

SANY International (631 HK)

Key takeaways from post-results call and NDR

SANYI provided solid guidance in the post-results calls yesterday, including strong backlog of RMB8.8bn (+26% vs Aug) and sequential improvement of gross margin in 4Q22E on the back of efficiency improvement and the decline in freight rate. We believe SANYI will continue to benefit from (1) solid mining capex cycle, (2) the transformation to intelligent and electric products, (3) strong overseas demand. We have left our earnings forecast unchanged but slightly revise down our TP to HK\$13.2 to reflect the recent depreciation of RMB (23x 2022E P/E unchanged). Reiterate **BUY**.

- **Road header (above our expectation):** Sales volume in 9M22 grew >50%. ASP is on the rise (currently RMB3.4mn/unit), driven by larger-size and more intelligent machines. The segment revenue grew ~67% YoY to RMB2.28bn in 9M22. SANYI targets to achieve RMB3.2bn for the full year.
- **Combined coal mining machinery (CCMU) (above our expectation).** We estimate the segment revenue grew ~70% YoY to RMB2.2bn, driven by strong growth of hydraulic support product. SANYI targets to achieve RMB2.6bn/3.0bn in 2022E/23E. The growth in 2023E will be driven by an estimated delivery of 4-5 sets of pure water supports.
- **Mining trucks (in line).** The segment revenue doubled YoY to RMB2.17bn in 9M22, driven by both China and overseas markets. SANYI expects high growth to continue in 2023E, driven by strong mining demand in overseas.
- **Port machinery (in line).** The segment revenue grew 35% YoY to RMB3.4bn in 9M22, driven by overseas demand. For large-size machinery, the current backlog has already covered the capacity in 2024E.
- **Smart mining solutions (in line).** Revenue of RMB150mn was recognized in 9M22. For underground mining, SANYI targets to achieve RMB200mn/500mn in 2022E/23E. For open cut mining, the revenue is not significant in 9M22 but is expected to reach RMB150mn in 2023E. We have yet to model the contribution of smart mining at the moment.
- **Robotics (slightly below expectation).** The segment revenue was largely stable (YoY) at RMB670mn in 9M22. SANYI highlighted that the business is still at the developing stage with a focus on exploring external client. External orders are on the rise, which came from power cables and new energy industry. Delivery of automated guided vehicles (AGV) to CATL and SVOLT Energy has been smooth. SANYI expects the full year revenue to be stable YoY (2021: RMB11.5bn).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	7,364	10,195	15,293	18,403	21,739
YoY growth (%)	30.2	38.4	50.0	20.3	18.1
Core net profit (RMB mn)	1,045	1,087	1,655	1,992	2,327
Core EPS (RMB)	0.34	0.35	0.53	0.63	0.74
YoY growth (%)	19.6	3.0	52.3	20.3	16.8
Consensus EPS (RMB)	N/A	N/A	0.52	0.67	0.89
EV/EBITDA (x)	10.8	9.4	7.0	6.0	5.2
P/E (x)	17.3	13.6	11.7	9.7	8.4
P/B (x)	2.3	2.0	1.9	1.7	1.5
Yield (%)	2.3	2.2	2.7	3.2	3.7
ROE (%)	14.0	13.1	17.7	18.6	18.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$13.20
(Previous TP)	HK\$14.60
Up/Downside	+96%
Current Price	HK\$6.70

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Stock Data

Mkt Cap (HK\$ mn)	21,191
Avg 3 mths t/o (HK\$ mn)	14.67
52w High/Low (HK\$)	8.93/6.40
Total Issued Shares (mn)	3,154

Source: Bloomberg

Shareholding Structure

Sany Heavy Equipment	67.7%
Investments Company	
Free float	32.3%

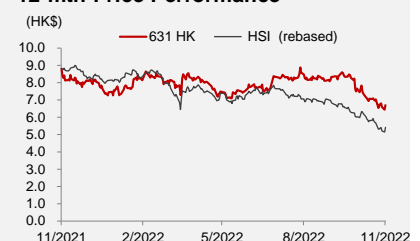
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-15.9%	-1.4%
3-mth	-24.9%	3.0%
6-mth	-14.0%	23.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. SANY Int'l – Beat expectation: 2Q22 core profit +43% YoY on strong margin recovery – 1 Sep 2022 ([link](#))
2. SANY Int'l – Post-results and NDR takeaways: Expect a strong year in 2022E – 31 Mar 2022
3. SANY Int'l – NDR takeaways: Growth to accelerate in 2022E on strong backlog – 20 Jan 2022

Key highlights in 3Q22 results:

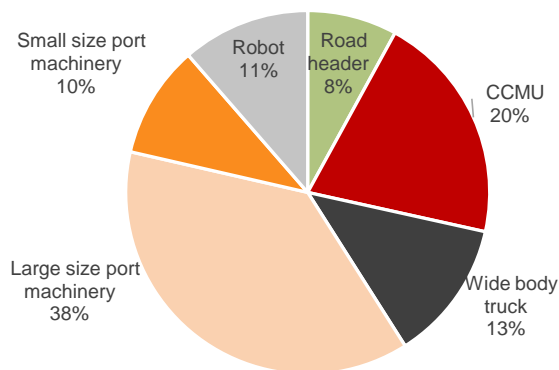
- Revenue in 3Q22 surged 55% YoY to RMB3.97bn.
- Gross margin narrowed 1ppt YoY and 4.7ppt QoQ to 22.2%. SANYI explained that the margin was dragged by large size port machinery due to production bottlenecks.
- Net profit in 3Q22 grew 42% YoY to RMB391mn.
- In 9M22, revenue / adjusted net profit grew 54%/39% YoY to RMB11.6bn / RMB1.3bn. Overseas revenue in 9M22 doubled to RMB2.8bn, accounting for 24% of total revenue.

Figure 1: SANYI's quarterly results

RMB mn	1Q21	1Q22	Chg (YoY)	2Q21	2Q22	Chg (YoY)	3Q21	3Q22	Chg (YoY)
Revenue	2,411	4,116	71%	2,573	3,516	37%	2,557	3,969	55%
Cost of sales	-1,790	-3,246	81%	-1,980	-2,571	30%	-1,963	-3,090	57%
Gross profit	622	870	40%	593	946	59%	594	879	48%
Gross margin	25.8%	21.1%		23.1%	26.9%		23.2%	22.2%	
Pretax profit	368	509	38%	578	514	-11%	298	432	45%
Pretax profit margin	15.3%	12.4%		22.5%	14.6%		11.7%	10.9%	
Net profit	339	444	31%	473	462	-2%	275	391	42%
Net margin	14.0%	10.8%		18.4%	13.1%		10.7%	9.8%	
Adjusted net profit	339	444	31%	322	462	43%	275	391	42%
Adjusted net margin	14.0%	10.8%		12.5%	13.1%		10.7%	9.8%	

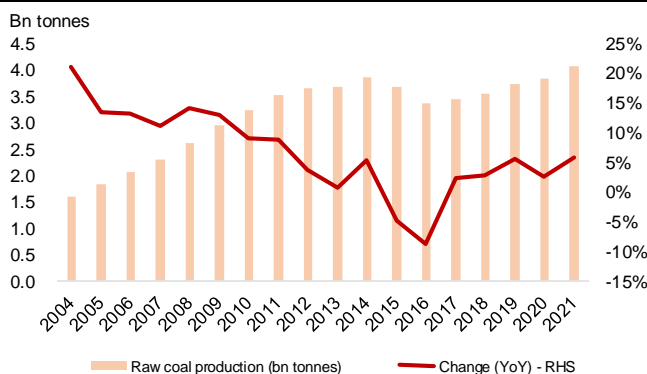
Source: Company data, CMBIGM estimates

Figure 2: SANYI's latest backlog breakdown



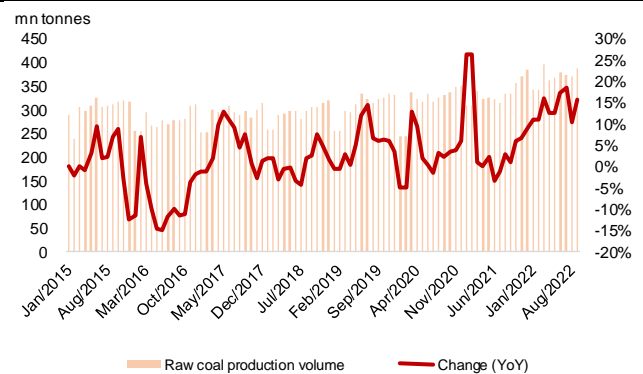
Source: Company data, CMBIGM estimates

Figure 3: China raw coal production (annual)



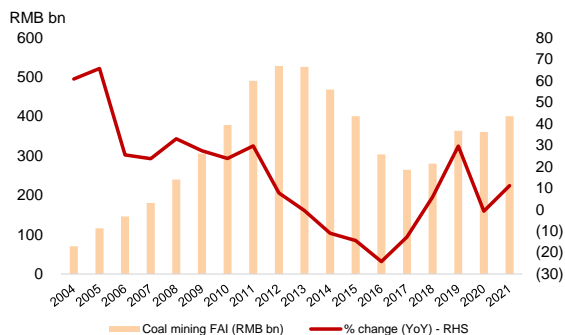
Source: Wind, CCTDCOAL, CMBIGM

Figure 4: China raw coal production (monthly)



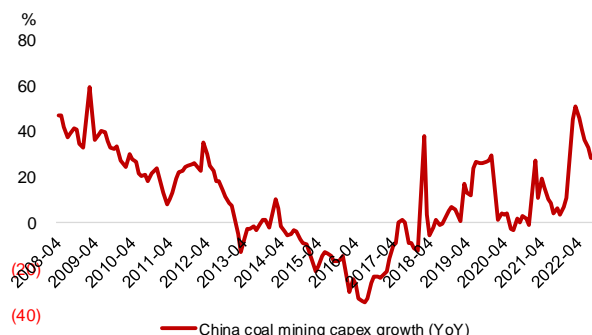
Source: Wind, CCTDCOAL, CMBIGM

Figure 5: China coal mining FAI



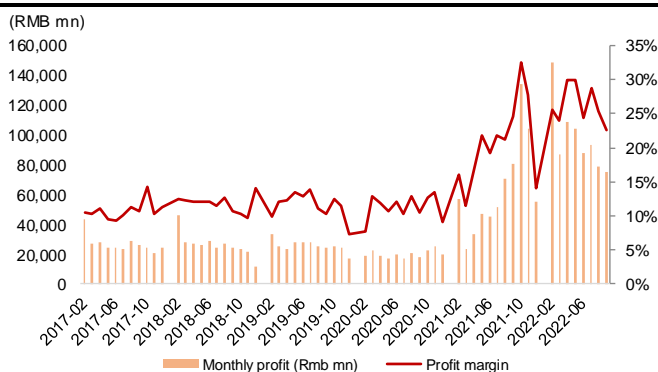
Source: Wind, NBS, CMBIGM

Figure 6: China coal mining FAI growth (YTD)



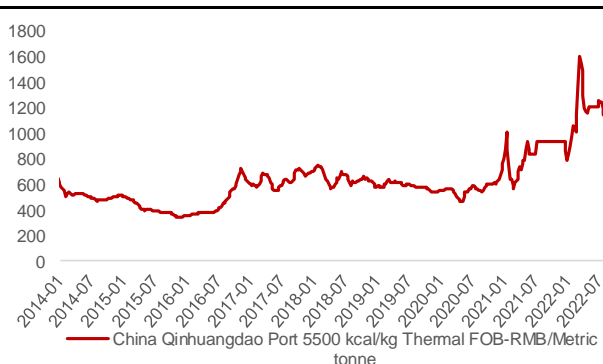
Source: Wind, NBS, CMBIGM

Figure 7: China coal miners' monthly profit & margin



Source: Wind, NBS, CMBIGM

Figure 8: China Qinhuangdao Port 5500 kcal price



Source: Bloomberg, CMBIGM

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

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue					
- Mining equipment	4,846	6,896	9,002	10,852	12,811
- Logistics equipment	2,518	3,299	4,911	5,826	6,772
Total revenue	7,364	10,195	15,293	18,403	21,739
Cost of sales	(5,403)	(7,805)	(11,642)	(14,048)	(16,676)
Gross profit	1,961	2,390	3,651	4,355	5,063
Other income	237	391	489	589	696
Other gains and losses	257	347	306	368	435
S&D expenses	(430)	(567)	(856)	(1,031)	(1,217)
Administrative expenses	(707)	(1,053)	(1,499)	(1,785)	(2,087)
Other expenses	(31)	(1)	(46)	(55)	(65)
EBIT	1,286	1,507	2,045	2,441	2,824
Net finance income/(cost)	(96)	(69)	(73)	(69)	(53)
Finance income	36	51	57	61	70
Finance expenses	(132)	(120)	(130)	(130)	(123)
Share of JV and associates	0	0	0	0	0
Pretax profit	1,190	1,438	1,972	2,372	2,771
Income tax	(139)	(129)	(256)	(308)	(360)
After tax profit	1,052	1,309	1,715	2,064	2,411
MI	(6)	(50)	(60)	(72)	(84)
Net profit	1,045	1,259	1,655	1,992	2,327
Core net profit	1,045	1,087	1,655	1,992	2,327
D&A	249	249	323	344	351
EBITDA	1,535	1,756	2,368	2,785	3,175

Cash flow statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Pretax profit	1,190	1,438	1,972	2,372	2,771
Finance cost	132	120	130	130	123
Interest income	(36)	(51)	(57)	(61)	(70)
Share of profit or loss of associates	0	0	0	0	0
Depreciation and amortization	249	249	323	344	351
Income tax paid	(108)	(129)	(256)	(308)	(360)
Change in working capital	105	475	(858)	(910)	(771)
Others	(462)	(1,179)	0	0	0
Cash flow from operation	1,070	923	1,253	1,567	2,043
Net capex on PP&E	(334)	(944)	(500)	(300)	(100)
Interest received	36	51	57	61	70
Others	(349)	598	0	0	0
Cash flow from investing	(647)	(296)	(443)	(239)	(30)
Proceeds from equity financing/(repurchase)	30	0	0	0	0
Net bank borrowings	(113)	317	0	0	100
Dividend paid	(394)	(408)	(385)	(513)	(617)
Interest paid	(132)	(120)	(130)	(130)	(123)
Others	8	(16)	0	0	0
Cash flow from financing	(602)	(227)	(514)	(643)	(640)
Change in cash	(179)	400	295	685	1,373
Cash at beginning of the year	1,103	941	1,349	1,645	2,330
Exchange gains/(losses) and others	17	8	0	0	0
Cash at the end of the year	941	1,349	1,645	2,330	3,703

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	5,448	6,568	6,745	6,701	6,450
PP&E	2,591	3,314	3,518	3,501	3,277
Prepaid land lease payments	1,140	1,114	1,088	1,062	1,036
Goodwill	1,130	1,130	1,130	1,130	1,130
Non-current prepayment	10	10	10	10	10
Others	282	714	713	712	711
Deferred tax assets	296	287	287	287	287
Current assets	12,016	14,217	17,371	19,206	23,558
Prepayment	359	585	585	585	585
Inventories	1,821	2,529	3,851	4,001	5,320
Trade receivables	3,288	4,272	5,532	6,367	7,690
Bills receivables	595	700	976	1,142	1,479
Financial assets	4,024	3,680	3,680	3,680	3,680
Others	988	1,081	1,081	1,081	1,081
Pledged deposits/Time deposits	0	21	21	21	21
Cash	941	1,349	1,645	2,330	3,703
Current liabilities	7,938	9,170	11,170	11,411	13,718
Trade and bills payables	2,893	4,422	6,422	6,663	8,871
Other payables and accruals	1,917	2,659	2,659	2,659	2,659
Bank borrowings	2,645	1,687	1,687	1,687	1,787
Tax payable	197	185	185	185	185
Government grants	96	113	113	113	113
Others	191	103	103	103	103
Non-current liabilities	1,667	2,832	2,832	2,832	2,832
Bank borrowings	493	1,767	1,767	1,767	1,767
Deferred tax liabilities	69	98	98	98	98
Government grants	1,105	967	967	967	967
Total equity	7,859	8,783	10,114	11,665	13,458
Shareholders' equity	7,839	8,701	9,972	11,450	13,160
MI	20	82	142	214	299

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
- Mining equipment	66%	68%	59%	59%	59%
- Logistics equipment	34%	32%	32%	32%	31%
Total	100%	100%	100%	100%	100%
P&L ratios (%)					
Gross margin	27%	23%	24%	24%	23%
EBITDA margin	21%	17%	15%	15%	15%
EBIT margin	17%	15%	13%	13%	13%
Net profit margin	14%	13%	11%	11%	11%
Growth (%)					
Revenue	30%	38%	50%	20%	18%
Gross profit	17%	22%	53%	19%	16%
EBITDA	14%	14%	35%	18%	14%
EBIT	17%	17%	36%	19%	16%
Net profit	14%	20%	31%	20%	17%
Balance sheet ratios					
Current ratio (x)	1.5	1.6	1.6	1.7	1.7
Receivable turnover days	147	135	117	118	118
Inventory turnover days	110	102	100	102	102
Payable turnover days	160	171	170	170	170
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROA	6%	7%	7%	8%	8%
ROE	14%	15%	18%	19%	19%
Per share					
EPS (RMB)	0.336	0.401	0.527	0.634	0.741
BVPS (RMB)	2.52	2.76	3.16	3.63	4.17
DPS (RMB)	0.131	0.122	0.163	0.197	0.230

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

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