

Industrials - China

Call takeaways: China HDT 2024 outlook

Industry Overview

HDT is expected to see 5-10% YoY in 2024E

We hosted a conference call with Mr. Xie Guangyao, the editor-in-chief of CVWorld on Jan 18 to discuss the most recent Chin HDT markets. According to Mr. Xie, HDT wholesales sales are expected to reach 80-90k units in Jan, getting 2024 off to a flying start. Yet the retail sales in Jan may see a flattish MoM as it is normally the off season before Chinese New Year (CNY). The HDT market will enter the traditional peak season after CNY along with the pickup of logistic demand. As such, Mr. Xie expects that HDT will grow by 5-10% YoY to c.120-130k units of sales in Mar and 100k/80-90k units of sales in Apr/May with double digit growth. Yet he believes the highway truck transportation market is still under pressure due to the low freight cost, high fleet in operation (current 7-7.5mn units in use), which will lead to the continual clearance of the excess capacity in the following one to two years. Therefore, the HDT sales volume are expected to sit at 930k-950k units in 2024E with the bull case to 1mn units, +5-10% YoY.

Additionally, current HDT in operation with NES IV diesel engines is 1.3-1.5mn units with the oldest truck 9 years old, which make it possible to see central government policies regarding the elimination of NES IV engine HDT carried out in 2025. It will lift the domestic HDT demand to 800k-900k units in 2025-26E, 150-200k of which will be derived from the replacement demand.

Export flattish/low digit contraction in 2024E

According to Mr. Xie, HDT exports delivered a strong result of 275k sales units in 2023, marking a record high, +60% YoY, thanks to the cheaper prices, quicker responses, shorter lead time and stronger adaptability to various working conditions provided by Chinese brands. By regions, c.110k/55k/55k/25k/25k of HDT were sold to Russia/Africa/SEA/Middle East/East Asia in 2023, with Russia accounting for 40% of the exports markets thanks to its economy recovery and the exit of Europe brands. Looking into 2024E, Mr. Xie expects to see a contraction on the exports to Russia, while it can be offset by the incremental sales to other regions such as countries along OBOR. Currently Chinese brands secure low market shares in Middle/South America, while their market size can reach 150-200k units each per annum, bringing considerable upside potential for Chinese players in the medium to long term. As such, Mr. Xie expects HDT exports will see flattish/single digit contraction in 2024E due to declining sales to Russia, while he believes the export volume can reach 300-400k units in medium term.

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HDT: heavy duty truck

NES: national emission standard

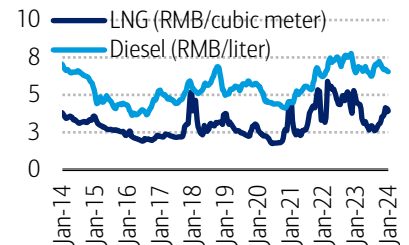
SEA: Southeast Asia

OBOR: One Belt One Road

LNG: Liquefied natural gas

Exhibit 1: LNG vs Diesel price

Current price gap is RMB2.6



Source: Wind, BofA Global Research

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LNG HDT penetration ratio to 35-40% in 2024E

The sales of LNG HDTs boomed in 2023 fueled by the enlarging price gap between LNG and diesel, and low freight costs. The sales volume of LNG HDTs ended up with 152k units in 2023, >300% YoY, according to Mr. Xie. Although the prices of LNG HDTs are higher than the traditional diesel ones by RMB80-100k, LNG HDTs are still preferred by the vehicle owners due to the economic efficiency as the initial price gap can be closed by the lower operating costs of LNG HDTs within only 1 year. Besides, the State Council published the *Action Plan for the Continuous Improvement of Air Quality* on Dec 7, aiming to accelerate the elimination of NES V trucks, which will promote the sale of LNG HDTs as well. Currently, LNG HDTs sales growth decelerate due to the price gap contraction between LNG and diesel fueled by the rising demand from the traditional heating season in North China. Yet the gap is expected to be expanded again after the heating season ends in March, and hence stimulating sales of LNG HDTs. As such, Mr. Xie believes the sales volume of LNG HDT can reach 250k units or above (>50% YoY) in 2024E with the penetration ratio of 35-40%.

Continual fast growth of New Energy HDT in 2024E

In 2023, China new energy HDT grew by 36% YoY to 34.2k units, reading a historical high. Mr. Xie believes the growth momentum will sustain in 2024E. The air quality policy launched on Dec 7 mentioned the promotion of new energy HDT and local governments are expected to follow to publish supporting policies shortly. As such, Mr. Xie expects the sales volume of new energy HDT will reach 50k units in 2024E and the penetration ratio can reach 8% in 2025E. Yet the turning point to see large scale sales will be upon the technology breakthrough of battery in order to reduce costs and to be able to transport in medium-long distance.

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