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Cummins Inc | North America

Deep Dive With Power Systems Mgmt. Underscores Durability Of Data Center Tailwind

Deep dive with Jenny Bush, President of PSBU at CMI, reinforced conviction in durability of standby power demand, CMI's competitive position in evolving Data Center ecosystem globally, the disciplined approach to its capital investment strategy, and our confidence that 2030 remain conservative.

Key Takeaways

- Taking orders today for 2028 across the 60L, 78L and 95L product lines; backlog predominantly diesel.
- 20GW capacity expansion happening within four walls and is fuel-agnostic, I.e. can support both diesel and nat gas engines. Taking supply chain initiatives now.
- Vertical integration as core moat, with Distribution adding at least a dollar-for-dollar balance of plant (BoP) value on top of Power Systems equipment revenue.
- The 800V DC architecture shift does not threaten backup power demand - only changes alternator configuration.
- Incremental margin should comfortably hover in 25-30% range going forward, which we view as more conservative and certainly not negative.

We hosted Jenny Bush, President, Power Systems Business Unit (PSBU) virtually on Friday for a Power Systems and Data Center deep dive webinar.

Durable tailwinds for standby power, a strong market position with key competitive advantages, and a disciplined and flexible investment strategy underscore what we think is still a conservative 2030 earnings algorithm for Cummins' Power System segment. Amid a strong demand backdrop, Cummins continues to take orders for 2028 deliveries across its larger product lines, which it noted is still predominately diesel today. On the webinar Ms. Bush laid out a clear roadmap to the incremental 20 GW of capacity, which will be largely fuel agnostic and can be used to support either diesel or nat gas engines. It is taking supply chain initiatives today (in-housing production of some components / ordering large machining equipment ahead of time) which is a sign that execution is well underway. It is also in an enviable position due to its vertically integrated manufacturing process, a broadening portfolio of solutions (including BESS and its new 4MW nat gas engine being developed for 2028), and its strong market positions in the two leading markets (US and China). We unpack the takeaways below **but in summary and contrary to the market's concerns over the durability of demand for standby diesel engines, we came away more confident that CMI's 2030 $9B+ data center**

MORGAN STANLEY & CO. LLC

Angel Castillo
Equity Analyst
Angel.Castillo@morganstanley.com +1 212 761-1931

Oliver Jiang
Research Associate
Oliver.Jiang@morganstanley.com +1 212 761-6458

Stefan Diaz, CFA
Equity Analyst
Stefan.Diaz@morganstanley.com +1 212 761-1834

Esther O Osinaiya
Research Associate
Esther.Osinaiya@morganstanley.com +1 212 761-3176

Cummins Inc (CMI.N, CMI US)

Machinery & Construction | United States of America

Stock Rating	**Overweight**
Industry View	**Attractive**
Price target	**$752.00**
Shr price, close (Jun 5, 2026)	$651.22
Mkt cap, curr (mm)	$90,193
52-Week Range	$717.85-308.38

Fiscal Year Ending	12/25	12/26e	12/27e	12/28e
ModelWare EPS ($)	23.79	30.07	34.88	40.58
Prior EPS ($)**	-	-	-	-
P/E	21.5	21.7	18.7	16.0
EPS ($)§	23.09	29.33	33.89	39.76
Div yld (%)	1.5	1.2	1.3	1.4
EPS ($)**	23.79	30.07	34.88	40.58

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
** = Based on consensus methodology
§ = Consensus data is provided by Refinitiv Estimates
e = Morgan Stanley Research estimates

QUARTERLY EPS ($)

Quarter	2025	2026e Prior	2026e Current	2027e Prior	2027e Current
Q1	5.96	-	6.15a	-	-
Q2	6.43	-	7.47	-	-
Q3	5.59	-	8.71	-	-
Q4	5.81	-	7.76	-	-

e = Morgan Stanley Research estimates, a = Actual Company reported data

sales target (across PSBU and DBU) remains conservative putting emphasis on the "+". Accordingly, we reiterate our Overweight rating on shares of CMI.

1. **20GW of additional capacity is no small feat but we see signs that management has already de-risked the execution.** The expansion is being done within its existing manufacturing footprint, with no greenfield construction required. The instruments that are used to machine the engine block and cranks appear to be the primary supply constraint, which creates lead time, but as always the company is actively working with equipment manufacturers to pull forward delivery schedules. Furthermore, CMI has incrementally in-housed the production of key bottleneck components. What management sees as table stakes in execution across the industry are steps where its less vertically integrated competitors may falter, and we are encouraged by the company's track record in bringing additional capacity online ahead of schedule.
2. **So what is the cadence of when that capacity comes online?** On the new 4MW (130L) natural gas engine, management confirmed that this is not yet in the backlog. Pilot orders expected in 2H27 following milestone sign-off, limited production in 2028, and a ramp to full scale production starting in 2029. CMI expects some incremental capacity to begin flowing in 2027, with the biggest year-over-year jump coming in 2028, and additional capacity continuing to flow into 2029 and 2030. As we have highlighted before, incremental throughput is a continuous function at Cummins versus discrete "one and done" additions - to that point, management is also extending its UK machining line, upgrading old tooling to improve throughput in that factory. A key point management emphasized is that the production line is largely fuel-agnostic, with a 78L natural gas unit and a 95L diesel unit running down the same line today. In other words, there is no preset mix of natural gas vs. diesel engines in the new 20GW capacity investment. Instead, the fungibility in production ultimately allows CMI to respond to demand levels once it starts taking orders for its new 4MW nat gas engine in 2027 and helps mitigate any potential risk from a rapidly evolving demand landscape.
3. **2030 targets assume Power Systems price/cost remains neutral to slightly positive and incremental margins are 25-30%, but we view this as a conservative base case.** Given new capacity additions from competitors as well as more cautious commentary from CMI management regarding diesel genset pricing, there has been a heightened degree of concern among investors that pricing could become a headwind. To that end, CMI clarified that while it does see more limited pricing opportunity it nevertheless continues to expect price/cost to remain neutral to slightly positive going forward. Specifically, CMI noted that the strong incremental margins and pricing it has seen in recent years were the result of value based pricing (recall diesel gensets used to be mix dilutive to margins before data center demand accelerated) and inflationary pressures (including tariffs). However and to be clear, this does not mean CMI expects price/cost to be a headwind as it remains confident in its competitive value proposition in the market and its contract structures that embed escalation clauses for raw material /

logistics / tariff driven inflation. Simply put, CMI's financial guidance and 2030 targets assume price/cost remains neutral to slightly positive and that incremental margins are in the 25-30% range. Although this is below the ~43% incremental EBITDA margins Power Systems business has averaged over the last three years, we would note that this is in-line with MS estimate of ~28% average incremental margins between 2027-2030. Importantly, given the current demand backdrop for power remains insatiable and management's historical tendency to guiding conservatively, we view these price/cost and incremental margin assumptions embedded in its 2030 financial algorithm as more likely than not to be indicative of upside risk as opposed to being reflective of downside pressures.

4. **Management views vertical integration as CMI's defining structural advantage, and the one competitors cannot easily replicate.** CMI is the only vertically integrated power generator in the market, with the ability to combine engine, alternator, radiator, controls and enclosure into a single unit. Most competitors operate at the finished unit level and must source at least some components externally, adding costs. Furthermore, its Distribution unit adds balance of plant at a clip that is at least dollar-for-dollar markup to the generator cost coming out of Power Systems. Not only does this increase first fit sales, it also creates a recurring tail of customer contact, service and aftermarket revenue that no other provider owns.
5. **For Cummins, the US and China are distinct but complementary opportunities, with the business well positioned in both.** The 60Hz US market is heavily fragmented, regulated and slower to power and therefore served predominantly through the Distribution channel at full margin capture. China, by contrast, has a newer and more robust grid and remains primarily a backup power market, served direct via Power Systems. With the help of top down standardization, Chinese data centers developers boast a blistering speed to power, with some facilities energized in as little as three months according to management. As we have noted in the past, CMI's China JV growth of 84% in 1Q26 on top of 68% growth in 1Q25 were a notable proof point of continued strength in that market. With leading market positions in both the US and China markets and with Alibaba and ByteDance as anchor hyperscaler relationships in China, mirroring Microsoft, Google and Amazon in North America, CMI is well positioned to benefit from the strong growth expected from Data Centers in both markets.
6. **Management was explicit that the shift to 800V DC architecture does not affect the need for standby backup power.** The 800V DC architecture question is about chip rack density and the architecture of the data hall, not about whether backup generation is required. Ms. Bush highlighted that what actually changes is the alternator configuration on the back of the engine rather than the engine itself, an area where CMI has long established its manufacturing presence. Large alternator manufacturing is concentrated in a handful of suppliers, which may in fact provide a relative advantage for the vertically integrated Cummins model as opposed to the perceived risk that we think the market has discounted. Net-net, while the chips and racks within the data hall may be configured in a different architecture, standby power remains a requirement regardless of the internal DC bus voltage.

7. **BESS has a clear role in the data center power stack, suitable for load following / peak shaving but not ideal for standby power.** While battery energy storage systems (BESS) may be well suited to address the power fluctuations created by data center racks, management highlighted BESS' finite durations as the critical limitation before it can be used in true standby and backup applications. Storage duration usually caps out at 2 or 4 hours, making BESS a contender to aero-derivative and natural gas reciprocating engines more so than Cummins' core diesel product. Diesel's advantage in standby is its ability to sustain load indefinitely (you can always truck in more diesel). Here, we think that the more likely outcome is a layered architecture where BESS handles short duration volatility and some peak shaving, while diesel remains a requirement for redundancy and reliability. Nevertheless, with a range of BESS products from ~200kWh to 2,280kWh (and a 5MW platform in development), this is set up that should benefit Cummins. While it remains a relatively small contributor to sales today, the BESS opportunity is complementary and allows Cummins to in principle supply multiple components across the power stack.

Valuation Methodology and Risks

Cummins Inc (CMI.N)

~25x P/E multiple on base case EPS, reflecting a re-rating higher than historical 11-18x due to a near-trough truck segment (peak multiple) plus secular trends in its powering AI segments (Power Systems, Distribution)

Risks to Upside

- On-hwy vehicle orders exceed expectations
- Prime power investment and additional backup generator capacity announcements
- Power Systems orders and throughput
- Reduced earnings drag from Accelera

Risks to Downside

- Prolonged truck recovery in 2026
- Further changes to 2027 emissions regulations creating uncertainty
- OEM vertical integration accelerates
- Off-hwy vehicle markets disappoint

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1542	42%	465	51%	30%	707	43%
Equal-weight/Hold	1571	43%	369	40%	23%	723	44%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	551	15%	86	9%	16%	201	12%
Total	3,667		920			1632	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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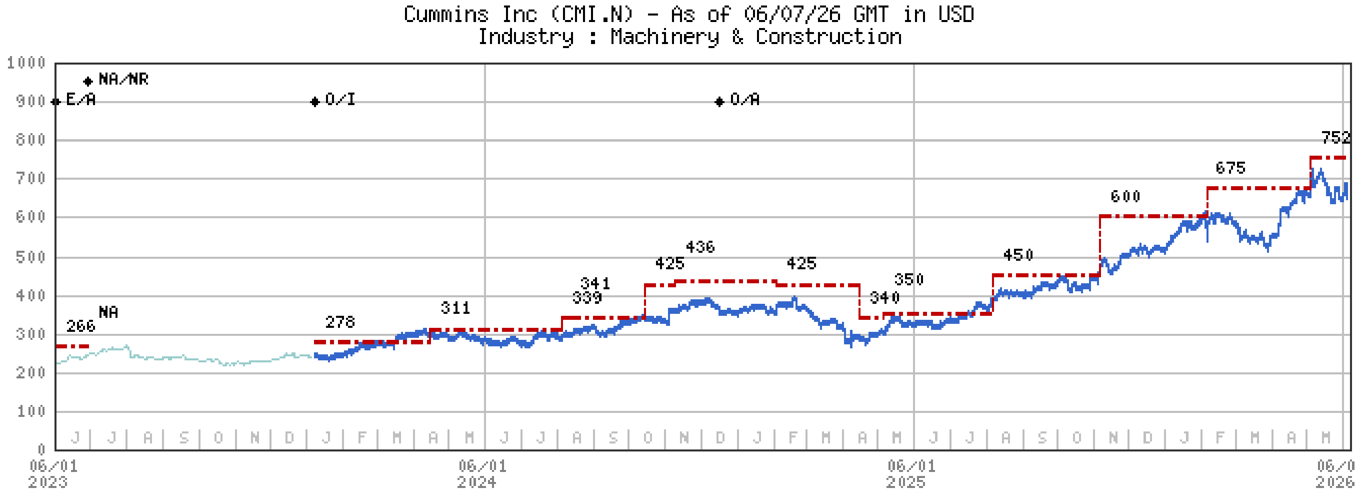
Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 6/1/21 : E/I; 2/22/22 : NA/I; 4/21/22 : NA/I; 6/23/22 : E/I; 12/14/22 : E/A; 6/29/23 : NA/NR; 1/8/24 : O/I; 12/17/24 : O/A

Price Target History: 5/10/21 : 274; 7/13/21 : 271; 8/9/21 : 264; 10/13/21 : 252; 11/2/21 : 262; 12/9/21 : 251; 1/18/22 : 249; 2/22/22 : NA; 4/21/22 : NA; 6/23/22 : 205; 7/18/22 : 187; 8/8/22 : 203; 10/13/22 : 222; 12/14/22 : 264; 1/20/23 : 262; 5/3/23 : 266; 6/29/23 : NA; 1/8/24 : 278; 4/15/24 : 311; 8/5/24 : 339; 8/12/24 : 341; 10/14/24 : 425; 11/10/24 : 436; 2/4/25 : 425; 4/16/25 : 340; 5/6/25 : 350; 8/7/25 : 450; 11/6/25 : 600; 2/5/26 : 675; 5/5/26 : 752

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
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INDUSTRY COVERAGE: Machinery & Construction

COMPANY (TICKER)	RATING (AS OF)	PRICE* (06/05/2026)
Angel Castillo		
AGCO Corp (AGCO.N)	U (04/16/2025)	$116.41
Allison Transmission Holdings Inc (ALSN.N)	E (01/08/2024)	$115.75
Caterpillar Inc (CAT.N)	E (05/01/2026)	$904.28
CNH Industrial NV (CNH.N)	O (12/17/2024)	$10.75
CRH (CRH.N)	O (07/09/2024)	$105.06
Cummins Inc (CMI.N)	O (01/08/2024)	$651.22
Deere & Co. (DE.N)	O (01/08/2024)	$583.44
Donaldson Company Inc. (DCI.N)	E (11/24/2025)	$83.65
Kennametal Inc. (KMT.N)	E (01/08/2024)	$32.63
Lincoln Electric Holdings Inc (LECO.O)	U (01/08/2024)	$262.13
Martin Marietta Materials Inc (MLM.N)	O (01/08/2024)	$575.83
Oshkosh Corp (OSK.N)	E (01/08/2024)	$130.53
PACCAR Inc (PCAR.O)	E (04/16/2025)	$116.68
Terex Corp. (TEX.N)	O (12/10/2025)	$60.42
Timken Co (TKR.N)	O (12/17/2024)	$131.83
United Rentals Inc. (URI.N)	O (04/16/2025)	$1,067.77
Vulcan Materials Company (VMC.N)	E (01/08/2024)	$281.38
Westinghouse Air Brake Technologies Corp (WAB.N)	O (01/08/2024)	$260.40
WillScot Holdings Corporation (WSC.O)	E (11/12/2025)	$26.21

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* Historical prices are not split adjusted.