

## Industrials - China (H)

## Red Sea disruption &amp; potential US tariff hike: first take on China industrials sector

Industry Overview

**Red Sea disruption: impact manageable**

The recent Red Sea Crisis has caused diversion of containers to the Cape of Hope, leading to longer journey time (+10-13 days) and rising shipping costs. Container average spot rates increased ~120% from early Dec to Mid-Jan, with Asia-Europe spot rates up 265%. Our Transportation team sees further pricing pressure ahead of the pre-Chinese New Year mini-peak before normalization (see report: [Shipping & supply chain high frequency tracker #56](#)). That said, we think the impacts to major China capital goods names is limited, given: (1) they have limited exposure to the Red Sea shipping route (mainly affecting the shipment to Europe); (2) shipping costs only accounts for c.2-3% of the total COGS for most capital goods exporters; and (3) some companies may shift to railway transportation to shorten the delivery time.

**Automation & electrical equipment:** Most of the automation and electrical equipment names under our coverage focus primarily on the domestic market with limited direct export sales.

**Construction machinery & HDT:** We estimate the European (incl. CIS) market to contribute 19%/11% of Sinotruk/Zoomlion's total revenue. The companies see limited impact of the Red Sea disruption, since most of their European sales don't need to pass through the area, and they are able to shift the shipping cost pressure to the end customers.

**US tariff hike: higher risk for generic equipment**

Some investors are concerned on the impacts of the potential US tariff hike on China's capital goods export to the US. The US market contributes c.9%/20% of China's construction machinery/generic equipment export. The US now imposes 25% import tariff to major types of machineries from China. Further tariff hike may jeopardize some Chinese machinery exporters' profitability, especially for generic equipment makers based in Mainland China. That said, we think the potential impact is subject to too many uncertainties as the discussion on the tariff hike is still at early stage. Chinese machinery exporters are also setting up their overseas production base in response to potential tariff headwind.

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HDT: heavy duty truck

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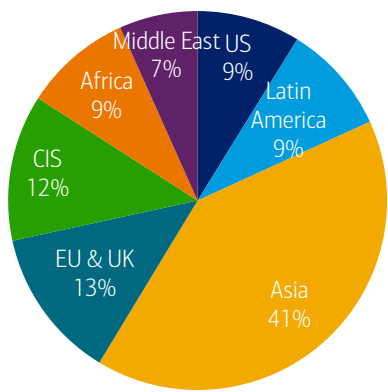
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# Key charts

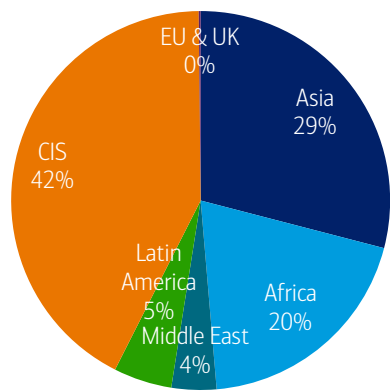
**Exhibit 1: China’s construction machinery export by market (2023)**  
Europe/US account for 13%/9% of China’s construction machinery export



Source: BofA Global Research, CCMA

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**Exhibit 2: China’s HDT export by market (2023)**  
China’s HDT exports mainly focuses on developing countries



Source: BofA Global Research, China Customs

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