

Rays of hope amidst slow down

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The overall performance of China's construction machinery industry remained sluggish in the first nine months of 2014 amid the economic slowdown in China.

Sany reported 1.59 billion yuan (\$259 million) net profit for the first nine months of 2014, down 46.52 percent year-on-year.

The Zoomlion Heavy Industry Science and Technology Co, another key market player in the construction machinery sector, recorded revenue of 19.77 billion yuan (\$3.21 billion) from January to September in 2014, a decrease of 31.06 percent from the previous year. Its net profits dropped by 73.64 percent year-on-year to 1 billion yuan.

Zoomlion's total income in the third quarter of 2014 reached 5.7 billion yuan (\$927 million), down 33.84 percent from 2013.

The company said in its interim report of 2014 that the slowing down in China's fixed assets investment has led to a weak demand for construction machineries such as concrete machines and crane equipment in 2014. The overall business decline was partially offset by the increasing environmental and sanitation businesses.

The Liugong Machinery Co, another rival in China's machinery industry, reported a 15.14 percent year-on-year revenue drop in the first nine months of 2014 with total income arriving at 7.87 billion yuan (\$1.28 billion).

The Xiangong Heavy Duty Machinery Co (XGMC) generated a total revenue of 3.5 billion yuan (\$569 million) in the first nine months of 2014, a decrease of 35 percent from 2013. The company also reported a net loss of 100 million yuan (\$16.3 million) from January to September.

XGMC also announced on October 29 it would terminate two investment projects that raised funds through public offering in 2012. The remaining funds will become liquidity for the company permanently.

OVER-CAPACITY IN THE LOWER-END MARKET

It was pointed out by experts that although China has huge construction machinery production capacity, very few companies have self-owned intellectual property rights and most core spare parts rely on foreign markets.

The figures from the China Construction Machinery Association (CCMA) showed that China's exports of construction machinery reached \$6.14 billion in the first half of 2014, up 1.76 percent year-on-year. However, spare parts exports dropped by 61.36 percent to \$1.14 billion. The two situations have finally led the overall exports of construction machinery to drop by 19.04 percent in the first half of 2014.

"There is a clear indication that high-valued-added products are welcome in foreign markets, however, the lower-end products will lose market share. There is an urgent need for companies to trans-



Exhibits from overseas and domestic exhibitors are on display at bauma China 2012. PHOTO PROVIDED TO CHINA DAILY

form and upgrade their products," said CCMA in a report that was released in October.

FUTURE TRENDS

To support economic development, the central government has released a series of policies to stabilize the country's economic growth in 2014. These policies will benefit construction on infrastructure facilities, water conservation projects, strategic emerging industries, urbanization, energy projects, high-speed railways, which are closely related to construction machinery businesses.

Experts believe that those policies will have a positive effect on the construction machinery sector in the fourth quarter of 2014.

However, some experts said although the government has released stimulation policies, the construction machinery sector will not see a strong rebound in the fourth quarter of 2014, because the industry will be affected by many other factors such as the changing international market and over-capacity.

Though construction machinery businesses face challenges in the remainder of 2014, companies are positive about the future.

Sany is optimistic about its growth prospects in the medium-to-long term thanks to the continuous improvement in the country's regional, industrial and urban-rural structures.

The company cited increased infrastructure demand in railways, urban mass transit and water conservancy projects and opportunities brought about by the development of the emerging economies as reasons for optimism.

In the first six months of this year,



Visitors enter the expo center to visit bauma China 2012. PHOTO PROVIDED TO CHINA DAILY

Sany sold more concreting machinery than any other competitors worldwide and more excavating machinery than anyone else in China. The sales were worth 10.12 billion yuan (\$1.65 billion) and 4.88 billion yuan (\$794 million) respectively.

"China's construction equipment industry is experiencing an adjustment period. I think it is a normal business cycle that I have seen many times in other regions. We have our internal forecasts and we believe in China in the medium and long term, the market continues to develop and it will be fantastic. There is still an incredible demand for infrastructure, roads and cities, which will benefit Volvo CE in the coming future," said Martin Weissburg, president of the Volvo Construction Equipment.

Companies are also expanding quickly in overseas markets to sup-

port growth. For instance, Zoomlion is building manufacturing bases in Russia and India. Its revenue in the Middle East and America has increased by 100 percent from 2013. Sany also achieved rapid expansion in Africa and Latin America.

Industry insiders believe that the investment will focus on three areas in the construction machinery sector in the future, firstly, leading companies will continue to expand product lines and enhance its premium products, manufacturing capacity and exports capacity; secondly, companies will continue to expand their industrial chains by setting up research and development centers and launch core spare parts manufacturing projects and manufacturing bases; thirdly, leading businesses will integrate resources through mergers and acquisitions both in domestic and international markets.