

Capital Goods

2025 Outlook: Emerging markets the key growth driver; China market to be stabilized

We expect Chinese construction machinery manufacturers' global expansion will continue in 2025E, with emerging markets such as the Middle East, Africa, Latin America to offer explosive growth potential across all types of machinery. In China, we expect replacement cycle together with stepped-up government stimulus will help stabilize the machinery demand, though we have yet to model aggressive assumptions. By segment, we expect excavator will achieve growth in both China and export markets in 2025E, while other machinery will likely see much better growth overseas compared with China. Our top pick is **Zoomlion (1157 HK / 000157 CH, BUY)** for its strong presence in emerging markets with a full range of product offerings. We see the start of share buyback (H-share) in Dec a good sign given the good track record of corporate actions. We upgrade **SANY Heavy (600031 CH)** to **BUY** due to its high proportion of revenue from excavators (~50% of segment profit) *(for details, please see our report "Riding on the up-cycle of excavator + overseas expansion" published on 9 Dec)*. We also like **Zhejiang Dingli's (603338 CH, BUY)** strong execution in overseas AWP market.

- **Potential new US tariffs to have limited impact.** The market has been concerned about the uncertainties of the US tariffs in 2025. However, we believe the actual impact on Chinese construction machinery manufacturers is limited, as (1) the revenue generated in the US is not significant for the majority of Chinese players; (2) the Chinese players have contingency plans, such as producing in the US, to mitigate the potential impact.
- **Emerging regions to watch:** Saudi Arabia has continued to achieve economic diversification through raising the contribution of non-oil industries. The construction activities brought by "Saudi Vision 2030" will continue to offer a fast-growing market for the Chinese contractors as well as machinery/HDT makers. In Africa, we expect the increase in Chinese government's funding, under the FOCAC Beijing Action Plan (2025-27), will help boost energy and infrastructure spending, offering visibility for Chinese players.
- **Excavator: Expect 12% YoY sales growth (domestic sales + exports) in 2025E.** For exports, we forecast 15% YoY growth. In China, on the back of the beginning cycle of replacement and the recovery of medium-to-large size excavators, we forecast domestic sales of excavators to grow 10% YoY.
- **HDT: Expect 10% YoY growth (domestic sales + exports) in 2025E.** We think the potential extension of the equipment replacement policy to NES IV trucks will be the key to boosting HDT demand, given the much larger fleet size (~30% of total fleet size of HDTs) compared with NES III. We have already seen some provinces taking initiatives to offer subsidies for the replacement of NES IV trucks in 2024, and we expect more provinces to follow in 2025. We are cautious on the HDT export market as Russia, the major market for Chinese trucks, will likely see further decline due to a high base and impact of high recycling tax (starting in Oct 2024). We believe Chinese brands' growth story in Russia has already come to an end.

**OUTPERFORM
(Maintain)**

China Capital Goods Sector

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Valuation

Figure 1: Peers comparison

Ticker	Company	Rating	Price (local currency)	TP (local currency)	Upside/ (downside)	Market cap (US\$ mn)	PE (x)		PB (x)		Yield (%)
							FY24E	FY25E	FY24E	FY25E	FY24E
Hong Kong											
631 HK Equity	SANY INTERNATIONAL	BUY	4.86	7.20	48%	2,007	7.8	6.6	1.1	1.0	3.7
1157 HK Equity	ZOOMLION HEAVY-H	BUY	5.38	6.80	26%	7,950	12.5	9.2	0.8	0.7	6.3
2338 HK Equity	WEICHAI POWER-H	BUY	11.30	17.70	57%	15,502	8.1	7.9	1.1	1.0	6.2
3808 HK Equity	SINOTRUK HK LTD	HOLD	21.75	21.40	-2%	7,716	9.8	9.1	1.3	1.2	5.1
564 HK Equity	ZHENGZHOU COAL-H	NR	10.10	-	-	3,067	4.5	4.3	0.8	0.7	8.6
	HK listed average						8.5	7.4	1.0	0.9	6.0
A share											
000338 CH Equity	WEICHAI POWER-A	BUY	13.60	17.90	32%	15,566	10.4	10.2	1.4	1.3	4.8
601100 CH Equity	JIANGSU HENGLI-A	BUY	54.81	64.00	17%	10,143	26.7	23.9	4.5	4.0	1.4
603338 CH Equity	ZHEJIANG DINGLI-A	BUY	62.80	75.00	19%	4,389	15.1	13.1	3.0	2.6	1.9
600031 CH Equity	SANY HEAVY-A	BUY	16.89	21.00	24%	19,756	24.0	19.5	2.0	1.9	1.7
000157 CH Equity	ZOOMLION HEAVY-A	BUY	7.03	10.50	49%	7,983	17.5	12.9	1.1	1.0	4.5
000425 CH Equity	XCMG-A	NR	7.98	-	-	13,014	14.3	11.3	1.6	1.4	2.7
000528 CH Equity	GUANGXI LIUGONG-A	NR	11.62	-	-	3,182	14.7	10.9	1.3	1.2	2.2
603638 CH Equity	YANTAI EDDIE P	NR	17.20	-	-	1,990	41.1	35.8	4.0	3.7	0.7
600761 CH Equity	ANHUI HELI CO-A	NR	18.35	-	-	2,256	11.2	9.8	1.7	1.5	3.0
603298 CH Equity	HANGCHA GROUP-A	NR	17.86	-	-	3,229	11.6	10.0	2.3	1.9	2.6
000951 CH Equity	CNHTC JINAN T-A	NR	17.11	-	-	2,774	14.3	11.5	1.3	1.2	3.6
301039 CH Equity	CIMC VEHICLES -A	NR	9.88	-	-	2,751	14.2	11.4	1.1	1.1	3.3
601717 CH Equity	ZHENGZHOU COAL-A	NR	12.98	-	-	3,080	6.2	6.0	1.1	0.9	6.2
600582 CH Equity	TIAN DI -A	NR	6.34	-	-	3,621	10.0	9.4	1.0	0.9	n/a
	A-share average						16.5	14.0	2.0	1.8	3.1
Overseas											
CAT US Equity	CATERPILLAR INC	NR	395.0	-	-	190,721	18.1	18.0	10.3	9.2	1.4
DE US Equity	DEERE & CO	NR	444.0	-	-	121,478	22.8	19.8	6.2	6.0	1.4
CMI US Equity	CUMMINS INC	NR	379.6	-	-	52,074	18.5	17.0	4.9	4.1	1.8
6305 JP Equity	HITACHI CONST	NR	3,489.0	-	-	4,850	8.5	8.1	0.9	0.9	4.8
6301 JP Equity	KOMATSU LTD	NR	4,119.0	-	-	25,313	10.0	9.8	1.2	1.1	4.1
042670 KS Equity	DOOSAN INFRACORE	NR	6,980.0	-	-	960	9.9	7.2	0.7	0.7	1.8
VOLVB SS Equity	VOLVO AB-B	NR	286.8	-	-	52,885	11.5	11.6	3.1	2.9	6.0
	Average						14.2	13.1	3.9	3.6	3.0
Hydraulic components											
PH US Equity	PARKER HANNIFIN	NR	696.2	-	-	89,610	26.1	23.7	6.4	5.7	0.9
7012 JP Equity	KAWASAKI HVY IND	NR	6,242.0	-	-	6,774	13.6	11.5	1.5	1.3	2.3
7242 JP Equity	KYB CORP	NR	2,542.0	-	-	829	n/a	n/a	n/a	n/a	n/a
6474 JP Equity	NACHI-FUJIKOSHI	NR	3,015.0	-	-	486	23.8	11.1	0.4	0.4	3.3
6268 JP Equity	NABTESCO CORP	NR	2,410.0	-	-	1,886	30.8	21.8	1.1	1.1	3.3
	Average						23.6	17.0	2.4	2.1	2.5
Aerial work platform											
TEX US Equity	TEREX CORP	NR	52.9	-	-	3,536	8.7	9.4	1.8	1.5	1.3
OSK US Equity	OSHKOSH CORP	NR	106.6	-	-	6,938	9.4	9.7	1.7	1.5	1.7
LNR CN Equity	LINAMAR CORP	NR	61.5	-	-	2,713	6.4	6.2	0.6	0.6	1.6
PIG FP Equity	HAULOTTE GROUP	NR	2.6	-	-	86	5.2	5.1	0.4	0.4	2.6
6345 JP Equity	AICHI CORP	NR	1,398.0	-	-	674	17.4	16.0	n/a	n/a	2.9
	Average						9.4	9.3	1.1	1.0	2.0

Source: Bloomberg, company data, CMBIGM estimates

Potential new tariffs in US to have limited impact on Chinese machinery makers

The market has been concerned about the uncertainties of the US tariffs in 2025. We believe the actual impact on Chinese construction machinery manufacturers should be limited, as (1) the revenue generated in the US is not significant for the majority of Chinese players; (2) the Chinese players have contingency plans to mitigate the potential impact.

Zhejaing Dingli – high exposure in the US but limited impact. The US is a key market for Dingli and we estimate 30% of total revenue generated from the US in 9M24. While any increase in tariff could affect Dingli, the impact will be mitigated given the recent reduction of anti-dumping (AD) duties by 19ppt (from 31.54% to 12.39%). In theory, Dingli will not be worse-off if the potential tariff increase is <19%. Under a worst-case scenario (i.e. increase in tariff by >19%), Dingli can upgrade the existing production base in the US to fulfil the requirement of “made in USA”.

SANY Heavy – Low exposure; possible to go for localization in US. Revenue from America (including North & South America) accounted for ~10% of SANY’s total machinery

revenue. Given that SANY has a production plant in the US, we believe SANY can mitigate the impact of potential tariffs through expanding the local production in the US.

SANYI – 2% sales in the US. The products sold in the US are mainly logistics machinery. Going forward, SANYI can supply the US market through producing in the US and India's production bases.

Zoomlion – Currently only <1% sales in the US. The annual designed output value of Zoomlion's Mexico AWP plant is ~RMB1bn (~2% of Zoomlion total sales assuming full utilisation). Products from the Mexico plant will be supplied to both North and South America. We expect Zoomlion to shift the sales to other regions in case of any unreasonably high tariff in the US.

Jiangsu Hengli – Mexico plant to be hurt by potential tariffs. Hengli's new production plant in Mexico is expected to generate US\$450mn (~RMB3.2bn) production value (assuming full utilization). The products will be supplied to **Caterpillar (CAT US, NR)**, a key client of Hengli, upon the commencement. We think Hengli will likely share some the burden of potential tariffs if a 25% tariff is to be imposed on Mexico by the US.

Figure 2: Overseas revenue contribution for major Chinese manufacturers

Company	Ticker	% of overseas revenue		
		2022	2023	1H24
Zhejiang Dingli	603338 CH	65%	64%	77%
SANY Heavy	600031 CH	47%	61%	62%
Zoomlion	1157 HK / 000157 CH	24%	38%	49%
Sinotruk	3808 HK	47%	36%	45%
XCMG	000425 CH	30%	40%	44%
SANY International	631 HK	27%	31%	36%
Jiangsu Hengli*	601100 CH	22%	22%	-
Weichai Power**	2338 HK / 000338 CH	54%	53%	52%

Source: Company data, CMBIGM

Note: * Certain domestic sales will become final products for export.

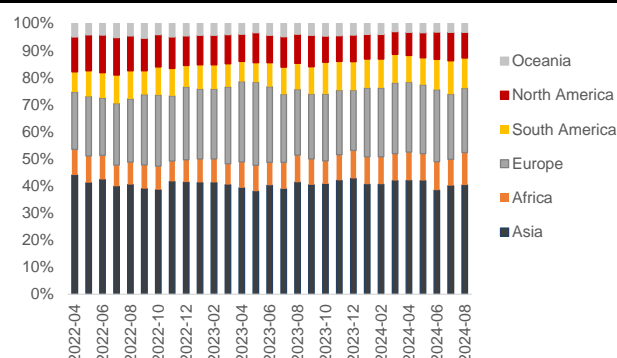
** Weichai owns 46.5% interest in KION (KGX GR), the major source of overseas revenue. Adjusted for KION's revenue, together with Weichai's direct and indirect export, we estimate Weichai's attributable overseas revenue accounted for 30-40% of total revenue.

Figure 3: China construction machinery export value

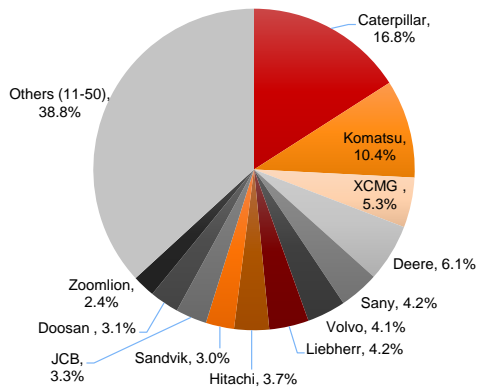


Source: Wind, CMBIGM

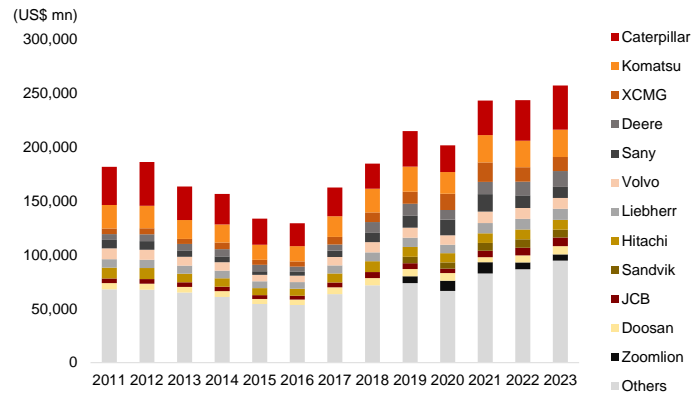
Figure 4: China construction machinery export value (breakdown by region)



Source: Wind, CMBIGM

Figure 5: Global construction machinery market share in 2023 (by revenue)


Source: Yellow Table, CMBIGM

Figure 6: Global construction machinery revenue trend


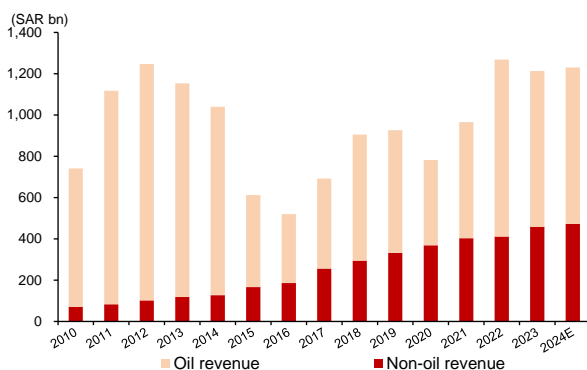
Source: Yellow Table, CMBIGM

Saudi Arabia: Diversification from oil to offer opportunities for Chinese construction machinery manufacturers

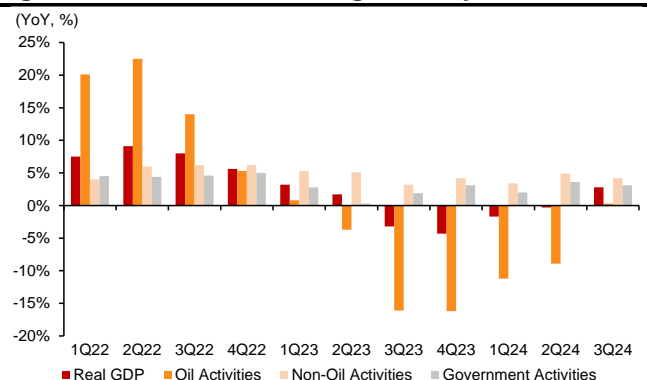
Rather than rely heavily on crude oil industry in the past, Saudi Arabia has gradually diversified her source of revenue over the past couple of years. Non-oil government revenue is forecast to reach 38% of total revenue in 2024, up from 12% in 2014, according to Saudi Arabia's Ministry of Finance. In Nov 2024, Moody's upgraded Saudi Arabia's credit rating to Aa3 from A1, thanks to the country's economic diversification.

The Ministry of Finance forecasts the GDP growth to be only 0.8% in 2024E, dragged by the decline in oil price despite resilient non-oil activities. Looking ahead to 2025E, Saudi forecasts GDP growth of 4.6%, driven by resilient government spending and non-oil sectors. The budgeted expenditure in 2025 is forecast to increase 2.7% YoY to SAR 1,285bn (~US\$346.95bn), with a 2.3% deficit as percentage of GDP.

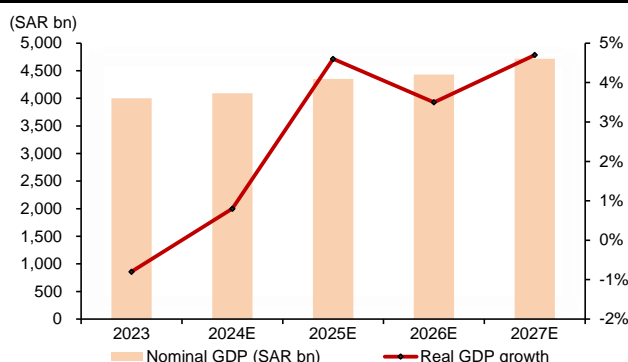
In the longer-term, the Ministry of Finance plans to maintain a budget deficit of 2%-3% intentionally for the coming years in order to support the long-term development of the non-oil sector.

Figure 7: Saudi Arabia government revenue breakdown


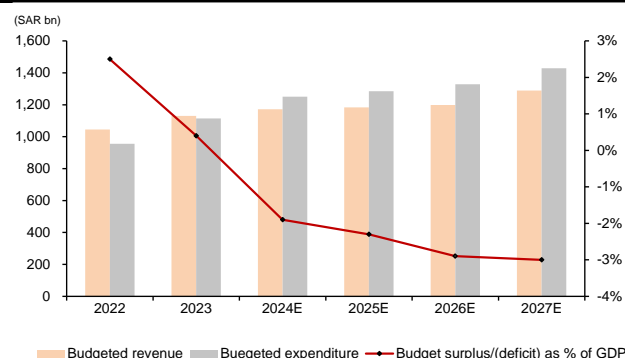
Source: Saudi Arabia Ministry of Finance, CMBIGM

Figure 8: Saudi Arabia GDP growth by sector


Source: Saudi Arabia General Authority for Statistics, CMBIGM

Figure 9: Saudi Arabia GDP growth estimates

Source: Saudi Arabia Ministry of Finance, CMBIGM

Figure 10: Saudi Arabia government expenditure and budget forecast

Source: Saudi Arabia Ministry of Finance, CMBIGM

Construction of giga projects underway

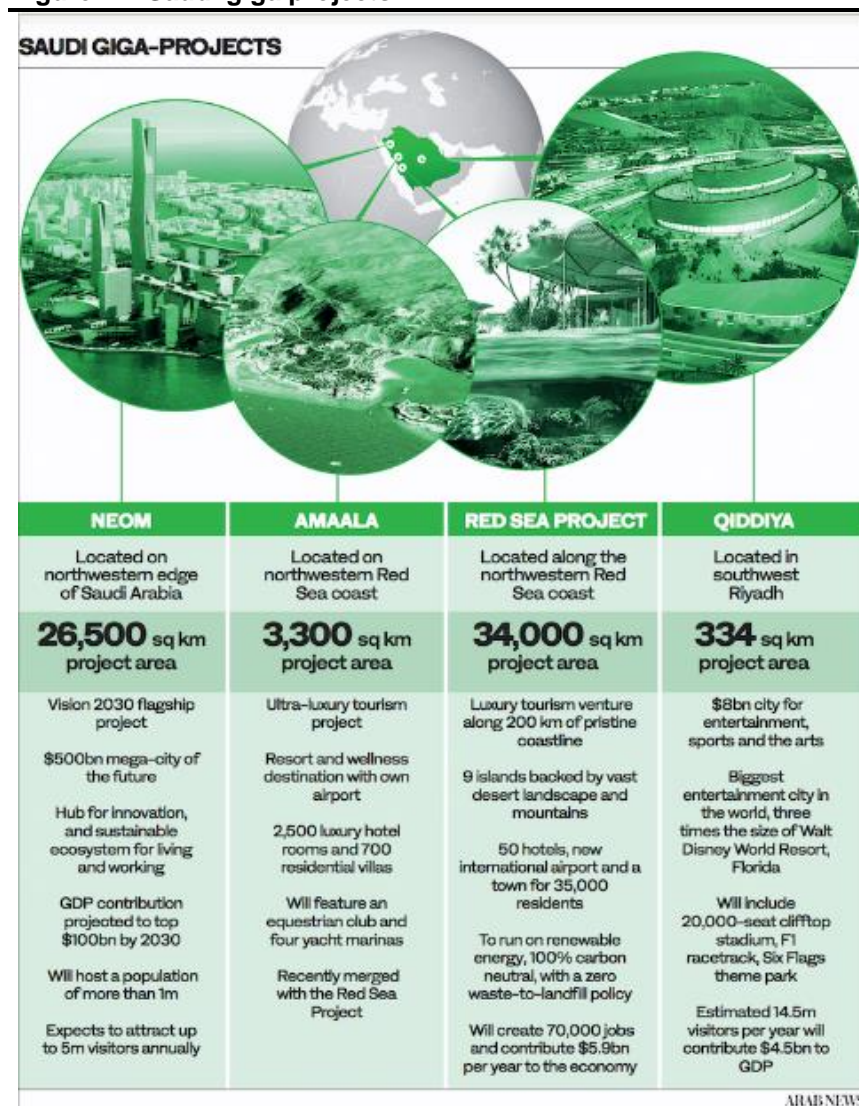
Under 'Saudi Vision 2030', the construction of Saudi Arabia's mega projects (i.e., NEOM, Qiddiya, Red Sea Global, etc.) is valued at US\$1.3tn, according to Knight Frank. Around US\$164bn worth of real estate contracts have been awarded for construction as of 2024. Among them, **China State Construction Engineering (CSCEC, 601668 CH, NR)** was awarded US\$2.08bn contract for a project located in Diriyah, the kingdom's capital city.

Another key focus under 'Saudi Vision 2030', the 'Housing Program', aims to build 300k housing units in 2018-2025, where CSCEC and China Machinery Engineering Corporation were both awarded a contract for the construction of 20k housing units in 2024, amounting to more than 10% of the total number of construction target. Looking forward, the kingdom expects to add another 300k units in 2025-2030 to achieve the long-term objective of 70% home ownership.

Saudi Arabia also plans to develop a new AI project, namely "Project Transcendence". The project will be financed by the Public Investment Fund (PIF) with an amount as much as US\$100bn, aiming to develop AI infrastructure and push Saudi Arabia to become a technological hub in the Middle East.

On the sports and entertainment side, Saudi Arabia is also set to hold the World Expo 2030 with a 6 million square meter site under construction. The kingdom is also planning to build 11 new football stadiums to accommodate spectators, being the host of the World Cup 2034 (3 stadiums are under construction).

All these projects will continue to offer good opportunities for Chinese construction machinery manufacturers. Zoomlion, SANY, and XCMG have been expanding their market presence in Saudi Arabia.

Figure 11: Saudi giga projects

Source: Arab News, CMBIGM

Africa: Chinese machinery players to benefit from China-Africa top level cooperation

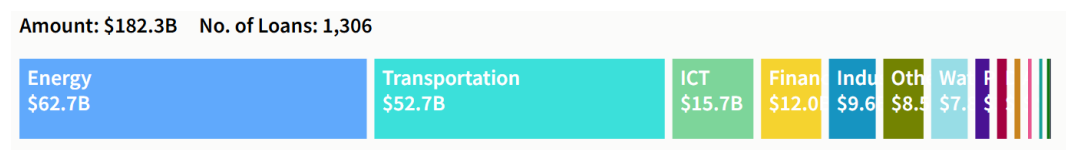
The 2024 Forum on China-Africa Cooperation (FOCAC) marks a turning point in China's commitment to investing in and supporting Africa's development. Under the FOCAC Beijing Action Plan (2025–27), the Chinese government pledged RMB360bn (~US\$49bn) of financial support to Africa—an amount notably higher than the assistance provided during the 2021 FOCAC.

Figure 12: FOCAC financial assistance to African countries

	2018 FOCAC	2021 FOCAC	2024 FOCAC
Investment and Financial Assistance	<p>To encourage Chinese companies to make at least US\$10 billion of investment in Africa in the next three years</p> <p>To extend US\$20 billion of credit lines and support the setting up of a US\$10 billion special fund for development financing</p>	<p>To encourage Chinese companies to make at least US\$10 billion of investment in Africa in the next three years</p> <p>China will provide US\$10bn in credit line to African financial institutions and support the development of small and medium-sized African enterprises on a priority basis</p> <p>To channel to African countries US\$10bn from its share of the IMF's new allocation of SDR</p>	<p>RMB360bn in financial commitments over three years, comprising RMB210bn in credit facilities, RMB80bn in assistance of different types, and no less than RMB70bn of investment by Chinese enterprises.</p>
Agriculture	RMB1bn in emergency food aid		RMB1bn in emergency food aid
Trade	To set up a US\$5 billion special fund for financing imports from Africa	<p>To provide US\$10bn of trade finance to support African export</p> <p>To reach US\$300bn in total imports from Africa in the next three years</p>	Target US\$20bn in exports of African agricultural products to China by 2030
Development Cooperation	To extend US\$15 billion of grants, interest-free loans and concessional loans to Africa		

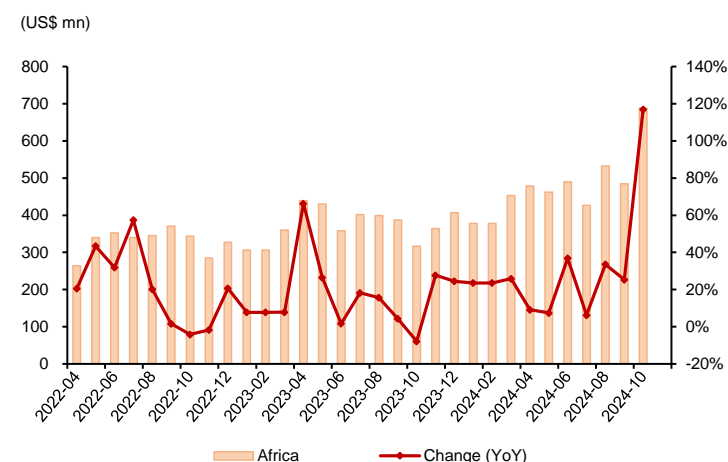
Source: FOCAC, CMBIGM

Over the past two decades, China's loans predominantly supported the energy and transportation sectors, accounting for 34% and 28% of total allocations respectively, according to the Boston University Global Development Center.

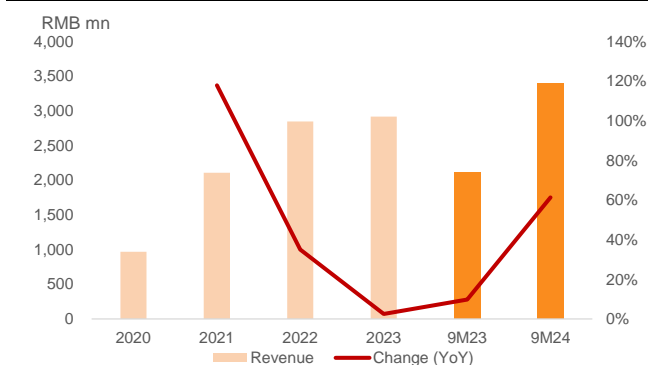
Figure 13: Chinese loans to Africa by industry (2000-2023)

Source: Boston University Global Development Policy Center, 2024, CMBIGM

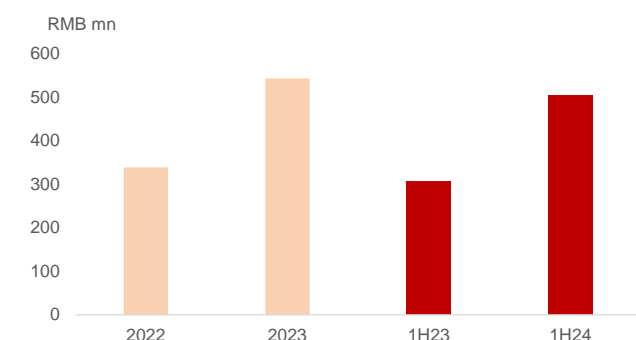
The 2024 FOCAC Action Plan has outlined the continued investments in African infrastructure, including logistics, mining, and energy industries. We expect Chinese contractors will benefit from more contract intakes, and thereby offering opportunities for Chinese construction machinery and HDT manufacturers which have been putting more focus on Africa.

Figure 14: China construction machinery export value to Africa

Source: Wind, CMBIGM

Figure 15: SANY Heavy's revenue from Africa

Source: Company data, CMBIGM

Figure 16: SANY International's revenue from Africa

Source: Company data, CMBIGM

Excavator: Expect 12% growth in domestic sales + exports in 2025E

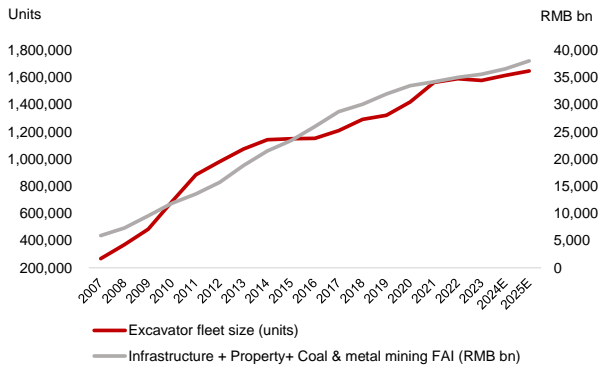
China's domestic sales of excavators turned positive (in terms of YoY change) in Mar 2024, marking an important turning point of the domestic demand, driven largely by the recovery of small size models on the back of municipal projects which offset the weak property investment. In 11M24, sales in China grew 11% YoY to 91k units.

Exports of excavators from China turned positive (in terms of change YoY) since Aug 2024, following 14 consecutive months of decline. In 11M24, the rate of decline reduced to 6% YoY. Export volume of 90.5k units in 11M24 accounted for half of the total excavator output in China.

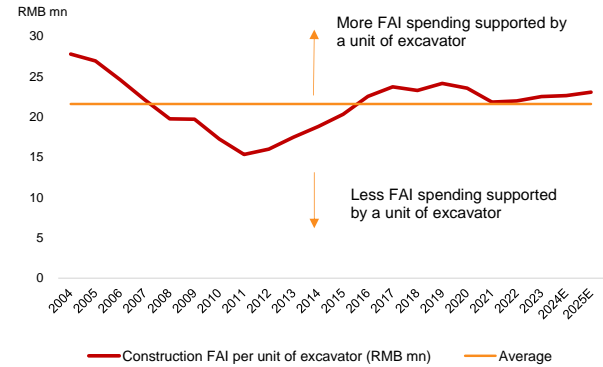
Our projection:

We forecast excavator sales volume (domestic sales + exports) to grow 12% YoY in 2025E, based on the following assumptions:

- **China market: To grow 10% YoY to 108k units in 2025E.** We expect the infrastructure spending growth will outpace the weakness of property investment. Our industry model suggests that the construction-related FAI (i.e. infrastructure + property + mining investment) per unit of operating excavator fell from the peak of ~RMB24mn in 2019 to RMB22mn in 2022, but gradually recovered to ~RMB22.6mn in 2024E (Note: higher amount means tighter supply of the machinery). We assume the per-unit FAI of operating excavators to increase slightly to RMB23mn in 2025. Given the potential beginning cycle of replacement demand and the recovery of medium-to-large size excavators, we forecast domestic sales of excavators to grow 10% YoY in 2025E.
- **Export: To grow 15% YoY to 115k units in 2025E.** We expect emerging economies such as the Middle East, Africa, Latin America, India and Indonesia, will continue to be the key markets for Chinese players. We notice the pick-up of utilization hours in both US and Indonesia in Oct (according to Komatsu), which is a good sign of potential new machine sales.

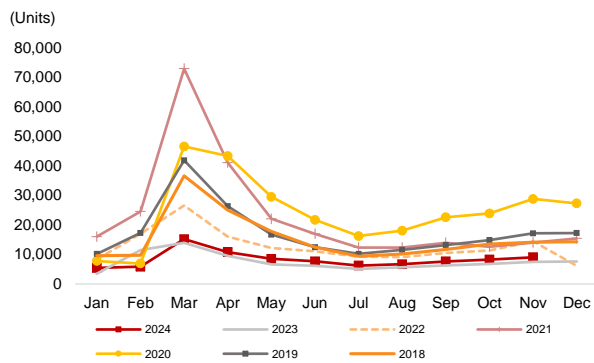
Figure 17: Excavator fleet size versus construction-related FAI


Source: China Construction Machinery Association (CCMA), Wind, CMBIGM estimates

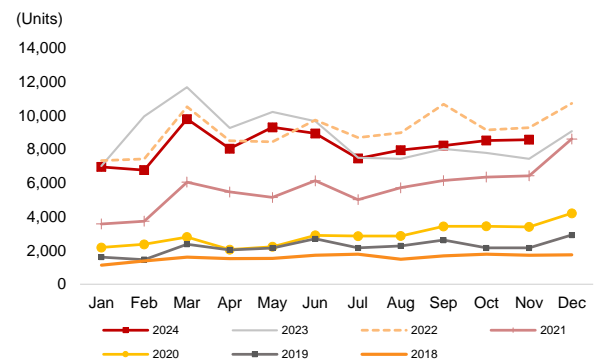
Figure 18: Construction FAI per unit of excavator in operation


Source: CCMA, Wind, CMBIGM estimates

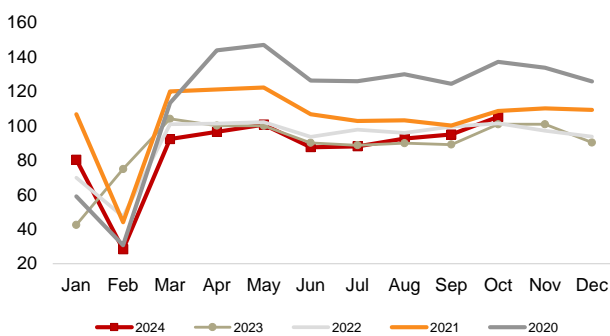
Note: Construction FAI = infrastructure + property + mining

Figure 19: Monthly excavator sales in China


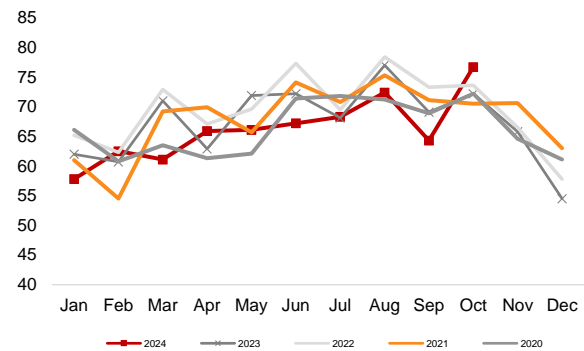
Source: CCMA, CMBIGM

Figure 20: Monthly excavator export volume


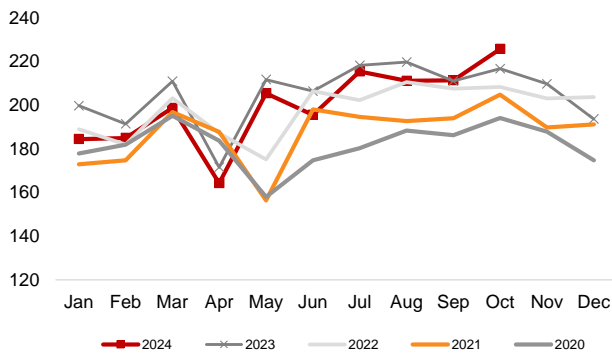
Source: CCMA, CMBIGM

Figure 21: Komatsu excavator monthly utilisation hours in China


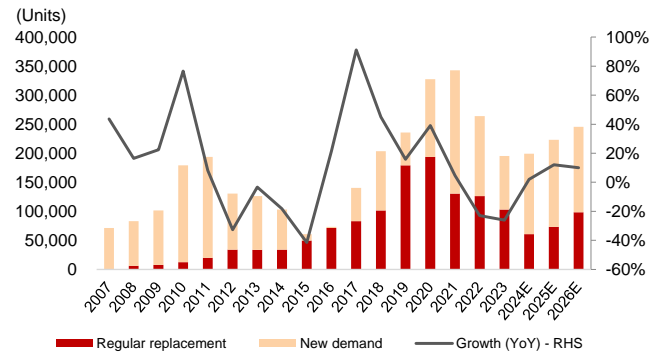
Source: Komatsu, CMBIGM

Figure 22: Komatsu excavator monthly utilisation hours in North America


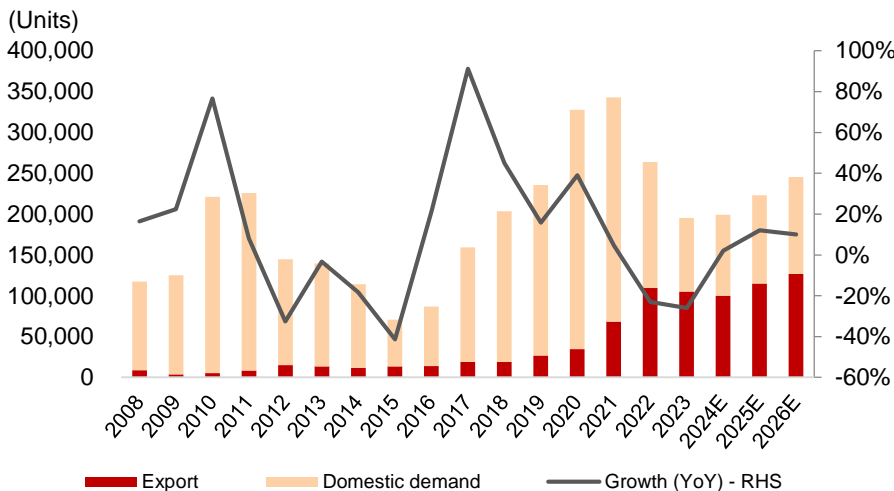
Source: Komatsu, CMBIGM

Figure 23: Komatsu excavator monthly utilisation hours in Indonesia

Source: Komatsu, CMBIGM

Figure 24: CMBI excavator sales projection

Source: CCMA, Wind, CMBIGM estimates

Figure 25: CMBI excavator sales projection (breakdown by region)

Source: CCMA, CMBIGM estimates

Truck crane and tower crane: Growth driven by exports

In China market, demand for both truck cranes and tower cranes have been weak, with sales in 10M24 declining 38% and 67% YoY. Tower cranes have been particularly weak among the major types of machinery due to the high exposure to property investment (almost 100%).

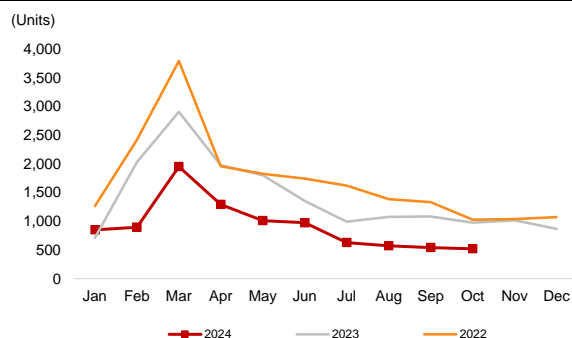
For exports, sales of truck cranes grew 20% YoY in 10M24, in particular the growth rate accelerated in 3Q24. Since Aug, the monthly export volume has already exceeded domestic sales.

Exports of tower cranes dropped only 2% YoY in 10M24, much more resilient than the domestic sales. That said, exports only accounted for 25% of total sales.

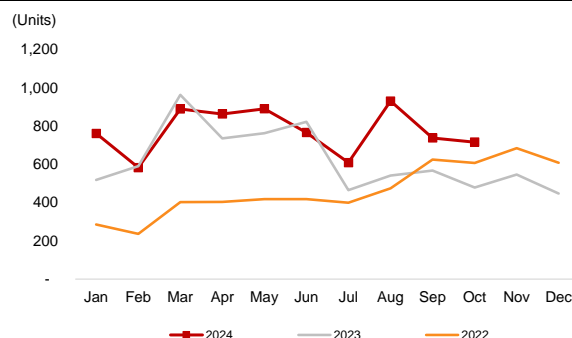
Projection:

- **Truck crane:** We forecast total sales volume (China sales + exports) to grow 5% YoY in 2025E, driven by 10% export growth and stable domestic sales.

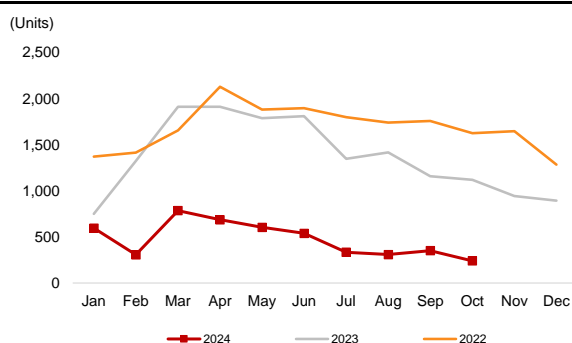
- **Tower crane:** We expect only a stable sales volume (China sales + exports). We assume 5% growth overseas but this could be offset by weakness in China market, as we expect the area under construction in China will continue to be under pressure.

Figure 26: China truck crane domestic sales volume

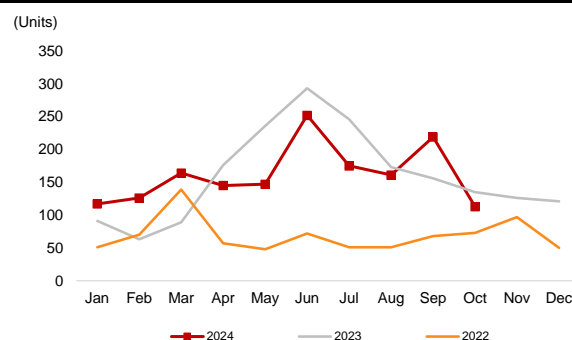
Source: CCMA, CMBIGM

Figure 27: Exports of truck cranes from China

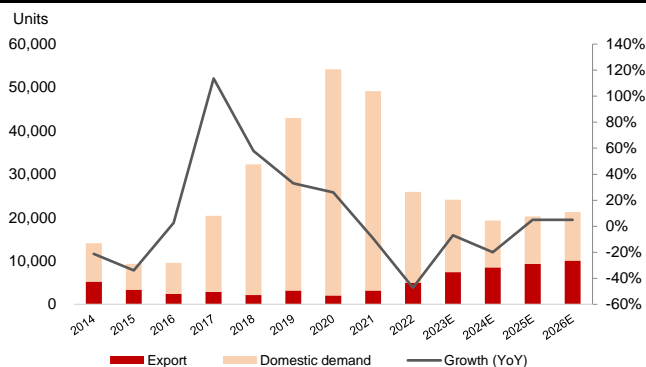
Source: CCMA, CMBIGM

Figure 28: China tower crane domestic sales volume

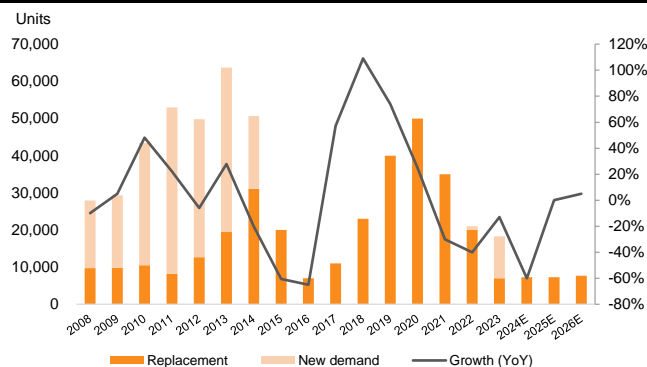
Source: CCMA, CMBIGM

Figure 29: Exports of tower cranes from China

Source: CCMA, CMBIGM

Figure 30: CMBI truck crane sales projection

Source: CCMA, CMBIGM estimates

Figure 31: CMBI tower crane sales projection

Source: CCMA, CMBIGM estimates

Aerial Work Platform (AWP): Back-loaded demand overseas

China:

Sales of AWP in China have been on a downtrend since mid-2023, with sales in 10M24 declining 34% YoY, according to CCMA. We expect the weakness of AWP to continue in 2025E as major AWP leasing companies such as **Horizon Construction (9930 HK, BUY)** and **Huatie (603300 CH, NR)** have maintained strict capex discipline due to abundant AWP supply in the market. We forecast AWP sales in China market to drop ~10% YoY to ~77k units in 2025E.

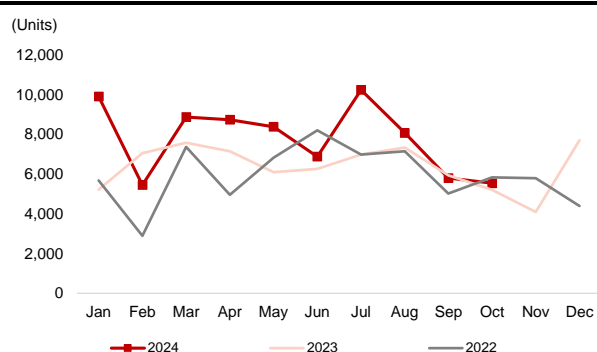
Overseas:

In contrast to the weak China demand, exports of AWP have been a lot more resilient. Exports from China grew 20% YoY in 10M24, according to CCMA. Looking ahead to 2025E, we expect AWP exports to grow 15% YoY.

In the US, AWP rental companies such as **United Rentals (URI, NR)** have managed to raise rental rates, with growth drivers coming from mega projects, such as data centres, semiconductor plants, and EV and battery manufacturing plants. For local projects (the smaller size ones), there has been some delays of decision making due to uncertainties of policy during Donald Trump's presidency. We expect a back-loaded AWP demand in 2025E.

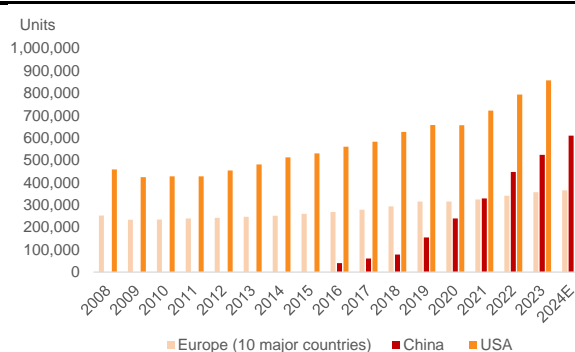
For the EU, we expect the overall demand will remain relatively sluggish due to macro weakness. That said, with the finalization of anti-dumping duties on Chinese AWP manufacturers in Nov, we think the overhang has been removed. Most importantly, Dingli, given the lowest AD duties rate (20.7%, much lower than peers), will likely enjoy a competitive advantage versus other Chinese manufacturers. For other Chinese players, such as Zoomlion, the AD decision will help speed up their localization of AWP production overseas to avoid the duties.

Figure 32: Exports of AWP from China

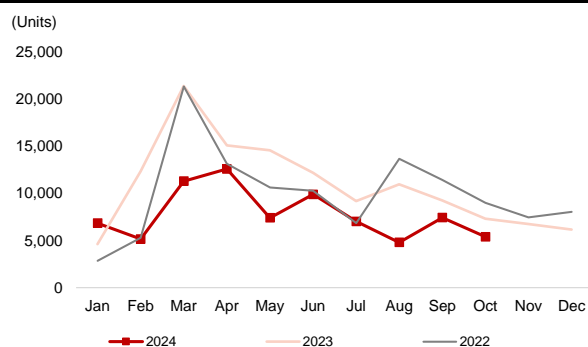


Source: CCMA, CMBIGM

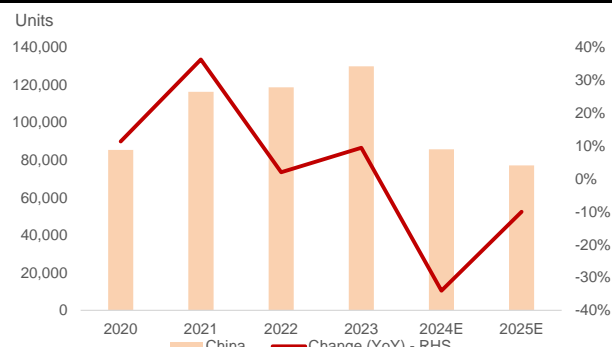
Figure 33: AWP fleet size breakdown by region



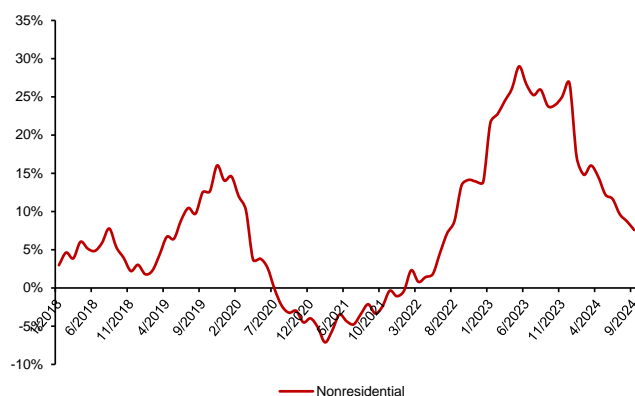
Source: The International Powered Access Federation (IPAF), CCMA, CMBIGM estimates

Figure 34: China AWP monthly sales

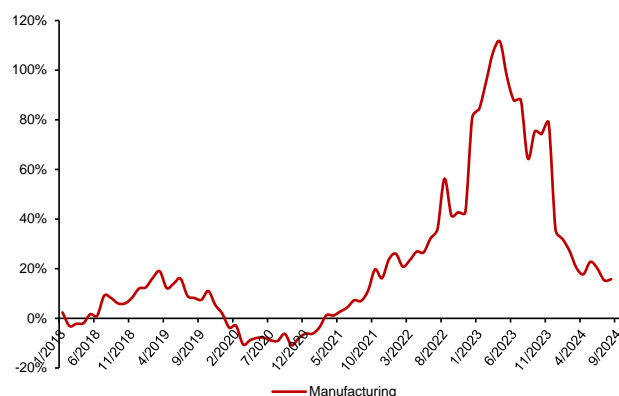
Source: CCMA, CMBIGM

Figure 35: CMBIGM China AWP sales projection

Source: CCMA, CMBIGM estimates

Figure 36: US non-residential spending growth

Source: Bloomberg, CMBIGM

Figure 37: US manufacturing spending growth

Source: Bloomberg, CMBIGM

Figure 38: Anti-dumping duties on Chinese AWP manufacturers in EU

Company	AD duties
Dingli	20.7%
Oshkosh JLG (Tianjin)	22.5%
Terex (Changzhou)	22.9%
Sinoboom	49.3%
Other cooperating companies	30.2%
All other companies	49.3%

Source: Company data, Access Briefing, CMBIGM

Heavy-duty truck (HDT) – expect improving demand in China on replacement policy

Our forecast:

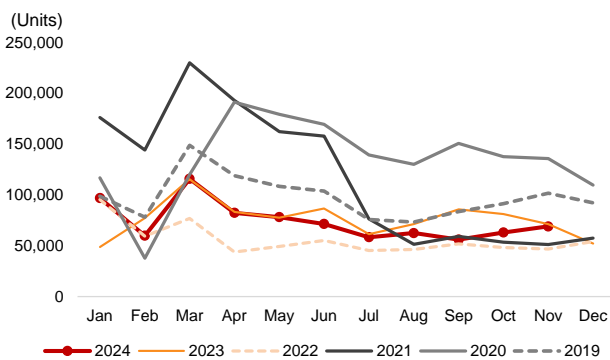
We expect 5% YoY decline in HDT sales (China sales + exports) in 2024E, followed by 10%/ 9% recovery to 954k / 1mn units in 2025E/26E.

China:

The equipment replacement policies launched in mid-2024 have yet to support the HDT sales. We believe it was due to (1) weak confidence of truck owners, and (2) limited fleet size of NES III HDTs (~200k units, ~2% of the total fleet size based on our estimates).

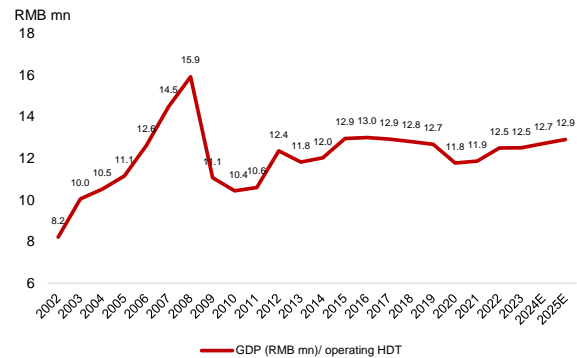
For 2025E, we think the potential extension of the equipment replacement policy to NES IV trucks will be the key to boosting demand, given the much larger fleet size (~30% of total fleet size of HDTs). We have already seen some provinces taking the initiatives to offer subsidies for the replacement of NES IV trucks in 2024, and we expect more provinces to follow in 2025.

Figure 39: China HDT monthly sales volume



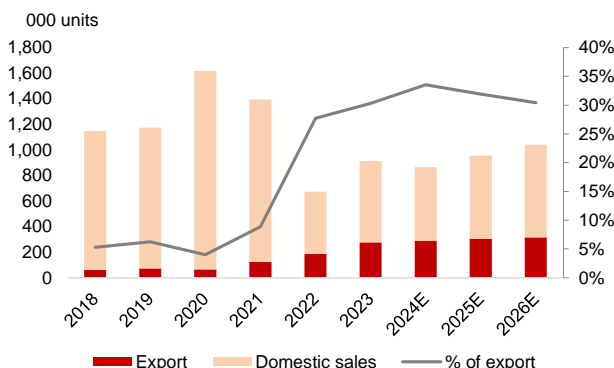
Source: Cvworl, Wind, CMBIGM
Note: Domestic sales + exports

Figure 40: China GDP per unit of operating HDT



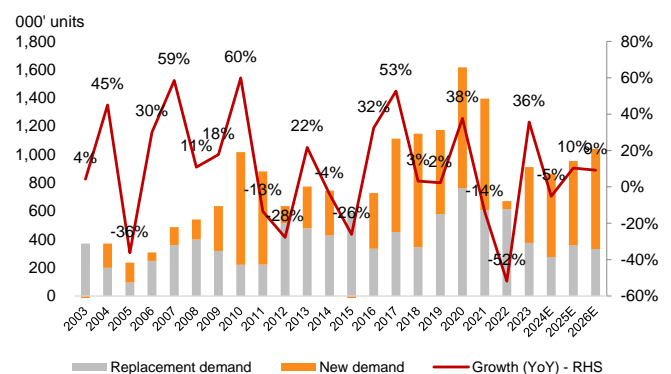
Source: Cvworl, Wind, CMBIGM estimates

Figure 41: Domestic sales and exports of HDTs



Source: Wind, CMBIGM estimates

Figure 42: CMBIGM HDT sales projection



Source: Cvworl, Wind, CMBIGM estimates
Note: China's domestic sales + exports

Figure 43: Subsidies to eliminate NES IV trucks

Province	City	Policy validity period	Vehicle type	Subsidies type	Subsidies provided (per unit of truck)
Beijing	26/8/2024-10/12/2024		HDT	Scrapping	RMB45k
				Upgrading to NEV	RMB95k
				Scrapping China IV & Upgrading to China VI	RMB85k
			MDT	Scrapping	RMB25k
				Upgrading to NEV	RMB35k
Shanxi			LDT / Mini truck	Scrapping	RMB15k
				Upgrading to NEV	RMB20k
			New energy refrigerated truck	Purchasing	RMB35k
				Scrapping (one year ahead of schedule)	RMB12k
				Scrapping (two years ahead of schedule)	RMB35k
				Scrapping (four or more years ahead of schedule)	RMB45k
				Upgrading to China VI (two-axle)	RMB40k
				Upgrading to China VI (three-axle)	RMB55k
				Upgrading to China VI (four or more-axle)	RMB65k
				Upgrading to NEV (two-axle)	RMB70k
				Upgrading to NEV (three-axle)	RMB85k
				Upgrading to NEV (four or more-axle)	RMB95k
Jiangsu	7/3/2024-31/12/2024		HDT	Scrapping (one year ahead of schedule)	RMB10k
				Scrapping (two years ahead of schedule)	RMB18k
				Scrapping (four or more years ahead of schedule)	RMB25k
				Upgrading China VI	RMB25k
				Upgrading to NEV	RMB35k
			MDT	Scrapping (one year ahead of schedule)	RMB10k
				Scrapping (two years ahead of schedule)	RMB18k
			New energy refrigerated truck	Scrapping (four or more years ahead of schedule)	RMB25k
				Upgrading China VI	RMB25k
Shanghai	15/8/2024-31/12/2028		HDT	Upgrading to NEV	RMB35k
				Scrapping (one year ahead of schedule)	RMB12k
				Scrapping (two years ahead of schedule)	RMB35k
				Scrapping (four or more years ahead of schedule)	RMB45k
				Upgrading to China VI (two-axle)	RMB40k
				Upgrading to China VI (three-axle)	RMB55k
				Upgrading to China VI (four or more-axle)	RMB65k
				Upgrading to NEV (two-axle)	RMB70k
			MDT	Upgrading to NEV (three-axle)	RMB85k
				Upgrading to NEV (four or more-axle)	RMB95k
Zhejiang	13/5/2023-30/6/2024		HDT	Scrapping (purchase made in 2013 and earlier)	RMB22k
				Scrapping (purchase made in 2014 and earlier)	RMB32k
				Scrapping (purchase made in 2015 and earlier)	RMB41k
				Scrapping (purchase made in 2015 and after)	RMB50k
				Upgrading NEV (no less than 280kWh)	RMB630k/Wh
				Upgrading NEV (less than 280kWh)	RMB600k/Wh
			MDT	Scrapping (purchase made in 2013 and earlier)	RMB12k
				Scrapping (purchase made in 2014 and earlier)	RMB16k
Fujian	31/7/2024-31/12/2024		HDT	Scrapping (purchase made in 2015 and earlier)	RMB20k
				Scrapping (purchase made in 2015 and after)	RMB25k
				Upgrading NEV (no less than 70kWh)	RMB450k/Wh
				Upgrading NEV (less than 70kWh)	RMB400k/Wh
			MDT	Scrapping (vehicle age less than 8 years)	RMB43.5k
				Scrapping (vehicle age between 8 and 9 years)	RMB36.5k
			LDT	Scrapping (vehicle age between 9 and 10 years)	RMB30k
				Scrapping (vehicle age less than 8 years)	RMB31k
Ningbo	1/1/2024-12/31/2024		HDT	Scrapping (vehicle age between 8 and 9 years)	RMB25.5k
				Scrapping (vehicle age between 9 and 10 years)	RMB20.5k
			MDT	Scrapping (vehicle age less than 8 years)	RMB17.4k
				Scrapping (vehicle age between 8 and 9 years)	RMB15k
			LDT	Scrapping (vehicle age between 9 and 10 years)	RMB12.5k
				Scrapping (vehicle age less than 7 years)	RMB57k
			HDT	Scrapping (vehicle age between 7 and 8 years)	RMB50k
				Scrapping (vehicle age between 8 and 9 years)	RMB40k
Longyan	31/7/2024-31/12/2024		HDT	Scrapping (vehicle age between 9 and 10 years)	RMB33k
				Scrapping (vehicle age more than 10 years)	RMB28k
			MDT	Scrapping (vehicle age less than 7 years)	RMB22k
				Scrapping (vehicle age between 7 and 8 years)	RMB18k
			LDT	Scrapping (vehicle age between 8 and 9 years)	RMB16k
				Scrapping (vehicle age between 9 and 10 years)	RMB14k
			New energy refrigerated truck	Scrapping (vehicle age more than 10 years)	RMB13k
				Purchasing	RMB35k

Source: Local governments' official website, CMBIGM

Natural gas HDTs – Uncertainties in 2025

Sales of natural gas HDT in 3Q24 reversed the growth trend in 1H24, due to the contraction of LNG/diesel spread from 0.64 in 1H24 to 0.71 in 3Q24 (the lower the figure, the higher the spread). In 9M24, gas HDT accounted for ~21% of total HDT sold.

That said, the latest price spread expanded to 0.65. For truck buyers, based on the latest price of LNG (~RMB6.8/kg) and diesel (~RMB4.5/litre), the payback period of a LNG truck is 2.6 years, shorter than a diesel truck's 3.2 years. Therefore, we expect demand for gas HDT will rebound in early 2025E.

However, we forecast gas HDTs will only account for 15%-20% of total HDT in 2025E, as we assume part of the market share will be captured by new energy HDTs in view of the sharp increase in sales in 2024.

Figure 44: Comparison of investment return between diesel and LNG trucks

Diesel		LNG	
Operating assumptions			
Transport service income (RMB / tonne km)	0.27	Transport service income (RMB / tonne km)	0.27
Capacity (tonne)	30	Capacity (tonne)	30
Operating days / month	20	Operating days / month	20
Daily transportation distance (km)	500	Daily transportation distance (km)	500
Diesel consumption (litre / 100 km)	30	Gas consumption (kg / 100 km)	30
Diesel price (RMB /litre)	6.8	Gas price (RMB/kg)	4.5
Urea expense (RMB / 100 km)	11.25	Urea expense (RMB / 100 km)	0
Maintenance expense (RMB / 100 km)	60	Maintenance expense (RMB / 100 km)	60
Toll fee per vehicle (RMB/km)	2.2	Toll fee per vehicle (RMB/km)	2.2
Monthly wage of a driver (RMB)	9,000	Monthly wage of a driver (RMB)	9,000
Tax rate (%)	25%	Tax rate (%)	25%
Capex			
Truck purchase price (RMB)	320,000	Truck purchase price (RMB)	400,000
Years of depreciation	5	Years of depreciation	5
VAT rate	17%	VAT rate	17%
VAT (RMB)	54,400	VAT (RMB)	68,000
Total purchase price (RMB)	374,400	Total purchase price (RMB)	468,000
Profitability			
	(RMB)		(RMB)
Revenue (annual)	931,500	Revenue (annual)	931,500
Expense:		Expense:	
Diesel	-246,240	Natural gas	-160,200
Urea	-13,500	Urea	0
Depreciation	-64,000	Depreciation	-80,000
Maintenance	-72,000	Maintenance	-72,000
Toll fee	-253,000	Toll fee	-253,000
Driver wage	-108,000	Driver wage	-108,000
Insurance and others	-20,000	Insurance and others	-20,000
Pre-tax profit	154,760	Pre-tax profit	238,300
Tax	-38,690	Tax	-59,575
Net profit	116,070	Net profit	178,725
Payback period (year)			
	3.2		2.6

Source: CMBIGM estimates

Figure 45: Sensitivity of payback period to diesel price

		Transport service income (RMB / tonne km)				
		0.243	0.2565	0.27	0.2835	0.297
Diesel price (RMB/litre)	5.5	4.5	3.2	2.4	2.0	1.7
	6.2	5.8	3.8	2.8	2.2	1.8
	6.8	8.1	4.6	3.2	2.5	2.0
	7.5	13.5	6.0	3.8	2.8	2.2
	8.2	40.4	8.5	4.7	3.3	2.5

Source: CMBIGM estimates

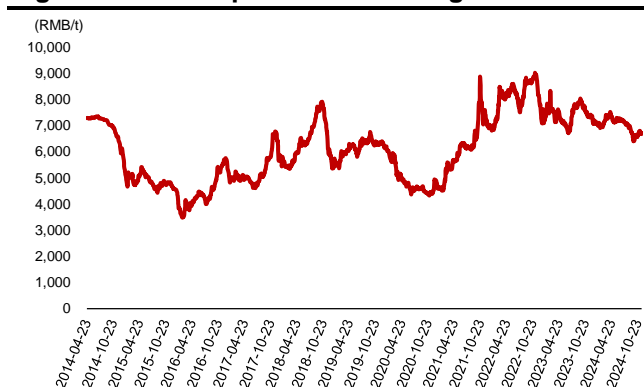
Note: For diesel trucks

Figure 46: Sensitivity of payback period to LNG price

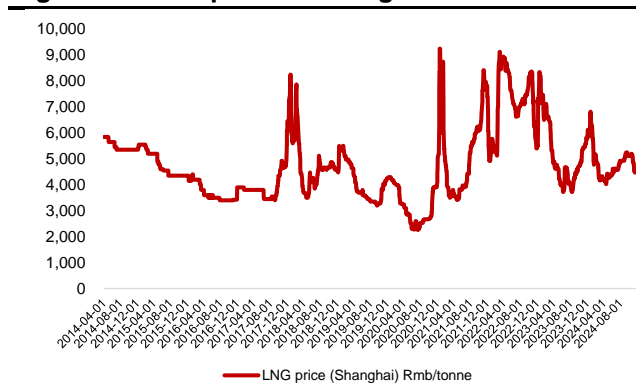
		Transport service income (RMB / tonne km)				
		0.243	0.2565	0.27	0.2835	0.297
LNG price (RMB/kg)	3.6	3.5	2.8	2.3	2.0	1.7
	4.0	3.9	3.0	2.5	2.1	1.8
	4.5	4.3	3.3	2.6	2.2	1.9
	4.9	4.8	3.6	2.8	2.3	2.0
	5.3	5.5	3.9	3.0	2.5	2.1

Source: CMBIGM estimates

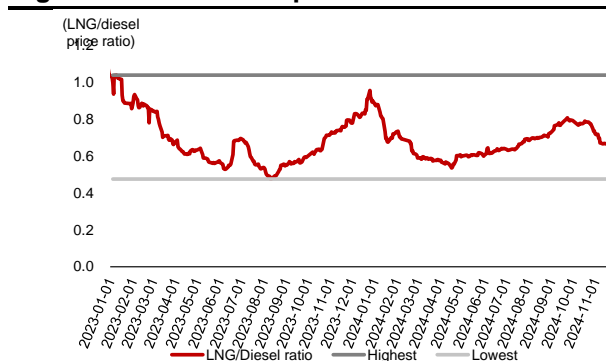
Note: For LNG trucks

Figure 47: Diesel price in Shandong

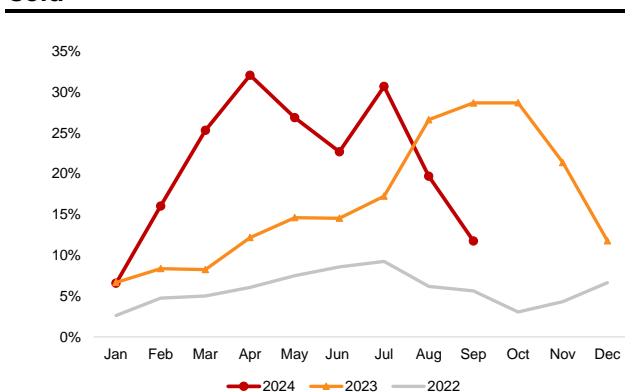
Source: Wind, CMBIGM

Figure 48: LNG price in Shanghai

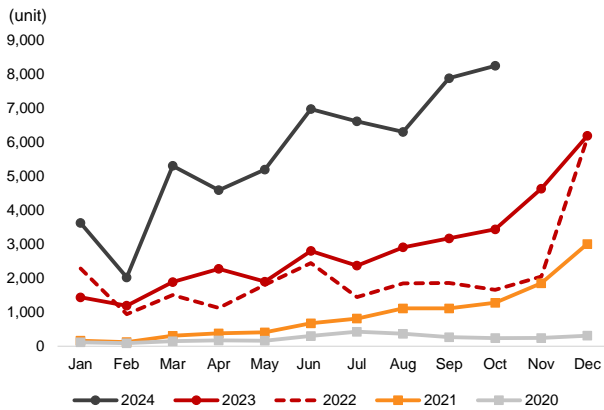
Source: Wind, CMBIGM

Figure 49: LNG/diesel price ratio

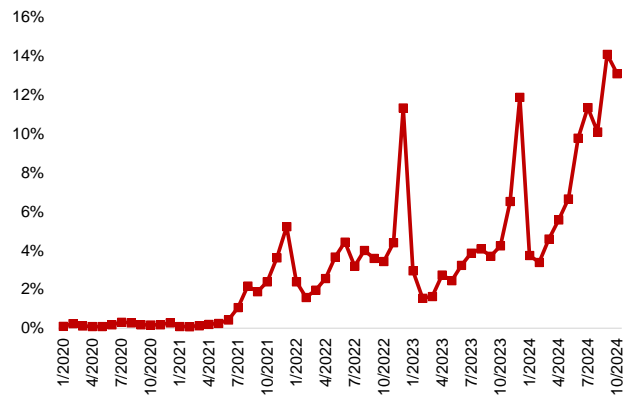
Source: Wind, Bloomberg, CMBIGM estimates

Figure 50: Natural gas HDTs as % of total HDTs sold

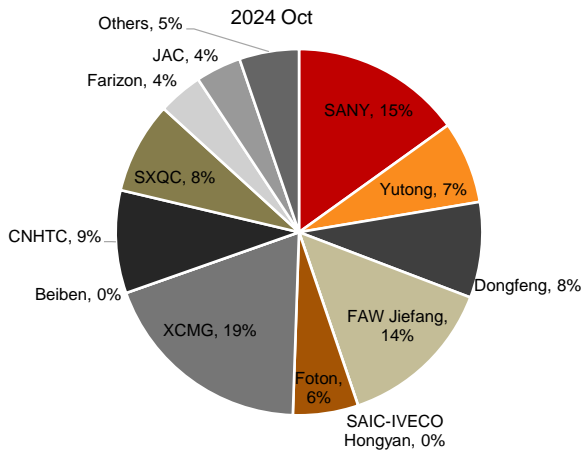
Source: Wind, Cvworl, CMBIGM

Figure 51: New energy HDT as % of total HDTs sold

Source: Cvworl, CMBIGM

Figure 52: New energy HDT as % of total HDTs sold

Source: Wind, Cvworl, CMBIGM

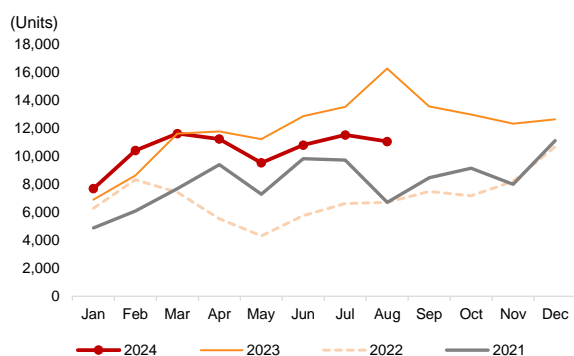
Figure 53: Market share of new energy HDT in China (Oct 2024)

Source: Cvworl, CMBIGM

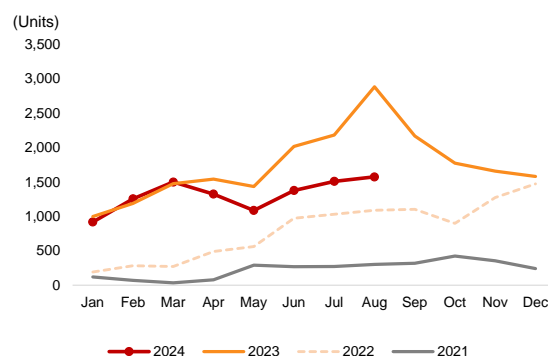
HDT sales in Russia peaked

We are cautious on export markets as Russia, the major market for Chinese trucks, will likely see further decline due to a high base and impact of high recycling tax (starting in Oct 2024). We believe Chinese brands' growth story in Russia has already come to an end.

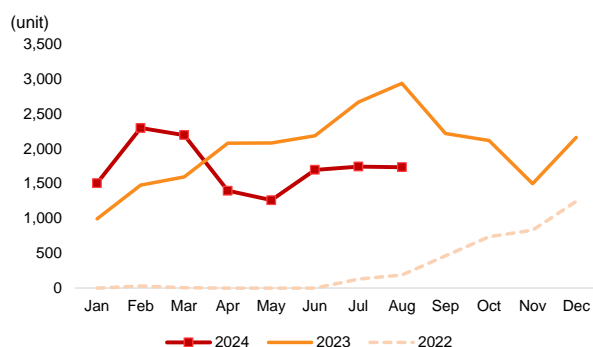
Russia is the largest export destination of Chinese HDTs. Based on our calculation, Chinese brands accounted for ~67% of the HDT market in Russia in Aug 2024, marking a record high. In order to protect the local manufacturers, the Russian authority has further increased the recycling tax on import trucks and heavy machinery since Oct 2024. We believe Chinese brands' market share in Russia has already peaked. Besides, according to ASM-Holding's data, total HDT sales volume in Russia has declined since Apr, with the rate of decline reaching 15%/32% YoY in Jul/Aug. We expect further decline of Russia HDT demand over the coming 12 months due to the high base effect.

Figure 54: Russia trucks monthly sales

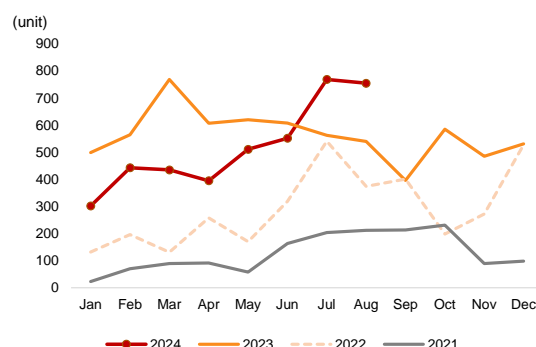
Source: ASM Holding, CMBIGM

Figure 55: Shaanxi Heavy brand sales in Russia

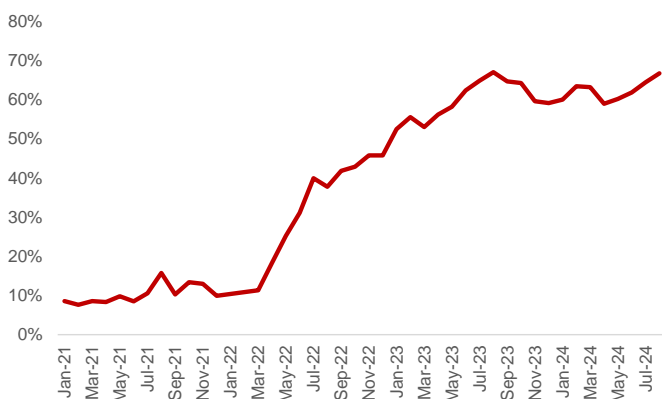
Source: ASM Holding, CMBIGM

Figure 56: Sinotruk's SITRAK brand sales in Russia

Source: ASM Holding, CMBIGM

Figure 57: Sinotruk's HOWO brand sales in Russia

Source: ASM Holding, CMBIGM

Figure 58: Chinese brands' market share in Russia HDT market

Source: ASM Holding, CMBIGM

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