

Industrials - China

Central government's promotion of capital goods renewal & upgrade

Industry Overview

Promote to renew equipment & trade in consumer goods

During the fourth meeting of the Central Financial and Economic Affairs Commission (中央财经委员会第四次会议) on 23 Feb, President Xi Jinping delivered a speech, in which he emphasized to study the issue of the big-scale renewal of machine & equipment, and trade-in of consumer goods, to effectively reduce the logistics cost of the whole society. President Xi articulated to promote the upgrade and technology innovation of various production and service equipment and encourage the trade-in of automobiles and home appliances.

Implication to the sector

In the **HDT** sector, more subsidies are expected to be provided to truck users to eliminate aged trucks (NES III and NES IV trucks). According to our estimates, the UIO of HDT in China by end-2023 reached 8.8 million unit, among which 2.0 million units are NES III & NES IV HDT. We estimate the domestic HDT sales volume in 2024E will reach 789k units, up 25% YoY. That said, the promotion of automobiles trade-in might accelerate the replacing demand of HDT and hence the domestic HDT sales in 2024. In the production equipment such as **construction machinery** sector, we estimate the current UIO of excavator amounts to 1.7 million units, compared with 90k units of domestic sales in 2023. Given the high installment base, and that the implementation of NES IV for off-road machine (e.g. excavators, loaders) just started in Dec 2022, we believe replacing demand will be moderate in the short term. For other production equipment such as **machine tools** and **industrial robots**, the demand side remains sluggish, and destocking continues in 2024E. We will focus more on the technology upgrade such as the promotion of 5-axis machine tool and 6-axis industrial robots. In the service equipment sector such as railway equipment, we believe the maintenance of EMU/locomotives will enter the upcycle from 2024. **Key stocks to focus:** Sinotruk (HDT), Times Electric (railway equipment), Weichai Power (HDT), Zoomlion (construction machinery), and Estun Automation (industrial robot).

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Equity
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HDT: Heavy duty truck

NES: National emission standard

UIO: Unit in operation

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