

China Construction Machinery Sector

Sustainable demand for excavator in 2H20E

Sales volume of excavator in Jul grew 55% YoY, which is largely in line with expectations. Going forward, accelerated contractors' new contract value growth, as well as resilient construction activities evidenced by rising utilization hours, will continue to offer solid support to the excavator demand growth. In addition, we understand that **Jiangsu Hengli (601100 CH, BUY)**'s production plan for excavator hydraulic cylinders in Aug will reach ~54k units, up from 53k in Jul. All these reaffirm our positive stance on the upcoming excavator demand. We reiterate **BUY** on **Jiangsu Hengli, SANY Heavy (600031 CH)** and **Zoomlion (1157 HK / 000157 CH)**, while maintain our **HOLD** rating on **Lonking (3339 HK)** due to sluggish demand growth of wheel loader.

- **Excavator sales +55% YoY in Jul.** According to CCMA, sales volume of excavator by 25 major producers in Jul grew 55% YoY to 19.1k units. In China market, sales volume increased by 60% YoY to 16.2k units. On the back of the restart of economies in the overseas, export volume saw an encouraging growth of 33% YoY (to 2.9k units) in Jul, accelerating from a single digit growth in 2Q. In 7M20, sales volume increased 27% YoY to 189k units, representing 67% of our full year estimates (Run rate in 7M19: 63%). We see upside to our full year projection.
- **Excavator utilization hours +12% YoY in Jul.** Utilization hours of the operating excavators in China reached 146 in Jul (+12% YoY), a continuous improvement from 1% and 4% in May and Jun respectively. Shandong and Guangxi reported 20% and 17% increase in utilization hours respectively. The continuous increase in utilization suggests resilient construction activities, implying strong upcoming demand for excavator.
- **Wheel loader sales +19% YoY in Jul.** Sales volume of wheel loaders by 23 major producers in Jul grew 19% YoY to 9.9k units. Sales volume in China increased by 23% YoY to 8.1k units, while export volume slightly increased 3% YoY to 1.7k units. In 7M20, sales volume only increased by 2.5% YoY to 76.7k units. We continue to see substitution risk of wheel loader by excavator.
- **Accelerated growth of contractors' new contract value growth implies strong upcoming demand for machinery.** **CRCC (1186 HK, NR)** and **CRG (390 HK, NR)** reported newly signed contract value growth of 27% and 37% respectively in 2Q20, accelerating from 14% and 8% in 1Q20. The contract growth was driven by both infrastructure and municipal projects. **CSCEC (601668 CH, NR)** new contract value growth in 2Q grew 34% YoY in 2Q20, versus -18% in 1Q20, driven mainly by property construction projects. On the back of favourable government policies to support infrastructure spending, such as timely allocation of local government special bond quotas, we expect smooth execution of the contractors' backlog.

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China Capital Goods

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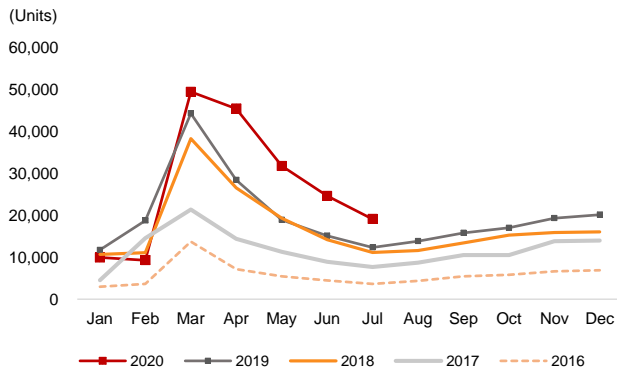
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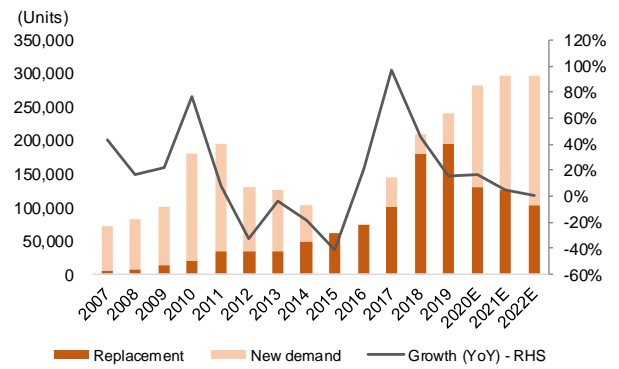
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Figure 1: China monthly excavator sales



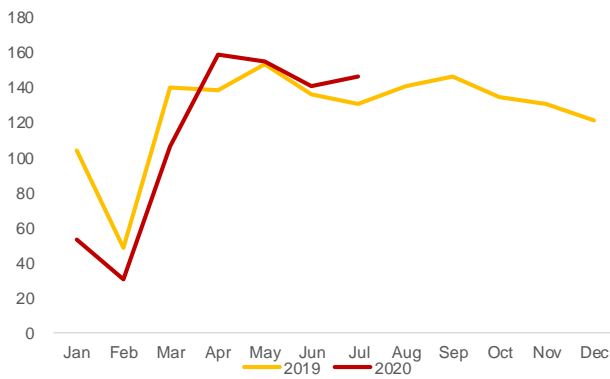
Source: CCMA, CMBIS

Figure 2: CMBIS excavator sales projection



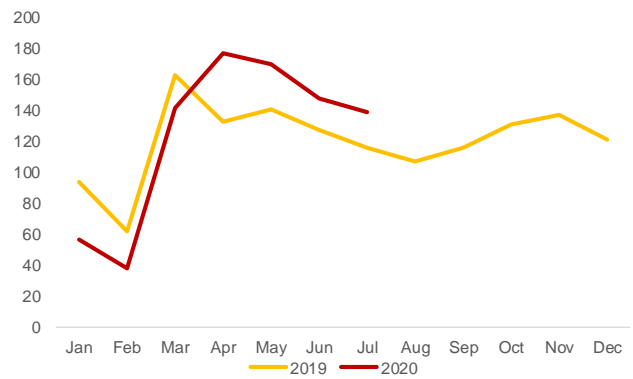
Source: CCMA, CMBIS estimates

Figure 3: Excavator utilisation hours (China)



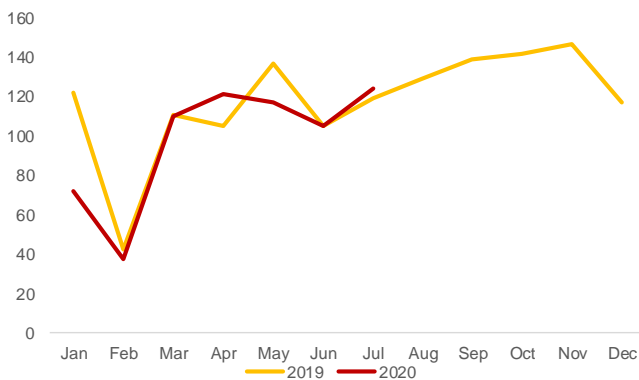
Source: CCMA, CMBIS

Figure 4: Excavator utilisation hours (Shandong)



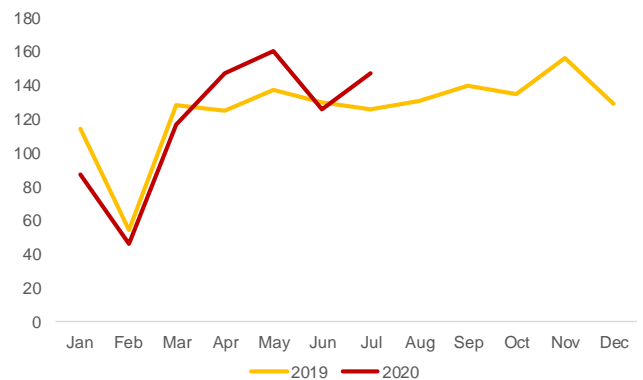
Source: CCMA, CMBIS

Figure 5: Excavator utilisation hours (Guangdong)



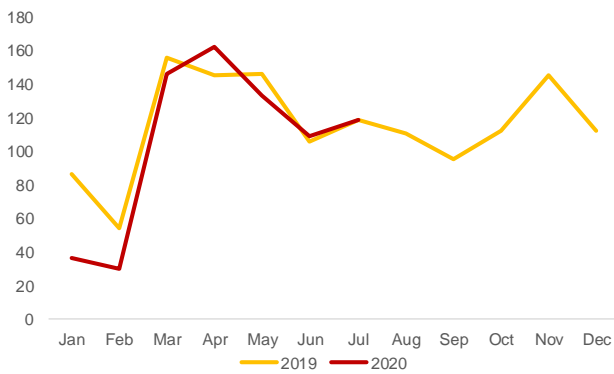
Source: CCMA, CMBIS

Figure 6: Excavator utilisation hours (Guangxi)



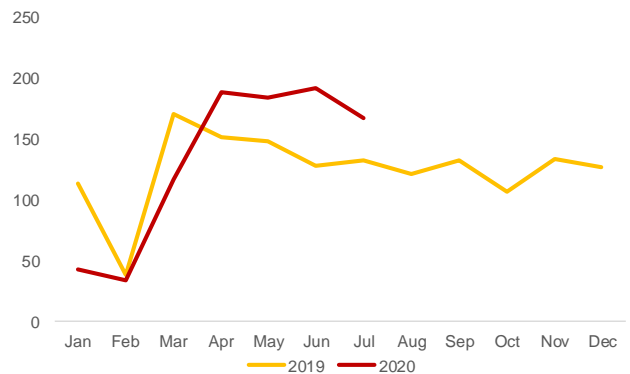
Source: CCMA, CMBIS

Figure 7: Excavator utilisation hours (Henan)



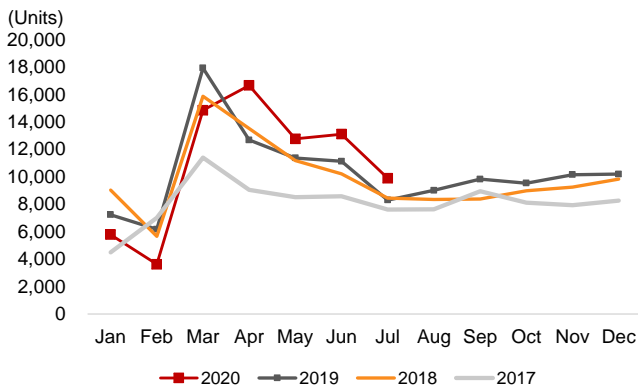
Source: CCMA, CMBIS

Figure 8: Excavator utilisation hours (Hubei)



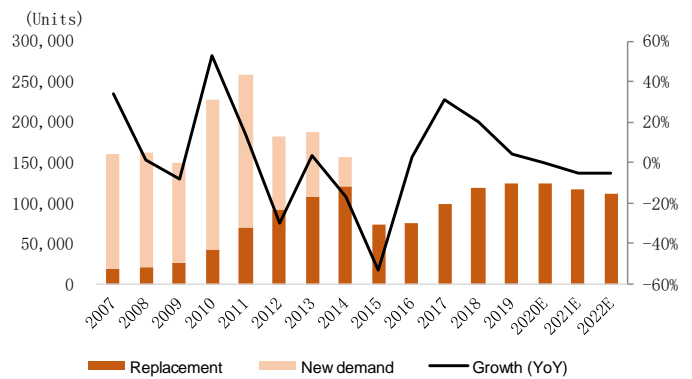
Source: CCMA, CMBIS

Figure 9: China monthly wheel loader sales



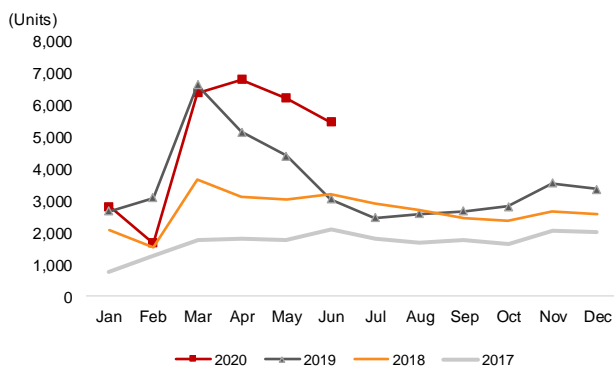
Source: CCMA, CMBIS

Figure 10: CMBIS wheel loader projection



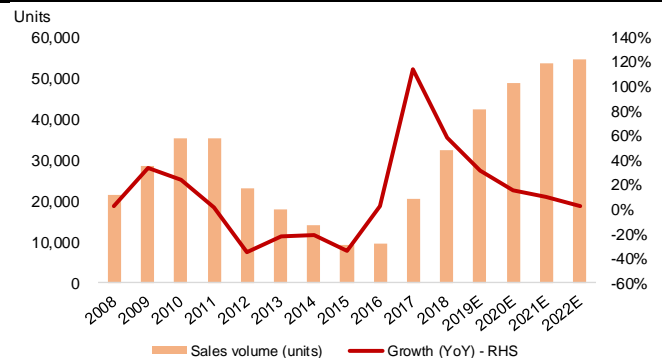
Source: CCMA, CMBIS estimates

Figure 11: China monthly truck crane sales



Source: CCMA, CMBIS

Figure 12: CMBIS truck crane sales projection



Source: CCMA, CMBIS estimates

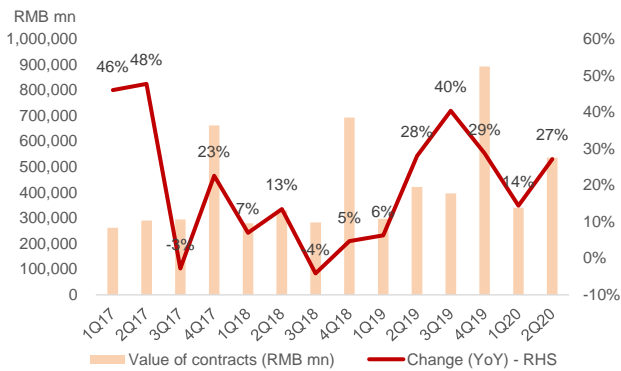
Figure 13: Timetable for the implementation of NES

		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	Grey	Grey	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
	Gasoline	Grey	Grey	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
	Gas fueled	Grey	Grey	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Light duty vehicle	Diesel	Grey	Grey	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
	Gasoline	Grey	Grey	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
	Gas fueled	Grey	Grey	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Off road vehicle	Diesel	Grey	Grey	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow

National emission standard Grey No regulation Yellow I Yellow II Green III Blue IV Orange V Blue VI(a) Red VI(b)

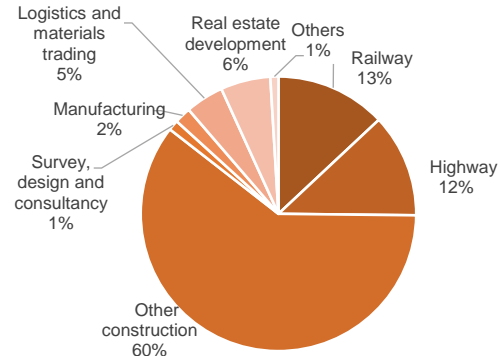
Source: Ministry of Ecology and Environmental, CMBIS

Figure 14: CRCC's value of new contract



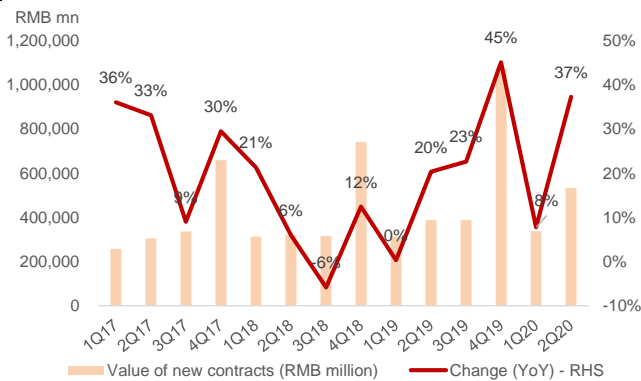
Source: Company data, CMBIS

Figure 15: CRCC's new contract breakdown (2Q20)



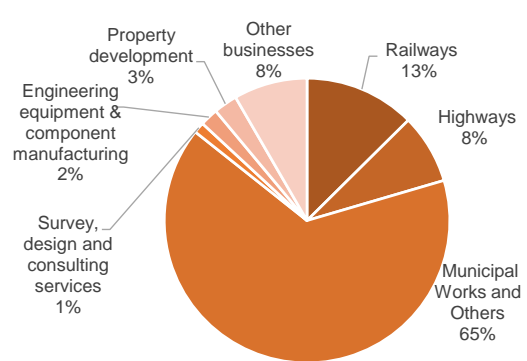
Note: Other construction projects include urban rail transit, housing, municipal, hydraulic & electric engineering, and airport & terminal
Source: Company data, CMBIS

Figure 16: CRG's value of new contract



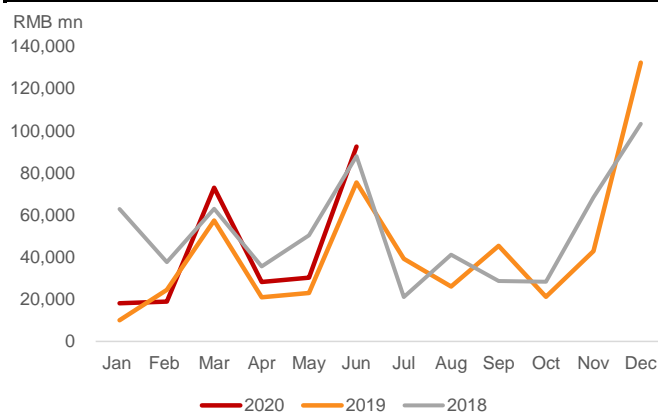
Source: Company data, CMBIS

Figure 17: CRG's new contract breakdown (2Q20)



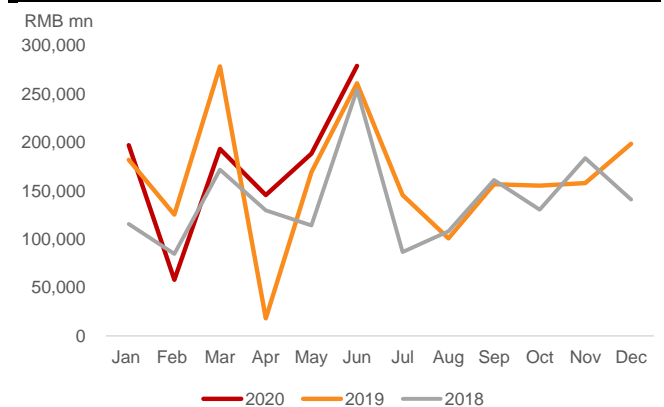
Source: Company data, CMBIS

Figure 18: CSCEC's new contract value for infrastructure construction



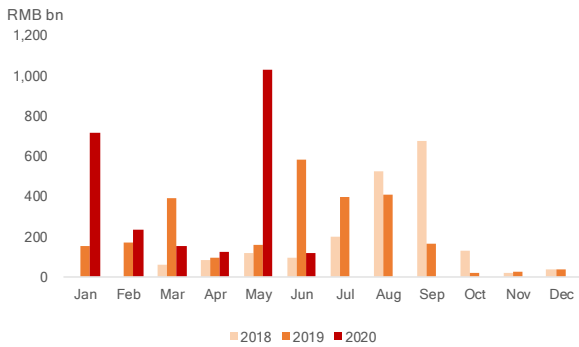
Source: Company data, CMBIS

Figure 19: CSCEC's new contract value for property construction



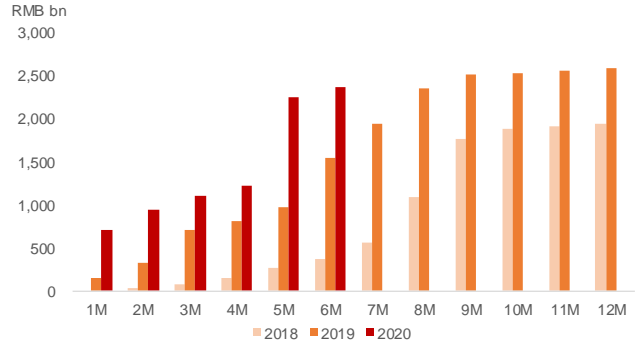
Source: Company data, CMBIS

Figure 20: Local gov't special bond issue amount (monthly)



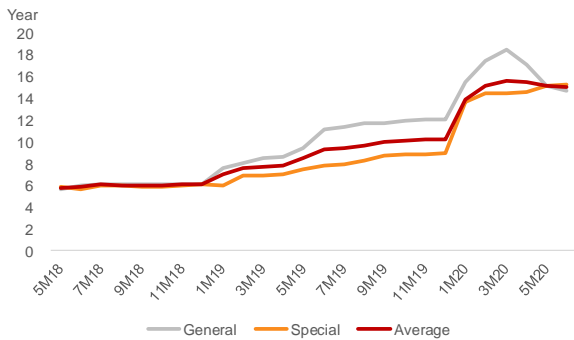
Source: Ministry of Finance, CMBIS

Figure 21: Local gov't special bond issue amount (YTD)



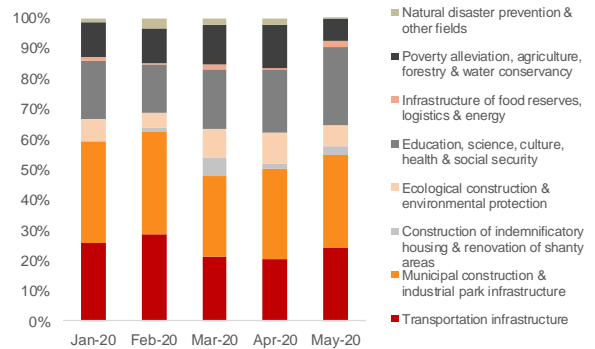
Source: Ministry of Finance, CMBIS

Figure 22: Local gov't bond average duration (YTD)



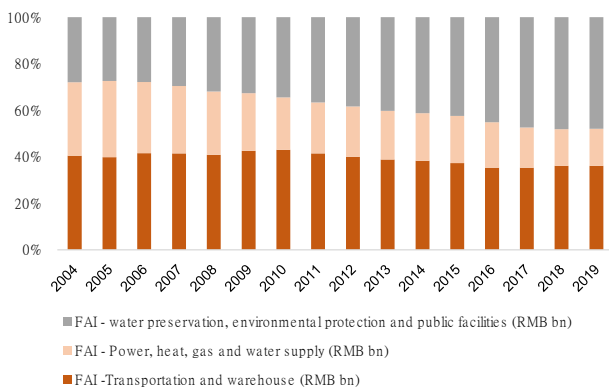
Source: Ministry of Finance, CMBIS

Figure 23: Investment targets of the new local gov't bond



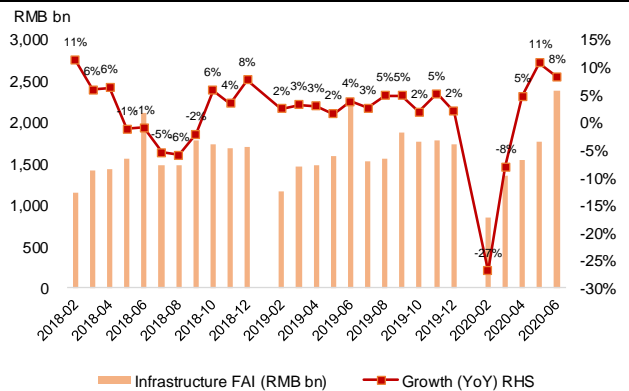
Source: Ministry of Finance, CMBIS estimates

Figure 24: Breakdown of infrastructure FAI



Source: Wind, NBS, CMBIS

Figure 25: China infrastructure FAI (monthly)



Source: Wind, NBS, CMBIS

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