

## Industrials - China (H/A)

## 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 (Estun, OPT, Leaderdrive, UW, Supcon, Yiheda, Friendess) and electrical equipment (NARI, XJ Electric, Times Electric) names under our coverage focus primarily on the domestic market with limited direct export sales. The only exception is **Hongfa Technology**, with export contributing 38% of its 1H23 revenue, mainly from European/US customers.

**Construction machinery & HDT:** We estimate the European (incl. CIS) market to contribute 23%/19%/11%/5% of Sany/Sinotruk/Zoomlion/XCMG'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. HDT exporters such as Sinotruk mainly focus on developing countries and thus has limited exposure to the European market.

## 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, and the US sales accounts for 5%-10%/10-15%/~2%/~50% of Sany/Hengli Hydraulic/XCMG/Great Star's total revenue, based on our estimation. 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. **Great Star** has established its Vietnam production base in order to mitigate the tariff impact. **Sany** also has localized production in US/Europe/India/Indonesia. **Hengli Hydraulic** is about to set up its Mexico plant in Mar-2024, which will satisfy the demand of its US customers.

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HDT: heavy duty truck

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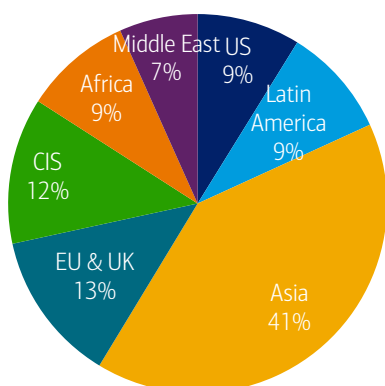
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## Key charts

### Exhibit 1: China's construction machinery export by market (2023)

Europe/US account for 13%/9% of China's construction machinery export

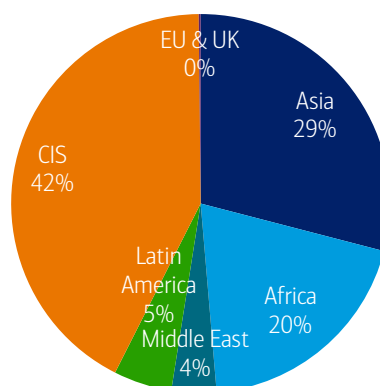


Source: BofA Global Research, CCMA

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### Exhibit 2: China's HDT export by market (2023)

China's HDT exports mainly focuses on developing countries

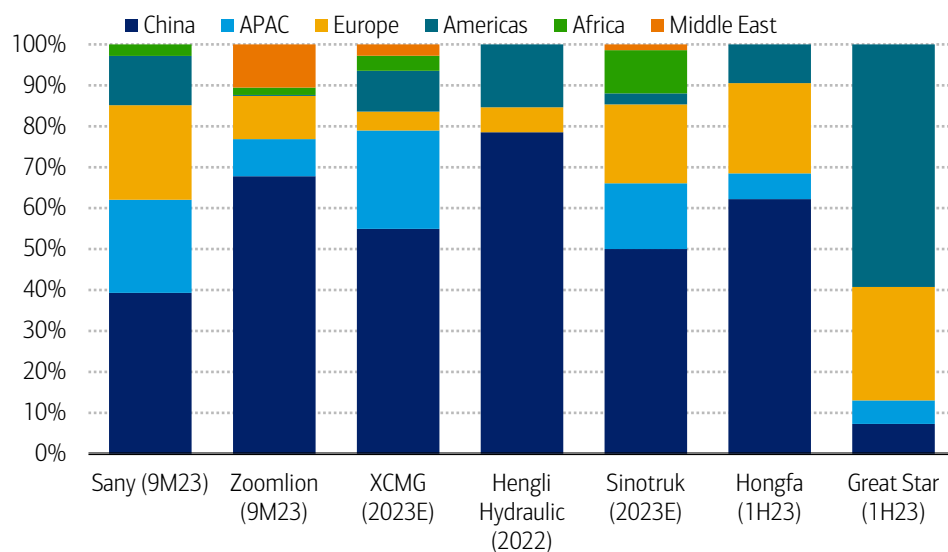


Source: BofA Global Research, China Customs

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### Exhibit 3: Estimated geographical exposure of major companies under our coverage

Great Star has most exposure to the US market



Source: BofA Global Research, companies

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