



August 30, 2013
Equity Focus
Rating: **HOLD**
TP: HK\$ 2.37

H-Share price (HK\$) 2.26
Est. share price return 4.87%
Est. dividend yield 1.59%
Est. total return 6.46%

Previous Rating & TP HOLD; HK\$ 3.42
Previous Report Date May 28, 2013

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Key Data

52Wk H/L(HK\$)	4.72/ 1.76
Issued shares (mn)	3,071
Market cap (HK\$ mn)	6,940
3-mth avg daily turnover (HK\$ mn)	12.4
Major shareholder(s) (%):	
Sany HK	73.94

Source(s): Company, Bloomberg, ABCI Securities

1H13 Revenue breakdown (%)

Roadheaders	51.29
CCMU	27.18
Others	21.53

Source(s): Company, ABCI Securities

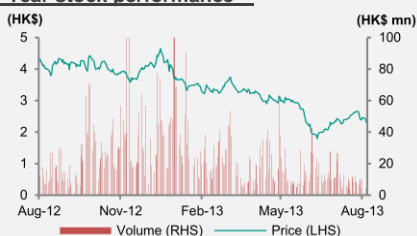
Share performance (%)

	Absolute	Relative*
1-mth	1.76	2.93
3-mth	(24.51)	(22.12)
6-mth	(34.00)	(30.00)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg

Sany Int'l (631 HK)
Low visibility in 2H13; reiterate **HOLD**

- 1H13 revenue declined 29.09% YoY on reduced CAPEX in the coal-mining industry; 1H13 net income declined 39.05% YoY
- 1H13 GPM rose to 38.24% (2H12: 29.09%) as GPM of CCMU segment turned positive in 1H13 to 12.70% (2H12: -4.67%)
- CAPEX cut from coalmine operators in 2H13 will hinder Sany Int'l from recovery
- We cut our FY13E net profit forecast by 22.56% to RMB 442mn and TP by 30.70% to HK\$2.37, representing 1.0x FY13E P/B. The counter is currently trading at 0.96x FY13E P/B. Maintain **HOLD**

Earnings dropped on weak coal mining industry. The coal-mining sector remained sluggish in 1H13 on declining coal prices in 1H13. As CAPEX of the coalmine operators decreased, the Group's 1H13 revenue and net income declined 29.09% YoY and 39.05% YoY, respectively. Looking forward, we expect the coal-mining industry to remain stagnant in 2H13, and coalmine operators' will continue to cut back on CAPEX. E.g. China Shenhua (1088 HK), the largest coal-producing company in China, has already announced its plan to cut its CAPEX in 2H13. Yanzhou Coal (1171 HK), one of the top four state-owned coal-producing companies in China, also said it would slash CAPEX by half to RMB 6.1bn for FY13.

Margins and cost ratio improved in 1H13. Despite the decline in revenue, both the profit margins and cost ratio (i.e. cost / revenue) improved in 1H13 compared to 2H12. Overall GPM rose to 38.24% (2H12: 29.09%) as segmental GPM of combined coal mining unit (CCMU) improved. The selling and distribution costs as a percentage of revenue reduced to 13.05% in 1H13 (2H12: 19.96%). General administrative cost (ex. R&D) as a percentage of revenue improved to 5.65% in 1H13 (2H12: 6.95%).

Focus on R&D to diversify business. Amid the intensifying competition in mining machinery industry, R&D expenses increased 57.10% YoY to RMB 82mn in 1H13. The R&D-to-revenue ratio increase from 2.23% in 1H12 to 4.93% in 1H13. Sany Int'l is developing non coal-related machineries, including tunnel digging roadheader and potash mining equipment, in order to diversify income source and reduce risk of business cycle in the future.

Maintain HOLD on limited upside. We lower our FY13E revenue forecast by 30.28% to RMB 2,898mn, and FY13E net profit forecast by 22.56% to RMB 442mn on the expectation that coal-mining sector will remain stagnant in 2H13. Under the weakening business environment, we cut our TP by 30.70% to HK\$ 2.37, representing 1.0x FY13E P/B. The counter is trading at 0.96x of FY13E P/B. Maintain **HOLD** on limited upside.

Risk factors: 1) Unstable profitability of the Group's CCMU segment; 2) Prolonged downturn in the coal mining industry.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	3,780	3,641	2,898	3,022	3,390
Chg (% YoY)	40.87	(3.69)	(20.41)	4.29	12.17
Net Income (RMB mn)	774	500	442	485	573
EPS (RMB)	0.249	0.160	0.144	0.158	0.187
Chg (% YoY)	15.48	(35.50)	(10.34)	9.82	18.14
BVPS (RMB)	1.727	1.787	1.900	2.027	2.180
Chg (% YoY)	13.09	3.49	6.36	6.67	7.52
P/E (x)	-	11.31	12.62	11.49	9.72
P/B (x)	-	1.02	0.96	0.90	0.83
ROAE (%)	15.30	9.08	7.66	7.94	8.76
ROAA (%)	11.60	6.47	5.40	5.62	6.18
DPS(RMB)	0.05	0.05	0.03	0.03	0.04
Yield (%)	-	2.85	1.59	1.74	2.06
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI estimates

Exhibit 1: 1H13 results summary of Sany Int'l

	1H11	2H11	1H12	2H12	1H13	Change (% YoY)	Change (% HoH)
Revenue (RMB mn)	1,782	1,998	2,345	1,296	1,663	(29.09)	28.36
Roadheaders	1,338	1,206	1,477	529	853	(42.23)	61.25
CCMU	225	374	402	388	452	12.52	16.57
Others	219	418	467	379	358	(23.34)	(5.52)
Gross Profit (RMB mn)	810	716	952	377	636	(33.18)	68.76
Roadheaders	709	601	813	239	447	(45.05)	86.63
CCMU	12	(45)	(48)	(18)	57	(219.09)	(416.98)
Others	88	161	187	155	132	(29.49)	(15.38)
GPM (%)	45.45	35.83	40.59	29.09	38.24	-2.34ppt	9.16ppt
Roadheaders	53.00	49.84	55.09	45.27	52.40	-2.69ppt	7.13ppt
CCMU	5.50	(12.12)	(12.00)	(4.67)	12.70	24.70ppt	17.37ppt
Others	40.00	38.48	40.00	41.08	36.79	-3.21ppt	-4.29ppt
Major cost (RMB mn)							
Selling and distribution cost	215	250	307	259	217	(29.43)	(16.07)
Administrative cost ¹	172	210	167	208	176	5.29	(15.34)
Cost ratio (%)							
Selling and distribution cost	12.07	12.52	13.11	19.96	13.05	-0.06ppt	-6.91ppt
Administrative cost ¹	9.64	10.52	7.13	16.05	10.58	3.46ppt	-5.46ppt
Net profit (RMB mn)	416	358	484	16	295	(39.05)	1,799.30
Net profit margin (%)	23.35	17.93	20.64	1.20	17.74	-2.90ppt	16.54ppt
Growth (%)							
Revenue			31.61	(35.17)	(29.09)	-60.70ppt	6.08ppt
Net profit			16.35	(95.67)	(39.05)	-55.40ppt	56.62ppt

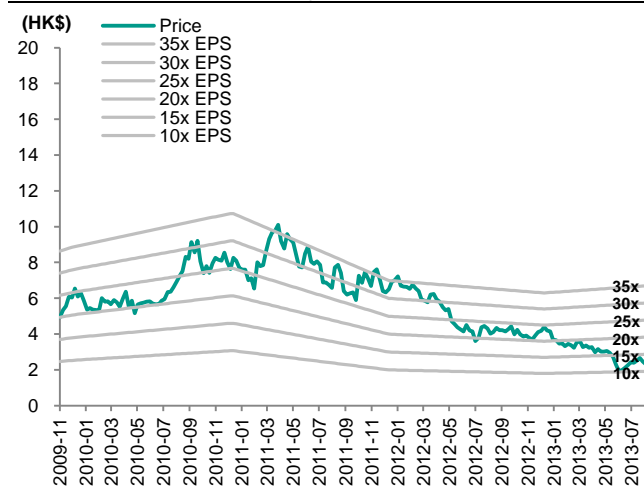
1: Including R&D expenses

Source(s): Company

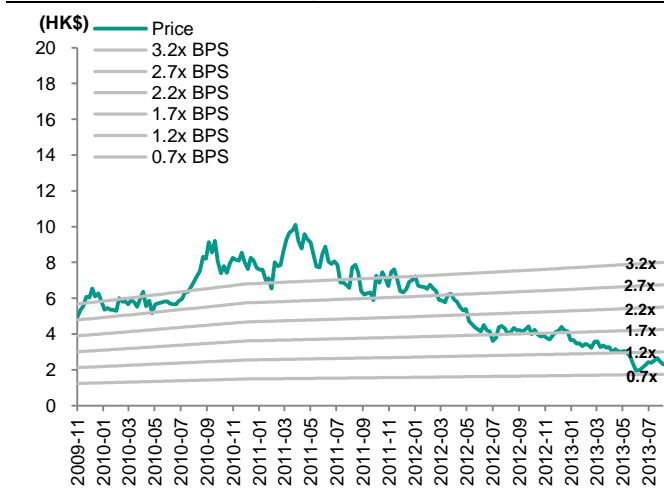
Exhibit 2: Major changes in our FY13E/14E forecasts

	Previous	FY13E New	Diff (%)	Previous	FY14E New	Chg (%)
Revenue (RMB mn)	4,156	2,898	(30.28)	4,333	3,022	(30.25)
Roadheaders	2,529	1,450	(42.66)	2,622	1,503	(42.66)
CCMU	738	871	17.95	773	912	17.95
Others	889	577	(35.09)	938	607	(35.27)
Gross profit (RMB mn)	1,532	1,039	(32.23)	1,678	1,104	(34.23)
GPM (%)	36.87	35.84	-1.03ppt	38.72	36.51	-2.21ppt
Net income (RMB mn)	571	442	(22.56)	678	485	(28.44)
Net margin (%)	13.73	15.25	+1.52ppt	15.65	16.06	+0.41ppt
EPS (RMB)	0.183	0.144	(21.50)	0.218	0.158	(27.46)
BVPS (RMB)	1.916	1.900	(0.82)	2.095	2.027	(3.23)
DPS (RMB)	0.037	0.029	(21.50)	0.044	0.032	(27.46)

Source(s): ABCI Securities estimates

Exhibit 3: P/E band of Sany Int'l (HK\$)


Source(s): Company, Bloomberg, ABCI Securities estimates

Exhibit 4: P/B band of Sany Int'l (HK\$)


Source(s): Company, Bloomberg, ABCI Securities estimates

Exhibit 5: Peer group valuation and earnings forecasts summary (share price as of Aug 30, 2013)

Company	Ticker	Mkt cap (HK\$ mn)	As of 30/08/2013		P/E (x)		EPS (%YoY)		P/B (x)		ROAE (%)	
			CRY	Share Price	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Construction Machinery Maker												
CATERPILLAR INC	CAT US	414,500	USD	82.53	13.10	11.36	(27.66)	15.27	2.84	2.41	28.07	37.21
KOMATSU LTD	6301 JP	167,675	JPY	2,155	11.40	10.49	42.56	8.65	1.59	1.45	13.28	15.05
SANY HEAVY INDUS	600031 CH	69,678	RMB	7.22	8.79	6.47	9.47	35.93	1.93	1.56	21.92	27.41
ZOOMLION HEAVY-H	1157 HK	8,637	HKD	6.04	6.89	6.20	(26.01)	11.14	0.81	0.71	12.45	12.18
ZOOMLION HEAVY-A	000157 CH	42,226	RMB	5.31	7.54	6.79	(26.01)	11.14	0.88	0.77	12.45	12.18
XCMG CONSTRUCT-A	000425 CH	21,145	RMB	8.09	7.54	8.01	(10.58)	(5.87)	0.89	0.83	11.96	10.72
GUANGXI LIUGONG	000528 CH	9,196	RMB	6.45	17.29	10.22	49.20	69.17	0.75	0.72	4.39	6.83
TEREX CORP	TEX US	25,299	USD	29.31	14.74	10.11	107.19	45.70	1.38	1.20	10.13	12.33
TADANO	6395 JP	14,113	JPY	1,377	16.54	14.71	43.92	12.45	1.82	1.62	7.95	11.64
SHANTUI CONST-A	000680 CH	5,050	RMB	3.50	23.65	17.95	393.33	31.76	0.94	0.93	3.79	5.23
XIAMEN XGMA-A	600815 CH	5,261	RMB	4.33	(33.31)	19.24	(181.25)	(273.08)	0.91	0.87	(2.70)	4.62
LONKING HOLDINGS	3339 HK	6,976	HKD	1.63	11.22	8.86	230.78	26.58	0.81	0.73	7.59	8.68
Sector Weighted Average					11.75	10.43	1.53	14.69	2.18	1.88	21.20	27.04
Agricultural Machinery Maker												
DEERE & CO	DE US	248,808	USD	83.80	9.51	10.38	14.20	(8.38)	3.26	2.66	40.54	27.00
MAHINDRA & MAHIN	MM IN	56,950	INR	795.10	10.53	8.77	8.62	20.06	2.00	1.70	17.75	15.87
CNH GLOBAL NV	CNH US	86,902	USD	46.24	8.55	8.68	14.05	(1.50)	1.18	1.03	16.82	16.93
FIRST TRACTOR-H	38 HK	1,918	HKD	4.77	11.66	7.23	(6.30)	61.35	0.85	0.74	7.38	10.96
FIRST TRACTOR -A	601038 CH	5,659	RMB	7.52	22.88	14.18	(6.30)	61.35	1.66	1.46	7.38	10.96
ESCORTS LTD	ESC IN	1,179	INR	82.70	6.16	5.40	116.81	14.12	0.53	0.48	10.20	9.30
Sector Weighted Average					9.63	9.80	13.29	(1.47)	2.59	2.14	31.46	22.88
Mining Machinery Maker												
JOY GLOBAL INC	JOY US	40,529	USD	49.18	8.39	11.72	(18.63)	(28.37)	1.71	1.59	26.43	18.40
ZHENGZHOU COAL-H	564 HK	1,193	HKD	4.91	6.52	5.52	(38.33)	18.22	0.66	0.61	10.41	11.47
ZHENGZHOU COAL-A	601717 CH	12,729	RMB	7.29	12.06	10.20	(38.33)	18.22	1.22	1.12	10.41	11.47
TIAN DI -A	600582 CH	10,921	RMB	7.10	7.42	6.38	2.35	16.20	1.20	1.07	21.55	17.73
SANY INT'L	631 HK	6,940	HKD	2.26	12.62	11.49	(10.34)	9.82	0.96	0.90	7.66	7.94
LINZHOU HEAVY-A	002535 CH	3,814	RMB	5.61	7.95	5.87	64.19	35.41	1.23	1.03	17.19	19.14
SUNWARD INTELL-A	002097 CH	3,446	RMB	6.61	41.31	41.31	633.94	0.00	1.55	1.50	3.94	3.69
Sector Weighted Average					10.59	11.63	13.78	(6.50)	1.45	1.34	19.91	15.59
Machinery Parts Maker												
CUMMINS INC	CMI US	179,236	USD	123.44	15.15	12.70	(6.24)	19.27	3.02	2.57	23.15	21.87
WEICHAI POWER-H	2338 HK	50,414	HKD	28.10	12.45	10.68	20.87	16.60	1.58	1.39	13.65	14.01
TAIYUAN HEAVY-A	600169 CH	7,863	RMB	2.56	18.96	25.60	(198.47)	(25.93)	1.10	1.05	5.95	4.19
CHINA YUCHAI	CYD US	5,671	USD	19.62	6.91	5.91	16.87	16.90	0.73	0.67	10.86	11.82
Sector Weighted Average					14.52	12.54	(6.29)	17.20	2.61	2.23	20.34	19.43
Industrial Machinery Maker												
VOLVO AB-B	VOLVB SS	241,081	SEK	96.40	24.28	12.81	(27.00)	89.47	2.53	2.27	10.26	19.65
ATLAS COPCO-A	ATCOA SS	249,488	SEK	178.00	16.89	15.87	(7.95)	6.40	5.32	4.65	33.21	30.27
HYUNDAI HEAVY	009540 KS	120,866	KRW	227,500	8.68	7.21	45.28	20.38	0.91	0.87	10.55	12.32
SANDVIK AB	SAND SS	130,954	SEK	88.85	14.66	12.75	(6.90)	15.00	3.05	2.74	19.34	18.95
DOOSAN HEAVY	034020 KS	31,561	KRW	42,650	5.31	4.83	(447.41)	10.00	0.99	0.94	20.08	19.94
MANITOWOC CO	MTW US	20,888	USD	20.17	16.56	12.30	58.18	34.65	3.65	3.02	24.48	28.30
ANHUI HELI CO-A	600761 CH	5,829	RMB	8.95	10.47	9.00	25.74	16.26	1.37	1.22	13.86	14.41
Sector Weighted Average					17.00	12.55	(20.83)	35.88	3.20	2.83	19.72	21.94
Overall Weighted Average					13.45	11.32	(4.57)	18.75	2.62	2.27	22.33	23.36

*The market capital value of the companies are translated into HKD
 Source(s): Bloomberg, ABCI Securities estimates

Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	3,780	3,641	2,898	3,022	3,390
Roadheaders	2,544	2,006	1,450	1,503	1,656
CCMU	599	790	871	912	1,055
Others	637	845	577	607	679
COGS	(2,255)	(2,312)	(1,859)	(1,919)	(2,165)
Gross profit	1,526	1,329	1,039	1,104	1,225
SG&A	(847)	(941)	(741)	(774)	(818)
Other income and gains					
Pre-tax profit	880	593	526	577	682
Income tax	(105)	(94)	(86)	(94)	(111)
Net profit	774	499	440	483	571
Profit attributable to:					
Minority interests	-	(1)	(2)	(2)	(2)
Equity shareholders of the Company	774	500	442	485	573
Basic EPS (RMB)	0.249	0.160	0.144	0.158	0.187
DPS (RMB)	0.045	0.052	0.029	0.032	0.037

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	4,826	4,608	5,316	5,614	6,240
Cash and equivalent	857	1,042	1,923	2,220	2,584
Trade and bill receivables	2,298	2,334	2,112	2,028	2,059
Inventories	719	860	872	915	1,101
Other current assets	951	372	409	450	495
Non-current assets	2,641	3,371	3,079	3,253	3,457
Property, plant and equipment	1,657	2,234	2,162	2,351	2,557
Intangible assets	435	572	658	608	558
Other non-current assets	549	565	258	294	342
Total assets	7,466	7,979	8,395	8,867	9,696
Current liabilities	1,763	1,809	1,889	1,903	2,187
Trade and bill payables	738	723	805	772	1,007
Short term borrowings	-	189	179	174	169
Other current liabilities	1,025	898	905	957	1,012
Non-current liabilities	330	474	523	577	637
Long-term borrowings	-	-	-	-	-
Other non-current liabilities	330	474	523	577	637
Total liabilities	2,092	2,284	2,412	2,480	2,825
Minority interests	-	67	73	81	89
Shareholders' equities	5,374	5,629	5,910	6,306	6,783
BVPS (RMB)	1.727	1.787	1.900	2.027	2.180

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Profit before tax	880	593	526	577	682
Changes in depreciation and amortization	65	92	142	153	166
Changes in working capital	(940)	(415)	457	57	69
Financial cost	5	5	5	6	6
Income tax paid	(125)	(98)	(32)	(35)	(41)
Others	(93)	(85)	233	(73)	(89)
CF Operating	(209)	91	1,332	686	793
Increase in PP&E	(878)	(407)	(274)	(291)	(322)
Increase in intangible assets	(161)	(200)	-	-	-
Others	1,140	840	-	-	-
CF Investing	101	233	(274)	(291)	(322)
Capital injection	-	42	-	-	-
Net debt financing	-	188	(10)	(5)	(5)
Interest paid	(5)	(5)	(5)	(6)	(6)
Dividend payout	(133)	(141)	(161)	(88)	(97)
Others	(20)	(37)	-	1	1
CF Financing	(158)	47	(176)	(98)	(107)
Net change in cash	(266)	371	881	297	364
Cash at the beginning	1,978	857	1,042	1,923	2,220
Adjustment (Time deposit & FX effect)	(855)	(186)	-	-	-
Cash at the end	857	1,042	1,923	2,220	2,584

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq 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	$2.6 \leq 180$ day volatility/180 day benchmark index volatility
High	$1.5 \leq 180$ day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq 180$ 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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