Asia Power Equipment

US/EU marketing feedback:Buy-the-dip meets peak-cycle fears

Power Equipment and Utilities
Stephen Tsui,CFAAC
(852)2800-8592
stephen.tsui@jpmorgan.com

J.P.Morgan Securities(Asia Pacific)Limited/J.P. Morgan Broking(Hong Kong)Limited

We have spoken with ~60 clients across the U.S.,Europe,and Asia since late July. We are seeing rising interest in both Korean and Chinese electrical equipment companies following the sharp pullback since 2Q,with investors looking to buy quality names on dips at~20x 1-year forward P/E.Hyosung Heavy was the most frequently mentioned name in our meetings,as investors are comfortable with the outlook for margin expansion and planned capacity growth.Some investors are also interested in buying Chinese names on dips after2Qresults,including Wasion (10x 27E P/E,~20%earnings CAGR)and TGOOD(where modular electrical solutions are gaining traction).However,we are hearing more pushback on the power capex-cycle thesis versus our global marketing trip last year;key concerns include potential overcapacity in power equipment,peaking new orders and margins,and delays in data-center and transmission build-outs(see note for our views).Investors generally prefer companies with exposure to high-voltage transmission equipment,given that the U.S.grid/utilities capex cycle can be decade-long and is less correlated with the pace of data-center build-outs.Looking ahead,we believe sequentially improving operating margins and higher U.S. earnings contribution from 3Q,along with earnings beats among global electrical peers,could gradually rebuild confidence in the sector and support share-price upside.We favor Hyosung Heavy,Hyundai Electric,and Wasion in Korea/China, while our regional colleagues in Japan/India have OW ratings on Hitachi/ Mitsubishi Electric and Hitachi Energy India/GE Vernova T&D.

- **What is the client interest level and sentiment now?** We have sensed rising interest in both Korean and Chinese power equipment companies following their pullback since 2Q,as valuations have retreated to below 1xPEG,which in our view makes long-only investors more comfortable with the risk-reward trade-off.Interest has been particularly strongin Hyosung Heavy following its 2Q results,as the miss(see note) likely represents a clearing event;the investment thesis remains intact,and the stock could see sequential improvement from 3Q.Positioningin Korean powerequipmentnames appears high among Europe-based EM funds,while we have sensed lighter positioning among U.S.global funds,given their broader opportunity set across global power equipment companies and existing exposure to large caps such as GE Vernova(GEV.US,covered by Mark Strouse,OW)and Siemens Energy (ENR.GY,covered by Phil Buller,OW).We also observe that some investors trimmed positions in Korean/Chinese power equipment names during the valuation peak in April/May and are now looking to re-accumulate quality names following the pullback.

- **Which names gained most client traction durnig our trip?** Korean power equipment companies continue to attract the most client interest among electricalnames in the region.Hyosung Heavy is a consensus Buy amonglong-only investors,driven by its more ambitious capacity expansion plans and greater scope formargin expansion in the comingyears.This is in stark contrast to our trip last week,when Hyundai Electric was still a key holding among international investors.Investors also like LS Electric,although they view the valuation as rich at current levels.In addition,investors are showing interest in select high-voltage transmission names in China as part of their EM exposure.We sensed very limited interest in utility names

See page 4 for analyst certification and important disclosures,including non-US analyst disclosures.

- **What are the key debates right now**?While investors were bullish on the power capex cycle during our global marketing last year,we have sensed more pushback on the sector thesis than before.Keyinvestorquestions include:(1)How sustainable is the capex cycle, and whether U.S.transmission demand and supply will reach equilibrium by the end of the decade;(2)what an appropriate mid-cycle margin level would be if supply tightness eases;(3)whether the QoQ decline in new orders for selected Korean names signals that the power capex cycle is peaking;(4)concerns about Western countries imposing restrictions on Chinese power equipment imports,following the recent U.S.ban on imports ofcertain new grid-connectedpower inverters(note);and(5)whether increasing behind-the-meter(BTM)adoption could reduce demand for transmission equipment.
- **Our thoughts on the key debates**:1)On the sustainability ofthe power capex cycle,we believe developed-market grid capex growth can extend beyond 2030,supported by multiple U.S.power demand drivers(including electrification,AI,EV adoption, manufacturing reshoring)and the fact that the replacement cycle has yet to meaningfully kick in(our channel checks suggest replacement demand represents less than 20%of total).China's grid capex upcycle has lasted more than 10years,whereas the U.S.appears to be at an earlier stage of grid capex growth,in our view;(2)on mid-cycle margins,we believe supply tightness for U.S.transmission equipment is unlikely to be resolved in the near to medium term;while price increases are moderating,we do not see significant room for T&D equipment prices to decline,and pricing and margins could remain supported for years.(3)The recent decline in orders is likely seasonal,with underlying demand still strong(HVequipment prices still rose QoQ,per HDElectric(note)) .(4)We also see limited risk of Western countries imposing broad bans on Chinese T&D equipment imports,as Chinese players'market share in Western markets remains small and they do not currently lead on technology.Finally,behind-the-meter generation could create incremental demand for power equipment:as data centers increase in scale,more facilities may require transmission equipment at the>100kV level,in our estimates.
- **Chinese power equipment:Investors interested in buying on dips post-2Q results:** Interest in Chinese power equipment names was muted among EU and U.S.investors during 1H,but we observed rising interest during our marketing trip last week.Key feedback included:(1)the weak share performance in 1H was partly driven by sector rotation rather than fundamentals,and some investors view valuations for high-quality names as attractive at~20x1-year forward P/E;and(2)Chinese power equipment names have shown limited correlation with regional tech stocks,offering better diversification than the Korean names.In addition,these Chinese companies primarily export to emerging markets,which also provides geopolitical diversification.Overall,investors are looking to buy on dips after 2Q results,although they remain concerned about potential margin misses and subsequent earnings downgrades.
- **What are the catalysts ahead?**While investors are broadly constructive on the outlook for power equipment,the key question is what catalysts lie ahead.Our view is that:(1) strong earnings and order backlogs from global peers could gradually build confidence in the sector and support valuation upside;several electrical equipment companies have beaten expectations in the latest reporting cycle,including Siemens Energy(note), Caterpillar(CAT.US.covered by Tami Zkaria,OW,note) ,and Bloom Energy(BE.US. covered by Mark Strouse,OW,note) ;and(2)of a sequential earnings recovery,as both Hyosung and Hyundai Electric guided to a stronger U.S.earnings contribution in 2Hon a sequential basis,implying improving revenue and margin momentum.
- **Implications of 800VDC data center architecture:** Numerous clients in the U.S./EU. asked whether our coverage could be vulnerable if data centers begin moving from traditional AC systems towards an 800VDC architecture.On this,we have published a deep-dive note on the sector implications and the involvement of Asian companies in the new power architecture.See the note for details.

Stephen Tsui,CFA AC
(852)2800-8592
stephen.tsui@jpmorgan.com

Figure 1:Regional comps of electrical equipment companies

	Ticker	JPM rating	Share price	Mkt Cap (LC)	Daily Liquidity (USDm)	PE) 2026E	2027E	P/BV (x) 2026E	2027E	ROE(%) 2026E	2027E	EVEBITDA) 2026E	027E
Mainland China													
TBD Equipment													
Sun Technology	600406 CH		24.1	28,647	291.2	20.9	18.8	3.4	3.2	16.8	17.4	15.8	14.4
Qingdao TGOOD	300001CH		36.7	5,714	194.0	25.0	20.5	3.9	3.1	15.8	17.8	15.8	14.5
AuiElectric	000100CH		226	4,117	828	14.1	12	16	15	128	131	88	7.8
IBEA	600089CH		21.3	15,984	475.5	14.1	11.0	13	12	9.6	11.2	10.7	8.8
ChinaAD	601179 CH		13.8	10,479	407.6	45.1	372	29	28	6.6	7.6	25.1	20.1
Stang Automation	603136 CH	NC	479	5,670	265.1	34.0	30	7.1	64	18.8	202	30.0	250
Pinggao Electric	600312CH		199	4,997	75.8	194	15.9	22	20	11.5	128	11.7	9.9
Shenzhen Electric	600550CH		17.6	4,041	30.1	34.8	25.1	92	71	28.8	30.7	22.8	18.0
Inghrse Electric	002922 CH		26.1	1,658	126.4	24.1	182	2.7	21	11.8	16.6	16.1	10.9
Longxin Electrical	002706 CH		9.1	1512	81.9	30.6	225	24	22	7.5	9.7	13.7	12.7
Smart Wefer													
Wasion Holdings	3.3HK		19.6	2,804	16.1	13.1	10.9	25	22	20.0	21.5	82	6.7
Sanxing Electric	601567 CH		159	3,302	527	10.7	9.1	1.7	1.6	14.8	17.1	8.1	6.5
Beying Electrical	603556 CH		252	1,816	24.5	124	11.0	1.6	1.5	10.5	11.2	Bel	n.a
DC ElectricalEquipment													
Magnect Electrical	002851CH		125.7	10,898	721.3	96.3	15.8	9.6	8.1	10.5	17.9	38.7	305
Zhongheng Electri	002364 CH		11.6	3,175	3521	829	57.5	8.7	8.0	10.0	13.3	na	n.a
Sinoluse Electric	301031CH		901	1,958	78.9	224	154	62	1.7	293	28.7	19.0	14.9
Wies &Cables													
Hengtong Optoelectric	600487 CH		59.3	21,692	2,277.1	21.0	16.3	3.8	32	20.1	19.9	15.8	13.0
Zhongtian Technology	600522 CH		33.6	25,974	1,940.0	17.8	13.0	2.7	23	16.7	17.2	9.5	9.3
Goldcup Electric	002533CH	NC	11.5	1,252	20.7	120	10.6	1.7	16	139	14.4	14.5	236
Power Generation Equipment													
Shanghai Electric	2727 HK		3.2	1,896	21.3	302	23.5	0.8	0.8	2.6	3.2	17.9	156
Dongfang Electric	1072HK		24	24,648	38.9	14.5	124	14	13	10.3	11.3	12.8	10.6
Harbin Electric	1133HK		178	5,079	15.7	9.7	8.2	1.7	15	17.9	18.8	5.1	4.2
Korea													
HD Hyundai Electric	267260KS		799,000	20,318	173.2	28.8	21.1	10.7	8.1	124	13.1	19.7	152
LS Electric	010120KS	N	211,000	22,615	374.5	63.1	45.5	12.8	10.5	222	254	37.1	27.7
Hyosung Heavy Industries	298040 KS		2,959,000	19465	193.9	33.0	242	8.8	6.7	30.5	31.1	23.6	17.5
Sani Electric	062040KS		193,700	1,187	91.8	27.9	21.5	79	62	31.9	32.1	21.6	16.1
n Electric	10.650KS		73,500	2,473	49.4	20.0	172	4.7	39	26.3	24.6	12.9	11.6
Taiwan													
Fortune Electric	[illegible]		720.0	7,757	74.1	38.9	28.8	22.1	16.0	546	57.2	31.3	238
Shihlin Electric	1503 T		199.0	3,214	325	226	18.0	na	na	129	16.7	16.7	10.8
Chung-Hsin Electric	1513 T		165.5	2,582	53.3	18.5	16.3	3.8	4.1	20.6	21.4	10.4	103
AES Electric	6.TT		102.0	881	21.8	25.9	21.3	4.1	3.7	16.8	19.2	19.6	162
Asean													
Tenaga	TNB MK		14.6	20,803	20.7	16.6	14.7	1.6	1.6	9.9	10.8	7.0	6.7
YTLPower	YTLPO MK		1.9	10,538	10.6	26.0	19.8	1.8	1.7	7.8	9.1	12.5	102
India													
Power Grid	PWGRIN	OW	209.5	2,294	34.8	14.9	13.6	23	21	16.1	16.4	10.3	9.8
ABB India	ABB IN	N	7,710.0	17,136	30.6	92.7	725	18.8	16.5	21.3	232	76.6	58.0
CG Power	CGPOWERIN	OW	898.0	14,874	13.7	85.8	66.3	14.9	12.5	18.3	20.0	61.0	48.8
Bharatbhary	BHELIN	UW	420.0	15,439	90.1	423	27.6	5.1	4.4	125	17.1	298	192
Hitachi Energy India	POWERIND IN	OW	35,800.0	16,436	67.1	98.6	71.0	23.7	18.0	272	28.8	74.8	525
Siemens India	SIEMIN	UW	4,019.0	15,011	18.5	Bel	n.a	Bel	n.a	n.a.	Bel	n.a
Siemens Energy India	ENRIN IN	N	3,592.1	14,905	28.0	96.1	54.8	16.9	132	29.0	27.1	47.5	38.9
GE T&D	GVTD IN	OW	4,406.5	11,804	54.0	73.4	56.7	250	208	44.7	12.7	36.5	42.1
Transformers & Rectifiers	InfoMaBHEL	NC	292.5	921	11.4	27.4	221	4.8	39	17.6	17.9	18.0	14.1
Votamp Transformers	VAMPIN	NC	10,007.0	1,062	55	30.0	253	5.0	4.1	17.7	18.6	256	21.1
Japan													
Hachi	6501 JP	OW	5,609.0	101,360	108.7	28.1	232	3.8	3.6	13.4	15.5	14.1	125
Mitsubishi Electric	6503JP	OW	5,892.0	78,141	2432	24.2	20.9	26	24	1.1	11.5	13.7	12.7
Mitsubishi Heavy	7011JP	NC	4,094.0	86,681	5194	424	27.4	4.0	3.6	129	13.7	17.9	15.5
Fuji Electric	6504JP	NC	14,490.0	13,577	99.1	19.3	17.7	25	23	13.3	14.1	10.3	9.6

Source:Bloomberg Finance L.P.,J.P.Morgan estimates.

1)Priced at close of business 12 August,forthe respective market.2)NC stands for Not Covered companies 3)Estimates for the NC companies are from Bloomberg consensus and from JPM for the rest

