

SANY Heavy Industry – A (600031 CH)

Another weak quarter; Still challenging

SANY's 3Q22 net profit declined 61% YoY to RMB963mn, with earnings largely contributed by finance income and other gains. The lack of gross margin recovery along with the increased distribution expense and R&D spending are the key factors that dragged the earnings. We slash our 2022E/23E/24E earnings forecast by 52%/38%/36% (37%-44% below consensus), largely a result of lower sales volume and higher expense assumptions. We cut our TP to RMB14.7, based on 28x 2022E PE (average since the upcycle starting from 2017 + 1SD). Our above average target multiple is to reflect potential earnings recovery in 2023E driven by low earnings base and oversea market. Maintain **HOLD** due to the lack of upside potential.

- Key highlights in 3Q22 results.** Revenue dropped 8% YoY to RMB19bn. Gross margin slightly improved 0.6ppt QoQ but still dropped 1.1ppt YoY to 23.8%. Selling & distribution expense ratio increased 2.9ppt YoY to 8.4%, while R&D expense ratio also increased 2ppt YoY to 8.4%. All these drove the EBIT down 91% YoY to only RMB158mn. Net profit declined 61% YoY to RMB963mn, with profit largely contributed by the finance income and other gains. Operating cash inflow increased 12% YoY to RMB500mn. In 9M22, revenue / net profit dropped 33%/71% YoY to RMB3.6bn.
- Overseas accounted for 46% of total revenue in 3Q22.** We calculate that the overseas revenue in 3Q22 surged 68% YoY to ~RMB9.3bn, driven largely by excavators (+89% YoY, 49% of total overseas revenue). In 9M22, overseas revenue grew 44% YoY to RMB25.9bn. We believe overseas market will continue to serve as a key growth engine that offsets the weakness in China.
- Bear case scenario: 1.5x P/B.** We still value SANY with earnings multiple at present. That said, we think market will potentially switch to asset-based valuation if the downcycle continues. We see 1.5x forward P/B (equivalent to RMB11.4, 21% downside) a key supporting level in the previous trough cycle (2014-17).
- Upside risk:** (1) stabilization of property investment; **Downside risks:** (1) further weakness in construction activities; (2) slowdown of overseas demand.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	100,054	106,874	76,567	81,793	86,289
YoY growth (%)	31	7	-28	7	5
Net income (RMB mn)	15,431	12,034	4,441	5,859	6,426
EPS (RMB)	1.82	1.42	0.52	0.69	0.76
YoY growth (%)	33.2	-22.0	-63.1	31.9	9.7
Consensus EPS (RMB)	-	-	0.84	1.11	1.35
EV / EBITDA (x)	5.9	8.7	25.7	15.3	14.0
P/E (x)	7.9	10.1	27.4	20.7	18.9
P/B (x)	2.2	1.9	1.9	1.8	1.7
Yield (%)	4.2	3.1	1.2	1.5	1.7
ROE (%)	29.8	20.0	6.9	8.8	9.0
Net gearing (%)	Net cash				

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	RMB14.70
(Previous TP	RMB15.20)
Up/Downside	2%
Current Price	RMB14.36

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Stock Data

Mkt Cap (RMB mn)	121,964
Avg 3 mths t/o (RMB mn)	890.33
52w High/Low (RMB)	25.31/13.42
Total Issued Shares (mn)	8,447

Source: Bloomberg

Shareholding Structure

SANY Group	29.2%
Hong Kong CCASS	7.9%
Liang Wengen	2.8%
Others	60.8%

Source: Company data, Shanghai Stock Exchange

Share Performance

	Absolute	Relative
1-mth	3.1%	10.5%
3-mth	-16.9%	-3.3%
6-mth	-5.1%	1.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ruihua CPA

Related Reports

1. SANY Heavy Industry (600031 CH) - 2021 results: Big miss on a surprising net loss in 4Q21; Yet to see meaningful recovery in the near term – 25 Apr 2022 ([link](#))
2. China Construction Machinery – Consensus yet to reflect the earnings downside; D/G SANY Heavy & Zoomlion-A – 19 Apr 2022 ([link](#))

Figure 1: SANY Heavy's 3Q22 financials

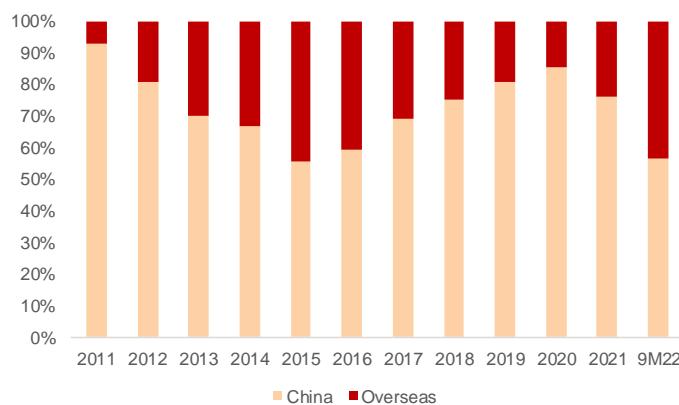
(RMB mn)	1Q21	1Q22	Chg YoY	2Q21	2Q22	Chg YoY	3Q21	3Q22	Chg YoY
Total revenue	33,513	20,278	-39.5%	33,985	19,794	-41.8%	20,783	19,093	-8.1%
Cost of sales	-23,463	-15,716	-33.0%	-24,926	-15,210	-39.0%	-15,601	-14,547	-6.8%
Gross profit	10,050	4,562	-54.6%	9,059	4,584	-49.4%	5,182	4,546	-12.3%
Other income	-96	-88	-8.5%	-159	-96	-39.1%	-87	-69	-20.9%
S&D expenses	-2,005	-1,356	-32.4%	-1,974	-1,504	-23.8%	-1,145	-1,597	39.6%
Administrative expenses	-655	-660	0.7%	-621	-589	-5.1%	-675	-646	-4.4%
R&D expense	-1,423	-1,424	0.1%	-1,635	-1,512	-7.5%	-1,334	-1,610	20.7%
Fair value change	2	-159	n/a	64	-218	n/a	-20	-204	941.7%
Asset impairment	-197	-11	-94.5%	-248	-106	-57.3%	-82	-263	220.8%
EBIT	5,676	865	-84.8%	4,486	558	-87.6%	1,840	158	-91.4%
Net finance income/(expense)	149	75	-49.2%	-10	597	n/a	68	401	487.5%
Other gains/(losses)	714	839	17.4%	812	194	-76.1%	853	521	-38.8%
Share of profit of JV & associates	52	14	-72.1%	2	15	868.3%	33	-6	n/a
Pretax profit	6,591	1,794	-72.8%	5,290	1,365	-74.2%	2,794	1,074	-61.6%
Income tax	-942	-153	-83.8%	-642	-275	-57.2%	-231	-84	-63.6%
After tax profit	5,648	1,641	-70.9%	4,648	1,090	-76.6%	2,563	990	-61.4%
MI	-110	-52	-53.3%	-112	-45	-59.5%	-70	-27	-61.0%
Net profit	5,538	1,590	-71.3%	4,536	1,044	-77.0%	2,493	963	-61.4%
Key ratios:				<i>ppt</i>				<i>ppt</i>	
Gross margin	30.0%	22.5%	-7.5	26.7%	23.2%	-3.5	24.9%	23.8%	-1.1
S&D expense ratio	6.0%	6.7%	0.7	5.8%	7.6%	1.8	5.5%	8.4%	2.9
Administrative expense ratio	2.0%	3.3%	1.3	1.8%	3.0%	1.1	3.2%	3.4%	0.1
R&D expense ratio	4.2%	7.0%	2.8	4.8%	7.6%	2.8	6.4%	8.4%	2.0
Net profit margin	16.9%	8.1%	-8.8	13.7%	5.5%	-8.2	12.3%	5.2%	-7.1
Effective tax rate	14.3%	8.5%	-5.8	12.1%	20.1%	8.0	8.3%	7.8%	-0.4

Source: Company data, CMBIGM estimates

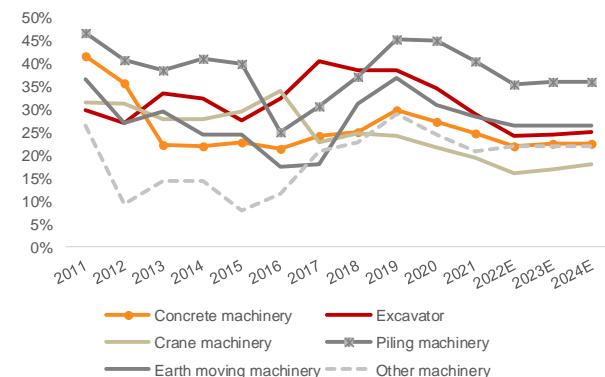
Figure 2: SANY Heavy's overseas revenue breakdown in 9M22

Overseas revenue breakdown by region			
(RMB mn)	9M22	Chg YoY	% of total
Asia Pacific (ex-China)	11,595	52%	45%
Europe	7,517	27%	29%
America	4,846	64%	19%
Africa	1,920	29%	7%
Total	25,878	44%	100%
(RMB mn)	9M22	Chg YoY	% of total
Excavator	12,129	63%	47%
Concrete machinery	5,551	1%	21%
Crane	3,672	14%	14%
Piling machinery	4,528	146%	17%
Total	25,878	44%	100%
(RMB mn)	9M22	Chg YoY	% of total
Excavator	4,573	89%	49%
Concrete machinery	1,588	-15%	17%
Crane	1,286	83%	14%
Piling machinery	1,899	231%	20%
Total	9,338	68%	100%

Source: Company data, CMBIGM estimates

Figure 3: SANY Heavy's revenue breakdown by region

Source: Company data, CMBIGM

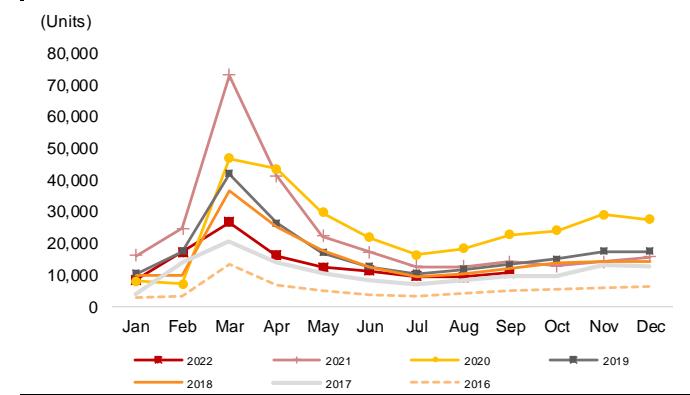
Figure 4: SANY Heavy's gross margin breakdown and trend

Source: Company data, CMBIGM estimates

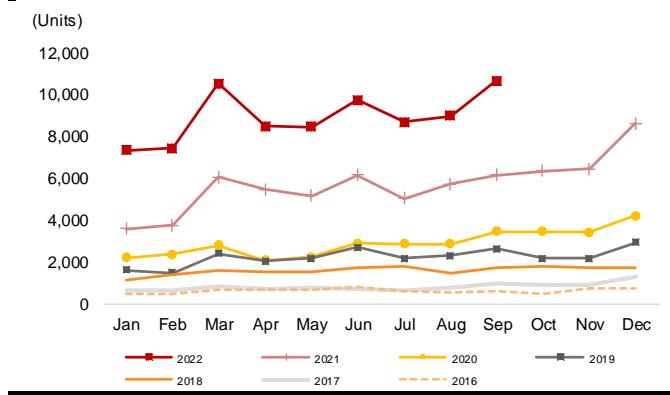
Figure 5: Change in key assumptions for SANY Heavy

(RMB mn)	Old			New			Change		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Revenue									
Concrete machinery	24,689	25,923	27,219	15,028	15,930	16,726	-39.1%	-38.5%	-38.5%
Excavator	38,620	39,393	41,362	38,413	41,201	43,261	-0.5%	4.6%	4.6%
Crane machinery	19,350	20,898	22,987	9,467	10,413	11,455	-51.1%	-50.2%	-50.2%
Piling machinery	4,794	5,034	5,285	3,539	3,716	3,902	-26.2%	-26.2%	-26.2%
Earth moving machinery	2,075	2,179	2,244	1,659	1,742	1,794	-20.1%	-20.1%	-20.1%
Other machinery	5,135	5,392	5,661	5,135	5,392	5,661	0.0%	0.0%	0.0%
Revenue (construction machinery)	94,663	98,818	104,760	73,241	78,394	82,799	-22.6%	-20.7%	-21.0%
Interest income from financing	722	744	781	722	744	781	0.0%	0.0%	0.0%
Other business	2,604	2,656	2,709	2,604	2,656	2,709	0.0%	0.0%	0.0%
Total revenue	97,989	102,217	108,250	76,567	81,793	86,289	-21.9%	-20.0%	-20.3%
Gross margin									
Concrete machinery	21.8%	22.0%	22.0%	22.0%	22.5%	22.5%	0.2	0.5	0.5
Excavator	25.0%	25.0%	25.0%	24.3%	24.5%	25.0%	(0.7)	(0.5)	0.0
Crane machinery	17.5%	18.0%	18.0%	16.0%	17.0%	18.0%	(1.5)	(1.0)	0.0
Piling machinery	35.5%	36.0%	36.0%	35.5%	36.0%	36.0%	0.0	0.0	0.0
Earth moving machinery	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	0.0	0.0	0.0
Other machinery	22.5%	22.0%	22.0%	22.0%	22.0%	22.0%	(0.5)	0.0	0.0
Gross margin (construction machinery)	23.1%	23.2%	23.1%	23.2%	23.5%	23.9%	0.1	0.4	0.8
Interest income from financing	62.0%	62.0%	62.0%	58.0%	57.0%	57.0%	(4.0)	(5.0)	(5.0)
Other business	15.7%	15.7%	15.7%	15.7%	15.7%	15.7%	0.0	0.0	0.0
Blended gross margin	23.2%	23.3%	23.2%	23.3%	23.6%	23.9%	0.1	0.3	0.7
S&D expense ratio	6.2%	6.2%	6.2%	7.7%	7.5%	7.5%	1.5	1.3	1.3
Administrative expense ratio	2.5%	2.5%	2.5%	3.4%	3.2%	3.2%	0.9	0.7	0.7
R&D expense ratio	5.0%	5.0%	5.0%	7.8%	6.0%	6.0%	2.8	1.0	1.0
Net profit	9,163	9,503	10,029	4,441	5,859	6,426	-51.5%	-38.3%	-35.9%

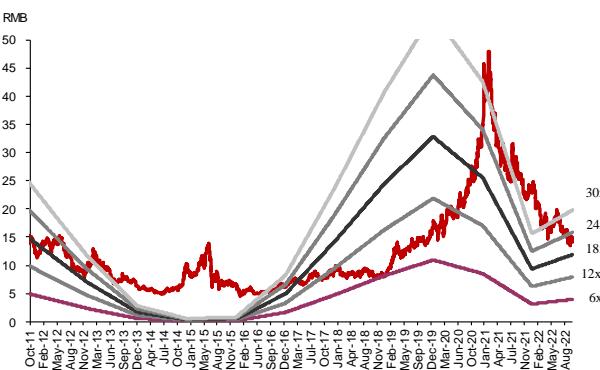
Source: Company data, CMBIGM estimates

Figure 6: Excavator sales in China (industry)

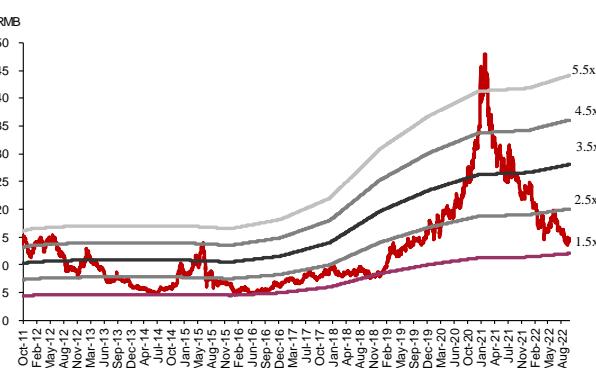
Source: CCMA, CMBIGM

Figure 7: Excavator export volume (industry)

Source: CCMA, CMBIGM

Figure 8: SANY's P/E band

Source: Company data, Bloomberg, CMBIGM estimates

Figure 9: SANY's P/B band

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	100,054	106,874	76,567	81,793	86,289
Cost of sales	-70,034	-78,978	-58,758	-62,518	-65,653
Gross profit	30,021	27,896	17,808	19,275	20,636
Surcharge	-408	-422	-230	-245	-259
S&D expenses	-5,332	-6,699	-5,896	-6,134	-6,472
Administrative expenses	-2,201	-2,771	-2,565	-2,617	-2,761
R&D Expense	-4,992	-6,509	-5,972	-4,908	-5,177
Fair value change	436	54	-500	50	50
Asset impairment	-681	-710	-536	-573	-604
EBIT	16,844	10,839	2,110	4,848	5,413
Net finance income/(cost)	-282	125	964	-76	62
Finance income	515	664	1,612	583	728
Finance expenses	-797	-539	-648	-659	-666
Other gains/(losses)	1,941	2,910	2,000	2,000	2,000
Profit of JV and associates	29	-17	96	128	136
Pretax profit	18,531	13,857	5,171	6,900	7,612
Income tax	-2,671	-1,530	-620	-897	-1,028
After tax profit	15,861	12,326	4,550	6,003	6,584
MI	-429	-292	-109	-144	-158
Net profit	15,431	12,034	4,441	5,859	6,426
D&A	1,894	2,022	2,228	2,411	2,565
EBITDA	18,738	12,861	4,338	7,259	7,979

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Pretax profit	18,531	13,857	5,171	6,900	7,612
Finance cost	797	539	648	659	666
Interest income	-515	-664	-1,612	-583	-728
Profit or loss of associates	-29	17	-96	-128	-136
Fair value change	-1,341	-1,198	0	0	0
Provision for assets	495	134	0	0	0
Depreciation and amortization	1,894	2,022	2,228	2,411	2,565
Income tax paid	-2,671	-1,530	-620	-897	-1,028
Change in working capital	-3,531	-1,222	-1,184	197	-952
Others	-267	-49	0	0	0
Cash flow from operation	13,363	11,904	4,534	8,559	7,999
Net capex on PP&E	-4,133	-9,977	-4,500	-3,500	-3,000
Investment in JV/associates	-47	812	-50	-50	0
Investment in subsidiaries	4	0	0	0	0
Dividend received	11	475	0	0	0
Interest received	515	664	1,612	583	728
Others	-7,599	-1,263	-180	-180	0
Cash flow from investing	-11,250	-9,288	-3,118	-3,147	-2,272
Equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	3,020	4,180	300	300	100
Dividend paid	-3,516	-5,057	-3,822	-1,421	-1,875
Interest paid	-797	-552	-648	-659	-666
Others	-1,160	114	0	0	0
Cash flow from financing	-2,452	-1,315	-4,170	-1,780	-2,441
Change in cash	-339	1,301	-2,754	3,632	3,287
Cash at beginning of the year	12,157	12,596	14,812	12,058	15,690
Exchange and others	778	915	0	0	0
Cash at the end of the year	12,596	14,812	12,058	15,690	18,977

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	34,827	44,838	42,302	48,999	45,029
PP&E	10,841	13,340	15,928	17,341	18,104
JV/associates	3,420	2,333	2,480	2,658	2,795
Goodwill	50	46	46	46	46
LT trade receivables	5,555	7,966	5,040	8,406	5,306
Intangible assets	3,228	3,960	3,824	3,680	3,352
AFS investments	0	0	0	0	0
Others	5,240	10,294	10,294	10,294	10,294
Deferred tax assets	1,441	1,599	1,599	1,599	1,599
Current assets	91,428	93,719	84,594	98,311	93,928
Inventories	19,198	18,463	14,699	20,242	16,092
Trade and bills receivables	21,512	19,655	16,006	21,642	17,129
Other receivables	1,869	738	1,779	686	1,679
Others	13,446	12,817	12,817	12,817	12,817
Cash	12,596	14,812	12,058	15,690	18,977
Current liabilities	62,049	61,432	48,543	63,876	50,813
Trade and bills payables	32,207	28,560	15,871	31,403	18,241
Bank borrowings	8,466	8,244	8,044	7,844	7,944
Tax payable	2,030	1,081	1,081	1,081	1,081
Others	11,413	12,742	12,742	12,742	12,742
Non-current liabilities	6,018	12,029	12,529	13,029	13,029
Bank borrowings	4,532	9,603	10,103	10,603	10,603
Deferred tax liabilities	600	577	577	577	577
Others	849	1,842	1,842	1,842	1,842
Equity	58,188	65,095	65,824	70,406	75,115
Shareholders' equity	56,562	63,691	64,310	68,748	73,299
MI	1,625	1,404	1,513	1,658	1,816

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Concrete machinery	27%	25%	20%	19%	19%
Excavator	38%	39%	50%	50%	50%
Crane machinery	19%	20%	12%	13%	13%
Piling machinery	7%	5%	5%	5%	5%
Earth moving machinery	3%	3%	2%	2%	2%
Other machinery	3%	5%	7%	7%	7%
Interest income	1%	1%	1%	1%	1%
Other business	3%	2%	3%	3%	3%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	30.0	26.1	23.3	23.6	23.9
EBIT margin	16.8	10.1	2.8	5.9	6.3
Net profit margin	15.9	11.5	5.9	7.3	7.6
Growth (%)					
Revenue	31.2	6.8	(28.4)	6.8	5.5
Gross profit	19.9	(7.1)	(36.2)	8.2	7.1
EBIT	36.1	(35.7)	(80.5)	129.8	11.7
Net profit	36.3	(22.0)	(63.1)	31.9	9.7
Balance sheet ratio					
Current ratio (x)	1.5	1.5	1.7	1.5	1.8
Receivable turnover days	91	93	116	114	111
Inventory turnover days	87	87	103	102	101
Payable turnover days	137	140	138	138	138
Net debt / total equity (%)					
Net cash	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	13.7	9.1	3.3	4.3	4.5
ROE	29.8	20.0	6.9	8.8	9.0
Per share data					
EPS (RMB)	1.82	1.42	0.52	0.69	0.76
BVPS (RMB)	6.67	7.50	7.57	8.10	8.63
DPS (RMB)	0.60	0.45	0.17	0.22	0.24

Source: Company data, CMBIGM estimates

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NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
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