

SANY Heavy (600031 CH)

Riding on the up-cycle of excavator + overseas expansion; U/G to BUY

We upgrade SANY Heavy to **BUY** after keeping our HOLD rating for >30 months. We are turning positive as we expect an earnings up-cycle in 2025E-26E, driven by: (1) a speed-up of overseas growth across all types of machinery driven by emerging markets such as the Middle East and Africa (*for details, please see our report "2025 Outlook: Emerging markets the key growth driver; China market to be stabilized" published on 9 Dec*), (2) further improvement of domestic excavator demand on the back of the Chinese government's stepped-up policies and the replacement cycle, (3) effective cost control and capex discipline. We revise up our earnings forecast by 14-21% in 2024E-26E, after incorporating our new industry assumptions. We forecast 70-80% of earnings to be contributed by overseas markets going forward. We revise up our TP to RMB21.0 (from RMB14.8), after rolling over our valuation base to 2025E. Our target P/E is unchanged at 24x, equivalent to 0.5SD above the average of 20x since 2017. Our above-average multiple is to reflect the earnings upcycle.

- **Emerging markets remain the major source of growth.** SANY targets to achieve 15% overseas revenue growth in 2025E and expects 50% overseas growth in three years (according to 3Q24 post-results call). We see Africa, Latin America and the Middle East likely to offer explosive growth potential. We also expect India (pro-growth government policy) and Indonesia (overhang about election removed) to offer sustainable growth over the coming years.
- **Low exposure in North America; possible to go for localization in US.** Revenue from America (including North & South America) accounted for ~10% of SANY's total machinery revenue in 9M24. Given that SANY has a production plant in the US, we expect SANY can mitigate the impact of potential tariff hikes through expanding production in the US.
- **Downside risks:** Slowdown of overseas demand; further deterioration of China's machinery demand

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	80,822	74,019	78,129	87,043	95,447
YoY growth (%)	(24.4)	(8.4)	5.6	11.4	9.7
Adjusted net profit (RMB mn)	4,272.8	4,527.5	5,978.3	7,337.5	8,338.1
EPS (Reported) (RMB)	0.50	0.53	0.70	0.86	0.98
YoY growth (%)	(64.5)	6.0	32.1	22.7	13.6
Consensus EPS (RMB)	na	na	0.72	0.94	1.18
P/E (x)	33.6	31.7	24.0	19.5	17.2
P/B (x)	2.2	2.1	2.0	1.9	1.7
Yield (%)	0.9	1.3	1.7	2.1	2.4
Net gearing (%)	(5.3)	6.2	4.2	2.1	(2.4)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Up)

Target Price RMB21.00
 (Previous TP) RMB14.80
Up/Downside 24.3%
Current Price RMB16.89

China Capital Goods

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Stock Data

Mkt Cap (RMB mn)	143,324.1
Avg 3 mths t/o (RMB mn)	1,423.4
52w High/Low (RMB)	19.42/12.70
Total Issued Shares (mn)	8485.7

Source: FactSet

Shareholding Structure

SANY Group	29.2%
Liang Wengen	2.8%

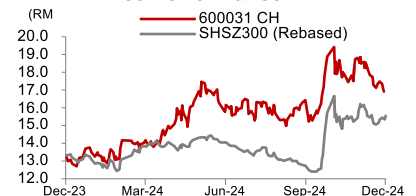
Source: SSE

Share Performance

	Absolute	Relative
1-mth	-8.9%	-7.7%
3-mth	4.7%	-14.8%
6-mth	4.5%	-5.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports

Capital Goods – 3Q24 earnings review: SANY Heavy beat; Zoomlion missed; Weichai in-line – 31 Oct 2024 ([link](#))

China construction machinery – Sales in Sep: Decent export growth; weak demand in China – 16 Oct 2024 ([link](#))

SANY (600031 CH, HOLD) – Expect a better 2H24E but consensus remains high – 2 Sep 2024 ([link](#))

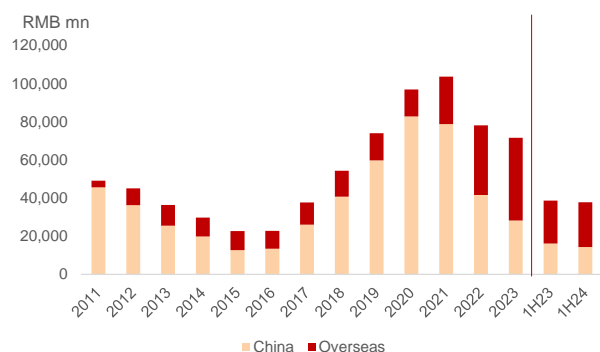
Capital Goods sector - RMB300bn capital to finance equipment replacement – 26 Jul 2024 ([link](#))

Figure 1: SANY Heavy's quarterly results

(RMB mn)	1Q23	1Q24	Chg YoY	2Q23	2Q24	Chg YoY	3Q23	3Q24	Chg YoY
Total revenue	17,997	17,830	-0.9%	21,918	21,230	-3.1%	16,222	19,300	19.0%
Cost of sales	-12,985	-12,767	-1.7%	-15,574	-15,169	-2.6%	-11,450	-13,792	20.5%
Gross profit	5,011	5,063	1.0%	6,344	6,062	-4.5%	4,771	5,508	15.4%
Other income	-90	-113	25.5%	-132	-98	-26.1%	-81	-97	19.2%
S&D expenses	-1,301	-1,380	6.1%	-1,685	-1,691	0.4%	-1,572	-1,614	2.7%
Administrative expenses	-721	-670	-7.2%	-580	-641	10.5%	-647	-671	3.7%
R&D expense	-1,407	-1,294	-8.1%	-1,468	-1,319	-10.2%	-1,353	-1,239	-8.5%
Fair value change	-92	191	n/a	-905	-7	-99.3%	417	-461	n/a
Asset impairment	-99	-150	51.2%	-541	-302	-44.2%	-252	-191	-24.3%
EBIT	1,300	1,648	26.7%	1,033	2,004	94.1%	1,282	1,236	-3.6%
Net finance income/(expense)	93	-155	n/a	896	-105	n/a	-482	-17	-96.5%
Other gains/(losses)	322	309	-4.1%	333	349	4.8%	-11	322	n/a
Share of profit of JV & associates	9	44	394.0%	4	27	662.3%	-3	-2	-34.7%
Pretax profit	1,724	1,845	7.0%	2,265	2,275	0.5%	786	1,539	95.8%
Income tax	-163	-221	36.0%	-329	-250	-24.1%	-135	-209	54.7%
After tax profit	1,562	1,623	4.0%	1,936	2,025	4.6%	651	1,331	104.3%
MI	-50	-43	-13.5%	-47	-32	-30.9%	-4	-35	815.1%
Net profit	1,512	1,580	4.5%	1,889	1,993	5.5%	647	1,295	100.1%
Key ratios:			<i>ppt</i>			<i>ppt</i>			<i>ppt</i>
Gross margin	27.8%	28.4%	0.5	28.9%	28.6%	-0.4	29.4%	28.5%	-0.9
S&D expense ratio	7.2%	7.7%	0.5	7.7%	8.0%	0.3	9.7%	8.4%	-1.3
Administrative expense ratio	4.0%	3.8%	-0.3	2.6%	3.0%	0.4	4.0%	3.5%	-0.5
R&D expense ratio	7.8%	7.3%	-0.6	6.7%	6.2%	-0.5	8.3%	6.4%	-1.9
Net profit margin	8.7%	9.1%	0.4	8.8%	9.5%	0.7	4.0%	6.9%	2.9
Effective tax rate	9.4%	12.0%	2.6	14.5%	11.0%	-3.5	17.2%	13.6%	-3.6

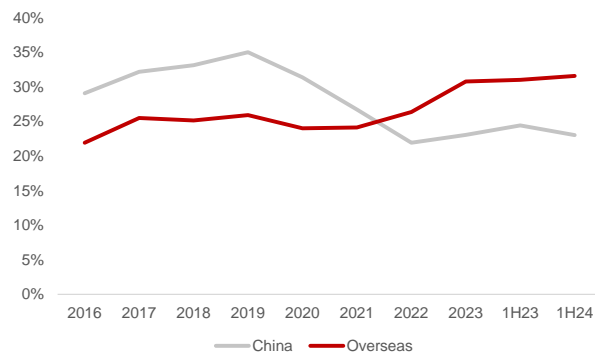
Source: Company data, CMBIGM

Figure 2: SANY Heavy's revenue breakdown by region

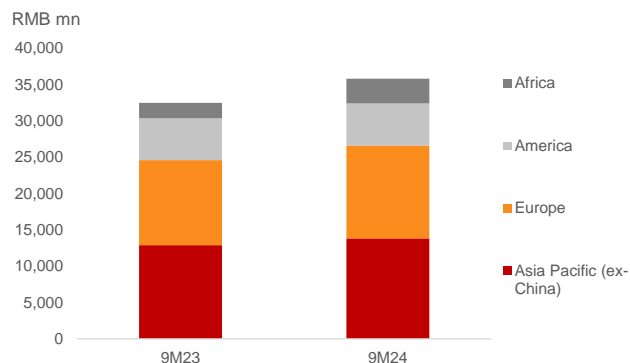


Source: Company data, CMBIGM

Figure 3: SANY Heavy's gross margin trend by region



Source: Company data, CMBIGM

Figure 4: SANY Heavy's overseas revenue breakdown

Source: Company data, CMBIGM

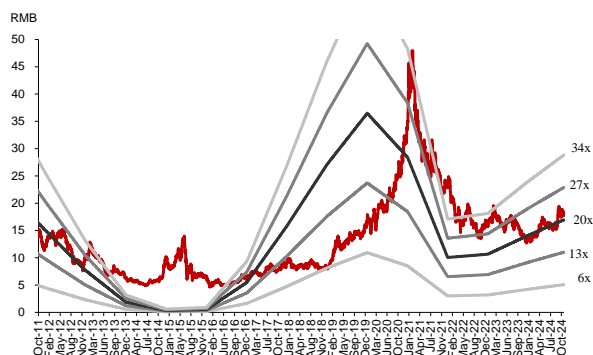
Figure 5: Changes in key assumptions for SANY Heavy

(RMB mn)	Old			New			Change		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue									
Concrete machinery	15,640	16,815	18,160	15,737	16,920	18,274	0.6%	0.6%	0.6%
Excavator	28,647	31,512	34,033	30,130	35,044	39,249	5.2%	11.2%	15.3%
Crane machinery	13,165	14,093	15,220	12,478	13,357	14,426	-5.2%	-5.2%	-5.2%
Piling machinery	2,111	2,217	2,328	1,955	2,053	2,155	-7.4%	-7.4%	-7.4%
Earth moving machinery	3,127	3,283	3,448	2,918	3,152	3,310	-6.7%	-4.0%	-4.0%
Other machinery	12,321	13,800	15,180	12,321	13,800	15,180	0.0%	0.0%	0.0%
Revenue (construction machinery)	75,012	81,720	88,369	75,541	84,326	92,593	0.7%	3.2%	4.8%
Interest income from financing	837	879	923	837	879	923	0.0%	0.0%	0.0%
Other business	1,751	1,839	1,931	1,751	1,839	1,931	0.0%	0.0%	0.0%
Total revenue	77,600	84,438	91,222	78,129	87,043	95,447	0.7%	3.1%	4.6%
Gross margin									
Concrete machinery	23.0%	23.0%	23.0%	22.6%	22.8%	23.0%	(0.4)	(0.2)	0.0
Excavator	33.1%	33.7%	33.8%	33.1%	33.7%	33.8%	0.0	0.0	0.0
Crane machinery	25.2%	25.3%	25.3%	26.0%	26.2%	26.4%	0.8	0.9	1.1
Piling machinery	33.4%	33.5%	33.5%	33.4%	33.5%	33.5%	0.0	0.0	0.0
Earth moving machinery	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	0.0	0.0	0.0
Other machinery	21.5%	22.5%	23.0%	21.5%	22.5%	23.0%	0.0	0.0	0.0
Gross margin (construction machinery)	27.6%	28.0%	28.1%	27.7%	28.3%	28.6%	0.2	0.3	0.5
Interest income from financing	52.0%	52.0%	52.0%	52.0%	52.0%	52.0%	0.0	0.0	0.0
Other business	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	0.0	0.0	0.0
Blended gross margin	27.8%	28.2%	28.3%	28.0%	28.5%	28.8%	0.1	0.3	0.5
S&D expense ratio	8.6%	8.6%	8.6%	8.1%	8.0%	8.0%	(0.5)	(0.6)	(0.6)
Administrative expense ratio	3.5%	3.5%	3.5%	3.4%	3.5%	3.5%	(0.1)	0.0	0.0
R&D expense ratio	7.3%	7.1%	7.0%	6.7%	6.5%	6.4%	(0.6)	(0.6)	(0.6)
Effective tax	14.0%	14.0%	14.0%	13.1%	13.8%	13.8%	(0.9)	(0.2)	(0.2)
Net profit	5,226	6,206	6,878	5,978	7,337	8,338	14.4%	18.2%	21.2%

Source: Company data, CMBIGM estimates

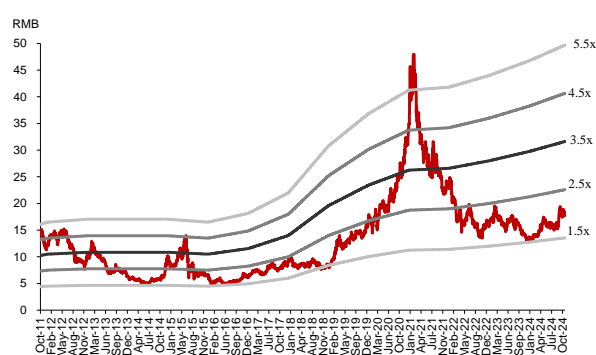
Valuation

Figure 6: SANY's P/E band



Source: Company data, Bloomberg, CMBIGM estimates
 Note: 12M forward P/E on daily basis

Figure 7: SANY's P/B band



Source: Company data, Bloomberg, CMBIGM estimates
 Note: 12M forward P/B on daily basis

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	106,874	80,822	74,019	78,129	87,043	95,447
Cost of goods sold	(78,978)	(61,164)	(53,312)	(56,287)	(62,204)	(67,981)
Gross profit	27,896	19,658	20,707	21,842	24,840	27,466
Operating expenses	(17,057)	(17,147)	(16,394)	(15,526)	(17,039)	(18,592)
Selling expense	(6,699)	(6,302)	(6,218)	(6,328)	(6,963)	(7,636)
Admin expense	(2,771)	(2,639)	(2,651)	(2,656)	(3,047)	(3,341)
R&D expense	(6,509)	(6,923)	(5,865)	(5,235)	(5,658)	(6,109)
Others	(1,079)	(1,283)	(1,660)	(1,306)	(1,371)	(1,507)
Operating profit	10,839	2,512	4,313	6,317	7,801	8,874
Share of (losses)/profits of associates/JV	(17)	27	50	102	104	106
EBITDA	12,861	4,906	7,201	9,564	11,368	12,642
Depreciation	2,022	2,394	2,888	3,248	3,568	3,768
Interest income	664	696	980	729	802	907
Interest expense	(539)	(403)	(517)	(663)	(665)	(667)
Net Interest income/(expense)	125	294	463	66	137	240
Others	2,910	2,000	491	500	600	600
Pre-tax profit	13,857	4,832	5,317	6,984	8,642	9,820
Income tax	(1,530)	(428)	(710)	(915)	(1,193)	(1,355)
Minority interest	(292)	(132)	(79)	(91)	(112)	(127)
Adjusted net profit	12,034	4,273	4,527	5,978	7,337	8,338

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	93,719	105,762	97,633	105,457	109,048	120,243
Cash & equivalents	14,812	21,343	18,072	19,298	20,812	24,546
Account receivables	19,655	25,022	24,165	27,208	30,026	32,734
Inventories	18,463	19,738	19,768	23,411	22,602	27,313
Other current assets	40,789	39,659	35,629	35,540	35,607	35,652
Non-current assets	44,838	52,993	53,569	59,258	57,980	61,165
PP&E	13,340	19,681	23,508	25,178	26,028	25,178
Deferred income tax	1,599	2,499	3,070	3,070	3,070	3,070
Investment in JVs & assos	2,333	2,239	2,401	2,452	2,504	2,557
Intangibles	3,960	4,519	4,918	4,500	4,083	3,665
Goodwill	46	48	50	50	50	50
Financial assets at FVTPL	0	0	0	0	0	0
Other non-current assets	23,559	24,007	19,622	24,008	22,246	26,646
Total assets	138,557	158,755	151,202	164,715	167,028	181,409
Current liabilities	61,432	67,630	54,415	63,720	61,035	69,960
Short-term borrowings	8,244	11,064	9,551	9,651	9,751	9,851
Account payables	28,560	28,908	22,693	31,898	29,113	37,937
Tax payable	1,081	1,191	1,063	1,063	1,063	1,063
Other current liabilities	23,547	26,467	21,109	21,109	21,109	21,109
Non-current liabilities	12,029	25,116	27,614	27,614	27,614	27,614
Long-term borrowings	9,603	21,625	23,556	23,556	23,556	23,556
Other non-current liabilities	2,426	3,491	4,059	4,059	4,059	4,059
Total liabilities	73,461	92,746	82,029	91,334	88,649	97,574
Total shareholders equity	63,691	64,966	68,040	72,156	77,042	82,372
Minority interest	1,404	1,043	1,133	1,224	1,336	1,463
Total equity and liabilities	138,557	158,755	151,202	164,715	167,028	181,409

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	13,857	4,832	5,317	6,984	8,642	9,820
Depreciation & amortization	2,022	2,394	2,888	3,248	3,568	3,768
Tax paid	(1,530)	(428)	(710)	(915)	(1,193)	(1,355)
Change in working capital	(1,222)	(2,264)	(3,067)	(1,778)	(3,100)	(3,038)
Others	(1,222)	(436)	1,281	(167)	(241)	(346)
Net cash from operations	11,904	4,099	5,708	7,372	7,676	8,848
Investing						
Capital expenditure	(9,977)	(5,538)	(4,128)	(4,500)	(4,000)	(2,500)
Acquisition of subsidiaries/ investments	812	(20)	(92)	0	0	0
Others	(124)	3,720	1,527	780	854	960
Net cash from investing	(9,288)	(1,838)	(2,694)	(3,720)	(3,146)	(1,540)
Financing						
Dividend paid	(5,057)	(3,822)	(1,359)	(1,862)	(2,451)	(3,008)
Net borrowings	4,180	7,779	(2,049)	100	100	100
Proceeds from share issues	0	0	0	0	0	0
Others	(438)	870	(4,122)	(663)	(665)	(667)
Net cash from financing	(1,315)	4,826	(7,530)	(2,425)	(3,016)	(3,576)
Net change in cash						
Cash at the beginning of the year	12,596	14,812	21,343	18,072	19,298	20,812
Exchange difference	915	(556)	1,244	0	0	0
Cash at the end of the year	14,812	21,343	18,072	19,298	20,812	24,546
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	6.8%	(24.4%)	(8.4%)	5.6%	11.4%	9.7%
Gross profit	(7.1%)	(29.5%)	5.3%	5.5%	13.7%	10.6%
Operating profit	(35.7%)	(76.8%)	71.7%	46.5%	23.5%	13.8%
EBITDA	(31.4%)	(61.9%)	46.8%	32.8%	18.9%	11.2%
Adj. net profit	(22.0%)	(64.5%)	6.0%	32.0%	22.7%	13.6%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	26.1%	24.3%	28.0%	28.0%	28.5%	28.8%
Operating margin	10.1%	3.1%	5.8%	8.1%	9.0%	9.3%
EBITDA margin	12.0%	6.1%	9.7%	12.2%	13.1%	13.2%
Adj. net profit margin	11.3%	5.3%	6.1%	7.7%	8.4%	8.7%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.1)	0.1	0.0	0.0	(0.0)
Current ratio (x)	1.5	1.6	1.8	1.7	1.8	1.7
Receivable turnover days	93.4	145.7	181.4	183.0	180.0	178.0
Inventory turnover days	87.0	114.0	135.2	140.0	135.0	134.0
Payable turnover days	140.4	171.5	176.6	177.0	179.0	180.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	11.9	33.6	31.7	24.0	19.5	17.2
P/B	2.3	2.2	2.1	2.0	1.9	1.7
Div yield (%)	2.7	0.9	1.3	1.7	2.1	2.4

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

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SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
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UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

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