# CMB International Securities | Equity Research | Company Update



# 招 商 银 行 全 资 附 属 机 A Wholly Owned Subsidiary Of China Merchants

# SANY Heavy Industry – A (600031 CH)

# Low market expectation after 3Q21 results; Electric products and export to serve as medium term drivers

We believe the 3Q21 earnings (-35% YoY) has set a low base and expectations for the coming quarters, suggesting that further significant downside on valuation should be limited. In the near term, we expect a risk reduction driver will come from the stabilization of gross margin as sharp increase raw material price and freight rate from the current high level looks less likely. Besides, the speed-up of local government bond will help improve the machinery demand in China market. In the medium term, SANY has set to become a global tier-one player, on the back of clear roadmap on overseas expansion, fast growing electric products and cutting edge technology in intelligent production. Maintain **BUY** and TP of RMB30. based on 14x 2021E PE.

- Clear roadmap on overseas expansion. According to SANY, the Company currently ranks No. 5 in the global market (excluding China). SANY not only ranks No.1 in 15 countries (major country: Indonesia), but also ranks No.2 in India, Chile and Philippine. Besides, SANY has already achieved 5% market share in each the countries including Russia, Canada, France, UK and New Zealand. Going forward, SANY will continue to put the focus not only on the developing regions but also the developed regions such as Europe and US. SANY plans to build lighthouse factories in Europe to in order to ensure production and delivery, reduce cost and promote the brand. Besides, SANY has already established leasing companies in the US, and plans to set up leasing companies in Germany, UK, Italy and Canada.
- Overseas sales target. SANY's excavator sales in overseas surged 1.33x YoY in 9M21, significantly outpaced the industry growth of 49%. SANY targets to achieve 1.2-1.3x YoY growth in 2021E, followed by >50% YoY in 2022E. For crane machinery (overseas), SANY targets to achieve ~5% YoY in 2022E.
- Excavator sales in China better than industry. SANY's excavator sales in China grew 13% YoY in 9M21, with 3ppt market share gain YoY (+1.4ppt for large & medium size; +4ppt for small size). Sales weakness in 3Q21 was mainly due to the weak demand for medium size models, as a result of sluggish property sector. SANY targets to achieve 8-10% growth this year.
- Aggressive target of electric concrete mixer sales. The carbon reduction targets in China have triggered significant increase in procurement for electric mixers from the local governments. SANY delivered ~850 units of electric mixer in 10M21. SANY plans to achieve 1.2k units (equivalent to RMB0.8-1.0bn revenue) in 2021E. Going forward, SANY targets to deliver RMB4bn/8bn/10bn revenue from electric mixer in 2022E/23E/25E.

Earnings Summary
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Earnings Summary					
(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	76,233	100,054	113,466	122,550	129,159
YoY growth (%)	37	31	13	8	5
Net income (RMB mn)	11,325	15,431	15,315	17,878	18,628
EPS (RMB)	1.37	1.82	1.81	2.11	2.20
YoY growth (%)	73.2	33.2	-0.8	16.7	4.2
Consensus EPS (RMB)	-	-	2.05	2.31	2.54
EV / EBITDA (x)	12.6	9.7	10.0	8.6	8.3
P/E (x)	16.8	12.6	12.7	10.9	10.4
P/B (x)	4.1	3.4	2.9	2.4	2.1
Yield (%)	1.9	2.6	2.5	2.9	3.1
ROE (%)	28.8	29.8	24.8	24.4	21.6
Net gearing (%)	Net cash				

Source: Company data, Bloomberg, CMBIS estimates

# **BUY (Maintain)**

**Target Price** RMB30.00 (previous TP RMB30.00) Up/Downside +31% **Current Price** RMB22.96

#### **China Capital Goods**

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#### Stock Data

Mkt Cap (RMB mn)	194,982
Avg 3 mths t/o (RMB mn)	4,947
52w High/Low (RMB)	50.30/22.44
Total Issued Shares (mn)	8,435
Source: Bloomberg	

Shareholding Structure

SANY Group	29.2%
Hong Kong CCASS	7.2%
Liang Wengen	2.8%
Others	60.8%

Source: Company data, Shanghai Stock Exchange

#### **Share Performance**

	Absolute	Relative
1-mth	-9.7%	-10.5%
3-mth	-7.5%	-9.3%
6-mth	-25.6%	-22.4%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

# **Auditor: Ruihua CPA**

# **Related Reports**

- China Construction Machinery / HDT - 3Q21 earnings preview; Expect 24-44% YoY earnings decline - 27 Oct 2021
- Construction Machinery / HDT - Favourable policy shift; Defensive growth amid volatile market; Upgrade SANY Heavy & Sinotruk - 9 Aug 2021



- Lighthouse factories construction in good progress. SANY has completed the construction of 14 lighthouse factories (i.e. smart factories). Another seven plants are under construction and most of those who will be completed in 1H22E.
- Recap on 3Q21 results. Net profit dropped 35% YoY to RMB2.5bn, which is better than our expectation. Revenue dropped only 13% YoY to RMB20.8bn, due to strong export sales. Gross margin narrowed 5.5ppt YoY / 1.8ppt QoQ to 24.9%. R&D expense grew 4.5% YoY to RMB1.3bn and SANY targets to maintain a spending of RMB1.3-1.6bn for each quarter going forward. Operating cash inflow declined 88% YoY to RMB448bn.

Figure 1: SANY Heavy's 3Q21 financials

(RMB mn)	1Q20	1Q21	Change YoY	2Q20	2Q21	Change YoY	3Q20	3Q21E	Change YoY
Total revenue	17,444	33,513	92.1%	32,097	33,985	5.9%	23,883	20,783	-13.0%
Cost of sales	-12,490	-23,463	87.8%	-21,934	-24,926	13.6%	-16,618	-15,601	-6.1%
Gross profit	4,954	10,050	102.9%	10,163	9,059	-10.9%	7,265	5,182	-28.7%
Other income	-70	-96	38.5%	-126	-158	25.5%	-99	-87	-11.9%
S&D expenses	-942	-2,005	112.9%	-1,604	-1,974	23.1%	-1,224	-1,145	-6.5%
Administrative expenses	-439	-655	49.3%	-461	-621	34.6%	-559	-675	20.9%
R&D expense	-631	-1,423	125.5%	-1,060	-1,635	54.2%	-1,277	-1,334	4.5%
Fair value change	197	2	-99.1%	85	64	-24.7%	160	-20	-112.3%
Asset impairment	-124	-197	59.4%	-205	-248	21.2%	-208	-82	-60.7%
EBIT	2,946	5,676	92.7%	6,791	4,486	-33.9%	4,058	1,840	-54.7%
Net finance income/(expense)	-312	149	n/a	308	-10	n/a	-245	68	n/a
Other gains/(losses)	131	714	445.8%	466	812	74.3%	765	853	11.4%
Share of profit of JV and associates	-44	52	-217.0%	23	2	-93.2%	36	33	-8.5%
Pretax profit	2,720	6,591	142.3%	7,588	5,290	-30.3%	4,614	2,794	-39.5%
Income tax	-447	-942	111.0%	-1,084	-642	-40.8%	-655	-231	-64.8%
After tax profit	2,274	5,648	148.4%	6,504	4,648	-28.5%	3,959	2,563	-35.3%
MI	-24	-110	361.7%	-155	-112	-27.8%	-105	-70	-33.2%
Net profit	2,250	5,538	146.2%	6,349	4,536	-28.6%	3,854	2,493	-35.3%
Key ratios:			ppt			ppt			ppt
Gross margin	28.4%	30.0%	1.6	31.7%	26.7%	-5.0	30.4%	24.9%	-5.5
S&D expense ratio	5.4%	6.0%	0.6	5.0%	5.8%	0.8	5.1%	5.5%	0.4
Administrative expense ratio	2.5%	2.0%	-0.6	1.4%	1.8%	0.4	2.3%	3.2%	0.9
R&D expense ratio	3.6%	4.2%	0.6	3.3%	4.8%	1.5	5.3%	6.4%	1.1
Net profit margin	13.0%	16.9%	3.8	20.3%	13.7%	-6.6	16.6%	12.3%	-4.2
Effective tax rate	16.4%	14.3%	-2.1	14.3%	12.1%	-2.1	14.2%	8.3%	-5.9

Source: Company data, CMBIS estimates



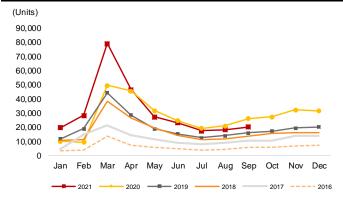
Figure 2: Key assumptions for SANY Heavy

(RMB mn)	2019	2020	2021E	2022E	2023E
Revenue					
Concrete machinery	23,200	27,052	30,244	33,781	37,159
Excavator	27,624	37,528	45,559	48,293	49,259
Crane machinery	13,979	19,409	20,550	22,423	24,216
Piling machinery	4,810	6,825	7,376	7,745	7,745
Earth moving machinery	2,148	2,804	2,640	2,719	2,719
Other machinery	2,166	3,206	4,328	4,545	4,772
Revenue (construction machinery)	73,926	96,825	110,697	119,504	125,869
Interest income from financing	567	712	841	941	1,017
Other business	1,740	2,517	2,769	3,046	3,290
Total revenue	76,233	100,054	113,466	122,550	129,159
Revenue growth					
Concrete machinery	36.8%	16.6%	11.8%	11.7%	10.0%
Excavator	43.5%	35.9%	21.4%	6.0%	2.0%
Crane machinery	49.6%	38.8%	5.9%	9.1%	8.0%
Piling machinery	2.5%	41.9%	8.1%	5.0%	0.0%
Earth moving machinery	0.7%	30.6%	-5.9%	3.0%	0.0%
Other machinery	10.7%	48.0%	35.0%	5.0%	5.0%
Revenue (construction machinery)	36.1%	31.0%	14.3%	8.0%	5.3%
Interest income from financing	0.0%	25.6%	18.0%	12.0%	8.0%
Other business	17.2%	44.7%	10.0%	10.0%	8.0%
Total revenue	36.6%	31.2%	13.4%	8.0%	5.4%
Gross margin					
Concrete machinery	29.8%	27.3%	25.0%	25.9%	25.9%
Excavator	38.6%	34.7%	28.5%	30.0%	30.0%
Crane machinery	24.3%	21.7%	21.0%	22.0%	22.0%
Piling machinery	45.4%	45.0%	44.0%	44.0%	43.0%
Earth moving machinery	36.9%	31.1%	29.7%	29.0%	29.0%
Other machinery	29.0%	24.7%	19.0%	22.0%	22.0%
Gross margin (construction machinery)	33.3%	30.3%	26.8%	27.9%	27.7%
Interest income from financing	52.1%	55.9%	56.0%	56.0%	56.0%
Other business	8.4%	11.5%	15.0%	14.0%	14.0%
Blended gross margin	32.8%	30.0%	27.0%	28.0%	27.8%

Source: Company data, CMBIS estimates

Source: CCMA, CMBIS

Figure 3: Monthly excavator sales by major Figure 4: CMBIS excavator sales projection manufactures in China



Source: CCMA, CMBIS estimates

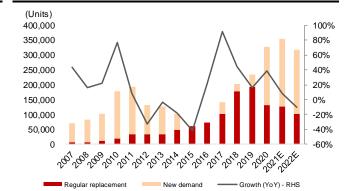




Figure 5: SANY's P/E band

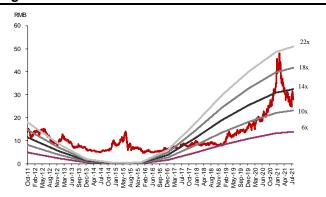
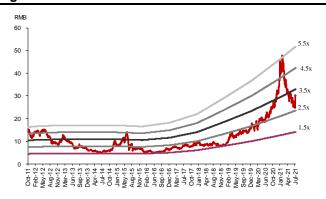


Figure 6: SANY's P/B band



Source: Company data, Bloomberg, CMBIS estimates

Source: Company data, Bloomberg, CMBIS estimates

**Key risks:** (1) Unexpected slowdown of overseas business; (2) Continuous weakness of construction activities; (3) Deterioration of operating cash flow.



# Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	76,233	100,054	113,466	122,550	129,159	Pretax profit	13,621	18,531	18,524	21,623	22,530
Cost of sales	-51,204	-70,034	-82,868	-88,231	-93,231	Finance cost	120	797	477	491	502
Gross profit	25,029	30,021	30,599	34,320	35,928	Interest income	-489	-515	-617	-793	-1,050
Surcharge	-373	-408	-340	-368	-646	Profit or loss of associates	-140	-29	-176	-187	-200
S&D expenses	-5,488	-5,332	-6,241	-6,495	-6,845	Fair value change	-673	-1,341	0	0	C
Administrative expenses	-2,067	-2,201	-1,702	-1,593	-1,550	Provision for assets	241	495	0	0	C
R&D expenses	-3,650	-4,992	-5,673	-6,128	-6,458	Depreciation and amortization	2,020	1,894	1,965	2,055	2,124
Fair value change	290	436	400	400	400	Income tax paid	-2,001	-2,671	-2,686	-3,135	-3,267
Asset impairment	-1,363	-681	-794	-980	-1,033	Change in working capital	-1,066	-3,531	-4,689	-7,277	-4,542
EBIT	12,378	16,844	16,248	19,156	19,795	Others	1,631	-267	0	0	-0
Net finance income/(cost)	46	-282	140	302	548	Cash flow from operation	13,265	13,363	12,798	12,776	16,097
Finance income	489	515	617	793	1,050	Net capex on PP&E	-2,157	-4,133	-4,000	-4,000	-3,000
Finance expenses	-442	-797	-477	-491	-502	Investment in JV/associates	-11	-47	-50	-50	-50
Other gains/(losses)	1,058	1,941	1,960	1,978	1,987	Investment in subsidiaries	153	4	0	0	C
Profit of JV and associates	140	29	176	187	200	Dividend received	14	11	18	0	C
Pretax profit	13,621	18,531	18,524	21,623	22,530	Interest received	489	515	617	793	1,050
Income tax	-2,001	-2,671	-2,686	-3,135	-3,267	Others	-9,031	-7,599	-180	-180	-180
After tax profit	11,620	15,861	15,838	18,488	19,263	Cash flow from investing	-10,544	-11,250	-3,596	-3,437	-2,180
MI	-295	-429	-523	-610	-636	Equity financing/(repurchase)	0	0	0	0	C
Net profit	11,325	15,431	15,315	17,878	18,628	Net bank borrowings	1,756	3,020	500	300	300
•						Dividend paid	-2,165	-3,516	-5,057	-4,901	-5,721
D&A	2,020	1,894	1,965	2,055	2,124	Interest paid	-442	0	-477	-491	-502
EBITDA	14,398	18,738	18,214	21,211	21,920	Others	-1,187	-1,956	0	0	C
	•	·	•	•	•	Cash flow from financing	-2,039	-2,452	-5,034	-5,092	-5,923
						Change in cash	683	-339	4,168	4,247	7,995
						Cash at beginning of the year	11,985	12,157	12,596	16,764	21,011
						Exchange and others	-511	778	0	0	, -0
						Cash at the end of the year	12,157	12,596	16,764	21,011	29,006
Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	26,555	34,827	34,689	45,135	41,076	Sales mix (%)					
PP&E	10,615	10,841	13,183	15,445	16,647	Concrete machinery	30%	27%	27%	28%	29%
JV/associates	2,985	3,420	3,628	3,866	4,115	Excavator	36%	38%	40%	39%	38%
Goodwill	49	50	50	50	50	Crane machinery	18%	19%	18%	18%	19%
LT trade receivables	1,286	5,555	2,217	7,856	4,176	Piling machinery	6%	7%	7%	6%	6%
Intangible assets						Earth moving machinery	3%	3%	2%	2%	2%
AFS investments	3,339	3,228	3,100	2,963	2,817	Other machinery	3%	3%	4%	4%	4%
Others	0	0	0	0	0	Interest income	1%	1%	1%	1%	1%
Deferred tax assets	2,580	5,240	5,240	5,240	5,240	Other business	2%	3%	2%	2%	3%
Current assets	1,147	1,441	1,441	1,441	1,441	Total	100%	100%	100%	100%	100%
Inventories	72,686	91,428	102,001		,	Profit & loss ratio (%)					
Trade and bills receivables	14,252	19,198	20,760	21,784		Gross margin	32.8	30.0	27.0	28.0	27.8
Other receivables	21,775	21,512	25,118	27,260	30,773	EBIT margin	16.2	16.8	14.3	15.6	15.3
Others	2,787	1,869	3,105	3,610	4,883	Net profit margin	15.2	15.9	14.0	15.1	14.9
	9,061	13,446	13,446	13,446		Growth (%)	10.2	10.5	14.0	13.1	14.5
Cash	ا 100	10,440	15,440	10,440	15,440	` '	36.6	31.2	12./	8.0	5.4
	47.050	62.040	60 704	64.000	62.000	Revenue			13.4		5.4
Command Habilities	47,953	62,049	60,704	64,980		Gross profit	46.4	19.9	1.9	12.2	4.7
Current liabilities		22 22	24 222	25 222							
Trade and bills payables	20,295	32,207	31,362	35,838	33,128		75.2	36.1	(3.5)	17.9	
Trade and bills payables Bank borrowings	20,295 10,771	8,466	7,966	7,766	7,566	Net profit	75.2 85.2	36.1 36.3	(3.5)	17.9 16.7	3.3 4.2
Trade and bills payables Bank borrowings Tax payable	20,295 10,771 1,515	8,466 2,030	7,966 2,030	7,766 2,030	7,566 2,030	Net profit  Balance sheet ratio	85.2	36.3	(0.8)	16.7	4.2
Trade and bills payables Bank borrowings Tax payable Others	20,295 10,771 1,515 9,928	8,466 2,030 11,413	7,966 2,030 11,413	7,766 2,030 11,413	7,566 2,030 11,413	Net profit <b>Balance sheet ratio</b> Current ratio (x)	85.2 1.5	36.3 1.5	(0.8)	16.7 1.7	4.2 2.0
Trade and bills payables Bank borrowings Tax payable	20,295 10,771 1,515	8,466 2,030	7,966 2,030	7,766 2,030	7,566 2,030 11,413 <b>8,018</b>	Net profit  Balance sheet ratio	85.2	36.3	(0.8)	16.7	

Source: Company data, CMBIS estimates

Bank borrowings

Others

**Equity** 

MI

Deferred tax liabilities

Shareholders' equity

4,532

600

849

58,188

56,562

1,625

1,303

714

728

48,423

47,151

1,272

5,532

600

849

68,968

66,820

2,148

6,032

600

849

82,555

79,797

2,758

6,532

96,098

92,704

Inventory turnover days

600 Payable turnover days

Profitability (%)

Per share data EPS (RMB)

BVPS (RMB)

DPS (RMB)

ROA

3,394 ROE

849 Net debt / total equity (%)

88

139

12.3

24.4

2.11

9.43

0.68

90

135

11.6

21.6

2.20

10.96

0.70

87

137

13.7

29.8

1.82

6.68

0.60

88

140

11.6

24.8

1.81

7.90

0.58

Net cash Net cash Net cash Net cash

92

134

13.1

28.8

1.37

5.60

0.43



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BUY
Stock with potential return of over 15% over next 12 months
SELL
Stock with potential return of +15% to -10% over next 12 months
SELL
Stock with potential loss of over 10% over next 12 months

NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months

MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months

UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

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