農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Company Report

Sany Int'l (631 HK) – Buy
Construction & Farm Industry
12-month target price: HK$5.79

Key data

Share price (HK$) (19/10/2012)	4.43
Target price (HK$)	5.79
Upside potential (%)	30.7
52Wk H/L(HK$)	7.77/3.58
Issued shares (mn)	3,110
Market cap (HK$mn)	13,777
30-day avg vol (HK$mn)	20.0
Auditors	Ernst & Young
Major shareholder (%)	
Liang Wengen*	72.29

** Directly plus indirectly holds*
Source: Company & Bloomberg

Revenue breakdown by product (%)

Roadheaders	63.0
Combined coal mine units	17.1
Others	19.9

**Based on 1HFY12 results*
Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	6.5	1.7
3-mth	7.0	(2.5)
6-mth	(28.9)	(30.7)

**Relative to Hang Seng Index*
Source: Bloomberg

1 year price performance

Source: Bloomberg

Analyst
Report Date: 22 October 2012 (Initiation)
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Previous report
Date: N/A
Rating: N/A
Target price: N/A

Leading coal mining machinery maker

Mechanization of the coal mining industry in China benefits the Group, as the largest roadheaders maker in China. Procurement from coal mine operators is spurred by the coal price bottom out. Low financial burden from zero debt level of the Group enhance its assets quality. We initiate "Buy" rating to the Group with target price HK$5.79 based on 14.98x of FY13E EPS, which equals to 40% discount from the mean of its historical PE since listing.

Benefit from coal mining mechanization. Under the 12th 5-Year Plan for coal mining industry, The mechanization rate for coal exploitation aims at 75% by 2015 increased from 65% in 2011. We estimate the FAI on coal mining industry will grow at a CAGR of 26.3% from 2011 to 2015.

Sales growth regains in FY13. Coal price stabilized from the dropping trend in China in Sept. With the gradual improvement on economy, the manufacturing activities will support the demand for coal and hence to spur the sales of coal mining machinery in 2013. We expect that the sales growth of the Group will regain in FY13. We estimate revenue of the Group will grow at CAGR of 22.3% from FY11 to FY14.

Focus on R&D. The R&D expenses of the Group as percentage of revenue was 4.9% in FY11, higher than that of International players, eg. (JOY US) at 0.9%, as well as local competitors, eg. ZMJ (601717 CH) at 3.2%. We believe the technological advancement let the Group maintain its competitive edges and profitability. GPM of the Group was 40.4% in FY11, higher than Joy Global at 34.2% and ZMJ at 24.3%.

The counter is trading at 13.50x FY12E PE. Our target price of HK$5.79 is based on 14.98x of FY13E EPS which equals to 40% discount on the mean of historical PE of the Group since listing. We believe the valuation is justified as the concern of risk of prolong weakening environment of coal mining machinery industry. We **initiate a "Buy" rating to the Group**.

Risk factors: Competition from international players; Concentration of product type; Prolong economic downturn

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rmb mn)	2,684	3,780	4,471	5,471	6,921
Chg (%YoY)	*41.1*	*40.9*	*18.3*	*22.4*	*26.5*
Net Income (Rmb mn)	671	774	831	979	1,284
Chg (%YoY)	*36.7*	*15.5*	*7.3*	*17.8*	*31.2*
EPS (Rmb)	0.215	0.249	0.267	0.314	0.412
Chg (%YoY)	*36.7*	*15.5*	*7.3*	*17.8*	*31.2*
PE (x)	-	14.48	13.50	11.45	8.73
PB (x)	-	2.09	1.86	1.64	1.41
Yield (%)	-	1.26	1.48	1.75	2.29
ROAA (%)	11.8	11.6	10.6	11.2	13.0
ROAE (%)	15.0	15.3	14.5	15.1	17.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

**We assume Rmb1 = HK$1.23*
Source: Company, ABCI Securities estimates

Contents

The Largest Manufacturers of Roadheader

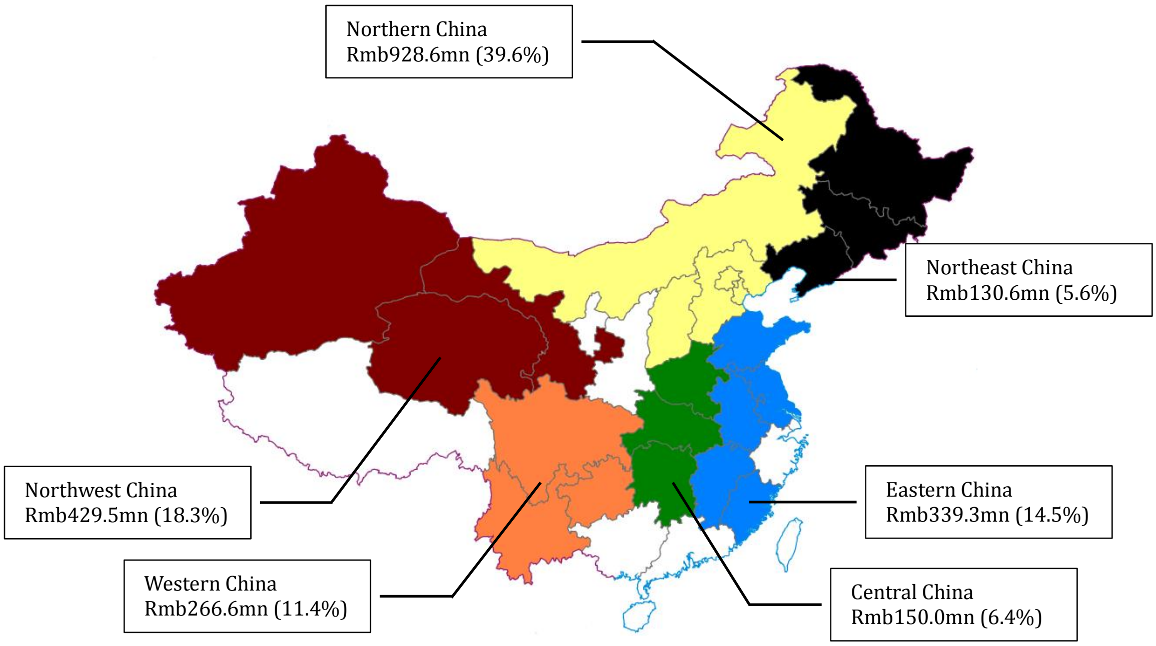
Market leader with strong R&D

Sany Int'l is the largest manufacturer of roadheaders for underground coal mining with market share of 32.2% based on the sales revenue in FY11. The second largest player is IMM (1683 HK, *acquired by Joy Global (JOY US) in 2011 and delisted*) with market share of 15.6%. The Group provides one-stop coal mining solutions and comprehensive coal mining machineries with strong research and development ("R&D") capabilities. The R&D expenses as percentage of the Group was 4.9% in FY11, which was higher than that of other leading international players, such as Caterpillar (CAT US) at 3.8% and Joy Global (JOY US) at 0.9%, as well as domestic player, such as ZMJ (601717 CH) at 3.2%. The Group has the ability to design and manufacture a comprehensive range of coal mining machineries in accordance with the specific requirements of customers with respect to excavating, coal mining, structural support and underground coal conveying functions.

Geographic diversification

The customers of the Group diversify across different district in China. The major customers of the Group are the large coal mine operators, such as Shenhua (1088 HK). The Group places emphasis on strengthening communication with customers and expanding areas of cooperation. By leveraging on brand popularity of parent company – "Sany Group" in the global markets, the Group exports its products to overseas countries such as Ukraine, Russia, Vietnam, and Australia, etc. The Group is building a system of overseas marketing networks and laying a solid foundation for expansion into the overseas markets on a large scale. The sales revenue from overseas markets was 4.3% in 1HFY12, up from 1.4% in FY11.

Sales breakdown of the Group in 1HFY12



**The sales revenue from overseas market was Rmb100.6mn in 1HFY12, which accounted for 4.3% of total revenue*
Source: Company, ABCI Securities

Industry Analysis

The Group is focusing on coal mining machineries manufacturing and the corresponding after sales services. The growth of demand for coal mining machinery is subject to the production volume growth of coal and the mechanization of the coal mining industry in China. We estimate the FAI on coal mining industry will grow at a CAGR of 26.3% from 2011 to 2015.

Coal production in China will stay strong

Coal is the primary source of energy in China, which accounts for 70% of the total energy needs in 2011. Under the "12th 5-Year Plan for the coal industry" released by the National Energy Administration, the production and demand for coal will be restricted to 3.9bn tons a year by 2015 mainly because of the environmental protection concern. However, we think the target is too aggressive, and estimate that the production volume will grow at a CAGR of 6.7% to 4.87bn tons in 2015 from 3.75bn tons in 2011 under the targeting average economic growth of 7% p.a. during 2011 to 2015. The actual production volume of coal was used to be over the targeted production volume.

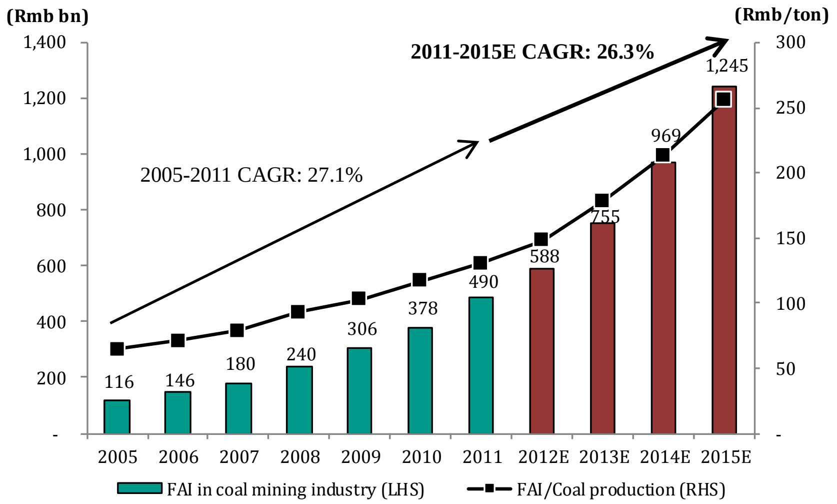
Target coal production vs. Actual coal production

Year	Target coal production volume (bn tons)	*5-Year CAGR (%)*	Actual coal production volume (bn tons)	*5-Year CAGR (%)*	*Actual over target volume (%)*
1990	1.00	*N/A*	1.08	*N/A*	*7.9*
1995	1.23	*4.2*	1.36	*4.8*	*10.7*
2000	1.45	*3.3*	1.38	*0.3*	*-4.6*
2005	1.46	*0.1*	2.35	*11.2*	*61.0*
2010	2.60	*12.2*	3.24	*6.6*	*24.6*
2015E	3.90	*8.4*	4.87	*8.5*	*24.9*

Source: Media, ABCI Securities estimates

With the recovery of global economy expected in 2013, the growth of coal mining industry and the corresponding FAI are expected to back on track in 2013. We estimate the FAI on coal mining industry will grow at a CAGR of 26.3% from 2011 to 2015.

FAI in coal mining industry of China



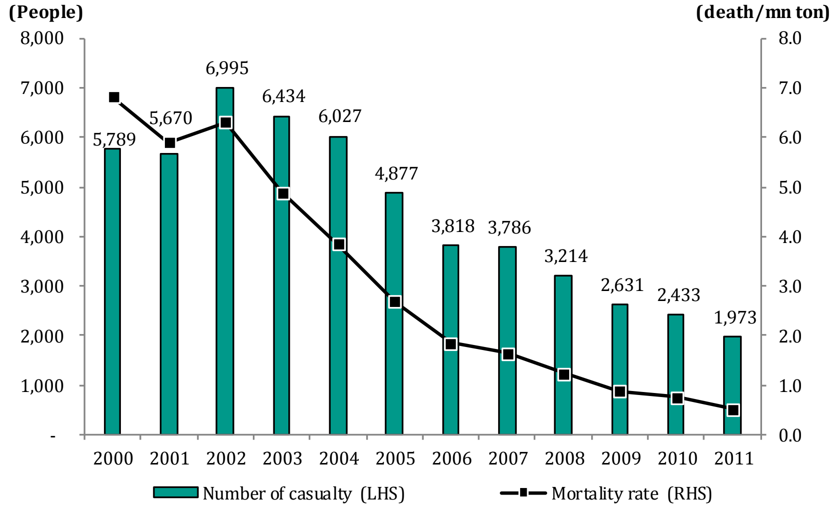
Source: NBS, ABCI Securities estimates

Mechanization of coal mining industry

In order to enhance the mining efficiency as well as the mining safety, China's government puts much emphasis on the development of automation and mechanization in the coal mining industry.

China accounted for the largest number of coal-mining fatalities, which was 70% of the world's total fatalities, although China produced only 44% of the world's coal production in 2010. The number of death per mn tons of coal production ("mortality rate") was 0.53 death/mn tons in 2011. China's government targets to lower the mortality rate to below 0.1 death/mn tons by 2020. The mortality rate was 0.035 death/mn tons in US in 2010. The concern of mining safety speeds up the consolidation and mechanization of the coal mining industry.

Number of coal mine casualty and mortality rate in China



Source: State Administration of Coal Mine Safety, Media, ABCI Securities

The consolidation of mining industry has been speeded up by the forced close down of sub-scale private mines. The number of coal mine in China dropped from 25,000 in 2005 to 15,000 in 2010. Only the large mine operators have economies of scale to purchase the advance mining machines. Under the consolidation, the market share of large scale mine operators increase. In order to enhance the coal mining safety, the demand of mining machines is expected to increase in the future.

Furthermore, the coal mining efficiency is another growth driver of coal mining machinery in China. The current mechanization rate for mining machinery in China is low. According to the 12th 5-Year Plan for coal mining industry, China will consolidate the small coal mines in order to enhance the safety standard and production efficiency. The mechanization rate for coal exploitation aims at 75% by 2015 increased from 65% in 2011.

Roadheader segment

Roadheader is the major product of the Group which contributed 76.0%, 72.4% and 67.3% of the total revenue in FY09, FY10 and FY11, respectively. Although roadheader contributed a large part of revenue for the Group, the amount was decreasing as the percentage of total revenue. It is because of the Group strategically develop different underground coal mining machineries, such as CCMU, and coal mining supplementary machineries, such as coal mine concrete pump in order to enrich the comprehensiveness of its product portfolio.

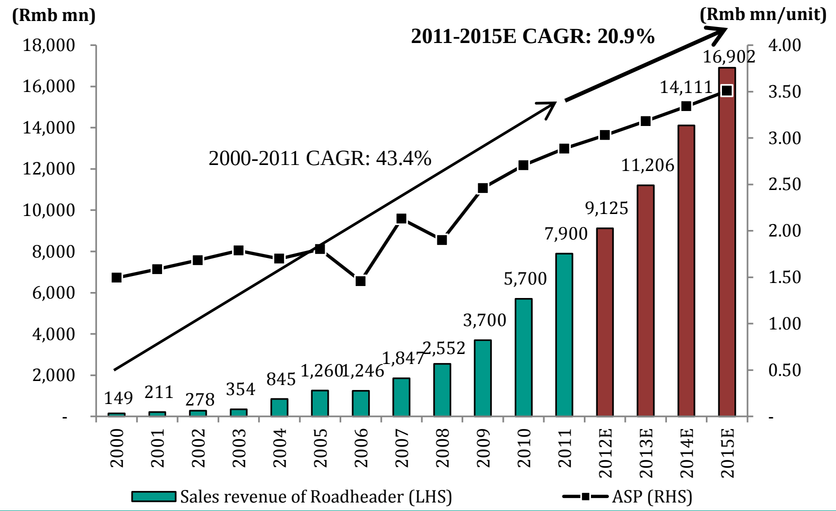
Roadheader is a kind of machine which can cut, load, convey and transport coal and rock, which can be used in underground coal mines as well as metal mines and construction work carried out in tunnels. It is a piece of excavating equipment consisting of a boom-mounted cutting head, a loading device usually involving a conveyor, and a crawler travelling track to move the entire machine forward into the rock face.

The cutting head can be a general purpose rotating drum mounted in line or perpendicular to the boom, or can be special function heads such as jack-hammer like spikes, compression fracture micro-wheel heads like those on larger tunnel boring machines, a slicer head like a gigantic chain saw for dicing up rock, or simple jaw-like buckets of traditional excavators.

We estimate that the total sales revenue of roadheader in China, as one of the key machineries of mechanization of underground coal mining, will growth at a CAGR of 20.9% from 2011 to 2015.

Furthermore, because of the consolidation of coal mining industry, the large coal mine operators have economies of scales to enhance the mining equipment for the sake of improve the mining efficiency. Therefore the demand for larger power roadheader increased, and hence the average selling price ("ASP") of roadheader was surging. We expect the large power roadheader with high technological advancement will increase as percentage of sales-mix in the industry. We estimate the ASP will increase to 3.5mn/unit in 2015.

Sales revenue of roadheader in China

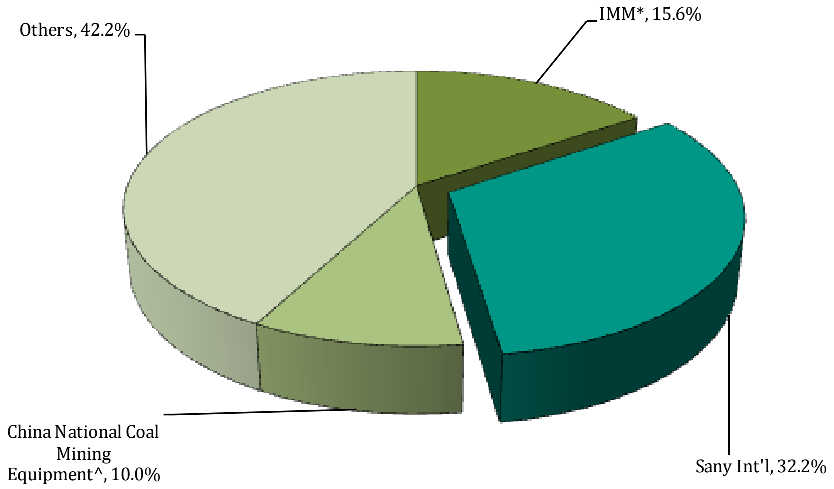


Source: China National Coal Mining Machinery Industry Association, Chinese Coal Mining Industry Yearbook, ABCI Securities estimates

Competitive landscape

According to the China National Coal Mining Machinery Industry Association, the Group is the largest roadheader manufacturer in China based on the sales revenue in 2011. We estimate that the Group had a market share of 32.2% based on its sales volume in 2011. The second largest player was IMM, which sells its products in China using the brands of “Jixi”, “Jiamusi”, “Huainan Longwall” and “Qingdao Tianxun”. IMM was acquired by Joy Global and delisted from Hong Kong Stock Exchange in 2011.

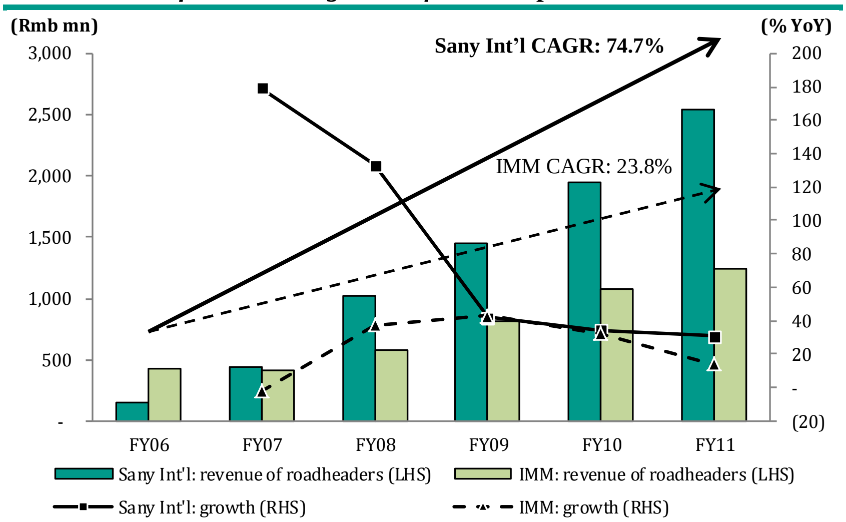
Market share of top raodheader manufacturers in China, 2011



** IMM uses the brands of Jixi, Jiamusi, Huainan Longwall and Qingdao Tianxun in China*
^ China National Coal Mining Equipment is a whole owned subsidiary of China Coal (1898 HK)
Source: Companies, ABCI Securities estimates

With the input of R&D and promotion & sales channel expansion, the technological advancement and comprehensive sales network of the Group let it capture the market share from its peers’. The sales revenue of roadheader of the Group grew at a CAGR of 74.7% from FY06 to FY11, which was higher than that of IMM at 23.8% during the same period.

Sales revenue of roadheader growth of the Group and IMM



Source: Companies, ABCI Securities

CCMU segment

In order to improve the comprehensiveness of the product china, the Group introduce combined coal mining unit ("CCMU") since FY09. The segment weighted 15.8% of total revenue in FY11. CCMU combines the 3 key underground coal mining machineries: 1) hydraulic roof support, 2) shearer and 3) armored-face conveyor ("AFC").

Hydraulic roof supports control provide support to the mine roof of the working face during the coal mining process, allowing armored-face conveyors and shearers to operate underneath.

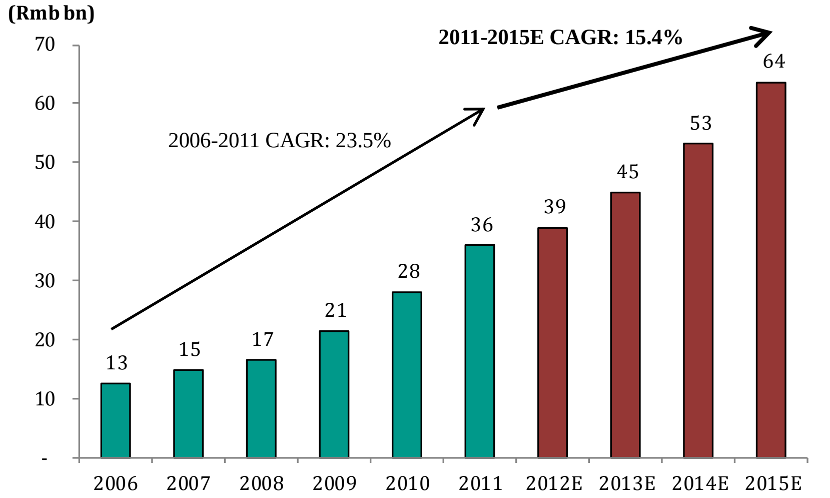
Shearer is a large, complex cutting system with integrated mechanical, electrical and hydraulic systems. The major function of shearer is to cut coal from the coalface.

Armored-face conveyors are used in longwall mining operations to transport coal, rock fragments and other debris cut from the working face by the shearers.

For the detail of products, please refer to *"Appendix I – Major Products Analysis"*.

The total sales of the hydraulic roof support, shearer and armored-face conveyor grew at a CAGR of 23.5% from Rmb12.5bn in 2006 to Rmb35.9bn in 2011. We estimate the total sales revenue of the three machineries will grow at a CAGR of 15.4% during 2011 to 2015.

Sales revenue of hydraulic roof support, conveyors and AFC in China



Source: China National Coal Mining Machinery Industry Association, Chinese Coal Mining Industry Yearbook, ABCI Securities estimates

The total revenue of CCMU segment of the Group was Rmb0.6bn. It represents that the Group has a market share of 1.7%. The largest player in is Zhengzhou Coal Mining Machinery Group (601717 CH) with market share of 11.1% based on the sales revenue in 2011.

Profitability Comparison of Leading Manufacturers of Underground Mining Machinery

Profitability of leading underground mining machinery manufacturers

		FY08	FY09	FY10	FY11	CAGR (FY08-11)
631 HK	**Revenue (Rmb mn)**	1,147	1,901	2,684	3,780	*48.8%*
Sany Int'l	**Gross profit (Rmb mn)**	534	905	1,238	1,526	*41.9%*
	Net income (Rmb mn)	189	490	671	774	*60.0%*
	Gross profit margin (%)	*46.6*	*47.6*	*46.2*	*40.4*	
	Net margin (%)	*16.5*	*25.8*	*25.0*	*20.5*	
	ROAA (%)	*8.8*	*11.4*	*11.8*	*11.6*	
	ROAE (%)	*21.6*	*17.0*	*15.0*	*15.3*	
8043 HK	**Revenue (HK$ mn)**	1,160	1,405	1,769	1,953	*19.0%*
ERA	**Gross profit (HK$ mn)**	155	232	349	300	*24.6%*
(Acquired by Caterpillar)*	**Net income (HK$ mn)**	75	131	135	(14)	*N/A*
	Gross profit margin (%)	*13.4*	*16.5*	*19.7*	*15.4*	
	Net margin (%)	*6.5*	*9.3*	*7.6*	*(0.7)*	
	ROAA (%)	*(3.7)*	*9.9*	*5.4*	*(0.3)*	
	ROAE (%)	*(17.2)*	*62.9*	*18.7*	*(1.1)*	
1683 HK	**Revenue (Rmb mn)**	1,280	1,520	1,943	2,098	*17.9%*
IMM	**Gross profit (Rmb mn)**	475	575	842	910	*24.2%*
(Acquired by Joy Global)*	**Net income (Rmb mn)**	150	229	350	337	*30.8%*
	Gross profit margin (%)	*37.1*	*37.8*	*43.3*	*43.4*	
	Net margin (%)	*11.7*	*15.1*	*18.0*	*16.1*	
	ROAA (%)	*7.6*	*10.5*	*11.7*	*8.5*	
	ROAE (%)	*43.2*	*41.3*	*20.0*	*11.3*	
CAT US	**Revenue (USD mn)**	51,324	32,396	42,588	60,138	*5.4%*
Caterpillar	**Gross profit (USD mn)**	11,756	7,465	11,307	15,734	*10.2%*
	Net income (USD mn)	3,557	895	2,700	4,928	*11.5%*
	Gross profit margin (%)	*22.9*	*23.0*	*26.5*	*26.2*	
	Net margin (%)	*6.9*	*2.8*	*6.3*	*8.2*	
	ROAA (%)	*5.7*	*1.4*	*4.4*	*6.8*	
	ROAE (%)	*47.5*	*12.1*	*27.6*	*41.6*	
JOY US	**Revenue (USD mn)**	3,419	3,598	3,524	4,404	*8.8%*
Joy Global	**Gross profit (USD mn)**	990	1,153	1,174	1,506	*15.0%*
	Net income (USD mn)	374	455	461	610	*17.7%*
	Gross profit margin (%)	*29.0*	*32.0*	*33.3*	*34.2*	
	Net margin (%)	*10.9*	*12.6*	*13.1*	*13.8*	
	ROAA (%)	*15.7*	*16.1*	*14.7*	*14.0*	
	ROAE (%)	*59.6*	*67.5*	*42.8*	*37.0*	
601717 CH	**Revenue (Rmb mn)**	3,711	5,134	6,719	8,021	*29.3%*
ZMJ	**Gross profit (Rmb mn)**	739	1,249	1,625	1,952	*38.2%*
	Net income (Rmb mn)	481	630	883	1,194	*35.4%*
	Gross profit margin (%)	*19.9*	*24.3*	*24.2*	*24.3*	
	Net margin (%)	*13.0*	*12.3*	*13.1*	*14.9*	
	ROAA (%)	*15.5*	*14.9*	*12.8*	*12.3*	
	ROAE (%)	*75.7*	*53.2*	*27.2*	*22.0*	
600582 CH	**Revenue (Rmb mn)**	4,924	6,524	7,867	11,863	*34.1%*
Tian Di	**Gross profit (Rmb mn)**	1,851	2,245	2,703	3,671	*25.6%*
	Net income (Rmb mn)	493	708	853	912	*22.8%*
	Gross profit margin (%)	*37.6*	*34.4*	*34.4*	*30.9*	
	Net margin (%)	*10.0*	*10.9*	*10.8*	*7.7*	
	ROAA (%)	*9.1*	*9.2*	*9.0*	*7.4*	
	ROAE (%)	*30.5*	*32.7*	*29.5*	*24.5*	

** IMM and ERA were acquired by Joy Global and Caterpillar respectively in 2011*
Source: Companies, Bloomberg, ABCI Securities

The highest growth on revenue

The revenue and net income of the Group grew at a CAGR of 48.8% and 60.0% from FY08 to FY11, respectively. The Group had the highest growth on both revenue and net income among the 7 leading underground coal mining machinery makers. The domestic coal mining machinery makers benefited from the fast growth of the China coal mining industry. Therefore the profit growth of domestic players was faster than that of the international players. In additional, by leveraging with the brand of "Sany", the growth of Sany Int'l was the highest among the peers.

However, we see the international players started to get into the China market via M&A since 2011. The technological advancement of international players creates a pressure among the domestic player. We believe the growth of the Sany Int'l will slow down in the future. For the detail on our projection, please see *"Financial Analysis and Projection"*.

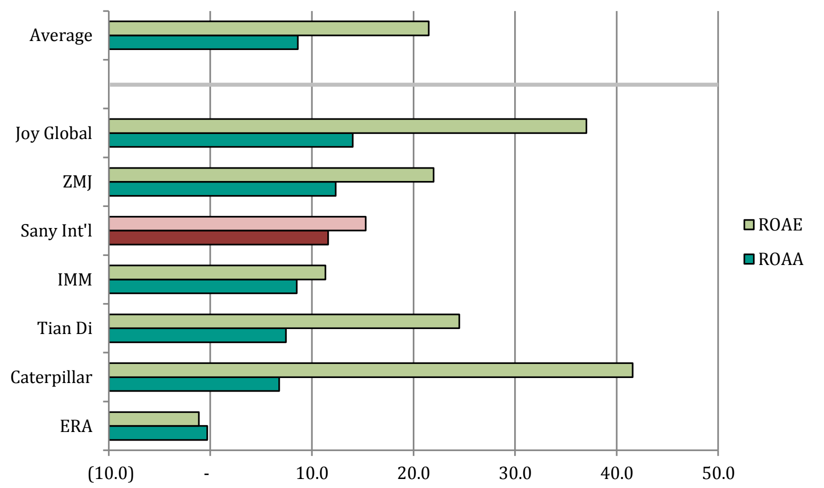
Larger financial leverage is needed

The return of average assets ("ROAA") of the Group improved from 8.8% in FY08 to 11.6% in FY11, which was comparable to that of its peers'. The average ROAA among the peer group was 8.6%.

On the other hand, return on average equity ("ROAE") of the Group dropped from 21.6% in FY08 to 15.3% in FY11 mainly due to the reduction of financial leverage. Debt to equity ratio of the Group dropped from 24.5% in FY08 to zero in FY11, while the average debt to equity ratio of the other 6 leading underground coal mining machinery makers was 89.6% in FY11. As the financial leverage of the Group is lower than the peers', ROAE of the Group was far lower than that of its competitors, such as Joy Global at 37.0% and Caterpillar at 41.6% in FY11.

The lower in profitability may create pressure for the Group to seek debt financing in order to optimize its capital structure. As of June 2012, the Group was in zero debt position.

ROAA and ROAE of underground mining machinery makers in FY11



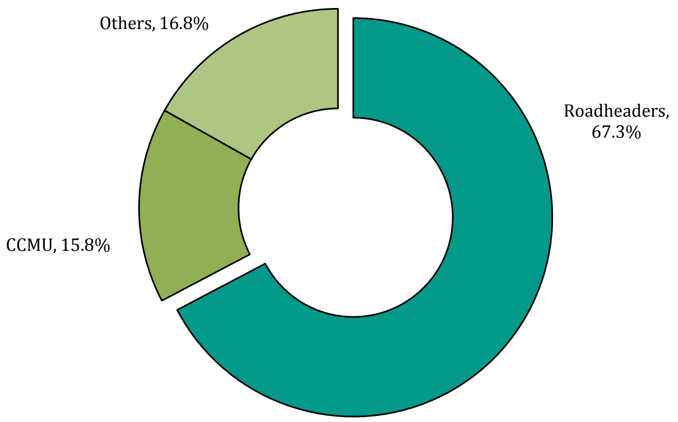
Source: Company, ABCI Securities estimate

Financial Analysis and Projection

Revenue Analysis and Projection

The Group is mainly operating underground coal mining machinery manufacturing business. The major product of the Group is roadheader, which contributed 67.3% of the total revenue in FY11. The Group introduced CCMU in FY09 for the sake of diversifying the product portfolio. CCUM segment weighted 15.8% of revenue in FY11.

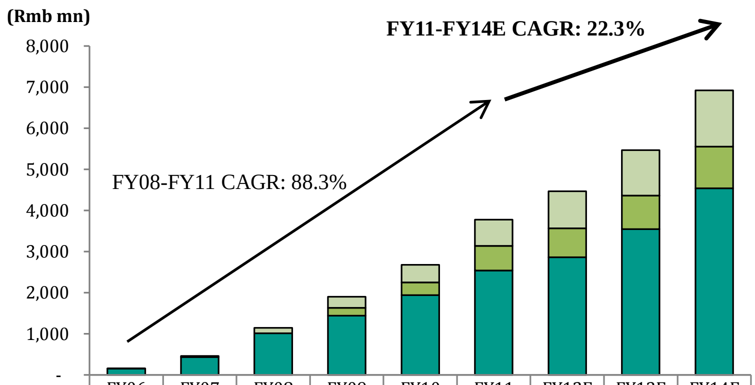
Revenue breakdown by products in FY11



Source: Company, ABCI Securities estimate

CCMU segment was loss-taking in FY11 due to the keen market competition. However, under the increase in production volume, we expect the CCMU segment will be breakeven in FY12 due to the production cost reduction from economies of scales. We expect that revenue of the Group will grow at a CAGR of 22.3% from Rmb3,780mn in FY11 to Rmb6,921mn in FY14 under the mechanization of coal mining industry in China.

Revenue projection of Sany Int'l



	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E	FY14E
Others	3	24	128	268	428	637	905	1,108	1,369
CCMU	-	-	-	187	312	599	703	817	1,010
Roadheader	157	437	1,018	1,446	1,943	2,544	2,862	3,546	4,543

Source: Company, ABCI Securities estimate

Roadheader segment

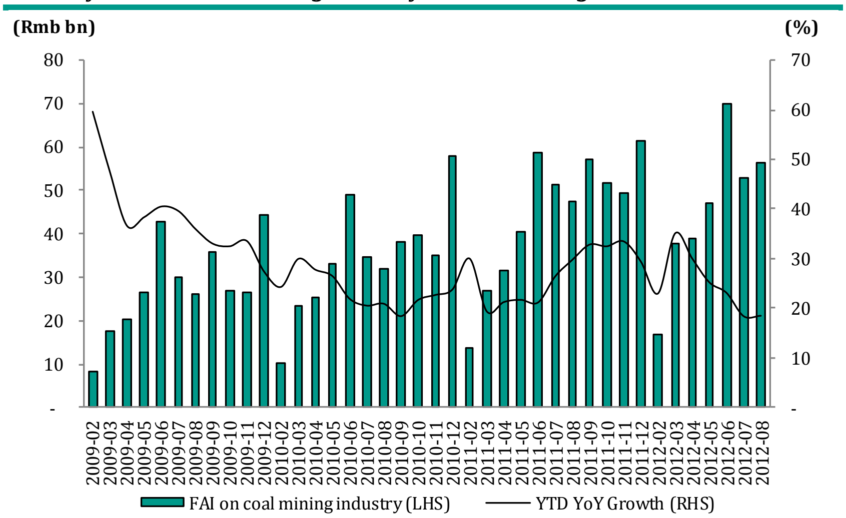
Roadheader is the primary revenue driver of the Group. It contributed 67.3% of total revenue in FY11 (and 63.0% in 1HFY12). With the incremental coal production induced by the economic growth, we estimate that revenue from roadheader segment grows at a CAGR of 21.3% from Rmb2,544mn in FY11 to Rmb4,543mn in FY14.

Expect sales volume slowdown in FY12

Under the weakening manufacturing activities, we expect the growth of coal production volume in China will be slowed down to 5.0% YoY in 2012 from 16.0% YoY in 2011. The total production volume of coal in the first 8 months in China was 2.62bn, up 5.5% YoY. The total fixed assets investment of coal mining industry was Rmb320bn, up 18.5% YoY. We estimate that the total FAI on coal mining industry will be 20.0% YoY in 2012, cooled down from 29.4% YoY in 2011.

The sales volume of roadheader of the Group was up 11.3% YoY to 425 units in 1HFY12, which was slowing down from 31.7% YoY in 1HFY11, mainly due to the prudent capacity capex plan of coal mine operators under the decelerating coal price in China. The manufacturing PMI of China fell below 50% in August at 49.2% and September at 49.8. We believe the FAI on coal mining industry will keep decelerating during 2HFY12. We estimate the sales volume will drop by 1.2% HoH in 2HFY12, but up 15.0% YoY due to the low base in 2HFY11. We estimate that the sales volume of roadheader of the Group will up 13.1% YoY in FY12, decelerating from 28.8% YoY in FY11.

Monthly FAI on coal mining industry and the YTD growth rate



Source: NBS

Growth regain in FY13

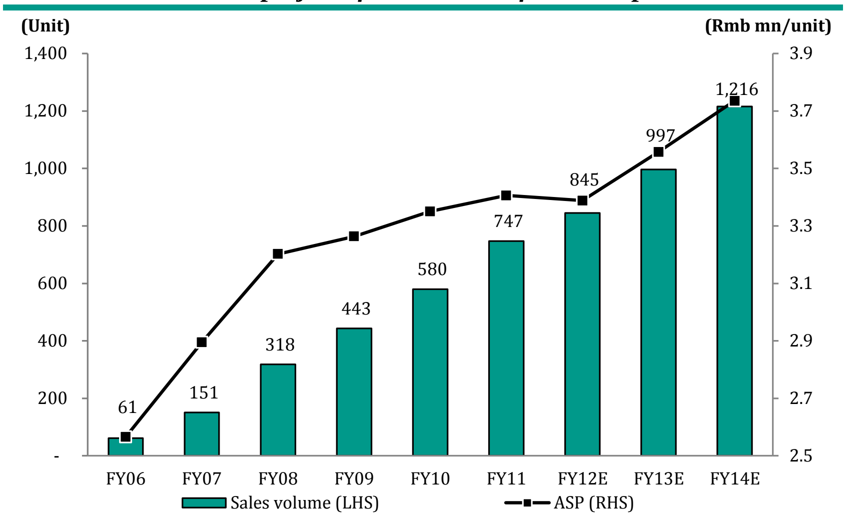
We expect the global economy will bottom out under the stimulating measures of US and Europe governments. The manufacturing activities and the electricity consumption will recover in 2013, and hence the coal demand and the corresponding FAI. We expect the sales volume growth of the Group's roadheader will recover gradually in FY13.

ASP expected to edge down in FY12

With the increase in mechanization process of coal mining industry, the large size roadheader of the Group increased as a percentage of total sales volume of the segment among the Group. The average sell price ("ASP") increased from Rmb2.57mn/unit in FY06 to Rmb3.41mn/unit in FY11.

However we estimate the ASP will edge down to Rmb3.30mn/unit in FY12 because of the sales growth slowdown. With the recovery of the coal mining industry and the technological improvement of the Group, we expect the ASP will regain gradually in FY13.

Sales volume and ASP project of roadheader of the Group

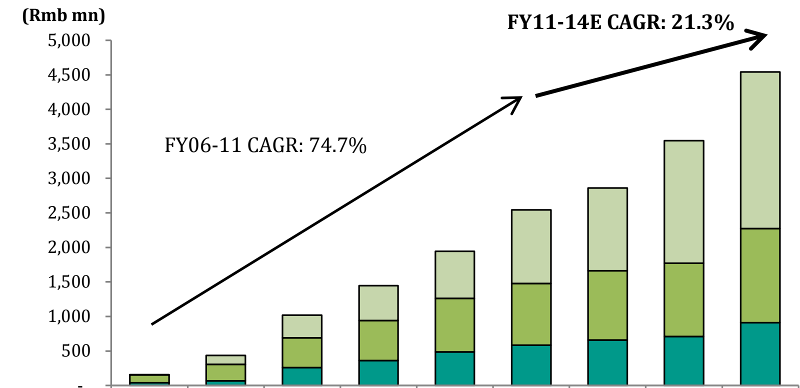


Source: Company, ABCI Securities estimates

Segment revenue slowdown in FY12

We estimate that the segment revenue growth will slow down from 30.9% YoY in FY11 to 12.5% YoY in FY12, but will regain in FY13. We estimate segment revenue will grow at a CAGR of 21.3% from FY11 to FY14.

Sales revenue projection of roadheader segment



	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E	FY14E
Large size	3	129	327	506	680	1,069	1,202	1,773	2,271
Mid size	113	240	432	578	777	890	1,002	1,064	1,363
Small size	41	68	260	361	486	585	658	709	909

Source: Company, ABCI Securities estimate

CCMU segment

In order to diversify the business, the Group developed the combined coal mining units ("CCMU") in FY09. Revenue from CCMU segment surged as a percentage of total revenue from 9.9% in FY09 to 15.8% in FY11.

With combining the three types of underground mining machinery: hydraulic roof support, shearer and armored-face conveyor, the Group tried to improve its product completeness and form a comprehensive product chain.

Due to the low base effect, the segment grew at a CAGR of 78.8% from Rmb187mn in FY09 to Rmb599mn in FY11, which was faster than the growth of total revenue at 41.0% during the same period of time.

However, under the keen market competition from foreign players, we believe the segment growth will slow down. We estimate that the CAGR of segment revenue will drop to 19.0% from FY11 to FY14.

Other segments

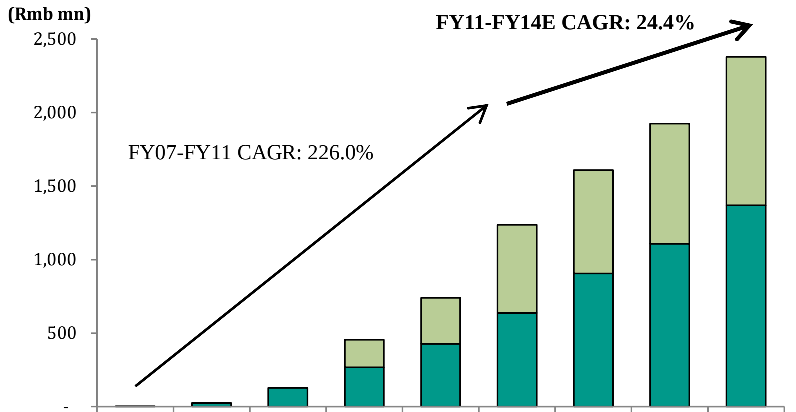
The other segments of the Group include sales of spear parts of underground mining machineries, underground coal mine vehicle and coal mine concrete pump. The total revenue from other segments contributed 16.8% of total Group's revenue in FY11.

With the fast growth of roadheader and CCMU in FY09 to FY11, we believe the growth of spear parts and after sales services will maintain at a relatively high level at 42.1% in FY12.

However, we estimate that the segments growth will in line with the growth of roadheader segment and CCMU segment in long run. We estimate it will grow at a CAGR of 29.0% from FY11 to FY14.

We estimate that the revenue from CCMU and other segments will grow at 24.4% from FY11 to FY14.

Sales revenue projection of CCMU and other segments



	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E	FY14E
CCMU	-	-	-	187	312	599	703	817	1,010
Others	3	24	128	268	428	637	905	1,108	1,369

Source: Company, ABCI Securities estimate

Gross profit margin analysis projection

Gross profit margin ("GPM") of the Group decreased by 6.2ppts from 46.6% in FY08 to 40.4% in FY11, and it edged up to 40.6% in 1HFY12. We believe that the decrease of GPM was mainly because of the change of product-mix. With introducing CCMU, GPM of the Group was dragged down.

We expect the GPM will improve gradually with the production capacity of CCMU. The economics of scales is expected to lower the average production cost of CCMU. We estimate that the overall GPM of the Group will increase to 41.0% in FY12, and further up to 41.3% in FY13 and 42.2% in FY14.

Roadheader segment

Roadheader, as the primary product of the Group contributing 67.3% of total revenue, is used to support the profitability of the Group. The Group leverages with the brand of its parent company, "Sany Group", Sany Int'l is able to maintain the profitability and market leading position for its roadheaders. The segment GPM of the Group increased from 46.2% in FY08 to 51.5% in FY11.

With mechanization process of coal industry, the demand for roadheader is expected to increase in the future. We believe the GPM of roadheader segment can be maintained at the level of 50% for the following few years. We estimate the segment GPM will be 50.2% in FY12 and stay flat at 50.0% in FY13 and FY14.

CCMU segment

Under the keen competition from foreign players, the profitability of CCMU was weakening since FY10. The GPM of CCMU segment decreased from 11.4% in FY10 to -5.5% in FY11. We estimate that the GPM of CCMU was -12.1% in 2HFY1.

But under the economics of scales, with the increase in production volume, we expect the profitability will improve gradually in the future. We estimate that the segment can be breakeven in FY12 and increase gradually to 5.0% in FY13 and 10.0% in FY14.

Other segments

The other segments of the Group including sales of spear parts and services. The GPM of sales of spear parts and service is relatively stable, ranging from 48.1% to 52.3% during FY07 to FY10.

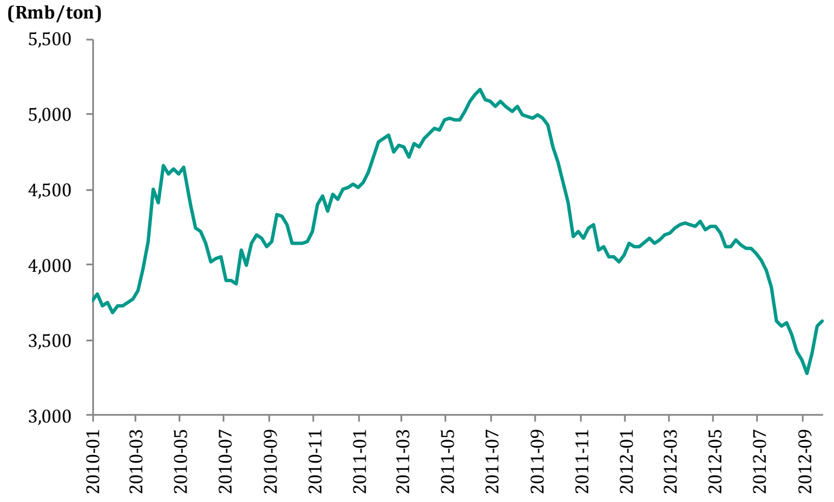
However, in order to diversify the product portfolio, the Group introduces other coal mining supplementary products such as underground coal mine vehicle and coal mine concrete pump. Since their GPM was relatively low, the overall GPM for other segments was dragged down to 39.0% in FY11.

With the development of CCMU and roadheader segments, we believe the increase in sales of spear parts and services as a percentage of total revenue can offset the drag down effect of other coal mining supplementary products. We estimate the GPM of other segments will stay flat at 40.0% during FY12 to FY14.

Steel price dropped, cost pressure relief

Steel cost weighted 17.4% of total cost of production. The steel price dropped since 3Q2011, it will lower the production cost pressure. Under the relief of steel price, we believe the cost pressure of the Group will reduce in FY13.

Beijing spot steel price

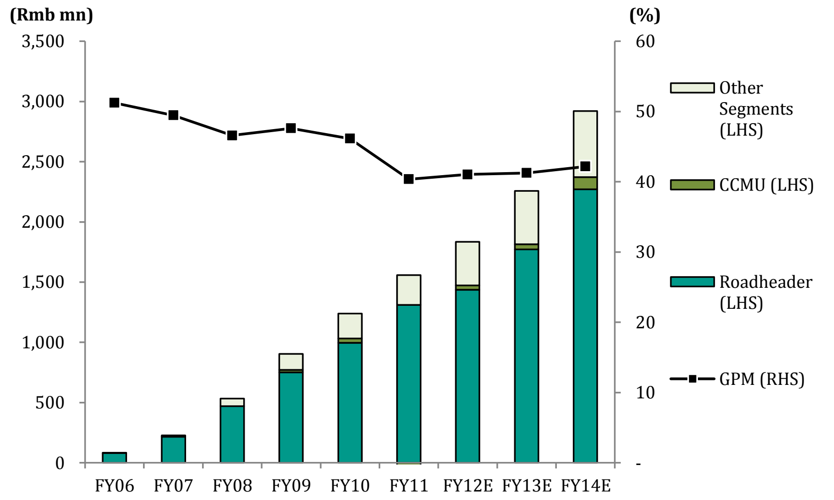


Source: Bloomberg

Overall GPM projection

With introduction of CCMU, which GPM was lower than that of roadheader, the GPM of the Group was dragged down. Under the economics of scales, we believe the GPM of CCMU will be improved gradually. Furthermore, the weakening steel price will lower the cost pressure of the Group. Therefore we believe the overall GPM of the Group will increase in FY12. We estimate that the segment GPM will increase to 41.0% in FY12, 41.3% in FY13 and 42.2% in FY14.

Gross profit projection of the Group



Source: Company, ABCI Securities estimate

Net margin analysis and projection

The net margin of the Group was squeezed from 25.8% in FY09 to 20.5% in FY11 mainly due to 1) the GPM reduction from 47.6% in FY10 to 40.4% in FY11 because of the drag upon CCMU and other coal mining supplementary products with lower GPM; and 2) increase in effective tax rate from 6.6% in FY09 to 12.0% in FY11. We estimate that the tax rate stays flat at 12.0% in FY12 to FY14, while the GPM increases to 41.0% in FY12.

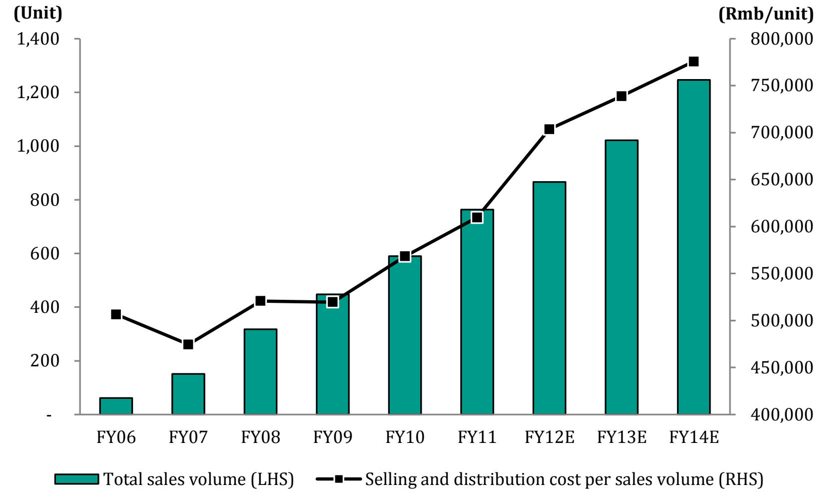
Selling and distribution cost per revenue

The ratio of *"selling and distribution cost per revenue"* decreased from 14.4% in FY08 to 12.3% in FY11. The cost control on the distribution network of the Group was improving. However, the selling and distribution cost ratio of the Group is higher than its peers', such as IMM at 8.9% and ERA at 4.9% in FY11.

The selling and distribution cost per sales volume increased from Rmb0.507mn/unit to Rmb0.610mn/unit. We believe such increment in unit selling expenses mainly attributed to the selling expenses of CCMU. The selling expenses include transportation fee and sales commission.

Under the keen market competition, we believe the Group will place more emphasis on marketing expenses, and the unit selling cost will increase.

Selling and distribution cost per sales volume



Source: Company, ABCI Securities estimate

Comparison of selling and distribution cost as percentage of revenue

Cost ratio (%)	Ticker	FY08	FY09	FY10	FY11
Sany Int'l	631 HK	14.4	12.2	12.5	12.3
IMM	Acquired by Joy Global	9.2	6.9	7.9	9.0
ERA	Acquired by Caterpillar	4.3	4.8	5.9	4.9
ZMJ	601717 CH	N/A	3.1	2.4	2.8
Tian Di	600582 CH	5.2	4.5	4.0	4.0

Source: Companies, ABCI Securities

Total administrative cost per revenue

The ratio of *"administrative cost per revenue"* decreased from 12.2% in FY06 to 5.2% in FY11 because of the effective cost controlling. We expect that the administrative cost per revenue will increase as a percentage of revenue in FY12 and keep surging in FY13 and FY14 mainly due to the depreciation expenses increase as the large capex investment in FY11. The capex of the Group increased at a CAGR of 64.5% from Rmb119.9mn in FY09 to Rmb878.2mn in FY11. We expect the capex of the Group will be reduced to Rmb418mn in FY12 and Rmb513mn in FY13 because of the ramp up cycle.

The research and development expenses grew at a CAGR of 70.5% from Rmb12.9mn in FY06 to Rmb185.8mn in FY11, but decreased as a percentage of revenue from 8.1% in FY06 to 4.9% in FY11. We believe the Group will maintain the R&D expenses at 5.0% of total revenue as the keen competition from global player, such as Joy Global and Caterpillar creates pressure for the Group to enhance its technological advancement. The R&D cost of the Group as percentage of revenue was the highest among the peers in FY11.

R&D expenses of underground mining machinery makers in FY11

	R&D expenses (Rmb mn)	Revenue (Rmb mn)	*As percentage of revenue (%)*
Sany Int'l	186	3,780	4.9
ERA^	7	1,588	0.4
IMM	60	2,098	2.9
Caterpillar*	15,160	396,911	3.8
Joy Global*	267	29,066	0.9
ZMJ	258	8,021	3.2
Tian Di	236	11,863	2.0
Average			**2.6**

^ The items of ERA were translated from HK$ to Rmb based on assumption of Rmb1 = HK$1.23
** The items of Caterpillar and Joy Global were translated from US$ to Rmb based on assumption of US$1 = Rmb6.6*
Source: Companies, ABCI Securities

We expect the net margin of the Group will drop from 20.5% in FY11 to 18.6% in FY12, mainly due to increase in selling and distribution cost per revenue ratio.

Cost ratio assumption and net margin projection

(%)	SG&A	Selling cost	General admin	R&D cost	Tax rate	Net margin
FY06	**39.6**	19.4	12.2	8.1	**(0.2)**	**6.2**
FY07	**30.6**	15.5	8.6	6.5	**(71.6)**	**23.0**
FY08	**24.3**	14.4	6.1	3.8	**5.4**	**16.5**
FY09	**21.3**	12.2	5.8	3.2	**6.6**	**25.8**
FY10	**21.8**	12.5	4.8	4.5	**6.8**	**25.0**
FY11	**22.4**	12.3	5.2	4.9	**12.0**	**20.5**
FY12E	**24.0**	13.6	5.4	5.0	**12.0**	**18.6**
FY13E	**24.2**	13.8	5.4	5.0	**12.0**	**17.9**
FY14E	**24.3**	14.0	5.3	5.0	**12.0**	**18.5**

Source: Company, ABCI securities estimates

Total receivable and cash conversion cycle

The Group was in net cash position and zero debt level as of June 2012, which represents that the Group can source financing in an easier way in the future. The asset quality is one of the comparative advantages of the Group comparing with other machinery markers.

Receivables of the Group

The receivables turnover days of the Group increased from 105.0 days in FY08 to 166.8 days in FY11 with the growth of business. Unlike with other machinery manufacturers, the Group has no financial leasing assets and contingent liability. The assets quality of the Group is relative better.

The level of receivables of the Group is lower than that of other machinery makers as the percentage of total equity. The receivable turnover days level of the Group is lower than that of the local coal mining machinery makers in China, as well as the leading machinery makers, such as Zoomlion (1157 HK) and Lonking (3339 HK).

Receivables comparison on the machinery makers in FY11

(Rmb mn)	Sany Int'l	ERA^	IMM	Lonking	Zoomlion
Trade and bill receivable	2,298	1,819	1,920	3,130	12,701
Financial lease assets	-	-	-	1,298	19,869
Contingent liabilities*	-	249	-	2,072	9,092
To total equity ratio (%)					
Trade and bill receivable	*42.8*	*172.1*	*61.7*	*48.9*	*35.7*
Financial lease assets	*-*	*-*	*-*	*20.3*	*55.8*
Contingent liabilities	*-*	*23.5*	*-*	*32.4*	*25.5*

**Contingent liabilities include the sales of the companies which is funded by PRC domestic banks. The companies provide guarantees for dealers and customers purchasing products of the company in the form of an undertaking letter or agreement.*
^ The items of ERA were translated from HK$ to Rmb based on assumption of Rmb1 = HK$1.23
Source: Companies data

Cash conversion cycle elongated

The trade and bill receivables turnover days increased from 134.2 days in FY10 to 166.8 days in FY11. The inventory turnover days decreased from 119.0 days in FY10 to 89.3 days in FY11. The trade and bill payables turnover days decreased from 83.0days in FY10to 82.2 days in FY11.

We see the cash conversion cycle of the Group lengthened in FY11 under the business expansion period. We expect more receivables will be collected during the FY12. We estimate the cash conversion cycle will lower to 165.0 days in FY12. The cash flow from operating activities increased from -Rmb364.4mn in 1HFY11 to -Rmb147.0mn in 1HFY12.

Cash conversion cycle of the Group

(Rmb mn)	FY10	FY11	FY12E
Trade and bill receivable turnover days	134.2	166.8	170.0
Inventory turnover days	119.0	89.3	95.0
Trade and bill payable turnover days	83.0	82.2	100.0
Cash conversion cycle	170.2	173.8	165.0

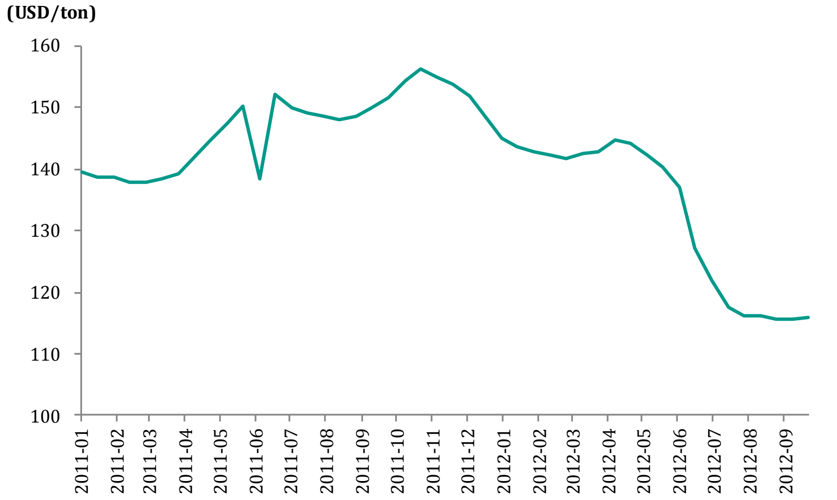
Source: Company, ABCI Securities estimates

Valuation

Outlook 2012 and 2013

The growth of capex of coal mining industry is slowing down in 2012 mainly due to the decreasing of coal price in China which discouraging the exploitation activities of mine operators, and hence the procurement of mining machineries is delayed. As the sales performance of underground mining machinery is lagging behind the coal price by 6 to 12 months, we expect the growth of sales of coal mining machinery will decelerate in 2H12.

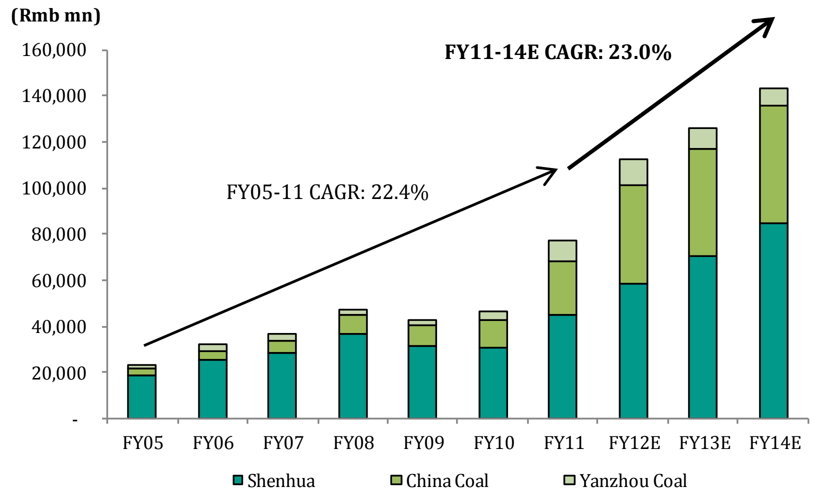
Spot coal price of China (Qinhuangdao 5800 KC)



Source: Company, ABCI Securities estimate

However, as the coal price is stabilizing since Aug 2012, we expect the capex of mining operators will increase in 2013 and 2014. We expect the capex of Shenhua, the largest coal producer in China, will increase at a CAGR of 23.7% from Rmb44,713mn in FY11 to Rmb84,604mn in FY14. And the total capex from the leading 3 coal producers in China is estimated to growth at a CAGR of 23.0% from FY11 to FY14. Under this circumstance, we expect the sales growth of the Group, as the leading roadheader maker, will regain in FY13.

Capex projection of Shenhua, China Coal and Yanzhou Coal



Source: Companies, ABCI Securities estimate

Expected to slow down in 2HFY12

The Group posted a revenue growth in 1HFY12. Top line soared by 31.6% YoY in 1HFY12 because coal price stayed at a relative high level in 2HFY11 which spurred up the procurement of mine operators. However, with the drop of coal price during 1HFY12, we expect the sales growth of the Group in the 2HFY12 will be slowdown.

The global economy is improving under the economy stimulation measures, the manufacturing activities will recover gradually. The manufacturing PMI of China regained from 49.2% in Aug to 49.8% in Sept according to National Bureau of Statistics of China. The coal price and the purchases from coal mine operator is expected to recover in 2013.

Key financial summary on 1HFY12 results of the Group

	1HFY10	2HFY10	FY10	1HFY11	2HFY11	FY11	1HFY12	Change (% YoY)	Change (% HoH)
Turnover (Rmb mn)	**1,310**	**1,374**	**2,684**	**1,782**	**1,998**	**3,780**	**2,345**	***31.6***	***17.4***
Roadheaders	917	1,026	1,943	1,338	1,206	2,544	1,477	*10.4*	*22.5*
CCMU	223	89	312	225	375	599	401	*78.6*	*7.1*
Others	170	258	428	219	418	637	467	*112.9*	*11.7*
Gross Profit (Rmb mn)	**590**	**648**	**1,238**	**810**	**716**	**1,526**	**952**	***17.5***	***32.9***
GPM (%)	***45.1***	***47.2***	***46.1***	***45.4***	***35.8***	***40.4***	***40.6***	***-4.9ppts***	***4.7ppts***
Major cost (Rmb mn)									
Selling cost	(152)	(184)	(335)	(215)	(250)	(465)	(307)	*42.9*	*22.9*
Admin cost	(51)	(77)	(128)	(92)	(104)	(196)	(115)	*25.1*	*10.2*
Finance cost	(44)	(77)	(121)	(80)	(106)	(186)	(52)	*-34.7*	*-50.7*
Cost/revenue (%)									
Selling cost	*11.6*	*13.4*	*12.5*	*12.1*	*12.5*	*12.3*	*13.1*	*1.0*	*0.6*
Admin cost	*3.9*	*5.6*	*4.8*	*5.2*	*5.2*	*5.2*	*4.9*	*0.3*	*0.3*
Finance cost	*3.4*	*5.6*	*4.5*	*4.5*	*5.3*	*4.9*	*2.2*	*2.3*	*3.1*
Net income	**342**	**329**	**671**	**416**	**359**	**774**	**485**	***16.7***	***35.2***
Net margin (%)	***26.1***	***23.9***	***25.0***	***23.3***	***18.0***	***20.5***	***20.7***	***2.6ppts***	***2.7ppts***
Total sales volume (unit)	296	294	590	400	373	773	437	*9.3*	*17.2*
Roadheader	290	290	580	392	365	757	425	*8.4*	*16.4*
CCMU	6	4	10	8	8	16	12	*50.0*	*50.0*
Unit selling cost (Rmb/unit)	**512,233**	**624,966**	**568,408**	**537,870**	**670,523**	**601,880**	**703,629**	***30.8***	***4.9***

Source: Company, ABCI Securities

Initiate "Buy" rating with TP: HK$5.79

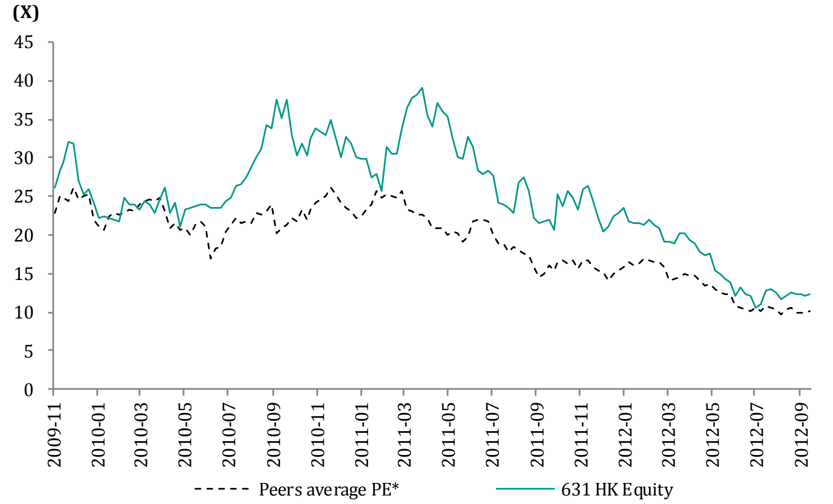
We estimate the net income of the Group is Rmb831mn (EPS: Rmb0.267) in FY12 and Rmb979mn (EPS: Rmb0.314) in FY13. Sany Int'l is trading at 13.50x FY12E PE, which is above the peers' market capital weighted average at 10.49x FY12E PE. **Our target price of HK$5.79 is based on 14.98x of FY13E EPS** which is 40% discount of the mean of historical PE of the Group since listing. We believe the valuation is justified as the concern of the risk of prolong weakening environment of coal mining machinery industry.

The Group benefits from the growth of demand for underground coal mining machinery induced by mechanization and market consolidation of coal mining industry in mid-to-long run. Compared with the current price at HK$4.43, we estimate the upside gain was 30.7% in the next 12-month. **We initiate "Buy" rating to Sany Int'l.**

Valuation comparison against closest peers

We classify the closest peers of the Group are Caterpillar (CAT US), Joy Global (JOY US), ZMJ (601717 CH) and Tian Di (600582 CH). All of them have underground coal mining machinery manufacturing businesses in China. Their average FY12E PE is 9.43x. The Group is trading at premium compared with its closest peers due to the faster growth in revenue and net income. With leveraging with the fame of the brand of "Sany" and the fast growing of China coal machinery market, we expect the advantage of the Group is able to maintain in the future.

PE ratio comparison on Sany Int'l and the closest peers



** The peers: Caterpillar, Joy Global, ZMJ and Tian Di*
Source: Companies, ABCI Securities estimate

Peer Group Valuation

Peer group valuation and earnings forecasts summary

Company	Ticker	MKT CAP* (HKD mn)		Share Price	PE (x) Current Year	PE (x) Next Year	EPS Change (%) Current Year	EPS Change (%) Next Year	ROE (%) Current Year	ROE (%) Next Year
Construction Machinery Maker										
CATERPILLAR INC	CAT US	424,575	USD	83.86	8.90	8.47	23.27	5.18	38.51	32.89
KOMATSU LTD	6301 JP	168,290	JPY	1,752.00	9.38	9.19	7.64	2.08	18.53	15.26
SANY HEAVY INDUS	600031 CH	89,495	CNY	9.51	7.93	6.67	5.27	18.93	37.73	30.91
ZOOMLION HEAVY-H	1157 HK	85,185	HKD	10.62	7.30	6.09	12.16	20.02	23.50	23.40
ZOOMLION HEAVY-A	000157 CH	85,185	CNY	9.00	7.67	6.39	12.16	20.02	23.50	23.40
XCMG CONSTRUCT-A	000425 CH	28,170	CNY	11.02	6.62	5.85	1.46	13.22	26.18	23.65
GUANGXI LIUGONG	000528 CH	12,564	CNY	9.01	11.86	9.30	(35.04)	27.50	11.43	12.21
TEREX CORP	TEX US	20,064	USD	23.60	12.10	9.13	375.85	32.44	10.23	12.75
TADANO	6395 JP	7,959	JPY	629.00	46.03	16.00	(44.83)	187.62	2.30	6.55
SHANTUI CONST-A	000680 CH	6,604	CNY	4.68	30.99	15.60	(64.05)	98.68	1.85	6.15
XIAMEN XGMA-A	600815 CH	6,674	CNY	6.74	11.27	11.78	(19.19)	(4.35)	10.89	9.59
LONKING HOLDINGS	3339 HK	7,576	HKD	1.77	9.71	6.15	(63.58)	57.86	9.50	13.80
Sector Weighted Average					**9.17**	**8.09**	**20.65**	**12.29**	**29.83**	**26.13**
Agricultural Machinery Maker										
DEERE & CO	DE US	257,984	USD	84.99	10.94	10.25	15.74	6.73	38.74	33.98
MAHINDRA & MAHIN	MM IN	72,554	INR	823.75	13.93	11.89	11.19	17.15	21.10	19.08
CNH GLOBAL NV	CNH US	80,221	USD	43.18	9.69	9.25	13.72	4.69	10.83	9.25
FIRST TRACTOR-H	38 HK	8,063	HKD	6.51	11.17	8.80	(3.17)	26.96	11.00	14.00
FIRST TRACTOR -A	601038 CH	8,063	CNY	7.40	15.74	12.39	(3.17)	26.96	11.00	14.00
ESCORTS LTD	ESC IN	1,029	INR	67.90	7.61	5.72	(34.97)	32.97	5.66	7.40
Sector Weighted Average					**11.30**	**10.35**	**13.76**	**8.94**	**29.39**	**26.00**
Mining Machinery Maker										
JOY GLOBAL INC	JOY US	51,048	USD	62.21	8.77	9.27	22.13	(5.38)	34.11	28.38
ZHENGZHOU COAL-A	601717 CH	18,738	CNY	10.80	9.12	7.78	38.48	17.23	20.49	20.59
TIAN DI -A	600582 CH	16,262	CNY	10.81	10.93	8.87	31.72	23.26	21.50	20.90
SANY HEAVY EQUIP	**631 HK**	**13,777**	**HKD**	**4.43**	**12.04**	**10.10**	**18.80**	**19.19**	**16.02**	**16.85**
LINZHOU HEAVY-A	002535 CH	5,024	CNY	7.53	12.53	9.31	73.62	34.61	13.00	15.20
SUNWARD INTELL-A	002097 CH	3,719	CNY	7.12	24.98	18.74	(41.03)	33.33	6.57	8.14
Sector Weighted Average					**10.30**	**9.38**	**26.19**	**9.10**	**25.65**	**23.15**
Machinery Parts Maker										
CUMMINS INC	CMI US	135,661	USD	91.93	10.71	9.78	(10.44)	9.57	28.68	25.75
WEICHAI POWER-H	2338 HK	54,002	HKD	29.00	12.16	10.04	(31.29)	21.15	14.09	14.57
TAIYUAN HEAVY-A	600169 CH	10,183	CNY	3.39	22.01	18.42	(4.39)	19.48	6.80	7.70
CHINA YUCHAI	CYD US	3,879	USD	13.43	5.81	5.29	(33.81)	9.96	9.27	9.63
Sector Weighted Average					**11.57**	**10.19**	**(16.11)**	**13.14**	**23.35**	**21.58**
Industrial Machinery Maker										
VOLVO AB-B	VOLVB SS	230,177	SEK	91.80	11.58	10.17	(9.51)	13.84	18.08	18.59
ATLAS COPCO-A	ATCOA SS	217,368	SEK	155.10	13.51	13.34	7.46	1.32	41.96	34.47
HYUNDAI HEAVY	009540 KS	131,696	KRW	247,000.00	7.64	8.63	1.79	(11.47)	10.46	10.62
SANDVIK AB	SAND SS	134,967	SEK	91.35	11.30	10.84	74.58	4.31	27.37	24.71
DOOSAN HEAVY	034020 KS	38,912	KRW	52,400.00	8.44	6.65	224.63	26.89	15.09	16.46
MANITOWOC CO	MTW US	15,638	USD	15.26	18.59	11.03	(1,126.25)	68.57	20.21	26.59
ANHUI HELI CO-A	600761 CH	5,096	CNY	8.00	10.51	8.79	1.47	19.58	13.05	13.48
Sector Weighted Average					**11.38**	**10.75**	**1.13**	**6.15**	**24.97**	**22.78**
Weighted Average					**10.49**	**9.55**	**10.50**	**9.70**	**27.50**	**24.54**
Median					**11.29**	**9.30**	**1.63**	**19.36**	**16.20**	**16.37**

** The market capital value of the companies are translated into HKD*
Source: Bloomberg, ABCI Securities estimates (The data in the table is as at October 19, 2012)

Financial Statements Projection

Consolidated income statements forecast

FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	**2,684**	**3,780**	**4,471**	**5,471**	**6,921**
Roadheaders	1,943	2,544	2,862	3,546	4,543
CCMU	312	599	703	817	1,010
Others	428	637	905	1,108	1,369
Cost of sales	(1,445)	(2,255)	(2,636)	(3,214)	(4,001)
Gross profit	**1,238**	**1,526**	**1,835**	**2,257**	**2,920**
Other income	89	217	226	219	270
Selling and distribution	(335)	(465)	(610)	(755)	(967)
Administrative expenses	(128)	(196)	(241)	(295)	(370)
Research and development cost	(121)	(186)	(224)	(274)	(346)
Other expenses	(18)	(11)	(36)	(32)	(39)
EBIT	**726**	**884**	**951**	**1,120**	**1,467**
Finance costs	(6)	(5)	(5)	(6)	(6)
Associates	-	-	-	-	-
Pre-tax profit	**720**	**880**	**946**	**1,115**	**1,461**
Tax expenses	(49)	(105)	(114)	(134)	(175)
Minority interests	-	-	(2)	(2)	(2)
Net income	**671**	**774**	**831**	**979**	**1,284**

Source: Company, ABCI Securities estimates

Income statement key ratios forecast

FY	FY10A	FY11A	FY12E	FY13E	FY14E
Sales mixed (%)					
Roadheaders	72.4	67.3	64.0	64.8	65.6
CCMU	11.6	15.8	15.7	14.9	14.6
Others	16.0	16.8	20.2	20.2	19.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Profit & loss ratios (%)					
Gross profit margin	46.2	40.4	41.0	41.3	42.2
EBIT margin	27.0	23.4	21.3	20.5	21.2
Pre-tax margin	26.8	23.3	21.2	20.4	21.1
Net margin	25.0	20.5	18.6	17.9	18.5
Selling & distribution cost / revenue	12.5	12.3	13.6	13.8	14.0
Admin cost / revenue	4.8	5.2	5.4	5.4	5.3
R&D cost / revenue	4.5	4.9	5.0	5.0	5.0
Effective tax rate	6.8	12.0	12.0	12.0	12.0
Growth (%)					
Revenue	41.1	40.9	18.3	22.4	26.5
Gross profit	36.8	23.2	20.3	23.0	29.4
EBIT	38.4	21.9	7.6	17.7	31.0
Net income	36.7	15.5	7.3	17.8	31.2

Source: Company, ABCI Securities estimates

Consolidated balance sheets forecast

As of Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Current assets	**4,527**	**4,826**	**4,994**	**5,537**	**6,337**
Cash and equivalent	1,940	802	1,368	845	1,298
Restricted cash	38	55	61	67	74
Trade and other receivables	1,156	2,298	1,866	2,630	2,679
Inventories	384	719	653	844	1,020
Other current assets	1,009	951	1,046	1,151	1,266
Non-current assets	**1,357**	**2,641**	**3,242**	**3,678**	**4,197**
Property, plant and equipment	838	1,657	2,021	2,329	2,711
Land use rights	326	435	529	518	510
Intangible assets	-	-	43	143	213
Other non-current assets	193	549	649	688	763
Total assets	**5,883**	**7,466**	**8,236**	**9,216**	**10,533**
Current liabilities	**850**	**1,763**	**1,736**	**1,853**	**2,028**
Trade and other payables	278	738	706	879	985
Other payables	447	726	974	906	956
Short term borrowings	-	-	-	-	-
Other	126	299	56	69	87
Non-current liabilities	**281**	**330**	**418**	**465**	**518**
Long term borrowings	-	-	-	-	-
Other	281	330	418	465	518
Total liabilities	**1,132**	**2,092**	**2,153**	**2,318**	**2,546**
Minority interests	**-**	**-**	**20**	**22**	**24**
Shareholders' equities	**4,752**	**5,374**	**6,063**	**6,876**	**7,964**

Source: Company, ABCI Securities estimates

Balance sheets key ratios forecast

FY	FY10A	FY11A	FY12E	FY13E	FY14E
Balance sheet ratios					
Current ratio (x)	5.3	2.7	2.9	3.0	3.1
Quick ratio (x)	4.9	2.3	2.5	2.5	2.6
Cash ratio (x)	2.3	0.5	0.8	0.5	0.7
Total receivable turnover days	134.2	166.8	170.0	150.0	140.0
Trade & bill receivables turnover days	134.2	166.8	170.0	150.0	140.0
Total payable turnover days	205.3	177.2	217.7	196.7	169.9
Trade & bill payables turnover days	83.0	82.2	100.0	90.0	85.0
Inventory turnover days	119.0	89.3	95.0	85.0	85.0
Total debt / equity ratio (%)*	-	-	-	-	-
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROAA	11.8	11.6	10.6	11.2	13.0
ROAE	15.0	15.3	14.5	15.1	17.3
Payout ratio	19.8	18.2	20.0	20.0	20.0
Per share data (Rmb)					
EPS	0.215	0.249	0.267	0.314	0.412
BVPS	1.527	1.727	1.941	2.202	2.550
DPS	0.043	0.045	0.053	0.063	0.082

** The had zero debt in FY10 and FY11*
Source: Company, ABCI Securities estimates

Consolidated cash flow statements forecast

YE Dec 31 (Rmb mn)	FY10A	FY11E	FY12E	FY13E	FY14E
Profit before tax	**720**	**880**	**946**	**1,115**	**1,461**
DD&A	12	(46)	(347)	(206)	(257)
Change in working capital	(440)	(928)	714	(850)	(69)
Income tax paid	(27)	(125)	(44)	(51)	(68)
Others	15	-	8	9	9
CF Operating	**280**	**(220)**	**1,278**	**16**	**1,077**
Increase in PP&E	(435)	(819)	(364)	(308)	(382)
Increase in intangible assets	7	(152)	(195)	(59)	(42)
Other	(1,844)	1,083	(13)	(5)	(7)
CF Investing	**(2,273)**	**112**	**(571)**	**(372)**	**(431)**
Capital injection	-	-	-	-	-
Net debt financing	-	-	-	-	-
Dividend payout	(110)	(133)	(141)	(166)	(196)
Others	20	(25)	-	-	1
CF Financing	**(89)**	**(158)**	**(141)**	**(166)**	**(195)**
Net change in cash	(2,082)	(265)	566	(523)	452
Cash at the beginning	3,096	1,940	802	1,368	845
Adjustment for pledge deposit	926	(873)	(0)	(0)	1
Cash at the end	**1,940**	**802**	**1,368**	**845**	**1,298**

Source: Company, ABCI Securities estimates

Risk factors

Competition from international players

IMM and ERA were acquired by Joy Global and Caterpillar respectively in 2011 in order to expand their market share of underground mining machinery manufacturing industry. We estimate that the market share of roadheader of the Group based on sales revenue dropped from 39.1% in FY09 to 32.2% in FY11.

For the sake of enhancing the technological advancement, the Group place more emphasis on R&D. The R&D expenses increase as a percentage of revenue from 3.2% in FY09 to 4.9% in FY11.

Concentration of product type

The Group focuses on the roadheader manufacturing business segment which accounted by 67.3% in FY11. The sales performance of roadheader is subject to the economic growth in China and the purchases of mine operators. If the economic growth and the manufacturing activities slow down or coal price dropped below the production cost, the capex of mine operators will be delayed and the sales performance of the Group will be affected.

Financial and liquidity risk

The trade and bill receivables turnover days increased from 134.2 days in FY10 to 166.8 days in FY11. The inventory turnover days decreased from 119.0 days in FY10 to 89.3 days in FY11. The trade and bill payables turnover days decreased from 83.0 days in FY10 to 82.2 days in FY11.

We see the cash conversion cycle of the Group lengthened in FY11 under the business expansion period. The cash conversion cycle of the Group is longer than that of other machinery makers.

Cash conversion cycle of the Group and peers in FY11

	Trade & bill Receivables Turnover (day)	Inventory Turnover (day)	Trade & bill Payables Turnover (day)	Cash Conversion Cycle (day)
Sany Int'l	**166.8**	**89.3**	**82.2**	**173.8**
ERA	358.5	96.8	454.1	1.3
IMM	292.4	133.8	146.7	279.5
Caterpillar	62.8	99.2	57.6	104.4
Joy Global	64.6	132.2	46.9	149.9
ZMJ	119.4	88.5	137.2	70.8
Tian Di	114.3	102.8	119.9	97.1

Source: Companies data

Concentration of customers and suppliers

The aggregate sales attributable to the Group's five largest customers comprised 15.1% of the total revenue in FY11. The sales attributable to the Group's largest customer were 4.2% of the total revenue in FY11. The aggregate purchases in FY11 attributable to the Group's five largest suppliers were 23.5% of the total purchases. The purchases attributable to the Group's largest supplier were 6.0% of the total purchases in FY11.

Appendix I – Major Products Analysis

Major products of Sany Int'l

Product		Key Features	Sample model
Roadheader		Roadheader is used to cut, load, convey and transport coal and rock, which can be used in underground coal mining activities It is a piece of excavating equipment consisting of a boom-mounted cutting head, a loading device usually involving a conveyor, and a crawler travelling track to move the entire machine forward into the rock face.	
	Full-rock roadheader	**Powerful cutting capacity** Adopt the cutting head manufactured by international top-grade technology.	
	Semi coal-rock roadheader	**Medium cutting capacity** Non-tension cutting unit improves the complete-machine cutting capacity for coal rock with higher hardness.	
Combined coal mining units (CCMU)		Range of machines integrated and combined to form a complete set of machines with various functions for conducting coal mining activities. It combined coal mining unit comprises three key machineries: 1) hydraulic roof support, 2) shearer and 3) armored-face conveyor ("AFC").	
	Hydraulic roof support	A large mobile roof-supporting machinery designed to support the roof of a coal mining work site where coal mining activities are being carried out, in order to protect and ensure the safety of miners and their coal mining equipment.	
	Shearer	A coal mining machine that has rotating drums that are able to simultaneously mine and collect coal. The collected coal is then removed from the work area by a conveyor system	
	Armored-face conveyor ("AFC")	A machinery which is able to handle bulk materials and provide an efficient means of conveying coal from the coal mining sites	

Source: Company, ACBI Securities

Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	2.6 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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