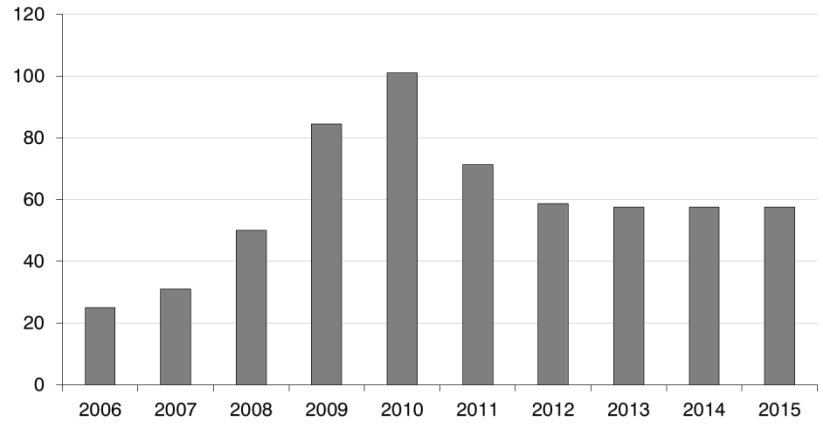
Chinese railway market has hit its peak – growth rates declining despite market volume remaining high

[03.08.2012] In its new study "The Chinese Railway Market", SCI Verkehr analyses at first hand the most current planning requirements and development objectives in what is currently the most important country for railway technology. In the last few years, China has become the largest and most dynamic railway market in the world. It has made massive investments in the railway sector, particularly in high-speed systems and metros. Investments reached an enormous peak of around EUR 100 billion in 2010. This was due to the large boom in rolling stock and infrastructure upgrades, which was additionally driven by a massive economic stimulus package in 2009 to overcome the global financial and economic crisis. Since then, railway technology investments have also declined in China but will remain above the 2008 level in the years after 2012. After only a few contracts were awarded in the second half of 2011, contract awards will increase again after the second quarter of 2012. China will therefore be ahead in the rankings of the most profitable railway markets. The share of OEM in the total market volume is currently nearly 80% although this will decrease to 60% in 2016. This will however be compensated by an intensified after-sales market. SCI Verkehr assumes that the Chinese railway technology manufacturers will be among the global market leaders and expects these companies to adopt an aggressive export policy in markets outside of China in the next five years.

Following intensive procurements of new rolling stock and the construction of new lines in the last few years, China will slow down its pace of investments to a certain degree. Maintenance and refurbishment expenses of the fast-growing installed base will, however, increase considerably, so the total market volume for railway technology will remain relatively constant in China in the medium term.

INVESTITION CHINESISCHES EISENBAHNMINISTERIUM IN DEN SCHIENENVERKEHR [MRD. EUR]



Annahme: konstante Wechselkurse CNY=0,12 EUR für alle Jahre

The rolling stock segment is currently the largest sales market for rail technology accounting for almost 60%, followed by the infrastructure market (without construction measures). After the boom years 2009/2010, the investment budget for rail transport is declining considerably. In parallel to the decreasing investment budgets and the completion of the most important high-speed lines in 2012, the OEM volume for rolling stock, infrastructure and systems technology will also decline.

The reduction of MoR's investment budget will affect the infrastructure market the most. In the boom years 2009/2010, high investments were made in rail passenger transport. In the medium term, SCI Verkehr expects a strong decline in investments in the infrastructure for rail passenger transport. Investments in freight transport will slightly increase on the other hand. SCI Verkehr assumes that the market for new vehicles will decline less than the infrastructure market. The reason for this is the increasing procurement of freight wagons to replace old vehicles.

Following intensive technology transfers from the global technological leaders and massive investments in its own research and development, today China boasts an efficient railway industry of its own. The local rail industry serves the majority of the Chinese market from its own production facilities. The dominant suppliers in all rail technology sectors are state-owned companies, nearly all of which are now listed on the stock exchange. The most important companies are the rail vehicle manufacturers China South (CSR) and China North (CNR) as well as the infrastructure providers China Railway Group Ltd. (CREC) and China Railway Construction Group Ltd. (CRCC). The decision-making power or majority share in these groups still remains, however, in the hands of the state.

Declining new procurement market volumes in the medium term mean overcapacities for the railway technology manufacturers in the works, particularly for the four large state companies CNR; CSR, CRCC and CREC. A regional expansion of the groups to foreign countries is indispensable. SCI Verkehr expects intensive efforts by the groups to enter export markets. In the last few years, the groups gained contracts in nearly all regions of the world. Nonetheless, Chinese players still do not play an important role in the field of railway technology in regions such as Europe, North America, the CIS or Asia.

Foreign players in China are particularly active in the field of components. All leading foreign rail technology companies have established local joint ventures and/or production sites. Interesting and accessible product markets for international companies are, for instance, traction means for rolling stock, DC traction power supply equipment and CBTC signalling technology.

Besides foreign players, more and more medium-sized Chinese companies have become established in the last few years.

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