PSG Wealth

Company Update Report

Caterpillar Inc.

Industrials

Ticker	CAT-US
Share price	$904
Intrinsic value	$840
Upside/(Downside)	-7%
Recommendation	Hold

As at: 8 June 2026

Analyst thesis

Our recommendation is based on:

- Caterpillar's (CAT) scale, dealer network and installed base provide a structural advantage versus the average industrial company. Its broad product portfolio, global dealer support, and more than 1.6 million connected assets strengthen customer retention, aftermarket capture, and pricing power, which should support more resilient earnings through the cycle.
- The business is well-positioned across several long-duration capex themes, including data centres, grid reinforcement, energy infrastructure, mining, and critical minerals. Power & Energy are becoming increasingly important parts of the investment case as growing demand for artificial intelligence (AI)/data-centre power increases the need for reciprocating engines, turbines and integrated power solutions.
- Services is a key earnings-quality lever, with FY25 Machinery, Power & Energy (MP&E) services revenue of $24 billion representing approximately 36% of group sales. This aftermarket, maintenance and lifecycle-support revenue is more recurring and annuity-like than original equipment sales, helping to reduce earnings volatility in an otherwise cyclical business.
- Order backlog increased by 79%, from $35 billion in 1Q25 to $63 billion in 1Q26, improving revenue visibility, particularly in Power & Energy.
- While the long-term fundamentals remain attractive, we believe the current share price already reflects a meaningful portion of the improved growth outlook. We therefore have a hold recommendation, balancing CAT's stronger structural positioning against elevated valuation, tariff-related cost pressure, and normal cyclicality in its end markets.

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Key highlights

In this report, we review CAT's reported 1Q26 results and evaluate the impact on our outlook:

Financial results at a glance:

- Sales increased by 22%, from $14.2 billion in 1Q25 to $17.4 billion in 1Q26, driven by higher volumes, favourable pricing and currency movements. MP&E sales improved by 23%, from $13.4 billion to $16.5 billion, accounting for approximately 95% of group sales. The $3.1 billion increase in MP&E sales was driven by $2.3 billion of higher sales volume, $426 million of favourable price realisation, and $351 million of currency benefit. However, the volume growth was not solely attributable to end-user demand: CAT noted that higher volume was mainly driven by dealer inventory changes and higher equipment sales to end users, with dealer inventory rising more in 1Q26 than in 1Q25. While dealer restocking supports near-term sales growth, it could reverse if retail demand softens.
- Operating costs rose by 23%, from $11.7 billion in 1Q25 to $14.3 billion in 1Q26, with the cost of goods sold increasing by 26%, from $9 billion to $11.3 billion, reflecting higher sales volumes and tariff-related manufacturing cost pressure. Selling, general and administrative (SG&A) grew by 14%, from $1.6 billion to $1.8 billion, while research and development (R&D) expenditure increased by 12%, from $480 million to $540 million. However, the key margin headwind was not the volume-driven increase in costs, but rather the $710 million in unfavourable manufacturing costs, which were largely tariff-related.
- Operating profit advanced by 20%, from $2.6 billion to $3.1 billion, but the operating margin declined from 18.1% to 17.7%, reflecting the impact of tariff-related costs and broader cost inflation pressure, which offset some of the benefits of strong sales growth.
- Diluted earnings per share (EPS) increased by 30%, from $4.20 in 1Q25 to $5.47 in 1Q26, while adjusted EPS also rose by 30%, from $4.25 to $5.54 over the same period.
- Sales improved across all three primary segments. The construction industry was the largest growth contributor, with sales rising by 38%, from $5.2 billion in 1Q25 to $7.2 billion in 1Q26, contributing $2 billion of the $3.2 billion consolidated sales increase. Power and energy sales grew by 22%, from $5.8 billion to $7 billion, adding $1.2 billion, supported by power-generation demand. Resource industries' sales rose by 4%, from $3.7 billion to $3.8 billion over the same period.
- Enterprise operating cash flow expanded by 45%, from $1.3 billion in 1Q25 to $1.9 billion in 1Q26. CAT returned $5.7 billion to shareholders during the quarter, comprising of $5 billion in buybacks and $700 million in dividends. The results support resilient demand and capital returns, but dealer inventory rebuilds and tariff-related manufacturing costs remain key watchpoints.

Management's guidance and sector outlook:

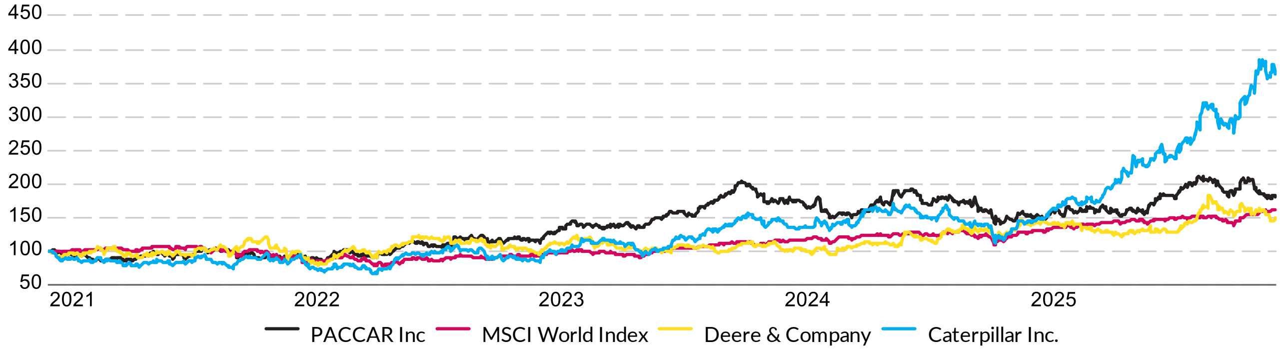
Data-centre demand, grid constraints and energy bottlenecks are supporting growth in CAT's power businesses, supported by infrastructure expansion and critical-minerals investment, contributing to a record backlog. Management expects low-double-digit sales growth in FY26 and enterprise sales CAGR of 6%-9% through FY30, with power-generation sales projected to more than triple relative to FY24 levels. However, higher fuel and energy prices, tariffs, trade restrictions, Asia-Pacific growth softness, capacity execution, and dealer inventory volatility remain key risks, while the valuation already discounts a material portion of the improved outlook.

Table 1: Qualitative summary

Factor	Rating	Description
Growth	★★★★☆	Expected three-year revenue CAGR is 11.5%, and expected three-year EPS CAGR is 24.4%. We expect earnings growth over the next three years to be driven by: -Power & Energy, which remain the primary growth drivers, are supported by demand from strong data-centres and power-generation. -Recurring services revenue from connected assets should support recurring, resilient earnings. -Construction remains supportive, while mining and critical minerals provide longer-term upside. -Overall, the growth outlook is attractive, but much of this appears reflected in the share price.
Valuation	★★☆☆☆	The share price is trading at a 7% premium to the intrinsic value (IV). Current NTM P:E of 32.6x is trading at an 84% premium to the five-year average P:E of 17.7x.
Dividend	★★☆☆☆	LTM dividend yield 0.7%. NTM dividend yield 0.7%.
Issuance	★★★★★	Shares issued have decreased by 14% in the past five years.
Catalyst	Record order backlog creates revenue visibility, particularly in Power & Energy. Demand is likely to persist as data-centre expansion increases capex with higher energy demand and construction activity. Mining expansion provides an upside from higher commodity prices that incentivise new projects and fleet replacement. Additional capacity in large engines and turbines to service the high backlog level and increase realised sales.	
Quality of earnings	★★★★☆	Five-year average ROE of 47.9% Five-year average operating margin of 17.5% The business has recorded positive earnings growth over seven of the past 10 years.
Moat	★★★★☆	Intangible assets: CAT's brand strength, scale, product breadth, and global dealer network create a durable moat across equipment, engines, power solutions, and services. Its network of 150 CAT dealers across 190 countries and installed base of more than 4 million products creates a substantial aftermarket opportunity through parts, maintenance, rebuilds and lifecycle services. CAT's moat is reinforced by high operational switching costs driven by uptime sensitivity, total cost of ownership considerations, and its global dealer and parts ecosystem. Cost advantage: CAT benefits from large-scale manufacturing, procurement and logistics efficiencies that lower unit costs. Its global footprint allows fixed costs like R&D and production to be spread over a large base, supporting strong margins and making it difficult for smaller competitors to compete on cost.
Management and governance	★★★★☆	Joe Creed, a 28-year Caterpillar veteran and former COO, became CEO on 1 May 2025 following Jim Umpleby's transition to executive chairman. Creed assumed the role of chairman on 1 April 2026 after Umpleby retired from the board. The CFO succession also appears well-planned, with long-serving executive Kyle Epley appointed as CFO from 1 May 2026. Management depth, operational experience and capital-allocation discipline remain strengths. However, the combined CEO and chairman structure modestly reduces governance independence relative to best practice, partly offset by the presence of a lead independent director.
Balance sheet	★★★☆☆	Net debt/EBITDA ratio of 2.4x, interest coverage ratio of 26.4x. The debt/assets ratio of 44.7% is in line with the five-year average of 45.1%.
Risks	Tariffs, trade restrictions and cost inflation could pressure incremental margins if CAT cannot fully offset higher manufacturing costs through price and productivity. Dealer inventory rebuild could reverse if end-user demand weakens. Cyclical exposure to construction, mining, energy, infrastructure, and commodity capex remains the key downside risk. Power and energy growth depend on timely capacity expansion and sustained data-centre/power demand. Higher fuel costs and elevated interest rates could reduce customer affordability and delay equipment purchases, particularly in construction, mining and dealer inventory-sensitive markets. This could place pressure on sales volumes, backlog conversion and dealer demand if end-user activity weakens.	

Source: FactSet

Graph 1: Five-year price (Indexed to 100)



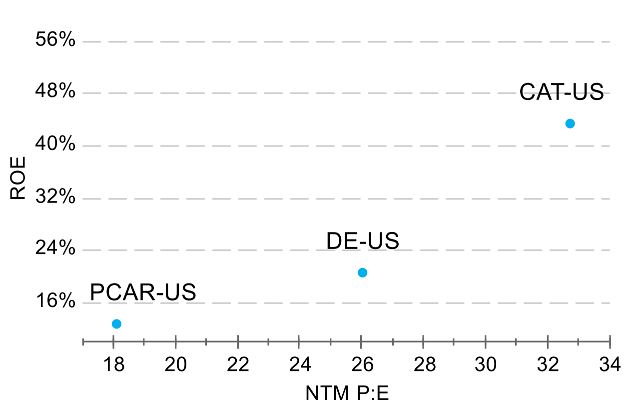
Source: FactSet

Table 2: Price performance versus benchmark and peers

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
CAT-US	52.9%	0.0%	17.9%	52.1%	149.0%	159.0%	313.5%	263.3%	1117.2%
PCAR-US	0.8%	0.0%	-12.5%	4.7%	17.1%	4.9%	54.7%	80.8%	197.6%
DE-US	16.5%	0.0%	-13.9%	16.7%	7.7%	48.6%	51.8%	50.1%	573.5%
MSCI world	9.8%	4.6%	7.3%	10.8%	25.8%	39.6%	70.0%	69.2%	196.0%

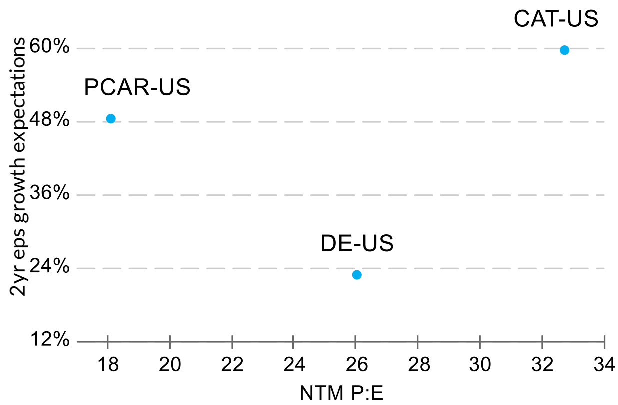
Source: FactSet

Graph 2: P:E vs 2Y average ROE



Source: FactSet

Graph 3: P:E vs EPS 2Y CAGR forecast



Source: FactSet

Valuation

We value CAT using a scenario-based DCF. While the base-case LTG of 6% is above a typically mature cyclical industrial assumption, it is supported by record backlog, Power & Energy growth, capacity expansion, and a larger recurring services base. The 3% bear case reflects weaker backlog conversion and margin pressure, while the 7% bull case assumes stronger Power & Energy demand and better price-cost recovery. As the probability-weighted intrinsic value remains below the current share price, much of the improved outlook appears priced in. We therefore maintain a hold recommendation.

Table 3: Valuation table

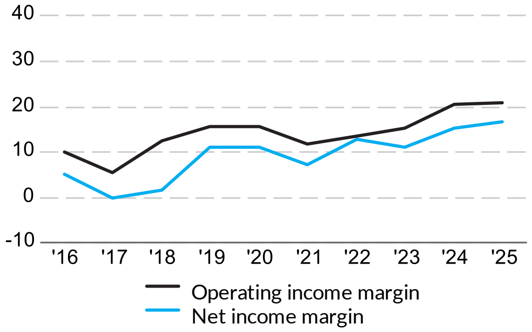
Valuation Probabilities			
	Bear	Base	Bull
LTG rate	3.0%	6.0%	7.0%
Probability	15%	65%	20%
Scenario fair value	$471	$802	$1 237
Weighted intrinsic value			**$840**
Upside/(downside)			-7%

Source: PSG Wealth Research FactSet

Graph 4: NTM P:E relative to benchmark

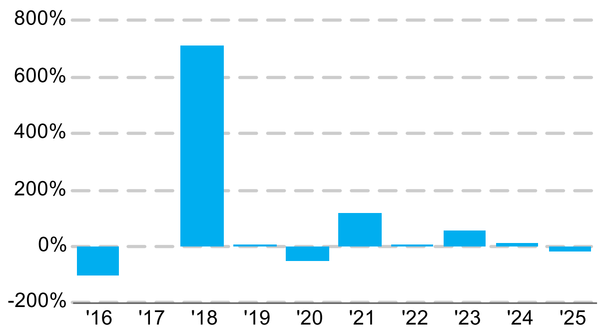
Source: FactSet

Graph 5: Profit margins (%)



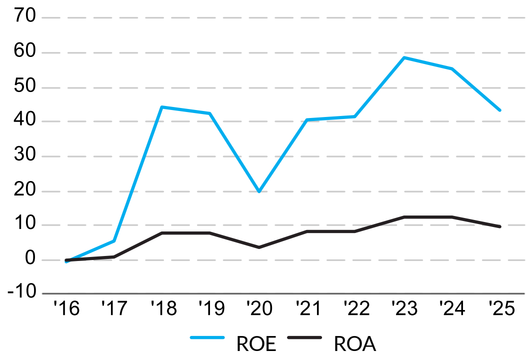
Source: FactSet

Graph 6: 10Y EPS year-on-year change



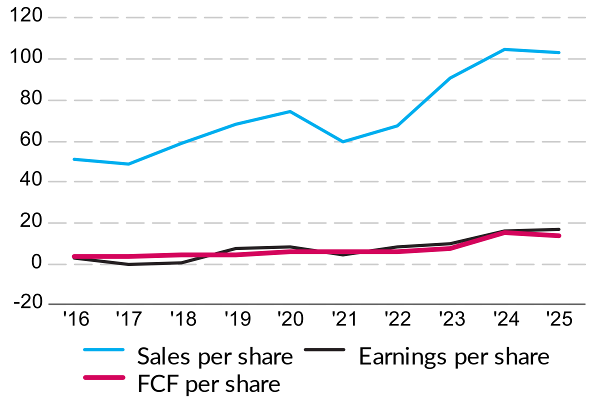
Source: FactSet

Graph 7: ROE and ROA (%)



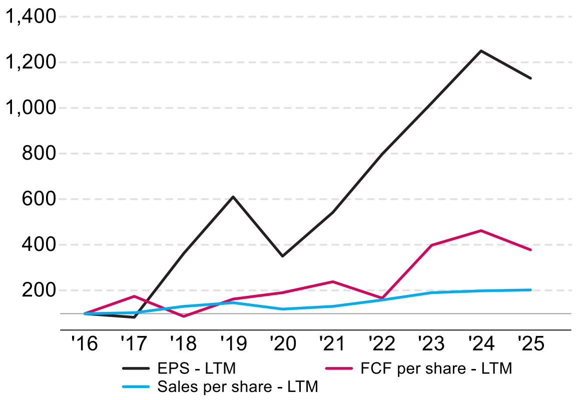
Source: FactSet

Graph 8: Sales, earnings and FCF per share (USD)



Source: FactSet

Graph 9: Sales, earnings and FCF per share indexed



Source: FactSet

Graph 10: NTM P:E

Source: FactSet

Table 4: Financials and ratios

Income statement ($Mn)	Dec 20	Dec 21	Dec 22	Dec 23	Dec 24	Dec 25	1Y Growth	3Y CAGR	5Y CAGR
Revenue	41 746	50 984	59 427	67 060	64 809	67 589	4%	4%	10%
Cost of sales	29 082	35 513	41 350	42 767	40 199	44 752	11%	3%	9%
Gross income	12 664	15 471	18 077	24 293	24 610	22 837	-7%	8%	13%
EBIT	4 553	6 878	7 904	12 966	13 072	11 151	-15%	12%	20%
EBITDA	7 412	9 320	11 342	15 970	15 684	13 861	-12%	7%	13%
Net income	2 998	6 489	6 705	10 335	10 792	8 884	-18%	10%	24%
EPS ($)	5.5	11.8	12.6	20.1	22.1	18.8	-15%	14%	28%
Balance sheet ($Mn)	**Dec 20**	**Dec 21**	**Dec 22**	**Dec 23**	**Dec 24**	**Dec 25**	**1Y Growth**	**3Y CAGR**	**5Y CAGR**
Total assets	78 324	82 793	81 943	87 476	87 764	98 585	12%	6%	5%
Total shareholders' equity	15 378	16 516	15 891	19 503	19 494	21 318	9%	10%	7%
Total liabilities	62 946	66 277	66 052	67 973	68 270	77 267	13%	5%	4%
Ratios	**Dec 20**	**Dec 21**	**Dec 22**	**Dec 23**	**Dec 24**	**Dec 25**	**5Y Avg**		
Net debt/EBITDA	3.8	3.1	2.6	1.9	2.0	2.4	2.4		
Interest coverage	9.8	14.4	20.6	27.1	26.4	26.4	23.0		
Debt/assets	48.2	46.4	45.9	44.0	44.4	44.7	45.1		

Source: FactSet

Table 5: Standard finance and investment abbreviations

Abbreviation	Definition
AI	Artificial Intelligence
CAGR	Compound annual growth rate
Capex	Capital expenditure
CAT/CAT-US	Caterpillar Inc.
CVA(s)	Customer value agreement(s)
DE-US	Deere & Company
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation, and amortisation
EPS	Earnings per share
FCF	Free cash flow
FY/FYXX	Financial year / financial year ending in the specified calendar year
GW	Gigawatt(s)
LTM	Last 12 months
MP&E	Machinery, Power & Energy
MTD	Month-to-date
NTM	Next 12 months
P:E	Price-to-earnings ratio
PCAR-US	PACCAR Inc.
ROA	Return on assets
ROE	Return on equity
SG&A	Selling, general and administrative
USD/$	United States dollar
YoY	Year-on-year
YTD	Year-to-date

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*Share price as at closing.

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