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China Power Equipment

Chongqing Machinery & Electric (2722.HK; Not Covered) – Site Visit

CITI'S TAKE

We visited Chongqing Machinery & Electric last week during our 2026 China Power Plant Equipment Maker Tour. The company expects: (i) double-digit revenue growth for its high-horsepower engines business in 2026; (ii) +15-20% yoy for its high-voltage transformers revenue in 2026 and +16% yoy in 2027; and (iii) a net profit improvement of around Rmb50m yoy for its main business in 2026. Furthermore, high-voltage transformer revenues are projected by the company to comprise 60-70% of exports and 30-40% of domestic sales in 2026. Please see details below.

China Power Equipment

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Company Profile

Dividend Policy in 2026-28

The company has set future dividend payout ratios of 32%, 35%, and 39% for 2026, 2027, and 2028, respectively, up from 29% in 2024 and 31% in 2025 (link).

Chongqing Cummins: Diesel Engines and Gas Engines

Chongqing Cummins (CQ Cummins), a 50%-owned joint venture of Chongqing Machinery & Electric, **contributed 81% of Chongqing Machinery & Electric's net profit in 2025**. In 2025, CQ Cummins reached a designed production capacity of 23,000 units and an actual production of 18,911 units, generating Rmb5.8bn in revenue. Notably, the company reported that **1,000 units were supplied to data centers in 2025, and projects doubling to 2,000 units in 2026**. **CQ Cummins expects modest double-digit production growth in 2026, with a higher mix of high-margin products.**

In 2025, 50% of CQ Cummins' revenue came from indirect exports and 50% from domestic sales. CQ Cummins' net income rose 26% yoy in 1Q26 to US$29m, partly attributed to a concentration of product deliveries (link). Its GPM in 2025 was 34%.

The production schedule for CQ Cummins is currently booked through September-October 2026. **Delivery times range from 15 days for 19L, 38L, and 50L models, and 15 to 30 days for larger 60L models, per the company.**

Selling Channels

For export sales of 19L, 38L, and 50L diesel and gas engines, CQ Cummins leverages China Cummins' sales network while retaining pricing power and control over sales channels, according to the company.

In contrast, all 60L units are sold through China Cummins, both domestically and internationally. **For these 60L sales, CQ Cummins recognizes a processing fee based on a cost-plus, net method.** A total of 728 60L units were produced in 2025, and CQ Cummins has secured a 10-year agreement with Cummins USA on future sales volumes and GPMs.

Domestically, CQ Cummins utilizes its own sales channels for 19L, 38L, and 50L.

Pricing

Overseas prices for 19L, 38L, and 50L are considerably higher than domestic prices. **Due to price competition with peers such as Weichai and Yuchai, domestic prices are anticipated to decrease by less than 10% yoy in 2026, per the company.**

The 38L and 50L models are more profitable than the 60L. 60L models are preferred by overseas customers, while 50L and 38L are favored for domestic data center applications.

Product Details

Figure 1. CQ Cummins engine models

Source: Company Reports

Figure 2. CQ Cummins Q19 diesel engine

Source: Company Reports

Figure 3. CQ Cummins Q50 diesel engine

Source: Company Reports

Figure 4. CQ Cummins gas engine

Source: Company Reports

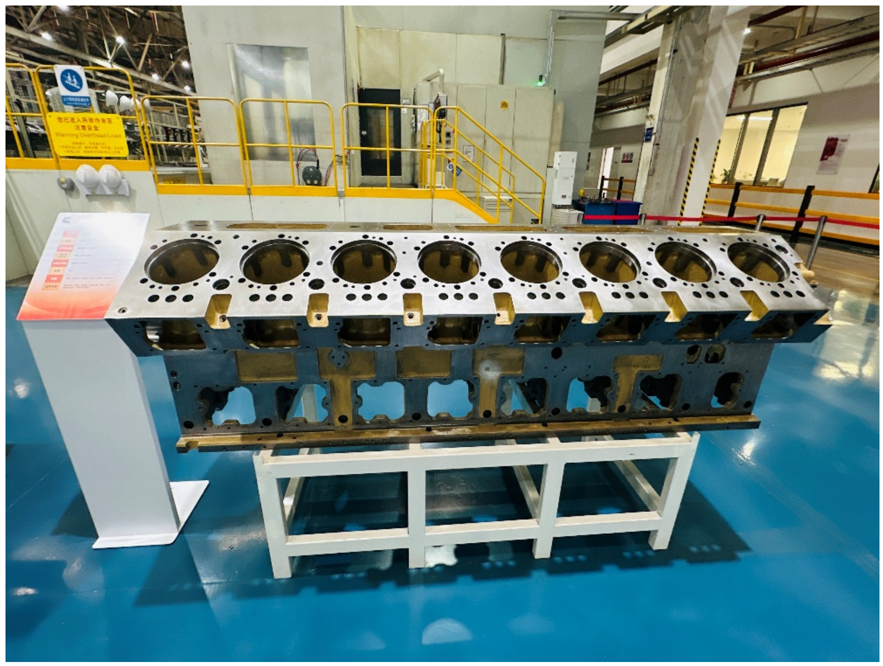
The product portfolio includes diesel engines (14L, 19L, 38L, 50L, 60L) and gas engines (14L, 19L, 38L, 50L), utilizing shared production lines. **The 60L engine offers an approximate 2.7MW installed capacity.**

Domestic content in manufacturing reaches up to 95%; key imported components, such as seals and electronic control modules, constitute a small proportion of the total cost.

CQ Cummins collaborates with suppliers such as Impro Precision (1286.HK), Xiangyang Changyuan Donggu Industry (603950.SS), and Push Group (not listed) for various components. CQ Cummins focuses on engine production, while China Cummins handles assembly with generators and control systems.

Gas engine sales totaled 102 units in 2025 and are projected to at least double to between 200 and 300 units in 2026, per the company. These engines typically feature slightly higher selling prices and GPMs compared to diesel engines.

Figure 5. CQ Cummins 50L cylinder block



Source: Company Reports

Chongqing Hitachi Energy: High-Voltage Transformers

Chongqing Hitachi Energy, a joint venture **that contributed 13% to Chongqing Machinery & Electric's net profit in 2025** with 37.8% shareholding, specializes in transformers above 550kv.

The company reported Rmb2.6bn in revenue and over Rmb3.2bn in new orders in 2025. Its primary export markets include the Middle East, Europe, South Africa, and Southeast Asia. While overseas selling prices have not significantly increased, raw material costs have risen, a risk the company said it mitigates through hedging.

Figure 6. Chongqing Hitachi Energy's phase three capacity expansion

Source: Company Reports

Capacity expansion is planned in two phases: **phase three** would expand to Rmb3.6bn capacity before 1Q27 (with Rmb150m capex), and **phase four** aims for Rmb4.5bn capacity within two years.

The main products include 500kv and 800kv UHV transformers, priced at Rmb70-90m each. The production schedule is booked until 2027, with lead times of up to one year. Insulators are self-made using imported raw materials, while some UHV air bushings and tap changers are sourced from ABB overseas. The labor-intensive processes of winding coils and stacking iron cores are critical, requiring skilled personnel.

Main Business

Figure 7. Chongqing Machinery & Electric segment breakdown in 2025 (Rmb bn)

Sector	Revenue	Mix
Clean Energy Equipment	8.3	82.79%
High-End Intelligent Equipment	1.7	16.59%
Industrial Services	0.1	0.63%
Total	**10.027**	**100.00%**

Source: Company Reports

Figure 8. Chongqing Machinery & Electric business breakdown in 2025 (Rmb)

Financial Information of reportable segments of the current year as follows:

Items	Engine	General machinery	Wind turbine blades	Wire and cable	CNC machine tools	Intelligent manufacturing	High voltage transformer	Financial service	Material sales	Other divisions	Offset	Total
External transaction income	–	2,352,340,185.72	3,259,619,805.18	2,328,214,235.17	881,568,106.39	454,505,729.67	–	87,292,196.09	–	798,801,655.89	–	10,162,341,914.11
Inter-segment revenue	–	-28,216,802.48	-636,517.23	-20,091,065.57	-18,592,411.91	-14,513,489.55	–	-25,524,580.91	–	-10,370,192.36	–	-117,945,060.01
Revenue from external customers	–	2,324,123,383.24	3,258,983,287.95	2,308,123,169.60	862,975,694.48	439,992,240.12	–	61,767,615.18	–	788,431,463.53	–	10,044,396,854.10
Operating costs	–	1,818,420,554.70	2,886,265,568.94	2,028,760,769.95	670,272,503.00	393,921,976.58	–	35,117,176.93	–	692,457,939.00	–	8,525,216,489.10
Inter-segment transaction cost	–	-21,924,951.60	-308,443.14	-20,091,065.57	-17,523,016.54	-10,267,011.84	–	-20,520,550.98	–	-9,378,514.69	–	-100,013,554.36
External transaction cost	–	1,796,495,603.10	2,885,957,125.80	2,008,669,704.38	652,749,486.46	383,654,964.74	–	14,596,625.95	–	683,079,424.31	–	8,425,202,934.74
Gross profit from external transactions		527,627,780.14	373,026,162.15	299,453,465.22	210,226,208.02	56,337,275.38	–	47,170,989.23	–	105,352,039.22		1,619,193,919.36
Gross profit rates (%)	–	22.70	11.45	12.97	24.36	12.80	–	76.37	–	13.36	–	16.12
Operating (loss)/profit	636,612,438.43	103,634,352.76	66,693,411.14	72,991,320.85	-52,248,959.00	-21,276,571.27	104,758,806.10	8,545,722.78	–	-114,443,531.80	–	805,266,989.99
Interest income	–	1,505,646.16	3,355,608.80	1,455,789.64	118,311.58	213,071.32	–	–	–	5,301,774.13	–	11,950,201.63
interest costs	–	417,293.84	15,422,945.71	4,858,535.32	25,550,404.57	252,589.63	–	–	–	18,593,515.71	–	65,095,284.78
Investment income from associates and joint ventures	636,612,438.43	–	–	–	11,771,475.70	–	104,758,806.10	–	–	33,182,072.28		786,324,792.51
Total profit	636,612,438.43	104,303,393.92	66,910,342.44	80,304,870.66	-52,276,142.19	-21,450,613.70	104,758,806.10	8,572,818.57	–	-115,889,860.95	–	811,846,053.28
Income tax expense	–	13,136,312.30	8,730,269.94	4,753,448.82	-7,430,135.47	2,114,630.36	–	3,464,010.13	–	1,391,775.97	–	26,160,312.05
Net profit	636,612,438.43	91,167,081.62	58,180,072.50	75,551,421.84	-44,846,006.72	-23,565,244.06	104,758,806.10	5,108,808.44	–	-117,281,636.92	–	785,685,741.23

Source: Company Reports

Chongqing Machinery & Electric's main business encompasses three sectors: (i) Clean Energy Equipment (including hydropower equipment and wind turbine blades manufacturing etc.), (ii) High-End Intelligent Equipment (offering gear processing services and automotive clutch systems etc.), and (iii) Industrial Services.

The main business has a small proportion of exports, though PTG UK (under the High-End Intelligent Equipment Sector) saw lower earnings in 2025 due to high finance expenses, production and energy costs.

Other Factors

Exchange rate fluctuations have minimal impact on CQ Cummins due to its contract structures but significantly affect Chongqing Hitachi Energy's direct exports, according to the company.

The company also manufactures **wind turbine blades**, with revenue exceeding Rmb3bn last year. These wind turbine blades primarily focus on exports and account for 30% of the market share among Goldwind (2208.HK) suppliers.

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Appendix A-1

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