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Machinery

Volatility vs. visibility: AD/CVD, oil shock, and the Generac–Amazon signal; stay bullish and buy on dips

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The Chinese machinery sector has experienced a sharp sell-off in recent days, including yesterday's declines (Sany, XCMG, Hengli, Weichai, etc. all went down 2-6%, vs. a flat MSCI China) as a combination of US AD/CVD headlines, oil price volatility, and macro concerns seems to have triggered a wave of risk-off sentiment. We have received a significant volume of inbound investor inquiries seeking clarity on the drivers, risks, and outlook. Based on our review of recent management briefings, operational updates and the latest sales trends, we believe the magnitude of the sell-off is not justified by the underlying fundamentals. Worth noting Hengli Hydraulic, Sany Heavy, and XCMG all hosted investor briefings or update calls in the past 24 hours, and we also reached out to Weichai and Zoomlion for additional color on the recent market moves. These briefings confirm that, while the US AD/CVD investigation into hydraulic cylinders is a headline risk, its direct P&L impact on leading OEMs and component suppliers is modest, and management teams are proactively mitigating exposure through global supply chain localization and diversification.

At the same time, overseas growth remains robust, margin discipline is holding, and new product and automation initiatives are gaining traction. Notably, we see positive read-through for Weichai, given the latest Generac–Amazon data center order, which highlights scale and visibility. On the other hand, while domestic demand is soft, pricing discipline and cost control are supporting resilience. While volatility may persist in the near term, we do not see evidence of a material change to the fundamental earnings outlook or long-term growth trajectory for the sector's leaders.

Stock views: We see the recent correction as an opportunity to accumulate AIDC leaders and global machinery names with strong Op-CF and visible growth, while remaining selective on China cyclicals. We believe the market is overreacting to the headline noise and underappreciating the resilience and structural positioning of the sector's leaders. Weichai Power, and Techtronic remain our preferred names, given their direct AIDC exposure, robust self-funded growth, and multi-year order visibility in data center and grid-linked infrastructure. We also see value in Hengli Hydraulic, Sany Heavy, XCMG, and Sinotruk, where management teams are executing well on margin discipline, global supply chain localization, and new product rollouts. As the dust settles, we expect investors to refocus on operational delivery, margin trends, and the ability to capture new growth engines—rewarding those companies that can demonstrate both resilience and innovation in a more selective market environment.

- **The US AD/CVD investigation is narrowly focused and not a broad-based threat to China machinery OEMs.** The current US anti-

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dumping/countervailing duty (AD/CVD) investigation targets linear hydraulic cylinders and certain parts imported from China, with the primary focus on component suppliers rather than whole-machine OEMs. Management teams at Hengli, Sany, and XCMG all emphasized that the investigation is not directed at their core businesses, and that the risk of duties expanding to complete machines or other key components remains low for now. The investigation has become a headline driver of recent share price volatility, but there is no evidence that it will fundamentally alter the sector's earnings outlook or long-term growth trajectory.

- **US exposure is limited for Sany, XCMG, and Hengli, and the direct P&L risk is insignificant even under aggressive duty scenarios.** For both Sany and XCMG, direct US revenue exposure is in the low single digits, with North America accounting for less than 3% of group sales and direct US sales even lower. Most hydraulic cylinders are self-manufactured and used internally, with very limited direct cylinder-part sales into the US. Hengli's US-bound cylinder exports are already being shifted to its Mexico plant, which is not subject to the same duties. Even under a scenario with a 50% duty rate and zero pass-through, we estimate that the gross margin impact for Sany or XCMG would be ~0.15ppts, underscoring the modest near-term risk.

- **Weichai Power's AIDC engine business is positioned to benefit from the global data center buildout, with positive read-throughs from the latest Generac–Amazon deal.** Generac announced overnight it has signed a long-term agreement to supply backup generators for Amazon data centers, with initial deliveries expected to total ~$2.4B in 2027–2028. As part of the deal, Amazon received warrants to buy up to 1.69MM Generac shares at $200.93/share, with some shares vesting immediately and the rest tied to Amazon purchases of up to $8B. Generac shares jumped over 40% in extended trading after the announcement. This underscores the scale and visibility of the AIDC opportunity, and Weichai's positioning as a key supplier to global data center infrastructure.

- **Global supply chain strategy is being accelerated, with localization and diversification as the key mitigation levers.** All three companies are using the current environment to accelerate global manufacturing and supply chain localization. Sany and XCMG are investing in new capacity in Brazil, Turkey, Romania, Indonesia, and North America, while Hengli is ramping up its Mexico and Indonesia plants to serve US and Japanese/Southeast Asian customers. These moves not only mitigate trade and geopolitical risk but also support customer engagement and local content requirements. Management teams are confident that these strategies will allow them to absorb any incremental costs or disruptions from future trade actions.

- **Domestic demand remains soft, but pricing discipline and margin management are supporting resilience.** Sany and XCMG both

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acknowledged that domestic demand is under pressure, with 3Q domestic sales likely to be flat or slightly down Y/Y. However, both companies are seeing less aggressive price competition and more rational market behavior, which is supporting margin resilience. Sany expects 3Q group margin to be stable or only slightly lower, with NPM poised to recover as FX losses narrow. XCMG is also seeing margin improvement from higher overseas sales and a more favorable product mix, and both companies are proactively managing FX risk through natural hedging and pricing adjustments.

- **Overseas expansion is the key growth engine, with 3Q overseas revenue growth poised to exceed 20% for Sany and XCMG.** Both Sany and XCMG reported that their overseas businesses are more than offsetting domestic weakness, with 3Q overseas growth rates expected to exceed 20%. Sany's overseas product mix is becoming more balanced, with non-excavator products outperforming expectations, and the company is accelerating capacity expansion in multiple regions. XCMG is seeing strong growth in Europe, Southeast Asia, and Africa, with 3Q regional growth rates ranging from 15% to 50%. Both companies are focused on channel expansion, aftersales service, and project-based sales to large customers, and are pushing for higher overseas market share in high-margin segments.

- **New products and innovation are emerging as important growth drivers, especially in robotics, automation, and high-value segments.** Hengli's robotics and automation business is ramping up, with new product lines and major US customers expected to drive significant growth in 2027. The company is targeting global leadership in key niches such as ball screws and linear motion products, and is investing in capacity and technology to support this ambition. Sany and XCMG are also launching new products and expanding their portfolios in high-margin segments, with a focus on electrification, automation, and digitalization to support long-term growth and margin improvement.

- **Management teams are using the current environment to drive efficiency, resilience, and long-term positioning.** All three companies are accelerating cost control, digitalization, and supply chain localization to protect margins and support long-term growth. Sany is increasing the pace of global manufacturing base buildout, XCMG is pushing for higher overseas market share in high-margin segments, and Hengli is leveraging its robotics and automation business to diversify revenue streams. Customer and channel development is being prioritized, with a focus on direct engagement, aftersales service, and project-based sales to large accounts. Management teams are confident that these strategies will allow them to maintain earnings resilience and capture new growth opportunities as the cycle matures.

- **Investor and market feedback highlight that the AD/CVD investigation is the main driver of recent volatility, but underlying**



fundamentals remain intact. Feedback from investors and management over the past 24 hours suggests that the market is reacting to the AD/CVD investigation as the primary driver of the latest sell-off, with some fast-money accounts shorting or selling some oil-sensitive names. However, management feedback and recent results suggest that higher oil prices have not materially affected financial performance or demand trends for the leading OEMs, except in the diesel/LNG truck segment. Weichai Power, for example, is now increasingly driven by AIDC, which is less exposed to oil price volatility. The recent slump is reminiscent of the March sell-off, but the underlying fundamentals remain intact for most names, in our view.

- **Zoomlion is focusing on margin resilience and overseas growth, even as it is not directly impacted by the US AD/CVD investigation.** Zoomlion's management attributes the recent share price pressure to broader macro and demand-related factors, including rate hikes, higher oil prices, and weak domestic demand. The company is monitoring the situation closely and continues to focus on overseas expansion, product mix optimization, and cost control to support margin resilience. Management is also pushing for a higher overseas market share in high-margin segments and expects new product launches to support growth in 2H26 and beyond.

- **The sector is poised to refocus on operational execution, margin trends, and new growth drivers as the dust settles.** While the AD/CVD investigation is likely to remain a headline overhang and could keep volatility elevated in the near term, we do not see evidence that it meaningfully alters the fundamental earnings outlook or long-term growth trajectory for Sany, XCMG, Hengli, Weichai Power, or the other leading names. Management teams are proactively managing risk through global supply chain diversification, local production, and customer engagement, and are well positioned to absorb any incremental costs or disruptions. We expect the market to refocus on operational execution, margin trends, and new growth drivers as the dust settles.

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Table 1: Machinery Sector Valuations Comparison

	BBG	JPM rating	Last Price	JPM PT	Upside/	Mkt Cap	YTD	P/E (x)		EV/EBITDA		Dividend yield		ROE (%)		P/B (x)	
	Ticker		LC	LC	Downside	US$Mn	Stock perf.	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Weichai Power-H	2338 HK	OW	29.42	55.00	87%	32,736	36%	14.0	12.3	7.5	6.5	4.1	4.7	15.9	16.6	2.1	2.0
Weichai Power-A	000338 CH	OW	25.48	52.00	104%	32,736	48%	14.2	12.4	7.5	6.5	4.1	4.7	15.9	16.6	2.2	2.0
Techtronic	669 HK	OW	129.50	179.00	38%	30,167	44%	20.6	17.8	11.9	10.8	2.5	2.8	19.9	20.5	3.9	3.4
Sinotruk	3808 HK	OW	38.48	55.00	43%	13,544	39%	10.2	8.9	6.8	6.2	4.4	5.6	18.6	19.2	1.8	1.6
CRRC-H	1766 HK	OW	5.11	7.00	37%	24,462	-5%	8.6	7.7	7.6	7.0	5.3	5.9	8.3	8.8	0.7	0.7
CRRC-A	601766 CH	OW	5.96	9.10	53%	24,462	-3%	11.7	10.5	7.6	7.0	3.9	4.4	8.3	8.8	0.9	0.9
ZZ CRRC-H	3898 HK	OW	28.84	47.00	63%	7,551	-23%	7.3	6.5	7.8	7.0	5.1	5.7	10.4	10.9	0.7	0.7
ZZ CRRC-A	688187 CH	OW	45.19	67.00	48%	7,551	-12%	13.3	12.0	7.8	7.0	2.8	3.1	10.4	10.9	1.3	1.3
SANY Heavy-A	600031 CH	OW	18.04	29.00	61%	24,446	-5%	17.0	11.8	8.5	7.2	2.9	4.3	10.7	14.3	1.8	1.6
SANY Heavy-H	6031 HK	OW	18.02	31.00	72%	24,446	-20%	14.5	10.1	8.5	7.2	3.4	5.0	10.7	14.3	1.5	1.4
SANY Heavy Equipment	631 HK	NC	9.21	NA	NA	3,863	6%	11.6	8.6	7.4	5.8	4.5	6.1	15.2	18.3	1.8	1.6
XCMG	000425 CH	OW	7.54	11.00	46%	13,181	-35%	11.3	8.4	11.3	8.7	3.2	4.2	12.6	15.3	1.3	1.2
Zhejiang Dingli	603338 CH	N	54.93	52.00	-5%	4,146	3%	12.5	11.1	9.7	8.5	2.5	2.8	18.4	18.6	2.2	1.9
Zoomlion-H	1157 HK	NC	5.75	NA	NA	7,686	-26%	8.4	6.9	10.7	9.3	7.8	9.3	8.6	10.1	0.7	0.7
Zoomlion-A	000157 CH	NC	6.19	NA	NA	7,686	-28%	10.0	8.3	10.7	9.3	6.6	7.8	8.6	10.2	0.9	0.9
Hangcha Group	603298 CH	NC	23.38	NA	NA	4,565	-12%	12.7	11.2	9.7	8.7	2.2	2.2	18.5	18.0	2.3	2.0
Anhui Heli	600761 CH	NC	15.43	NA	NA	2,049	-26%	10.4	9.0	6.3	5.7	3.1	3.5	11.3	12.1	1.2	1.1
Jiangsu Hengli	601100 CH	OW	90.44	121.00	34%	18,079	-18%	40.7	29.8	27.1	22.2	1.0	1.4	16.4	19.8	6.3	5.5
CIMC-ENRIC	3899 HK	OW	7.70	12.00	56%	2,072	-29%	11.6	7.2	6.3	5.3	4.3	7.0	9.3	13.7	1.1	1.1
Komatsu	6301 JP	NC	7080.00	NA	NA	42,463	42%	16.0	14.6	10.2	9.6	2.8	3.0	11.0	NA	1.7	1.6
HCM	6305 JP	NC	5678.00	NA	NA	7,874	23%	13.5	11.5	7.5	6.7	3.4	3.7	9.7	NA	1.3	1.2
HD Hyundai Heavy	329180 KS	OW	440500.00	710000.00	61%	33,778	-13%	11.8	11.2	6.9	6.5	3.2	3.2	30.4	NA	3.3	2.7
UN TRACTOR	UNTR IJ	OW	26175.00	30200.00	15%	5,521	-11%	7.9	6.4	3.7	3.2	6.5	5.0	11.4	13.1	0.9	0.8
Caterpillar	CAT US	OW	783.54	1100.00	40%	360,174	37%	27.8	23.5	19.7	17.5	0.8	0.8	67.3	77.0	20.6	19.9
Cummins	CMI US	N	538.02	690.00	28%	74,066	6%	18.4	16.3	11.6	10.5	1.6	1.8	30.8	29.7	5.3	4.4
Terex	TEX US	N	58.36	68.00	17%	6,671	-9%	11.8	10.3	9.0	7.8	1.3	1.5	15.0	11.7	1.2	1.1
Oshkosh	OSK US	N	143.17	150.00	5%	8,839	14%	14.5	11.8	8.5	7.6	1.6	1.8	14.2	15.8	1.8	1.6
URI	URI US	N	989.13	1170.00	18%	61,566	22%	20.0	17.4	9.5	8.6	NA	NA	30.6	31.8	6.3	5.6
Average								**14.2**	**11.7**	**9.6**	**8.3**	**3.5**	**4.1**	**16.2**	**17.7**	**2.6**	**2.4**

Source: Bloomberg Finance L.P. (data as of 16 September 2026), J.P. Morgan estimates. Consensus estimates for the not covered (NC) companies, J.P. Morgan estimates for all others. For the Japanese companies, next FY figures are taken because the FY ends in March. Past results are not an indicator of future performance.

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Table 2: AIDC Sector Valuations Comparison

	BBG	JPM rating	Last Price	JPM PT	Upside/	Mkt Cap	YTD	P/E (x)		EPS growth Y/Y		PEG		ROE (%)		P/B (x)	
	Ticker		LC	LC	Downside	US$Mn	Stock perf.	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Weichai Power-H	2338 HK	OW	31.18	55.00	76%	34,260	65%	14.8	13.0	22%	14%	0.7	0.9	15.9	16.6	2.3	2.1
Weichai Power-A	000338 CH	OW	26.04	52.00	100%	33,475	51%	14.5	12.7	22%	14%	0.6	0.9	15.9	16.6	2.2	2.0
Yantai Jereh	002353 CH	OW	120.70	162.00	34%	18,409	70%	35.6	24.2	14%	47%	2.5	0.5	14.1	14.5	4.6	3.9
Yingliu	603308 CH	OW	41.47	85.00	105%	4,500	-1%	48.2	30.3	71%	59%	0.7	0.5	11.1	16.1	4.8	4.4
Techtronic	669 HK	OW	129.90	179.00	38%	30,262	44%	20.7	17.8	21%	16%	1.0	1.1	19.9	20.5	3.9	3.5
HD Hyundai Electric	267260 KS	OW	700000	1375000	96%	18,541	-10%	25.3	18.8	40%	34%	0.6	0.5	42.4	43.1	9.4	7.1
Hyosung Heavy Industr	298040 KS	OW	2689000	4100000	52%	18,424	50%	30.0	22.0	60%	36%	0.5	0.6	30.5	31.4	8.0	6.0
Gas/diesel engine manufacturers and OEMs																	
Caterpillar	CAT US	OW	784.00	1100.00	40%	360,385	37%	27.8	23.5	31%	18%	0.5	1.3	67.3	77.0	20.6	19.9
Cummins	CMI US	N	541.10	690.00	28%	74,490	6%	18.5	16.4	27%	13%	0.7	1.3	30.8	29.7	5.3	4.5
Generac	GNRC US	OW	176.98	261.00	47%	10,443	30%	18.4	17.8	52%	4%	0.4	4.9	19.8	17.7	3.3	2.9
Wartsila	WRT1V FH	N	27.08	30.60	13%	18,487	-10%	25.1	23.3	16%	7%	1.6	3.2	20.7	21.6	5.6	5.0
China Yuchai Internatio	CYD US	NC	35.00	NA	NA	1,313	-1%	10.3	8.6	40%	20%	0.3	0.4	8.7	9.8	0.9	0.8
Weichai Heavy Machine	000880 CH	NC	24.22	NA	NA	1,674	-11%	29.2	16.6	NA	NA	NA	NA	15.9	22.8	NA	NA
Shanghai New Power A	600841 CH	NC	5.57	NA	NA	959	-9%	26.5	12.1	NA	NA	NA	NA	3.0	8.0	1.1	1.2
Tellhow Sci-Tech	600590 CH	NC	8.40	NA	NA	1,067	-11%	19.8	14.1	NA	40%	NA	0.4	10.0	12.9	2.0	1.8
Shanghai Cooltech	300153 CH	NC	24.50	NA	NA	1,168	-16%	52.1	31.8	-45%	64%	NA	0.5	15.0	21.8	7.9	6.9
Average								**26.0**	**18.9**	**30%**	**28%**	**0.8**	**1.2**	**21.3**	**23.8**	**5.5**	**4.8**
Turbine Components/OEM																	
Howmet	HWM US	OW	227.13	350.00	54%	90,580	11%	42.1	34.9	46%	20%	0.9	1.7	34.3	34.7	NA	NA
GE Vernova	GEV US	OW	874.76	1330.00	52%	232,978	34%	25.8	31.7	386%	-19%	0.1	-1.7	60.0	37.6	16.0	11.2
Siemens Energy	ENR GY	OW	133.04	245.00	84%	132,169	10%	25.3	18.7	225%	35%	0.1	0.5	35.8	35.5	7.9	5.8
Mitsubishi Heavy Indus	7011 JP	NC	3701.00	NA	NA	80,601	-4%	43.5	28.8	6%	51%	7.4	0.6	11.6	13.2	4.8	3.7
Baker Hughes	BKR US	OW	56.78	74.00	30%	56,364	25%	24.1	21.3	-5%	13%	-5.0	1.7	11.4	11.5	2.5	2.4
Doosan Enerbility	034020 KS	OW	86200.00	130000.00	51%	40,573	14%	137.2	82.3	NA	67%	NA	1.2	5.0	7.9	6.7	6.2
Caterpillar	CAT US	OW	784.00	1100.00	40%	360,385	37%	27.8	23.5	51%	18%	0.5	1.3	67.3	77.0	20.6	19.9
Dongfang Electric	1072 HK	NC	18.79	NA	NA	11,938	-25%	11.6	10.1	20%	15%	0.6	0.7	10.2	11.1	1.2	1.1
Average							13%	**42.2**	**31.4**	**104%**	**25%**	**0.7**	**0.7**	**29.4**	**28.5**	**8.5**	**7.2**
SOFC																	
Bloom Energy	BE US	OW	257.05	314.00	22%	75,708	196%	93.5	46.1	588%	103%	0.2	0.5	62.1	60.9	39.1	21.5
Ceres Power	CWR LN	NC	370.40	NA	NA	1,067	74%	NA	NA	NA	NA	NA	NA	-3.8	0.5	668.0	606.7
Average								**93.5**	**46.1**	**588%**	**103%**	**0.2**	**0.5**	**29.1**	**30.7**	**353.6**	**314.1**

Source: Bloomberg Finance L.P. (data as of 16 September 2026), J.P. Morgan estimates. Consensus estimates for the not covered (NC) companies, J.P. Morgan estimates for all others. For the Japanese companies, next FY figures are taken because the FY ends in March. Past results are not an indicator of future performance.