

Industrials - China (H/A)

Further policy supports for equipment renewal; positive for the industrials sector

Industry Overview

Action plan of large-scale equipment renewal

On 13 Mar 2024, China's State Council published *Action Plan of Promoting Large-Scale Equipment Renewal and Consumer Product Trade-in*. According to the policy document, equipment investment in industrials, agriculture, construction, transportation, education, culture & tourism and medical industry should grow >25% by 2027 from the 2023 level. The penetration rate of digital R&D and design tools/numerical control in key manufacturing processes should reach >90%/>75% respectively by 2027. The policy document also calls for large-scale renewal and upgrade of (1) manufacturing equipment, energy consuming equipment and power transmission & distribution equipment in key industries including steel, metallurgy, petrochemicals, chemicals etc.; (2) municipal infrastructure including water/heat/gas supply, elevator, sanitation and water treatment; (3) commercial vehicle, ship and agricultural machinery; and (4) teaching and scientific research equipment, tourism & amusement equipment and medical equipment. Specifically, the policy calls for accelerating the retirement of diesel trucks with or below NES-III emission standard, and continued implementation of agricultural machinery replacement subsidies. Regarding the financial resources, the policy requires the incorporation of eligible equipment renewal and recycling projects into the central government's budget.

Implications to China industrials sector

We think the automation/electrical equipment/agricultural machinery/HDT sector should be the key beneficiaries of the new supportive policy. In the **automation** sector, we expect rising upgrade demand to smart manufacturing and high-end manufacturing equipment such as 5-axis machine tool and 6-axis industrial robots, despite the sluggish growth of the overall automation market. In the **electrical equipment** sector, we expect the upgrade & replacement demand for energy-saving primary equipment (such as switch and transformer) to pick up in 2024-25E. In the **agricultural machinery** sector, the replacement subsidies should stimulate the demand for agricultural machinery in 2024-25E after being weak in 2023. For HDT, more subsidies are expected to be provided to truck users to eliminate aged trucks (NES III and NES IV trucks), which will accelerate the replacing demand of HDT and hence the domestic HDT sales in 2024, in our view. **Key stocks to focus:** Friendess (automation), Supcon (automation), NARI (electrical equipment), XJ Electric (electrical equipment), Sinotruk (HDT), Weichai Power (HDT).

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Equity
China
Industrials

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NES: National Emission Standard

HDT: heavy duty truck

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