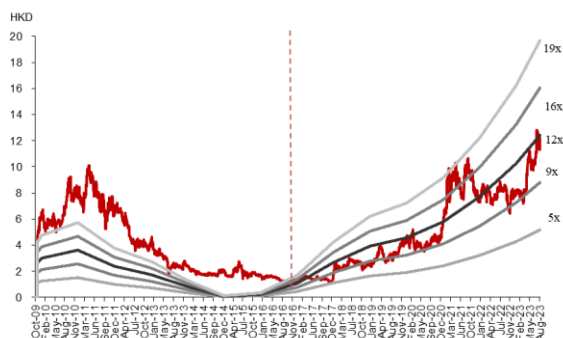
Source: Company data, CMBIGM

Figure 4: SANYI's quarterly results

RMB mn	1Q22	1Q23	Chg (YoY)	2Q22	2Q23	Chg (YoY)	3Q21	3Q22	Chg (YoY)	4Q21	4Q22	Chg (YoY)
Revenue	4,116	5,438	32%	3,516	5,401	54%	2,557	3,969	55%	2,653	3,936	48%
Cost of sales	(3,246)	(4,108)	27%	(2,571)	(3,899)	52%	(1,963)	(3,090)	57%	(2,073)	(3,002)	45%
Gross profit	870	1,330	53%	946	1,502	59%	594	879	48%	580	934	61%
Gross margin	21.1%	24.5%		26.9%	27.8%		23.2%	22.2%		21.9%	23.7%	
Pretax profit	509	707	39%	514	733	43%	298	432	45%	194	465	140%
<i>Pretax profit margin</i>	12.4%	13.0%		14.6%	13.6%		11.7%	10.9%		7.3%	11.8%	
Net profit	444	650	46%	462	552	19%	275	391	42%	173	369	113%
<i>Net margin</i>	10.8%	12.0%		13.1%	10.2%		10.7%	9.8%		6.5%	9.4%	
Adjusted net profit	444	650	46%	462	552	19%	275	391	42%	173	369	113%
<i>Adjusted net margin</i>	10.8%	12.0%		13.1%	10.2%		10.7%	9.8%		6.5%	9.4%	

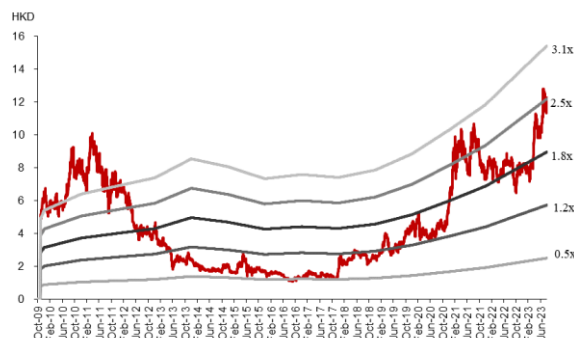
Source: Company data, CMBIGM estimates

Figure 5: SANYI's P/E band



Source: Bloomberg, Company data, CMBIGM estimates

Figure 6: SANYI's P/B band



Source: Bloomberg, Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	7,364	10,195	15,537	22,695	29,924	35,935
Cost of goods sold	(5,403)	(7,805)	(11,908)	(17,271)	(22,792)	(27,479)
Gross profit	1,961	2,390	3,628	5,424	7,132	8,456
Selling expense	(430)	(567)	(933)	(1,362)	(1,795)	(2,156)
Admin expense	(707)	(1,053)	(1,177)	(2,088)	(2,723)	(3,198)
Other income	237	391	447	658	868	1,042
Other expense	(31)	(1)	(25)	(68)	(90)	(108)
Other gains/(losses)	257	347	54	454	598	719
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	1,535	1,756	2,287	3,396	4,452	5,307
Depreciation	249	249	293	378	462	553
EBIT	1,286	1,507	1,994	3,018	3,990	4,755
Interest income	36	51	59	43	34	43
Interest expense	(132)	(120)	(132)	(162)	(181)	(183)
Net Interest income/(expense)	(96)	(69)	(73)	(119)	(147)	(140)
Pre-tax profit	1,190	1,438	1,921	2,899	3,843	4,615
Income tax	(139)	(129)	(252)	(377)	(500)	(600)
After tax profit	1,052	1,309	1,669	2,522	3,344	4,015
Minority interest	(6)	(50)	(4)	(88)	(117)	(141)
Net profit	1,045	1,259	1,665	2,434	3,227	3,875
Adjusted net profit	1,045	1,087	1,665	2,434	3,227	3,875
Gross dividends	408	385	524	755	1,000	1,201
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	12,016	14,217	17,191	19,532	23,880	28,017
Cash & equivalents	941	1,349	2,690	1,590	1,843	3,506
Account receivables	3,288	4,272	6,416	8,631	11,373	12,256
Inventories	1,821	2,529	3,283	5,046	6,069	7,331
Prepayment	359	585	700	700	700	700
ST bank deposits	0	21	50	50	50	50
Financial assets at FVTPL	4,024	3,680	2,088	1,088	1,088	1,088
Other current assets	1,583	1,782	1,964	2,427	2,756	3,086
Non-current assets	5,448	6,568	7,763	11,265	12,003	12,750
PP&E	2,591	3,314	4,066	4,928	5,698	6,477
Deferred income tax	296	287	298	298	298	298
Goodwill	1,130	1,130	1,130	3,802	3,802	3,802
Other non-current assets	1,432	1,838	2,269	2,238	2,206	2,174
Total assets	17,464	20,785	24,953	30,797	35,883	40,767
Current liabilities	7,938	9,170	10,836	13,731	15,928	17,798
Short-term borrowings	2,645	1,687	954	1,054	904	754
Account payables	2,893	4,422	6,646	9,442	11,789	13,808
Tax payable	197	185	155	155	155	155
Other current liabilities	2,205	2,875	3,080	3,080	3,080	3,080
Non-current liabilities	1,667	2,832	4,014	4,964	5,264	5,264
Long-term borrowings	493	1,767	2,691	3,641	3,941	3,941
Other non-current liabilities	1,174	1,065	1,323	1,323	1,323	1,323
Total liabilities	9,605	12,002	14,849	18,695	21,192	23,061
Total shareholders equity	7,839	8,701	10,040	11,950	14,422	17,296
Minority interest	20	82	64	152	269	410
Total equity and liabilities	17,464	20,785	24,953	30,797	35,883	40,767

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,190	1,438	1,921	2,899	3,843	4,615
Depreciation & amortization	249	249	293	378	462	553
Tax paid	(108)	(185)	(145)	(377)	(500)	(600)
Change in working capital	105	51	(808)	(1,646)	(1,748)	(455)
Others	(366)	(630)	(177)	119	147	140
Net cash from operations	1,070	923	1,084	1,374	2,205	4,252
Investing						
Capital expenditure	(334)	(885)	(889)	(900)	(1,200)	(1,300)
Others	(313)	589	1,529	(1,937)	34	43
Net cash from investing	(647)	(296)	639	(2,837)	(1,166)	(1,257)
Financing						
Dividend paid	(394)	(451)	(466)	(524)	(755)	(1,000)
Net borrowings	(132)	(120)	0	(162)	(181)	(183)
Proceeds from share issues	30	26	8	0	0	0
Others	(105)	317	81	1,050	150	(150)
Net cash from financing	(602)	(227)	(377)	364	(786)	(1,333)
Net change in cash						
Cash at the beginning of the year	1,103	941	1,349	2,690	1,590	1,843
Exchange difference	17	8	(6)	0	0	0
Cash at the end of the year	941	1,349	2,690	1,590	1,843	3,506
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	30.2%	38.4%	52.4%	46.1%	31.9%	20.1%
Gross profit	17.5%	21.9%	51.8%	49.5%	31.5%	18.6%
EBITDA	14.0%	14.4%	30.2%	48.5%	31.1%	19.2%
EBIT	17.3%	17.2%	32.3%	51.4%	32.2%	19.2%
Net profit	13.6%	20.5%	32.2%	46.2%	32.6%	20.1%
Adj. net profit	20.8%	4.0%	53.2%	46.2%	32.6%	20.1%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	26.6%	23.4%	23.4%	23.9%	23.8%	23.5%
EBITDA margin	20.9%	17.2%	14.7%	15.0%	14.9%	14.8%
Adj. net profit margin	14.2%	10.7%	10.7%	10.7%	10.8%	10.8%
Return on equity (ROE)	14.0%	15.2%	17.8%	22.1%	24.5%	24.4%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.2)	(0.1)	0.2	0.1	0.0
Current ratio (x)	1.5	1.6	1.6	1.4	1.5	1.6
Receivable turnover days	146.8	135.3	125.5	121.0	122.0	120.0
Inventory turnover days	110.1	101.7	89.1	88.0	89.0	89.0
Payable turnover days	159.6	171.0	169.6	170.0	170.0	170.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	11.3	17.7	12.8	14.6	11.0	9.1
P/B	1.5	2.6	2.1	3.0	2.5	2.1
Div yield (%)	3.5	1.7	2.5	2.1	2.8	3.4

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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