AE MicroMacro – China

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August 29, 2019

CRRC Buys Vossloh Diesel Locomotive Unit

What happened. On August 26 Vossloh AG signed a contract for the sale of its Locomotives business unit , located in Kiel, Germany to CRRC Zhuzhou Locomotive Co., Ltd., Zhuzhou, China (CRRC ZELC), a subsidiary of the China Railway Rolling Stock Corporation Ltd. (CRRC). Kiel facility has been on sale for almost two years. Agreement is subject to regulatory approvals in Europe and China. Transaction value was reported as below 10 mln EUR. Final sales price is subject to adjustments and depends on the balance sheet positions at the date of transaction closing.

Who is who. Vossloh locomotive unit employs 600 people across Europe with up to 500 working in the main Kiel facility. With 200 mln EUR turnover in 2017 it recorded 35 mln EUR loss and in 2018 slightly over 2 mln EUR in profits. Vossloh Locomotive manufactures diesel-electric and diesel-hydraulic locomotives. Its parent company is a global provider of integrated solutions for rail infrastructure with manufacturing facilities and offices located also in China and Poland. The divestiture of the locomotives business unit will allow Vossloh Group to focus only on the rail infrastructure sector. CRRC is the world's largest supplier or rolling stock with 215 bln rmb (over 30 bln usd) revenues in 2018.CRRC is state controlled entity listed on Hong Kong SE.

Why it matters. Upon the successful completion of the transaction Chinese company will become the owner of the largest supplier of diesel locomotives in Europe with 25 proc. market share. Vossloh's key competitors: CZ Loko (16 proc.), Stadler Rail (16 proc.), Bombardier (8 proc.) i GE Transportation (7 proc.). Financial strength of the new owner combined with the technology and know how of the German manufacturer and the Chinese investor can become a driver for the market grab in the diesel locomotives segment. CRRC supplies vast range of rolling stock products (rail, trams, metro). New foothold in Germany can serve as a springboard for facilitating a dynamic expansion in other segments of products.

Big picture. CRRC is one of the China's national champions strongly supported by the Chinese state and the Communist Party of China. Stronger engagement in Europe will likely increase the competition with leading European manufacturers including Alstom and Siemens Mobility. In 2017 those two companies planned a merger to more efficiently compete with CRRC on the global stage. They also called Paris and Berlin for support. In February European Commission blocked the merger citing possible harmed competition in markets for railway signalling systems and very high-speed trains. EC position on protecting competition is understandable but with this decision EC made easier for Chinese state supported giant to make inroads in Europe.

Why it matters for Poland.

CRRC expansion in Europe will increase competitive pressure on the Polish domestic enterprises (e.g. Cegielski, Pesa) and subsidiaries of foreign companies located in Poland (e.g. Standtler, Newag, Alstom, Bombardier). In 2016 Czech rail operator Leo Express signed a contract for three trains delivery with CRRC with option for total order of 30 trains. First three trains are under production and will be delivered in the second half of this year. Earlier the Polish subsidiary of Stadler supplied Flirt trains to Leo Express and also supplied trains to Hungary, where CRRC Industrial Investments opened its European office in 2016. CRRC ZELC has its Europan HQ in Vienna and it was awarded a contract for delivery of the diesel-electric locomotives for Deutsche Bahn last year. Polish Pesa has contract with DB for 72 trains delivery, that after delays should be completed this year.