

China Research and Intelligence

# Report of Mergers and Acquisitions in Chinese Construction Machinery Industry, 2009

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## **Description**

Generally speaking, the necessary machinery and equipments for the earth-rock construction works, the road construction and maintenance, the mobile lifting and loading works and various comprehensive mechanization constructions are called the construction machinery, mainly applying to the building up of national defense, traffic and transport construction, construction and production of the energetic industry, the construction and production of the mining raw material industry, agricultural, forestry and water conservancy projects, industries and residential buildings, city construction and environmental protection etc.

In different countries, the names of the construction machinery industry is basically the same, which is called construction machinery and equipments in America and Great Britain, construction machinery and devices in Germany, construction and road building machinery in Russia, constructive machinery in Japan. The product categories divided in different countries are roughly the same. In China, construction machinery also included the railway construction machinery, fork trucks and industrial handling trucks, decoration machinery, elevator and pneumatic tool etc.

In 2008, the scale of Chinese construction machinery industry (in narrow sense) was about 19 billion USD (133 billion Yuan), but 270 billion Yuan (38.6 billion USD) in the broad sense market, with the growth rate exceeding 30%.

Although Chinese constitution machinery market was grown rapidly over the previous years, in fact, it was not the best strategy for the foreign enterprises to export construction machinery directly to China except for several products. The prices of the construction machinery in the international market were higher by 50 to 150 percent than that in the domestic market. Because of the large price difference, many domestic users in China preferred to choose the domestic products with inferior quality at low price, but not the imported products.

Under such circumstances, the oversea dealers were positive to look for the production and sale opportunities in China, purchase the domestic construction machinery enterprises, making the foreign funded enterprises get the mature production lines and sale channels.

Many Chinese construction machinery enterprises faced the problems of yield capacity surplus and low profitability. During the fast growth period of the output value, the inter-industry competitions led to the profit growth less than the revenue growth. Meanwhile, once the downstream demands were slowed down, most enterprises would be in the passive situation and had to survive depending on the price competition, but did not have enough capital and energy to attend to the long term development of the companies.

Foreign inventors' merger and acquisition usually adopted the model of obtaining stock right. At first, they would maintain the original brand, then give up the original brand and produce the foreign investors' brand only. This model was the best for the foreign funded enterprises. They could get familiar with Chinese market in the transit period and control the brand. With many years' fast development, the manufacture ability of many Chinese enterprises is strong at present, only has large gap among international and Chinese capital, management and technologies. The

mergers and acquisitions could let the foreign funded enterprises to improve the profitability at low prices.

A series of merger and acquisition activities of the international construction machinery giants in China showed the huge profit space in Chinese construction machinery industry. In September 2003, Caterpillar contacted with Shandong SEM Machinery Co., Ltd for the first time. After two months, Caterpillar signed the overall merger intention with Shandong SEM Machinery Co., Ltd. Shandong SEM Machinery Co., Ltd first quoted the price of the construction machinery for 22 million Yuan. After several negotiations, Caterpillar merged 40% stock shares with the fraction of the quoted price in April 2005. 60% left was merged before 2007. Caterpillar only spent 1.744 million Yuan (210 thousand USD) on the 40% stock shares. However, the total assets of Shandong SEM Machinery Co., Ltd were about 600 million Yuan (72.3 million USD). In the beginning of 2008, Caterpillar merged the 60% left stock shares.

Many foreign funded enterprises benefited a lot from the mergers and acquisitions in Chinese construction machinery enterprises. It will be described one by one in this report.

Although many local enterprises were disappeared in the competition between Chinese and foreign funded construction machinery enterprises, yet some strong local enterprises also appeared. Under international financial crisis, many local Chinese enterprises still developed fast. In 2008, the sales revenues of XUGONG exceeded 40 billion Yuan (5.71 billion USD). SANY and Zoomlion broke though 20 billion Yuan (2.86 billion USD) in couples. Some strength enterprises would be probable to take merger and acquisition activities abroad. For example, Changsha Zoomlion Heavy Industry Science & Technology Development Co., Ltd had become the largest manufacturer and provider of the concrete mixer machinery in the world after merging the CIFA.

During January to February 2009, the export of Chinese construction machinery products was cut down because of the declining demands in the traditional export market, such as America, Europe and Russia etc.

The major declined export products concluded loaders, diggers and fork-lift trucks. The declined export growth speed of loaders and diggers mainly attributed to the declining demands in Russia and Middle East. The reduction in the forklift trucks export mainly resulted from the declining demands in the developed countries.

Because the resource-type countries, represented by Russia, faced different difficulties compared with the developed countries, such as America, Japan and Germany etc. Therefore, it took different time to recover the economy. From the short run, these two-type countries were hard to get out of the difficulties. The export of Chinese construction machinery products still faced pressure. Under the declining of the exports, it was especially important for Chinese local market. By the end of 2008, Chinese government issued four trillion Yuan (570 billion USD) investment plan in 2009 to 2010, 50% of which were related to the infrastructure construction. It is predicted that the demands for Chinese construction machinery will be driven to tens of billions of USD. It is predicted that in recent 2 to 3 years, Chinese construction machinery market will be the

competition focus of the international construction machinery giants. The merger and acquisition activities in Chinese construction machinery industry will also be further intensified.

More following information can be obtained in this report:

- Production Situation of Chinese Construction Machinery Industry
- Domestic Demands of Chinese Construction Machinery Industry
- Operations of Chinese Construction Machinery Industry
- Sub-sectors of Chinese Construction Machinery Industry
- Imports and Exports of Chinese Construction Machinery Industry
- Merger and Acquisition Activities among the Local Enterprises in Chinese Construction Machinery Industry
- Merger and Acquisition Activities among the Foreign Funded Enterprises in Chinese Construction Machinery Industry
- Influences of International Financial Crisis on Chinese Construction Machinery Industry
- Development Technologies and Development Trends of Chinese Construction Machinery Industry
- Promotion Functions of Expanding Domestic Investment Plans Issued by Chinese Government on Chinese Construction Machinery Industry
- Merger and Acquisition Trends and Recommendations for Chinese Construction Machinery Industry

### **Summary**

In 2008, the accumulative import and export trade amounts of the construction machinery totaled 19.44 billion USD, up by 42.5% over the previous year. The accumulative import amounts were increased by 21.8% to 6.02 billion USD over the previous year. The accumulative export amounts were increased by 54.3% to 13.42 billion USD over the previous year, with the trade surplus 7.4 billion USD.

For the import, the accumulative import amounts of the complete machinery were 3.57 billion USD, up by 15.2% of the last year, accounting for 59% of the total import amounts. The import amounts of the accessories were 2.45 billion USD, up by 32.3% of the last year, accounting for 41% of the total import amounts.

For the export, the accumulative export amounts of the complete machinery reached to 9.14 billion USD, increased by 55% compared with the last year, accounting for 68% of the total export amounts. The export amounts of the accessories were increased by 52% to 4.28 billion USD over the previous year, accounting for 32% of the total export amounts.

From October 2008, the influences of international financial crisis on the export trade of the construction machinery industry began to show. Because of the fast growth in the former period, it was still about 50% growth.

In the former two months of 2009, the export amounts of Chinese construction machinery were 545 million USD and 375 million USD, YOY down by 24.4% and 36.9% respectively. The total

export amounts in January and February were cut down by 30.1% year on year.

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- Sanyi Group Ltd
- Liugong Construction Machinery N.A., LLC
- Doosan Infracore China Corporation
- Komatsu Shantui Construction Machinery Co., Ltd
- Chengdu Kobelco Construction Machinery (Group) Co., Ltd
- Hitachi Construction Machinery Co., Ltd
- Shantui Construction Machinery Co., Ltd
- Xiamen Engineering Machinery Co., Ltd
- Shandong Lingong Construction Machinery Co., Ltd
- Shandong SEM Construction Machinery Co., Ltd
- Volvo
- Hunan Sunward Intelligent Machinery Co., Ltd