

# SANY International (631 HK)

## Expect an improving trend after a weak 1Q24

SANYI's 1Q24 net profit decline (-21% YoY) was more than our expectation of -15% YoY, as the growth of logistics equipment was offset by the weakness of mining equipment and emerging industries. Looking forward, we see an improving trend given (1) the reduction of loss after the disposal of robot business; (2) wide-body trucks, large mining trucks and logistics equipment remain strong in overseas markets; and (3) potential acceleration of port equipment orders in 2H24E, driven by the government's equipment upgrade policy. We fine-tune our 2024E/25E earnings by -5%/-2%. Maintain **BUY** with a new TP of HK\$7.9 (based on an unchanged 11x 2024E P/E).

■ **1Q24 results highlights.** Revenue dropped 6% YoY to RMB5.1bn (Mining equipment: RMB2.8bn, -26% YoY; Logistics equipment: RMB1.8bn, +23% YoY; Oil & gas equipment and emerging industries: RMB560mn). Net profit dropped 21% YoY to RMB516mn, as oil & gas equipment and emerging industries reported loss in 1Q24.

■ **Domestic logistics equipment to benefit from equipment upgrade policy.** During the post-results call, SANYI revealed that major ports in China (SANYI's customers) have already proposed plans to upgrade their port equipment, such as the replacement of small-size diesel port machinery (NES II) with electric models. SANYI is confident of strong order intakes starting from 2H24E.

■ **Overseas growth remains exciting.** For wide-body trucks, SANYI delivered ~200 units in 4M24, and targets to achieve 1,800 units for the full year which will be equivalent to ~RMB2.6bn (VAT-included) sales. For large mining trucks, delivery was not smooth in 1Q24 due to some issues related to products, but such issues have been resolved and delivery is expected to speed up starting from Jun (current backlog ~70 units, valued at RMB600mn). For logistics equipment, telescopic handler sales were more than doubled in 1Q24. We continue to see telescopic handler as a key growth driver this year.

■ **Still see chance for domestic mining equipment to achieve growth in 2024E.** In China, SANYI still managed to achieve some market share gains for road headers despite the industry downtrend in 1Q24. For combined coal mining units (CCMU), SANYI believes that the rising adoption of pure water hydraulic support will boost growth of CCMU this year, which will likely offset the weakness of road headers and wide-body trucks. SANYI sees 0-5% growth for the domestic mining equipment segment this year.

■ **Solar power still a drag in the foreseeable future.** SANYI currently has 5GW of capacity for crystal growing/wafer slicing/solar cells, as well as 1.5GW for modules. SANYI targets to deliver 3-4GW of modules this year. For EPC, SANYI targets to complete 800MW EPC projects this year. We still expect loss for the full year given the continued declines of solar supply chain pricing.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	15,537	20,278	25,874	29,304	33,058
YoY growth (%)	52.4	30.5	27.6	13.3	12.8
Adjusted net profit (RMB mn)	1,664.9	1,929.0	2,034.4	2,470.9	3,015.7
YoY growth (%)	53.2	15.9	5.5	21.5	22.0
EPS (Adjusted) (RMB)	0.53	0.61	0.64	0.78	0.95
Consensus EPS (RMB)	na	na	0.75	0.91	1.04
P/E (x)	12.2	10.7	10.1	8.3	6.8
P/B (x)	2.0	1.8	1.6	1.4	1.2
Yield (%)	2.6	2.7	2.9	3.5	4.2
ROE (%)	17.8	17.8	16.5	17.6	18.7
Net gearing (%)	(11.8)	21.2	29.1	29.6	23.7

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

<b>Target Price</b>	<b>HK\$7.90</b>
(Previous TP)	HK\$8.00
<b>Up/Downside</b>	<b>13.0%</b>
<b>Current Price</b>	<b>HK\$6.99</b>

### China Capital Goods

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### Stock Data

Mkt Cap (HK\$ mn)	22,177.9
Avg 3 mths t/o (HK\$ mn)	90.9
52w High/Low (HK\$)	12.92/4.25
Total Issued Shares (mn)	3172.8

Source: FactSet

### Shareholding Structure

Sany Heavy Equipment Investments Company	66.4%
Free float	33.9%

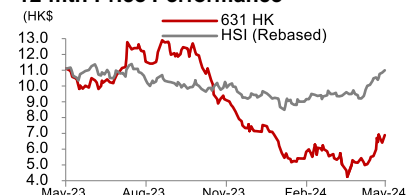
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	32.1%	9.8%
3-mth	19.9%	-0.9%
6-mth	-23.1%	-31.4%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related reports:

- SANYI (631 HK, BUY) – Expect an unexciting set of results in 1Q24E; Potential recovery in 2H24E – 14 May 2024 ([link](#))
- SANYI (631 HK, BUY) – Solar power business remains major investor concern during site visit – 29 Mar 2024 ([link](#))
- SANYI (631 HK, BUY) - Weak revenue growth in the price; overseas growth story still intact – 2 Nov 2023 ([link](#))
- SANYI (631 HK, BUY) – Net profit in 2Q23 +19% YoY; Higher R&D spending but still a set of good quality results – 1 Sep 2023 ([link](#))
- SANYI (631 HK, BUY) – Positive takeaways from Zhuhai plant visit – 26 Jul 2023 ([link](#))

**Figure 1: SANYI's 1Q24 results**

RMB mn	1Q23	1Q24	Chg (YoY)	2Q22	2Q23	Chg (YoY)	3Q22	3Q23	Chg (YoY)	4Q22	4Q23	Chg (YoY)
Revenue	5,438	5,130	-6%	3,516	5,401	54%	3,969	4,998	26%	3,936	4,441	13%
Cost of sales	-4,108	-3,852	-6%	-2,571	-3,899	52%	-3,090	-3,521	14%	-3,002	-3,303	10%
Gross profit	1,330	1,278	-4%	946	1,502	59%	879	1,476	68%	934	1,139	22%
<b>Gross margin</b>	<b>24.5%</b>	<b>24.9%</b>		<b>26.9%</b>	<b>27.8%</b>		<b>22.2%</b>	<b>29.5%</b>		<b>23.7%</b>	<b>25.6%</b>	
Pretax profit	707	558	-21%	514	733	43%	432	655	52%	465	165	-65%
Pretax profit margin	13.0%	10.9%		14.6%	13.6%		10.9%	13.1%		11.8%	3.7%	
Net profit	650	516	-21%	462	552	19%	391	570	46%	369	157	-57%
Net margin	12.0%	10.1%		13.1%	10.2%		9.8%	11.4%		9.4%	3.5%	

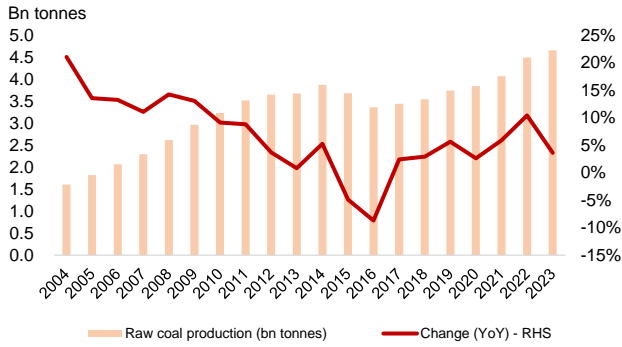
Source: Company data, CMBIGM

**Figure 2: Change in key assumptions for SANYI**

	Old			New			Change		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
(RMB mn)									
<b>Revenue</b>									
Road header	2,495	2,545	2,622	2,324	2,324	2,348	-6.9%	-8.7%	-10.5%
Combined coal mining units (CCMU)	3,983	4,302	4,646	4,019	4,341	4,688	0.9%	0.9%	0.9%
Small-size port machinery	5,952	7,023	8,288	6,200	7,316	8,633	4.2%	4.2%	4.2%
Large-size port machinery	1,620	1,831	2,050	1,560	1,763	1,974	-3.7%	-3.7%	-3.7%
Mining trucks	4,768	5,490	6,056	4,682	5,369	5,909	-1.8%	-2.2%	-2.4%
After sales service	1,680	2,016	2,419	1,750	2,188	2,734	4.2%	8.5%	13.0%
Robot	880	968	1,065	0	0	0	n/a	n/a	n/a
Lithium battery equipment	308	462	624	308	370	444	0.0%	-20.0%	-28.9%
Oil and gas equipment	2,410	2,772	3,188	2,410	2,531	2,658	0.0%	-8.7%	-16.6%
Solar power	2,500	2,875	3,306	2,500	2,875	3,306	0.0%	0.0%	0.0%
Hydrogen	120	228	365	120	228	365	0.0%	0.0%	0.0%
<b>Total</b>	<b>26,717</b>	<b>30,513</b>	<b>34,629</b>	<b>25,874</b>	<b>29,304</b>	<b>33,058</b>	<b>-3.2%</b>	<b>-4.0%</b>	<b>-4.5%</b>
<b>Gross margin</b>									
Road header	40.0%	39.7%	39.5%	40.0%	39.7%	39.5%	0.0	0.0	0.0
Combined coal mining units (CCMU)	18.2%	18.1%	18.0%	18.7%	18.5%	18.4%	0.5	0.4	0.4
Small-size port machinery	32.3%	32.4%	32.5%	33.0%	33.0%	33.0%	0.7	0.6	0.5
Large-size port machinery	11.0%	11.5%	12.0%	11.0%	11.5%	12.0%	0.0	0.0	0.0
Mining trucks	21.0%	21.0%	21.0%	22.0%	22.2%	22.4%	1.0	1.2	1.4
After sales service	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	0.0	0.0	0.0
Robot	20.0%	20.0%	21.0%	0.0%	0.0%	0.0%	n/a	n/a	n/a
Lithium battery equipment	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	0.0	0.0	0.0
Oil and gas equipment	34.5%	34.5%	34.0%	25.0%	28.0%	30.0%	(9.5)	(6.5)	(4.0)
Solar power	10.0%	12.0%	15.0%	10.0%	12.0%	15.0%	0.0	0.0	0.0
Hydrogen	-10.0%	0.0%	5.0%	-10.0%	0.0%	5.0%	0.0	0.0	0.0
<b>Blended gross margin</b>	<b>25.5%</b>	<b>25.6%</b>	<b>26.0%</b>	<b>25.2%</b>	<b>25.7%</b>	<b>26.3%</b>	<b>(0.2)</b>	<b>0.1</b>	<b>0.3</b>
							Change (ppt)		
S&D expense ratio	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	0.0	0.0	0.0
Admin expense ratio	11.5%	11.2%	11.0%	11.5%	11.2%	11.0%	0.0	0.0	0.0
<b>Net profit</b>	<b>2,131</b>	<b>2,509</b>	<b>3,019</b>	<b>2,034</b>	<b>2,471</b>	<b>3,016</b>	<b>-4.5%</b>	<b>-1.5%</b>	<b>-0.1%</b>

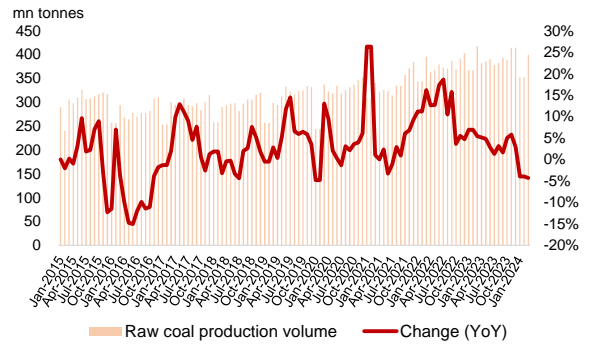
Source: Company data, CMBIGM estimates

**Figure 3: China raw coal production (annual)**



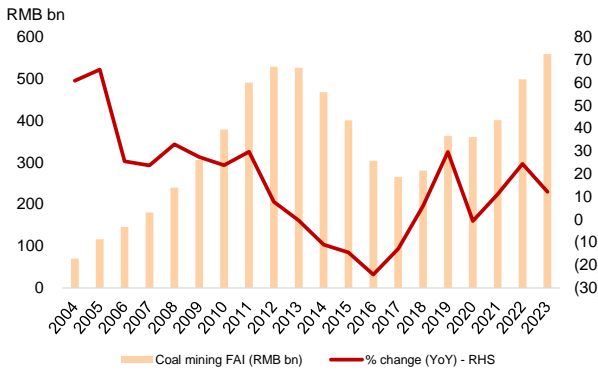
Source: Wind, CCTDCOAL, CMBIGM

**Figure 4: China raw coal production (monthly)**



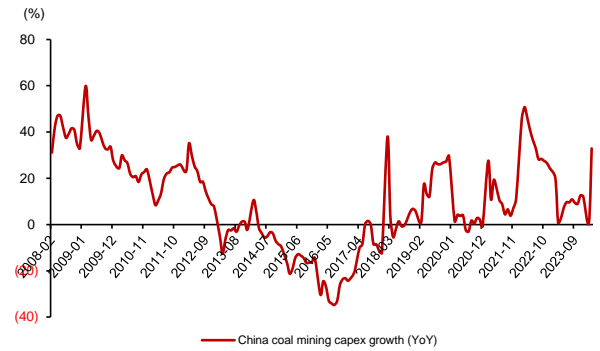
Source: Wind, CCTDCOAL, CMBIGM

**Figure 5: China coal mining FAI**



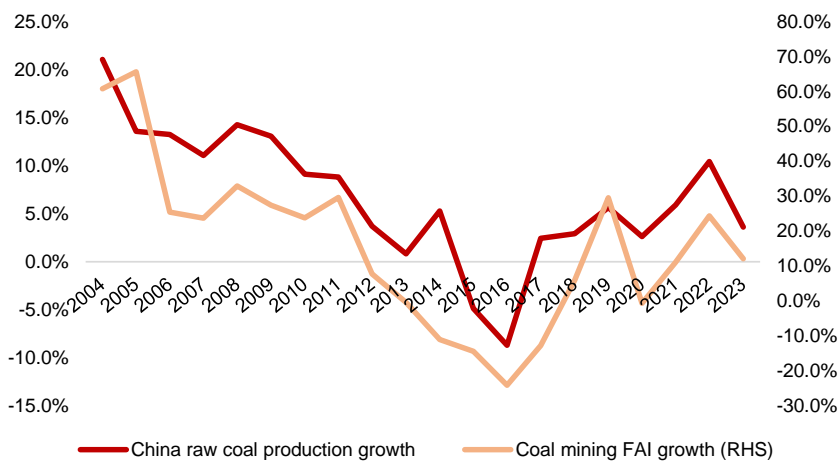
Source: Wind, NBS, CMBIGM

**Figure 6: China coal mining FAI monthly growth (YTD)**



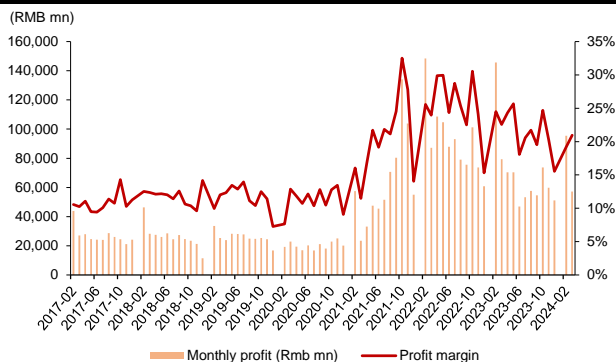
Source: Wind, NBS, CMBIGM

**Figure 7: China raw coal production vs coal mining FAI**



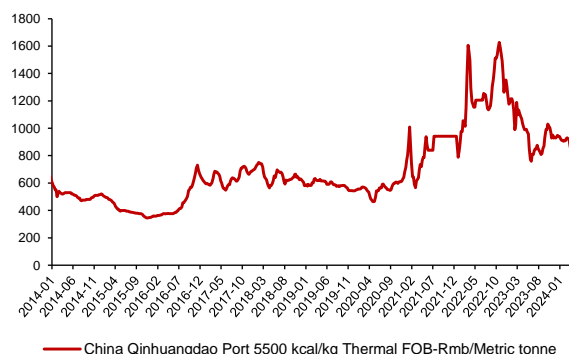
Source: Wind, NBS, CMBIGM

**Figure 8: China coal miners' monthly profit & margin**



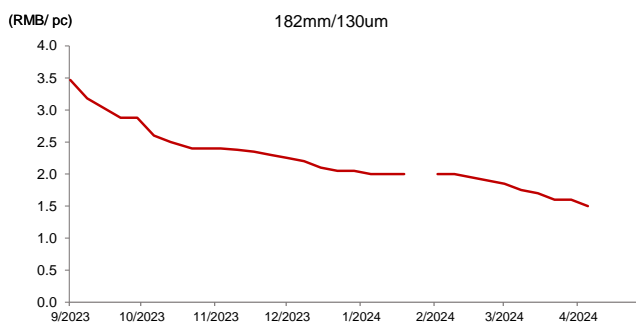
Source: Wind, NBS, CMBIGM

**Figure 9: China Qinhuangdao Port 5500 kcal coal price**



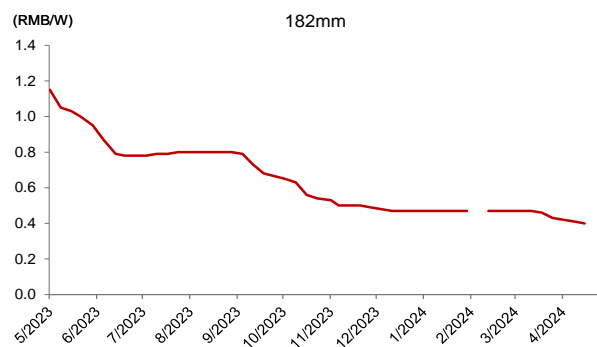
Source: Bloomberg, CMBIGM

**Figure 10: China N-type wafer price**



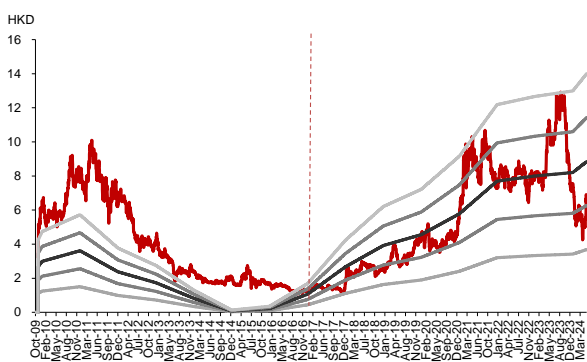
Source: Infolink, CMBIGM

**Figure 11: China TOPCon cell price**



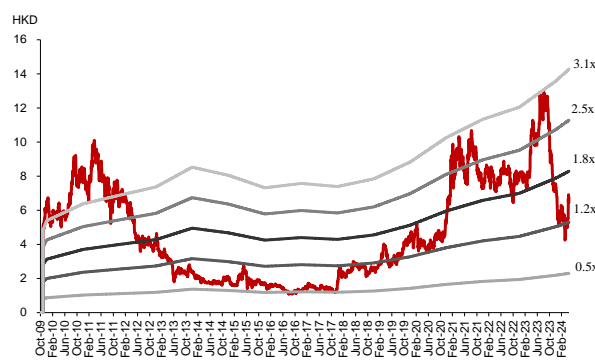
Source: Infolink, CMBIGM

**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

**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.

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
<b>Revenue</b>	<b>10,195</b>	<b>15,537</b>	<b>20,278</b>	<b>25,874</b>	<b>29,304</b>	<b>33,058</b>
Cost of goods sold	(7,805)	(11,908)	(14,831)	(19,343)	(21,767)	(24,365)
<b>Gross profit</b>	<b>2,390</b>	<b>3,628</b>	<b>5,447</b>	<b>6,531</b>	<b>7,537</b>	<b>8,693</b>
Selling expense	(567)	(933)	(1,262)	(1,630)	(1,846)	(2,083)
Admin expense	(1,053)	(1,177)	(2,213)	(2,976)	(3,282)	(3,636)
Other income	391	447	441	569	645	727
Other expense	(1)	(25)	(42)	(52)	(59)	(66)
Other gains/(losses)	347	54	(144)	52	59	66
Share of (losses)/profits of associates/JV	0	0	0	3	3	4
<b>EBITDA</b>	<b>1,756</b>	<b>2,287</b>	<b>2,751</b>	<b>3,313</b>	<b>4,047</b>	<b>4,835</b>
Depreciation	249	293	525	815	990	1,130
<b>EBIT</b>	<b>1,507</b>	<b>1,994</b>	<b>2,226</b>	<b>2,498</b>	<b>3,057</b>	<b>3,705</b>
Interest income	51	59	193	190	180	185
Interest expense	(120)	(132)	(158)	(303)	(325)	(337)
<b>Net Interest income/(expense)</b>	<b>(69)</b>	<b>(73)</b>	<b>35</b>	<b>(112)</b>	<b>(146)</b>	<b>(152)</b>
<b>Pre-tax profit</b>	<b>1,438</b>	<b>1,921</b>	<b>2,260</b>	<b>2,386</b>	<b>2,911</b>	<b>3,553</b>
Income tax	(129)	(252)	(422)	(429)	(524)	(640)
<b>After tax profit</b>	<b>1,309</b>	<b>1,669</b>	<b>1,839</b>	<b>1,956</b>	<b>2,387</b>	<b>2,914</b>
Minority interest	(50)	(4)	90	78	84	102
<b>Net profit</b>	<b>1,259</b>	<b>1,665</b>	<b>1,929</b>	<b>2,034</b>	<b>2,471</b>	<b>3,016</b>
<b>Adjusted net profit</b>	<b>1,087</b>	<b>1,665</b>	<b>1,929</b>	<b>2,034</b>	<b>2,471</b>	<b>3,016</b>
Gross dividends	385	538	556	590	717	875
<b>BALANCE SHEET</b>						
<b>YE 31 Dec (RMB mn)</b>						
<b>Current assets</b>	<b>14,217</b>	<b>17,191</b>	<b>20,778</b>	<b>23,996</b>	<b>24,088</b>	<b>28,889</b>
Cash & equivalents	1,349	2,690	3,241	2,599	2,530	2,953
Account receivables	4,272	6,416	8,356	10,500	11,016	13,438
Inventories	2,529	3,283	3,432	4,729	4,455	5,959
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	2,703	2,622	3,074
<b>Non-current assets</b>	<b>6,568</b>	<b>7,763</b>	<b>14,185</b>	<b>16,372</b>	<b>17,885</b>	<b>18,759</b>
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
<b>Total assets</b>	<b>20,785</b>	<b>24,953</b>	<b>34,963</b>	<b>40,369</b>	<b>41,973</b>	<b>47,647</b>
<b>Current liabilities</b>	<b>9,170</b>	<b>10,836</b>	<b>16,173</b>	<b>19,678</b>	<b>19,186</b>	<b>22,662</b>
Short-term borrowings	1,687	954	2,653	2,853	3,103	3,203
Account payables	4,422	6,646	8,098	11,404	10,661	14,038
Tax payable	185	155	237	237	237	237
Other current liabilities	2,875	3,080	5,184	5,184	5,184	5,184
<b>Non-current liabilities</b>	<b>2,832</b>	<b>4,014</b>	<b>7,252</b>	<b>7,752</b>	<b>8,052</b>	<b>8,052</b>
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
<b>Total liabilities</b>	<b>12,002</b>	<b>14,849</b>	<b>23,425</b>	<b>27,430</b>	<b>27,238</b>	<b>30,714</b>
<b>Total shareholders equity</b>	<b>8,701</b>	<b>10,040</b>	<b>11,589</b>	<b>13,068</b>	<b>14,949</b>	<b>17,248</b>
Minority interest	82	64	(51)	(129)	(213)	(315)
<b>Total equity and liabilities</b>	<b>20,785</b>	<b>24,953</b>	<b>34,963</b>	<b>40,369</b>	<b>41,973</b>	<b>47,647</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>1,438</b>	<b>1,921</b>	<b>2,260</b>	<b>2,386</b>	<b>2,911</b>	<b>3,553</b>
Depreciation & amortization	249	293	525	815	990	1,130
Tax paid	(185)	(145)	(431)	(429)	(524)	(640)
Change in working capital	51	(808)	476	(555)	(903)	(1,001)
Others	(630)	(177)	(307)	109	142	148
<b>Net cash from operations</b>	<b>923</b>	<b>1,084</b>	<b>2,524</b>	<b>2,325</b>	<b>2,617</b>	<b>3,191</b>
<b>Investing</b>						
Capital expenditure	(885)	(889)	(2,294)	(3,000)	(2,500)	(2,000)
Acquisition of subsidiaries/ investments	0	0	(2,509)	0	0	0
Others	589	1,529	(162)	191	180	185
<b>Net cash from investing</b>	<b>(296)</b>	<b>639</b>	<b>(4,965)</b>	<b>(2,809)</b>	<b>(2,320)</b>	<b>(1,815)</b>
<b>Financing</b>						
Dividend paid	(451)	(466)	(729)	(556)	(590)	(717)
Net borrowings	(120)	(113)	(126)	(303)	(325)	(337)
Proceeds from share issues	26	8	104	0	0	0
Others	317	194	3,712	700	550	100
<b>Net cash from financing</b>	<b>(227)</b>	<b>(377)</b>	<b>2,961</b>	<b>(159)</b>	<b>(365)</b>	<b>(953)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	941	1,349	2,690	3,241	2,599	2,530
Exchange difference	8	(6)	32	0	0	0
<b>Cash at the end of the year</b>	<b>1,349</b>	<b>2,690</b>	<b>3,241</b>	<b>2,599</b>	<b>2,530</b>	<b>2,953</b>

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

# Disclosures & Disclaimers

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