18 May 2026

CMB International Global Markets | Equity Research | Sector Update

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# Capital Goods

## Takeaways from Dongfang Electric plant visit

**OUTPERFORM (Maintain)**

**China Capital Goods Sector**


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We joined the reverse roadshow arranged by **Dongfang Electric ("DEC") (1072 HK/600875 CH, NR)** on 15 May, and visited the production base of Dongfang Turbine (subsidiary of DEC) in Deyang, Sichuan. The event attracted ~200 analysts and investors. The discussion was mostly on the growth outlook of DEC's gas turbine which is highly benefiting from the growth of AIDC power demand. Management revealed the capacity expansion plan for gas turbines and the latest order intakes in Canada. Based on the management tone, the demand for gas turbines remains robust at the moment and we see more order intakes in the near future. We also believe the sufficient capacity will enable DEC to win more orders in overseas markets as its major global competitors' capacity has almost been fully booked for the next 2-3 years**.**

**Key takeaways:**

- **Gas turbine new order intakes for AIDC customer in Canada.** DEC has signed an agreement to deliver 10 units of gas turbines (G50, 50MW model) to an AIDC company in Canada (CMBI note: Synapse data centre project). The agreement covers the entire construction service. DEC is also in discussion with the customer to offer full lifecycle services. DEC's existing capacity is enough to satisfy this batch of new orders. Based on our understanding, DEC currently has a gas turbine backlog of close to 20 units in total.
- **Capacity expansion plan for gas turbine.** The capacity expansion plan will be in two phases. For phase one, construction will be completed by 2027, which will take the annual capacity of small-to-medium size gas turbines to 20 units and large-size model to 3 units. Capex for phase one is ~RMB735mn. For phase two, the commencement year will be in 2029. The capacity for small-to-medium size models will increase to 30 units and large-size model will be 10 units. Capex will be ~RMB860mn. As for product offerings, DEC currently offers a full suite from 15MW to 500MW with multi-fuel capability (including natural gas, hydrogen, ammonia, etc.).
- **China tender volumes for major power equipment segments in 2026:** In China, DEC expects the industry tender volume for coal-fired power equipment to be 50GW in 2026 (1Q26: ~16GW) and will remain stable in 2027 and 2028. Wind power is expected to reach 133GW (1Q26: 31GW) in 2026. Hydro power is expected to be 30GW (1Q26 6.6GW). Gas-fired power is expected to be 7GW (1Q26: 1.4GW).
- **Impact of recent raw materials and energy cost increases:** For raw materials, the impact is from the components of engines and furnaces, but the overall cost hike is only 1%. For oil price, the impact is mainly on gas turbine which will result in ~3% increase in total cost. Management will mitigate the cost impact through the execution of long-term supply agreements, improvement of efficiency, the use of hedging and negotiation with clients on pass-through.

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