# China Industrials

## Multiple headwinds weighing on sentiment: how should investors be positioned?

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China

Industrial

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### China industrials tracked the CSI 300, while subsectors diverged

China industrials (including companies under our coverage) performed broadly in line with the CSI 300 last quarter, but subsector returns diverged. Shipbuilding led on strong freight rates, while heavy duty trucks and diversified industrials lagged. Construction machinery rebounded from July before a recent sharp correction, while automation and renewable-energy equipment underperformed but have begun to stabilise. Construction machinery weakness reflected concerns over potential export-tax-rebate changes, soft domestic demand, higher US rates and earlier FX losses; automation was weighed down by softer capex intentions, and lithium-battery equipment by production cuts. Client interest improved modestly versus Q226, led by AI-related captial outflow, shipbuilding and mining equipment, although earnings-visibility concerns persist, particularly in construction machinery and automation.

### Gauging Rmb appreciation and export tax rebate risks for China industrials

Further Rmb appreciation and potential export tax rebates are key concerns for China industrials given many of them have meaningful overseas exposure. We ran a sensitivity analysis (see Figure 1) in which we conservatively assume companies take no action to mitigate FX or tax-rebate risks. A 5% Rmb appreciation and a 4ppt export-tax-rebate cut (benchmarked against the December 2024 policy, which reduced rebates for selected products from 13% to 9%) would weigh most on export-heavy, low-margin companies, while domestic automation and testing names appear relatively insulated. Construction machinery (excluding Hengli Hydraulic and Lonking), Suzhou Maxwell and Shenzhen Megmeet would be the most negatively affected. In practice, however, many companies are likely to take steps to reduce these risks, such as passing on costs, establishing overseas production facilities, and settling transactions in renminbi wherever possible.

### Latest feedback from CM peers: OEM growth intact, policy risks overpriced

After last week's share-price correction, Sany, XCMG and Zoomlion continue to expect solid overseas growth and a gradual domestic recovery, with easing FX headwinds and improving margins supporting earnings in H226. Although potential US AD/CVD measures on hydraulic cylinders, export tax rebate changes and higher freight costs remain key concerns, management broadly views the impact as manageable through diversified exposure, localisation and cost pass-through. Hengli Hydraulic similarly sees limited direct exposure, as the investigation excludes motors, pumps and valves, and plans to mitigate the risk through production transfers to Mexico, capacity expansion in Indonesia and pricing actions; the Mexico plant should turn profitable next year, while robotics offers an additional medium-term growth driver.

### Prefer selected names with earnings visibility or structurally-driven growth

Macro weakness, soft domestic demand, higher US rates and policy risks could continue to weigh on industrials, particularly construction machinery and automation, where investors may be concerned about slowing demand and order growth. In our stock-picking strategy, we divide industrials into three categories. We favour **Category 1** names with earnings visibility and cyclical upside—CSSC and CRCC A/H—and **Category 2** structural growers with limited near-term headwinds—Sany International, Hongfa, OPT, CTI, JDI, Sinotruk-H and Dingli. The AI supply chain (e.g. Hongfa) should benefit from near-term catalysts, including constructive Rubin and Gemini commentary and the U.S. OCP Conference.




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**Figure 1: Impact of Rmb appreciation and export tax rebate reduction across our industrial coverage**

| Ticker | EN | Lead | Rating | MarketCap (Rmb bn) | TP | LC | Upside | 1mth | 3mth | YTD | *Overseas revenues % (H126) | Net margin (26E) | Impact of 5% RMB appreciation on 2026 earnings (+/–) | Impact of Export Tax Rebate Removal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CSI300 | | | | | | 4,539.6 | | -1.72 | -7.72 | -2.40 | | | | |
| **Construction machinery** | | | | | | | | | | | | | | |
| 600031.SH | Sany Heavy Industry | Phyllis Wang | Buy | 163.7 | 23.2 | 17.8 | 31% | -5.53 | -0.66 | -14.78 | 60% | 11% | -18% | -19% |
| 601100.SH | Jiangsu Hengli Hydraulic | Phyllis Wang | Buy | 124.3 | 128 | 93.5 | 37% | -11.64 | -16.23 | -16.81 | 20% | 26% | -5% | -3% |
| 000425.SZ | XCMG Construction Machinery | Phyllis Wang | Buy | 86.8 | 12.6 | 7.4 | 71% | -7.74 | -12.99 | -33.18 | 50% | 7% | -21% | -27% |
| 000157.SZ | Zoomlion Heavy Industry Science & Tech A | Phyllis Wang | Neutral | 53.7 | 8.7 | 6.2 | 40% | -10.92 | -13.68 | -23.70 | 57% | 9% | -18% | -25% |
| 1157.HK | Zoomlion Heavy Industry Science & Tech H | Phyllis Wang | Neutral | 43.0 | 8.95 | 5.9 | 53% | -17.82 | -21.28 | -20.35 | 57% | 9% | -18% | -25% |
| 603338.SH | Zhejiang Dingli Machinery | Yuhua Li | Buy | 27.4 | 70.9 | 54.1 | 31% | 0.58 | 21.30 | -2.86 | 80% | 19% | -13% | -17% |
| 0631.HK | Sany Heavy Equipment International | Yuhua Li | Buy | 23.4 | 10.8 | 8.7 | 25% | 6.92 | 19.88 | 4.26 | 50% | 7% | -10% | -27% |
| 000528.SZ | Guangxi Liugong Machinery | Yuhua Li | Buy | 15.5 | 12.5 | 7.7 | 63% | -4.47 | -3.15 | -33.74 | 50% | 5% | -16% | -38% |
| 3339.HK | Lonking | Yuhua Li | Neutral | 11.7 | 3.65 | 3.3 | 12% | 1.24 | 22.01 | 17.80 | 30% | 12% | -6% | -10% |
| Sector average | | | | | | | | -5.49 | -0.53 | -13.65 | | | | |
| **Automation** | | | | | | | | | | | | | | |
| 688306.SH | Yushu Technology | Phyllis Wang | Neutral | 201.0 | 608 | 494.9 | 23% | -26.41 | -41.44 | -41.44 | 43% | 22% | -7% | -4% |
| 300124.SZ | Shenzhen Inovance Technology | Phyllis Wang | Buy | 146.0 | 86 | 52.8 | 63% | -10.49 | -20.92 | -30.45 | 7% | 11% | -1% | -2% |
| 688777.SH | Zhejiang Supcon Technology | Phyllis Wang | Neutral | 64.8 | 74.8 | 81.8 | -9% | -10.22 | -31.87 | -67.99 | 8% | 8% | -6% | -4% |
| 688017.SH | Leader Harmonious Drive Systems | Phyllis Wang | Sell | 53.8 | 216 | 288.9 | -25% | -8.10 | -23.64 | -51.24 | 15% | 19% | -1% | -2% |
| 002747.SZ | Estun Automation | Phyllis Wang | Neutral | 28.8 | 22.4 | 29.8 | -25% | -11.29 | -22.14 | -25.87 | 36% | 5% | -11% | -9% |
| 002444.SZ | Hangzhou Great Star Industrial | Phyllis Wang | Buy | 33.9 | 43 | 28.6 | 51% | -2.92 | -1.69 | -13.22 | 95% | 18% | -10% | -8% |
| 7618.HK | JD Industrials | Phyllis Wang | Buy | 28.9 | 22.8 | 13.9 | 64% | 4.67 | 22.70 | -1.49 | 0% | 5% | -0% | 0% |
| 301029.SZ | Dongguan Yiheda Automation | Phyllis Wang | Neutral | 16.0 | 27.4 | 24.8 | 11% | 1.10 | -16.39 | -5.48 | 0% | 16% | -0.1% | -0.1% |
| 688686.SH | OPT Machine Vision | Phyllis Wang | Buy | 17.5 | 176 | 140.7 | 25% | 14.54 | -8.47 | 12.37 | 11% | 16% | -3% | -2% |
| 601882.SH | Ningbo Haitian Precision Machinery | Phyllis Wang | Buy | 12.2 | 24.3 | 23.5 | 3% | 17.01 | 17.66 | 22.20 | 17% | 14% | -5% | -4% |
| 688697.SH | Neway CNC Equipment | Phyllis Wang | Buy | 9.7 | 13.7 | 15.3 | -10% | 4.58 | 8.74 | 40.98 | 2% | 11% | -4% | -1% |
| 603915.SH | Jiangsu Guomao Reducer | Phyllis Wang | Buy | 8.7 | 20.6 | 13.2 | 56% | 0.61 | -13.29 | -28.37 | 1% | 12% | -0.2% | -0.3% |
| Sector average | | | | | | | | -2.24 | -10.90 | 8.35 | | | | |
| **Rolling Stock** | | | | | | | | | | | | | | |
| 601766.SH | CRRC Corp - A | Yuhua Li | Buy | 171.3 | 9.9 | 6.1 | 63% | 0.66 | 14.24 | -9.44 | 12% | 5% | -5% | -10% |
| 1766.HK | CRRC Corp - H | Yuhua Li | Buy | 126.6 | 7.5 | 5.3 | 43% | 2.62 | 11.33 | -7.64 | 12% | 5% | -5% | -10% |
| 3898.HK | Zhuzhou CRRC | Yuhua Li | Buy | 34.8 | 50.4 | 28.8 | 75% | -12.82 | -24.44 | -20.50 | 7% | 14% | -0.3% | -2.1% |
| Sector average | | | | | | | | -3.18 | 0.38 | -12.53 | | | | |
| **Testing** | | | | | | | | | | | | | | |
| 300012.SZ | Centre Testing International | Phyllis Wang | Buy | 24.9 | 20.5 | 14.7 | 40% | -2.72 | 2.86 | 10.18 | 10% | 16% | 0% | 0% |
| 300416.SZ | Suzhou Sushi Testing | Phyllis Wang | Buy | 7.3 | 19.7 | 14.3 | 37% | -2.52 | -24.78 | -20.20 | 5% | 12% | 0% | 0% |
| 603018.SH | China Design Group | Grace Wang | Neutral | 4.3 | 6.25 | 5.3 | 18% | 2.71 | -2.08 | -13.60 | 0% | 7% | 0% | 0% |
| Sector average | | | | | | | | -0.84 | -8.00 | -7.87 | | | | |
| **Battery equipment** | | | | | | | | | | | | | | |
| 300450.SZ | Wuxi Lead Intelligent Equipment | Kunlun Li | Sell | 54.6 | 36 | 32.4 | 11% | -4.36 | -26.30 | -35.71 | 30% | 12% | -7% | -11% |
| 300457.SZ | Shenzhen Yinghe Technology | Kunlun Li | Sell | 13.8 | 18.4 | 21.5 | -14% | 7.87 | -2.46 | -21.30 | 21% | 5% | -8% | -14% |
| Sector average | | | | | | | | -2.29 | -9.51 | -1.99 | | | | |
| **PV equipment** | | | | | | | | | | | | | | |
| 300316.SZ | Zhejiang Jinsheng M&E | Kunlun Li | Neutral | 55.0 | 44.3 | 42.1 | 5% | -1.06 | -24.59 | 12.39 | 7% | 11% | -4% | -5% |
| 300751.SZ | Suzhou Maxwell | Kunlun Li | Neutral | 58.0 | 216.3 | 202.3 | 7% | 4.59 | -2.67 | 5.75 | 68% | 9% | -15% | -38% |
| 300724.SZ | Shenzhen SC New Energy | Kunlun Li | Neutral | 19.1 | 61.8 | 54.6 | 13% | -5.46 | -20.30 | -42.84 | 19% | 15% | -8% | -6% |
| 002158.SZ | Shanghai Hanbell Precise Machinery | Phyllis Wang | Buy | 15.2 | 31.1 | 28.6 | 9% | 8.35 | -12.48 | 15.29 | 25% | 18% | -0.6% | -4.6% |
| 300820.SZ | Sichuan Injet Electric Co., Ltd. | Phyllis Wang | Buy | 16.3 | 60 | 73.0 | -18% | 38.47 | -3.17 | 52.69 | 4% | 19% | -2.5% | -1.1% |
| Sector average | | | | | | | | 9.00 | -12.64 | 8.66 | | | | |
| **Diversified Industrials** | | | | | | | | | | | | | | |
| 002851.SZ | Shenzhen Megmeet Electrical | Kunlun Li | Neutral | 72.6 | 124.8 | 124.8 | 0% | -2.55 | -27.87 | 39.85 | 36% | 9% | -10% | -31% |
| 600885.SH | Hongfa Technology | Kunlun Li | Buy | 52.9 | 47.6 | 34.1 | 40% | -3.02 | 1.94 | 12.51 | 29% | 11% | -5% | -7% |
| Sector average | | | | | | | | -2.78 | -12.96 | 26.18 | | | | |
| **Defence** | | | | | | | | | | | | | | |
| 300699.SZ | Weihai Guangwei Composites | Kunlun Li | Neutral | 19.8 | 36 | 23.8 | 51% | -2.30 | -13.28 | -38.31 | 22% | 25% | -3% | -6% |
| **Shipbuilding** | | | | | | | | | | | | | | |
| 600150.SH | China CSSC Holdings | Kunlun Li | Buy | 301.1 | 55 | 41.0 | 34% | 21.79 | 15.84 | 24.72 | 46% | 10% | -3% | -18% |
| YAZG.SI | Yangzijiang Shipbuilding | Kunlun Li | Buy | 108.4 | 5.4 | 5.2 | 3% | 9.66 | 47.04 | 58.65 | 50% | 30% | -3% | -7% |
| Sector average | | | | | | | | 15.73 | 31.44 | 41.68 | | | | |

Source: Company data, Wind, UBS-S estimates Note: We assume a tax rebate cut from 13% to 9%, consistent with the initial rebate reduction implemented for sectors including refined oil products and PV-related products. Data as of 22 September 2026. *For companies that did not disclose their 1H26 overseas revenue contribution, 2025 overseas revenue percentages are used as a reference.

## Call takeaways

### Leading construction machinery OEMs remain confident in top-line growth; market concerns about policy risks overdone

Sany, XCMG and Zoomlion all remain confident of achieving their respective 2026 full-year sales targets. On overseas demand, Sany expects revenue growth of more than 20% in Q326, with further acceleration in Europe and North America, while retaining its medium-term overseas growth target of 15-20%. Zoomlion sees healthy demand driven by Belt and Road markets, mining and sovereign-backed projects, with a stronger USD supporting Chinese OEM competitiveness and overseas share gains. XCMG expects overseas demand to remain solid, with full-year growth of more than 20%. Domestically, management teams expect a gradual recovery after softer Q3 demand, with improving ASPs, easing price competition and a broader recovery beyond excavators, while maintaining a greater focus on profitability and product mix rather than pure volume. On FX, the companies expect headwinds to ease materially in H226, with losses narrowing in Q3 vs Q2 and, in some cases, FX potentially turning into a tailwind as a stronger US dollar improves Chinese OEM competitiveness. On tariffs and other issues, potential US anti-dumping and countervailing duty (AD/CVD) measures on hydraulic-cylinder components, changes to export tax rebates and rising freight costs remain key factors to watch, but the companies generally view the impact as manageable given their diversified geographic exposure, localisation initiatives and

tighter control over local logistics costs. Broadly stable gross margins, continued operating-margin expansion and further earnings improvement are therefore expected in H226.

**Hengli Hydraulic believes US AD/CVD risks are manageable**

Management sees resilient core demand, manageable direct exposure to US trade measures, and robotics entering a volume ramp-up. The US AD/CVD investigation covers hydraulic cylinders only, excluding motors, pumps, and valves, and management believes it is not specifically targeted at the company; given Hengli's mid-to-high-end positioning and pricing, the impact should be concentrated in lower-end cylinders. Mitigation measures include accelerating production transfers to Mexico, expanding Indonesian capacity, and passing through incremental costs. US competitors' reliance on Chinese components could also create market-share opportunities for Hengli as their tariff costs rise. The Mexico plant remains constrained by ramp-up costs, employee training and depreciation, but should turn profitable next year as US-bound production transfers are completed, utilisation improves, and the North American customer base expands. Robotics could become a key medium-term growth catalyst if orders ramp up as planned. Key factors to monitor include the outcome of the US AD/CVD investigation and final tariff rates around end-Q127, a profit inflection at the Mexico plant and robotics delivery execution.

**Valuation Method and Risk Statement**

Investment downsizing at the macroeconomic level remains a key risk for China's industrial sector. If China's economy remains weak, demand for industrial goods or import/export volume could shrink, resulting in slow growth. If preferential policies, such as tax incentives for high-tech companies, are cancelled it could affect earnings. Intense competition with domestic or foreign enterprises could cause market share losses.