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China Construction Machinery | Asia Pacific

Our Thoughts on the Selloff

The construction machinery sector's selloff was driven by multiple market concerns, including a potential reduction in the export VAT refund. However, companies are unaware of such a change and see steady operations. These concerns may weigh on sentiment, but we remain positive on fundamentals.

Sany-A -6.7%, Hengli Hydraulic -6.3%, Zoomlion-A -3.7%, and XCMG (not covered) -2.9% all sold off yesterday, vs CSI300 +0.7%. Our conversations with investors point to **several market concerns:**

1. **Export VAT refund reduction risk** – Neither we nor the companies we spoke with were aware of such a potential change, but this could remain a lingering concern in the near term.
2. **US antidumping duty/countervailing duty investigations into certain linear hydraulic cylinders** from China, Canada, Mexico, India, and Korea – Hengli expects a limited impact given the company doesn't price low and also has several mitigating factors. We think it will be difficult for US clients to replace Hengli with other suppliers in the short to medium term. While any potential tariff could have a negative impact on margins, we don't expect a significant impact, and Hengli should be able to pass through a part of it.
3. **Weakening domestic sales** – companies see steady operations and growth.
4. **Fed rate hike concerns** – we think this is already known by the market.

We detail our thoughts & company comments in the sections below.

Our positive sector view, based on resilient fundamentals, remains unchanged – We anticipate a stronger domestic replacement cycle in 2027, continued overseas market share gains, margin expansion (easing FX pressure, price hikes, higher margins from overseas), and attractive valuations. **However, market sentiment could remain low** especially given the concerns on VAT refund reduction and US AD/CVD risks mentioned above, which are not in our base case.

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CHINA INDUSTRIALS

Asia Pacific
Industry View **In-Line**

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Market Concerns – Our Thoughts & Company Comments

1) Export VAT refund reduction risk: Construction machinery companies are unaware of such a potential change, and we haven't seen any news reports on this. If such an adjustment were to happen, we see a potentially material impact on margins – construction machinery currently enjoys a full export VAT refund of 13%, and overseas sales are a significant part of the revenue mix (eg, 64% for Sany, 59% for Zoomlion in FY25). **We think this could remain a lingering concern in the near term**, especially amid the recent regulatory tightening seen elsewhere (outbound investment controls, taxation and reporting around offshore wealth, and retrospective tax collection for domestic companies).

- Previous adjustments on other products – such as batteries, solar PV products, certain refined oil products, and certain non-metallic mineral products – were done in phases, but some were reduced to 0% directly, such as aluminum and copper products. Taking batteries as an example, the VAT refund was lowered from 13% to 9% in Dec-24, 9% to 6% in Apr-26, and 6% to 0% in Jan-27.

2) New US antidumping duty (AD) and countervailing duty (CVD) investigations into certain linear hydraulic cylinders from China, Canada, Mexico, India, and Korea were initiated by the US Department of Commerce on Sep 9 (link). Any imported cylinders or parts attached to equipment and machinery is also in scope. The department's preliminary determinations will be made on Nov 12 for CVD and Jan 26, 2027 for AD, with possible extensions.

- **Management thinks the impact is limited given: 1)** Hengli focuses on high-end products with higher ASPs than some peers – in other words, not low-cost competition; **2)** overseas factories, such as in Indonesia (not within the AD/CVD scope and could be used to supply the US) and Mexico (in scope but management thinks any potential tariff could be lower than China's); **3)** direct export revenue mix to the US is low at <5%; for indirect sales (machinery exported to the US equipped with Hengli cylinders), Hengli could share the tariff (if any) with their clients. Based on our estimates, Hengli's indirect sales are also low.
- **Our view: 1) Limited risk of clients shifting to other suppliers in the short to mid term.** High-end cylinder manufacturers such as Hengli are relatively better positioned, given very limited alternative suppliers. In addition, replacing key components like cylinders with other suppliers' products would require a long period of product testing. **2) Margin impact is hard to quantify currently, but we don't expect a significant impact** given Hengli's prices are not low in the US. In addition, in the event that AD/CVD are levied, we think Hengli can pass through part of the tariffs to its clients, as mentioned above. We understand the market could be more concerned, referencing aerial working platform's (AWP) AD/CVD tariffs (~51% for Dingli, ~178% for Zoomlion and most other Chinese brands currently). However, we think hydraulic cylinder are in different position compared to AWP, given the irreplaceability. US machinery companies Caterpillar/CNH and JLG/Genie (not covered) use Hengli's hydraulic cylinders, and high tariffs would meaningfully hurt their margins as well; and Chinese players' AWP sales to the US could be more easily replaced by local suppliers compared with cylinders.

- **Other machinery** equipped with hydraulic cylinders sourced from the above countries, such as agricultural machinery, mining equipment, and certain types of commercial vehicles and trucks will face tariffs for their hydraulic cylinder value (if AD/CVD take effect), although the impact could be less than on hydraulic products alone.

3) Concern over weakening domestic sales: Jul-Aug has been weak due to seasonality and near-term factors (severe weather, slower local government special bond issuance in Apr-May). However, the companies have seen a steady performance so far in 3Q, with XCMG expecting stronger growth in September and 4Q than in July-August. Sany, Zoomlion, and XCMG all remain constructive on the overseas growth outlook, with easing margin pressures (details below).

Takeaways From Recent Company Calls

In the wake of sharp stock price movements recently, leading construction machinery companies hosted update calls to reiterate their confidence in the growth outlook. Below are the key highlights.

Hengli Hydraulic

- Management believes the investigation is not targeting companies like Hengli which focuses on the high-end market, rather targeting low-end products.
- Management has several plans to mitigate any potential impact:
  - Production capacity could be reallocated to Mexico faster than previously planned. Currently ~40% of direct hydraulic cylinder sales to the US is manufactured in Mexico, and management thinks 100% is achievable towards year-end or 1Q27, if needed to counter any AD/CVD tariffs. Although Mexico is also in the scope of the investigation, management thinks the tariff levels could be lower vs China (if any), given its "market economy" status is recognized by the US and other major cylinder manufacturers in Mexico are US firms (Caterpillar, John Deere) likely with compliant operations.
  - The Indonesia (not in scope) factory could be expanded to manufacture products sold to the US.
  - Any tariff burden could be shared with customers through price hikes, evident from the previous rounds of US tariffs where Hengli bore less than half of the tariffs.
- AD/CVD tariffs might even benefit Hengli, as its competitors from the US may face higher costs if they import cylinder parts from China.
- The Mexico factory's overall operating costs are 20-30% higher than in China, with a ~15% higher ASP. As the scale ramps up, especially if accelerated by AD/CVD concerns, management aims to lower costs to levels <20% higher than China, resulting in similar gross margins. However, management does not have much visibility on the timeline of achieving this given various uncertainties.

Sany

- **FY26 revenue target of ~20% remains unchanged, with overseas growth above 20%.**
- Overseas revenue growth momentum will be sustained in 2H, led by Southeast Asia, Europe, and North America; Africa growth will decelerate off a tough base but stay elevated at >30%. Overseas geographic exposure is well diversified, thus limiting the impact from certain regions' slower growth and higher volatility. Non-excavator growth has been better than expected, but this could weigh on margins due to product mix.
- Overseas growth will sustain at 15-20% over the next few years, given ample market share gain potential.
- Domestic growth could decelerate in 2H vs 1H, with weak Jul-Aug, but margins will likely improve on easing competitive pressure and price hikes.
- Overall margins will be largely steady, with easing FX pressure (stabilizing USD/CNY and an easier comp vs 2H25).

Zoomlion

- Overseas demand remains strong, led by Europe, Southeast Asia, and LatAm. Middle East should gradually recover as construction restarts.
- Overseas margin pressure is easing as price hikes start to materialize.
- Domestic sales will see a gradual recovery in coming years, driven by replacement demand, large national infrastructure projects, urban renewal demand, and product electrification.

XCMG (not covered)

- Overseas growth in Jul-Aug sustained the strong momentum seen in 1H, but with some moderation owing to the rainy season in Africa and South Asia, as well as El Nino. Management expects 3Q growth to sustain at ~20% yoy (vs 1H +21%), led by Africa, Europe, Southeast Asia, and Central America.
- Domestic sales improved in Sep after a weaker Jul-Aug. Management expects 3Q growth to be flattish or to slightly decline yoy, and 4Q to grow modestly. Volume was weaker in 3Q, but ASP and margins will likely improve thanks to price hikes.
- FX pressure on costs is easing.

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Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1555	42%	450	48%	29%	767	44%
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Not-Rated/Hold	3	0%	1	0%	33%	1	0%
Underweight/Sell	559	15%	93	10%	17%	216	12%
Total	3,694		939			1754	

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INDUSTRY COVERAGE: China Industrials

COMPANY (TICKER)	RATING (AS OF)	PRICE* (09/16/2026)
Chelsea Wang		
China Railway Group (601390.SS)	E (05/12/2022)	Rmb4.28
China Railway Group (0390.HK)	E (08/11/2025)	HK$3.35
China State Construction Engineering (601668.SS)	U (08/11/2025)	Rmb4.24
Han's Laser (002008.SZ)	O (10/02/2025)	Rmb95.54
Hefei Meyer Optoelectronic Technology (002690.SZ)	E (09/08/2025)	Rmb15.50
iRay Technology Company Limited (688301.SS)	O (07/07/2026)	Rmb91.70
Neway Valve (Suzhou) Co., Ltd (603699.SS)	O (09/12/2025)	Rmb43.62
Shanghai BOCHU Electronic Technology (688188.SS)	O (08/22/2024)	Rmb94.99
Shenzhen Envicool Technology Co Ltd (002837.SZ)	O (08/19/2024)	Rmb62.03
Sheng Zhong		
Beijing Geekplus Technology Co., Ltd. (2590.HK)	O (08/07/2025)	HK$8.18
Centre Testing International Group (300012.SZ)	E (11/18/2024)	Rmb14.72
CRRC Corp Ltd (1766.HK)	U (01/22/2026)	HK$5.12
CRRC Corp Ltd (601766.SS)	U (01/22/2026)	Rmb5.96
DR Laser (300776.SZ)	E (12/17/2021)	Rmb117.69
Estun Automation Co Ltd (002747.SZ)	E (08/25/2026)	Rmb29.17
Haitian International Holdings Limited (1882.HK)	E (09/08/2025)	HK$17.68
Hongfa Technology Co Ltd (600885.SS)	O (05/23/2023)	Rmb34.46

Jiangsu Guomao Reducer Co Ltd (603915.SS)	U (01/08/2025)	Rmb12.91
Jiangsu Hengli Hydraulic Co.Ltd (601100.SS)	O (05/23/2023)	Rmb92.60
Jingsheng Mechanical & Electrical Co (300316.SZ)	U (01/08/2025)	Rmb40.93
Leader Harmonious Drive Systems (688017.SS)	O (01/22/2026)	Rmb287.93
Sany Heavy Industry Co., Ltd. (600031.SS)	O (01/08/2025)	Rmb18.18
Shenzhen Inovance Technology (300124.SZ)	++	Rmb51.44
Shenzhen SC New Energy Technology Corp (300724.SZ)	U (09/08/2025)	Rmb52.50
Sinotruk (Hong Kong) Limited (3808.HK)	E (05/19/2025)	HK$38.72
Suzhou Maxwell Technologies Co Ltd (300751.SZ)	U (09/15/2023)	Rmb197.00
Times Electric (3898.HK)	E (01/22/2026)	HK$29.04
WeiChai Power (2338.HK)	O (03/30/2026)	HK$29.56
WeiChai Power (000338.SZ)	O (03/30/2026)	Rmb25.52
Wuxi Autowell Technology Co Ltd (688516.SS)	U (09/08/2025)	Rmb41.90
Wuxi Lead Intelligent (300450.SZ)	O (09/08/2025)	Rmb31.70
Zhejiang Dingli Machinery Co Ltd. (603338.SS)	O (11/05/2025)	Rmb54.91
Zhejiang Hangke Technology (688006.SS)	O (09/08/2025)	Rmb20.60
Zhejiang Shuanghuan Driveline Co. Ltd. (002472.SZ)	O (08/25/2023)	Rmb35.64
Zoomlion Heavy Industry (1157.HK)	O (09/08/2025)	HK$5.78
Zoomlion Heavy Industry (000157.SZ)	O (09/08/2025)	Rmb6.22

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