

## Industrials - China

# Call takeaways: China Construction Machinery sales 2024 outlook

Industry Overview

### Eyes on export markets in 2024

We hosted a conference call with Mr Yusheng Chen, the General Manager of Hunan Dashengchang Machinery Equipment, on Jan 22 to discuss construction machinery markets. According to Mr Chen, Dashengchang will focus on the export market in 2024. The firm's current exports are seeing rapid growth due to a low base, with OBOR participating countries/Europe & America/SEA and others accounting for 50%/30%/20% of total exports. The construction machines sold to US are mainly new ones with better margin profiles compared to other regions as the ASP of domestic names is only half of Europe/America brands', while those sold to Asia/Africa/Latin America are mainly secondhand machines (largely NES III machines) to replace human labor and see 1.5-2 times net margin levels compared to domestic sales. In addition, he believes the ASP in Europe will move upward to offset the mounting shipping fees and USD depreciation, while exporting prices in other regions will remain relatively stable. Mr Chen believes the company will continue to see a share gain in overseas markets due to the large addressable markets and can deliver >100% sales in the next few years.

### Cranes to outperform in 2024 in China

Mr Chen believes cranes (especially heavy-duty ones) will outperform in 2024, helped by the offshore wind power projects and nuclear power projects which are led by the government. Sales of excavators will follow, the growth of which is expected to achieve low single-digit level, still dragged down by sluggish property markets. Road machinery/loaders are expected to see a flattish/contraction result. Forklifts may also see a flattish growth in 2024 due to the high stock accumulation and a reluctance to make capital investments in factories. Mr Chen sees 5-10% YoY growth in retail sales of excavators by Dashengchang at the beginning of the month in Hunan province, likely due to the low base in 2023 and peak season before CNY, while the machine utilization is still sluggish. Coupled with the acceleration in infra projects start after CNY, the working hours are expected to pick up, which is likely to promote new machine sales. The domestics ASP now stays at a low level amid industry headwinds while Mr Chen believes the price lift is an essential trend as manufacturers are going to seek for more profits.

### Electric machines are not favored by end markets

Due to hefty prices and unsound aftersales services, electric machines are not favored by clients, according to Mr Chen. Current subsidies provided by local government are mainly for agricultural machines which are defined as <6t excavators and the number of provinces that apply for subsidy is less than 30%, signaling strong financial pressure to buy electric ones. Besides, the electric construction machines require specified charging piles, which are quite costly. As such, Mr Chen doesn't believe electric machines can dominate the construction machinery markets in the short run.

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**Fiona Liang >>**  
Research Analyst  
Merrill Lynch (Hong Kong)  
+852 3508 4390  
[fiona.liang3@bofa.com](mailto:fiona.liang3@bofa.com)

**Yikai Liu, CFA >>**  
Research Analyst  
Merrill Lynch (Hong Kong)  
+852 3508 4212  
[yikai.liu@bofa.com](mailto:yikai.liu@bofa.com)

#### Glossary

ASP: average selling price  
CNY: Chinese New Year  
NES: national emission standard  
OBOR: One Belt One Road  
SEA: Southeast Asia

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