

SANY International (631 HK)

3Q21 Net profit +8%, in line with estimates; Revenue growth acceleration a positive sign

SANYI's net profit grew 8% YoY to RMB284mn in spite of the margin pressure resulting from high steel cost and freight rate, which we think is a set of satisfactory results. It's encouraging to see revenue growth significantly accelerated to 51% YoY in 3Q21, versus 14% in 2Q21, suggesting strong product demand. We maintain our positive stance on SANYI due to the on-track development of electric products, de-bottlenecking of large-size port machinery capacity and fast growing robotic business and smart mining. Besides, with continuous cost control measure and introduction of intelligent model along with ASP hike, the gross margin should see potential improvement in 4Q21E or early next year. Maintain **BUY** with unchanged TP of HK\$14.3 (based on 23x P/E).

- Key highlights on 3Q21 results.** Revenue surged 51% YoY to RMB2.56bn in 3Q21. Gross margin narrowed 6.3ppt YoY (up 0.1ppt QoQ), due to: (1) 1ppt from the increase in raw material cost, (2) 1ppt from freight rate, (3) product mix change (fast-growing sales of wide body truck and telescopic forklift truck), and (4) appreciation of RMB. Net profit grew 8% YoY to RMB284mn. In 9M21, revenue/net profit grew 37%/23% YoY, representing 73%/84% of our full year estimates. Latest backlog amounted to RMB5.6bn (Figure 2).
- Mining equipment: New products to drive ASP growth.** The segment revenue / net profit grew 28% / 35% YoY to RMB4.25bn / RMB860mn in 9M21. Rising ratio of large-size and intelligent road header boosted ASP increase this year (to RMB3.2mn from RMB2.8mn last year). Going forward, SANYI believes that the growth driver will come from the intelligent transformation of coal mining equipment (e.g. unmanned machine). For wide-body truck, large-size and electric products will continue drive both volume and ASP increase going forward. For example, the ASP for 60t electric wide body truck can reach RMB1.5mn, compared with the traditional model of RMB700k.
- Logistics equipment: Growth to accelerate with margin expansion in 2022E.** Revenue surged 31% YoY to RMB2.56bn in 9M21. For large size port machinery, SANYI saw good order intakes this year (RMB1bn from overseas). For example, PSA signed 5 units of large-size quayside gantry crane that carry higher margin. Also, the intelligent upgrade for existing models will carry higher gross margin (~33%). For small-size port machinery, electric reach stacker and empty container handler (higher margin) are expected to account for 30% of the respective product sales in 2022E, and further to 50% in 2023E.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	5,656	7,364	10,306	12,699	15,219
YoY growth (%)	28.1	30.2	40.0	23.2	19.8
Net income (RMB mn)	920	1,045	1,331	1,633	1,957
EPS (RMB)	0.30	0.34	0.43	0.52	0.63
YoY growth (%)	51.3	12.5	26.7	22.7	19.9
Consensus EPS (RMB)	N/A	N/A	0.42	0.53	0.65
EV/EBITDA (x)	16.5	14.5	11.7	9.7	8.2
P/E (x)	27.1	23.1	17.5	14.2	11.9
P/B (x)	3.5	3.1	2.7	2.4	2.1
Yield (%)	1.4	1.7	2.6	3.2	3.8
ROE (%)	13.6	14.0	16.0	17.6	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\$14.30)
Up/Downside	+60%
Current Price	HK\$8.92

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Stock Data

Mkt Cap (HK\$ mn)	28,127
Avg 3 mths t/o (HK\$ mn)	48
52w High/Low (HK\$)	10.80/4.11
Total Issued Shares (mn)	3,100.7

Source: Bloomberg

Shareholding Structure

Sany Heavy Equipment	67.7%
Investments Company	
Free float	32.3%

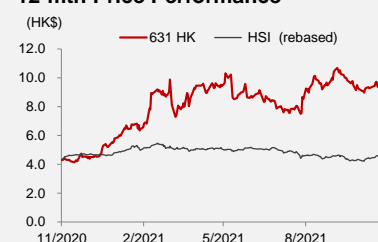
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.3%	-6.3%
3-mth	4.6%	7.0%
6-mth	-5.4%	7.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- SANY Int'l – Good crisis management to remove impact of power suspension; Solid coal mining equipment order intakes – 4 Oct 2021
- SANY Int'l – Sustainable growth driven by intelligent mining products and robotic business – 6 Sep 2021

- **Progress on the construction of lighthouse factories.** Among the four lighthouse factories, the small-size port machinery factory is now on the ramp-up stage. The other three plants (for hydraulic support, wide-body truck and large-size port machinery) are expected to finish construction in Nov and commence operation in Dec or 1Q22.

Figure 1: 3Q21 results highlights

RMB mn	1Q20	1Q21	Chg (YoY)	2Q20	2Q21	Chg (YoY)	3Q20	3Q21	Chg (YoY)
Revenue	1,553	2,411	55%	2,262	2,573	14%	1,689	2,557	51%
Cost of sales	-1,146	-1,790	56%	-1,639	-1,980	21%	-1,190	-1,963	65%
Gross profit	407	622	53%	623	593	-5%	499	594	19%
<i>Gross margin</i>	26.2%	25.8%		27.5%	23.1%		29.5%	23.2%	
Pretax profit	296	368	24%	458	578	26%	278	298	7%
<i>Pretax profit margin</i>	19.1%	15.3%		20.2%	22.5%		16.5%	11.7%	
Net profit	257	340	32%	383	471	23%	264	284	8%
<i>Net margin</i>	16.5%	14.1%		16.9%	18.3%		15.6%	11.1%	

Source: Company data, CMBIS

Figure 2: Backlog trend

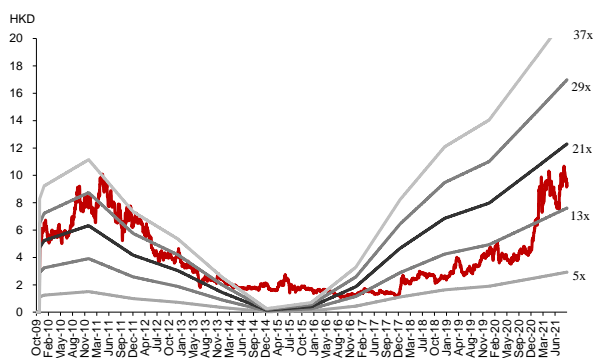
Backlog	Mar-21	Aug-21	Oct-21
RMB mn			
Mining equipment			
Road header	270	400	680
CCMU	1,030	800	750
Wide body truck	520	500	560
Mining truck	70	n/a	60
Mining total	1,890	1,700	2,040
Port machinery			
Large size port machinery	1,660	1,300	-
Small size port machinery	410	600	-
Port total	2,070	1,900	2,100
Robot			
Industrial robot	530	1,350	-
Electric forklift	140	<100	-
Robot total	670	1,350	1,350
Intelligent mining	60	<10	<100
Total	4,690	5,000	5,600

Source: Company data, CMBIS

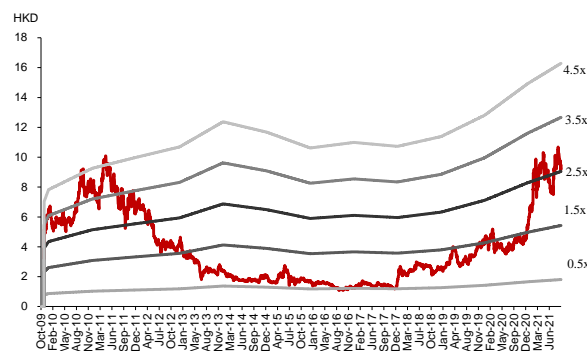
Figure 3: Key assumptions on SANYI

(RMB m n)	2019	2020	2021E	2022E	2023E
Revenue					
Road header	1,408	1,250	1,703	1,912	2,047
Combined coal mining units (CCMU)	1,073	1,640	2,214	2,635	3,030
Small-size port machinery	1,547	1,800	2,376	2,804	3,280
Large-size port machinery	686	720	864	1,339	1,741
Mining trucks	388	950	1,460	2,069	2,816
After sales service	554	580	609	646	684
Robot	-	400	1,080	1,296	1,620
Total	5,656	7,340	10,306	12,699	15,219
Growth (YoY)					
Road header	30.5%	-11.2%	36.2%	12.3%	7.1%
Combined coal mining units (CCMU)	11.1%	52.8%	35.0%	19.0%	15.0%
Small-size port machinery	18.5%	16.4%	32.0%	18.0%	17.0%
Large-size port machinery	24.5%	5.0%	20.0%	55.0%	30.0%
Mining trucks	340.9%	144.8%	53.7%	41.7%	36.1%
After sales service	29.4%	4.7%	5.0%	6.0%	6.0%
Robot	-	-	170.0%	20.0%	25.0%
Total	28.1%	29.8%	40.4%	23.2%	19.8%
Gross margin					
Blended gross margin	29.5%	27.6%	24.9%	26.3%	25.9%

Source: Company data, CMBIS estimates

Figure 4: SANYI's PE band

Source: Bloomberg, Company data, CMBIS estimates

Figure 5: 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; (3) unexpected power outage.

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue					
- Mining equipment	3,423	4,846	5,864	7,131	8,440
- Logistics equipment	2,233	2,518	3,362	4,272	5,158
Total revenue	5,656	7,364	10,306	12,699	15,219
Cost of sales	-3,987	-5,403	-7,743	-9,363	-11,277
Gross profit	1,669	1,961	2,563	3,336	3,942
Other income	342	237	515	406	487
Other gains and losses	121	257	155	165	198
S&D expenses	-388	-430	-587	-698	-807
Administrative expenses	-643	-707	-1,010	-1,194	-1,415
Other expenses	-4	-31	-31	-38	-46
EBIT	1,097	1,286	1,604	1,978	2,359
Net finance income/(cost)	-27	-96	-58	-57	-54
Finance income	58	36	54	55	58
Finance expenses	-85	-132	-112	-112	-112
Share of JV and associates	0	0	0	0	0
Pretax profit	1,070	1,190	1,546	1,921	2,305
Income tax	-148	-139	-186	-250	-300
After tax profit	922	1,052	1,360	1,671	2,005
MI	-2	-6	-30	-38	-48
Net profit	920	1,045	1,331	1,633	1,957
D&A	249	249	293	328	349
EBITDA	1,346	1,535	1,897	2,305	2,708

Cash flow statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pretax profit	1,070	1,190	1,546	1,921	2,305
Finance cost	85	132	112	112	112
Interest income	-58	-36	-54	-55	-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	-186	-250	-300
Change in working capital	-22	237	-656	-686	-953
Others	-424	-563	-0	-0	-0
Cash flow from operation	801	1,070	1,056	1,370	1,456
Net capex on PP&E	-216	-401	-500	-500	-300
Interest received	58	36	54	55	58
Others	-2,153	-282	0	0	0
Cash flow from investing	-2,311	-647	-446	-445	-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	-599	-735
Interest paid	-85	-132	-112	-112	-112
Others	15	-9	0	0	0
Cash flow from financing	1,527	-602	-520	-711	-847
Change in cash	17	-179	90	214	367
Cash at beginning of the year	1,070	1,103	941	1,031	1,245
Exchange gains/(losses) and others	16	17	-0	-0	-0
Cash at the end of the year	1,103	941	1,031	1,245	1,612

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	13,765	15,081	17,662
Prepayment	615	359	359	359	359
Inventories	1,438	1,821	2,549	2,632	3,670
Trade receivables	2,634	3,288	4,166	5,019	5,988
Bills receivables	424	595	647	814	1,021
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	1,031	1,245	1,612
Current liabilities	6,421	7,938	8,942	9,358	10,620
Trade and bills payables	1,832	2,893	3,896	4,313	5,574
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	8,811	9,884	11,154
Shareholders' equity	7,132	7,839	8,761	9,795	11,018
MI	14	20	50	89	137

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
- Mining equipment	61%	66%	57%	56%	55%
- Logistics equipment	39%	34%	33%	34%	34%
Total	100%	100%	100%	100%	100%
P&L ratios (%)					
Gross margin	30%	27%	25%	26%	26%
EBITDA margin	24%	21%	18%	18%	18%
EBIT margin	19%	17%	16%	16%	16%
Net profit margin	16%	14%	13%	13%	13%
Growth (%)					
Revenue	28%	30%	40%	23%	20%
Gross profit	29%	17%	31%	30%	18%
EBITDA	43%	14%	24%	22%	17%
EBIT	52%	17%	25%	23%	19%
Net profit	53%	14%	27%	23%	20%
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%	18%	19%
Per share					
EPS (RMB)	0.30	0.336	0.425	0.522	0.626
BVPS (RMB)	2.30	2.52	2.80	3.13	3.52
DPS (RMB)	0.11	0.131	0.191	0.235	0.282

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

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