Weichai Power (2338 HK)

3Q26: In Line; Power And Energy Remain The Growth Engines; Upgrade To BUY

Highlights

- 3Q26 adjusted net profit rose 13.9% yoy to Rmb3,220m, in line. GAAP net profit fell 8.6% on Ballard fair value losses, credit provisions and forex loss.
- Looking ahead, the power and energy segments will serve as the primary growth drivers of Weichai, contributing about 20% of group profit.
- Management is guiding for data centre diesel gensets of above 4,000 units in 2026 and above 6,000 in 2027.
- Upgrade from HOLD to BUY with an unchanged target price of HK$31.00 pegged to 12x 2027F PE.

3Q26 Results

Year to 31 Dec (Rmbm)	3Q26	yoy %	qoq %	9M26	yoy %	2026F	yoy %	9M26/ 2026	Comment
Revenue	58,008	1.0	(4.3)	181,171	6.2	251,320	8.4	58,008	*In line, driven by AIDC power*
Gross profit	13,275	8.2	1.9	39,711	6.3	54,034	8.5	13,275	Beat
Gross margin (%)	22.9	1.5	1.4	21.9	0.0	21.5	0.0	22.9	Beat on sales mix optimisation
EBIT	5,252	4.9	(4.0)	15,864	25.2	22,964	38.9	5,252	In line
EBIT margin (%)	9.1	0.3	0.0	8.8	1.3	9.1	2.0	9.1	*In line, opex ratio above estimate*
Net profit (GAAP)	2,957	(8.6)	(35.9)	10,659	20.1	15,212	39.2	2,957	*In line*
Net margin (%)	5.1	(0.5)	(2.5)	5.9	0.7	6.1	4.3	5.1	*In line*
Net profit – adj	3,220	13.9	2.8	9,339	17.1	13,032	34.9	3,220	*In line*
Core net margin (%)	5.6	0.6	0.4	5.2	0.5	5.2	1.0	5.6	*In line*

Source: Weichai Power, Bloomberg, UOB Kay Hian

Analysis

- **3Q26 results met expectations,** with GAAP net profit of Rmb2,957m (-8.6% yoy/-35.9% qoq) and adjusted net profit of Rmb3,220m (+13.9% yoy/+2.8% qoq). The drop in GAAP net profit was due to: a) revenue slowdown (+1% yoy/-4% qoq); b) fair value loss of Rmb293m (+606% yoy) for Ballard Power Systems (Ballard) vs 2Q26 fair value gain of Rmb186m; c) credit provision of Rmb332m vs credit provision write-back of Rmb383m/Rmb108m in 3Q25/2Q26 respectively, and d) forex loss of Rmb200m vs 3Q25's forex gain of >Rmb100m.
  - **Revenue edged up 1% yoy and dropped 4.3% qoq to Rmb58b in 3Q26, driven by large-bore engines.**
    - **The sales volume of large-bore engines surged 60% yoy to 4,000 units in 3Q26**, bringing 9M26 volume to >11,000 units (+40% yoy). Among them, sales volume of AI data centre (ADIC) power generation sets (gensets) grew from 500 units in 1Q26 to 800/1,300 units in 2Q26/3Q26 respectively.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	215,691	231,809	251,320	285,193	309,871
EBITDA	30,755	30,130	37,404	42,504	46,490
Operating profit	18,029	16,532	22,964	28,054	32,030
Net profit (rep./act.)	11,403	10,931	15,212	18,742	21,596
Net profit (adj.)	10,527	9,662	13,032	16,567	19,089
EPS (Fen)	130.7	125.3	174.3	214.8	247.5
PE (x)	15.4	16.0	11.5	9.4	8.1
P/B (x)	2.0	1.9	1.7	1.6	1.5
EV/EBITDA (x)	3.6	3.7	3.0	2.6	2.4
Dividend yield (%)	3.3	3.6	5.2	6.4	7.4
Net margin (%)	4.9	4.2	5.2	5.8	6.2
Net debt/(cash) to equity (%)	(63.1)	(51.1)	(51.6)	(57.3)	(61.9)
Interest cover (x)	78.1	(36.4)	22.0	247.5	(205.0)
ROE (%)	12.7	10.7	13.4	15.8	16.7
Consensus net profit	-	-	14,427	17,750	21,271
UOBKH/Consensus (x)	-	-	1.05	1.06	1.02

Source: Weichai Power, Bloomberg, UOB Kay Hian

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BUY (Upgraded)

Share Price	HK$23.52
Target Price	HK$31.00
Upside	31.8%

Stock Data

Sector	Industrials
Bloomberg ticker	2338 HK
Shares issued (m)	1,943.0
Market cap (HK$m)	45,700.3
Market cap (US$m)	5,859.0
3-mth avg daily t'over (US$m)	70.2

Price Performance (%)

52-week high/low				HK$45.44/HK$15.56
1mth	**3mth**	**6mth**	**1yr**	**YTD**
(18.1)	(23.2)	(39.1)	53.1	24.8

Major Shareholders (%)

Weichai Holding Group	16.33

Balance Sheet Metrics

FY26 NAV/Share (HK$)	10.72
FY26 Net Cash/Share (HK$)	6.97

Price Chart



Source: Bloomberg

Company Description

Weichai Power specialises in the R&D, manufacturing and sales of vehicles and parts. The company produces engines, heavy vehicles, light vehicles, construction machinery, hydraulic products, automotive electronics and related parts. Weichai Power markets its products worldwide.

  - **Meanwhile, the sales volume of construction machinery engines, bus engines, and agricultural machinery engines grew >30%/>30%/10% yoy respectively in 9M26.**
  - **New energy powertrain sales revenue surged nearly 150% yoy to Rmb4.9b in 9M26,** while EV battery sales volume more than doubled yoy to 9.3 GWh.
  - **KION's revenue grew 4.8% yoy but dipped 2.8% qoq to €2,835m in 3Q26.** Taking into account the renminbi appreciation, KION's 3Q26 revenue contribution should have fallen 1.8% yoy and 4.8% qoq to around Rmb22b.
- **Margins underpinned by sales mix optimisation.** Gross margin rose to 22.9% (+1.5ppt yoy/+1.4ppt qoq) in 3Q26, and remained flat yoy at 21.9% in 9M26, vs our full-year assumption of 21.5%. EBIT margin remained flat qoq at 9.1% (+0.3ppt yoy) in 3Q26, and soared 1.3ppt yoy to 8.8% in 9M26, vs our full-year assumption of 9.1%.

- **Growth to 2028 should come from data centre power, exports and KION, against a soft domestic truck market and US policy risk.**
  - **AIDC power will be the main earnings driver.** Management guides for >6,000 diesel gensets in 2027, including at least 2,000 for North America, as well as >2,000 gas gensets, and expects to exceed this year's target of >4,000 diesel units. Gas gensets should ramp up quarterly in 2027 along a 500/800/1,300 path at ~Rmb10m per 2.5MW unit. SOFC adds optionality: a) the 30MW line will be completed by end-26, b) 2027 deliveries are guided at 15–20MW, and c) the 200MW line is due by end-27, with delivery capability the binding constraint. We keep our 2027 gas volume assumption unchanged.
  - **Exports are the swing factor for engines and trucks.** Management sees truck export mix rising from ~35% to 40-45%, with engine exports growing over 20% and gearbox/agricultural machinery exports rising by 30-40%. Non-truck engines should also outperform, with construction machinery and bus engines targeted for further share gains as excavator electrification penetration stays low.
  - **KION should remain on its recovery path.** The 2025 headcount restructuring leaves it "light" into a seasonally strong 4Q, and management expects the improvement to continue, supporting our raised margin assumption.

Earnings Revision/Risk

- **We maintain our 2026-28 net profit forecasts at Rmb15,212m/ Rmb18,742m/Rmb21,596m respectively (up 39%/23%/15% yoy).**
- **Risks:** December North American policy details and weak gas engine demand, though recovery and export upside are expected.

Valuation/Recommendation

- **Upgrade from HOLD to BUY with an unchanged target price of HK$31.00**, pegged to 12x target 2027F PE multiple (on par with historical mean). We believe the stock has fallen to a low enough level such that the valuation validates a BUY rating. With a two-year EPS CAGR of 19% in 2027-28, It is trading at 9.4x 2027F PE, below historical mean of 12x, and it delivers 6.4% 2027F dividend yield.

Share Price Catalyst

- a) Data centre genset order wins, b) first gas genset shipments from 4Q26, c) KION margin recovery, d) SOFC line commissioning in 1Q27.

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	231,809	251,320	285,193	309,871
EBITDA	30,130	37,404	42,504	46,490
Deprec. & amort.	(13,598)	(14,440)	(14,450)	(14,460)
EBIT	16,532	22,964	28,054	32,030
Total other non-operating income	140	0	0	0
Associate contributions	450	1,715	450	450
Net interest income/(expense)	454	(1,042)	(113)	156
Pre-tax profit	16,214	22,637	27,890	32,137
Tax	(2,534)	(3,622)	(4,462)	(5,142)
Minorities	(2,750)	(3,803)	(4,686)	(5,399)
Net profit	10,931	15,212	18,742	21,596
Net profit (adj.)	9,662	13,032	16,567	19,089

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	64,711	58,261	53,311	49,361
Other LT assets	116,241	116,466	115,416	114,356
Cash/ST investment	49,117	53,492	64,114	75,021
Other current assets	137,407	152,349	174,503	193,356
Total assets	367,476	380,568	407,344	432,093
ST debt	15,915	15,915	15,915	15,915
Other current liabilities	145,620	147,403	160,916	170,753
LT debt	23,594	23,594	23,594	23,594
Other LT liabilities	51,285	51,285	51,285	51,285
Shareholders' equity	93,190	100,696	109,274	118,787
Minority interest	37,872	41,675	46,360	51,759
Total liabilities & equity	367,476	380,568	407,344	432,093

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	28,682	29,859	39,399	42,333
Pre-tax profit	16,214	22,637	27,890	32,137
Tax	(2,534)	(3,622)	(4,462)	(5,142)
Deprec. & amort.	13,598	14,440	14,450	14,460
Associates	(450)	(1,715)	(450)	(450)
Working capital changes	(1,722)	(3,158)	1,358	985
Non-cash items	3,575	1,277	613	344
Other operating cashflows	-	-	-	-
Investing	(16,628)	(13,884)	(14,502)	(14,953)
Capex (growth)	(7,075)	(7,500)	(8,500)	(9,500)
Investments	(104,701)	(105,000)	(105,000)	(105,000)
Others	95,148	98,616	98,998	99,547
Financing	(18,320)	(11,599)	(14,276)	(16,474)
Dividend payments	(8,324)	(11,599)	(14,276)	(16,474)
Proceeds from borrowings	9,196	20,000	20,000	20,000
Loan repayment	(17,007)	(20,000)	(20,000)	(20,000)
Others/interest paid	(2,184)	0	0	0
Net cash inflow (outflow)	(6,267)	4,376	10,622	10,906
Beginning cash & cash equivalent	54,954	49,117	53,492	64,114
Changes due to forex impact	430	0	0	0
Ending cash & cash equivalent	49,117	53,492	64,114	75,021

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	13.0	14.9	14.9	15.0
Pre-tax margin	7.0	9.0	9.8	10.4
Net margin	4.7	6.1	6.6	7.0
ROA	3.1	4.2	5.0	5.6
ROE	10.7	13.4	15.8	16.7
Growth				
Turnover	7.5	8.4	13.5	8.7
EBITDA	(2.0)	24.1	13.6	9.4
Pre-tax profit	(6.4)	39.6	23.2	15.2
Net profit	(4.1)	39.2	23.2	15.2
Net profit (adj.)	(8.2)	34.9	27.1	15.2
EPS	(8.2)	34.9	27.1	15.2
Leverage				
Debt to total capital	30.1	27.8	25.4	23.2
Debt to equity	42.4	39.2	36.2	33.3
Net debt/(cash) to equity	(51.1)	(51.6)	(57.3)	(61.9)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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