xp research

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Industrials

WEG
(WEGE3)

When the Lights Flicker
Downgrading to Neutral

Equity Research

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WEG (WEGE3)

When the Lights Flicker

Downgrading to Neutral and Reducing 2025YE TP to R$46.00/share

We are downgrading WEG to Neutral and reducing our 2025YE TP to R$46.00/share. WEG's story has always been about high expectations to justify rich valuation levels, with the company historically overdelivering to market's usually optimistic projections *(consensually seen as one of the best, most return-oriented Brazilian companies – which we agree)*. That said, although we do see some room for short-term profitability improvement as a tailwind for earnings *(after disappointments in 4Q24 and 1Q25)*, **we believe that a top-line growth deceleration should not only limit the potential for earnings improvement but also imply a negative asymmetry for valuation** *(XPe net income of R$7.4 billion for 2026E -11% vs. consensus, with implied P/E multiple of ~24x close to levels we see as fair)*, limiting the upside we see for the shares *(+9% upside potential)*.

Cyclical headwinds limiting short-term growth (…). We note a less favorable scenario for WEG's most cyclical products, with an uncertain macroeconomic environment driving downward commodity prices and raising concerns regarding industrial players investment appetite going forward. Although T&D tailwinds remain strong *(and should continue to be accretive to profitability in the medium-term)*, WEG's capped production capacity in 2025-26E should limit further near-term earnings improvement *(with a better outlook in 2027E onwards, though)*. Finally, while organic expansion has been historically WEG's most prominent growth lever, a slower performance observed at past quarters should limit short-term revenue growth, with current FX levels as headwinds.

(…) and downward earnings revisions limit upside potential. As we incorporate a lower FX rate and top-line growth deceleration into our estimates, our 2026E net income of R$7.4 billion stands -11% below consensus. We expect the abovementioned combination not only to limit potential for earnings improvement, but also imply a negative asymmetry for valuation, with our 2026E P/E multiple of ~24x not far, but above levels we see as fair for a company with WEG's growth and returns combination.

Not the obvious play in an easing interest rates scenario. We expect a more balanced fiscal policy from 2026-27E onwards to allow a gradual interest rate easing cycle starting next year. Combined with lower USDBRL forecasts, we see a scenario being drawn in favor to more domestic-exposed names, with WEGE3 usually underperforming other Capital Goods names in such periods. Even so, we welcome WEG's resilient top-line profile and continue to see the stock as a good asset for portfolio composition, acting as a natural hedge vs. domestic risks.

Where could we be wrong? WEG's impressive track record of consistently exceeding market expectations gives the company a well-deserved benefit of the doubt, preventing us from adopting a more bearish stance. Upside risks to our estimates include *(but are not limited to)*, **(i)** credible growth avenues amid secular megatrends (e.g.: BESS, electric mobility) **(ii)** a huge addressable market adjacent to its current product portfolio, and **(iii)** strong capital allocation (standing as one of the few companies in which investors look favorably upon investments over dividends).

WEG	WEGE3
Rating	Neutral
Target Price (R$/sh.)	46.00
Current Price (R$/sh.)	42.39
Upside (%)	*9%*
Market Cap (R$ million)	177,855
# of shares (million)	4196
Free Float (%)	35%
ADTV (R$ million)	305

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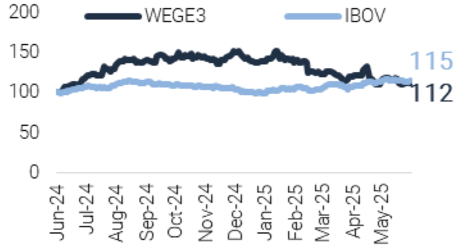
Stock vs IBOV



Source: Company Data, LSEG Refinitiv and XP Research.

Downgrading WEG to Neutral

Why Not a Buy? Illustrating Downside Risks

Figure 1: Main Downside Risks to Our Thesis

Why not buy? Downside risks

Global growth deceleration. Lower-than-expected economic growth across major economies, potentially illustrated by weakened commodity prices, leading to lower investments for some of WEG's most relevant end-markets in EEI.

Geopolitical tensions. Should tensions worsen amid the current trade war, we see a risk of supply chain disruptions, increased costs and overall market uncertainty.

Base-case implying downward earnings revisions vs. consensus. Considering the recent appreciated BRL levels and a deceleration on top-line, we see our 2026E net earnings of R$7.4 billion -11% vs. consensus, suggesting room for short-term downward earnings revisions.

Valuation seems negatively asymmetric. Using our theorical approach for a fair P/E multiple, low-teens of short-term earnings growth (which we currently see as reasonable for WEG) would suggest a ~20x P/E ratio, implying a negative asymmetry to WEG's current levels of ~24x (2026E P/E).

Figure 2: Net Earnings Revisions

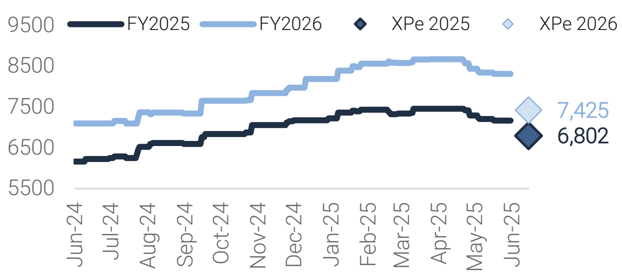


Figure 3: WEG's Share Price Upside Sensitivity

Sh. Diff. (%)		2026 P/E Multiple						
		18x	20x	22x	24x	26x	28x	30x
2026E Net Earnings	6,312	-36%	-29%	-22%	-15%	-8%	-1%	6%
	6,683	-33%	-25%	-18%	-10%	-2%	5%	13%
	7,054	-29%	**-21%**	**-13%**	**-5%**	**3%**	11%	19%
	7,425	-25%	**-17%**	**-8%**	**0%**	**8%**	17%	25%
	7,797	-21%	**-13%**	**-4%**	**5%**	**14%**	23%	31%
	8,168	-18%	-8%	1%	10%	19%	28%	38%
	8,539	-14%	-4%	5%	15%	25%	34%	44%

Figure 4: WEG Is Exposed to Commodity Cycles

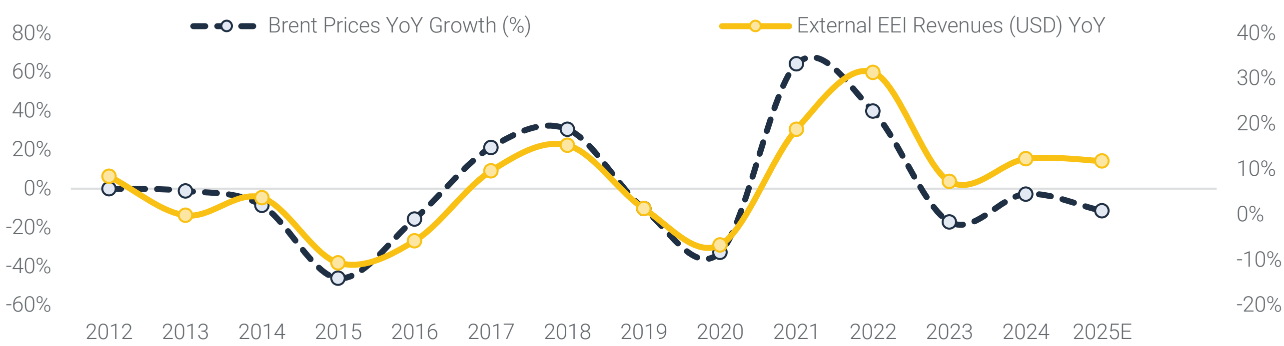
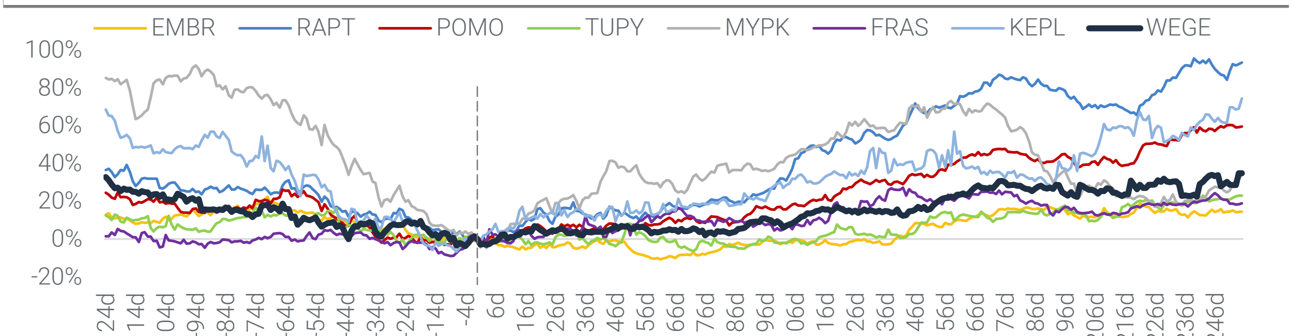


Figure 5: Capital Goods Stock Performances Amid Easing Interest Rates Cycles (D-0 = easing signal)



Why Not a Sell? Illustrating Upside Risks

Figure 6: Main Upside Risks to Our Thesis

Why not sell?
Upside risks

BRL depreciation. Although our Macro Team has recently revised downwards its FX projections, any changes to the global or domestic economic scenario could lead to a higher USDBRL, benefitting export-oriented companies such as WEG *(and vice-versa, in the case of a lower USDBRL).*

Better-than-expected profitability. Slight profitability misses have led to major stock devaluing in past results, with investors' profitability expectations now more grounded. Should margins surprise positively (especially due to product mix), we would expect a favorable market reaction.

T&D remains strong. Although WEG's capped production capacity limits T&D-related earnings improvement in the short-term, we continue to see positive tailwinds from this division as capacity expansion ramps-up. Moreover, considering WEG's electrification-exposed peers recent re-rating, we see upside risks if WEGE3 re-rates back under the T&D-narrative.

New avenues and M&As. Better-than-expected growth from new businesses, such as BESS and electric mobility, along with potential inorganic growth through acquisitions or partnerships, could offer upside to our growth estimates, helping sustain richer valuation levels

Figure 7: Revenues Changes (1Q25 LTM vs. 2011)

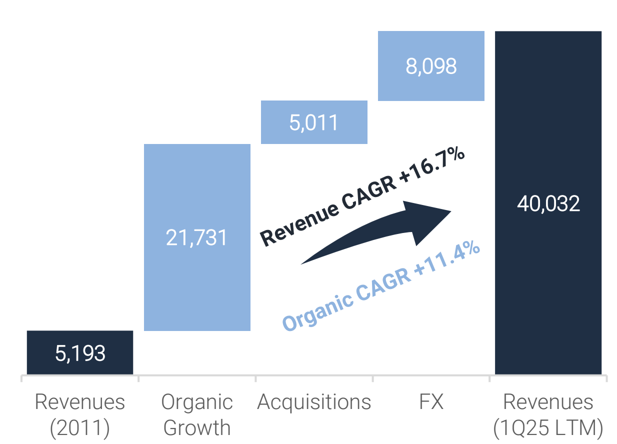


Figure 8: TP Sensitivity to 2025 FX and Risk Free

TP		Risk Free Brazil (%)						
		6.0%	6.4%	6.8%	7.2%	7.6%	8.0%	8.4%
2025 EoP FX Rate	5.20	44.0	42.0	41.0	39.0	38.0	37.0	36.0
	5.40	46.0	45.0	43.0	42.0	40.0	39.0	38.0
	5.60	49.0	47.0	45.0	44.0	42.0	41.0	40.0
	5.80	51.0	49.0	48.0	46.0	45.0	43.0	42.0
	6.00	54.0	52.0	50.0	48.0	47.0	45.0	44.0
	6.20	56.0	54.0	52.0	51.0	49.0	47.0	46.0
	6.40	59.0	57.0	55.0	53.0	51.0	49.0	48.0

Figure 9: T&D Peers' Forward P/E Discount vs. WEG

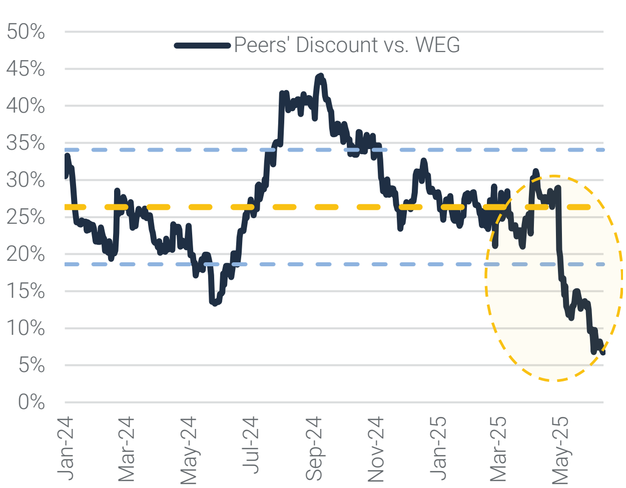
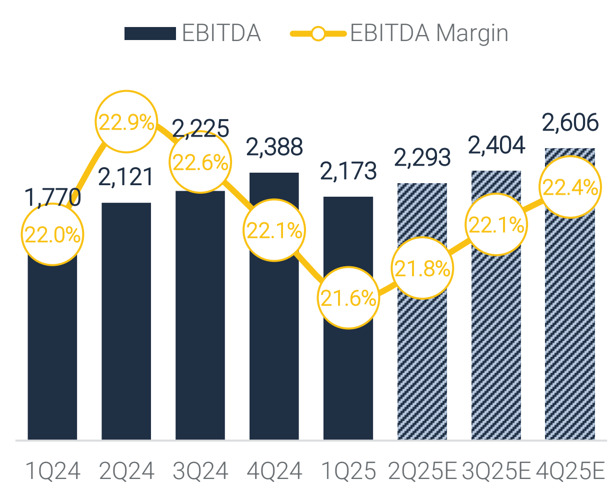


Figure 10: Historical Quarterly EBITDA Margin



Summary

Top-Line Growth to Decelerate in the Short-Term

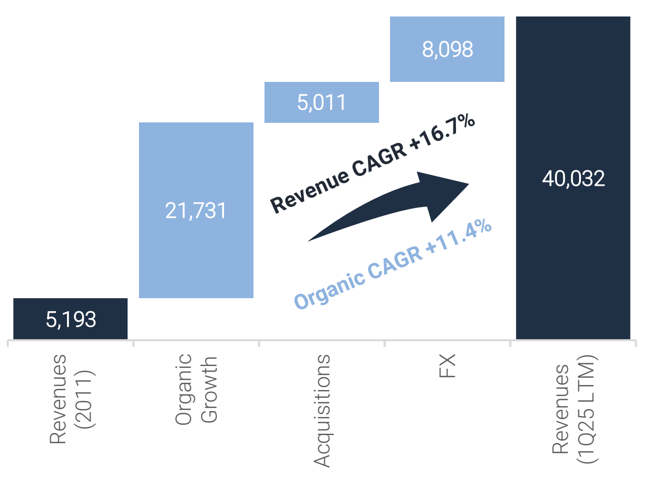
Unravelling WEG's Growth History So Far

WEG is a case-study of long-term continuous growth, with a +18% top-line CAGR since 1999. The trajectory was driven by combination of organic expansion, strategic acquisitions, and foreign exchange effects.

Organic revenues have been the backbone of WEG's growth, supported both by market share gains (particularly in Brazil in its most traditional business lines, as exampled by WEG's 80-90% share in LV electric motors), but also by overall market growth following secular trends such as energy efficiency and transition.

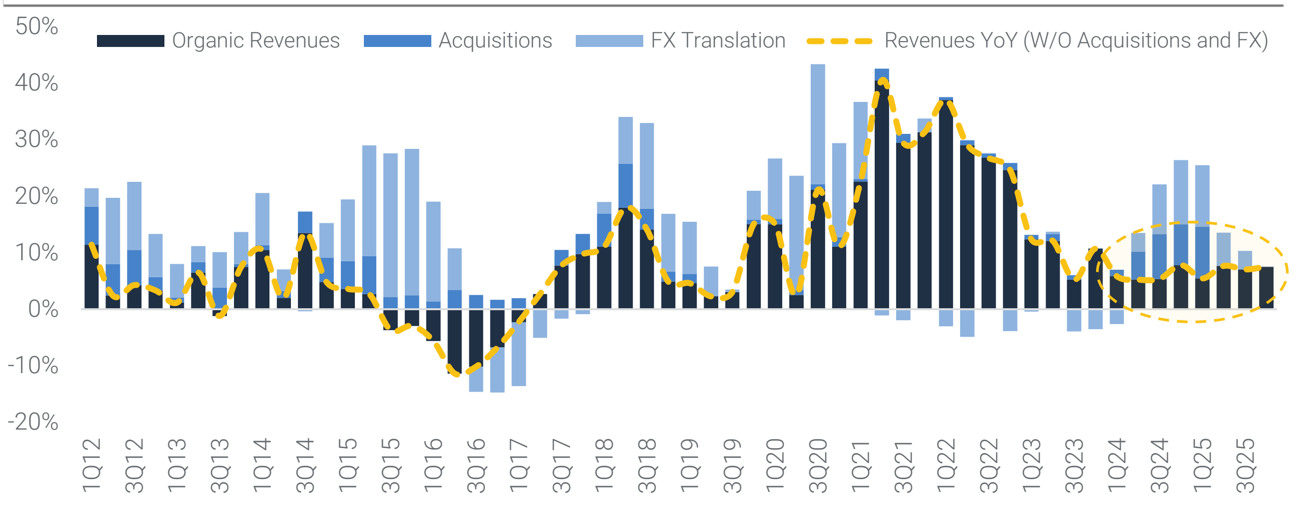
Meanwhile, acquisitions have pursued two primary objectives: **(i)** acquiring new technologies, and **(ii)** accelerating market share gain, especially in external markets.

Figure 11: Historical Growth Breakdown (BRL)



As detailed in Figure 12 below, WEG's growth has undergone different cycles – with 2015/16 as the low-light in terms of organic performance (reflecting a combination of challenging domestic macroeconomic scenario and, most importantly in our view, the global commodity downturn), and the post-pandemic cycle as the positive highlight, with the company benefitting from a high-cycle in commodities, as well as from the boom of renewable energies, with significant investments into solar and wind infrastructure driving expressive top-line growth.

Figure 12: WEG Growth Organic and Inorganically (in BRL and USD)



Most recently, however, drivers have shifted. If we were to exclude acquisitions and FX translation from recent quarters' figures, revenue growth would have stood at an average of +6% YoY (rather than the ~20% improvement with all drivers combined). In USD terms, organic revenues contracted -1.7% YoY in 1Q25, raising concerns regarding structural growth going forward (especially from 2Q25 onwards as the integration of Marathon's businesses drives a tougher comparable basis).

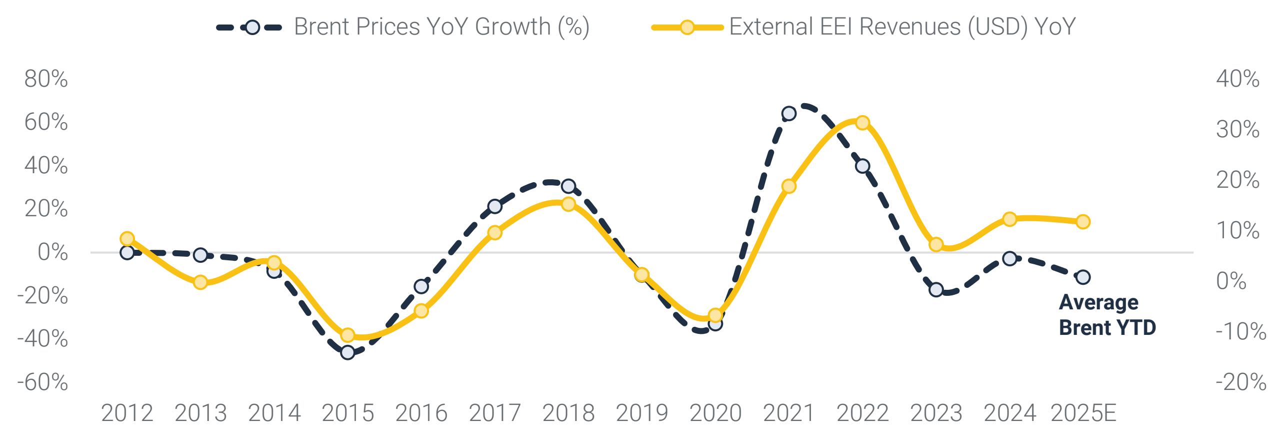
In our estimates, we forecast a low-teens consolidated growth in BRL in 2025E (+14% YoY), or flat organic revenues YoY in USD (+0% YoY), a level that we still see as healthy operational-wise, although potentially implying a de-rating in terms of valuation multiples (as WEG's valuation is historically sensitive to earnings growth).

WEG's Cyclical Business' Growth Raises Our Concerns

To better analyze WEG's growth drivers, we propose categorizing its products based on their cycle characteristics: from **cyclical products** (particularly short-cycle items tied to industrial GDP growth and/or capital investments) to **secular products**, which benefit from longer-lasting tailwinds spanning several years.

An uncertain global macro backdrop raises our concerns for WEG's most cyclical businesses. As discussed in our report The Ripple Effect of Falling Oil Prices on WEG's Top-Line Growth, an uncertain macro scenario (heightened by trade war tensions) has increased commodities' prices volatility. As large industrial complexes make up for a relevant share of WEG's client base (especially for electric motors and automation products, in the cyclical side), lower industrial investment appetite presents as a growth headwind – as illustrated by Figure 13 below.

Figure 13: Brent Prices YoY Growth (%, lhs) **vs. WEG's EEI Revenue Growth in USD** (%, rhs)



T&D tailwinds reiterated. Looking into the share of WEG's products benefitted by secular trends, we continue to see T&D standing out, with a structural need for grid renewal and expansion sustaining solid demand for several years. We continue to see limited production capacity implying a favorable pricing environment, while tariffs (if sustained) could benefit players such as WEG amid an inflationary competition (given its local production facilities in the U.S.).

WEG's ongoing investments should double its transformers' production capacity, with its ramp-up expected to begin in 2026E, while the majority of such capacity expansions is expected to be fully operational by 2028E. In that regard, although 2026E should imply limited growth for external GTD (as investments should be concluded by the year-end), we expect top-line to accelerate in 2027E onwards.

With an overlap from **(-)** cyclical and **(+)** secular segments in the medium-term and limited capacity expansions in the short-term, **we expect WEG's top-line growth to decelerate, with a high-single-digit assumption for revenue growth in 2026E**, while accelerating in the following years (capacity ramp-up in T&D in 2027-28E, continued market share gains in automation abroad, new growth avenues etc.).

Figure 14: Revenue Growth Expectations per Division

Revenue Growth by Segment (BRL YoY)	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Total Revenues	**11.6%**	**30.9%**	**34.9%**	**26.9%**	**8.7%**	**16.9%**	**13.5%**	**8.7%**	**14.9%**
Domestic Revenues	**9.6%**	**37.2%**	**40.8%**	**38.4%**	**3.0%**	**6.7%**	**7.4%**	**6.9%**	**8.3%**
EEI	12.8%	43.3%	26.5%	25.5%	11.1%	8.7%	0.4%	7.8%	10.2%
GTD	1.2%	40.8%	51.2%	63.2%	-2.7%	2.9%	10.6%	6.5%	7.8%
Commercial	27.1%	22.5%	46.9%	-17.2%	9.9%	24.8%	15.3%	6.5%	6.5%
Paints	20.0%	15.2%	45.9%	27.3%	4.4%	6.9%	9.3%	6.5%	6.4%
External Revenues	**13.1%**	**26.4%**	**30.3%**	**17.3%**	**14.3%**	**25.9%**	**18.2%**	**9.9%**	**19.2%**
EEI	9.3%	21.9%	24.3%	25.7%	3.8%	21.9%	16.3%	10.5%	11.9%
GTD	27.4%	35.9%	30.7%	0.4%	47.4%	44.2%	21.7%	9.1%	32.5%
Commercial	3.2%	28.0%	74.9%	13.2%	4.4%	-7.0%	17.4%	9.2%	10.4%
Paints	27.3%	60.5%	48.3%	25.7%	6.5%	5.8%	7.7%	10.5%	11.9%

Source: Company Data, LSEG Refinitiv and XP Research.

T&D Remains as a Silver Lining

Electrification-Exposed Cos. Showing a Recent Positive Performance

Understanding recent share price. Looking at electrification-exposed peers' share performances, we note three important periods for the industry:

- (i) Jan'24-Dec'24: overall strong equity performance for electrification-exposed players (including WEG), partly related to a re-rate on valuation multiples as the market was implicitly embedding a higher growth assumption;
- (ii) Jan'25-Apr'25: weak price action, especially following the outcome of Deepseek, raising concerns about the pace of grid investments in the Western world. As growth concerns arose, valuation has shown a significant de-rate (P/E multiple down on average by -33% (-28% for WEG).
- (iii) Apr'25-Jun'25: diverging performance between WEG and peers, with a valuation bounce back for WEG's peers (+32% vs. the bottom), and WEG showing a flat valuation performance.

Global peers' performance implying upside for WEG under the T&D narrative. Although we see part of WEG's recent multiple de-rating as fair (not as a coincidence, WEG's larger relative de-rating started after the release of 1Q25 results, which rose investors' questions about short-term growth), we believe that the mispricing of the T&D-related growth narrative under WEG's shares has become too excessive compared to electrification peers. In that regard, the relative P/E discount has reached recent lows (~5% vs. an average of 25%), which we see as one of the reasons why we do not recommend a more bearish stance on the shares (thus our Neutral rating).

Figure 15: Electrification-Exposed Basket Equity Performance in Since Jan'24

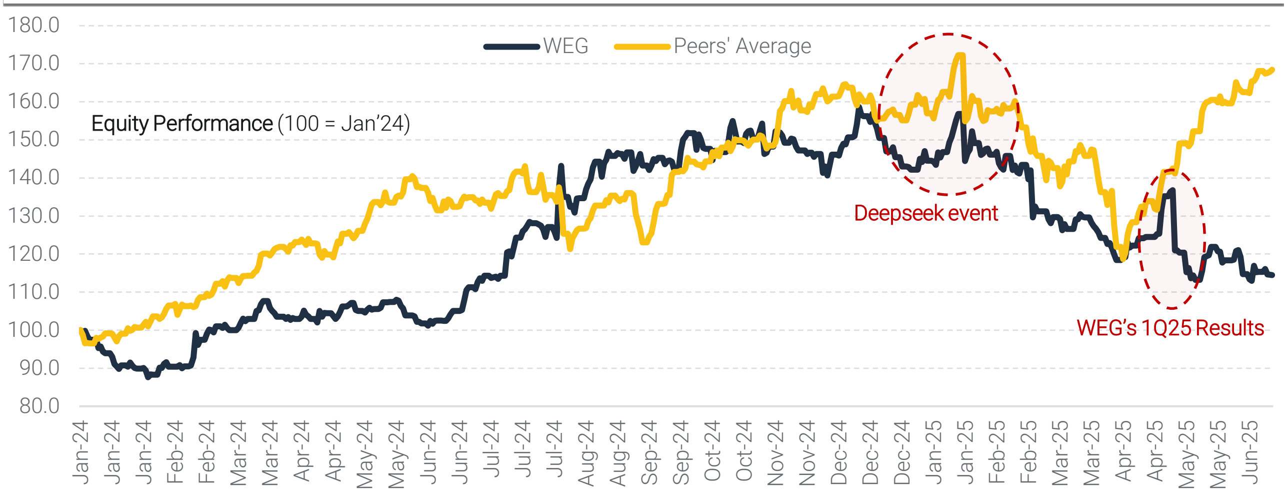


Figure 16: WEG vs. Peers (Forward P/E)

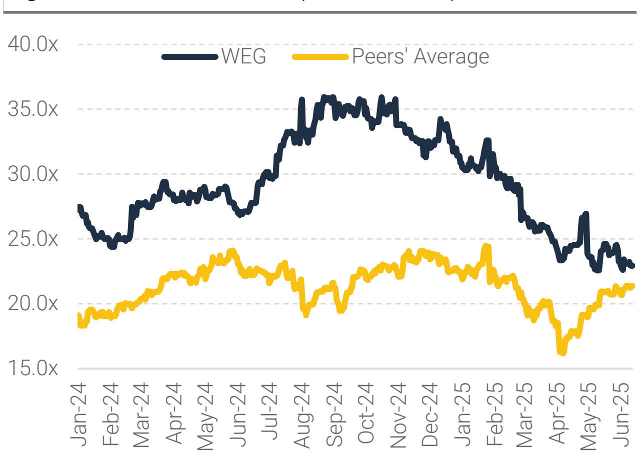


Figure 17: Peers' Forward P/E Discount vs. WEG

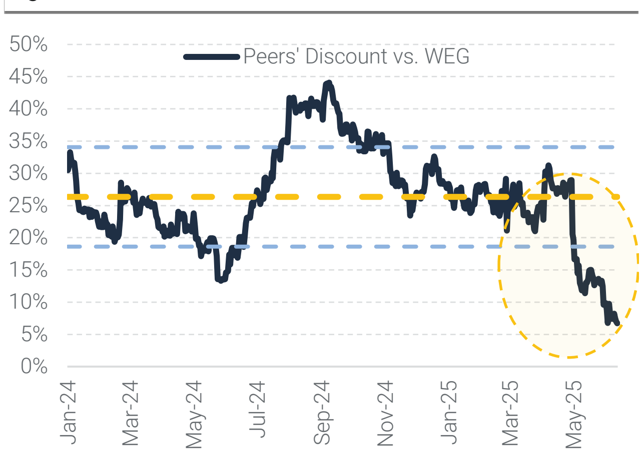
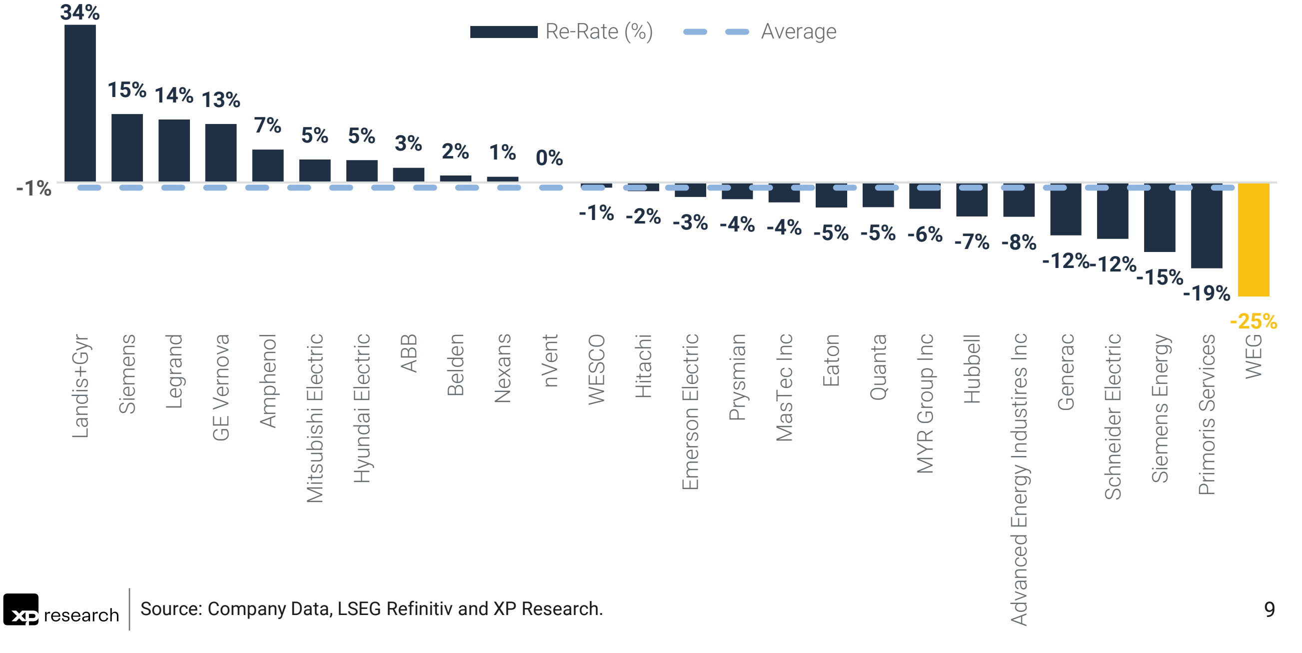


Figure 18: Electrification-Exposed Basket

Companies	Forward P/E Multiple			P/E Re-Rate		Market Cap Performance	
	01-Jan-24	01-Jan-25	12-Jun-25	2024	YTD	2024	YTD
Transformers Manufacturers	**23.1x**	**26.6x**	**26.1x**	**15%**	**-2%**	**121%**	**13%**
WEG	**27.5x**	**30.5x**	**22.9x**	**11%**	**-25%**	**43%**	**-20%**
Hyundai Electric	11.2x	19.6x	20.5x	74%	5%	395%	5%
Eaton	24.2x	27.6x	26.1x	14%	-5%	36%	-1%
ABB	21.7x	22.2x	23.0x	3%	3%	30%	-4%
Siemens	16.0x	16.6x	19.1x	4%	15%	11%	14%
Siemens Energy	44.5x	36.0x	30.6x	-19%	-15%	324%	67%
GE Vernova	32.0x	46.7x	52.6x	46%	13%	n.m.	42%
Hitachi	16.0x	23.2x	22.9x	45%	-1%	94%	2%
Mitsubishi Electric	15.2x	16.7x	17.5x	9%	5%	31%	9%
Other T&D Equip. Manufacturers	**18.5x**	**20.0x**	**19.8x**	**8%**	**-1%**	**26%**	**-1%**
Schneider Electric	21.7x	25.9x	22.7x	19%	-12%	34%	-9%
Emerson Electric	18.5x	20.7x	20.0x	12%	-3%	24%	3%
Hubbell	20.0x	23.3x	21.5x	16%	-7%	28%	-7%
nVent	17.5x	22.0x	22.0x	25%	0%	15%	2%
Legrand	20.1x	18.8x	21.4x	-7%	14%	-1%	17%
Landis+Gyr	17.9x	12.0x	16.2x	-33%	34%	-24%	-3%
Prysmian	15.4x	15.8x	15.2x	2%	-4%	64%	-10%
Atkore	9.3x	9.5x	10.5x	2%	11%	-53%	-20%
Vertiv	20.7x	30.7x	28.4x	48%	-7%	146%	-3%
Nexans	12.6x	12.5x	12.7x	0%	1%	32%	-3%
Amphenol	29.3x	30.4x	32.6x	4%	7%	40%	38%
Arcosa	24.1x	21.3x	20.4x	-12%	-4%	17%	-9%
Generac	17.4x	18.4x	16.3x	5%	-12%	18%	-19%
Advanced Energy	20.1x	23.7x	21.9x	18%	-8%	7%	10%
Belden	12.8x	14.5x	14.7x	13%	2%	42%	-4%
Utilities	**16.2x**	**19.1x**	**17.7x**	**18%**	**-7%**	**48%**	**4%**
WESCO	9.9x	12.3x	12.1x	23%	-1%	-2%	-1%
Quanta	17.3x	15.0x	14.2x	-13%	-5%	25%	1%
MYR Group Inc	20.9x	23.4x	22.0x	12%	-6%	-1%	8%
MasTec Inc	21.6x	25.6x	24.5x	18%	-4%	86%	16%
Primoris Services	11.3x	19.2x	15.6x	69%	-19%	133%	-4%
Average	**19.7x**	**22.8x**	**21.9x**	**16%**	**-4%**	**84%**	**8%**

Figure 19: 2025 YTD P/E Multiple Re-Rating/De-Rating



Source: Company Data, LSEG Refinitiv and XP Research.

A Less Favorable Macro Scenario

We Don't See WEGE3 As The Obvious Play Amid Easing Rates

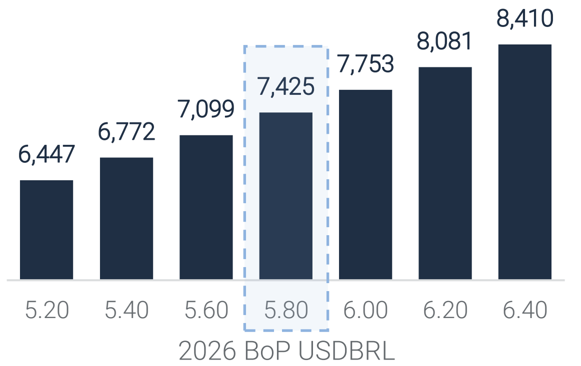
The exchange rate has appreciated by +12% YTD, in-line with the global trend of the dollar weakening. In this context, our Macro Team sees an exchange rate at 5.80 for 2025 EoP and 6.10 for 2026 EoP, consistent with the inflation differential and a potential increase in risk premium as local elections approach.

With the majority of its sales derived from external revenues *(both through exports and foreign production),* we see the appreciated BRL as a headwinds for WEG, driving our estimates and target-price downwards. Refer to the sensitivities below for more FX, risk-free and external EEI growth scenarios.

Figure 20: YE2025 Target-Price Sensitivity

TP		Risk Free Brazil (%)						
2025 EoP FX Rate		6.0%	6.4%	6.8%	7.2%	7.6%	8.0%	8.4%
	5.20	44.0	42.0	41.0	39.0	38.0	37.0	36.0
	5.40	46.0	45.0	43.0	42.0	40.0	39.0	38.0
	5.60	49.0	47.0	45.0	44.0	42.0	41.0	40.0
	5.80	51.0	49.0	48.0	46.0	45.0	43.0	42.0
	6.00	54.0	52.0	50.0	48.0	47.0	45.0	44.0
	6.20	56.0	54.0	52.0	51.0	49.0	47.0	46.0
	6.40	59.0	57.0	55.0	53.0	51.0	49.0	48.0

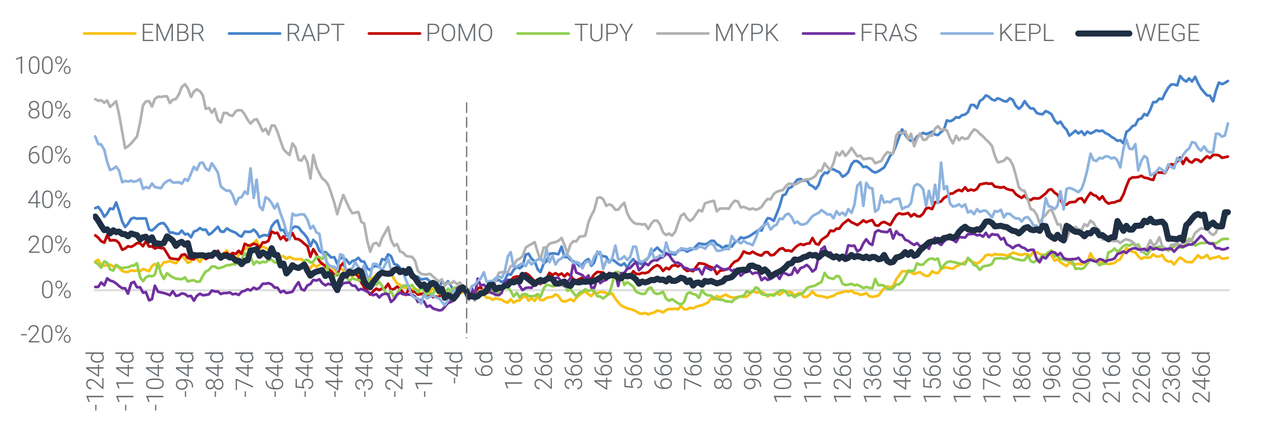
Figure 21: 2026 Net Earnings Sensitivity



Our Macro team expects a terminal Selic rate of 14.75%, recently revised downwards on the bank of Central Bank's (dovish) official communication and the higher IOF rate. Amid a likely more balanced fiscal polity from 2027-, the team expects Copom to be able to start a gradual easing cycle starting in 2Q26E.

While we recognize that easing interest rates generally create a favorable environment for equity markets, we don't see WEGE3 as the most obvious play across our Capital Goods coverage universe. Looking into historical performances amid easing rates' cycle signals, we note more domestic-exposed companies *(notably RAPT4, KEPL3 and POMO4)* sustaining a better relative performance.

Figure 22: Capital Goods Stock Performances Amid Easing Interest Rates Cycles (D-0 = easing signal)



Even so, we continue to see WEGE3 as a good asset for portfolio composition. We welcome WEG's ability to pass-through inflation and FX variations (especially in the domestic market) and continue to see WEGE3 as a good asset for a balanced portfolio.

We See Valuation Limiting Upside

Valuation Asymmetry Appears Unappealing

We like to look at a company's fair multiple as a combination of multiple factors: short-term and long-term earnings growth, return on equity (ROE), and its cost of equity.

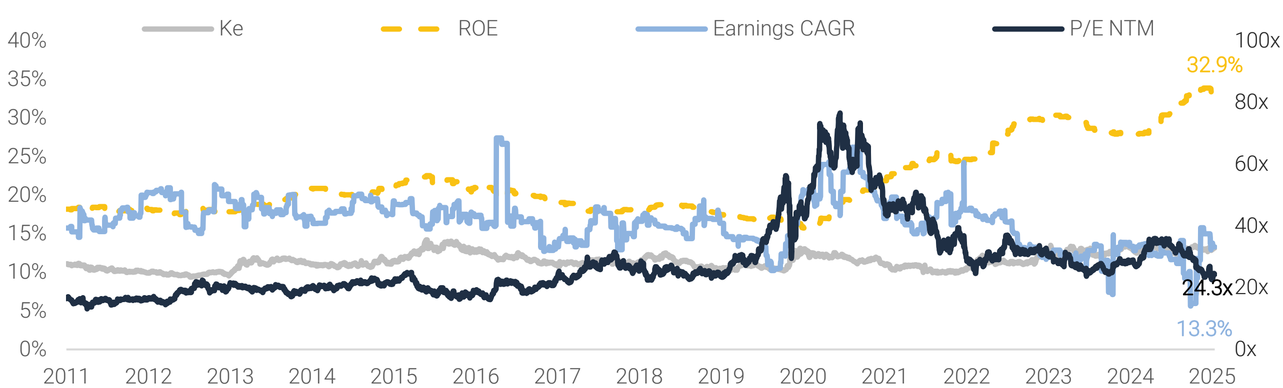
Since our last update, we note (i) lower earnings growth in the short-term, especially as we incorporate a lower FX and lower organic expansion observed at past quarters, and (ii) a marginally higher Ke (from 11.2% to 11.5%), with the theoretical equation for a fair P/E multiple suggesting a level of ~20x for WEG as fair if the market prices in a lower earnings growth assumption in the upcoming years.

Figure 23: Fair Theoretical P/E

Fair P/E		First-Stage Earnings Growth						
		1.9%	4.9%	7.9%	10.9%	13.9%	16.9%	19.9%
Earnings Growth @ Steady State	5.6%	10.7x	12.4x	14.5x	17.1x	20.2x	23.9x	28.3x
	6.1%	11.1x	13.0x	15.2x	18.0x	21.3x	25.3x	30.1x
	6.6%	11.6x	13.6x	16.1x	19.1x	22.7x	27.0x	32.3x
	7.1%	12.2x	14.4x	17.1x	**20.4x**	24.4x	29.2x	34.9x
	7.6%	13.0x	15.4x	18.4x	22.0x	26.4x	31.8x	38.2x
	8.1%	13.9x	16.7x	20.0x	24.1x	29.1x	35.2x	42.5x
	8.6%	15.3x	18.4x	22.3x	27.0x	32.7x	39.8x	48.2x

Our updated 2025YE TP of R$46.00/share *(vs. previous TP of R$62.00/share)* implies ~9% upside potential, with our upside reflecting a combination of +9% 2025-26E earnings growth and -1% of multiple de-rate. Moreover, our implied 2026E P/E target multiple of 26.0x compares to current levels of 26.2x in 2025e and 24.0x in 2026E, below WEG's peak of~31x in the beginning of the year.

Figure 24: WEG's Historical P/E Composition



Valuation asymmetry as unappealing. We expect the combination of short-term earnings growth deceleration not only to limit potential for earnings improvement, but also imply a negative asymmetry for valuation, with current multiple of ~24x slightly above the level that a theoretical approach would suggest for a company with WEG's growth x returns combination (an implied P/E of ~20x, as detailed in Figure 24 above).

Considering our 2026E net income of R$7.4 billion and a P/E interval from 20-26x, we see room for WEGE3 to range from R$35/sh. to R$46.00/sh., suggesting an unappealing asymmetry at current WEGE3 prices, in our view.

Figures 25-26: WEGE3 Sensitivity to Earnings and P/E (WEGE3/share and % Upside/Downside)

Share Price (R$/sh.)		2026 P/E Multiple						
		18x	20x	22x	24x	26x	28x	30x
2026E Net Earnings	6,312	27.01	30.02	33.02	36.03	39.04	42.05	45.05
	6,683	28.60	**31.78**	**34.97**	**38.15**	41.34	44.52	47.70
	7,054	30.19	**33.55**	**36.91**	**40.27**	43.63	46.99	50.35
	7,425	31.78	**35.31**	**38.85**	**42.39**	45.93	49.47	53.00
	7,797	33.36	37.08	40.79	44.51	48.22	51.94	55.65
	8,168	34.95	38.84	42.74	46.63	50.52	54.41	58.31
	8,539	36.54	40.61	44.68	48.75	52.82	56.89	60.96

Sh. Diff. (%)		2026 P/E Multiple						
		18x	20x	22x	24x	26x	28x	30x
2026E Net Earnings	6,312	-36%	-29%	-22%	-15%	-8%	-1%	6%
	6,683	-33%	-25%	-18%	-10%	-2%	5%	13%
	7,054	-29%	**-21%**	**-13%**	**-5%**	**3%**	11%	19%
	7,425	-25%	**-17%**	**-8%**	**0%**	**8%**	17%	25%
	7,797	-21%	**-13%**	**-4%**	**5%**	**14%**	23%	31%
	8,168	-18%	-8%	1%	10%	19%	28%	38%
	8,539	-14%	-4%	5%	15%	25%	34%	44%

Comps Table

WEG vs. Peers

WEG is trading at a 2025-26E P/E of 26.2x-24.0x, vs. a basket of electro-electronic industrial-exposed companies of 24.0x-21.9x and automation-related peers of 24.3x-21.6x.

While we believe WEG's multiples structurally deserve a premium vs. peers given its growth and returns combination, we don't see current multiples leaving a margin of safety in the case of growth downward revisions going forward *(which we see as possible, with our 2026 net earnings -11% vs. consensus).*

Figure 27: Comps Table

Companies	Current Price	Rating	Market Cap ($ mi)	ADTV ($ mi)	P/E 2025	P/E 2026	EV/EBITDA 2025	EV/EBITDA 2026	ROIC 2025	ROIC 2026	EBITDA CAGR 2026-2028
Brazil Capital Goods					**26.2x**	**24.0x**	**18.4x**	**16.9x**	**33.6%**	**32.0%**	**15.5%**
WEG	42.39	Neutral	32,097	52.4	26.2x	24.0x	18.4x	16.9x	33.6%	32.0%	15.5%
Global Electro-Electronic and Energy Industrials					**24.0x**	**21.9x**	**15.4x**	**13.5x**	**16.6%**	**17.9%**	**9.6%**
ABB	47.62	N.C.	108,256	140.4	23.8x	22.1x	16.2x	15.1x	25.9%	29.2%	6.4%
Siemens	214.95	N.C.	199,182	287.7	18.5x	19.3x	15.0x	13.5x	10.0%	9.2%	10.6%
Siemens Energy	84.82	N.C.	78,320	232.7	51.5x	26.0x	17.4x	11.9x	20.2%	44.5%	32.9%
Hitachi	3,987.00	N.C.	127,321	291.0	28.5x	23.3x	13.5x	11.9x	n.a.	n.a.	12.3%
Schneider	220.45	N.C.	146,987	223.5	24.3x	21.6x	15.7x	14.3x	14.9%	15.7%	9.3%
Eaton	323.66	N.C.	126,648	603.3	27.0x	24.3x	20.8x	18.7x	18.4%	20.1%	9.9%
Regal Rexnord	137.69	N.C.	9,134	83.2	14.0x	12.2x	10.7x	9.9x	6.5%	7.3%	5.9%
Nidec	2,859.50	N.C.	23,769	72.8	18.7x	17.2x	10.3x	9.6x	n.a.	n.a.	7.9%
Global Automation Industrials					**24.3x**	**21.6x**	**16.4x**	**15.3x**	**14.9%**	**15.7%**	**16.2%**
Schneider	220.45	N.C.	146,987	223.5	24.3x	21.6x	15.7x	14.3x	14.9%	15.7%	9.3%
Emerson Electric	125.54	N.C.	70,616	356.2	20.9x	19.5x	16.4x	15.3x	14.0%	13.9%	6.0%
Rockwell Automation	317.85	N.C.	35,827	272.7	32.6x	28.2x	22.9x	20.4x	19.0%	20.1%	12.1%
Global Renewable Energy					**19.4x**	**13.6x**	**6.8x**	**5.6x**	**26.4%**	**34.6%**	**16.2%**
Nordex	17.36	N.C.	4,755	11.3	25.2x	17.8x	6.1x	5.1x	57.3%	72.7%	16.2%
Vestas	108.05	N.C.	16,901	51.5	19.4x	13.6x	6.8x	5.6x	26.4%	34.6%	16.5%
Goldwind	9.60	N.C.	5,323	41.3	13.0x	10.2x	10.2x	8.5x	5.1%	6.4%	14.4%

Figure 28: Returns vs. P/E Multiples Dispersion

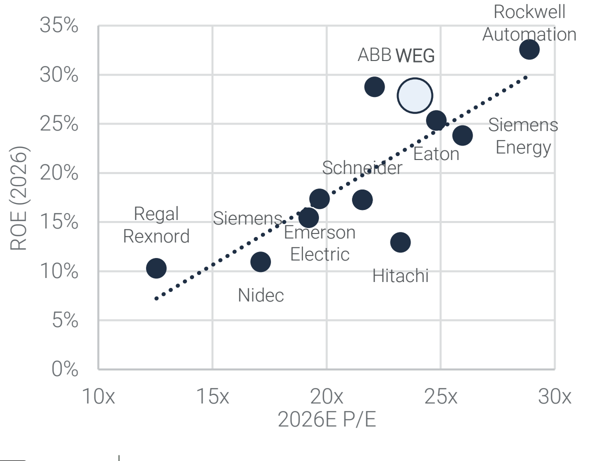
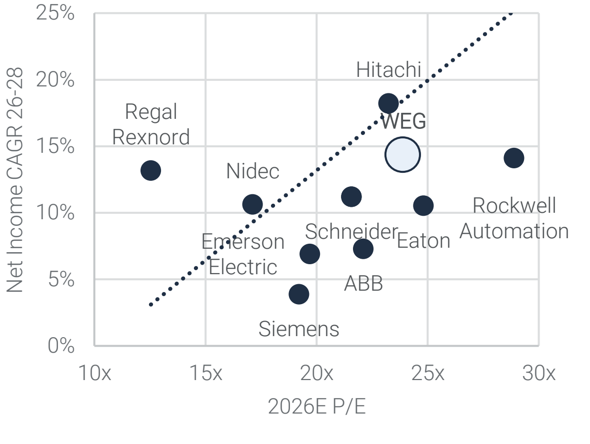


Figure 29: Growth vs. P/E Multiples Dispersion



Changes to Estimates

Reflecting an Appreciated BRL and Slightly Lower ST Growth

We are incorporating an appreciated BRL and slightly lower short-term growth into our model, with net revenues 2025-26E revised downwards by -6% and -11%, respectively. We now expect an EBITDA margin of 22% in 2025-26E, in-line with WEG's recently reported profitability levels (although product mix may drive fluctuations throughout the quarters). With the abovementioned changes combined, we are revising our net earnings estimates downwards, standing -5% and -11% below consensus' figures for 2025-26E.

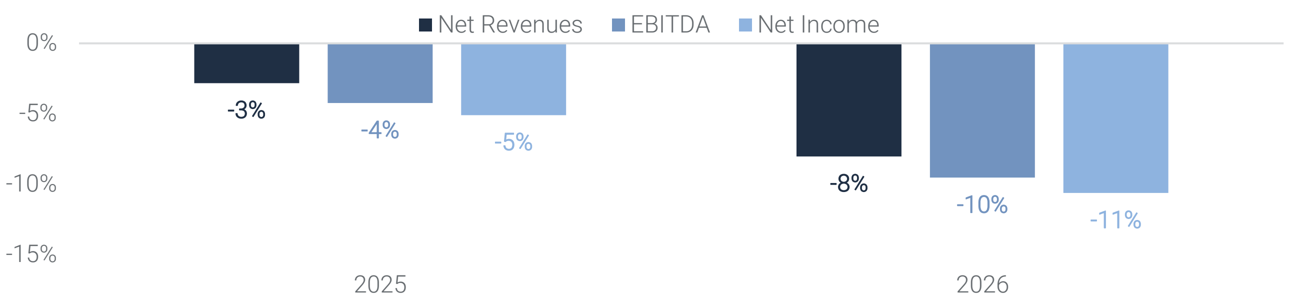
Figure 30: Changes to Estimates

WEG (R$ million)	Old			New			Actual vs. Old		
	2025	2026	2027	2025	2026	2027	2025	2026	2027
Net Operating Revenues	**45,793**	**52,852**	**60,354**	**43,125**	**46,874**	**53,837**	**-6%**	**-11%**	**-11%**
YoY % Var	21%	15%	14%	14%	9%	15%	-7.0p.p.	-6.7p.p.	0.7p.p.
COGS	**-30,515**	**-35,391**	**-40,572**	**-28,646**	**-31,149**	**-35,883**	-6%	-12%	-12%
Gross Profit	**15,279**	**17,461**	**19,782**	**14,479**	**15,725**	**17,955**	-5%	-10%	-9%
Gross Margin	33.4%	33.0%	32.8%	33.6%	33.5%	33.4%	0.2p.p.	0.5p.p.	0.6p.p.
EBIT	**9,272**	**10,858**	**12,496**	**8,447**	**9,312**	**10,898**	-9%	-14%	-13%
EBIT Margin	20.2%	20.5%	20.7%	19.6%	19.9%	20.2%	-0.7p.p.	-0.7p.p.	-0.5p.p.
Net Financial Results	**608**	**659**	**500**	**395**	**525**	**408**	-35%	-20%	-18%
EBT	**9,880**	**11,516**	**12,996**	**8,842**	**9,837**	**11,306**	**-11%**	**-15%**	**-13%**
Income Taxes & Contributions	-1,953	-2,306	-2,575	-1,645	-1,973	-2,246	-16%	-14%	-13%
% of EBT	19.8%	20.0%	19.8%	18.6%	20.1%	19.9%	-1.2p.p.	0.0p.p.	0.1p.p.
Minorities	**350**	**408**	**460**	**395**	**439**	**505**	**13%**	**8%**	**10%**
Consolidated Net Earnings	**7,577**	**8,802**	**9,961**	**6,802**	**7,425**	**8,556**	**-10%**	**-16%**	**-14%**
EBITDA	**10,307**	**11,892**	**13,714**	**9,476**	**10,332**	**12,105**	-8%	-13%	-12%
EBITDA Margin	22.5%	22.5%	22.7%	22.0%	22.0%	22.5%	-0.5p.p.	-0.5p.p.	-0.2p.p.

Figure 31: XP vs. Consensus

Embraer	2025			2026		
	XPe	Consensus	Diff. (%)	XPe	Consensus	Diff. (%)
Net Revenues	**43,125**	**44,379**	**-3%**	**46,874**	**50,970**	**-8%**
EBITDA	**9,476**	**9,896**	**-4%**	**10,332**	**11,422**	**-10%**
EBITDA margin	22.0%	22.3%	-0.3 p.p.	22.0%	22.4%	-0.4 p.p.
EBIT	**8,447**	**8,912**	**-5%**	**9,312**	**10,303**	**-10%**
EBIT margin	19.6%	20.1%	-0.5 p.p.	19.9%	20.2%	-0.3 p.p.
Net Income	**6,802**	**7,168**	**-5%**	**7,425**	**8,309**	**-11%**
Net Margin	15.8%	16.2%	-0.4 p.p.	15.8%	16.3%	-0.5 p.p.

Figure 32: XP vs. Consensus



Source: Company Data, LSEG Refinitiv and XP Research.

DCF and Valuation

Our Target Price Implies +9% Upside vs. Current Prices

Our 2025YE DCF-based target price of R$46.00 per share presents a +9% upside vs. current prices. We use a FCFF (free cash flow to firm) valuation approach, where our main assumptions include: (i) 7.1% long-term growth rate, (ii) 9% debt to (debt + equity) ratio, (iii) 7.1% risk-free rate and (iv) beta at 0.8, implying 11.0%, 11.5% and 7.0% nominal WACC, cost of equity and cost of debt, respectively.

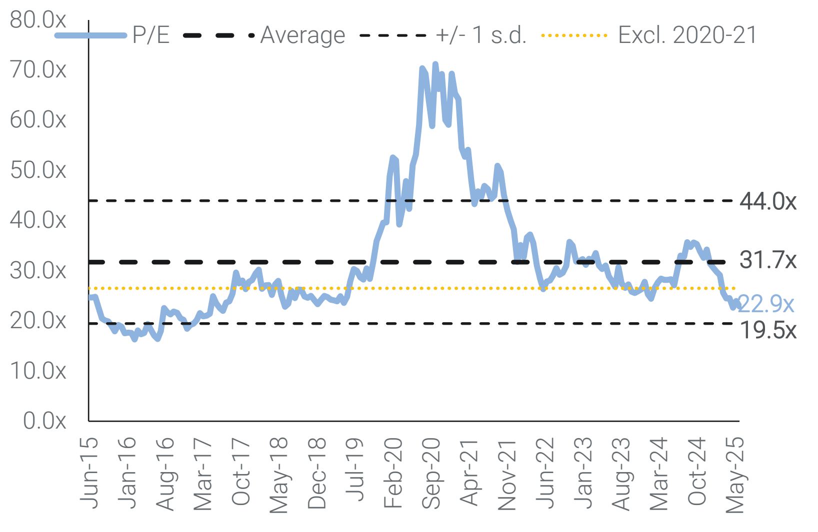
Figure 33: Main DCF Assumptions

DCF (R$ Million)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	Perp
NOPLAT	**6,145**	**6,876**	**7,445**	**8,733**	**9,950**	**11,213**	**12,367**	**13,563**	**14,780**	**16,040**	**17,339**	**18,421**	
(+) D&A	812	1,029	1,019	1,207	1,389	1,577	1,772	1,970	2,164	2,357	2,546	2,730	
(-) Capex	-1,850	-2,757	-2,861	-3,108	-3,341	-3,573	-3,763	-3,933	-4,081	-4,206	-4,308	-4,660	
(+/-) Δ NWC	-1,193	-296	-1,137	-1,396	-1,426	-1,511	-1,431	-1,504	-1,570	-1,648	-1,725	-1,774	
FCFF	**3,914**	**4,852**	**4,466**	**5,437**	**6,572**	**7,706**	**8,946**	**10,095**	**11,293**	**12,542**	**13,853**	**14,717**	**409,358**
PV FCFF			**4,025**	**4,417**	**4,812**	**5,085**	**5,321**	**5,411**	**5,457**	**5,462**	**5,437**	**5,206**	**144,815**
% of Total EV			*2%*	*2%*	*2%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*74%*

Figure 34: CAPM Assumptions

CAPM	
Ke	**11.5%**
Kd (BT)	**7.0%**
T	20%
D/(D+E)	9%
WACC	**11.0%**
g	7.1%
Base Year	2025
Valuation	
Net Debt 2025	-4,322
EV 2025	195,889
Minorities Fair Value	6,897
Fair P/B Multiple	**6.0x**
Minorities 2026	1,149
Target Market Cap	193,315
Number of Shares	4,197
Target Price	**46.00**

Figure 35: Historical Forward P/E Multiple



Main Estimates for WEG

Figure 36: Main Estimates for WEG (WEGE3)

Main Estimates	2024A	2025E	2026E	2027E
Income Statement (R$ mn)				
Net Revenues (R$ mn)	37,987	43,125	46,874	53,837
EBIT (R$ mn)	7,691	8,447	9,312	10,898
EBIT Margin (%)	*20.2%*	*19.6%*	*19.9%*	*20.2%*
EBITDA (R$ mn)	8,503	9,476	10,332	12,105
EBITDA Margin (%)	*22.4%*	*22.0%*	*22.0%*	*22.5%*
Net Financial Results (R$ mn)	218	395	525	408
Pre-tax income (R$ mn)	7,909	8,842	9,837	11,306
Net Income (R$ mn)	6,043	6,802	7,425	8,556
Net Margin (%)	*15.9%*	*15.8%*	*15.8%*	*15.9%*
Balance Sheet (R$ mn)				
Total Debt (R$ mn)	3,595	4,218	6,398	8,743
Net Debt (R$ mn)	-3,786	-4,322	-5,034	-5,797
Net Debt/ EBITDA (x)	0.4x	0.5x	0.5x	0.5x
Equity (R$ mn)	22,204	24,806	28,519	32,464
Assets (R$ mn)	41,490	45,140	52,053	60,223
Net working capital (R$ mn)	-1,193	-296	-1,137	-1,396
Cash Flow (R$ mn)				
D&A (R$ mn)	812	1,029	1,019	1,207
Capex (R$ mn)	1,850	2,757	2,861	3,108
FCF (R$ mn)	3,841	4,913	6,824	7,991
Dividends (R$ mn)	2,926	3,637	3,932	4,883
Valuation				
P/E (x)	31.3x	26.2x	24.0x	20.8x
EV/EBITDA (x)	21.9x	18.4x	16.9x	14.4x
Dividend Yield (%)	1.5%	2.0%	2.2%	2.7%
ROE (%)	0.3x	0.3x	0.3x	0.3x
ROIC (%)	0.4x	0.3x	0.3x	0.3x
Capex as a % of Sales (%)	5%	6%	6%	6%
Revenue Breakdown				
Consolidated Revenues	100%	100%	100%	100%
Electronic Industrial Equipment	47%	46%	47%	45%
GTD	41%	42%	42%	44%
Motors for Domestic Use	7%	8%	7%	7%
Paints and Varnishes	4%	4%	4%	4%

Sources: Company Data and XP Research.

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16. Investment in options is the purchase or sale rights of a good shall be negotiated at a price fixed at a future date, and the purchaser of the negotiated duty should pay a premium to the seller as in a secure agreement. Operations with these derivatives are considered very high risk for presenting high risk and return relationships and some positions present the possibility of losses higher than the capital invested. The recommended duration for the investment is short-term and the customer's assets are not guaranteed in this type of product.
17. Investment in terms are contracts for the purchase or sale of a certain number of shares at a fixed price for settlement within a specified period. The term of the contract is freely chosen by the investors, complying with the minimum period of 16 days and a maximum of 999 days. The price will be the value of the added share of a portion corresponding to the interest-which are set freely on the market, depending on the term of the contract. Every transaction in the term requires a guarantee deposit. These guarantees are provided in two forms: coverage or margin.
18. Investments in futures markets are subject to significant loss of principal. a commodity is an object or price determinant of a future contract or other derivative instrument, which may substantiate an index, a fee, a movable value or a physical product. Commodities are considered high risk investments, which include the possibility of price fluctuation due to the use of financial leverage. The recommended duration for commodity investments is short-term and customers' assets are not guaranteed in this type of product. Market conditions and the macroeconomic scenario can affect the performance investments.
19. This institution is adhering ANBIMA Code of Regulation and best practices for the distribution activity of retail investment products.
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