

SANY International (631 HK)

Expansion to new energy equipment sector with an ambitious target

We believe the expansion to lithium battery equipment manufacturing will serve as an important growth driver for SANYI. We believe (1) the existing relationship with lithium battery manufacturers and (2) the capability to produce in-house components will enable SANYI to break the entry barrier in the battery equipment space and gain market share over the coming years. SANYI set an ambitious revenue target of RMB3bn in 2025E. We have yet to factor in this potential contribution in our model as we are awaiting further operating data. Reiterate **BUY** with TP of HK\$13.2 (23x 2022E P/E).

- **Acquisition of SANY Tech.** SANYI announced in late Dec the acquisition of 95% interest in SANY Tech (lithium battery equipment maker) from SANY Group (parent company of SANYI) for a consideration of RMB0.95. Established in 2021, SANY Tech is engaged in R&D, manufacturing and sales of new energy battery equipment. In May-Nov 2022, SANY Technology recognized revenue of RMB5.5mn. As of end Nov 2022, SANY Technology had net liabilities of RMB41.6mn.
- **Mastered the core technology.** On the back of the capability to master the core technology, SANY Tech has completed the first production line for 3GWh lithium battery with an estimated value of RMB300mn. All 34 types of equipment of the production line are in-house developed, covering front, middle and back section. SANY Tech currently has 300 R&D personnel and the number is expected to increase by 30% YoY in 2023E. SANY Tech believes that the annual output per production line can reach 5GWh going forward.
- **Established relationship with battery manufacturers.** Given that electrification is the key direction, SANY Group (including the subsidiaries) has continued to increase the procurement of batteries to support the fast-growing demand for new energy machinery and heavy-duty trucks. On the other hand, SANYI has been supplying robotics products to some leading battery makers. We believe SANYI's business relationship with the battery makers will make it less difficult to promote the battery equipment products.
- **Ambitious growth target.** The delivery of the 3GWh production line will generate ~RMB300mn revenue in 2023E, which will potentially enhance our 2023E revenue forecast by 1.5%. SANYI targets to achieve RMB3bn revenue in 2025E. SANYI believes that even if the ASP is 10-20% below the industry level, the gross margin can still be maintained at 30-40% given the production cost advantage.

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
Adjusted net profit (RMB mn)	1,045.1	1,086.7	1,655.3	1,991.8	2,326.6
EPS (Adjusted) (RMB)	0.34	0.35	0.53	0.63	0.74
Consensus EPS (RMB)	na	na	0.50	0.61	0.74
P/E (x)	11.3	17.7	13.7	11.4	9.7
P/B (x)	1.5	2.6	2.3	2.0	1.7
Yield (%)	3.5	1.7	2.3	2.7	3.2
ROE (%)	14.0	15.2	17.7	18.6	18.9
Net gearing (%)	(23.3)	(18.3)	(19.0)	(22.5)	(29.3)

Source: Company data, Bloomberg, CMBIGM estimates

Note: Net cash for –ve net gearing

BUY (Maintain)

Target Price **HK\$13.20**

(Previous TP) **HK\$13.20**

Up/Downside **61.0%**

Current Price **HK\$8.20**

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Stock Data

Mkt Cap (HK\$ mn)	25,928.4
Avg 3 mths t/o (HK\$ mn)	7.5
52w High/Low (HK\$)	8.88/6.44
Total Issued Shares (mn)	3162.0

Source: FactSet

Shareholding Structure

Sany Heavy Equipment Investments Company	67.7%
Free float	32.3%

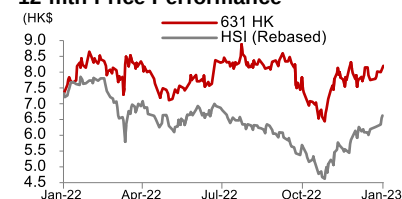
Source: HKEx

Share Performance

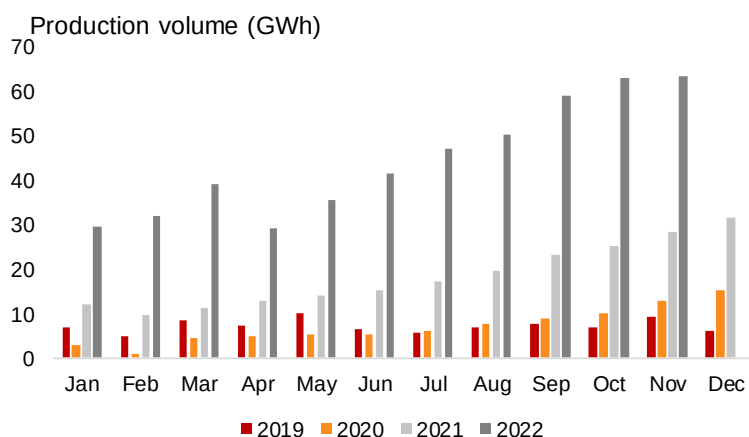
	Absolute	Relative
1-mth	3.8%	-3.9%
3-mth	9.6%	-5.9%
6-mth	-1.1%	1.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: China lithium battery production volume

Source: China Industry Technology Innovation Strategic Alliance for Electric Vehicle, CMBIGM

Figure 2: Winding machine

Source: Company, CMBIGM

Figure 3: Formation & grading machine

Source: Company, CMBIGM

Figure 4: Electrolyte injection machine

Source: Company, CMBIGM

Figure 5: Module packing machine

Source: Company, CMBIGM

Figure 6: Mixing machine

Source: Company, CMBIGM

Figure 7: Slitting machine

Source: Company, CMBIGM

Figure 8: Coating machine

Source: Company, CMBIGM

Figure 9: Stacking machine

Source: Company, CMBIGM

Figure 10: Operating assumptions for SANYI

(RMB mn)	2018	2019	2020	2021	2022E	2023E	2024E
Revenue							
Road header	1,079	1,408	1,249	1,834	2,600	2,917	3,124
Combined coal mining units (CCMU)	966	1,073	1,640	1,733	2,859	3,288	3,683
Small-size port machinery	1,305	1,547	1,798	2,459	3,369	3,942	4,533
Large-size port machinery	551	686	720	840	1,344	1,667	2,000
Mining trucks	88	388	952	1,512	2,752	3,777	5,048
After sales service	428	554	603	706	988	1,087	1,196
Robot	-	-	400	1,150	1,380	1,725	2,156
Total	4,417	5,656	7,362	10,234	15,293	18,403	21,739
Growth (YoY)							
Road header	53.8%	30.5%	-11.3%	46.8%	41.8%	12.2%	7.1%
Combined coal mining units (CCMU)	268.0%	11.1%	52.8%	5.7%	65.0%	15.0%	12.0%
Small-size port machinery	45.3%	18.5%	16.2%	36.8%	37.0%	17.0%	15.0%
Large-size port machinery	61.3%	24.5%	5.0%	16.7%	60.0%	24.0%	20.0%
Mining trucks	285.1%	340.9%	145.4%	58.8%	82.0%	37.2%	33.6%
After sales service	67.9%	29.4%	8.8%	17.1%	40.0%	10.0%	10.0%
Robot	-	-	-	187.5%	20.0%	25.0%	25.0%
Total	78.0%	28.1%	30.2%	39.0%	49.4%	20.3%	18.1%
Gross margin							
Blended gross margin	28.9%	29.5%	27.6%	23.5%	23.9%	23.7%	23.3%

Source: Company data, CMBIGM estimates

Major risk factors: (1) weakness in mining activities; (2) development of new products below expectation; and (3) rebound of raw material costs.

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	5,656	7,364	10,195	15,293	18,403	21,739
Cost of goods sold	(3,987)	(5,403)	(7,805)	(11,642)	(14,048)	(16,676)
Gross profit	1,669	1,961	2,390	3,651	4,355	5,063
Operating expenses	(1,030)	(1,137)	(1,620)	(2,355)	(2,816)	(3,304)
Selling expense	(388)	(430)	(567)	(856)	(1,031)	(1,217)
Admin expense	(643)	(707)	(1,053)	(1,499)	(1,785)	(2,087)
Operating profit	458	463	737	749	902	1,065
Other income	342	237	391	489	589	696
Other expense	(4)	(31)	(1)	(46)	(55)	(65)
Other gains/(losses)	121	257	347	306	368	435
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	1,346	1,535	1,756	2,368	2,785	3,175
Depreciation	249	249	249	323	344	351
EBIT	1,097	1,286	1,507	2,045	2,441	2,824
Interest income	58	36	51	57	61	70
Interest expense	(85)	(132)	(120)	(130)	(130)	(123)
Net Interest income/(expense)	(27)	(96)	(69)	(73)	(69)	(53)
Pre-tax profit	1,070	1,190	1,438	1,972	2,372	2,771
Income tax	(148)	(139)	(129)	(256)	(308)	(360)
After tax profit	922	1,052	1,309	1,715	2,064	2,411
Minority interest	(2)	(6)	(50)	(60)	(72)	(84)
Net profit	920	1,045	1,259	1,655	1,992	2,327
Adjusted net profit	865	1,045	1,087	1,655	1,992	2,327
Gross dividends	338	408	385	513	617	721

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	10,338	12,016	14,217	17,371	19,206	23,558
Cash & equivalents	1,103	941	1,349	1,645	2,330	3,703
Account receivables	2,634	3,288	4,272	5,532	6,367	7,690
Inventories	1,438	1,821	2,529	3,851	4,001	5,320
Prepayment	615	359	585	585	585	585
ST bank deposits	2	0	21	21	21	21
Financial assets at FVTPL	3,276	4,024	3,680	3,680	3,680	3,680
Other current assets	1,269	1,583	1,782	2,057	2,223	2,560
Non-current assets	5,209	5,448	6,568	6,745	6,701	6,450
PP&E	2,413	2,591	3,314	3,518	3,501	3,277
Deferred income tax	348	296	287	287	287	287
Goodwill	1,130	1,130	1,130	1,130	1,130	1,130
Other non-current assets	1,317	1,432	1,838	1,811	1,784	1,757
Total assets	15,546	17,464	20,785	24,116	25,908	30,009
Current liabilities	6,421	7,938	9,170	11,170	11,411	13,718
Short-term borrowings	2,512	2,645	1,687	1,687	1,687	1,787
Account payables	1,832	2,893	4,422	6,422	6,663	8,871
Tax payable	253	197	185	185	185	185
Other current liabilities	1,824	2,205	2,875	2,875	2,875	2,875
Non-current liabilities	1,980	1,667	2,832	2,832	2,832	2,832
Long-term borrowings	747	493	1,767	1,767	1,767	1,767
Other non-current liabilities	1,232	1,174	1,065	1,065	1,065	1,065
Total liabilities	8,401	9,605	12,002	14,002	14,243	16,551
Total shareholders equity	7,132	7,839	8,701	9,972	11,450	13,160
Minority interest	14	20	82	142	214	299
Total equity and liabilities	15,546	17,464	20,785	24,116	25,908	30,009

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,070	1,190	1,438	1,972	2,372	2,771
Depreciation & amortization	249	249	249	323	344	351
Tax paid	(100)	(108)	(129)	(256)	(308)	(360)
Change in working capital	(43)	105	475	(858)	(910)	(771)
Others	(375)	(366)	(1,110)	73	69	53
Net cash from operations	801	1,070	923	1,253	1,567	2,043
Investing						
Capital expenditure	(216)	(334)	(944)	(500)	(300)	(100)
Others	(2,095)	(313)	648	57	61	70
Net cash from investing	(2,311)	(647)	(296)	(443)	(239)	(30)
Financing						
Dividend paid	(321)	(394)	(408)	(385)	(513)	(617)
Net borrowings	(85)	(132)	(120)	(130)	(130)	(123)
Proceeds from share issues	70	30	0	0	0	0
Others	1,863	(105)	301	0	0	100
Net cash from financing	1,527	(602)	(227)	(514)	(643)	(640)
Net change in cash						
Cash at the beginning of the year	1,070	1,103	941	1,349	1,645	2,330
Exchange difference	16	17	8	0	0	0
Cash at the end of the year	1,103	941	1,349	1,645	2,330	3,703
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	28.1%	30.2%	38.4%	50.0%	20.3%	18.1%
Gross profit	28.6%	17.5%	21.9%	52.8%	19.3%	16.3%
Operating profit	88.0%	1.0%	59.2%	1.7%	20.3%	18.1%
EBITDA	42.6%	14.0%	14.4%	34.8%	17.6%	14.0%
EBIT	52.4%	17.3%	17.2%	35.7%	19.4%	15.7%
Net profit	53.2%	13.6%	20.5%	31.5%	20.3%	16.8%
Adj. net profit	111.5%	20.8%	4.0%	52.3%	20.3%	16.8%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	29.5%	26.6%	23.4%	23.9%	23.7%	23.3%
Operating margin	8.1%	6.3%	7.2%	4.9%	4.9%	4.9%
EBITDA margin	23.8%	20.9%	17.2%	15.5%	15.1%	14.6%
Adj. net profit margin	15.3%	14.2%	10.7%	10.8%	10.8%	10.7%
Return on equity (ROE)	13.6%	14.0%	15.2%	17.7%	18.6%	18.9%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)
Current ratio (x)	1.6	1.5	1.6	1.6	1.7	1.7
Receivable turnover days	153.6	146.8	135.3	117.0	118.0	118.0
Inventory turnover days	136.1	110.1	101.7	100.0	102.0	102.0
Payable turnover days	167.1	159.6	171.0	170.0	170.0	170.0
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	9.8	11.3	17.7	13.7	11.4	9.7
P/B	1.3	1.5	2.6	2.3	2.0	1.7
Div yield (%)	3.7	3.5	1.7	2.3	2.7	3.2

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

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