

# China Construction Machinery

## Consensus yet to reflect the earnings downside; D/G SANY Heavy & Zoomlion-A

We downgrade **SANY Heavy (600031 CH)** and **Zoomlion (000157 CH)** to **HOLD** as we expect the release of 1Q22 results next week will likely disappoint market and trigger further earnings cut given the aggressive consensus estimates. While we see on-track issuance of special bonds and strong contract intakes for contractors, we do not expect meaningful recovery on the machinery demand over the coming months. We expect the demand for excavator to drop 15% YoY this year. In contrast to the weak demand for overall construction machinery, mining machinery demand is robust with high visibility and we see good upside potential for **SANY International (631 HK, BUY)**, our sector top pick.

- Some signs of recovery from the top-down perspective but yet to reflect on the sector level.** In 1Q22, the issued local government special bond (new issuance + refinancing) amounted to ~RMB1.4tn (+2.8x YoY, due to low base), which paved the way for upcoming project investment. On the other hand, **CRG (390 HK / 601390 CH)** recently reported 84% YoY increase in contract intakes in 1Q22. All these are good signs that imply potential improvement of machinery demand. However, we do not expect meaningful recovery on the machinery demand over the coming months, given (1) **Jiangsu Hengli (601100 CH, HOLD)**'s planned production volume of hydraulic components for excavators saw further decline in Apr, which suggests no recovery on the downstream; (2) ongoing city lockdown will likely potentially result in supply chain disruption; (3) recovery of infrastructure spending will be partially offset by the weak property investment; (4) replacement demand, a key growth driver before 2021, will likely drop based on our estimates.
- More conservative industry sales forecast.** We have been applying the construction FAI (construction FAI = Infrastructure + property + mining) per unit of excavator to test the machine's demand/supply balance. Our industry model indicates that the ratio remained at RMB21mn in 2021, close to the historical average (figure 3), suggesting that oversupply is still not severe so far. Given a 39% YoY decline in excavator sales in 1Q22, we trim our excavator sales forecast in 2022E/23E both by 13% to 291k/277k units. Our new volume growth forecast in 2022E/23E is -15%/-5% YoY. We also revise down our assumptions on wheel loader, crane and concrete machinery.
- SANY Heavy – Downgrade to HOLD.** We take our earnings forecast in 2021E/22E/23E down by 9%/27%/25%, after incorporating our new industry sales forecast and lower margin assumptions. Our earnings forecast in 2021E/22E/23E is now 9%/20%/21% below consensus, a key reason for our downgrade. We trim our TP from RMB30 to RMB19.5, based on 12.7x 2022E P/E, the average since the upcycle in 2017.
- Zoomlion-A - Downgrade to HOLD.** We slash our earnings forecast in 2022E/23E by 32%/34%, making us 8%/15% below consensus. We trim our TP from RMB9.3 to RMB6.7, based on 10x 2022E P/E (the average since the upcycle starting 2019).
- Zoomlion-H - Maintain BUY on attractive valuation.** Zoomlion-H is trading at 6.5x 2022E P/E and 0.6x P/B. In terms of P/B, the current valuation has already reached the average valuation (0.6x P/B) in 2015-2018 (trough cycle). With >7% dividend yield, we believe the downside risk is limited. Our TP is revised down from HK\$8.8 to HK\$6.14, based on 7.5x 2022E P/E (the average since the upcycle starting 2019).

**OUTPERFORM**  
(Maintain)

### China Capital Goods

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### New rating and TP

Company Ticker	SANY Heavy 600031 CH	Zoomlion 000157 CH	1157 HK
<b>Rating</b>			
New	HOLD	HOLD	BUY
Old	BUY	BUY	BUY
<b>Currency</b>	RMB	RMB	HK\$
<b>Current price</b>	18.01	6.56	5.29
<b>TP</b>			
New	19.5	6.70	6.14
Old	30.0	9.30	8.80
<b>Upside</b>	8%	2%	16%

Source: Bloomberg, CMBIGM estimates

### CMBIGM vs consensus forecast

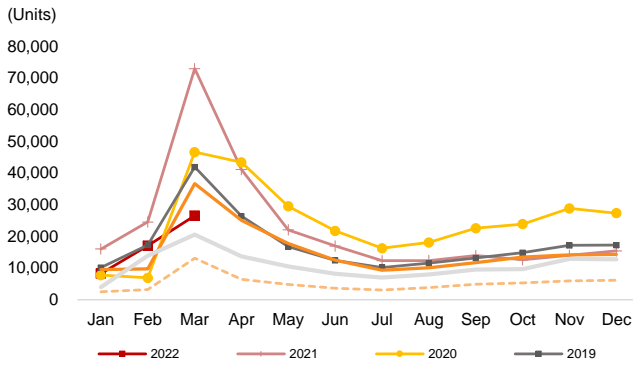
	SANY Heavy	Zoomlion
<b>Net profit forecast</b>		
RMB mn		
<b>CMBIGM</b>		
2021E	13,983	-
2022E	12,995	5,714
2023E	13,943	6,029
<b>Consensus</b>		
2021E	15,311	-
2022E	16,312	6,194
2023E	17,605	7,085
<b>Diff</b>		
2021E	-9%	-
2022E	-20%	-8%
2023E	-21%	-15%
<b>Reporting date</b>		
2021 results	22-Apr	-
1Q22 results	28-Apr	26-Apr

Source: Company data, Bloomberg, CMBIGM estimates

### Related Reports

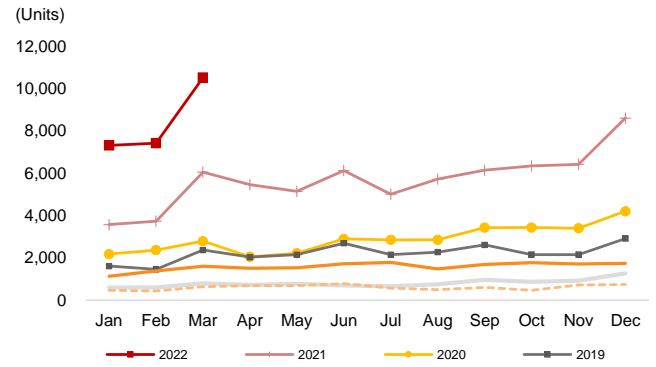
- Weichai Power – A (000338 CH, HOLD) – Short-term earnings under pressure; Import substitution strategy to support long-term earnings – 4 Apr 2022 ([link](#))
- Sinotruk (3808 HK, HOLD) – Expect earnings downside following weak results in 2H21; D/G to HOLD – 4 Apr 2022 ([link](#))
- SANY International (631 HK, BUY) – Post-results and NDR takeaways: Expect a strong year in 2022E – 31 Mar 2022 ([link](#))
- Zhejiang Dingli (603338 CH, BUY) – Higher-than-expected anti-dumping duties but overhang largely removed – 18 Feb 2022 ([link](#))
- Jiangsu Hengli Hydraulic (601100 CH, HOLD) – Recovery weaker-than-expected; Rich valuation along with earnings risk – 10 Feb 2022 ([link](#))

**Figure 1: Excavator sales in China dropped 54% YoY in 1Q22**



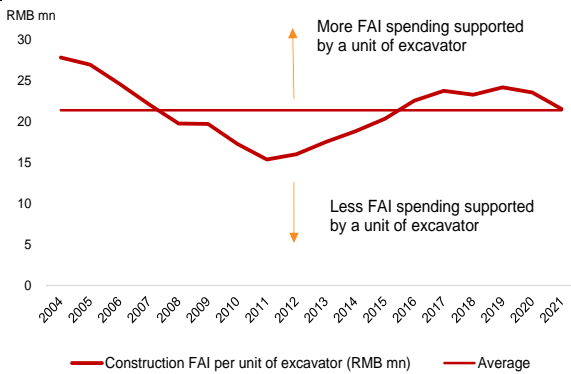
Source: CCMA, CMBIGM

**Figure 2: Excavator export surged 89% in 1Q22**



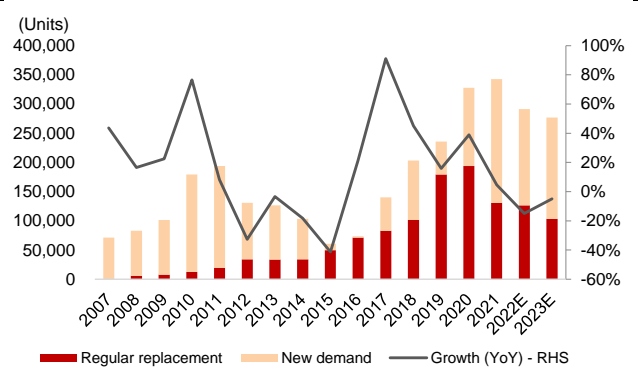
Source: CCMA, CMBIGM

**Figure 3: Construction related FAI per unit of excavator in operation**



Note: Construction related FAI = Infrastructure + property + mining  
Source: CCMA, Wind, CMBIGM

**Figure 4: CMBIGM excavator sales projection**



Source: CCMA, CMBIGM estimates

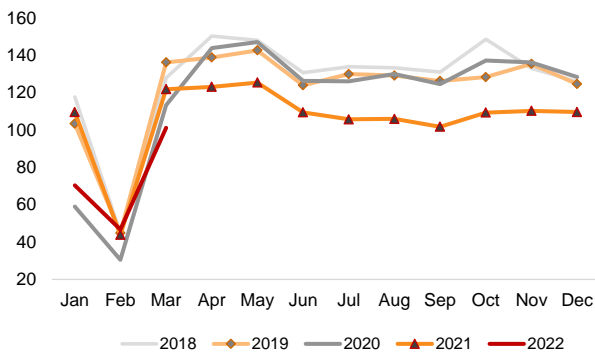
**Figure 5: Change in construction machinery industry sales assumptions**

	Old		New		Change	
	2022E	2023E	2022E	2023E	2022E	2023E
<b>Sales volume (unit)</b>						
<b>Earth moving machinery</b>						
Excavator	333,666	316,982	291,366	276,798	-13%	-13%
Wheel loader	139,571	125,614	119,974	107,976	-14%	-14%
<b>Crane</b>						
Truck crane	50,119	46,610	44,222	41,127	-12%	-12%
Tower crane	60,375	54,338	37,500	30,000	-38%	-45%
<b>Concrete machinery</b>						
Concrete mixer truck	112,715	112,715	101,065	99,044	-10%	-12%
Concrete pump truck	11,321	10,982	8,717	8,717	-23%	-21%

	Old		New		Change	
	2022E	2023E	2022E	2023E	2022E	2023E
<b>Sales volume growth (YoY)</b>						
<b>Earth moving machinery</b>						
Excavator	-3%	-5%	-15%	-5%	(12.0)	0.0
Wheel loader	-5%	-10%	-15%	-10%	(10.0)	0.0
<b>Crane</b>						
Truck crane	2%	-7%	-10%	-7%	(12.0)	0.0
Tower crane	5%	-10%	-25%	-20%	(30.0)	(10.0)
<b>Concrete machinery</b>						
Concrete mixer truck	5%	0%	-1%	-2%	(6.0)	(2.0)
Concrete pump truck	-5%	-3%	-5%	0%	0.0	3.0

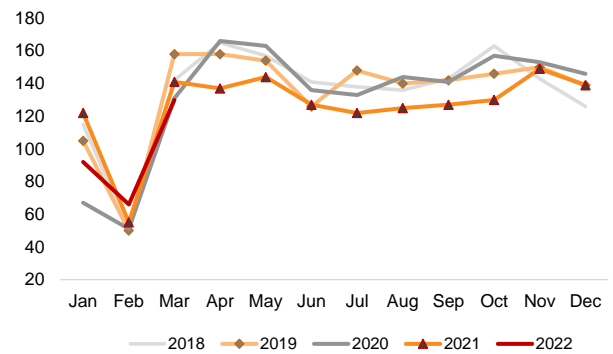
Source: CMBIGM estimates

**Figure 6: Komatsu excavator's monthly utilisation hours in China**



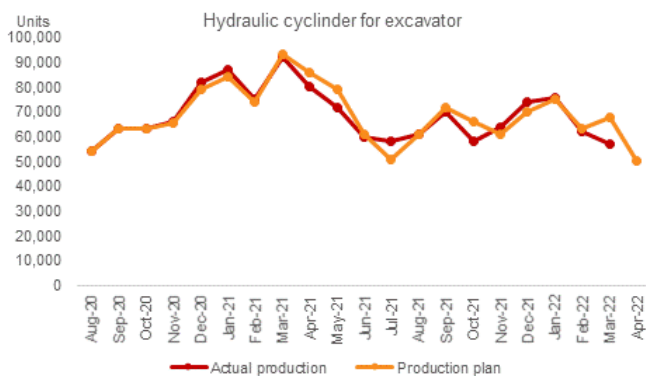
Source: Komatsu, CMBIGM

**Figure 7: Hitachi Construction Machinery excavator's monthly utilisation hours in China**



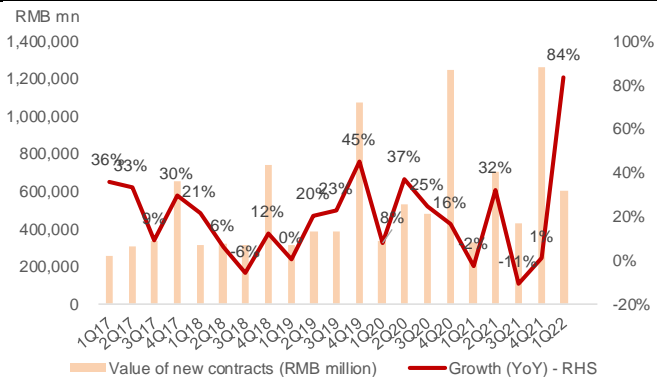
Source: Hitachi Construction Machinery, CMBIGM

**Figure 8: Hengli's planned production volume of hydraulic cylinders in Apr drop 42% YoY**



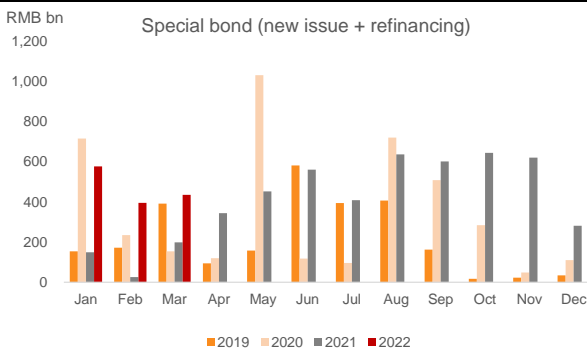
Source: Company data, CMBIGM

**Figure 9: CRG's newly signed contract surged 84% YoY in 1Q22**



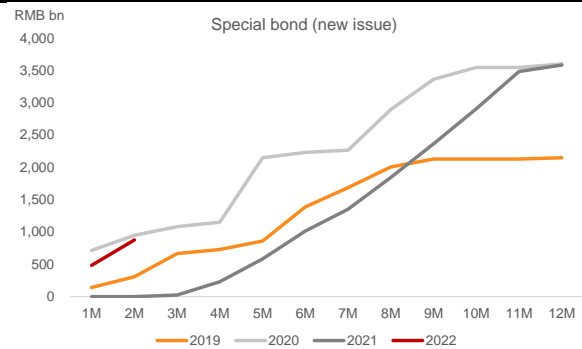
Source: Company data, CMBIGM

**Figure 10: Local gov't special bond issue amount (monthly)**



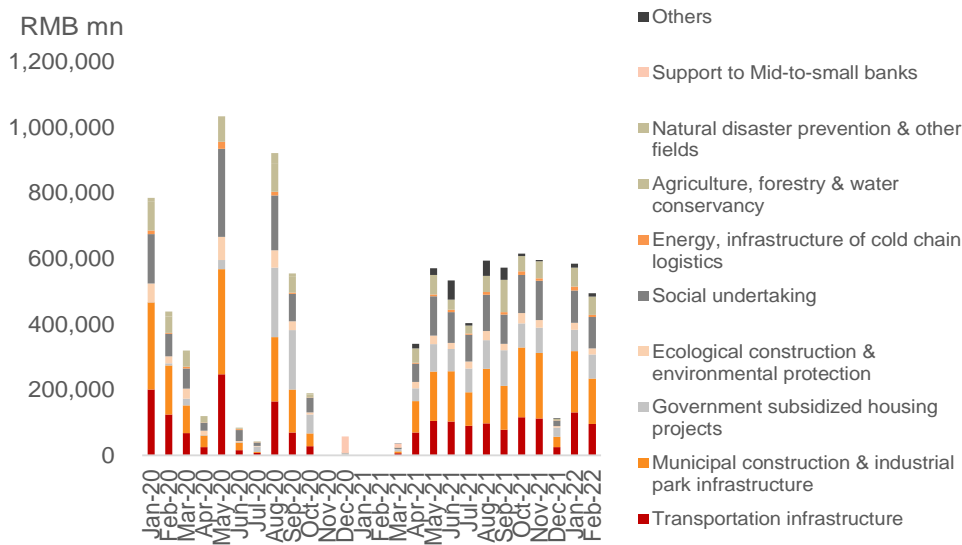
Note: Preliminary data for Mar 2022  
Source: Ministry of Finance, CMBIGM

**Figure 11: Local gov't special bond issue amount (YTD)**



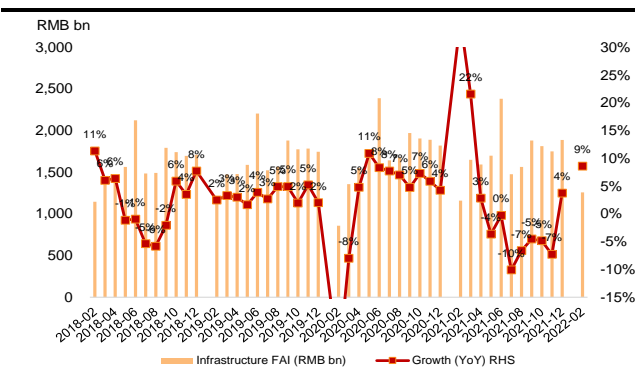
Source: Ministry of Finance, CMBIGM

**Figure 12: Use of proceed from the newly issued local gov't bonds**



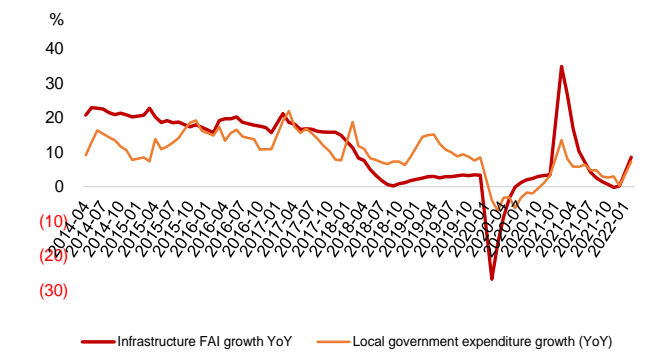
Note: There were no newly issued bonds in Nov 20 and Jan-Feb 21.  
Source: Ministry of Finance, CMBIGM

**Figure 13: China infrastructure FAI**



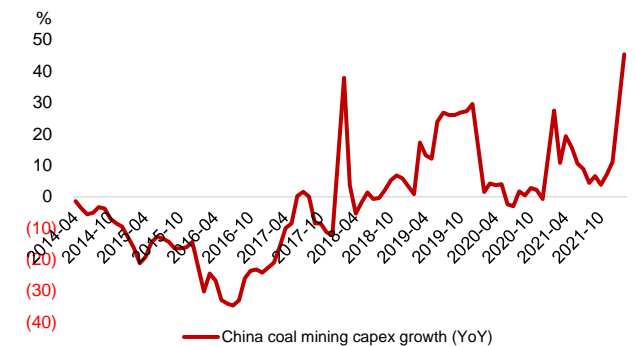
Source: Wind, NBS, CMBIGM

**Figure 14: Infrastructure FAI growth vs local government expenditure growth (YTD)**



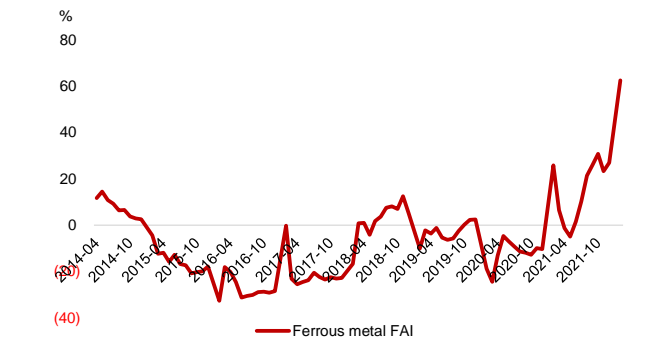
Source: Wind, NBS, Ministry of Finance, CMBIGM

**Figure 15: China coal mining FAI (YTD)**



Source: Wind, NBS, CMBIGM

**Figure 16: China ferrous metal FAI**



Source: Wind, NBS, CMBIGM

## SANY Heavy (600031 CH, HOLD)

**Downgrade to HOLD.** We like SANY's long-term story, given the ambitious overseas expansion as well as the enhancing competitive edge on the back of the commencement of lighthouse factories. However, we see pressure on the earnings in the foreseeable future. We slash our earnings forecast in 2021E/22E/23E by 9%/27%/25%, after incorporating our new industry sales forecast and lower margin assumptions. Our earnings forecast in 2021E/22E/23E is 9%/20%/21% below consensus, a key reason for our downgrade. We trim our TP from RMB30 to RMB19.5, based on 12.7x 2022E P/E, the average since the upcycle starting 2017 (previous: 14x 2021 P/E).

**Figure 17: Financial summary**

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	76,233	100,054	107,046	97,964	102,255
YoY growth (%)	37	31	7	-8	4
Net income (RMB mn)	11,325	15,431	13,983	12,995	13,943
EPS (RMB)	1.37	1.82	1.65	1.54	1.65
YoY growth (%)	73.2	33.2	-9.4	-7.1	7.3
Consensus EPS (RMB)	NA	NA	1.81	1.93	2.08
EV/EBITDA (x)	9.7	7.5	8.8	9.5	8.8
P/E (x)	13.2	9.9	10.9	11.7	10.9
P/B (x)	3.2	2.7	2.3	2.1	1.8
Yield (%)	2.4	3.3	2.9	2.7	2.9
ROE (%)	28.8	29.8	22.9	18.6	17.7
Net debt / equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

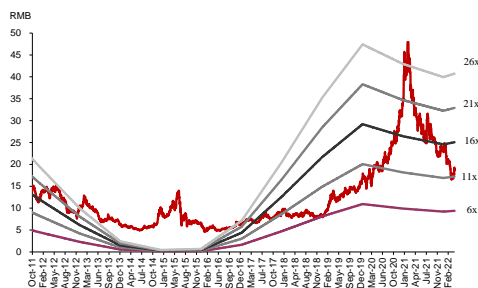
Last closing price: RMB18.01 Source: Company data, CMBIGM estimates

**Figure 18: Change in key assumptions and earnings forecast**

(RMB mn)	Old			New			Change		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
<b>Revenue</b>									
Concrete machinery	30,244	33,781	37,159	27,962	25,329	26,595	-7.5%	-25.0%	-28.4%
Excavator	45,559	48,293	49,259	42,362	38,550	39,321	-7.0%	-20.2%	-20.2%
Crane machinery	20,550	22,423	24,216	20,147	18,319	19,785	-2.0%	-18.3%	-18.3%
Piling machinery	7,376	7,745	7,745	7,234	6,511	6,836	-1.9%	-15.9%	-11.7%
Earth moving machinery	2,640	2,719	2,719	2,244	2,019	2,120	-15.0%	-25.7%	-22.0%
Other machinery	4,328	4,545	4,772	4,328	4,328	4,545	0.0%	-4.8%	-4.8%
<b>Revenue (construction machinery)</b>	<b>110,697</b>	<b>119,504</b>	<b>125,869</b>	<b>104,277</b>	<b>95,056</b>	<b>99,202</b>	<b>-5.8%</b>	<b>-20.5%</b>	<b>-21.2%</b>
Interest income from financing	841	941	1,017	841	941	1,017	0.0%	0.0%	0.0%
Other business	2,769	3,046	3,290	2,769	2,908	3,053	0.0%	-4.5%	-7.2%
<b>Total revenue</b>	<b>113,466</b>	<b>122,550</b>	<b>129,159</b>	<b>107,046</b>	<b>97,964</b>	<b>102,255</b>	<b>-5.7%</b>	<b>-20.1%</b>	<b>-20.8%</b>
<b>Gross margin</b>							ppt		
Concrete machinery	25.0%	25.9%	25.9%	24.7%	24.2%	24.5%	(0.3)	(1.7)	(1.4)
Excavator	28.5%	30.0%	30.0%	30.0%	29.5%	30.0%	1.5	(0.5)	0.0
Crane machinery	21.0%	22.0%	22.0%	21.0%	20.0%	21.0%	0.0	(2.0)	(1.0)
Piling machinery	44.0%	44.0%	43.0%	42.0%	42.0%	42.0%	(2.0)	(2.0)	(1.0)
Earth moving machinery	29.7%	29.0%	29.0%	29.4%	29.0%	29.0%	(0.3)	0.0	0.0
Other machinery	19.0%	22.0%	22.0%	19.0%	19.0%	19.0%	0.0	(3.0)	(3.0)
<b>Gross margin (construction machinery)</b>	<b>26.8%</b>	<b>27.8%</b>	<b>27.7%</b>	<b>27.2%</b>	<b>26.6%</b>	<b>27.0%</b>	<b>0.4</b>	<b>(1.3)</b>	<b>(0.7)</b>
Interest income from financing	56.0%	56.0%	56.0%	58.0%	58.0%	58.0%	-	-	-
Other business	15.0%	14.0%	14.0%	15.0%	14.0%	14.0%	0.0	0.0	0.0
<b>Blended gross margin</b>	<b>27.0%</b>	<b>28.0%</b>	<b>27.8%</b>	<b>27.3%</b>	<b>26.8%</b>	<b>27.2%</b>	<b>0.4</b>	<b>(1.2)</b>	<b>(0.6)</b>
S&D expense ratio	5.5%	5.3%	5.3%	5.8%	5.6%	5.6%	0.3	0.3	0.3
Administrative, R&D expense ratio	1.5%	1.3%	1.2%	2.4%	2.3%	2.3%	0.9	1.0	1.1
<b>Net profit</b>	<b>15,315</b>	<b>17,878</b>	<b>18,628</b>	<b>13,983</b>	<b>12,995</b>	<b>13,943</b>	<b>-8.7%</b>	<b>-27.3%</b>	<b>-25.1%</b>

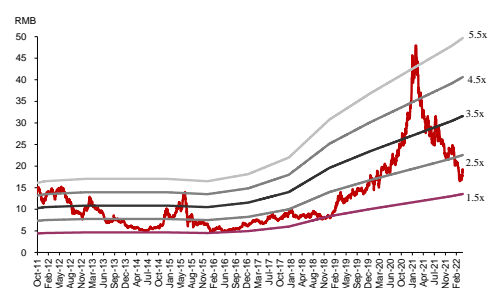
Company data, CMBIS estimates

**Figure 19: SANY's P/E band**



Source: Company data, Bloomberg, CMBIGM estimates

**Figure 20: SANY's P/B band**



Source: Company data, Bloomberg, CMBIGM estimates

## Financial Summary – SANY Heavy

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
<b>Total revenue</b>	<b>76,233</b>	<b>100,054</b>	<b>107,046</b>	<b>97,964</b>	<b>102,255</b>	Pretax profit	13,621	18,531	16,355	15,304	16,515
Cost of sales	(51,204)	(70,034)	(77,777)	(71,703)	(74,421)	Finance cost	120	797	477	491	502
<b>Gross profit</b>	<b>25,029</b>	<b>30,021</b>	<b>29,269</b>	<b>26,261</b>	<b>27,834</b>	Interest income	(489)	(515)	(638)	(884)	(1,113)
Surcharge	(373)	(408)	(321)	(294)	(307)	Profit or loss of associates	(140)	(29)	(176)	(187)	(200)
S&D expenses	(5,488)	(5,332)	(6,155)	(5,486)	(5,726)	Fair value change	(673)	(1,341)	0	0	0
Administrative expenses	(2,067)	(2,201)	(2,569)	(2,253)	(2,352)	Provision for assets	241	495	0	0	0
R&D Expense	(3,650)	(4,992)	(5,566)	(4,898)	(5,113)	Depreciation and amortization	2,020	1,894	1,965	2,055	2,134
Fair value change	290	436	150	200	200	Income tax paid	(2,001)	(2,671)	(2,028)	(1,990)	(2,230)
Asset impairment	(1,363)	(681)	(749)	(784)	(818)	Change in working capital	(1,066)	(3,531)	(2,164)	(240)	(4,260)
<b>EBIT</b>	<b>12,378</b>	<b>16,844</b>	<b>14,058</b>	<b>12,746</b>	<b>13,718</b>	Others	1,631	(267)	0	0	0
Net finance income/(cost)	46	(282)	161	393	611	<b>Cash flow from operation</b>	<b>13,265</b>	<b>13,363</b>	<b>13,791</b>	<b>14,549</b>	<b>11,350</b>
Finance income	489	515	638	884	1,113	Net capex on PP&E	(2,157)	(4,133)	(4,000)	(4,000)	(3,500)
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	0
Profit of JV and associates	140	29	176	187	200	Dividend received	14	11	18	0	0
<b>Pretax profit</b>	<b>13,621</b>	<b>18,531</b>	<b>16,355</b>	<b>15,304</b>	<b>16,515</b>	Interest received	489	515	638	884	1,113
Income tax	(2,001)	(2,671)	(2,028)	(1,990)	(2,230)	Others	(9,031)	(7,599)	(180)	(180)	(180)
<b>After tax profit</b>	<b>11,620</b>	<b>15,861</b>	<b>14,327</b>	<b>13,315</b>	<b>14,286</b>	<b>Cash flow from investing</b>	<b>(10,544)</b>	<b>(11,250)</b>	<b>(3,575)</b>	<b>(3,346)</b>	<b>(2,617)</b>
MI	(295)	(429)	(344)	(320)	(343)	Equity financing/(repurchase)	0	0	0	0	0
<b>Net profit</b>	<b>11,325</b>	<b>15,431</b>	<b>13,983</b>	<b>12,995</b>	<b>13,943</b>	Net bank borrowings	1,756	3,020	500	300	300
						Dividend paid	(2,165)	(3,516)	(5,057)	(4,475)	(4,158)
D&A	2,020	1,894	1,965	2,055	2,134	Interest paid	(442)	0	(477)	(491)	(502)
<b>EBITDA</b>	<b>14,398</b>	<b>18,738</b>	<b>16,024</b>	<b>14,801</b>	<b>15,852</b>	Others	(1,187)	(1,956)	0	0	0
						<b>Cash flow from financing</b>	<b>(2,039)</b>	<b>(2,452)</b>	<b>(5,034)</b>	<b>(4,666)</b>	<b>(4,361)</b>
						Change in cash	683	(339)	5,182	6,537	4,372
						Cash at beginning of the year	11,985	12,157	12,596	17,778	24,315
						Exchange and others	(511)	778	0	0	0
						Cash at the end of the year	12,157	12,596	17,778	24,315	28,688

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>26,555</b>	<b>34,827</b>	<b>33,634</b>	<b>41,340</b>	<b>38,638</b>	<b>Sales mix (%)</b>					
PP&E	10,615	10,841	13,183	15,445	17,137	Concrete machinery	30%	27%	26%	26%	26%
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%	19%	19%	19%
LT trade receivables	1,286	5,555	1,777	6,275	2,130	Piling machinery	6%	7%	7%	7%	7%
Intangible assets	3,339	3,228	3,100	2,963	2,817	Earth moving machinery	3%	3%	2%	2%	2%
AFS investments	0	0	0	0	0	Other machinery	3%	3%	4%	4%	4%
Others	2,580	5,240	5,240	5,240	5,240	Interest income	1%	1%	1%	1%	1%
Deferred tax assets	1,147	1,441	1,441	1,441	1,441	Other business	2%	3%	3%	3%	3%
<b>Current assets</b>	<b>72,686</b>	<b>91,428</b>	<b>97,640</b>	<b>98,772</b>	<b>113,866</b>	Total	100%	100%	100%	100%	100%
Inventories	14,252	19,198	18,305	16,269	20,432	<b>Profit &amp; loss ratio (%)</b>					
Trade and bills receivables	21,775	21,512	22,479	19,390	24,314	Gross margin	32.8	30.0	27.3	26.8	27.2
Other receivables	2,787	1,869	2,824	2,544	4,180	EBIT margin	16.2	16.8	13.1	13.0	13.4
Others	9,061	13,446	13,446	13,446	13,446	Net profit margin	15.2	15.9	13.4	13.6	14.0
Cash	12,157	12,596	17,778	24,315	28,688	<b>Growth (%)</b>					
						Revenue	36.6	31.2	7.0	(8.5)	4.4
<b>Current liabilities</b>	<b>47,953</b>	<b>62,049</b>	<b>56,799</b>	<b>56,297</b>	<b>58,062</b>	Gross profit	46.4	19.9	(2.5)	(10.3)	6.0
Trade and bills payables	20,295	32,207	27,457	27,155	29,120	EBIT	75.2	36.1	(16.5)	(9.3)	7.6
Bank borrowings	10,771	8,466	7,966	7,766	7,566	Net profit	85.2	36.3	(9.4)	(7.1)	7.3
Tax payable	1,515	2,030	2,030	2,030	2,030	<b>Balance sheet ratio</b>					
Others	9,928	11,413	11,413	11,413	11,413	Current ratio (x)	1.5	1.5	1.7	1.8	2.0
<b>Non-current liabilities</b>	<b>2,866</b>	<b>6,018</b>	<b>7,018</b>	<b>7,518</b>	<b>8,018</b>	Receivable turnover days	106	91	88	93	93
Bank borrowings	1,303	4,532	5,532	6,032	6,532	Inventory turnover days	92	87	88	88	90
Deferred tax liabilities	714	600	600	600	600	Payable turnover days	134	137	140	139	138
Others	728	849	849	849	849	Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Equity</b>	<b>48,423</b>	<b>58,188</b>	<b>67,458</b>	<b>76,298</b>	<b>86,425</b>	<b>Profitability (%)</b>					
Shareholders' equity	47,151	56,562	65,488	74,009	83,793	ROA	13.1	13.7	10.9	9.6	9.5
MI	1,272	1,625	1,969	2,289	2,632	ROE	28.8	29.8	22.9	18.6	17.7
						<b>Per share data</b>					
						EPS (RMB)	1.37	1.82	1.65	1.54	1.65
						BVPS (RMB)	5.60	6.68	7.74	8.75	9.90
						DPS (RMB)	0.43	0.60	0.53	0.49	0.53

Source: Company data, CMBIGM estimates

## Zoomlion (000157 CH, HOLD / 1157 HK, BUY)

**Zoomlion-A - Downgrade to HOLD.** We slash our earnings forecast in 2022E/23E by 32%/34%, after incorporating our new industry sales forecast and lower margin assumptions. Our earnings forecast in 2022E/23E is 8%/15% below consensus. We cut our TP from RMB9.3 to RMB6.7, based on 10x 2022E P/E (the average since the upcycle starting 2019).

**Zoomlion-H - Maintain BUY on attractive valuation.** Zoomlion-H is trading at 6.5x 2022E P/E and 0.6x P/B. In terms of P/B, the current valuation has already reached the average valuation in 2015-2018 (trough cycle). This, together with >7% dividend yield, suggests that downside risk is limited. Our TP is revised down from HK\$8.8 to HK\$6.14, based on 7.5x 2022E P/E (the average since the upcycle starting 2019).

**Figure 21: Financial summary – Zoomlion-H**

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	65,109	67,131	64,540	69,265	75,448
YoY growth (%)	50.3	3.1	-3.9	7.3	8.9
Core net profit (RMB mn)	7,296	6,303	5,714	6,029	6,597
Core EPS (RMB)	0.97	0.76	0.67	0.70	0.77
YoY growth (%)	65.9	-21.6	-12.1	5.5	9.4
Consensus EPS (RMB)	n/a	n/a	0.72	0.83	0.98
EV/EBITDA (x)	4.3	5.0	5.6	5.3	5.0
P/E (x)	4.8	5.8	6.5	6.1	5.6
P/B (x)	0.8	0.7	0.6	0.6	0.5
Yield (%)	11.6	7.4	6.8	7.2	7.9
ROE (%)	17.1	12.2	9.8	9.8	10.1
Net gearing (%)	9.9	Net cash	Net cash	Net cash	Net cash

Last closing price: HK\$5.29

Source: Company data, CMBIGM estimates

**Figure 22: Financial summary – Zoomlion-A**

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	65,109	67,131	64,540	69,265	75,448
YoY growth (%)	50.3	3.1	-3.9	7.3	8.9
Core net profit (RMB mn)	7,296	6,303	5,714	6,029	6,597
Core EPS (RMB)	0.97	0.76	0.67	0.70	0.77
YoY growth (%)	65.9	-21.6	-12.1	5.5	9.4
Consensus EPS (RMB)	n/a	n/a	0.72	0.83	0.98
EV/EBITDA (x)	6.2	7.2	8.1	7.7	7.2
P/E (x)	7.3	8.8	9.9	9.3	8.5
P/B (x)	1.2	1.0	0.9	0.9	0.8
Yield (%)	7.6	4.9	4.5	4.7	5.2
ROE (%)	17.1	12.2	9.8	9.8	10.1
Net gearing (%)	9.9	Net cash	Net cash	Net cash	Net cash

Last closing price: RMB6.56

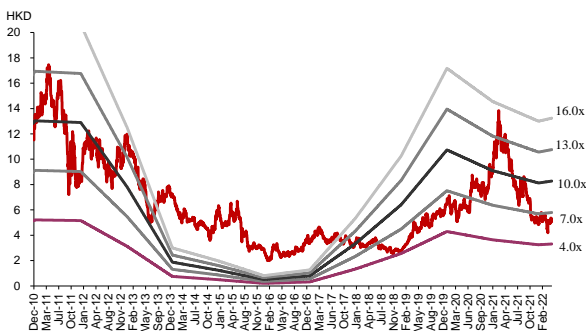
Source: Company data, CMBIGM estimates

**Figure 23: Change in key assumptions and earnings forecast**

	Old		New		Change	
	2022E	2023E	2022E	2023E	2022E	2023E
(RMB mn)						
<b>Revenue</b>						
Construction machinery	79,254	86,431	60,496	64,851	-24%	-25%
Concrete machinery	22,972	25,269	15,070	15,823	-34%	-37%
Crane machinery	39,573	41,948	32,115	33,720	-19%	-20%
Others	16,708	19,215	13,311	15,308	-20%	-20%
Agricultural machinery	4,984	6,230	3,343	3,677	-33%	-41%
Financial services and others	1,542	1,850	701	736	-55%	-60%
<b>Total revenue</b>	<b>85,779</b>	<b>94,512</b>	<b>64,540</b>	<b>69,265</b>	<b>-25%</b>	<b>-27%</b>
<b>Gross margin</b>					<b>Change in ppt</b>	
Construction machinery	24.7%	25.1%	22.5%	22.6%	(2.27)	(2.51)
Concrete machinery	26.0%	26.0%	23.0%	23.0%	(3.00)	(3.00)
Crane machinery	26.0%	26.0%	22.0%	22.0%	(4.00)	(4.00)
Others	20.0%	22.0%	23.0%	23.5%	3.00	1.50
Agricultural machinery	20.0%	20.0%	17.0%	18.0%	(3.00)	(2.00)
Financial services	81.0%	81.0%	97.0%	97.0%	16.00	16.00
<b>Average gross margin</b>	<b>25.5%</b>	<b>25.9%</b>	<b>23.0%</b>	<b>23.1%</b>	<b>(2.48)</b>	<b>(2.72)</b>
S&D expense ratio	5.6%	5.6%	5.3%	5.3%	(0.3)	(0.3)
Administrative expense ratio	5.6%	5.7%	5.0%	5.0%	(0.6)	(0.7)
R&D expense ratio	5.4%	5.5%	5.4%	5.5%	0.0	0.0
<b>Net profit</b>	<b>8,405</b>	<b>9,196</b>	<b>5,714</b>	<b>6,029</b>	<b>-32%</b>	<b>-34%</b>

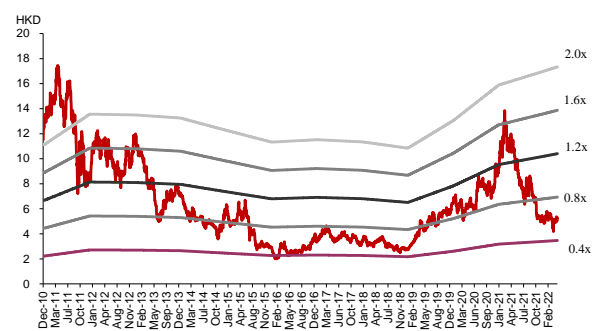
Source: Company data, CMBIS estimates

**Figure 24: Zoomlion - H 12M forward P/E band**



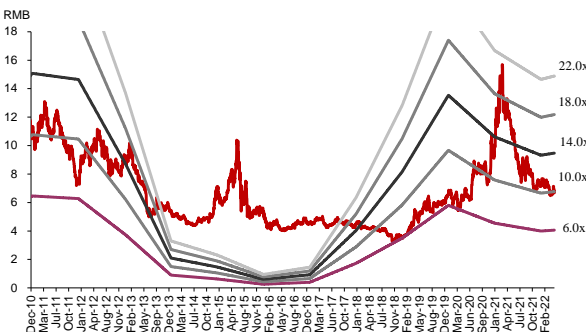
Source: Bloomberg, Company data, CMBIGM estimates

**Figure 25: Zoomlion - H 12M forward P/B band**



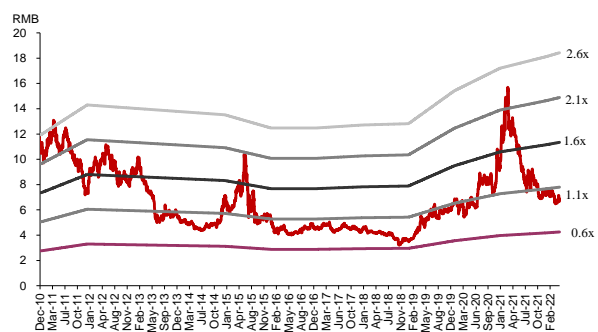
Source: Bloomberg, Company data, CMBIGM estimates

**Figure 26: Zoomlion - A 12M forward P/E band**



Source: Bloomberg, Company data, CMBIGM estimates

**Figure 27: Zoomlion - A 12M forward P/B band**



Source: Bloomberg, Company data, CMBIGM estimates



## Financial Summary – Zoomlion

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>65,109</b>	<b>67,131</b>	<b>64,540</b>	<b>69,265</b>	<b>75,448</b>
Cost of sales	(46,492)	(51,280)	(49,698)	(53,234)	(57,969)
<b>Gross profit</b>	<b>18,617</b>	<b>15,851</b>	<b>14,841</b>	<b>16,031</b>	<b>17,479</b>
Other income	1,462	1,413	1,441	1,441	1,441
S&D expenses	(4,046)	(3,473)	(3,421)	(3,671)	(3,999)
Administrative expenses	(4,048)	(2,729)	(3,227)	(3,463)	(3,772)
R&D expenses	(3,345)	(3,865)	(3,485)	(3,810)	(4,150)
<b>EBIT</b>	<b>8,640</b>	<b>7,197</b>	<b>6,150</b>	<b>6,529</b>	<b>7,000</b>
Net finance income/(cost)	(154)	6	323	385	574
Finance income	596	970	1,169	1,094	1,273
Finance expenses	(750)	(964)	(845)	(709)	(699)
Other gains/(losses)	0	0	0	0	0
Profit of JV and associates	182	154	215	226	237
<b>Pretax profit</b>	<b>8,668</b>	<b>7,357</b>	<b>6,688</b>	<b>7,139</b>	<b>7,812</b>
Income tax	(1,297)	(938)	(869)	(999)	(1,094)
<b>After tax profit</b>	<b>7,371</b>	<b>6,419</b>	<b>5,819</b>	<b>6,140</b>	<b>6,718</b>
MI/discontinued operation	(75)	(116)	(105)	(111)	(121)
<b>Net profit</b>	<b>7,296</b>	<b>6,303</b>	<b>5,714</b>	<b>6,029</b>	<b>6,597</b>
D&A	827	875	1,047	1,095	1,128
<b>EBITDA</b>	<b>9,467</b>	<b>8,072</b>	<b>7,197</b>	<b>7,623</b>	<b>8,127</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Pretax profit	8,668	7,357	6,688	7,139	7,812
Finance cost	750	964	845	709	699
Interest income	(596)	(970)	(1,169)	(1,094)	(1,273)
Profit or loss of associates	(182)	(154)	(215)	(226)	(237)
Disposal of PP&E/business	0	0	0	0	0
Depreciation and amortization	827	875	1,047	1,095	1,128
Income tax paid	(900)	(938)	(869)	(999)	(1,094)
Change in working capital	(1,259)	(2,226)	(877)	(332)	(987)
Others	(76)	(2,719)	0	0	0
<b>Cash flow from operation</b>	<b>7,232</b>	<b>2,189</b>	<b>5,451</b>	<b>6,291</b>	<b>6,047</b>
Net capex on PP&E	(806)	(3,063)	(2,500)	(1,500)	(1,000)
Investment in JV/associates	0	0	0	0	0
Investment in subsidiaries	(448)	0	0	0	0
Investment in intangible assets	(107)	(45)	(50)	(50)	(50)
Dividend received	48	0	0	0	0
Interest received	190	970	1,169	1,094	1,273
Others	2,099	741	0	0	0
<b>Cash flow from investing</b>	<b>976</b>	<b>(1,397)</b>	<b>(1,381)</b>	<b>(456)</b>	<b>223</b>
Equity financing/(repurchase)	0	6,088	0	0	0
Net bank borrowings	(2,309)	(396)	(4,700)	(500)	100
Dividend paid	(1,712)	(4,202)	(2,777)	(2,514)	(2,653)
Interest paid	(903)	0	(845)	(709)	(699)
Others	1,680	0	0	0	0
<b>Cash flow from financing</b>	<b>(3,244)</b>	<b>2,420</b>	<b>(8,322)</b>	<b>(3,723)</b>	<b>(3,252)</b>
Change in cash	4,964	3,212	(4,253)	2,112	3,018
Cash at beginning of the year	5,073	10,086	13,190	8,937	11,049
Exchange and others	49	(108)	0	0	(0)
Cash at the end of the year	10,086	13,190	8,937	11,049	14,068

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>49,287</b>	<b>49,268</b>	<b>54,439</b>	<b>55,369</b>	<b>57,231</b>
PP&E	7,342	9,740	11,442	12,098	12,225
Lease prepayment	3,068	4,113	4,063	4,013	3,963
JV/associates	3,388	4,190	4,405	4,631	4,868
Finance lease receivables	13,008	7,206	12,598	8,656	13,668
Goodwill	2,054	1,908	1,908	1,908	1,908
Trade receivables	14,131	16,353	14,414	18,606	15,294
Intangible assets	1,965	1,850	1,701	1,550	1,396
Financial assets	2,703	2,418	2,418	2,418	2,418
Others	0	140	140	140	140
Deferred tax assets	1,453	1,148	1,148	1,148	1,148
Deposits	175	202	202	202	202
<b>Current assets</b>	<b>66,956</b>	<b>72,714</b>	<b>66,212</b>	<b>73,310</b>	<b>77,716</b>
Inventories	14,652	13,501	13,731	14,855	15,321
Trade & other receivables	23,972	32,108	24,475	32,455	28,730
Finance lease receivables	10,365	4,496	9,650	5,532	10,178
Financial assets at FVPL	4,284	6,408	6,408	6,408	6,408
Others	1,374	1,236	1,236	1,236	1,236
Pledged deposits	2,223	1,775	1,775	1,775	1,775
Cash	10,086	13,190	8,937	11,049	14,068
<b>Current liabilities</b>	<b>46,928</b>	<b>49,675</b>	<b>49,502</b>	<b>53,905</b>	<b>56,107</b>
Trade and other payables	40,387	36,600	36,927	41,830	43,932
Bank borrowings	2,964	11,011	10,511	10,011	10,111
Tax payable	710	97	97	97	97
Contract liabilities	2,777	1,874	1,874	1,874	1,874
Others	90	93	93	93	93
<b>Non-current liabilities</b>	<b>21,465</b>	<b>14,047</b>	<b>9,847</b>	<b>9,847</b>	<b>9,847</b>
Bank borrowings	16,337	7,894	3,694	3,694	3,694
Deferred tax liabilities	490	405	405	405	405
Others	4,638	5,748	5,748	5,748	5,748
<b>Equity</b>	<b>47,850</b>	<b>58,260</b>	<b>61,302</b>	<b>64,927</b>	<b>68,993</b>
Shareholders' equity	46,706	56,831	59,768	63,283	67,227
MI	1,144	1,429	1,534	1,644	1,766

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Concrete machinery	29%	24%	23%	23%	22%
Crane machinery	54%	54%	50%	49%	49%
Others machinery	12%	16%	21%	22%	22%
Agricultural machinery	4%	4%	5%	5%	5%
Financial services	2%	1%	1%	1%	1%
Environmental (discontinued)	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	28.6	23.6	23.0	23.1	23.2
EBIT margin	13.3	10.7	9.5	9.4	9.3
Net profit margin	11.3	9.6	9.0	8.9	8.9
<b>Growth (%)</b>					
Revenue	50.3	3.1	(3.9)	7.3	8.9
Gross profit	43.3	(14.9)	(6.4)	8.0	9.0
EBIT	43.5	(16.7)	(14.6)	6.2	7.2
Net profit	66.5	(13.6)	(9.3)	5.5	9.4
<b>Balance sheet ratio</b>					
Current ratio (x)	1.4	1.5	1.3	1.4	1.4
Trade receivable turnover days	191	235	247	237	230
Finance lease receivable turnover days	113	95	96	96	92
Inventory turnover days	104	100	100	98	95
Payable turnover days	257	274	270	270	270
Net debt / total equity (%)	9.9	Net cash	Net cash	Net cash	Net cash
<b>Profitability (%)</b>					
ROA	7.0	5.3	4.7	4.8	5.0
ROE	17.1	12.2	9.8	9.8	10.1
<b>Per share data</b>					
EPS (RMB)	0.97	0.76	0.67	0.70	0.77
BVPS (RMB)	5.93	6.62	6.97	7.38	7.84
DPS (RMB)	0.53	0.32	0.29	0.31	0.34

Source: Company data, CMBIGM estimates

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