

Capital Goods

Equipment replacement proposed in Central government meeting; positive to HDT sector

In the Central Commission for Financial and Economic Affairs (CCFEA) meeting held on 23 Feb, President Xi proposed an acceleration of a large-scale replacement of production equipment to support economic growth. This is the first time that equipment replacement is mentioned as a tool to support the economy. We believe this message is a positive signal to the heavy-duty truck (HDT) sector. We see potential for more local governments to roll out policies to eliminate national emission standard (NES) IV trucks. The meeting further enhances our positive view on the HDT sector (replacement upcycle + resilient export demand). Reiterate **BUY** on **Weichai Power (2338 HK / 000338 CH)** and **Sinotruk (3808 HK)**.

- **Key messages in the CCFEA meeting.** During the meeting, it was stressed that the speed-up of product upgrade is an important measure for promoting high-quality development. Such efforts should be made to encourage and guide a new round of large-scale equipment renewal and trade-in of consumer goods. Besides, it is essential to lower logistics costs effectively across the entire society.
- **Possible target of replacement: NES IV trucks.** According to the NES policy, NES IV trucks were sold between mid-2013 and mid-2017. We calculate that roughly ~3mn units of HDT were sold during the period, and we assume half of the trucks (i.e. 1.5mn units) are still in operation. Assuming these trucks are to be phased out by 2026E, the replacement demand per year will be 500k units, quite a sizable volume, in our view.
- **Expect more cities to launch subsidy program for the elimination of NES IV trucks in 2024.** Unlike the elimination of NES III, the progress on the phase-out of NES IV has been slowed. Based on our checks, less than ten cities proposed subsidy program in 2023 (figure 1). That said, we expect more cities to roll out subsidy policy given the central government's aspiration to boost replacement and upgrade.

OUTPERFORM
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China Capital Goods Sector

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China Construction Machinery / HDT – 2024 Outlook: Slowdown of overseas demand along with lack of growth in China; be selective – 30 Nov 2023 ([link](#))

Figure 1: Subsidies offered by local governments to eliminate NES IV trucks starting 2023

Province / City	Target / Subsidies (RMB k)				
Zhejiang	To eliminate 60% NES IV diesel trucks by 2025 Total elimination: 40k units				
Ningbo (宁波)	To basically eliminate all NES IV trucks by 2025				
	Year	2024		2025	
		HDT	MDT	HDT	MDT
	<7 years	57.0	22.0	45.6	17.6
	7- <8 years	50.0	18.0	40.0	14.4
	8- <9 years	40.0	16.0	32.0	12.8
	9- <10 years	33.0	14.0	26.4	11.2
	10 years or above	28.0	13.0	22.4	10.4
Hangzhou (杭州)	Period eligible for subsidies: 13 May 2023 to 30 Jun 2024				
		HDT	MDT	LDT	
	<8 years	43.5	31.0	17.4	
	8- <9 years	36.5	25.5	15.0	
	9- <10 years	30.0	20.5	12.5	
Jiaxing (嘉兴)		HDT	MDT	LDT	
	<8 years	36.0	24.0	14.0	
	8- <9 years	33.0	22.0	13.0	
	9- <10 years	30.0	20.0	12.0	
	10 years or above	24.0	16.0	10.0	
Quzhou (衢州)	Period eligible for subsidies: 10 Oct 2023 to 31 Dec 2025				
		HDT	MDT	LDT	
	<8 years	30.0	21.0	10.0	
	8- <9 years	26.0	18.0	9.0	
	9- <10 years	22.0	15.0	8.0	
	10 years or above	18.0	12.0	7.0	
Huzhou (湖州)		HDT	MDT	LDT	
	<8 years	36.0	24.0	14.0	
	8- <9 years	33.0	22.0	13.0	
	9- <10 years	30.0	20.0	12.0	
	10 years or above	24.0	16.0	10.0	
Lishui (丽水)	Period eligible for subsidies: 4 Apr 2023 to 30 Nov 2025				
		HDT	MDT	LDT	
	<8 years	30.0	21.0	10.0	
	8- <9 years	26.0	18.0	9.0	
	9- <10 years	22.0	15.0	8.0	
	10 years or above	18.0	12.0	7.0	

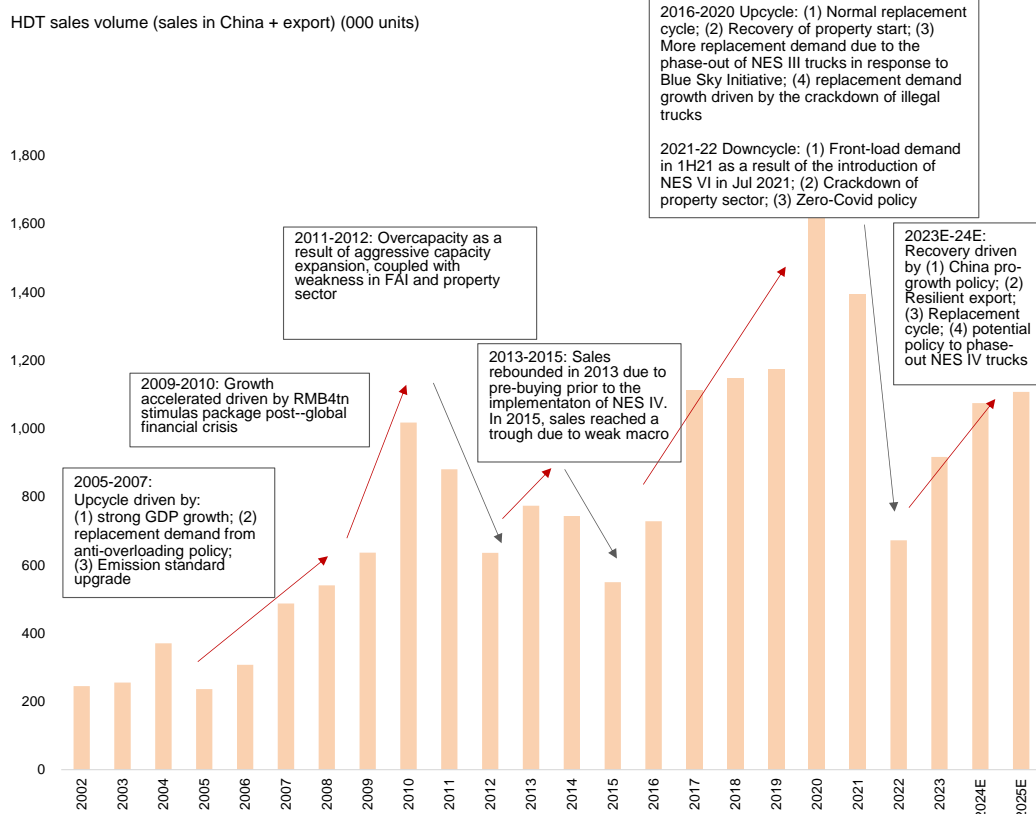
Source: Local governments, 360che, CMBIGM

Figure 2: Timetable for the implementation of NES

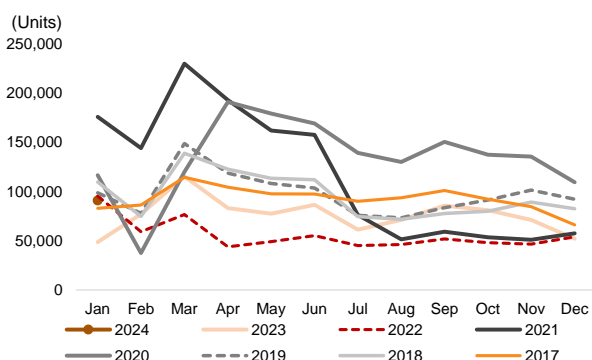
		Year																							
Type of vehicles		00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23
Heavy duty vehicle	Diesel																								
	Gasoline																								
	Gas fueled																								
Light duty vehicle	Diesel																								
	Gasoline			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

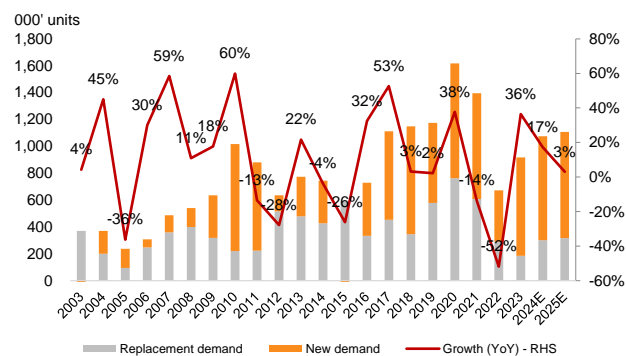
Figure 3: Cycles of China's HDT sales

Source: Wind, CMBIGM estimates

Figure 4: China's HDT monthly sales

Source: Cvworl, CMBIGM

Note: Sales in China + exports

Figure 5: CMBIGM HDT sales projection

Source: Cvworl, Wind, CMBIGM estimates

Note: Sales in China + exports

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