

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

(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	Net cash	Net cash	Net cash	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

Wayne Fung, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

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%

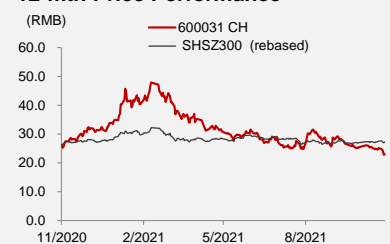
Source: Company data, Shanghai Stock Exchange

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:			<i>ppt</i>			<i>ppt</i>			<i>ppt</i>
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

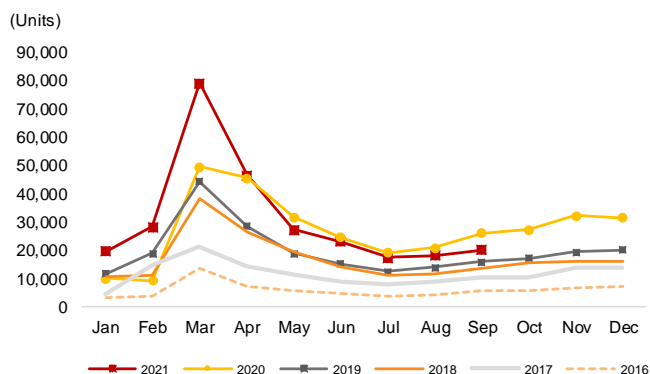
Source: Company data, CMBIS estimates

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%

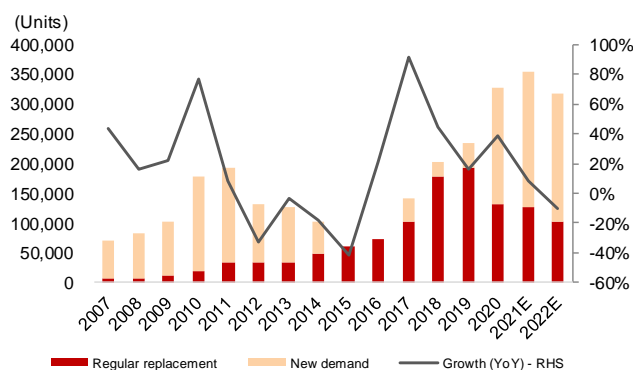
Source: Company data, CMBIS estimates

Figure 3: Monthly excavator sales by major manufactures in China



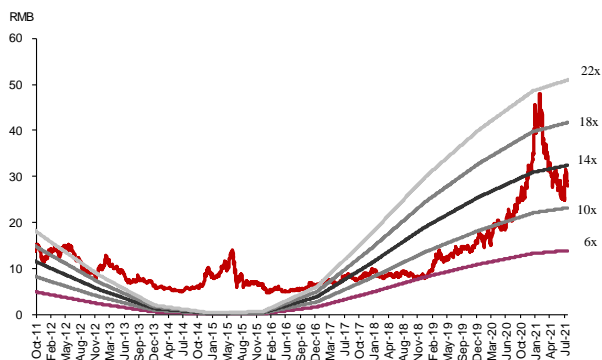
Source: CCMA, CMBIS

Figure 4: CMBIS excavator sales projection



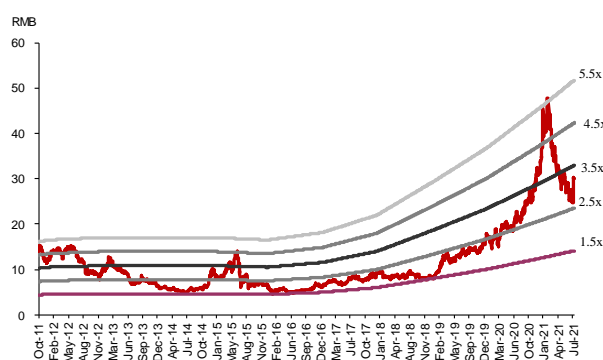
Source: CCMA, CMBIS estimates

Figure 5: SANY's P/E band



Source: Company data, Bloomberg, CMBIS estimates

Figure 6: SANY's P/B band



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

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	76,233	100,054	113,466	122,550	129,159
Cost of sales	-51,204	-70,034	-82,868	-88,231	-93,231
Gross profit	25,029	30,021	30,599	34,320	35,928
Surcharge	-373	-408	-640	-368	-646
S&D expenses	-5,488	-5,332	-6,241	-6,495	-6,845
Administrative expenses	-2,067	-2,201	-1,702	-1,593	-1,550
R&D expenses	-3,650	-4,992	-5,673	-6,128	-6,458
Fair value change	290	436	400	400	400
Asset impairment	-1,363	-681	-794	-980	-1,033
EBIT	12,378	16,844	16,248	19,156	19,795
Net finance income/(cost)	46	-282	140	302	548
Finance income	489	515	617	793	1,050
Finance expenses	-442	-797	-477	-491	-502
Other gains/(losses)	1,058	1,941	1,960	1,978	1,987
Profit of JV and associates	140	29	176	187	200
Pretax profit	13,621	18,531	18,524	21,623	22,530
Income tax	-2,001	-2,671	-2,686	-3,135	-3,267
After tax profit	11,620	15,861	15,838	18,488	19,263
MI	-295	-429	-523	-610	-636
Net profit	11,325	15,431	15,315	17,878	18,628
D&A	2,020	1,894	1,965	2,055	2,124
EBITDA	14,398	18,738	18,214	21,211	21,920

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pretax profit	13,621	18,531	18,524	21,623	22,530
Finance cost	120	797	477	491	502
Interest income	-489	-515	-617	-793	-1,050
Profit or loss of associates	-140	-29	-176	-187	-200
Fair value change	-673	-1,341	0	0	0
Provision for assets	241	495	0	0	0
Depreciation and amortization	2,020	1,894	1,965	2,055	2,124
Income tax paid	-2,001	-2,671	-2,686	-3,135	-3,267
Change in working capital	-1,066	-3,531	-4,689	-7,277	-4,542
Others	1,631	-267	0	0	-0
Cash flow from operation	13,265	13,363	12,798	12,776	16,097
Net capex on PP&E	-2,157	-4,133	-4,000	-4,000	-3,000
Investment in JV/associates	-11	-47	-50	-50	-50
Investment in subsidiaries	153	4	0	0	0
Dividend received	14	11	18	0	0
Interest received	489	515	617	793	1,050
Others	-9,031	-7,599	-180	-180	-180
Cash flow from investing	-10,544	-11,250	-3,596	-3,437	-2,180
Equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	1,756	3,020	500	300	300
Dividend paid	-2,165	-3,516	-5,057	-4,901	-5,721
Interest paid	-442	0	-477	-491	-502
Others	-1,187	-1,956	0	0	0
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

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	26,555	34,827	34,689	45,135	41,076
PP&E	10,615	10,841	13,183	15,445	16,647
JV/associates	2,985	3,420	3,628	3,866	4,115
Goodwill	49	50	50	50	50
LT trade receivables	1,286	5,555	2,217	7,856	4,176
Intangible assets					
AFS investments	3,339	3,228	3,100	2,963	2,817
Others	0	0	0	0	0
Deferred tax assets	2,580	5,240	5,240	5,240	5,240
Current assets	1,147	1,441	1,441	1,441	1,441
Inventories	72,686	91,428	102,001	109,918	125,109
Trade and bills receivables	14,252	19,198	20,760	21,784	24,193
Other receivables	21,775	21,512	25,118	27,260	30,773
Others	2,787	1,869	3,105	3,610	4,883
Cash	9,061	13,446	13,446	13,446	13,446
Current liabilities	47,953	62,049	60,704	64,980	62,069
Trade and bills payables	20,295	32,207	31,362	35,838	33,128
Bank borrowings	10,771	8,466	7,966	7,766	7,566
Tax payable	1,515	2,030	2,030	2,030	2,030
Others	9,928	11,413	11,413	11,413	11,413
Non-current liabilities	2,866	6,018	7,018	7,518	8,018
Bank borrowings	1,303	4,532	5,532	6,032	6,532
Deferred tax liabilities	714	600	600	600	600
Others	728	849	849	849	849
Equity	48,423	58,188	68,968	82,555	96,098
Shareholders' equity	47,151	56,562	66,820	79,797	92,704
MI	1,272	1,625	2,148	2,758	3,394

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Concrete machinery	30%	27%	27%	28%	29%
Excavator	36%	38%	40%	39%	38%
Crane machinery	18%	19%	18%	18%	19%
Piling machinery	6%	7%	7%	6%	6%
Earth moving machinery	3%	3%	2%	2%	2%
Other machinery	3%	3%	4%	4%	4%
Interest income	1%	1%	1%	1%	1%
Other business	2%	3%	2%	2%	3%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	32.8	30.0	27.0	28.0	27.8
EBIT margin	16.2	16.8	14.3	15.6	15.3
Net profit margin	15.2	15.9	14.0	15.1	14.9
Growth (%)					
Revenue	36.6	31.2	13.4	8.0	5.4
Gross profit	46.4	19.9	1.9	12.2	4.7
EBIT	75.2	36.1	(3.5)	17.9	3.3
Net profit	85.2	36.3	(0.8)	16.7	4.2
Balance sheet ratio					
Current ratio (x)	1.5	1.5	1.7	1.7	2.0
Receivable turnover days	106	91	88	93	99
Inventory turnover days	92	87	88	88	90
Payable turnover days	134	137	140	139	135
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	13.1	13.7	11.6	12.3	11.6
ROE	28.8	29.8	24.8	24.4	21.6
Per share data					
EPS (RMB)	1.37	1.82	1.81	2.11	2.20
BVPS (RMB)	5.60	6.68	7.90	9.43	10.96
DPS (RMB)	0.43	0.60	0.58	0.68	0.70

Source: Company data, CMBIS estimates

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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

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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