

SANY International (631 HK)

3Q19 margin beat but revenue missed; Profit +55% YoY in line

BUY (Maintain)

Target Price HK\$5.00
(Previous TP) HK\$4.72
Up/Downside +36%
Current Price HK\$3.69

While the slowdown of revenue in 3Q19 raised concerns regarding the growth sustainability, the weakness came from the port equipment sales that was more a result of a postponed product delivery. On the positive side, significant margin expansion on coal mining equipment in 3Q19 suggested that SANYI has continued to successfully market its high valued added road header products. We maintain our positive view on SANYI as continuous product upgrade and replacement demand will lend strong support on growth over the coming years. We are raising our earnings forecast in 2019E-20E by 4-7% due largely to higher margin despite lower revenue assumptions. Besides, potential M&A will offer additional upside to our estimates. Our TP is revised up from HK\$4.72 (1.8x 2019E P/B) to HK\$5.0 (based on 2x 2019E P/B, on the back of 14-15% ROE in 2019E-20E). Reiterate **BUY**.

- **Net profit +55% YoY to RMB237mn in 3Q19.** Revenue grew only 13% YoY to RMB1.3bn in 3Q19, due to a delay of the delivery of some large-size port machineries arising from production bottleneck and the weaker-than-expected sales of small-size port equipment. Blended gross margin expanded by 5.1 ppt YoY to 29.6%, helped by low base effect and the higher revenue contribution of coal mining equipment (higher margin than port machinery). We estimate an increase in other income also helped drive the 55% net profit growth in 3Q19. In 9M19, net profit increased 54% YoY to RMB790mn.
- **Appointment of LIANG Zaizhong as new chairman a long term positive.** SANYI announced that LIANG Zaizhong (梁在中) has been appointed as an executive director, the chairman of the Board, the chairman of the nomination committee and strategic investment committee with effect from 21 Oct. QI Jian was re-designated as the vice chairman and remained as the CEO. LIANG Zaizhong joined SANY Group in 2006 and held various key positions in SANY Group. We believe the appointment of LIANG Zaizhong suggests that SANY Group gives SANY Int'l a high priority in terms of expansion and acquisition.
- **Major risk factors:** (1) decline in coal mining activities; (2) increase in component cost; (3) weaker-than-expected international trade.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	2,481	4,417	5,994	7,362	8,422
YoY growth (%)	34.7	78.0	35.7	22.8	14.4
Net income (RMB mn)	229	600	918	1,130	1,282
EPS (RMB)	0.08	0.20	0.30	0.36	0.41
YoY growth (%)	n/a	161.6	51.1	22.4	13.4
EV/EBITDA (x)	17.6	9.9	6.7	5.5	4.9
P/E (x)	41.6	16.1	11.3	9.2	8.1
P/B (x)	1.5	1.5	1.5	1.3	1.2
Yield (%)	5.7	3.1	2.7	3.3	3.7
ROE (%)	3.7	9.4	13.6	15.1	15.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

China Capital Goods

Wayne Fung, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	11,433
Avg 3 mths t/o (HK\$ mn)	18
52w High/Low (HK\$)	4.12/2.06
Total Issued Shares (mn)	3,098.3

Source: Bloomberg

Shareholding Structure

Sany Heavy Equipment	67.7%
Investments Company	
Free float	32.3%

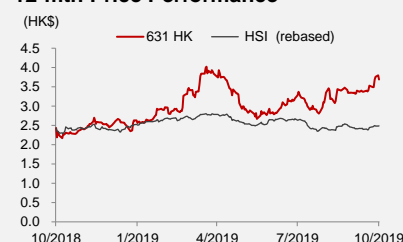
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	+13.4%	+12.2%
3-mth	+18.8%	+27.8%
6-mth	-1.0%	+10.9%
12-mth	+62.4%	+55.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. Sany Int'l (631 HK, BUY) – Net profit +54% YoY; Strong cash flow a +ve surprise – 22 Aug 2019
2. Sany Int'l (631 HK, BUY) – Zhuhai site visit reaffirmed our positive stance – 16 May 2019
3. China Construction Machinery Sector - Further upside on potential earnings surprise – 16 Apr 2019

Figure 1: Key highlights on 3Q19 results

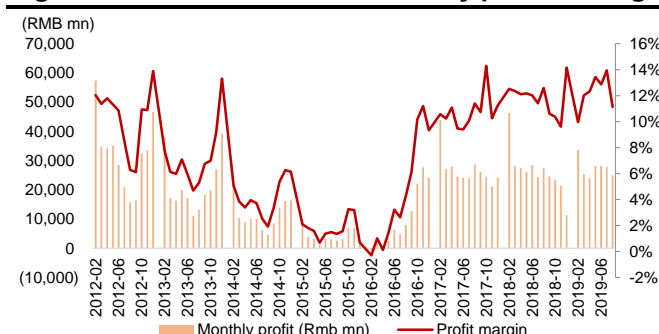
RMB mn	1Q18	1Q19	Chg (YoY)	2Q18	2Q19	Chg (YoY)	3Q18	3Q19	Chg (YoY)	9M18	9M19	Chg (YoY)
Revenue	997	1,531	54%	1,199	1,513	26%	1,163	1,313	13%	3,371	4,356	29%
Cost of sales	(715)	(1,063)	49%	(771)	(1,037)	35%	(877)	(925)	5%	(2,443)	(3,024)	24%
Gross profit	281	468	66%	429	476	11%	285	388	36%	928	1,332	43%
Gross margin	28.2%	30.6%		35.7%	31.4%		24.5%	29.6%		27.5%	30.6%	
Pretax profit	186	324	74%	259	316	22%	169	268	58%	614	909	48%
Pretax profit margin	18.7%	21.2%		21.6%	20.9%		14.6%	20.4%		18.2%	20.9%	
Net profit	172	276	61%	186	275	48%	153	237	55%	511	790	54%
Net margin	17.3%	18.0%		15.5%	18.2%		13.1%	18.1%		15.2%	18.1%	

Source: Company data, CMBIS

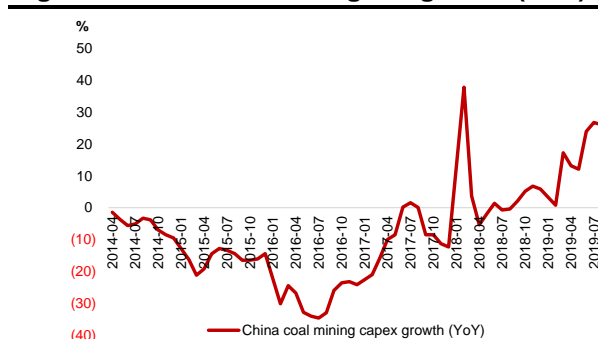
Figure 2: Change in key assumptions

	Old			New			Change		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
(RMB mn)									
Revenue									
Road header	1,403	1,543	1,620	1,349	1,551	1,737	-3.8%	0.5%	7.2%
Combined coal mining units (CCMU)	1,787	2,055	2,220	1,314	1,774	2,093	-26.5%	-13.7%	-5.7%
Small-size port machinery	1,501	1,651	1,816	1,462	1,608	1,769	-2.6%	-2.6%	-2.6%
Large-size port machinery	992	1,389	1,805	700	980	1,274	-29.4%	-29.4%	-29.4%
Mining trucks	600	850	900	600	850	900	0.0%	0.0%	0.0%
Others	550	600	650	570	600	650	3.6%	0.0%	0.0%
Total	6,832	8,087	9,011	5,994	7,362	8,422	-12.3%	-9.0%	-6.5%
Gross margin									
Road header	38.0%	38.0%	38.0%	46.5%	46.5%	46.0%	8.5	8.5	8.0
Combined coal mining units (CCMU)	24.0%	25.0%	25.0%	26.5%	27.0%	27.5%	2.5	2.0	2.5
Small-size port machinery	34.0%	34.0%	34.0%	34.5%	34.5%	34.5%	0.5	0.5	0.5
Large-size port machinery	15.0%	16.0%	16.5%	10.0%	13.0%	13.0%	(5.0)	(3.0)	(3.5)
Mining trucks	18.0%	22.0%	25.0%	12.0%	14.0%	15.0%	(6.0)	(8.0)	(10.0)
Others	45.0%	45.0%	45.0%	48.2%	48.0%	48.0%	3.2	3.0	3.0
Blended gross margin	28.9%	28.9%	28.9%	31.6%	31.1%	30.8%	2.7	2.2	1.9
Net profit									
	877	1,075	1,202	918	1,130	1,282	4.7%	5.1%	6.6%

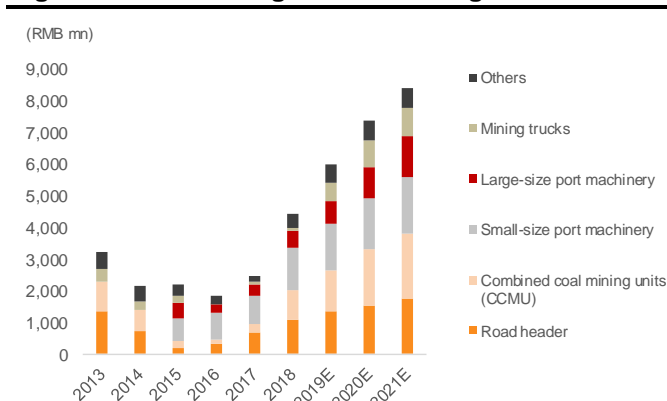
Source: Company data, CMBIS estimates

Figure 3: China coal miners' monthly profit & margin

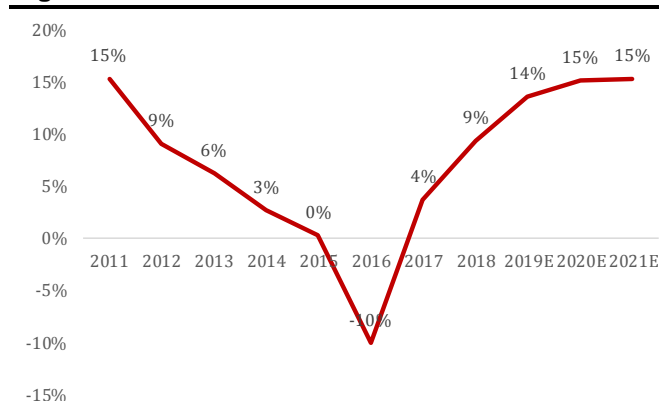
Source: Wind, NBS, CMBIS

Figure 4: China coal mining FAI growth (YTD)

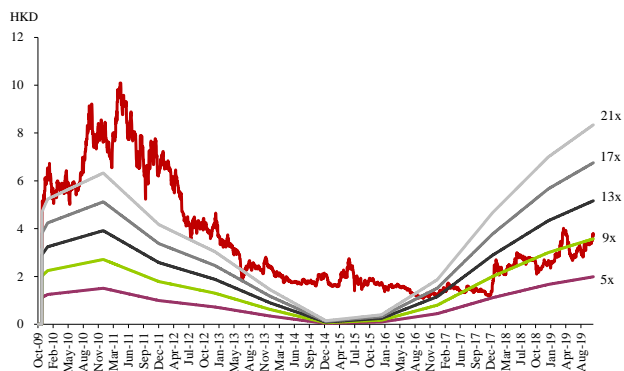
Source: Wind, NBS, CMBIS

Figure 5: SANYI's segment revenue growth trend

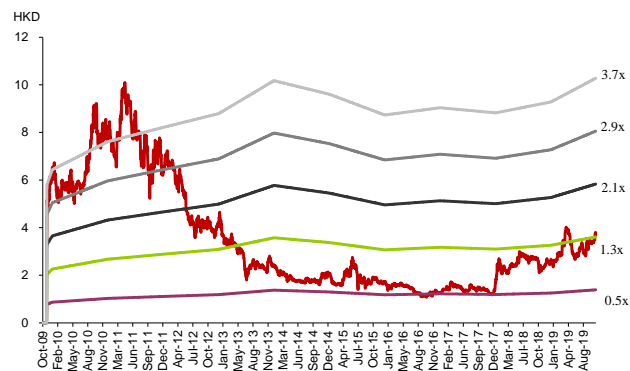
Source: Company data, CMBIS estimates

Figure 6: SANYI's ROE trend

Source: Company data, CMBIS estimates

Figure 7: SANYI's P/E band

Source: Bloomberg, Company data, CMBIS estimates

Figure 8: 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	3,719	4,655	5,250
- Port machinery	1,279	1,856	2,275	2,707	3,172
Total revenue	2,481	4,417	5,994	7,362	8,422
Cost of sales	(1,744)	(3,119)	(4,098)	(5,073)	(5,825)
Gross profit	738	1,298	1,896	2,289	2,597
Other income	304	242	312	346	371
Other gains and losses	0	35	0	0	0
S&D expenses	(299)	(329)	(432)	(523)	(590)
Administrative expenses	(342)	(492)	(641)	(714)	(792)
Other expenses	(118)	(33)	(42)	(52)	(59)
EBIT	282	720	1,093	1,347	1,528
Net finance income/(cost)	32	6	19	22	24
Finance income	35	24	52	60	62
Finance expenses	(3)	(18)	(33)	(38)	(38)
Share of JV and associates	0	0	0	0	0
Pretax profit	315	726	1,112	1,369	1,552
Income tax	(84)	(123)	(189)	(233)	(264)
After tax profit	231	603	923	1,136	1,288
MI	(2)	(3)	(5)	(6)	(6)
Net profit	229	600	918	1,130	1,282
Adjusted net profit	173	409	768	980	1,132
D&A	249	224	310	350	390
EBITDA	531	944	1,403	1,696	1,917

Cash flow statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pretax profit	315	726	1,112	1,369	1,552
Finance cost	3	18	33	38	38
Interest income	(35)	(24)	(52)	(60)	(62)
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)	(233)	(264)
Change in working capital	276	(251)	(337)	(559)	(757)
Others	(181)	(275)	0	0	0
Cash flow from operation	607	280	876	904	896
Net capex on PP&E	(249)	(201)	(400)	(500)	(500)
Interest received	22	24	52	60	62
Others	(661)	(359)	0	0	0
Cash flow from investing	(888)	(536)	(348)	(440)	(438)
Proceeds from equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	266	968	500	0	0
Dividend paid	0	(440)	(304)	(275)	(339)
Interest paid	0	(17)	(33)	(38)	(38)
Others	0	0	0	0	0
Cash flow from financing	266	512	163	(313)	(377)
Change in cash	(15)	257	691	151	82
Cash at beginning of the year	833	814	1,070	1,761	1,912
Exchange gains/(losses) and others	(4)	(1)	0	0	0
Cash at the end of the year	814	1,070	1,761	1,912	1,993

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	8,369	9,763	10,556
Prepayment	268	634	634	634	634
Inventories	1,246	1,534	1,721	2,365	2,423
Trade receivables	1,560	2,127	2,537	2,909	3,459
Bills receivables	266	499	552	779	882
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	1,761	1,912	1,993
Current liabilities	2,919	5,169	5,982	6,665	6,619
Trade and bills payables	1,193	1,820	2,132	2,816	2,770
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	7,061	7,921	8,870
Shareholders' equity	6,304	6,431	7,044	7,899	8,842
MI	58	12	16	22	28

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Energy equipment	48%	58%	62%	63%	62%
Port machinery	52%	42%	38%	37%	38%
Total	100%	100%	100%	100%	100%
P&L ratios (%)					
Gross margin	30%	29%	32%	31%	31%
EBITDA margin	21%	21%	23%	23%	23%
EBIT margin	11%	16%	18%	18%	18%
Net profit margin	9%	14%	15%	15%	15%
Growth (%)					
Revenue	35%	78%	36%	23%	14%
Gross profit	167%	76%	46%	21%	13%
EBITDA	n/a	78%	49%	21%	13%
EBIT	n/a	155%	52%	23%	13%
Net profit	n/a	162%	53%	23%	13%
Balance sheet ratios					
Current ratio (x)	1.7	1.4	1.4	1.5	1.6
Receivable turnover days	229	152	142	135	138
Inventory turnover days	226	163	145	147	150
Payable turnover days	225	176	176	178	175
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	2%	5%	7%	7%	8%
ROA	4%	9%	14%	15%	15%
Per share					
EPS (RMB)	0.08	0.20	0.30	0.365	0.414
BVPS (RMB)	2.07	2.11	2.27	2.55	2.85
DPS (RMB)	0.18	0.10	0.09	0.109	0.124

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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