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XCMG - A

Fireside chat takeaways – domestic demand stabilizes; overseas and high-end mining drive growth for XCMG

Overweight

000425.SZ, 000425 CH
Price: Rmb8.38
09 Sep 2026
Price Target: Rmb11.00
PT End Date: 31 Dec 2027

Infrastructure, Industrials & Transport

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We hosted a fireside chat with XCMG, with management sounding incrementally more positive on the outlook for 2H26 and 2027. Management highlighted that Africa, Latin America, and Southeast Asia are poised to deliver the fastest export growth in the coming quarters, with XCMG actively competing for high-end projects and premium customers against global peers such as Caterpillar and Komatsu. Management noted that pricing discipline is improving, with price hikes already showing c.0.8% recovery since early summer and a clear willingness to prioritize margin over market share. Management expects domestic margin pressure to ease in 2H26, with further improvement possible if price hikes and product mix trends continue. Electrification and intelligent product mix are set to drive further structural improvement, while mining is positioned for medium-term growth as overseas orders ramp up and new high-end solutions are delivered. On KPIs and incentives, management reiterated a focus on Op-CF and recurring profit as key operating barometers, with incentive plans increasingly linked to cash generation, profitability, and risk control.

Stock view: Compared to Sany Heavy, with whom we also hosted a fireside chat recently, XCMG's tone is more measured but increasingly confident on margin recovery and export momentum, while still acknowledging domestic headwinds. Sany has been notably more bullish on the end of the price war and the speed and scale of margin expansion, emphasizing that price discipline has returned and that even modest price increases could drive significant profit upside. Sany also highlighted stronger domestic growth, a more aggressive stance on electrification, and a willingness to lead on industry pricing. Both companies see electrification and overseas markets as key growth drivers, but XCMG is placing greater emphasis on product mix, aftersales, and building a resilient global platform, while Sany is more vocal about near-term margin upside and market share gains. We maintain OW on both XCMG and Sany Heavy.

- **Domestic demand, soft in 1H26, is seen recovering with upside to full year guidance.** Management explained that the current guidance of single-digit domestic growth guidance for 2H26 is based on both volume and value trends, but does not yet include the potential benefit from recent price increases. Early signs from the market have been encouraging, with some product prices already recovering c.0.8% since early summer. If price hikes are fully implemented and accepted by customers, management sees room for both revenue and margin to outperform guidance. The expected acceleration in project starts under

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the 15th FYP and post-flood reconstruction are poised to provide additional support, especially into Q4 and early 2027.

- **Pricing discipline is returning, and management is more confident in margin recovery as the market digests recent changes.** Management confirmed that the intensity of price competition has eased since May, with leading OEMs signaling an end to the price war. While the pass-through of price increases to margins is lagging due to inventory and cost factors, management is willing to prioritize profitability over market share. The company expects domestic margin pressure to ease in 2H26, with further improvement possible if price hikes and product mix trends continue. Management's willingness to prioritize margins over share marks a notable shift in strategy.

- **The 3Q/4Q outlook is for a gradual improvement in domestic sales and a stronger export performance, with Q4 set to benefit from new project starts and post-disaster reconstruction.** Management expects Q3 domestic sales to show low single-digit growth, with Q4 improving as special bond-driven projects and new FYP initiatives ramp up. Export growth is poised to accelerate, with management highlighting Africa, Latin America, and Southeast Asia as the fastest-growing regions. Post-flood reconstruction is expected to provide a modest lift to demand, but management does not see it changing the overall demand curve. The company's export pipeline remains robust, and overseas revenue is set to remain a key driver.

- **Mining equipment remains a mixed story, but management is optimistic about the medium-term outlook as overseas orders ramp up and electrification gains traction.** Domestic mining sales have been dragged by weak coal prices and reduced capex, but overseas mining grew over 20% Y/Y in 1H26. Management is focused on high-margin, large-scale projects in Australia and Brazil, with the FMG order beginning delivery in September and a pipeline of c.Rmb50B in new opportunities. The company is also pushing forward on electrification and automation, with electric mining trucks and unmanned fleets gaining traction in key markets. Management expects mining to be a long-term growth engine, with aftersales and service revenue targeted to reach 30–40% of segment sales in five years.

- **Exports and electrification are driving structural improvement, with electric and intelligent products continuing to deliver strong mix improvement.** Management highlighted that Africa delivered the fastest growth, while Latin America, Europe, and Southeast Asia also posted double-digit gains. The company's strategy is to leverage high-end, differentiated products and local service centers to build share in key regions. Electric and intelligent products contributed Rmb9.2B and Rmb8.7B, respectively, in 1H26, both up over 25% Y/Y, and management sees further upside as electrification penetrates mining, construction, and heavy truck segments.

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Investment Thesis

XCMG has evolved into China's leading construction machinery producer, with its transformation since 2022 marked by mixed-ownership reform, asset injections, and a series of operational upgrades. These changes have improved profitability and efficiency, enabling XCMG to strengthen its competitive position both domestically and globally. The company's portfolio spans crane machinery, wheel-loaders, and excavators, reflecting a strategy to maintain balance and flexibility across market cycles. As XCMG continues to optimize costs and manage capital with discipline, it is positioned to capture growth from domestic replacement demand, upcoming infrastructure projects, and further international expansion.

Valuation

Our Dec-27 price target of Rmb11.0 is DCF-based, using the following WACC assumptions: risk-free rate of 2.5%, equity premium of 6.8%, beta of 1.1, cost of equity of 10%, cost of debt after tax of 4.3%, tax rate of 15.0%, target debt to capital of 40.0%, WACC of 7.7%, and terminal growth rate of 1%. This valuation framework incorporates the company's strategic initiatives and expected improvements in operational discipline, asset quality, and Op-CF generation.

Table 1: Price target assumptions and calculation

WACC assumptions	
Risk-free rate	2.5%
Equity premium	6.8%
Beta	1.1
Cost of equity	10.0%
Cost of debt aft tax	4.3%
Target debt to capital	40.0%
WACC	7.7%
Terminal growth	1%
Cost of Debt	5.0%
Pre-tax Cost of Debt	5.0%
Tax Rate	15.0%
After-tax Cost of Debt	4.3%
PT derivation	
NPV (Rmb MM)	158,816
Net debt (Rmb MM)	(23,763)
Minority interest (Rmb MM)	(1,611)
Equity value (Rmb MM)	133,442
Dec-29 PT (Rmb)	11.0

Source: J.P. Morgan estimates.

Risks to Rating and Price Target

Downside risks include: (1) worse-than-expected domestic construction machinery sales; (2) greater-than-anticipated tariff impact from geopolitical tensions; and (3) more intense domestic and overseas competition than we expect.

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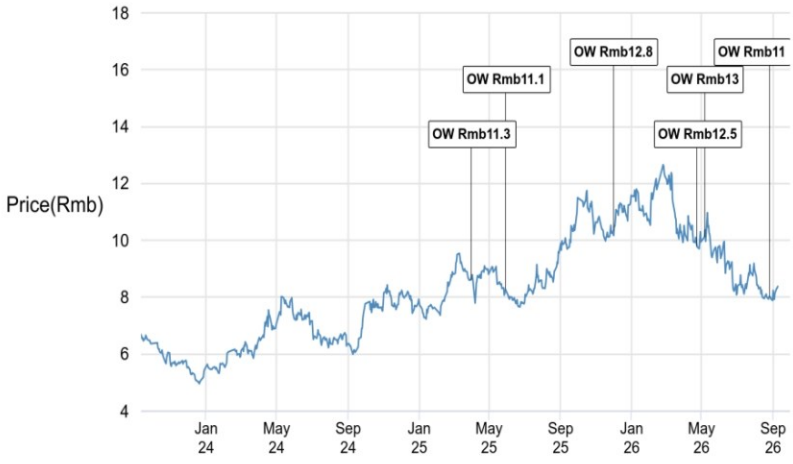
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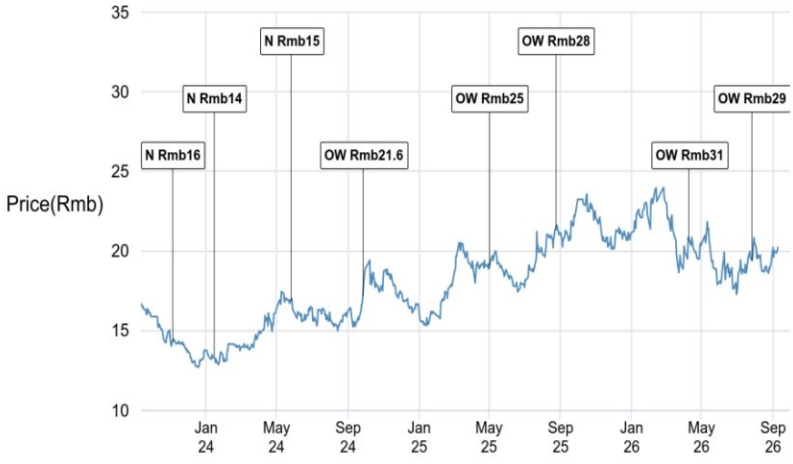
XCMG - A (000425.SZ, 000425 CH) Price Chart



Date	Rating	Price (Rmb)	Price Target (Rmb)
01-Apr-25	OW	8.62	11.3
30-May-25	OW	8.27	11.1
01-Dec-25	OW	10.32	12.8
24-Apr-26	OW	9.80	12.5
07-May-26	OW	10.12	13
26-Aug-26	OW	8.02	11

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
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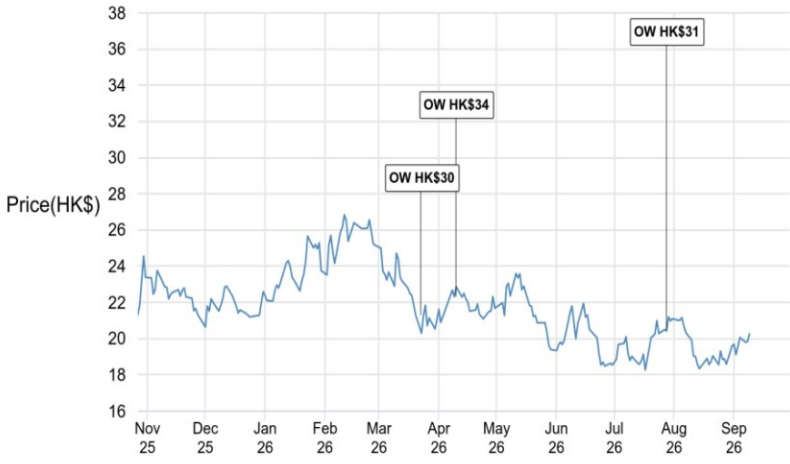
Sany Heavy Industry - A (600031.SS, 600031 CH) Price Chart



Date	Rating	Price (Rmb)	Price Target (Rmb)
05-Nov-23	N	14.24	16
15-Jan-24	N	13.32	14
27-May-24	N	16.83	15
27-Sep-24	OW	17.19	21.6
02-May-25	OW	18.89	25
24-Aug-25	OW	21.30	28
10-Apr-26	OW	20.66	31
28-Jul-26	OW	19.40	29

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage May 26, 2015. All share prices are as of market close on the previous business day.

Sany Heavy Industry - H (6031.HK, 6031 HK) Price Chart



Date	Rating	Price (HK$)	Price Target (HK$)
23-Mar-26	OW	21.30	30
10-Apr-26	OW	22.32	34
28-Jul-26	OW	20.50	31

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
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