

October 17, 2017

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Survey Structure

- ▶ Survey of 10 elevator distribution companies. Of those, 3 are located in South China, 2 in East China, 1 in West China, 4 in North China, and 1 in Northeast China. City tiers covered Tier 1 (2), Tier 2 (2), and Tiers 3 and 4 (6).
- ▶ Total surveyed companies' annual sales are 17,000 elevators or approximately 2.8% of the China market.
- ▶ Repeat sources: 8
- ▶ Interviews: September 25 – October 4, 2017

Objectives

- ▶ To understand elevator orders and sales in Q2 2017, sales outlook for 2017, and changes in the market and competition environment.

Companies

- ▶ Kone, United Technologies (Otis), Hitachi, Mitsubishi, ThyssenKrupp, Schindler, Fujitec, Sanyo, Yongda, Canny

Limitations

- ▶ This survey does not include direct sales by OEMs, which now represent 30% of the market. Our sample size is small and therefore not able statistically to predict market growth.

China Elevator Distributor Survey Q3 2017

Orders and Sales

- ▶ **Market now in decline:** Distributors estimated a 21% decline in sales and orders in Q3, rising to 38% in Q4.
- ▶ **Peak sales mirror property market peaks:** Distributors recording strong growth in Q3 were in Tier 3 and 4 cities. There were declines in Tier 1 and Tier 2 cities.
- ▶ **40% of respondents got bumps in Q3 sales from social housing projects:** Commercial housing accounted for another 40%.
- ▶ **Most see declines coming:** The outlook for Q4 is negative for 70% of distributors and positive for 30%.

Table 1. All Elevator Sales China – Percentage of unit growth in ranges

	Decline	0% to <5%	5% to <10%	>10%
Q3 Orders	21%	37%	5%	37%
Q3 Sales	21%	37%	11%	32%
Q4 Orders	38%	38%	6%	19%
Q4 Sales	38%	25%		38%

Source: J Capital Elevator Distributor Survey, Sept 25 – Oct 4 2017

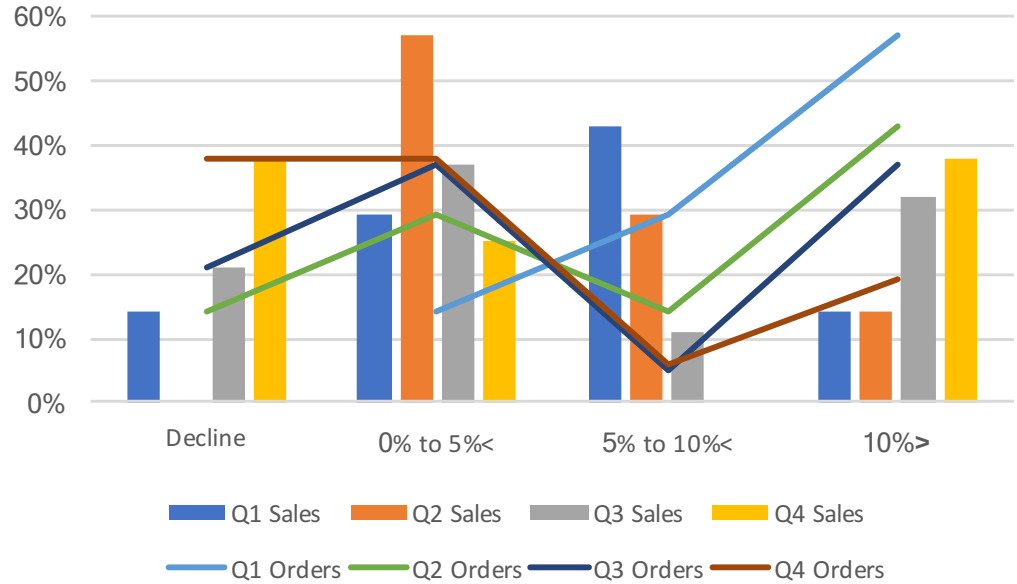
Table 2. Kone China Sales: Percentage of distributors reporting unit growth in ranges

	Decline	0% to <5%	5% to <10%	>10%
Q1 Orders		14%	29%	57%
Q1 Sales	14%	29%	43%	14%
Q2 Orders	14%	29%	14%	43%
Q2 Sales		57%	29%	14%
Q3 Orders			43%	57%
Q3 Sales	29%	14%	29%	29%

Source: J Capital Elevator Distributor Survey, Sept 25 – Oct 4 2017

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All Elevator Sales China – Percentage of distributors reporting growth in ranges 2016 (RMB blns and YoY)



Source: J Capital Elevator Distributor Survey, Sept 25 – Oct 4 2017



Demand to retrofit external elevators to buildings under seven stories is now a key driver of elevator demand. Source: fang.com

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Table 3. China Elevator Orders and Sales Q3 Actual and Q4 outlook 2017

City/Tier	Brand	Q2 Orders	Q2 Sales	Q3 Orders	Q3 Sales	Q4 Orders (est.)	Q4 Sales (est)	Q3 Sales Drivers	Q4 Sales Outlook
South T2 Xiamen	Otis	30%	15%	20%	0%	-10%	20%	sales to social housing and new residential	Very few orders in the pipeline
South T1 Guangzhou	Hitachi	10%	10%	3%	3%	3%	3%	Policy tightening has slowed sales, only supplying social housing projects	Slowing sales. Policy has slowed sales but not lowered price.
South T1 Guangzhou	Mitsubishi	10%	10%	2.5%	2.5%	2.5%	2.5%		
South T1	XJ Schindler	10%	10%	-8%	-10%	Down further	Down further	Fewer new residential projects	Continue downtrend
Central T2 Chongqing	Kone	0%	0%	5%	-5%	5%	30%	Projects were delayed, so sales pushed into Q4	Small upturn in orders
East T2 Nanjing	Kone	3%	3%	-10%	-15%	0	12%	Lost orders as price was too high	Expecting no growth in sales
East T3 Anhui	ThyssenKrupp	5%	5%	0%	0%	0%	-20%	Not competitive	
East T3	Otis	10%	15%	20%	15%	20%	15%	Strong brand and quality	Continue to sell well to residential projects
East T3	Xisi Otis	15%	10%	15%	20%	15%	20%	Good price point	
North T3 (Jining, Shandong)	Giant Kone	50%	50%	20%	20%	30%	30%	Buildings started in Q1 were buying elevators in Q3.	Construction is being delayed, developers prefer international over local brands

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City/Tier	Brand	Q2 Orders	Q2 Sales	Q3 Orders	Q3 Sales	Q4 Orders (est.)	Q4 Sales (est.)	Q3 Sales Drivers	Q4 Sales Outlook
North T3	Otis	50%	50%	15%	15%	25%	25%	Real estate market hot and developers have confidence to sell. Slum renovation continues	
North T3	Fujitec	-50%	-50%	50%	50%	-40%	-40%	Developers are choosing higher-end brands as real estate prices are good	
North T3 Linyi, Shandong	Otis			10%	10%	0%	0%	New district development, Restarting old buildings, Slum renovation	
North T3	Xio Lift (Local)			100%	100%	200%	200%	New brand in city so almost no sales last year	
North T3	FJZY (local)			50%	50%	40%	40%		
North T2 Shijiazhuang new	Giant Kone			5%	10%	-20%	-30%	A lot of orders from 2016 finally installed	
North T2	Xizi (local)			-10%	-10%	-20%	-30%	Popular in lower level cities. No sales in T2	Lower level developments halted as approvals not complete
North T2	ThyssenKrupp			8%	12%	-20%	-30%	A lot of orders from 2016 finally installed	
North East T2 Harbin	Otis	10%	5%	5%	5%			Harbin had a mini property boom	This boom looks like it will continue
North East T2	Kone	10%	5%	5%	5%				

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City/Tier	Brand	Q2 Orders	Q2 Sales	Q3 Orders	Q3 Sales	Q4 Orders (est.)	Q4 Sales (est)	Q3 Sales Drivers	Q4 Sales Outlook
North East T2	Giant Kone	-5%	0%	10%	5%				
North East T2	Schindler	10%	0%	-5%	0%				

Source: J Capital Elevator Distributor Survey, Sept 25 – Oct 4 2017

Manufacturer Direct Sales

- Manufacturers are increasingly selling to large developers, and these developers are growing faster than the property market. Kone and Mitsubishi are standout leaders in direct sales, Otis and Schindler are laggards.
- In Tier 1 and 2 leading brands sell 30% or more direct to large developers and the sales rate of direct sales is higher than distributor sales growth.
- In Tier 3 and 4 cities, large developers are less dominant and construction growth is growing faster.

Table 4. Manufacturer Direct Sales

City/Tier	Brand	Brand Direct Sales by Manufacturer	Manufacture direct sales vs distributor sales
South T2	Otis	8%	Otis has very low direct sales and has given up on direct sales. Elevator manufacturers are all focused on direct sales, which are growing faster than the market
South T1	Hitachi	28%	All elevator companies are focused on direct sales, which are growing slower than the market as property market is not doing well
South T1	Mitsubishi	30%	
South T1	XJ Schindler	5%	Direct sales to larger developers are better than distributors and growing each year. Developers prefer to buy direct from the manufacturer and cut out the commissions to distributors and get better service. One major developer, Country Garden still purchases via distributors.
Central T2	Kone	70%	Kone sells direct to China Resources, Vanke, Longfor. Direct sales are growing faster than distributors sales. We make no sales to large developers
East T2	Kone	20%	Kone is rapidly developing direct sales. They have always supplied Vanke and Country Garden, this year they Zhongliang and Sunac are purchasing direct. Kone direct sales grew at 20%. Vanke is dropping Schindler so that will be good for Kone sales.

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City/Tier	Brand	Brand Direct Sales by Manufacturer	Manufacture direct sales vs distributor sales
East T3	ThyssenKrupp	30%	
East T3	Otis	20%	Direct sales of Otis, Hitachi, Kone and Mitsubishi all grew at 15-20%.
East T3	Xisi Otis	30%	
North T3	Giant Kone	0%	No big developers active in this city so no direct sales.
North T3	Otis	10%	Direct sales growing at 20%. Developers and manufactures prefer to sell direct. Local brand Canny is selling well direct here.
North T3	Fuji	0%	
North T3	Otis	20%	Direct sales are performing worse than the market. After sales service is poor and so developers prefer distributors. Hitachi has the worst direct service.
North T3	Xio Lift (Local)	0%	
North T3	FJZY (local)	0%	
North T2 Shijiazhuang new	Giant Kone	8%	Large developers have increasing land cost and seek to reduce costs by purchasing direct. Smaller developers are being squeezed from the market. Direct sales are growing faster than the market.
North T2	Xizi (local)	2%	
North T2	ThyssenKrupp	12%	
North East T2	Otis	15%	Not selling direct well
North East T2	Kone	20%	Selling well direct
North East T2	Giant Kone	5%	Selling well direct
North East T2	Schindler	10%	Not selling direct well. It is hard for us to sell Schindler

Source: J Capital Elevator Distributor Survey, Sept 25 – Oct 4 2017

Sales Composition

- Kone and Otis are both experiencing good growth and expect that to continue into Q4.
- General trend of sales mix is trending towards lower end products. Some distributors reported an improvement in high end sales in Q3.
- Trend of service contracts shifting to manufactures seems to be halted by intense price competition in the service sector.

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- Prices rose in the range 2 – 5% for 90% of distributors. Many claimed increased material costs was pushing up prices

Table 5. Sales Composition

City/Tier	Brands	Product Composition (high/low end products)	Service sales growth and profitability	Product Price Changes
South T2	Otis	Social housing dominates sales.	Elevator companies are taking service contracts from us. They are using low equipment prices to get higher priced service contracts.	Prices are rising. Small projects are rising by 5% and large projects are stable.
South T1	Hitachi, Mitsubishi	Small developers are in decline, and this is positive for the low end products of the first tier brands.	3-4% growth, no profit. We cannot lower equipment price to get more service contracts	Prices have increased by 5% and competitors have increased about the same.
South T1	Xj Schindler	No big change, low end elevators dominate volume.	No change in service business. No one is selling equipment at lower prices as there is no profit.	Our prices rose in the quarter as steel prices are rising. Competitors all raised prices for the same reason.
Central T2	Kone	Low end is doing better than high end. Developers are more sensitive to price than quality.	Service revenue is up 50%, we make good profits from service, enough to cover the companies fixed costs. Elevator companies sometimes lower price to get service contracts but only a small amount.	Kone prices did not rise. They fell in the 1H. Market prices for elevators are rising 3-5% as input costs are rising.
East T3, T4	ThyssenKrupp, Xisi Otis	High end elevator sales are increasing and low end has fallen about 25%. High end is now 60% of the market and low about 40%.	Service sales are increasing and are profitable. We make the most profit on Otis. Smaller elevator companies are lowering equipment prices to get longer service contracts.	Otis prices are up 2%, competitors are up 1 -2%. Local brands have not increased price.
East T2	Kone	The performance of mid-level elevators has improved. Low end is still 40% of the market.	Manufacturers are losing market share because of strong price competition	Kone price is up 3%, Otis and Schindler are down. ThyssenKrupp is up 3 – 5%
North T3	Giant Kone, Otis, Canny, Fujitsu	Everyone is concerned with safety so foreign brands are preferred. The low end products of foreign brands are doing best.	Our service sales are growing at 25% but there is no profit due to intense price competition. Elevator companies do lower price to win longer service contracts.	Kone is up 2% and Otis up 2.5% and competitors are up 1 – 2%.
North T2	Giant Kone, ThyssenKrupp, Xisi	High end brands are 60% of the market and low end 40%. High end brands sell 90% low end products and 10% high end products.	15-20% increase and it is profitable. Elevator companies will lower equipment price for a longer service contract.	Giant price up 3-5%, Xisi 3%, ThyssenKrupp 6-10%, Otis 5-10%

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City/Tier	Brands	Product Composition (high/low end products)	Service sales growth and profitability	Product Price Changes
North T3	Otis, Xio Lift, FJZY	Low end products of the top brands are selling best. Mid range products also selling well.	Growth of 30%, no profit but some customers are starting to pay more attention to quality of service. We win business from manufactures after the initial contract.	We have lowered prices about 3% to keep customers and competitors have lowered by 5-10%
North East T2	Otis, Kone, Giant Kone, Schindler	High end share increased 5% as there are more office building sales. In residential low end products of top brands increased market share by 5%.	Service increased 8% and is profitable	Our brands increased price 2% and competitors were about the same.

Source: J Capital Elevator Distributor Survey, Sept 25 – Oct 4 2017

Market Conditions

- Property construction sentiment has turned negative. 70% of distributors expect property construction to be flat or to decline, and only 30% expect it to increase--the reverse of last quarter's survey.
- Brands doing well: There was no standout brand. Many brands were seeing positive sales.
- Brands doing poorly: Otis, ThyssenKrupp, and Schindler stood out as doing poorly.
- Orders and payments indicate a healthy market without signs of stress. Orders are being placed at a normal time and delays to delivery and payment are normal.

Table 6. Market Conditions

City/Tier	Brands	Demand Segments Growth	Expectations for Property 4Q 2017	Which brands are doing well?	Which brands are not doing well?
South T2	Otis	Growth is coming from social housing	Sales are falling, people are watching and not acting, the future is looking uncertain.	ThyssenKrupp is winning a lot of big apartment projects. They have good policies	Schindler is impacted by negative media and reputation. Otis policies are too rigid.
South T1	Hitachi, Mitsubishi	Residential, particularly social housing is driving sales followed by shopping complexes and infrastructure.	Property construction will continue to grow as it did in 1H	Kone and Mitsubishi are selling the best, growing at 20% and 16% respectively. The price point is best for these brands.	ThyssenKrupp, Otis and Schindler are not doing well as price is high and after sale service is not good.

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City/Tier	Brands	Demand Segments Growth	Expectations for Property 4Q 2017	Which brands are doing well?	Which brands are not doing well?
South T1	XJ Schindler	Residential is 70% of the market with Office and shopping complex each at 10%	We expect growth in 4Q to slow to be flat on 2016	The main local brands are doing well as price is competitive and service quality is up with growth of 5-10%	Small local brands are going out of business
Central T2	Kone	Shopping complex demand is best	Outlook is poor, developers are in distress	Xizi Otis has a good price and is selling well	
East T2	Kone	Residential down 15%, Office and infra up 25%	We still see opportunity in Tier 3 cities	Schindler now has a more competitive price and offering. Hitachi has good policies for distributors and is doing well.	Otis is struggling and sales are flat but we expect a large price decrease from Otis.
East T3	Yongda, ThyssenKrupp				
East T3, T4	ThyssenKrupp, Xisi Otis	Residential up 7%, Office flat and infra down 8%.	Going down, there are less projects.	Mitsubishi and Schindler are doing best.	Domestic brands are doing poorly as quality and service is bad.
North T3	Giant Kone, Otis, Fujitsu	Residential increased 10% particularly slum renovation. Office was up 5% and infra flat.	Flat or down	Canny up 50% as price was low.	Toshiba and ThyssenKrupp are doing poorly as they are not flexible
North T2	Kone, Giant Xizi ThyssenKrupp	Giant Kone up 15%, Xizi down 30%, ThyssenKrupp up 20%, No infra projects	Property construction to decline	Xi Ao doing well as they have a very effective sales force	Otis doing poorly as they have increased price and have a high staff turnover
North China T3	Otis, Xio Lift, FJZY	Local brands residential sales up 50%, Otis is making a lot of infra sales	Flat, relying on social housing	Kone is up 10%	ThyssenKrupp and Hitachi both have declining sales
North East T2	Otis, Kone, Giant Kone, Schindler	Residential, Office and infrastructure increasing demand	Up on last year	Hitachi sales are up 60% because it one a 700 elevator project	Schindler doing poorly, staff are leaving sales down 5%

Source: J Capital Elevator Distributor Survey, Sept 25 – Oct 4 2017

Table 7. Market Conditions (2)

City Tier	Brands	Are orders being placed late?	Are orders being delayed for delivery?	Are payments delayed?
South T2	Otis	Only government projects are on time. Developers have cash problems and delaying.	Developers are slowing projects, and doing them in more phases. The government is making single phase development a condition of land sale now.	No

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City Tier	Brands	Are orders being placed late?	Are orders being delayed for delivery?	Are payments delayed?
South T1	Hitachi, Mitsubishi	Normal	No delays	Normal
South T1	XJ Schindler	Normal	10%	Normal
Central T2	Kone	Normal	30% of deliveries have been delayed and this is increasing	A lot of delayed payments.
East T2	Kone	Normal	Normal	Normal
East T3	Yongda, ThyssenKrupp			
East T3, T4	ThyssenKrupp, Xisi Otis	About 30% are delaying	About 5%	Normal
North T3	Giant Kone, Otis, Fujitsu	Normal	5%	About 50% of customers are delaying.
North T2	Kone, Giant Xizi ThyssenKrupp	Normal	Normal	Normal
North China T3	Otis, Xio Lift, FJZY	Normal	10%	Normal to slight delays
North East T2	Otis, Kone, Giant Kone, Schindler	Normal	Normal	Normal

Source: J Capital Elevator Distributor Survey, Sept 25 – Oct 4 2017

Notable Quotes

“There are a lot of rumors of acquisitions. Apparently Kone will acquire Toshiba.”

Xiamen Distributor

“Local A-share listed elevator company SJEC has stopped trading after a fall in profit. SJEC has announced it may be acquired by an internet company. We don't know if it is going bankrupt or being used for a reverse listing.”

Guangzhou Distributor [Note: News sources subsequently reported that Qihoo 360 would acquire the SJEC shell for a backdoor listing.]

“Property developers are struggling. We expect the best growth prospects for the market are low-end elevators.”

Sichuan Distributor

“The market for new elevators will decline in future. Growth segments will be installing elevators in old building and the elevator replacement market. That is where we expect the competition to be most intense.”

Nanjing Distributor

“We expect domestic brands sales volume to decrease as foreign brands continue to take market share. Domestic brands will either go bankrupt or be acquired”

Anhui Distributor

“Slum renovation is the driver of the elevator market. “

Jining, Shandong

“The market for new elevators is in decline. The replacement market is where the growth will come from.”

Shijiazhuang, Hebei

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“There are very few large property projects planned. There are a number of small projects. This is more a market for low priced elevators going forward”

Linyi Shandong

“The property market will continue to grow just at a slow pace.”

Harbin, Heilongjiang

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