

China Construction Machinery Sector

Excavator sales +60% YoY in Mar; BUY SANY Heavy & Hengli

Despite the high-base effect, sales volume of excavator in Mar surged 60% YoY which is higher than our expectation. We expect sales growth momentum to continue, as Hengli's planned production volume in Apr implies robust downstream demand. Meanwhile, wheel loaders sales grew 52% YoY in Mar, which is also above expectations. We believe the strong data points will help restore market confidence in the sector following the recent pullback due to market weakness. We see good buying opportunity on **SANY Heavy (600031 CH, BUY, TP: RMB49.5)** and **Jiangsu Hengli (601100 CH, BUY, TP: RMB143)**, which are the key beneficiaries of strong excavator sales. We continue to like **Zoomlion (1157 HK, TP: HK\$16.8; 000157 CH, TP: RMB18.7, BUY)** for its high visibility and **Lonking (3339 HK, BUY, TP: HK\$4.29)** for the surprising strong wheel loader growth and a return to growth strategy.

- **Excavator sales +85% YoY in 1Q21.** According to CCMA, sales volume of excavator by 26 major producers in Mar grew 60% YoY to 79k units. In China market, sales volume increased by 57% YoY to 73k units, while export volume grew 117% YoY to 6k units in Mar. In terms of product breakdown in China market, large/medium/small size excavator sales grew 38%/90%/47% in Mar. We believe the downstream demand was strong across the major segments, including infrastructure, property development and mining projects. In 1Q21, sales volume surged 85% YoY to 127k units, representing 35% of our full year estimates (Run rate in 1Q20: 31%).
- **Hengli's production volume to stay high in Apr.** We estimate Hengli scheduled production volume of hydraulic cylinder (for excavator) to reach 86k units in Apr, up 30% YoY and only down 7% MoM from the traditional seasonal peak in Mar. This implies continuous strong demand for excavator in the foreseeable future. Besides, Hengli's scheduled production volume of pump, valve and motor in Apr continue to see sequential growth. We believe this suggests on-track market share gain achieved by Hengli.
- **Wheel loader sales +60% YoY in 1Q21.** Sales volume of wheel loaders by 23 major producers in Mar grew 52% YoY to 22.8k units. Sales volume in China increased 55% YoY to 18.6k units in Mar, while export volume grew 41% YoY to 4.2k units. In 1Q21, sales volume surged by 61% YoY to 39.3k units. We believe the better-than-expected wheel loader sales was driven by both infrastructure and mining activities.

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China Capital Goods

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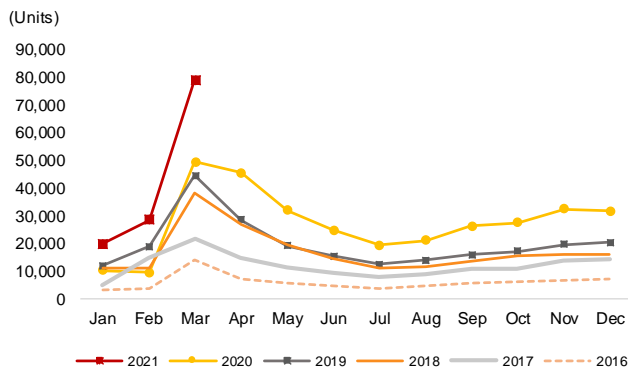
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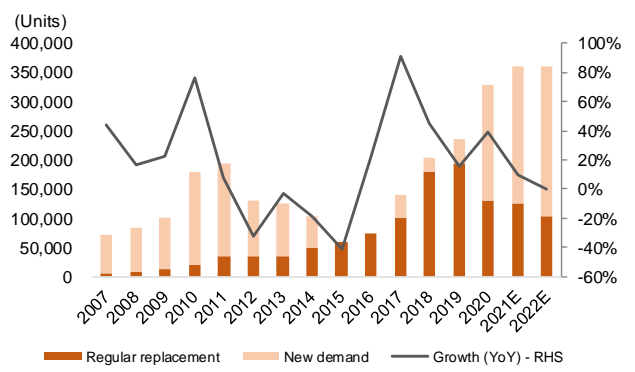
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Figure 1: China monthly excavator sales



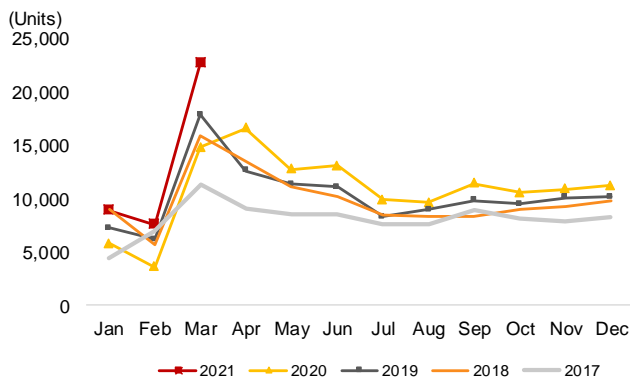
Source: CCMA, CMBIS

Figure 2: CMBIS excavator sales projection



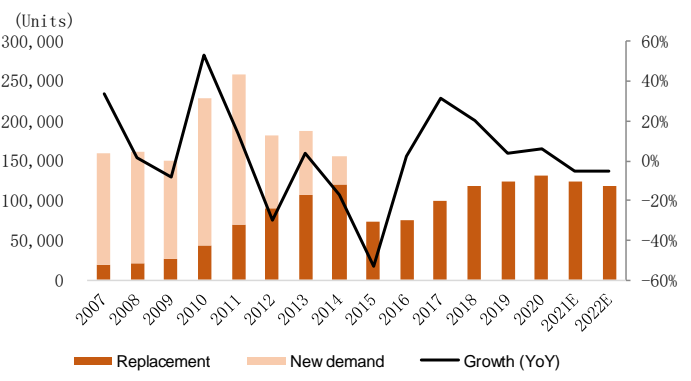
Source: CCMA, CMBIS estimates

Figure 3: China monthly wheel loader sales



Source: CCMA, CMBIS

Figure 4: CMBIS wheel loader projection



Source: CCMA, CMBIS estimates

Figure 5: Timetable for the implementation of different stages of National Emission Standard

Type of vehicles		Year																							
		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	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation
	Gasoline	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation
Light duty vehicle	Gas fueled	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation
	Diesel	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation
Off road vehicle	Gasoline	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation
	Gas fueled	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation
Off road vehicle	Diesel	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation

Source: Ministry of Ecology and Environmental, CMBIS

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