

## Delta Electronics 2308.TW 2308 TT

Global Markets Research  
23 February 2023

EQUITY: PC HARDWARE

### Solid outlook on EV, despite weaker consumer

Well positioned to capture growth trends in server, EV, automation and energy storage; Buy reaffirmed

**Action: Reiterate Buy; TP maintained at TWD335, implying 16% upside**

The 4Q OP miss (10% below our forecast) on the one-off impairment loss in GM (28% vs our 29.9% estimate) has little bearing on our forward-looking view for Delta. While our 2023/24F earnings are largely unchanged, we fine-tune our product mix and seasonality assumptions. On the 23 Feb earnings call, Delta seemed confident on EV order visibility for 2023 and optimistic on the trend of AI server, owing to rising demand for ChatGPT-like service. We maintain our Buy and TP of TWD335, based on 22x 2023F EPS of TWD15.25. The stock currently trades at 19x 2023F P/E. Based on our assumptions, Delta appears well positioned in various structural growth trends, including EV, energy savings/ storage, industrial automation (IA), building automation (BA), datacenter, and power supplies in new applications such as industrial, medical, aerospace, e-mobility, etc.

**1Q23F outlook: headwinds from consumer, IA yet to recover**

We forecast Delta's 1Q23F sales to decline 11% q-q (+14% y-y), with GM at 28% (flat q-q) as consumer-related products are weaker than expected. Management believes IA demand in China did not meaningfully recover in 1Q23, following China's reopening. IA's weakness led to the Automation segment's OP falling by 52% y-y in 4Q22 (OPM down to 3.2% in 4Q22, from 7.1% in 3Q22), and the near-term profitability outlook for Automation remains challenging, despite high growth from BA (lower margin).

**Strong confidence on EV business outlook, likely turning profitable in 2023F**

Management expects 2023F's EV component growth to be higher than 2022's, given the prevalence of non-Tesla EVs and no more IC shortage impact. With rising scale, Delta's 4Q22 in-car EV business reached breakeven, and will likely record some profits in 2023F. For EV chargers, Delta focuses on smart grid total solutions, while EV chargers are just peripheral. Hence, Delta isn't too concerned with competition in the EV charger, as the entry barrier on total solution is high, owing to the safety requirements.

**ChatGPT-like AI applications will likely increase Delta's addressable dollar content**

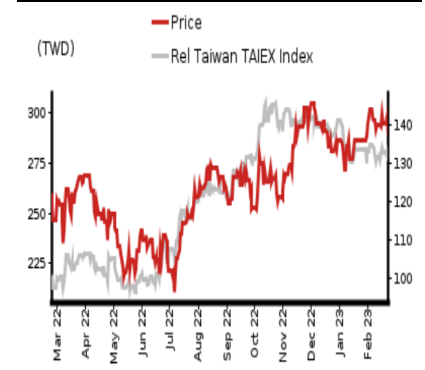
Delta is optimistic about potential L-T benefits brought by ChatGPT, as higher computing power will likely expand power consumption and require a higher-end cooling system, and Delta would benefit from higher value in the power supply and thermal system.

Year-end 31 Dec	FY21	FY22F		FY23F		FY24F	
Currency (TWD)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	314,671	381,677	384,443	419,750	426,939	461,753	476,072
Reported net profit (mn)	26,796	34,168	32,666	39,551	39,606	46,239	46,446
Normalised net profit (mn)	26,796	34,168	32,666	39,551	39,606	46,239	46,446
FD normalised EPS	10.32	13.15	12.58	15.23	15.25	17.80	17.88
FD norm. EPS growth (%)	5.1	27.5	21.9	15.8	21.2	16.9	17.3
FD normalised P/E (x)	28.1	—	23.1	—	19.0	—	16.2
EV/EBITDA (x)	16.0	—	12.7	—	10.4	—	8.9
Price/book (x)	4.9	—	4.4	—	4.0	—	3.5
Dividend yield (%)	2.1	—	1.9	—	3.4	—	2.6
ROE (%)	17.8	20.7	19.9	21.3	22.0	22.0	23.1
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash	net cash	net cash

Source: Company data, Nomura estimates

Rating Remains	Buy
Target price Remains	TWD 335.00
Closing price 23 February 2023	TWD 290.00
Implied upside	+15.5%
Market Cap (USD mn)	24,825.7
ADT (USD mn)	54.9

### Relative performance chart



Source: Thomson Reuters, Nomura

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# Key data on Delta Electronics

## Performance

(%)	1M	3M	12M		
Absolute (TWD)	1.4	-1.9	12.0	M cap (USDmn)	24,825.7
Absolute (USD)	1.1	0.9	2.8	Free float (%)	68.5
Rel to Taiwan	-1.9	-7.4	26.6	3-mth ADT (USDmn)	54.9
TAIEX Index					

## Income statement (TWDmn)

Year-end 31 Dec	FY20	FY21	FY22F	FY23F	FY24F
Revenue	282,605	314,671	384,443	426,939	476,072
Cost of goods sold	-195,393	-224,461	-273,670	-301,714	-337,415
Gross profit	87,212	90,209	110,773	125,225	138,657
SG&A	-55,787	-58,845	-69,334	-74,905	-80,846
Employee share expense					
Operating profit	31,426	31,365	41,439	50,321	57,811
EBITDA	47,296	48,516	60,770	72,052	81,542
Depreciation	-15,870	-17,151	-19,331	-21,731	-23,731
Amortisation					
EBIT	31,426	31,365	41,439	50,321	57,811
Net interest expense	168	134	38	240	240
Associates & JCEs	131	295	397	320	320
Other income	2,551	3,833	4,191	2,400	3,200
Earnings before tax	34,275	35,628	46,065	53,281	61,571
Income tax	-6,891	-7,128	-9,075	-9,324	-10,775
Net profit after tax	27,384	28,499	36,991	43,956	50,796
Minority interests	-1,899	-1,703	-4,325	-4,350	-4,350
Other items					
Preferred dividends					
Normalised NPAT	25,485	26,796	32,666	39,606	46,446
Extraordinary items	0	0	0	0	0
Reported NPAT	25,485	26,796	32,666	39,606	46,446
Dividends	-13,883	-15,751	-14,286	-25,560	-19,605
Transfer to reserves	11,602	11,045	18,379	14,047	26,841

## Valuations and ratios

Reported P/E (x)	29.6	28.1	23.1	19.0	16.2
Normalised P/E (x)	29.6	28.1	23.1	19.0	16.2
FD normalised P/E (x)	29.6	28.1	23.1	19.0	16.2
Dividend yield (%)	1.8	2.1	1.9	3.4	2.6
Price/cashflow (x)	16.1	26.6	16.3	9.9	11.8
Price/book (x)	5.2	4.9	4.4	4.0	3.5
EV/EBITDA (x)	16.2	16.0	12.7	10.4	8.9
EV/EBIT (x)	24.4	24.7	18.6	14.8	12.5
Gross margin (%)	30.9	28.7	28.8	29.3	29.1
EBITDA margin (%)	16.7	15.4	15.8	16.9	17.1
EBIT margin (%)	11.1	10.0	10.8	11.8	12.1
Net margin (%)	9.0	8.5	8.5	9.3	9.8
Effective tax rate (%)	20.1	20.0	19.7	17.5	17.5
Dividend payout (%)	54.5	58.8	43.7	64.5	42.2
ROE (%)	18.8	17.8	19.9	22.0	23.1
ROA (pretax %)	13.4	10.7	12.6	14.5	16.4

## Growth (%)

Revenue	13.1	11.3	22.2	11.1	11.5
EBITDA	13.9	2.6	25.3	18.6	13.2
Normalised EPS	27.1	5.1	21.9	21.2	17.3
Normalised FDEPS	27.1	5.1	21.9	21.2	17.3

Source: Company data, Nomura estimates

## Cashflow statement (TWDmn)

Year-end 31 Dec	FY20	FY21	FY22F	FY23F	FY24F
EBITDA	47,296	48,516	60,770	72,052	81,542
Change in working capital	-1,746	-17,328	-11,622	10,176	-10,855
Other operating cashflow	1,300	-2,869	-3,051	-6,044	-6,695
Cashflow from operations	46,850	28,319	46,097	76,184	63,992
Capital expenditure	-17,641	-22,815	-21,800	-24,000	-20,000
Free cashflow	29,209	5,505	24,297	52,184	43,992
Reduction in investments	10,719	-709	-1,601	320	320
Net acquisitions					
Dec in other LT assets	-16,238	535	-1,314	4,350	4,350
Inc in other LT liabilities	6,595	2,415	4,996	0	0
Adjustments	-2,540	-5,908	-5,081	-4,670	-4,670
CF after investing acts	27,745	1,838	21,297	52,184	43,992
Cash dividends	-13,883	-15,751	-14,286	-25,560	-19,605
Equity issue	0	0	0	0	0
Debt issue	5,973	6,993	-2,420	0	0
Convertible debt issue					
Others	-5,084	-1,937	6,621	0	0
CF from financial acts	-12,993	-10,695	-10,085	-25,560	-19,605
Net cashflow	14,752	-8,857	11,212	26,624	24,387
Beginning cash	43,960	58,712	49,855	61,067	87,691
Ending cash	58,712	49,855	61,067	87,691	112,077
Ending net debt	-8,635	-1,544	-15,175	-41,799	-66,186

## Balance sheet (TWDmn)

As at 31 Dec	FY20	FY21	FY22F	FY23F	FY24F
Cash & equivalents	58,712	49,855	61,067	87,691	112,077
Marketable securities	3,232	5,002	7,000	7,000	7,000
Accounts receivable	62,953	70,885	88,422	106,735	119,018
Inventories	44,889	66,107	79,364	60,343	67,483
Other current assets	5,100	5,029	5,029	5,029	5,029
Total current assets	174,887	196,878	240,882	266,797	310,607
LT investments	2,727	1,666	1,269	949	629
Fixed assets	68,442	76,607	79,076	81,345	77,613
Goodwill	53,500	53,636	53,636	53,636	53,636
Other intangible assets					
Other LT assets	36,861	36,325	37,639	33,289	28,939
Total assets	336,416	365,112	412,501	436,015	471,424
Short-term debt	2,002	4,397	2,397	2,397	2,397
Accounts payable	46,720	54,570	62,944	72,411	80,980
Other current liabilities	45,302	49,202	60,000	60,000	60,000
Total current liabilities	94,024	108,169	125,342	134,809	143,377
Long-term debt	39,314	43,914	43,494	43,494	43,494
Convertible debt					
Other LT liabilities	24,489	26,904	31,900	31,900	31,900
Total liabilities	157,827	178,988	200,735	210,202	218,771
Minority interest	32,690	31,338	38,600	38,600	38,600
Preferred stock					
Common stock	25,975	25,975	25,975	25,975	25,975
Retained earnings	119,924	128,811	147,190	161,237	188,078
Proposed dividends					
Other equity and reserves	0	0	0	0	0
Total shareholders' equity	145,899	154,787	173,166	187,212	214,053
Total equity & liabilities	336,416	365,112	412,501	436,015	471,424

## Liquidity (x)

Current ratio	1.86	1.82	1.92	1.98	2.17
Interest cover	-	-	-	-	-

## Leverage

Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

## Per share

Reported EPS (TWD)	9.81	10.32	12.58	15.25	17.88
Norm EPS (TWD)	9.81	10.32	12.58	15.25	17.88
FD norm EPS (TWD)	9.81	10.32	12.58	15.25	17.88
BVPS (TWD)	56.17	59.59	66.67	72.07	82.41
DPS (TWD)	5.34	6.06	5.50	9.84	7.55

## Activity (days)

Days receivable	78.4	77.6	75.6	83.4	86.8
Days inventory	72.2	90.2	97.0	84.5	69.3
Days payable	75.6	82.4	78.4	81.9	83.2
Cash cycle	75.0	85.5	94.3	86.1	72.9

Source: Company data, Nomura estimates

## Company profile

Delta is a global leading company of power and thermal management solutions, with diversified business scope in Power Electronics, Automation, and Infrastructure

## Valuation Methodology

Our TP of TWD335 is based on 22x 2023F EPS of TWD15.25. Our target P/E multiple of 22x is at the high end of its historical P/E range of 12-24x since 2012, which we believe is justified by a clearer visibility on EV businesses and better market demand data center and business automation products. The benchmark index for the stock is TAIEX.

## Risks that may impede the achievement of the target price

Downside risks include: 1) lower-than-expected global IT demand; 2) weaker-than-expected operating margin performance due to slow growth in IA and component products; 3) less disciplined opex control; and 4) slower progress in the company's EV, datacenter, and telecom power businesses.

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## ESG

Delta is leading in implementing ESG policy, and its culture and business foundation are rooted in energy saving and green energy.

Fig. 1: Delta: 4Q22 results

TWDmn	4Q22 results		Diff (%)	4Q22 Consensus		Diff (%)	3Q22	q-q %	4Q21	y-y %
		NMR								
Total sales	105,660	102,894	2.7	104,129	1.5	106,248	(0.6)	83,769	26.1	
Gross profit	29,613	30,786	(3.8)	30,863	(4.1)	32,177	(8.0)	22,379	32.3	
Operating profit	10,777	11,925	(9.6)	12,264	(12.1)	13,538	(20.4)	7,305	47.5	
Pretax profit	11,524	12,803	(10.0)	13,283	(13.2)	15,171	(24.0)	8,445	36.5	
Net profit	7,910	9,413	(16.0)	9,721	(18.6)	11,069	(28.5)	6,258	26.4	
EPS (NT\$)	3.05	3.62	(16.0)	3.72	(18.2)	4.26	(28.5)	2.41	26.4	
<b>Margins (%)</b>			<b>(ppt)</b>		<b>(ppt)</b>					
Gross margin	28.0	29.9	(1.9)	29.6	(1.6)	30.3	(2.3)	26.7	1.3	
Operating margin	10.2	11.6	(1.4)	11.8	(1.6)	12.7	(2.5)	8.7	1.5	
Pretax margin	10.9	12.4	(1.5)	12.8	(1.8)	14.3	(3.4)	10.1	0.8	
Net margin	7.5	9.1	(1.7)	9.3	(1.8)	10.4	(2.9)	7.5	0.0	

Source: Company data, Bloomberg consensus, Nomura estimates

Fig. 2: Delta: earnings forecast revisions

TWDmn	New forecast			Previous forecast			Change (%)		
	2022	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
Revenues	384,443	426,939	476,072	381,677	419,750	461,753	0.7	1.7	3.1
Gross profit	110,773	125,225	138,657	111,946	123,566	135,575	(1.0)	1.3	2.3
Operating profit	41,439	50,321	57,811	42,587	49,454	57,560	(2.7)	1.8	0.4
Pre-tax profit	46,065	53,281	61,571	47,345	53,214	61,320	(2.7)	0.1	0.4
Net profit	32,666	39,606	46,446	34,168	39,551	46,239	(4.4)	0.1	0.4
EPS (NT\$)	12.58	15.25	17.88	13.15	15.23	17.80			
<b>Margins (%)</b>									
Gross margin	28.8	29.3	29.1	29.3	29.4	29.4	(0.5)	(0.1)	(0.2)
Operating margin	10.8	11.8	12.1	11.2	11.8	12.5	(0.4)	0.0	(0.3)
Pretax margin	12.0	12.5	12.9	12.4	12.7	13.3	(0.4)	(0.2)	(0.3)
Net margin	8.5	9.3	9.8	9.0	9.4	10.0	(0.5)	(0.1)	(0.3)

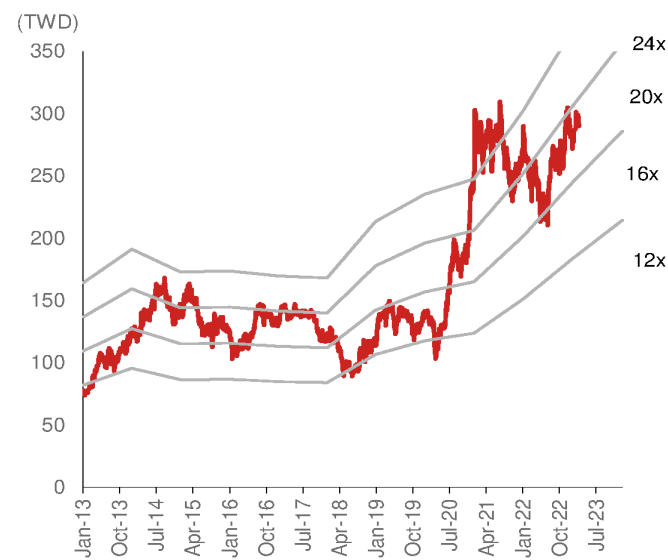
Source: Nomura estimates

Fig. 3: Delta: quarterly earnings forecasts

(TWDmn)	1Q22	2Q22	3Q22	4Q22	2022F	1Q23F	2Q23F	3Q23F	4Q23F	2023F	1Q24F	2Q24F	3Q24F	4Q24F	2024F
Net sales	82,538	89,997	106,248	105,660	384,443	94,279	103,932	113,756	114,972	426,939	105,496	116,337	127,210	127,029	476,072
COGS	60,026	63,527	74,071	76,047	273,670	67,936	73,563	79,580	80,635	301,714	76,890	82,034	89,135	89,356	337,415
Gross profit	22,513	26,470	32,177	29,613	110,773	26,343	30,369	34,176	34,337	125,225	28,605	34,304	38,075	37,673	138,657
Op expenses	15,043	16,815	18,640	18,835	69,334	18,000	18,271	19,286	19,348	74,905	18,380	19,900	21,235	21,331	80,846
Op profit	7,469	9,655	13,538	10,777	41,439	8,343	12,098	14,890	14,990	50,321	10,225	14,404	16,840	16,342	57,811
Non-op income	1,070	1,176	1,634	746	4,626	740	740	740	740	2,960	940	940	940	940	3,760
Pre-tax profit	8,539	10,831	15,171	11,524	46,065	9,083	12,838	15,630	15,730	53,281	11,165	15,344	17,780	17,282	61,571
Net profit	6,059	7,628	11,069	7,910	32,666	6,594	9,441	11,745	11,827	39,606	8,311	11,509	13,519	13,107	46,446
EPS (NT\$)	2.3	2.9	4.3	3.0	12.6	2.5	3.6	4.5	4.6	15.2	3.2	4.4	5.2	5.0	17.9
<b>Operating ratios (%)</b>															
Gross margin	27.3%	29.4%	30.3%	28.0%	28.8%	27.9%	29.2%	30.0%	29.9%	29.3%	27.1%	29.5%	29.9%	29.7%	29.1%
Operating margin	9.0%	10.7%	12.7%	10.2%	10.8%	8.8%	11.6%	13.1%	13.0%	11.8%	9.7%	12.4%	13.2%	12.9%	12.1%
Pre-tax profit margin	10.3%	12.0%	14.3%	10.9%	12.0%	9.6%	12.4%	13.7%	13.7%	12.5%	10.6%	13.2%	14.0%	13.6%	12.9%
Net profit margin	7.3%	8.5%	10.4%	7.5%	8.5%	7.0%	9.1%	10.3%	10.3%	9.3%	7.9%	9.9%	10.6%	10.3%	9.8%
<b>Year-to-year (%)</b>															
Net sales	14%	14%	33%	26%	22%	14%	15%	7%	9%	11%	12%	12%	12%	10%	12%
Gross profit	4%	12%	43%	32%	23%	17%	15%	6%	16%	13%	9%	13%	11%	10%	11%
Operating profit	0%	10%	74%	48%	32%	12%	25%	10%	39%	21%	23%	19%	13%	9%	15%
Pre-tax profit	-3%	7%	83%	36%	29%	6%	19%	3%	36%	16%	23%	20%	14%	10%	16%
Net profit	-8%	1%	74%	26%	22%	9%	24%	6%	50%	21%	26%	22%	15%	11%	17%
<b>Qtr-to-Qtr (%)</b>															
Net sales	-1%	9%	18%	-1%		-11%	10%	9%	1%		-8%	10%	9%	0%	
Gross profit	1%	18%	22%	-8%		-11%	15%	13%	0%		-17%	20%	11%	-1%	
Operating profit	2%	29%	40%	-20%		-23%	45%	23%	1%		-32%	41%	17%	-3%	
Pre-tax profit	1%	27%	40%	-24%		-21%	41%	22%	1%		-29%	37%	16%	-3%	
Net profit	-3%	26%	45%	-29%		-17%	43%	24%	1%		-30%	38%	17%	-3%	

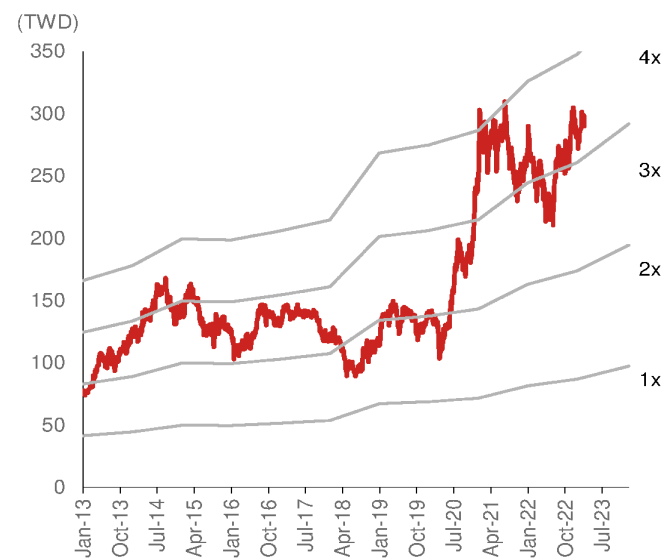
Source: Company data, Nomura estimates

Fig. 4: Delta: forward P/E



Source: TEJ, Nomura estimates

Fig. 5: Delta: forward P/B



Source: Company data, TEJ, Nomura estimates

# Appendix A-1

## Analyst Certification

We, Anne Lee and Gillian Yen, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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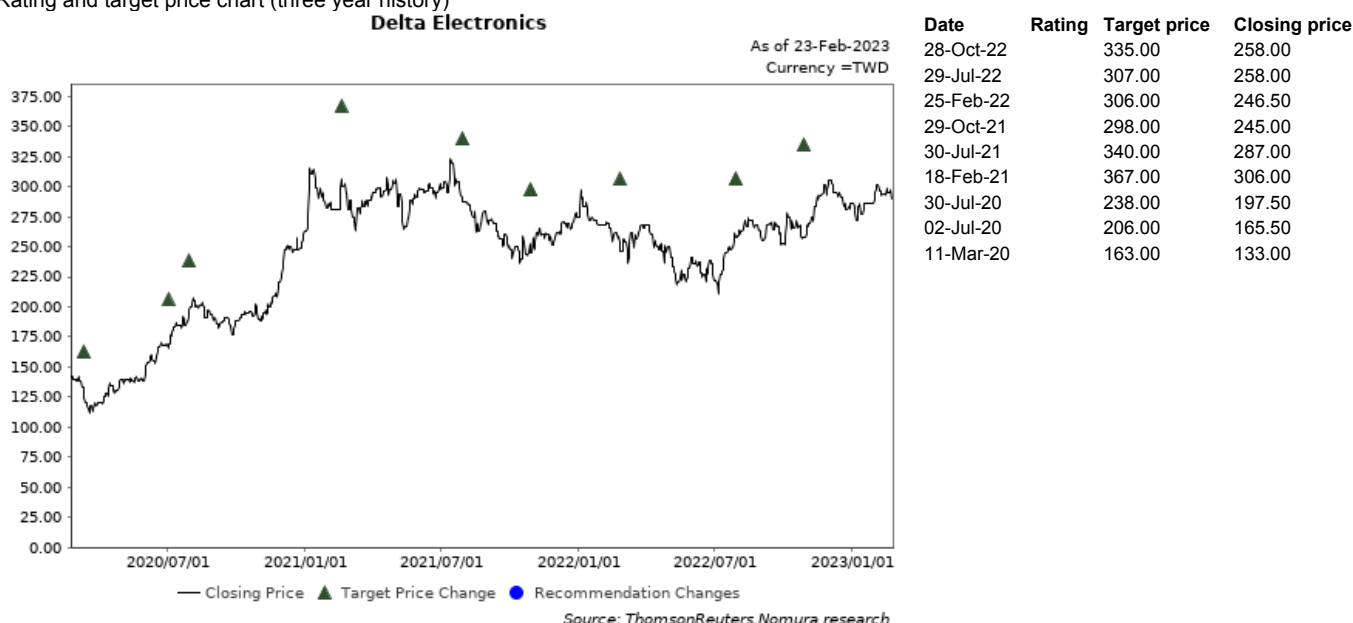
### Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Delta Electronics	2308 TT	TWD 290.00	23-Feb-2023	Buy	N/A	

### Delta Electronics (2308 TT)

TWD 290.00 (23-Feb-2023) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** Our TP of TWD335 is based on 22x 2023F EPS of TWD15.25. Our target P/E multiple of 22x is at the high end of its historical P/E range of 12-24x since 2012, which we believe is justified by a clearer visibility on EV businesses and better market demand data center and business automation products. The benchmark index for the stock is TAIEX.

**Risks that may impede the achievement of the target price** Downside risks include: 1) lower-than-expected global IT demand; 2) weaker-than-expected operating performance due to slow growth in IA and component products; 3) less disciplined opex control; and 4) slower progress in the company's EV, datacenter, and telecom power businesses.

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As at 31 December 2022.

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