

Sany Int'l (631 HK) – Under review Construction & Farm Machinery Industry

Key Data

Share price (HK\$)	4.01
Target price (HK\$)	Under review
Upside potential (%)	N/A
52Wk H/L(HK\$)	7.35 / 3.49
Issued shares (mn)	3,105
Share market cap (HK\$m)	12,451
30-day avg vol (HK\$m)	38.8
Major shareholder (%): Liang Wengen*	72.3

* Directly plus indirectly holds

Source: Company, Bloomberg, ABCI Securities

Sales breakdown in 1HFY12 (%)

Roadheaders	63.0
Combined coal mine units	17.1
Others	19.9

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	-2.4	-6.9
3-mth	-7.0	-14.4
6-mth	1.3	-18.2

*Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

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Previous report
Date: 21 January 2013
Rating: Under review
Target price: Under review

Disappointing 2012 results

Its preliminary earnings release disappoints us and will negatively shock the market. Its half-year net income in 2HFY12 tumbled 93.9% YoY, dragging down annual net income by 34.4% YoY. So far, we have not observed any recovery signal of coal mining machinery industry from the latest coal mining FAI. The coal mining machinery sector will remain sluggish in the 1Q2013. Its H-share is at FY12 PE of 20.4x and P/B of 1.77x. Valuation is expensive. Selling pressure will emerge.

Shocking the market. Coal mining machinery maker Sany Int'l unveiled its FY12 preliminary financial data after the market close on Jan 21. Revenue dropped by 2.6% YoY from Rmb3,780mn in FY11 to Rmb3,681mn in FY12, which missed our estimation and Bloomberg consensus by 17.7% and 25.0%, respectively. Its net income fell by 34.4% YoY from Rmb774mn in FY11 to Rmb508mn in FY12, which missed our estimation and Bloomberg consensus by 38.8% and 44.6%, respectively.

Industry remains sluggish. Its business in 2HFY12 was adversely affected by the significant decline of capex of coal miners due to weak coal prices. Qinhuangdao 5800kc index (reflecting China coal price) was falling from the peak at USD156.2/ton in November 2011 to USD115.7/ton in January 2013. So far, we do not see any recovery signal from the latest monthly coal mining FAI unveiled by NBS.

Strong headwinds. Coal mine operators stayed cautious to add their capex last several months. Demand for coal mining machineries would be dragged. We expect the coal mining machinery sector to remain sluggish in the 1Q2013. Market will put the focus on the 2013 capex plan of large coal mine operators such as Shenhua (1088 HK) and China Coal (1898 HK) to determine the growth momentum of upstream equipment suppliers this year.

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

Forecast and Valuation

FY ended Dec 31	FY10A	FY11A	FY12E ¹	FY13E ²	FY14E ²
Revenue (Rmb mn)	2,684	3,780	3,681	5,471	6,921
Chg (%YoY)	41.1	40.9	(2.6)	N/A	N/A
Net Income (Rmb mn)	671	774	508	979	1,284
Chg (%YoY)	36.7	15.5	(34.4)	N/A	N/A
EPS (Rmb)	0.215	0.249	0.160	0.314	0.412
Chg (%YoY)	36.7	15.5	(35.7)	N/A	N/A
PE (x)	-	13.10	20.38	10.37	7.91
PB (x)	-	1.89	1.77	N/A	N/A
Yield (%)	-	1.39	0.98	N/A	N/A
ROAA (%)	11.8	11.6	9.2	11.2	13.0
ROAE (%)	15.0	15.3	14.5	15.1	17.3
Net debt/total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

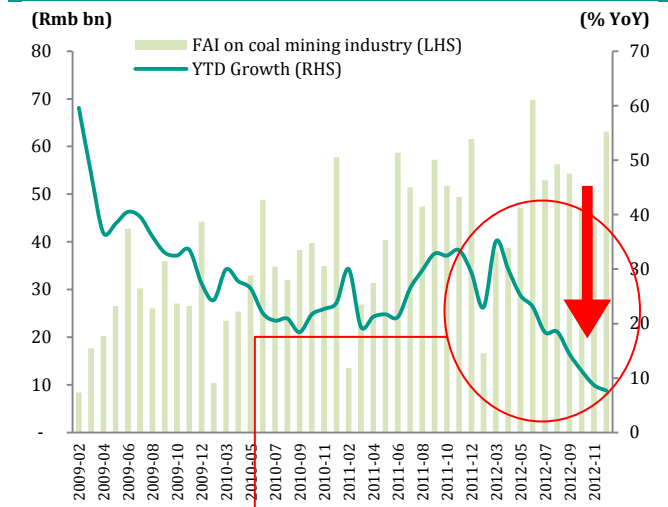
¹ Based on the preliminary results released by the Company

² The earnings forecasts for FY13E and FY14 are under review; the table shown is our previous forecasts

Source: Company, ABCI Securities estimates

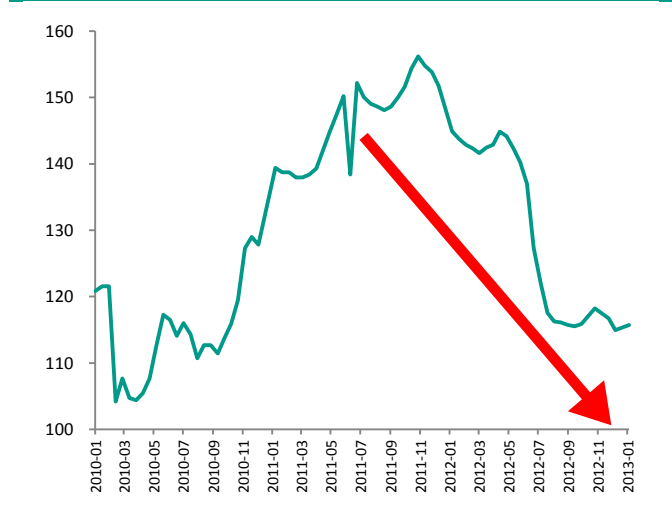


Fixed assets investment on coal mining activities, 2012



Source: NBS

Coal price in China: Qinhuangdao 5800k



Source: Bloomberg

Weak coal prices trampled down the growth of coal mining FAI and hence the coal mining machineries makers which discourage the mine operators to increase capex.

Sany Int'l preliminary FY12 results and forecasting

	Actual	Our Forecast	Diff (%)	Bloomberg Consensus	Diff (%)
Revenue (Rmb mn)	3,681	4,471	-17.7	4,910	-25.0
Gross profit (Rmb mn)	1,397	1,835	-23.9	1,925	-27.4
GPM (%)	38.0	41.0	-3.1ppts	39.2	-1.2ppts
Net income (Rmb mn)	507	831	-38.8	917	-44.6
Net margin (%)	13.8	18.6	-4.8ppts	18.7	-4.9ppts
EPS (Rmb)	0.160	0.267	-40.0	0.301	-46.8
BPS (Rmb)	1.840	1.941	-5.2	1.974	-6.8

Source: The Companies, ABCI Securities estimates, Bloomberg

Financial summary of Sany Int'l by HoH breakdown

	1H11	2H11	FY11	1H12	2H12E ¹	FY12E ¹	2HFY12 (%) YoY	2HFY12 (%) HoH
Turnover (Rmb mn)	1,782	1,998	3,780	2,345	1,336	3,681	-33.1	-43.0
Gross Profit	810	716	1,526	952	445	1,397	-37.8	-53.2
GPM (%)	45.4	35.8	40.4	40.6	33.3	38.0	-2.5ppts	-7.3ppts
Major cost (Rmb mn)								
Selling cost	-215	-250	-465	-307	-215	-522	-14.2	-30.2
Admin cost (including R&D expenses)	-172	-210	-382	-167	-229	-396	9.0	37.1
Cost ratio (%)								
Selling cost	12.1	12.5	12.3	13.1	16.1	14.2	3.5ppts	2.9ppts
Admin cost (including R&D expenses)	9.7	10.5	10.1	7.1	17.1	10.8	6.6ppts	10.0ppts
Net income (Rmb mn)	416	359	774	485	22	507	-93.9	-95.5
NM (%)	23.3	18.0	20.5	20.7	1.6	13.8	-16.3ppts	-19.0ppts

¹ Based on the preliminary results released by the Company

Source: The Companies, ABCI Securities

Net income dropped 93.9% YoY from Rmb359mn in 2HFY11 to Rmb22mn in 2HFY12.

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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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