

China Construction Machinery

Prefer AWP to excavator in the near term

What is new? The 24% YoY decline in excavator sales in 2022 (for the industry as a whole) is largely in line with our expectation. Meanwhile, **Jiangsu Hengli's** scheduled production of excavator cylinders in Jan 2023 drops >20% YoY, likely due to (1) the pandemic impact and (2) base effect of CNY. On the back of reopening and easing liquidity, we expect demand for excavator to pick up moderately in Feb/Mar and we maintain our forecast of 10% YoY increase in the industry demand in 2023E (China: +15%, export: +5%). We maintain **HOLD** on **SANY Heavy** and **Hengli**, as we think the potential recovery is already in the price. We prefer aerial work platform (AWP), as we see more resilient growth trend driven by well-diversified downstream application such as power grid investment, 5G spending, data center construction, as well as machinery replacement. Our key **BUY** calls in the universe are **Zhejiang Dingli** (pure AWP play) and **Zoomlion-H** (low valuation + high earnings sensitivity). Besides, we continue to like **SANY International** in the space of energy equipment.

- **Excavator industry sales volume in Dec 2022 dropped 30% YoY.** In China market, sales volume in Dec declined 60% YoY to only 6,151 units, according to CCMA. We believe the sharp decline was due to the front-loaded demand for old models in Nov (+3% YoY), as a result of the implementation of NES IV for off-road machinery starting in Dec. In overseas, export volume grew 24% YoY to 10,718 units, the highest monthly volume this year. Export volume has exceeded domestic sales for four consecutive months. We believe the resilient growth was driven by mining activities, evidenced by the strong utilization hours in coal producing countries like Indonesia. For the full year in 2022, China's excavator sales (domestic + export) dropped 24% YoY to 261k units.
- **Hengli's scheduled production in Jan 2023:** Based on our checks, Hengli's production of hydraulic cylinders (for excavator) dropped ~24% YoY in 2022, largely inline with the industry's excavator sales decline. In Jan 2023, the scheduled production is expected to drop >20% YoY. For motor (for AWP), on the contrary, production volume surged >60% YoY in 2022. In Jan 2023, the scheduled production of motor (for both AWP & excavator) is expected to surge 90% YoY, with growth largely coming from AWP, in our view.
- **Sector catalysts:** (1) stronger-than-expected global mining activities; (2) recovery of China demand helped by more favourable policy direction on property; (3) margin expansion driven by the decline in freight rate and low steel price.

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China Capital Goods

Wayne Fung, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

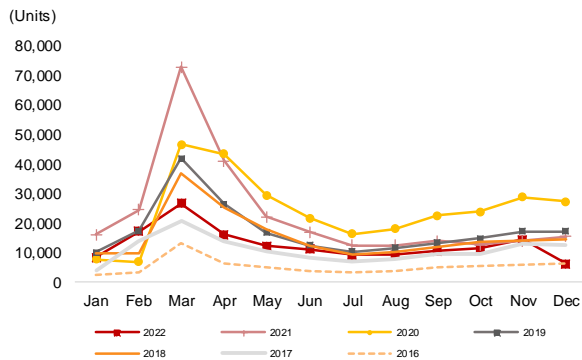
Katherine Ng

(852) 3761 8725

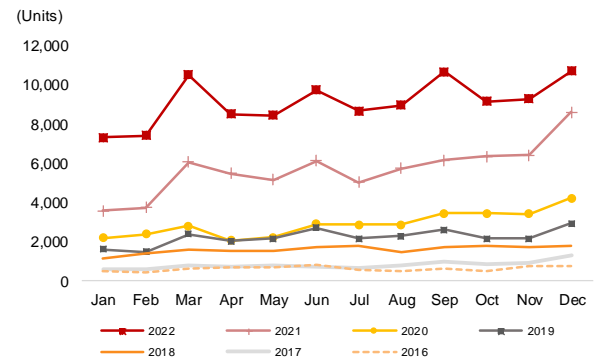
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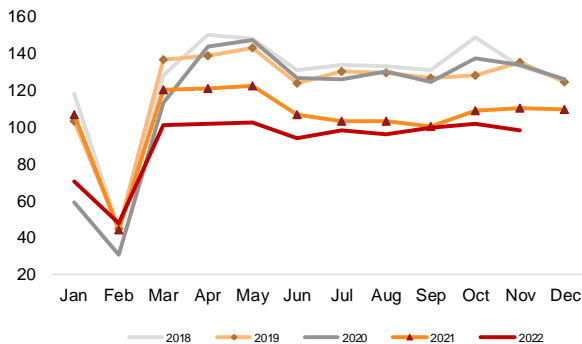
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Figure 1: China excavator monthly sales

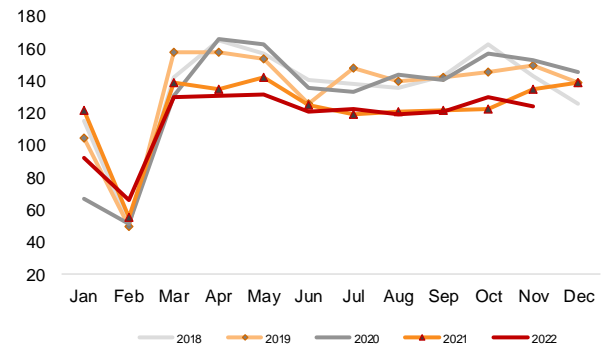
Source: CCMA, CMBIGM

Figure 2: Excavator monthly export volume

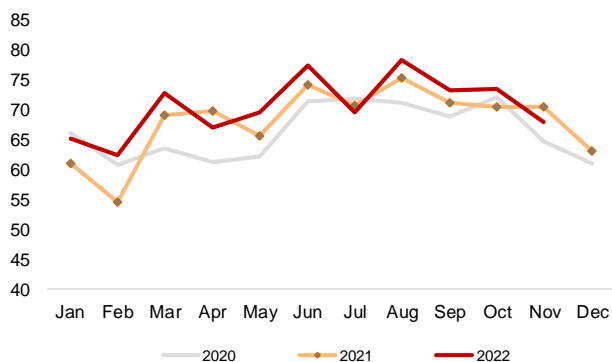
Source: CCMA, CMBIGM

Figure 3: Komatsu excavator monthly utilisation hours in China

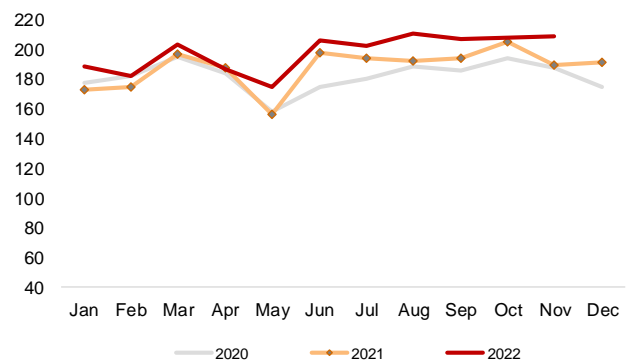
Source: Komatsu, CMBIGM

Figure 4: Hitachi excavator monthly utilisation hours in China

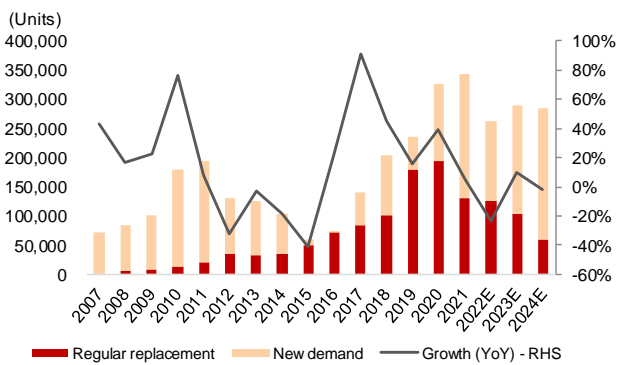
Source: Hitachi, CMBIGM

Figure 5: Komatsu excavator monthly utilisation hours in North America

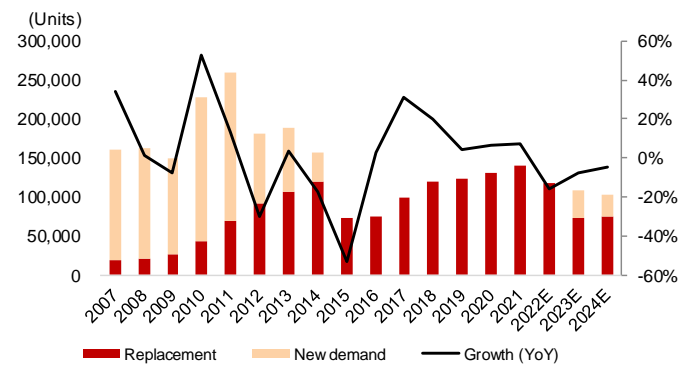
Source: Komatsu, CMBIGM

Figure 6: Komatsu excavator monthly utilisation hours in Indonesia

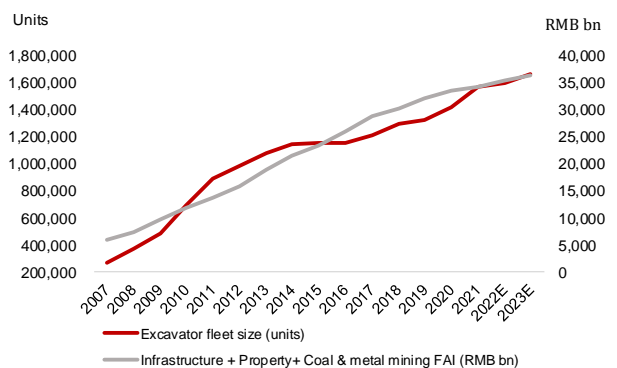
Source: Komatsu, CMBIGM

Figure 7: CMBIGM excavator sales projection

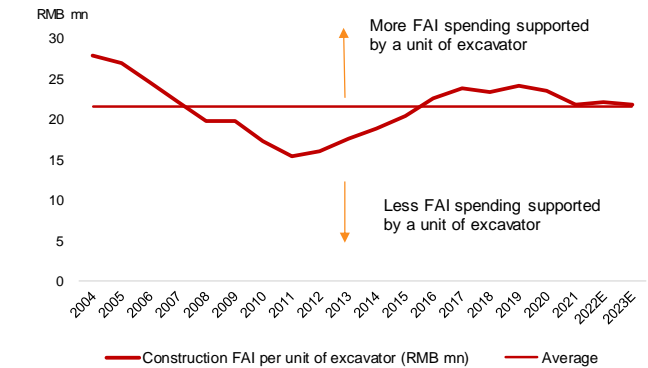
Source: CCMA, Wind, CMBIGM estimates

Figure 8: CMBIGM wheel loader sales projection

Source: CCMA, CMBIGM estimates

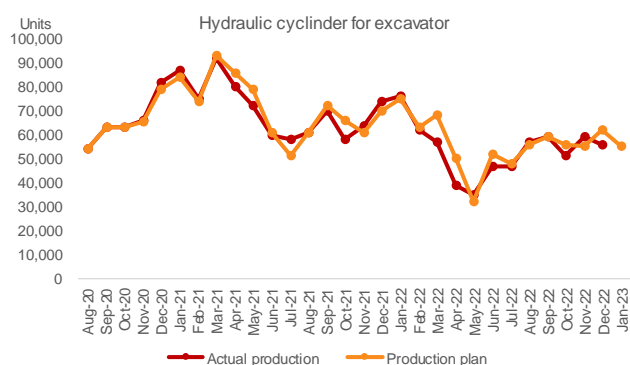
Figure 9: Excavator fleet size versus construction related FAI

Source: CCMA, Wind, CMBIGM estimates

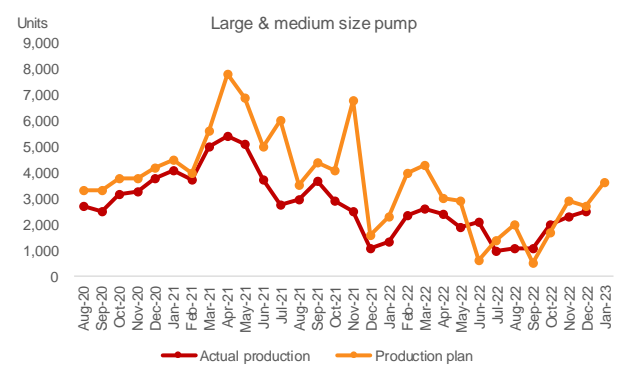
Figure 10: Construction FAI per unit of excavator in operation

Source: CCMA, wind, CMBIGM estimates

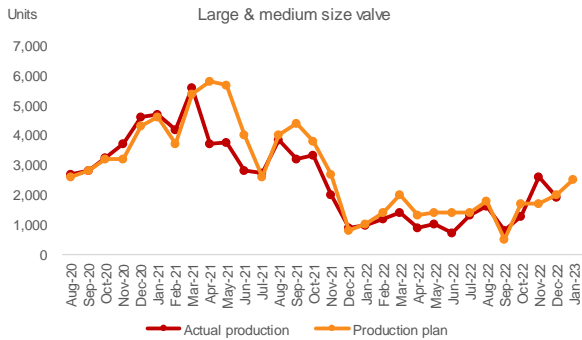
Note: Construction FAI = infrastructure + property + mining

Figure 11: Hengli's hydraulic cylinders monthly production

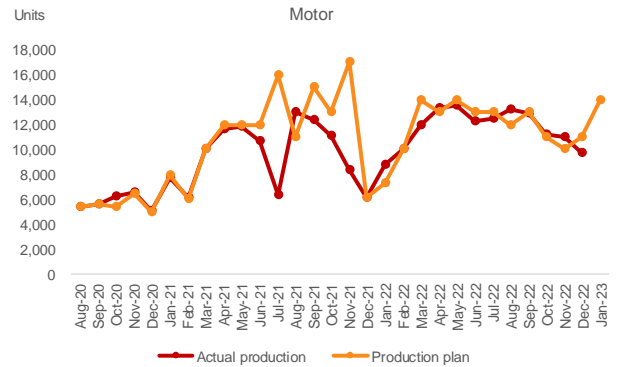
Source: Company data, CMBIGM estimates

Figure 12: Hengli's large & medium size pump monthly production

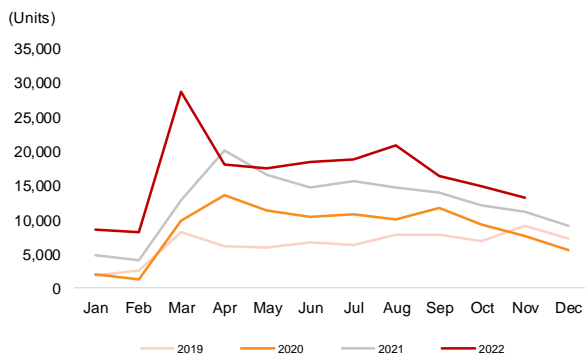
Source: Company data, CMBIGM estimates

Figure 13: Hengli's large & medium size valve monthly production


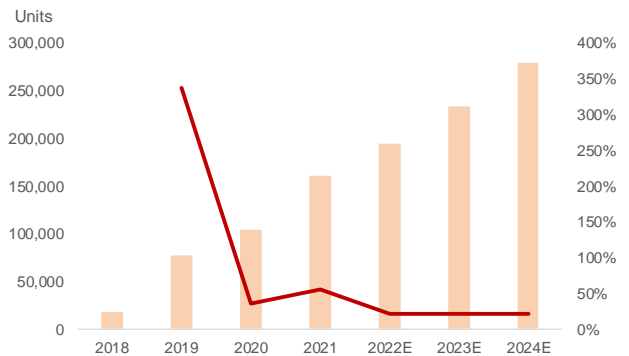
Source: Company data, CMBIGM estimates

Figure 14: Hengli's motor monthly production


Source: Company data, CMBIGM estimates

Figure 15: AWP monthly sales (China + export)


Source: CCMA, CMBIGM

Figure 16: CMBIGM AWP sales projection


Source: CCMA, CMBIGM estimates

Figure 17: Peers comp table

Ticker	Company	Rating	Price (local currency)	TP (local currency)	Upside/ (downside)	Market cap (US\$ mn)	PE (x)		PB (x)	
							FY22E	FY23E	FY22E	FY23E
HK listed										
631 HK Equity	SANY INTERNATIONAL	BUY	8.20	13.20	61%	3,320	13.5	11.2	2.2	2.0
1157 HK Equity	ZOOMLION HEAVY-H	BUY	4.07	5.24	29%	6,702	10.7	8.6	0.6	0.5
2338 HK Equity	WEICHAI POWER-H	BUY	11.24	12.60	12%	13,493	20.3	15.5	1.2	1.1
3808 HK Equity	SINOTRUK HK LTD	HOLD	12.58	10.00	-21%	4,445	16.8	11.6	0.8	0.8
1839 HK Equity	CIMC VEHICLES -H	NR	5.01	-	-	2,096	n/a	n/a	n/a	n/a
564 HK Equity	ZHENGZHOU COAL-H	NR	7.47	-	-	2,890	4.4	3.6	0.8	0.6
HK listed average							13.1	10.1	1.1	1.0
A share										
000338 CH Equity	WEICHAI POWER-A	HOLD	10.68	11.40	7%	13,493	22.3	17.0	1.3	1.2
601100 CH Equity	JIANGSU HENGLI-A	HOLD	67.15	58.00	-14%	13,295	34.6	30.8	8.1	6.9
603338 CH Equity	ZHEJIANG DINGLI -A	BUY	49.72	71.00	43%	3,718	20.9	17.4	3.6	3.1
600031 CH Equity	SANY HEAVY-A	HOLD	16.72	14.70	-12%	20,970	32.2	24.2	2.2	2.1
000157 CH Equity	ZOOMLION HEAVY-A	HOLD	5.61	6.00	7%	6,702	17.0	13.7	0.9	0.8
000425 CH Equity	XCMG-A	NR	5.50	-	-	9,597	10.0	9.0	1.1	1.0
000528 CH Equity	GUANGXI LIUGONG-A	NR	5.95	-	-	1,718	12.6	10.3	0.7	0.7
603638 CH Equity	YANTAI EDDIE P	NR	14.90	-	-	1,849	47.6	37.0	4.1	3.8
600761 CH Equity	ANHUI HELI CO-A	NR	14.23	-	-	1,555	11.9	9.7	1.6	1.5
603298 CH Equity	HANGCHA GROUP-A	NR	18.37	-	-	2,350	15.8	13.1	2.5	2.2
000951 CH Equity	CNHTC JINAN T-A	NR	15.78	-	-	2,738	32.9	14.9	1.4	1.3
601717 CH Equity	ZHENGZHOU COAL-A	NR	11.72	-	-	2,890	8.0	6.6	1.4	1.1
600582 CH Equity	TIAN DI -A	NR	5.16	-	-	3,153	9.2	7.7	1.0	0.9
A-share average							21.2	16.3	2.3	2.0
Overseas										
CAT US Equity	CATERPILLAR INC	NR	250.5	-	-	130,368	18.1	16.6	8.8	7.7
DE US Equity	DEERE & CO	NR	437.4	-	-	130,458	15.7	14.9	6.5	5.3
6305 JP Equity	HITACHI CONST	NR	2,939.0	-	-	4,770	8.7	8.7	0.9	0.9
6301 JP Equity	KOMATSU LTD	NR	2,889.5	-	-	21,224	8.9	9.3	1.1	1.0
042670 KS Equity	DOOSAN INFRACORE	NR	7,780.0	-	-	1,235	7.1	7.4	1.0	0.9
VOLVB SS Equity	VOLVO AB-B	NR	196.7	-	-	38,736	10.5	11.1	2.6	2.5
Average							11.5	11.3	3.5	3.0
Hydraulic components										
PH US Equity	PARKER HANNIFIN	NR	310.5	-	-	39,870	16.3	14.9	4.1	3.6
7012 JP Equity	KAWASAKI HVY IND	NR	2,892.0	-	-	3,664	10.3	10.2	0.9	0.9
7242 JP Equity	KYB CORP	NR	3,460.0	-	-	672	4.9	4.5	n/a	n/a
6474 JP Equity	NACHI-FUJIKOSHI	NR	3,695.0	-	-	695	7.3	7.3	0.7	0.6
6268 JP Equity	NABTESCO CORP	NR	3,455.0	-	-	3,156	23.1	18.3	1.7	1.6
Average							12.4	11.0	1.8	1.7
Aerial working platform										
TEX US Equity	TEREX CORP	NR	45.7	-	-	3,081	11.1	9.8	2.9	2.3
OSK US Equity	OSHKOSH CORP	NR	92.7	-	-	6,064	26.7	14.3	2.1	1.9
LNR CN Equity	LINAMAR CORP	NR	63.3	-	-	2,899	10.0	7.9	n/a	n/a
PIG FP Equity	HAULOTTE GROUP	NR	3.5	-	-	119	n/a	68.1	0.5	0.5
6345 JP Equity	AICHI CORP	NR	763.0	-	-	440	10.0	9.6	0.7	0.7
Average (excluding Haulotte)							14.5	10.4	1.5	1.4

Source: Bloomberg, Company data, CMBIGM estimates

Note: Based on CMBI earnings estimates for stocks under coverage

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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