

China Construction Machinery

Near-term recovery more seasonal than structural; Pair trade opportunities

Following a rally since early Feb, we believe the market has already priced in the upcoming recovery of machinery demand. We see little upside potential in the near term, as (1) the recovery could be more seasonal (MoM) than structural (YoY), with sales of excavator (proxy for the sector) likely falling short of expectation in Mar; (2) We expect the strong credit growth will only translate into a moderate recovery of excavator demand this year (+10% YoY in our industry assumption). Therefore, we are selective in our universe, and prefer only AWP (the only type of machinery that stands out by achieving 15% YoY growth in Jan). We see pair trade opportunities, by going long **Zhejiang Dingli** (strong growth of AWP demand) and **Zoomlion-H** (spin-off of AWP unit to unlock value + defensive valuation at 10x 2023E P/E), funded by short position in **SANY Heavy** (high expectation on excavator recovery + unattractive valuation at 27x 2023E P/E).

■ Weak sales of major construction machinery in Jan but largely expected. **Excavator (downstream applications: Infrastructure + property + mining):**

According to CCMA, total sales volume in Jan 2023 dropped 33% YoY to 10.4k units. In China market, sales volume in Jan declined 59% YoY to only 3.4k units, the lowest level since 2016. We believe the weak sales was due to pandemic and early CNY this year. In overseas, export volume slightly dropped 4% YoY to 7k units. **Truck crane (Infrastructure + wind/nuclear power):** Sales volume dropped 21.5% YoY to 1.2k units in Jan. **Tower crane (property):** Sales declined 41% YoY to 841 units.

- **Can the strong loan growth translate into meaningful demand recovery of excavator?** The sector had a strong rally since Feb given the rising expectations on infrastructure spending. The rally was further fueled by the 67% growth of the medium-to-long term corporate growth data (RMB3.5trn in Jan) released in mid-Feb. Our studies indicate that the correlation between the M/L term corporate loan growth and domestic sales of excavator had a correlation of 0.3 over the past five years (Fig 1). Meanwhile, we note that the loan amount in Jan tended to lead the excavator domestic sales by two months in 2018-2021 (Fig 2). However, the loan amount in Jan 2022 did not offer much support to the excavator demand, possibly due to a change in mix of loan (less to excavator related projects). Therefore, while the absolute amount was high in Jan 2023, we wonder it will translate into meaningful recovery in Mar & Apr (the traditional peak season). Our check on hydraulic components' orders reflected little improvement in Feb (normally 1-2 months ahead of downstream demand).
- **Expect AWP growth to continue to stand out.** In contrast to the weak demand for other construction machinery, AWP sales volume in Jan grew 15% YoY to 9.8k units. Such resilience reaffirms our positive stance on AWP. We maintain our view that tight supply of AWP in overseas will continue to offer good potential for China export, while domestic demand will continue to be underpinned by the replacement of labour. Our sales growth forecast for the full year is 20%.

OUTPERFORM
(Maintain)

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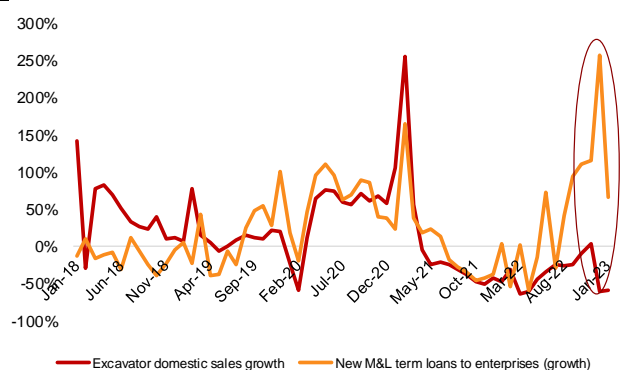
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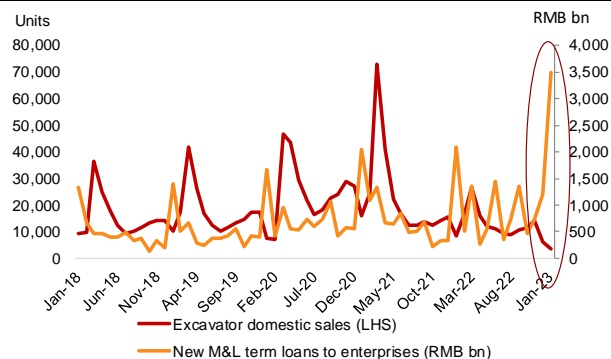
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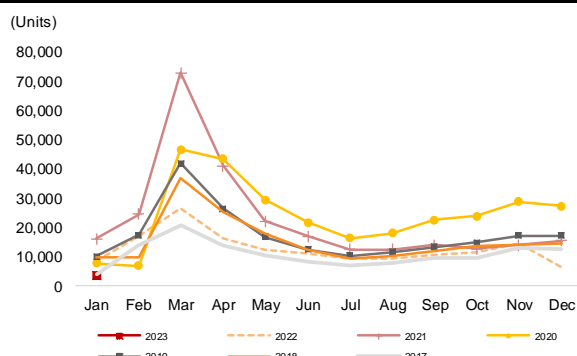
Figure 1: China excavator domestic sales growth vs new medium-long term loan growth


Source: CCMA, Wind, CMBIGM

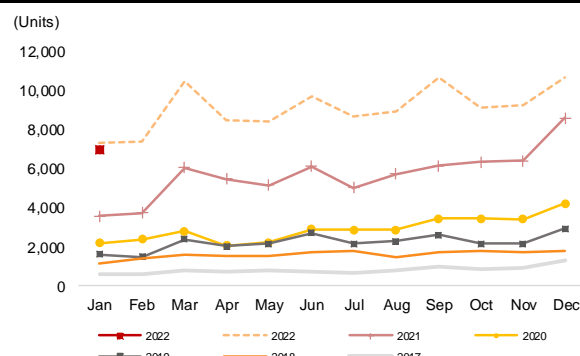
Note: Correlation: 0.31

Figure 2: China excavator domestic sales vs new medium-long term loan amount


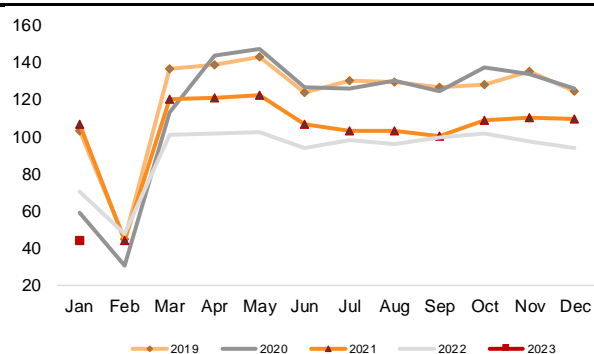
Source: CCMA, Wind, CMBIGM

Figure 3: China excavator monthly sales


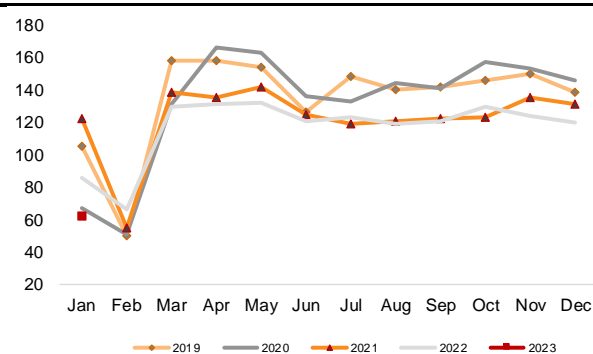
Source: CCMA, CMBIGM

Figure 4: Excavator monthly export volume


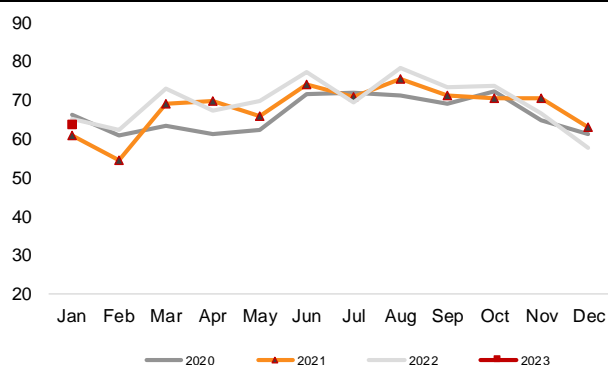
Source: CCMA, CMBIGM

Figure 5: Komatsu excavator monthly utilisation hours in China


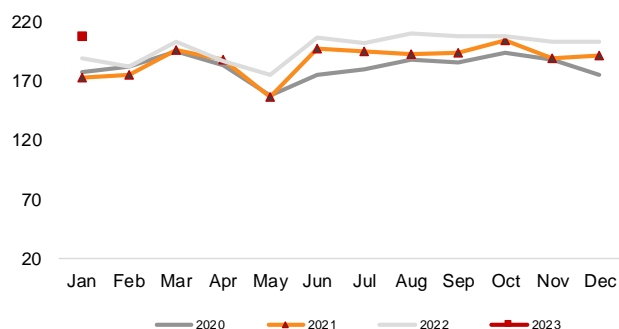
Source: Komatsu, CMBIGM

Figure 6: Hitachi excavator monthly utilisation hours in China


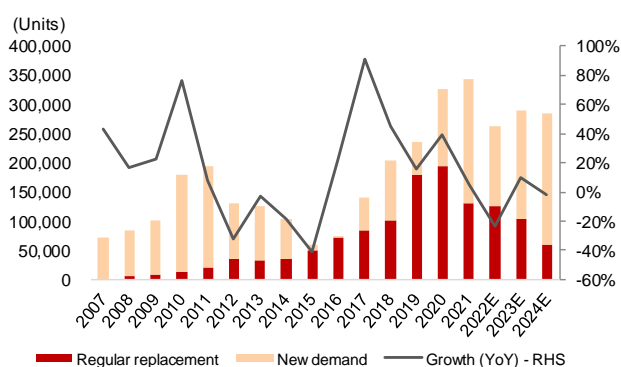
Source: Hitachi, CMBIGM

Figure 7: Komatsu excavator monthly utilisation hours in North America

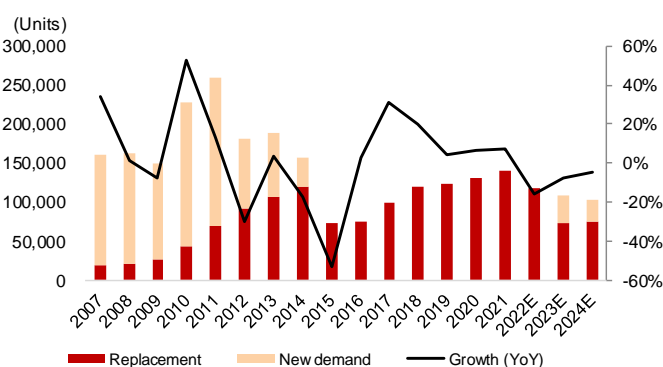
Source: Komatsu, CMBIGM

Figure 8: Komatsu excavator monthly utilisation hours in Indonesia

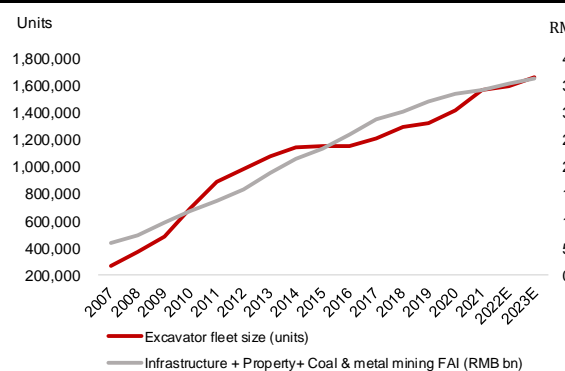
Source: Komatsu, CMBIGM

Figure 9: CMBIGM excavator sales projection

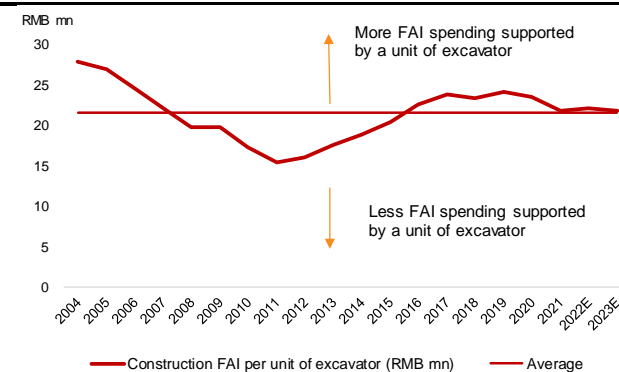
Source: CCMA, Wind, CMBIGM estimates

Figure 10: CMBIGM wheel loader sales projection

Source: CCMA, CMBIGM estimates

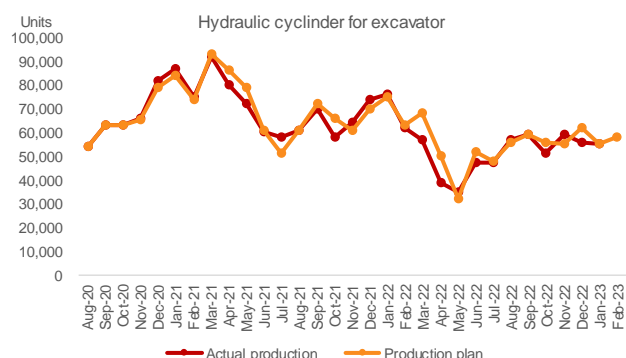
Figure 11: Excavator fleet size versus construction related FAI

Source: CCMA, Wind, CMBIGM estimates

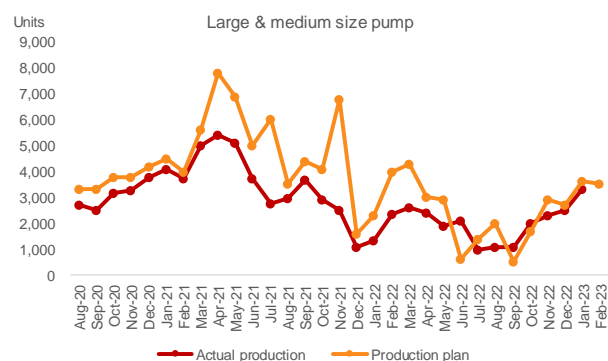
Figure 12: Construction FAI per unit of excavator in operation

Source: CCMA, wind, CMBIGM estimates

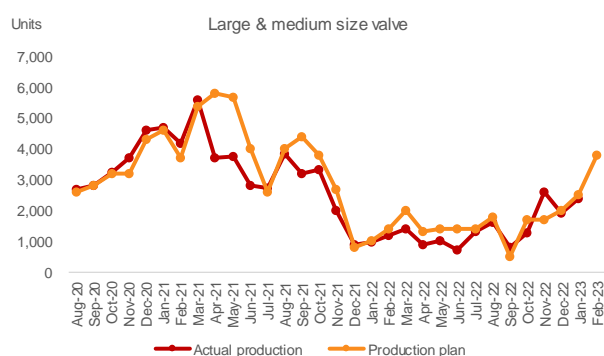
Note: Construction FAI = infrastructure + property + mining

Figure 13: Hengli's hydraulic cylinders monthly production

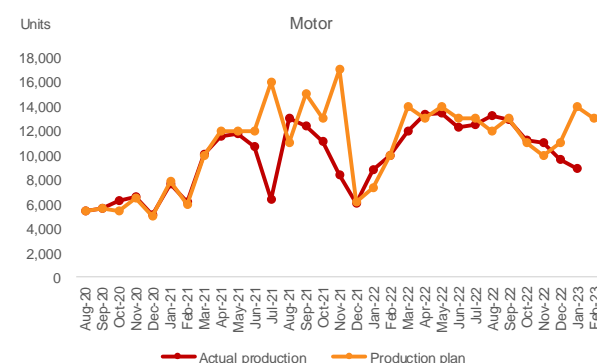
Source: Company data, CMBIGM estimates

Figure 14: Hengli's large & medium size pump monthly production

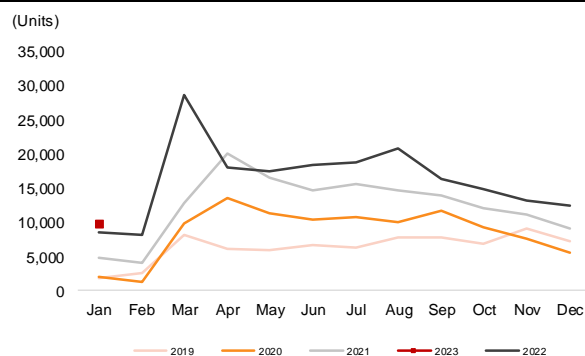
Source: Company data, CMBIGM estimates

Figure 15: Hengli's large & medium size valve monthly production

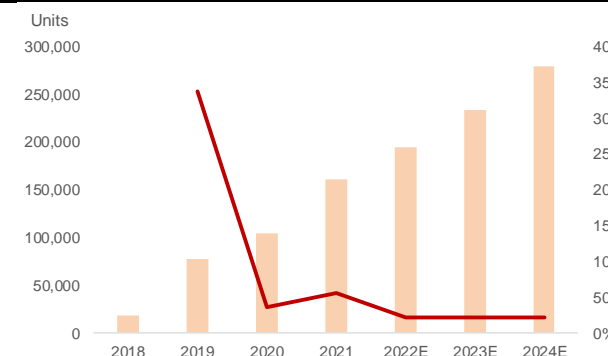
Source: Company data, CMBIGM estimates

Figure 16: Hengli's motor monthly production

Source: Company data, CMBIGM estimates

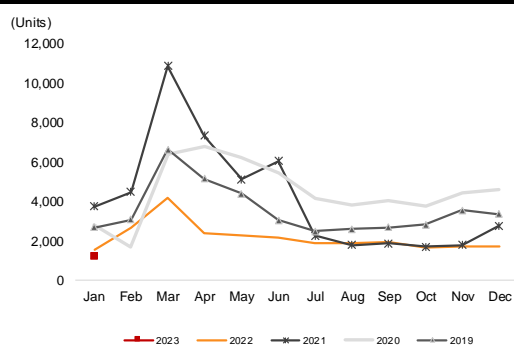
Figure 17: AWP monthly sales (China + export)

Source: CCMA, CMBIGM

Figure 18: CMBIGM AWP sales projection

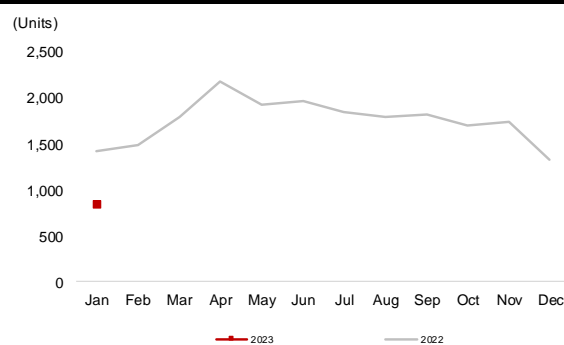
Source: CCMA, CMBIGM estimates

Figure 19: Truck crane monthly sales



Source: CCMA, CMBIGM

Figure 20: Tower crane monthly sales



Source: CCMA, CMBIGM

Figure 21: 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	7.99	13.20	65%	3,229	13.1	10.9	2.2	1.9
1157 HK Equity	ZOOMLION HEAVY-H	BUY	4.66	5.24	12%	7,842	12.2	9.8	0.6	0.6
2338 HK Equity	WEICHAI POWER-H	BUY	12.20	12.60	3%	15,309	22.0	16.8	1.3	1.2
3808 HK Equity	SINOTRUK HK LTD	HOLD	12.38	10.00	-19%	4,367	16.5	11.4	0.8	0.8
1839 HK Equity	CIMC VEHICLES -H	NR	5.21	-	-	2,421	n/a	n/a	n/a	n/a
564 HK Equity	ZHENGZHOU COAL-H	NR	8.27	-	-	3,410	5.3	4.3	0.9	0.6
	HK listed average						13.8	10.6	1.2	1.0
A share										
000338 CH Equity	WEICHAI POWER-A	HOLD	12.53	11.40	-9%	15,648	26.1	19.9	1.5	1.4
601100 CH Equity	JIANGSU HENGLI-A	HOLD	69.93	58.00	-17%	13,847	36.0	32.1	8.5	7.2
603338 CH Equity	ZHEJIANG DINGLI -A	BUY	58.21	71.00	22%	4,353	24.5	20.4	4.2	3.6
600031 CH Equity	SANY HEAVY-A	HOLD	18.66	14.70	-21%	23,387	35.9	27.0	2.5	2.3
000157 CH Equity	ZOOMLION HEAVY-A	HOLD	6.73	6.00	-11%	8,015	20.4	16.4	1.1	1.0
000425 CH Equity	XCMG-A	NR	7.05	-	-	12,303	13.8	12.2	1.4	1.3
000528 CH Equity	GUANGXI LIUGONG-A	NR	6.75	-	-	1,945	14.3	11.7	0.8	0.8
603638 CH Equity	YANTAI EDDIE P	NR	20.00	-	-	2,482	72.7	54.1	5.5	5.0
600761 CH Equity	ANHUI HELI CO-A	NR	19.70	-	-	2,153	16.4	13.4	2.3	2.0
603298 CH Equity	HANGCHA GROUP-A	NR	21.81	-	-	2,791	18.8	15.5	3.0	2.7
000951 CH Equity	CNHTC JINAN T-A	NR	17.28	-	-	2,998	60.0	19.3	1.5	1.4
601717 CH Equity	ZHENGZHOU COAL-A	NR	14.18	-	-	3,486	10.4	8.5	1.7	1.3
600582 CH Equity	TIAN DI -A	NR	5.50	-	-	3,362	9.8	8.7	1.1	1.0
	A-share average						27.6	19.9	2.7	2.4
Overseas										
CAT US Equity	CATERPILLAR INC	NR	238.0	-	-	122,864	15.1	14.2	7.4	6.4
DE US Equity	DEERE & CO	NR	425.1	-	-	125,952	14.3	13.6	6.0	4.9
6305 JP Equity	HITACHI CONST	NR	3,045.0	-	-	5,006	9.1	9.0	1.0	0.9
6301 JP Equity	KOMATSU LTD	NR	3,274.0	-	-	24,359	10.1	10.2	1.3	1.2
042670 KS Equity	DOOSAN INFRACORE	NR	8,880.0	-	-	1,419	8.0	7.1	1.0	0.9
VOLVB SS Equity	VOLVO AB-B	NR	208.4	-	-	41,256	11.6	11.4	2.6	2.4
	Average						11.3	10.9	3.2	2.8
Hydraulic components										
PH US Equity	PARKER HANNIFIN	NR	349.0	-	-	44,766	17.9	16.3	4.6	4.0
7012 JP Equity	KAWASAKI HVY IND	NR	2,967.0	-	-	3,808	10.0	10.0	0.9	0.9
7242 JP Equity	KYB CORP	NR	3,750.0	-	-	738	4.5	4.1	0.6	0.5
6474 JP Equity	NACHI-FUJIKOSHI	NR	3,880.0	-	-	739	7.3	7.5	0.6	0.5
6268 JP Equity	NABTESCO CORP	NR	3,465.0	-	-	3,206	20.1	17.7	1.6	1.5
	Average						12.0	11.1	1.7	1.5
Aerial working platform										
TEX US Equity	TEREX CORP	NR	57.6	-	-	3,887	11.8	11.1	2.7	2.2
OSK US Equity	OSHKOSH CORP	NR	89.5	-	-	5,856	15.9	12.5	1.7	1.6
LNR CN Equity	LINAMAR CORP	NR	74.2	-	-	3,414	11.7	9.3	n/a	n/a
PIG FP Equity	HAULOTTE GROUP	NR	3.6	-	-	121	n/a	30.0	0.5	0.5
6345 JP Equity	AICHI CORP	NR	796.0	-	-	458	10.9	10.2	n/a	n/a
	Average (excluding Haulotte)						12.6	10.8	1.6	1.4

Source: Bloomberg, Company data, CMBIGM estimates

Note: Based on CMBI earnings estimates for stocks under coverage

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