

China Construction Machinery Sector

Excavator sales +61% YoY in Oct; Leading indicators suggest sustainable momentum

Sales volume of excavator in Oct surged 61% YoY, which is in line with expectations. We expect sales growth to maintain at >60% in 4Q20E as leading indicators remain positive: (1) utilization rate of excavator increased by 15% YoY in Oct; (2) Hengli's production plan in Nov implies strong downstream demand; (3) acceleration of major contractors' new contract value growth in 3Q will translate to strong demand for construction machinery going forward. All these reaffirm our positive stance on **SANY Heavy (600031 CH, BUY, TP: RMB34.6)**, **Zoomlion (1157 HK, TP: HK\$10.5; 000157 CH, TP: RMB9.56, BUY)** and **Jiangsu Hengli (601100 CH, BUY, TP: RMB87)**.

- **Excavator sales +61% YoY in Oct.** According to CCMA, sales volume of excavator by 25 major producers in Oct grew 60.5% YoY to 27.3k units. In China market, sales volume increased by 60.7% YoY to 23.9k units, while export volume grew 59.4% YoY to 3.4k units in Oct. In 10M20, sales volume increased 35% YoY to 264k units, representing 82.9% of our full year estimates (Run rate in 10M19: 83.3%).
- **Utilization hours of excavators under operation +15% YoY in Oct.** Utilization hours of the operating excavators in China reached 155 in Oct (+15% YoY), the highest growth since Apr 2020. Shandong and Henan reported 24% and 16% YoY increase in utilization hours, respectively, while southern regions such as Guangdong (-12% YoY) and Guangxi (+4% YoY) reported relatively weak utilization hours. Overall speaking, the utilization rate was high, which suggested strong construction activities.
- **High visibility of excavator demand in 4Q20E.** Hengli scheduled production of 65.5k units of hydraulic cylinder (for excavator) in Nov. This implies 4% growth MoM and a significant growth YoY. Besides, Hengli's scheduled monthly production volume of motor increased 20% MoM, driven by the strong demand for both excavator and aerial working platform (AWP). Based on our calculation, Hengli's production volume will translate into ~16k units of monthly excavator demand. Given Hengli's >50% market share, this will imply ~32k units of excavator demand for the industry as a whole in Dec. We expect excavator demand in 4Q20E will likely maintain >60% YoY growth.
- **Wheel loader sales +11% YoY in Oct.** Sales volume of wheel loaders by 23 major producers in Oct grew 11% YoY to 10.5k units. Sales volume in China increased 9% YoY to 8.2k units, while export volume grew 17% YoY to 2.3k units. In 10M20, sales volume only increased by 5.6% YoY to 109k units. We remain cautious on **Lonking (3339 HK, SELL, TP: HK\$2.22)** due to the sluggish demand outlook of wheel loader as a result of the substitution by excavator.
- **Contractors' new contract value growth implies strong demand for machinery going forward.** Both **CRCC (1186 HK, NR)** and **CCCC (1800 HK, NR)** reported 30% YoY growth of newly signed contract value in 3Q20, accelerating from the previous two quarters, driven by largely by infrastructure and municipal projects. **CSECE (601668 CH, NR)** new contract value growth in Sep reached 26% YoY, representing a sequential growth acceleration since Jun. We expect favourable government policies to support infrastructure spending on the back of ample liquidity from local government bonds will drive smooth execution of the contractors' backlog.

OUTPERFORM (Maintain)

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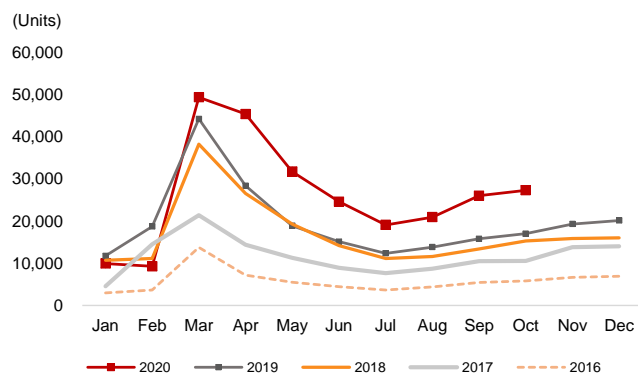
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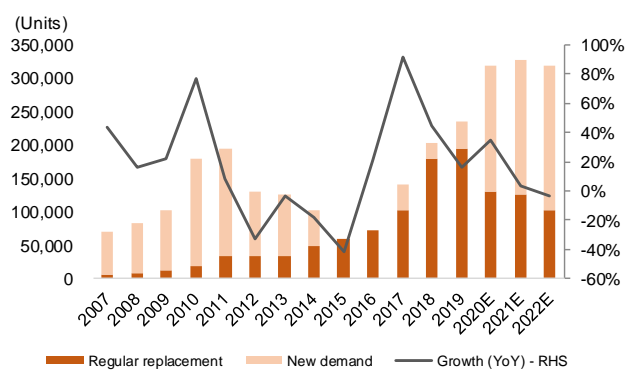
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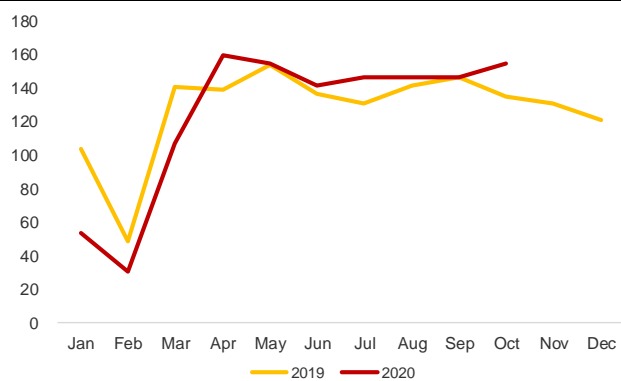
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10. China Construction Machinery Sector – Four structural drivers to extend the upcycle to 2020-21E – 27 Nov 2019

Figure 1: China monthly excavator sales

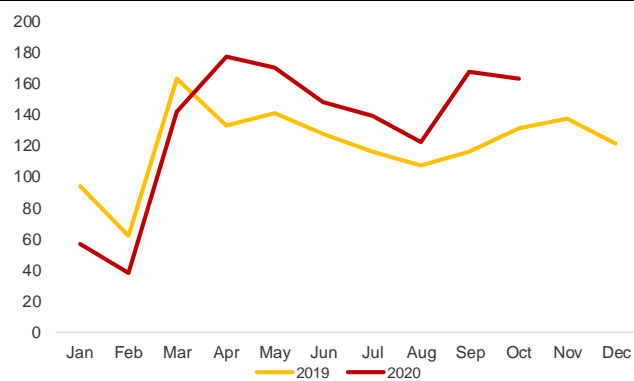
Source: CCMA, CMBIS

Figure 2: CMBIS excavator sales projection

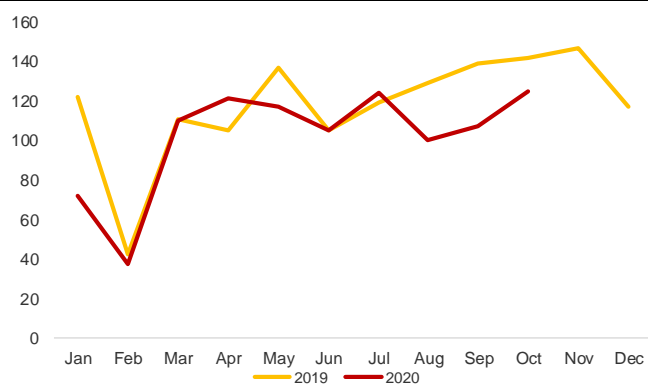
Source: CCMA, CMBIS estimates

Figure 3: Excavator utilisation hours (China)

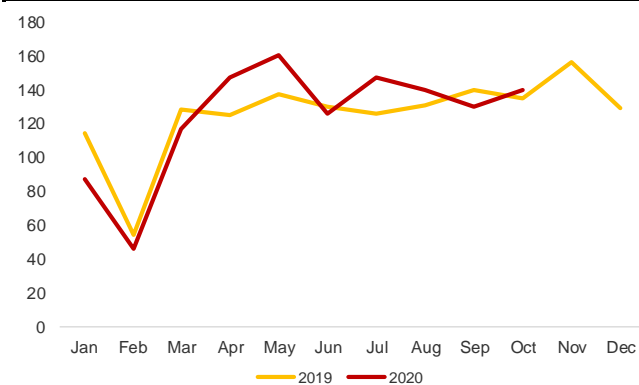
Source: CCMA, CMBIS

Figure 4: Excavator utilisation hours (Shandong)

Source: CCMA, CMBIS

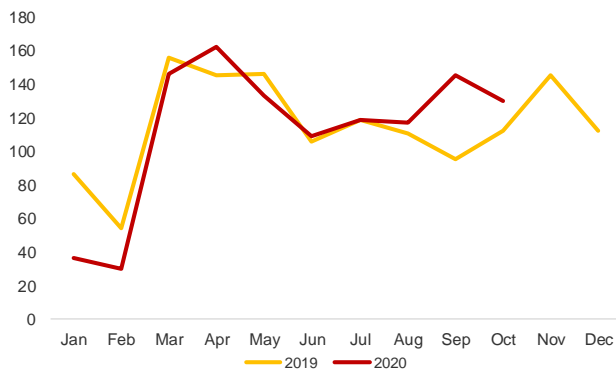
Figure 5: Excavator utilisation hours (Guangdong)

Source: CCMA, CMBIS

Figure 6: Excavator utilisation hours (Guangxi)

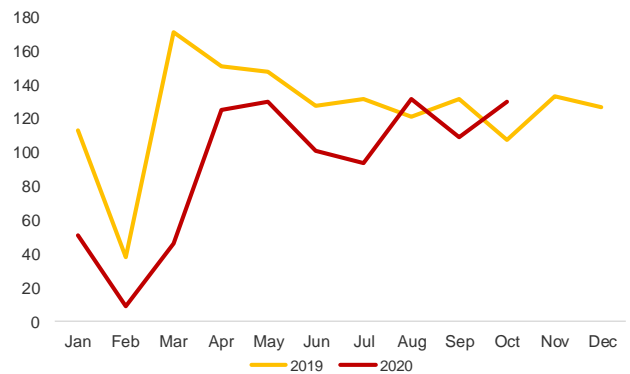
Source: CCMA, CMBIS

Figure 7: Excavator utilisation hours (Henan)



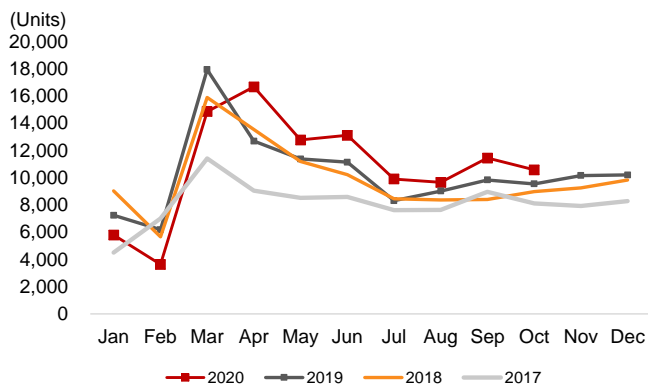
Source: CCMA, CMBIS

Figure 8: Excavator utilisation hours (Hubei)



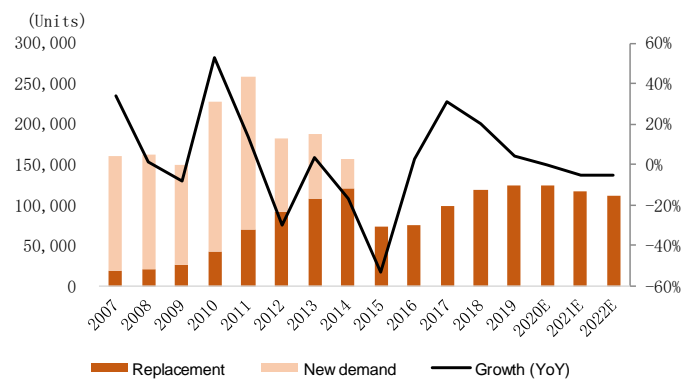
Source: CCMA, CMBIS

Figure 9: China monthly wheel loader sales



Source: CCMA, CMBIS

Figure 10: CMBIS wheel loader projection



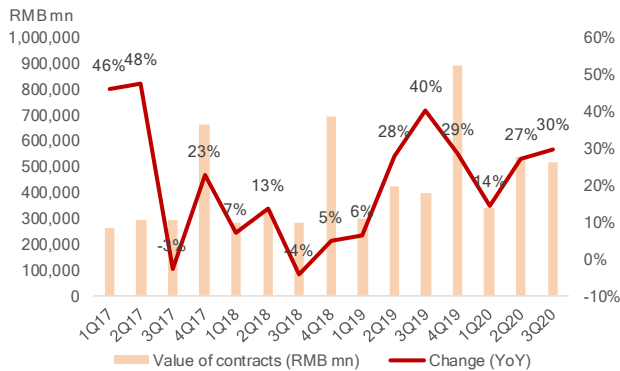
Source: CCMA, CMBIS estimates

Figure 11: Timetable for the implementation of NES

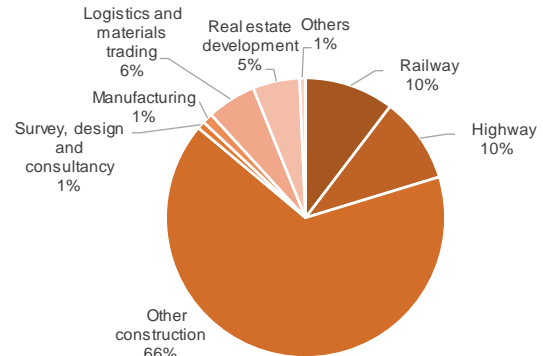
		Year																							
Type of vehicles		00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23
Heavy duty vehicle	Diesel																								
	Gasoline																								
	Gas fueled																								
Light duty vehicle	Diesel																								
	Gasoline																								
	Gas fueled																								
Off road vehicle	Diesel																								
National emission standard																									

National emission standard: No regulation, I, II, III, IV, V, VI(a), VI(b)

Source: Ministry of Ecology and Environmental, CMBIS

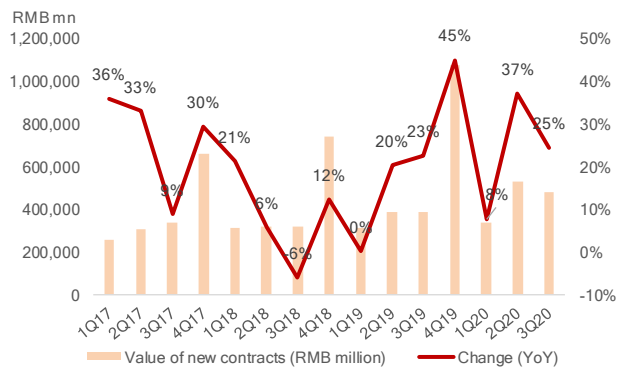
Figure 12: CRCC's value of new contract

Source: Company data, CMBIS

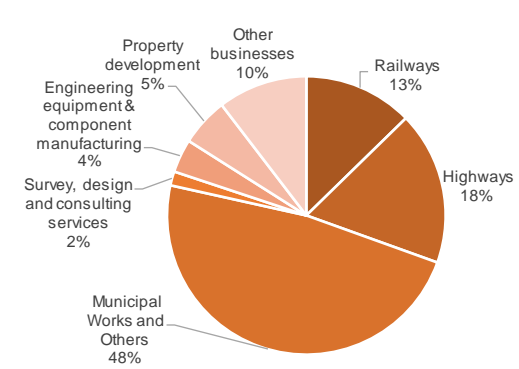
Figure 13: CRCC's new contract breakdown (3Q20)

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

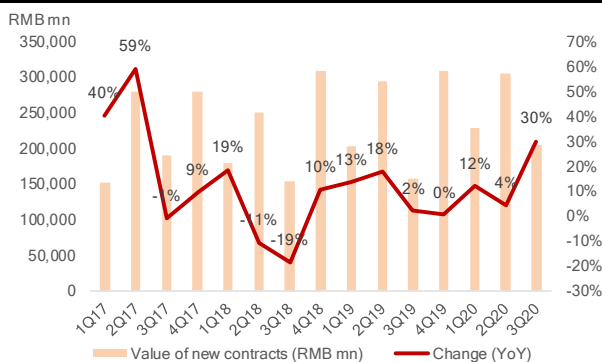
Source: Company data, CMBIS

Figure 14: CRG's value of new contract

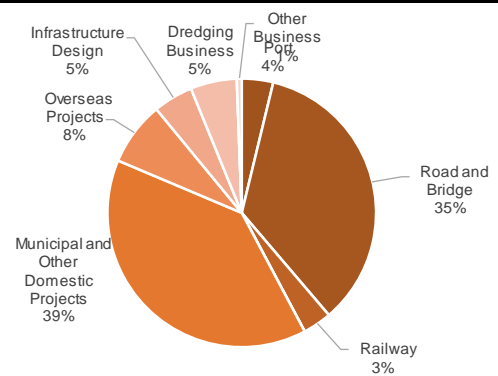
Source: Company data, CMBIS

Figure 15: CRG's new contract breakdown (3Q20)

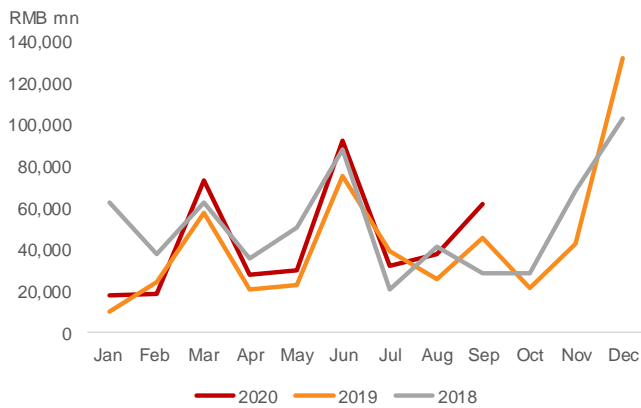
Source: Company data, CMBIS

Figure 16: CCCC's value of new contract

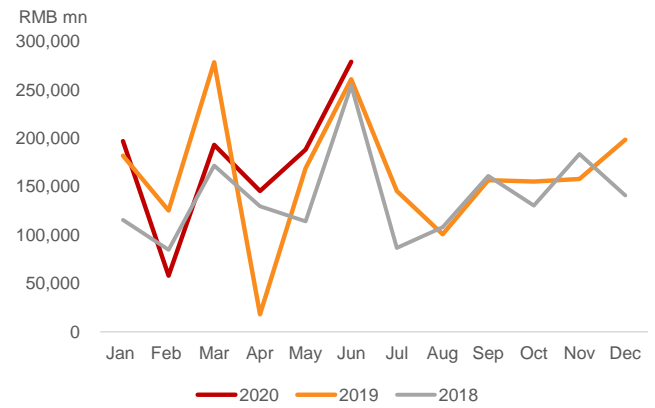
Source: Company data, CMBIS

Figure 17: CCCC's new contract breakdown (3Q20)

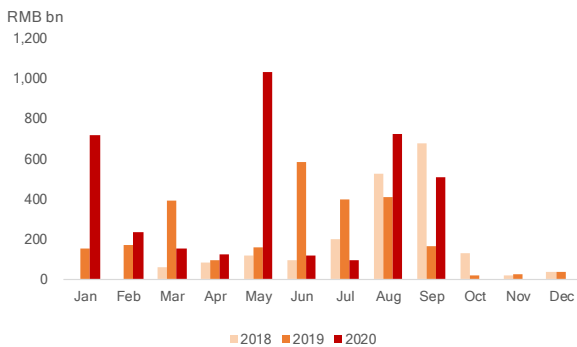
Source: Company data, CMBIS

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


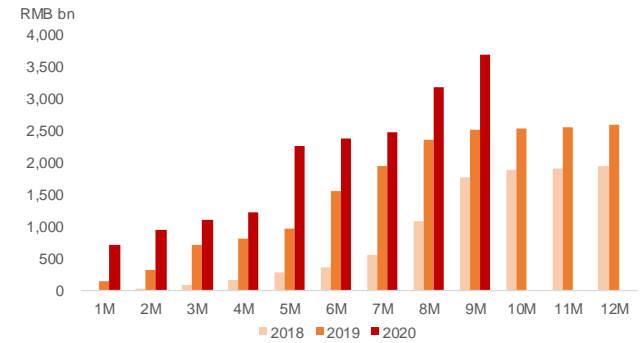
Source: Company data, CMBIS

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


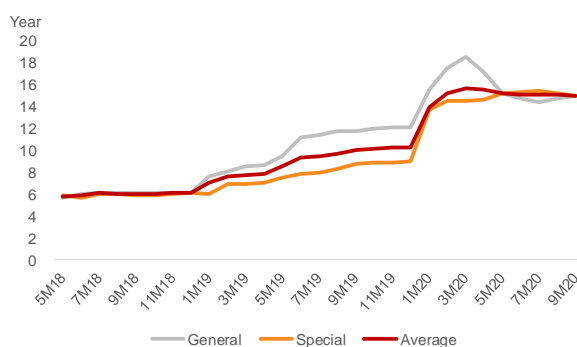
Source: Company data, CMBIS

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


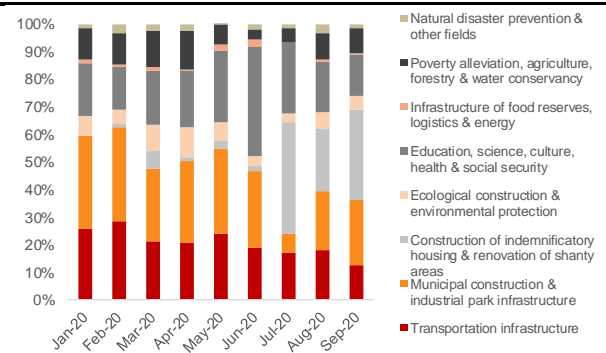
Source: Ministry of Finance, CMBIS

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


Source: Ministry of Finance, CMBIS

Figure 22: Local gov't bond average duration


Source: Ministry of Finance, CMBIS

Figure 23: Use of proceeds from the new local gov't bond


Source: Ministry of Finance, CMBIS estimates

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