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# **China Excavator Industry Report, 2010-2011**

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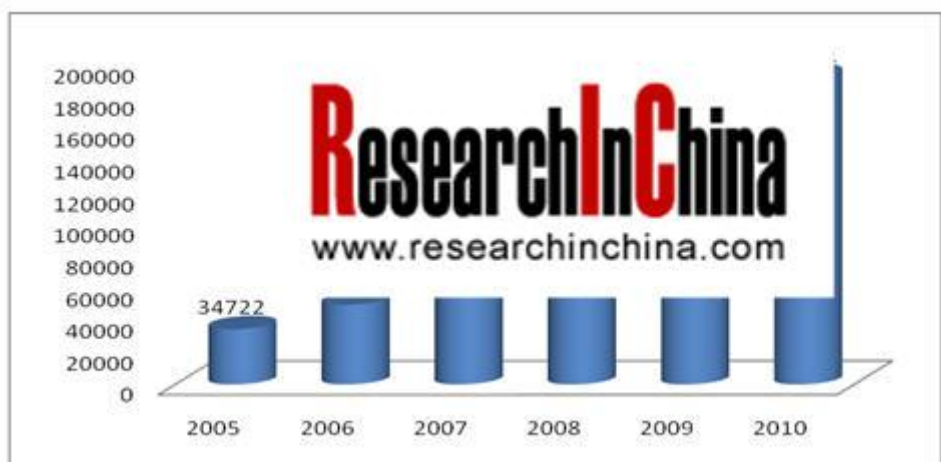
### 3. Market Analysis

During the 11th National Five-Year Plan (2006-2010), Chinese engineering industry witnessed a golden development period, and the stockpile and increment of excavators also experienced rapid growth. Considering the service life of an excavator lasting for around six to eight years (because the excavator in China characterizes high usage frequency and it is lower than the designed service life). Till 2010, the excavator industry of China began to enter the stock generation upgrading period, which spurs the explosive growth of the excavator market.

#### 3.1 Supply

In recent years, the excavator industry presents high-speed growth trend under the backdrop of fast growth in fixed asset investments and real estate development in China. In 2001, China's output of excavators registered \*\*, and the figure rose to \*\* in 2008, over 100,000 in 2009, and \*\* in 2010, with a CAGR of 35.4%.

**Excavator Output in China, 2005-2010 (Unit: Sets)**



Source: China Construction Machinery Association; ResearchInChina

The excavator output of China increased by 77.9% in 2010 from a year earlier, with the evidently faster growth rate than the past years, which was primarily ascribed to the three reasons as follows: firstly, national construction investments maintained rapid growth in 2010; secondly, the downstream industries such as real estate, highway, railway, etc recovered; lastly, excavators entered a generation replacing period and its

growth sped up.

Under the strengthened national control on macro-economy and enhanced regulation on real estate sector in 2011, the growth rate of Chinese construction machinery industry has long been believed to fall sharply, but the news about the assignment of indemnificatory housing construction between the Ministry of Housing and Urban-Rural Development of the People’s Republic of China and municipal governments in each places brings new growth points in the construction machinery industry, particularly in the excavator. In spite of exposure to overcapacity risk, there is still a bright prospect for the development of excavator industry in 2011.

As the production level of excavators improves as a whole, the excavator capacity and output of main production areas in China gets released in full swing; wherein, the excavator output of Shandong, the big producer of excavators in China, has always ranked the top among other provinces and municipalities in recent years, with its output reaching 28,617 in 2008, \*\* in 2009, and \*\* in 2010, and with an annual average growth rate of 38.1%. Besides, the excavator output of Jiangsu province also increases rapidly, ranking the second place in 2009 from the fourth in 2008, and keeping its No.2 position in 2010 when there were \*\* excavators produced in Jiangsu province.

***Excavator Output of Key Provinces and Cities in China, 2008-2010 (Unit: Sets)***

Province/Municipality	2010	2009	2008
Shandong	**	**	**
Jiangsu	**	**	**
Shanghai	**	**	**
Hunan	**	**	**
Guangxi	**	**	**
Anhui	**	**	**
Sichuan	**	**	**

Source: WIND; ResearchInChina



Meanwhile, Chinese excavator enterprises also expand in scale and production capacity. As of 2010, the number of excavator enterprises registered more than forty in China, including approximately thirty foreign-funded ones. Of the numerous enterprises, foreign-funded enterprises like Komatsu China and DOOSAN China boast quite high production capabilities, while Chinese counterparts are weak in production level and R&D, but a great number of enterprises began to expand their capacities as a result of booming market demand. Of them, excavator capacity of SANY Group reached around 20,000 in 2010, and it is expected to arrive at 30,000. Additionally, the production capacities of Guangxi Liugong Machinery Co., Ltd and China National Heavy Duty Truck Group Co., Ltd in 2010 both exceeded 10,000. According to its strategic development planning, XGMA are to carry out the investment project with annual output of 12,000 excavators. Guangxi Yuchai Group and Bonny Heavy Machinery have made total investment of RMB2 billion for the establishment of medium and large-sized excavator project, which will annually produce 5,000 medium and large excavators once it is ultimately completed. Moreover, the new entrants such as Rong'an Heavy Machinery, Wuliangye Pushi Heavy Machinery, etc plan to achieve the output of more than ten thousand excavators when they are fully put into production.

***Capacity Expansion Plan of Domestic Excavator Enterprises in China, 2010-2011***

	2010	2011
SANY	**	**
Liugong Machinery	**	**
XGMA	**	**
ZOOMLION Heavy Industry	**	**
Rong'an Heavy Machinery	**	**
China National Heavy Duty Truck Group	**	**
Strong Construction Machinery	**	**
Sunward Intelligent Machinery	**	**

Source: ResearchInChina

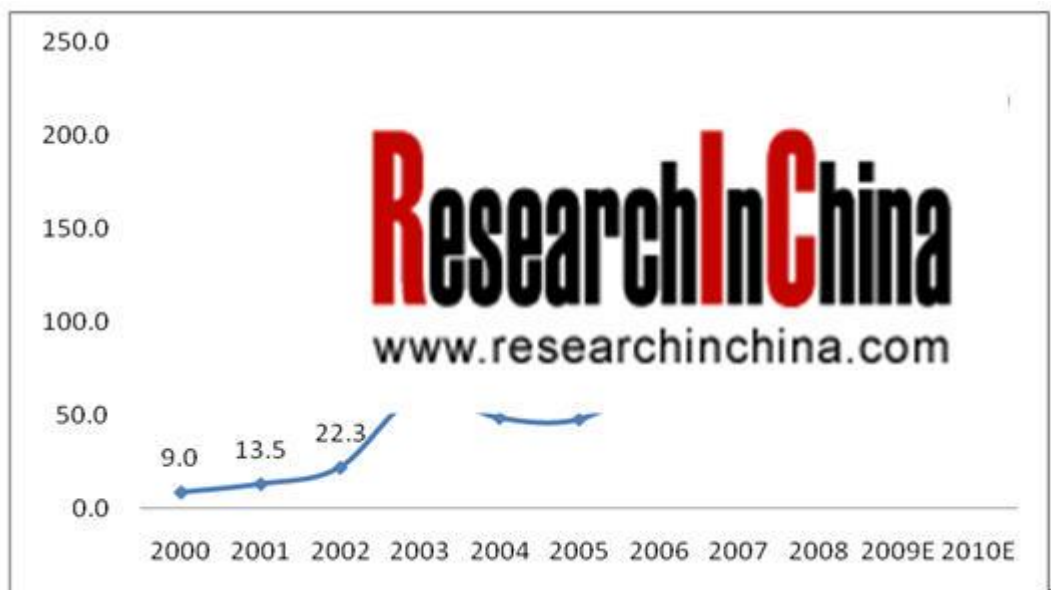
The capacity expansion of numerous excavator enterprises worries industry circle that the overcapacity risk will usher in Chinese excavator industry in 2011. In spite of hidden risks, the demand for excavators will further grow under the drive of infrastructure construction in China, and it is expected that, in 2011, the excavator market in China will continue an upward trend.

### 3.2 Demand

#### 3.2.1 Actual Demand

In recent years, the excavator demand shows strong growth spurred by massive infrastructure construction, highway construction, real estate construction and railway construction in China, with the number rising from 7,434 in 1992 to \*\* in 2008, and with a CAGR of 18.3%. it was expected that the actual demand volume of excavators in China would approximate \*\* in 2009 and \*\* in 2010.

**Actual Demand of Excavator in China, 2000-2010 (Unit: thou. sets)**



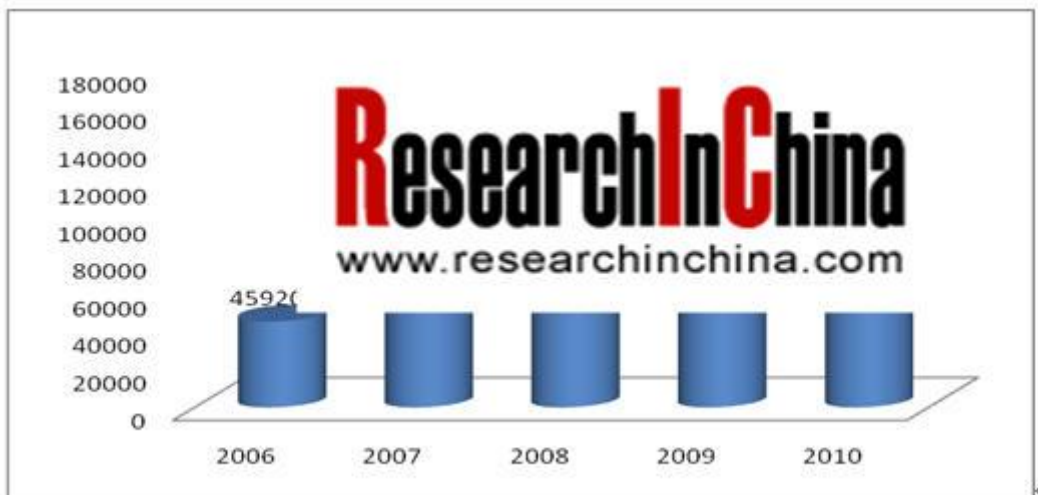
Source: China Construction Machinery Association; ResearchInChina

#### 3.2.2 Sales Volume

According to the statistical data of China Construction Machinery Association, the sales volume of excavators in China maintained a CAGR of above 30% during 2001-2010.

The sales volume of excavators in China reached 12,397 in 2001, more than 30,000 in 2003, over 40,000 in 2006, \*\* in 2007, \*\* in 2009, and \*\*in 2010.

**Excavator Sales Volume in China, 2006-2010 (Unit: Sets)**



Source: China Construction Machinery Association; ResearchInChina

Note: the sales volume of excavators refers to the statistics of China Construction Machinery Association on key enterprises, and 24 enterprises in 2010 (the same hereinafter)

## 4. Competition

### 4.2 Enterprise Competition

#### 4.2.1 Domestic and Foreign Enterprises

In 2010, China's excavator market was dominated by foreign brands with 71.7% share occupied, among which \*\*% share was held by Japanese brand and Korean brand.

The main Japanese brands include Komatsu (China), Hitachi and Kobelco, etc. In 2010, the sales of Japanese enterprises accumulated \*\* sets, accounting 35.6% of the total, but down 2.14 percentage points. Among them, Kobelco took the fastest sales growth with y-on-y growth rate of 92.2%, and the sales volume made the historical record of \*\* sets.

The key Korean brands are represented by Doosan, Hyundai, Hyundai (Jiangsu) and Hyundai (Beijing), etc. In 2010, Korean brand held \*8% share of the total market, down 1.12 percentage points than that of 2009.

The total sales of Euro-American brands in China keep relatively stable. In 2010, the sales reached\*\*sets, taking \*\*% share which was similar to the level in 2009. Caterpillar is the top one by sales among the Euro-American brands.

Chinese brands took \*\*% shares in 2010, and the sales amounted to 46,928 sets, among which SANY Heavy Industry got \*\* sets, ranking first; YUCHAI Heavy Industry, which mainly produced mini excavator, took the second position with sales of\*\* sets. However, the total of sales of many domestic brands was less than that of one Japanese, Korean or Euro-American enterprise.

#### **Sales Volume and Market Share of Excavator (by Brand) in China, 2010**

		Sales Volume (set)	Market Share
Foreign Brands	Japanese brand	**	**
	Korean brand	**	**
	Euro-American brand	**	**

Domestic Brands	**	**
Total	**	**

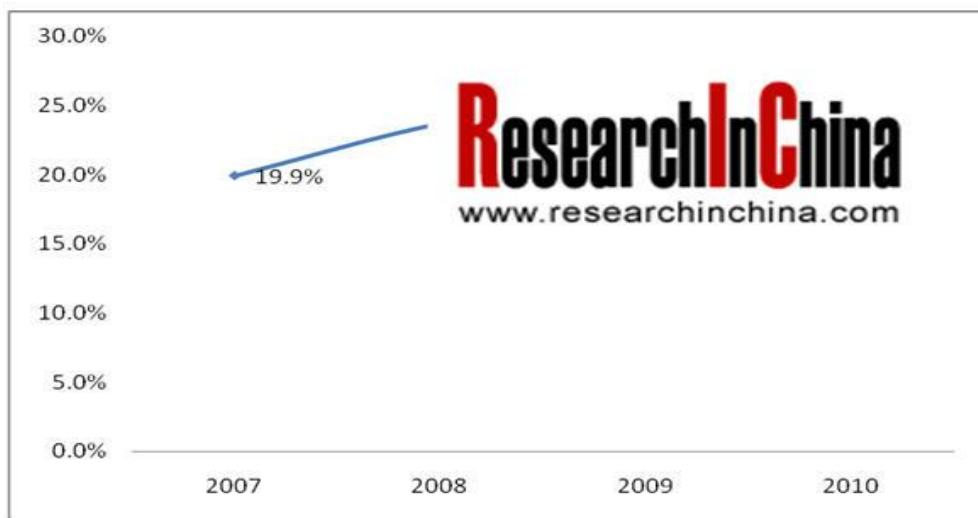
Note: The total sales volume is the sales of hydraulic excavator of 24 key manufacturers.

Source: CEMA, ResearchInChina

#### 4.2.2 Domestic Enterprises

Under the situation that monopolized by the foreign brands, domestic brands made great efforts to break out constantly. Since 2005, it had taken mini excavator as breach and expanded its market share gradually from less than 22% of 2005 to \*\*% of 2010.

**Market share of Domestic Excavator Brands in China, 2007-2010**



Source: CEMA, ResearchInChina

The first batch of enterprises with competitive strength includes SANY Heavy Industry, YUCHAI, LiuGong, FOTON LOVOL, SUNWARD, Lonking, and XGMA.

**Sales Volume and YoY Growth of Major Domestic Excavator Enterprises in China, 2010**

Domestic Enterprises	Sales Volume of Excavator (set)	YoY Growth
SANY Heavy Industry	**	**
YUCHAI	**	**



LiuGong	**	**
FOTON LOVOL	**	**
SUNWARD	**	**
XGMA	**	**

Source: ResearchInChina

By single type, the sales of SY215C-8 crawler exactor manufactured by SANY Heavy Industry got \*\* sets in 2010, obtaining the reputation of best-selling excavator in 2010 (Doosan’s DH225LC in 2009 was sold 3,212 sets, Caterpillar’s 320D in 2008 was sold 2,562 sets), and showed the great progress of domestic brands.

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## **5. Key Enterprises**

### **5.1 SANY Heavy Industry (SS.600031)**

#### **5.1.1 Profile**

Invested by Sany Group, SANY Heavy Industry Co., Ltd. was founded in 1994, with its headquarters located in the Changsha Economic Technological Development Zone. It mainly engages in R&D, manufacturing and marketing of engineering machinery, and the products cover more than 200 kinds and 26 categories including construction machinery, road machinery, and hoisting machinery, product portfolio include concrete pump, concrete pump truck, concrete mixing plant, bituminous mixing plant, road roller, paver, land grader, crawler crane and auto hoist, etc.

#### **5.1.2 Operation**

SANY Heavy Industry started from concrete machinery, and expanded road machinery, crawler hoist, piling machinery, excavator, and auto hoist relied on SANY Group's resources.

Since its founding, the output of SANY Heavy Industry grew at a rate of 50% annually. Affected by the financial crisis in 2008, SANY Heavy Industry still maintained its growth, and realized operating income of RMB\*\* billion, up 50.3% yr-on-yr. In 2009, it got sales revenue of RMB\*\* billion, up 20.01% yr-on-yr; total profit RMB2.629 billion, up 70.65% yr-on-yr. In 2010, SANY Heavy Industry did not stop its steps of moving forward. The operation income reached RMB\*\* billion, which was 78.94% higher than 2009. In terms of total profit, it gained RMB\*\* billion, which was one time more than the previous year.

**Revenue and Total Profit of SANY Heavy Industry, 2007-2010 (RMB mln)**



Source: SANY Heavy Industry, ResearchInChina

Since its foundation, the main driving force for high growth is the concrete machinery. While excavator and auto hoist are mature, and the former ranks first and the later gets third in China. In 2010, benefited from the continuing growth of real estate and infrastructure construction investment, the demand for main products of SANY Heavy Industry was strong. The sales revenue of concrete machinery, excavator and auto hoist was up 88.1%, 54.6% and 76.3% respectively. The sales volume of excavator reached \*\*sets, up 128.11% and ranking first among domestic brands in China; and the sales growth rate of auto hoist and road roller was more than 80%.

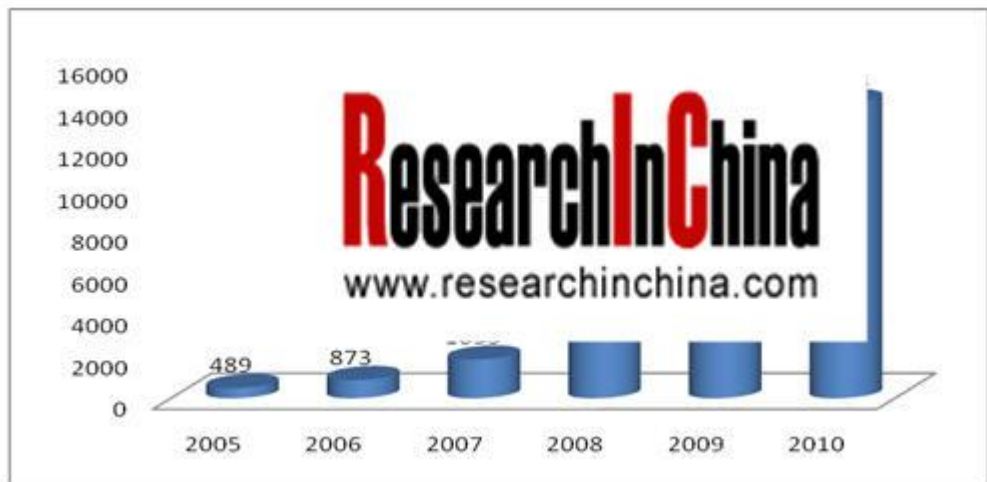
**Revenue Structure of SANY Heavy Industry (by Product), 2009-2010**

	2009	2010
Excavator	**	**
Concrete Machinery	**	**
Road Machinery	**	**
Crawler Hoist	**	**
Piling Machinery	**	**
Auto Hoist	**	**
Other	**	**

Source: SANY Heavy Industry, ResearchInChina

Compared with concrete machinery business, the excavator business started late, but developed quickly in recent years. The sales volume was just 873 sets in 2006, increased to be \*\* sets in 2007, and over 6,000 sets in 2009, up over 90% than 2008. In 2010, it rocked to be \*\* sets.

**Excavator Sales Volume of SANY Heavy Industry, 2005-2010**



Source: SANY Heavy Industry, ResearchInChina

At the same time, the market share of excavator increased steadily, from less than 1% to 6.5% of 2009, and 8.5% of 2010.

### 5.1.3 Development Strategy

#### 1 Backward Integration layout and industry chain construction made breakthrough

In 2010, the R&D of core parts, such as cylinder, hydraulic system, reduction gears, cab, rotation support, self-made chassis, and high strength steel plate made great breakthrough, and some had realized mass production. The R&D and self production of core parts will give it competitive edge that is difficult to be duplicated by rivals, and keep gross margin stable.

#### 2 Overseas business accelerates and steps in harvest season

Affected by financial crisis, the overseas business declined greatly. In 2010, it recovered and realized sales revenue of RMB2.13 billion, up 56.81% yr-on-yr, but still lower than RMB3.46 billion of 2008. With the gradual recovery overseas economy entities, the bases in USA, India, Brazil and Germany were put into

operation, and the future business would rise largely.

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