

# SANY International (631 HK)

## NDR takeaways: Growth to accelerate in 2022E on strong backlog

We invited SANYI's management to share with investors the latest development this week. Key positives: (1) Strong demand across all segments with backlog already covering the capacity over coming 5-6 months; (2) Gross margin expanded in each segment on the back of new products and stringent cost control; (3) Fast introduction of intelligent and electric products. We fine-tuned our earnings forecast in 2021E/22E by -4%/+2%. Our TP is slightly revised up to HK\$14.6, based on unchanged 23x 2022E P/E. Going forward, we see potential for SANYI to expand into the new energy segment. Maintain **BUY**.

- Road header.** The monthly order intake reaches 70-80 sets at present, much higher than the 45-50 units early last year. The visibility has increased to 3 months, versus only 1-2 months in the past. Intelligent models, which carries 40-45% gross margin, accounted for 50% of total new orders. The ratio is expected to further increase due to the trend of unmanned mining operation.
- Combined coal mining equipment (CCMU).** Backlog amounted to RMB1.5bn, with another contract of RMB300mn to be signed. This is equivalent to six-month backlog, offering good visibility in 1H22E.
- Mining truck.** SANYI delivered ~1,900 units of wide-body truck in 2021. In Dec, SANYI signed agreement with clients in Inner Mongolia to deliver 1,710 units of wide-body trucks this year (ASP: RMB0.95-1.1mn). SANYI targets to achieve sales of 800-1,000 units of electric wide-body truck this year, and to take the electric ratio to >50% in three to five years. Gross margin is expected to expand upon the launch of 2nd generation model.
- Logistic equipment.** For large-size port machinery, demand is strong due to the recovery in the overseas. Backlog amounted to RMB1.8bn (including RMB1bn in overseas). For small-size machinery, backlog amounted to RMB600mn (including RMB200mn in overseas). The growth is driven by reach stacker, heavy forklift and electric tractor.
- Robotic.** Among the three product lines, automated guided vehicles (AGV) and electric forklift are expected to grow faster than the system integration. For internal sales, SANYI already helped SANY Group complete the upgrade of 27 smart factories (out of a total of 46). For external sales, SANYI recently won contracts from CRRC to deliver AGVs. SANYI has just established a distribution network which will help speed up the external sales volume. Current backlog amounted to RMB700-800mn, and potential contract (RMB900mn) is in the discussion stage.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	5,656	7,364	10,569	14,668	17,505
YoY growth (%)	28.1	30.2	43.5	38.8	19.3
Net income (RMB mn)	920	1,045	1,276	1,659	1,965
EPS (RMB)	0.30	0.34	0.41	0.53	0.63
YoY growth (%)	51.3	12.5	21.4	30.0	18.5
Consensus EPS (RMB)	N/A	N/A	0.42	0.51	0.62
EV/EBITDA (x)	14.1	12.4	10.3	8.1	7.0
P/E (x)	23.5	20.0	15.8	12.1	10.2
P/B (x)	3.0	2.7	2.3	2.0	1.8
Yield (%)	1.6	2.0	2.5	3.3	3.9
ROE (%)	13.6	14.0	15.4	17.9	18.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price	HK\$14.60
(Previous TP)	HK\$14.30)
Up/Downside	+89%
Current Price	HK\$7.71

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#### Stock Data

Mkt Cap (HK\$ mn)	24,318
Avg 3 mths t/o (HK\$ mn)	21
52w High/Low (HK\$)	10.80/6.22
Total Issued Shares (mn)	3,126

Source: Bloomberg

#### Shareholding Structure

Sany Heavy Equipment	67.7%
Investments Company	
Free float	32.3%

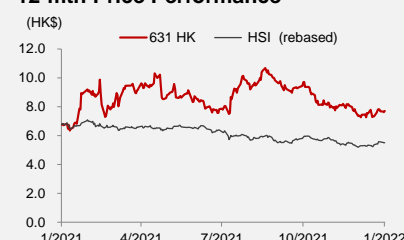
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-0.3%	-4.1%
3-mth	-19.2%	-14.8%
6-mth	-2.6%	13.2%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: Ernst & Young

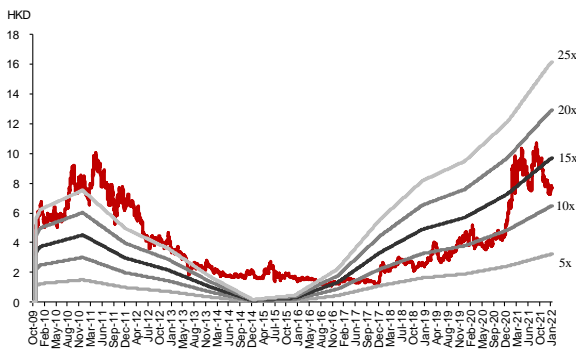
#### Related Reports

- SANY Int'l – 3Q21 Net profit +8%, in line with estimates; Revenue growth acceleration a positive sign – 1 Nov 2021
- 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

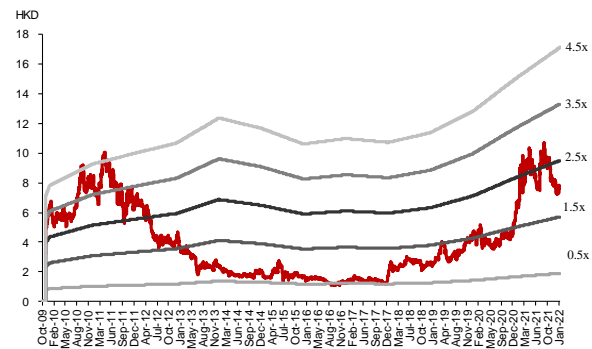
**Figure 1: Change in key assumptions**

	Old			New			Change		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
(RMB mn)									
<b>Revenue</b>									
Road header	1,703	1,912	2,047	2,050	2,522	2,676	20.4%	32.0%	30.7%
Combined coal mining units (CCMU)	2,214	2,635	3,030	1,771	2,922	3,361	-20.0%	10.9%	10.9%
Small-size port machinery	2,376	2,804	3,280	2,376	2,970	3,475	0.0%	5.9%	5.9%
Large-size port machinery	864	1,339	1,741	864	1,339	1,661	0.0%	0.0%	-4.6%
Mining trucks	1,460	2,069	2,816	1,773	2,700	3,704	21.4%	30.5%	31.5%
After sales service	609	646	684	655	918	1,009	7.6%	42.1%	47.5%
Robot	1,080	1,296	1,620	1,080	1,296	1,620	0.0%	0.0%	0.0%
<b>Total</b>	<b>10,306</b>	<b>12,699</b>	<b>15,219</b>	<b>10,569</b>	<b>14,668</b>	<b>17,505</b>	<b>2.6%</b>	<b>15.5%</b>	<b>15.0%</b>
							Change (ppt)		
<i>Blended gross margin</i>	24.9%	26.3%	25.9%	24.3%	25.6%	25.1%	(0.6)	(0.7)	(0.8)
							Change (ppt)		
<i>S&amp;D expense ratio</i>	5.7%	5.5%	5.3%	5.8%	5.8%	5.8%	0.1	0.3	0.5
<i>Admin expense ratio</i>	9.8%	9.4%	9.3%	9.9%	9.9%	9.6%	0.1	0.5	0.3
<b>Net profit</b>	<b>1,331</b>	<b>1,633</b>	<b>1,957</b>	<b>1,276</b>	<b>1,659</b>	<b>1,965</b>	<b>-4.1%</b>	<b>1.6%</b>	<b>0.4%</b>

Source: Company data, CMBIS estimates

**Figure 2: SANYI's PE band**

Source: Bloomberg, Company data, CMBIS estimates

**Figure 3: SANYI's PB band**

Source: Bloomberg, Company data, CMBIS estimates

**Major risk factors:** (1) weakness in mining activities; (2) higher-than-expected expense for new products; (3) increase in raw material cost and freight rate.

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue					
- Mining equipment	3,423	4,846	6,118	8,879	10,548
- Logistics equipment	2,233	2,518	3,371	4,493	5,337
<b>Total revenue</b>	<b>5,656</b>	<b>7,364</b>	<b>10,569</b>	<b>14,668</b>	<b>17,505</b>
Cost of sales	-3,987	-5,403	-7,999	-10,917	-13,108
<b>Gross profit</b>	<b>1,669</b>	<b>1,961</b>	<b>2,570</b>	<b>3,751</b>	<b>4,397</b>
Other income	342	237	528	469	560
Other gains and losses	121	257	137	147	175
S&D expenses	-388	-430	-613	-851	-1,015
Administrative expenses	-643	-707	-1,046	-1,452	-1,681
Other expenses	-4	-31	-32	-44	-53
<b>EBIT</b>	<b>1,097</b>	<b>1,286</b>	<b>1,545</b>	<b>2,021</b>	<b>2,384</b>
Net finance income/(cost)	-27	-96	-58	-57	-55
Finance income	58	36	54	56	57
Finance expenses	-85	-132	-112	-112	-112
Share of JV and associates	0	0	0	0	0
<b>Pretax profit</b>	<b>1,070</b>	<b>1,190</b>	<b>1,487</b>	<b>1,964</b>	<b>2,329</b>
Income tax	-148	-139	-178	-255	-303
<b>After tax profit</b>	<b>922</b>	<b>1,052</b>	<b>1,308</b>	<b>1,709</b>	<b>2,026</b>
MI	-2	-6	-33	-50	-61
<b>Net profit</b>	<b>920</b>	<b>1,045</b>	<b>1,276</b>	<b>1,659</b>	<b>1,965</b>
D&A	249	249	293	328	349
<b>EBITDA</b>	<b>1,346</b>	<b>1,535</b>	<b>1,838</b>	<b>2,348</b>	<b>2,733</b>

### Cash flow statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pretax profit	1,070	1,190	1,487	1,964	2,329
Finance cost	85	132	112	112	112
Interest income	-58	-36	-54	-56	-57
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	-178	-255	-303
Change in working capital	-22	237	-522	-916	-1,148
Others	-424	-563	0	0	0
<b>Cash flow from operation</b>	<b>801</b>	<b>1,070</b>	<b>1,137</b>	<b>1,177</b>	<b>1,282</b>
Net capex on PP&E	-216	-401	-500	-500	-300
Interest received	58	36	54	56	57
Others	-2,153	-282	0	0	0
<b>Cash flow from investing</b>	<b>-2,311</b>	<b>-647</b>	<b>-446</b>	<b>-444</b>	<b>-243</b>
Proceeds from equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	1,860	-122	0	0	0
Dividend paid	-262	-338	-408	-510	-664
Interest paid	-85	-132	-112	-112	-112
Others	15	-9	0	0	0
<b>Cash flow from financing</b>	<b>1,527</b>	<b>-602</b>	<b>-520</b>	<b>-623</b>	<b>-776</b>
Change in cash	17	-179	171	111	263
Cash at beginning of the year	1,070	1,103	941	1,112	1,223
Exchange gains/(losses) and others	16	17	0	0	0
Cash at the end of the year	1,103	941	1,112	1,223	1,486

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>5,209</b>	<b>5,448</b>	<b>5,655</b>	<b>5,828</b>	<b>5,779</b>
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
<b>Current assets</b>	<b>10,338</b>	<b>12,016</b>	<b>13,937</b>	<b>16,293</b>	<b>18,296</b>
Prepayment	615	359	359	359	359
Inventories	1,438	1,821	2,650	3,332	3,995
Trade receivables	2,634	3,288	4,125	5,439	6,359
Bills receivables	424	595	679	928	1,086
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	1,112	1,223	1,486
<b>Current liabilities</b>	<b>6,421</b>	<b>7,938</b>	<b>9,166</b>	<b>10,496</b>	<b>11,088</b>
Trade and bills payables	1,832	2,893	4,120	5,450	6,042
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
<b>Non-current liabilities</b>	<b>1,980</b>	<b>1,667</b>	<b>1,667</b>	<b>1,667</b>	<b>1,667</b>
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
<b>Total equity</b>	<b>7,146</b>	<b>7,859</b>	<b>8,759</b>	<b>9,958</b>	<b>11,320</b>
<b>Shareholders' equity</b>	<b>7,132</b>	<b>7,839</b>	<b>8,707</b>	<b>9,855</b>	<b>11,157</b>
MI	14	20	53	102	163

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
- Mining equipment	61%	66%	58%	61%	60%
- Logistics equipment	39%	34%	32%	31%	30%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>P&amp;L ratios (%)</b>					
Gross margin	30%	27%	24%	26%	25%
EBITDA margin	24%	21%	17%	16%	16%
EBIT margin	19%	17%	15%	14%	14%
Net profit margin	16%	14%	12%	12%	12%
<b>Growth (%)</b>					
Revenue	28%	30%	44%	39%	19%
Gross profit	29%	17%	31%	46%	17%
EBITDA	43%	14%	20%	28%	16%
EBIT	52%	17%	20%	31%	18%
Net profit	53%	14%	22%	30%	18%
<b>Balance sheet ratios</b>					
Current ratio (x)	1.6	1.5	1.5	1.6	1.7
Receivable turnover days	154	147	128	119	123
Inventory turnover days	136	110	102	100	102
Payable turnover days	167	160	160	160	160
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROA	6%	6%	7%	8%	9%
ROE	14%	14%	15%	18%	19%
<b>Per share</b>					
EPS (RMB)	0.30	0.336	0.408	0.530	0.628
BVPS (RMB)	2.30	2.52	2.78	3.15	3.57
DPS (RMB)	0.11	0.131	0.163	0.212	0.251

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

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