JCAP

Survey China

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Tim Murray
+852 2534 7405
tim@jcapitalresearch.com

Survey Structure

- Survey of 10 elevator sales companies: five distributors and the regional sales companies of five manufacturers, located in South China (4), East China (3), West China (1), North China (1) and Northeast China (1). We have an intentional bias toward the larger and comparatively stronger markets of eastern and southern China.
- Total annual sales of the surveyed companies number 11,375 elevators, or approximately 2% of the China market
- Sample bias to market leader Kone
- Repeat sources: None
- Interviews conducted December 3-10, 2015

Objectives

- To understand elevator orders in Q4 2015, sales for 2015, sales outlook for 2016 and changes in the market and competitive environment

Companies

- Kone, Otis, Hitachi, Mitsubishi, ThyssenKrupp, Schindler

Elevator Quarterly Survey

Orders down 10% in Q4

- **Kone sales on a unit basis** for all of 2015 were down 10%, and distributors think 2016 sales will not rise and could be down by up to 10%.
- **2015 prices for the Kone brand** are down 5% and GiantKone prices are down 10%.
- **Developers are either ordering** at the last minute or delaying orders made early to conserve cash.

Our Q4 elevator survey indicates a deteriorating market for distributors, with Kone selling more on a direct basis to the stronger, large developers and distributors seeing both unit sales and prices decline. The Kone strategy of lower prices is being challenged by Mitsubishi's deeper price cuts, and Mitsubishi is regaining some of its lost market share. The GiantKone brand, meanwhile, is being squeezed by falling prices at the high end and lower prices and better credit terms from local brands.

Orders have improved sequentially in South China and some parts of East China, however other regions are down sharply.

ThyssenKrupp is performing poorly: we expect 2015 sales to be down more than 40% in China.

Table 1. Elevator Orders, Sales, and Outlook

Region Units Sold/Year Brand	Orders Q4 2015 YoY	Q4 2015 Market Conditions	Sales 2015 YoY	2015 Market Conditions	2016 Outlook
East China 1,000 GiantKone	-30%	Poor property market, intense competition, price not competitive against high and lower end brands	-10%	Poor real estate market, poor developer finance	10% growth, GiantKone to take market share, hope property market stabilizes, two child policy might help
East China 700 Kone	30%	Sudden surge in orders at year end	20%	Social housing up, property developers down	-10%, order outlook poor, no new projects, social housing is still positive
East China 375 Kone	-20%	Market is shrinking, poor real estate sales	8%	Orders from last year carried over maintained full year growth, some new retail projects	-10%, developers are finishing projects and not starting new ones. 1H will not improve, social housing down
North East China 1,000 Kone	-50%	New and under construction both down significantly	-15%	Regional real estate is very poor	-20%, even less new construction, regional GDP growth is lowest in China, net population outflow
North China 700 GiantKone	-50%	Very bad property sales in Q4, developers need elevators but unwilling to order, 80% of distributers cannot finance sales now	-25%	Government projects lack finance	0%, we do not expect any increase, many developers have halted construction
West China 100 GiantKone	-20%	Property construction declined throughout the year	10%	GiantKone sells the best brand with the most competitive price	Increase unit volume by implementing price cuts
South China 5,000 GiantKone & Otis	Flat	GiantKone down 30%. New Otis agency sales make up for lost GiantKone sales. Fear Kone sales will be cancelled	-20%	GiantKone down 10%. We are rejecting orders as payment terms are bad.	0% at best. Not expecting any improvement in 1H
South China 1500 Kone	Flat		10%	We have good sales management and provide great after-sale service	20%, our service is good and we are expanding our team.

South China 300 80% Hitachi 20% 5 other top brands	10%	Orders from property developers are improving slightly and elevator companies are pushing sales at year end	-25%	Slow down in property development	Improve as property developers appear to be improving
South China 600 Otis	Flat		-10%	Developers are slowing and choosing second tier brands	5% growth

Table 2. Composition of Sales

Region Units Sold/Year Brand	% Direct Sales	Manf. Direct Sales Growth	Replacement Market	Service Market	Change in Product Composition
East China 1,000 GiantKone	5%	Direct sales growing better than the market, distributors are financing sales	Growth low, supermarkets and old offices requiring replacement driving this growth	Flat, retention rate is 80% and remains profitable	Low end product sales are performing better than mid tier products
East China 700 Kone	60%	Direct sales growth is a little better than distributors' as developers prefer to cut the cost of distributor	Tiny, only a few elevators a year	Maintenance is 5% of revenue; we retain 70% of clients and it is profitable	Low-end product growth is significantly better as demand from the affordable housing segment is growing
East China 375 Kone	60%	Growth 5%, when developers promise volume the manufacturer lowers prices, now the order deposit is only 5% of sale value	Power plants, factories, hospitals and office buildings are main sources of replacement demand	Flat sales, retention rate is 80%, good companies are 90%; small repair companies are too cheap to compete with	Sales of high end elevators are the strongest
North East China 1,000 Kone	50%	Growing better than industry overall	Small number for office buildings	Flat sales, 90% retention, break even.	High end is growing, low end falling

North China 700 GiantKone	20%	Direct sales slightly better than industry, we have had to limit credit for direct sales customers as their sales have slowed; distributors are still financing sales	No sales	Sales down 30%, retention is 70%, price competition has reduced it to a break even segment and we lose sales to cheaper companies	Low end products are 90% of sales this year
West China 100 GiantKone	40%	Flat	No sales	Growing, retention rate is 50%	No change
South China 5,000 GiantKone & Otis	40%	35% growth, top developers doing better than market and increasing direct purchasing	Very small market, less than 1% of sales	10% growth, good margins but relatively small as proportion of sales	Developers are switching to lower tier elevators within brands, and increasingly switching to cheaper brands overall
South China 1500 Kone	60%	Same as market	Small but growing	Flat, retention rate 90%, profitable	No change
South China 300 80% Hitachi 20% 5 other top brands	40%	Distributor sales market better than direct sales as distributors give better terms	Local brands need to be replaced at faster rate than foreign brands	Sales are growing, retention rate is 50% and segment is profitable	No change, will depend on project requirements
South China 600 Otis	50%	Distributor sales are better, direct sales are only for larger projects	12.5% of sales and growing	Growing, 95% retention rate, profitable. Kone known to subsidize maintenance	No change

Table 3. Market Conditions

Region Units Sold/Year Brand	Demand Segments	Order Placement Time	Order Delay	Accounts Receivable Change	Price Change	Competitors
East China 1,000 GiantKone	Low- and mid-tier residential demand is good, retail and office not as good	Very Late	Normal, as orders take place so late	20% of clients pay last 20% 12 months late	Down 10%, but not in a bid to win service contracts	Local brands have lowered prices and are experiencing sales growth of 5-20% as they are winning more infrastructure projects. Exception is Shenlong: had an accident and is down 30%
East China 700 Kone	Non-residential demand is very low	Very Late	None, as orders made at the last minute	We previously required full payment before delivery. Now we only require 80% and the last 20% may take us an additional four to five months to collect	Down 5%, we are not lowering equipment prices to win service contracts	Hitachi down 10%
East China 375 Kone	High-end residential, shopping centers and offices have been good	Late	30% delayed and going up in 2H	Last 20% is now overdue for up to 12 months on average	Down 5%, lowered prices are not to get service contracts	Mitsubishi prices are down 10-20% and sales volume is up 30%. ThyssenKrupp sales volume is down at least 10%.
North East China 1,000 Kone	Shopping centers, office buildings and infrastructure have strong demand, the rest is bad	Normal	Normal	Normal	Down 3-5%, but not in order to get service contracts	All have negative growth, Mitsubishi is best with sales decline at -30%. ThyssenKrupp down to almost nothing and coping with a messy accounts receivable situation

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North China 700 GiantKone	Residential is relatively good, very few shopping malls and office buildings	Normal	30% delay compared with 15% last year	We are taking legal action for 20% of our maintenance sales	Down 10-15% specifically to get a longer service contract	Local brands are growing at 10-30% as they finance sales and accept apartments as payment, ThyssenKrupp is down as much as we are.
West China 100 GiantKone	Residential and hospital construction provides good sales	Normal, deposit only 5%	Normal	Worsening, 90 days over due on average	Down	ThyssenKrupp is doing particularly badly.
South China 5,000 GiantKone & Otis	Mid- to low-end residential has best demand	Late to very late	70-80% delayed delivery	Becoming an increasing problem	Lowering prices to increase market share and focus on service market	Tier 1 brands are priced the same as tier 2, and tier 2 brands cannot compete with domestic brands, so tier t2 brands getting squeezed. Hitachi is engaging in more direct sales, which means lower prices and less margin for distributors
South China 1500 Kone	Residential is best, few office and shopping mall projects	Normal	Normal	Normal	Down 5%	Mitsubishi doing well with 5% growth.
South China 300 80% Hitachi 20% 5 other top brands	Residential is better than office and shopping mall demand	Normal to late	Now 20% delayed	Slowing, government projects take 6 months	Down	Otis and Schindler sales are poor as they are expensive.
South China 600 Otis	Residential is best for sales, government projects are best for profits	Late to very late	Now 20% delayed	Normal	Down 2-3%, Costs down 5%	Kone has done well as it is the cheapest of the tier 1 brands: they have grown at 10%. Schindler has been doing badly as it mainly sells to offices and shopping malls and less to residential

Notable Quotes

Sales

“GiantKone is pushing end-of-year sales hard. They will probably reach their sales target, but I’m concerned that there will be a lot of faked orders. What I mean by ‘faked orders’ is that we distributors are talking with the customers and haven’t signed a final sales contract yet, but the manufacturer signs an agreement with us. . . If the customer in the end doesn't buy from us, we can’t cancel with GiantKone.” South China Elevator Distributor

“A lot of projects are halted. A lot of developers have put the roof on their buildings [required before a sales permit is issued], but they are unable to make any sales. This is particularly true in third- and fourth-tier cities. There are row upon row of buildings that can’t be sold.” North China

“Direct sales by elevator manufacturers are increasing faster than our sales. They are expanding their ‘strategic partnerships’ to get more developers as customers. The developers they sell to direct are doing better than the market generally.“ South China Elevator Distributor

Infrastructure Projects

“In the past, government projects would pay us 70-80% before delivery. Now we are lucky to get 30% pre-payment, and some down-payments are as low as 10%. Finances for the local government here in [X] are not strong.” North China

The Construction Cycle

“This year, orders are being placed much later; developers are ordering at the very last minute, when the roof has already been put on the buildings or just before delivery of apartments to buyers.” South China

“There has been a very dramatic increase in order placement delays. It is now common for orders to be made two months before project completion. Some developers are ordering in the final weeks, due to tight cash flow. This change began at then end of 2014 and the trend has continued through 2015.” East China

“50-60% of developers now order six months before completion, whereas in the past, orders were always placed when the project began.” East China

Order Delays

"About 70-80% of customers have delayed delivery. In the past, they would order 45-50 elevators at once. Now they make rolling orders of 4-5 at a time." South China

Payments

"Developers are more demanding and lower tier developers are requiring vendor financing or paying in apartments. Canny [a major domestic brand] is now receiving 40% of payments in apartments. These elevator companies then set up real estate agencies to sell to their own staff or third parties at discounted prices." South China

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