

Heavy truck market just ticking over: A highly cyclical sector

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In summary

- Two major market determinants: the economic cycle and environmental standards.
- Dominated by global players whose heavy-duty truck divisions are supplementary to their automobile business, primarily the European groups Daimler, Volkswagen (MAN and Scania) and Fiat Industrial (Iveco).
- There are still a few specialized manufacturers but their outlook is more uncertain unless, like Volvo Trucks, they have a global market presence.
- The sector is tending toward further concentration.

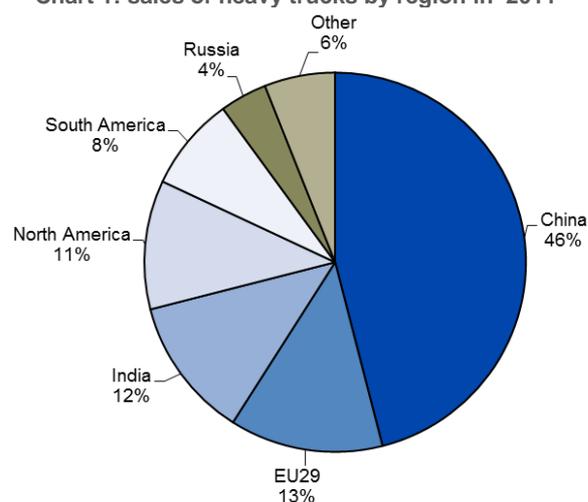
Demand in emerging countries benefits Western manufacturers

Infrastructure and equipment needs have driven transport equipment needs in emerging economies, which accounted for more than 70% of global heavy-duty truck registrations in 2011.

The European Union and North America are in fact merely replacement markets, as heavy truck registrations accounted for only 24% of global sales.

While there are a few local manufacturers of basic vehicles in emerging countries, environmental constraints – in particular CO₂ emission levels – allow developed countries to continue to dominate the global market.

Chart 1: sales of heavy trucks by region in 2011



Source: Volvo trucks

2012-2013 will see a slowdown in the market after the generous stimulus packages in 2010-2011

In North America the market grew by +15% in 2012, with almost 250,000 vehicles. This trend is expected to hold in 2013.

In South America the market fell sharply (-26%) as a result of the implementation of the Euro V standards in Brazil and still-high stocks of Euro III-compliant trucks. Sales in Brazil fell -22% to 87,400 units for full-year 2012, while volumes recovered during the last quarter. This rebound is expected to continue through 2013 with an increase of around +20% on the back of large projects linked to the soccer World Cup in 2014 and the Olympic Games in 2016.

In Europe (EU-27) the market fell by -9% in 2012 to 214,115 units. This figure remains one-third below its pre-crisis level and the market is expected to decline a further -5% in 2013. In France the market is forecast to contract -10% in 2013.

In Asia (excluding India) demand fell by -9% in 2012.

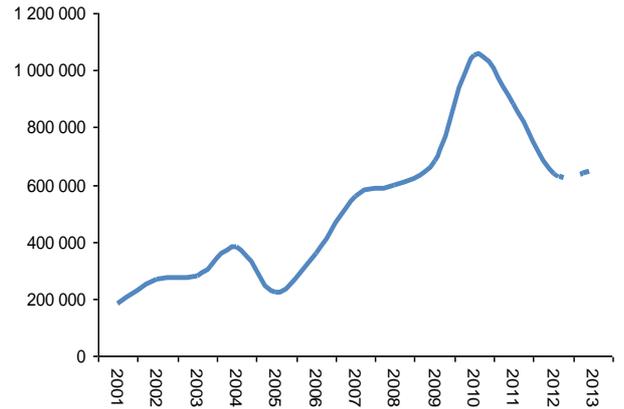
China is the largest market in the world, with approximately 630,000 units sold in 2012. Nevertheless, this figure constituted a fall of nearly -28%. In 2012 the Chinese market returned to its 2008-2009 level after two "explosive" years in 2010 (1 million units) and 2011 (880,000 units) linked to the stimulus package. The Chinese market still has considerable potential, as illustrated by Volvo confirming its interest in acquiring a 45% stake in the capital of Chinese maker Dongfeng Commercial Vehicles.

In India the market fell -18% in 2012 to 195,000 units. It is expected to pick up again slightly in 2013, although conditions remained tough at the start of the year.

In Japan the market grew +18% in 2012 but remains small, with 32,000 units. Despite the fall in the market in 2011 following the earthquake and tsunami, the 2012 growth was encouraging and we forecast a market of nearly 35,000 units in 2013 (+9%).

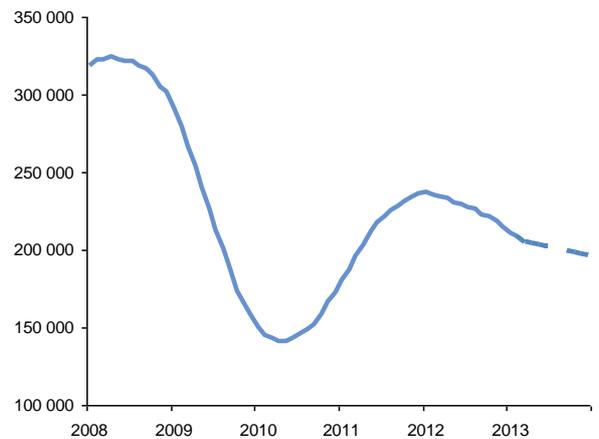
In Africa and the Middle East the market remained buoyant (+3%).

Chart 2: new registration of heavy trucks (more than 14 tons) in China



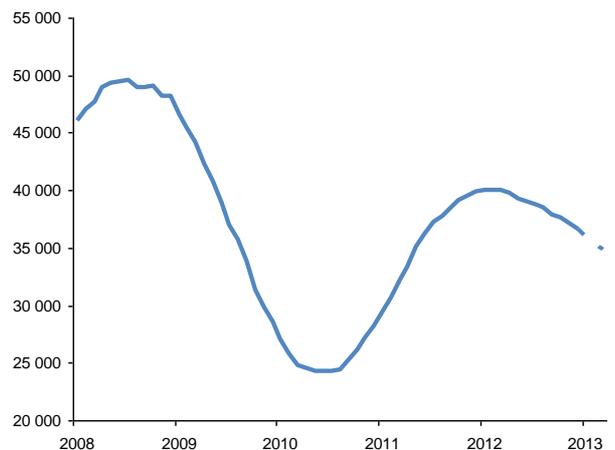
Source: Volvo trucks

Chart 3: new registration of heavy trucks (more than 17 tons) in Europe (27)



Sources: ECEA, Euler Hermes

Chart 4: new registration of heavy trucks in France (more than 17 tons)



Sources: ECEA, Euler Hermes

European players dominate the market and, despite the slowdown, present healthy profitability

North America: In the United States the heavy truck market is dominated by Freightliner (a division of Daimler), Mack (Volvo Trucks) and US groups that are highly specialized in heavy trucks, namely Navistar (with financial problems and the subject of interest from Volkswagen and Fiat Industrial) and Paccar, which owns the brands Kenworth and Peterbilt; and, to a lesser degree, the truck divisions of Ford and General Motors.

Europe: All manufacturers have felt the effects of weak demand in Southern Europe, but those that have suffered the most are Italian manufacturer Iveco (part of Fiat Industrial) and Renault Trucks (from the Swedish Volvo Group, nevertheless the second largest in the sector worldwide), which traditionally have had high market shares in this region.

MAN and Scania (subsidiaries of the German Volkswagen Group), which are mainly active in Europe and Latin America, have also suffered. However, some manufacturers with a solid footprint in high-growth markets such as the United States, Japan and Russia have managed to stand out from the pack. This is the case of Daimler, which sold 20% more vehicles over the first eight months of the year and is the largest manufacturer of heavy trucks in the world. In addition to its high dependence on the economic environment, year after year the European heavy truck sector is one of the most highly regulated around. The Euro VI fuel standard, the least polluting in the market, has forced manufacturers to invest billions of euros and led to a concentration of actors in Europe (for example the purchase of MAN in 2011 by Volkswagen, which already owned truck maker Scania).

China: The largest heavy truck manufacturers in China are the local companies Dongfeng Commercial Vehicles (of the Dongfeng Motor group), Sinotruck (of which, through MAN, Volkswagen holds 25% of the capital) and FAW. Daimler is also present in China through its local partner Beijing Foton. Volvo Trucks recently announced its intention to buy 45% of the capital of Dongfeng Commercial Vehicles, which means it is now competing with Daimler for the number one spot worldwide.

India: The Indian heavy-duty truck market is dominated by local manufacturers Tata Motors and Ashok Leyland, although Daimler, with its brand BharatBenz and a new local production plant, has plans to become a major player.

Japan: Mostly dominated by the manufacturers Hino Trucks (Toyota Group), Isuzu and Nissan.

Chart 5: Profitability of the main actors appreciably degraded but still at good level, except Navistar

2012	Nationality	Variation of turnover	Net income/turnover	variation net income/turnover
Daimler *	Germany	9%	5.50%	-13%
Volvo	Sweden	-2%	3.70%	-38%
Scania	Sweden	-9%	8.30%	-30%
Man	Germany	-4%	1.10%	-26%
Iveco *	Italy	-7%	5.20%	-4%
Navistar	United States	-7%	-23%	NS
paccar	United States	4%	6.50%	7%
Isuzu	Japan	-1%	6.50%	76%
Sinotruck (1)	Chine	-8%	2.70%	-32%
FAW (1)	China	-9%	0.80%	-87%
Ashok Leyland	India	15%	4.40%	-10%

Source : companies

Notes :

- Variation compared with 2011.
- (*) ratio Ebit/turnover because Iveco is a division of Fiat industrial, and Daimler trucks is a division of Daimler AG.
- (1) figures of year 2011
- Not specific information in the Consolidated financial statements of Toyota, Nissan, Dongfeng et Tata.

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