

Capital Goods

RMB300bn capital to finance equipment replacement

What's new? The NDRC and Ministry of Finance released yesterday (Jul 25) a circular regarding the measures to enhance support for equipment replacement and trade-in of consumer goods (《关于加力支持大规模设备更新和消费品以旧换新的若干措施》 [link](#)). A total of ~RMB300bn capital from the issuance of ultra-long term government bonds will be allocated. For equipment replacement, the scope includes industrials, environmental infrastructure, transportation equipment, logistics, education, travel and medicine, with an extension to energy, power and elevators. In particular, subsidies for NES III trucks and agricultural machinery will be increased. Allocated but idle capital by end-2024 will be returned to the central finance, which suggests that replacement cycle will likely speed up in 2H24. In our coverage, **Weichai Power** (2338 HK, BUY, TP: HK\$22 / 000338 CH, BUY, TP: RMB20.4), **Sinotruk** (3808 HK, BUY, TP: HK\$22.5) and **Zoomlion** (1157 HK, BUY, TP: HK\$7.50 / 000157 CH, BUY, TP: RMB11.6, BUY) will be key beneficiaries.

- **Replacement of old vessels:** The circular encourages the speed-up of replacement of vessels with high emission, to push forward the development of new energy vessels. Inland passenger vessels (>10 years), inland cargo ships (>15 years), coastal passenger vessels (>15 years) and coastal cargo ships (>20 years) will be eligible for subsidies. The subsidies range from RMB1,000 to 3,200 per tonne of displacement. **Our view:** Ship builders will be the key beneficiary. Besides, **Weichai** will also benefit from higher demand for marine engines.
- **Replacement of NES III trucks:** For trade-in of trucks, RMB80k will be offered per unit as subsidies. For purchase of trucks without trade-in, RMB35k will be provided. For recycling of trucks without new purchase, RMB30k will be provided. **Our view:** We expect the subsidies will speed up the replacement of the remaining NES III trucks in the market. Going forward, we expect the potential launch of subsidies by local governments to replace NES IV trucks will be a more important driver. **Weichai** and **Sinotruk** will be the key beneficiaries.
- **Replacement of agricultural machinery:** Apart from subsidies allocated for provincial governments announced in Jun ([link](#)), the circular yesterday further increases the subsidies for agricultural machinery replacement. Subsidies for the recycling of tractors (>20 horsepower) will be increased to RMB1,500 from RMB1,000 per unit. For the replacement of combine harvesters and seed drill machines, subsidies will be increased by 50% from the existing level. For cotton pickers, subsidies per unit will be increased to RMB60k from RMB30k. Besides, each region can include a maximum of six new types of agricultural machinery in the new subsidy program. **Our view:** **Zoomlion** and **Weichai** will be the key beneficiaries.

OUTPERFORM
(Maintain)

China Capital Goods Sector

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