Goldman Sachs | Equity Research

1 April 2025 | 5:44PM HKT

Buy

Weichai Power (000338.SZ)

Strong earnings power underappreciated; reiterate Buy with higher estimates and TP

000338.SZ	12m Price Target: **Rmb24.00**	Price: **Rmb16.41**	Upside: **46.3%**
2338.HK	12m Price Target: **HK$22.00**	Price: **HK$16.38**	Upside: **34.3%**

Despite a +21%/+42% rally for Weichai's A/H shares (vs. +2%/+21% for CSI300/HSCEI) since the start of the year, we see further upside from here. On top of what we discussed in our initiation report, we see rerating potential as we expect a turnaround in the investment narrative on Weichai, with 1/ a raised cyclical outlook ahead, 2/ a structurally more profitable engine portfolio, and 3/ its European capex exposure via KION likely turning from headwinds to tailwinds. The long-term overhang from truck electrification has dominated our discussions with investors on the stock valuation, but we believe that Weichai's stronger cycle-over-cycle earnings prospects (very rare within our China machinery coverage) have been underappreciated by the market. This differentiates our view, as our long-term earnings projection has modeled in higher peak engine sales volume and a unit net profit >2x vs. its long-term average. We raise our 2025E-27E EPS estimates by 16-21%, now 6-18% ahead of the Visible Alpha consensus estimates. Our 12-m P/E-based TP is increased to HK$22.0/Rmb24.0 (from HK$14.61/Rmb16.3) as we lift our target P/E as we believe these positive changes warrant a rerating. In addition to improving through-cycle profitability, we highlight robust FCF profile (~10-20% yield over 2025E-27E), which along with a strong a net cash position (c.1/4 of Weichai's market cap) should lead to continued raise in payout (+5ppt p.a. projected ahead), further enhancing shareholder return. Our SoTP valuation cross-check indicates further potential upside. Trading at 10-11x 2025E P/E with ~6% dividend yield and +18% 2-yr EPS CAGR with thematic exposure to the rising data center investment globally as well as the reviving capex outlook in Europe, we view the stock as deeply undervalued and reiterate Buy.

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Key Data

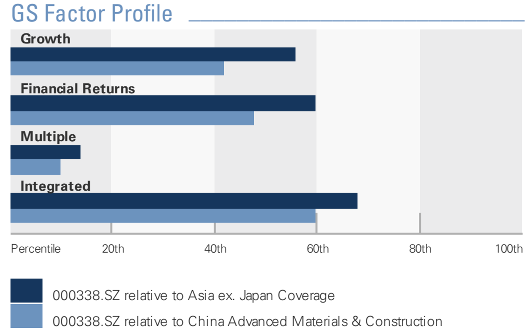
Market cap: Rmb143.2bn / $19.7bn
Enterprise value: Rmb160.5bn / $22.1bn
3m ADTV: Rmb1.5bn / $201.0mn
China
China Advanced Materials & Construction
M&A Rank: 3
Leases incl. in net debt & EV?: Yes

GS Forecast

	12/24	12/25E	12/26E	12/27E
Revenue (Rmb mn) New	**215,690.5**	**234,141.4**	**253,950.9**	**269,925.9**
Revenue (Rmb mn) Old	215,511.7	222,875.7	239,493.1	258,215.5
EBITDA (Rmb mn)	27,784.9	29,456.0	36,261.3	39,926.0
EPS (Rmb) New	**1.31**	**1.55**	**1.81**	**2.00**
EPS (Rmb) Old	1.22	1.34	1.50	1.65
P/E (X)	11.3	10.6	9.1	8.2
P/B (X)	1.5	1.6	1.5	1.4
Dividend yield (%)	4.9	5.7	7.2	8.5
CROCI (%)	17.9	14.3	16.7	NM

	12/24	3/25E	6/25E	9/25E
EPS (Rmb)	0.34	0.26	0.51	0.42

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates. See disclosures for details.

Weichai Power (000338.SZ)

Buy

Rating since Dec 16, 2024

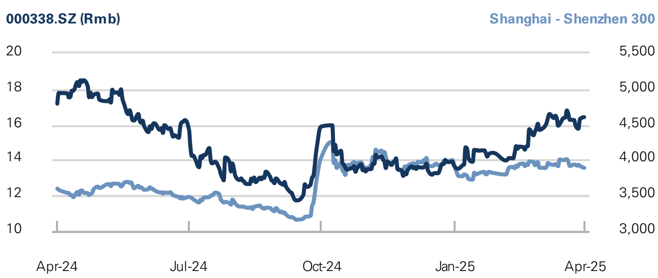
Ratios & Valuation

	12/24	12/25E	12/26E	12/27E
P/E (X)	11.3	10.6	9.1	8.2
P/B (X)	1.5	1.6	1.5	1.4
FCF yield (%)	11.4	10.9	15.7	18.6
EV/EBITDAR (X)	5.2	5.4	4.4	2.5
EV/EBITDA (excl. leases) (X)	5.2	5.4	4.4	2.5
CROCI (%)	17.9	14.3	16.7	NM
ROE (%)	13.7	15.2	16.6	17.4
Net debt/equity (%)	(15.9)	(15.5)	(17.5)	(58.6)
Net debt/equity (excl. leases) (%)	(15.9)	(15.5)	(17.5)	(58.6)
Interest cover (X)	3.9	6.7	8.1	8.9
Days inventory outst, sales	62.3	58.6	58.1	57.9
Receivable days	46.2	40.0	40.0	35.0
Days payable outstanding	128.9	115.0	115.0	115.0
DuPont ROE (%)	9.4	10.5	11.4	11.8
Turnover (X)	0.6	0.7	0.7	0.7
Leverage (X)	2.8	2.6	2.7	2.6
Gross cash invested (ex cash) (Rmb)	194,069.4	203,896.3	210,231.0	(19,160.9)
Average capital employed (Rmb)	75,910.2	86,216.4	79,578.0	68,238.3
BVPS (Rmb)	9.93	10.56	11.19	11.79

Growth & Margins (%)

	12/24	12/25E	12/26E	12/27E
Total revenue growth	0.8	8.6	8.5	6.3
EBITDA growth	16.0	6.0	23.1	10.1
EPS growth	26.5	18.9	16.4	10.7
DPS growth	39.1	29.7	26.1	19.2
EBIT margin	7.0	6.6	8.2	8.6
EBITDA margin	12.9	12.6	14.3	14.8
Net income margin	5.3	5.8	6.2	6.5

Price Performance



	3m	6m	12m
Absolute	19.8%	3.4%	(1.7)%
Rel. to the Shanghai - Shenzhen 300	21.2%	6.9%	(10.5)%

Source: FactSet. Price as of 31 Mar 2025 close.

Income Statement (Rmb mn)

	12/24	12/25E	12/26E	12/27E
Total revenue	215,690.5	234,141.4	253,950.9	269,925.9
Cost of goods sold	(167,304.9)	(182,920.1)	(196,887.2)	(208,416.5)
SG&A	(22,744.6)	(24,461.0)	(24,732.1)	(26,019.4)
R&D	(8,299.4)	(8,925.7)	(9,024.7)	(9,685.2)
Other operating inc./(exp.)	(2,282.7)	(2,431.4)	(2,566.6)	(2,640.7)
EBITDA	**27,784.9**	**29,456.0**	**36,261.3**	**39,926.0**
Depreciation & amortization	(12,726.1)	(14,052.9)	(15,521.0)	(16,761.9)
EBIT	**15,058.8**	**15,403.1**	**20,740.3**	**23,164.1**
Net interest inc./(exp.)	(73.8)	755.9	276.3	676.6
Income/(loss) from associates	(45.1)	0.0	0.0	0.0
Pre-tax profit	**17,321.5**	**18,260.5**	**23,097.4**	**25,885.3**
Provision for taxes	(3,043.8)	(2,556.5)	(3,580.1)	(4,141.7)
Minority interest	(2,874.4)	(2,144.1)	(3,731.6)	(4,266.7)
Preferred dividends	–	–	–	–
Net inc. (pre-exceptionals)	**11,403.3**	**13,559.9**	**15,785.8**	**17,477.0**
Post-tax exceptionals	(875.9)	(1,107.5)	(987.3)	(948.9)
Net inc. (post-exceptionals)	**10,527.4**	**12,452.4**	**14,798.4**	**16,528.1**
EPS (basic, pre-except) (Rmb)	**1.31**	**1.55**	**1.81**	**2.00**
EPS (diluted, pre-except) (Rmb)	**1.31**	**1.55**	**1.81**	**2.00**
EPS (basic, post-except) (Rmb)	**1.21**	**1.43**	**1.70**	**1.89**
EPS (diluted, post-except) (Rmb)	**1.21**	**1.43**	**1.70**	**1.89**
DPS (Rmb)	0.72	0.93	1.18	1.40
Div. payout ratio (%)	55.0	60.0	65.0	70.0

Balance Sheet (Rmb mn)

	12/24	12/25E	12/26E	12/27E
Cash & cash equivalents	72,066.9	71,029.8	93,949.3	119,501.4
Accounts receivable	30,877.2	20,441.5	35,219.0	16,547.6
Inventory	35,675.3	39,497.4	41,415.2	44,235.4
Other current assets	46,130.3	55,046.7	49,896.1	58,083.5
Total current assets	**184,749.7**	**186,015.3**	**220,479.6**	**238,368.0**
Net PP&E	53,803.8	50,737.3	46,299.9	40,717.4
Net intangibles	46,766.6	45,844.3	44,832.0	43,729.7
Total investments	11,028.9	11,528.9	12,028.9	12,528.9
Other long-term assets	47,530.5	47,566.4	47,595.1	47,618.0
Total assets	**343,879.4**	**341,692.2**	**371,235.4**	**382,961.9**
Accounts payable	58,033.0	57,231.8	66,834.2	64,496.8
Short-term debt	22,772.4	5,458.3	7,529.1	8,764.6
Short-term lease liabilities	–	–	–	–
Other current liabilities	74,034.1	77,847.0	83,983.3	86,059.6
Total current liabilities	**154,839.5**	**140,537.0**	**158,346.6**	**159,320.9**
Long-term debt	15,633.1	20,174.9	22,645.7	23,881.1
Long-term lease liabilities	–	–	–	–
Other long-term liabilities	51,448.2	51,448.2	51,448.2	51,448.2
Total long-term liabilities	**67,081.3**	**71,623.0**	**74,093.9**	**75,329.3**
Total liabilities	**221,920.8**	**212,160.0**	**232,440.4**	**234,650.2**
Preferred shares	–	–	–	–
Total common equity	86,696.4	92,125.7	97,657.0	102,907.1
Minority interest	**35,262.3**	**37,406.4**	**41,138.0**	**45,404.7**
Total liabilities & equity	**343,879.4**	**341,692.2**	**371,235.4**	**382,961.9**
Net debt, adjusted	(19,384.3)	(20,093.2)	(24,287.2)	(86,855.7)

Cash Flow (Rmb mn)

	12/24	12/25E	12/26E	12/27E
Net income	11,403.3	13,559.9	15,785.8	17,477.0
D&A add-back	12,726.1	14,052.9	15,521.0	16,761.9
Minority interest add-back	(2,874.4)	(2,144.1)	(3,731.6)	(4,266.7)
Net (inc)/dec working capital	(5,647.5)	708.9	4,193.9	7,402.6
Other operating cash flow	10,486.7	3,567.4	7,221.8	7,891.8
Cash flow from operations	**26,094.1**	**29,745.0**	**38,991.0**	**45,266.6**
Capital expenditures	(7,359.8)	(10,100.0)	(10,100.0)	(10,100.0)
Acquisitions	(283.4)	–	–	–
Divestitures	79.2	–	–	–
Others	(21,347.0)	2,562.8	2,341.2	2,788.2
Cash flow from investing	**(28,911.0)**	**(7,537.2)**	**(7,758.8)**	**(7,311.8)**
Repayment of lease liabilities	–	–	–	–
Dividends paid (common & pref)	(7,983.4)	(8,130.6)	(10,254.5)	(12,227.0)
Inc/(dec) in debt	(8,801.1)	(12,772.4)	4,541.7	2,470.9
Other financing cash flows	(1,188.5)	(2,342.0)	(2,599.9)	(2,646.7)
Cash flow from financing	**(17,973.1)**	**(23,245.0)**	**(8,312.6)**	**(12,402.8)**
Total cash flow	**(20,789.9)**	**(1,037.1)**	**22,919.6**	**25,552.1**
Free cash flow	18,734.3	19,645.0	28,891.0	35,166.6

Source: Company data, Goldman Sachs Research estimates.

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Higher cycle peak engine volume, with better unit profitability

We believe the market has overly focused on the volume outlook for the heavy-duty truck (HDT) engine business, which used to be the most important earnings driver for Weichai historically, but has been overshadowed by truck electrification on top of a reduced mid-cycle HDT demand outlook domestically in this cycle. However, Weichai has already seen its 2024 engine net profit 23% higher vs. the previous cycle peak level (in 2021), against a 35% lower HDT industry sales volume and the 33% lower engine volume sold by Weichai (both vs. the peak level). **The underlying driver of this change, in our view, has been overlooked by the market** as Weichai has managed to double its engine unit net profit during this cycle, with **a structurally more profitable engine portfolio** (e.g. LNG HDT and large-bore). To put the numbers into context, we estimate that Weichai's unit net profit for an LNG HDT is 2-3x vs. that for a traditional diesel HDT engine while for large-bore, the difference can be up to 5-7x for general industrial applications and 40-60x for data center applications. **We model in this structural improvement in unit profitability**, ahead of the street, as we are turning increasingly more positive on the LNG HDT penetration in China and Weichai's large-bore engine business outlook facilitated by the rising data center applications. We estimate that these two applications will represent c.60% of Weichai's engine earnings by 2030E, vs. 40%+ in 2024, with volume contribution rising to c.45% from 30%.

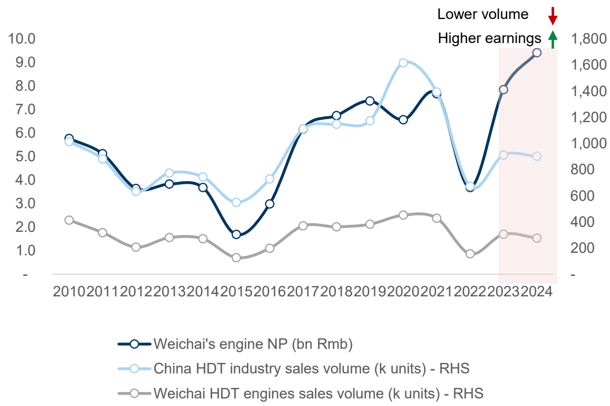
Moreover, despite a reduced HDT engine TAM outlook domestically, **we still expect Weichai to renew its peak engine sales volume during this cycle** (16% higher vs. the 2020 level), helped by 1) higher LNG HDT penetration; 2) Chinese HDT OEMs' export potential; 3) growth opportunities in large-bore engines, especially for the data center applications; and 4) off-highway machinery. As a result of these revisions, **we now expect Weichai to nearly double its engine net profit by 2030E vs. 2024, and see its peak engine earnings >1.4x higher than the previous cycle peak level.**

KION offers exposure to reviving capex outlook in Europe

Based on our conversations with investors, the market has previously viewed KION (KGX.DE, Coverage Suspended), the 47% owned intelligent logistics business subsidiary of Weichai (41%/11% of total revenue/net profit in 2024), as a drag to Weichai's earnings, given the weak capex outlook in Europe. We believe this perception is set to change, with the announcement of Germany's additional infrastructure investments (€400bn) and a likely turning fiscal tide in the broader Euro area (though with a defense-skewed focus). This should meaningfully improve the medium-term outlook for companies like Germany-based KION, the largest producer of industrial trucks in Europe (KION derives c.60% of its revenue from Western Europe), especially at a time when KION has unveiled its efficiency program (see our comment), which should position the company well for the capex recovery. While the one-off expenses relating to headcount optimization remain a near-term drag, we appear to have seen the end of a consensus earnings downgrade cycle for KION for 2026E/27E, with upward revision seen on margin assumptions as the benefit of the efficiency program kicks in. With amongst the highest European exposure in the broader China industrials space, **Weichai, in our view, offers Asia-based investors unique exposure to the reviving capex outlook in Europe.**

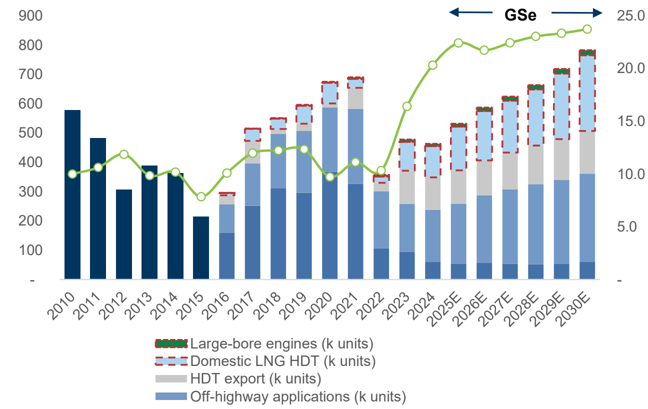
Key thesis in charts

Exhibit 1: The close correlation between Weichai's engine earnings and China's HDT sales volume has broken since 2023...
Weichai engine profit vs. sales volume of its engines and HDT industry



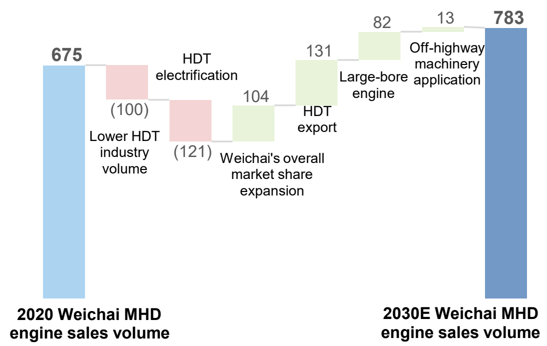
Source: CAAM, Company data

Exhibit 2: ...as Weichai has managed to double its engine unit net profit during this cycle, with a structurally more profitable portfolio
Weichai's MHD engine sales volume vs. unit net profit



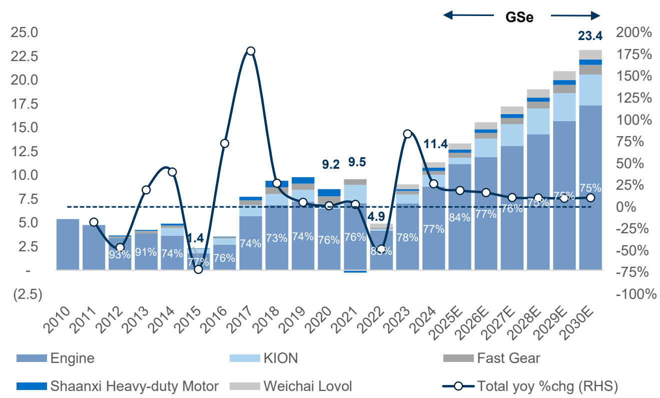
Source: CAAM, ThinkerCar, Company data, Goldman Sachs Global Investment Research

Exhibit 3: Despite reduced HDT engine TAM outlook, we still expect Weichai to renew its peak engine sales volume
Weichai's peak MHD engine volume (2030E vs. 2020, '000 units)



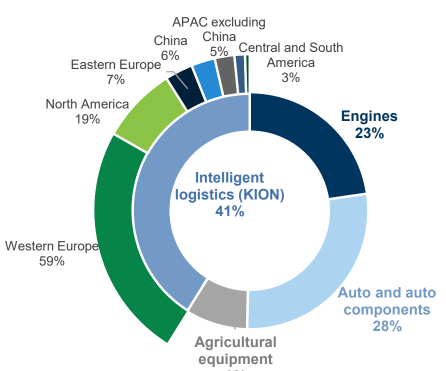
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 4: With higher unit net profit and peak volume, we expect Weichai to nearly double its engine net profit by 2030E vs. 2024
Weichai's net profit breakdown by business subsidiary (Rmb bn)



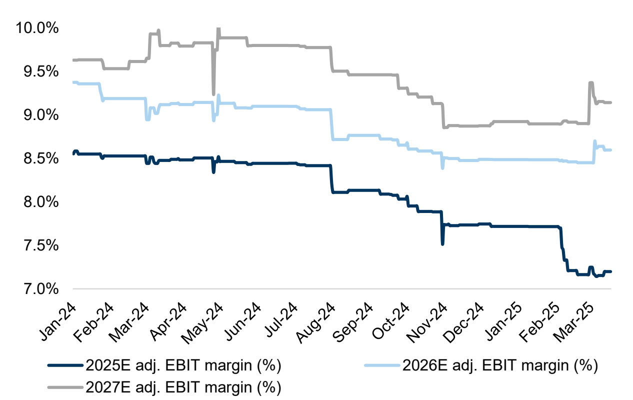
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 5: Weichai, in our view, offers Asia-based investors unique exposure to the reviving capex outlook in Europe via KION
Weichai's revenue breakdown by business segment and region (2024)



Source: Company data

Exhibit 6: Consensus earnings downgrade cycle for KION seems to have come to an end with some margin upgrades to 2026E-27E
Adj EBIT margin revision trend for KION since Jan-2024



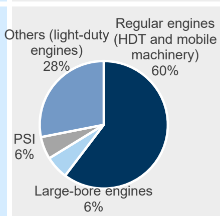
Source: Visible Alpha Consensus Data

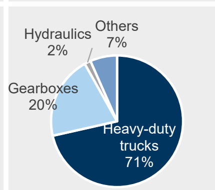
Company profile

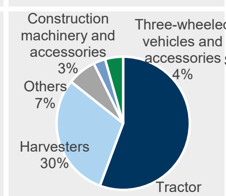
Exhibit 7: Summary table of Weichai business by segment

Segments	Engines	Auto and auto components	Agricultural equipment	Intelligent logistics	Group
Description	Manufactures and sells engines with applications across heavy-duty trucks, buses, off-highway machinery, industrial, power, marine, etc.	Manufactures and sells heavy-duty trucks and related components (incl. axles, gearboxes, hydraulic systems, etc.)	Manufactures and sells agricultural equipment and related accessories. Products include tractors, harvesters, sowing machines, forage machines, etc., covering all aspects of agricultural production	Provides smart logistics solutions (including forklift and services) for factories, warehouses and distribution centers	
Major brands/subsidiaries	**Major brands**: Weichai, Weichai Yangzhou Diesel **Major subsidiaries**: PSI (51% owned), Aradex (97% owned), Baudouin (100% owned)	**Major subsidiaries:** **Auto:** Shaanxi HD Auto (51% owned), FTBCI **Auto components:** Fast Gear (51% owned), Hande Axle (97% owned), Linde Hydraulics (100% owned), Torch Spark Plug (70% owned), VDS (51% owned)	**Major subsidiaries:** Weichai Lovol (61% owned)	**Major brands:** **Supply chain solution**: Dematic **Forklifts**: Linde, STILL, Fenwick, OM STILL, Baoli, Voltas, Egemin Automation **Major subsidiaries**: KION (47% owned)	
Competitors	**Domestic competitors**: Sinotruk, Guangxi Yuchai, FAW Wuxi Diesel **Overseas competitors**: Daimler, Cummins, MAN, DEUTZ, Perkins	**Domestic competitors**: FAW, Foton, Dongfeng, Sinotruk **Overseas competitors**: Volvo, Daimler, Iveco, Paccar, Isuzu, MAZ, Scania, Kamaz	**Domestic competitors:** First Tractor, Xinjiang Machinery, World Agricultural Machinery **Overseas competitors**: Deere, Toro, Escorts Kubota, Case IH, Yanmar, Lindsay	**Domestic competitors:** Hangcha, Anhui Heli **Overseas competitors**: Hyster-Yale, Jungheinrich, Manitex, Toyota Industries	
Sales Split (2024)	22.7%	27.7%	8.5%	41.1%	
GPM (2024)	25.6%	16.0%	13.3%	26.9%	22.4%
Adj. EBIT Split - before inter-segment elimination (2024)	65.3%	0.2%	4.2%	34.3%	
Adj. EBITM (2024)	16.6%	0.1%	3.4%	5.8%	7.0%
NPAT Split (2024)	77.4%	6.8%	5.0%	10.9%	

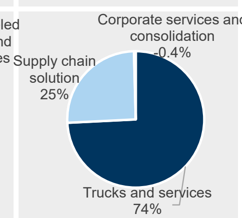
Product Split (2024)



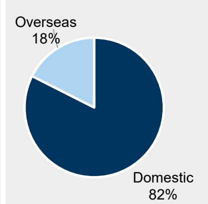


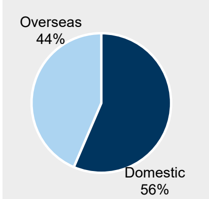


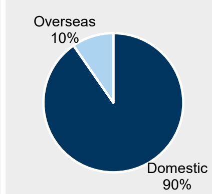
*1H23 data

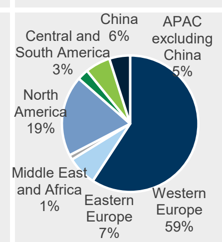


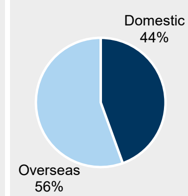
Sales by regions (2024)











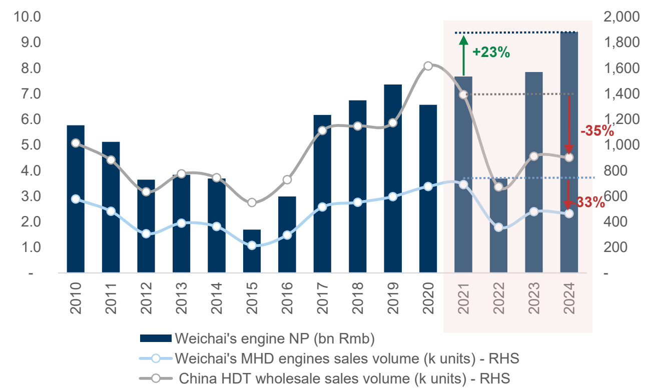
Source: Company data, Goldman Sachs Global Investment Research

Core engine business looks substantially undervalued

Improving earnings power cycle-over-cycle underappreciated

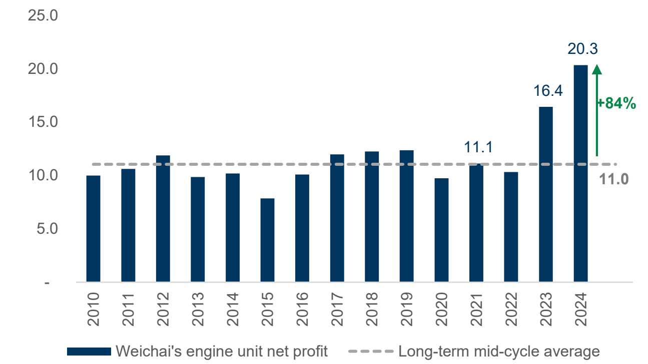
While we share the prevailing market consensus view that the HDT engine TAM for Weichai will likely contract ahead as peak domestic HDT volume is unlikely to revert to the previous cycle peak (see in 2020) and truck electrification will further erode the diesel engine TAM, we believe the market may have underestimated Weichai's improving earnings power cycle-over-cycle despite these headwinds.

Exhibit 8: Weichai 2024 engine net profit was 23% higher vs. the previous cycle peak, against a 35% lower HDT industry sales volume and a 33% lower engine volume sold by Weichai
Weichai engine NP trends vs. Weichai medium-to-heavy-duty sales volume (RHS) and industry HDT sales volume trends (RHS)



Source: CAAM, Company data, Goldman Sachs Global Investment Research

Exhibit 9: Weichai's engine unit net profit has reached Rmb20k in 2024, 84% higher than the long-term mid-cycle average
Weichai's engine unit net profit vs. long-term mid-cycle average (k Rmb/unit)

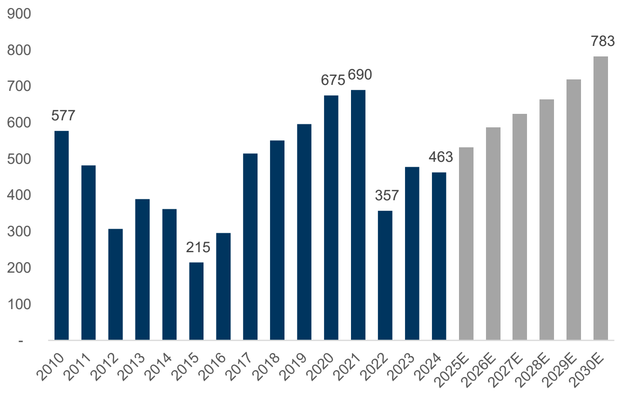


Source: Company data, Goldman Sachs Global Investment Research

In fact, in 2024, Weichai's core engine business (mainly medium-to-heavy-duty models) was able to generate a net profit scale that is already 23% above the peak level seen in the previous industry upcycle, with China's total HDT sales volume -35% below the previous peak and Weichai's own medium-to-heavy-duty engines -33% lower than the previous peak (Exhibit 8). This is because Weichai has managed to significantly improve its engine unit margin by 83% to Rmb20,000+/unit vs. its historical mid-cycle average level of Rmb11,000/unit based on our estimates (Exhibit 9), through consistent cost optimization, pricing tailwinds from emission standard upgrades, and most importantly, a structurally more profitable engine portfolio, with the rise of LNG engines (GSe: 23% of Weichai's medium-to-heavy duty engine sales volume in 2024) and large-bore engines (GSe: 2% of volume but 9% of engine net profit), which yield unit margins multiple times higher than those of its traditional diesel engines.

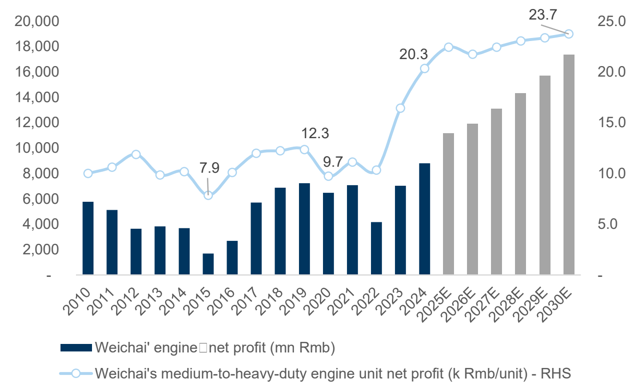
Looking ahead, as domestic cycles for both HDT (see our note) and construction machinery (see our note) are turning more favorable driven by replacement and these tailwinds/drivers remain, our bottom-up engine segment P&L build-up points to a higher peak volume (13% higher vs. the previous peak) through this cycle (Exhibit 10) together with a projected unit net profit further improved to a level that is 2.2x vs. the company's long-term mid-cycle average. This has led up to our projection of a peak engine net profit at 1.4x higher in this cycle vs. the previous peak (Exhibit 11).

Exhibit 10: We expect Weichai's MHD engine sales volume in 2030E to increase by 69% vs. 2024 volume, 13% higher than previous cycle peak...
Weichai's medium-to-heavy-duty engine sales volume (2010-2030E), k units



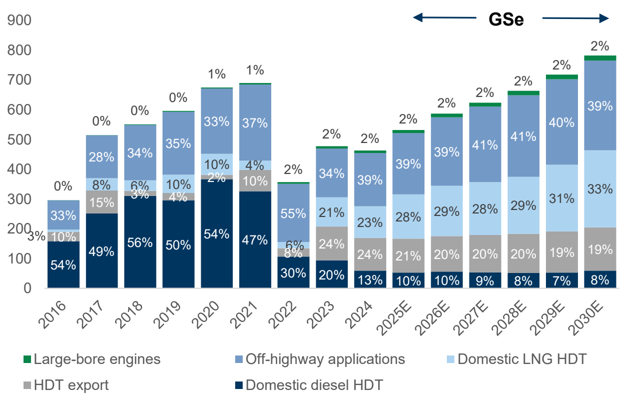
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 11: ...with net profit 1.4x previous cycle peak and unit net profit increasing to c.Rmb24k
Weichai's parentco's net profit and medium-to-heavy-duty engine's unit net profit (RHS), 2010-2030E



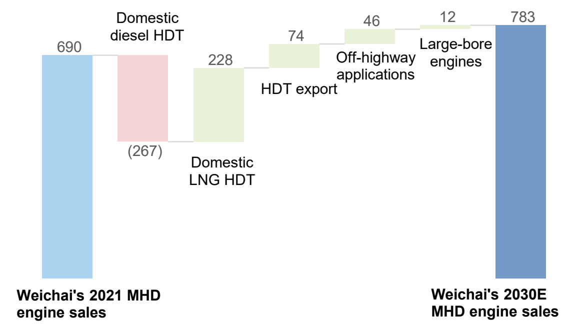
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 12: We expect to see increasing sales contribution from LNG, large-bore and off-highway applications, which combined will represent 74% of total volume in 2030E (vs. 63% in 2024)...
Weichai's medium-to-heavy-duty engine sales volume (2016-2030E) breakdown by application (k units)



Source: Company data, Goldman Sachs Global Investment Research, ThinkerCar

Exhibit 13: ...more than offsetting the decline in diesel HDT engine sales
Weichai's 2030 medium-to-heavy-duty engine sales volume vs. 2021 volume with change breakdown by application (k units)

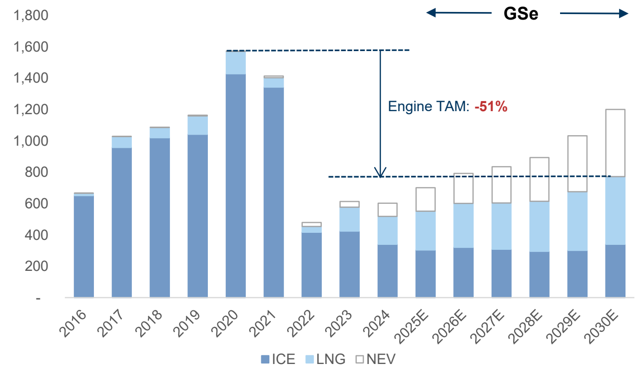


Source: Company data, ThinkerCar, Goldman Sachs Global Investment Research

Driver #1: The rise in LNG HDT and export a significant offset to truck electrification

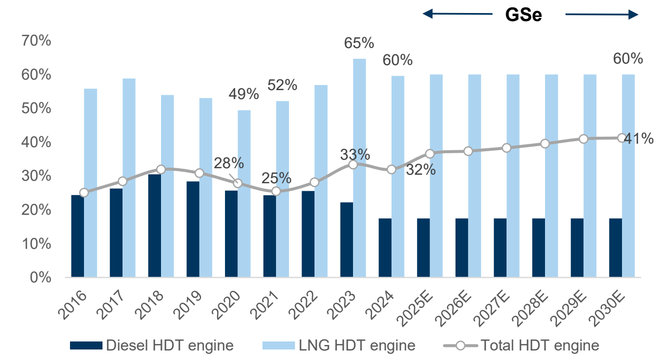
With the inclusion of LNG HDTs in the scope of subsidies under the 2025 truck replacement policy (see our comment) and the LNG/diesel price spread likely to support favorable return economics for LNG HDT adoption, we are turning more optimistic about the penetration outlook for LNG, now expecting LNG penetration in China to reach 36% by 2030E (see our industry note). Weichai is likely to be an outsized beneficiary of the rising LNG HDT penetration in China given the company's dominant position in LNG engine (at 60% vs. <20% in the domestic diesel HDT engine market).

Exhibit 14: We expect domestic HDT engine TAM to see 51% decline in volume by 2030E vs. previous cycle peak due to the accelerating electrification
China HDT domestic sales volume breakdown by powertrain (2016-2030E), k units



Source: ThinkerCar, Goldman Sachs Global Investment Research

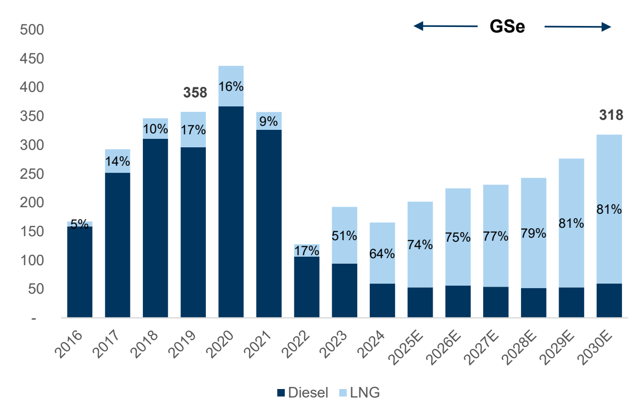
Exhibit 15: We expect Weichai to see total market share increase to 41% by 2030E, vs. 28% in 2020, thanks to higher penetration of LNG HDT where Weichai has a dominant engine market position
Weichai's HDT engine market share domestically



Source: ThinkerCar, Goldman Sachs Global Investment Research

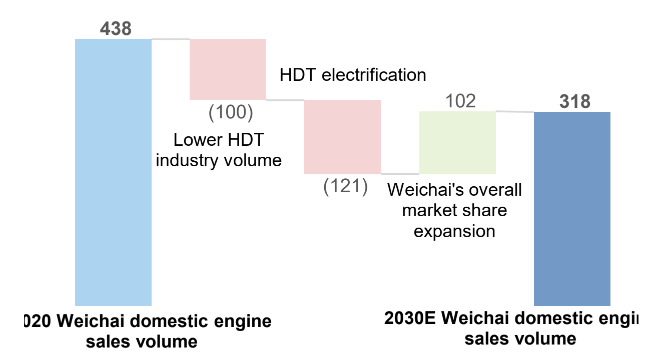
Domestically, we expect lower HDT industry sales volume and truck electrification to drive an HDT engine volume TAM contraction of c.800k units by 2030E (vs. 2020), and correspondingly an engine volume loss of 222k units (or down 51% vs. 2020) for Weichai, if Weichai maintains the same overall HDT engine market share (i.e. 28% in 2020) as the previous cycle peak. However, with the rising LNG penetration (to 36% by 2030E vs. 9% in 2020) and Weichai's successful market share expansion in this segment (now to 60% in 2024 vs. 49% in 2020), we expect Weichai's overall HDT engine market share to improve to 40%+ by 2030 vs. <30% in 2020 (Exhibit 15). This drives our projection of a 27% fall in Weichai's domestic HDT engine sales volume (Exhibit 17) at peaks cycle over cycle (2030E vs. 2020), much more resilient compared to the 51% shrinking in TAM (volume terms) during the same period (Exhibit 14).

Exhibit 16: We expect Weichai's domestic HDT engine sales volume contribution from LNG engines to increase to 80%+ by 2030E, vs. 64% in 2024 and 16% in 2020
Weichai's domestic HDT engine sales volume split by diesel and LNG (k units)



Source: ThinkerCar, Goldman Sachs Global Investment Research

Exhibit 17: We expect Weichai's domestic HDT engine sales volume to see 27% decline by 2030E vs previous cycle peak, with reduced HDT engine volume TAM partially offset by higher overall market share as LNG penetration continues to rise
Weichai's domestic HDT engine sales volume change (2030E vs. 2020) breakdown by key drivers (k units)



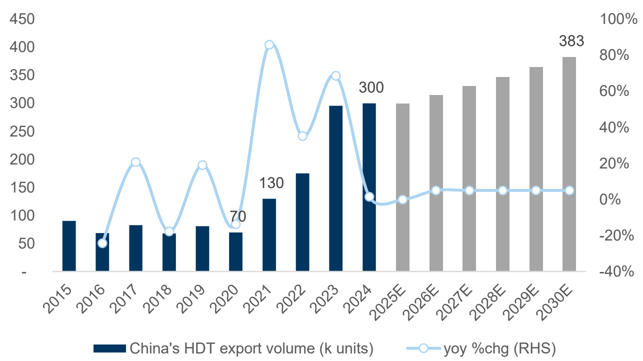
Source: ThinkerCar, Company data, Goldman Sachs Global Investment Research

Moreover, we expect Weichai to benefit from Chinese HDT OEMs' increasing competitiveness in the export market, which now represents 32% of China's total HDT industry sales volume (in 2024 vs. 4% in 2020). We project China's HDT export volume to grow at +5% p.a. over 2026E-30E, after a pause in 2025E due to inventory destocking and demand normalization in the CIS region (32% of China's HDT export volume in 2024). By 2030E, we expect China will export 383k units of HDTs (Exhibit 18), substantially higher than the 70k units exported in the previous cycle peak (2020).

Sinotruk (Weichai's sister company) and Shaanxi Heavy-Duty Auto (51% owned subsidiary of Weichai) are the two largest Chinese HDT exporters, which combined account for 63% of China's total HDT exports as of 2024 (Exhibit 19). Both companies have primarily sourced engines from Weichai.

Exhibit 18: China's HDT export volume has seen accelerated growth since 2020 (2020-2024 CAGR of +44%), now representing 32% of the total industry sales volume of HDTs

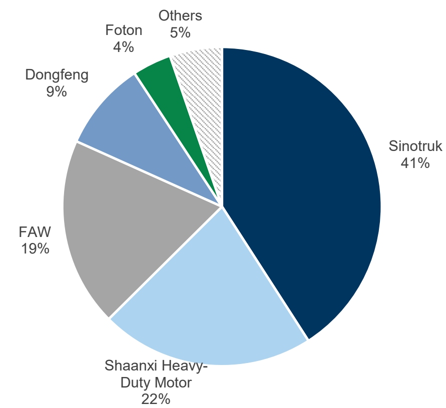
China's HDT export volume and yoy chg% (RHS), 2015-2030E



Source: CAAM, ThinkerCar, Goldman Sachs Global Investment Research

Exhibit 19: Sinotruk and Shaanxi Heavy-Duty Motor (both of which have primarily sourced engines from Weichai) are the two largest Chinese HDT exporters, with a combined volume share of 63% in China's HDT exports in 2024

China's HDT export volume breakdown by OEMs (2024)

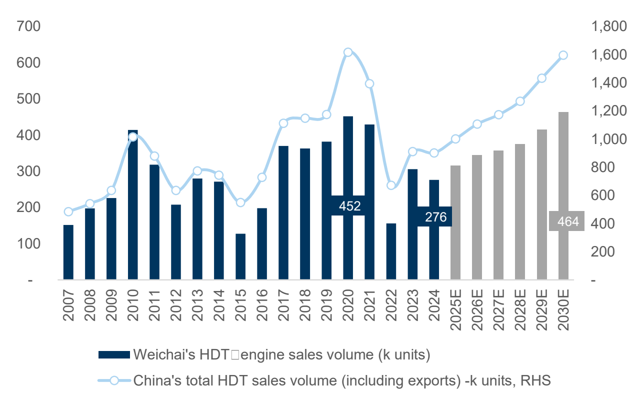


Source: CAAM

Putting together these two drivers - i.e. the rising LNG penetration in HDTs and HDT export potential, we expect Weichai to sell 3% more HDT engine volume by 2030E vs. the previous cycle peak (Exhibit 20 and Exhibit 21).

Exhibit 20: We expect Weichai to sell 3% more HDT engine volume by 2030E vs. previous cycle peak helped by rising LNG penetration in HDTs and HDT export potential...

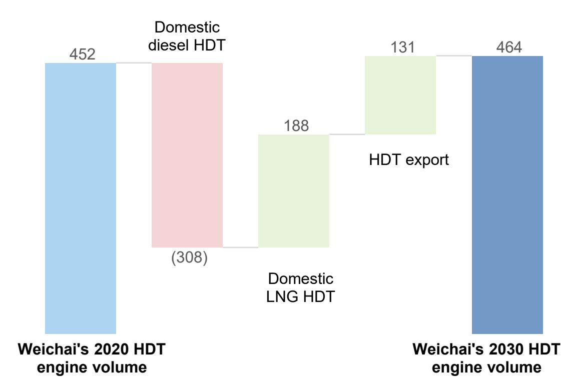
Weichai's HDT engine sales volume and China's total HDT sales volume (including exports, RHS), 2005-2030E



Source: CAAM, Company data, Goldman Sachs Global Investment Research

Exhibit 21: ...offsetting the decline in domestic engine sales

Weichai HDT engine volume 2030 vs. 2020 with change breakdown by powertrain and region (k units)



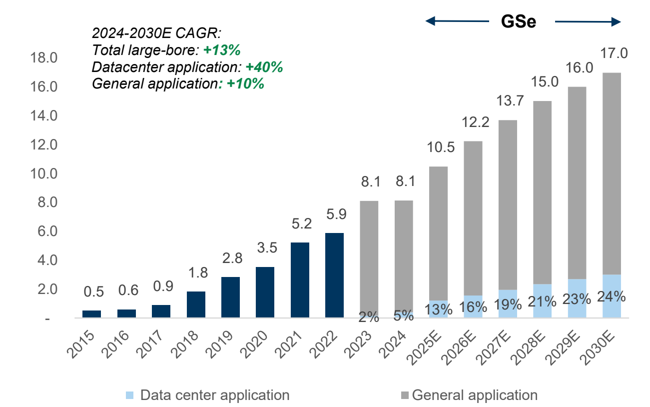
Source: ThinkerCar, CAAM, Company data, Goldman Sachs Global Investment Research

Driver #2: Large-bore engine to emerge as meaningful growth driver

Large bore engine is not new – Weichai has been developing this niche yet high barrier-to-entry segment for over a decade and the segment remains one of the six pillars of Weichai's medium-to-long-term strategy as laid out by the Chairman at the latest analyst briefing (see our takeaway note). We estimate the business currently accounts for 2% of its medium-to-heavy-duty engine sales volume, but 9% of its MHD engine revenue/net profit due to much higher ASP (Exhibit 23) and unit profitability vs. regular diesel engines. With tight global supply of diesel engines used for power gensets (see our trip takeaway note, and also reaffirmed during our latest conversation with Yuchai – Weichai's local competitor in this segment) and Weichai's high bidding success rate in domestic data center (60% as shared by management), we believe Weichai is well positioned to capture the growing demand for large-bore engines used in data center (Exhibit 24) on the back of rising data center investments globally (Exhibit 24).

Exhibit 22: We project a +40% volume CAGR in large-bore engines for data center application over 2024-30E, which together with a +10% volume CAGR in general industrial application, leads to a +13% volume CAGR for the overall large-bore engine segment

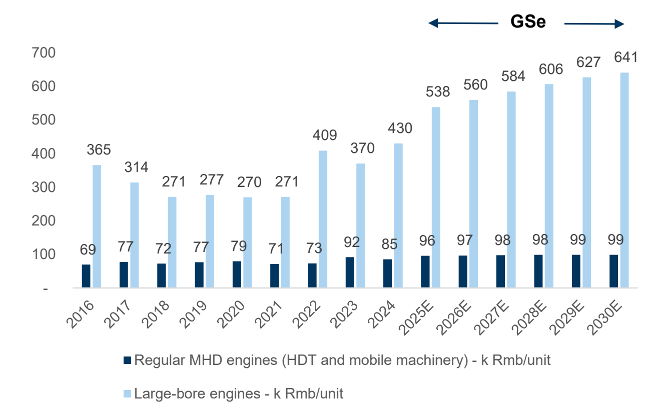
Large-bore engine volume breakdown by data center application and general application (2015-2030E), k units



Source: Company data, Goldman Sachs Global Investment Research

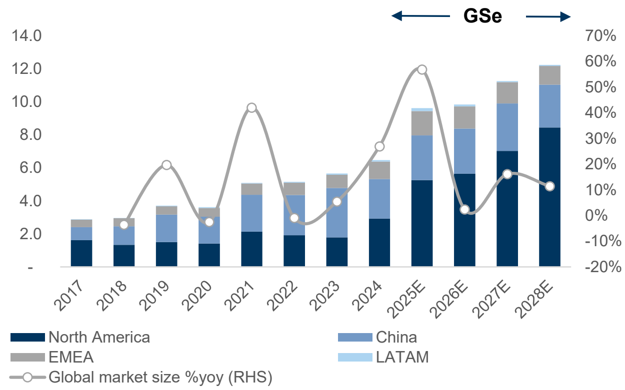
Exhibit 23: ASPs for large-bore engines on average are much higher compared to those for regular MHD engines

ASP comparison - Regular vs. large-bore engines (2015-2030E), k Rmb/unit



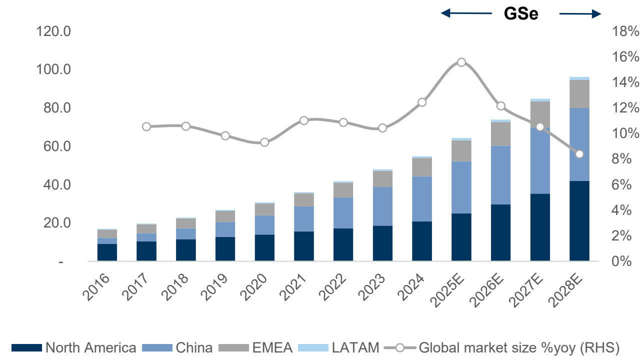
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 24: We believe Weichai is well positioned to capture the growing demand for large-bore engines used in data center...
Global diesel engine for DC-use market size (k units) by region, and total yoy chg% (RHS)



Source: 451 Research - part of S&P Global Market Intelligence, Goldman Sachs Global Investment Research

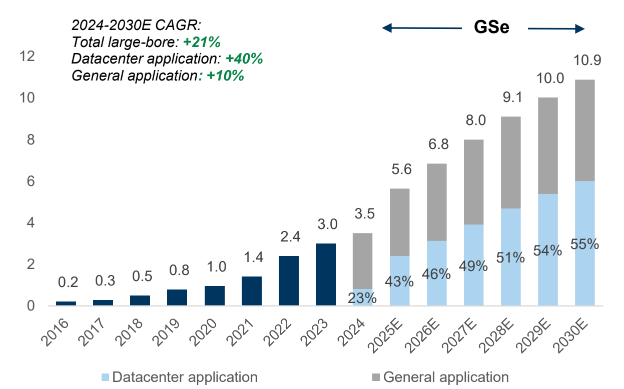
Exhibit 25: ...on the back of the rising data center investments globally
Global datacenter market size (TW) by region, and total yoy chg% (RHS)



Source: 451 Research - part of S&P Global Market Intelligence, Goldman Sachs Global Investment Research

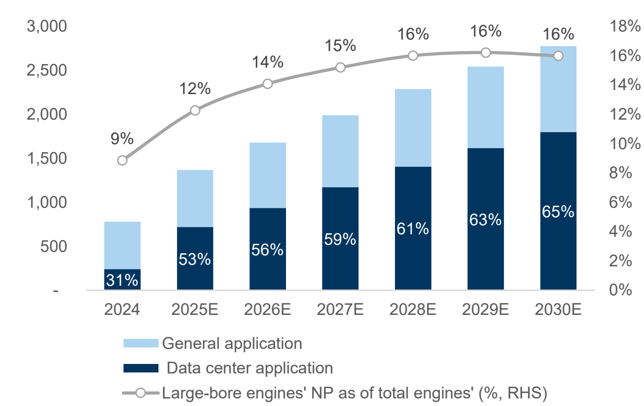
Looking ahead, we project a +40% volume CAGR in large-bore engines for data center application over 2024-30E, which together with a +10% volume CAGR in general industrial applications, leads to a +13% volume CAGR for the overall large-bore engine segment (Exhibit 22). We forecast a higher revenue CAGR +21% (Exhibit 26) due to much higher ASP for the data center application (we estimate 5-6x on average vs. that for general industrial applications), which will likely account for 55% of the segment's sales and 65% of net profit by 2030E. By 2030E, we estimate large-bore engines will contribute 16% of Weichai's net profit (Exhibit 27) for the engine segment (vs. <10% in 2024).

Exhibit 26: We expect the large-bore engine sales revenue to reach Rmb10.9bn by 2030E (6-yr CAGR of +21%), with datacenter application engines contributing more than half of the sales (vs. 23% in 2024)...
Large-bore engine sales revenue breakdown by data center application and general application (2015-2030E), bn Rmb



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 27: ...and 65% of total large-bore engines NP which we expect to account for 16% of Weichai's total engines NP by 2030E
Large-bore engine net profit (mn Rmb) breakdown by data center application and general application, and the contribution to total engine net profit (RHS), 2024E-2030E

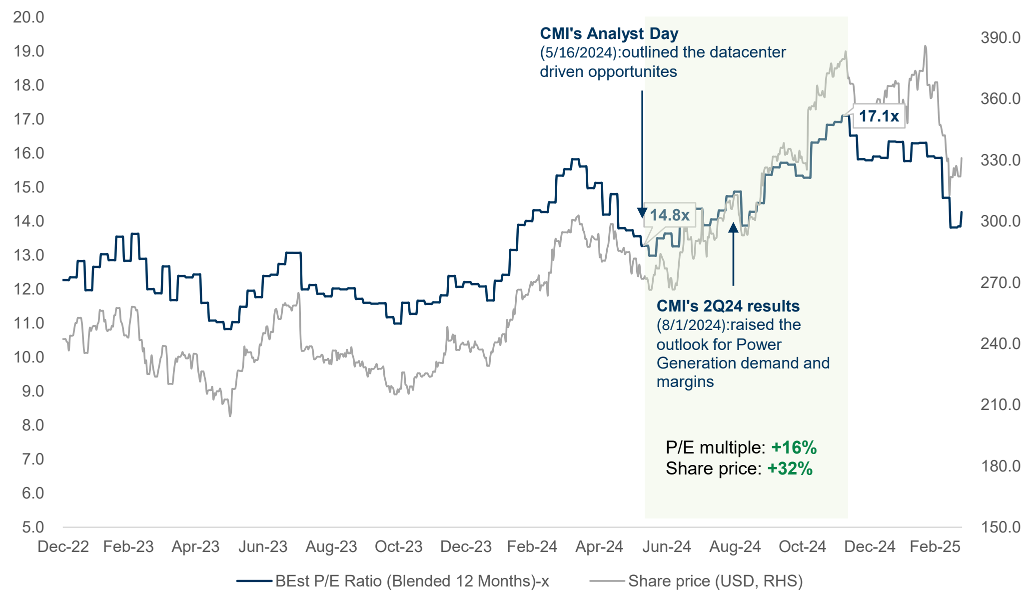


Source: Company data, Goldman Sachs Global Investment Research

Interestingly, Weichai's closest global peer – Cummins (CMI, Neutral, covered by Jerry Revich), also one of the largest power genset suppliers globally, saw a notable rerating, from c.15x fwd P/E to as high as ~17x (Exhibit 28), after the company outlined the data center opportunities (currently ~20% of its EBITDA, estimated by our US Machinery team) at its Analyst Day (see takeaway note from our US team) and subsequently raised its outlook for power genset demand and margins post 2Q24 results (see our US team's comments). As the engine earnings contribution from data center becomes more visible, we would expect a potentially similar rerating for Weichai.

In fact, as management guides for a tripling in shipment units for large-bore engines for data center applications in 2025E, we estimate a c.5% increment to earnings from this business.

Exhibit 28: Cummins was rerated on the back of the raised outlook for power genset business
Cummins share price vs. 12m fwd P/E



Source: Bloomberg, Goldman Sachs Global Investment Research

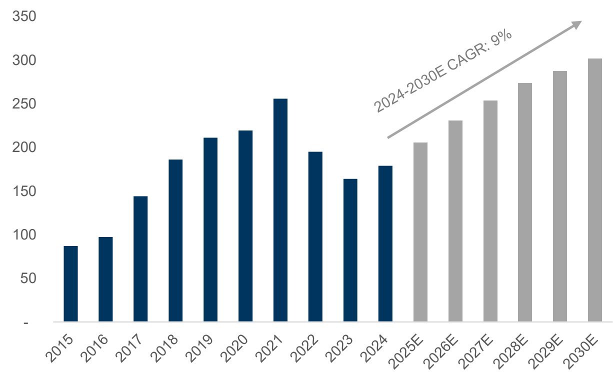
Driver #3: Off-highway machinery to drive further upside

We estimate that off-highway machinery (including agricultural equipment and construction machinery) accounted for c.40% of Weichai's MHD engine portfolio (volume wise) in 2024. During the recent industry downcycle for construction machinery, we have seen more resilient engine sales volume from Weichai, down -19% from the peak, vs. -63% fall for the construction machinery industry. This indicates a consistent engine market share expansion.

As the cycle inflected positively in 2024 and we project a replacement-driven upcycle for the construction machinery industry (Exhibit 30), we expect a more promising engine outlook for Weichai's off-highway machinery applications as Weichai focuses on improving its engine market share in the more profitable excavator application (especially for medium-to-large-sized models), where it only has 10% market share vs. 70-80% for wheeled loaders. We project a volume CAGR of +9% over 2024-30E (Exhibit 29), on the back of the industry upcycle and Weichai's market share expansion. A successful breakthrough in the excavator application could also help drive further upside to Weichai's engine unit margin.

Exhibit 29: We expect Weichai's engine sales volume into off-highway machinery applications to grow at CAGR of 9% over 2024-30E...

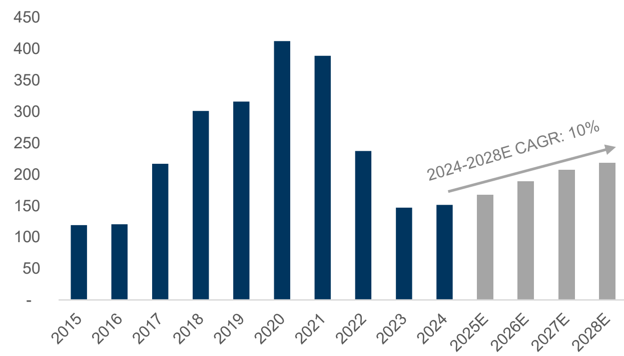
Weichai off-highway machinery engine sales volume (2015-2030E), k units



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 30: ...as the construction machinery industry cycle turns upwards driven by replacement

China construction machinery sales volume (2015-2028E), k units

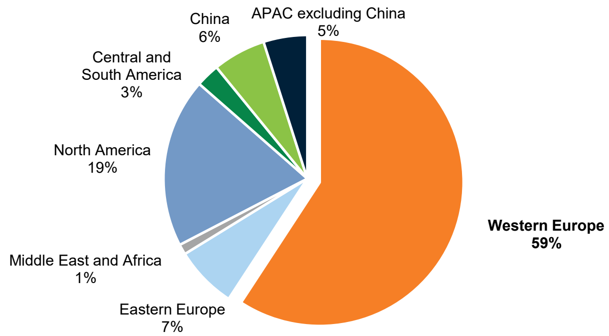


Source: Off-Highway Research, Goldman Sachs Global Investment Research

European exposure could turn from headwind to tailwind

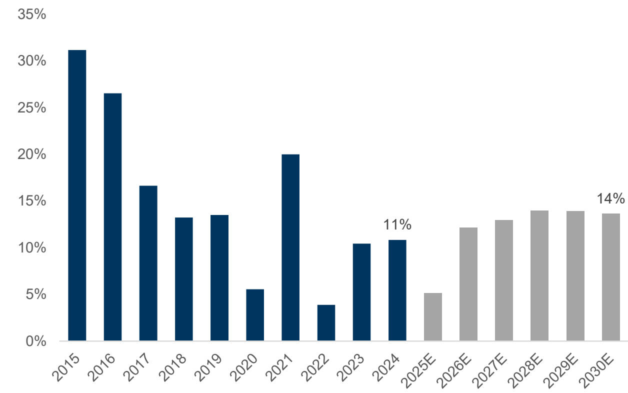
In addition to the improving earnings outlook for Weichai's core engine business, we highlight that Weichai's largest revenue contributor (40%+ of total sales in 2024) and second-largest earnings contributor (11% of net profit, Exhibit 32) - the intelligent logistics business, which the company operates via its 47%-owned subsidiary KION (KGX.DE, Coverage Suspended) - is also set to see a turnaround in medium-term outlook, on the back of the announcement of Germany's additional infrastructure investments (€400bn) and a likely turning fiscal tide (per our economists) in the broader Euro area (though with a defense-skewed focus) as well as the company's self-help efforts through the efficiency program (see our comment). KION, as the largest producer of industrial trucks in Europe and headquartered in Germany, derives c.60% of its revenue from Western Europe (Exhibit 31) and is well positioned for any capex recovery in Europe.

Exhibit 31: KION derives c.60% of its revenue from Western Europe
KION's 2024 revenue breakdown by region/geography



Source: Company data

Exhibit 32: KION is the second largest earnings contributor to Weichai, representing 11% of total in 2024
KION's net profit contribution to Weichai (%)

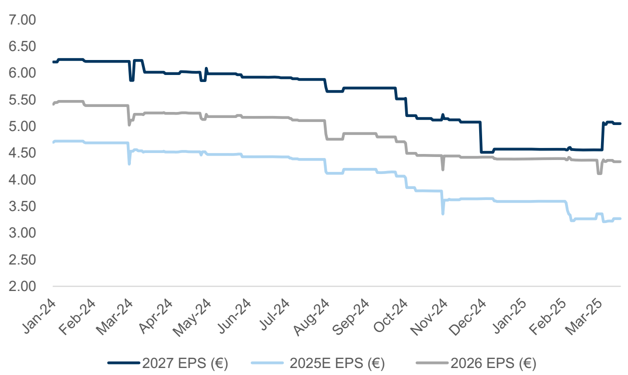


We use consensus earnings forecasts for KION

Source: Company data, Goldman Sachs Global Investment Research, Visible Alpha Consensus Data

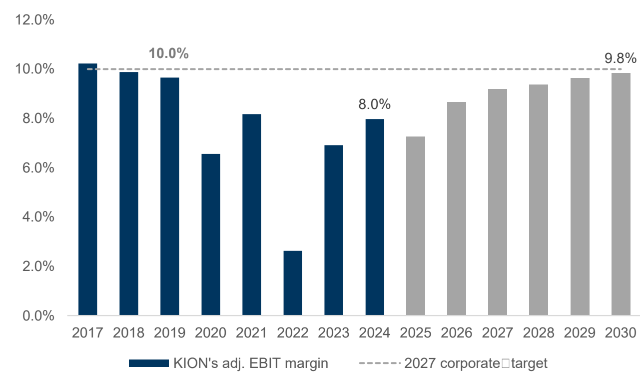
While the one-off expenses (€240-260mn) relating to headcount optimization remain a near-term drag (to be booked in 1Q25), we believe the consensus earnings downgrade cycle seems to have come to an end, with some upgrades to 2026E-27E EPS recently (Exhibit 33) as the benefit of the efficiency program kicks in (management aims to improve its adj. EBIT margin to 10% by 2027 for both the group level and segments, Exhibit 34).

Exhibit 33: The consensus earnings downgrade cycle seems to have come to an end, with some upgrades to 2026E-27E EPS recently...
KION's EPS revision trend based on Visible Alpha Consensus (2025E vs. 2026E vs. 2027E)



Source: Visible Alpha Consensus Data

Exhibit 34: ...as the benefit of the efficiency program kicks in, with which management aims to improve its adj. EBIT margin to 10% by 2027 for both the group level and segments
KION's adj. EBIT margin trend (2017-2027E) vs. 2027 corporate target

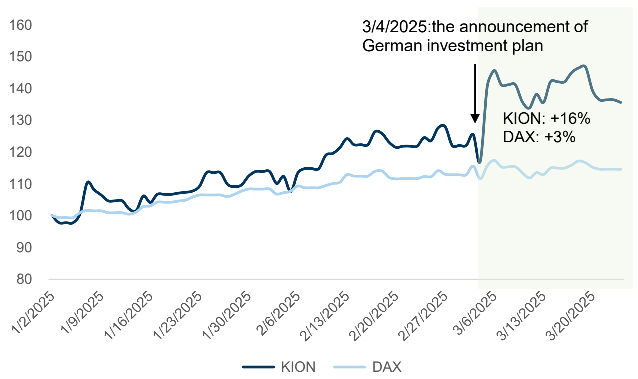


We use consensus earnings forecasts for KION

Source: Company data, Visible Alpha Consensus Data

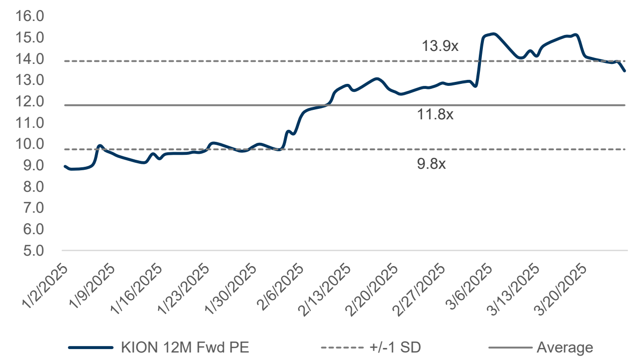
KION's share price has rallied +16% (Exhibit 35) since the initial announcement of the investment plan by the German government (vs. DAX: +3%), driven by a notable rerating (Exhibit 36).

Exhibit 35: KION's share price has rallied by +16% since the announcement of the German investment plan (vs. DAX of 3%)...
Share price performance of KION vs. German equity market index in 2025 (indexed to 100)



Source: Refinitiv Eikon

Exhibit 36: ...with forward P/E multiple up to around 14x from 9x at the beginning of the year
KION P/E multiple trend in 2025



Source: Bloomberg

Earnings revisions and valuation

Incorporating the 2024 results, the latest guidance, the improved HDT industry outlook, the latest consensus estimates for KION, and our differentiated bottom-up engine segment P&L build-up detailed above, we raise our 2025E-27E EPS estimates by 16-21% (now 6-18% ahead of the Visible Alpha consensus estimates, Exhibit 37) and introduce our 2028E-30E estimates (10-11% EPS growth projected).

Exhibit 37: We raise our 2025E-27E EPS estimates by 16-22%, now 6-18% ahead of the Visible Alpha Consensus estimates. Our 12-m P/E-based TP is increased to HK$22.00/Rmb24.00 (from HK$14.61/Rmb16.30).
Summary of earnings and TP revisions

	Target Price (RMB/HKD per share)	Revenue 2025E	2026E	2027E	Net profit 2025E	2026E	2027E	EPS 2025E	2026E	2027E
Weichai Power (000338.SZ/2338.HK)		mn Rmb			mn Rmb			Rmb		
Gse (New)	**RMB 24.00/HKD 22.00**	**234,141**	**253,951**	**269,926**	**13,560**	**15,786**	**17,477**	**1.55**	**1.81**	**2.00**
Gse (Old)	RMB 16.30/HKD 14.61	222,876	239,493	258,215	11,692	13,086	14,437	1.34	1.50	1.65
% diff	*47%/51%*	*5%*	*6%*	*5%*	*16%*	*21%*	*21%*	*16%*	*21%*	*21%*
Visible Alpha Consensus		236,350	253,054	275,923	12,756	14,364	14,866	1.46	1.65	1.71
% diff		*-1%*	*0%*	*-2%*	*6%*	*10%*	*18%*	*6%*	*10%*	*17%*

Source: Visible Alpha Consensus Data, Goldman Sachs Global Investment Research

As a result of the earnings upgrade, improving engine earnings prospects cycle-over-cycle, and more promising medium-term outlook for KION, we lift our target P/E from previously below-mid-cycle (11x) at 10x to now above-mid-cycle at 13x. We believe the higher multiple is justified given KION is below its normalized earnings level due to the one-off expenses as part of its efficiency program while we are still at the early stage of a multi-year replacement-driven upcycle for both HDT and construction machinery. Compared to the time of our initiation, we now have higher conviction around Weichai's ability to navigate the truck electrification trend.

The 13x 2025E P/E implies 12.5x mid-cycle earnings (Rmb14bn+), 10%+ higher than its long-term mid-cycle average, justifiable given we expect through-cycle average net margin to be 10% higher compared to the historical cycles.

Our SoTP valuation cross-check suggests higher upside if the market were to value Weichai's business segments on a separate basis, benchmarking to their closest listed peers or using market value (for KION).

Exhibit 38: Our SoTP valuation cross-check indicates further upside

Weichai SoTP valuation summary

	Weichai's equity stake (%)	2025E Revenue	*yoy chg%*	% of total	2025E NP (ex-MI)	% of total	*yoy chg%*	Target P/E (x)	Implied market value
Engines (发动机)									
Weichai parentco (潍柴本部)	100.0%	50,823	29%	22%	**11,152**	82%	27%	13.5x	**150,557**
Auto and auto components (汽车及零部件)									
Shaanxi Heavy-Duty Motor (陕西重汽)	51.0%	50,149	13%	21%	**347**	3%	-6%	10.0x	**3,473**
Shaanxi Fast Gear (法士特)	51.0%	15,185	20%	6%	**504**	4%	26%	15.0x	**7,563**
Agricultural equipment (农业装备)									
Weichai Lovol (潍柴雷沃)	61.1%	19,342	11%	8%	**652**	5%	15%	10.0x	**6,519**
Intelligent logistics (智慧物流)									
KION (凯傲)	46.5%	86,227	-3%	37%	**698**	5%	-43%	30.9x	**21,596**
Total market capitalization (Rmb mn)									**189,708**
Total # of shares outstanding (mn shares)									8,727
CNY/HKD exchange rate									1.09
SoTP implied valuation (HK$/share)									**23.7**
Current share price (HK$/share)									16.8
Upside/downside potential to TP									**41%**

1) We use 10-year average P/E multiple of the closest listed peer for Weichai's engine, truck, auto component and agricultural equipment segments; 2) For intelligent logistics, we use KION's trading market value (as of March 31, 2025); 3) For peer selection, we use Cummins, Sinotruk and First Tractor as the peers for engine, truck and agricultural equipment business, given the comparable business portfolio and market positions. We use average P/E from the listed Chinese auto component peer group to value Weichai's auto component segment.

Source: Company data, Goldman Sachs Global Investment Research

Investment Thesis, Price Target Risks and Methodology

Investment Thesis - Weichai Power

Weichai Power is China's largest manufacturer of internal combustion engines, with c.18% of volume market share in China's diesel engine segment, with key verticals across commercial vehicle (mainly heavy-duty trucks), construction machinery, agricultural equipment, marine and power generation. In addition to the engine business, Weichai has also managed to build a diversified business portfolio over the years that spans across **1) complete vehicles and auto components**, primarily through its 51% owned subsidiary Shaanxi Heavy-duty Motor (China's third largest heavy-duty truck producer) and 51% owned subsidiary Fast Gear (China's largest manufacturer of gear boxes); **2) agricultural equipment** which is operated under its 61.1% owned subsidiary Weichai Lovol - China's leading agricultural equipment manufacturer; and **3) intelligent logistics** (mainly sales of industrial trucks and supply chain solution) through its 46.5% owned subsidiary KION (KGX.DE, Coverage Suspended), which is the second largest producer of industrial trucks globally and the largest provider of supply chain solutions globally.

Our Buy thesis on both the A- and H-shares is built around our positive view on the cyclical outlook for heavy-duty trucks (HDTs) as supply/demand rebalances, stronger through-cycle profitability on the back of a structurally more profitable engine portfolio (e.g., LNG and large-bore), and Weichai's European capex exposure via KION likely turning from headwinds to tailwinds. The long-term overhang from truck electrification has dominated our discussions with investors on the stock valuation, but we believe that Weichai's stronger cycle-over-cycle earnings prospects (very rare within our China machinery coverage) have been underappreciated by the market. This differentiates our view, as our long-term earnings projection has modeled in higher peak engine sales volume and a unit net profit >2x vs. its long-term average. Moreover, we also expect a robust FCF profile (~15-25% yield over 2025E-27E), which along with a strong net cash position (c.1/4 of Weichai's market cap) should lead to increasing payouts (+5ppt p.a. towards 70% GSe), further enhancing shareholder return. We see rerating potential and rate both Weichai Power's A- and H-shares at Buy.

Price Target Risks and Methodology - Weichai Power

Valuation: We value Weichai's H-share at a 13x 2025E P/E (12-m TP at HK$22.00/share), above its long-term mid-cycle average of 11x, to reflect the earnings upgrade, improving engine earnings prospects cycle-over-cycle, and a more promising medium-term outlook for KION. For the A-share, we apply a 19% premium to the H-share equity value, in line with the 6-month average A/H premium, leading to a 12-m target price of Rmb24.00/share.

Key risks: 1) slower-than-expected macro activity, particularly in road freight, infrastructure and property; 2) weaker-than-expected global economic growth; 3) powertrain shift to higher electrification penetration; 4) unfavorable change in Sinotruk's engine sourcing arrangement.

Disclosure Appendix

Reg AC

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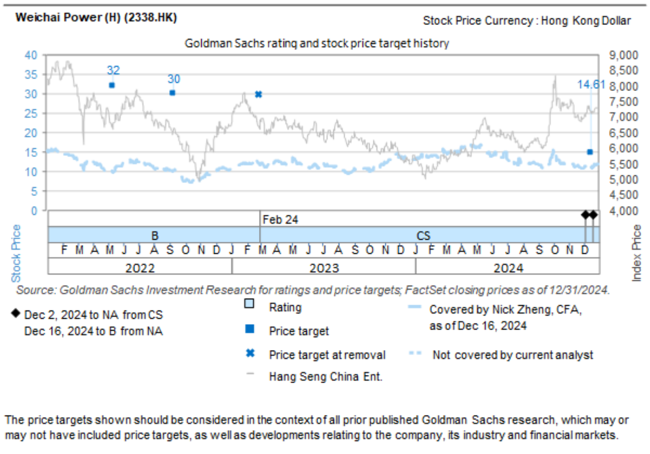

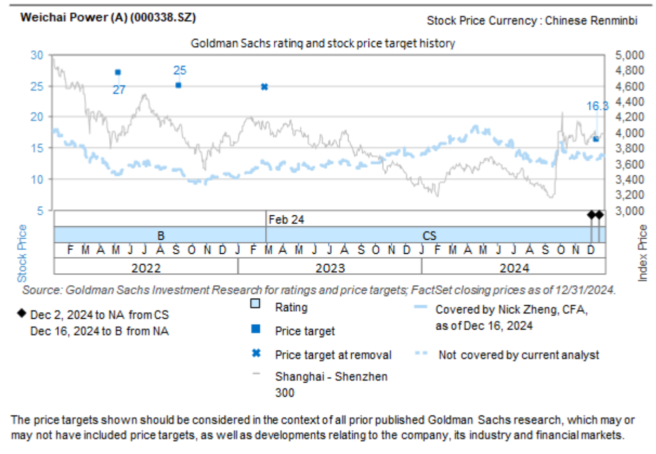

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