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Weichai Power (000338.SZ): Generac's new global supply agreement with hyperscaler to drive upside into 2027

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Generac (GNRC, Not Covered) – a global leader in backup power systems and a key US partner of Weichai Power (via Baudouin-branded large diesel engines) announced on June 2 that it has secured a landmark global supply agreement with a leading hyperscale data center operator to supply backup power generators (see official announcement here). Generac's share price was up c.6% overnight on the back of this announcement. While no further quantitative disclosure was provided in the announcement, based on management's comments earlier at the investor day (see our read-across note), the potential size of procurement for 2027 could exceed US$600mn (vs. Generac's end-1Q26 order backlog of US$700mn for data centers). We view this supply agreement as not only a validation of Weichai's product competitiveness globally but also providing multi-year visibility into its US business. We reiterate our Buy rating and see the recent broader-based correction in the AIDC power space offers an attractive entry point for the stock. We believe the market has yet to price in the upside potential driven by Weichai's behind-the-meter primary power potential from its gas genset and SOFC businesses within the AIDC power generation portfolio (see our note).

Investment Thesis - Weichai Power

Weichai Power is China's largest manufacturer of internal combustion engines, with ~20% volume share in China's multi-cylinder engine market, 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 largest manufacturer of agricultural equipment; and **3) intelligent logistics** (mainly sales of industrial trucks and supply chain solution) through its 46.5% owned subsidiary KION (KGX.DE), which is the second largest producer of industrial trucks globally and the largest provider of supply chain solutions globally.

We believe the investment narrative for Weichai has now shifted from heavy-duty trucks to AI data center power generation as the company has managed to build a comprehensive technology/product portfolio across large engines for diesel gensets (as back-up power for AIDC), gas gensets (onsite primary/standby power) and fuel cells (an emerging onsite generation solution). AIDC power generation, currently 12% of Weichai's total 2025E NP, is poised to grow ~10x by 2030E and we see its earnings contribution more than tripling to 43% of the total, driving 60%+ of its incremental EPS growth through 2030E. Such a shift in investment narrative, in our view, warrants a rerating. We are Buy rated on both the H-share and A-share.

Price Target Risks and Methodology - Weichai Power

Valuation: We adopt a SoTP-based valuation methodology as we believe SoTP better captures the different stages of growth the company's various power generation products are in. Our primary valuation is anchored to the H-share.

- We value **Weichai's legacy business** using mid-cycle P/E (12x) on average 2026E-27E EPS and KION's attributable market cap value to Weichai.
- For Weichai's AIDC power generation business portfolio: **1) Diesel large engines (back-up power):** We apply 25x 2028E P/E, discounted back to mid-2027E using a CoE of 9%; **2) RICE (prime power):** We apply 30x 2030E P/E, discounted back to mid-2027E using a CoE of 9%. **3) SOFC (prime power):** We apply 51x 2030E P/E, discounted back to mid-2027E using a CoE of 9%.

With this, we derive our H-share 12-m target price at HK$56.0/share. For the A-share, we assume a 6% discount to the H-share equity value referencing to the trading patterns over the 6 month, leading to a 12-m target price of Rmb48.00/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 and lower LNG penetration; 4) weaker-than-expected HDT engine market share performance; 5) slower-than-expected development in power generation business.

000338.SZ	12m Price Target: **Rmb48.00**	Price: **Rmb32.22**	Upside: **49.0%**
2338.HK	12m Price Target: **HK$56.00**	Price: **HK$39.22**	Upside: **42.8%**

Buy

Market cap:
Rmb281.2bn / $41.6bn
Enterprise value:
Rmb290.9bn / $43.0bn
3m ADTV: Rmb3.6bn / $529.1mn
China
China Advanced Materials & Construction
M&A Rank: 3
Leases incl. in net debt & EV?: Yes

GS Forecast

	12/25	12/26E	12/27E	12/28E
Revenue (Rmb mn)	231,809.3	257,070.1	282,494.6	306,598.2
EBITDA (Rmb mn)	27,451.6	35,007.4	41,773.3	47,257.7
EPS (Rmb)	1.25	1.72	2.13	2.49
P/E (X)	12.4	18.7	15.1	12.9
P/B (X)	1.4	2.8	2.7	2.5
Dividend yield (%)	4.7	3.4	4.5	5.3
N debt/EBITDA (ex lease,X)	(1.0)	(0.9)	(0.6)	(0.7)
CROCI (%)	14.9	14.8	16.2	17.3
FCF yield (%)	12.7	7.7	5.4	12.2

	3/26	6/26E	9/26E	12/26E
EPS (Rmb)	0.36	0.40	0.46	0.47

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2 Jun 2026 close.