

# SANY Heavy Industry – A (600031 CH)

## Earnings upside + multiple expansion

We see potential re-rating opportunity on SANY given that: (1) excavator demand will continue to be driven by structural drivers, making the upcoming sales more sustainable; (2) SANY's digital transformation strategy will help widen its competitive edge over competitors; (3) Overseas expansion will offer huge opportunity. As such, we believe market will gradually price SANY as a growth stock instead of a cyclical growth. We revised up our earnings forecast in 2020E-22E by 6-14%. Our new TP of RMB49.5 is based on 22x 2021E PE (up from 17x), on the back of 22% earnings growth in 2021E. We believe surprise on excavator demand in 1Q21E will serve as a strong near-term catalyst. Reiterate **BUY**.

- Digital transformation to enhance global competitiveness.** SANY started the digital transformation of intelligent manufacturing years ago, which has enabled SANY to gradually achieve higher production efficiency. In 2019, SANY's revenue per employee reached US\$590k, surpassing that of **Caterpillar (CAT US)** (US\$530k). Going forward, with the commencement of more light tower plants and further digital transformation, we expect SANY's global competitiveness will be further enhanced.
- Overseas opportunity.** Caterpillar generated ~60% of revenue outside the US, while **Komatsu (6301 JP)** generated >70% of revenue outside Japan for years. We see huge potential for SANY to expand outside China given that overseas accounted for <20% of total revenue between 2019 and 1H20. With enhancing products quality and the continuous sales network construction, we believe overseas markets will become an important revenue driver over the coming years. We believe the increase in overseas exposure will smooth the earnings trend of SANY going forward, which will help boost the valuation.
- Higher industry forecast on excavator.** According to CCMA, excavator sales by major producers in China increased 39% YoY to 328k units in 2020, a record high. Going forward, we see the continuous replacement of labour, substitution of wheel loader and tightening emission standard as structural growth drivers. We revise up our excavator demand growth forecast in 2021E to 10% from 3%. Based on the feedback from the upstream supply chain, we expect the excavator demand growth will remain strong in 1H21E. We expect excavator sales growth of >70% YoY in 2M21E, which should surprise the market on the upside.
- Key risks:** (1) Risk of overseas business due to pandemic; (2) Slowdown of construction activities; (3) Risk of expanding to financing business.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	55,822	75,666	97,663	111,937	120,625
YoY growth (%)	46	36	29	15	8
Net income (RMB mn)	6,116	11,207	15,606	19,053	20,963
EPS (RMB)	0.79	1.36	1.84	2.25	2.48
YoY growth (%)	189.6	71.4	36.1	22.1	10.0
Consensus EPS (RMB)	N/A	N/A	1.82	2.13	2.39
EV / EBITDA (x)	37.9	24.0	18.1	14.9	13.7
P/E (x)	51.1	29.8	21.9	17.9	16.3
P/B (x)	10.0	7.7	6.0	4.8	4.0
Yield (%)	0.7	1.1	1.4	1.8	1.9
ROE (%)	21.5	29.5	30.9	30.0	26.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price	RMB49.50
(previous TP)	RMB34.60)
Up/Downside	+23%
Current Price	RMB40.37

### China Capital Goods

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#### Stock Data

Mkt Cap (RMB mn)	342,277
Avg 3 mths t/o (RMB mn)	2,228
52w High/Low (RMB)	41.38/14.39
Total Issued Shares (mn)	8,435

Source: Bloomberg

#### Shareholding Structure

SANY Group	30.2%
Hong Kong CCASS	9.9%
Liang Wengen	2.8%
Others	57.1%

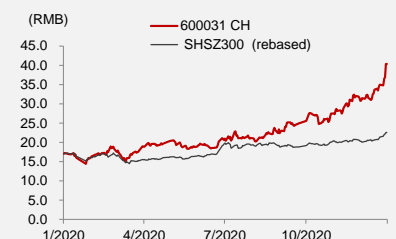
Source: Shanghai Stock Exchange

#### Share Performance

	Absolute	Relative
1-mth	28.2%	16.9%
3-mth	62.2%	35.4%
6-mth	95.6%	69.9%

Source: Bloomberg

#### 12-mth Price Performance



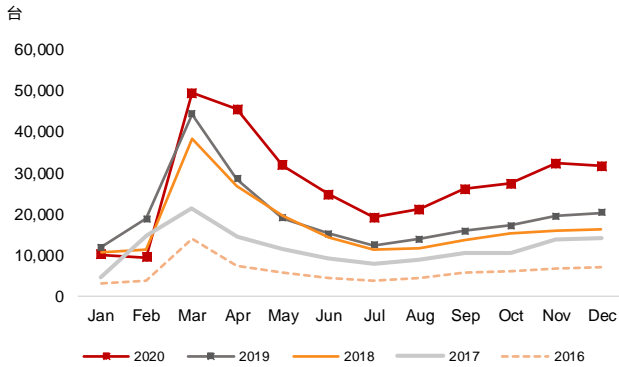
Source: Bloomberg

#### Auditor: Ruihua CPA

#### Related Reports

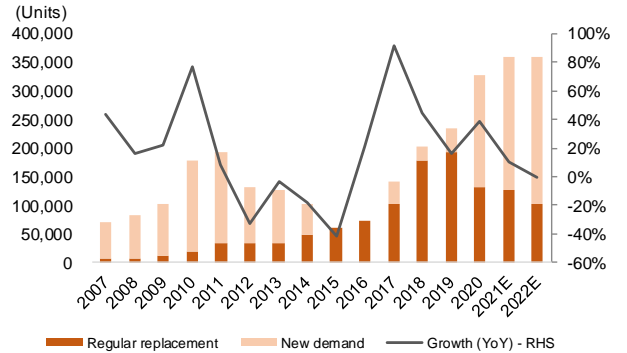
- China Construction Machinery Sector – Excavator sales +61% YoY in Oct; Leading indicators suggest sustainable momentum – 10 Nov 2020
- SANY Heavy (600031 CH, BUY) – 3Q20 Net profit +57% YoY; Promising outlook – 30 Oct 2020
- SANY Heavy (600031 CH, BUY) – Excavator sales growth accelerated; Raised earnings est. TP – 19 Oct 2020

**Figure 1: China excavator sales +39% YoY in 2020**



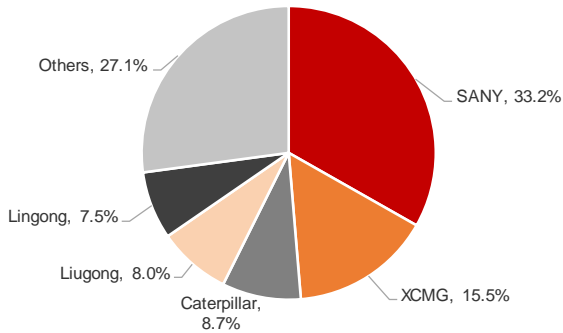
Source: CCMA, CMBIS

**Figure 2: CMBIS excavator sales projection**



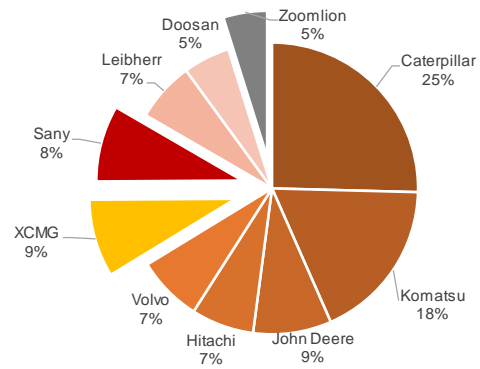
Source: CCMA, CMBIS estimates

**Figure 3: China excavator market share in Nov 2020**



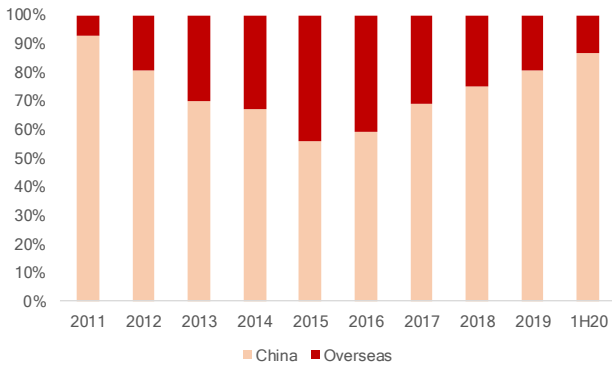
Source: CCMA, CMBIS

**Figure 4: Global construction machinery market share in 2019 (by revenue)**



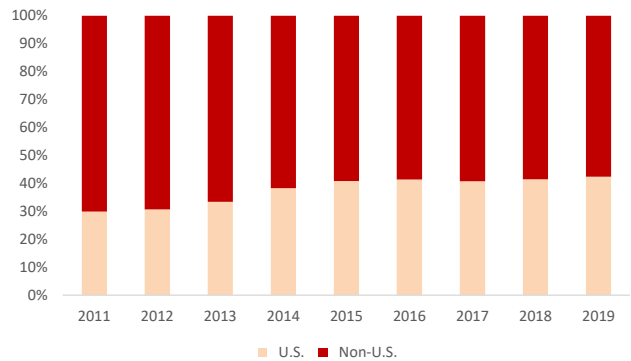
Source: KHL Yellow Table, CMBIS

**Figure 5: SANY revenue breakdown by region**



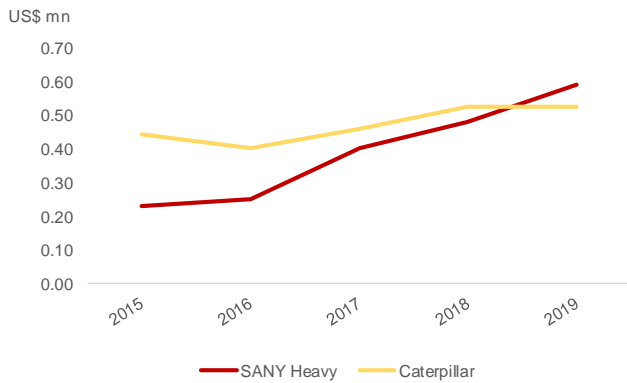
Source: Company data, CMBIS

**Figure 6: Caterpillar revenue breakdown by region**



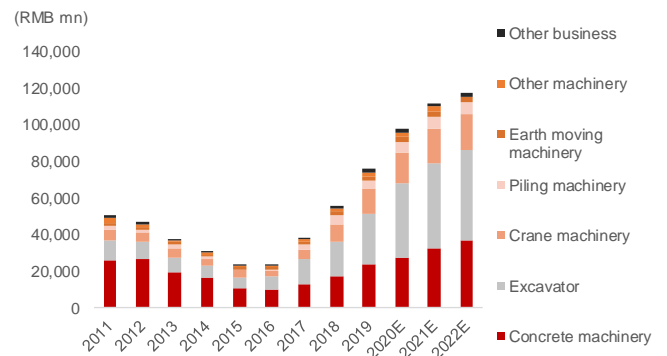
Source: Company data, Bloomberg, CMBIS

**Figure 7: Revenue per employee (SANY vs Caterpillar)**



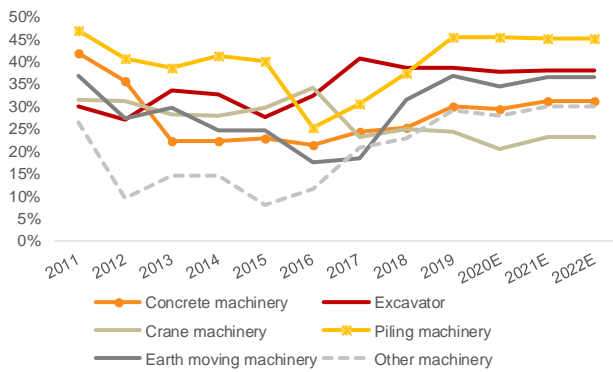
Source: Company data, CMBIS

**Figure 8: SANY revenue breakdown**



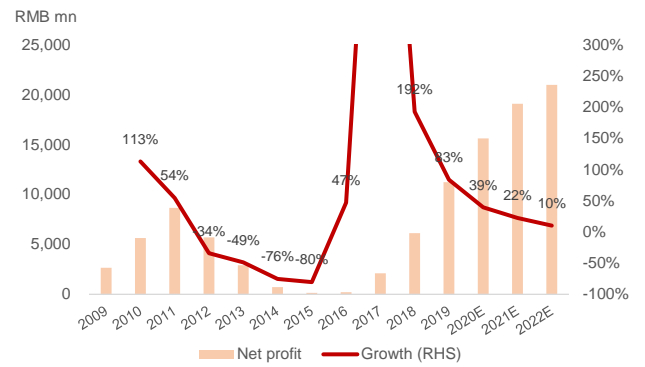
Source: Company data, Bloomberg, CMBIS estimates

**Figure 9: SANY gross margin trend**



Source: Company data, CMBIS estimates

**Figure 10: SANY net profit trend**



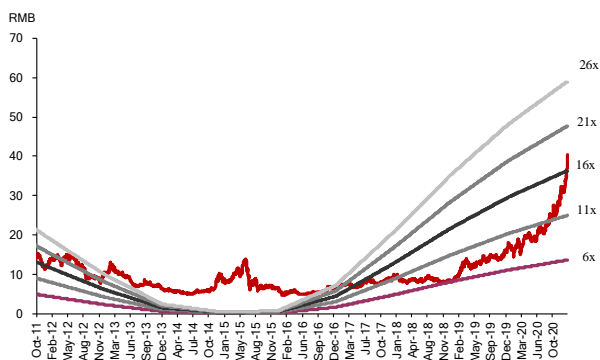
Source: Company data, CMBIS estimates

Figure 11: Change in key assumptions for SANY Heavy

(RMB mn)	Old			New			Change		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
<b>Revenue</b>									
Concrete machinery	27,064	30,853	33,321	27,064	31,935	36,726	0.0%	3.5%	10.2%
Excavator	37,672	40,309	41,921	40,653	47,158	49,044	7.9%	17.0%	17.0%
Crane machinery	16,711	18,549	20,033	16,711	18,549	20,033	0.0%	0.0%	0.0%
Piling machinery	6,107	6,413	6,605	6,107	6,596	6,794	0.0%	2.9%	2.9%
Earth moving machinery	2,594	2,724	2,805	2,594	2,775	2,859	0.0%	1.9%	1.9%
Other machinery	2,707	3,005	3,155	2,707	3,005	3,155	0.0%	0.0%	0.0%
<b>Revenue (construction machinery)</b>	<b>92,855</b>	<b>101,852</b>	<b>107,841</b>	<b>95,837</b>	<b>110,019</b>	<b>118,611</b>	3.2%	8.0%	10.0%
Other business	1,827	1,918	2,014	1,827	1,918	2,014	0.0%	0.0%	0.0%
<b>Total revenue</b>	<b>94,682</b>	<b>103,771</b>	<b>109,855</b>	<b>97,663</b>	<b>111,937</b>	<b>120,625</b>	3.1%	7.9%	9.8%
<b>Revenue growth</b>								ppt	
Concrete machinery	16.7%	14.0%	8.0%	16.7%	18.0%	15.0%	0.0	4.0	7.0
Excavator	36.4%	7.0%	4.0%	47.2%	16.0%	4.0%	10.8	9.0	0.0
Crane machinery	19.5%	11.0%	8.0%	19.5%	11.0%	8.0%	0.0	0.0	0.0
Piling machinery	27.0%	5.0%	3.0%	27.0%	8.0%	3.0%	0.0	3.0	0.0
Earth moving machinery	20.8%	5.0%	3.0%	20.8%	7.0%	3.0%	0.0	2.0	0.0
Other machinery	25.0%	11.0%	5.0%	25.0%	11.0%	5.0%	0.0	0.0	0.0
<b>Revenue (construction machinery)</b>	<b>25.6%</b>	<b>9.7%</b>	<b>5.9%</b>	<b>29.6%</b>	<b>14.8%</b>	<b>7.8%</b>	4.0	5.1	1.9
Other business	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	0.0	0.0	0.0
<b>Total revenue</b>	<b>25.1%</b>	<b>9.6%</b>	<b>5.9%</b>	<b>29.1%</b>	<b>14.6%</b>	<b>7.8%</b>	3.9	5.0	1.9
<b>Gross margin</b>								ppt	
Concrete machinery	29.3%	31.2%	31.2%	29.3%	31.2%	31.2%	0.0	0.0	0.0
Excavator	37.8%	38.0%	38.0%	37.8%	38.0%	38.0%	0.0	0.0	0.0
Crane machinery	20.5%	23.0%	23.0%	20.5%	23.0%	23.0%	0.0	0.0	0.0
Piling machinery	45.5%	45.0%	45.0%	45.5%	45.0%	45.0%	0.0	0.0	0.0
Earth moving machinery	34.5%	36.5%	36.5%	34.5%	36.5%	36.5%	0.0	0.0	0.0
Other machinery	28.0%	30.0%	30.0%	28.0%	30.0%	30.0%	0.0	0.0	0.0
<b>Gross margin (construction machinery)</b>	<b>32.3%</b>	<b>33.4%</b>	<b>33.3%</b>	<b>32.5%</b>	<b>33.7%</b>	<b>33.5%</b>	0.2	0.3	0.2
Other business	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	0.0	0.0	0.0
<b>Blended gross margin</b>	<b>31.9%</b>	<b>33.0%</b>	<b>32.9%</b>	<b>32.1%</b>	<b>33.3%</b>	<b>33.2%</b>	0.2	0.3	0.3
<b>Net profit</b>	<b>14,773</b>	<b>17,225</b>	<b>18,417</b>	<b>15,606</b>	<b>19,053</b>	<b>20,963</b>	<b>5.6%</b>	<b>10.6%</b>	<b>13.8%</b>

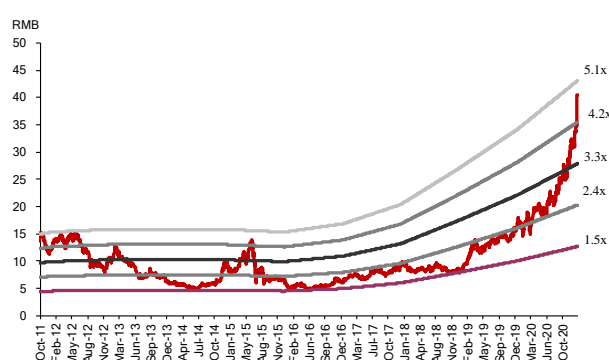
Source: Company data, CMBIS estimates

Figure 12: SANY's P/E band



Source: Company data, Bloomberg, CMBIS estimates

Figure 13: SANY's P/B band



Source: Company data, Bloomberg, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>55,822</b>	<b>75,666</b>	<b>97,663</b>	<b>111,937</b>	<b>120,625</b>
Cost of sales	-38,728	-50,932	-66,290	-74,674	-80,633
<b>Gross profit</b>	<b>17,094</b>	<b>24,733</b>	<b>31,373</b>	<b>37,263</b>	<b>39,992</b>
Surcharge	-326	-371	-391	-336	-362
S&D expenses	-4,447	-5,488	-6,055	-6,716	-6,996
Administrative expenses	-3,800	-5,696	-7,129	-7,836	-8,082
Fair value change	-362	290	300	0	0
Asset impairment	-1,095	-1,259	-1,367	-1,679	-1,809
<b>EBIT</b>	<b>7,063</b>	<b>12,209</b>	<b>16,731</b>	<b>20,696</b>	<b>22,742</b>
Net finance income/(cost)	-136	46	327	657	1,134
Finance income	344	505	887	1,340	1,816
Finance expenses	-479	-458	-561	-683	-681
Other gains/(losses)	495	1,059	1,380	1,250	1,000
Profit of JV and associates	128	140	123	162	171
<b>Pretax profit</b>	<b>7,550</b>	<b>13,454</b>	<b>18,560</b>	<b>22,766</b>	<b>25,048</b>
Income tax	-1,247	-1,960	-2,636	-3,324	-3,657
<b>After tax profit</b>	<b>6,303</b>	<b>11,494</b>	<b>15,924</b>	<b>19,442</b>	<b>21,391</b>
MI	-187	-288	-318	-389	-428
<b>Net profit</b>	<b>6,116</b>	<b>11,207</b>	<b>15,606</b>	<b>19,053</b>	<b>20,963</b>
D&A	1,932	2,020	2,085	2,127	2,167
<b>EBITDA</b>	<b>8,995</b>	<b>14,230</b>	<b>18,816</b>	<b>22,824</b>	<b>24,910</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pretax profit	7,550	13,454	18,560	22,766	25,048
Finance cost	388	120	561	683	681
Interest income	-344	-505	-887	-1,340	-1,816
Profit or loss of associates	-128	-140	-123	-162	-171
Fair value change	-276	-673	0	0	0
Provision for assets	-8	249	0	0	0
Depreciation and amortization	1,932	2,020	2,085	2,127	2,167
Income tax paid	-1,247	-1,960	-2,636	-3,324	-3,657
Change in working capital	1,788	531	-2,005	-4,504	-112
Others	870	167	0	0	0
<b>Cash flow from operation</b>	<b>10,527</b>	<b>13,265</b>	<b>15,555</b>	<b>16,246</b>	<b>22,141</b>
Net capex on PP&E	-1,003	-2,157	-3,500	-4,000	-4,000
Investment in JV/associates	-648	-11	-50	-50	0
Investment in subsidiaries	311	153	-3,380	0	0
Dividend received	13	14	12	16	0
Interest received	344	505	887	1,340	1,816
Others	-9,781	-10,485	-70	0	0
<b>Cash flow from investing</b>	<b>-10,765</b>	<b>-11,981</b>	<b>-6,101</b>	<b>-2,694</b>	<b>-2,184</b>
Equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	1,584	1,756	7,000	-200	100
Dividend paid	-1,233	-2,165	-3,516	-4,916	-6,002
Interest paid	-479	-458	-561	-683	-681
Others	955	-283	0	0	0
<b>Cash flow from financing</b>	<b>827</b>	<b>-1,151</b>	<b>2,924</b>	<b>-5,799</b>	<b>-6,583</b>
Change in cash	589	134	12,378	7,754	13,374
Cash at beginning of the year	4,104	11,985	13,527	25,905	33,659
Exchange and others	7,293	1,408	0	0	0
Cash at the end of the year	11,985	13,527	25,905	33,659	47,032

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>21,879</b>	<b>22,041</b>	<b>26,635</b>	<b>29,448</b>	<b>30,898</b>
PP&E	11,867	10,615	15,772	18,009	20,206
JV/associates	2,328	2,985	3,146	3,342	3,513
Goodwill	51	49	49	49	49
LT trade receivables	366	1,286	855	1,599	1,045
Intangible assets	3,880	3,339	3,048	2,683	2,319
AFS investments	1,121	0	0	0	0
Others	1,115	2,656	2,656	2,656	2,656
Deferred tax assets	1,152	1,109	1,109	1,109	1,109
<b>Current assets</b>	<b>51,896</b>	<b>68,500</b>	<b>92,488</b>	<b>101,122</b>	<b>121,630</b>
Inventories	11,595	14,252	17,713	18,294	20,586
Trade and bills receivables	20,802	21,793	30,116	29,379	34,734
Other receivables	1,704	3,030	2,856	3,891	3,380
Others	3,272	6,897	6,897	6,897	6,897
Cash	11,985	13,527	25,905	33,659	47,032
<b>Current liabilities</b>	<b>33,935</b>	<b>42,149</b>	<b>51,322</b>	<b>48,542</b>	<b>55,112</b>
Trade and bills payables	17,191	20,295	29,468	26,588	33,058
Bank borrowings	8,336	10,771	10,771	10,871	10,971
Tax payable	524	1,490	1,490	1,490	1,490
Others	3,567	4,162	4,162	4,162	4,162
<b>Non-current liabilities</b>	<b>7,337</b>	<b>2,866</b>	<b>9,866</b>	<b>9,566</b>	<b>9,566</b>
Bank borrowings	5,974	1,303	8,303	8,003	8,003
Deferred tax liabilities	650	714	714	714	714
Others	471	728	728	728	728
<b>Equity</b>	<b>32,502</b>	<b>45,527</b>	<b>57,935</b>	<b>72,461</b>	<b>87,851</b>
Shareholders' equity	31,485	44,421	56,511	70,648	85,610
MI	1,017	1,106	1,424	1,813	2,241

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Concrete machinery	30%	31%	28%	29%	30%
Excavator	34%	37%	42%	42%	41%
Crane machinery	17%	18%	17%	17%	17%
Piling machinery	8%	6%	6%	6%	6%
Earth moving machinery	4%	3%	3%	2%	2%
Other machinery	4%	3%	3%	3%	3%
Other business	3%	2%	2%	2%	2%
Total	100%	100%	100%	100%	100%
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	30.6	32.7	32.1	33.3	33.2
EBIT margin	12.7	16.1	17.1	18.5	18.9
Net profit margin	11.3	15.2	16.3	17.4	17.7
<b>Growth (%)</b>					
Revenue	45.6	35.5	29.1	14.6	7.8
Gross profit	48.3	44.7	26.8	18.8	7.3
EBIT	n/a	72.9	37.0	23.7	9.9
Net profit	192.3	83.2	39.3	22.1	10.0
<b>Balance sheet ratio</b>					
Current ratio (x)	1.5	1.6	1.8	2.1	2.2
Receivable turnover days	133	107	101	101	101
Inventory turnover days	91	93	88	88	88
Payable turnover days	133	134	137	137	135
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Profitability (%)</b>					
ROA	9.3	13.6	14.9	15.3	14.8
ROE	21.5	29.5	30.9	30.0	26.8
<b>Per share data</b>					
EPS (RMB)	0.79	1.36	1.84	2.25	2.48
BVPS (RMB)	4.04	5.27	6.68	8.35	10.12
DPS (RMB)	0.28	0.43	0.58	0.71	0.78

Source: Company data, CMBIS estimates

# Disclosures & Disclaimers

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## CMBIS Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : 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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