

Industrials - China

Conference call takeaways: China automation 2024E outlook

Industry Overview

Automation market to see mild recovery in 2024

We held a conference call today with Chen Ran, general manager at Gongkong.com on the 2024 outlook of China's automation market. China's automation market saw flattish YoY sales growth and a 12-15% YoY orders contraction in 11M23, under the pressure of elevated stock level and weakening end-demand. Prices of domestic brands' automation products have been largely stable over the year due to the limited price increase during the pandemic, while foreign brands had 5-10% price cut on the distributor side due to channel destocking. Mr. Chen expects orders to recover starting 2Q24 with the completion of destocking. For 2024, Mr. Chen expects 3%/4-5% YoY sales/orders growth of the overall market from a low base.

By product: sensor/software>PLC/servo/inverter>IR

Mr. Chen expects **sensor** and **industrial software** to deliver strongest growth in 2024, driven by the trend of smart manufacturing. **PLC** is likely to see 3-4% YoY growth in 2024 after seeing significant orders contraction in 2023 due to the high stock level. **DCS** sales growth may slightly decelerate to 3-4% from 5% in 2023, due to slowdown in the PA market. **Inverter/servo** saw 5-10%/10-15% YoY order decline in 2023 due to the weak FA market, and Mr. Chen expects a 3-4% recovery of both products in 2024. **IR** should see flattish YoY growth in 2024 after seeing a 5% contraction in 2023, due to the decelerating capex from the auto/battery/solar markets. That said, small-payload and low-price IR should see decent growth due to the recovery of the 3C and general automation sectors.

By market: eye on recovery of 3C and general automation

Mr. Chen expects the overall FA market to recover in 2024, driven by the demand from capacity relocation, production line upgrade and end-market recovery. The demand from battery/solar sectors (accounting for c.20% of the FA market) should decelerate due to the overcapacity risks, while 3C/semis/logistics/machinery/food & beverage will become the new growth pillars in 2024, which support the demand for PLC/servo/CNC. On the other hand, the PA market may slow down in 2024 and enter a downcycle in 2025. That said, there are still opportunities from replacement and capacity upgrades.

Market landscape: domestic brands on the rise

In 2023, most foreign brands faced destocking pressure and fierce competition from domestic names (especially in servo/inverter). By end-2023, the channel stocks of Chinese/Japanese brands have largely been cleared, but destocking of European/US brands may still take another quarter. Mr. Chen sees significant progress of import substitution in the mid-to-large PLC market since 2023, with some SOE customers shifting towards domestic brands. Leading Chinese FA names such as Inovance are also gaining market share in the small PLC/inverter/servo markets at the expense of tier 2-3 foreign brands. Mr. Chen also sees overseas expansion opportunities for leading Chinese DCS/inverter/servo brands, mainly driven by the trend of capacity relocation.

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PLC: programmable logic controller

DCS: distributed control system

PA: process automation

FA: factory automation

IR: industrial robot

3C: computer, communication and consumer electronics

CNC: computer numerical control

SOE: state-owned enterprise

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