SANY Heavy Industry – A (600031 CH)

3Q20 Net profit +57% YoY; Promising outlook

SANY Heavy's net profit in 3Q20 grew 57% YoY to RMB3.86bn, in line with our expectation. We feel comfortable with our full year estimate and we are staying positive on SANY Heavy due to the high visibility of machinery demand, continuous market share gain and on-track cost reduction driven by automation of production. We left our earnings forecast unchanged. Reiterate **BUY** with TP of RMB34.6 (based on 17x 2021E P/E).

- **Key highlights on 3Q20 results.** Revenue grew 55% YoY to RMB23.9bn in 3Q20. Gross margin narrowed by 2.8ppt YoY to 30.4% but was more than offset by good expense control and operating leverage. Selling and distribution expense ratio reduced 1.7ppt YoY to 5.1%. SANY boosted the R&D spending by 51% YoY to RMB1.28bn in 3Q and we believe the continuous spending growth will continue to help SANY widen its advantage over its competitors. Net profit margin slightly expanded 0.3ppt to 16.6%. In 9M20, net profit grew 35% YoY to RMB12.4bn, accounting for 83% of our full year estimates (run rate in 9M19: 82%). Operating cash inflow increased by 33% YoY to RMB11bn, largely in line with the net profit growth.
- **Auto financing business consolidated in 3Q20 results.** In Dec 2019, SANY announced to acquire 91.4% interest in SANY Capital (the auto financing business) for a consideration of RMB3.38bn. The transaction was completed earlier and the auto financing business started consolidated in SANY's financial statement in 3Q20. In 3Q20, the net interest income grew 20% YoY to RMB104mn. We calculate that the net interest margin in 3Q20 was 8.9% (annualized). That said, we do not expect the auto financing business to be a profit driver as it serves the purpose of driving the machinery sales.
- **Key risks:** (1) Risk of overseas business due to pandemic; (2) Slowdown of construction activities; (3) Risk of expanding to financing business.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	55,822	75,666	94,682	103,771	109,855
YoY growth (%)	46	36	25	10	6
Net income (RMB mn)	6,116	11,207	14,773	17,225	18,417
EPS (RMB)	0.79	1.36	1.75	2.04	2.18
YoY growth (%)	189.6	71.4	28.8	16.6	6.9
Consensus EPS (RMB)	N/A	N/A	1.72	1.95	2.14
EV / EBITDA (x)	24.5	15.5	12.2	10.6	10.0
P/E (x)	33.0	19.3	15.0	12.8	12.0
P/B (x)	6.5	5.0	4.0	3.2	2.7
Yield (%)	1.1	1.6	2.1	2.5	2.6
ROE (%)	21.5	29.5	29.5	27.8	24.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	**RMB34.60**
(previous TP	RMB34.60)
Up/Downside	**+33%**
Current Price	**RMB26.12**

China Capital Goods

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Stock Data

Mkt Cap (RMB mn)	221,386
Avg 3 mths t/o (RMB mn)	1,677
52w High/Low (RMB)	28.34/13.21
Total Issued Shares (mn)	8,435

Source: Bloomberg

Shareholding Structure

SANY Group	30.2%
Hong Kong CCASS	9.9%
Liang Wengen	2.8%
Others	57.1%

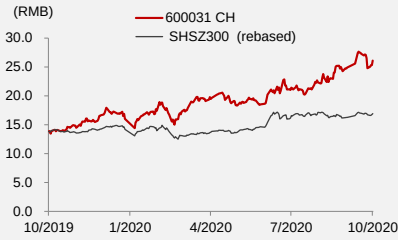
Source: Shanghai Stock Exchange

Share Performance

	Absolute	Relative
1-mth	2.4%	-1.0%
3-mth	20.6%	16.3%
6-mth	28.1%	4.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ruihua CPA

Related Reports

1. SANY Heavy (600031 CH, BUY) – Excavator sales growth accelerated; Raised earnings est. TP – 19 Oct 2020
2. SANY Heavy (600031 CH, BUY) – 2Q20 net profit +78% in line; Strong rebound in cash flow - 28 Aug 2020
3. China Construction Machinery & HDT Sector – Raise industry sales forecast in 2020E-21E; Solid upcycle – 30 Jun 2020

Figure 1: 3Q20 results review

(RMB mn)	1Q19	1Q20	Change YoY	2Q19	2Q20	Change YoY	3Q19	3Q20	Change YoY
Total revenue	**21,295**	**17,266**	***-18.9%***	**22,092**	**31,921**	***44.5%***	**15,461**	**23,883**	***54.5%***
Cost of sales	-14,754	-12,402	*-15.9%*	-14,594	-21,860	*49.8%*	-10,325	-16,618	*60.9%*
Gross profit	**6,541**	**4,864**	***-25.6%***	**7,498**	**10,061**	***34.2%***	**5,135**	**7,265**	***41.5%***
Other income	-87	-70	*-20.3%*	-129	-126	*-2.2%*	-70	-99	*41.9%*
S&D expenses	-1,437	-942	*-34.5%*	-1,574	-1,604	*1.9%*	-1,057	-1,224	*15.8%*
Administrative expenses	-992	-1,065	*7.5%*	-1,105	-1,517	*37.2%*	-1,335	-1,836	*37.6%*
Fair value change	211	197	*-6.7%*	45	85	*89.5%*	-203	160	*n/a*
Asset impairment	-160	-119	*-25.8%*	-315	-210	*-33.5%*	-103	-208	*102.6%*
EBIT	**4,076**	**2,865**	***-29.7%***	**4,419**	**6,689**	***51.4%***	**2,369**	**4,058**	***71.3%***
Net finance income/(expense)	-122	-312	*154.8%*	111	305	*174.2%*	152	-245	*n/a*
Other gains/(losses)	-8	131	*n/a*	-242	467	*n/a*	413	765	*85.1%*
Share of profit of JV and associates	31	-44	*n/a*	27	23	*-14.4%*	23	36	*57.3%*
Pretax profit	**3,976**	**2,640**	***-33.6%***	**4,315**	**7,484**	***73.4%***	**2,958**	**4,614**	***56.0%***
Income tax	-652	-426	*-34.6%*	-704	-1,060	*50.6%*	-439	-655	*49.2%*
After tax profit	**3,325**	**2,214**	*-33.4%*	**3,611**	**6,425**	*77.9%*	**2,519**	**3,959**	*57.2%*
MI	-104	-20	*-80.4%*	-84	-150	*78.5%*	-62	-105	*70.2%*
Net profit	**3,221**	**2,194**	***-31.9%***	**3,527**	**6,274**	***77.9%***	**2,457**	**3,854**	***56.9%***
Key ratios:			*ppt*			*ppt*			*ppt*
Gross margin	*30.7%*	*28.2%*	*-2.5*	*33.9%*	*31.5%*	*-2.4*	*33.2%*	*30.4%*	*-2.8*
S&D expense ratio	*6.7%*	*5.5%*	*-1.3*	*7.1%*	*5.0%*	*-2.1*	*6.8%*	*5.1%*	*-1.7*
Administrative and R&D expense ratio	*4.7%*	*6.2%*	*1.5*	*5.0%*	*4.8%*	*-0.3*	*8.6%*	*7.7%*	*-0.9*
Net profit margin	*15.6%*	*12.8%*	*-2.8*	*16.3%*	*20.1%*	*3.8*	*16.3%*	*16.6%*	*0.3*
Effective tax rate	*16.4%*	*16.1%*	*-0.2*	*16.3%*	*14.2%*	*-2.2*	*14.8%*	*14.2%*	*-0.6*

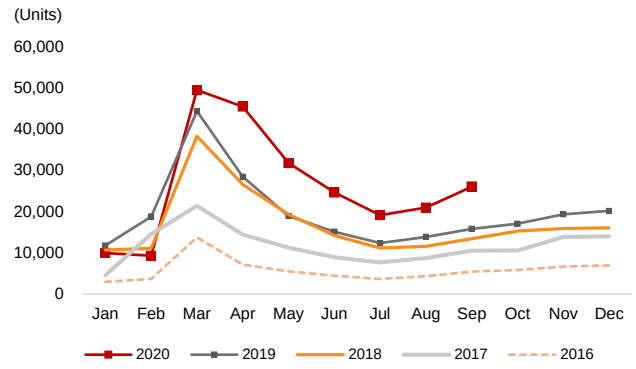
Source: Company data, CMBIS estimates

Figure 2: Key assumptions on SANY Heavy

(RMB mn)	2017	2018	2019	2020E	2021E	2022E
Revenue						
Concrete machinery	12,600	16,964	23,200	27,064	30,853	33,321
Excavator	13,669	19,247	27,624	37,672	40,309	41,921
Crane machinery	5,244	9,347	13,979	16,711	18,549	20,033
Piling machinery	2,913	4,691	4,810	6,107	6,413	6,605
Earth moving machinery	1,343	2,132	2,148	2,594	2,724	2,805
Other machinery	1,887	1,956	2,166	2,707	3,005	3,155
Revenue (construction machinery)	**37,657**	**54,336**	**73,926**	**92,855**	**101,852**	**107,841**
Other business	678	1,485	1,740	1,827	1,918	2,014
Total revenue	**38,335**	**55,822**	**75,666**	**94,682**	**103,771**	**109,855**
Revenue growth						
Concrete machinery	32.6%	34.6%	36.8%	16.7%	14.0%	8.0%
Excavator	83.0%	40.8%	43.5%	36.4%	7.0%	4.0%
Crane machinery	93.5%	78.3%	49.6%	19.5%	11.0%	8.0%
Piling machinery	145.5%	61.0%	2.5%	27.0%	5.0%	3.0%
Earth moving machinery	53.6%	58.7%	0.7%	20.8%	5.0%	3.0%
Other machinery	83.3%	3.6%	10.7%	25.0%	11.0%	5.0%
Revenue (construction machinery)	**65.4%**	**44.3%**	**36.1%**	**25.6%**	**9.7%**	**5.9%**
Other business	33.9%	118.9%	17.2%	5.0%	5.0%	5.0%
Total revenue	**64.7%**	**45.6%**	**35.5%**	**25.1%**	**9.6%**	**5.9%**
Gross margin						
Concrete machinery	24.2%	25.2%	29.8%	29.3%	31.2%	31.2%
Excavator	40.6%	38.7%	38.6%	37.8%	38.0%	38.0%
Crane machinery	23.0%	24.8%	24.3%	20.5%	23.0%	23.0%
Piling machinery	30.7%	37.3%	45.4%	45.5%	45.0%	45.0%
Earth moving machinery	18.2%	31.3%	36.9%	34.5%	36.5%	36.5%
Other machinery	20.9%	22.7%	29.0%	28.0%	30.0%	30.0%
Gross margin (construction machinery)	**30.1%**	**31.1%**	**33.3%**	**32.3%**	**33.4%**	**33.3%**
Other business	27.7%	12.5%	8.4%	12.0%	12.0%	12.0%
Blended gross margin	**30.1%**	**30.6%**	**32.7%**	**31.9%**	**33.0%**	**32.9%**

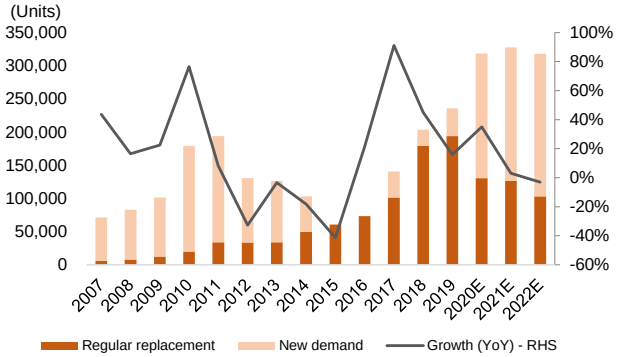
Source: Company data, CMBIS estimates

Figure 3: China excavator sales +65% YoY in Sep



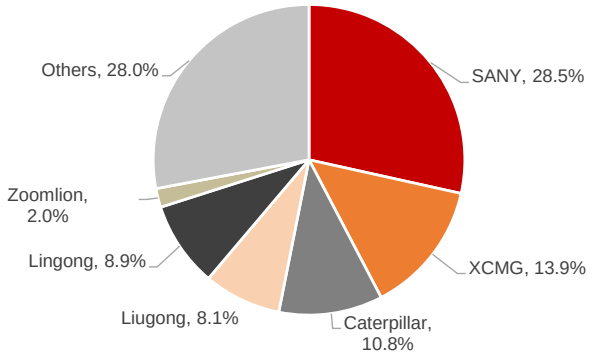
Source: CCMA, CMBIS

Figure 4: CMBIS excavator sales projection



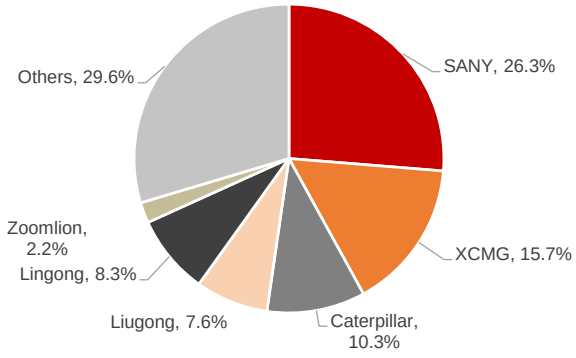
Source: CCMA, CMBIS estimates

Figure 5: China excavator market share in Sep



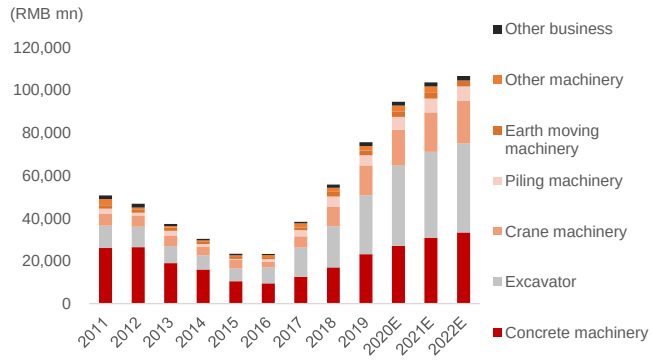
Source: CCMA, CMBIS

Figure 6: China excavator market share in 9M20



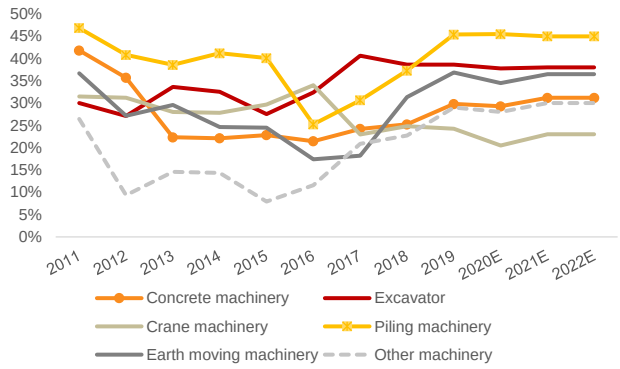
Source: CCMA, CMBIS

Figure 7: SANY revenue breakdown



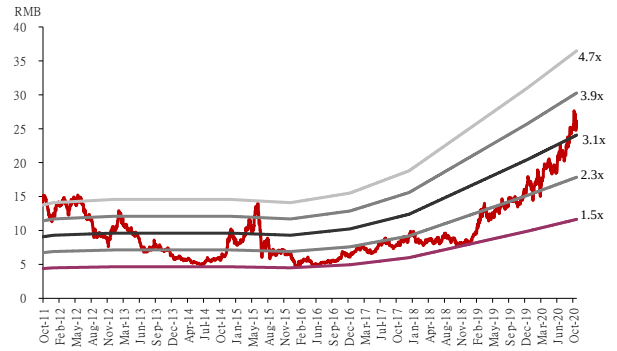
Source: Company data, CMBIS estimates

Figure 8: SANY gross margin trend



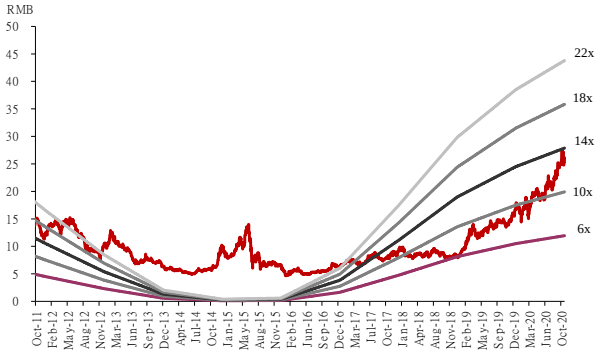
Source: Company data, CMBIS estimates

Figure 9: SANY's P/E band



Source: Company data, CMBIS estimates

Figure 10: SANY's P/B band



Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	**55,822**	**75,666**	**94,682**	**103,771**	**109,855**
Cost of sales	(38,728)	(50,932)	(64,436)	(69,549)	(73,737)
Gross profit	**17,094**	**24,733**	**30,246**	**34,221**	**36,118**
Surcharge	(326)	(371)	(379)	(311)	(330)
S&D expenses	(4,447)	(5,488)	(5,965)	(6,330)	(6,701)
Administrative expenses	(3,800)	(5,696)	(6,912)	(7,264)	(7,580)
Fair value change	(362)	290	300	0	0
Asset impairment	(1,095)	(1,259)	(1,326)	(1,557)	(1,648)
EBIT	**7,063**	**12,209**	**15,965**	**18,759**	**19,860**
Net finance income/(cost)	(136)	46	331	660	1,074
Finance income	344	505	892	1,343	1,756
Finance expenses	(479)	(458)	(561)	(683)	(681)
Other gains/(losses)	495	1,059	1,150	1,000	900
Profit of JV and associates	128	140	123	162	171
Pretax profit	**7,550**	**13,454**	**17,569**	**20,582**	**22,006**
Income tax	(1,247)	(1,960)	(2,495)	(3,005)	(3,213)
After tax profit	**6,303**	**11,494**	**15,074**	**17,577**	**18,793**
MI	(187)	(288)	(301)	(352)	(376)
Net profit	**6,116**	**11,207**	**14,773**	**17,225**	**18,417**
D&A	1,932	2,020	2,065	2,097	2,127
EBITDA	**8,995**	**14,230**	**18,030**	**20,857**	**21,987**

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pretax profit	7,550	13,454	17,569	20,582	22,006
Finance cost	388	120	561	683	681
Interest income	(344)	(505)	(892)	(1,343)	(1,756)
Profit or loss of associates	(128)	(140)	(123)	(162)	(171)
Fair value change	(276)	(673)	0	0	0
Provision for assets	(8)	249	0	0	0
Depreciation and amortization	1,932	2,020	2,065	2,097	2,127
Income tax paid	(1,247)	(1,960)	(2,495)	(3,005)	(3,213)
Change in working capital	1,788	531	(2,936)	(4,130)	(1,594)
Others	870	167	0	0	0
Cash flow from operation	**10,527**	**13,265**	**13,750**	**14,722**	**18,080**
Net capex on PP&E	(1,003)	(2,157)	(1,500)	(3,000)	(3,000)
Investment in JV/associates	(648)	(11)	(50)	(50)	0
Investment in subsidiaries	311	153	(3,380)	0	0
Dividend received	13	14	12	16	0
Interest received	344	505	892	1,343	1,756
Others	(9,781)	(10,485)	(70)	0	0
Cash flow from investing	**(10,765)**	**(11,981)**	**(4,096)**	**(1,690)**	**(1,244)**
Equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	1,584	1,756	7,000	(200)	100
Dividend paid	(1,233)	(2,165)	(3,516)	(4,653)	(5,426)
Interest paid	(479)	(458)	(561)	(683)	(681)
Others	955	(283)	0	0	0
Cash flow from financing	**827**	**(1,151)**	**2,924**	**(5,536)**	**(6,007)**
Change in cash	589	134	12,577	7,495	10,828
Cash at beginning of the year	4,104	11,985	13,527	26,104	33,599
Exchange and others	7,293	1,408	0	0	0
Cash at the end of the year	11,985	13,527	26,104	33,599	44,428

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	**21,879**	**22,041**	**24,590**	**27,522**	**29,341**
PP&E	11,867	10,615	13,792	15,059	16,296
JV/associates	2,328	2,985	3,146	3,342	3,513
Goodwill	51	49	49	49	49
LT trade receivables	366	1,286	789	2,622	3,397
Intangible assets	3,880	3,339	3,048	2,683	2,319
AFS investments	1,121	0	0	0	0
Others	1,115	2,656	2,656	2,656	2,656
Deferred tax assets	1,152	1,109	1,109	1,109	1,109
Current assets	**51,896**	**68,500**	**92,292**	**98,140**	**116,067**
Inventories	11,595	14,252	17,525	17,155	19,209
Trade and bills receivables	20,802	21,793	30,088	27,910	33,489
Other receivables	1,704	3,030	2,676	3,578	3,043
Others	3,272	6,897	6,897	6,897	6,897
Cash	11,985	13,527	26,104	33,599	44,428
Current liabilities	**33,935**	**42,149**	**49,930**	**46,087**	**52,466**
Trade and bills payables	17,191	20,295	28,076	24,133	30,412
Bank borrowings	8,336	10,771	10,771	10,871	10,971
Tax payable	524	1,490	1,490	1,490	1,490
Others	3,567	4,162	4,162	4,162	4,162
Non-current liabilities	**7,337**	**2,866**	**9,866**	**9,566**	**9,566**
Bank borrowings	5,974	1,303	8,303	8,003	8,003
Deferred tax liabilities	650	714	714	714	714
Others	471	728	728	728	728
Equity	**32,502**	**45,527**	**57,085**	**70,009**	**83,375**
Shareholders' equity	31,485	44,421	55,678	68,250	81,241
MI	1,017	1,106	1,407	1,759	2,135

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Concrete machinery	30%	31%	29%	30%	30%
Excavator	34%	37%	40%	39%	38%
Crane machinery	17%	18%	18%	18%	18%
Piling machinery	8%	6%	6%	6%	6%
Earth moving machinery	4%	3%	3%	3%	3%
Other machinery	4%	3%	3%	3%	3%
Other business	3%	2%	2%	2%	2%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	30.6	32.7	31.9	33.0	32.9
EBIT margin	12.7	16.1	16.9	18.1	18.1
Net profit margin	11.3	15.2	15.9	16.9	17.1
Growth (%)					
Revenue	45.6	35.5	25.1	9.6	5.9
Gross profit	48.3	44.7	22.3	13.1	5.5
EBIT	n/a	72.9	30.8	17.5	5.9
Net profit	192.3	83.2	31.8	16.6	6.9
Balance sheet ratio					
Current ratio (x)	1.5	1.6	1.8	2.1	2.2
Receivable turnover days	133	107	104	108	112
Inventory turnover days	91	93	90	91	90
Payable turnover days	133	134	137	137	135
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	9.3	13.6	14.2	14.2	13.6
ROE	21.5	29.5	29.5	27.8	24.6
Per share data					
EPS (RMB)	0.79	1.36	1.75	2.04	2.18
BVPS (RMB)	4.04	5.27	6.58	8.07	9.60
DPS (RMB)	0.28	0.43	0.55	0.64	0.69

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

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BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

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