

SANY International (631 HK)

COVID-19 impact manageable; Domestic orders recovering

In the post-result NDR, SANYI showed confidence of achieving 20% revenue growth in 2020E, after taking into consideration the impact of COVID-19 which mainly hit the near-term demand for the small-size port equipment. Meanwhile, mining equipment demand has been improving in China, with latest order intakes saw YoY increase. We remain confident on SANYI's growth strategy through the introduction of massive brand-new and advanced products. We fine-tuned our 2020E/21E earnings forecast by -5%/-6% after incorporating the impact of COVID-19 and latest margin trend. Our TP is revised from HK\$6.24 to HK\$5.92, based on 15x 2020E P/E (unchanged multiple), on the back of earnings growth of 20%/33% in 2020E/21E.

- **Key highlights on 2019 results.** Revenue increased 28% YoY while net profit grew 51% YoY to RMB920mn, helped by two non-operating items: (1) 41% YoY increase in other income (mainly government grant); (2) RMB83mn fair value gains on financial assets. Gross margin of 29.5% was slightly lower than expectation as it implied 4Q19 gross margin of ~26%.
- **Impact of COVID-19 mainly on small-size port equipment.** SANYI revealed in the post-result conference call that there is currently delay in overseas orders for a period of 2-3 months due to the pandemic in the overseas. However, the impact to the Company as a whole is limited as <20% of revenue generated from overseas. On the other hand, apart from small-size port equipment that requires imported engines and gearboxes, other products do not encounter any component shortage at present.
- **Solid backlog.** Backlog for port equipment amounted to RMB1.8bn, including RMB1.5bn on large-size port equipment (covering period in 2020E and 1H21E) and RMB300mn on small-size port equipment. Besides, backlog for mining equipment amounted to RMB1bn, comprising RMB800mn on CCMU, RMB100mn on road header and RMB100mn on wide-body trucks. What's more, SANYI just won a tender to supply CNH Energy a set of pure water hydraulic support with a contract value of RMB275mn. Gross margin of this product is expected to be higher than the Company's average. SANYI is confident of gaining more contracts this year.
- **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.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY22E	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	0.38	0.50	n/a
EV/EBITDA (x)	10.4	7.3	6.4	4.9	4.1
P/E (x)	18.1	12.6	10.5	7.9	6.5
P/B (x)	1.7	1.6	1.5	1.3	1.2
Yield (%)	2.8	3.2	3.8	5.1	6.1
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\$6.24)
Up/Downside	+43%
Current Price	HK\$4.15

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Stock Data

Mkt Cap (HK\$ mn)	12,868
Avg 3 mths t/o (HK\$ mn)	16
52w High/Low (HK\$)	5.19/2.67
Total Issued Shares (mn)	3,100.7
Source: Bloomberg	

Shareholding Structure

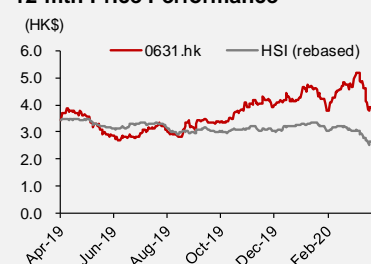
Sany Heavy Equipment	67.7%
Investments Company	
Free float	32.3%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-10.8%	-9.7%
3-mth	-2.6%	-16.3%
6-mth	23.1%	-9.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. Sany Int'l (631 HK, BUY) – Better visibility on policy support; Lifted earnings forecast and TP – 6 Mar 2020
2. China Construction Machinery Sector - Scenario analysis on the resumption of factory production – 10 Feb 2020
3. Sany Int'l (631 HK, BUY) – Significant increase in 2019E earnings; Normal operation at present – 4 Feb 2020

Figure 1: SANYI's 2019 results highlights

YE Dec 31(RMB mn)	2018	2019	Change (YoY)	2019E	A vs E	1H18	1H19	Change (YoY)	2H18	2H19	Change (YoY)
Revenue											
Mining equipment	2,561	3,423	33.7%	3,536	-3.2%	1,240	1,809	45.9%	1,321	1,614	22.2%
Logistics equipment	1,856	2,233	20.3%	2,348	-4.9%	956	1,235	29.2%	900	998	10.9%
Total revenue	4,417	5,656	28.1%	5,884	-3.9%	2,196	3,044	38.6%	2,221	2,612	17.6%
Cost of sales	-3,119	-3,987	27.8%	-4,006	-0.5%	-1,486	-2,100	41.3%	-1,633	-1,887	15.5%
Gross profit	1,298	1,669	28.6%	1,878	-11.1%	710	944	32.9%	588	725	23.4%
Other income	242	342	41.5%	306	11.8%	155	200	29.2%	87	142	63.4%
Other gains and losses	35	121	244.2%	0	n/a	4	22	459.6%	31	99	217.5%
S&D expenses	-329	-388	17.7%	-424	-8.5%	-205	-181	-11.9%	-124	-207	66.6%
Administrative expenses	-492	-643	30.6%	-630	2.1%	-206	-336	62.9%	-286	-307	7.3%
Other expenses	-33	-4	-87.1%	-41	-89.7%	-29	0	-100.0%	-4	-4	5.4%
EBIT	720	1,097	52.4%	1,089	0.7%	429	649	51.5%	291	448	53.7%
Net finance income/(cost)	6	-27	-547.4%	19	-240.2%	16	-9	n/a	-10	-18	n/a
Finance income	24	58	139.3%	52	10.9%	23	25	8.2%	1	33	3681.0%
Finance expenses	-18	-85	369.1%	-33	159.0%	-7	-34	n/a	-11	-51	362.3%
Share of profit of JV and associates	0	0	n/a	0	n/a	0	0	n/a	0	0	n/a
Pretax profit	726	1,070	47.3%	1,109	-3.5%	445	640	43.9%	281	429	52.8%
Income tax	-123	-148	20.6%	-189	-21.6%	-86	-88	1.8%	-37	-60	64.9%
After tax profit	603	922	52.8%	920	0.2%	359	553	54.0%	245	369	51.0%
MI	-3	-2	-32.6%	-5	-52.2%	-1	-1	10.5%	-2	-1	-49.8%
Net profit	600	920	53.2%	916	0.4%	358	552	54.1%	242	368	51.9%
D&A	224	249	11.2%	310	-19.4%	112	132	17.4%	112	118	5.1%
EBITDA	944	1,346	42.6%	1,399	-3.8%	541	781	44.4%	403	566	40.2%

Source: Company data, CMBIS

Figure 2: SANYI's quarter results

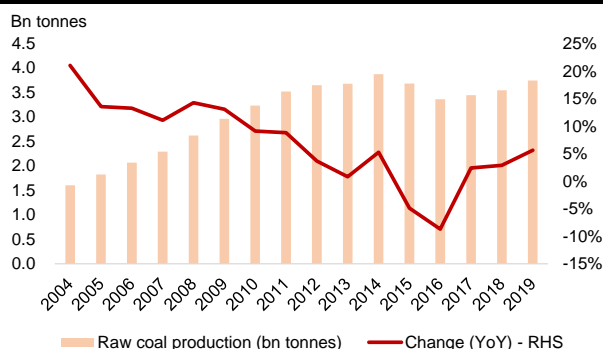
RMB mn	1Q18	1Q19	Chg (YoY)	2Q18	2Q19	Chg (YoY)	3Q18	3Q19	Chg (YoY)	4Q18	4Q19	Chg (YoY)
Revenue	997	1,531	54%	1,199	1,513	26%	1,163	1,313	13%	1,058	1,300	23%
Cost of sales	(715)	(1,063)	49%	(771)	(1,037)	35%	(877)	(925)	5%	(756)	(963)	27%
Gross profit	281	468	66%	429	476	11%	285	388	36%	302	337	11%
Gross margin	28.2%	30.6%		35.7%	31.4%		24.5%	29.6%		28.6%	25.9%	
Pretax profit	186	324	74%	259	316	22%	169	268	58%	112	161	44%
Pretax profit margin	18.7%	21.2%		21.6%	20.9%		14.6%	20.4%		10.6%	12.4%	
Net profit	172	276	61%	186	275	48%	153	237	55%	90	131	46%
Net margin	17.3%	18.0%		15.5%	18.2%		13.1%	18.1%		8.5%	10.1%	

Source: Company data, CMBIS

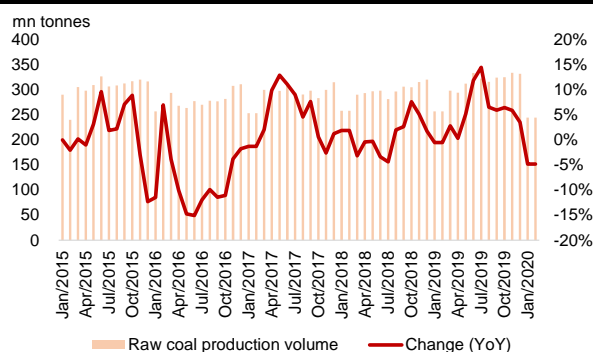
Figure 3: Change in key assumptions

	Old		New		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
(RMB mn)						
Revenue						
Road header	1,675	2,007	1,552	1,860	-7.3%	-7.3%
Combined coal mining units (CCMU)	1,666	2,250	1,481	1,999	-11.1%	-11.1%
Small-size port machinery	1,593	1,753	1,547	1,856	-2.9%	5.9%
Large-size port machinery	1,214	1,518	974	1,218	-19.8%	-19.8%
Mining trucks	879	1,289	879	1,289	0.0%	0.0%
Others	650	850	610	800	-6.2%	-5.9%
Total	7,678	9,666	7,043	9,022	-8.3%	-6.7%
Growth (YoY)					Change (ppt)	
Road header	15.0%	19.8%	10.2%	19.8%	(4.8)	0.0
Combined coal mining units (CCMU)	50.0%	35.0%	38.0%	35.0%	(12.0)	0.0
Small-size port machinery	11.0%	10.0%	0.0%	20.0%	(11.0)	10.0
Large-size port machinery	52.0%	25.0%	42.0%	25.0%	(10.0)	0.0
Mining trucks	71.6%	46.6%	126.5%	46.6%	54.9	0.0
Others	14.0%	30.8%	10.1%	31.1%	(3.9)	0.4
Total	30.5%	25.9%	24.5%	28.1%	(6.0)	2.2
Gross margin					Change (ppt)	
Road header	46.5%	46.5%	41.5%	41.5%	(5.0)	(5.0)
Combined coal mining units (CCMU)	27.0%	29.0%	27.0%	28.0%	0.0	(1.0)
Small-size port machinery	34.5%	34.5%	34.5%	34.5%	0.0	0.0
Large-size port machinery	13.0%	13.0%	12.0%	12.0%	(1.0)	(1.0)
Mining trucks	14.0%	18.0%	15.0%	20.0%	1.0	2.0
Others	48.0%	48.0%	45.0%	45.0%	(3.0)	(3.0)
Blended gross margin	30.9%	31.3%	29.8%	30.3%	(1.1)	(1.0)
Net profit	1,173	1,573	1,113	1,487	-5.1%	-5.5%

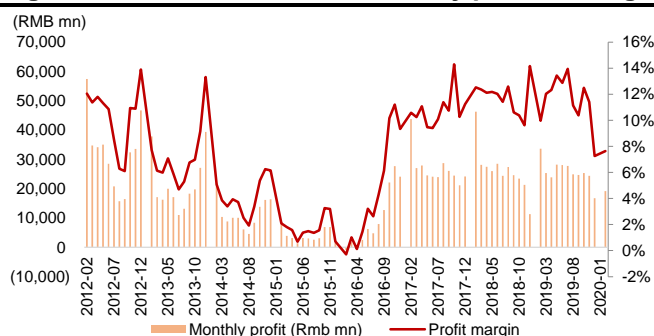
Source: Company data, CMBIS estimates

Figure 4: China raw coal production (annual)

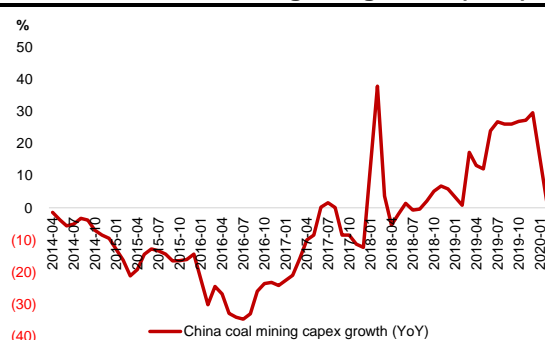
Source: Wind, CCTDCOAL, CMBIS

Figure 5: China raw coal production (monthly)

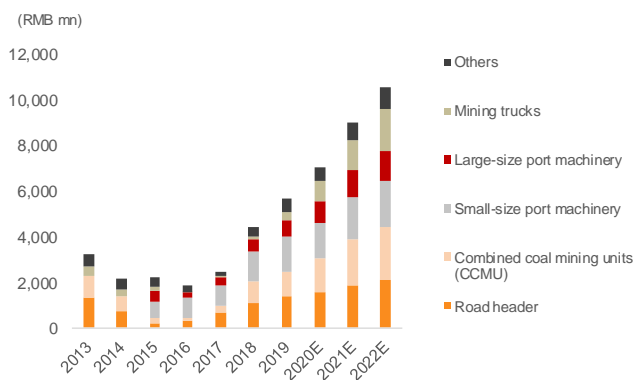
Source: Wind, CCTDCOAL, CMBIS

Figure 6: China coal miners' monthly profit & margin

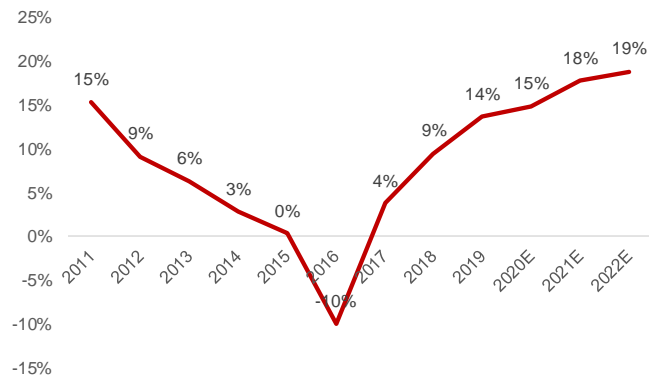
Source: Wind, NBS, CMBIS

Figure 7: China coal mining FAI growth (YTD)

Source: Wind, NBS, CMBIS

Figure 8: SANYI's segment revenue growth trend

Source: Company data, CMBIS estimates

Figure 9: 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
Total revenue	4,417	5,656	7,043	9,022	10,543
Cost of sales	-3,119	-3,987	-4,942	-6,286	-7,340
Gross profit	1,298	1,669	2,101	2,736	3,203
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
EBIT	720	1,097	1,270	1,707	2,054
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
Pretax profit	726	1,070	1,297	1,733	2,086
Income tax	-123	-148	-182	-243	-292
After tax profit	603	922	1,116	1,490	1,794
MI	-3	-2	-2	-3	-4
Net profit	600	920	1,113	1,487	1,790
D&A	224	249	278	318	326
EBITDA	944	1,346	1,548	2,026	2,380

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
Cash flow from operation	280	801	692	840	1,468
Net capex on PP&E	-93	-174	-500	-500	-100
Interest received	24	58	93	91	97
Others	-466	-2,195	0	0	0
Cash flow from investing	-536	-2,311	-407	-409	-3
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
Cash flow from financing	512	1,527	-437	-511	-660
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
Non-current assets	5,896	5,209	5,430	5,612	5,386
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
Current assets	7,029	10,338	11,719	12,918	14,845
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
Current liabilities	5,169	6,421	7,280	7,617	8,118
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
Non-current liabilities	1,313	1,980	1,980	1,980	1,980
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
Total equity	6,442	7,146	7,889	8,934	10,133
Shareholders' equity	6,431	7,132	7,873	8,915	10,111
MI	12	14	16	19	23

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
- Mining equipment	58%	61%	62%	64%	66%
- Logistics equipment	42%	39%	38%	36%	34%
Total	100%	100%	100%	100%	100%
P&L ratios (%)					
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%
Growth (%)					
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%
Balance sheet ratios					
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
Returns (%)					
ROE	5%	6%	7%	8%	9%
ROA	9%	14%	15%	18%	19%
Per share					
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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MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
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