

SANY Heavy (600031 CH)

2023 net profit a miss; 1Q24 still weak; Stay on the sidelines

SANY Heavy (SANY)'s net profit in 2023 came in at RMB4.53bn (+6% YoY), which is 12% below both our and consensus estimates. In addition, net profit in 1Q24 only grew 5% YoY to RMB1.58bn due to a lack of revenue growth (-1% YoY). We are still concerned about further slowdown of export this year, given the weakness in the overseas demand (in particular in Europe). We maintain our 2024E earnings forecast but revise up our 2025E estimates by 8% as we take into consideration a moderate recovery in China's market. Still, our new estimates remain 24%/29% below consensus. Maintain **HOLD** with new TP of RMB14.8, based on 24x 2024E P/E.

- 4Q23 results below expectations.** Revenue declined 17% YoY to RMB17.9bn. Gross margin narrowed 1.9ppt YoY to 25.6%. EBIT was RMB698mn (-25% YoY), largely helped by a fair value gain of RMB602mn. Net profit dropped by 29% YoY to RMB480mn.
- Slowdown of overseas revenue in 2H23.** Overseas revenue in 2H23 (62% of SANY's revenue) grew 4% YoY to RMB20.8bn (slowed from 36% in 1H23). In terms of region, Europe grew 15% YoY to RMB8.1bn (39% of overseas revenue). Asia Pacific (ex-China) remained stable at RMB7.6bn (36% of overseas). Both America and Africa revenue dropped 6% YoY in 2H23 (17%/7% of overseas).
- Sluggish 1Q24 results.** Revenue dropped 1% YoY while gross margin expanded 0.5ppt to 28.4%. Helped by lower R&D and administrative expense ratio, net profit grew 5% YoY to RMB1.58bn. On the positive side, operating cash flow improved significantly to RMB4.38bn (vs -RMB1.6bn in 1Q23).
- Valuation.** We revise up our TP to RMB14.8, based on 24x 2024E P/E which is equivalent to 0.5SD above the average of 20x since 2017 (previous TP: RMB12.3, based on 19x). We now apply an above average target multiple as we see initial signs of stabilisation of excavator sales in China's market, and we expect a moderate recovery in 2025E.
- Upside risk:** stabilization of property investment in China; **Downside risk:** further slowdown of overseas demand.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	80,822	74,019	77,600	84,438	91,222
YoY growth (%)	(24.4)	(8.4)	4.8	8.8	8.0
EPS (Reported) (RMB)	0.50	0.53	0.62	0.73	0.81
YoY growth (%)	(64.5)	6.0	15.5	18.8	10.8
Consensus EPS (RMB)	0.00	0.61	0.81	1.02	0.00
P/E (x)	31.9	30.1	26.0	21.9	19.8
P/B (x)	2.1	2.0	1.9	1.8	1.7
Yield (%)	1.0	1.4	1.6	1.9	2.1
Net gearing (%)	(5.3)	6.2	4.6	2.7	(1.7)

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price RMB14.80

(Previous TP) RMB12.30

Up/Downside (7.7%)

Current Price RMB16.04

China Capital Goods

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Stock Data

Mkt Cap (RMB mn)	136,111.3
Avg 3 mths t/o (RMB mn)	1,067.5
52w High/Low (RMB)	17.75/12.70
Total Issued Shares (mn)	8485.7

Source: FactSet

Shareholding Structure

SANY Group	29.2%
Liang Wengen	2.8%

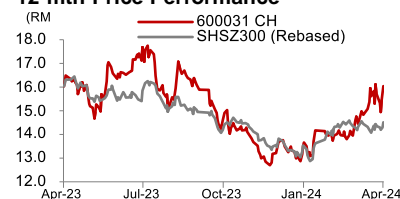
Source: SSE

Share Performance

	Absolute	Relative
1-mth	8.7%	7.5%
3-mth	17.4%	9.2%
6-mth	9.7%	7.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports

Capital Goods sector – More policies to support domestic machinery demand; expect sector rally to continue – 18 Apr 2024 ([link](#))

Capital Goods sector – 2M24: Solid growth of forklifts; weakness continued for tower cranes & excavators – 15 Mar 2024 ([link](#))

Capital Goods sector – Strong sales of AWP's & forklifts in Jan; Tower cranes the worst – 29 Feb 2024 ([link](#))

Capital Goods sector – Equipment replacement proposed in Central government meeting; positive to HDT sector – 26 Feb 2024 ([link](#))

Figure 1: SANY Heavy's quarterly results

(RMB mn)	1Q23	1Q24	Chg YoY	2Q22	2Q23	Chg YoY	3Q22	3Q23	Chg YoY	4Q22	4Q23	Chg YoY
Total revenue	17,997	17,830	-0.9%	19,794	21,918	10.7%	19,093	16,222	-15.0%	21,658	17,883	-17.4%
Cost of sales	-12,985	-12,767	-1.7%	-15,210	-15,574	2.4%	-14,547	-11,450	-21.3%	-15,692	-13,303	-15.2%
Gross profit	5,011	5,063	1.0%	4,584	6,344	38.4%	4,546	4,771	5.0%	5,966	4,580	-23.2%
Other income	-90	-113	25.5%	-96	-132	37.3%	-69	-81	18.7%	-115	-120	4.4%
S&D expenses	-1,301	-1,380	6.1%	-1,504	-1,685	12.1%	-1,597	-1,572	-1.6%	-1,844	-1,660	-10.0%
Administrative expenses	-721	-670	-7.2%	-589	-580	-1.6%	-646	-647	0.2%	-745	-703	-5.6%
R&D expense	-1,407	-1,294	-8.1%	-1,512	-1,468	-3.0%	-1,610	-1,353	-15.9%	-2,377	-1,636	-31.2%
Fair value change	-92	191	n/a	-218	-905	314.8%	-204	417	n/a	331	602	82.2%
Asset impairment	-99	-150	51.2%	-106	-541	410.7%	-263	-252	-4.1%	-285	-365	28.0%
EBIT	1,300	1,648	26.7%	558	1,033	85.0%	158	1,282	713.2%	931	698	-25.0%
Net finance income/(expense)	93	-155	n/a	597	896	49.9%	401	-482	n/a	-780	-45	-94.3%
Other gains/(losses)	322	309	-4.1%	194	333	71.5%	521	-11	n/a	446	-153	n/a
Share of profit of JV & associates	9	44	394.0%	15	4	-76.0%	-6	-3	-45.0%	3	41	1203.9%
Pretax profit	1,724	1,845	7.0%	1,365	2,265	66.0%	1,074	786	-26.8%	600	542	-9.7%
Income tax	-163	-221	36.0%	-275	-329	19.7%	-84	-135	60.7%	84	-84	n/a
After tax profit	1,562	1,623	4.0%	1,090	1,936	77.6%	990	651	-34.2%	683	458	-33.0%
MI	-50	-43	-13.5%	-45	-47	3.6%	-27	-4	-85.9%	-8	22	n/a
Net profit	1,512	1,580	4.5%	1,044	1,889	80.8%	963	647	-32.8%	676	480	-29.0%
Key ratios:			<i>ppt</i>			<i>ppt</i>			<i>ppt</i>			<i>ppt</i>
Gross margin	27.8%	28.4%	0.5	23.2%	28.9%	5.8	23.8%	29.4%	5.6	27.5%	25.6%	-1.9
S&D expense ratio	7.2%	7.7%	0.5	7.6%	7.7%	0.1	8.4%	9.7%	1.3	8.5%	9.3%	0.8
Administrative expense ratio	4.0%	3.8%	-0.3	3.0%	2.6%	-0.3	3.4%	4.0%	0.6	3.4%	3.9%	0.5
R&D expense ratio	7.8%	7.3%	-0.6	7.6%	6.7%	-0.9	8.4%	8.3%	-0.1	11.0%	9.1%	-1.8
Net profit margin	8.7%	9.1%	0.4	5.5%	8.8%	3.3	5.2%	4.0%	-1.2	3.2%	2.6%	-0.6
Effective tax rate	9.4%	12.0%	2.6	20.1%	14.5%	-5.6	7.8%	17.2%	9.3	-14.0%	15.5%	29.4

Source: Company data, CMBIGM estimates

Figure 2: SANY Heavy's overseas revenue breakdown

Overseas revenue breakdown by region												
(RMB mn)	2022	2023	Chg YoY	% of total	1H22	1H23	Chg YoY	% of total	2H22	2H23	Chg YoY	% of total
Asia Pacific (ex-China)	14,850	16,500	11%	38%	7,320	8,938	22%	40%	7,530	7,562	0%	36%
Europe	11,780	16,250	38%	38%	4,770	8,182	72%	36%	7,010	8,068	15%	39%
America	7,100	7,580	7%	18%	3,230	3,958	23%	18%	3,870	3,622	-6%	17%
Africa	2,850	2,920	2%	7%	1,220	1,388	14%	6%	1,630	1,532	-6%	7%
Total	36,580	43,250	18%	100%	16,540	22,466	36%	100%	20,040	20,784	4%	100%

Source: Company data, CMBIGM estimates

Figure 3: SANY Heavy's 2H23 revenue and gross margin breakdown

(RMB mn)	1H22	1H23	Change (YoY)	2H22	2H23	Change (YoY)
Revenue						
Concrete machinery	8,355	8,395	0.5%	6,726	6,919	2.9%
Excavator	16,738	15,150	-9.5%	19,018	12,486	-34.3%
Crane machinery	7,146	7,364	3.0%	5,523	5,636	2.0%
Piling machinery	1,665	1,254	-24.7%	1,400	831	-40.7%
Earth moving machinery	1,351	1,363	0.9%	1,730	1,122	-35.1%
Other machinery	3,522	5,107	45.0%	4,926	5,895	19.7%
Revenue (construction machinery)	38,777	38,633	-0.4%	39,324	32,889	-16.4%
Interest income from financing	399	418	4.7%	405	379	-6.3%
Other business	896	864	-3.6%	1,021	836	-18.1%
Total revenue	40,072	39,915	-0.4%	40,750	34,104	-16.3%
Gross margin			Change (ppt)			Change (ppt)
Concrete machinery	20.9%	22.1%	1.2	22.8%	22.7%	(0.2)
Excavator	25.1%	34.3%	9.2	30.4%	31.8%	1.4
Crane machinery	15.7%	25.0%	9.3	15.9%	24.2%	8.3
Piling machinery	36.8%	32.7%	(4.1)	36.0%	36.2%	0.2
Earth moving machinery	27.6%	28.9%	1.3	18.2%	31.4%	13.2
Other machinery	18.8%	23.9%	5.1	20.6%	23.0%	2.3
Gross margin (construction machinery)	22.5%	28.2%	5.8	25.5%	27.1%	1.6
Interest income from financing	55.4%	50.7%	(4.8)	54.0%	54.9%	0.8
Other business	23.3%	26.7%	3.4	26.0%	27.5%	1.5
Blended gross margin	22.8%	28.4%	5.6	25.8%	27.4%	1.6

Source: Company data, CMBIGM

Figure 4: SANY Heavy's 2H23 financials

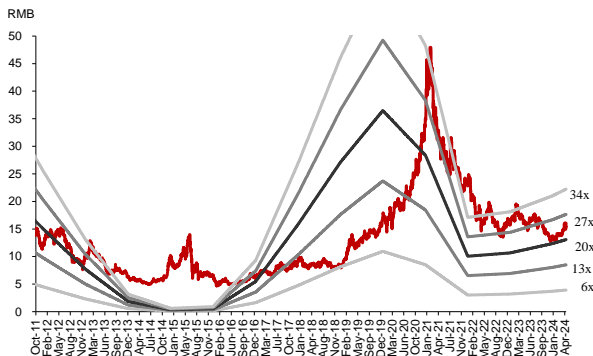
YE Dec 31(RMB mn)	1H22	1H23	Change (YoY)	2H22	2H23	Change (YoY)
Total revenue	40,072	39,915	-0.4%	40,750	34,104	-16.3%
Cost of sales	(30,925)	(28,559)	-7.7%	(30,239)	(24,753)	-18.1%
Gross profit	9,147	11,356	24.1%	10,512	9,351	-11.0%
Surcharge	(185)	(222)	20.3%	(184)	(202)	9.7%
S&D expenses	(2,860)	(2,986)	4.4%	(3,442)	(3,232)	-6.1%
Administrative expenses	(1,249)	(1,301)	4.2%	(1,390)	(1,350)	-2.9%
R&D expense	(2,936)	(2,875)	-2.1%	(3,987)	(2,989)	-25.0%
Fair value change	(377)	(998)	164.8%	127	1,019	705.2%
Asset impairment	(117)	(641)	448.6%	(548)	(617)	12.6%
EBIT	1,424	2,333	63.9%	1,088	1,980	82.0%
Net finance income/(cost)	673	989	47.0%	(379)	(526)	38.8%
Finance income	911	1,539	69.0%	(214)	(559)	160.6%
Finance expenses	(238)	(550)	131.0%	(165)	32	n/a
Other gains/(losses)	1,033	654	-36.6%	968	(164)	n/a
Share of profit of JV and associates	30	12	-57.8%	(3)	37	n/a
Pretax profit	3,159	3,989	26.3%	1,674	1,328	-20.7%
Income tax	(428)	(492)	15.0%	(0)	(219)	131562.7%
After tax profit	2,731	3,497	28.0%	1,674	1,109	-33.7%
MI	(97)	(97)	-0.1%	(35)	18	n/a
Net profit	2,634	3,400	29.1%	1,639	1,127	-31.2%
Recurring net profit	2,634	3,400	29.1%	1,639	1,127	-31.2%
D&A	1,159	1,512	30.5%	1,236	1,377	11.4%
EBITDA	2,582	3,845	48.9%	2,324	3,357	44.4%
Key ratios						
Gross margin	22.8%	28.4%	5.6	25.8%	27.4%	1.6
S&D expense ratio	7.1%	7.5%	0.3	8.4%	9.5%	1.0
Administrative expense ratio	3.1%	3.3%	0.1	3.4%	4.0%	0.5
R&D expense ratio	7.3%	7.2%	-0.1	9.8%	8.8%	-1.0
Net profit margin	6.8%	8.8%	1.9	4.1%	3.3%	-0.9
Effective tax rate	13.5%	12.3%	-1.2	0.0%	16.5%	16.5

Source: Company data, CMBIGM

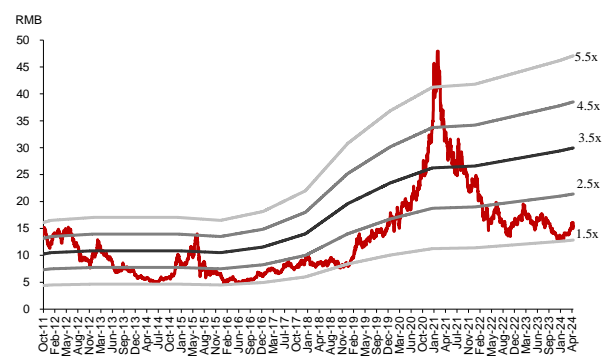
Figure 5: Change in key assumptions for SANY Heavy

(RMB mn)	Old			New			Change		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue									
Concrete machinery	14,448	14,671	-	15,640	16,815	18,160	8.2%	14.6%	-
Excavator	32,149	33,756	-	28,647	31,512	34,033	-10.9%	-6.6%	-
Crane machinery	12,789	13,310	-	13,165	14,093	15,220	2.9%	5.9%	-
Piling machinery	2,416	2,537	-	2,111	2,217	2,328	-12.6%	-12.6%	-
Earth moving machinery	3,127	3,221	-	3,127	3,283	3,448	0.0%	1.9%	-
Other machinery	10,104	10,509	-	12,321	13,800	15,180	21.9%	31.3%	-
Revenue (construction machinery)	75,034	78,003	-	75,012	81,720	88,369	0.0%	4.8%	-
Interest income from financing	781	820	-	837	879	923	7.2%	7.2%	-
Other business	1,995	2,095	-	1,751	1,839	1,931	-12.2%	-12.2%	-
Total revenue	77,809	80,918	-	77,600	84,438	91,222	-0.3%	4.4%	-
Gross margin									
Concrete machinery	22.3%	22.3%	-	23.0%	23.0%	23.0%	0.7	0.7	-
Excavator	32.6%	32.7%	-	33.1%	33.7%	33.8%	0.5	1.0	-
Crane machinery	25.3%	25.5%	-	25.2%	25.3%	25.3%	(0.1)	(0.2)	-
Piling machinery	33.4%	33.5%	-	33.4%	33.5%	33.5%	0.0	0.0	-
Earth moving machinery	26.5%	26.5%	-	30.0%	30.0%	30.0%	3.5	3.5	-
Other machinery	22.0%	22.0%	-	21.5%	22.5%	23.0%	(0.5)	0.5	-
Gross margin (construction machinery)	27.7%	27.8%	-	27.6%	28.0%	28.1%	(0.1)	0.2	-
Interest income from financing	52.0%	52.0%	-	52.0%	52.0%	52.0%	0.0	0.0	-
Other business	26.0%	26.0%	-	26.0%	26.0%	26.0%	0.0	0.0	-
Blended gross margin	27.9%	28.0%	-	27.8%	28.2%	28.3%	(0.1)	0.2	-
S&D expense ratio	8.4%	8.4%	-	8.6%	8.6%	8.6%	0.2	0.2	-
Administrative expense ratio	3.5%	3.5%	-	3.5%	3.5%	3.5%	0.0	0.0	-
R&D expense ratio	8.5%	8.5%	-	7.3%	7.1%	7.0%	(1.2)	(1.4)	-
Net profit	5,208	5,756	-	5,226	6,206	6,878	0.3%	7.8%	-

Source: Company data, CMBIGM estimates

Figure 6: SANY's P/E band

Source: Company data, Bloomberg, CMBIGM estimates

Figure 7: SANY's P/B band

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	106,874	80,822	74,019	77,600	84,438	91,222
Cost of goods sold	(78,978)	(61,164)	(53,312)	(56,020)	(60,618)	(65,404)
Gross profit	27,896	19,658	20,707	21,580	23,820	25,818
Operating expenses	(17,057)	(17,147)	(16,394)	(16,033)	(17,280)	(18,579)
Selling expense	(6,699)	(6,302)	(6,218)	(6,674)	(7,262)	(7,845)
Admin expense	(2,771)	(2,639)	(2,651)	(2,716)	(2,955)	(3,193)
R&D expense	(6,509)	(6,923)	(5,865)	(5,665)	(5,995)	(6,386)
Others	(1,079)	(1,283)	(1,660)	(979)	(1,068)	(1,156)
Operating profit	10,839	2,512	4,313	5,547	6,540	7,239
Share of (losses)/profits of associates/JV	(17)	27	50	60	61	62
EBITDA	12,861	4,906	7,201	8,794	10,148	11,046
Depreciation	2,022	2,394	2,888	3,248	3,608	3,808
Interest income	664	696	980	725	790	886
Interest expense	(539)	(403)	(517)	(663)	(665)	(667)
Net Interest income/(expense)	125	294	463	62	125	219
Others	2,910	2,000	491	500	600	600
Pre-tax profit	13,857	4,832	5,317	6,169	7,326	8,120
Income tax	(1,530)	(428)	(710)	(864)	(1,026)	(1,137)
Minority interest	(292)	(132)	(79)	(80)	(95)	(105)
Adjusted net profit	12,034	4,273	4,527	5,226	6,206	6,878
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	93,719	105,762	97,633	104,695	106,631	116,924
Cash & equivalents	14,812	21,343	18,072	19,093	20,411	23,913
Account receivables	19,655	25,022	24,165	26,860	28,661	31,321
Inventories	18,463	19,738	19,768	23,207	21,966	26,057
Other current assets	40,789	39,659	35,629	35,535	35,593	35,633
Non-current assets	44,838	52,993	53,569	58,997	57,496	60,617
PP&E	13,340	19,681	23,508	25,178	26,488	25,598
Deferred income tax	1,599	2,499	3,070	3,070	3,070	3,070
Investment in JVs & assos	2,333	2,239	2,401	2,431	2,462	2,493
Intangibles	3,960	4,519	4,918	4,500	4,083	3,665
Goodwill	46	48	50	50	50	50
Financial assets at FVTPL	0	0	0	0	0	0
Other non-current assets	23,559	24,007	19,622	23,767	21,344	25,742
Total assets	138,557	158,755	151,202	163,692	164,127	177,541
Current liabilities	61,432	67,630	54,415	63,462	59,739	68,714
Short-term borrowings	8,244	11,064	9,551	9,651	9,751	9,851
Account payables	28,560	28,908	22,693	31,639	27,816	36,692
Tax payable	1,081	1,191	1,063	1,063	1,063	1,063
Other current liabilities	23,547	26,467	21,109	21,109	21,109	21,109
Non-current liabilities	12,029	25,116	27,614	27,614	27,614	27,614
Long-term borrowings	9,603	21,625	23,556	23,556	23,556	23,556
Other non-current liabilities	2,426	3,491	4,059	4,059	4,059	4,059
Total liabilities	73,461	92,746	82,029	91,076	87,353	96,329
Total shareholders equity	63,691	64,966	68,040	71,403	75,467	79,801
Minority interest	1,404	1,043	1,133	1,213	1,307	1,412
Total equity and liabilities	138,557	158,755	151,202	163,692	164,127	177,541

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	13,857	4,832	5,317	6,169	7,326	8,120
Depreciation & amortization	2,022	2,394	2,888	3,248	3,608	3,808
Tax paid	(1,530)	(428)	(710)	(864)	(1,026)	(1,137)
Change in working capital	(1,222)	(2,264)	(3,067)	(1,239)	(2,017)	(2,314)
Others	(1,222)	(436)	1,281	(122)	(186)	(281)
Net cash from operations	11,904	4,099	5,708	7,192	7,705	8,196
Investing						
Capital expenditure	(9,977)	(5,538)	(4,128)	(4,500)	(4,500)	(2,500)
Acquisition of subsidiaries/ investments	812	(20)	(92)	0	0	0
Others	(124)	3,720	1,527	755	821	917
Net cash from investing	(9,288)	(1,838)	(2,694)	(3,745)	(3,679)	(1,583)
Financing						
Dividend paid	(5,057)	(3,822)	(1,359)	(1,862)	(2,142)	(2,544)
Net borrowings	4,180	7,779	(2,049)	100	100	100
Proceeds from share issues	0	0	0	0	0	0
Others	(438)	870	(4,122)	(663)	(665)	(667)
Net cash from financing	(1,315)	4,826	(7,530)	(2,425)	(2,708)	(3,112)
Net change in cash						
Cash at the beginning of the year	12,596	14,812	21,343	18,072	19,093	20,411
Exchange difference	915	(556)	1,244	0	0	0
Cash at the end of the year	14,812	21,343	18,072	19,093	20,411	23,913
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	6.8%	(24.4%)	(8.4%)	4.8%	8.8%	8.0%
Gross profit	(7.1%)	(29.5%)	5.3%	4.2%	10.4%	8.4%
Operating profit	(35.7%)	(76.8%)	71.7%	28.6%	17.9%	10.7%
EBITDA	(31.4%)	(61.9%)	46.8%	22.1%	15.4%	8.9%
Adj. net profit	(22.0%)	(64.5%)	6.0%	15.4%	18.8%	10.8%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	26.1%	24.3%	28.0%	27.8%	28.2%	28.3%
Operating margin	10.1%	3.1%	5.8%	7.1%	7.7%	7.9%
EBITDA margin	12.0%	6.1%	9.7%	11.3%	12.0%	12.1%
Adj. net profit margin	11.3%	5.3%	6.1%	6.7%	7.3%	7.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.1)	0.1	0.0	0.0	(0.0)
Current ratio (x)	1.5	1.6	1.8	1.6	1.8	1.7
Receivable turnover days	93.4	145.7	181.4	183.0	180.0	178.0
Inventory turnover days	87.0	114.0	135.2	140.0	136.0	134.0
Payable turnover days	140.4	171.5	176.6	177.0	179.0	180.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	11.3	31.9	30.1	26.0	21.9	19.8
P/B	2.1	2.1	2.0	1.9	1.8	1.7
Div yield (%)	2.8	1.0	1.4	1.6	1.9	2.1

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

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