

SANY International (631 HK)

Expect an unexciting set of results in 1Q24E, potential recovery in 2H24E

SANYI is set to report 1Q24E financial data on 16 May (this Thu). We forecast SANYI to deliver a ~15% YoY decrease in net profit from a high base, due to (1) miners' disciplined capex as a result of the decline in domestic coal production in 1Q24; (2) keen competition in certain products such as hydraulic supports and wide-body trucks; and (3) a loss-making solar power segment. Despite the near-term headwind, we expect a potential recovery in 2H24E on the back of improvement in solar business and low base effect for mining equipment segment. We also expect strong demand overseas for large mining trucks & telescopic handlers will help counter the potential down-cycle of coal mining machinery. Maintain **BUY** with an unchanged TP of HK\$8 (still based on 11x 2024E P/E).

Preview on 1Q24E results:

- **Pressure on mining equipment.** We forecast mining segment revenue to drop ~15% YoY due to (1) a decrease in coal mining equipment sales; (2) a slowdown of wide-body truck sales, which may offset the relatively strong growth of large-size mining trucks. We expect keen competition has continued for certain products such as hydraulic supports and wide-body trucks, which should exert pressure on margin.
- **Growth to continue for logistics equipment.** We forecast logistics equipment revenue to grow ~25% YoY, driven by decent growth of small-size port machinery and a solid backlog of large-size machinery. We expect telescopic handlers remained a major growth driver in 1Q24
- **Solar power: loss-making at a beginning stage.** SANYI's solar power business includes solar products, equipment, solar farms & EPC. We expect the segment was in a loss-making state in 1Q24E given the decline in TOPCon cell price. That said, we expect the potential completion of some EPS projects will help reduce the loss going forward.
- **We expect net profit of ~RMB550mn (-15% YoY) in 1Q24E.** We expect total revenue in 1Q24E to grow ~4% YoY (note: no revenue contribution from oil & gas equipment in 1Q23). We expect both gross margin and pretax profit margin to drop in 1Q24E, due to competition in certain mining equipment and higher opex on emerging businesses.
- **Major risk factors:** (1) weakness of coal mining activities in China; (2) higher-than-expected loss from emerging business; (3) a rebound of raw material costs; and (4) a rising debt ratio due to high potential capex on new businesses.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	15,537	20,278	26,717	30,513	34,629
YoY growth (%)	52.4	30.5	31.8	14.2	13.5
Adjusted net profit (RMB mn)	1,664.9	1,929.0	2,131.3	2,508.8	3,019.4
YoY growth (%)	53.2	15.9	10.5	17.7	20.4
EPS (Adjusted) (RMB)	0.53	0.61	0.67	0.79	0.95
Consensus EPS (RMB)	na	na	0.75	0.91	1.04
P/E (x)	11.2	9.8	8.8	7.5	6.2
P/B (x)	1.9	1.6	1.4	1.3	1.1
Yield (%)	2.9	2.9	3.3	3.9	4.6
ROE (%)	17.8	17.8	17.2	17.8	18.6
Net gearing (%)	(11.8)	21.2	30.8	32.8	24.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$8.00**
 (Previous TP) HK\$8.00
Up/Downside **24.8%**
Current Price **HK\$6.41**

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Stock Data

Mkt Cap (HK\$ mn)	20,337.6
Avg 3 mths t/o (HK\$ mn)	81.0
52w High/Low (HK\$)	12.92/4.25
Total Issued Shares (mn)	3172.8

Source: FactSet

Shareholding Structure

Sany Heavy Equipment	66.4%
Investments Company	
Free float	33.9%

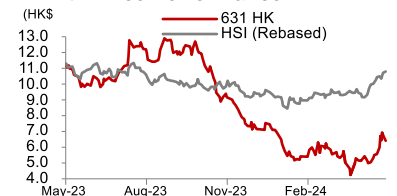
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	24.2%	8.7%
3-mth	18.5%	-2.4%
6-mth	-31.7%	-37.8%

Source: FactSet

12-month Price Performance



Source: FactSet

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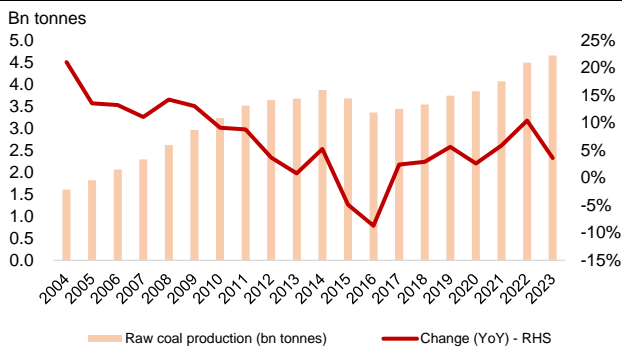
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Figure 1: Preview on SANYI's 1Q24E results

RMB mn	1Q23	1Q24E	Chg (YoY)	2Q22	2Q23	Chg (YoY)	3Q22	3Q23	Chg (YoY)	4Q22	4Q23	Chg (YoY)
Revenue	5,438	5,660	4%	3,516	5,401	54%	3,969	4,998	26%	3,936	4,441	13%
Cost of sales	-4,108	-4,330	5%	-2,571	-3,899	52%	-3,090	-3,521	14%	-3,002	-3,303	10%
Gross profit	1,330	1,330	0%	946	1,502	59%	879	1,476	68%	934	1,139	22%
Gross margin	24.5%	23.5%		26.9%	27.8%		22.2%	29.5%		23.7%	25.6%	
Pretax profit	707	604	-15%	514	733	43%	432	655	52%	465	165	-65%
Pretax profit margin	13.0%	10.7%		14.6%	13.6%		10.9%	13.1%		11.8%	3.7%	
Net profit	650	550	-15%	462	552	19%	391	570	46%	369	157	-57%
Net margin	12.0%	9.7%		13.1%	10.2%		9.8%	11.4%		9.4%	3.5%	
Adjusted net profit	650	550	-15%	462	552	19%	391	570	46%	369	157	-57%
Adjusted net margin	12.0%	9.7%		13.1%	10.2%		9.8%	11.4%		9.4%	3.5%	

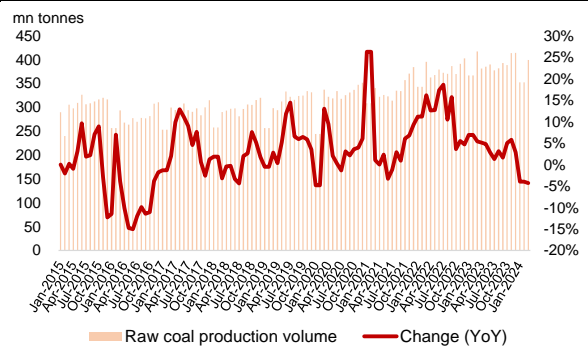
Source: Company data, CMBIGM

Figure 2: China raw coal production (annual)



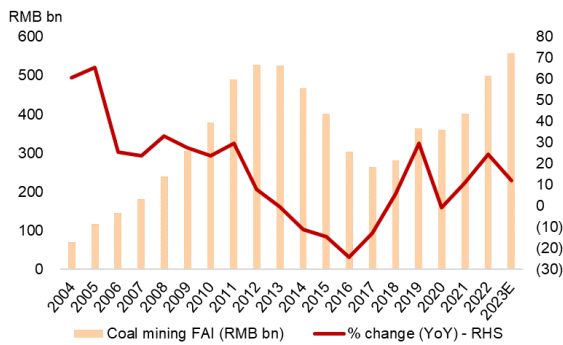
Source: Wind, CCTDCOAL, CMBIGM

Figure 3: China raw coal production (monthly)



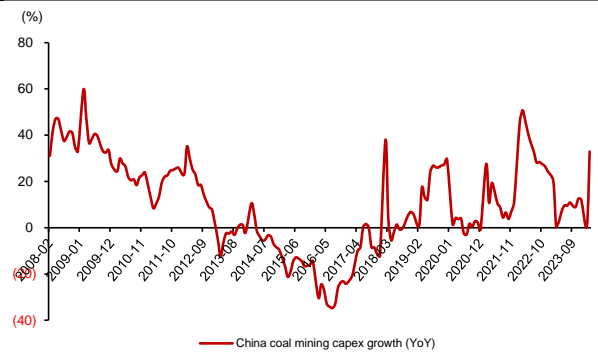
Source: Wind, CCTDCOAL, CMBIGM

Figure 4: China coal mining FAI



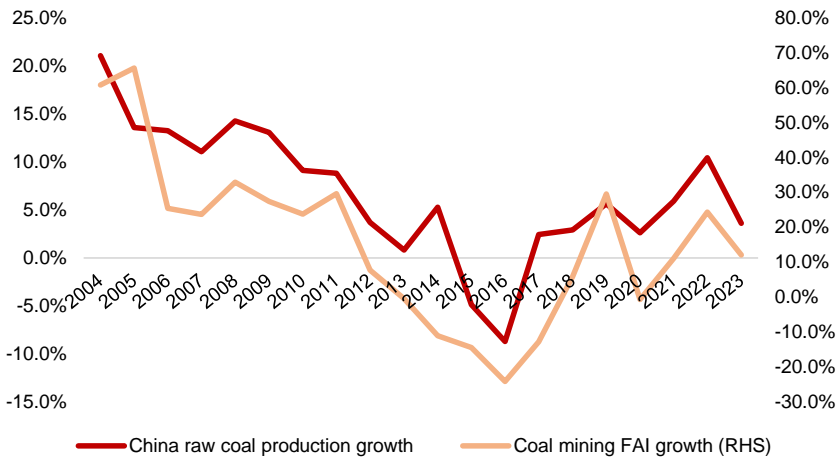
Source: Wind, NBS, CMBIGM

Figure 5: China coal mining FAI monthly growth (YTD)



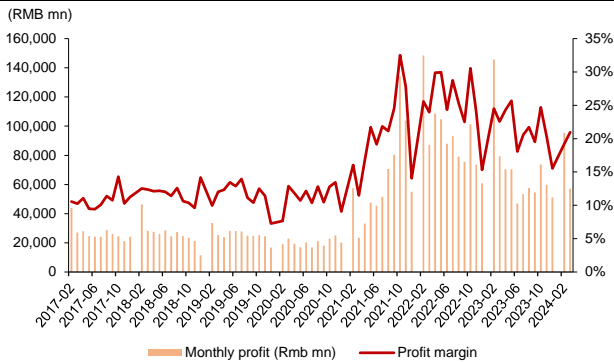
Source: Wind, NBS, CMBIGM

Figure 6: China raw coal production vs coal mining FAI



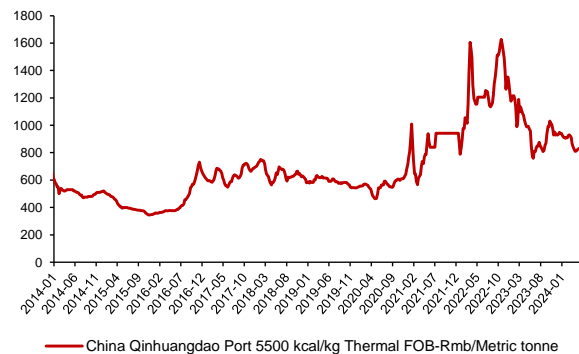
Source: Wind, NBS, CMBIGM

Figure 7: China coal miners' monthly profit & margin



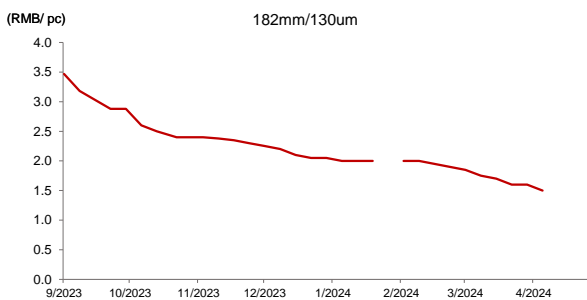
Source: Wind, NBS, CMBIGM

Figure 8: China Qinhuangdao Port 5500 kcal coal price



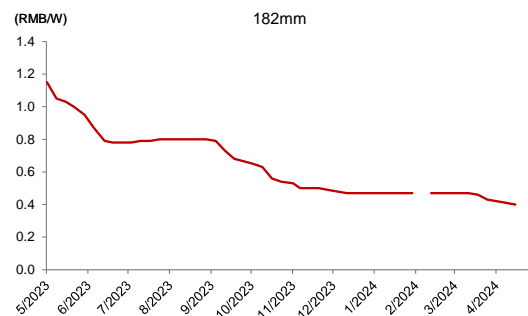
Source: Bloomberg, CMBIGM

Figure 9: China N-type wafer price



Source: Infolink, CMBIGM

Figure 10: China TOPCon cell price



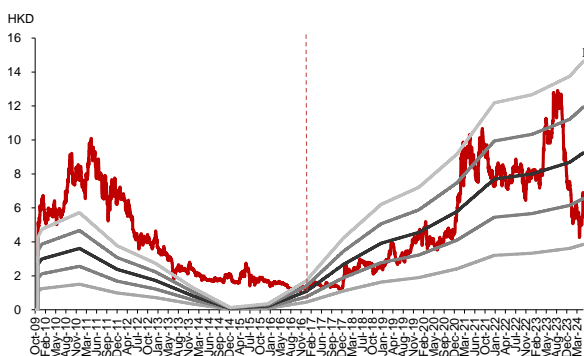
Source: Infolink, CMBIGM

Figure 11: Key assumptions for SANYI

(RMB mn)	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Revenue									
Road header	1,079	1,408	1,249	1,834	2,970	2,692	2,495	2,545	2,622
Combined coal mining units (CCMU)	966	1,073	1,640	1,733	2,968	3,621	3,983	4,302	4,646
Small-size port machinery	1,305	1,547	1,798	2,459	3,217	4,960	5,952	7,023	8,288
Large-size port machinery	551	686	720	840	1,377	1,200	1,620	1,831	2,050
Mining trucks	88	388	952	1,512	2,923	4,000	4,768	5,490	6,056
After sales service	428	554	603	706	1,018	1,400	1,680	2,016	2,419
Robot	-	-	400	1,150	1,060	800	880	968	1,065
Lithium battery equipment	-	-	-	-	-	302	308	462	624
Oil and gas equipment	-	-	-	-	-	1,500	2,410	2,772	3,188
Solar power	-	-	-	-	-	-	2,500	2,875	3,306
Hydrogen	-	-	-	-	-	-	120	228	365
Total	4,417	5,656	7,362	10,234	15,533	20,475	26,717	30,513	34,629
Growth (YoY)									
Road header	53.8%	30.5%	-11.3%	46.8%	61.9%	-9.4%	-7.3%	2.0%	3.0%
Combined coal mining units (CCMU)	268.0%	11.1%	52.8%	5.7%	71.3%	22.0%	10.0%	8.0%	8.0%
Small-size port machinery	45.3%	18.5%	16.2%	36.8%	30.8%	54.2%	20.0%	18.0%	18.0%
Large-size port machinery	61.3%	24.5%	5.0%	16.7%	63.9%	-12.9%	35.0%	13.0%	12.0%
Mining trucks	285.1%	340.9%	145.4%	58.8%	93.3%	36.8%	19.2%	15.2%	10.3%
After sales service	67.9%	29.4%	8.8%	17.1%	44.2%	37.5%	20.0%	20.0%	20.0%
Robot	-	-	-	187.5%	-7.8%	-24.5%	10.0%	10.0%	10.0%
Lithium battery equipment	-	-	-	-	-	-	2.0%	50.0%	35.0%
Oil and gas equipment	-	-	-	-	-	-	60.7%	15.0%	15.0%
Solar power	-	-	-	-	-	-	-	15.0%	15.0%
Hydrogen	-	-	-	-	-	-	-	90.0%	60.0%
Average	78.0%	28.1%	30.2%	39.0%	51.8%	31.8%	30.5%	14.2%	13.5%
Gross margin									
Road header	39.9%	40.6%	41.6%	43.1%	41.5%	41.9%	40.0%	39.7%	39.5%
Combined coal mining units (CCMU)	14.7%	25.1%	23.4%	16.4%	16.2%	19.3%	18.2%	18.1%	18.0%
Small-size port machinery	32.1%	33.0%	33.0%	25.0%	25.0%	32.1%	32.3%	32.4%	32.5%
Large-size port machinery	15.0%	9.0%	9.0%	5.0%	5.0%	8.0%	11.0%	11.5%	12.0%
Mining trucks	10.0%	12.0%	14.0%	13.3%	15.4%	20.0%	21.0%	21.0%	21.0%
After sales service	45.0%	38.0%	43.0%	37.0%	41.9%	39.0%	40.0%	40.0%	40.0%
Robot	-	-	20.0%	20.0%	20.0%	19.0%	20.0%	20.0%	21.0%
Lithium battery equipment	-	-	-	-	-	18.0%	20.0%	20.0%	20.0%
Oil and gas equipment	-	-	-	-	-	34.8%	34.5%	34.5%	34.0%
Solar power	-	-	-	-	-	-	10.0%	12.0%	15.0%
Hydrogen	-	-	-	-	-	-	-10.0%	0.0%	5.0%
Blended gross margin	29.4%	29.5%	26.6%	23.4%	23.4%	26.9%	25.5%	25.6%	26.0%

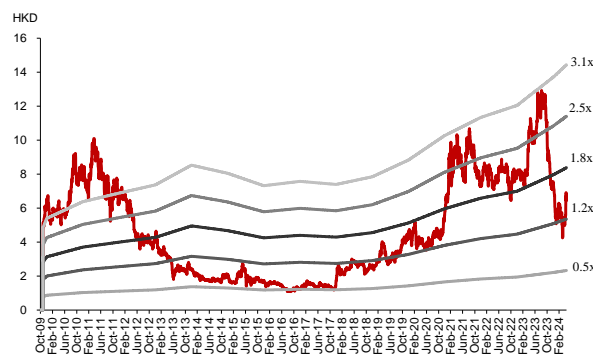
Source: Company data, CMBIGM estimates

Figure 12: SANYI's P/E band



Source: Bloomberg, company data, CMBIGM estimates

Figure 13: SANYI's P/B band



Source: Bloomberg, company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	10,195	15,537	20,278	26,717	30,513	34,629
Cost of goods sold	(7,805)	(11,908)	(14,831)	(19,913)	(22,691)	(25,632)
Gross profit	2,390	3,628	5,447	6,804	7,822	8,997
Selling expense	(567)	(933)	(1,262)	(1,683)	(1,922)	(2,182)
Admin expense	(1,053)	(1,177)	(2,213)	(3,072)	(3,417)	(3,809)
Other income	391	447	441	588	671	762
Other expense	(1)	(25)	(42)	(53)	(61)	(69)
Other gains/(losses)	347	54	(144)	53	61	69
Share of (losses)/profits of associates/JV	0	0	0	3	3	4
EBITDA	1,756	2,287	2,751	3,454	4,147	4,902
Depreciation	249	293	525	815	990	1,130
EBIT	1,507	1,994	2,226	2,639	3,157	3,772
Interest income	51	59	193	186	168	174
Interest expense	(120)	(132)	(158)	(303)	(325)	(337)
Net interest income/(expense)	(69)	(73)	35	(116)	(157)	(162)
Pre-tax profit	1,438	1,921	2,260	2,523	3,000	3,610
Income tax	(129)	(252)	(422)	(454)	(540)	(650)
After tax profit	1,309	1,669	1,839	2,069	2,460	2,960
Minority interest	(50)	(4)	90	62	49	59
Net profit	1,259	1,665	1,929	2,131	2,509	3,019
Adjusted net profit	1,087	1,665	1,929	2,131	2,509	3,019
Gross dividends	385	538	556	618	728	876
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	14,217	17,191	20,778	24,684	24,607	30,003
Cash & equivalents	1,349	2,690	3,241	2,348	2,007	2,780
Account receivables	4,272	6,416	8,356	11,114	11,456	14,159
Inventories	2,529	3,283	3,432	4,969	4,853	6,383
Prepayment	585	700	1,261	1,261	1,261	1,261
ST bank deposits	21	50	43	43	43	43
Financial assets at FVTPL	3,680	2,088	2,160	2,160	2,160	2,160
Other current assets	1,782	1,964	2,284	2,787	2,825	3,215
Non-current assets	6,568	7,763	14,185	16,372	17,885	18,759
PP&E	3,314	4,066	7,276	9,669	11,388	12,466
Deferred income tax	287	298	336	336	336	336
Goodwill	1,130	1,130	2,537	2,537	2,537	2,537
Other non-current assets	1,838	2,269	4,036	3,830	3,624	3,419
Total assets	20,785	24,953	34,963	41,056	42,493	48,762
Current liabilities	9,170	10,836	16,173	20,253	19,548	23,584
Short-term borrowings	1,687	954	2,653	2,853	3,103	3,203
Account payables	4,422	6,646	8,098	11,978	11,023	14,959
Tax payable	185	155	237	237	237	237
Other current liabilities	2,875	3,080	5,184	5,184	5,184	5,184
Non-current liabilities	2,832	4,014	7,252	7,752	8,052	8,052
Long-term borrowings	1,767	2,691	5,249	5,749	6,049	6,049
Other non-current liabilities	1,065	1,323	2,003	2,003	2,003	2,003
Total liabilities	12,002	14,849	23,425	28,005	27,600	31,636
Total shareholders equity	8,701	10,040	11,589	13,165	15,055	17,347
Minority interest	82	64	(51)	(113)	(162)	(222)
Total equity and liabilities	20,785	24,953	34,963	41,056	42,493	48,762

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,438	1,921	2,260	2,523	3,000	3,610
Depreciation & amortization	249	293	525	815	990	1,130
Tax paid	(185)	(145)	(422)	(454)	(540)	(650)
Change in working capital	51	(808)	1,300	(918)	(1,219)	(687)
Others	(630)	(177)	(1,140)	113	154	158
Net cash from operations	923	1,084	2,524	2,079	2,384	3,562
Investing						
Capital expenditure	(885)	(889)	(3,298)	(3,000)	(2,500)	(2,000)
Acquisition of subsidiaries/ investments	0	0	(2,980)	0	0	0
Others	589	1,529	(1,667)	187	168	175
Net cash from investing	(296)	639	(4,965)	(2,813)	(2,332)	(1,825)
Financing						
Dividend paid	(451)	(466)	(538)	(556)	(618)	(728)
Net borrowings	(120)	0	0	(303)	(325)	(337)
Proceeds from share issues	26	8	0	0	0	0
Others	317	81	3,499	700	550	100
Net cash from financing	(227)	(377)	2,961	(159)	(393)	(964)
Net change in cash						
Cash at the beginning of the year	941	1,349	2,690	3,241	2,348	2,007
Exchange difference	8	(6)	32	0	0	0
Cash at the end of the year	1,349	2,690	3,241	2,348	2,007	2,780

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

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