

Analyst: Kelvin Li

Main Board Listing – Research

三一重裝國際控股有限公司

Sany Heavy Equipment International Holdings Company Limited [Stock Code: 00631]

Sole Sponsor	:	HSBC	
Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers	:	HSBC	Cazenove Asia

Sector : Capital goods

Business : Manufacture of coal mining machinery

<p>Total share offer: <u>500,000,000</u> shares (25% of the enlarged share capital)</p> <p>Public Offer: 50,000,000 shares (10%)</p> <p>Placing: 450,000,000 shares (90%)</p> <p>Greenshoe: 75,000,000 shares</p> <hr/> <p>Price: HK\$4.10 – HK\$4.80 per share</p> <p>Market Cap: HK\$8.2 billion – HK\$9.6 billion</p> <p>Pro forma fully diluted FY09E P/E: 16.1x – 18.8x</p> <p>Company guidance of FY2009E net profit: not less than RMB450 million</p> <p>Adjusted NTA per share: RMB1.67 – RMB1.82</p> <p>Staffing: 2,988 (as of 5th November 2009)</p> <hr/> <p>HK Public Offer period: 12th November 2009 – 17th November 2009 noon</p> <p>Receiving bank: HSBC Bank of Communications (HK) Standard Chartered</p> <p>Share registrar: Computershare Hong Kong Investor Services Ltd.</p> <p>Listing date: 25th November 2009</p>	<p><u>Business of Sany Heavy Equipment</u></p> <p>The Group is a leading manufacturer of roadheaders for coal mining. It is also engaged in the provision of one-stop coal mining solutions and comprehensive coal mining equipment to its customers. According to the China National Coal Mining Machinery Industry Association, the Group is the largest manufacturer of roadheaders for coal mining in the Mainland, in terms of sales volume in 2008.</p> <p>The Group's production facilities are located in Shenyang City (瀋陽市), Liaoning Province (遼寧省), which is in close proximity to major coal mining sites and a major rail and highway transportation hub in Northeast China. Besides, the Group has also set up an extensive service network, with 11 service centres and 44 service outlets, covering 19 provinces throughout China near major mining sites.</p> <p>The Group's principal products can be categorized into two main product segments, namely excavating machinery and combined coal mining units. The Group has recently developed into the coal mine transportation vehicles product segment and expects to receive purchase orders by the end of 2009.</p>
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Shareholders after Listing (Assuming the over-allotment option is not exercised)

Sany Hongkong Group Limited, which is 58.24% indirectly owned by Mr. Liang Wengen (one of the Group's founders) and 41.76% by 13 individual shareholders*	75.0%
Public shareholders	25.0%
	100.0%

Remark: () The 13 individual shareholders are Tang Xiuguo (with an 8.75% indirect interest in Sany HK), Xiang Wenbo (8.00%) (a non-executive director), Mao Zhongwu (8.00%) (the Group chairman and CEO), Yuan Jinhua (4.75%), Zhou Fugui (3.50%), Wang Haiyan (3.00%), Yi Xiaogang (3.00%), Wang Zuochun (1.00%), Zhai Xian (0.60%), Zhai Chun (0.40%), Zhao Xiangzhang (0.38%), Duan Dawei (0.30%) and Huang Jianlong (0.08%) (a non-executive director). All these 13 individual shareholders are amongst the Group's founders, current and former senior management, and their family members.*

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$2,107.5 million (based on an offer price of HK\$4.45, being the mid-point of the indicative price range and assuming the over-allotment option is not exercised)

	HK\$ million
For the construction of the new production facilities and related infrastructure in Shenyang Economic and Technological Development Area from 2009 to 2011.	632.3
For the purchase of related equipment for the new production facilities and related infrastructure in Shenyang Economic and Technological Development Area from 2009 to 2011.	843.0
For expenses related to upgrading and expansion of the existing production facilities in Shenyang Economic and Technological Development Area from 2009 to 2011.	421.5
For general working capital.	210.8

Financial Highlights

	Year ended 31 st Dec			6 months ended	
	2006	2007	2008	30 th Jun 2008	30 th Jun 2009
	RMB million	RMB million	RMB million	RMB million	RMB million
Revenue	159.9	461.6	1,146.8	438.6	891.6
Gross profit	81.9	228.3	534.4	216.6	438.0
Operating profit	20.9	84.8	245.3	90.3	278.2
Profit attributable to shareholders	9.9	106.1	189.0	66.5	250.2
Gross profit margin	51.2%	49.5%	46.6%	49.4%	49.1%
Operating profit margin	13.0%	18.4%	21.4%	20.6%	31.2%
Net profit margin	6.2%	23.0%	16.5%	15.2%	28.1%
	31/12/2006	31/12/2007	31/12/2008	30/6/2008	30/6/2009
Net debt to Equity	65.6%	121.4%	20.7%	N/A	Net cash

Peer valuation comparison

	Sany (00631)		China Coal Energy (01898)		Honghua (00196)		China High Speed Transmission (00658)	
	FY2009E	FY2010E	FY2009E	FY2010E	FY2009E	FY2010E	FY2009E	FY2010E
	P/E ratio	16.1x – 18.8x	N/A	18.4x	16.1x	16.2x	12.2x	24.2x

Sources: Reuters

Strengths/Opportunities

- ✓ Despite efforts in the development of alternative energy like natural gas, wind power and hydro-power, coal remains the most important source of energy in China, accounting for more than 70% of total primary energy consumption in 2008.
- ✓ Thanks to robust economic growth and keen demand for energy in the Mainland, the coal mining industry has been growing strongly over the years, with fixed asset investment in the coal washing and selecting industry expanding at a CAGR of 36.7% during 2004-2008.
- ✓ The PRC government proposed in the “11th Five-year Plan” (2006-2010) to promote mechanization rate for coal extraction in the Mainland. It aims to boost the mechanization rates for large-, medium- and small-sized coal mines to 95%, 80% and 40% by 2010 from 80%, 40% and almost zero during the 10th Five-year Plan” (2001-2005), which would lead to strong demand for coal mining machinery products.



- ✓ Utilisation rate of the production capacity of roadheaders, the Group's key product, stood at 90% in 2008. To cope with future demand, the Group plans to boost its existing production capacity from 450 roadheaders and eight combined coal mining units per annum (expected in 2009) to 630 roadheaders and 20 combined coal mining units by the end of 2010 and 780 roadheaders and 55 combined coal mining units by the end of 2011. Besides, the Group also plans to boost its production capacity of coal mining transportation vehicles, a new business area, from 25 vehicles by the end of 2010 to 100 by the end of 2011.
- ✓ The Group has strong research & development ("R&D") capability. It has one research headquarters and five research institutions employing some 450 professionals to carry out R&D work. As at 5th November, the Group has applied for 226 patents and successfully registered 146 patents with the State Intellectual Property Office of China.
- ✓ The Group has entered into Cornerstone share placement agreement with the Government of Singapore Investment Corporation Pte Ltd. ("GIC") and GE Capital Equity Investments Ltd. ("GE Capital"). GIC will subscribe for US\$25 million worth of the offer shares (about 2.2% of the Group's enlarge share capital), while GE Capital will subscribe for US\$12.5 million worth of the offer shares (about 1.1% of the enlarged share capital). Both Cornerstone Investors will be subject to a six-month lock-up following the Listing Date.

Weaknesses/Threats

- × Steel, machinery components and other raw material costs accounted for about 80% of the Group's total cost of sales. Higher raw material prices, especially steel, would depress the Group's profit margins.
- × The Group outsourced about 65% of the parts and components used in its manufacturing process. Any unexpected supply shortage of outsourced parts and components would not only disrupt the Group's operation but also hurt its profit margin on higher parts and components prices.

Recommendation: Trading Buy



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