

## **CHINESE MACHINE TOOL MARKET - WEEKLY BULLETIN**

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## China to expand smart manufacturing pilot program



China plans to expand its demonstration program for smart manufacturing by adding about 100 pilot projects this year, sources said on March 5th.

China will make more efforts to popularize smart manufacturing in sectors including raw materials, equipment, consumer goods and electronics, an unnamed official from the Ministry of Industry and Information Technology (MIIT) as saying.

The pilot program started in 2015 as a measure to promote intelligent manufacturing. The country selected more than 60 projects in 2016 and 97 projects in 2017 for the program.

According to a smart manufacturing plan for the 2016-2020 period, China will improve the foundation and supporting capability of smart manufacturing and basically realize the digitization of major fields in the traditional manufacturing sectors by 2020.

China's smart manufacturing sector will see a compound growth rate of about 20 percent in the 2016-2020 period, and the annual output of the sector will exceed 3 trillion yuan (about \$473 billion), according to a report from CIConsulting, a Guangdong-based research institution.

Amid China's drive to pursue high-quality development, smart manufacturing is believed to be an important direction for the country's manufacturing transformation and an important part of China's "Made in China 2025" strategy.

## **China sets economic growth target of 6.5 percent**

China will continue to pursue stable economic growth this year, setting its GDP growth target at around 6.5 percent and reducing its fiscal deficit ratio target to 2.6 percent, according to the annual Government Work Report to be delivered by Premier Li Keqiang on March 5th.

Li is scheduled to present the report at the first session of the 13th National People's Congress.

The country will continue to adopt a prudent, neutral monetary policy and a proactive fiscal policy to maintain stable economic growth while taking forceful measures to ward off financial risks, according to the draft report, which was released to reporters ahead of the session.

China's year-on-year GDP growth was 6.9 percent in 2017, higher than the "around 6.5 percent" target set by the government. Analysts generally forecast that growth will ease this year but remain on track.

The fiscal deficit is set at 2.38 trillion yuan (\$375.2 billion) this year and the fiscal deficit to GDP ratio is set at 2.6 percent, compared with 3 percent set last year, according to the report.

China will continue to achieve the three major tasks to prevent major risks — mainly financial risks, targeted poverty alleviation and pollution control, the report said.

It said the nation's consumer inflation target, measured by the consumer price index, is around 3 percent this year — real CPI growth in 2017 was 1.6 percent.

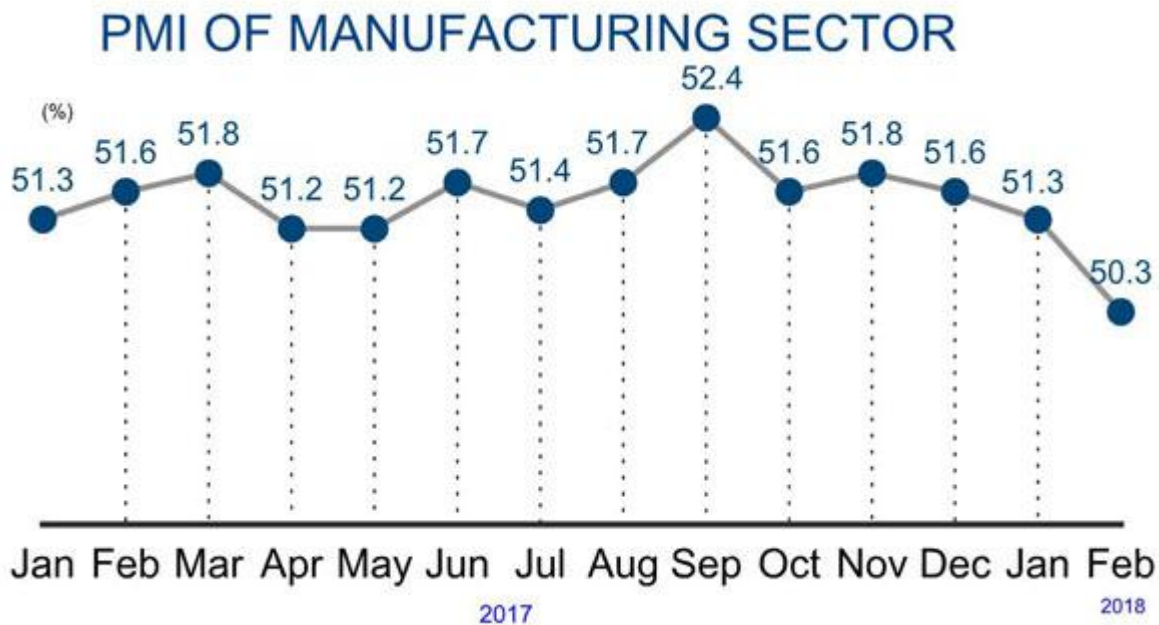
The country aims to create at least 11 million jobs in 2018 and keep the urban registered unemployment rate below 4.5 percent, according to the report.

The surveyed unemployment rate should be kept below 5.5 percent.

China will also cut 800 billion yuan in taxes this year, the report said.

The world's second-largest economy will also implement a long-term mechanism and targeted regulation to stabilize the real estate sector.

## China's manufacturing activity expands slower in February



China's manufacturing sector expanded at a slower pace in February, official data showed on February 28th.

The country's manufacturing purchasing managers' index came in at 50.3 this month, decelerating from 51.3 in January, according to the National Bureau of Statistics (NBS). A reading above 50 indicates expansion, while a reading below reflects contraction.

The easing of PMI was mainly caused by reduced factory activities during the weeklong Spring Festival holiday, NBS official Zhao Qinghe said in a statement.

"Historical data show that PMI, in most cases, have (downward) adjustments in the month in which Spring Festival falls," Zhao said. "The easing of PMI in February is a normal change."

Despite the slowdown, the manufacturing PMI has stayed above the boom-bust line for 19 straight months.

Zhang Liqun, an economist at the State Council's Development Research Center, said, "The stable economic growth trend has not changed."

Sub-indices for production and new orders went down slightly to 50.7 and 51, respectively, while sub-indices on raw material stock, employees and suppliers' delivery time were still lower than 50.

## **Foxconn unit's planned public float progressing at fast pace**

Foxconn Industrial Internet Co, a unit of Hon Hai Precision Industry Co, the manufacturing giant responsible for making Apple iPhones and Amazon Fire tablets, is inching closer to listing its shares in the A-share market, thanks to the fast-track approval process for innovative industries.

In its draft prospectus, Foxconn said it plans to issue 177 million shares on the Shanghai Stock Exchange and use the proceeds to expand its eight major business sectors, including industrial internet platforms, cloud computing and high efficiency operation platforms. The total investment for building these business units is estimated at around 29.1 billion yuan (\$4.6 billion).

According to information on the official website of the China Securities Regulatory Commission, the stock market regulator, Foxconn's IPO application will undergo further examination on March 1st.

The CSRC is reportedly planning a "green channel" for the so-called unicorn companies from industries like biosciences, cloud computing, artificial intelligence and advanced manufacturing. CSRC's former chief Xiao Gang said in an interview on March 2 that helping these unicorn companies go public is an important innovation concerning the approval system for issuing new shares in China.

A successful IPO of Foxconn, the world's largest contract manufacturer for electronic devices, will set the benchmark for other companies from Taiwan Island to list in the mainland's A-share market, industry insiders said.

Founded in 2015, Foxconn holds stakes in 31 domestic companies and 29 overseas companies. Nine of these 60 companies specialize in the manufacturing of smartphone parts.

The company's draft prospectus shows that it realized an annual turnover of 272.8 billion yuan, 272.7 billion yuan and 354.5 billion yuan in 2015, 2016 and 2017 respectively. The company's net profit came in at 14.35 billion yuan, 14.37 billion yuan and 15.87 billion yuan respectively. The company's net profit growth rate stood at 5.26 percent, 5.27 percent and 4.48 percent for the three respective years.

The fast progress of Foxconn's IPO process also led to a sharp increase in the share prices of several companies with business related to or similar to Foxconn on March 1st. These included Shenzhen JingQuanHua Electronics, Changsha Yuhuan CNC Machine Tool, and Henan Ancai Hi-Tech. The benchmark Shanghai Composite Index rose 0.07 percent to close at 3,256.93 points on Monday.

## Coal machinery to see robust growth

China's coal machinery manufacturers are expected to continue their strong run till 2020, buoyed by a recovering coal mining sector, analysts said.

Wu Dongdong, an analyst with Hangzhou-based Zheshang Securities Co, said demand for coal machines increased as a majority of coal enterprises earned higher profits.

"As the effect of supply-side reform unfolded, coal prices started to rebound by the end of 2016, and coal companies' profitability improved significantly," Wu said. "Outdated machines in need of replacement are also driving demand in the coal machinery industry."

Several major Chinese coal machinery makers and suppliers predicted robust growth in 2017.

Zhengzhou Coal Mining Machinery (Group) Co estimated that its net income would increase at least 329% year-on-year to 266 million yuan (\$41.9 million) in 2017. The company attributed the growth partly to the recovery of the coal mining sector.

Linzhou Heavy Machinery Group Co said it turned a profit last year, with estimated net income of at least 30 million yuan.

Tiandi Science & Technology Co, according to research data, expects a total of more than 20 billion worth of new purchase orders in 2017, nearly double the amount of the previous year.

With a goal to reduce outdated coal capacity and increase the use of cleaner coal, coal machinery makers have been innovating their products.

For instance, Tiandi Science & Technology Co, a State-owned enterprise, developed an intelligent mining machine. Developed in-house, the machine can reduce labor cost and improve mining safety.

Coal machinery makers' expectations of rapid growth expansion came amid China's efforts to optimize the structure of its coal production.

The world's largest coal producer and consumer will cut outdated coal capacity by 800 million metric tons per year by 2020, while increasing use of cleaner coal by 500 million tons, according to the coal industry 2016-2020 development plan issued by the country's top economic planner and regulator.

There will be about 3,000 coal enterprises in 2020, mostly large companies, running about 6,000 collieries nationwide, with large-capacity coal mines the majority.

The plan also outlines targets to improve coal production safety and efficiency, as well as to reduce impact on the environment.

China is likely to achieve its goal of reducing coal capacity by 500 million metric tons well ahead of the planned three to five years target, said Jiang Zhimin, vice-president of the China National Coal Association.

By the end of 2017, the number of coal mines in China dropped to about 7,000 from 10,800 in 2015, Jiang said at a forum hosted by the China Metallurgical Industry Planning and Research Institute last month.

## **China & Germany set innovation platforms to strengthen cooperation**

China and Germany have set up 11 innovation cooperation platforms, Minister of Science and Technology Wan Gang announced on February 28th.

The platforms cover fields such as electric vehicles, bioscience, clean water, intelligent manufacturing and clean energy, Wan said at the 5th Sino-German Innovation Conference.

Wan noted that over the past four decades, China and Germany had initiated effective cooperation models and promoted the transformation of scientific and technological achievements.

"Sino-German scientific cooperation has set a successful example of technological cooperation between major countries," Wan said.

Georg Schuette, state secretary of the Federal Ministry for Education and Research of Germany, said that the German government attached great importance to science and technology innovation cooperation with China, and would strengthen cooperation with China in areas such as climate change, environmental protection, the Internet of Things and lightweight manufacturing.

China and Germany have respectively adopted "Made in China 2025" and "Industry 4.0" strategies in response to the new round of technological and industrial revolution.

Many German companies such as BMW and BASF have established large research and development centers in China.

Chinese enterprise investment in Germany has increased significantly in recent years, with many Chinese companies setting up research and development centers in Germany. The increasing number of China-Germany industrial parks also foster strong industrial cooperation between the two countries.

## New China-Europe train service between Urumqi - Naples



A train carrying tomato sauce left Urumqi, capital of Xinjiang Uygur autonomous region, for Italy's Naples on Feb 26, the first between Xinjiang and Naples.

The train will pass through Horgos Pass before it travels on a sea-rail combined route. The trip takes 25 days via the 10,500 kilometers-long route, passing through Kazakhstan, Azerbaijan, Georgia and Italy.

Nan Jun, deputy general manager of Xinjiang Xintie International Logistics Company, said that it saved 25 days compared to the traditional marine transport and it reduced the transportation cost by 20 percents.

The train has opened up another faster, safer and more convenient way between Europe and China.

With this new route there are altogether 19 China-Europe cargo trains setting off from Xinjiang Uygur autonomous region, connecting 24 cities in 17 countries in Middle Asia and Europe.

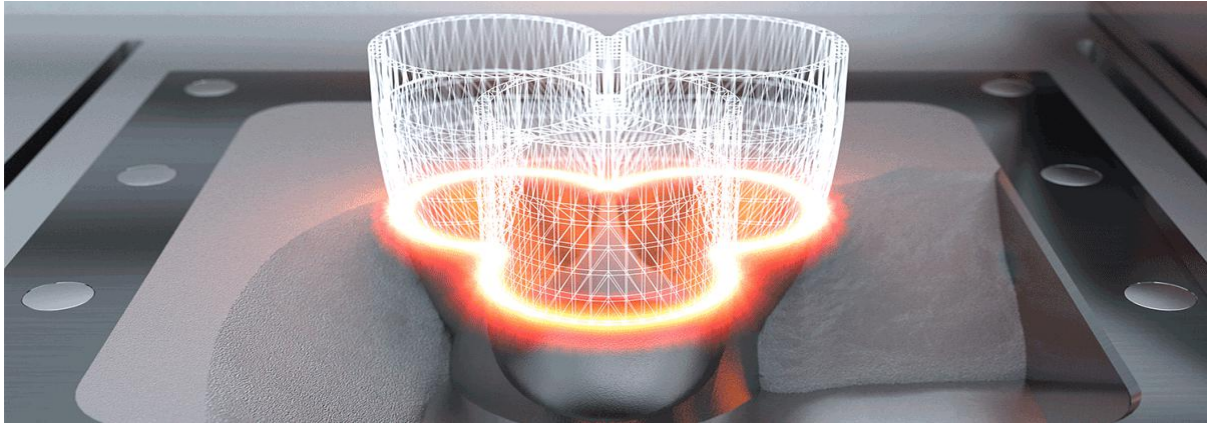
More than 200 varieties of goods including daily necessities, mechanical equipment, building materials and electronic components are sent to Middle Asia and Europe.

In 2018, railway department in Xinjiang Uygur autonomous region will open new routes, improve the brand influence of China-Europe cargo train and offer strong support in transport to the Belt and Road Initiative.

Urumqi-Naples train is the 1000th China-Europe cargo train since put into operation.



## Oerlikon and Farsoon to accelerate additive manufacturing in China



Oerlikon, a leading global technology and engineering Group, signed a long-term collaboration agreement with Farsoon Technologies (Farsoon) to supply qualified Oerlikon AM metal powders for Farsoon AM systems. The purpose of the collaboration is to increase the adoption of AM in China by providing customers with a combined solution of system hardware and fully certified metal powders.

The agreement between Oerlikon and Farsoon can establish a new business model for the China AM market. Oerlikon will be the global partner for Farsoon as a preferred and primary metal powder supplier. Farsoon will be qualifying MetcoAdd powders, tailored for AM processes, to Farsoon AM systems. This will enable customers purchasing Farsoon AM systems to receive Oerlikon AM powders at the same time.

The two parties will further collaborate on research and development projects to optimize the process performance for applications, especially for the China market. Furthermore, Oerlikon will work with Farsoon to develop customized alloys for their AM systems in order to accelerate the adoption of AM in industries such as aerospace, power generation, tooling and automotive.

Florian Maurer, Head Business Unit AM, Oerlikon, said: “For new technologies, such as AM, partnerships and the development of new business models are key to unlocking their potential. Working together with Farsoon, a fast growing AM machine manufacturer with a well-established presence in China, can set a new standard in the AM industry to bring integrated quality products and services to customers.”

From March 1 to 3, Oerlikon and Farsoon are exhibiting at TCT Asia. Oerlikon will showcase, under its Oerlikon AM brand, a wide range of metal powders and additively manufactured components at its booth N1-J16. Farsoon will host TCT Asia visitors at booth N1-G16, where its latest AM systems will be on display.

## **"Made in China 2025" initiative boosts Fanuc's business**

Industrial robot maker Fanuc upgraded its full-year net profit outlook for the third time this fiscal year, highlighting its success in seizing on China's rush to automate factories.

Japan-based Fanuc, which traditionally has gotten much of its business from U.S. electronics titan Apple, now sees group net profit growing 41% year-on-year to 180.2 billion yen (\$1.64 billion) for the year ending March. It previously forecast a 29% gain to 164.9 billion yen.

"Business with China is particularly strong," Chairman Yoshiharu Inaba said in an earnings call. As labor costs surge, Chinese businesses are investing actively in automating factory floors. Fanuc is well-positioned to benefit from this trend as the global market leader in industrial robots, as well as in numerical control units, which as the "brains" of machine tools are key to advancing manufacturing technology. The central government's "Made in China 2025" initiative also boosts Fanuc's business.

Sales in China -- which Fanuc now reports separately from the rest of Asia -- grew 140% year-on-year to 54.9 billion yen for the October-December quarter, far outpacing the company's overall sales growth of 41% for that period.

Two of Fanuc's major strengths are its efficiency and its attentive customer support. It uses robots to build other robots at headquarter factories in Yamanashi Prefecture, cutting out labor costs and thus arming itself to compete heavily on cost. In China, it has arranged an on-the-ground sales operation that lets it respond quickly to clients' needs.

Fanuc's revised forecast would mark its second-greatest full-year net profit behind the 207.6 billion yen booked in the year through March 2015. That year, Apple's introduction of larger iPhone models set parts makers and other companies scrambling to invest in new equipment, providing rapid growth in small cutting tools for metal smartphone frames, for instance. Such tools fall into Fanuc's robomachines segment, which in that year contributed 40% of sales, but now has relaxed to the 20% range.

The market has applauded Fanuc's effort to wean off Apple and balance its income diet. On Jan. 16, the Japanese company scored its first new record market capitalization in about two years and seven months. Goldman Sachs rated Fanuc's shares a strong buy in a recent report.

The company is upbeat about the future. Order values for October-December came to 195.5 billion yen, close to highs in April-June. That strength "is based on brisk real demand," says Iwaba.

## **Schuler raises sales and earnings to record levels**

New orders received by Schuler in 2017 made uneven progress. There were order increases of over 20 percent in some cases in China, the Industrial division, and for die solutions (mainly AWEBA). By contrast, there was a noticeable decline in orders received by the Automotive division. The main reason for this trend is the decision of major car manufacturers to channel considerable funds into the expansion of electromobility while temporarily postponing investment in new production capacity. Schuler itself is not adversely impacted by the change to new drive technologies. The company also supplies press lines to manufacture body parts for electric vehicles, as well as lines to produce electric motor laminations and batteries.

At over € 106 (€ 95) million, Schuler's earnings before taxes (EBT) were well above the prior-year figure once again in 2017. One driver of this operating result, with a contribution of around € 18 million, was the Group's technology and demonstration center in Tianjin, China, which was sold to an industrial partner in 2017 following a successful operational phase. Yadon and AWEBA also made positive contributions to sales and earnings.

CEO Klebert: "Yadon clearly demonstrates that growth is primarily generated via new markets and innovative products. Yadon presses form the basis for successful new product offerings in the USA and, in the future, also in India, Vietnam, Sri Lanka and selected European growth markets. At the same time, Yadon's link-drive press launched in 2017 is its first product to offer higher press forces of up to 2,500 metric tons – a joint development project of our teams in China, Brazil and Germany."