

SANY International (631 HK)

Scale-down of solar power expansion plan a positive move

We revise down our 2024E-26E earnings forecast by 9-13% to reflect lower growth of mining trucks and oil & gas equipment segments. That said, we are encouraged by SANYI's decision to slow the pace of solar manufacturing business expansion. With potentially less capex and better profit contribution from solar farm disposal, we are now less concerned on the balance sheet pressure. Besides, mining trucks and logistics equipment sales remain strong in overseas markets. Maintain **BUY** with a new TP of HK\$7.2 (previously HK\$7.9), based on an unchanged 11x 2024E P/E, the average P/E since 2017.

■ **1H24 results highlights.** Total revenue dropped 0.8% YoY to RMB10.7bn as the growth of logistics equipment, oil & gas equipment and new business was offset by the decline in mining equipment. Revenue from China dropped 9% YoY to RMB6.9bn while overseas revenue grew 18% YoY to RMB3.8bn. EBIT dropped 18% YoY to RMB1.2bn (mining equipment: +3% YoY; logistics machinery +13% YoY; emerging industries business: RMB255mn loss). Net profit dropped 14% YoY to RMB1bn. In 2Q24, revenue increased 4% YoY to RMB5.6bn. Net profit dropped 6% YoY to RMB517mn (mining equipment -6% YoY to RMB830mn; logistics equipment +24% to RMB530mn; loss for the balance).

■ **EPC will become the focus of solar power segment.** SANYI expects to complete the sale of 260MW project (Shanxi phase 1) this year, which will translate to revenue recognition. Construction for phase 2, which consists of a total of 540MW (240MW +300MW), is expected to be fully completed in Jun 2025. SANYI expects some revenue contribution from phase 2 project sale this year. We estimate the EPC unit gross margin to be ~RMB0.5/watt. SANYI is also in discussion for some GW-scale projects in Shanxi. It will also invest 2GW of module capacity, which is part of the bidding for a 1.5GW EPC project. SANYI is confident of achieving profit in EPC.

■ **High visibility on logistics equipment.** SANYI revealed that backlog reached RMB5bn. Management is confident of achieving 30% segment earnings CAGR in 2024E-25E, driven by overseas markets. Products such as telescopic forklifts and small-size port machinery will be key drivers.

■ **Potential stabilisation of mining equipment.** The decrease in mining equipment revenue in 1H24 was due to a decline in coal mining equipment sales, lower ASP of hydraulic supports, delay of customers' orders on large mining trucks and weakness of domestic wide-body trucks. Management expects the demand for coal mining equipment will be gradually stabilised in 4Q24E. For mining trucks, management reveals that large overseas miners will likely resume procurement in 2H24E. For the segment as a whole, management targets to achieve a stable profit (YoY) for the full year.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	15,537	20,278	21,922	24,859	28,302
YoY growth (%)	52.4	30.5	8.1	13.4	13.9
Adjusted net profit (RMB mn)	1,664.9	1,929.0	1,843.1	2,177.9	2,612.1
YoY growth (%)	53.2	15.9	(4.5)	18.2	19.9
EPS (Adjusted) (RMB)	0.53	0.61	0.58	0.68	0.82
Consensus EPS (RMB)	na	na	0.71	0.86	0.93
P/E (x)	7.7	6.8	7.1	6.0	5.0
P/B (x)	1.3	1.1	1.0	0.9	0.8
Yield (%)	4.2	4.3	4.1	4.8	5.8
ROE (%)	17.8	17.8	15.1	15.9	16.8
Net gearing (%)	(11.8)	21.2	26.9	19.4	13.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$7.20**

(Previous TP) **HK\$7.90**

Up/Downside **60.4%**

Current Price **HK\$4.49**

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Stock Data

Mkt Cap (HK\$ mn)	14,245.9
Avg 3 mths t/o (HK\$ mn)	37.8
52w High/Low (HK\$)	12.92/3.89
Total Issued Shares (mn)	3172.8

Source: FactSet

Shareholding Structure

Sany Heavy Equipment	66.4%
Investments Company	
Free float	33.9%

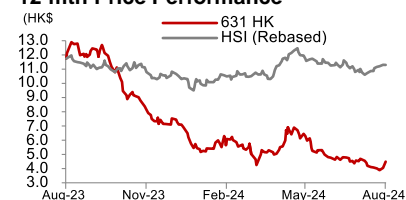
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-0.7%	-3.7%
3-mth	-28.6%	-25.8%
6-mth	-26.2%	-31.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

- SANYI (631 HK, BUY) - Expect an improving trend after a weak 1Q24 - 20 May 2024 ([link](#))
- 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](#))

Figure 1: SANYI's 2Q24 results

RMB mn	1Q23	1Q24	Chg (YoY)	2Q23	2Q24	Chg (YoY)	3Q22	3Q23	Chg (YoY)	4Q22	4Q23	Chg (YoY)
Revenue	5,438	5,130	-6%	5,401	5,626	4%	3,969	4,998	26%	3,936	4,441	13%
Cost of sales	-4,108	-3,852	-6%	-3,899	-4,278	10%	-3,090	-3,521	14%	-3,002	-3,303	10%
Gross profit	1,330	1,278	-4%	1,502	1,348	-10%	879	1,476	68%	934	1,139	22%
Gross margin	24.5%	24.9%		27.8%	24.0%		22.2%	29.5%		23.7%	25.6%	
Pretax profit	707	558	-21%	733	594	-19%	432	655	52%	465	165	-65%
<i>Pretax profit margin</i>	13.0%	10.9%		13.6%	10.6%		10.9%	13.1%		11.8%	3.7%	
Net profit	650	516	-21%	552	517	-6%	391	570	46%	369	157	-57%
<i>Net margin</i>	12.0%	10.1%		10.2%	9.2%		9.8%	11.4%		9.4%	3.5%	
Adjusted net profit	650	516	-21%	552	517	-6%	391	570	46%	369	157	-57%
<i>Adjusted net margin</i>	12.0%	10.1%		10.2%	9.2%		9.8%	11.4%		9.4%	3.5%	

Source: Company data, CMBIGM

Figure 2: SANYI's segment breakdown in 1H24

(RMB mn)	1H23	1H24	Change (YoY)
Revenue			
<u>Mining equipment</u>	7,393	6,100	-17.5%
Sales	7,214	5,938	-17.7%
Others	179	161	-9.8%
<u>Logistics equipment</u>	3,172	3,377	6.5%
Sales	3,066	3,282	7.1%
Others	106	95	-10.8%
<u>Oil & Gas equipment</u>	335	862	157.0%
Sales	336	846	151.5%
Others	(1)	16	n/a
<u>Emerging industry equipment</u>	223	702	214.7%
Sales	223	690	209.1%
Others	(0)	12	n/a
Total sales	10,839	10,756	-0.8%
Segment EBIT			
Mining equipment	880	903	2.7%
Logistics machinery	505	568	12.6%
Oil & Gas equipment	57	(36)	n/a
Emerging industry equipment	(1)	(255)	24218.7%
Total segment results	1,441	1,180	-18.1%
Segment margin			<i>ppt</i>
<i>Mining equipment</i>	12.2%	15.2%	3.0
<i>Logistics machinery</i>	16.5%	17.3%	0.8
<i>Oil & Gas equipment</i>	17.0%	-4.3%	-21.3
<i>Emerging industry equipment</i>	-0.5%	-36.9%	-36.5
<i>Average</i>	13.3%	11.0%	-2.3

Source: Company data, CMBIGM

Figure 3: SANYI's results in 1H24

YE Dec 31(RMB mn)	1H23	1H24	Change (YoY)
Total sales	10,839	10,756	-0.8%
Cost of sales	(8,007)	(8,130)	1.5%
Gross profit	2,832	2,626	-7.3%
Other income	298	309	3.9%
Other gains and losses	(122)	(54)	-55.7%
S&D expenses	(536)	(563)	5.1%
Administrative expenses	(968)	(1,109)	14.5%
Other expenses	(49)	(3)	-94.8%
EBIT	1,455	1,207	-17.1%
Net finance income/(cost)	(15)	(54)	270.7%
Finance income	59	59	-0.2%
Finance expenses	(74)	(113)	53.3%
Share of profit of JV and associates	0	0	n/a
Pretax profit	1,441	1,153	-20.0%
Income tax	(257)	(166)	-35.6%
After tax profit	1,183	987	-16.6%
MI	19	46	145.6%
Net profit	1,202	1,033	-14.1%
D&A	196	327	67.2%
EBITDA	1,651	1,534	-7.1%

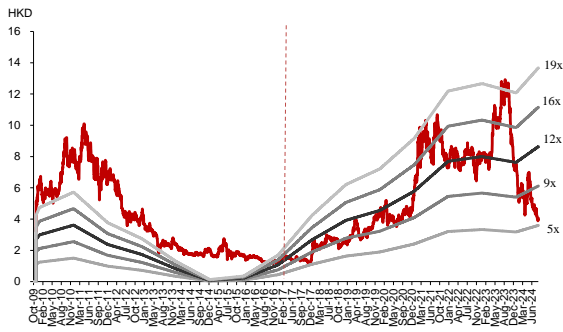
Source: Company data, CMBIGM

Figure 4: Change in key assumptions for SANYI

	Old			New			Change		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
(RMB mn)									
Revenue									
Road header	2,324	2,324	2,348	2,299	2,299	2,322	-1.1%	-1.1%	-1.1%
Combined coal mining units (CCMU)	4,019	4,341	4,688	3,874	4,184	4,519	-3.6%	-3.6%	-3.6%
Small-size port machinery	6,200	7,316	8,633	6,051	7,140	8,426	-2.4%	-2.4%	-2.4%
Large-size port machinery	1,560	1,763	1,974	1,452	1,641	1,838	-6.9%	-6.9%	-6.9%
Mining trucks	4,682	5,369	5,909	3,590	3,905	4,268	-23.3%	-27.3%	-27.8%
After sales service	1,750	2,188	2,734	1,680	2,050	2,501	-4.0%	-6.3%	-8.6%
Lithium battery	308	370	444	91	317	634	-70.6%	-14.2%	43.0%
Oil and gas equipment	2,410	2,531	2,658	1,680	1,848	1,996	-30.3%	-27.0%	-24.9%
Solar power	2,500	2,875	3,306	1,085	1,248	1,435	-56.6%	-56.6%	-56.6%
Hydrogen	120	228	365	120	228	365	0.0%	0.0%	0.0%
Total	25,874	29,304	33,058	21,922	24,859	28,302	-15.3%	-15.2%	-14.4%
Gross margin									
Road header	40.0%	39.7%	39.5%	40.2%	39.7%	39.5%	0.2	0.0	0.0
Combined coal mining units (CCMU)	18.7%	18.5%	18.4%	17.5%	18.0%	18.3%	(1.2)	(0.5)	(0.1)
Small-size port machinery	33.0%	33.0%	33.0%	32.0%	32.0%	32.0%	(1.0)	(1.0)	(1.0)
Large-size port machinery	11.0%	11.5%	12.0%	15.5%	16.0%	16.0%	4.5	4.5	4.0
Mining trucks	22.0%	22.2%	22.4%	26.0%	26.0%	26.0%	4.0	3.8	3.6
After sales service	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	0.0	0.0	0.0
Lithium battery	20.0%	20.0%	20.0%	15.0%	18.0%	20.0%	(5.0)	(2.0)	0.0
Oil and gas equipment	25.0%	28.0%	30.0%	11.0%	13.0%	15.0%	(14.0)	(15.0)	(15.0)
Solar power	10.0%	12.0%	15.0%	14.0%	15.0%	15.0%	4.0	3.0	0.0
Hydrogen	-10.0%	0.0%	5.0%	-10.0%	0.0%	5.0%	0.0	0.0	0.0
Blended gross margin	25.2%	25.7%	26.3%	26.0%	26.3%	26.5%	0.8	0.6	0.2
							Change (ppt)		
S&D expense ratio	6.3%	6.3%	6.3%	6.5%	6.5%	6.5%	0.2	0.2	0.2
Admin expense ratio	11.5%	11.2%	11.0%	11.5%	11.2%	11.0%	0.0	0.0	0.0
Net profit	2,034	2,471	3,016	1,843	2,178	2,612	-9.4%	-11.9%	-13.4%

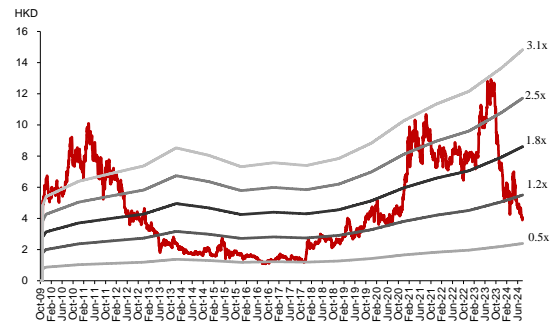
Source: Company data, CMBIGM estimates

Figure 5: SANYI's P/E band



Source: Bloomberg, company data, CMBIGM estimates

Figure 6: 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
YE 31 Dec (RMB mn)						
Revenue	10,195	15,537	20,278	21,922	24,859	28,302
Cost of goods sold	(7,805)	(11,908)	(14,831)	(16,215)	(18,327)	(20,799)
Gross profit	2,390	3,628	5,447	5,707	6,533	7,504
Selling expense	(567)	(933)	(1,262)	(1,425)	(1,616)	(1,840)
Admin expense	(1,053)	(1,177)	(2,213)	(2,521)	(2,784)	(3,113)
Other income	391	447	441	482	547	623
Other expense	(1)	(25)	(42)	(22)	(50)	(57)
Other gains/(losses)	347	54	(144)	44	50	57
Share of (losses)/profits of associates/JV	0	0	0	3	3	4
EBITDA	1,756	2,287	2,751	2,978	3,498	4,097
Depreciation	249	293	525	710	815	920
EBIT	1,507	1,994	2,226	2,268	2,683	3,177
Interest income	51	59	193	195	209	237
Interest expense	(120)	(132)	(158)	(303)	(325)	(337)
Net interest income/(expense)	(69)	(73)	35	(107)	(117)	(99)
Pre-tax profit	1,438	1,921	2,260	2,161	2,566	3,078
Income tax	(129)	(252)	(422)	(389)	(462)	(554)
After tax profit	1,309	1,669	1,839	1,772	2,104	2,524
Minority interest	(50)	(4)	90	71	74	88
Net profit	1,259	1,665	1,929	1,843	2,178	2,612
Adjusted net profit	1,087	1,665	1,929	1,843	2,178	2,612
Gross dividends	385	538	556	535	632	758
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	14,217	17,191	20,778	22,053	25,061	27,902
Cash & equivalents	1,349	2,690	3,241	2,937	4,131	4,834
Account receivables	4,272	6,416	8,356	9,662	10,634	12,318
Inventories	2,529	3,283	3,432	3,676	4,258	4,632
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	2,314	2,574	2,653
Non-current assets	6,568	7,763	14,185	14,977	15,665	16,249
PP&E	3,314	4,066	7,276	8,274	9,168	9,956
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	37,031	40,727	44,151
Current liabilities	9,170	10,836	16,173	16,524	18,350	19,882
Short-term borrowings	1,687	954	2,653	2,853	3,103	3,203
Account payables	4,422	6,646	8,098	8,250	9,826	11,258
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	24,276	26,402	27,934
Total shareholders equity	8,701	10,040	11,589	12,877	14,520	16,501
Minority interest	82	64	(51)	(122)	(196)	(284)
Total equity and liabilities	20,785	24,953	34,963	37,031	40,727	44,151

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,438	1,921	2,260	2,161	2,566	3,078
Depreciation & amortization	249	293	525	710	815	920
Tax paid	(185)	(145)	(431)	(389)	(462)	(554)
Change in working capital	51	(808)	476	(1,428)	(238)	(706)
Others	(630)	(177)	(307)	104	113	96
Net cash from operations	923	1,084	2,524	1,159	2,795	2,834
Investing						
Capital expenditure	(885)	(889)	(2,294)	(1,500)	(1,500)	(1,500)
Acquisition of subsidiaries/ investments	0	0	(2,509)	0	0	0
Others	589	1,529	(162)	196	209	237
Net cash from investing	(296)	639	(4,965)	(1,304)	(1,291)	(1,263)
Financing						
Dividend paid	(451)	(466)	(729)	(556)	(535)	(632)
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
Net cash from financing	(227)	(377)	2,961	(159)	(310)	(868)
Net change in cash						
Cash at the beginning of the year	941	1,349	2,690	3,241	2,937	4,131
Exchange difference	8	(6)	32	0	0	0
Cash at the end of the year	1,349	2,690	3,241	2,937	4,131	4,834

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

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