

Caterpillar Inc (CAT) — Thesis Update

Analyst: Ryan Patel | Date: February 10, 2026 | Rating: BUY — Raise Price Target to \$400

Investment Thesis Summary

Caterpillar remains our highest-conviction industrials position. The infrastructure spending cycle is earlier than consensus believes, and CAT's pricing power is underappreciated. We're raising our price target from \$375 to \$400, representing 11.5% upside from current levels.

Key Points from Q4 2025 Earnings

Revenue: \$17.1B vs consensus \$16.5B (+3.6% beat). Construction Industries segment revenue +12% YoY driven by North America infrastructure. Resource Industries flat as expected — mining capex cycle still early. Energy & Transportation +8% on data center power demand.

Margins: Operating margin 22.4% vs consensus 21.8%. Price realization continues to exceed cost inflation. Services revenue (higher margin) now 23% of total, up from 19% two years ago.

Guidance: Management raised 2026 revenue guidance to \$68-72B (prior: \$66-70B) and operating margin guidance to 22-23% (prior: 21-22%). Order backlog grew to \$30.8B (+14% YoY).

What the Market is Missing

1. Infrastructure spending timeline: The IIJA allocates \$550B over 5 years, but spending curves are back-loaded. Only ~30% of funds have been obligated through 2025. The spending ramp accelerates in 2026-2028. Consensus models assume a linear spend pattern — wrong.
2. Services mix shift: CAT's push into connected assets and dealer services creates a recurring revenue stream with 35%+ margins. At 23% of revenue today, we model this reaching 28% by 2028. This structurally improves margins regardless of cycle.
3. Data center power demand: Energy & Transportation benefits from natural gas power generation for AI data centers. This is a new growth vector not in traditional CAT models.

Valuation

Metric	2025A	2026E	2027E
Revenue (\$B)	\$66.2	\$70.1	\$74.8
Operating Margin	22.1%	22.6%	23.2%
EPS	\$22.40	\$25.10	\$28.50
P/E (at current)	16.0x	14.3x	12.6x
P/E (at \$400 PT)	17.9x	15.9x	14.0x
FCF Yield	4.2%	4.8%	5.3%

At \$400, CAT trades at 15.9x 2026E EPS vs the 5-year average of 17.2x. We believe this is conservative given the infrastructure tailwinds and services mix shift.

Risks

Government shutdown delays IIJA funding. Residential construction downturn offsets infrastructure growth. China demand weaker than expected. USD strength hurts international revenues (40% of total). Input cost inflation re-accelerates.

Position Sizing

Current position: 2,200 shares at \$312.40 avg cost. Market value: \$789,580 (1.8% of NAV).
Recommendation: Maintain current sizing. Add on any pullback below \$340.