

SANY Heavy Industry – A (600031 CH)

Sales slowdown and margin contraction in 2Q21 largely expected; Expect recovery in 4Q21E

SANY's net profit in 2Q21 dropped 29% YoY to RMB4.5bn, as the revenue growth of 6% was offset by 5ppt gross margin contraction YoY due to raw materials cost pressure and 54% YoY increase in R&D spending. That said, we believe this has been largely anticipated by the market. On the positive side, we are encouraged to see a 95% YoY increase in overseas revenue in 1H21. Besides, we consider the R&D spending growth an essential investment to outpace competitors in future. Going forward, we expect the speed-up of local government special bond starting Sep will boost the overall construction machinery demand in 4Q21E. We maintain our TP of RMB38, based on 17x 2021E PE. Maintain **BUY**.

- 1H21 results highlights.** Net profit grew 17% YoY to RMB10bn. Revenue grew 36% YoY to RMB67bn. Gross margin narrowed 2.2ppt YoY to 28.3%. This, together with the growing selling & distribution expense and R&D expense, dragged the EBIT growth to only 4.4%. Increase in finance income and other gains helped boost the net profit growth to 17%. Operating cash inflow increased 36% YoY to RMB9.8bn, which we think is healthy.
- Overseas sales growth reached 95% in 1H21.** Overseas revenue surged 95% YoY to RMB12.4bn in 1H21, accounting for 19% of total revenue. Revenue in Asia Pacific (including Australia) surged 1.2x YoY to RMB5.6bn, representing 46% of total overseas revenue. Besides, it's encouraging to see 1.7x YoY increase in revenue in the America (RMB2bn). We expect overseas will continue to be the growth engine over the coming years.
- Continuous R&D spending to enhance competitive edge.** R&D expense grew 81% YoY to RMB3bn, with a focus on electric, intelligent and overseas products. The R&D expense ratio (as % of revenue) reached 4.5%.
- Key risks:** (1) Unexpected slowdown of overseas business; (2) Continuous weakness of construction activities; (3) Risk of expanding scale of financing business.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	76,233	100,054	130,155	141,065	148,676
YoY growth (%)	37	31	30	8	5
Net income (RMB mn)	11,325	15,431	19,059	21,149	22,167
EPS (RMB)	1.37	1.82	2.25	2.50	2.62
YoY growth (%)	73.2	33.2	23.5	11.0	4.8
Consensus EPS (RMB)	N/A	N/A	2.30	2.60	2.82
EV / EBITDA (x)	15.2	11.7	9.6	8.7	8.4
P/E (x)	19.9	15.0	12.1	10.9	10.4
P/B (x)	4.9	4.1	3.3	2.7	2.3
Yield (%)	1.6	2.2	2.6	2.9	3.1
ROE (%)	28.8	29.8	30.0	27.1	23.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price RMB38.00
(previous TP) RMB38.00
Up/Downside +39%
Current Price RMB27.3

China Capital Goods

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Stock Data

Mkt Cap (RMB mn)	231,800
Avg 3 mths t/o (RMB mn)	5,178
52w High/Low (RMB)	50.30/21.24
Total Issued Shares (mn)	8,435

Source: Bloomberg

Shareholding Structure

SANY Group	30.2%
Hong Kong CCASS	9.9%
Liang Wengen	2.8%
Others	57.1%

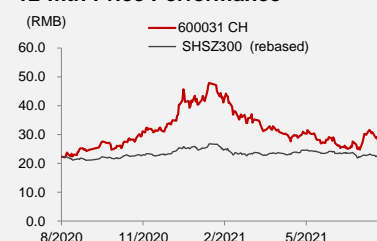
Source: Shanghai Stock Exchange

Share Performance

	Absolute	Relative
1-mth	8.8%	7.1%
3-mth	-12.0%	-2.7%
6-mth	-33.6%	-26.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ruihua CPA

Related Reports

Construction Machinery / HDT (Outperform) – Favourable policy shift; Defensive growth amid volatile market; Upgrade SANY Heavy & Sinotruk – 9 Aug 2021

Figure 1: SANY Heavy's 1H21 financials

YE Dec 31(RMB mn)	1H20	1H21	Change (YoY)
Total revenue	49,541	67,498	36.2%
Cost of sales	(34,424)	(48,389)	40.6%
Gross profit	15,117	19,109	26.4%
Surcharge	(196)	(255)	30.1%
S&D expenses	(2,546)	(3,979)	56.3%
Administrative expenses	(900)	(1,276)	41.7%
R&D expense	(1,691)	(3,058)	80.8%
Fair value change	282	66	n/a
Asset impairment	(328)	(445)	35.6%
EBIT	9,737	10,162	4.4%
Net finance income/(cost)	(4)	139	n/a
Finance income	257	342	32.8%
Finance expenses	(261)	(203)	-22.2%
Other gains/(losses)	597	1,527	155.7%
Share of profit of JV and associates	(22)	54	n/a
Pretax profit	10,309	11,881	15.3%
Income tax	(1,531)	(1,585)	3.5%
After tax profit	8,778	10,296	17.3%
MI	(179)	(222)	24.2%
Net profit	8,598	10,074	17.2%
D&A	948	997	5.1%
EBITDA	10,685	11,159	4.4%
Key ratios			
<i>Gross margin</i>	30.5%	28.3%	-2.2
<i>S&D expense ratio</i>	5.1%	5.9%	0.8
<i>Administrative expense ratio</i>	1.8%	1.9%	0.1
<i>R&D expense ratio</i>	3.4%	4.5%	1.1
<i>Net profit margin</i>	17.7%	15.3%	-2.5
<i>Effective tax rate</i>	14.9%	13.3%	-1.5

Source: Company data, CMBIS estimates

Figure 2: SANY Heavy's overseas revenue breakdown

Overseas revenue breakdown by region			
(RMB mn)	1H21	Growth YoY	% of total
Asia Pacific	5,667	120.1%	45.5%
Europe	3,751	46.9%	30.1%
America	1,961	173.4%	15.8%
Africa	1,065	99.7%	8.6%
Total	12,444	94.7%	100.0%
Overseas revenue breakdown by product			
(RMB mn)	1H21	Growth YoY	% of total
Excavator	5,036	129.0%	40.5%
Concrete machinery	3,629	32.7%	29.2%
Crane	2,512	183.0%	20.2%
Piling machinery	1,267	122.0%	10.2%
Total	12,444	94.7%	100.0%

Source: Company data, CMBIS estimates

Figure 3: SANY Heavy's 1H21 revenue and gross margin breakdown

(RMB mn)	1H20	1H21	Change (YoY)
Revenue			
Concrete machinery	13,506	17,700	31.0%
Excavator	18,649	26,007	39.5%
Crane machinery	9,427	14,034	48.9%
Piling machinery	3,752	3,586	-4.4%
Earth moving machinery	1,501	1,801	19.9%
Other machinery	1,311	2,501	90.7%
Revenue (construction machinery)	48,148	65,629	36.3%
Other business	1,040	1,499	44.1%
Total revenue	49,541	67,498	36.2%
Gross margin			Change (ppt)
Concrete machinery	28.9%	27.0%	(2.0)
Excavator	34.9%	31.9%	(3.0)
Crane machinery	20.0%	21.3%	1.3
Piling machinery	43.6%	43.0%	(0.5)
Earth moving machinery	32.8%	29.8%	(3.0)
Other machinery	28.7%	19.6%	(9.1)
Gross margin (construction machinery)	30.7%	28.4%	(2.3)
Interest income from financing	54.1%	59.4%	5.3
Other business	12.1%	17.1%	5.0
Blended gross margin	30.5%	28.3%	(2.2)

Source: Company data, CMBIS

Figure 4: SANY Heavy's 2Q21 financials

(RMB mn)	1Q20	1Q21	Change YoY	2Q20	2Q21	Change YoY
Total revenue	17,444	33,513	92.1%	32,097	33,985	5.9%
Cost of sales	-12,490	-23,463	87.8%	-21,934	-24,926	13.6%
Gross profit	4,954	10,050	102.9%	10,163	9,059	-10.9%
Other income	-70	-96	38.5%	-126	-158	25.5%
S&D expenses	-942	-2,005	112.9%	-1,604	-1,974	23.1%
Administrative expenses	-439	-655	49.3%	-461	-621	34.6%
R&D expense	-631	-1,423	125.5%	-1,060	-1,635	54.2%
Fair value change	197	2	-99.1%	85	64	-24.7%
Asset impairment	-124	-197	59.4%	-205	-248	21.2%
EBIT	2,946	5,676	92.7%	6,791	4,486	-33.9%
Net finance income/(expense)	-312	149	n/a	308	-10	n/a
Other gains/(losses)	131	714	445.8%	466	812	74.3%
Share of profit of JV and associates	-44	52	-217.0%	23	2	-93.2%
Pretax profit	2,720	6,591	142.3%	7,588	5,290	-30.3%
Income tax	-447	-942	111.0%	-1,084	-642	-40.8%
After tax profit	2,274	5,648	148.4%	6,504	4,648	-28.5%
MI	-24	-110	361.7%	-155	-112	-27.8%
Net profit	2,250	5,538	146.2%	6,349	4,536	-28.6%
Key ratios:			<i>ppt</i>			<i>ppt</i>
Gross margin	28.4%	30.0%	1.6	31.7%	26.7%	-5.0
S&D expense ratio	5.4%	6.0%	0.6	5.0%	5.8%	0.8
Administrative expense ratio	2.5%	2.0%	-0.6	1.4%	1.8%	0.4
R&D expense ratio	3.6%	4.2%	0.6	3.3%	4.8%	1.5
Net profit margin	13.0%	16.9%	3.8	20.3%	13.7%	-6.6
Effective tax rate	16.4%	14.3%	-2.1	14.3%	12.1%	-2.1

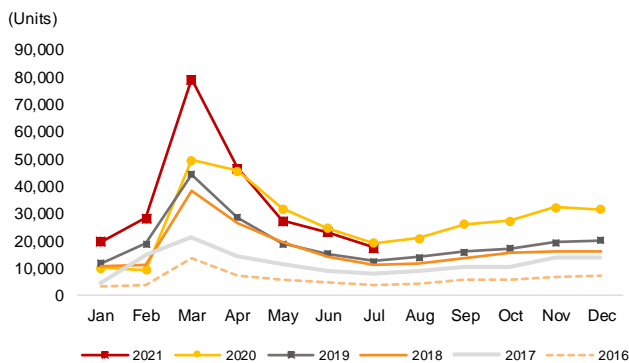
Source: Company data, CMBIS estimates

Figure 5: Key assumptions for SANY Heavy

(RMB mn)	2018	2019	2020	2021E	2022E	2023E
Revenue						
Concrete machinery	16,964	23,200	27,052	37,926	43,615	47,977
Excavator	19,247	27,624	37,528	49,865	51,361	51,361
Crane machinery	9,347	13,979	19,409	25,339	28,127	30,939
Piling machinery	4,691	4,810	6,825	7,973	8,372	8,372
Earth moving machinery	2,132	2,148	2,804	2,596	2,673	2,673
Other machinery	1,956	2,166	3,206	3,687	3,871	4,065
Revenue (construction machinery)	54,336	73,926	96,825	127,386	138,019	145,387
Interest income from financing		567	712	841	941	1,017
Other business	1,485	1,740	2,517	2,769	3,046	3,290
Total revenue	55,822	76,233	100,054	130,155	141,065	148,676
Gross margin						
Concrete machinery	25.2%	29.8%	27.3%	26.0%	25.9%	25.9%
Excavator	38.7%	38.6%	34.7%	32.0%	32.5%	32.5%
Crane machinery	24.8%	24.3%	21.7%	22.0%	23.0%	23.0%
Piling machinery	37.3%	45.4%	45.0%	45.0%	44.0%	43.0%
Earth moving machinery	31.3%	36.9%	31.1%	30.0%	29.0%	29.0%
Other machinery	22.7%	29.0%	24.7%	22.0%	22.0%	22.0%
Gross margin (construction machinery)	31.1%	33.3%	30.3%	28.7%	28.8%	28.5%
Interest income from financing		52.1%	55.9%	56.0%	56.0%	56.0%
Other business	12.5%	8.4%	11.5%	12.0%	12.0%	12.0%
Blended gross margin	30.6%	32.8%	30.0%	28.7%	28.8%	28.6%

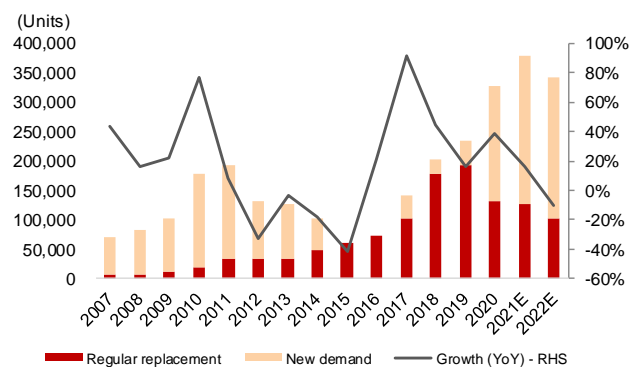
Source: Company data, CMBIS estimates

Figure 6: Monthly excavator sales by major manufactures in China



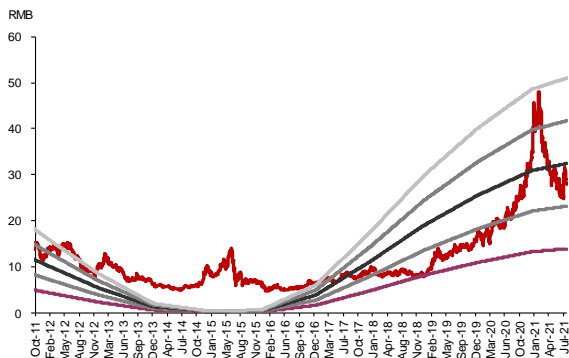
Source: CCMA, CMBIS

Figure 7: CMBIS excavator sales projection



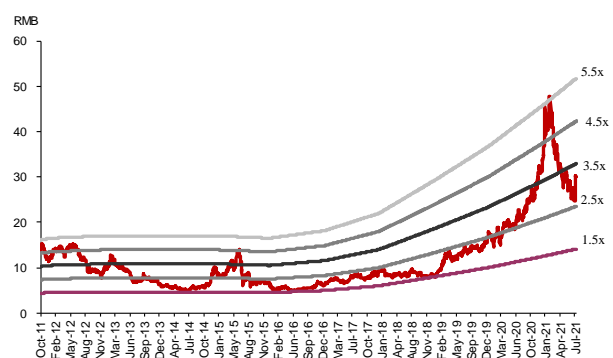
Source: CCMA, CMBIS estimates

Figure 8: SANY's P/E band



Source: Company data, Bloomberg, CMBIS estimates

Figure 9: SANY's P/B band



Source: Company data, Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	76,233	100,054	130,155	141,065	148,676
Cost of sales	(51,204)	(70,034)	(92,782)	(100,404)	(106,209)
Gross profit	25,029	30,021	37,373	40,661	42,468
Surcharge	(373)	(408)	(390)	(423)	(743)
S&D expenses	(5,488)	(5,332)	(7,159)	(7,476)	(7,880)
Administrative expenses	(2,067)	(2,201)	(1,952)	(1,834)	(1,784)
R&D expenses	(3,650)	(4,992)	(6,508)	(7,053)	(7,434)
Fair value change	290	436	400	400	400
Asset impairment	(1,363)	(681)	(911)	(1,129)	(1,189)
EBIT	12,378	16,844	20,853	23,146	23,837
Net finance income/(cost)	46	(282)	63	269	787
Finance income	489	515	540	760	1,289
Finance expenses	(442)	(797)	(477)	(491)	(502)
Other gains/(losses)	1,058	1,941	1,960	1,978	1,987
Profit of JV and associates	140	29	176	187	200
Pretax profit	13,621	18,531	23,052	25,580	26,811
Income tax	(2,001)	(2,671)	(3,343)	(3,709)	(3,888)
After tax profit	11,620	15,861	19,710	21,871	22,923
MI	(295)	(429)	(650)	(722)	(756)
Net profit	11,325	15,431	19,059	21,149	22,167
D&A	2,020	1,894	1,965	2,055	2,124
EBITDA	14,398	18,738	22,818	25,200	25,961

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pretax profit	13,621	18,531	23,052	25,580	26,811
Finance cost	120	797	477	491	502
Interest income	(489)	(515)	(540)	(760)	(1,289)
Profit or loss of associates	(140)	(29)	(176)	(187)	(200)
Fair value change	(673)	(1,341)	0	0	0
Provision for assets	241	495	0	0	0
Depreciation and amortization	2,020	1,894	1,965	2,055	2,124
Income tax paid	(2,001)	(2,671)	(3,343)	(3,709)	(3,888)
Change in working capital	(1,066)	(3,531)	(12,197)	(3,758)	83
Others	1,631	(267)	0	0	0
Cash flow from operation	13,265	13,363	9,238	19,712	24,144
Net capex on PP&E	(2,157)	(4,133)	(4,000)	(4,000)	(3,000)
Investment in JV/associates	(11)	(47)	(50)	(50)	(50)
Investment in subsidiaries	153	4	0	0	0
Dividend received	14	11	18	0	0
Others received	489	515	540	760	1,289
Others	(9,031)	(7,599)	(180)	(180)	(180)
Cash flow from investing	(10,544)	(11,250)	(3,672)	(3,470)	(1,941)
Equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	1,756	3,020	500	300	300
Dividend paid	(2,165)	(3,516)	(5,057)	(6,099)	(6,768)
Interest paid	(442)	0	(477)	(491)	(502)
Others	(1,187)	(1,956)	0	0	0
Cash flow from financing	(2,039)	(2,452)	(5,034)	(6,290)	(6,970)
Change in cash	683	(339)	532	9,952	15,233
Cash at beginning of the year	11,985	12,157	12,596	13,128	23,079
Exchange and others	(511)	778	0	0	0
Cash at the end of the year	12,157	12,596	13,128	23,079	38,313

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	26,555	34,827	37,432	46,816	42,643
PP&E	10,615	10,841	13,183	15,445	16,647
JV/associates	2,985	3,420	3,628	3,866	4,115
Goodwill	49	50	50	50	50
LT trade receivables	1,286	5,555	3,360	9,007	4,027
Intangible assets					
AFS investments	3,339	3,228	3,100	2,963	2,817
Others	0	0	0	0	0
Deferred tax assets	2,580	5,240	5,240	5,240	5,240
Current assets	1,147	1,441	1,441	1,441	1,441
Inventories	72,686	91,428	110,735	115,959	142,472
Trade and bills receivables	14,252	19,198	25,541	22,873	28,340
Other receivables	21,775	21,512	31,976	29,860	35,313
Others	2,787	1,869	3,837	3,893	4,254
Cash	9,061	13,446	13,446	13,446	13,446
Current liabilities	47,953	62,049	68,310	66,646	72,331
Trade and bills payables	20,295	32,207	38,968	37,504	43,389
Bank borrowings	10,771	8,466	7,966	7,766	7,566
Tax payable	1,515	2,030	2,030	2,030	2,030
Others	9,928	11,413	11,413	11,413	11,413
Non-current liabilities	2,866	6,018	7,018	7,518	8,018
Bank borrowings	1,303	4,532	5,532	6,032	6,532
Deferred tax liabilities	714	600	600	600	600
Others	728	849	849	849	849
Equity	48,423	58,188	72,840	88,612	104,767
Shareholders' equity	47,151	56,562	70,564	85,614	101,013
MI	1,272	1,625	2,276	2,997	3,754

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Concrete machinery	30%	27%	29%	31%	32%
Excavator	36%	38%	38%	36%	35%
Crane machinery	18%	19%	19%	20%	21%
Piling machinery	6%	7%	6%	6%	6%
Earth moving machinery	3%	3%	2%	2%	2%
Other machinery	3%	3%	3%	3%	3%
Interest income	1%	1%	1%	1%	1%
Other business	2%	3%	2%	2%	2%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	32.8	30.0	28.7	28.8	28.6
EBIT margin	16.2	16.8	16.0	16.4	16.0
Net profit margin	15.2	15.9	15.1	15.5	15.4
Growth (%)					
Revenue	36.6	31.2	30.1	8.4	5.4
Gross profit	46.4	19.9	24.5	8.8	4.4
EBIT	75.2	36.1	23.8	11.0	3.0
Net profit	85.2	36.3	23.5	11.0	4.8
Balance sheet ratio					
Current ratio (x)	1.5	1.5	1.6	1.7	2.0
Receivable turnover days	106	91	88	96	96
Inventory turnover days	92	87	88	88	88
Payable turnover days	134	137	140	139	139
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	13.1	13.7	13.9	13.6	12.7
ROE	28.8	29.8	30.0	27.1	23.8
Per share data					
EPS (RMB)	1.37	1.82	2.25	2.50	2.62
BVPS (RMB)	5.60	6.68	8.34	10.12	11.94
DPS (RMB)	0.43	0.60	0.72	0.80	0.84

Source: Company data, CMBIS estimates

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