

SANY International (631 HK)

Sustainable growth driven by intelligent mining products and robotic business

During the post-results call and CMBI NDR, SANYI highlighted that intelligent transformation and electrification in the coal mining equipment industry remains a structural growth driver. Besides, the fast-growing robotics business will offer high earnings visibility in 2021E-22E, and we expect external sales in 2H21E to help enhance earnings quality. On the other hand, the commencement of lighthouse factories in Sep-Oct will boost operating efficiency and reduce cost. We continue to believe SANYI's transformation strategy is the key to maintain a sustainable growth trajectory over the coming years. We roll over our valuation base to 2022E and lift our TP to HK\$14.3 (based on 23x P/E, on the back of 23% earnings CAGR in 2021E-23E). We believe potential M&A will offer additional upside. Reiterate **BUY**.

- Intelligent transformation and electrification a structural growth driver.** SANYI has already witnessed an increase in customers' interest in intelligent and automated combined coal mining unit (CCMU) as well as electro-hydraulic control system since 2019. For the industry as a whole, 90% of the hydraulic support at present is the traditional models. Besides, the penetration rate of remote-controlled road header remains low. All these, together with the government support of intelligent mining, imply significant upgrade and replacement demand over the coming 5-10 years.
- Upside on robotic revenue this year.** Revenue from robotic segment reached RMB400mn in 1H21, accounting for 8% of total revenue. SANYI targets to achieve RMB0.8-1.0bn of revenue this year, which is higher than our previous forecast. On the back of the upgrade and construction of SANY Group's 30-40 lighthouse factories, SANYI is confident of achieving further growth in 2022E. In Aug, the total backlog of robotic business reached RMB1.3bn. For external sales, SANYI targets to boost the external revenue through offering robotic solutions to SANY Group's suppliers. SANYI expects external sales starting 2H21E, which is faster than our expectation.
- Cost control measures.** Given the high raw materials price, SANYI will continue to control the cost through increasing the steel usage rate. For example, efficiency improvement of 2.5ppt will translate into 1ppt of gross margin improvement. Meanwhile, the commencement of four lighthouse factories in Sep & Oct will help lift production efficiency to a new level.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	5,656	7,364	10,171	12,562	15,089
YoY growth (%)	28.1	30.2	38.1	23.5	20.1
Net income (RMB mn)	920	1,045	1,341	1,623	1,960
EPS (RMB)	0.30	0.34	0.43	0.52	0.63
YoY growth (%)	51.3	12.5	27.7	21.0	20.8
Consensus EPS (RMB)	N/A	N/A	0.42	0.53	0.66
EV/EBITDA (x)	19.7	17.3	13.9	11.6	9.8
P/E (x)	32.0	27.2	20.4	16.9	14.0
P/B (x)	4.1	3.6	3.1	2.8	2.5
Yield (%)	1.2	1.4	2.2	2.7	3.2
ROE (%)	13.6	14.0	16.1	17.5	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\$14.30
(Previous TP)	HK\$11.90
Up/Downside	+36%
Current Price	HK\$10.50

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Stock Data

Mkt Cap (HK\$ mn)	33,035
Avg 3 mths t/o (HK\$ mn)	52
52w High/Low (HK\$)	10.76/4.11
Total Issued Shares (mn)	3,100.7

Source: Bloomberg

Shareholding Structure

Sany Heavy Equipment	67.7%
Investments Company	
Free float	32.3%

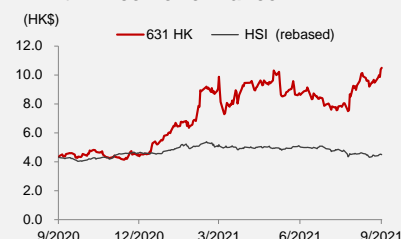
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	12.3%	12.9%
3-mth	19.0%	33.6%
6-mth	14.7%	27.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- SANY Int'l – Robotic business a surprise; More growth drivers ahead – 22 Mar 2021
- SANY Int'l – Product mix enhancement to drive further valuation upside – 16 Feb 2021

Recap on 1H21 financial results

Net profit in 1H21 grew 27% YoY to RMB811mn, largely in line with expectations. Revenue grew 31% YoY to ~RMB5bn, driven by 36%/22% growth of mining /logistic equipment. Gross margin narrowed 2.6ppt 24.4%, due to both change in product mix and raw materials cost pressure. SANYI boosted R&D spending by 77% YoY (to RMB340mn, 6.7% of total revenue) while administrative expense (excluding R&D) increased only 7% YoY in 1H21, suggesting good expense control. SANYI recognized a fair value gain of RMB172mn in 1H21.

In 2Q21, total revenue grew 14% YoY to RMB2.6bn. Gross margin dropped to 23.1%, down 2.7ppt QoQ and 4.4ppt YoY. Net profit grew 23% YoY to RMB471mn, helped by other gains.

Figure 1: Segment breakdown in 1H21

(RMB mn)	1H20	1H21	Change (YoY)
Revenue			
<u>Mining equipment sales</u>	2,547	3,584	40.7%
Sales	2,370	3,227	36.2%
Others	178	357	101.1%
<u>Logistics equipment sales</u>	1,483	1,858	25.3%
Sales	1,446	1,757	21.6%
Others	38	101	168.4%
Total revenue	4,030	5,442	35.0%
Segment EBIT			
Energy equipment	561	783	39.7%
Port machinery	249	192	-22.9%
Total segment results	810	975	20.4%
Segment margin			ppt
Energy equipment	22.0%	21.8%	-0.0
Port machinery	16.8%	10.3%	-0.4
Average	20.1%	17.9%	-0.1

Source: Company data, CMBIS

Figure 2: Results highlights in 1H21

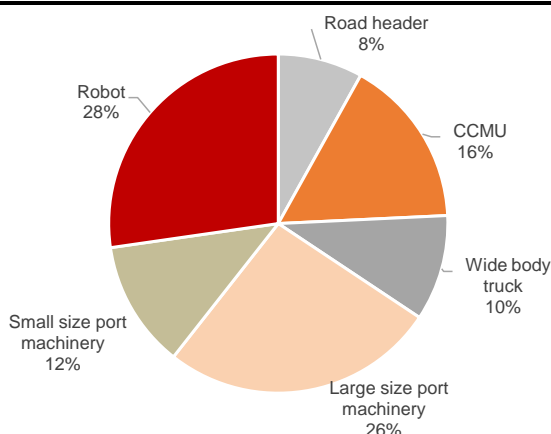
YE Dec 31(RMB mn)	1H20	1H21	Change (YoY)
Revenue			
Mining equipment	2,370	3,227	36.2%
Logistics equipment	1,446	1,757	21.6%
Total revenue	3,815	4,984	30.6%
Cost of sales	-2,785	-3,769	35.3%
Gross profit	1,030	1,215	18.0%
Other income	215	458	112.8%
Other gains and losses	57	19	-66.3%
S&D expenses	-180	-244	35.7%
Administrative expenses	-311	-470	51.3%
Other expenses	-2	-3	n/a
EBIT	810	975	20.4%
Net finance income/(cost)	-56	-29	n/a
Finance income	19	26	35.3%
Finance expenses	-75	-55	-26.5%
Share of profit of JV and associates	0	0	n/a
Pretax profit	754	946	25.5%
Income tax	-115	-117	1.4%
After tax profit	639	829	29.8%
MI	1	-18	n/a
Net profit	640	811	26.8%
D&A	124	126	1.8%
EBITDA	934	1,101	17.9%

Source: Company data, CMBIS

Figure 3: Quarter results highlights

RMB mn	1Q20	1Q21	Chg (YoY)	2Q20	2Q21	Chg (YoY)
Revenue	1,553	2,411	55%	2,262	2,573	14%
Cost of sales	-1,146	-1,790	56%	-1,639	-1,980	21%
Gross profit	407	622	53%	623	593	-5%
Gross margin	26.2%	25.8%		27.5%	23.1%	
Pretax profit	296	368	24%	458	578	26%
Pretax profit margin	19.1%	15.3%		20.2%	22.5%	
Net profit	257	340	32%	383	471	23%
Net margin	16.5%	14.1%		16.9%	18.3%	

Source: Company data, CMBIS estimates

Figure 4: SANYI's backlog amounted to RMB5bn in Aug 2021

Source: Company data, CMBIS estimates

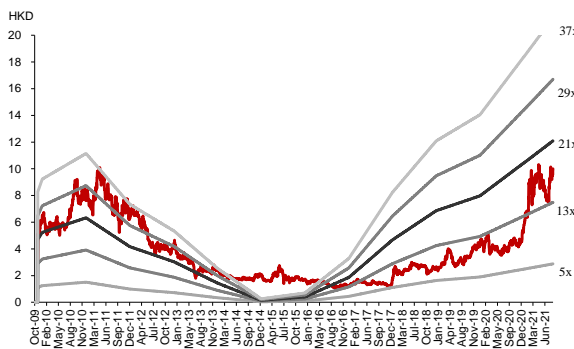
We revise up our 2021E/22E earnings forecast by 3.6%/1.3%. On the revenue side, we raise our forecast on robotic revenue to RMB1.08bn/RMB1.3bn in 2021E/22E, given the upbeat guidance. We also revise up our forecast on both road header and CCMU on the back of the continuous launch of intelligent products as well as the solid industry demand. However, we lower our forecast on wide-body truck as demand was affected by safety check in coal mines in 1H21. We also lower our projection on large-size port machinery but we expect the lighthouse factory commencement will help remove the capacity bottleneck going forward. Our blended gross margin projection in 2021E/22E is revised up by 0.9ppt/0.3ppt to 25.4%/26.3%.

Figure 5: Change in key assumptions on SANYI

	2021E	Old 2022E	2021E	New 2022E	2021E	Change 2022E
(RMB mn)						
Revenue						
Road header	1,568	1,696	1,703	1,912	8.6%	12.7%
Combined coal mining units (CCMU)	1,793	2,116	2,132	2,537	18.9%	19.9%
Small-size port machinery	2,088	2,360	2,250	2,655	7.7%	12.5%
Large-size port machinery	1,412	1,624	850	1,317	-39.9%	-18.9%
Mining trucks	1,855	2,709	1,548	2,200	-16.6%	-18.8%
After sales service	350	550	609	646	74.0%	17.4%
Robot	650	950	1,080	1,296	66.2%	36.4%
Total	9,718	12,006	10,171	12,562	4.7%	4.6%
						Change (ppt)
Blended gross margin	26.3%	26.6%	25.4%	26.3%	(0.9)	(0.3)
						Change (ppt)
S&D expense ratio	5.6%	5.5%	5.7%	5.5%	0.1	0.0
Admin expense ratio	9.4%	9.3%	9.8%	9.4%	0.4	0.1
Net profit	1,295	1,603	1,341	1,623	3.6%	1.3%

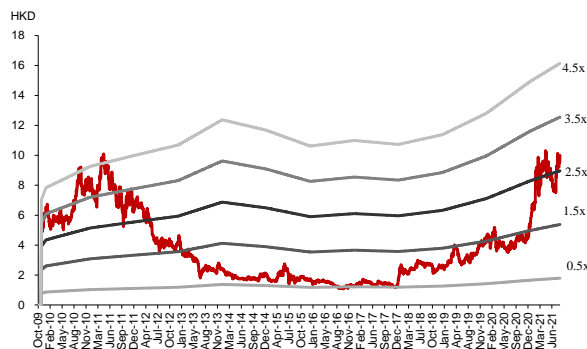
Source: CMBIS estimates

Figure 6: SANYI's PE band



Source: Bloomberg, Company data, CMBIS estimates

Figure 7: SANYI's PB band



Source: Bloomberg, Company data, CMBIS estimates

Major risk factors: (1) weakness in mining activities; (2) higher-than-expected expense to drive the introduction of new products.

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue					
- Mining equipment	3,423	4,846	5,870	7,165	8,514
- Logistics equipment	2,233	2,518	3,221	4,101	4,955
Total revenue	5,656	7,364	10,171	12,562	15,089
Cost of sales	-3,987	-5,403	-7,589	-9,252	-11,158
Gross profit	1,669	1,961	2,583	3,310	3,931
Other income	342	237	509	402	483
Other gains and losses	121	257	132	163	196
S&D expenses	-388	-430	-580	-691	-800
Administrative expenses	-643	-707	-997	-1,181	-1,403
Other expenses	-4	-31	-31	-38	-45
EBIT	1,097	1,286	1,616	1,966	2,362
Net finance income/(cost)	-27	-96	-58	-57	-54
Finance income	58	36	54	56	58
Finance expenses	-85	-132	-112	-112	-112
Share of JV and associates	0	0	0	0	0
Pretax profit	1,070	1,190	1,558	1,909	2,308
Income tax	-148	-139	-187	-248	-300
After tax profit	922	1,052	1,371	1,661	2,008
MI	-2	-6	-30	-38	-48
Net profit	920	1,045	1,341	1,623	1,960
D&A	249	249	293	328	349
EBITDA	1,346	1,535	1,909	2,294	2,711

Cash flow statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pretax profit	1,070	1,190	1,558	1,909	2,308
Finance cost	85	132	112	112	112
Interest income	-58	-36	-54	-56	-58
Share of profit or loss of associates	0	0	0	0	0
Depreciation and amortization	249	249	293	328	349
Income tax paid	-100	-139	-187	-248	-300
Change in working capital	-22	237	-590	-738	-909
Others	-424	-563	0	0	0
Cash flow from operation	801	1,070	1,132	1,308	1,502
Net capex on PP&E	-216	-401	-500	-500	-300
Interest received	58	36	54	56	58
Others	-2,153	-282	0	0	0
Cash flow from investing	-2,311	-647	-446	-444	-242
Proceeds from equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	1,860	-122	0	0	0
Dividend paid	-262	-338	-408	-604	-730
Interest paid	-85	-132	-112	-112	-112
Others	15	-9	0	0	0
Cash flow from financing	1,527	-602	-520	-716	-843
Change in cash	17	-179	166	148	418
Cash at beginning of the year	1,070	1,103	941	1,107	1,255
Exchange gains/(losses) and others	16	17	-0	-0	-0
Cash at the end of the year	1,103	941	1,107	1,255	1,673

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	5,209	5,448	5,655	5,828	5,779
PP&E	2,413	2,591	2,825	3,023	3,000
Prepaid land lease payments	1,027	1,140	1,114	1,088	1,062
Goodwill	1,130	1,130	1,130	1,130	1,130
Non-current prepayment	145	10	10	10	10
Others	146	282	282	282	282
Deferred tax assets	348	296	296	296	296
Current assets	10,338	12,016	13,640	15,116	17,523
Prepayment	615	359	359	359	359
Inventories	1,438	1,821	2,462	2,658	3,578
Trade receivables	2,634	3,288	4,069	5,017	5,897
Bills receivables	424	595	631	815	1,004
Financial assets	3,276	4,024	4,024	4,024	4,024
Others	844	988	988	988	988
Pledged deposits/Time deposits	2	0	0	0	0
Cash	1,103	941	1,107	1,255	1,673
Current liabilities	6,421	7,938	8,806	9,397	10,477
Trade and bills payables	1,832	2,893	3,760	4,351	5,431
Other payables and accruals	1,535	1,917	1,917	1,917	1,917
Bank borrowings	2,512	2,645	2,645	2,645	2,645
Tax payable	253	197	197	197	197
Government grants	94	96	96	96	96
Others	195	191	191	191	191
Non-current liabilities	1,980	1,667	1,667	1,667	1,667
Bank borrowings	747	493	493	493	493
Deferred tax liabilities	37	69	69	69	69
Government grants	1,195	1,105	1,105	1,105	1,105
Total equity	7,146	7,859	8,822	9,880	11,158
Shareholders' equity	7,132	7,839	8,772	9,791	11,021
MI	14	20	50	89	137

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
- Mining equipment	61%	66%	58%	57%	56%
- Logistics equipment	39%	34%	32%	33%	33%
Total	100%	100%	100%	100%	100%
P&L ratios (%)					
Gross margin	30%	27%	25%	26%	26%
EBITDA margin	24%	21%	19%	18%	18%
EBIT margin	19%	17%	16%	16%	16%
Net profit margin	16%	14%	13%	13%	13%
Growth (%)					
Revenue	28%	30%	38%	24%	20%
Gross profit	29%	17%	32%	28%	19%
EBITDA	43%	14%	24%	20%	18%
EBIT	52%	17%	26%	22%	20%
Net profit	53%	14%	28%	21%	21%
Balance sheet ratios					
Current ratio (x)	1.6	1.5	1.5	1.6	1.7
Receivable turnover days	154	147	132	132	132
Inventory turnover days	136	110	103	101	102
Payable turnover days	167	160	160	160	160
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROA	6%	6%	7%	8%	9%
ROE	14%	14%	16%	17%	19%
Per share					
EPS (RMB)	0.30	0.336	0.429	0.519	0.627
BVPS (RMB)	2.30	2.52	2.80	3.13	3.52
DPS (RMB)	0.11	0.131	0.193	0.234	0.282

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

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