

China Construction Machinery Sector

Excavator sales in Apr +60% YoY; Growth to continue in May/Jun

Sales volume of excavators by major producers in Apr surged 60% YoY, which is impressive and above market expectations. Going forward, we expect the sales growth in May and Jun will likely stay above 60%, given the encouraging increase in excavators' utilization hours and Jiangsu Hengli's 70% YoY growth of the planned production of hydraulic cylinders in May. We see upside to our full year excavator sales growth estimate of 12% (for the industry as a whole). Reiterate **BUY** on **SANY Heavy (600031 CH, BUY, TP: RMB23.5, Top pick)** and **Jiangsu Hengli (601100 CH, BUY, TP: RMB85)**. Jiangsu Hengli will join CMBI Corporate Day this Friday (15 May). Please contact your sales representative for details.

- **Strong excavator sales growth in Apr.** According to CCMA, sales volume of excavator by 25 major producers in Apr surged 60% YoY to 45,426 units. Sales volume in China jumped 65% YoY to 43,371 units, while export volume increased by 1% YoY to 2,055 units. In 4M20, sales volume increased 10.5% YoY to 114k units, representing 42.1% of our full year estimates (Run rate in 4M19: 42.7%). While the run rate is similar to that in last year, we expect the potential strong growth in May/Jun will offer upside to our full year estimates.
- **Excavator utilization hours +15% YoY in Apr.** Utilization hours reached 159 in Apr (+15% YoY), a significant improvement from a decline in 1Q20. Key provinces such as Shandong, Guangxi, Guangdong and Henan all reported utilization increase YoY. Hubei also saw significant improvement in utilization in Apr, despite a 17% YoY reduction due to late recovery. Overall speaking, the increase in utilization indicates significant improvement in construction activities and implies strong upcoming demand for excavator going forward.
- **Wheel loader sales +31% in Apr.** Sales volume of wheel loaders by 23 major producers in Apr grew 31% YoY to 16,666 units. Sales volume in China increased by 35% YoY to 14,662 units, while export volume increased by 9% YoY to 2,004 units. In 4M20, sales volume decreased 7% YoY to 40.9k units, representing 33% of our full year estimates (Run rate in 4M19: 35.6%).
- **Lonking (3339 HK, HOLD, TP: HK\$2.3) will see potential upside in the near term.** While we maintain our cautious stance on Lonking due to concerns on the medium-term competitiveness of wheel loader, we expect the strong construction activities will boost the demand for wheel loader in the foreseeable future. Besides, Lonking proposed generous dividend payment after the release of 2019 results. At the current price of HK\$2.66, the stock offers 9.5% yield. The ex-dividend date will be on 1 Jun 2020.

OUTPERFORM
(Maintain)

China Capital Goods

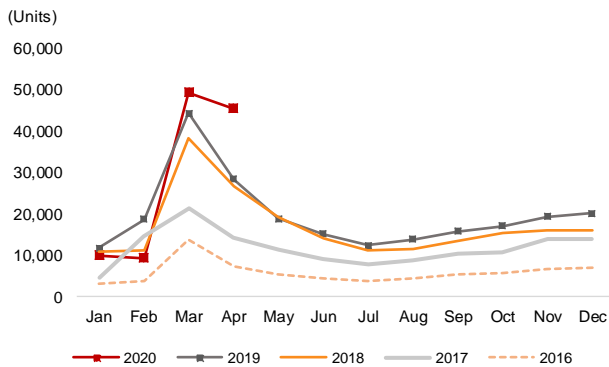
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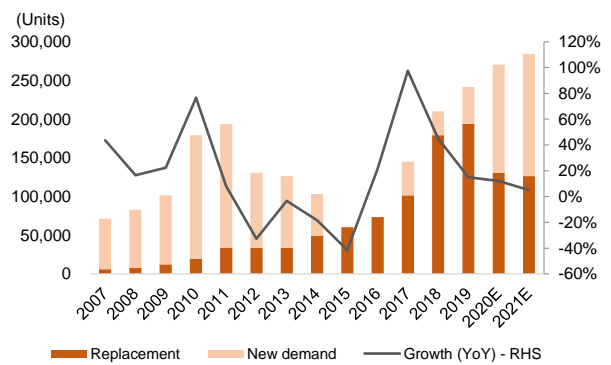
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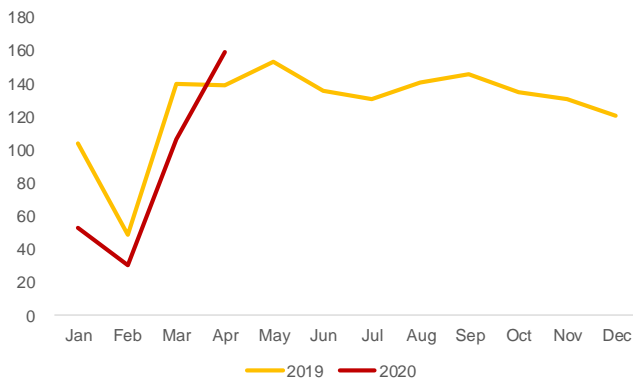
1. China Construction Machinery & HDT Sector – HDT sales +43% YoY in Apr; Expect robust growth for other machinery – 11 May 2020
2. Zhejiang Dingli – A (603338 CH, BUY) – Secular growth story intact; Raised earnings estimates & TP – 4 May 2020
3. SANY Heavy Industry – A (600031 CH, BUY) – 2019 net profit +83% YoY in line; Expect a strong 2Q20 – 24 Apr 2020
4. China Construction Machinery Sector – Lift forecast on excavator on strong demand; BUY SANY & Hengli – 13 Apr 2020
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8. Lonking (3339 HK, HOLD) – Weak core profit but downside protected by 12% yield – 27 Mar 2020
9. China Construction Machinery Sector – Focus on China infrastructure names amid volatile market – 16 Mar 2020
10. China Construction Machinery Sector – Four structural drivers to extend the upcycle to 2020-21E – 27 Nov 2019

Figure 1: China monthly excavator sales

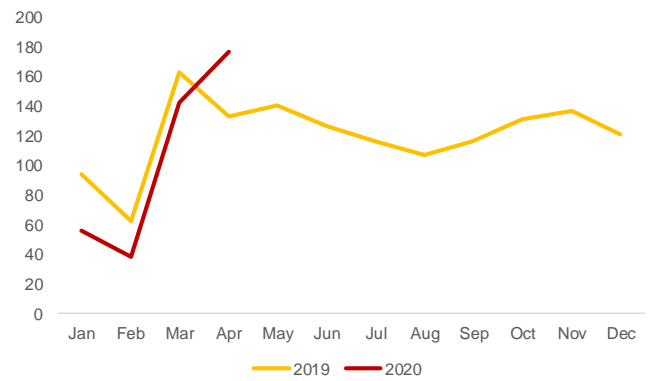
Source: CCMA, CMBIS

Figure 2: CMBIS excavator sales projection

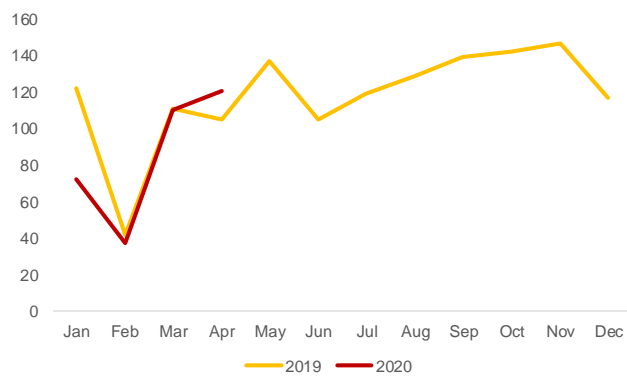
Source: CCMA, CMBIS estimates

Figure 3: Excavator utilisation hours (China)

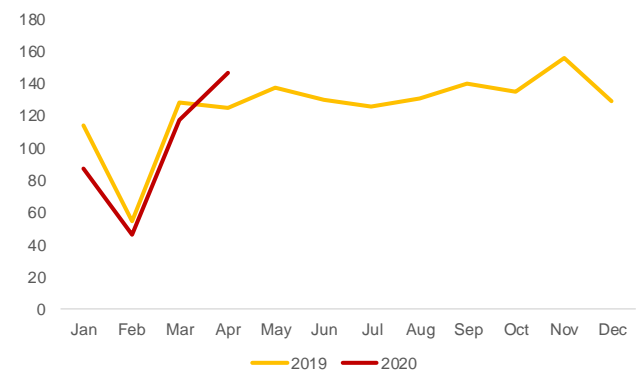
Source: CCMA, CMBIS

Figure 4: Excavator utilisation hours (Shandong)

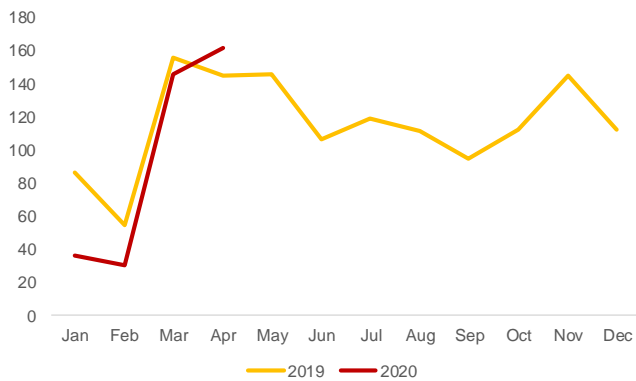
Source: CCMA, CMBIS

Figure 5: Excavator utilisation hours (Guangdong)

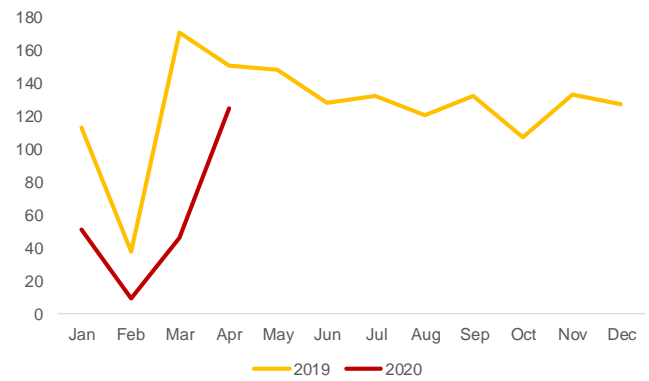
Source: CCMA, CMBIS

Figure 6: Excavator utilisation hours (Guangxi)

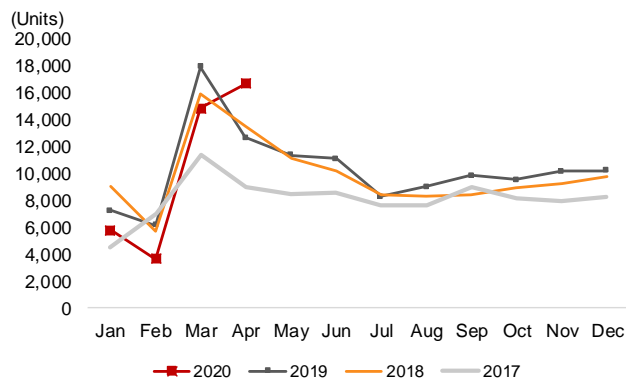
Source: CCMA, CMBIS

Figure 7: Excavator utilisation hours (Henan)

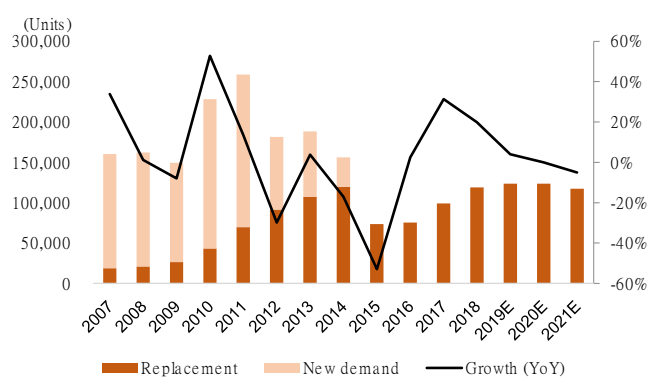
Source: CCMA, CMBIS

Figure 8: Excavator utilisation hours (Hubei)

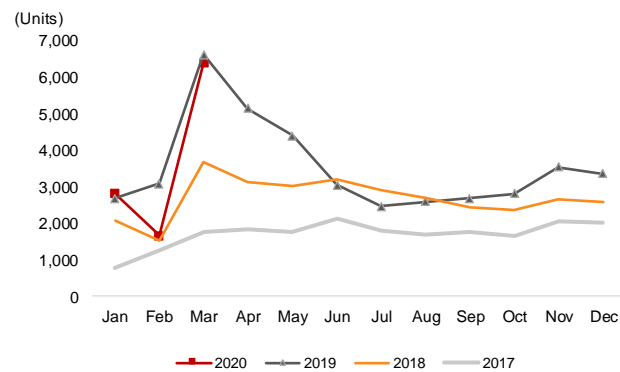
Source: CCMA, CMBIS

Figure 9: China monthly wheel loader sales

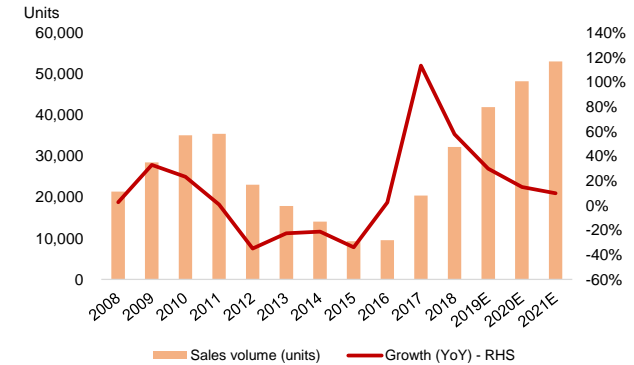
Source: CCMA, CMBIS

Figure 10: CMBIS wheel loader projection

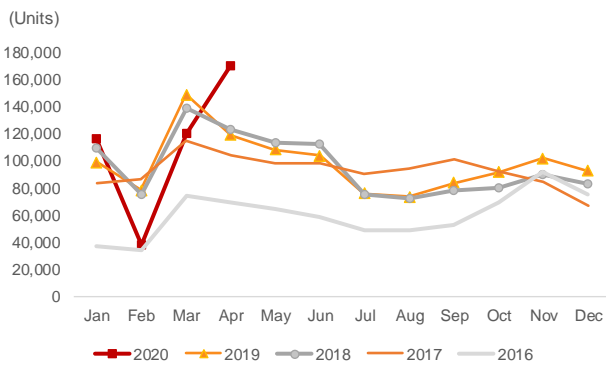
Source: CCMA, CMBIS estimates

Figure 11: China monthly truck crane sales

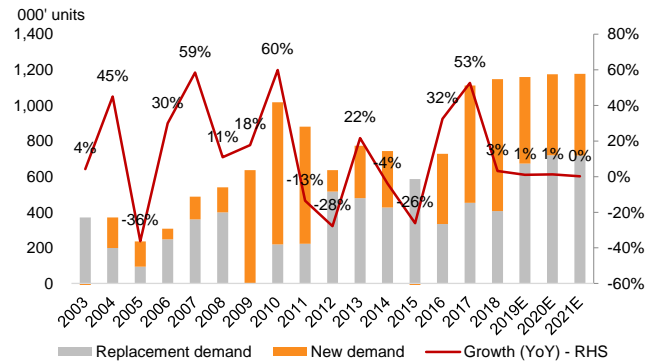
Source: CCMA, CMBIS

Figure 12: CMBIS truck crane sales projection

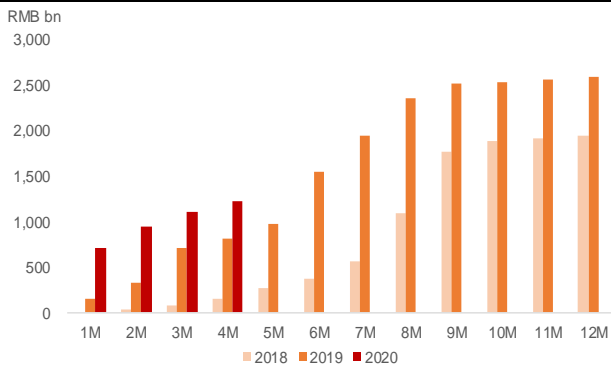
Source: CCMA, CMBIS estimates

Figure 13: China monthly HDT sales

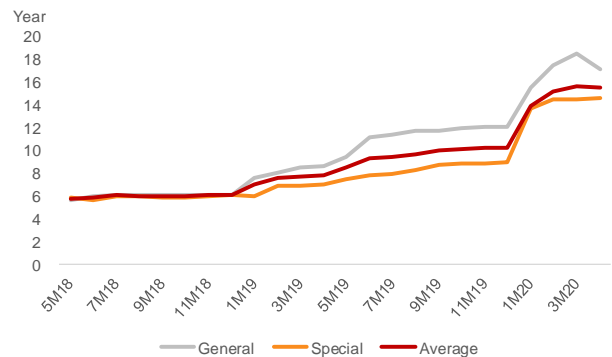
Source: Cvworl, CMBIS

Figure 14: CMBIS HDT sales projection

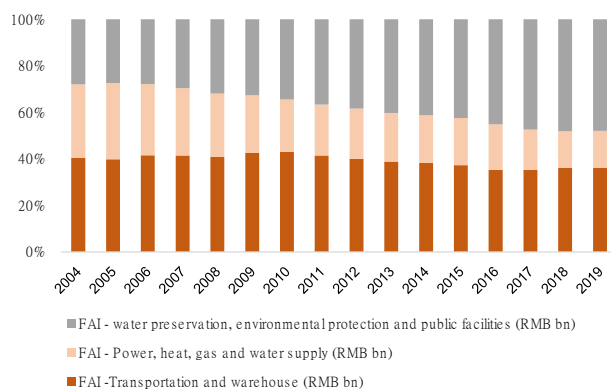
Source: Cvworl, Wind, CMBIS estimates

Figure 15: Local gov't special bond issue amount

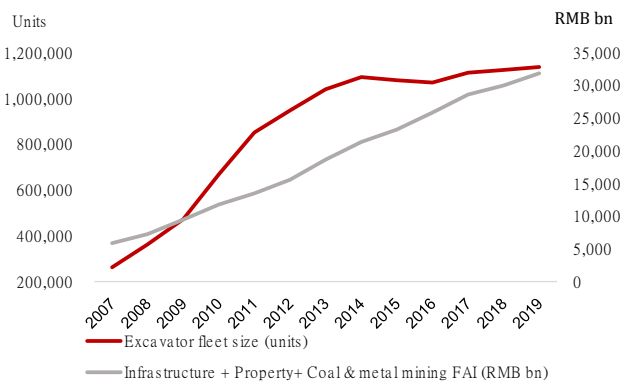
Source: Ministry of Finance, CMBIS

Figure 16: Local gov't bond average duration (YTD)

Source: Ministry of Finance, CMBIS

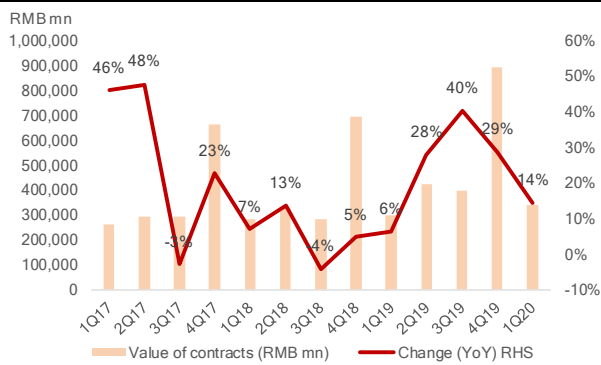
Figure 17: Breakdown of infrastructure FAI

Source: Wind, NBS, CMBIS

Figure 18: Construction related FAI versus excavator fleet size

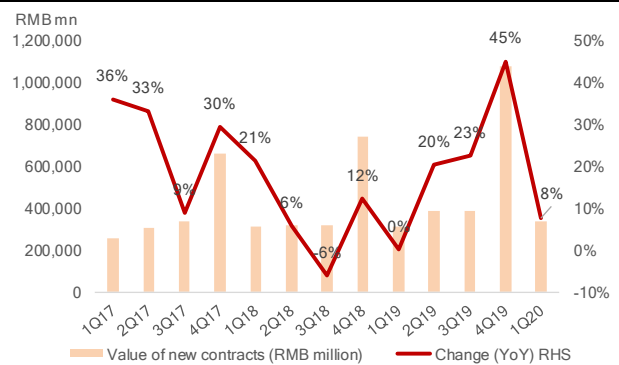
Source: CCMA, Wind, NBS, CMBIS estimates

Figure 19: CRCC's value of new contracts



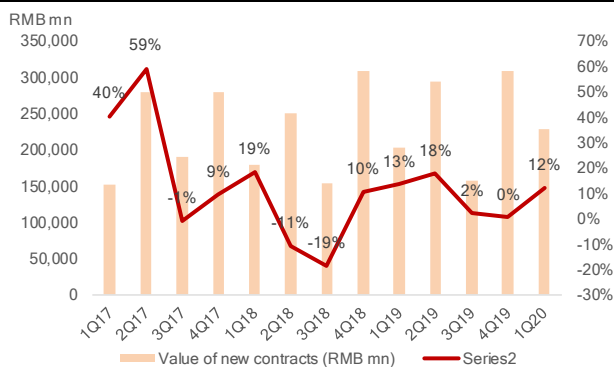
Source: Company data, CMBIS

Figure 20: CRG's value of new contracts



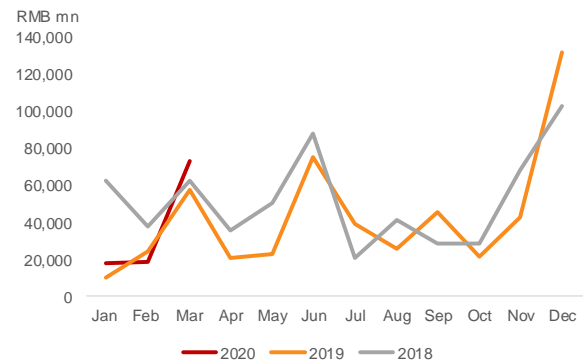
Source: Company data, CMBIS

Figure 21: CCCC's value of new contracts



Source: Company data, CMBIS

Figure 22: CSCEC's new contracts for infrastructure construction



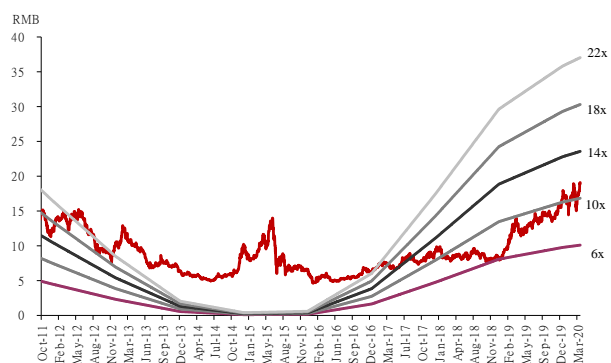
Source: Company data, CMBIS

Figure 23: Timetable for the implementation of NES

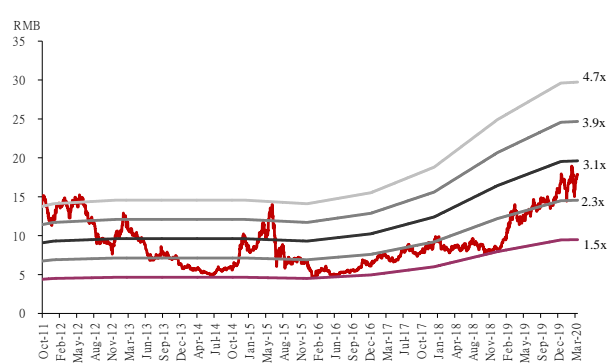
		Year																							
Type of vehicles		00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23
Heavy duty vehicle	Diesel																								
	Gasoline																								
	Gas fueled																								
Light duty vehicle	Diesel																								
	Gasoline																								
	Gas fueled																								
Off road vehicle																									
Diesel																									
National emission standard																									

National emission standard: No regulation, I, II, III, IV, V, VI(a), VI(b)

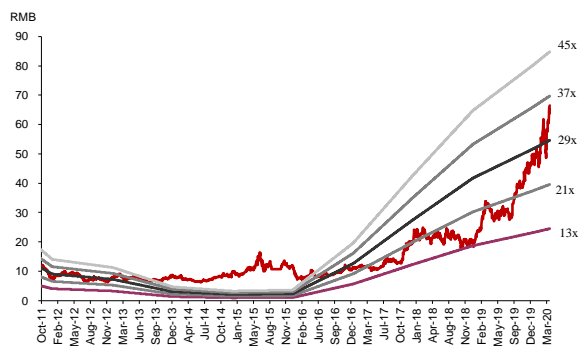
Source: Ministry of Ecology and Environmental, CMBIS

Figure 24: SANY Heavy P/E band

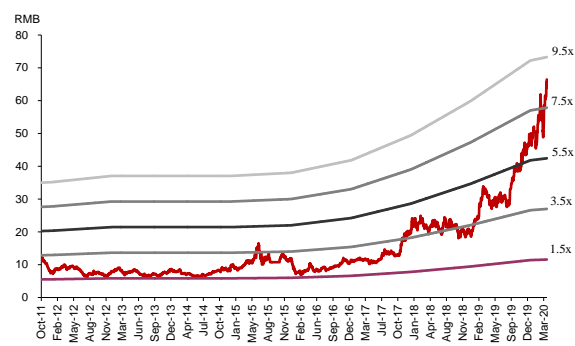
Source: Bloomberg, Company data, CMBIS estimates

Figure 25: SANY Heavy P/B band

Source: Bloomberg, Company data, CMBIS estimates

Figure 26: Jiangsu Hengli P/E band

Source: Bloomberg, Company data, CMBIS estimates

Figure 27: Jiangsu Hengli P/B band

Source: Bloomberg, Company data, CMBIS estimates

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