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Capital Goods

Upgrade of rural highways could become a trillion yuan market

OUTPERFORM
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China Capital Goods Sector

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What's new? The State Council officially published the "Rural Highway Regulations" (农村公路条例) yesterday, which was approved in late Jun and will come into effect starting from 15 Sep. The regulations highlight that rural highway construction should aim to improve road network quality to promote urban-rural transportation integration. Most importantly, new rural highways must meet technical standards, and existing roads that do not meet the minimum technical standards must be upgraded.

Analysis:

- **Rural highways subject to upgrade.** According to the Ministry of Transport, as at end 2024, China's rural highways had a total length of 4.64mn km, which accounted for ~85% of the total length of national highways. Besides, according to the white paper regarding the development of China rural highways published in Nov 2024 (link), ~91% of the rural highways reached excellent, good and medium standards, while the remainder (~9%) was below-average or sub-standard in 2023.
- **Potential investment could be sizeable.** Assuming 9% of the total rural highways of 4.64mn km (i.e. ~410k km) will have to be upgraded over the coming 10 years and assuming that the upgrade cost per km will be RMB30-50mn, the potential spending could potentially reach RMB1.2-2.0trn per year, which is sizeable in our view.
- **Potential beneficiaries.** We see this as another positive catalyst to the construction machinery/HDT sectors following the newly announced mega hydro power project in the lower reaches of the Yarlung Zangbo River, Tibet (our analysis). We expect names under our coverage including **SANY Heavy (600031 CH, BUY), Zoomlion (1157 HK / 000157 CH, BUY), Jiangsu Hengli (601100 CH, BUY), Weichai Power (2338 HK / 000338 CH, BUY)** and **Sinotruk (3808 HK, HOLD)** will be beneficiaries.

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