

ResearchInChina

China Construction Machinery Industry Report, 2009

Mar. 2010



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1. Construction Machinery Industry

1.1 Overview in 2009

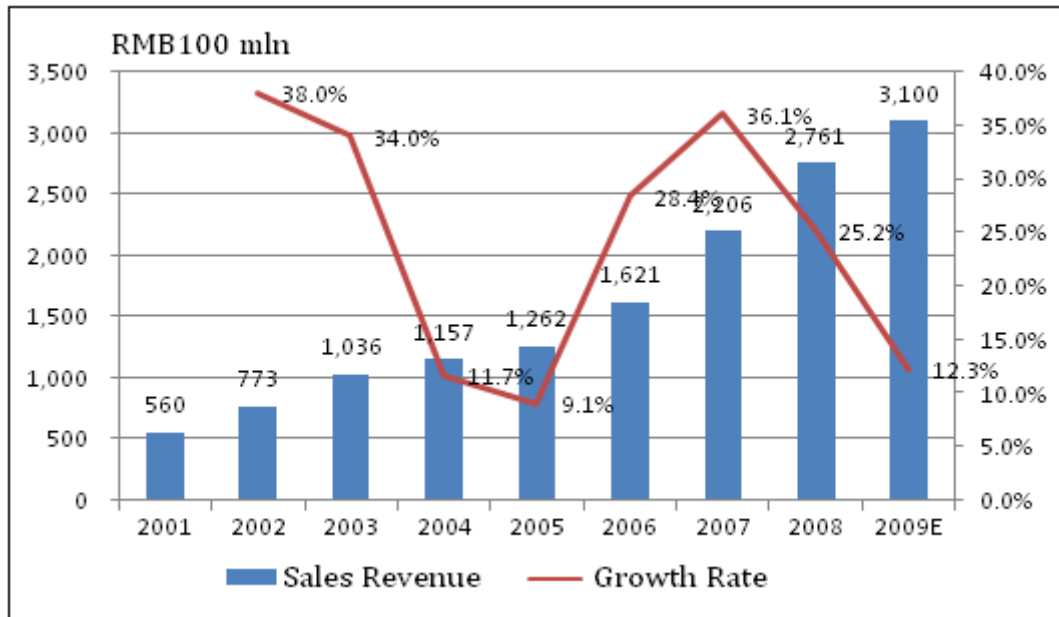
After 50 years' development, China construction machinery industry has grown into an important manufacturing industry with large number of enterprises, strong processing ability and complete products varieties.

From the end of 2008, the construction machinery industry was firstly entering recovery period under the stimulating policy of RMB 4 trillion investment plan.

Overall, as the national policy of expanding domestic demand, adjusting the structure to maintain growth began to function continuously, the monthly sales of main items of construction machinery in 2009 showed the trend of "lower in the first half and higher in the second half", so does the sales of major enterprises.

Based on the overall judgment of improving domestic investment structure and recovering overseas markets, it is expected that the demand situation for construction machinery industry in 2010 would be better than that of 2009, the overall investment opportunity would reveal itself in the sector, the sales of main items would take growth, and the growth of enterprises income would not appear considerable variances as it did in 2009.

Sales Revenue of China Construction Machinery Industry, 2001-2009



Source: China Construction Machinery Association

3. Key Manufacturers

3.1 Shantui Construction Machinery (000680)

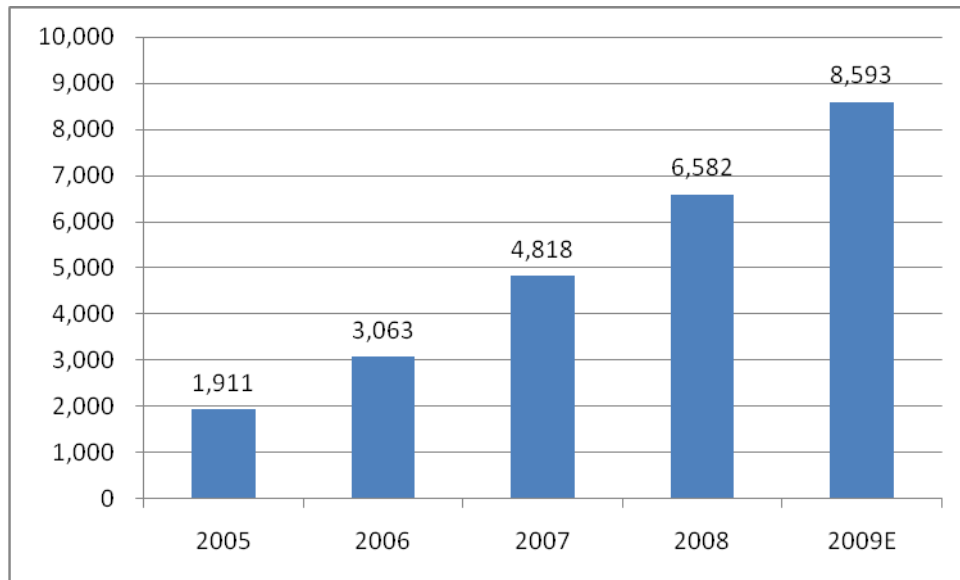
3.1.1 Company Profile

Stock Code	000680
Company Name (English)	SHANTUI CONSTRUCTION MACHINERY CO.,LTD
Registered Capital (RMB10,000)	75916.453
Establishment Time of Company	1993-10-08

3.1.2 Operating Revenue, 2008-2009

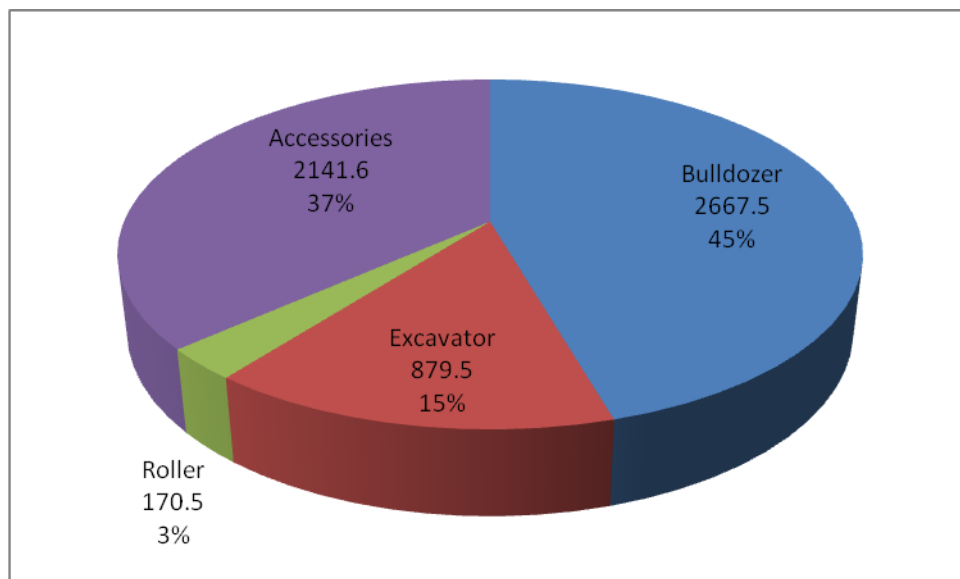
In the first half year of 2009, the operating revenue of the company was 3.3 billion, 10.50% lower than that in the same period of last year, and the operating profit was 24,912.24 ten thousand Yuan, 47.95% lower than that in the same period of last year.

Prime Operating Revenue of Shantui Construction Machinery, 2005-2009 (RMB Million)



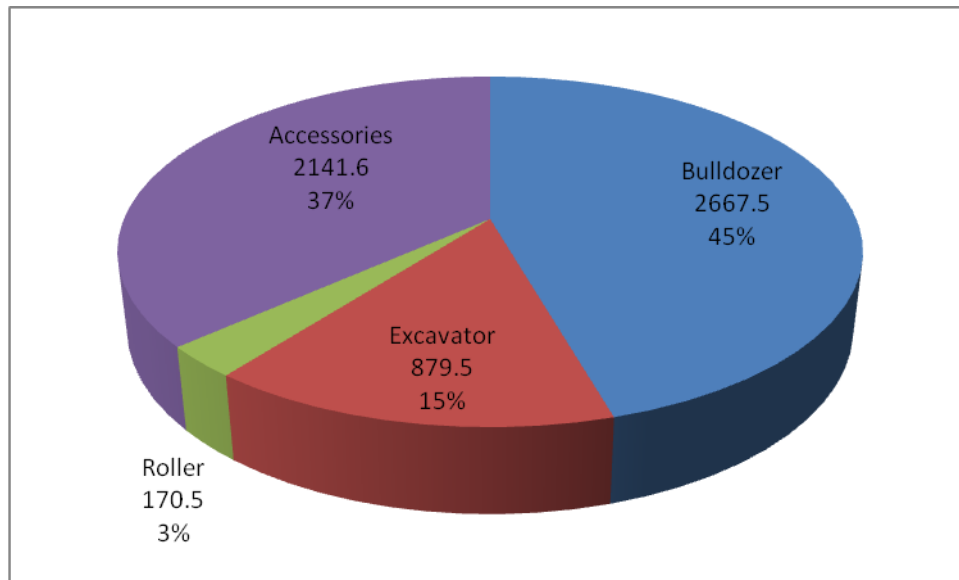
Source: Shantui, ResearchInChina

Revenue of Shantui Construction Machinery by Product, H1 2009(RMB Million)



Source: Shantui, ResearchInChina

Revenue of Shantui Construction Machinery by Product, 2008 (RMB Million)



Source: Shantui, ResearchInChina

3.1.3 Primary Business

The main operation income of Shantui is from the sales of industrial products based on bulldozers and parts, and commercial products based in excavators, of which the bulldozers and construction machinery parts hold the absolute portion, accounting for 40.53% and 32.54% of the total in 2008 respectively.

Bulldozer

The bulldozer business of Shantui has won top one in sales revenue, sales amount, market share, export sales, and profit for 6 consecutive years. In 2008, the market share in China was 51.5%, 68.8% in export market, and 10% in overseas market. The domestic bulldozer industry is shared and competed by Shantui, Xuanhua, Pengpu and Tianjian with Shantui as the top one in the industry.

According to the data from China Construction Machinery Association, 12 main domestic manufacturers sold 8,662 sets of bulldozers totally in 2008, up 17.4% year-on-year, which basically remained the stable increasing trend. In 2008, the output of Shantui bulldozer reached 4,677 sets, and the sales volume reached 4,597 sets.

Sales Volume of Bulldozers by Month of Shantui Construction Machinery, 2007-2009 (Unit: set)

Gross Profit Margin of Bulldozers of Shantui Construction Machinery, 2003-2009

Source: CITIC Construction Co., Ltd.

Excavator

Komatsu Shantui Construction Machinery Co., Ltd. is a joint venture company established by Shantui and Japanese Komatsu, in which Shantui holds 30% of shares. Affected by financial crisis in 2009, Komatsu fell in net profit. In Q1, the Komatsu sold 3,903 sets of excavators, down 11.17% year-on-year, which showed that the profit drop of Komatsu was far more than volume drop. It is estimated that the sales volume of excavator in 2009 will be up 10%. Considering the falling shares and profitability of Komatsu, the investment income of the company in 2009 will remain flat with that of last year.

Sales Revenue and Forecast of Excavators of Shantui Construction Machinery, 2007- 2009 (Ten Thousand Yuan)

Source: Datong Securities

Parts

The major parts of Shantui are four wheels (driving wheel, support wheel, track wheel and guide wheel) and one belt, structural parts, hydraulic torque converter, power shift transmission etc. In 2008, the parts business of Shantui grew rapidly. The sales volume reached RMB2,141 million, up about 46% based on that of 2007, accounting for above 30% of operation income, and is one of the primary business almost as bulldozer.

The shares of Shantui in Shandong Shantui OUYATUO Machinery Co., Ltd. amounted to 75% after purchasing 21% of shares in OUYATUO by RMB 10.78 million in Apr. 2009. OUYATUO is a subsidiary of Shandui, which manufactures four wheels and tension devices. It is estimated that the market shares of Shantui will continue to increase in 2009.

Compared with the bulldozer business of Shantui, the parts business is more stable due to the need for repair parts. In the situation that the growth of construction machinery industry will decline in 2009 probably, the parts business of the company is estimated to increase by more than 10%.

3.1.4 Corporate Prospect

Favored by the good growth of excavator industry, the parts business of Shantui is positive. So the company increased the capital in Shandong Ruichi to 51.02%, and purchased 21% of shares of OUYATUO to enforce the parts business continuously. In the first half year of 2009, the business income of Shantui parts was RMB 1,203 billion, accounting for 36.33% of the total , more than 33.23% of bulldozer. The Shantui parts are mainly supplied for bulldozers of Shantui and excavators of Komatsu Shantui, of which the structural parts can enter the global purchasing system of Komatsu. The products for selling out are mainly conveyer (Sany, Sunward etc.) and hydraulic torque converter (Liugong, XGMA etc.). It is estimated that the parts business of Shantui will grow rapidly and stably in line with the sales volume of bulldozer and excavator.

As the good prospect of excavator industry, there will be a 15-20% positive growth of the year. In the next 3-5 years, it will probably be close to and exceed the loader, and become the biggest sub-sector to promote the rapid growth of parts business of Shantui. Along with the recovery of export of bulldozer, the export is getting better continuously, and the monthly export volume is rallying clearly. In the last three months of 2009, the volume increased consecutively month-on-month, which showed a clear recovery trend. It is estimated that the export in Q1 of 2010 will continue to improve. The export in January will be better than December. In February, considering some factors such as spring festival, the export volume will drop. Then in March, the volume will be higher relatively. The export volume of the year is estimated to be about 2000 sets, up 84% of 2009.

The recovery of export not only picks up the volume but more importantly optimizes sales structure. The rapid growth in 2009 was mainly due to the rapid growth of export. As the stimulation and driving of 4 trillion investment of last year, domestic sales grew rapidly with total volume about 3800 sets, up about 55% year-on-year. However, the rapid growth of domestic need can not be held, and the volume growth is mainly subject to the export growth. Meanwhile, due to the volume structure optimized by export increase, the sales of bulldozer with over 220 horsepower accounted for 27% in the first three quarters, down 20.5 percentage points yr-on-yr.

As the gross profit of traditional export business of Shantui holds top position, it is expected that the gross profit will increase in line with the rebound in export, and the gross profit in bulldozer will be recovered. In 2009, the gross profit of bulldozer of Shantui created a record low mainly caused by the declining export proportion and price decrease in small range. In line with the export recovery, the gross profit is expected to be returned to 18%-19%.

Shantui makes profit from investments stably and mainly from Komatsu bulldozers and excavators. There are three major excavators manufacturer in China: Komatsu Shantui, Komatsu Changzhou, and Komatsu Yuteli. Komatsu Shantui mainly sells medium-to-large excavators. It is estimated that Komatsu remains good sales record in 2009 to make sure the overall stability of investment income of Shantui.

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